Mega-Trends in the World of Insurance:

Impacts on Captive & Alternative Risk Transfer Markets

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Robert P. Hartwig, Ph.D., CPCU, Executive Vice President & Chief Economist
Insurance Information Institute ♦ 110 William Street ♦ New York, NY 10038
Tel: (212) 346-5520 ♦ Fax: (212) 732-1916 ♦ bobh@iii.org ♦ www.iii.org

Presentation Outline

- **Captive & ART Overview**
- **Pricing Under Pressure**
  - **Traditional Insurers Starved for Growth**
- **Capacity: New Record Highs**
- **Profitability: Flush Times Breed Competition**
- **Underwriting: Strong Results—Discipline is Tested?**
- **Investment Income: Flat Gains→More Discipline?**
- **Key Lines: Back from the Brink—But Heading South?**
- **Catastrophic Loss: Welcome Respite**
- **Financial Strength & Ratings**
- **State-Run Markets: A Traditional & ART Competitor?**
- **Terrorism: No ART Solution Here**
- **Torts: Legal Environment Getting Better**
- **Q & A**

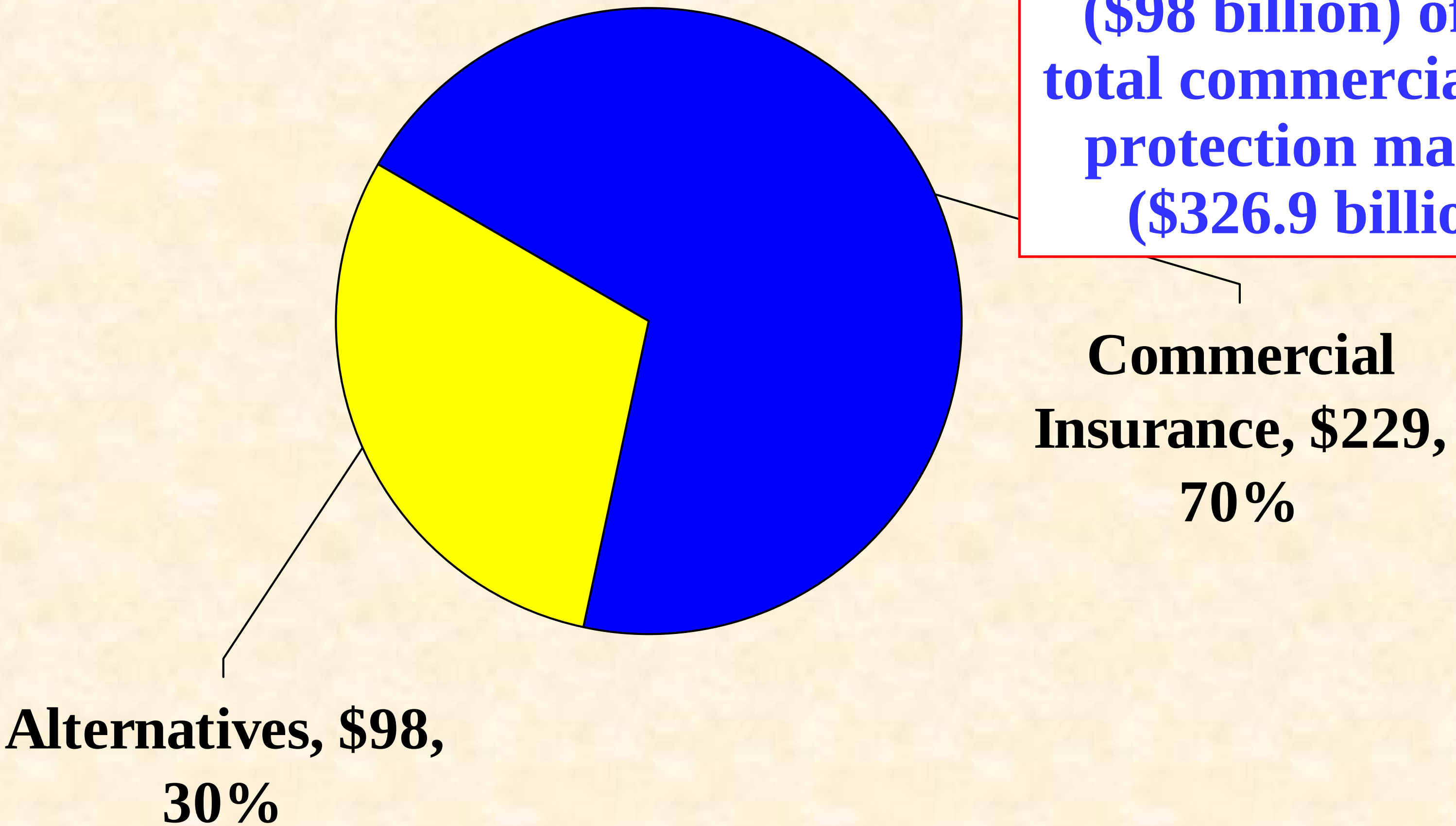
CAPTIVE & ART OVERVIEW

Drivers of Growth: Slowdown Ahead?

Total Commercial Risk Protection Market (US, 2004)

$ Billions

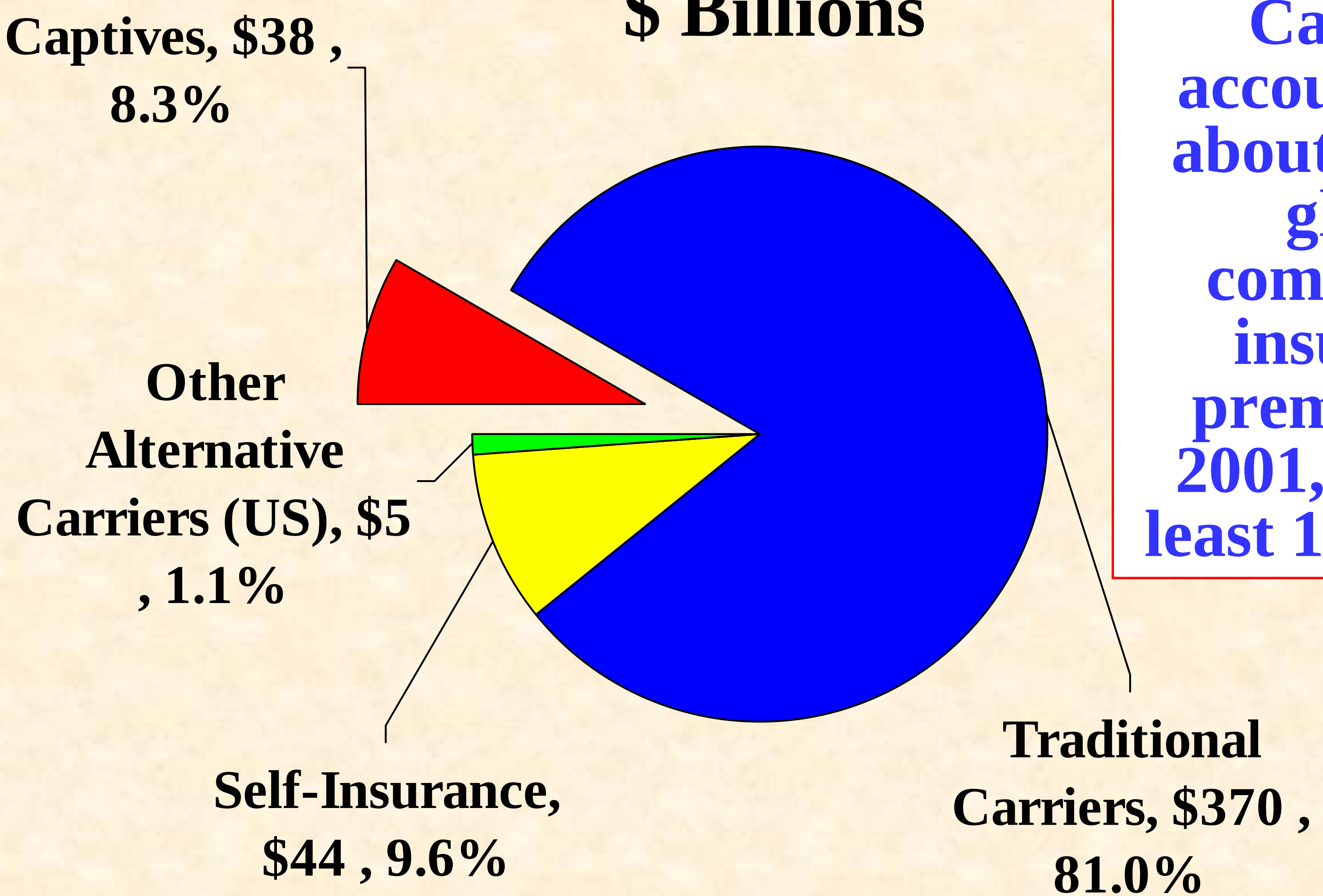
Alternative market mechanisms cover about 30 percent ($98 billion) of the total commercial risk protection market ($326.9 billion)



Source: Conning; MarketStance analysis; Insurance Information Institute.

Size of Alternative Risk Transfer Market *(2001 Direct Written Premiums)*

$ Billions

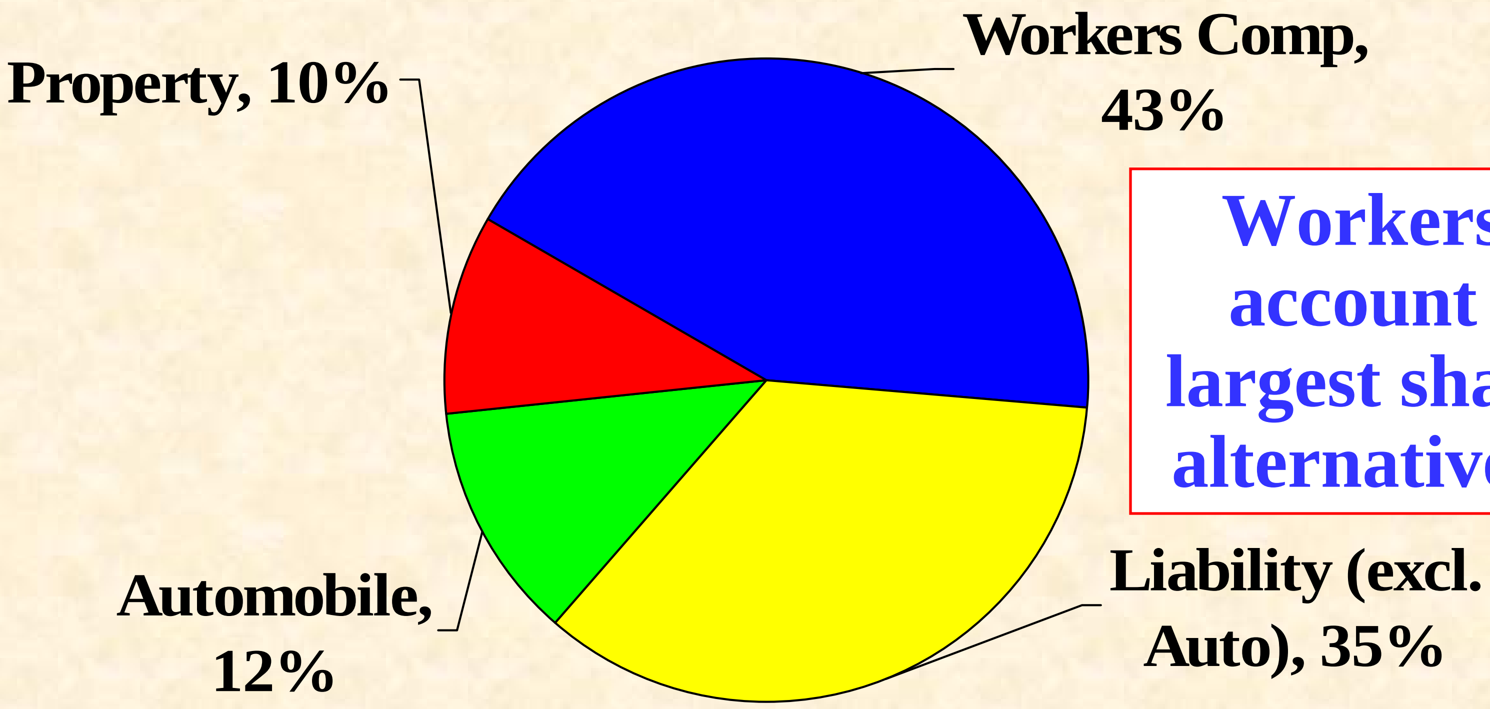


Captives accounted for about 8.3% of global commercial insurance premiums in 2001, likely at least 10% today

Source: Swiss Re; Insurance Information Institute.

Alternative Risk Transfer Market by Line

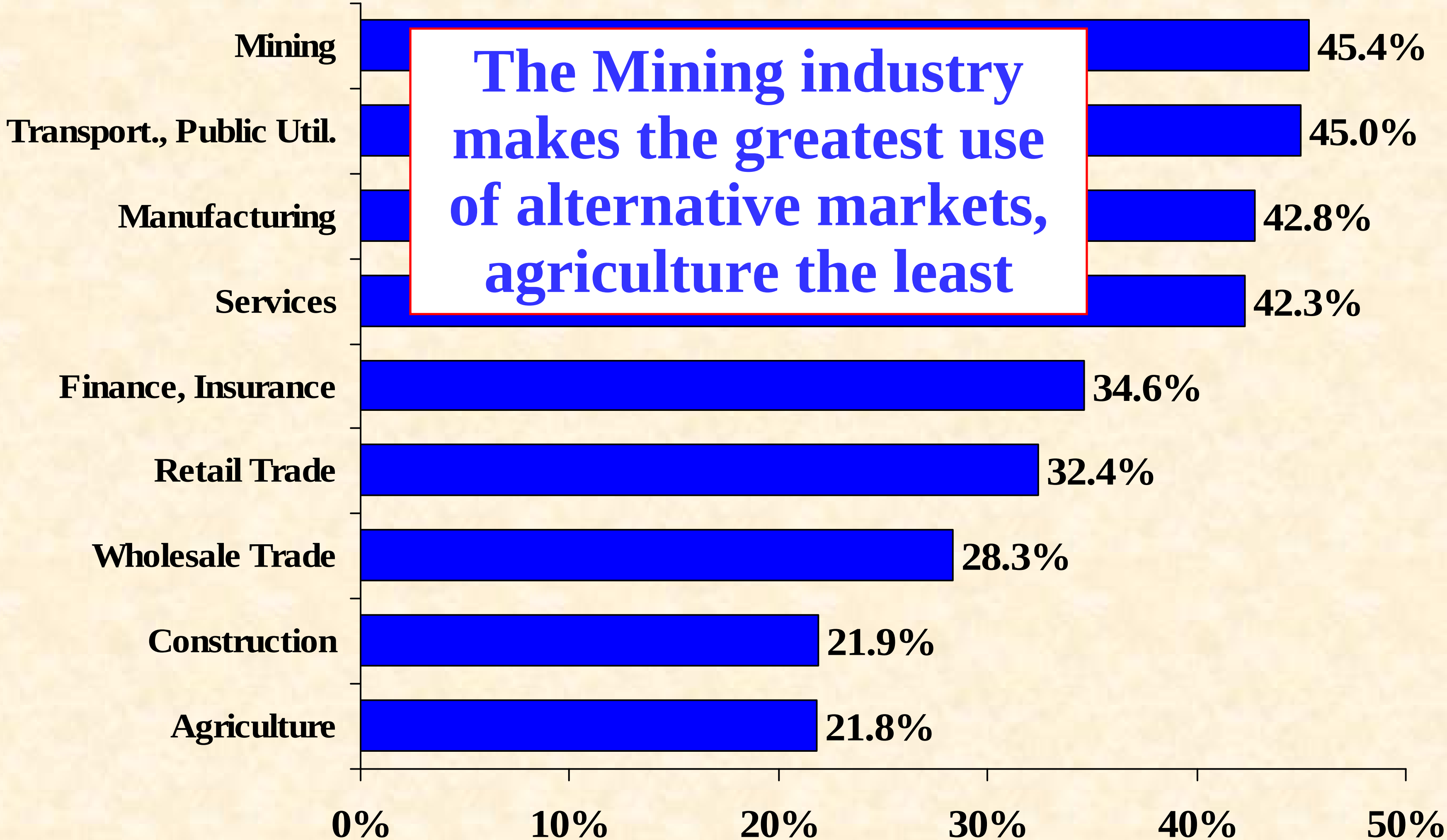
$ Billions



Workers Comp account for the largest share of the alternative market

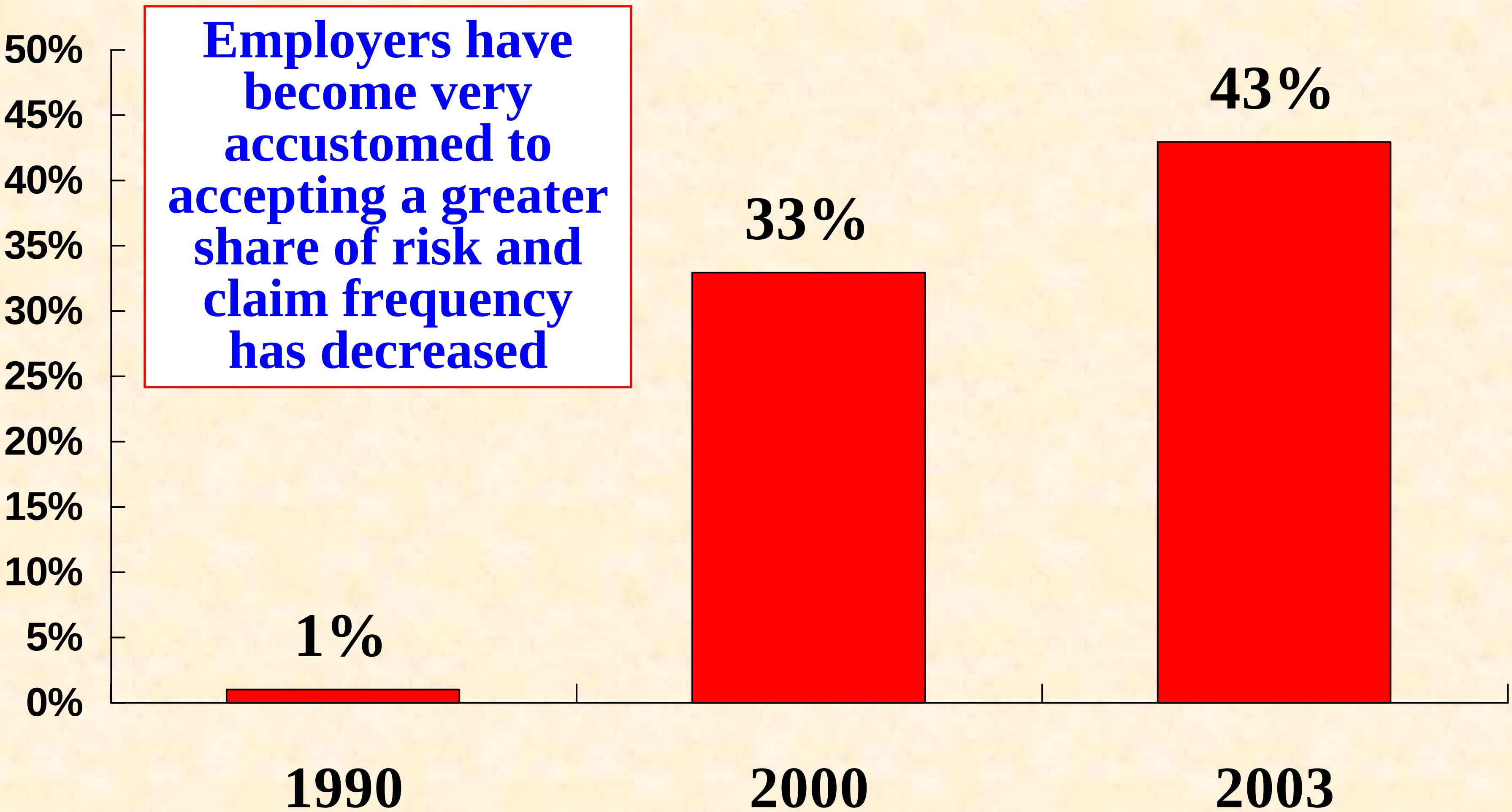
Source: MarketStance.

Alternative Market Share by Industry Group, All Lines



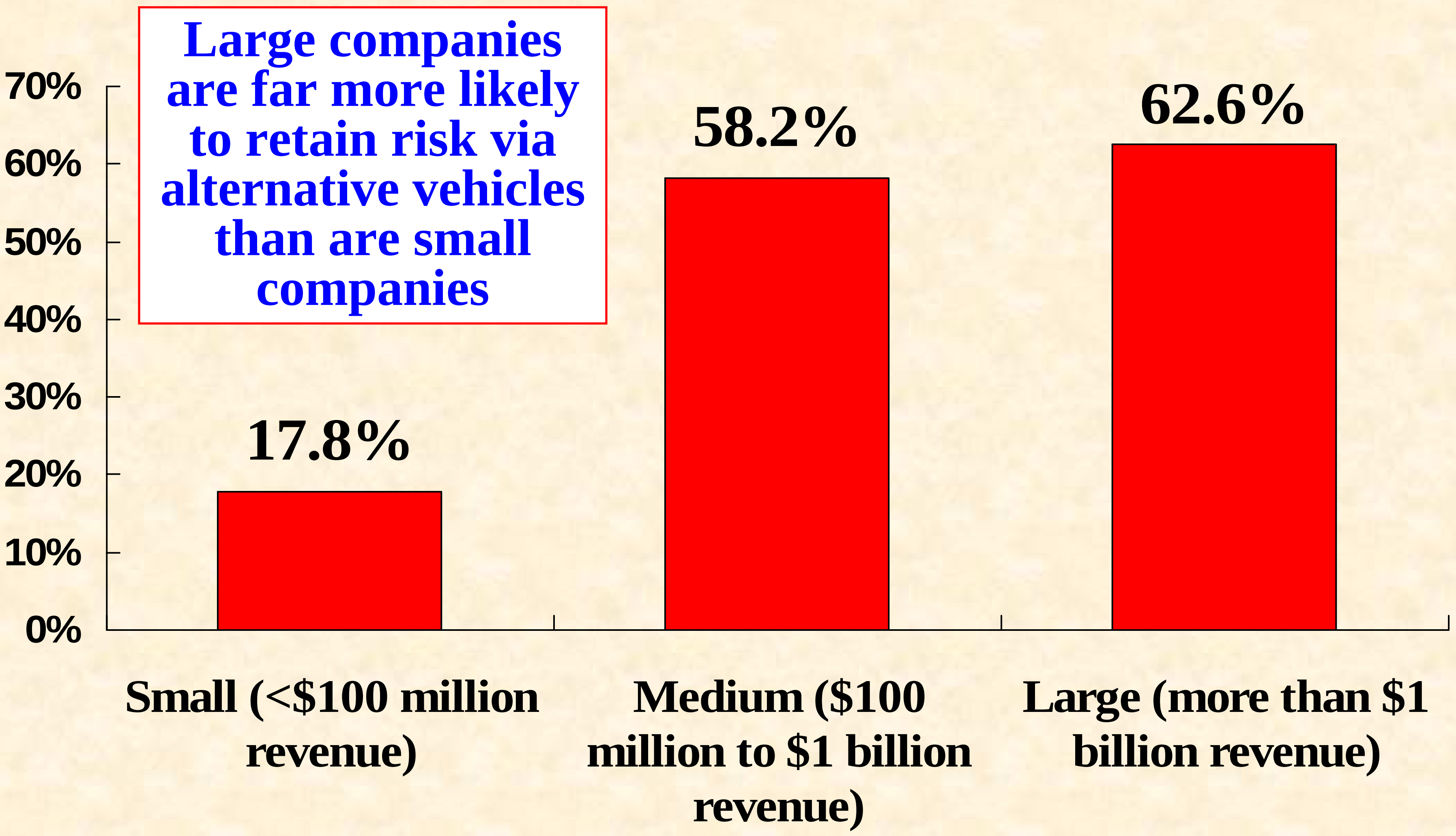
Source: MarketStance

Workers Compensation: Large Deductible Market Share



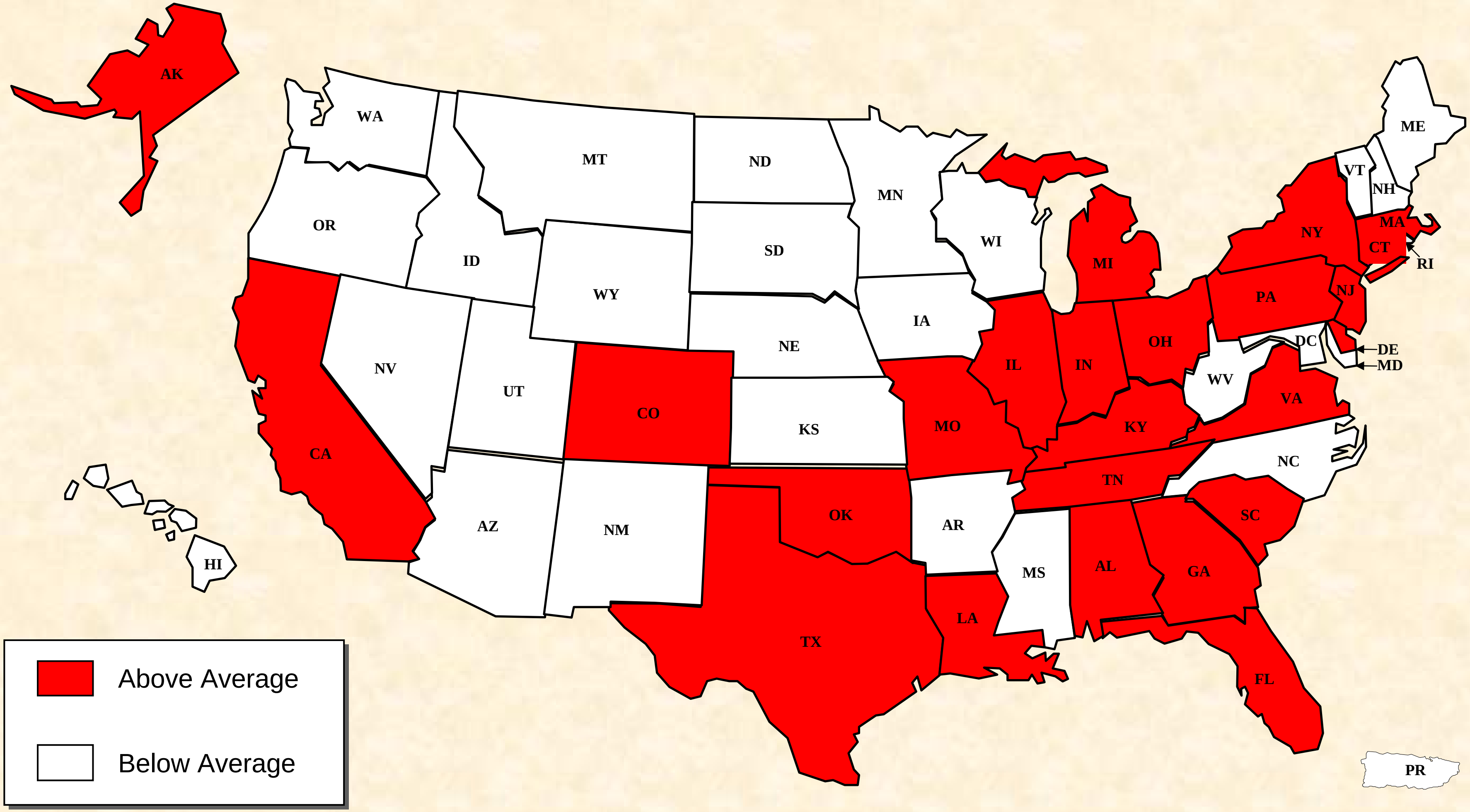
Sources: National Council on Compensation Insurance; Insurance Information Institute.

Alternative Market by Revenue Size



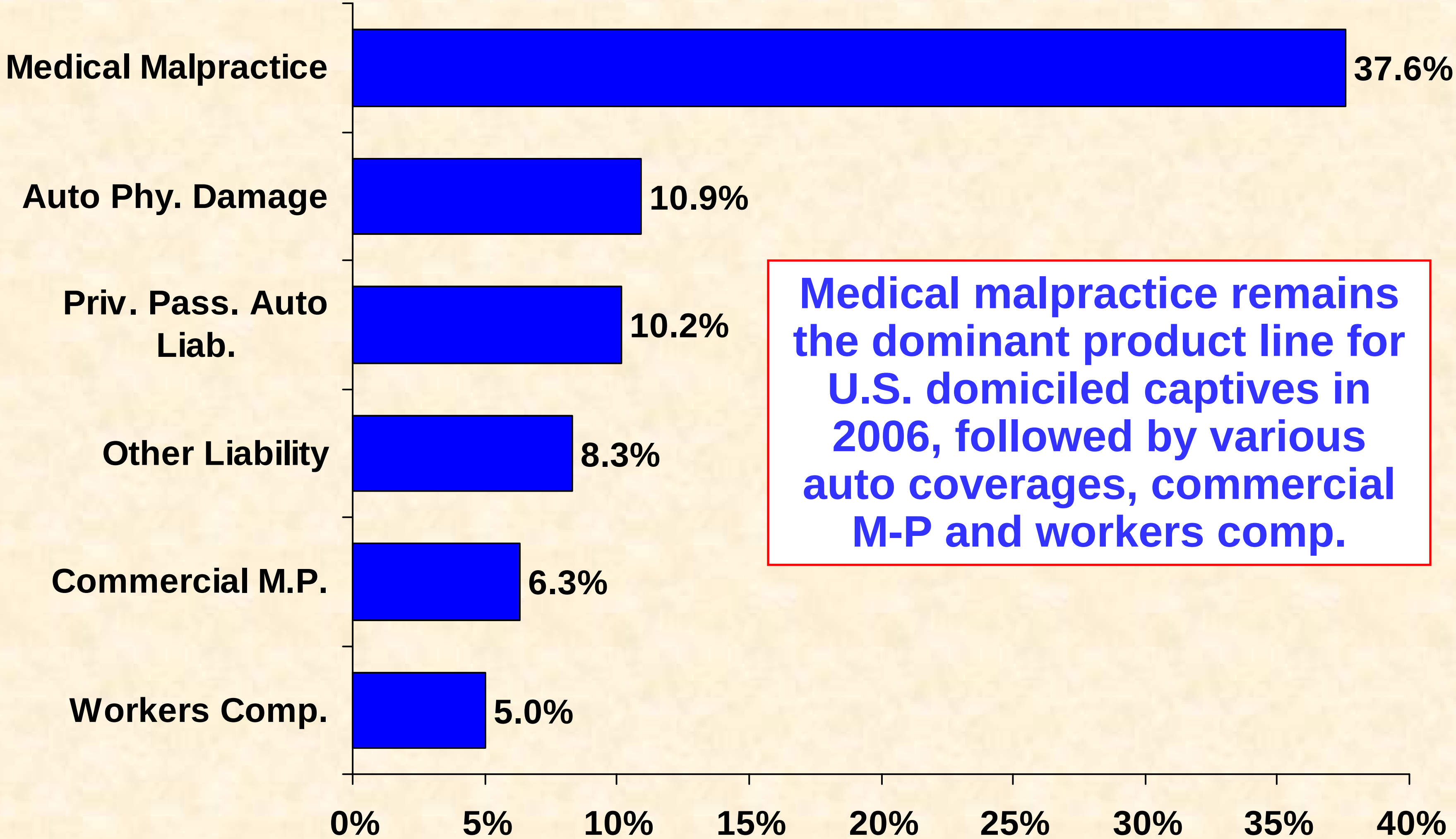
Sources: MarketStance

Alternative Market By State Concentration



Source: MarketStance; Conning 2006

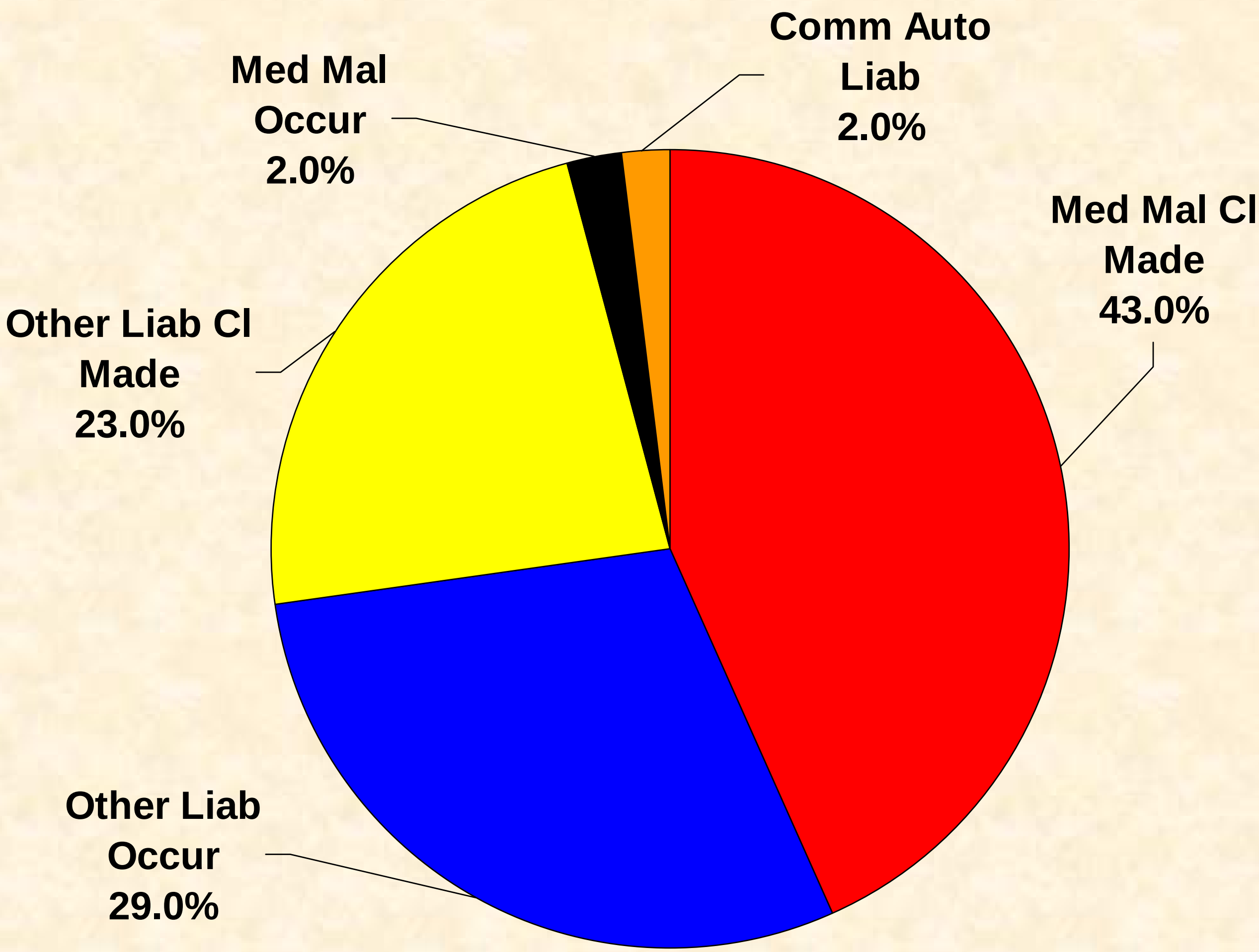
U.S. Domiciled Captives – Top Lines



Medical malpractice remains the dominant product line for U.S. domiciled captives in 2006, followed by various auto coverages, commercial M-P and workers comp.

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

U.S. Risk Retention Groups: Distribution by Line



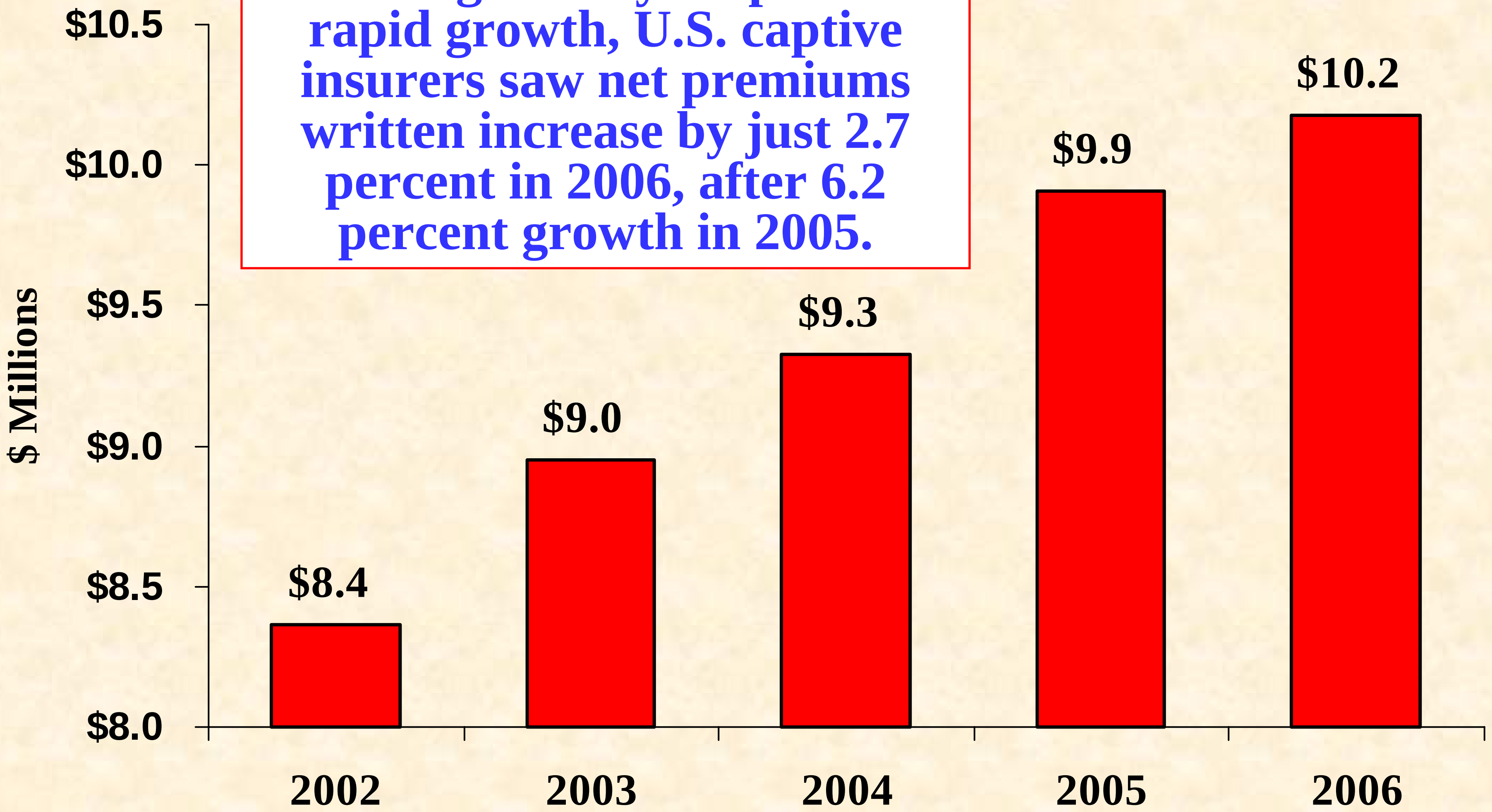
Medical Malpractice (claims made) remained a significant portion of RRG business in 2006 at 43%, while other liability (per occurrence) remained virtually unchanged at 29%.

