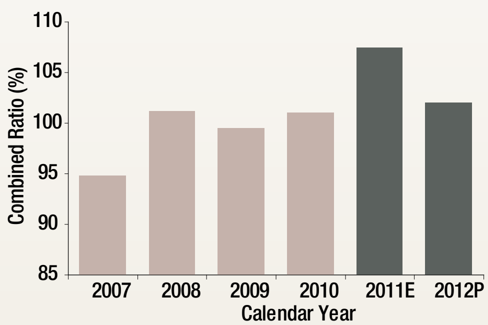
Review & Preview

February 6, 2012

Sector
Property/Casualty

Outlook
Personal Lines: Stable
Commercial Lines: Negative
Reinsurance: Stable

U.S. Property/Casualty – Combined Ratio Summary (2007-2012P)



E=Estimated, P=Projected
Excludes mortgage and financial guaranty segments.

Additional Information
2011 Special Report:
U.S. Property Casualty – 9-Month Financial Review

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U.S. P/C Industry's 2011 Results Slammed by Catastrophe Losses

The U.S. property/casualty (P/C) industry's operating performance deteriorated sharply in 2011, as catastrophe-related losses wreaked havoc on underwriting results throughout the year and led to the industry's largest underwriting loss since 2002. Insurers were impacted by an unprecedented number of natural catastrophe events in the United States and abroad in 2011, resulting in catastrophe-related losses more than doubling the total reported in 2010. As a result, all three segments – personal lines, commercial lines and U.S. reinsurers – are expected to report relatively large underwriting losses, the industry's policyholders' surplus is anticipated to decline modestly, and return measures are expected to be in the low single digits.

- A.M. Best estimates net premiums written increased 3.5% to $442.0 billion in 2011, as improved underwriting and pricing discipline – reinforced by extensive weather-related losses, diminishing reserve releases, relatively low investment yields and a weak macroeconomic environment – generated favorable pricing trends.

- Driven primarily by high catastrophe-related losses along with elevated losses in select non-catastrophe-exposed lines, less favorable loss-reserve development and weak macroeconomic conditions, the industry's combined ratio is expected to deteriorate 6.5 points to 107.5 for 2011 from 101.0 in 2010.

- A.M. Best estimates total statutory pretax accident-year catastrophe-related losses were approximately $44.1 billion in 2011, up from an estimated $19.6 billion paid in 2010.

- Despite extraordinarily high cat losses, A.M. Best estimates that the industry's policyholders' surplus decreased only 1.4% to $562.7 billion from its record year-end high of $570.4 billion reported in 2010.

- While the majority of rating actions in 2011 resulted in affirmations, downgrades outnumbered upgrades for the first time since 2005.

- A.M. Best has maintained a stable outlook for the personal lines and U.S. reinsurance segments in 2012. The outlook for the commercial lines segment remains negative due to the incremental impact that rate increases will have over the next year; inadequate rates in select lines of business; decreasing reserve adequacy levels; and the sluggish economic recovery.

- Looking ahead, while pricing discipline seems to be taking hold, A.M. Best believes a traditional "hard" market is likely at least a year or two away. While the industry's operating performance is expected to improve in 2012, insurers still face a challenging environment, with relatively weak underwriting results and lackluster investment returns expected to influence operating results over the next year.