



Transportation and Logistics Market Update

Presentation Date: December 1, 2016
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Discussion Topics

Market Update

- Workers' Compensation, Primary and Excess Liability Market Trends
 - Capacity, Rate, and Potential Solutions in a Hard Market
- Other Lines of Coverage
- Current and Future Market Challenges
 - Large Verdicts
 - Investor Backed Claims
 - Freight Brokerage Liability and Contingent Auto
 - Contractor Misclassification
- Will Technology Provide Market Relief?
- 2017 Outlook

Market Update – Workers’ Compensation

Category	Q2 & Q3 2016 Direction	Comment	Forward Outlook	Comment
Pricing	↓	Workers’ Compensation rates trended downward in Q2 and Q3 of 2016.	↔	The expectation is that Workers’ Compensation rates will slightly decrease in 2017, and motor carriers may continue to see flat rate renewals or moderate rate decreases.
Deductibles / Retentions	↔	Motor carriers have generally maintained current deductible/retention levels.	↔	We expect this trend to continue into 2017. That said, motor carriers may want to explore alternative risk structures to find pricing efficiencies.
Coverage	↔	The market has maintained consistent coverage forms with no significant changes.	↔	Significant changes to coverage availability are not expected.
Capacity	↓	With AIG and Zurich exiting the transportation space, there has been a strain on capacity, especially for larger motor carriers that retain significant risk.	↔	Because Workers’ Compensation has performed relatively well in recent years, we expect to see more carriers deploy capacity in this space in 2017.

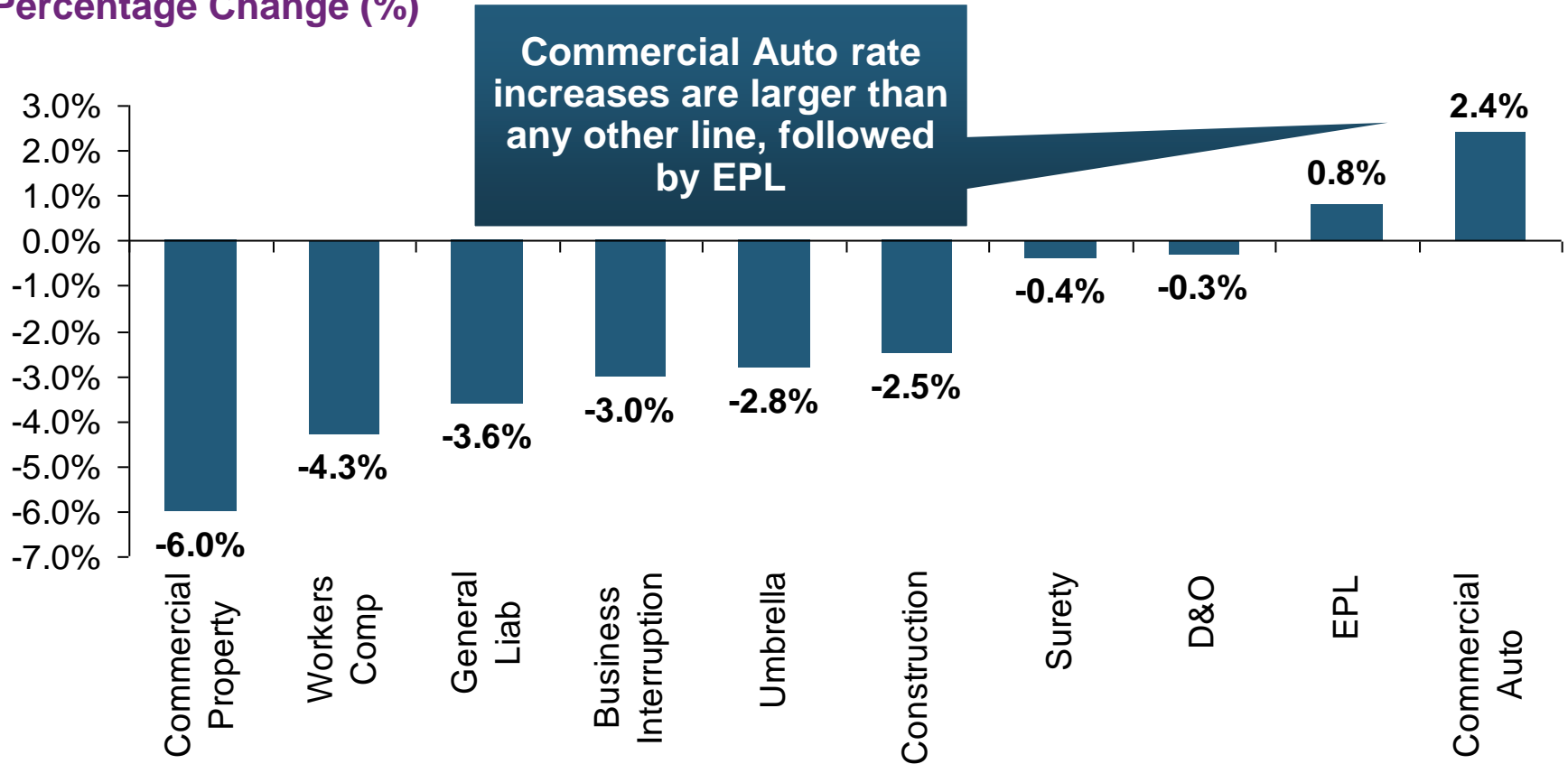
Market Update – Auto and Excess Liability

