

Review & Preview

February 6, 2012

Sector

Property/Casualty

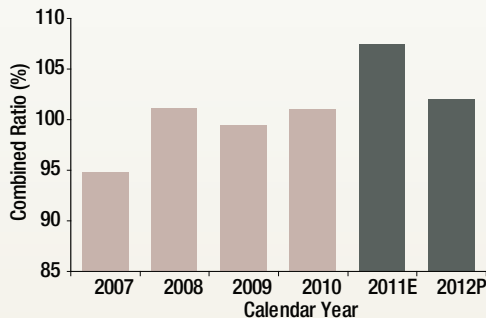
Outlook

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.



A Note to Readers

Welcome to A.M. Best Co.'s 2012 Review & Preview report for the insurance industry. This report reflects A.M. Best's official view, based on interaction with management teams of insurance companies and other authoritative sources.

While the U.S. and global economies continue to recover from financial downturns of the past five years, shock events in the past year show that some companies are one catastrophe away from wrenching change.

The global environment for insurance remains uncertain, whether it's markets struggling with government debt crises or natural catastrophes arising from seemingly anywhere across the globe. Insurers and regulators continue to develop new tools and methods to manage risks. A.M. Best remains committed to understanding the risks that insurance organizations incur and the environment in which they operate.

The three sector-specific editions of this report allow a more thorough examination of the U.S. insurance industry:

- The property/casualty industry remains strongly capitalized, although the events of the past year show that shock events can put some companies – even those considered reasonably strong – off balance overnight. The personal lines sector continues to benefit from improved pricing in 2011, helping it to overcome earlier years of declining premiums. While A.M. Best has maintained its stable rating outlook for the personal lines segment, the rating outlook remains negative for commercial lines insurers given ongoing underwriting pressures and weak economic influences.
- Life insurers are facing the continued challenge of the low interest rate environment,

putting pressure on assets and interest-linked products. A.M. Best's rating outlook was reaffirmed at stable.

- Health insurers continue to adapt to economic and regulatory conditions and as such, the rating outlook was recently revised to stable. However, A.M. Best is maintaining a negative view on smaller, more specialized companies operating in individual and small-group health insurance. Over the past year, the overall sector appears to have handled these challenges well – implementing the early requirements from Patient Protection and Affordable Care Act, which included numerous benefit changes, as well as the minimum medical loss ratio and rate-review process requirements, both of which took effect in 2011. Also, operating earnings have remained favorable for a second year, largely due to a trend of broad-based moderation in utilization. While the industry expected margins to compress, results continued to be favorable for most carriers through late 2011.

A.M. Best remains committed to transparency and communication about its methodology, procedures and requirements. In fact, we have quickened the pace of our briefings and special reports. A.M. Best also issued more updates to methodology in the past year, focusing on the review and applicability to the rating process.

I hope you will find this year's Review & Preview publication to be a valuable asset in your own assessment of the issues in the industry. We continue to strive to improve our communication with the insurance industry and its constituents.

– *Matthew C. Mosher, Senior Vice President, Global Ratings*

Executive Summary

The U.S. property/casualty (P/C) industry experienced another extremely difficult year in 2011, as insurers were hit hard by an unprecedented number of natural catastrophe events, resulting in catastrophe-related losses more than doubling the total reported in 2010. In addition, elevated underwriting losses – even in lines of business not exposed to catastrophes – along with a continuing weak macroeconomic environment, diminishing benefits of reserve releases, low investment yields and volatility in the financial markets also contributed to the industry’s weak operating performance during the year.

Despite this drumbeat of bad news, a full-blown market turn has yet to occur; although some lines are showing signs that pricing has bottomed. A.M. Best anticipates a modest improvement in pricing in 2012, with corresponding increases in company returns, assuming a more “normal” catastrophe year. As long as the economic recovery remains tepid, any pricing improvements and corresponding turn in the market will be modest.

Natural catastrophe events, including an unprecedented tornado season in the Southeastern United States, earthquakes and a tsunami, as well as floods, severe thunderstorm events, a hurricane, wildfires and a pre-Halloween snow storm, all presented a number of challenges to the insurance industry in 2011. Within the United States, 2011 was the Year of the Tornado, as the season broke several records after two significant tornado outbreaks caused widespread damage in April and May. In addition, Hurricane Irene was the first hurricane to hit the United States since Hurricane Ike in 2008. In total, A.M. Best estimates statutory pretax accident-year catastrophe-related losses were approximately \$44.1 billion in 2011, which added more than 10 points to the industry’s 2011 combined ratio.

As a result of these severe catastrophe-related losses, all three segments – personal lines, commercial lines and U.S. reinsurers – are estimated to report relatively large underwriting losses for the year, with the industry posting its worst underwriting result

since 2002. While the majority of insurance companies’ balance sheets weathered the record-breaking catastrophe losses of 2011, there was continued pressure by marginal investment returns, due to the limited options available to investment managers given equity-market volatility and low yields on fixed-income securities. Consequently, the industry’s policyholders’ surplus declined modestly, and return measures were in the low single digits. Driven primarily by deteriorating operating results, downgrades outnumbered upgrades for the first time since 2005.

There are, however, signs of hope. The industry’s premium volume increased for the second consecutive year in 2011, and there appeared to be an across-the-board stabilization in prices, with rate firming emerging in a number of segments as the year progressed. The continued, disheartening interest rate environment has reinforced the need for pricing discipline and it appears the overall industry is at an inflection point for pricing after multiple years of declines. While there are indications that the industry is in the very early stages of a general market firming, A.M. Best believes a traditional “hard” market still may be at least a year or two away, if a traditional hard market even exists.

While the overall U.S. P/C industry demonstrated its resiliency yet again in 2011 and remains well capitalized, the year’s results – and expectations for 2012 – will vary by segment. Pricing continues to improve in the personal lines segment, as well as catastrophe-exposed property accounts in the reinsurance segment. Even though pricing has stabilized somewhat in the commercial lines segment, a number of lines continue to be fundamentally underpriced, and the segment continues to be negatively impacted by weak macroeconomic conditions and decreasing reserve adequacy levels. As a result, A.M. Best has maintained a stable outlook for the personal lines and U.S. reinsurance segments, while the outlook for the commercial lines segment remains negative.

For 2012, A.M. Best expects underwriting results to improve, yet still remain under

pressure from a number of factors, particularly reserve adequacy and suppressed general economic activity. Furthermore, investment returns cannot be counted on to carry operating results, given the continued low interest rate environment and volatility caused by a number of factors, including the U.S. government's monetary policy and the sovereign debt issues in Europe. While the overall industry continues to wait for the long-anticipated turn in the economy and the market, man-

agement teams that manage the cycle successfully by focusing on underwriting fundamentals will see profits and maintain capital levels that fully support their risks as they continue through the next stage of the market cycle. A.M. Best continues to believe the combination of dynamic and effective risk management, pricing discipline, and underwriting and reserve adequacy practices remain the foundation to ensure insurance companies' financial strength.

Financial Outlook

U.S. P/C Operating Performance Plunged in 2011; Rebound Expected in 2012

The U.S. property/casualty (P/C) industry's statutory 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. A.M. Best estimates the U.S. P/C industry's net income after taxes plunged 49.2% to \$21.9 billion in 2011, down from \$43.1 billion in 2010. While most large losses from natural catastrophes occurred outside of the United States in 2011, the U.S. P/C industry had its fair share of losses. Insurers were impacted by a record-breaking tornado season, plus thousands of hail and high wind events, large winter storms, the pre-Halloween snowstorm, wildfires in the Southwest and Hurricane Irene. U.S.-domiciled reinsurers also experienced significant losses from the earthquake and tsunami in Japan, the earthquake in New Zealand and the devastating floods in Thailand and Australia.

A.M. Best estimates that catastrophe-related losses climbed to \$44.1 billion in 2011, more than doubling the total estimated for 2010. Consequently, the industry's overall statutory combined ratio is expected to have increased by 6.5 points to 107.5 in 2011, up from 101.0 reported in 2010. While the deterioration was driven primarily by catastrophe-related losses, the industry also was impacted by challenging market conditions in the commercial lines segment, weaker results in non-catastrophe-exposed lines of business, the diminishing impact of reserve releases and a relatively weak macroeconomic environment. Conversely, the industry's

investment performance improved modestly in 2011, as insurers are expected to report net investment gains of \$57.6 billion, up from \$56.7 billion during 2010.

Despite the sharp deterioration in underwriting and operating results, the U.S. P/C industry's policyholders' surplus (PHS) is estimated to have declined by only 1.4% to approximately \$562.7 billion in 2011 from \$570.4 billion at year-end 2010. Accordingly, A.M. Best estimates that the U.S. P/C industry's after-tax return on equity, which measures overall, after-tax profitability from underwriting and investment activity, declined to 3.9% in 2011, down from 7.9% reported at year-end 2010. While the industry's performance measures are expected to improve in 2012, they are likely to remain under pressure, given the expectation of another underwriting loss, a sluggish economic recovery, less favorable reserve redundancies, relatively low investment yields and the ongoing volatility in the investment markets. A.M. Best believes the U.S. P/C industry's conservative overall operating strategy and effective capital management leave it sufficiently capitalized to absorb these challenges, but strong headwinds will continue throughout 2012.

Operating Performance

The U.S. P/C industry's premium volume benefited in 2011 from across-the-board stabilization in prices and rate firming in a number of segments. Improved underwriting discipline – driven by extensive weather-related losses, diminishing reserve

releases, relatively low investment yields and a weak macroeconomic environment – generated favorable pricing trends. As a result, A.M. Best estimates net premiums written (NPW) increased about 3.5% to \$442.0 billion in 2011 from approximately \$427.0 billion in 2010. Net premiums earned (NPE) are expected to show an increase of 3.3% to \$438.0 billion in 2011 from \$424.1 billion in 2010, as the impact of previous rate increases in personal lines and select commercial lines continued to roll into earned premiums during the year.

