

Liability Trends, Issues and Jury Verdicts: *Liability & Excess Casualty Markets in the Post-Katrina World*



Insurance Information Institute

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Presentation Outline

- **P/C Financial Overview & Outlook: Post-Katrina Perspective**
- **Profitability**
- **Underwriting Performance**
- **Mega-CATS: Post-Katrina Casualty Spillover?**
- **TRIA Extension**
- **Investments**
- **Capacity/Capital: New & Old**
- **Pricing Trends**
- **Financial Strength & Ratings**
- **Legal Liability & Tort System**
 - **Overview of Tort System Costs & Jury Awards & Trends**
 - **By-Line Issues**
 - **The High Cost of Litigation & Class Actions**
 - **Excess Casualty Capacity & Pricing**
- **Q & A**



POP QUIZ

- **P/C insurer profits in 2006**
 - a) \$25-\$35 billion
 - b) \$35-\$45 billion
 - c) \$45-\$55 billion
 - d) \$55-\$60+ billion

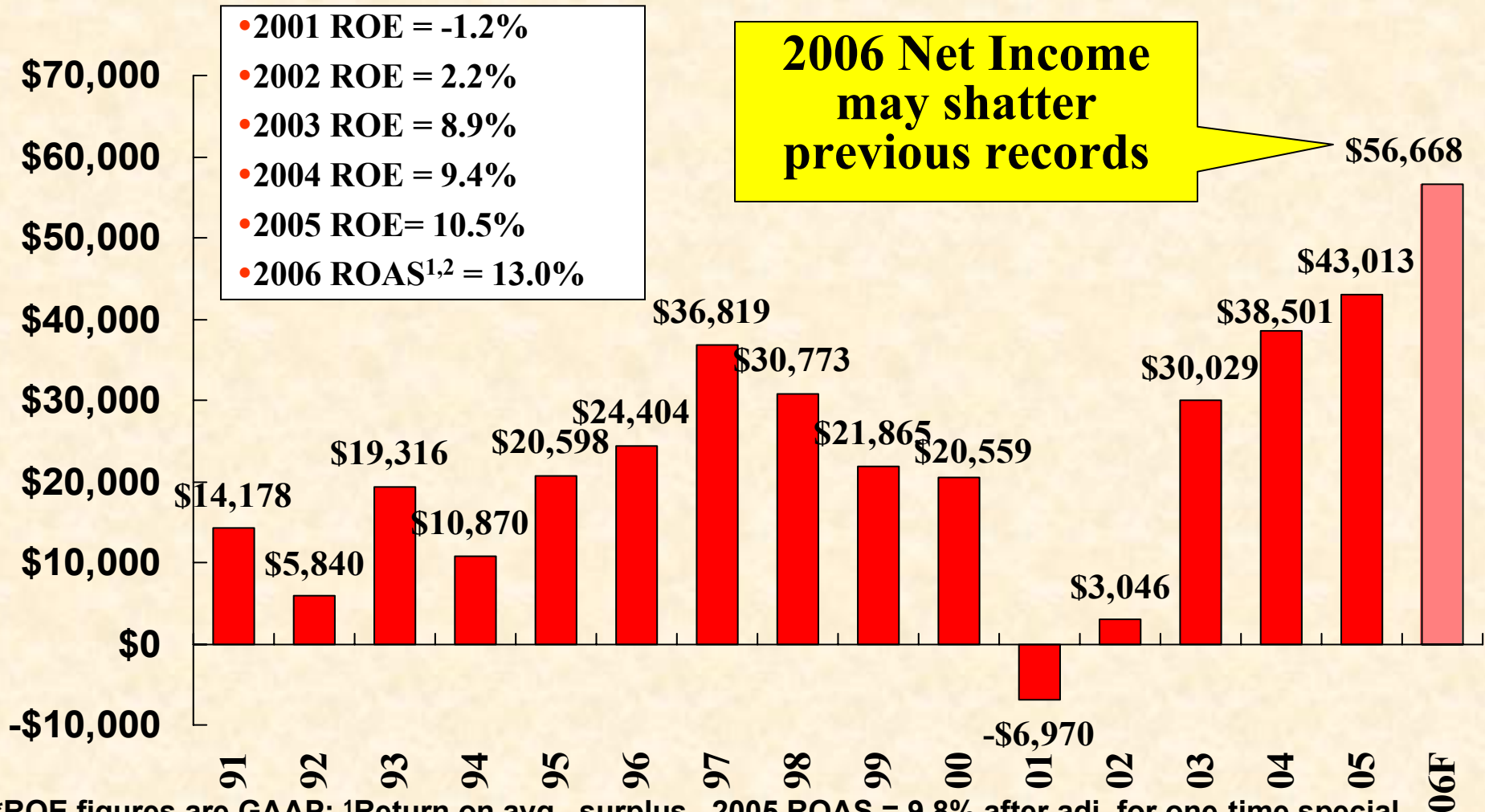
- **Insurers will generate their lowest combined ratio since:**
 - a) Since the Woodrow Wilson was president
 - b) Since Dwight D. Eisenhower was president
 - c) Since Jimmy Carter was president
 - d) Since Ronald Reagan was president

P/C PROFIT OVERVIEW

*Awash in Profits,
Starved for Growth*



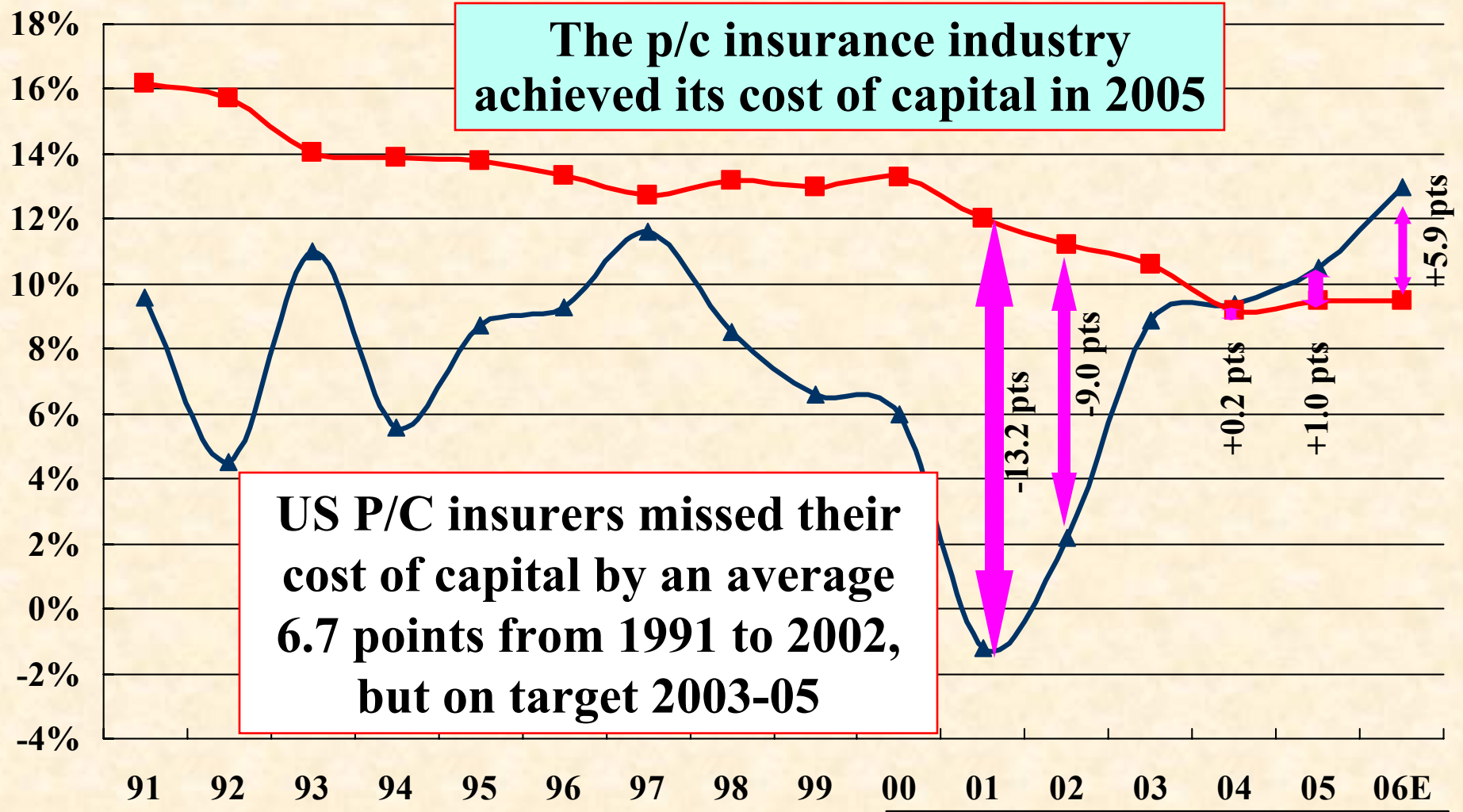
P/C Net Income After Taxes *1991-2006E (\$ Millions)**



*ROE figures are GAAP; ¹Return on avg. surplus. 2005 ROAS = 9.8% after adj. for one-time special dividend paid by the investment subsidiary of one company. ²Based on H1 results; Sources: A.M. Best, ISO, Insurance Information Inst.



ROE vs. Equity Cost of Capital: US P/C Insurance: 1991-2006E



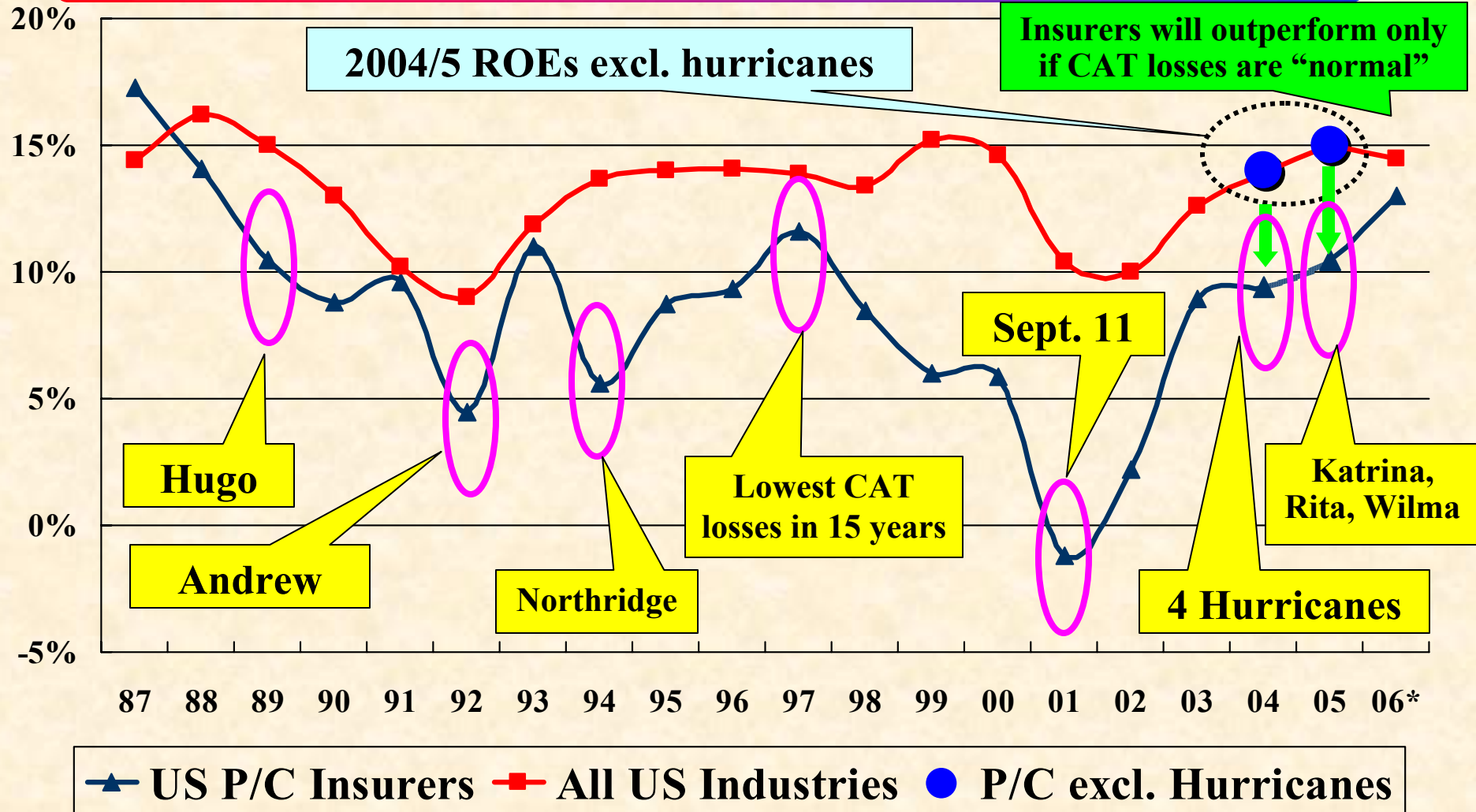
*Based on 2006:H1 ROAS of 13.0%
Source: The Geneva Association, Ins. Information Inst.

—▲— ROE —■— Cost of Capital



ROE: P/C vs. All Industries

1987-2006:H1

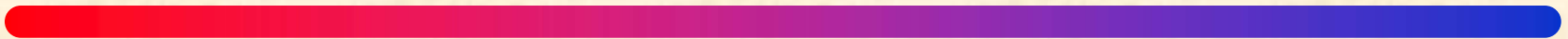


*2006 P/C insurer ROE based on annualized H1 results.

Source: Insurance Information Institute; *Fortune*

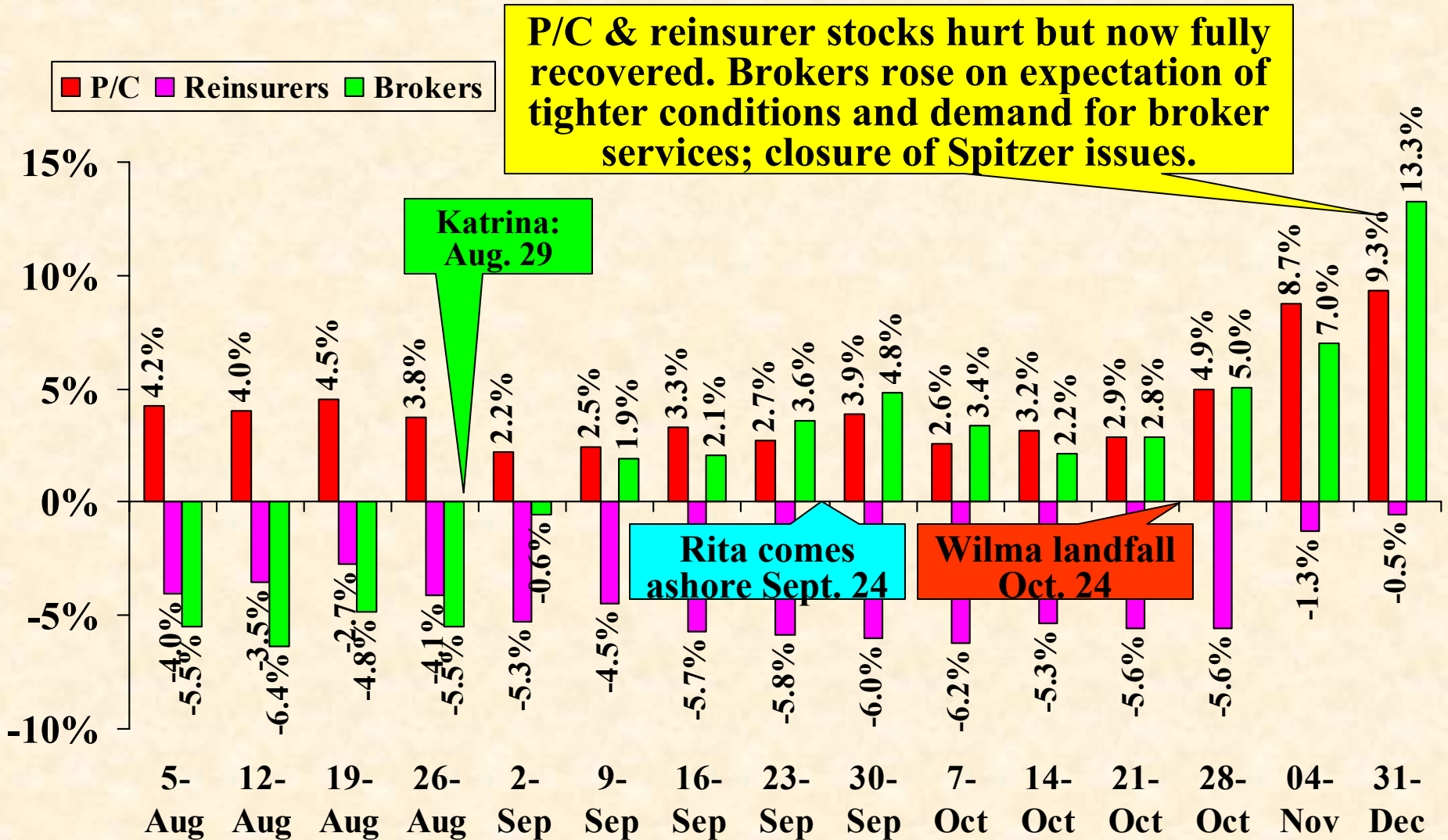
WALL STREET:

MAINTAINING THE
CONFIDENCE OF WALL
STREET IS CRITICAL FOR
MANY INSURERS





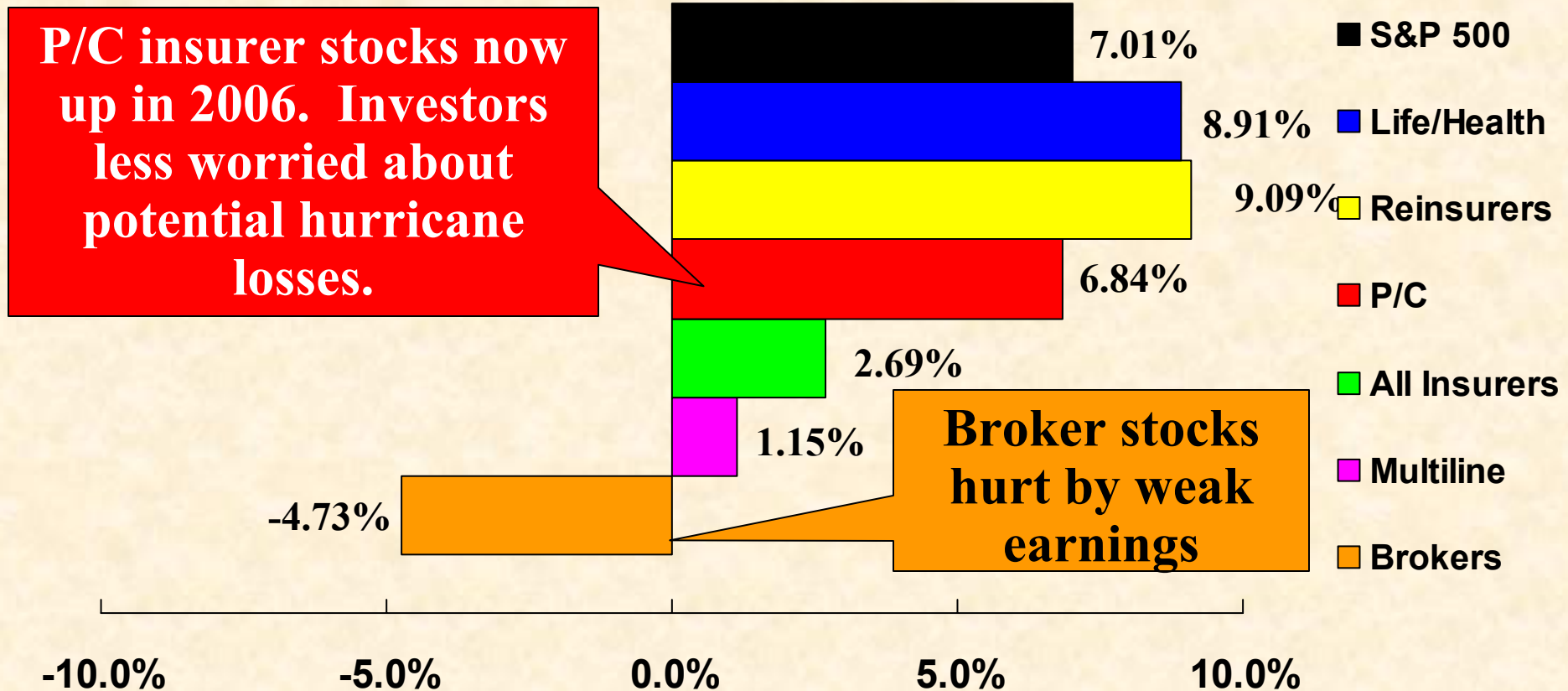
Change in YTD Stock Performance by Sector Pre- & Post-Katrina/Rita/Wilma





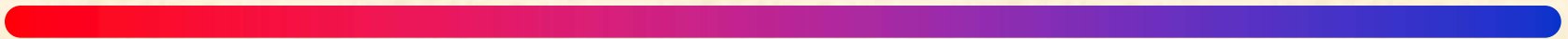
P/C Insurance Stocks: Slow Start, Strong Finish in 2006

Total YTD Returns Through September 30, 2006



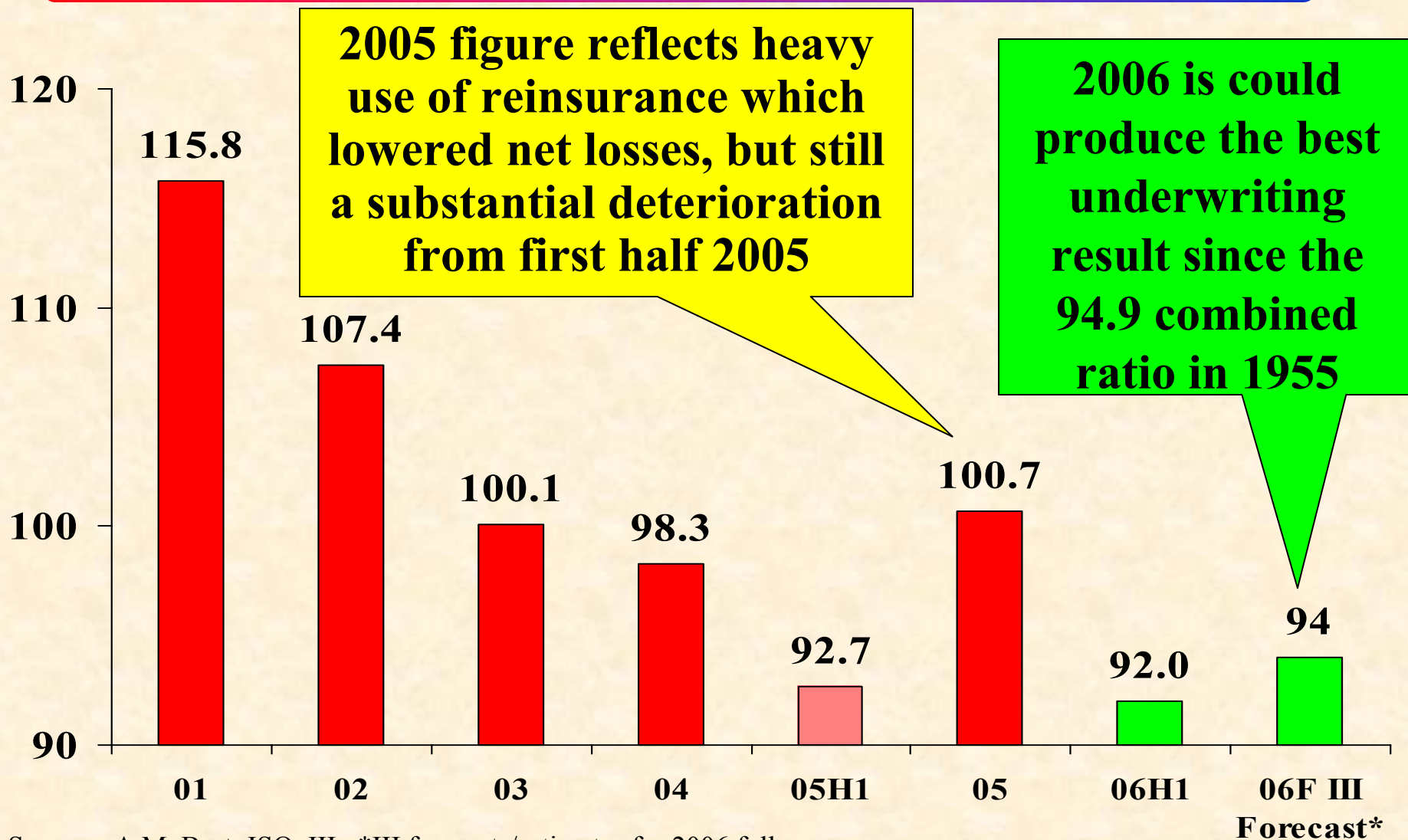
UNDERWRITING

Surprisingly Strong in
2005, Stage is Set for a
Good 2006!





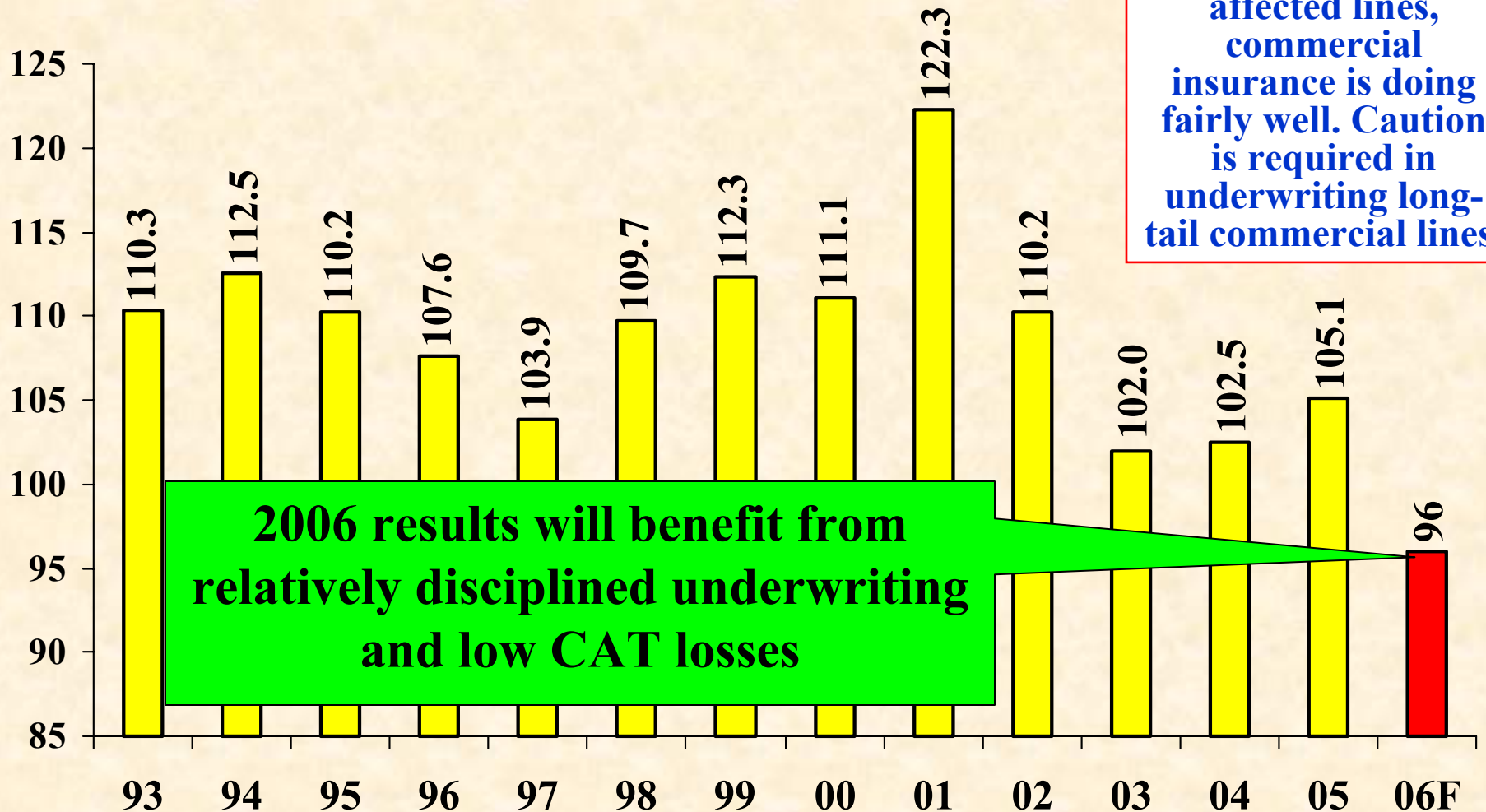
P/C Industry Combined Ratio



Sources: A.M. Best; ISO, III. *III forecasts/estimates for 2006 full year.



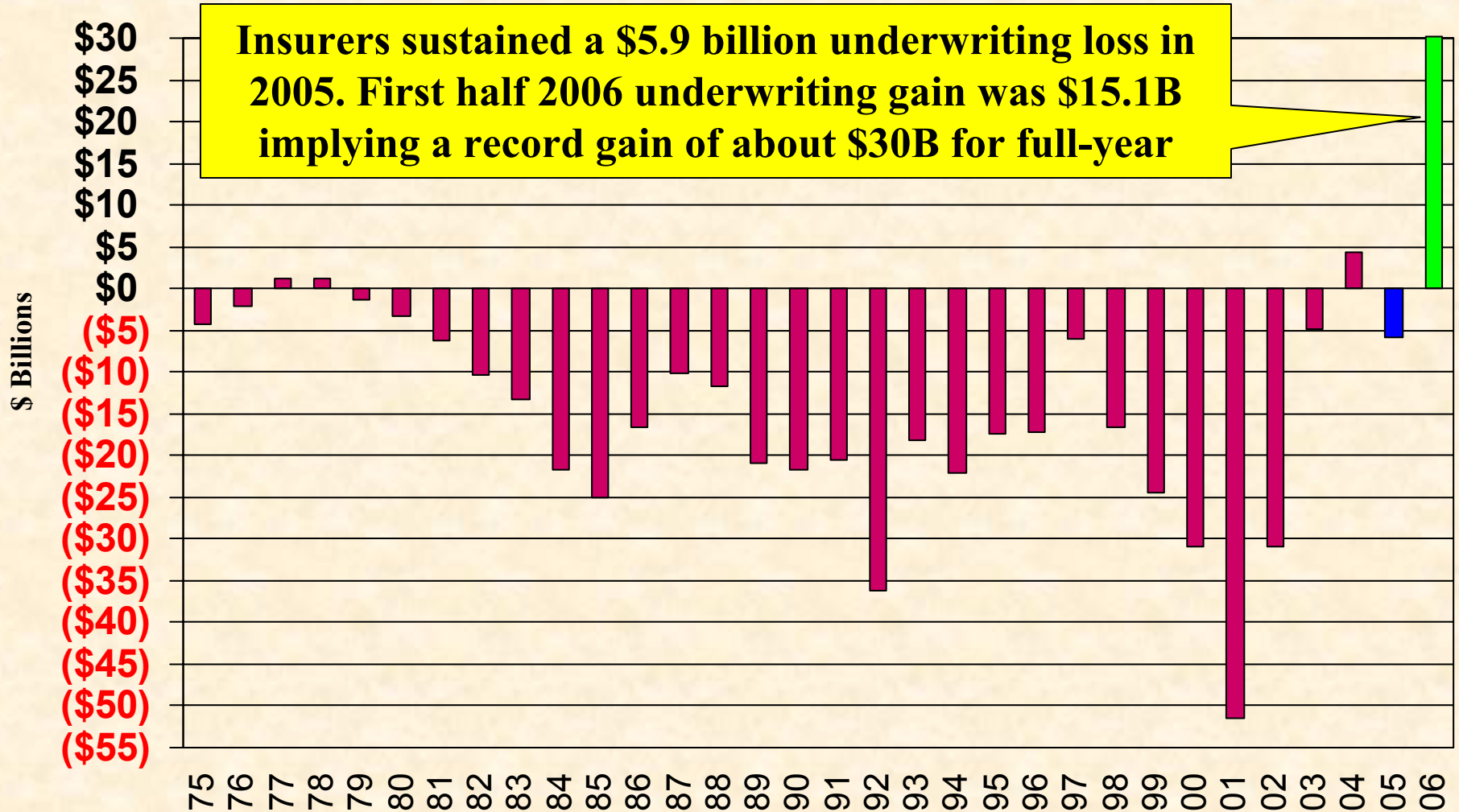
Commercial Lines Combined Ratio, 1993-2006E*





Underwriting Gain (Loss)

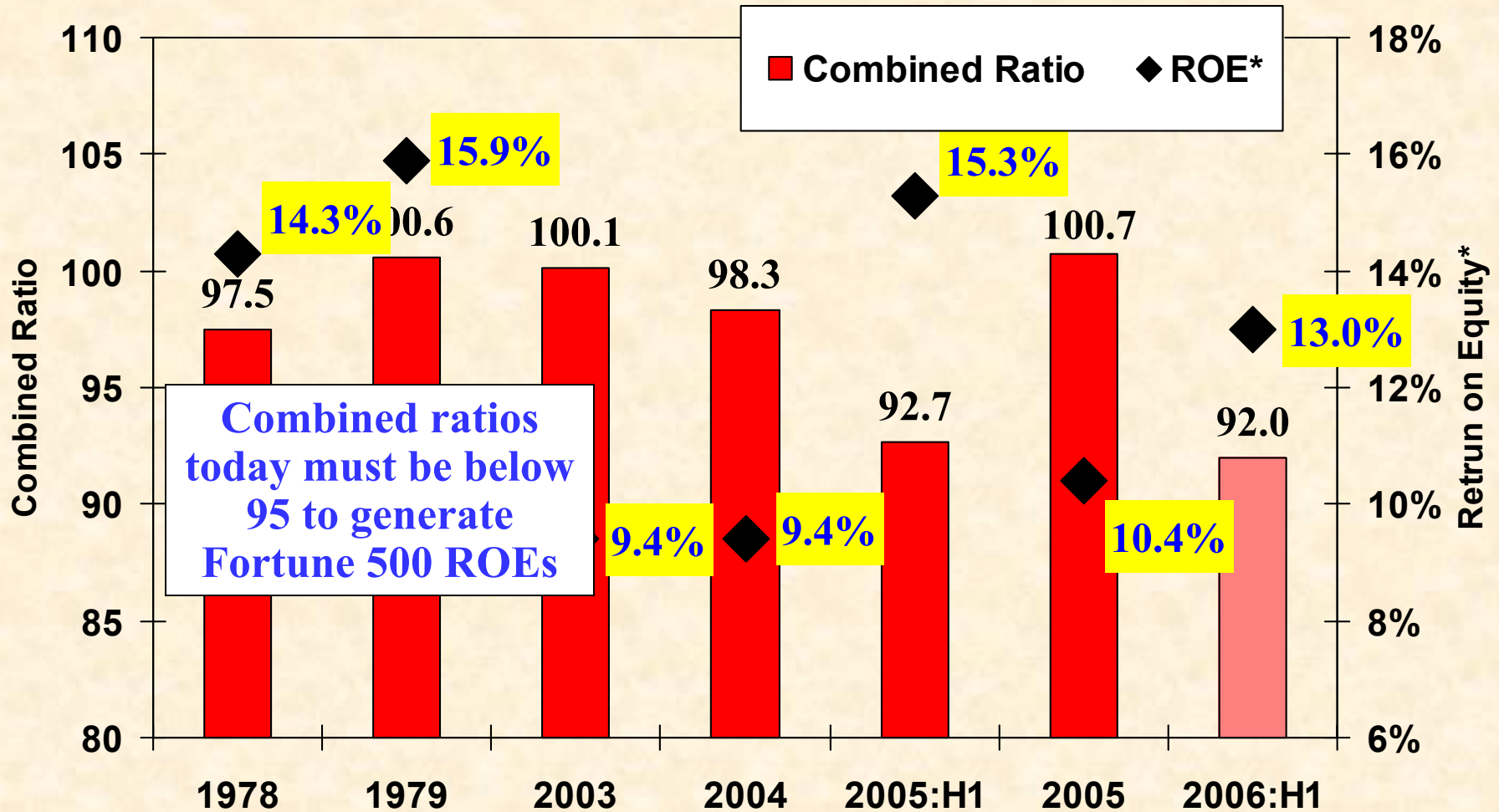
1975-2006F*



Source: A.M. Best, Insurance Information Institute *2006F of \$30.2B is annualized H1 gain of \$15.1B



A 100 Combined Ratio Isn't What it Used to Be: 95 is Where It's At

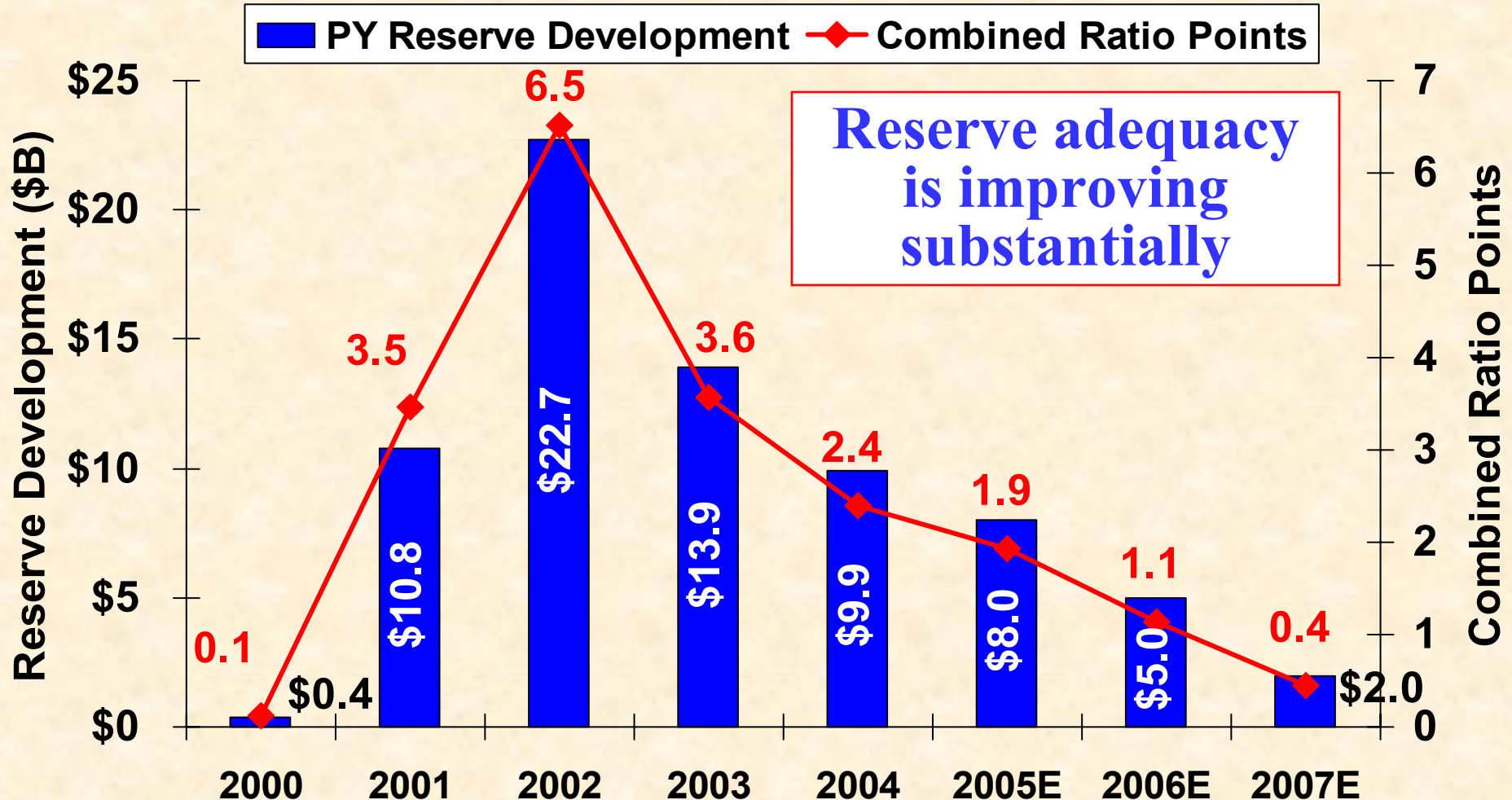


* 2006 figure is return on average statutory surplus.

Source: Insurance Information Institute from A.M. Best and ISO data.



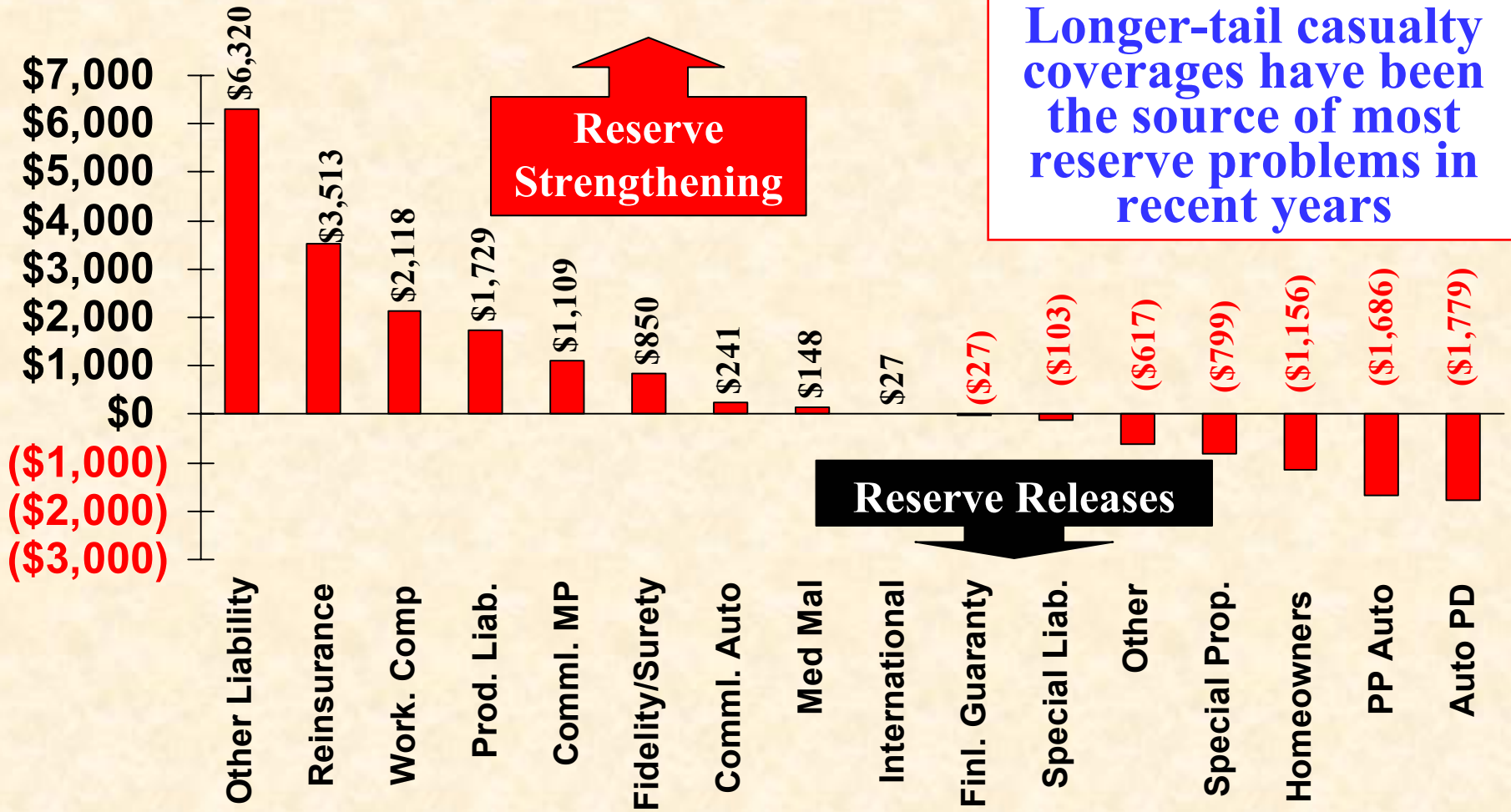
Impact of Reserve Changes on Combined Ratio



2004 Prior Year Reserve

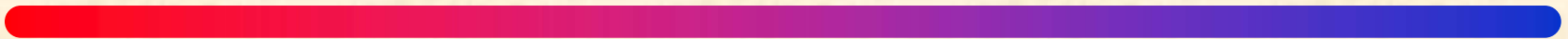


Development by Line (\$ Millions)



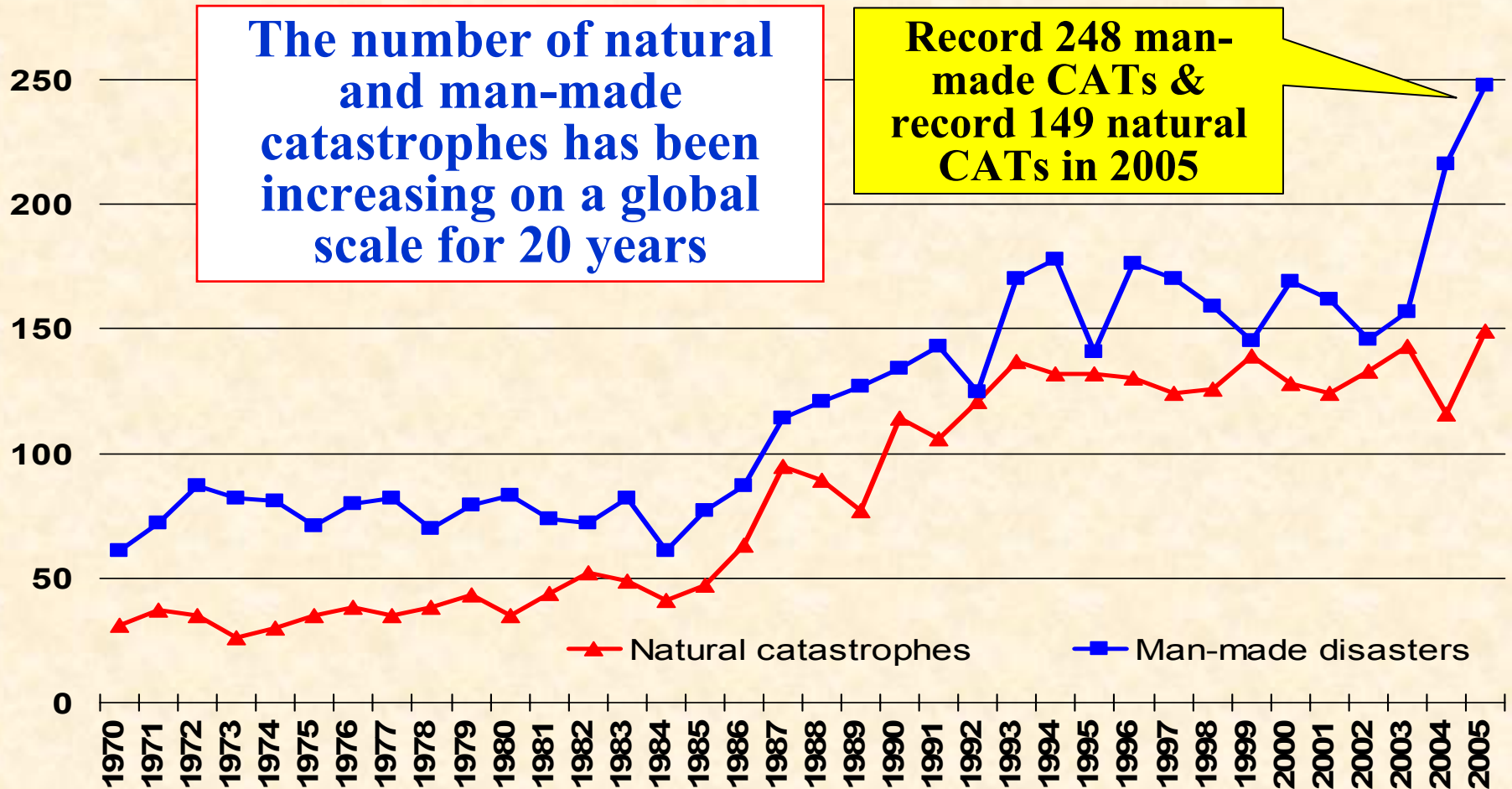
REINSURANCE MARKETS

*Higher Reinsurance Costs
Squeezing Insurers, Pushing
Property CAT Prices Upward*



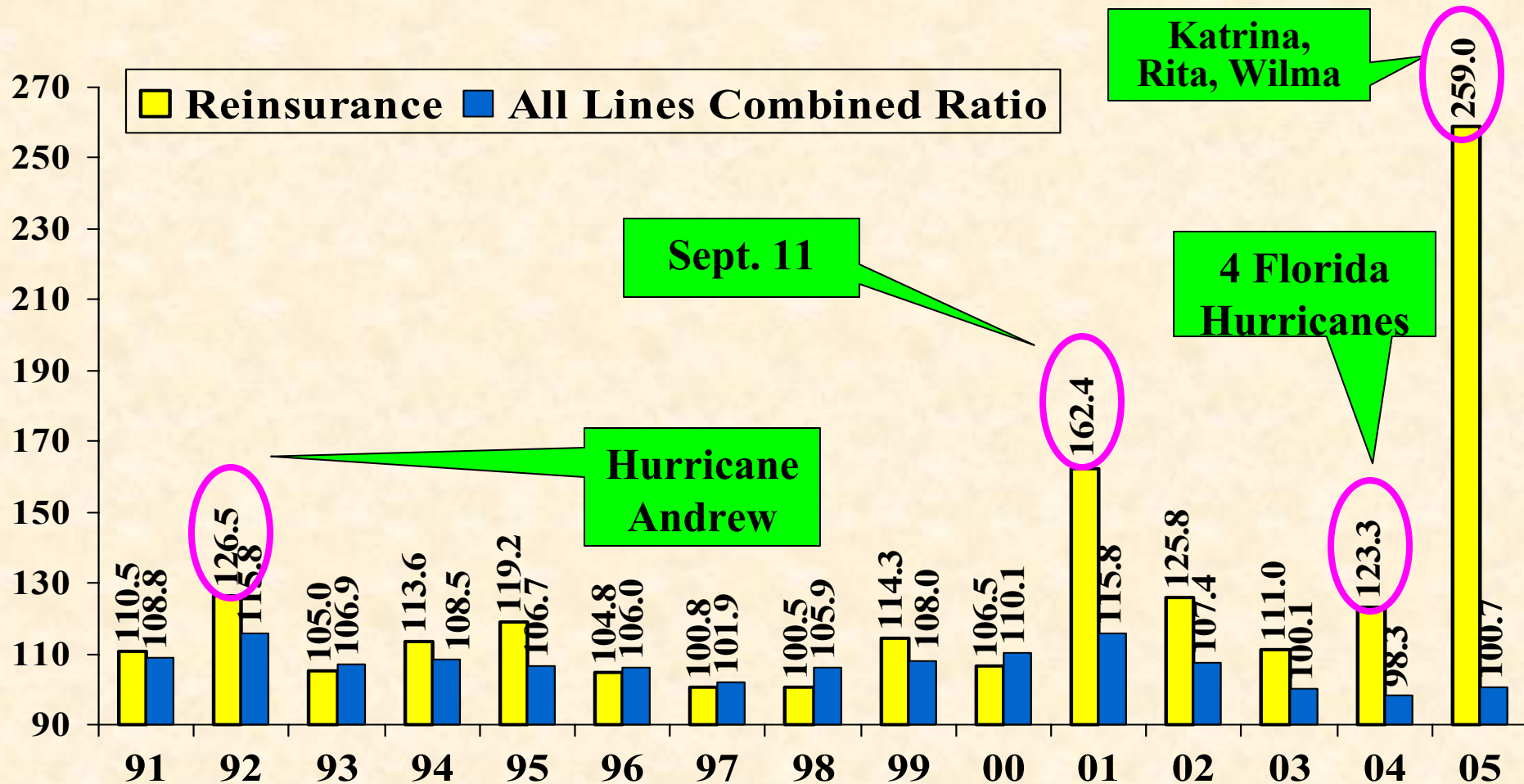


Global Number of Catastrophic Events, 1970–2005



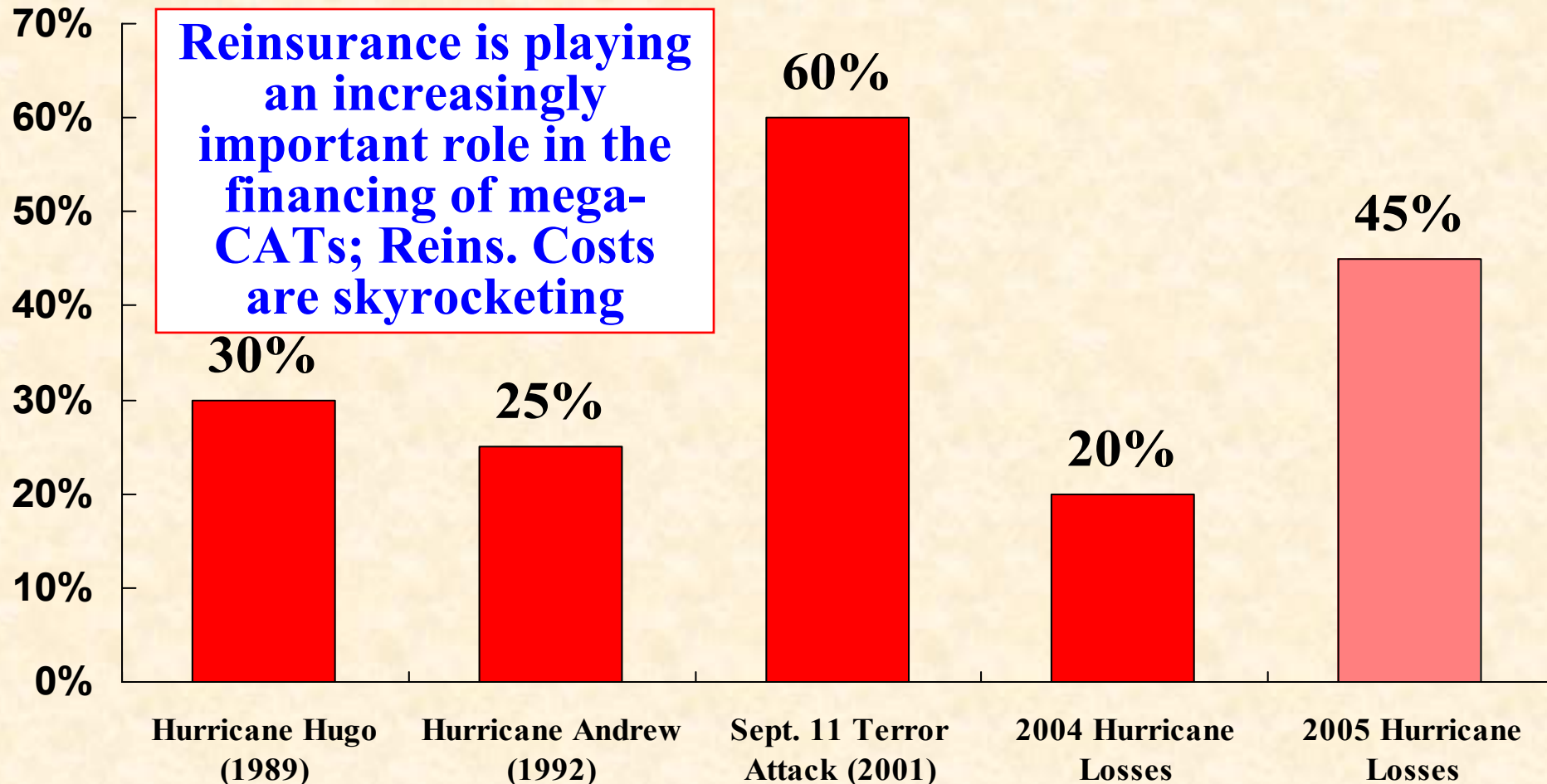


Combined Ratio: Reinsurance vs. P/C Industry





Share of Losses Paid by Reinsurers, by Disaster*



Reinsurance is playing an increasingly important role in the financing of mega-CATs; Reins. Costs are skyrocketing

*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.