Category	Q2 & Q3 2016 Direction	Comment	Forward Outlook	Comment
Pricing	↑	Auto Liability and Excess Liability rates continued to increase steadily in Q2 and Q3 of 2016.	↑	The expectation is that rates will continue to increase, driven by larger than average verdicts against motor carriers and a reduction in capacity and allocated capital.
Deductibles / Retentions	↑	Motor carriers in many cases are choosing to increase retentions to manage cash flow. Often times options at desired retention levels are unavailable.	↑	We expect this trend to continue into 2017.
Coverage	↔	The market has maintained consistent coverage forms with no significant changes.	↔	Significant changes to coverage availability is not expected.
Capacity	↓	Exits by many major carriers have had a substantial impact on the Auto Liability market.	↓	We expect that major players in the Auto and Excess markets will continue to evaluate their auto positions, and more change may come in 2017.

Q2 2016 State of the Marketplace

Change in Commercial Rate Renewals, by Line: 2016:Q2

Percentage Change (%)

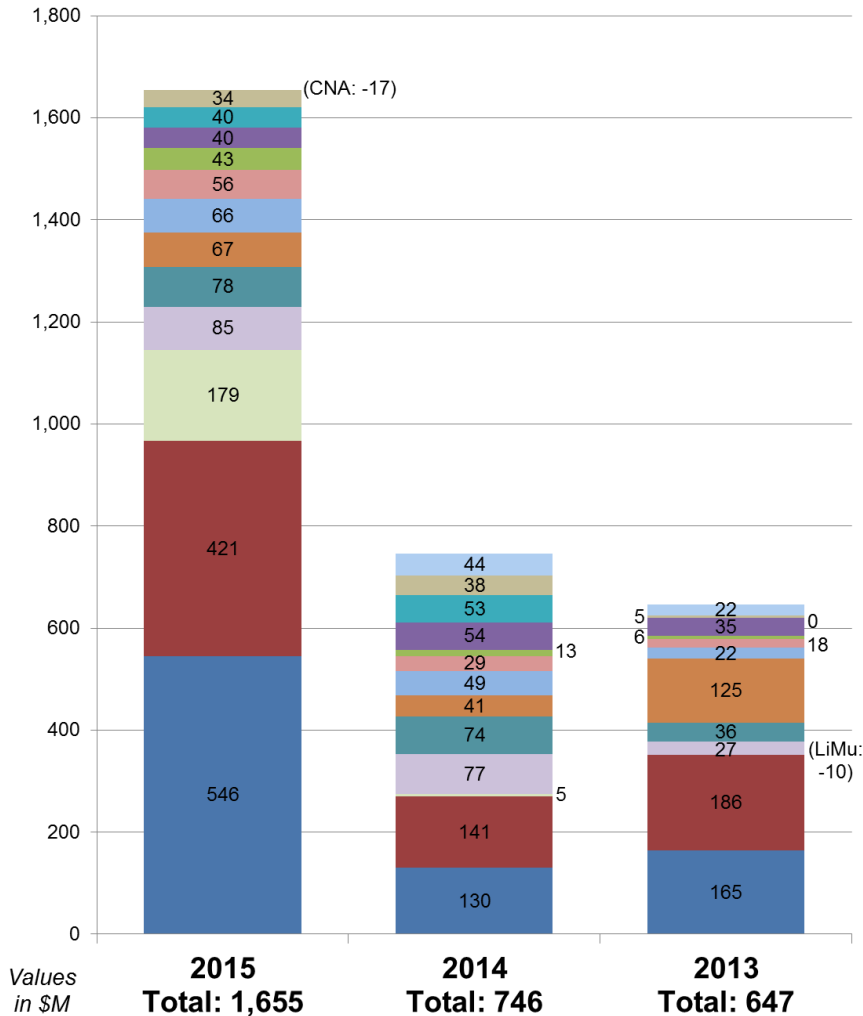


Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents and Brokers; Insurance Information Institute.

