Casualty Loss Reserve Seminar 2012

Denver, CO

General Session 1: Glory Days - How Loss Reserving has Evolved

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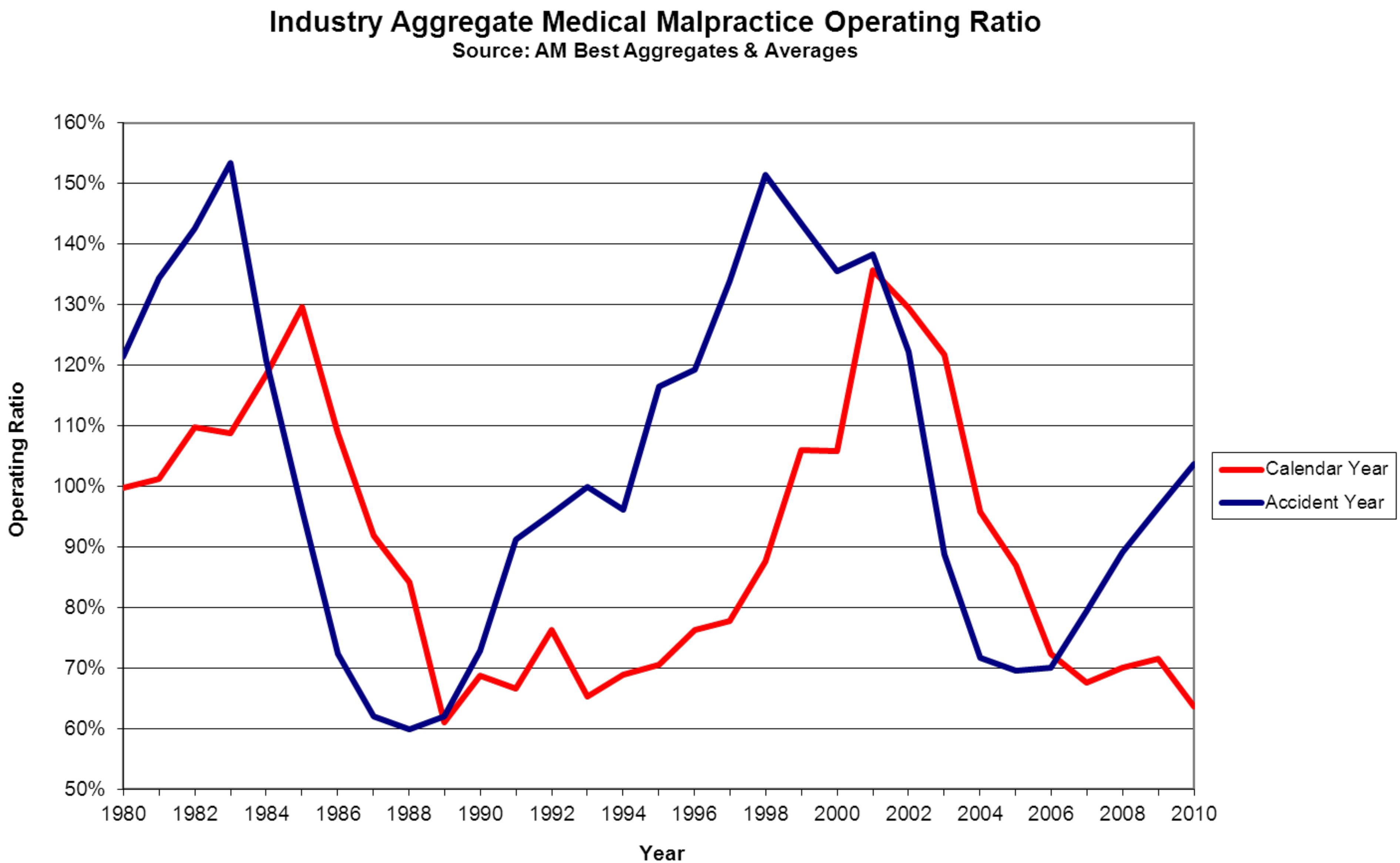
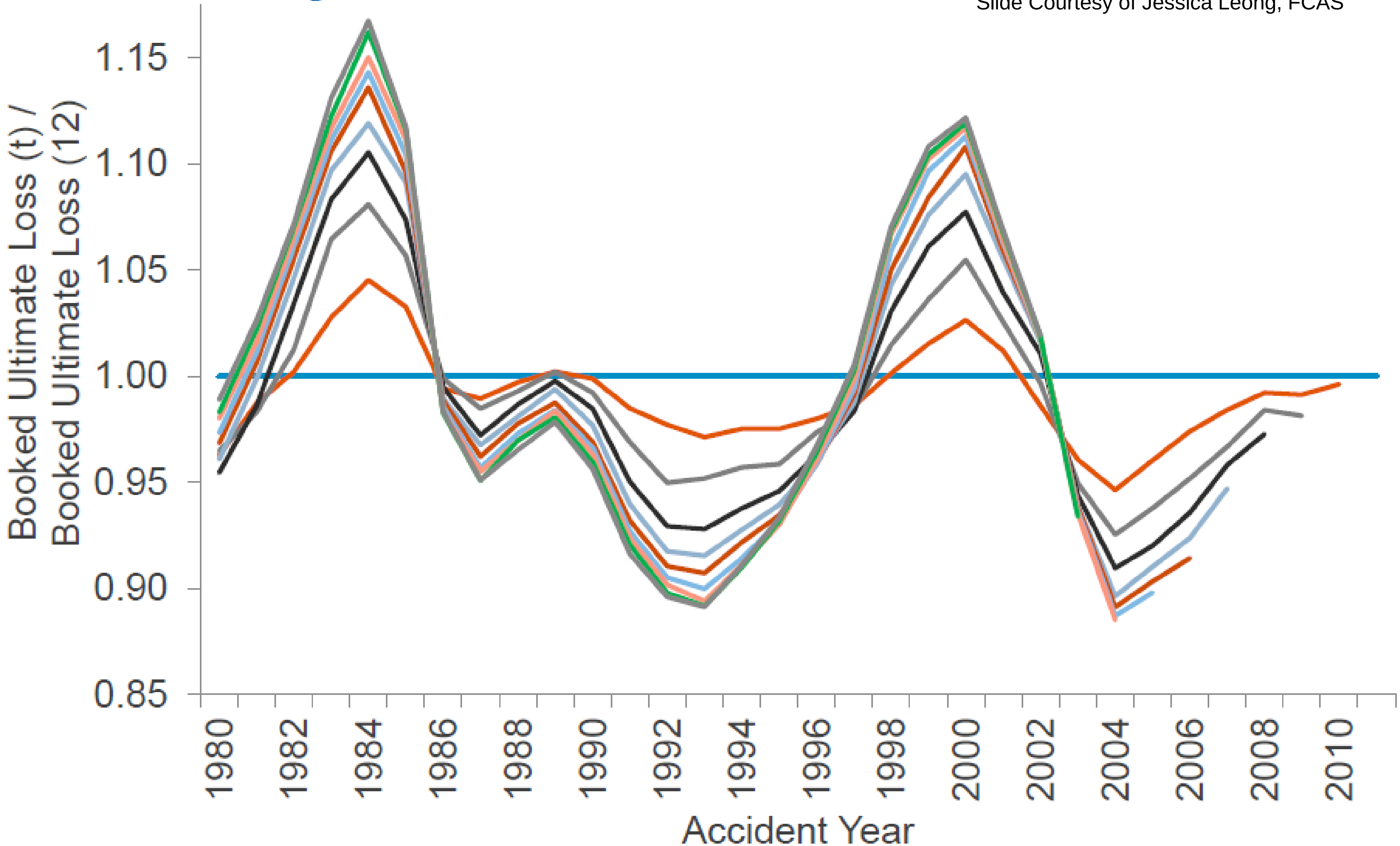