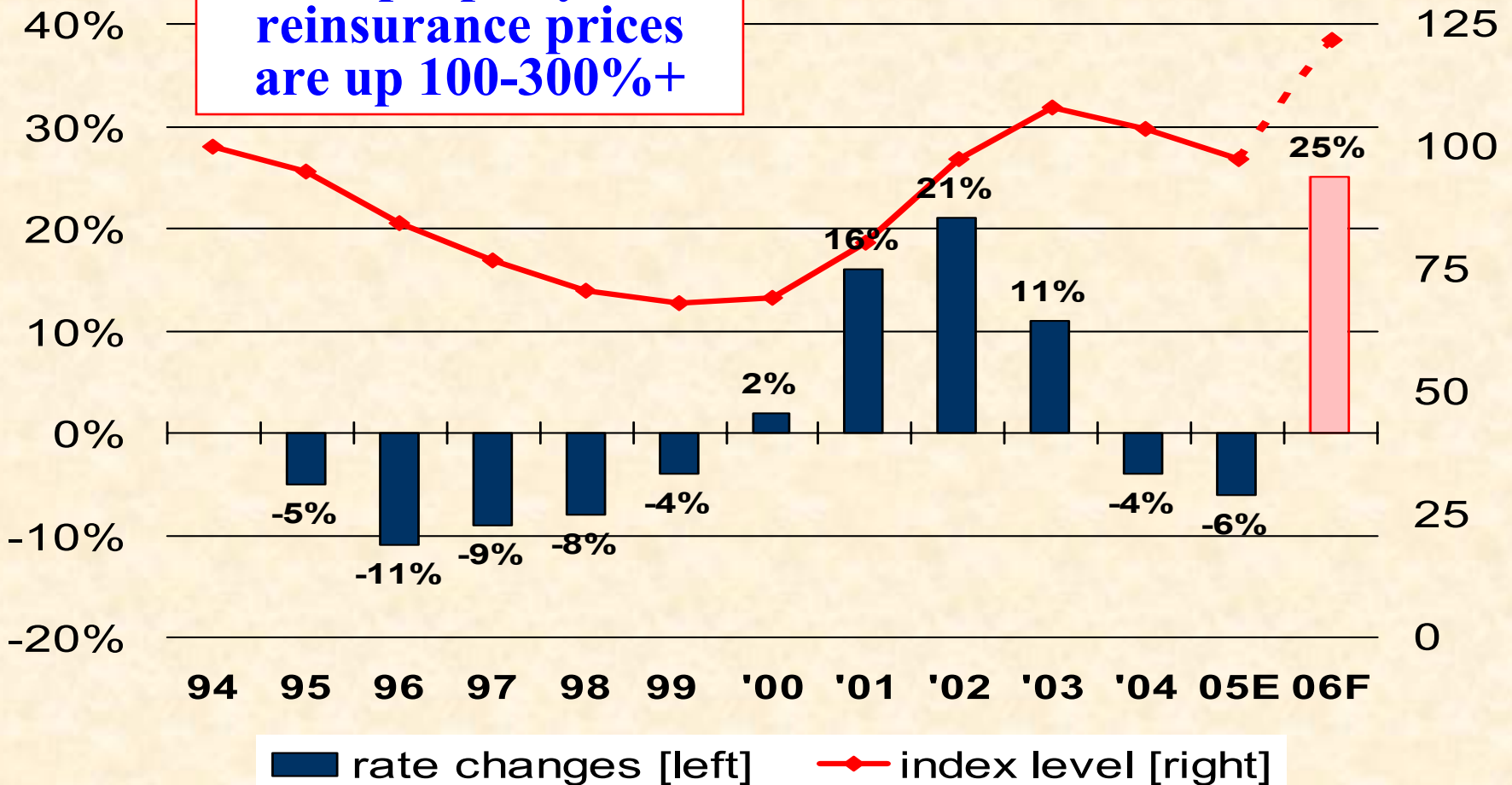
Sources: Wharton Risk Center, Disaster Insurance Project; Insurance Information Institute.



Reinsurance Prices Surged in 2006 Following Record CATs in 2005

In hurricane-prone areas, property CAT reinsurance prices are up 100-300%+

**US cat reinsurance price index:
1994 = 100**





Changes in the 2006 Reinsurance Markets

- **Property CAT reins. rates up 20% - 30% nationally**
- **Property CAT coverage in hurricane exposed areas up 100%-300%**
- ***Marine/Energy Reinsurance → Up 300%+***
 - ***Most challenging markets for reinsurers today***
- **Aggregate reinsurer exposure is *down* 20-30%**
- **Cedants retaining more risk, often by 50-100% or more (higher attachment pts.)**
- **Increased demand for Excess of Loss cover**
 - **XoL is potentially more volatile for reinsurers**
- **Some supply issues as a few small players enter run-off**
- **Retrocessional market is much tighter**



A Look Ahead to Reinsurance Markets for 2007

- **Despite lack of major hurricane in 2006, reinsurance pricing strong in US for 2007**
 - **New capital entry not sufficient to fully meet demand**
 - **Reinsurance prices flat at best outside peak CAT zones**
- **Retrocessional market still tight**
- **Softening in European p/c reinsurance markets**
- **Softening in US casualty reinsurance markets**
 - **More pronounced if property cat reinsurers shift emphasis**
- **Capital market role expanding**
 - **Hedge funds, private equity**
 - **Securitization: Insurance Linked Securities**
 - **Some concern over staying power, (lack of) regulation**
 - **Complement or competitor to traditional reinsurance?**



Summary of Nonadmitted &

Reinsurance Reform Act (HR 5637)

- **NRRA Passed by House 9/28/06 by unanimous 417-0 vote; Senate prospects uncertain.**
- **Gives exclusive regulatory authority to insured's home state for placement of nonadmitted insurance**
- **Establish uniform system for collection/allocation of premium tax obligations related to nonadmitted insurance**
- **Establishes uniform standards for surplus lines eligibility**
- **Pre-empts state diligent search requirements for sophisticated commercial buyers**
- **Makes ceding insurer's state of domicile the single point of regulation with respect to credit for reinsurance**
- **Prevents states from applying laws in extra-territorial manner**
- **Creates uniformity in reinsurer solvency regulation based on NAIC accreditation requirements**

UNDERWRITING AFFECTS FINANCIAL STRENGTH

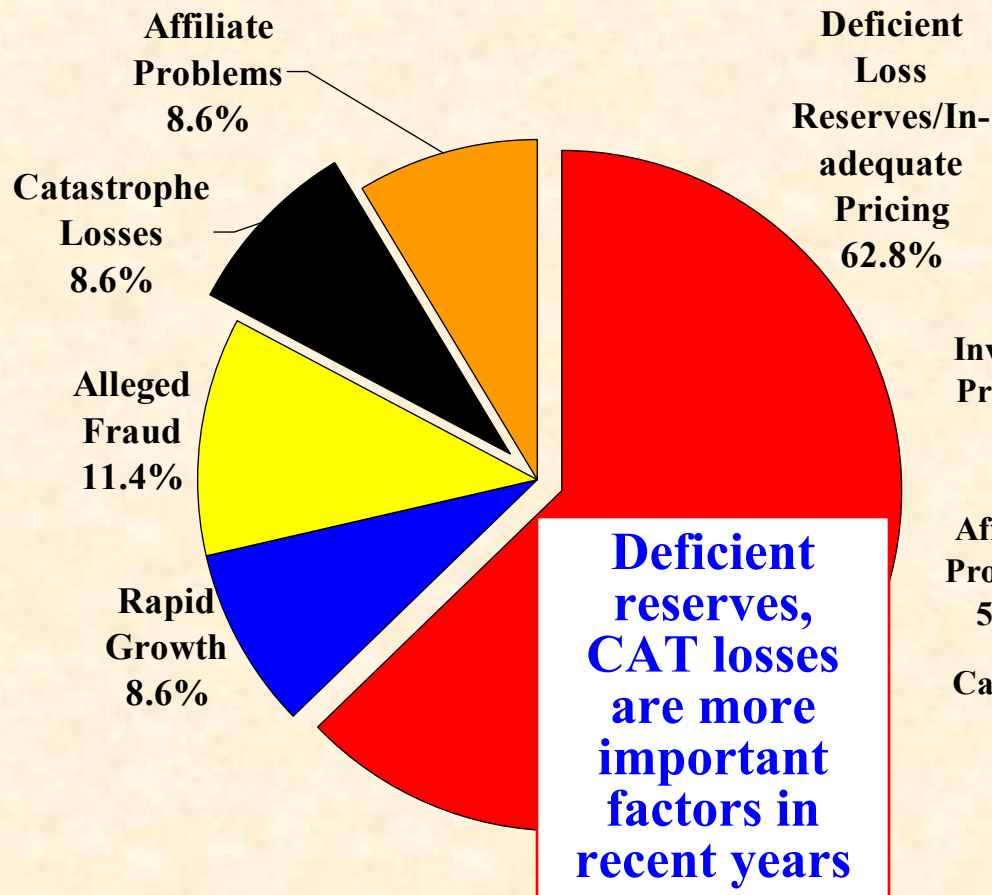
*Is There Cause
for Concern?*



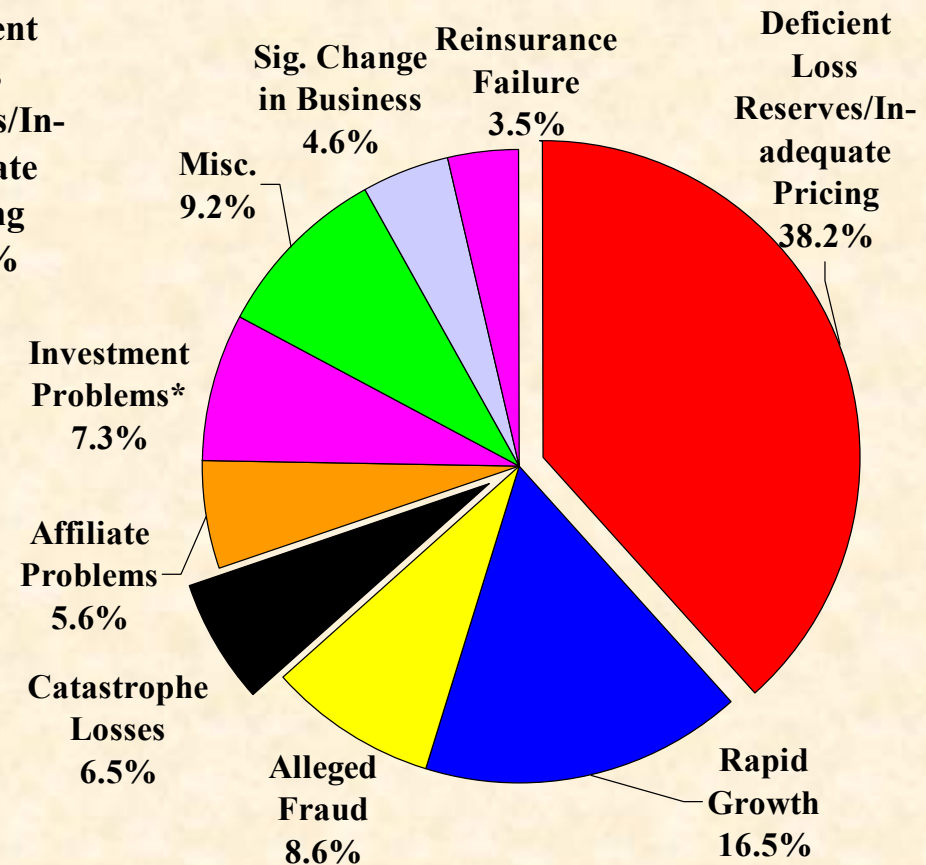


Reasons for US P/C Insurer Impairments, 1969-2005

2003-2005



1969-2005



*Includes overstatement of assets.

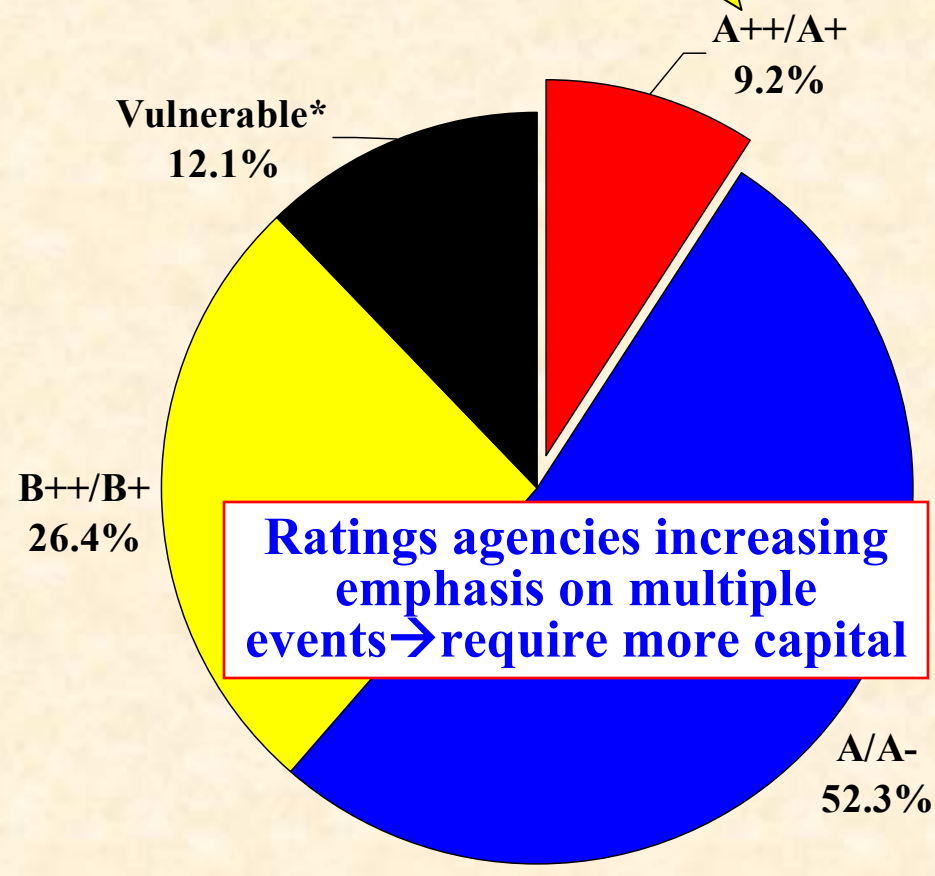
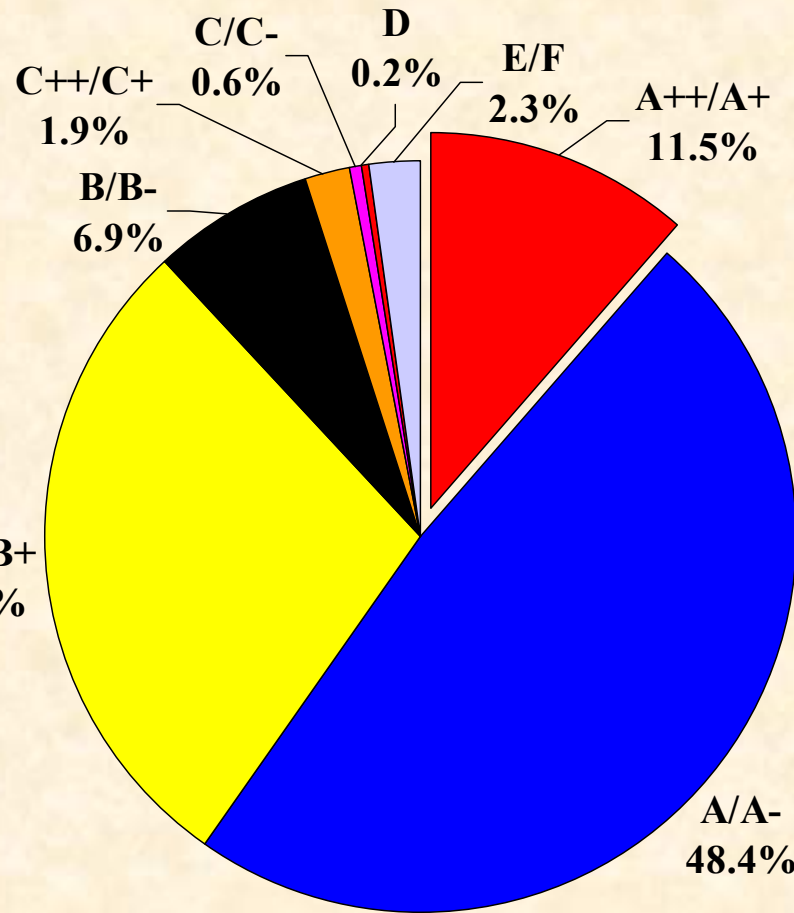


Historical Ratings Distribution, US P/C Insurers, 2000 vs. 2005

2000

2005

A++/A+ shrinkage



Source: A.M. Best: *Rating Downgrades Slowed but Outpaced Upgrades for Fourth Consecutive Year*, Special Report, November 8, 2004 for 2000; *2006 Review & Preview* for 2005 distribution. *Ratings 'B' and lower.



Ratings Agencies Tightening Requirements for CATs

2006 SRQ CAT Model Reqs.*

- All Property Exposure
- Auto Physical Damage
- Reinsurance Assumed
- Pools & Assessments
- All Flood Exposure
- WC Losses from Quake
- Fire Following
- Storm Surge
- Demand Surge
- Secondary Uncertainty

Best currently estimates PML for 100-yr. wind & 250-yr. quake to determine capital adequacy

ALSO “A.M. Best will perform additional “stress-tested” risk-adjusted capital analysis for a second event in order to determine the potential financial condition of an entity post a severe event.”

IMPLICATION: Some insurers may be required to carry more capital to maintain the same rating.

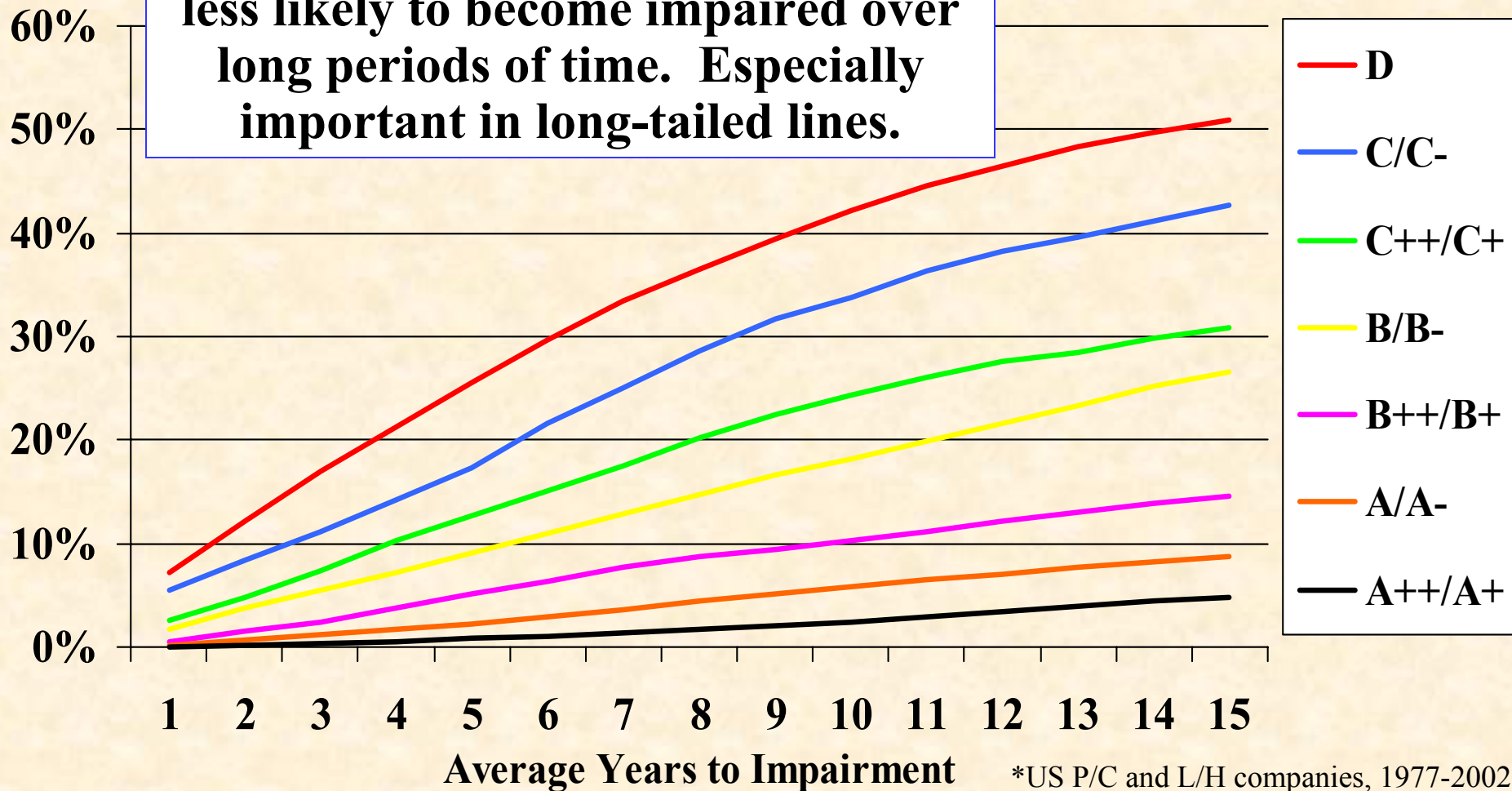
*SRQ = Supplemental Rating Questionnaire

Source: A.M. Best Review & Preview, January 2006.



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.



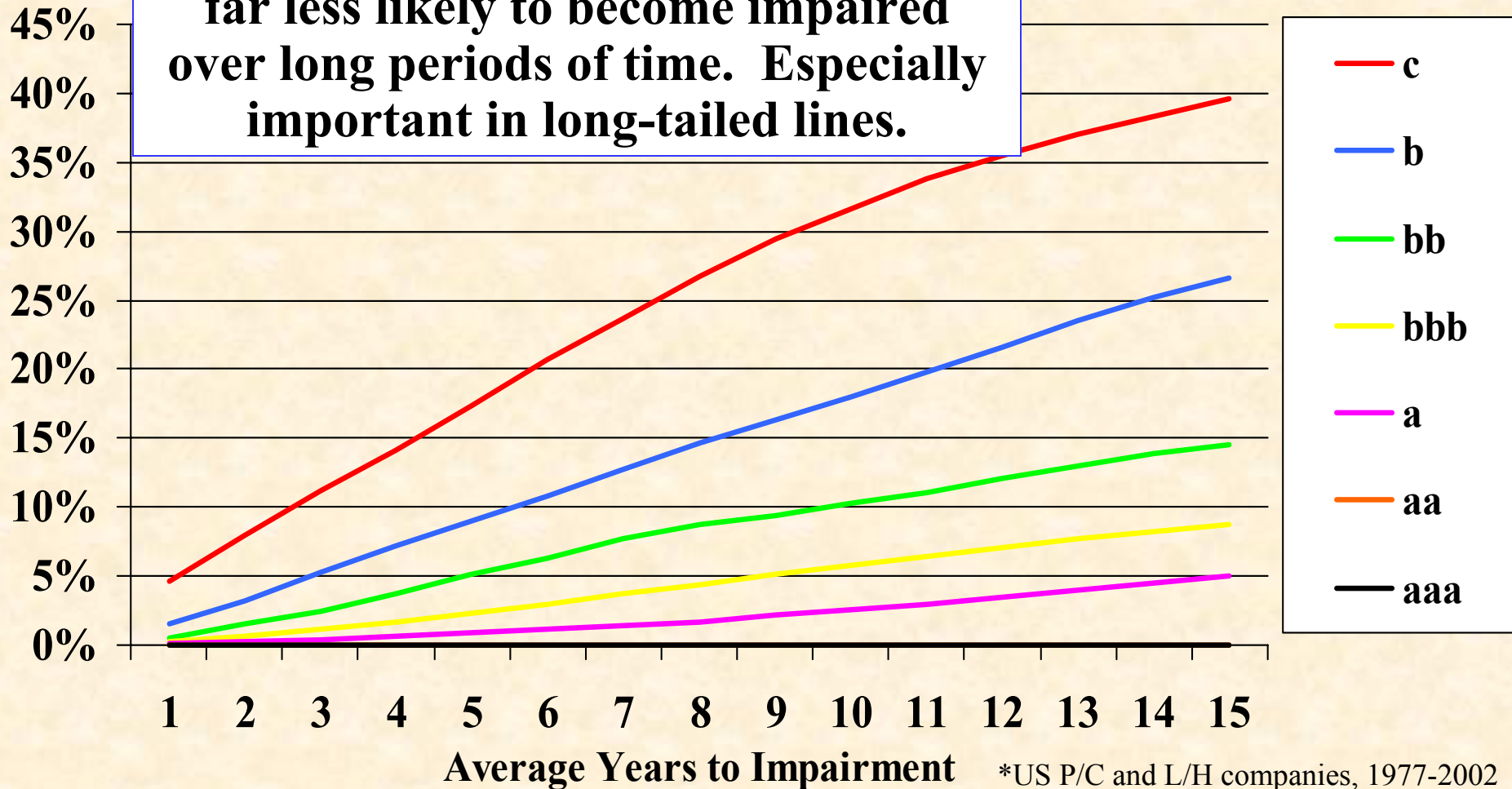
*US P/C and L/H companies, 1977-2002

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



Cumulative Avg. Implied Impairment Rates by Holding Co. Senior Unsecured Debt

Insurers with strong credit 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

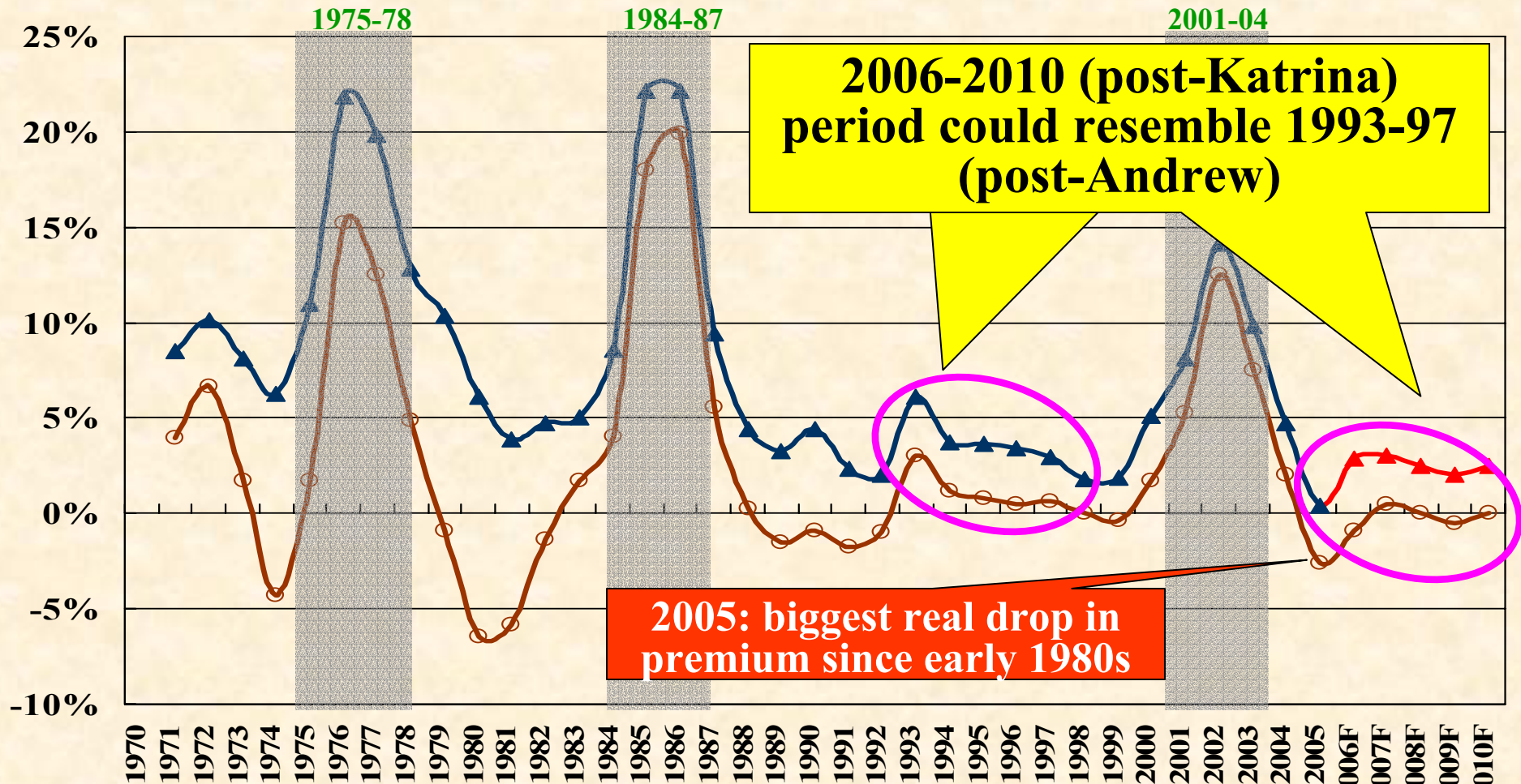
COMPETITIVE PRESSURE

Non-CAT Pricing

iii *Momentum Slows*



Strength of Recent Hard Markets by NWP Growth*



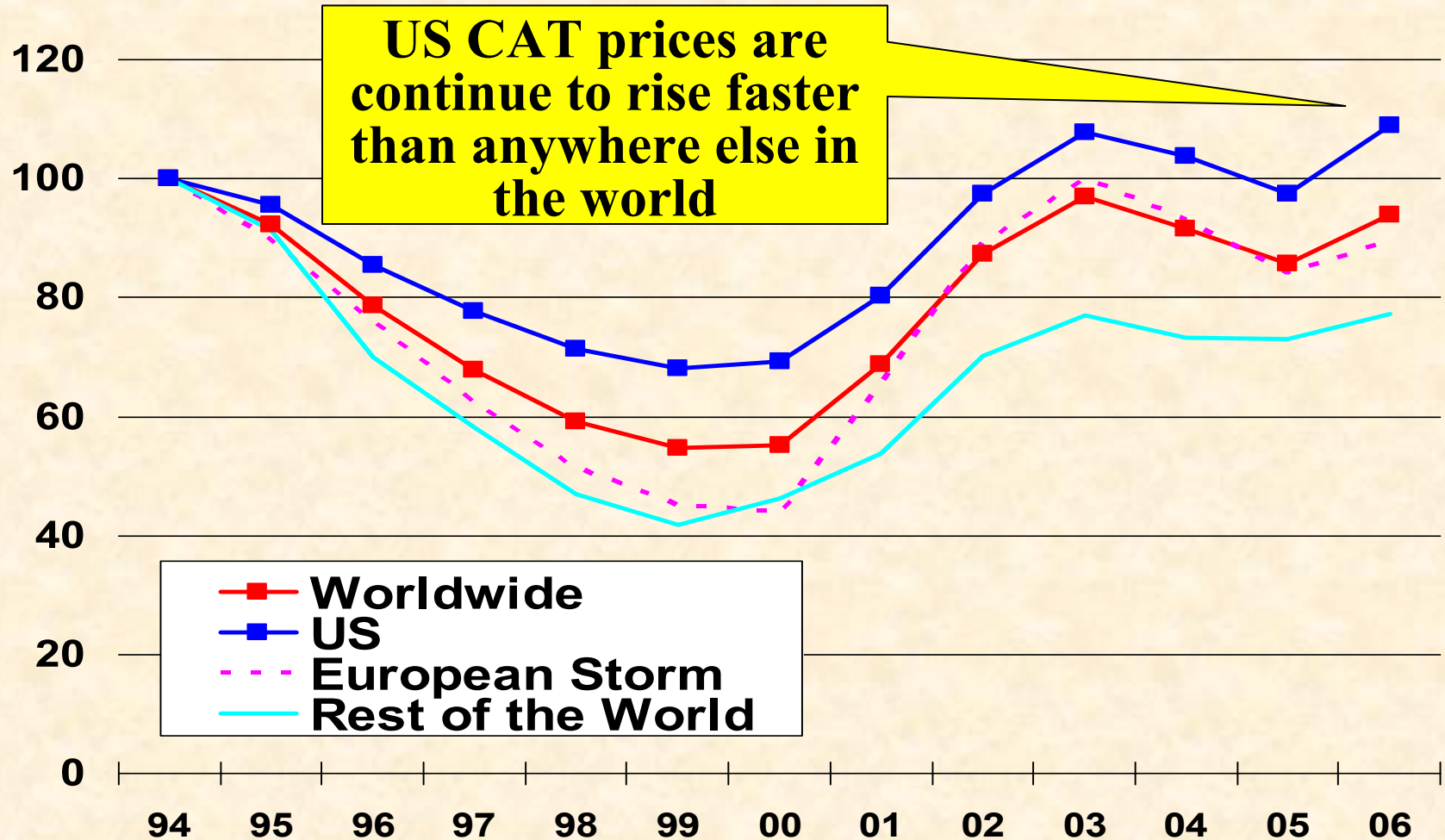
*2006-10 figures are III forecasts/estimates. 2005 growth of 0.4% equates to 1.8% after adjustment for a special one-time transaction between one company and its foreign parent. 2006 figure of 2.9% is based on 2006:H1 data.

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



Property Catastrophe Price Index*

1994 - 2006

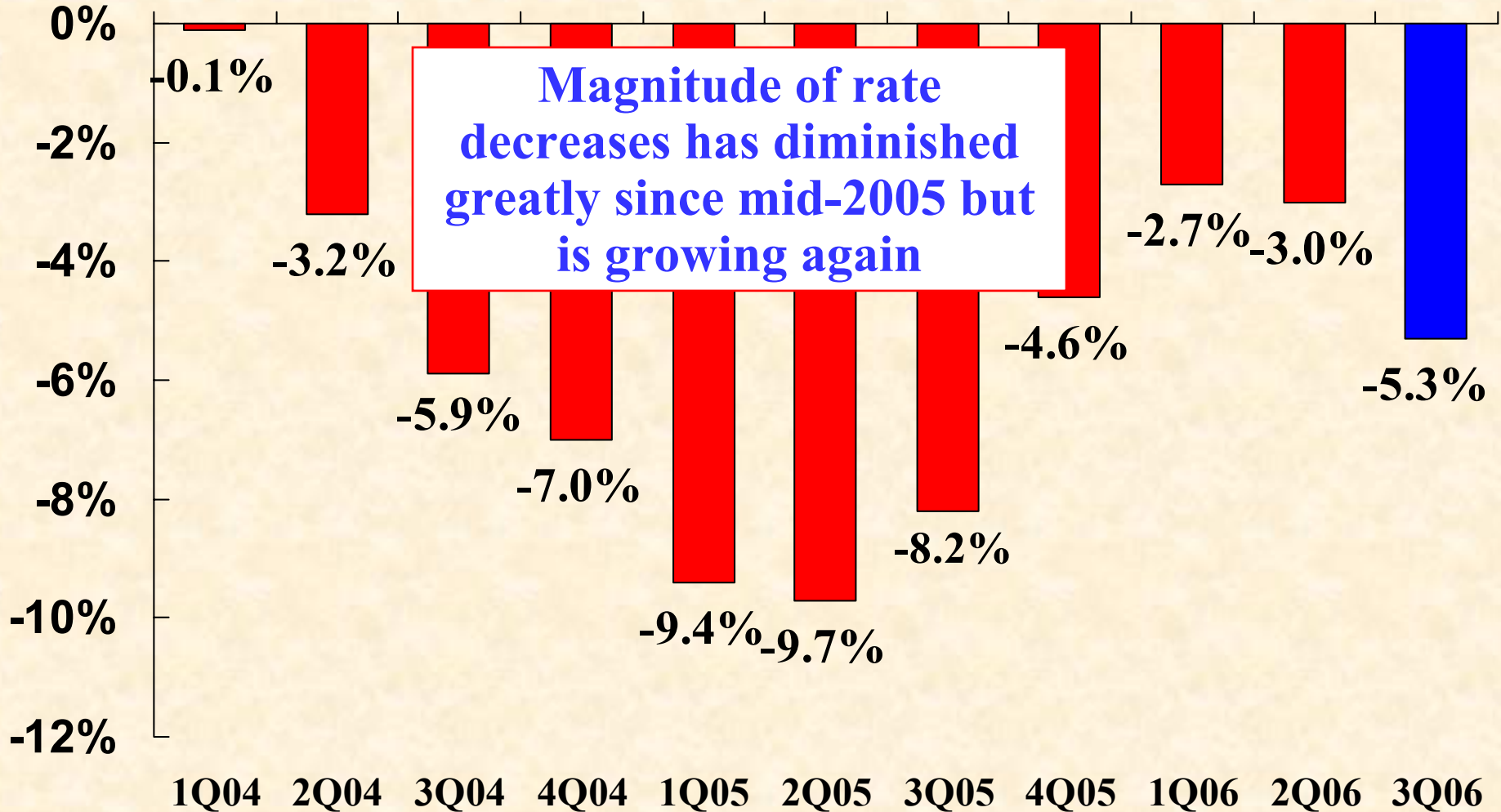


*Insurance Information Institute figure of 13.8% for 2005 based estimated 2005 DPE of \$417.7B and insured CAT losses of \$57.7B. Includes primary and reinsurance coverage.

Sources: ISO, A.M. Best, Swiss Re Economic Research & Consulting; Insurance Information Institute.

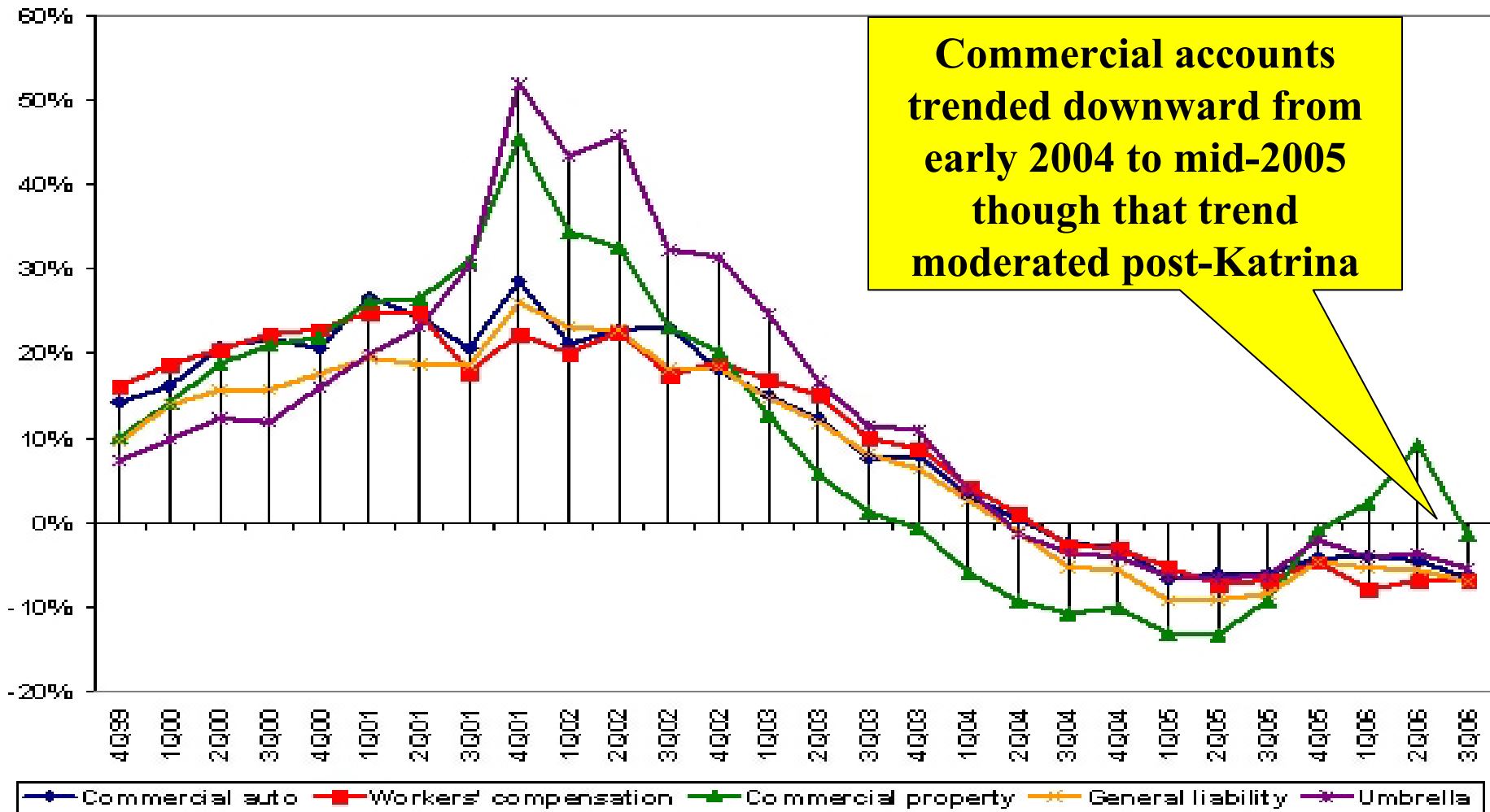


Average Commercial Rate Change, All Lines, (1Q:2004 – 3Q:2006)



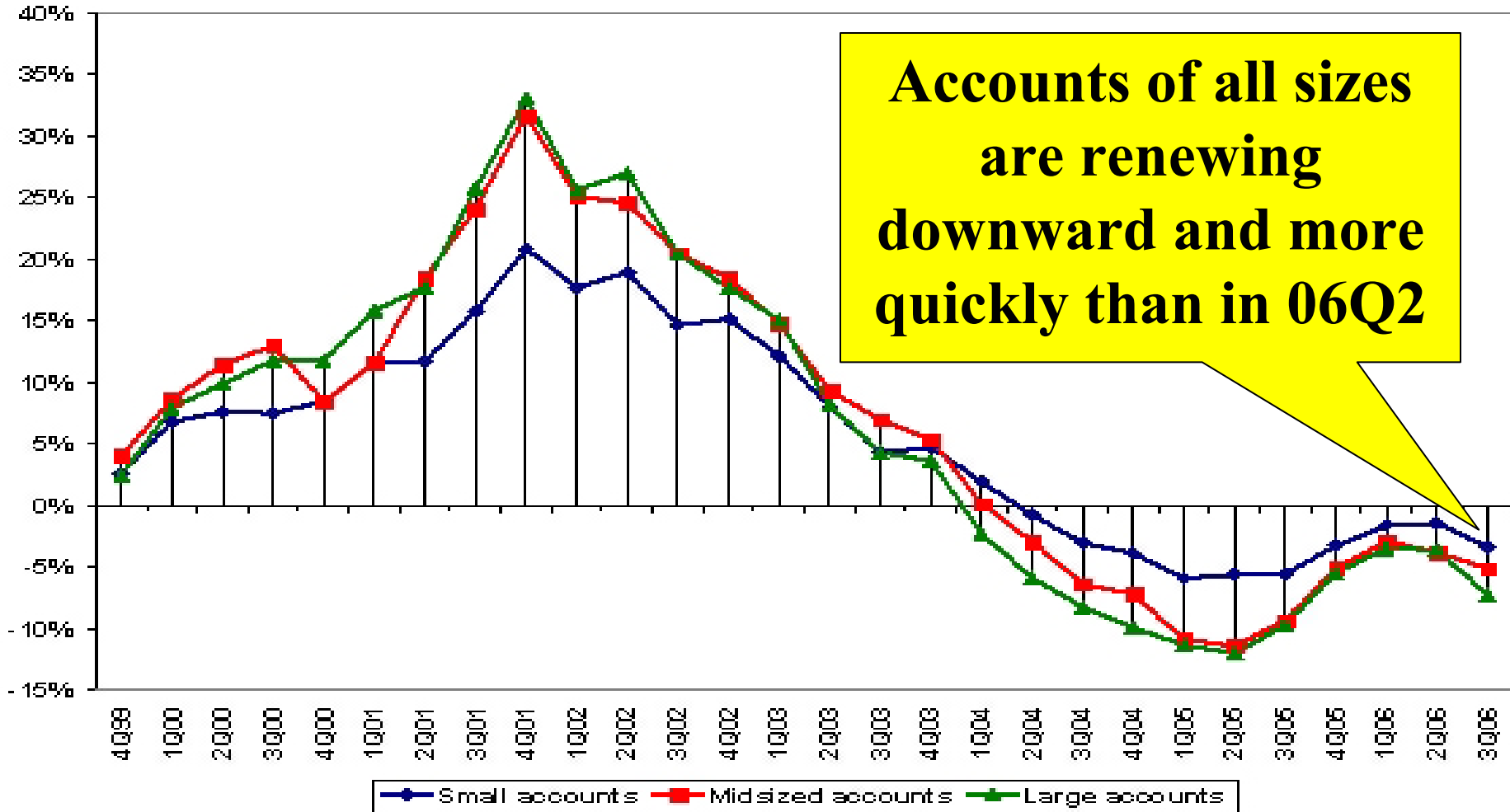


Average Commercial Rate Change by Line

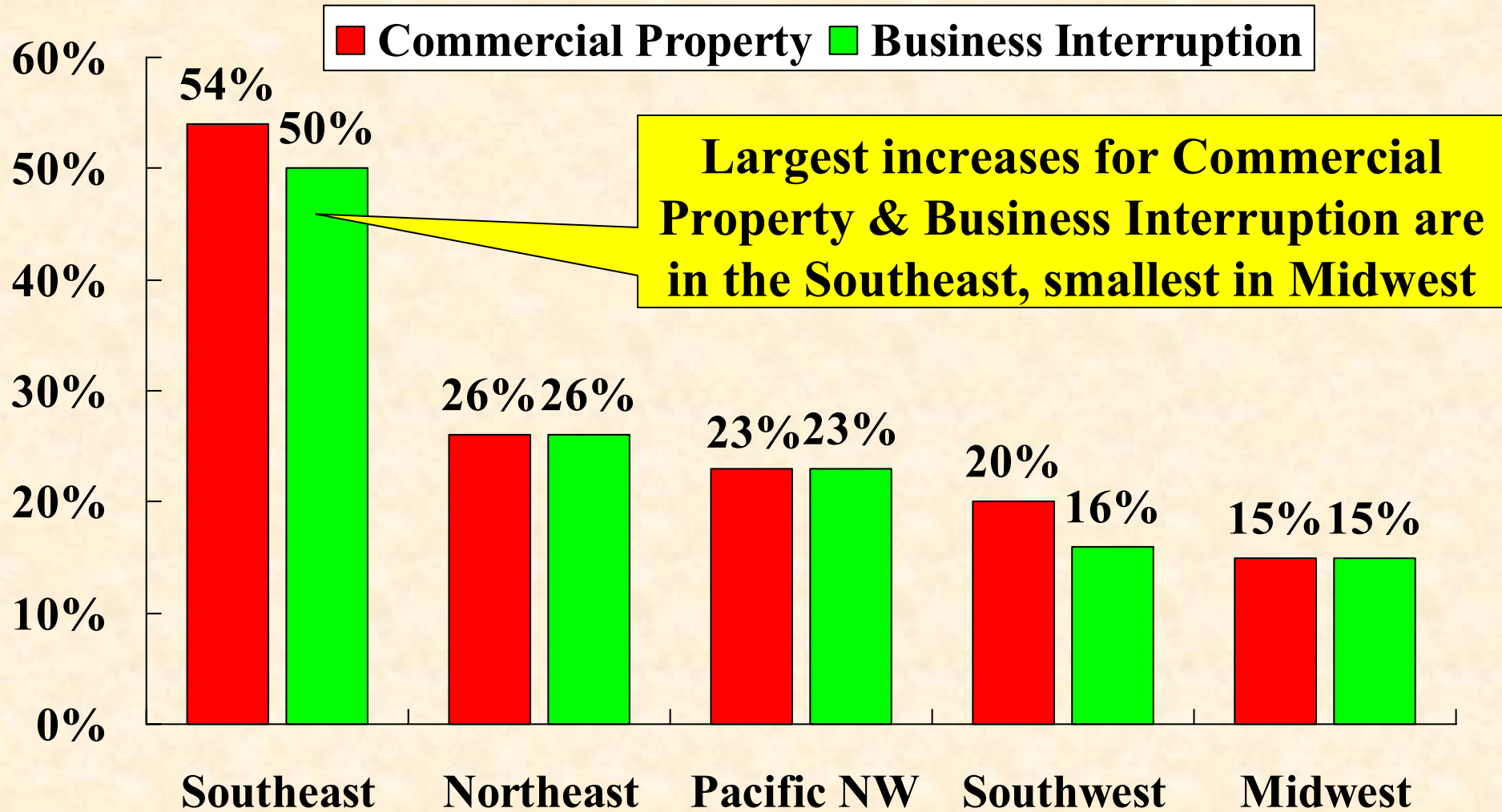




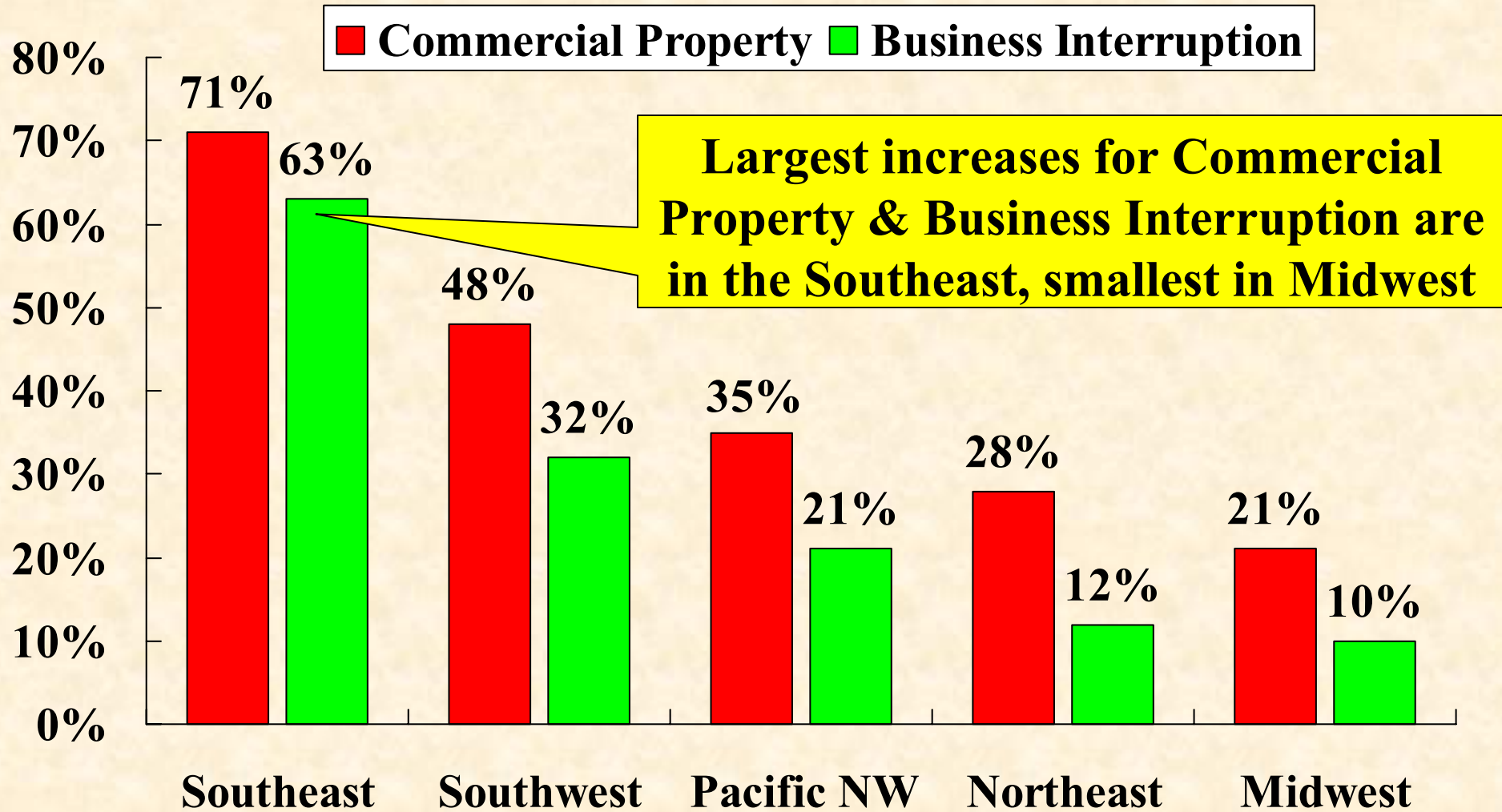
Average Commercial Rate Change by Account Size



