Casualty Insurance Markets in Turbulent Times

Trends & Challenges

Insurance Information Institute

March 2008

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Presentation Outline

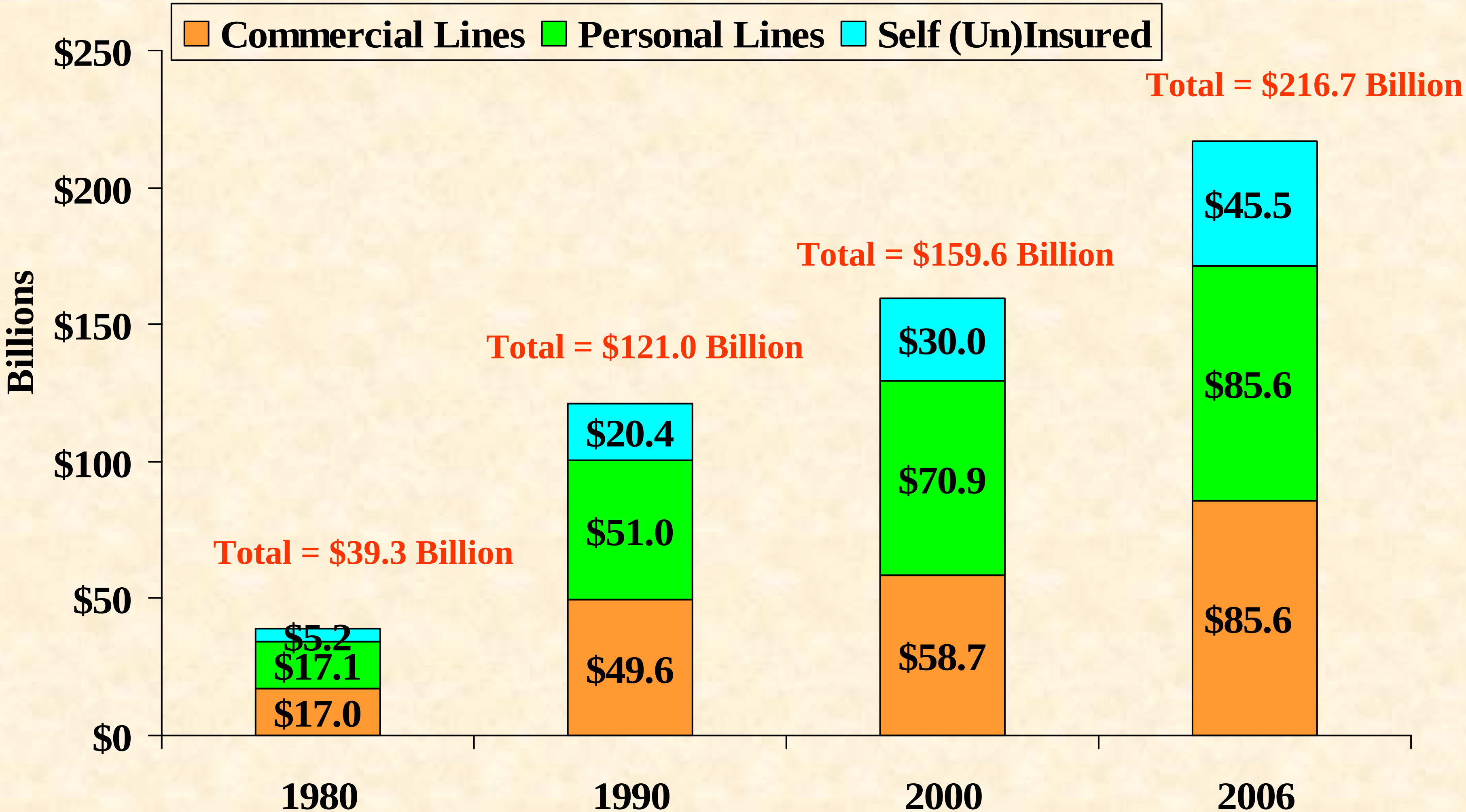
- **Shifting Legal Liability & Tort Environment**
- **The Economic Storm: *What it Means for the Insurance Industry***
- **Profitability & Performance: *Strong but Starting to Experience Cyclical Weakening***
- **Ratings & Financial Strength: *Weathering the Storm?***
- **Underwriting Trends: *Strength in Numbers***
- **Premium Growth: *At a Standstill***
- **Capacity: *Too Much of a Good Thing?***
- **Investment Overview: *More Pain, Less Gain***

Q&A

Shifting Legal Liability & Tort Environment

Recent Reforms Have Helped, but Will Tort Pendulum Swing Against Corporations & Insurers?

Personal, Commercial & Self (Un) Insured Tort Costs*

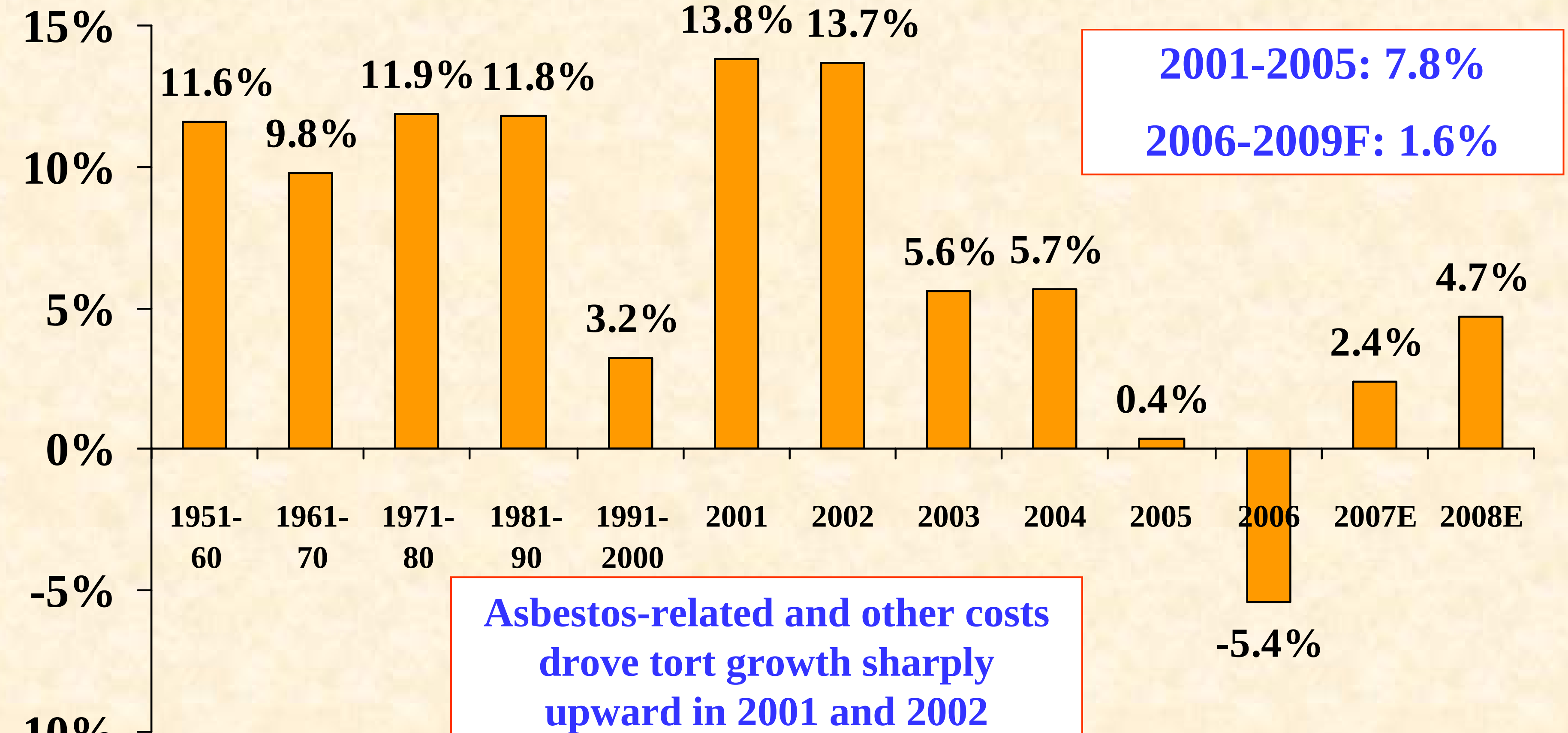


*Excludes medical malpractice

Source: Tillinghast-Towers Perrin, *2007 Update on US Tort Cost Trends.*

Growth in Cost of U.S. Tort System, 1951-2009F

Tort costs moderated beginning in 2003 as many improvements in the tort system began to bear fruit



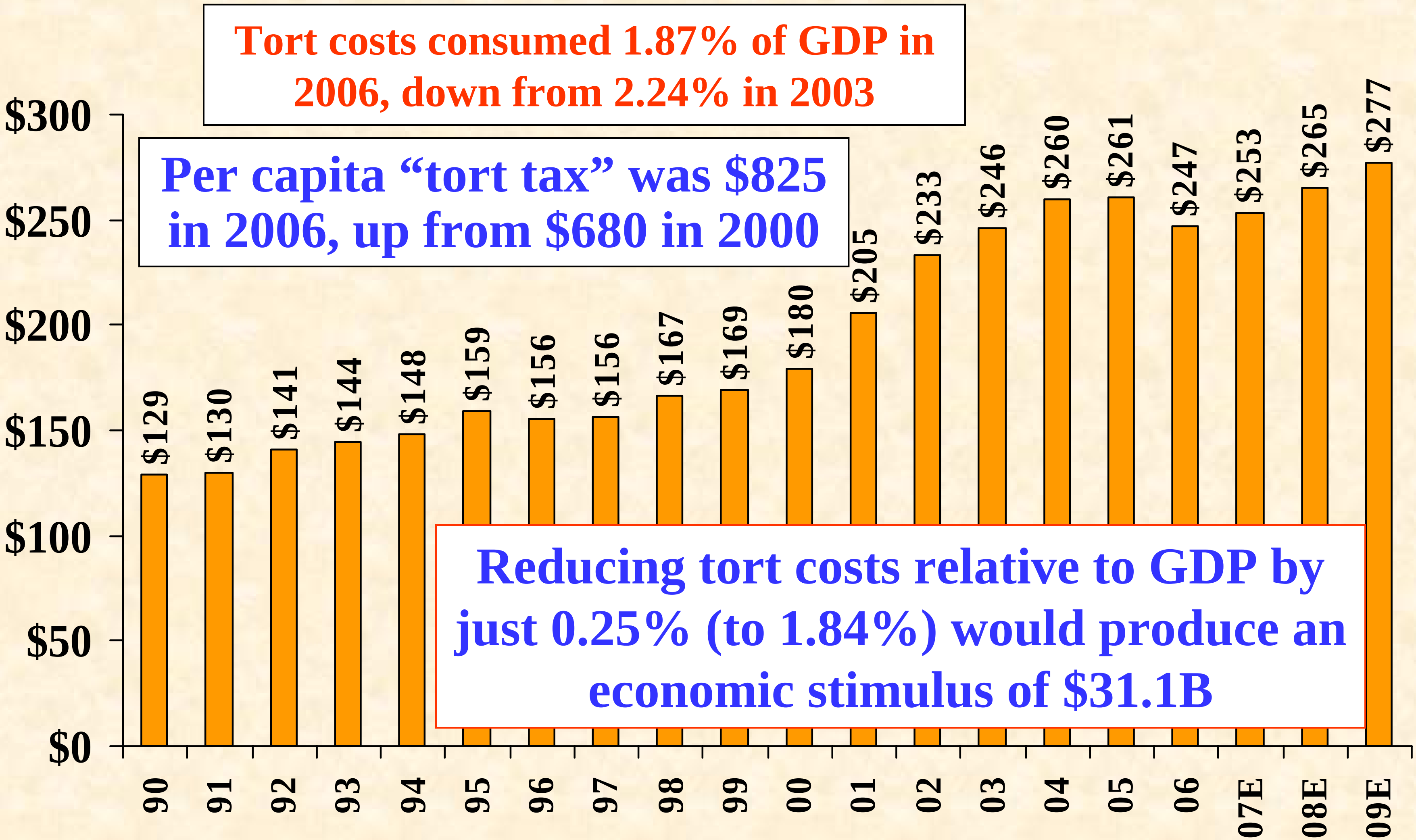
2001-2005: 7.8%

2006-2009F: 1.6%

Asbestos-related and other costs drove tort growth sharply upward in 2001 and 2002

Source: Tillinghast-Towers Perrin.

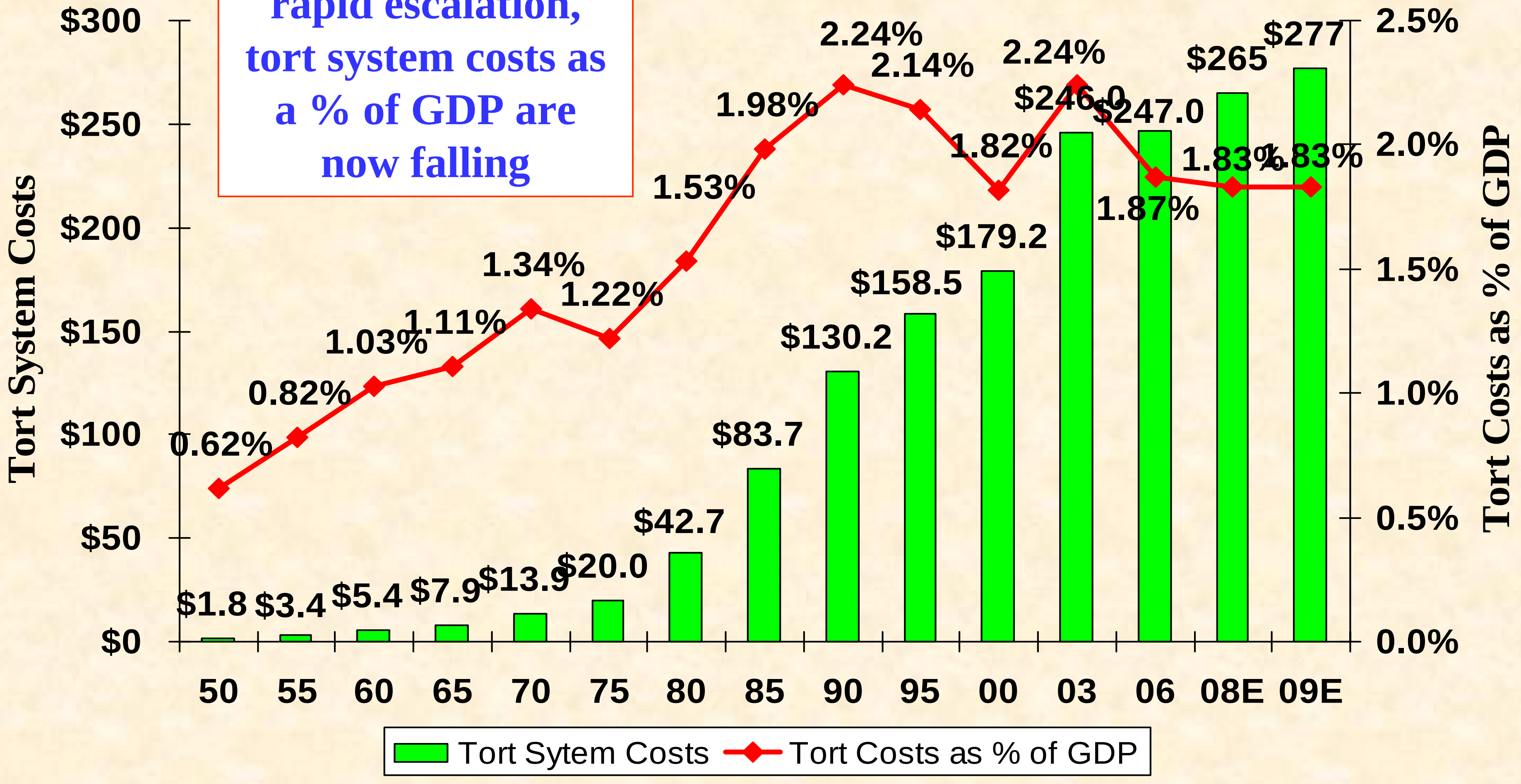
Cost of US Tort System ($ Billions)



Source: Tillinghast-Towers Perrin, *2007 Update on US Tort Cost Trends.*

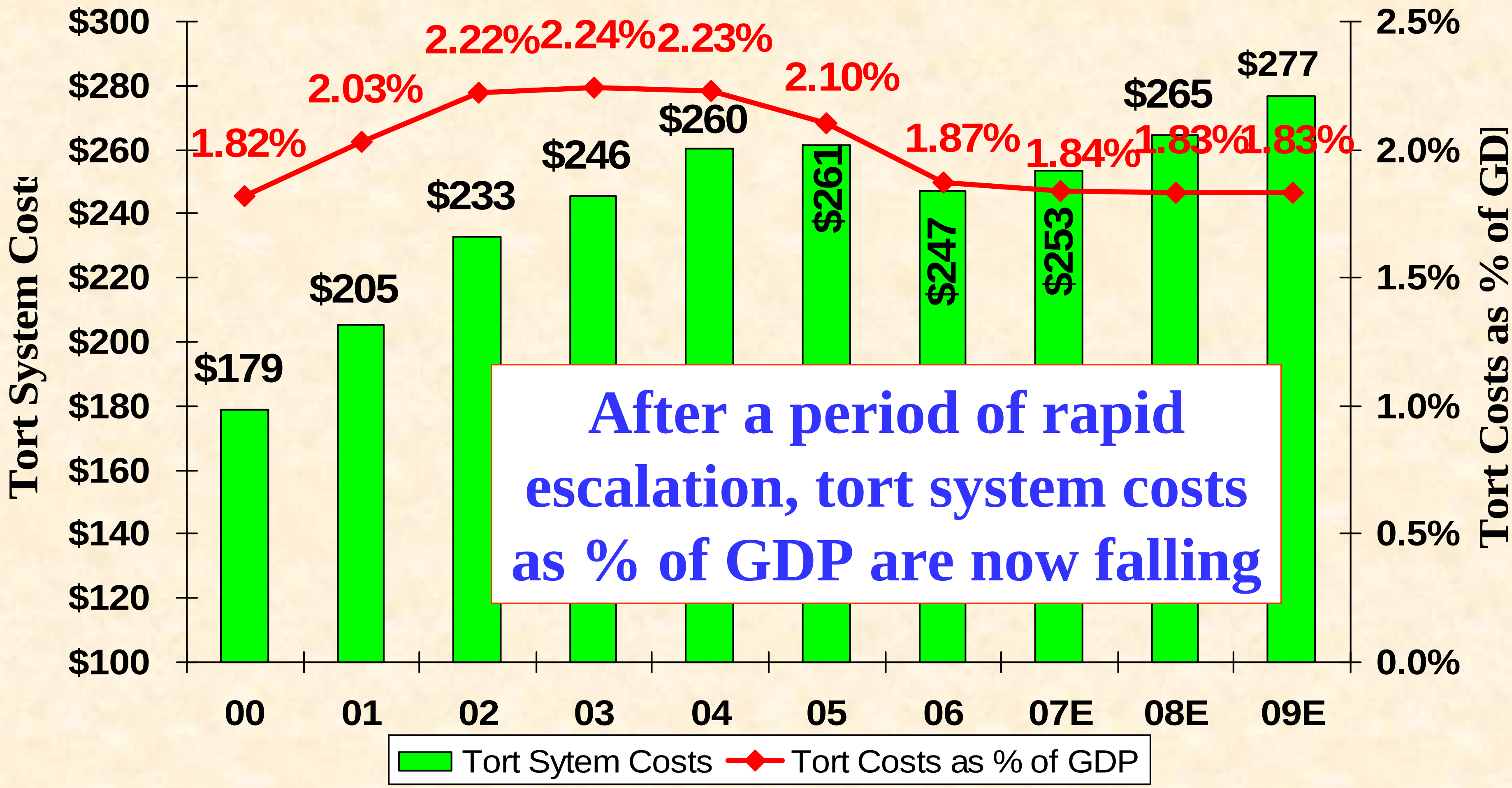
Tort System Costs, 1950-2009E

After a period of rapid escalation, tort system costs as a % of GDP are now falling



Source: Tillinghast-Towers Perrin, *2007 Update on U.S. Tort Costs as % of GDP*

Tort System Costs and Tort Costs as a Share of GDP, 2000-2009F



Source: Tillinghast-Towers Perrin, *2007 Update on US Tort Cost Trends.*

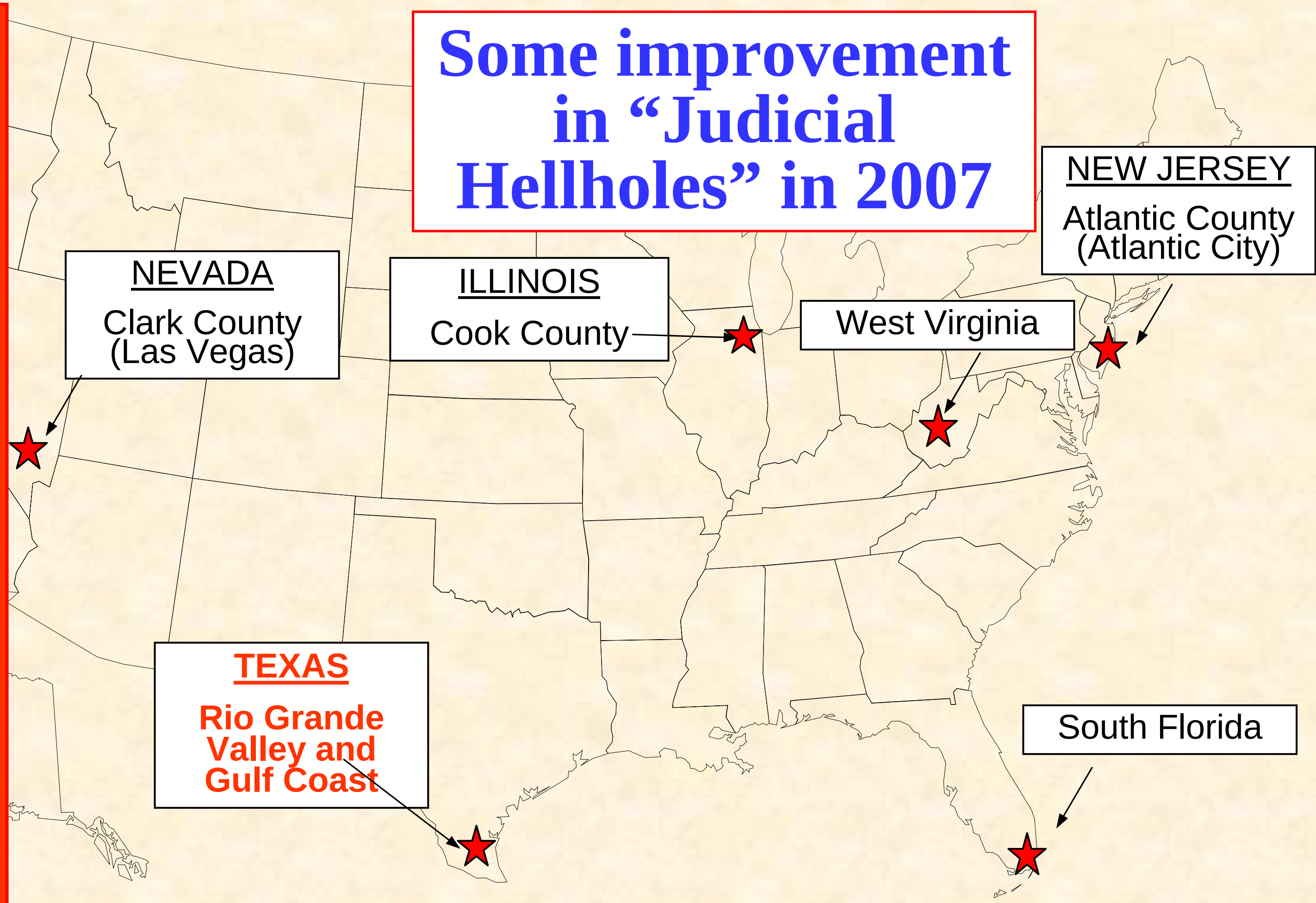
The Nation's Judicial Hellholes (2007)

Watch List

Madison County, IL
St. Clair County, IL
Northern New Mexico
Hillsborough County, FL
Delaware
California

Dishonorable Mentions

District of Columbia
MO Supreme Court
MI Legislature
GA Supreme Court
Oklahoma



Source: American Tort Reform Association; Insurance Information Institute

Business Leaders Ranking of Liability Systems for 2007

Best States

1. Delaware
2. Minnesota
3. Nebraska
4. Iowa
5. Maine
6. New Hampshire
7. Tennessee
8. Indiana
9. Utah
10. Wisconsin

New in 2007

ME, NH, TN, UT, WI

Drop-Offs

ND, VA, SD, WY, ID

Midwest/West has mix of good and bad states

Worst States

41. Arkansas
42. Hawaii
43. Alaska
44. Texas
45. California
46. Illinois
47. Alabama
48. Louisiana
49. Mississippi
50. West Virginia

Newly Notorious

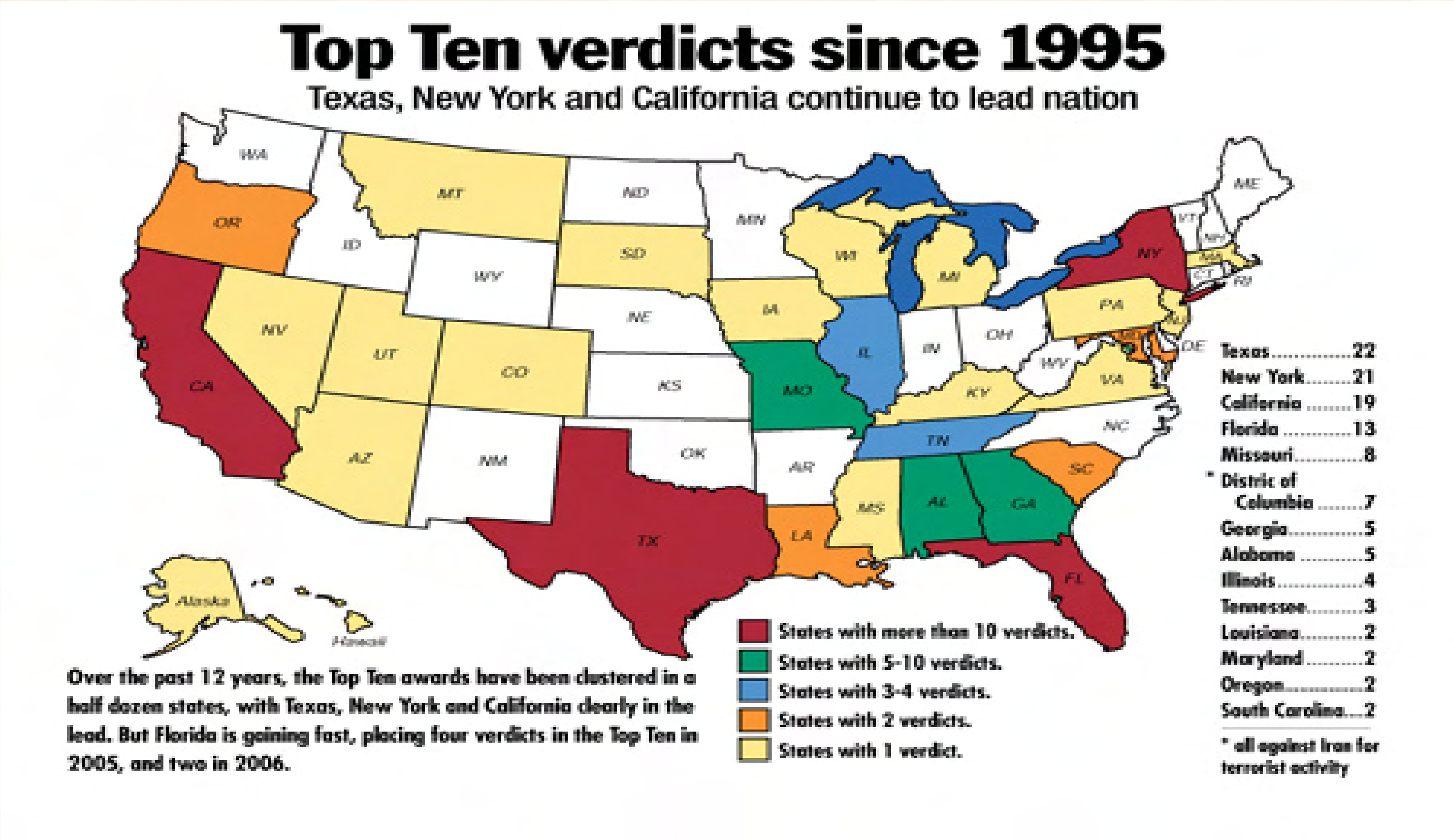
AK

Rising Above

FL

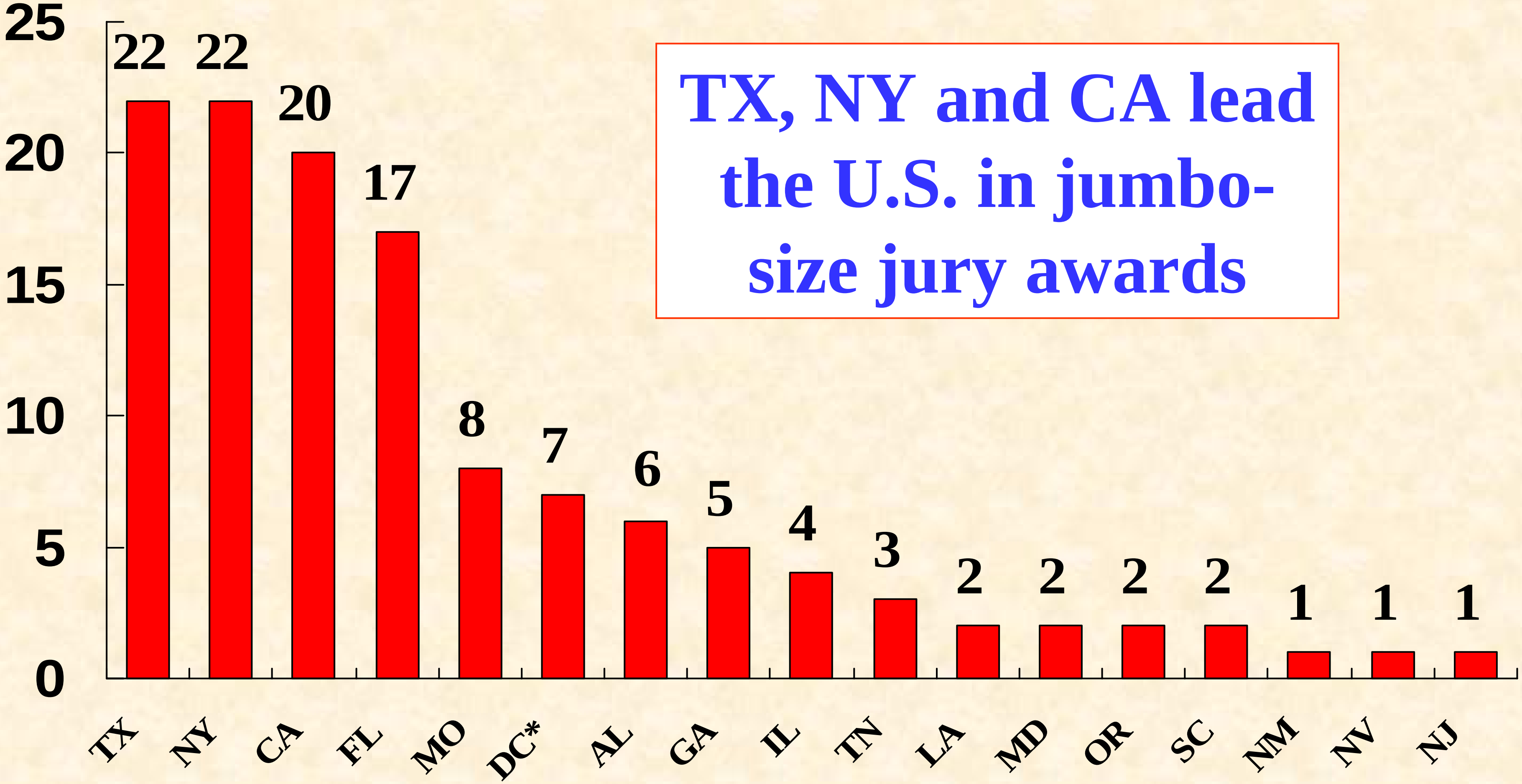
Source: US Chamber of Commerce 2007 State Liability Systems Ranking Study; Insurance Info. Institute.

Total Top 10 Verdicts, 1995 through 2006



Source: Lawyers USA, 2007

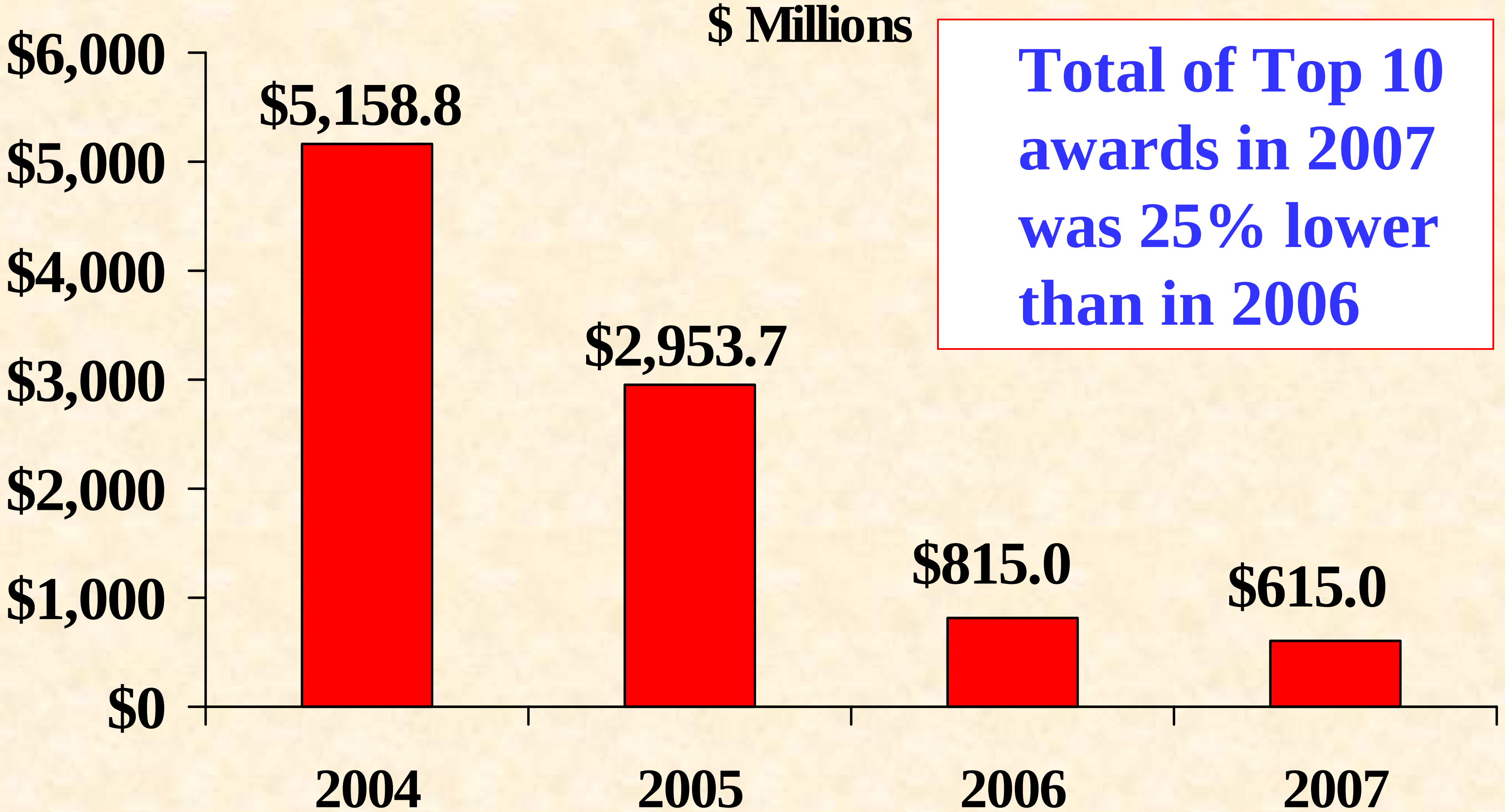
Number of Top 10 Jury Awards, 1995 - 2007



Source: LawyersWeekly USA,, January 22, 2008.

*All against Iran for terrorist activity

Sum of Top 10 Jury Awards



Total of Top 10 awards in 2007 was 25% lower than in 2006

Source: Insurance Information Institute from LawyersWeekly USA, January 2005, 2006, 2007 and 2008.

2007 Top Ten Verdicts

Value	Issue	State
$109 Million	Medical Malpractice	New York
$102.7 Million	Premises Liability, Death	Florida
$55.2 Million	Product Liability, Death	California
$54 Million	Private Air Crash	Florida
$54 Million	Nursing Home, Death	New Mexico
$50 Million	DUI Crash	Florida
$50 Million	Product Liability, Death	Alabama
$47.6 Million	Prempro	Nevada
$47.5 Million	Vioxx	New Jersey
$45 Million	Auto Crash, Death	Florida

Source: LawyersWeekly USA, January 22, 2008.

2006 Top Ten Verdicts

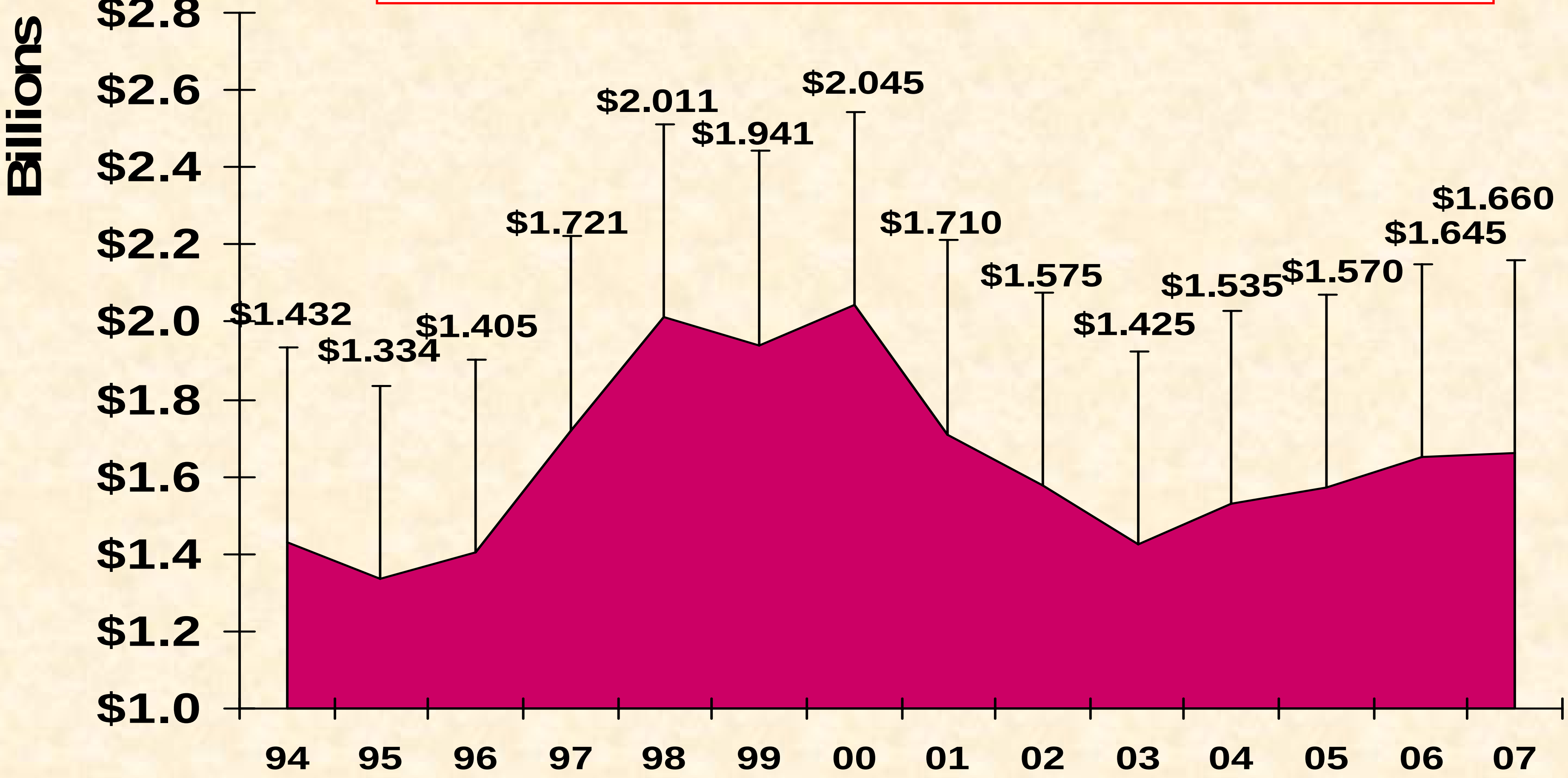
Value	Issue	State
$216.7 Million	Medical Malpractice	Florida
$160 Million	Nursing Home Negligence	Texas
$106 Million	Wrongful Death	California
$61 Million	Workplace Harassment	California
$51 Million	Vioxx	Louisiana
$47.5 Million	Death of Prisoner	Texas
$46 Million	Auto Accident	Missouri
$44.2 Million	Business Dispute	Florida
$44 Million	Police Brutality	Maryland
$38.5 Million	Product Liability	Texas

Source: LawyersWeekly USA, 2007.

