



Specialty Insurance Markets

*Presentation for the
2015 Casualty Loss Reserve Seminar*

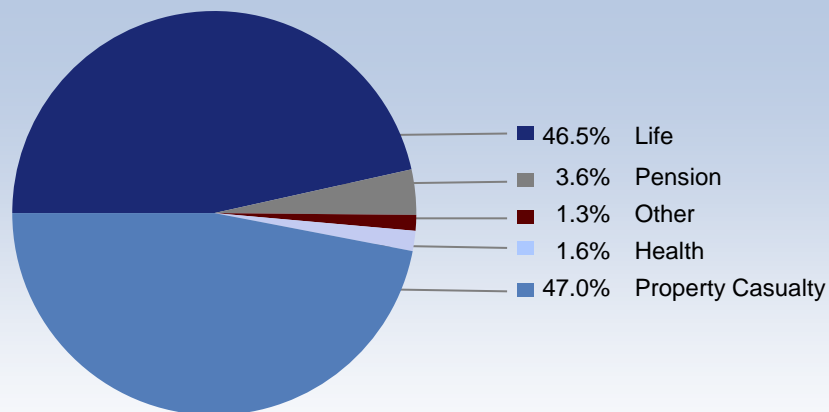
CONNING®
September 2015

Conning

Who we are...

- ❖ Founded in 1912; insurance specialists for more than 50 years; investing insurance assets for nearly three decades
- ❖ Managing \$94.8 billion for 150 clients*
- ❖ 296 employees with locations in Hartford, New York, London, Cologne, and Hong Kong*
- ❖ Independently owned by Aquiline Capital Partners, Conning employees, and Cathay Financial Holdings
- ❖ On November 12, 2014, Cathay Financial Holdings announced that its subsidiary, Cathay Life Insurance Co, Ltd., approved the acquisition of Conning

Assets by Client Type*



*As of 3/31/2015 Includes Conning, Inc., Conning Asset Management Limited, Cathay Conning Asset Management Limited, Goodwin Capital Advisers, Inc., and Conning Investment Products, Inc.

- ◆ Company founded by William S. Conning; provides investment advice to high net worth individuals 1912
- ◆ Began providing insurance stock research and advice to institutional investors 1950
- ◆ Expanded into consulting and strategic industry research for senior insurance executives 1970
- ◆ Formed asset management group to manage investments for insurance companies 1988
- ◆ Acquired insurance asset management business of TCW Group 1999
- ◆ Acquired insurance asset management business of Charter Oak Asset Management 2000
- ◆ Acquired assets of DFA Capital Management, a leading provider of risk modeling software 2010
- ◆ Launched High Dividend Equity strategy (Jan 2011)
- ◆ Established Hong Kong investment center through joint venture with Cathay Financial Holdings
- ◆ Acquired Goodwin Capital Advisors 2011
- ◆ Launched European investment center 2012
- ◆ Launched new Liquid Alternatives and Equity MLP offerings 2013
- ◆ Acquired certain assets of Brookfield Investment Management Inc.'s Core Fixed Income Insurance Business 2014

Conning Insurance Research & Consulting Solutions

Published Research

- ◆ Strategic Studies on Key Industry Issues
- ◆ Forecasts of Line of Business and Industry Performance
- ◆ Line of Business Market Assessment Reports

Consulting

- ◆ Strategy Development and Review
- ◆ Proprietary Analysis & Surveys
- ◆ Business Development Support
- ◆ Rating Agency Support
- ◆ Peer & Competitor Analyses
- ◆ State Level Premium Forecasting

Tools

- ◆ Proprietary Models
- ◆ Market Share Analyses
- ◆ Midsized Insurer Analyses
- ◆ Presentations
- ◆ Webinars on Demand

Experienced Research Professionals

Backgrounds: Actuarial, underwriting, equity research, strategic planning, investment banking, insurance operations, consulting

CONTENT

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Life-Annuity
Property-Casualty
Regulatory/Economic/Investment/ERM
Total Insurance Industry



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Total Insurance Industry

Conning Commentary
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Insurance Segment Series
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Mid-Sized Insurer Analyses
[2013](#) [2014](#) [2015](#) [Data](#)

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Agenda

Defining Specialty Markets

Market Strategies

Commercial Lines

Personal Lines

Distribution—Focus on MGAs

Reinsurance

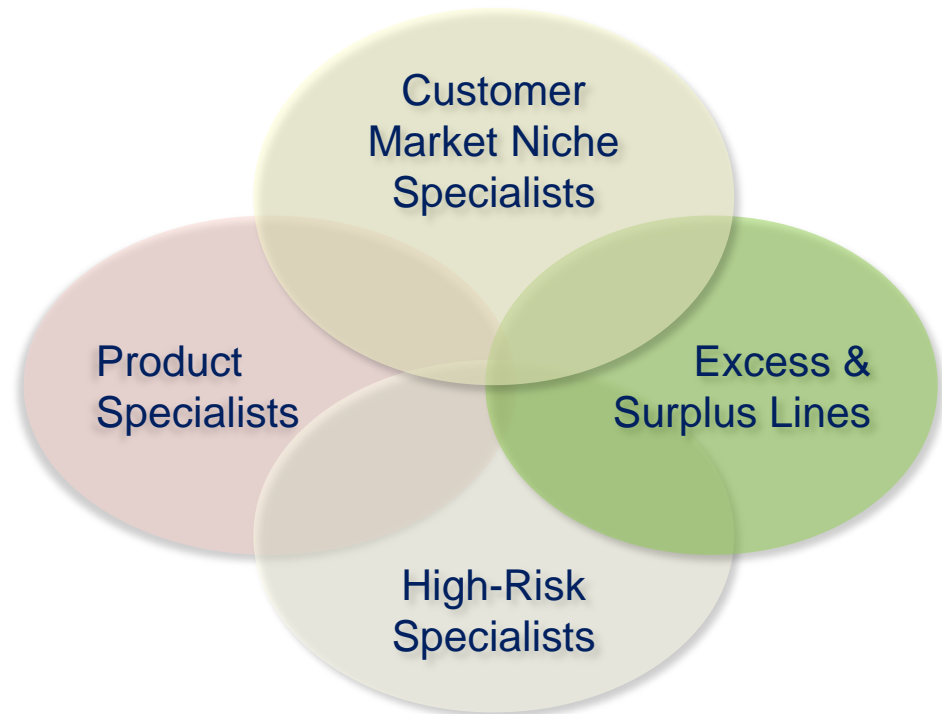
The Future of Specialty Markets

DEFINING SPECIALTY MARKETS

Defining Specialty Markets

Specialty is a multi-defined marketplace

- ◆ Various definitions, often situational
- ◆ Indefinite, overlapping markets based on:
 - ❖ Perceived level of risk
 - ❖ Distribution
 - ❖ Insurer
- ◆ Key “specialist” differentiator is uncommon expertise
 - ❖ Underwriting
 - ❖ Loss control
 - ❖ Claims
 - ❖ Customer market knowledge



Defining Specialty Markets

Matrix of Specialty Insurance Definitions

Types of Specialty Insurers		Definition	Notes
	E&S insurers (nonadmitted paper)	Not licensed in the state of the insured customer	Includes foreign (domiciled in another state) and alien (another country)
High-Risk Specialty	High hazard (admitted and nonadmitted)	Risks with high severity loss potential	High severity loss exposure due to operations or coverage provided
	Nonstandard	Risk falls outside standard underwriting guidelines	Well above average loss frequency or new venture
	Emerging risks	New industry coverage	High risk due to limited underwriting data
	Unique risks (one-off)	Individual solutions	Negotiated and manuscript coverages
	Small markets	Low premium volume markets	Often with limited underwriting data
Niche Market	Single customer niche insurer	Focuses on one customer group	Often created by underserved customers
	Multiple niche markets	Focus on a number of customer groups	Often evolve from single customer niche insurers
Product Specialists	Line-of-business master	Special expertise and services related to an insurance product	Differentiated from insurers with a focus on a particular customer niche
	Primarily one insurance product	All/most premium in a single product	May be regional or customer niche-focused insurers

Source: Conning

MARKET STRATEGIES

Market Strategies: High-Risk Specialists

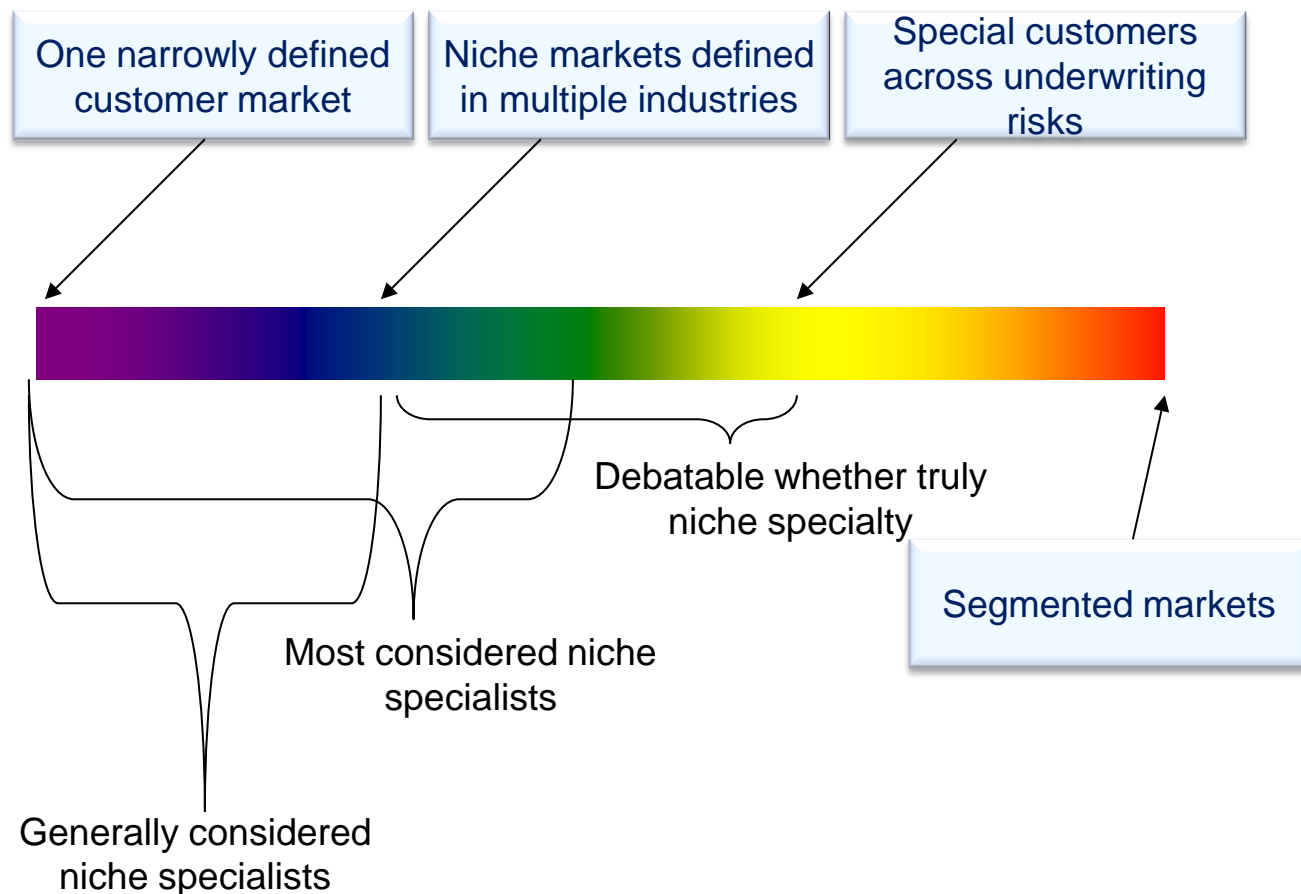
Matrix of High-Risk Specialty Markets

Types of High-Risk Insurance	Definition	Notes	
High Hazard Risks	Property severity loss exposures <ul style="list-style-type: none"> • High fire-load property • Highly exposed property • Very large limits 	Exposes the insurer to very large (shock) loss	Example: \$5 billion flammable chemical manufacturing plant
	Liability severity loss exposures <ul style="list-style-type: none"> • Hazardous operations • Coverages with perceived high loss potential • High excess limits 	Exposes the insurer to very large (shock) loss	Examples: handling hazardous materials and many professional liability coverages
Non-standard Risks	Inadequate or unknown risk management <ul style="list-style-type: none"> • Unprofitable loss history • New ventures with inexperienced management 	Exposes insurer to substantially below-average risk controls or unproven management	Example: customer with unprofitable loss history in otherwise commonly insured industry
Bespoke	Custom (bespoke) business <ul style="list-style-type: none"> • Emerging industries • Emerging coverages • Unique risks • Creative coverage 	Exposes insurer to risks with limited underwriting data to support pricing and coverage language subject to court-interpreted expansion	Example: negotiated manuscript coverages

