

**Commercial Insurance 2008
In the United States**

**TABLE OF CONTENTS
INTRODUCTION**

HOW IT FUNCTIONS

PARTICIPANTS, INCLUDING DISTRIBUTORS
COMPANY OPERATIONS
MARKET CONDITIONS: CYCLES AND COSTS
FINANCIAL REPORTING
REGULATION

WHAT IT DOES

LINES OF BUSINESS:
STANDARD LINES
PREMIUMS
CAPTIVES & OTHER ALTERNATIVE MARKETS
SPECIALTY LINES

TYPES OF POLICIES

THE GLOBAL DIMENSION

INTRODUCTION
SIZE OF MARKET
REINSURANCE
LONDON MARKET
BERMUDA

RANKINGS

Introduction

The insurance industry is a global business. Worldwide, premiums exceeded \$3 trillion. In this country, which accounts for about 34 percent of the world's insurance business, premiums are more than \$1 trillion.

The U.S. insurance industry employs more than two million workers, about 2.1 percent of the nation's workforce. It generates more than \$100 billion in payroll and invests about \$300 billion in state and local bonds to finance public works such as the building of roads, schools and libraries. In addition, it pays almost \$13 billion in premium taxes to state governments, more than 2 percent of all taxes collected by states and the equivalent of about \$45 for each U.S. citizen. In California alone, in fiscal year 2005-2006, the state is counting on insurers for \$2.3 billion in premium taxes.

In the United States, the insurance business is generally viewed as three distinct segments, property/casualty, life and health. (Elsewhere, it is divided into two: life and non-life or general insurance.) The property/casualty part of the industry provides insurance for cars, homes and businesses.

The term “casualty” dates back to the time before the 1950s when property/casualty insurers were two distinct kinds of insurance companies, with casualty or liability insurers covering losses that resulted from casualties and property insurers covering damage to or loss of property.

Property/casualty insurance can be broken down into two major categories: commercial lines or types of insurance and personal lines. Personal lines, as the term suggests, includes coverages for individuals – auto and homeowners insurance. Commercial lines, which accounts for more than half of U.S. property/casualty insurance industry premium, includes the many kinds of insurance products designed for businesses.

Commercial insurance performs a critical role in the world economy. Without it, the economy could not function. Insurers essentially protect the economic system from failure by assuming the risks inherent in the production of goods and services. This transfer of risk frees insured companies from the potentially paralyzing fear that an accident or mistake could cause large losses or even financial ruin.

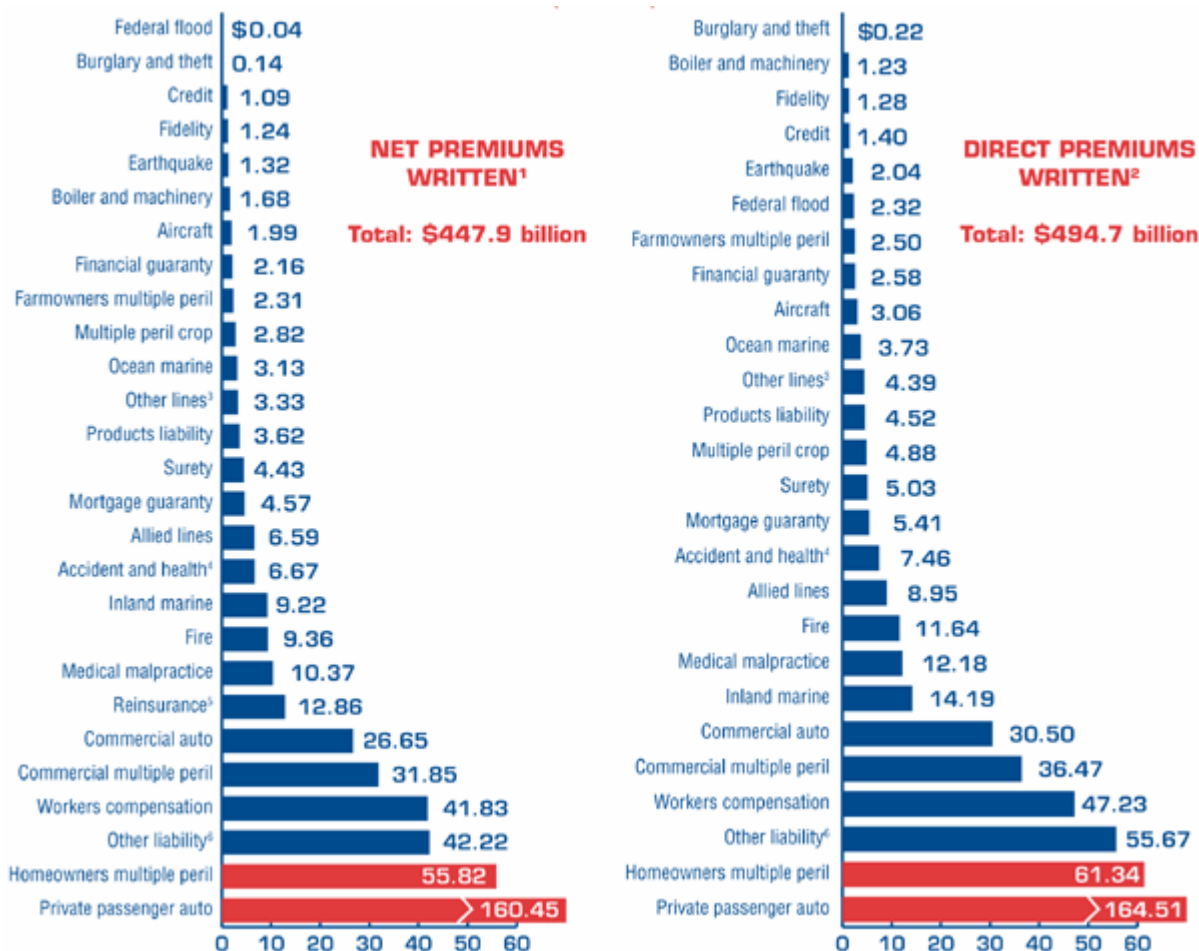
Managing risk carries a tremendous responsibility. It also requires an almost encyclopedic knowledge of how things work. The North American Industrial Classification System identifies some 1,170 different industries according to the processes used to produce goods or services. In the United States, there are some seven million business establishments, each of which employs one or more of these processes and each of which buys some kind of insurance.

To cover the risk involved in all of these different kinds of businesses, the commercial lines sector sells some 20 major insurance coverages and dozens of specialty products.

Since the first fire insurance policies were written in the 1700s, it has responded to new types of risk by creating new coverages to protect its policyholders and carving out niche products to respond to the needs of specific industries.

Recent examples of this are technology errors & omissions and cyber-risk liability, both of which were developed in the late 1990s to address risks involved in such businesses as personal information data processing.

**PREMIUMS WRITTEN BY LINE, PROPERTY/CASUALTY INSURANCE, 2006
(\$ billions)**



(1) After reinsurance transactions, excluding state funds.

(2) Before reinsurance transactions, excluding state funds. May not match total premiums shown elsewhere in this book because of the use of different exhibits from Highline Data LLC.

(3) Includes international and miscellaneous coverages.

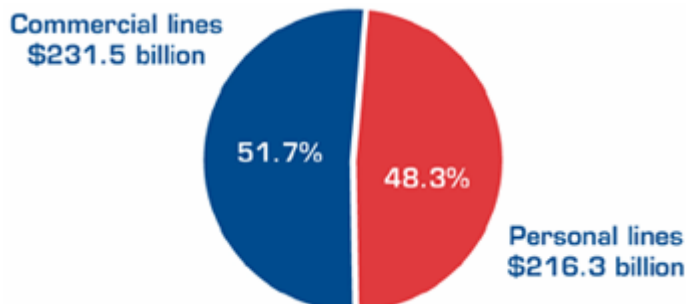
(4) Premiums from certain insurers that write health insurance but file financial statements with state regulators on a property/casualty basis.

(5) Only includes non-proportional reinsurance, an arrangement in which a reinsurer makes payments to an insurer whose losses exceed a predetermined amount.

(6) Coverages protecting against legal liability resulting from negligence, carelessness, or failure to act.

Source: National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data, LLC. Copyrighted information. No portion of this work may be copied or redistributed without the express written permission of Highline Data, LLC.

NET PREMIUMS WRITTEN, PERSONAL AND COMMERCIAL LINES, 2006



Source: National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data, LLC. Copyrighted information. No portion of this work may be copied or redistributed without the express written permission of Highline Data, LLC.

How It Functions

PARTICIPANTS, INCLUDING DISTRIBUTORS

INSURANCE PROVIDERS

The providers of commercial insurance are extraordinarily diverse. They vary in size, specialty and role in the industry.

Insurance Companies: Insurance companies can be categorized in many ways. One is by the size of their policyholder surplus or capital. The larger the policyholder surplus the more risk they can assume. The smallest companies have less than \$1 million in surplus and the largest more than \$2 billion. Most fall into the \$250 million and under policyholder surplus category. Insurers can also be divided according to premiums, which are roughly equivalent to revenues. The largest have premiums in excess of \$10 billion.

Most commercial insurers are stock companies owned by their stockholders, but some are mutuals, which are owned by their policyholders, and a few are reciprocal insurance exchanges. Reciprocals are an old form of insurance entity where members or subscribers provide insurance to one another; share profits, losses and expenses; elect a board; and appoint an attorney-in-fact, which may be an individual or a corporation, to manage the operation.

An insurance company may be a single entity or a holding company with subsidiaries. Subsidiaries may be organized to operate in a single state, sell different insurance products from the parent organization or cater to a nonstandard market. Some parent companies are domiciled outside the United States and some insurers have non-insurance related parents. Large commercial insurers generally operate in most states and some have global operations. Smaller or specialized insurers may focus on a specific geographical area or specific states.

With so many different kinds of businesses seeking insurance, it's not surprising that insurers tend to specialize. Specialization facilitates the accumulation of expertise. In addition, insurance works best where an insurer has a large number of policyholders with similar exposures to loss. The more policyholders of the same type there are, the better the insurer is able to predict losses for that type and price the coverage accurately, according to a mathematical premise known as the law of large numbers.

The law of large numbers works best for personal lines insurers with thousands of similar auto and homeowners policies and in commercial lines for small Main Street type businesses. These smaller firms tend to be similar in size and loss exposures and are generally covered by a standard policy known as a Business Owners policy, (see Types of Policies below). By contrast, larger firms vary widely in their exposure to loss. Nevertheless, many commercial insurers concentrate on certain types of businesses or insurance coverages or both. They may target firms in the energy or transportation fields, for example, building contractors or financial services institutions. They may be specialists in directors and officers liability insurance, medical malpractice liability insurance, surety bonds, crop insurance or workers compensation, sometimes covering other incidental risks as well. Many personal lines insurance companies offer commercial insurance but generally only to typically small, low-risk, kinds of businesses and many commercial insurance companies offer personal lines insurance as well as life insurance and other financial services products.

Commercial insurers that have been licensed or "admitted" to do business in a state by the state insurance department are generally willing to cover most business risks. (The term "risk" in the insurance industry can mean a peril insured against, such as the risk of fire, and also the entity insured.)

However, some risks are hard to place in the standard market because they don't meet licensed companies' underwriting criteria. Among the most difficult to place are: unusual or unique risks that are hard to price if the insurance industry has no prior experience with them, such as tattoo and body piercing shops when they first began to appear; risky or substandard risks, such as fire coverage for a business with a prior history of fires; businesses whose operations are very complex, such as an offshore oil rig; and exposures that require higher limits than most companies are willing, or able under regulatory guidelines, to provide. (To safeguard an insurer's financial stability in the event of a total loss, insurers cannot devote more than a certain amount of their underwriting capacity to insure any one risk.) In such cases, part of the risk may be insured in the standard market and the remainder, or "excess" in the surplus lines market.

Surplus Lines: The surplus lines market, a group of highly specialized insurers that includes Lloyd's of London (see Global Dimension/Lloyd's of London, following), exists to assume risks that licensed companies decline to insure or will only insure at a very high price, with many exclusions or with a very high deductible. To be eligible to seek coverage in the surplus lines market, a diligent effort must have been made to place insurance with an admitted company, usually defined by a certain number of "declinations" or rejections by licensed insurers, typically three to five. Many states provide an "export list" of risks that can be insured in the surplus lines which obviates the diligent search requirement.

The terms applied to the surplus lines market – non-admitted, unlicensed and unauthorized -- do not mean that surplus lines companies are barred from selling insurance in a state or are unregulated. They are just less regulated. Each state has surplus lines regulations and each surplus lines company is overseen for solvency by its home state (see Regulation, following). More than half of the states maintain a list of eligible surplus lines companies and some a list of those that are not eligible to do business in that state. In addition, depending on the state, the surplus lines agent or broker, who must be licensed, is responsible for checking the eligibility of the company.

In a number of states, surplus lines companies are also monitored by surplus lines organizations, known as “Stamping Offices,” which, among their many functions, assist their state’s department of insurance in the regulation and oversight of surplus lines insurers. They also evaluate insurers for eligibility to do business in the state and review insurance policies obtained by surplus lines agents or brokers for their clients.