INFLUENCE OF TORT ENVIRONMENT AND LEGAL LIABILITY TRENDS ON PRICING AND AVAILABILITY

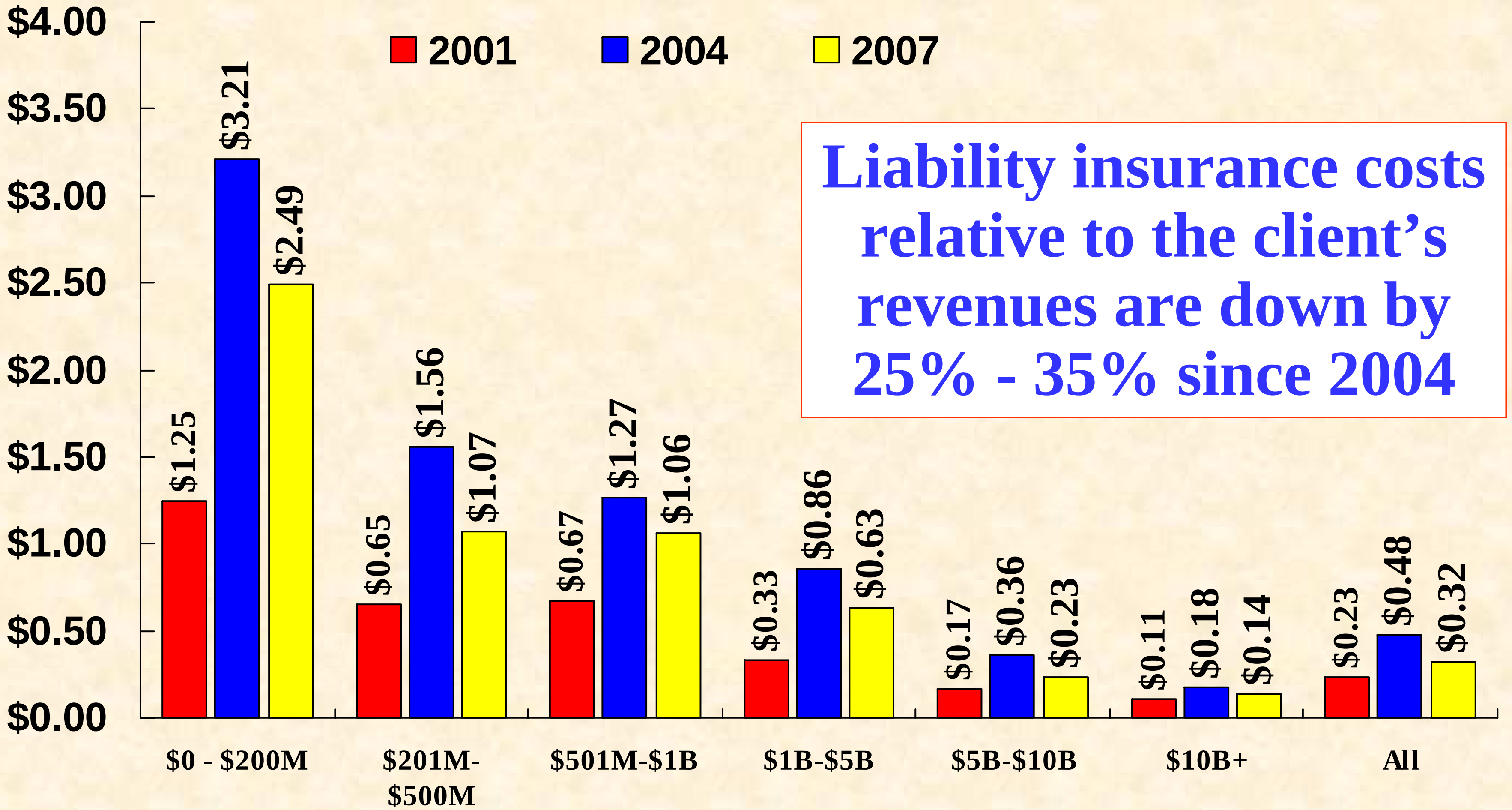
Excess Liability Market Capacity – North America

Capacity is up 16.5% since its 2003 trough



Source: Marsh, 2007 Limits of Liability Report

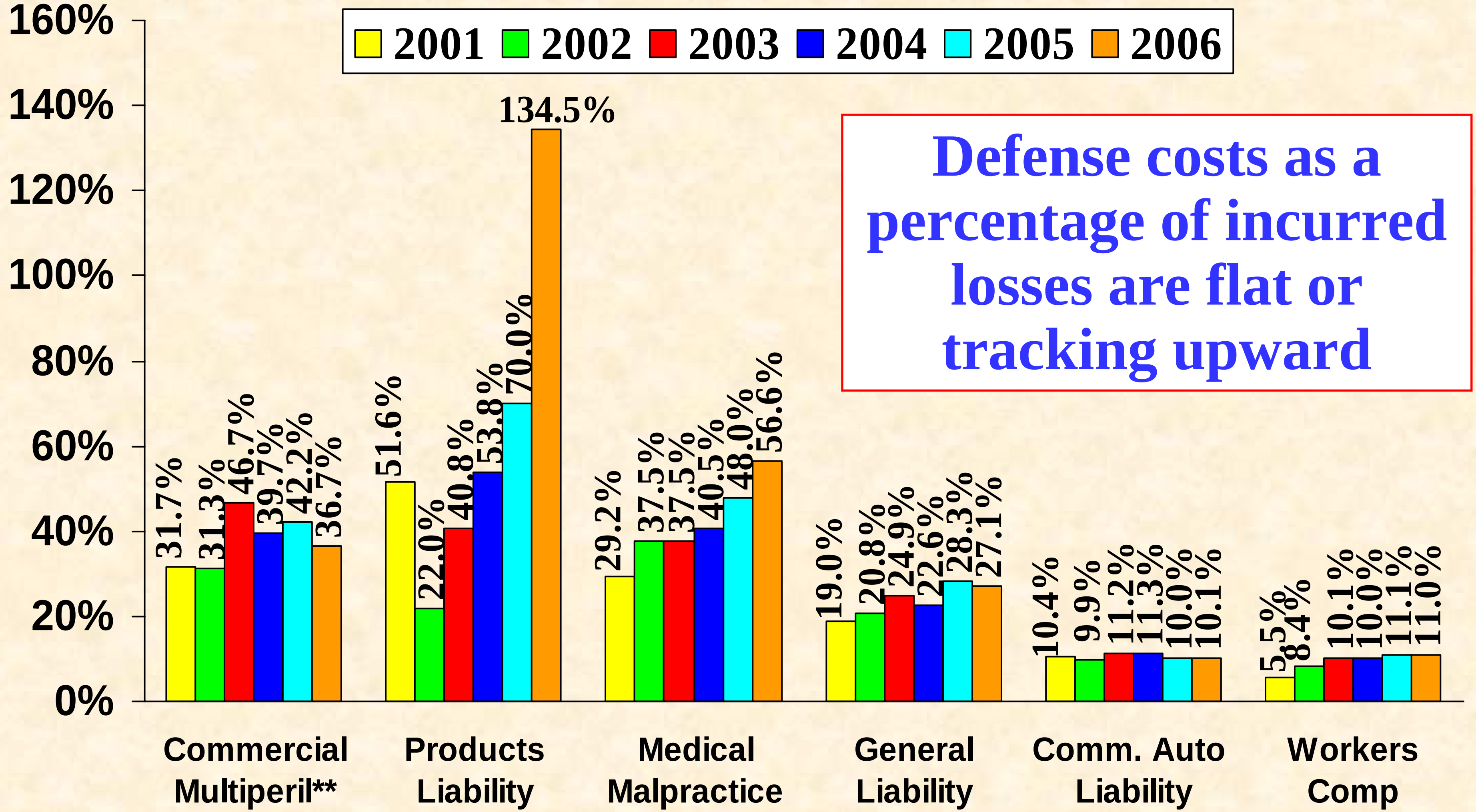
*Liability: Average Cost per $1,000 of Revenue**
United States, 2001 to 2007



***Across entire liability program (full population)**

Source: Marsh, 2007 Limits of Liability Report

Defense Costs and Cost Containment Expenses as % of Incurred Losses*

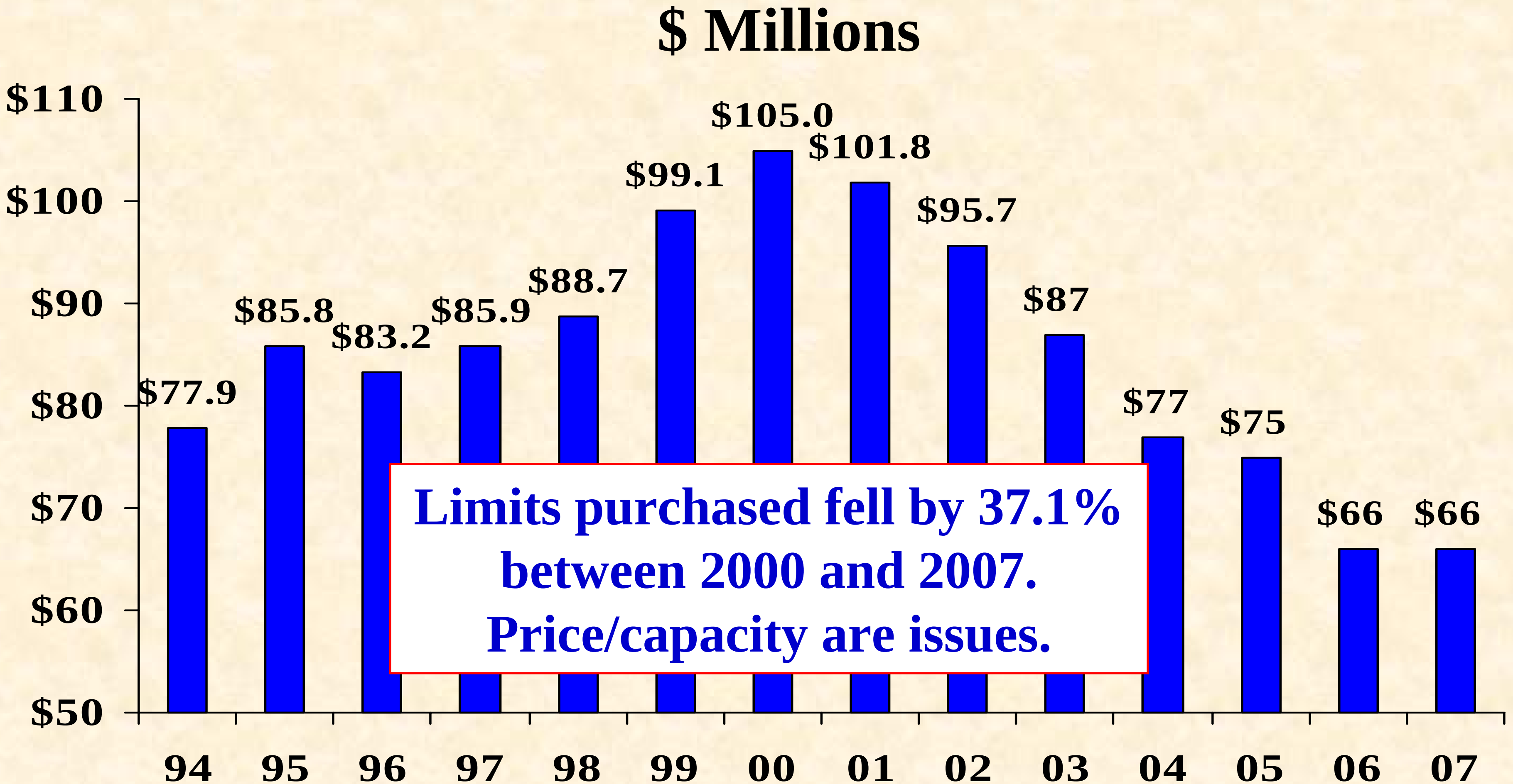


Defense costs as a percentage of incurred losses are flat or tracking upward

* Net of reinsurance; excludes state funds. **Liability portion only

Source: Insurance Information Institute *2008 Fact Book* from NAIC Statement Database.

Average Total Liability Limits Purchased by All U.S. Firms*

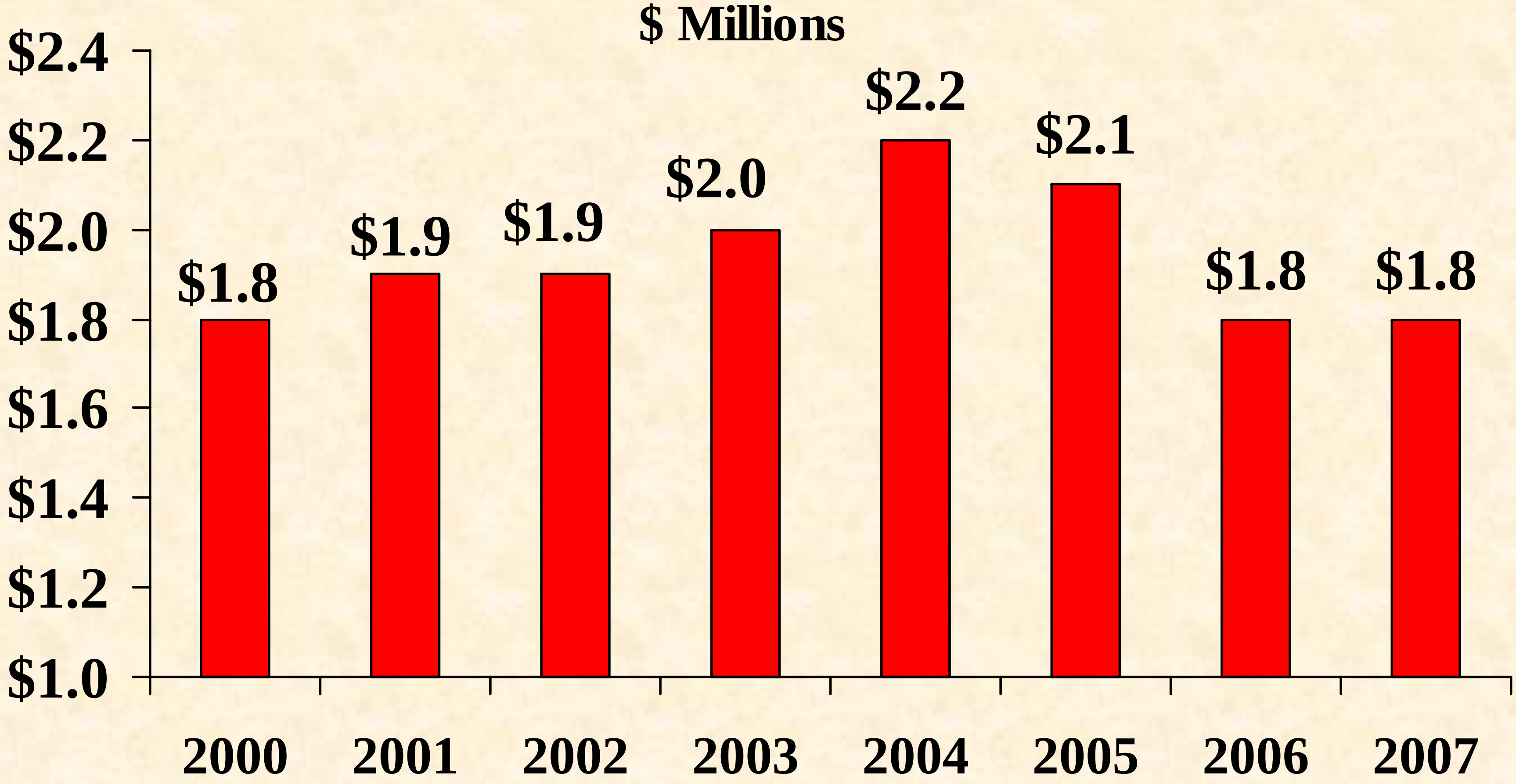


*Includes underlying primary limits

Source: *Limits of Liability 2007*, Marsh, Inc.

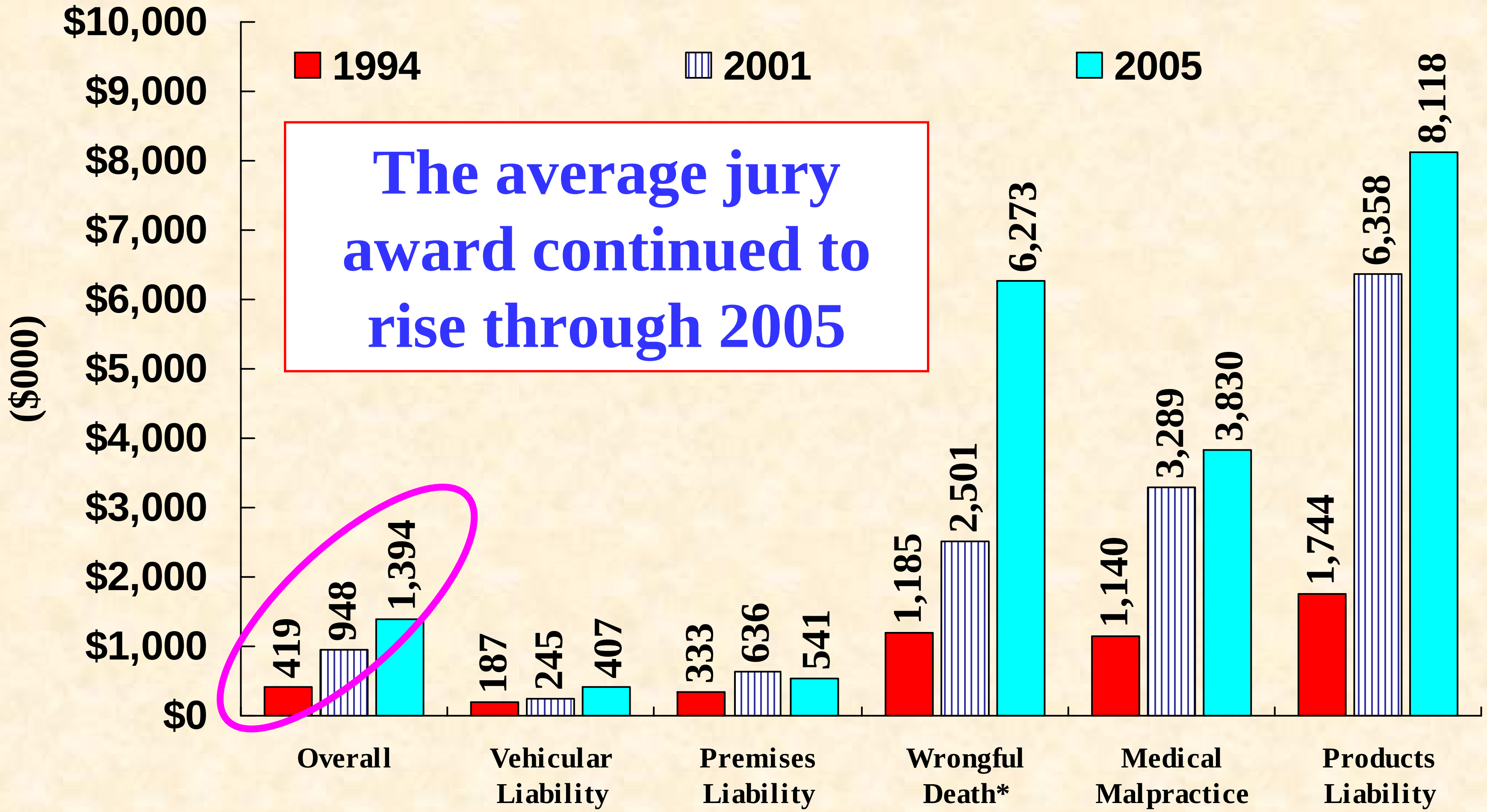
Average Underlying Limits – U.S.

(Attachment Points)



*Source: Marsh, 2007 and 2006 Limits of Liability Report

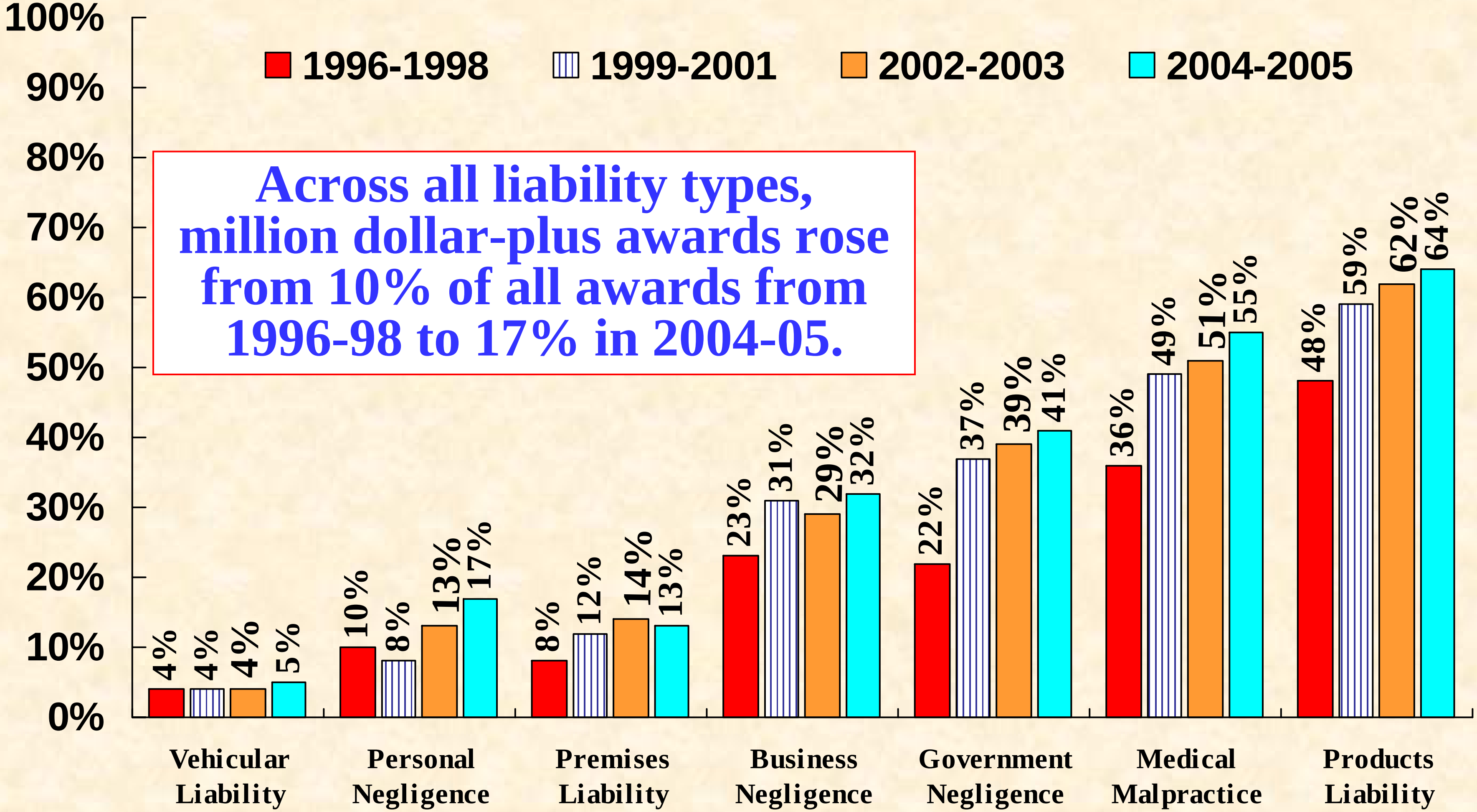
Average Jury Awards 1994 vs. 2001 and 2005



*Award trends in wrongful deaths of adult males.

Source: Jury Verdict Research; Insurance Information Institute.

Trends in Million Dollar Verdicts*



*Verdicts of $1 million or more.

Source: Jury Verdict Research; Insurance Information Institute.

Some Emerging and Potential Casualty & Litigation Risks

1. **Securities Litigation**
   - **Increased market volatility generally leads to more litigation. Subprime and broader credit crunch are central issues.**
2. **Bad Faith Litigation**
   - **Major area of focus for trial bar; Potential ballot referenda (e.g., WA)**
3. **Products Liability on Imported Goods**
   - **Defective products, drugs; Increased federal penalties/activism: CPSC**
4. **Climate Change**
   - **CO2 Supreme Court decision/EPA**
   - **Claims that hurricanes, rising sea levels, wildfires→GHG emissions**
   - **Carbon emissions caps, sequestration (storage & infrastructure)**
5. **Energy**
   - **Capacity and technology currently pushed to the edge**
   - **Alternative fuels (e.g., is ethanol really "clean"?), Sequestration**
6. **Latent Occupational Disease**
   - **Manifestation is significantly delayed from exposure**
   - **Degenerative neurological disorders (e.g., Parkinsons), Cancers**

Source: Insurance Information Institute

Emerging and Potential Casualty & Litigation Risks (cont'd)

7. **First Responder Litigation**
   - Disease manifestation traced back to disaster response
8. **Employment Practices Liability**
   - Weak labor market, layoffs could spawn more litigation, especially age discrimination cases
9. **Environmental Liability**
   - Continued erosion of "absolute pollution exclusion"
   - "Green" movement; increased environmental awareness
10. **Nanotechnology**
    - Science is wide open on any harm caused
11. **Assisted Living Facilities**
    - Surge in nursing home population ahead; Fertile ground for litigation
12. **Financial Fiduciary/Advice**
    - Extent of liability for management of funds could be stretched
    - Litigation based on "faulty" advice; Failure to follow investor wishes

Source: Insurance Information Institute

A STORMY ECONOMIC FORECAST

What a Weakening Economy & Credit Crunch Mean for the Insurance Industry

What's Going On With the US Economy Today?

Fundamental Factors Affecting US Economy in 2008

- **Puncture of Two Bubbles:** **Credit and Housing**
- **Credit Crunch:** **Credit is the lifeblood of the US economy, but some markets have effectively seized (at least to some degree)**
  - **Problem originated with interest rates being left too low for too long in the early 2000s**
  - **Subprime mortgage market first part of credit bubble to burst; Spread via securitization and amplified via leverage and concentration of risk**
  - **As lenders tighten standards, credit issues have spread to prime borrowers, commercial mortgages, munis, credit cards, student loans**
- **General Economic Impacts:** **Burst Bubble→Asset Deflation**
  - **Home price bubble is bursting: Loss of value in most valuable asset impacts wealth via loss of home equity**
  - **Negative "wealth effect" implies consumers (2/3 of spending) become more cautious**
  - **Business scale back as prospects diminish in classic economic slowdown**
  - **Job growth stagnating (-17,000 in Jan. 2008)**

Source: Insurance Information Institute.

What's Being Done to Fix the US Economy?

Fundamental Factors Affecting US Economy in 2008

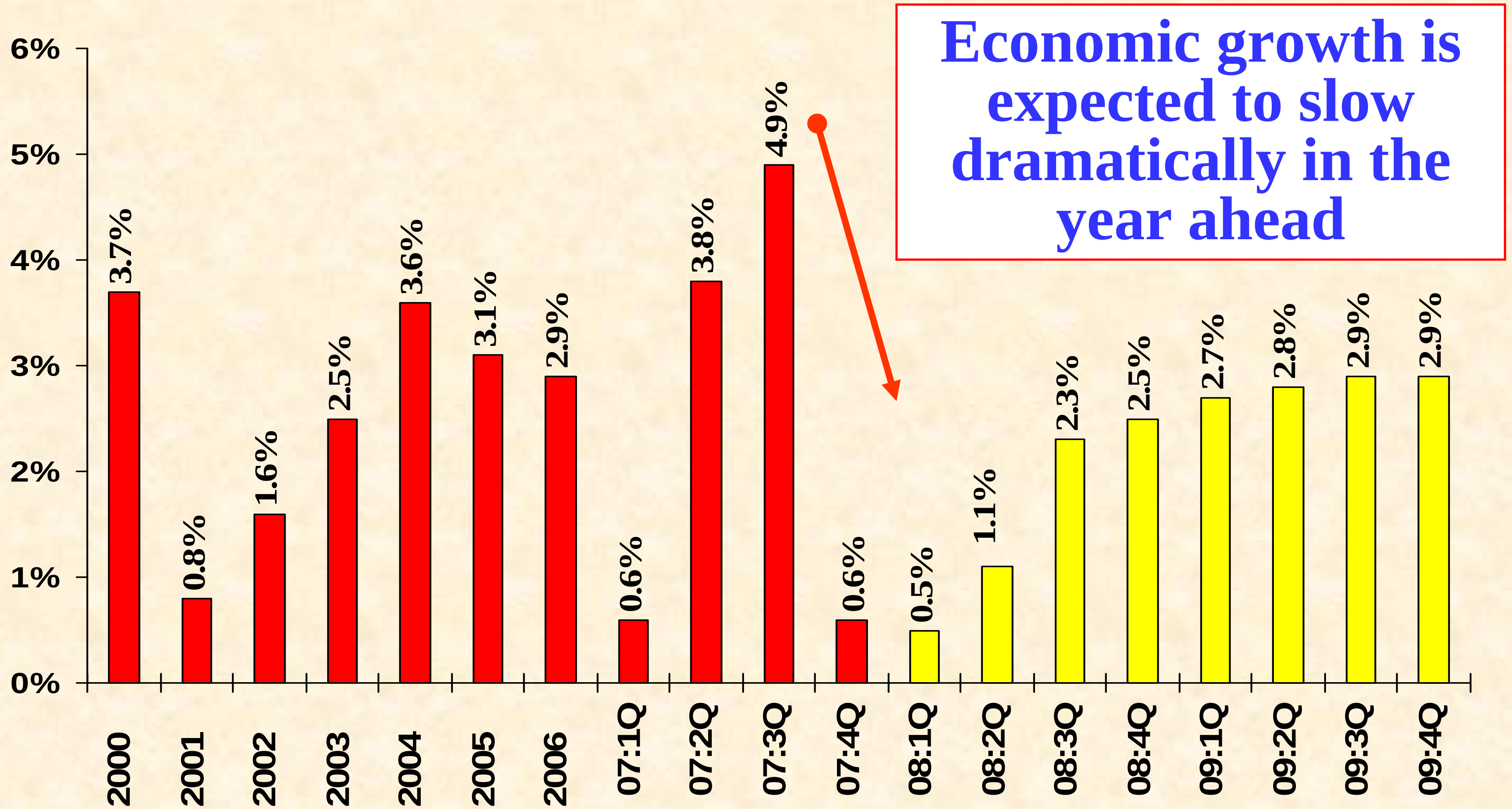
- Federal Reserve: **Slashing Rates→Down 2.25 points since April**
  - **Necessary but not sufficient. Need to reopen credit arteries**
- Federal/State Government: **Traditional role of government is to provide economic stimulus, appropriate regulation**
  - **President signed $170 billion stimulus package Feb. 13**
  - **Hope is that it will create 500,000 jobs**
  - **Expansion of jumbo mortgage limit from $417,000 nationally to $700K+ in some expensive real estate markets (expands Federal guarantee limit)**
  - **Dinallo/Spitzer proposals to rescue monoline (bond) insurers**
- Private Sector: **Scrubbing Balance Sheets**
  - **Financial institutions trying to determine exposure and recognize via accounting statements (e.g., writedowns)**
  - **Attempt to create some sort of private rescue package for bond insurers**
  - **Purchase of distressed assets by some; Sovereign Wealth Fund infusions**
  - **Buffet efforts in muni markets**

Source: Insurance Information Institute.

Summary of Economic Risks and Implications for Insurers

Economic Concern	Risks to Insurers
Credit Crunch/ Subprime Problems	•*Some* insurers have *some* asset risk •D&O/E&O exposure for *some* insurers •Client asset management liability for *some* •Bond insurer problems; Muni credit quality
Housing Slump	•Reduced exposure growth •Deteriorating loss performance on neglected, abandoned and foreclosed properties
Lower Interest Rates	•Lower investment income
Stock Market Slump	•Decreased capital gains (which are usually relied upon more heavily as a source of earnings as underwriting results deteriorate)
General Economic Slowdown/Recession	•Reduced commercial lines exposure growth •Surety slump •Increased workers comp frequency

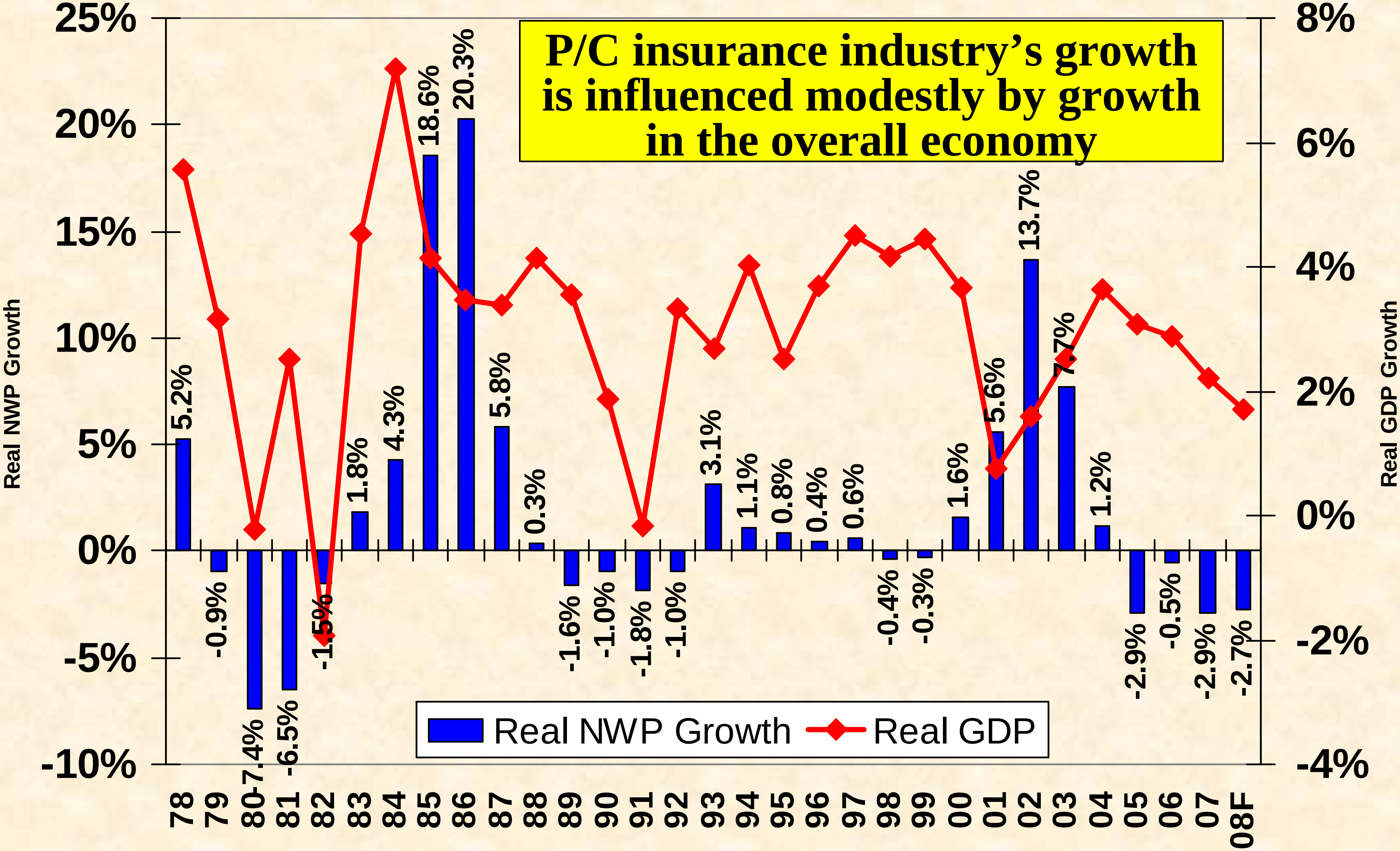
*Real GDP Growth**



***Yellow bars are Estimates/Forecasts.**

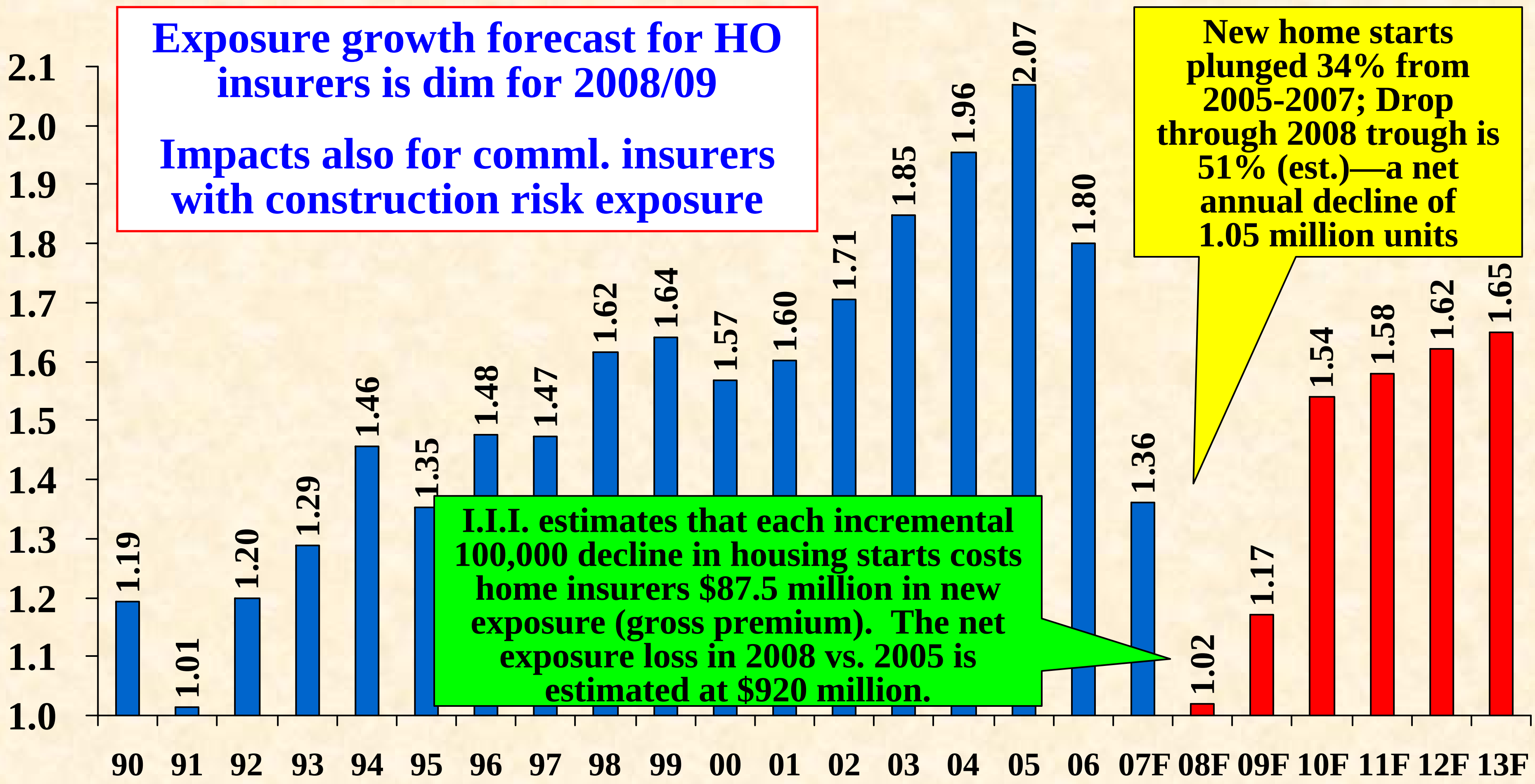
Source: US Department of Commerce, Blue Economic Indicators 2/08; Insurance Information Institute.

Real GDP Growth vs. Real Premium Growth: Modest Association



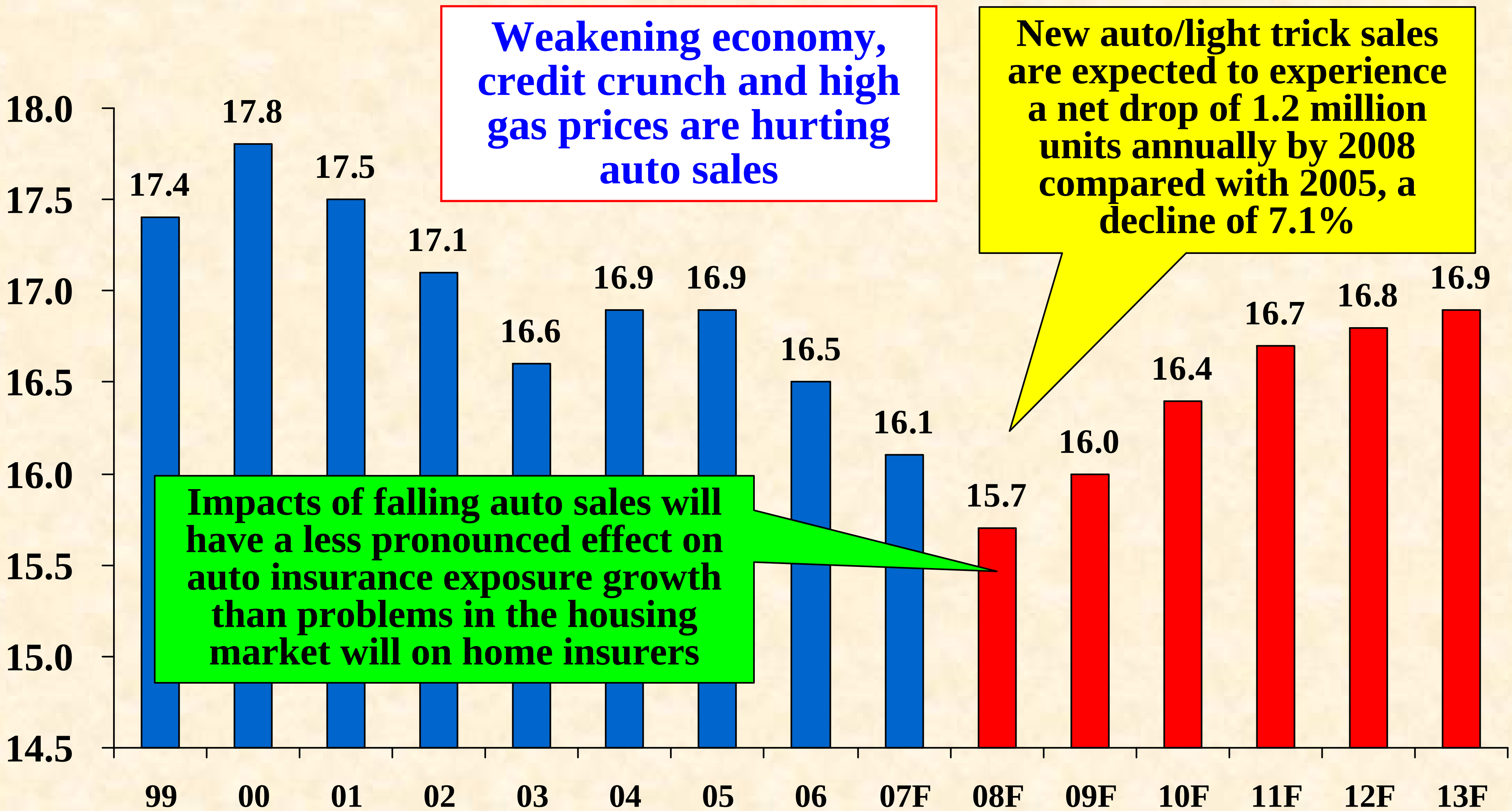
Sources: A.M. Best, US Bureau of Economic Analysis, Blue Chip Economic Indicators, 2/08; Insurance Information Inst.

New Private Housing Starts, 1990-2013F (Millions of Units)



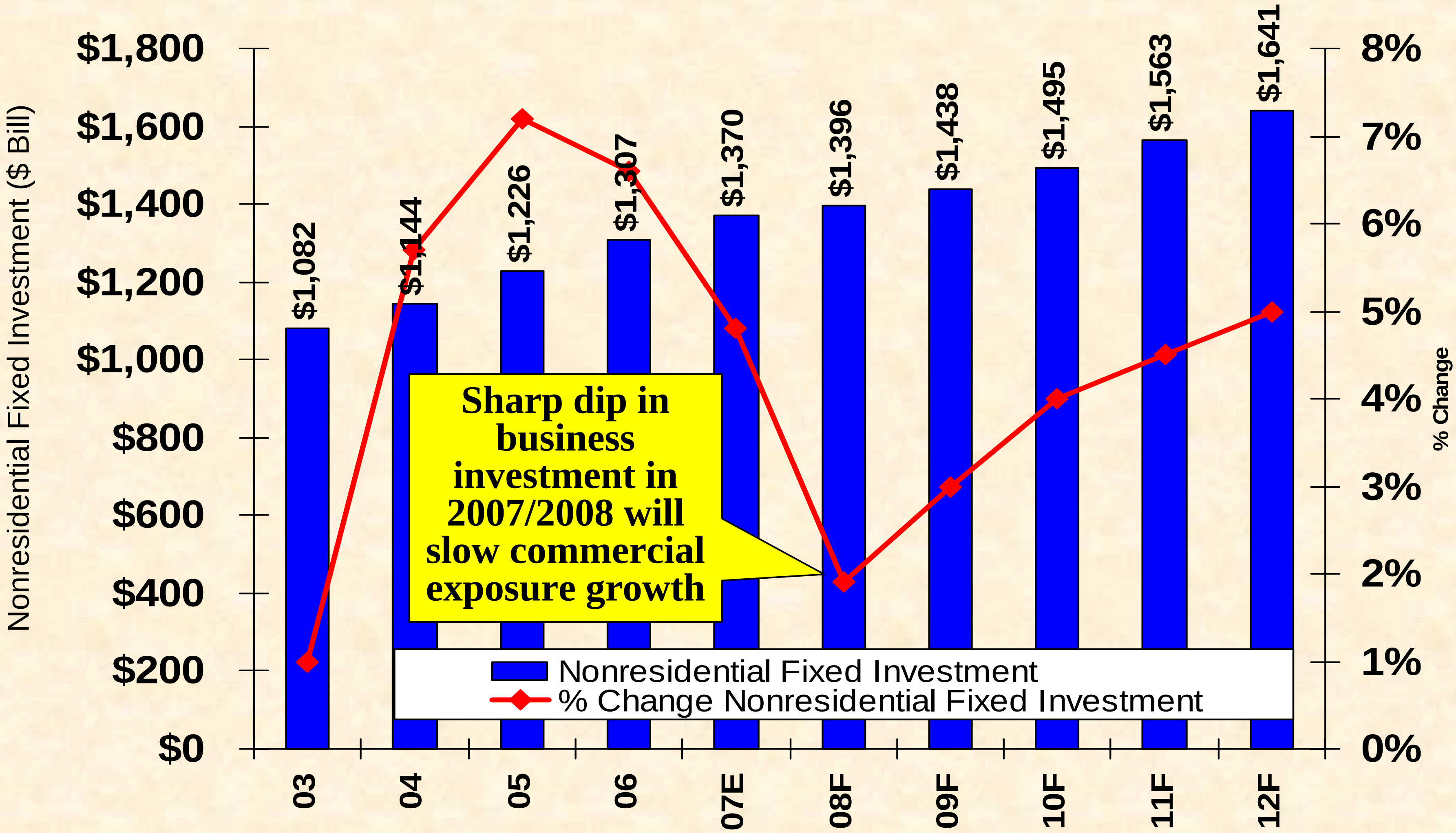
Source: US Department of Commerce; Blue Chip Economic Indicators (10/07), except 2008/09 figures from 2/08 edition of BCEF; Insurance Info. Institute

Auto/Light Truck Sales, 1999-2013F (Millions of Units)



Source: US Department of Commerce; Blue Chip Economic Indicators (10/07), except 2008/09 figures from 2/08 edition of BCEF; Insurance Info. Institute

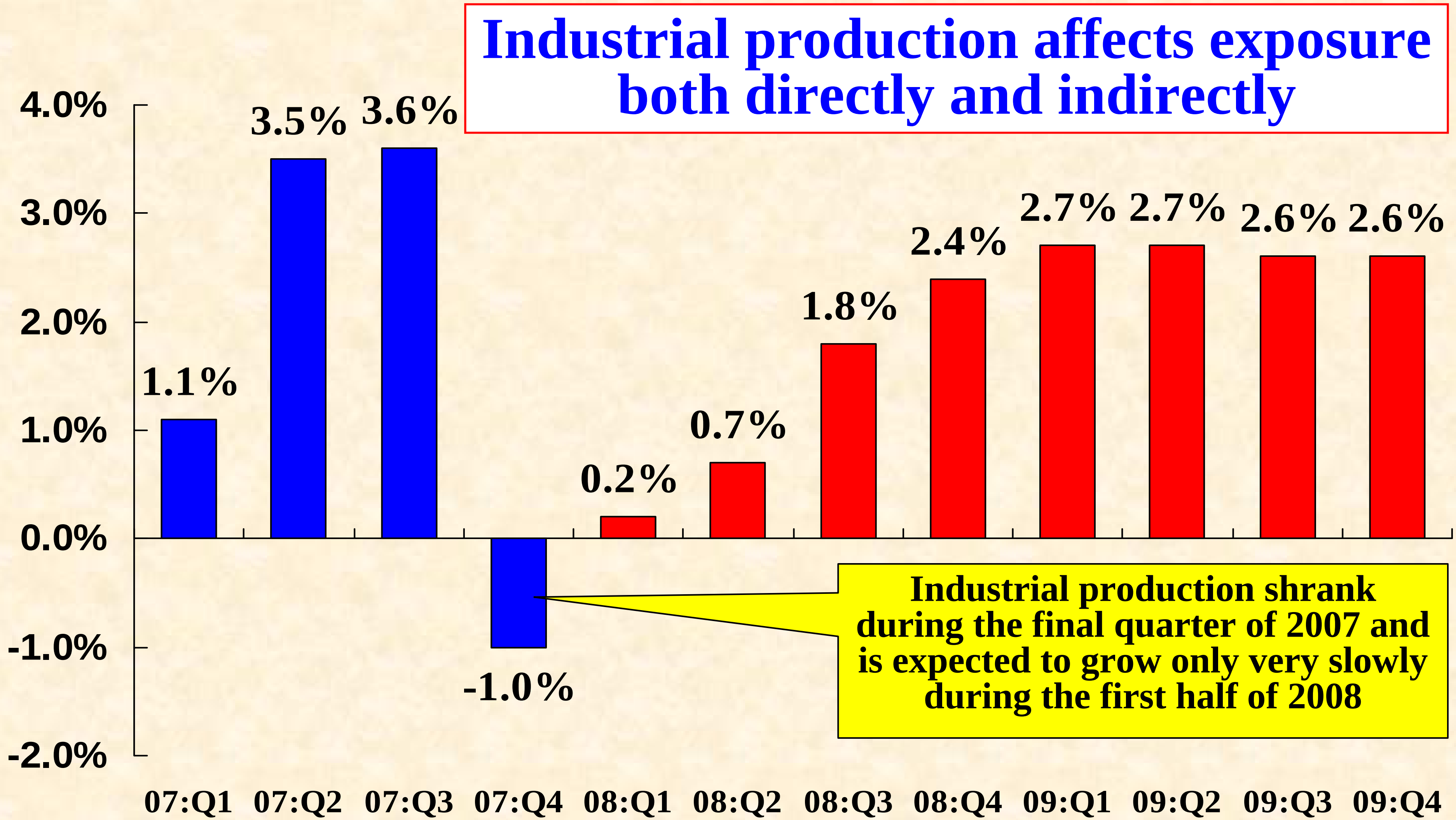
Nonresidential Fixed Investment, 2003 – 2012F*



*Nonresidential fixed investment consists of structures, equipment and software.

