



# State Auto Financial Corporation

## **Profitable Growth Driving Shareholder Value**

**2010 FBR Capital Markets Fall Investor Conference  
November 30, 2010**

# Participants

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- Bob Restrepo  
Chairman & Chief Executive Officer



- Steve English  
VP, Chief Financial Officer



- Larry Adeleye  
AVP, Director – Treasury and Finance

# Safe Harbor

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## Forward-Looking Statements

This presentation may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words “believe,” “expect,” “anticipate,” “estimate,” “target,” and similar expressions, among others, identify forward-looking statements. All forward-looking statements are based on assumptions, expectations and other information currently available to management. Such forward-looking statements are subject to certain risks and uncertainties that could cause events and the Company’s actual results to differ materially from those expressed or implied. Please see the disclosure regarding forward-looking statements immediately preceding Part I of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2009. The Company assumes no obligation to update any forward-looking statements.

# NASDAQ: STFC

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- Super regional property and casualty insurer
  - Over \$1.2 billion in annual premiums; 64% personal, 36% business
- 64% owned by State Automobile Mutual (SAM)
  - Group premiums over \$1.8 billion
  - STFC and SAM companies pooled approximately \$1.5 billion in insurance premiums in 2009, 80% ceded to STFC
- Rated A+ (Superior) by A.M. Best since 1954

# Driving Profitable Growth

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## State Auto Strategy

Widely recognized by independent agents as the best regional property and casualty company marketing personal and small business insurance products having -

- Scalable technology and efficient business processes
- Deep and trusting relationships with agents
- Sophisticated analytical tools, processes and models
- State of the art products
- Reliable and responsive policyholder experience
- Engaged associates

# Driving Profitable Growth

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## Return on Equity

Deliver 10% to 15% return on equity

- Ensure profitable growth with strategies to:
  - Enhance profitability
  - Refine risk management
  - Effectively use capital
- Reduce volatility
- Drive higher book value and surplus

# Driving Profitable Growth

## Deliver 10% to 15% ROE

	2009	Target Range	
<i>CAT Loss Ratio</i>	7.7%	5.0%	5.0%
<i>Ex-CAT Loss Ratio</i>	64.0%	59.5%	57.0%
<i>Expense Ratio</i>	34.1%	32.5%	32.0%
Combined Ratio	105.8%	97.0%	94.0%
Underwriting Profit	(5.8)%	3.0%	6.0%
Operating Leverage	1.5	1.5	1.7
ROAE from Underwriting, after tax	(5.5)%	2.9%	6.6%
Investment Yield	3.9%	3.8%	4.1%
Investment Leverage	2.6	2.5	2.7
ROAE Investments, after tax	8.8%	8.1%	9.4%
ROAE, Other including debt	(2.0)%	(1.0)%	(1.0)%
	1.3%	10.0%	15.0%

# Driving Profitable Growth

## Underwriting – STFC Catastrophe History

### Loss Ratio Points

Year	1Q	2Q	3Q *	4Q	Total
2008	12.5	27.3	19.5	(3.7)	13.9
2009	15.3	12.6	3.6	(0.4)	7.7
2010	3.3	18.5	7.5	-	-
1998-2007 Average	3.2	11.0	8.2	1.5	6.0

\* 2010 YTD = 9.8 points

# Driving Profitable Growth

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## Opportunities and Strategies

- Homeowners Profit Improvement
- Claims Initiatives
- Business Insurance Focus
- Specialty Insurance Integration
- Enterprise Risk Management
- Capital Management

# Driving Profitable Growth

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## Homeowners Profit Improvement

- Price increases
- Insurance to Value (ITV)
- By peril product
- Wind/hail deductibles
- Aggregate reinsurance treaty
- Commission changes

# Driving Profitable Growth

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## Fixing Homeowners: The Solution

