
Loss Development in the P&C Insurance Industry

Apex Discussion Series

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By Erich A. Brandt FCAS, MAAA

PINNACLE
ACTUARIAL RESOURCES, INC.



The Firm of Choice

Outline of Presentation

- Background on Pinnacle and Erich Brandt
- Background on Actuarial Profession
- Current Snap Shot 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
- 17 Full-Time Credentialed Actuaries
- Large Diversity in Work Experience as a Group
 - Loss Reserving
 - Predictive Modeling
 - Reinsurance

About Erich Brandt

- Fellow of the Casualty Actuarial Society
- 13 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 of, a symptom of, 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 eight 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

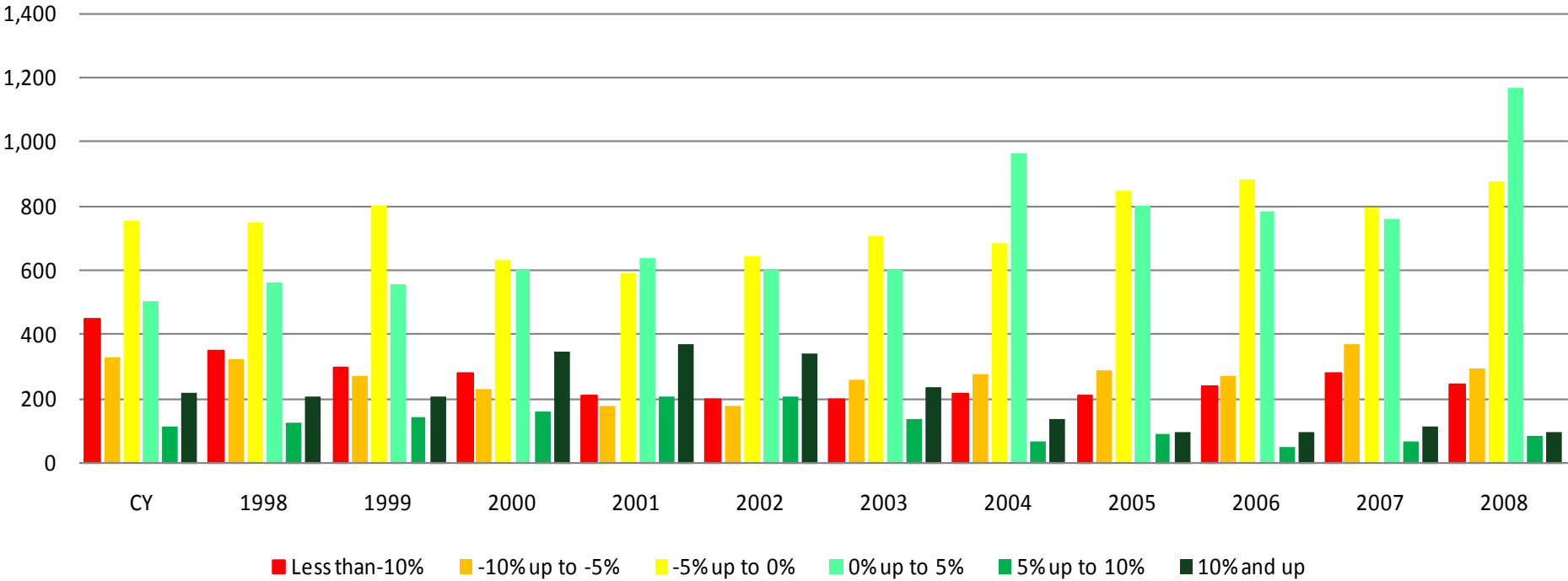
- Development of net loss and LAE reserves in accident years 2008 and prior in calendar year 2009 (Schedule P Part 2)
- Overall industry development is favorable, with a little less than \$20B redundancy released
 - Much of this redundancy is a take down from a single company
- 30 groups with most adverse reserve development

The Last 12 Years

Development as % of Year End Surplus

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	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

Development as % of Year End Surplus

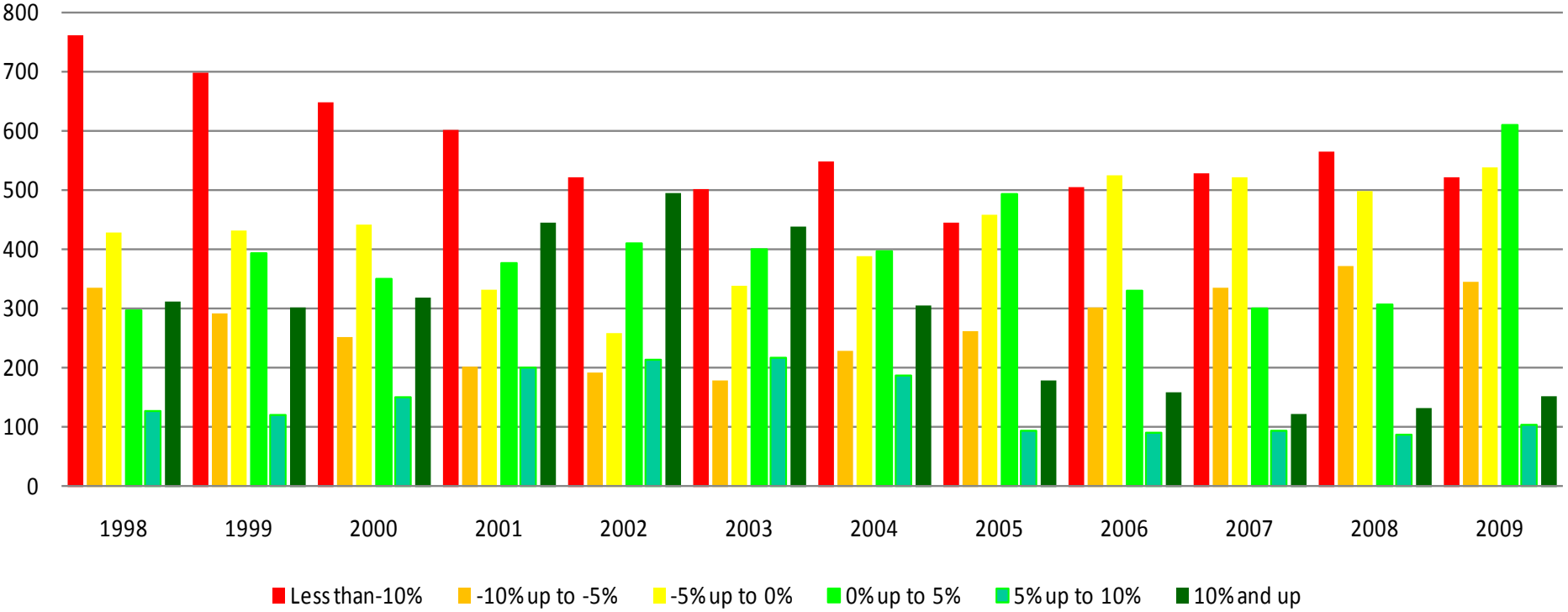


The Last 12 Years

Development as % of Reserves

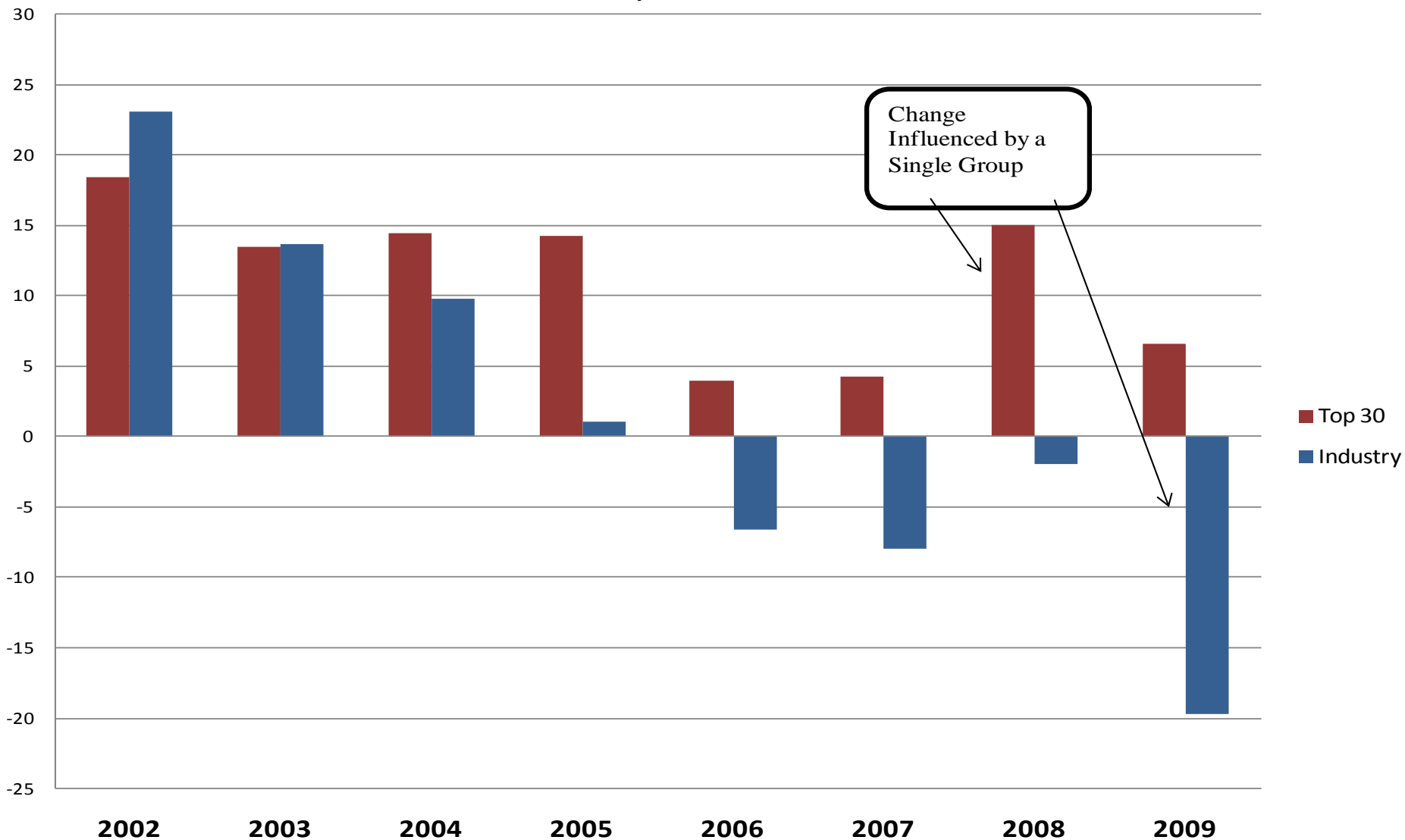
Year	Number of Companies					
	Less than-10%	-10% up to -5%	-5% up to 0%	0% up to 5%	5% up to 10%	10% and up
1998	761	335	427	297	128	311
1999	696	293	430	393	121	301
2000	647	252	442	350	151	319
2001	602	200	330	377	199	445
2002	520	192	258	409	212	493
2003	501	179	338	400	215	437
2004	547	229	387	395	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

