PRIMA ANNUAL CONFERENCE FALL 2013

P&C Market Update

Presented by Scott Moss and Frank Stratton who graciously covered for Joe Luchsinger!

October 3, 2013

Willis

PROPERTY

- Until October 30th, insurers saw 2012 as a year of recovery, compared to 2011 – a year that hit insurers with combined loss ratios in excess of 100% due to losses totaling nearly $120B (second all-time to 2005).
- Then Superstorm Sandy hit the metropolitan New York/New Jersey/Connecticut area, and $25B later, Sandy entered the books as the second most damaging named storm to hit the U.S. in history.
- At the annual Monte Carlo reinsurance conference in September 2012, most reinsurance executives voiced expectations that 2013 would bring reinsurance rate reductions.
- Superstorm Sandy tempered those thoughts, even though few insurers hit their treaty protection
- Even with Sandy, Property losses totaled $65B in 2012, a 44% improvement over 2011'sTotal
- The P&C insurance market saw policyholder surplus increase from $550B in 2011 to $570B in 2012. The market was well capitalized to absorb 2012 losses.

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- Capacity remains abundant in 2013, even for CAT perils. No new capacity has come into the market this year but neither have we seen contraction.
- **The reinsurance market is flat so far in 2013, helping smooth the way for insurers, and we expect benign conditions to continue.**
- Underwriting was impacted by Sandy.
- When insurance programs are written via a single insurer policy, many insurers are reviewing the High Hazard Flood limit, (i.e., Zone A or V), frequently reducing the limit and increasing the deductible at renewal.
- The pricing for Flood coverage through NFIP is increasing, but the increases are not consistent across the board.
- After Sandy, many insurers were caught by surprise, with numerous policies providing large limits ($100M or more) and low deductibles ($100,000). This situation is being amended even if the account did not experience a loss from Sandy.

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Likely Outcome for Remainder of 2013 into Q1 2014

TYPE OF ACCOUNT	
Non-CAT	-5% to flat*
CAT	Flat to +5%*

*Accounts 5 year loss history greater than 50% loss ratio will fair worse

CASUALTY – PRIMARY & EXCESS

- **ISO has introduced a new CGL form, effective April 2013**
- **Contains minor coverage modifications related to:**
  - Liquor Liability and Electronic Data Processing exclusions that slightly broaden coverage.
  - Changes to the way the policy limits respond in additional insured situations
- Will make contract review more complicated for insureds with respect to how primary and umbrella/XS limit requirements are specified in the contract as well as how other insurance contract language tracks with the new form.

CASUALTY – PRIMARY & EXCESS

- Carriers are pushing for moderate rate increases generally for primary and umbrella/XS placements, largely due to the sustained low interest rate environment. There is no shortage of capacity in the Casualty market, however, and that will keep the marketplace competitive.
- While the market has not deteriorated significantly in the last few months, rates are on average about 4-5% higher at renewal, with construction and real estate industry risks generally running slightly higher than that.

