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Good Fundamentals but not a Hard Market for Property & Casualty Insurers

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Discussion Topics

1. Credit Ratings
2. Rating Trends in North American P&C Insurance
3. Personal Lines Outlook
4. Commercial Lines Outlook
5. Commercial Casualty Reserve Profile
6. Sensitivity to Interest Rate Changes

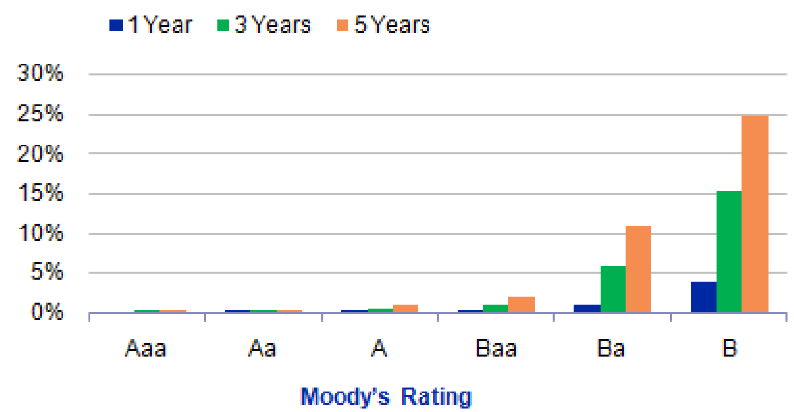
Global Long-Term Rating Scale

Investment -Grade	
Aaa	Highest quality, lowest credit risk
Aa	High quality, very low credit risk (Aa1, Aa2, Aa3)
A	Upper-medium grade, low credit risk (A1, A2, A3)
Baa	Medium grade, moderate credit risk (Baa1, Baa2, Baa3)

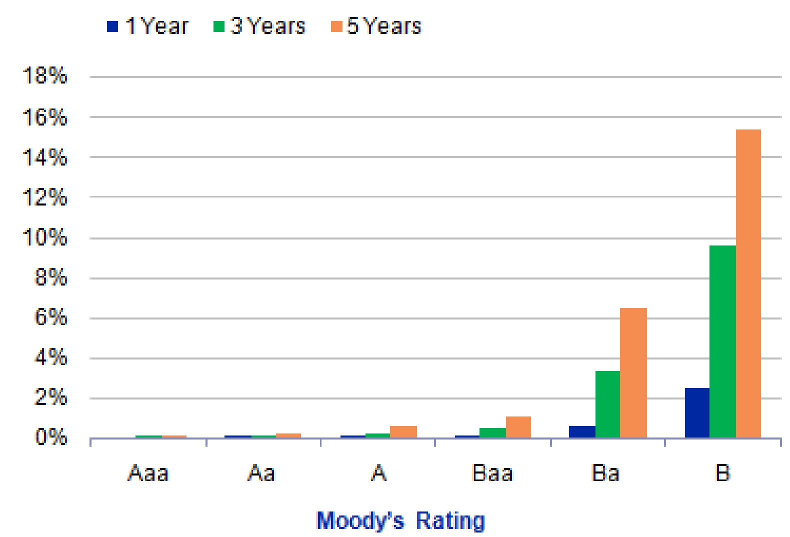
Speculative -Grade	
Ba	Speculative, substantial credit risk (Ba1, Ba2, Ba3)
B	Speculative, high credit risk (B1, B2, B3)
Caa	Speculative, very high credit risk (Caa1, Caa2, Caa3)
Ca	Highly speculative, likely in/near default, some recovery
C	Lowest rated, typically in default, little recovery

Source: Moody's Annual Default Study: Corporate Default and Recovery Rates, Feb 28, 2013, Exhibits 22 & 34