Development as % of Reserves



One-Year Developments

\$ Billions



2009 Top 30 Largest Reserve Developments of P&C Groups

Group #	Source of Adverse Development	One-Year Development	Two-year Development	2009 Surplus	2008 Surplus	2007 Surplus	One-Year	Two-Year	2009 Net Loss Ratio	Material	AM Best Rating	Actuary: Employee or Consultant?
							Development as % of 2008 Surplus	Development as % of 2007 Surplus		Adverse Deviation Statement in Actuarial Opinion in 2009		
1	Excess Casualty, D&O	1,993,497	1,475,739	27,986,656	26,645,954	29,296,576	7.48%	5.04%	77.60%	Yes	A	Employee
2		1,521,517	-116,093	-1,281,420	505,534	260,909	300.97%	-44.50%	431.00%		NR - 3	
3	Financial Guaranty	980,505	1,095,533	2,706,473	3,502,422	3,663,052	28.00%	29.91%	210.00%	Yes	NR - 3	Consultant
4	Mortgage Guaranty	451,945	209,623	1,545,093	1,674,280	1,372,417	26.99%	15.27%	227.80%	Yes	NR - 3	Consultant
5	Mortgage Guaranty	178,394	210,175	772,221	568,019	783,965	31.41%	26.81%	220.00%	Yes	NR - 3	Employee
6		137,740	127,528	923	0	0			-99.90%	Yes	D	Consultant
7	Asbestos & Environmental Liabilities	107,638	95,473	766,541	770,210	812,502	13.98%	11.75%	68.90%	No	A -	Consultant
8		92,163	77,943	801,869	1,554,448	3,316,143	5.93%	2.35%	238.50%			
9	Primary & Excess Casualty, Professional Lines	91,463	-166,065	2,194,358	2,322,167	2,047,519	3.94%	-8.11%	70.30%	No	A	Consultant
10	Ceased Writing Business, Changes in Claim Operati	85,822	78,920	2,108	79,228	134,898	108.32%	58.50%	94.00%	Yes	NR - 4	Consultant
11	Excess layers, Asbestos, Mass Tort, Mortgage	77,018	167,589	2,810,653	2,363,243	2,906,656	3.26%	5.77%	58.00%	Yes	A +	Employee
12		73,076	-25,006	3,270,408	2,988,640	3,951,513	2.45%	-0.63%	80.60%		A	Employee
13	Short History, Chinese Drywall, Changes to Claim Adj	71,287	12,809	2,069,743	1,695,143	1,351,956	4.21%	0.95%	40.50%	Yes	A -	Consultant
14	Asbestos & Environmental Liabilities	63,048	163,117	4,021,686	3,904,228	3,785,634	1.61%	4.31%	67.90%	Yes	A	Employee
15	Reinsurance Collectability, Expense Overrun	61,414	78,820	5,598	34,468	47,580	178.18%	165.66%	0.00%	Yes	NR - 5	Employee
16	Housing Market Deterioration	59,930	28,895	1,223,720	378,133	399,571	15.85%	7.23%	254.80%	Yes	NR - 5	Employee
17	Adverse Development in Long Tailed Liability, Changes	54,401	-65,595	1,856,724	1,779,483	2,161,888	3.06%	-3.03%	61.30%	Yes		Employee
18	Monoline Nature of Coverage, Changes in Claim Handl	53,376	14,486	689,923	577,273	656,849	9.25%	2.21%	70.70%	Yes	A	Consultant
19	Mass Torts, Asbestos & Environmental Liabilities, Ref	52,442	250,308	6,851,181	6,040,538	7,203,330	0.87%	3.47%	71.00%	Yes	NR - 5	Employee
20		46,302	91,736	53,219	66,722	71,734	69.40%	127.88%	65.60%	No	NR - 5	Consultant
21	Risk of Formal Proceeding, Lack of Liquidity, Collectic	42,917	50,191	19,316	124,283	161,546	34.53%	31.07%	59.50%	Yes	NR - 5	Consultant
22	Mortgage Guaranty	38,713	194,366	409,051	348,147	294,634	11.12%	65.97%	208.10%	Yes		Consultant
23		36,654	58,255	556,265	553,058	648,452	6.63%	8.98%	77.90%	No	A	Consultant
24	Mass Torts, WC Tail Uncertainty	33,705	24,253	241,262	271,797	292,159	12.40%	8.30%	73.00%	Yes	B ++	Consultant
25		33,199	30,215	168,059	143,331	144,438	23.16%	20.92%	87.30%	No	A -	Employee
26		28,962	-56,642	11,270	-7,032	-34,420	-411.86%	164.56%	28.60%		NR - 5	
27		28,671	38,930	499,147	465,089	530,510	6.16%	7.34%	72.80%	No	A	Consultant
28	WC, Changes in Claim Handling	24,883	37,038	407,063	350,043	371,976	7.11%	9.96%	78.10%	Yes	A	Consultant
29		23,627	-67,515	422,203	448,760	508,366	5.26%	-13.28%	67.30%	No	A	Employee
30	Concentrated Exposure, Long Tail, Changes in Claim	23,117	133,939	557,580	477,662	648,725	4.84%	20.65%	95.80%	Yes		Consultant
Subtotal (Top 30)		6,567,426	4,248,965	61,638,893	60,625,271	67,791,078			86.33%	19 Yes; 7 No		11 Inside; 16 Consultant
Total Industry		-19,718,321	-20,376,120	531,608,462	474,747,355	538,975,088			76.30%			

Analysis of Company Developments

- Almost \$6.6 BB over past year for top 30 companies – less than the almost \$15 BB in 2008.
 - Almost \$10BB of this is with one company exposed to financial guarantee insurance and credit default swaps
 - Fairly consistent with past 3 years ignoring co. with \$10BB of adverse development in 2008 (reversed in 2009 CY, effect seen in industry totals)
 - 2005 had \$14BB in the top 30
- Surplus growth for top 30 companies is 1.7% - up from last year
 - Industry surplus growth is significantly more at 12.0%

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	6,567	-26,286	-19,718

■ 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

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

30 Companies

- Traditionally RMAD comments in the SAO often involve one or more of the following
 - Asbestos related
 - Workers' Compensation
 - Mold
 - Medical Malpractice
 - Reinsurance, Excess Casualty
 - Financial Guaranty
- Financial Guaranty exposure has altered this traditional landscape in 2007 - 2009

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
 - 41% of appointed actuaries in 2009 are employees
 - 11 of the top 30 have AY 2009 loss ratios over 80%