Source: Conning

Market Strategies: Customer Niche Specialists

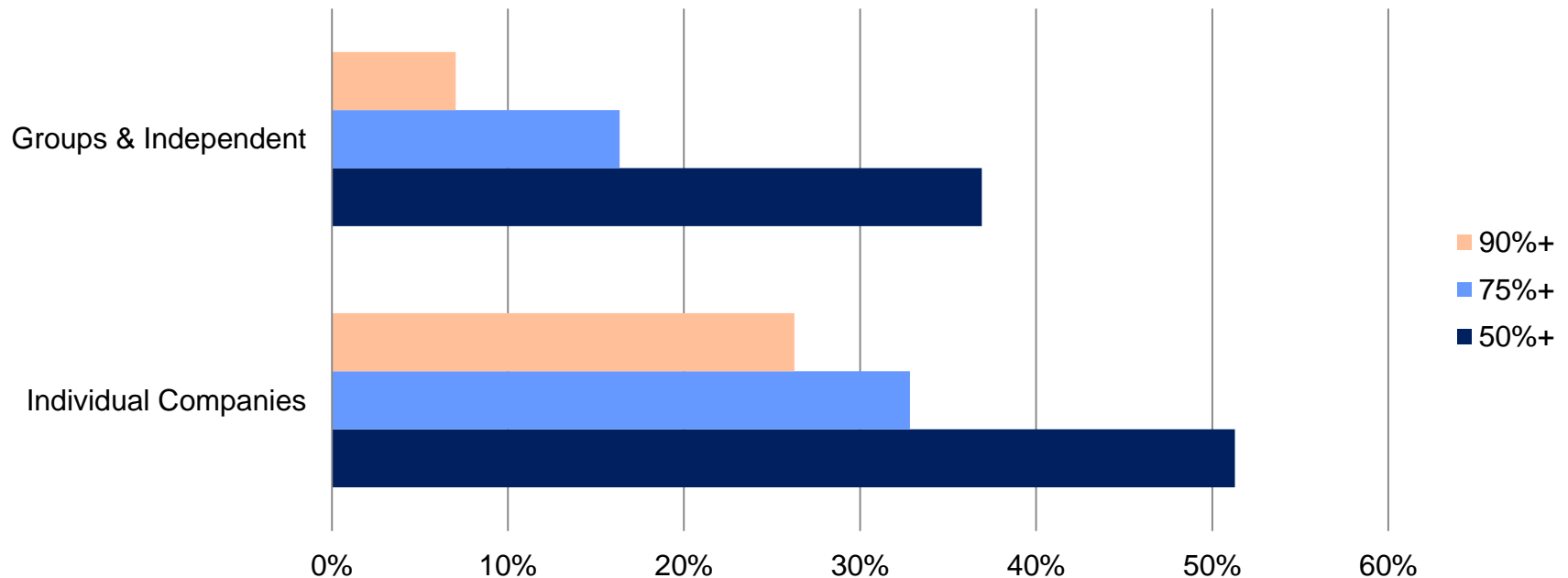
Customer Focus Insurers Range from Single to Multi-Specialty



Source: Conning

Product Specialists Have Substantial Market Share

Product Specialist Insurer Premium as a % of Total Premium, 2014
Groups versus Individual Companies



- ◆ **Product specialists dominate some lines of business**
 - ❖ Financial guaranty and medical professional
 - ❖ Significant personal auto, crop, and workers' compensation

Data source: ©A.M. Best Company—used by permission, Conning analysis

Market Strategies: Excess & Surplus Lines

Top Surplus Lines Writers

\$ in millions

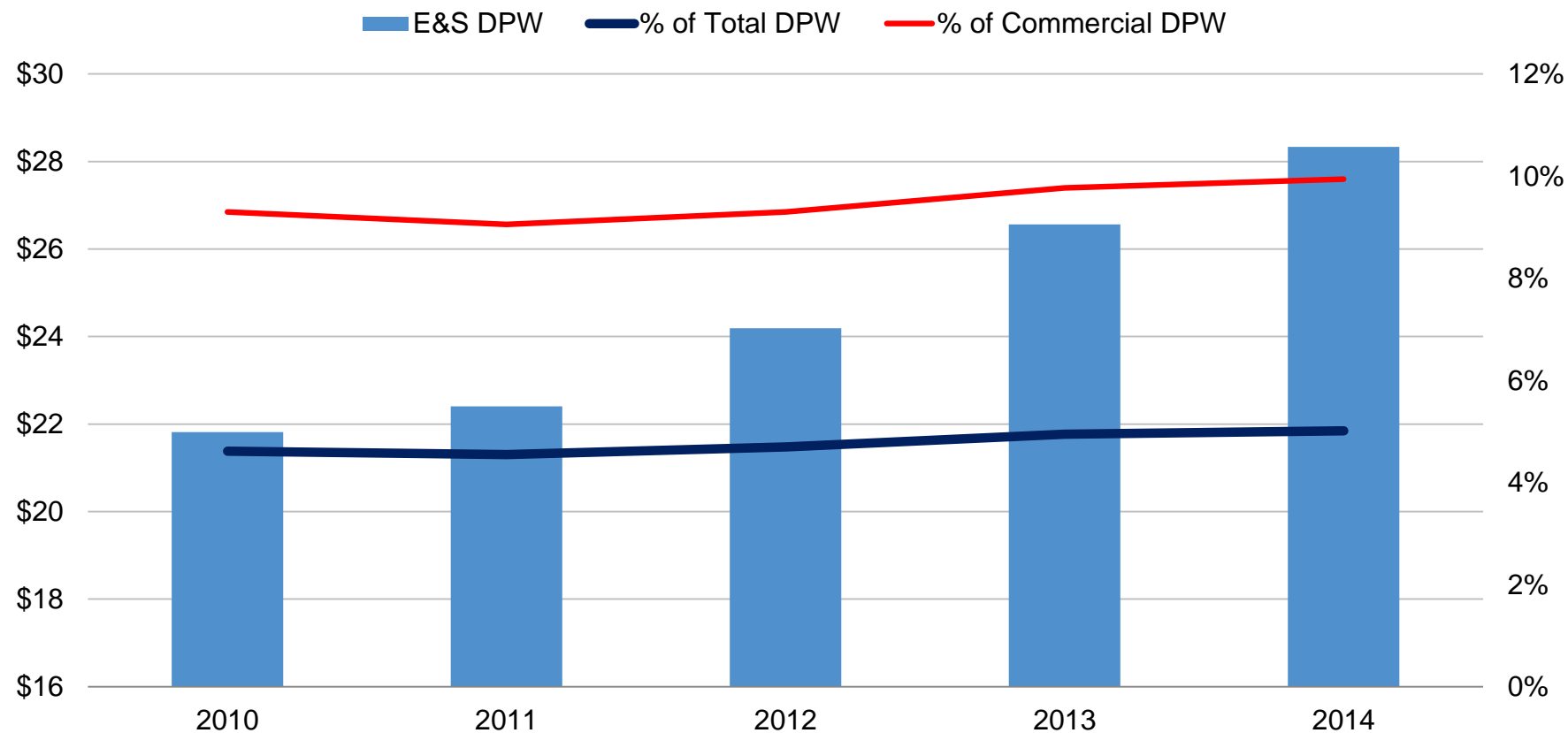
Company	Group	2014 Direct Premiums Written	Direct Premiums Written Growth	Surplus Lines Market Share	Combined Ratio
Lexington	AIG	\$3,817	(5%)	14%	95%
Scottsdale	Nationwide	1,559	7%	6%	93%
Steadfast	Zurich	1,066	(2%)	4%	78%
Ironshore Specialty	Ironshore	901	10%	3%	96%
AIG Specialty	AIG	900	8%	3%	102%
Columbia Casualty	CNA	746	(8%)	3%	87%
Indian Harbor	XL Catlin	728	17%	3%	81%
AXIS Surplus	AXIS	592	8%	2%	81%
Westchester Surplus Lines	ACE	577	9%	2%	52%
Arch Specialty	Arch	553	7%	2%	74%
National Fire & Marine	Berkshire Hathaway	541	100%	2%	70%
Landmark American	Alleghany	533	(7%)	2%	56%
Chubb Custom	Chubb	528	42%	2%	92%
Colony	Argo	523	5%	2%	79%
QBE Specialty	QBE North America	523	(33%)	2%	63%
Top 15 Surplus Lines Writers		\$14,085	3%	50%	85%
Total Surplus Lines Composite		\$28,227	7%	100.0%	86%

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Market Strategies: Excess & Surplus Lines

Changes in E&S Premium and Market Share

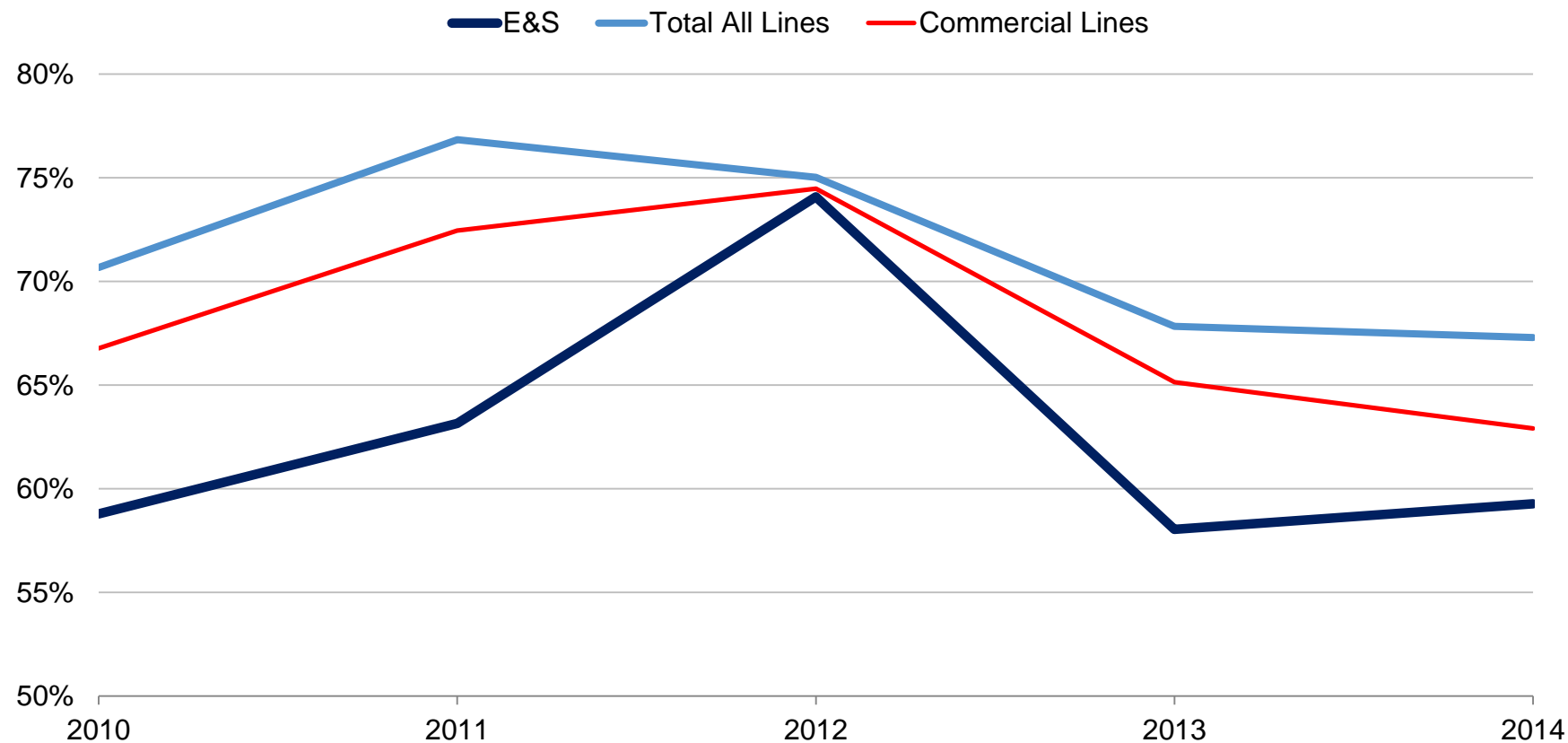
\$ in billions



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Market Strategies: Excess & Surplus Lines

