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

Commercial Insurance, $229, 70%

Alternatives, $98, 30%

Source: Conning; MarketStance analysis; Insurance Information Institute.
Size of Alternative Risk Transfer Market (2001 Direct Written Premiums)

Captives, $38 , 8.3%
Other Alternative Carriers (US), $5 , 1.1%
Self-Insurance, $44 , 9.6%
Traditional Carriers, $370 , 81.0%

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, 43%

Property, 10%

Automobile, 12%

Liability (excl. Auto), 35%

Workers Comp account for the largest share of the alternative market

Source: MarketStance.
The Mining industry makes the greatest use of alternative markets, agriculture the least.
Employers have become very accustomed to accepting a greater share of risk and claim frequency has decreased.
Large companies are far more likely to retain risk via alternative vehicles than are small companies.
Alternative Market By State
Concentration

Source: MarketStance; Conning 2006
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.

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.  
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.
Risk Retention Group Premiums, 1988 – 2006*

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
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.
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
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

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<tr>
<th>State</th>
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<td>KY</td>
<td>6</td>
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</tr>
</tbody>
</table>


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

The captive market remains underdeveloped, with over half (53%) of the world’s top G1500 companies not currently owning a captive.

Markets such as Asia have considerable potential for growth. For example, only 14% of Japanese G1500 companies have a captive.

Source: Aon, Global 1500: A Captive Insight 2007
Captive Formations & Liquidations, 1993–2002

Why Do Captives Liquidate?
- Collapse of parent (cyclical)
- Collapse of parent (e.g., Enron)
- Consolidation
- Escalating loss costs/claim severity (e.g., med mal)

Captive formation and liquidation are highly correlated

Source: A.M. Best; Insurance Information Institute
Top 5 Captive Managers by Premium Volume, 2006 ($Mill)

- **Marsh (Bermuda)**: $8,900
- **Marsh (Vermont)**: $5,000
- **Aon (Vermont)**: $4,200
- **Aon (Bermuda)**: $4,100
- **International Advisory Services**: $3,486

Sources: Business Insurance, March 12, 2007; III
The number of captives managed by the top firms increased in 2006, though not in all domiciles.
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
Catastrophe bond issuance has soared in the wake of Hurricanes Katrina and the hurricane seasons of 2004/2005.
COMPETITIVE PRICE PRESSURE

Traditional Insurance Prices Falling Sharply
Strength of Recent Hard Markets by NWP Growth*

2005: biggest real drop in premium since early 1980s

2006-2010 (post-Katrina) period could resemble 1993-97 (post-Andrew)

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

- Retention
  - $1 Million
  - $2 Million

- Primary
  - $10 Million

- Excess
  - $50 Million

- Retro
  - $100 Million

Risks are comfortable taking larger retentions

Reinsurers losing to higher retentions, securitization

Excess squeezed by higher primary retentions, lower reins. attachments

Lg. deductibles, self insurance, RRGs, captives erode primary

Risks are comfortable taking larger retentions

Source: Insurance Information Institute from Aon schematic.
Average Commercial Rate Change, All Lines, (1Q:2004 – 3Q:2007)

Magnitude of rate decreases diminished greatly after Katrina but have grown again.

Source: Council of Insurance Agents & Brokers; Insurance Information Institute
Commercial account pricing has been trending down for 3 years and is now on par with prices in late 2001, early 2002.
Average D&O pricing is off 18% since 2003, after rising 146% from 1999-2003.
UNDERWRITING CAPACITY

Does Expanding Capacity Bode Ill for ART, Including Captives?
U.S. Policyholder Surplus: 1975-2007*

Capacity as of 6/30/07 was $512.8B, 5.3% above year-end 2006, 80% above its 2002 trough and 54% above its 1999 peak.

Foreign reinsurance and residual market mechanisms absorbed 45% of 2005 CAT losses of $62.1B

“Surplus” is a measure of underwriting capacity. It is analogous to “Owners Equity” or “Net Worth” in non-insurance organizations.

Capacity exceeded a half trillion dollars for the first time during the 2nd quarter of 2007.

Source: A.M. Best, ISO, Insurance Information Institute.*As of June 30, 2007
Capital Raising by Class Within 15 Months of KRW

$ Billions

Insurance Linked Securities, $6.253, 19%
Sidecars, $6.359, 19%
Existing Cos., $12.145, 36%
New Cos., $8.898, 26%

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

Insurers & Reinsurers raised $33.7 billion in the wake of Katrina, Rita, Wilma
Catastrophe bond issuance has soared in the wake of Hurricanes Katrina and the hurricane seasons of 2004/2005.
US insurers have recorded large increases in net capacity since 2003 despite record CAT losses. Net income (less dividends) is the largest source of net new capacity.