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

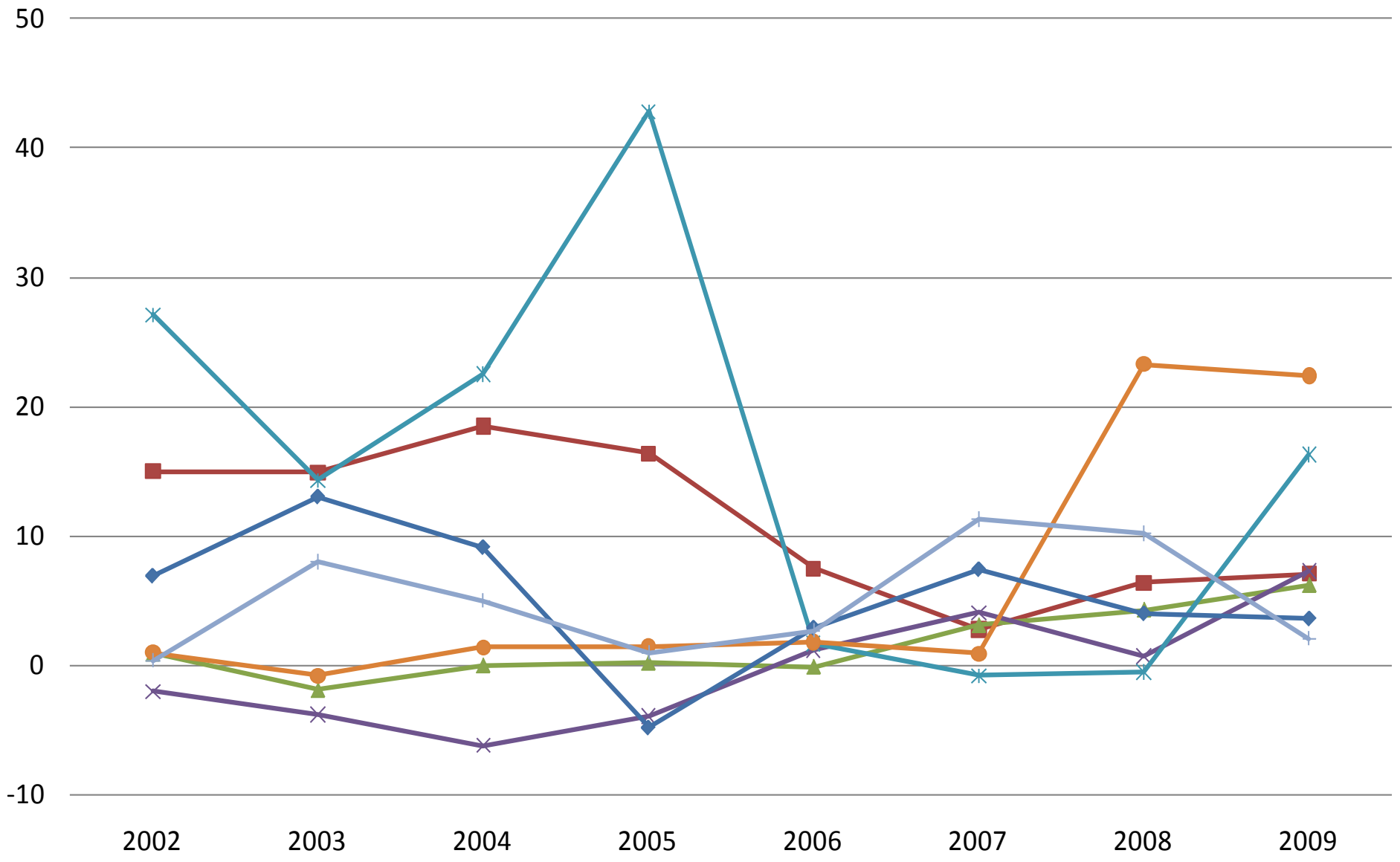
RMAD

- 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

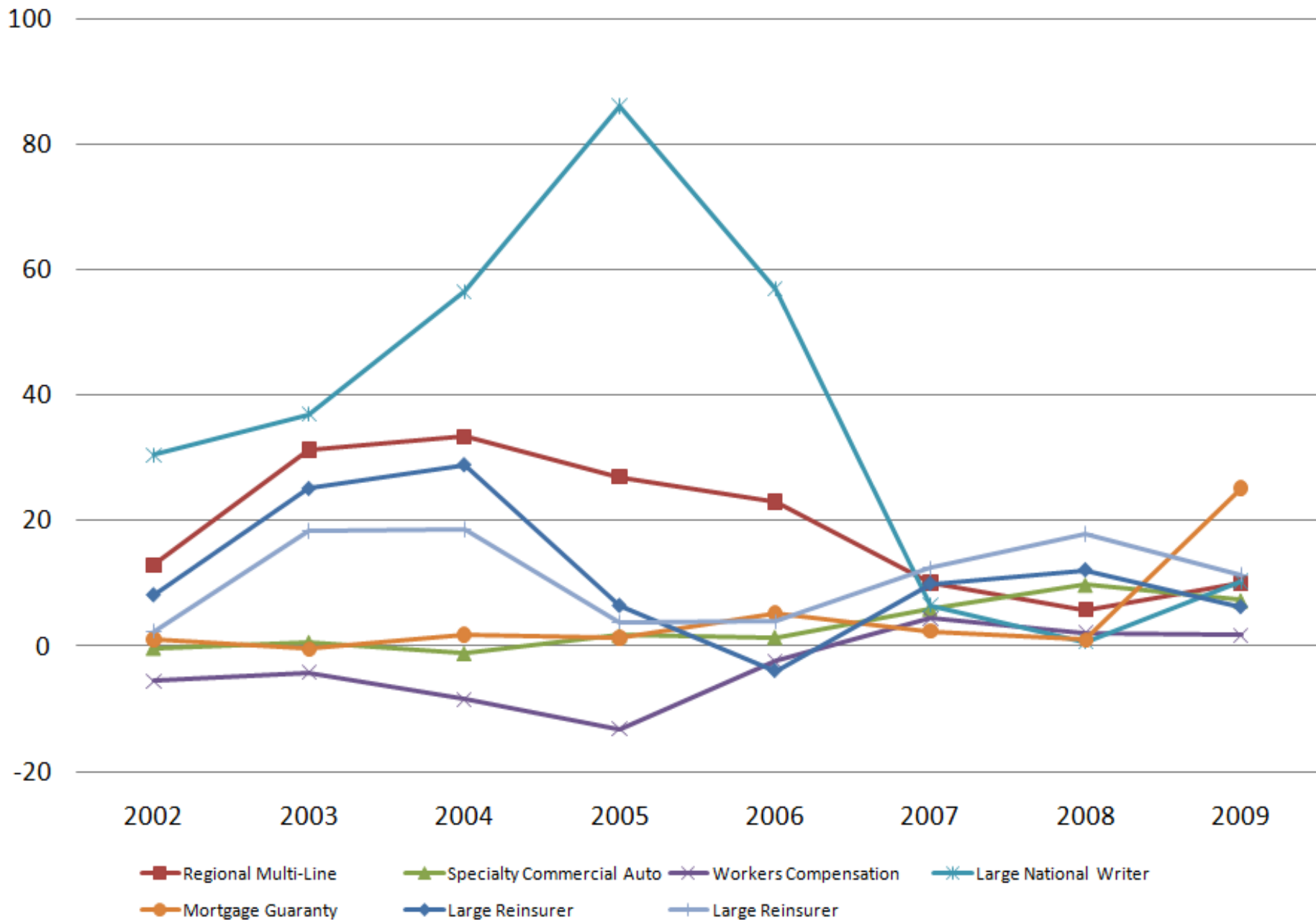
- Companies Within the Top 30 in One Year Adverse Loss Development Exhibit Several Different Characteristics
 - Some are large, national multi-line companies
 - Several are niche writers within one / few states
 - Some are near or under regulatory scrutiny
 - Several have healthy surplus levels and RBC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

One Year Development to Surplus Ratio

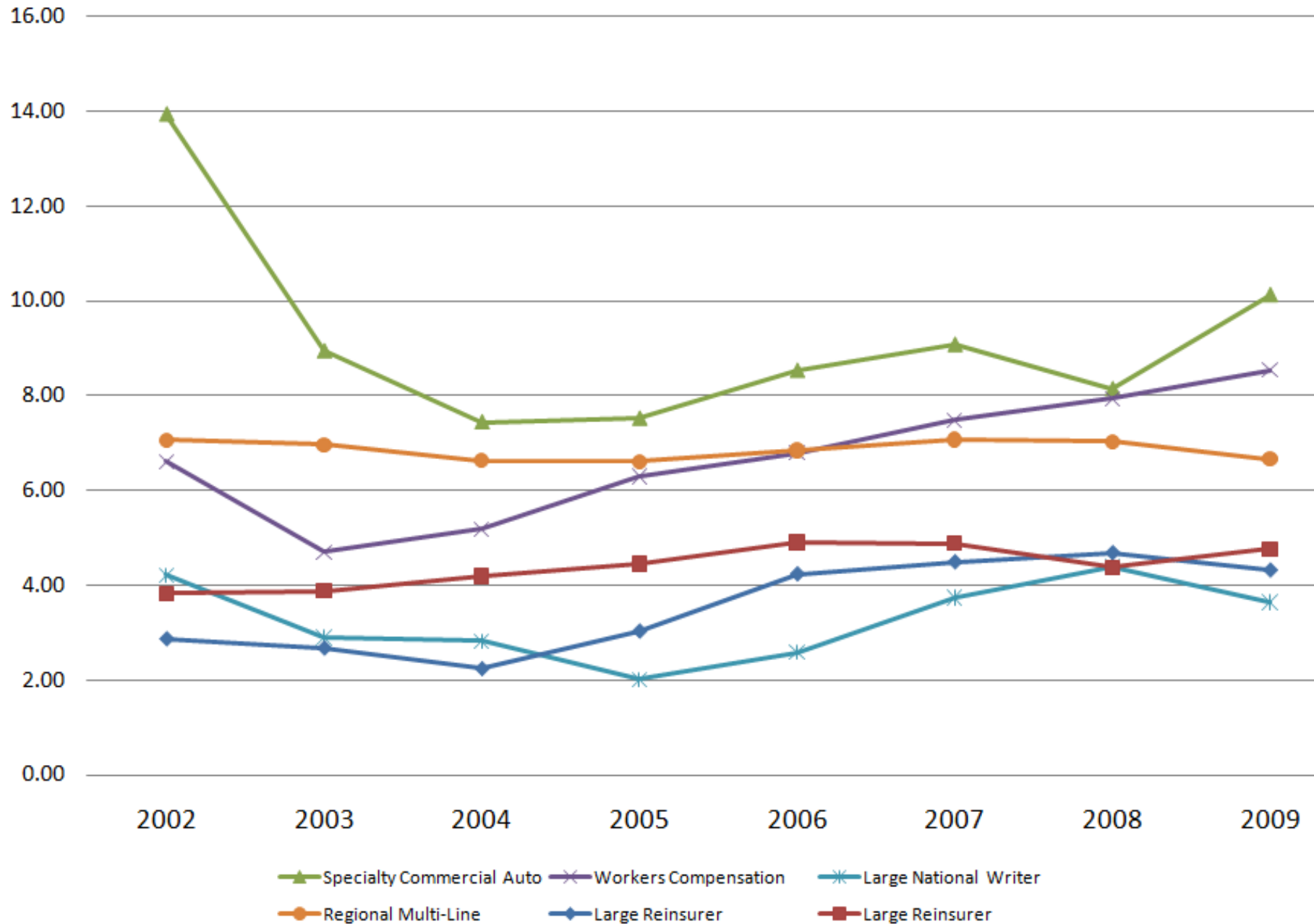


- Regional Multi-Line
- Specialty Commercial Auto
- Workers Compensation
- Large National Writer
- Mortgage Guaranty
- Large Reinsurer
- Large Reinsurer

Two Year Development to Surplus Ratio



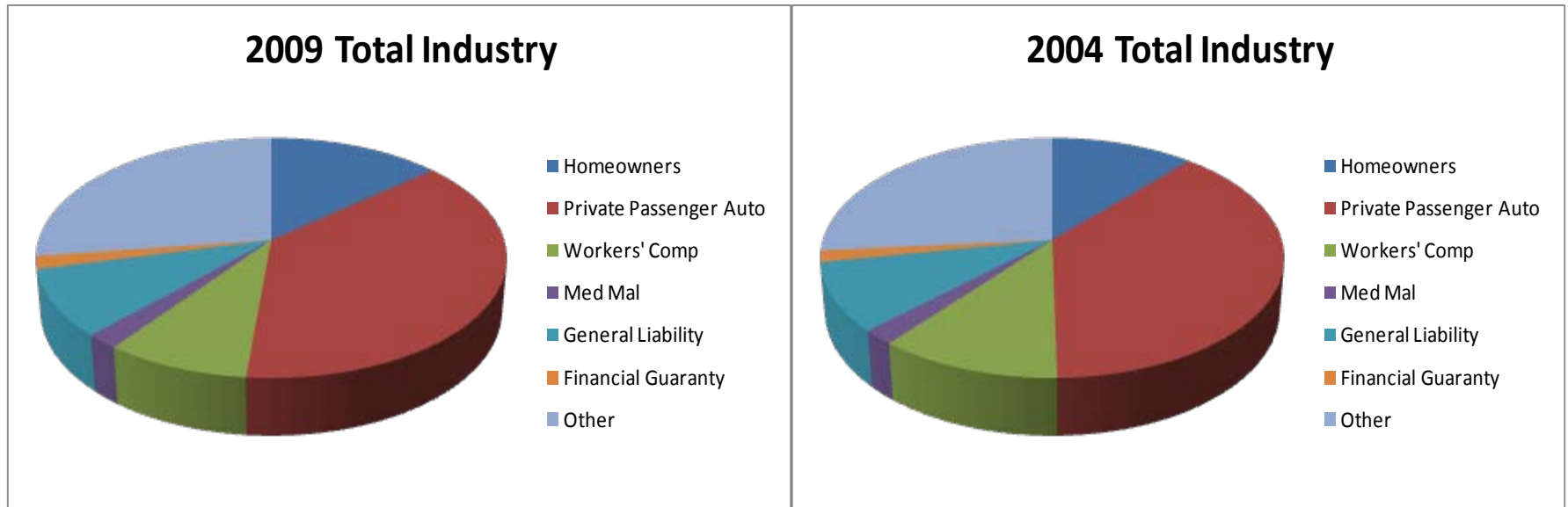
Total Adjusted Capital to Auth Control Level RBC



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

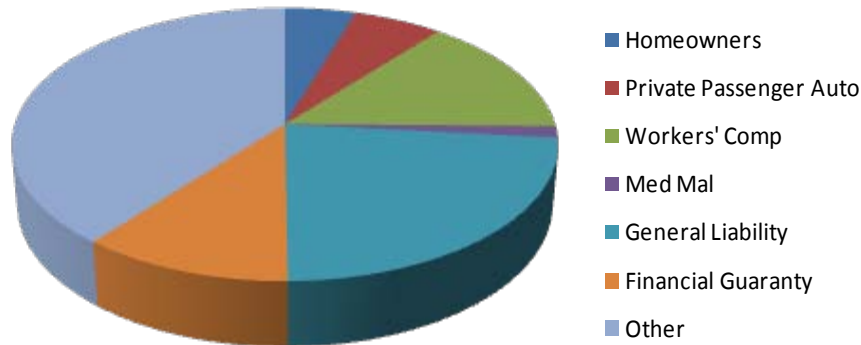
Makeup of Industry by LOB



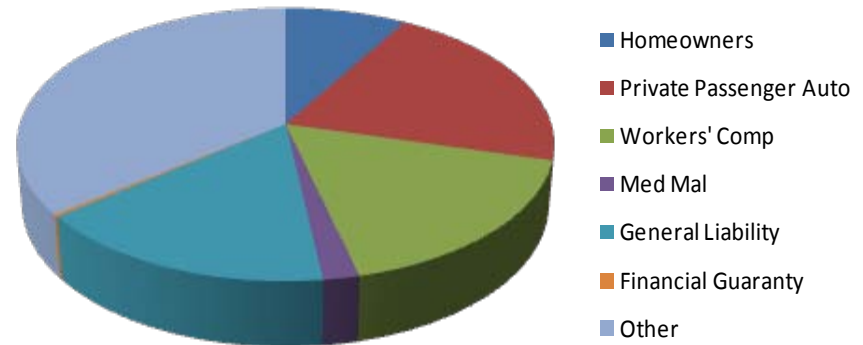
- Between 2004 and 2009, relative share of market by LOB is fairly consistent

