

Presentation to Casualty Actuaries of the Mid-Atlantic Region (CAMAR)

Rating Agency Perspective:
Underwriting Cycles - Are they Unavoidable?

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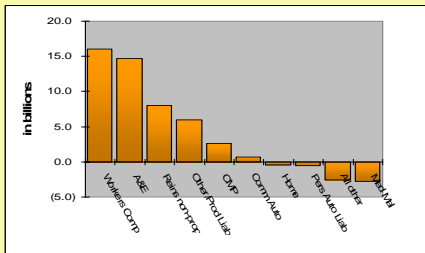
Challenges of Managing Through Cycles

- Pressure to maintain market share
- Temptation to leverage investments to boost returns
- Economic pressures
- Reserve management



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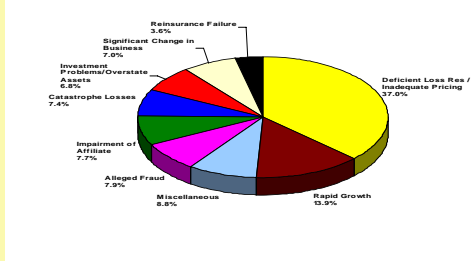
Est. Loss & ALAE Reserve Deficiencies at Year-End 2009



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A.M. BEST COMPANY

U.S. P/C - Primary Cause of Financial Impairment (1969-2008)



Percentage breakout based on P/C financially impaired companies in the period where a primary cause of impairment was identified. "Impairment of Affiliates" as a cause classification was introduced in 1990. Source: A.M. Best Company

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A.M. BEST COMPANY

Underwriting Cycle Drivers

- Excess capital
- Investment returns / investment turmoil
- Underwriting profitability
- Return on equity / surplus

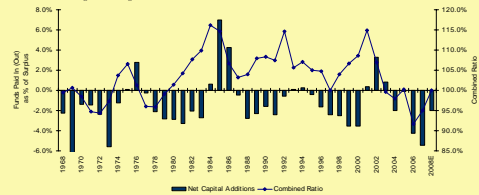


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A.M. BEST COMPANY

P&C Cycle and Capital Flows

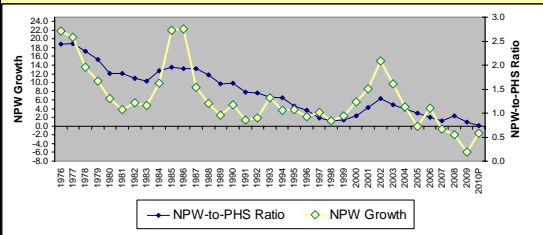
- Historically, capital enters market after periods of high combined ratios
- U/W results deteriorate during times of capital outflow:
 - profitability lag the actual pricing trends due to reserving
 - new capital improve returns



Source: A.M. Best Aggregates & Averages and FPK estimates.

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U.S. P&C - Historical Premium Trends



Why Hasn't Market Hardened?

- General macro-economic conditions
- Investment and capital markets
- Technology advancements
- Market specialization

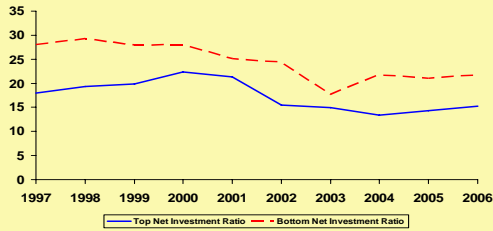


Characteristics of Good Cycle Managers

- Focus on underwriting driving better results
 - more conservative and consistent investment results
- On average, even good cycle managers increase premiums during soft markets
- Manage reserves conservatively
- Investment returns don't compensate for subpar underwriting performance
- Underwriting reaction to multiple year premium declines



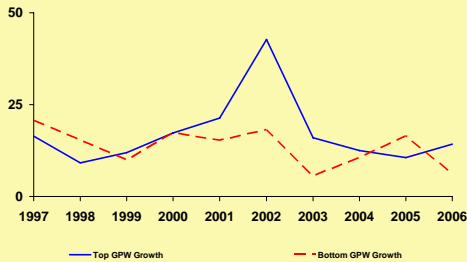
P/C - Average Net Investment Ratios



Source: A.M. Best Special Report - July 14, 2008

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P/C - Avg Gross Premiums Written Growth



Source: A.M. Best Special Report - July 14, 2008

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Key Rating Issues

- Underwriting discipline
 - measures implemented to improve u/w performance
 - pricing acumen
 - underwriting differentiation
- Exposure management
 - data quality
 - reinsurance
- Underwriting leverage measures
- Adequacy of loss reserves
- Enterprise risk management



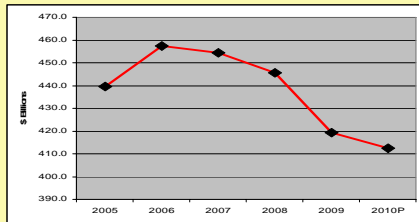
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Key Rating Issues

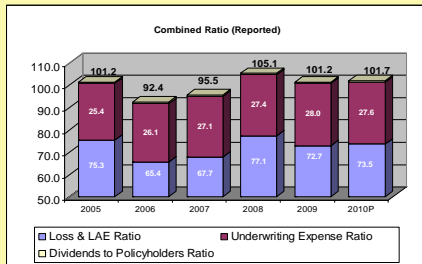
- Capital management and increased focus on liquidity
 - financial flexibility
 - liquidity resources - internal & external
 - impact of crisis scenarios on both
- Quality / diversification of assets
- Sustained long-term profitability consistent with projections
 - growth vs. profitability



U.S. P/C - Net Premiums Written



U.S. P/C - Combined Ratio



Are Underwriting Cycles Unavoidable?