Percent of Commercial Accounts Renewing with/Positive Rate Changes, 1st Qtr. 2006

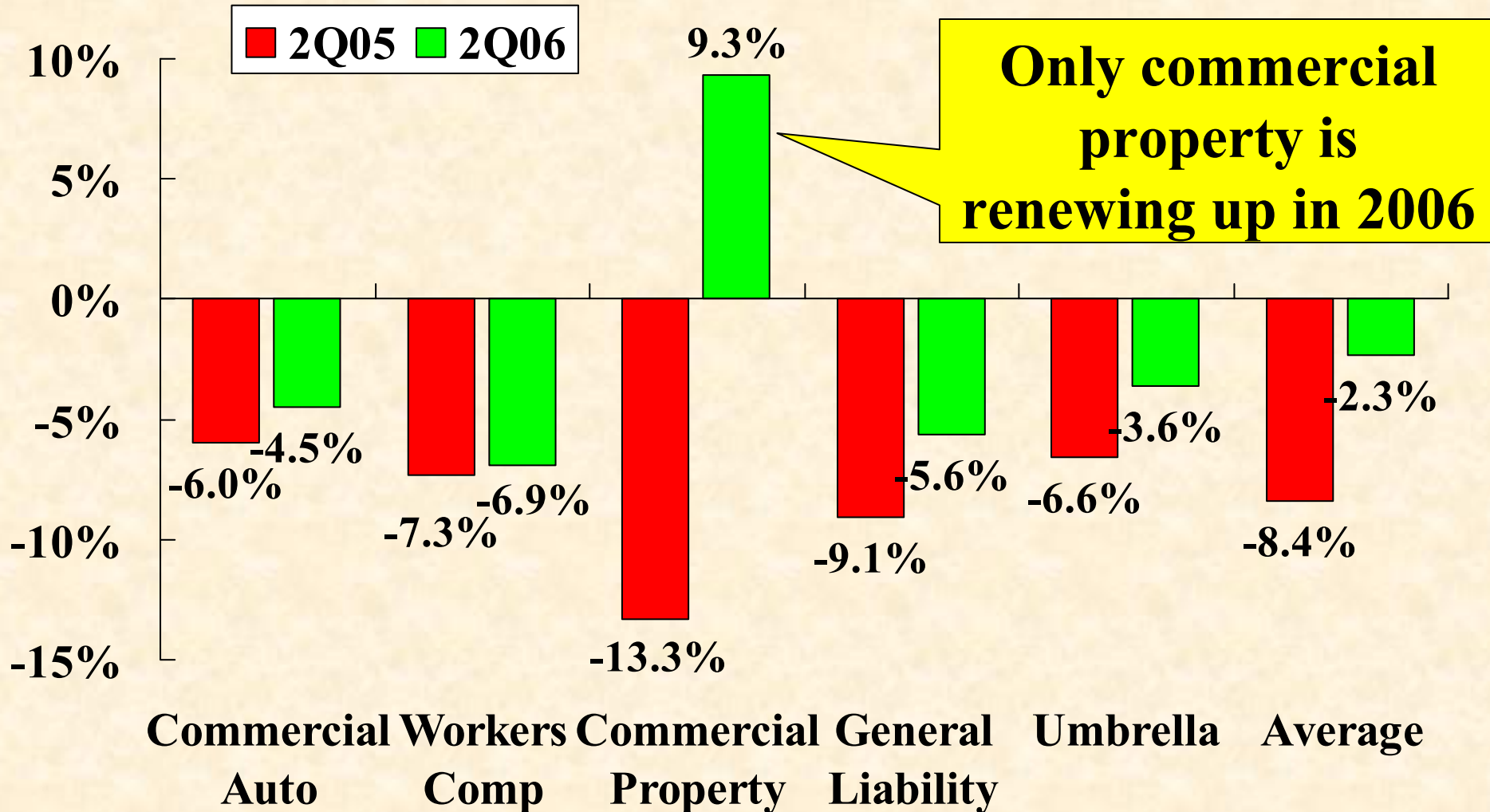


Percent of Commercial Accounts Renewing with/Positive Rate Changes, 2nd Qtr. 2006





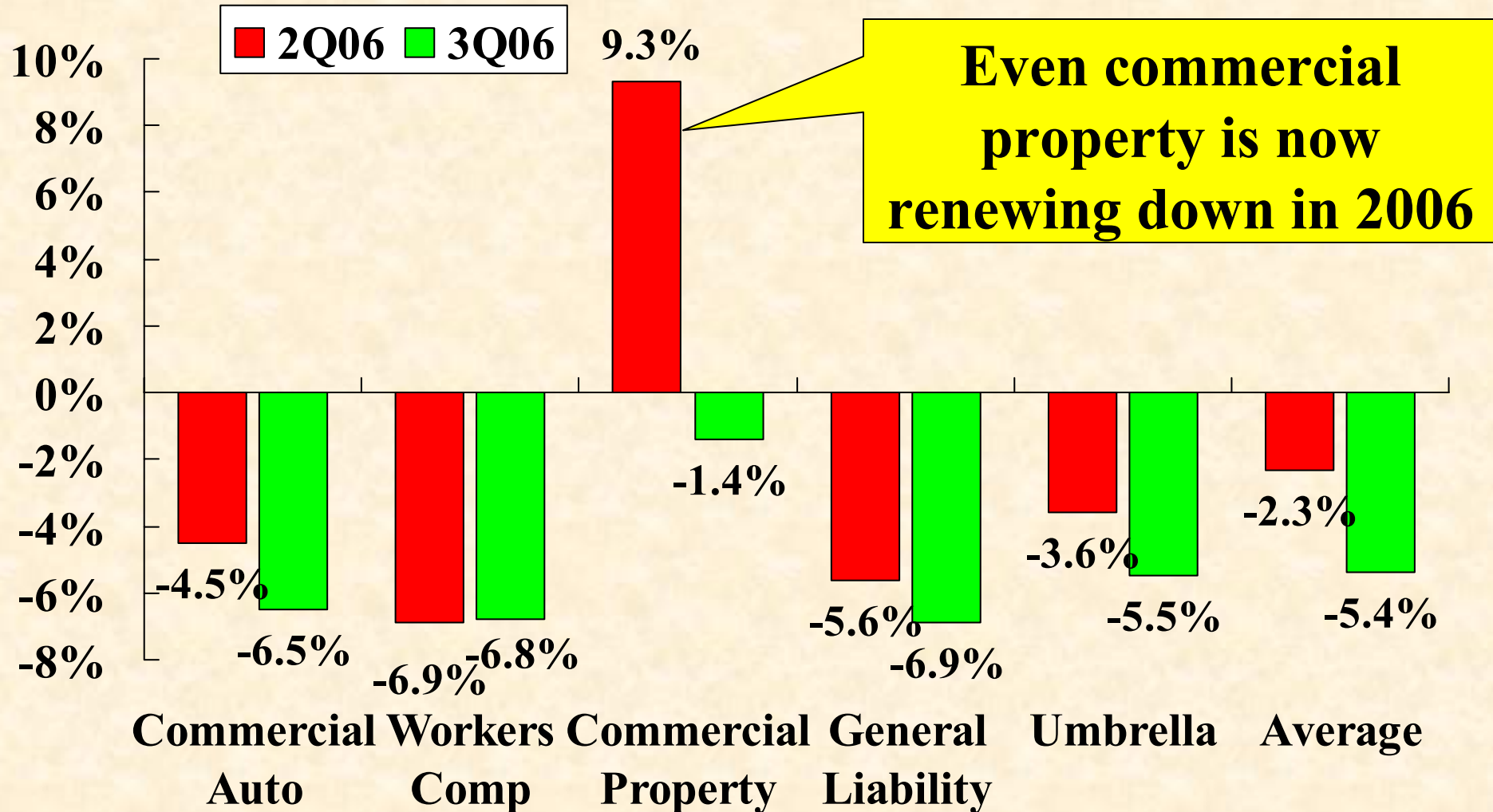
Commercial Accounts Rate Changes, 2nd Qtr. 2005 vs. 2nd Qtr. 2006



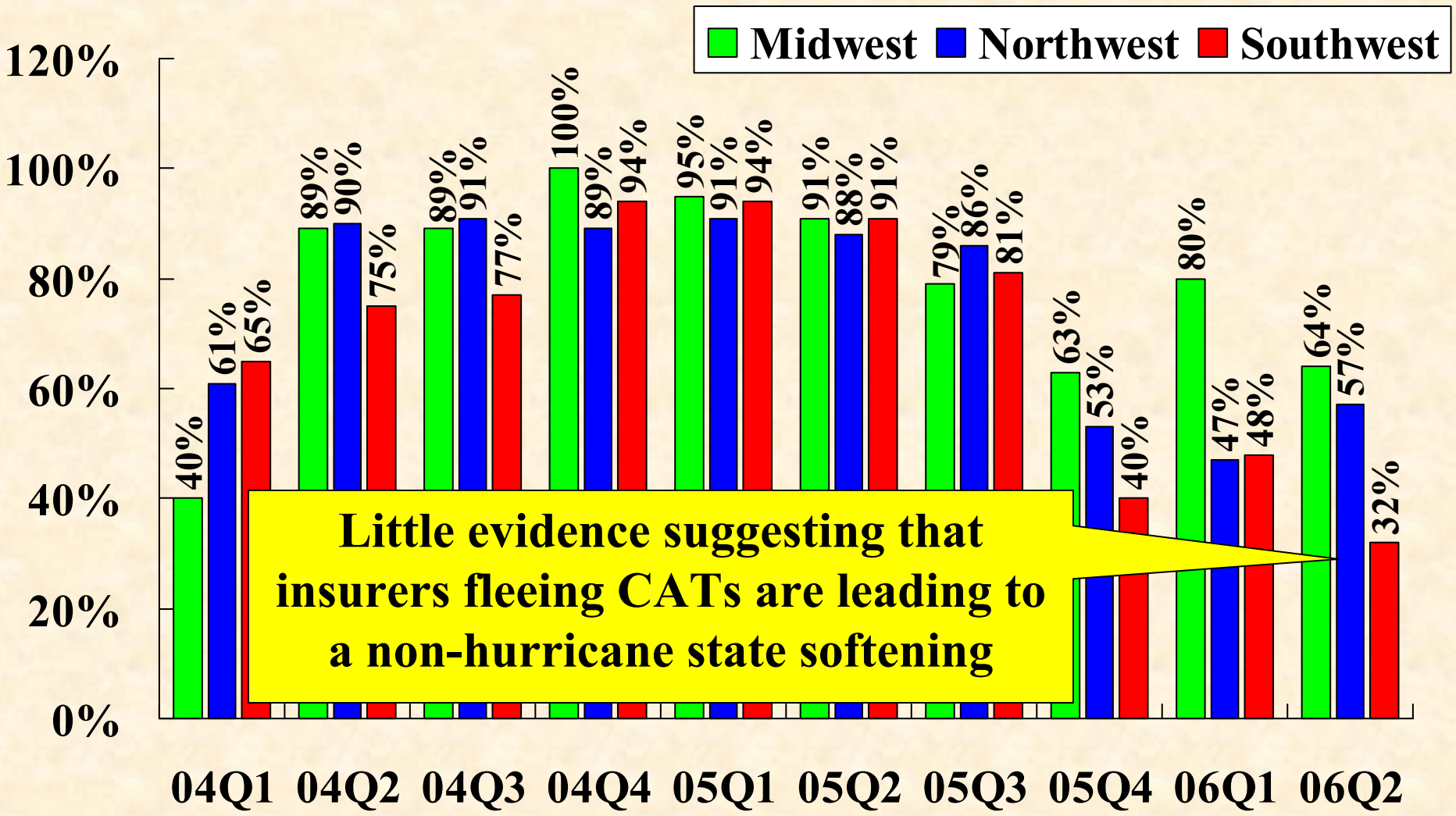


Commercial Accounts Rate Changes,

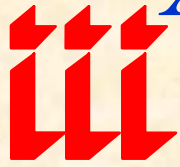
2nd Qtr. 2006 vs. 3rd Qtr. 2006



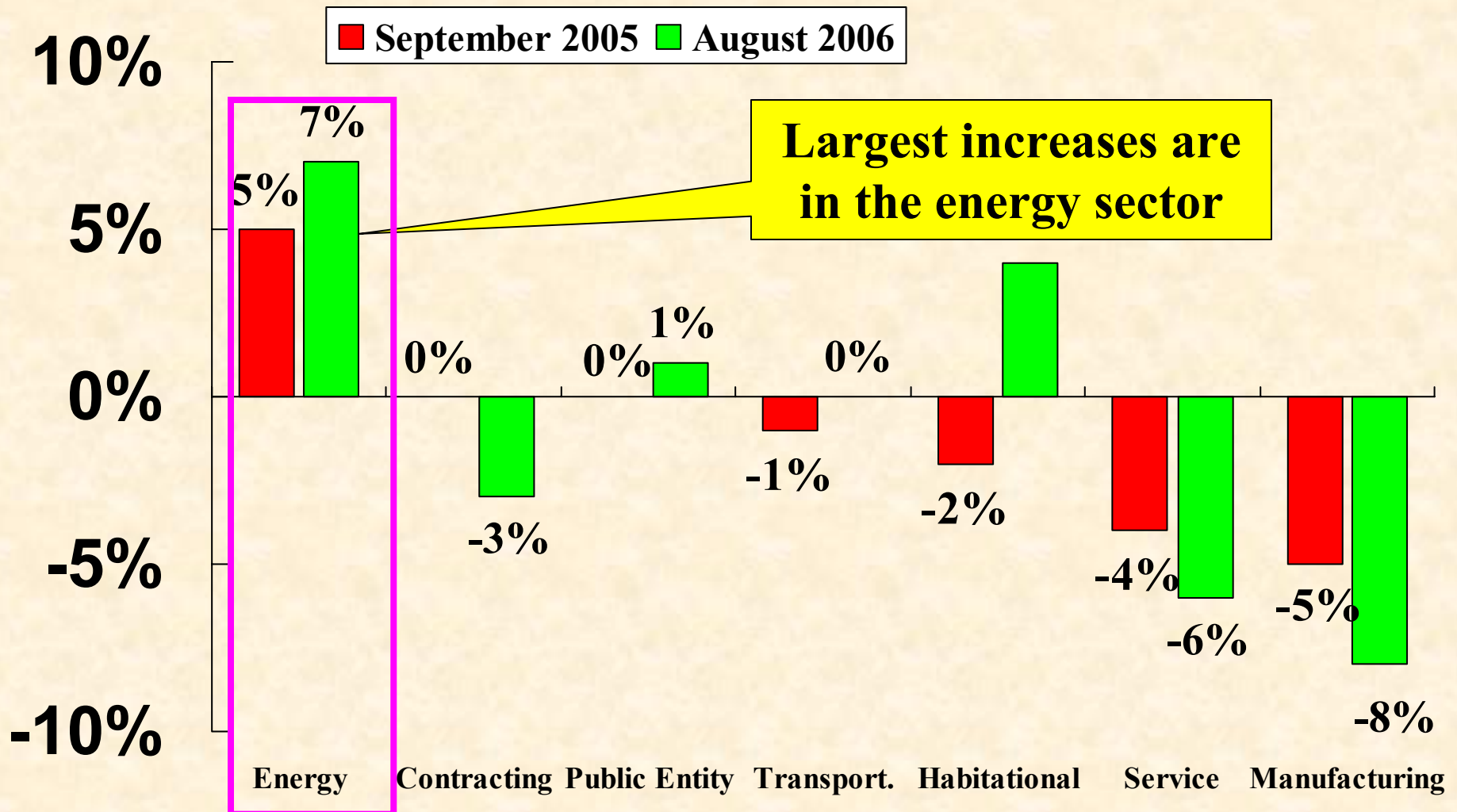
Percent of Commercial Property Accounts Renewing Negative, 2nd Qtr. 2006



Source: Insurance Information Institute from Council of Insurance Agents and Broker data.



Average Rate Increase/Decrease by Industry Class

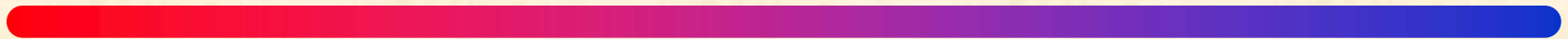


EXPOSURE GROWTH & PRICING

Awash in Profits &



Starved for Growth





Obstacles & Opportunities Related to Insurer Growth

OBSTACLES

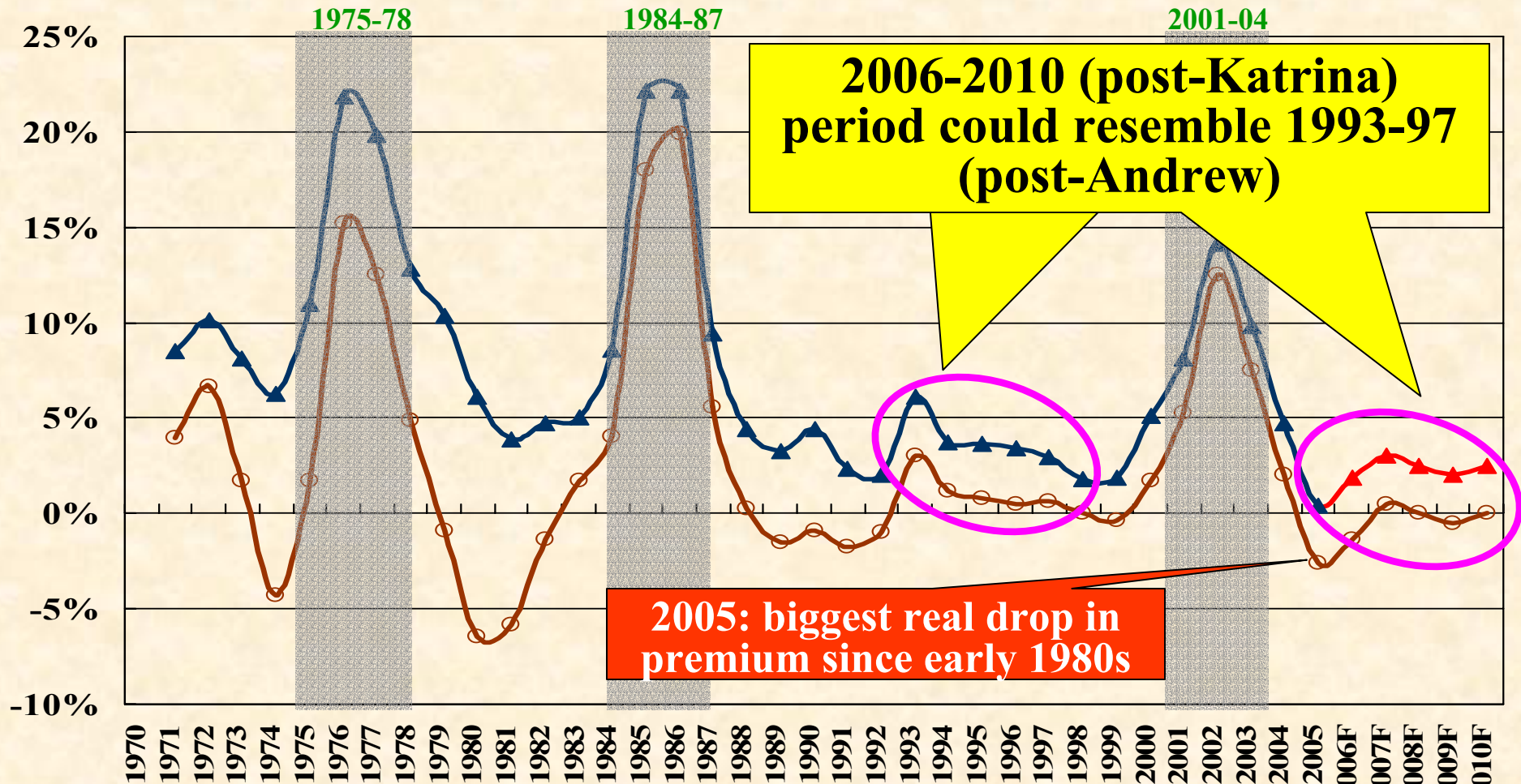
- **Softening/Competitive Rate Environment**
 - Slowest NWP growth since the soft market of late 1990s
- **Slowing Exposure Growth**
- **Slowing Economy**
- **Slowing Employment/Payroll Growth**
- **Market Saturation**
- **Insurability Concerns**

OPPORTUNITIES

- **Increased Risk Aversion of Buyers of Insurers**
- **Enhance Customer/Agent Relationships**
- **Population Growth/Immigration**



Strength of Recent Hard Markets by NWP Growth*



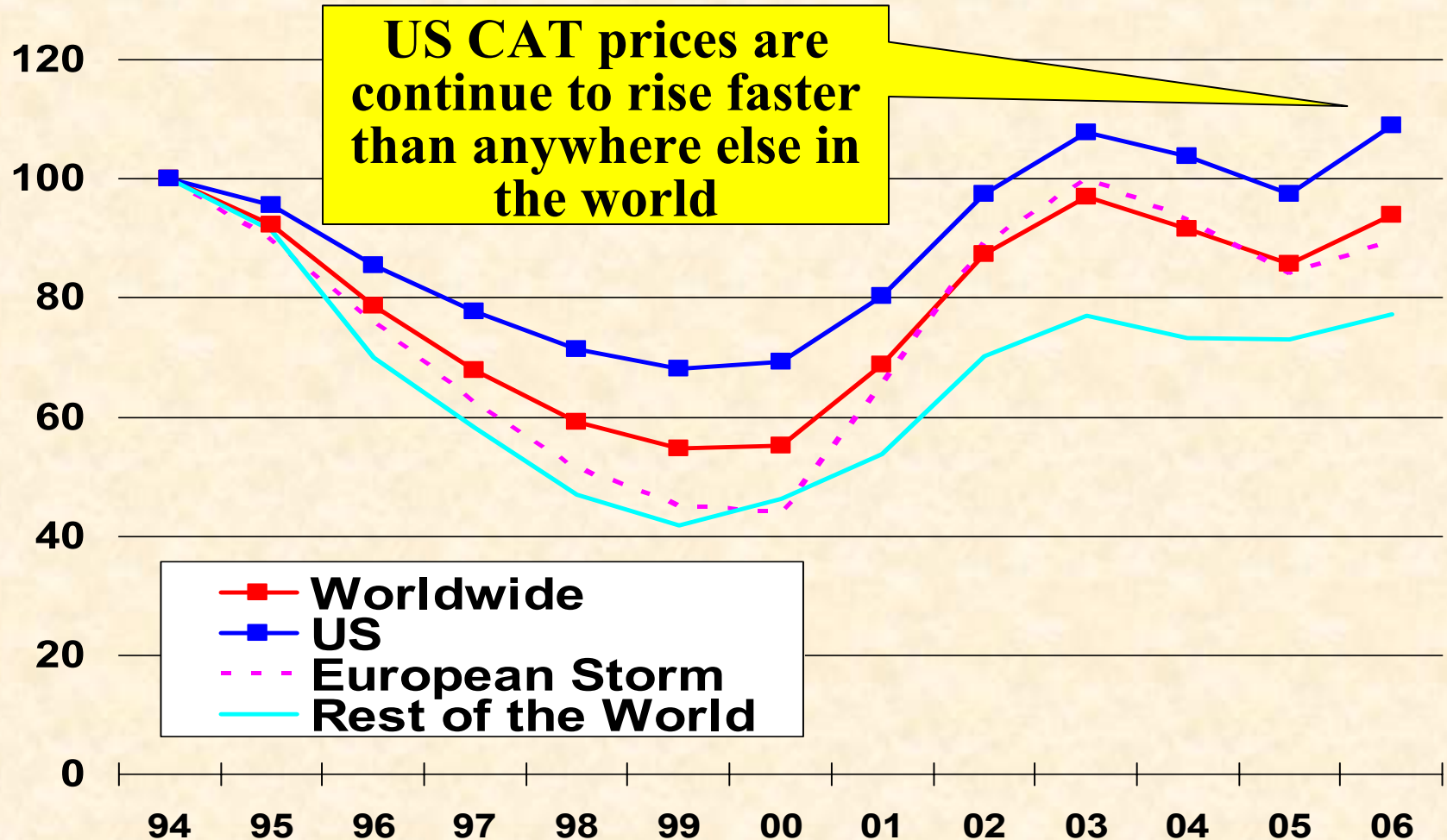
*2006-10 figures are III forecasts/estimates. 2005 growth of 0.4% equates to 1.8% after adjustment for a special one-time transaction between one company and its foreign parent. 2006 figure of 1.9% is based on 2006:Q1 data.

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



Property Catastrophe Price Index*

1994 - 2006



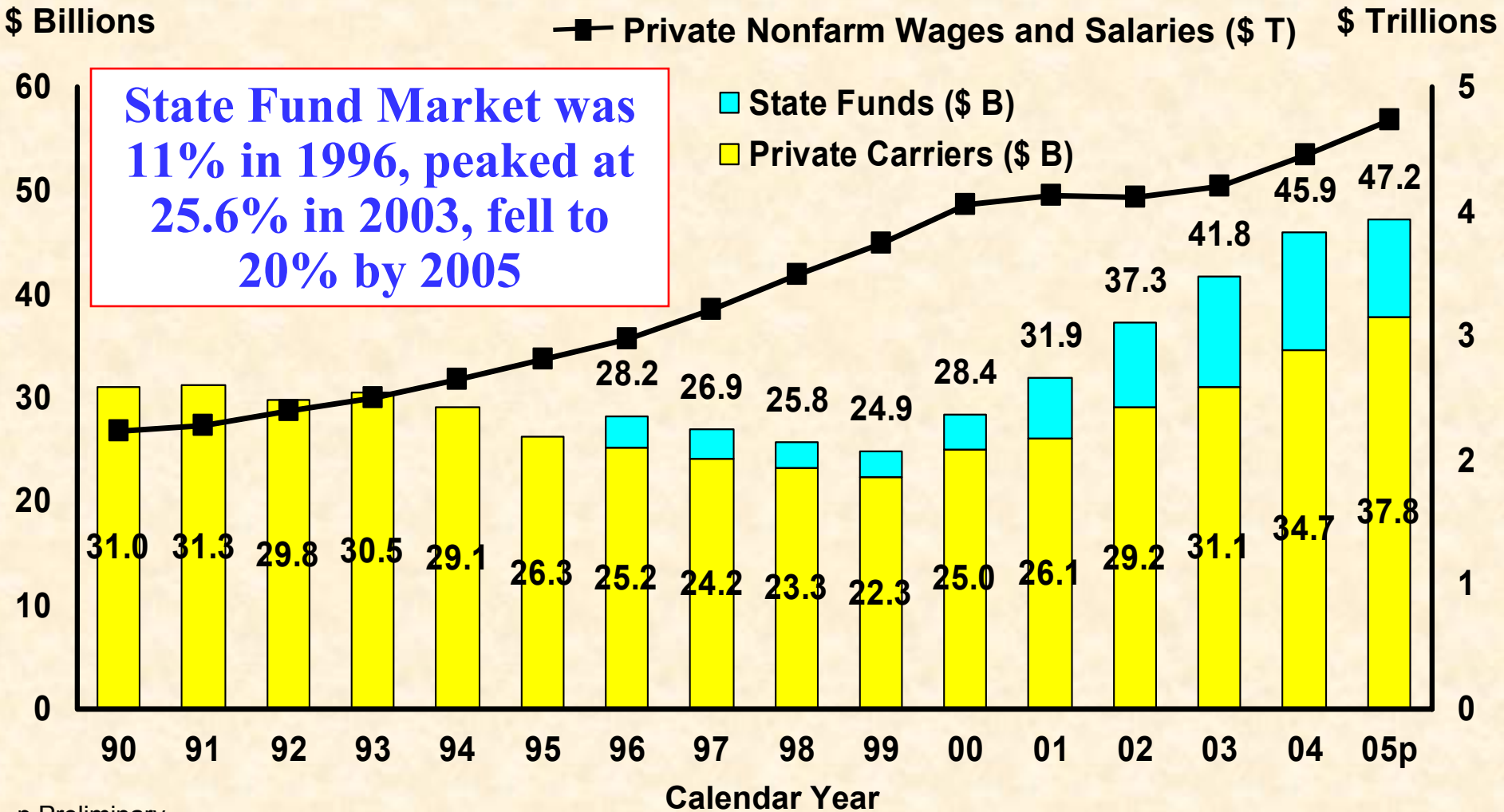
*Insurance Information Institute figure of 13.8% for 2005 based estimated 2005 DPE of \$417.7B and insured CAT losses of \$57.7B. Includes primary and reinsurance coverage.

Sources: ISO, A.M. Best, Swiss Re Economic Research & Consulting; Insurance Information Institute.



Workers Comp Premium Volume

Private Carriers and State Funds: 1990-2005P



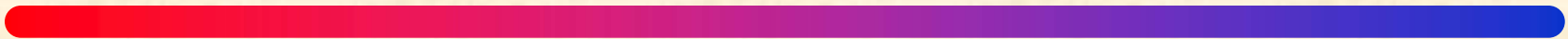
p Preliminary

Source: 1990-2004 Private Carriers, A.M. Best Aggregates & Averages; 2005p, NCCI; Bureau of Economic Analysis.

1996-2005p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

CATASTROPHE LOSS MANAGEMENT

*Insurers Have Done a Fairly Good
Job at Managing CAT Risk*





Most of US Population & Property Has Major CAT Exposure





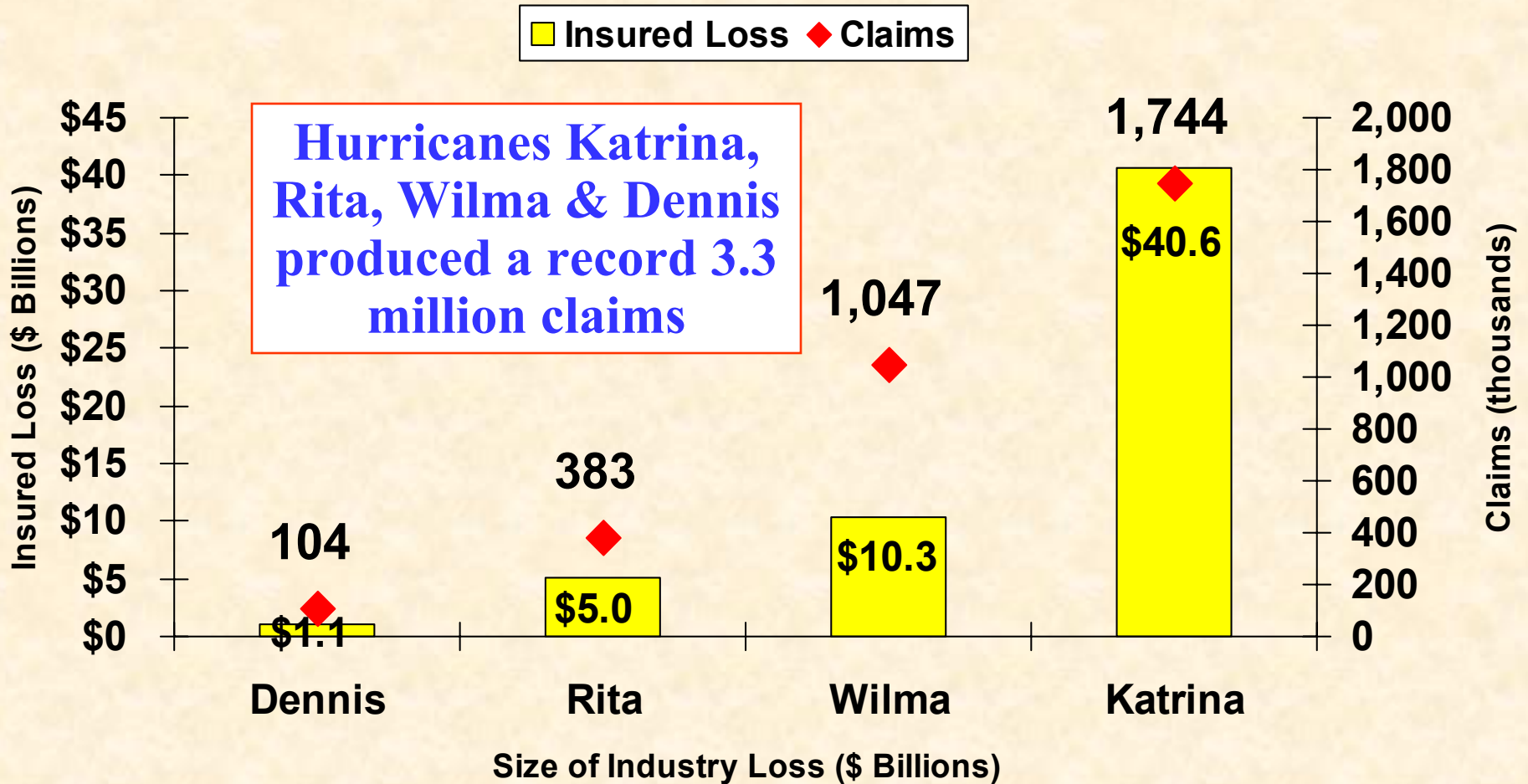
U.S. Insured Catastrophe Losses (\$ Billions)*



*Excludes \$4B-\$6b offshore energy losses from Hurricanes Katrina & Rita. ** As of Sept. 30, 2006.
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



*Insured Loss & Claim Count for Major Storms of 2005**

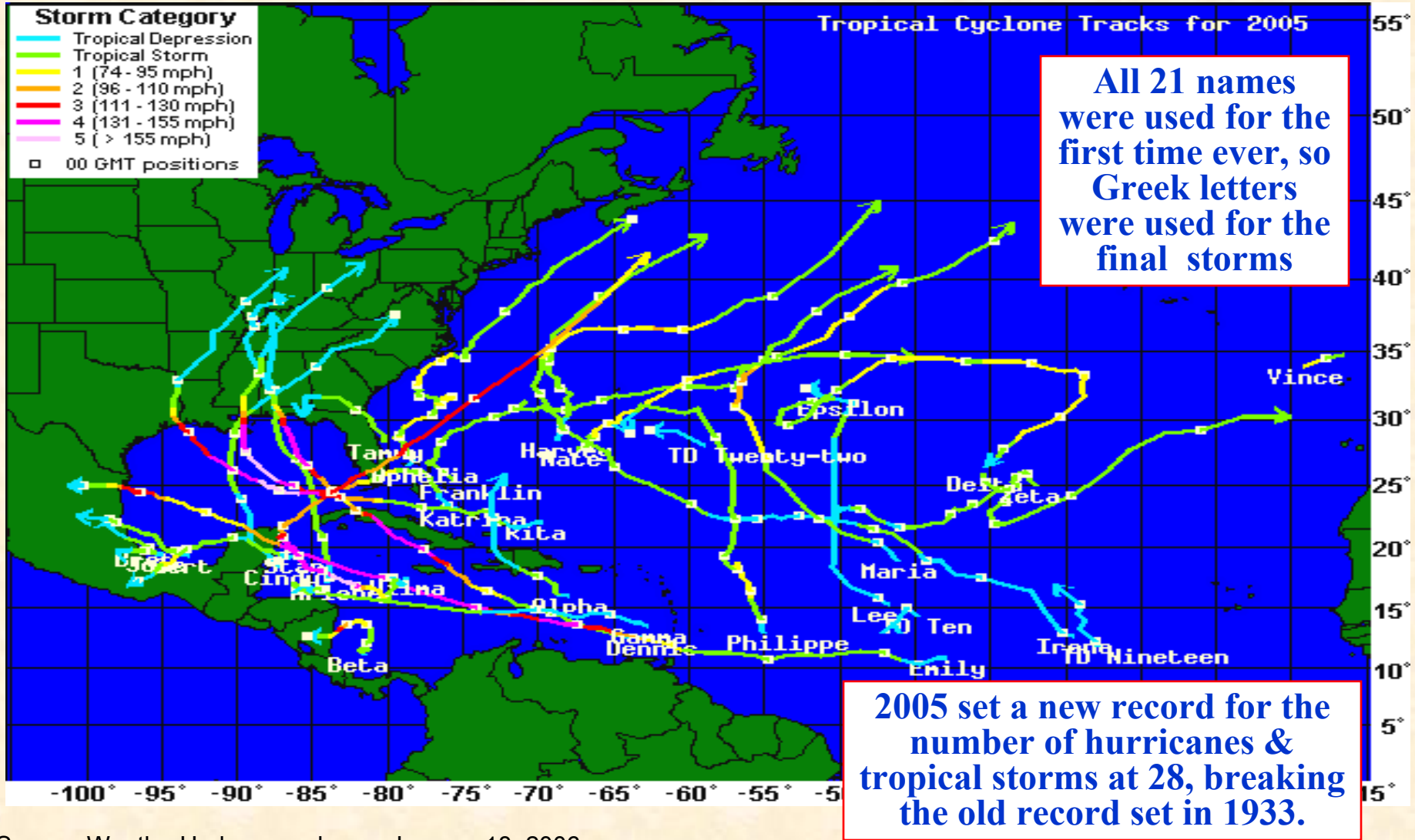


*Property and business interruption losses only. Excludes offshore energy & marine losses.

Source: ISO/PCS as of June 8, 2006; Insurance Information Institute.



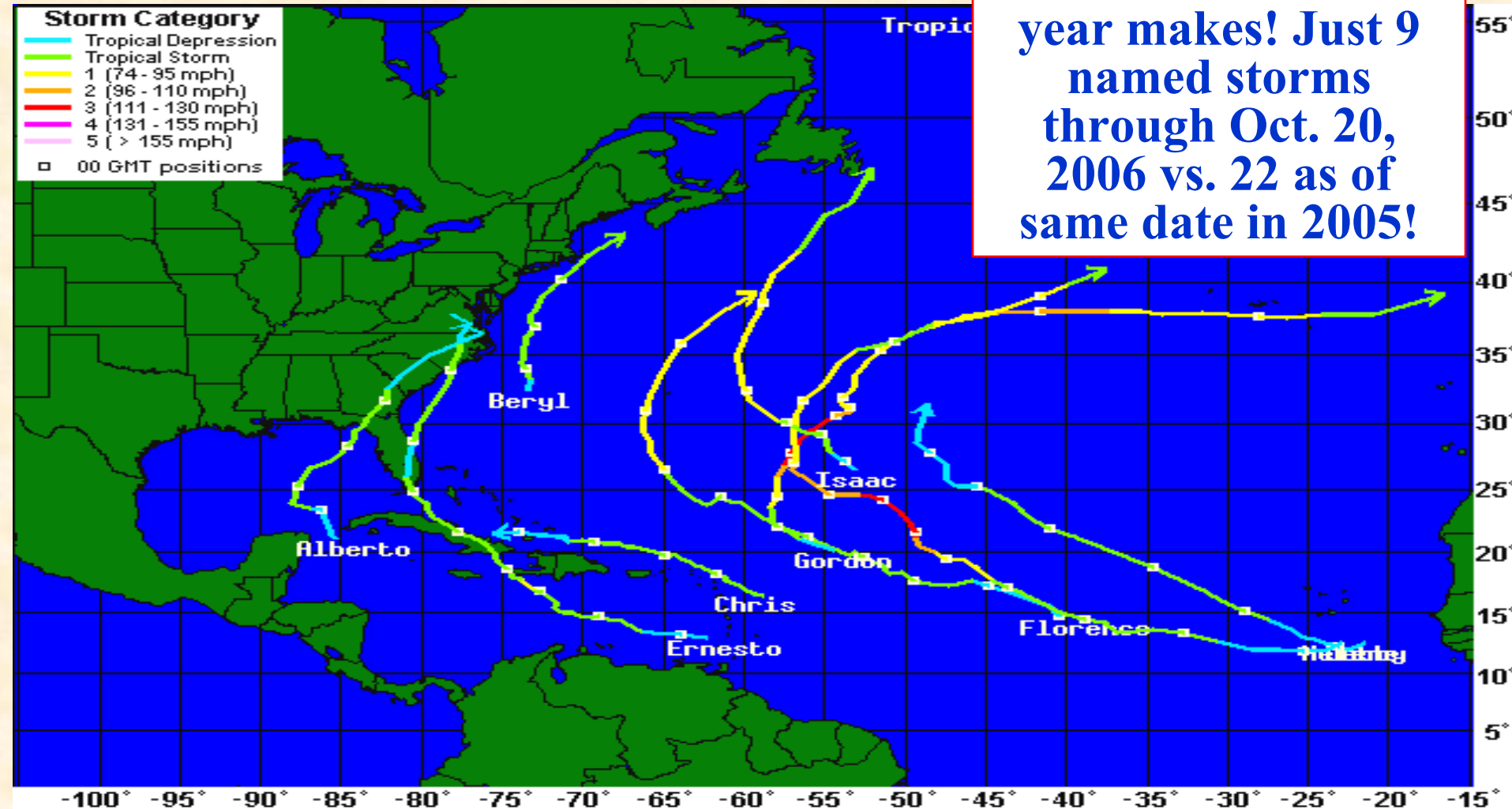
2005 Was a Busy, Destructive, Deadly & Expensive Hurricane Season





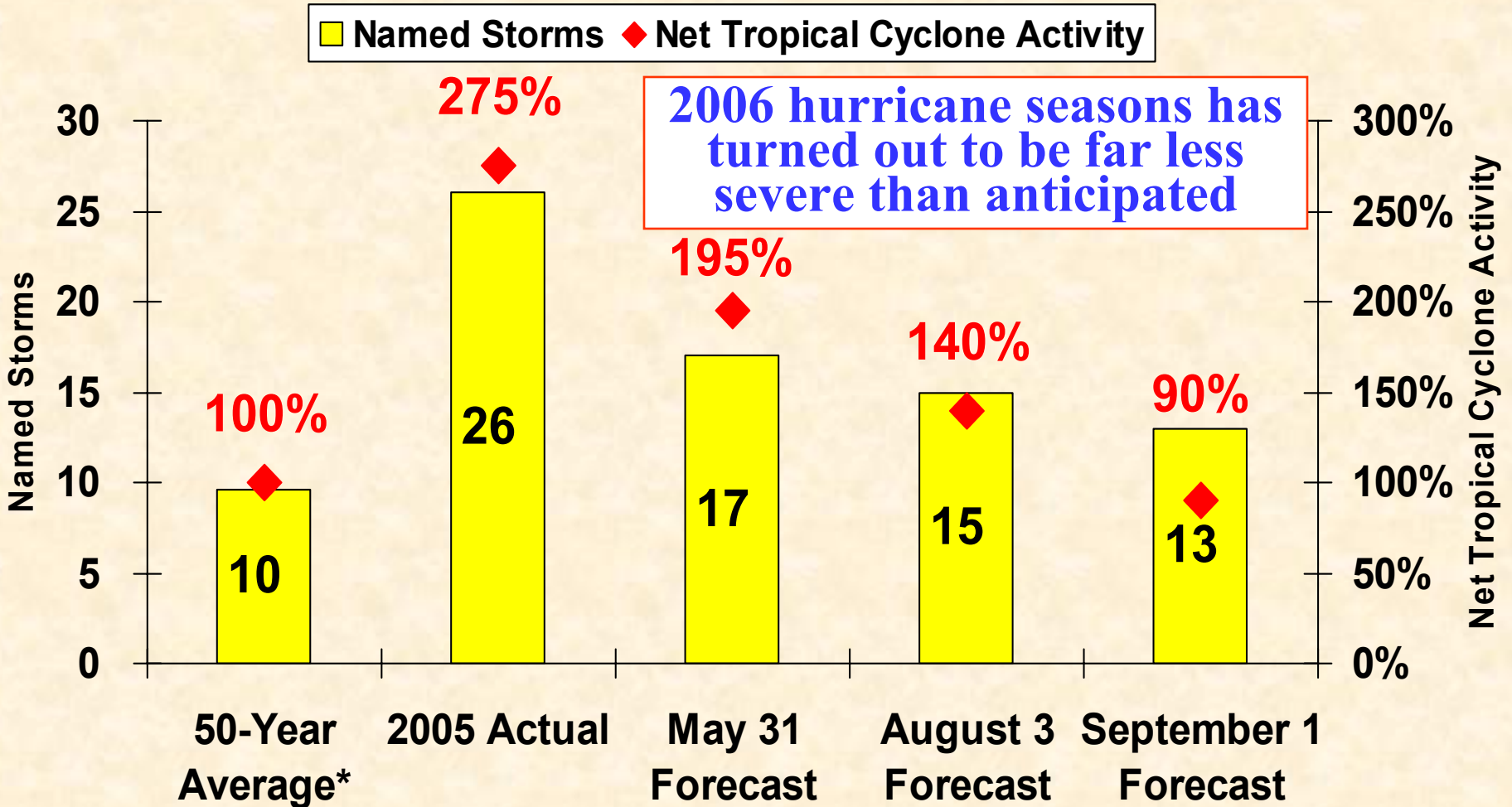
2006 Hurricane Season: Much Less Active Than Expected

What a difference a year makes! Just 9 named storms through Oct. 20, 2006 vs. 22 as of same date in 2005!





