Low for Longer:
The Effect of Low Interest Rates On the U.S. P&C Industry

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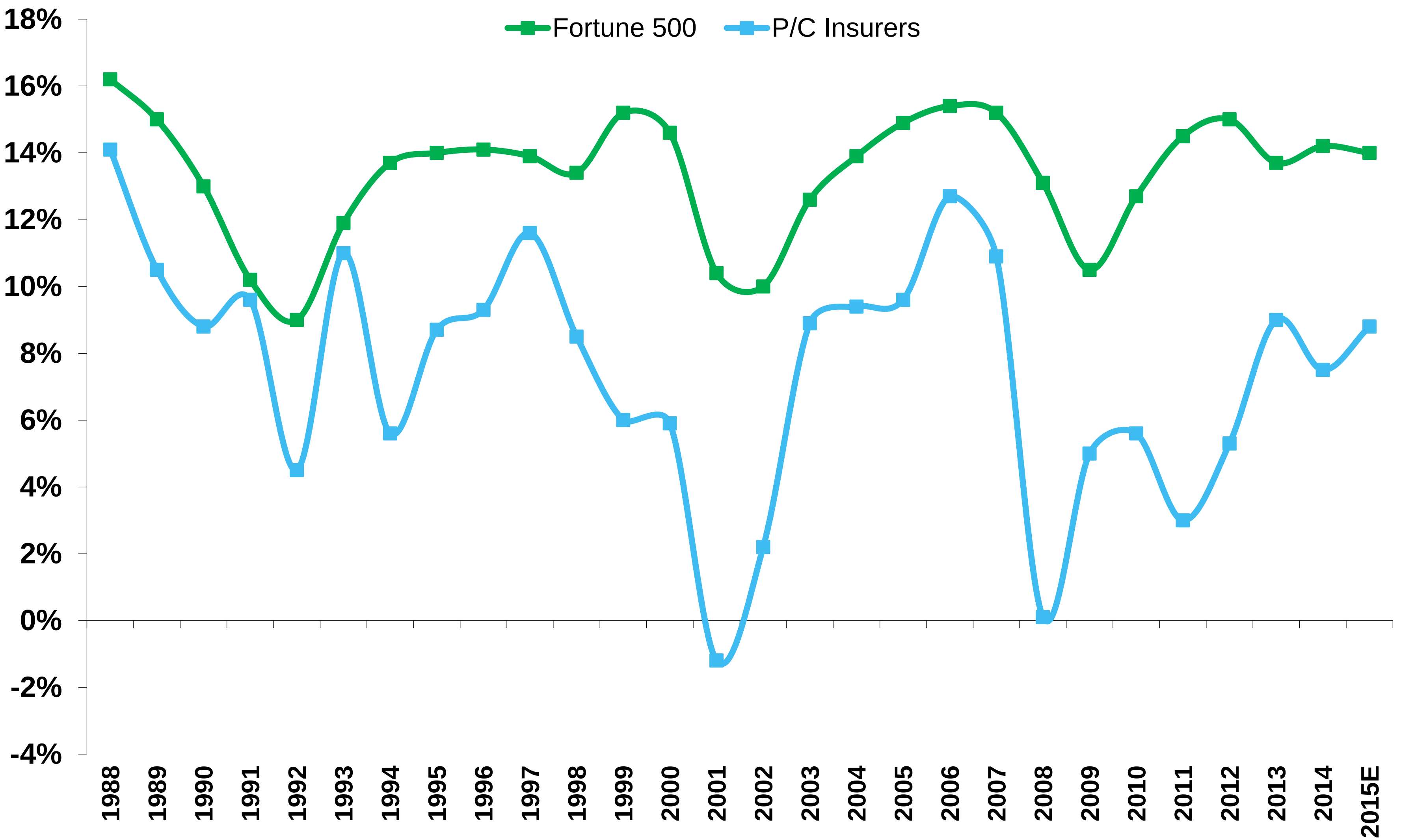
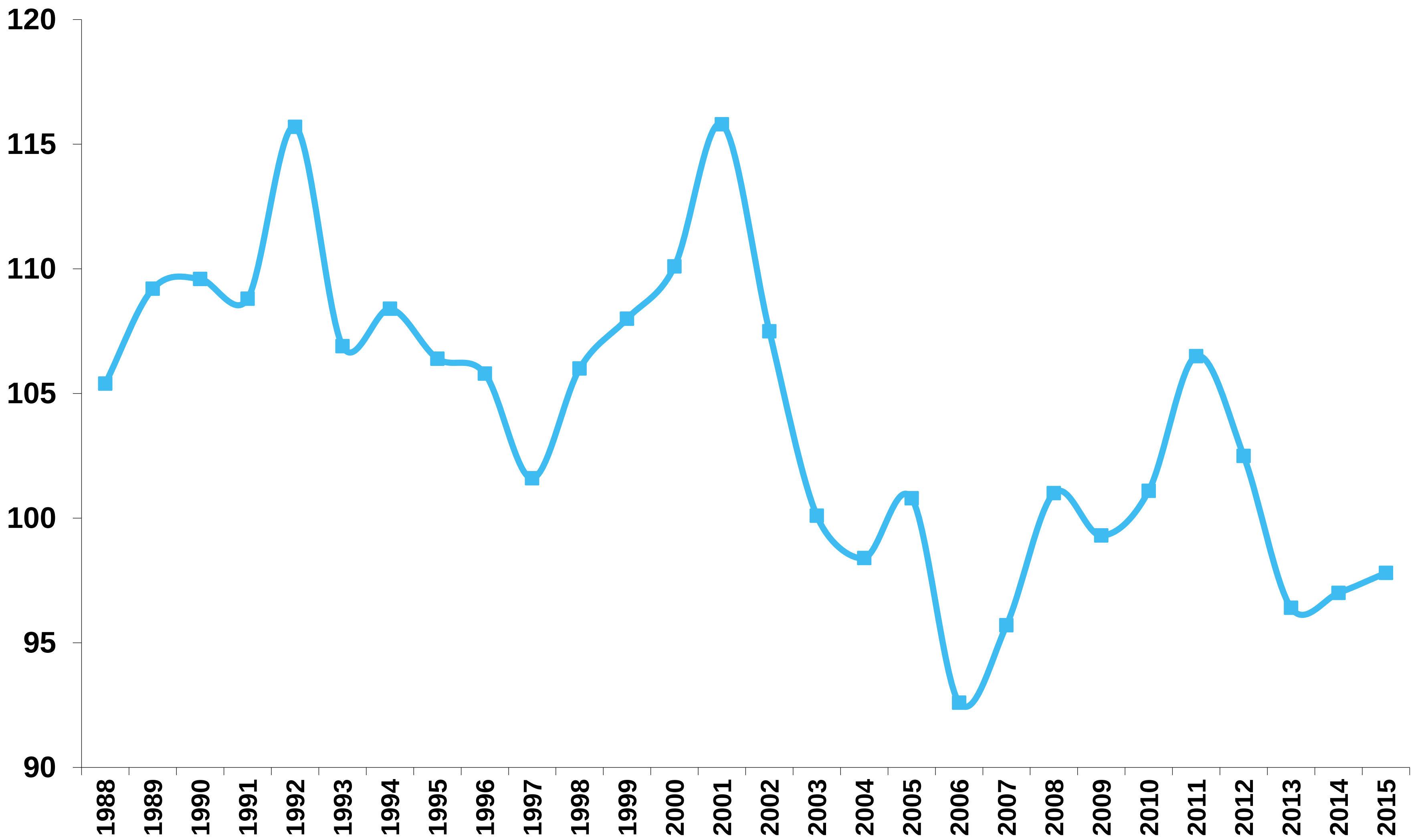
Return On Equity: P&C Insurance vs. Fortune 500