While the U.S. P/C industry's top line continued to grow and positively impact results, insurer's underwriting performance deteriorated significantly in 2011 as catastrophe-related losses took a heavy toll on underwriting results throughout the year. As a result, all three segments – personal lines, commercial lines and U.S. reinsurers – are expected to report relatively large underwriting losses. Other factors, including elevated losses in some non-catastrophe-exposed lines of business, the diminished impact of reserve releases and weak macroeconomic conditions, continued to negatively influence underwriting results. A.M. Best estimates the overall industry will report an underwriting loss of approximately \$33.9 billion for 2011, its second consecutive loss and the third-largest annual underwriting loss ever behind the \$56.4 billion underwriting loss in 2001 and \$34.2 billion in 2002. Consequently, the industry's combined ratio – a key measure of underwriting profitability – is expected to show deterioration of 6.5 points to 107.5 in 2011 from 101.0 in 2010.

This deterioration in the combined ratio largely stemmed from a 6.9-point increase in the loss and loss-adjustment expense (LAE) ratio, driven primarily by 10.1 points of catastrophe-related losses compared with 4.6 points in 2010. While catastrophe-related losses led to sharply lower results, the effects of these losses were somewhat offset by favorable prior-year loss-reserve development. Reserve releases shaved 2.7 points off the 2011 calendar-year loss and LAE ratio, compared with the 3.0 points of favorable development recognized in 2010. The industry's underwriting expense ratio – which measures expenses such as commissions, taxes, advertising/marketing

and administration – improved modestly to 27.8 in 2011 from 28.3 in 2010. Dividends to policyholders totaled \$2.5 billion, or 0.6% of NPE, in 2011, just below \$2.8 billion, or 0.7% of NPE, in 2010. Excluding the impact of catastrophe-related losses and prior-year loss-reserve development, the industry's normalized accident-year combined ratio is estimated to be 100.1 for 2011, compared with 99.4 in 2010.

The deterioration in underwriting results was partially offset by improved investment results, despite 2011 being marked by uncertainty and volatility in the financial markets and the persistently low interest

Exhibit 1

U.S. Property/Casualty – Financial Indicators (2007-2012P)

Excludes mortgage and financial guaranty segments.

	Actual				Estimates	
	2007	2008	2009	2010	2011E	2012P
Change in Net Premiums Written (%)	(1.0)	(1.9)	(3.6)	0.9	3.5	3.8
Change in Surplus (%)	7.7	(11.3)	12.4	9.0	(1.4)	4.2
Combined Ratio (Reported)	94.8	101.2	99.5	101.0	107.5	102.0
Less: U.S. Catastrophe Losses ¹	1.5	6.4	3.4	4.6	10.1	4.7
Less: A&E Losses	0.7	0.4	0.6	0.9	0.6	0.6
Combined Ratio (Normalized)	92.6	94.5	95.5	95.6	96.8	96.7
Accident Year Combined Ratio (Normalized) ²	91.6	96.1	97.0	99.4	100.2	99.3
Change in Net Investment Income (%)	6.0	(6.5)	(6.0)	(1.2)	1.4	4.9
Net Investment Yield (%)	4.5	4.2	4.0	3.8	3.7	3.8
Pre-tax Return on Net Premiums Earned (ROR) (%)	17.4	10.8	12.2	10.2	3.8	9.2
After-tax Return on Surplus (ROE) (%)	13.3	4.3	8.4	7.9	3.9	6.1
Net-Premiums-Written-to-Surplus-Ratio	0.9	0.9	0.8	0.7	0.8	0.8

E=Estimated, P=Projected

¹ Historical catastrophe losses (2007-2008) are based on data compiled by Property Claim Services (PCS), a unit of Insurance Services Office, Inc.; 2009-2010 catastrophe losses based on A.M. Best data; 2011-2012 are A.M. Best estimates.

² Normalized accident-year combined ratio adjusted to exclude prior-year core reserve development, which excludes A&E losses.

Source: A.M. Best Co. 

Exhibit 2


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

Excludes mortgage and financial guaranty segments.

(\$ Billions)

	Net Premiums Written	Net Premiums Written Growth (%)	Loss Ratio (%)	Loss-Adjustment Expense Ratio (%)	Underwriting Expense Ratio (%)	Dividend Ratio (%)	Combined Ratio (%)
2007	446.9	(1.0)	54.8	12.1	27.1	0.7	94.8
2008	438.6	(1.9)	61.1	12.0	27.5	0.6	101.2
2009	423.0	(3.6)	58.3	12.5	28.1	0.6	99.5
2010	427.0	0.9	59.4	12.6	28.3	0.7	101.0
2011E	442.0	3.5	66.3	12.8	27.8	0.6	107.5
2012P	458.6	3.8	61.3	12.6	27.5	0.6	102.0

E=Estimated, P=Projected

Source: A.M. Best Co. 

rate environment. The Dow Jones Industrial Average ended the year up a respectable 5.5% from its 2010 level, its second straight annual advance. However, the S&P 500 finished 2011 at 1,257.60, just slightly below its 2010 close of 1,257.64, while the Nasdaq composite finished in the red, slipping 1.8% from its 2010 level. These results fail to illustrate the market's sharp volatility throughout the year. The indexes were up in April on hopes that the U.S. economic expansion was starting to gain traction. However, by early October, the indexes plunged on news about the U.S. debt ceiling and the eurozone sovereign debt crisis. In the year's final months, the equity markets regained their footing on brighter macroeconomic data. Despite the downgrade of U.S. government debt, Treasuries rallied, and the 10-year U.S. Treasury yield fell below 2% as the "flight-to-safety" drove investors to U.S. Treasuries. While corporate spreads have widened over U.S. Treasuries in recent years, overall yields have fallen.

A.M. Best estimates the industry's overall net investment gains (sum of net investment income and realized capital gains/losses) increased slightly to \$57.6 billion in 2011 from \$56.7 billion in 2010. The industry is expected to record approximately \$9 billion in realized capital gains for 2011, compared with \$8.7 billion in 2010, as lower interest rates raised bond prices, providing insurers an opportunity to take gains from bond sales. Net investment income – primarily dividends from stocks and interest on bonds – increased approximately \$0.7 billion to \$48.7 billion in 2011 from \$48.0 billion in 2010. Growth in the industry's 2011 net investment income resulted from approximately \$2.0 billion in cash dividends that National Indemnity Co. received from Burlington Northern Santa Fe Corp., which was acquired by Berkshire Hathaway Inc. in early 2010. Excluding this \$2.0 billion, the industry's net investment income declined by approximately \$1.0 billion, or more than 2.0%, to \$46.7 billion in 2011. The industry's portfolio yield continued to decline in 2011, falling for the sixth consecutive year to 3.7% from 3.8% recorded in 2010.

Catastrophe Losses

The U.S. P/C industry experienced an unprecedented number of natural catastrophe

events in 2011, driven primarily by a series of storms and tornadoes that struck the United States in April and May. According to the latest tornado statistics from National Oceanic and Atmospheric Administration, there were more than 1,700 tornado events in the United States, and the 552 twister-related fatalities made the 2011 tornado season the deadliest since 1925. In comparison, there were 1,282 tornadoes in 2010 and 1,146 in 2009. Furthermore, the Federal Emergency Management Agency declared a record 99 major disasters during the year, up from 81 in 2010, and nearly triple the annual average of 34 per year dating back to 1953. As a result, 2011 is expected to be the costliest catastrophe loss year since 2005, when hurricanes Katrina, Rita, and Wilma slammed the United States.

A.M. Best estimates total statutory pretax accident-year catastrophe-related losses – net of reinsurance and reinstatement premiums – were approximately \$44.1 billion in 2011, up from an estimated \$19.6 billion paid in 2010. Consequently, the impact of accident-year catastrophe-related losses accounted for 10.1 points of the 2011 combined ratio, compared with 4.6 points in 2010. Excluding the impact of accident-year catastrophe losses, the industry's 2011 combined ratio was 97.4, up from 96.4 reported in 2010.

In addition to severe tornadoes within the United States, there were blizzards in the Midwest, wildfires in the Southwest and Hurricane Irene on the East Coast. The industry's fourth quarter was impacted by insured losses from the pre-Halloween snowstorm, which caused significant amounts of damage in multiple East Coast states. Much of the industry's losses stemmed from the series of tornadoes and hailstorms that hit the Midwest and Southeast in April and May – including those causing heavy damage in Tuscaloosa, Ala., and Joplin, Mo. The Insurance Information Institute estimated that if the spring 2011 tornado and storm season were considered a single event, it would have generated \$21.3 billion in insured losses, making it the fourth-costliest insured event in U.S. history, behind hurricanes Katrina and Andrew and the Sept. 11, 2001 terrorist attacks. U.S.-domiciled insurers also suffered from events abroad in 2011, including

the 9.0-magnitude earthquake and resulting tsunami in Japan, the earthquake in New Zealand and severe flooding in Australia and Thailand.

The 2011 North Atlantic hurricane season was exceptionally active, with 19 named storms and seven hurricanes, three of which were considered major, including Hurricane Irene. That marked the third highest total since records began in 1851 (tied with 1887, 1995 and 2010). The seven hurricanes and three major hurricanes that formed during the year were close to the long term average, but well below the 2010 total, when 12 hurricanes and five major hurricanes developed. Irene was the only storm to directly strike the U.S. coastline during the 2011 season. It was also the first hurricane to hit the United States since Hurricane Ike in 2008, and the first to strike the New York City area since Hurricane Gloria in September 1985. Irene made landfall in North Carolina as a Category 1 hurricane and moved northward, causing major flooding in New Jersey, upstate New York and Vermont. However, much of the flood-related damage is not included in the 2011 insured loss estimate, as it either was not covered under most homeowners policies or was covered by the government-backed National Flood Insurance Program.

Loss-Reserve Development

The U.S. P/C industry continued to release reserves in 2011, but the impact of redundancies has moderated compared with recent years. A.M. Best estimates the U.S. P/C industry will recognize favorable loss-reserve development on prior accident years of approximately \$12 billion for 2011, representing the sixth consecutive year of favorable prior-year loss reserve development. As a result, reserve releases shaved 2.7 points off the 2011 calendar-year combined ratio, down from 3.0 points in 2010. The difference would have been greater if not for American International Group Inc.'s substantial fourth-quarter 2010 reserve strengthening. Excluding the impact of reserve releases, the industry's reported accident-year combined ratio was 110.2 in 2011, compared with 104.0 in 2010.