Sources: US Bureau of Economic Analysis (Historical), *Value Line* (2/22/08) estimates/forecasts for 2008-2012.

Total Industrial Production, (2007:Q1 to 2009:Q4F)

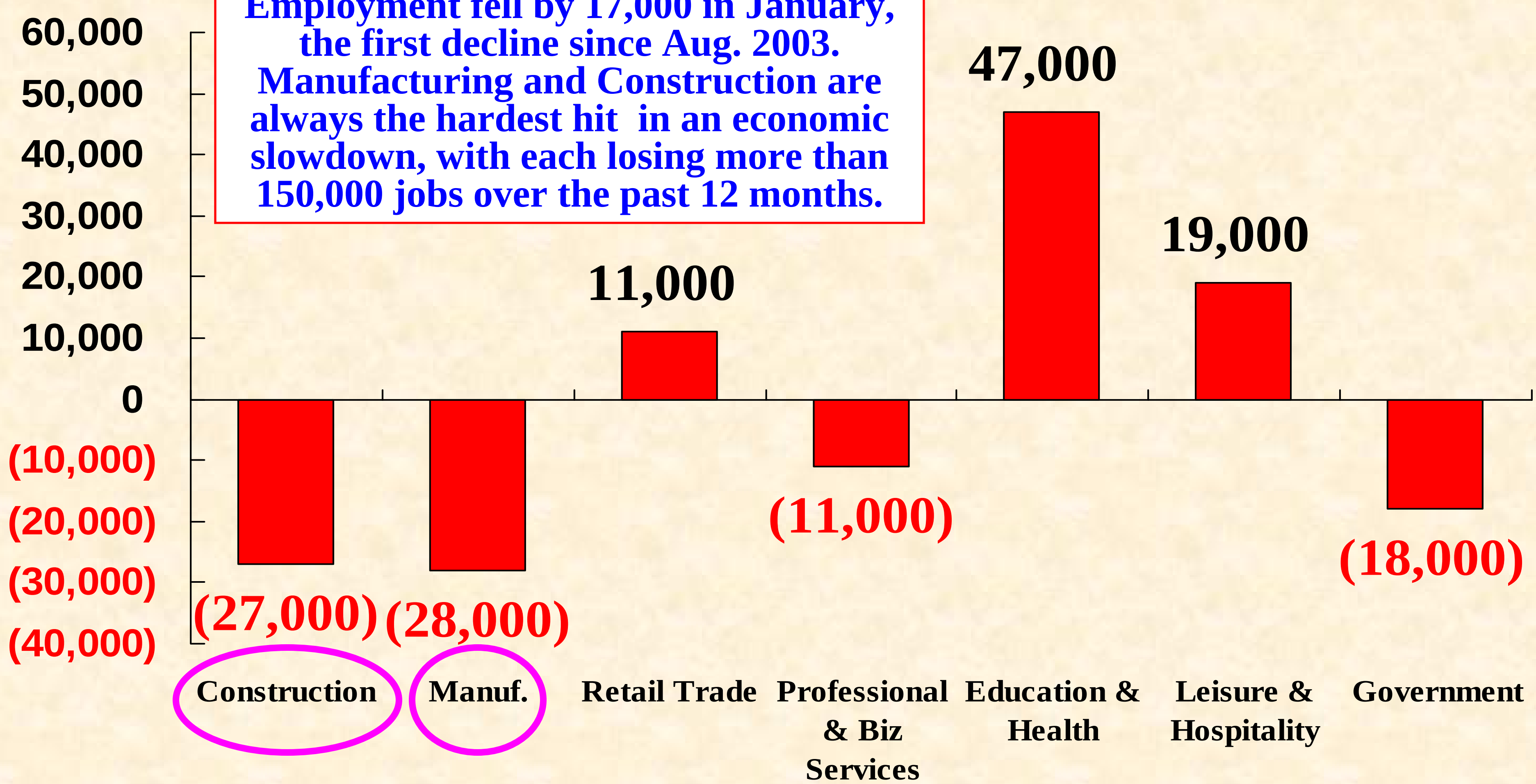


Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (2/08); Insurance Info. Inst.

Employment Change by Industry

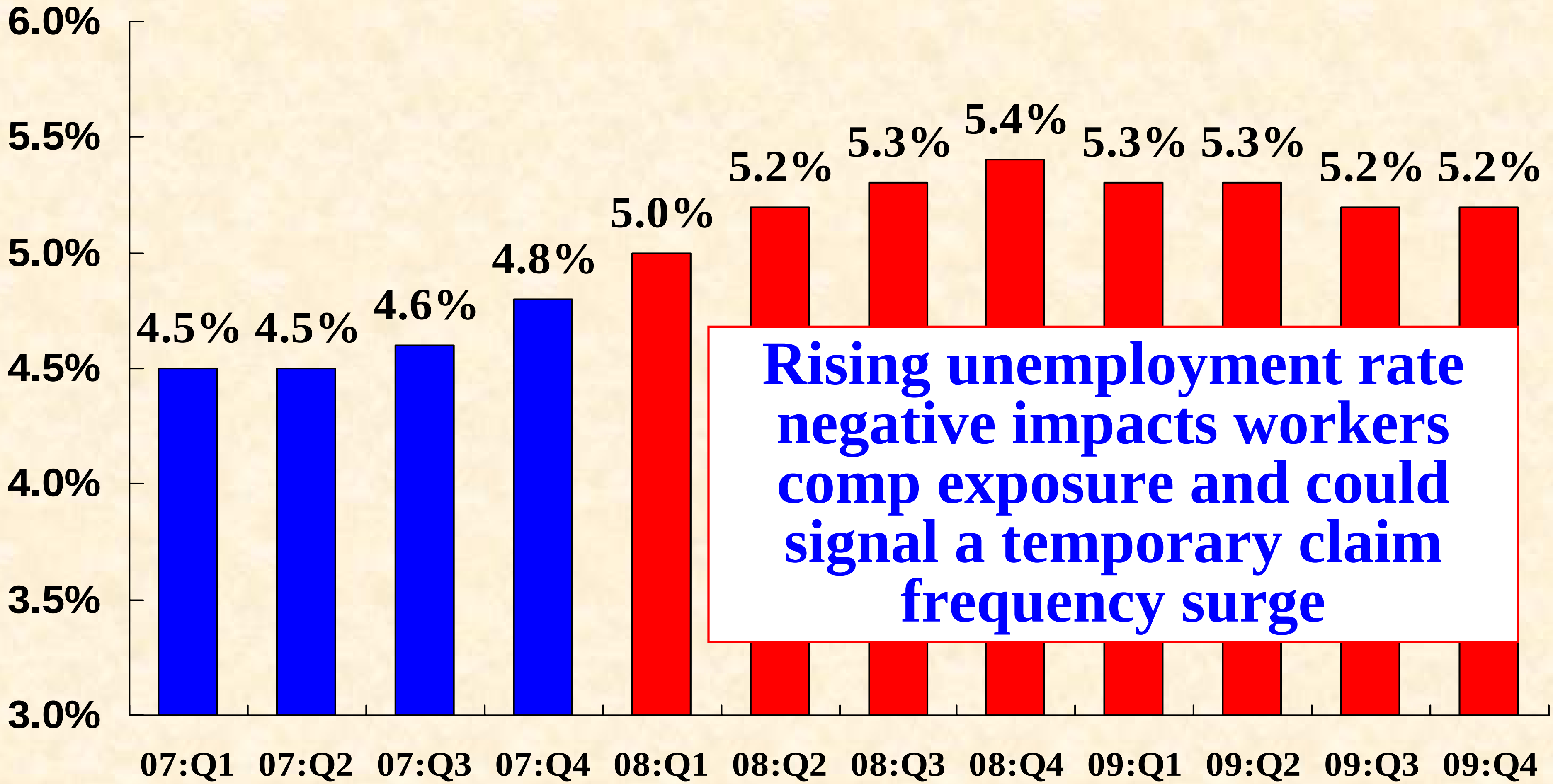
Dec. 2007 to Jan. 2008p

Employment fell by 17,000 in January, the first decline since Aug. 2003. Manufacturing and Construction are always the hardest hit in an economic slowdown, with each losing more than 150,000 jobs over the past 12 months.



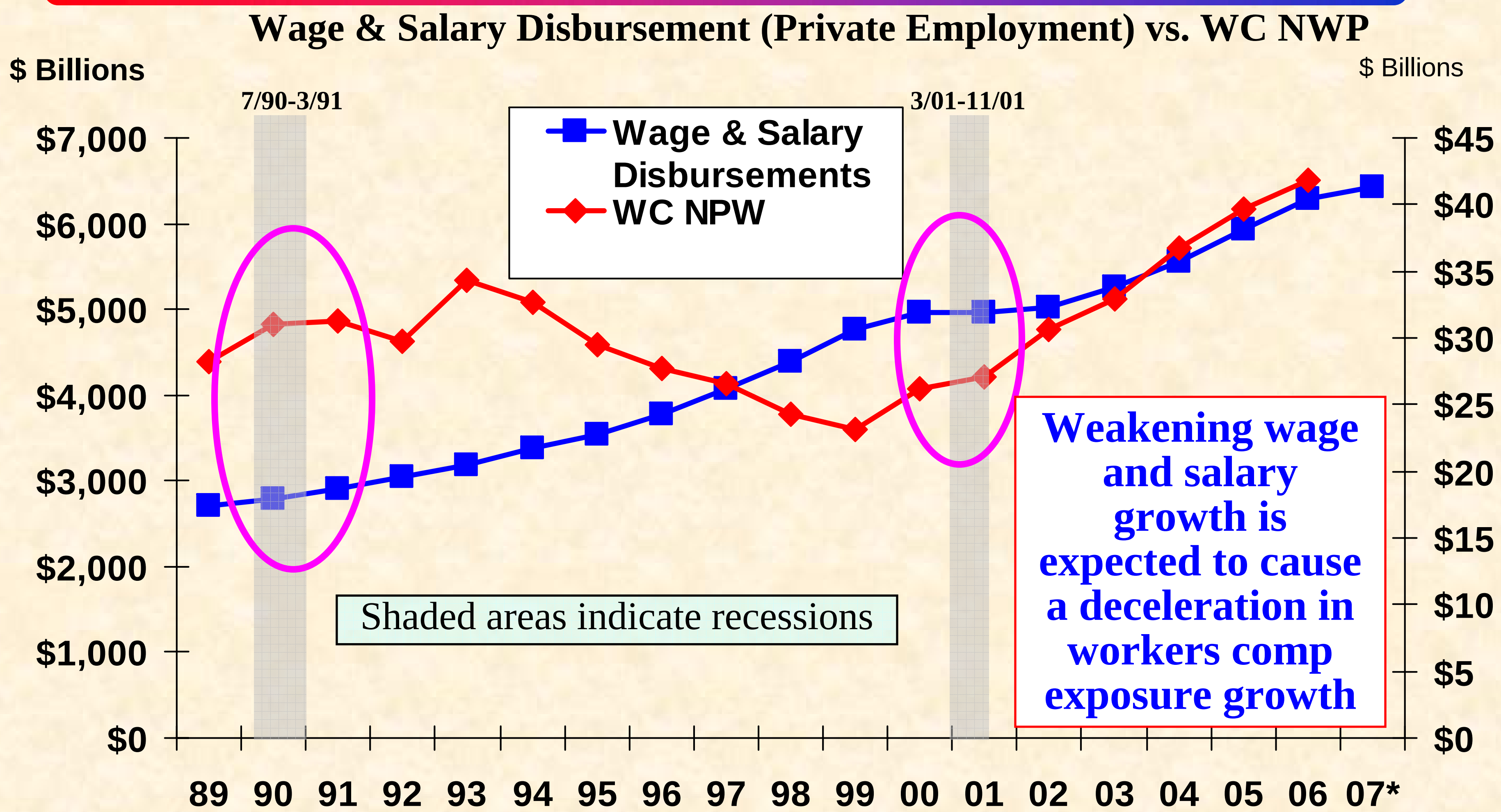
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Unemployment Rate, (2007:Q1 to 2009:Q4F)



Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (2/08); Insurance Info. Inst.

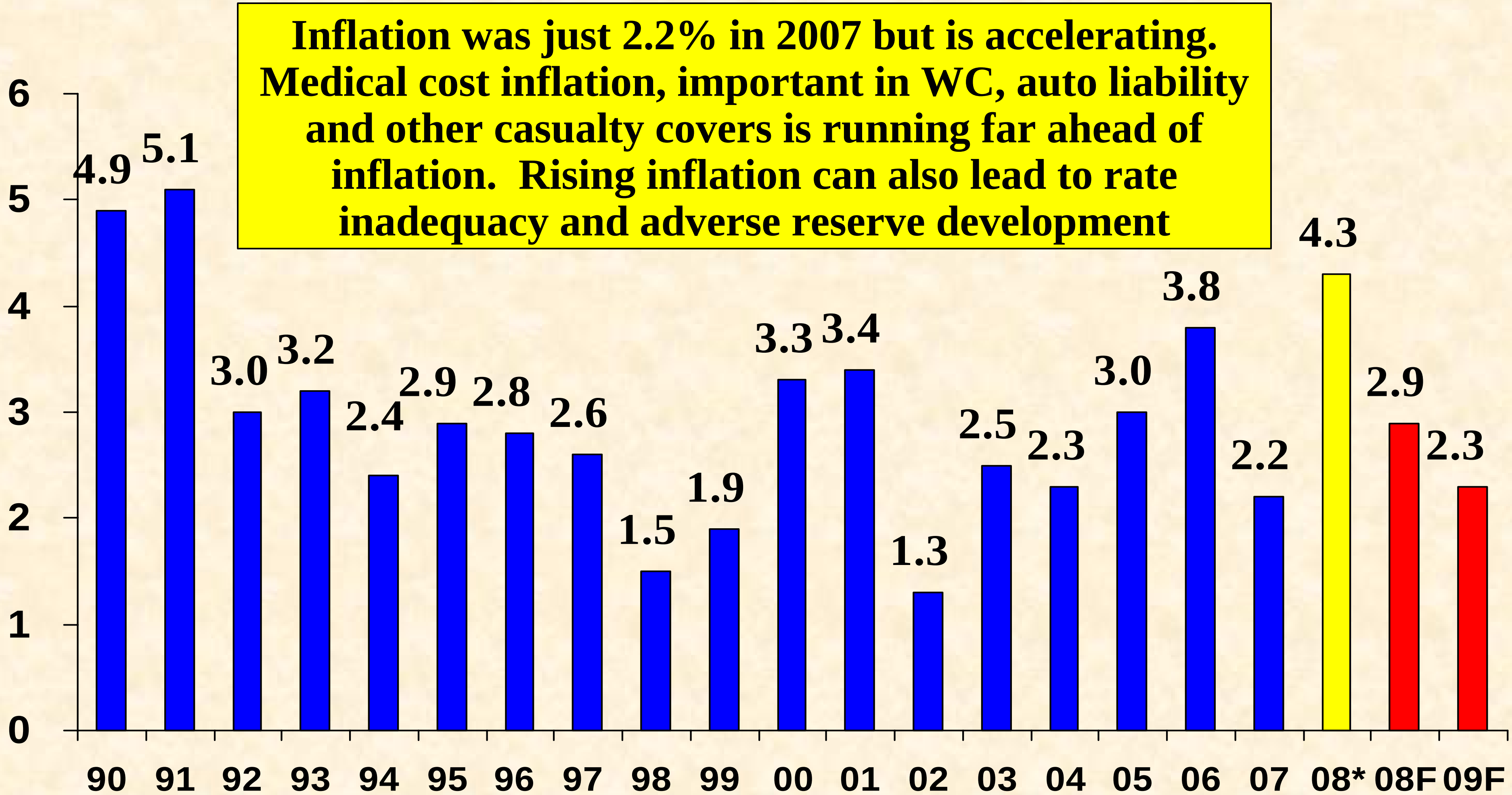
Wage & Salary Disbursements (Payroll Base) vs. Workers Comp Net Written Premiums



*As of 7/1/07 (latest available).

Source: US Bureau of Economic Analysis; Federal Reserve Bank of St. Louis at http://research.stlouisfed.org/fred2/series/WASCUR; I.I.I. Fact Books

Inflation Rate (CPI-U, %), 1990 – 2009F



*12-month change Jan. 2008 vs. Jan. 2007; CPI rose at 6.8% pace N

Source: US Bureau of Labor Statistics; Blue Chip Economic Indicators, Feb. 10, 2008; Ins. Info. Institute.

Potential Industry Groups for Insurer Exposure Growth

Industry	Rationale
Health Care	•Economic Necessity→Recession Resistant •Demographics: aging/immigration→Growth
Alternative Energy	•Solar, Wind, Bio-Fuels, Hydro & Other
Agriculture & Food Processing & Manufacturing	•Consumer Staple→Recession Resistant •Grain and land prices high due to global demand, weak dollar (exports) •Ethanol/Bio-Fuel Source •Acreage Growing→Farm Equipment, Transport •Benefits many other industries
Export Driven	•Weak dollar, globalization persist; Cuba angle?
Natural Resources & Commodities	•Strong global demand, •Supplies remain tight…*but beware of bubbles* •Significant investments in R&D, plant & equip required

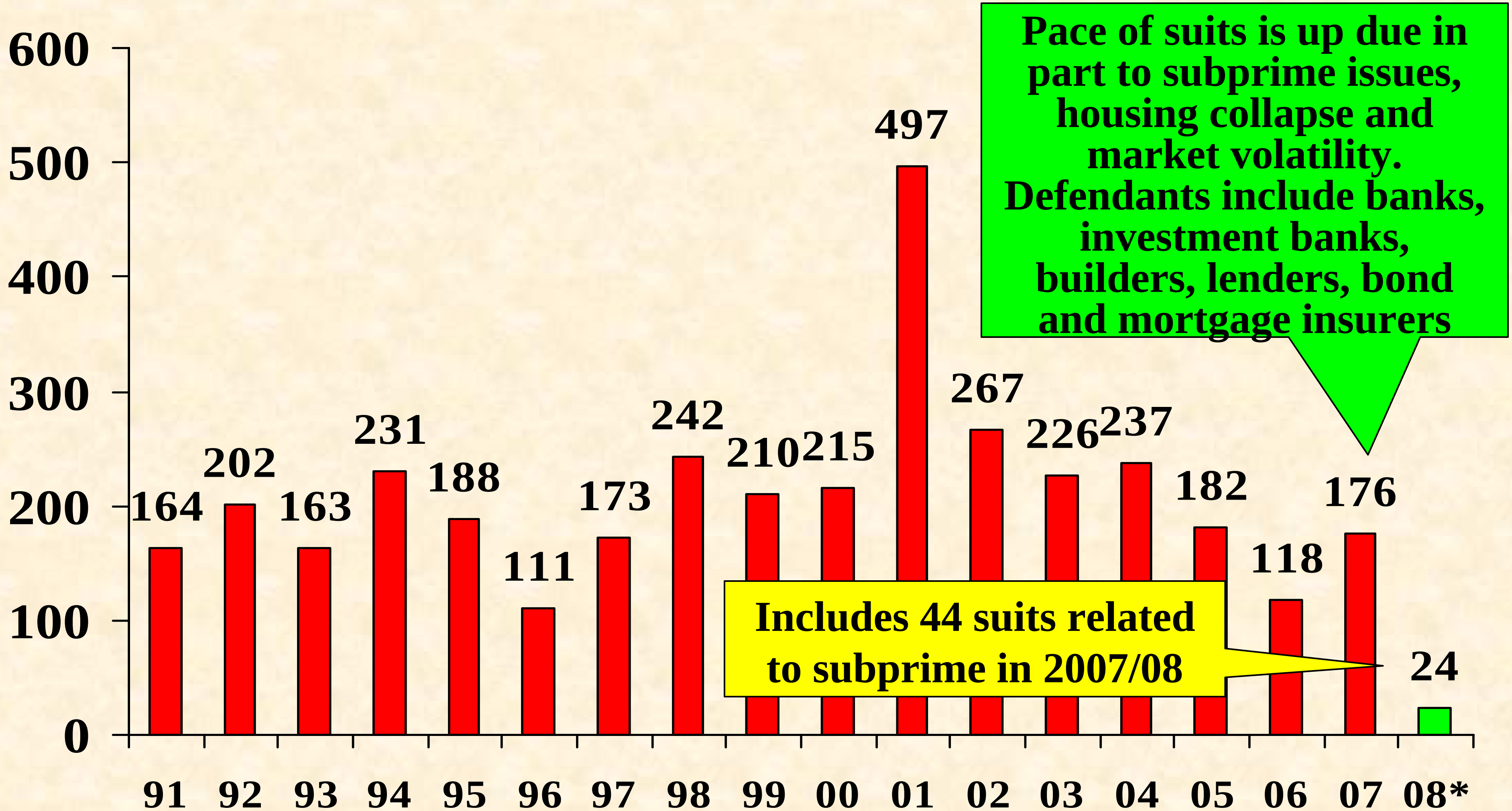
Sources: Insurance Information Institute

Credit Crunch: Key Points

1. **Credit Issue Will Ultimately Cost Hundreds of Billions Globally**
   - Problem exacerbated by leveraged bets taken by some financial institutions therefore its reach extends beyond simple defaults
2. **Heavy Toll on Capital Base of Some Large Financial Institutions Worldwide; US Bond Insurers**
   - Cash infusions necessary; Sovereign Wealth Funds primary source
3. **Most Significant Economic Event in a Generation**
   - US economy will recover, but will take 18-24 months
4. **Shuffling of Global Economic Deck; Economic Pecking Order Shifting**
   - China, oil producing countries hold the upper hand
5. **IOUs are Being Redeemed**
   - Stakes in hard assets/institutions demanded;
6. **Good News: No Shortage of Available Capital**
   - Central banks are (generally) making right decisions; Dollar sinks

Source: Insurance Information Institute

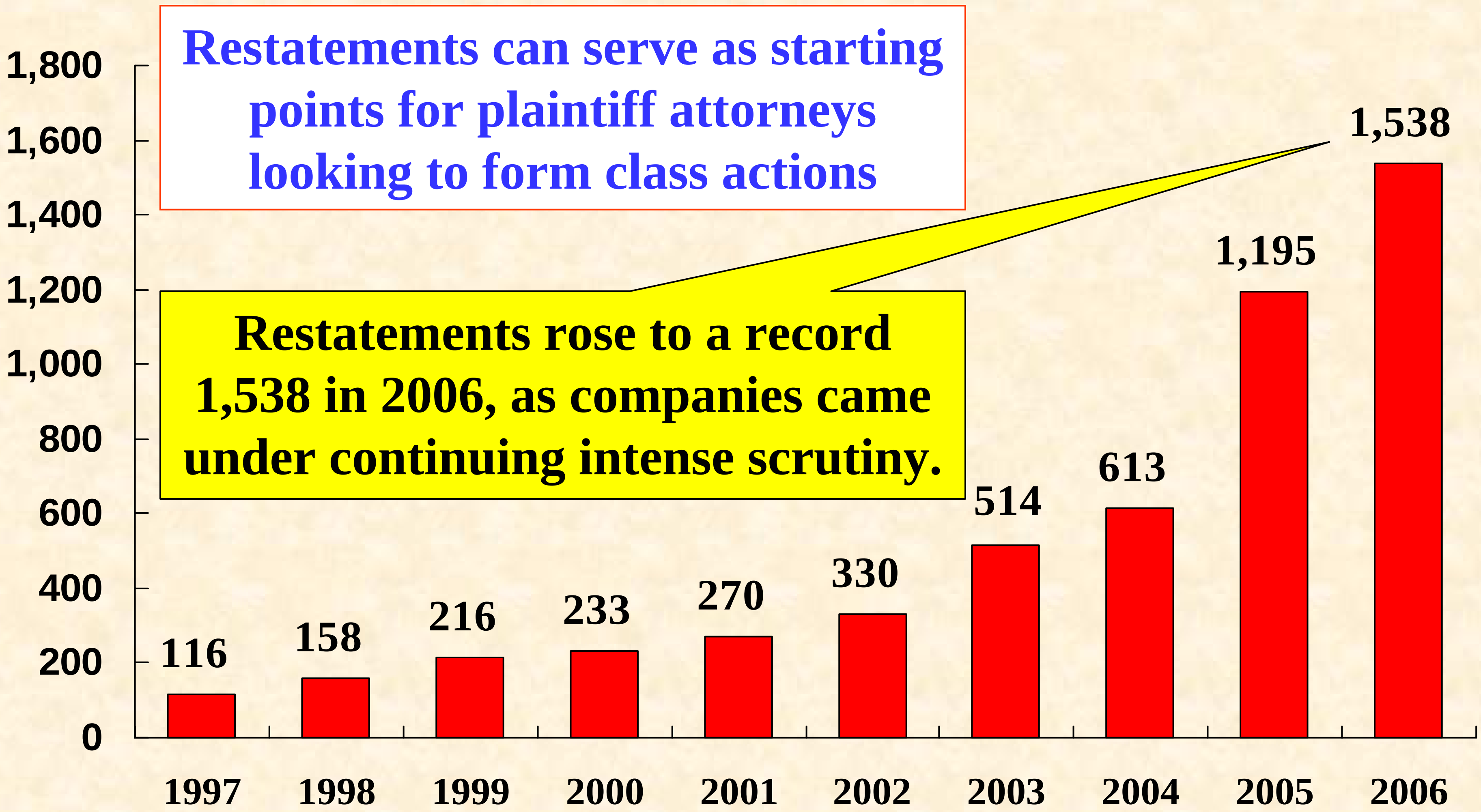
Shareholder Class Action Lawsuits*



*Securities fraud suits filed in U.S. federal courts; 2008 figure is current through February 29.

Source: Stanford University School of Law (securities.stanford.edu); Insurance Information Institute

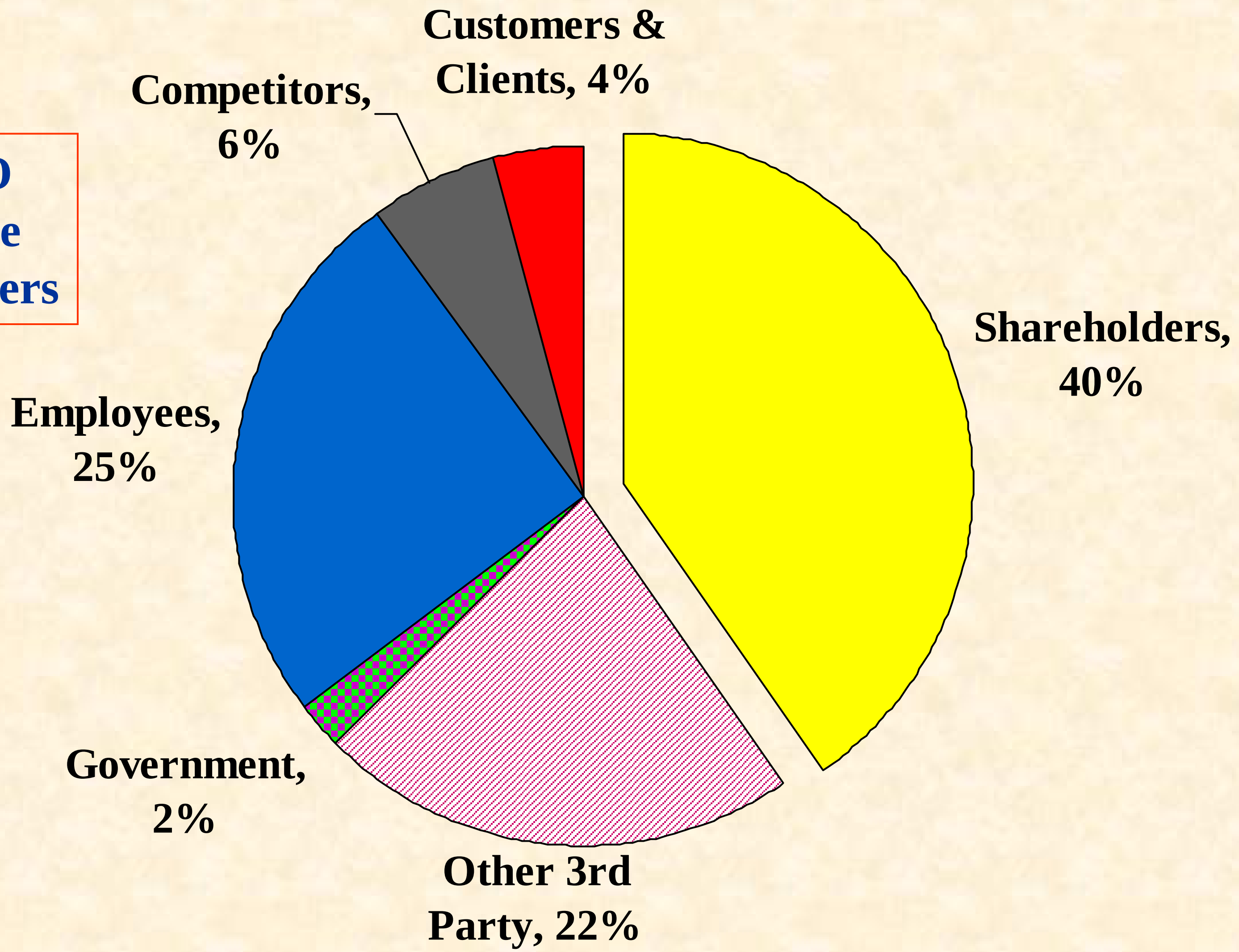
Financial Restatements Filed Continue to Grow



Sources: Huron Consulting Group 1997-2002, Glass Lewis & Co. 2003-2006

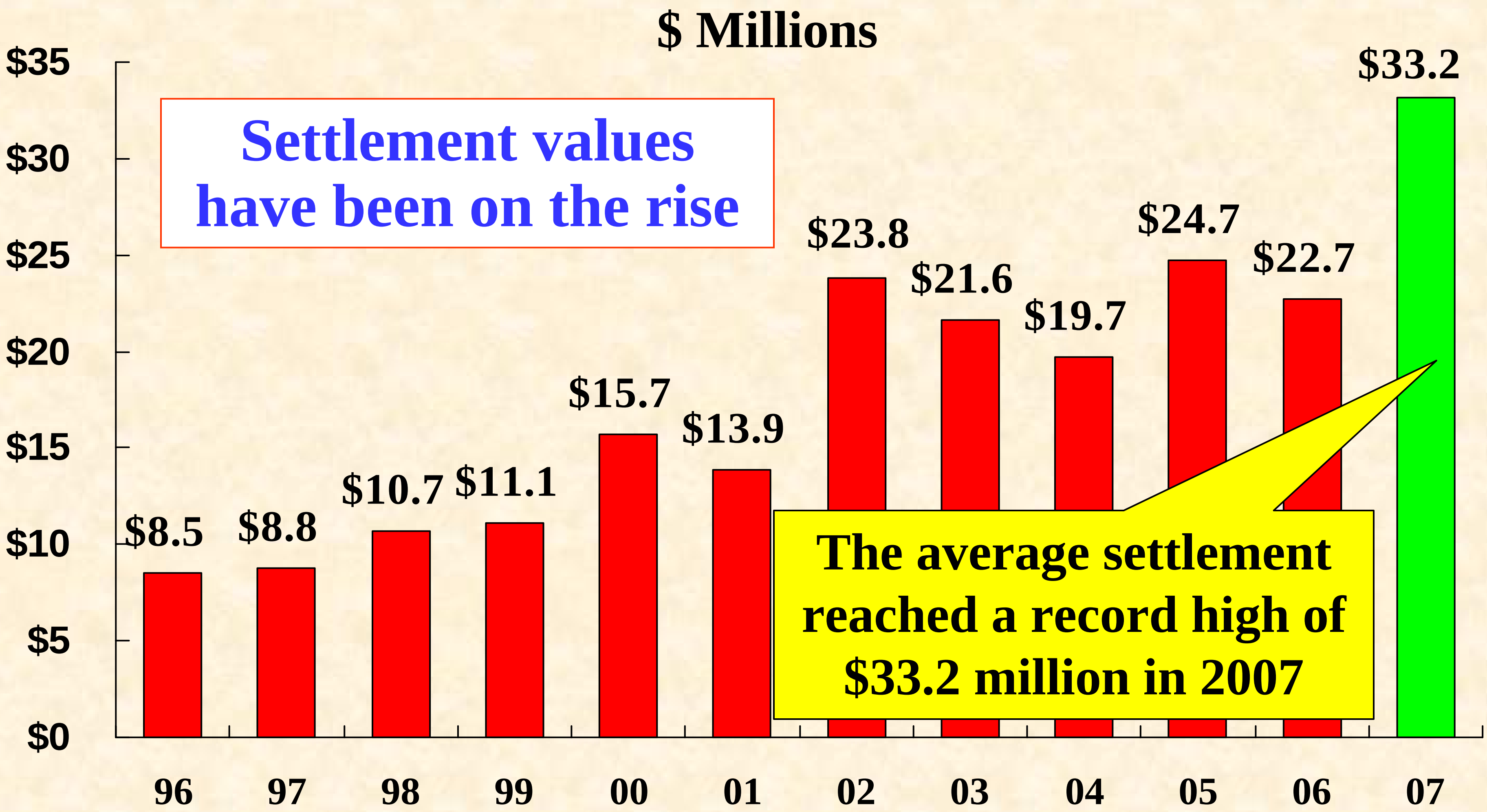
Origin of D&O Claims for Public Companies, 2006

40% of D&O suits originate with shareholders



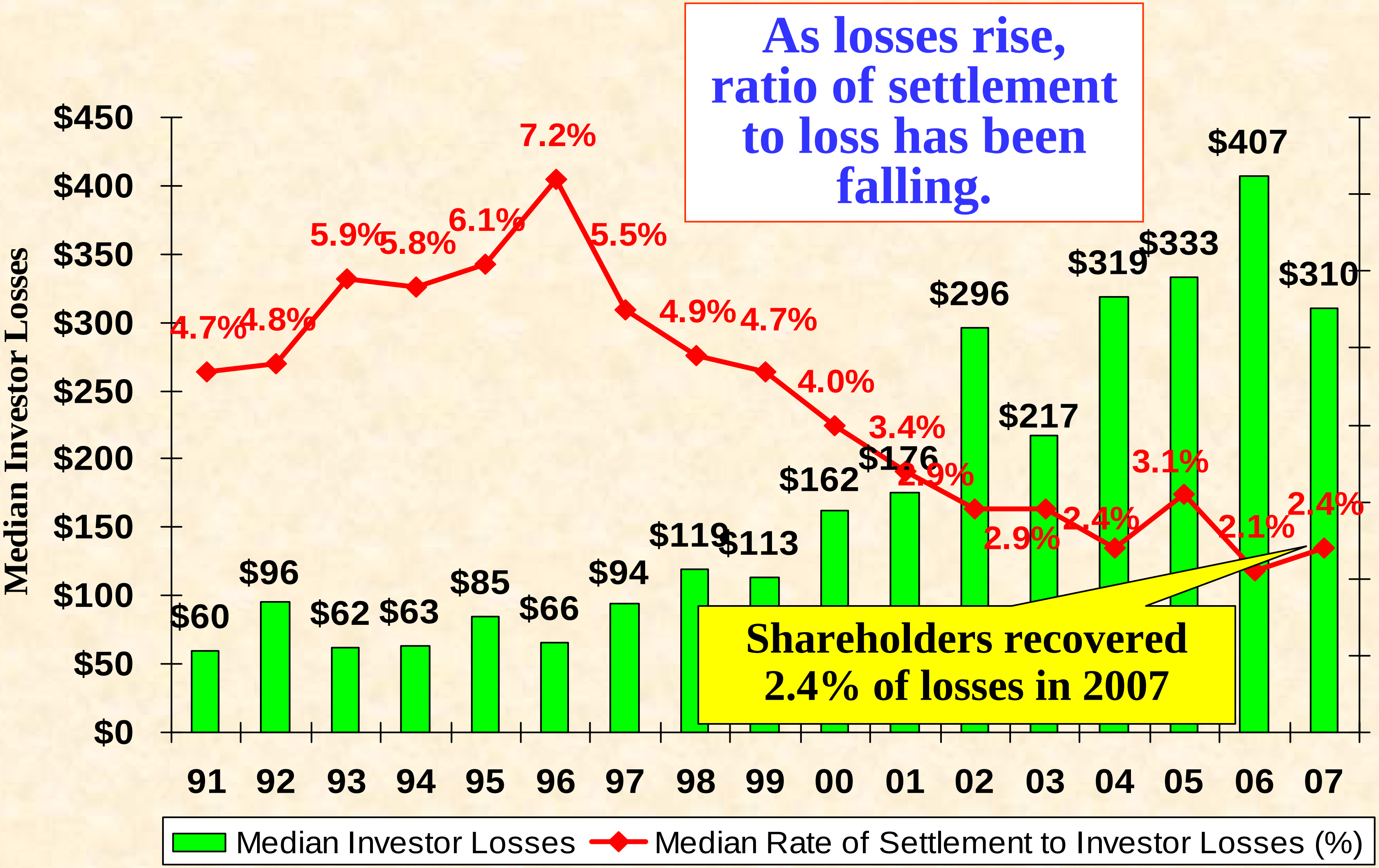
Source: Tillinghast Towers-Perrin, *2006 Directors and Officers Liability Survey.*

Average Settlement Value of Shareholder Class Actions*
(Excl. Settlements Above $1 Billion)



*Does not include partial or tentative settlements.
Source: NERA Economic Consulting, *Recent Trends in Shareholder Class Actions*, Dec. 2007.

Shareholder Class Actions: Median Investor Losses vs. Ratio of Settlement to Loss, 1991-2007*

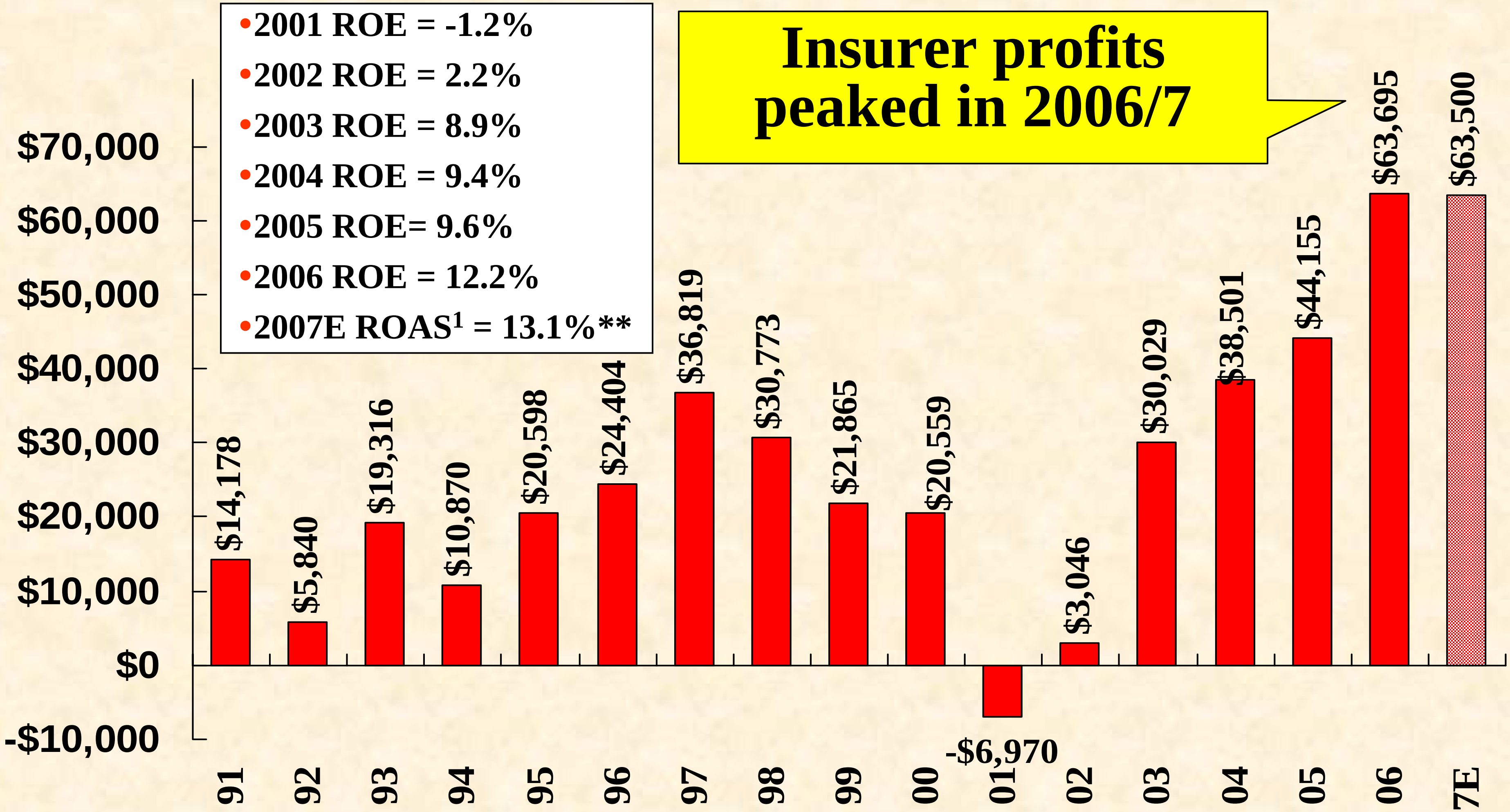


Source: NERA Economic Consulting, *Recent Trends in Shareholder Class Actions*, Dec. 2007. *Refers to settlement year.

