

Loss Development in the P&C Insurance Industry

Apex Discussion Series

December 15, 2011

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Outline of Presentation

- Background on Pinnacle and Erich Brandt
- Background on Actuarial Profession
- Current Snapshot of 1 Year Development
- Historical Figures from this Exercise
 - Top 30 versus Industry
 - Repeat Offenders in Top 30
- Historical Industry Figures
- Conclusions

About Pinnacle Actuarial Resources

- Independent Actuarial Consulting Firm
- Headquartered in Bloomington, Illinois
- Several Offices Around the Country
- 15 Full-Time Credentialed Actuaries
- Large Diversity in Work Experience as a Group
 - Loss Reserving
 - Predictive Modeling
 - Reinsurance
 - Alternative Markets
 - ERM

About Erich Brandt

- Fellow of the Casualty Actuarial Society
- Graduate of Illinois State University
- 14 years of experience, primarily in commercial lines
- Reserving studies for:
 - Insurance companies (SAO and financial exams)
 - Captive insurance companies
 - Self-insureds
- Extensive experience reviewing industry financial statement data and associated trends
- Experience in workers' compensation, liability lines, medical malpractice and commercial automobile

Reserve Developments and the Role of Actuarial Practice

- Early 2000's - Many insolvencies and large reserve developments
- Sarbanes / Oxley Act (2002)
- Nov. 2003 S&P article
- Ensuing soft market – not as much attention

Questions Resulting from Scrutiny of Industry Development

- Are reserve developments a cause, a symptom, or a lagging indicator of the industry's problems?
- Is the actuarial profession (and SAO) serving the industry properly?
- What is the role of the actuary?

History

- Started looking at the Top 30 nine years ago
- Have changed the look and fields collected over the years
- Extensive use of SAO in collecting data
- Recent changes to the SAO requirements make collecting meaningful data easier

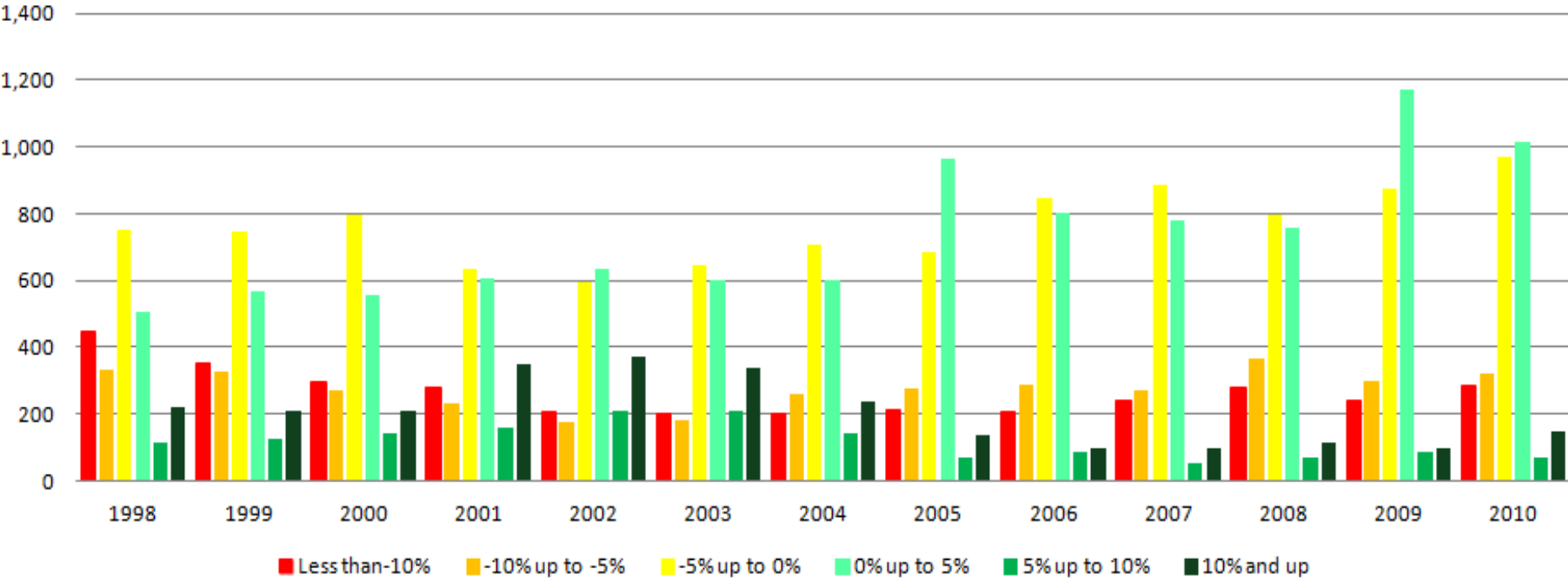
Industry Reserve Development

- Development of net loss and LAE reserves in accident years 2009 and prior in calendar year 2010 (Schedule P Part 2)
- Overall industry development is favorable, with a little more than \$10.8B redundancy released
- 30 groups with most adverse reserve development

The Last 13 Years

| Development as % of Year End Surplus | | | | | | |
|--------------------------------------|---------------------|----------------|--------------|-------------|--------------|------------|
| | Number of Companies | | | | | |
| | Less than-10% | -10% up to -5% | -5% up to 0% | 0% up to 5% | 5% up to 10% | 10% and up |
| Year | | | | | | |
| 1998 | 448 | 330 | 754 | 506 | 114 | 220 |
| 1999 | 350 | 326 | 746 | 565 | 125 | 210 |
| 2000 | 296 | 269 | 799 | 556 | 142 | 210 |
| 2001 | 280 | 231 | 632 | 604 | 159 | 349 |
| 2002 | 208 | 178 | 593 | 636 | 207 | 369 |
| 2003 | 201 | 180 | 644 | 601 | 208 | 341 |
| 2004 | 200 | 260 | 710 | 603 | 140 | 238 |
| 2005 | 215 | 277 | 685 | 964 | 69 | 139 |
| 2006 | 209 | 287 | 846 | 803 | 89 | 99 |
| 2007 | 240 | 271 | 885 | 782 | 51 | 95 |
| 2008 | 282 | 368 | 797 | 758 | 70 | 112 |
| 2009 | 243 | 297 | 875 | 1169 | 84 | 95 |
| 2010 | 287 | 322 | 969 | 1013 | 71 | 148 |

Development as % of Year End Surplus

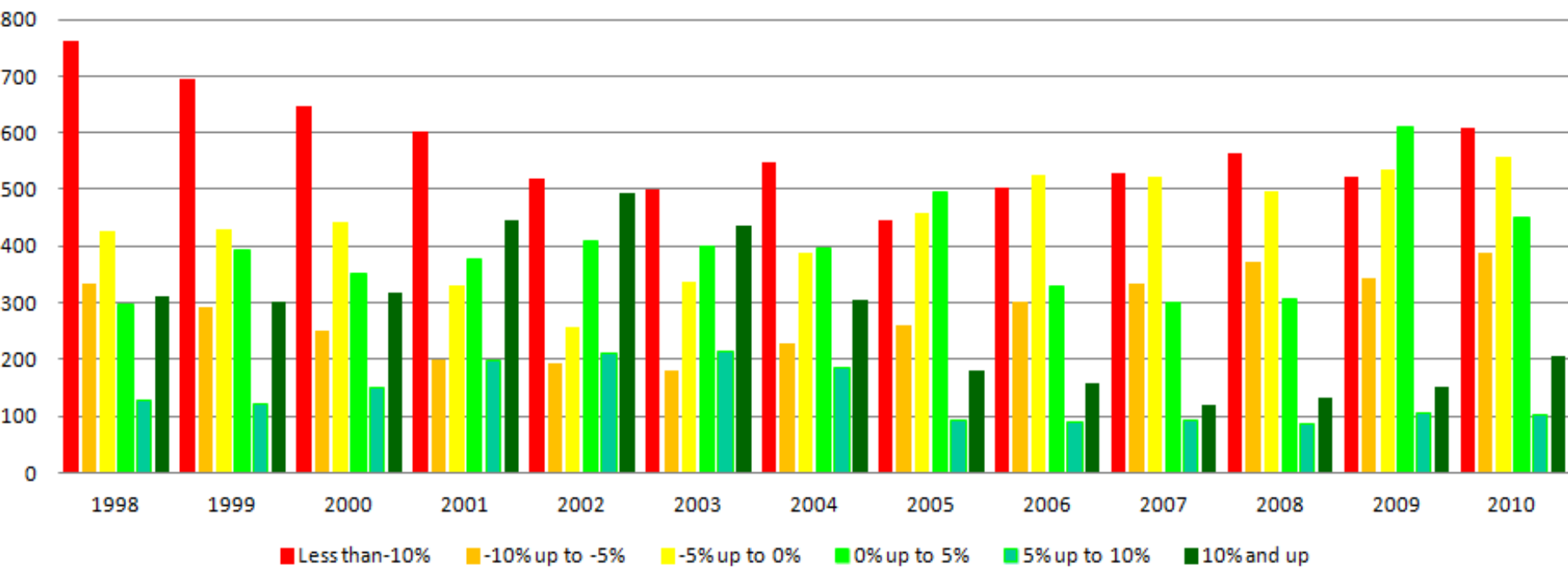


The Last 13 Years

Development as % of Reserves

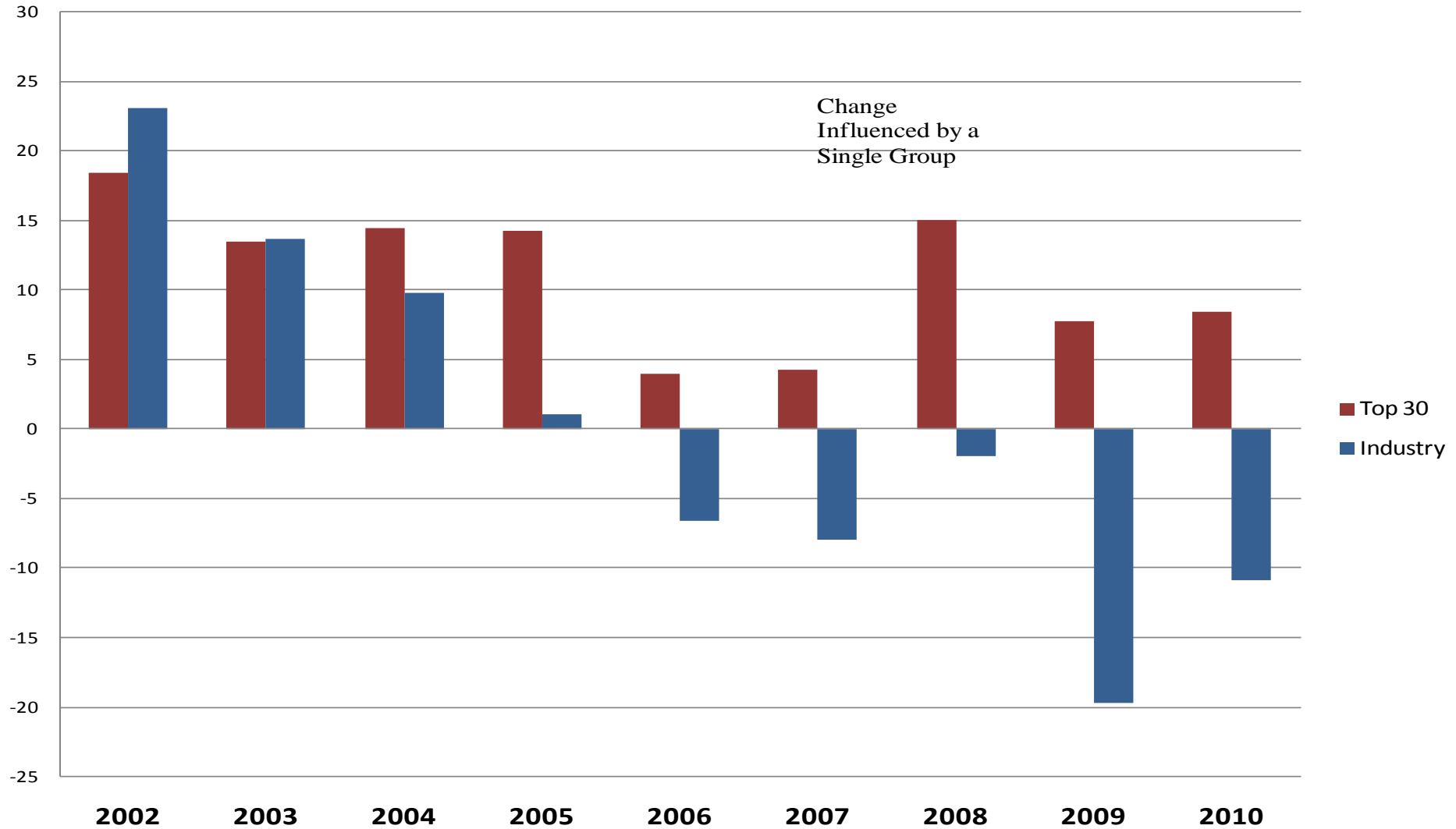
| Year | Number of Companies | | | | | |
|------|---------------------|----------------|--------------|-------------|--------------|------------|
| | Less than-10% | -10% up to -5% | -5% up to 0% | 0% up to 5% | 5% up to 10% | 10% and up |
| 1998 | 761 | 335 | 427 | 297 | 128 | 311 |
| 1999 | 696 | 293 | 430 | 393 | 121 | 301 |
| 2000 | 647 | 252 | 442 | 350 | 151 | 319 |
| 2001 | 602 | 200 | 330 | 377 | 199 | 445 |
| 2002 | 520 | 192 | 258 | 409 | 212 | 493 |
| 2003 | 501 | 179 | 338 | 400 | 215 | 437 |
| 2004 | 547 | 229 | 387 | 395 | 185 | 305 |
| 2005 | 445 | 260 | 458 | 494 | 92 | 179 |
| 2006 | 503 | 303 | 524 | 330 | 90 | 157 |
| 2007 | 528 | 335 | 522 | 300 | 94 | 121 |
| 2008 | 564 | 372 | 496 | 307 | 86 | 133 |
| 2009 | 521 | 345 | 536 | 610 | 104 | 153 |
| 2010 | 610 | 388 | 557 | 452 | 102 | 207 |