The amount of business insured in the surplus lines market has grown over the years but also tends to fluctuate, depending on the insurance cycle, (see Market Conditions/Underwriting cycle following). Not surprisingly, surplus lines companies thrive in hard markets when certain kinds of coverage that are available in soft markets from standard insurers, such as nursing home insurance, may be more difficult to obtain. (In the insurance industry, in a hard market the price of coverage increases and insurers are more selective about the risks they assume because capital and, hence, underwriting capacity is limited.) During the most recent hard market, growth in surplus lines premium far exceeded growth in the property/casualty insurance industry as a whole. In 2003, when the hard market was reaching its peak, surplus lines premiums represented about 13 percent of the commercial lines market, according to A.M. Best, a rating agency. Surplus lines represented only about 6 percent of the commercial lines market in 1993 and less than 4 percent in 1983. In 2003 surplus lines premiums grew 28 percent from the previous year, following an extraordinary 62 percent jump in 2002. By contrast, growth for the total property/casualty insurance industry was 12 percent and 14 percent in 2003 and 2002, respectively.

The Residual Market: Businesses that cannot obtain insurance in the standard market may have another choice, depending on the type of insurance they need, where they are located and why they have been rejected for coverage. If they are looking for property coverage and are considered high risks because of conditions beyond their control, they may be eligible for insurance under state-run programs known collectively as the “residual,” “involuntary” or “shared” market because all property insurers doing business in the state share in the premiums and losses.

For properties along the coast where the risk of windstorms is high, there are Beach and Windstorm Plans, in some states known simply as Windstorm Plans. For businesses in urban areas with high crime rates, there are FAIR (Fair Access to Insurance Requirements) Plans, property pools created by Congress after the urban riots of the 1960s to ensure the availability of property insurance. Eligibility for property coverage under FAIR Plans extends to businesses in areas prone to brush fires in California. In coastal areas vulnerable to hurricanes in some Eastern states, FAIR Plans provide windstorm coverage.

In addition, since auto liability insurance is mandatory in all states, all 51 jurisdictions provide auto insurance programs for businesses that have difficulty obtaining auto insurance in the standard market. Most are assigned risk plans, where all auto insurers in the state are assigned residual market applicants on a rotating basis according to their market share. A few states have somewhat different arrangements to ensure that nobody has to drive without liability insurance.

Workers compensation insurance is also available from the residual market. The mechanism used to handle the workers compensation residual market varies from state to state. In the six states with a monopolistic state workers compensation fund, where the state provides workers compensation insurance to all employers, all businesses are insured through that fund. In most states with a competitive state fund (an entity that competes for business with private insurers), the fund accepts all risks rejected by the voluntary market, thus eliminating the need for assigned risk plans. In states without a competitive fund, insurers may be assigned applicants based on their market share and service those employers as they would employers that came to them through the voluntary market, through a system known as direct assignment. They may also participate in the residual market through a pooling arrangement in which all participating workers compensation insurers share the premiums and the losses.

Before a firm can be offered workers compensation coverage through the assigned risk plan, in most states the applicant must have been rejected in the voluntary market by two insurers. The firm's application for coverage is sent directly to the plan's administrator, which either assigns the business to one of the direct assignment insurers or insures it in the pool.

REINSURERS

Just as businesses are able to transfer risk to insurers, known as primary insurers in the insurance community, insurers are able to transfer or "cede" some of the risk they assume in insuring businesses to other insurance companies, known as reinsurers. By transferring some of the risk primary insurers reduce their liability for losses, which allows them to write more insurance. Some insurers are heavily reinsured, others are not.

Reinsurers reimburse primary insurers for losses, according to the terms of the reinsurance contract, either on a shared or proportional basis, with the primary insurer and reinsurer sharing both the losses and the premiums collected from the commercial policyholder, or on an "excess-of-loss" basis, with the reinsurer assuming losses above a certain level for a fee. Reinsurers also spread the risk they have assumed as a result of the reinsurance transaction by selling off slices and layers of risk to other reinsurers all over the world.

Reinsurance is an international business. Six countries were represented among the 10 top global reinsurers in 2003. The top two are German and Swiss, each with more than twice the premium volume of the next two, which are U.S. companies (see Top Ten Global Reinsurers in the Ranking Section).

DISTRIBUTORS

Distribution

At the retail level, commercial insurance is distributed by insurance agents and brokers who work for organizations that are part of the distribution system, insurance agencies and brokers. Recently, however, the lines between agencies and brokers have become blurred. Traditionally, agents have represented the insurance company and brokers have represented the client. Agents and brokers are known as producers. Agents may be captive agents selling policies written by a single insurer, the agent's employer, or an independent agent selling policies from a number of different insurers. Independent insurance agencies have a larger portion of the commercial lines business than captive agencies – about two-thirds. For personal lines, the ratio is reversed.

It is the broker's responsibility to seek out appropriate insurance coverages for the client and obtain the best overall price, terms and conditions. Brokers are most often associated with large or complex commercial lines risks.

Brokers may also become "wholesalers" who act as intermediaries between retail brokers or agents and insurance company underwriters. To be able to transact business with surplus lines insurers, wholesale brokers must be licensed as surplus lines brokers in the state where the policyholder or the risk to be insured is located. Wholesale brokers may also work with other wholesale brokers in the London Market, (see Lloyd's and the London Market following), or elsewhere to secure coverage.

Wholesale brokers may also be managing general agents, who are given authority by insurers to underwrite and "bind" insurance -- provide temporary coverage until an insurance policy can be issued. Managing general agents, who have a close relationship with the insurance companies they work with, may also handle claims and even help in the placement of reinsurance contracts.

Managing general agents may also arrange so-called program business which is specialty insurance for homogeneous groups of policyholders, such as members of a specific industry. These programs, often offered and endorsed by trade associations, may provide coverage at lower prices. As insurers seek out niche products, programs are increasingly available to a wide range of businesses and organizations from bed and breakfast inns to churches. Programs may also provide specially tailored liability insurance for professionals, such as vocational or physical rehabilitation specialists who work part or full time out of a home office. To be successful, a program must generate a sufficient volume of premium and the risks within each program must be relatively homogeneous.

Compensation

Insurance company employees, whether they work for standard, surplus lines or reinsurance companies, are compensated the same way that employees in other industries are compensated, with bonuses and other incentives in many companies for outstanding contributions to the organization.

Producers and others in the retail and wholesale distribution system are compensated in a variety of ways.

Captive insurance agents are compensated by their insurance company employers, while independent agents are compensated by the insurers with whom they have placed business. Independent agent commissions may be calculated based on the business received, and percentages may differ among insurers and for different types of coverage. Independent agents may also receive contingent commissions, not unlike incentives provided in other industries to their sales force, for a high volume of business or business that was especially profitable.

Brokers may receive compensation from several sources: fees paid by their policyholder clients; commissions paid by the insurer with whom business is placed, calculated as a percentage of premium charged; and contingent commissions paid by insurers based on the profitability and/or volume of the business. Some of the largest commercial lines brokers have recently discontinued the practice of using contingent commissions as incentives. Since the broker represents the client not the insurer, the existence of commissions paid by the insurer must be disclosed to the client.

Managing general agents are compensated entirely by the insurer, often based on the outcome of the business generated.

RISK MANAGERS

Risk management deals with loss exposures -- circumstances that exist inside or outside a company's operations that have the potential to cause a loss. A major incident such as a fire or explosion at a manufacturing plant or hurricane force winds that lift the roof off the building could shut down operations. On the liability side, a lawsuit, if successful, could jeopardize a company's financial well-being.

Large companies generally employ risk managers to manage the risk of loss. It is the risk manager's responsibility to anticipate, evaluate and minimize the adverse impact of all possible losses. Strategies for controlling losses include avoidance -- avoiding the activity that could produce a loss altogether if the activity, product or service can't be modified; loss control techniques, such as limiting access to warehouses to reduce the incidence of theft; and transferring the financial consequences of potential losses to an insurance company.

Once a decision has been made to purchase insurance, the risk manager selects an appropriate agent or broker to solicit bids. In the process, the risk manager must supply the broker with all the necessary information about the company that commercial lines underwriters might need to evaluate the risk. The risk manager is also responsible for all other aspects of implementing the insurance contract, from handling claims as a representative of the company to dealing with adjustments to loss sensitive programs, (See Types of Policies/Loss Sensitive Programs following). Where the company decides to retain some of the risk itself rather than buy insurance, the risk manager may hire actuaries to determine appropriate loss reserves, (see Financial Reporting/Reserves following), a claims adjustment service to manage claims and legal experts to deal with litigation.

The risk manager generally reports to the company's chief financial officer. In a large organization, there is generally a risk management department. In small companies, the risk management function may be handled by the treasurer or owner of the business.

RATING AGENCIES

Rating agencies—private firms that evaluate insurance companies' financial strength—play an important part in the insurance marketplace. The ratings issued by these agencies represent their opinions of an insurer's financial condition and its ability to meet its obligations to policyholders. Rating downgrades are watched closely and can significantly affect an insurer's ability to attract and retain business.

A.M. Best, Standard and Poor's, Moody's Investors Services, Weiss Ratings and Fitch are among the major rating agencies. Each has its own methodology. Among the factors they consider are:

1. Company earnings over a period of years to assess stability and sources of profits and control over expenses
2. Capital adequacy and operating leverage (Capital is the cushion that allows a company to keep its commitments even if the value of its assets falls or its liabilities increase.)
3. Investment performance and investment risk management
4. The strength of an insurer's reinsurance program (an important cushion in the event of a catastrophe.)
5. Management's ability, experience and integrity.

COMPANY OPERATIONS

COMMERCIAL UNDERWRITING

Insurance companies protect businesses from financial loss by assuming billions of dollars in risks each year. It is the underwriter's responsibility to evaluate a business's risk of loss and decide whether to insure the business and if so, at what price.

Evaluating risks involves considerable research. Information on applications is often supplemented with reports from loss control consultants, medical reports, information from data vendors, and actuarial studies. For example a factory's application may require an engineering survey, a fire hazard survey or other investigations. The Internet has greatly enhanced the resources available to underwriters doing research on a business. Based on its research, the underwriting department may require the applicant to make changes to improve safety, or decide not to provide coverage.

Setting the price of coverage is known as the "rate making" process. Determining the proper rate is quite complicated, as the risks posed by no two businesses are exactly alike and the total amount of future claims is not known at the time the insurance policy is issued. Rates may be established by one of three methods: manual rating, which results in standard rates for large groups of similar risks; judgment rating, which relies on the skill and experience of the rate maker; and merit rating, in which a standard or manual rate is adjusted based on an evaluation of the risk. The term "manual rating" dates back to days when rates were published in "manuals." Merit rating is used in many commercial lines, manual rating in personal lines. Judgment rating is generally used for large risks or unusual coverages, such as ocean marine.

Technology plays an important role in an underwriter's job. In addition to using the Internet for research, underwriters use specialized computer applications to manage risks more efficiently and accurately. Depending on the nature of the risk and the complexity of the insurance policy, these systems automatically analyze and rate insurance applications, recommend acceptance or denial of the risk, and adjust the premium rate in accordance with the risk. The greater the risk and complexity of an operation, the more likely that the policy will be specifically tailored to meet the policyholder's needs. In making all these decisions, underwriters serve as the main link between the insurance company and the insurance broker or agent. Underwriters also work closely with claims personnel. For example, information from claims adjusters, such as a business's failure to take certain loss control measures, might affect the underwriter's decision to offer coverage in the future. Many insurance companies employ field underwriters and claims specialists who are assigned to agents in specific localities, giving underwriters first hand knowledge of a company's business and geographic environment. These field underwriters often work closely with loss control specialists who help evaluate a company.

Most property/casualty underwriters specialize in either commercial or personal lines. In cases where insurance companies provide insurance through a single "package" policy, covering various types of risks, the underwriter must be familiar with different lines of insurance and different types of risks.

CLAIMS

When an insured business suffers a covered loss, it submits a claim seeking compensation. Insurance claims departments handle a wide variety of claims for property damage, liability, and bodily injury. Their main role is to investigate the claims, negotiate settlements, and authorize payments to claimants. They must determine whether the customer's insurance policy covers the loss and how much of the loss should be paid to the claimant, depending on deductibles or retentions, co-payments and other risk sharing provisions in the policy.

Insurance company claims adjusters plan and schedule the work required to process a claim that would follow a loss, for example, an accident at processing plant or damage to a business property caused by a hurricane. They investigate claims by interviewing the claimant and witnesses, consulting police and hospital records, and inspecting property damage to determine the extent of the insurer's liability. Adjusters may also consult with accountants, architects, construction workers, engineers, lawyers, physicians and other experts. Most claims are easily settled. When claims are contested, adjusters will work with attorneys and expert witnesses to defend the insurer's position. When adjusters or examiners suspect fraud, they refer the claim to an investigator specially trained to detect and investigate fraud.

New technology making use of the Internet, digital cameras and sophisticated software have greatly speeded the claims handling process, and improved the quality of adjusters' estimates. High tech advances have also made it easier for policyholders to submit claims. Customers at many insurers, for example, can submit claims directly to claims professionals via an Internet reporting tool. Prompt reporting allows the insurer to respond quickly to a claim, ensuring that appropriate steps, such as medical attention or securing a building, are taken as soon as possible.

LOSS CONTROL

Loss control activities aimed at preventing or reducing the size of losses due to accidents and theft have been integral to the insurance industry as far back as 1752 when Benjamin Franklin, founder of the first U.S. fire insurance company, launched a fire safety campaign to teach property owners how to recognize and remove fire hazards.

Insurance companies, agencies and brokerage firms may provide safety inspection and engineering services as part of the services they offer to industrial and business clients. The insurer's safety engineer or loss control expert may also be called on by an underwriter to perform a safety audit before an insurance policy is written.