*GAAP basis.

Sources: ISO, Fortune; Insurance Information Institute.

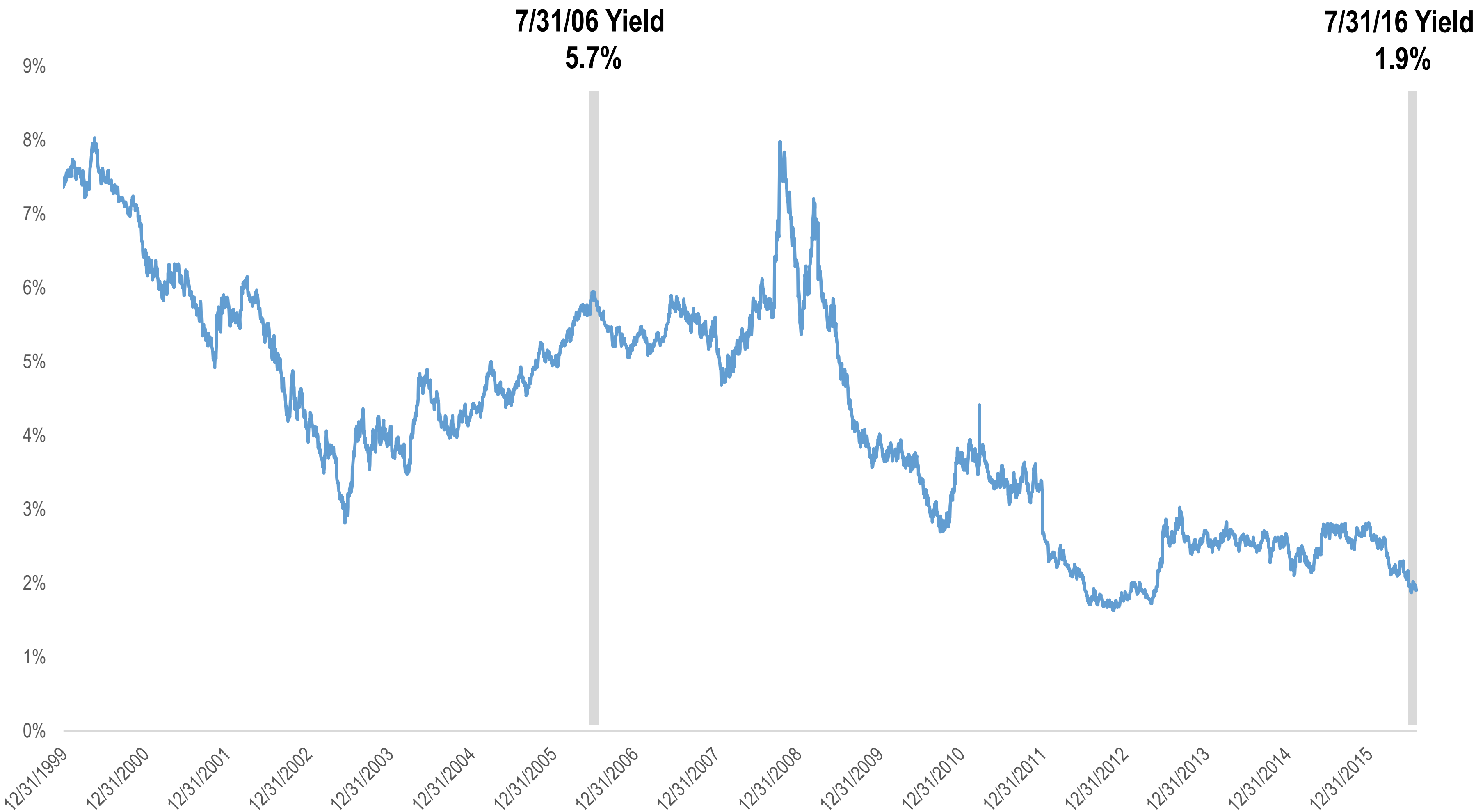
P&C Insurance Industry Combined Ratio*



* Excludes Mortgage & Financial Guaranty insurers 2008--2014. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.1; 2012:=103.2; 2013: = 96.1; 2014: = 97.0.

Sources: A.M. Best, ISO (2014-2015); Figure for 2010-2013 is from A.M. Best P&C Review and Preview, Feb. 18, 2016.

