SNL Insurance

2015 US P&C Insurance Market Report

REPORT BY:
Tim Zawacki, Terry Leone,
Katie Darden *(editor)*
Robin Flynn *(director of research)*

DESIGN BY: Cat Weeks

All data as of June 25, 2015.

Executive summary

- The environment for U.S. property and casualty insurers will become increasingly challenging — and is without recent parallel based on a review of 10 years of data. Softer commercial lines pricing, stagnant investment income in a low-for-long interest rate environment and expectations for lower levels of reserve releases may place pressure on underwriting margins.

- The P&C industry's statutory combined ratio rose slightly in 2014 from 2013's historically favorable levels and is projected to slowly rise in the coming years as premium growth lags increases in incurred losses.

- Pressures associated with low interest rates and the amount of time it will likely take for reinvestment to occur once rates do rise should discourage carriers from pursuing a return to late-1990s-style cash-flow underwriting in the near- to-intermediate term, despite increasingly high levels of capitalization.

- Market conditions and outlook vary by line of business. While forecasts for slow, but steady, growth in U.S. gross domestic product, housing starts and non-farm payrolls are expected to push premiums higher in some commercial lines of business, factors such as abundant reinsurance capacity and recent strong underwriting margins are likely to drive them lower in some commercial and personal lines. A recent acceleration in consolidation adds another variable to the mix.

Data source and comments

Data for SNL's 2015 U.S. P&C Insurance Market Report is sourced from SNL's statutory insurance data as filed with state insurance regulators by individual entities.

The results referenced in the report reflect certain material adjustments to SNL's P&C Industry aggregation and are subject to future revision. They have largely been generated from disclosures on the Insurance Expense Exhibits of annual statements.

One SNL Plaza, P.O. Box 2124, Charlottesville, VA 22902 Phone: 434.977.1600
News fax: 434.293.0407 www.snl.com

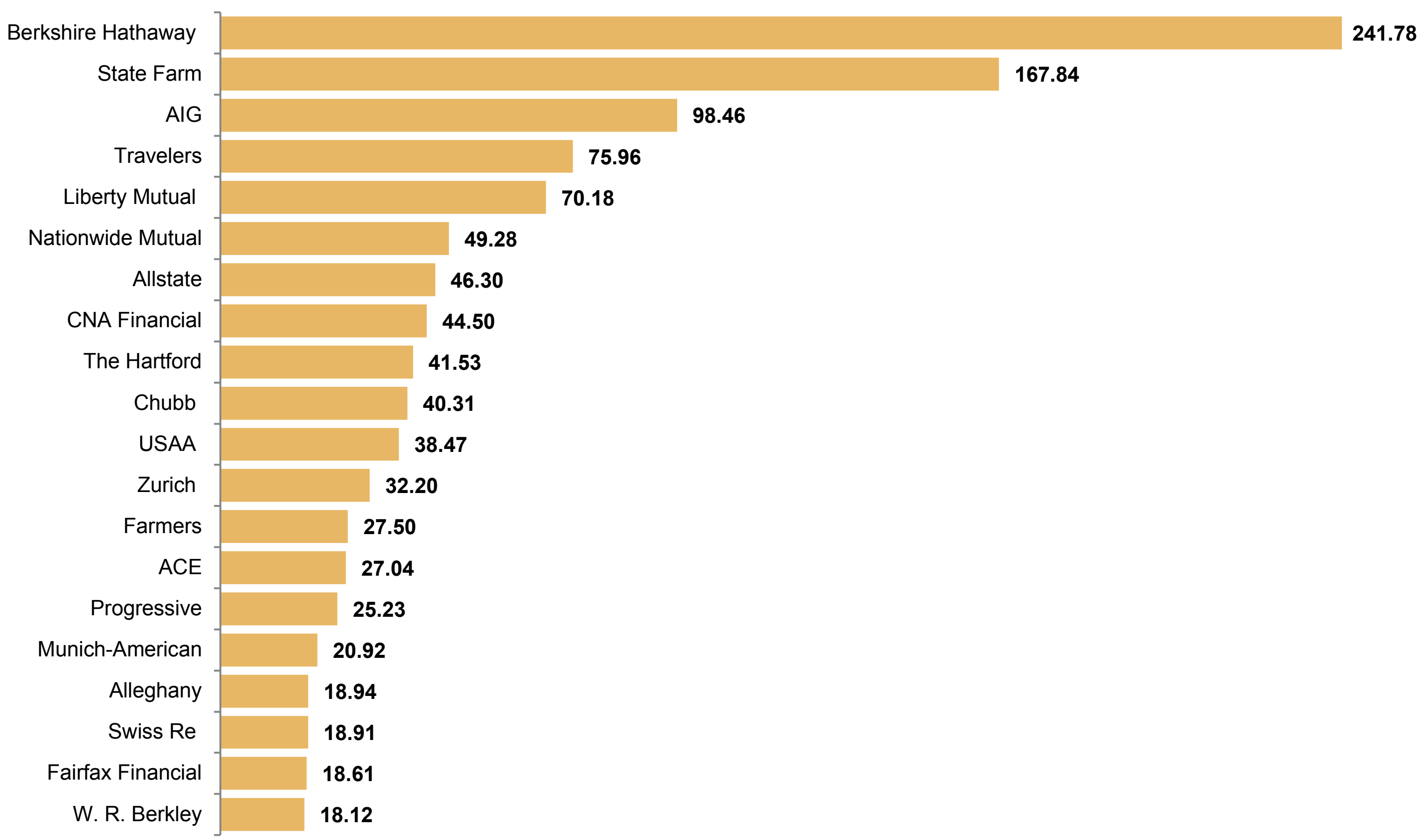
Defining the industry

The results and outlook discussed in this report are largely based upon SNL's P&C industry aggregates with certain noteworthy exceptions.

SNL currently tracks nearly 2,700 individual, U.S.-domiciled P&C entities that file annual statements with the NAIC on P&C statement blanks. Many of those companies comprise the approximately 334 P&C groups consolidated by SNL; another 867 are covered as standalone entities. Companies that do not file annual statements with the NAIC, including numerous U.S.-domiciled captives, are excluded.

The 20 largest groups by Dec. 31, 2014, asset size accounted for nearly 63% of the P&C industry's total assets. The five largest groups, which accounted for more than 36% of the industry's total assets, include a diverse array of companies in terms of ownership structure and business focus: Berkshire Hathaway, a conglomeration of private-passenger auto, reinsurance, specialty commercial and medical malpractice businesses that arguably is better known as an institutional investor than an insurer; the group led by personal lines powerhouse State Farm Mutual Automobile Insurance Co.; the publicly held American International Group Inc. and Travelers Cos. Inc.; and Liberty Mutual, a collection of personal and commercial lines insurers organized

Top 20 US P&C groups by Dec. 31, 2014, net total assets ($B)



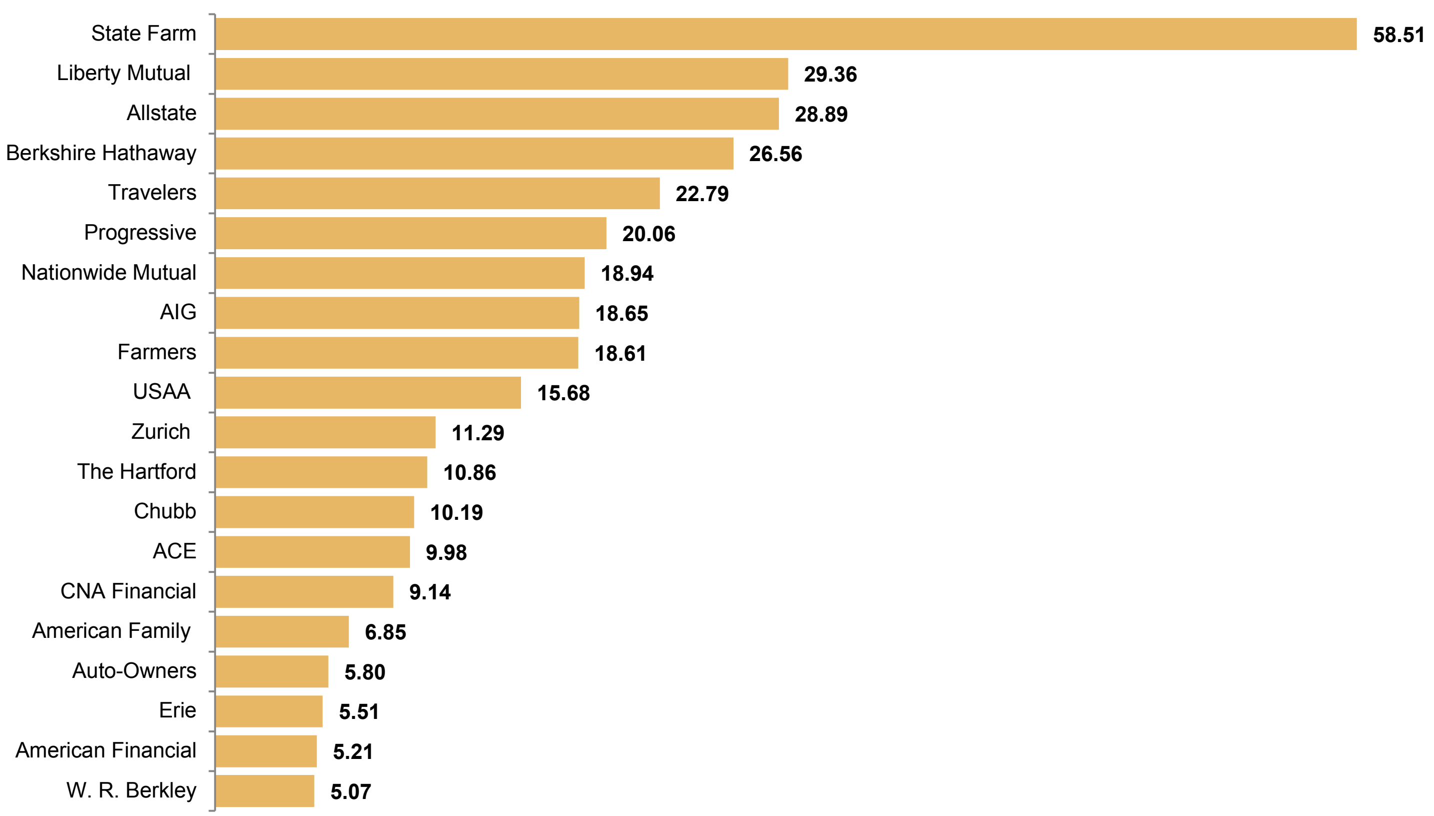
in a mutual holding company structure. The combination of ACE Ltd. and Chubb Corp., as proposed by an acquisition announced July 1, would result in the No. 6 U.S. P&C group by pro forma asset size.

SNL's coverage includes select state funds and residual markets, including the likes of California's State Compensation Insurance Fund and Florida's Citizens Property Insurance Corp., in addition to private entities. In light of the unique purpose of these entities and the select nature of SNL's coverage, entities deemed by SNL to be state funds or residual markets are extracted from the P&C industry aggregates for the purposes of this report. State Fund, which serves as both the market of last resort and a competitive presence in the California workers' compensation market, was the 17th-largest P&C group or unaffiliated entity by Dec. 31, 2014, asset size.

Another key adjustment is the exclusion of results attributable to AIG's AIU Insurance Co. An intercompany transaction that occurred in 2013 resulted in the transfer of AIU's Japanese business to a Japan-based entity.

While transactions involving the transfer of business housed within a U.S.-domiciled entity that files annual statements with the NAIC to another affiliated or unaffiliated entity outside of the scope of coverage are not uncommon, the manner in which AIU accounted for the transaction had an outsized impact on certain key financial measures in 2013 and greatly distorted from overall growth trends in certain business lines.

Top 20 US P&C groups by 2014Y direct premiums written ($B)



NOTABLE EXCLUSIONS

State Compensation Insurance Fund (Calif.)

State Insurance Fund- Workers' Comp (N.Y)

Citizens Property Insurance Corp. (Fla.)

Louisiana Citizens Property Insurance Corp.

Texas Mutual Insurance

California Earthquake Authority

Pinnacol Assurance (Col.)

Texas Windstorm Insurance Association

SAIF Corp. (Ore.)

CompSource Mutual Insurance Co. (Okla.)

State Workers' Insurance Fund (Pa.)

Chesapeake Employers' Insurance Co. (Md.)

Idaho State Insurance Fund

Workers Compensation Fund (Utah)

MCIC Vermont

AIU Insurance Co. (AIG)

The results and outlook in this report include results attributable to financial guaranty and mortgage guaranty companies, which file their results on P&C statement blanks. Though these insurers represent only a small portion of the overall industry's assets and premium writings, they had a disproportionate impact on certain income statement items during and after the financial crisis as the sectors' business models and solvency came into question.

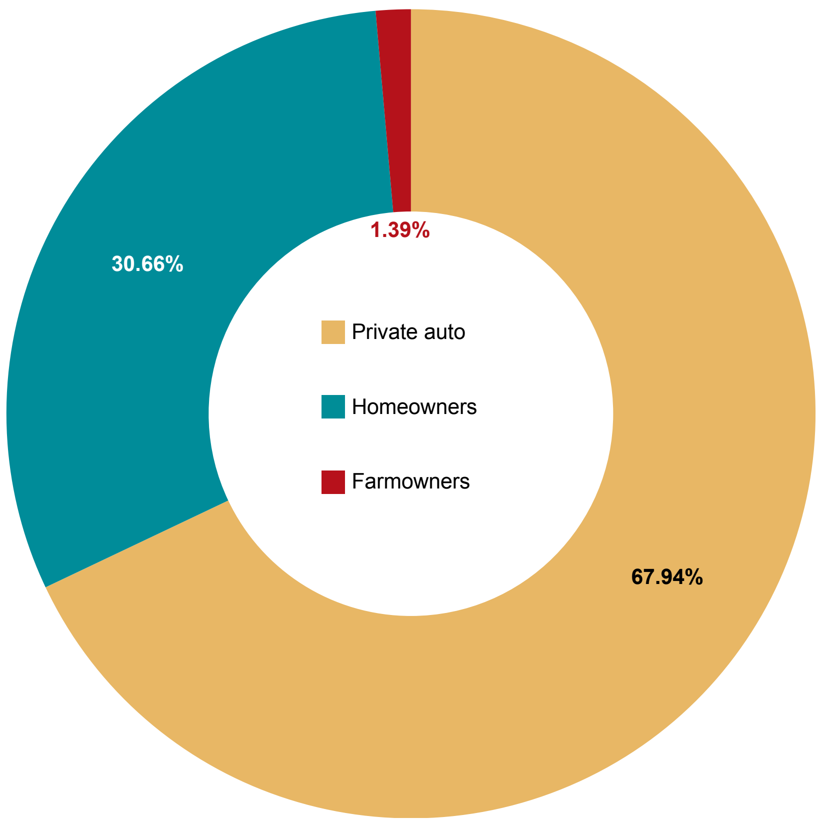
Several unusual transactions approved by regulators also served to greatly distort income statements in past years. Many analyses of P&C industry results, including several published previously by SNL, have specifically excluded these businesses in an attempt to remove the associated noise. That has been accomplished either by backing out data attributable to groups deemed to be primarily engaged in financial and/or mortgage guaranty or by extracting financial and mortgage guaranty business from industry aggregates.

This review and outlook includes results attributable to these business lines and groups in an attempt to provide a view as to the manner in which they affected industry aggregates in past years and, also, in anticipation of further normalization of their results in the years to come.

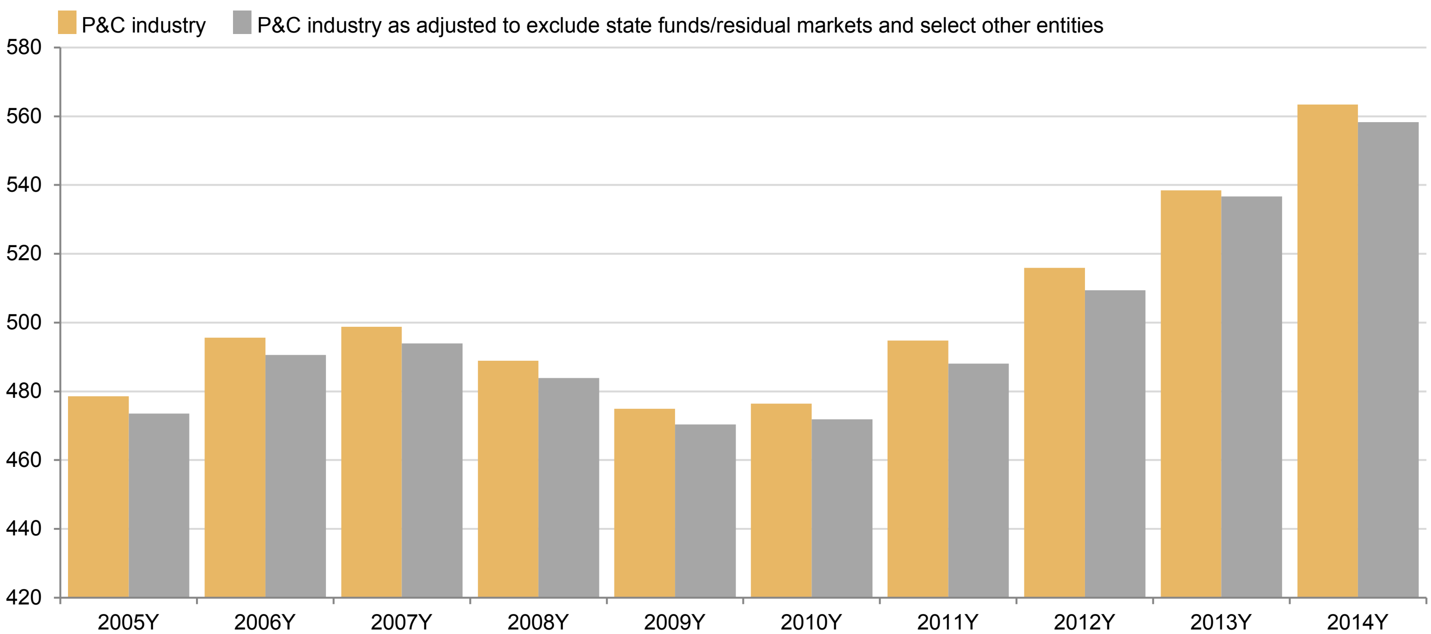
The mortgage guaranty business, in particular, appears poised to return to premium growth after several years of contraction; the financial guaranty business, devoid of the AAA financial strength ratings that were at the heart of companies' pre-crisis business strategies, continue to struggle to assert their relevance in a low-interest rate environment.