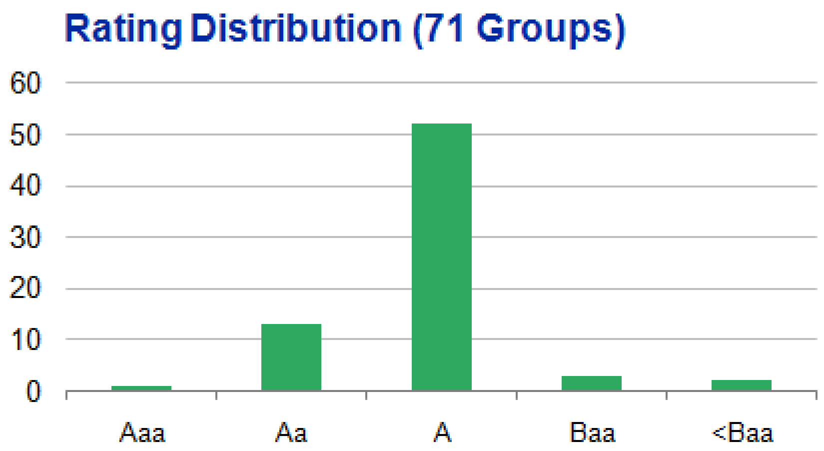
Default Probabilities

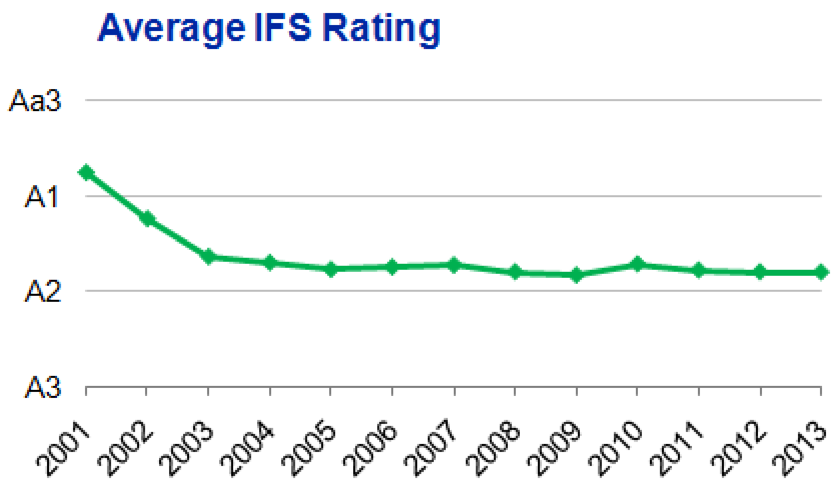


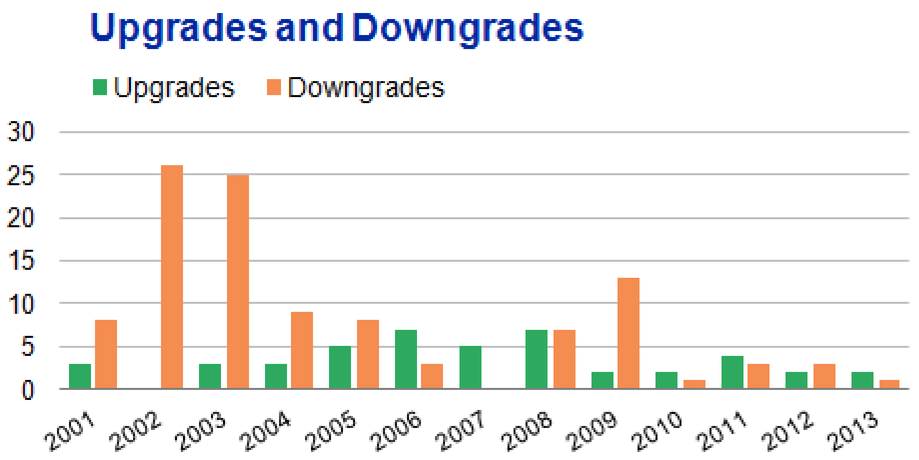
Expected Loss

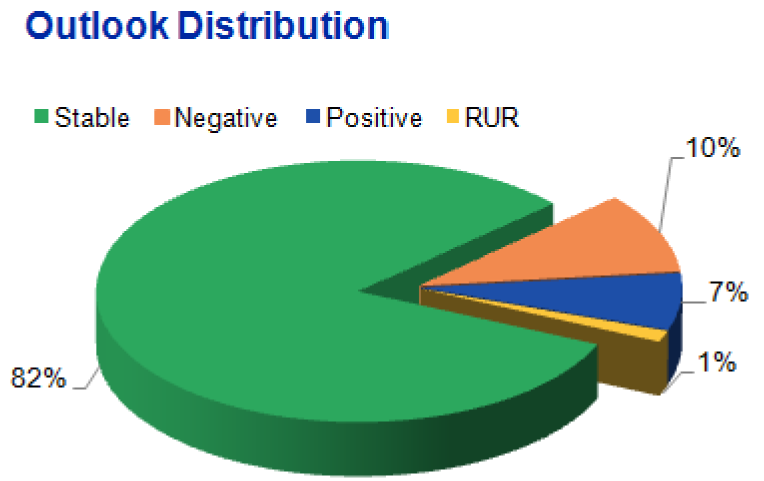


Ratings Trends in North American P&C: Stable Outlook







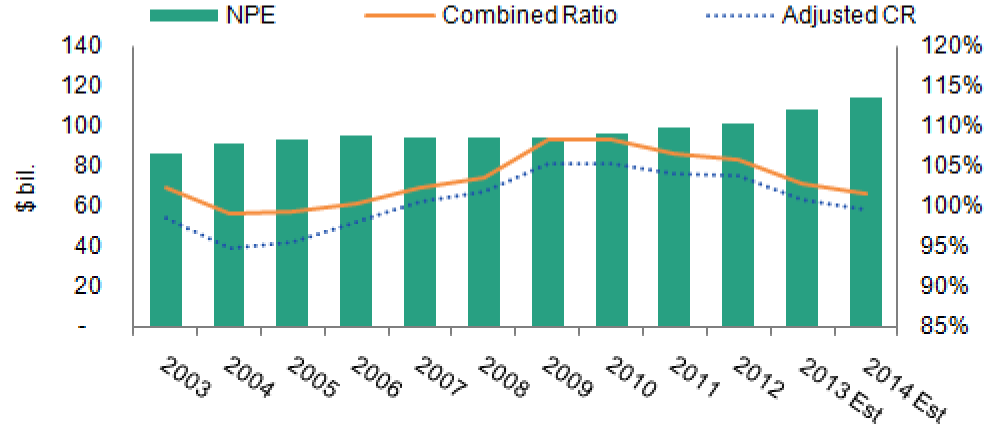


as of Sept. 1, 2013

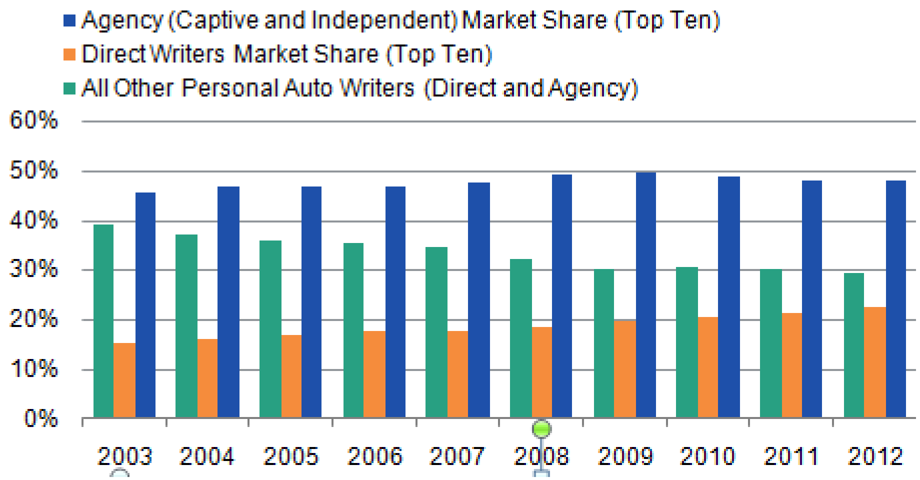
Personal Lines: Underwriting Discipline Drives Margin Improvement

- » Auto rate increases are moderating but keeping pace with loss cost trends
- » Direct auto writers continue to gain market share; agency writers shifting focus towards growth after re-underwriting efforts
- » Homeowners' rates continue to rise but at a slower pace; ex-cat underlying combined ratios improve
- » Balance sheets – capital, investments, liquidity – in good shape
- » Persistent catastrophe risk: focus on geographic concentrations given multitude of severe convective storms