PRICE PREDICTION
+2% to +10%

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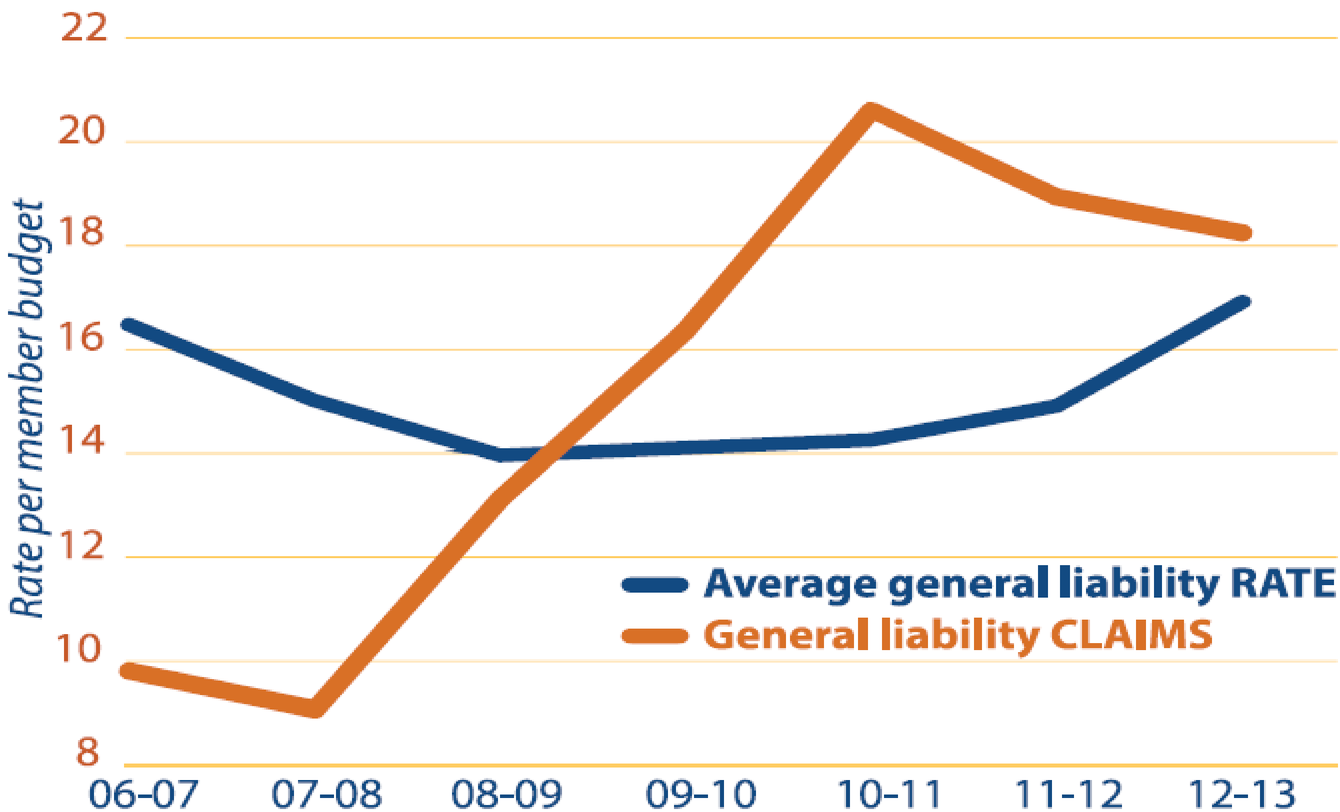
Systemic Issue's for P&C

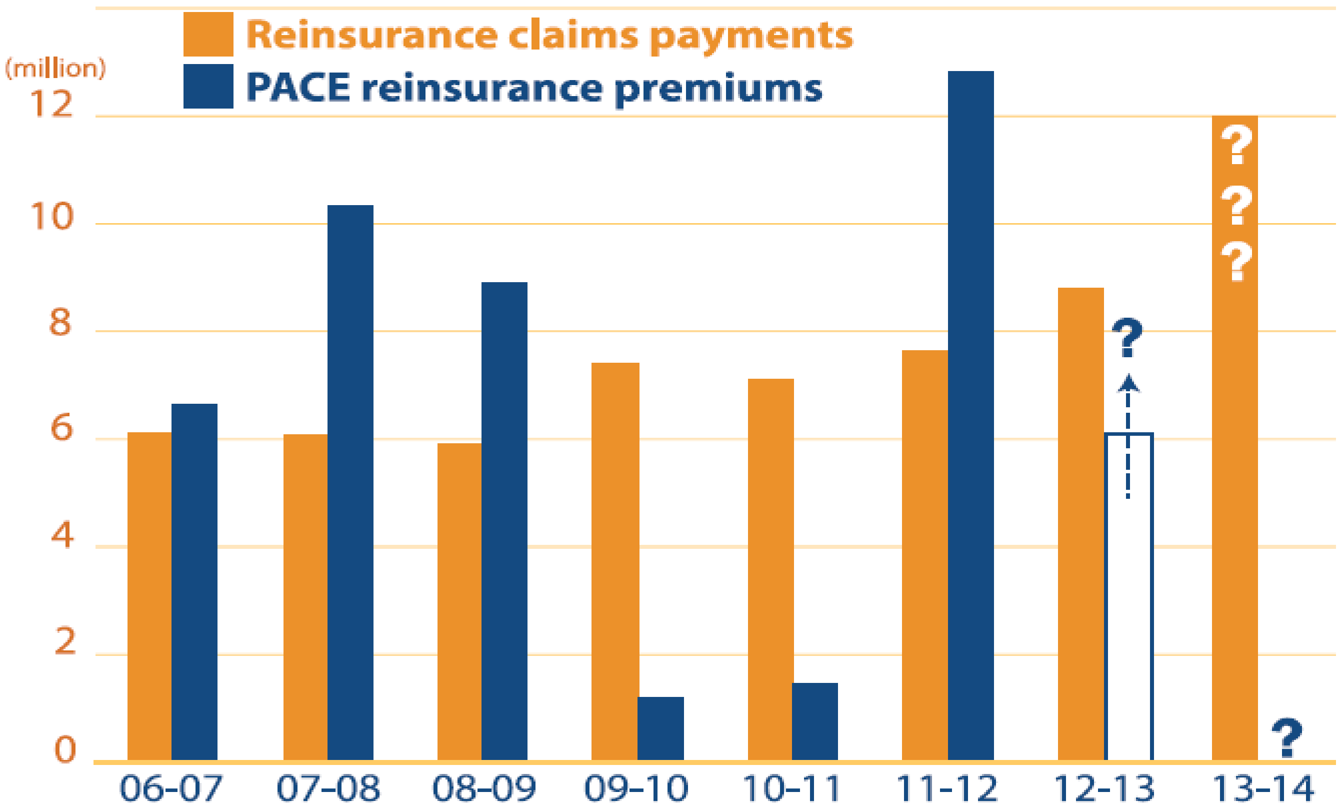
- Limited Carriers for Excess Liability outside of pools
- More difficult for Entities with Law Enforcement
- Higher Retentions Required
- Earthquake and Flood Limits will be tougher to get
- Limited Carriers for stand-alone Property outside of pools