Development as % of Reserves



One-Year Developments

\$ Billions



2010 Top 30 Largest Reserve Developments of P&C Groups

| Group # | Source of Adverse Development | One-Year Development | Two-year Development | 2010 Surplus | 2009 Surplus | 2008 Surplus | Development | | 2010 Net Loss Ratio | Material Adverse Deviation Statement in Actuarial Opinion in 2010 | AM Best Rating | Actuary: Employee, or Consultant? |
|---------|-----------------------------------------------------------|--------------------------------|----------------------|--------------|--------------|--------------|----------------------|----------------------|---------------------|----------------------------------------------------------------------|----------------|-----------------------------------|
| | | | | | | | as % of 2009 Surplus | as % of 2008 Surplus | | | | |
| 1 | Excess Casualty, D&O | 5,138,238 | 6,725,485 | 28,866,296 | 27,617,679 | 26,414,392 | 18.60% | 25.46% | 77.60% | Yes | A | Employee |
| 2 | Mortgage Insurance Coverage | 672,090 | 41,310 | 1,357,343 | 834,820 | 590,997 | 80.51% | 6.99% | 122.70% | Yes | NR | Consultant |
| 3 | Mortgage Guaranty | 461,391 | 159,203 | 732,049 | 552,749 | 457,099 | 83.47% | 34.83% | 165.50% | | NR | |
| 4 | Asbestos & Environmental Liabilities | 288,612 | 397,198 | 785,219 | 772,221 | 568,019 | 37.37% | 69.93% | 163.50% | Yes | NR | Employee |
| 5 | | 230,636 | 331,375 | 3,818,069 | 4,021,686 | 3,904,228 | 5.73% | 8.49% | 70.10% | | A | Consultant |
| 6 | Termination of reinsurance agreement | 200,809 | 180,486 | 802 | 923 | 0 | 21756.12% | | 78.70% | Yes | D | Consultant |
| 7 | Chinese Drywall, changes in reserving approaches | 176,156 | 242,605 | 5,335,580 | 6,296,233 | 5,685,604 | 2.80% | 4.27% | 72.30% | Yes | B+ | Consultant |
| 8 | | 157,974 | 38,980 | 3,491,461 | 3,270,408 | 2,988,640 | 4.83% | 1.30% | 22.50% | | A | |
| 9 | | 139,038 | 102,206 | 298,138 | 292,050 | 268,301 | 47.61% | 38.09% | 45.00% | No | A - | Consultant |
| 10 | Excess Coverage, WC Coal Disease, Credit Insurance | 118,471 | -7,160 | 2,911,847 | 2,893,053 | 2,415,008 | 4.10% | -0.30% | 97.30% | No | A+ | Employee |
| 11 | | 95,374 | 119,616 | 648,219 | 689,923 | 577,273 | 13.82% | 20.72% | 81.10% | No | A | Employee |
| 12 | | 83,382 | 114,577 | 26,554 | 11,270 | -7,032 | 739.86% | -1629.37% | 28.90% | | NR | |
| 13 | Excess layers, Asbestos, Mass Tort, Sub-prime mortgag | 81,649 | 155,699 | 2,548,492 | 2,810,653 | 2,363,243 | 2.90% | 6.59% | 76.10% | Yes | A + | Employee |
| 14 | Asbestos & Environmental Liabilities | 66,219 | 218,576 | 6,803,215 | 6,851,181 | 6,040,538 | 0.97% | 3.62% | 62.30% | Yes | A | Employee |
| 15 | Long Tail Excess WC | 57,896 | 143,968 | 728,917 | 626,132 | 530,907 | 9.25% | 27.12% | 54.80% | Yes | A | Consultant |
| 16 | Construction defects, changes in case reserving and clair | 49,886 | 36,162 | 262,630 | 307,449 | 265,255 | 16.23% | 13.63% | 72.90% | Yes | A | Consultant |
| 17 | Limited loss experience & premium growth | 45,578 | 24,698 | 220,066 | 266,618 | 234,359 | 17.09% | 10.54% | 75.50% | Yes | A - | Consultant |
| 18 | Med Mal & Excess of Loss exposure | 43,121 | 16,058 | 194,426 | 166,904 | 64,286 | 25.84% | 24.98% | 102.70% | Yes | NR | Consultant |
| 19 | | 38,438 | 31,726 | 487,157 | 484,858 | 427,162 | 7.93% | 7.43% | 73.30% | No | A - | Employee |
| 20 | Changes in claim environment & assumed reserves | 34,688 | -8,510 | 314,630 | 338,409 | 288,223 | 10.25% | -2.95% | 83.70% | Yes | B++ | Employee |
| 21 | | 32,822 | 24,853 | 301,334 | 306,911 | 275,702 | 10.69% | 9.01% | 74.40% | No | A - | Consultant |
| 22 | | 28,068 | 66,602 | 51,547 | 53,219 | 66,722 | 52.74% | 99.82% | 68.40% | | NR | |
| 23 | Mortgage Guaranty | 26,437 | -50,183 | 225,930 | 122,814 | 88,027 | 21.53% | -57.01% | 165.80% | Yes | NR | Employee |
| 24 | | 24,891 | 49,593 | 409,211 | 499,147 | 465,089 | 4.99% | 10.66% | 92.10% | No | A | Consultant |
| 25 | | 21,168 | 15,908 | 85,119 | 112,142 | 158,135 | 18.88% | 10.06% | 82.90% | Yes | C+ | Employee |
| 26 | | 20,302 | 64,045 | 45,155 | 19,316 | 124,283 | 105.10% | 51.53% | -99.90% | Yes | NR | Consultant |
| 27 | Long tail lines of business & changes in claim handling | 19,704 | 49,162 | 655,517 | 557,580 | 477,662 | 3.53% | 10.29% | 103.60% | Yes | NR | Consultant |
| 28 | Long tail lines of business | 19,045 | 31,100 | 447,767 | 407,063 | 350,043 | 4.68% | 8.88% | 80.40% | Yes | A | Consultant |
| 29 | Changes in reserving practice & construction defect claim | 17,321 | 24,306 | 100,596 | 130,691 | 135,322 | 13.25% | 17.96% | 90.50% | Yes | D | Employee |
| 30 | Worse than expected claims & reinsurance collectibility | 17,002 | 78,416 | 2,057 | 5,598 | 34,468 | 303.72% | 227.50% | 0.00% | Yes | NR | Employee |
| | Subtotal (Top 30) | 8,406,406 | 9,418,060 | 62,155,343 | 61,319,700 | 56,251,955 | | | 79.56% | 19 Yes; 6 No | | 12 Inside; 14 Consultant |
| | Total Industry | -10,872,367 | -30,474,437 | 580,757,343 | 534,442,501 | 473,156,853 | | | 76.50% | | | |
| | | Growth in Surplus (Top 30): | | 1.4% | 9.0% | | | | | | | |
| | | Growth in Surplus (Industry): | | 8.7% | 13.0% | | | | | | | |

Analysis of Company Developments

- Almost \$8.4 BB of adverse development over past year for top 30 companies – less than the almost \$15 BB in 2008.
 - Almost \$10 BB of this is with one company exposed to financial guarantee insurance and credit default swaps
 - Fairly consistent with past 4 years ignoring co. with \$10 BB of adverse development in 2008 (reversed in 2009 CY, affect seen in industry totals)
 - 2005 had \$14 BB in the top 30
 - Development in Top 30 may be increasing slightly over time

- Surplus growth for top 30 companies is 1.4% - significantly down from last year for the Top 30
 - Industry surplus growth is significantly more at 7.4%

Top v Remainder of Industry

| One Year Development (Millions) | | | |
|---------------------------------|--------|------------------|----------|
| CY | Top 30 | Rest of Industry | Industry |
| 2002 | 18,438 | 4,608 | 23,046 |
| 2003 | 13,430 | 236 | 13,667 |
| 2004 | 14,467 | -4,728 | 9,738 |
| 2005 | 14,236 | -13,178 | 1,059 |
| 2006 | 3,994 | -10,591 | -6,597 |
| 2007 | 4,237 | -12,213 | -7,976 |
| 2008 | 14,982 | -16,928 | -1,945 |
| 2009 | 7,696 | -27,414 | -19,718 |
| 2010 | 8,406 | -19,279 | -10,872 |

■ 30 Largest Developments

- 2003: Top 30 approximated total industry development
- 2004: Industry developments much better than Top 30
- 2005: Industry developments a “push”
- 2006: Industry development negative, Top 30 much lower than past analysis
- 2007: Industry development negative, Top 30 roughly same as 2006
- 2008: Industry development slightly negative, Top 30 much greater than prior 2 years
- 2009: Industry development more negative than in previous years, Top 30 consistent
- 2010: Slight Increases in Top 30 development continue

30 Companies

- Where's this coming from? Traditionally comments often involved one or more of the following:
 - Asbestos related
 - Workers' Compensation
 - Mold, Medical Malpractice
 - Reinsurance, Excess Casualty
 - Financial Guaranty
- Subprime exposure has altered this traditional landscape since 2007
- 2010 has both construction defect and Chinese drywall

RMAD

- Statement on “Risk of Material Adverse Deviation” – RMAD
- Materiality – Based on type of opinion
 - Determined by judgment of opining actuary
 - Percent of Surplus
 - Percent of Reserves
 - Dollar amount relative to Company Action Level Risk-Based Capital

RMAD Disclosures for the Top 30 Companies

- SAO's
 - RMAD disclosure slow to show
 - 50% had RMAD's in 2002
 - 67% had RMAD's in 2003
 - 83% had RMAD's in 2004
 - 70% had RMAD's in 2005
 - 71% had RMAD's in 2006
 - 68% had RMAD's in 2007
 - 58% had RMAD's in 2008
 - 73% had RMAD's in 2009
 - 67% had RMAD's in 2010
 - 46% of appointed actuaries are employees
 - 9 of the top 30 have loss ratios over 90%

RMAD

- Paragraph in the SAO on the RMAD generally lists
 - Is there an RMAD (in the actuaries opinion)
 - Threshold for the RMAD
 - Reason for the threshold
 - Risk factors for the insurance company

RMAD

- Is an RMAD disclosure needed?
 - Some companies have a large surplus and very limited long tailed exposure
 - Some companies have explicit limits on their liability
 - Certain lines of business rarely, if ever, experience material adverse reserve deviation
 - Low value property or other fast settling lines

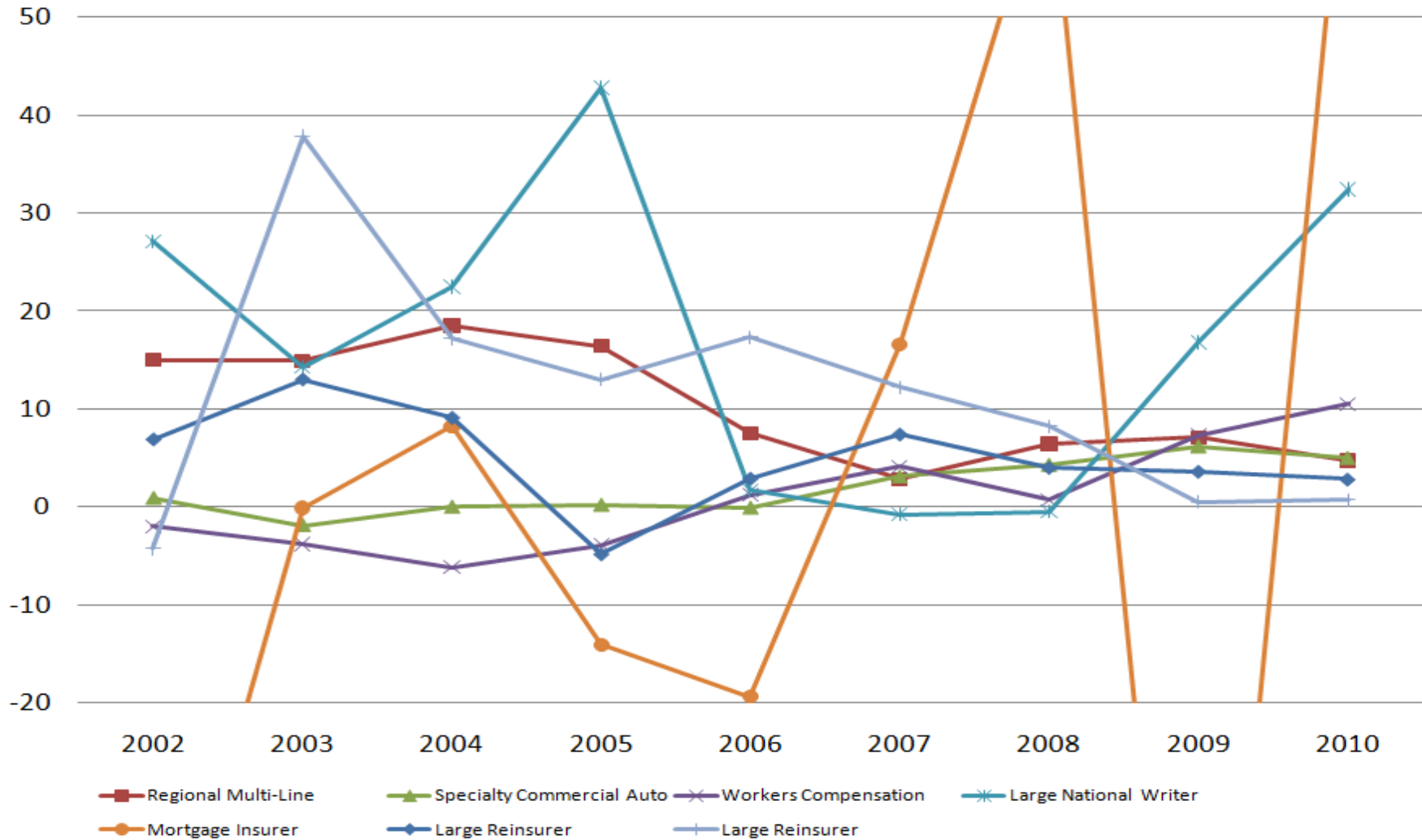
30 Companies

- Companies Within the Top 30 in One Year Adverse Loss Development Exhibit Several Different Characteristics
 - Some are large, national multi-line companies
 - Several are niche writers within one / few states
 - Some are near or under regulatory scrutiny
 - Several have healthy surplus levels and RBC ratios
 - Great variation in surplus \$\$\$ from millions to billions
 - Development as a % of prior surplus can range from under 1% to over 100%

