

2010 U.S. INSURANCE MARKET UNDERWRITING CYCLE TRENDS



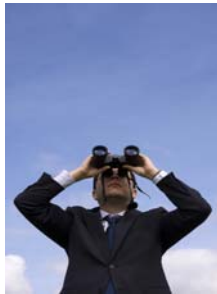
September 20, 2010

2010 CLRS – Orlando FL



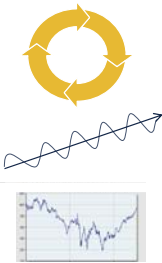
UW CYCLE ANALYSIS

- 2009 Casualty results
- Analysis of Casualty trends and relationships
 - Premiums and price
 - AY and Cal Year results
 - Reserves and Cash Flow
- Lines of business
 - Workers Compensation
 - Other Liability – Occurrence



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UW CYCLE - DRIVERS Casualty Market



Pricing Competition

- Pricing responds to Calendar Year results
- Accident Year results ultimately reflect pricing
- Ultimate AY results affect Cal Yr results – cyclical
 - aka reserve development

Loss Trends

- Loss trends reflects economic, social, and legal issues – frequency / severity
- Pricing response lags loss changes – cyclical
- If losses stable, UW cycle dominated by pricing

Economic Environment

- Capital, asset, interest, and inflation changes important, but secondary issues
- Casualty pricing does not appear to be ROE based
- However, watch UW cash flows – cyclical

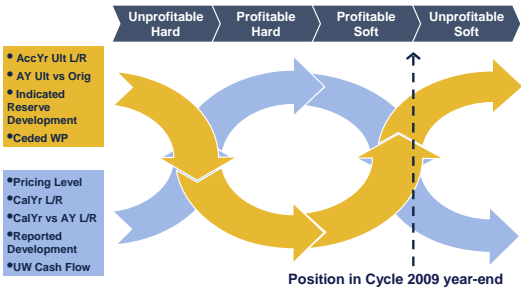
IMPORTANCE



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UW CYCLE - PHASES

Casualty Market



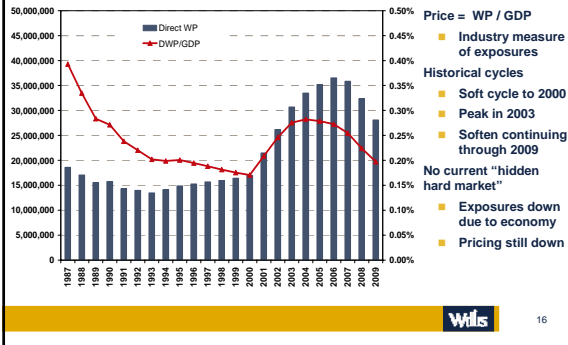
UW CYCLE - ISSUES

Casualty Market

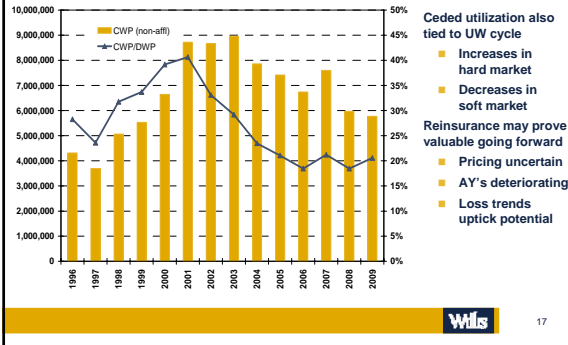
Pricing Competition	Loss Trends	Economic Environment
<ul style="list-style-type: none"> Recent profitable Calendar Year results have driven significant price decreases Price level still declining Accident year results have "bottomed out", and appear to becoming inadequate Calendar years will soon turn unfavorable <ul style="list-style-type: none"> Reserve position worsening UW cash flows negative and deteriorating <p>➤ <u>Pricing near turning point?</u></p>	<ul style="list-style-type: none"> Benign for over a decade <ul style="list-style-type: none"> Moderate severity trends Declining frequency Reform gains under pressure in various states Possible return of inflation <ul style="list-style-type: none"> Economic recovery Monetary policy Calendar year implications <ul style="list-style-type: none"> Pressure on AY results Reserves reflect implicit historical inflation rate <p>➤ <u>Nowhere to go but up?</u></p>	<ul style="list-style-type: none"> Industry emerged from recent turmoil relatively unscathed <ul style="list-style-type: none"> Watch treasury yields Pricing did not respond to increase in capital costs Need to bolster liquidity <ul style="list-style-type: none"> Will insurers compete to generate cash? Business cycle downturn reducing policies <ul style="list-style-type: none"> Will insurers compete to cover fixed costs? <p>➤ <u>Wildcard?</u></p>

WORKERS COMPENSATION

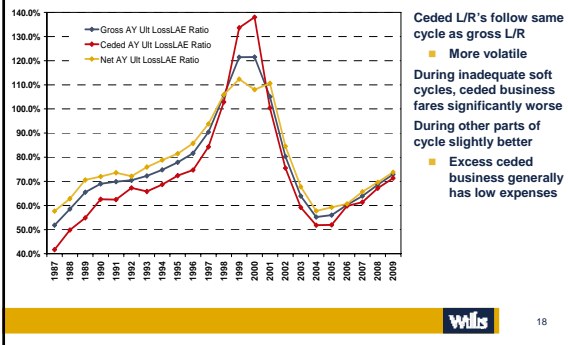
OTHER LIABILITY (Occ.) Premium & Price



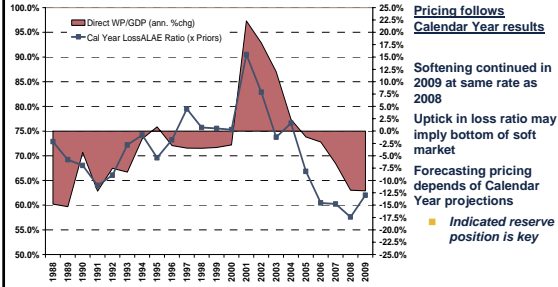
OTHER LIABILITY (Occ.) Ceded Premium & Utilization



OTHER LIABILITY (Occ.) Acc Yr Gross, Ceded, Net Results



OTHER LIABILITY (Occ.) Pricing vs. Calendar Year Results



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OTHER LIABILITY (Occ.) Reserve Position & UW Cash Flow

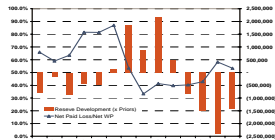
Industry Schedule P data can be evaluated to estimate indicated reserve position

- Conning reports reserve redundancy as of 2008 (2009 Willis estimate)
- Past indications in line with subsequent development with lagged response to loss/price trend changes

Calendar Year	Indicated (Redundancy) Deficiency	Subsequent Booked (x Priors) Development
2009	(4,854)	7,777
2008	(6,029)	(1,434)
2007	620	(3,376)
2006	(2,805)	(2,549)
2005	N/A	(3,205)
2004	6,295	413
2003	3,807	6,125
2002	8,055	6,447
2001	13,116	9,001
2000	3,117	7,471

UW Cash Flow appears to be an early indicator of future reserve development

- Price change are correlated with unrecognized reserve weakening
 - If pricing is weak, reserves generally inadequate
 - paid losses rise relative to WP
 - Reverse is true as well
- Cash flow deteriorating



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