This report does not eliminate historical results associated with State Farm's personal lines business in Canada, which the group sold Jan. 1, 2015, to Desjardins Group. Unlike AIU, where the majority of the legal entity's business was moved outside the scope of SNL's purview, State Farm's Canadian homeowners and private auto businesses had been written through legal entities that have generated the vast majority of their annual premiums from the United States. While the outlook accounts for the disappearance of more than $1.7 billion in annual direct premiums written, the business cannot be neatly extracted from historical results without making assumption about allocations of incurred losses and expenses.

2014Y personal lines direct premiums written



Annual direct premiums written ($B)

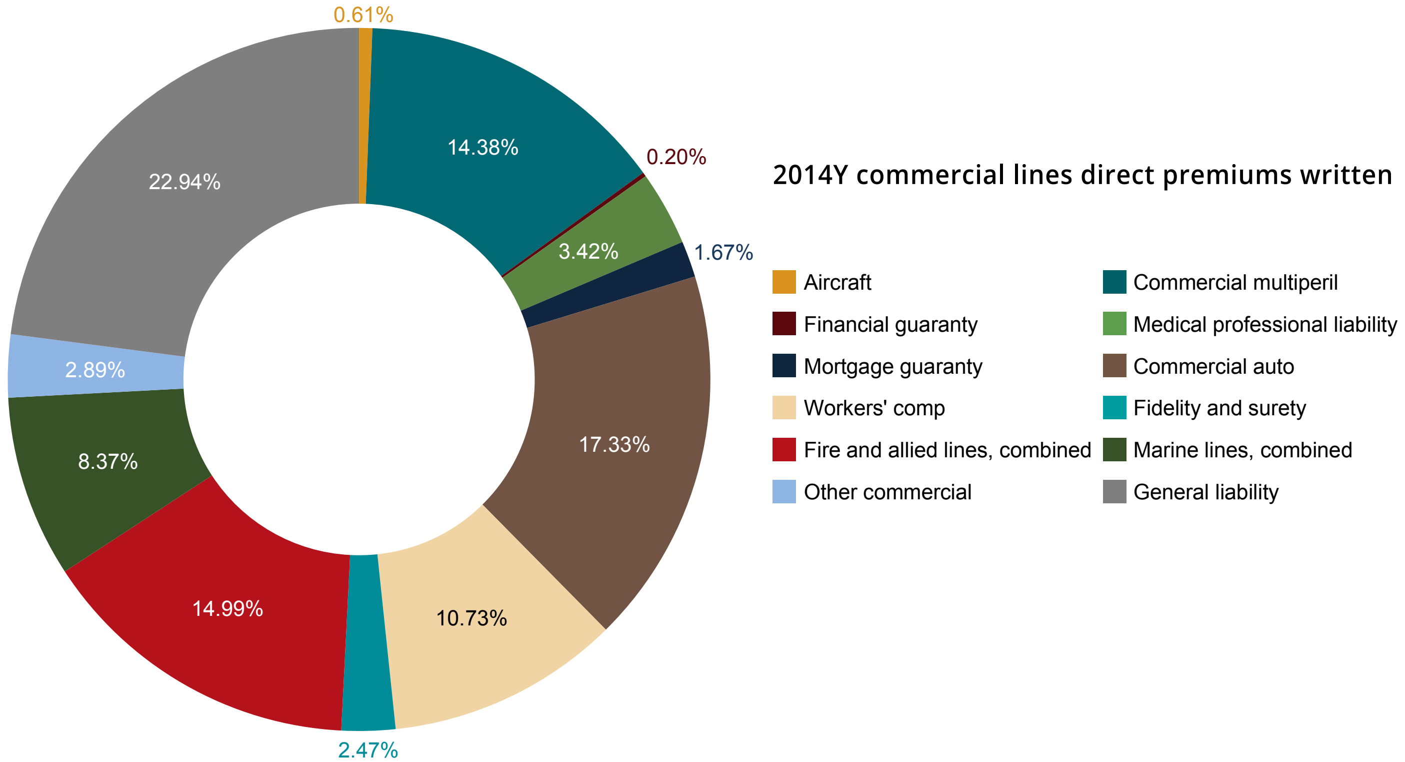


In deriving the P&C industry review and outlook, SNL performed a bottom-up analysis of individual business lines, applying the previously discussed exclusions, to arrive at personal lines, commercial lines and industry-level results.

The personal lines and commercial lines rollups are consistent with those utilized across SNL's insurance products. The industry-level results include the sum of the personal lines and commercial lines data, plus results associated with accident-and-health business, including lines such as disability, medical, dental, accidental death and dismemberment, long-term care and Medicare supplement, written by P&C companies. Accident-and-health results as they are discussed in those report are aggregated across business lines and client types.

Personal lines includes homeowners, farmowners and private-passenger auto, including private-passenger auto physical damage, other private-passenger auto liability and private-passenger auto no-fault. The selected commercial lines of business include a combination of individual lines and SNL's consolidation of related lines. The individual lines selected are as follows: aircraft, financial guaranty, mortgage guaranty, medical malpractice and workers' comp.

The SNL line of business consolidations are as follows: commercial auto (liability, physical damage and no-fault), commercial multiperil (liability and non-liability), fidelity and surety, fire and allied lines (fire, allied lines, earthquake, federal flood, multiperil crop and private crop), marine (inland and ocean), general liability (other liability-claims made, other liability-occurrence and product liability), combined nonproportional reinsurance (including assumed business in the



property, liability and financial lines) and other commercial (boiler and machinery, burglary and theft, credit and other P&C lines of business as reported on state pages of annual statements and warranty).

SNL consolidations are employed in cases where the businesses are closely related, do not have a material impact on overall commercial lines results or both. One notable exception to that practice is the separation of the financial and mortgage guaranty business lines, given various extraordinary results in post-crisis years impacting select bond insurers and the diverging near-term outlooks for the business lines.

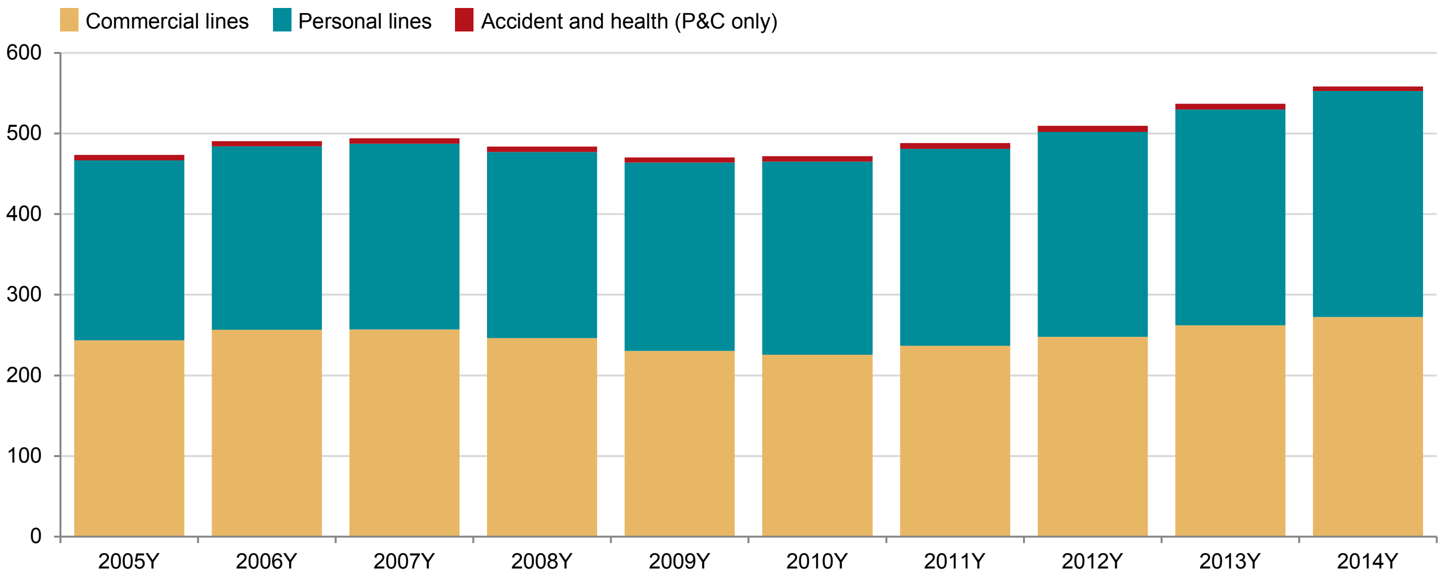
Results for all business lines are generally derived from Parts II and III of the Insurance Expense Exhibit for calendar years 2004 through 2014. Part II of the exhibit provides an allocation of premiums, losses, expenses, reserves and profits to individual business lines net of reinsurance; Part III performs a similar function as it pertains to direct business written.

Select balance sheet and income statement items come from the key annual statement pages. Reserve development statistics reflect disclosures on Schedule P, Part 2 of annual statements.

SNL's goal is to illustrate the manner in which individual business lines contributed to overall P&C industry results from an historical perspective and to construct a means of projecting future results based on the varying manners in which macro and micro factors interact to affect growth rates, losses and expenses.

Direct premiums written, major lines ($B)

	2005Y	2006Y	2007Y	2008Y	2009Y	2010Y	2011Y	2012Y	2013Y	2014Y
Accident and health (P&C only)	6.91	6.55	6.66	6.72	6.53	6.92	7.30	7.29	7.01	5.75
Personal lines	223.08	227.53	230.21	230.71	233.66	239.37	244.14	254.12	267.37	280.14
Commercial lines	243.53	256.47	257.07	246.43	230.19	225.55	236.65	247.94	262.28	272.36
Total	473.52	490.56	493.94	483.87	470.38	471.84	488.09	509.35	536.66	558.25



Business lines

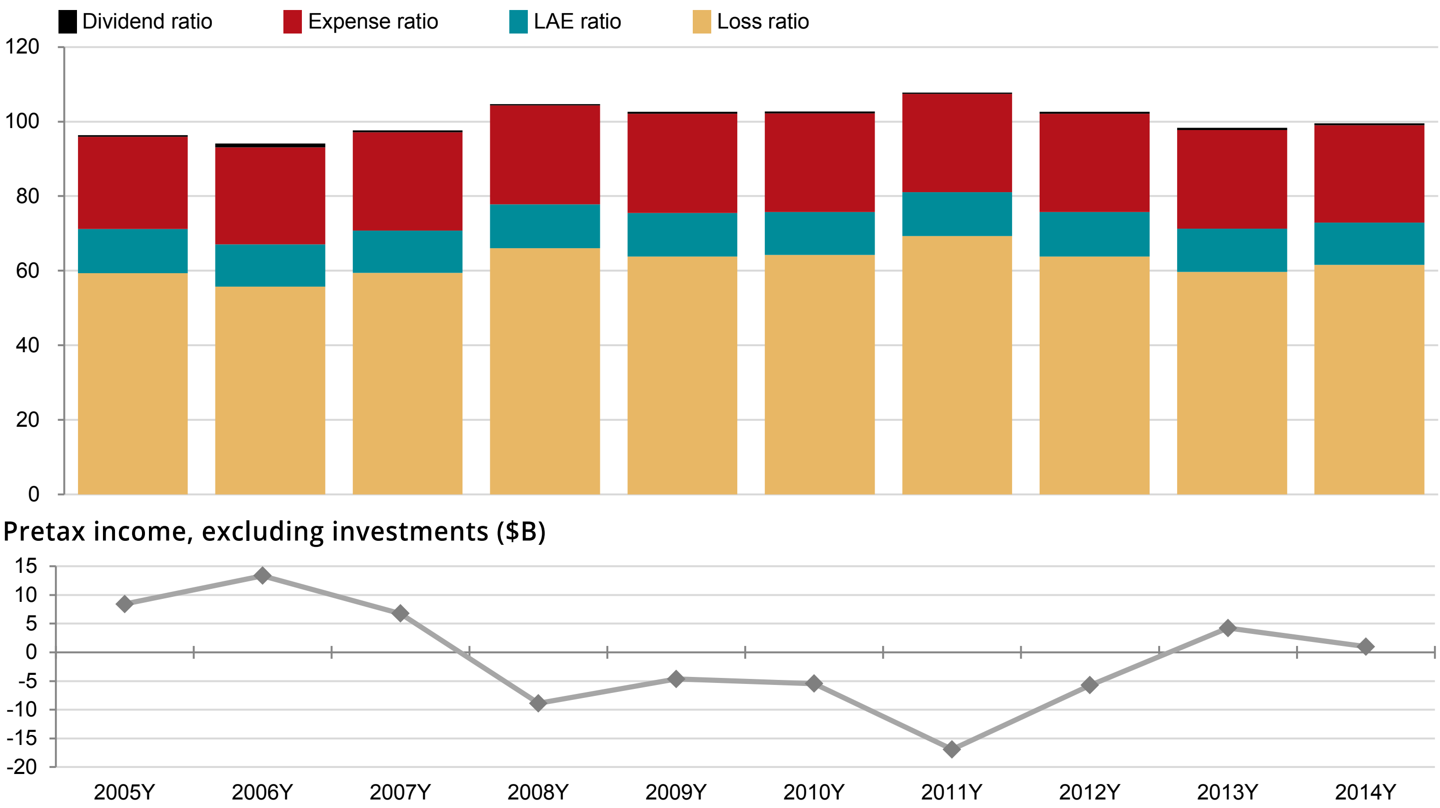
Personal lines review

The U.S. personal lines sector, which includes the homeowners multiperil, private-passenger auto physical damage, other private-passenger auto liability, private-passenger auto no-fault and farmowners multiperil lines, produced a second consecutive year of underwriting profitability in 2014 for the first time since 2007.

SNL calculates underwriting profitability by business line, using disclosures on Part II of the Insurance Expense Exhibit, as the sum of pretax income, excluding investments, and policyholder dividends paid, less other income net of expenses. Combined ratios reflect the sum of policyholder dividends, net incurred losses, defense-and-cost-containment expenses incurred and adjusting and other expenses incurred as a percentage of net premiums earned plus the sum of commission and brokerage, taxes, licenses and fees, other acquisition expenses and general expenses as a percentage of net premiums written.

Though the private auto lines on a combined basis accounted for almost 68% of the sector's 2014 direct premiums written, the volatile homeowners business has had as much — or more — to say about its overall profitability in recent years. That was especially true in both 2013 and 2014 as surging underwriting profits in the homeowners line offset underwriting losses in private auto.

Personal lines combined ratio (%)



HOMEOWNERS

A combination of relatively modest catastrophe losses and the cumulative effect of several years of rate increases helped the homeowners line remain profitable from an underwriting perspective in 2014.

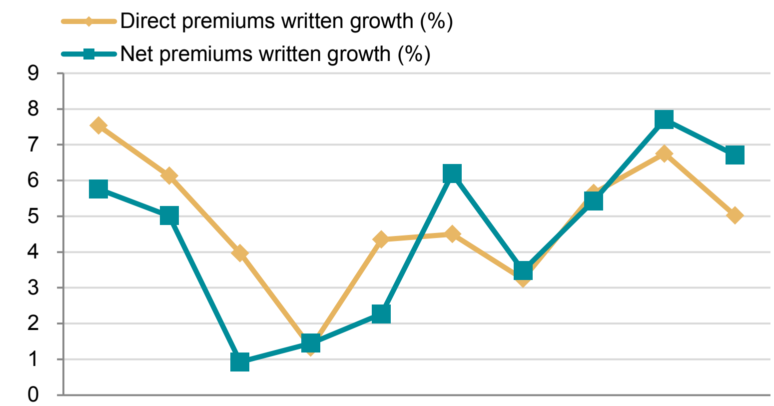
Munich Re and the Insurance Information Institute put 2014 U.S. insured losses from natural disasters at $15.3 billion, according to a January presentation, down from an average annual loss of $29 billion between 2000 and 2013 (in 2014 dollars), but up from $12.9 billion in 2013.

