

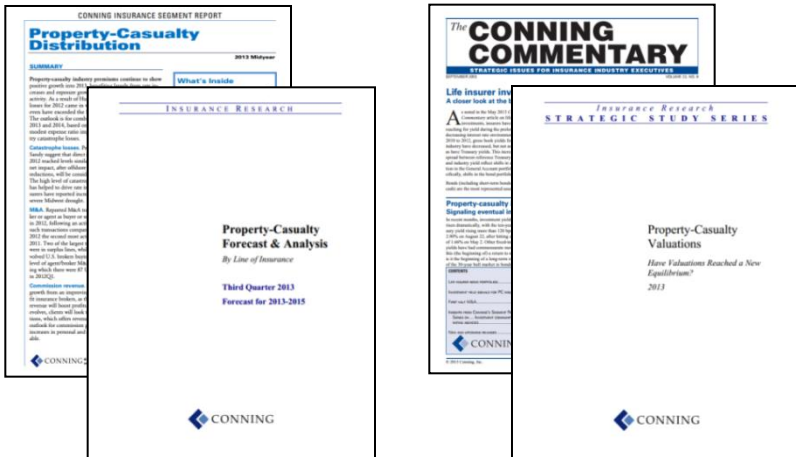


Importance of Demographics 2014

Presentation to the CAS

Conning
November 11, 2014

Publications and Services

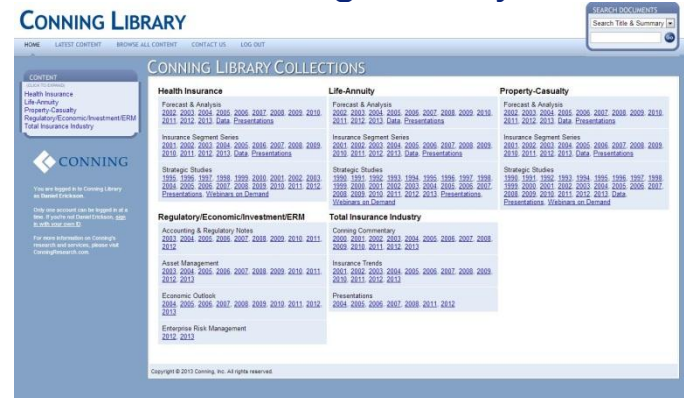


Experience/Resources

- ◆ 17 professionals, including marketing
- ◆ Dedicated property-casualty and life/health-annuity groups
- ◆ Backgrounds include actuarial, strategic planning, equity research, underwriting, investment banking
- ◆ Average experience of over 20 years

In-depth insurance expertise supports asset management business and is key differentiator for Conning

Conning Library



Also provide proprietary research: strategic planning, business development, peer analyses

- ◆ Over 200 publications annually, 2,000+ in archive
- ◆ Subscription service—Clients include insurers, professional services firms, investor community

THE HARTFORD AT A GLANCE

COMPANY

Founded: 1810

Employees: Approximately 17,500

Headquarters: Hartford, Conn

2013 Revenues: \$26.2B

Shareholder equity: \$18.9B

MARKET RANKINGS

No. 4 commercial multi-peril carrier, based on direct written premiums

No. 2 workers' compensation insurer, based on direct written premiums

No. 7 in P&C commercial insurance

No. 11 in total personal lines (4th largest direct player)

No. 3 in fully insured disability in force

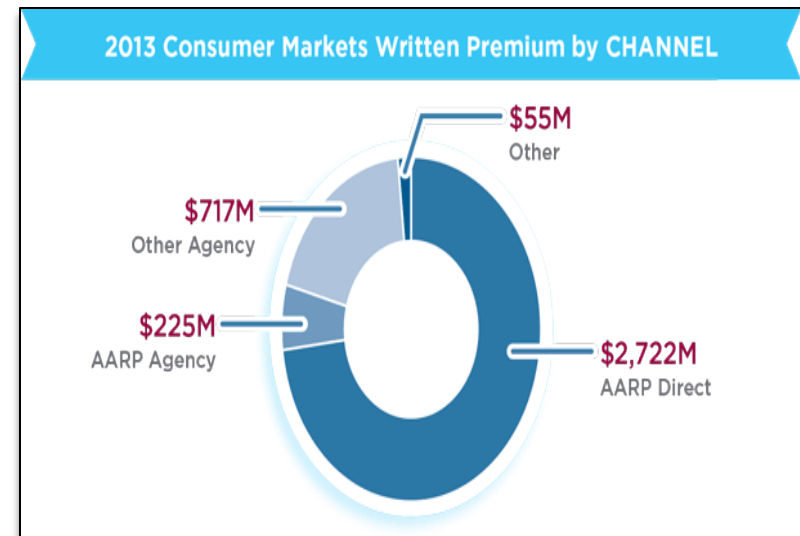
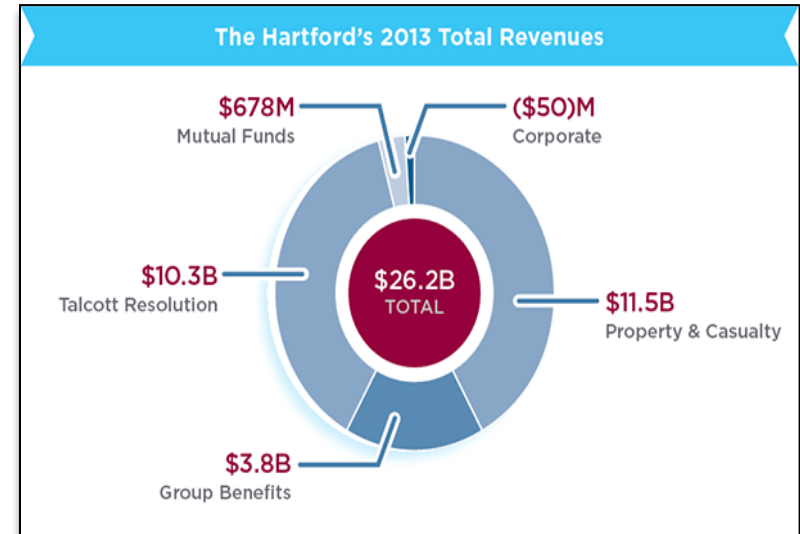
NOTABLE:

The Hartford serves more than one million small businesses.

The Hartford is a founding partner of U.S. Paralympics.

The Hartford's trademark logo echoes the majestic stag depicted in Sir Edwin Landseer's 1851 painting Monarch of the Glen. A hart fording a stream is a natural symbol for a company named The Hartford.

The Hartford provided insurance for the only home Abraham Lincoln ever owned



Source: www.Hartford.com, IR Section

Why Do Demographics Matter?

The Changing Consumer: Long-Term and Short-Term

- ◆ Population Growth
- ◆ Geographic Shifts
- ◆ Changing Age Profile
- ◆ Increasing Racial/Ethnic Diversity
- ◆ Socioeconomic Changes

Current Market Trends: Consumer Behavior

- ◆ Ownership
- ◆ Migration
- ◆ Driving

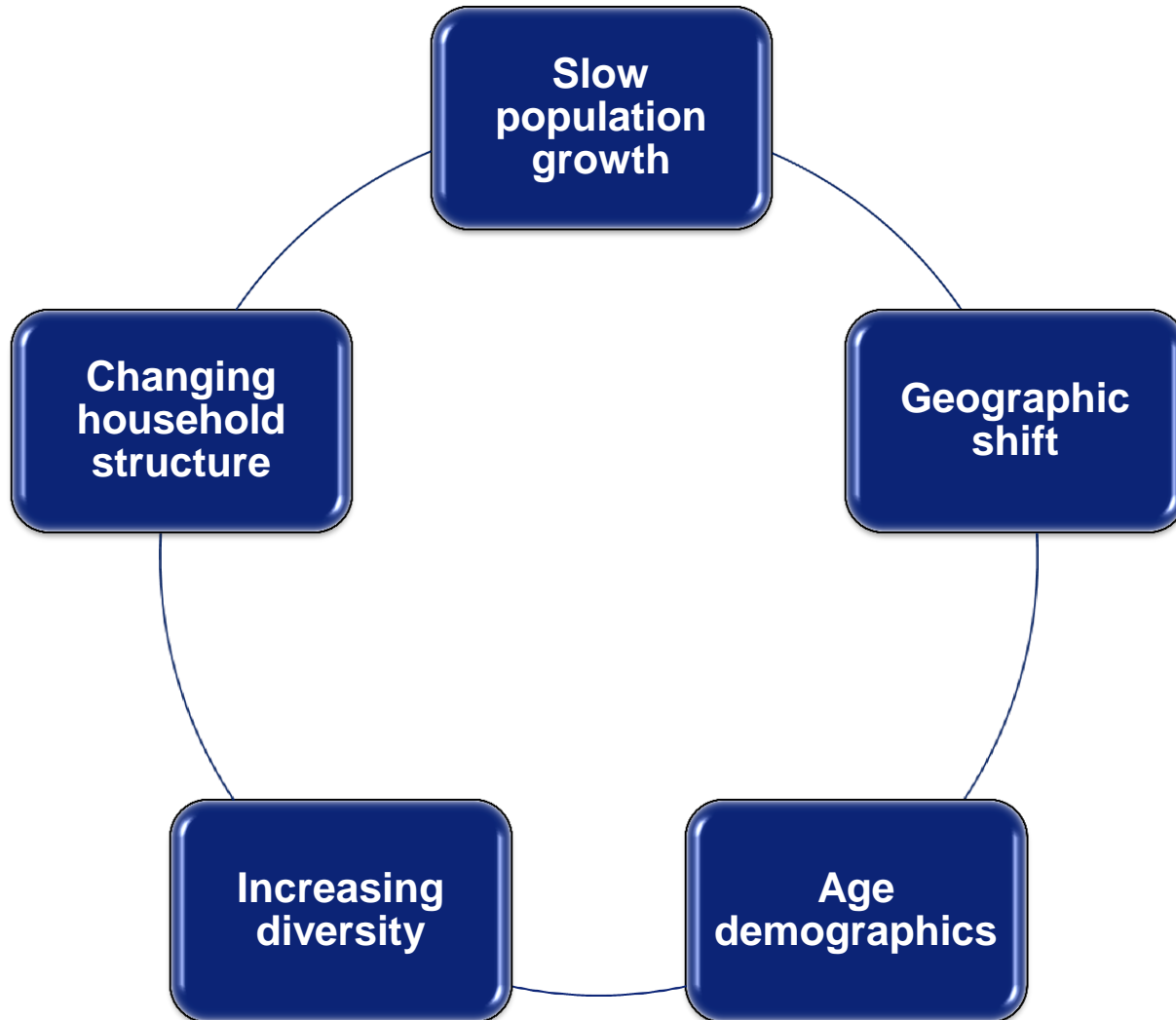
New Approaches for Market Segments

- ◆ HNW, NSA, Senior, Hispanic

New Approaches for Customer Contact

THE CHANGING CONSUMER

Five Critical Trends Reshaping Consumer Markets



Tomorrow's Consumer Market Will Not Look Like Today's

U.S. Population Characteristics

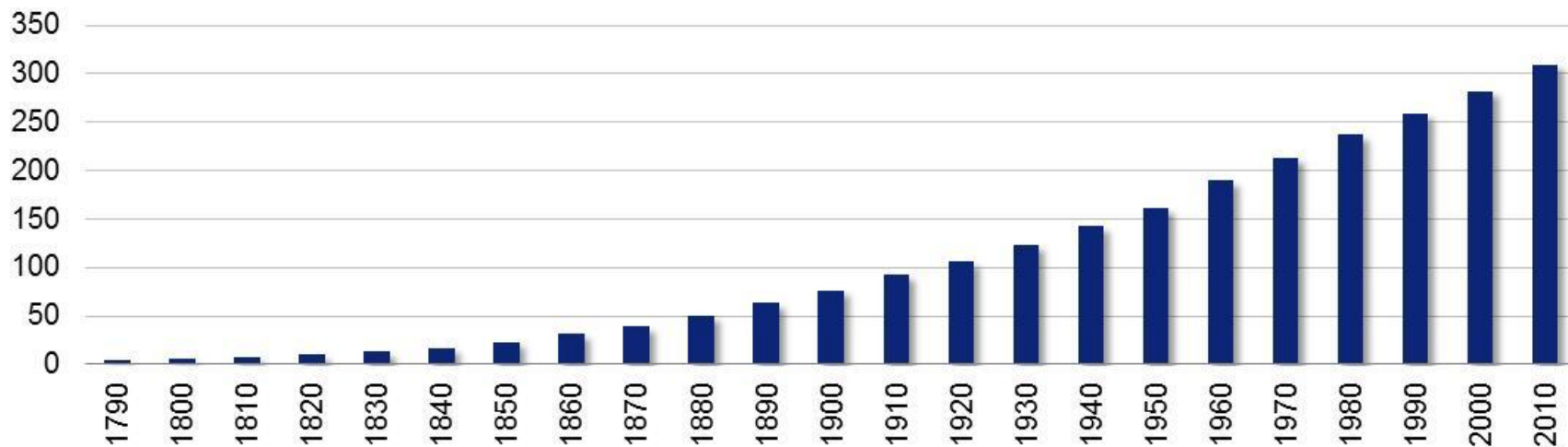
	1970	2000	2030
<i>Resident Population (in millions)</i>	203	281	350
<i>% over 65</i>	10%	12%	20%
<i>% White</i>	79.9%	69.1%	55.4%
<i>% households married w/children</i>	40%	24%	??
<i>Women in workforce %</i>	41%	58%	??

Source: U.S. Census Bureau, Harvard University Joint Center for Housing Studies, Bureau of Labor Statistics

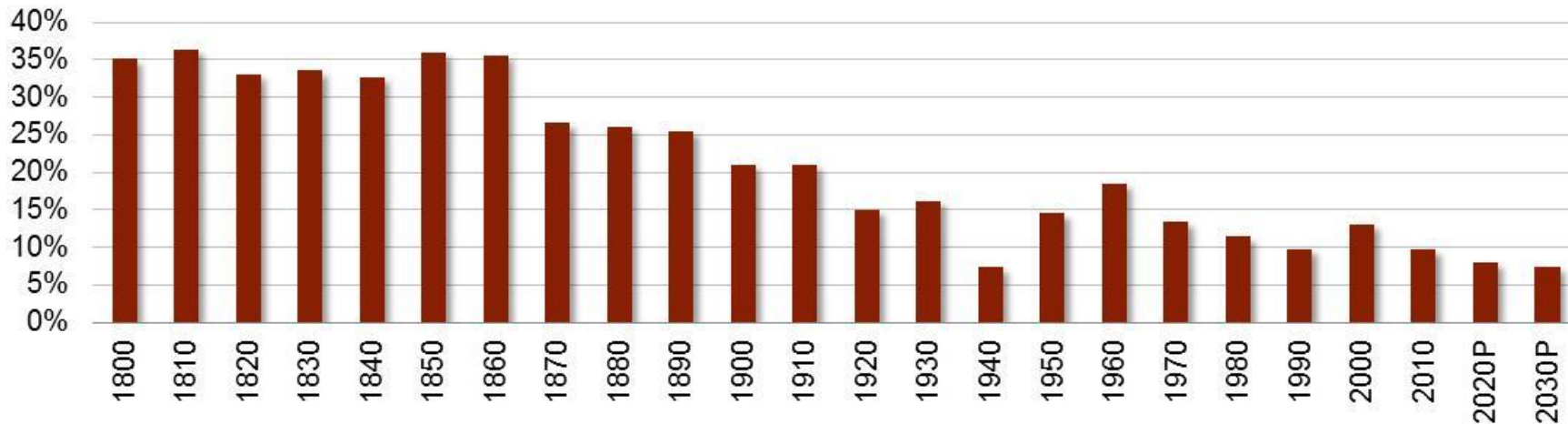
Population Growth Has Been an Important Growth Driver

U.S. Population by Decade

(in millions)