30 Companies

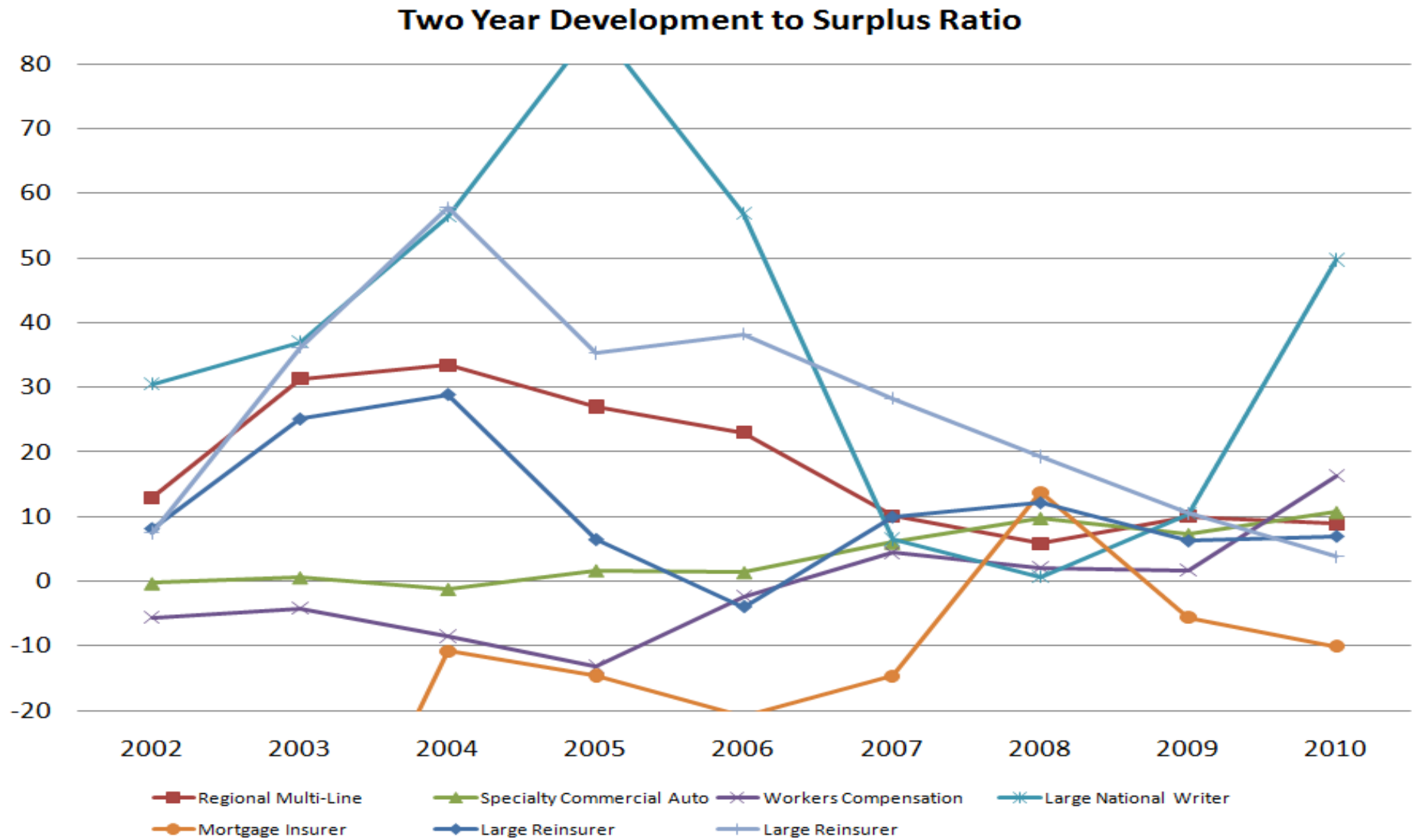
One Year Development to Surplus Ratio

One Year Development to Surplus Ratio



30 Companies

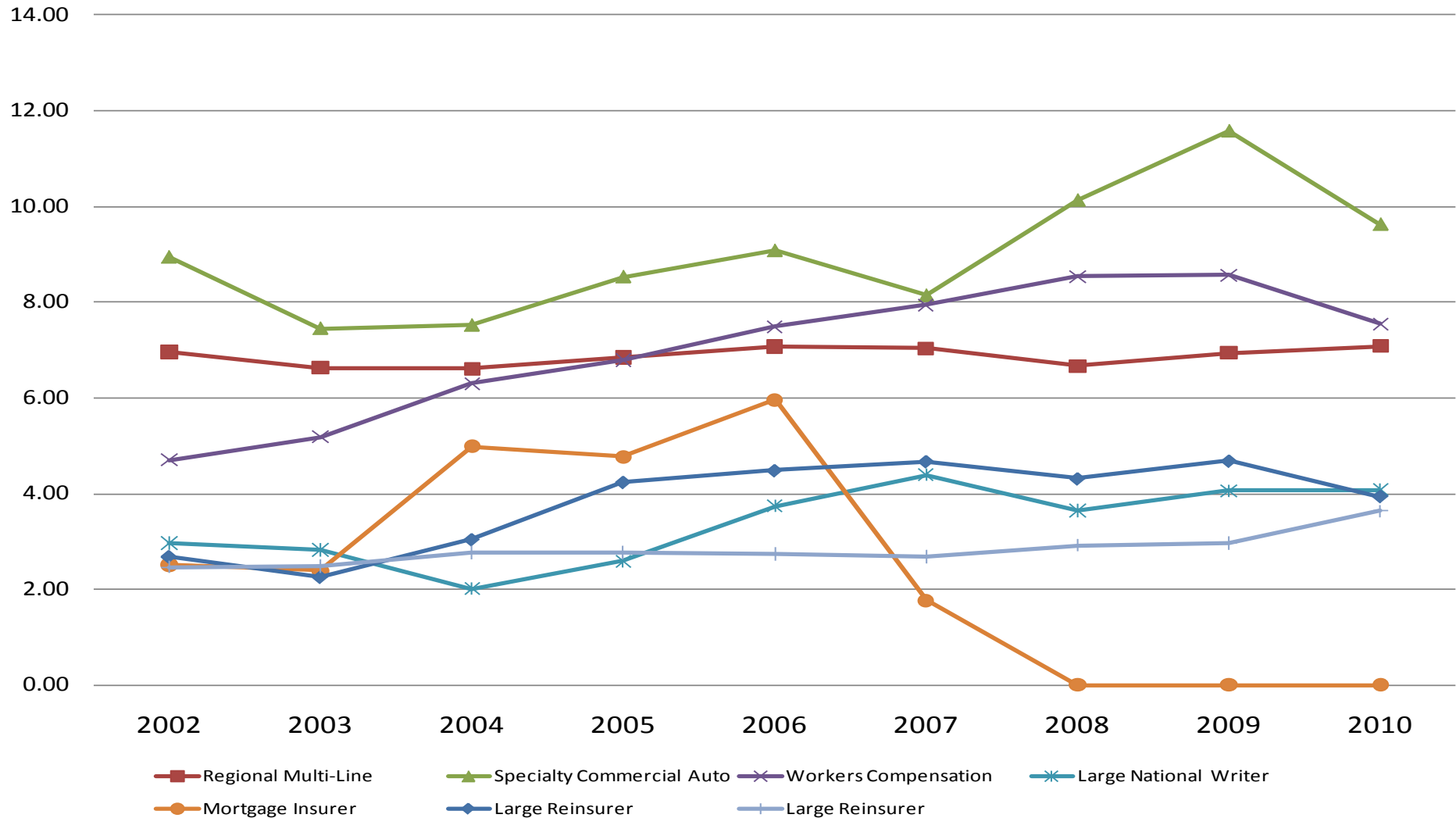
Two Year Development to Surplus Ratio



30 Companies

Total Adjusted Capital to Auth Control Level RBC

Total Adjusted Capital to Auth Control Level RBC



Reasons to Increase Reserve Estimates

- Money from profitable years may be used to “cushion” reserves in past, poor performing years
 - Ex: 2007 profit boosts asbestos reserves from the late 1960’s
 - Can help even out the effects of the underwriting cycle
- Companies with recent poor performance may increase their reserves to appear strong
 - Strong reserves may mean strong company
 - No one wants a rating agency downgrade
 - Regulatory scrutiny

Conclusions

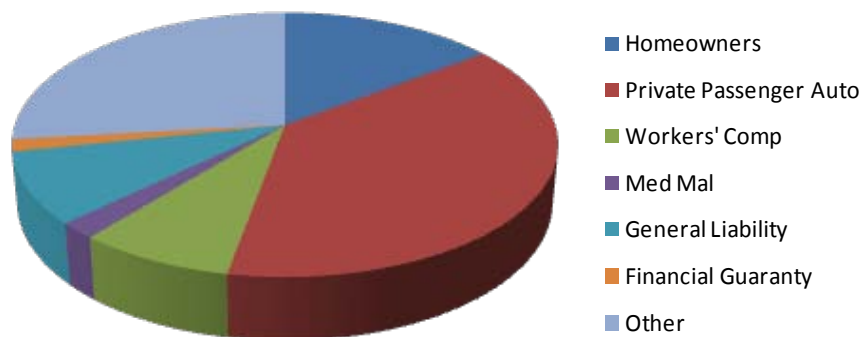
- The makeup of the Top 30's characteristics is influenced by the financial condition of the industry
- A bad year for the Top 30 may signal a bad year for the industry overall.
- In the past 10 years, surplus has grown for both the industry and Top 30 more often than not

Makeup of Industry by Line of Business

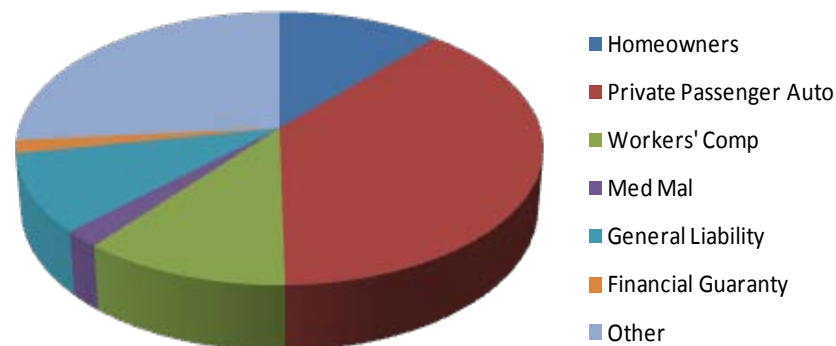
- The relative mix of industry premium by line of business has not changed much in the past 5 years
- There have been significant changes in the mix of premium by line of business for the Top 30
 - The composition of the Top 30 companies changes each year
 - Companies with exposure to financial guaranty “arrived” on the Top 30 list in 2008 and 2009 for the first time

Makeup of Industry by LOB

2010 Total Industry



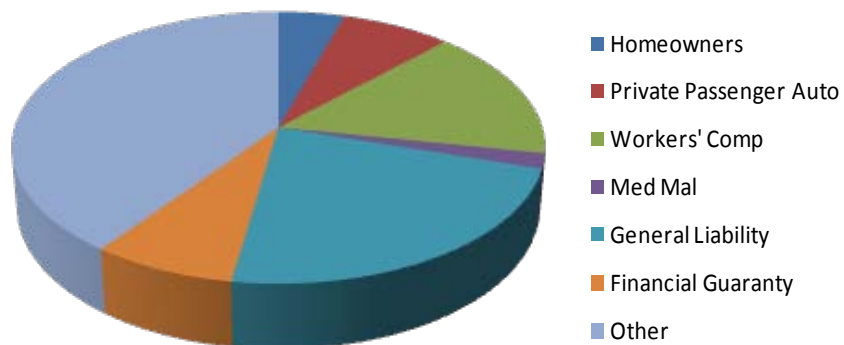
2004 Total Industry



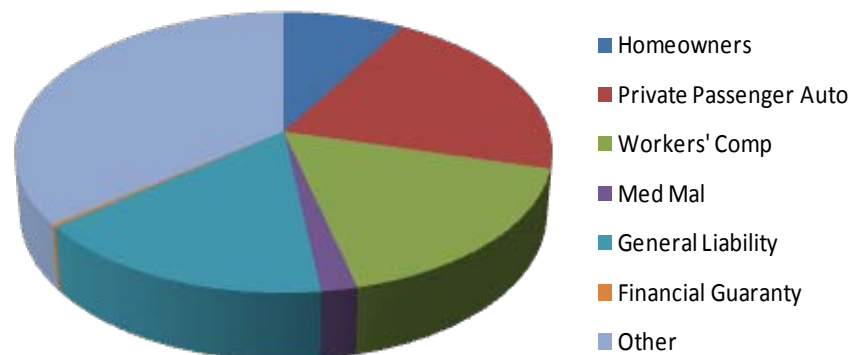
- Between 2004 and 2010, relative share of market fairly consistent

Makeup of Top 30 by LOB

2010 Top 30 Companies



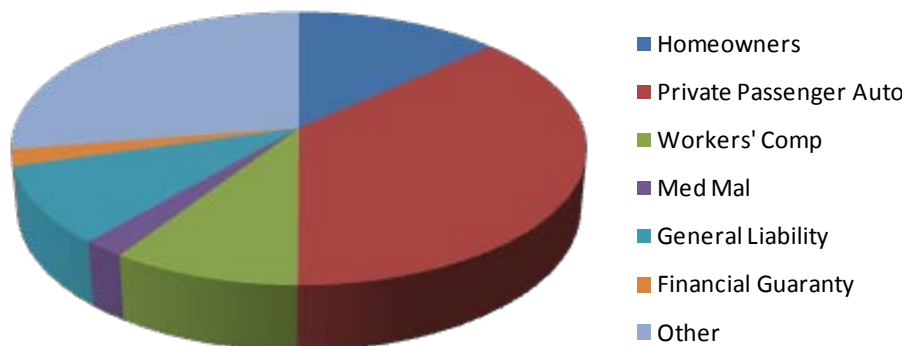
2004 Top 30 Companies



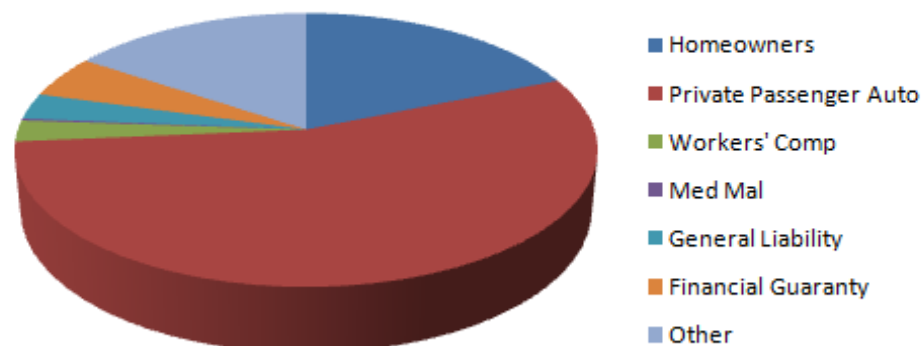
- Between 2004 and 2010, increase in Financial Guaranty, decrease in personal lines
- 2008 was over 50% personal lines