Significant Industry—Wide Adverse Development

Commercial Auto Industry Net Adverse Development

Notable Quotes

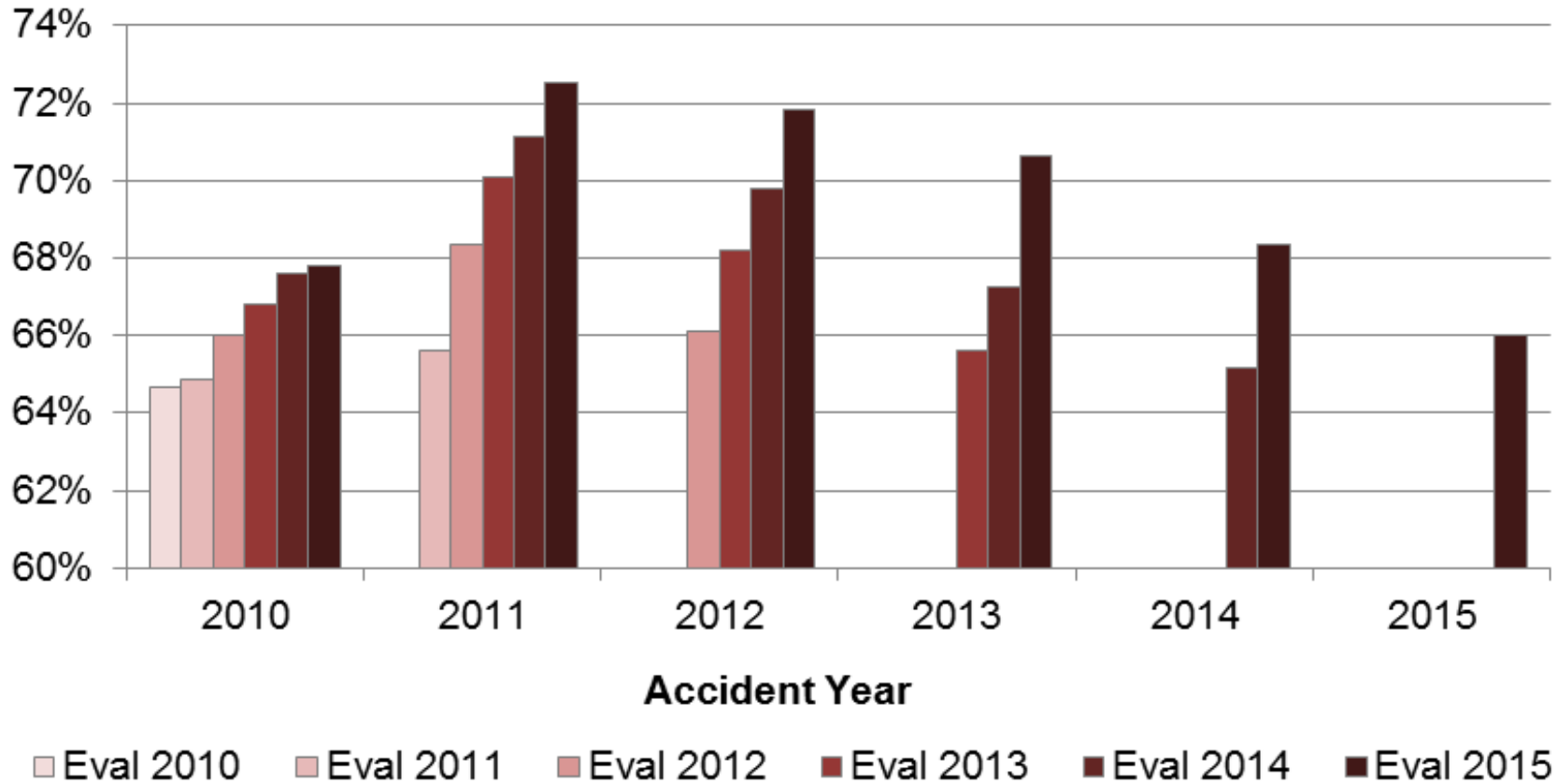


- CNA: (2014 Q4) got out of trucking totally
- CINF: (2015 Q3) newer employees; drivers too young for the vehicle; not one thing, it is a lot of things
- Tokio Marine
- Zurich: (2015 Q3) exposure on some of the larger trucking end of market
- ProSight
- THG: (2015 Q3) elevated BI severity; litigation in the major metro areas
