

U.S. Insurance Market in a Global Marketplace

Casualty Actuarial Society Annual Meeting

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November 13, 2006

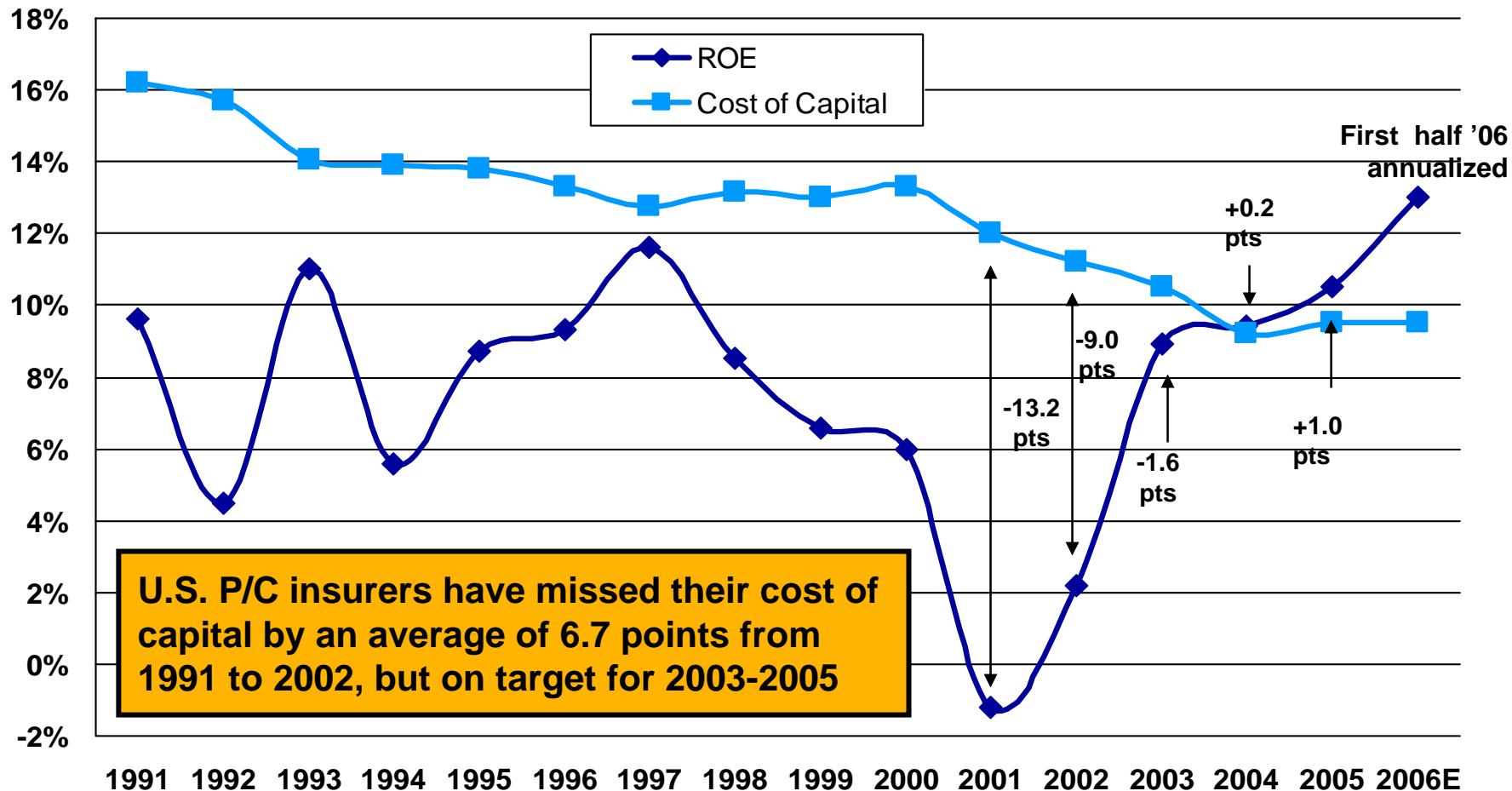
Agenda

- Historical Perspective and 2006
 - thanks largely to Insurance Information Institute
- Recent price changes
- What can be expected in 2007?
 - Based on Tillinghast point-of-view

After years of industry results that trailed their cost of capital, the hard market that began in 2001 finally started paying off

The industry is finally achieving returns that meet or exceed its cost of capital