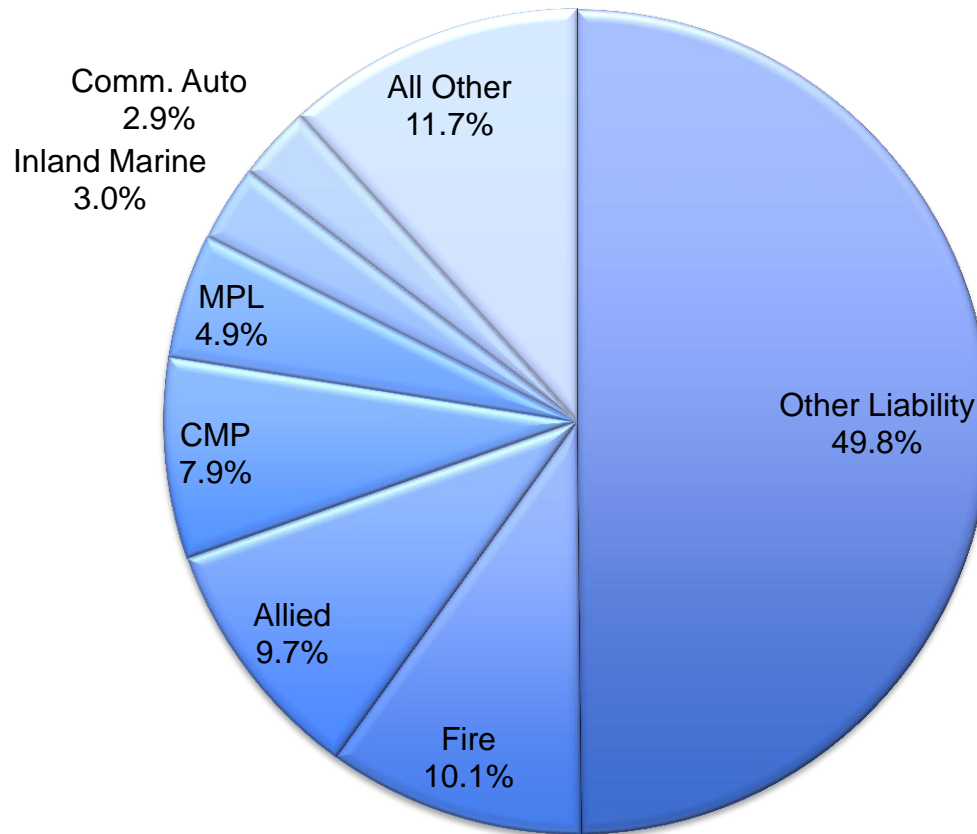
Direct Incurred Loss Ratios for E&S, Industry, and Commercial Lines



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Market Strategies: Excess & Surplus Lines

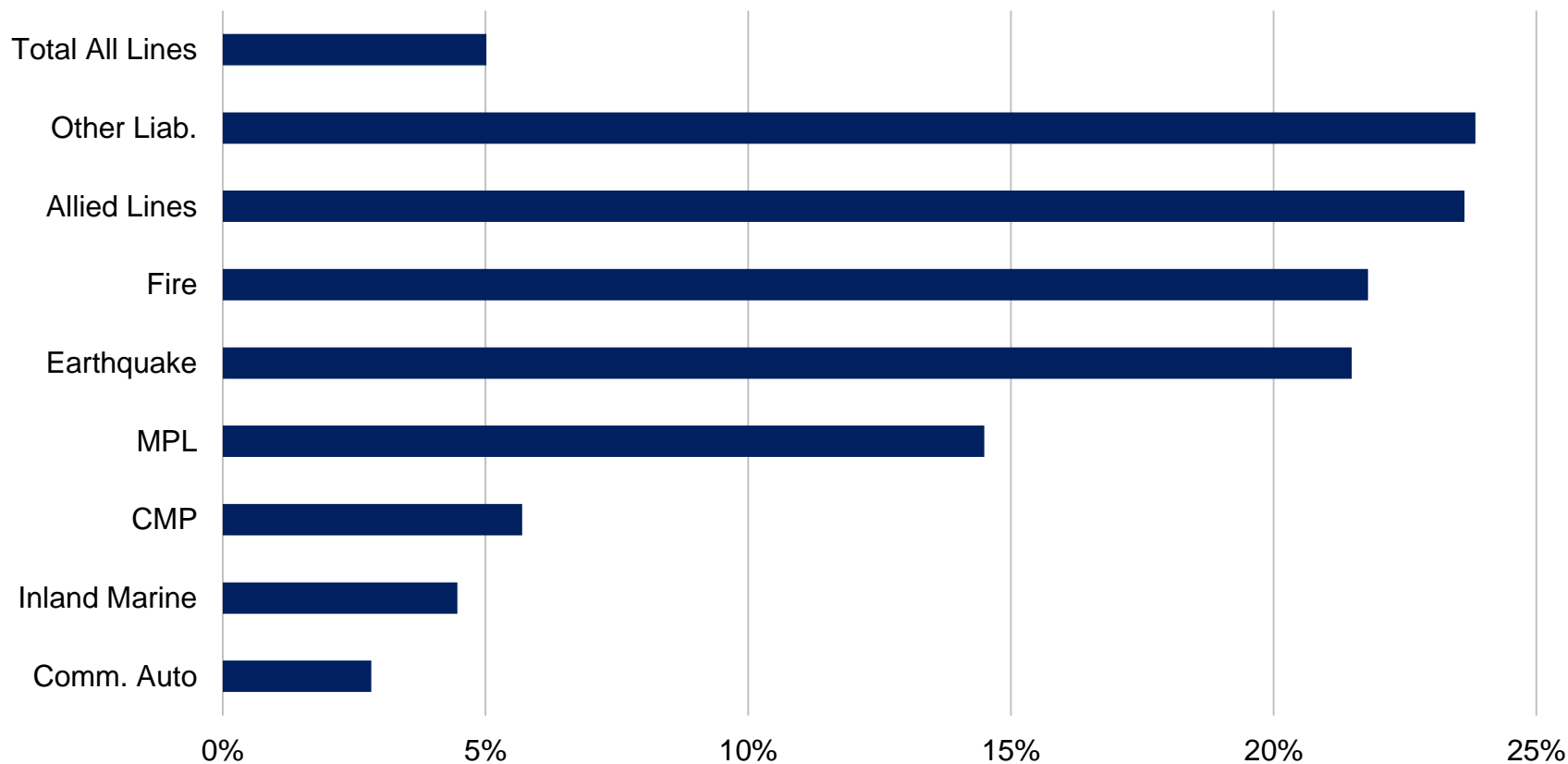
Distribution of Lines of Business in E&S, 2014



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Market Strategies: Excess & Surplus Lines

E&S Share by Line of Business, 2014



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COMMERCIAL LINES

Top Performers, Summary of Individual Company Financial Performance

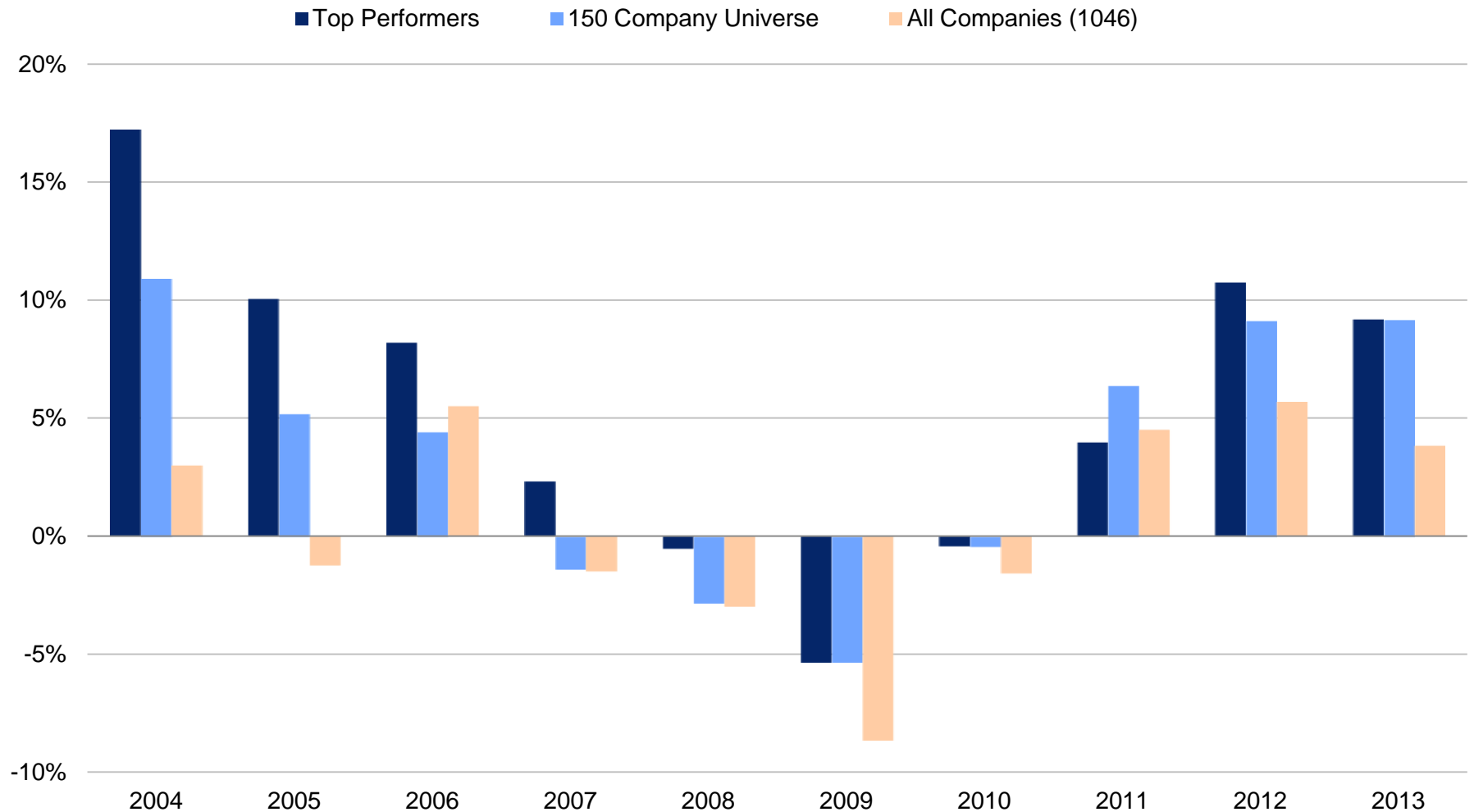
Ten-Year Median Results, 2004-2013

\$ in millions

Company	2013					
	Conning Score	Commercial Premiums	Net Premiums Written Growth	Combined Ratio	Operating Ratio	Return on Surplus
Philadelphia Insurance (Tokio)	36	\$3,714	11%	90%	78%	13%
RLI Group	36	607	2%	84%	71%	16%
Assurant Specialty P&C	35	2,383	17%	76%	76%	29%
Chubb Group of Companies	35	7,010	0%	89%	75%	16%
Great American Insurance	34	2,142	3%	92%	78%	17%
Atain Insurance	34	72	10%	79%	67%	14%
HCC Insurance Holdings	34	798	1%	84%	65%	17%
Medical Mutual of NC	34	76	2%	73%	59%	15%
W. R. Berkley	34	4,156	5%	95%	83%	14%
Alaska National	33	200	1%	85%	67%	16%
Lackawanna Insurance	33	98	9%	87%	82%	12%
Lancer Insurance	31	224	21%	95%	78%	19%
Travelers Companies	31	14,577	1%	89%	77%	18%
Caterpillar Insurance	30	210	21%	85%	74%	11%
Island Insurance	30	65	3%	86%	81%	12%
Average Top Performers		\$2,422	6%	87%	76%	15%
Average 150 Company Universe		\$890	4%	98%	88%	9%