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

New capital entering US markets was down significantly in 2006. Much more raised offshore.

Sources: A.M. Best, ISO, Insurance Information Inst.
P/C Insurer Share Repurchases, 1987- First Half 2007 ($ Millions)*

First half 2007 share buybacks are already 86% of the 2006 record

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
2006 surge due mostly to 2 deals. No trend started.
Liberty Mutual acquired Ohio Casualty for $2.7B*

No model for successful consolidation has emerged

Source: Conning Research & Consulting.
PROFITABILITY OVERVIEW

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

*ROE figures are GAAP; 1Return 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.

Insurer profits peaked in 2006/7. “Normal” CAT year, average investment gain imply flattening
**ROE: P/C vs. All Industries**

**1987–2008E**

P/C profitability is cyclical, volatile and vulnerable

*2007 is actual first half ROAS of 13.1%. 2008 P/C insurer ROE is I.I.I. estimate.*

Source: Insurance Information Institute; *Fortune*
Mutual insurer ROEs are typically lower than for stock companies, but gap has narrowed. All are cyclical.
Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2008

- 1975: 2.4%
- 1977: 19.0%
- 1979: 10% (10 Years)
- 1984: 1.8%
- 1987: 17.3%
- 1992: 4.5% (10 Years)
- 1997: 11.6%
- 2001: -1.2%
- 2006: 14.0%
- 2007: actual first half ROAS of 13.1%

Source: Insurance Information Institute; Fortune
The p/c insurance industry achieved its cost of capital in 2005/6 for the first time in many years.

US P/C insurers missed their cost of capital by an average 6.7 points from 1991 to 2002, but on target or better 2003-07.

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

Total Returns for 2006

- 0.61% for S&P 500
- 9.53% for Life/Health
- 10.33% for Reinsurers
- 16.24% for P/C
- 16.57% for All Insurers
- 19.95% for Multiine
- 13.62% for Brokers

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

P/C insurer & reinsurer stocks rallied in late 2006 as hurricane fears dissipated and insurers turned in strong results.

Broker stocks held back by weak earnings.
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**

<table>
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<th>Combined Ratios</th>
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<tr>
<td>1970s: 100.3</td>
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<tr>
<td>1980s: 109.2</td>
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<tr>
<td>1990s: 107.8</td>
</tr>
<tr>
<td>2000s: 102.2**</td>
</tr>
</tbody>
</table>

Sources: A.M. Best; ISO, III

As recently as 2001, insurers were paying out nearly $1.16 for every dollar they earned in premiums.

2005 figure benefited from heavy use of reinsurance which lowered net losses.

2006 produced the best underwriting result since the 87.6 combined ratio in 1949.

2007/8 deterioration due primarily to falling rates, but results still strong assuming normal CAT activity.

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

The 2006 combined ratio of 92.5 was the best since the 87.6 combined in 1949.

2007 is looking very strong.

The industry’s best underwriting years are associated with periods of low interest rates.

Sources: Insurance Information Institute research from A.M. Best data. *2007 first half actual.
Commercial coverages have exhibited extreme variability. Are current results anomalous?

Outside CAT-affected lines, commercial insurance is doing fairly well. Caution is required in underwriting long-tail commercial lines.

2006 results benefited from relatively disciplined underwriting, low CAT losses and reserve releases.

Source: A.M. Best; Insurance Information Institute
Insurers earned a record underwriting profit of $31.7 billion in 2006, the largest ever but only the second since 1978. Expect figure near $28 billion in 2007 assuming “normal” CAT losses. Cumulative underwriting deficit since 1975 is $412 billion.

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

Reserve adequacy has improved substantially
Cumulative Prior Year Reserve Development by Line (As of 12/31/06)

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

Reserve redundancies in most lines have resulted in releases in recent years.
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.
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.
Despite the respite in 2006, reinsurers paid an average of $1.11 in loss and expense for every $1 in written premium since 1985.

Source: Reinsurance Association of America.
Reinsurer profitability has rebounded
INVESTMENTS

Investment Gains Are Flat
Net Investment Income

Investment income posted modest gains in 2006, but is running flat in 2007

Growth History

2002: -1.3%
2003: +3.9%
2004: +3.4%
2005: +24.4%*
2006: +5.2%
2007: 0.0%**

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*

Markets are up in 2007 for the 5th consecutive year (so far)


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.
Property/Casualty Insurance Industry Investment Gain

Investment gains fell in 2006 and even now are only marginally larger than in the late 1990s.