ROE vs. Cost of Capital: U.S. Non-Life 1991 – 2nd Qtr 2006

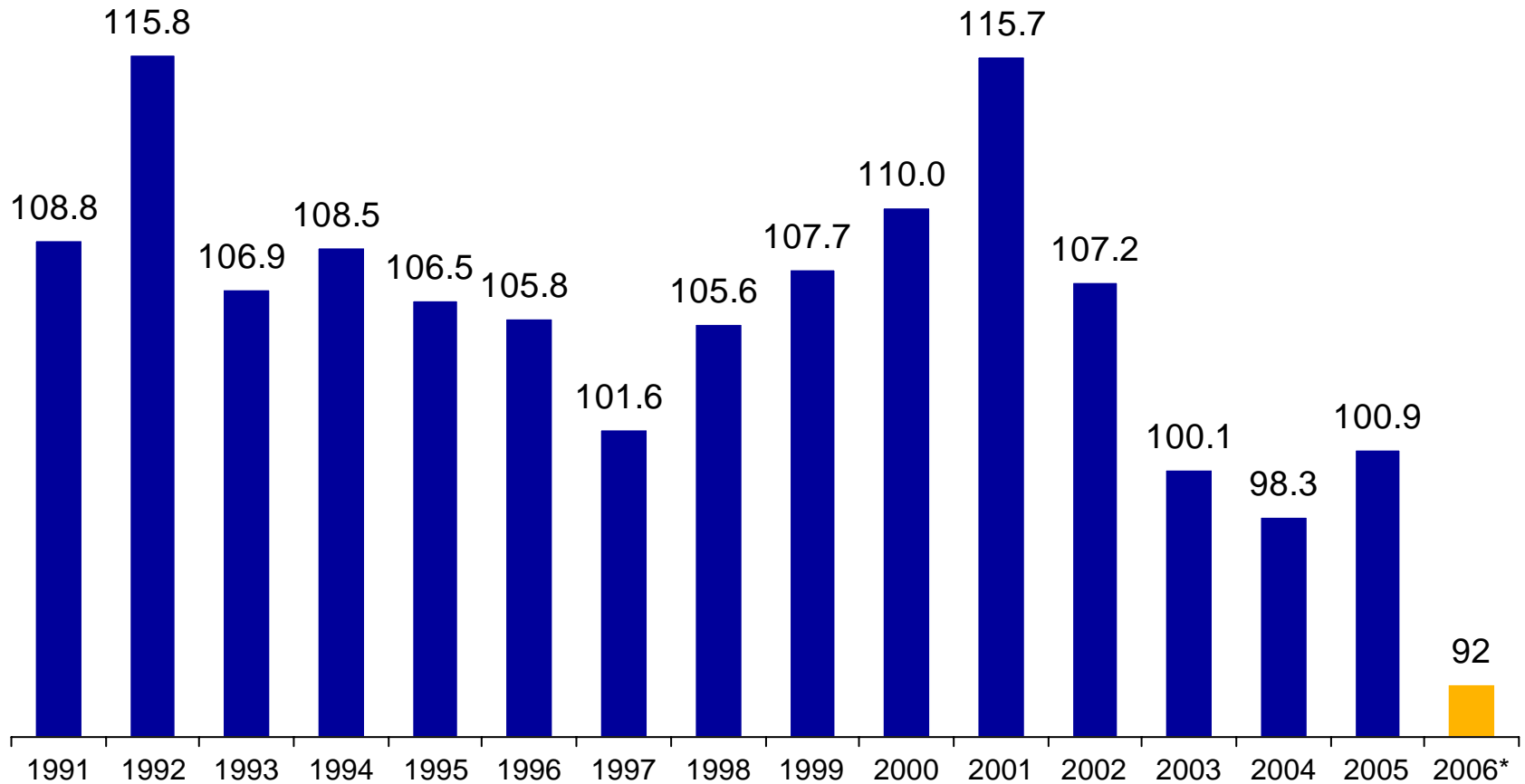


Source: The Geneva Association, Insurance Information Institute.

And in spite of record catastrophe losses in
2004 and 2005...

Combined ratios are at or below 100%

Combined Ratio (1991- 2nd Qtr 2006)