Makeup of Top 30 by LOB

2009 Top 30 Companies



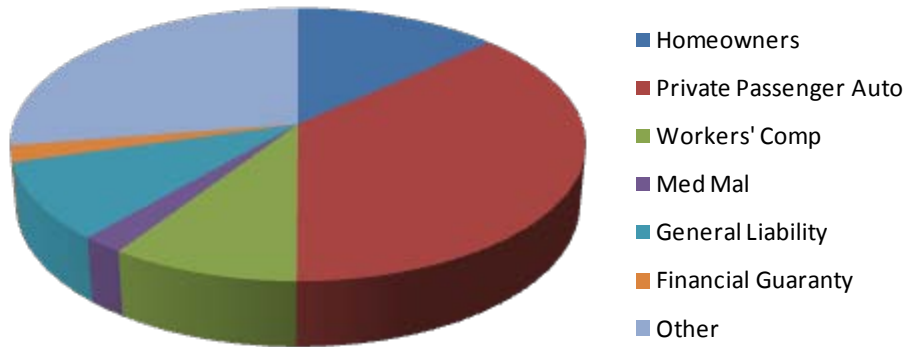
2004 Top 30 Companies



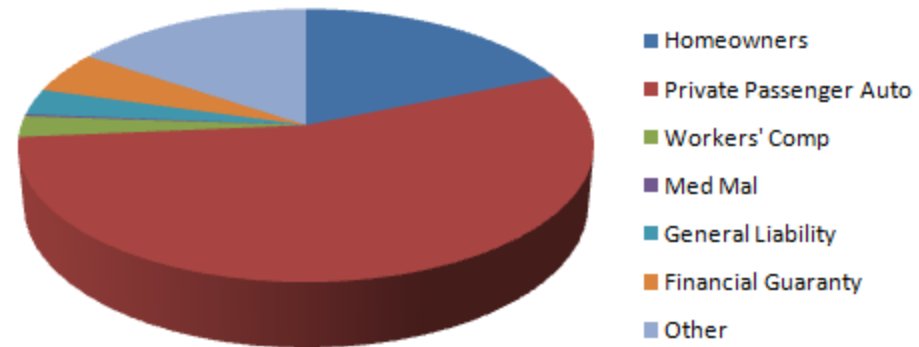
- Between 2004 and 2009, increase in Financial Guaranty, decrease in Personal Lines
- 2008 was over 50% Personal Lines

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 2009

Conclusions

- Marketshare of Top 30 changes from year to year
- In “calm” years, large personal lines writers may get in due to volume and lack of activity in other sectors
- This is atypical. Sources of damaging adverse deviation seen more in WC, GL and other low frequency high-severity lines

2009 Top 30 Versus the Industry

- Next two charts compare loss ratios and surplus for the 2009 Top 30 to the industry over time
- Loss ratios are AY from Schedule P
- Surplus results are from an industry snapshot run mid-summer

Historical Held Ultimate Loss Ratios

AY Loss Ratio	<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>	<u>2000</u>
Average 30*	86.67%	108.69%	79.10%	60.65%	67.80%	57.19%	61.69%	78.78%	96.71%	100.10%
Industry	76.40%	79.60%	68.10%	62.80%	68.90%	63.80%	66.60%	75.60%	88.80%	89.00%
# over 90%	9	11	8	3	6	2	2	5	14	12
# over 80%	11	16	11	5	8	5	5	11	15	15
# over 70%	19	21	13	6	14	9	9	12	19	17

* Using Earned Premium as Weight

- 2009 Loss Ratio for the Top 30 is higher than the industry
 - Could signal a hardening of the market

Historical Surplus

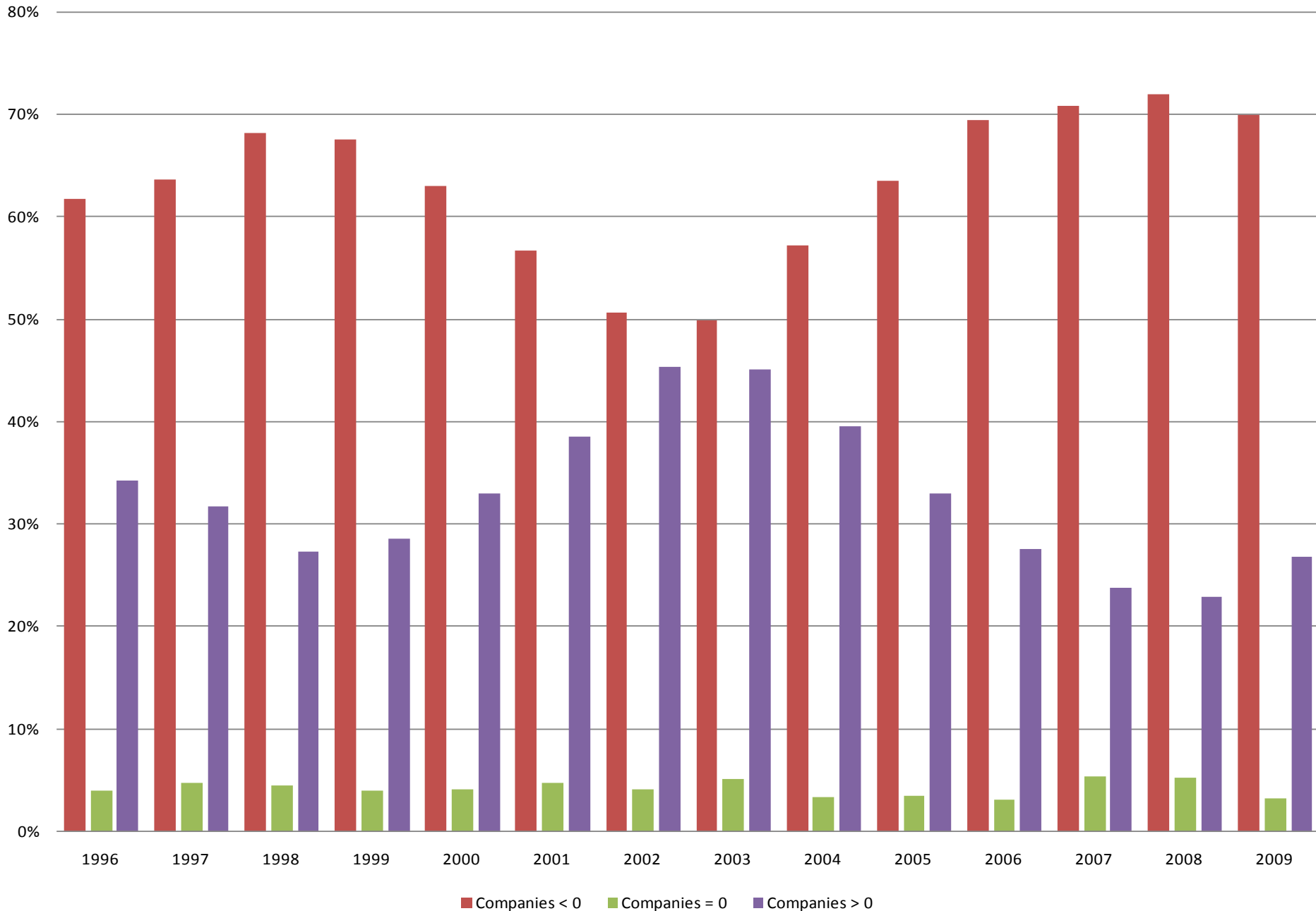
Surplus (000's)	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Dollars Top 30	62,340	61,276	69,420	65,633	59,429	54,041	51,475	45,048	45,761
Dollars Industry	531,999	474,932	539,152	503,429	437,817	402,226	358,221	294,860	298,774
Percent in Top 30	11.72%	12.90%	12.88%	13.04%	13.57%	13.44%	14.37%	15.28%	15.32%
1 Year Growth Top 30	1.74%	-11.73%	5.77%	10.44%	9.97%	4.98%	14.27%	-1.56%	3.03%
2 Year Growth Top 30	-1.33%	-5.66%	23.15%	25.16%	22.22%	36.41%	19.90%	-9.55%	-12.11%
1 Year Growth Industry	12.02%	-11.91%	7.10%	14.99%	8.85%	12.28%	21.49%	-1.31%	-8.35%
2 Year Growth Industry	-1.33%	-5.66%	23.15%	25.16%	22.22%	36.41%	19.90%	-9.55%	-12.11%

- Top 30 one year surplus growth is positive after a large negative development in 2008.
 - Top 30 was much larger proportion of the industry prior to 2006

2009 Top 30 Versus the Industry

- Loss Ratio chart is interesting. 2003 to 2007 industry loss ratios are lowest with the ratios at each end being a bit higher
- 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

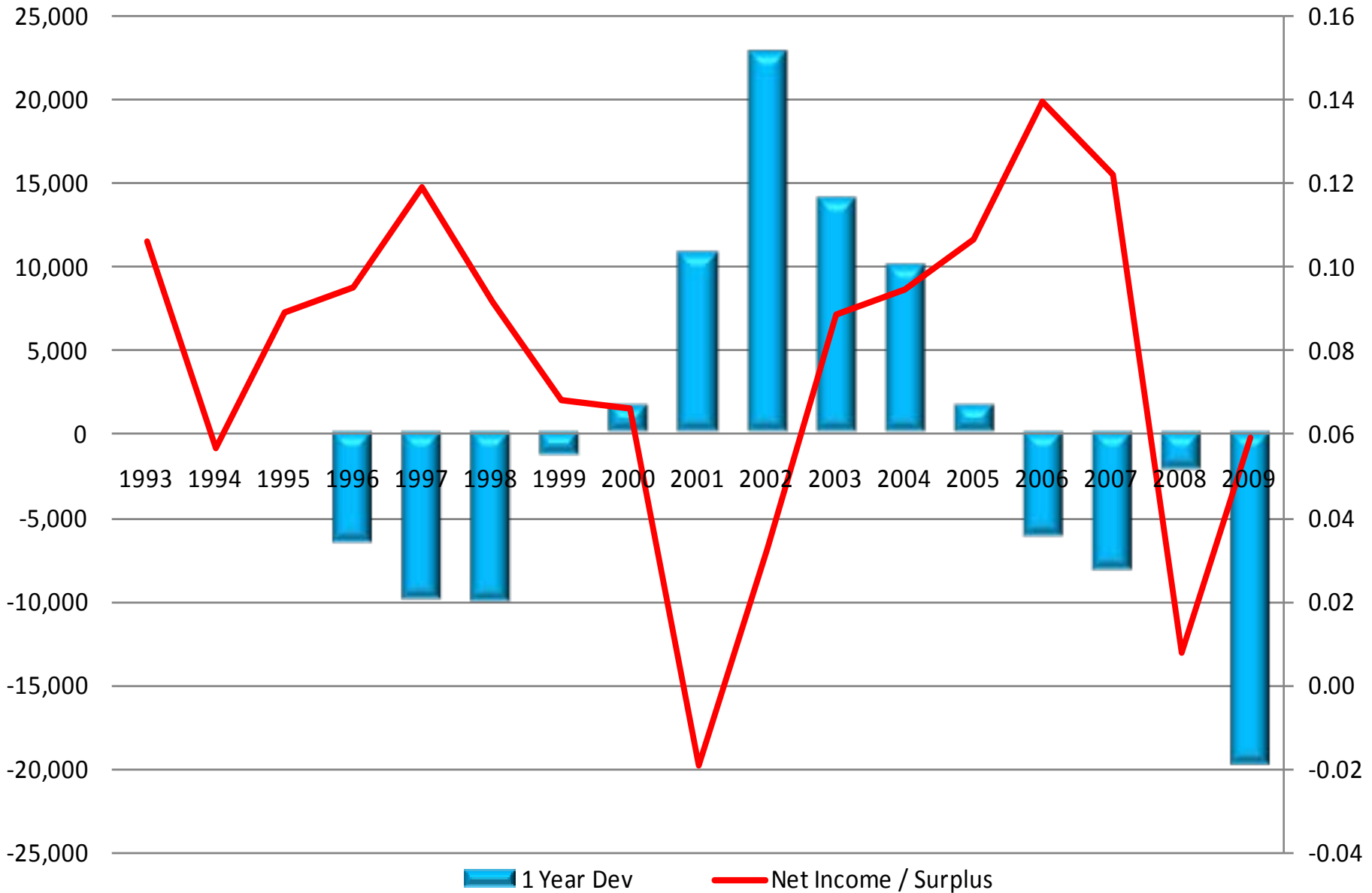
Percentage of Companies with + / - Loss Reserve Development