Personal Auto Liability – Growth & Profitability



Personal Auto Market Share



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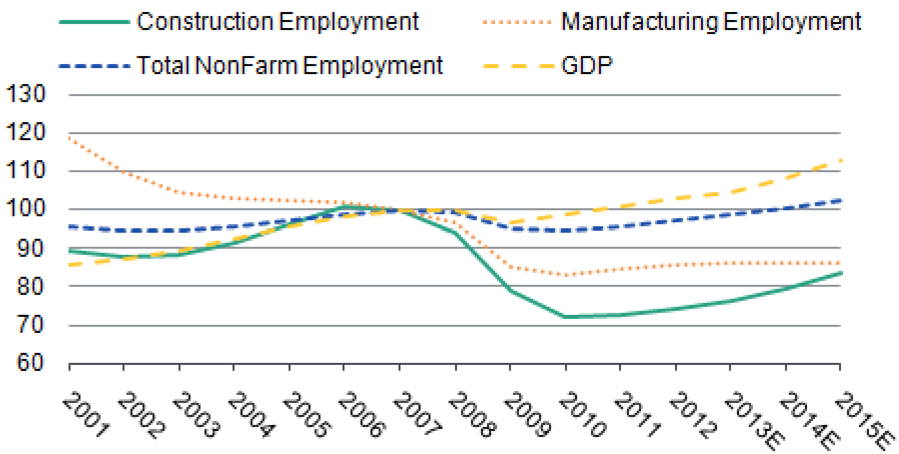
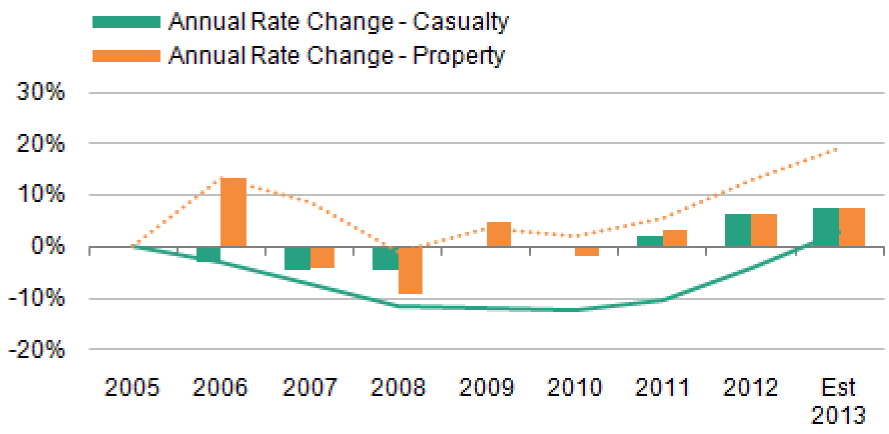
Commercial Lines: Favorable Pricing and Ample Capital

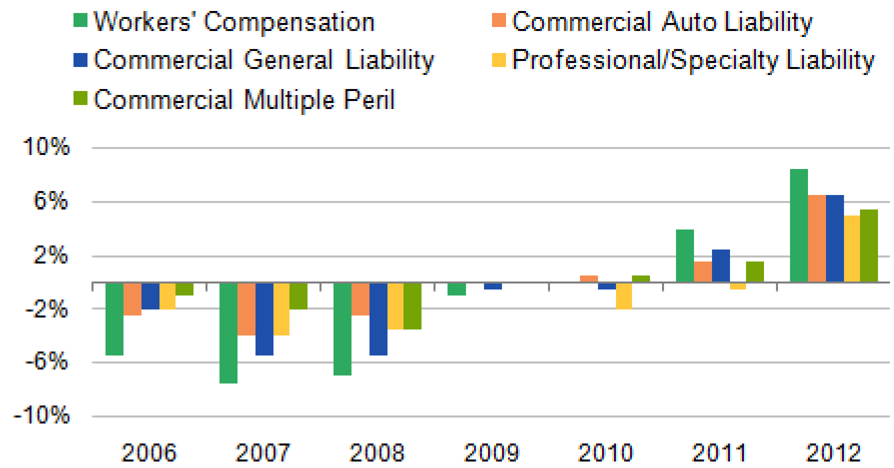


Source: Moody's Analytics

Moody's Survey Results



Moody's Survey Results



- » Exposure growth consistent with gradually improving employment and GDP trends
- » Low interest rates continue to support a favorable rate environment
- » Favorable pricing trends will continue but may be peaking given ample capacity
- » Greater susceptibility to loss of momentum in property and large account business