While there are select lines where reserving strength remains, A.M. Best continues

to believe the overall industry's previous reserve cushion is largely exhausted because of sizable reserve releases over the past six calendar years. With overall industry reserve redundancies expected to continue through 2012, albeit to a lesser extent, the overall reserve deficiency will continue to increase, and core, undiscounted reserves will remain inadequate. A.M. Best expects a number of insurers will see a drop-off in the earnings benefit received from reserve releases as a result of the need to increase ultimate loss and LAE ratios in the most recent accident years, specifically 2008 through 2010, and an increase in reserve charges over the near term. A.M. Best continues to believe that carriers maintaining conservative reserve positions will be better positioned to face the increased uncertainty in this difficult market environment.

Policyholders' Surplus

Despite the frequency and severity of catastrophe-related losses in 2011 and their impact on operating results, A.M. Best estimates that the industry's PHS decreased only 1.4%, or \$7.7 billion, to \$562.7 billion from its record year-end high of \$570.4 billion reported in 2010. The modest deterioration was driven by net income of \$21.9 billion and \$1.7 billion of contributed capital being more than offset by unrealized capital losses of \$7.0 billion, \$22.6 billion

Exhibit 3


U.S. Property/Casualty – Surplus Recap (2007-2012P)

Excludes mortgage and financial guaranty segments.
(\$ Billions)

	Actual				Estimates	
	2007	2008	2009	2010	2011E	2012P
Beginning Policyholders' Surplus	\$487.3	\$524.8	\$465.5	\$523.2	\$570.4	\$562.7
Net Underwriting Income	23.0	(4.6)	2.8	(5.2)	(33.9)	(10.4)
Net Investment Income	55.2	51.7	48.6	48.0	48.7	51.0
Other Income/(Expense)	(0.8)	0.5	0.8	0.5	2.1	1.1
Pretax Operating Income	77.4	47.6	52.1	43.3	16.9	41.7
Realized Capital Gains/ (Losses)	9.5	(16.6)	(0.5)	8.7	9.0	0.0
Federal Income Taxes	19.5	9.6	9.9	8.9	3.9	6.8
Net Income	67.4	21.4	41.7	43.1	21.9	34.9
Unrealized Capital Gains/ (Losses)	(0.1)	(54.3)	23.5	15.9	(7.0)	0.0
Contributed Capital	0.8	4.0	3.5	22.2	1.7	3.8
Stockholder Dividends	(30.2)	(24.6)	(17.7)	(32.8)	(22.6)	(24.0)
Other Changes	(0.4)	(5.8)	6.8	(1.1)	(1.8)	8.9
Ending Policyholders' Surplus	\$524.8	\$465.5	\$523.2	\$570.4	\$562.7	\$586.3
Total Changes in Surplus (\$)	37.5	(59.2)	57.6	47.3	(7.7)	23.6
Change in Surplus from Prior Year (%)	7.7	(11.3)	12.4	9.0	(1.4)	4.2

E=Estimated, P=Projected

Figures may not add due to rounding.

Source: A.M. Best Co. 

in stockholder dividends and \$1.8 billion of other changes.

The industry's contributed capital was down considerably during the year from the \$22.6 billion recorded in 2010. The 2010 amount largely reflected a capital contribution of \$22.5 billion from Berkshire Hathaway Inc. to National Indemnity, which was related to Berkshire Hathaway's first-quarter purchase of Burlington Northern Santa Fe.

The industry's underwriting leverage measures remained comparatively low in 2011. With the industry's top line continuing its upward trend and PHS declining slightly,

the annualized NPW-to-PHS ratio increased to 0.8x in 2011, up slightly from 0.7x at year-end 2010. Despite the sharp deterioration in underwriting and operating results, the industry's balance sheets continued to be relatively strong, and insurers for the most part, remain well capitalized to face the challenges that lie ahead.

Outlook for 2012

While the U.S. P/C industry's operating performance deteriorated sharply in 2011, insurers, for the most part, weathered the storm and remain well capitalized. However, the industry still faces a challenging operating environment, with relatively weak underwriting results and lackluster

Exhibit 4

U.S. Property/Casualty – Segment Indicators (2010-2012P)

Excludes mortgage and financial guaranty segments.

	Personal Lines Segment			Commercial Lines Segment			U.S. Reinsurance Segment		
	2010	2011E	2012P	2010	2011E	2012P	2010	2011E	2012P
Change in Net Premiums Written (%)	3.3	2.5	3.0	(1.6)	4.1	4.2	(1.8)	9.6	7.8
Change in Policyholders' Surplus (%)	5.6	0.5	4.0	1.8	(3.2)	2.0	33.5	(1.2)	8.4
Combined Ratio (Reported)	100.4	107.4	101.7	102.7	108.2	103.9	94.5	103.4	91.7
Less: Catastrophe Losses	5.3	10.5	5.0	3.5	8.5	4.0	6.3	17.1	7.0
Less: A&E Losses	0.1	0.1	0.1	1.6	1.2	1.1	2.9	1.3	1.4
Combined Ratio (Normalized)	95.1	96.8	96.6	97.6	98.5	98.8	85.3	85.0	83.3
Accident Year Combined Ratio (Normalized) ¹	99.2	101.0	100.0	100.3	100.8	100.5	94.7	88.2	85.8
Change in Net Investment Income (%)	(5.6)	(4.0)	4.5	2.5	(3.6)	5.0	(4.6)	26.4	5.0
Investment Yield (%)	3.3	3.0	3.0	4.1	3.9	4.1	3.9	4.6	4.6
After-Tax Return on Surplus (ROE) (%)	6.2	0.2	3.9	8.7	5.3	6.5	9.3	7.7	9.2
NPW/PHS (Reported)	1.1	1.1	1.1	0.8	0.8	0.8	0.2	0.2	0.2

E=Estimated, P=Projected

¹ Normalized accident-year combined ratio adjusted to exclude prior-year core reserve development, which excludes A&E losses.


Source: A.M. Best Co. 

Exhibit 5

U.S. Property/Casualty – Product Line Underwriting Trends (2007-2012P)

Product Line ¹	Net Premiums Written		Combined Ratios					
	2011E		Actual			Estimates		
	Share	Growth	2007	2008	2009	2010	2011E	2012P
Private Passenger Auto	36.9%	2.5%	98.3	100.3	101.3	101.0	100.8	100.3
Homeowners & Farmowners Multi Peril	14.4	5.0	95.7	116.9	105.8	106.7	123.7	105.0
Other & Product Liability ²	9.5	5.0	99.0	95.1	105.4	109.8	105.1	106.6
Workers' Compensation	8.0	6.0	103.5	104.5	110.6	116.8	118.5	120.5
Commercial Multiple Peril	6.8	3.5	92.1	104.1	97.0	100.2	117.1	102.1
Fire & Allied Lines ³	5.8	8.0	69.9	99.3	80.0	82.5	103.2	88.2
Commercial Auto	5.1	1.5	94.3	96.8	99.4	98.0	102.6	102.1
Inland Marine	1.9	-0.5	79.5	93.2	89.4	86.2	95.2	88.2
Medical Professional Liability	1.8	-6.0	84.3	77.4	83.4	80.6	87.0	92.0
All Other Lines ⁴	9.9	-7.2	96.7	124.4	99.3	101.4	119.3	106.7
Total All Lines⁵	100.0%	3.5%	94.8	101.2	99.5	101.0	107.5	102.0


E=Estimated, P=Projected

¹ Source: Best's Statement File Supplement - Insurance Expense Exhibit (IEE) - P/C, US (2007-2010)

² Other Liability includes professional liability, D&O, excess casualty/umbrella, general liability, and EPLI.

³ Fire & Allied Lines includes earthquake, multiple peril crop, and federal flood.

⁴ All Other Lines includes accident & health lines, mortgage guaranty, financial guaranty, ocean marine, aircraft, fidelity, surety, burglary & theft, boiler & machinery, credit, international, excess of loss reinsurance and miscellaneous.

⁵ Source: A.M. Best Co. 

investment returns expected to influence operating results during the year. There are glimmers of hope for insurers as they head into 2012. Premium volume increased for the second consecutive year in 2011 and it appears the market is seeing an across-the-board stabilization in prices, coupled with continued rate firming in a number of segments. Pricing discipline looks to be taking hold, given the significant level of catastrophe-related losses, diminishing impact of reserve releases, weak macroeconomic conditions and the low interest rate environment, and it appears the overall industry is at the inflection point for pricing after multiple years of declines. In addition, with reinsurers coming off a difficult catastrophe year, reinsurance treaty costs generally were up for primary property insurers negotiating their Jan. 1, 2012 treaties, which likely will be passed on to insureds throughout the year. However, the reinsurance market is segmented, and positive rate movements in non-catastrophe-prone accounts appear to have been muted during Jan. 1 renewals.

The underwriting cycles in personal lines and commercial lines remain divergent heading into 2012, with sustained rate increases continuing for personal lines and prices stabilizing in commercial lines. Pricing remains inadequate, however, in the commercial segment's biggest (based on NPW) line of business, workers' compensation. A.M. Best is projecting that total industry NPW will continue its upward trend for the third consecutive year, increasing approximately 3.8% to \$458.6 billion in 2012. NPW is expected to continue its upward trajectory because of continued rate increases in personal lines, further rate firming in select commercial lines and overall growth in exposure. Yet it appears the phase of sustained market hardening is only beginning, as across-the-board rate firming, lower limits and more restrictive terms and conditions are not expected in the near term.

A.M. Best believes the industry's underwriting performance will continue to be challenged in 2012, as overall results continue to be pressured by an abundance of capacity in the market; inadequate rates in certain commercial lines; weak, (but improving) macroeconomic conditions; the

diminishing impact of prior-year reserve releases and the always looming possibility of elevated catastrophe-related losses. Offsetting these factors are continued focus on underwriting and pricing discipline, expense management, exposure growth, effective monitoring of catastrophe risk exposures, and rate and reserve adequacy, coupled with stronger economic growth and expanding rate-firming in commercial lines. On balance, however, A.M. Best expects insurers collectively to report another underwriting loss of approximately \$10.4 billion during the year, resulting in a combined ratio of 102.0.