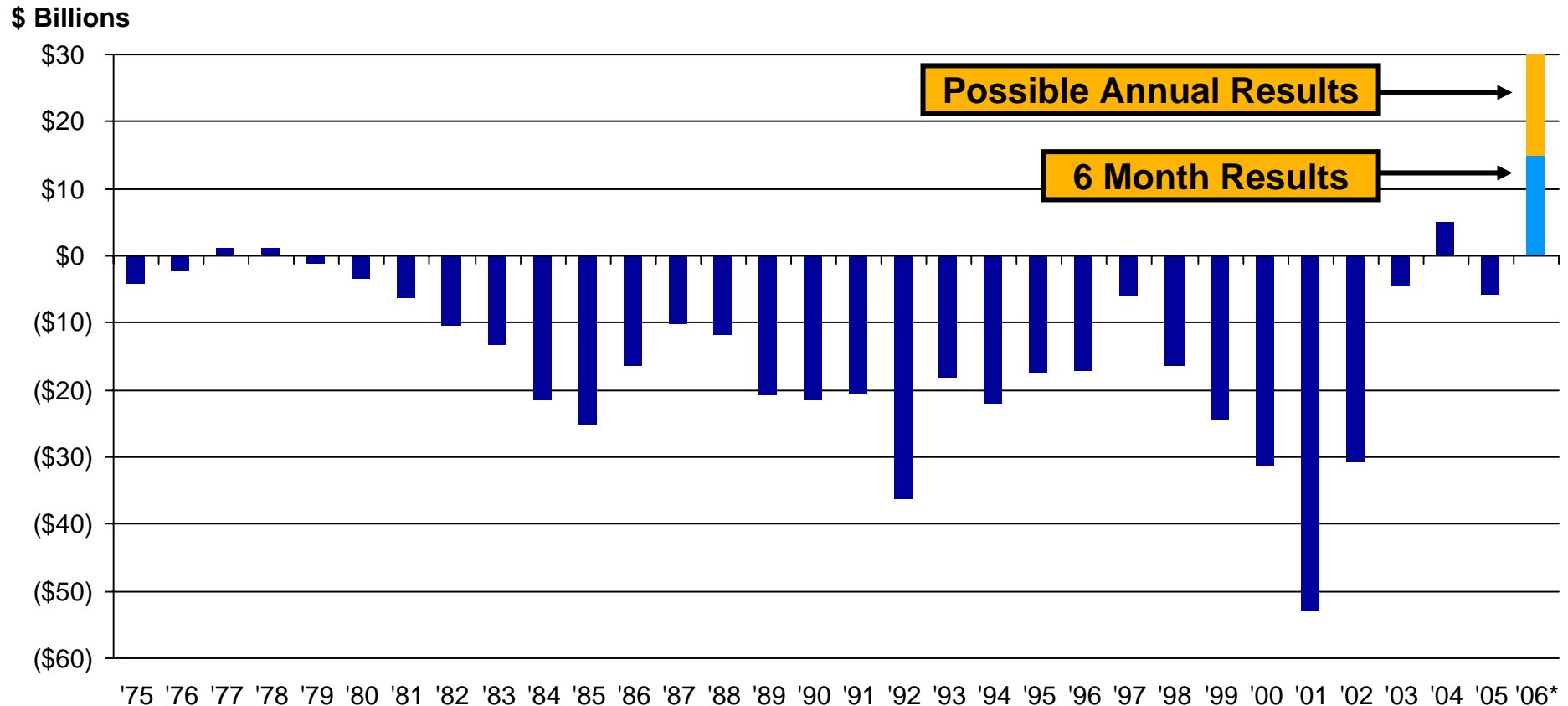


*2006 Reflects 1st half year results as reported by Insurance Information Institute (iii.org)

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

Given low catastrophes in 2006, P/C industry could reach underwriting profit of \$30 billion

P/C Industry Underwriting Gain/Loss (1975 - 2nd Qtr 2006)

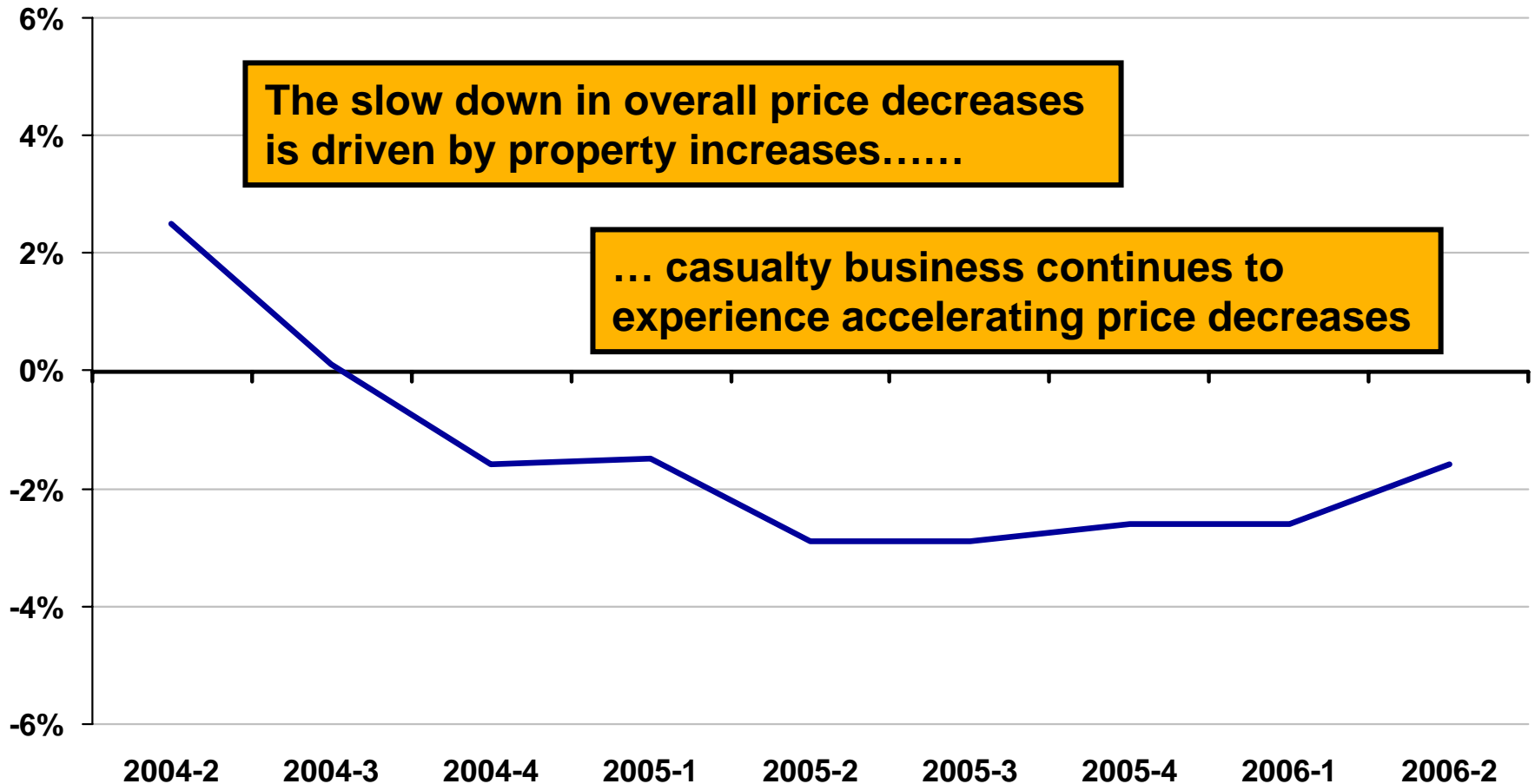


*2006 reflects 1st half year results only

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

But, commercial insurance prices, in total, have been declining since the 3rd quarter 2004