Figures do not total 100% due to rounding.

Source: A.M. Best, 2007 Special Report: U.S. Risk Retention Groups – 2006 Market Review

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

Following a five-year period of rapid growth, U.S. captive insurers saw net premiums written increase by just 2.7 percent in 2006, after 6.2 percent growth in 2005.

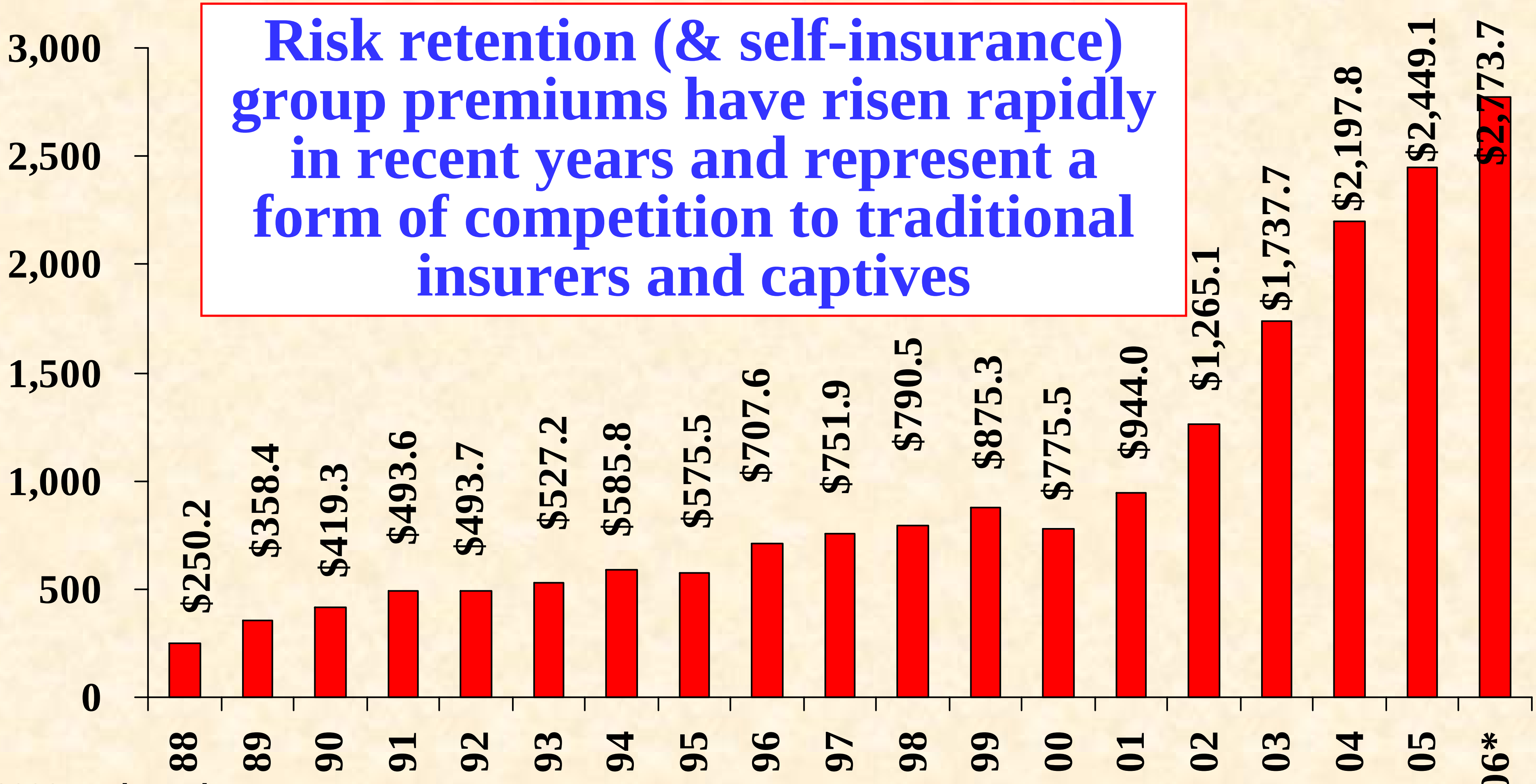


Source: A.M. Best, 2007 Special Report: U.S. Captive Insurers – 2006 Market Review

*Risk Retention Group Premiums, 1988 – 2006**

Millions of Dollars

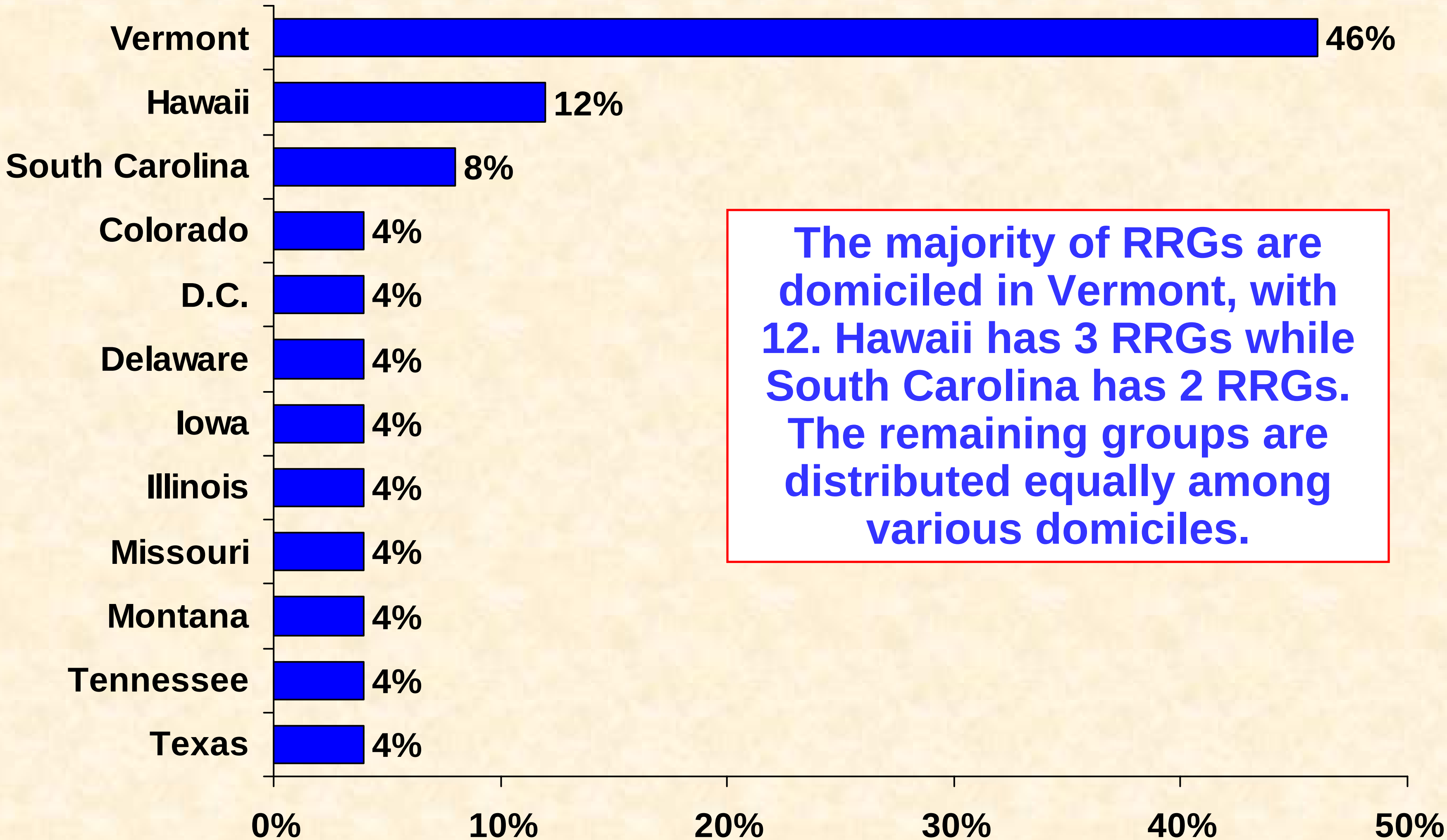
Risk retention (& self-insurance) group premiums have risen rapidly in recent years and represent a form of competition to traditional insurers and captives



*2006 Projected

Source: Risk Retention Reporter, Insurance Info. Institute

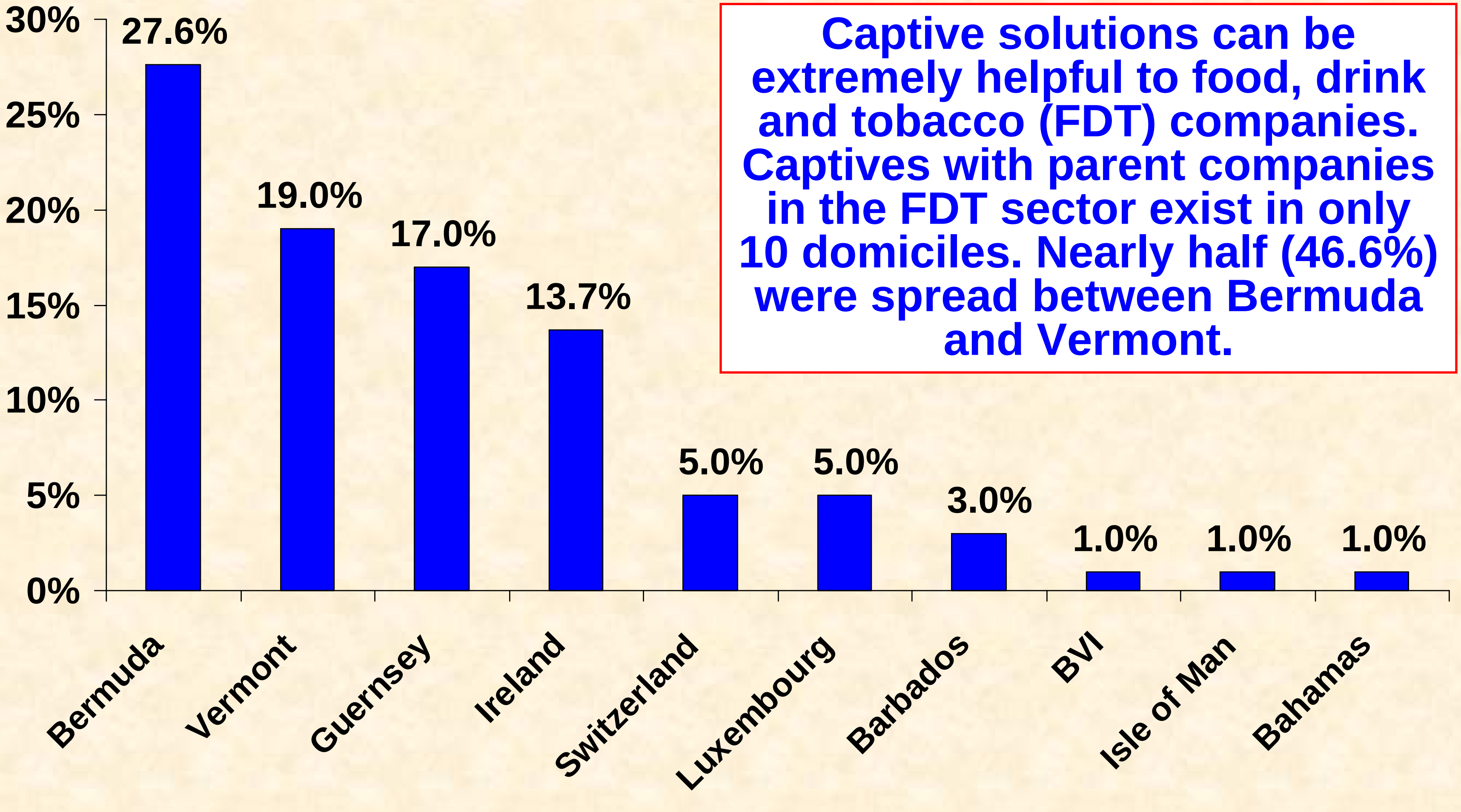
U.S. Risk Retention Groups: Domicile Distribution 2006



The majority of RRGs are domiciled in Vermont, with 12. Hawaii has 3 RRGs while South Carolina has 2 RRGs. The remaining groups are distributed equally among various domiciles.

Source: A.M. Best, 2007 Special Report: U.S. Risk Retention Groups – 2006 Market Review

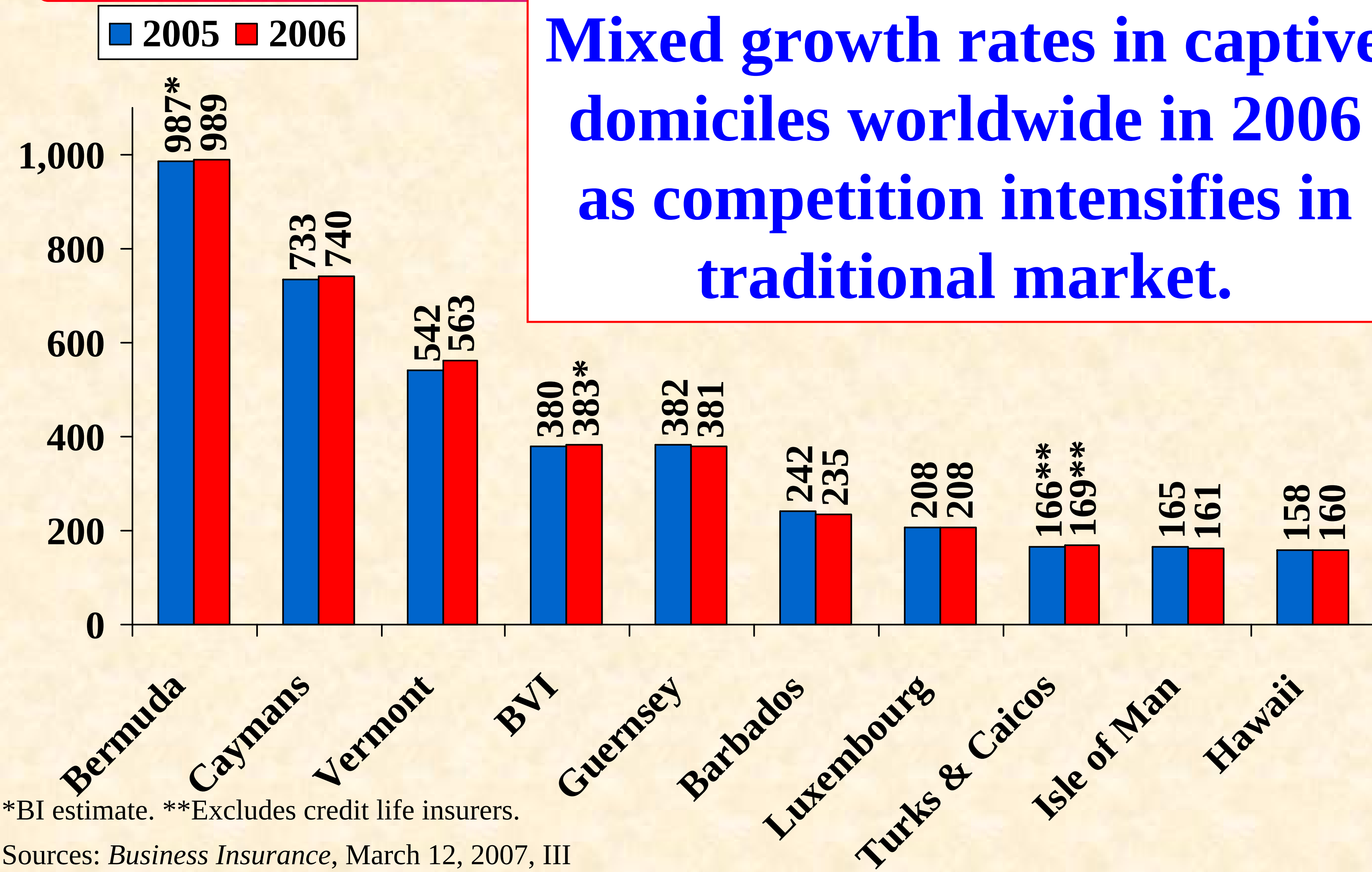
Food, Drink and Tobacco Company Captives by Domicile



Captive solutions can be extremely helpful to food, drink and tobacco (FDT) companies. Captives with parent companies in the FDT sector exist in only 10 domiciles. Nearly half (46.6%) were spread between Bermuda and Vermont.

Source: Captive Review, October 2007

Leading Captive Domiciles Worldwide, 2005 vs. 2006

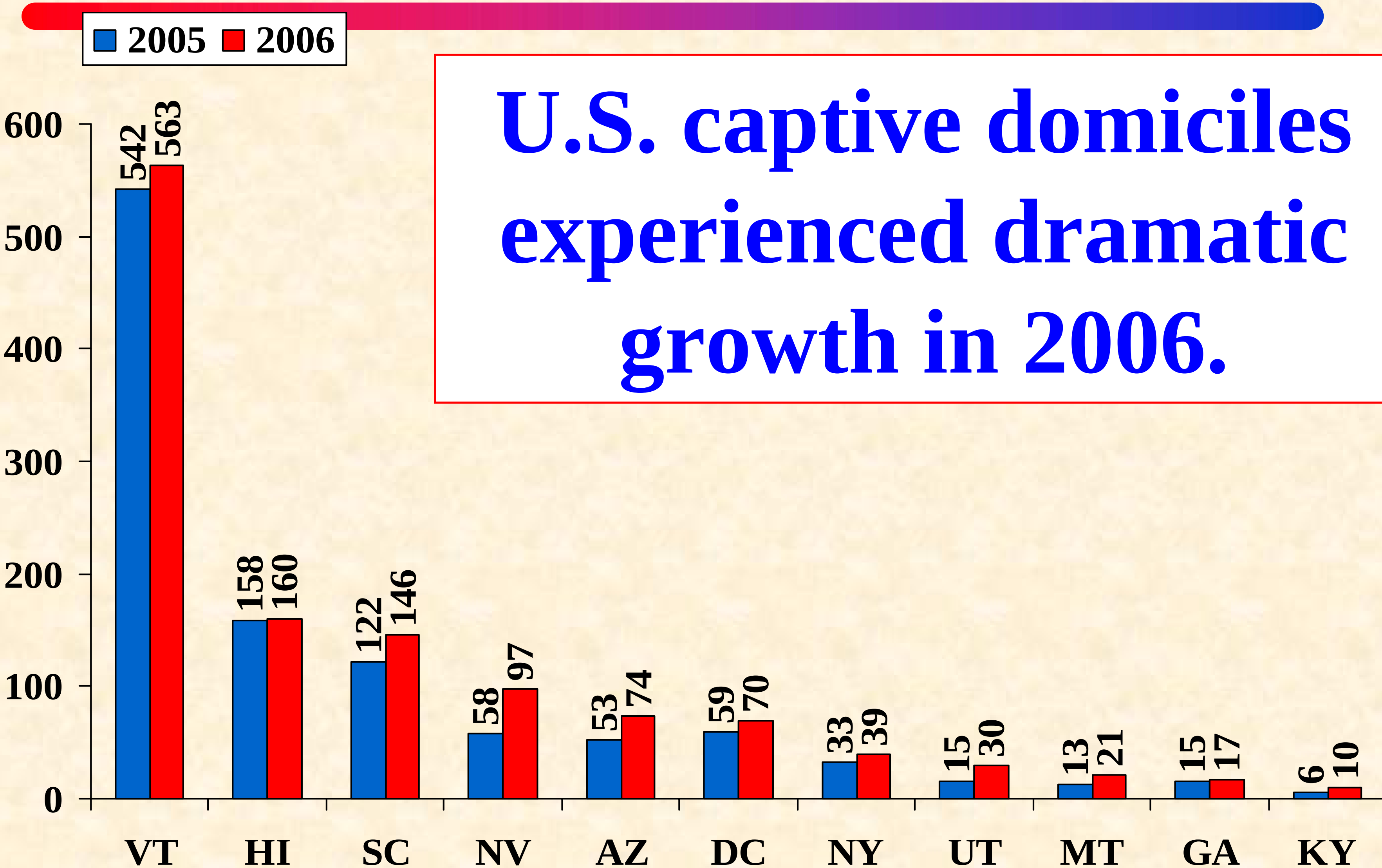


Mixed growth rates in captive domiciles worldwide in 2006 as competition intensifies in traditional market.

*BI estimate. **Excludes credit life insurers.

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

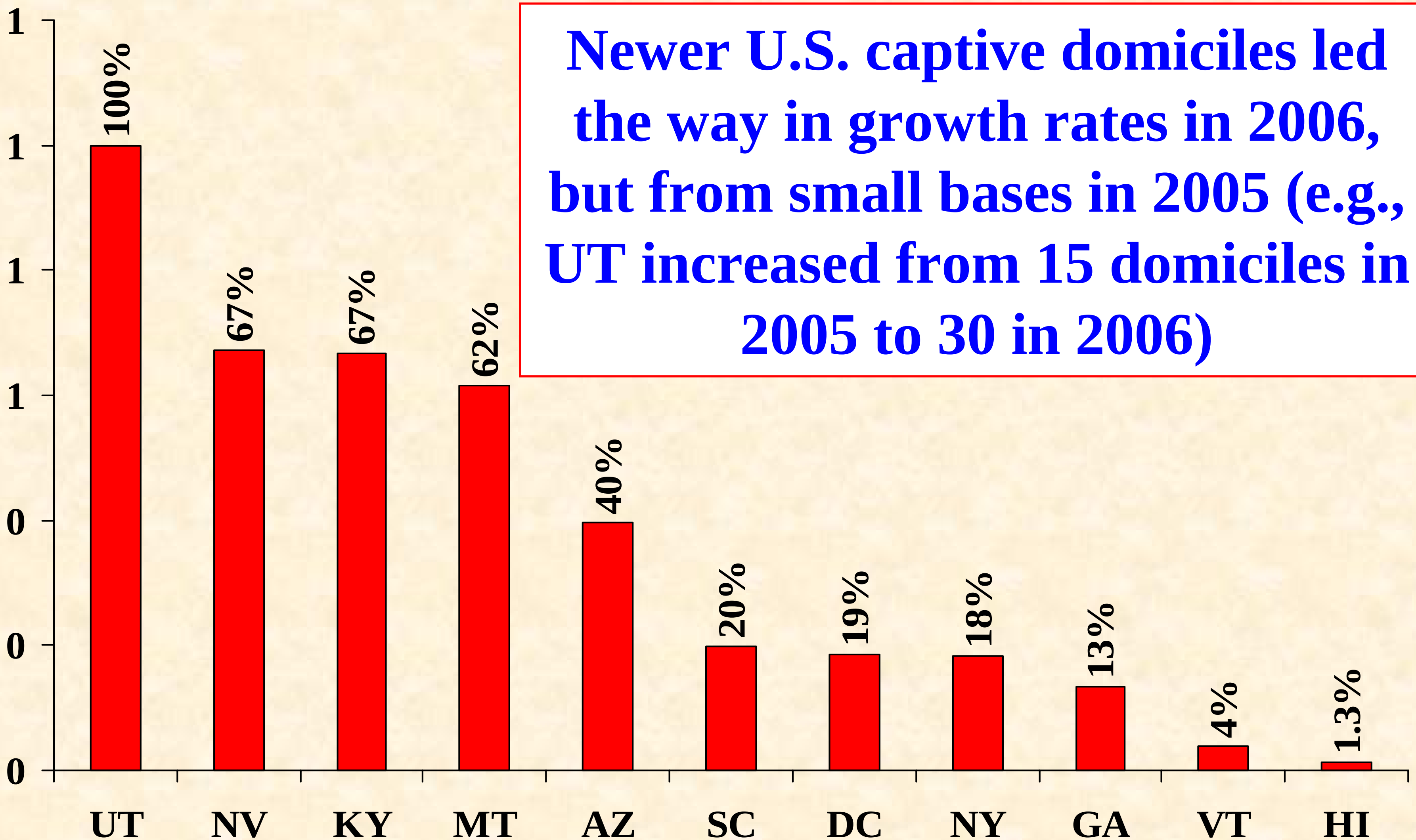
Leading US Captive Domiciles, 2005 vs. 2006



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

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

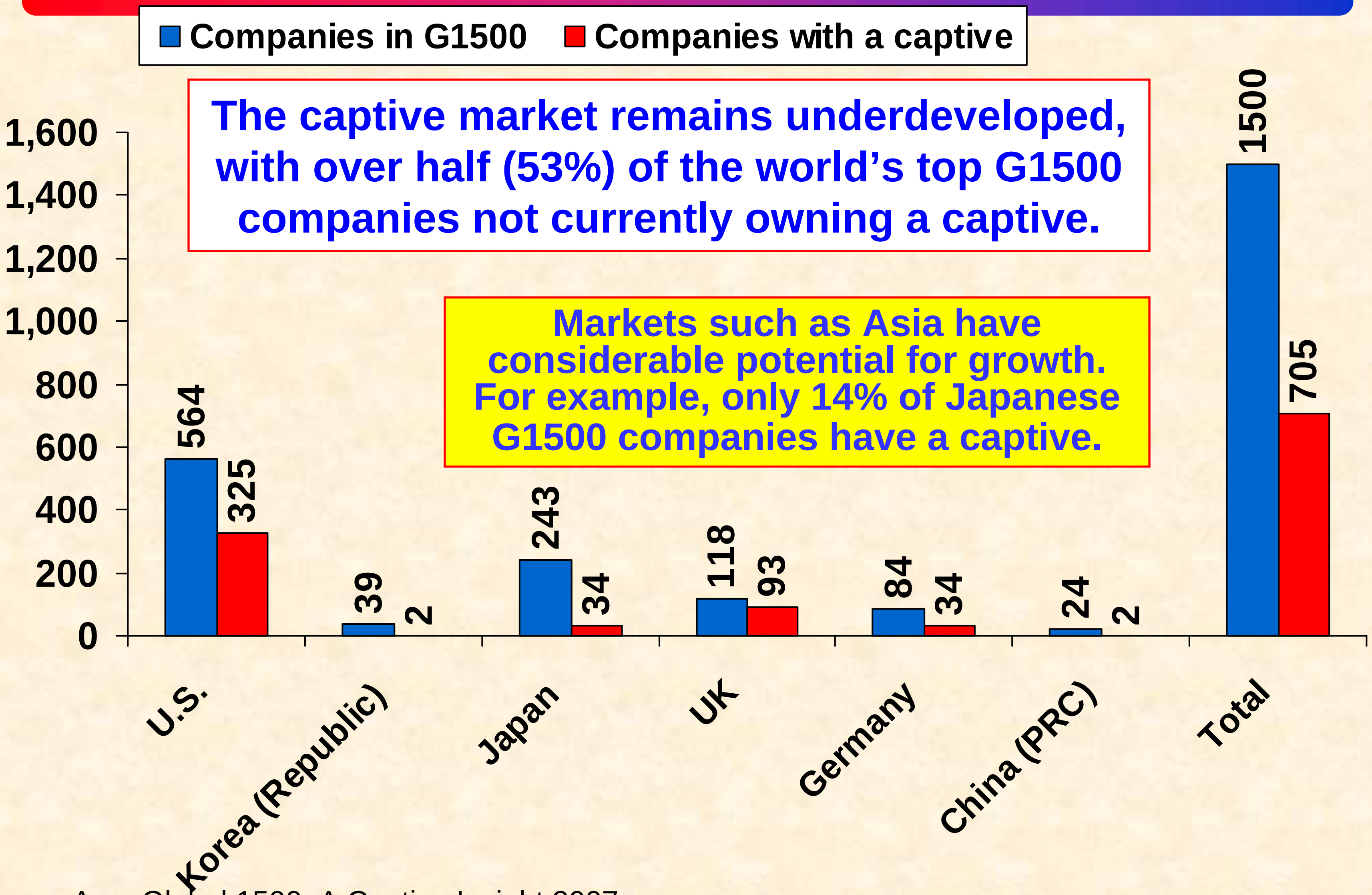
Fastest Growing US Captive Domiciles, 2006 over 2005



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)

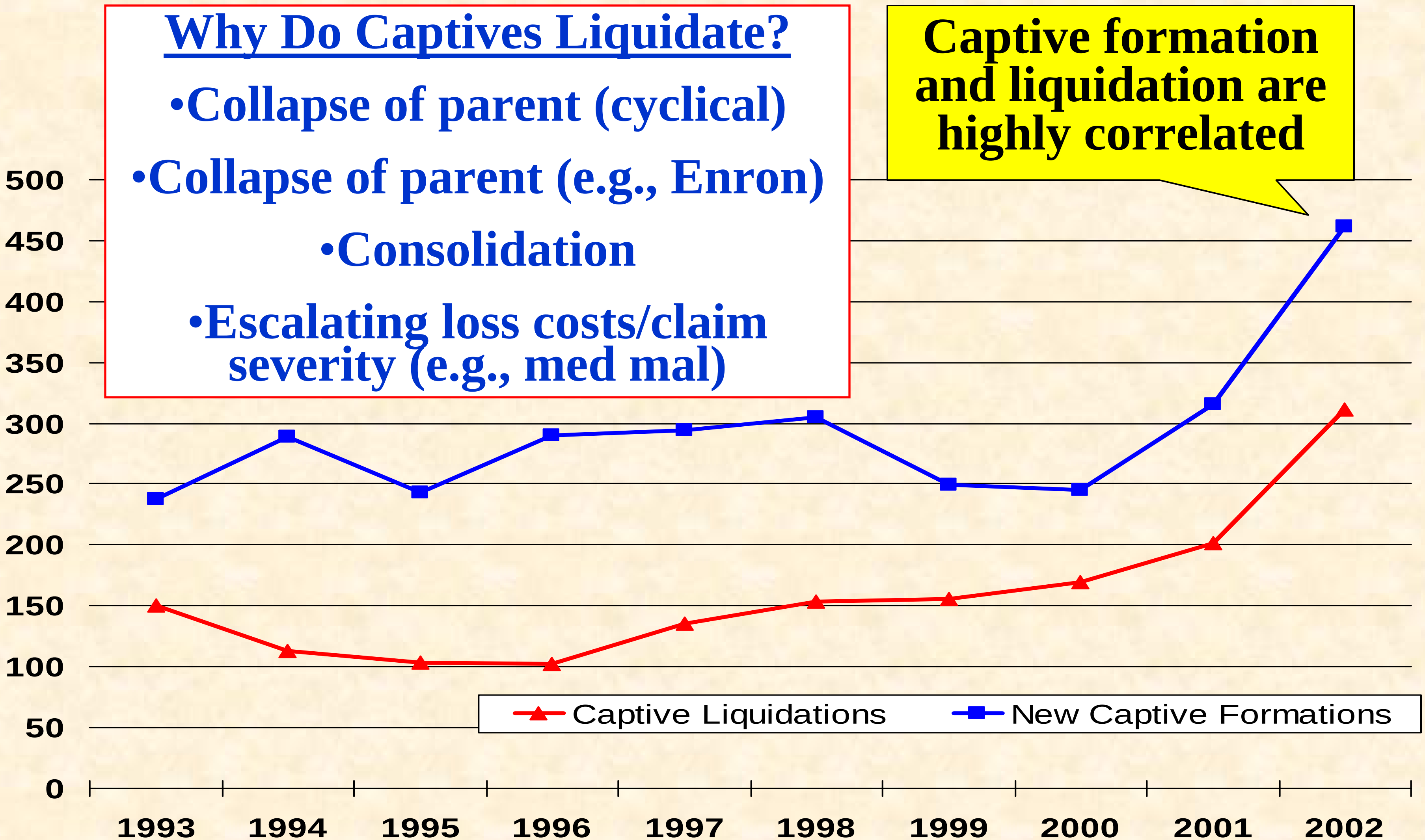
Sources: *Business Insurance*, March 12, 2007; III

G1500 Companies and Captives: Room for Growth



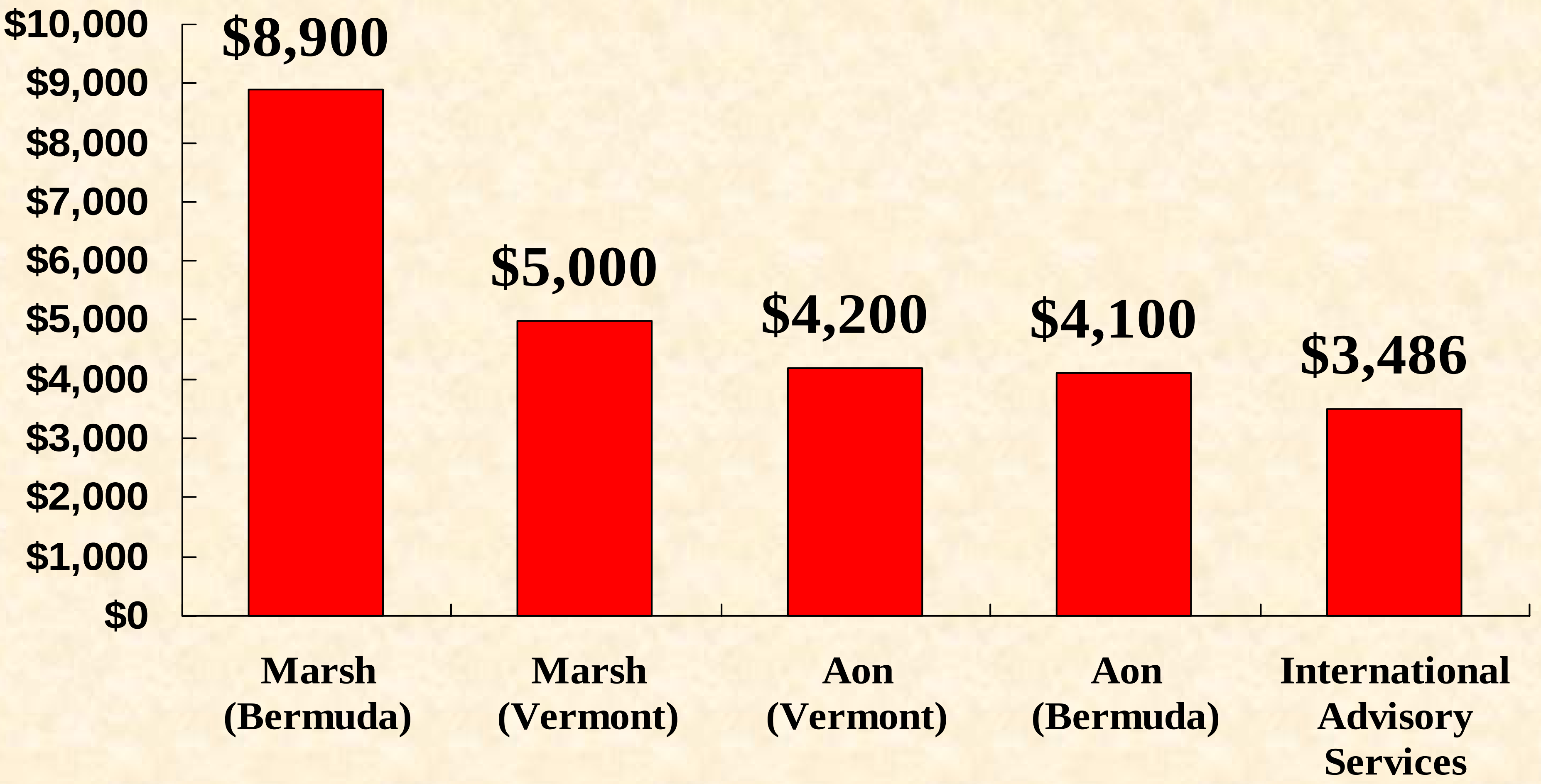
Source: Aon, Global 1500: A Captive Insight 2007