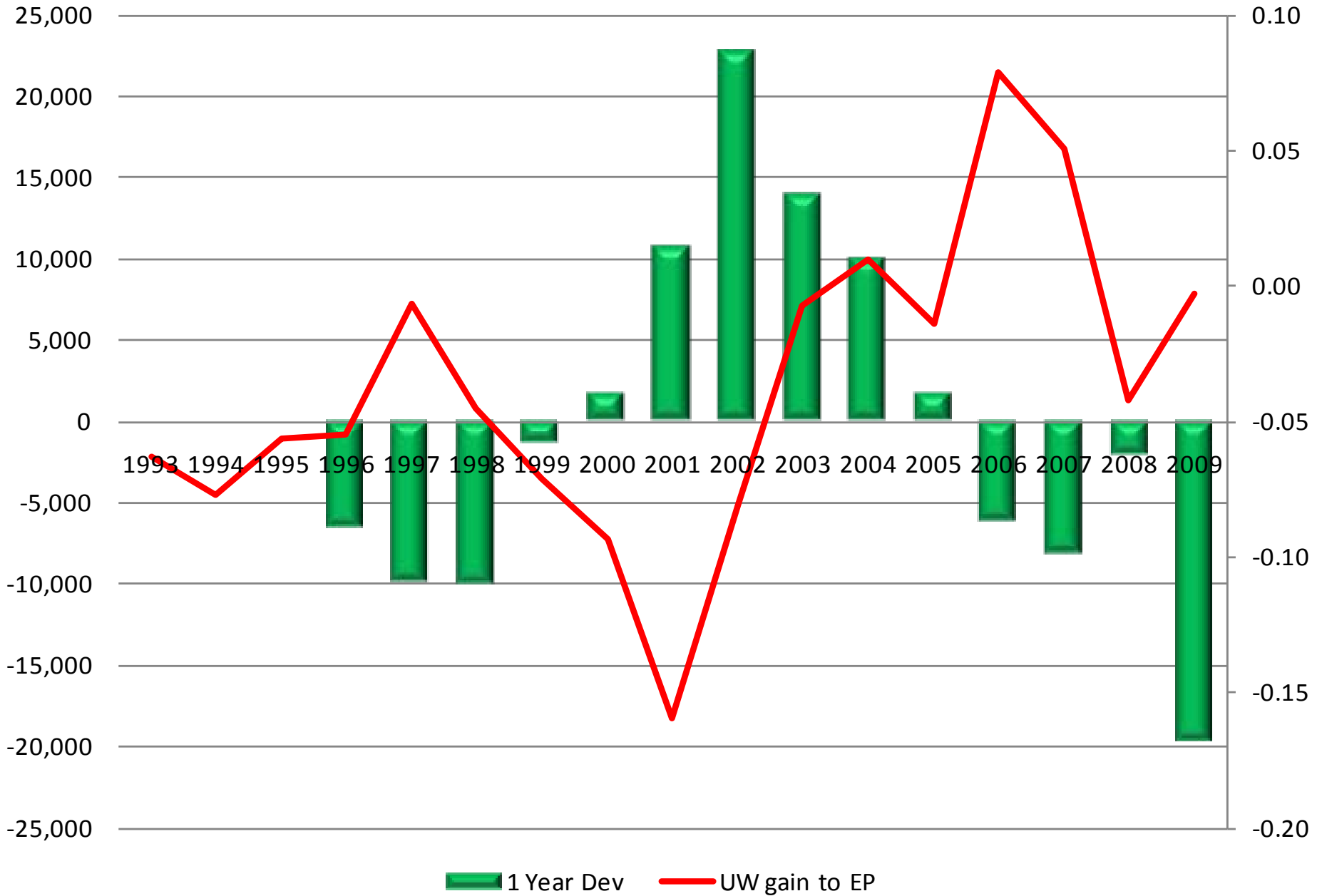
2009 Top 30 Versus the Industry

- 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



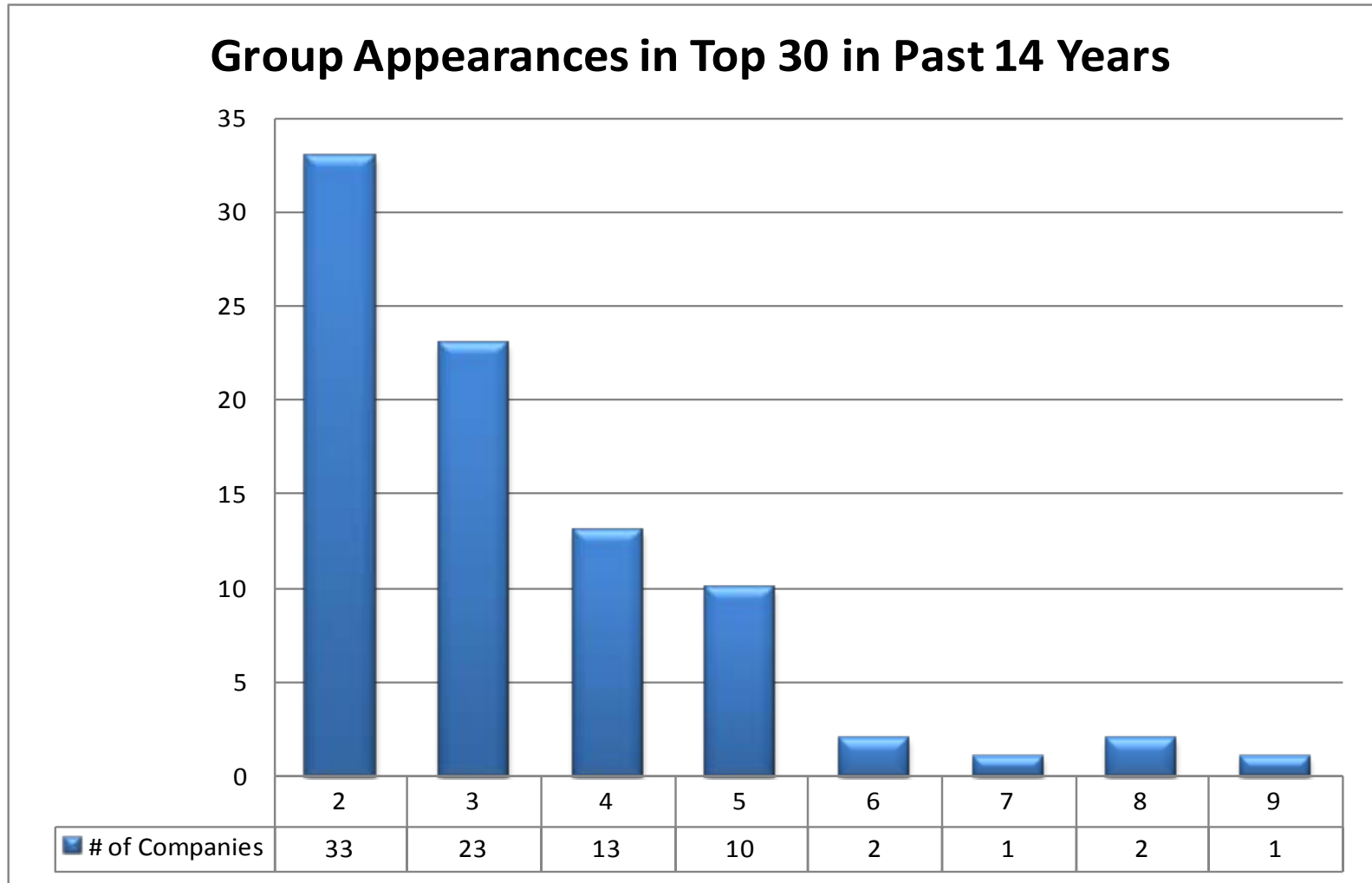
Conclusions

- 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

Repeat Offenders

- One year reserve development data was run for each of the past 14 years by group
- 224 individual groups have been guests on this list in the past 14 years
- With what frequency have specific groups been making this list?

Repeat Offender Graph #1



Repeat Offenders

- 14 groups appeared in the “Top 30” at least 5 times within the past 14 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 three of these company’s had increases in surplus between 2002 and 2009
 - 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)

14 Companies that appeared on the "Top 30" List 5 or more times in the last 14 years

Calendar

Year	Industry	All 14 Cos	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1999	339,926	56,488	8,546	7,266	8,813	1,653	871	1,192	2,169	6,925	607	2,479	2,670	1,678	11,621	492
2000	325,979	52,762	8,183	7,221	8,041	1,501	897	1,296	2,304	5,718	519	2,440	2,015	1,383	11,246	633
2001	298,774	48,485	6,089	8,160	7,598	1,429	965	1,312	2,381	5,804	411	1,782	1,456	1,578	9,521	721
2002	294,860	48,106	6,654	7,741	6,908	993	1,289	1,511	2,315	6,802	443	1,933	987	1,521	9,009	1,139
2003	358,221	56,484	6,206	8,532	8,552	843	1,922	1,733	3,047	9,117	474	2,833	213	2,106	10,908	1,637
2004	402,226	64,483	7,003	9,105	9,140	478	2,441	2,111	3,269	11,053	546	3,533	189	2,446	13,169	1,778
2005	437,817	70,386	6,927	9,475	10,029	260	2,966	2,345	3,660	11,860	489	4,204	194	3,380	14,597	1,859
2006	503,429	81,197	8,162	7,765	12,848	162	3,565	2,724	4,252	14,532	558	5,017	184	4,420	17,008	2,137
2007	539,152	85,872	8,613	7,203	13,579	262	3,670	2,907	4,904	15,930	607	5,771	162	5,308	16,958	2,048
2008	474,932	73,601	8,124	6,041	13,151	287	3,297	2,363	4,291	13,495	622	4,734	124	4,723	12,347	2,322
2009	531,999	81,521	9,703	6,851	11,729	491	3,833	2,811	4,989	14,310	667	6,204	19	5,193	14,723	2,194
Growth from 2002 to 2009	80.4%	69.5%	45.8%	-11.5%	69.8%	-50.5%	197.3%	86.0%	115.5%	110.4%	50.6%	220.9%	-98.0%	241.4%	63.4%	92.7%

Historical Underwriting Gain to Earned Premium

Net Underwriting Gain (Loss) to Earned Premium

14 Companies that appeared on the "Top 30" List 5 or more times in the last 14 years

Calendar

Year	Industry	1	2	3	4	5	6	7	8	9	10	12	13	14
1999	-7.1%	-20.5%	-16.3%	-9.0%	3.7%	-12.8%	-13.0%	-31.6%	-6.8%	-17.1%	-65.1%	-33.7%	-12.7%	-13.6%
2000	-9.3%	-11.8%	-24.6%	-14.0%	-12.1%	-8.7%	-9.1%	-32.2%	-4.9%	-42.4%	0.1%	-35.4%	-14.4%	-58.1%
2001	-15.9%	-57.4%	-36.7%	-9.9%	-47.1%	-18.4%	-16.3%	-38.9%	-22.4%	-37.3%	-51.8%	-15.8%	-23.0%	-64.7%
2002	-8.1%	-9.2%	-54.5%	-0.7%	-95.1%	0.6%	-1.5%	-12.9%	-0.9%	-21.6%	23.3%	-11.0%	-8.9%	-15.5%
2003	-0.7%	-55.0%	-19.7%	0.1%	-53.7%	7.4%	1.1%	-11.0%	-25.9%	-67.6%	32.4%	3.5%	-5.0%	-52.0%
2004	1.0%	-5.5%	-29.0%	-2.5%	-88.2%	8.2%	-0.5%	-7.9%	-1.4%	-64.7%	26.1%	-11.8%	-1.4%	9.6%
2005	-1.4%	-23.4%	-66.3%	-3.0%	-58.7%	8.7%	-15.3%	-23.5%	4.4%	-139.8%	22.6%	0.7%	-0.6%	-5.3%
2006	7.9%	-9.6%	-25.2%	4.9%	-42.3%	10.4%	5.2%	2.7%	2.4%	-116.2%	24.5%	13.1%	1.8%	17.8%
2007	5.1%	-11.1%	-32.1%	-0.3%	-13.0%	12.7%	5.7%	0.3%	7.0%	-33.1%	30.0%	12.3%	-0.9%	12.5%
2008	-4.2%	-15.0%	-9.0%	-7.5%	3.2%	8.1%	-4.8%	-6.4%	7.9%	-11.0%	1.4%	13.5%	-1.4%	11.6%
2009	-0.3%	-11.6%	-7.9%	-3.8%	9.2%	8.4%	10.9%	-4.2%	6.2%	4.3%	32.8%	8.8%	-3.2%	-9.6%