2006 Hurricane Season: Forecasts Repeatedly Scaled Back

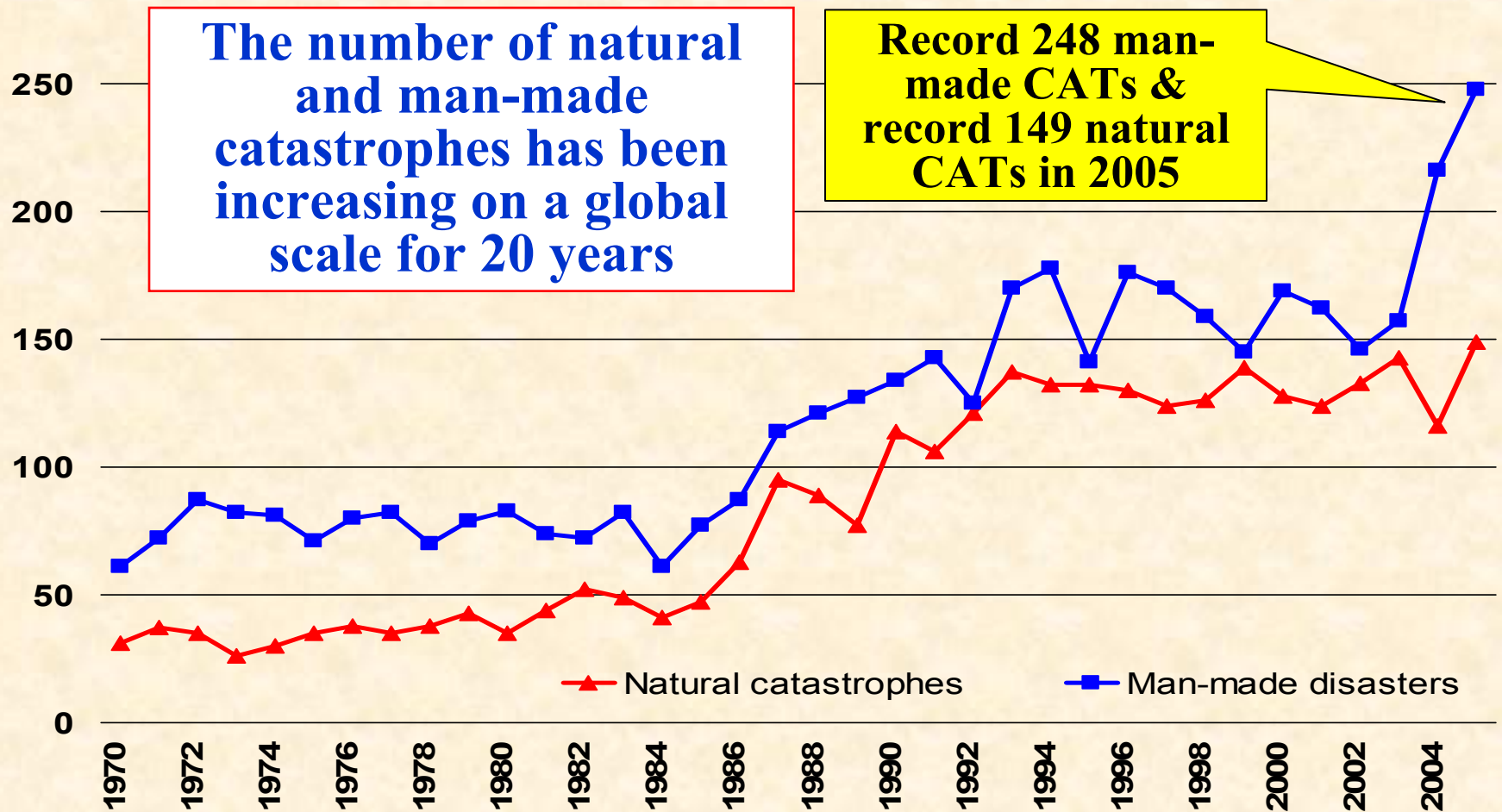


*Average over the period 1950-2000.

Source: Insurance Information Institute compilation of forecasts by Dr. William Gray, Colorado State University.

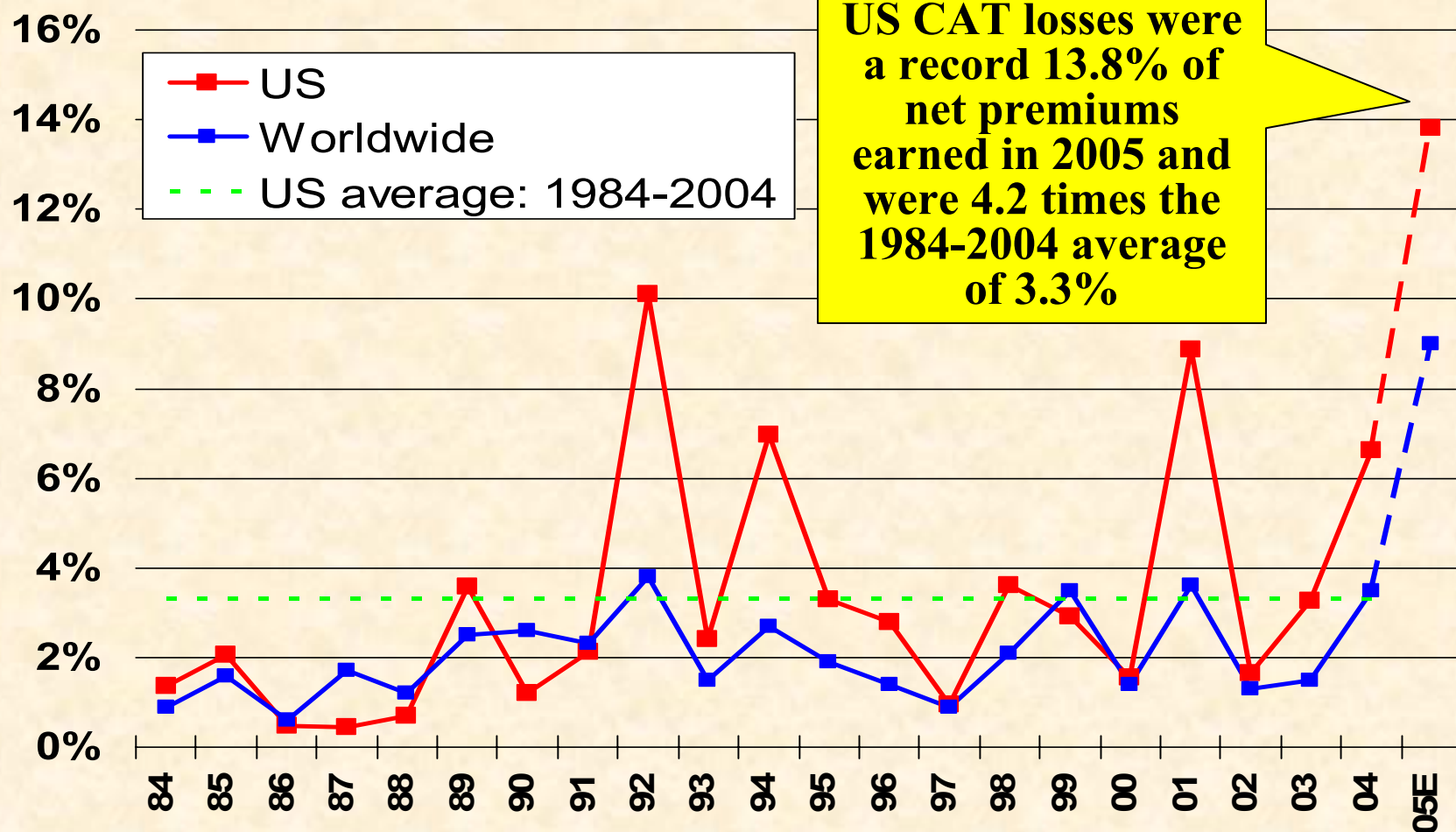


Global Number of Catastrophic Events, 1970–2005





Insured Property Catastrophe Losses as % Net Premiums Earned, 1983-2005E

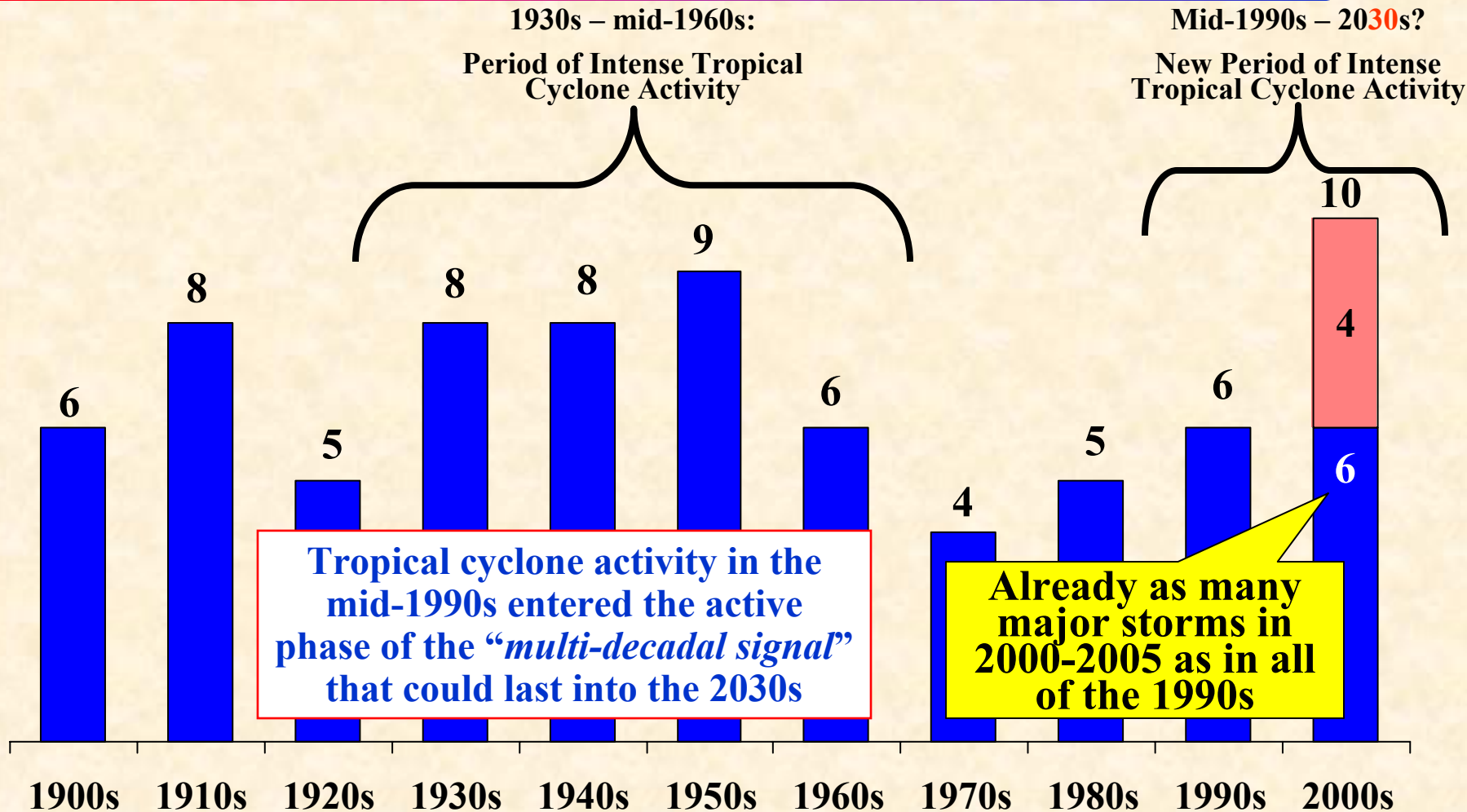


*Insurance Information Institute figure of 13.8% for 2005 based estimated 2005 DPE of \$417.7B and insured CAT losses of \$57.7B.

Sources: ISO, A.M. Best, Swiss Re Economic Research & Consulting; Insurance Information Institute.



Number of Major (Category 3, 4, 5) Hurricanes Striking the US by Decade

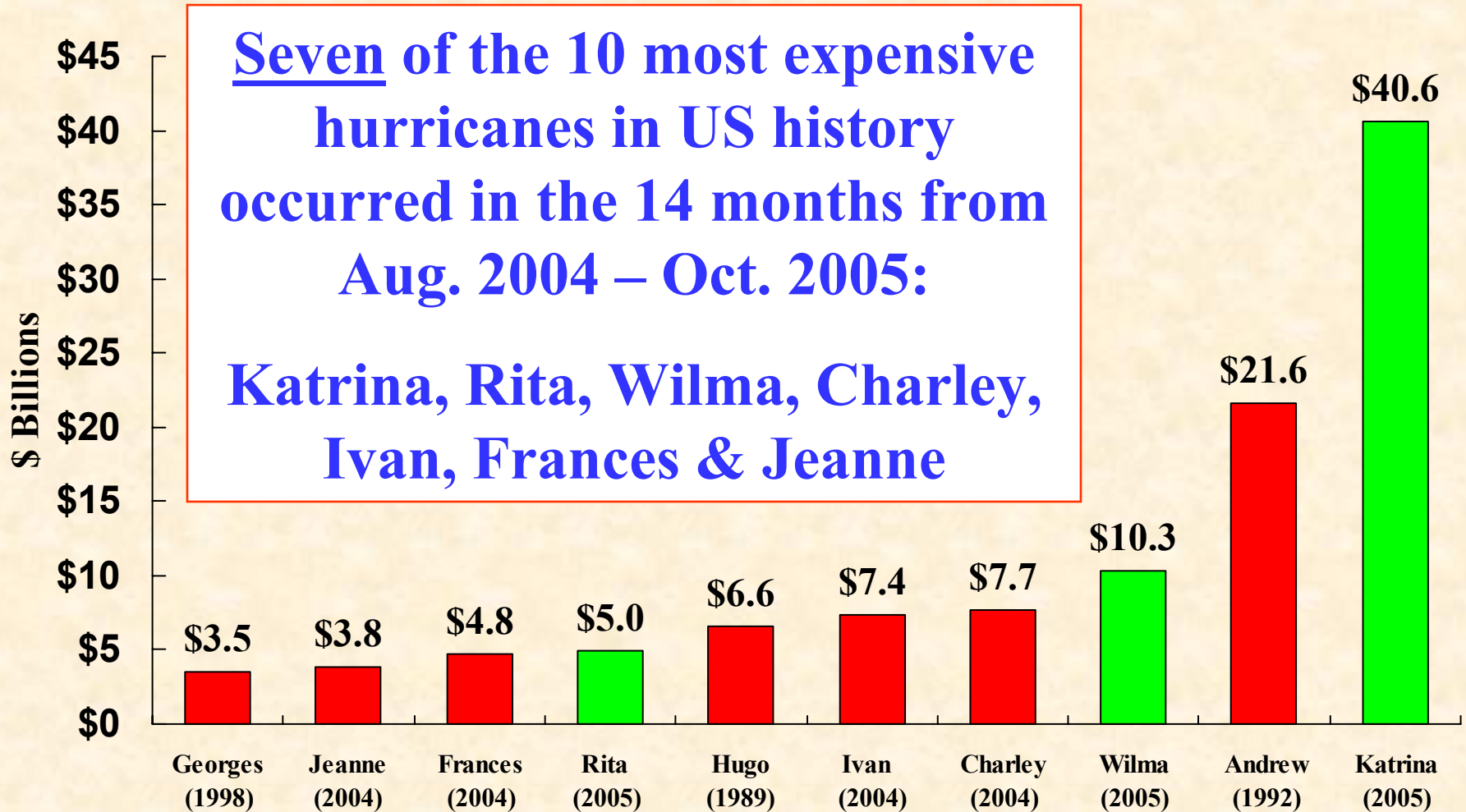


*Figure for 2000s is extrapolated based on data for 2000-2005 (6 major storms: Charley, Ivan, Jeanne (2004) & Katrina, Rita, Wilma (2005)).

Source: Tillinghast from National Hurricane Center: <http://www.nhc.noaa.gov/pastint.shtm>.

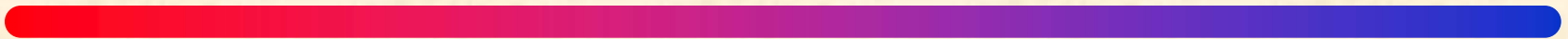


Top 10 Most Costly Hurricanes in US History, (Insured Losses, \$2005)



TRIA EXTENSION

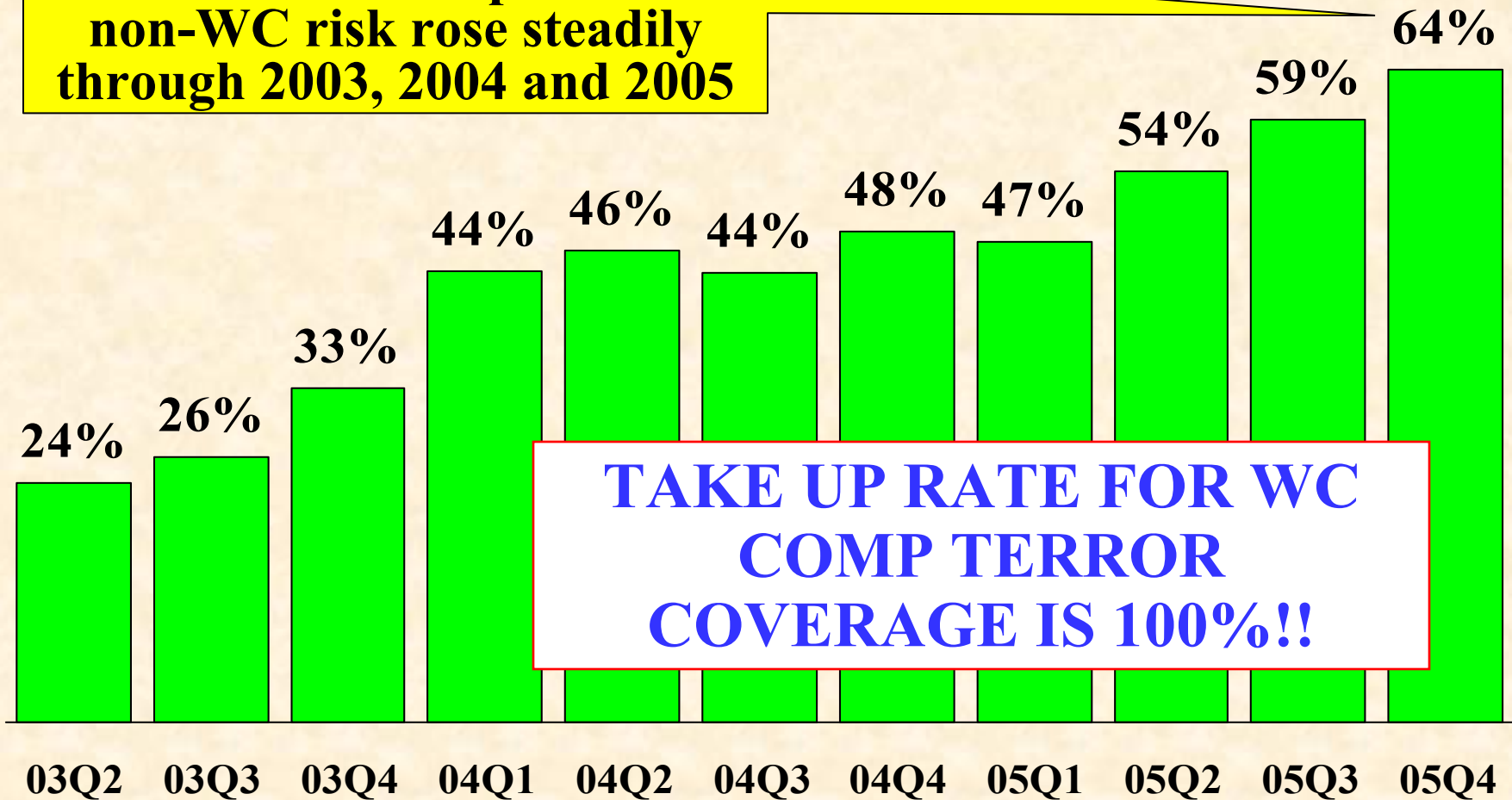
*The Burden Grows, and the
Clock is Ticking*





Terrorism Coverage Take-Up Rate Continues to Rise

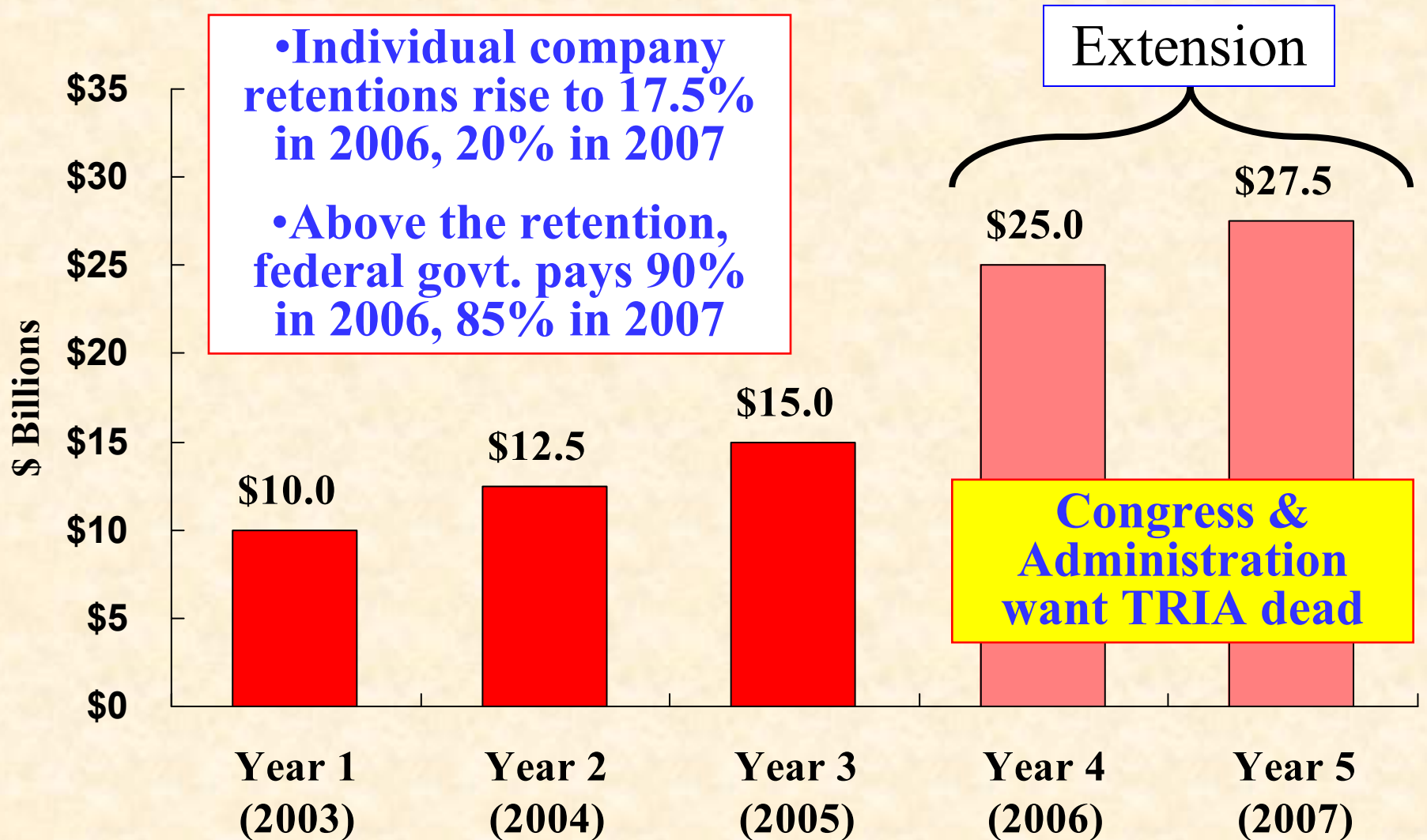
Terrorism take-up rate for non-WC risk rose steadily through 2003, 2004 and 2005



**TAKE UP RATE FOR WC
COMP TERROR
COVERAGE IS 100%!!**



Insurance Industry Retention Under TRIA (\$ Billions)





Insured Loss Estimates:

Large CNBR Terrorist Attack (\$ Bill)

Type of Coverage	New York	Washington	San Francisco	Des Moines
Group Life	\$82.0	\$22.5	\$21.5	\$3.4
General Liability	14.4	2.9	3.2	0.4
Workers Comp	483.7	126.7	87.5	31.4
Residential Prop.	38.7	12.7	22.6	2.6
Commercial Prop.	158.3	31.5	35.5	4.1
Auto	1.0	0.6	0.8	0.4
TOTAL	\$778.1	\$196.8	\$171.2	\$42.3

Source: American Academy of Actuaries, Response to President's Working Group, Appendix II, April 26, 2006.



Insured Loss Estimates:

Medium CNBR Terrorist Attack (\$ Bill)

Type of Coverage	New York	Washington	San Francisco	Des Moines
Group Life	\$37.7	\$22.5	\$21.5	\$3.4
General Liability	7.3	2.9	3.2	0.4
Workers Comp	313.2	126.7	87.5	31.4
Residential Prop.	10.3	12.7	22.6	2.6
Commercial Prop.	77.8	31.5	35.5	4.1
Auto	0.2	0.6	0.8	0.4
TOTAL	\$446.5	\$106.2	\$92.2	\$27.3

Source: American Academy of Actuaries, Response to President's Working Group, Appendix II, April 26, 2006.



Insured Loss Estimates: Truck Bomb Terrorist Attack (\$ Bill)

Type of Coverage	New York	Washington	San Francisco	Des Moines
Group Life	\$0.3	\$0.2	\$0.3	\$0.1
General Liability	1.2	0.4	0.7	0.2
Workers Comp	3.5	2.8	3.9	1.5
Residential Prop.	0.0	0.0	0.0	0.0
Commercial Prop.	6.8	2.1	3.9	1.2
Auto	0.0	0.0	0.0	0.0
TOTAL	\$11.8	\$5.5	\$8.8	\$3.0

Source: American Academy of Actuaries, Response to President's Working Group, Appendix II, April 26, 2006.



Potential Insured Losses from Terrorist Attack on Major Corporate HQ in Houston* (\$Billions)

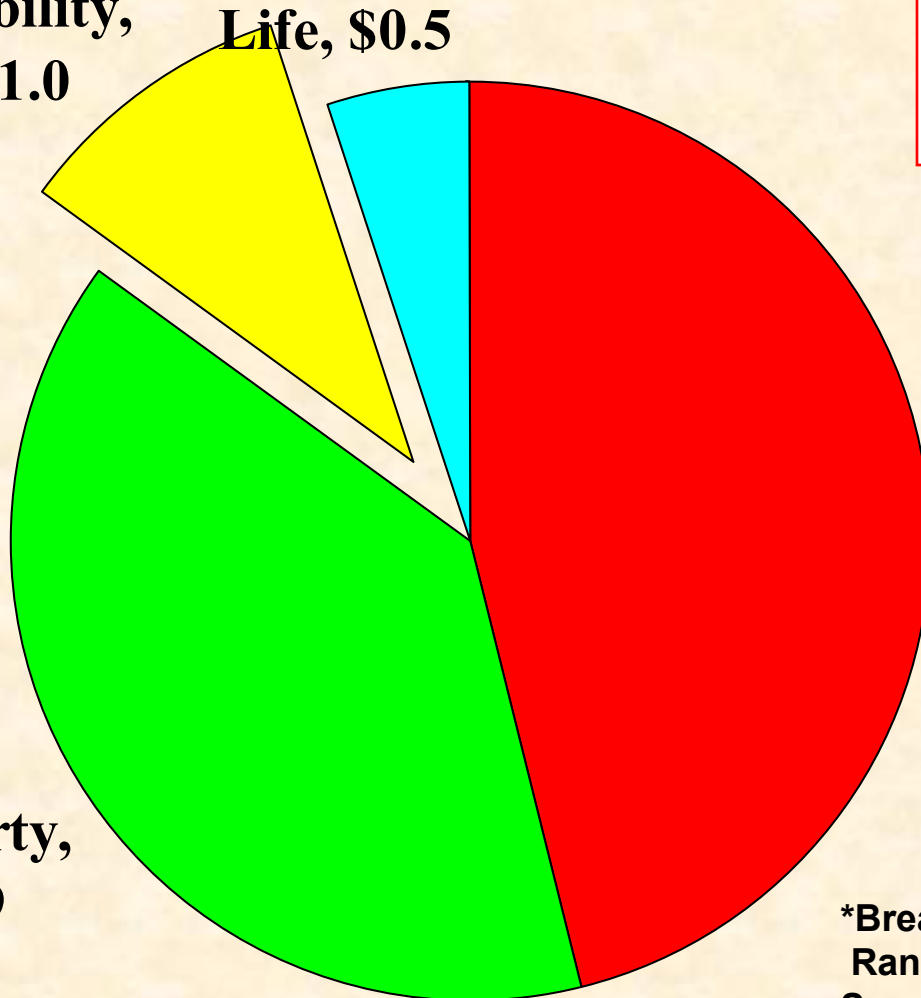
**Liability,
\$1.0**

Life, \$0.5

Potential losses in TX are large

**Workers
Comp, \$4.6**

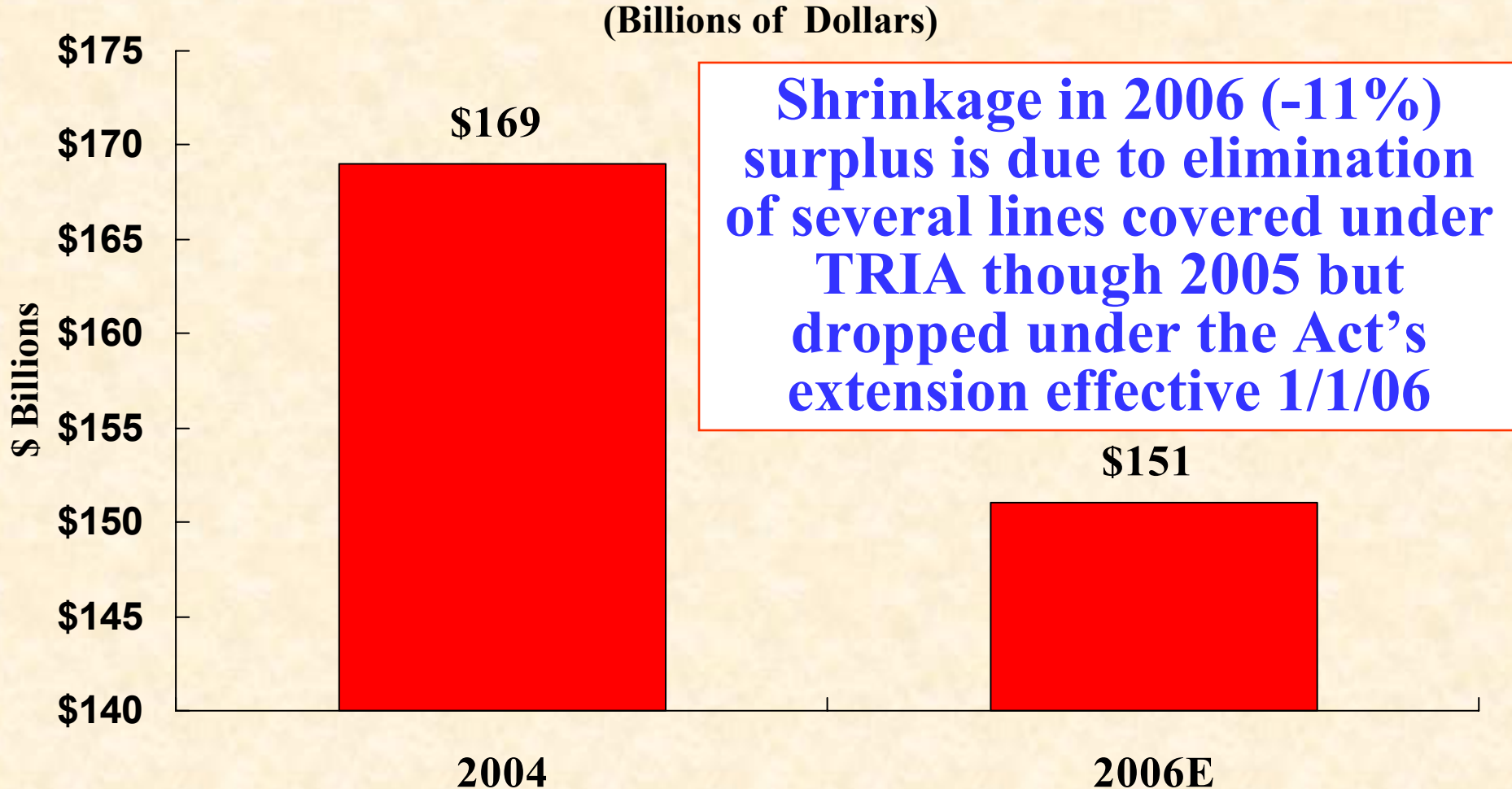
**Property,
\$3.9**



*Break down is based on \$10 billion loss estimate. Range of estimates is \$10 - \$12 billion. Source: RMS.



Surplus Under TRIA/TRIEA Covered Lines



*2006 figure uses 2005 estimated year-end surplus and premiums by line as basis for calculations.

Source: Insurance Information Institute.

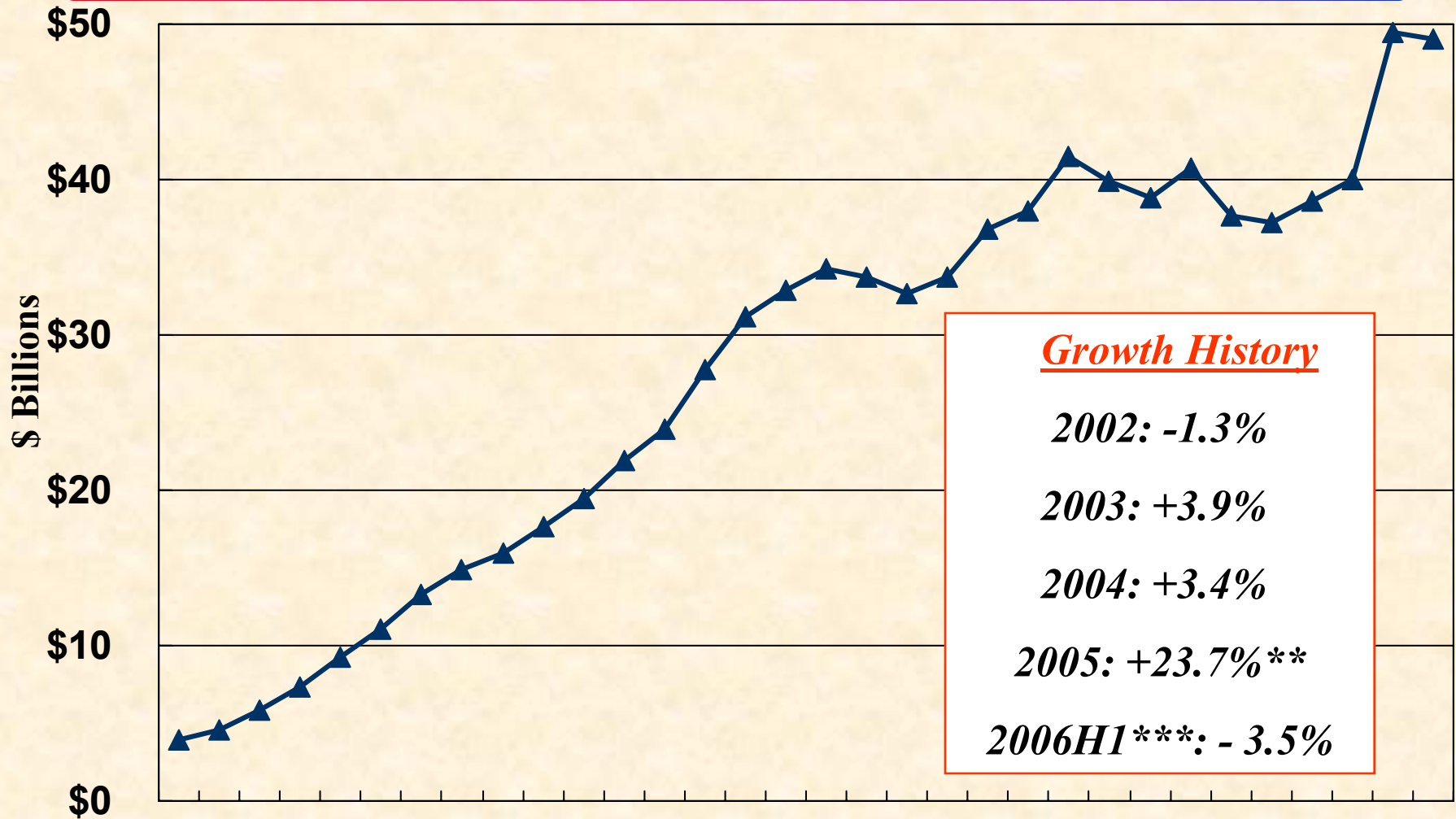
INVESTMENTS

*Does Investment
Performance Affect
Discipline?*





Net Investment Income



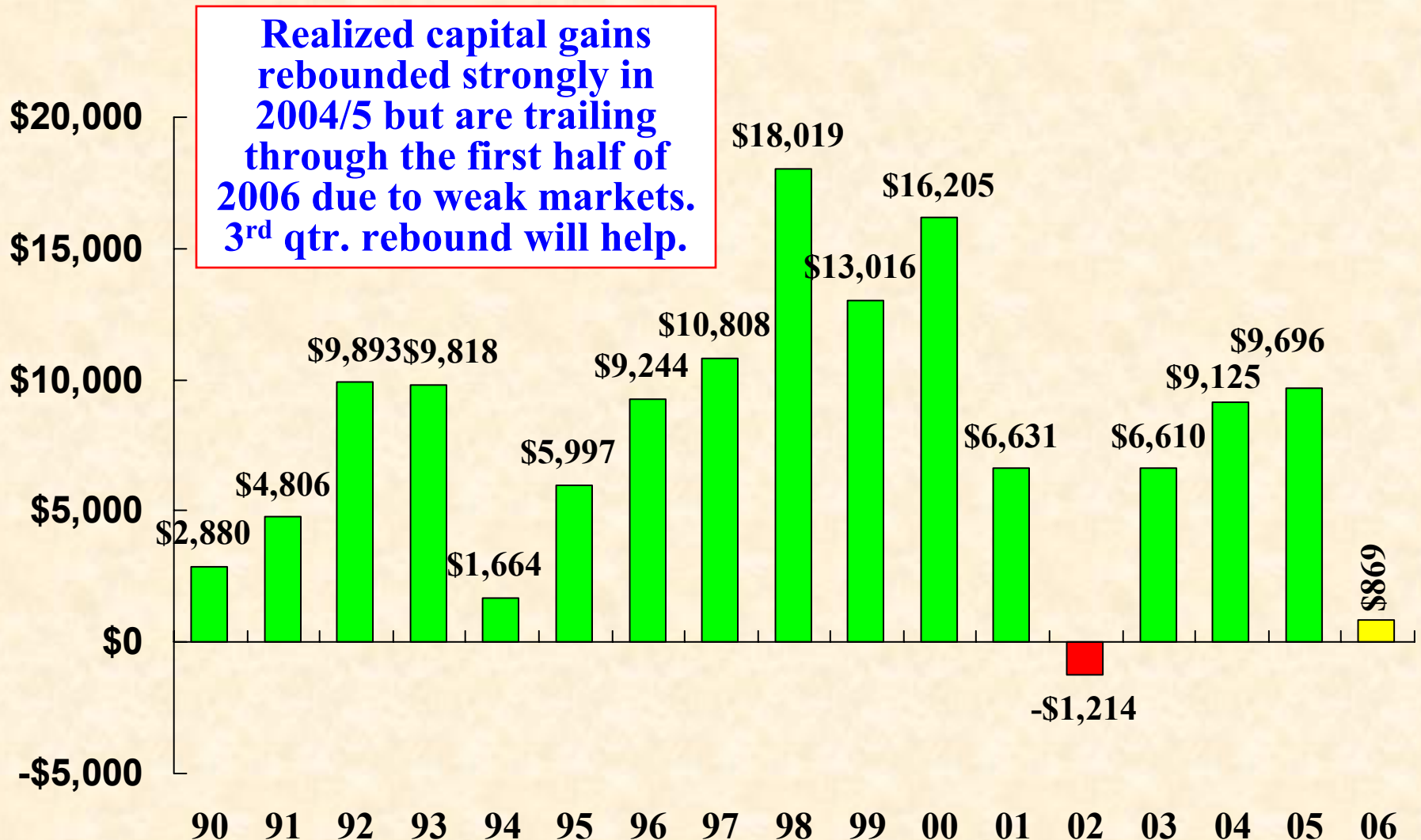
75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06

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

Includes special dividend of \$3.2B. Increase is 15.7% excluding dividend. *Annualized H1:06 figure.



US P/C Net Realized Capital Gains, 1990-2006:H1 (\$ Millions)

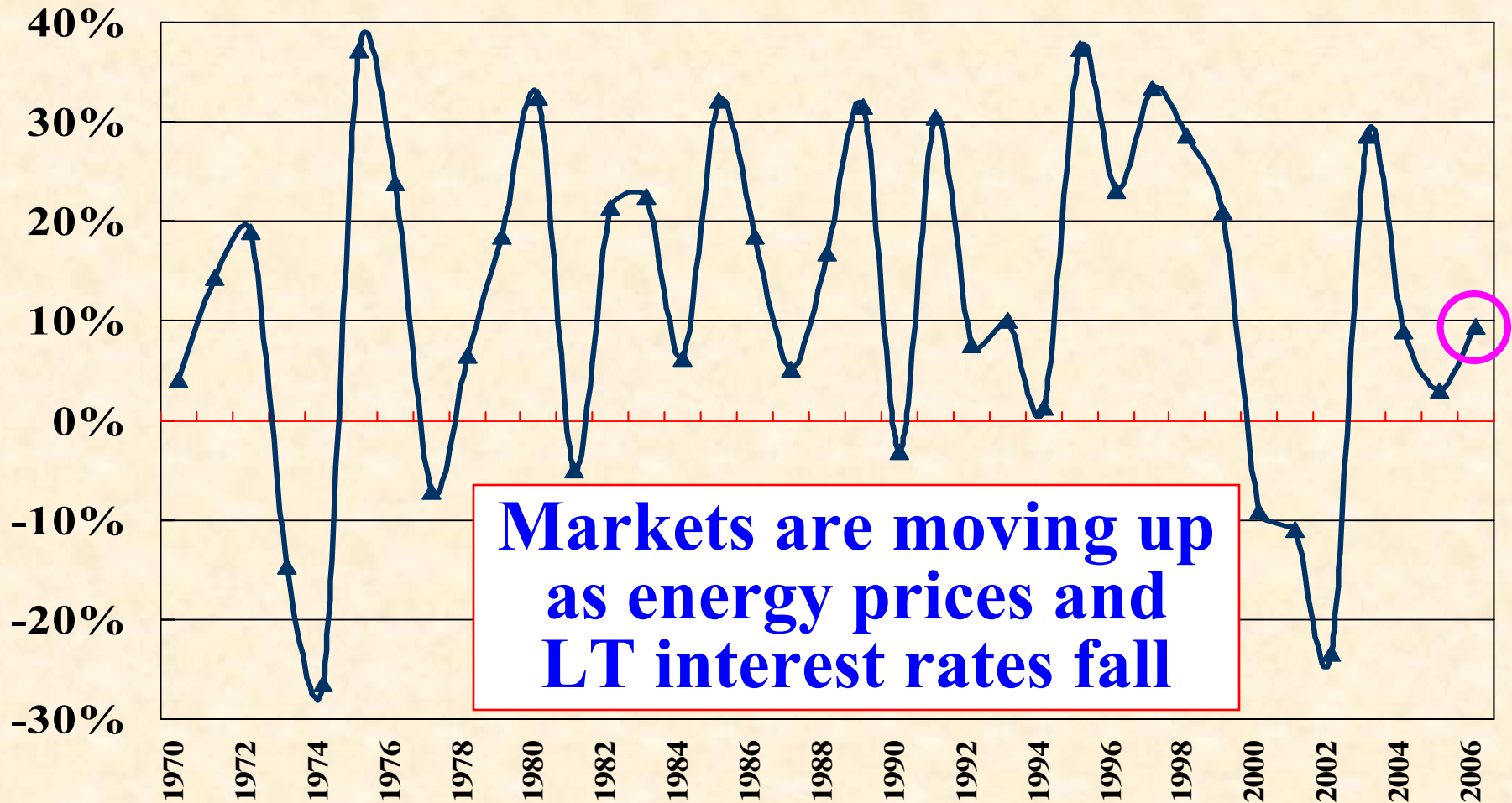


Sources: A.M. Best, ISO, Insurance Information Institute.



Total Returns for Large Company Stocks: 1970-2006*

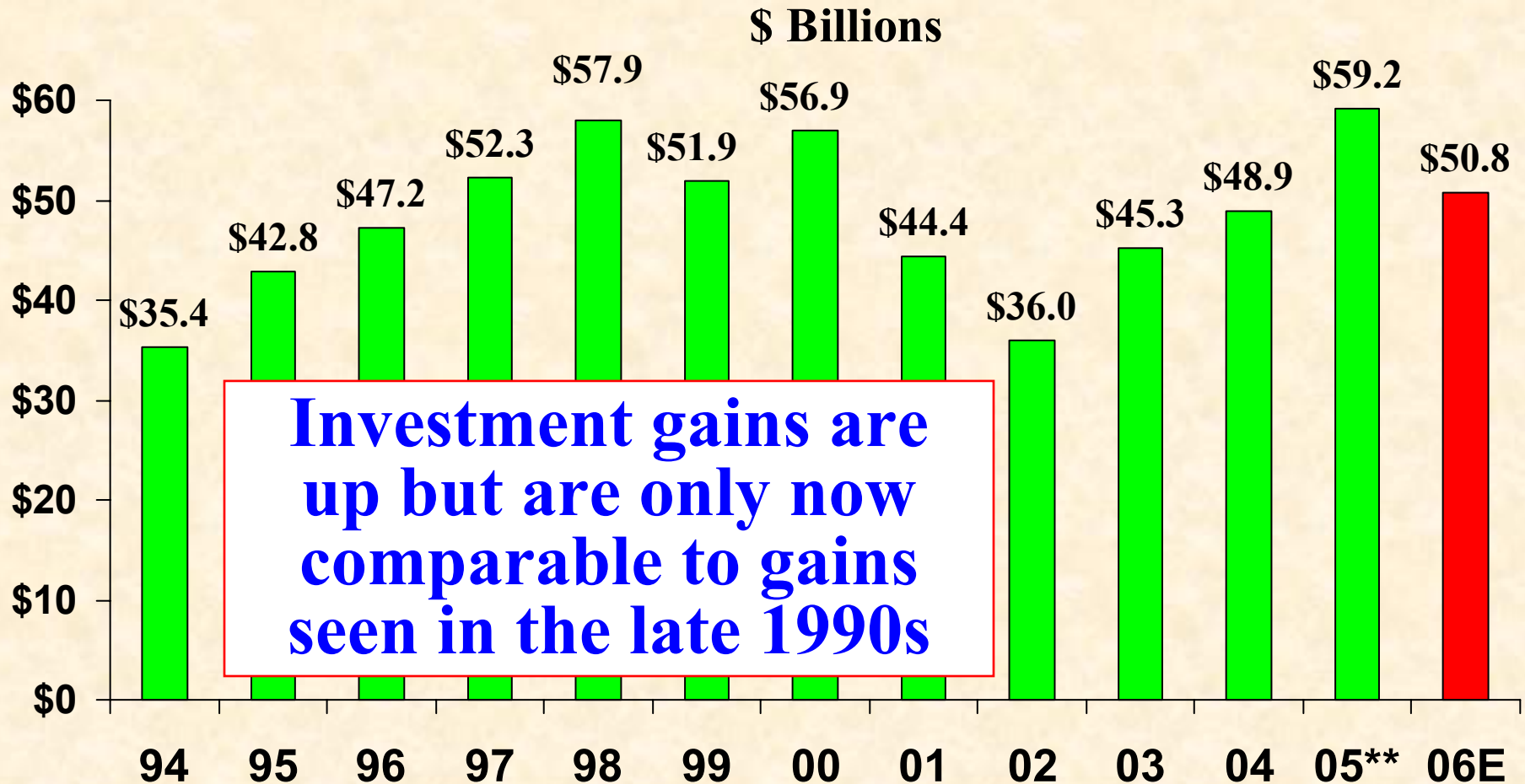
S&P 500 is up 9.51% so far in 2006*



**Markets are moving up
as energy prices and
LT interest rates fall**



Property/Casualty Insurance Industry Investment Gain*

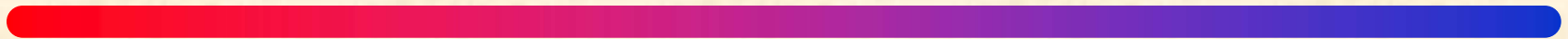


*Investment gains consist primarily of interest, stock dividends and realized capital gains and losses. 2006 estimate based on actual annualized 2006:H1 result of \$25.375B.