### Expected Benefit to Homeowners Loss Ratio:

– Insurance to Value	8.0%
– By-Peril	5.0
– Wind/Hail Deductibles	<u>2.0</u>
	15.0%

# Driving Profitable Growth

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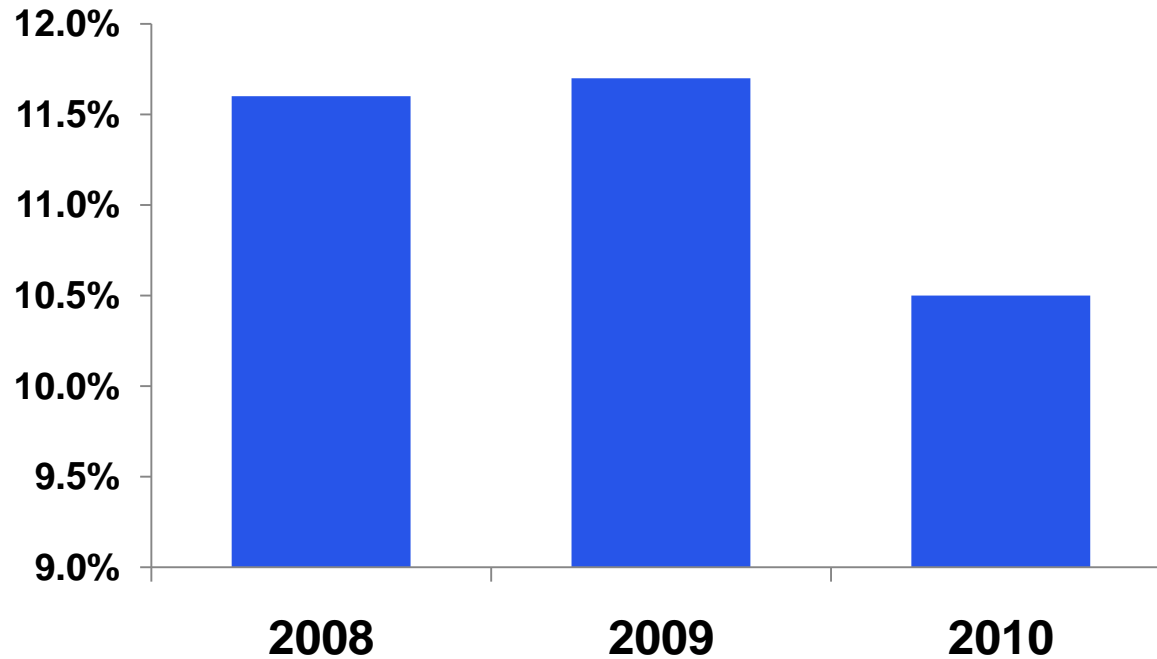
## Claims Initiatives

- CAT teams
- Large property adjusters
- APD unit
- Staff counsel
- Inside vs. outside adjusters
- Workers compensation
- **A 1% Game!**

# Driving Profitable Growth

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## LAE Trend



# Driving Profitable Growth

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## Business Insurance Focus

- **Pricing Models** ... evolving models ... expanding price points ... speed of responsiveness to challenges and opportunities
- **Ease of Doing Business Technology** ... supporting architecture ... straight-through processing (upload/download) ... portal functionality ... rules ...
- **Enhanced Business Processes** ... leverage models through rules (pricing, underwriting, workflow, services) ... STP ...
- **Underwriting Quality** ... attaining goals through models, technology and processes ... e.g., combined ratio, growth, expense ratio, service standards, underwriting consistency, account view, market segmentation, agency EDB ... business intelligence

# Driving Profitable Growth

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## Business Insurance Outcomes

- Pricing: Optimized models
- Portals: Easy to use
- Productivity: Lower expense ratios
- People: Accessible and relationship oriented