- Probably not...
- Possibility to be profitable even in soft markets



Contact Information

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Appendix

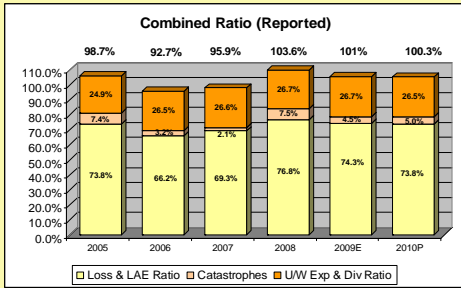


Personal Lines Segment

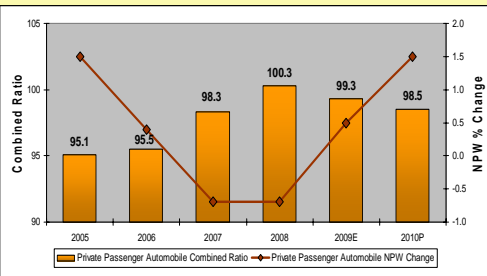
- **Outlook Remains Stable:**
 - strong risk-adjusted capital
 - automobile pricing generally adequate – moderate uptick
 - catastrophe risk-management initiatives
- **Offsetting Factors:**
 - macro-economic conditions
 - regulatory uncertainty
 - volatility on homeowners line – catastrophe frequency



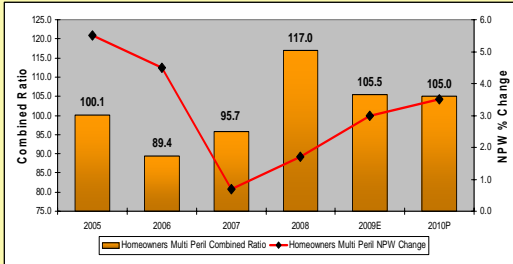
Personal Lines Segment



Private Passenger Automobile



Homeowners Multi-Peril

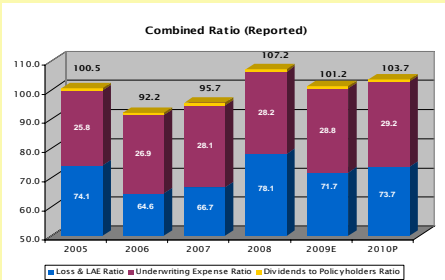


Commercial Lines Segment

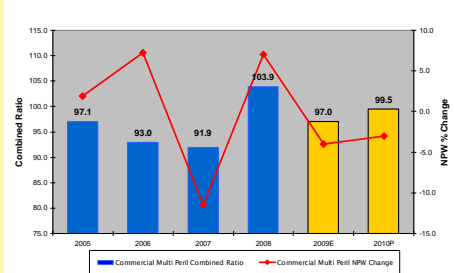
- **Outlook Remains Stable:**
 - risk-adjusted capitalization still strong
 - emergence of sophisticated price monitoring and underwriting tools
 - heightened awareness of enterprise risk
 - Capital markets rebound
- **Offsetting Factors:**
 - underwriting margins pressured
 - exposure declines and rate pressure
 - reserve adequacy questioned



Commercial Lines Segment

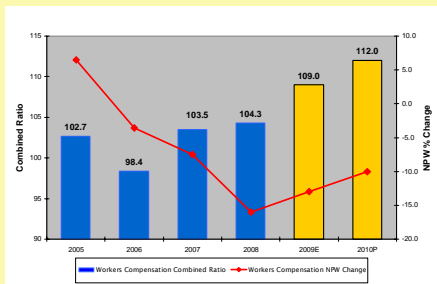


Commercial Multi-Peril



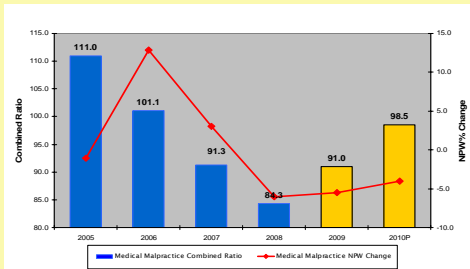
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Workers' Compensation



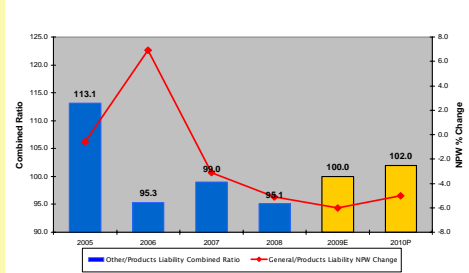
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Medical Malpractice



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Other & Products Liability



U.S. Reinsurance & Bermuda Market

- **Outlook Remains Stable:**
 - risk-adjusted capitalization still strong
 - enterprise risk management appears to be embraced and enhanced
 - anticipated favorable operating performance in 2010
- **Areas of concern:**
 - market challenges remain in terms of pricing, attachment points, terms and conditions
 - regulatory issues concerning U.S. and Bermuda
 - threat of inflationary pressures



U.S. Reinsurance and Bermuda Market