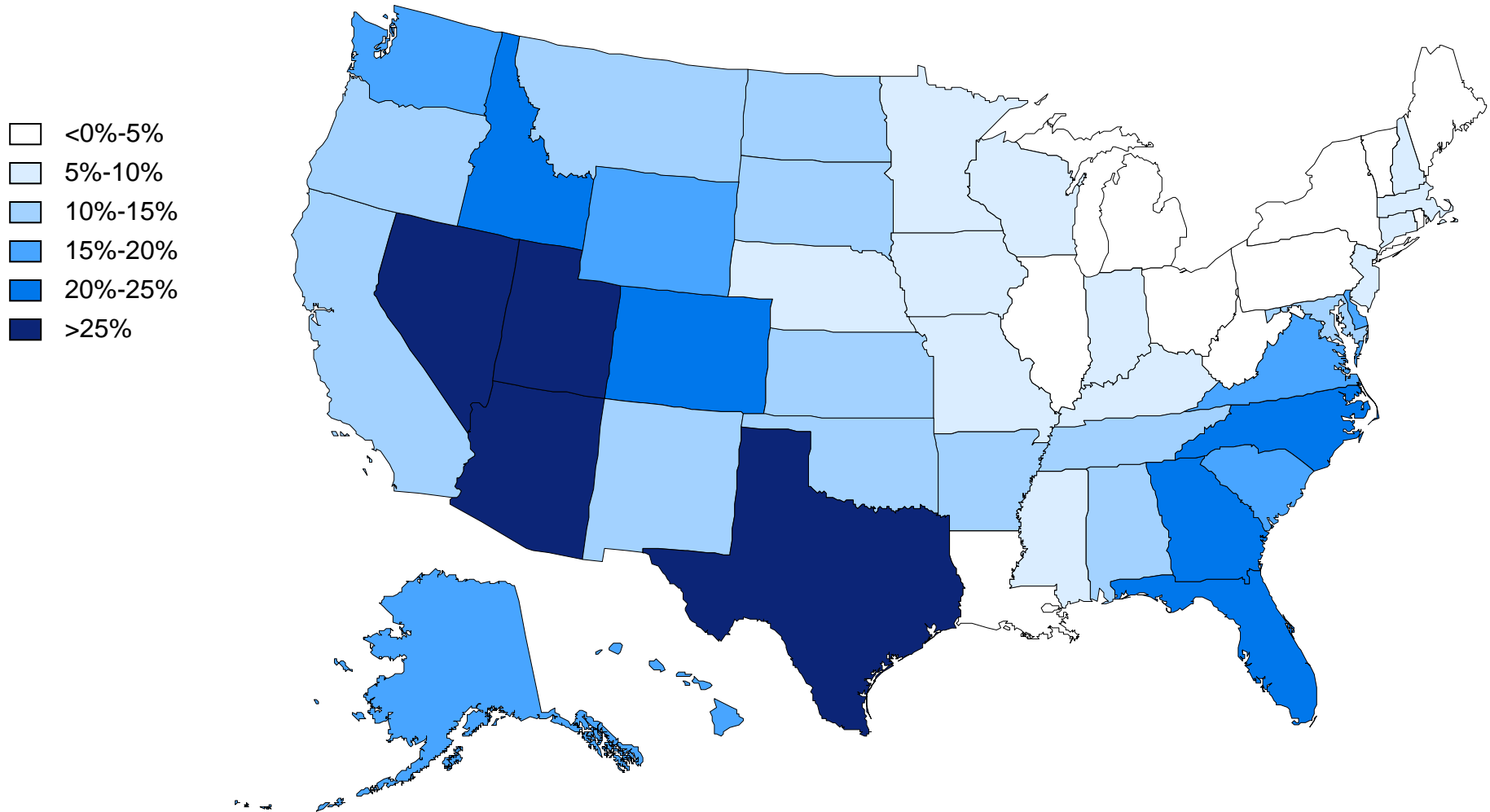
U.S. Population Growth by Decade



Source: U.S. Census Bureau

Population Growth Will Not Be Uniform Across the States

State Population Growth 2000-2013



Source: U.S. Census Bureau

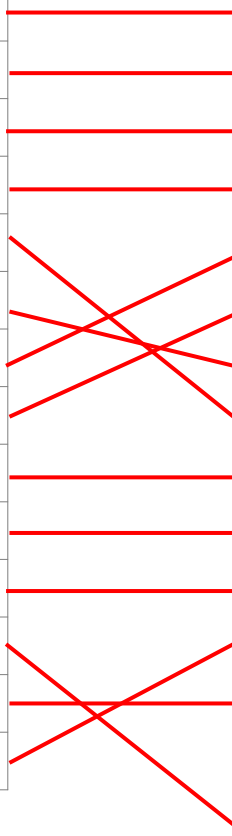
Differing Growth Rates Creates Different Opportunities

Population Growth 2000-10

Rank	State	Growth %
1	Nevada	35.1%
2	Arizona	24.6%
3	Utah	23.8%
4	Idaho	21.1%
5	Texas	20.6%
6	N. Carolina	18.5%
7	Georgia	18.3%
8	Florida	17.6%
9	Colorado	16.9%
10	S. Carolina	15.3%
11	Delaware	14.6%
12	Wyoming	14.1%
13	Washington	14.1%
14	Alaska	13.3%
15	New Mexico	13.2%

Growth in Housing Units 2000-10

Rank	State	Growth %
1	Nevada	41%
2	Arizona	29%
3	Utah	27%
4	Idaho	26%
5	Georgia	24%
6	Florida	23%
7	N. Carolina	22%
8	Texas	22%
9	Colorado	22%
10	S. Carolina	22%
11	Delaware	18%
12	Alaska	18%
13	Washington	17%
14	Montana	17%
15	Wyoming	17%



Source: U.S. Census Bureau

Expansion States May Differ Markedly from Existing States

Largest Minority Population, 2009

State	Non-Hispanic White Population as a % of Total State Population
Hawaii	25.1%
District of Columbia	33.5%
New Mexico	40.9%
California	41.7%
Texas	46.7%

Smallest Minority Population, 2009

State	Non-Hispanic White Population as a % of Total State Population
Iowa	89.8%
New Hampshire	92.8%
West Virginia	93.3%
Vermont	94.9%
Maine	94.9%

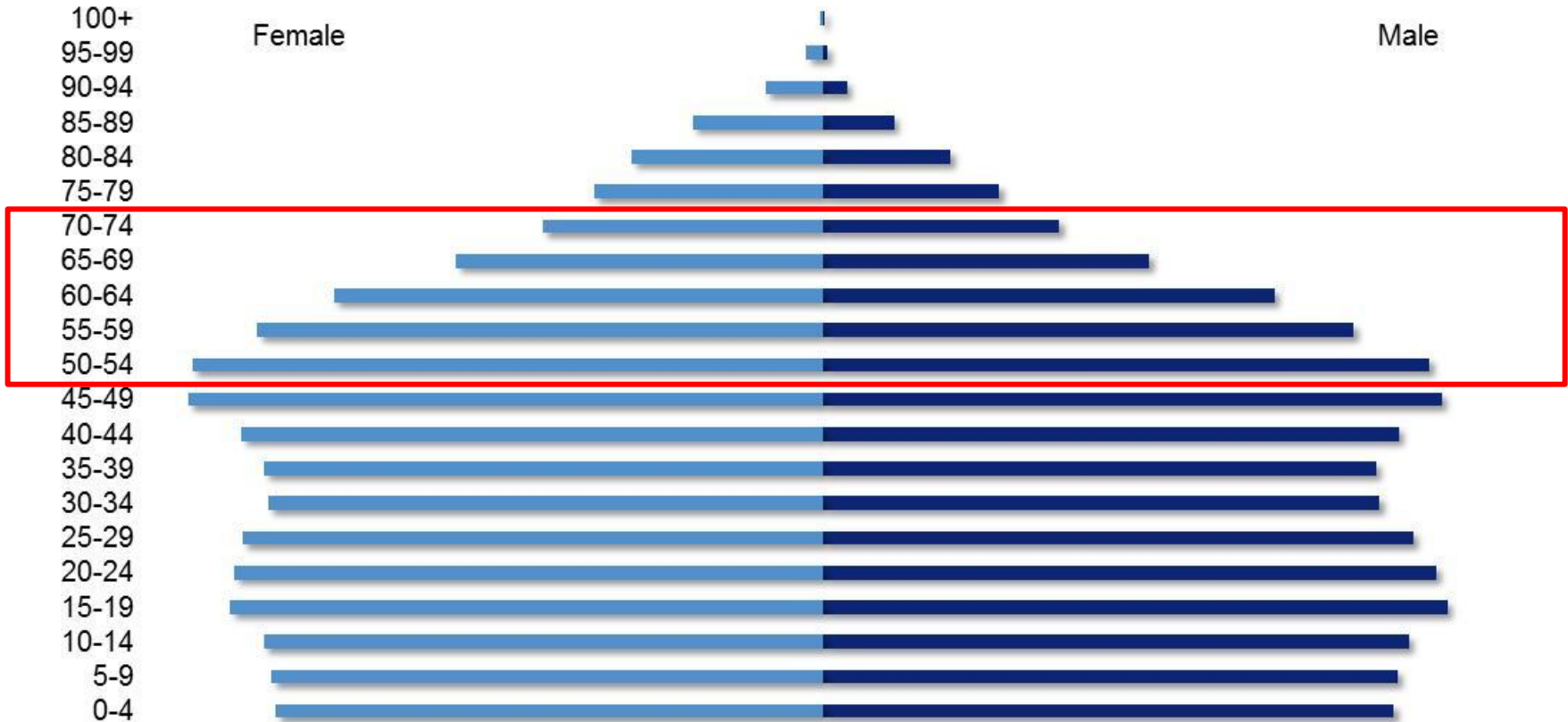
Median Age by Region

	MEDIAN AGE			CHANGE
	1990	2000	2010	1990-2010 (in years)
U.S. Total	32.6	35.3	37.2	4.6
Northeast	34.0	36.8	39.2	5.2
Midwest	32.9	35.6	37.7	4.8
South	32.7	35.3	37.0	4.3
West	31.7	33.8	35.6	3.9

Source: U.S. Census Bureau

Baby Boomers and Immigrants Are Reshaping the Age Profile

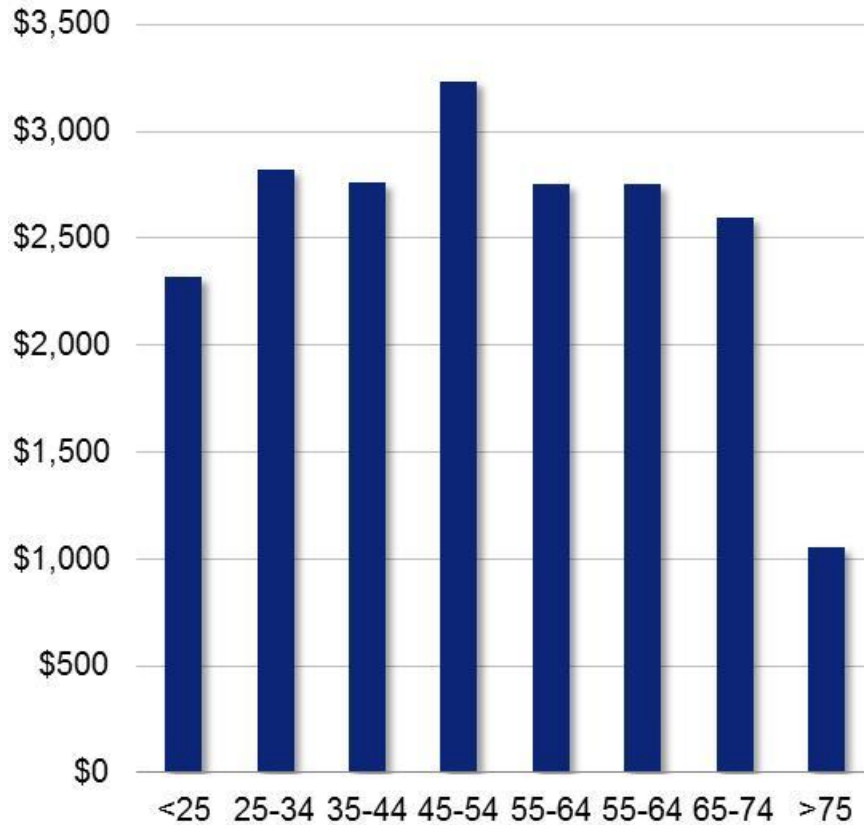
Population Age Structure, U.S., 2011



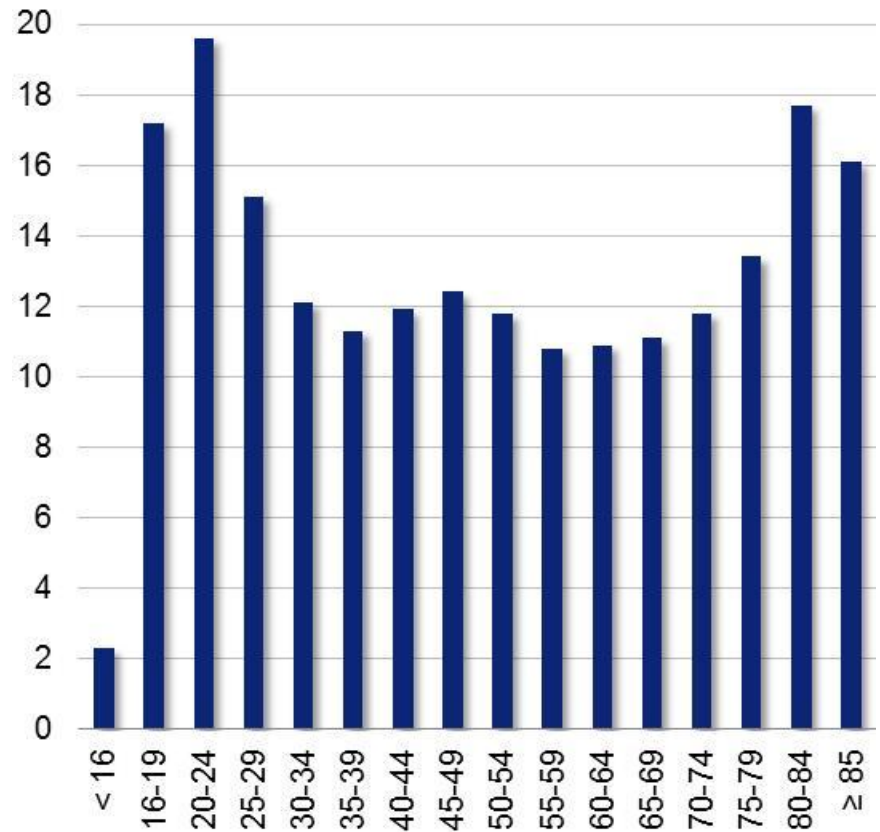
Source: U.S. Census Bureau

Aging Boomers Present Challenges As Well

Average Annual Expenditure on New Cars by Age Group, 2009



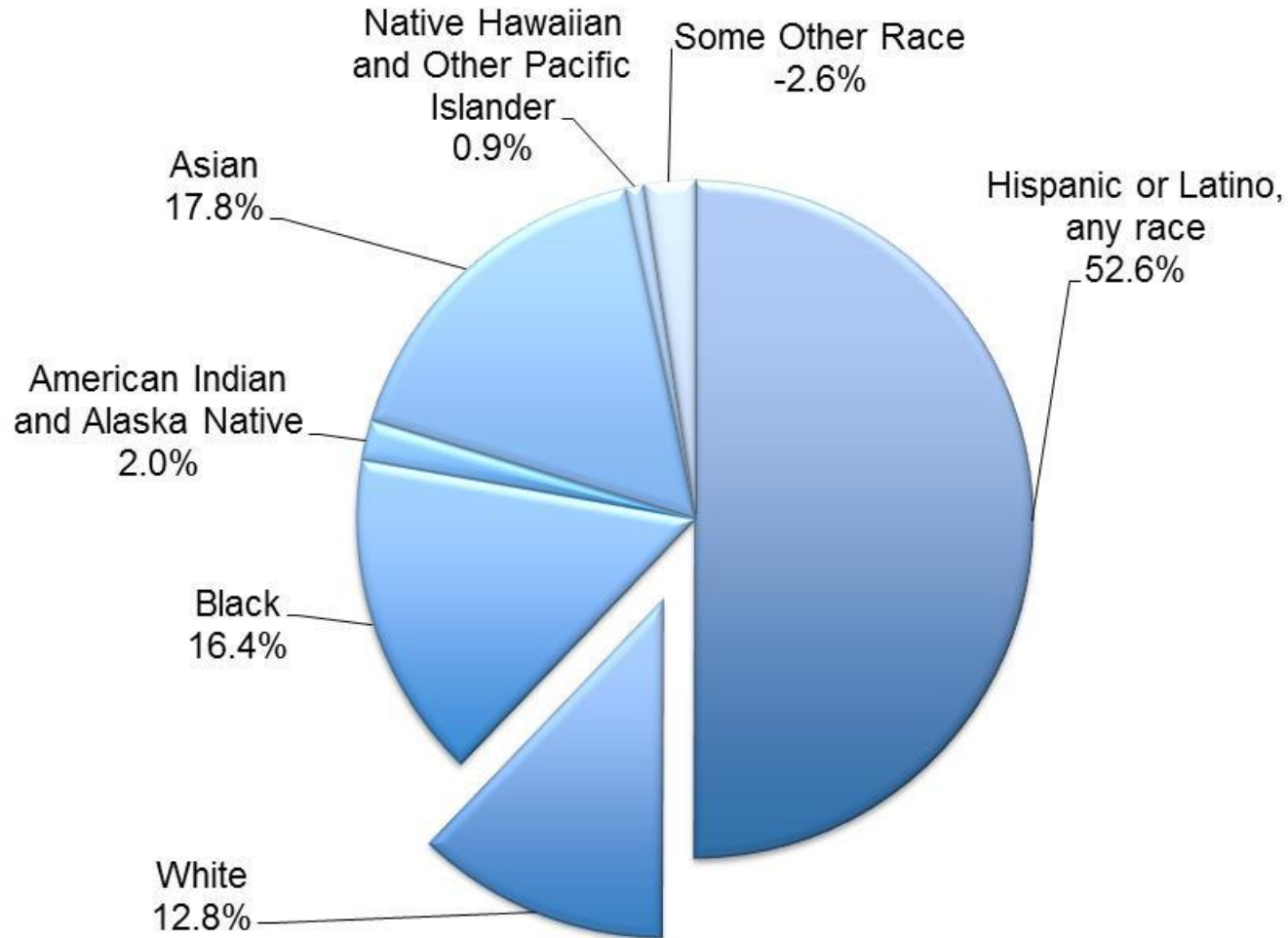
Motor Vehicle Crash Deaths per 100,000 People by Age, 2009