- WRB: (2015 Q4) reason to pause (in commercial auto)
- HIG: (2015 Q3) significant buildup in medical costs without notification
- Nationwide
- State Farm
- Liberty Mutual
- AIG: (2015 Q2) increased activity; multiple severe injuries; increase in damages
- Rest of Industry

Values
in \$M

Industry Reserve Development

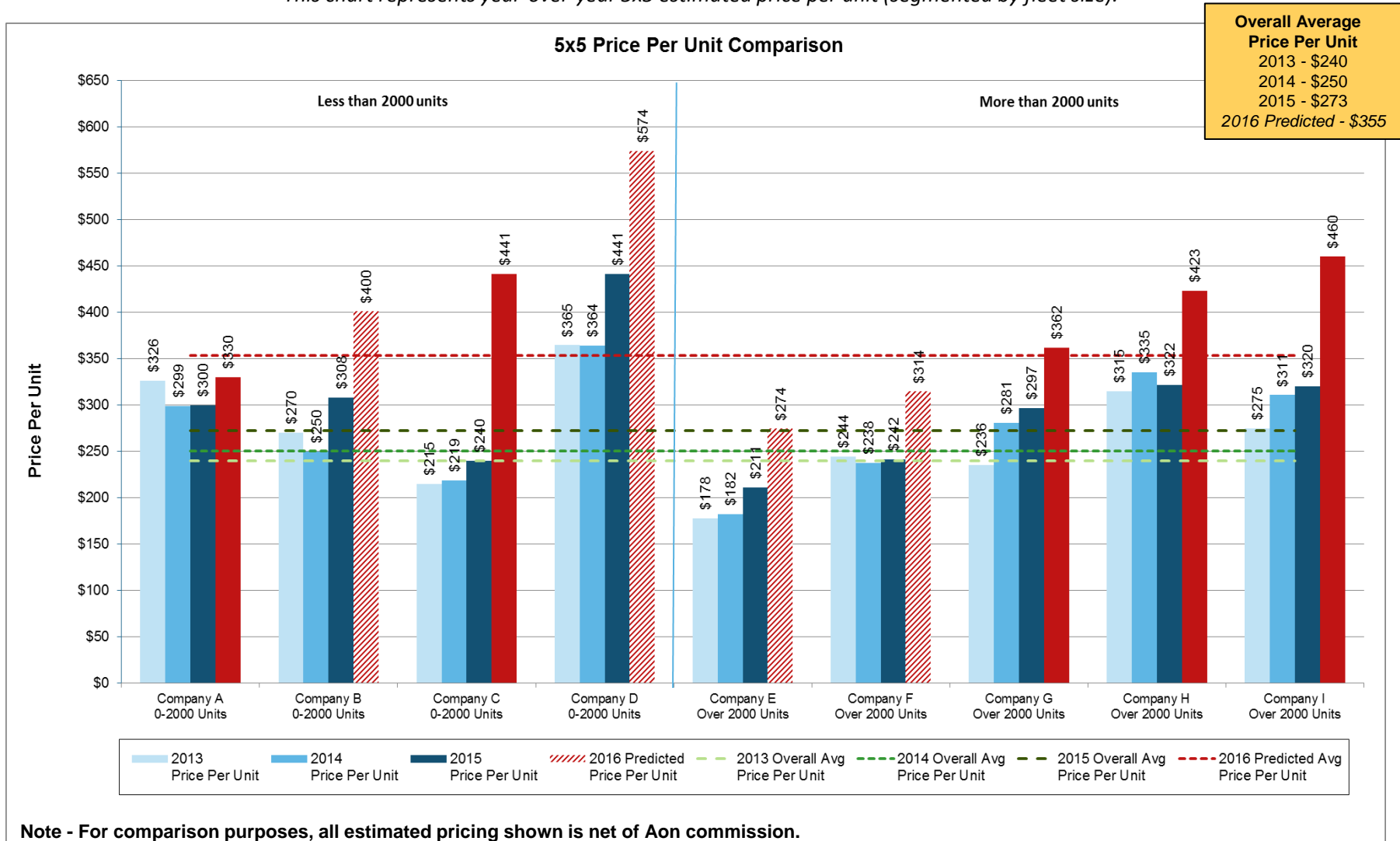
Industry Commercial Auto Net Booked Ult Loss + DCC Ratios