A.M. Best's underwriting projections assume catastrophe-related losses reverting back to historical levels, resulting in approximately 4.7 points of the U.S. P/C industry's combined ratio in 2012. However, given that the La Niña event is likely to continue into 2012, albeit not to the same extent as in 2011, this again could influence natural weather events and result in elevated catastrophe-related losses once again.

Due to the industry's heavy allocation to fixed-income securities, investment gains will continue to be pressured in 2012, as volatile financial markets, persistent low interest rates and lower bond yields are likely to continue influencing investment returns. However, net investment income is expected to increase modestly in 2012, with growth in invested assets expected to offset low interest rates and negative underwriting cash flow. A.M. Best expects the industry's investment yield to reverse its six-year decline and tick up to 3.8% in 2012. Given that the industry will continue to struggle with low reinvestment yields in its fixed income portfolios and the continued volatility in the equity markets, A.M. Best is concerned that investment returns will continue to fall short of levels needed to support the industry's lackluster underwriting performance, especially if catastrophe-related losses surpass "normal" levels in 2012.

Looking ahead, premium growth, improved accident-year underwriting results and investment income will drive an improvement in the industry's operating performance. However, catastrophe-related losses, a relatively weak macroeconomic

environment, relatively low investment yields and the diminishing impact of reserve releases are likely to weigh on the industry's bottom line in 2012. A.M. Best expects the industry's net income after taxes to improve by approximately 60% to \$34.9 billion in 2012. Driven by improved underwriting and investment results, PHS is projected to increase moderately to a new record high of \$586.3 billion. It is important to note that there are no realized or unrealized capital gains/losses built into these projections, therefore bottom-line results and PHS could be altered considerably should the investment markets move profoundly in one direction or the other.

As the industry operates on relatively lower investment returns in 2012, insurers will have to deliver favorable underwriting results by maintaining underwriting and pricing discipline and adequate reserves in order to keep their bottom lines in the black. In addition to disciplined underwriting practices, conservative investment guidelines and prudent capital management will be essential for the industry to withstand pressures on both sides of the balance sheet as insurers continue to navigate

their way through the current phase of the insurance cycle. As always, the majority of annual rating reviews will culminate in affirmations, and while the industry is expected to continue facing headwinds in 2012, A.M. Best expects that rating actions across the overall industry will not show a general trend and will be driven primarily by individual companies' operations.

A.M. Best has maintained a stable outlook for the personal lines and U.S. reinsurance segments. The outlook for the commercial lines segment remains negative because of the incremental impact that rate increases in select lines will have over the next year; inadequate rates in select lines of business; decreasing reserve adequacy levels; and the sluggish economic recovery. The negative outlook implies that, while the vast majority of rating actions in the commercial lines segment will be affirmations, negative rating actions will outnumber positive ones during the year. A.M. Best typically reviews the rating outlooks for each segment annually, but they can be revisited at any time during the year, depending on underwriting and financial market conditions.

Personal Lines: Divergent Trends Continue

As in recent years, 2011 results for the personal lines segment reflect the divergent trends of the segment's main lines of business; automobile and homeowners. On one hand, the automobile line continues to perform well, with generally adequate and stable returns. This is contrasted by the extreme volatility associated with the property lines of business due to continued weather-related losses.

Homeowners Volatility Continues

Carriers continue to look for ways to

address ongoing volatility in the property line. The underwriting tenets of insurance to value, deductibles, pricing and, in some cases, exposure reduction are well ingrained across a wide swath of the segment. More important, an increasing number of carriers have begun to implement more sophisticated pricing algorithms for the homeowners line, with more anticipated over the next several years. Improved technology and data-quality initiatives across the segment make this a much more attainable goal than in the past. A.M. Best believes carriers that actively embrace this more granular pricing approach likely will gain significant competitive advantage in the long term.

Given the recent increase in the impact of volatile weather in the United States, as well as considerable catastrophic activity around the globe, reinsurance pricing is expected to continue increasing, particularly for companies that are geographically concentrated. This will put additional pressure on operating results for some carriers. To address the

Exhibit 6
U.S. Property/Casualty –
Personal Lines Segment Key Figures (2010–2012P)
(\$ Billions)

	2010	2011E	2012P
Net Premiums Written	\$229.1	\$234.8	\$241.9
Underwriting Gain/(Loss)	(1.8)	(17.7)	(4.7)
Net Income	13.2	0.5	8.6
Policyholders' Surplus	217.5	218.6	227.3
After-Tax Return on Surplus (%)	6.2%	0.2%	3.9%

E=Estimated, P=Projected
Source: A.M. Best Co. 

frequency issues of the past several years, primary carriers have looked to place aggregate covers. However, availability, pricing and terms and conditions for this coverage have been an issue in many cases. Accordingly, underwriting initiatives to mitigate losses on this line are increasingly important.

Catastrophe Model Usage

While there was significant hurricane activity in 2011, insured losses associated with major hurricane events were relatively modest. However, no discussion of the homeowners line in 2011 and 2012 would be complete without at least touching on the impact of changes to catastrophe models, particularly given the release of Risk Management Solutions' updated U.S. Hurricane model (Version 11.0). This applies not only to carriers writing homeowners coverage but to all carriers with meaningful catastrophe exposure.

As stated previously, A.M. Best views catastrophe models as a valuable tool in a company's overall risk management framework. However, over reliance on models or a lack of understanding regarding general model parameters/limitations is viewed as a weakness in risk management. A.M. Best anticipates that – regardless of the model used – company management will take ownership of catastrophe risk management without over relying on model output. The ability of management to clearly articulate its perspective on the book of business and its risk management approach is an important rating consideration. Interestingly, one consequence of the recent model discussion appears to be a greater awareness by senior management teams of the models' role in the risk management process. A.M. Best anticipates that these informed discussions will continue, particularly given their importance in the rating assessment.

Auto Stability Defines the Segment

As indicated, the personal auto line has been extremely stable in recent years, with generally adequate performance for a majority of companies. Favorable frequency trends and disciplined underwriting continue to foster stable results in the aggregate.

One area of pressure regarding the auto line has been severity trends – particularly

with regard to personal injury protection/ no-fault and medical cost inflation. In addition, increased fraud, due partially to overall economic conditions, has been an ongoing issue for auto writers. In response, a number of carriers have moved aggressively to mitigate these fraud losses. With additional regulatory and legislative efforts under way in a number of key states – including Florida, New York and Michigan – the auto line may begin to see a gradual reduction in these claims over the intermediate term. However, the ultimate success of these initiatives remains uncertain, particularly given the sometimes politicized process involved.

What remains certain is the entrenched role of advertising across the segment. Carriers continue to promote brand awareness and ensure that they have marketing penetration across a broad spectrum of media outlets. Due to the use of multi-variate pricing/segmentation, a vast majority of carriers are investing in advertising to grow or retain their book of business instead of merely engaging in “price wars.” While the message of various campaigns changes continually, the push for brand awareness is likely to persist.

Telematics, or the ability to price risks based on actual, specific vehicle usage, remains the next frontier in terms of pricing for the auto line. While it is still in its early stages and likely will be adopted in a very deliberate manner, it is clear that over the long term, this underwriting tool will significantly alter the auto insurance landscape. Technology for this type of pricing mechanism continues to progress, making it more cost effective for carriers to implement.

Consolidation

As has been the case over the past several years, there continues to be a fair number

Exhibit 7 U.S. Personal Lines Segment – Financial Strength Rating Changes (2011)

Rating Action	Rating Units ¹
Upgrades	12
Downgrades	36

¹Totals are for U.S. personal lines insurers rated by A.M. Best Co. Source: A.M. Best Co. 

of consolidations among personal lines companies. This is particularly evident among smaller mutual companies, which have come under additional stress due to the aggregation of weather-related losses. However, consolidation has not been limited to small companies. Several larger transactions were either announced or completed in 2011, including Allstate's acquisition of Esurance and Nationwide's acquisition of Harleysville.

Like the divergent trends in performance noted earlier, the effect of consolidation on the segment's two main lines also is very different, with the largest auto writers increasing their collective market share while the largest homeowners writers lost market share over the past decade. The top 10 auto writers controlled 10% more of the total market in 2010 (the most recent year available) than in 2000 as measured by direct premiums written – 68.4% vs. 58.9%, respectively. Conversely, the top 10 homeowner writers wrote 62.4% in 2010, compared with 65.6% in 2000. This change reflects the movement toward scale in the auto line, with the contrasting reductions in homeowners due to the volatility and ongoing exposure-reduction initiatives.

Rating Trends

Given the different performance trends across the segment's two main lines of business, it is no surprise to see a disparity

between auto and homeowners carriers' A.M. Best ratings. A vast majority of the segment's 36 downgrades in 2011 can be attributed to two subsets: geographically concentrated property writers with limited scale; and to a lesser extent, non-standard auto writers. In the case of property writers, the aggregation of weather-related losses and the inability to effectively absorb them without materially reducing risk-adjusted capital led to downward pressure on ratings. In the non-standard auto segment, rating actions were primarily driven by the impact of ongoing fraud related activity which has been magnified by macroeconomic conditions. As indicated in **Exhibit 8**, three of the top five rating changes (based on net premiums written), reflect downgrades out of the Superior rating category (State Auto Insurance Companies, Alfa Insurance Group and Central Insurance Companies). For the most part, these rating actions reflect the ongoing volatility associated with the property line and corresponding long-term results that had fallen outside expectations, particularly at the higher rating levels.

In terms of upgrades, companies with positive rating actions continue to exhibit solid risk-adjusted capitalization and have a demonstrated ability to consistently produce favorable results over a long period. The ability to manage through extreme events while maintaining stable risk-adjusted capitalization is a key rating consideration.

Despite the challenges associated with frequent weather-related events and the ongoing macroeconomic volatility, the majority of carriers in the personal lines segment have shown resiliency as indicated by ratings affirmations. The auto line remains stable and risk-adjusted capitalization is favorable, despite the significant level of losses experienced in 2011.

Outlook

A.M. Best continues to maintain a stable outlook in 2012 for the personal lines segment. The stable outlook implies that the majority of 2012 rating actions for this segment are likely to be affirmations, with a fairly balanced distribution of negative and positive rating actions.