Industry v Top 30 by LOB in 2008

2008 Total Industry



2008 Top 30 Companies



- Reserve increases were uneventful
 - Larger number of personal lines writers
- 2008 Industry Graph similar to those in 2004 and 2010

2010 Top 30 Versus the Industry

- Next two charts compare loss ratios and surplus for the 2010 Top 30 to the industry over time
- Loss ratios are accident year from Schedule P
- Surplus results are from an industry snapshot run mid-summer

Historical Held Ultimate Loss Ratios

| AY Loss Ratio | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|---------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Average 30* | 79.91% | 86.57% | 91.68% | 72.45% | 63.02% | 69.81% | 59.18% | 64.21% | 82.10% | 100.65% |
| Industry | 76.50% | 74.80% | 78.90% | 67.70% | 61.90% | 68.50% | 63.60% | 66.50% | 75.70% | 88.90% |
| # over 90% | 9 | 9 | 10 | 6 | 3 | 7 | 4 | 4 | 8 | 15 |
| # over 80% | 13 | 12 | 14 | 9 | 4 | 7 | 6 | 6 | 14 | 18 |
| # over 70% | 22 | 19 | 22 | 16 | 8 | 12 | 10 | 13 | 19 | 23 |

* Using Earned Premium as Weight

- Latest 3 accident years Loss Ratio for the Top 30 is higher than the industry
 - Could signal a hardening of the market

Historical Surplus

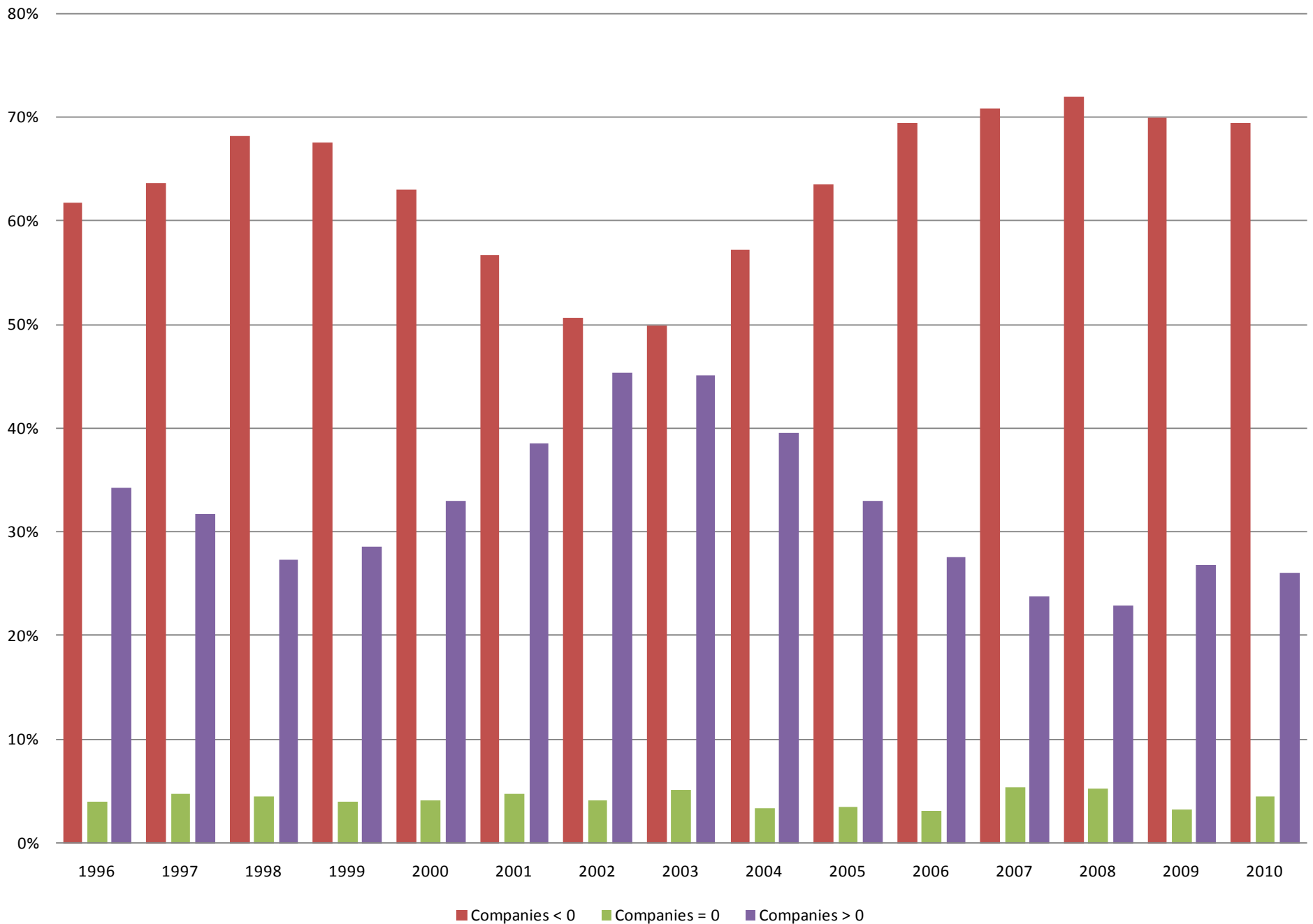
| Surplus (000's) | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> | <u>2002</u> |
|------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Dollars Top 30 | 62,152 | 61,320 | 56,252 | 63,297 | 57,874 | 51,684 | 46,786 | 44,003 | 38,999 |
| Dollars Industry | 580,757 | 534,443 | 473,157 | 539,769 | 503,867 | 437,872 | 402,229 | 358,221 | 294,860 |
| Percent in Top 30 | 10.70% | 11.47% | 11.89% | 11.73% | 11.49% | 11.80% | 11.63% | 12.28% | 13.23% |
| 1 Year Growth Top 30 | 1.36% | 9.01% | -11.13% | 9.37% | 11.98% | 10.47% | 6.33% | 12.83% | -4.34% |
| 2 Year Growth Top 30 | 10.49% | -3.12% | -2.80% | 22.47% | 23.70% | 17.46% | 19.97% | 7.94% | |
| 1 Year Growth Industry | 8.67% | 12.95% | -12.34% | 7.13% | 15.07% | 8.86% | 12.28% | 21.49% | -1.31% |
| 2 Year Growth Industry | 22.74% | -0.99% | -6.09% | 23.27% | 25.27% | 22.23% | 36.41% | 19.90% | |

- Top 30 one year surplus growth remains positive after a large negative development in 2008.
 - Top 30 was much larger proportion of the industry prior to 2004

2010 Top 30 Versus the Industry

- The next chart graphs the % of companies with positive reserve development against the % of companies with negative reserve development
- Percentages are closest in CY 2002 and 2003

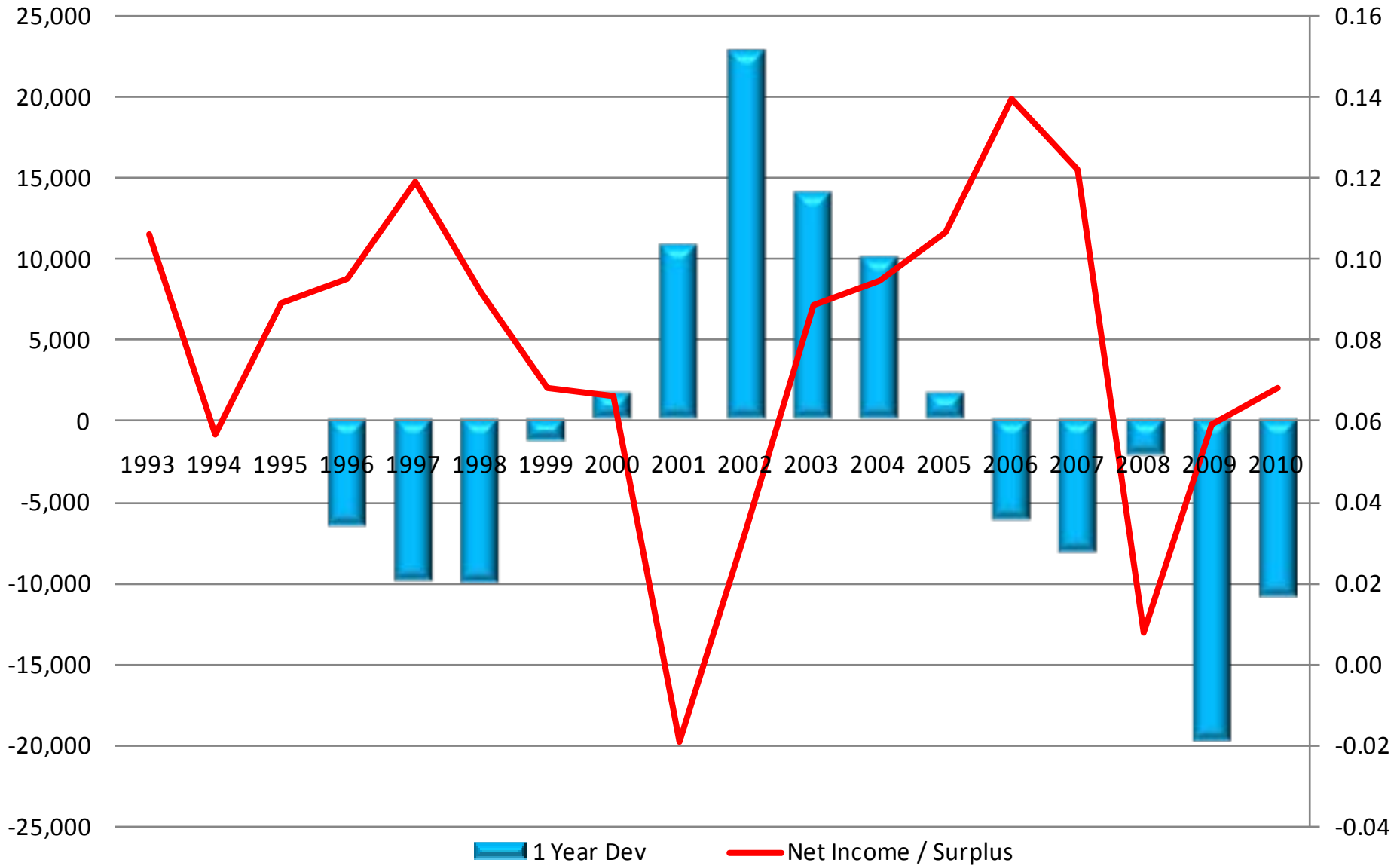
Percentage of Companies with + / - Loss Reserve Development



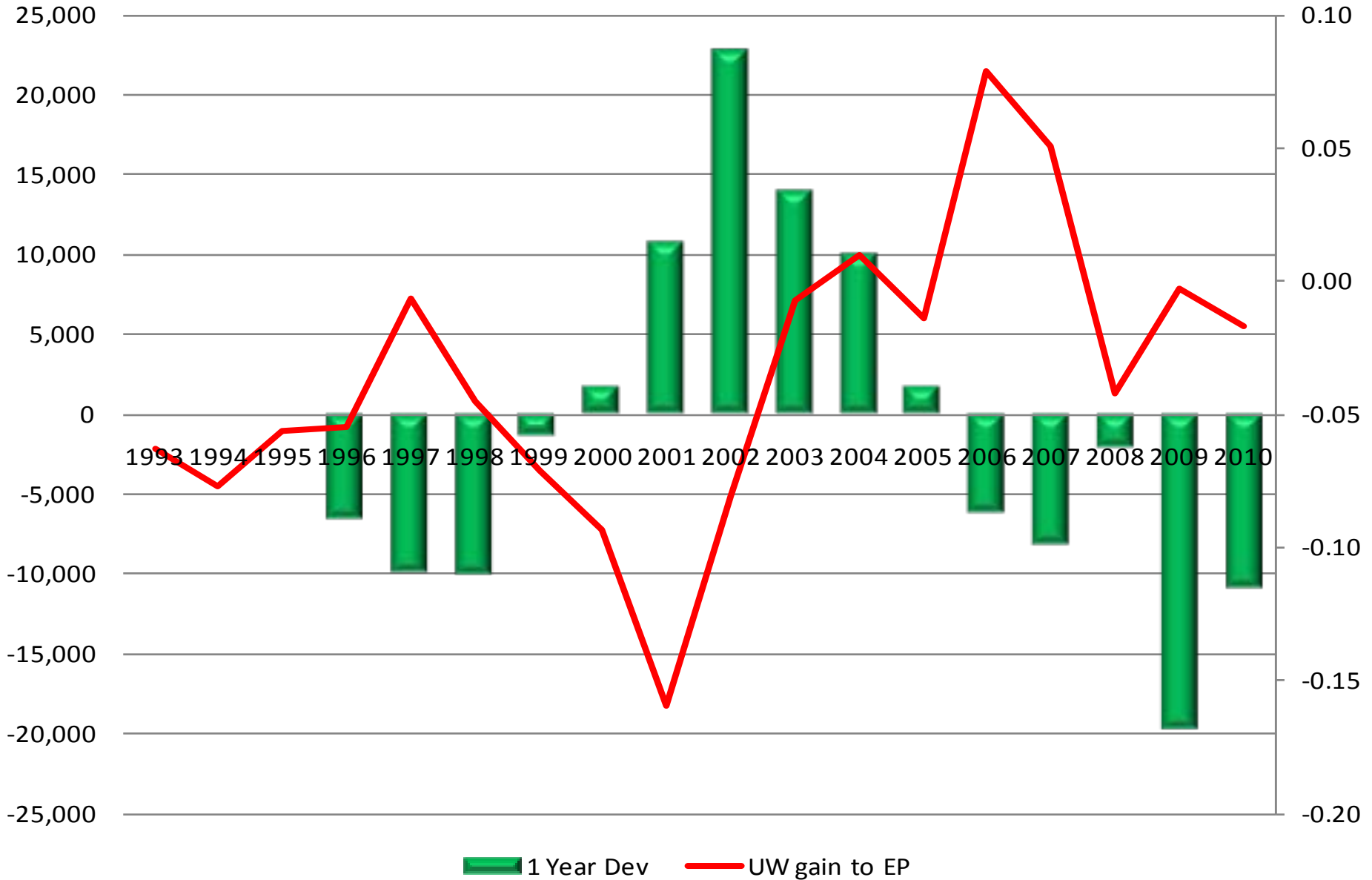
2010 Top 30 Versus the Industry

- Based upon the previous graph, one would expect deterioration of some industry income metrics in 2002 and 2003
- Several prominent insolvencies occurred during this time period
- S&P article on actuaries and loss reserves published during this time