Declining Investment Yields



In the 10 year period ended 7/31/2016, pre-tax yields have declined by 380 bps

Source: Bank of America Merrill Lynch 5-7 Year AA US Corporate Index

Industry Profitability

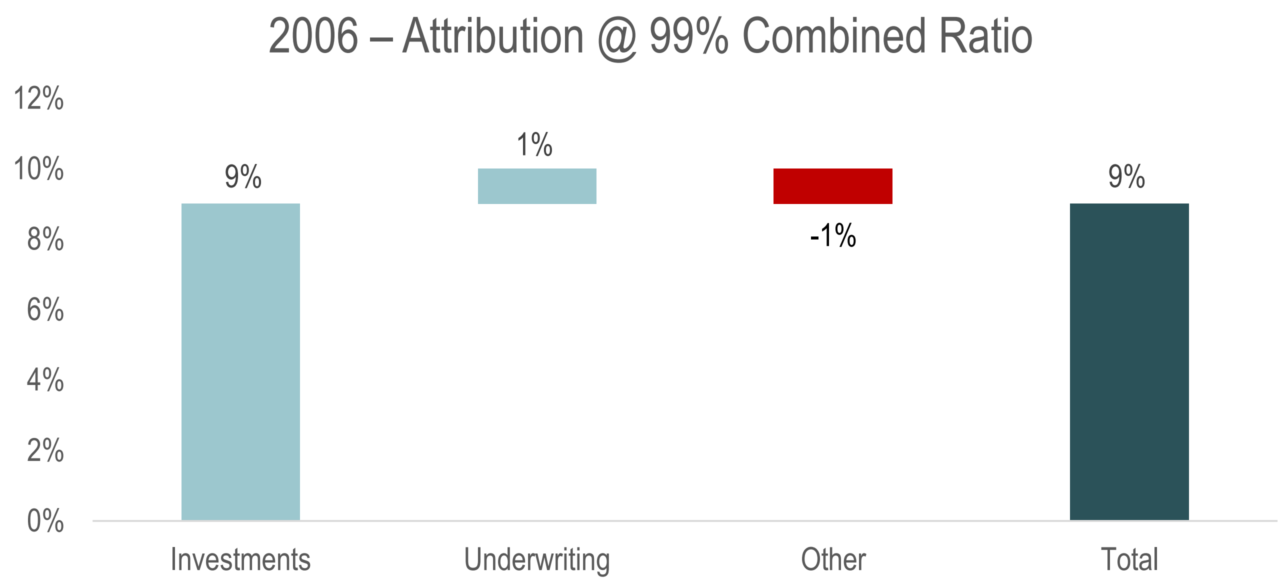
- The 380 bps decline in new money yield equates to an ultimate 7.5 point decline in ROE
  - Assumes 2.5x investment leverage and ~20% tax rate

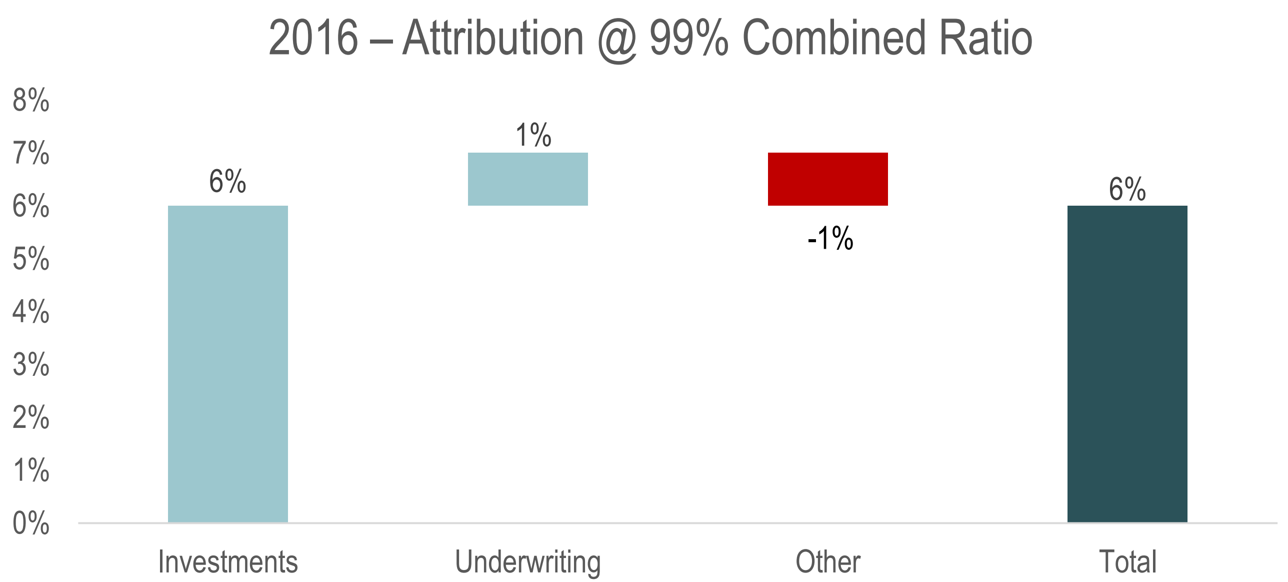
- In practicality, lower new money yields impact investment portfolios over time as existing bonds mature and new cash flow is invested