Given that the auto line continues to perform well with generally adequate and stable returns and represents more than


Exhibit 8 U.S. Personal Lines Segment – Rating Changes (2011)

Top 10 writers upgraded or downgraded, ranked by 2011 net premiums written.

(\$ Thousands)

Rank	Rating Change ¹	Rating Entity	2011 Net Premiums Written	Best's Financial Strength Rating ²	Previous Rating
1	+	State Farm General Ins Co.	\$1,846,912	A	A-
2	-	State Auto Insurance Cos.	1,756,195	A	A+
3	-	Alfa Insurance Group	1,053,836	A	A+
4	-	Central Insurance Cos.	491,719	A	A+
5	+	Esurance Insurance Co.	375,397	A+	A-
6	-	Germania Mutual Group	323,587	A-	A
7	-	Affirmative Insurance Group	292,006	C+	B-
8	+	United Automobile Ins Co.	238,927	C++	C
9	-	Oklahoma Farm Bureau Group	193,185	B-	B
10	-	Cooperativa Seguros Group	178,860	A-	A

¹ (+) Rating upgrade; (-) Rating downgrade

² For Best's Rating criteria and definitions, visit www.ambest.com. Ratings as of Dec. 31, 2011. Source: A.M. Best Co. 

60% of the segment's net written premium, the outlook remains stable. While some geographically and property concentrated writers have come under rating pressure recently, A.M. Best believes that from an overall segment perspective, maintaining the stable outlook is appropriate at this time.

While the property line volatility has not materially weakened the segment's overall capital position, it remains a drag on

overall results. As a result, there is less room for additional deterioration in results than there was in previous years. A.M. Best believes the personal lines segment is adequately positioned to handle a "normalized" weather year without a corresponding change in the outlook. Conversely, a continuation of the frequent and severe weather events in 2012 that is beyond expectations will likely lead A.M. Best to re-evaluate the segment outlook.

Commercial Lines: Headwinds Linger

A.M. Best revised the commercial lines segment's rating outlook to negative in January 2011, citing the expectation that continued competitive market conditions, gradual price deterioration, less favorable loss-reserve development and depressed investment yields would pressure profitability and compress margins. The move reflected A.M. Best's expectation that negative rating actions would outnumber positive rating actions, despite commercial lines insurers remaining well capitalized and affirmations dominating the rating landscape in 2011.

As the year progressed, many of these predictions came to pass. Competitive market conditions remained, low investment yields persisted, and the benefits of favorable prior-year loss-reserve development declined, culminating in significant deterioration of calendar-year underwriting and operating results. For 2011, A.M. Best estimates the commercial lines segment will report an underwriting loss of \$15.2 billion. Net income after taxes is expected to fall more than 40% to \$11.7 billion in 2011 from a \$19.6 billion gain in 2010. PHS contracted by more than 3% to \$218.9 billion last year, down from \$226.3 billion in 2010. As a result, negative rating actions outpaced positive rating actions in the commercial lines segment in 2011.

The segment's 2011 performance also was impacted by an unprecedented level of natural catastrophes. The year started badly in the United States and quickly worsened, as blizzards early in the year were followed by severe tornadoes and hailstorms in the spring and summer. Flooding, wildfires, Hurricane Irene and the October snowstorm closed the year. U.S. hurricane activity in 2011 proved to be relatively benign compared with the record pace of severe tor-

nadoes and hailstorms that pounded the Midwest. In addition, U.S.-domiciled insurers were not immune to overseas catastrophes, including the earthquake in New Zealand, cyclone activity in Australia, the earthquake and tsunami in Japan and the flooding in Thailand. Exposure materialized through primary and contingent business interruption claims and participation in high levels of global property catastrophe reinsurance programs.

Although the events were numerous, many were not severe enough on an individual basis to trigger catastrophe reinsurance programs. This resulted in a number of companies retaining a high percentage or, in some cases, all of the insured losses. In total, A.M. Best estimated that catastrophe-related losses added more than eight points to the segment's combined ratio in 2011, more than double the impact in 2010.

Insurers also pondered the potential effect of future weather events on results, especially in light of updates to catastrophe models. An increasing number of companies began incorporating the actual catastrophe losses and model updates into pricing and exposure management decisions throughout the year.

Exhibit 9

U.S. Property/Casualty – Commercial Lines Segment Key Figures (2010 – 2012P)

(\$ Billions)

	2010	2011E	2012P
Net Premiums Written	\$174.1	\$181.2	\$188.7
Underwriting Gain / (Loss)	(4.7)	(15.2)	(7.9)
Net Income	19.6	11.7	14.3
Policyholders' Surplus	226.3	218.9	223.3
After-Tax Return on Surplus (%)	8.7%	5.3%	6.5%

E=Estimated, P=Projected

Source: A.M. Best Co. 

While the frequency of weather-related events and the impact of these losses were somewhat surprising, the reduced benefit of prior-year loss-reserve development was clearly not. A.M. Best repeatedly has warned that reduced redundancy levels from earlier accident years, coupled with more competitive pricing conditions in the more recent accident years, would yield lower levels of favorable reserve development. This came to a head in 2011, as the benefit of prior-year reserve releases was nearly halved from 2010 (when adjusted for AIG's 2010 fourth quarter reserve strengthening); some lines, such as workers' compensation and general liability, showed overall deficiencies.

As the benefits of prior-year loss-reserve releases gradually diminished and catastrophe-related losses mounted, prices began to firm, and the segment's pace of premium growth gained momentum. Initial growth was modest and limited to a few lines, including workers' comp and catastrophe-exposed property. As the year progressed, price firming seemed to be more wide-

spread, as more companies recognized the need to focus on underwriting and pricing discipline. As a result, net premiums written for the segment is expected to show an increase of more than 4% to \$181.2 billion, representing the segment's first year-over-year increase since 2004.

Several factors continued to dampen growth and earnings prospects in 2011. Chief among these were the abundance of capital in the market; difficult macroeconomic conditions resulting in shrinking exposure bases (payroll, sales, start-ups, number of locations, etc.); and the reluctance of many to increase rates in a weak economy.

Given that many of these are external challenges and may persist for some time, management teams increasingly have shifted their focus internally to enhance profitability. Good examples include increased use of predictive modeling and other analytical tools for underwriting, pricing and claims handling. Insurers are leveraging data and technology through these analytical tools to minimize losses and maximize profits via improved risk selection and price optimization. Databases also have improved markedly, enhancing the utility of these analytical tools and enabling decision makers to determine which products, lines of coverage and risks offer acceptable profit margins. Improved technology also has enhanced operations, cultivated relationships with distribution forces and strengthened enterprise risk management initiatives. No matter how sophisticated the modeling tools, well-planned and executed strategies, along with underwriting discipline, will help commercial lines companies navigate this difficult market.

Exhibit 10 U.S. Commercial Lines Segment – Financial Strength Rating Changes (2011)

Rating Action	Rating Units ¹
Upgrades	28
Downgrades	36

¹ Totals are for domestic commercial lines insurers rated by A.M. Best Co.
Source: A.M. Best Co. 

Exhibit 11


U.S. Commercial Lines Segment – Rating Changes (2011)

Top 10 writers upgraded or downgraded, ranked by 2011 net premiums written.

(\$ Thousands)

Rank	Rating Change ¹	Rating Entity	2011 Net Premiums Written	Best's Financial Strength Rating ²	Previous Rating
1	+	Philadelphia Insurance Cos.	\$1,969,363	A++	A+
2	-	Accident Fund Group	726,905	A-	A
3	+	Agri General Insurance Co.	677,303	A+	A
4	+	Hartford Steam Boiler Group	660,692	A++	A+
5	+	Doctors Company Insurance Group	659,962	A	A-
6	-	Great West Casualty Company	565,662	A	A+
7	-	Old Republic Insurance	320,184	A	A+
8	-	Bituminous Insurance Cos.	250,101	A	A+
9	+	MAG Mutual Group	232,663	A	A-
10	+	Amerisafe Insurance Group	207,875	A	A-

¹ (+) Rating upgrade; (-) Rating downgrade.

² For Best's Rating criteria and definitions, visit www.ambest.com. Ratings as of Dec. 31, 2011
Source: A.M. Best Co. 

risk-adjusted capital positions. The negative rating pressure was felt most widely in the catastrophe-exposed property and workers' comp lines of business.

Conversely, there were more than 50 positive rating movements – an upgrade or positive movement in the outlook – in the commercial lines segment in 2011. While some of this activity was prompted by mergers and acquisitions, other upgrades reflect continued favorable operating results, conservative reserving practices, robust levels of risk-adjusted capitalization and strong enterprise risk management skills consistently achieved by some insurers even in challenging market conditions.

Outlook

Despite a recovering economy and signs of price firming in 2011, A.M. Best has maintained its negative outlook for the commercial lines segment for 2012. While the vast majority of rating actions will be affirmations, A.M. Best expects negative rating actions to outnumber positive rating actions during the year.

As more leading commercial lines insurers publicly express the need for rate increases, premium growth in the segment is on the upswing for the first time in years. While these pricing trends are encouraging and noteworthy, A.M. Best remains skeptical that a long-term reversal in market pricing has arrived and believes insurance cycles are measured in years, not quarters. Any benefit will be incremental over the near term.

Given the U.S. economy's fragility, the willingness of commercial lines insurers to sustain further positive rate momentum will be tested

Reinsurance: Results Deteriorate On Catastrophe Losses

2011 likely will be counted among the most memorable years ever for global natural catastrophes. The unprecedented series of catastrophe events, which included the Japanese earthquake and tsunami, the New Zealand earthquakes, U.S. tornadoes and storms, Hurricane Irene and floods in Australia and Thailand, resulted in cumulative industry losses estimated to exceed \$100 billion. In spite of these events and the portion that impacted the reinsurance segment, policyholders' surplus for the U.S.

in 2012. Whether insurers continue to act on their words and rhetoric becomes reality will show over time. The ability to sustain further rate increases is likely to meet resistance in the current economic environment. This is particularly true of the small and medium-sized insureds, whose business already is strained by the sluggish economy. As for large accounts, any increase in pricing will come under pressure by insurance brokers and risk managers. Despite these headwinds, further pricing momentum is expected through 2012 for select lines and in certain geographies where loss experience warrants such increases. Catastrophe-exposed commercial property and workers' comp are two rate-deficient areas likely to benefit from higher pricing.