Source: U.S. Census Bureau

Ethnic Composition of the U.S. Is Changing Rapidly

Share of Population Growth, 2000-2010

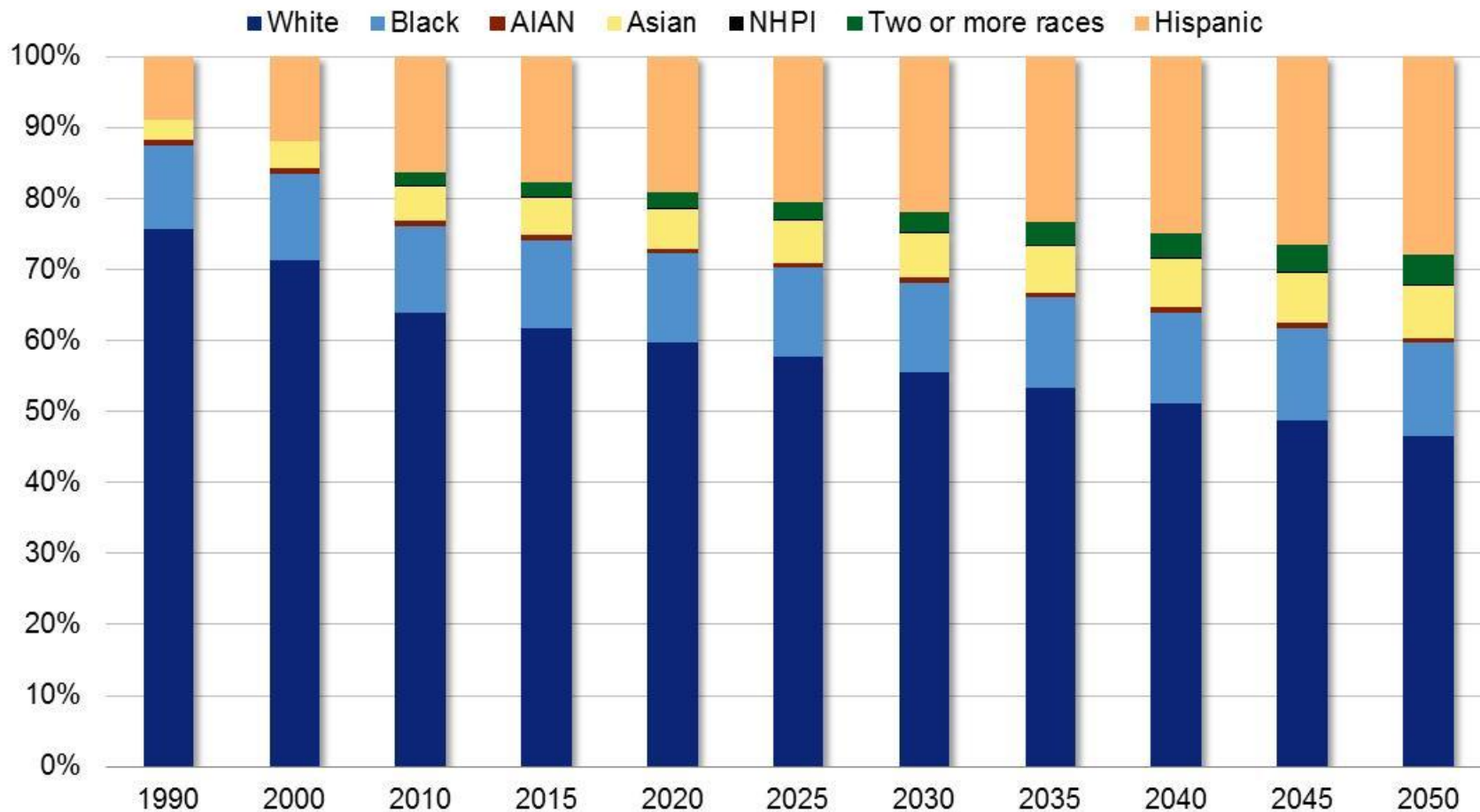


Source: U.S. Census Bureau

U.S. Population Is Approaching “Majority Minority”

US. Population Estimates and Projections, 1990-2050

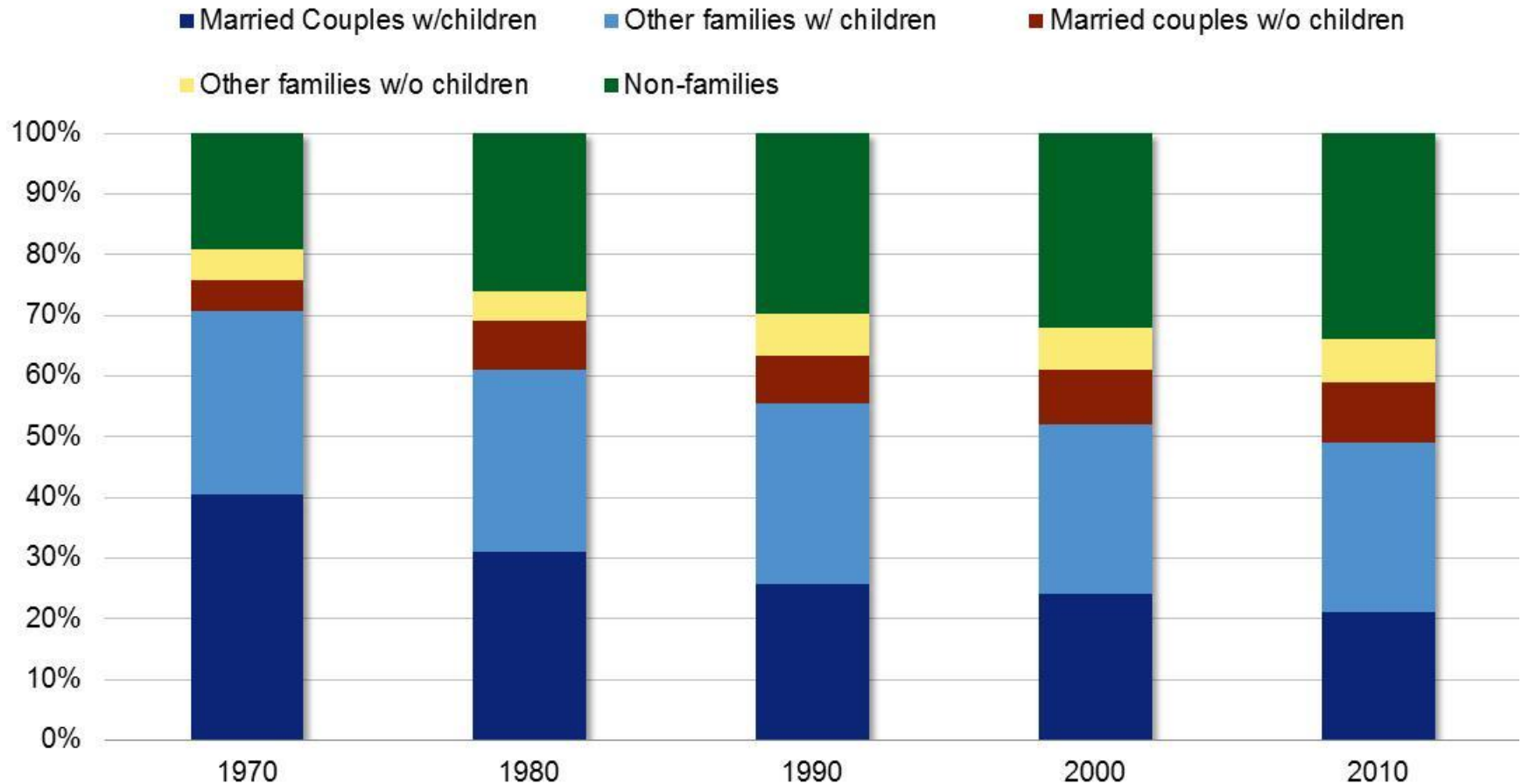
2012 Projections



Source: U.S. Census Bureau

Structure of the U.S. Household Undergoing Notable Change

Share of Households by Type, U.S.

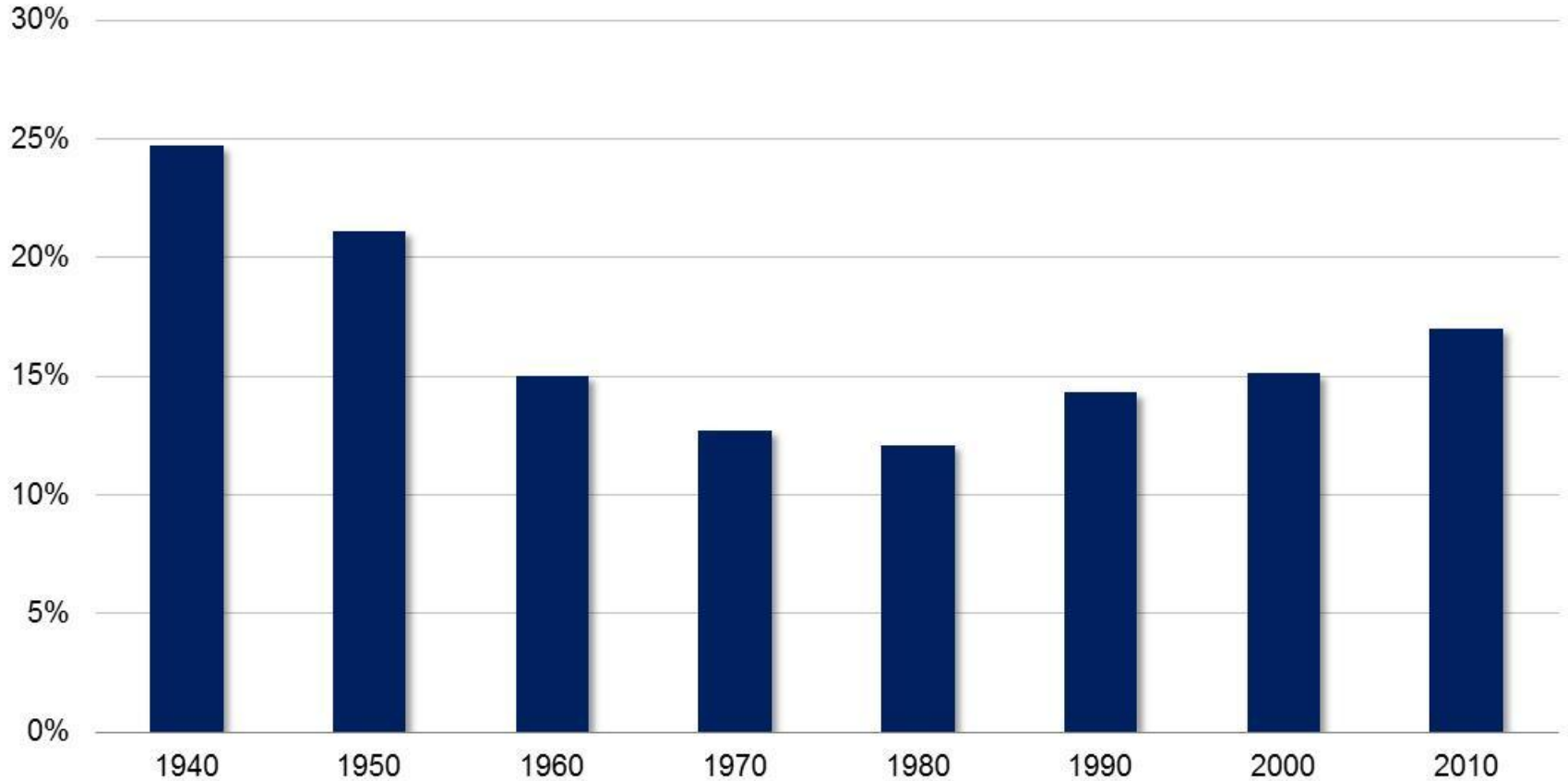


Source: Brookings Institute

Multi-Generational Households Are Re-Emerging

Share of U.S. Population in Multi-Generational Family Households

1940-2010

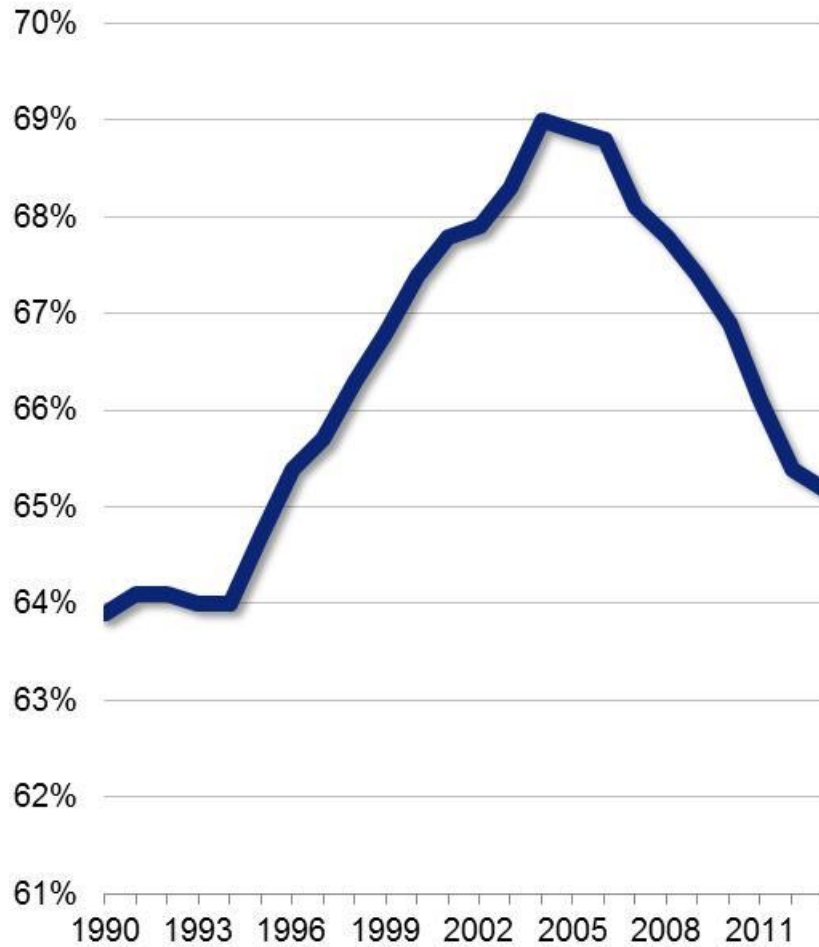


Source: U.S. Census Bureau, Pew Research

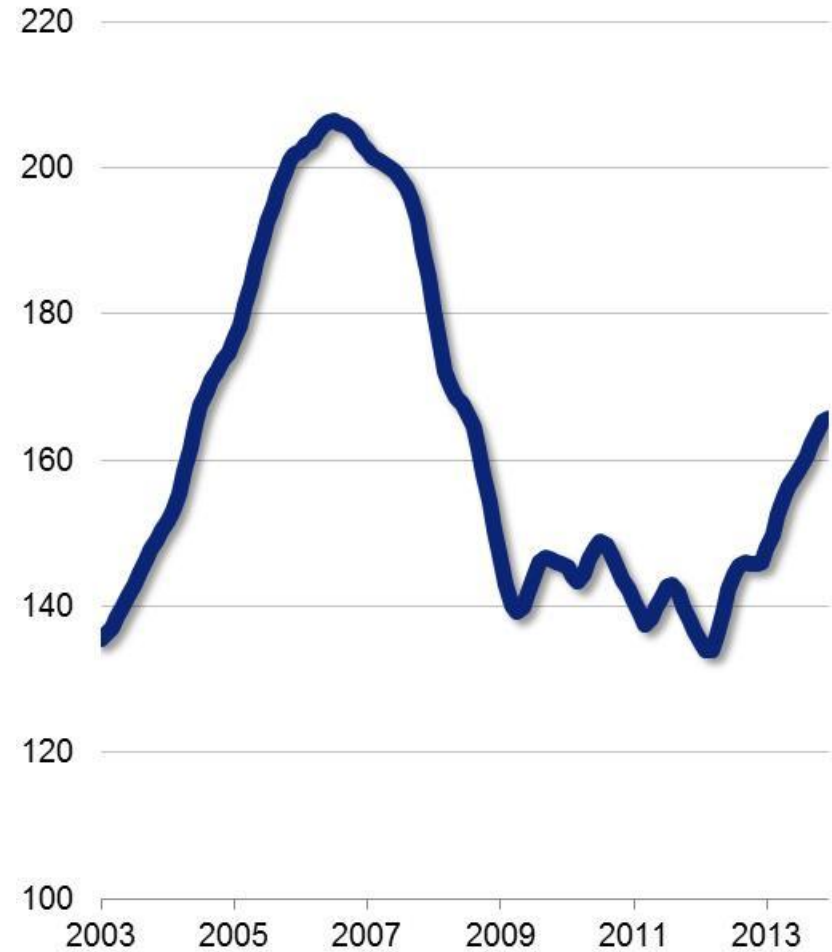
MARKET TRENDS IN CONSUMER BEHAVIOR

Decrease in Homeownership Affecting Exposure Growth ...