PROFITABILITY & PERFORMANCE

Profits in 2006/07 Reached Their Cyclical Peak

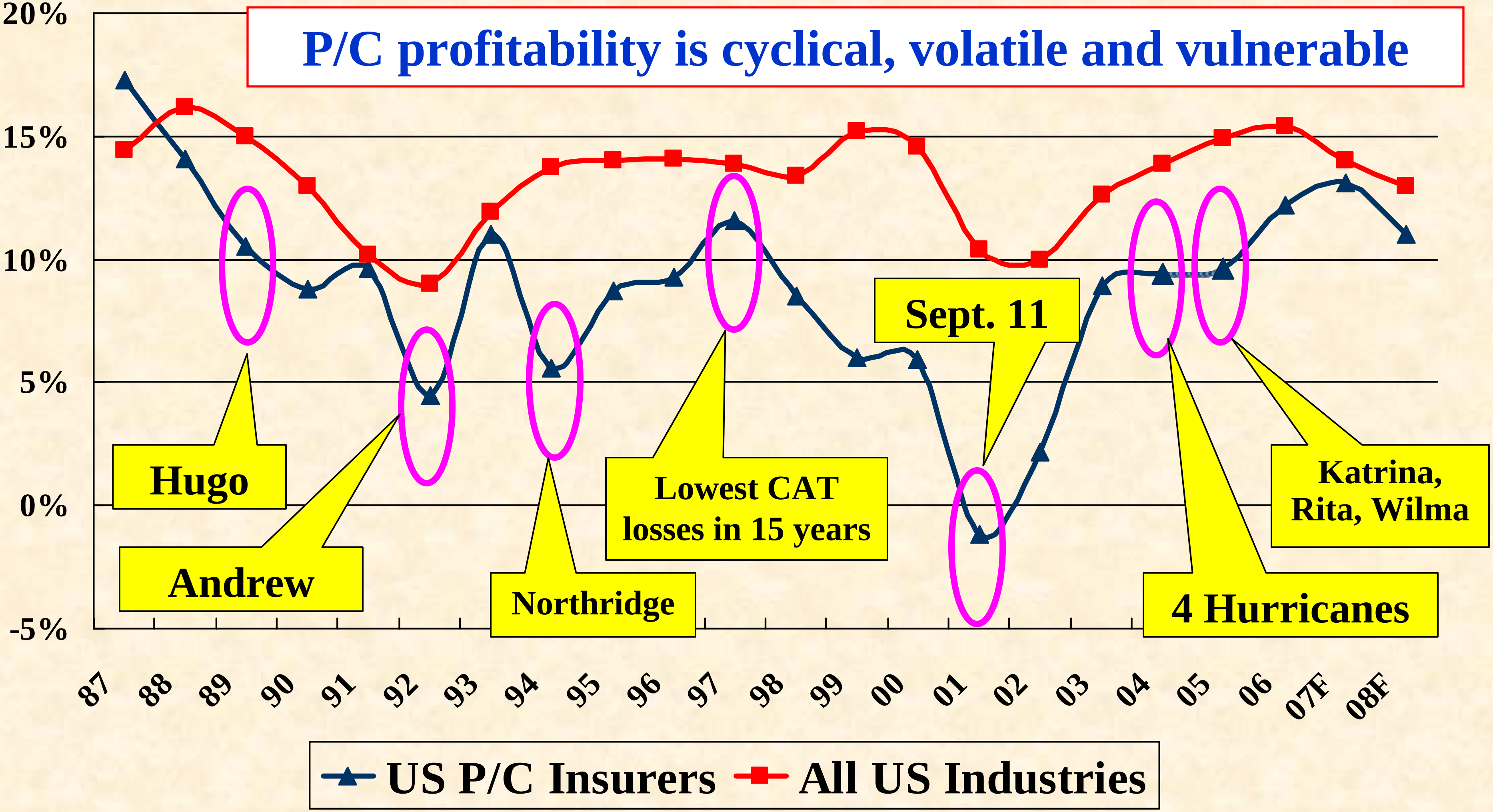
P/C Net Income After Taxes 1991-2007F ($ Millions)*



*ROE figures are GAAP; [1]Return on avg. surplus. 2007E figure is annualized actual 9-month net income of $49.399B **Return on Average Surplus; Actual 9-month 2007 result.

Sources: A.M. Best, ISO, Insurance Information Inst.

ROE: P/C vs. All Industries 1987–2008E

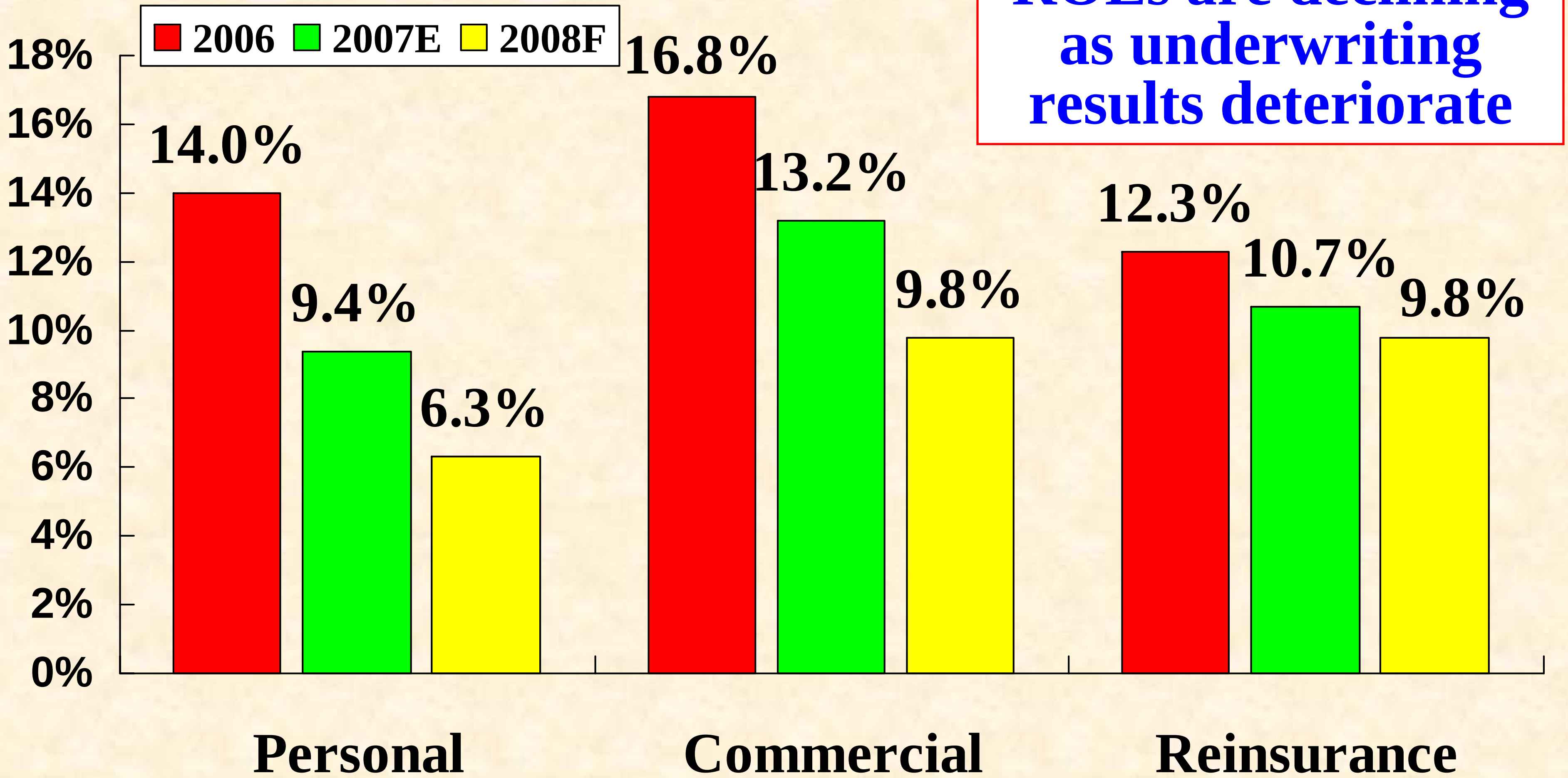


*2007 is actual 9-month ROAS of 13.1%. 2008 P/C insurer ROE is I.I.I. estimate.

Source: Insurance Information Institute; *Fortune*

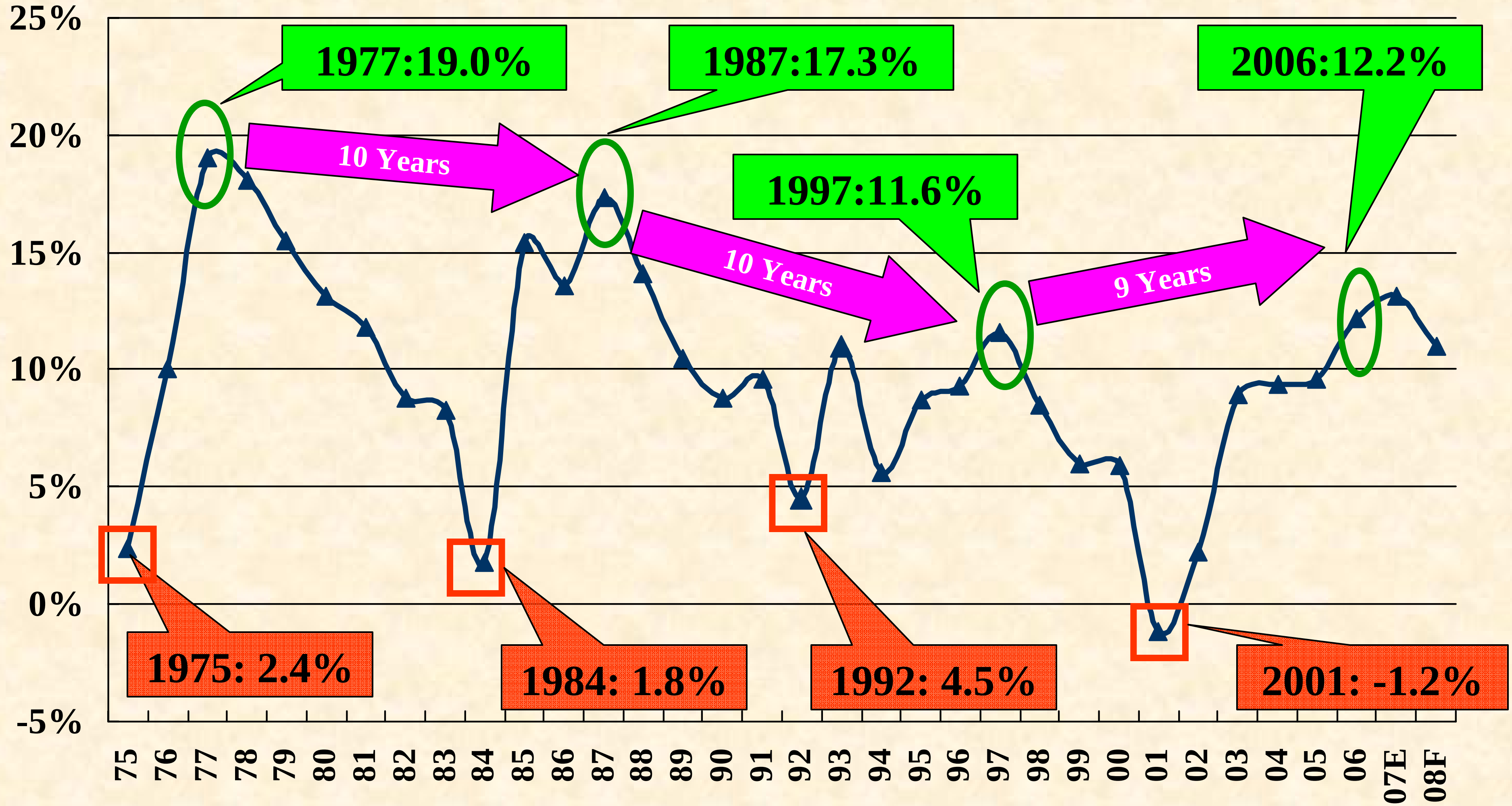
Personal/Commercial Lines & Reinsurance ROEs, 2006-2008F*

ROEs are declining as underwriting results deteriorate



Sources: A.M. Best Review & Preview (historical and forecast).

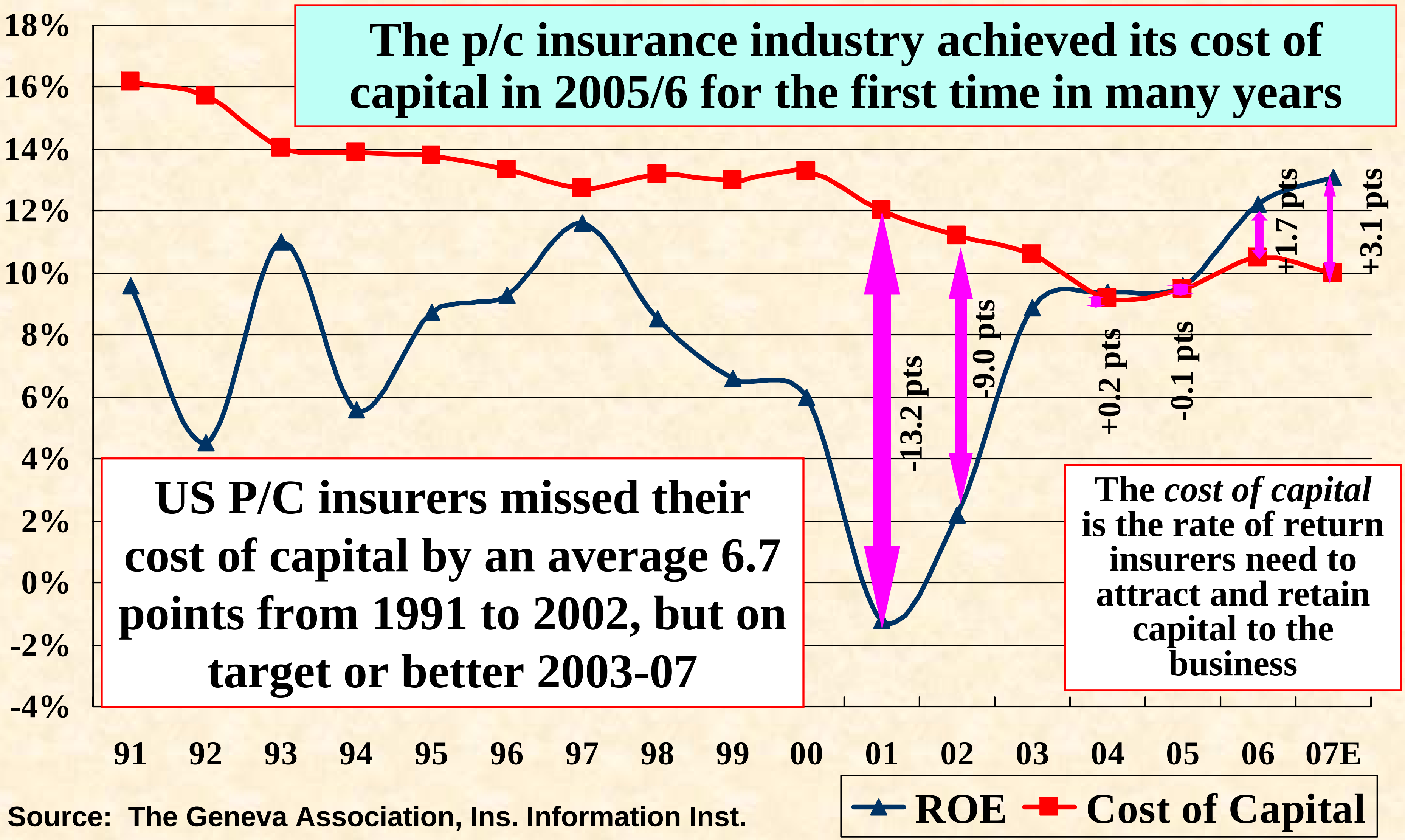
Profitability Peaks & Troughs in the P/C Insurance Industry,1975 – 2008F*



***GAAP ROE for all years except 2007 which is actual 9-month ROAS of 13.1%. 2008 P/C insurer ROE is I.I.I. estimate.**

Source: Insurance Information Institute; *Fortune*

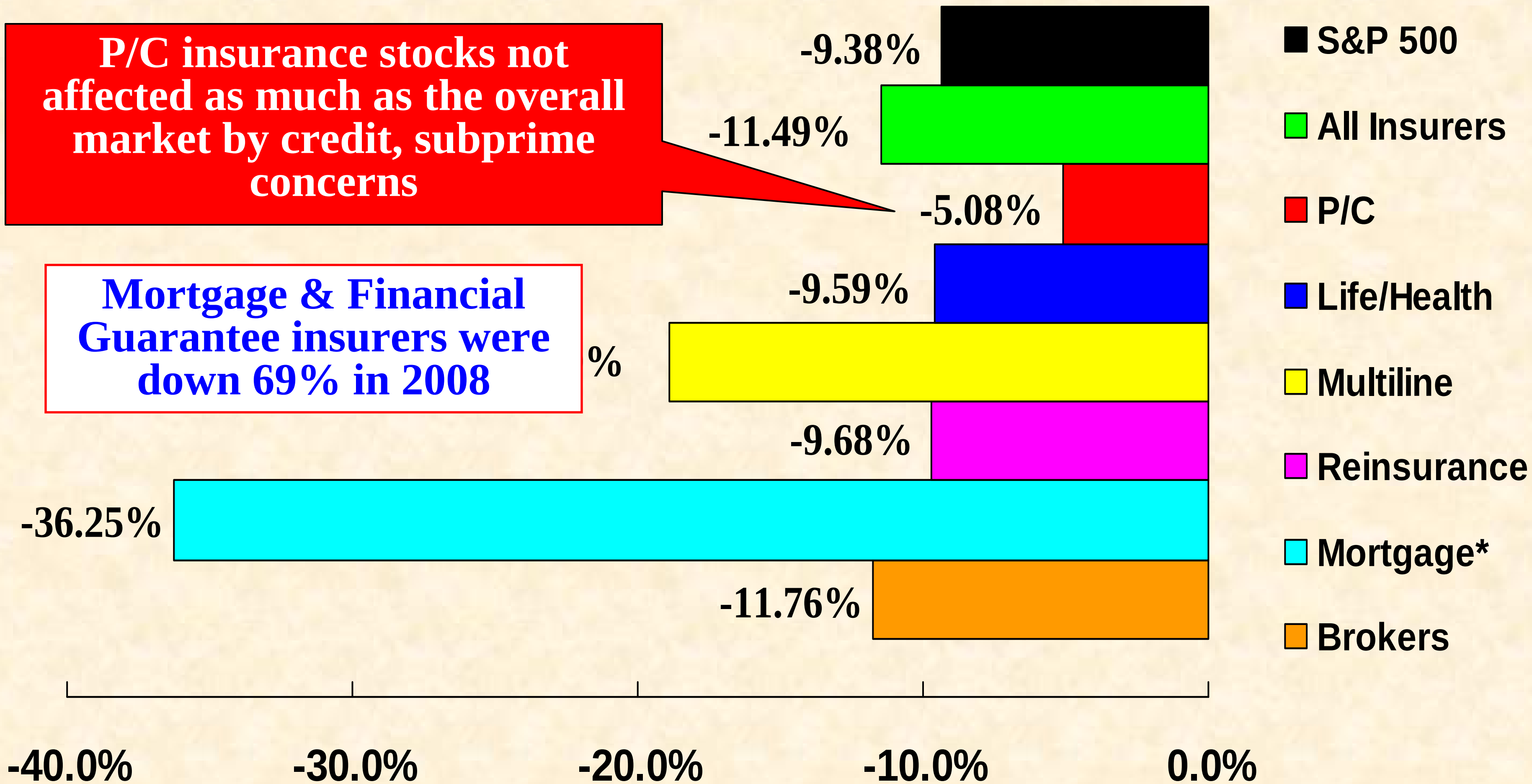
ROE vs. Equity Cost of Capital: US P/C Insurance:1991-2007E



Source: The Geneva Association, Ins. Information Inst.

P/C, L/H Stocks: Ahead of the S&P 500 Index in 2008

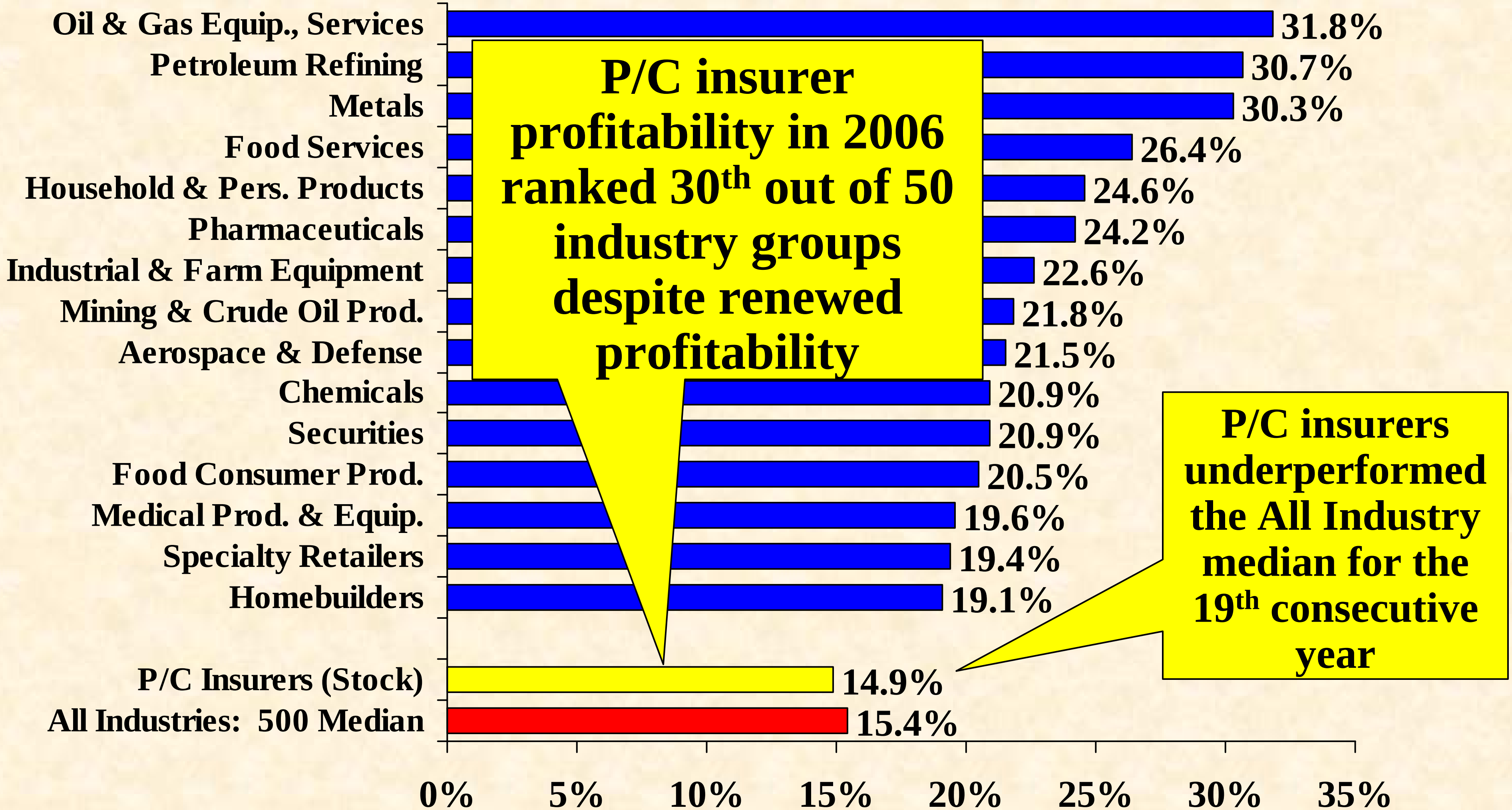
Total YTD Returns Through February 29, 2008



*Includes Financial Guarantee.

Source: SNL Securities, Standard & Poor's, Insurance Information Inst.

Top Industries by ROE: P/C Insurers Still Underperformed in 2006*

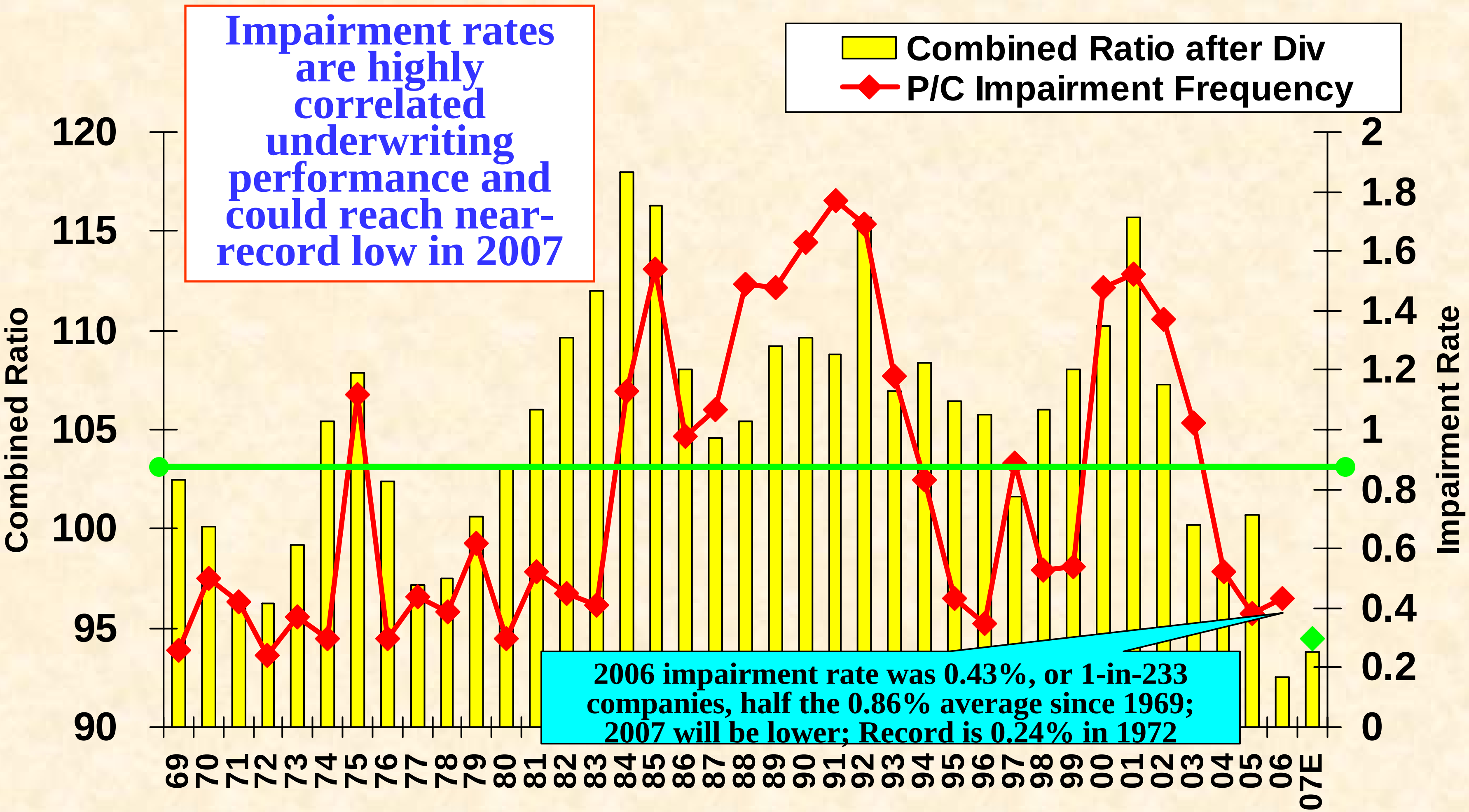


*Excludes #1 ranked Airline category at 65.1% due to special one-time bankruptcy-related factors.
Source: Fortune, April 30, 2007 edition; Insurance Information Institute

FINANCIAL STRENGTH & RATINGS

Industry Has Weathered the Storms Well, But Cycle Has an Impact Too

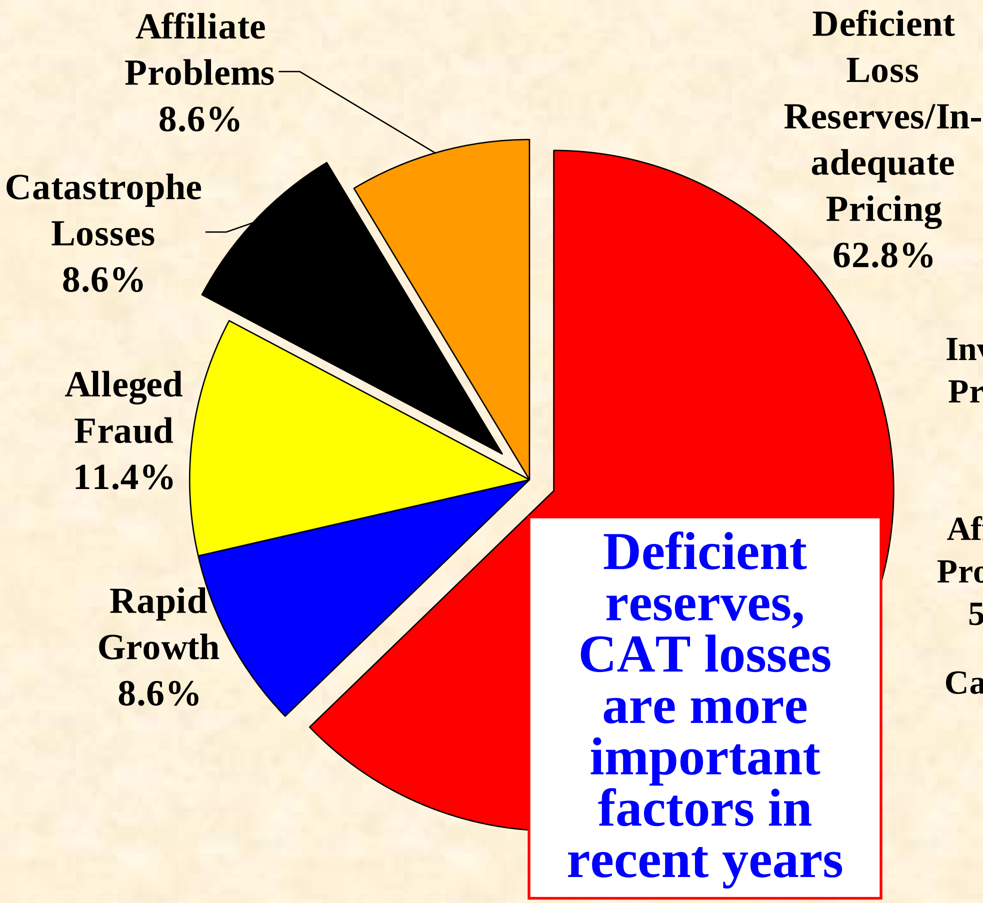
P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2007E



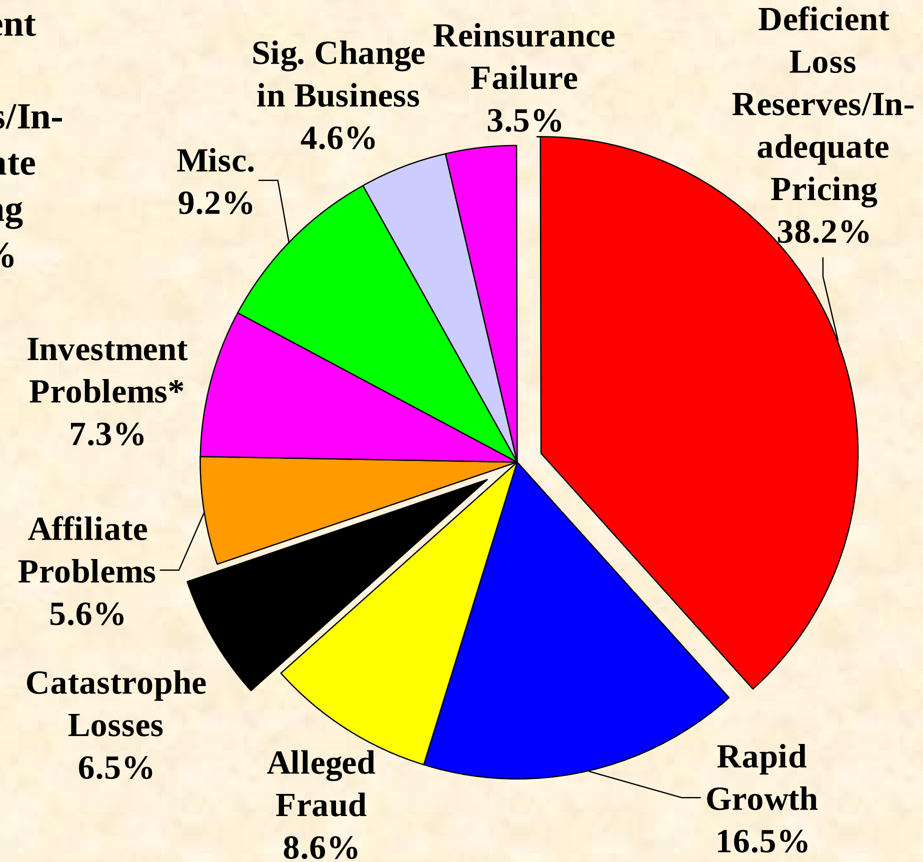
Source: A.M. Best; Insurance Information Institute

Reasons for US P/C Insurer Impairments, 1969-2005

2003-2005



1969-2005

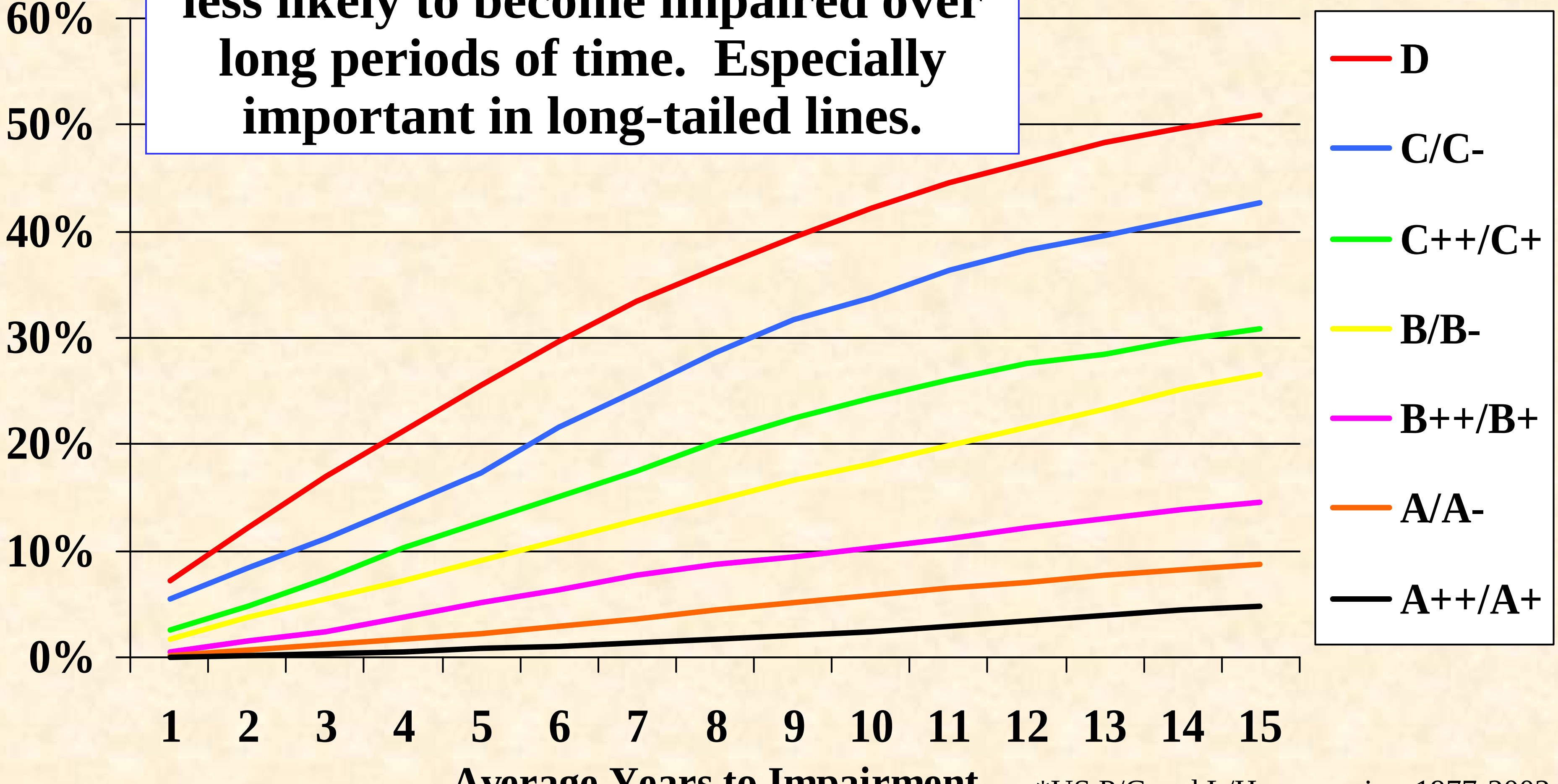


*Includes overstatement of assets.

Source: A.M. Best: *P/C Impairments Hit Near-Term Lows Despite Surging Hurricane Activity*, Special Report, Nov. 2005;

Cumulative Average Impairment Rates by Best Financial Strength Rating*

Insurers with strong ratings are far less likely to become impaired over long periods of time. Especially important in long-tailed lines.



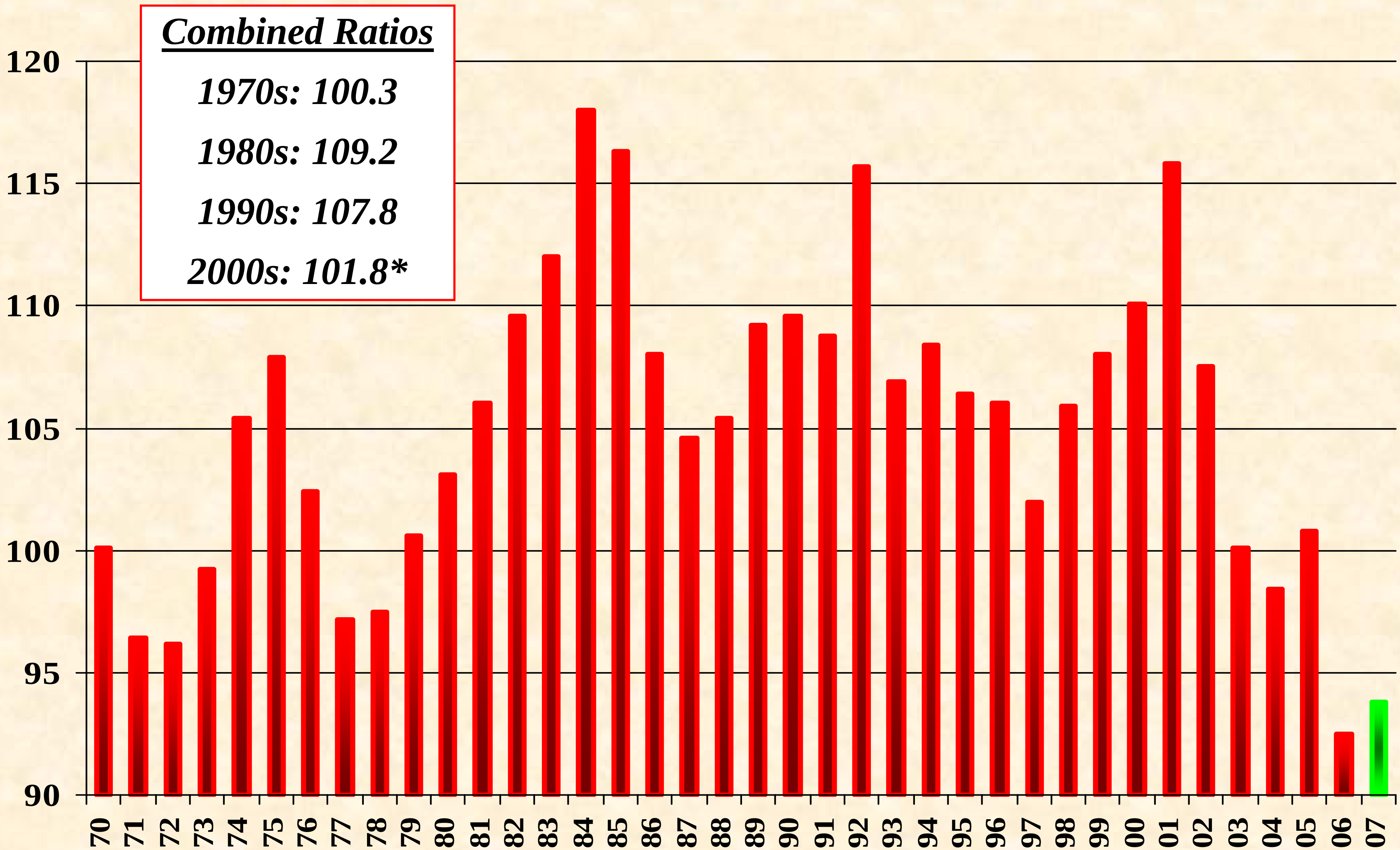
*US P/C and L/H companies, 1977-2002

Sources: A.M. Best: *Best's Impairment Rate and Rating Transition Study—1977-2002*, March 1, 2004.

UNDERWRITING TRENDS

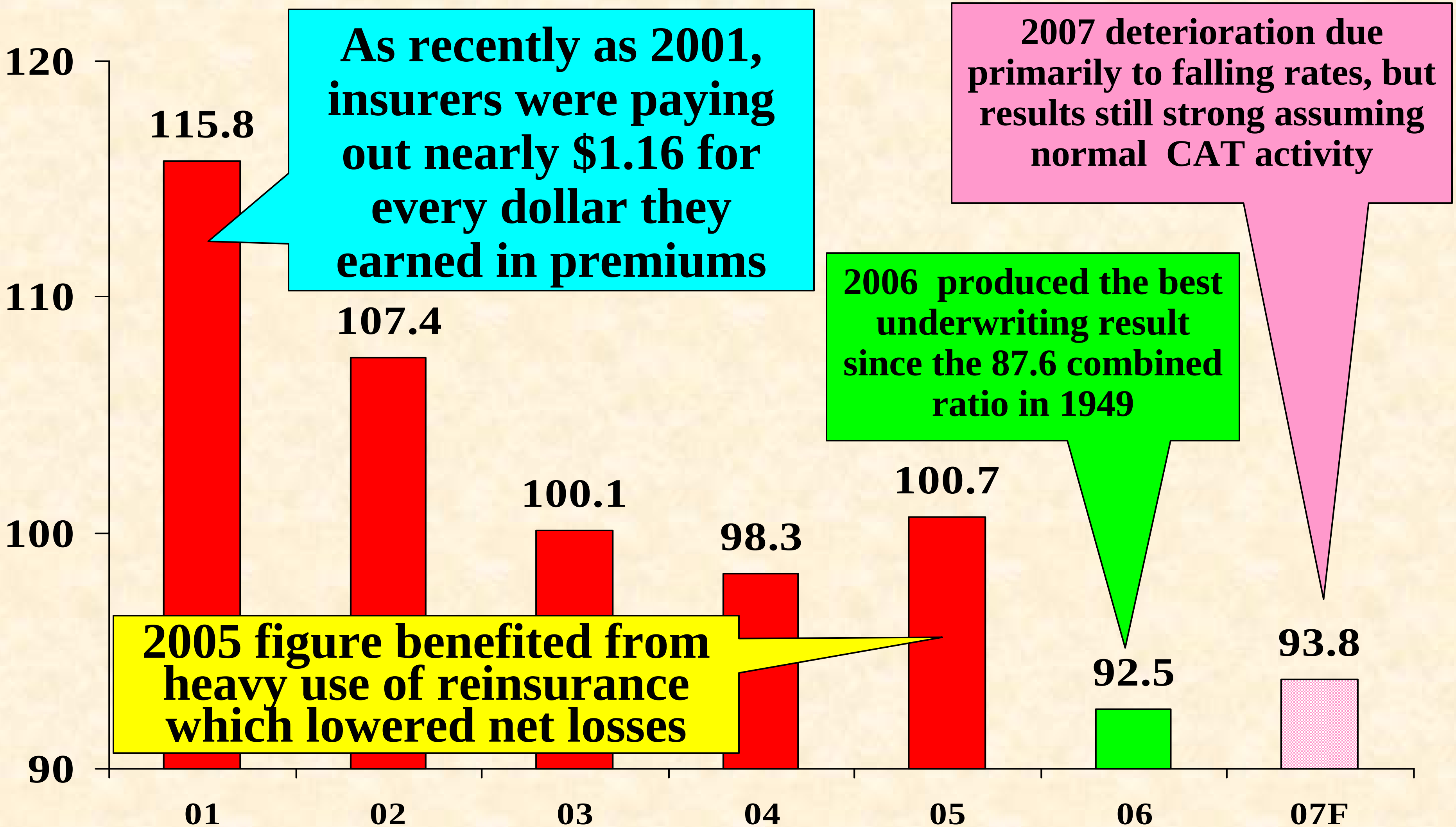
Extremely Strong 2006/07; Relying on Momentum & Discipline for 2008

P/C Insurance Combined Ratio, 1970-2007E*



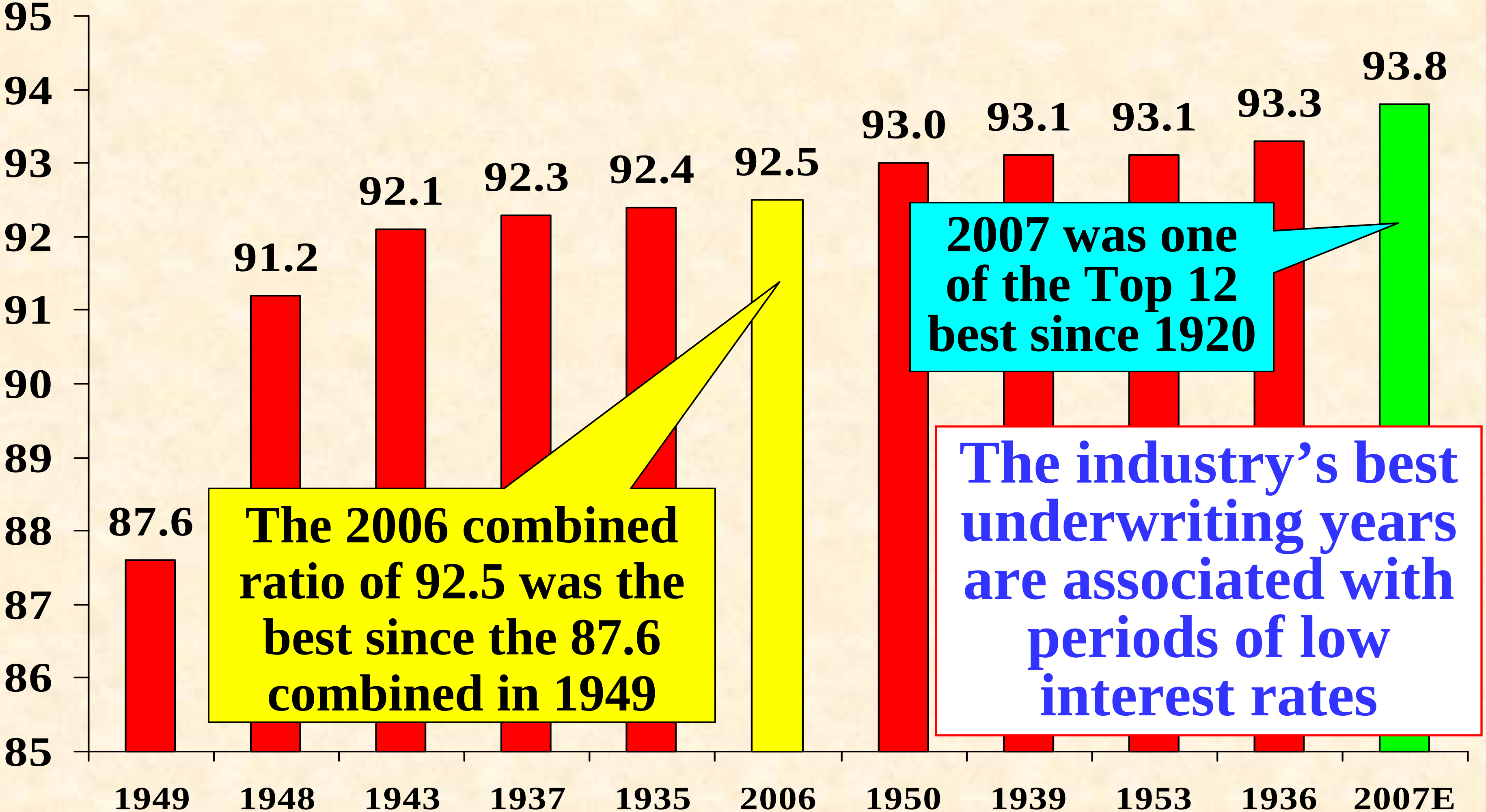
Sources: A.M. Best; ISO, III *Estimate based on actual 9-month data.