Balance sheets of commercial lines insurers, albeit relatively strong, are expected to show continued erosion in loss-reserve adequacy. Workers' comp and general liability already have turned from favorable development to modestly adverse reserve development. A.M. Best believes reserve charges will become more common in 2012 than in the recent past, as more insurers have reported optimistic recent accident-year results.

While the commercial lines outlook remains negative, A.M. Best does not expect rating actions to move profoundly negative, as an abundance of capital and investment income is expected to generate positive operating cash flow, relatively favorable earnings and growth in surplus. For some, marginal capital and the low interest rate environment have necessitated greater emphasis on underwriting profitability to avoid negative rating actions.

reinsurance statutory reporting companies is expected to show only a slight decline, falling approximately 1.2% to \$125.2 billion at year-end 2011, compared with \$126.7 billion at year-end 2010.

The segment's earnings remained under significant pressure for the year due to the accumulation of natural disasters, which resulted in large incurred losses. The U.S. statutory reinsurance composite sustained an estimated \$1.0 billion in underwriting

losses for the year. Weak pricing in casualty classes also pressured underwriting margins. Yet many companies continued to benefit from favorable reserve development, albeit at lower levels than reported in prior periods. As a result, the U.S. reinsurance segment is expected to report a combined ratio of 103.4 for 2011, which is remarkable considering the magnitude of last year's natural catastrophe events.

While the investment environment remains challenging, net investment income and invested assets both increased in 2011, indicating that companies are finding favorable positions where higher yielding investments justify taking greater market or interest rate risk. The segment's return on equity is believed to have been marginally positive in the low single-digit range, as net investment income helped keep the bottom line in the black for the year, sustained by a growing base of invested assets.

GAAP Results

On a generally accepted accounting principles (GAAP) basis, the U.S. and Bermuda reinsurance market composite of 21 inter-actively rated companies followed by A.M. Best is expected to report approximately \$95 billion of shareholders' equity at year-end 2011. Reflecting losses from numerous catastrophe events worldwide, the year-end 2011 combined ratio is expected to be approximately 105.0. This number could increase as more information becomes available from the severe floods in Thailand. The expense ratio is expected to remain comparable to prior years as companies remain focused on controlling expenses.

As the long-awaited January 2012 renewal season ended, double-digit rate increases were reported in the property catastrophe-

exposed lines of business, due in large part to the impact of unprecedented catastrophe-related losses in 2011. The rate increases vary based on region, exposure and the extent of the losses experienced. In non-catastrophe lines of business, rates remain flat and, while it appears that casualty pricing has stopped declining and stabilized, there are no material increases in pricing at this point. Reinsurance pricing continues to hold up better than primary pricing, as many reinsurers continue to demonstrate the discipline to walk away from underpriced business, specifically on casualty lines. Despite the frequency and severity of weather-related events, catastrophe activity alone has not been enough to precipitate a much-needed, broader-based turn in the market.

Amid a year of unprecedented catastrophe activity and a volatile macro market environment, the reinsurance segment again has demonstrated resilience. This can be attributed to solid capitalization and flexible capital management strategies. The current market continues to be challenging, but reinsurance companies remain well capitalized and are maintaining pricing integrity and underwriting discipline. To remain successful, companies will need to continue effectively managing the underwriting cycle and capitalizing on opportunities that the next hard market will bring.

Looking ahead to 2012, return on equity is expected to be in the low double-digit range as both net income and shareholders' equity normalize. Assuming a normal level of catastrophe activity, the reinsurance segment should be able to produce an underwriting profit. This is largely due to the segment's deliberate shift in risk profile away from underpriced, longer tail classes of business, favoring a short-tail book where pricing and reserve risk are more favorable. A.M. Best also expects greater capital management activity to resume in 2012 as management teams look to optimize shareholder value. As long as the market fundamentals continue to be weak and share values remain depressed, companies will benefit more economically from buying back stock than from pursuing underpriced business.

Outlook

Despite numerous challenges, the rating outlook on the global reinsurance segment is

Exhibit 12 U.S. Property/Casualty – U.S. Reinsurance Segment Key Figures (2010–2012P) (\$ Billions)

	2010	2011E	2012P
Net Premiums Written	\$23.8	\$26.0	\$28.1
Underwriting Gain / (Loss)	1.3	(1.0)	2.2
Net Income	10.3	9.7	12.0
Policyholders' Surplus	126.7	125.2	135.7
After-Tax Return on Surplus (%)	9.3%	7.7%	9.2%

E=Estimated, P=Projected

Source: A.M. Best Co. 

being held at stable, supported by continued strong risk-adjusted capitalization, prudent enterprise risk management practices and an improving pricing environment across a broadening spectrum of business classes. A.M. Best believes these strengths should enable reinsurers to successfully navigate future obstacles that may arise from the increasingly uncertain and turbulent global macroeconomic conditions that confront the industry.

From a capital perspective, global reinsurers are well capitalized and capable of absorbing significant losses from a combination of events. While the ongoing financial crisis in the eurozone presents unprecedented uncertainty and challenges, most global reinsurers have taken decisive measures over the past year to reduce or contain their direct exposure to the ongoing sovereign debt crisis. A.M. Best and reinsurance companies themselves have performed various capital stress scenarios to be assured that underwriting and investment risks are manageable from a capital perspective. Organizations with life operations were noted to have greater asset leverage, but nonetheless, risk-adjusted capitalization remained at comfortable levels.

The sector repeatedly has proven its resilience. Over the past two years, numerous catastrophic events around the world inflicted approximately \$50 billion of losses on the global reinsurance sector. These loss events proved to be manageable from a capital perspective. Earnings from life operations also served as a noncorrelated source of operating earnings throughout the period. The U.S.

financial crisis also inflicted a material, yet temporary decline in capacity in 2008. For year-end 2011, the overall market's capital is estimated to be basically flat compared to the start of the year, but well above 2007 levels. This speaks to the strength of the segment's risk management capability and the resilience of the market to withstand and rebound from live stress events.

Critically, the market seems poised for a turn. Over the past five years, reinsurers generally experienced declining demand for their capacity as primary companies increased retentions across the board. Recent events, including global catastrophes, increased asset volatility, and changes in catastrophe models have brought about a shift in the way primary companies perceive risk. This heightened risk awareness, combined with increasing regulatory pressures on solvency margins, appears to have turned the tide on reinsurance demand, especially in loss-prone regions. Increasing demand for reinsurance cover has helped bolster pricing for property catastrophe-related businesses. While shorter tail classes of business generally have maintained more attractive pricing, it appears casualty pricing may be reaching a bottom as reserve margins come under pressure and interest rates remain stubbornly low. A.M. Best believes these dynamics, coupled with capital management strategies, will support a low double-digit return on equity in 2012 and continue to sustain reasonable organic growth in capital, assuming a normal level of global catastrophe losses.

However, A.M. Best remains concerned


Exhibit 13

U.S. & Bermuda Reinsurance – Key GAAP Financial Indicators (2007-2012P)

Based on a composite of 21 interactively rated public insurance/reinsurance companies in the U.S. & Bermuda market.

	2007	2008	2009	2010	2011E	2012P
NPW Growth %	-0.2%	0.0%	-2.4%	4.5%	2.4%	2.0%
Loss & LAE Ratio	57.9	64.2	56.1	61.8	74.5	67.1
Underwriting Expense Ratio	28.8	29.4	29.7	30.9	30.1	30.3
Combined Ratio	86.7	93.6	85.8	92.7	104.6	97.4
Less: Favorable Loss Reserve Development	-4.2	-7.3	-6.1	-6.2	-6.2	-2.0
Accident Year Combined Ratio (Normalized)	90.9	100.9	91.9	98.9	110.8	99.4
Change in Equity %	12.7%	-15.5%	30.8%	8.8%	-1.3%	5.2%
Return on Equity %	15.6%	-0.7%	16.0%	11.9%	2.6%	10.2%

E=Estimated, P=Projected

Source: A.M. Best Co. 

that the positive momentum in reinsurance pricing may be short lived. History has proven that the market has a short memory. If the sting of recent loss events quickly fades, the soft market may resume. In that scenario, the capital strength of the segment would slowly erode and A.M. Best would consider revising the ratings outlook to negative, as pressure on ratings would mount.