Home Ownership Rate



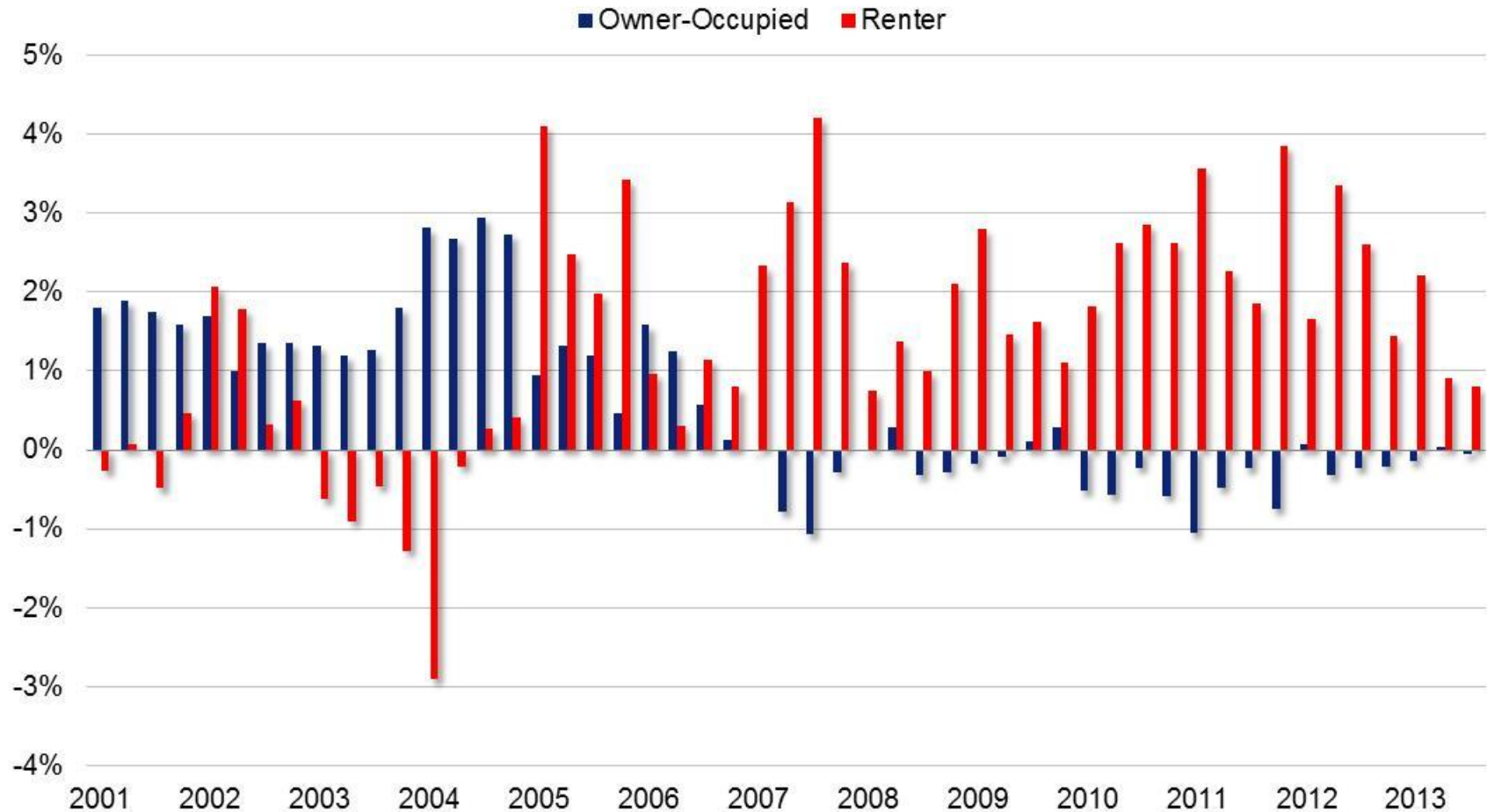
Case-Shiller Home Price Index



Source: U.S. Census Bureau, CoreLogic

... and Correlated with Strong Growth in Rentals

% Change in Owner vs. Renter Housing



Source: U.S. Census Bureau

Is the Decline Part of a Broader Trend?

The Sharing Economy

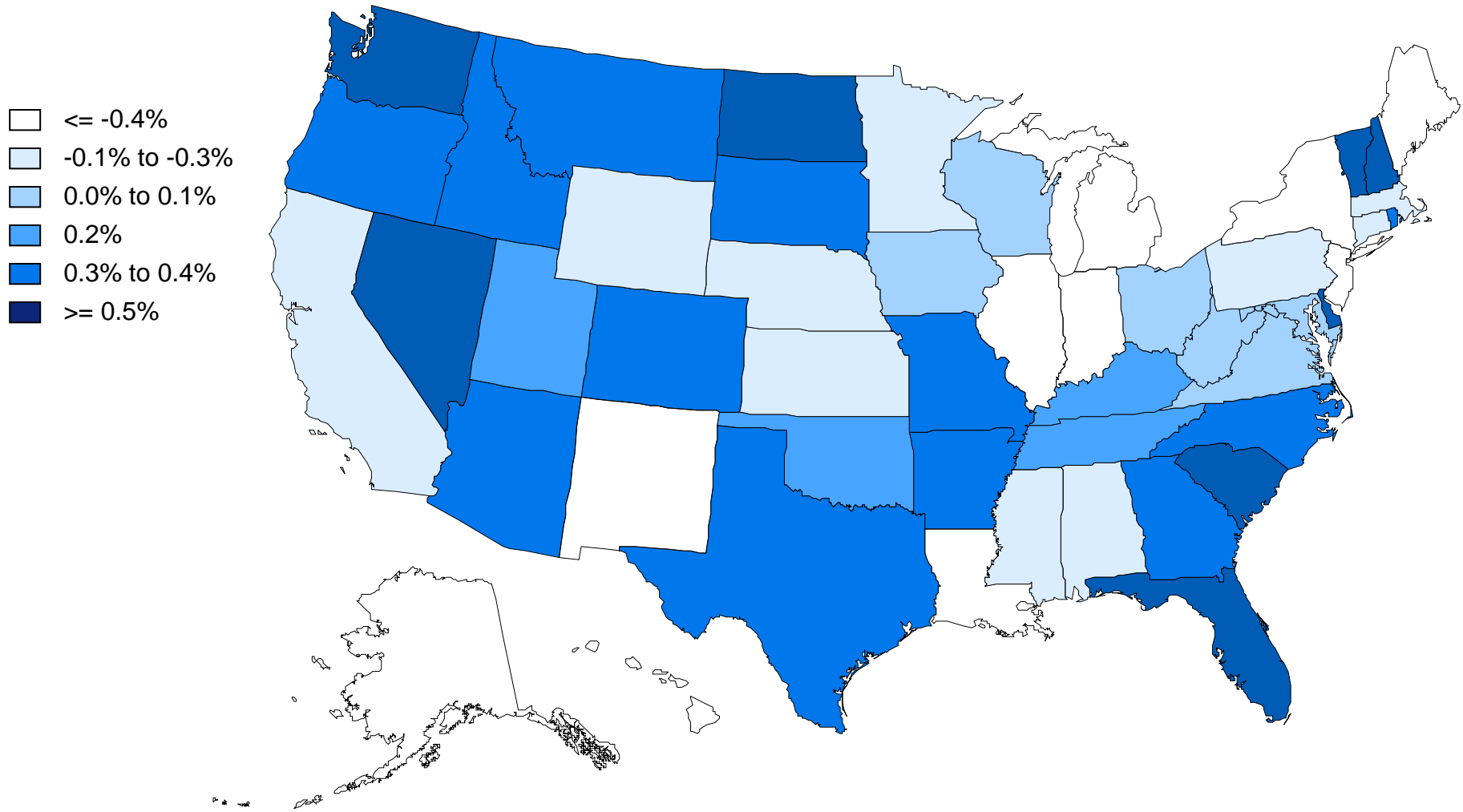


Sidecar



Recent Migration Patterns Support Longer-Term Trends

Migration Magnets, 2011-2012



Source: U.S. Census Bureau

Vehicle Miles Traveled, Rolling 12-Month Total

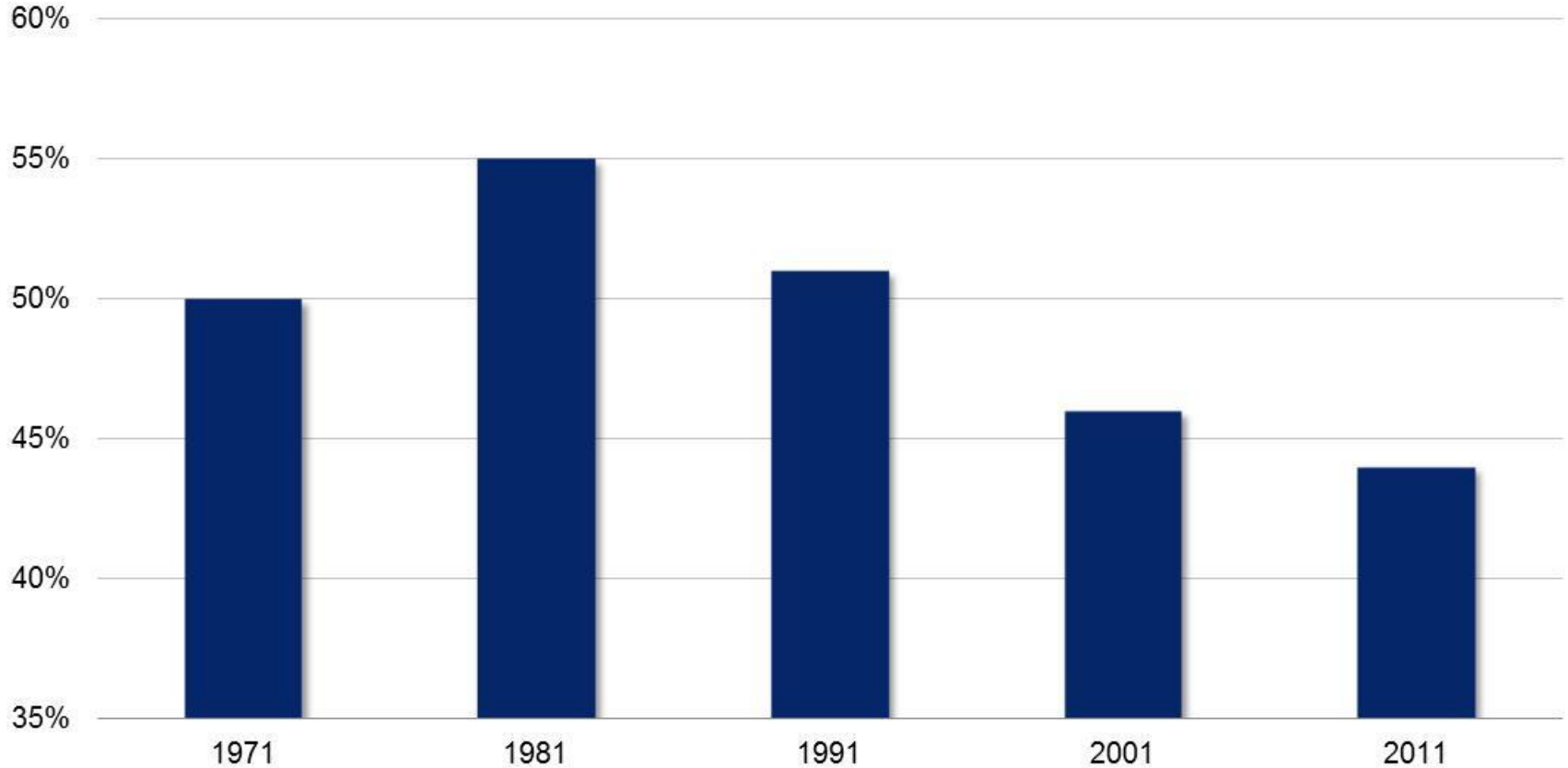
Vehicle Miles Traveled, Rolling 12-Month Total (in billions)



Source: Federal Highway Administration

This May Reflect Generational Changes in Attitude Toward Cars

Share of Potential Drivers 15-19 with Drivers' License

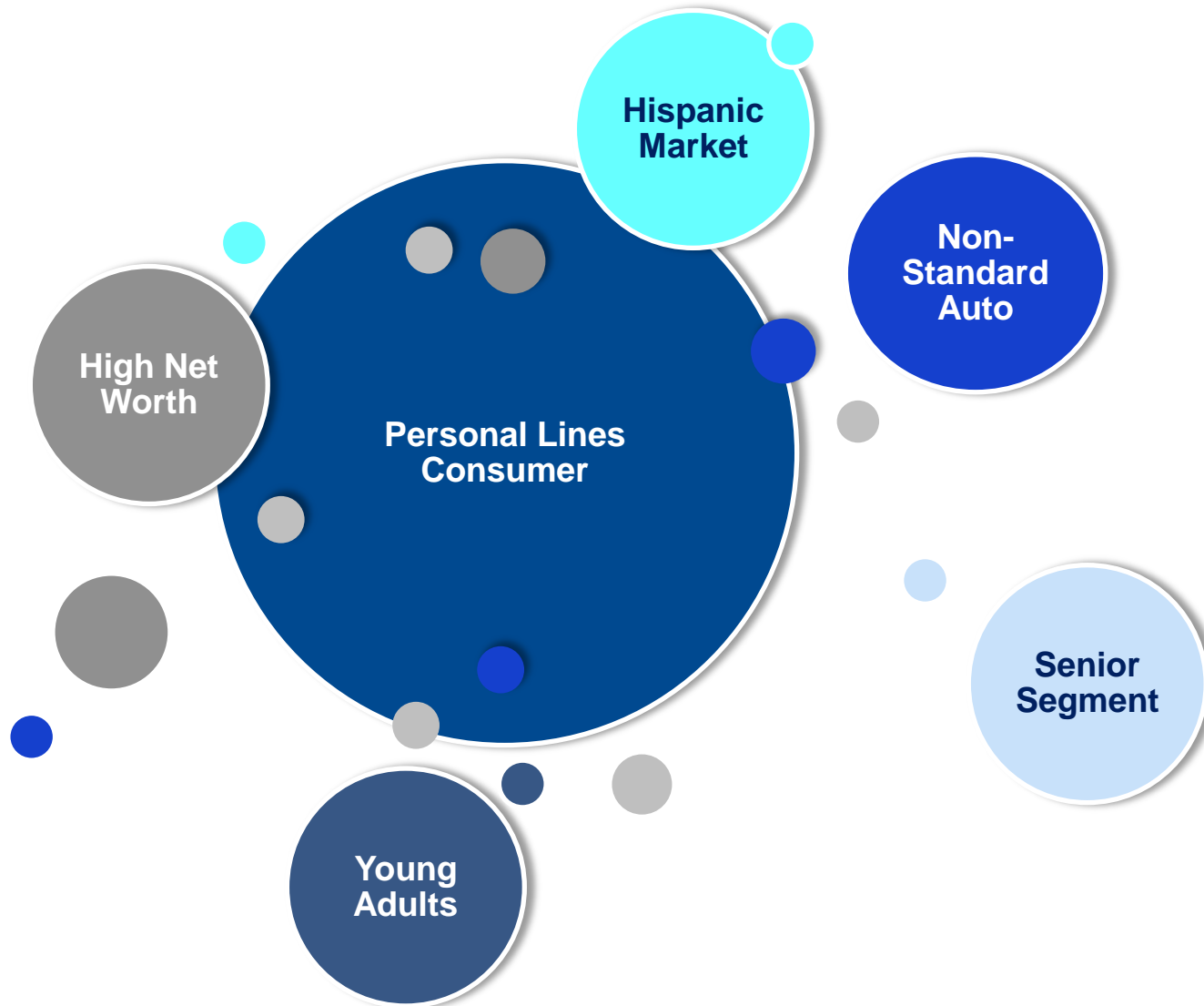


Source U.S. Census Bureau, Federal Highway Administration

Market Segments

NEW APPROACHES FOR NEW MARKETS

Undifferentiated Personal Lines Market Dissolving



HNW Concerns Extend Beyond Typical Mass Market

Homeowners

Automobile

Excess liability

Valuables (jewelry, art, and other collectibles)