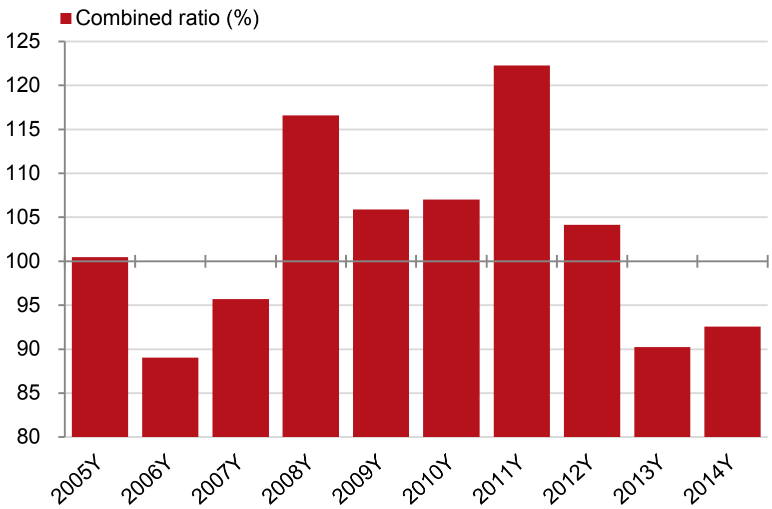
SNL's RateFilings.com group reports that approved rates for homeowners business, excluding condominium and renters coverage, increased by 3.2% in 2014. Approved rate changes equaled or exceeded 5.8% on an annual basis from 2010 through 2013.

The homeowners combined ratio of 92.6% in 2014 marked an increase from 90.2% in 2013, and pretax income attributable to the line, prior to investments, of $4.81 billion represented a decrease from $6.33 billion in 2013. But the continued profitability represents a welcome respite for a business line that generated a cumulative pretax loss of $33.85 billion between 2008 and 2012.

All five of the largest writers of homeowners business at the group level based on 2014 direct premiums written — State Farm, Allstate, Liberty Mutual, Farmers and USAA — produced combined ratios in that line of less than 90% in 2014.

Allstate's homeowners combined ratio totaled 80.3%, for example. The group had employed a series of corrective actions over a period of several years, including a reduction in areas highly exposed to hurricanes and earthquakes and implementing rate increases at levels in excess of loss-cost inflation, to improve returns in the homeowners business after the line's combined ratio exceeded 100% for four straight years through 2011.





Largest writers	DPW ($M)	DPW growth (%)
State Farm	17,631.83	3.27
Allstate	7,712.42	3.82
Liberty Mutual	5,712.72	9.09
Farmers	5,292.67	2.42
USAA	4,696.93	8.52

PRIVATE AUTO

Despite steadily increasing levels of premium growth, underwriting profitability proved elusive in the private auto business line in 2014 for a seventh consecutive year.

Direct and net premiums written increased by 4.7% and 4.8%, respectively, but net losses incurred climbed by 7.2% and other underwriting expenses rose 3%, offsetting the 4.3% rise in net premiums earned. The 2014 combined ratio of 102.5% for the business line marked a new high for at least the past 10 years and represented an increase from 101.6% in 2013.

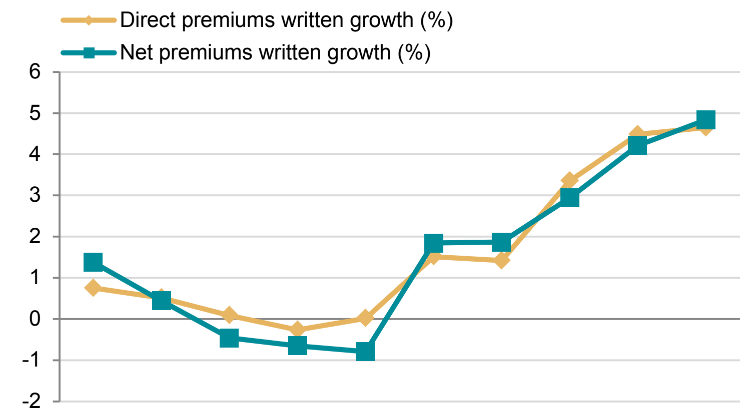
Unlike in the homeowners business, underwriting margins have not been particularly volatile on a year-over-year basis during the past decade. The private auto combined ratio increased or decreased by less than 2.7 percentage points in every one of the past 10 years whereas the annual change has exceeded 2.7 percentage points eight times during that stretch for the homeowners business.

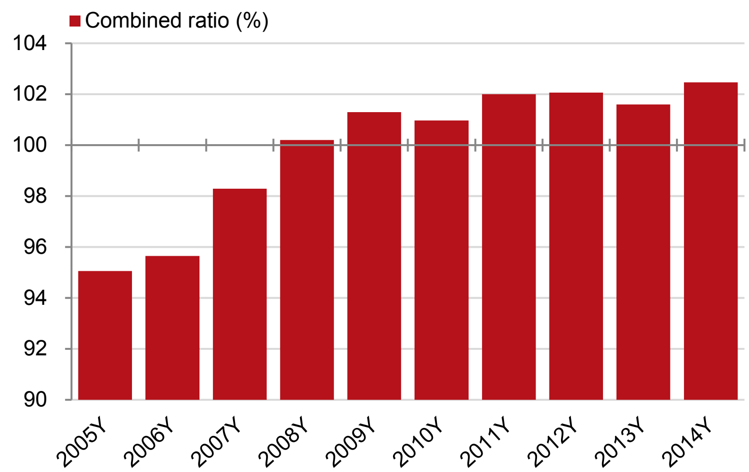
A loss ratio of slightly less than 65% in 2014 was the highest for the private auto line during the scope of this analysis, surpassing the previous high of 64.7% in 2011. For physical damage and liability, the loss ratios were 65.1% and 64.9%, respectively.

SNL's RateFilings.com reports that approved rates for private auto business, excluding motorcycle and recreational vehicle coverage, increased by 2.5% in 2014. Approved rate changes totaled 2.7% in the aggregate in 2013.

Higher losses and expenses led State Farm, the nation's largest private auto writer, to produce a 2014 combined ratio of 109.1% in the business line — a worst-since-2002 result for the group. State Farm's private auto combined ratio in 2013 was 106.9%.

Allstate, Progressive and Berkshire Hathaway, whose private auto business largely comes from the GEICO companies, all had mid-90% combined ratios in the line with mixed results from a directional perspective.





Largest writers	DPW ($M)	DPW growth (%)
State Farm	35,589.29	5.89
Berkshire Hathaway	20,520.19	10.19
Allstate	19,000.66	5.17
Progressive	16,566.93	7.77
USAA	9,843.32	7.37

FARMOWNERS

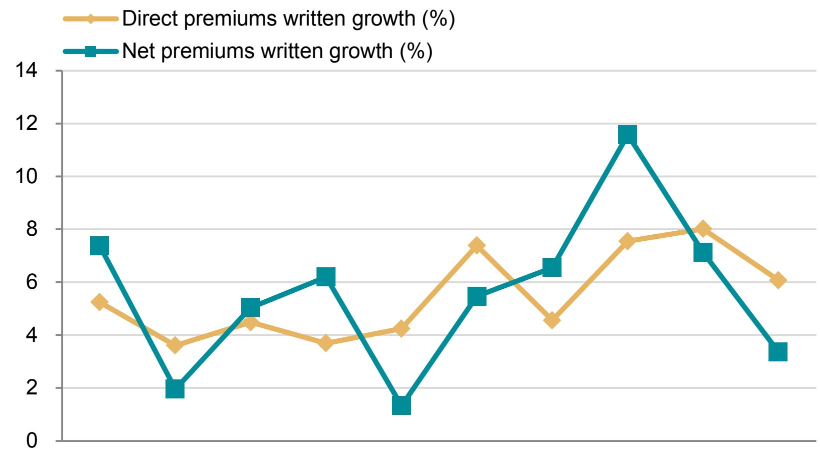
The modest increase in catastrophe losses, which contributed to higher net incurred losses in the homeowners business in 2014, also helped cause a bump in the combined ratio in the farmowners line. But despite an increase of nearly 2.6 percentage points, the combined ratio remained comfortably below the 100% threshold for a third consecutive year.

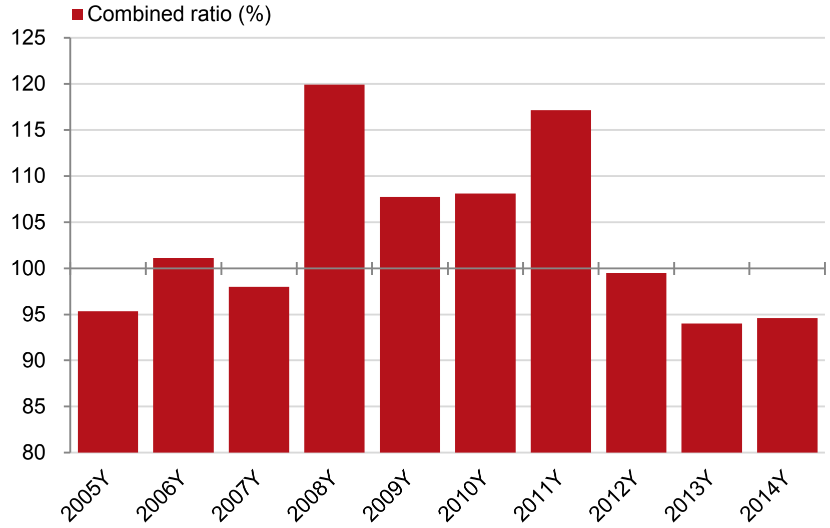
The farmowners combined ratio of 94% in 2013 marked the most favorable result for the business line since 2004.

A combination of growth in net premiums earned of 7.9% and a 4.3% decline in other underwriting expenses incurred helped offset growth in net losses incurred of nearly 14%.

Farmowners is the lone business line within the scope of this analysis to have experienced growth in net premiums written and earned in each of the past 10 years.

Farmowners is the smallest business line in the personal lines sector, so its overall contribution to industry results has been relatively insignificant.





Largest writers	DPW ($M)	DPW growth (%)
Nationwide Mutual	404.69	12.54
Farm Bureau P&C	305.35	9.17
State Farm	261.14	12.28
Travelers	165.38	-1.07
COUNTRY Financial	144.74	3.63

Commercial lines review

Historical results for the U.S. commercial lines business vary to a significant degree depending upon the lens through which one chooses to view the sector.

The performance of the financial and mortgage guaranty lines during and after the financial crisis took a toll on the sector's overall results. That impact lessened considerably in 2013 and 2014, but trends associated with the two lines may not be indicative of those affecting the majority of the commercial lines space.

In 2008, for instance, the commercial lines combined ratio including financial and mortgage guaranty business was 105.6%. Without them, it was 97.2%. The difference was less than 0.8 percentage point in 2014.

The rate of growth in premiums slowed in 2014 relative to the three previous years as talk continued to emerge about softer pricing, particularly in property-related business lines. Excluding financial and mortgage guaranty, net premiums written grew by 2.8% in 2014 as compared with 4.3% in 2013. Net premiums earned growth of 3.1% declined from the 4% rate of expansion in 2013. Growth in direct premiums written remained well above net premium, though the rate of expansion in that measure also slipped less than 4% in 2014 from 5.8% in 2013. In each case, the 2014 growth rates were the sector's lowest since written and earned premiums declined on a year-over-year basis in 2010.

In addition to pricing, macroeconomic factors, such as growth in U.S. gross domestic product, nonfarm payrolls and housing starts, helped drive the post-crisis rebound in premium writings given their historical correlation to the expansion of business lines such as general liability and workers' comp.

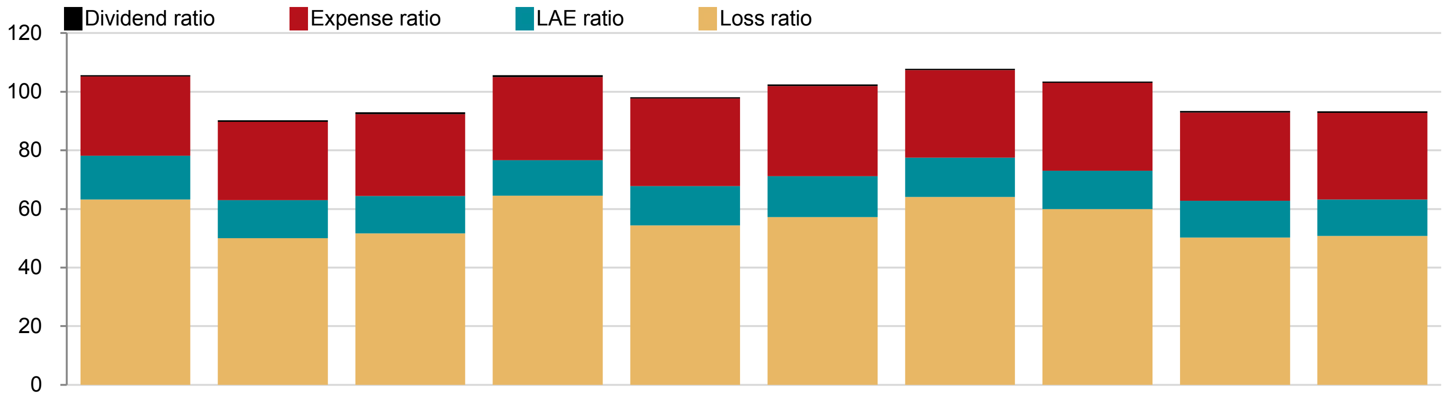
Underwriting results improved on a year-over-year basis in 2014 for a third consecutive year, fueled by the marine, fire and allied lines, other and product liability, or general liability, businesses, as well as lower other underwriting expenses incurred.

Despite pressure on pricing, the commercial lines sector's combined ratio of 94.1%, excluding financial and mortgage guaranty business, represented improvement of approximately 0.4 percentage point on a year-over-year basis and it amounted to the sector's best result in a calendar year since 2007. Modest improvement in the expense ratio to its lowest level since 2008 more than offset slight deterioration in the loss and LAE ratio.

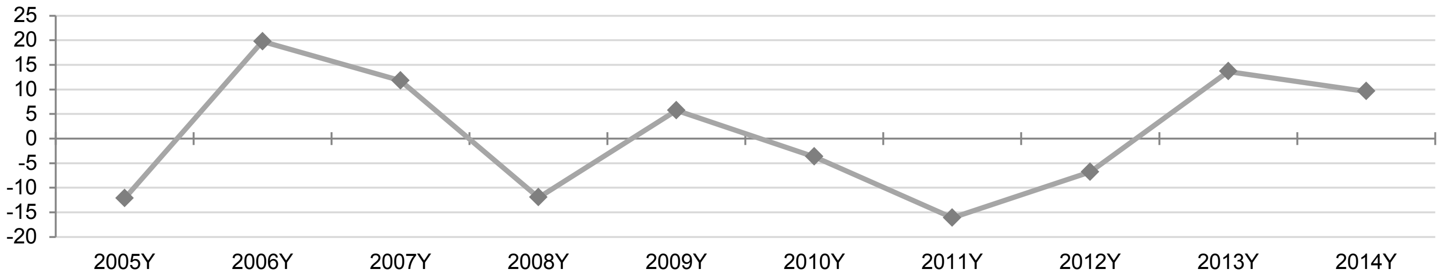
The primary business lines that comprise commercial lines have shown favorable prior-accident-year reserve development in each of the past eight calendar years, according to a review of disclosures on Schedule P of annual statements. After a deceleration in the amount of reserve development between calendar years 2011 and 2012, it accelerated in 2013 and 2014 when excluding the financial and mortgage guaranty lines as well as the various excluded companies and state funds. Auto physical damage as it is reported on Schedule P is also excluded as the line includes both private-passenger auto and commercial auto business.

Assumed property and liability business in nonproportional reinsurance was largely responsible for the sector's higher level of prior-year development in 2014. Favorable development for all prior accident years topped $1 billion in both lines during the calendar year.

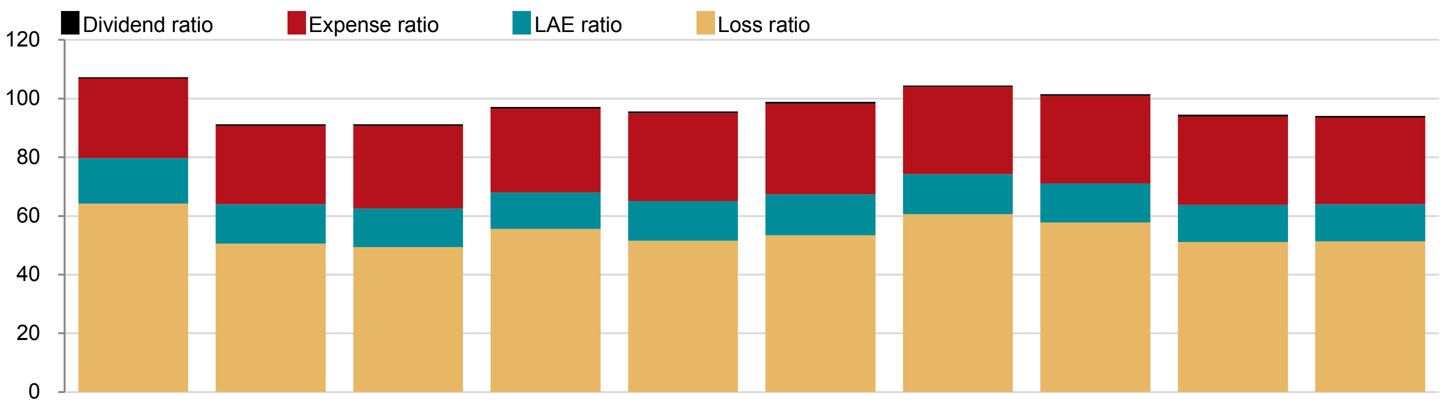
Commercial lines, including bond/mortgage insurance, combined ratio (%)



Pretax income, excluding investments ($B)



Commercial lines, excluding bond/mortgage insurance, combined ratio (%)



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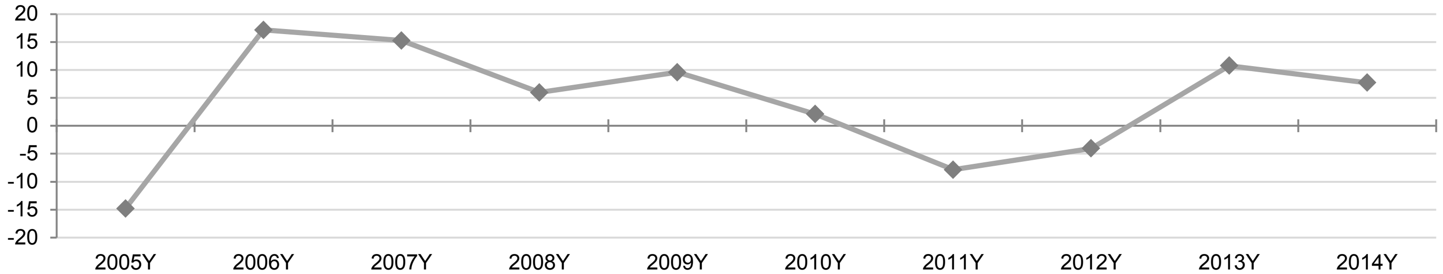


WORKERS' COMP

The industry approached breakeven underwriting results in the workers' comp line for the fourth time in the past eight years in 2014, but again fell short of generating a sub-100% combined ratio.