Industry 1 Year Development (Millions) v Income



1 Year Development (Millions) v Underwriting



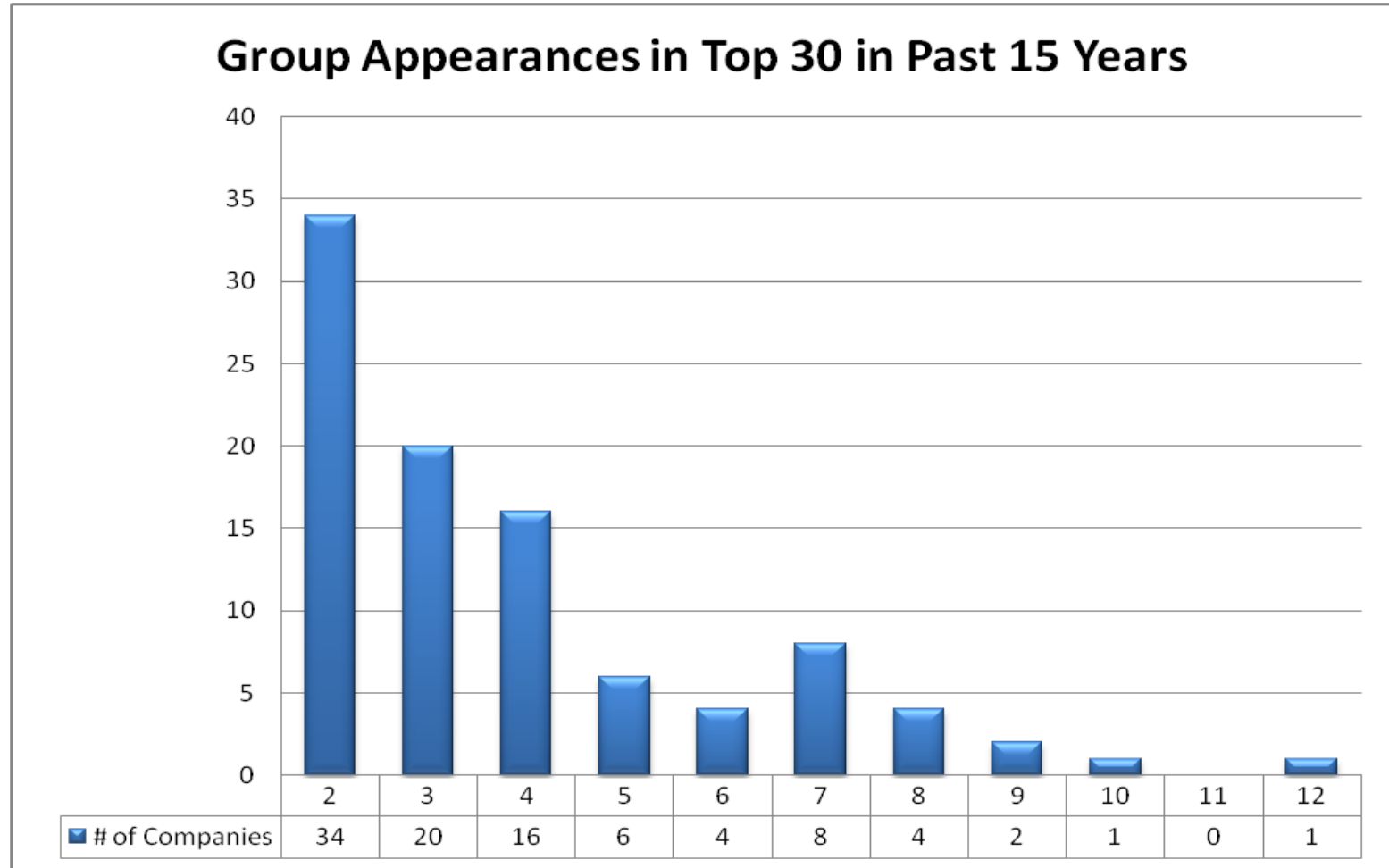
Conclusions

- Reserve development has an inverse relationship with underwriting gain and net income
- If and when reserve development for the industry becomes positive, we would expect underwriting gain and net income to be negative, graphs show a slight lag
- A bad year for the Top 30 may signal a bad year for the industry overall.

Repeat Offenders

- One year reserve development data was run for each of the past 15 years by group
- 172 individual groups have been on this list in the past 15 years
- With what frequency have specific groups been making this list?

Repeat Offender Graph #1



Repeat Offenders

- 16 groups appeared in the “Top 30” at least 7 times within the past 15 years
 - Very large entities may boost their reserves in older calendar years with profits from recent years
 - Often used to boost Asbestos & Environmental
 - All but five of these company’s had increases in surplus between 2003 and 2010
 - One company is at advanced stage of insolvency process
 - One company may maintain its surplus due to its state’s regulatory structure

Historical Surplus – Repeat Offenders

Policyholders' Surplus (Millions)

16 Companies that appeared on the "Top 30" List 7 or more times in the last 15 years

Calendar

| Year | Industry | All 14 Cos | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
|-----------------------------|----------|------------|-------|--------|--------|--------|-------|-------|--------|--------|-------|--------|--------|-------|--------|-------|--------|-------|
| 2000 | 325,979 | 64,784 | 2,680 | 7,221 | 2,384 | 8,183 | 2,165 | 22 | 2,015 | 13,567 | 1,296 | 3,373 | 8,041 | 2,591 | 11,246 | 1,501 | 5,718 | 519 |
| 2001 | 298,774 | 59,923 | 2,757 | 8,160 | 1,861 | 6,089 | 2,305 | 28 | 1,456 | 13,732 | 1,312 | 2,509 | 7,598 | 2,596 | 9,521 | 1,429 | 5,804 | 411 |
| 2002 | 294,860 | 57,757 | 2,758 | 7,741 | 1,470 | 6,654 | 2,752 | 31 | 987 | 12,512 | 1,511 | 2,636 | 6,908 | 2,789 | 9,009 | 993 | 6,802 | 443 |
| 2003 | 358,221 | 66,591 | 3,646 | 8,532 | 1,488 | 6,206 | 3,503 | 33 | 213 | 15,049 | 1,733 | 2,895 | 8,552 | 3,834 | 10,908 | 843 | 9,117 | 474 |
| 2004 | 402,229 | 72,572 | 3,996 | 9,105 | 1,060 | 7,003 | 3,608 | 42 | 189 | 15,339 | 2,111 | 2,702 | 9,143 | 5,105 | 13,169 | 478 | 11,053 | 546 |
| 2005 | 437,872 | 79,682 | 4,261 | 9,475 | 859 | 6,927 | 3,568 | 41 | 194 | 18,774 | 2,345 | 2,898 | 10,033 | 5,711 | 14,597 | 260 | 11,860 | 489 |
| 2006 | 503,867 | 91,615 | 5,214 | 7,765 | 577 | 8,162 | 3,796 | 60 | 184 | 23,757 | 2,724 | 3,275 | 12,853 | 6,239 | 17,008 | 162 | 14,532 | 558 |
| 2007 | 539,769 | 98,341 | 5,771 | 7,203 | 446 | 8,613 | 3,786 | 72 | 162 | 28,912 | 2,907 | 2,993 | 13,587 | 6,934 | 16,958 | 262 | 15,930 | 607 |
| 2008 | 473,157 | 87,165 | 5,686 | 6,041 | 331 | 8,124 | 3,904 | 67 | 124 | 26,414 | 2,363 | 2,233 | 13,151 | 6,379 | 12,347 | 287 | 13,495 | 622 |
| 2009 | 534,443 | 94,368 | 6,296 | 6,851 | 338 | 9,703 | 4,022 | 53 | 19 | 27,618 | 2,811 | 2,645 | 11,729 | 7,561 | 14,723 | 491 | 14,310 | 667 |
| 2010 | 580,757 | 96,920 | 5,336 | 6,803 | 321 | 10,260 | 3,818 | 52 | 45 | 28,862 | 2,548 | 2,096 | 12,985 | 7,429 | 16,365 | 838 | 15,169 | 733 |
| Growth from 2003 to 2010 | 62.1% | 45.5% | 46.3% | -20.3% | -78.4% | 65.3% | 9.0% | 55.4% | -78.8% | 91.8% | 47.0% | -27.6% | 51.8% | 93.8% | 50.0% | -0.6% | 66.4% | 54.8% |

Historical Underwriting Gain to Earned Premium

Net Underwriting Gain (Loss) to Earned Premium

16 Companies that appeared on the "Top 30" List 7 or more times in the last 15 years

Calendar

| Year | Industry | 1 | 2 | 4 | 5 | 6 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
|------|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|
| 2000 | -9.3% | -31.6% | -24.6% | -11.8% | -24.2% | -10.7% | 4.1% | -9.1% | -26.9% | -14.0% | -10.8% | -14.4% | -12.1% | -4.9% | -42.4% |
| 2001 | -15.9% | -34.8% | -36.7% | -57.4% | -39.1% | -5.4% | -2.8% | -16.3% | -38.2% | -9.9% | -13.1% | -23.0% | -47.1% | -22.4% | -37.3% |
| 2002 | -8.1% | -11.5% | -54.5% | -9.2% | -58.6% | -5.0% | -10.4% | -1.5% | -8.1% | -0.7% | -11.9% | -8.9% | -95.1% | -0.9% | -21.6% |
| 2003 | -0.7% | -7.4% | -19.7% | -55.0% | -4.1% | -1.4% | 3.4% | 1.1% | -1.6% | 0.1% | -2.5% | -5.0% | -53.7% | -25.9% | -67.6% |
| 2004 | 1.0% | -3.8% | -29.0% | -5.5% | 1.3% | -9.7% | -3.8% | -0.5% | -7.1% | -2.6% | -21.5% | -1.4% | -88.2% | -1.4% | -64.7% |
| 2005 | -1.4% | -13.0% | -66.3% | -23.4% | 2.9% | -2.3% | -8.0% | -15.3% | -24.0% | -3.0% | -20.5% | -0.6% | -58.7% | 4.4% | -139.8% |
| 2006 | 7.9% | 9.2% | -25.2% | -9.6% | 10.8% | -10.7% | 9.6% | 5.2% | 0.0% | 4.8% | -2.6% | 1.8% | -42.3% | 2.4% | -116.2% |
| 2007 | 5.0% | 6.7% | -32.1% | -11.1% | 7.8% | -2.2% | 8.6% | 5.7% | 1.0% | -0.3% | 0.1% | -0.9% | -13.0% | 7.0% | -33.1% |
| 2008 | -4.3% | -2.9% | -9.0% | -15.0% | -0.2% | -24.5% | -7.7% | -4.8% | -7.6% | -7.5% | -2.9% | -1.4% | 3.2% | 7.9% | -11.0% |
| 2009 | 0.3% | -7.5% | -7.9% | -11.6% | -0.6% | -29.0% | -8.5% | 10.9% | 5.6% | -3.8% | 3.0% | -3.2% | 9.2% | 6.2% | 4.3% |
| 2010 | -2.0% | -14.4% | 8.8% | -12.1% | -6.6% | -18.7% | -27.4% | -7.7% | -0.2% | -1.8% | 1.9% | -4.5% | 7.2% | 2.9% | -1.4% |

*** Hidden Companies (#3 and #7) in Runoff and Ratio was Meaningless

Repeat Offender Underwriting Trends

- 4 of the repeat offenders had underwriting profit in 2010
- About half the time, the repeat offenders had underwriting losses in 2008 and 2009
 - Still not as bad overall as 2002 through 2004
- More had positive results in 2006 and 2007
 - Some evidence that the soft market has reached point where premium levels and putting upward pressure on underwriting results