Loss control produces widespread benefits. For instance, a loss control professional's recommendations for controlling fire hazards in a particular factory benefit not only the factory owners, but also protect the financial security of employees and their families by enhancing worker safety. In addition, owners and occupants of adjoining buildings are protected from spreading fires. Businesses, having avoided ruin by fire, continue to contribute taxes and other benefits to their community.

Some insurance companies have established extensive loss control departments to help their clients control losses. For example, one large industrial insurer has established a multimillion dollar research facility to provide its insurance clients and building supply manufacturers with information about how materials—ranging from power turbine housings to applesauce—burn, and how to reduce fire losses. Other companies provide an array of online risk management tools, such as using the Internet to access extensive loss control libraries that can help customers minimize financial losses. The insurance industry also funds loss control organizations to promote product safety. One such organization, Underwriter's Laboratories, now operates independently.

MARKET CONDITIONS: CYCLES AND COSTS **PROPERTY/CASUALTY INSURANCE CYCLE**

Most industries are cyclical to some extent. The property/casualty (P/C) insurance industry cycle is characterized by periods of soft market conditions, in which premium rates are stable or falling and insurance is readily available, and by periods of hard market conditions, where rates rise, coverage may be more difficult to find and insurers' profits increase.

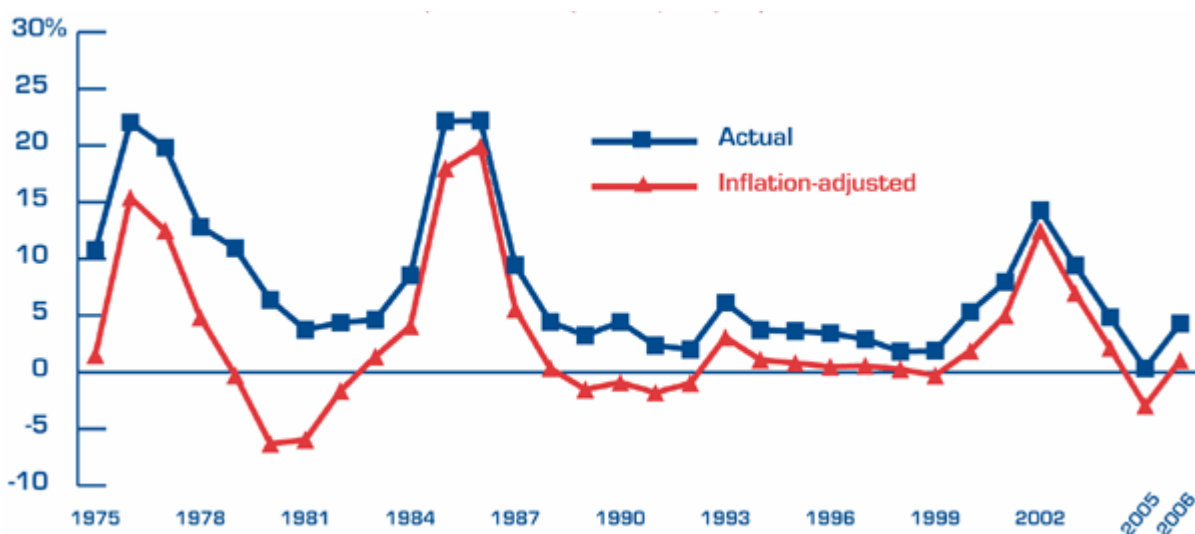
A dominant factor in the P/C insurance cycle is intense competition within the industry. Premium rates drop as insurance companies compete vigorously to increase market share. As the market softens to the point that profits diminish or vanish completely, the capital needed to underwrite new business is depleted. In the up phase of the cycle, competition is less intense, underwriting standards become more stringent, the supply of insurance is limited due to the depletion of capital and, as a result, premiums rise. The prospect of higher profits draws more capital into the marketplace leading to more competition and the inevitable down phase of the cycle.

The chart below shows the real, or inflation-adjusted, growth of P/C net written premiums over more than three decades and three hard markets. Premiums can be accounted for in several ways. This chart uses net written premiums, which reflect premium amounts after deductions for reinsurance transactions.

During the last three hard markets, inflation-adjusted net premiums written grew 7.7 percent (1975-1978), 10.0 percent (1984 to 1987) and 6.3 percent (2001 to 2004).

**GROWTH IN NET PREMIUMS WRITTEN,
 PROPERTY/CASUALTY INSURANCE, 1975-2006 (1)**

(Percent change from prior year)



(1) Excludes state funds.
 (2) Adjusted to reflect the insolvency of Reliance Insurance Company.
 Source: ISO.

PRICING AND AVAILABILITY

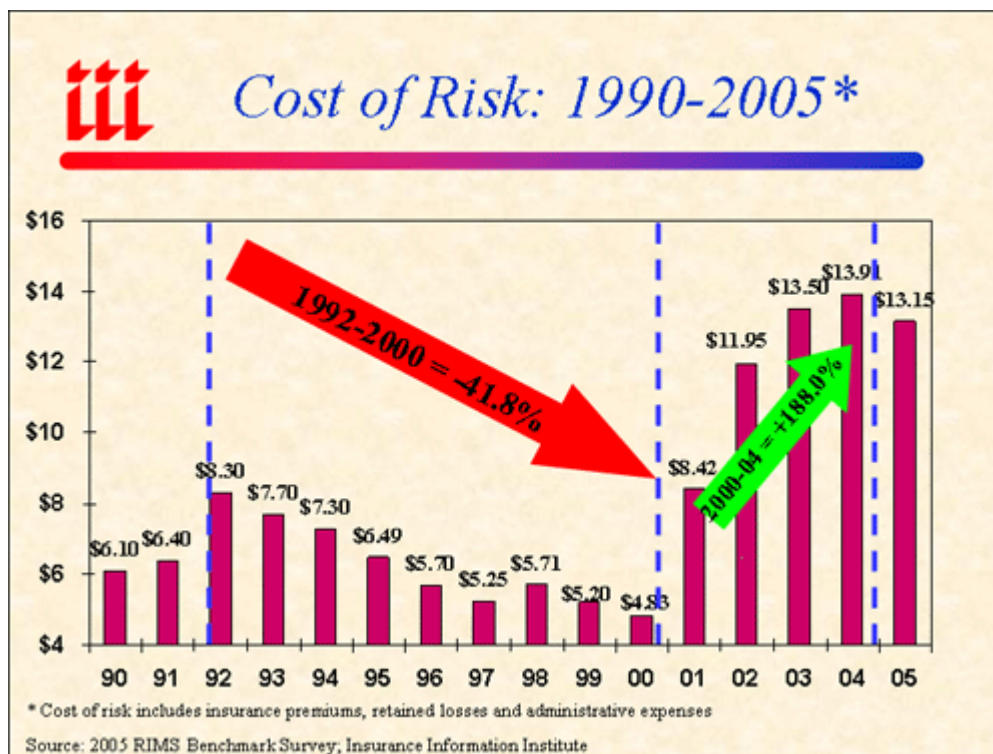
During soft markets customers are able to negotiate lower insurance prices, as insurers compete for business, sometimes at below cost. When the market inevitably hardens, prices rise as insurers make adjustments to inadequate rates. The chart below tracks fluctuations in the cost of insurance, as tracked by the Risk and Insurance Management Society.

Mechanisms have sprung up to help businesses find coverages during hard markets or times when some coverages are difficult to obtain for other reasons, such as an overly litigious environment.

One such mechanism is the alternative market (discussed later); another is the Market Assistance Program. A MAP is a temporary, voluntary clearinghouse and referral system designed to put

companies or individuals looking for insurance in touch with insurance companies. They are organized when something happens to cause insurance companies to cut back on the amount of insurance they are willing to provide. Recently, MAPs have been created in states such as Washington, where the medical community is having difficulty finding malpractice insurance.

The chart below shows the cost of risk per \$1,000 of revenue, based on a survey by the Risk & Insurance Management Society (RIMS).



**FINANCIAL REPORTING
 ACCOUNTING**

Insurers in all states are required to use a special accounting system when filing annual financial reports with state regulators. This system is known as statutory accounting principles (SAP). SAP accounting is more conservative than generally accepted accounting principles (GAAP), as defined by the Financial Accounting Standards Board, and is designed to ensure that insurers have sufficient capital and surplus to cover all anticipated insurance-related obligations. The two systems differ principally in matters of timing of expenses, tax accounting, the treatment of capital gains and accounting for surplus. Simply put, SAP recognizes liabilities earlier or at a higher value and recognizes assets later or at a lower value. GAAP accounting focuses on a business as a going concern, while SAP accounting treats insurers as if they were about to be liquidated. SAP accounting is defined by state law according to uniform codes established by the National Association of Insurance Commissioners. Insurance companies reporting to the Securities and Exchange Commission must maintain and report another set of figures that meet GAAP standards.

RESERVES

Reserves are liabilities. They reflect an insurer's financial obligations with respect to the insurance policies it has issued. An insurer's two major liabilities are loss reserves and unearned premium reserves. Loss reserves are an insurance company's best estimate of what it will pay in the future for claims. Unearned premium reserves represent the premiums paid for coverage that has not yet been used because the policy has not expired. If the policy was cancelled by the policyholder, for example, the insurer would have to return the dollar amount of unused coverage.

Loss reserves are generally the largest liability on an insurer's balance sheet. When a claim is filed, a reserve is established for payment of that claim. Property claims are usually clear-cut and are paid soon after a claim is filed. But with product liability and other so-called long tail coverages, the total harm caused may not be apparent for some time and the ultimate cost of claims may not be known for years, especially in complex cases that are litigated. In such cases, claims adjusters and actuaries continuously reevaluate costs as new information on the claim becomes available and adjust reserves accordingly based on their experience and judgment.

Companies pay considerable attention to their loss reserves. Serious under-reserving may cause an insurer to over-estimate its policyholder surplus (see below), making its financial health appear better than it is.

INVESTMENTS AND INVESTMENT INCOME

Insurers have funds available for investment because coverage is generally prepaid --insurers collect premiums in advance of paying claims on the corresponding policies – and because they are required to have a financial cushion to pay an unexpectedly large number of claims after a disaster such as a major hurricane or the 2001 World Trade Center terrorist attack. They also invest funds set aside as loss reserves and unearned premium reserves.

Insurers' investment income is made up of two main items: interest, dividends and other investment earnings; and realized capital gains from selling assets.

The insurance industry does not usually generate profits from its underwriting operations. Investment income generally offsets underwriting losses.

One measure of the industry's profitability is the combined ratio, the percentage of the premium dollar spent on claims and expenses. The combined ratio does not take into account investment income. A combined ratio over 100 indicates an underwriting loss and a combined ratio under 100 indicates an underwriting profit. In periods when interest rates are very high, the industry can still make an overall profit even if the combined ratio is higher than 100, especially in long-tail liability lines where claims may take a long time to settle, because losses on its insurance operations can be offset by investment income. However, when investment income is low during periods of high stock market volatility and very low interest rates, this source of income cannot be relied on to offset underwriting losses. In such an environment, a combined ratio of 100 no longer guarantees an adequate return and insurance companies must price their products closer to the actual cost of underwriting and adjusting claims.

Property/casualty insurers hold a large percentage of their investments in the form of bonds, to protect their assets against precipitous stock market declines, and because they can be more easily liquidated to pay claims in a major disaster than real estate and stocks. About two-thirds of total investments are in bonds, although this figure has dropped from about 70 percent a decade ago, and less than one-fifth are in common stock. The asset quality of the industry's investments is high. Bonds in or near default (Class 6) accounted for only 0.1 percent of all bonds owned at the end of 2003, the latest data available.

POLICYHOLDER SURPLUS

Insurance companies are required to have a minimum level of capital and policyholder surplus before they can open their doors for business and must maintain certain levels relative to the business they assume. In a stock company, policyholder surplus consists of retained earnings and capital paid in by shareholders. In mutual companies, it consists of retained earnings and amounts paid by policyholders and others to meet licensing requirements.

Policyholder surplus is essentially the amount of money remaining after an insurer's liabilities are subtracted from its assets. Policyholder surplus is a financial cushion that protects a company's policyholders in the event of unexpected or catastrophic losses. In other industries it is known as "net worth" or "owners equity." It is a measure of underwriting capacity because it reflects the financial resources (capital) that stand behind every policy written by the insurer. A weakened surplus can lead to ratings downgrades and ultimately, if the situation is serious enough, to insolvency.

Policyholder surplus is not fungible; in other words it is not transferable from one segment of the industry as a result of improved underwriting or investment performance to another. A large increase in surplus for auto insurers in one state, for example, cannot be used by commercial lines companies to provide coverage to corporations against terrorism attacks in another.

There is no general measure of capital adequacy for property/casualty insurers. Capital adequacy is linked to the riskiness of an insurer's business. All other things being equal, an insurance company underwriting medical device manufacturers needs a larger cushion of capital than a company covering Main Street businesses, for example, because the potential medical malpractice liability losses are likely to be much higher.

REGULATION INTRODUCTION

Insurance is regulated by the states. This system of regulation stems from the McCarran-Ferguson Act of 1945, which describes state regulation and taxation of the industry as being in "the public interest" and clearly gives it preeminence over federal law. Each state has its own set of statutes and rules.