P/C Insurance Combined Ratio, 2001-2007E



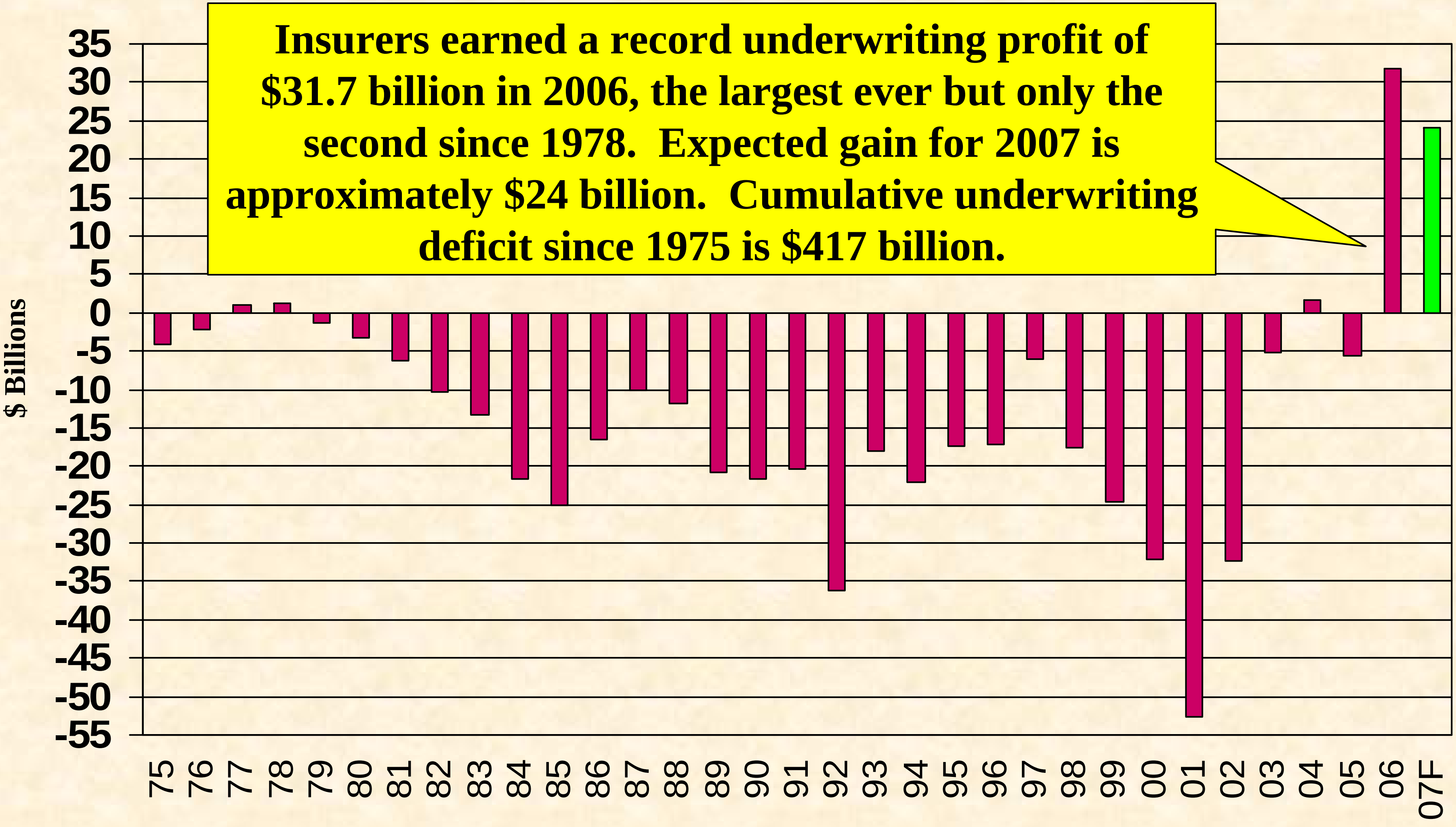
Sources: A.M. Best; ISO, III. *Actual 9-month result.

Ten Lowest P/C Insurance Combined Ratios Since 1920 vs. 2007E



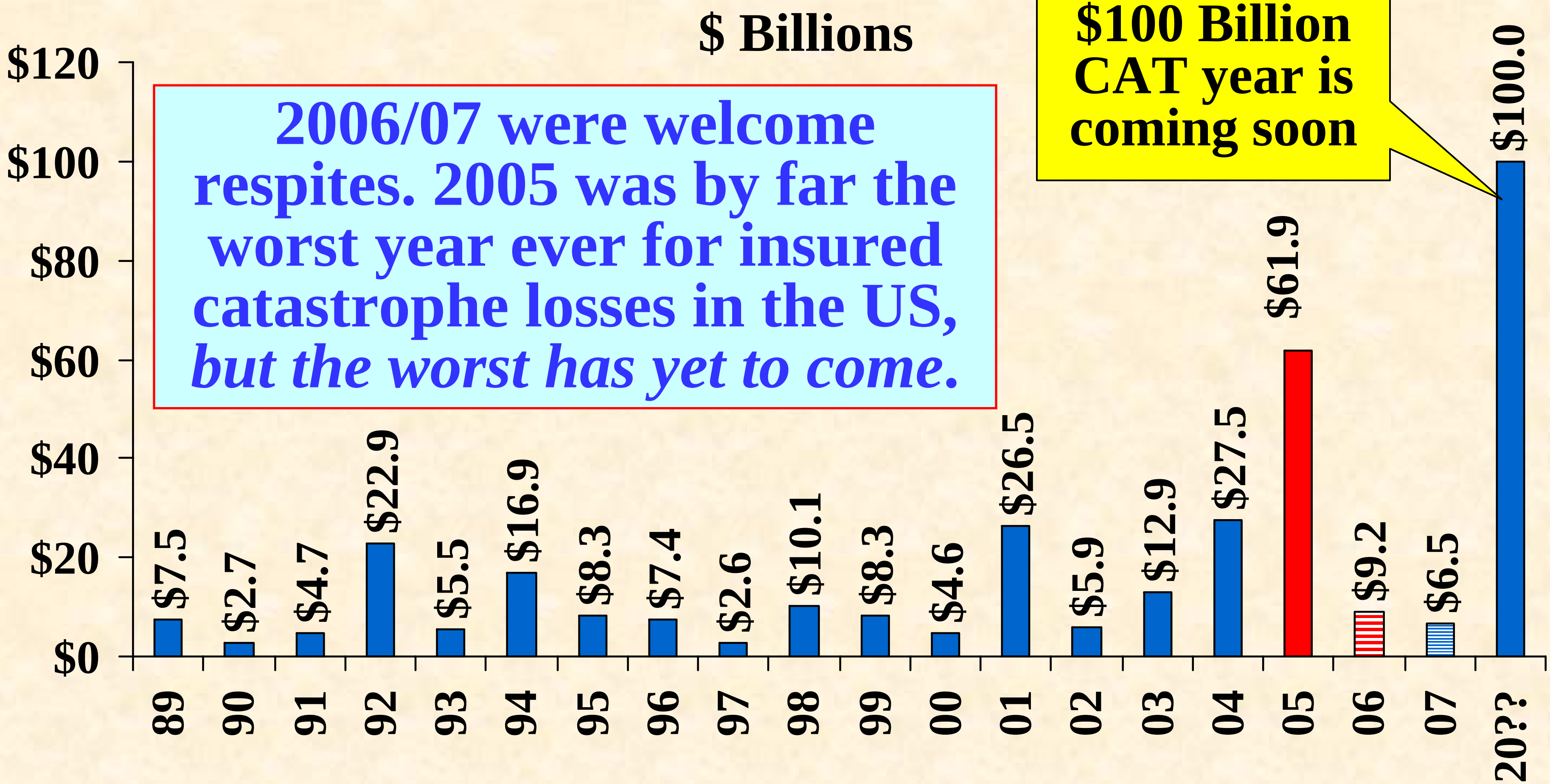
Sources: Insurance Information Institute research from A.M. Best data. *2007: III Earlybird survey.

Underwriting Gain (Loss) 1975-2007F*



Source: A.M. Best, Insurance Information Institute *Actual 2007:9M underwriting profit = $18.146B annualized to $24.192B.

U.S. Insured Catastrophe Losses*

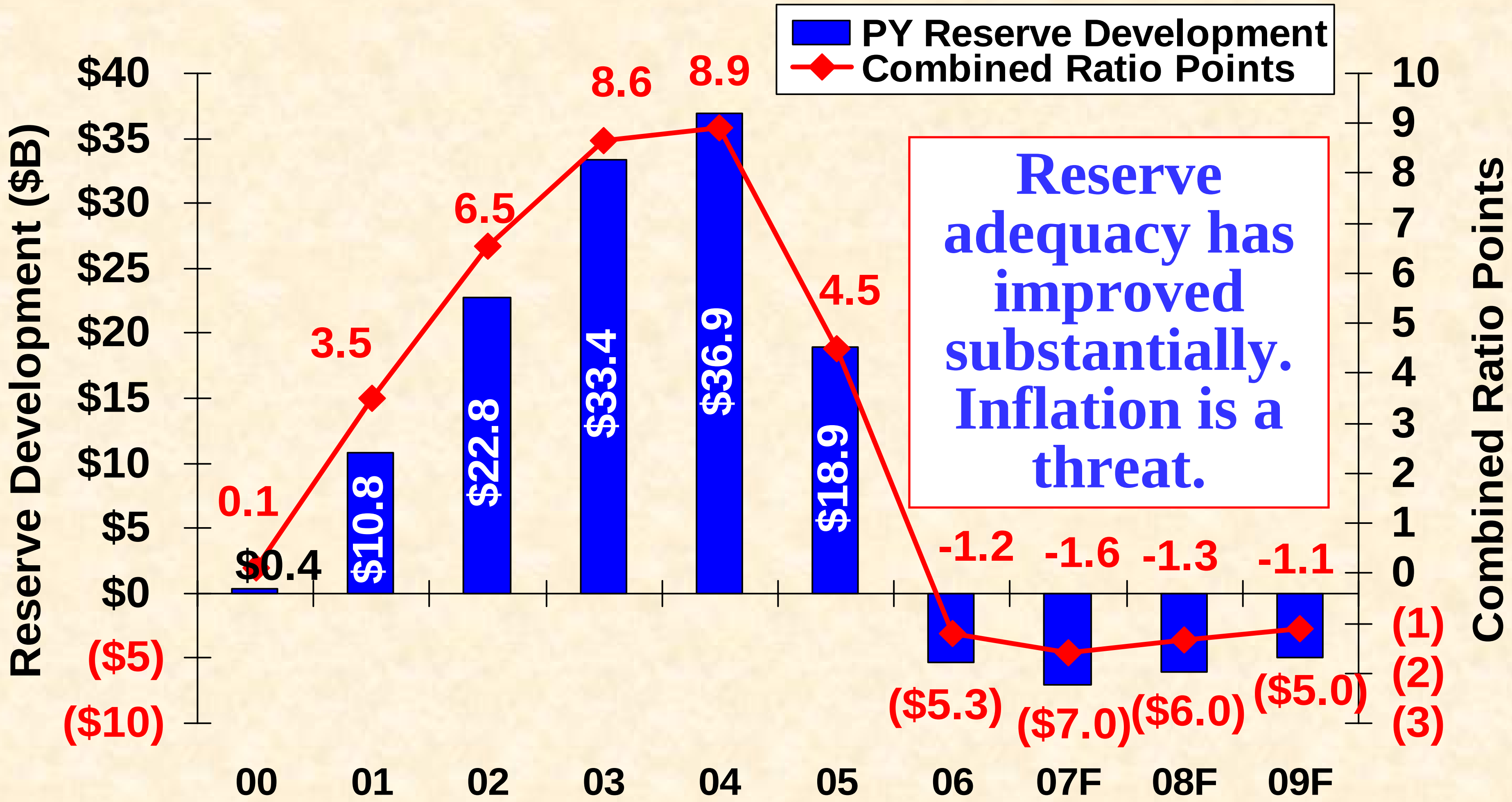


*Excludes $4B-$6b offshore energy losses from Hurricanes Katrina & Rita.

Note: 2001 figure includes $20.3B for 9/11 losses reported through 12/31/01. Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = $12.2B.

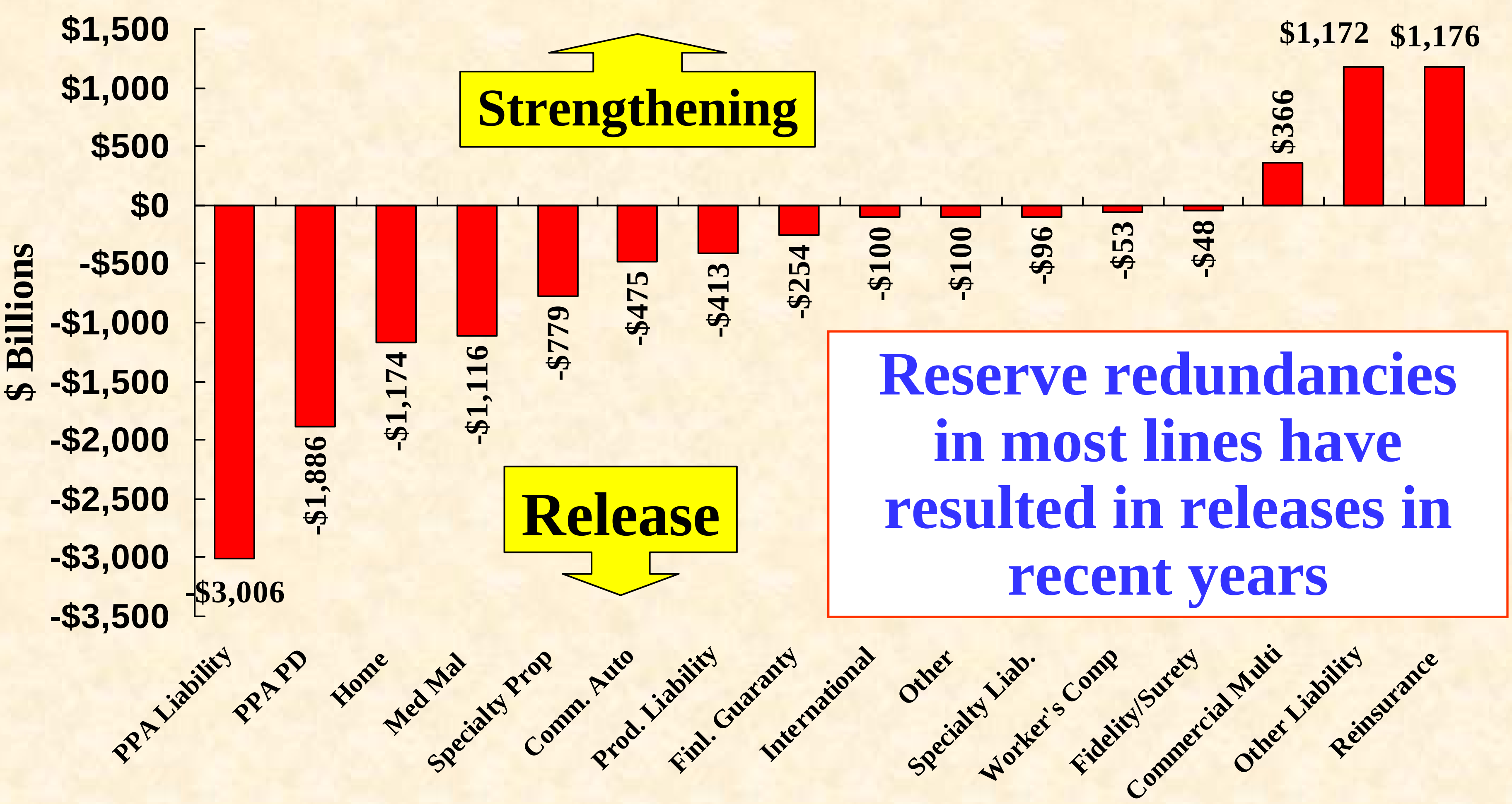
Source: Property Claims Service/ISO; Insurance Information Institute

Impact of Reserve Changes on Combined Ratio



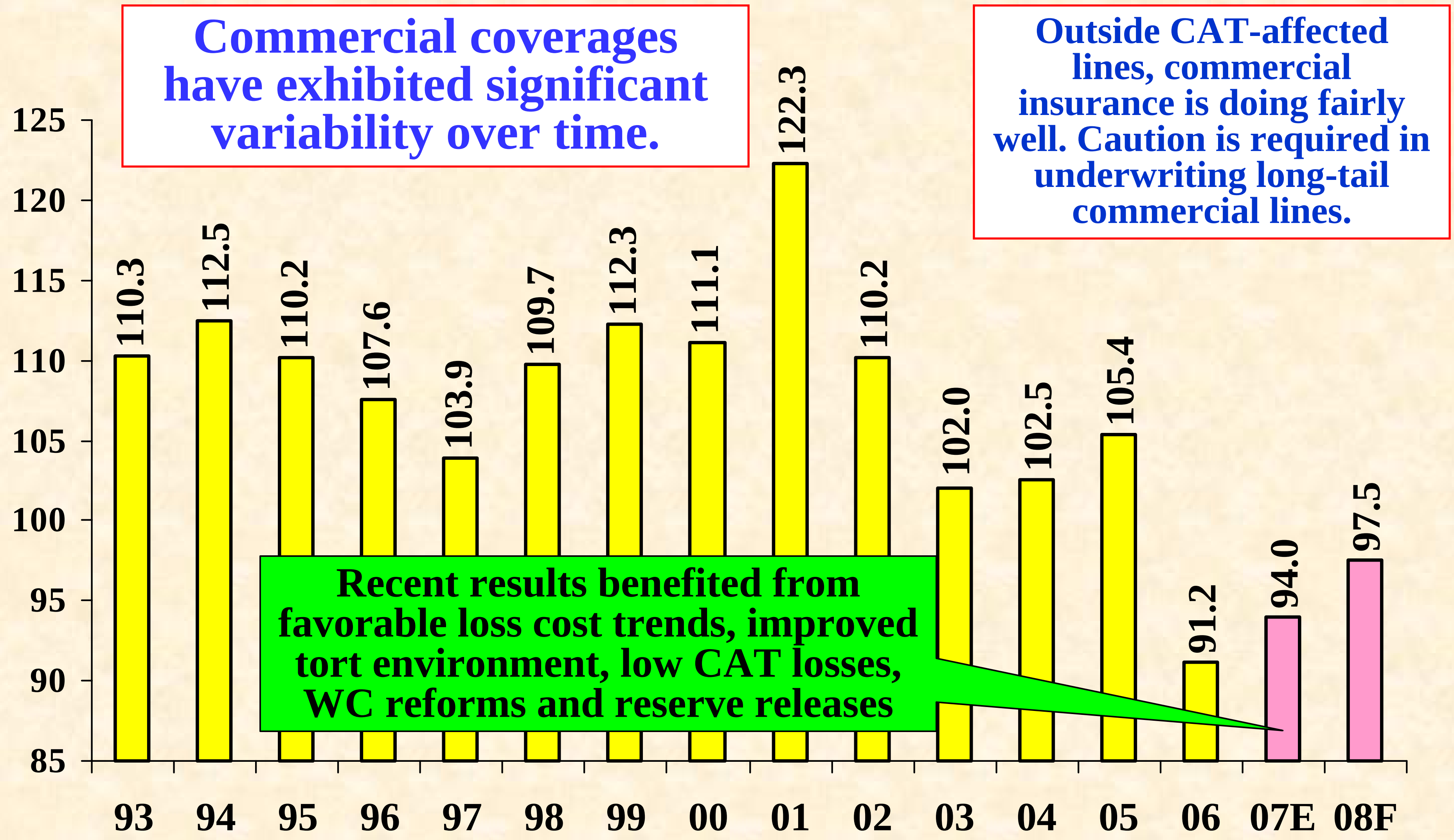
Source: A.M. Best, Lehman Brothers estimates for years 2007-2009

Cumulative Prior Year Reserve Development by Line *(As of 12/31/06)*



Sources: Lehman Brothers; A.M. Best's *Aggregates & Averages* Schedule P, Part 2.

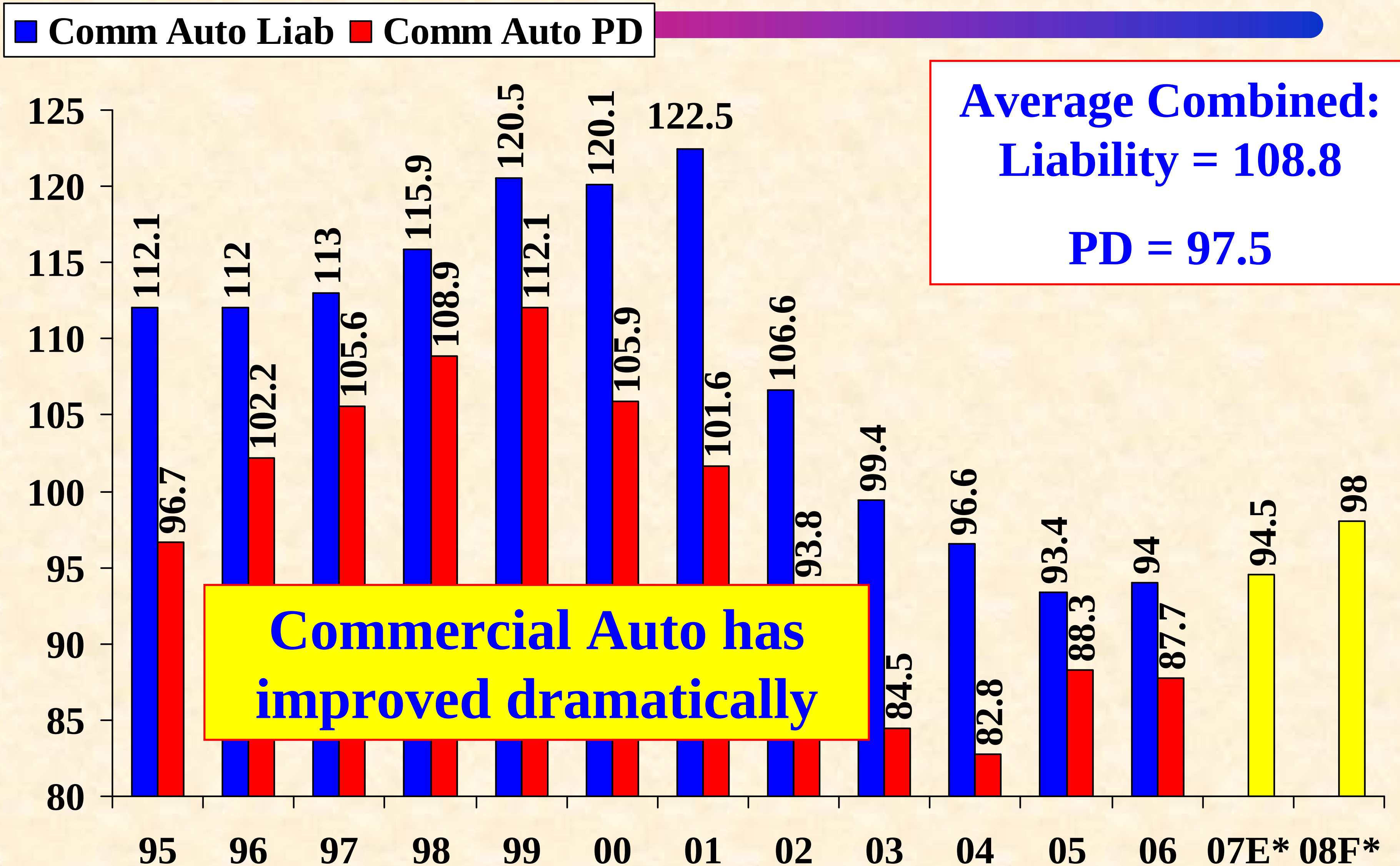
Commercial Lines Combined Ratio, 1993-2008F



Sources: A.M. Best (historical and forecasts)

KEY COMMERCIAL LINES PERFORMANCE

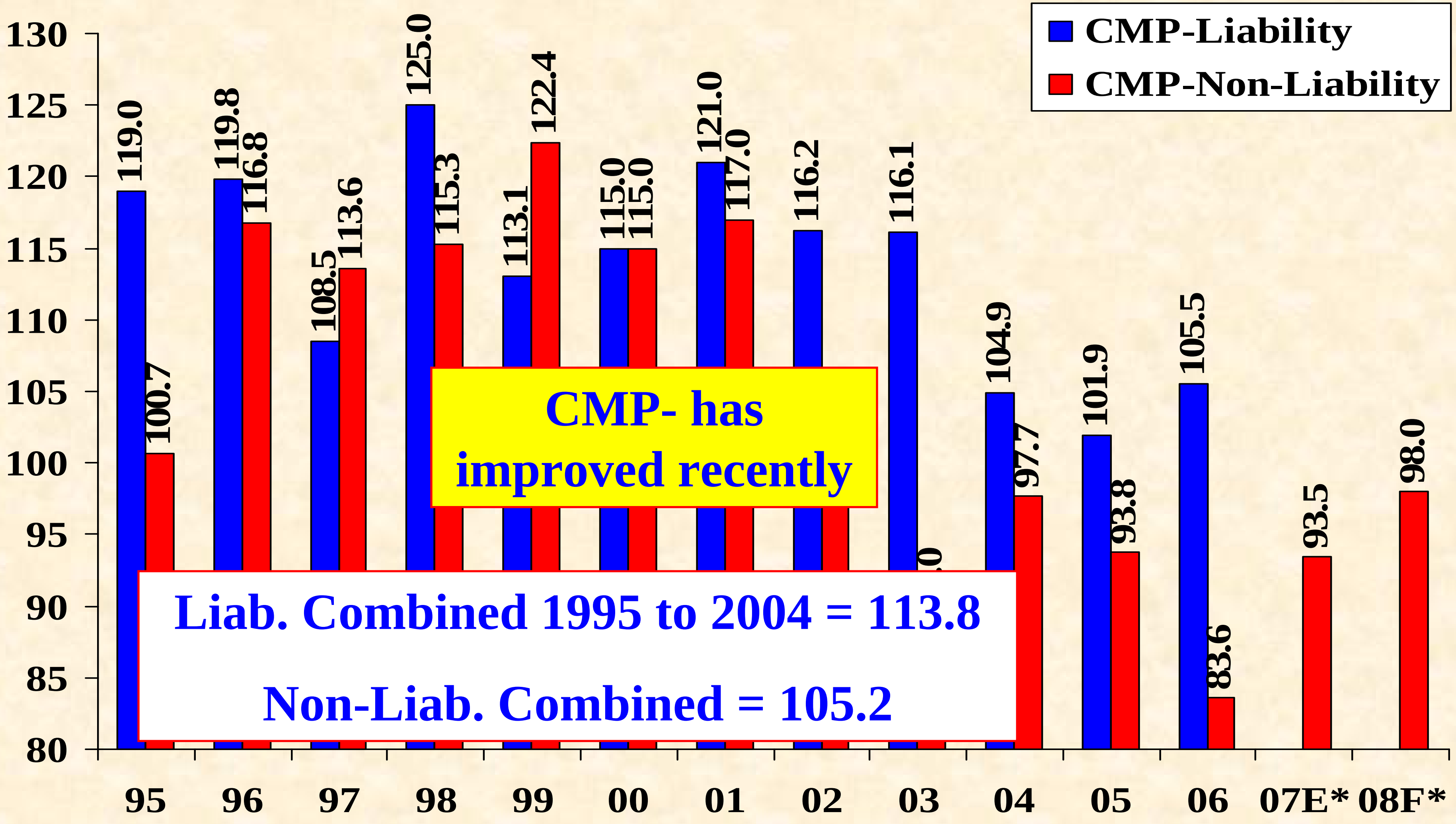
Commercial Auto Liability & PD Combined Ratios



Sources: A.M. Best (historical and forecasts)

*Includes both liability and property damage.

Commercial Multi-Peril Combined (Liability vs. Non-Liability Portion)

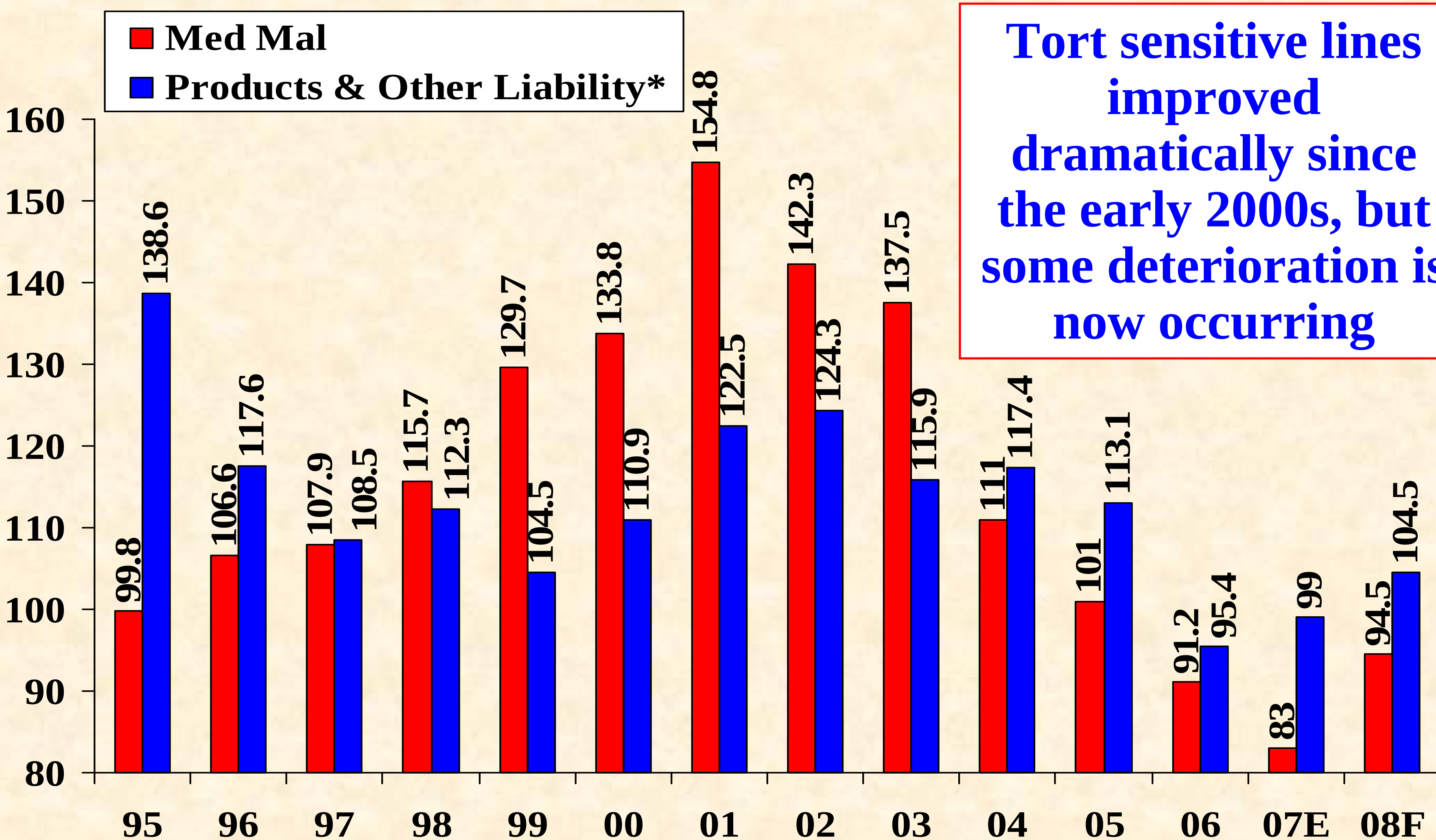


Sources: A.M. Best (historical and forecasts)

*Includes both liability and property damage.

Medical Malpractice & Products & Other Liability Combined Ratios*

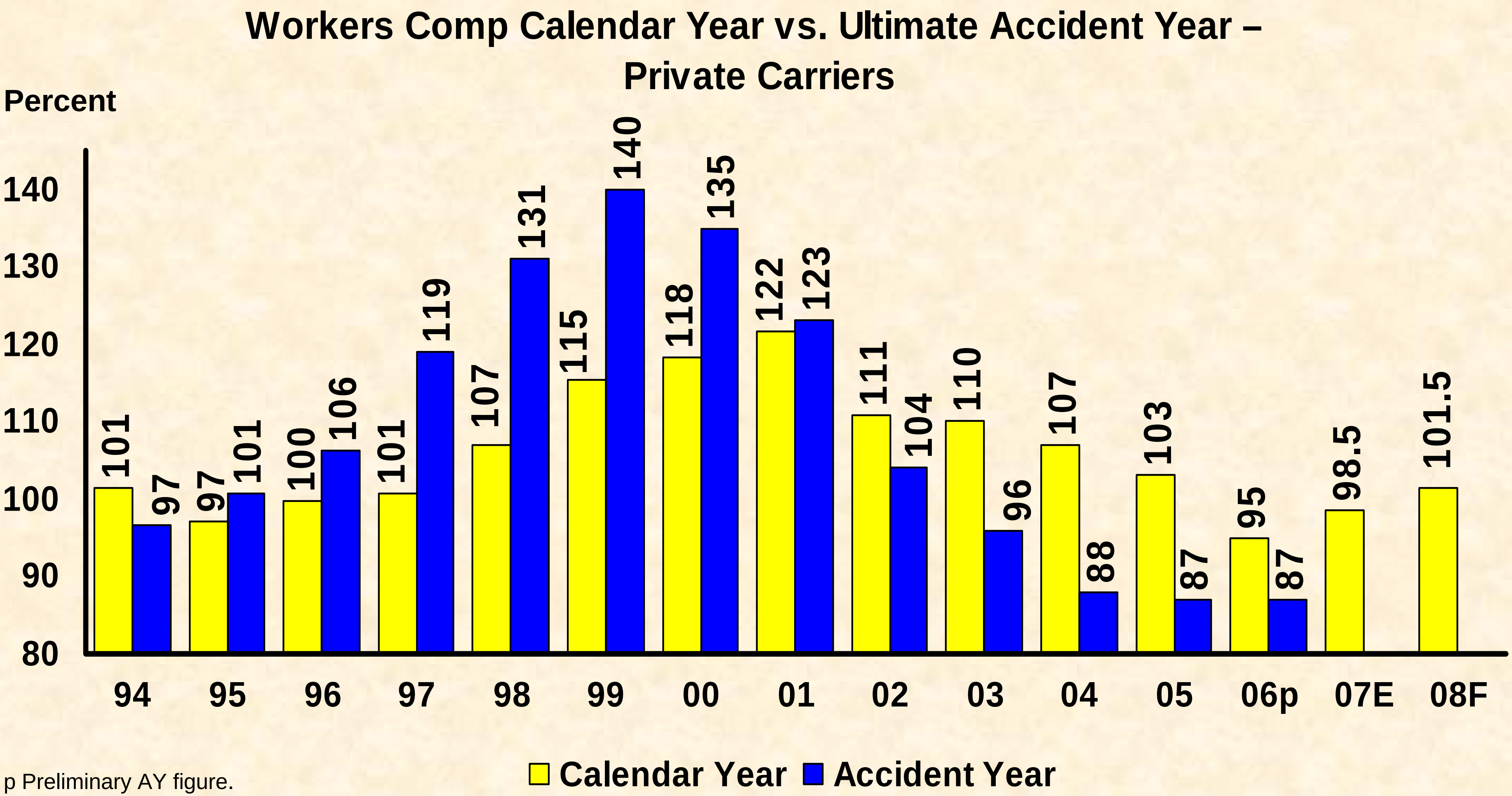
Tort sensitive lines improved dramatically since the early 2000s, but some deterioration is now occurring



Sources: A.M. Best (historical and forecasts)

*Includes professional liability, D&O, E&O, Excess Casualty/Umbrella, Environmental/Pollution, GL and EPL.

*Workers Comp Combined Ratios, 1994-2008F**

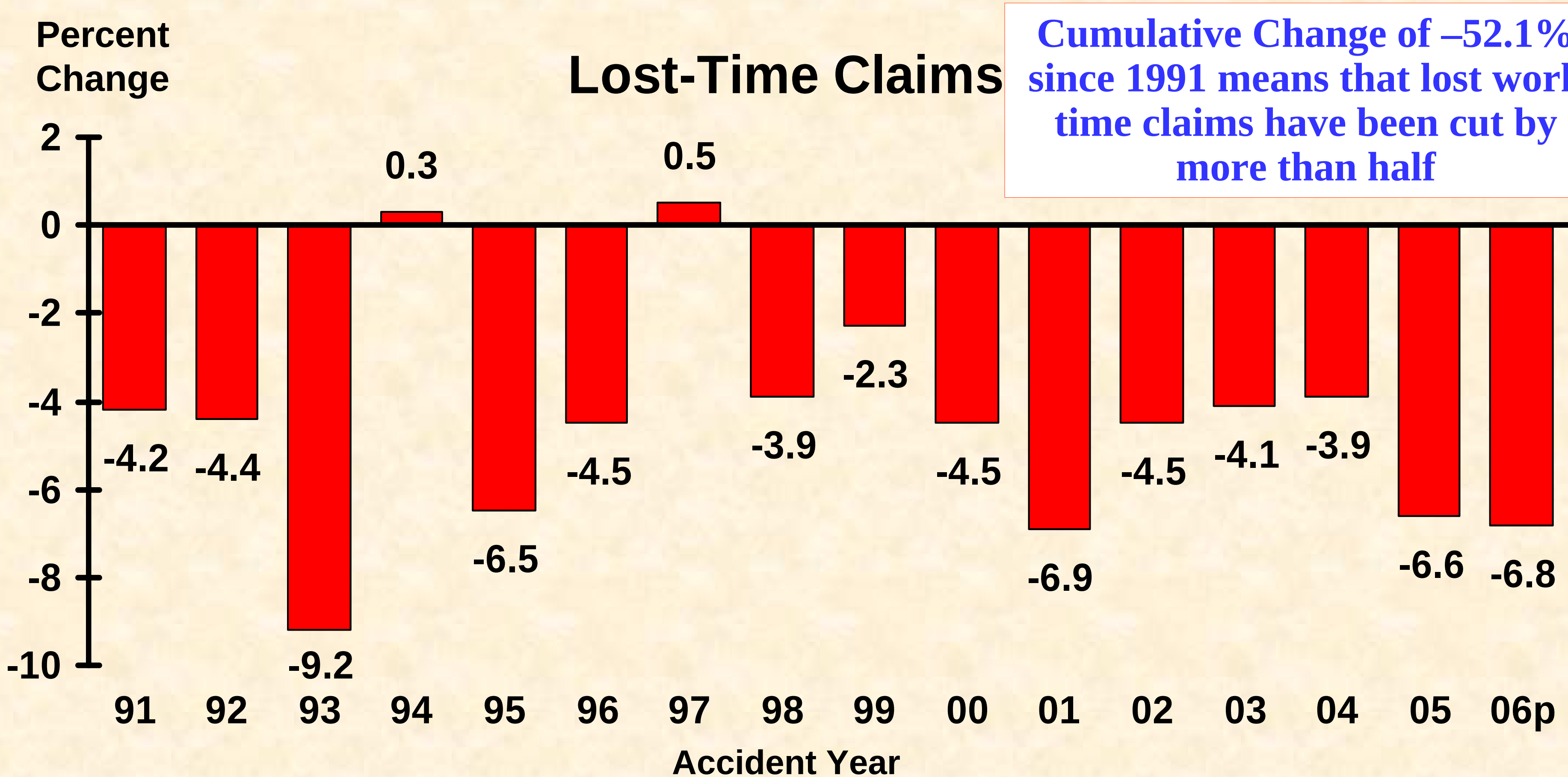


p Preliminary AY figure.
Accident Year data is evaluated as of 12/31/2006 and developed to ultimate
Source: Calendar Years 1994-2005, A.M. Best Aggregates & Averages; Calendar Year 2006p and Accident Years 1994-2006pbased on NCCI Annual Statement Analysis.
Includes dividends to policyholders

*2007/2008 figures are A.M. Best estimates/forecasts.