# Driving Profitable Growth

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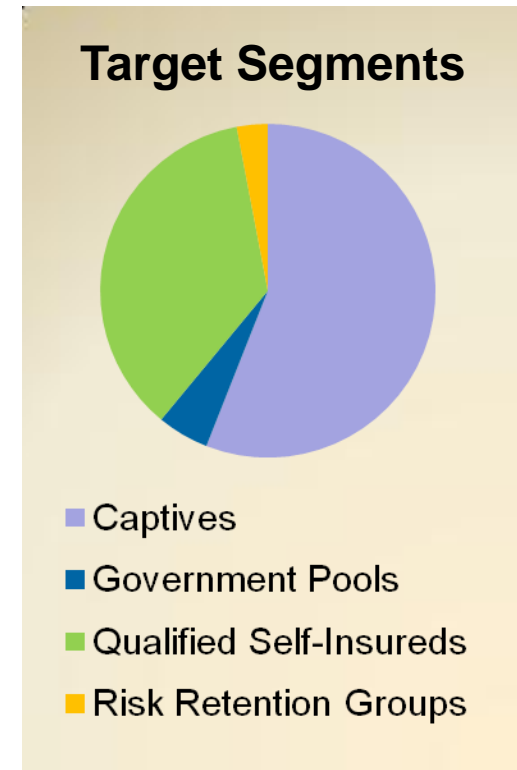
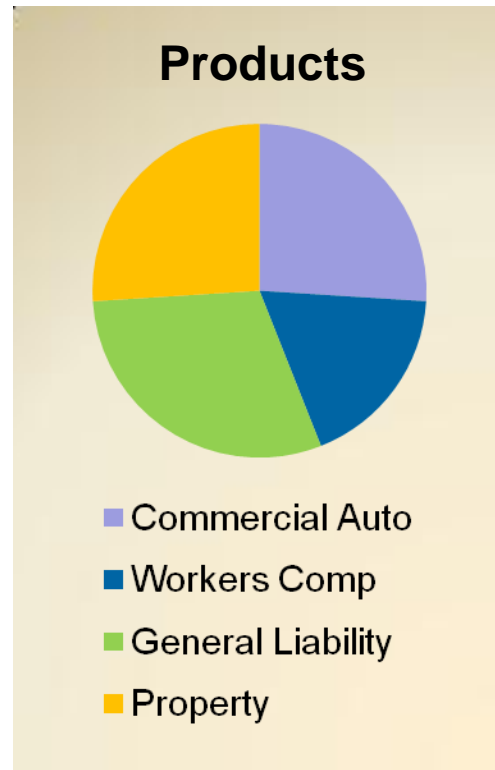
## Specialty Insurance Integration

- Risk Evaluation and Design (RED)
- Rockhill
- Return to Work (RTW)

# Driving Profitable Growth

## Specialty Insurance Integration

### Risk Evaluation and Design (RED)



- Distribution: Brokers and specialty sources

# Driving Profitable Growth

## Specialty Insurance Integration

### Rockhill



- Distribution:  
Wholesale brokers and  
program managers

#### Target Segments



- Property
- Construction
- Environmental
- Health Care
- Programs

# Driving Profitable Growth

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## Specialty Insurance Integration

### RTW

- Workers Compensation
  - Debit mod
  - Small account
- Distribution
  - Retail brokers
  - Wholesalers