*** Hidden Company (#11) in Runoff and Ratio was Meaningless

Repeat Offender Underwriting Trends

- 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

14 Companies that appeared on the "Top 30" List 5 or more times in the last 14 years

Calendar														
Year	Industry	1	2	3	4	5	6	7	8	9	10	12	13	14
1999	15.7%	21.1%	26.0%	15.3%	19.2%	20.5%	23.6%	20.8%	14.4%	25.2%	16.8%	24.0%	25.5%	26.3%
2000	18.2%	30.7%	20.7%	20.9%	25.9%	20.9%	23.0%	20.6%	25.0%	30.3%	24.1%	30.5%	23.2%	9.5%
2001	15.7%	27.5%	20.1%	11.7%	18.8%	17.2%	19.2%	14.5%	17.9%	8.0%	14.2%	13.7%	27.3%	17.4%
2002	14.9%	23.8%	34.3%	9.4%	21.3%	16.7%	13.7%	25.6%	75.9%	12.9%	-0.1%	8.1%	29.5%	12.1%
2003	13.3%	28.6%	0.9%	12.3%	19.6%	14.1%	14.9%	30.2%	25.1%	19.0%	5.7%	14.0%	22.0%	9.3%
2004	12.7%	25.6%	11.1%	14.5%	58.8%	12.7%	17.9%	19.5%	12.9%	11.3%	6.3%	19.4%	19.1%	7.9%
2005	14.6%	32.9%	11.2%	11.3%	87.4%	11.9%	16.1%	17.3%	15.8%	12.9%	6.0%	14.2%	18.5%	8.9%
2006	11.6%	21.8%	-3.5%	10.0%	111.8%	13.1%	15.1%	27.3%	11.7%	9.3%	6.3%	13.2%	15.1%	8.4%
2007	12.4%	19.4%	15.3%	10.0%	119.0%	14.5%	24.6%	14.0%	11.6%	12.1%	7.9%	15.3%	16.3%	12.8%
2008	7.0%	11.3%	11.7%	9.8%	28.9%	7.1%	5.9%	42.2%	4.8%	1.6%	-5.9%	7.2%	20.6%	8.5%
2009	8.0%	10.1%	14.6%	6.1%	43.3%	8.0%	9.7%	12.6%	6.2%	2.0%	4.2%	14.4%	13.0%	9.6%
Change from														
2006 to 2007	6.6%	-11.2%	-538.7%	0.0%	6.4%	10.8%	63.1%	-48.8%	-0.6%	30.2%	24.9%	15.9%	8.4%	51.8%
2007 to 2008	-43.7%	-41.7%	-24.1%	-2.4%	-75.7%	-51.4%	-76.1%	202.2%	-58.4%	-86.9%	-174.7%	-53.0%	26.5%	-33.5%
2008 to 2009	14.5%	-10.2%	25.3%	-37.5%	49.8%	13.1%	65.3%	-70.1%	29.6%	24.4%	-170.4%	100.0%	-36.8%	13.1%

*** Hidden Company (#11) in Runoff and Ratio was Meaningless

Historical Net Income to Surplus

Net Income to Surplus

14 Companies that appeared on the "Top 30" List 5 or more times in the last 14 years

Calendar

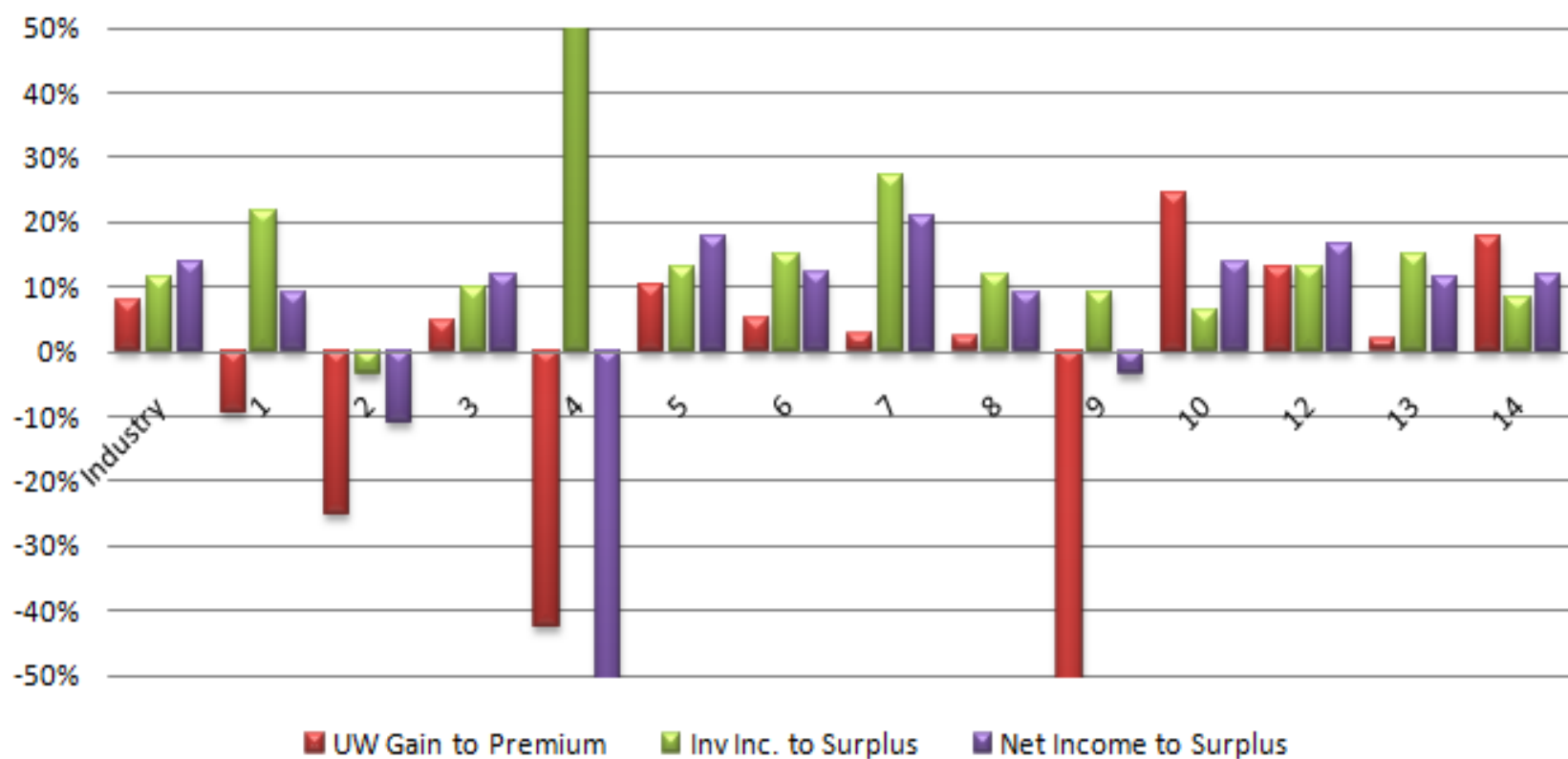
Year	Industry	1	2	3	4	5	6	7	8	9	10	12	13	14
1999	6.8%	3.8%	10.2%	6.1%	11.6%	-3.7%	9.1%	-10.3%	6.1%	-1.2%	-10.5%	-16.8%	7.5%	17.9%
2000	6.6%	14.4%	3.0%	5.4%	10.8%	6.0%	14.0%	-2.5%	19.4%	-8.7%	18.6%	-3.5%	5.0%	-17.0%
2001	-1.9%	-25.2%	-1.1%	-0.5%	-8.2%	-13.5%	7.2%	-16.7%	-0.9%	-72.6%	-10.1%	4.9%	-3.8%	-11.5%
2002	3.3%	11.8%	6.4%	5.7%	-36.6%	13.1%	5.0%	4.3%	68.7%	-20.2%	12.1%	-12.5%	9.6%	9.6%
2003	8.8%	-25.3%	-12.2%	12.4%	-37.8%	15.3%	10.7%	13.1%	0.6%	-54.9%	23.9%	18.3%	9.8%	-11.1%
2004	9.5%	10.1%	-4.8%	8.1%	-81.6%	16.2%	8.9%	6.5%	9.7%	-7.2%	15.7%	-1.6%	12.1%	11.1%
2005	10.7%	8.0%	-10.2%	4.6%	-84.6%	15.6%	-0.1%	-4.6%	14.7%	-8.5%	14.4%	10.7%	14.1%	3.2%
2006	14.0%	9.0%	-11.1%	11.8%	-93.6%	17.7%	12.1%	20.9%	9.0%	-3.4%	13.6%	16.7%	11.6%	11.9%
2007	12.2%	7.1%	4.3%	8.3%	64.0%	20.9%	23.7%	9.1%	11.7%	5.2%	16.5%	17.1%	11.1%	11.7%
2008	0.8%	-0.5%	6.7%	4.2%	21.1%	11.6%	3.6%	32.5%	3.6%	-3.1%	-11.8%	9.3%	12.9%	8.0%
2009	5.8%	1.8%	11.1%	3.5%	27.4%	10.9%	15.2%	6.9%	6.3%	4.0%	16.7%	14.1%	6.3%	2.8%

*** Hidden Company (#11) in Runoff and Ratio was Meaningless

Repeat Offender Profitability Trends

- All but 1 company had reductions in investment gain as a percentage of surplus from 2007 to 2008. This includes the industry
- Industry net income was 5.8% of Surplus in 2009
 - 3 of the 13 repeat offenders shown had negative net income in 2008
 - Of those 3, only one had negative underwriting gain and negative investment income
 - In 2009, all 13 repeat offenders showed positive net income

Profitability Measure by Company - 2006



Profitability Measure by Company - 2009



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	239,643,162	251,363,575	11,720,413
2002	238,003,074	239,867,346	1,864,272
2003	252,863,068	235,773,136	-17,089,932
2004	270,181,585	242,797,686	-27,383,899
2005	287,105,157	264,508,981	-22,596,176
2006	267,595,463	252,561,065	-15,034,398
2007	287,678,180	278,177,376	-9,500,804
2008	326,380,859	324,924,124	-1,456,735
2009	294,543,688	294,543,688	0
Totals	2,675,736,218	2,619,103,716	-56,632,502