State insurance departments oversee insurer solvency, market conduct and, to a greater or lesser degree, review and rule on requests for rate increases for coverage, among other things. In commercial insurance, workers compensation is the most highly regulated, largely because it is, with the exception of Texas, mandated by state law.

LICENSING AND CAPITAL REQUIREMENTS

An insurance company must be licensed before it can do business. This too is regulated by the states. Insurance companies that are licensed and authorized to do business in a particular state are known as “admitted” insurers and are said to be “domiciled” in the state that issued the primary license; they are “domestic” in that state. Once licensed in one state, they may seek licenses in other states as a “foreign” insurer. Insurers incorporated in a foreign country are called “alien” insurers in the U.S. jurisdictions in which they are licensed. Surplus lines insurers are subject to different licensing agreements than standard companies; they only need to be licensed and admitted in their domiciliary state where they are an admitted company and do business as a standard lines company and are overseen for solvency by that state. Elsewhere they are “non-admitted” and are free of rate and policy regulation.

All insurance companies, including surplus lines insurers, are subject to capital and surplus requirements, which vary widely by state. Some states have requirements for individual lines of insurance. For example, New York has capital and surplus requirements for workers compensation. Insurers writing workers compensation in New York must have \$500,000 in capital and \$250,000 in surplus. In Wyoming, there are different requirements for surplus lines companies according to company ownership, stock and mutual companies for example.

It is the responsibility of the National Association of Insurance Commissioners (NAIC) to develop model rules and regulations for the industry, many of which must be approved by state legislatures before they can be implemented. The NAIC moved to strengthen solvency regulation in the 1980s, developing an accreditation program that requires state insurance departments to meet certain prescribed standards. It also established minimum capital requirements for insurers, based on the riskiness of their business.

SOLVENCY/GUARANTY FUNDS

The regulation of insurance company solvency is a function of the state. State regulators monitor the financial health of companies licensed to provide insurance in their state through analysis of the detailed annual financial statements that insurers are required to file and periodic onsite examinations. When a company is found to be in poor financial condition, regulators can take various actions to try to save it. Insolvencies do occur, however, despite the best efforts of regulators.

All states have organizations known as guaranty funds through which the property/casualty insurance industry covers claims against insolvent insurers. Insurers are required to be members of guaranty associations as a condition of licensing. When there is an insolvency, they are assessed based on business they do in that state to pay unpaid claims. The exception is surplus lines insurers, which are not part of the guaranty fund system and whose policyholders have little protection against unpaid claims if their insurer becomes insolvent. New Jersey is the only state to have established a guaranty fund specifically for surplus lines insurers.

While all state guaranty funds cover homeowners, auto and workers compensation claims, some other types of insurance may not be covered.

RATE REGULATION

States differ greatly on the extent of regulation of commercial lines. Some states allow insurers to be free of rate regulation in transactions with corporate entities that meet certain criteria establishing their size and sophistication as insurance buyers, but the range in size varies from state to state.

While the regulatory processes in each state varies, three principles guide every state's rate regulation system: that rates be adequate (to maintain insurance company solvency), but not excessive (not so high as to lead to exorbitant profits) nor unfairly discriminatory (price differences must reflect expected claim and expense differences).

In line with these principles, states have adopted various methods of regulating insurance rates, which fall roughly into two categories: "prior approval," meaning that they must be approved by the regulator before they can be used, and "competitive." This does not mean there is no competition in states using a prior approval system. Most approved rates in prior approval states are the rates used, but in some cases, particularly in commercial coverages, companies compete at rates below these approved ceilings.

As mentioned above, surplus lines insurers do not have to file rates and policy forms but must confirm to solvency and licensing regulations.

PROPOSALS TO MODERNIZE THE REGULATION OF INSURANCE

Although insurance in the United States has traditionally been regulated by individual states, many in the insurance industry now see the current state system as overly complex, anticompetitive and unduly burdensome. Reform proposals at the national level are moving in two directions. One is a dual (federal/state) chartering system similar to the banking industry's dual regulatory system that would allow companies to choose between the state system and a national regulatory structure and that would eliminate the need to comply with 51 sets of different regulations. The other is a modernization of the state system that would create a framework for a national system of state-based regulation with uniform standards in such areas as market conduct, licensing, the filing of new products and reinsurance.

What It Does

Lines of Business

STANDARD LINES PREMIUMS

COMMERCIAL LINES INSURANCE

The commercial lines sector of the property/casualty insurance industry generally provides insurance products for businesses as opposed to the personal lines sector, which offers products for individuals. However, the division between commercial and personal coverages is not precise. Inland marine insurance, which is included in the commercial lines sector, may cover some personal property such

as expensive jewelry, fine art and other items whose values are above the standard homeowners policy limits.

WORKERS COMPENSATION INSURANCE, 1999-2006

Year	Net premiums written (1) (\$000)	Annual percent change	Combined ratio (2)			
			Calendar year (3)	Annual point change	Accident year (3)	Annual point change
1999	\$23,090,325	-4.7%	120.0	NA	140	9 pts.
2000	26,185,928	13.4	114.9	-5.1 pts.	135	-5
2001	27,123,299	3.6	117.3	2.4	123	-12
2002	30,612,127	12.9	108.7	-8.6	104	-19
2003	32,919,340	7.5	108.9	0.2	96	-8
2004	36,734,514	11.6	105.5	-3.4	88	-8
2005	39,724,355	8.1	100.5	-5.0	87	-1
2006	41,825,979	5.3	93.8	-6.7	87 (4)	0

(1) After reinsurance transactions, excluding state funds.
(2) After dividends to policyholders. A drop in the combined ratio represents an improvement; an increase represents a deterioration. See also Glossary.
(3) Calendar year data are from National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data, LLC. Accident year data are from the National Council on Compensation Insurance.
(4) Preliminary.
NA=Data not available.
Source: National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data, LLC.; National Council on Compensation Insurance.

COMMERCIAL AUTOMOBILE INSURANCE

Commercial automobile insurance protects businesses against property damage and legal liability associated with the operation of the vehicles a company owns. In addition, businesses may also buy insurance covering their liability for their employees' use of automobiles not owned by the business, including personally owned cars as well as rented, leased or borrowed vehicles.

COMMERCIAL AUTOMOBILE INSURANCE, 1999-2006
(\$000)

Year	Liability				Collision and comprehensive			
	Net premiums written (1)	Annual percent change	Combined ratio (2)	Annual point change	Net premiums written (1)	Annual percent change	Combined ratio (2)	Annual point change
1999	\$12,979,182	-2.1%	120.5	NA	\$5,381,430	5.4%	111.5	NA
2000	13,734,120	5.8	122.0	1.5 pts.	6,070,862	12.8	104.8	-6.7 pts.
2001	15,270,917	11.2	122.8	0.8	6,459,093	6.4	101.7	-3.1
2002	17,232,258	12.8	108.1	-14.7	7,322,301	13.4	93.6	-8.1
2003	18,444,917	7.0	99.5	-8.6	7,018,962	-4.1	83.7	-9.9
2004	19,569,829	6.1	96.8	-2.6	7,149,217	1.9	82.9	-0.8
2005	19,846,866	1.4	91.8	-5.0	6,951,136	-2.8	88.0	5.2
2006	19,702,725	-0.7	95.5	3.7	6,949,355	0.0	88.4	0.4

(1) After reinsurance transactions, excluding state funds.

(2) After dividends to policyholders. A drop in the combined ratio represents an improvement; an increase represents a deterioration. See also Glossary.

NA=Data not available.

Source: National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data, LLC. Copyrighted information. No portion of this work may be copied or redistributed without the express written permission of Highline Data, LLC.

GENERAL LIABILITY INSURANCE

General liability insurance covers the liability risks of a business arising from injuries or property damage that is caused by its products, completed jobs, premises and operations. It consists of two lines of insurance: "products liability" and "other liability."

GENERAL LIABILITY INSURANCE, 1999-2006
Total (\$000)

Year	Net premiums written (1)	Annual percent change
1999	\$19,163,683	-1.0%
2000	20,127,095	5.0
2001	23,451,789	16.5

2002	31,129,659	32.7
2003	38,876,428	24.9
2004	43,154,562	11.0
2005	42,924,445	-0.5
2006	45,844,258	6.8

Products Liability (\$000)

Year	Net premiums written (1)	Annual percent change	Combined ratio (2)	Annual point change
1999	\$1,586,915	-2.4%	159.1	NA
2000	1,413,984	-10.9	130.7	-28.4 pts.
2001	2,035,893	44.0	213.8	83.1
2002	1,787,544	-12.2	355.0	141.2
2003	2,726,599	52.5	165.8	-189.2
2004	3,401,867	24.8	152.4	-13.4
2005	3,561,223	4.7	130.9	-21.5
2006	3,623,796	1.8	77.6	-53.3

Other Liability (\$000)

Year	Net premiums written (1)	Annual percent change	Combined ratio (2)	Annual point change
1999	\$17,576,768	-0.9%	106.2	NA
2000	18,713,111	6.5	110.5	4.3 pts.
2001	21,415,896	14.4	120.4	9.9
2002	29,342,115	37.0	124.6	4.2
2003	36,149,829	23.2	112.1	-12.5
2004	39,752,695	10.0	114.0	1.9
2005	39,363,222	-1.0	110.4	-3.6
2006	42,220,462	7.3	94.6	-15.8

(1) After reinsurance transactions, excluding state funds.
 (2) After dividends to policyholders. A drop in the combined ratio represents an improvement; an increase

represents a deterioration. See also Glossary.
NA=Data not available.
Source: National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data, LLC.

COMMERCIAL AND FARMOWNERS MULTIPLE PERIL INSURANCE

Commercial multiple peril insurance is a package policy that includes property, boiler and machinery, crime and general liability coverages. Farmowners multiple peril insurance, similar to homeowners insurance, provides coverage to farmowners and ranchowners against a number of named perils and liabilities. It covers a dwelling and its contents, as well as barns, stables and other structures.

COMMERCIAL MULTIPLE PERIL INSURANCE, 1999-2006 Total (\$000)

Year	Net premiums written (1)	Annual percent change
1999	\$18,983,821	-2.4%
2000	20,072,151	5.7
2001	22,230,355	10.8
2002	25,421,072	14.4
2003	27,430,022	7.9
2004	29,074,586	6.0
2005	29,695,507	2.1
2006	31,848,875	7.3

Non-Liability Portion (\$000)

Year	Net premiums written (1)	Annual percent change	Combined ratio (2)	Annual point change
1999	\$10,293,766	-1.4%	121.7	NA
2000	11,706,119	13.7	114.8	-6.9 pts.
2001	13,010,431	11.1	117.2	2.4
2002	15,251,130	17.2	96.1	-21.1
2003	16,352,256	7.2	88.1	-8.0
2004	16,971,835	3.8	96.7	8.6
2005	17,705,984	4.3	93.8	-2.9
2006	18,245,136	3.0	86.9	-6.9

Liability Portion (\$000)

Year	Net premiums written (1)	Annual percent change	Combined ratio (2)	Annual point change
1999	\$8,690,055	-3.6%	113.4	NA
2000	8,366,032	-3.7	115.4	2.0 pts.
2001	9,219,924	10.2	121.3	5.9
2002	10,169,942	10.3	113.9	-7.4
2003	11,077,766	8.9	115.0	1.1
2004	12,102,751	9.3	105.4	-9.6
2005	11,989,523	-0.9	102.7	-2.7
2006	13,603,739	13.5	97.8	-4.9

(1) After reinsurance transactions, excluding state funds.
(2) After dividends to policyholders. A drop in the combined ratio represents an improvement; an increase represents a deterioration. See also Glossary.

NA=Data not available.
Source: National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data, LLC. Copyrighted information. No portion of this work may be copied or redistributed without the express written permission of Highline Data, LLC.

FARMOWNERS MULTIPLE PERIL INSURANCE, 1999-2006 (\$000)

Year	Net premiums written (1)	Annual percent change	Combined ratio (2)	Annual point change
1999	\$1,478,142	2.7%	111.4	NA
2000	1,524,233	3.1	108.9	-2.5 pts.
2001	1,640,592	7.6	113.5	4.6
2002	1,779,336	8.5	106.7	-6.8
2003	2,000,834	12.4	99.1	-7.6
2004	2,118,097	5.9	91.7	-7.4
2005	2,266,920	7.0	94.6	2.9
2006	2,310,688	1.9	122.8	28.2

(1) After reinsurance transactions, excluding state funds.
 (2) After dividends to policyholders. A drop in the combined ratio represents an improvement; an increase represents a deterioration. See also Glossary.
 NA=Data not available.
 Source: National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data, LLC. Copyrighted information. No portion of this work may be copied or redistributed without the express written permission of Highline Data, LLC.

MEDICAL MALPRACTICE INSURANCE

Medical malpractice insurance covers doctors and other professionals in the medical field for liability claims arising from their treatment of patients.

MEDICAL MALPRACTICE INSURANCE, 1999-2006 (\$000)

Year	Net premiums written (1)	Annual percent change	Combined ratio (2)	Annual point change
1999	\$5,181,729	3.1%	128.6	NA
2000	5,726,696	10.5	127.9	-0.7 pts.
2001	6,256,399	9.2	150.4	22.5
2002	7,440,970	18.9	138.0	-12.4
2003	8,753,854	17.6	138.8	0.8
2004	9,124,240	4.2	108.6	-30.2
2005	9,734,772	6.7	100.1	-8.5
2006	10,365,836	6.5	89.5	-10.6

(1) After reinsurance transactions, excluding state funds.
 (2) After dividends to policyholders. A drop in the combined ratio represents an improvement; an increase represents a deterioration. See also Glossary.
 NA=Data not available.
 Source: National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data, LLC. Copyrighted information. No portion of this work may be copied or redistributed without the express written permission of Highline Data, LLC.