Net Investment Gain or Loss to Surplus

Net Investment Gain (Loss) to Surplus

16 Companies that appeared on the "Top 30" List 7 or more times in the last 15 years

Calendar

| Year | Industry | 1 | 2 | 3 | 4 | 5 | 6 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
|--------------|----------|--------|---------|--------|--------|--------|--------|--------|--------|---------|--------|--------|--------|--------|--------|--------|
| 2000 | 18.2% | 19.3% | 20.7% | 38.1% | 30.7% | 41.1% | 14.8% | 13.5% | 23.0% | 36.9% | 20.9% | 26.7% | 23.2% | 25.9% | 25.0% | 30.3% |
| 2001 | 15.7% | 14.6% | 20.1% | 32.0% | 27.5% | 10.0% | -0.1% | 11.7% | 19.2% | 40.4% | 11.7% | 23.1% | 27.3% | 18.8% | 17.9% | 8.0% |
| 2002 | 14.9% | 24.1% | 34.3% | 22.7% | 23.8% | 10.2% | 13.9% | 14.8% | 13.7% | 19.2% | 9.4% | 19.8% | 29.5% | 21.3% | 75.9% | 12.9% |
| 2003 | 13.3% | 27.3% | 0.9% | 33.4% | 28.6% | 16.6% | 20.9% | 10.9% | 14.9% | 14.7% | 12.3% | 17.0% | 22.0% | 19.6% | 25.1% | 19.0% |
| 2004 | 12.7% | 18.6% | 11.1% | -18.2% | 25.6% | 15.7% | 36.0% | 12.5% | 17.9% | 19.8% | 14.5% | 12.9% | 19.1% | 58.8% | 12.9% | 11.3% |
| 2005 | 14.6% | 17.1% | 11.2% | 41.2% | 32.9% | 17.1% | 52.2% | 14.8% | 16.1% | 14.4% | 11.3% | 15.9% | 18.5% | 87.4% | 15.8% | 12.9% |
| 2006 | 11.6% | 24.7% | -3.5% | 18.2% | 21.8% | 17.6% | 29.4% | 12.4% | 15.1% | 14.2% | 10.0% | 17.4% | 15.1% | 111.8% | 11.7% | 9.3% |
| 2007 | 12.4% | 14.5% | 15.3% | 20.1% | 19.4% | 16.0% | 14.0% | 15.4% | 24.6% | 14.4% | 10.0% | 16.1% | 16.3% | 119.0% | 11.6% | 12.1% |
| 2008 | 7.0% | 33.7% | 11.7% | 25.0% | 11.3% | 12.9% | 15.5% | 7.8% | 5.9% | -8.2% | 9.8% | 6.7% | 20.6% | 28.9% | 4.8% | 1.6% |
| 2009 | 8.0% | 11.8% | 14.6% | 36.1% | 10.1% | 18.8% | 22.8% | 12.1% | 9.7% | 8.6% | 6.1% | 4.9% | 13.0% | 43.3% | 6.2% | 2.0% |
| 2010 | 10.0% | 17.0% | 6.1% | 35.6% | 18.0% | 15.6% | 6.3% | 12.5% | 12.2% | 15.2% | 6.2% | 12.3% | 14.9% | 34.5% | 11.3% | 8.3% |
| Change from | | | | | | | | | | | | | | | | |
| 2006 to 2007 | 6.7% | -41.3% | -538.7% | 10.4% | -11.2% | -9.0% | -52.5% | 24.3% | 63.1% | 1.1% | 0.0% | -7.3% | 8.4% | 6.4% | -0.6% | 30.2% |
| 2007 to 2008 | -43.5% | 132.7% | -24.1% | 24.4% | -41.7% | -19.3% | 10.6% | -49.6% | -76.1% | -157.0% | -2.5% | -58.4% | 26.5% | -75.7% | -58.4% | -86.9% |
| 2008 to 2009 | 13.9% | -64.9% | 25.3% | 44.4% | -10.2% | 45.9% | 47.7% | 56.0% | 65.3% | -204.5% | -37.5% | -27.1% | -36.8% | 49.8% | 29.6% | 24.4% |
| 2009 to 2010 | 25.2% | 43.5% | -58.4% | -1.3% | 77.4% | -16.9% | -72.2% | 3.3% | 25.3% | 77.5% | 2.1% | 152.1% | 14.3% | -20.4% | 81.6% | 322.3% |

*** Hidden Company (#7) in Runoff and Ratio was Meaningless

Historical Net Income to Surplus

Net Income to Surplus

16 Companies that appeared on the "Top 30" List 7 or more times in the last 15 years

Calendar

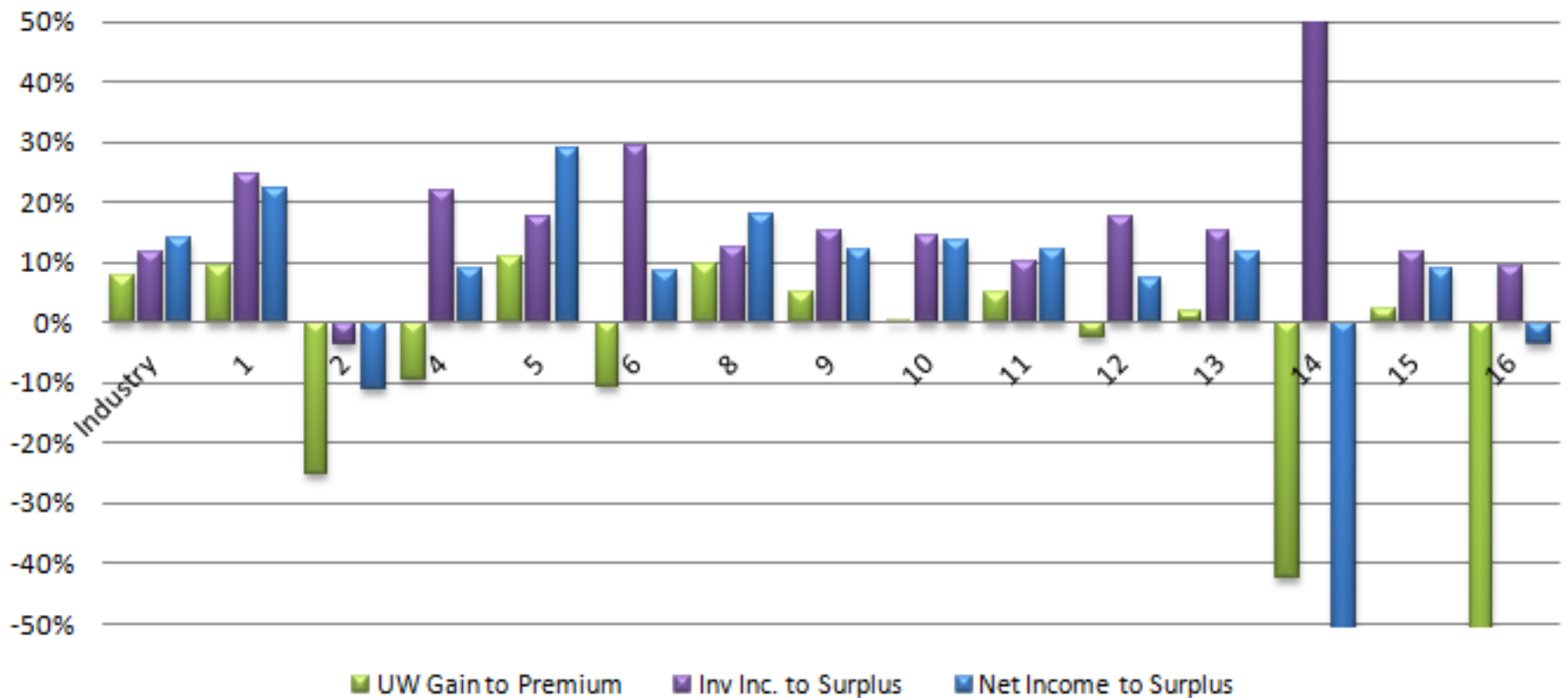
| Year | Industry | 1 | 2 | 3 | 4 | 5 | 6 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
|------|----------|--------|--------|--------|--------|--------|--------|-------|-------|--------|-------|--------|-------|--------|-------|--------|
| 2000 | 6.6% | -4.0% | 3.0% | 16.4% | 14.4% | 2.7% | 0.8% | 13.3% | 14.0% | -3.6% | 5.4% | 10.3% | 5.0% | 10.8% | 19.4% | -8.7% |
| 2001 | -1.9% | -14.6% | -1.1% | -28.2% | -25.2% | -61.1% | -2.8% | 7.6% | 7.2% | -20.9% | -0.5% | -6.5% | -3.8% | -8.2% | -0.9% | -72.6% |
| 2002 | 3.3% | 4.6% | 6.4% | -28.3% | 11.8% | -55.0% | 0.4% | 2.3% | 5.0% | 13.2% | 5.7% | -9.6% | 9.6% | -36.6% | 68.7% | -20.2% |
| 2003 | 8.8% | 13.1% | -12.2% | -18.5% | -25.3% | 8.5% | -11.1% | 8.9% | 10.7% | 14.6% | 12.4% | 9.5% | 9.8% | -37.8% | 0.6% | -54.9% |
| 2004 | 9.5% | 8.3% | -4.8% | -81.1% | 10.1% | 11.7% | 1.2% | 3.3% | 8.9% | 11.9% | 8.1% | -21.3% | 12.1% | -81.6% | 9.7% | -7.2% |
| 2005 | 10.6% | 0.0% | -10.2% | -30.1% | 8.0% | 19.9% | -3.1% | 4.6% | -0.1% | 4.7% | 4.6% | -3.6% | 14.1% | -84.6% | 14.7% | -8.5% |
| 2006 | 14.0% | 22.1% | -11.1% | -60.9% | 9.0% | 29.0% | 8.4% | 18.0% | 12.1% | 13.6% | 11.9% | 7.2% | 11.6% | -93.6% | 9.0% | -3.4% |
| 2007 | 12.2% | 12.5% | 4.3% | -96.0% | 7.1% | 19.8% | 15.3% | 18.0% | 23.7% | 12.6% | 8.3% | 14.5% | 11.1% | 64.0% | 11.7% | 5.2% |
| 2008 | 0.7% | 26.4% | 6.7% | -34.2% | -0.5% | 9.3% | -14.8% | 0.8% | 3.6% | -13.7% | 4.2% | 3.8% | 12.9% | 21.1% | 3.6% | -3.1% |
| 2009 | 6.3% | 5.1% | 11.1% | -7.1% | 1.8% | 15.3% | -25.9% | 7.2% | 15.2% | 10.1% | 3.5% | 5.5% | 6.3% | 27.4% | 6.3% | 4.0% |
| 2010 | 6.7% | 8.0% | 6.8% | -13.9% | 4.1% | 8.6% | -15.0% | -6.4% | 6.3% | 15.8% | 5.4% | 11.3% | 8.2% | 40.5% | 9.6% | 8.9% |

*** Hidden Company (#7) in Runoff and Ratio was Meaningless

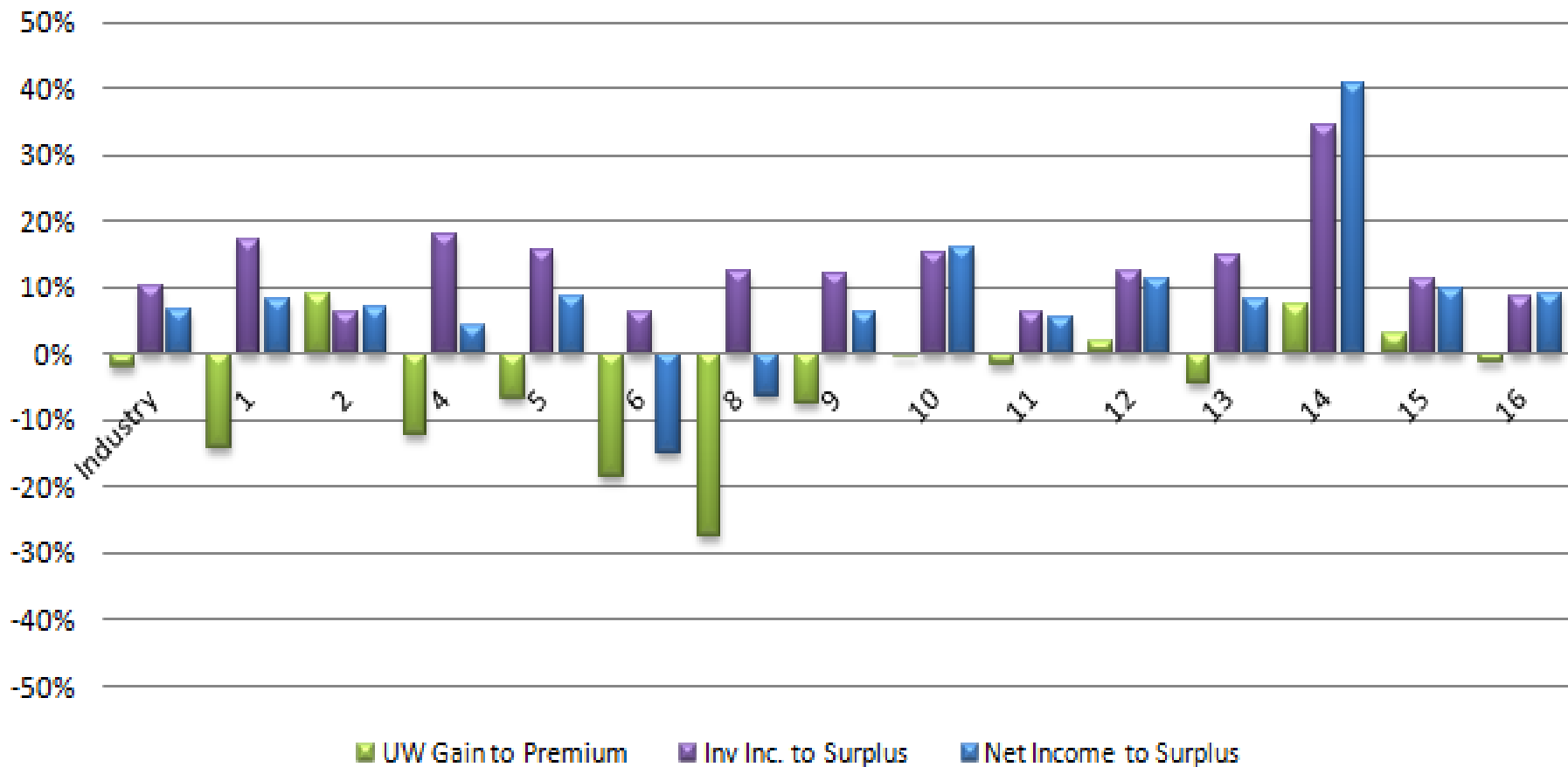
Repeat Offender Profitability Trends

- All but 3 company had reductions in investment gain as a percentage of surplus from 2007 to 2008. (This includes the industry)
- Industry net income was 6.7% of Surplus in 2009
 - 5 of the 15 repeat offenders shown had negative net income in 2008
 - Of those 5, only two were larger companies with negative underwriting gain and negative investment income
 - In 2009, all but 2 repeat offenders showed positive net income
 - One of the exceptions is insolvent
 - One of the exceptions is a small specialty company