A.M. Best projects a 99% combined ratio and 6% ROE for the P&C industry in 2016*

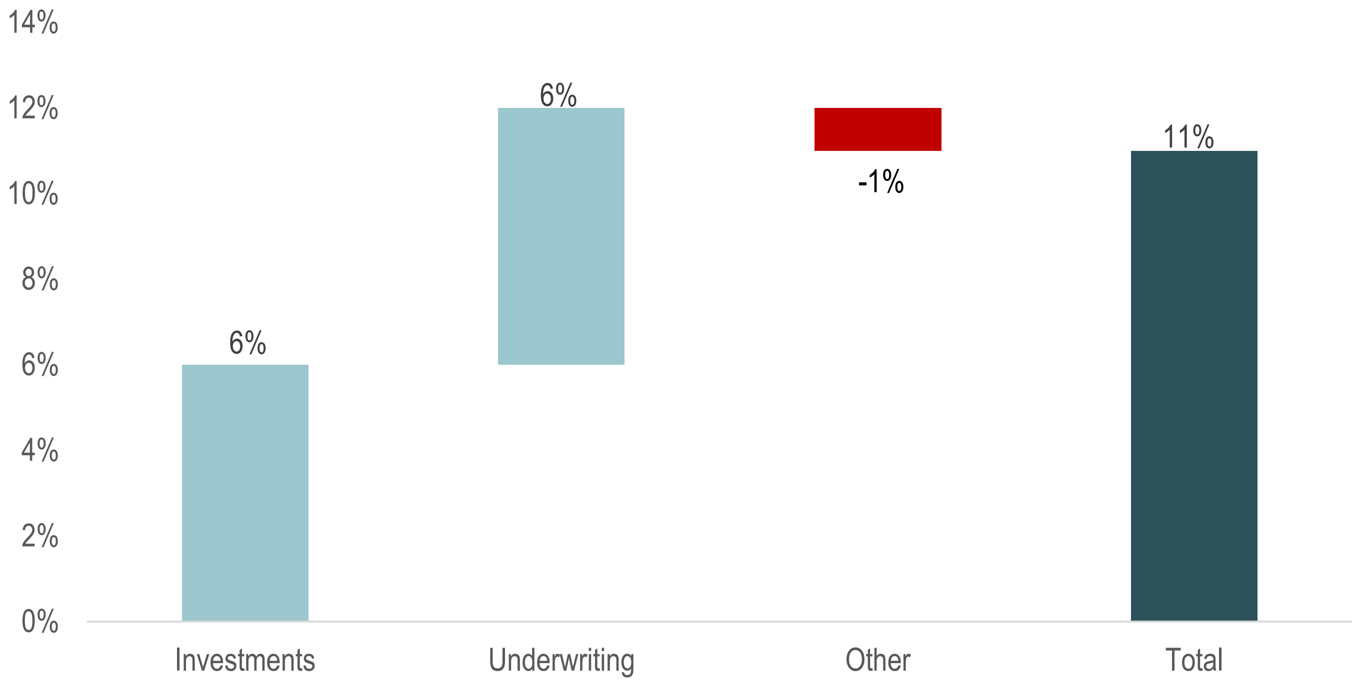
*A.M. Best Review & Preview (February 18, 2016)
For purposes of this presentation, the Reinsurance sector was not included