# Driving Profitable Growth

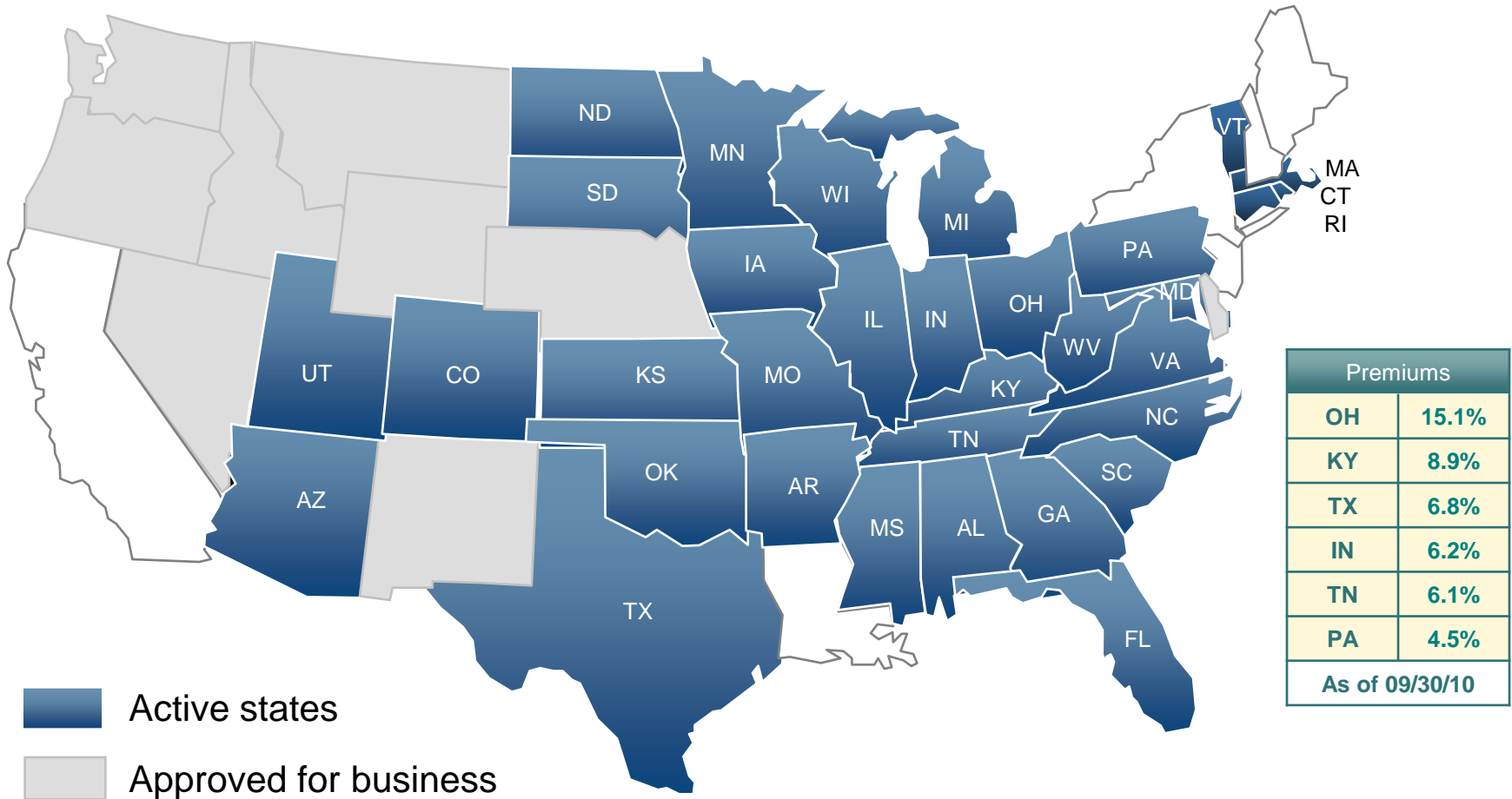
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## Enterprise Risk Management