Profitability Measure by Company - 2006



Profitability Measure by Company - 2010



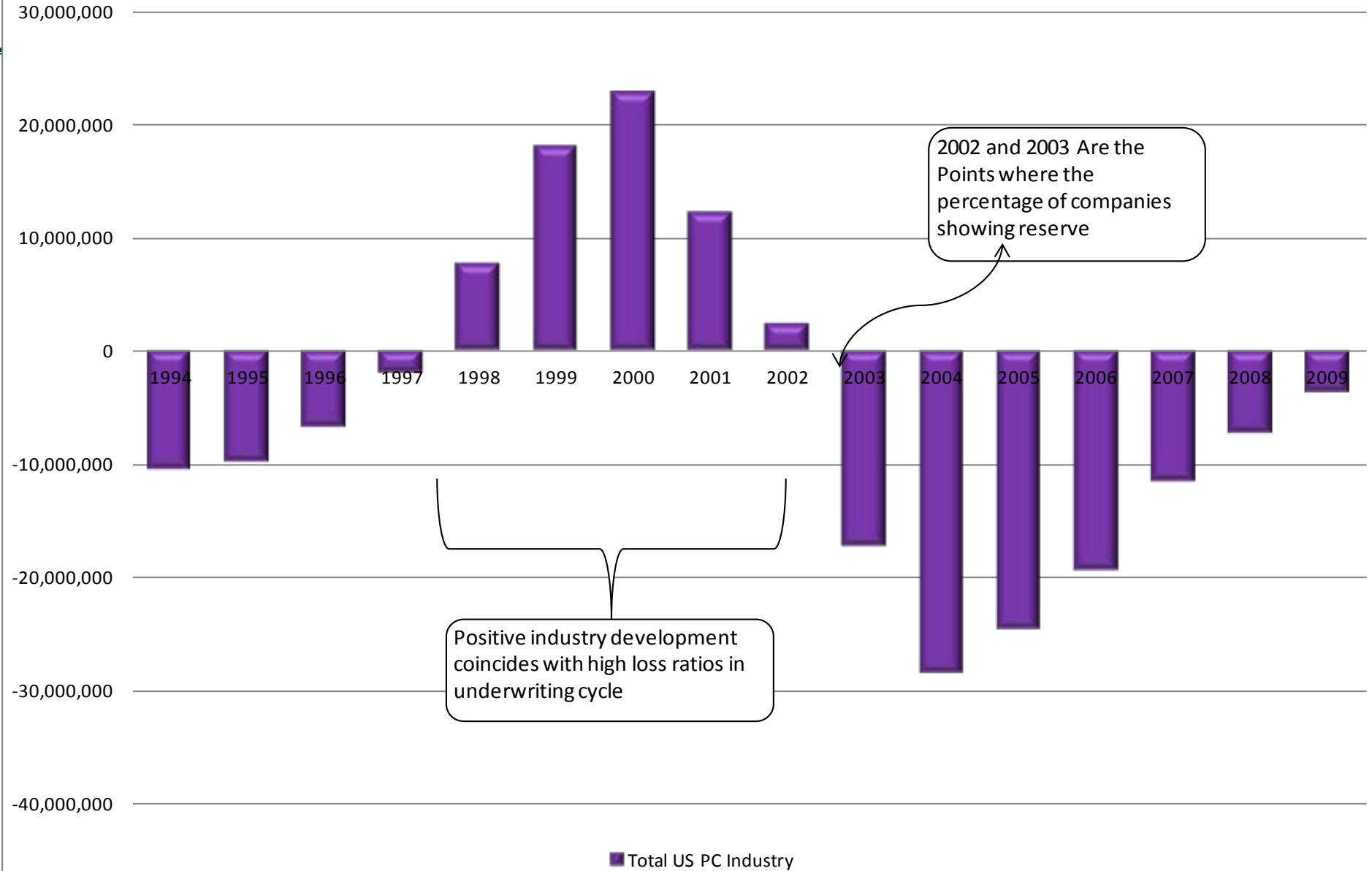
Schedule P from a High Altitude !

| Accident Year | Total US PC Industry | | |
|---------------|----------------------|----------------------|--------------------|
| | Initial Incurred | Mature Evaluation | Difference |
| 1994 | 185,163,038 | 174,763,647 | -10,399,391 |
| 1995 | 181,747,406 | 171,951,630 | -9,795,776 |
| 1996 | 191,083,453 | 184,414,055 | -6,669,398 |
| 1997 | 185,364,188 | 183,482,815 | -1,881,373 |
| 1998 | 194,407,343 | 202,187,696 | 7,780,353 |
| 1999 | 199,247,464 | 217,263,186 | 18,015,722 |
| 2000 | 211,741,982 | 234,586,739 | 22,844,757 |
| 2001 | 239,347,139 | 251,545,485 | 12,198,346 |
| 2002 | 237,769,826 | 240,185,974 | 2,416,148 |
| 2003 | 252,877,126 | 235,692,714 | -17,184,412 |
| 2004 | 270,409,863 | 242,151,674 | -28,258,189 |
| 2005 | 287,600,755 | 263,111,129 | -24,489,626 |
| 2006 | 268,182,031 | 248,928,819 | -19,253,212 |
| 2007 | 289,020,607 | 277,572,355 | -11,448,252 |
| 2008 | 330,673,992 | 323,499,024 | -7,174,968 |
| 2009 | 296,054,653 | 292,415,228 | -3,639,425 |
| 2010 | 293,927,090 | 293,927,090 | 0 |
| Totals | 2,683,677,974 | 2,609,689,141 | -73,988,833 |

- Simple chart on left used to make some graphs
- Initial incurred is an initial value of held incurred loss, including IBNR, values as of 12/31/xx (12 months old)
- Mature valuation is from a schedule P several years more mature

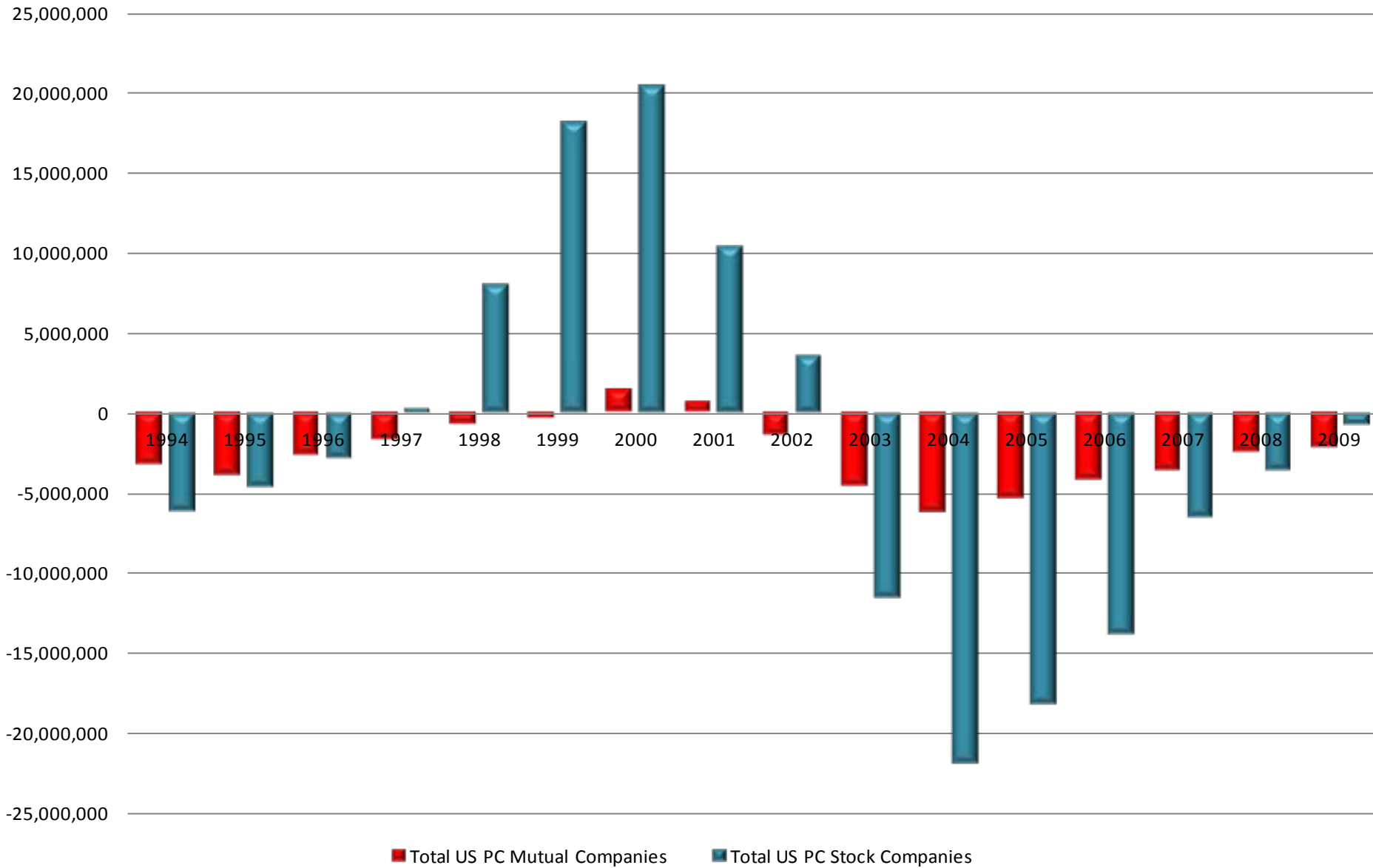
Total Industry by Accident Year

Original V Mature Reserve Development (000's)

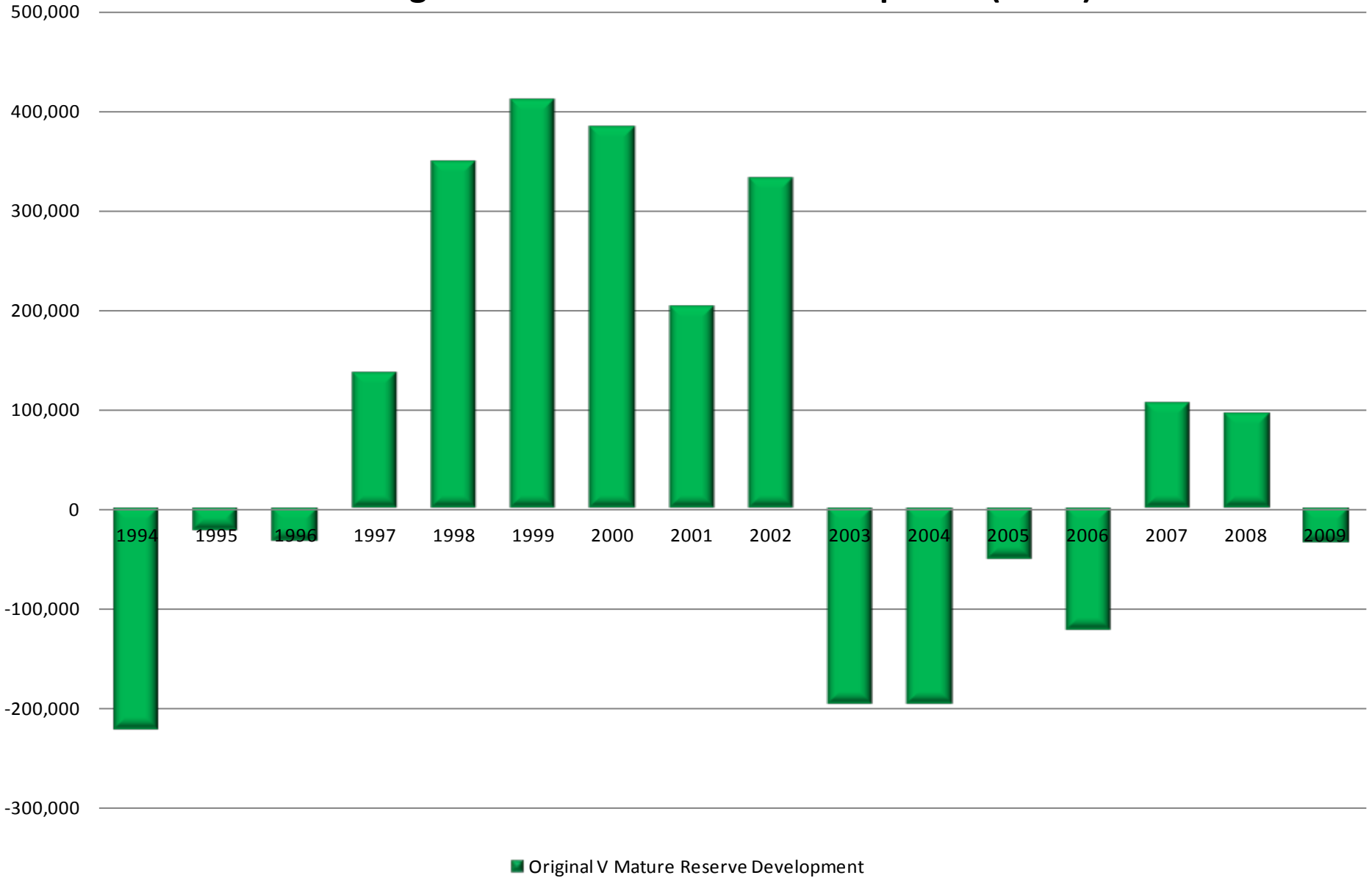


Stock V Mutual Insurer - By Accident Year

Original V Mature Reserve Development (000's)