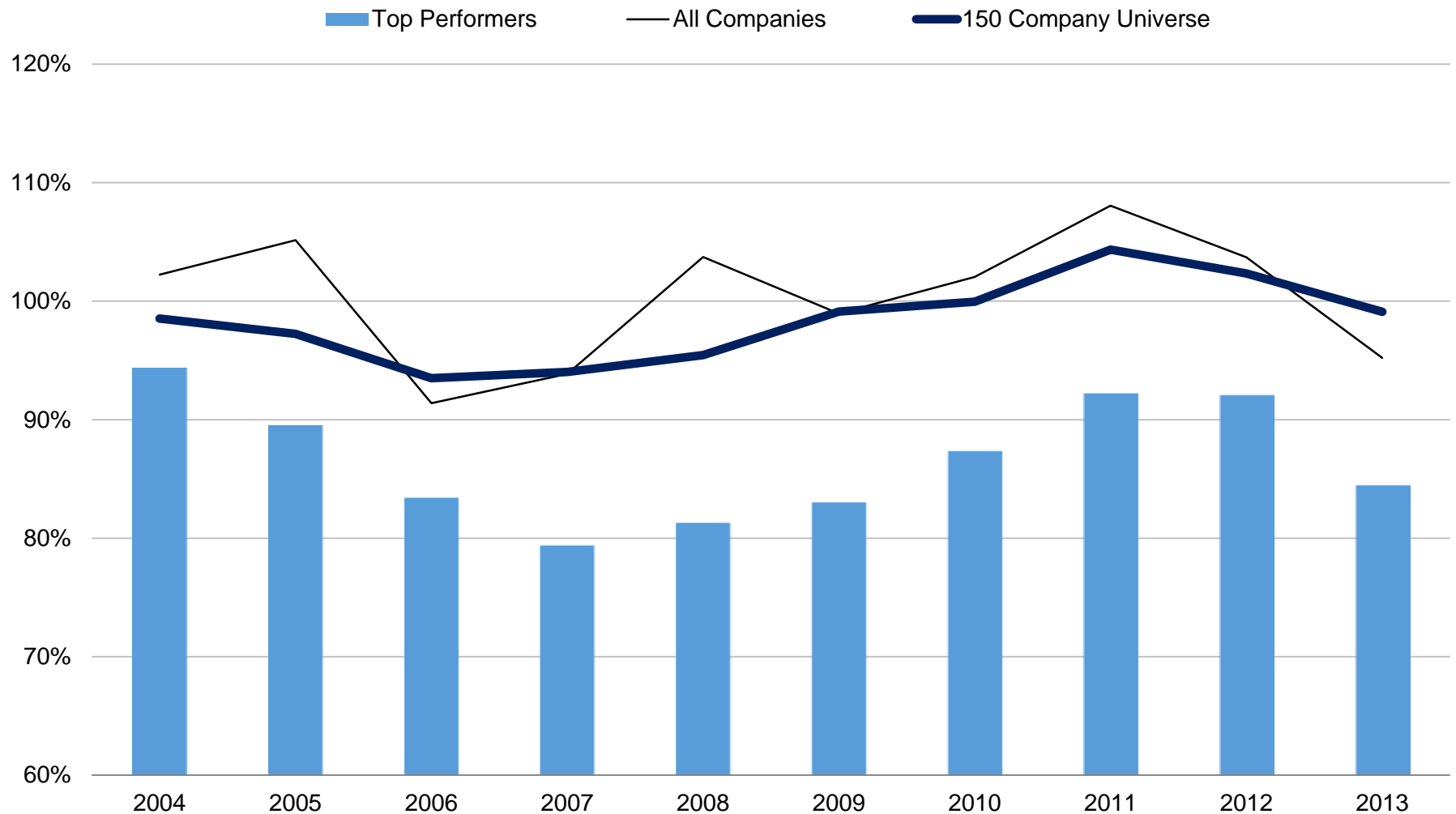
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Annual Net Premium Growth, 2004-2013



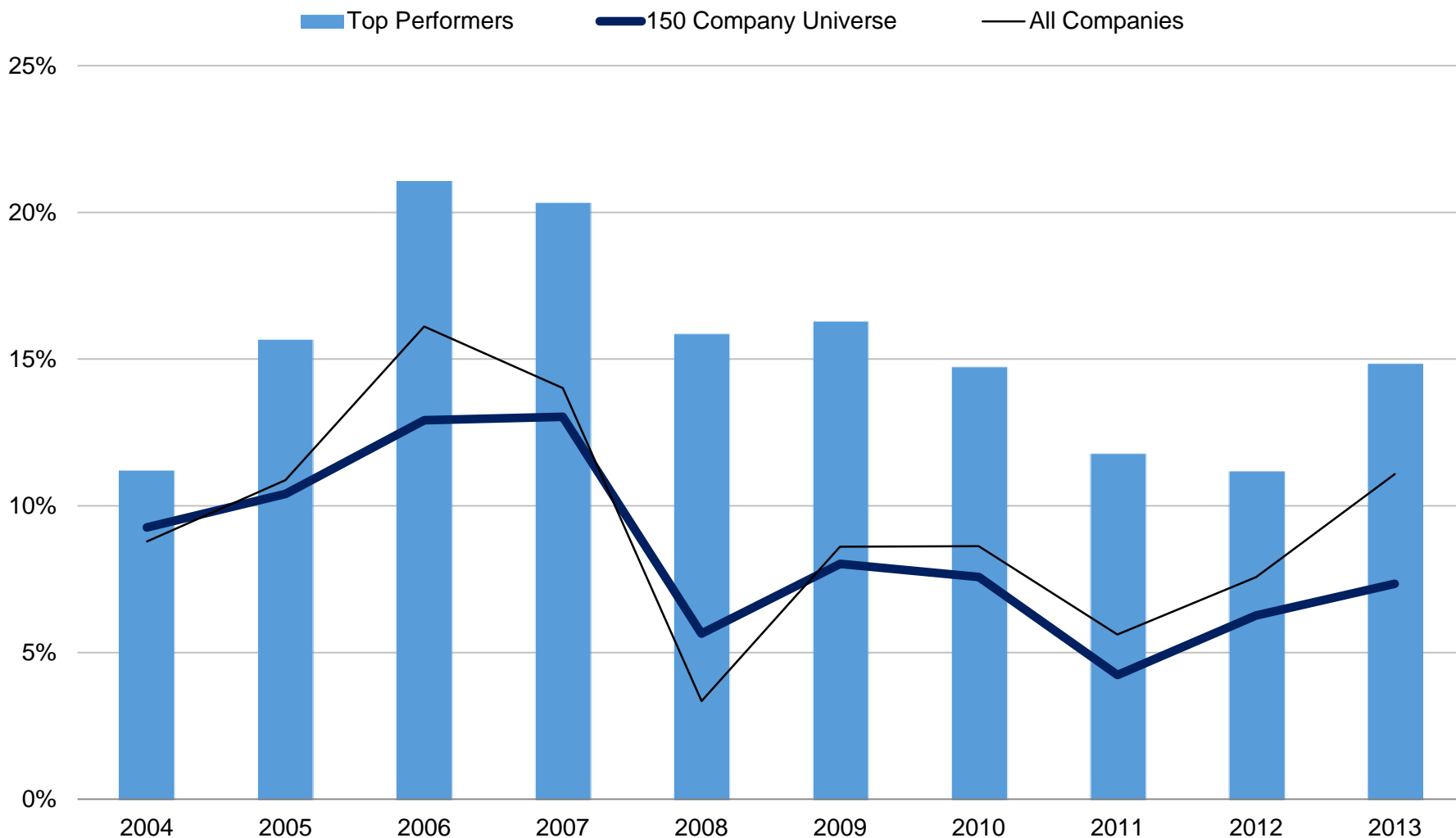
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Annual Combined Ratio, 2004-2013



Data source: ©A.M. Best Company—used by permission, Conning analysis

Annual Return on Surplus, 2004-2013



Note: Return on Surplus = Net Income/Average Policyholder Surplus
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Top Performers—Line-of-Business Analysis

Company	% of Commercial Premiums in Two Largest Lines	Insurance Coverage	Industry Focus
Medical Mutual of NC	100.0%	Medical Professional Liability	<ul style="list-style-type: none"> ◆ Individual physicians ◆ Physician practices
Caterpillar Insurance (CAT Inc.)	100.0%	Other Liability and Inland Marine	<ul style="list-style-type: none"> ◆ Extended warranty contracts and physical damage for CAT equipment ◆ Inventory protection for independent CAT dealers
Lackawanna Insurance	100.0%	Workers' Compensation	<ul style="list-style-type: none"> ◆ Pennsylvania-only health care, transportation, contractors, retail and service companies
Lancer Insurance	94.3%	Commercial Auto and Other Liability	<ul style="list-style-type: none"> ◆ School and transit buses ◆ Motor coaches, van pools and limos ◆ Explosives transportation ◆ Long-haul trucking
Atain Insurance	88.8%	Other Liability and Allied Lines	<ul style="list-style-type: none"> ◆ Demolition contractors ◆ Special events coverage ◆ Pilot car and garage liability ◆ Homeowners' association
Alaska National	84.6%	Workers' Compensation and Commercial Auto	<ul style="list-style-type: none"> ◆ Hospitals ◆ Trucking ◆ Energy services ◆ Seafood and Marine

Conclusion: Specialist Top Performers tended to focus on one or two lines of business

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Top Performers—Line-of-Business Analysis (Cont.)

Company	% of Commercial Premiums in Two Largest Lines	Insurance Coverage	Industry Focus
Assurant Specialty	78.5%	Fire and Allied Lines	<ul style="list-style-type: none"> ◆ Forced-placed real estate property coverage for mortgage lenders
Island Insurance	69.6%	Workers' Compensation and Commercial Auto	<ul style="list-style-type: none"> ◆ Condo and real estate owners ◆ Trucking ◆ Commercial crime and fidelity ◆ Financial industry bonds
HCC Insurance Group	69.5%	Other Liability and Surety	<ul style="list-style-type: none"> ◆ Municipalities risk ◆ Architects/engineers' E&O ◆ Sports disability ◆ Contract surety and bail bonds ◆ Condo associations
Philadelphia Insurance (Tokio)	65.8%	Commercial Multiperil and Other Liability	<ul style="list-style-type: none"> ◆ Educational and day care facilities ◆ Religious organizations ◆ Fitness centers
W. R. Berkley	57.9%	Other Liability and Workers' Compensation	<ul style="list-style-type: none"> ◆ Mining ◆ Aviation ◆ Fine art ◆ Architects/engineers ◆ Hawaiian homeowners
RLI Group	56.6%	Other Liability and Surety	<ul style="list-style-type: none"> ◆ Oil and gas surety bonds ◆ Long haul trucking ◆ Underground storage tanks liability

Conclusion: Many Diversified Top Performers characterized as multi-specialists

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Top Performers—Line-of-Business Analysis (Cont.)

Company	% of Commercial Premiums in Two Largest Lines	Insurance Coverage	Industry Focus
Chubb Group of Companies	55.3%	Other Liability and Commercial Multiperil	<ul style="list-style-type: none"> ◆ Professional liability for financial institutions, professional firms, and health care ◆ Ocean and inland marine ◆ Contractors' pollution ◆ Kidnap/ransom
Great American Insurance (AFG)	50.2%	Other Liability and Workers' Compensation	<ul style="list-style-type: none"> ◆ Equine mortality ◆ Agribusiness ◆ Builders' & contractors' equipment ◆ Marine and aviation
Travelers Companies	45.7%	Commercial Multiperil and Workers' Compensation	<ul style="list-style-type: none"> ◆ Oil & gas ◆ Technology ◆ Agriculture ◆ Construction

Conclusion: Many Diversified Top Performers replicated specialization strategy of smaller insurers

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Common Characteristics of Top Performers

Concentration

A focus on line-of-business specialization or a geographic concentration.