- 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

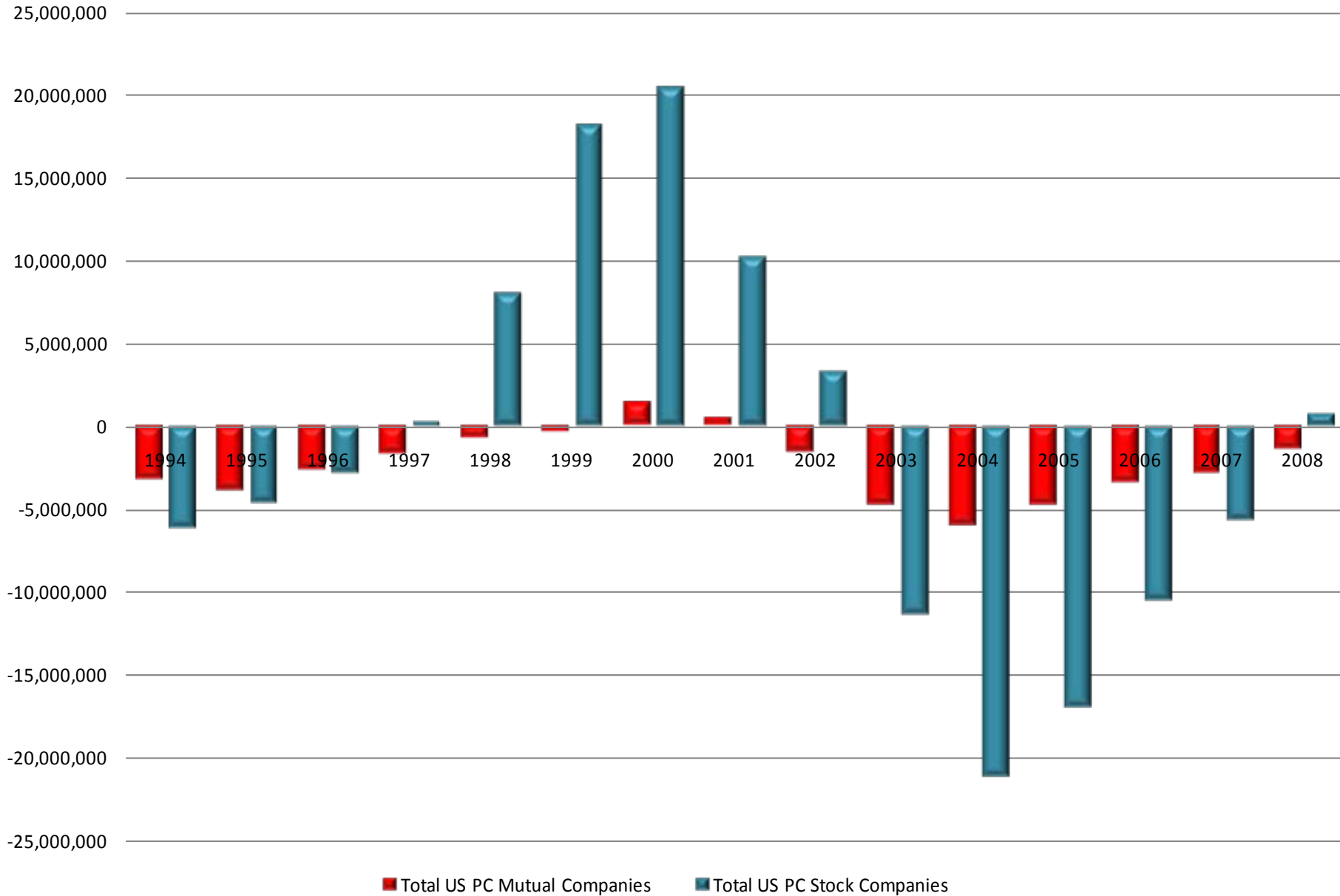
Original V Mature Reserve Development (000's)



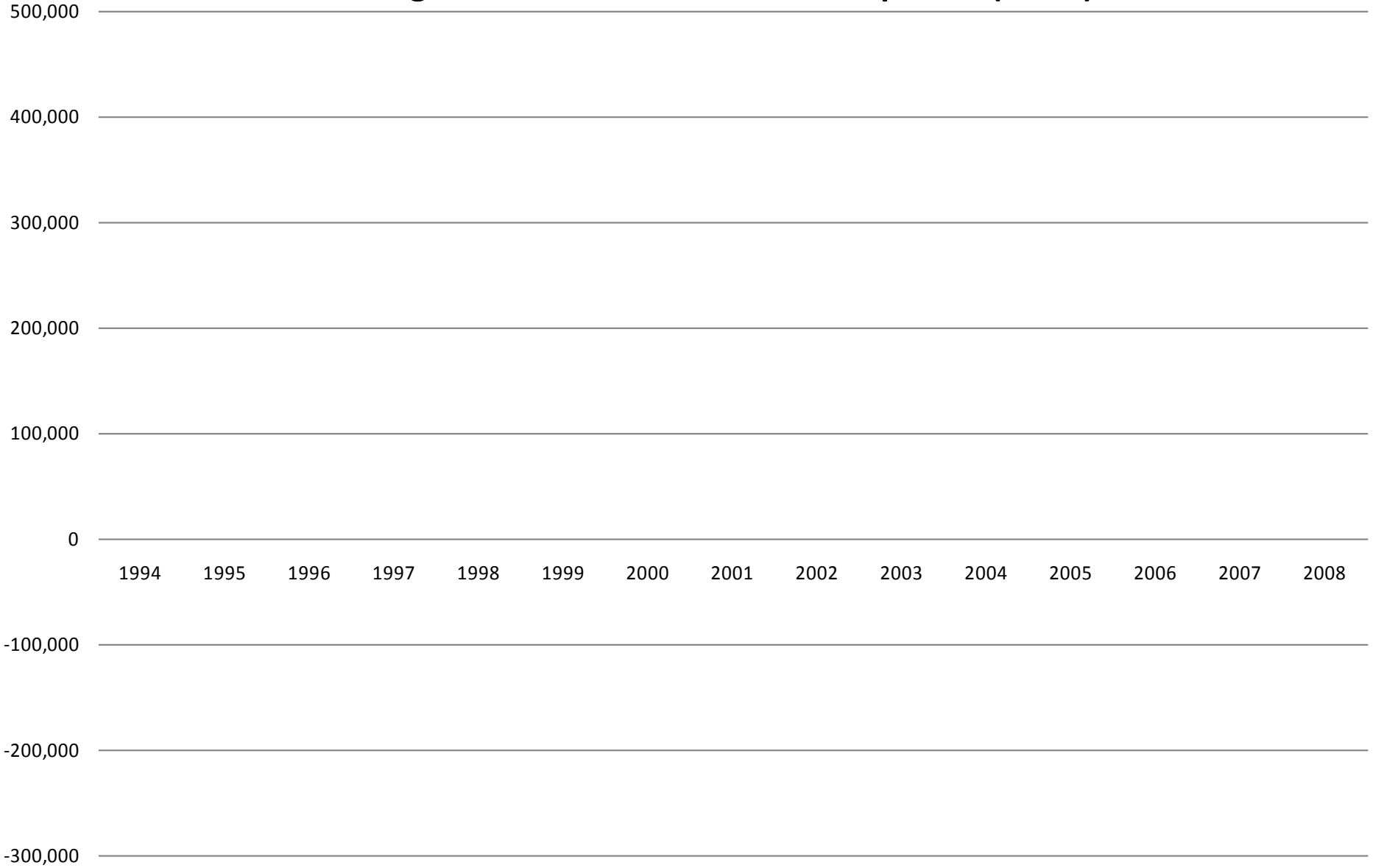
* Total US PC Industry

Stock V Mutual Insurer - By Accident Year

Original V Mature Reserve Development (000's)



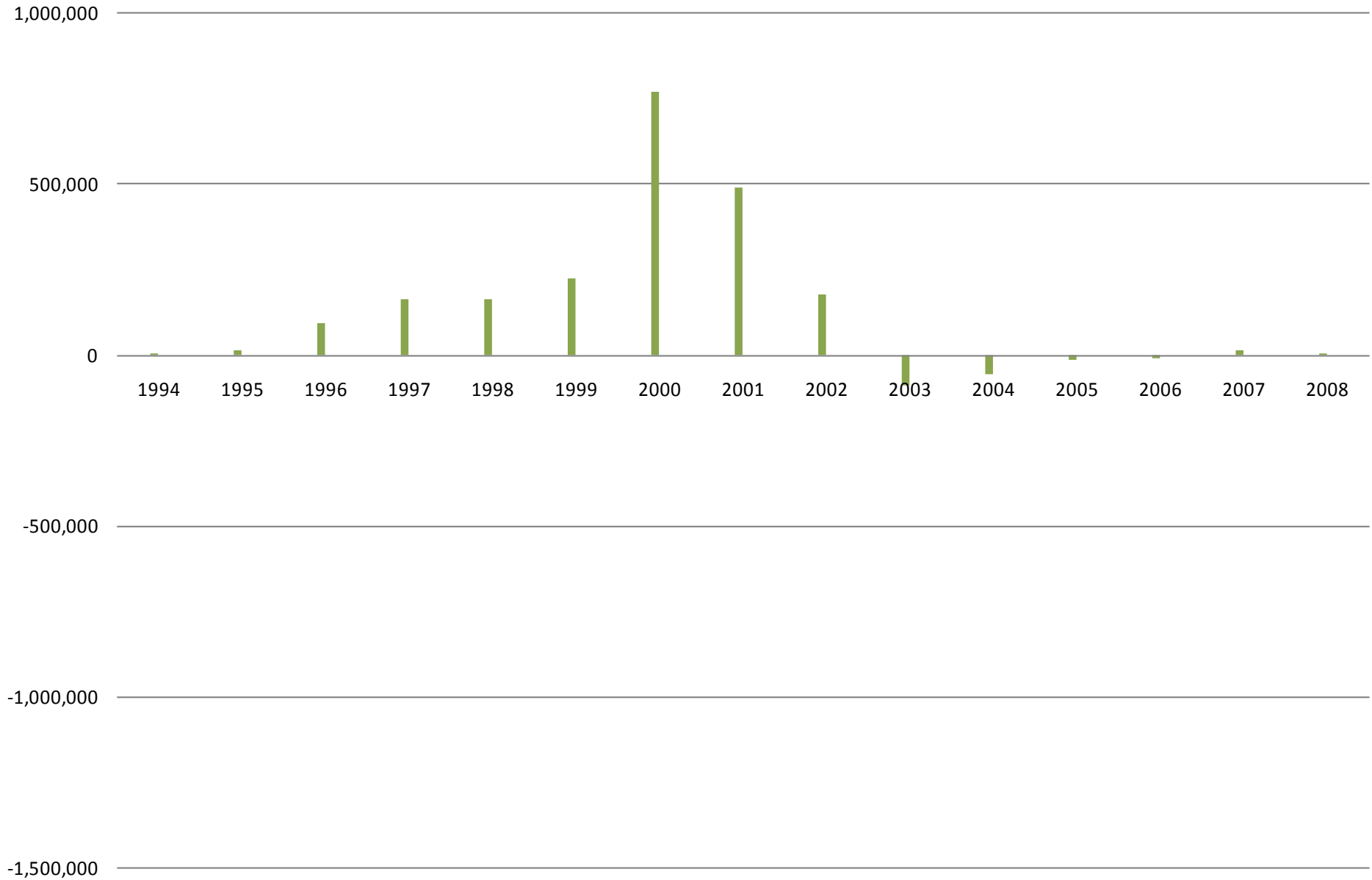
Repeat Offender by AY- Original V Mature Reserve Development (000's)