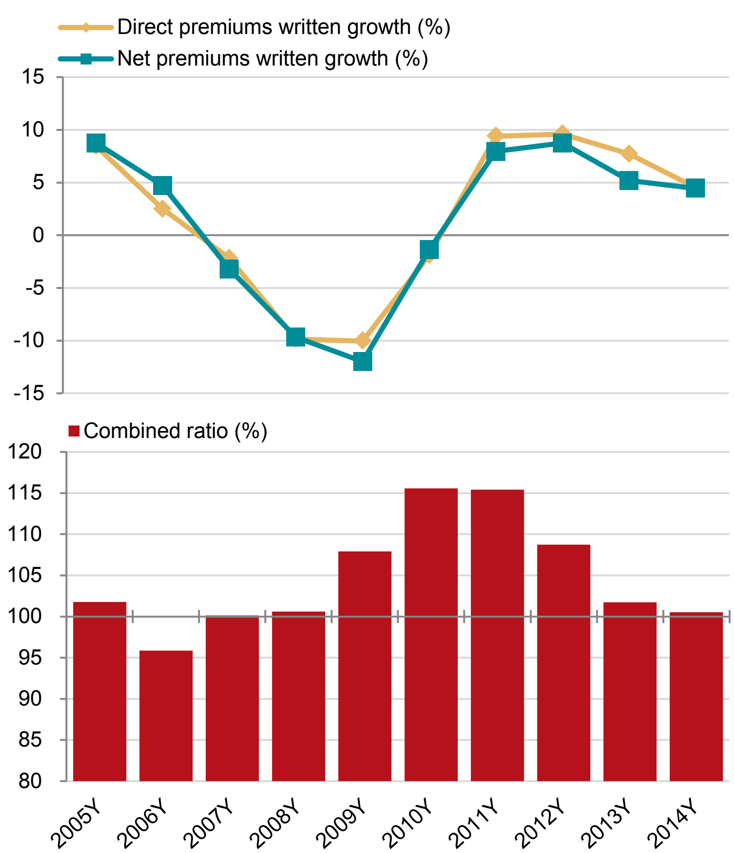
The combination of a recovering economy and a push for rate increases contributed to growth in direct premiums written in excess of 7.7% per year between 2011 and 2013. The growth rate fell to 4.5% in 2014, however. Net premiums earned rose by approximately 3.7%. And, with losses and LAE holding relatively stable on a year-over-year basis, the higher earned premiums served as a driver of improved underwriting results.

The 100.5% combined ratio marked improvement from 101.7% in 2013 and represented the industry's best result since it achieved a combined ratio of 100.1% in 2007. The combined ratio was just 95.9% in 2006, which remains by far the best result in the past 10 years.

Workers' comp is affected to a larger degree than any other business line in this analysis from the exclusion of state funds and residual markets, given their prominent roles in some of the nation's largest markets. The data also do not capture results associated with self-insured groups and businesses.

Travelers and The Hartford, the two largest workers' comp writers based on 2014 written premiums, achieved their lowest combined ratios in the line in several years. For Travelers, the group's workers' comp combined ratio of 90.5% was its best since 2006. The Hartford's workers' comp combined ratio of 92% was its lowest since 2008.

AIG, meanwhile, posted a workers' comp combined ratio well above 100% for the fifth time in the past six years. Its 2014 loss ratio of 112.6% in the line exceeded its combined ratio in each of the previous two years of 81.8% in 2013 and 109.6% in 2012, reflecting a $997.1 million increase in workers' comp net incurred losses at Eaglestone Reinsurance Co.



Largest writers	DPW ($M)	DPW growth (%)
Travelers	4,320.79	4.41
The Hartford	3,211.56	-4.03
AIG	2,708.49	-4.89
Liberty Mutual	2,660.60	-12.73
Zurich	2,603.42	2.72

GENERAL LIABILITY

Premium growth across SNL's consolidation of the general liability lines, including product and other liability business written on an occurrence and claims-made basis, also decelerated between 2013 and 2014, though it remained at historically attractive levels.

With $62.51 billion in 2014 direct premiums written, the general liability lines accounted for approximately 26.8% of the U.S. commercial lines business incorporated into this analysis.

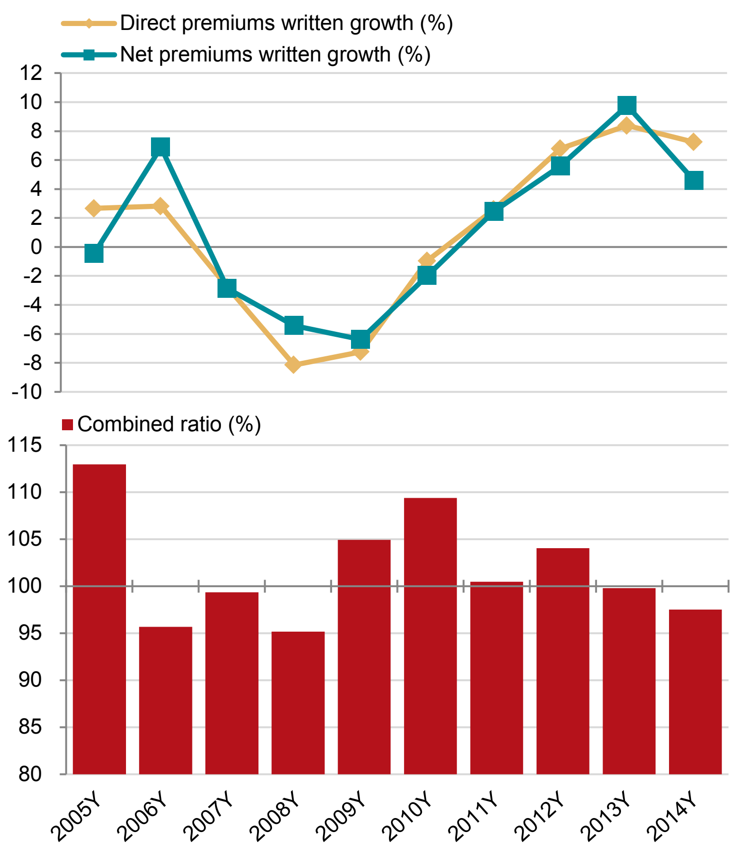
Direct and net premiums written increased in 2014 by 7.2% and 4.6%, respectively, as compared with growth rates of 8.4% and 9.8% in 2013. Net premiums earned increased by 6.8%, up slightly from a growth rate of nearly 6.7% in 2013.

AIG, the nation's largest writer of general liability business, helps account for the relatively wide divergence in written premium growth rates. The group's 2013 net premiums written of $6.33 billion exceeded its direct premium volume of $5.53 billion; in 2014, net premiums written fell to $5.99 billion while direct premiums written increased to $5.87 billion.

The general liability combined ratio of 97.5% on an industrywide basis marked the industry's best result in the business line since 2008. The loss ratio of 48.5% represented improvement from 48.8% in 2013, and the expense ratio fell 1.1 percentage points on a year-over-year basis.

Favorable reserve development accelerated in the specialty liability, other liability-claims made, other liability-occurrence, product liability-claims made and product liability-occurrence lines as they are reported on Schedule P of annual statements. Development was favorable on a net basis by $1.22 billion in 2014, up from $967.4 million in 2013.

Favorable development has generally provided a tailwind since asbestos charges led to material amounts of unfavorable development in the product liability-occurrence line during the 2004 and 2005 calendar years.



Largest writers	DPW ($M)	DPW growth (%)
AIG	5,867.47	6.08
ACE	3,198.78	2.05
Travelers	3,133.02	1.48
Zurich	2,887.76	2.64
Chubb	2,720.24	1.79

COMMERCIAL AUTO

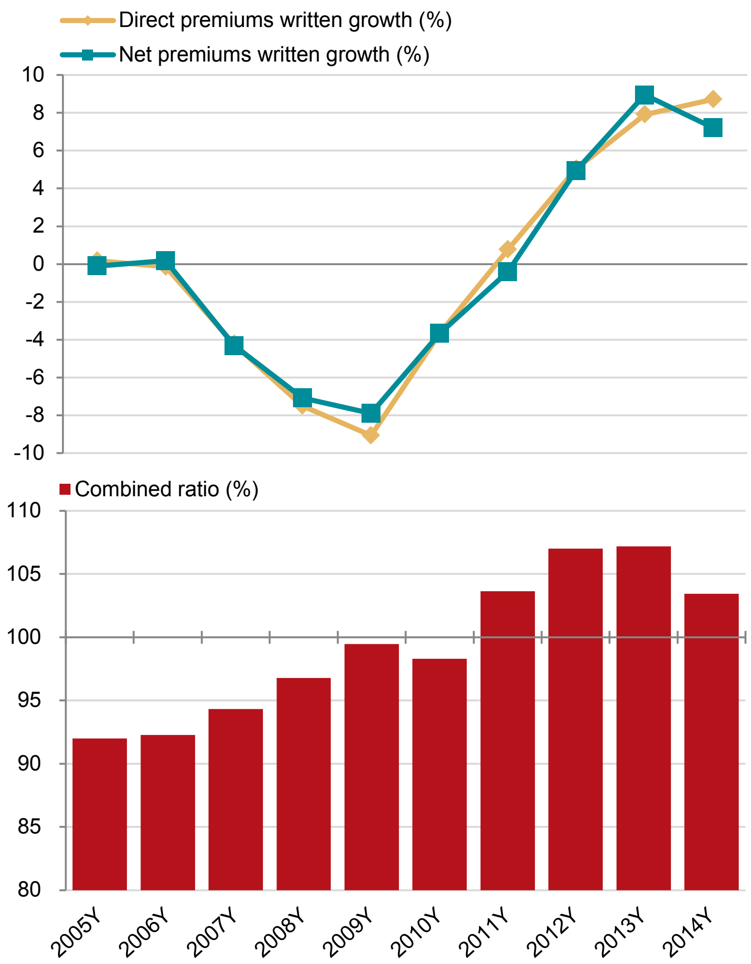
The combined ratio for commercial auto, which includes the commercial auto liability and commercial auto physical damage lines, improved in 2014 on a year-over-year basis, but the segment remained arguably the most challenged in the commercial lines space.

Direct premiums written rose for a fourth consecutive year in 2014; net premiums written and earned increased for a third straight year. The industrywide commercial auto combined ratio fell to 103.4% in 2014 from 107.2% in 2013. It marked the fourth consecutive year in which the commercial auto combined ratio topped 100% as losses began to accelerate in 2011. The loss ratio improved by approximately 0.6 percentage point in 2014; a 2.8 percentage-point reduction in the expense ratio accounted for much of the improvement in the combined ratio for the business line.

For commercial auto liability business, the combined ratio improved to 103.5% in 2014 from 107.9% in 2013 — the highest result in the scope of this analysis. Growth in direct premiums written accelerated to a decade-high rate of nearly 8% in 2014.

Commercial auto physical damage direct premiums written grew at an even faster rate in 2014: nearly 11.2%. Growth of nearly 10.2% in net premiums earned was not sufficient to overcome higher net incurred losses, which climbed by 11.3% on a year-over-year basis. The commercial auto physical damage combined ratio has exceeded 100% in each of the past five years, though the 2014 result was well short of the decade-high 112.1% in 2011.

The two largest writers of commercial auto business in 2014, Travelers and Progressive, showed considerable improvement in their combined ratios in the business line. Travelers' 97.6% combined ratio was its best result in the line since 2009. Nationwide Mutual, the No. 3 writer, also demonstrated some progress, but its combined ratio in the line remained elevated at 115.1%.



Largest writers	DPW ($M)	DPW growth (%)
Travelers	1,969.79	-0.45
Progressive	1,910.68	7.37
Nationwide Mutual	1,665.22	9.02
Liberty Mutual	1,526.58	0.11
Zurich	1,313.11	6.00

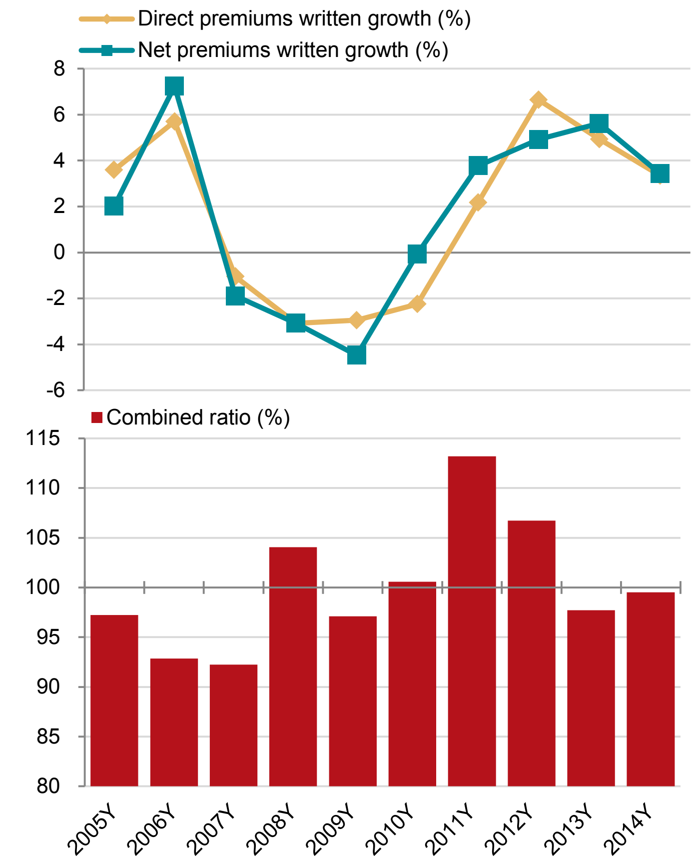
COMMERCIAL MULTIPERIL

A fourth consecutive year of premium growth in the commercial multiperil line, including both liability and non-liability business, helped the industry achieve a sub-100% combined ratio for the second year in a row — the first time that has occurred since the mid-2000s.

Net incurred losses increased at a faster rate than earned premiums in 2014, however, contributing to a narrowing in the underwriting margin for the business line. While net premiums earned increased by nearly 4.4% to $33.75 billion, net incurred losses climbed 9.5% to $17.20 billion.

The 2014 combined ratio of 99.5%, including a loss ratio of just under 51%, marked an increase from 97.7% in 2013. The 2013 loss ratio was 48.6%. A reduction in the expense ratio helped partially mitigate the impact of the higher loss ratio.

Direct and net premiums written increased by 3.4%, apiece, in 2014. The rate of increase in net premiums written was the lowest since net business volumes decreased by 0.1% in 2010.



Largest writers	DPW ($M)	DPW growth (%)
Travelers	3,202.34	0.95
Nationwide Mutual	2,491.30	8.92
Liberty Mutual	2,251.18	-2.41
The Hartford	1,751.47	1.79
Chubb	1,706.82	10.02

FINANCIAL GUARANTY

Post-financial crisis contraction in the bond insurance market, both in terms of supply of and demand for guarantees, has resulted in a sharp decline in premiums written in recent years. In 2014, for example, direct premiums written on the financial guaranty line accounted for approximately 0.2% of commercial lines direct premiums written.

But volatile loss trends during the crisis and extraordinary accounting treatment of certain transactions led financial guaranty companies to have an impact on the commercial lines sector's bottom line to a much greater extent than their minimal premium writings would otherwise suggest.

Syncora Guarantee Inc. and Financial Guaranty Insurance Co. provided two of the most noteworthy examples of such accounting anomalies. In 2009, Syncora Guarantee reported net losses incurred of a negative $1.70 billion as a result of its effective defeasance or commutation of a substantial number of the guarantees on which it carried loss reserves. The actions came as part of an agreement with counterparties intended to cure the company's policyholders' deficit.