Technology

The use of advanced technologies to quantify, price, and service individual insurance risks.

Distribution

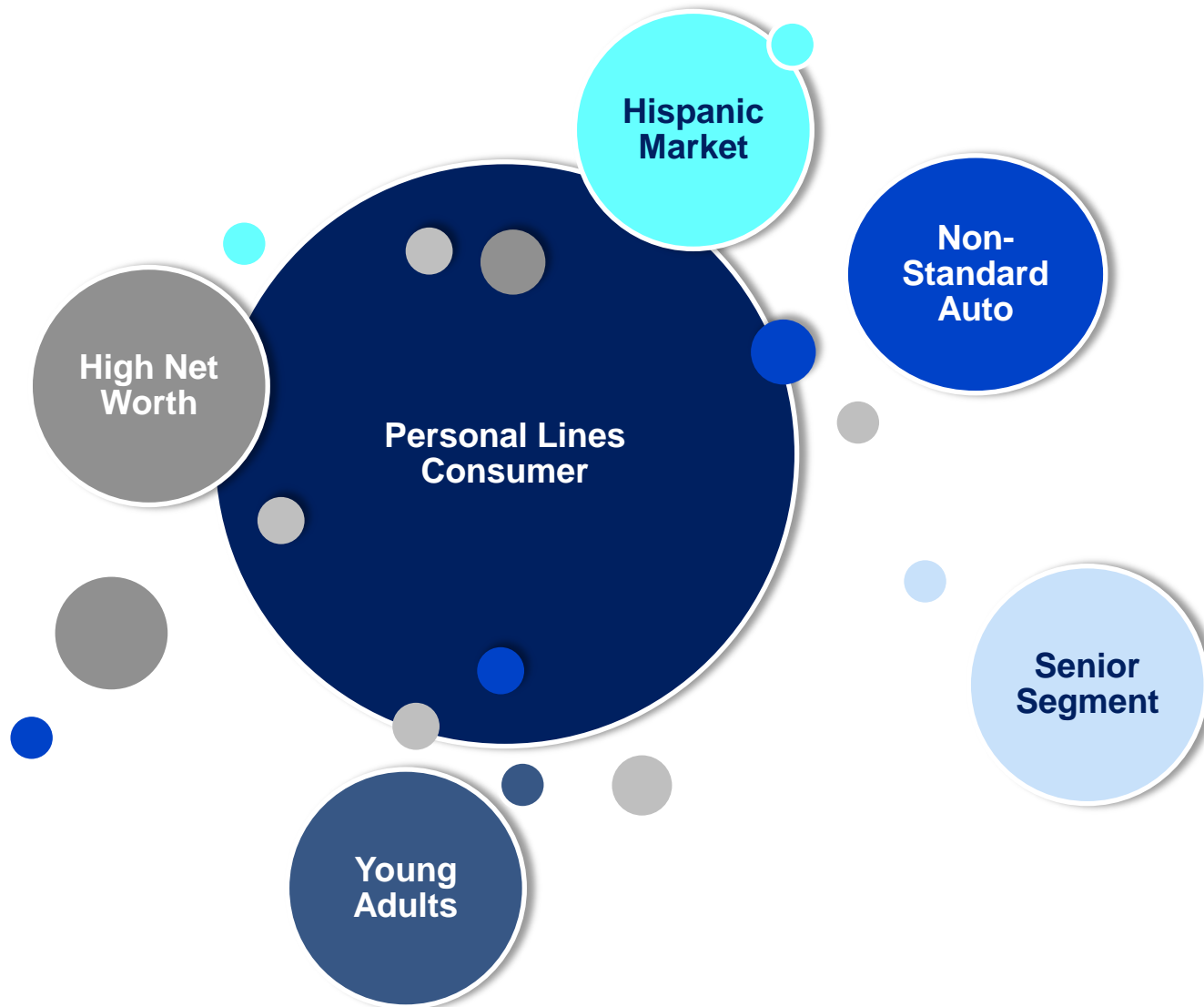
Employing alternative distribution channels or controlling distribution to gain better knowledge of the product and service needs of an individual customer.

Alignment

The alignment of senior management's financial interest with the long-term financial success of a Top Performer.

PERSONAL LINES

Undifferentiated Personal Lines Market Dissolving



HNW Concerns Extend Beyond Typical Mass Market

Homeowners

Automobile

Excess liability

Valuables (jewelry, art, and other collectibles)

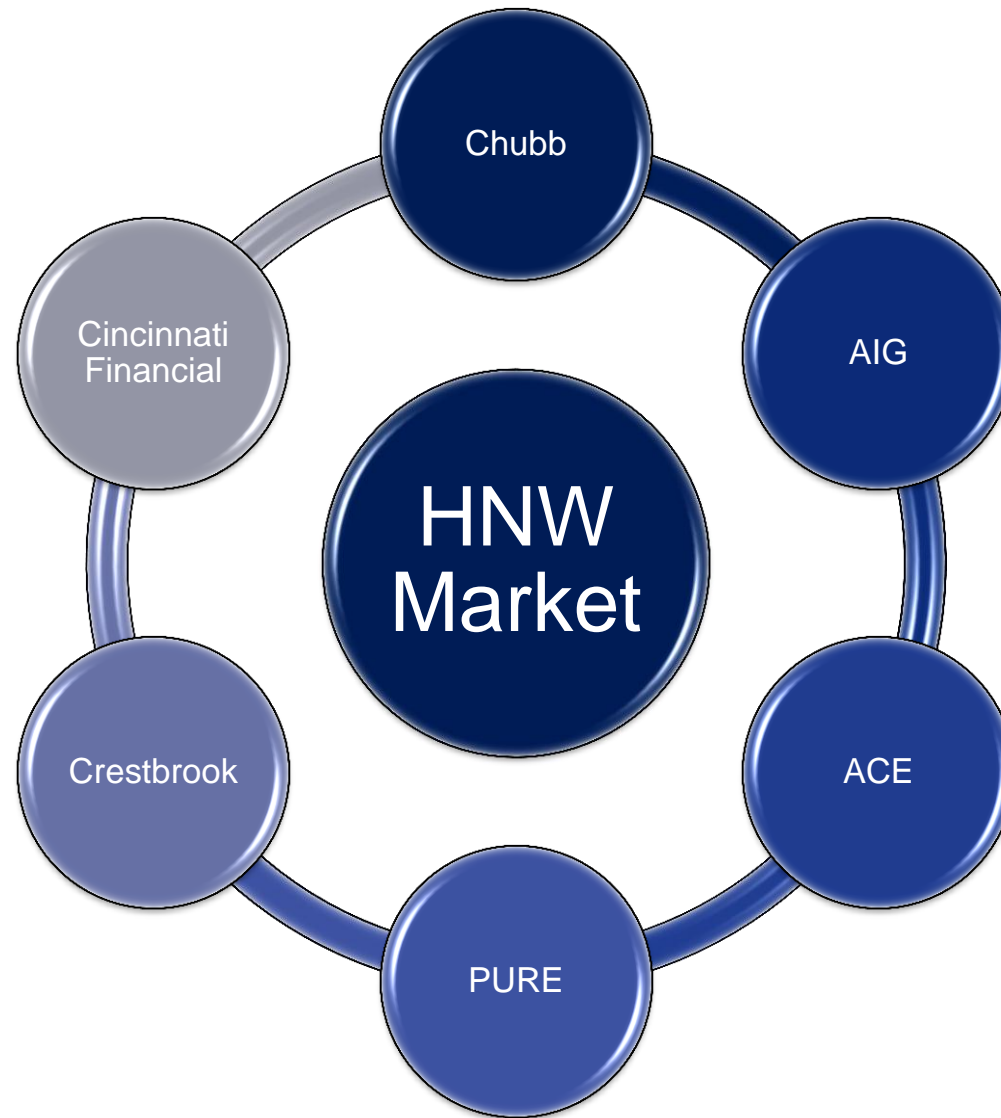
Watercraft (from small boats to large yachts)

Family protection (kidnap and ransom)

Workers' compensation and personal liability

U.S. HNW Market Is Served by a Small Number of Insurers

Insurers Serving the U.S. HNW/UHNW Market



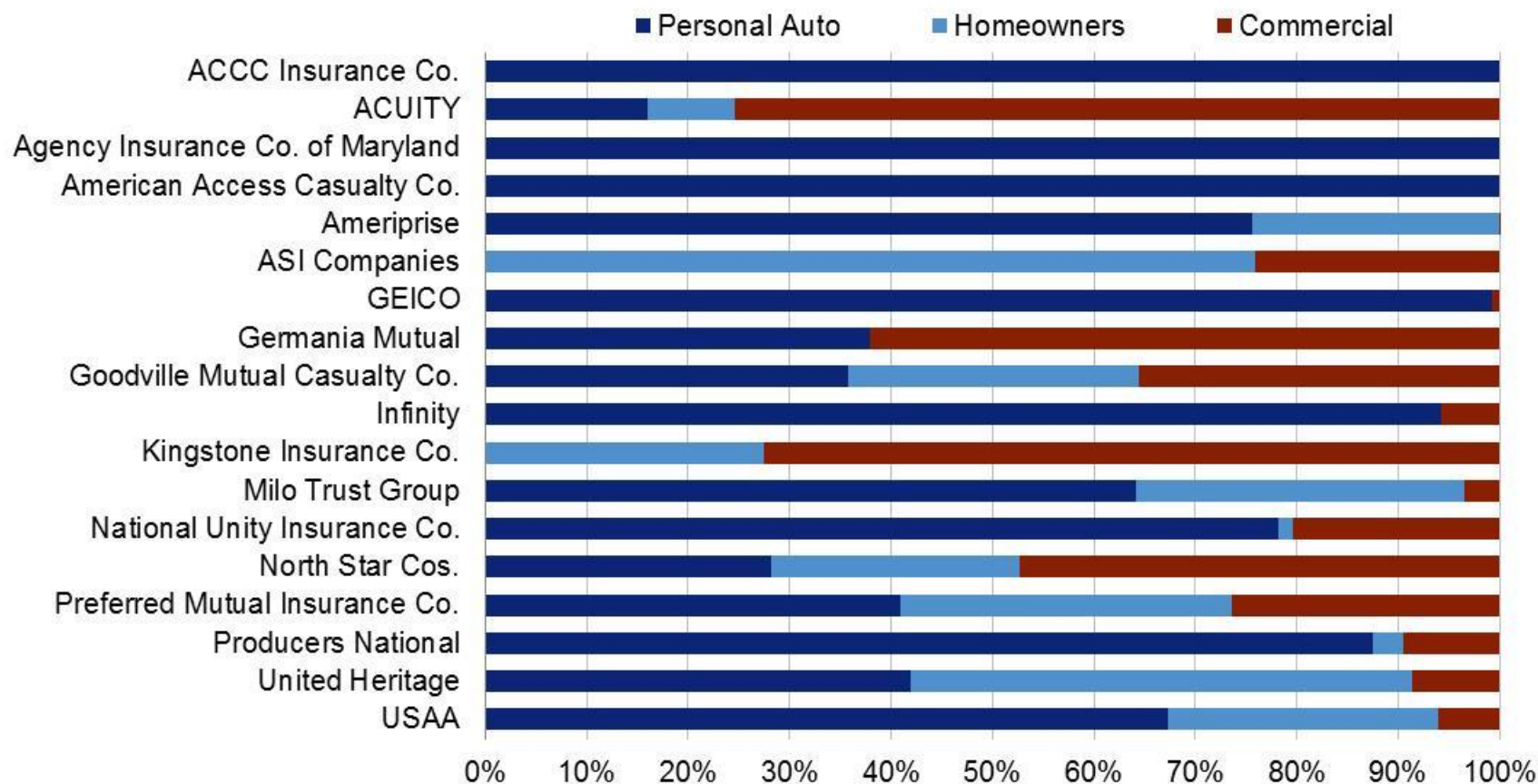
ACE announced acquisition of the HNW business of Fireman's Fund and all of Chubb in 2015