Captive Formations & Liquidations, 1993–2002



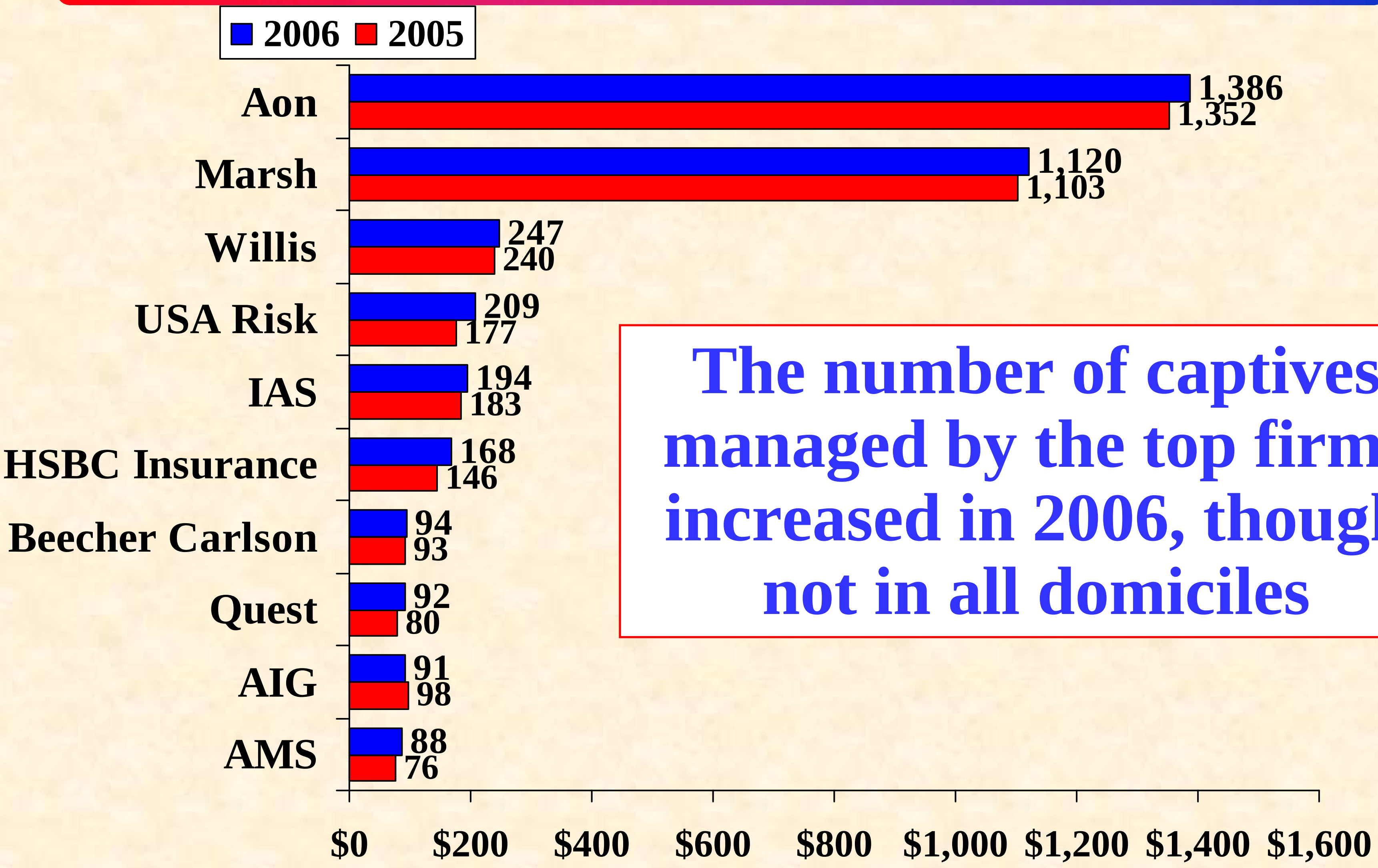
Source: A.M. Best; Insurance Information Institute

Top 5 Captive Managers by Premium Volume, 2006 ($Mill)



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

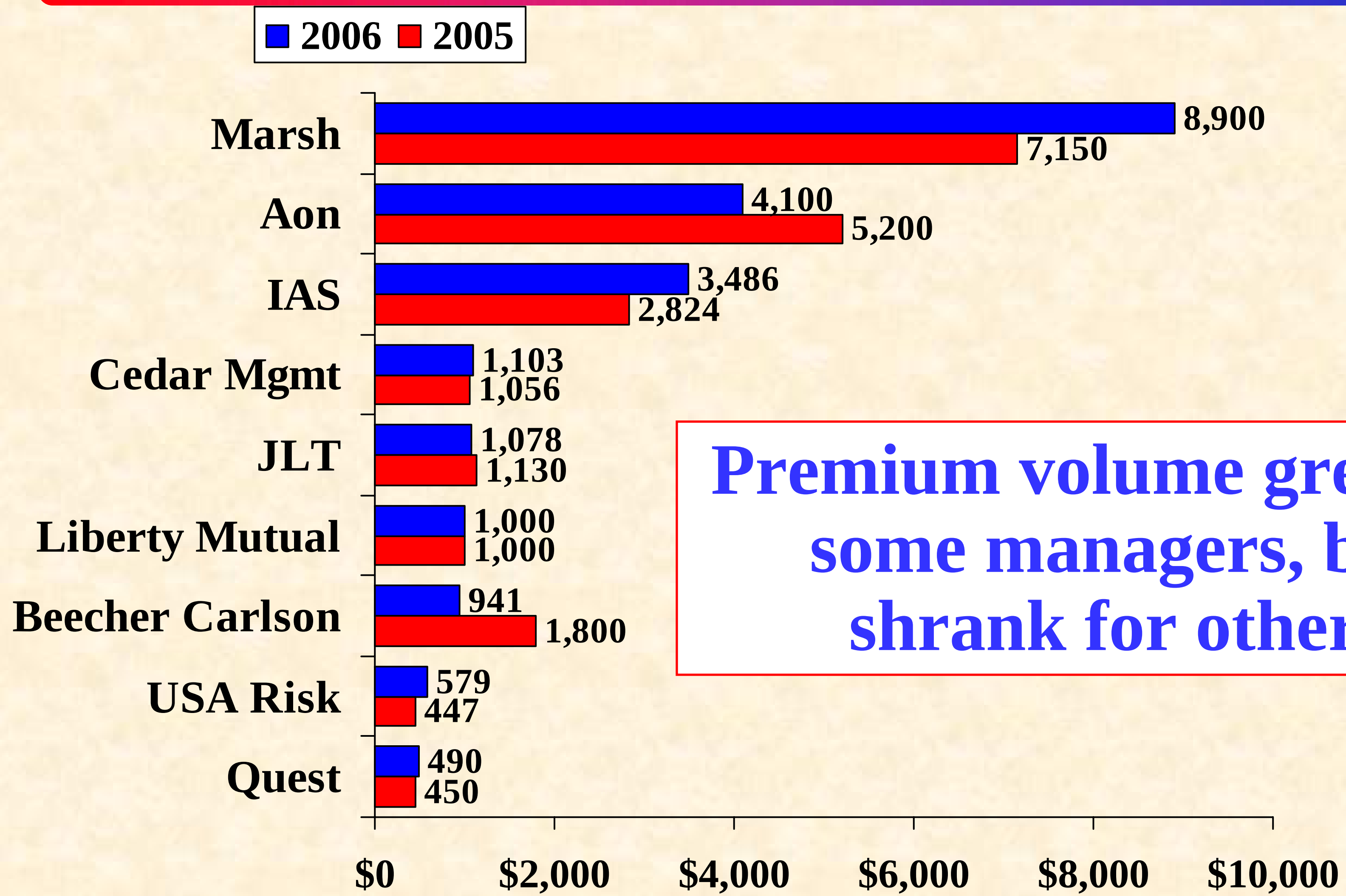
Top 10 Largest Captive Managers Worldwide, by Captives Managed 2006



The number of captives managed by the top firms increased in 2006, though not in all domiciles

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

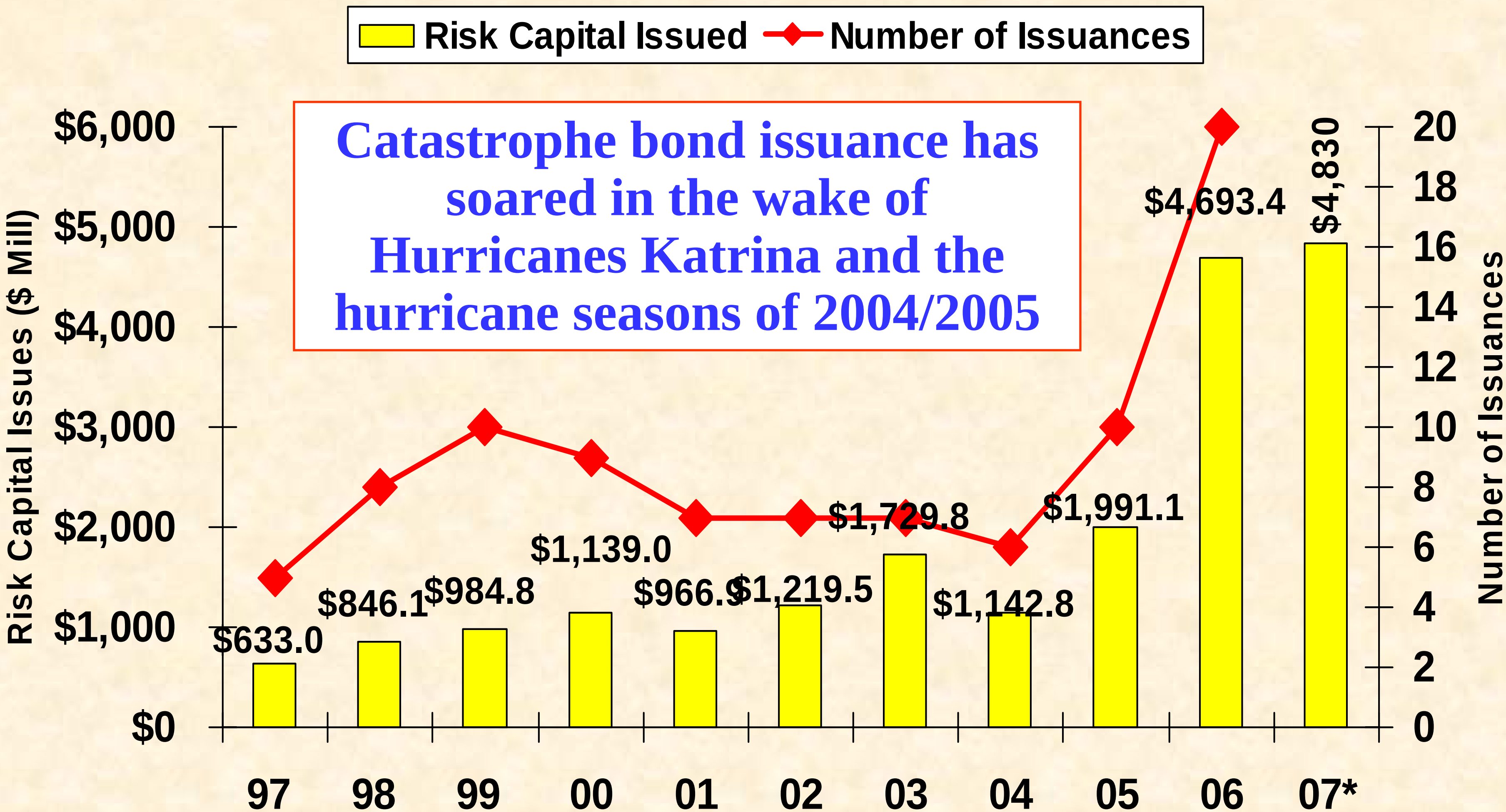
Top Bermuda Captive Managers, by Premium Volume, 2006



Premium volume grew for some managers, but shrank for others

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

Annual Catastrophe Bond Transactions Volume, 1997-2007*

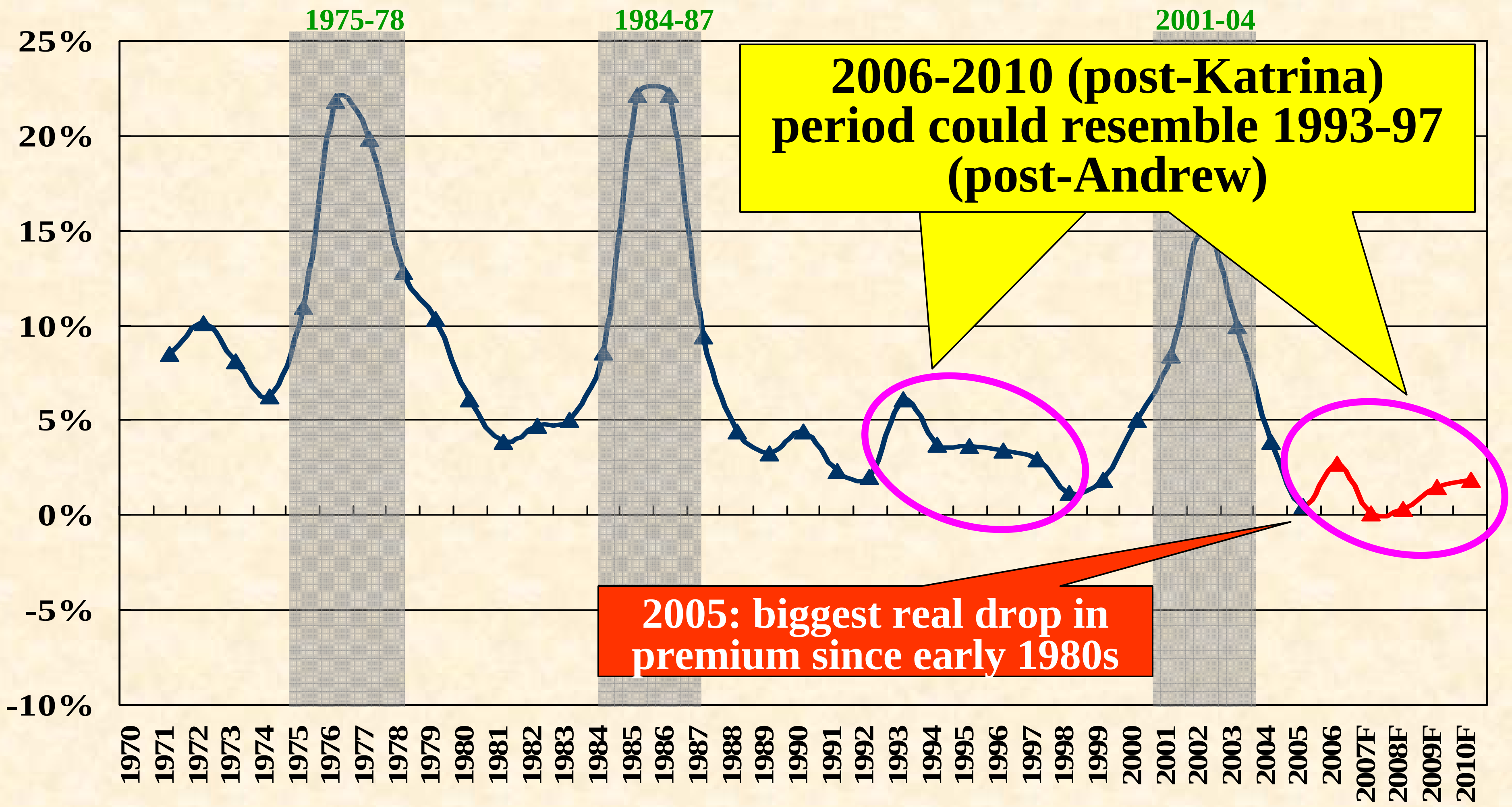


Source: MMC Securities and Guy Carpenter; Insurance Information Institute. *Through 10/31/07

COMPETITIVE PRICE PRESSURE

Traditional Insurance Prices Falling Sharply

Strength of Recent Hard Markets by NWP Growth*

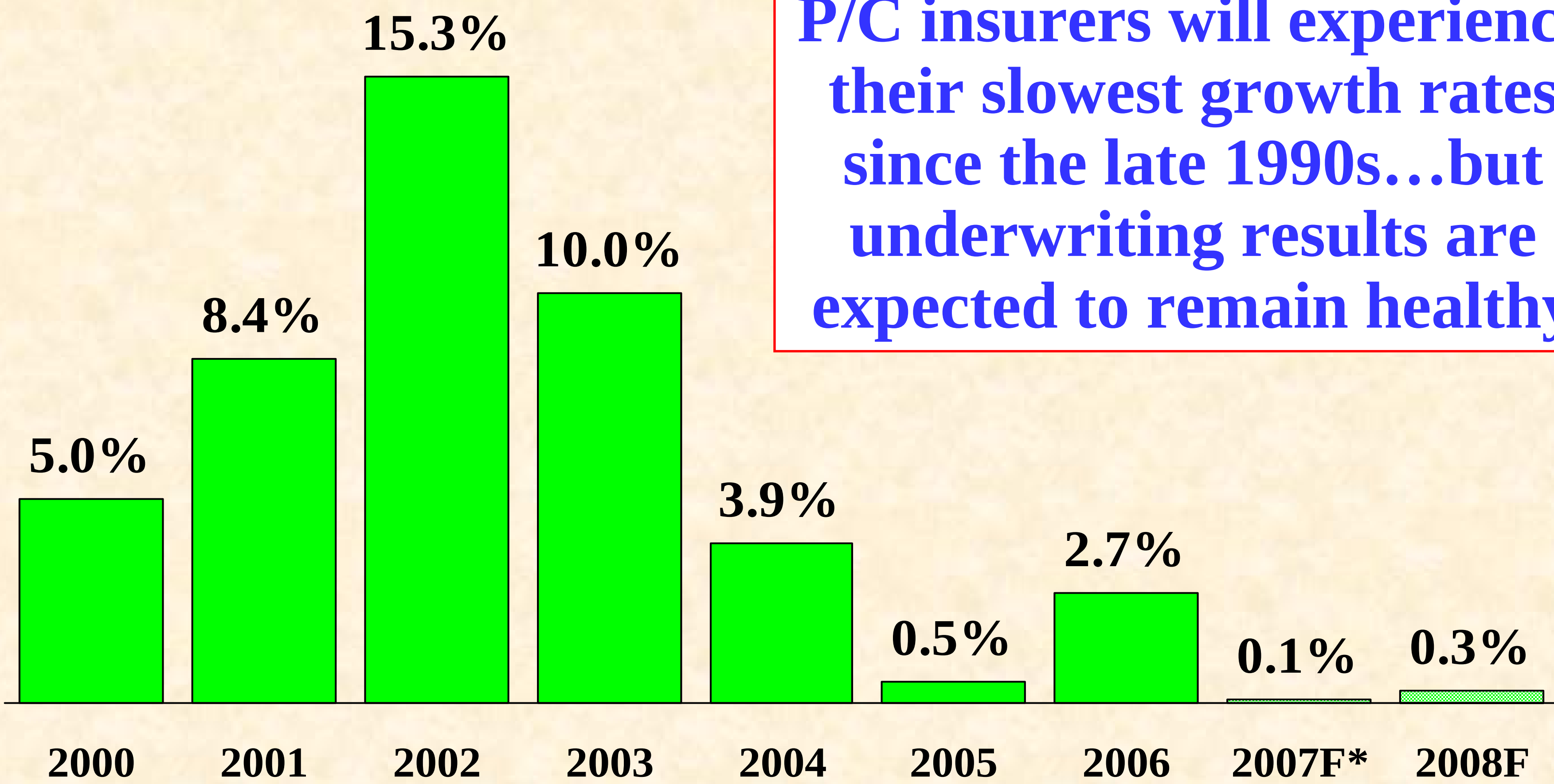


Note: Shaded areas denote hard market periods.
Source: A.M. Best, Insurance Information Institute

*2007-10 figures are III forecasts/estimates.

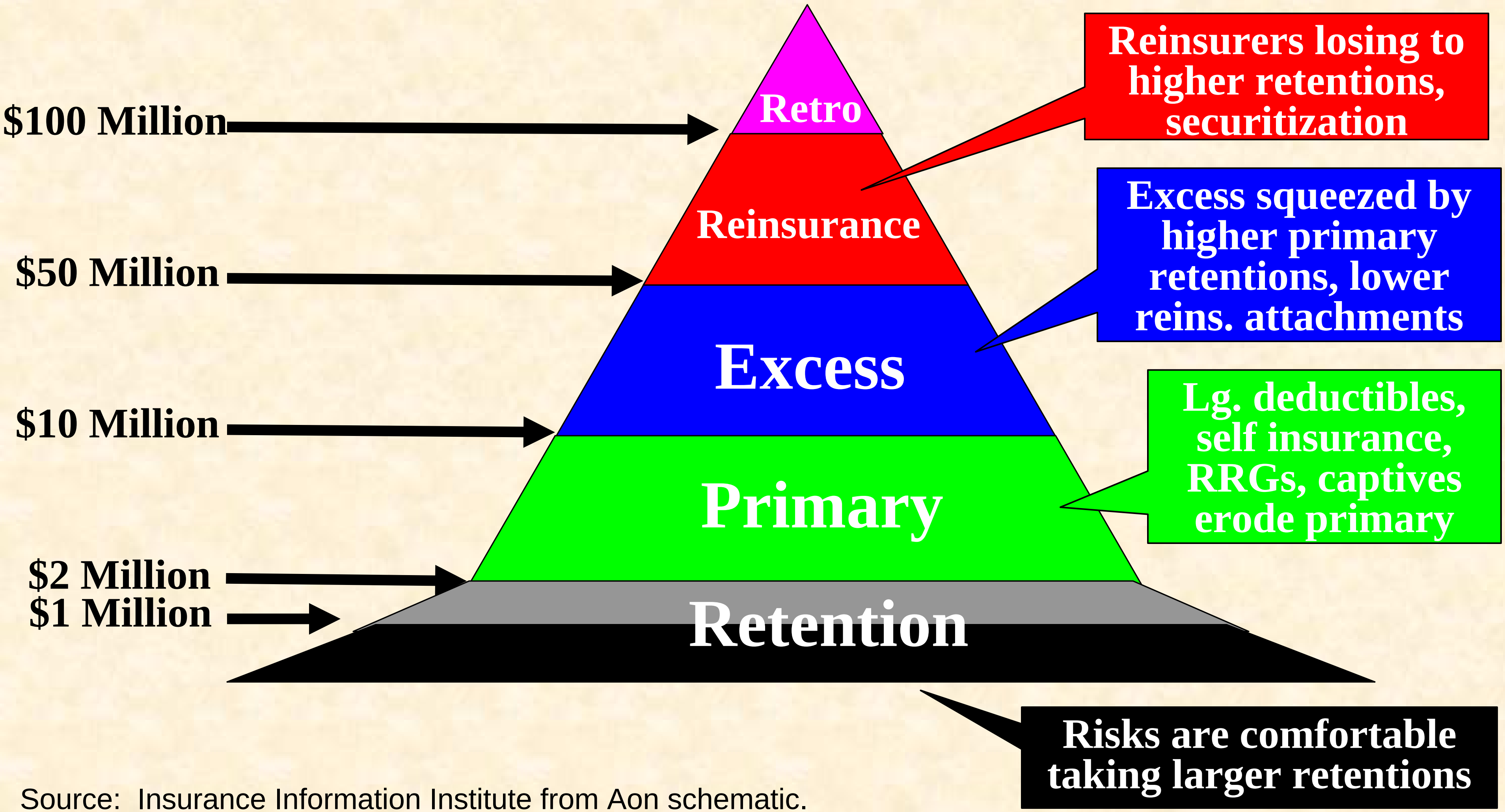
Growth in Net Written Premium, 2000-2008F

P/C insurers will experience their slowest growth rates since the late 1990s…but underwriting results are expected to remain healthy



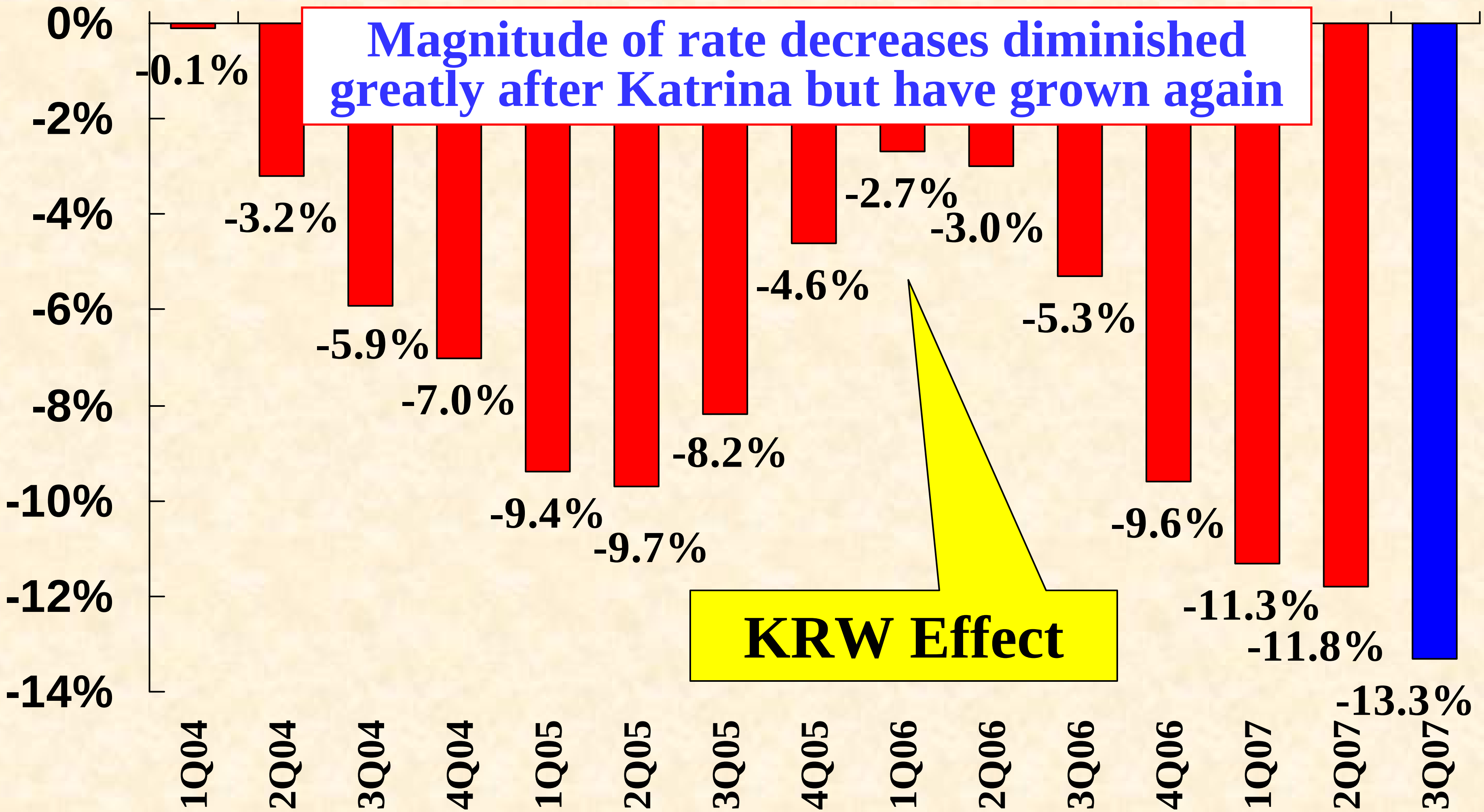
*2007 figure base on 2007 actual first half result of 0.1%.
Source: A.M. Best; Forecasts from the Insurance Information Institute.

Most Layers of Coverage are Being Challenged/Leaking



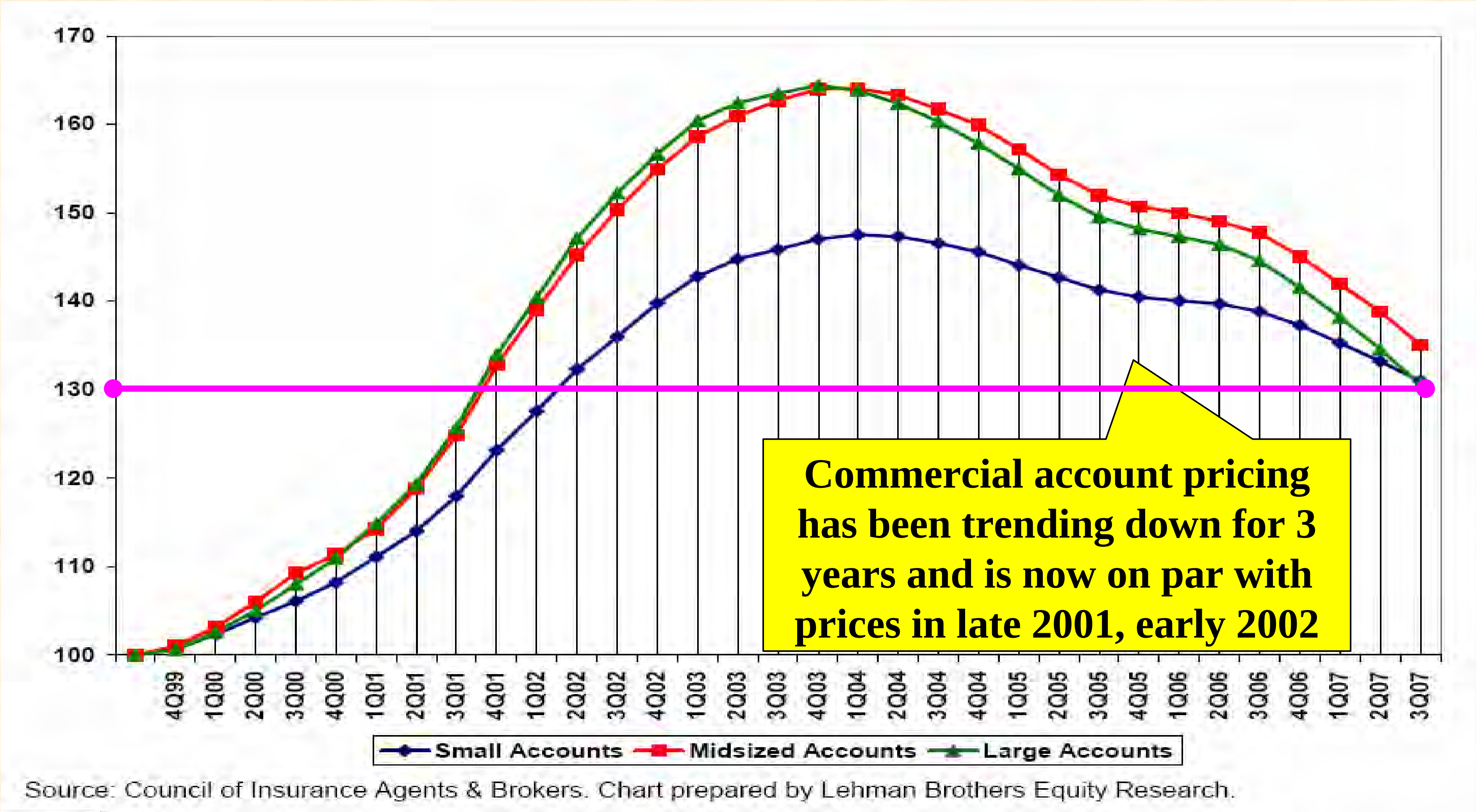
Source: Insurance Information Institute from Aon schematic.

Average Commercial Rate Change, All Lines, (1Q:2004 – 3Q:2007)



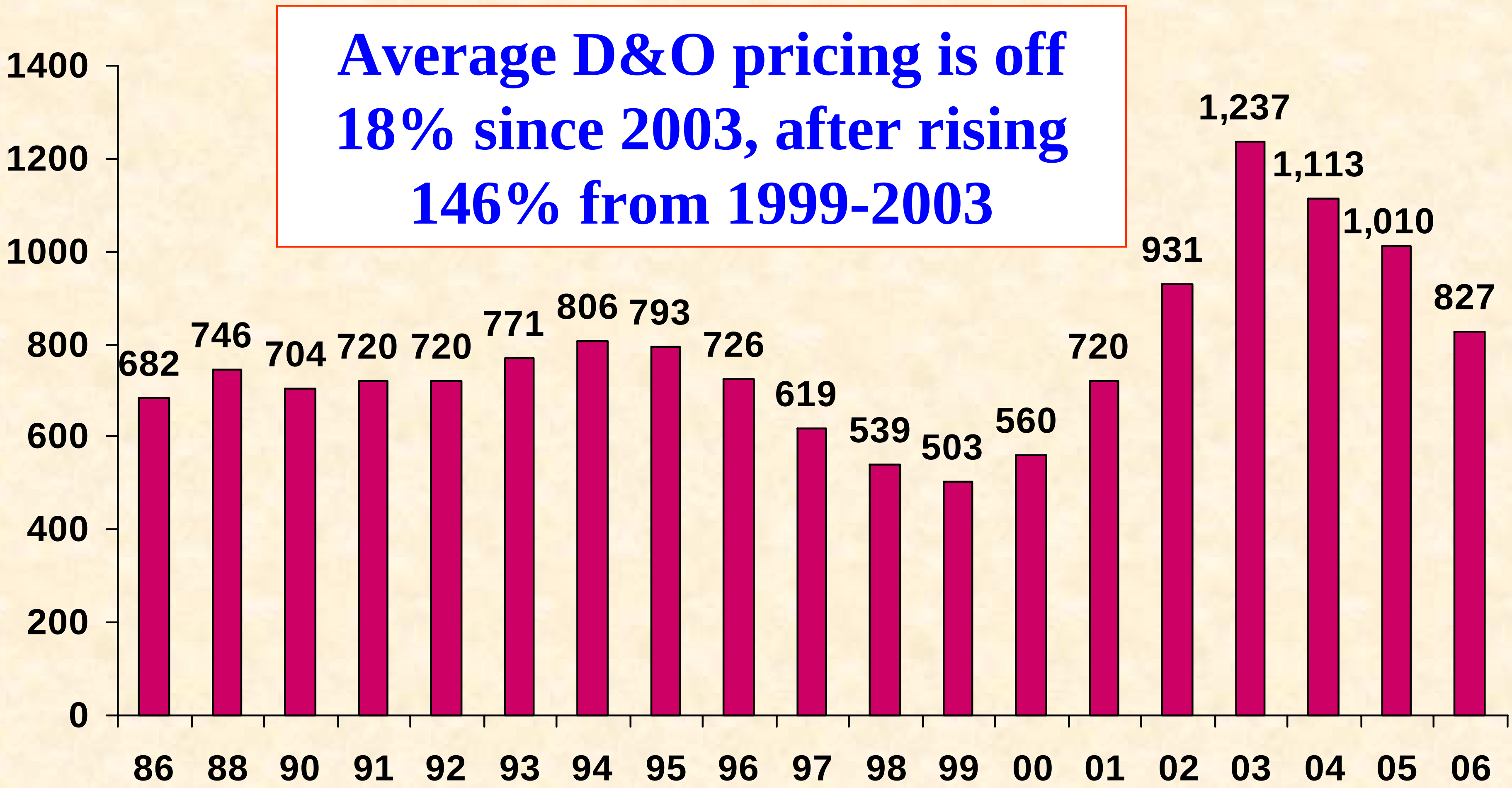
Source: Council of Insurance Agents & Brokers; Insurance Information Institute

Cumulative Commercial Rate Change by Line: 4Q99 – 3Q07



Source: Council of Insurance Agents & Brokers

D&O Premium Index
(1974 Average = 100)

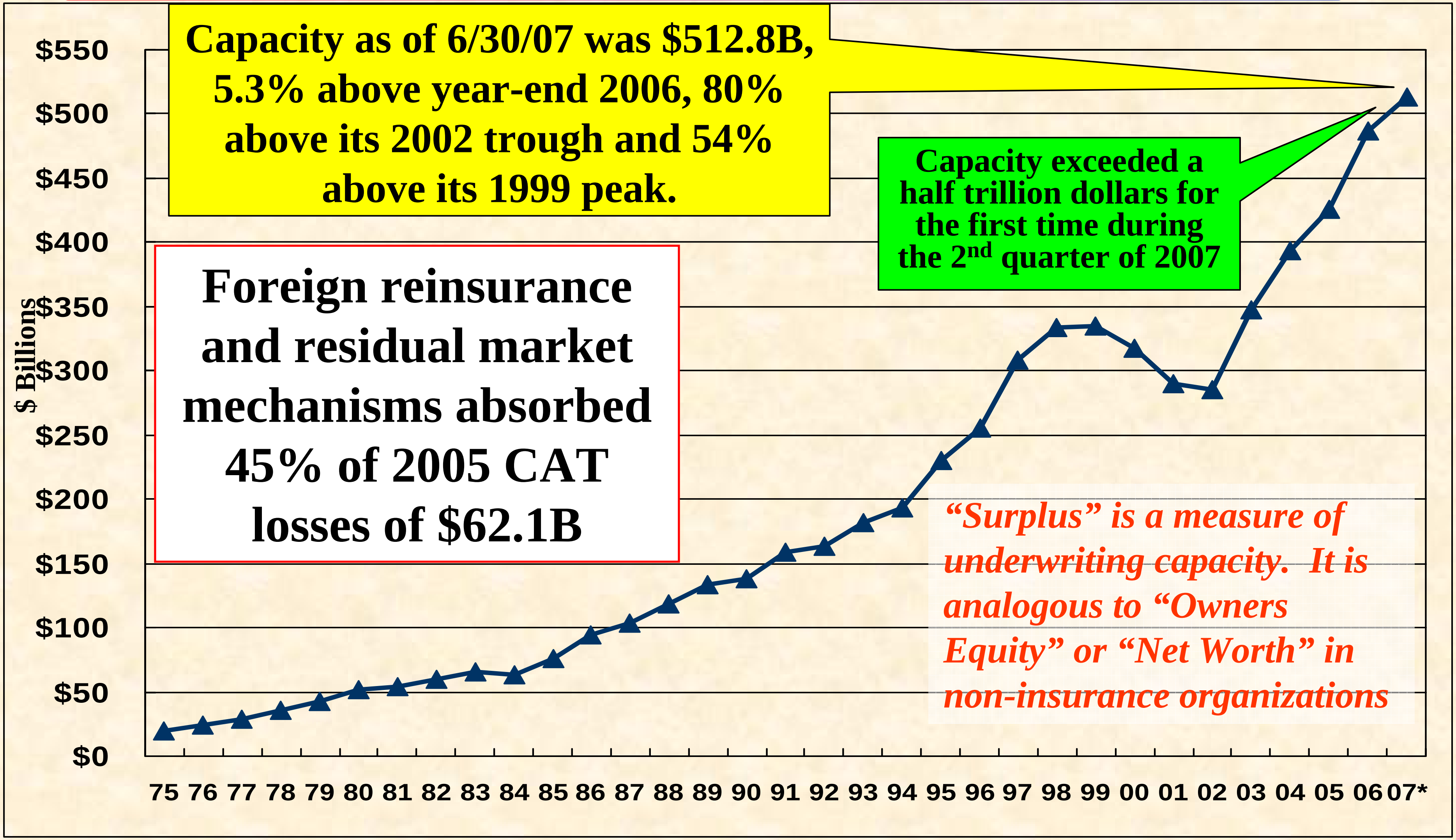


Source: Tillinghast Towers-Perrin, *2006 Directors and Officers Liability Survey.*

UNDERWRITING CAPACITY

Does Expanding Capacity Bode Ill for ART, Including Captives?