**2005 figure includes special one-time dividend of \$3.2B. Source: ISO; Insurance Information Institute.

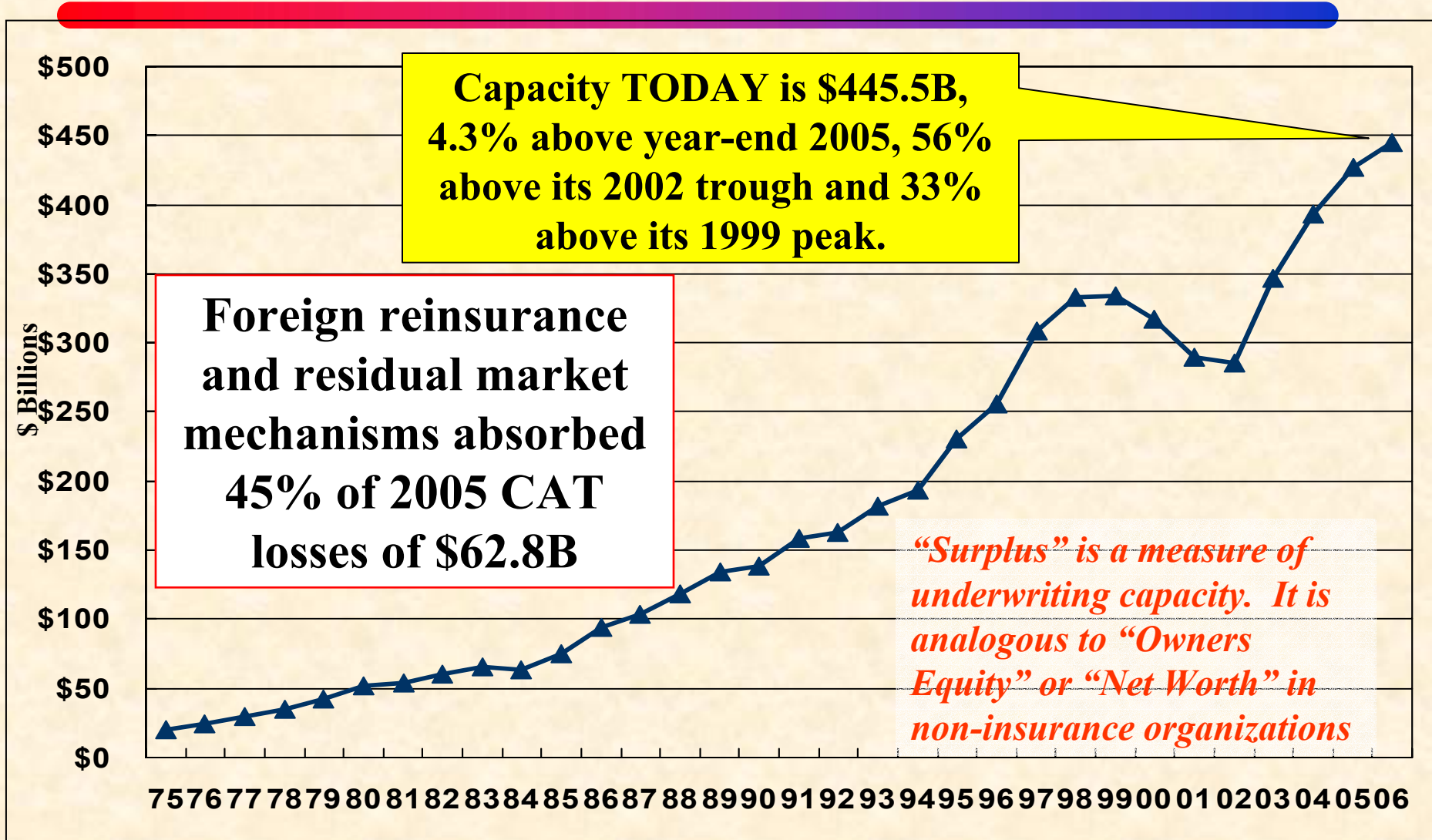
UNDERWRITING CAPACITY

*Can the Industry
Efficiently Employ Its
Increasing Capital?*





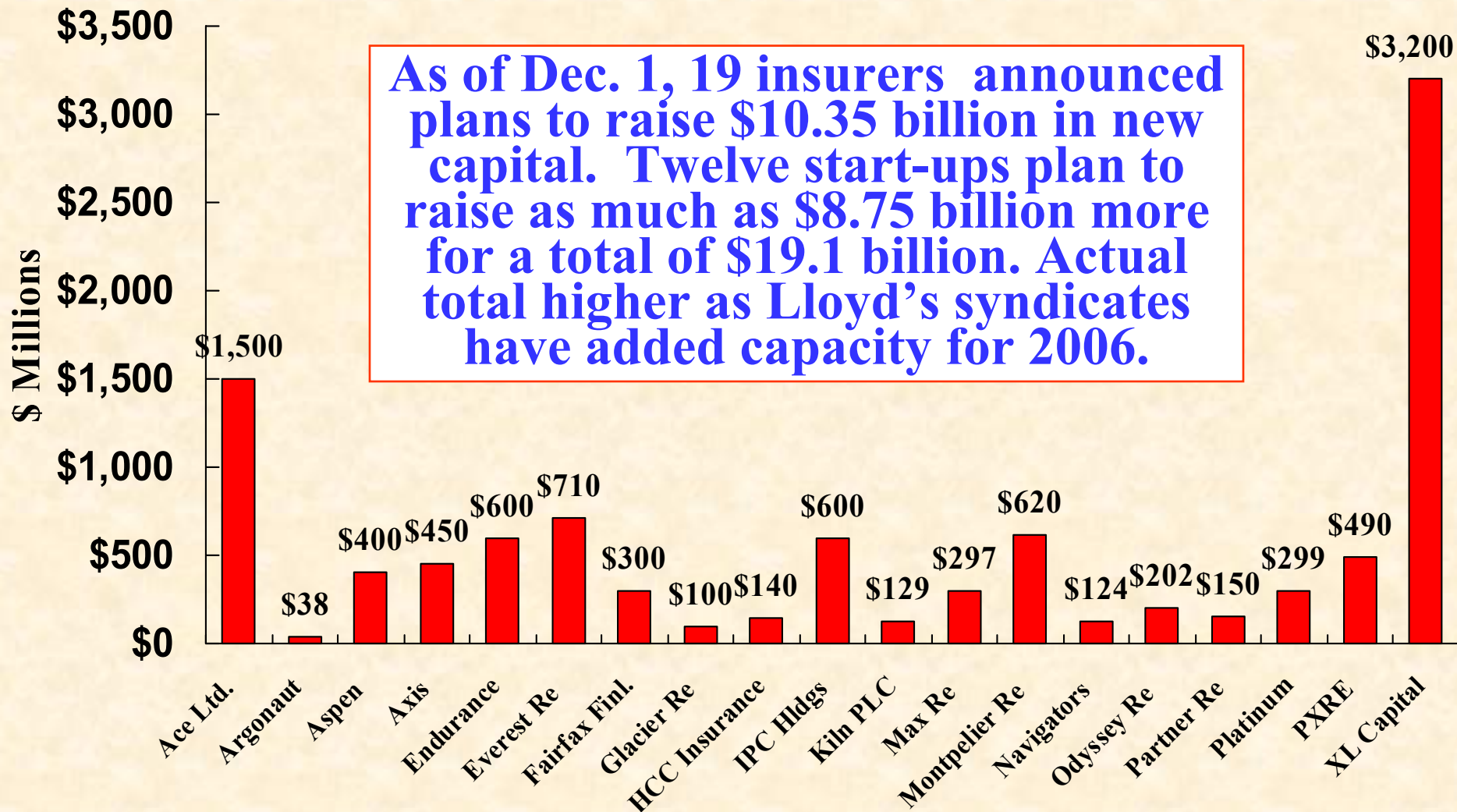
U.S. Policyholder Surplus: 1975-2006*





Announced Insurer Capital Raising*

(\$ Millions, as of December 1, 2005)



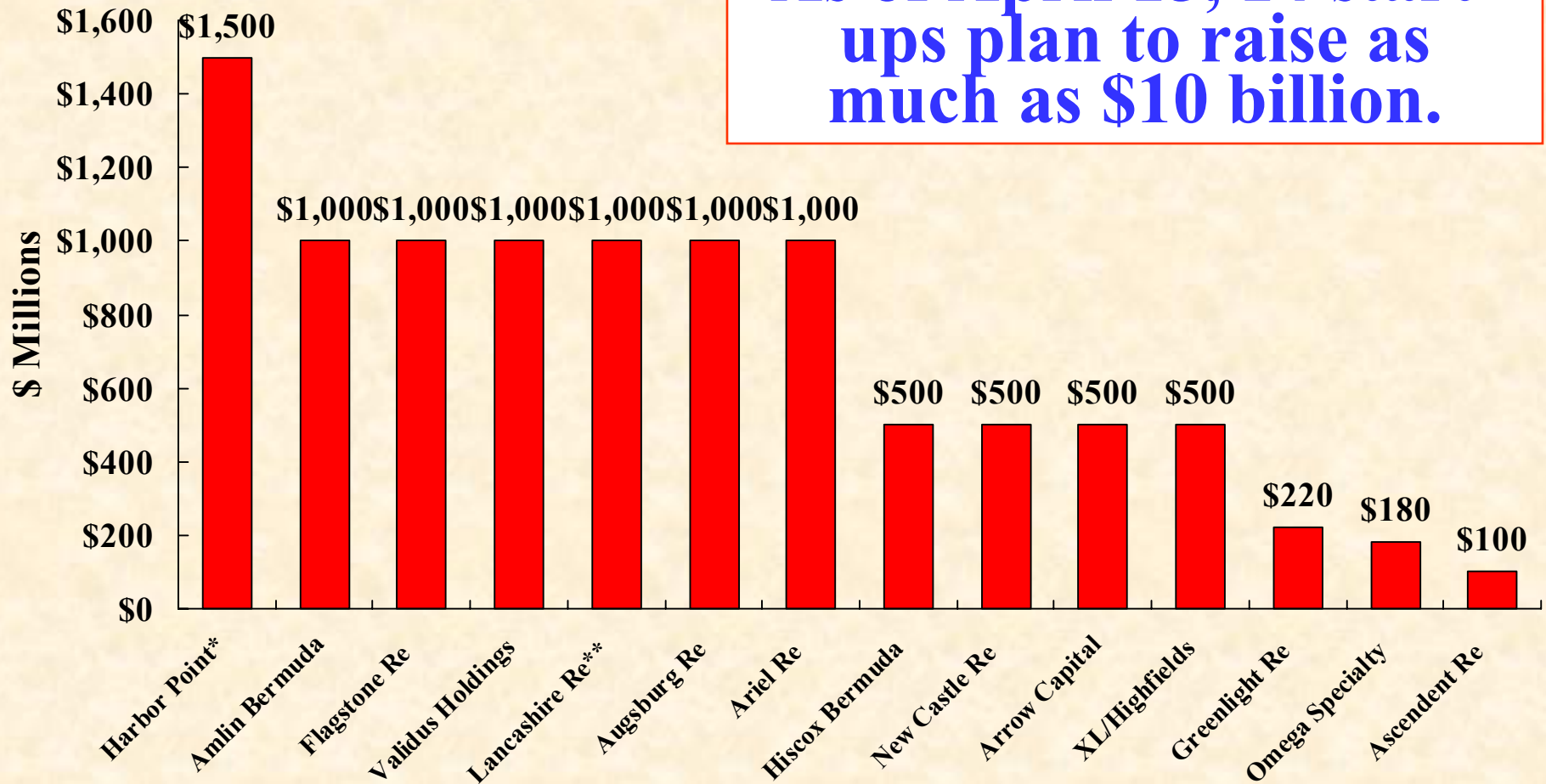
*Existing (re) insurers. Announced amounts may differ from sums actually raised.
Sources: Morgan Stanley, Lehman Brothers, Company Reports; Insurance Information Institute.



Announced Capital Raising by Insurance Start-Ups

(\$ Millions, as of April 15, 2006)

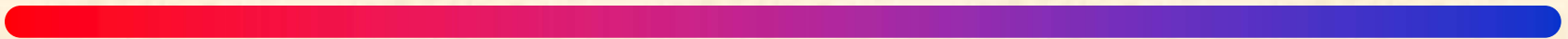
As of April 15, 14 start-ups plan to raise as much as \$10 billion.



*Chubb, Trident are funding Harbor Point. Announced amounts may differ from sums actually raised. **Stated amount is \$750 million to \$1 billion. ***XL Capital/Hedge Fund venture. Arrow Capital formed by Goldman Sachs.
Sources: Investment Bank Reports; Insurance Information Institute.

Legal Liability & Tort Environment

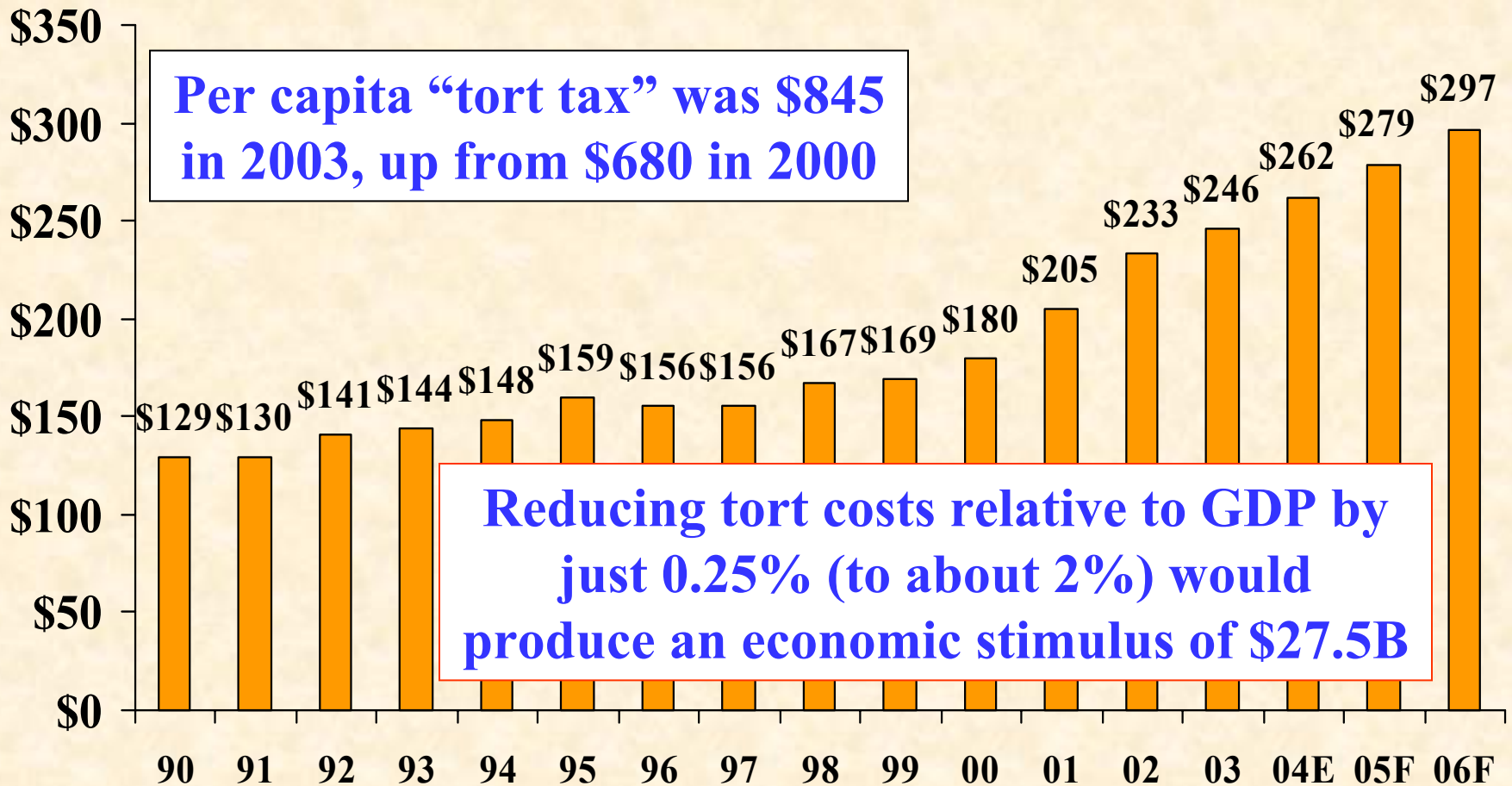
*Definitely Improving But
Not Out of the Wood*





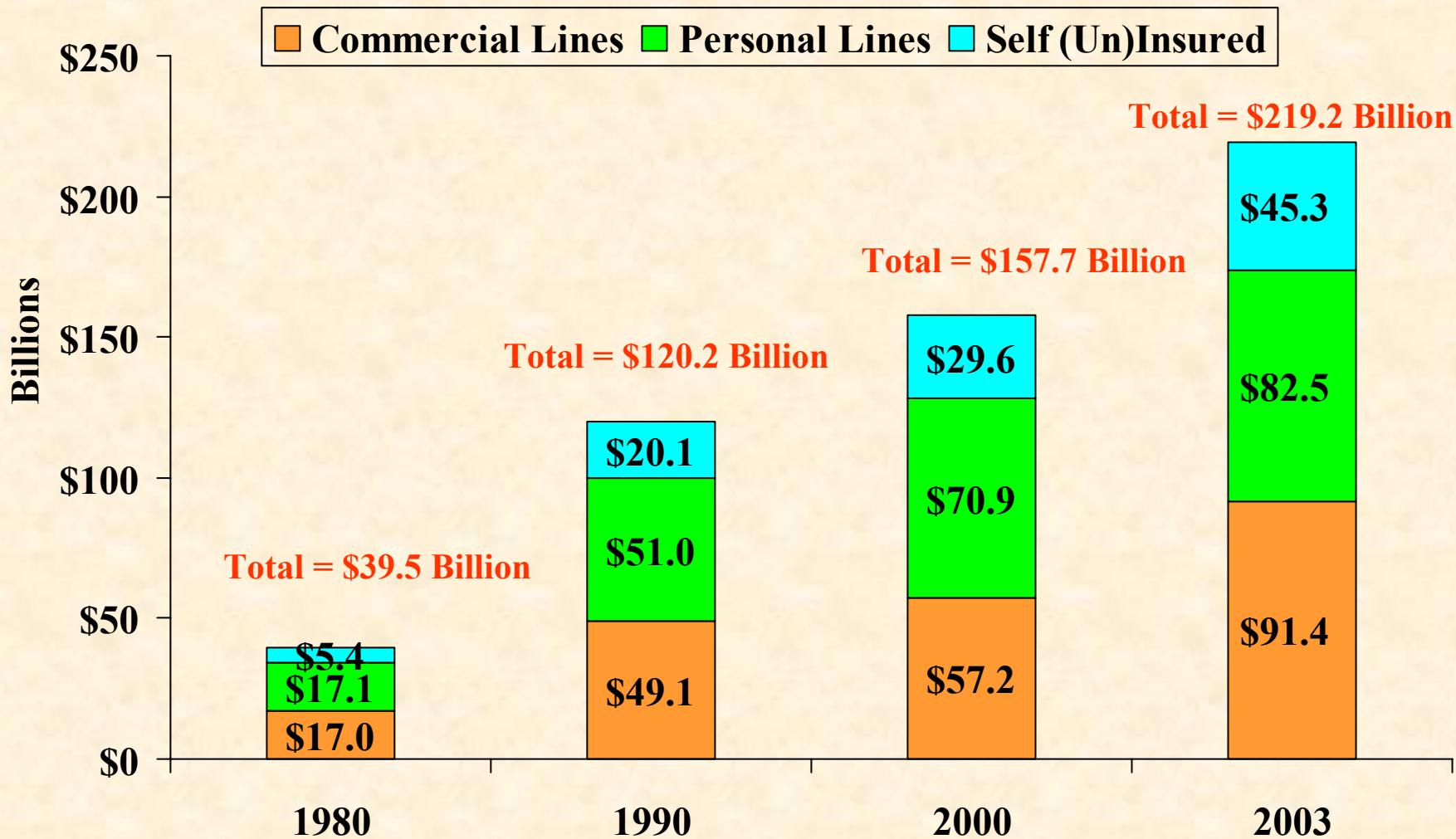
Cost of U.S. Tort System (\$ Billions)

Tort costs will consume an estimated 2.24% of GDP in 2005





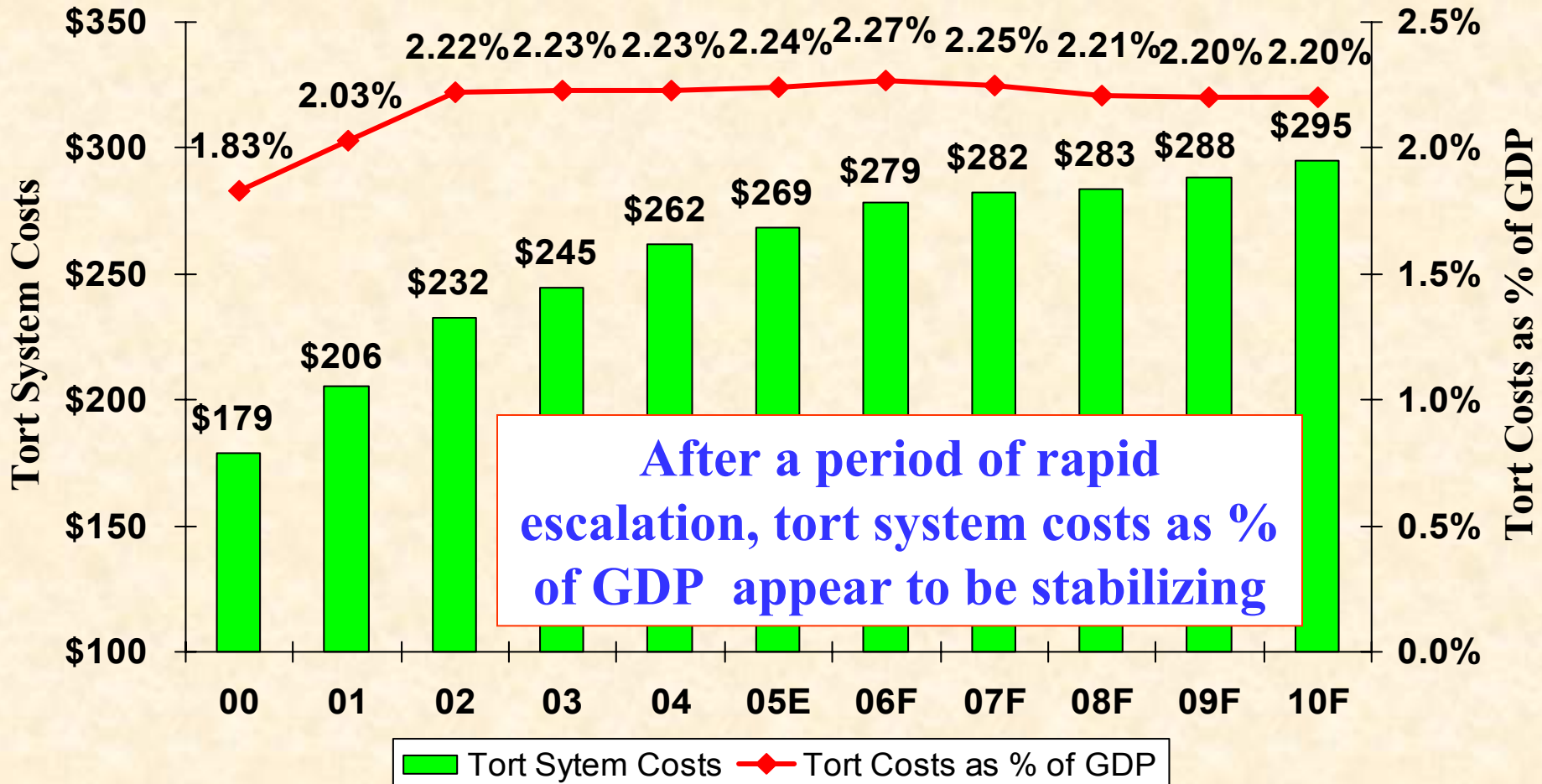
*Personal, Commercial & Self (Un) Insured Tort Costs**



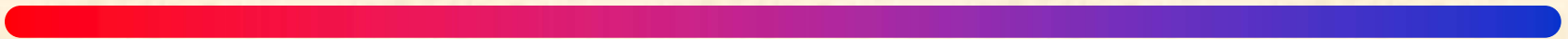
*Excludes medical malpractice
Source: Tillinghast-Towers Perrin



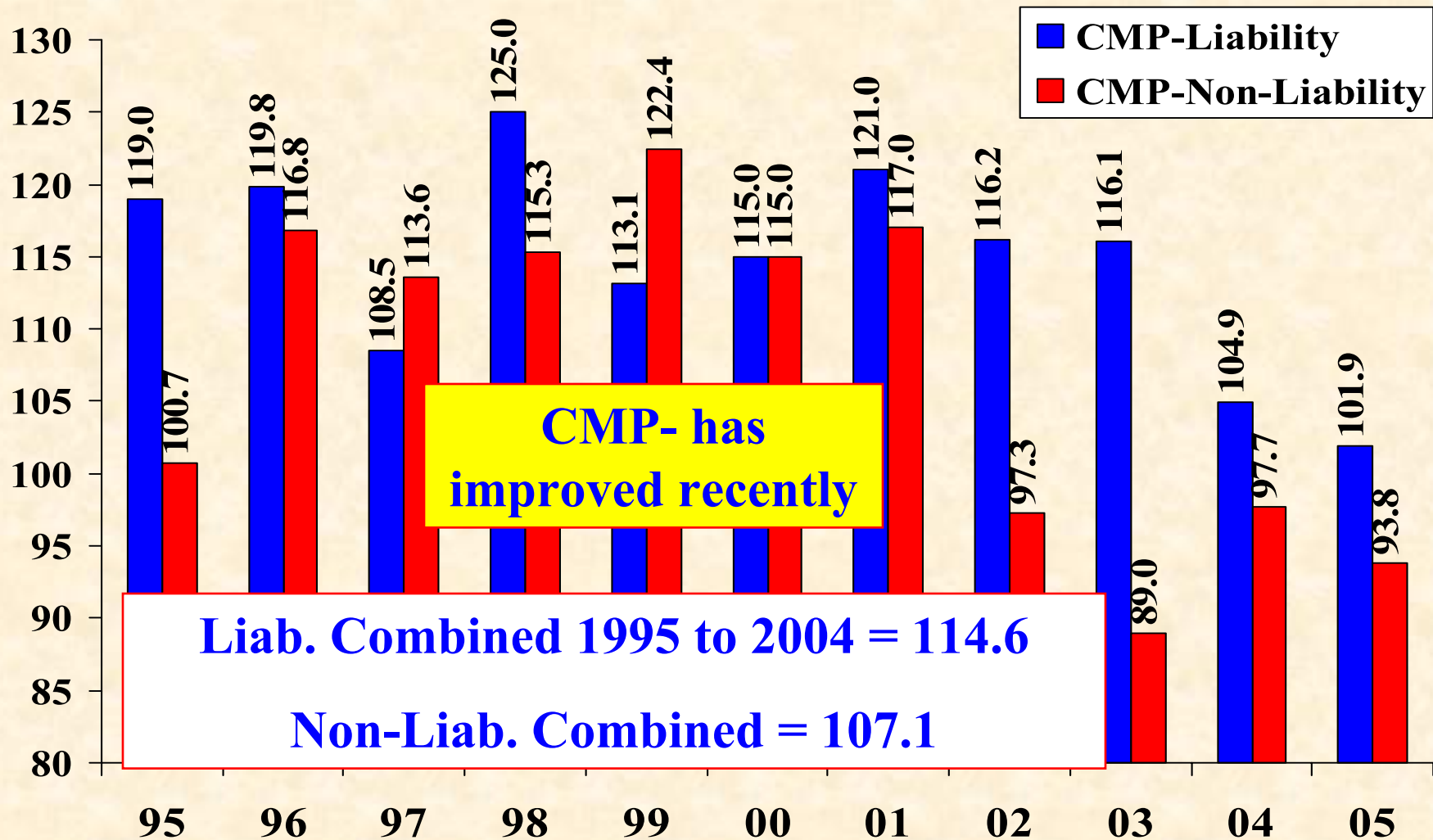
Tort System Costs, 2000-2010F



COMMERCIAL MULTI-PERIL & COMMERCIAL AUTO



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

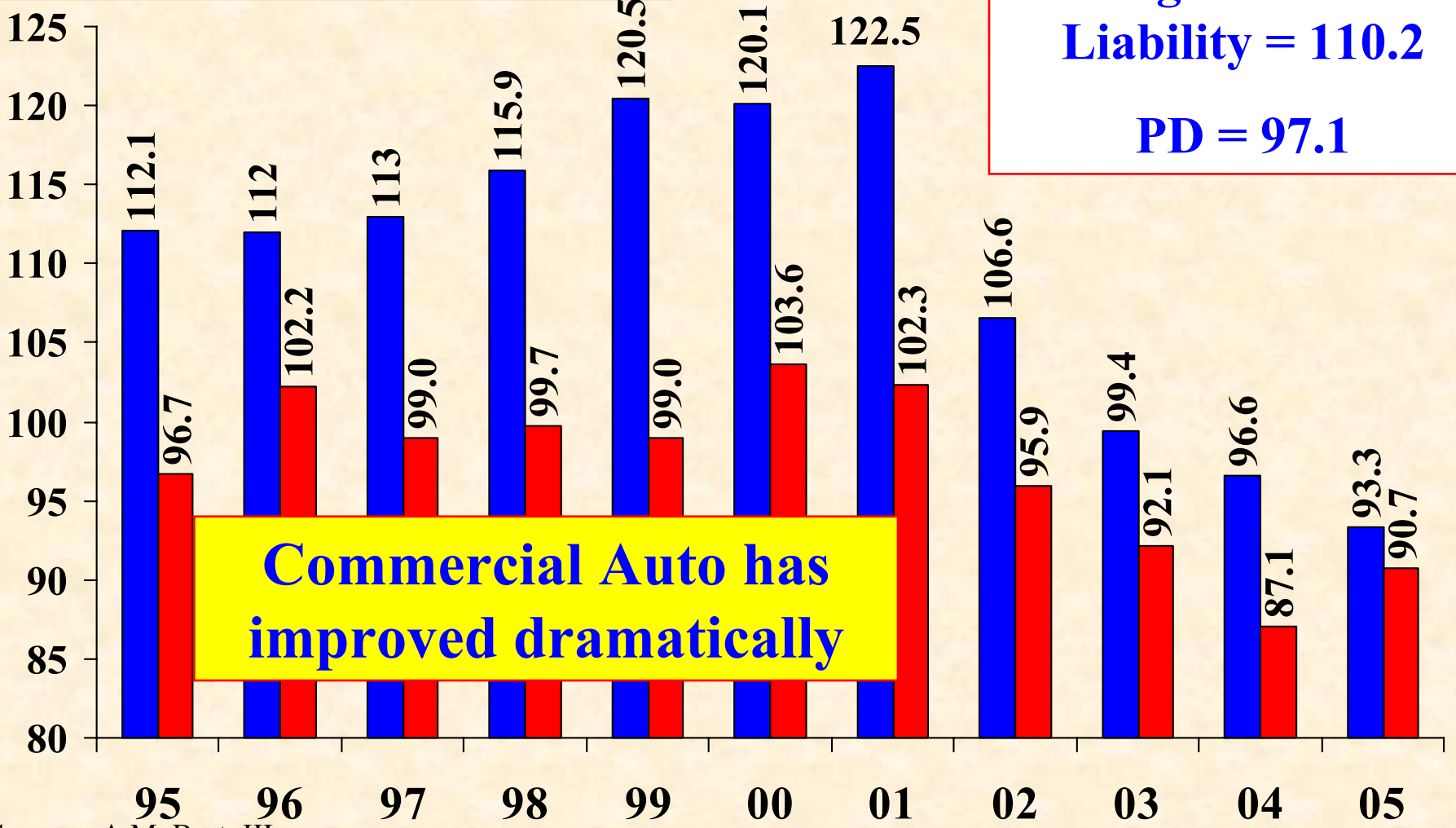




Commercial Auto Liability & PD Combined Ratios

■ Comm Auto Liab ■ Comm Auto PD

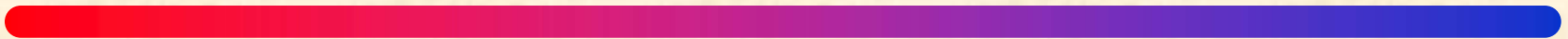
**Average Combined:
Liability = 110.2
PD = 97.1**



Commercial Auto has improved dramatically

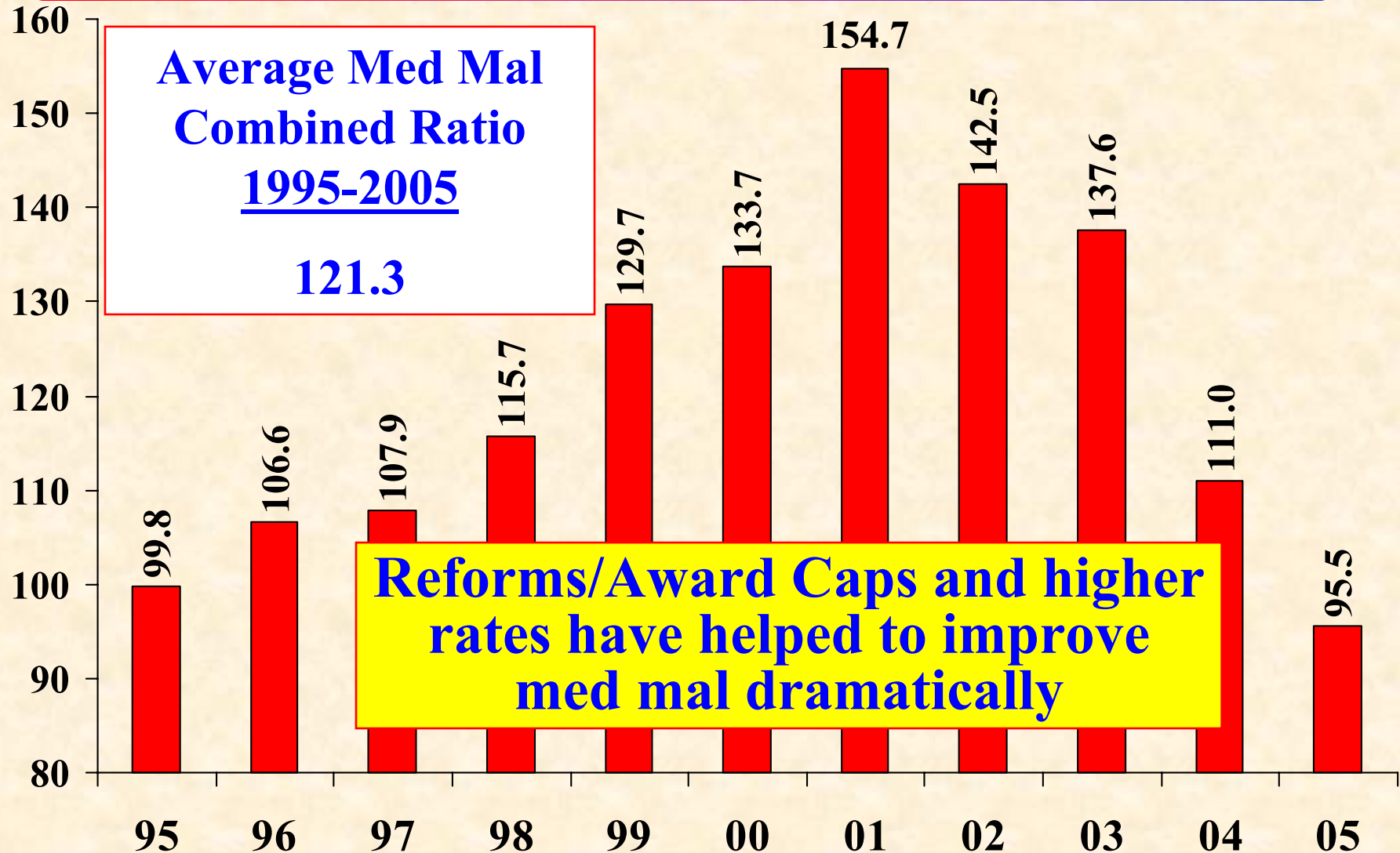
Sources: A.M. Best; III

MEDICAL MALPRACTICE





Medical Malpractice Combined Ratios

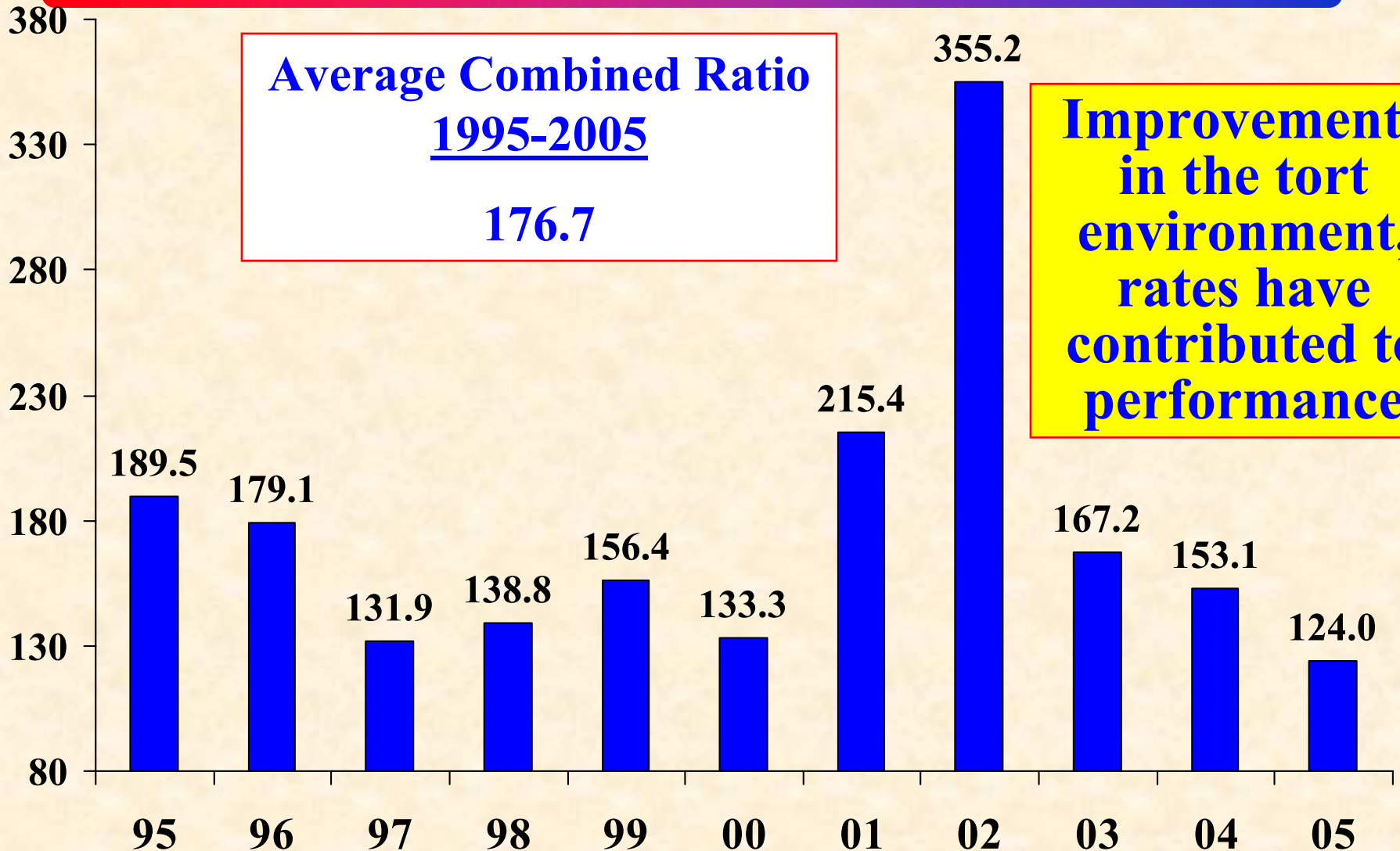


PRODUCTS LIABILITY

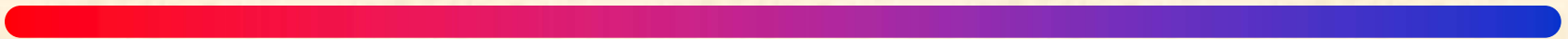




Products Liability Combined Ratios



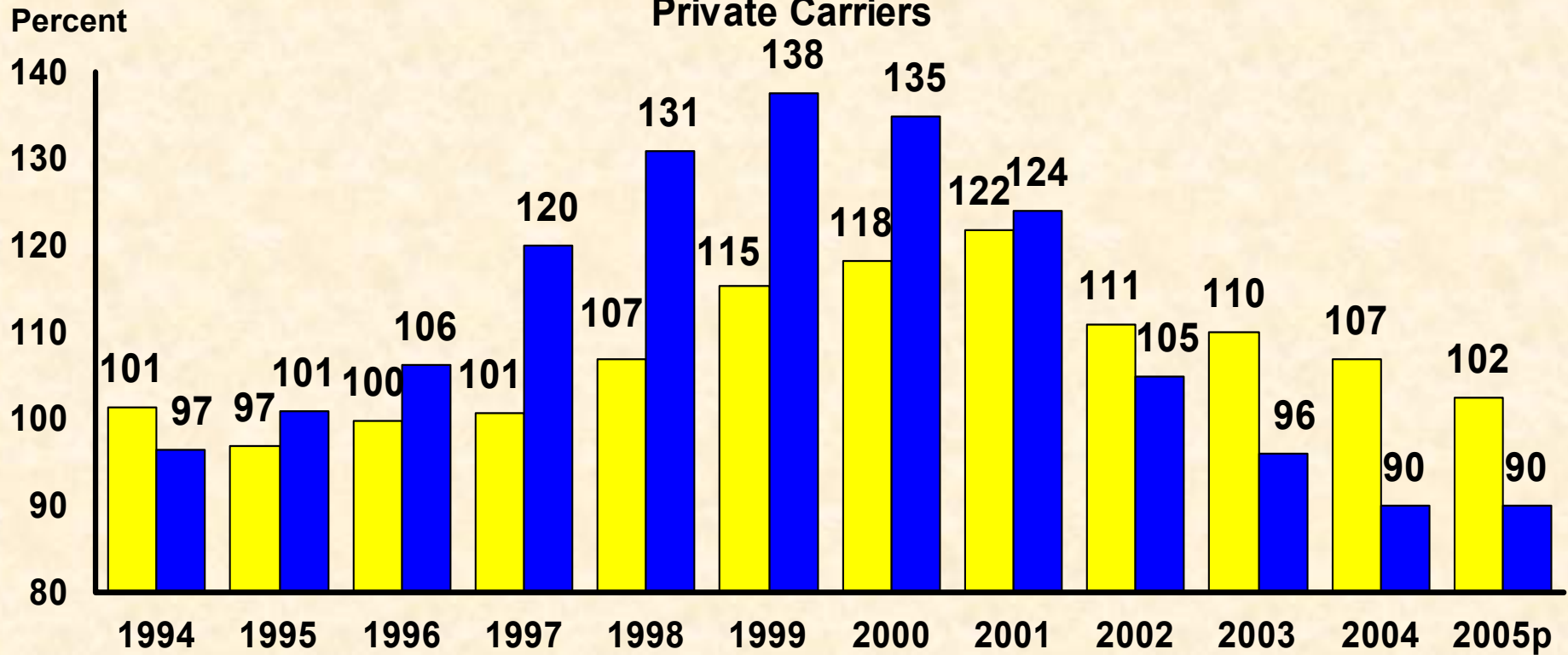
WORKERS COMPENSATION OPERATING ENVIRONMENT





Workers Comp Combined Ratios, 1994-2005P

Workers Comp Calendar Year vs. Ultimate Accident Year – Private Carriers



p Preliminary AY figure.

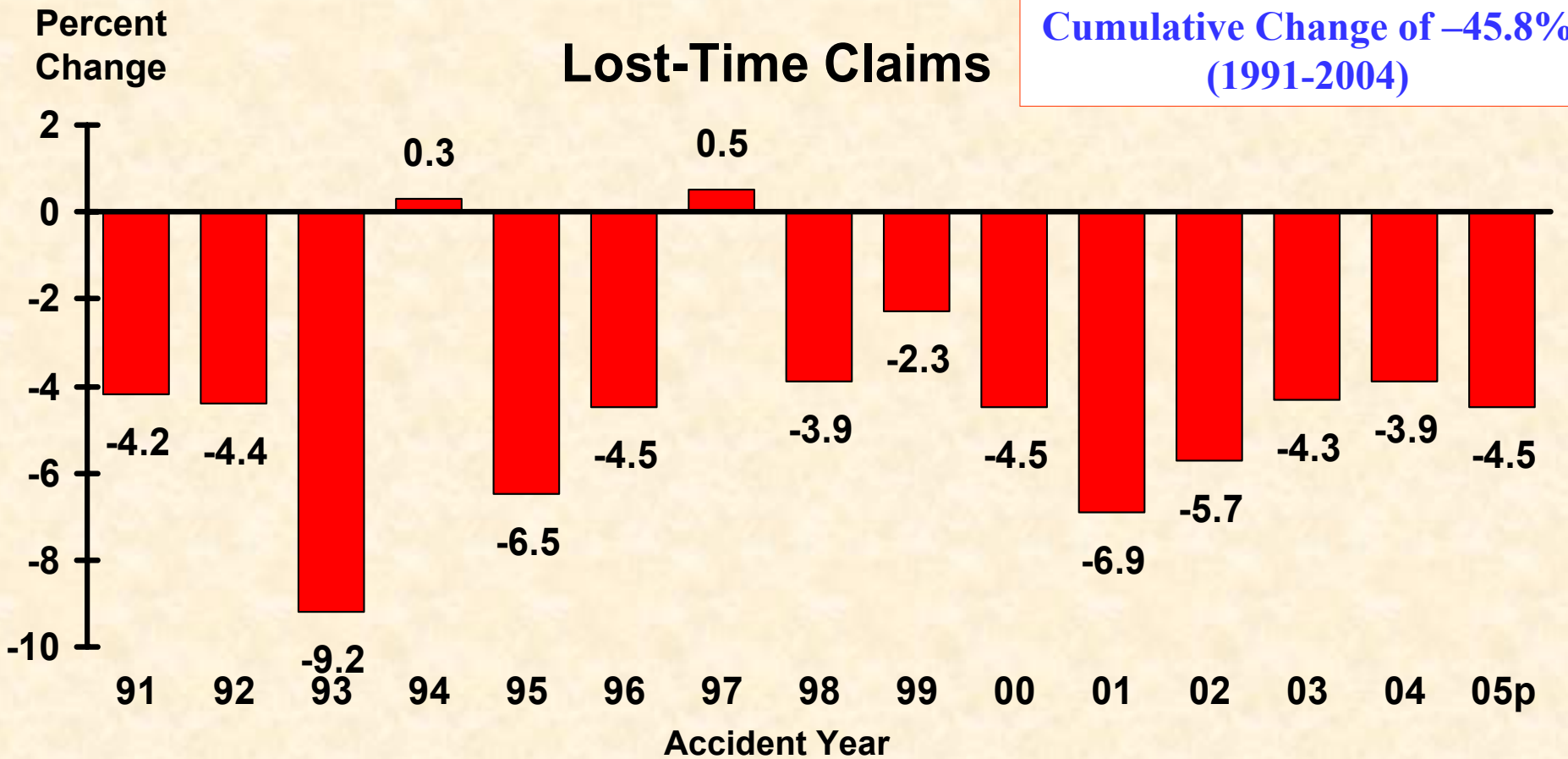
Accident Year data is evaluated as of 12/31/2005 and developed to ultimate

Source: Calendar Years 1994-2004, A.M. Best Aggregates & Averages; Calendar Year 2005p and Accident Years 1994-2005p based on NCCI Annual Statement Analysis.

Includes dividends to policyholders



Workers Comp Lost-Time Claim Frequency (% Change)



2005p: Preliminary based on data valued as of 12/31/2005
1991-2003: Based on data through 12/31/2004, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies
Source: NCCI

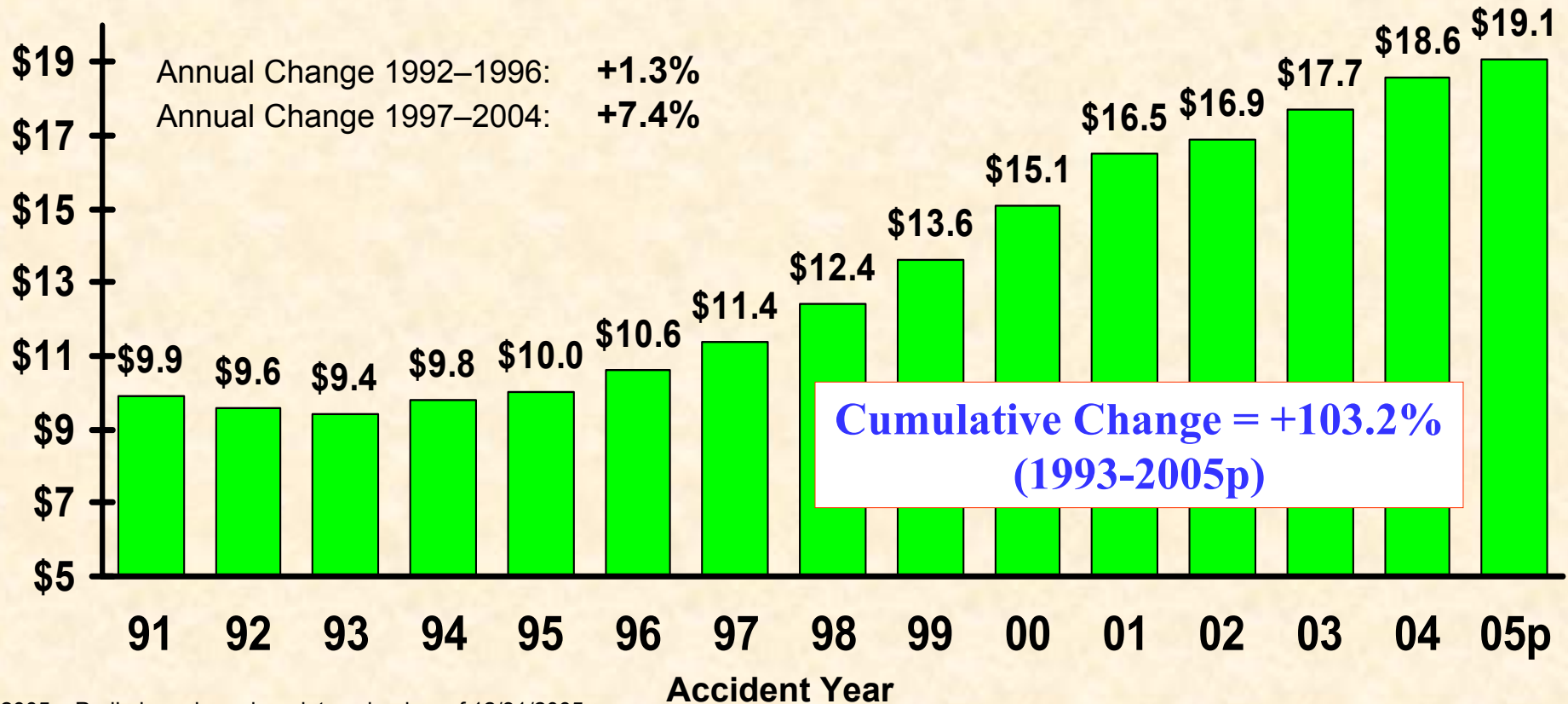


Workers Comp Indemnity Claims

Costs Have Accelerated, 1993-2005p

Indemnity
Claim Cost (000s)

Lost-Time Claims



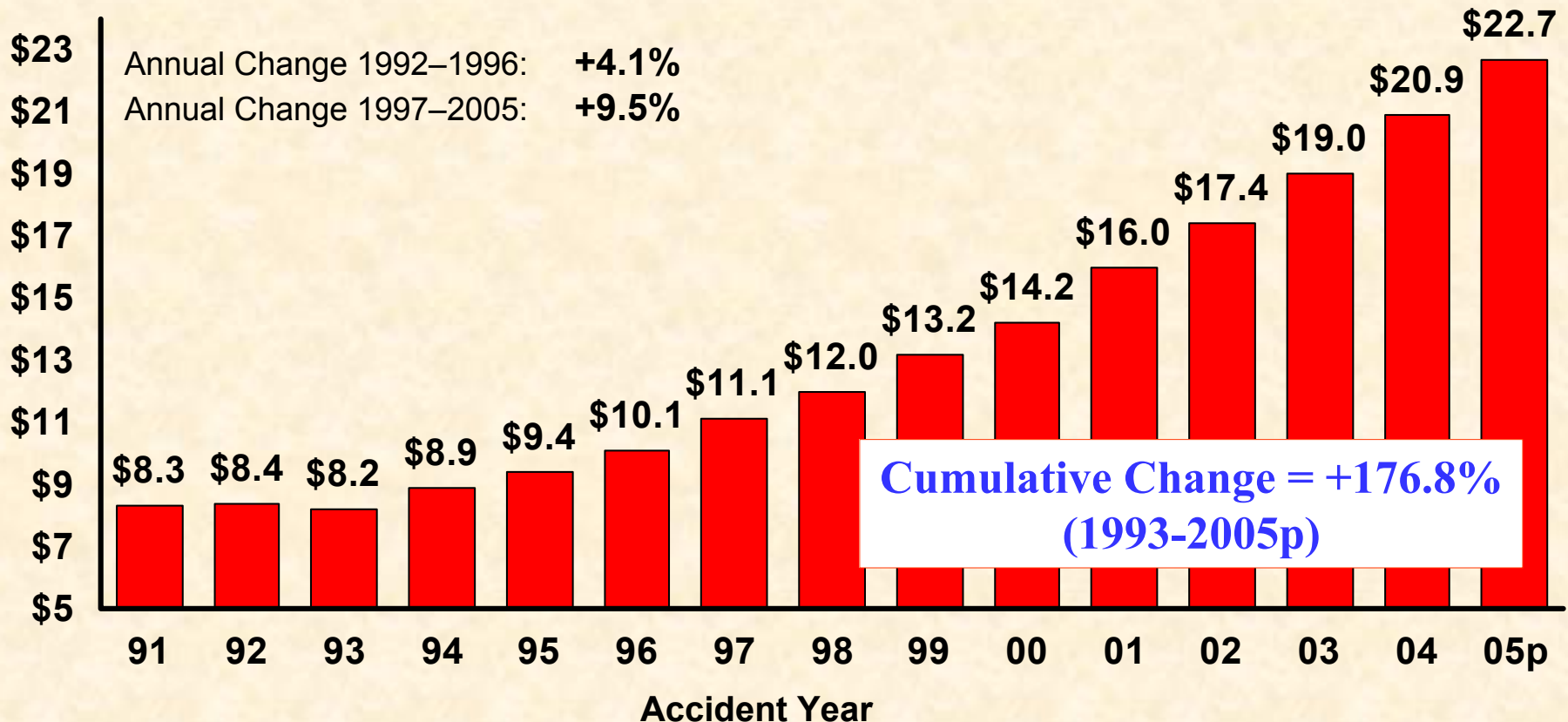
2005p: Preliminary based on data valued as of 12/31/2005
1991-2004: Based on data through 12/31/2004, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies
Source: NCCI



Workers Comp Medical Claims Continue to Climb

Medical

Claim Cost (\$000s)



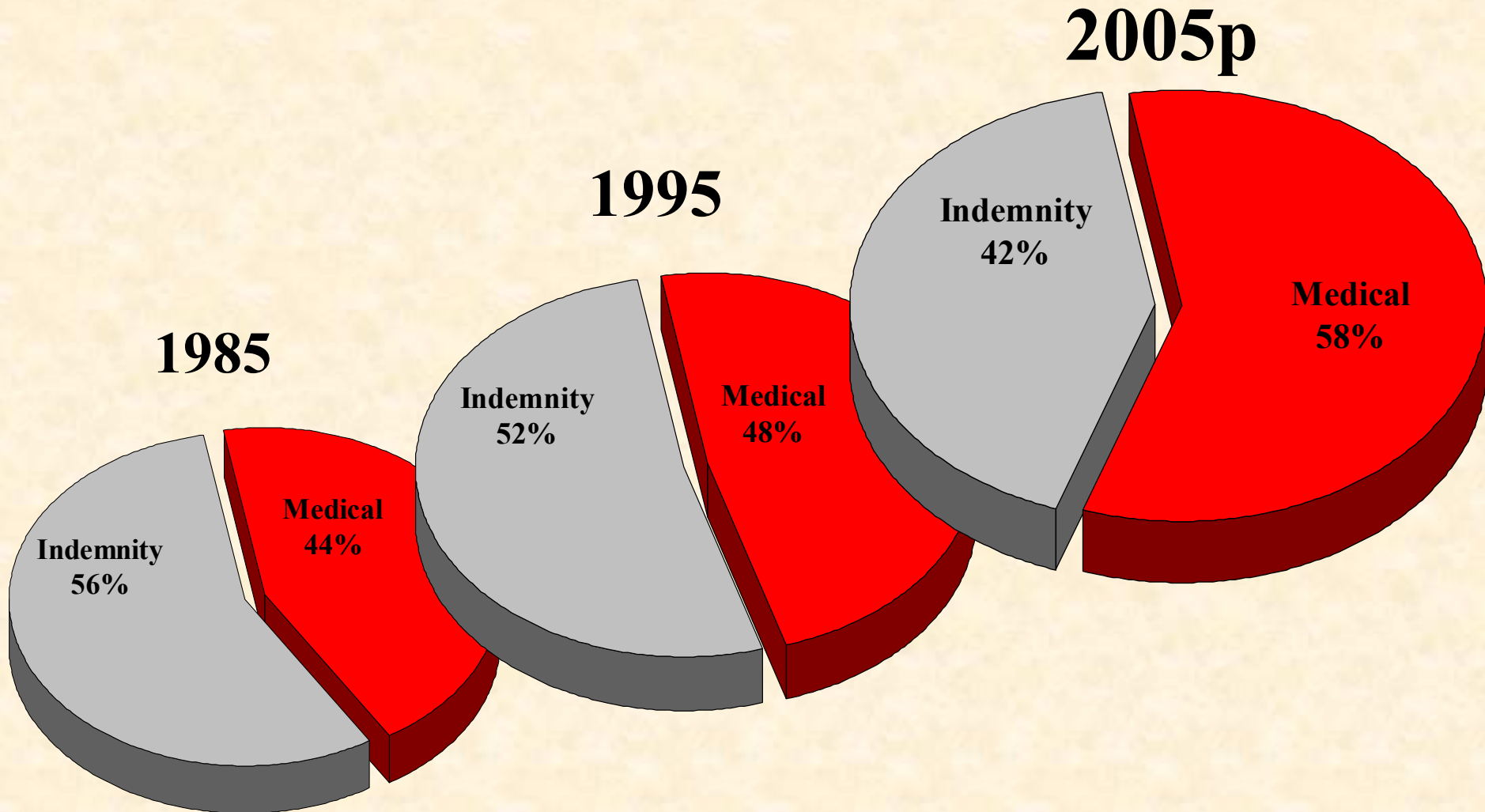
2005p: Preliminary based on data valued as of 12/31/2005

1991-2004: Based on data through 12/31/2004, developed to ultimate

Based on the states where NCCI provides ratemaking services; Excludes the effects of deductible policies



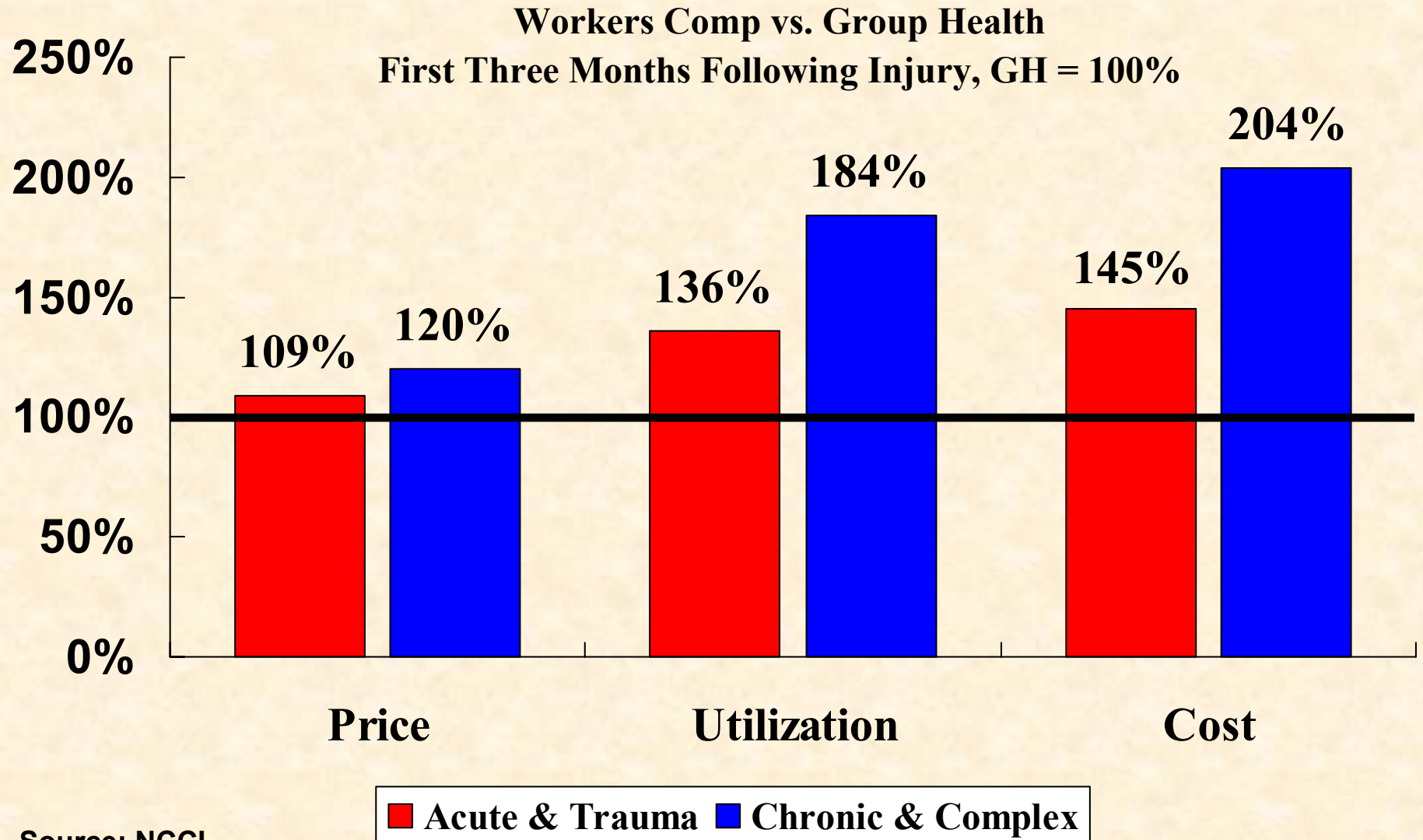
Med Costs Share of Total Costs is Increasing Steadily



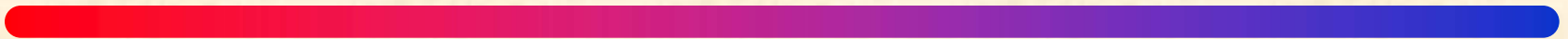
Source: NCCI (based on states where NCCI provides ratemaking services).