Return on Equity Attribution – 2006 vs. 2016



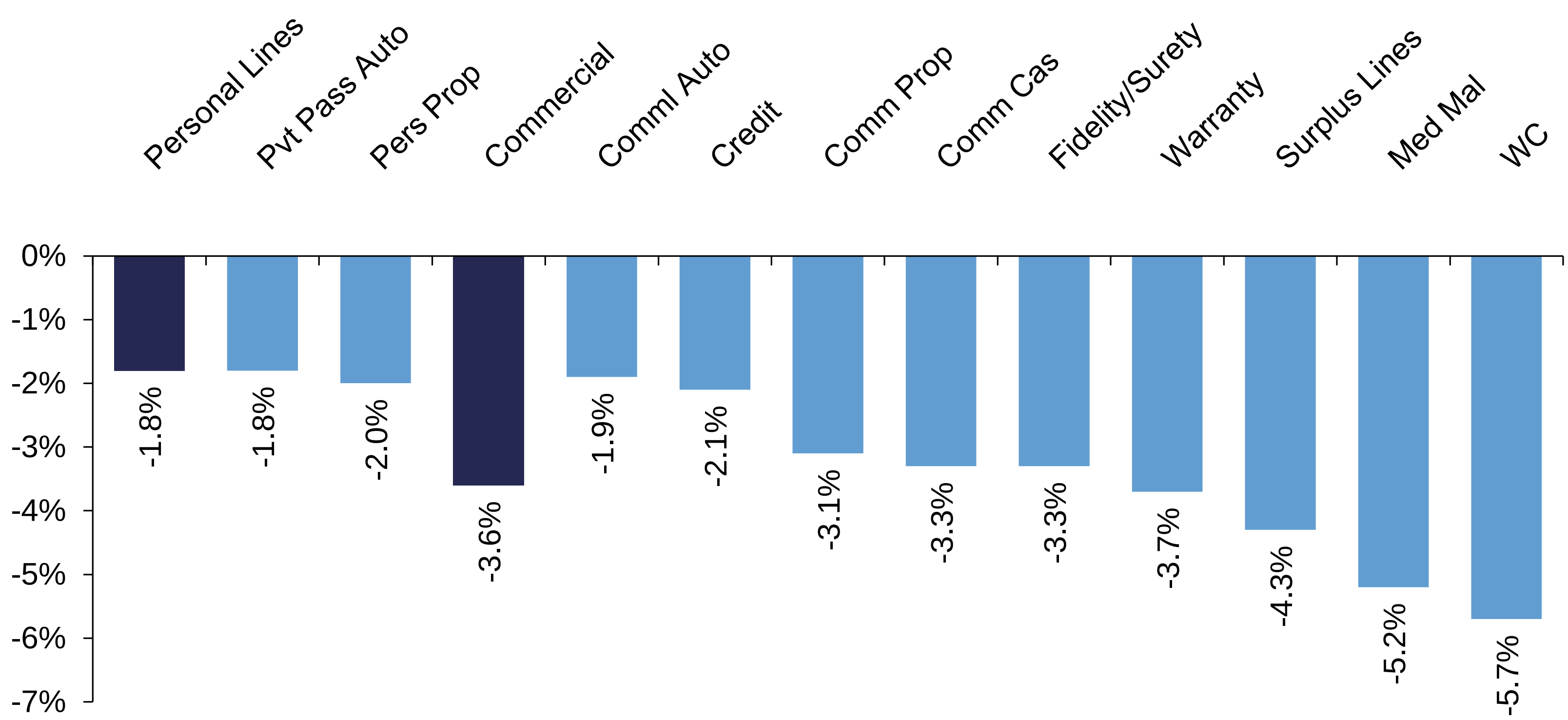


Combined Ratio for 11% ROE in 2016



At 1:1 NPW/Surplus, the industry requires a 91% combined ratio which, all else being equal, would require a ~11% price increase

Reduction in C/R to Offset 1% Decline in Investment Yield for Constant ROE by Line*



Lower Investment Earnings Place a Greater Burden on Underwriting and Pricing Discipline

*Based on 2008 Invested Assets and Earned Premiums

Source: A.M. Best; Insurance Information Institute.

2016 P&C Industry Conclusions*

Underwriting:

With Net Premiums Written to Policyholder's Surplus of 1:1;
1.5 points of combined ratio = 1 point of ROE

Investments:

With Invested Assets to Equity (Policyholder's Surplus) of $2.50 and an Investment Tax Rate of ~ 20%;
50 bps of pre-tax yield (40 bps of after-tax yield) = 1 point of ROE

Conclusion:

To offset a 50 bps decline in yield, the industry must improve the combined ratio by 1.5 points; this requires a 2% price increase above the level of expected claim inflation (which is currently running at about 2.5%)

*A.M. Best Review & Preview (February 18, 2016) Report used to calculate industry leverage
For purposes of this presentation, the Reinsurance sector was not included