Transportation & Logistics Clients

\$5 Million Excess of \$5 Million Price Per Unit Comparison

This chart represents year-over-year 5x5 estimated price per unit (segmented by fleet size).



Note - For comparison purposes, all estimated pricing shown is net of Aon commission.

State of the Insurance Market—What are Industry Participants Saying?

- AIG (2014 Adverse Development: \$141M, 2013 Adverse Development: \$186M)
 - “For the six-month period ended June 30, 2015, we recognized **\$402 million of adverse prior year loss development on commercial automobile liability business.** (Q2 2015)
 - “We have observed increases in both the frequency and severity of claims occurring in our primary and excess commercial automobile liability business since the recovery from the recent economic downturn, which have significantly outpaced the rate increases implemented during the same time. We believe a combination of factors are contributing to these increases such as a mix of business weighted towards Excess auto liability for commercial trucking; **increased shipping activity** potentially resulting in driver fatigue, a greater incidence of claims involving **multiple severe injuries and fatalities** and the general **increase in damage awards.** (Q2 2015)

- Zurich (2015 Q3)
 - “of the \$300m charge that we identified then net in the GI business. And in fact about \$140m of it was driven by commercial auto.”

- CNA (2014 Adverse Development: \$44M, 2013 Adverse Development: \$22M)
 - “we are very concerned about automobile, as you have heard from others in the industry. So if you look at that, we are paring that back. I think we have always had a handle on what we needed to do and whether it is the international work comp **or whether it is the trucking book, there are a couple of other things that we've gotten out of totally.** (Q4 2014)

- National Interstate (2014 Adverse Development: \$20M, 2013 Adverse Development: \$18M)
 - Our calendar year **combined ratio was elevated by 3.3 percentage points** due to unfavorable prior year claims development. **Primarily related to commercial auto liability business** (Q1 2015 Earnings Call)

- Hartford (2014 Adverse Development: \$41M, 2013 Adverse Development: \$125M)
 - “Middle Market commercial auto has been an area that has not met our return targets. In particular, our corrective actions **have taken longer to gain traction and show the improvements we expected.** (Q1 2015)



Current and Future Market Challenges

Current and Future Market Challenges

Large Verdicts

- Multiple large verdicts (excess of 100mm) against motor carriers in 2015 and 2016
- Most motor carriers are purchasing additional liability limits as a result

Investor Backed Claims

- 1.5B Industry in 2015
- Per the WSJ, litigation funds are seeing returns in excess of 25%