WC Costs Higher Than General Health Due to Price & Utilization

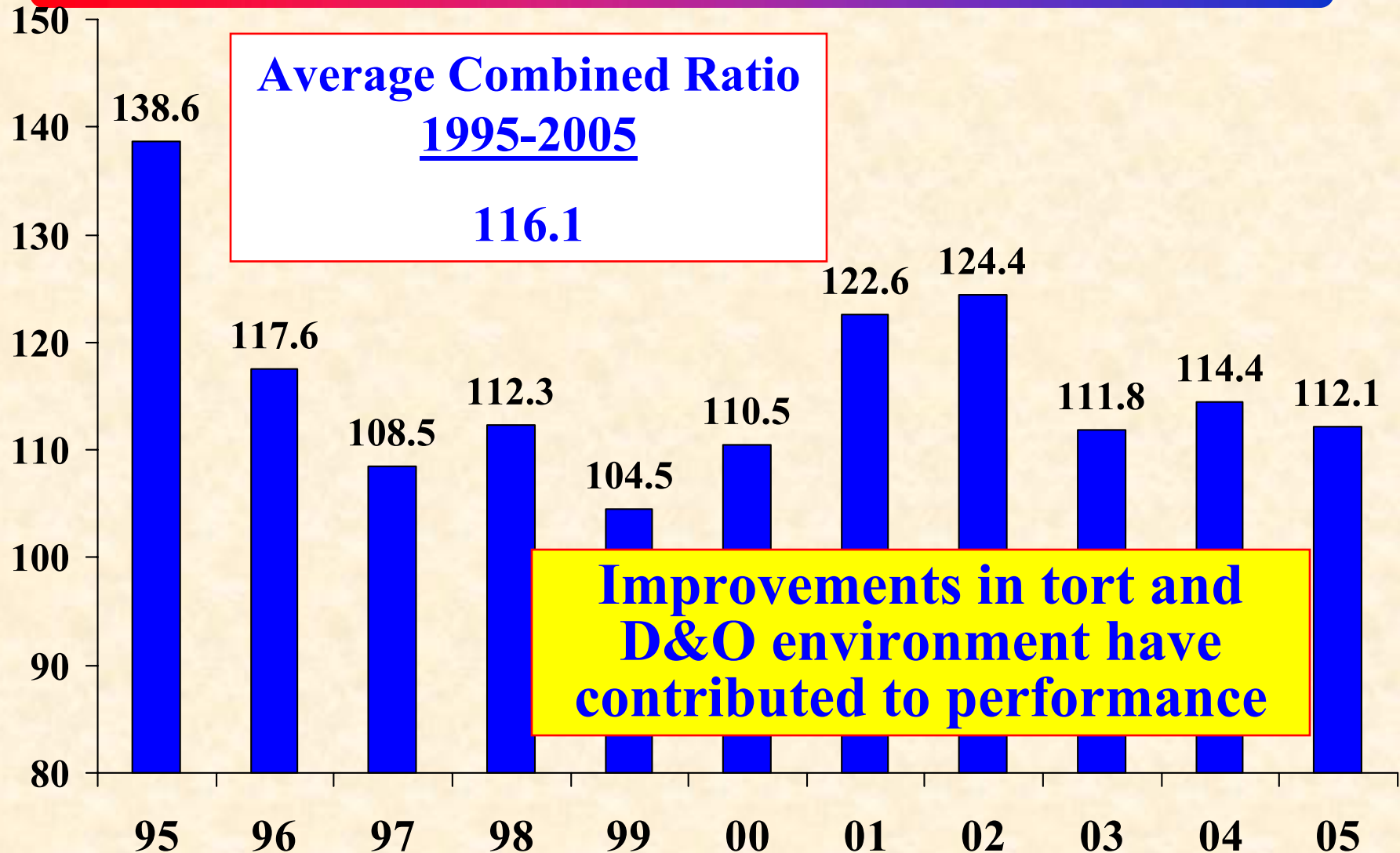


OTHER LIABILITY INCLUDING D&O





*Other Liability Combined Ratios**



Sources: A.M. Best; III

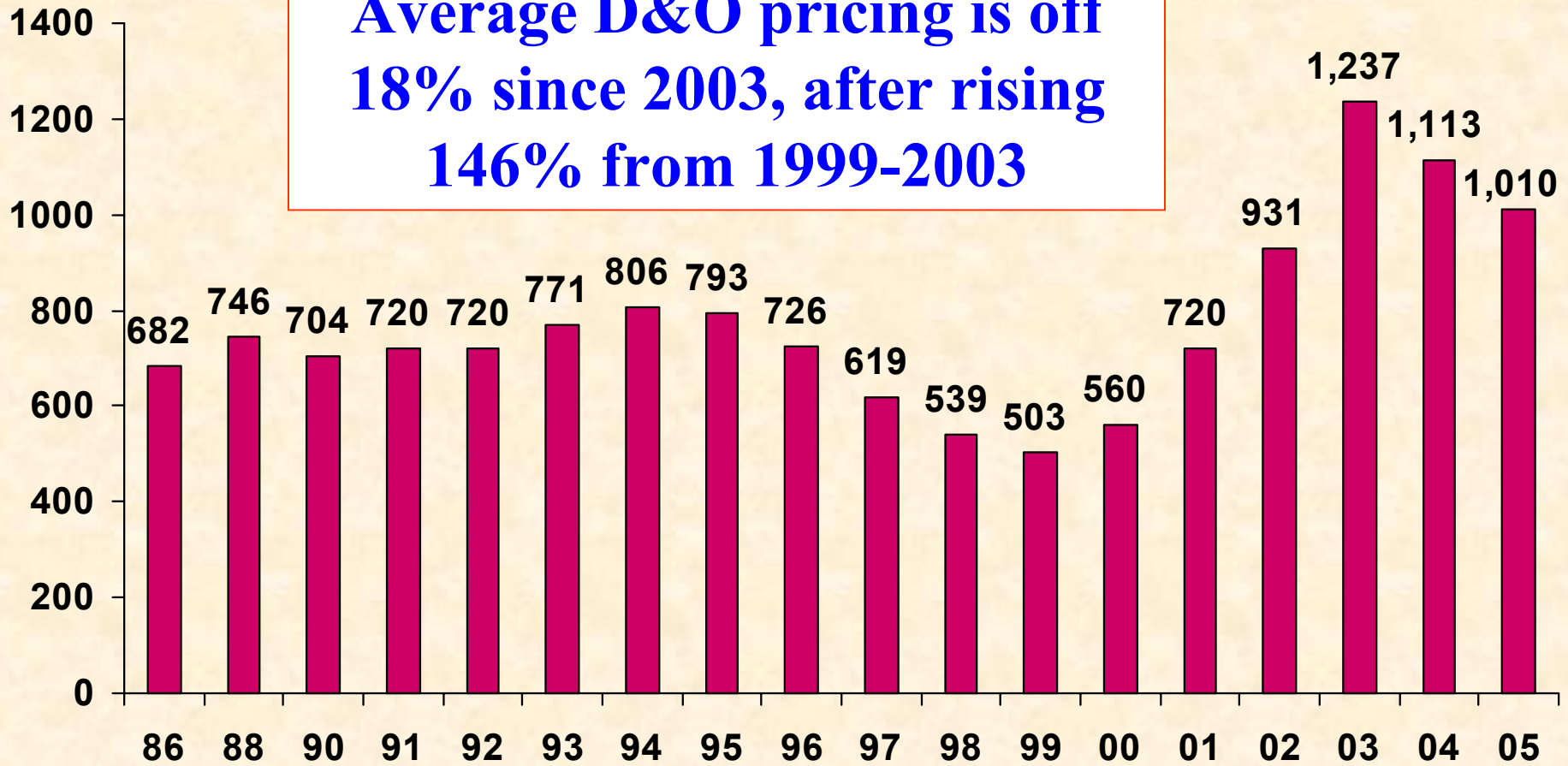
*Includes Officers' & Directors' coverage.



D&O Premium Index

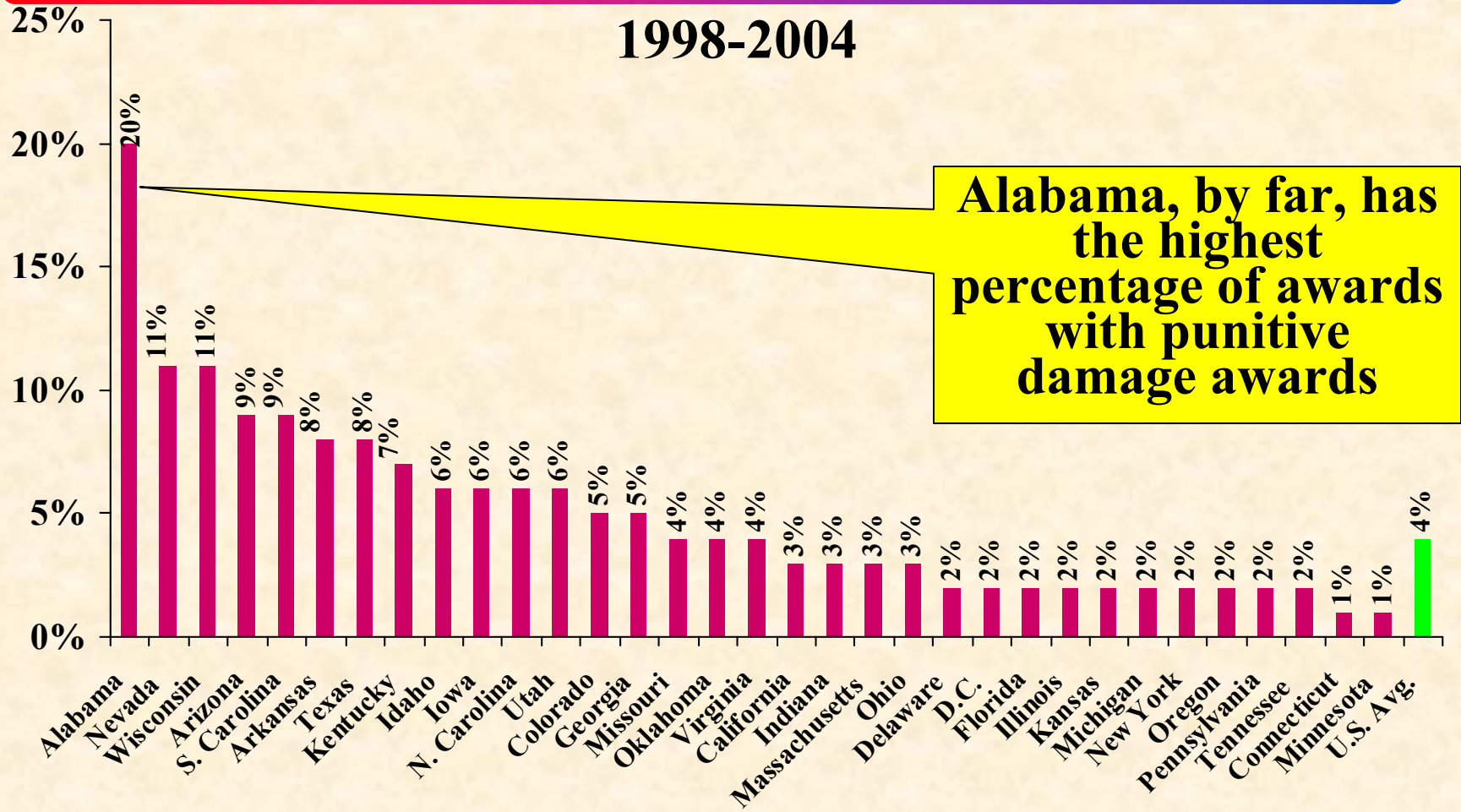
(1974 Average = 100)

Average D&O pricing is off 18% since 2003, after rising 146% from 1999-2003





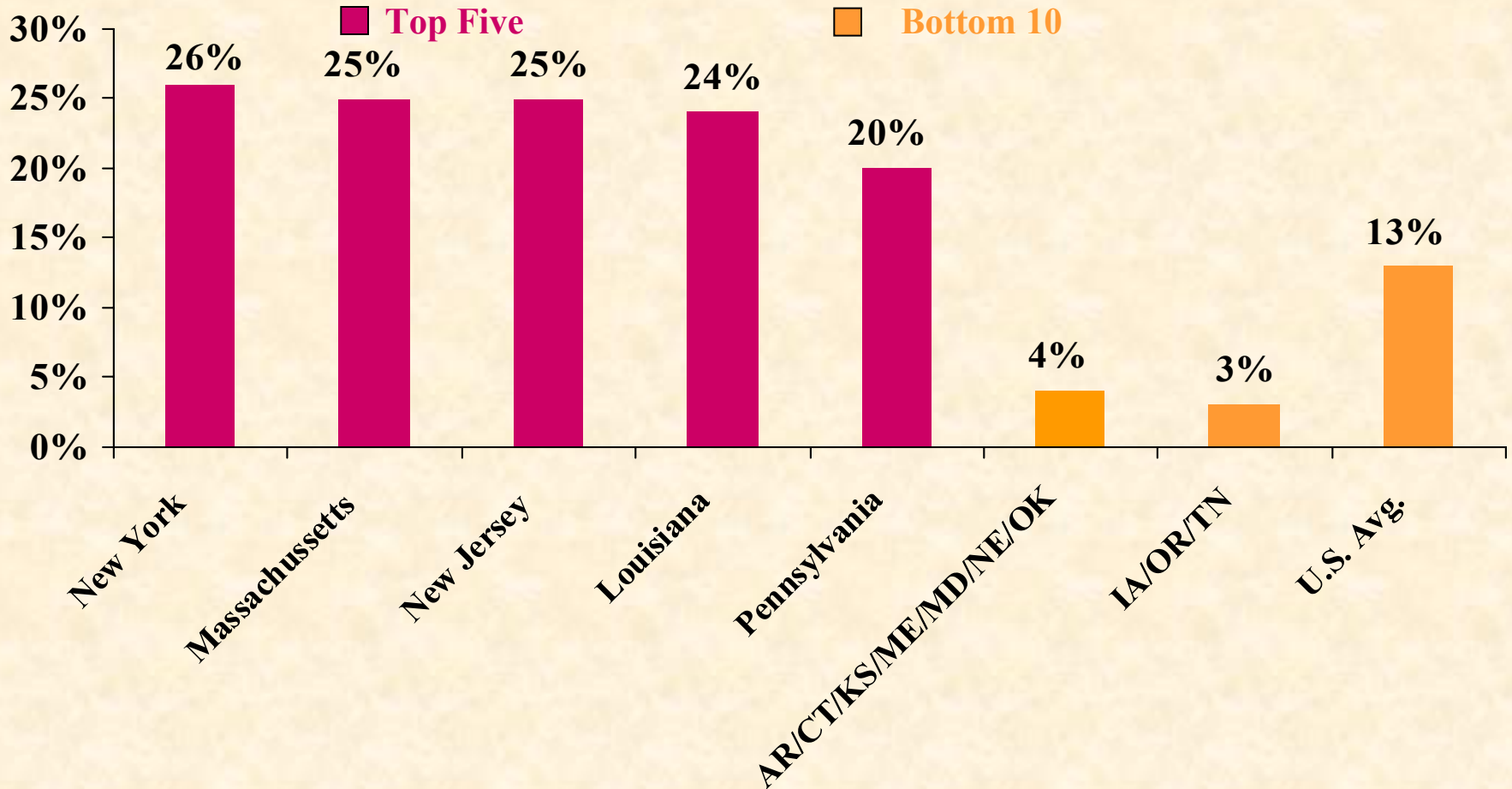
*% of Jury Awards with Punitive Damages, by Jurisdiction**



*Data for AK, HI, LA, ME, MD, MS, MT, NE, NH, NJ, NM, ND, SD, VT, WA, WV and WY were listed as "N/A" by JVR. Several of these states had above-average punitive award rates in previous issues of the JVR publication.



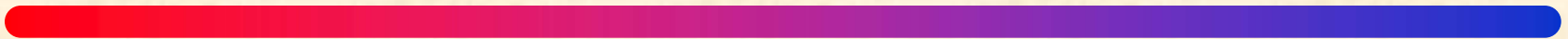
*% of Jury Awards of \$1 Million or More, by Jurisdiction (1997-2003)**



*Compensatory awards only. Data for AK, AZ, DE, HI, ID, MS, NV, NM, ND, SD, VT, WV and WY were listed as "N/A" by JVR. Source: Jury Verdict Research, *Current Award Trends in Personal Injury* (2005 edition)

*THE U.S. LEGAL SYSTEM:
BETTER BUT PROBLEMS PERSIST*

TRENDS, CONDITIONS & OUTLOOK





Business Leaders Ranking of Liability Systems for 2005

Best States

1. Delaware
2. Nebraska
3. North Dakota
4. Virginia
5. Iowa
6. Indiana
7. Minnesota
8. South Dakota
9. Wyoming
10. Idaho

New in 2005

ND, IN, SD, WY

Drop-Offs

ID, UT, NH, KS

Worst States

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

Newly Notorious

HI, FL

Rising Above

MO, MT

*LA, AL and MS's
liability systems are
ranked among the worst
in the country by the US
Chamber of Commerce*



The Nation's Judicial Hellholes (2005)

Dishonorable Mention

WI Supreme Ct.

Watch List

California

Eastern Kentucky

Eastern Alabama

Philadelphia

New Mexico

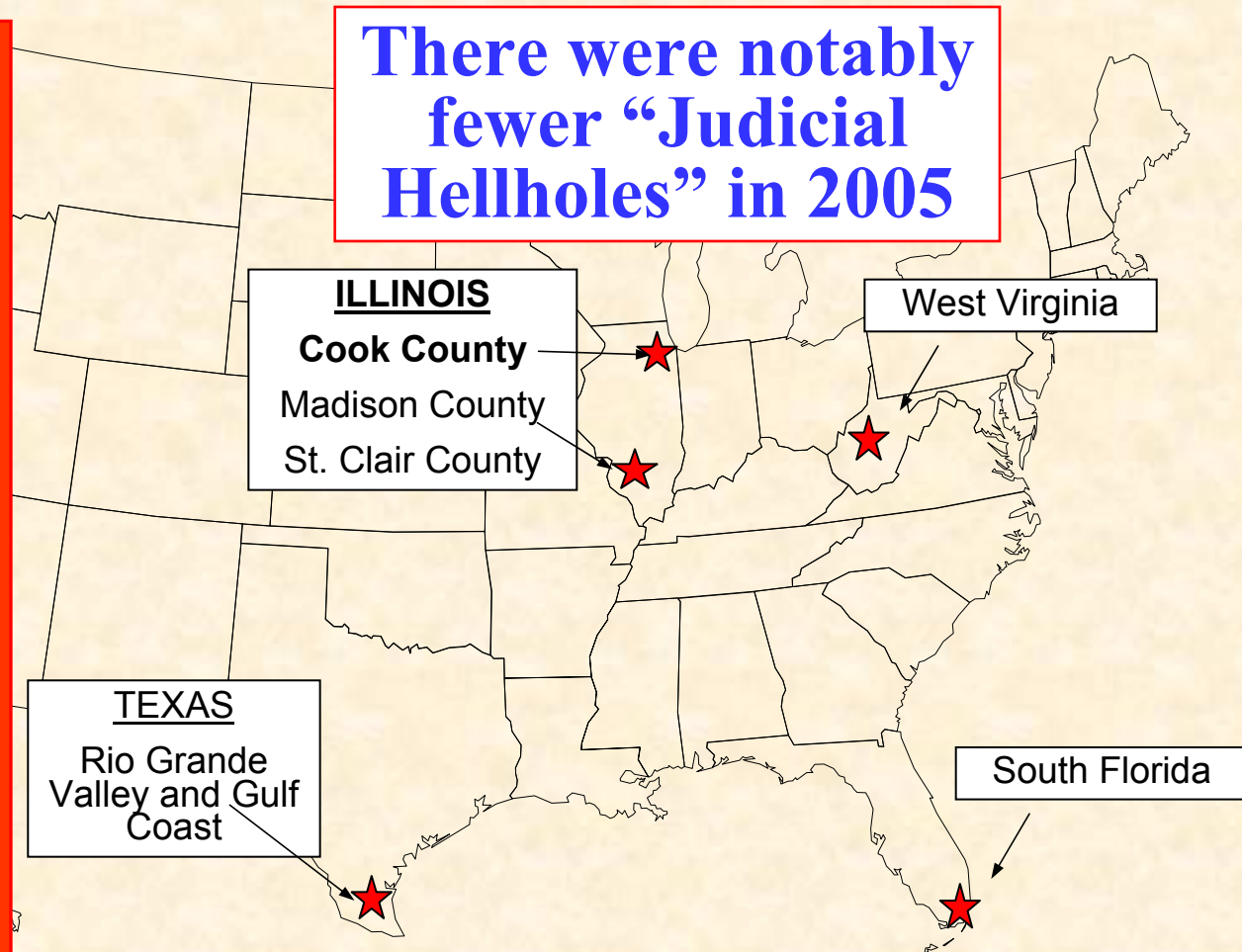
Delaware

Oklahoma

Orleans Parish, LA

Washington, DC

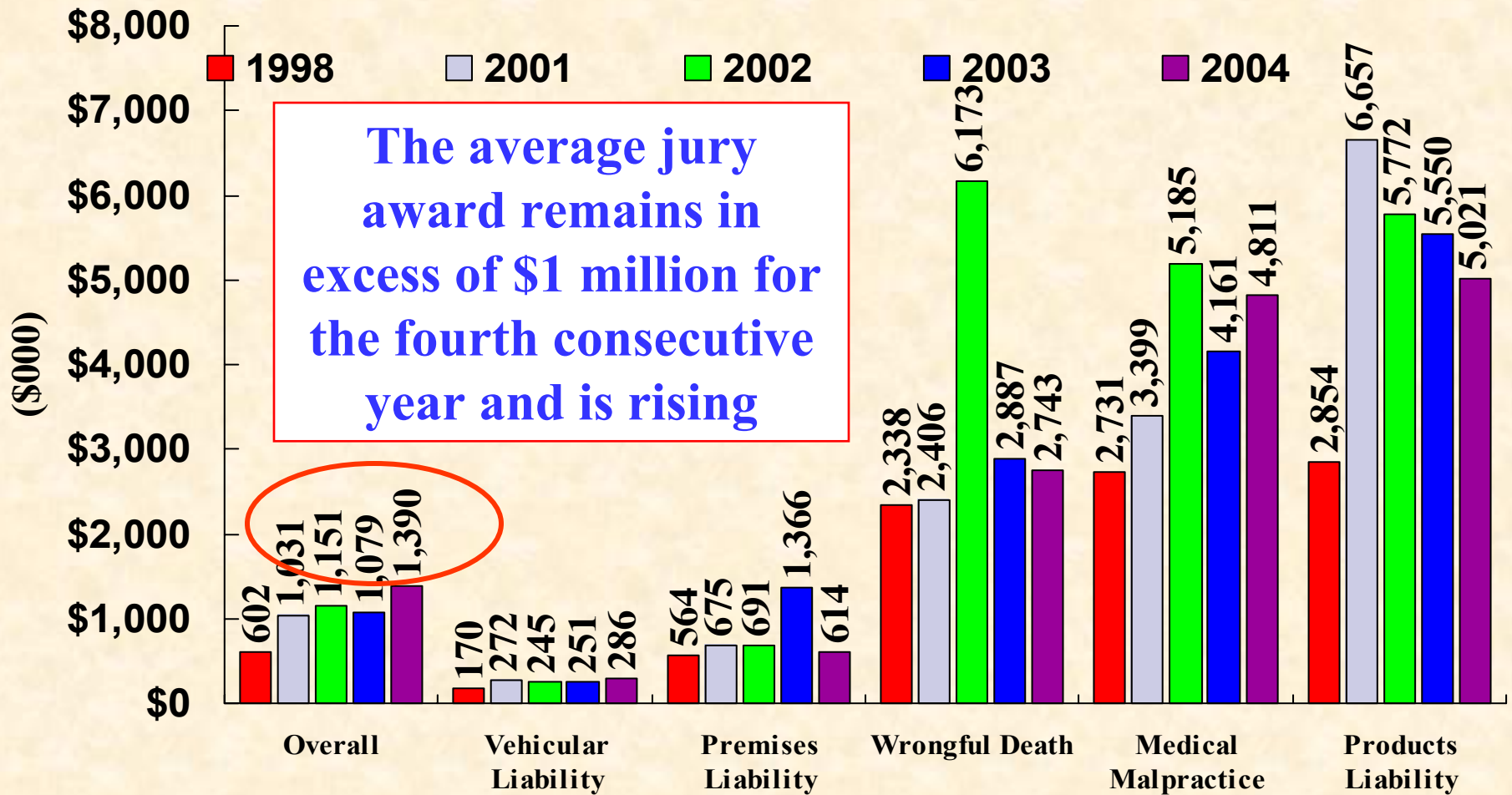
**There were notably
fewer “Judicial
Hellholes” in 2005**





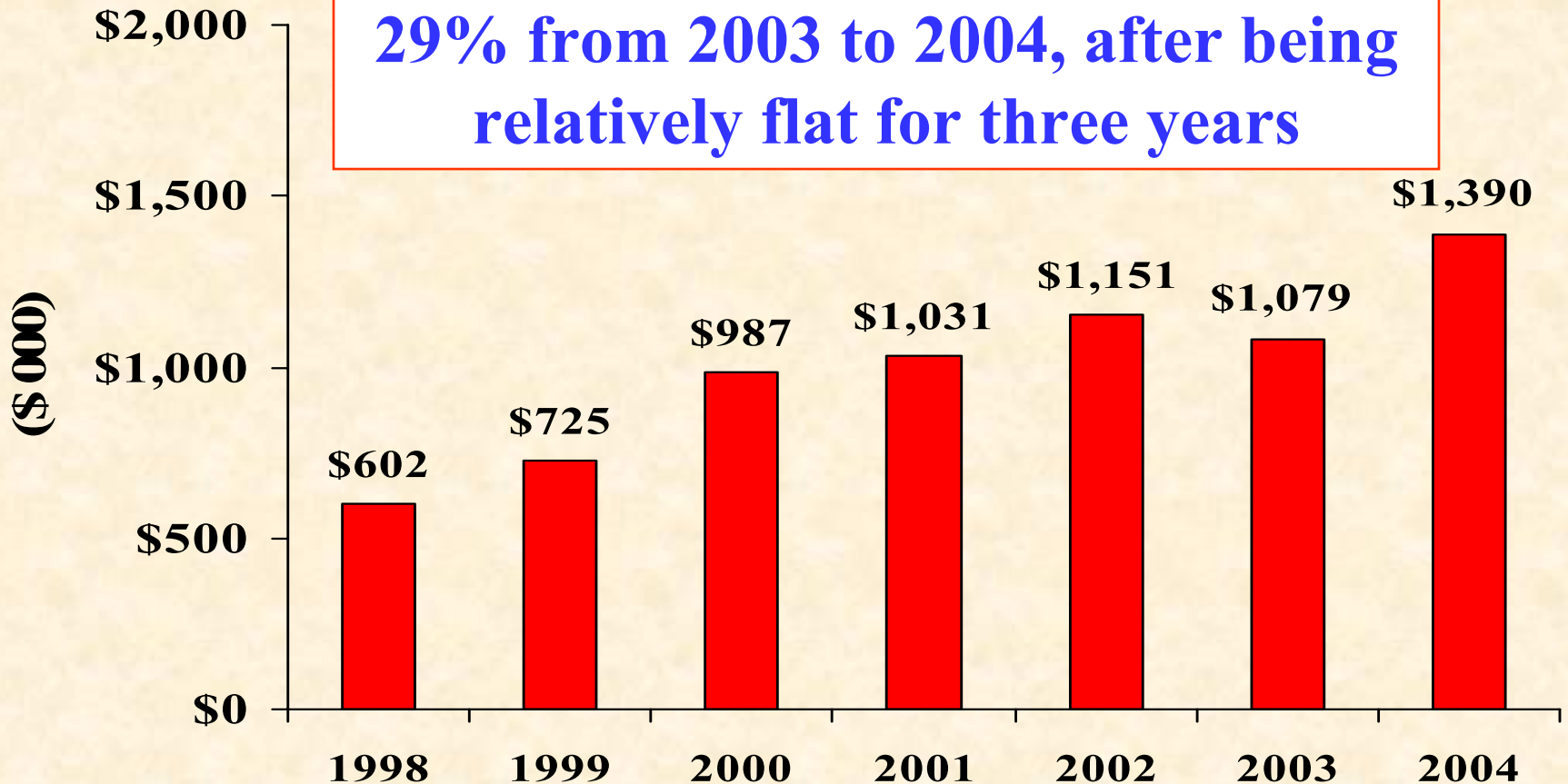
Average Jury Awards

1998 vs. 2001, 2002, 2003 & 2004



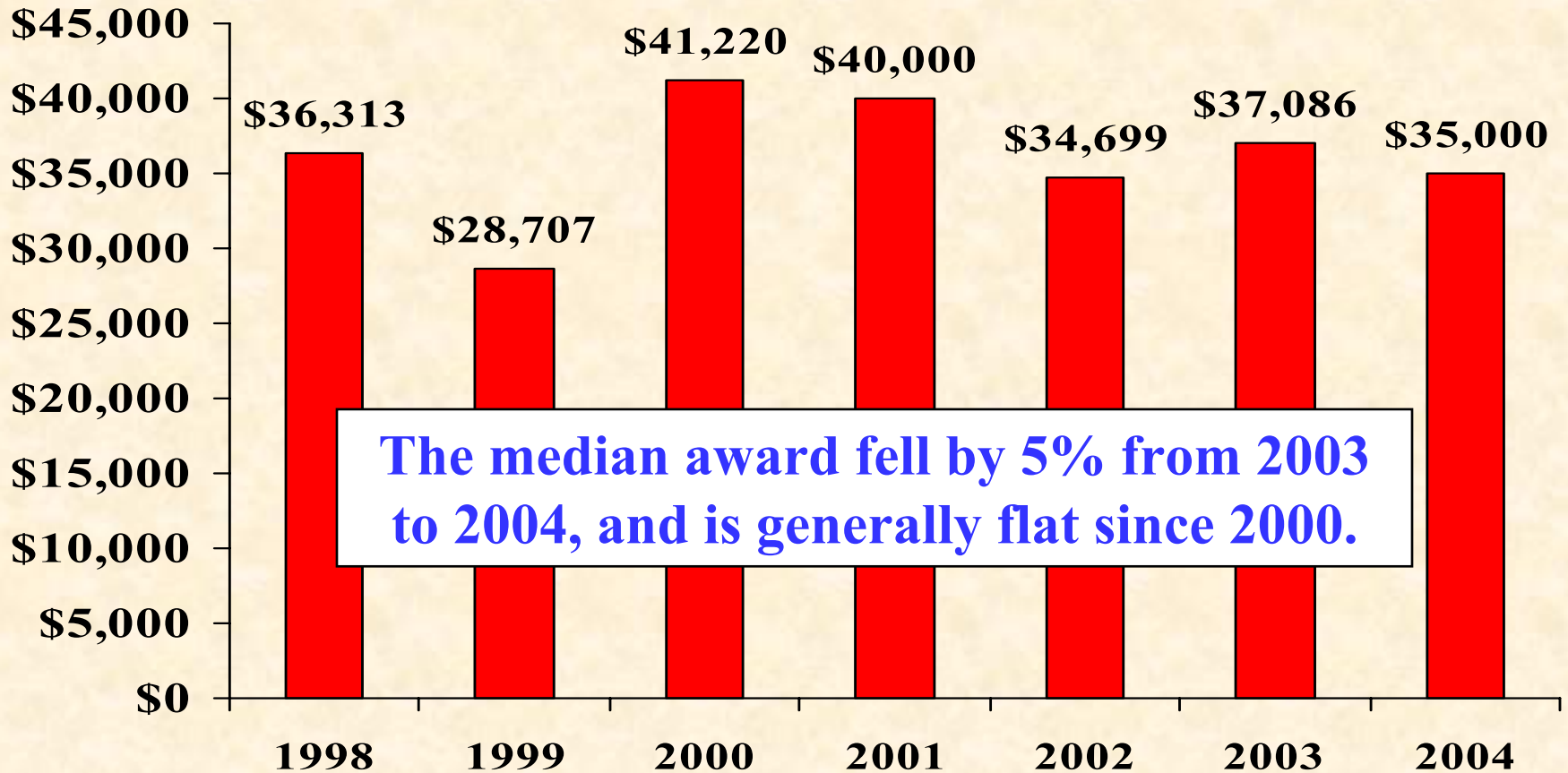
Average Jury Award, 1998-2004

The average award increased by 29% from 2003 to 2004, after being relatively flat for three years



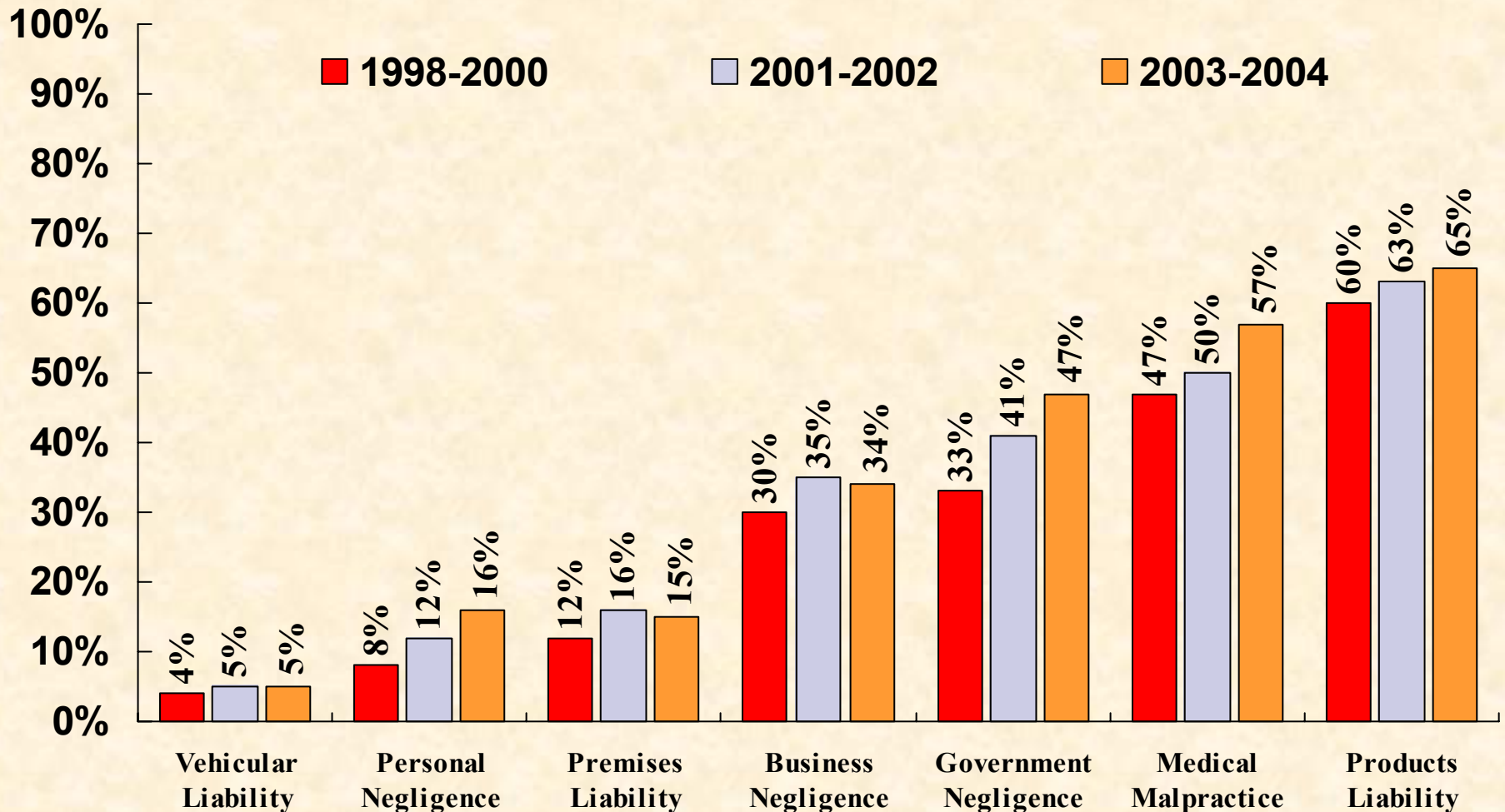


Median Jury Award, 1998-2004





Trends in Million Dollar Verdicts*



*Verdicts of \$1 million or more.

Source: Jury Verdict Research (2006 edition); Insurance Information Institute.

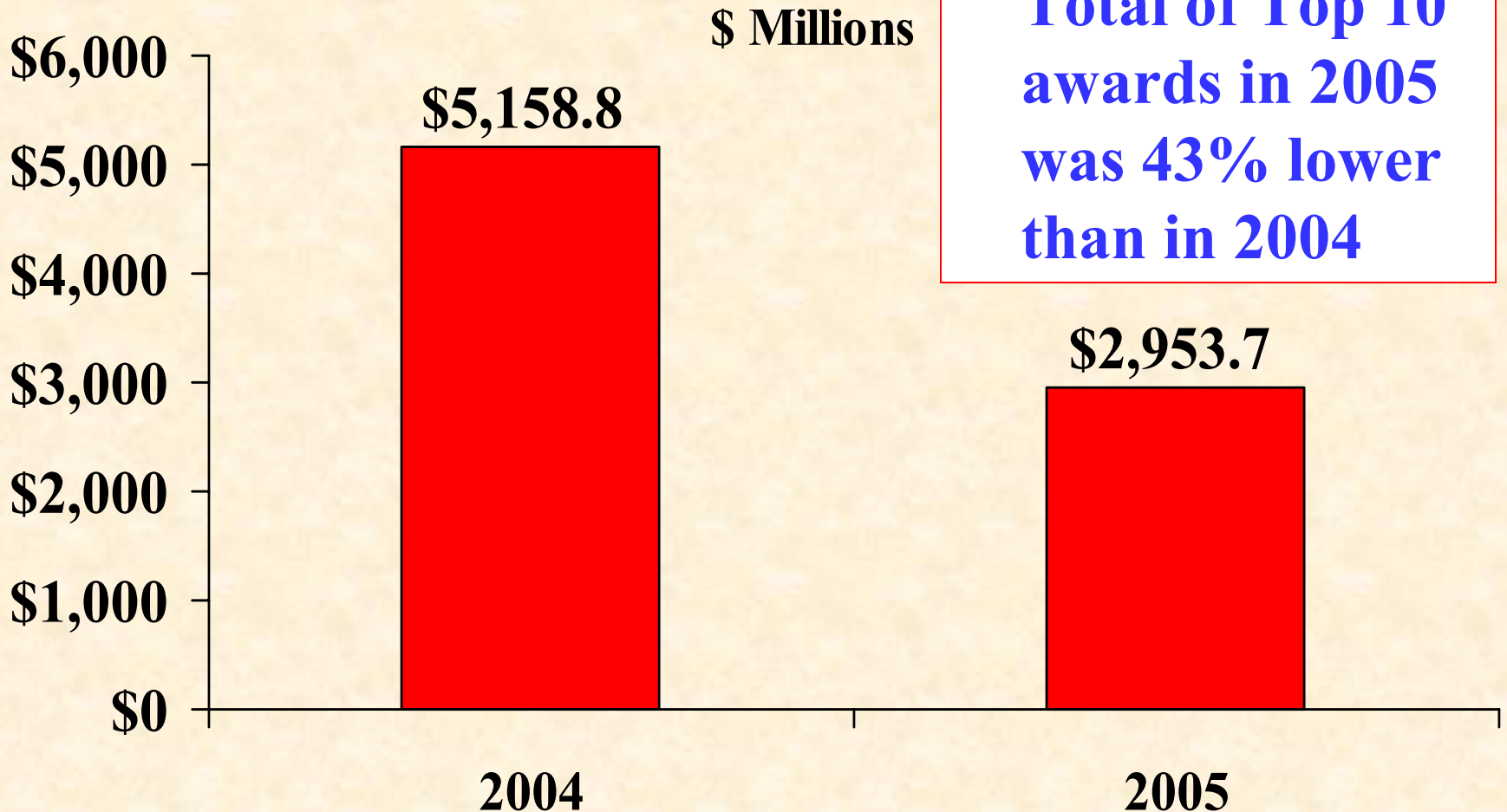


2005 Top Ten Verdicts

Value	Issue	State
\$1.45 Billion	Investment Fraud	Texas
\$606 Million	Medical Malpractice (Chemo overdose)	Florida
\$253 Million	Pharmaceutical Liability (Vioxx)	Texas
\$164 Million	Negligence/Products Liability → Traffic Death	Florida
\$135 Million	Vicarious Liquor Liability	New Jersey
\$90 Million	Unfair Business Practice	Illinois
\$65.5 Million	Conflict of Interest, Estate Planning	Texas
\$65 Million	Products Liability, Electrocution	Florida
\$64 Million	Age Discrimination	California
\$61.2 Million	Products Liability (Ford Explorer)	Florida



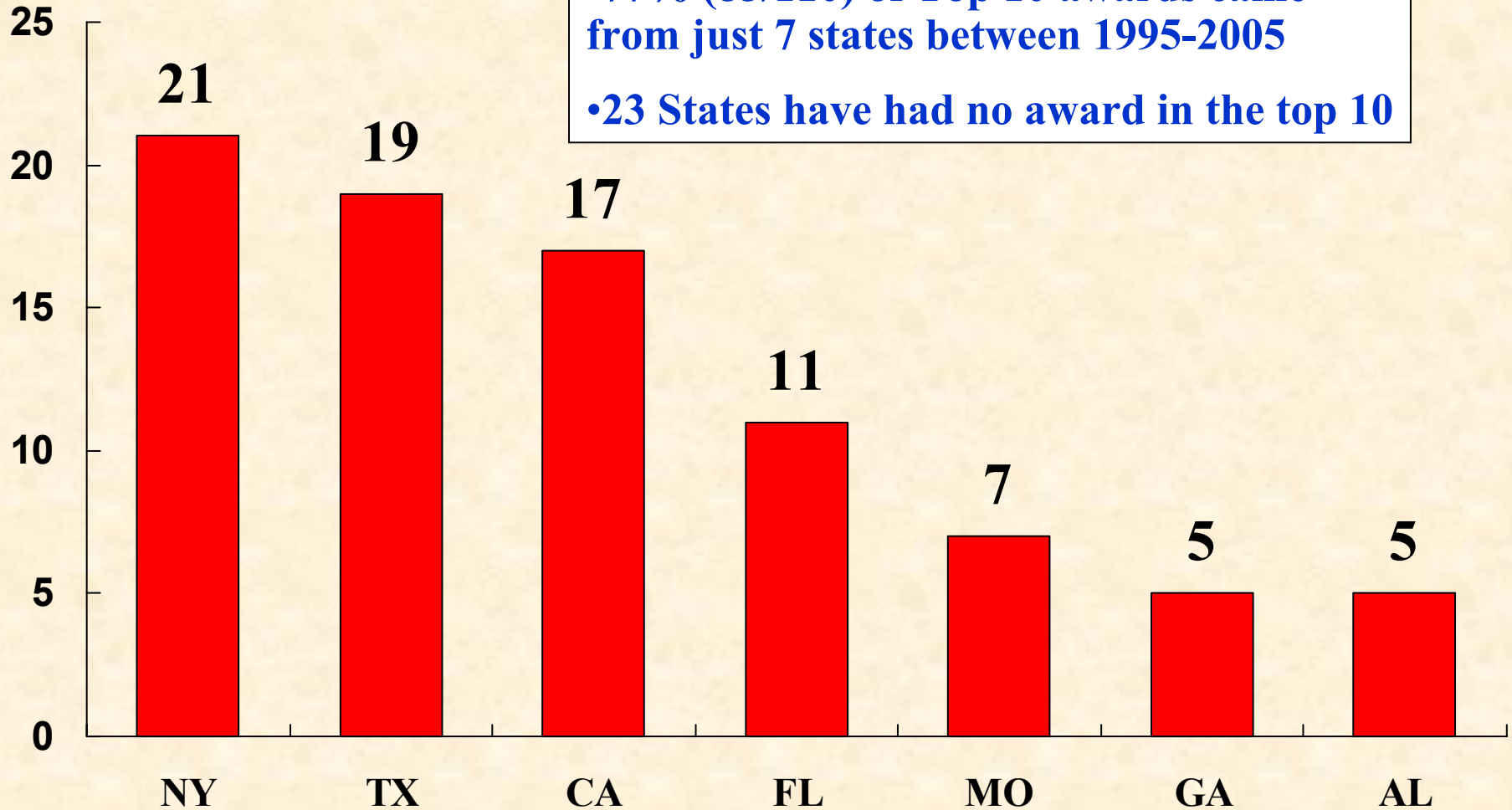
Sum of Top 10 Jury Awards





States With the Most Top 10 Jury Awards 1995-2005

- 77% (85/110) of Top 10 awards came from just 7 states between 1995-2005
- 23 States have had no award in the top 10





Probability of Plaintiff Verdict is Leveling Off

	<u>1994</u>	<u>1997</u>	<u>2002</u>	<u>2003</u>
Premises Liability	43%	45%	47%	46%
Business Negligence	NA	57%	60%	67%
Vehicular Liability	58%	60%	61%	61%
Products Liability	39%	38%	55%	50%

Source: Jury Verdict Research, *Current Award Trends in Personal Injury (2005 edition)*

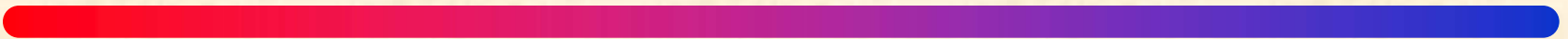


Factors Driving Severity

Why Are Awards Getting Bigger?