Year Over Year Price Level Change

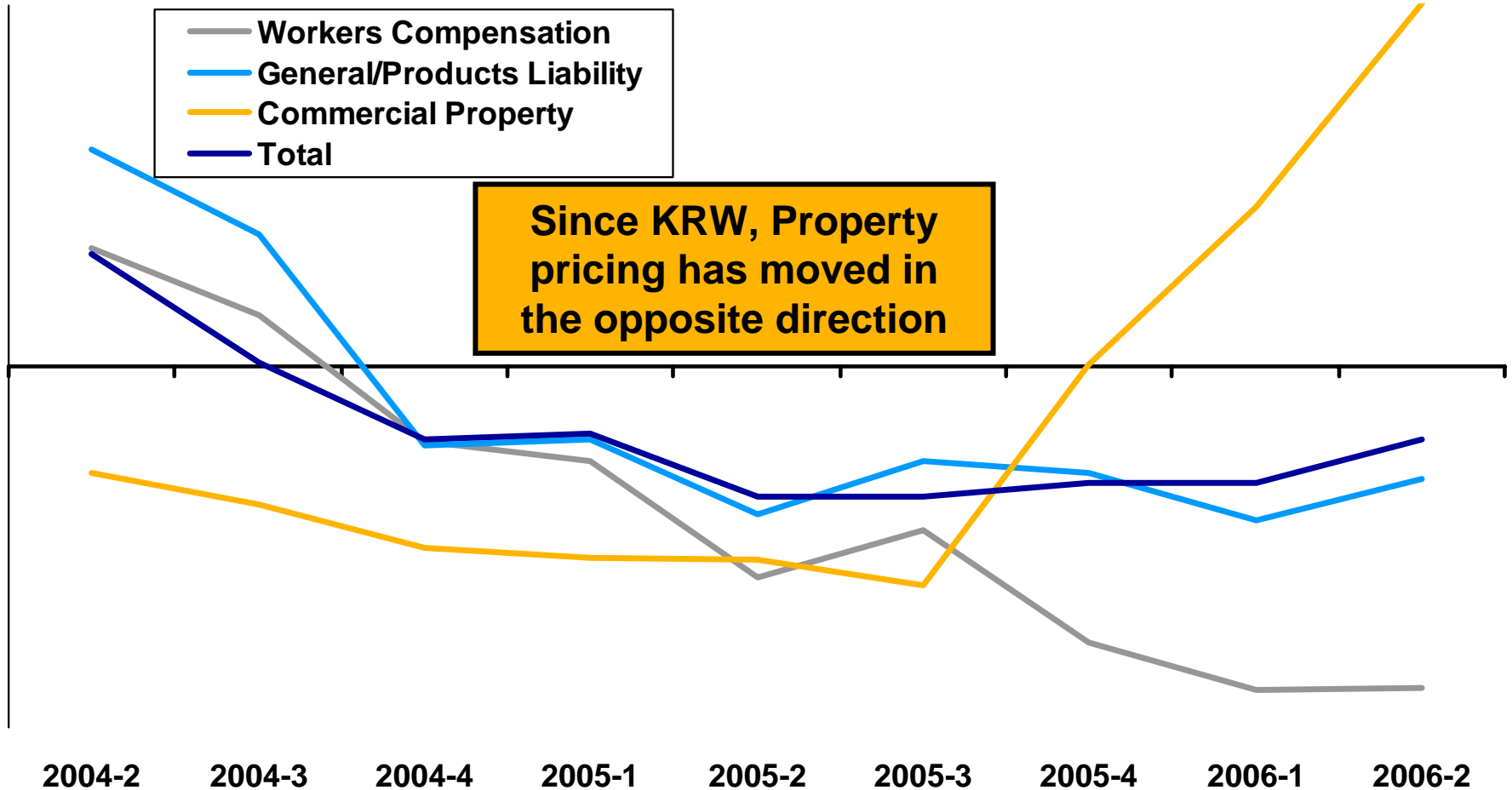


Note: Written Premium Basis

Source: Tillinghast Commercial Lines Insurance Pricing Survey

Although, property prices have risen sharply since the 4th quarter of 2005

Change in Price Level vs Same Quarter One Year Prior



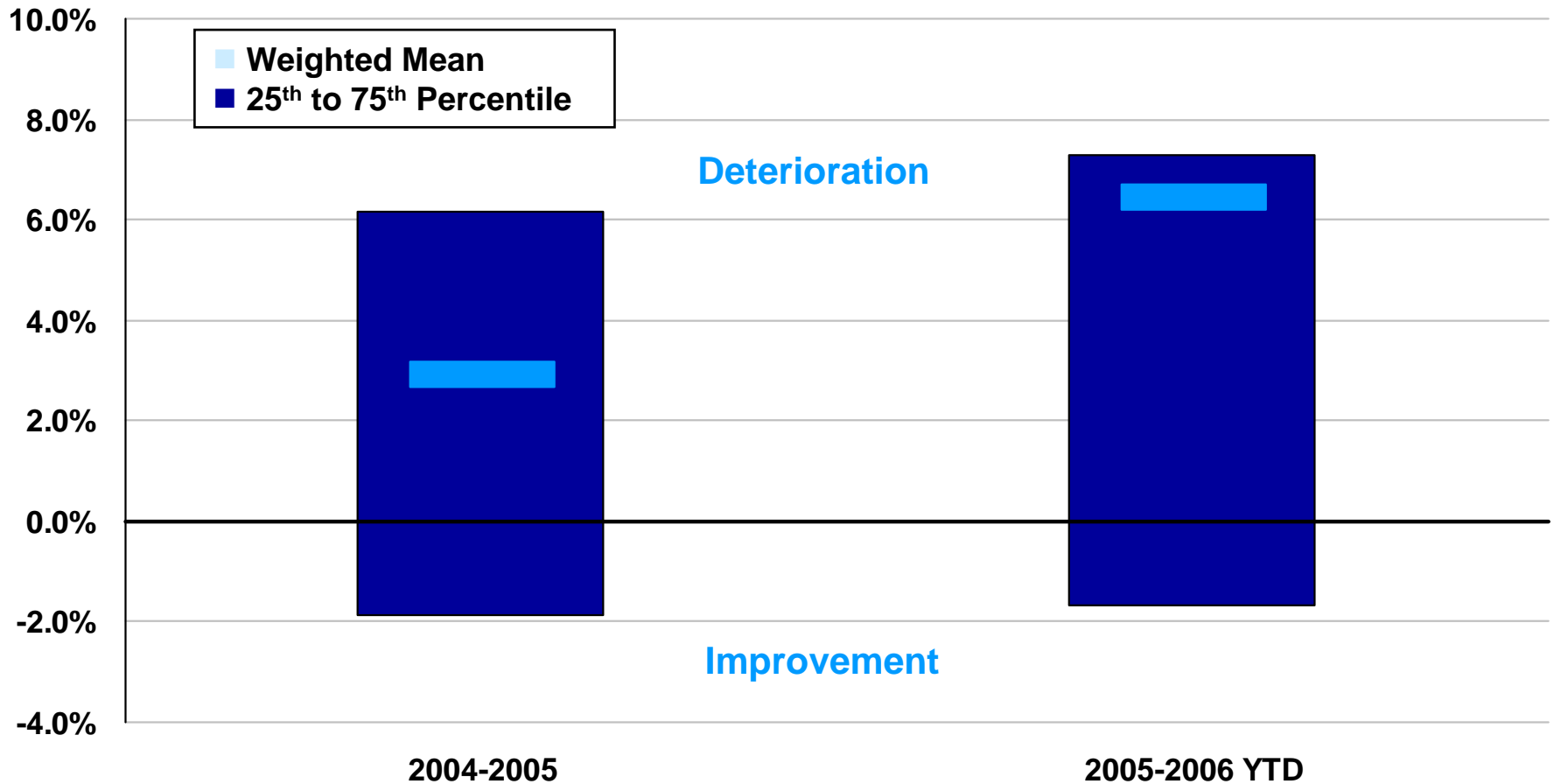
Since KRW, Property pricing has moved in the opposite direction