PACE Re-Cap



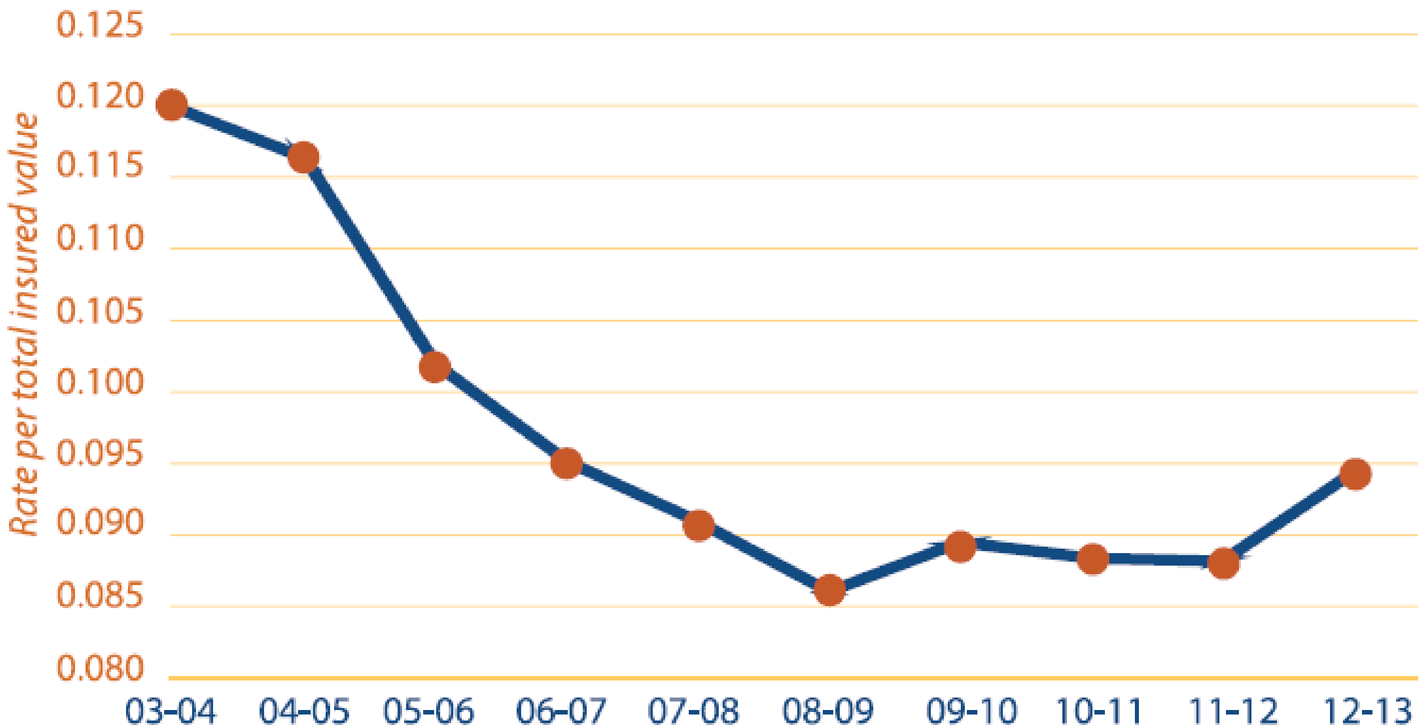
Between 2006 and 2008, the general liability rate decreased 15 percent. From 2007 to 2009, claims increased more than 90 percent, which is causing premiums to increase and will continue to go up as claims increase.