- More Sophisticated & Innovative Plaintiff's Bar
- Declining frequency means remaining cases are “better”
- Trial Bar is Flush With Cash
- Medical Inflation
- Venue—Judicial “Hellholes” in these states:
 - FL, IL, TX and WV
- Class Actions Still an Issue
- Erosion of Tort Reform/Acceptance of “Junk Science” as Fact
- Jury Desensitization to Money/Deep Pockets Syndrome
- Sensationalized Media Coverage (e.g., Rollovers, Mold)
- Concern over Corporate Image—Cos. Quick to Settle
- Some US Corporations do Really Dumb Things (Enron,etc.)

HOW THE RISK DOLLAR IS SPENT

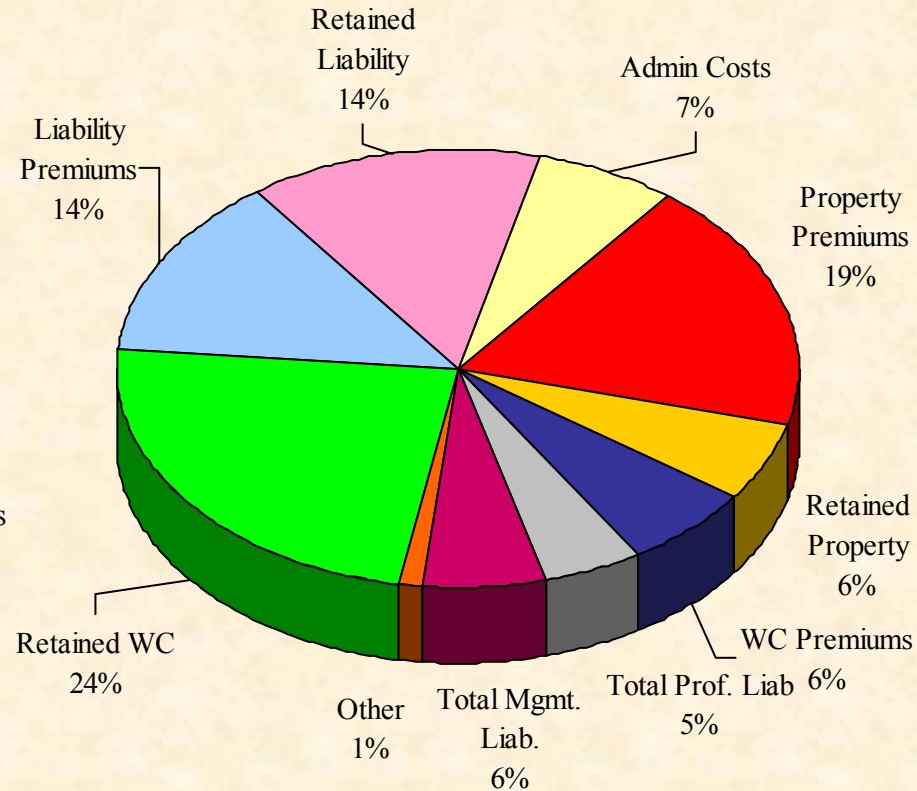
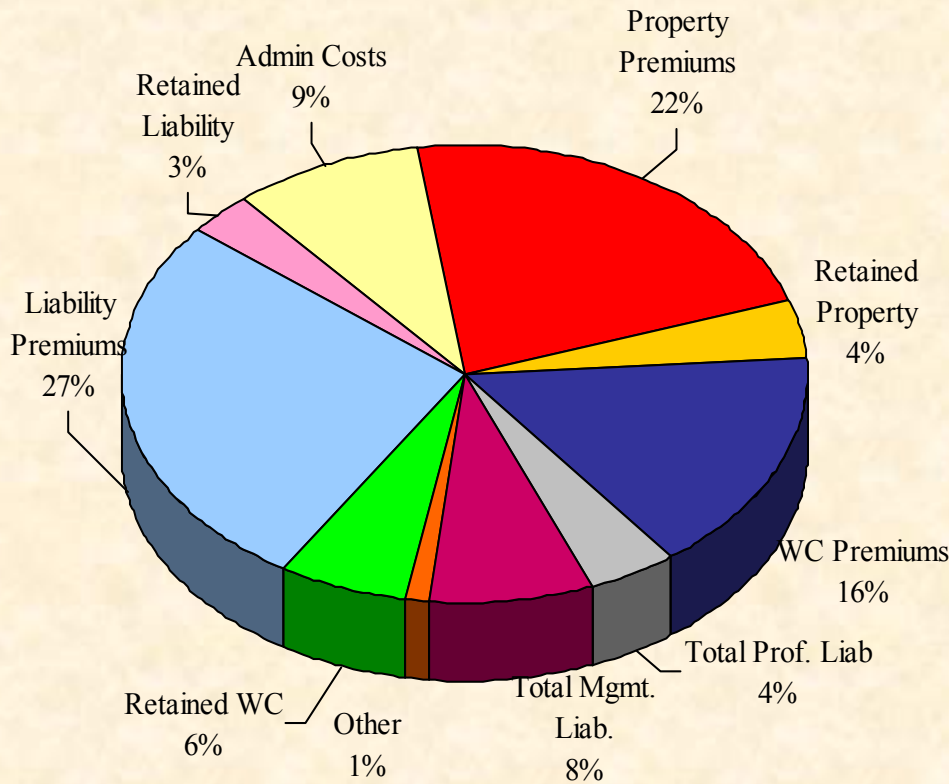


How the Risk Dollar is Spent (2004)

Total liability costs account for about 40% of the risk dollar

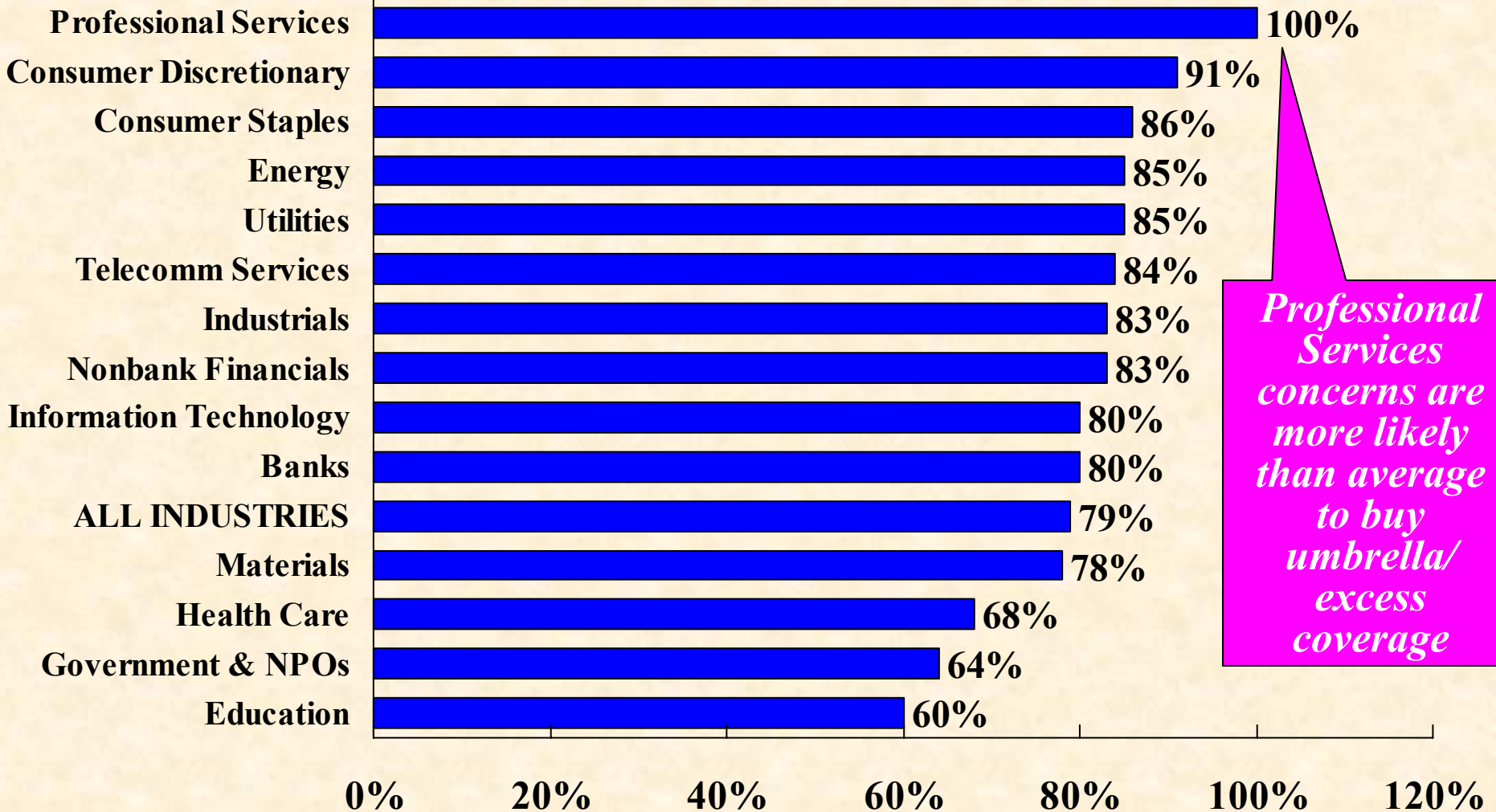
Firms w/Revenues < \$1 Billion

Firms w/Revenues > \$1 Billion

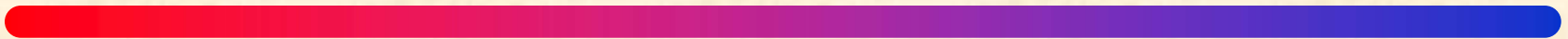




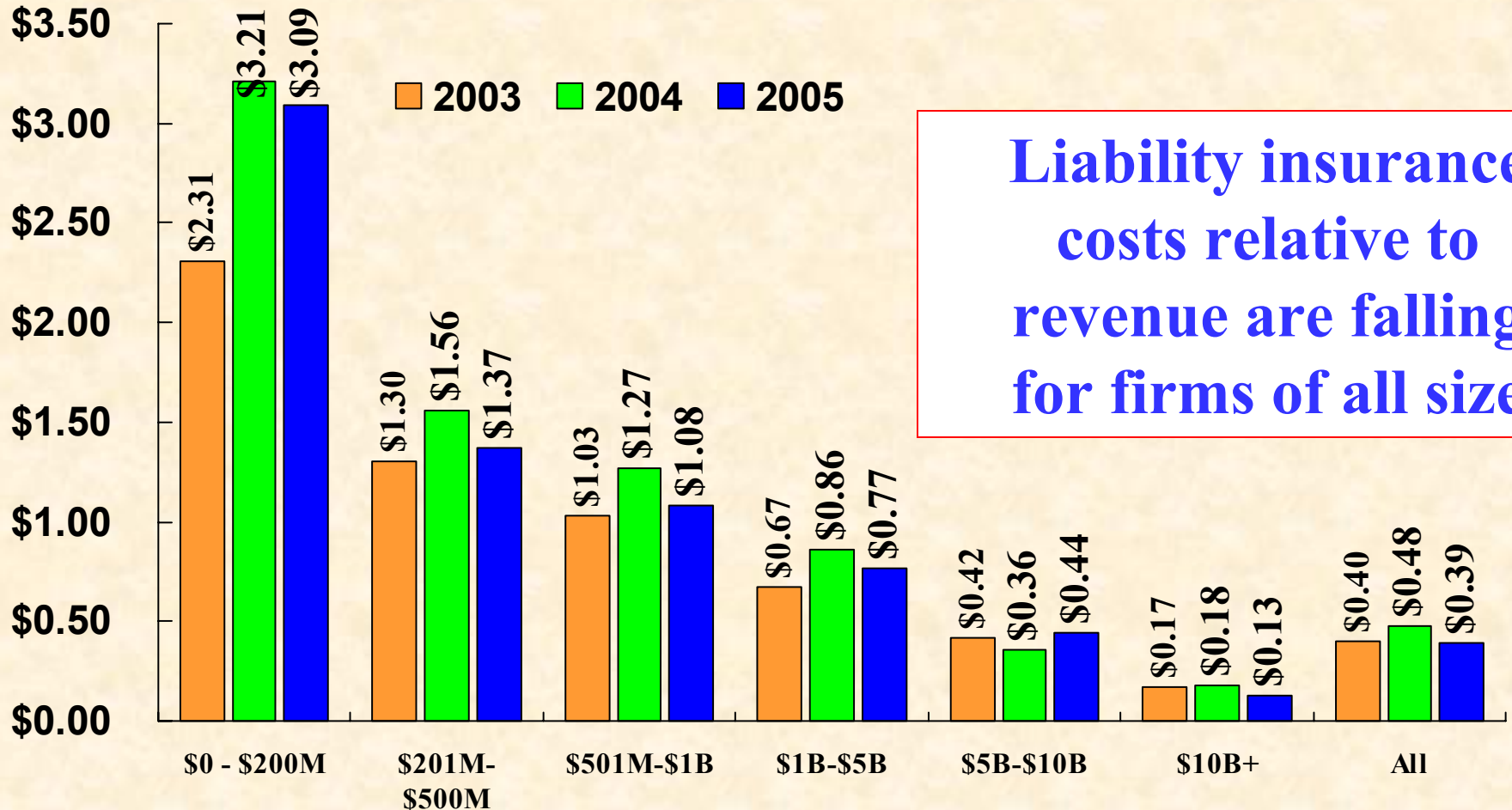
Who Buys Umbrella/Excess? (2005)



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



*Liability: Average Cost per \$1,000 of Revenue, * 2003 to 2005*

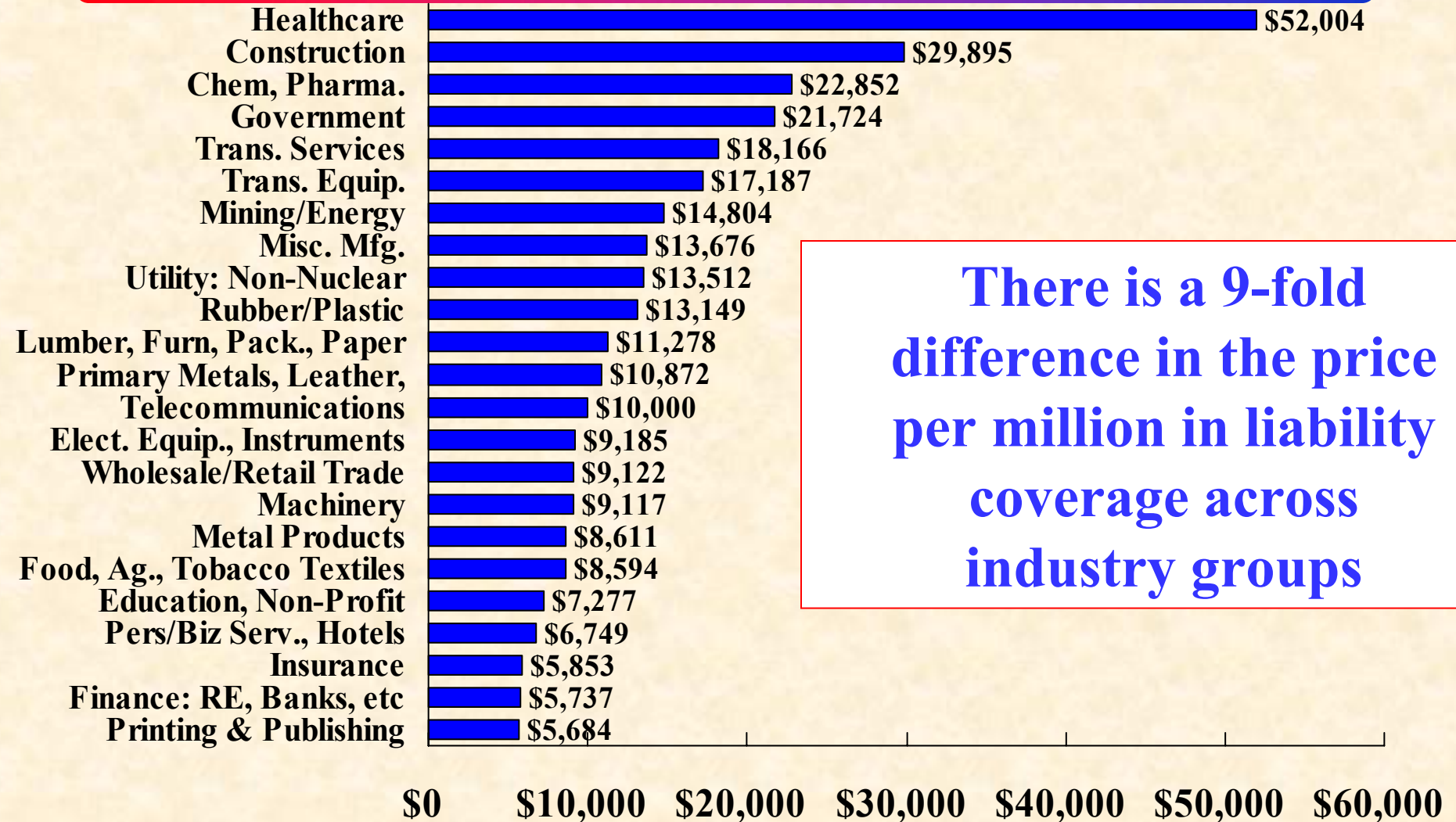


*Across entire liability program

Source: Marsh, 2005 Limits of Liability Report



Average Price per Million Dollars of Liability Coverage

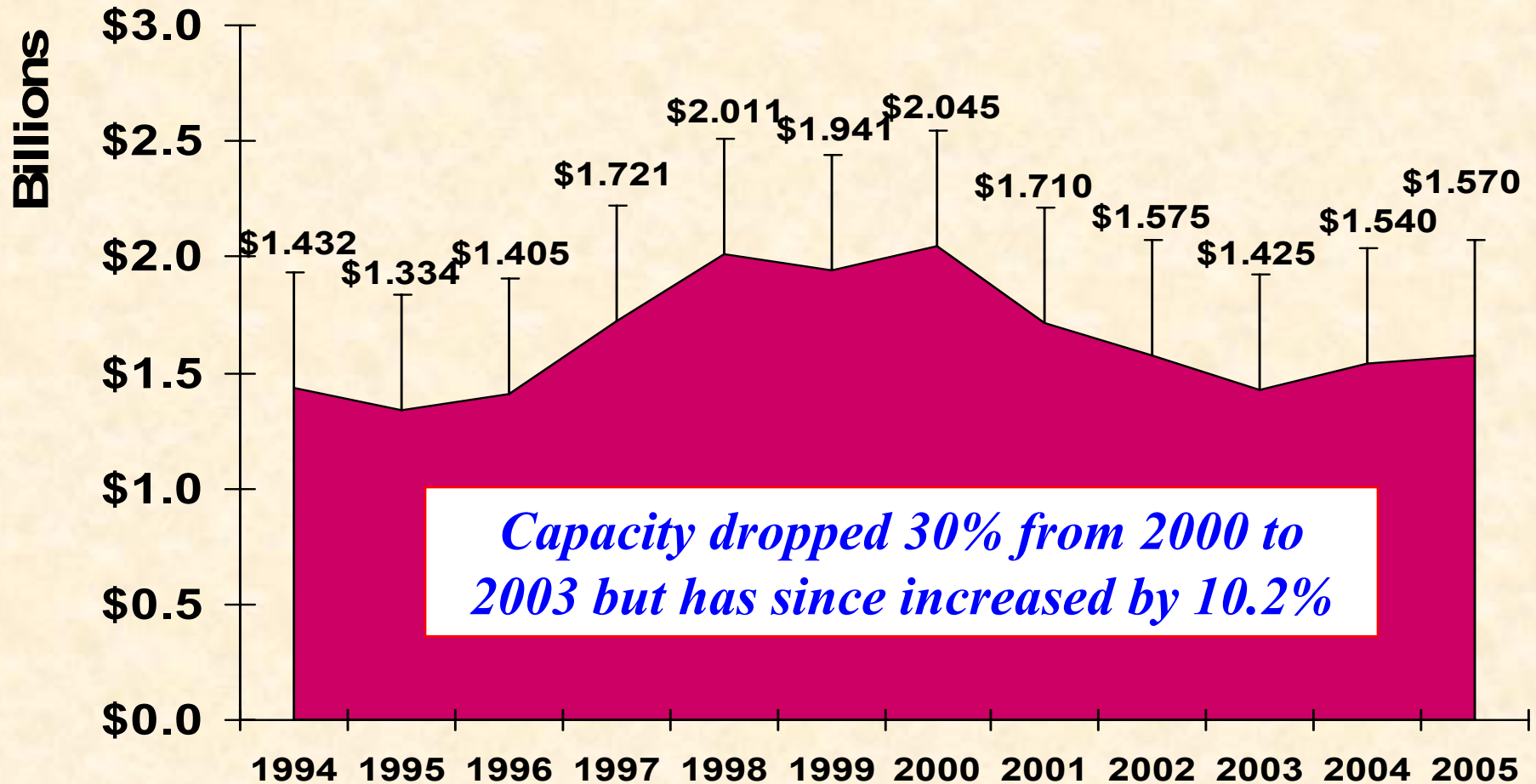


Umbrella/Excess Insurance: Avg. Cost per \$1,000 of Revenue, 2005





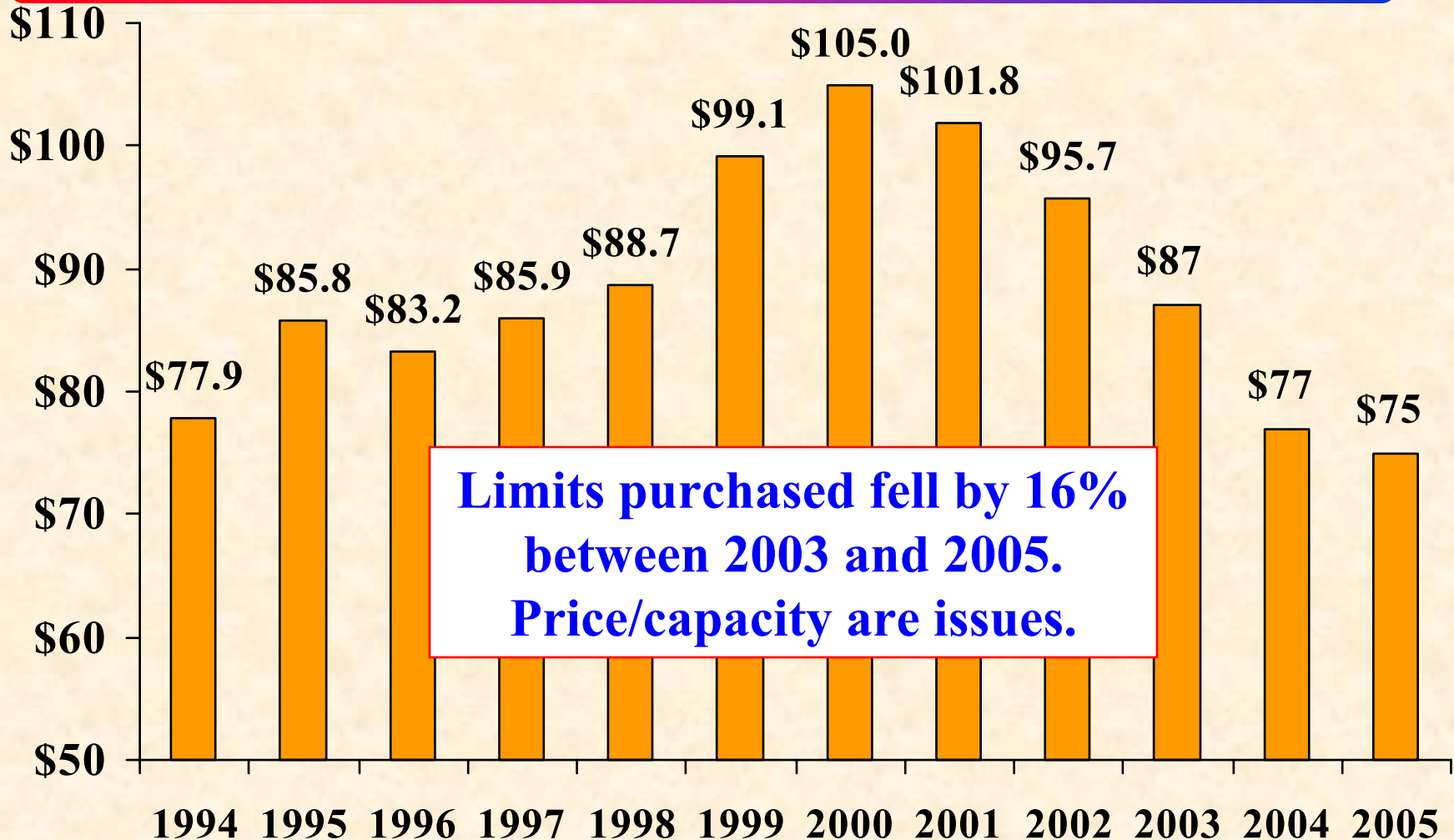
Excess Liability Market Capacity



Source: Marsh, 2005 Limits of Liability Report



Average Total Limits Purchased by All Firms* (\$ Millions)



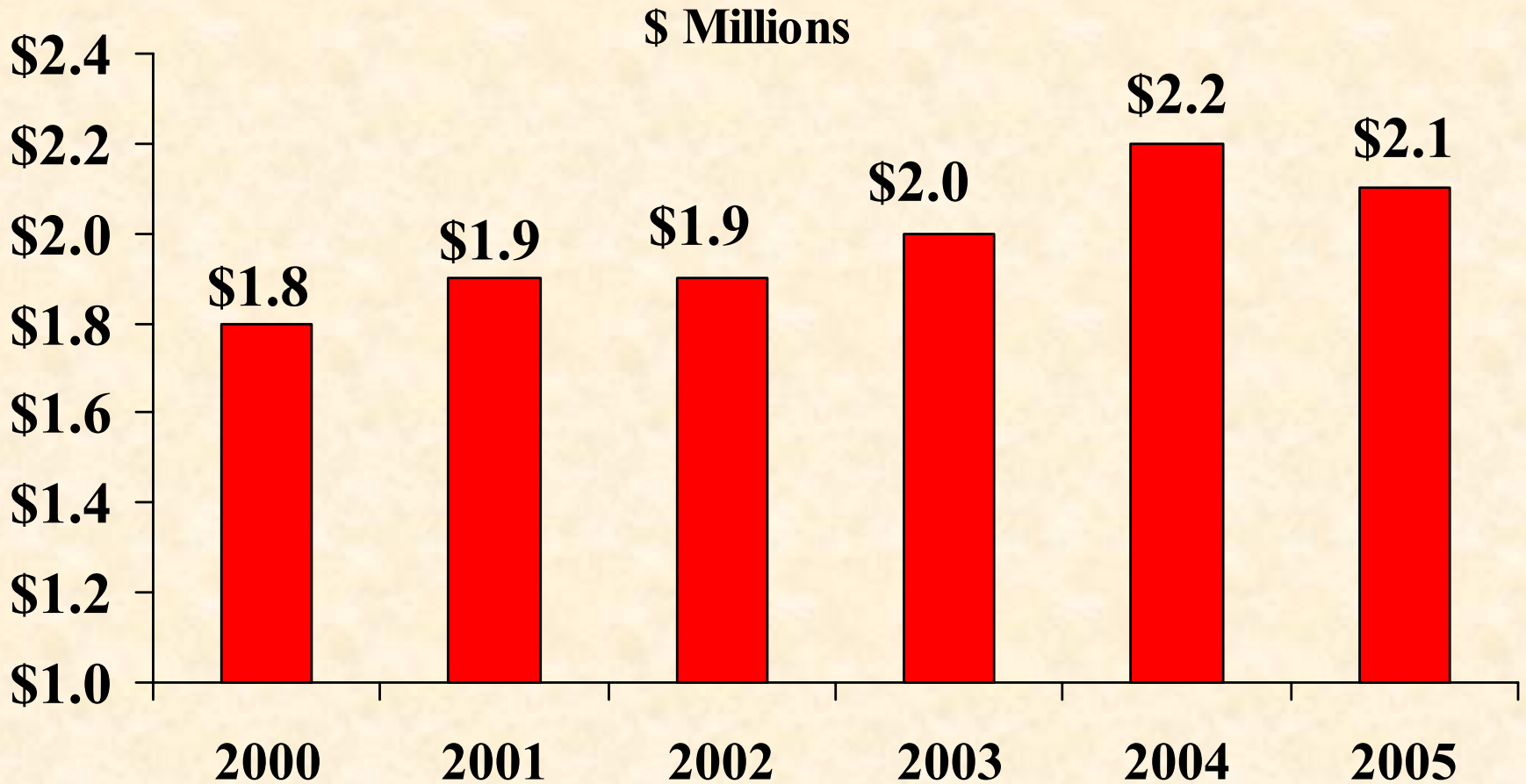
*Includes underlying primary limits.

Source: 2005 *Limits of Liability Report*, Marsh, Inc.



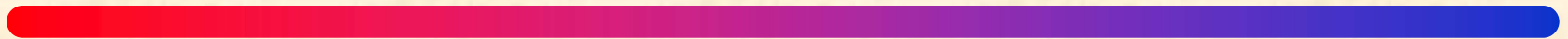
Average Underlying Limits

(Attachment Points)



The Cost of Litigation

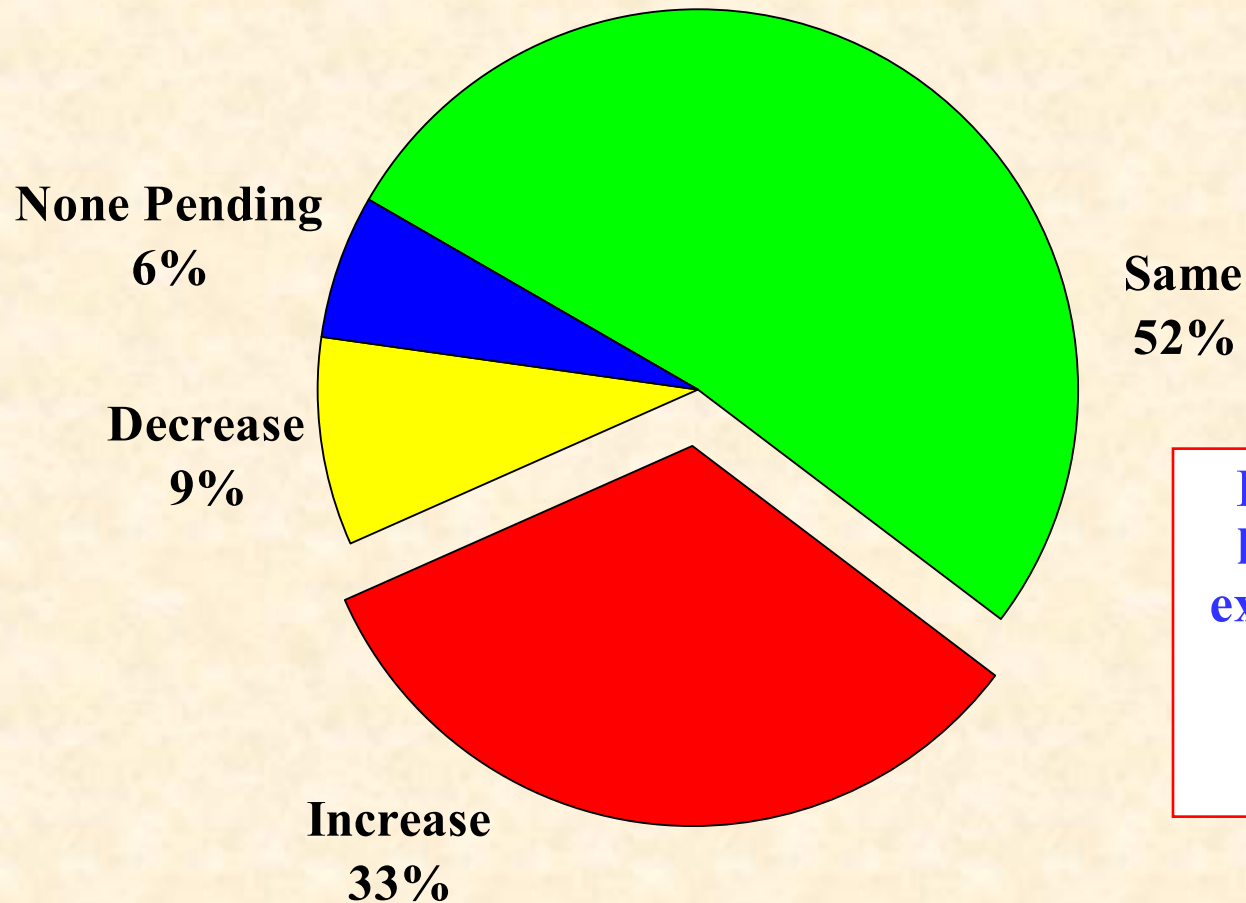
*Cost is Chief Concern
of Businesses*





Predicted Trend of Legal Disputes

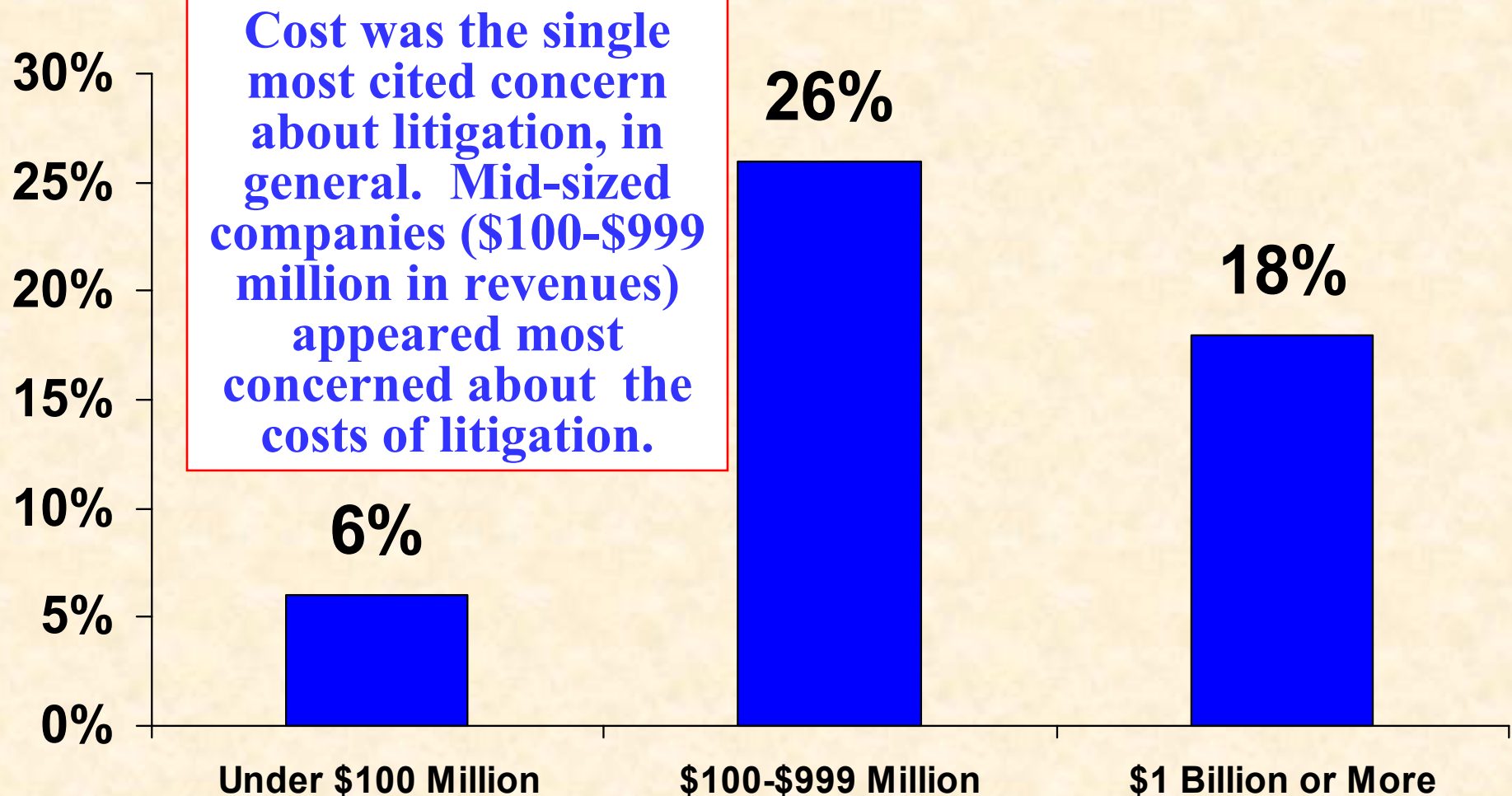
One third of responding counsel expect the total number of legal disputes their organizations will face in the coming year to increase.



Forty percent of large companies expect the number of actions to increase in the coming year.



Cost as a Top Litigation Concern for Businesses





Most Costly Types of Litigation, by Industry

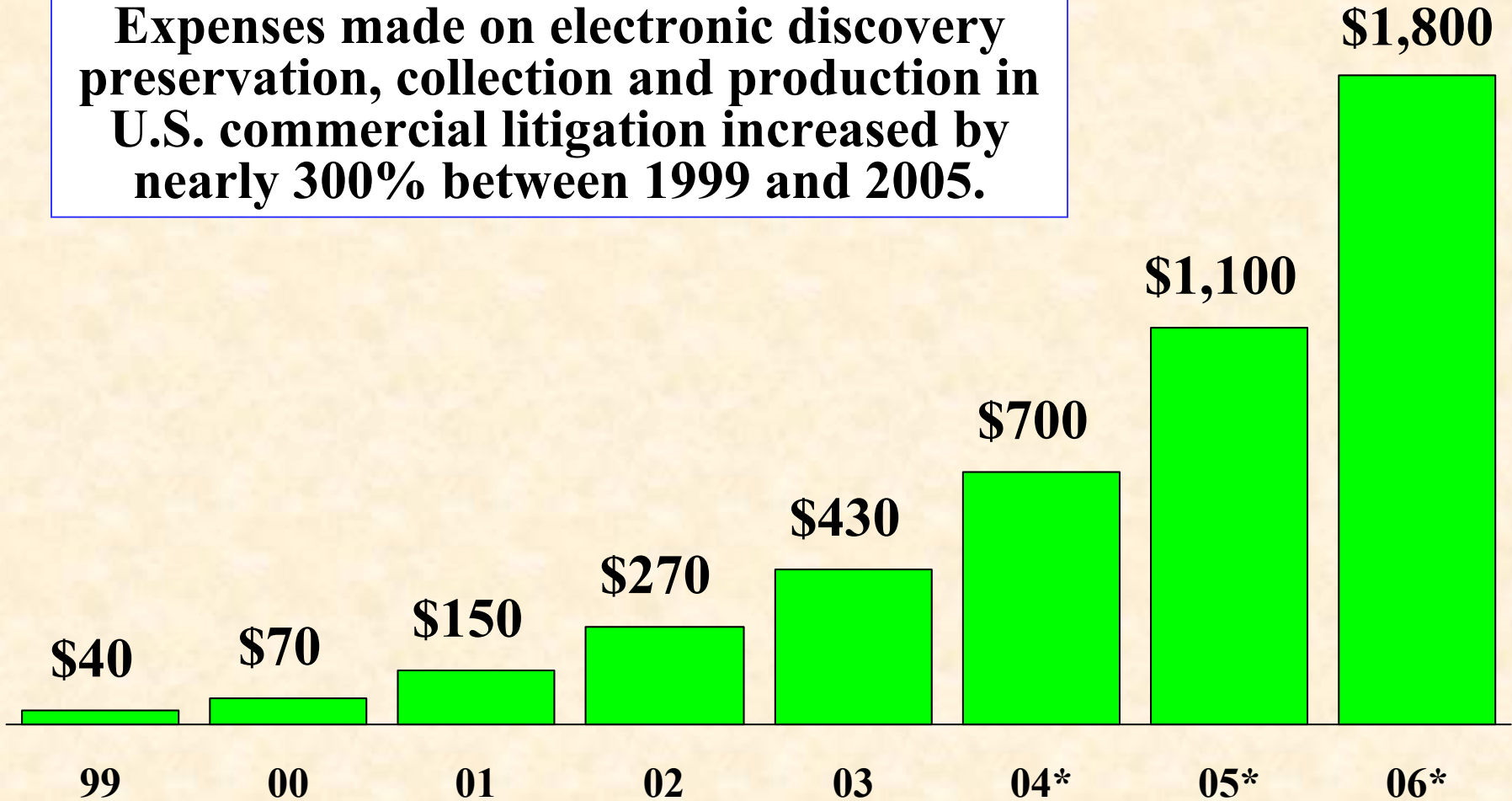
INDUSTRY	TYPE OF LITIGATION
<i>Energy</i>	Intellectual Property
<i>Finance</i>	Employment
<i>Health Care</i>	Contracts
<i>Insurance</i>	Employment
<i>Manufacturing</i>	Intellectual Property
<i>Real Estate</i>	Personal Injury
<i>Retail/Wholesale</i>	Intellectual Property
<i>Technology/Communications</i>	Intellectual Property

Source: Second Annual Litigation Trends Survey, Fulbright & Jaworski, 2005.



Expenditures on E-Discovery (\$ Millions)

Expenses made on electronic discovery preservation, collection and production in U.S. commercial litigation increased by nearly 300% between 1999 and 2005.

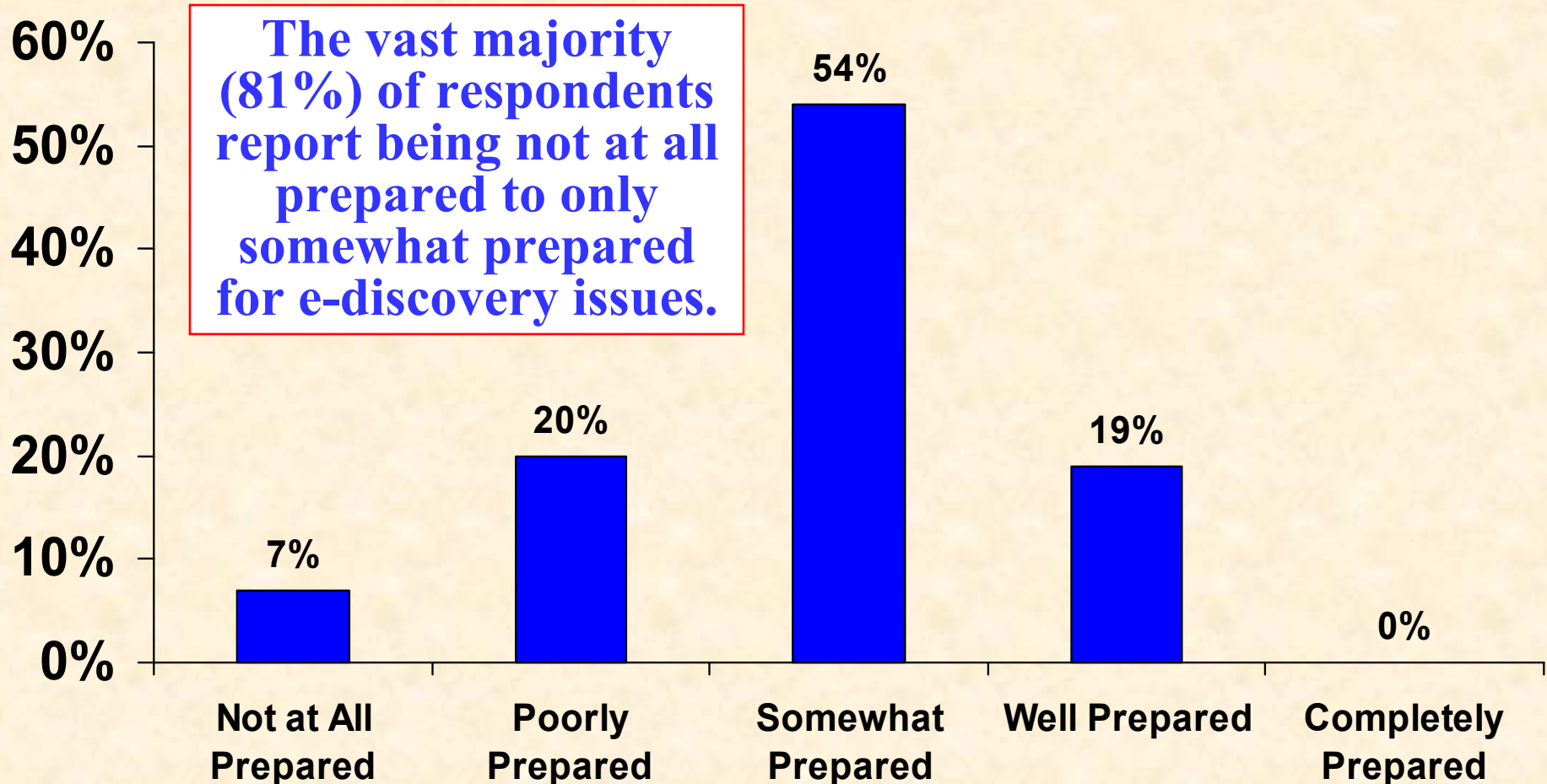


*Projections.

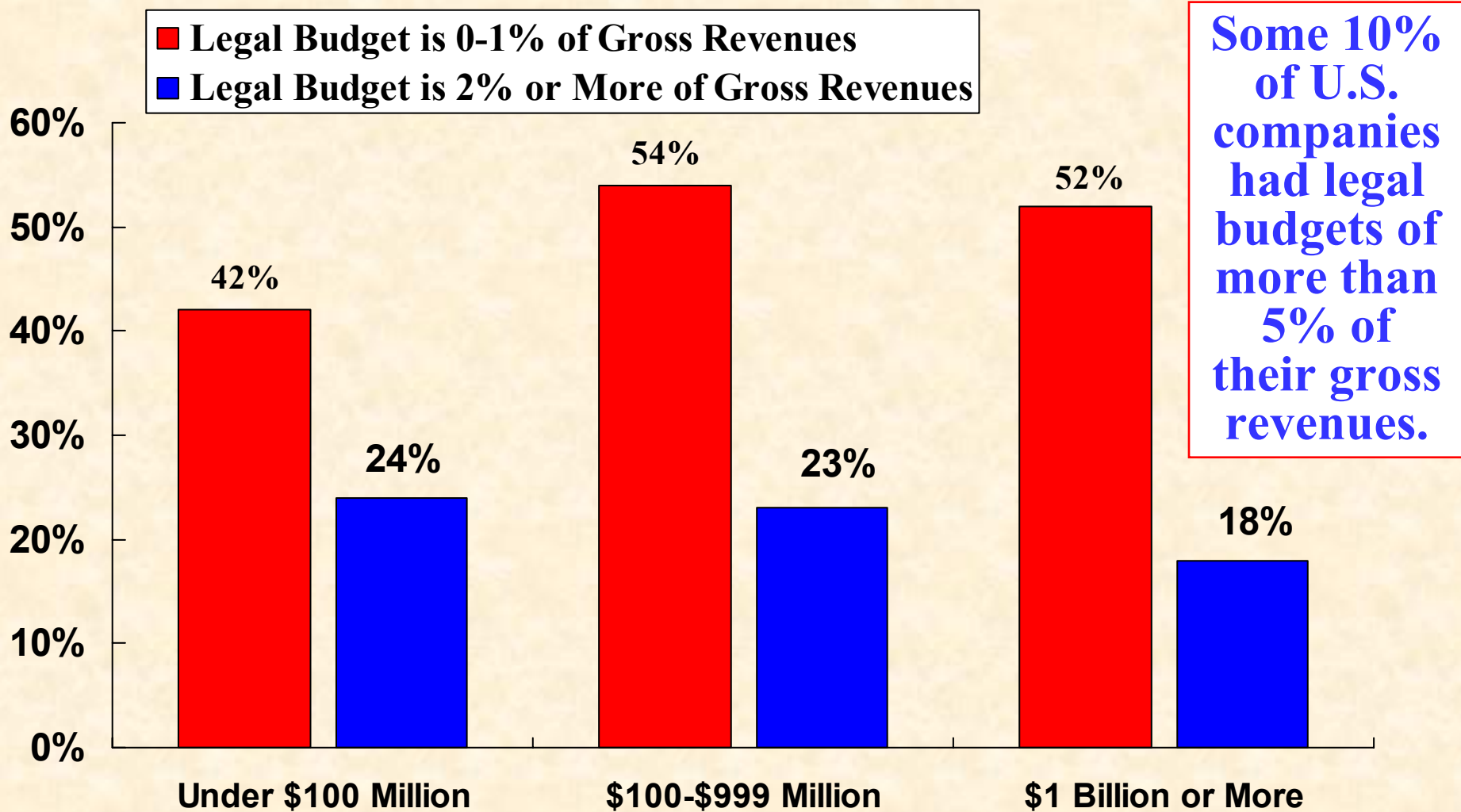
Source: Socha-Gelbmann Electronic Discovery Survey; National Law Journal 8/2/04.