Commercial Lines: Favorable Pricing and Ample Capital

- Price discipline will push commercial casualty underwriting profitability into favorable territory
- Each percent increase in investment yield is equivalent to about five combined ratio points for four long tail casualty lines
- Capital supporting risks remains ample, risk adjusted capital adequacy remains solid
- Enhanced risk selection and capital management narrow the amplitude of the pricing cycle

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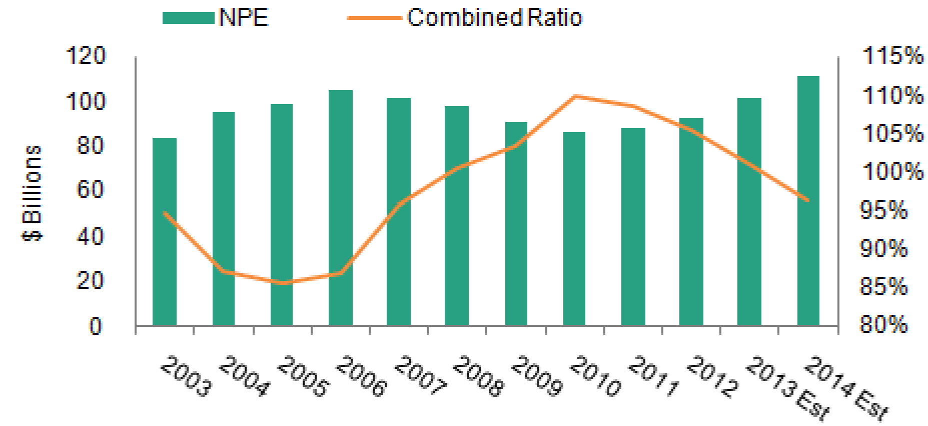
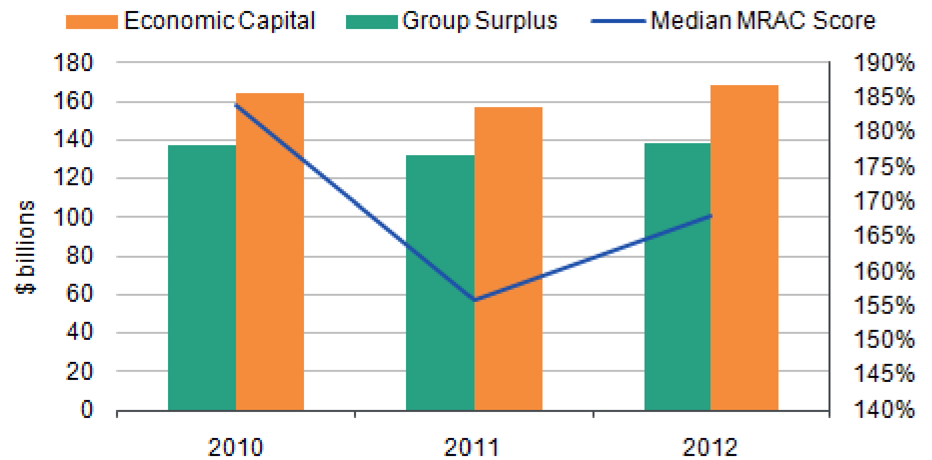
Major Commercial Casualty Lines' Profitability



Capital Adequacy of Rated Commercial Carriers



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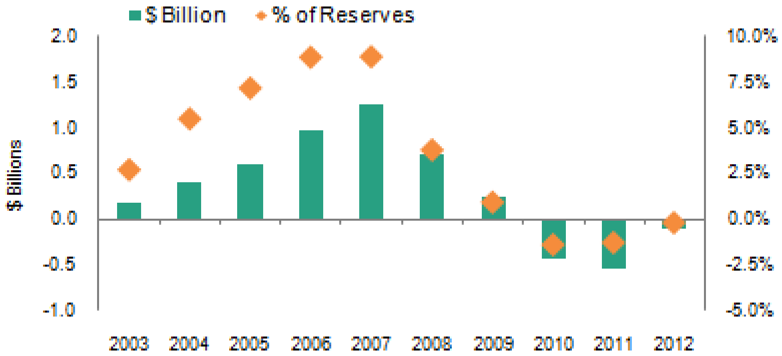
Commercial Casualty Reserve Profile