U.S. Policyholder Surplus: 1975-2007*

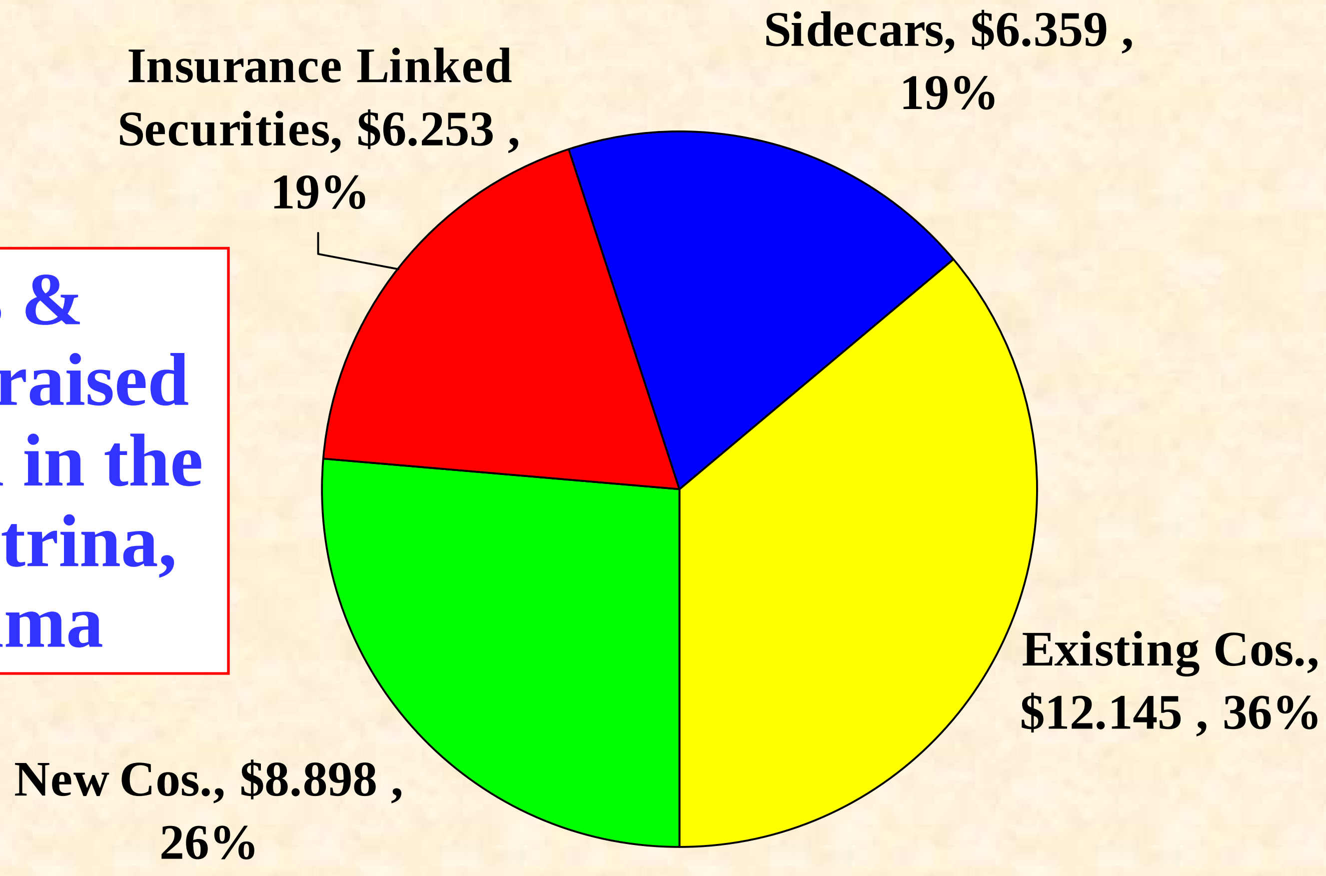


Source: A.M. Best, ISO, Insurance Information Institute.

*As of June 30, 2007

Capital Raising by Class Within 15 Months of KRW

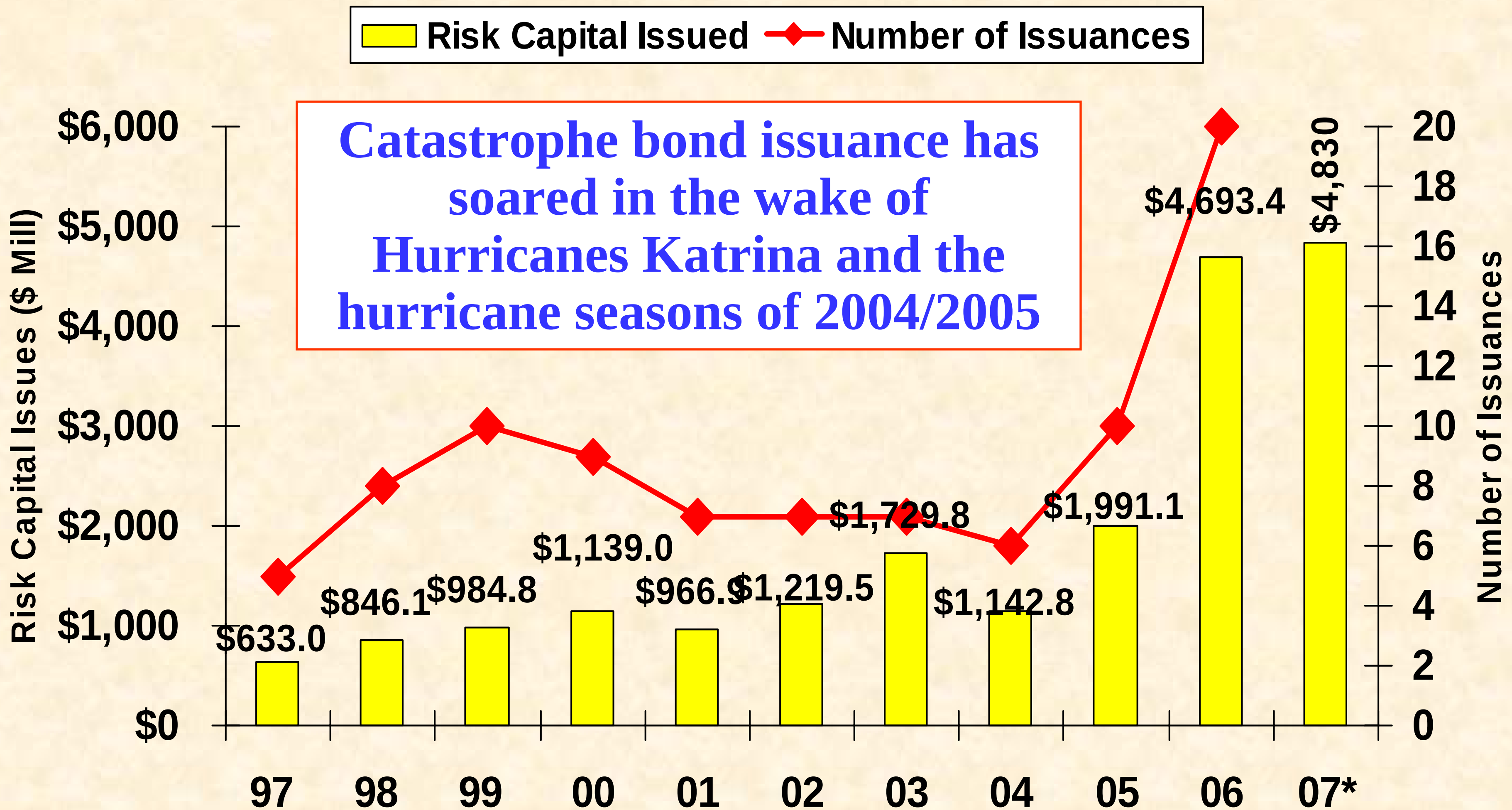
$ Billions



Insurers & Reinsurers raised $33.7 billion in the wake of Katrina, Rita, Wilma

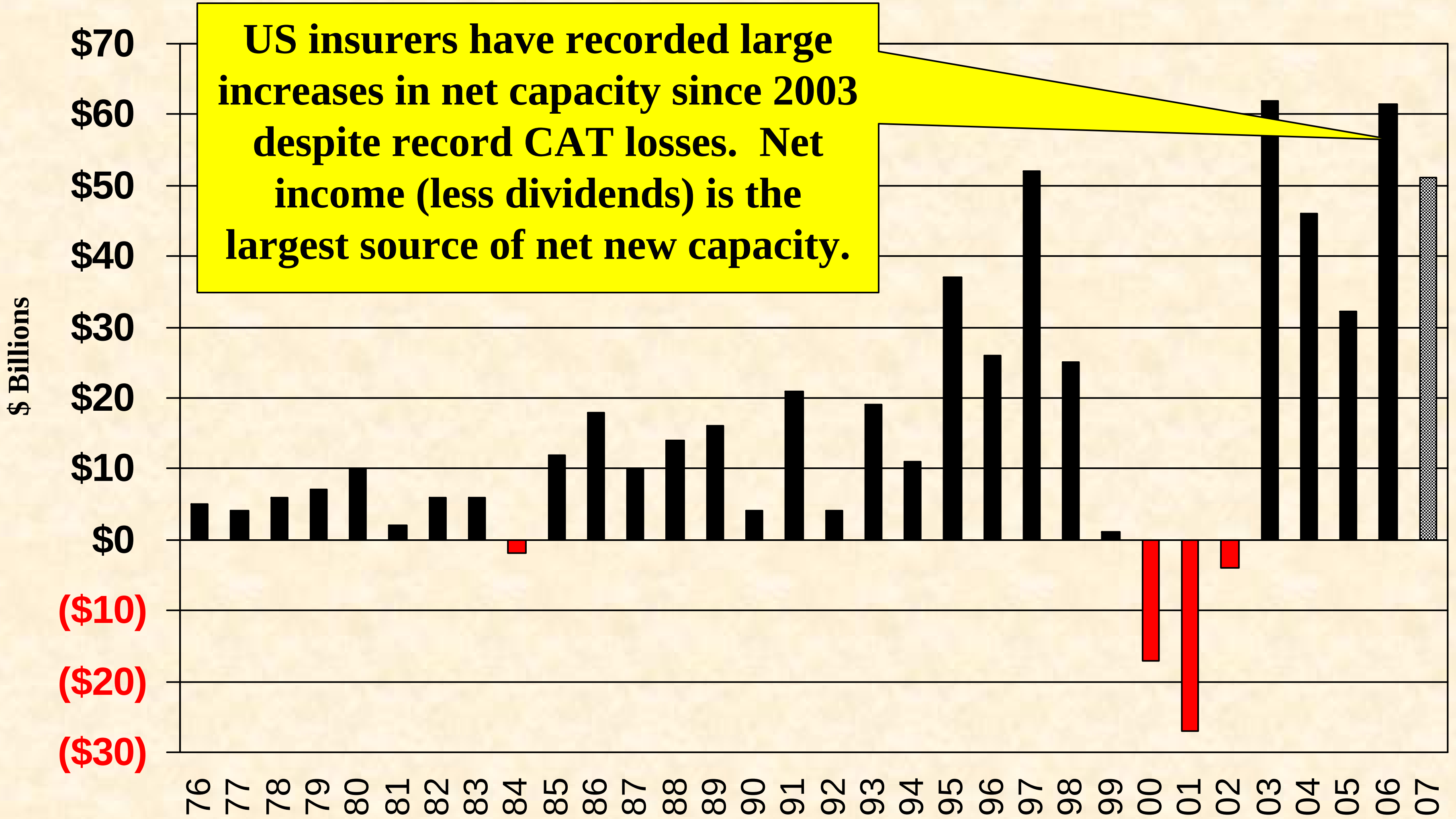
Source: Lane Financial *Trade* Notes, January 31, 2007.

Annual Catastrophe Bond Transactions Volume, 1997-2007*



Source: MMC Securities and Guy Carpenter; Insurance Information Institute. *Through 10/31/07

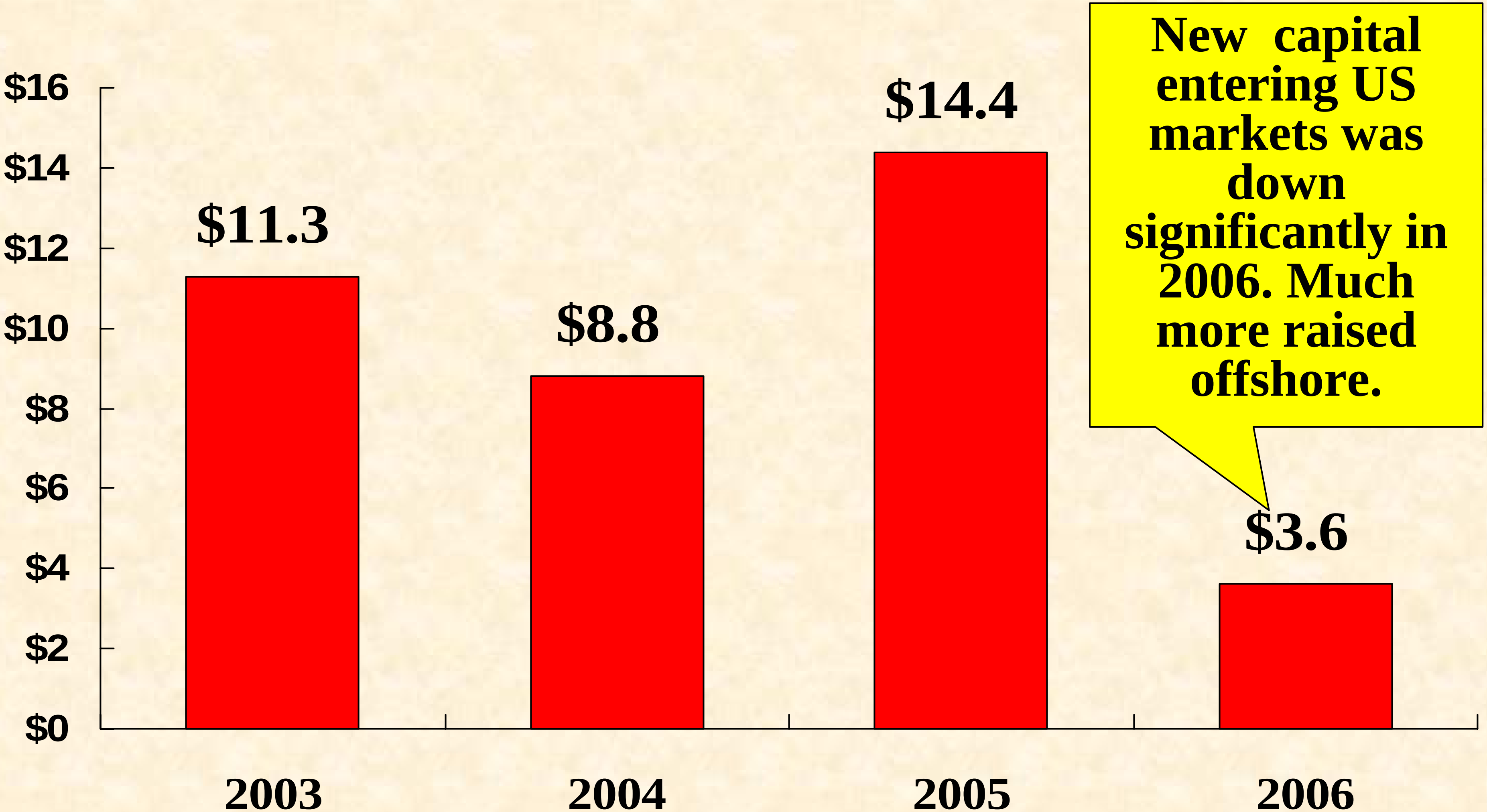
Change in US Policyholder Surplus, 1976-2007F*



*2007 forecast based on actual 07:H1 increase of $25.6B

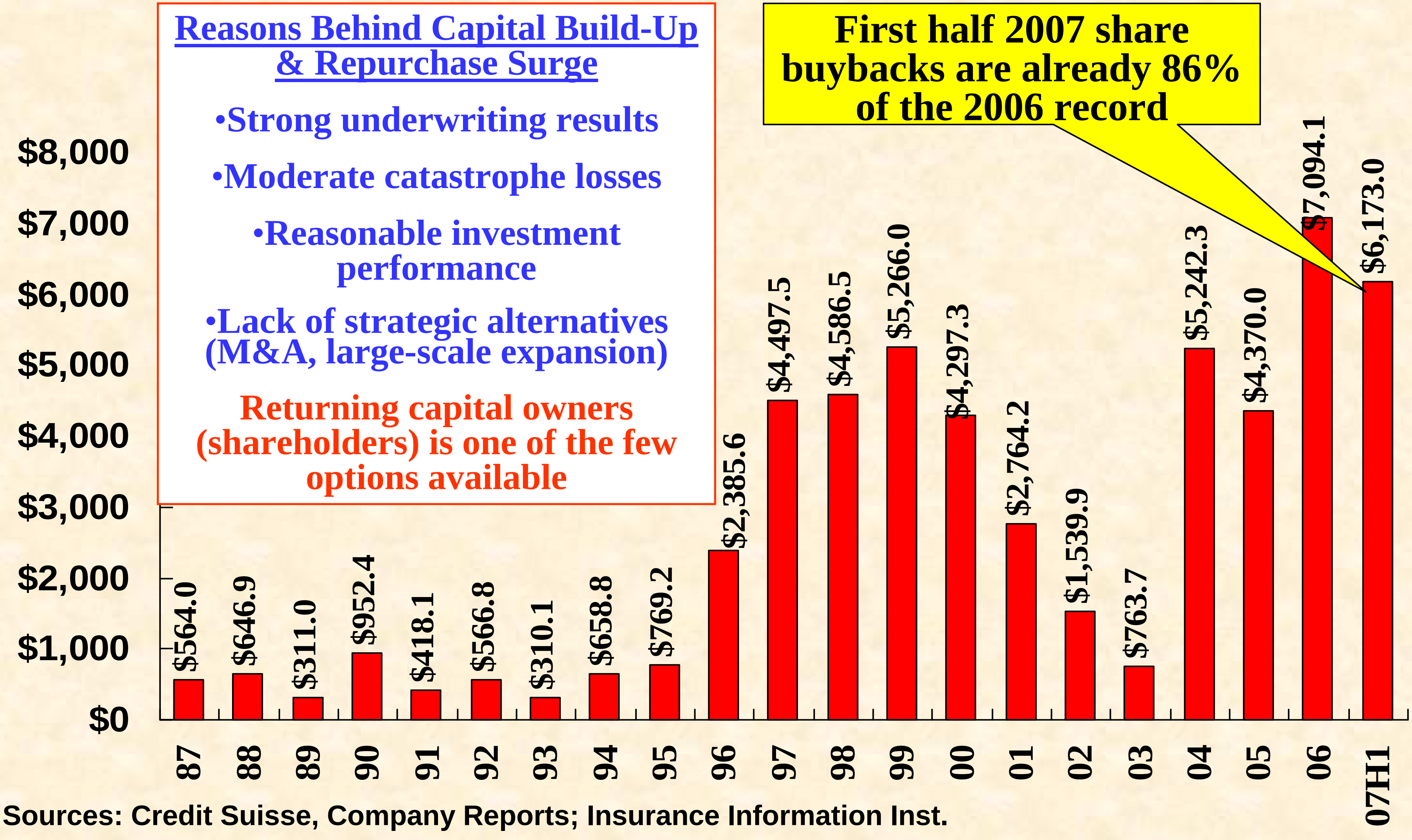
Source: A.M. Best, ISO, Insurance Information Inst.

New Capital Paid-In: US P/C Insurers, 2003-2006 ($Bill)



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

P/C Insurer Share Repurchases, 1987- First Half 2007 ($ Millions)*



Reasons Behind Capital Build-Up & Repurchase Surge

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

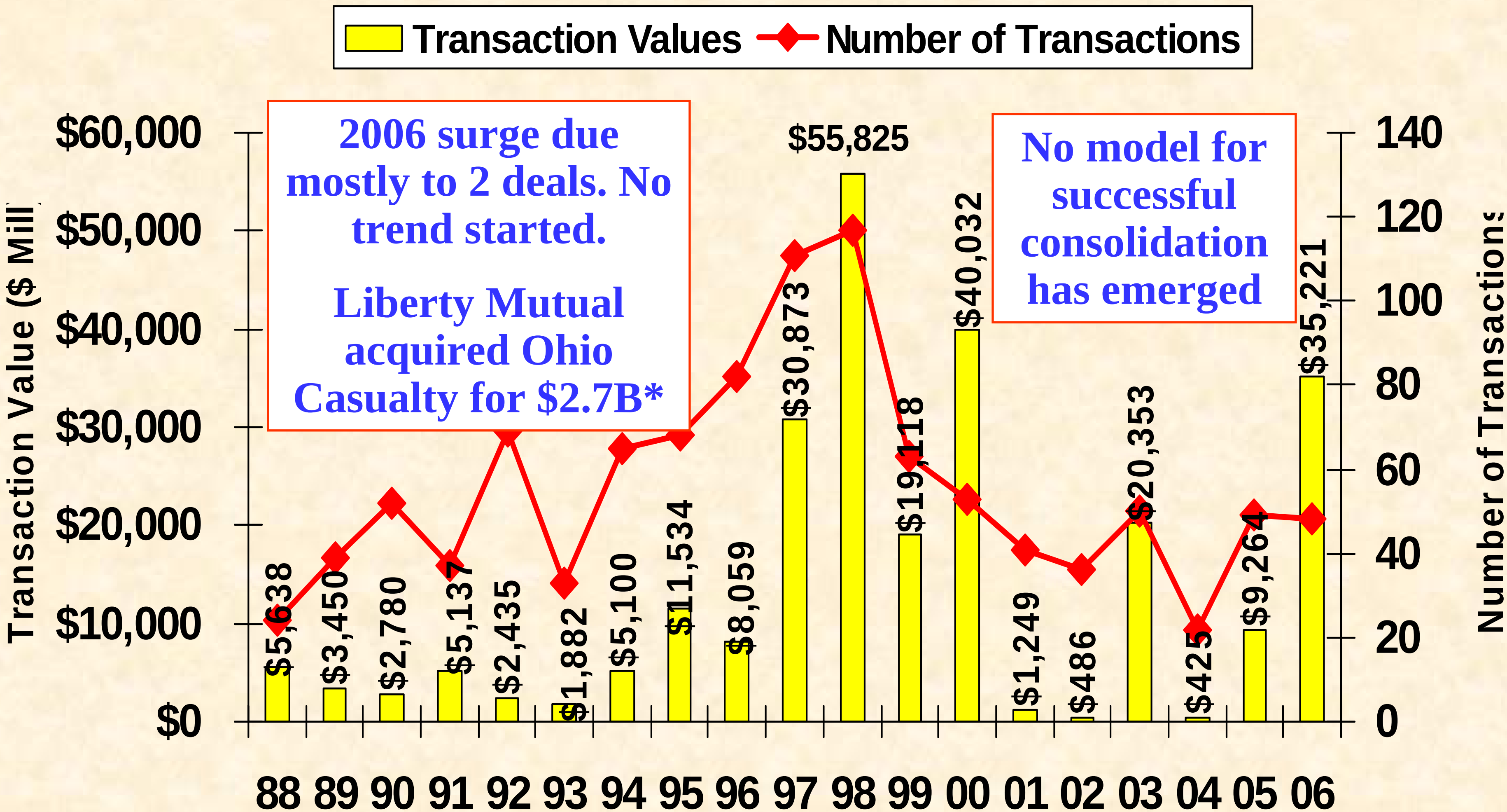
Returning capital owners (shareholders) is one of the few options available

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

MERGER & ACQUISITION

Few Catalysts for Major P/C Consolidation

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



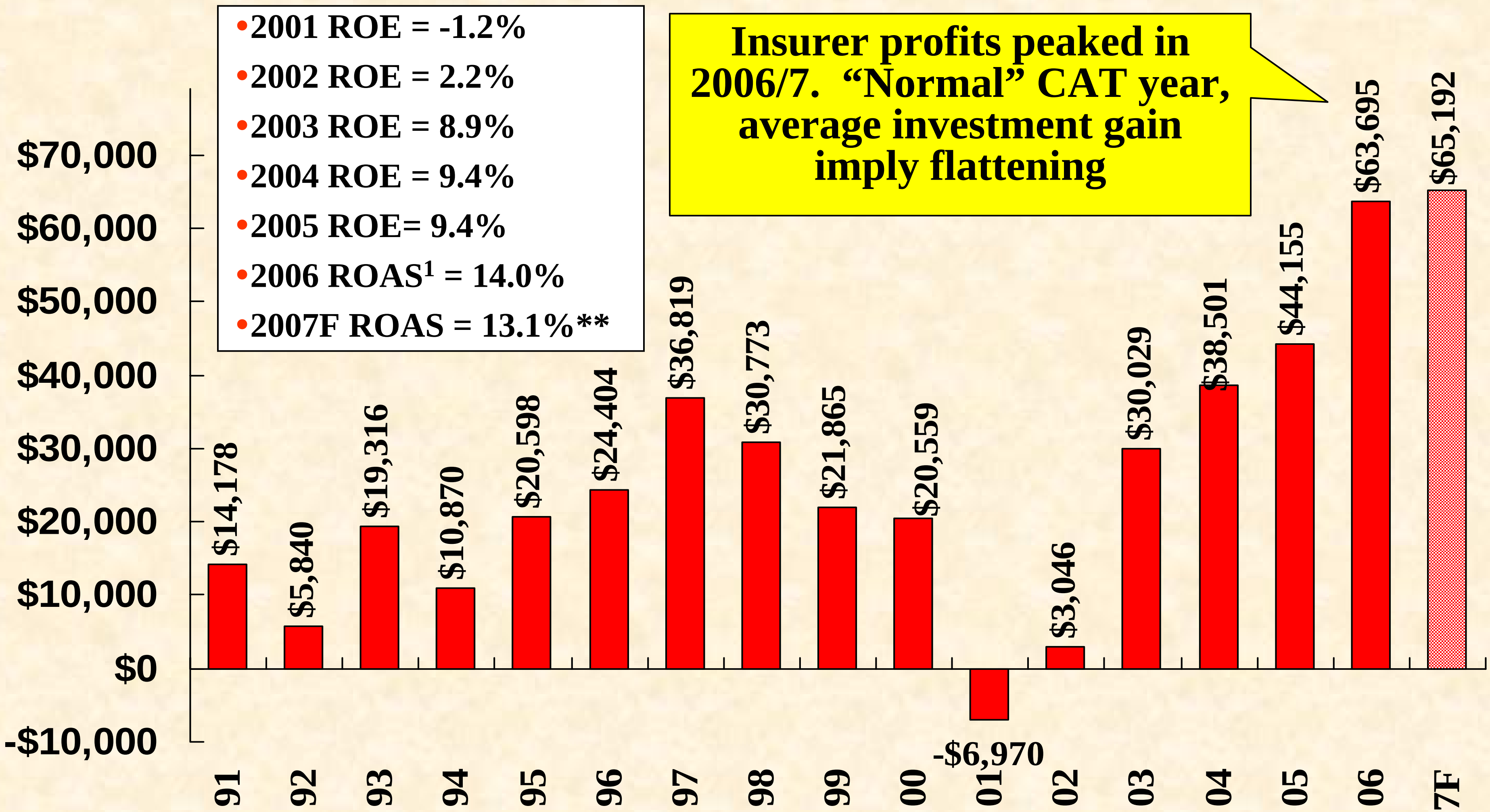
*Announced May 7, 2007.

Source: Conning Research & Consulting.

PROFITABILITY OVERVIEW

Rising Profits Breeds Competition

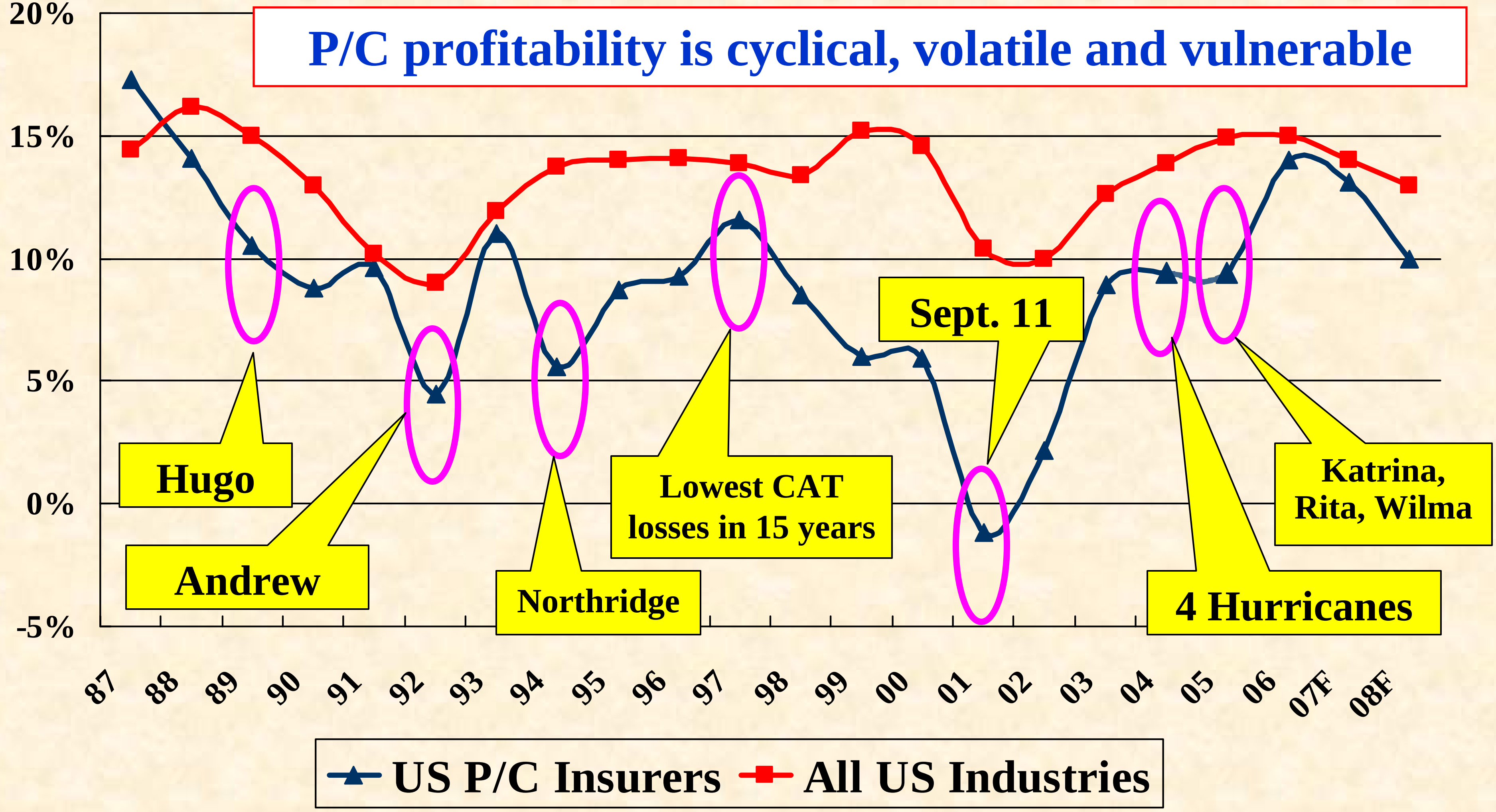
*P/C Net Income After Taxes 1991-2007F ($ Millions)**



***ROE figures are GAAP; [1]Return on avg. surplus. 2007F figure is annualized actual first half net income of $32.596B **Actual first half 2007 result.**

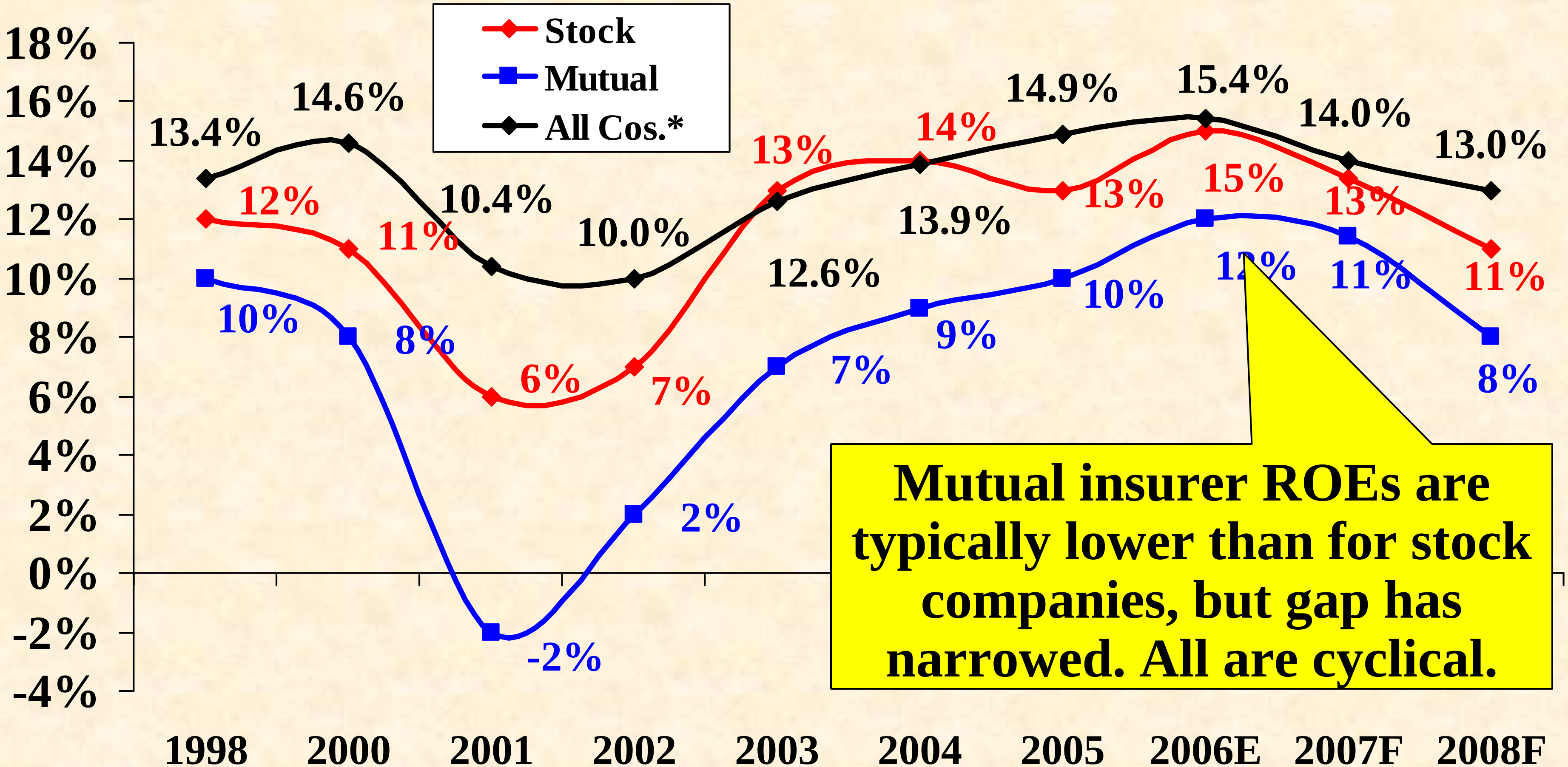
Sources: A.M. Best, ISO, Insurance Information Inst.

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



***2007 is actual first half ROAS of 13.1%. 2008 P/C insurer ROE is I.I.I. estimate.**
Source: Insurance Information Institute; *Fortune*

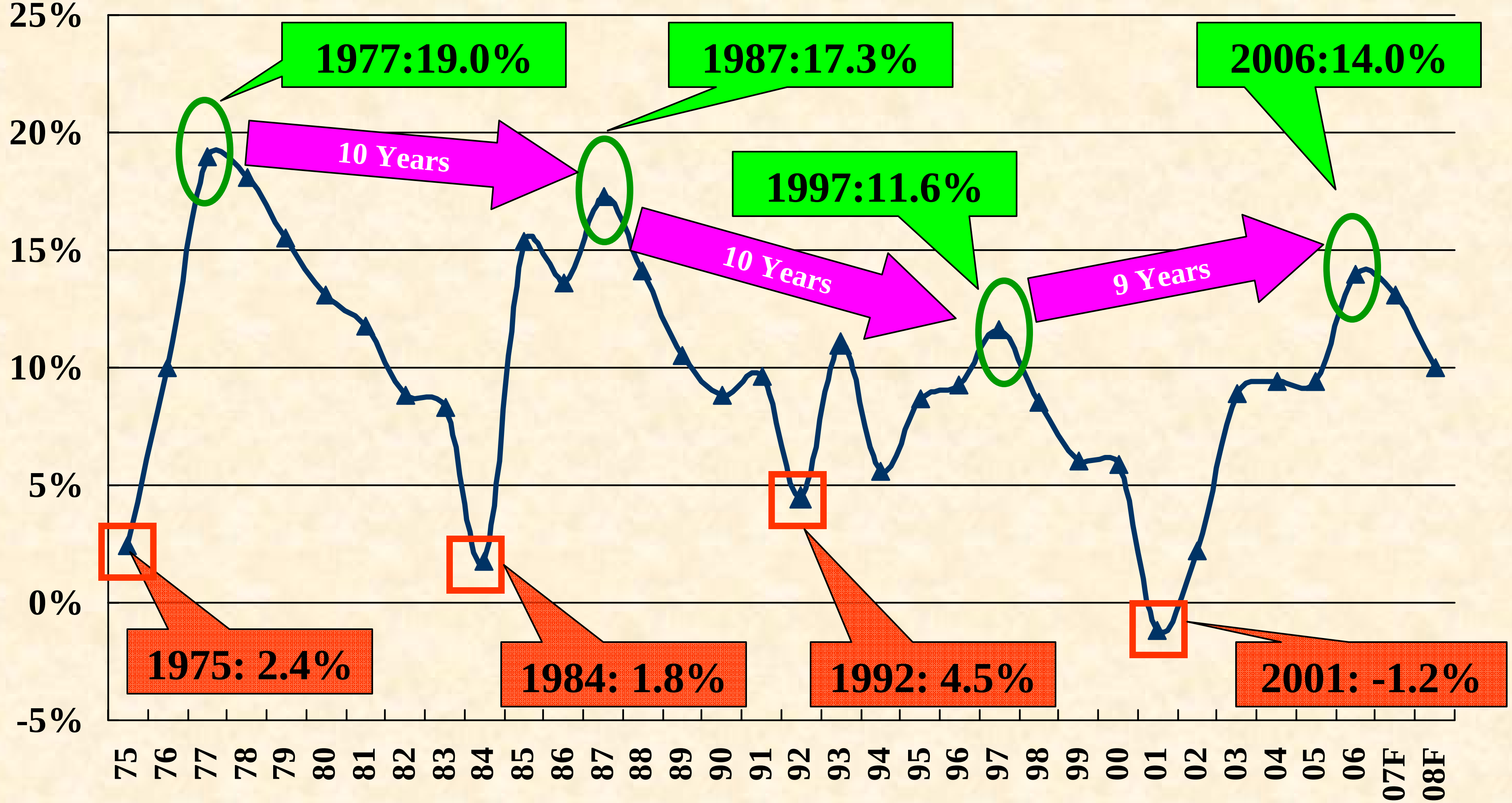
RETURN ON EQUITY (Fortune): Stock & Mutual vs. All Companies*



*Fortune 1,000 group.