Electronic Discovery Preparedness



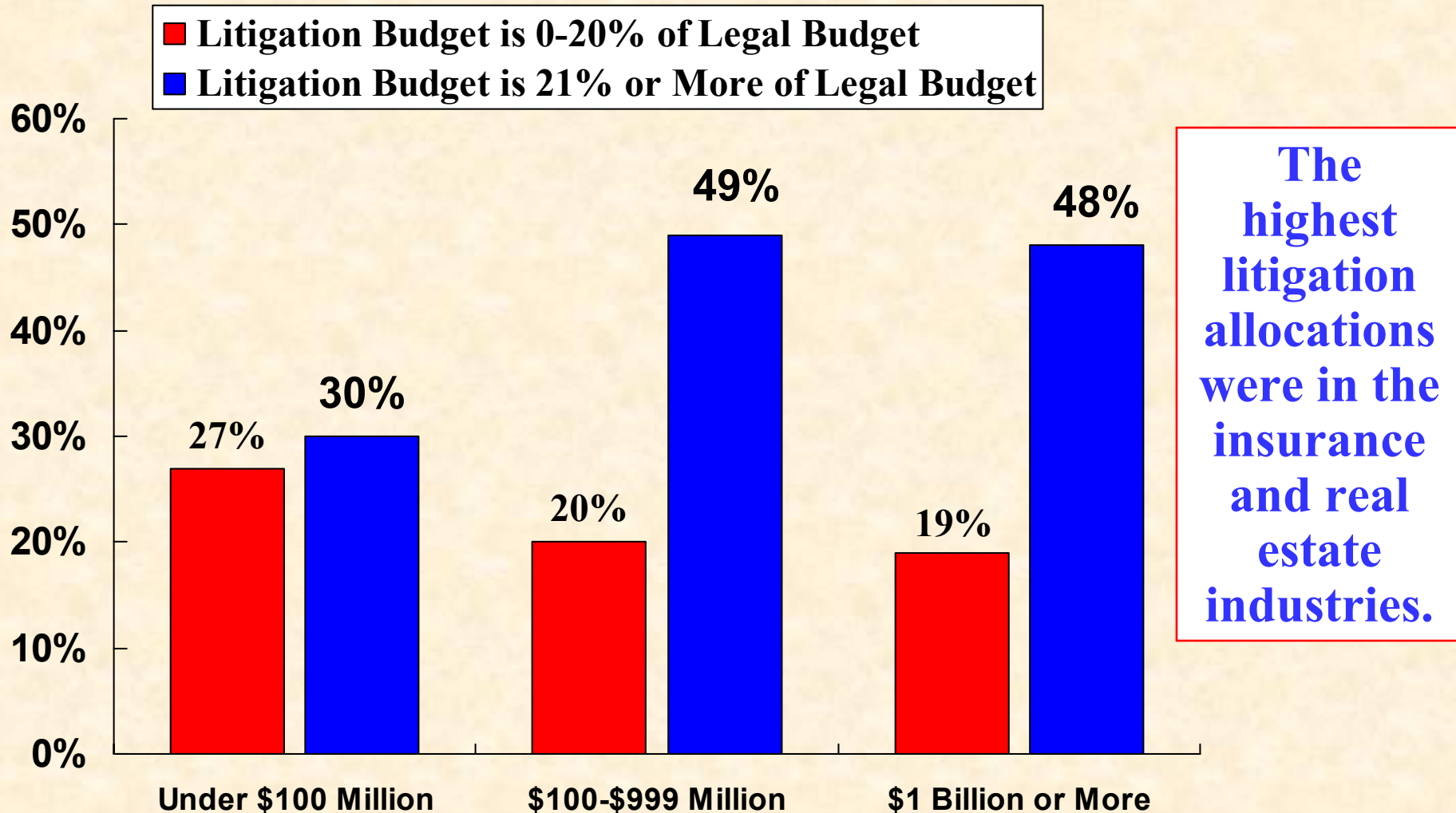
Legal Budget as a Percentage of Gross Revenues Reported by Company Size



Source: Second Annual Litigation Trends Survey, Fulbright & Jaworski, 2005.



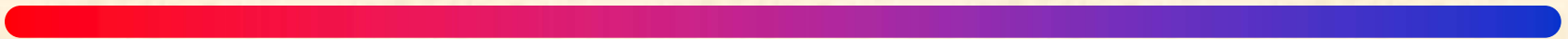
Litigation Budget as a Percentage of Legal Budget Reported by Company Size



Source: Second Annual Litigation Trends Survey, Fulbright & Jaworski, 2005.

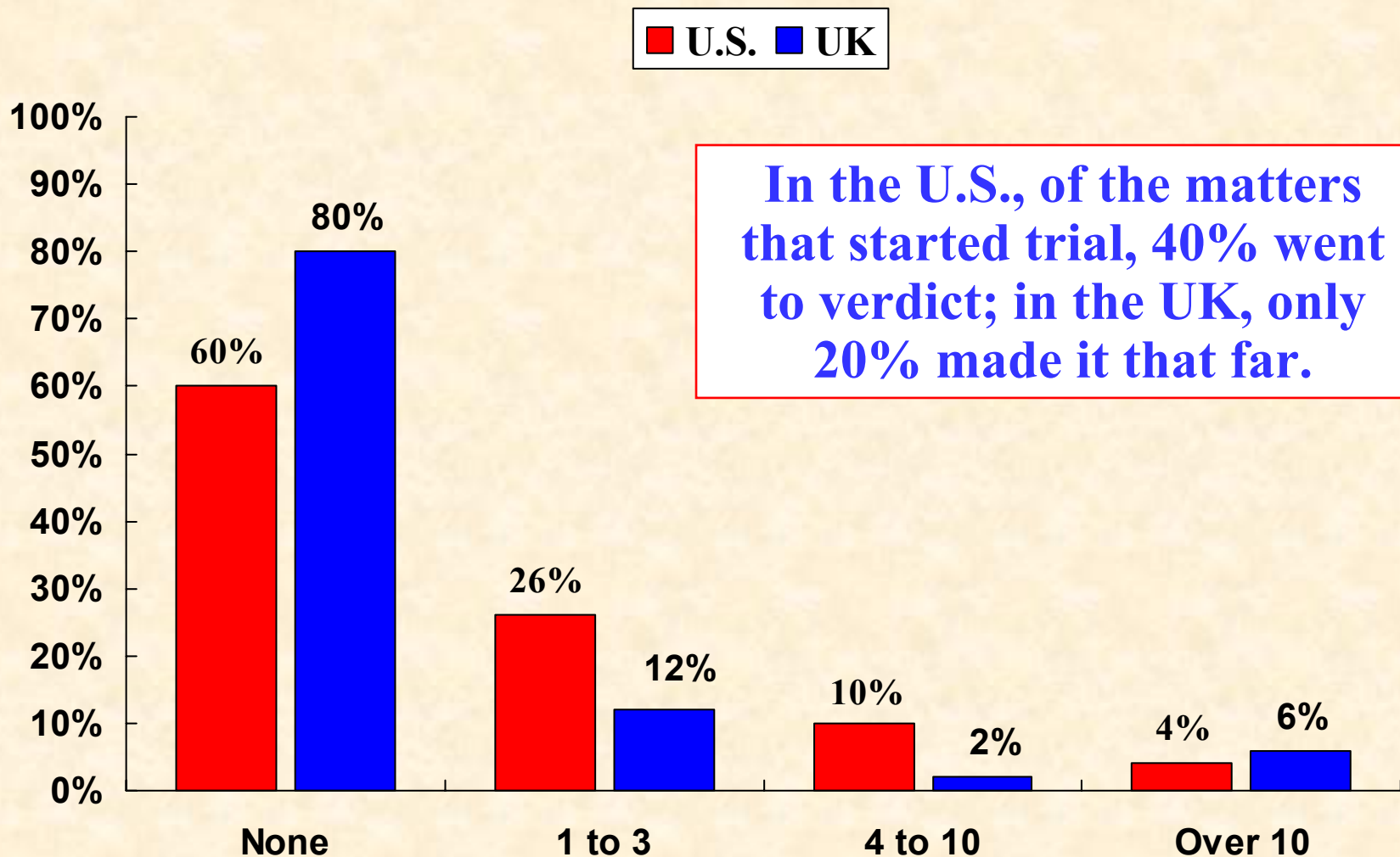
Cost of Litigation

Contributing Factors



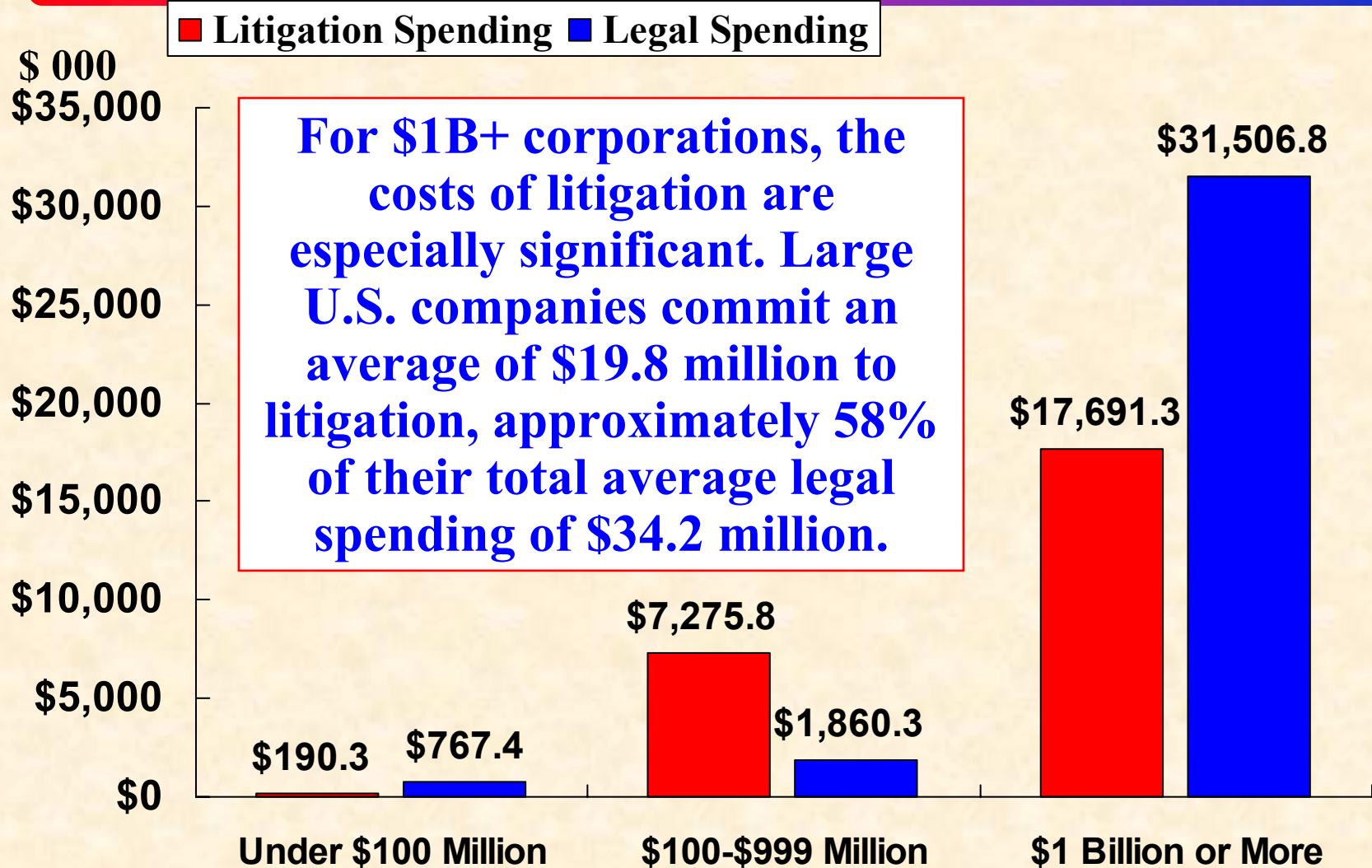


Percentage of Matters That Went to Verdict, U.S. vs. UK



Source: Second Annual Litigation Trends Survey, Fulbright & Jaworski, 2005.

Litigation Spending vs Legal Spending by Comp. Size (U.S. and International) (\$ 000)

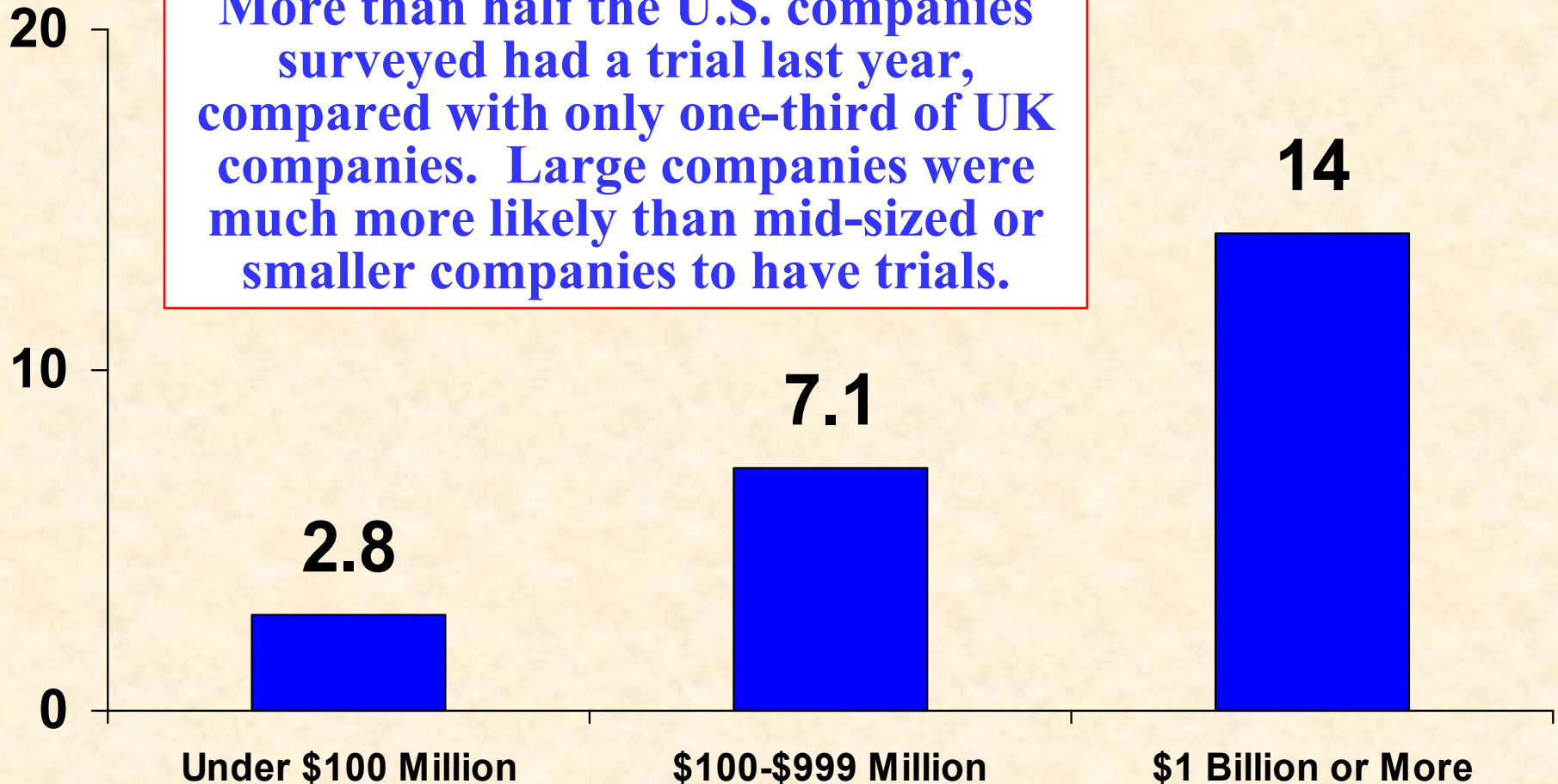


Source: Third Annual Litigation Trends Survey, Fulbright & Jaworski, 2006.



Average No. of Matters in Trial or Arbitration in the Past Year

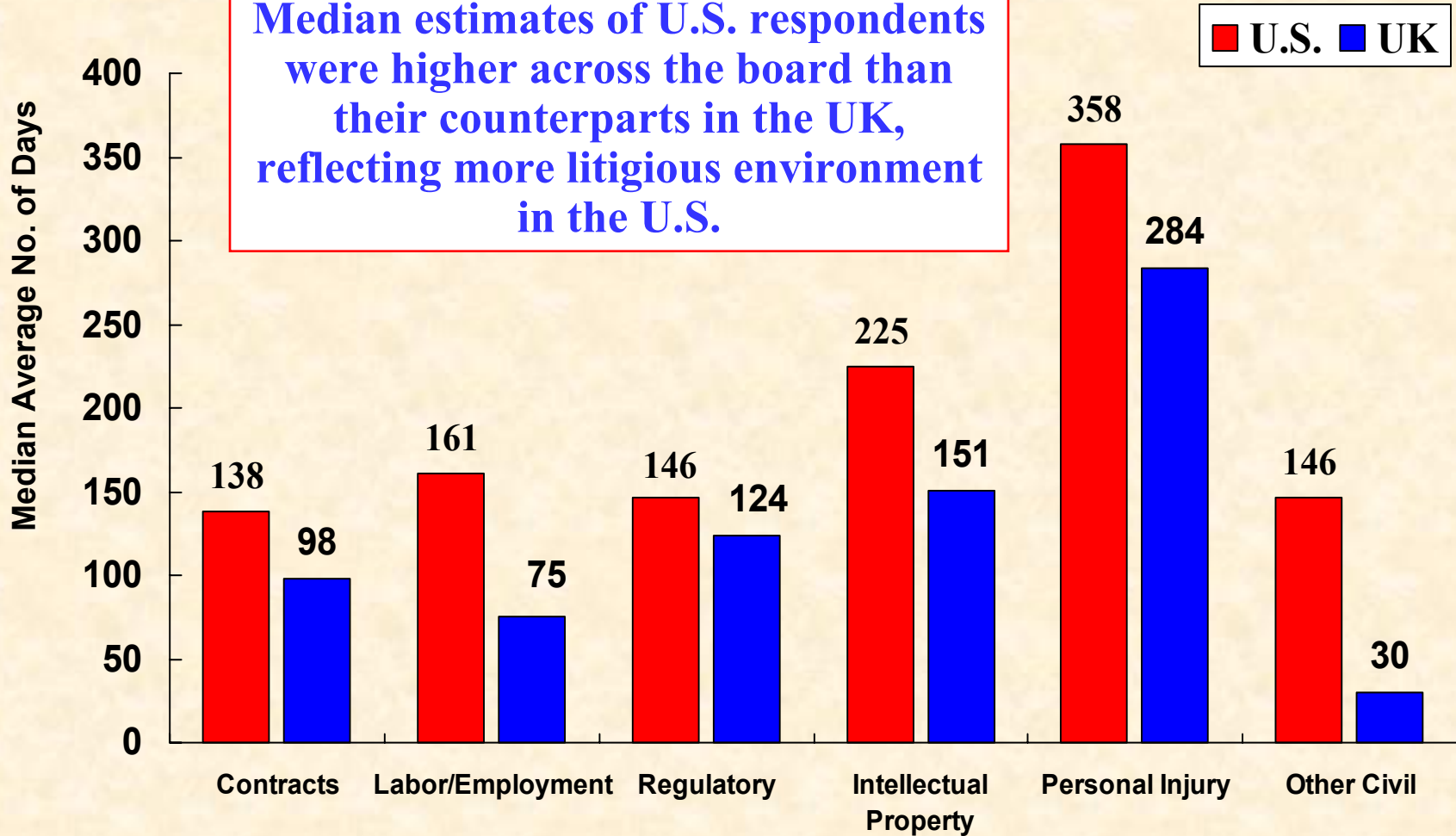
More than half the U.S. companies surveyed had a trial last year, compared with only one-third of UK companies. Large companies were much more likely than mid-sized or smaller companies to have trials.





Time-to-Resolution by Type of Matter, U.S. vs UK

Median estimates of U.S. respondents were higher across the board than their counterparts in the UK, reflecting more litigious environment in the U.S.





Corporate Counsel Managing Litigation in the Future

Response	US	UK	Under \$100 Million	\$100 - \$999 Million	\$1 Billion
<i>Increase</i>	12%	6%	13%	12%	8%
<i>Stay the same</i>	71%	87%	79%	81%	65%
<i>Decrease</i>	17%	6%	8%	7%	28%

Source: Third Annual Litigation Trends Survey, Fulbright & Jaworski, 2006.



Average Number of Outside Litigation Firms Used

Response	US	UK	Under \$100 Million	\$100 - \$999 Million	\$1 Billion
None	2%	0%	8%	0%	0%
1	5%	10%	18%	5%	0%
2 - 5	28%	52%	55%	47%	12%
6 - 10	23%	29%	11%	28%	25%
11 - 20	15%	3%	5%	15%	16%
Over 20	27%	6%	3%	5%	47%
Average	4.2	3.5	3.0	3.7	5.0

Source: Third Annual Litigation Trends Survey, Fulbright & Jaworski, 2006.

Class Action Concerns

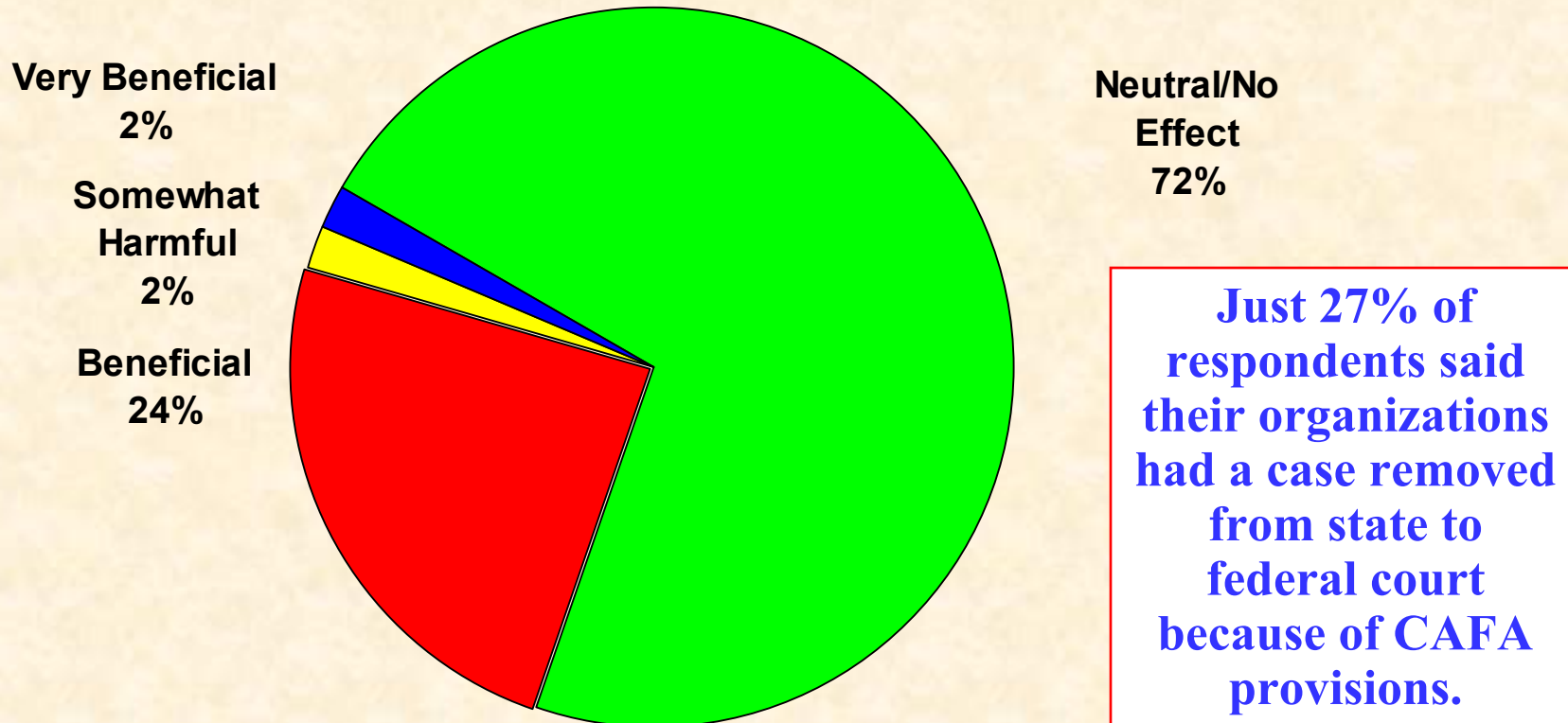
Class Action Fairness Act:

iii *Only a Beginning*



Class Action Impact

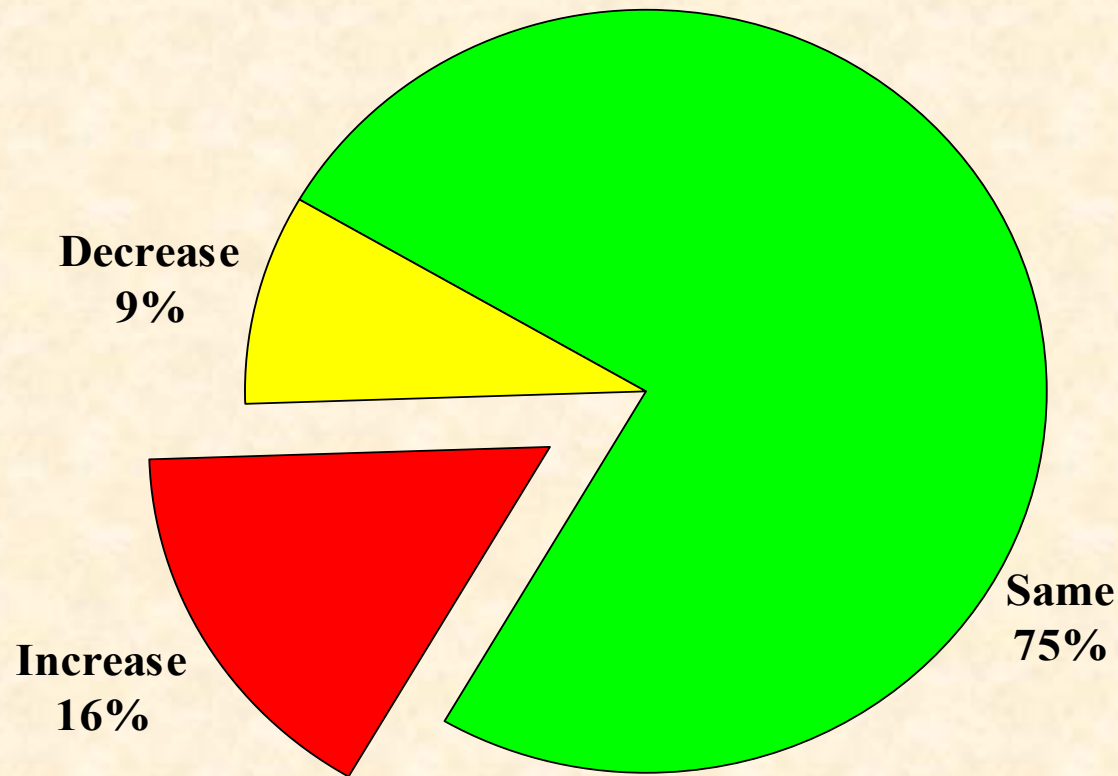
A significant majority (72%) feel the Class Action Fairness Act (CAFA) of 2005 has had no effect, but more than a quarter believe the Act's effect has been beneficial.





Number of Future Class Actions Expected

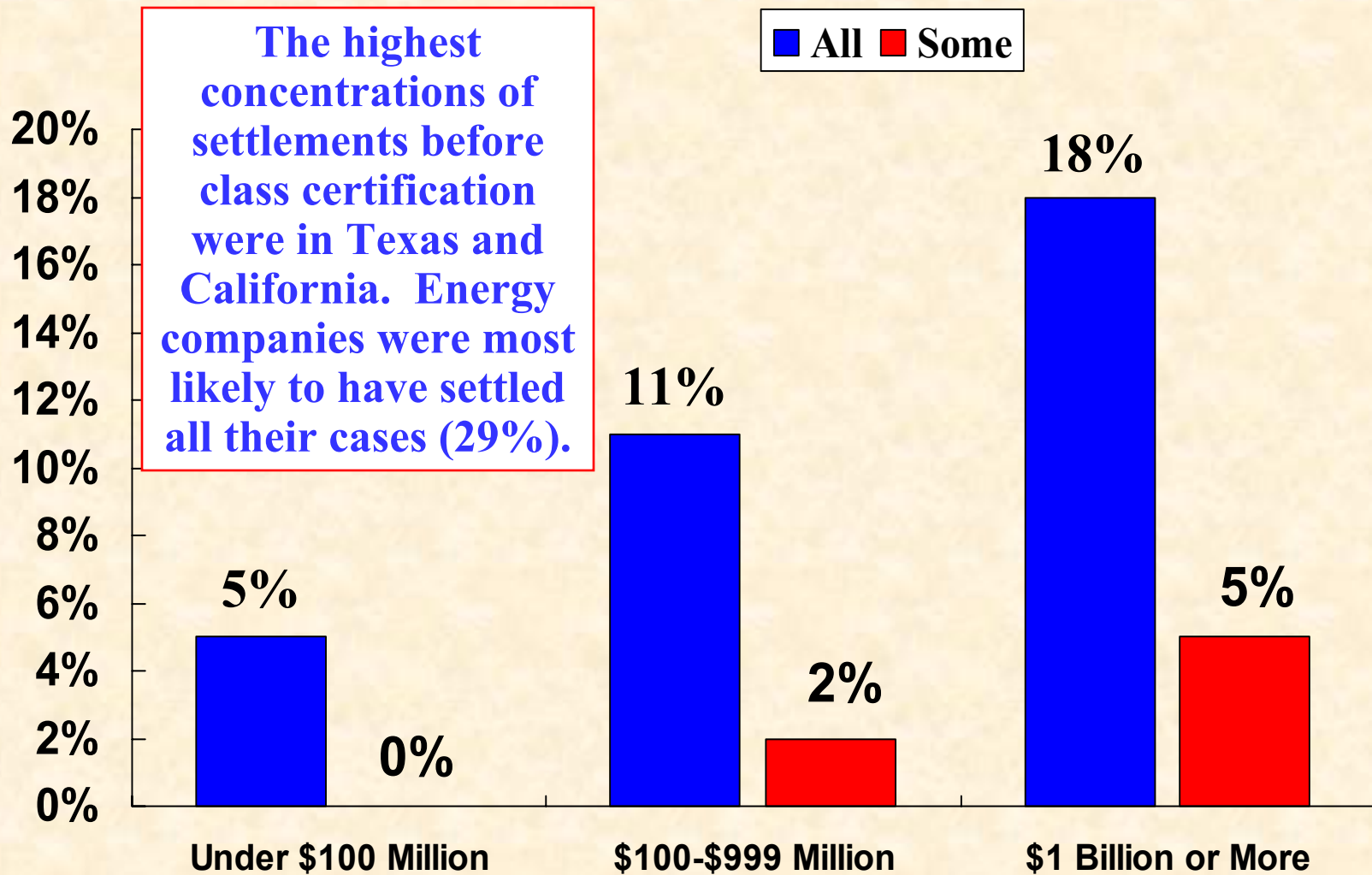
Three-quarters of responding counsel expect the number of class actions filed against their companies to remain about the same going forward.



About one third of respondents expect labor/employment to be the most active area for class actions against their companies in the future.



Percentage of Class Actions Settled Before Certification



Source: Second Annual Litigation Trends Survey, Fulbright & Jaworski, 2005.



Leading Types of Class Actions

Response	Past Three Years
<i>Labor/Employment</i>	38%
<i>Securities Litigation/ Enforcement</i>	28%
<i>Contracts</i>	23%
<i>Environmental/Toxic Tort</i>	20%
<i>Anti-Trust/Trade</i>	20%
<i>Class Action</i>	19%
<i>Product Liability</i>	16%



Class Action Impact (1)

Class Action Fairness Act	Class Action Certification	Class Conscious
<ul style="list-style-type: none">• Nearly half of U.S. respondents believe that the Act will have no impact on litigation costs.• Mid-sized and large companies and energy industry respondents were more likely to believe the Act would either decrease or have no impact on litigation costs.• 63% of respondents believe the Act will have no impact on liability; more respondents felt liability would be reduced rather than increased.	<ul style="list-style-type: none">• California companies had the highest percentage of class actions certified (28%).• Texas was second with 11% of class actions certified.• 17% of large companies had all or some class actions certified against them in the last three years.	<ul style="list-style-type: none">• Only 5% of smaller companies were targeted with class actions in the past year, while nearly 40% of companies with revenues of \$1 billion or more were served.• 75% of responding counsel believe the number of class action lawsuits will not change in future.• Roughly a third of the respondents reported that labor/employment was the area with the largest percentage of class action activity during the past three years.



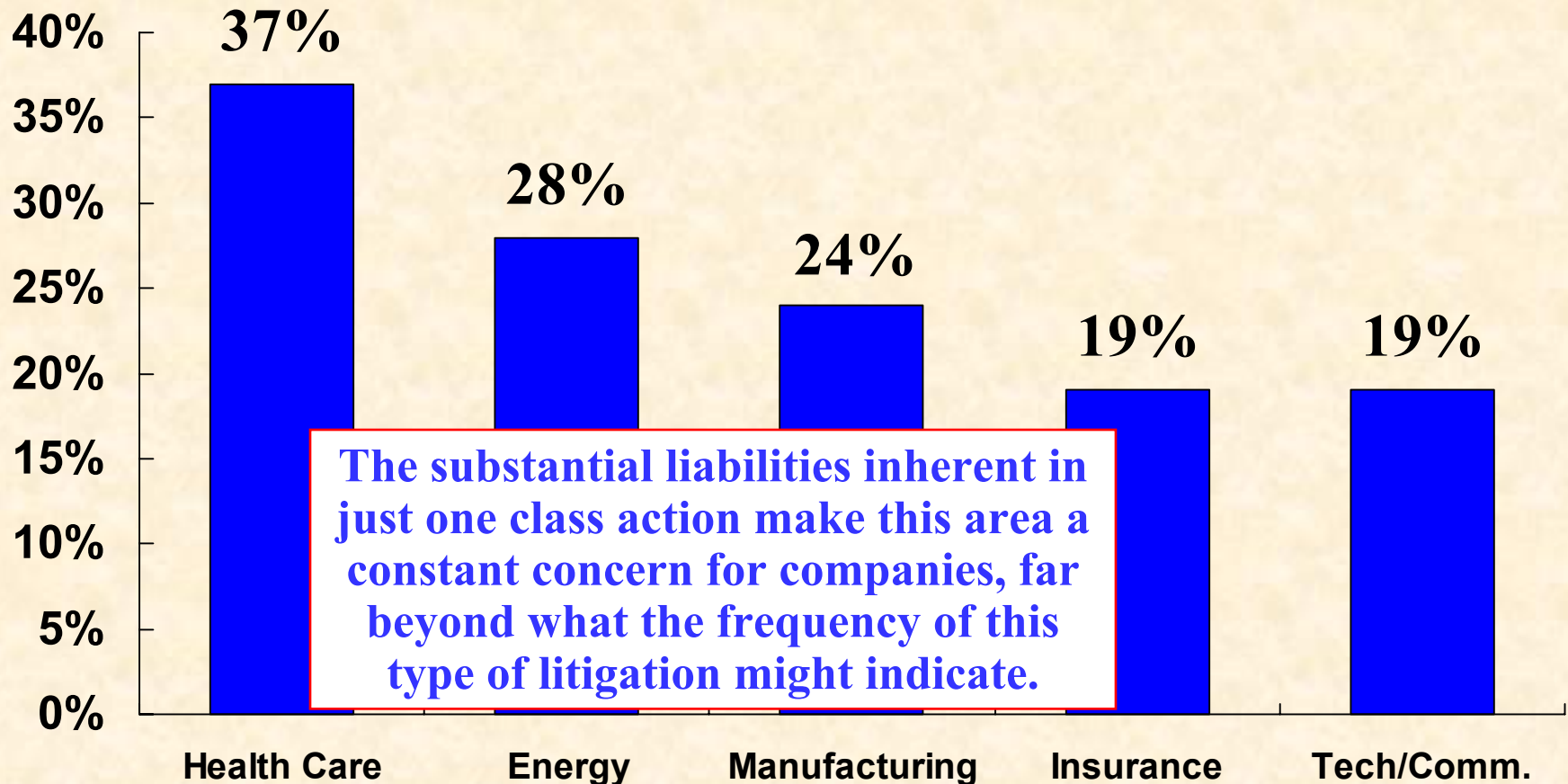
Class Action Impact (2)

Manufacturing Industry	Energy Companies	Real Estate
<ul style="list-style-type: none">• Respondents in the manufacturing industry involved in class actions over the last three years increased from 24% to 30%.• 16% of respondents expect an increase in future class actions in the manufacturing industry.• The Midwest was the only region to experience an increase in number of class actions (3%).	<ul style="list-style-type: none">• 28% of energy companies had one to three class actions filed in the past three years.• 19% of energy company respondents had one or more class actions filed in the past year.• Energy company respondents led all industries in expecting more class actions in the future (27%).• Companies in Texas expect a dramatic increase in class action suits.	<ul style="list-style-type: none">• More than half again as many real estate respondents faced class actions in the last year compared with three years ago (20% vs. 13%).• 20% of real estate respondents claimed one or more class action suits filed within the past year.• Only 14% of real estate respondents expect an increase in class actions.



Highest Incidence of Class Actions in 2002

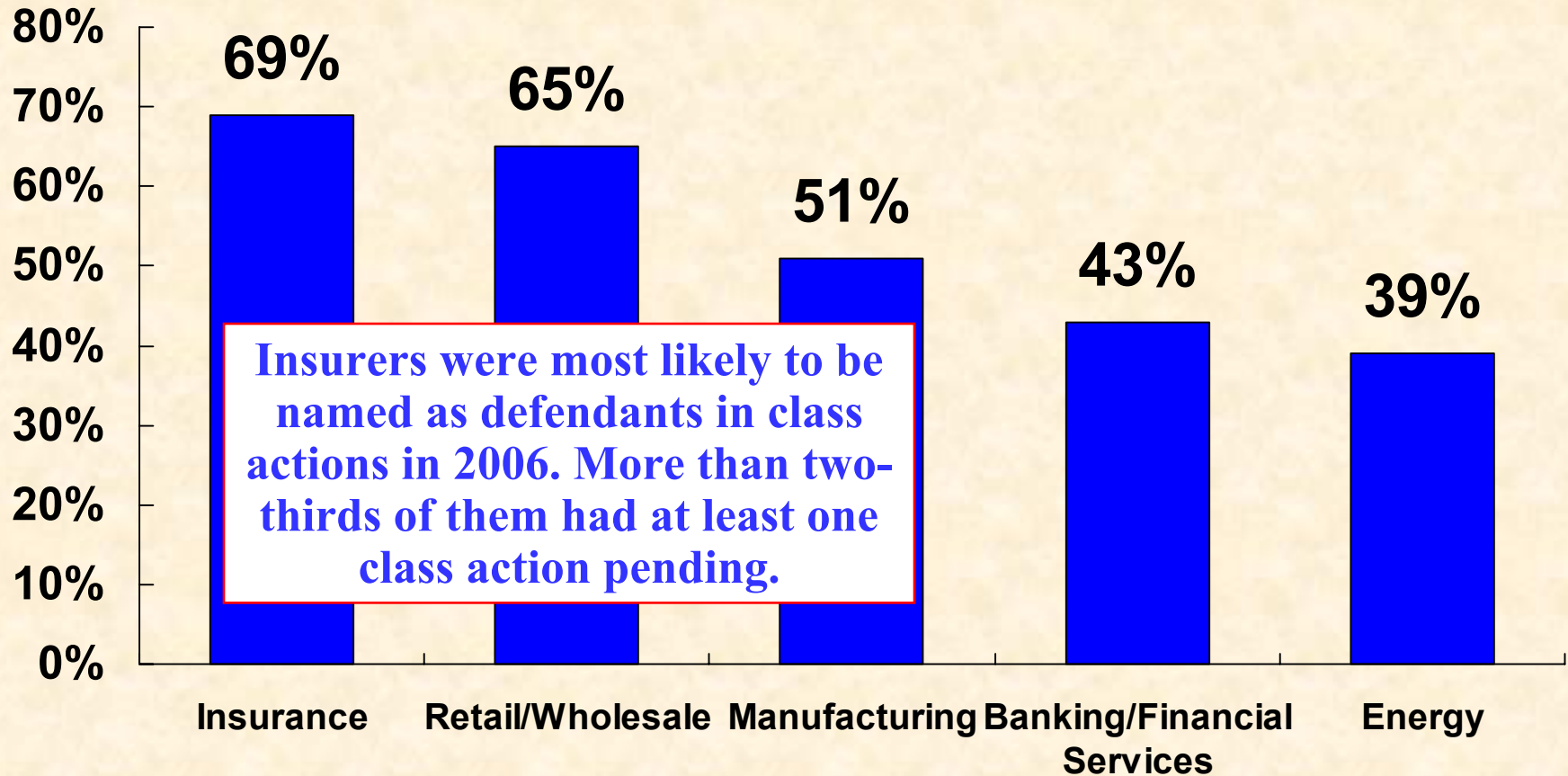
■ One or More Class Actions Filed





Highest Incidence of Class Actions in 2006

■ One or More Class Actions Filed

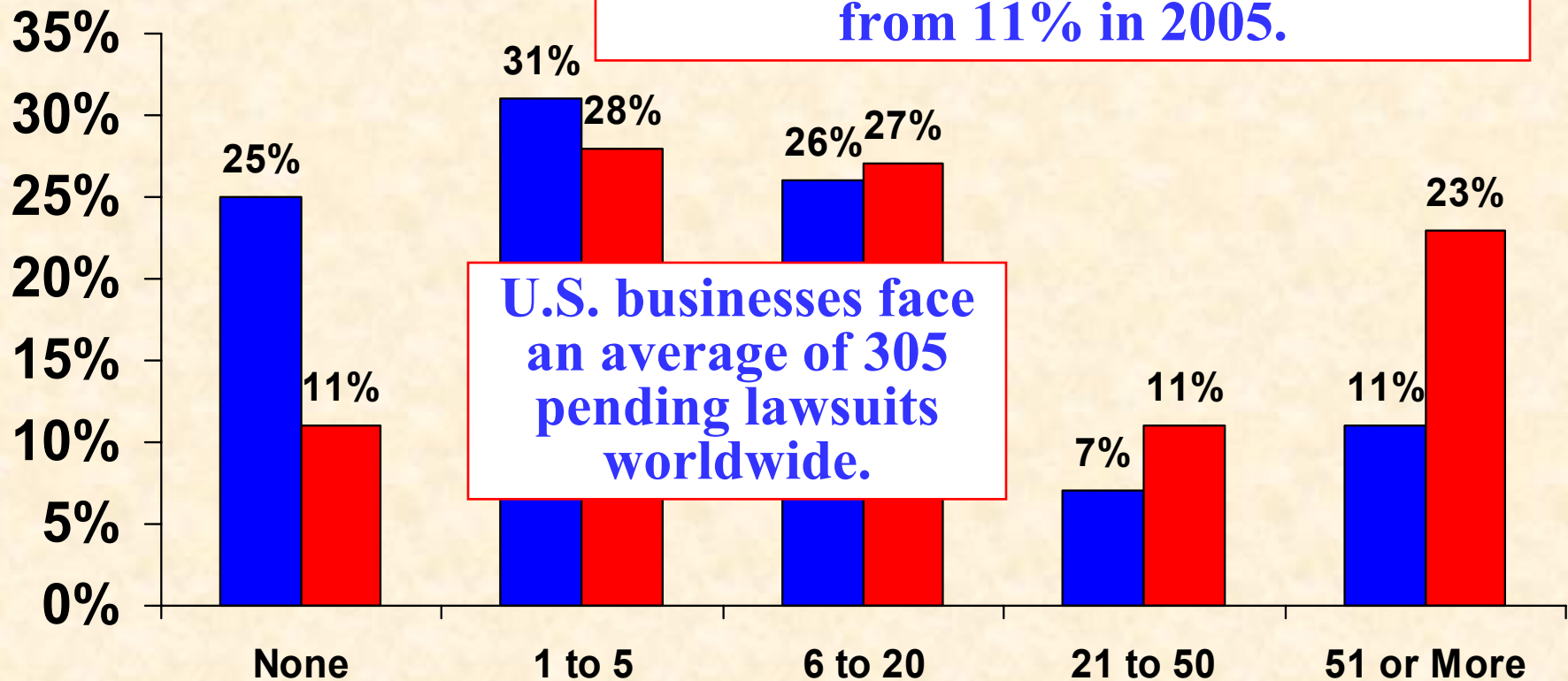




Lawsuits Commenced Against Companies

■ 2005 ■ 2006

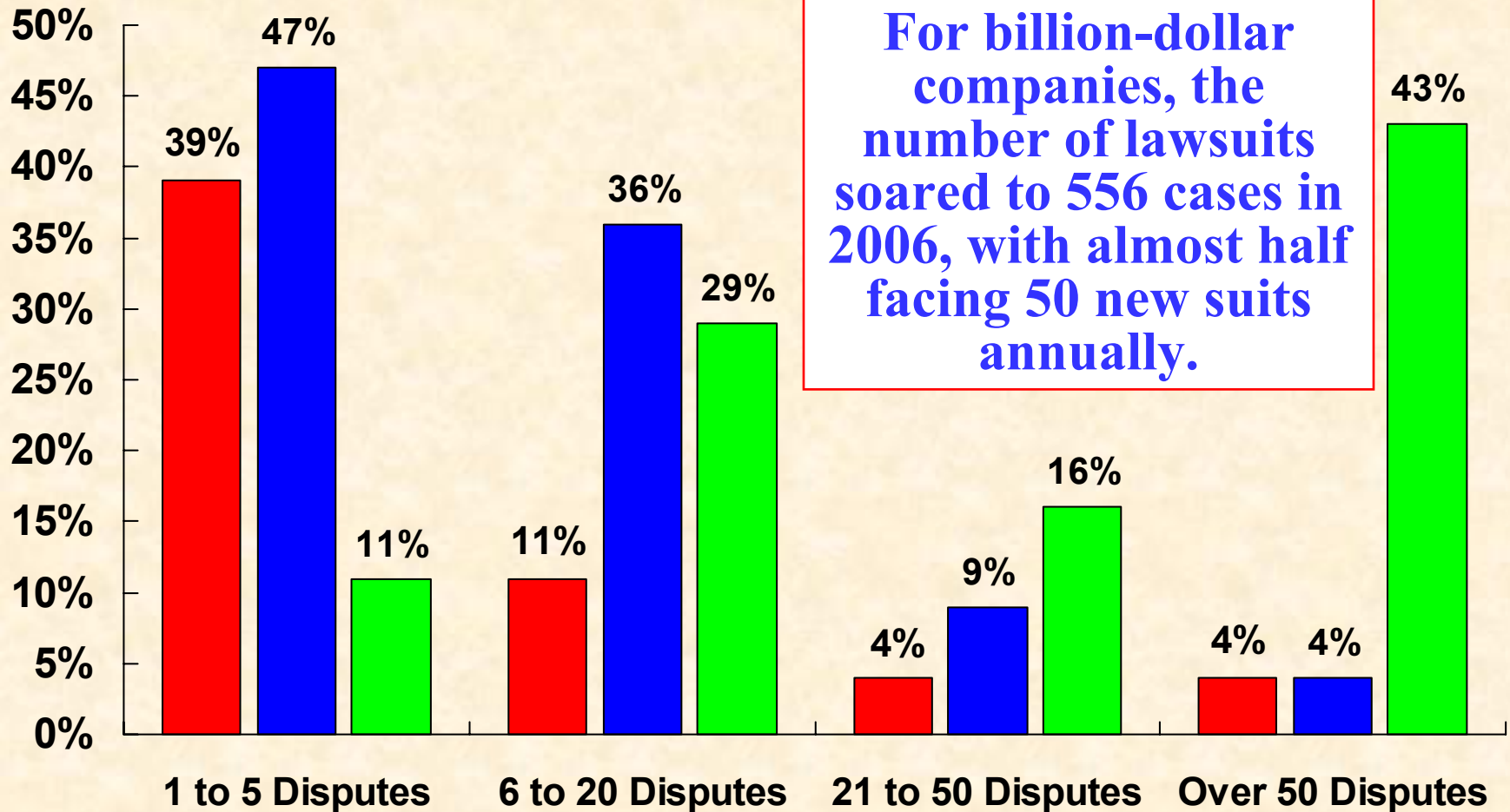
The percentage of companies with more than 50 lawsuits pending more than doubled to 23% in 2006, up from 11% in 2005.





Total Legal Disputes Commenced Against Companies

■ Revenues - Under \$100 Million ■ \$100 - \$999 Million ■ \$1 Billion or More

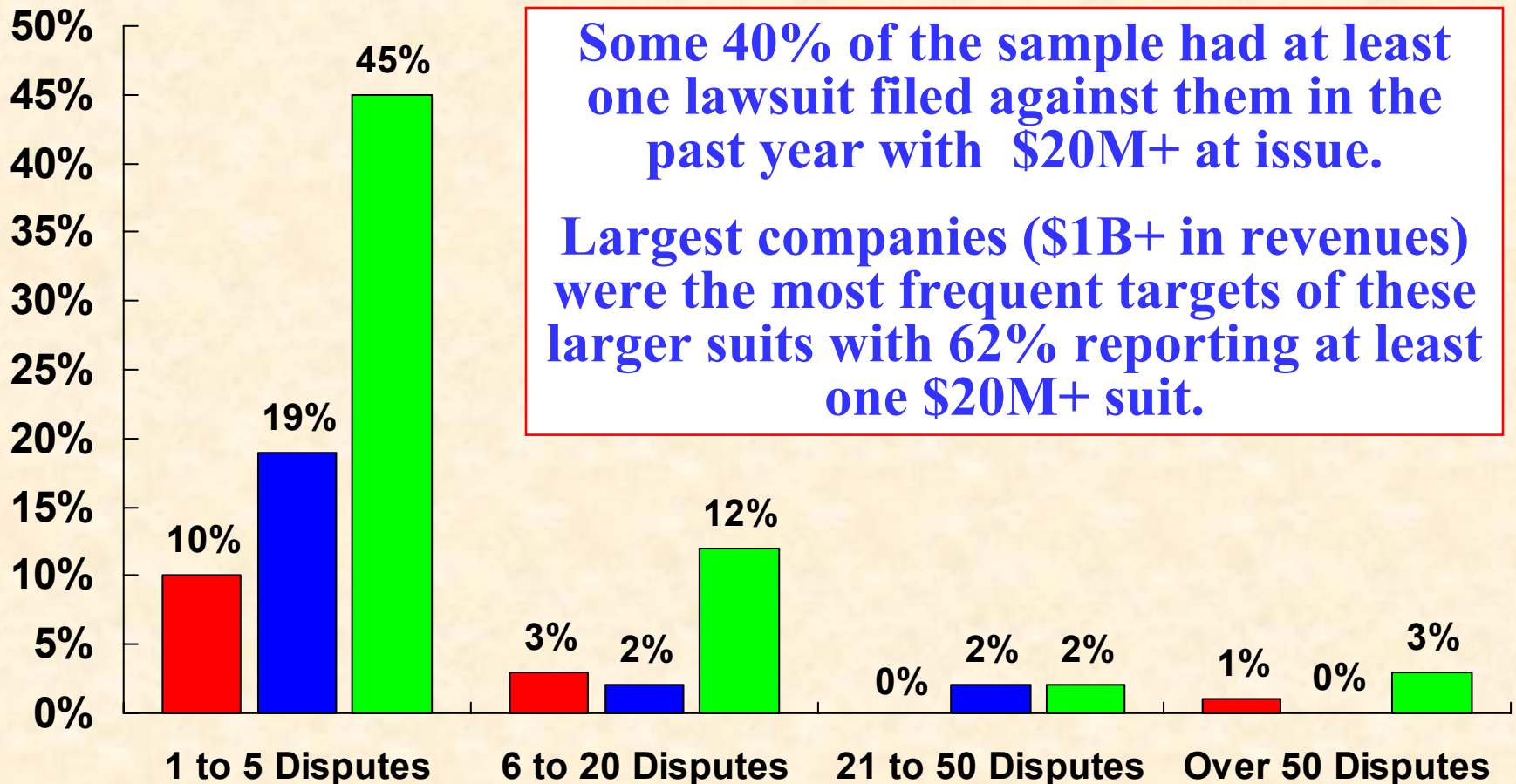


Source: Third Annual Litigation Trends Survey, Fulbright & Jaworski, 2006.



Disputes of \$20M+ Commenced Against Companies

■ Revenues - Under \$100 Million ■ \$100 - \$999 Million ■ \$1 Billion or More



Some 40% of the sample had at least one lawsuit filed against them in the past year with \$20M+ at issue.

Largest companies (\$1B+ in revenues) were the most frequent targets of these larger suits with 62% reporting at least one \$20M+ suit.



Summary

- **2006 represents profitability peak in the current cycle for p/c insurance (underwriting/earnings);**
- **Commercial lines pricing environment becoming increasingly competitive**
 - **Terms & Conditions?**
- **Tort environment in US is “bad,” but not getting significantly worse at present time and there are some areas of improvement**
- **Major Challenges:**
 - **Maintaining price/underwriting discipline w/slow growth**
 - **Managing variability/volatility of results**
 - **New/emerging/re-emerging risks**



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Top Five Legal Dispute Concerns

Labor/employment disputes dominate the types of litigation causing greatest concern to a much greater extent in 2006 (48% vs. 26%).