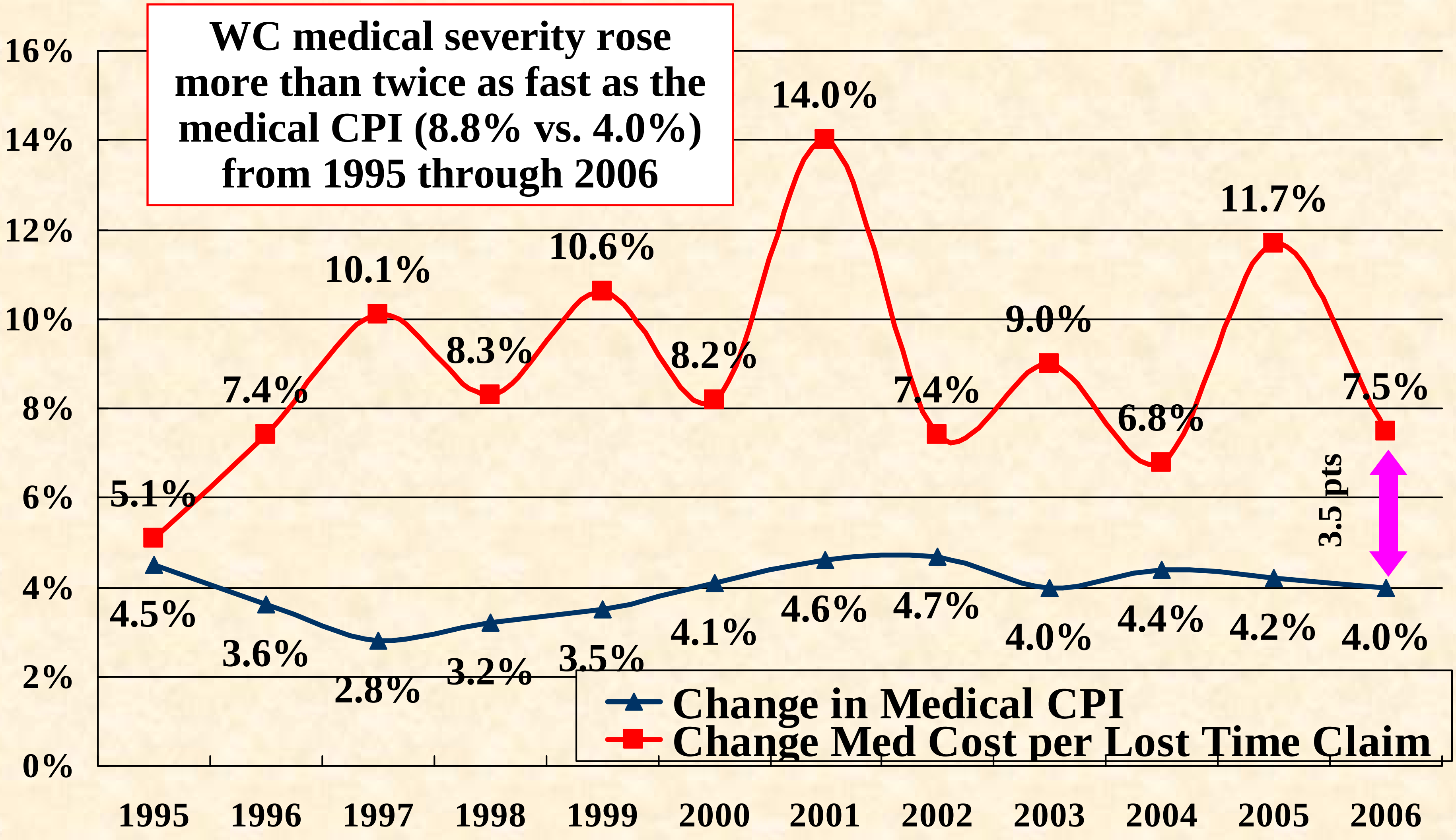
Workers Comp Lost-Time Claim Frequency (% Change)

Cumulative Change of –52.1% since 1991 means that lost work time claims have been cut by more than half



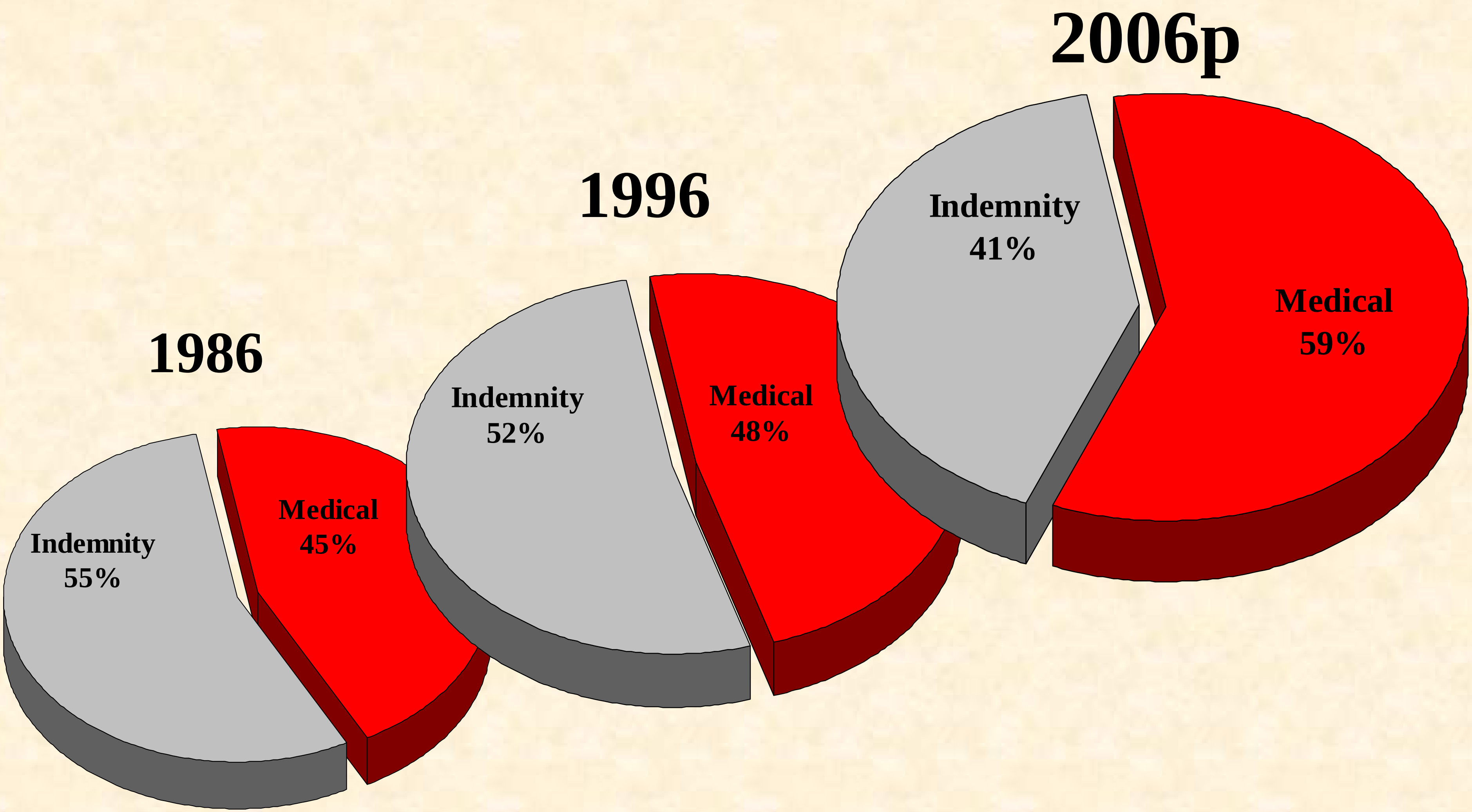
2003p: Preliminary based on data valued as of 12/31/2006
1991-2005: Based on data through 12/31/2005, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies
Source: NCCI

WC Medical Severity Rising Far Faster than Medical CPI



Sources: Med CPI from US Bureau of Labor Statistics, WC med severity from NCCI based on NCCI states.

Med Costs Share of Total Costs is Increasing Steadily

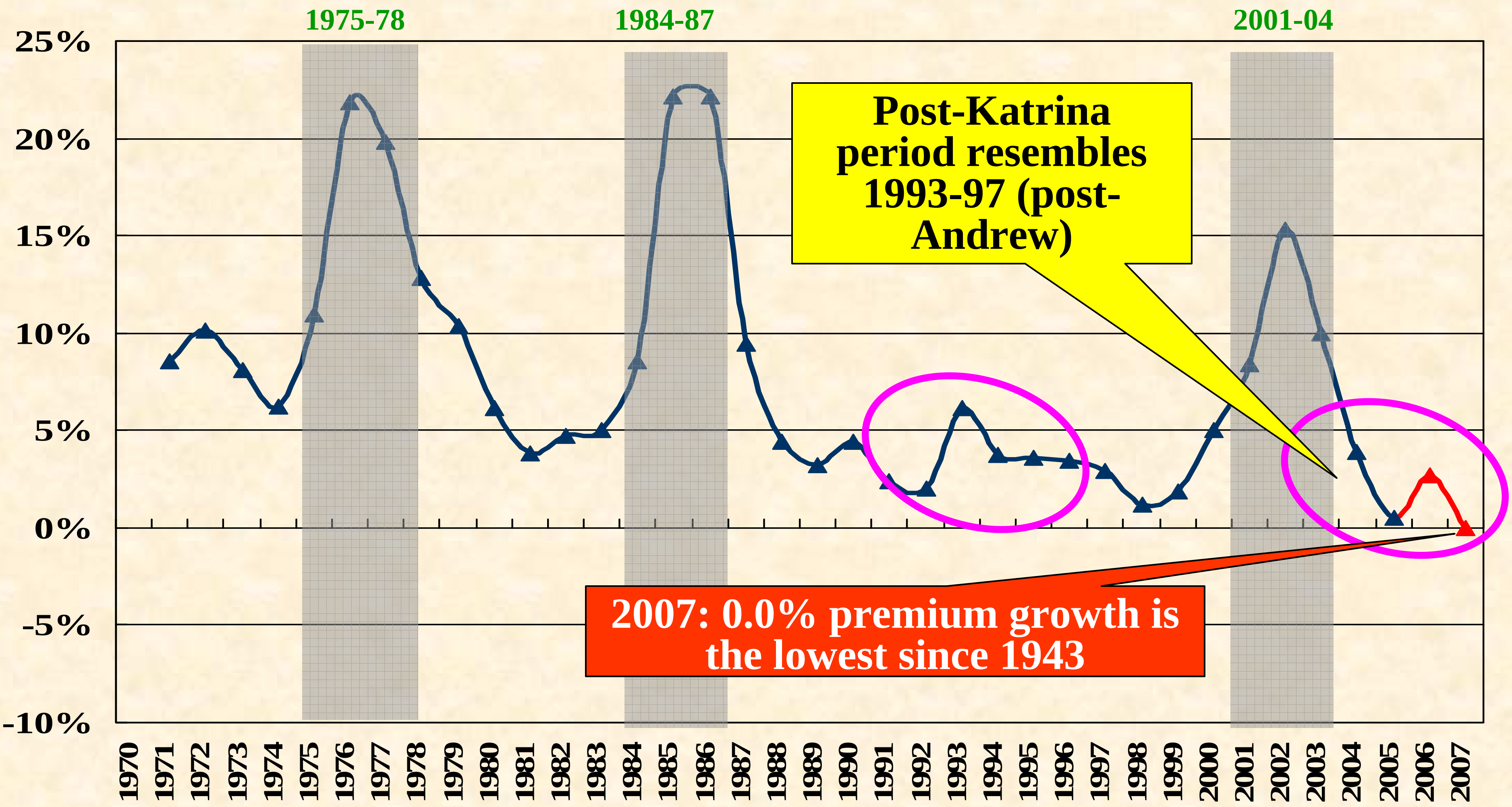


Source: NCCI (based on states where NCCI provides ratemaking services).

PREMIUM GROWTH

At a Virtual Standstill in 2007/08

Strength of Recent Hard Markets by NWP Growth*

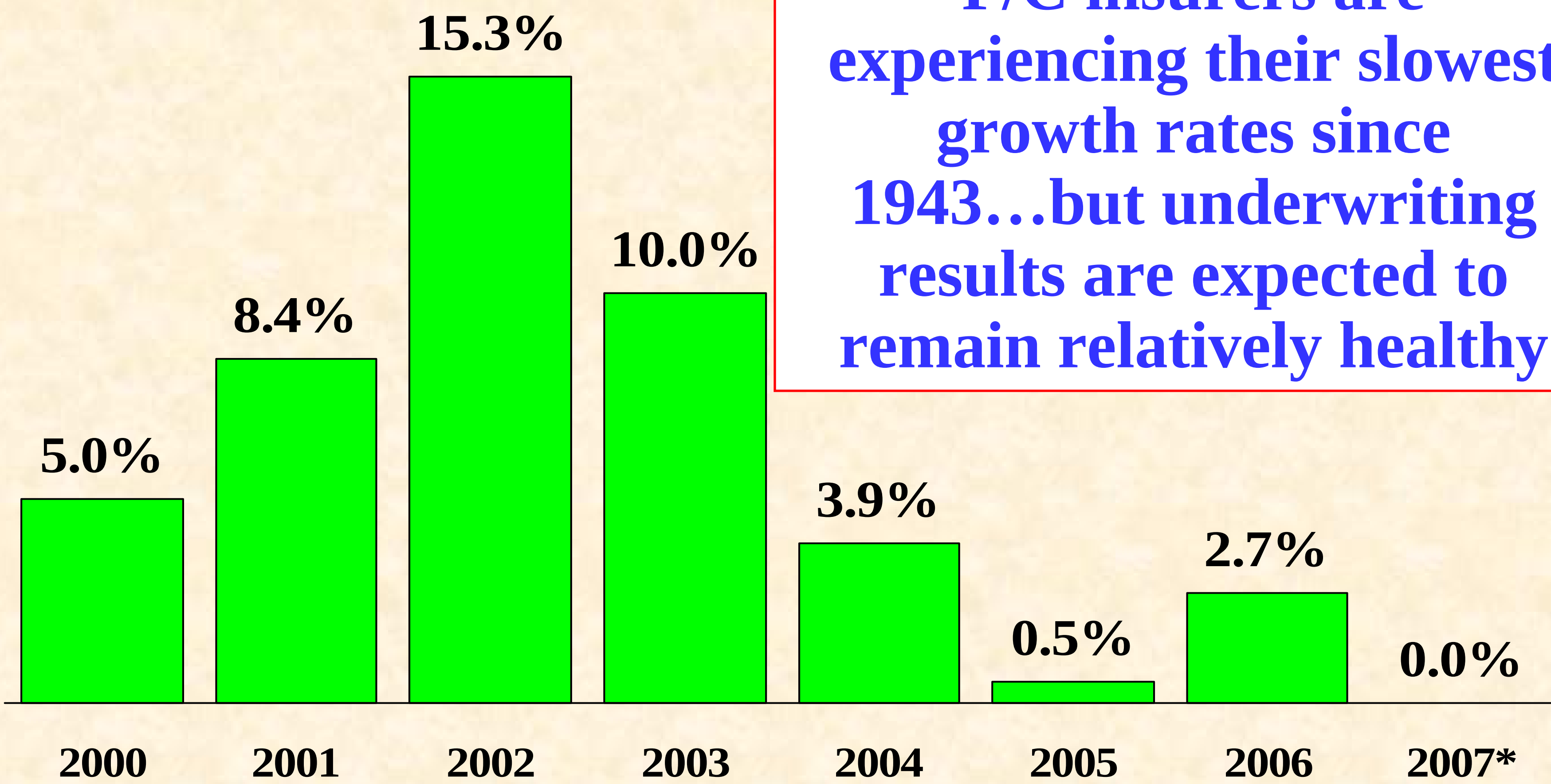


Note: Shaded areas denote hard market periods.
Source: A.M. Best, Insurance Information Institute

*2007 figure is actual 9-month figure.

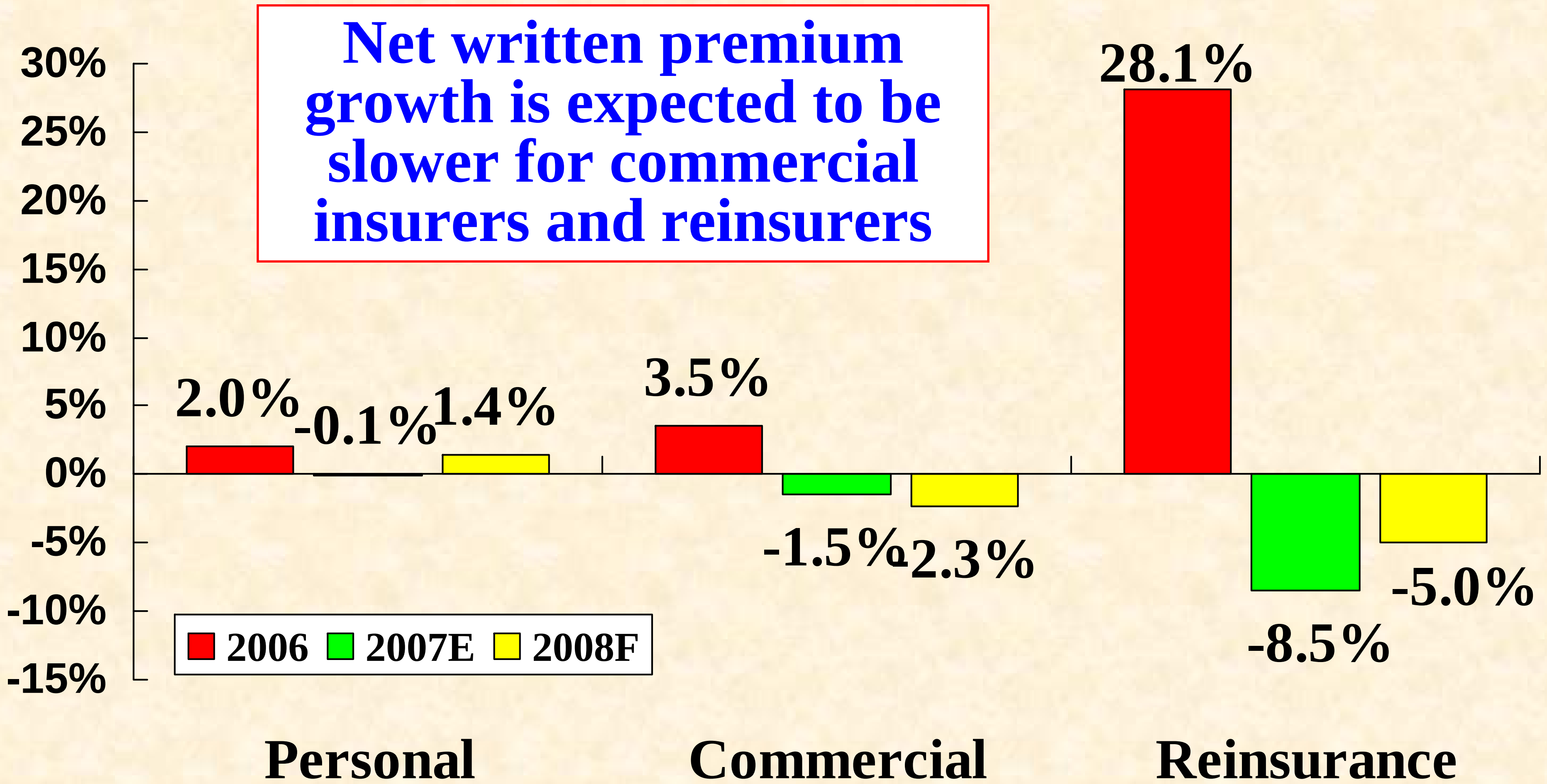
Growth in Net Written Premium, 2000-2008F

P/C insurers are experiencing their slowest growth rates since 1943…but underwriting results are expected to remain relatively healthy



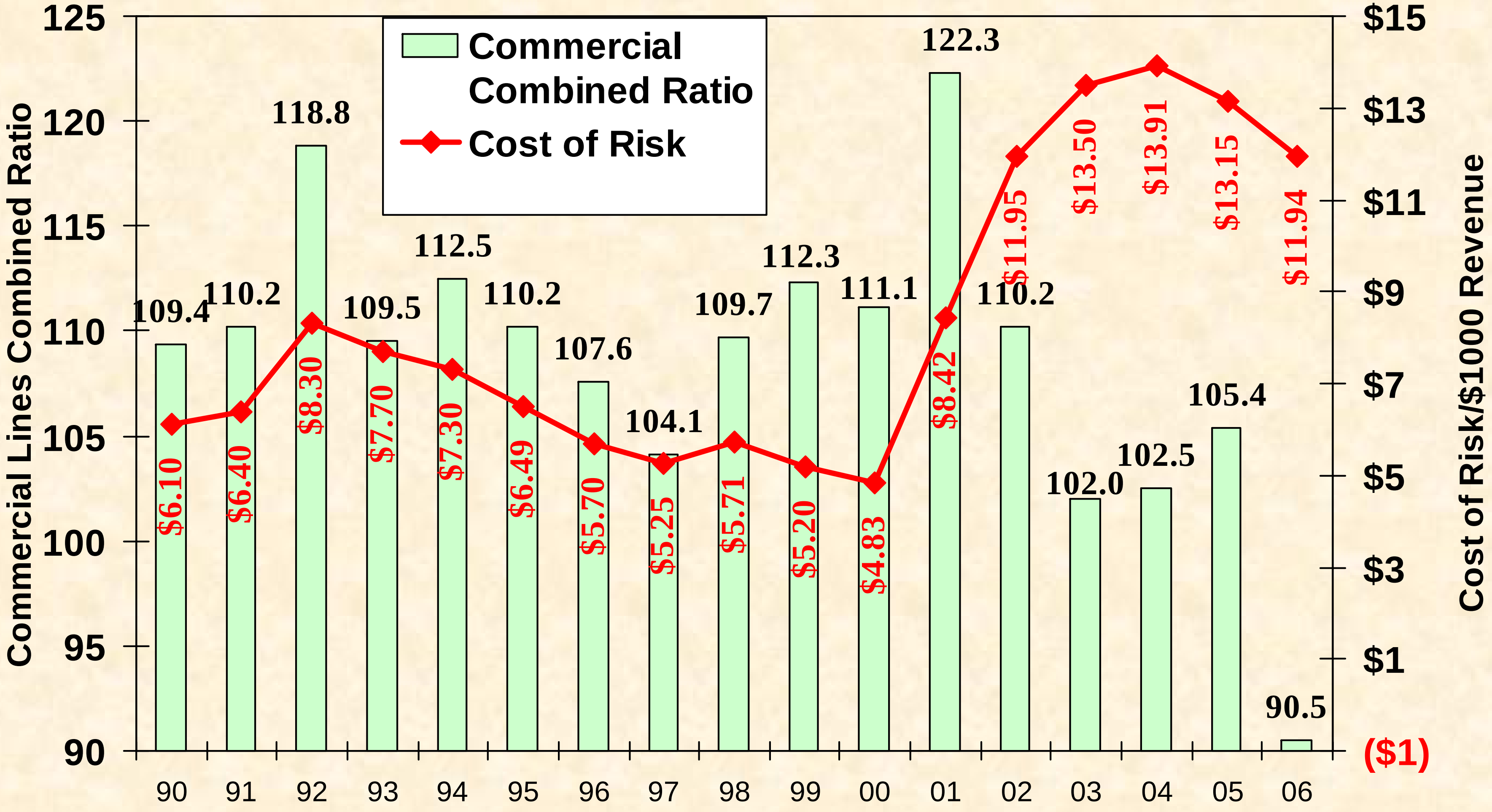
*2007 figure based on actual 9-month results.
Source: A.M. Best;

Personal/Commercial Lines & Reinsurance NPW Growth, 2006-2008F



Sources: A.M. Best Review & Preview (historical and forecast).

Cost of Risk vs. Commercial Lines Combined Ratio

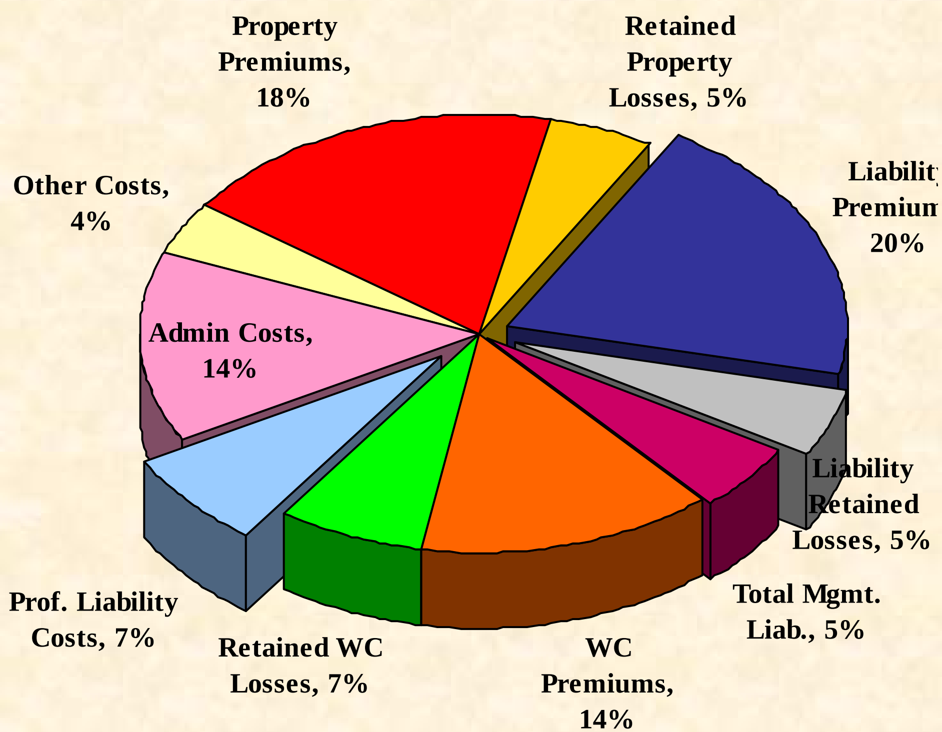


Source: RIMS, A.M. Best 2007 Aggregates & Averages; Insurance Information Institute

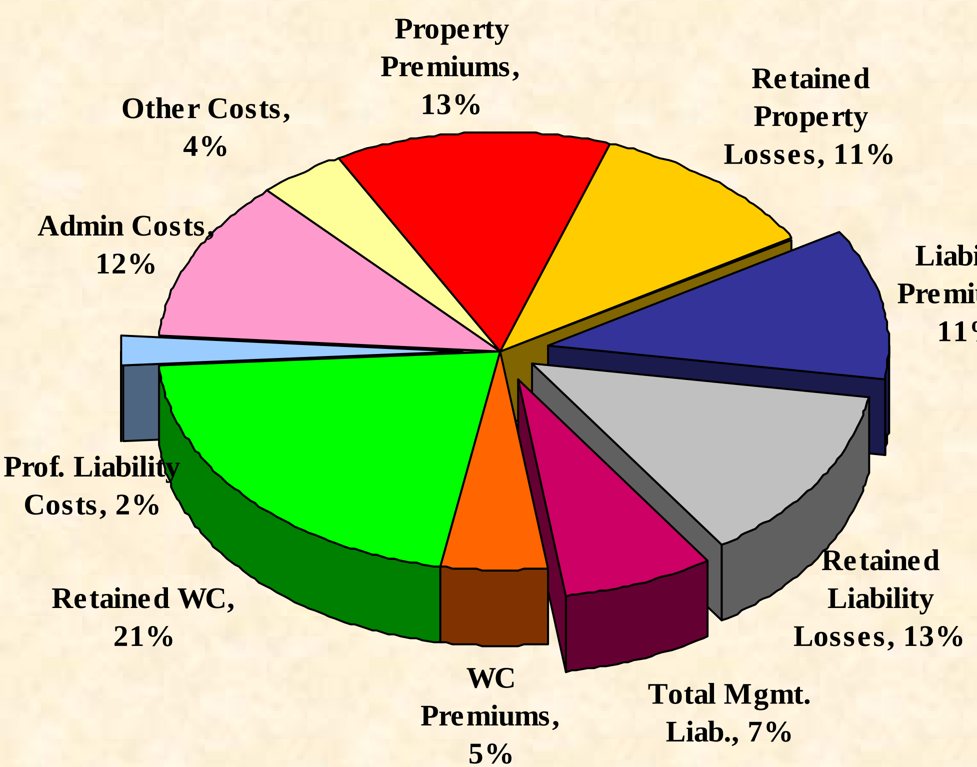
How the Risk Dollar is Spent (2006)

Total liability costs account for 30% - 35% of the risk dollar

Firms w/Revenues < $1 Billion



Firms w/Revenues > $1 Billion

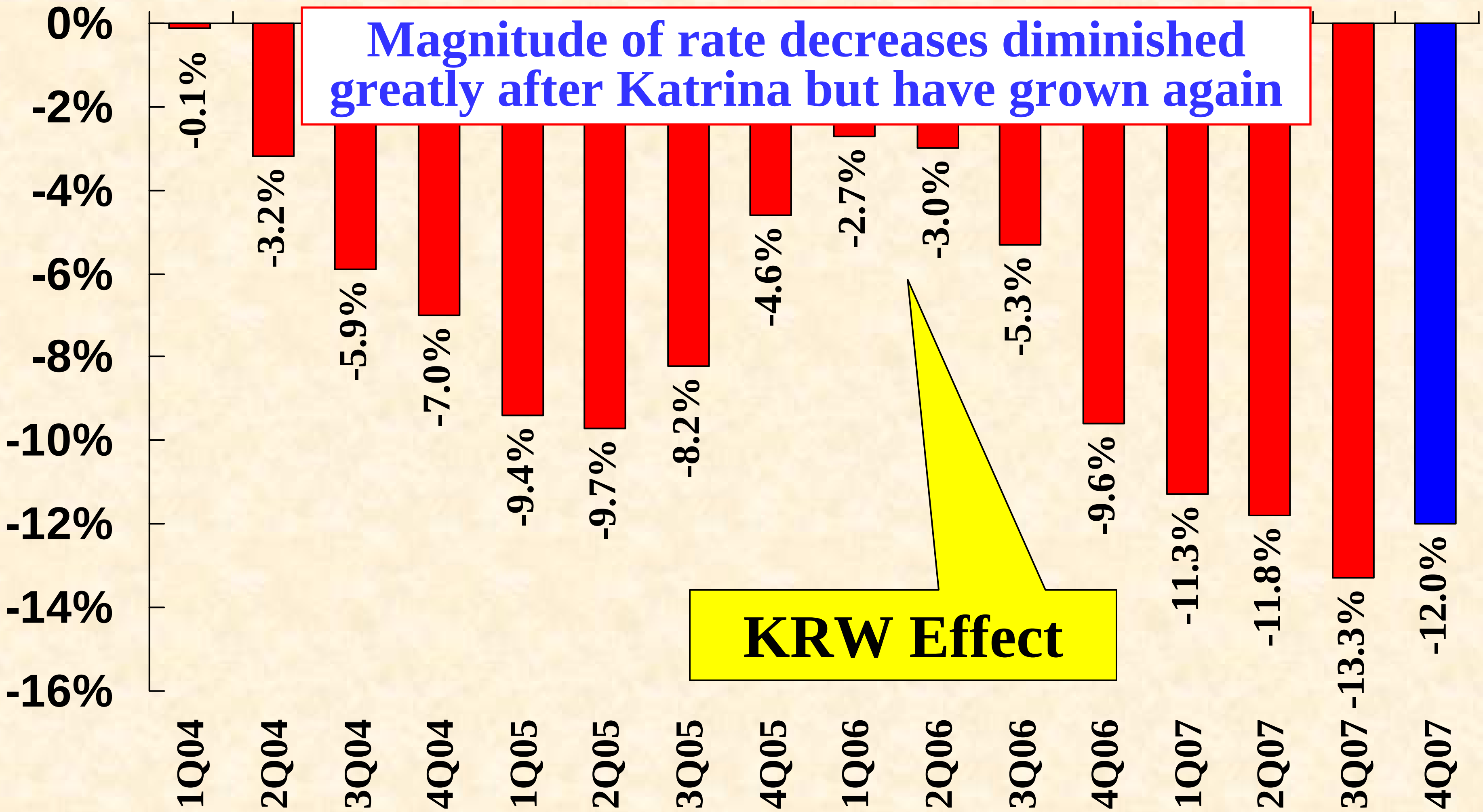


Source: RIMS (2007); Insurance Information Institute

COMPETIVE PRICING

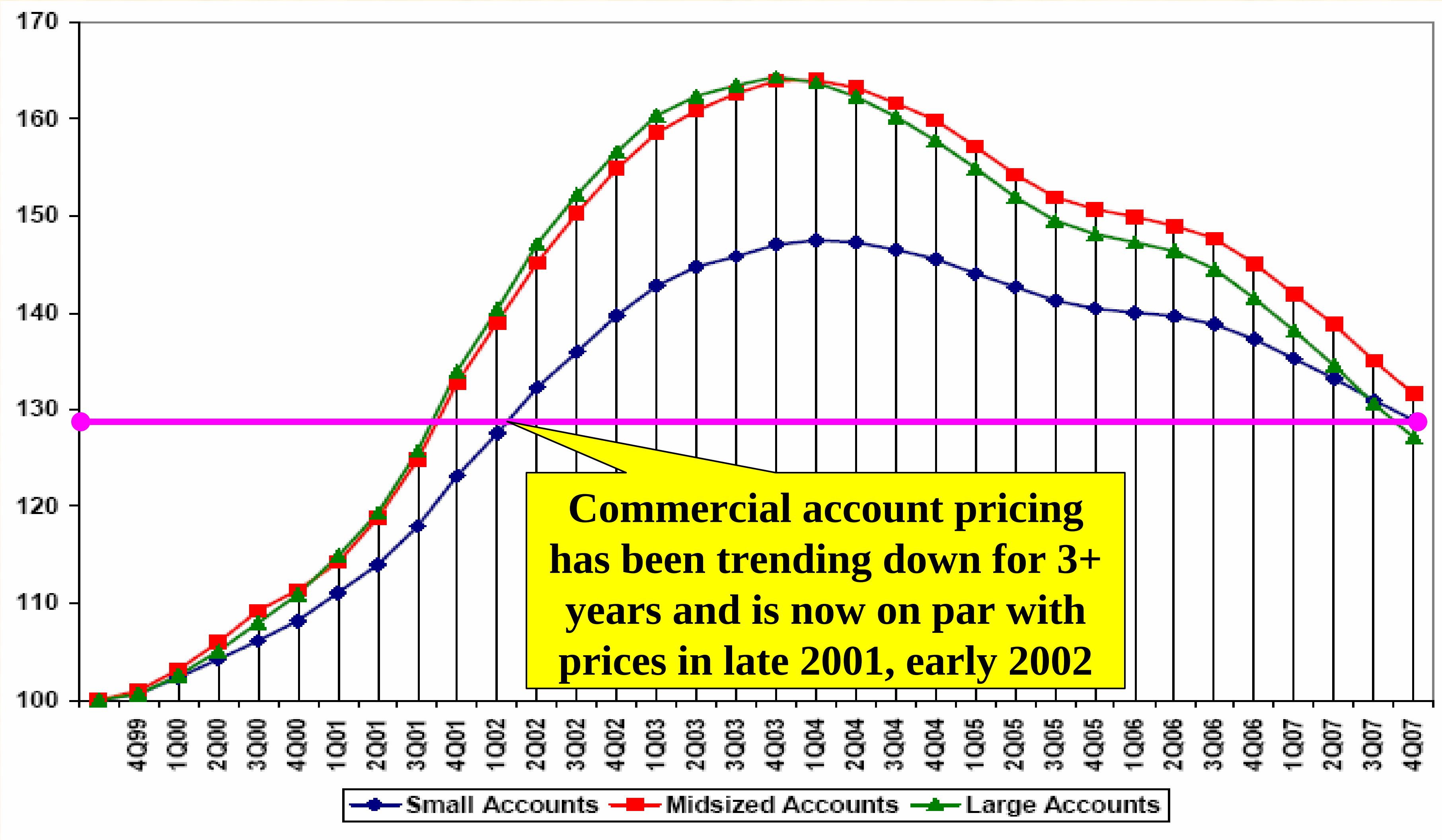
Intense Competitive Pressure in 2007/08, Especially Commercial

Average Commercial Rate Change, All Lines, (1Q:2004 – 4Q:2007)



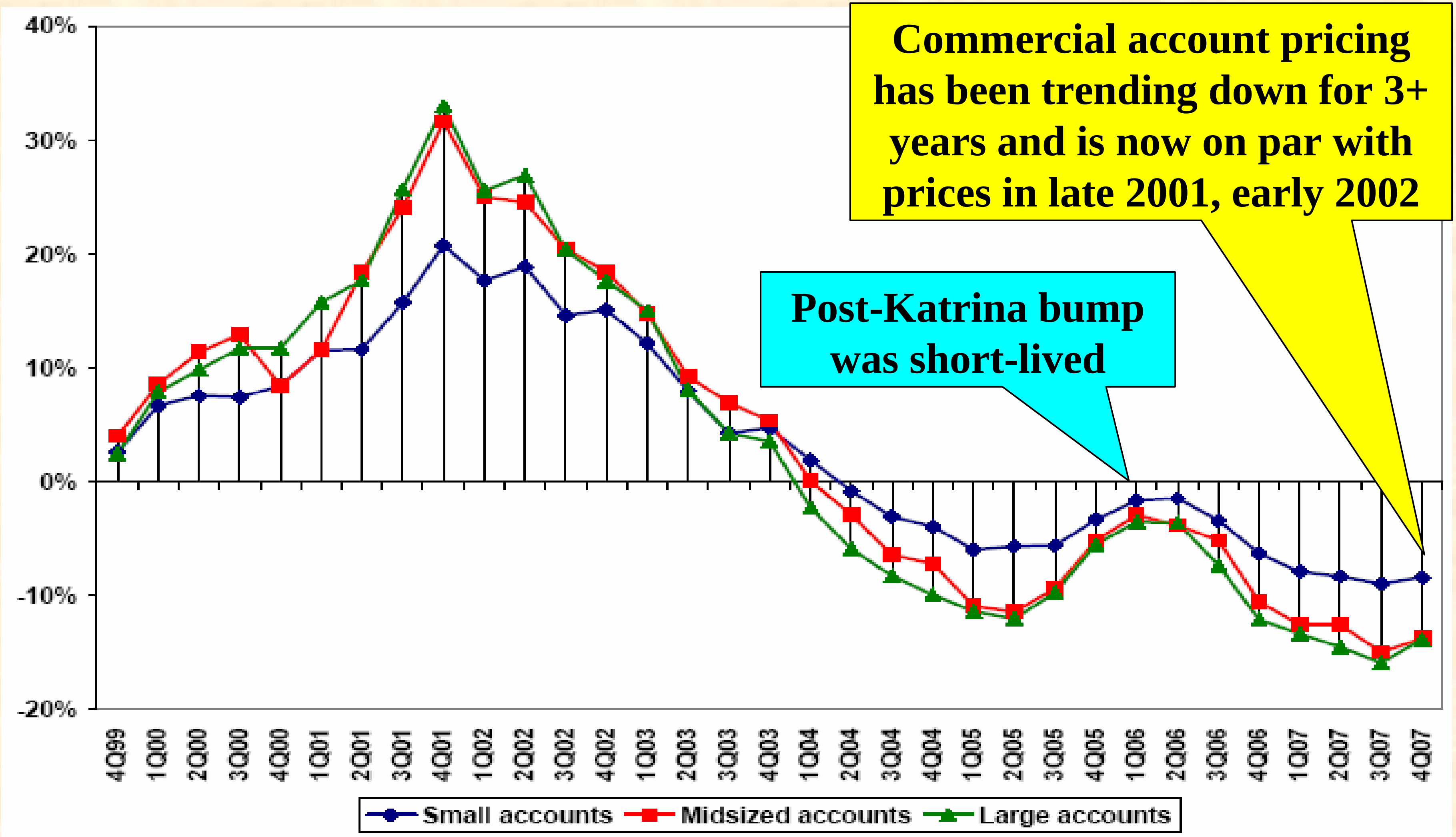
Source: Council of Insurance Agents & Brokers; Insurance Information Institute

Cumulative Commercial Rate Change by Line: 4Q99 – 4Q07



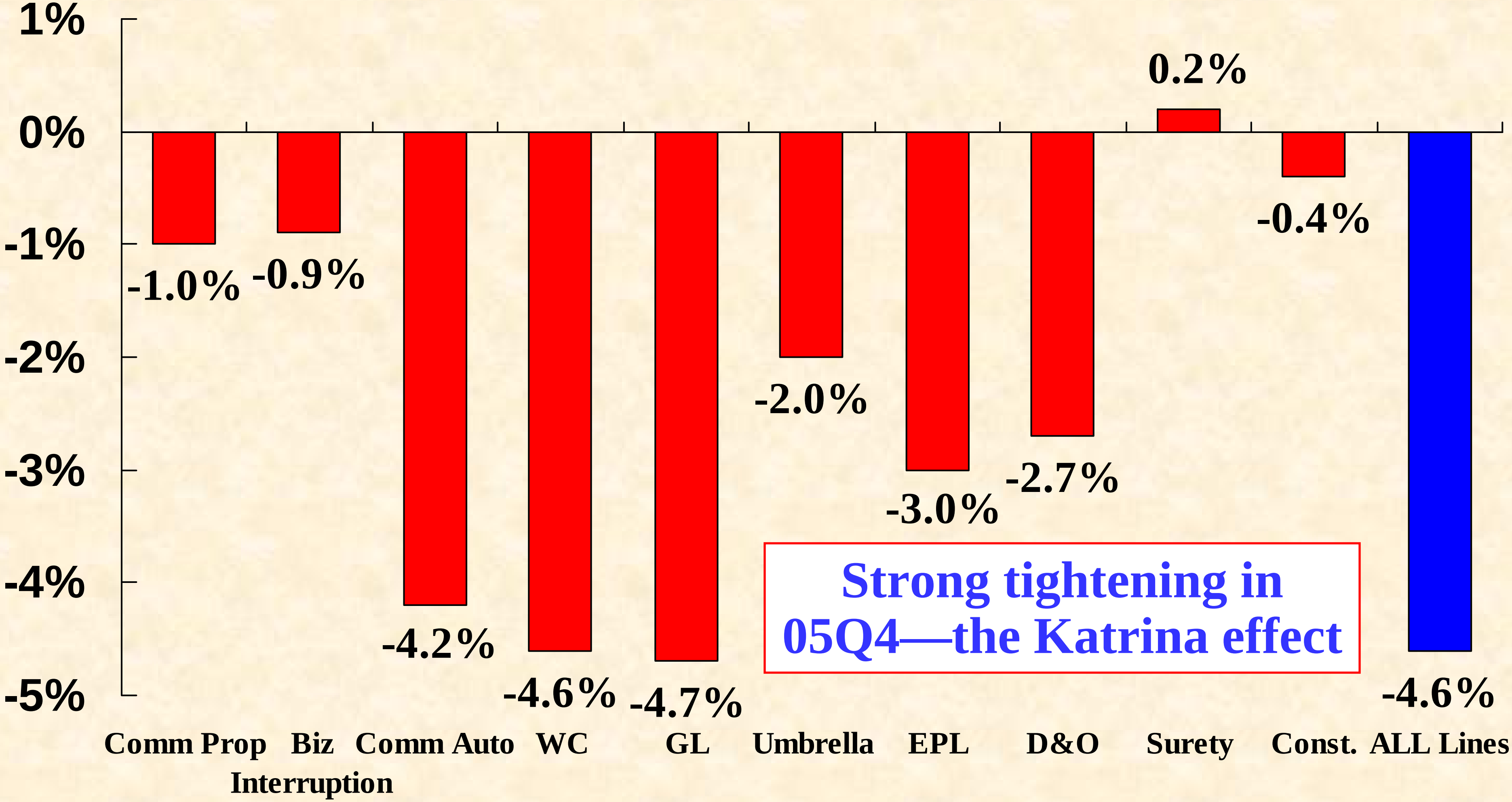
Source: Council of Insurance Agents & Brokers