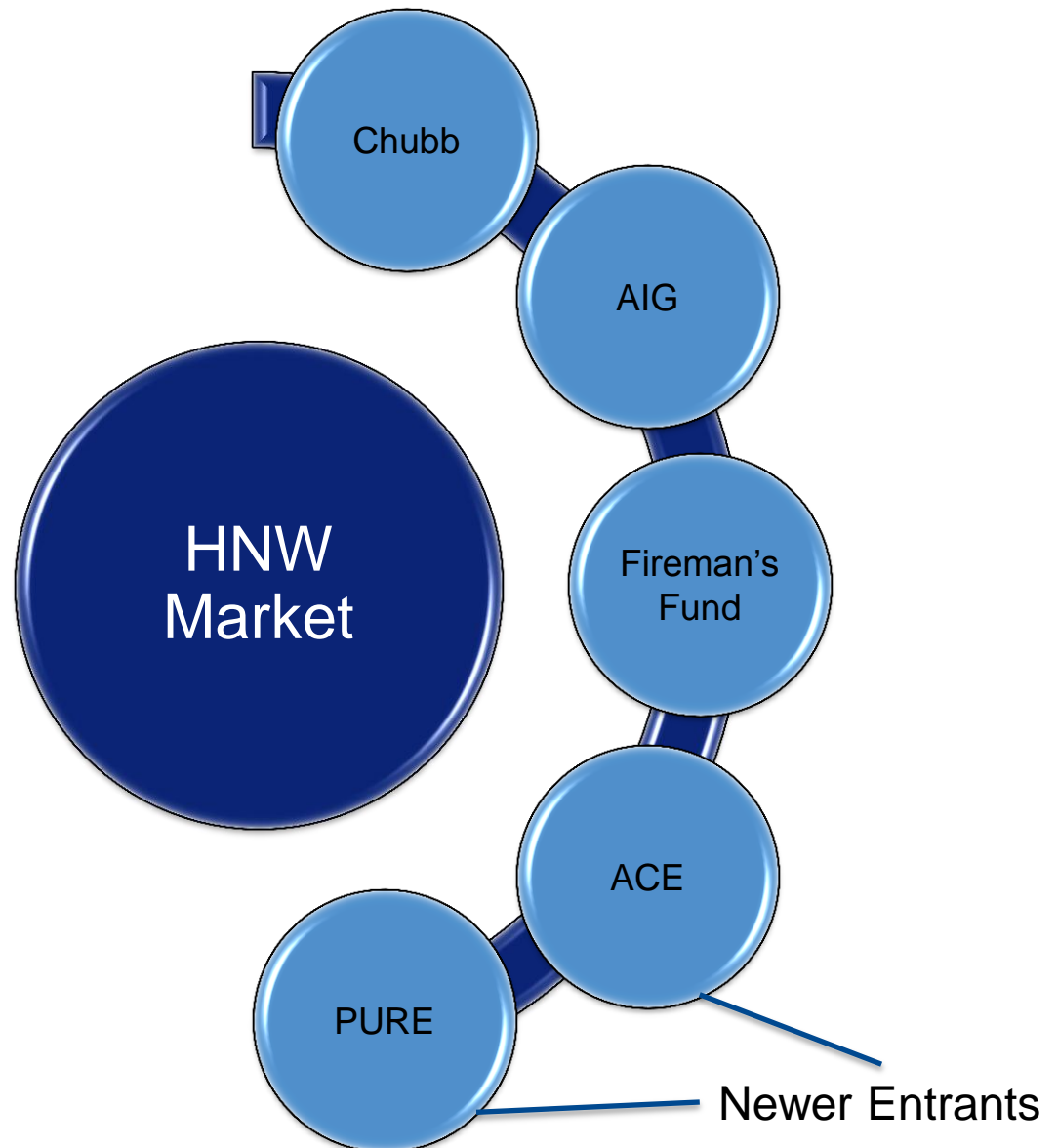
Watercraft (from small boats to large yachts)

Family protection (kidnap and ransom)

Workers' compensation and personal liability

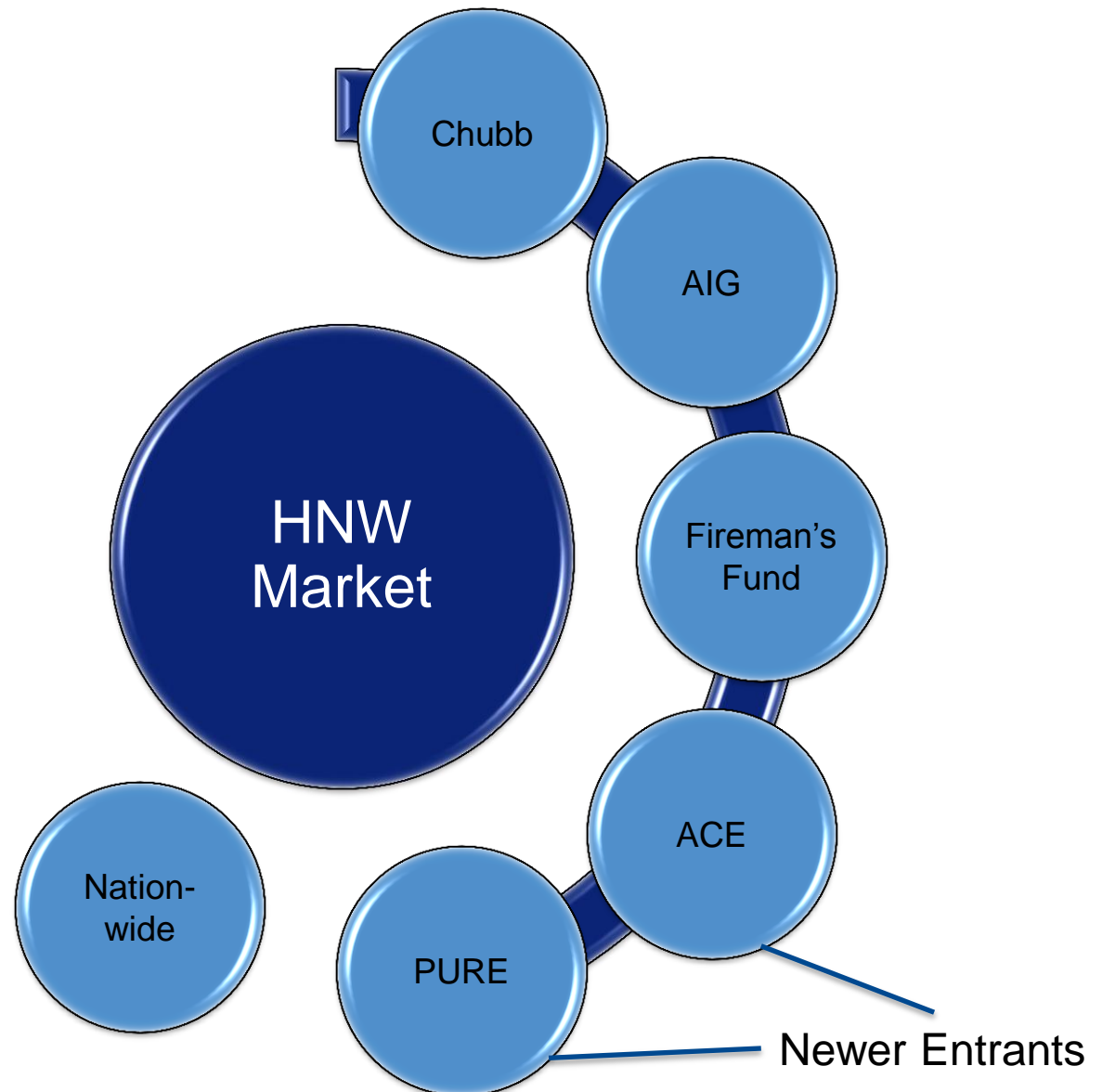
U.S. HNW Market Is Served by a Small Number of Insurers

Insurers Serving the U.S. HNW/UHNW Market



U.S. HNW Market Is Served by a Small Number of Insurers

Insurers Serving the U.S. HNW/UHNW Market



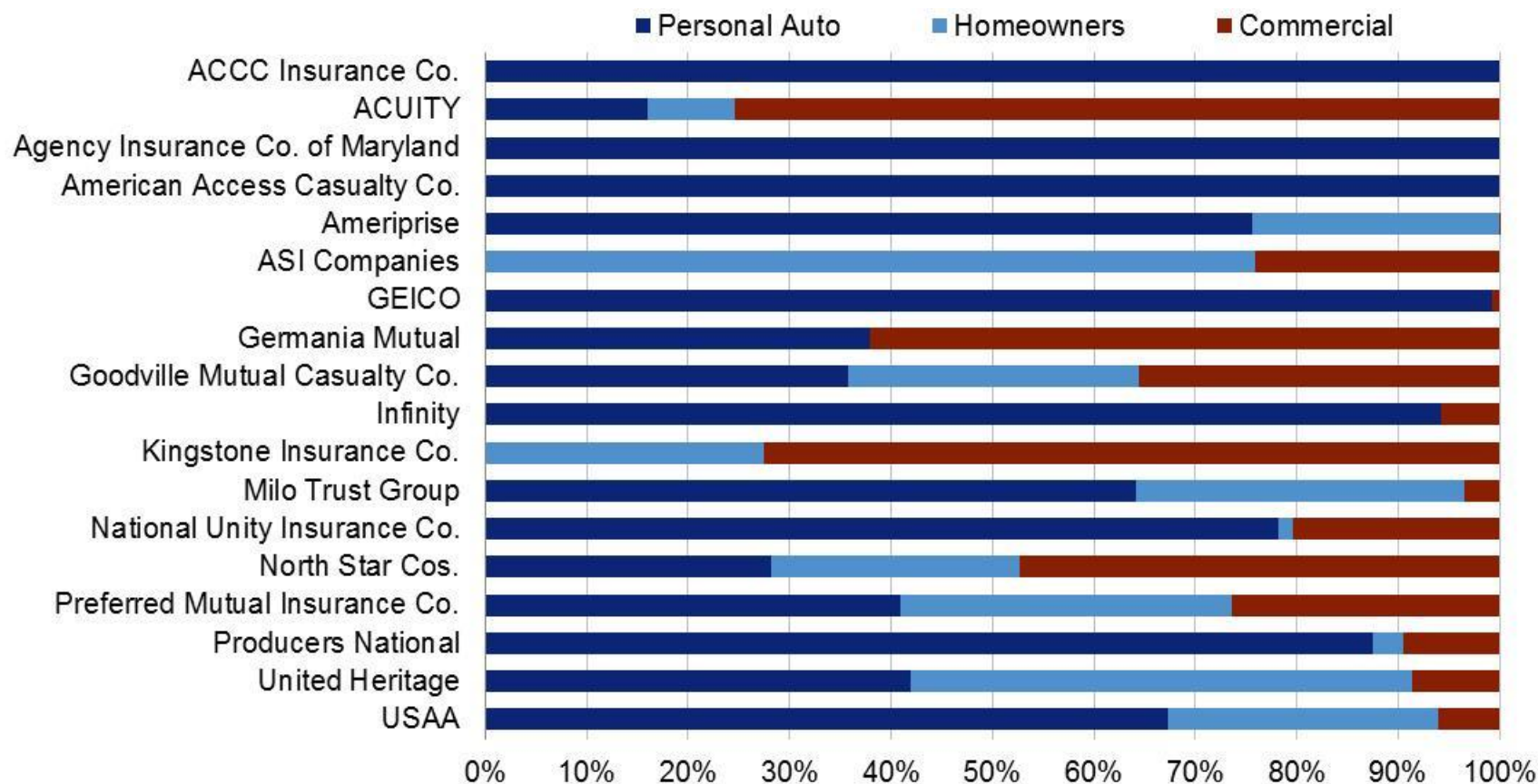
Interest in the Nonstandard Market Is Changing

Common Characteristics of a Nonstandard Risk

- ◆ Lack of prior insurance
- ◆ Failure to maintain continuous coverage
- ◆ Driver age (Both youthful drivers and elderly drivers tend to exhibit greater claim frequencies)
- ◆ Prior accidents
- ◆ Driving violations
- ◆ Type of vehicle driven (Expensive or high-performance vehicles cost more to repair or replace and may create an appealing target for vandals or thieves)
- ◆ A demonstrated history of financial difficulties or carelessness (linked to poor credit scores)
- ◆ Need for flexible payment plans and installment billing options
- ◆ Occupation (Certain occupations are statistically correlated with higher loss frequencies)

Specialization Common Among Market Leaders

Personal Lines Growth and Profit Leaders: Line-of-Business Distribution



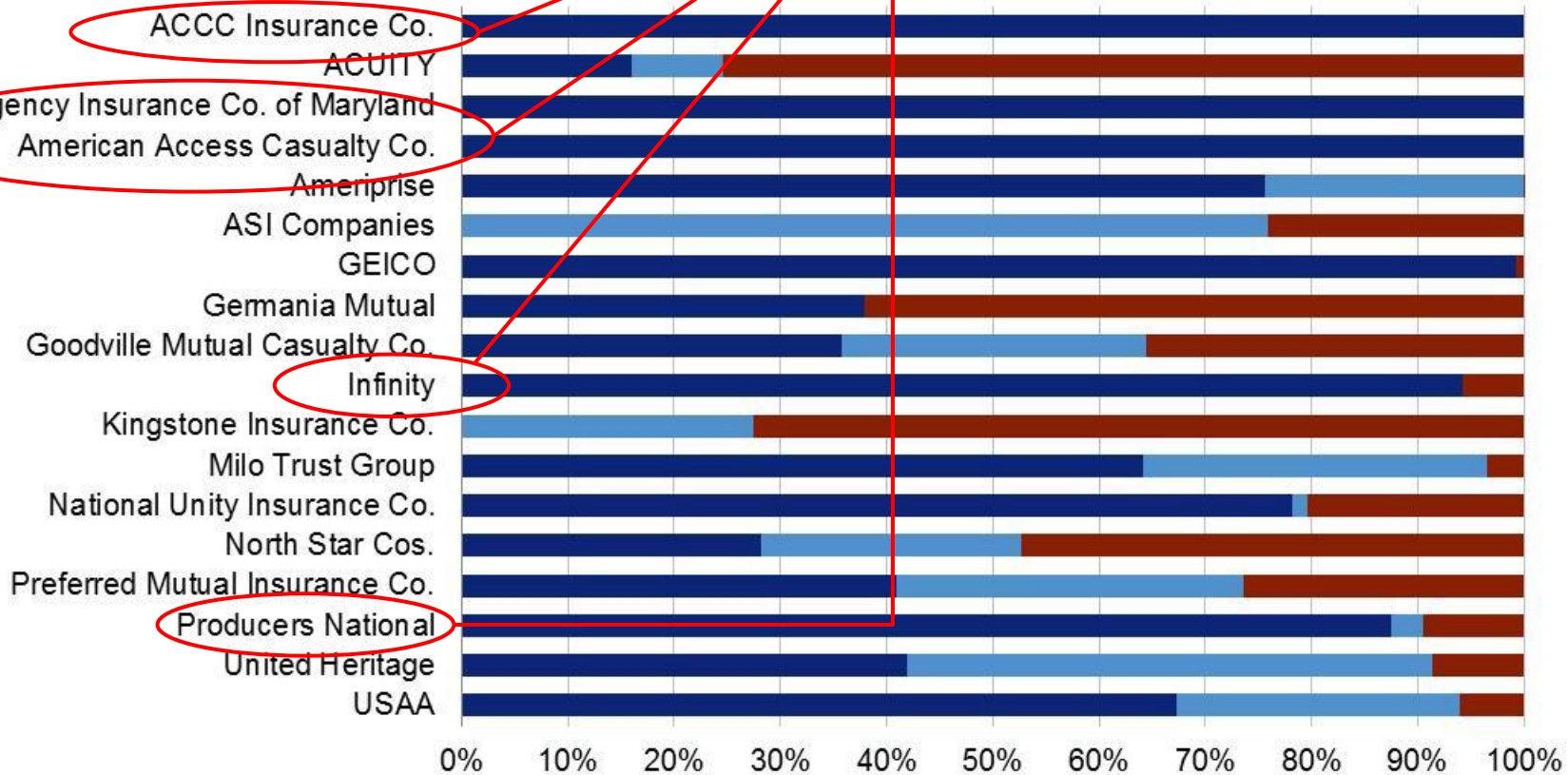
Data source: ©A.M. Best Company—used by permission, Conning analysis