PACE Re-Cap



Since PACE was first formed in 2006, the pool's property reinsurer has collected about $40 million in premiums and has paid out over $40 million. To break even, the reinsurer needs to maintain about a 66 percent loss ratio.

PACE Re-Cap



Property rates for PACE and former SDAO members decreased more than 25 percent from 2003 to 2008. Since 2008, because of several large claims, PACE has had to increase property premium rates.

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PACE/SDAO Outlook for 2014

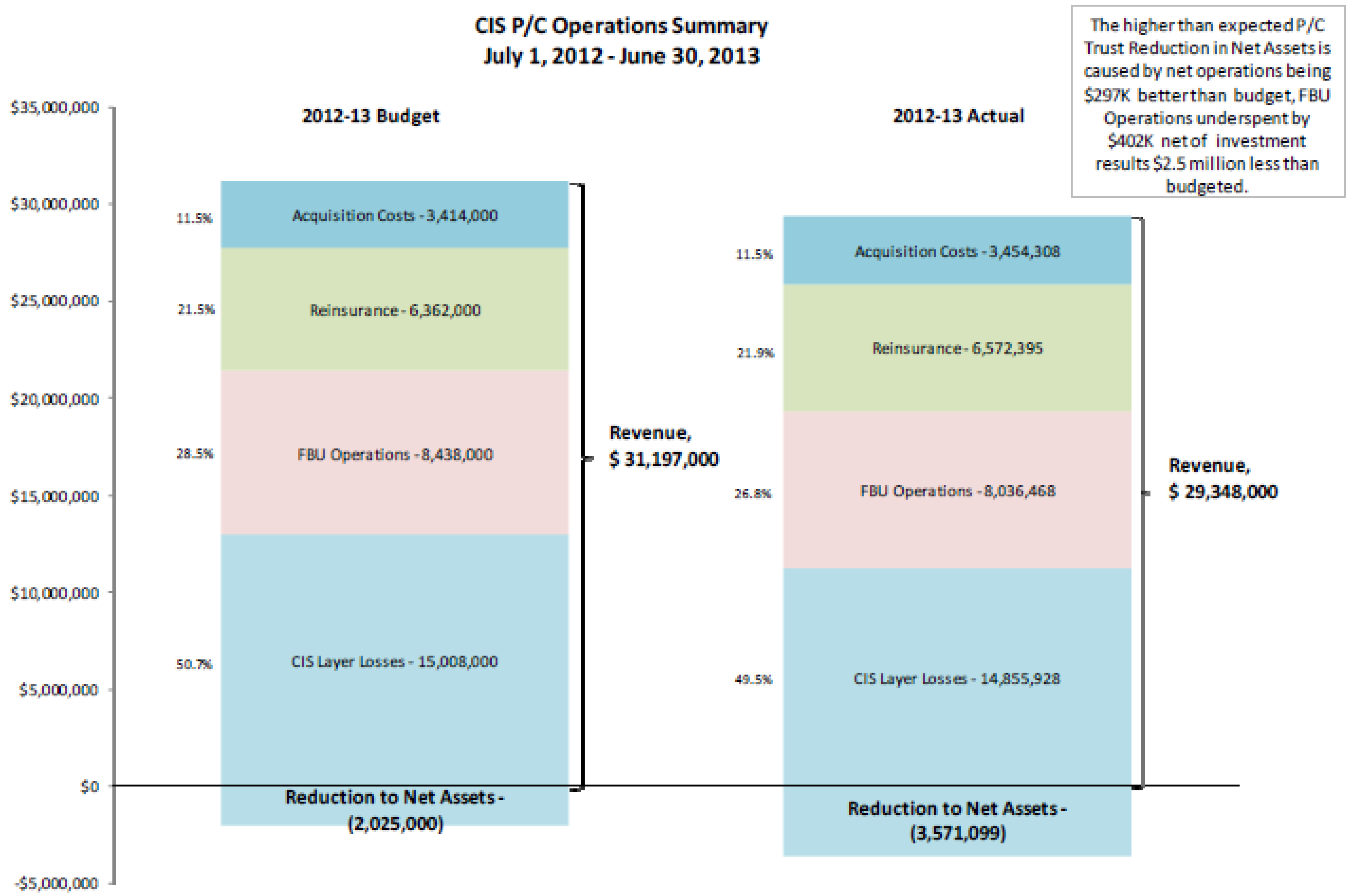
SDAO

- Made necessary corrections in 2013
- Anticipate an average of 2% rate increase for 2014
- $2,000,000 Dividend to be returned to members over the next two years.

PACE

- Program Renewal on 7/1/13 was average 18% increase
- Rates for 2014 will be heavily dependent on losses in the upcoming year
- If losses are reasonable expect program rates to be flat to +5%

CIS Re-Cap


CIS P/C Operations Summary
July 1, 2012 - June 30, 2013
The higher than expected P/C Trust Reduction in Net Assets is caused by net operations being $297K better than budget, FBU Operations underspent by $402K net of investment results $2.5 million less than budgeted.
2012-13 Budget
2012-13 Actual
$35,000,000
$30,000,000
$25,000,000
$20,000,000
$15,000,000
$10,000,000
$5,000,000
$0
-$5,000,000
11.5%
Acquisition Costs - 3,414,000
21.5%
Reinsurance - 6,362,000
28.5%
FBU Operations - 8,438,000
50.7%
CIS Layer Losses - 15,008,000
Reduction to Net Assets - (2,025,000)
Revenue, $ 31,197,000
11.5%
Acquisition Costs - 3,454,308
21.9%
Reinsurance - 6,572,395
26.8%
FBU Operations - 8,036,468
49.5%
CIS Layer Losses - 14,855,928
Reduction to Net Assets - (3,571,099)
Revenue, $ 29,348,000

CIS Re-Cap

CIS Property/Casualty Trust
2012-13 Condensed Financial Results

	2011-12 Actual	2012-13 Total Budget a	6/30/2013 Actual b	2012-13 Variance (b-a)	Var % (b-a)/a
Total Operating Revenue	**29,364,960**	**29,618,000**	**30,014,102**	**396,102**	1.3%
Ceded Payments	6,278,922	6,362,000	6,572,395	210,395	3.3%
Acquisition Costs	3,405,426	3,414,000	3,454,308	40,308	1.2%
CIS Layer Losses	21,543,396	15,008,000	14,855,928	(152,072)	(1.0%)
FBU Operations Expenses	7,403,384	8,438,000	8,036,468	(401,532)	(4.8%)
Other (Income) and Expense	(4,321,836)	(1,579,000)	666,102	2,245,102	(142.2%)
Total Costs and Expense	**34,309,292**	**31,643,000**	**33,585,201**	**1,942,201**	6.1%
Change in Net Assets	**(4,944,332)**	**(2,025,000)**	**(3,571,099)**	**(1,546,099)**	76.4%