- Wind/hail
- Coastal
- CAT modeling
- DFA modeling

# Driving Profitable Growth

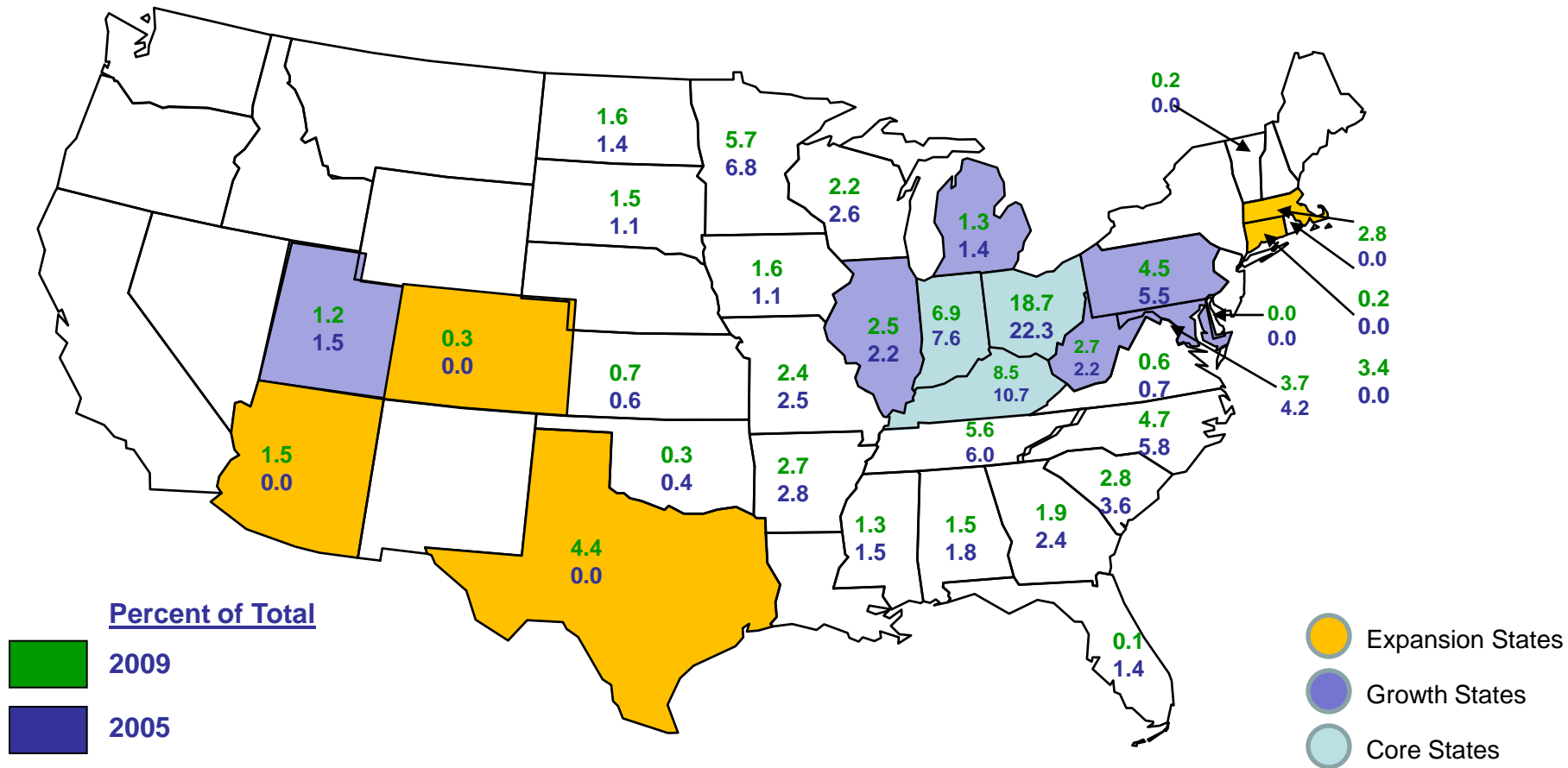
## Geographic Dispersion



# Driving Profitable Growth

## Geographic Dispersion

(% of total insured value) as of December 31, 2009 and December 31, 2005



Homeowners, Commercial Property and Farm

# Driving Profitable Growth

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## Capital Management

- Strong capital ratios (BCAR)
- Prudent reinsurance
- Modest debt/capital ratio
- Conservative investments
- Adequate reserves