Commercial Liability Lines

Reserve Position by Accident Year

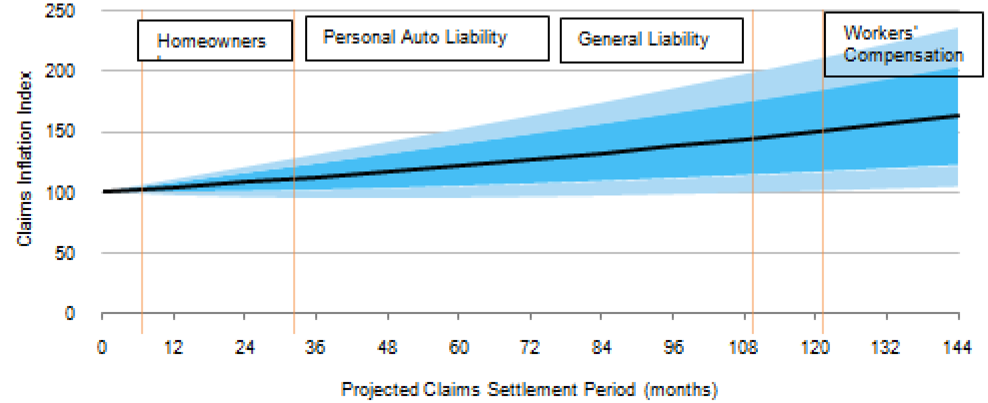


» Reserves still redundant overall, but with diminishing redundancies to boost future earnings

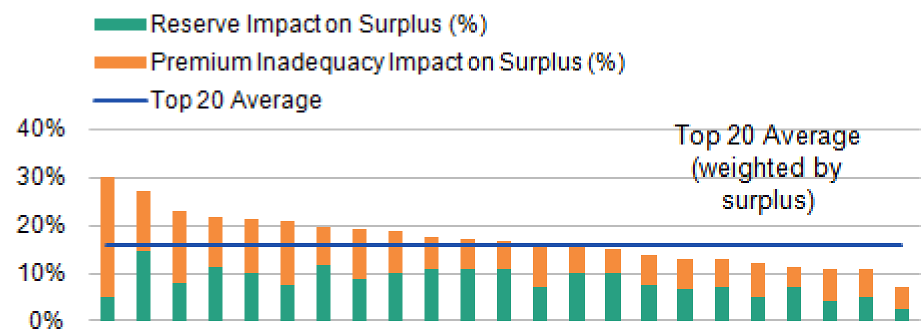
» The margin for error to cushion reserve volatility has narrowed

» Inflation risk not a current threat, but a significant long-term risk

Build-up of Forecast Error in Claims Inflation for Long-tail Reserves



US Top 20: Adverse Surplus Impact of Unexpected Medical and Liability Claims Inflation



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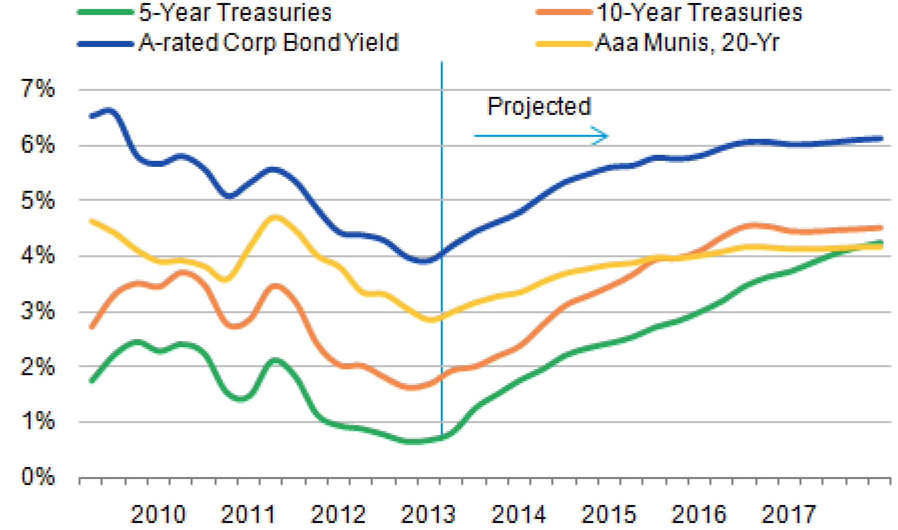
Sensitivity to Interest Rates - Rising Yield Scenario