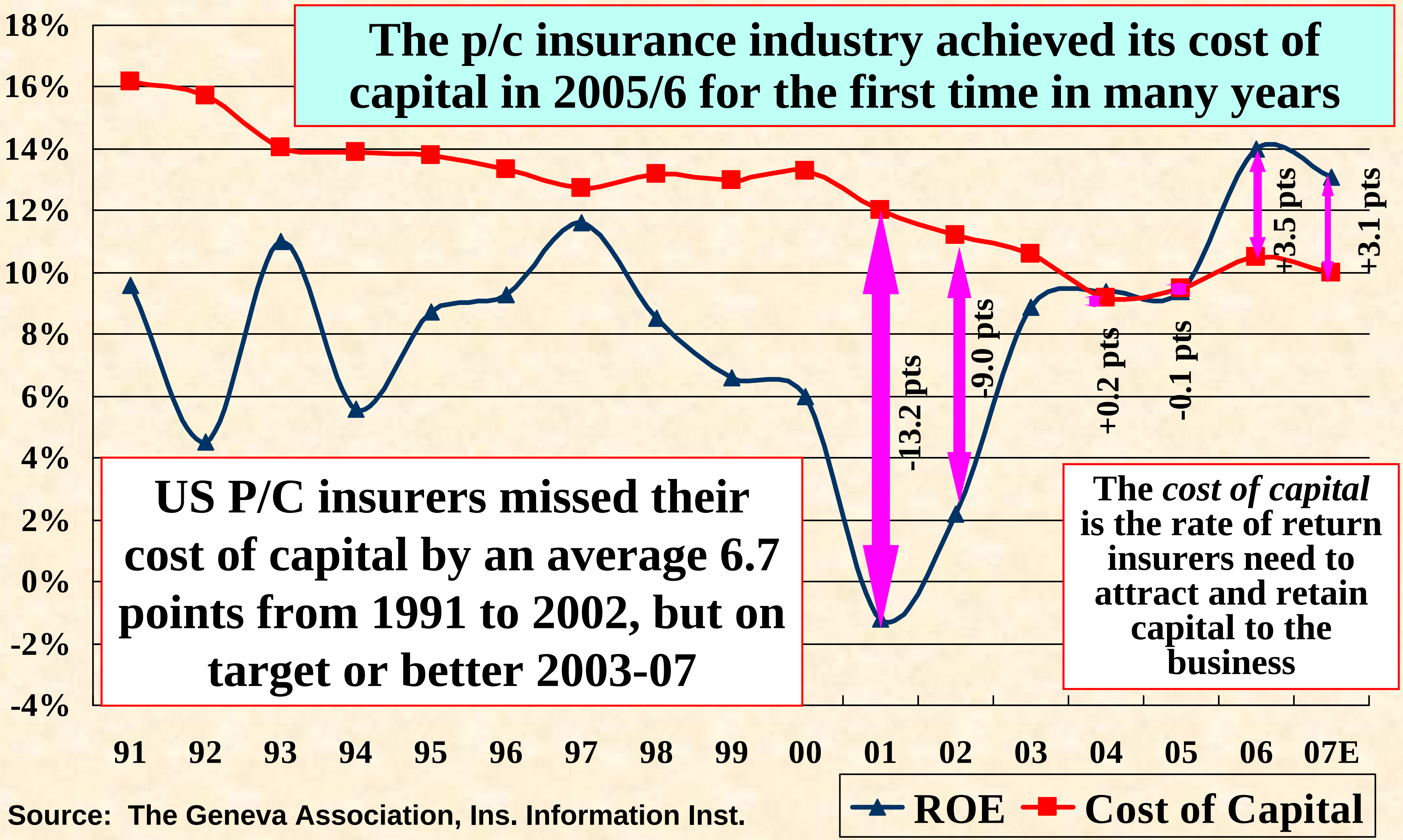
Source: *Fortune Magazine*, Insurance Information Institute.

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



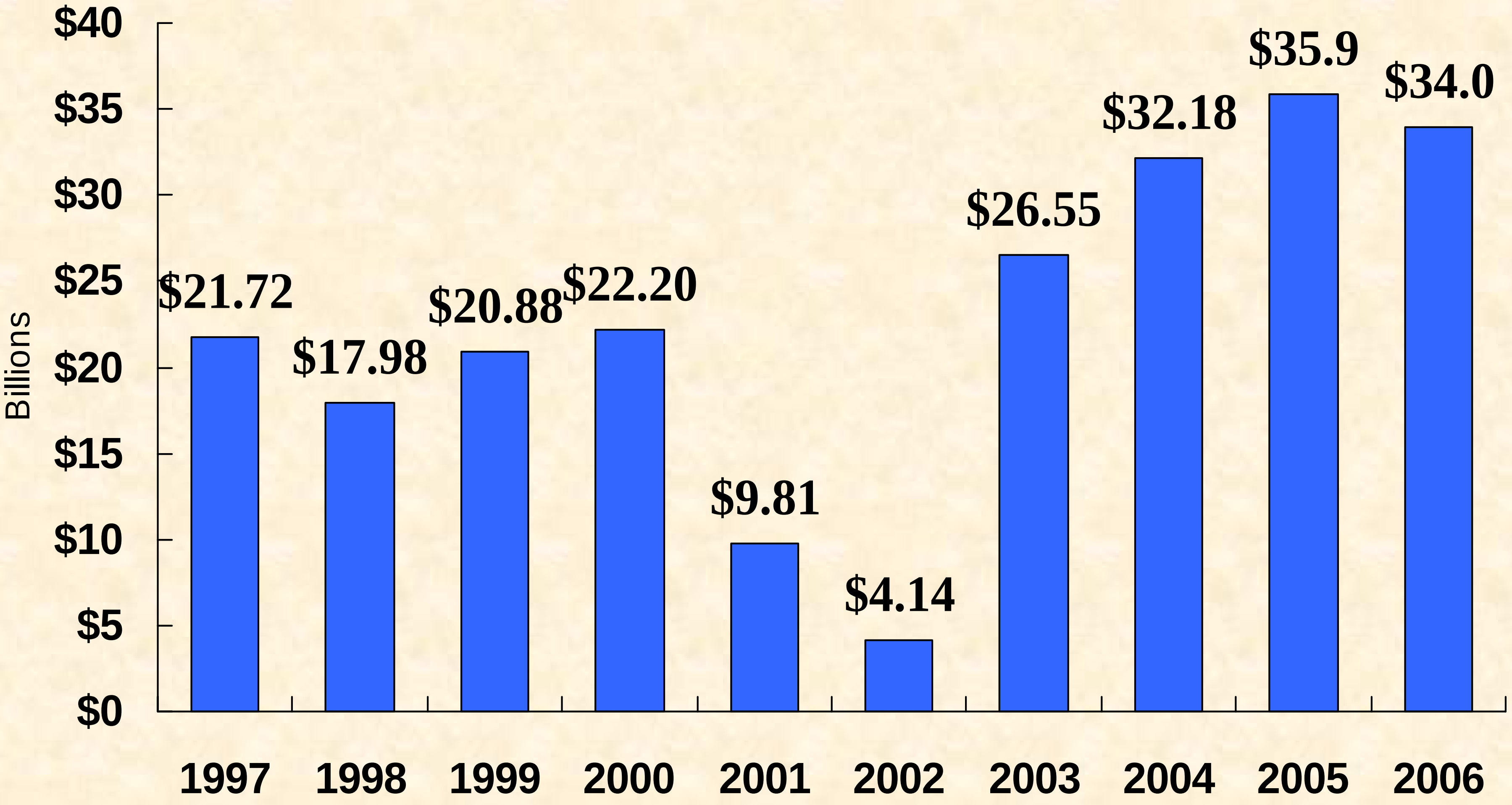
***2007 is actual first half ROAS of 13.1%. 2008 P/C insurer ROE is I.I.I. estimate.**
Source: Insurance Information Institute; *Fortune*

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



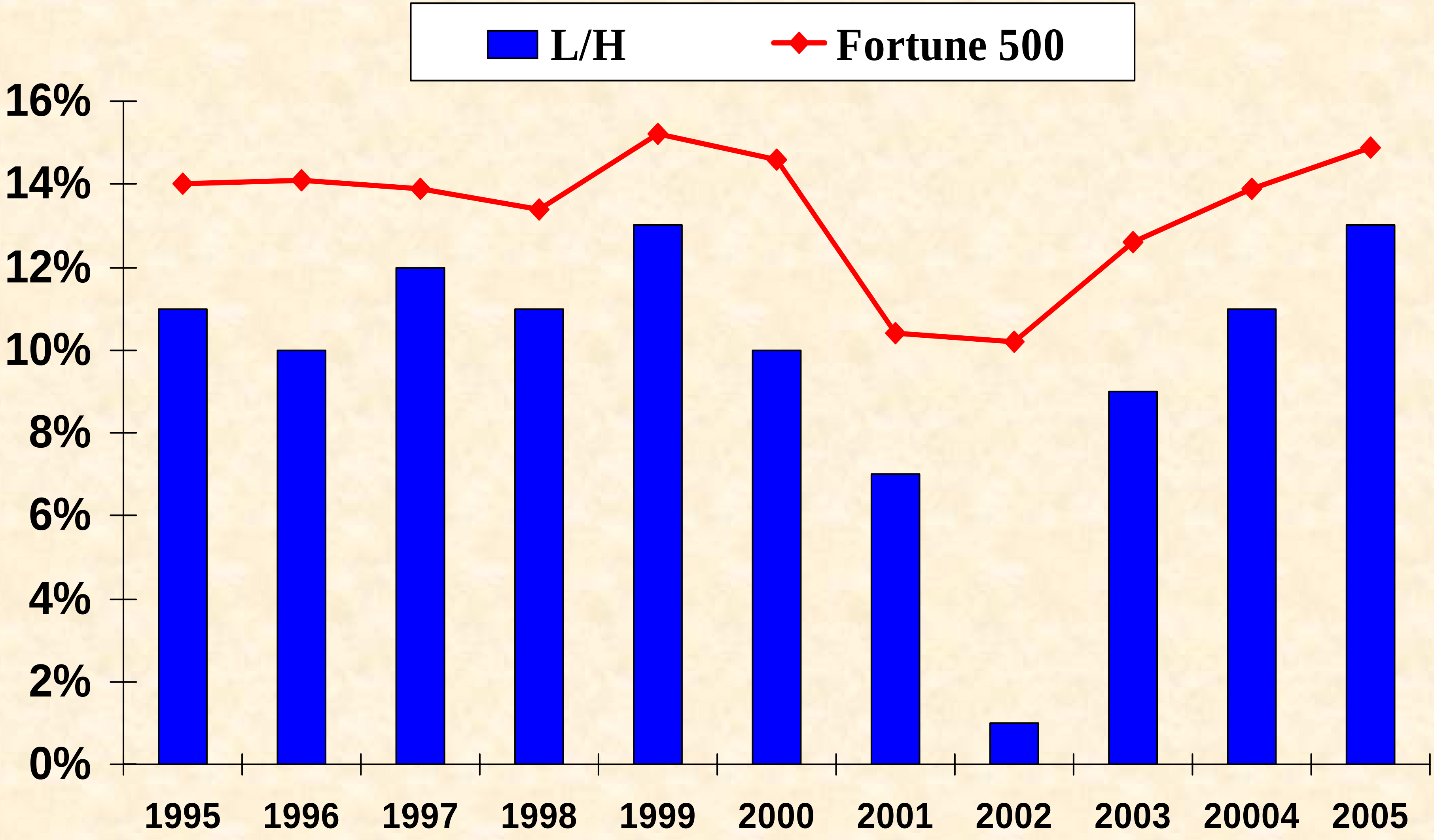
Source: The Geneva Association, Ins. Information Inst.

L/H Insurance Industry Net Income ($ Bill), 1997-2006



Source: NAIC data, from Highline National Underwriter.

Return on Equity: L/H Insurance vs. Fortune 500, 1995-2005

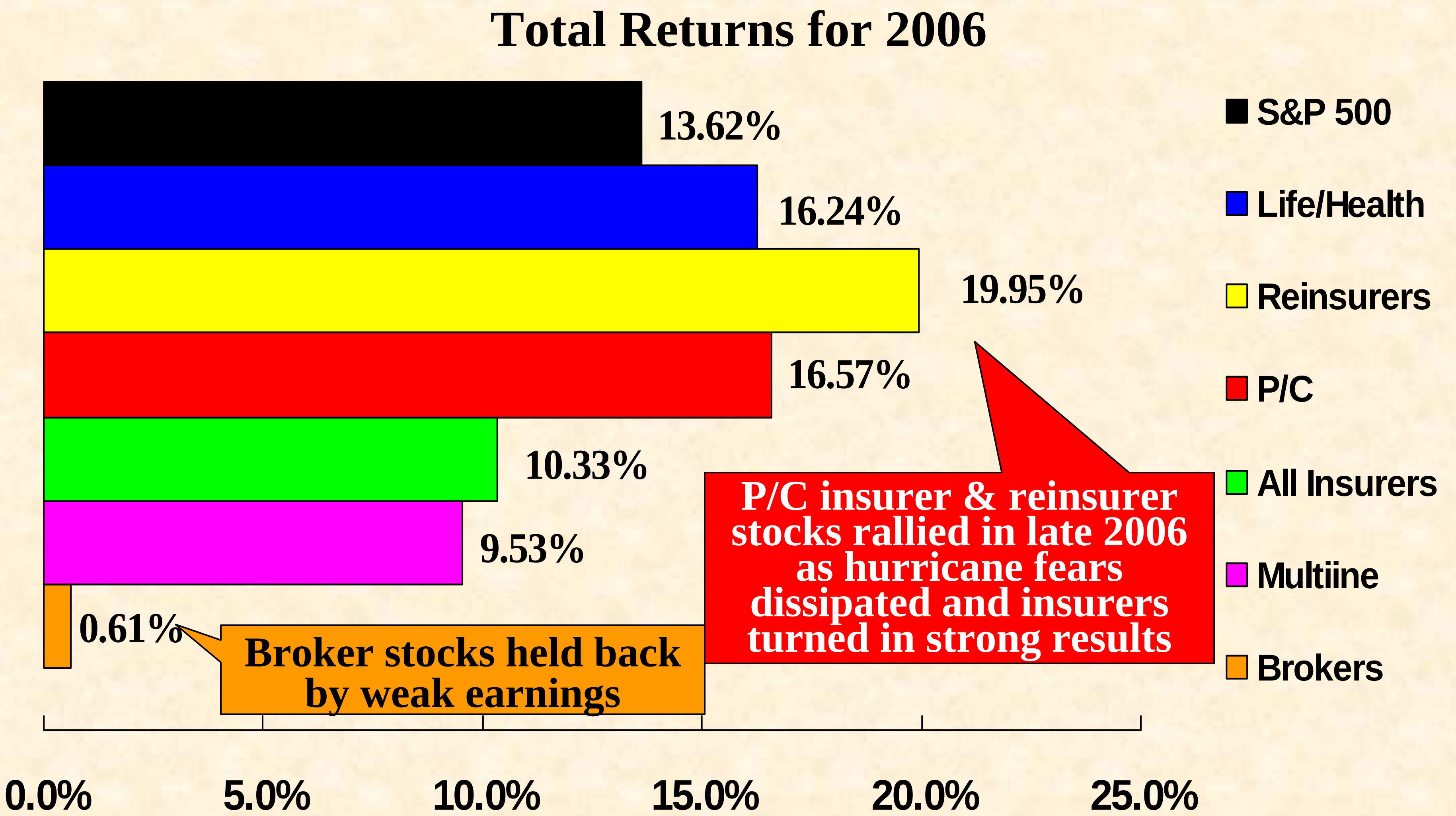


Source: NAIC, from Highline National Underwriter.

WALL STREET:

INSURERS LAGGING BEHIND IN 2007

Insurance & Reinsurance Stocks: Strong Finish in 2006



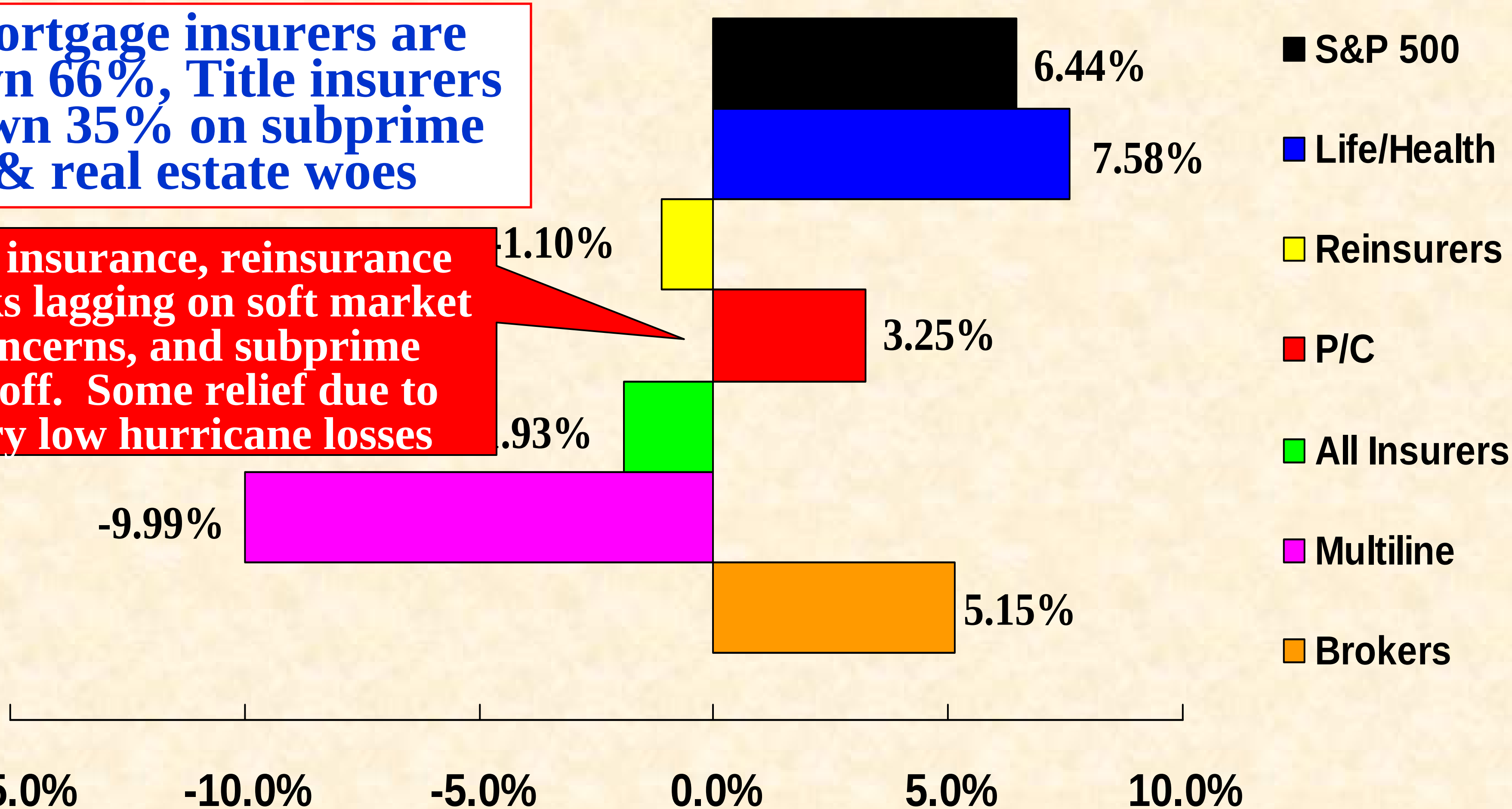
Source: SNL Securities, Standard & Poor's, Insurance Information Institute

Insurance & Reinsurance Stocks: Finally Gaining in 2007

Total YTD Returns Through November 2, 2007

Mortgage insurers are down 66%, Title insurers down 35% on subprime & real estate woes

P/C insurance, reinsurance stocks lagging on soft market concerns, and subprime selloff. Some relief due to very low hurricane losses

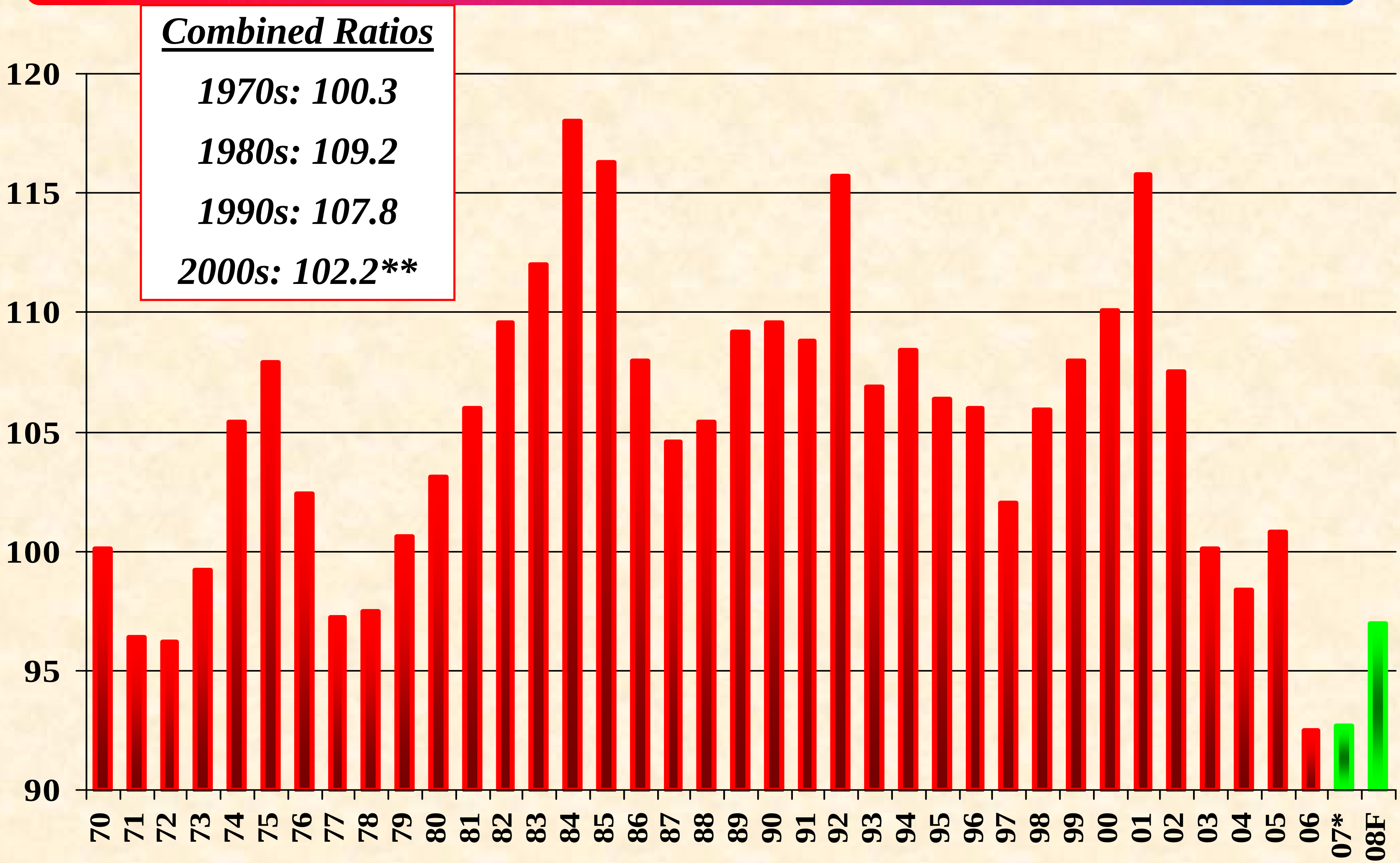


Source: SNL Securities, Standard & Poor's, Insurance Information Inst. *Includes Financial Guarantee

UNDERWRITING

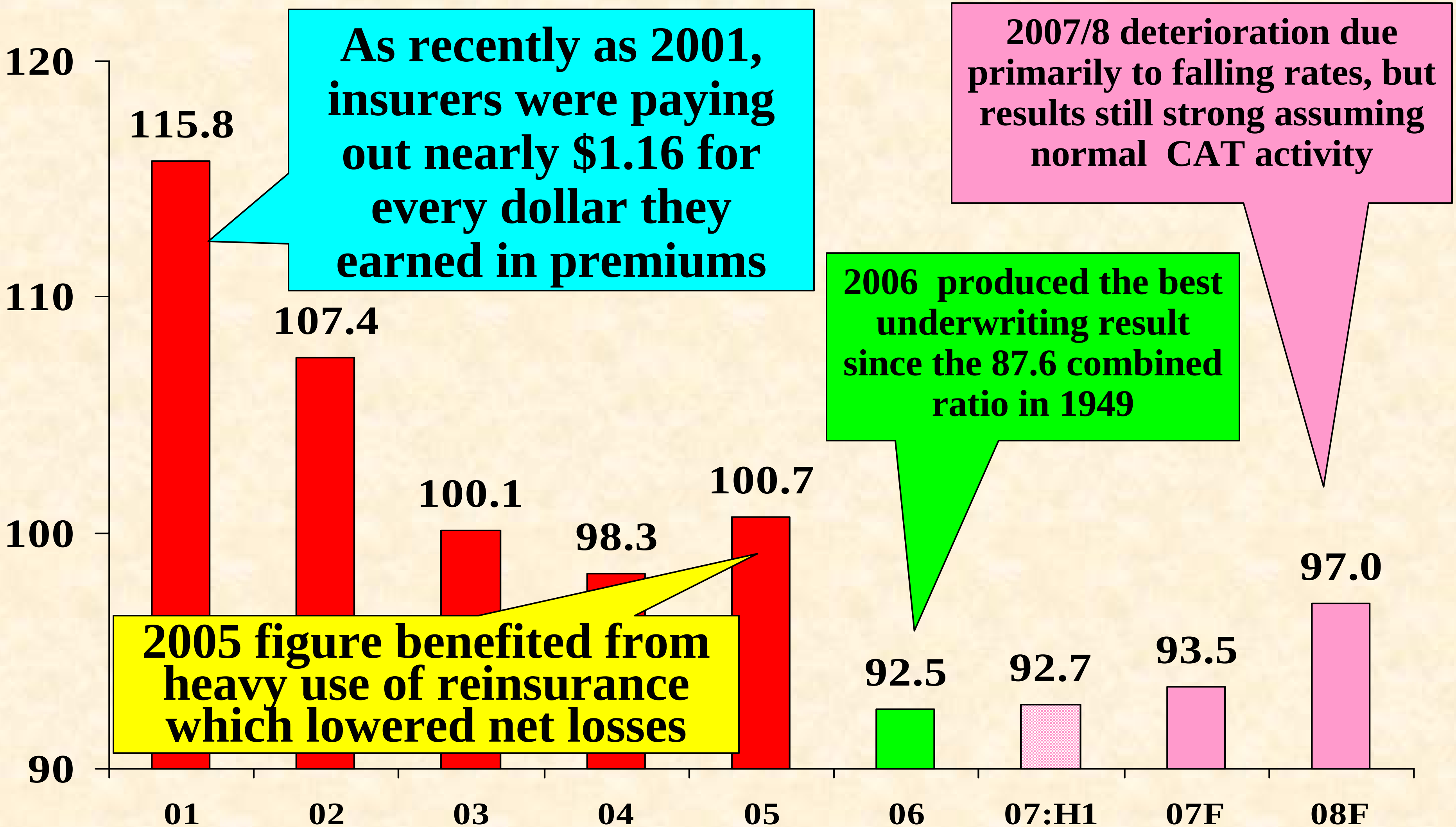
Insurer Underwriting Has Improved Dramatically

P/C Insurance Combined Ratio, 1970-2008F*



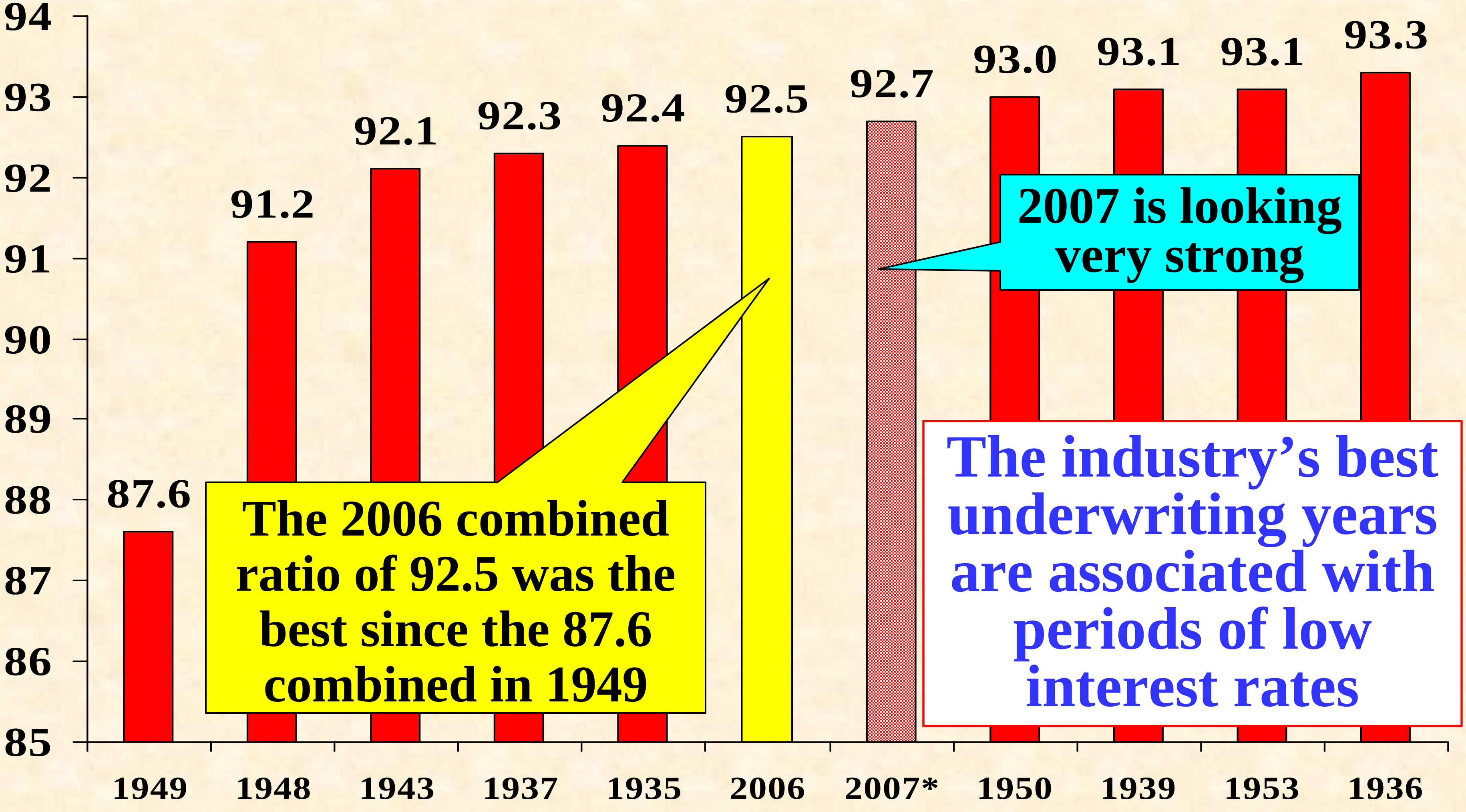
Sources: A.M. Best; ISO, III *Actual figure of 92.7 through first half 2007. **Through 2007:H1.

P/C Insurance Combined Ratio, 2001-2008F



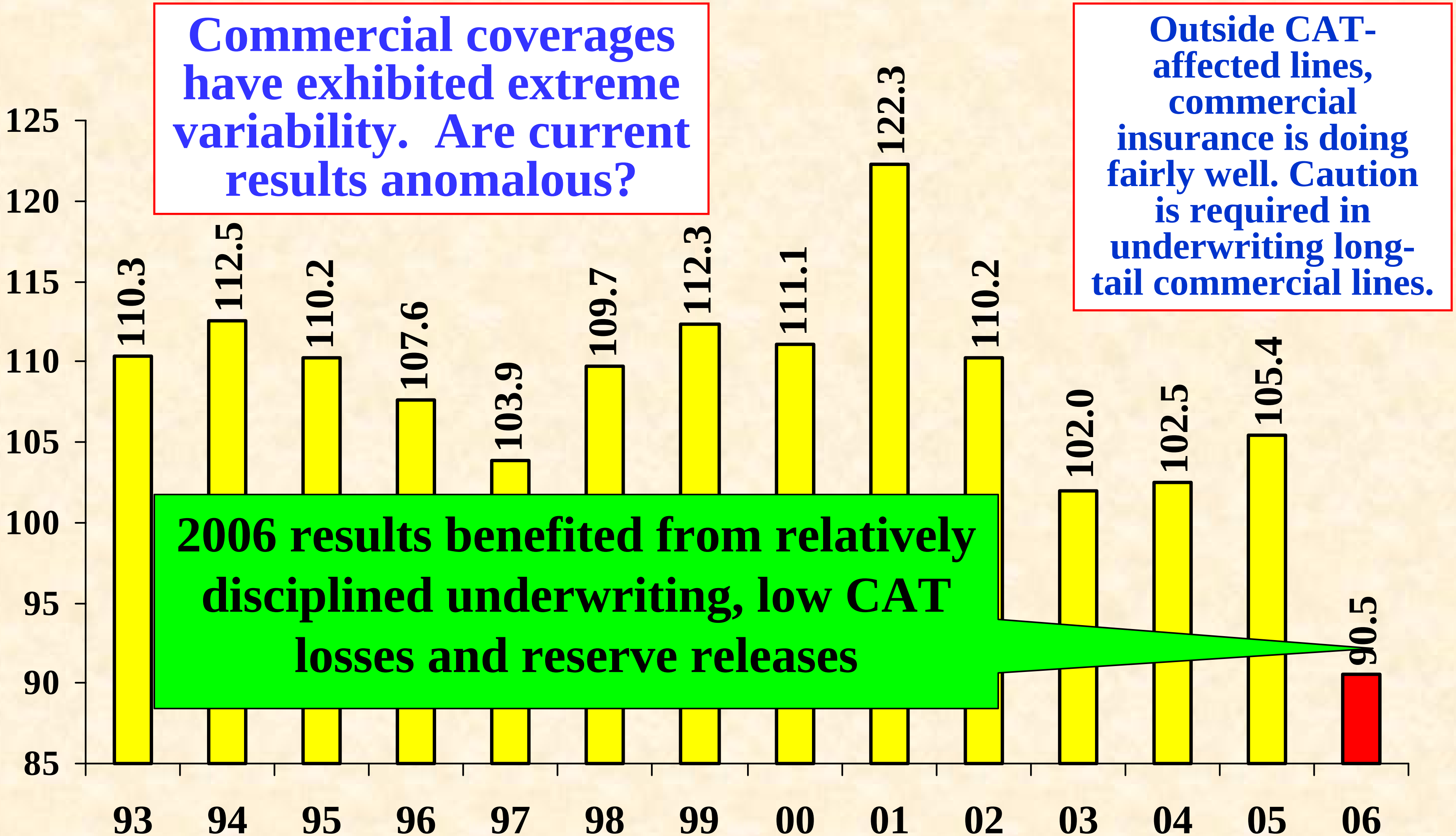
Sources: A.M. Best; ISO, III. *III estimates for 2007/8.

Ten Lowest P/C Insurance Combined Ratios Since 1920 (& 2007:H1)



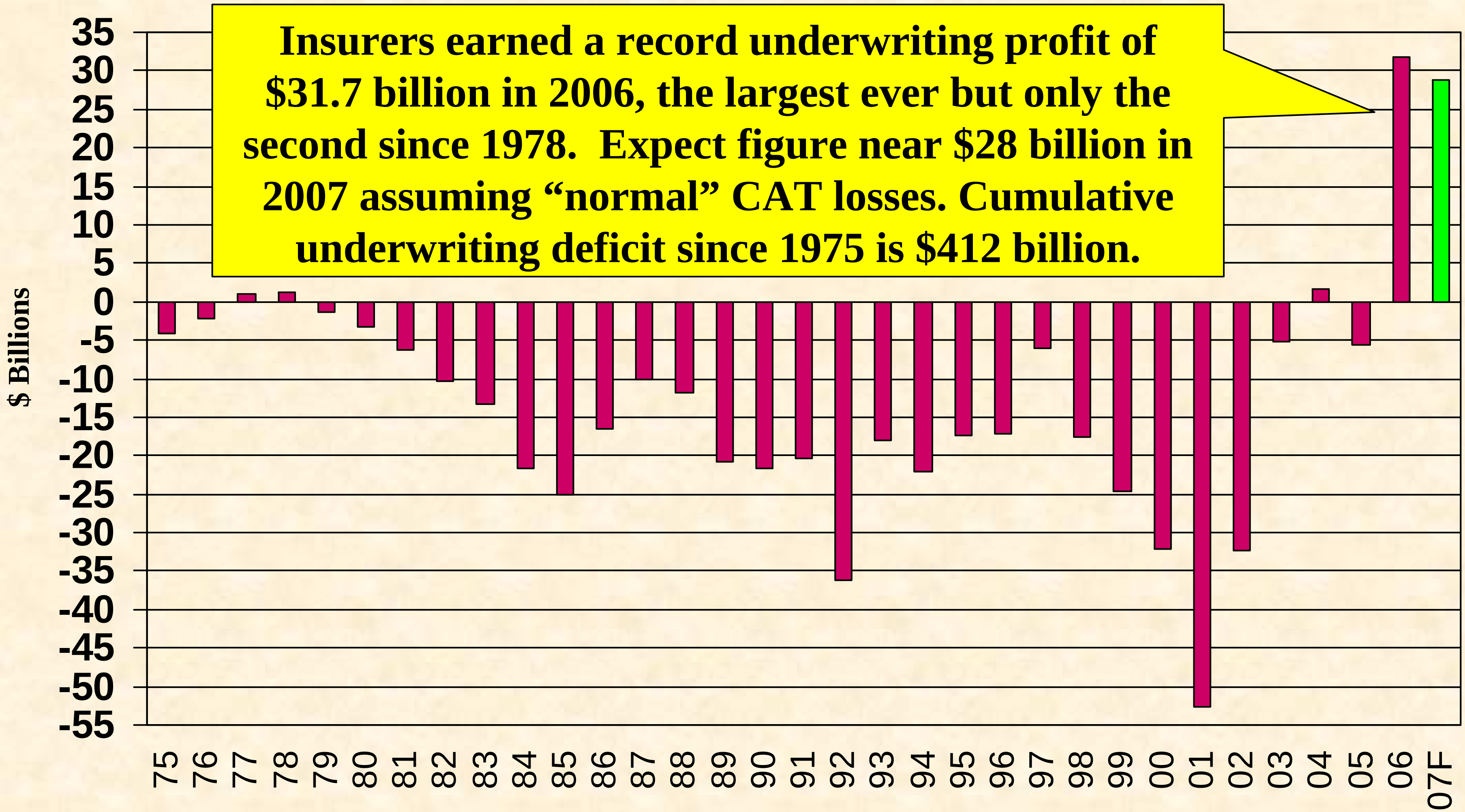
Sources: Insurance Information Institute research from A.M. Best data. *2007 first half actual.