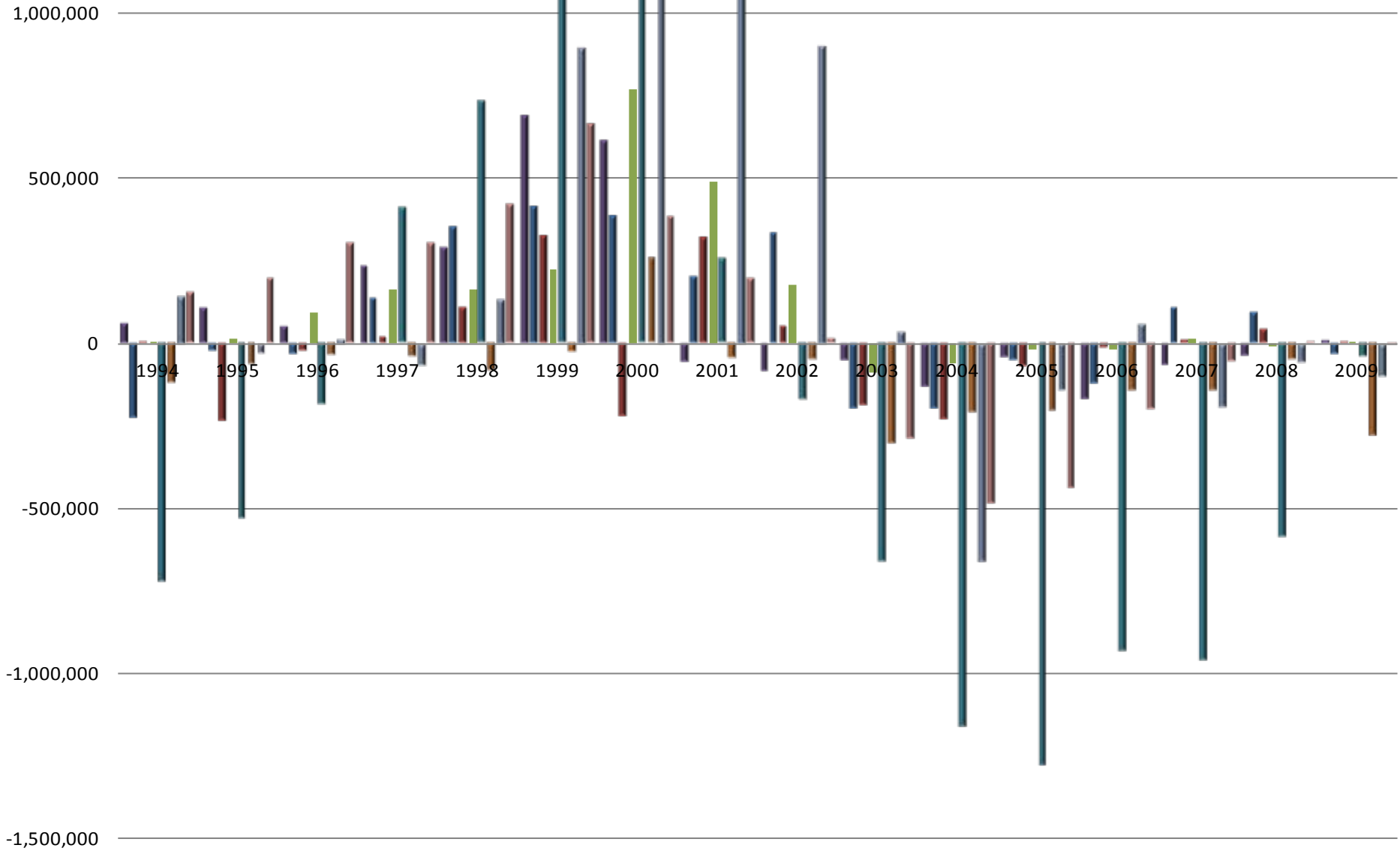


Repeat Offender by AY- Original V Mature Reserve Development (000's)



Repeat Offenders by AY

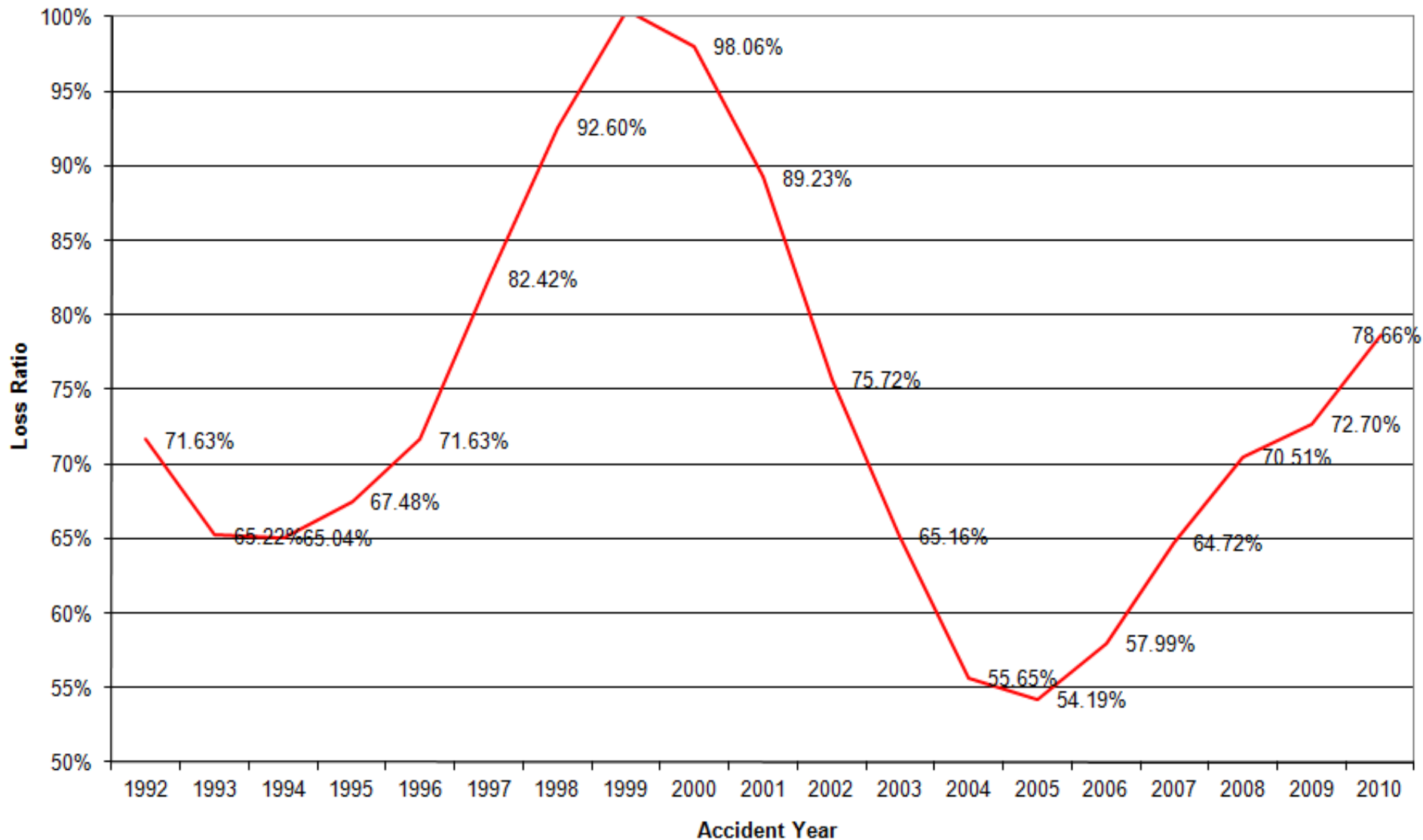
Original V Mature Reserve Development



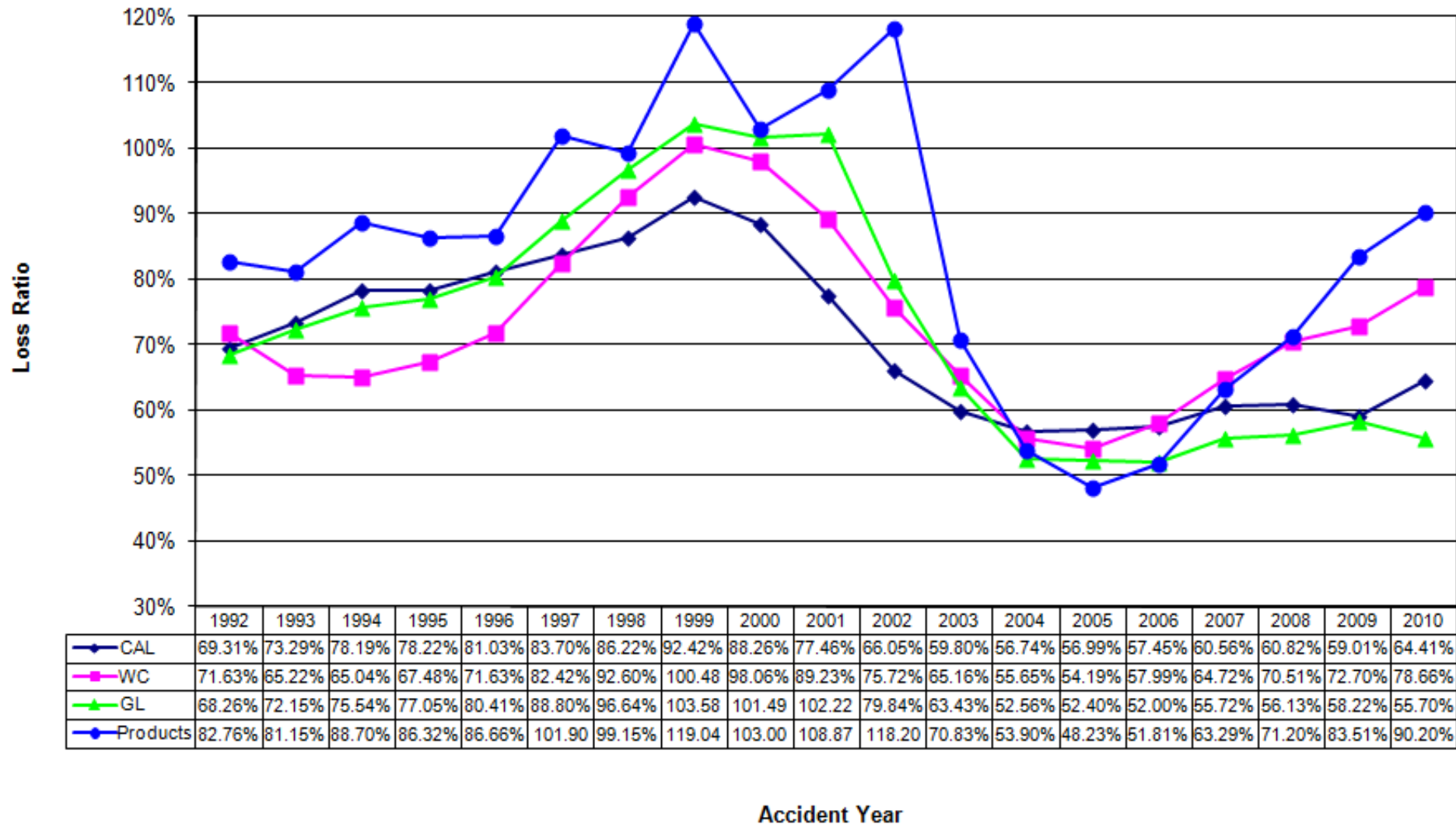
Industry Snapshot – Loss Ratios Observations

- Based upon internal analysis of industry-wide schedule P data
- Loss development assumptions based upon data evaluated as of 12/31/2010

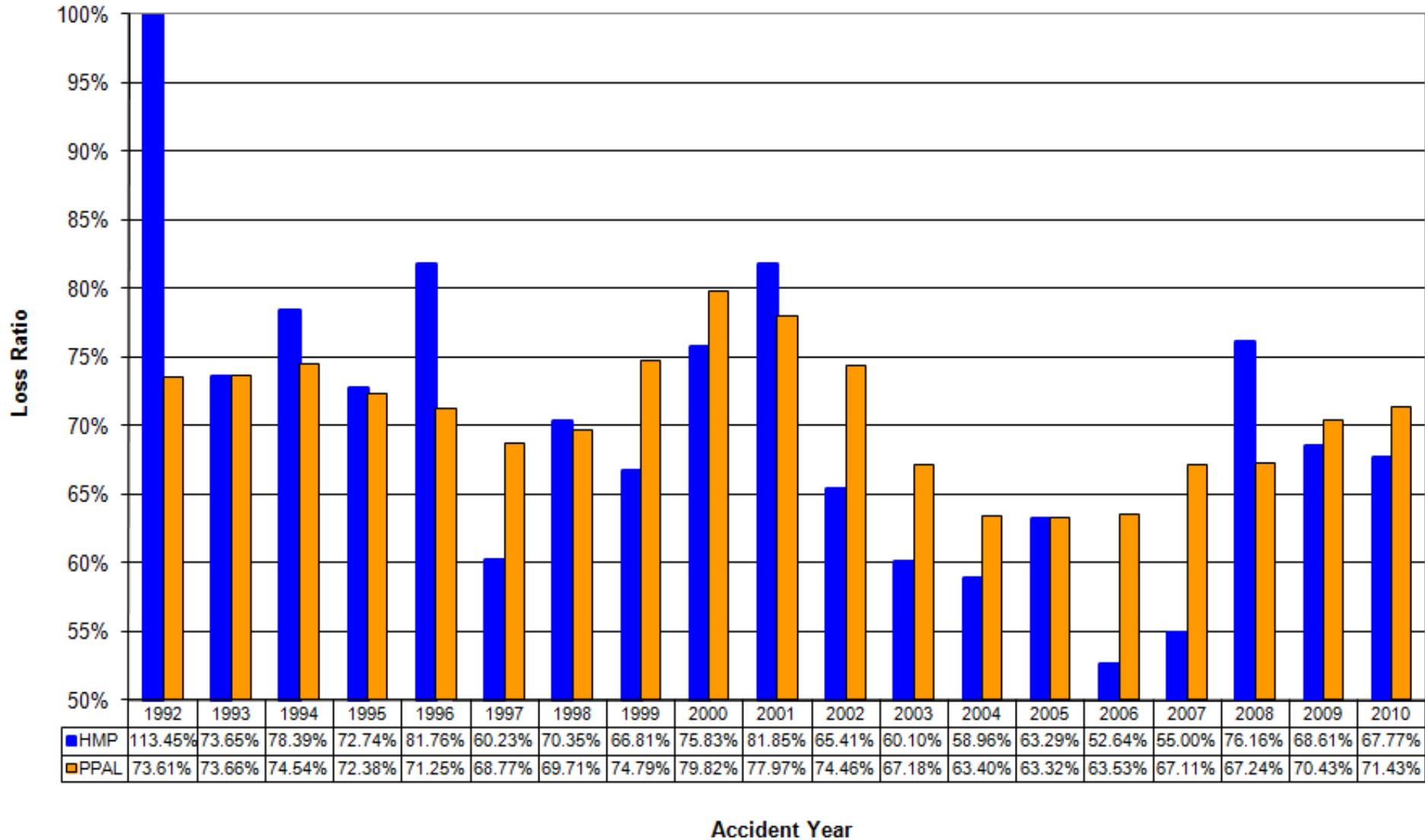
Workers Compensation Projected Ultimate Loss Ratios Insurance Industry Totals



Aggregate Insurance Industry Loss Ratios thru 2010 Commercial Casualty Coverages



HMP & PPAL Insurance Industry Loss Ratios



Underwriting Cycle

- WC shows an uptick in loss ratios in five most recent policy periods
 - Other commercial lines show signs of following this trend
 - So may personal lines, homeowners stronger than auto
- Market has been soft for several years
- Increases pressure on premium
- Increases pressure on loss reserves
- Expect to see more commercial casualty lines in the future

Conclusions

- The 30 Companies with the largest 1 year reserve development in terms of dollars exhibit a variety of characteristics from going insolvent to being strong insurers
- Mandatory statements on Risk of Material Adverse Deviation continues to make it easier to assess industry-wide causes of concern
- Repeat offenders are showing much better loss ratios and surplus growth as a group going forward from 2003