5 of the Leaders Are NSA Specialists

Line-of-Business Distribution

Nonstandard auto

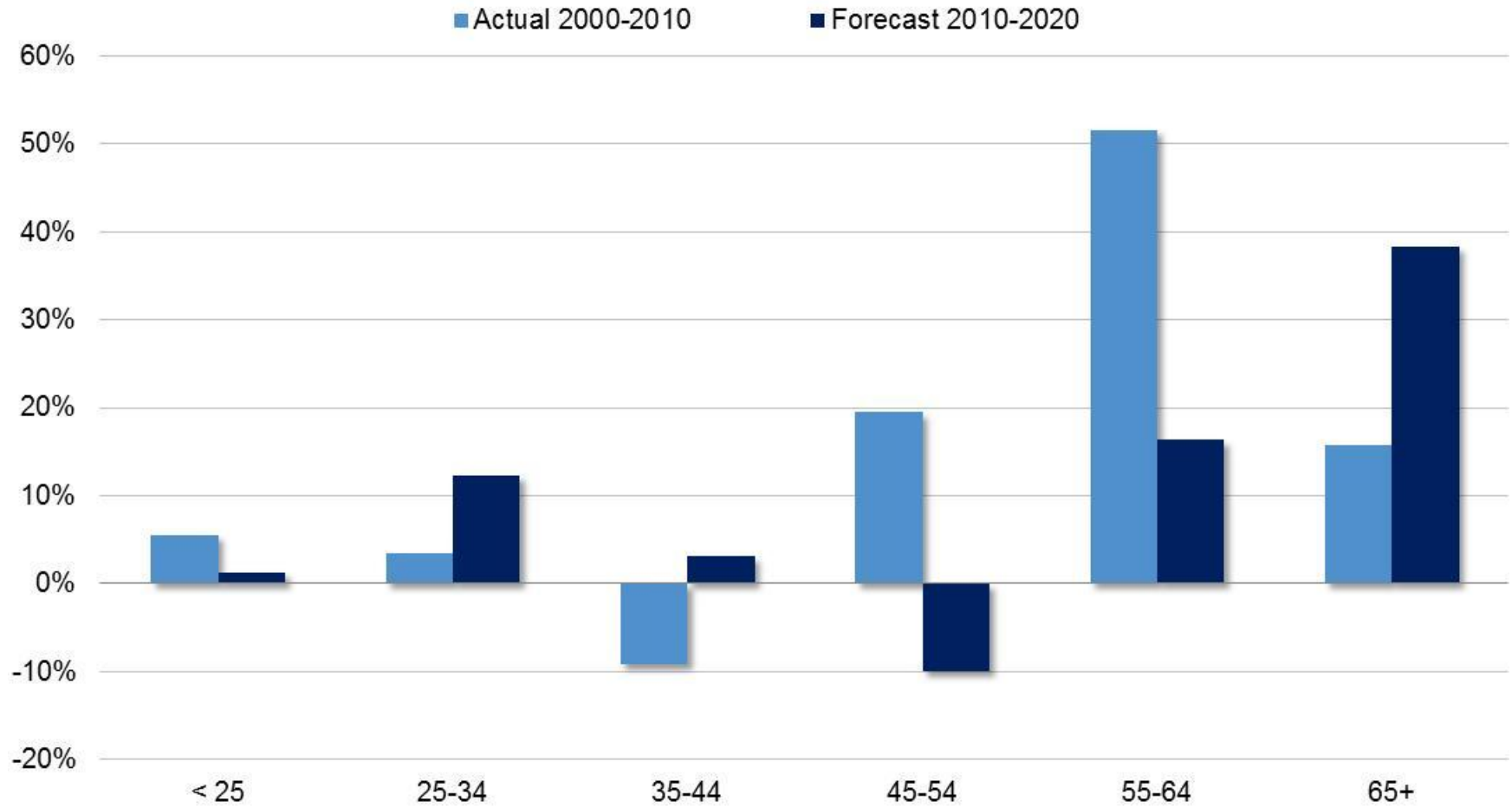
■ Personal Auto ■ Homeowners ■ Commercial



Data source: ©A.M. Best Company—used by permission, Conning analysis

Senior Segment Is the Fastest-Growing Age Cohort

U.S. Population Growth by Age Cohort



Source: U.S. Census Bureau

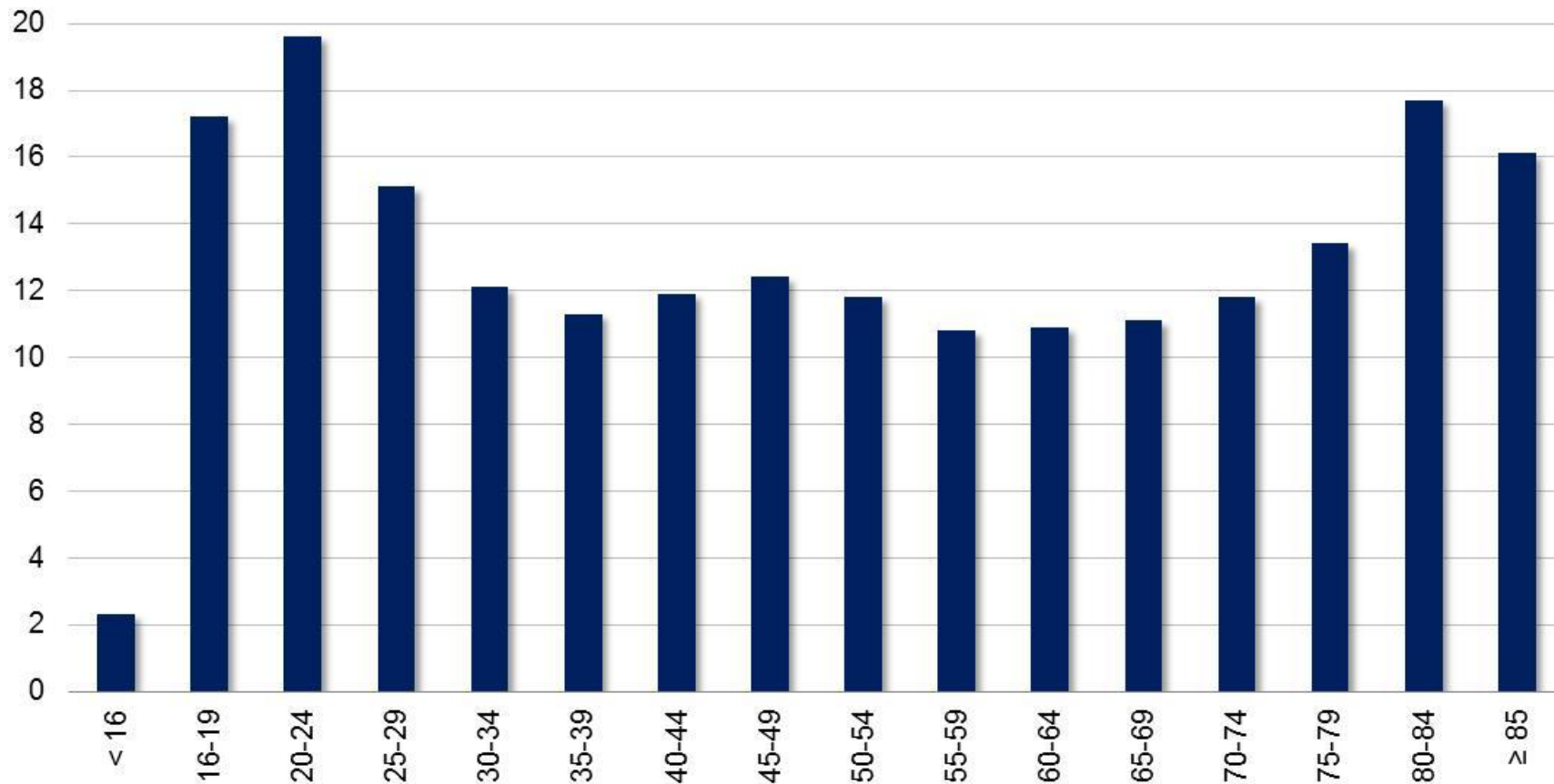
Only a Few Companies Identify Seniors as a Target

The screenshot shows a web browser window with the URL www.thehartford.com/aarp/. The browser's address bar and tabs are visible at the top. The website's navigation menu includes links for "Join Renew AARP", "AARP Member Benefits", "En Espanol", "Get a Quote", "Find an Agent", "Claims Center", and "Contact Us". A search bar and an "Account Login" button are also present. Below the navigation, there are dropdown menus for "Auto Insurance", "Property Insurance", and "Recreational Vehicles". The main content area features a large banner with the text "You Deserve Better Auto Insurance" and a sub-headline "Over 50? You Could Save \$404* If You Switch to The Hartford". Below this text is a form with a dropdown menu set to "Auto Insurance", a "Zip Code" input field, and a "Go" button. A link to "Retrieve a Saved Quote" is also visible. The background of the banner shows a smiling couple. The "edback" logo is visible in the bottom right corner of the page.

Source: The Hartford

Senior Segment Presents Challenging Risk Characteristics

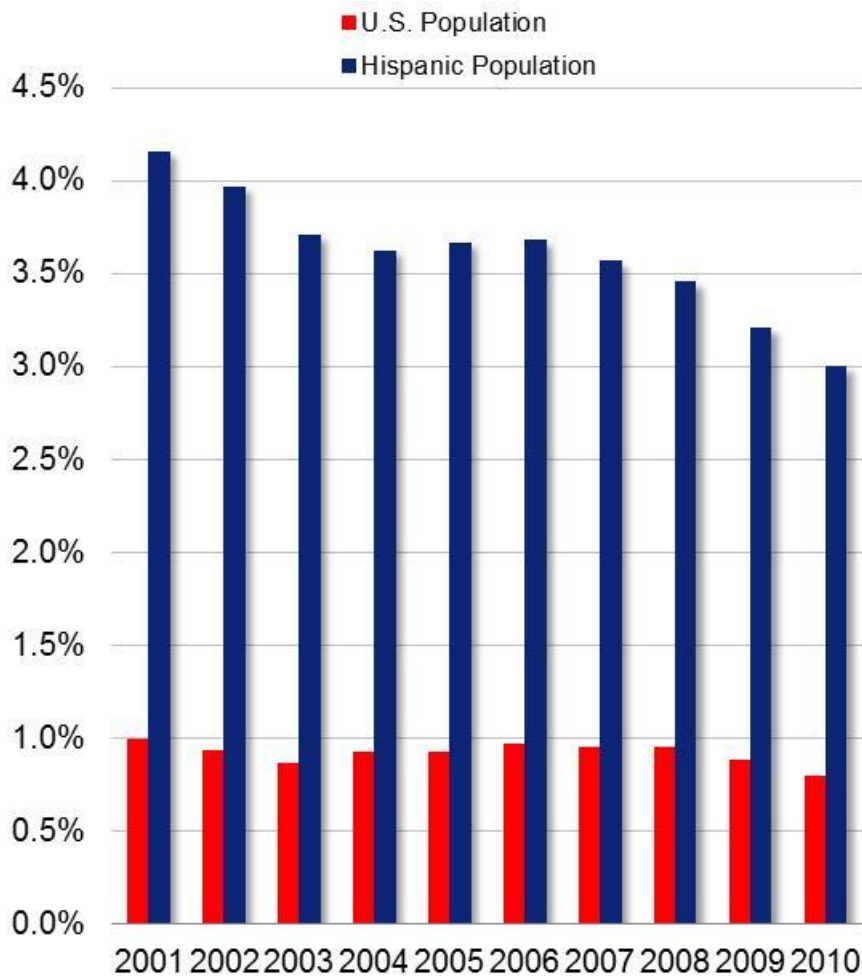
Motor Vehicle Crash Deaths per 100,000 People by Age, 2009



Source: Insurance Institute for Highway Safety

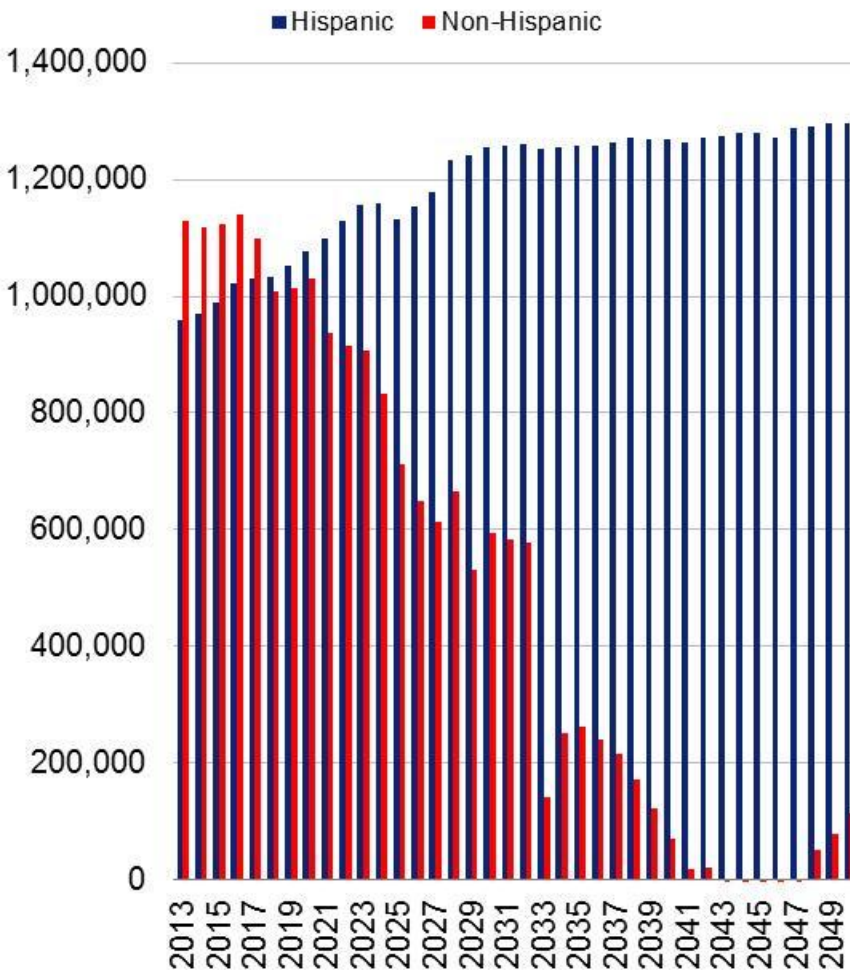
Hispanic Market Is of Growing Importance for Insurers

Annual Population Growth Rate, Total U.S. vs. Hispanic Population



Source: U.S. Census Bureau

Annual Increase in Driving Age Population



Insurers Devoting More Resources to This Segment

The screenshot displays the Infinity Auto website interface. At the top, the navigation bar includes the Infinity logo with the tagline "Siempre Contigo", a small car icon, and links for "EMPRESA", "CONTÁCTANOS", and "ENGLISH". Below this, a secondary menu lists "NUESTROS PRODUCTOS", "CENTRO DE RECLAMOS", "MI POLIZA", and "CENTRO DE CONOCIMIENTO".

The main content area features a large image of a family (a woman and three children) loading items into the back of a red SUV. Overlaid on this image is a promotional banner with the text: "Ahorros que se Ajustan a Tu Estilo de Vida. Además obtén una membresía gratis con Infinity DriverClub®". Below the banner, an orange section contains the text "Cotiza, compara y adquiere tu seguro de auto por internet." and a "COTIZAR" button, preceded by a "Código Postal" input field.

On the right side, a white sidebar contains a login section titled "ACCEDER MI PÓLIZA" with fields for "Nombre de usuario" and "Contraseña", and an "INICIAR SESION" button. Below the login section are three buttons: "INICIA UN RECLAMO" (orange), "LOCALIZA A UN AGENTE" (green), and a link for "Recupera tu contraseña" and "Registra tu cuenta".

At the bottom of the page, a grey bar contains a phone icon and the text "¿Necesitas ayuda con tu cotización? 1-800-INFINITY".

Source: www.Infinityauto.com/es

Select Brokers/Agencies Are Also Finding Opportunity



Protector Holdings, LLC

Primero en Seguros



PREMIER INSURANCE SERVICES
MORE COVERAGE FOR LESS

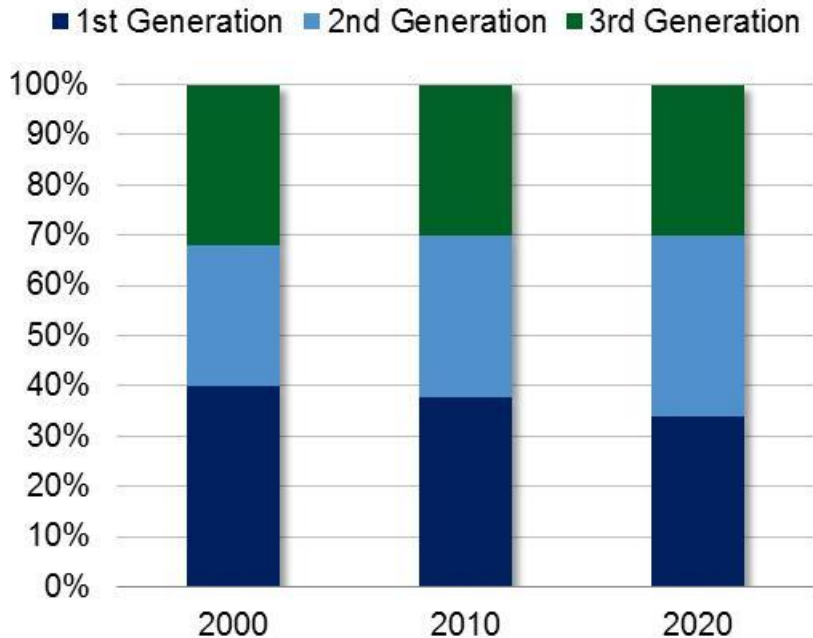
Generational Differences Create Different Markets

First: Foreign-born or immigrant.

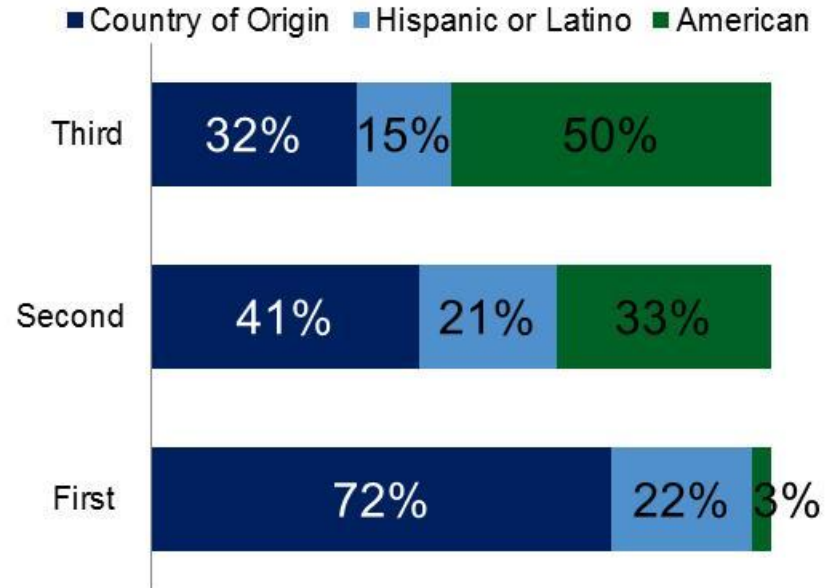
Second: U.S. native (born in the United States or territories), with at least one first-generation parent.