Commercial Lines Combined Ratio, 1993-2006



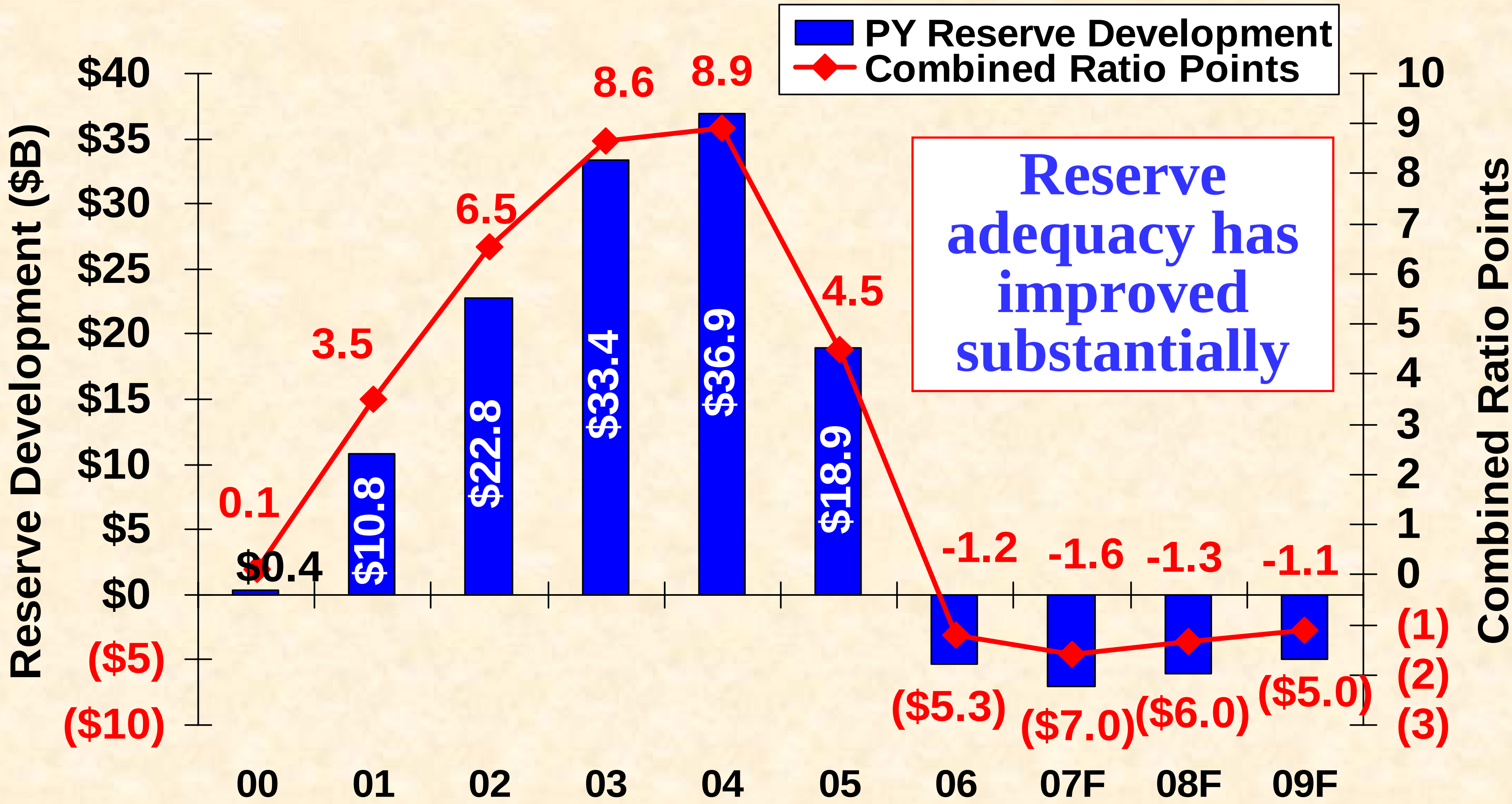
Source: A.M. Best; Insurance Information Institute

*Underwriting Gain (Loss) 1975-2007F**



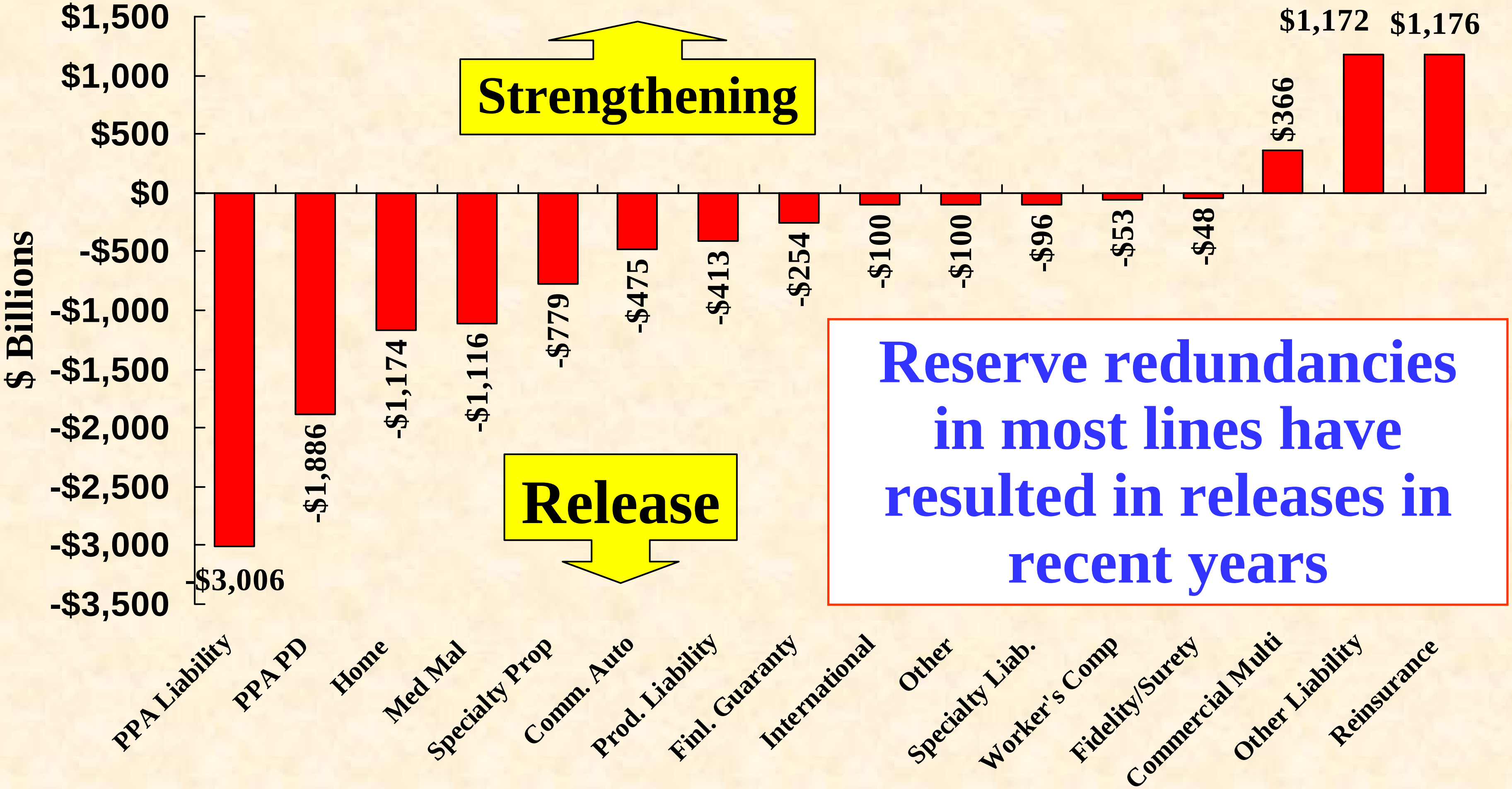
Source: A.M. Best, Insurance Information Institute *Actual 2007:H1 underwriting profit = $14.402B annualized to $28.8B.

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)*



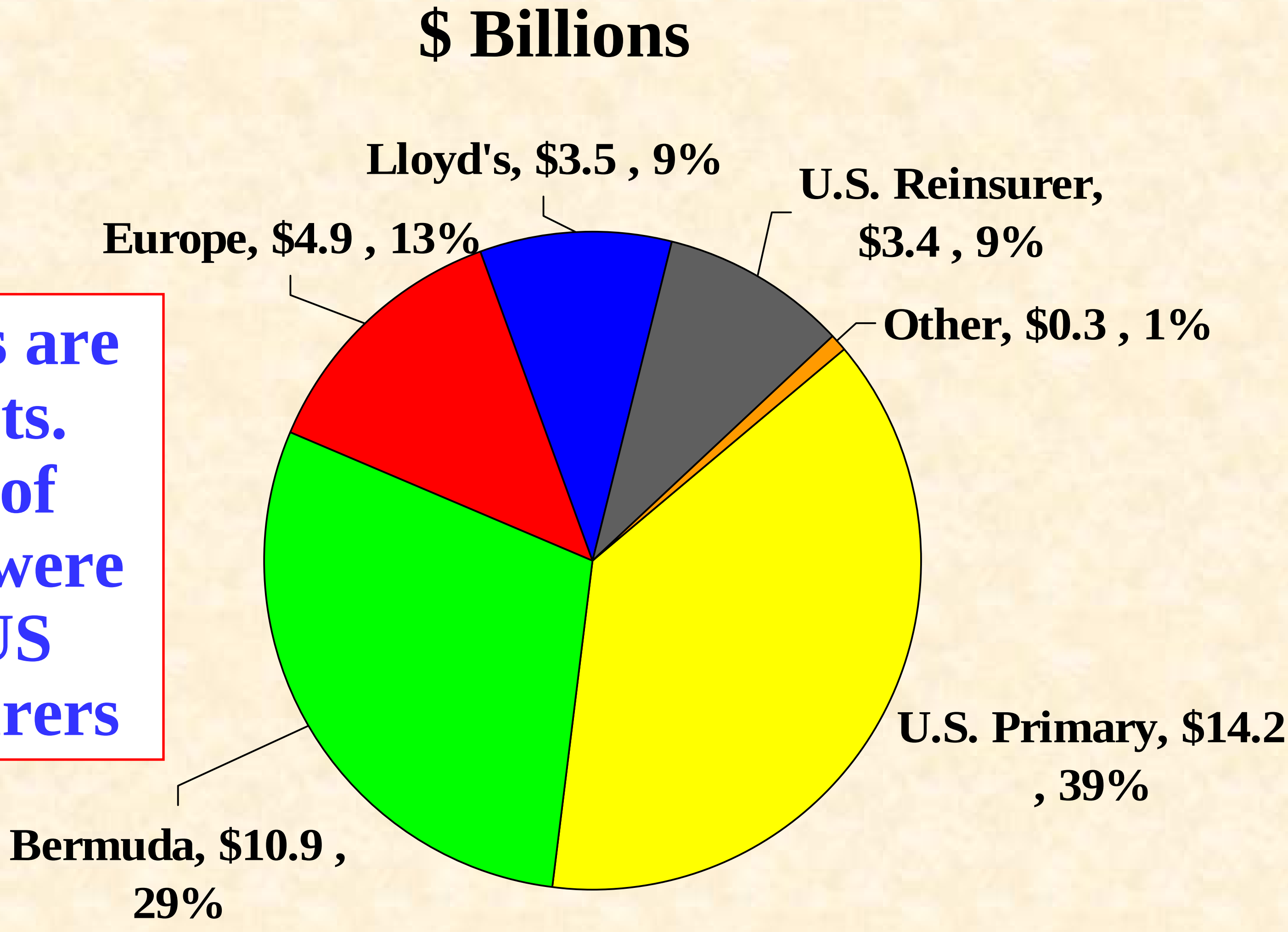
Reserve redundancies in most lines have resulted in releases in recent years

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

REINSURANCE MARKETS

Reinsurance Markets Have Stabilized, Prices Falling

Announced Katrina, Rita, Wilma Losses by Segment

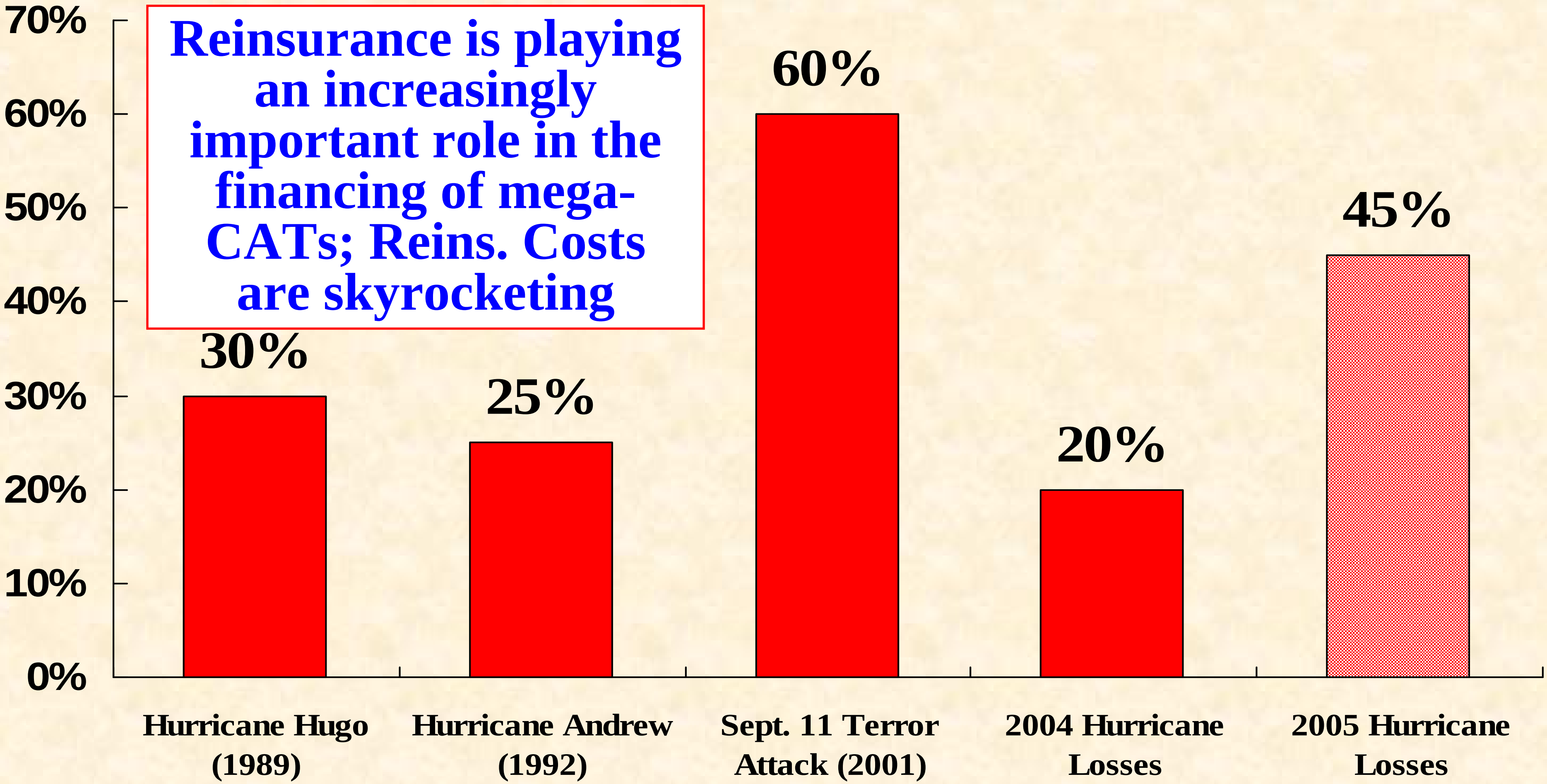


Catastrophes are global events. Only 39% of KRW losses were borne by US primary insurers

*As of 2/21/06

Source: Dowling & Partners, RAA.

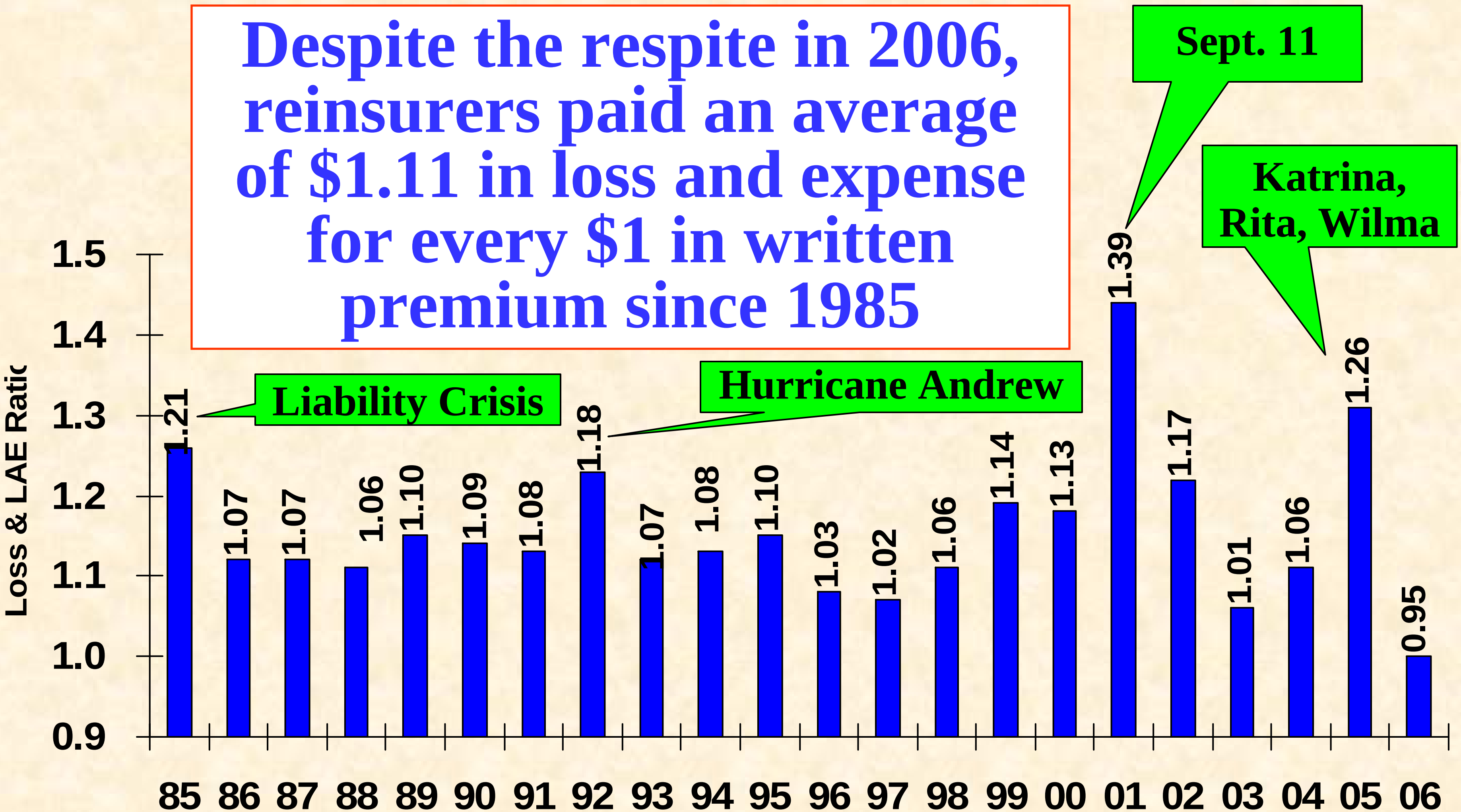
Share of Losses Paid by Reinsurers, by Disaster*



*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.

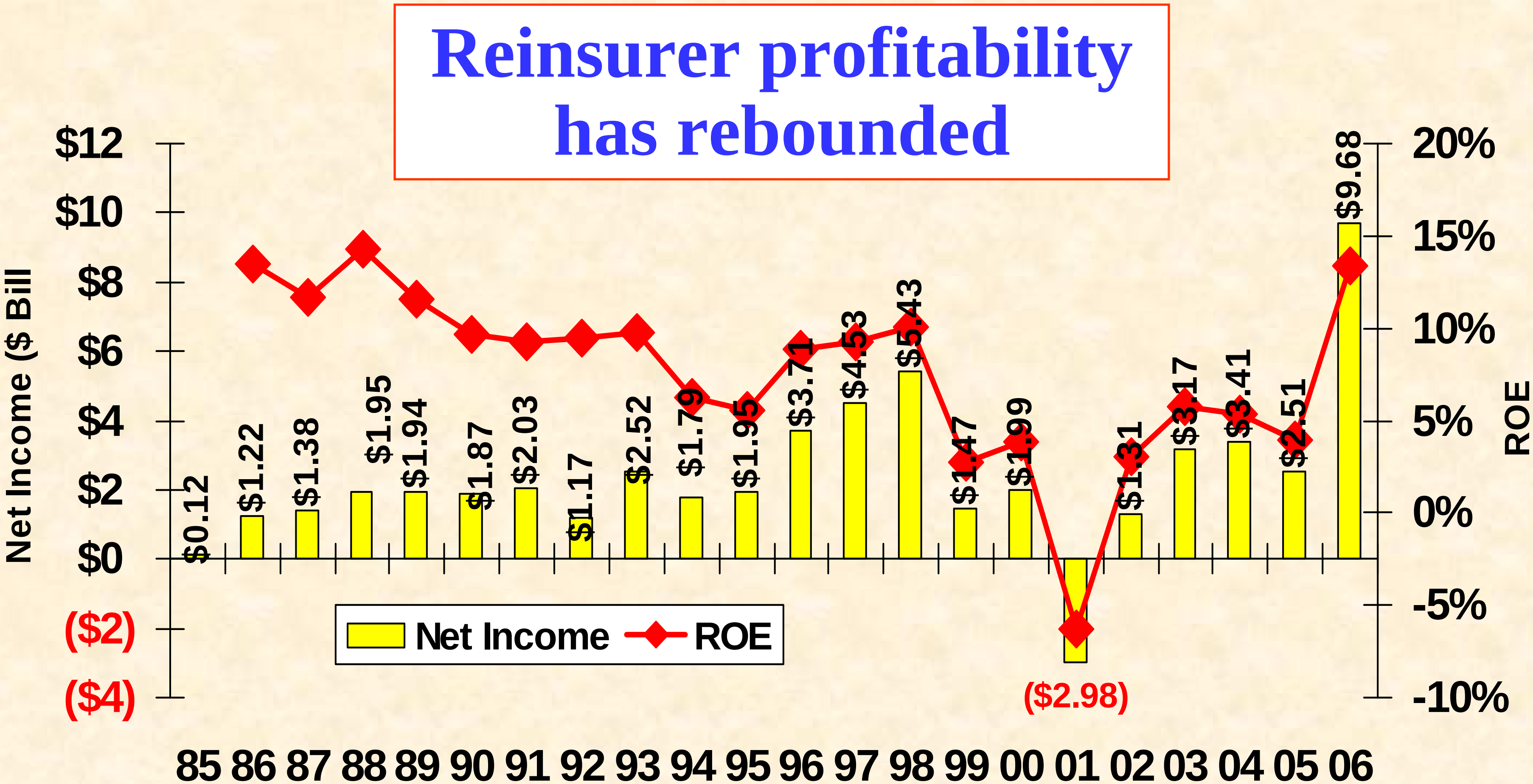
Sources: Wharton Risk Center, Disaster Insurance Project; Insurance Information Institute.

Ratio of Reinsurer Loss & Underwriting Expense to Premiums Written, 1985-2006



Source: Reinsurance Association of America.

US Reinsurer Net Income & ROE, 1985-2006

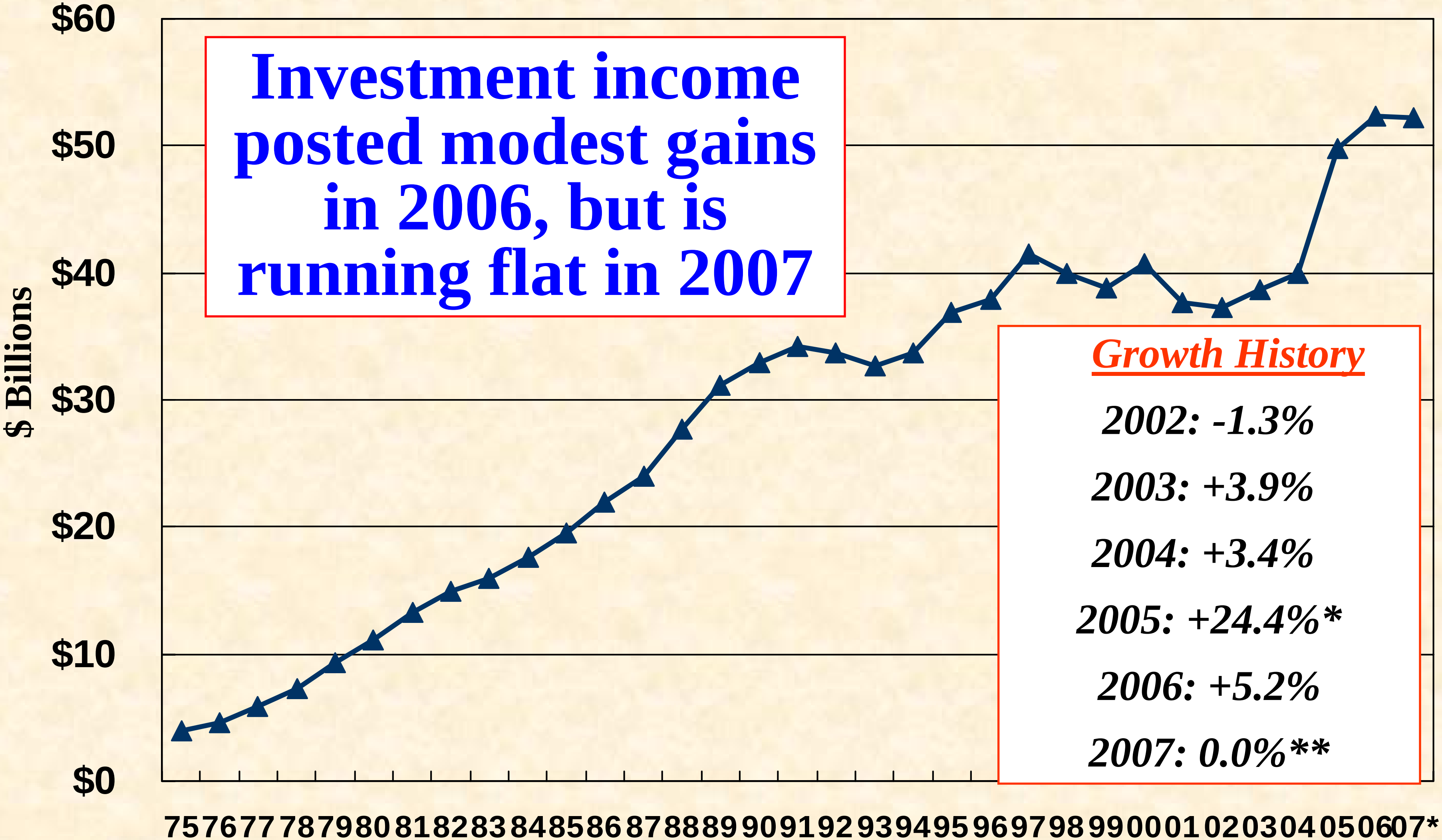


Source: Reinsurance Association of America.

INVESTMENTS

Investment Gains Are Flat

Net Investment Income



Source: A.M. Best, ISO, Insurance Information Institute;
*Includes special dividend of $3.2B. Increase is 15.7% excluding dividend. **Based on annualized H1 result of $26.128B.

Total Returns for Large Company Stocks: 1970-2007*

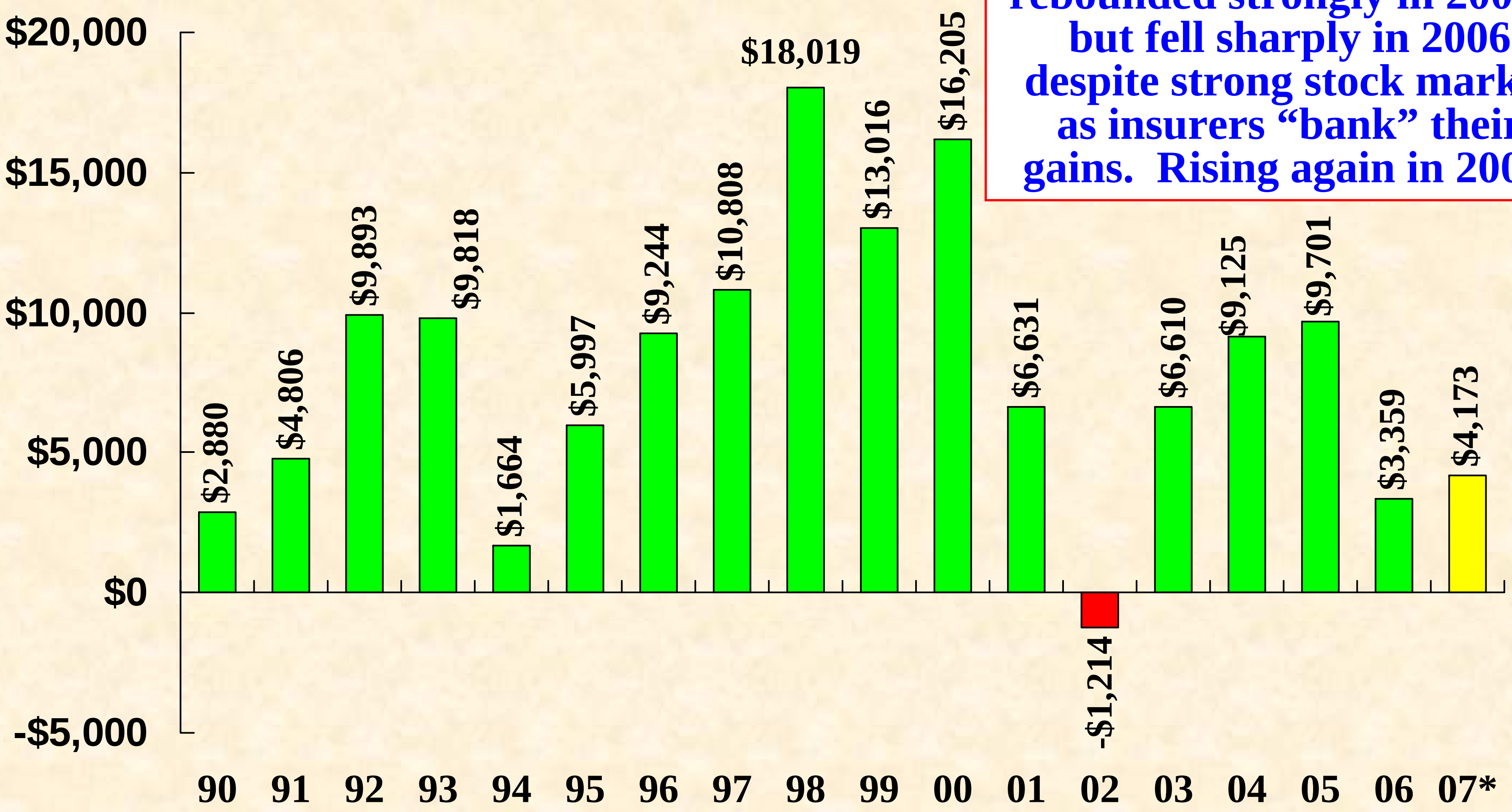
S&P 500 was up 13.62% in 2006, Up 9.82% YTD 2007*

Source: Ibbotson Associates, Insurance Information Institute.

*Through November 2, 2007.

US P/C Net Realized Capital Gains, 1990-2007:H1 ($ Millions)

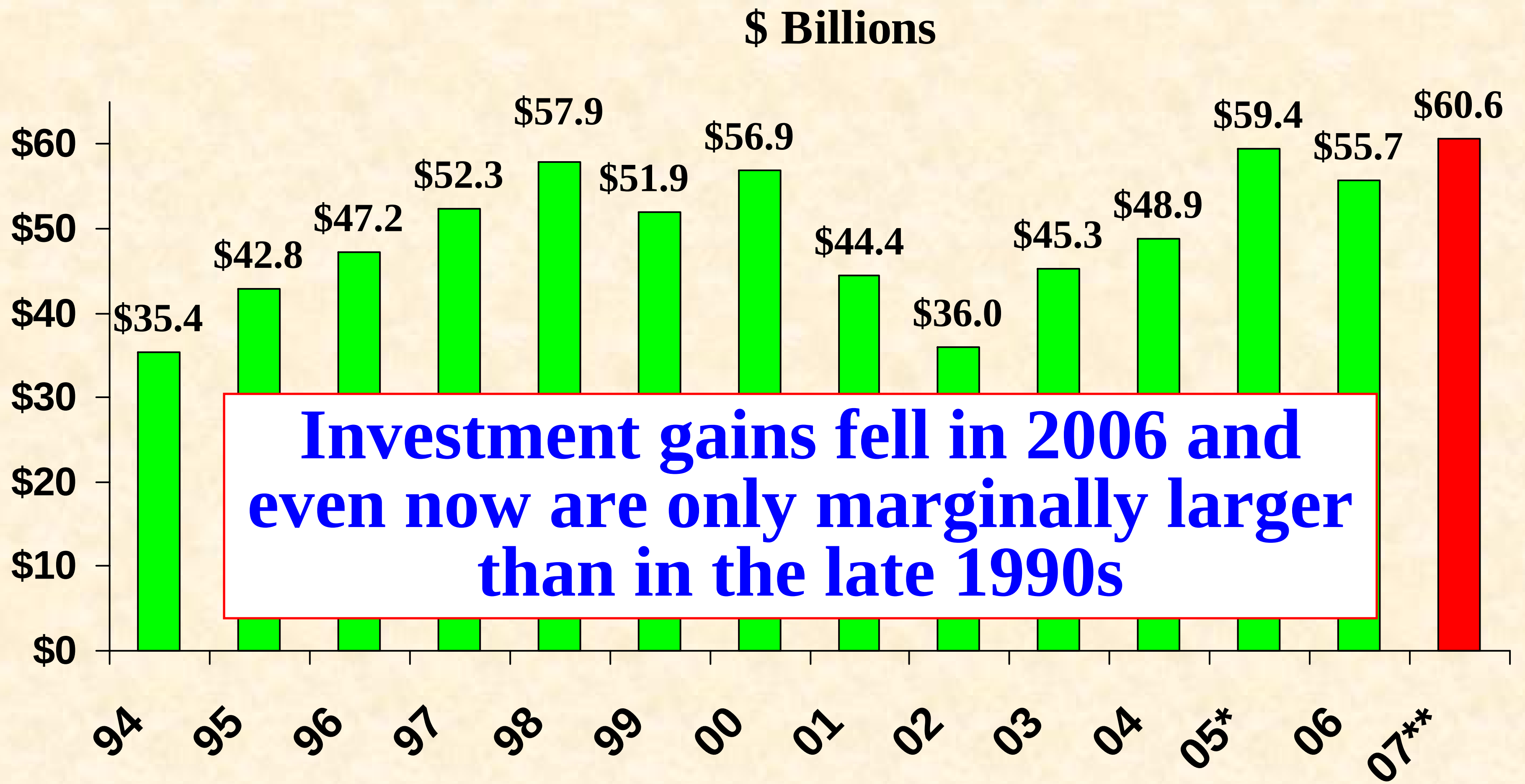
Realized capital gains rebounded strongly in 2004/5 but fell sharply in 2006 despite strong stock market as insurers "bank" their gains. Rising again in 2007.



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

*As of June 30, 2007.