Original V Mature Reserve Development

Repeat Offenders by AY

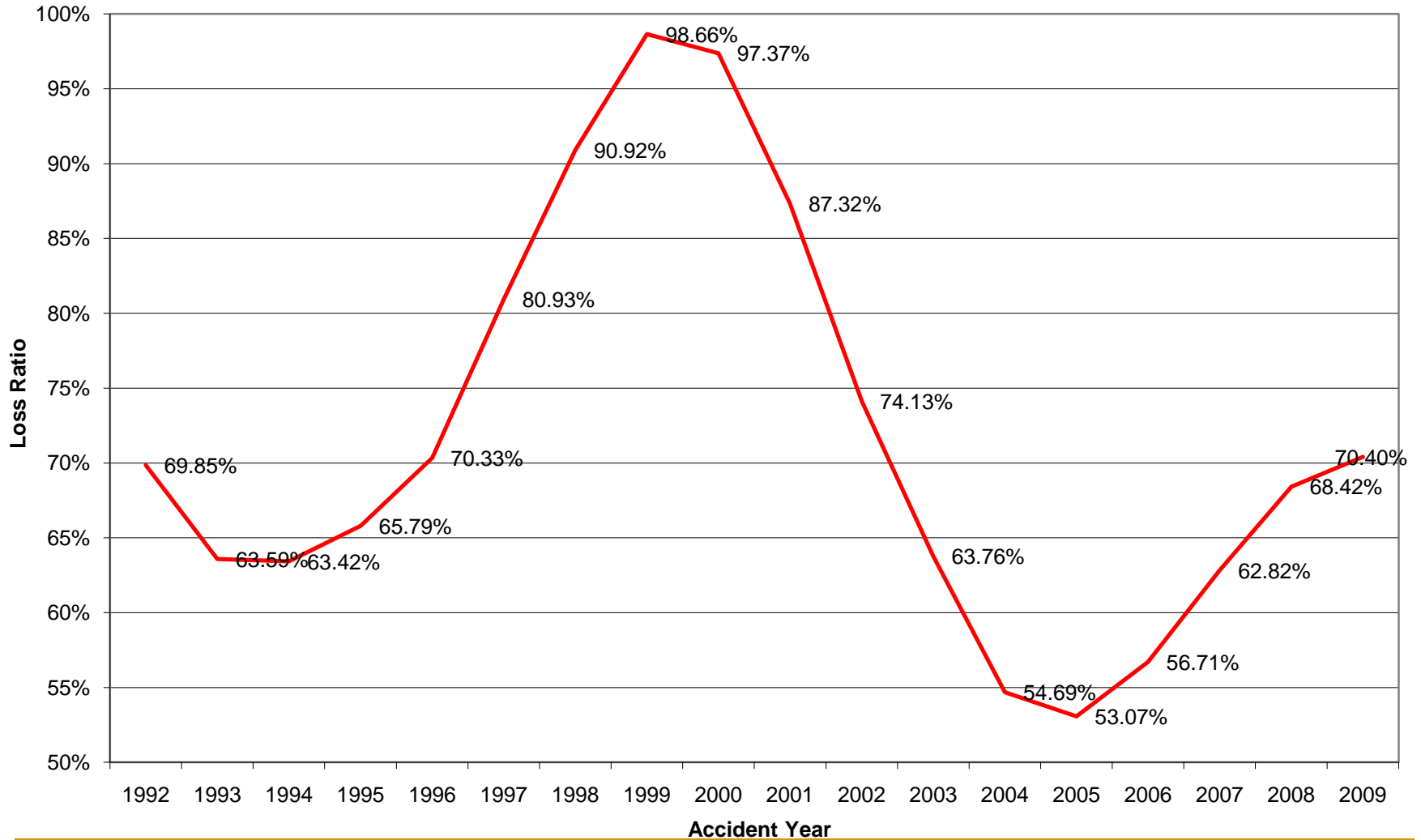
Original V Mature Reserve Development



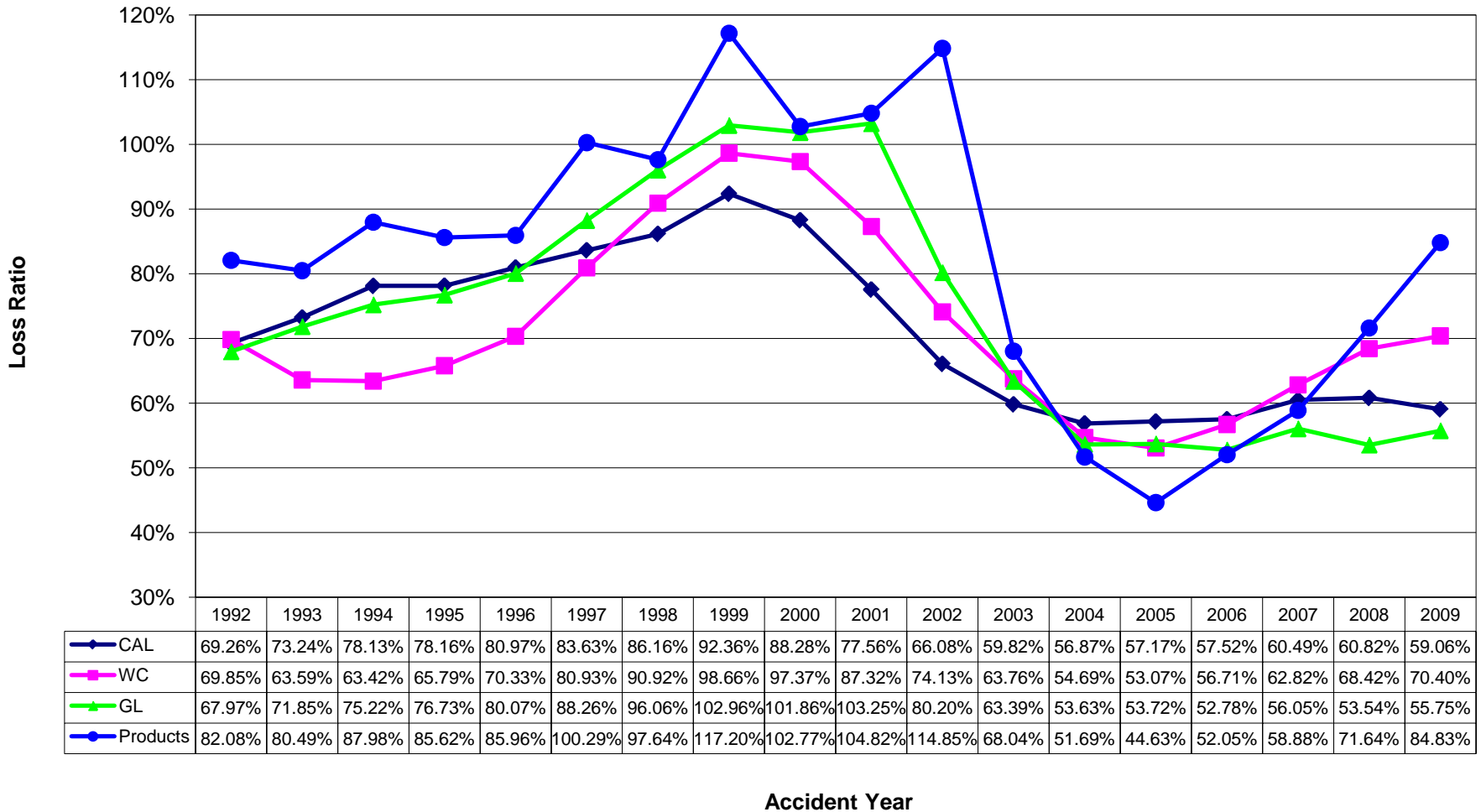
Industry Snapshot – Loss Ratios Observations

- Based upon internal analysis of industry-wide schedule P data
- Loss development assumptions based upon data evaluated as of 12/31/2009

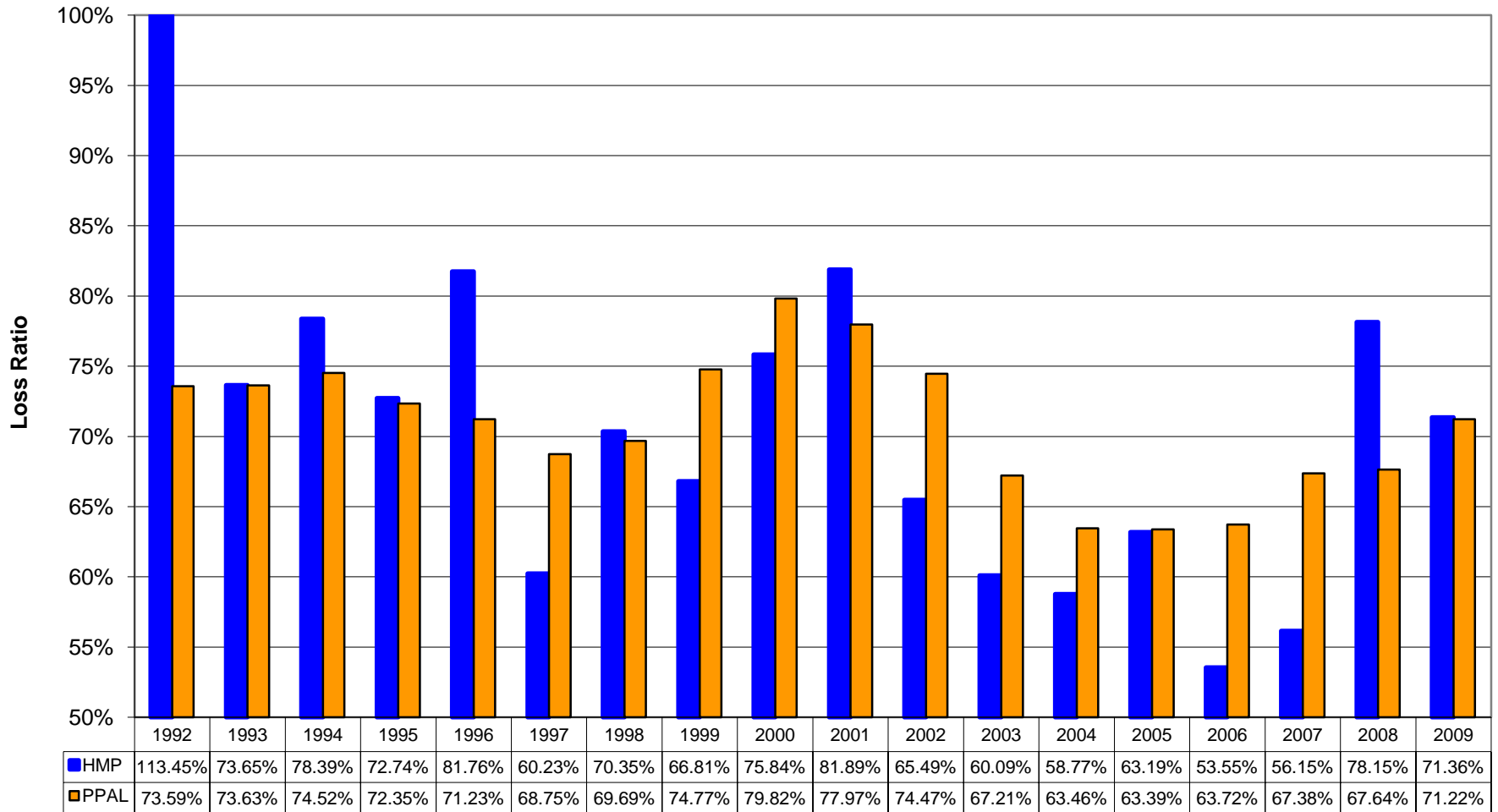
Workers Compensation Insurance Industry Loss Ratios



Aggregate Insurance Industry Loss Ratios thru 2009 Commercial Casualty Coverages



HMP & PPAL Insurance Industry Loss Ratios



Accident Year

Underwriting Cycle

- WC shows an uptick in loss ratios in four 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