Note: Written Premium Basis

Source: Tillinghast Commercial Lines Insurance Pricing Survey

The deterioration in underwriting profit appears to continue through the 2nd quarter of 2006

Change in Earned Loss Ratios from
Year 2004 to Year 2005 and YTD 2005 to YTD 2006



Note: Earned Premium Basis

Source: Tillinghast Commercial Lines Insurance Pricing Survey

So what is going to happen in 2007 and beyond?

5 seconds on Tillinghast Point-of-View

- Tillinghast maintains a “point-of-view” for most lines of insurance
- Evaluate:
 - Market size and structure
 - Significant trends/developments
 - Financial trends and outlook
 - Benchmarks and resources


Tillinghast Point-of-View

- **Maintained for the following lines**

- **Private Passenger Automobile**
- **Homeowners**
- **Commercial Automobile**
- **Commercial Multi-Peril**
- **Workers Compensation**
- **General Liability – Occurrence**
- **Property**
- **Reinsurance B – Non-Proportional Liability**
- **General Liability – Claims-Made**
- **Reinsurance A – Non-Proportional Property**
- **Products Liability**

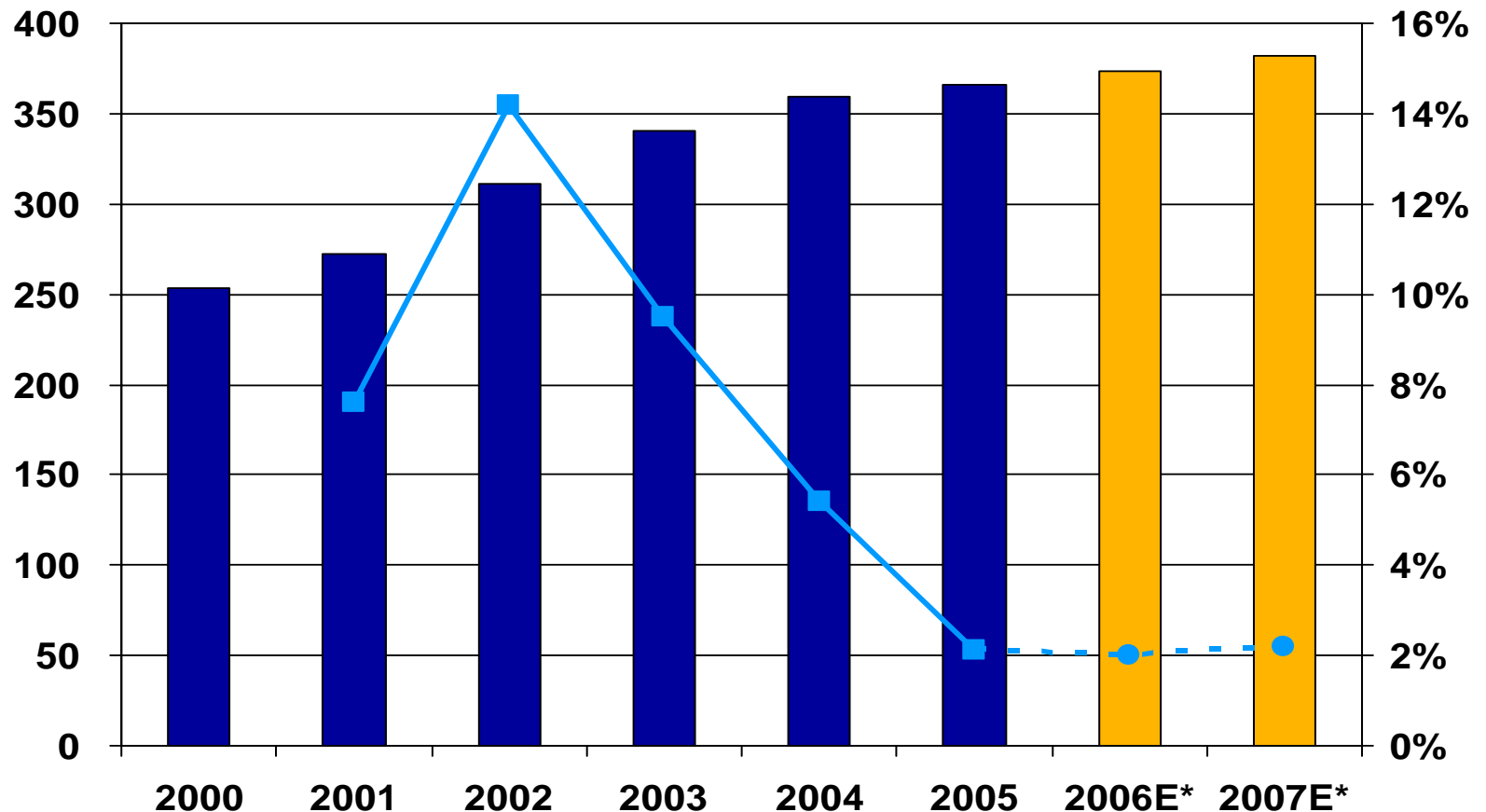


83% of
Industry NPW



Not included
here

After substantial growth from 2001-04, slower Net Written Premium growth is expected

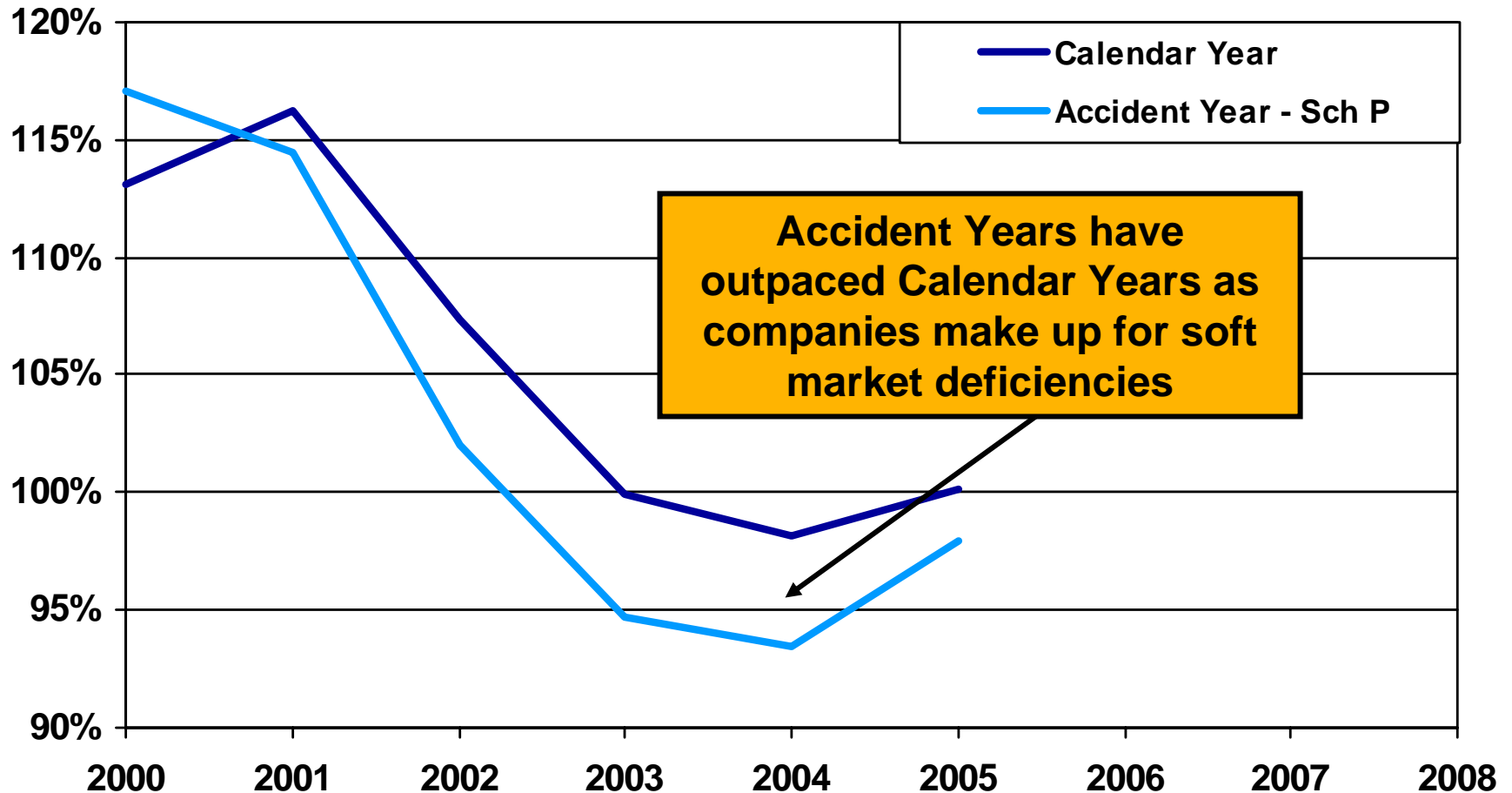


Reflects over 80% of US insurance market

*2006 and 2007 are Tillinghast estimates

Source: A.M. Best IEE database; Tillinghast estimates.