Common Characteristics of a Nonstandard Risk

- ◆ Lack of prior insurance
- ◆ Failure to maintain continuous coverage
- ◆ Driver age (both youthful drivers and elderly drivers tend to exhibit greater claim frequencies)
- ◆ Prior accidents
- ◆ Driving violations
- ◆ Type of vehicle driven (expensive or high-performance vehicles cost more to repair or replace and may create an appealing target for vandals or thieves)
- ◆ A demonstrated history of financial difficulties or carelessness (linked to poor credit scores)
- ◆ Need for flexible payment plans and installment billing options
- ◆ Occupation (certain occupations are statistically correlated with higher loss frequencies)

Specialization Common Among Market Leaders

Personal Lines Growth and Profit Leaders: Line-of-Business Distribution



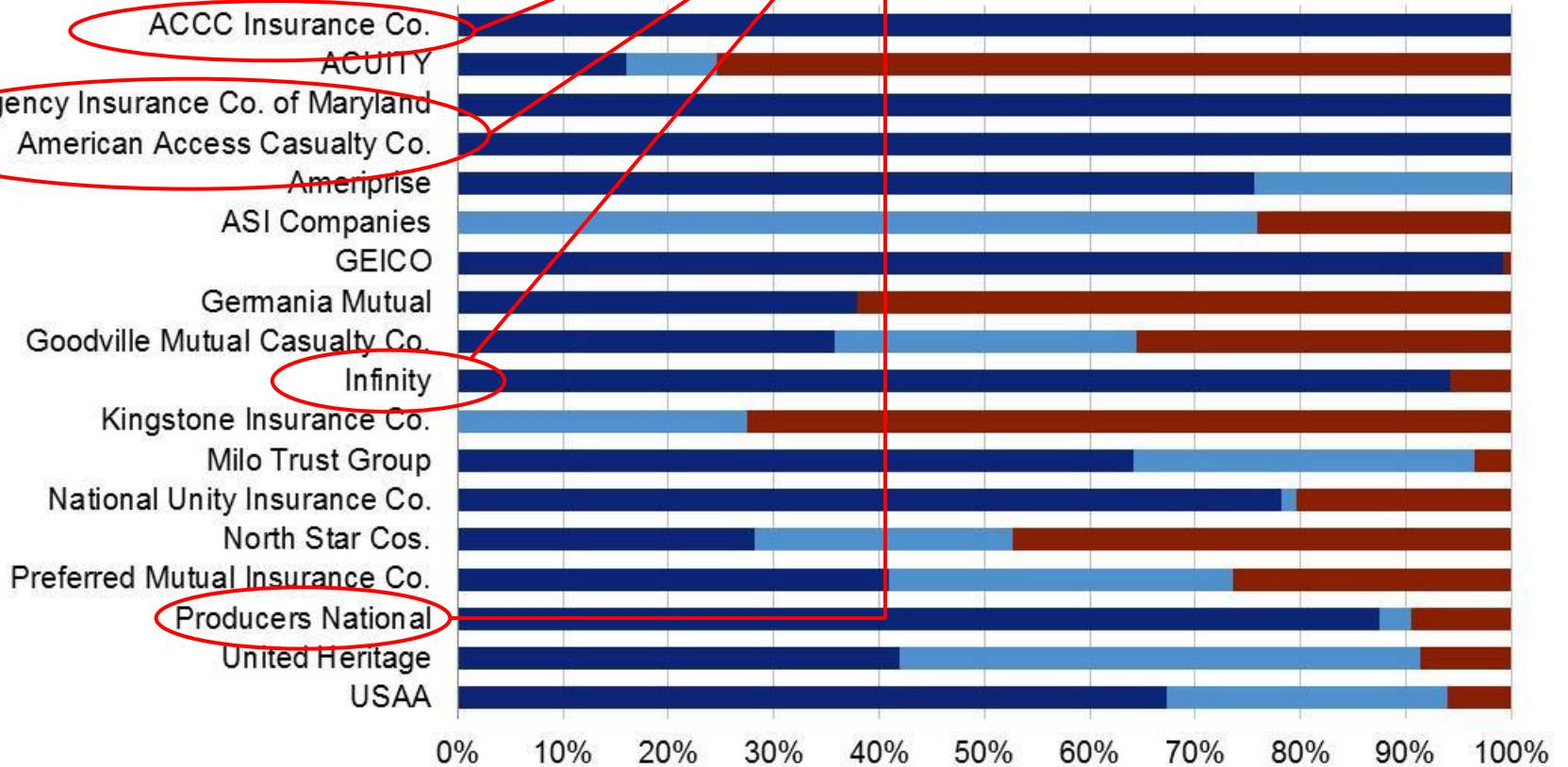
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5 of the Leaders Are NSA Specialists

Line-of-Business Distribution

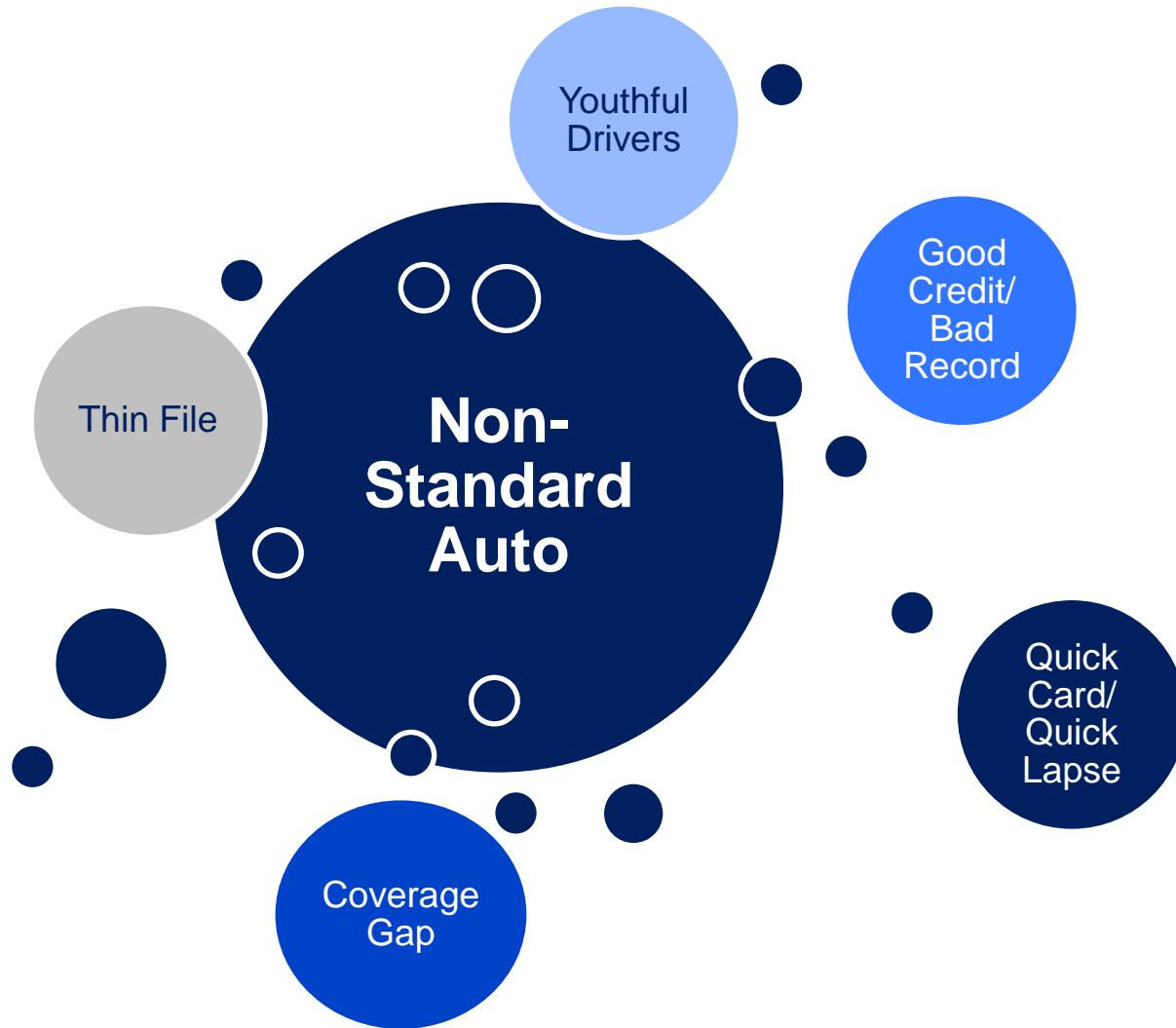
Nonstandard auto

■ Personal Auto ■ Homeowners ■ Commercial



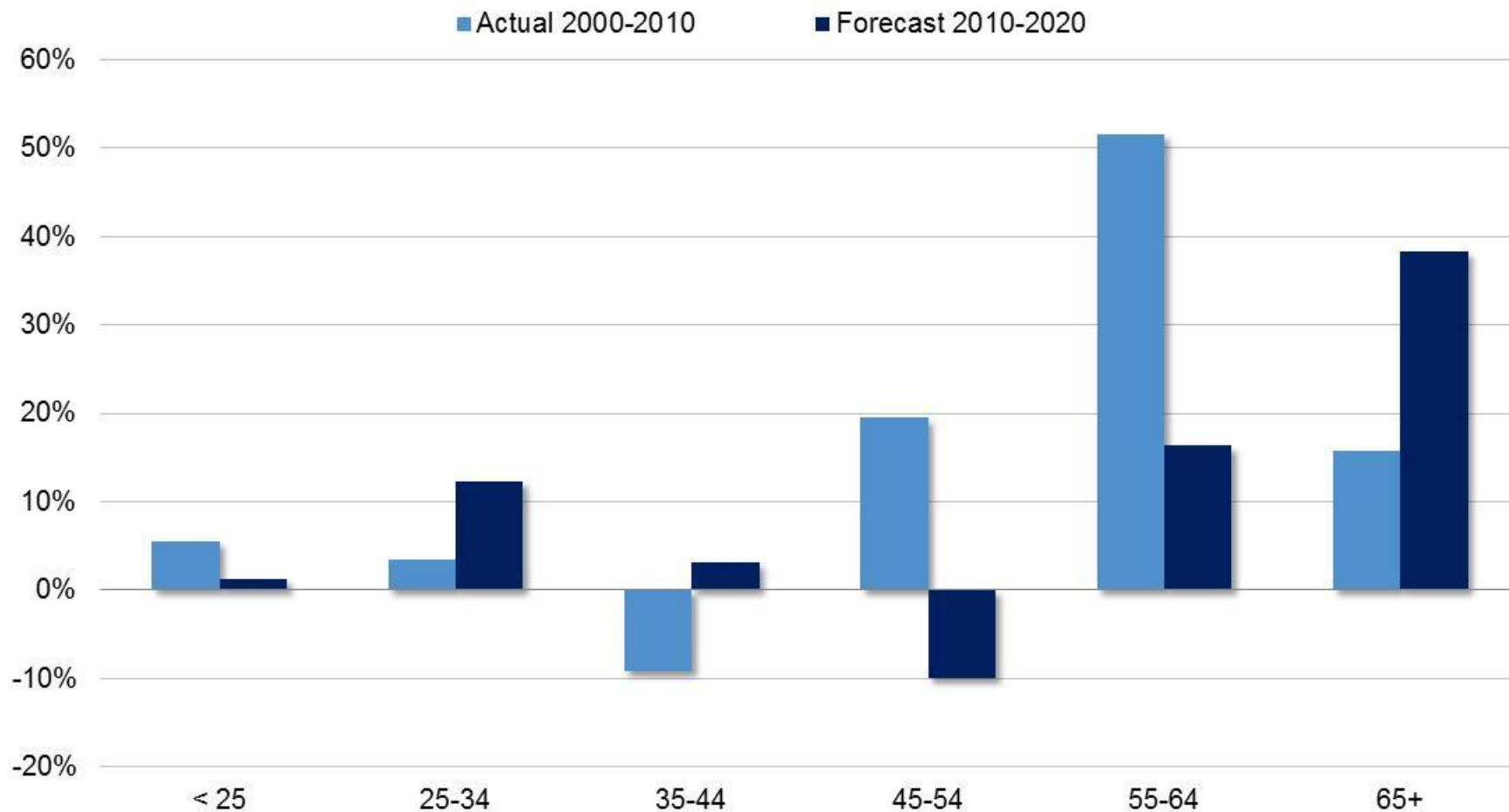
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With Improving Data NSA Could Dissolve into Micro-Segments