FIRE AND ALLIED LINES INSURANCE

Fire insurance provides coverage against losses caused by fire and lightning. It is usually sold as part of a package policy such as commercial multiple peril.

Allied lines insurance includes property insurance that is usually bought in conjunction with a fire insurance policy. Allied lines includes coverage for wind and water damage and vandalism.

**FIRE INSURANCE, 1999-2006
 (\$000)**

Year	Net premiums written (1)	Annual percent change	Combined ratio (2)	Annual point change
1999	\$4,773,647	1.4%	104.0	NA
2000	4,740,558	-0.7	110.9	6.9 pts.
2001	5,097,592	7.5	117.5	6.6
2002	7,365,861	44.5	84.0	-33.5
2003	8,396,083	14.0	79.6	-4.4
2004	8,050,779	-4.1	73.1	-6.5
2005	7,937,200	-1.4	83.2	10.1
2006	9,362,560	18.0	77.9	-5.3

(1) After reinsurance transactions, excluding state funds.

(2) After dividends to policyholders. A drop in the combined ratio represents an improvement; an increase represents a deterioration. See also Glossary.

NA=Data not available.

Source: National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data, LLC. Copyrighted information. No portion of this work may be copied or redistributed without the express written permission of Highline Data, LLC.

ALLIED LINES INSURANCE, 1999-2006
(\$000)

Year	Net premiums written (1)	Annual percent change	Combined ratio (2)	Annual point change
1999	\$2,815,608	-4.8%	123.7	NA
2000	2,933,047	4.2	115.6	-8.1 pts.
2001	3,732,266	27.2	151.1	35.5
2002	4,838,138	29.6	86.3	-64.8
2003	6,154,573	27.2	77.9	-8.4
2004	5,985,422	-2.7	119.8	41.9
2005	5,945,718	-0.7	152.9	33.1
2006	6,592,847	10.9	94.4	-58.5

(1) After reinsurance transactions, excluding state funds.
(2) After dividends to policyholders. A drop in the combined ratio represents an improvement; an increase represents a deterioration. See also Glossary.

NA=Data not available.

Source: National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data, LLC. Copyrighted information. No portion of this work may be copied or redistributed without the express written permission of Highline Data, LLC.

INLAND MARINE AND OCEAN MARINE INSURANCE

Inland marine insurance covers bridges and tunnels, goods in transit, movable equipment, unusual property, and communications-related structures as well as expensive personal property. Ocean marine insurance provides coverage on all types of vessels, for property damage to the vessels and cargo, as well as associated liabilities.

INLAND MARINE INSURANCE, 1999-2006
(\$000)

Year	Net premiums written (1)	Annual percent change	Combined ratio (2)	Annual point change
1999	\$6,063,160	2.8%	101.2	NA
2000	6,577,227	8.5	92.0	-9.2 pts.

2001	6,686,003	1.7	98.7	6.7
2002	6,987,446	4.5	85.7	-13.0
2003	7,786,214	11.4	80.1	-5.6
2004	7,940,003	2.0	84.1	4.0
2005	8,251,432	3.9	90.3	6.2
2006	9,215,704	11.7	72.6	-17.7

(1) After reinsurance transactions, excluding state funds.

(2) After dividends to policyholders. A drop in the combined ratio represents an improvement; an increase represents a deterioration. See also Glossary.

NA=Data not available.

Source: National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data, LLC. Copyrighted information. No portion of this work may be copied or redistributed without the express written permission of Highline Data, LLC.

OCEAN MARINE INSURANCE, 1999-2006
(\$000)

Year	Net premiums written (1)	Annual percent change	Combined ratio (2)	Annual point change
1999	\$1,756,781	-5.5%	115.5	NA
2000	1,738,796	-1.0	102.6	-12.9 pts.
2001	1,979,205	13.8	104.1	1.5
2002	2,442,039	23.4	100.9	-3.2
2003	2,588,607	6.0	103.1	2.2
2004	2,828,685	9.3	95.4	-7.7
2005	2,948,349	4.2	114.5	19.1
2006	3,133,418	6.3	97.3	-17.2

(1) After reinsurance transactions, excluding state funds.

(2) After dividends to policyholders. A drop in the combined ratio represents an improvement; an increase represents a deterioration. See also Glossary.

NA=Data not available.

Source: National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data, LLC. Copyrighted information. No portion of this work may be copied or redistributed without the express written permission of Highline Data, LLC.

SURETY AND FIDELITY

Surety bonds provide monetary compensation in the event that a policyholder fails to perform certain acts such as the proper fulfillment of a construction contract within a stated period. Surety bonds are usually purchased by the party which has contracted to complete a project. They are required for public projects in order to protect taxpayers.

Fidelity bonds, which are usually purchased by an employer, protect against losses caused by employee fraud or dishonesty.

**SURETY BONDS, 1999-2006
 (\$000)**

Year	Net premiums written (1)	Annual percent change	Combined ratio (2)	Annual point change
1999	\$3,273,926	7.2%	83.6	NA
2000	3,362,627	2.7	86.7	3.1 pts.
2001	3,039,761	-9.6	121.6	34.9
2002	3,260,415	7.3	110.3	-11.3
2003	3,382,615	3.7	119.9	9.6
2004	3,817,245	12.8	119.5	-0.4
2005	3,820,810	0.1	101.4	-18.1
2006	4,433,266	16.0	80.6	-20.8

(1) After reinsurance transactions, excluding state funds.

(2) After dividends to policyholders. A drop in the combined ratio represents an improvement; an increase represents a deterioration. See also Glossary.

NA=Data not available.

Source: National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data, LLC. Copyrighted information. No portion of this work may be copied or redistributed without the express written permission of Highline Data, LLC.

FIDELITY BONDS, 1999-2006
 (\$000)

Year	Net premiums written (1)	Annual percent change	Combined ratio (2)	Annual point change
1999	\$871,365	11.8%	90.4	NA
2000	815,007	-6.5	93.3	2.9 pts.
2001	842,428	3.4	93.2	-0.1
2002	1,024,107	21.6	104.7	11.5
2003	1,192,535	16.4	70.9	-33.8
2004	1,309,344	9.8	79.7	8.8
2005	1,216,793	-7.1	85.1	5.4
2006	1,240,822	2.0	87.2	2.1

(1) After reinsurance transactions, excluding state funds.
 (2) After dividends to policyholders. A drop in the combined ratio represents an improvement; an increase represents a deterioration. See also Glossary.
 NA=Data not available.
 Source: National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data, LLC. Copyrighted information. No portion of this work may be copied or redistributed without the express written permission of Highline Data, LLC.

BURGLARY AND THEFT AND BOILER AND MACHINERY INSURANCE

Burglary and theft insurance covers the loss of property, money and securities due to burglary, robbery or larceny.

Boiler and machinery insurance is also known as mechanical breakdown, equipment breakdown or systems breakdown coverage. Among the types of equipment covered by this insurance are heating, cooling, electrical, telephone/communications and computer equipment.

BURGLARY AND THEFT INSURANCE, 1999-2006
(\$000)

Year	Net premiums written (1)	Annual percent change	Combined ratio (2)	Annual point change
1999	\$111,059	1.4%	82.3	NA
2000	116,885	5.2	60.3	-22.0 pts.
2001	121,629	4.1	71.3	11.0
2002	114,299	-6.0	53.4	-17.9
2003	123,692	8.2	66.8	13.4
2004	138,307	11.8	68.3	1.5
2005	120,133	-13.1	63.5	-4.8
2006	143,054	19.1	64.2	0.7

(1) After reinsurance transactions, excluding state funds.

(2) After dividends to policyholders. A drop in the combined ratio represents an improvement; an increase represents a deterioration. See also Glossary.

NA=Data not available.

Source: National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data, LLC. Copyrighted information. No portion of this work may be copied or redistributed without the express written permission of Highline Data, LLC.

BOILER AND MACHINERY INSURANCE, 1999-2006
(\$000)

Year	Net premiums written (1)	Annual percent change	Combined ratio (2)	Annual point change
1999	\$760,055	-1.8%	117.8	NA
2000	1,144,068	50.5	89.9	-27.9 pts.
2001	1,119,295	-2.2	88.2	-1.7
2002	1,410,316	26.0	73.6	-14.6
2003	1,591,987	12.9	68.4	-5.2
2004	1,572,195	-1.2	67.1	-1.3
2005	1,582,917	0.7	60.2	-6.9
2006	1,675,296	5.8	73.1	12.9

(1) After reinsurance transactions, excluding state funds.
 (2) After dividends to policyholders. A drop in the combined ratio represents an improvement; an increase represents a deterioration. See also Glossary.
 NA=Data not available.
 Source: National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data, LLC. Copyrighted information. No portion of this work may be copied or redistributed without the express written permission of Highline Data, LLC.

CROP INSURANCE

There are two kinds of crop insurance: crop-hail, which is provided by the private market and covers just hail, fire and wind, and federally sponsored multiple peril, which is sold and serviced by the private market but subsidized and reinsured by the federal government.

CROP-HAIL INSURANCE, 1997-2006

Year	Direct premiums written (1) (\$000)	Annual percent change	Loss ratio (2)	Annual point change
1997	\$594,464	-5.8%	57	-15 pts.
1998	576,464	-3.0	83	26
1999	508,108	-11.9	76	-7
2000	468,405	-7.8	68	-8
2001	433,743	-7.4	69	1
2002	405,003	-6.6	70	1
2003	422,137	4.2	56	-14
2004	427,567	1.3	58	2
2005	434,711	1.7	44	-14
2006	405,268	6.8	50	6

(1) Before reinsurance transactions, total for all policyholders of crop-hail insurance.
 (2) The percentage of each premium dollar spent on claims and associated costs. A drop in the loss ratio represents an improvement; an increase represents a deterioration. See also Glossary.
 Source: National Crop Insurance Services.

**MULTIPLE PERIL CROP INSURANCE, 1999-2006
 (\$000)**

Year	Net premiums written (1)	Annual percent change	Combined ratio (2)	Annual point change
1999	\$725,821	1.8%	98.2	NA
2000	938,840	29.3	90.4	-7.8 pts.
2001	1,321,820	40.8	96.0	5.6
2002	2,003,443	51.6	124.4	28.4
2003	1,702,862	-15.0	109.8	-14.6
2004	2,203,143	29.4	76.1	-33.7
2005	2,234,630	1.4	91.3	15.2
2006	2,824,769	26.4	77.9	-13.4

(1) After reinsurance transactions, excluding state funds.
 (2) After dividends to policyholders. A drop in the combined ratio represents an improvement; an increase represents a deterioration. See also Glossary.
 NA=Data not available.
 Source: National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data, LLC. Copyrighted information. No portion of this work may be copied or redistributed without the express written permission of Highline Data, LLC.

REINSURANCE

Reinsurance is essentially insurance for insurance companies. It is a way for primary insurers to protect against unforeseen or extraordinary losses. Reinsurance also serves to limit liability on specific risks, to increase individual insurers' capacity to write business, and to help insurers stabilize their business in the face of the wide swings in profit and loss margins which are inherent in the insurance business.

REINSURANCE, 1998-2006 (1)
(\$000)

Year	Net premiums written	Annual percent change	Combined ratio (2)	Annual point change
1998	\$19,439,312	-2.5%	104.4	NA
1999	21,212,749	9.1	113.8	9.4 pts.
2000	24,853,859	17.2	114.2	0.4
2001	26,687,636	7.4	142.9	28.7
2002	29,503,920	10.6	121.3	-21.6
2003	30,630,787	3.8	101.2	-20.1
2004	28,759,085	-6.1	106.2	5.0
2005	25,330,697	-11.9	129.4	23.2
2006	25,834,026	2.0	94.9	-34.5

(1) Based on reinsurance companies responding to quarterly surveys conducted by the Reinsurance Association of America.
 (2) After dividends to policyholders.
 NA=Data not available.
 Source: Reinsurance Association of America.

CAPTIVES AND OTHER ALTERNATIVE MARKETS

SELF INSURANCE, CAPTIVES AND OTHER ALTERNATIVE RISK MECHANISMS

Traditionally, businesses have handled risk by transferring it to an insurance company through the purchase of an insurance policy, or alternatively, by retaining the risk and setting aside funds to meet expected losses through an arrangement known as "self insurance." A company might use a combination of traditional and self insurance. For instance, it might decide to establish a special self insurance fund to cover a substantial first layer, or amount, of any loss, with insurance coverage to pay for losses in excess of that layer. Over the years, a number of other alternatives to traditional commercial insurance have sprung up to respond to fluctuations in the marketplace. These entities include captives -- a special type of insurance company set up by a parent company, trade association or group of companies to insure the risks of its owner or owners -- and risk-retention groups (RRGs) -- in which entities in a common industry join together to provide members with liability insurance coverage. Another option, risk purchasing groups, which were introduced in the 1980s, have recently enjoyed a resurgence in popularity. Like RRGs, risk purchasing groups must be made up of persons or entities with like exposures and in a common business. However, whereas RRGs are essentially liability insurance companies owned by their members, purchasing groups purchase liability coverage for their members from admitted insurers, surplus lines carriers or RRGs. The chart below shows the most popular domiciles for captives.