# Driving Profitable Growth

## STFC Investment Portfolio – September 30, 2010

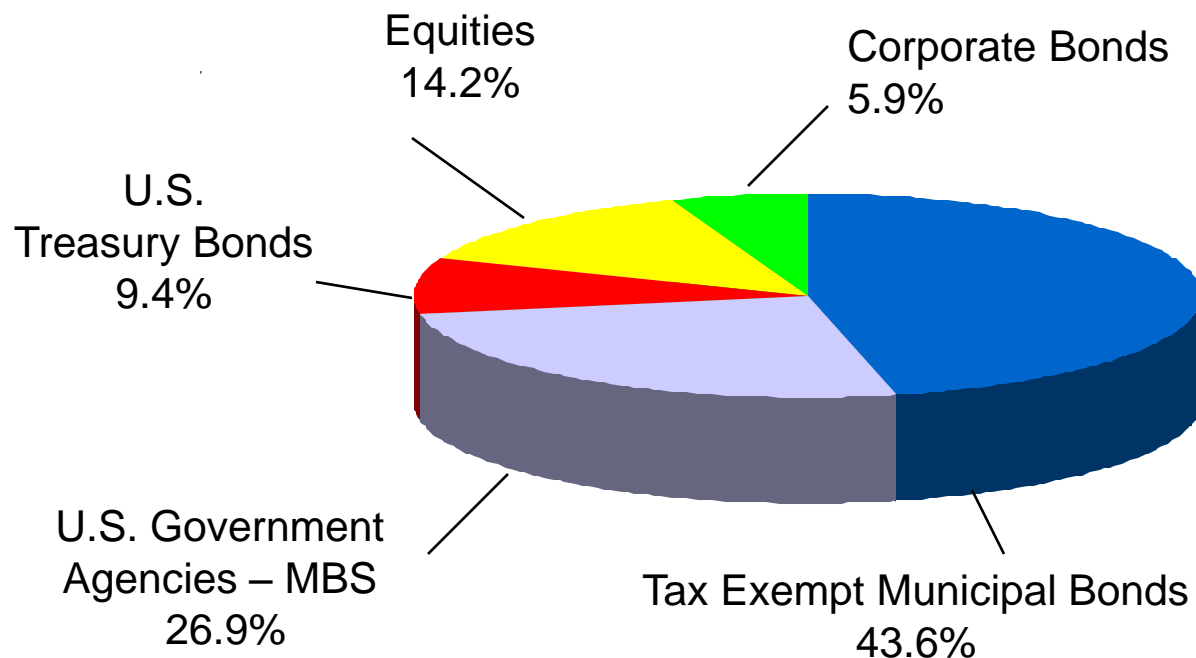
### Allocation

Fixed Income	85.8%
Equities	14.2%
<b>Total</b>	<b>100.0%</b>

### Bond Ratings

Aaa	56.3%
Aa	34.8%
A	5.1%
Other	3.8%
<b>Total</b>	<b>100.0%</b>

Total: **\$2.22 billion**



Average Maturity: **7.1 years**

Duration: **4.2**

Pre-Tax Yield: **4.0%**

# Driving Profitable Growth

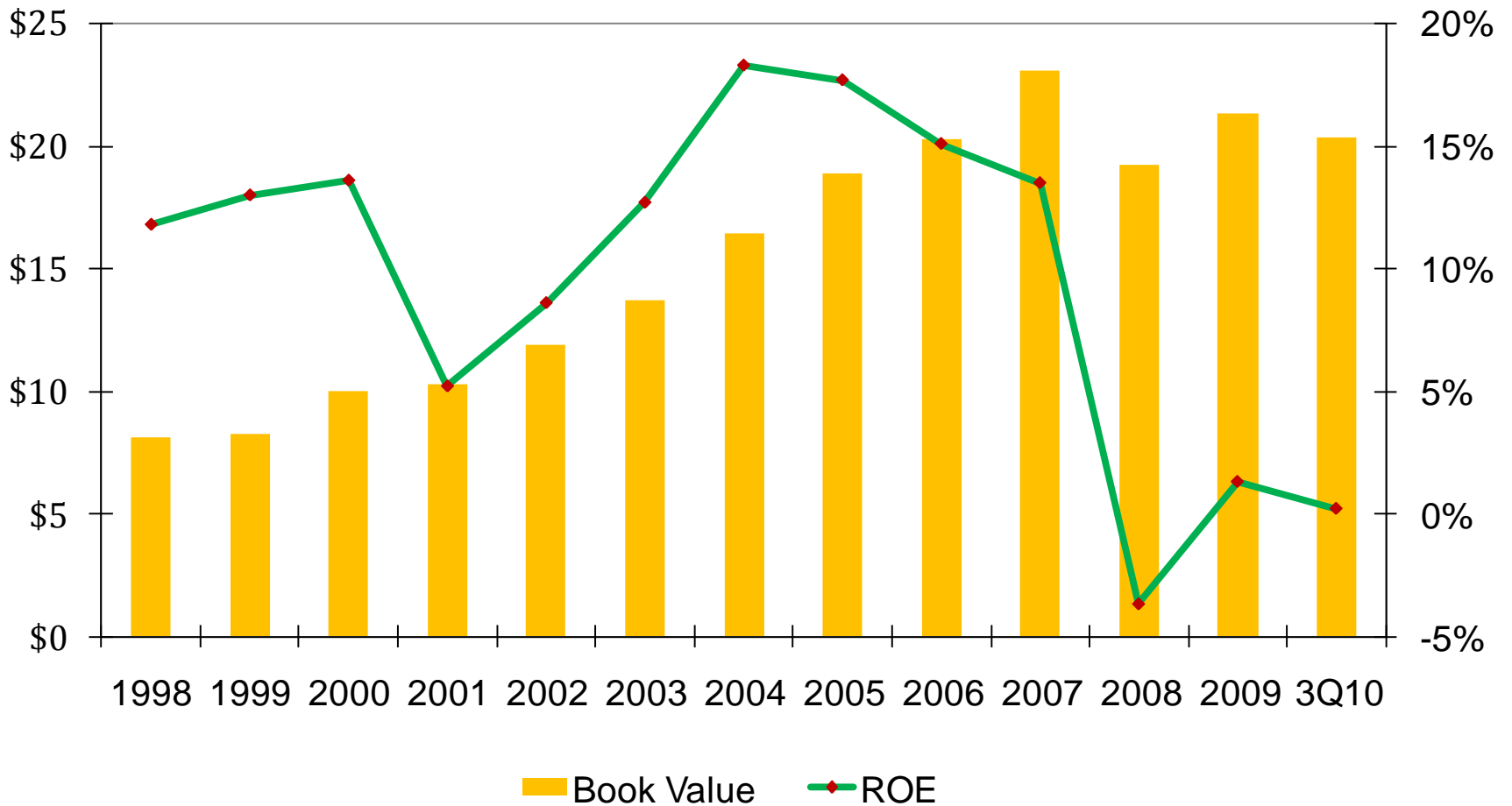
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**Profitable growth leading to long-term BV expansion.**

**State Auto is prepared to deliver strong results.**

# Driving Profitable Growth

## Book Value Per Share vs. ROE



# Driving Profitable Growth

## Deliver 10% to 15% ROE

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# Summary

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## Proven ability to deliver returns to investors

- Disciplined underwriter
- Improving claims capability
- Conservative risk and capital management
- Consistent book value growth
- Successful integration of acquisitions
- Ease of Doing Business: People, products, processes
- Diversified business profile: geographic and products

# Questions and Answers



# State Auto Financial Corporation

## **Profitable Growth Driving Shareholder Value**