- Publicly traded rated P&C companies have a medium duration of 4.0 and weighted average duration of 4.3
- We estimate that each 100 bp rate rise will cause a $40 billion market value loss (7% of surplus) offset to a degree by higher investment income
- Strong liquidity at insurance operating companies, the practice of holding bonds long term, and the unlikely need to liquidate investment portfolios, moderates the risk of market value declines.
- Sharp interest rate spike coupled with unexpected increase in claims inflation could be problematic for insurers

Moody's Central Economic Scenario Forecast



				ESTIMATED INDUSTRY LOSS FOR:		EST LOSS AS A % OF EQUITY (STAT SURPLUS):	
Date	Estimated Effective Duration	Total Fixed Income Investments ($ billions)	Total Surplus ($ billions)	80 BP Interest Rate Rise	100 BP Interest Rate Rise	80 BP Interest Rate Rise	100 BP Interest Rate Rise
12/31/2012	4.3	903	598	31	39	5%	7%
12/31/2011	4.5	902	562	32	41	6%	7%

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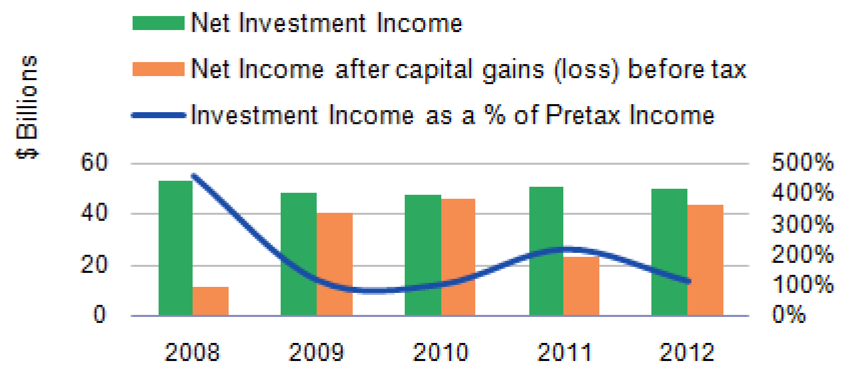
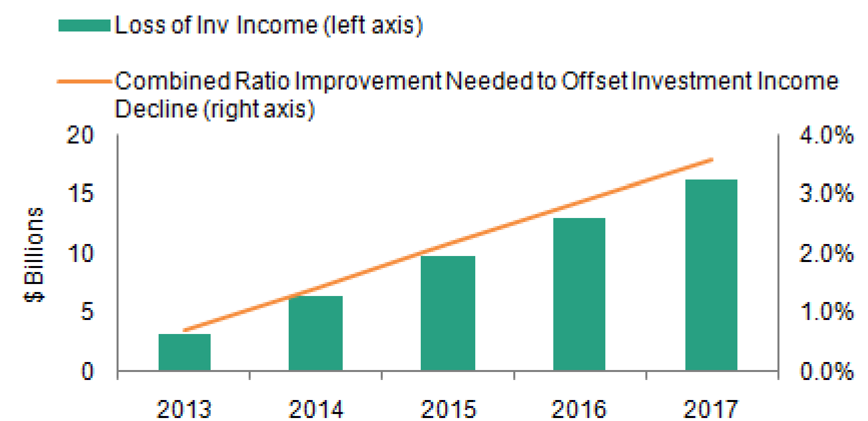
Sensitivity to Interest Rates - Low Yield Scenario

- Investment income makes up more than 100% of total pretax income.
- We estimate that average new money rates were about 2.4% during Q1 2013 based on current bond allocations.
- Using conservative assumptions, if rates were to return and continue at these levels, the impact would be a $16 billion decline in annual industry investment income by 2017.
- The industry's combined ratio would need to decline by about 3.6 percentage points to make up for this projected loss in investment income over the next five years.

Contribution of Investment Income to Earnings



Investment Income vs. Combined Ratio



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