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

Average Combined:
- Liability = 108.8
- PD = 97.5

Commercial Auto has improved dramatically

Sources: A.M. Best; III
Commercial Multi-Peril Combined
(Liability vs. Non-Liability Portion)

Liab. Combined 1995 to 2004 = 113.8
Non-Liab. Combined = 105.2

CMP- has improved recently

Sources: A.M. Best; III
Workers Comp Combined Ratios, 1994-2006

Workers Comp Calendar Year –
Private Carriers

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<th>Year</th>
<th>Percent</th>
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<td>2005</td>
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<td>2006p</td>
<td>95</td>
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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 1994-2006p based on NCCI Annual Statement Analysis.
Includes dividends to policyholders
Medical Malpractice
Combined Ratios

Average Med Mal Combined Ratio
1995-2006
119.3

Reforms/Award Caps and higher rates have helped to improve med mal dramatically

Sources: A.M. Best; III
Other Liability
Combined Ratios*

Average Combined Ratio
1995-2006
114.5

Improvements in tort and D&O environment have contributed to performance

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*

$7.5  $2.7  $4.7  $8.3  $7.4  $2.6  $8.3  $4.6  $7.4  $2.6  $10.1  $8.3  $4.6  $26.5  $5.9  $12.9  $27.5  $61.9  $20.0

2006 was a welcome respite. 2005 was by far the worst year ever for insured catastrophe losses in the US, but the worst has yet to come.

$100 Billion CAT year is coming soon

*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
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
58% or all insured coastal exposure is commercial, totaling some $4.2 trillion in 2004
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;
Impairment rates are highly correlated with underwriting performance.

2006 impairment rate was 0.43%, or 1-in-233 companies, half the 0.86% average since 1969.

Source: A.M. Best; Insurance Information Institute
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
Legal Liability & Tort Environment

Definitely Improving But Not Out of the Woods
Cost of U.S. Tort System ($ Billions)

Tort costs consumed 2.09% of GDP in 2005, down from 2.24% in 2003

Per capita “tort tax” was $880 in 2005, up from $680 in 2000

Reducing tort costs relative to GDP by just 0.25% (to 1.84%) would produce an economic stimulus of $31.1B

Inflation Adjusted Tort Costs Per Capita, 1950-2005

Tort costs per capita have increased 817% since 1950 even after adjusting for inflation.

Tort costs relative to GDP have increased more than 3 fold since 1950.

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

*Excludes medical malpractice
After a period of rapid escalation, tort system costs as % of GDP are now falling.

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.

  - 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
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
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.

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

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

Insurance Industry Retention
Under TRIA ($ Billions)

- Individual company retentions rise to 17.5% in 2006, 20% in 2007
- Above the retention, federal govt. pays 90% in 2006, 85% in 2007

Source: Insurance Information Institute

Congress & Administration want TRIA dead
### Insured Loss Estimates:
**Large CNBR Terrorist Attack ($ Bill)**

<table>
<thead>
<tr>
<th>Type of Coverage</th>
<th>New York</th>
<th>Washington</th>
<th>San Francisco</th>
<th>Des Moines</th>
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</thead>
<tbody>
<tr>
<td>Group Life</td>
<td>$82.0</td>
<td>$22.5</td>
<td>$21.5</td>
<td>$3.4</td>
</tr>
<tr>
<td>General Liability</td>
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<td>2.9</td>
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<td>0.4</td>
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<tr>
<td>Workers Comp</td>
<td>483.7</td>
<td>126.7</td>
<td>87.5</td>
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<tr>
<td>Residential Prop.</td>
<td>38.7</td>
<td>12.7</td>
<td>22.6</td>
<td>2.6</td>
</tr>
<tr>
<td>Commercial Prop.</td>
<td>158.3</td>
<td>31.5</td>
<td>35.5</td>
<td>4.1</td>
</tr>
<tr>
<td>Auto</td>
<td>1.0</td>
<td>0.6</td>
<td>0.8</td>
<td>0.4</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$778.1</strong></td>
<td><strong>$196.8</strong></td>
<td><strong>$171.2</strong></td>
<td><strong>$42.3</strong></td>
</tr>
</tbody>
</table>

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
Insurance Information
Institute On-Line

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