Senior Segment Is the Fastest-Growing Age Cohort

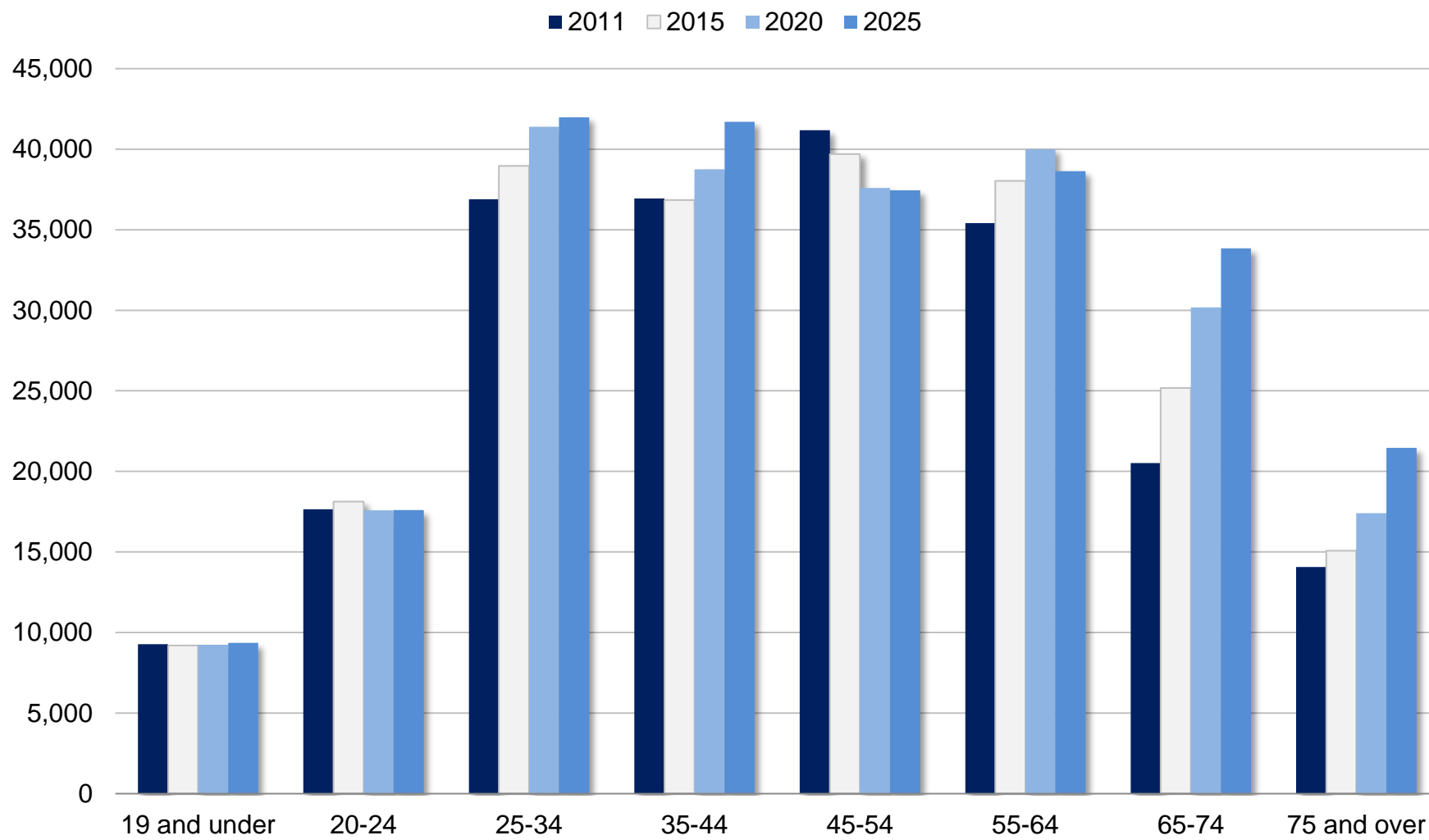
U.S. Population Growth by Age Cohort



Source: U.S. Census Bureau

Growth Strongest in Drivers 65+

Number of Licensed Drivers by Age, Projected Through 2025



In thousands

Source: U.S. Census Bureau, Federal Highway Administration

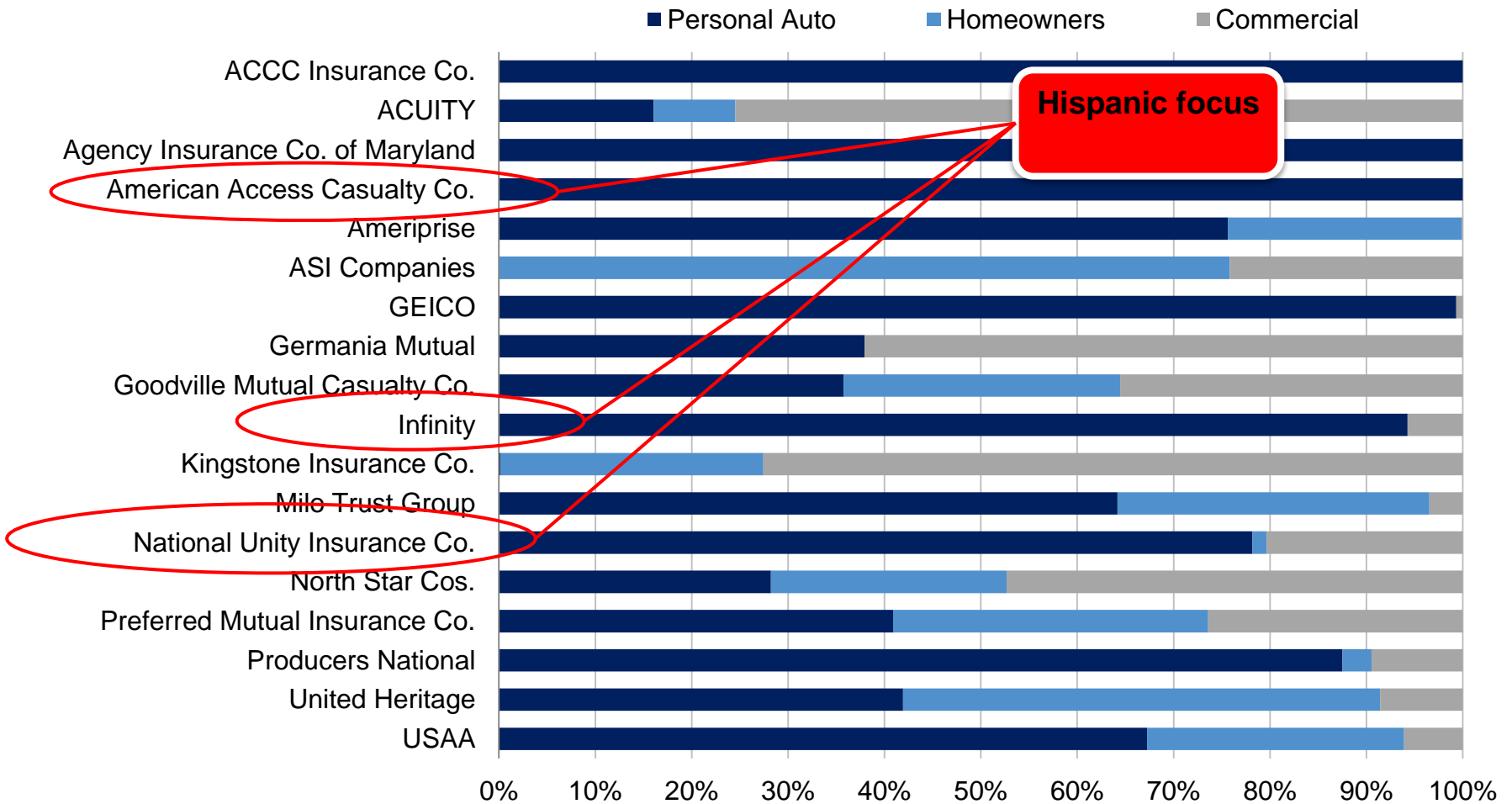
Only a Few Companies Identify Seniors as a Target

The screenshot shows a web browser window with the URL www.thehartford.com/aarp/. The browser's address bar and tabs are visible at the top. The website's navigation menu includes links for "Join Renew AARP", "AARP Member Benefits", "En Espanol", "Get a Quote", "Find an Agent", "Claims Center", and "Contact Us". A search bar and an "Account Login" button are also present. The main content area features the AARP logo and the text "Auto & Home Insurance Program from THE HARTFORD". The headline reads "You Deserve Better Auto Insurance". Below this, it states "Over 50? You Could Save \$404* If You Switch to The Hartford¹". There is a form with a dropdown menu set to "Auto Insurance", a "Zip Code" input field, and a "Go" button. A link for "Retrieve a Saved Quote" is located below the form. The background of the main content area is a photograph of a smiling older man and a younger woman. The word "edback" is written vertically on the right side of the page.