Property/Casualty Insurance Industry Investment Gain[1]

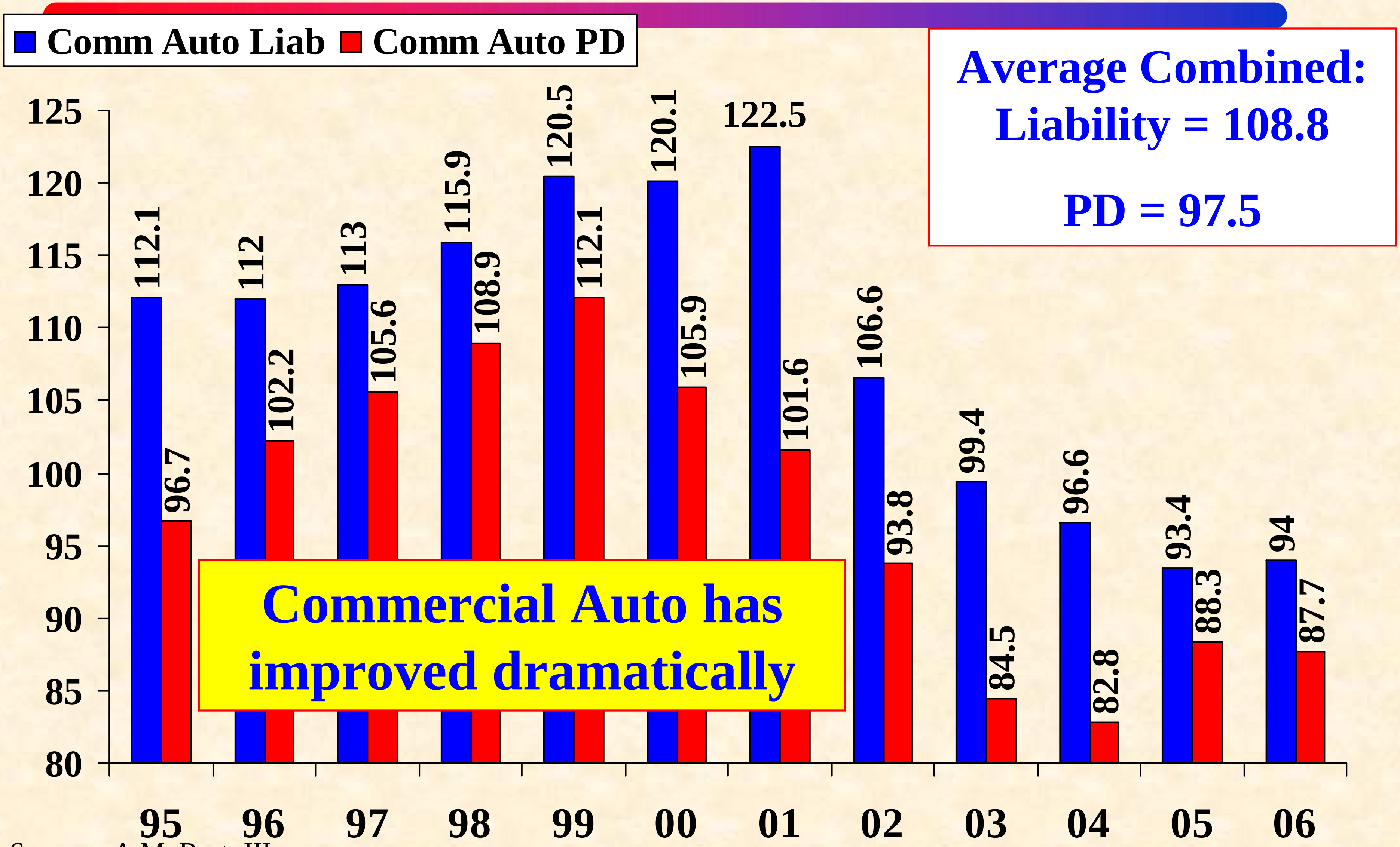


[1]Investment gains consist primarily of interest, stock dividends and realized capital gains and losses. 2006 figure consists of $52.3B net investment income and $3.4B realized investment gain.
*2005 figure includes special one-time dividend of $3.2B. **Annualized H1 result of $30.301B.
Sources: ISO; Insurance Information Institute.

KEY LINE IMPROVEMENTS:

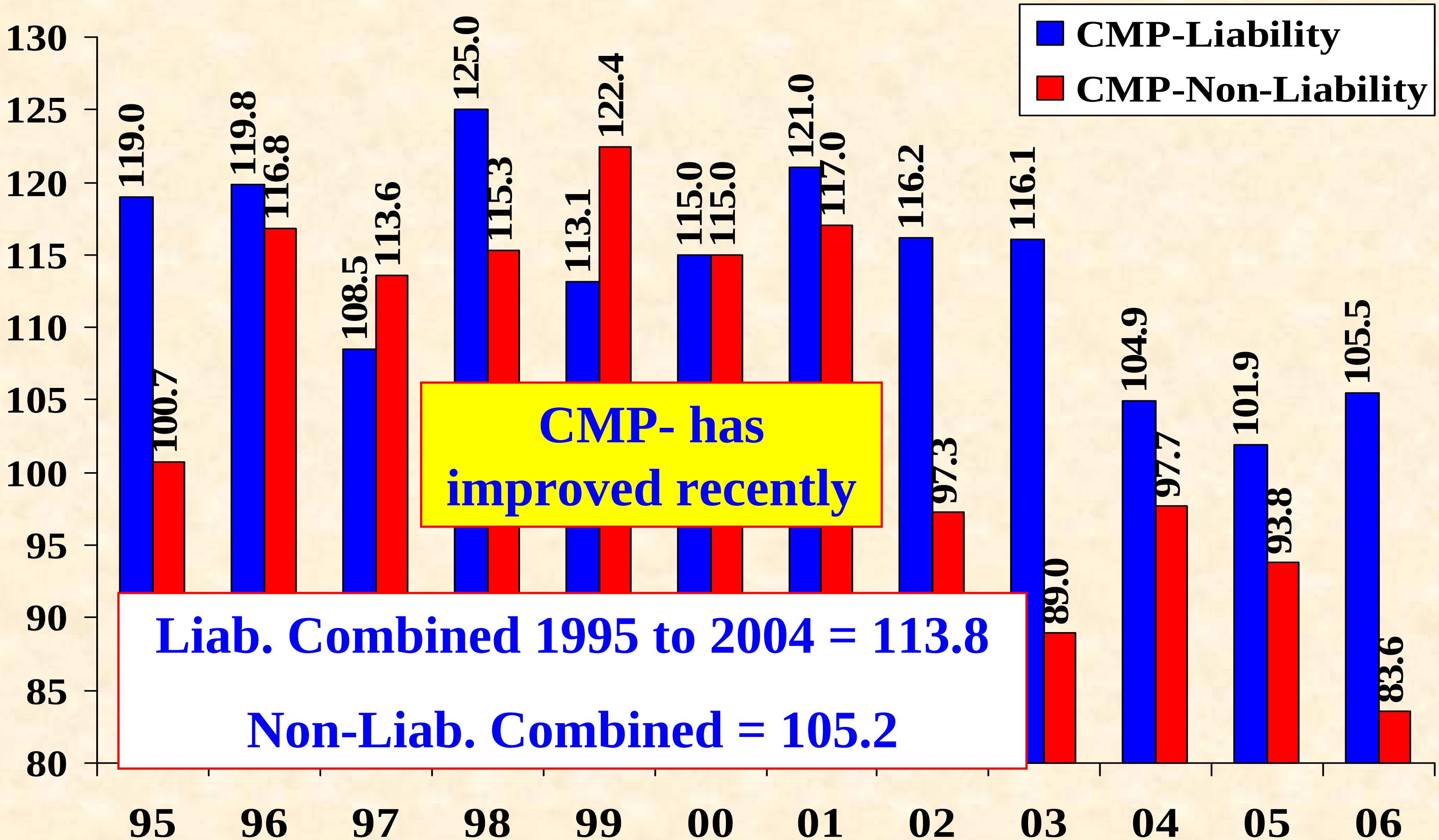
WILL INSURERS SWEETEN THE DEAL FOR RISKS?

Commercial Auto Liability & PD Combined Ratios



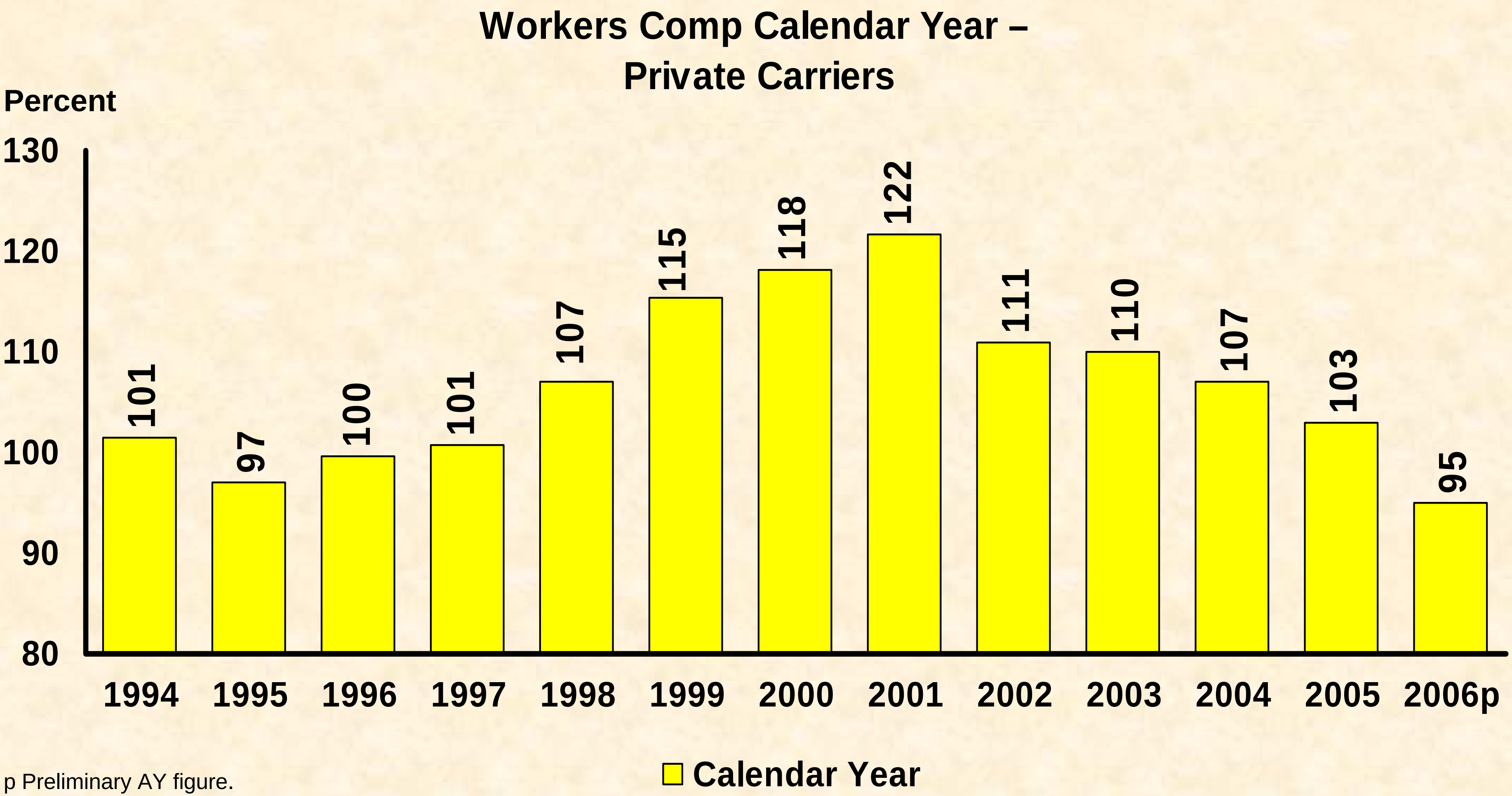
Sources: A.M. Best; III

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



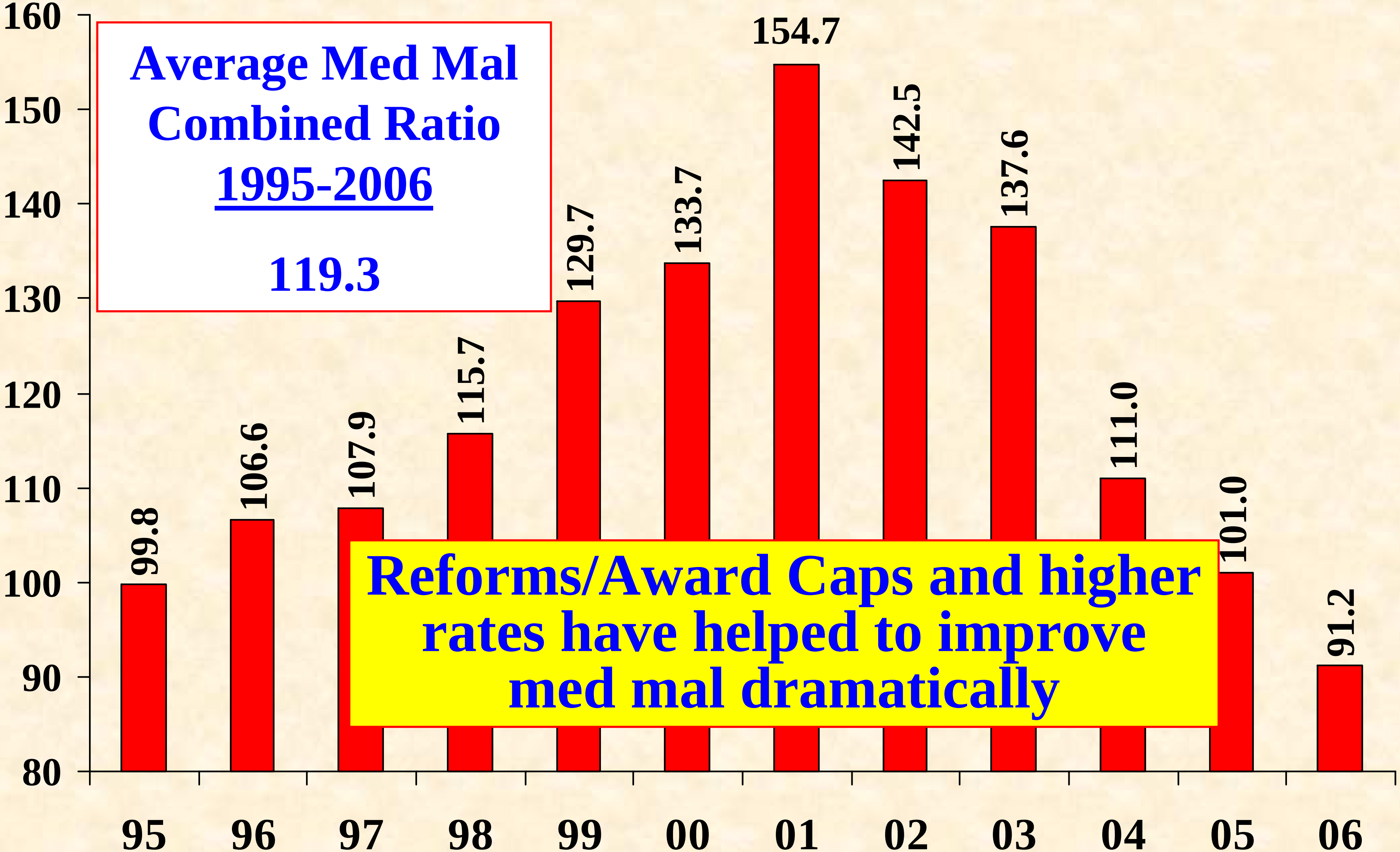
Sources: A.M. Best; III

Workers Comp Combined Ratios, 1994-2006P



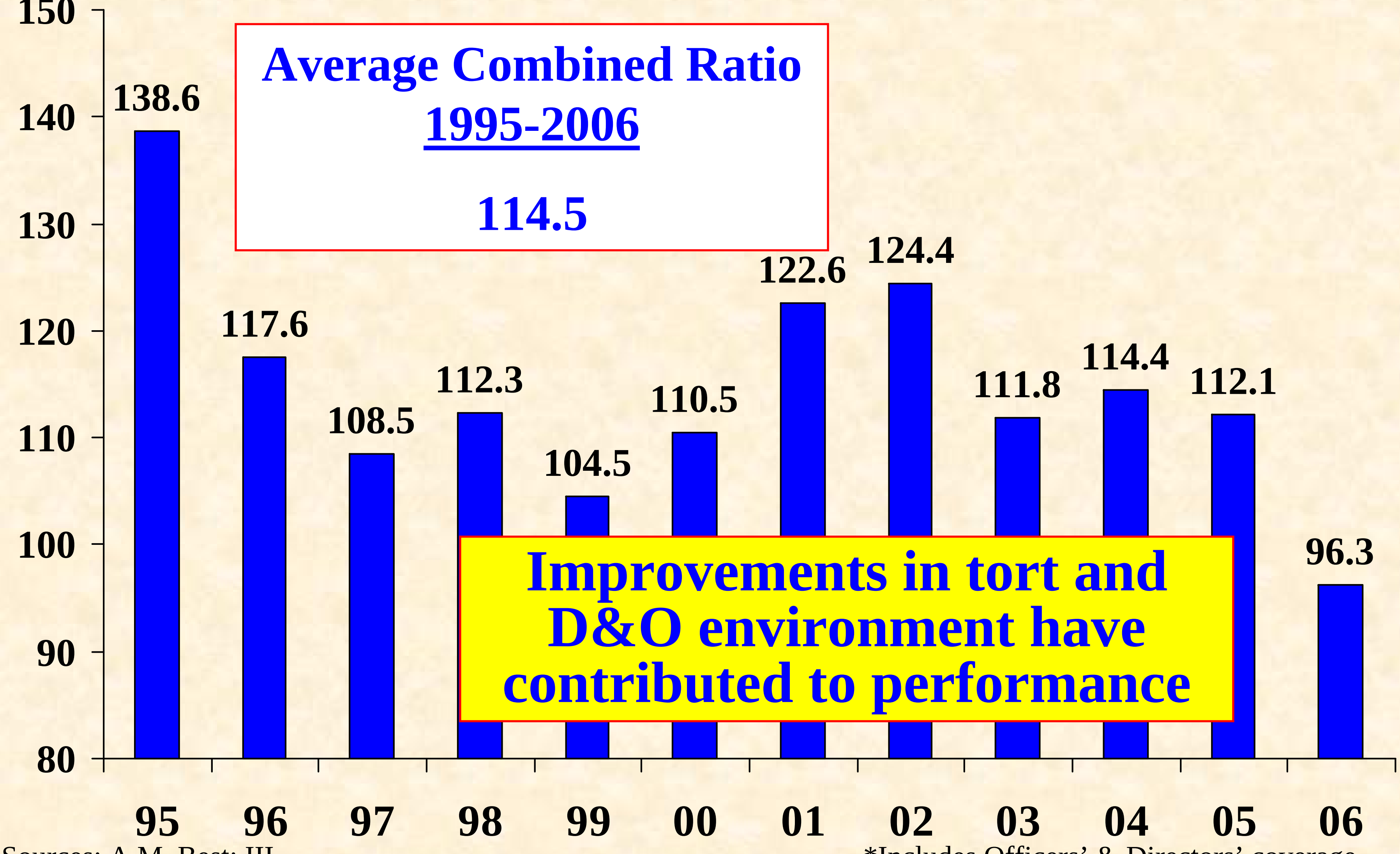
p Preliminary AY figure.
Accident Year data is evaluated as of 12/31/2006 and developed to ultimate
Source: Calendar Years 1994-2005, A.M. Best Aggregates & Averages; Calendar Year 2006p and Accident Years 1994-2006pbased on NCCI Annual Statement Analysis.
Includes dividends to policyholders

Medical Malpractice Combined Ratios



Sources: A.M. Best; III

*Other Liability Combined Ratios**



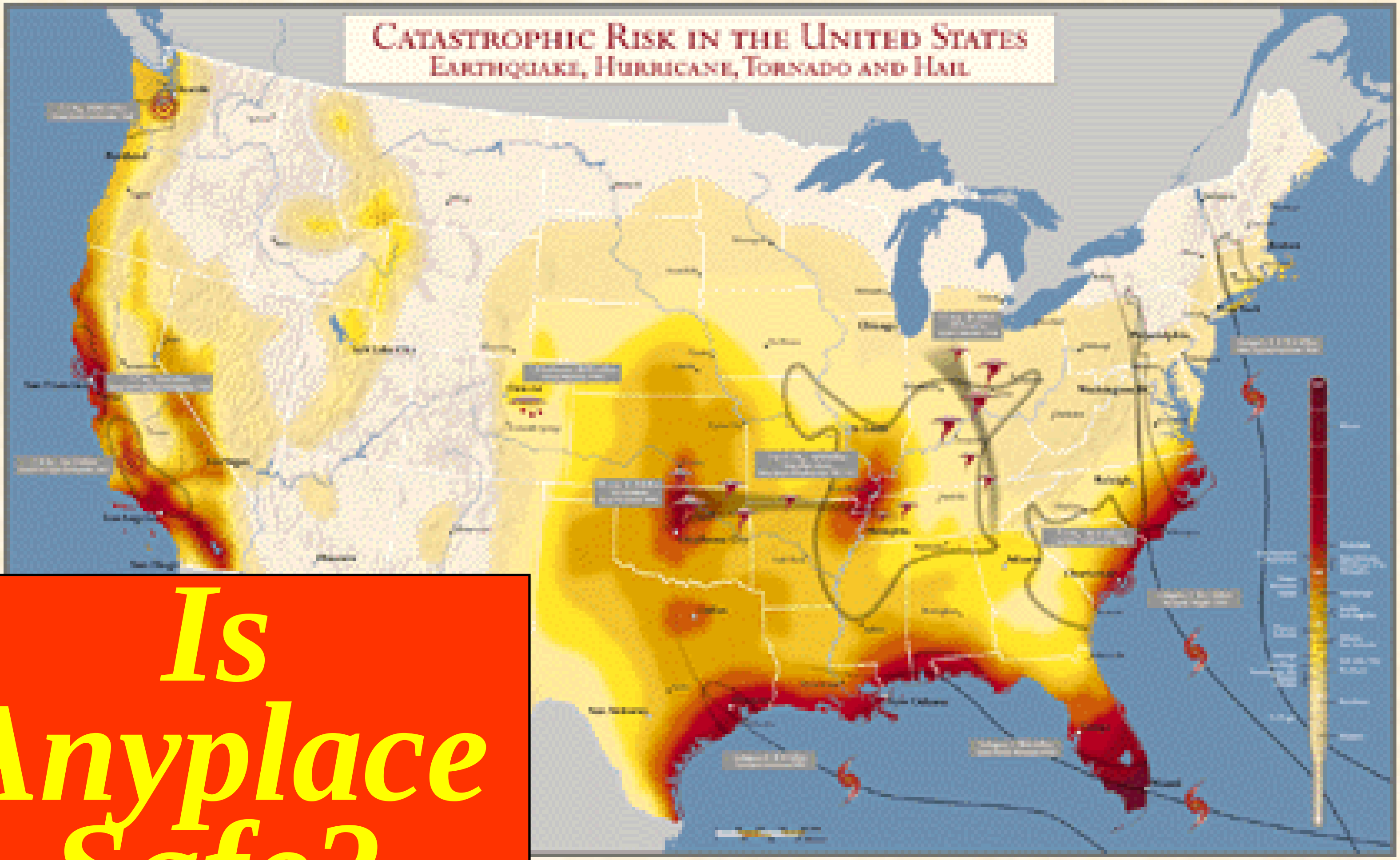
Sources: A.M. Best; III

*Includes Officers' & Directors' coverage.

CATASTROPHIC LOSS

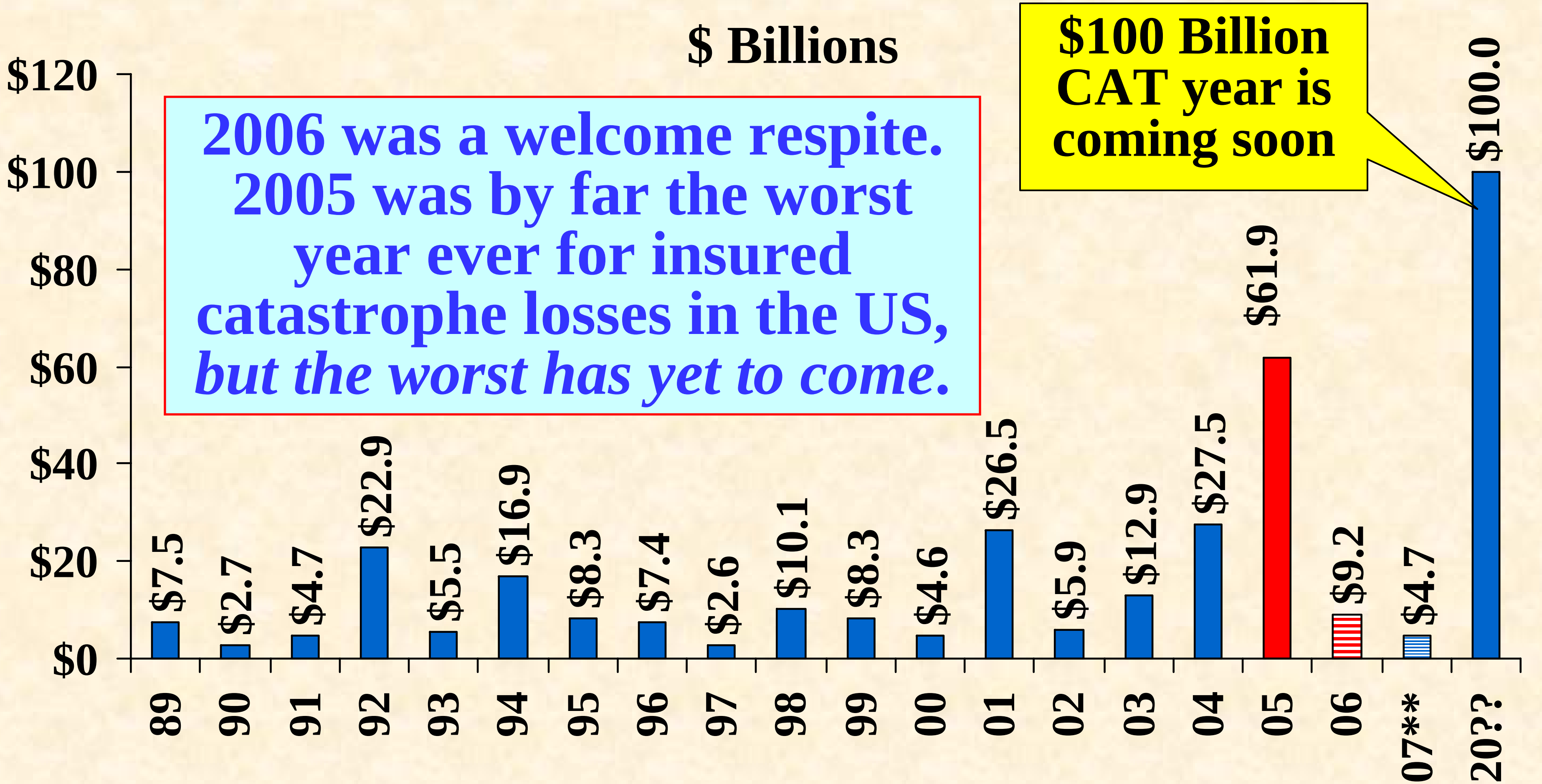
Is the Worst Over or Yet to Come?

Most of US Population & Property Has Major CAT Exposure



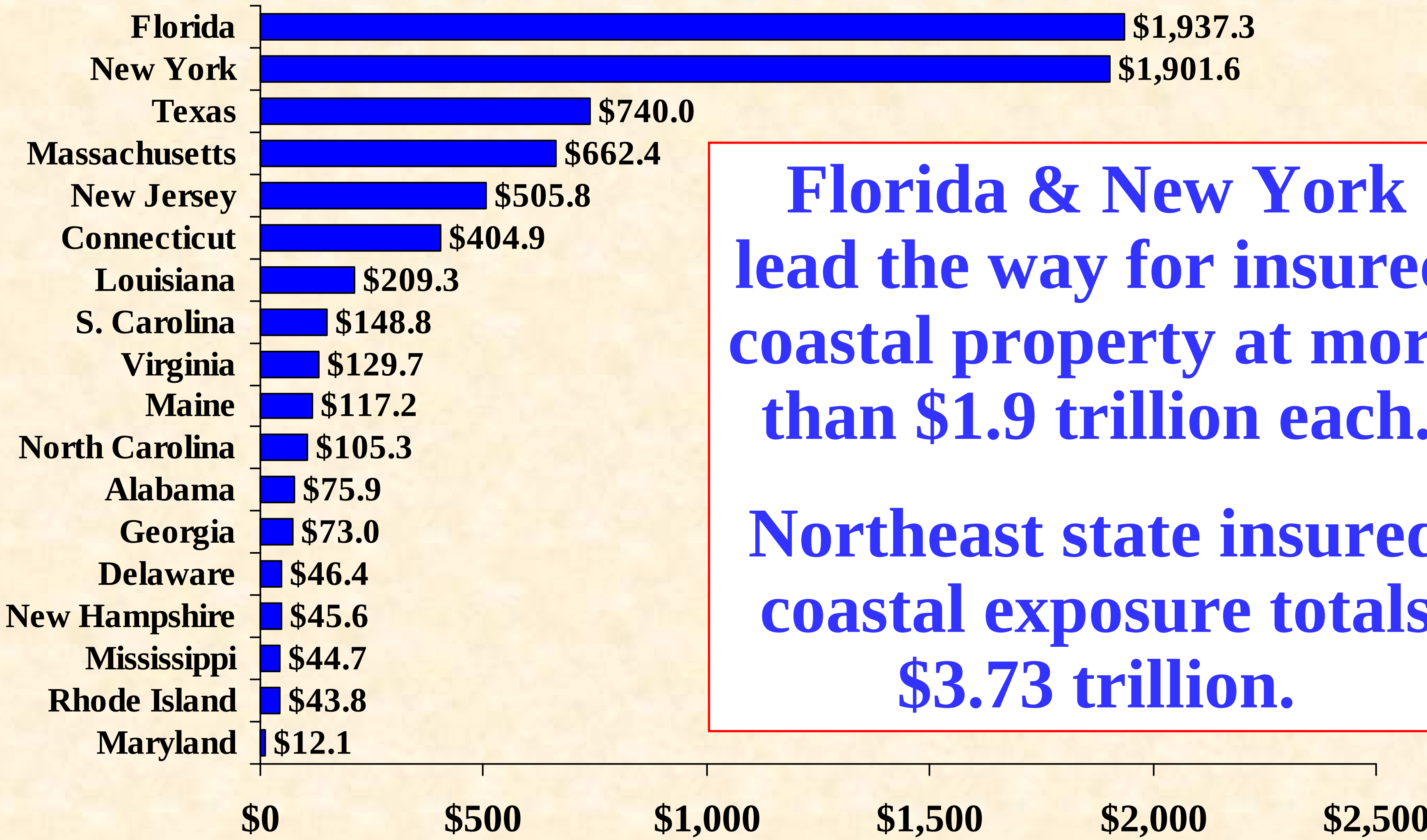
Is Anyplace Safe?

U.S. Insured Catastrophe Losses*



*Excludes $4B-$6b offshore energy losses from Hurricanes Katrina & Rita. **Through 9/30/07.
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

Total Value of Insured Coastal Exposure (2004, $ Billions)

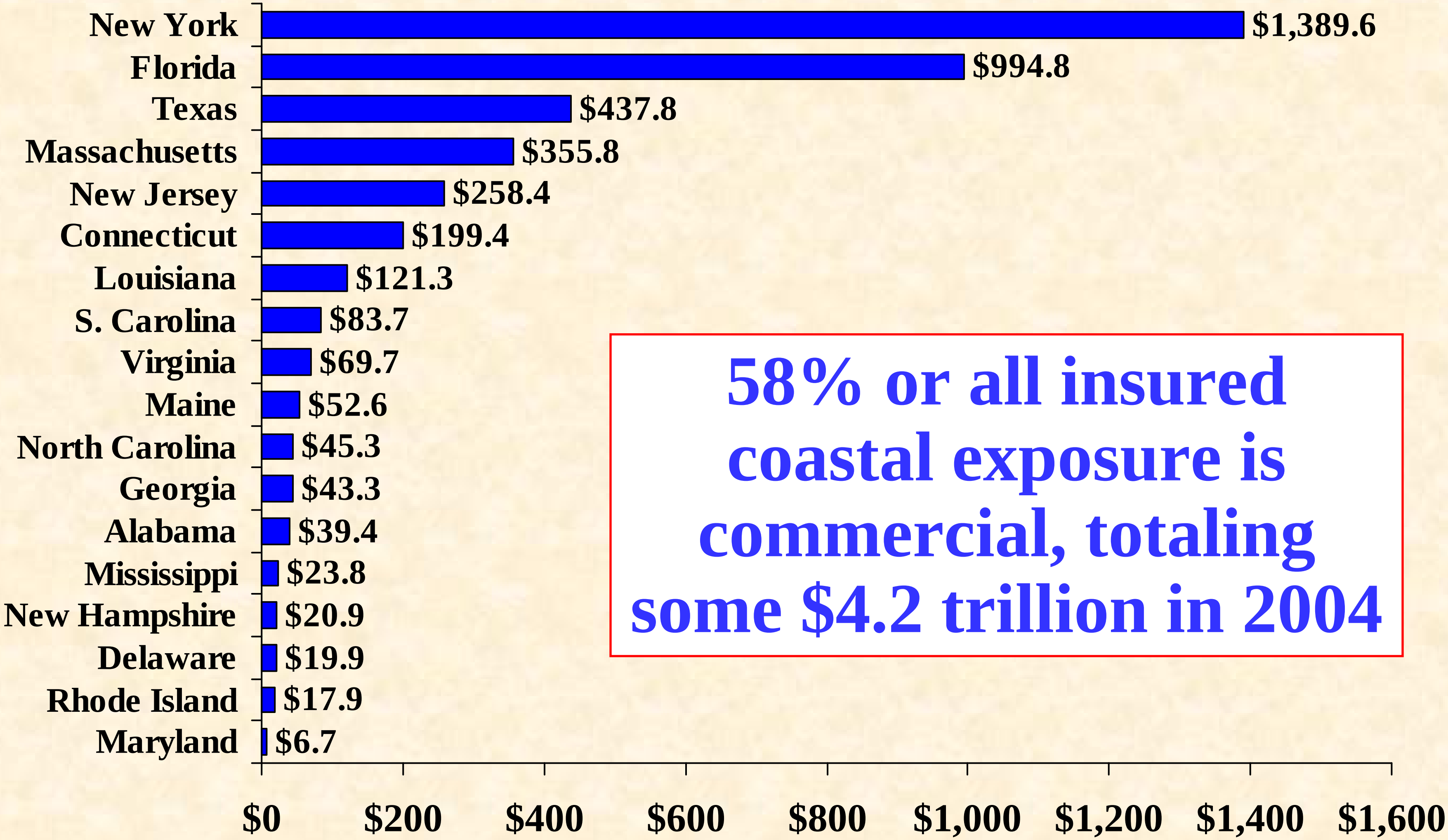


Florida & New York lead the way for insured coastal property at more than $1.9 trillion each.

Northeast state insured coastal exposure totals $3.73 trillion.