AY reported results including IBNR reported as of December 31, 2010 (or 9 years after AY, if earlier)
AY Estimates reflect investment yield of 0.5% above 5-Year US Treasury Rate

Reserve Cycle

Slide Courtesy of Jessica Leong, FCAS



Sum of: Private Passenger Auto, Comm Auto Liab, CMP, Homeowners, Med Prof Liab, Other Liab, Products Liab, WC. Data to 12/2009 is from cleaned Schedule P database from Guy Carpenter & Risk Lighthouse (representing more than 95% of the industry), and updated for 12/2010 & 12/2011 financials using SNL and subject to change.

Reserving Implications of Changing Quality of Business

(Calculations Simplified for Presentation Purposes)

Accident Year	Trended On-Level Loss Ratio (TOLLR)	Points Change	Actual Loss Ratio	Points Change	"Unexplained" Difference
1997	56%		56%		
2001	61%	5%	81%	25%	20%
2007	45%	-16%	30%	-51%	-35%
2010	68%	23%	66%	36%	13%
	R/N "Quality" - Relative to TOLLR	R/N "Quality" - Loss Ratio Points	New "Quality": New Vs. Renewal L/R	New Business Mix	New "Quality" - Loss Ratio Points
1997 to 2001	101%	2%	134%	27%	18%
2001 to 2007	89%	-33%	103%	17%	-2%
2007 to 2010	106%	7%	140%	17%	6%

Top Half: Actual loss ratio varies significantly from the “predicted” loss ratio based on industry loss trend and actual rate changes

Renewal (R/N) Quality: Soft market renewals perform worse than expected causing 3 point L/R increase over 4 years from 1997 to 2001 ((101% - 100%) x (100%-27%) x 56 x 4 yrs.)

New Quality: in soft markets, new business performs much worse than renewals leading to 17 point increase (20 unexplained less 3% R/N; alternatively: ((134% - 100%) x 27% x 56 x 4 yrs.)

Quality in Hard Market (2001-07): clean-up of poor performing business (R/N loss ratio 89% of TOLLR) from soft market can lead to significant, unexpected, improvements in loss ratio