Freight Brokerage Liability and Contingent Auto

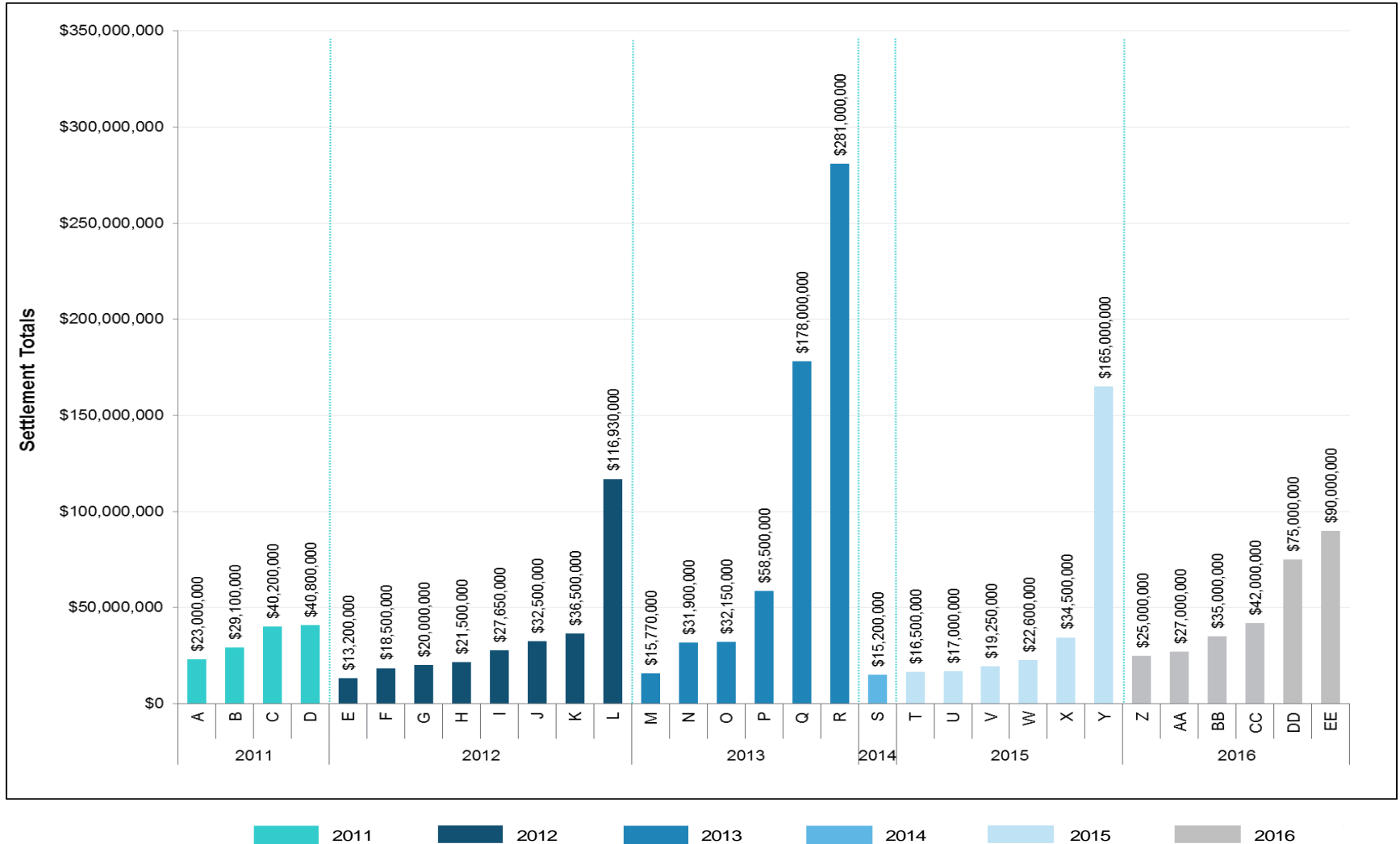
- As freight brokerage operations grow, contingent/vicarious liability exposures grow
- While some primary auto policies address these risks, these operations bring on complex coverage issues that often need to be addressed with specialized products.

Contractor Misclassification

- As the Owner Operator/Independent contractor model becomes more prevalent, motor carriers are being exposed to class action lawsuits whereby IC's sue for employee status.