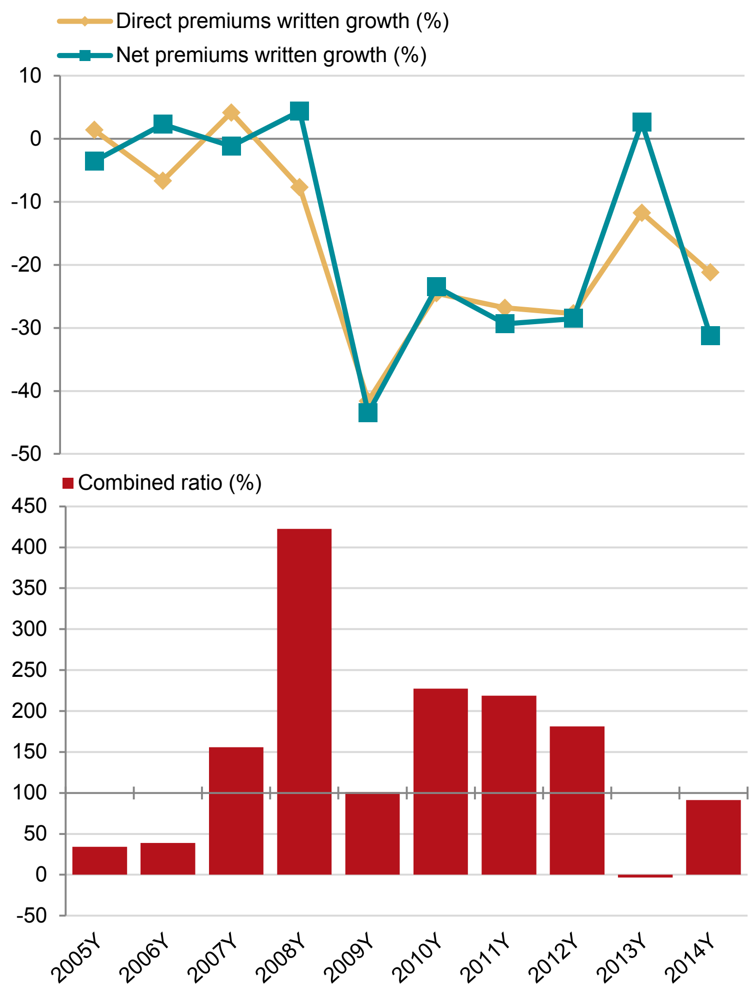
FGIC similarly posted net losses incurred of a negative $2.43 billion in 2013 as part of a series of post-rehabilitation transactions through which the company was able to report policyholders' surplus at a level that was at or above the statutory minimum.

In both cases, the negative incurred losses served to materially inflate the underwriting profitability of the commercial lines sector, overall.

Aside from extraordinary transactions, however, the impact of financial guaranty on commercial lines sector results has lessened as distance from the crisis widens. Legacy carriers continue to negotiate with certain problem creditors in the municipal bond arena, such as the Commonwealth of Puerto Rico and the City of Detroit, and address remaining crisis-related litigation, particularly in the structured finance business.

Gone are the AAA financial strength ratings that used to serve as the hallmark of the leading bond insurers, but the remaining players are optimistic that investors will increasingly come to value their guarantees — particularly in a rising interest rate environment.

Still, the amount of new capital that has been attracted to the industry has been relatively modest, highlighted by the sponsorship of the White Mountains Insurance Group Ltd.-sponsored Build America Mutual Assurance Co. That company joined Assured Guaranty Ltd. and MBIA Inc.'s National Public Finance Guarantee Corp. as active writers in a segment whose premium volume is likely to remain a fraction of its mid-2000s peak.



Largest writers	DPW ($M)	DPW growth (%)
Assured Guaranty	269.62	-16.53
MBIA	116.03	-19.42
Ambac	69.61	-27.13
Syncora	27.58	-18.58
FGIC	17.33	-54.36

MORTGAGE GUARANTY

Results for the mortgage insurance business appear to have stabilized from both a top- and bottom-line perspective in the aftermath of the crisis.

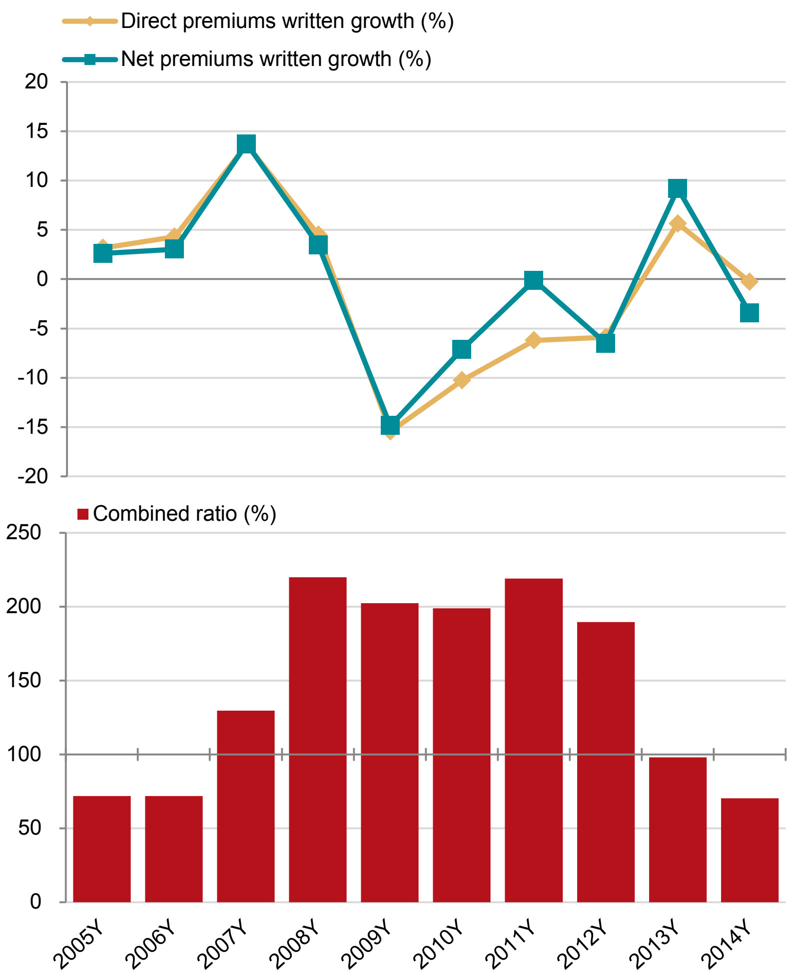
Direct premiums written of $4.54 billion in 2014 marked only a slight year-over-year decline. The industry's combined ratio continued to improve, falling to 70.2% in 2014 from just under 98% in 2013. It had averaged 206% during the previous five years.

A return of private capital to the U.S. housing finance market, including through the use of private mortgage insurance, has been slow to materialize in the aftermath of the crisis, and the long-term outlook remains subject to political uncertainties. But the forthcoming implementation of Private Mortgage Insurer Eligibility Requirements by the Federal Housing Finance Agency, which incorporate new risk-based financial requirements for the industry, should help companies move forward.

The business line has distinguished itself from bond insurance through a relative influx of new capital in the form of companies such as Essent Group Inc. and NMI Holdings Inc. as well as the reaffirmation of several leading legacy players of their commitment to space, including Genworth Financial and AIG, the parent of the United Guaranty companies.

Net mortgage guaranty premiums written on a total-filed basis fell by almost 3.5% in 2014, but that figure had been negatively impacted by a 23.8% plunge in net business volume for PMI Group Inc., the ultimate controlling entity for the rehabilitating PMI Mortgage Insurance Co.

Excluding PMI Group, net premiums written would have risen by 2% in 2014. Net premiums earned would have been up by nearly 5% as compared with the total-filed result of a 1.4% decline.



Largest writers	DPW ($M)	DPW growth (%)
MGIC Investment	1,024.33	3.48
Radian Group	982.06	-4.87
AIG	956.82	-3.80
Genworth Financial	638.63	9.54
PMI Group	286.34	-23.75

OCEAN/INLAND MARINE

The marine business lines include a range of coverage not limited to boats. The inland marine designation incorporates lines such as pet insurance, event cancellation coverage and travel insurance.

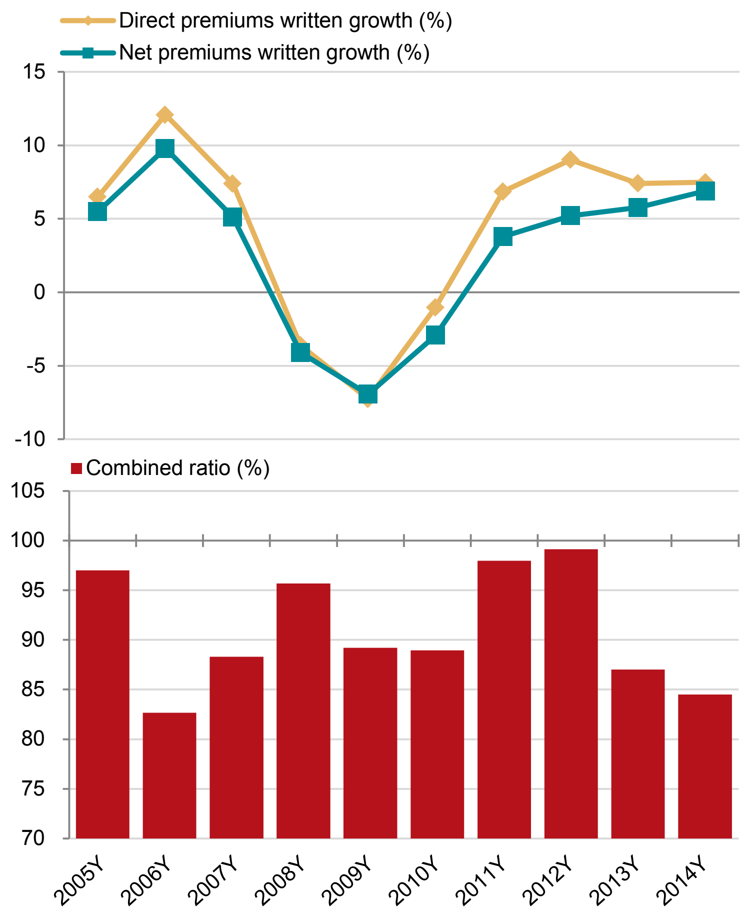
Direct premiums written of $22.81 billion in 2014 marked year-over-year growth of 7.5% — the fourth consecutive year in which that rate topped 6.8%. Direct business volume had declined on an annual basis from 2008 through 2010.

Inland marine business accounted for 82.8% of the total marine lines direct premiums written in 2014, up from 77.5% as recently as 2011. While ocean marine direct premiums written slipped by 0.1% in 2014, inland marine direct business volume climbed nearly 9.4%.

At the same time premiums have been growing steadily on a combined basis for the marine lines, losses have moderated, leading to stellar underwriting results for the marine lines on a combined basis. The 2014 combined ratio of 84.5% was the second-best achieved by the marine lines in the past decade, behind only the 82.7% combined ratio in 2006.

Growth in net premiums written has lagged that in direct premiums written, however. Net premiums written of $13.88 billion in 2014 marked a 6.9% increase on a year-over-year basis and represented just 60.8% of direct volume. For the commercial lines in their entirety, the ratio of net to direct premiums written in 2014 was 82.8%.

AIG held dominant share in the ocean marine line in 2014, accounting for 23.7% of the industry's total filed direct premiums written. The group ranked No. 3 among writers of inland marine as it grew direct premiums written by 45.3% on a year-over-year basis in 2014. Travel coverage is among the business AIG writes as inland marine business, according to SNL's U.S. product filings data.



Largest writers	DPW ($M)	DPW growth (%)
Liberty Mutual	2,852.09	-0.57
CNA Financial	2,507.60	15.11
AIG	2,169.63	21.99
Allianz Group	1,171.58	12.40
FM Global	1,137.85	-1.51

MEDICAL MALPRACTICE

The only business line in this analysis to have experienced declines in written and earned premiums in each of the past eight years, medical malpractice direct premiums written of $9.09 billion in 2014 were 23.8% below those reported in 2006.

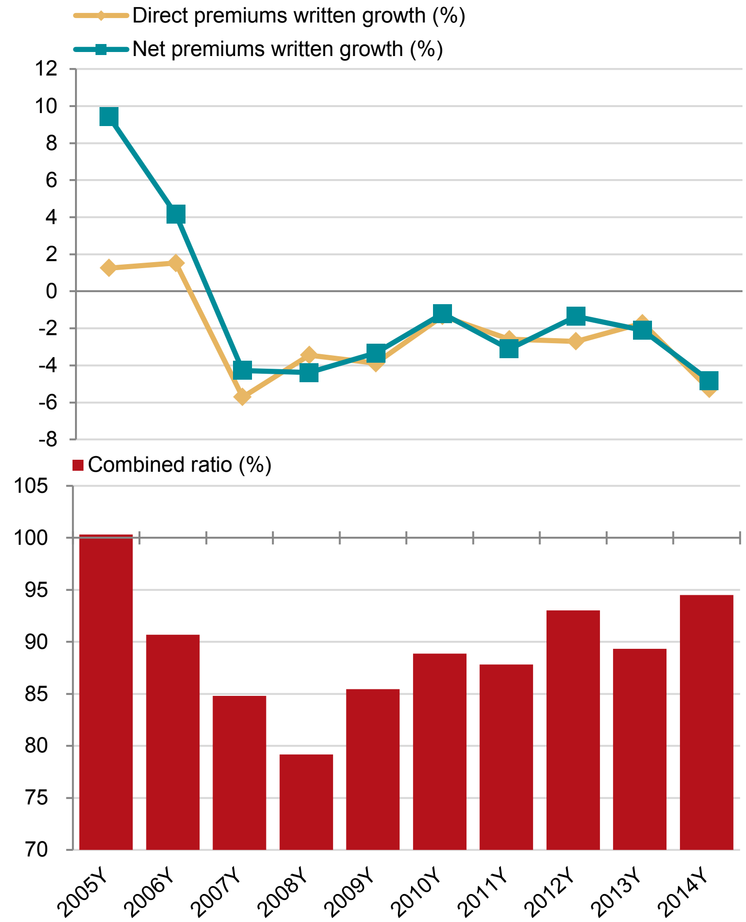
Positive underwriting results driven by factors such as the impact of tort reform legislation in certain states and favorable prior-year reserve development facilitated downward pressure on rates and, in turn, premiums. But results appeared to take a decided turn for the worse in 2014 as the industry generated its highest medical malpractice combined ratio since 2005 at 94.5%.

As net premiums earned tumbled 5.2% on a year-over-year basis, net losses incurred increased by 5.2% to $3.28 billion. The loss ratio of 40.4% exceeded the 37% average for the previous eight calendar years.

Results for the business line exclude data attributable to MCIC Vermont (A Reciprocal Risk Retention Group), given a dramatic change during 2014 in the manner the business operates. MCIC Vermont posted $976.4 million in net incurred losses on just $209 million in net premiums earned — the result of an intercompany reorganization involving a Bermuda affiliate that does not file annual statements with the NAIC. The P&C industry's combined ratio in the business line would have approached 106% in 2014 had MCIC Vermont's results been incorporated in the analysis.

Direct premiums written pertaining to coverage for physicians and surgeons as reported on Supplement A of annual statements declined by 4.7% in 2014. Hospital-related direct premiums written declined by slightly more than 0.9%.

Among the top 10 medical professional liability groups by 2014 direct premiums written, only Medical Protective Co. parent Berkshire Hathaway and the group led by NORCAL Mutual Insurance showed year-over-year growth in direct premiums written in that line.



Largest writers	DPW ($M)	DPW growth (%)
Berkshire Hathaway	806.18	1.32
Doctors Co.	694.51	-5.69
Medical Liability Mutual	499.41	-7.86
CNA Financial	478.77	-3.90
ProAssurance	459.89	-7.07

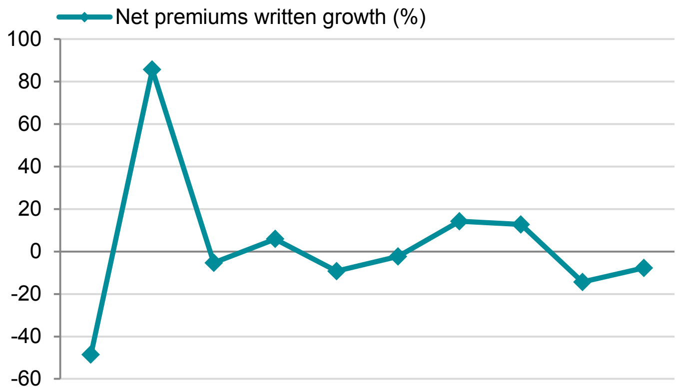
NONPROPORTIONAL REINSURANCE (COMBINED)

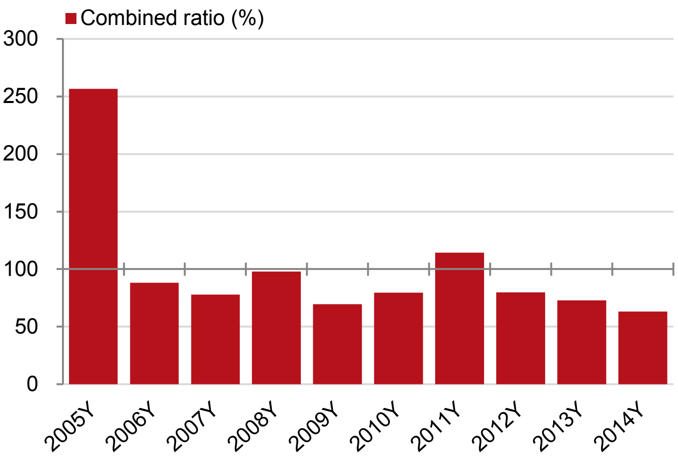
Berkshire Hathaway's National Indemnity Co. continued to lead the industry in terms of nonproportional reinsurance net premiums written in 2014.

The majority of the company's business in the nonproportional reinsurance line was classified as assumed property, consistent with the rest of the industry.

Assumed property accounted for 57.2% of the industry's nonproportional reinsurance net premiums written, with assumed liability business representing 41.6% of the total. Assumed financial lines business was responsible for the remaining 1.2%.

The role of nonproportional reinsurance in National Indemnity's overall business mix tumbled in 2014 as a result of various quota-share agreements with affiliated entities. Nonproportional reinsurance premiums represented 12.3% of the company's 2014 total, down from 71.1% in 2013. It reported $18.15 billion of private auto premiums in 2014, thanks to a GEICO quota share.