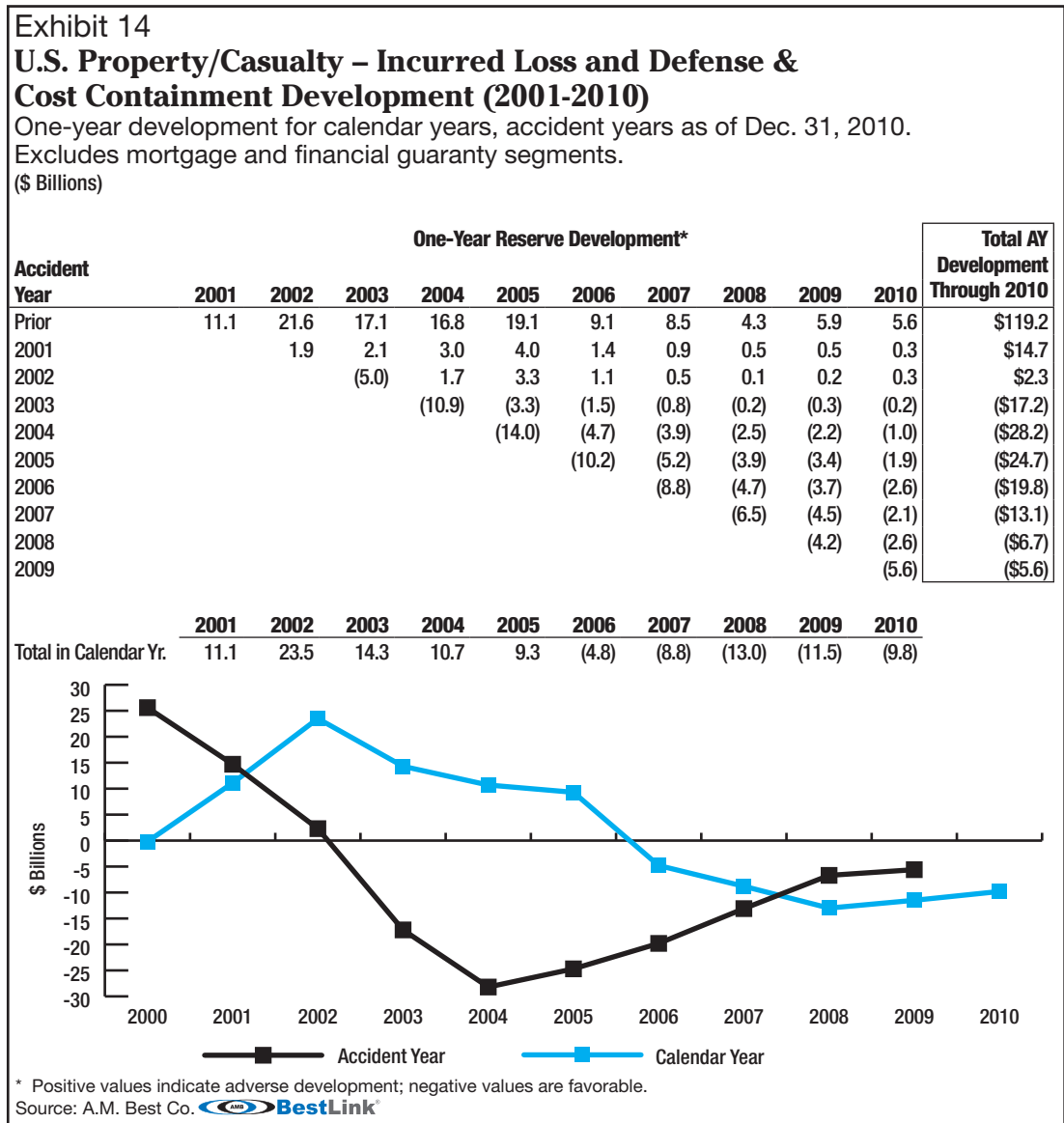
The issues overhanging the reinsurance market, including pricing pressures, low investment yields and a finite amount of loss-reserve releases available to mask deteriorat-

ing earnings, have been around for several years. The macroeconomic issues have created an environment where significant volatility in assets is considered the norm and not the exception. At the same time, where there is risk, there can be opportunity. The reinsurance market environment is at one of those junctures where companies seek to anticipate potential negative scenarios while positioning themselves to seize opportunities. While a different set of market conditions would be preferred, the reinsurance sector has been adaptable, resilient and stable during these challenging times.

P/C Industry Loss & LAE Reserves Still Weakening

Loss and loss-adjustment expense (LAE) reserves are typically the largest liability

on a property/casualty insurer's balance sheet. Any underestimation of those



liabilities can result in a material negative impact on the insurer's reported surplus, potentially resulting in adverse rating action. Reserve changes not only impact the balance sheet, but also A.M. Best's view of an insurer's operating performance and management team if they differ from expectations.

Adverse reserve development is one of the leading causes of insurer insolvencies, and reserve adequacy remains a critical rating issue for A.M. Best. Companies that have demonstrated a history of conservative reserving throughout the underwriting cycle should not be materially affected in the analysis of their capital strength. However, for companies that have shown a volatile history of reserve adequacy, or have focused more on market share recently than on rate adequacy, significant reserve deficiencies may have accumulated, and a charge for that deficiency will be warranted. A.M. Best's view of an insurer's reserve position can have a material impact on the assessment of an insurer's capital strength.

Exhibit 14 shows a history of the industry's reported adverse/(favorable) reserve development from prior accident years through 2010. A.M. Best expects the industry to report its sixth consecutive year of favorable reserve development for calendar year 2011. Based on A.M. Best's internal reserve review of the industry, the industry's reserve position strengthened over the period 2002-2007. Since then, industry reserves have been weakening and are expected to continue doing so as insurers continue to release prior-year redundancies. The industry reserves as of year-end 2011 are estimated to be \$6 billion weaker than those reported as of year-end 2010. The personal, commercial and reinsurance segments all are predicted to show weaker reserve positions at year-end 2011. The greatest change is anticipated for the commercial lines segment, since it includes a large portion of the workers' compensation and medical professional liability (MPL) lines, which are estimated to have the highest amounts of reserve deterioration.

For year-end 2011, A.M. Best estimates that the property/casualty total net loss and LAE reserve deficiency was \$40.9 billion, consisting of a \$33.5 billion deficiency on core reserves and a \$7.4 billion reserve deficiency on asbestos and environmental (A&E) reserves. Of the \$33.5 billion deficiency on core reserves, \$24.6 billion is due to statutory discounting, which A.M. Best considers a deficiency from full-valued reserves. As shown in **Exhibit 15**, the estimated deficiencies vary widely by line of business, with workers' compensation showing the largest overall deficiency and MPL showing the largest redundancy. Some of the lines included in the "All Other" category are auto physical damage, fire, allied, inland marine, warranty, fidelity, surety, credit, and accident and health. A&E reserve deficiencies are estimated to have declined \$2.6 billion in 2011 in anticipation of continued reserve strengthening. The estimated reserve deficiencies are based on industrywide statutory Schedule P cumulative paid and case incurred loss and expense development, using A.M. Best's internal loss-reserve model. The same model is used to determine the reserve deficiency for each individual company and rating unit based on its own Schedule P data.

Exhibit 15 U.S. Property/Casualty – Estimated Loss and Defense & Cost Containment Reserve Deficiencies (2011)

Excludes mortgage guaranty and financial guaranty segments.
(\$ Billions)

Product Line	Excluding Discount	Statutory Discount	Total Deficiency
Workers' Compensation	8.2	18.5	26.7
Reinsurance – Nonproportional Assumed	3.4	2.6	6.0
Other/Products Liability	4.0	1.3	5.3
Commercial Multiple Peril	1.5	0.2	1.7
Commercial Auto Liability	0.0	0.5	0.5
Homeowners	-0.2	0.0	-0.2
Personal Auto Liability	-1.8	0.3	-1.5
Medical Professional Liability	-4.0	1.0	-3.0
All Other Lines	-2.2	0.2	-2.0
Total Core Reserves	8.9	24.6	33.5
Asbestos & Environmental	7.4	0.0	7.4
Total	16.3	24.6	40.9

Source: A.M. Best Co. 

U.S. Property/Casualty Rating Trends

U.S. property/casualty (P/C) insurers' operating results have been pressured in recent years by a number of factors, including elevated catastrophe-related losses, sustained competitive market conditions, weak macroeconomic factors, decreasing reserve adequacy levels, falling investment yields and volatility in the financial markets. As a result of these factors, the margin of negative rating actions to positive rating actions has been narrowing in recent years, culminating in negative rating actions outnumbering positive ones in 2011. This hasn't occurred since 2005, when hurricanes Katrina, Rita and Wilma slammed the United States and caused record-breaking catastrophe losses for P/C insurers.

Rather than assessing the rating actions of each legal operating entity within the domestic P/C insurance market, this section summarizes rating trends on a rating unit basis, which reflects strategic ties among individual companies, including pooling and other reinsurance arrangements.

There were 907 rating actions (see **Exhibit 16**) for the P/C industry in calendar year 2011, compared with 983 rating actions in 2010. As always, the majority of these rating actions resulted in affirmations. There were 719 affirmations in 2011, representing approximately 79.3% of total rating actions

during the year, compared with 795, or 80.9% of rating actions, in 2010.

Total rating changes represented nearly 16% of all rating actions in 2011, compared with nearly 15% in 2010. Downgrades totaled 75, or 8.3% of total rating actions, in 2011, compared with 49, or 5% of rating actions, in 2010. Conversely, upgrades totaled 42, or 4.6% of total rating actions, in 2011, down from 55, or 5.6% of rating actions, in 2010.

By segment, there were 28 upgrades to commercial lines insurers' ratings in 2011, compared with 36 downgrades. Among personal lines insurers, however, there were only 12 upgrades, while 36 rated entities were downgraded in 2011. There were two rating upgrades of U.S. reinsurers in 2011 and three downgrades.

There were 25 initial ratings assigned in 2011, representing about 2.8% of total rating actions, compared with 41, or 4.2% of rating actions, in 2010. Initial ratings averaged 4.2% of total rating actions from 2007 through 2010. Initial ratings generally are assigned to newly created affiliates and subsidiaries of larger holding companies. Initial ratings included companies in the following lines of business: five workers' compensation; four commercial casualty; four risk retention; three medical professional liability; three

Exhibit 16

U.S. Property/Casualty – Annual Rating Activity (2007-2011)

(By Rating Units)

Rating Actions	Financial Strength Ratings (FSR)*									
	2007		2008		2009		2010		2011	
	No.	%	No.	%	No.	%	No.	%	No.	%
Upgrades	77	7.1	59	5.6	59	5.6	55	5.6	42	4.6
Downgrades	37	3.4	40	3.8	53	5.0	49	5.0	75	8.3
Initial Ratings	49	4.5	40	3.8	47	4.4	41	4.2	25	2.8
Total Rating Changes	163	15.0	139	13.2	159	15.0	145	14.8	142	15.7
Total Affirmations	867	79.9	853	80.8	842	79.5	795	80.9	719	79.3
Under Review	55	5.1	64	6.1	58	5.5	43	4.4	46	5.1
Total Rating Actions ¹	1,085	100.0	1,056	100.0	1,059	100.0	983	100.0	907	100.0

* For Best's Ratings criteria and definitions, visit www.ambest.com.

¹ Total actions exceed the number of rated entities as certain company ratings were updated more than once during the year.

Note: Percentages might not add up due to rounding.

Source: A.M. Best Co.  BestLink

private passenger standard auto; two commercial auto; two private passenger non-standard automobile; one surplus lines and one personal property.

The number of rating units assigned the under-review modifier increased in 2011 to 46, up 7% from 43 in 2010, reflecting increased merger and acquisition activity, as well as the impact of catastrophe and weather-related losses on some companies' risk-adjusted capitalization and the potential effect of European economic turmoil on the U.S. subsidiaries of several European insurers. The 2010 total represented a low point for rated entities placed under review in recent years, which increased substantially in 2008 and remained elevated in 2009 because of the unprecedented capital market conditions of 2008 and the resulting erosion of property/casualty insurers' capitalization.