LEADING CAPTIVE DOMICILES, 2006-2007

Rank	Location	Number of captives	
		2006	2007
1	Bermuda	989	958
2	Cayman Islands	740	765
3	Vermont	563	567
4	British Virgin Islands	400 (1)	409 (1)
5	Guernsey	381	368
6	Barbados	235	256
7	Luxembourg	208	210
8	Turks and Caicos Islands	169 (2)	173 (1)
9	Hawaii	160	163
10	South Carolina	146	158
11	Isle of Man	161	155
12	Dublin	154 (3)	131
13	Nevada	95	115
14	Arizona	83 (3)	108
15	Utah	30	92
16	D.C.	70	77
17	Singapore	60	62
18	Switzerland	48	48
19	New York	39	44
20	Labuan	26 (1)	31
	Total top 20	4,757	4,890
	Total worldwide	4,951	5,119
(1) Business Insurance estimate.			
(2) Excludes credit life insurers.			
(3) Restated.			
Source: Business Insurance, March 3, 2008.			

ALTERNATIVE RISK PRODUCTS: CAPITAL MARKETS

Alternative risk transfer (ART) products, such as catastrophe bonds and weather derivatives, which transfer risk to investors via the capital markets, are also emerging as an alternative to traditional insurance and reinsurance products. One such product -- catastrophe bonds (risk-based securities

sold through the capital markets) -- developed in the wake of Hurricanes Andrew and Iniki in 1992 and the Northridge earthquake in 1994. Tapping into the capital markets allows insurers to diversify their risk and expand the amount of insurance available to individuals and businesses in catastrophe prone areas.

Just as catastrophe bonds help insurers manage risk, another capital markets product, weather derivatives, can help such weather sensitive businesses as ski resorts, oil and propane gas distributors, and others that may experience large swings in annual sales due to weather conditions, to hedge their weather-related risk.

The chart below shows the types of industries that use weather risk products, based on a survey conducted by Pricewaterhouse Coopers for the Weather Risk Management Association (WRMA).

PARTICIPANTS IN THE 2007 WEATHER RISK MANAGEMENT ASSOCIATION SURVEY (1)

<u>Participation by main line of business</u>	-	<u>Participation by location of respondent</u>	-
Banking	2	Asia	2
Energy	3	Europe	6
Insurance	5	North America	5
Other	3		
Total	13	Total	13

(1) Based on companies responding to a survey conducted by PricewaterhouseCoopers for the Weather Risk Management Association; excludes Chicago Mercantile Exchange trades.
 Source: PricewaterhouseCoopers.

SPECIALTY LINES

DIRECTORS AND OFFICERS LIABILITY INSURANCE

Directors and officers liability insurance (D&O) covers directors and officers of a company for negligent acts or omissions and for misleading statements that result in suits against the company. D&O policies usually contain two coverages: personal coverage for individual directors and officers who are not indemnified by the corporation for their legal expenses or judgments against them (as some corporations are not required by their corporate or state charters to provide indemnification) and corporate reimbursement coverage for indemnifying directors and officers. Entity coverage for claims made specifically against the company may also be available. D&O policies may be broadened to include coverage for employment practices liability (EPL). EPL coverage may also be purchased as a stand-alone policy.

A survey of more than 2,400 U.S. and Canadian corporations by Tillinghast D&O Services found that the D&O premium index, a measure of insurance costs, dropped 10 percent in 2004, the first decline

since 1999. However, D&O claims frequency, size and susceptibility all showed increases in 2004. Among the 1,347 U. S. firms responding to both the 2003 and 2004 surveys, the frequency of claims rose 11 percent, and average claim size increased in three out of five claim classes (including employees/unions/physicians, competitors/suppliers/contractors and shareholders/investors). This group's claim susceptibility – the percentage of participants that report one or more claims – increased 6 percent during the same period.

DIRECTORS AND OFFICERS LIABILITY CLAIM INCIDENCE BY BUSINESS CLASS, 1996-2006

<u>Business class</u>	<u>Susceptibility (1)</u>	<u>Frequency (2)</u>
Banking	26%	0.74
Biotechnology and pharmaceuticals	11	0.15
Durable goods	22	0.33
Education	25	0.46
Governmental and other nonprofit	2	0.03
Health services	30	14.66
Merchandising	21	0.39
Nonbanking financial services	17	0.42
Nondurable goods	15	0.25
Personal and business services	18	0.32
Petroleum, mining, agriculture	15	0.30
Real estate, construction	10	0.19
Technology	16	0.24
Transportation and communications	22	0.33
Utilities	35	0.71
Other	0	0.00
All business classes	14%	0.45
(1) Percentage of participants that reported one or more claims over the 10-year experience period, 1996-2006. (2) Average number of claims per participant over the 10-year experience period. A claim frequency of 0.25 indicates that 100 entities reported a total of 25 claims		

over the 10-year period. Source: 2006 Directors and Officers Liability Survey, Tillinghast-Towers Perrin.

TERRORISM INSURANCE/TRIA

In addition to the risk of natural disasters, the insurance industry faces the threat of terrorist attacks. Losses stemming from the destruction of the World Trade Center and other buildings by terrorists on September 11, 2001 totaled about \$32.5 billion, including commercial liability and group life insurance claims -- not adjusted for inflation -- or \$35.9 billion in 2005 dollars. About two thirds of these losses were paid for by reinsurers, companies that provide insurance for insurers.

Prior to September 11, insurers provided terrorism coverage to their commercial insurance customers essentially free of charge because the chance of property damage from terrorist acts was considered remote. After September 11, insurers began to reassess the risk. For a while terrorism coverage was scarce. Reinsurers were unwilling to reinsure policies in urban areas perceived to be vulnerable to attack. Primary insurers filed requests with their state insurance departments for permission to exclude terrorism coverage from their commercial policies.

Concerned about the limited availability of terrorism coverage in high risk areas and its impact on the economy, Congress passed the Terrorism Risk Insurance Act (TRIA). The Act provides a temporary program that, in the event of major terrorist attack, allows the insurance industry and federal government to share losses according to a specific formula. TRIA was signed into law on November 26, 2002, and renewed again for two years in December 2005. Passage of TRIA enabled a market for terrorism insurance to begin to develop because the federal backstop effectively limits insurers' losses, greatly simplifying the underwriting process. About half of all commercial firms now purchase coverage against terrorism, according to a Marsh study.

See <http://www.iii.org/media/hottopics/insurance/terrorism/> for further information.

EMPLOYMENT PRACTICES LIABILITY

Employment practices liability insurance provides protection for an employer against claims made by employees, former employees or potential employees. It covers discrimination (age, sex, race, disability, etc.), wrongful termination of employment, sexual harassment and other employment-related allegations and lawsuits.

Discrimination and wrongful employee dismissal or termination were the most frequently cited employment-related claims in the 2004 Tillinghast survey of more than 2,400 U.S. and Canadian corporations.

The chart following shows trends in jury awards in employment practices liability cases.

TRENDS IN EMPLOYMENT PRACTICES LIABILITY, 1997-2003

Year	Median (midpoint) award	Probability range(1)
1997	\$133,691	\$45,412-376,046
1998	164,200	43,125-400,000
1999	150,000	50,000-463,919
2000	153,588	50,000-467,498
2001	142,017	41,500-450,375
2002	200,000	56,221-500,000
2003	170,000	50,000-519,565
2004	200,000	56,000-500,000
2005	250,632	80,000-600,000
2006	200,000	60,321-500,000

(1) The middle 50 percent of all awards arranged in ascending order in a sampling, 25 percent above and below the median award.

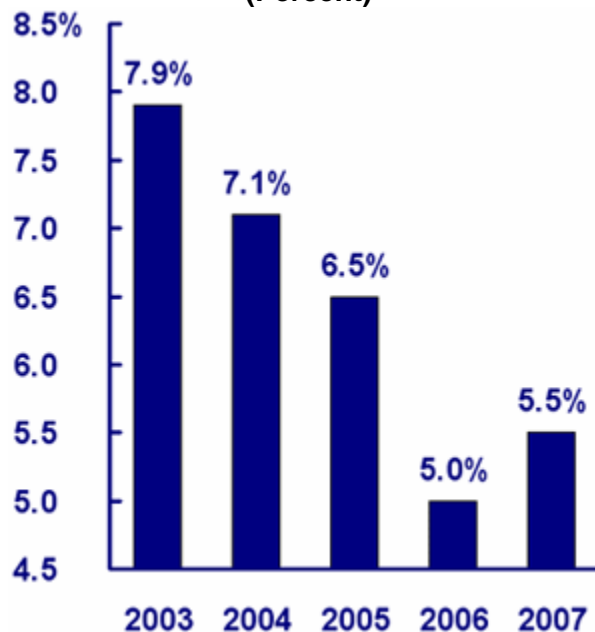
Source: Reprinted with permission from *Employment Practice Liability*. Copyright 2007 by LRP Publications, 747 Dresher Road, P.O. Box 980, Horsham, PA 19044-0980. All rights reserved.

EXCESS CASUALTY

Excess casualty insurance, also known as excess liability insurance, which provides protection from infrequent catastrophic accidents or occurrences, is similar to umbrella liability coverage, which also increases the liability protection provided by a company's insurance policies. The main difference between excess and umbrella policies is that umbrella policies cover all underlying liability policies, whereas excess casualty policies increase the limits of liability on one particular policy. Both types of policies are designed to cover large, infrequent losses such as injuries caused by the collapse of a department store roof under the weight of a category 5 hurricane.

Each year the broker Marsh reviews the excess liability insurance-buying decisions of more than 4,000 organizations worldwide, including some 2,800 U.S. companies. The chart below indicates the percentage of U.S. firms experiencing a loss of \$5 million or more. Those that experienced such a loss tended to purchase much higher limits of liability coverage.

**U.S. FIRMS EXPERIENCING A LOSS OF \$5 MILLION OR MORE, 2003-2007 (1)
 (Percent)**



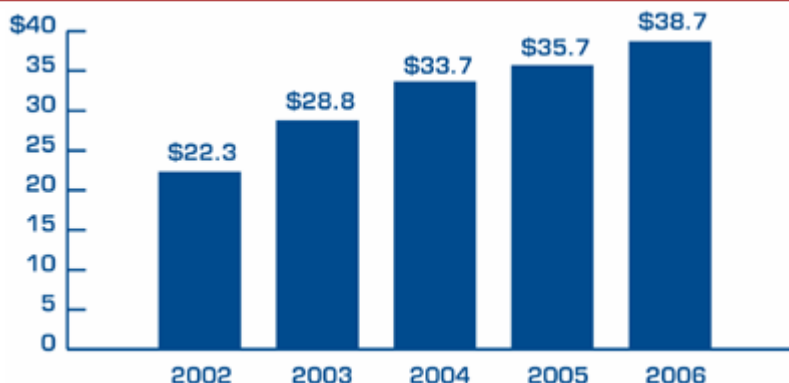
(1) Loss experience in the past 5 years.
 Source: 2007 Limits of Liability Report, © Marsh Inc. 2007.

OTHER SPECIALTY LINES

There are a wide variety of insurance policies that cover special risks not insured under the more common forms of commercial insurance. "The Insurance Marketplace," a directory of specialty providers produced each year by Rough Notes, listed over 600 specialty coverages, ranging from acupuncture specialists liability to kidnap/ransom insurance to special events liability in its latest directory.

**TOTAL GROSS SURPLUS LINES PREMIUMS WRITTEN,
 2002-2006
 (\$ billions)**

- Surplus lines gross premiums written increased by 8 percent in 2006, following a 6 percent rise the previous year.
- Surplus lines premiums have risen by 74 percent since 2002.



Source: 2004 to 2006 premiums from Business Insurance, October 1, 2007; earlier premiums from other issues.

Types of Policies

All businesses need property/casualty insurance coverage. The “property” component protects against damage to or loss of the business’s property. The “casualty” or liability component provides protection against legal liability for damages caused to other people or their property. A wide variety of lines of business fall into these broad categories.

PACKAGE POLICIES

Commercial insurers sell coverages separately and/or offer policies that combine protection from most major property and liability risks in one package. Package policies are created for businesses that generally face the same kind and degree of risk.

Business Owners Policy

Smaller and mid-size companies often purchase a package policy known as the business owner’s policy or BOP. BOP coverage includes property insurance for buildings and contents owned by the company, and liability protection to cover a company’s legal responsibility for the harm it may cause to others. There are two different forms, standard and special, which provides more comprehensive coverage. A key option is business interruption insurance, a form of property insurance that covers the loss of income resulting from a fire or other catastrophe that disrupts the operation of the business. Business interruption can also include the extra expense of operating out of a temporary location. Costs due to business interruption can exceed the property damage that caused the business to shut down.

BOPs do not cover professional liability, auto insurance, workers compensation or health and disability insurance. Businesses need separate insurance policies to cover professional services, vehicles and their employees’ health/disability needs.

Home Businesses

Most of America’s 11 million home-based businesses are vulnerable to significant financial losses because they do not have the proper business insurance coverage, according to a survey by the

Insurance Research Letter, a division of Insurance Services

Network, Inc.

www.isn-inc.com

Independent Insurance Agents & Brokers of America. Several insurance companies have developed special package policies to address the special needs of home businesses. Home entrepreneurs have other options for coverage, including BOPs, or "incidental business endorsement", a special form that attaches to an existing homeowners policy.