Largest writers	DPW ($M)	DPW growth (%)
Berkshire Hathaway	4,166.73	-13.36
State Farm	957.76	-11.18
Munich-American	868.64	8.41
Alleghany	847.78	-3.63
Fairfax Financial	730.73	-18.29

AIRCRAFT

A year in which commercial aviation disasters repeatedly made headlines represented the worst year for U.S. aircraft insurance in well over a decade.

The business line generated a combined ratio of 108.3% during the year, and the net loss ratio of 66.8% was the highest since 2001's 92.8%. But with net aircraft premiums written of only $1.01 billion in 2014, the difficult year had little impact on the P&C industry's overall commercial lines results.

Aircraft business written by U.S.-domiciled carriers peaked in 2006 when total-filed direct premiums written were $3.06 billion. Net premiums written, meanwhile, topped out in 2004 at $2.17 billion.

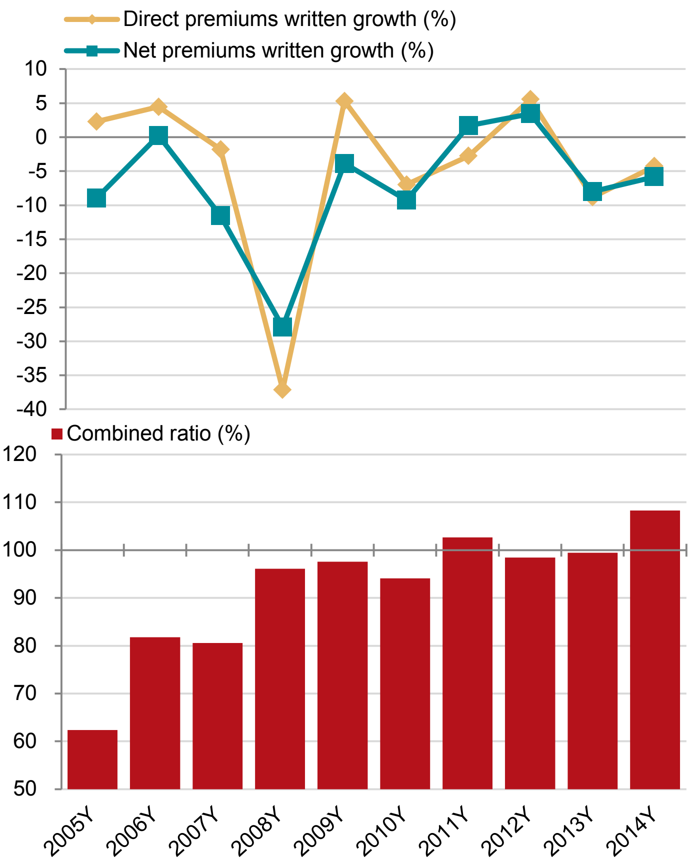
Malaysia Airlines suffered two disasters under unusual circumstances, with one of its Boeing

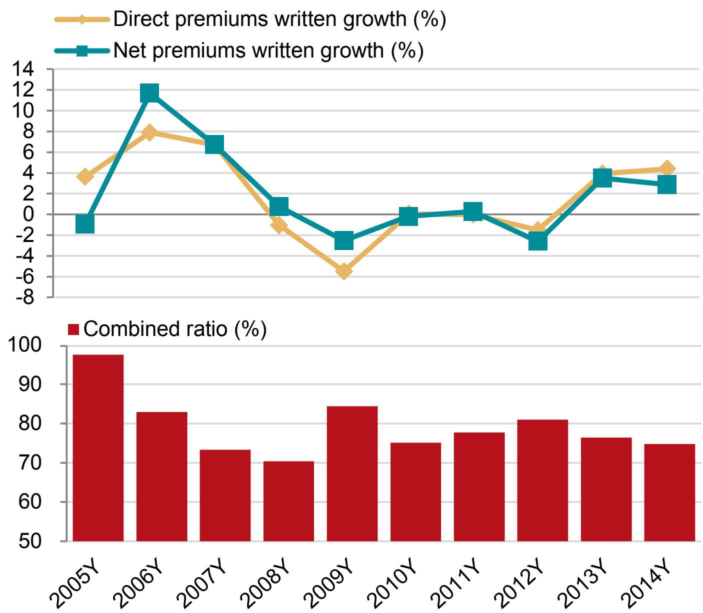
777 aircraft disappearing from radar over the Gulf of Thailand and another 777 being shot down over eastern Ukraine. War-risk rates were expected to rise sharply in 2015 owing to the nature of the two events.

Wells Fargo's 2015 Insurance Market Outlook calls for flat or slightly lower premiums for the general aviation market.

Aon Benfield previously reported that the aviation industry recorded its lowest numbers of incidents and fatalities since at least 1995 during 2013, though it appears the good fortune was not repeated in 2014.

Largest writers	DPW ($M)	DPW growth (%)
AIG	303.46	-9.66
Starr International	206.43	11.73
Aliianz Group	199.73	-3.40
XL Group	164.33	4.34
Berkshire Hathaway	108.46	-11.91





Largest writers	DPW ($M)	DPW growth (%)
Travelers	999.98	2.65
Liberty Mutual	772.49	0.81
Zurich	575.87	3.22
CNA Financial	492.32	2.39
Chubb	463.64	1.27

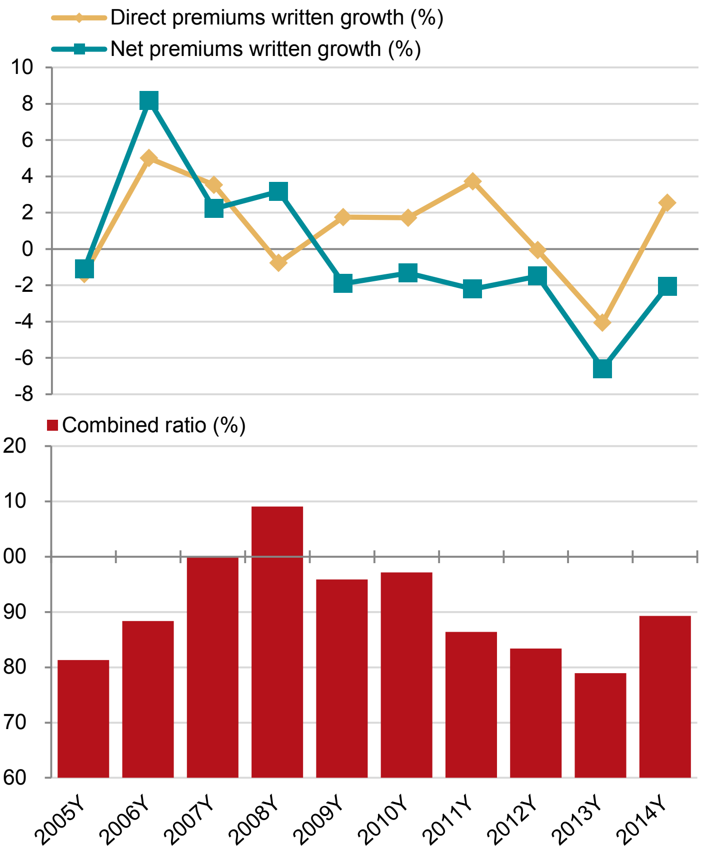
FIDELITY/SURETY

Premium growth in the fidelity and surety lines as consolidated by SNL continued their recovery in 2014.

At 4.4%, the 2014 growth rate in direct premiums written was the industry's highest since 2007, reflective of improving macroeconomic conditions. Net premiums written growth slipped to 2.9% in 2014 from 3.5% in 2013. From an underwriting perspective, 2014 was the industry's most profitable year since 2008 as the combined ratio declined on a year-over-year basis to 74.8% from 76.4%.

Surety coverages typically include performance, payment and commercial bonds. Fidelity bonds protect businesses against fraud and other forms of theft.

OTHER COMMERCIAL



Largest writers	DPW ($M)	DPW growth (%)
Zurich	478.81	2.04
AmTrust Financial	471.90	45.68
AIG	463.60	-30.02
Ally Financial	441.98	-3.42
Allianz Group	378.47	8.20

SNL's consolidation of the other commercial P&C lines includes a collection of businesses with a number of moving parts, including boiler and machinery, burglary and theft, credit and warranty.

Direct premiums written of $7.87 billion in 2014 increased nearly 2.6% from 2013, marking the first instance of year-over-year growth in the lines on a combined basis since 2011. Though the loss ratio increased to 51.8% in 2014, the highest level since 2010, from 43% in 2013, the lines remained profitable as shown by a combined ratio of 89.3%.

The lines have produced combined ratios of less than 100% in each of the past six years and of below 90% in each of the last four years.

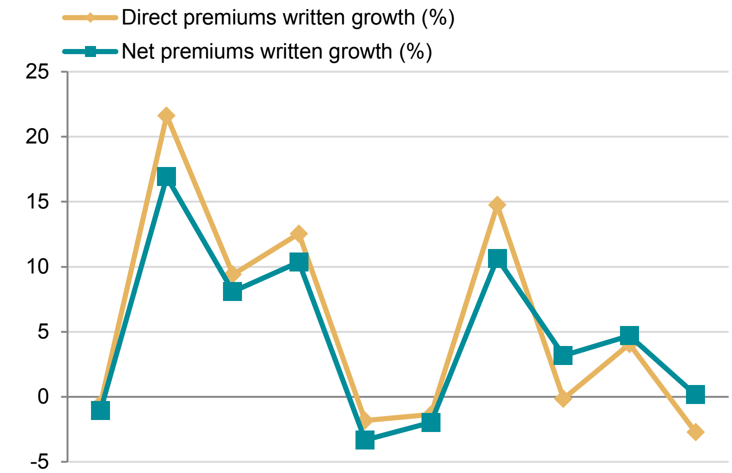
In the warranty line, growth by other industry players helped offset a sharp decline in business written by AIG. Direct premiums written at AIG's U.S. P&C subsidiaries recorded on the warranty line totaled $82.1 million in 2014, down from $264 million in 2013 and $924.4 million in 2009. Warranty-related disclosures on the P&C interrogatories page of annual statements show that the decline occurred on business classified as products warranty.

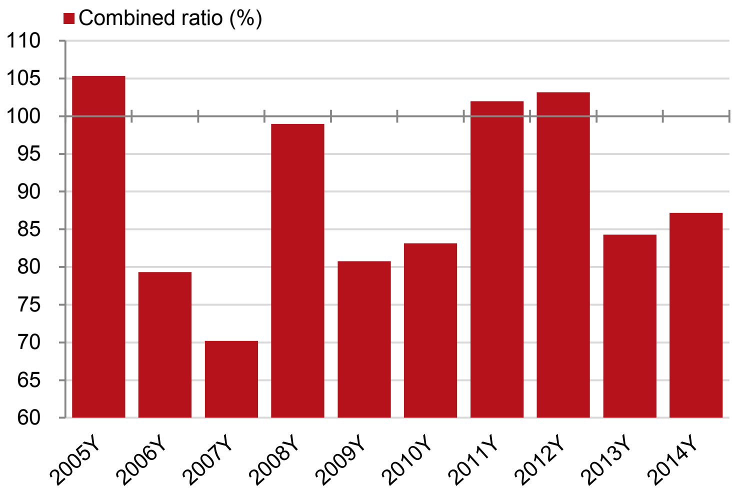
FIRE AND ALLIED LINES (COMBINED)

The fire and allied lines as consolidated by SNL go beyond the fire and allied lines to include earthquake, federal flood, multiperil crop and private crop business. As such, the gap between direct and net results is wider than in most commercial lines of business, with nearly all of the federal flood business written on a direct basis getting ceded under the National Flood Insurance Program and only 41.7% of the multiperil crop business written on a direct basis being retained on a net basis.

The lists of market leaders in direct and net premiums written, therefore, have different compositions. Leaders in multiperil crop business such as ACE, Wells Fargo & Co. and QBE Insurance

Group Ltd. rank among the top 10 writers on a direct basis; AIG and FM Global head the list of the largest writers on a net basis.





Largest writers	DPW ($M)	DPW growth (%)
ACE	2,656.81	-5.96
AIG	2,299.43	6.10
Assurant	2,268.69	-5.66
Wells Fargo	2,024.66	-20.00
FM Global	1,854.59	-5.27

Fire and allied lines on a standalone basis accounted for 32% and 28.4% of the direct premiums written in SNL's consolidation during 2014. They represented 42.4% and 34% of net premiums written in SNL's consolidation. Multiperil crop ranked as the third-largest line within the consolidation, accounting for 24.6% of direct premiums written and 15.5% of net premiums written. Federal flood's share of direct premiums written was 7.4%; it rounded down to 0% of net premiums written. Private crop, a new standalone business line beginning with 2014 annual statements, accounted for 1.9% of the consolidation's direct premiums written and 2.2% of its net premiums written.

Catastrophe losses have much to say about the industry's success or failure in the fire and allied lines as evidenced by results in the past four years. The combined ratio for the fire and allied lines totaled 102% in 2011 and 103.2% in 2012, both of which were relatively heavy catastrophe years, then tumbled to 84.3% in 2013 and 87.2% in 2014 as the catastrophe load lightened.

Combined ratios by the individual business lines contained within the consolidation varied widely. In the fire and allied lines on a standalone basis, the 2014 combined ratios were 84.5% and 90.2%. The earthquake combined ratio was 34.5%. The multiperil crop and private crop combined ratios were 104.9% and 138.8%, respectively. The federal flood combined ratio was not meaningful, given large negative amounts of net commissions and brokerage expenses relative to the small amount of net premiums written and earned.

Accident and health (P&C statements only)

A number of P&C insurers write accident-and-health business, though the overall volume of their production on a direct basis has declined significantly in recent years reflective of several developments.

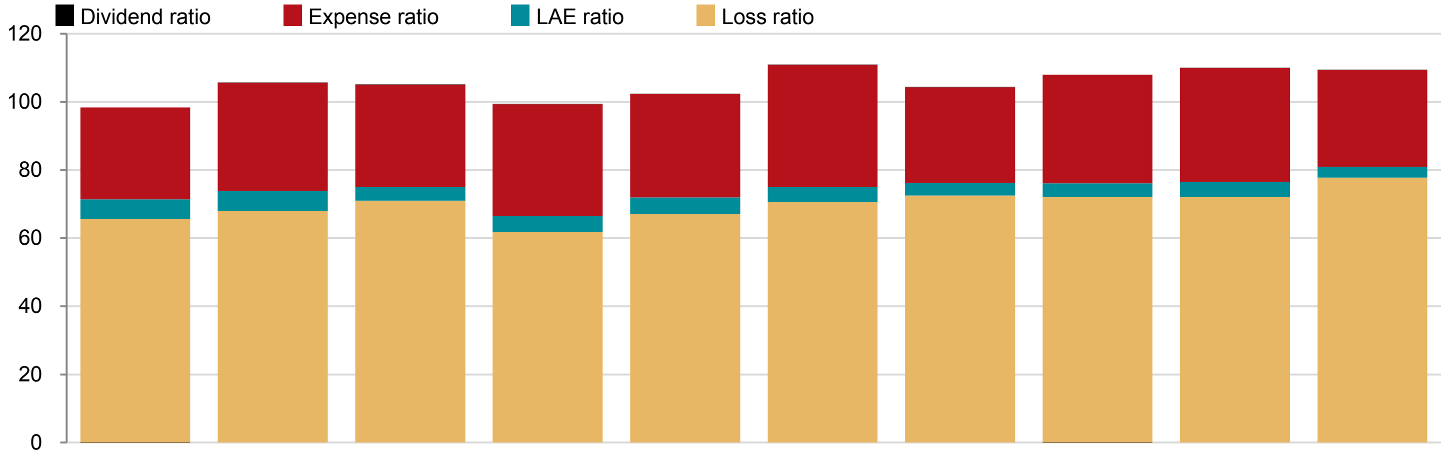
Across all lines of A&H business, direct premiums written plunged 18% in 2014 — the largest such retreat during the three consecutive years in which business volumes have declined. Net premiums written, however, increased in each of those years, including by 0.9% in 2014.

Negative direct premiums written in the other A&H line by AIG's American Home Assurance Co. helped explain the divergence. AIG ranked as the largest P&C writer of A&H business with net premiums written of $1.36 billion, but its direct premiums written totaled just $512.9 million.

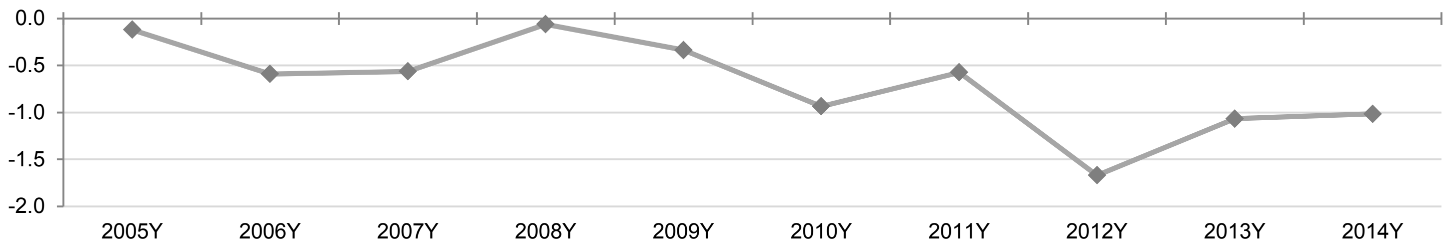
A review of disclosures made on the A&H Policy Experience Exhibits of annual statements shows P&C carriers wrote business lines such as individual and group long-term care, Medicare supplement, individual and group disability, group comprehensive major medical, group dental, credit A&H, stop-loss and individual and group accidental death and dismemberment.