Third-and-higher: U.S. native (born in the United States or territories), with both parents native-born.

Share of U.S. Hispanic Population 2000-2020



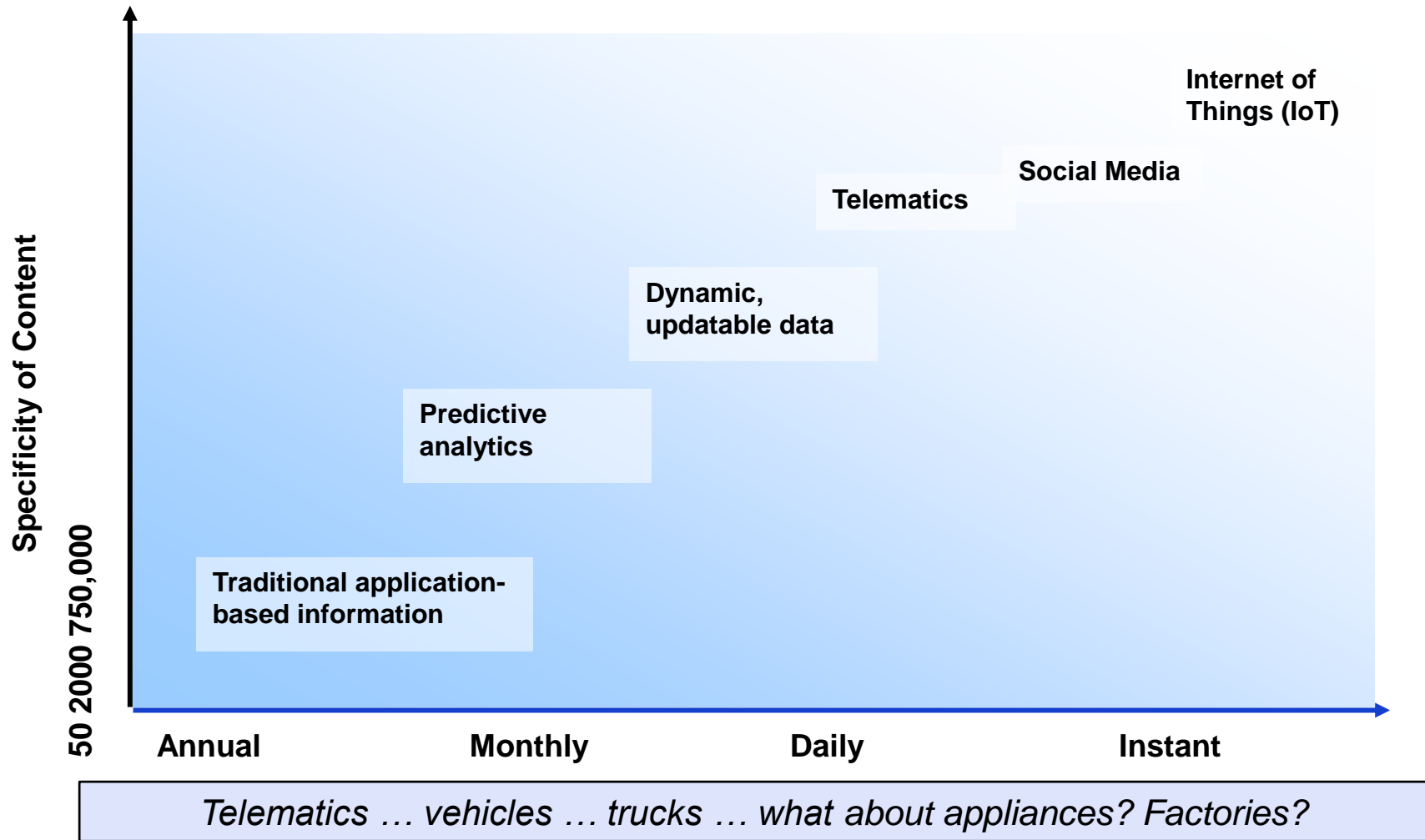
First Term Latino Youths Use to Describe Themselves



Source: <http://www.pewhispanic.org/2014/04/29/statistical-portrait-of-hispanics-in-the-united-states-2012/>

Micro-Segmentation from Access to Personalized Data

Auto Rating Data Sophistication Transforming with “Real Time” Access



Source: *Consumer Trends in Personal Lines Insurance*, Conning, 2012

Customer Contact

NEW APPROACHES FOR NEW MARKETS

Buying Behavior Is Shifting Too

What Is Driving Channel Evolution?

Gathering information online is the most popular auto insurance shopping method

Increasing sophistication of pricing models reduces the need for front-line underwriting (McKinsey)

Trust in online financial transactions is high (88% of customers bank online)

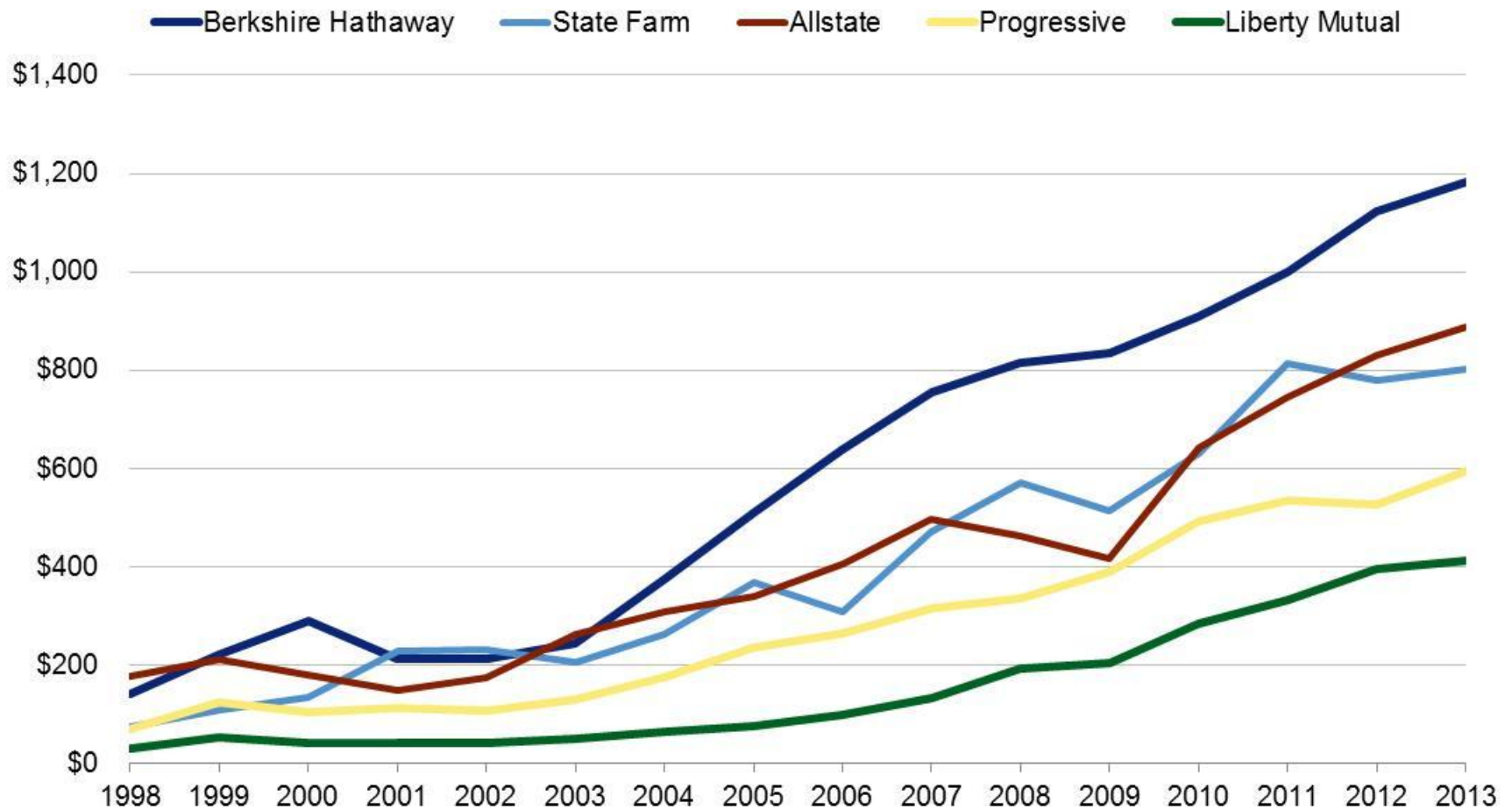
Insurance customer satisfaction is highest among those who interact with their insurer through the agent and emerging channels (JDPower)

Customer expectations of insurance is influenced by interactions with other retailers

Shopping and buying habits vary by demographic group

Spending More to Establish an Unstable Relationship

Advertising Expense, Five Largest Spenders (*\$ in millions*)

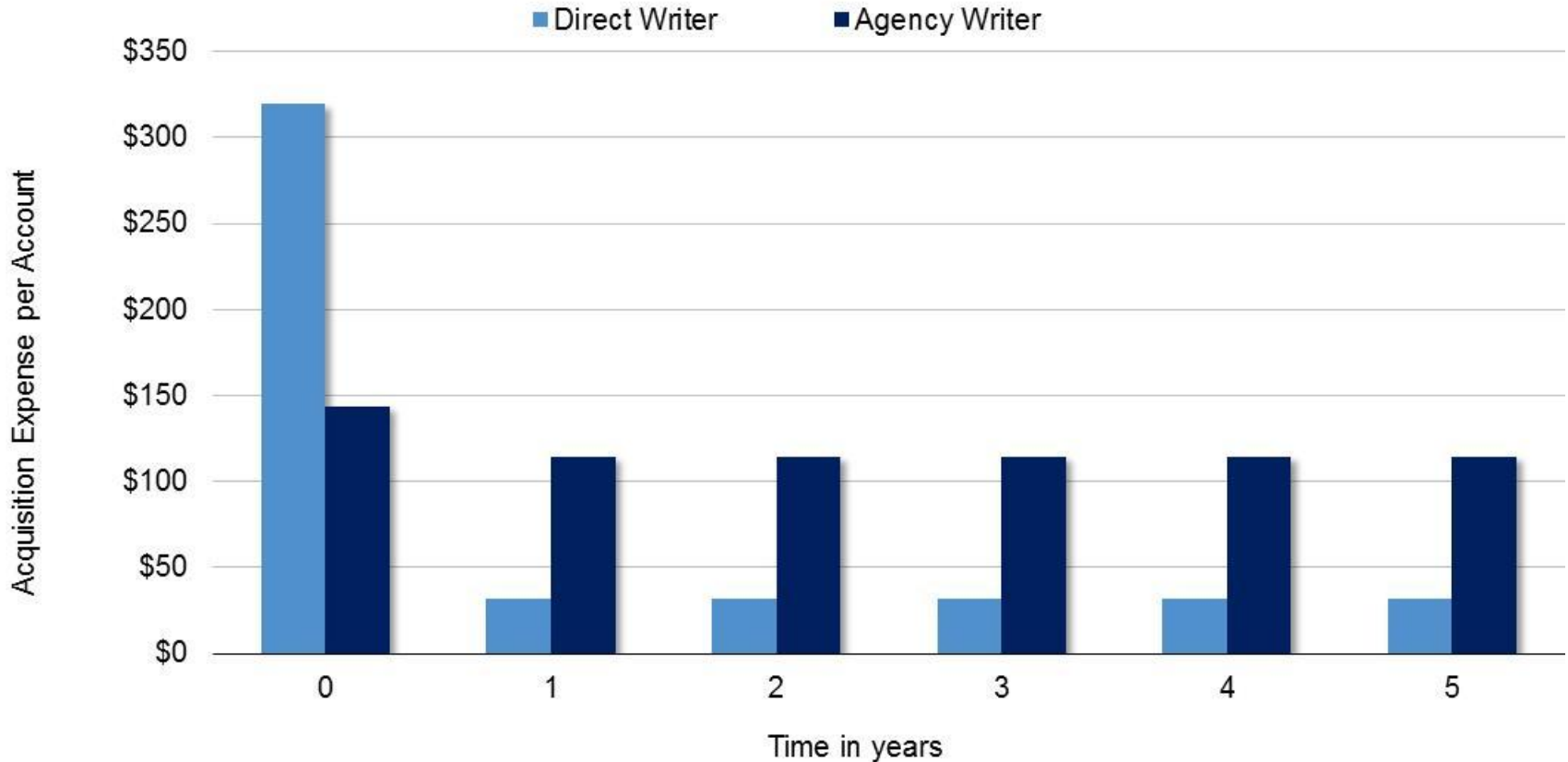


Data source: ©A.M. Best Company—used by permission, Conning analysis

Economics of Acquisition Costs: Direct Response and Agency

Direct vs. Agency Acquisition Costs

5-Year Account Lifecycle

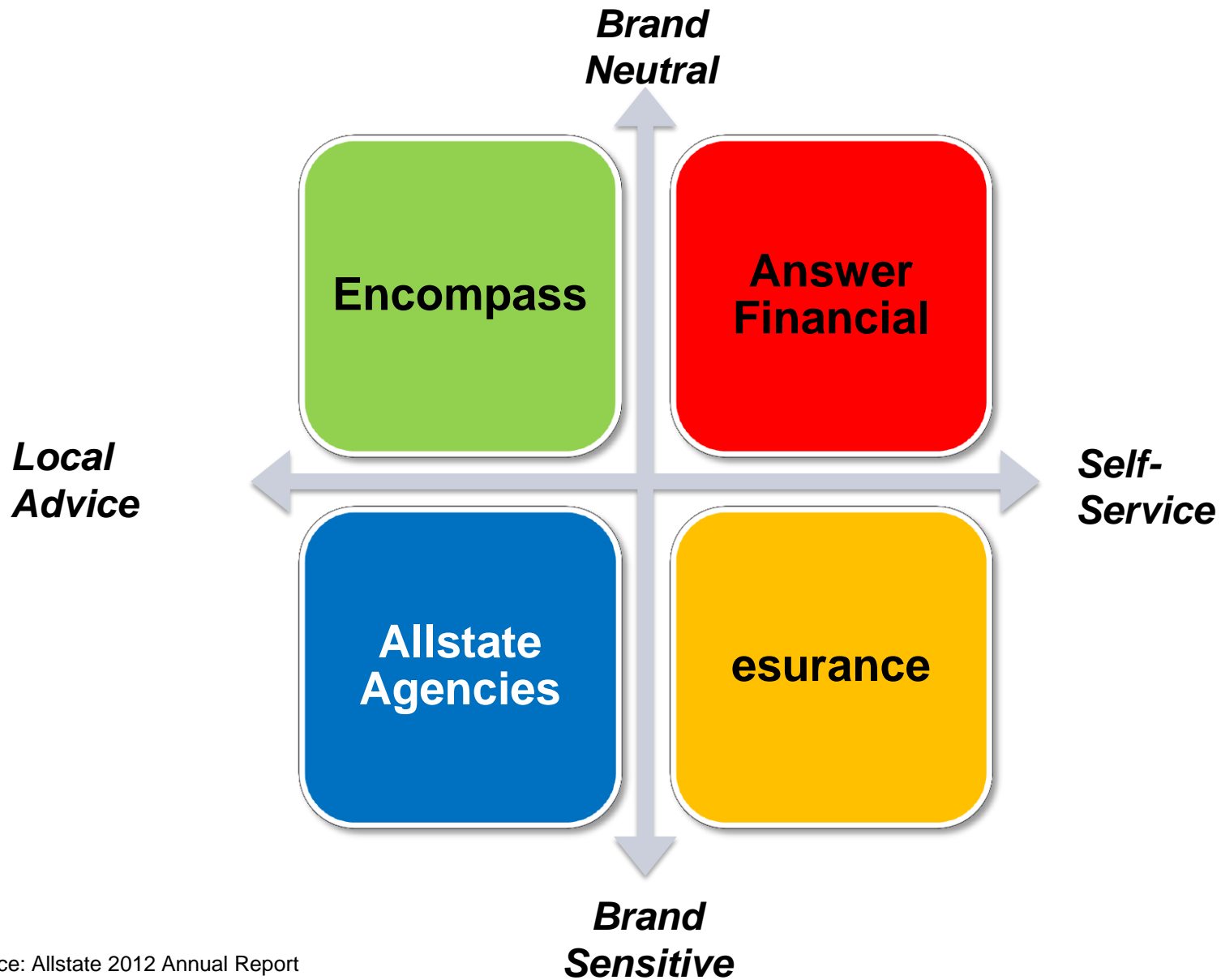


The example assumes that underwriting and policy issuance expenses are similar for each insurer.