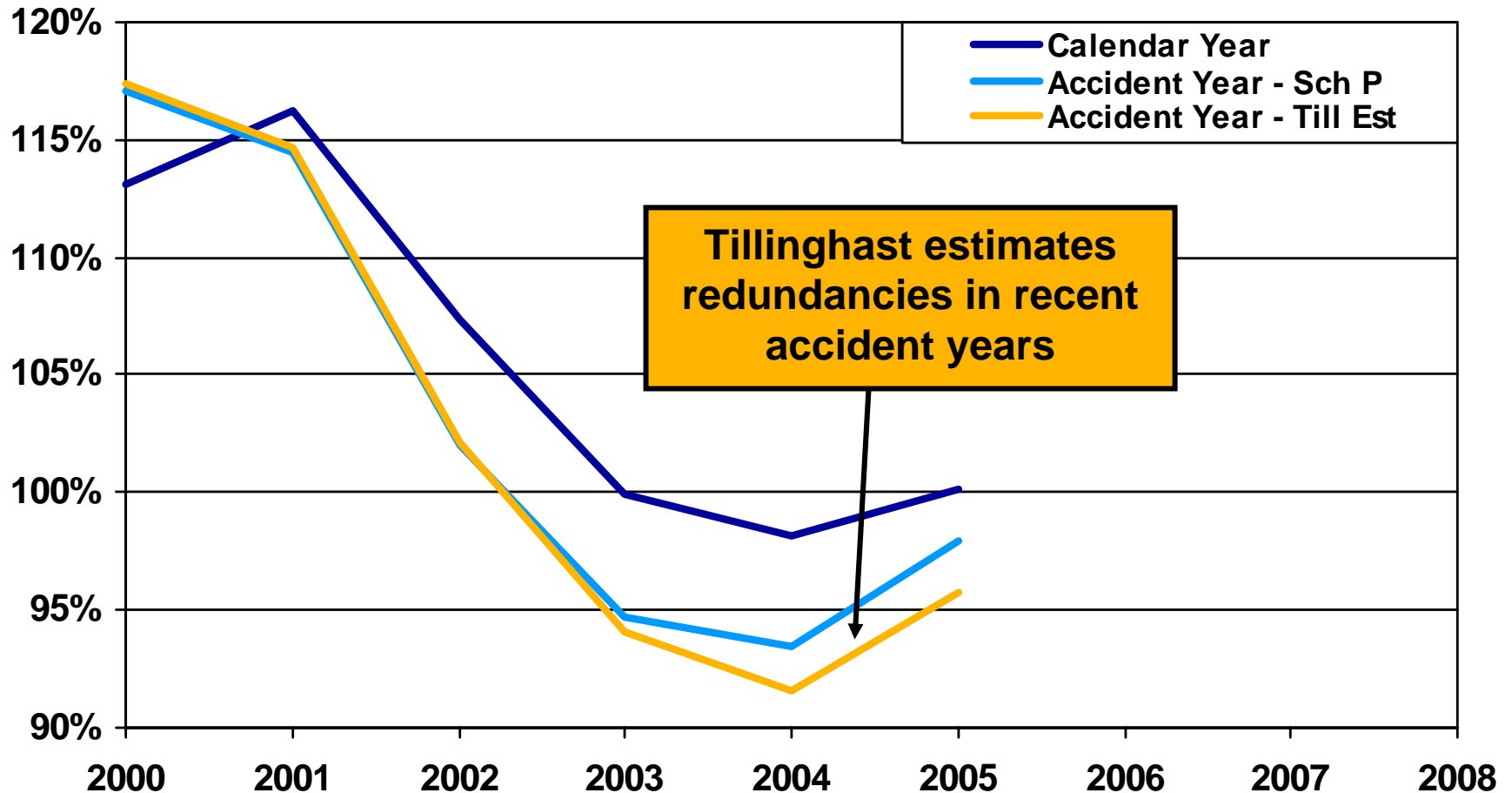
Calendar Year and Accident Year Net Combined Ratios



Reflects over 80% of US insurance market

Source: A.M. Best IEE and Schedule P database; Tillinghast estimates.