Source: AIR Worldwide

Value of Insured Commercial Coastal Exposure (2004, $ Billions)



58% or all insured coastal exposure is commercial, totaling some $4.2 trillion in 2004

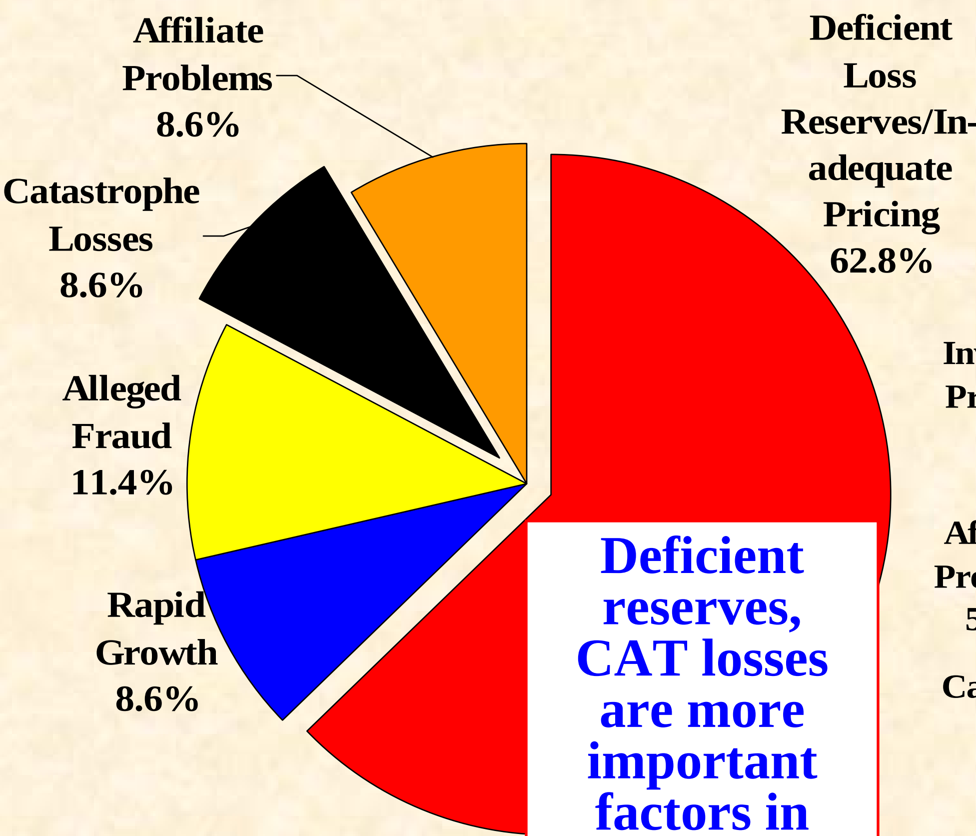
Source: AIR

FINANCIAL STRENGTH & RATINGS

Industry Has Weathered the Storms Well

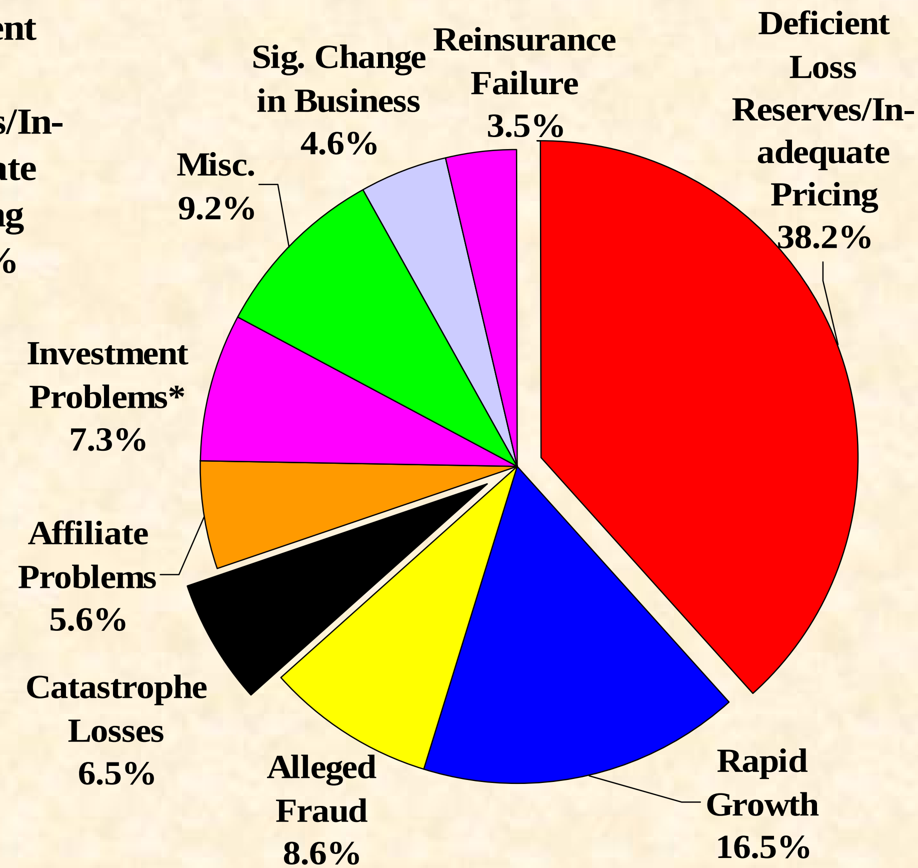
Reasons for US P/C Insurer Impairments, 1969-2005

2003-2005



Deficient reserves, CAT losses are more important factors in recent years

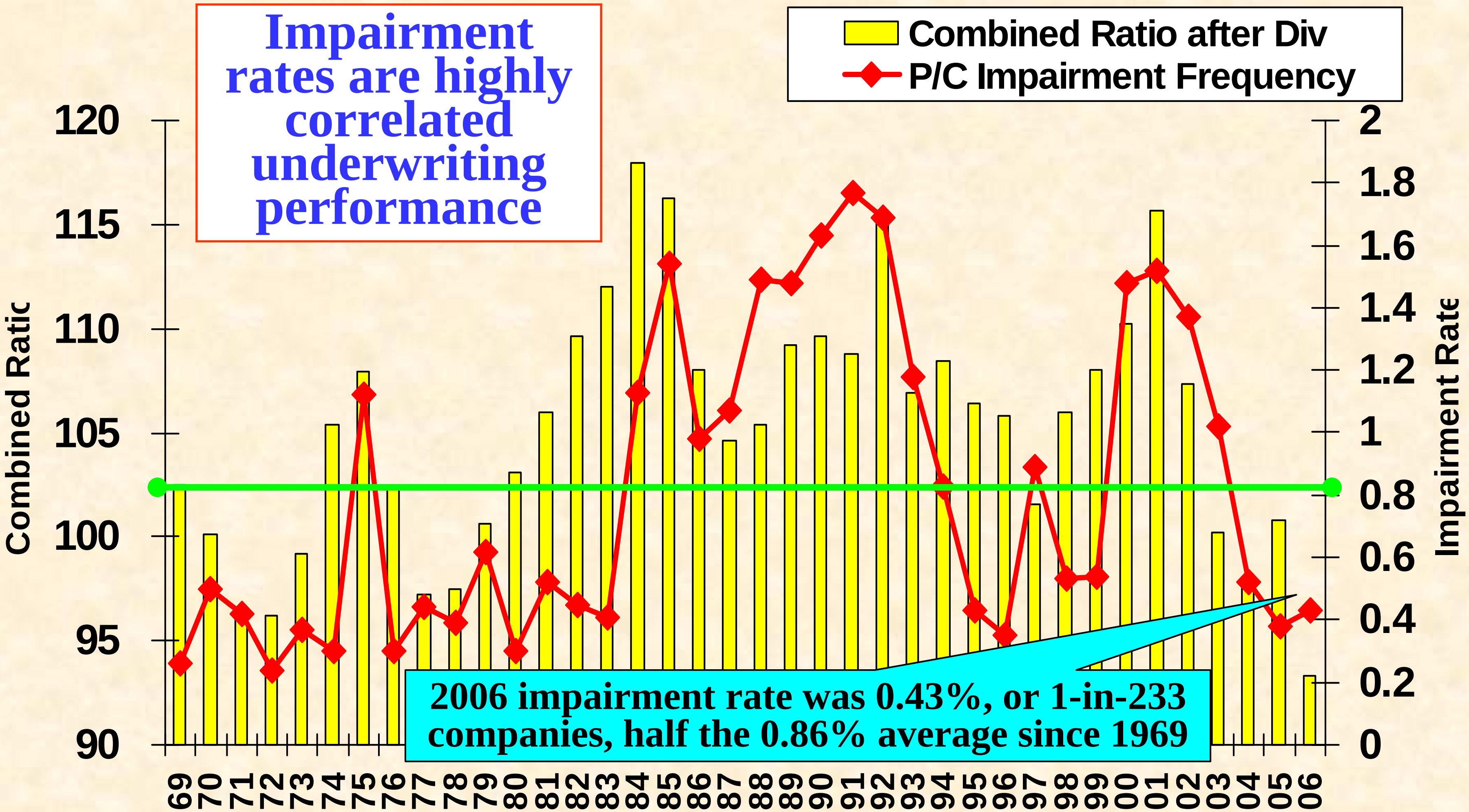
1969-2005



*Includes overstatement of assets.

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

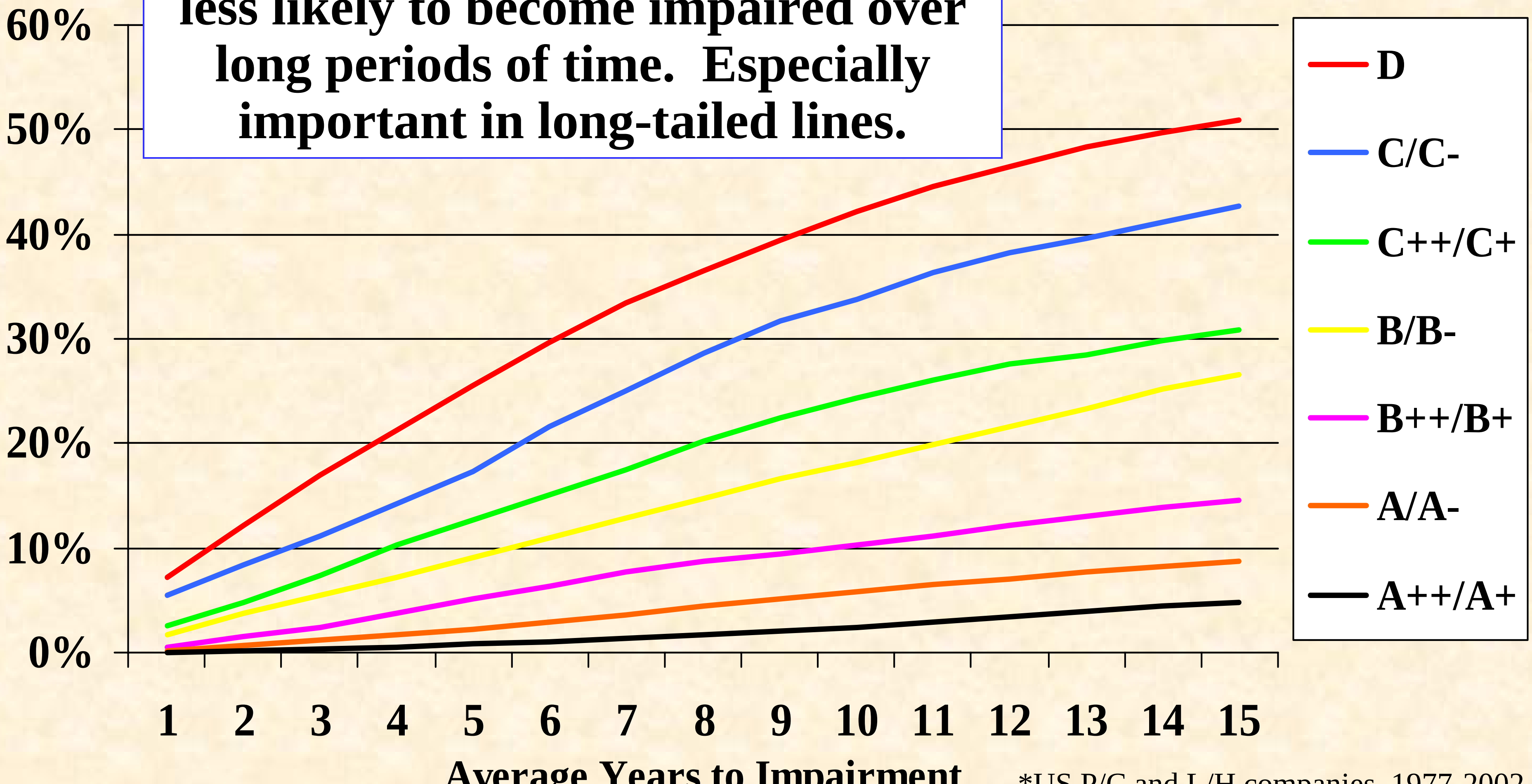
P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2006



Source: A.M. Best; Insurance Information Institute

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.



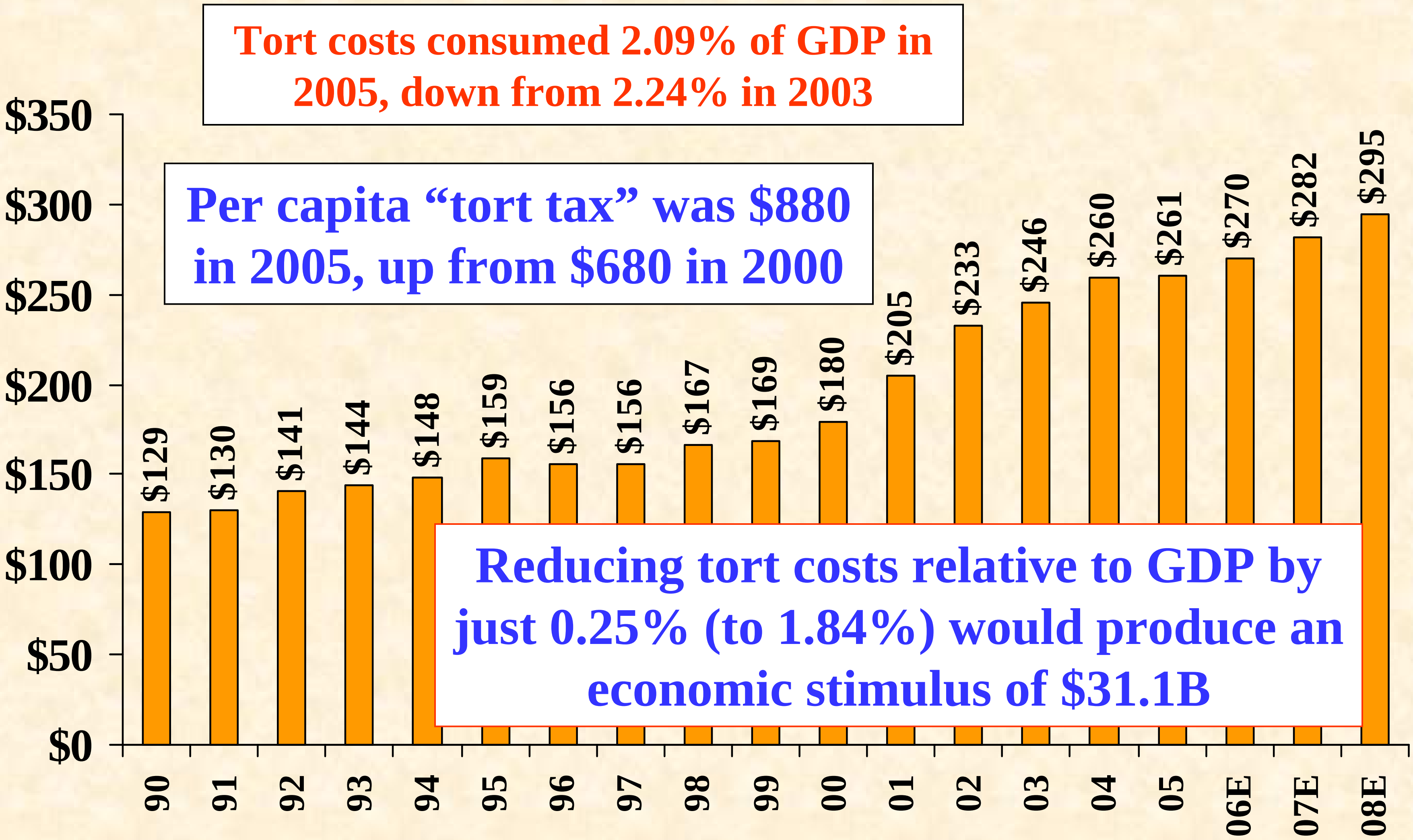
*US P/C and L/H companies, 1977-2002

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

Legal Liability & Tort Environment

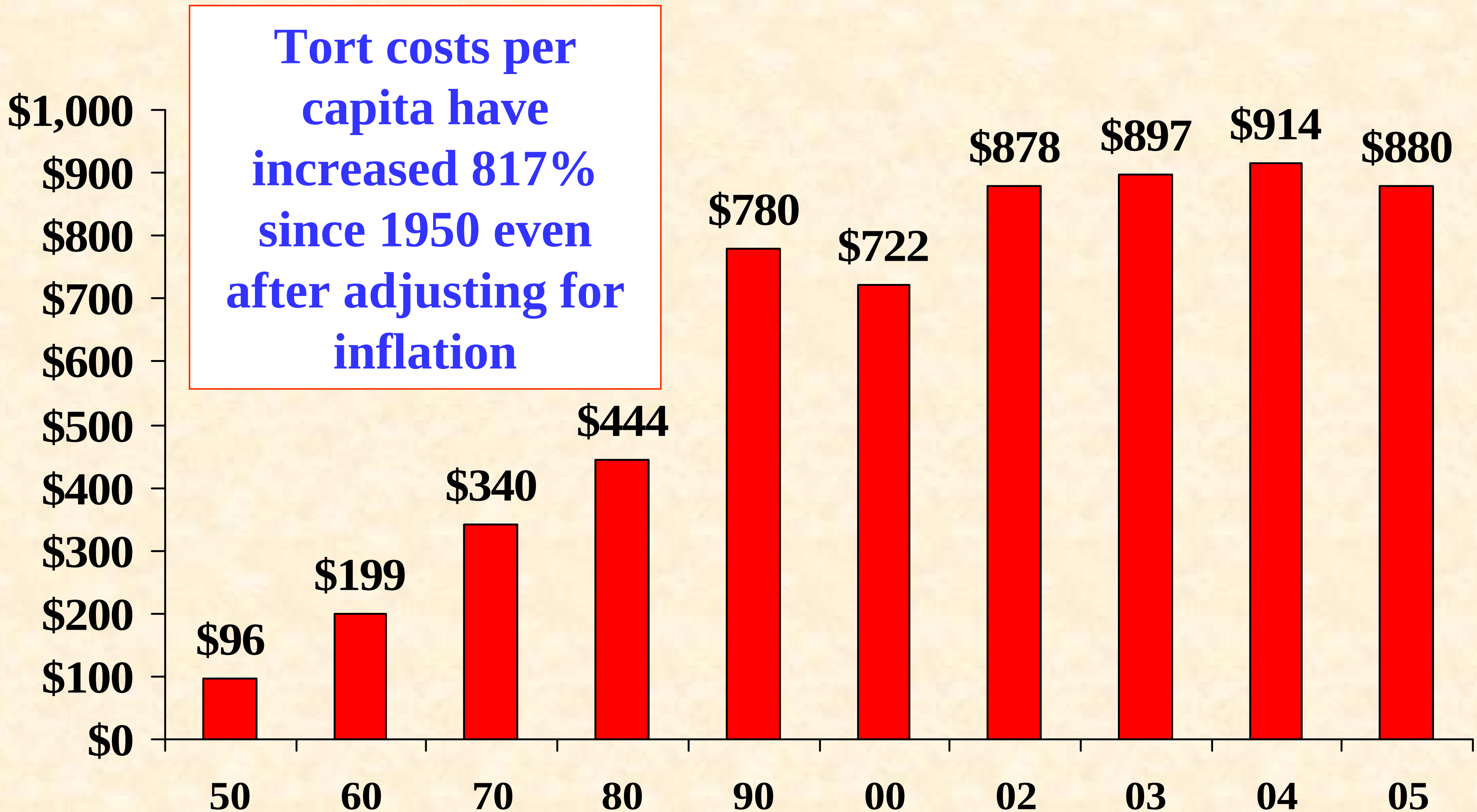
Definitely Improving But Not Out of the Woods

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



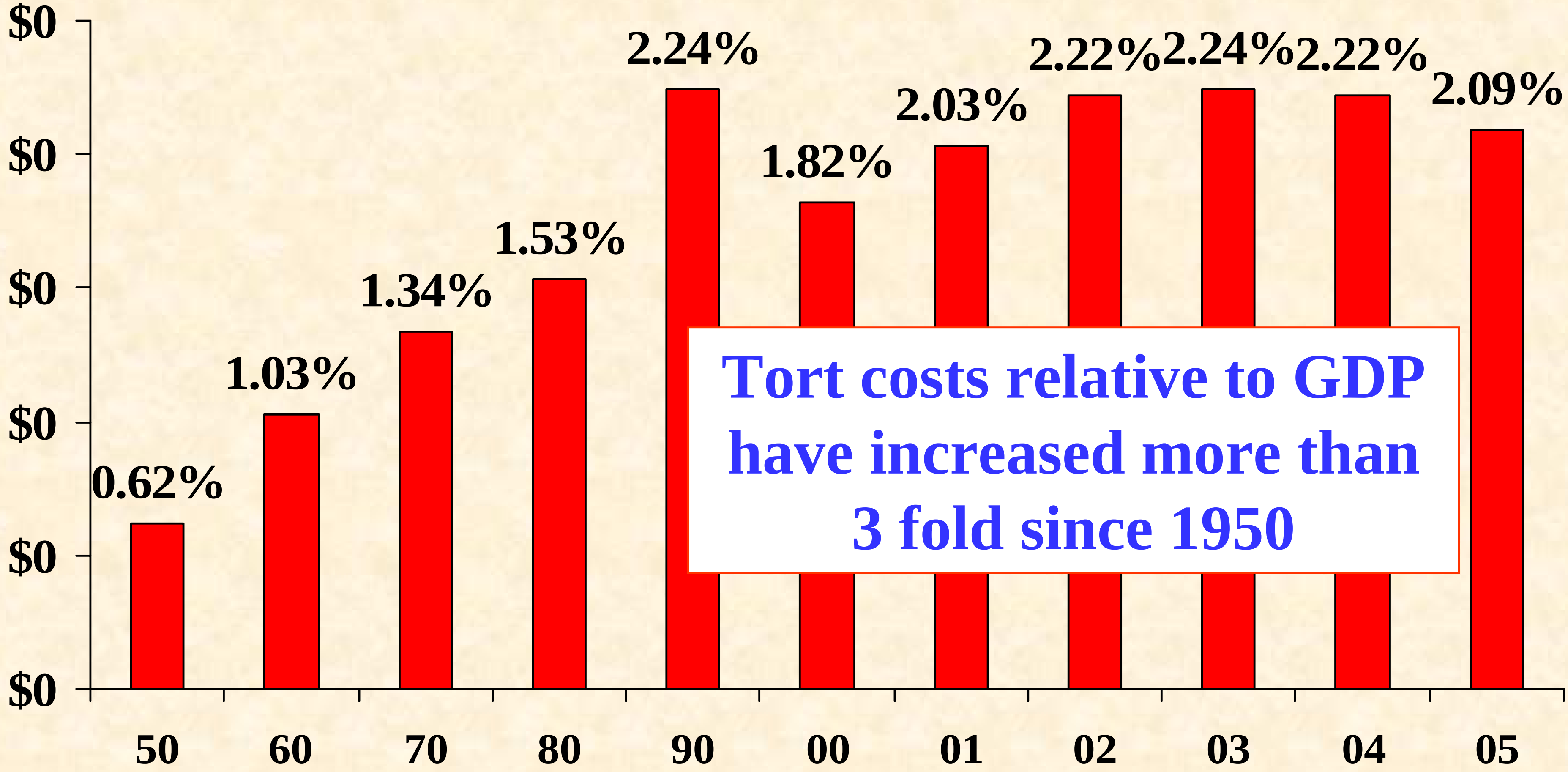
Source: Tillinghast-Towers Perrin, *2006 Update on US Tort Cost Trends.*

Inflation Adjusted Tort Costs Per Capita, 1950-2005



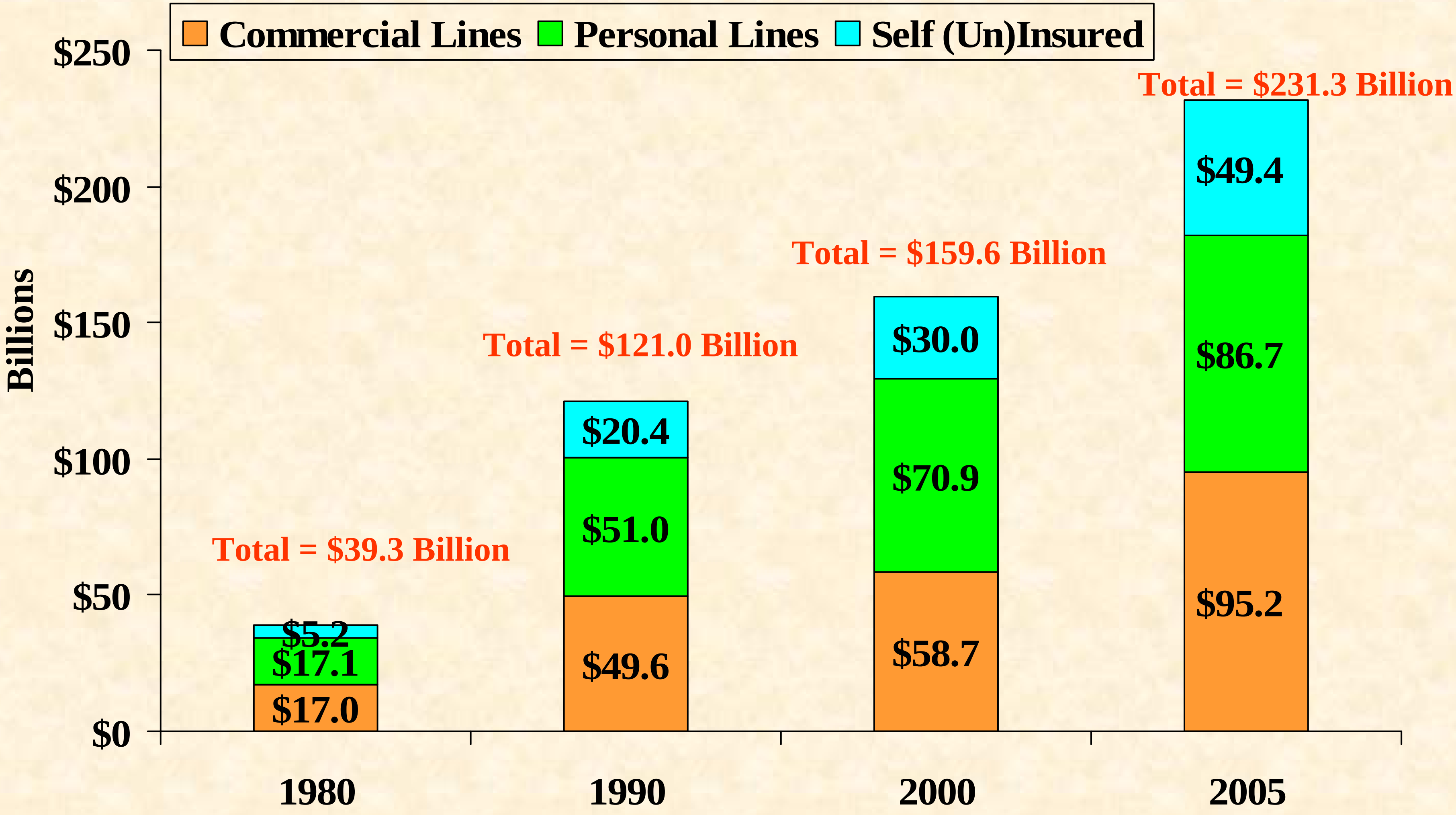
Source: Tillinghast-Towers Perrin, *2006 Update on US Tort Cost Trends.*

Tort Costs Relative to GDP, 1950-2005



Source: Tillinghast-Towers Perrin, *2006 Update on US Tort Cost Trends.*

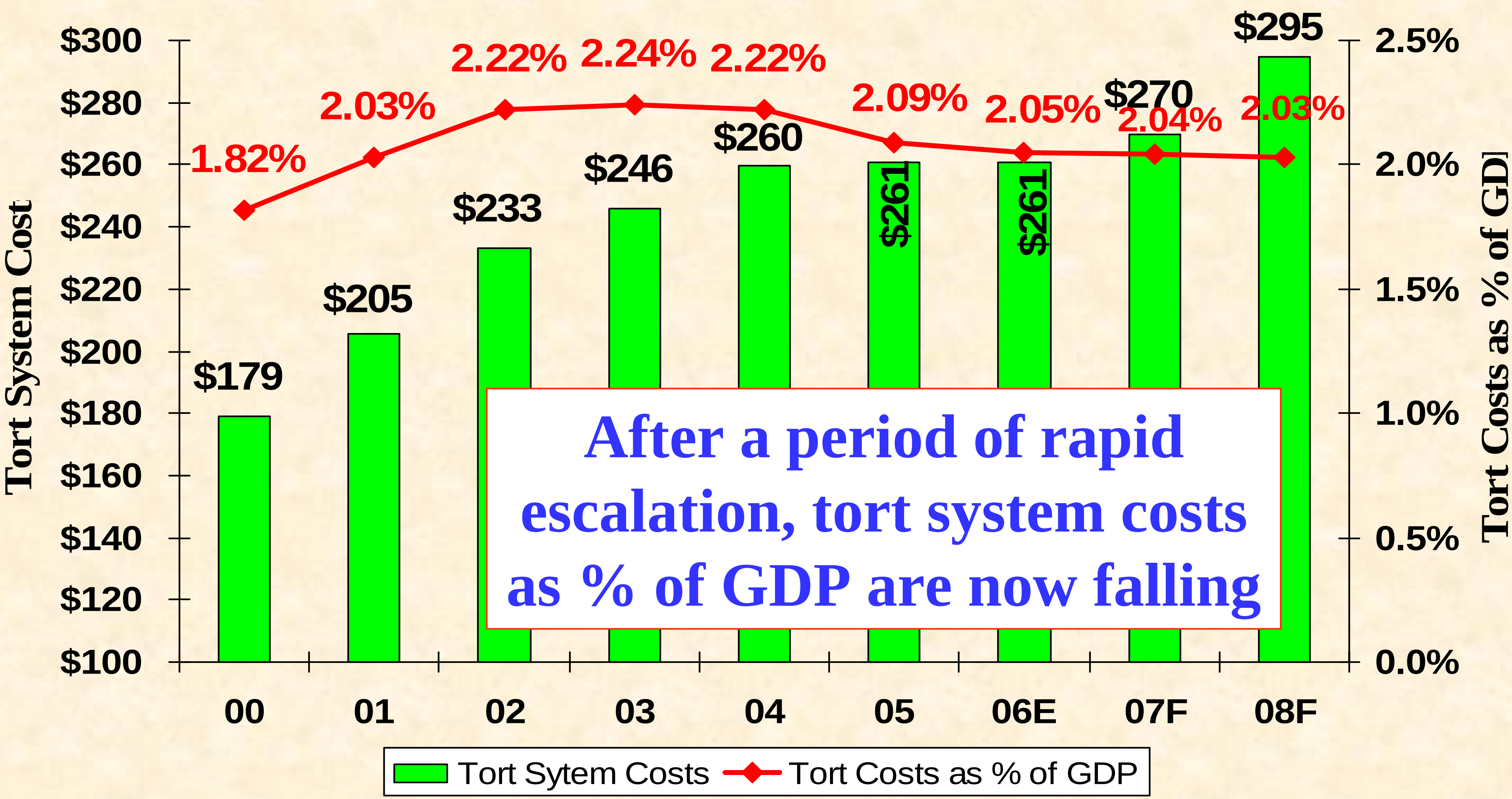
Personal, Commercial & Self (Un) Insured Tort Costs*



*Excludes medical malpractice

Source: Tillinghast-Towers Perrin, *2006 Update on US Tort Cost Trends.*

Tort System Costs, 2000-2008F



Source: Tillinghast-Towers Perrin, *2006 Update on US Tort Cost Trends;2006 is III estimate.*

Preventing/Limiting Erosion of Recent Tort Reform

- Tort Pendulum Likely to Swing Against Insurers as Political Environment Changes (WA referendum, FL No-Fault?)
- Insurers Must Remain Active Members of Tort Reform Coalitions at State and Federal Level
  - May have more success at the state level
- Pursuing Good Cases Can Set Precedent & Bring About Quantum Shifts in Judicial Philosophy
  - Campbell v. State Farm (limited punitives)
  - Safeco v. Burr, Geico v. Edo (FCRA reporting violations)
  - Asbestos: Class actions limited; no pre-pack bankruptcies
  - Products Liability: Merck’s successful Vioxx defense
- Educate Policyholders About Link Between Tort Environment and Cost/Availability of Insurance
  - Businesses understand; Need facts to support local efforts
  - Personal lines customers understand relationship, agents do
- Tighten Contract Language
  - From 9/11 to Katrina, alleged “ambiguities” cost big bucks

REGULATORY UPDATE

Busy Year for Insurers in Washington

Proposed IRS Rule Change: Domestic Captive Concerns?

- **October 2007: IRS proposes rule change that would end deductible status of discounted loss reserves kept by captive insurers. Proposed regulation would:**
  - **Defer the tax deduction for an incurred loss arising from related party business until it is actually paid.**
  - **Essentially result in treating the transaction as non-insurance for tax purposes.**
  - **Affect domestic captives (including foreign captives which have elected to be treated as domestic for U.S. tax purposes) and all coverages.**
  - **Overrides the insurance tax treatment afforded to captive insurance transactions for decades by the courts and the IRS.**

Source: *Business Insurance* article 10/18/07; Vermont Captive Insurance Association

Federal Legislative Update

Federal Terrorism Reinsurance (TRIA)

- **TRIA expires 12/31/07. The current federal program offers $100 billion of coverage subject to a $27.5B industry aggregate retention.**

- **Under S. XXXX: "Terrorism Risk Insurance Program Reauthorization Act of 2007"**
  - **7-Yr. Extension, expiring 12/31/14**
  - **Maintains 20% Direct Earned Premium Deductible for duration of Extension**
  - **NBCR risks remain *excluded* (in contrast to House bill)**
  - **Eliminates distinction between foreign and domestic acts of terrorism**
  - **Deletes requirement that terrorist act be on behalf of foreign person or foreign interest**
  - ***Changes in definition of terrorist act require substantial rate and form filings in states***
  - **Federal government's cap remains at $100 billion through 2014**
  - **Requires Comptroller General to issue report within 1 year on feasibility of NBCR insurance market; CG must also issue report within 180 days on obstacles in development of private sector market for terror insurance**
- **Administration has said it will not oppose Senate bill (issued veto threat for House)**

Sources: Insurance Information Institute

Federal Legislative Update

Natural Disaster Coverage

- **Some insurers are pushing for federal catastrophic risk fund coverage in the wake of billions of dollars of losses suffered by insurers from the 2004-2005 hurricane seasons.**
- **Legislative relief addressing property/casualty insurers' exposure to natural catastrophes, such as the creation of state and federal catastrophe funds, has been advocated by insurers include Allstate and State Farm recently. However, there is active opposition many other insurers and all reinsurers.**
- **There are supporters in Congress, mostly from CAT-prone states. Skeptics in Congress believe such a plan would be a burden on taxpayers like the NFIP and that the private sector can do a better job. Unlike TRIA, the industry is not unified on this issue.**
- **Allowing insurers to establish tax free reserves for future catastrophe losses has also been proposed, but Congress has not yet indicated much support.**

Sources: Lehman Brothers, Insurance Information Institute

Federal Legislative Update

Optional Federal Charter (OFC)

- Large P&C and life insurers are the major supporters of OFC. Supporters argue that the current patchwork of 50 state regulators reduces competition, redundant, slows new product introductions and adds cost to the system.
- In general, global P/C insurers , reinsurers and large brokers mostly support the concept, while regulators (state insurance commissioners), small single-state and regional insurers, and independent agency groups largely oppose the idea. An optional federal charter is more favorable for global P&C insurers, because an insurer that operates in multiple states could opt to be regulated under federal rules rather than multiple state regulations. As a result, this could increase innovation in the industry.
- Currently appears to be more momentum for OFC for life than for P&C insurers based on the homogeneous nature of many life products. The debate should intensify and although passage may not occur in the current session of Congress, it may lay the groundwork for passage in the 2009-2010 session.

Sources: Lehman Brothers, Insurance Information Institute

Federal Legislative Update

McCarran-Ferguson Insurance Antitrust Exemption

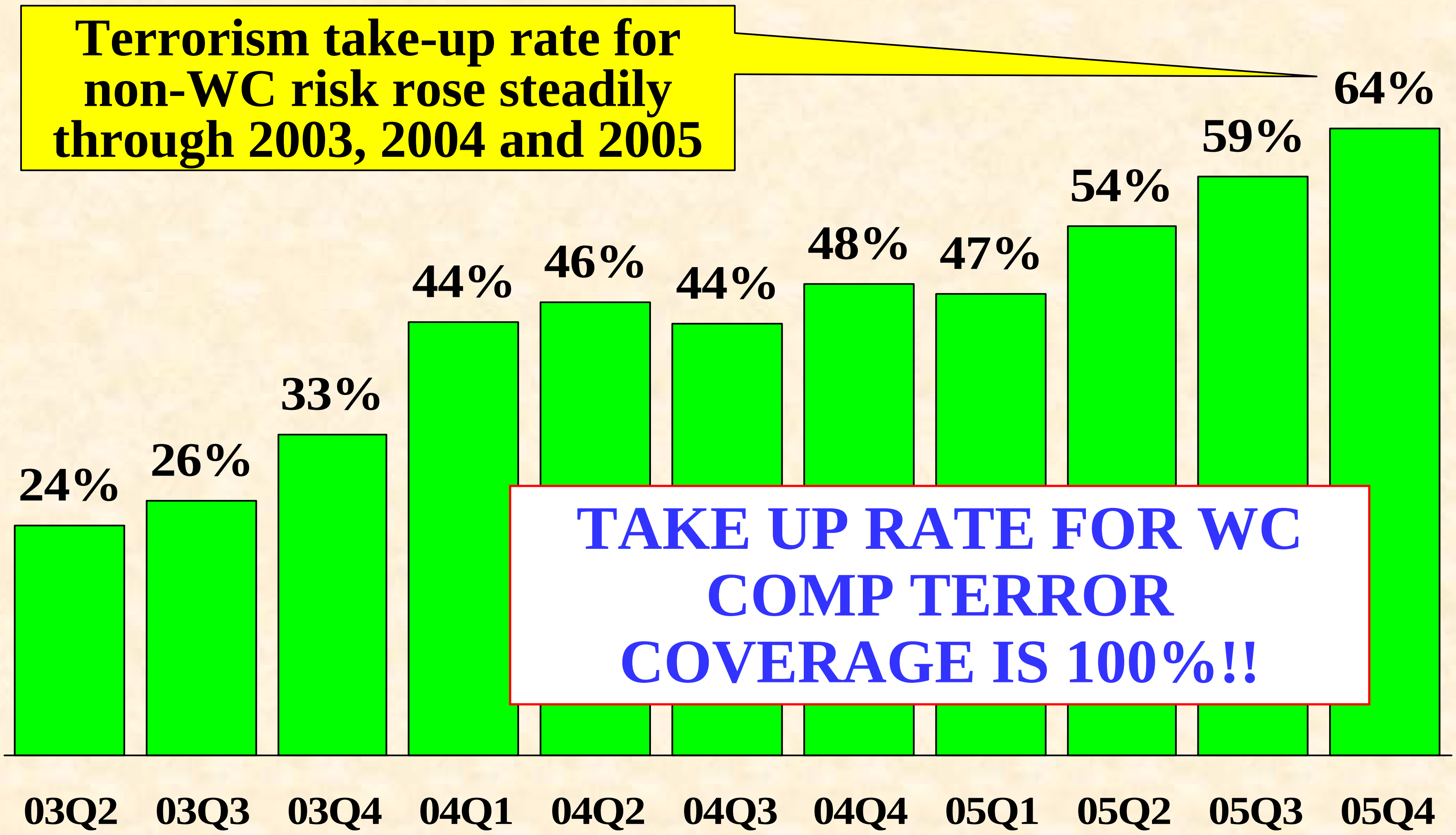
- **Under McCarran-Ferguson Act of 1945, insurers have limited immunity under federal anti-trust laws allowing insurers to pool past claims information to develop accurate (actuarially credible) rates.**
- **Very low level of understanding of M-F in Washington**
- **Certain legislators threaten to revoke McCarran-Ferguson because of alleged collusion in the wake of Hurricane Katrina. However, the view among some Washington insiders is that such a move would hurt small insurers with less resources rather than the large insurers perhaps being targeted. The current bills designed to revoke McCarran-Ferguson are S.618 and H.R. 1081.**
- **The government appointed Antitrust Modernization Commission in an April 2007 report strongly encouraged Congress to re-examine the McCarran-Ferguson Act. Notably, 4 of the commissions 12 members called for a full repeal of the law.**

Sources: Lehman Brothers, Insurance Info. Institute

TRIA EXTENSION

ART/Captives Cannot Fill the Void if TRIA Expires

Terrorism Coverage Take-Up Rate Continues to Rise



Source: *Narketwatch: Terrorism Insurance 2006,* Marsh, Inc.; Insurance Information Institute

Insurance Industry Retention Under TRIA ($ Billions)

Source: Insurance Information Institute

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.

Summary

- **Global commercial lines results were excellent in 2006 and 2007 with momentum for 2008**
- **Soft pricing, limited growth opportunities, increasing capacity, falling reinsurance prices suggest traditional insurers will look to recapture some of what has been lost to ART—*This may be more difficult than many assume***
- **Will insurers lose discipline?**
- **Major Challenges:**
  - ➢**Slow Growth Environment Ahead**
  - ➢**Maintaining price/underwriting discipline**
  - ➢**How/where to deploy/redeploy capital**
  - ➢**Managing variability/volatility of results**

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