Increasing Competition: Rise of Aggregators



Allstate Addressing Array of Consumer Preferences



Source: Allstate 2012 Annual Report

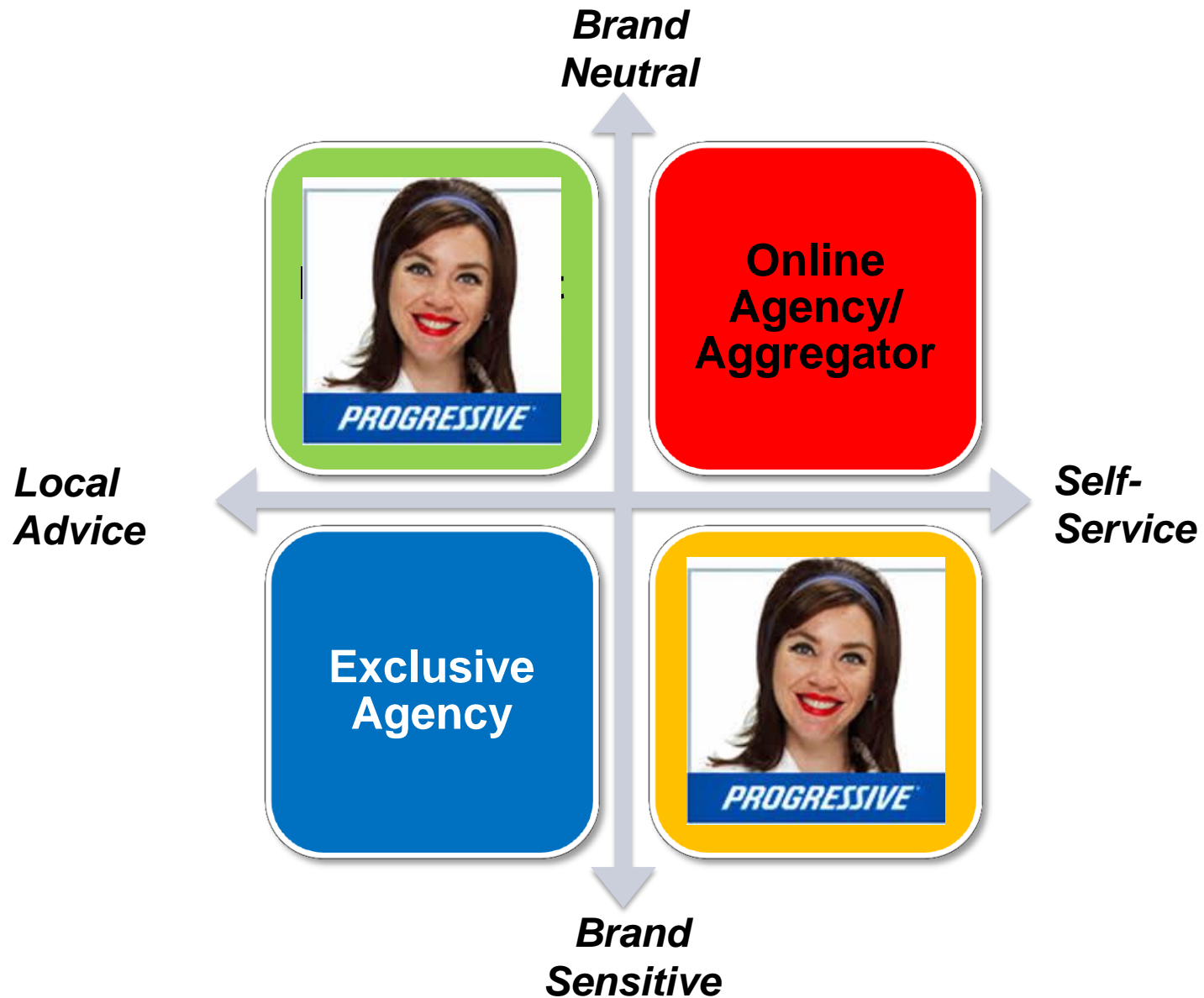
Other Insurers Are Pursuing Multichannel



Other Insurers Are Pursuing Multichannel



Other Insurers Are Pursuing Multichannel

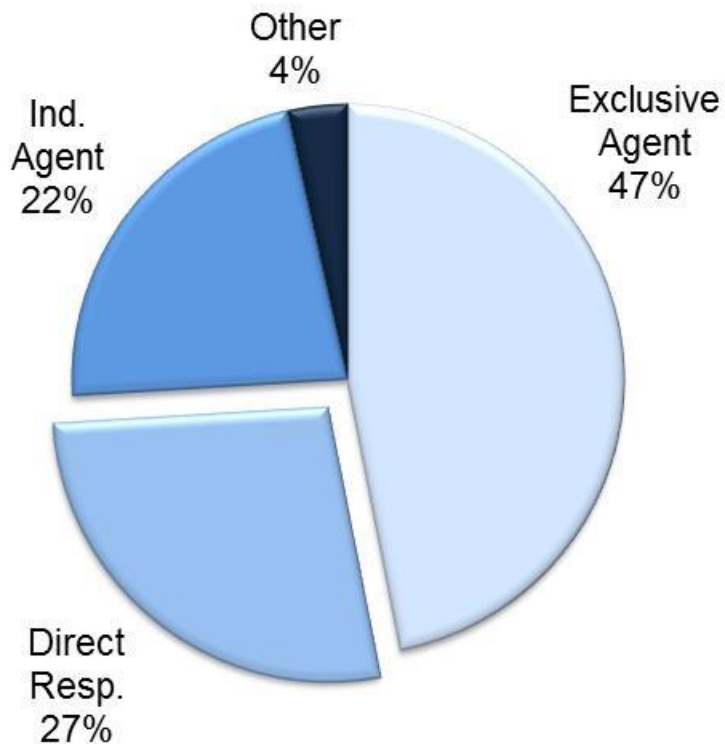


Other Insurers Are Pursuing Multichannel

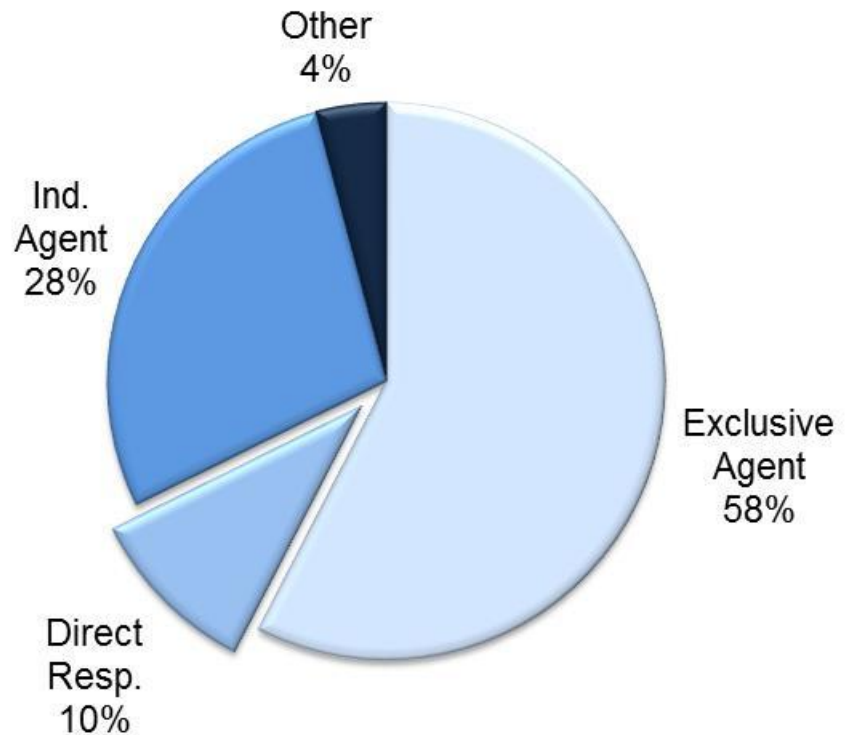


Direct Response Still More Prominent in Auto

Personal Auto Premium Distribution by Channel



Homeowners Premium Distribution by Channel



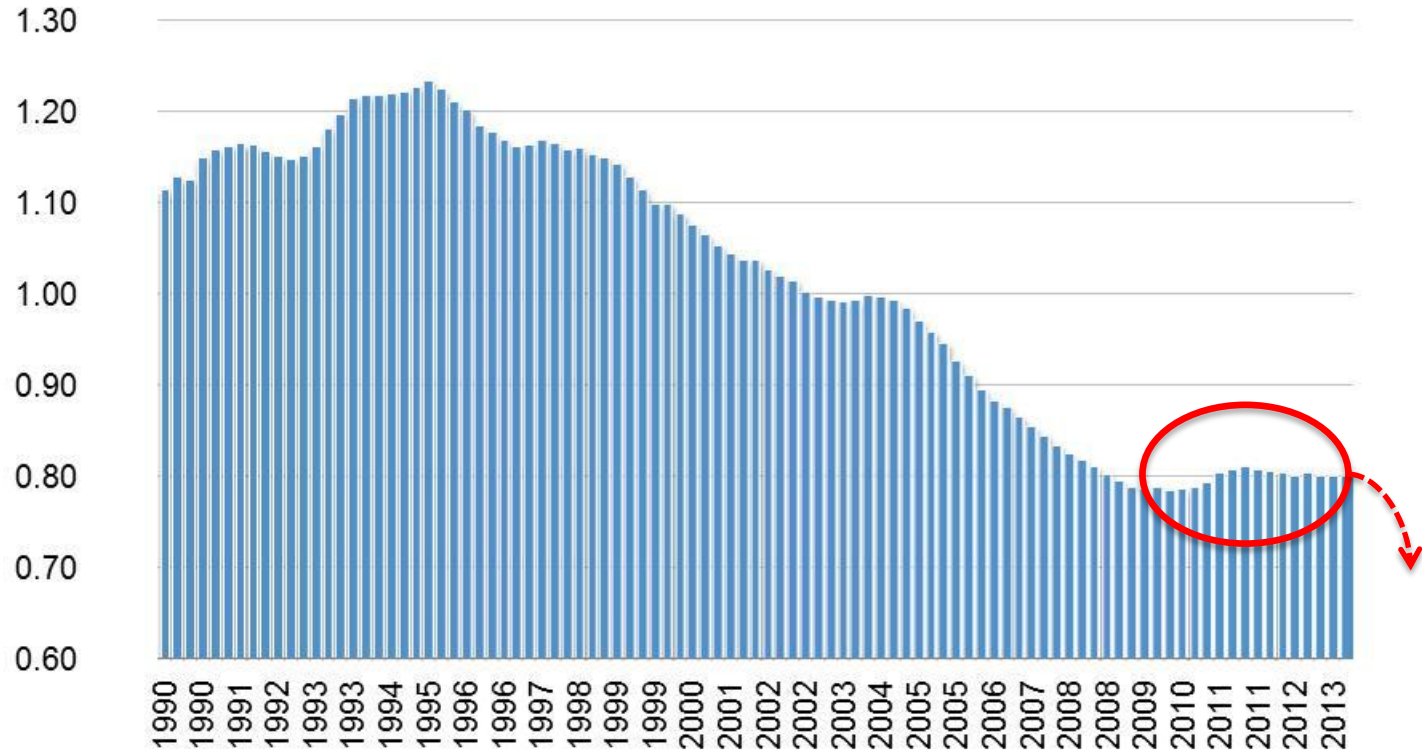
Data source: ©A.M. Best Company—used by permission; Company GAAP filings; Investor presentations; Company news releases; Conning analysis

Auto Frequency Improvements ... Challenge to the Auto Market?

Contributors to Frequency Trends

- Graduated driver laws
- DUI enforcement
- Safer roads
- Anti-lock brakes
- Reduced miles traveled
- Driver monitoring
- Event recorders
- Location tracking
- Back-up cameras

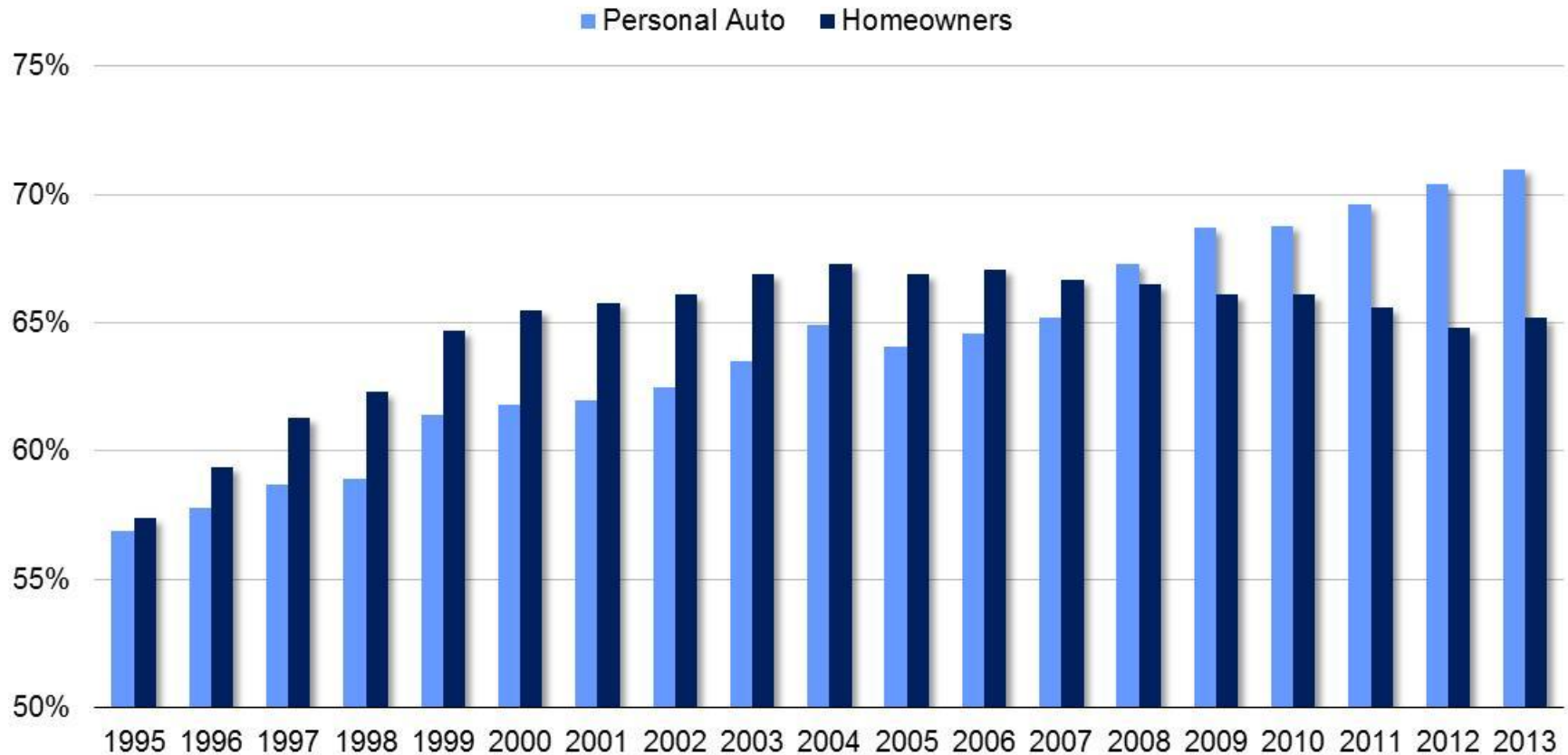
Paid Claim Frequency: Personal Auto Bodily Injury



Source: ISO Fast Track; Conning analysis

Consolidation in Auto, What About Homeowners?

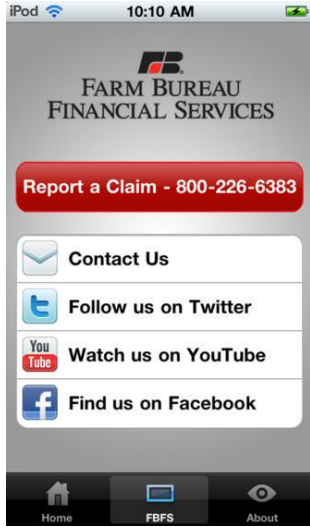
Market Share of Top 10 Personal Auto and Homeowners Insurers



The homeowners line followed a path similar to personal auto until catastrophe events in 2004-2005 led many large national insurers to de-risk the homeowners portfolio. Is that ending?

Data source: ©A.M. Best Company—used by permission, Conning analysis

Insurers Continue to Advance Service with Mobile Technology Apps



FARMERS

***Keeping Mobile Fresh and Active
To Drive Customer Retention***

About Conning

Conning is a leading investment management company for the global insurance industry. Conning is focused on the future, supporting the insurance industry with innovative financial solutions, investment experience and proprietary research. Conning's unique combination of asset management, risk and capital management software and advisory solutions, as well as insurance research, helps clients achieve their financial goals through customized business and investment strategies. Founded in 1912, Conning is headquartered in Hartford, Connecticut and serves its global client base from additional offices in New York, London, Cologne and Hong Kong.

Insurance Research

Conning publishes a number of insurance industry research services, including its **Insurance Segment Reports** semiannual line-of-business reviews; its **Forecast & Analysis** service, which offers a forward look at the industry; and its well-known **Strategic Study** series of executive reports on key products and trends and issues of critical industry importance. All are available in print and online through our web-based research portal Conning Library (www.conninglibrary.com).

For more information on our insurance research services, please call 888-707-1177 or visit www.conningresearch.com.

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