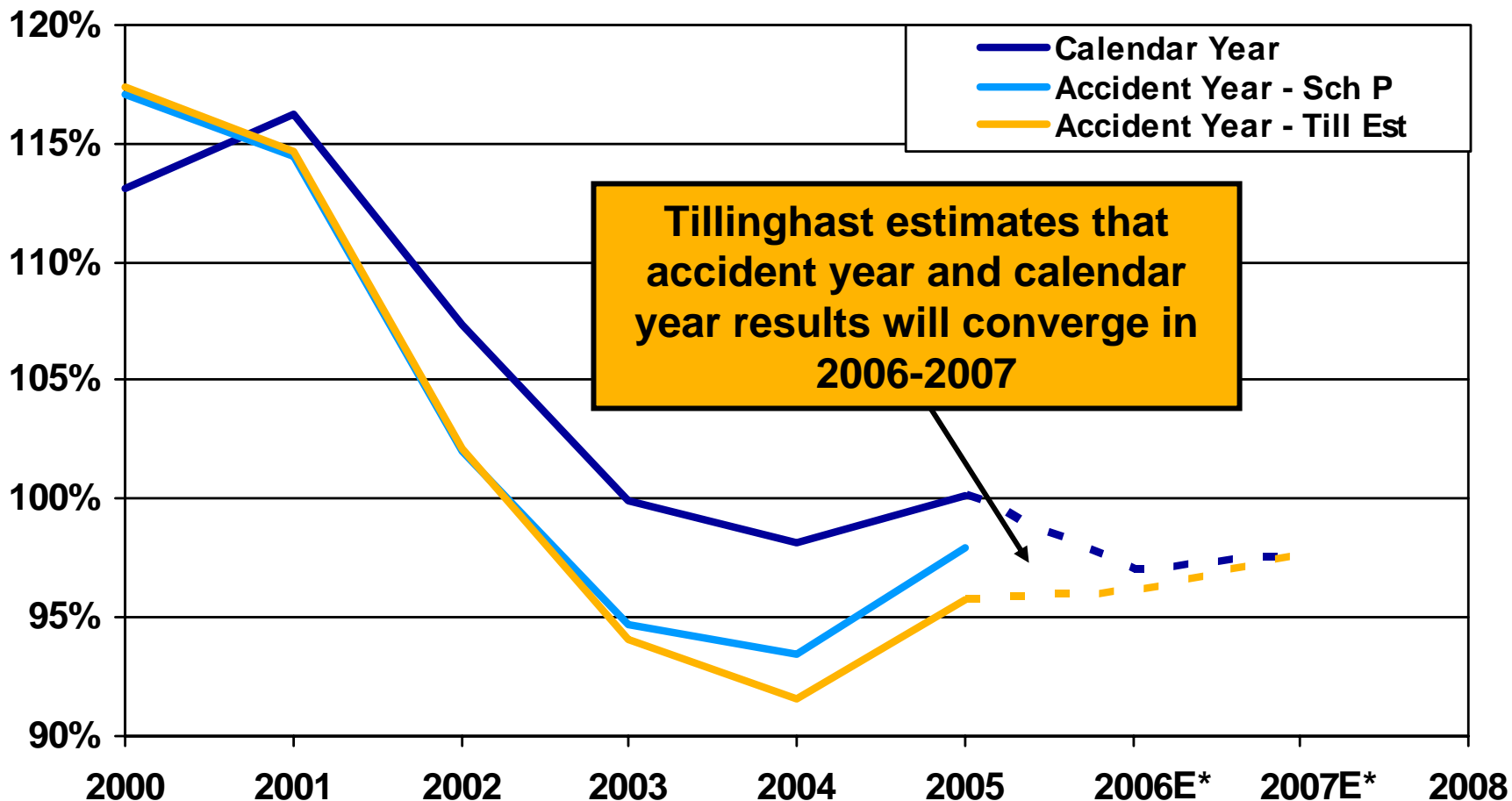
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Source: A.M. Best IEE and Schedule P database; Tillinghast estimates.

Calendar Year and Accident Year Net Combined Ratios

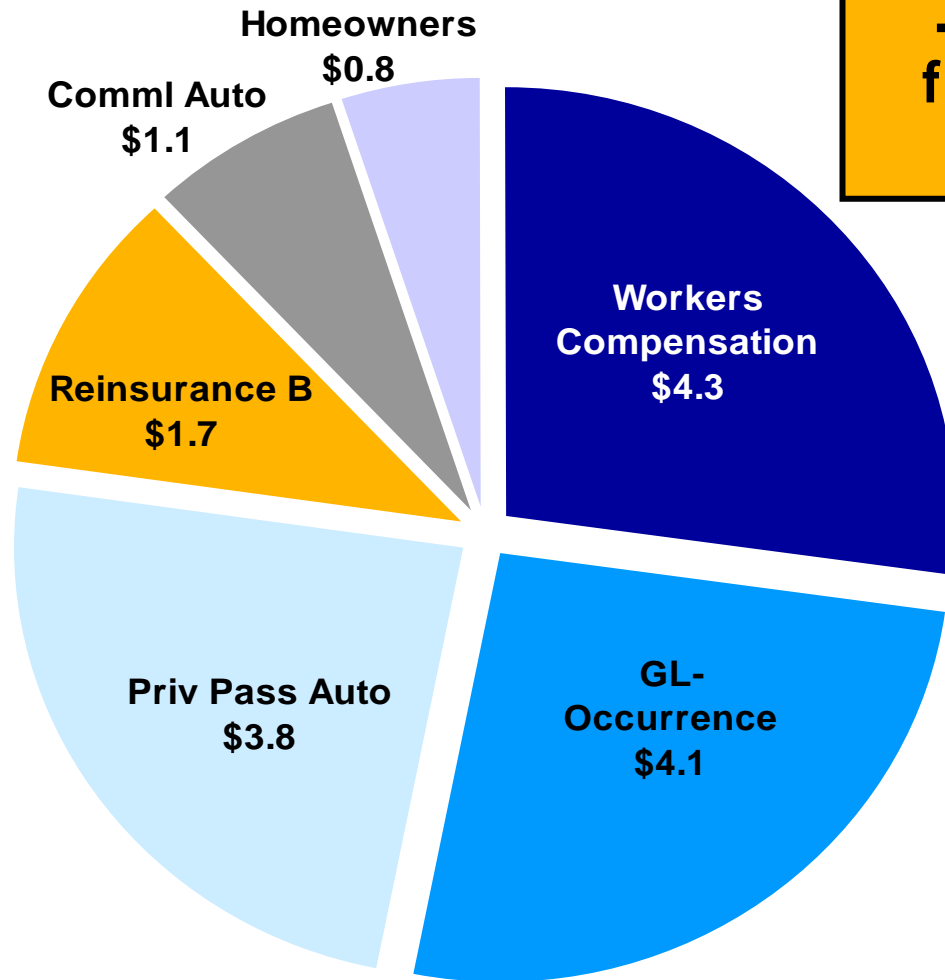


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*2006 and 2007 are Tillinghast estimates

Source: A.M. Best IEE and Schedule P database; Tillinghast estimates.

2003-05 Implied Reserve Redundancies of \$15.9 billion



...outweigh deficiencies from 2002 and prior of at least \$7.0 billion

However, more significant gross deficiencies are being ceded to off-shore parents (especially in reinsurance)

Reflects over 80% of US insurance market
Source: Tillinghast estimates.

Reserve redundancies and weakening market signal entrance into the next phase of the market soon when calendar year results will outpace accident year results