CNA Financial Corp. and State Farm accounted for the vast majority of individual long-term care business reported on P&C statement blanks, with CNA accountable for essentially all of the group long-term care business. CNA, like many of its peers in the business line, discontinued issuing new long-term care policies years ago, but continues to manage its existing book of business.

Accident and health, P&C filers only, combined ratio (%)



Pretax income, excluding investments ($B)



P&C industry outlook

SNL projects modest deterioration in underwriting results for the P&C industry as a whole in 2015, driven by an overall slowing in the rate of growth in both written and earned premiums as well as a slight increase in net incurred losses from 2014 levels.

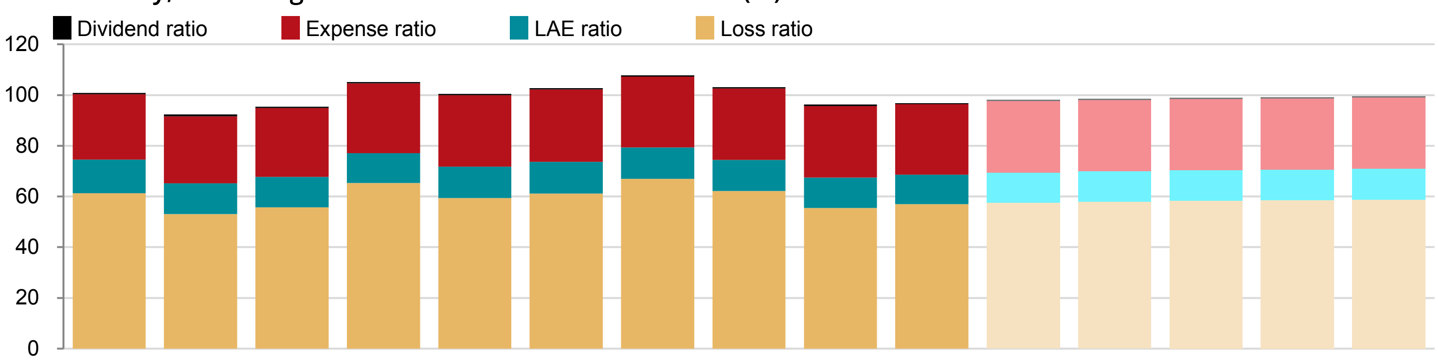
All told, however, SNL projects that the P&C industry will remain profitable from an underwriting perspective for a third consecutive year with a combined ratio of approximately 98.1% or 98.4% when excluding the financial and mortgage guaranty lines of business. Both figures reflect the previously discussed exclusions of state funds and residual markets.

The projections assume continued abundance of capital, as demonstrated by recent declines in the industry's ratio of net premiums written to average policyholders' surplus, and ongoing pressure on investment yields, with the latter factor favoring continued discipline in underwriting and the former potentially encouraging a loosening of underwriting standards.

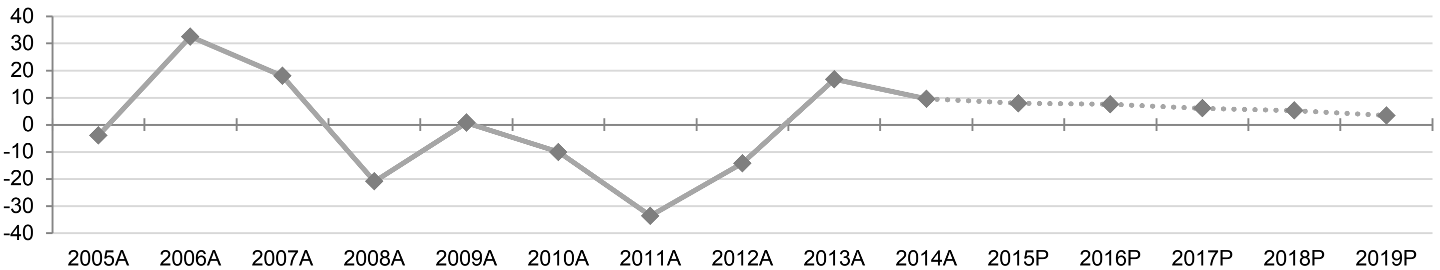
The projections anticipate U.S. insured losses from natural catastophes within approximately 20% of the estimated 2014 result of $15.3 billion as reported by Munich Re and the Insurance Information Institute. They are based on a sum of the parts analysis of 17 separate business lines, including three in the personal lines, 13 in the commercial lines and accident-and-health business reported by P&C filers on a combined basis.

Future results of any business are subject to inherent risks and uncertainties, and that is particularly true in the P&C industry where a series of natural disasters could have a dramatic impact on the trajectory of premium volume and incurred losses.

P&C industry, excluding state funds and residual markets (%)



Pretax income, excluding investments ($B)



While we acknowledge the potential and, perhaps, the likelihood for market-changing events to occur over the scope of any given five-year period, SNL has endeavored to create projections for 2015 through 2019 based upon a series of assumptions that are biased towards steady-state conditions, with 2014 serving as a baseline for a "normal" catastrophe year, 2011 offering a guide for a heavy catastrophe year and 2013 presenting a best-case scenario in that regard. SNL reserves the right to update or revise the projections at any time.

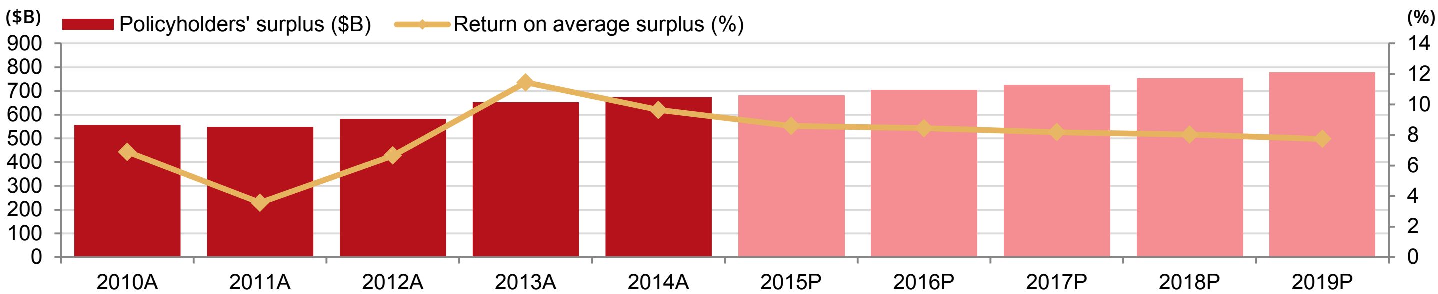
The projections are largely informed by historical trends and recent market observations, which are derived from sources that include first-quarter 2015 statutory results, anecdotal commentary about market conditions through the second quarter of 2015. They are intended for consideration on a total-filed basis, and they may not necessarily be applicable at the individual state or regional levels. The specific inputs culminating in industry-level projections vary by line of business, but in many cases are biased toward a reversion to the mean in line items such as premiums written, losses and expenses.

SNL relies on consensus estimates for various macroeconomic data points for future years, including the consumer price index, growth in gross domestic product and housing starts, as compiled by *The Wall Street Journal,* the Federal Reserve Bank of Philadelphia and select other third-party sources, to guide projections for business lines where growth rates correlate closely with economic expansion.

The projections also do not take into account the possibility for the arrival of market-changing technologies, such as autonomous vehicles, that could irrevocably alter the manner in which personal and commercial auto insurance is underwritten or coverage for new risks that have not yet emerged. The projections assume favorable prior-year reserve development on an industrywide basis of approximately 1.4% of prior-year surplus in calendar year 2015, down slightly from the calendar-year 2014 rate and short of the five-year average rate of slightly more than 2%. Favorable reserve development last amounted to less than 1% of policyholders' surplus in calendar year 2008, and the projections assume a gradual decline to 0.5% of prior-year surplus

Key industry income statement items ($B)

	2010A	2011A	2012A	2013A	2014A	2015P	2016P	2017P	2018P	2019P
Net underwriting gain/loss	-9.60	-32.75	-13.96	17.29	15.30	9.7	8.0	6.6	5.9	4.1
Net investment income earned	47.58	49.29	48.82	48.02	46.65	48.5	51.6	54.3	57.2	60.1
Net realized capital gains	7.49	7.25	8.14	18.07	11.24	10.4	10.4	10.4	10.4	10.4
Federal and foreign taxes	8.84	3.02	6.25	12.03	10.31	10.5	11.6	12.8	14.2	15.4
Net income	36.85	19.75	37.60	70.67	63.93	58.2	58.5	58.6	59.3	59.2



One SNL Plaza, P.O. Box 2124, Charlottesville, VA 22902 Phone: 434.977.1600
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by 2019, based on various factors, including third-party market commentary and the conservative view of legal and regulatory dynamics.

The projections arrive at a net income figure premised, in part, upon federal and foreign income taxes equivalent to the average effective tax rate observed from 2010 through 2014 and net realized capital gains holding steady at the five-year average annual level of $10.44 billion. In combination with expectations of lower levels of underwriting gains in 2015, SNL projects lower net income in 2015 relative to 2014 levels, followed by modest increases in the years to follow. The result is a slightly lower level of annual returns on average capital and of between 8% and 9% relative to the average of approximately 9.19% observed from 2005 through 2014, excluding 2008 given the disproportionate impact of net realized capital losses on industry profitability during that difficult year for the financial markets.

Personal lines outlook

SNL projects that the two-year run of sub-100% combined ratios in the personal lines sector may end in 2015 as deteriorating loss experience in the private-passenger auto business offsets a continuation of the recent strong results for the homeowners line, assuming a relatively normal catastrophe load.

The rate of growth in homeowners direct premiums written consistently exceeded that of private-passenger auto liability through the scope of SNL's historical analysis, and often by wide margins. But significant slowing in homeowners premium growth during the first quarter of 2015 in tandem with a much more moderate retreat in private-passenger auto liability premium growth put a halt to that long-term trend.

With leading private auto writers like Allstate pushing for rate increases to address what its management has characterized as a temporary increase in loss frequency, SNL's projections anticipate that this reversal will continue, in the absence of natural catastrophes in such a frequency and/or severity that could alter industry dynamics.

An SNL analysis of 52 quarters of data through year-end 2014 found that growth rates in private-passenger auto liability direct premiums written consistently lagged those associated with homeowners business. The gap between premium growth rates in the two business lines was widest during that stretch in the final three months of 2005. Homeowners direct premiums written expanded by 8.8% on a year-over-year basis in that period as the industry reacted to high frequency of landfall-making hurricanes in 2004 as compared with a decline in private-passenger auto liability premiums of 0.3%.

As of June 25, the RateWatch application of SNL's RateFilings.com appears to capture the trends in homeowners and private-passenger auto liability premiums that have begun to emerge in the quarterly statutory filings, though rates likely represent only one element of the overall industry trends.

As of May 29, RateFilings.com calculated an aggregate approved rate change of 3.4% in private-passenger auto liability business in 2014 versus an aggregate increase of 3.2% in the homeowners line, the latter of which does not include renters insurance and mobile homeowners policies that otherwise are included in the statutory-basis premium data. In each of the four previous years, according to RateFilings.com, the aggregate approved homeowners rate changes easily exceeded the comparable values for the private-passenger auto liability line.

The aggregate approved rate change of 1.7% in private-passenger auto liability on a year-to-date basis compares favorably to the 1% increase calculated for the homeowners line for the same period, according to RateFilings.com, suggesting the potential for the premium growth trends witnessed in the first quarter to persist. For private-passenger auto physical damage business, RateFilings.com showed a slower pace of increases in the aggregate approved rate for both 2014 and for the year-to-date in 2015 at 1.3% and 0.8%, respectively.

Additionally, the timing and nature of State Farm's sale of its Canadian business are likely to artificially depress 2015 premium growth rates and, in turn, suggest that growth will accelerate in 2016.

State Farm P&C companies generated $1.74 billion in direct premiums written in Canada during 2014, according to disclosures on Schedule T of their annual statements. The Canada "state" page of their annual statements shows that $1.21 billion of that amount came from private-passenger auto business and $399.9 million pertained to homeowners business.

It is not possible to normalize historical results to exclude net results attributable to the State Farm Canada business as no NAIC-filing insurance company was incorporated in the Jan. 1, 2015, transaction with Desjardins Group. State Farm Mutual Automobile Insurance Co. and State Farm Fire & Casualty Co., the group's largest two members, generated all business attributable to the Canadian market in 2014.

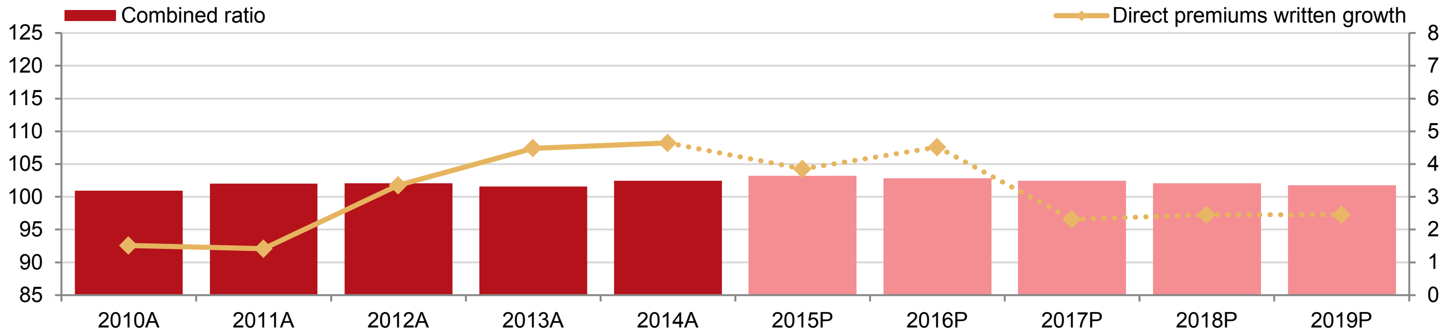
SNL projects an overall growth rate of 3.7% in direct premiums written across the personal lines in 2015, down from expansion of 4.8% in 2014. The removal of State Farm's Canadian business from the scope of this analysis subtracted approximately 60 basis points from the projected growth rate.

From a loss perspective, given the previously discussed assumptions, SNL forecasts relatively stable results on a year-to-year basis for the personal lines sector. History suggests the homeowners line is particularly prone to volatility, given the influential role of catastrophes in the overall profitability of the business, but the average loss ratios embedded in SNL's projections remain relatively consistent with long-term trends through a 10-year period that included a collection of light, average and heavy catastrophe years.

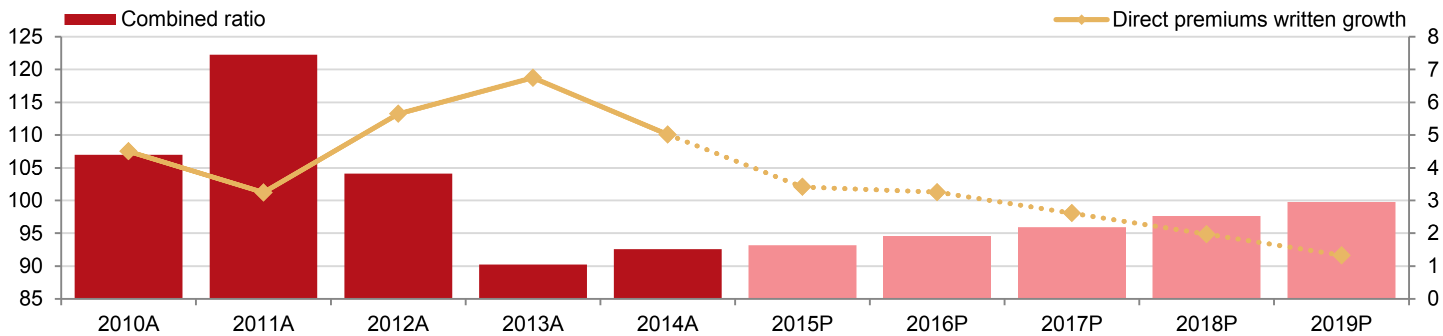
The projected personal lines combined ratio of 100.2% for 2015 reflects expectations for higher losses in the private-passenger auto business. The average annual combined ratio for the personal lines projected for 2015 through 2019 of 100.6% is generally consistent with the 10-year historical mean, but below the five-year mean of 102.2.

The personal lines combined ratio ranged from a low of 94.1% in 2006 to a high of 107.8% in 2011 during the scope of SNL's analysis.

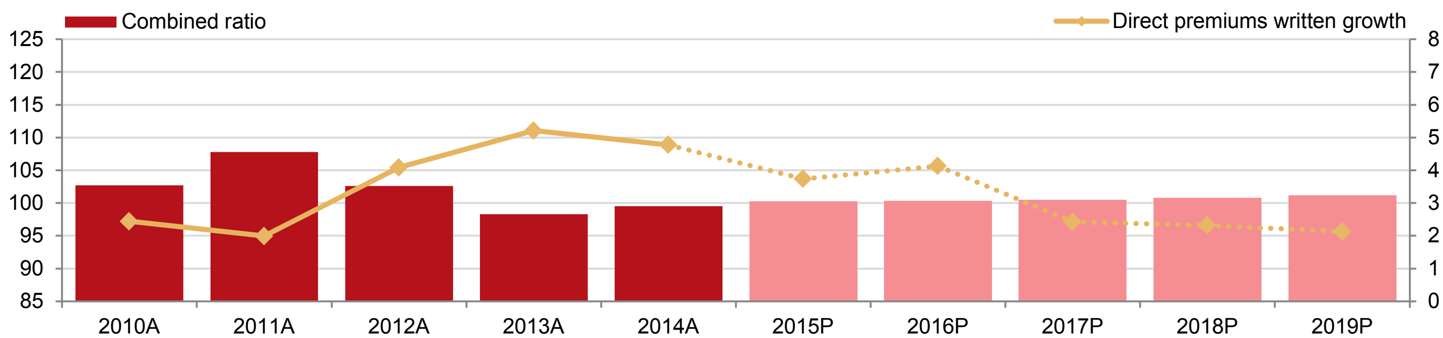
Private-passenger auto liability/physical damage (%)



Homeowners (%)



Personal lines, combined (%)



Commercial lines outlook

SNL projects that a slow, but steady, softening in prices across many lines of business may be mitigated by macroeconomic factors such as expectations for annual GDP growth in the mid-2% range from 2016 through 2019, resulting in lower, but still positive, levels of top-line expansion.

