Recent trends in P&C acquisition activity

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Ernst & Young
Quality In Everything We Do

Agenda

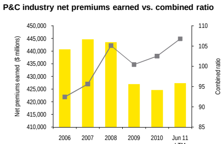
- Historical trends
- Managing the current environment
- Transaction drivers
- Transaction process

Operating in a sluggish US economy

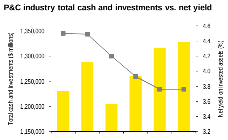
The tepid growth of business activity and spending since 2008 has had an effect of reducing net premiums for P&C insurers, fostering declines in industry revenues and earnings.

- Premiums earned declined from 2006 through 2010 with a modest increase in the twelve month period ended June 30, 2011.
- Low investment yields, coupled with the inability to attain top-line growth, is compressing the industry's operating margins.
- According to Fitch Ratings, an increase in underwriting losses will continue to weigh on profitability in the property and casualty market. The rating agency maintained its stable outlook on the industry while forecasting a combined ratio of 103.6% for 2011, up from 101.5%, as pricing fails to improve and competition for business intensifies. We have not seen a revised view from Fitch based on the number of catastrophic events that have occurred in 2010 and 2011.

P&C industry net premiums earned vs. combined ratio



P&C industry total cash and investments vs. net yield

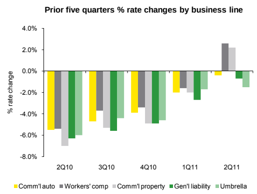


Source: data for charts on this page was provided by SNL

Enduring the soft underwriting cycle

US P&C insurers continue to operate in a soft underwriting cycle with limited improvement expected in 2011.

- During 2009 and 2010, the P&C industry experienced a continuing softening of premium rates.
- Factors affecting soft pricing in 2009 and 2010 included:
  - Slow premium growth
  - Limited US-based catastrophe losses
  - Capacity continuing to exceed demand
- In 2011, property rates have begun to increase, due primarily to a number of catastrophic events that occurred in late 2010 and early 2011. These events approximated $1 - 7 billion in insured losses each.

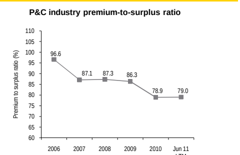


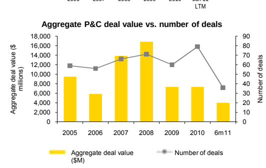
Source: The Council of Insurance Agents & Brokers; chart prepared by Barclays Capital Equity Research.

Managing excess capital

US P&C insurers struggling with sluggish organic growth can deploy their excess capital by expanding their businesses through acquisitions, investment in infrastructure or share repurchases.

- Premium-to-surplus ratios have decreased from 91% in 2006 to 78% in June 2011. Given the slow premium growth outlook and the industry's perceived adequate reserve levels, this leverage ratio is expected to remain elevated.
- Insurers that look to acquisitions are seeking to drive expansion and growth through:
  - Enhancing product offerings or underwriting teams
  - Improving economies of scale and data collection activities
  - Adding run-off operations to leverage stronger balance sheets and claim settlement capabilities





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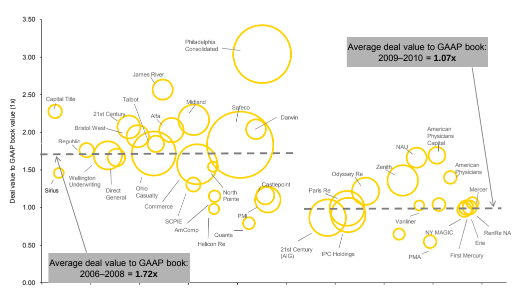
Five-year history of significant P&C transactions

Multiples of GAAP book value paid in acquiring P&C entities decreased significantly through 2009 and 2010.



Transaction drivers:
Why the interest in a transaction?

Transactions enable the alignment with customer needs for new products, more transparency and market-based pricing.

- Refresh, rationalize and remain competitive with new product offerings to stay current with shifting risk appetites, client needs, changing demographics and macroeconomic trends.
- Re-evaluate return on capital requirements by line of business and consider redefining non-core assets.
- Capitalize on acquisition opportunities to realize synergies, product growth and distribution expansion.
- Maintain competitive edge by focusing on global macroeconomic trends, financial and geopolitical shocks, changing demographics, global asset flows and growth through international expansion.

Transaction drivers:
Addressing corporate challenges

Some of the key questions being asked in corporate boardrooms

How do we know that our capital is allocated across lines of business, assets and geographies as efficiently and effectively as possible?

What is the full range of future financing options? How do we know we have sufficient optionality to manage risk and pursue our strategic objectives while optimizing cost of capital?

What financial planning tools do I need to dynamically plan and assess my capital needs? What assumptions should we be working with to enable us to restore rigor to our strategic and financial planning?

How do we know we have sufficiently restructured our core operational and capital base to withstand a prolonged downturn?

Corporate challenges
- How can we increase and maintain investor confidence?
- How can we win the competition for scarce capital?
- How can we better anticipate and adapt to market conditions as they change?
- How can we seize growth opportunities that others may be unable to?

Are we focused at all levels on the measures that matter in this environment – ALM, regulatory capital, underwriting profitability?

How do our investment-appraisal processes enable us in this environment? What opportunities are there to acquire distressed assets? How do we know that we will be in a position to exploit these?

How clearly do we understand the options for non-core assets? Should we need to divest to raise cash or strengthen the underlying business, are we as prepared as we need to be to get value and timing right?

How can we effectively model uncertainty and risk in order to support strategic decisions, and how do we demonstrate that decisions are based on sufficiently robust data and assumptions in light of this uncertainty?

Transaction process:
Typical transaction services

Transaction process:
Actuaries' role in mergers and acquisitions

- Nature of business (underlying products)
- Pricing methodology
- Underwriting and claims process
- Historical profitability
- Reserve adequacy
- Probable maximum loss