Commercial Multiple Peril Policies

Larger companies might purchase a commercial package policy or customize their policies to meet the special risks they face. Commercial multiple peril policies, often purchased by corporations, bundle property, boiler and machinery, crime, and general liability coverage together.

CLAIMS MADE VS. OCCURRENCE POLICIES

Liability insurance protects the assets of a business when it is sued for something the business did (or failed to do) that caused injury or property damage to someone else. A business's liability exposure includes not only paying damages and perhaps a penalty as the result of a successful lawsuit against it, but it also includes attorney's fees and other costs involved in defending a company against a liability claim. Liability coverage may be purchased as part of the package policy, such as the BOP, or the commercial multiple peril policy, or as a separate liability policy known as a commercial general liability insurance policy (CGL). Insurance companies write CGL policies in two ways: as an "occurrence" policy or a "claims made" policy.

Most CGL policies are written with what is called an "occurrence trigger." This means that the CGL policy in effect at the time the alleged injury or property damage occurred is the policy that covers that event, regardless of how far back that event was from the time the claim is filed, or whether the same insurance company is currently insuring the defendant. For example a person might slip in a shoe store, but not experience severe back pain until several months after the fall. By this time, the store might have switched insurers. However, the claim will be handled by the company that was the store's insurer at the time the fall occurred.

CGL policies may also be written on a "claims made" basis. This means the current liability insurer is responsible for claims made during the policy period, even though the event that gave rise to the claim occurred in a prior year. In the above example, the shoe store's current insurer would be responsible for the claim. The claims made policy is used for only a small percentage of liability insurance, mainly for medical malpractice and other types of professional liability.

LOSS SENSITIVE PLANS

Two major forms of insurance approaches used in providing workers' compensation are guaranteed cost plans and loss-sensitive plans. Businesses with guaranteed cost insurance policies pay guaranteed, fixed premiums for the policy period, regardless of the losses that occur during this period. In effect, the business transfers the expenses associated with its losses to the insurance company.

With loss sensitive insurance coverage, the company shares the burden of its loss expenses with the insurer. These plans are frequently referred to as retrospective policies, because the amount the company pays for insurance during a set period is based on the losses sustained during that same period. Generally a retrospective policy establishes set minimum and maximum premium levels. If a company is successful in controlling accidents and associated expenses, then its final premium will near the minimum level. If it experiences major losses, its final premium will be closer to the maximum level. Loss sensitive plans give businesses a strong incentive to take steps to reduce claims via loss control efforts. The plans are also used for general liability coverage.

LARGE DEDUCTIBLE PLANS

Large deductible policies are designed to give employers that are willing to retain most of the claims risk an option that reduces their insurance costs. The deductibles are generally in amounts of \$100,000 or higher. Large deductible programs, which were first introduced in 1989, are used by many companies for their workers compensation insurance, as a way of making costs more predictable. Like retrospective policies, they give employers a strong financial incentive to control losses.

CRIME INSURANCE

Most businesses are vulnerable to losses from crime. Typical commercial property insurance policies exclude losses of money and securities due to any peril and often do not insure inventory, equipment and other types of property against theft. These loss exposures are covered by crime insurance. Coverage for crime losses whether by outside or inside thieves (e.g. embezzlers) may be included in a package policy or the insured business owner may purchase any one of a number of separate policy configurations to protect against these losses. As in other areas, the business owner needs to work with the agent or broker to determine the best coverage and the amount of coverage needed for the particular business.

The Global Dimension

INTRODUCTION

WORLD LIFE AND NONLIFE INSURANCE IN 2006

Outside the United States, the insurance industry is divided into life and non-life or general insurance rather than life/health and property/casualty.

In 2006 world insurance premium volume, for both sectors combined, totaled \$3.72 trillion, up 8.1 percent from \$3.45 trillion in 2005, according to Swiss Re. On an inflation-adjusted basis, total insurance premiums grew fastest in Africa, up 17.6 percent, followed by Latin America and the Caribbean, up 11.6 percent, Europe, up 7.5 percent, Asia, up 3.8 percent, North America, up 2.2 percent and Oceania (Australia, New Zealand and other islands), also up 2.2 percent. Inflation-adjusted premiums grew 16.3 percent in emerging markets and 4.0 percent in industrialized countries.

In 2006 life and non-life insurance premiums (excluding cross-border business) accounted for 16.5 percent of gross domestic product (GDP) in the United Kingdom, the highest share in the Swiss Re study, followed by 16.0 percent in South Africa. Premiums represented 8.8 percent of GDP in the United States.

TOP TEN COUNTRIES BY NONLIFE AND LIFE DIRECT PREMIUMS WRITTEN, 2006 (1)
(Direct premiums written, U.S. \$ millions)

Rank	Country	Non-life premiums (2)	Life premiums	Total premiums		
				Amount	Percent change from prior year	Percent of total world premiums
1	United States (3)	\$636,452	\$533,649	\$1,170,101	5.4%	31.43%
2	Japan (4)	97,495	362,766	460,261	-3.8	12.36
3	United Kingdom	106,676	311,691	418,366	24.5	11.24
4	France	73,262	177,902	251,164	13.7	6.75
5	Germany	109,633	94,911	204,544	3.3	5.49
6	Italy	49,103	89,576	138,679	-4.9	3.72
7	South Korea (4)	28,881	72,298	101,179	18.9	2.72
8	Canada (5)	48,988	39,212	88,200	13.0	2.37
9	PR China	25,713	45,092	70,805	17.7	1.90
10	Spain	37,528	28,285	65,813	8.9	1.77

(1) Before reinsurance transactions.

(2) Includes accident and health insurance.

(3) Nonlife premiums include state funds; life premiums include an estimate of group pension business.

(4) April 1, 2006-March 31, 2007.

(5) Life business expressed in net premiums.

Source: Swiss Re, *sigma*, No. 4/2007.

SIZE OF MARKET

WORLD LIFE AND NONLIFE INSURANCE PREMIUMS, 2004-2006 (1) (Direct premiums written, U.S. \$ millions)

Year	Nonlife (2)	Life	Total
2004	\$1,397,522	\$1,866,636	\$3,264,158
2005	1,442,258	2,003,557	3,445,816
2006	1,514,094	2,209,317	3,723,412

(1) Before reinsurance transactions.

(2) Includes accident and health insurance.

Source: Swiss Re, *sigma* database.

FOREIGN SALES BY U.S. INSURANCE COMPANIES

A majority-owned foreign affiliate of a U.S. company is defined as one that is located in another country and is more than 50 percent owned by a U.S. multinational.

SALES OF INSURANCE OVERSEAS BY AFFILIATES OF U.S. INSURANCE COMPANIES, 1997-2004 (1)

Year	Life		Non-life (2)		Total	
	Sales (\$ millions)	Percent change from prior year	Sales (\$ millions)	Percent change from prior year	Sales (\$ millions)	Percent change from prior year
1997	\$19,206	NA	\$43,661	NA	\$62,867	NA
1998	20,727	7.9%	43,137	-1.2%	63,864	1.6%
1999	24,970	20.5	45,271	4.9	70,241	10.0
2000	33,140	32.7	50,743	12.1	83,883	19.4
2001	33,059	-0.2	46,406	-8.5	79,465	-5.3
2002	40,930	23.8	51,908	11.9	92,838	16.8
2003	44,393	8.5	56,015	7.9	100,408	8.2
2004	NA	NA	60,647	8.3	NA	NA

(1) U.S. majority-owned companies. As of 2004, excludes sales by U.S. bank holding companies.

(2) Includes accident and health insurance.

NA=Data not available.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, International Investment Division.

REINSURANCE

Each year the Reinsurance Association of America (RAA) provides an overview of the countries from which U.S. insurance companies obtain reinsurance, i.e., the countries to which they have ceded, or transferred, some of their risk. The analysis includes premiums that a U.S. insurance company cedes to “alien,” i.e., foreign, reinsurance companies that are not part of the insurer’s own corporate group (“unaffiliated alien reinsurers” in the chart below), as well as business ceded to overseas reinsurers that are part of the insurer’s corporate family (“affiliated alien reinsurers” in the chart below).

According to the RAA, the role of foreign reinsurers in the U.S. market is growing. Unaffiliated alien reinsurers’ share of the U.S. market increased from 51.8 percent in 2005 to 53.1 percent in 2006. If the domicile of the ultimate parent of the reinsurance company is taken into account, foreign (or foreign owned) reinsurance companies accounted for 84.5 percent of the market in 2006, down from 85.4 percent in 2005.

U.S. REINSURANCE PREMIUMS CEDED TO UNAFFILIATED AND AFFILIATED ALIEN REINSURERS BY COUNTRY, 2004-2006 (1) (\$ millions)

Rank	Country	Unaffiliated alien reinsurers			Affiliated alien reinsurers			2006 total
		2004	2005	2006	2004	2005	2006	
1	Bermuda	\$7,795	\$8,908	\$8,982	\$17,031	\$18,590	\$18,474	\$27,456
2	Switzerland	1,533	950	797	7,795	7,664	7,991	8,788
3	U.K.	4,144	4,827	4,630	300	252	346	4,976
4	Germany	2,869	2,529	2,582	3,294	9,401	2,005	4,587
5	Cayman Islands	1,618	1,780	1,806	629	646	435	2,241
6	Barbados	841	837	652	925	917	965	1,617
7	Ireland	852	788	532	177	165	451	983
8	France	401	600	352	198	293	338	690
9	Sweden	NA	NA	NA	38	50	518	518
10	Turks and Caicos	447	382	398	NA	NA	NA	398
11	British Virgin Islands	NA	NA	NA	49	72	327	327
12	Japan	285	273	261	NA	NA	NA	261
	Total, countries shown	20,785	21,874	20,992	30,436	38,090	31,850	52,842
	Total	\$21,961	\$23,246	\$22,214	\$31,140	\$38,816	\$32,470	\$54,684

(1) Ranked by 2006 total reinsurance premiums.
 NA=Data not available.
 Source: Reinsurance Association of America.

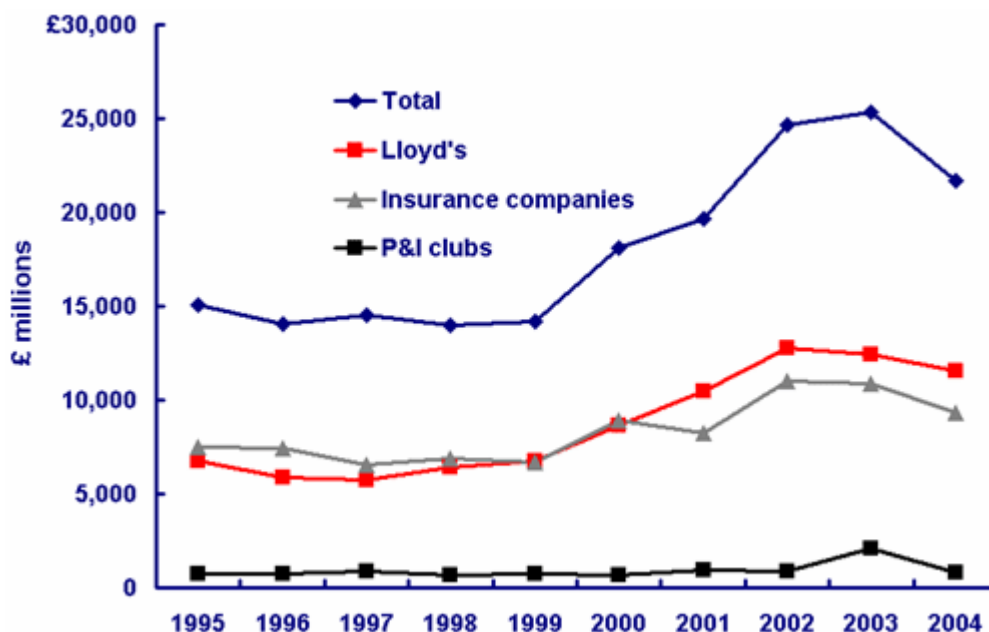
LONDON MARKET
THE LONDON INSURANCE MARKET

The London Market is a distinct, separate part of the U.K. insurance and reinsurance industry centered in the City of London. Its main participants are insurance and reinsurance companies, Lloyd's syndicates, Marine Protection and Indemnity Clubs (P&I Clubs), and brokers who handle most of the business. The core of its activity is the conduct of internationally traded insurance and reinsurance business. This is mostly non-life insurance and reinsurance, particularly marine and aviation business, with an increasing emphasis on high-exposure risks.

The London Market is the trading place for large, unusual and often complex industrial risks. It enjoys a unique status in the global insurance industry as it offers a market place for those risks that cannot easily be placed in local markets. In terms of large industrial insurance business, its market share is estimated at between 10 and 15 percent. Gross premium income for the London Market was conservatively estimated at £26.7 billion in 2005, up 19 percent on the previous year. In 2005, Lloyd's accounted for 52 percent of premiums with the company market generating a further 42 percent. P&I clubs accounted for the remainder.

The London Market has a wide geographical distribution and the U.S. is an increasingly important source of business. For example, in 2001 the U.S. officially overtook the U.K. to become the single largest market at Lloyd's. The London Market is also one of the leading providers of direct insurance and reinsurance to the U.S.

LONDON MARKET GROSS PREMIUM INCOME, 1995-2004 (1) (£ millions)



(1) Values are in British pounds. 1998 breakdown is International Financial Services, London's estimate based on 1997 and 1999 data.

Source: Association of British Insurers; International Underwriting Association of London; Lloyd's; Carter and Falush: The London Insurance Market.