Growth in exposure units resulting from higher levels of nonfarm employment and higher demand for insurance in a growing economy — albeit one that is expected to expand at a modest pace — are projected to drive higher premium volume through 2019. SNL projects growth in direct premiums written will eventually begin to lag expansion in GDP over time.

From a bottom-line perspective, factors such as continued pressure on investment income, favorable development of reserves for prior accident years and a lingering benefit from the previous hard market cycle fuel SNL's optimism.

The commercial lines combined ratio projected for 2015 of 95.4%, or 96% when excluding financial and mortgage guaranty lines, would represent a third consecutive year of underwriting profitability. The full scope of the SNL projections call for declining, but positive, underwriting margins, based in part on an expectation for a reversion to the mean in incurred losses and relatively steady levels of other underwriting expenses relative to annual net premiums written.

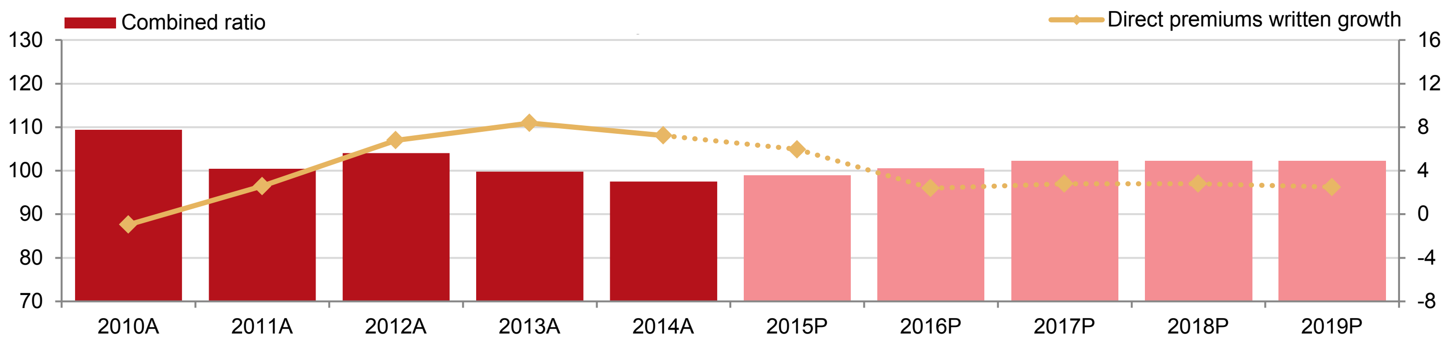
The projections anticipate increasing pressure on underwriting results in liability lines, including other liability, product liability and workers' compensation, as premium growth rates slow. Commercial auto results may also remain challenged as evidenced by projected combined ratios several percentage points above 100% annually from 2015 through 2019. Losses in the medical professional liability line are projected to increase on absolute and relative bases in 2015 as distance widens from the peak of the industry's profitability from an underwriting perspective in 2008.

The projections also anticipate that underwriting margins in business lines such as the marine and fire and allied lines on a combined basis will deteriorate over time, but from highly favorable current levels.

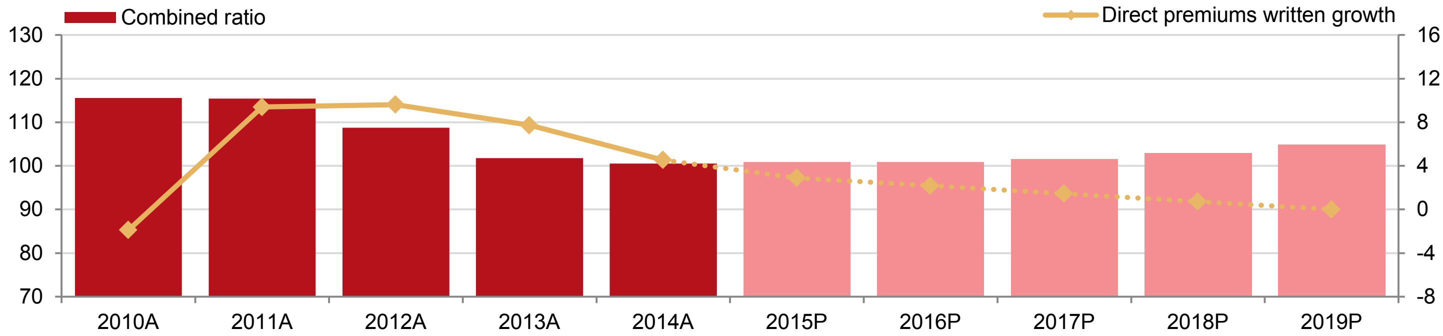
All told, the average annual commercial lines combined ratio projected for the five-year period from 2015 through 2019 of 96.5% compares favorably to both the historical five- and 10-year averages of 100.1% and 99.3%, respectively. But the average annual projected combined ratio is well above the mean of 92.5% for calendar years 2006, 2007, 2013 and 2014 — years that were not characterized by features such as elevated catastrophe losses, large builds in reserves for decades-old asbestos and environment exposures and/or weak macroeconomic conditions.

Projections are subject to future adjustment based on factors not currently contemplated, including large natural catastrophes and material changes to the macroeconomic outlook.

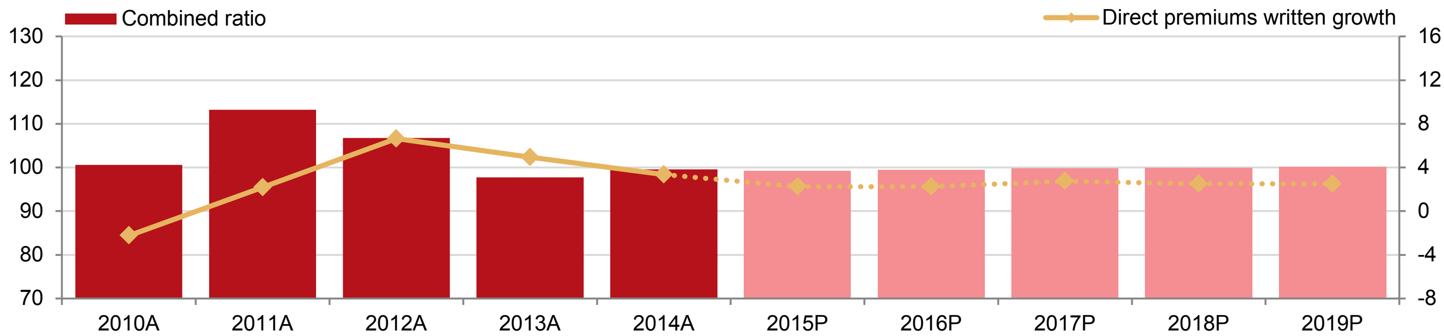
General liability (%)



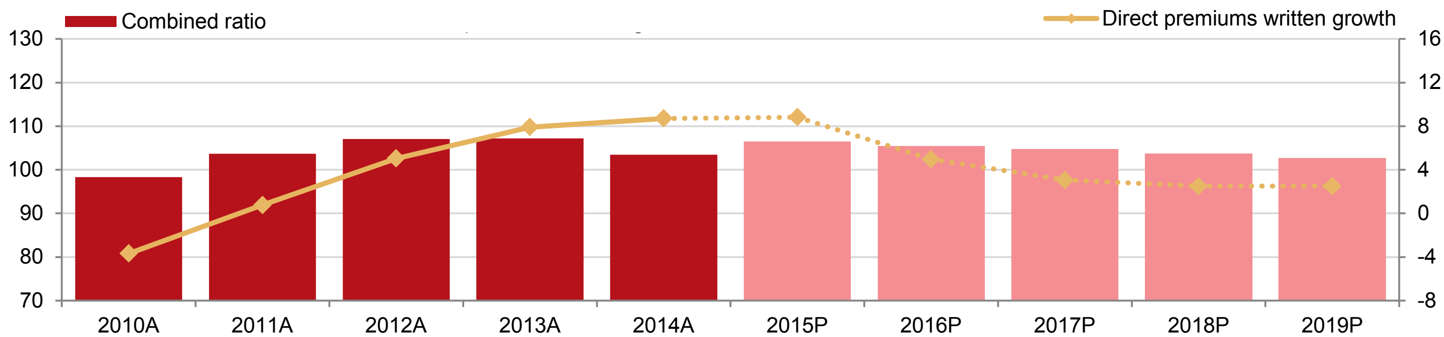
Workers' comp (%)



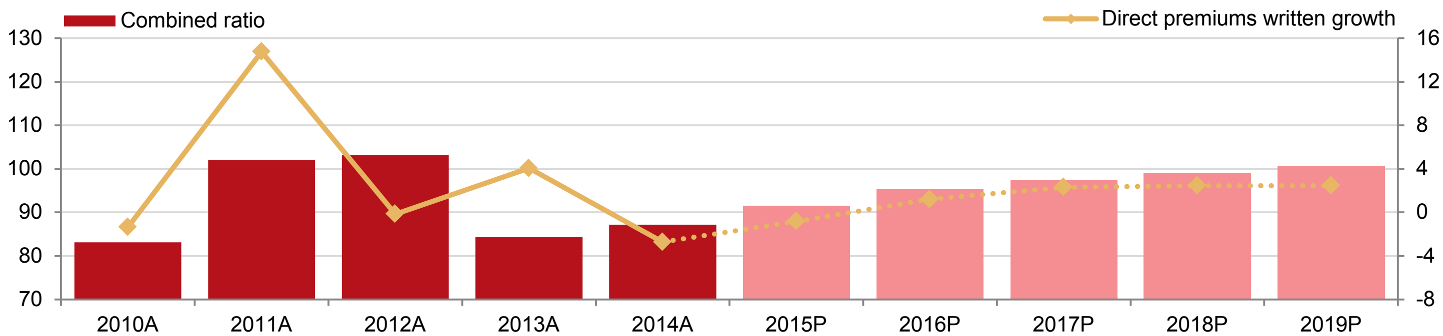
Commercial multiperil (%)



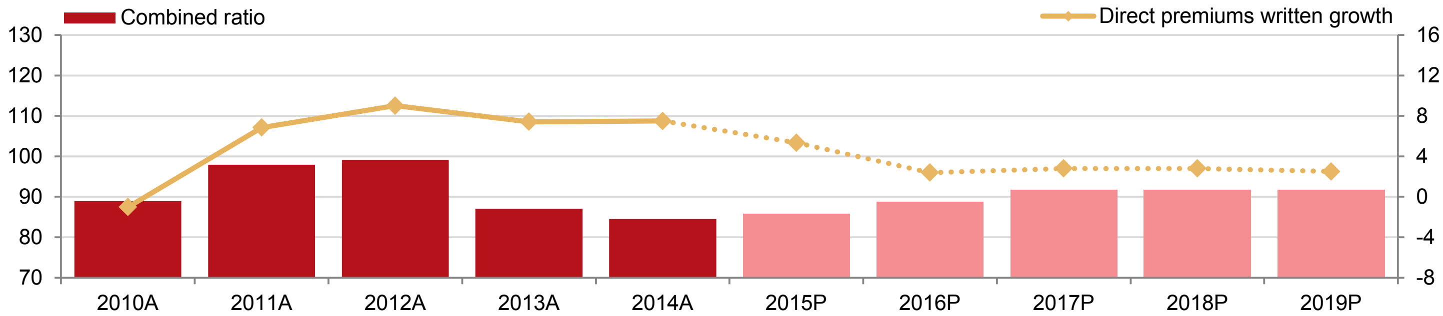
Commercial auto liability/physical damage (%)



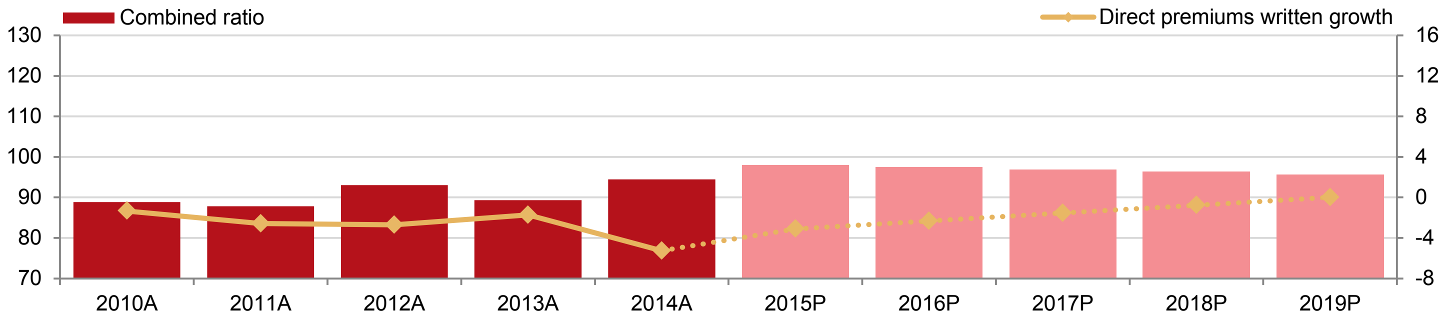
Fire and allied lines, combined (%)



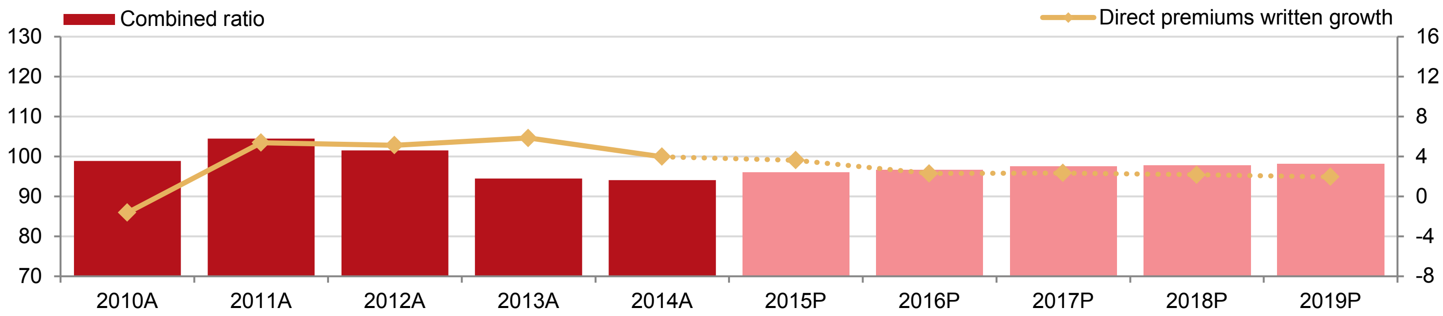
Ocean/inland marine (%)



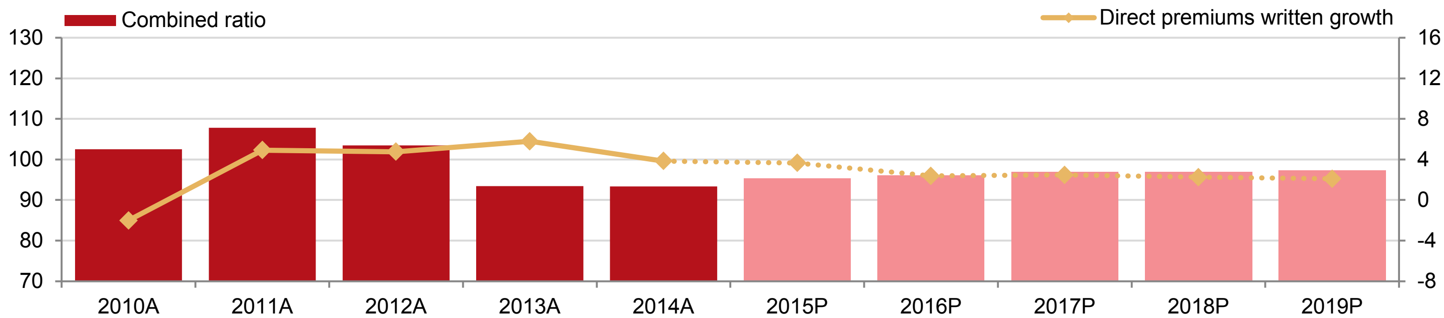
Medical malpractice (%)



Commercial lines, excluding financial/mortgage guaranty (%)



Commercial lines, combined (%)



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Data for SNL's 2015 U.S. P&C Insurance Market Report is sourced from SNL's statutory insurance data as filed with state insurance regulators by individual entities, relying largely on disclosures made by individual entities on the Insurance Expense Exhibits of annual statements. The historical results referenced in the report as compiled June 25, 2015, reflect certain material adjustments to SNL's P&C Industry aggregations. Projections are current as of the report's date of publication. SNL reserves the right to update, supplement or amend the historical results and/or projections at any time for any reason.

Questions? **SNLinfo@snl.com**

+44 20 7398 0873 (EMEA) +852 5808 1882 (Asia-Pacific) +1.866.296.3743 (Americas)