The under-review rating modifier typically is assigned after a material event, such as a merger or acquisition, or an abrupt change in financial condition from events such as recognition of reserve charges, shock losses or capital infusions. The under-review modifier may have positive, negative or developing rating implications, depending on the nature of the event and its potential effect on the rated entity. After placing a rating under review, A.M. Best interacts with management to fully review the impact of the event before determining

the ultimate effect on the rating. Generally, ratings remain under review for less than six months.

Actions on Issuer Credit Ratings (ICR), which were introduced for all rating units in 2007, are shown in **Exhibit 17**. Although the rating actions are equal in total to the FSR exhibit, there are differences in the number of upgrades and downgrades; an FSR may not change as a result of an upgrade or downgrade of an ICR because of the greater number of rating levels in the ICR Scale (see **Exhibit 19**).

Rating Distribution

There were 886 P/C rating units in the A.M. Best universe at year-end 2011, compared with 908 in 2010. The term "rating unit" describes either an individual insurer or a consolidation of companies and is the financial basis on which A.M. Best performs its rating evaluations. The financial results of rating units represent the way insurance groups operate and manage their businesses. Therefore, the rating distribution based on rating units is the most accurate gauge of A.M. Best's overall opinion of the financial health of the universe of rated P/C insurance companies.

A.M. Best's Financial Strength Rating (FSR) is an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. The FSR scale is composed of 16 individual ratings, grouped into 10 categories: three

Exhibit 17

U.S. Property/Casualty – Annual Rating Activity (2007-2011)

(By Rating Units)

Rating Actions	2007		2008		2009		2010		2011	
	No.	%	No.	%	No.	%	No.	%	No.	%
Upgrades	44	4.1	65	6.2	76	7.2	76	7.7	65	6.6
Downgrades	24	2.2	42	4.0	57	5.4	52	5.3	78	7.9
Initial Ratings ¹	641	59.1	140	13.3	47	4.4	41	4.2	25	2.5
Total Rating Changes	709	65.3	247	23.4	180	17.0	169	17.2	168	17.1
Total Affirmations	316	29.1	740	70.1	821	77.5	771	78.4	693	76.4
Under Review	60	5.5	69	6.5	58	5.5	43	4.4	46	4.7
Total Rating Actions²	1,085	100.0	1,056	100.0	1,059	100.0	983	100.0	907	100.0

* For Best's Ratings criteria and definitions, visit www.ambest.com.

¹ 2007 & 2008 reflect formal roll-out by A.M. Best of Issuer Credit Ratings.

² Total actions exceed the number of rated entities as certain company ratings were updated more than once a year.

Note: Some percentages might not add up due to rounding.

Source: A.M. Best Co. 

Secure categories of “Superior,” “Excellent” and “Good” and seven Vulnerable categories of “Fair,” “Marginal,” “Weak,” “Poor,” “Under Regulatory Supervision,” “In Liquidation” and “Suspended.”

The percentage of rated units considered secure was 90.7% at year-end 2011, down from 91.3% at year-end 2010 (see **Exhibit 18**). The number of secure ratings declined for the second consecutive year in 2011, driven primarily by the financial crisis that started in 2008 and resulted in a weakened macroeconomic environment, reduced premium writings and low investment yields in recent years. In addition to the fallout from the financial crisis, there were fewer secure ratings because of challenging market conditions and elevated catastrophe-related losses, which resulted in operating earnings and capitalization deteriorating for a number of companies.

Some rating distribution trends are worth noting. In 2011, 80 rating units, or 9% of

rated entities, had superior ratings of “A++” or “A+”, down from 9.7%, or 88 entities, in 2010. In the “A++” FSR category, there were two new rating units – Philadelphia Insurance Companies, which was acquired by Tokyo Marine Holdings Inc., an “A++” rated parent; and Hartford Steam Boiler, which was upgraded to “A++” based on the benefits derived from synergies with its ultimate parent, Munich Reinsurance Co.

The majority of rating units were in the “A” and “A-” (Excellent) category at year-end 2011. These two rating levels represented 545, or 61.5% of the total ratings, during the year, up from 59.4% of ratings at year-end 2010.

A.M. Best also assigns Issuer Credit Ratings (ICR) to all rated insurance companies. The ICR of an insurance company is an independent opinion of an issuer/entity’s ability to meet its ongoing senior financial obligations. The total number

Exhibit 18

U.S. Property/Casualty – Rating Distribution (2007-2011)


(By Rating Units)

Category	Rating Level	Financial Strength Ratings (FSR)*									
		2007		2008		2009		2010		2011	
		Rating Units	%	Rating Units	%	Rating Units	%	Rating Units	%	Rating Units	%
Secure											
Superior	A++	17	1.9	16	1.8	16	1.7	16	1.7	17	1.9
	A+	95	9.7	80	8.9	76	8.8	72	8.0	63	7.1
Subtotal		112	11.6	96	10.7	92	10.5	88	9.7	80	9.0
Excellent	A	236	24.8	232	26.1	260	26.3	247	27.3	252	28.4
	A-	312	33.1	335	34.6	328	33.7	301	32.1	293	33.1
Subtotal		548	57.9	567	60.7	588	59.9	548	59.4	545	61.5
Good	B++	139	14.0	118	12.1	130	12.9	118	13.4	108	12.2
	B+	85	8.8	95	9.6	84	8.8	76	8.8	71	8.0
Subtotal		224	22.8	213	21.7	214	21.7	194	22.2	179	20.2
Total Secure Ratings		884	92.2	876	93.1	894	92.1	830	91.3	804	90.7
Vulnerable											
Fair	B, B-	64	5.3	53	4.4	52	4.9	40	4.6	34	3.8
Marginal	C++, C+	10	0.9	9	0.9	9	1.0	11	1.2	12	1.4
Weak	C, C-	1	0.2	1	0.2	2	0.2	2	0.2	2	0.2
Poor	D	0	0.0	0	0.0	2	0.2	2	0.2	0	0.0
Reg. Supervision/Liquidation	E / F	27	1.4	15	1.3	21	1.6	23	2.5	34	3.8
Total Vulnerable Ratings		102	7.8	78	6.9	86	7.9	78	8.7	82	9.3
Total Letter Ratings		986	100.0	954	100.0	980	100.0	908	100.0	886	100.0

* For Best’s Ratings criteria and definitions, visit www.ambest.com.

Note: Annual data as of Dec. 31 for each year.

Percentages may not add up due to rounding.

Source: A.M. Best Co. 

of ICR ratings will equal the total FSR ratings (see Exhibit 20); however, there will be greater detail representing the upper and lower ranges of certain FSR categories. For example, at the “A++” FSR rating level, there are two ICR levels, “aaa” and “aa+” (See Exhibit 19). Over the recent five-year period, there have been only three entities rated “aaa” – Government Employees Insurance Co. (GEICO), National Indemnity Group and United States Automobile Association (USAA). Both GEICO and National Indemnity are owned by Berkshire Hathaway Inc.

Exhibit 19 Rating Translation Table for Insurance Companies

	Financial Strength Rating	Long-Term Issuer Credit Rating
Secure	A++	aaa, aa+
	A+	aa, aa-
	A	a+, a
	A-	a-
	B++	bbb+, bbb
	B+	bbb-
Vulnerable	B	bb+, bb
	B-	bb-
	C++	b+, b
	C+	b-
	C	ccc+, ccc
	C-	ccc-, cc
	D	c
	E & F	rs

Exhibit 20

U.S. Property/Casualty – Rating Distribution (2007-2011)


(By Rating Units)

Category	Rating Level	Issuer Credit Ratings (ICR)*									
		2007		2008		2009		2010		2011	
		Rating Units	%	Rating Units	%	Rating Units	%	Rating Units	%	Rating Units	%
Secure											
Exceptional	aaa	3	0.3	3	0.3	3	0.3	3	0.3	3	0.3
Subtotal		3	0.3	3	0.3	3	0.3	3	0.3	3	0.3
Superior	aa+	14	1.4	13	1.4	13	1.3	13	1.4	14	1.6
	aa	16	1.6	14	1.5	14	1.4	16	1.8	15	1.7
	aa-	79	8.0	66	6.9	62	6.3	56	6.2	48	5.4
Subtotal		109	11.1	93	9.7	89	9.1	85	9.4	77	8.7
Excellent	a+	39	4.0	42	4.4	48	4.9	59	6.5	72	8.1
	a	197	20.0	190	19.9	212	21.6	188	20.7	180	20.3
	a-	312	31.6	335	35.1	328	33.5	301	33.1	293	33.1
Subtotal		548	55.6	567	59.4	588	60.0	548	60.4	545	61.5
Good	bbb+	45	4.6	44	4.6	45	4.6	45	5.0	47	5.3
	bbb	94	9.5	74	7.8	85	8.7	73	8.0	61	6.9
	bbb-	85	8.6	95	10.0	84	8.6	76	8.4	71	8.0
Subtotal		224	22.7	213	22.3	214	21.8	194	21.4	179	20.2
Total Secure Ratings		884	89.7	876	91.8	894	91.2	830	91.4	804	90.7
Vulnerable											
Fair	bb+,bb,bb-	64	6.5	53	5.6	52	5.3	40	4.4	34	3.8
Marginal	b+,b,b-	10	1.0	9	0.9	9	0.9	11	1.2	12	1.4
Weak	ccc+,ccc,ccc-,cc	1	0.1	1	0.1	2	0.2	2	0.2	2	0.2
Poor	c	0	0.0	0	0.0	2	0.2	2	0.2	0	0.0
Reg. Supervision/Liquidation	rs	27	2.7	15	1.6	21	2.1	23	2.5	34	3.8
Total Vulnerable Ratings		102	10.3	78	8.2	86	8.8	78	8.6	82	9.3
Total ICRs		986	100.0	954	100.0	980	100.0	908	100.0	886	100.0

* For Best's Ratings criteria and definitions, visit www.ambest.com.

Note: Annual data as of Dec. 31 for each year.

Percentages may not add up due to rounding.

Source: A.M. Best Co. 

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Published by A.M. Best Company

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SR-2012-005