COMPANY MARKET

The majority of companies operating in the London Market are foreign owned. London company market participants include: companies operating from London offices that are members of the International Underwriting Association (IUA); other companies with London underwriting offices; European Economic Area (EEA) licensed insurers and reinsurers operating from a European office; contact offices of foreign companies not authorized to transact business in the UK and P&I Clubs and other marine mutuals.

There is no precise data on the overall performance of the company market, mainly because the published accounts for a large number of companies do not show London Market business separately. The Association of British Insurers (ABI) estimates that gross premiums in this part of the market totaled around £9.4 billion in 2004.

LLOYD'S

Lloyd's is not an insurance company, but an insurance market of members, both corporate and individual. Lloyd's members conduct their insurance business in syndicates, each of which is run by a managing agent.

The Lloyd's insurance market will have the capacity to underwrite \$31.6 billion in business in 2007. During the period 1999-2004 the capacity of the market grew by over 50 percent, to £15 billion (about \$27.5 billion). In 2005, capacity dropped to £13.7 billion. This was followed by increases in 2006 (to £14.8) and 2007 (to £16.1).

LLOYD'S INSURANCE MARKET CAPACITY, 1998-2007 (1)
(£ billions)



(1) Beginning of year.

Source: Lloyd's Members' Services Unit.

GROWTH IN LLOYD'S CAPACITY

During the 1990s the Lloyd's market underwent a major restructuring and there was a large increase in the average managed capacity following the introduction of corporate capital in 1994. In 1990 the market's capacity was written by 401 syndicates, while in 2007 it was written by 66 syndicates. The providers of capacity have also changed as the proportion of individual capital in the market has steadily decreased since 1994. In 2007, 93.1 percent of Lloyd's capacity was provided by corporate capital, 22 percent of which came from Bermudan and North American companies. The remaining 16 percent was written by individual members.

Lloyd's largest single market is the U.S. which accounted for 39 percent of business in 2007. Lloyd's is the second-largest insurer of surplus lines business in the U.S. and one of the largest reinsurers.

Over the course of its history, Lloyd's has built a reputation for developing innovative coverages for the U.S. market including excess of loss reinsurance, kidnap and ransom insurance and more recently, terrorism insurance.

BERMUDA

THE BERMUDA MARKET

Bermuda holds a key position in the global insurance and reinsurance industry. At the end of 2005, the island was home to a total of 1,312 insurers with total assets of \$329.8 billion and capital and surplus of \$110 billion.

Up until the 1980s the Bermuda market was almost entirely focused on captives and many new mechanisms were developed to expand their use. Group captives were created to enable smaller companies, and those with similar interests, to benefit from greater control over their insurance programs by pooling their risks. The rent-a-captive concept was created in the 1970s to enable smaller firms to benefit from managing their own risks.

In the mid-1980s large U.S. corporations were finding it difficult to buy excess liability insurance. In response, new companies were formed to offer specialized coverages. Later, after Hurricane Andrew hit in 1992, Bermuda received an influx of over \$4 billion in capital to form an additional seven property catastrophe reinsurers.

The year 2001 was another turning point, with over 108 new companies formed, both captives and commercial insurance companies. In the wake of the terrorist attack of September 11, 2001, the year saw the raising of significant new capital to replace the billions that left the market. Bermuda was the location for more than half of the new capital that flowed into the reinsurance market.

Regulation

Bermuda's insurance regulation is designed to facilitate the creation of companies and insurance

products while ensuring the companies operate responsibly within specific margins of solvency. The Insurance Act 1978 requires registration of all insurers, reinsurers, insurance managers, brokers, agents and sales people doing business in Bermuda. The Act also provided for the establishment of the Insurance Advisory Committee (IAC) which provides a formal way for the government to obtain advice from the industry on all insurance matters.

In 1995, the Act was amended in response to the changing marketplace, and new regulations were implemented. The Act created four classes, ranging from single parent captives (Class 1) to highly capitalized, publicly-traded companies (Class 4). The Supervisor of Insurance, a nonpolitical appointee under the independent Bermuda Monetary Authority, incorporates insurance and reinsurance companies under a tiered system of regulation.

The classes are as follows:

- Class 1 – Captives writing only the risks of related companies (single-owner “pure” captives).
- Class 2 – Captives writing less than 20 percent of unrelated business (single and multi-owner captives).
- Class 3 – Companies writing more than 20 percent unrelated business (commercial insurers/reinsurers, finite reinsurers and rent-a-captives).
- Class 4 – Companies writing property catastrophe reinsurance or excess liability insurance.
- Long-term – Companies whose customary business is life insurance or reinsurance.
- Composite – Companies that conduct both general and long term business.

BERMUDA INSURANCE MARKET, 1986-2005
(\$ billions)

<u>Year</u>	<u>Gross premiums written</u>	<u>Net premiums written</u>	<u>Total assets</u>	<u>Capital and surplus</u>
1986	\$12.4	\$10.4	\$30.9	\$12.5
1987	10.3	8.0	34.9	15.0
1988	11.1	8.4	38.7	14.4
1989	12.0	9.4	44.5	17.4
1990	13.0	10.1	48.0	18.1
1991	15.4	11.8	52.6	19.9
1992	15.1	11.3	58.8	21.9
1993	17.9	13.4	69.9	29.0
1994	18.8	14.9	76.1	29.8
1995	23.4	18.4	95.0	36.9
1996	25.1	19.8	99.9	42.5

1997	25.4	20.4	111.8	48.4
1998	26.6	21.2	116.4	51.2
1999	30.4	23.8	131.6	54.4
2000	38.2	32.0	146.1	59.2
2001	49.0	41.4	172.7	65.8
2002	62.7	51.8	204.3	75.5
2003	94.7	84.1	236.0	87.3
2004	95.3	82.9	290.2	106.7
2005	100.7	86.3	329.8	110.0

Source: Bermuda Insurance Institute; Bermuda Monetary Authority.

Rankings

LEADING WRITERS OF COMMERCIAL LINES INSURANCE BY DIRECT PREMIUMS WRITTEN, 2006 (\$000)

Rank	Company/Group	Direct premiums written (1)	Market share
1	American International Group	\$28,192,567	11.7%
2	Travelers Group	14,771,701	6.1
3	Zurich Insurance Group	14,667,924	6.1
4	Liberty Mutual Insurance Group	11,759,948	4.9
5	CNA Insurance Group	8,245,121	3.4
6	Hartford Fire & Casualty Group	7,732,773	3.2
7	ACE Ltd. Group	7,503,088	3.1
8	Chubb & Son Group	7,093,470	2.9
9	Nationwide Group	5,475,111	2.3
10	State Farm IL Group	5,328,671	2.2

(1) Before reinsurance transactions, excluding state funds. Includes all lines except private passenger auto and homeowners.

Source: National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data, LLC.

TOP TEN COMMERCIAL INSURANCE BROKERS OF U.S. BUSINESS BY REVENUES, 2006 (1)
(\$ millions)

Rank	Company	Brokerage revenues
1	Marsh & McLennan Cos. Inc.	\$5,341.7
2	Aon Corp.	2,750.7
3	Arthur J. Gallagher & Co.	1,250.9
4	Willis Group Holdings Ltd.	1,100.3
5	Wells Fargo Insurance Services Inc.	1,008.7
6	Brown & Brown Inc.	864.7
7	BB&T Insurance Services Inc.	842.3
8	Hilb Rogal & Hobbs Co.	682.8
9	USI Holdings Corp.	546.3
10	Lockton Cos. LLC	453.4 (2)

(1) Companies that derive more than 20 percent of revenues, generated by U.S.-based clients, from commercial retail brokerage.

(2) Fiscal year ending April 30.

Source: Business Insurance, July 16, 2007.

TOP TEN GLOBAL INSURANCE COMPANIES
BY REVENUES, 2006 (1)
(\$ millions)

Rank	Company	Revenues (2)	Country	Industry
1	ING Group	\$158,274	Netherlands	Life/health
2	AXA	139,738	France	Life/health
3	Allianz	125,346	Germany	Property/casualty
4	American International Group	113,194	U.S.	Property/casualty
5	Assicurazioni Generali	101,811	Italy	Life/health
6	Berkshire Hathaway	98,539	U.S.	Property/casualty
7	Aviva	83,487	U.K.	Life/health
8	Prudential	66,134	U.K.	Life/health
9	Zurich Financial Services	65,000	Switzerland	Property/casualty
10	State Farm Insurance Cos.	60,528	U.S.	Property/casualty

(1) Based on an analysis of companies in the Global Fortune 500. Includes stock and mutual companies.

(2) Revenues include premium and annuity income, investment income and capital gains or losses, but exclude deposits; includes consolidated subsidiaries, excludes excise taxes.

Source: Fortune.

**TOP TEN GLOBAL PROPERTY/CASUALTY INSURANCE COMPANIES
BY REVENUES, 2006 (1)
(\$ millions)**

Rank	Company	Revenues (2)	Country
1	Allianz	\$125,346	Germany
2	American International Group	113,194	U.S.
3	Berkshire Hathaway	98,539	U.S.
4	Zurich Financial Services	65,000	Switzerland
5	State Farm Insurance Cos.	60,528	U.S.
6	Munich Re Group	58,183	Germany
7	Millea Holdings	36,067	Japan
8	Allstate	35,796	U.S.
9	Swiss Reinsurance	32,118	Switzerland
10	Hartford Financial Services	26,500	U.S.

(1) Based on an analysis of companies in the Global Fortune 500. Includes stock and mutual companies.

(2) Revenues include premium and annuity income, investment income and capital gains or losses, but exclude deposits; includes consolidated subsidiaries, excludes excise taxes.

Source: Fortune.

**TOP TEN GLOBAL INSURANCE BROKERS BY REVENUES, 2006
(\$ millions)**

Rank	Company	Brokerage revenues (1)	Country
1	Marsh & McLennan Cos. Inc.	\$10,474.0	U.S.
2	Aon Corp.	6,709.0	U.S.
3	Willis Group Holdings Ltd.	2,341.0	U.K.
4	Arthur J. Gallagher & Co.	1,437.8	U.S.
5	Wells Fargo Insurance Services Inc.	1,008.7	U.S.

6	Brown & Brown Inc.	864.7	U.S.
	Jardine Lloyd Thompson Group		
7	plc	847.0	U.K.
8	BB&T Insurance Services Inc.	842.3	U.S.
9	Hilb Rogal & Hobbs Co.	696.0	U.S.
10	Lockton Cos. L.L.C.	657.2	U.S.

(1) Gross revenues generated by insurance brokerage, consulting and related services.

Source: Business Insurance, July 16, 2007.

**TOP TEN GLOBAL REINSURERS
BY NET REINSURANCE PREMIUMS WRITTEN, 2006
(\$ millions)**

- In 2007 global reinsurance premium written totaled \$168.0 billion, up 9.8 percent from \$153.1 billion in 2006, according to Standard & Poor's.

Rank	Company	Net reinsurance premiums written	Country
1	Munich Re	\$25,432.7	Germany
2	Swiss Re (1)	23,841.1	Switzerland
3	Berkshire Hathaway Re	11,576.0	U.S.
4	Hannover Re	9,353.5	Germany
5	Lloyd's	8,445.3	U.K.
6	SCOR (2)	4,885.2	France
7	Reinsurance Group of America Inc.	4,343.0	U.S.
8	Everest Re	3,875.7	Bermuda
9	PartnerRe	3,689.5	Bermuda
10	Transatlantic Holdings Inc.	3,633.4	U.S.

(1) Does not reflect full year premiums for GE Insurance Solutions Corp., acquired June 2006.

(2) Based on a pro forma consolidation of SCOR and Revios, acquired in 2006.

Source: Standard & Pools.

**TOP TEN U.S.-BASED SURPLUS LINES INSURANCE COMPANIES
 BY NONADMITTED DIRECT WRITTEN PREMIUMS, 2006**

Rank	Company	Non-admitted direct premiums
1	Lexington Insurance Company	\$6,273,352,288 (1)
2	American International Specialty Lines Insurance Company	1,739,234,858
3	Steadfast Insurance Company	1,412,233,290 (1)
4	Scottsdale Insurance Company	1,278,278,992 (1)
5	Columbia Casualty Company	842,816,747
6	Landmark American Insurance Company	795,575,951
7	Arch Specialty Insurance Company	773,369,532
8	Evanston Insurance Company	711,214,211
9	National Fire & Marine Insurance Company	711,013,999
10	Admiral Insurance Company	602,826,555

(1) Figures provided on a pooling basis.
 Source: Business Insurance, October 1, 2007.

About I.I.I.

INSURANCE INFORMATION INSTITUTE
 110 William Street
 New York, NY 10038
 +1 212-346-5500

The mission of the Insurance Information Institute (I.I.I.) is to improve public understanding of insurance -- what it does and how it works.

For more than 40 years, the I.I.I. has provided definitive insurance information. Today, the I.I.I. is recognized by the media, governments, regulatory organizations, universities and the public as a primary source of information, analysis and referral concerning insurance.

Each year, the I.I.I. works on more than 3,700 news stories, handles more than 6,000 requests for information and answers nearly 50,000 questions from consumers.

In addition to direct contact with the media, individuals and organizations, the I.I.I. publishes a host of helpful pamphlets and books ranging in subjects from *9 Ways to Lower Your Auto Insurance Costs* to the *I.I.I. Fact Book*. The Institute does not lobby. Its central function is to provide accurate and timely information on insurance subjects.