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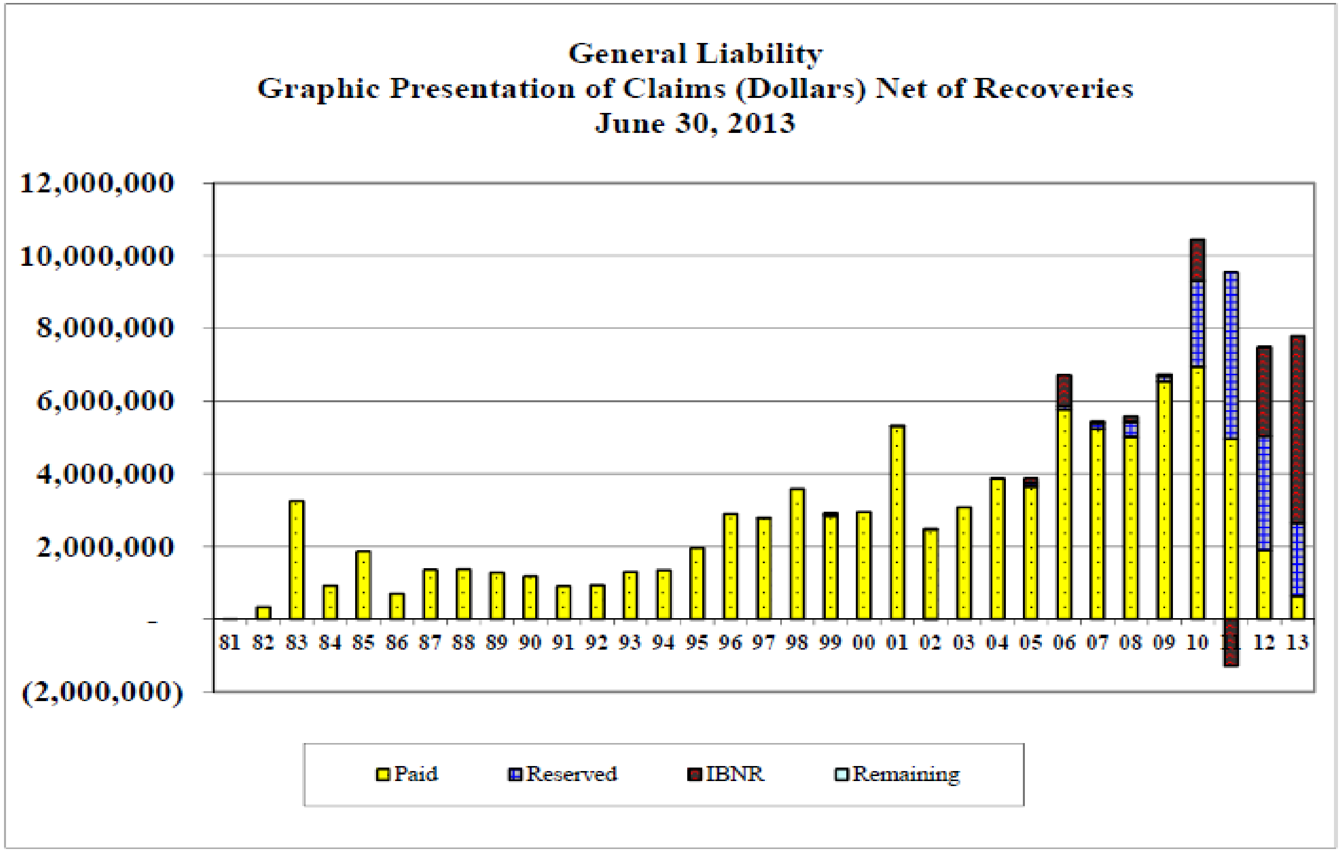
CIS Re-Cap