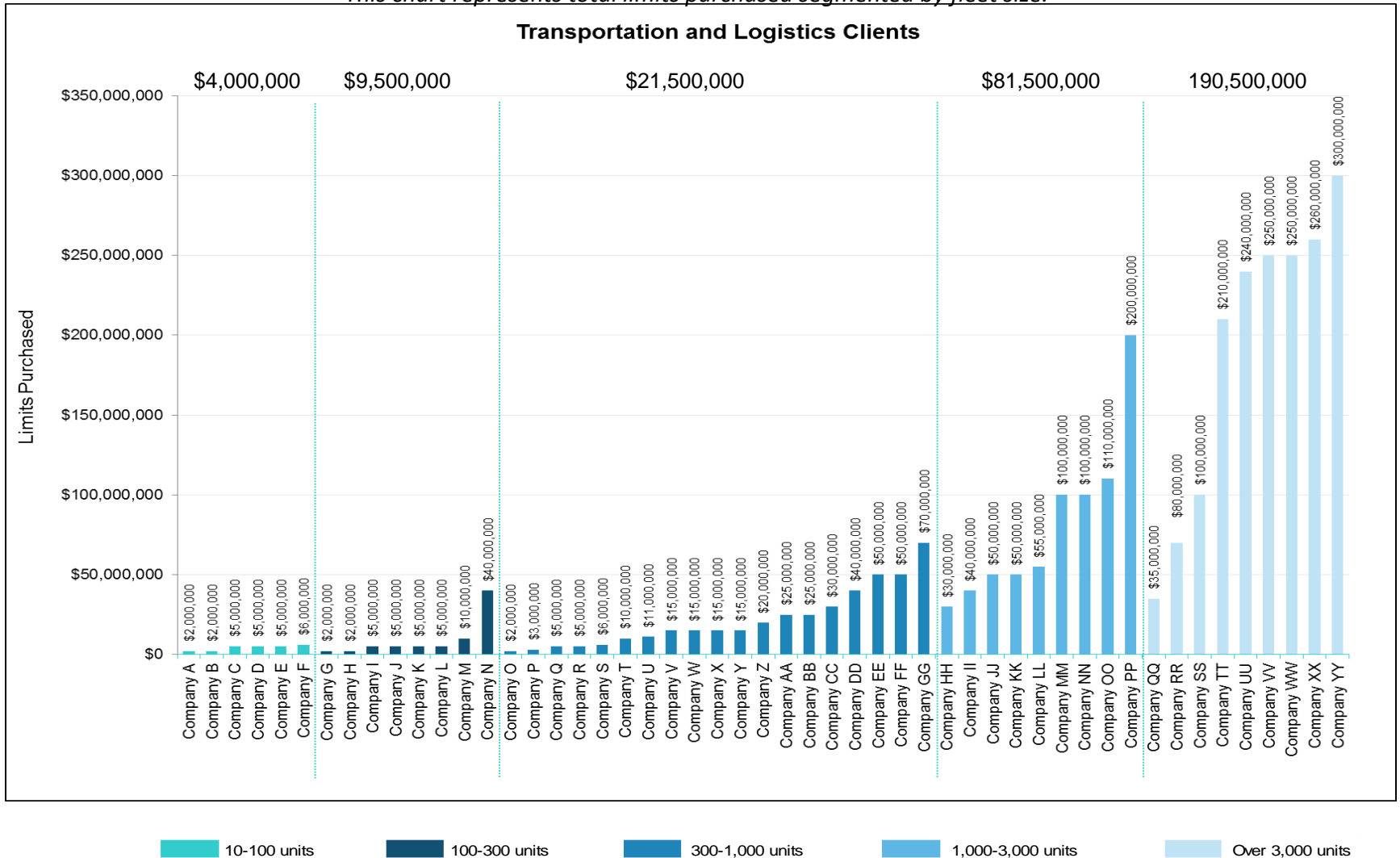
Large Trucking Industry Settlements

This chart reflects total settlement amounts greater than \$10M, grouped by settlement year.



Comparison of Total Limits Purchased

This chart represents total limits purchased segmented by fleet size.



Will Technology Provide Market Relief?

Roll Stability and Collision Mitigation

Event Recorders and EOBRs

Electronic Logs

Autonomous Driving

2017 Outlook

Expect more of the same...

- We expect further reduction in capacity in both the primary and excess liability spaces.
- Auto rates should continue to increase through 2017.
 - These rate increase are best combated with investments in technology and safety, and risk taking on the part of the motor carrier.
- Motor carriers should take advantage of soft markets with regard to other risks – property, cargo, workers' compensation, etc. should all be leveraged in order to minimize cost increases to motor carriers.