Average Commercial Rate Changes by Line: 4Q99 – 4Q07



Source: Council of Insurance Agents & Brokers

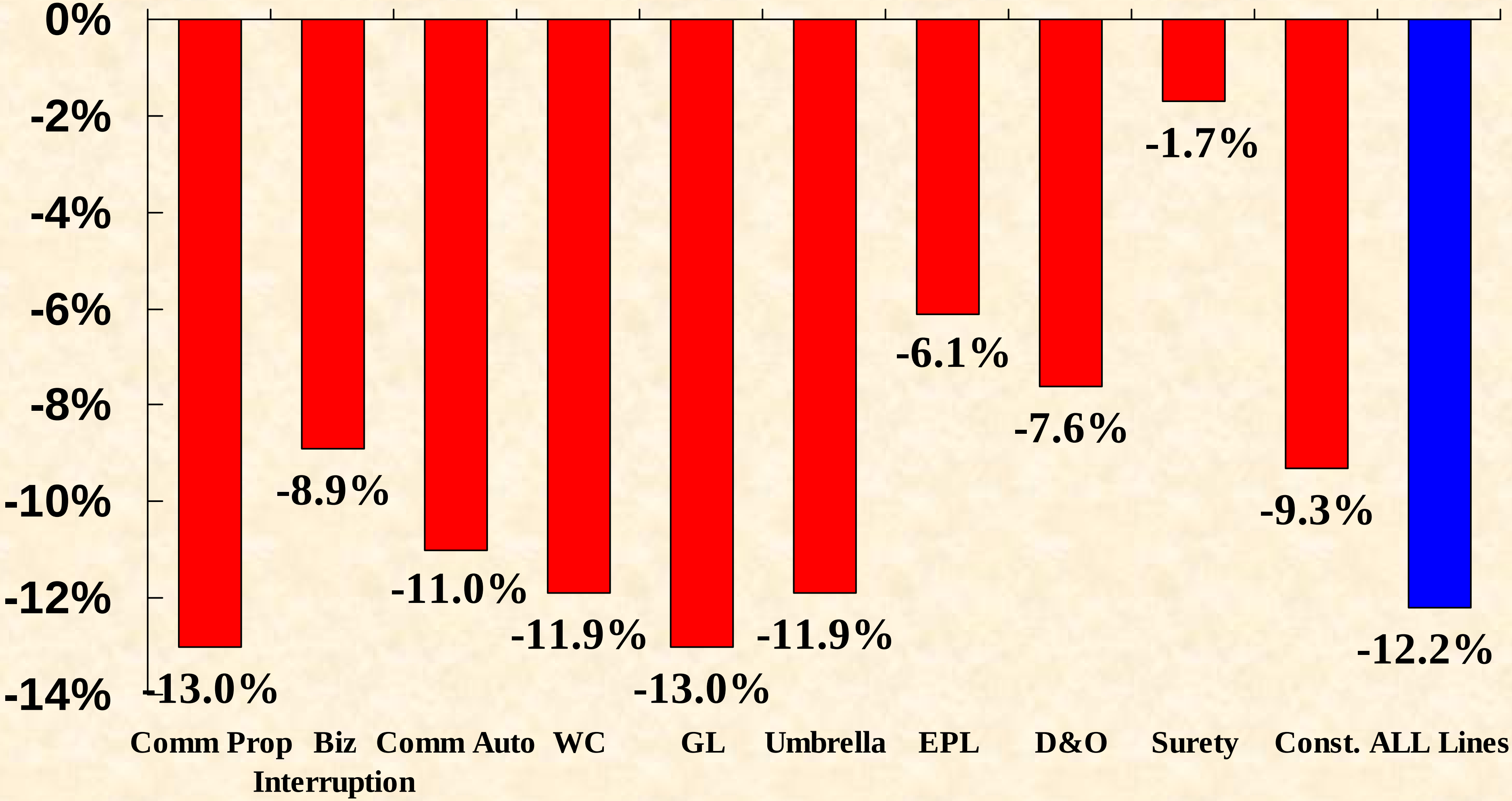
Rate Changes by Line,
4th Qtr. 2005



Source: Council of Insurance Agents & Brokers; Insurance Information Institute

Rate Changes by Line,

4th Qtr. 2007

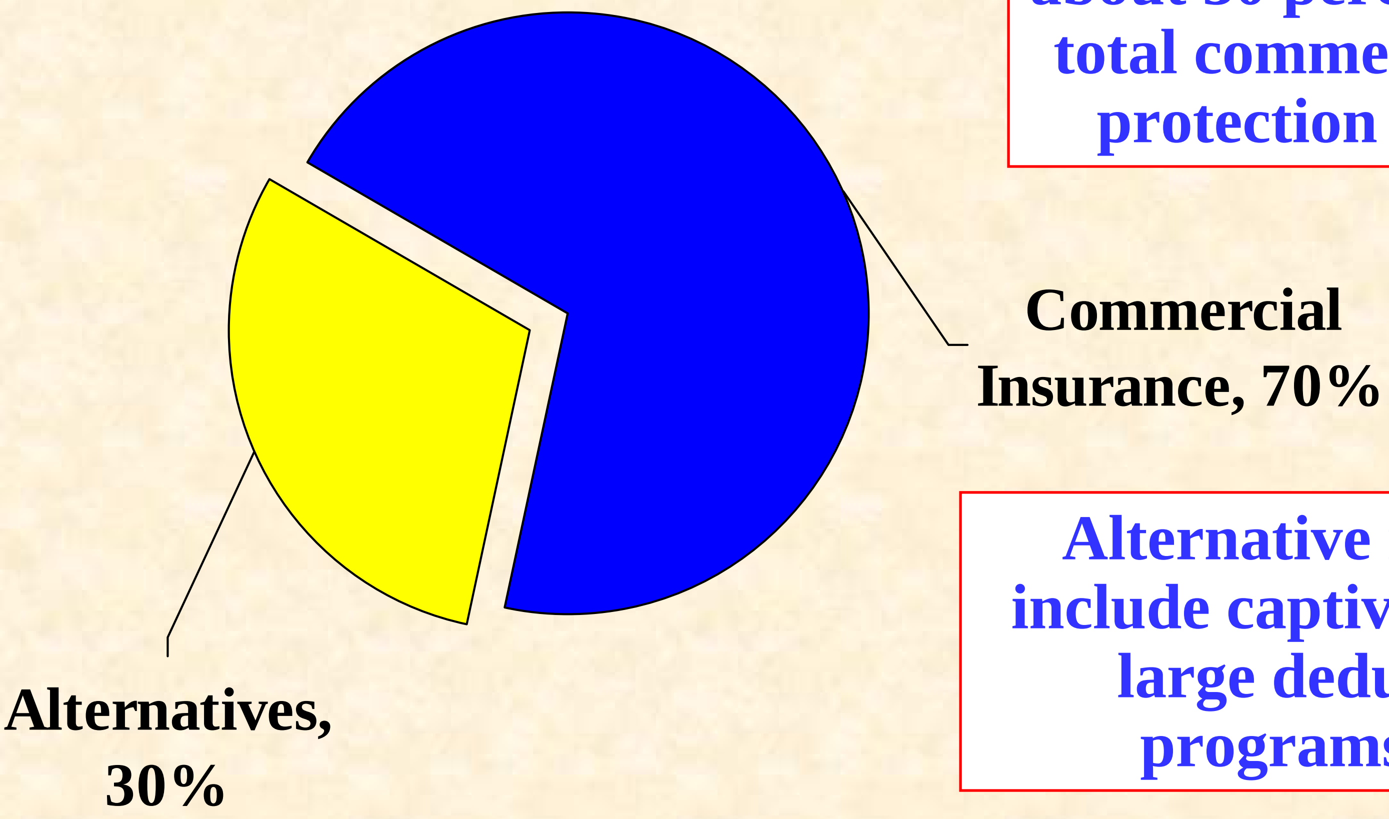


Source: Council of Insurance Agents & Brokers; Insurance Information Institute

ALTERNATIVE RISK TRANSFER

Total Commercial Risk Protection Market (US, 2004)

$ Billions

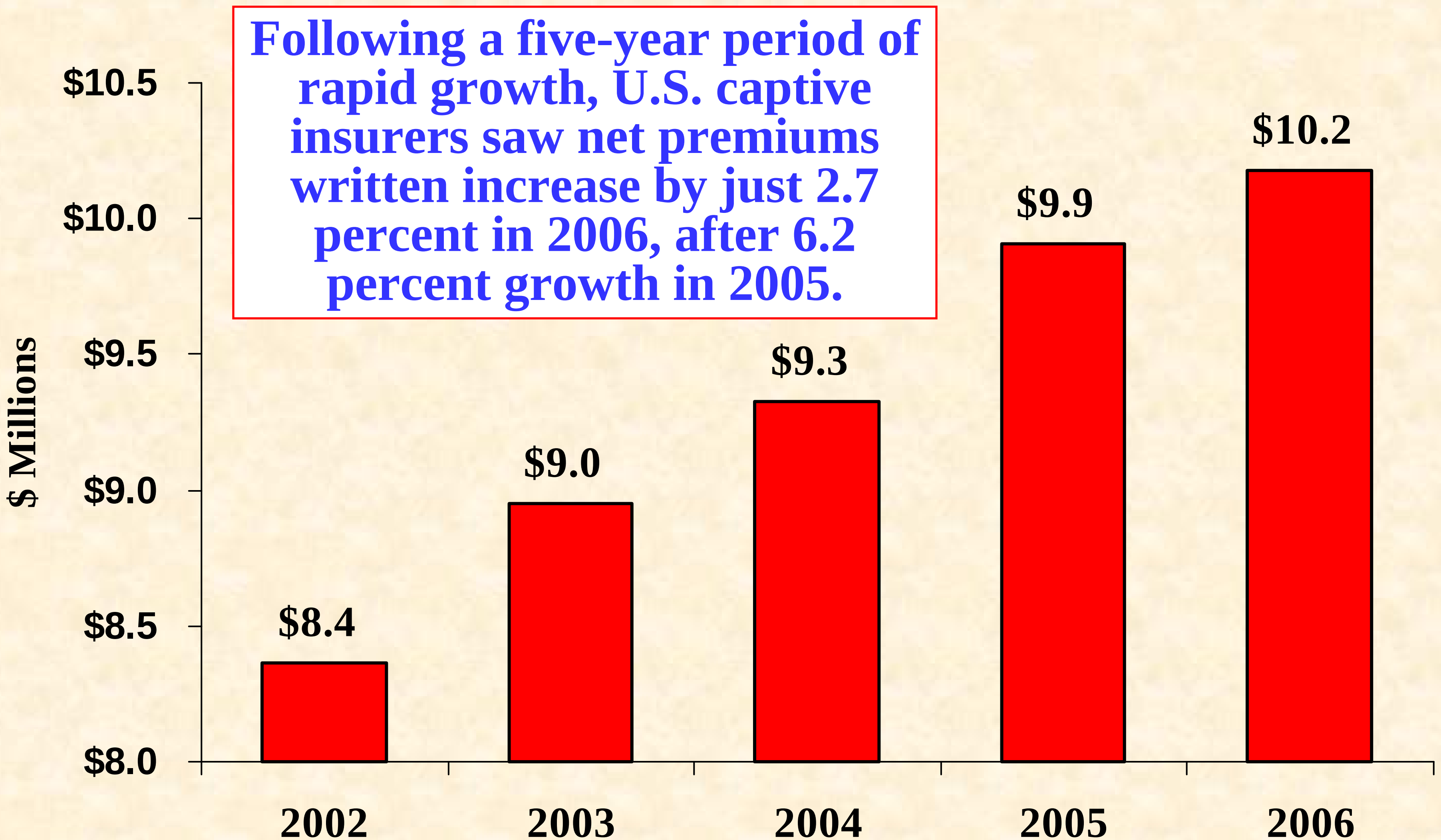


Alternative market mechanisms cover about 30 percent of the total commercial risk protection market

Alternative markets include captives, RRGs, large deductible programs, etc.

Source: Conning; MarketStance analysis; Insurance Information Institute.

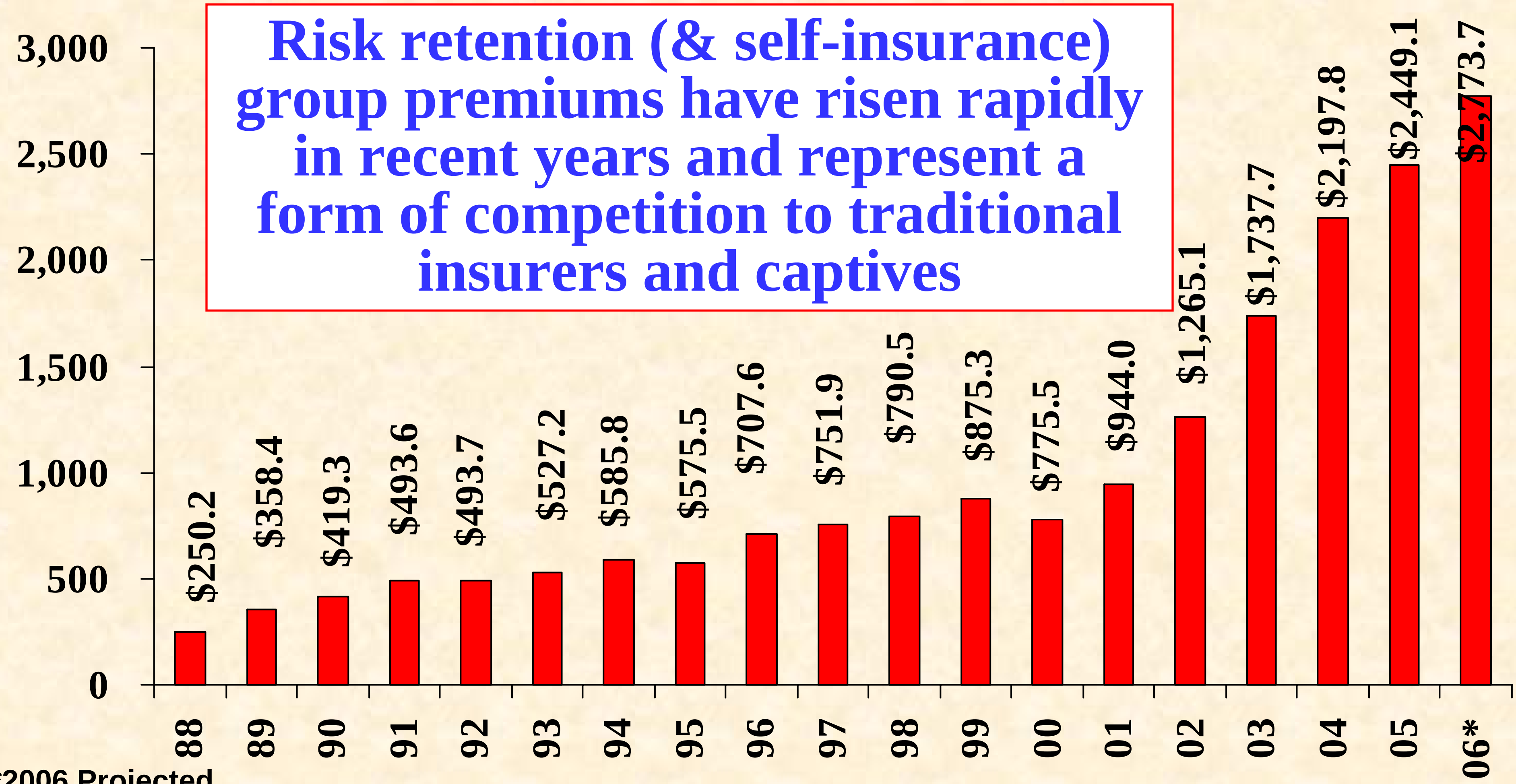
U.S. Domiciled Captives- Net Premiums Written ($ Millions)



Source: A.M. Best, 2007 Special Report: U.S. Captive Insurers – 2006 Market Review

*Risk Retention Group Premiums, 1988 – 2006**

Millions of Dollars

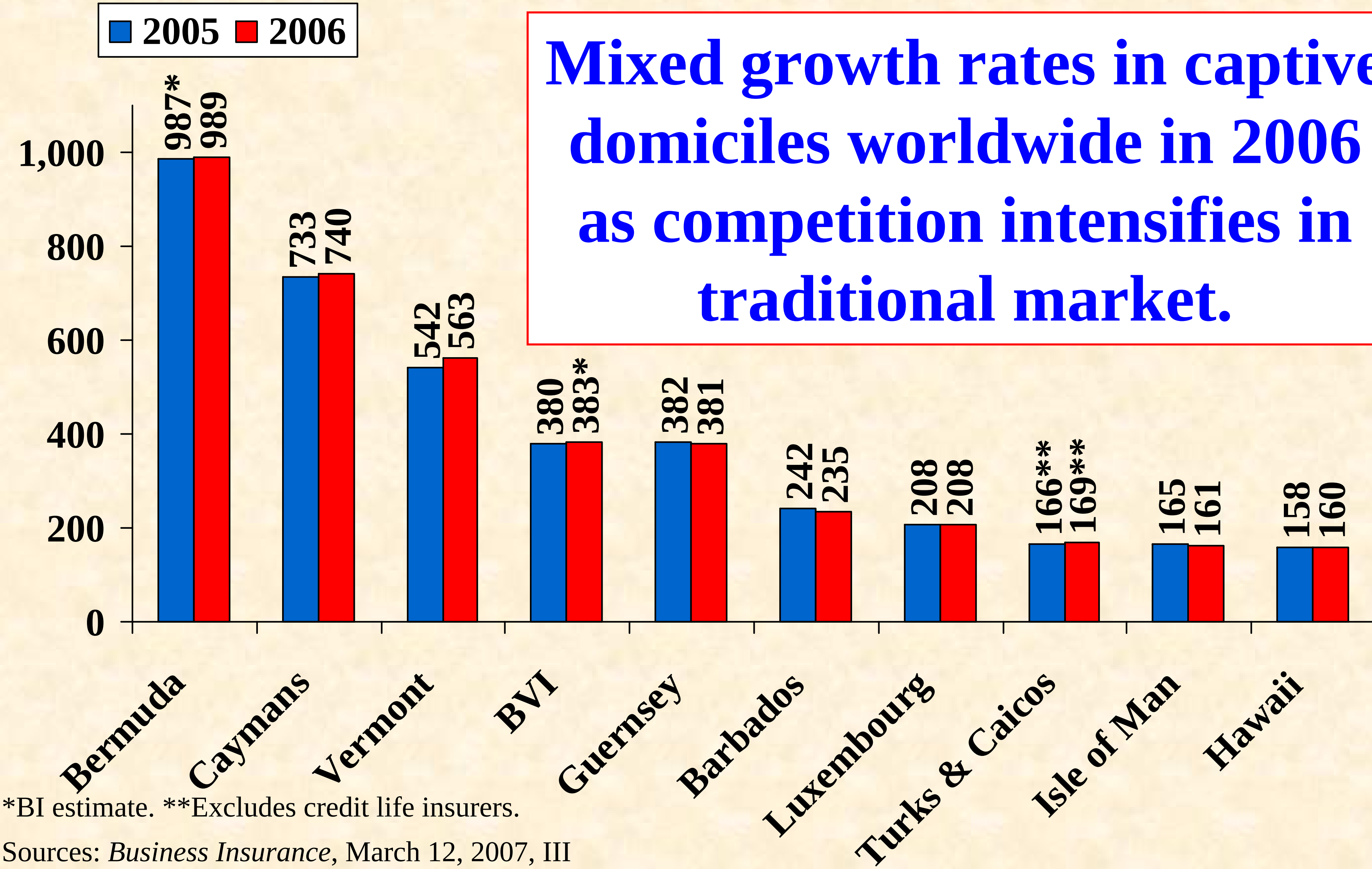


***2006 Projected**

Source: Risk Retention Reporter, Insurance Info. Institute

Leading Captive Domiciles Worldwide, 2005 vs. 2006

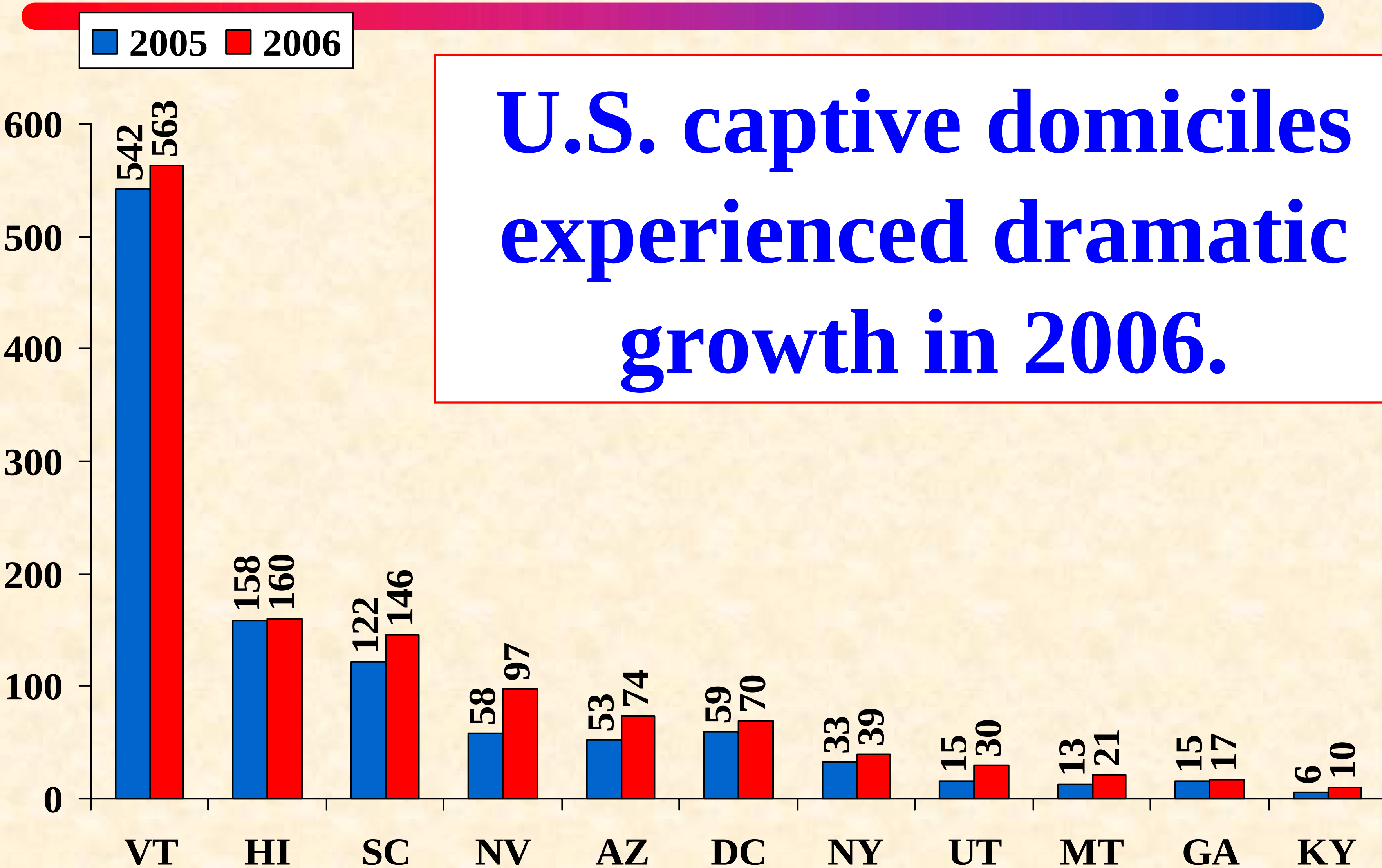
Mixed growth rates in captive domiciles worldwide in 2006 as competition intensifies in traditional market.



*BI estimate. **Excludes credit life insurers.

Sources: *Business Insurance*, March 12, 2007, III

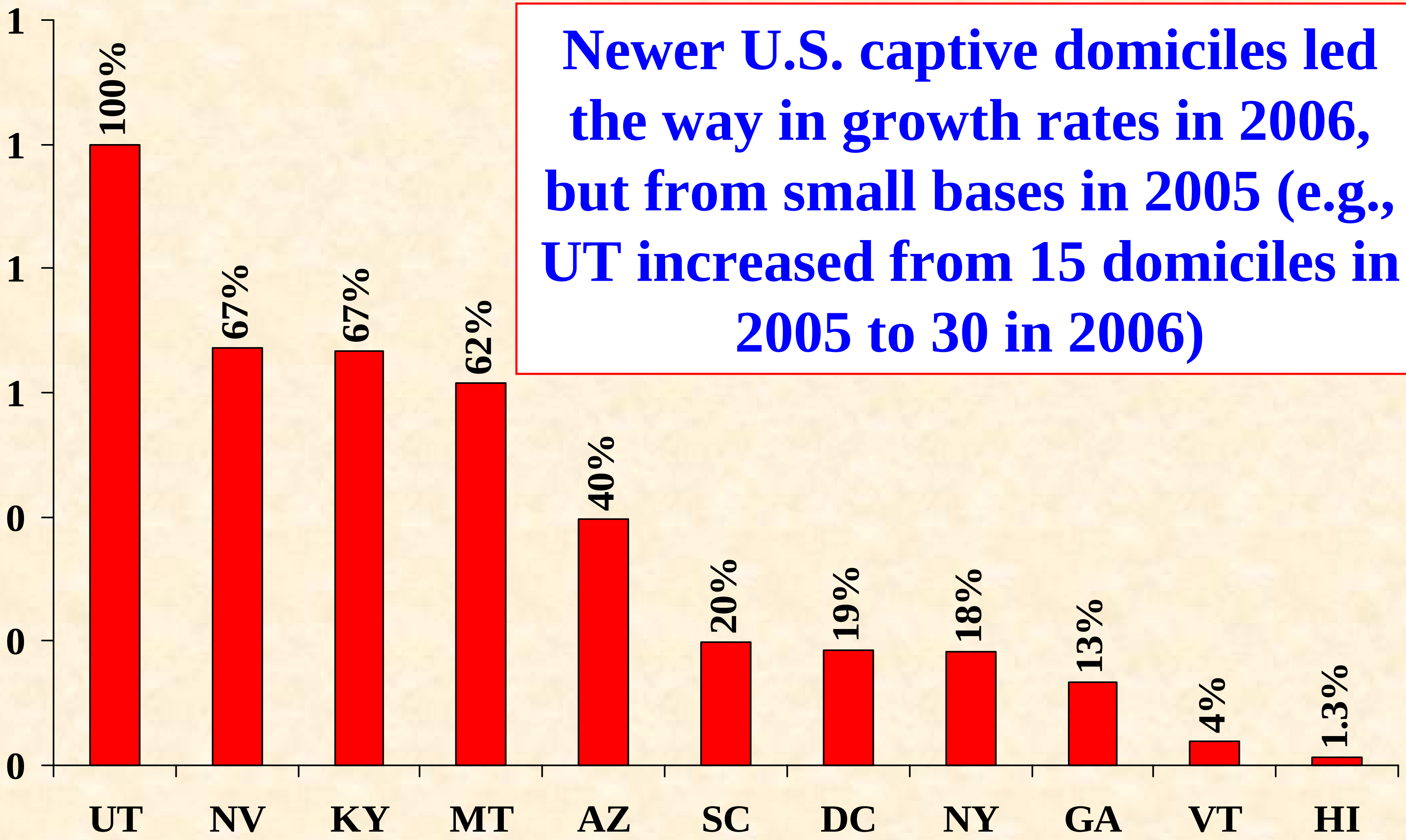
Leading US Captive Domiciles, 2005 vs. 2006



U.S. captive domiciles experienced dramatic growth in 2006.

Sources: *Business Insurance*, March 12, 2007; III

Fastest Growing US Captive Domiciles, 2006 over 2005



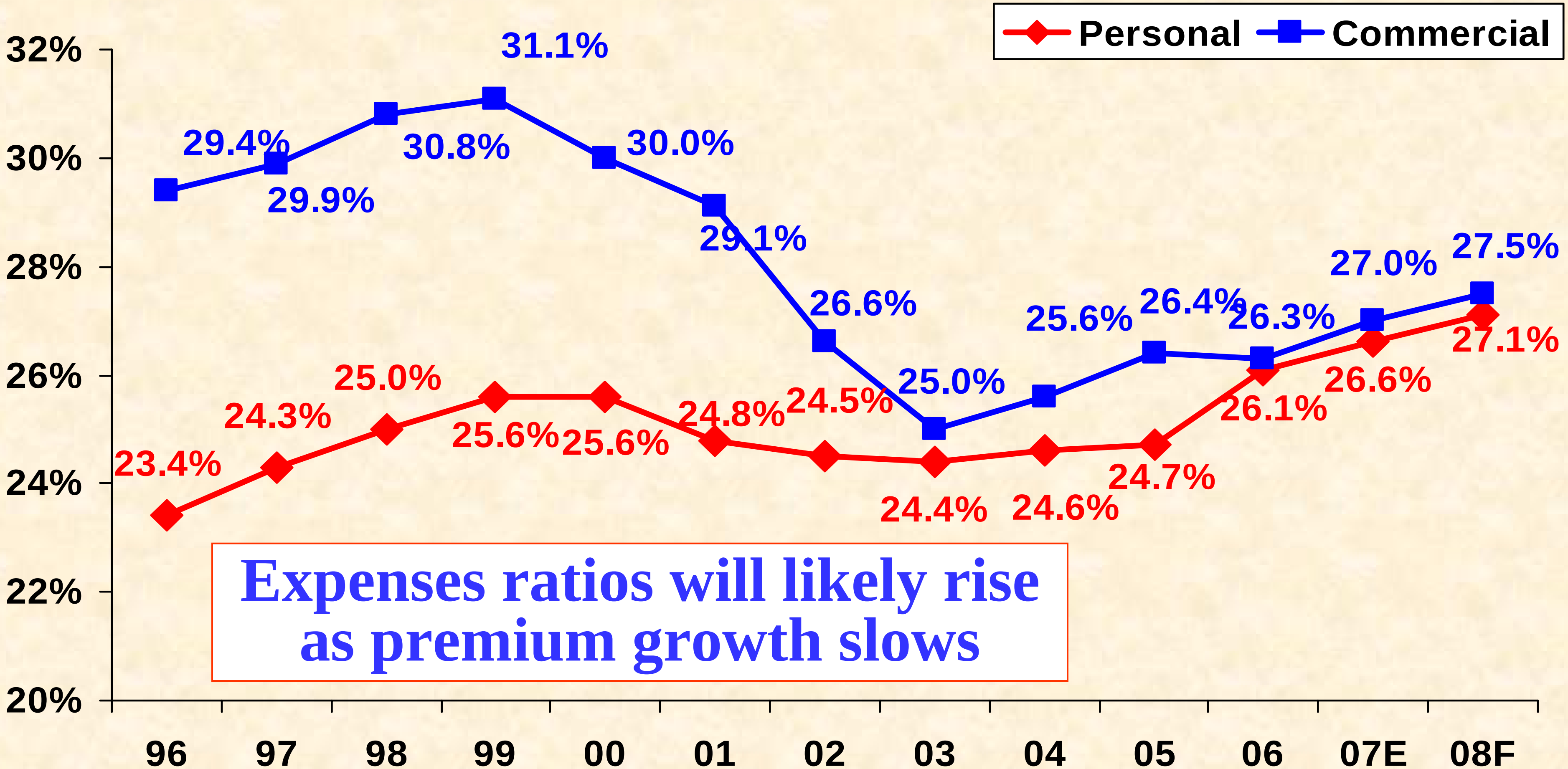
Newer U.S. captive domiciles led the way in growth rates in 2006, but from small bases in 2005 (e.g., UT increased from 15 domiciles in 2005 to 30 in 2006)

Sources: *Business Insurance*, March 12, 2007; III

RISING EXPENSES

Expense Ratios Rise as Premium Growth Slows: A Cyclical Phenomenon

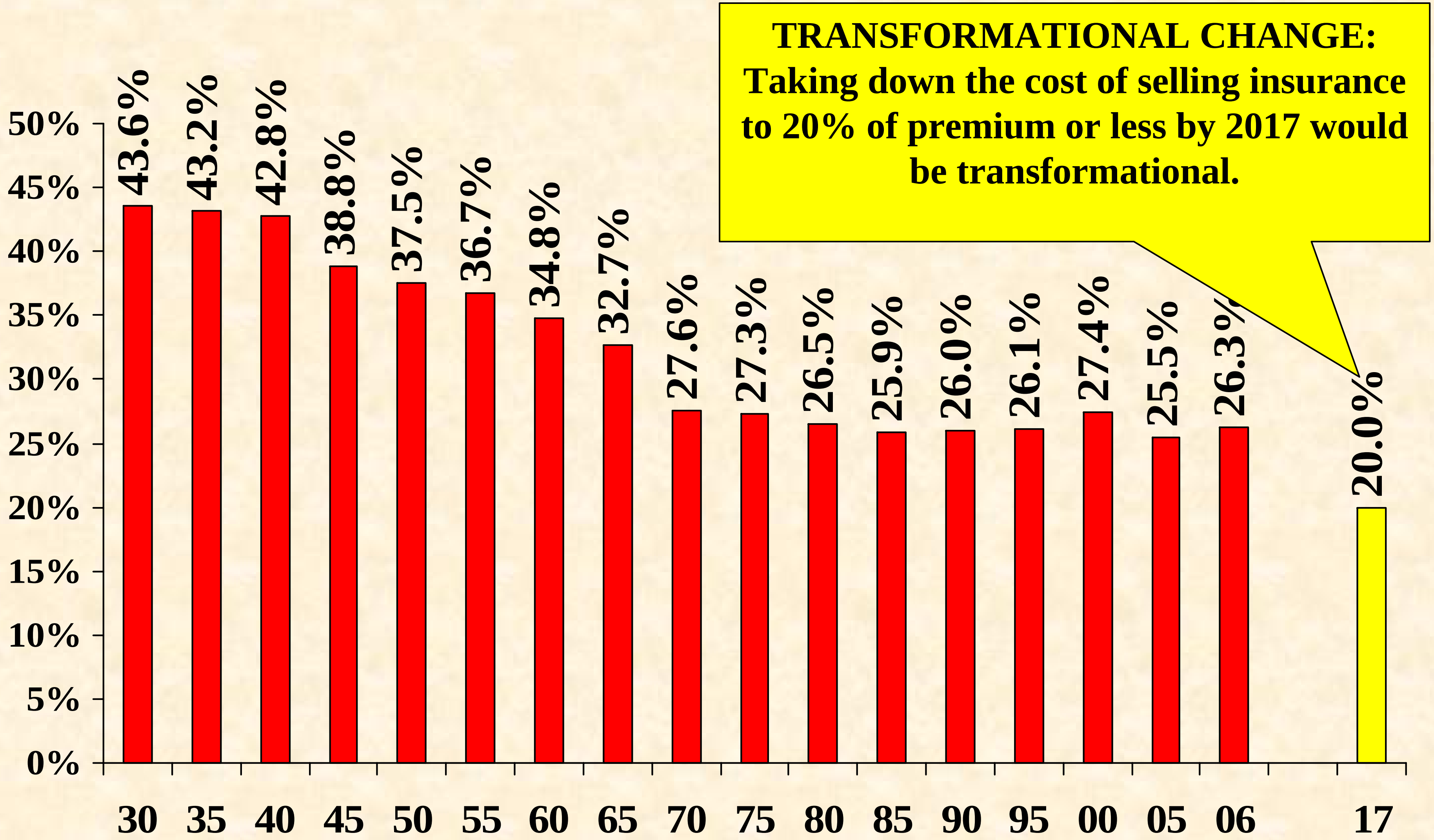
Personal vs. Commercial Lines Underwriting Expense Ratio*



*Ratio of expenses incurred to net premiums written.

Source: A.M. Best; Insurance Information Institute

Underwriting Expense Ratio, P/C Insurance, 1930-2006

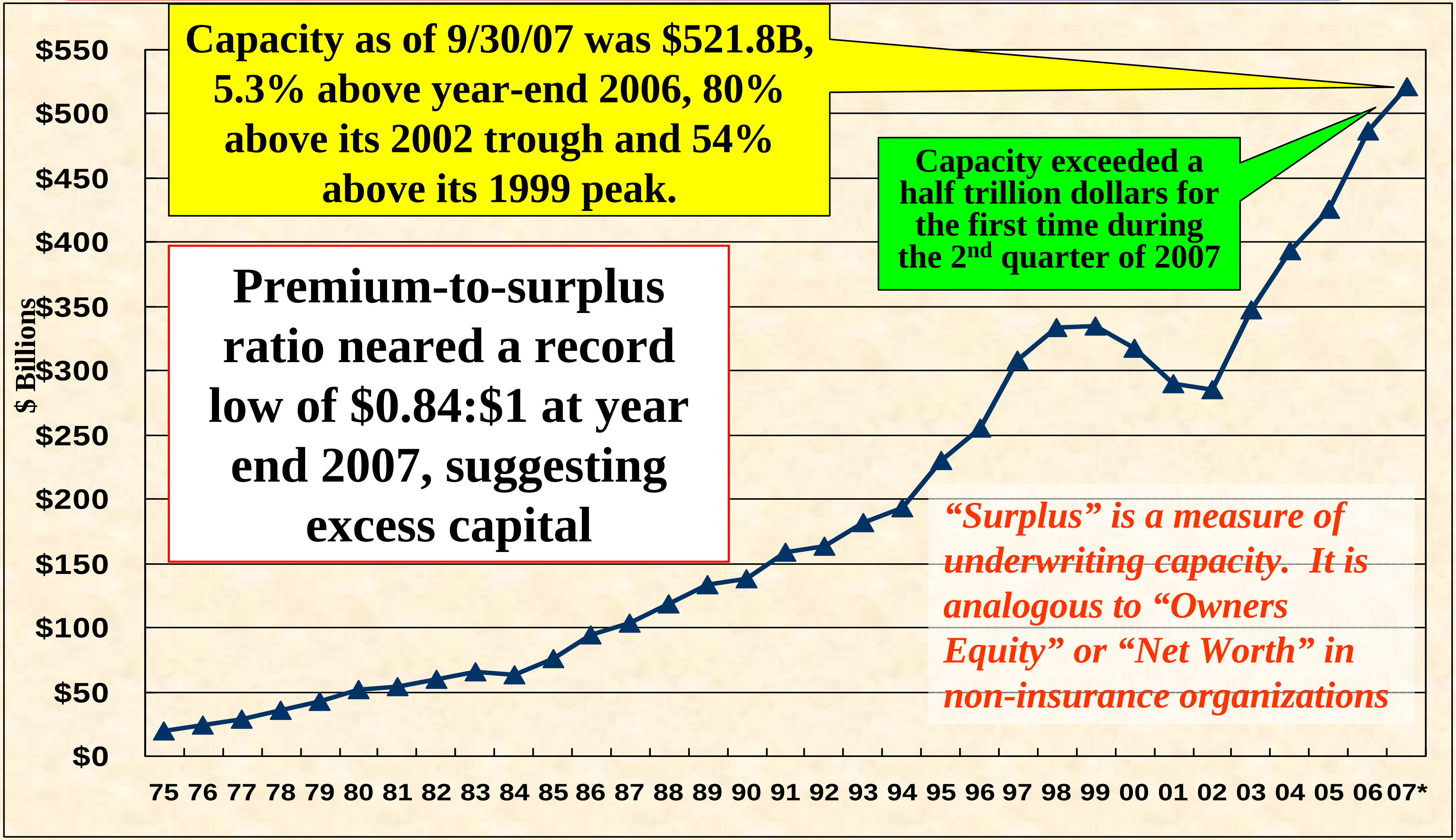


Source: A.M. Best; Insurance Information Institute.

CAPACITY/ SURPLUS

Accumulation of Capital/ Surplus Depresses ROEs

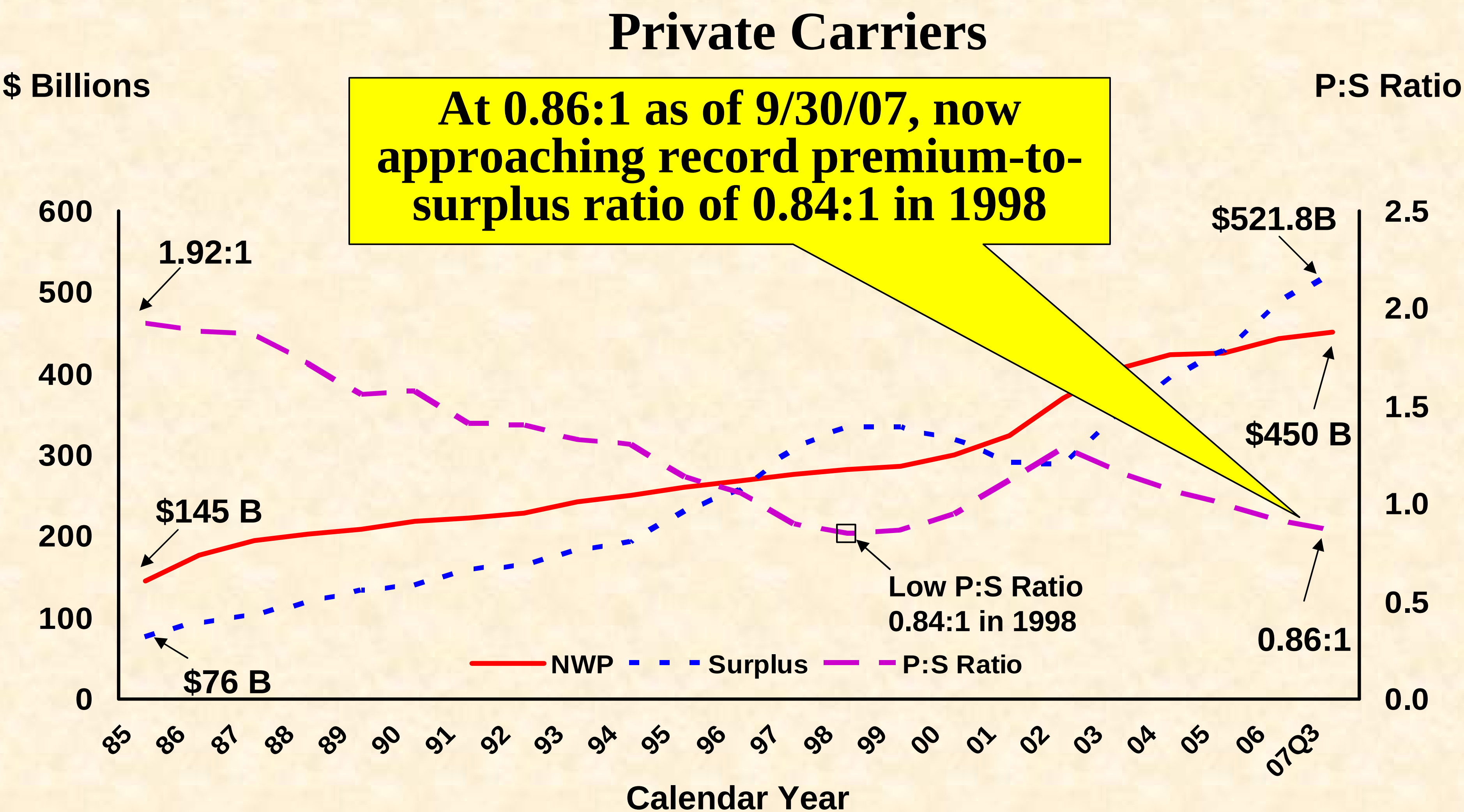
U.S. Policyholder Surplus: 1975-2007*



Source: A.M. Best, ISO, Insurance Information Institute.

*As of September 30, 2007

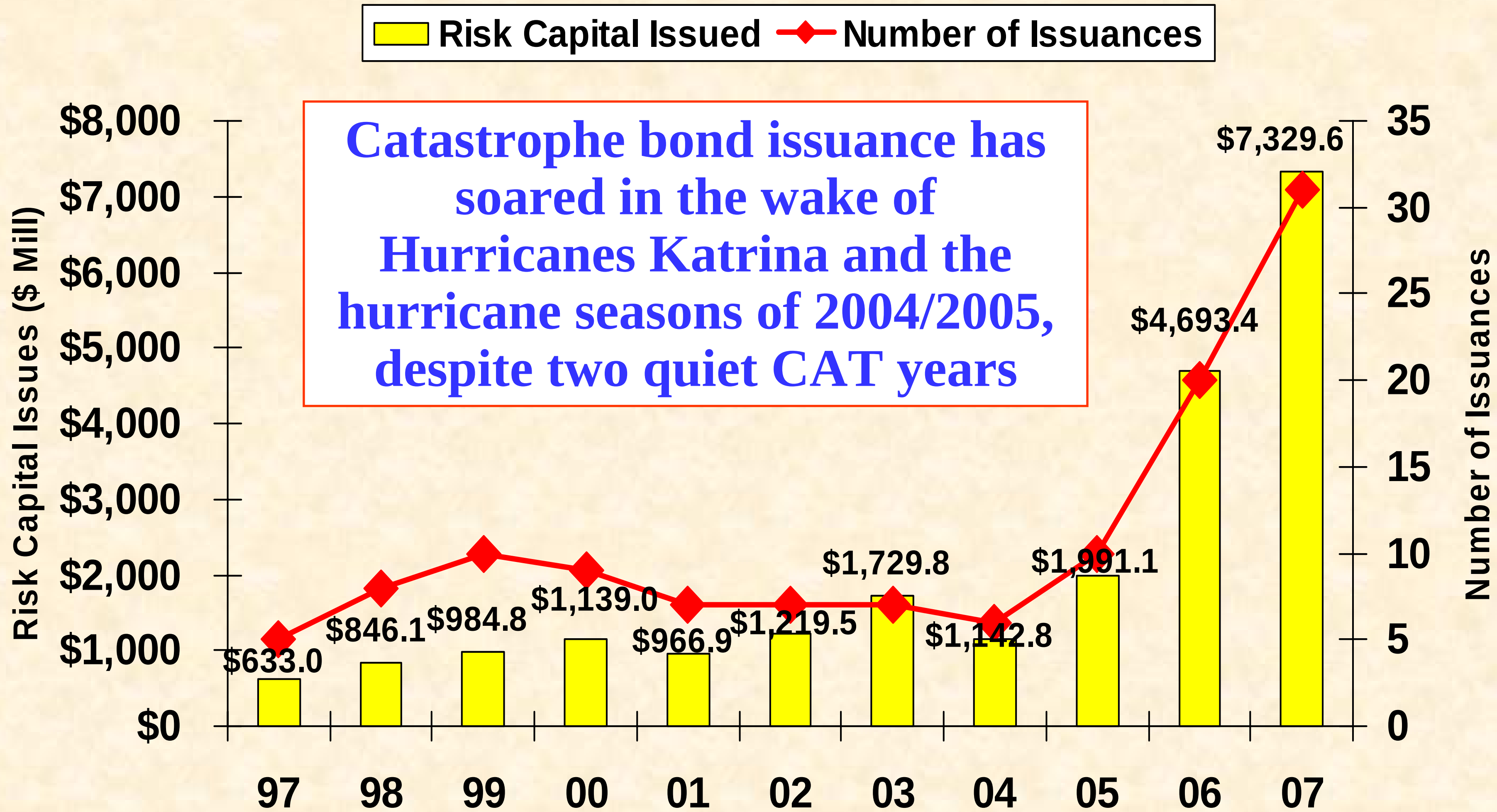
P/C Industry Premium-to-Surplus Ratio, 1985-2007:Q3



Q3 = First 3 quarters as of 9/30/07

Source: Insurance Information Institute; 1985–2006, A.M. Best Aggregates & Averages;; 2007 ISO

Annual Catastrophe Bond Transactions Volume, 1997-2007



Source: MMC Securities Guy Carpenter, A.M. Best; Insurance Information Institute.