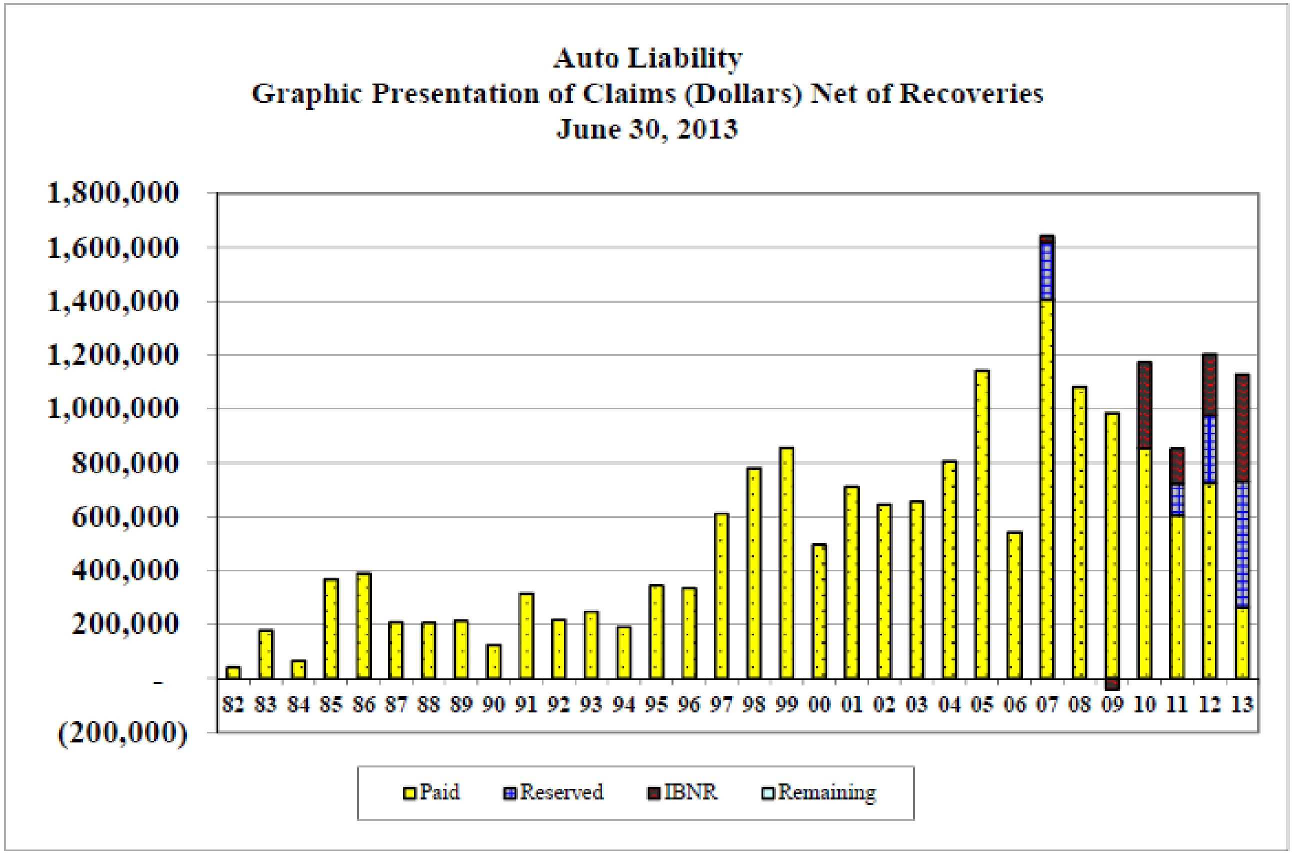
General Liability
Adverse development mainly in employment liability claims continue to impact claim years 2011, 2012 and 2013. IBNR is projected to be inadequate for these same years.



CIS Re-Cap

Auto Liability

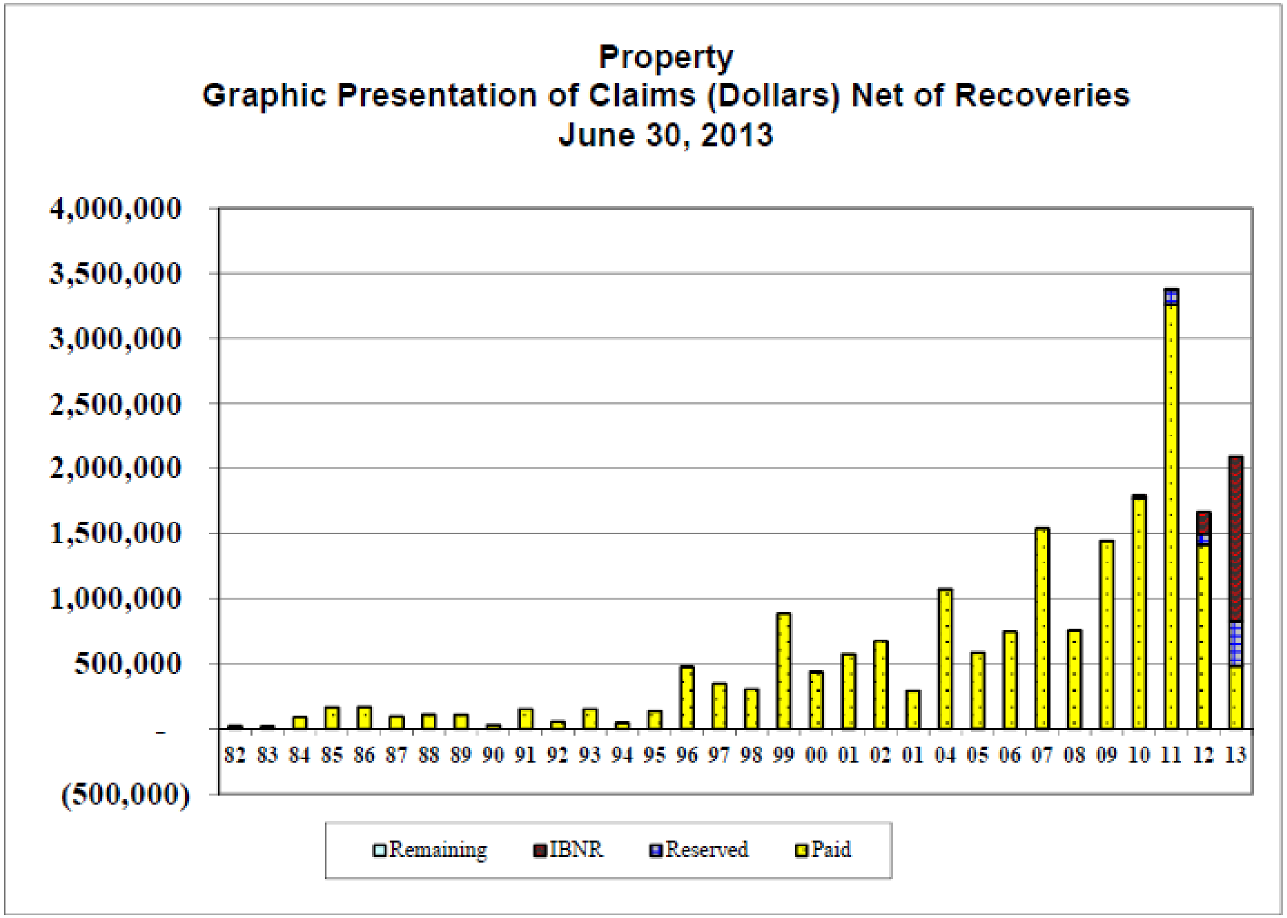
Auto Liability IBNR is adequate in total. Late development creating negative IBNR as seen in 2009 is not unusual.



CIS Re-Cap

Property

The PR Graphic Presentation of Claims indicates adequate IBNR for all coverage years.



CIS CASUALTY – Outlook

Casualty

- Casualty market modest increases are continuing
  - Public Sector appears to be stable to very modest increases
- Lower return on investments continue to push rates
- Capacity remains strong
- Excess liability pricing showing moderate increases

CIS CASUALTY – Outlook

Workers Compensation

- Increases in frequency
  - Aging workforce and less experienced workers
- Medical costs are increasing
  - Aging workforce & obesity
  - Long tail on pharmacy costs
- Limited options in the Excess WC marketplace
- Increase in retentions for certain class codes

CIS PROPERTY – Outlook

Property

- Pricing has flattened for CAT capacity
  - Extremely mild hurricane season so far
  - Overall lull in Catastrophic losses around the world to date in 2013
- Losses are manageable but it is early in the policy year
- Flood is becoming a bigger concern for companies post Superstorm Sandy
- Capacity is shrinking but still abundant
- Increases staged over three year time period but should be otherwise flat rate at renewal for reinsurance

Additional Coverage Considerations

Cyber Liability

- Market remains competitive
- 2600 breaches reported in 2012
- Government is passing more stringent security laws
- Larger capacity is becoming available
- Cloud computing is becoming a bigger concern

Employment Practices

- Pricing is starting to increase
- More government regulations is leading to an increase in lawsuits
- Capacity is abundant
- Policy wording is changing to address social media

Questions?