P/C Insurer Share Repurchases, 1987- Through Q3 2007 ($ Millions)

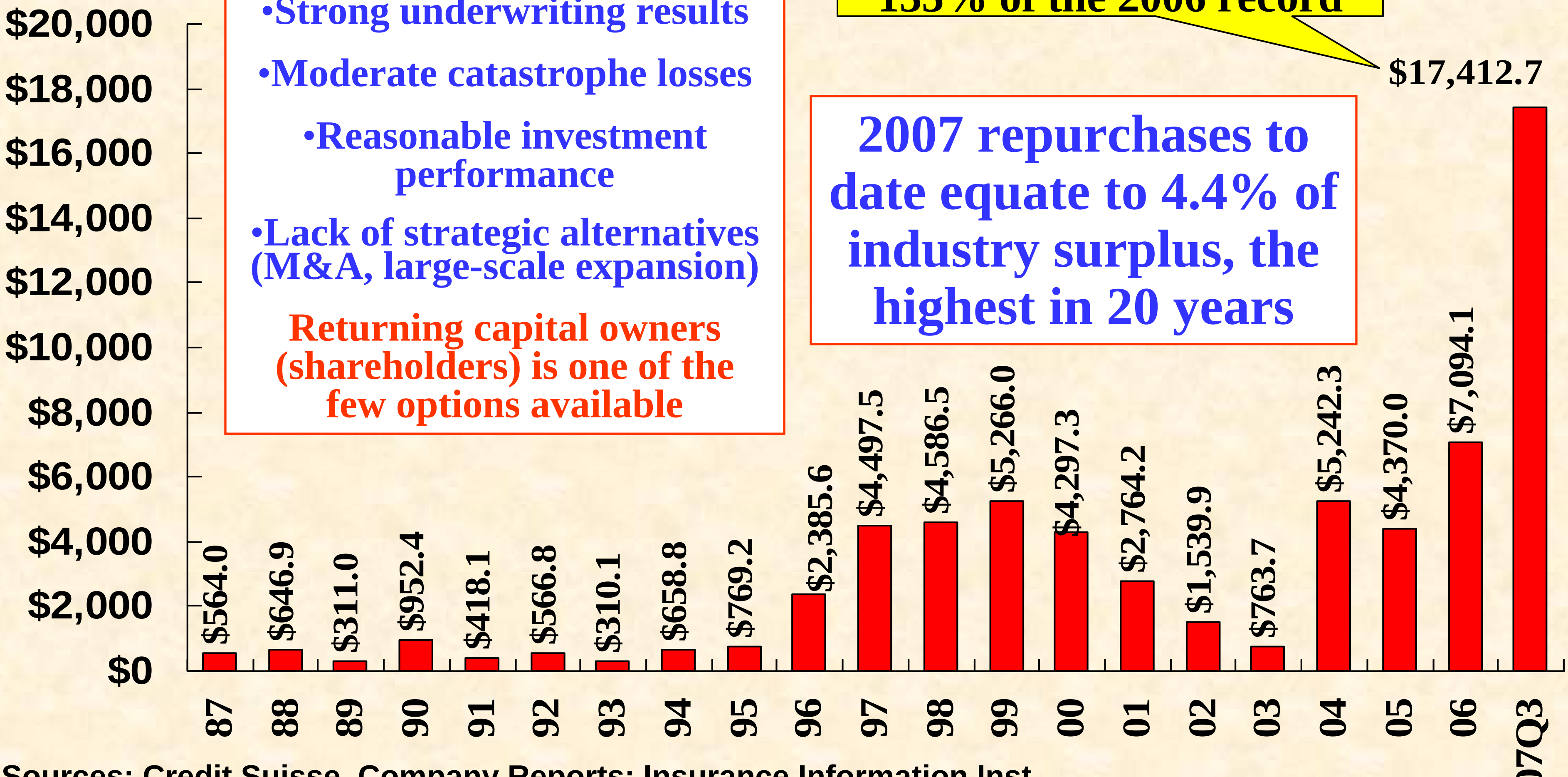
<u>Reasons Behind Capital Build-Up & Repurchase Surge</u>

- Strong underwriting results
- Moderate catastrophe losses
- Reasonable investment performance
- Lack of strategic alternatives (M&A, large-scale expansion)

Returning capital owners (shareholders) is one of the few options available

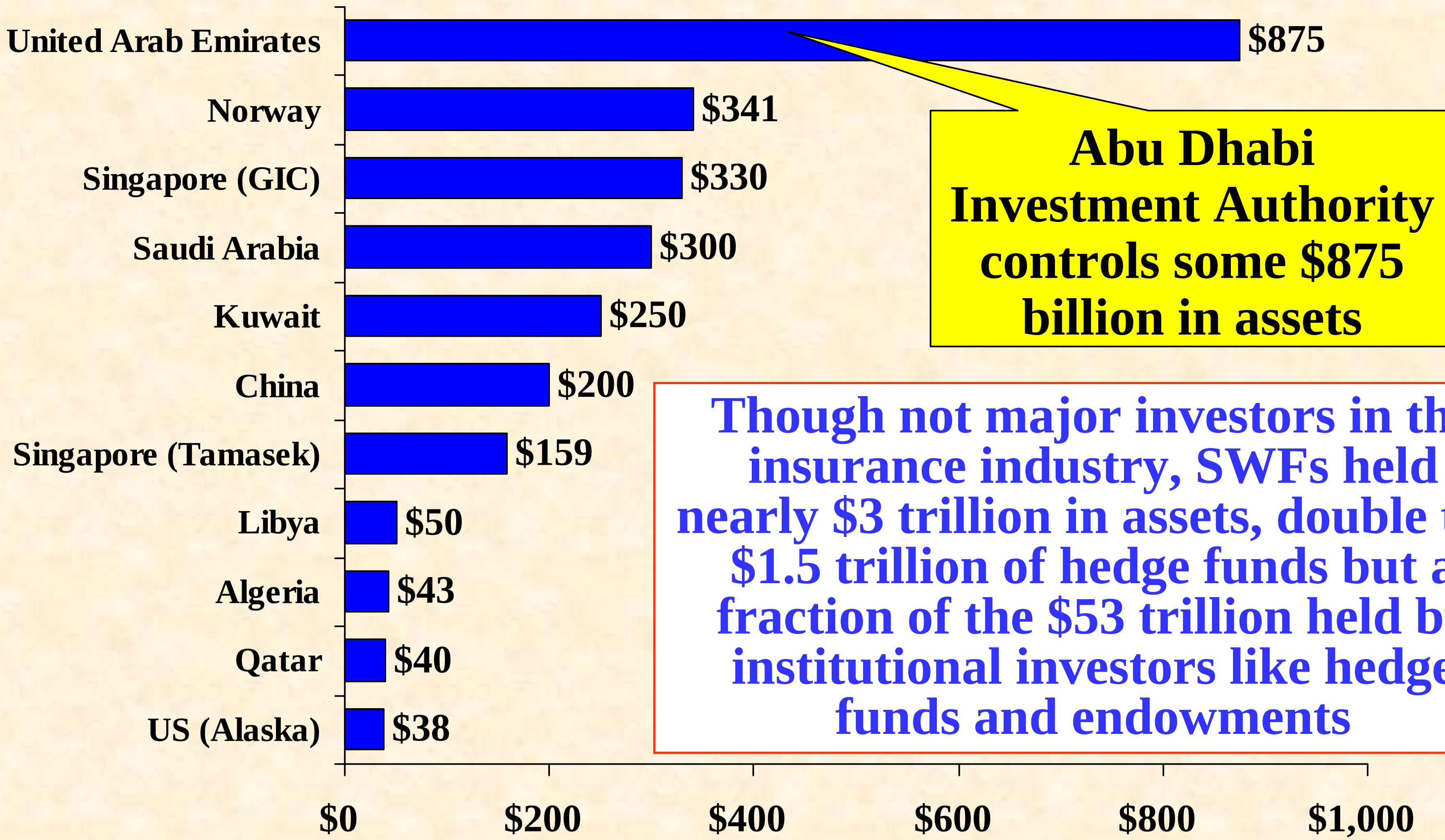
First 9-months 2007 share buybacks are already 133% of the 2006 record

2007 repurchases to date equate to 4.4% of industry surplus, the highest in 20 years



Sources: Credit Suisse, Company Reports; Insurance Information Inst.

Largest Sovereign Wealth Funds
($ Billions, as of September 2007)



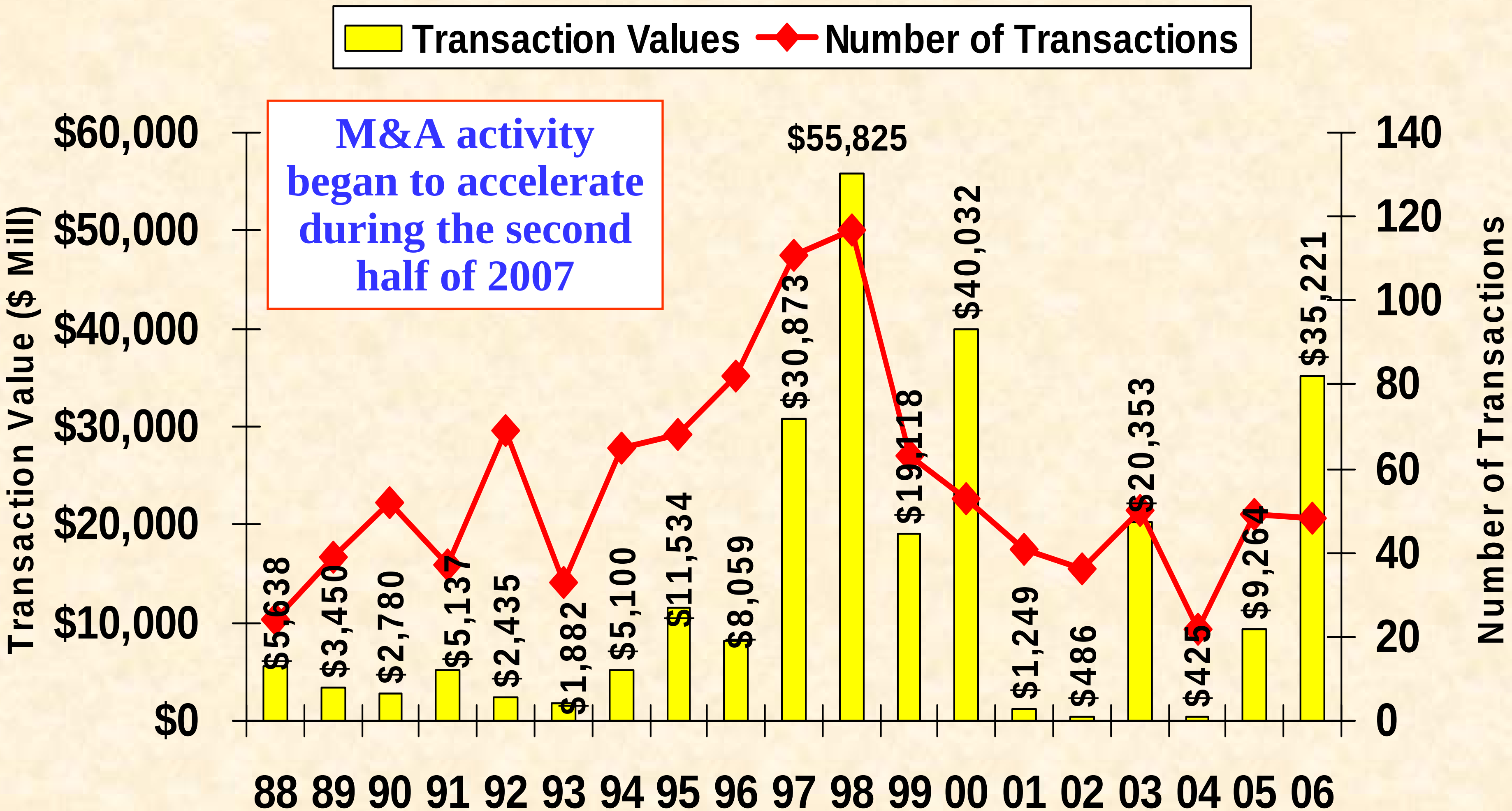
Though not major investors in the insurance industry, SWFs held nearly $3 trillion in assets, double the $1.5 trillion of hedge funds but a fraction of the $53 trillion held by institutional investors like hedge funds and endowments

Source: Morgan Stanley; Council of Foreign Relations http://www.cfr.org/publication/15251/#2; **Insurance Information Institute**

MERGER & ACQUISITION

Are Catalysts for P/C Consolidation Growing in 2008?

P/C Insurance-Related M&A Activity, 1988-2006



Source: Conning Research & Consulting.

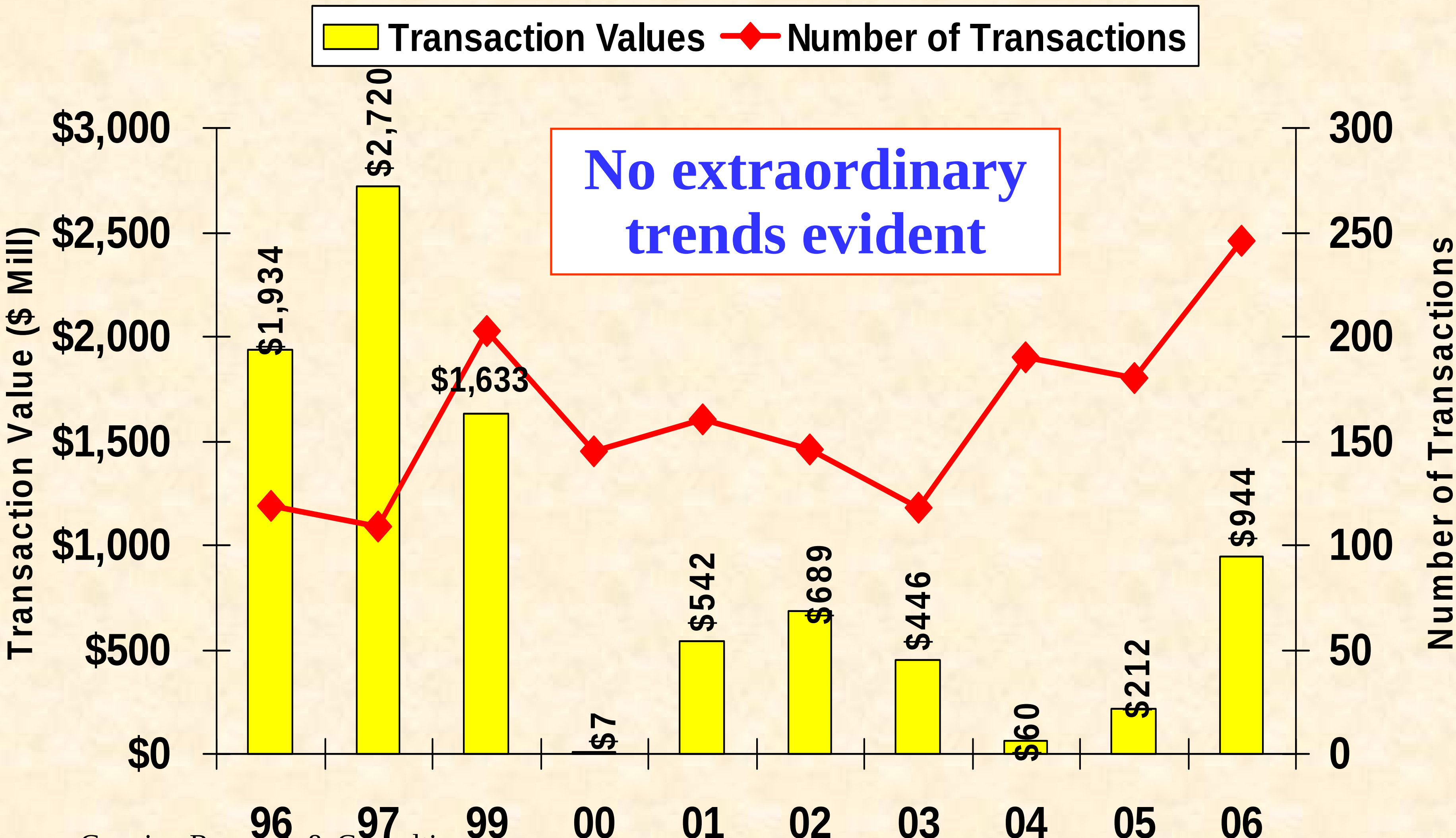
Motivating Factors for Increased P/C Insurer Consolidation

Motivating Factors for P/C M&As

- Slow Growth: Growth is at its lowest levels since the late 1990s
  - NWP growth was 0% in 2007; Appears similarly flat in 2008
  - Prices are falling or flat in most non-coastal markets
- Accumulation of Capital: Excess capital depresses ROEs
  - Policyholder Surplus up 6-7%% in 2007 and up 80% since 2002
  - Insurers hard pressed to maintain earnings momentum
  - Options: Share Buybacks, Boost Dividends, Invest in Operation, Acquire
  - Option B: Engage in destructive price war and destroy capital
- Reserve Adequacy: No longer a drag on earnings
  - Favorable development in recent years offsets pre-2002 adverse develop.
- Favorable Fundamentals/Drop-Off in CAT Activity
  - Underlying claims inflation (frequency and severity trends) are benign
  - Lower CAT activity took some pressure of capital base

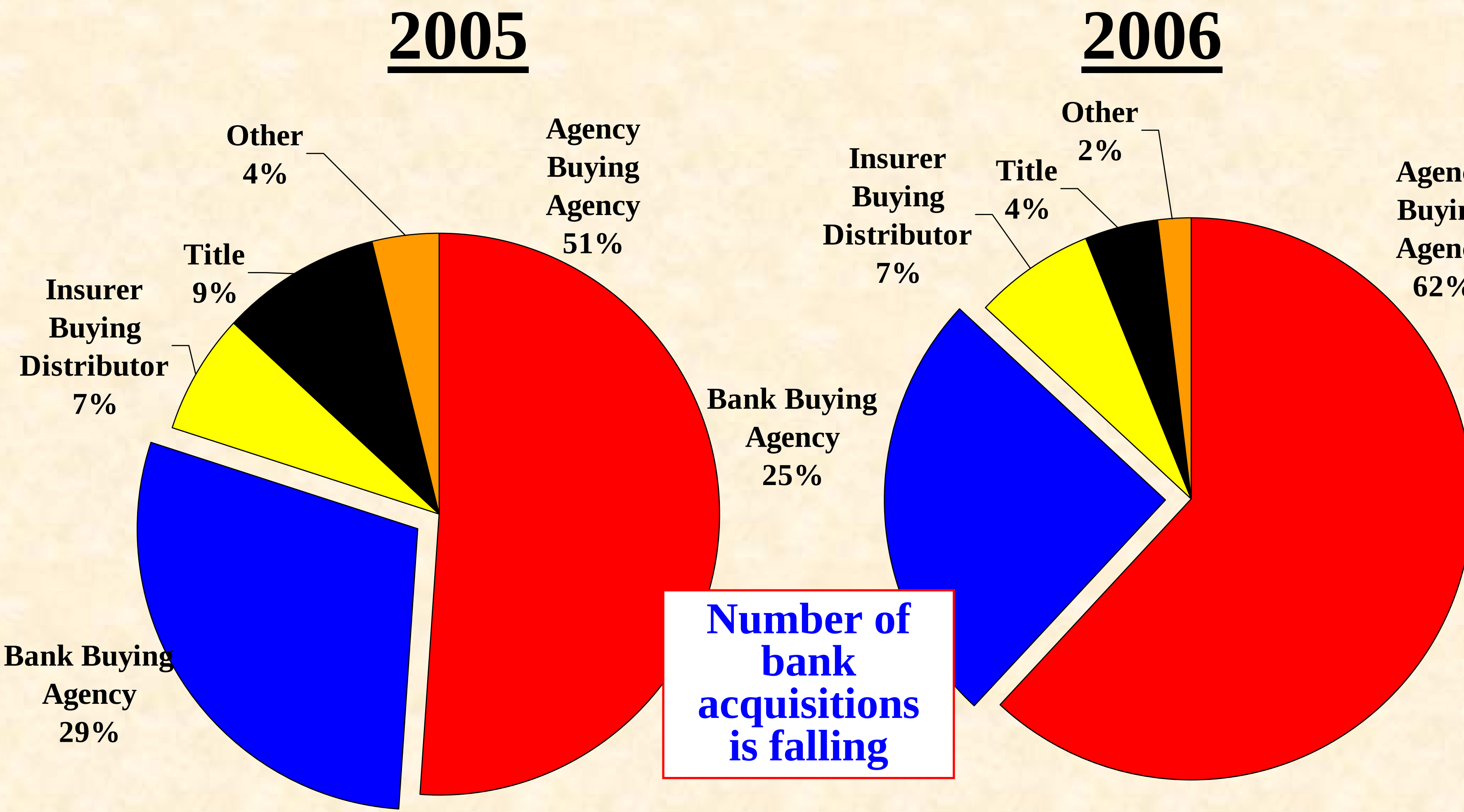
Source: Insurance Information Institute.

Distribution Sector: Insurance-Related M&A Activity, 1988-2006



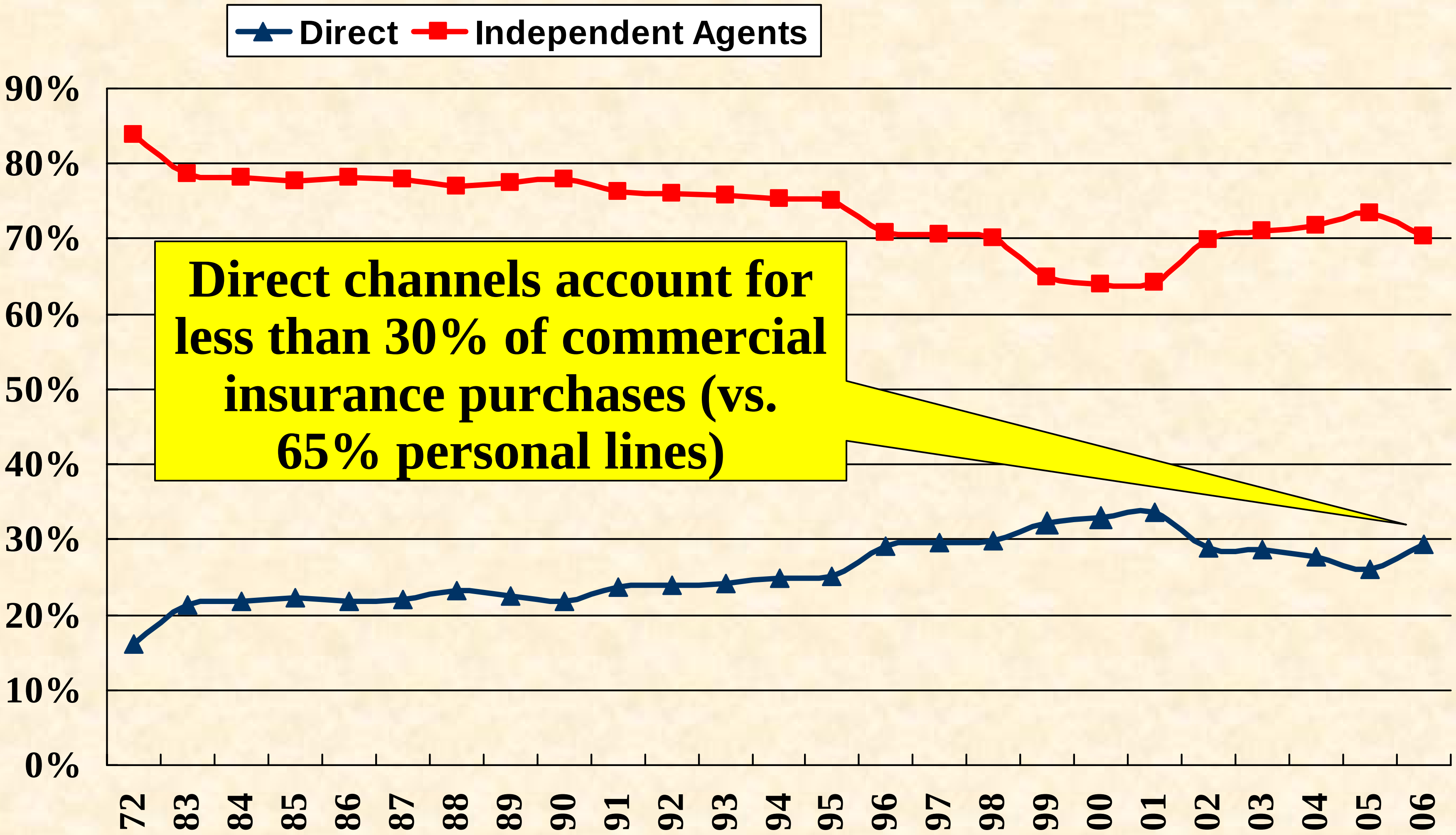
Source: Conning Research & Consulting.

Distribution Sector M&A Activity, 2005 vs. 2006



Source: Conning Research & Consulting

Commercial P/C Distribution Channels, Direct vs. Independent Agents

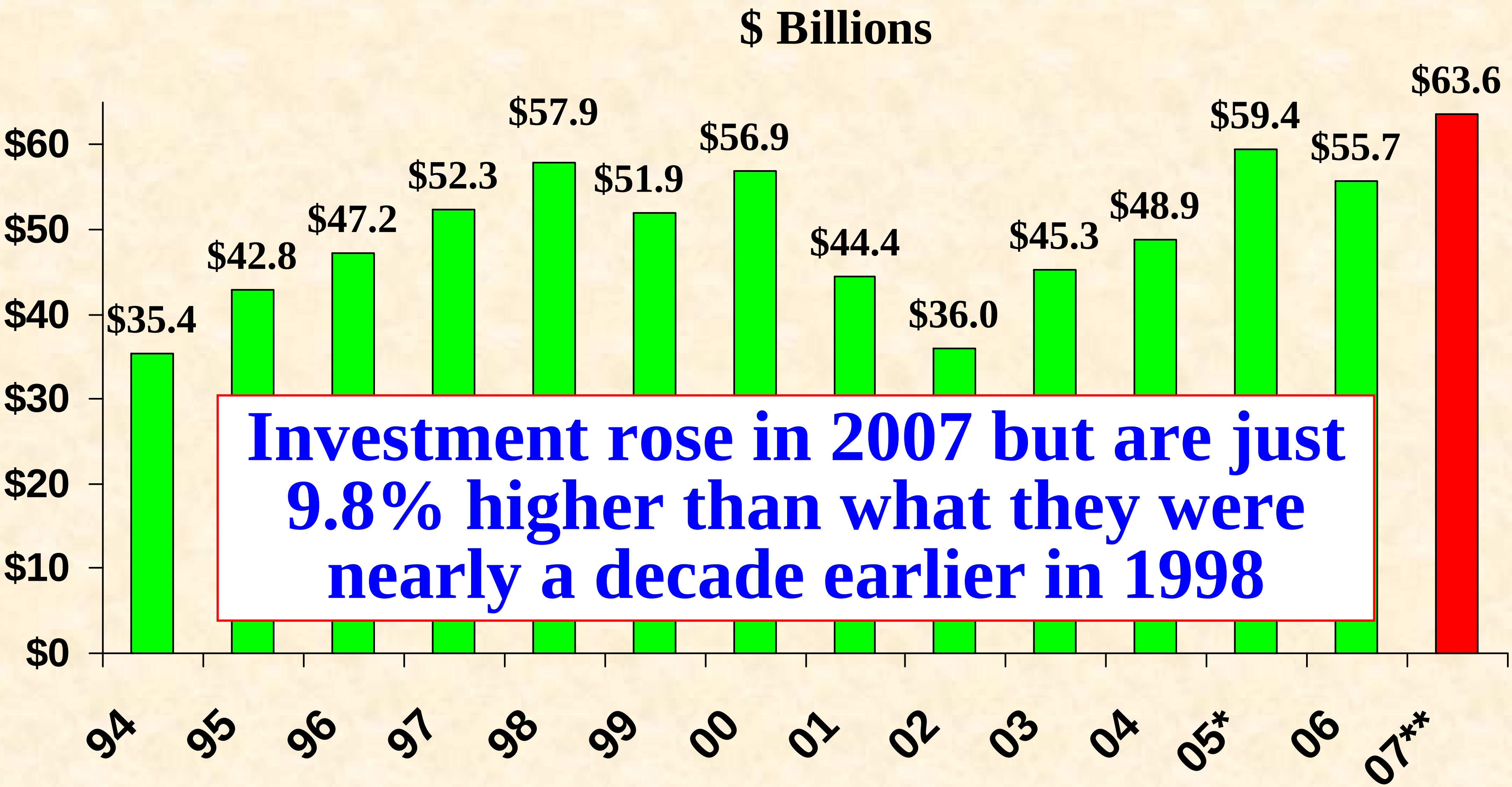


Source: Insurance Information Institute; based on data from Conning and A.M. Best.

INVESTMENT OVERVIEW

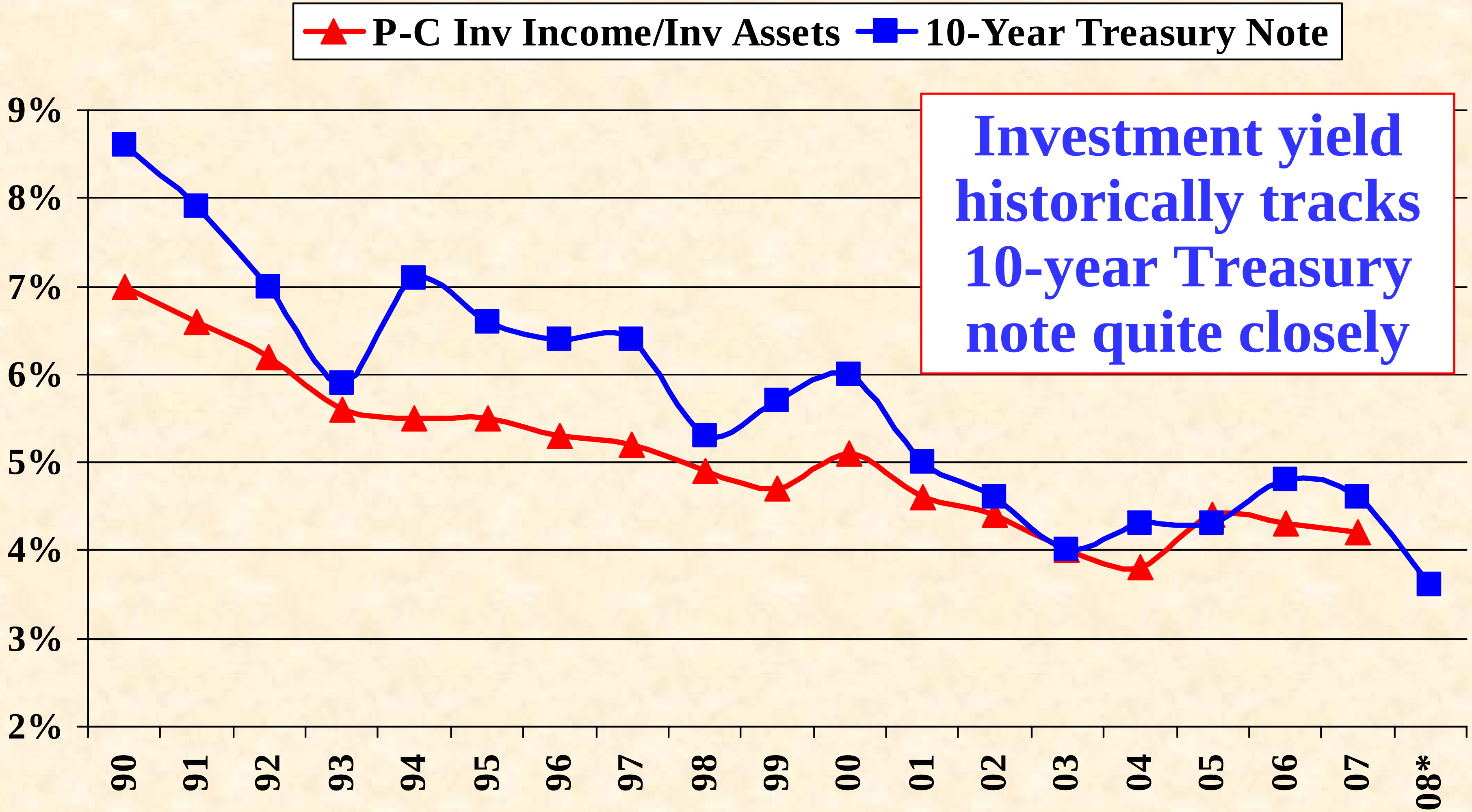
More Pain, Little Gain

Property/Casualty Insurance Industry Investment Gain[1]



[1]Investment gains consist primarily of interest, stock dividends and realized capital gains and losses. 2006 figure consists of $52.3B net investment income and $3.4B realized investment gain.
*2005 figure includes special one-time dividend of $3.2B. **Annualized 9-month result of $47.718B.
Sources: ISO; Insurance Information Institute.

P/C Investment Income as a % of Invested Assets Follows 10-Year US T-Note



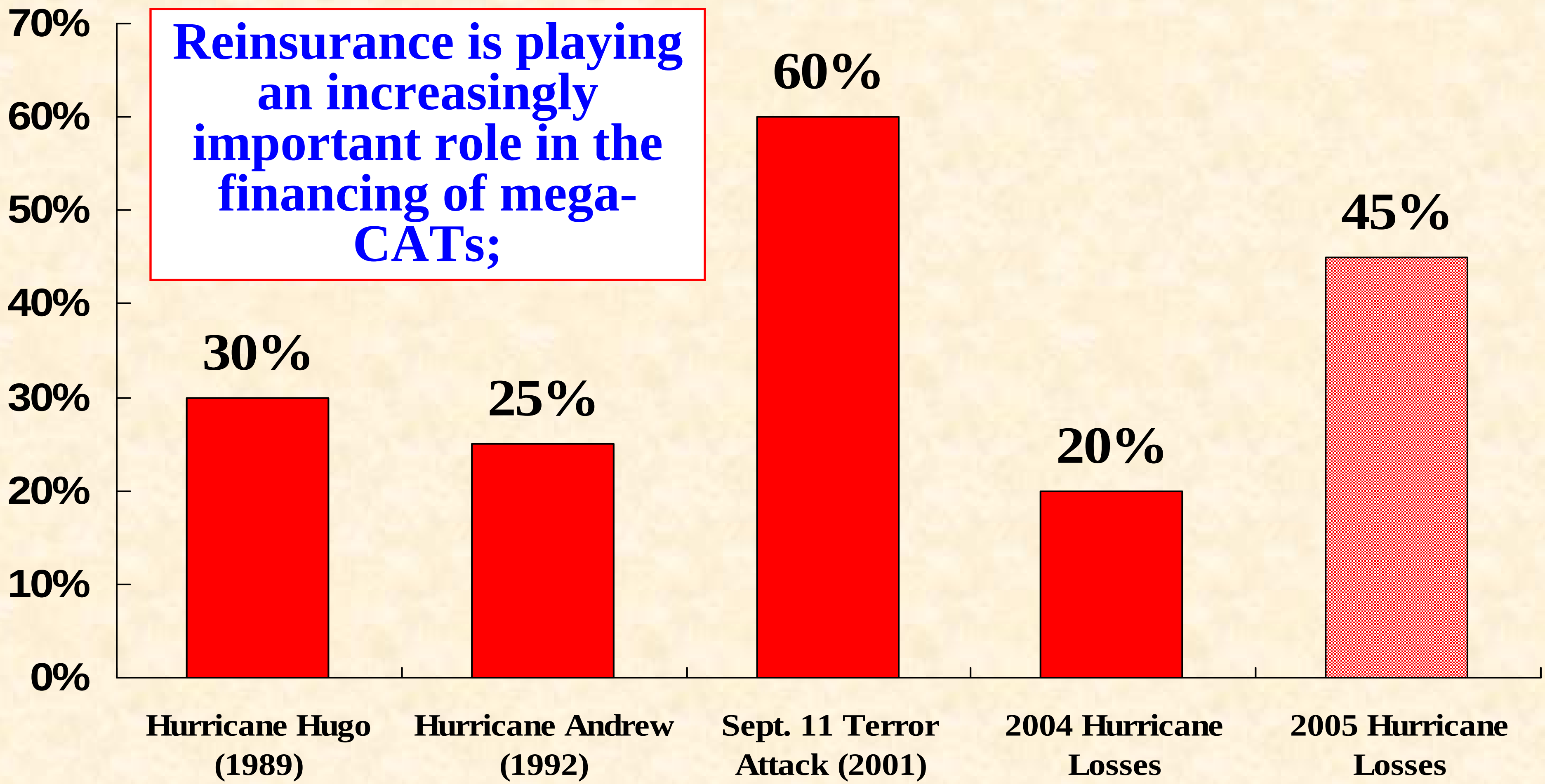
*As of January 2008 month-end.

Sources: Board of Governors, Federal Reserve System; A.M.Best; Insurance Information Institute.

REINSURANCE MARKETS

Reinsurance Prices are Stabilizing; Falling in Some Areas

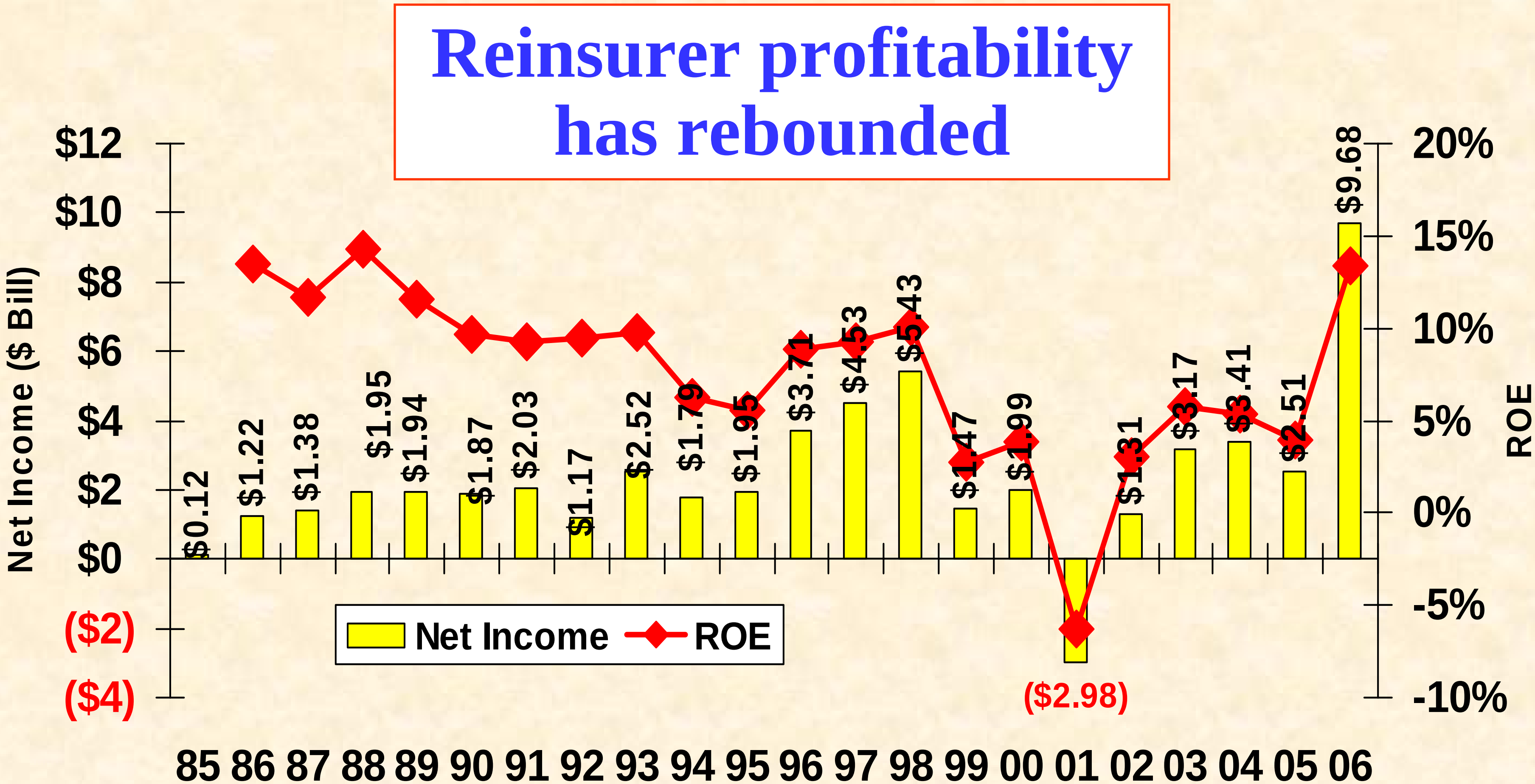
Share of Losses Paid by Reinsurers, by Disaster*



*Excludes losses paid by the Florida Hurricane Catastrophe Fund, a FL-only windstorm reinsurer, which was established in 1994 *after* Hurricane Andrew. FHCF payments to insurers are estimated at $3.85 billion for 2004 and $4.5 billion for 2005.

Sources: Wharton Risk Center, Disaster Insurance Project; Insurance Information Institute.

US Reinsurer Net Income & ROE, 1985-2006



Source: Reinsurance Association of America.

Summary of Risks to Reinsurers: Economic

Risk	Impacts on Reinsurers
General Economic Slowdown/Recession	•Reduced exposure growth for primary insurers negatively impacts reinsurer premium growth
Subprime Meltdown/ Credit Crunch	•*Some* insurers have *some* asset risk •D&O/E&O/Financial Guarantee exposure for *some* (re)insurers •More difficult to raise capital if needed •Post-crash: new regulations, acctg. Rules
Falling Interest Rates/ Stock Market Slump	•Lower investment income •Deteriorating loss performance on neglected, abandoned and foreclosed properties
Currency Risks	•Weak dollar→ repatriation of profits less attractive
Inflation	•Rate inadequacy occurs more rapidly •Reserve deficiencies emerge •Burn-through of retentions faster
Tax Policy	•Potential crackdown on tax havens and certain tax treatments globally

Summary of Risks to Reinsurers: Competitive Risks

Risk	Impacts on Reinsurers
Soft Markets→ Loss of Pricing & Underwriting Discipline	•Highly competitive reinsurance market, excess capacity could lead to unfavorable reinsurance environment as: •Pricing weakens •Reserve adequacy deteriorates •Terms & conditions broaden •Multi-year deals become more common
Disintermediation	•Increasing securitization of CAT, casualty & mortality risk •Higher retentions (attachment points) •More government-run reinsurers
Consolidation	•Could face larger, better capitalized competitors with global scale and scope •Reinsurance broker concentration rising
Ease of Entry	•Barriers to entry into reinsurance business are low and getting lower •Large number of alternative sources of capital •Class of 20XX will compete against you someday

Sources: Insurance Information Institute.

Summary of Risks to Reinsurers: Property Risks

Risk	Rationale
Escalation of Insured Losses Due to Major Natural CATs	•Long-term trend is clearly toward larger scale CAT losses •Demand surge •Accuracy of CAT models; Forecast horizons? •Litigation challenging contract language
Mega Man-Made Disasters	•Multi-billion dollar marine hull & cargo losses now possible •Aviation hull PML up (e.g., A380) •Mega-scale energy sector losses possible •Potential simultaneous casualty exposure
Terrorism	•Despite TRIA (and other programs abroad) costs could still be high
Emerging Markets	•Large CAT losses outside US will be more common; Risks not well understood

Sources: Insurance Information Institute.

Summary of Risks to Reinsurers: Casualty Risks

Risk	Rationale
Credit Crunch/ Subprime Meltdown	•D&O/E&O exposure
Products Liability/ Incl. Food Safety	•Large number of high profile issues •US beefing up enforcement, fines •More opportunities for trial lawyers
Climate Change	•Supreme Court ruled EPA can regulate CO2 emissions as a pollutant; Potentially opens door to much future litigation •Alternative fuels, sequestration liability
Employment Practices Liability	•EPL cover more common for even smaller risks. Reinsurers have accommodated •Economic downturn will increase litigation
Nanotechnology	•Long-term risks associated with use of nanotech products is unknown

Summary of Risks to Reinsurers: Casualty Risks (cont'd)

Risk	Rationale
Pharmaceuticals	•Remains major trial lawyer target despite tort reforms •Shift from chemistry-based to gene-based therapies could shift liability environment
Environmental	•"Greening" of US, Europe and even China may lead to more stringent environmental regulations and harsher penalties •More opportunities to sue created
Latent Disease in Occupational Settings	•Evidence associating certain degenerative neurological disorders (e.g., Parkinson's) with occupation, but manifesting years later •Lung ailments also an issue
Erosion of Tort Reforms	•New tort reforms less likely under current Congress •Erosion of recent reforms inevitable •Export of US tort experience abroad

Sources: Insurance Information Institute.

Summary

- **Economy will provide muted bumps for insurers**
- **Results were excellent in 2006/07; Overall profitability reached its highest level (est. 13-14%) since 1988**
  - **Strong 2007 but ROEs slipping; Momentum for 2008**
- **Underwriting results were aided by lack of CATs & favorable underlying loss trends, including tort system improvements**
- **Property cat reinsurance markets past peak & more competitive**
- **Premium growth rates are slowing to their levels since WW II; Commercial leads decreases.**
- **Rising investment returns insufficient to support deep soft market in terms of price, terms & conditions as in 1990s**
- **How/where to deploy/redeploy capital??**
- **Major Challenges:**
  - **Slow Growth Environment Ahead; Cyclical & Economic**
  - **Maintaining price/underwriting discipline**
  - **Managing variability/volatility of results**
  - **Managing regulatory/legislative activism**

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