Source: The Hartford

3 of the Leaders Focus on the Hispanic Market

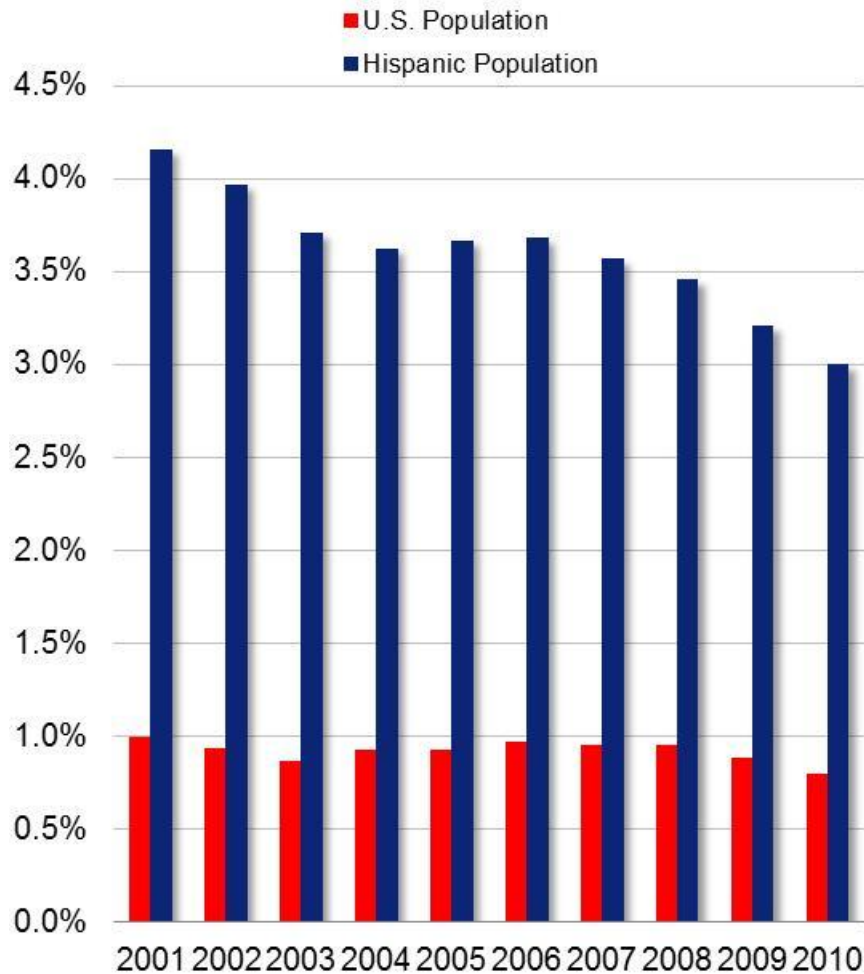
Line-of-Business Distribution



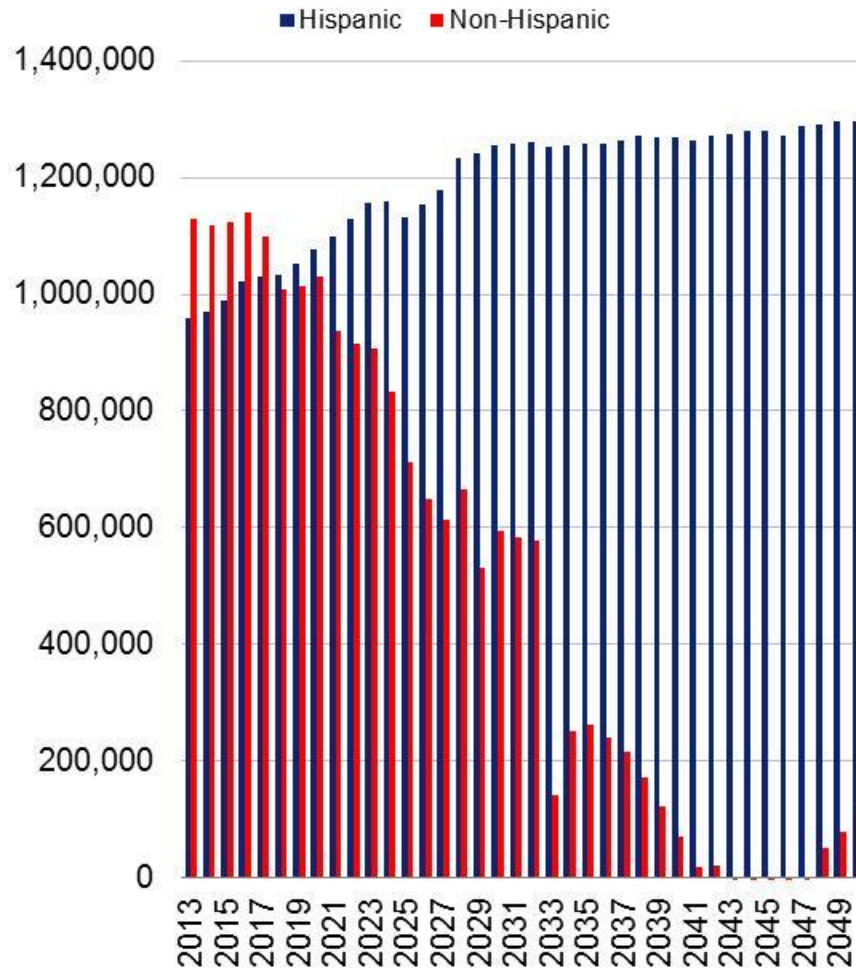
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Hispanic Market Is of Growing Importance for Insurers

Annual Population Growth Rate, Total U.S. vs. Hispanic Population



Annual Increase in Driving Age Population



Source: U.S. Census Bureau

Insurers Devoting More Resources to This Segment

The screenshot displays the website <https://www.infinityauto.com/es>. The header features the Infinity logo with the tagline "Siempre Contigo" and navigation links for "EMPRESA", "CONTACTANOS", and "ENGLISH". Below the header, there are four main menu items: "NUESTROS PRODUCTOS", "CENTRO DE RECLAMOS", "MI POLIZA", and "CENTRO DE CONOCIMIENTO".

The main content area features a large image of a family (a woman and three children) loading items into the back of a red SUV. Below this image is a promotional banner with the text: "Ahorros que se Ajustan a Tu Estilo de Vida. Además obtén una membresía gratis con Infinity DriverClub®". Below the banner is a call to action: "Cotiza, compara y adquiere tu seguro de auto por internet." and a "COTIZAR" button. A "Código Postal" input field is also present.

On the right side, there is a user interface for account access and claims. It includes a "ACCEDER MI PÓLIZA" button, input fields for "Nombre de usuario" and "Contraseña", and an "INICIAR SESION" button. Below these are links for "Recupera tu contraseña" and "Registra tu cuenta". At the bottom of this section are two buttons: "INICIA UN RECLAMO" and "LOCALIZA A UN AGENTE".

At the bottom of the page, there is a contact information bar: "¿Necesitas ayuda con tu cotización? 1-800-INFINITY".

Source: www.Infinityauto.com/es

Select Brokers/Agencies Are Also Finding Opportunity



Protector Holdings, LLC

Primero en Seguros



PREMIER INSURANCE SERVICES
MORE COVERAGE FOR LESS

DISTRIBUTION—FOCUS ON MGAS

What Is an MGA?

Distribution channel for insurers interested in specialty markets consisting of risks not widely accepted by standard insurers

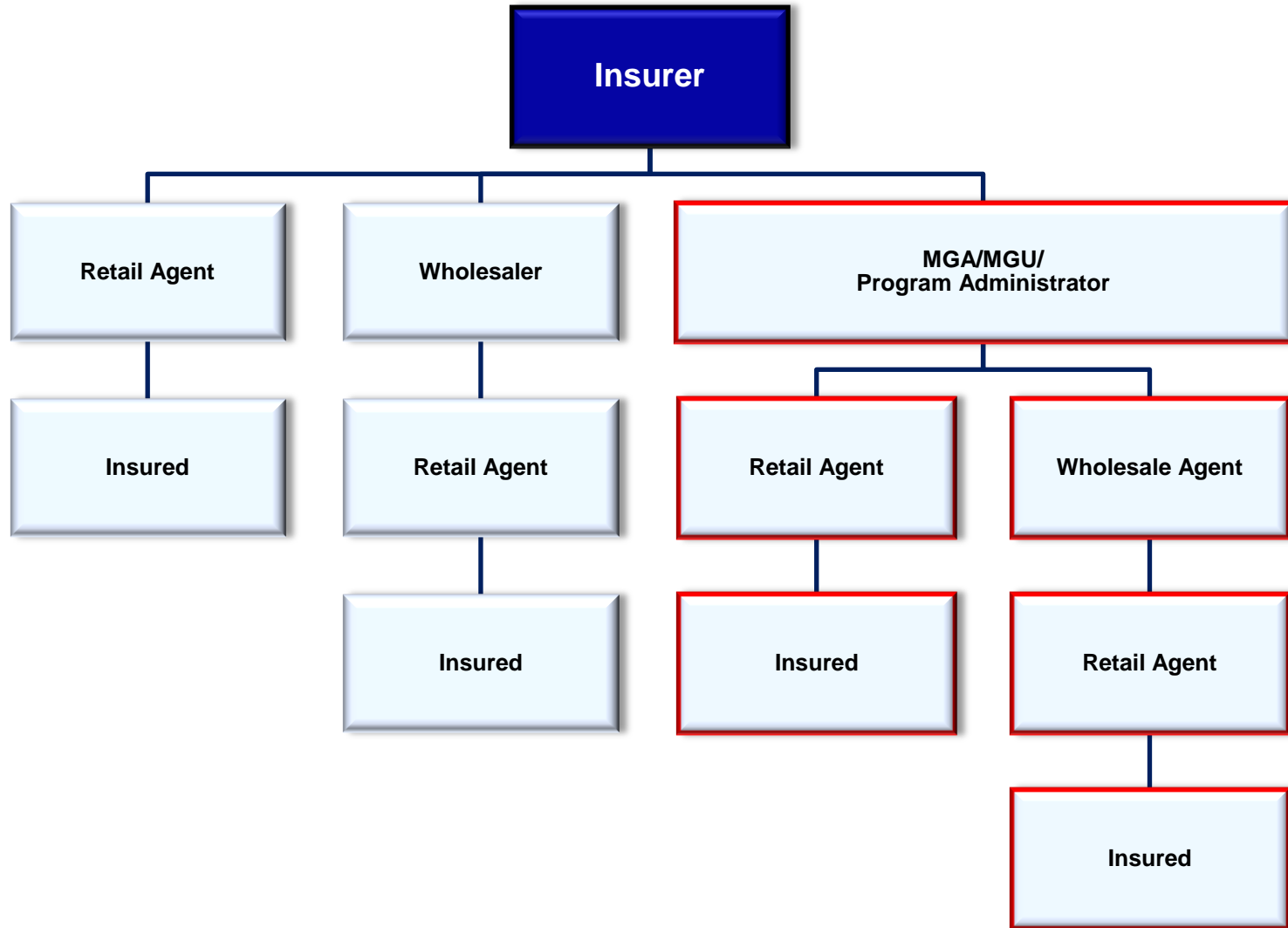
MGAs are focused on certain lines of business or classes of risk

MGAs offer insurers access to a broad network of retail and wholesale agents

Services provided by MGAs:

- Underwriting
- Binding
- Issuing
- Claims management/loss control
- Marketing
- Premium collections
- Billing

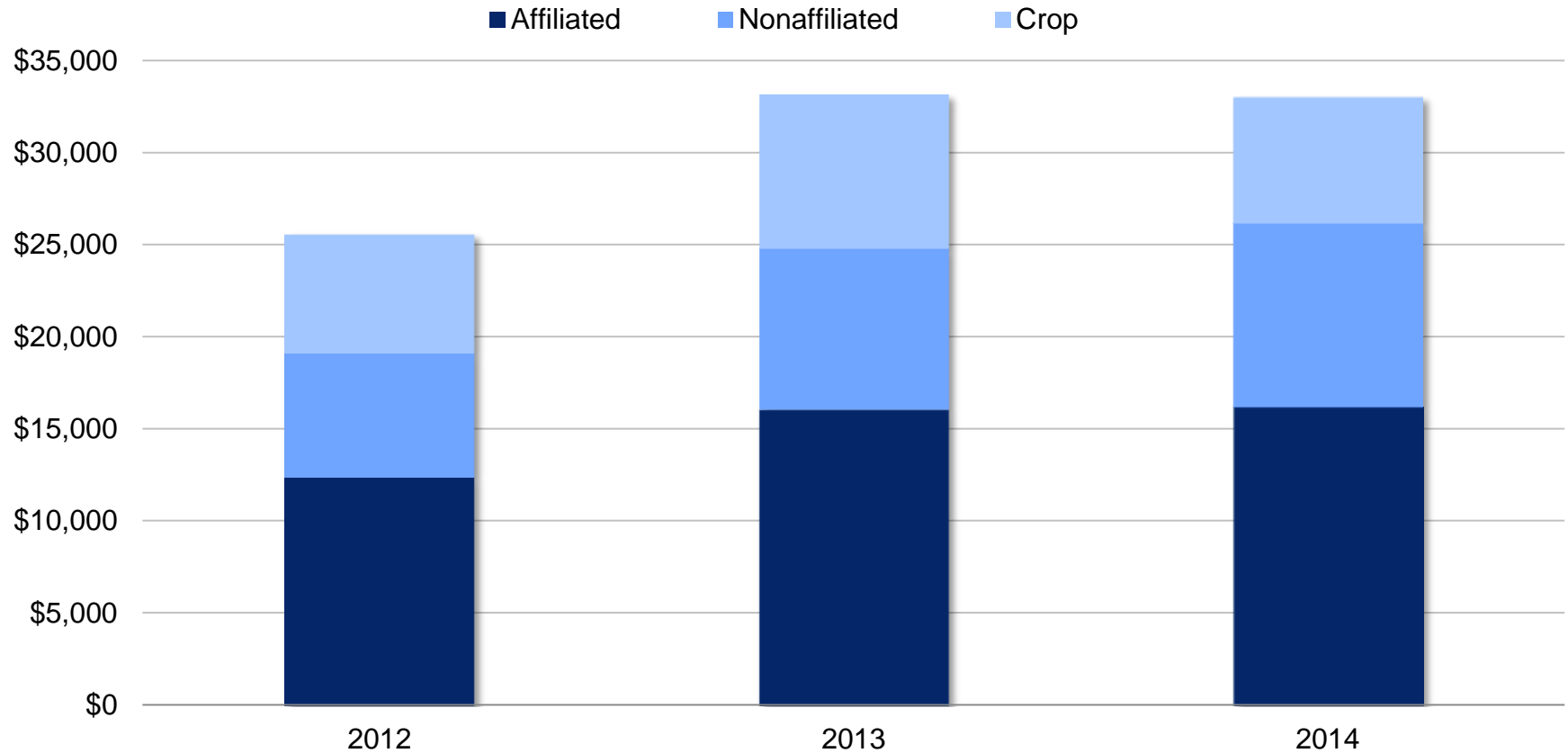
Specialty Distribution Model



MGAs Are a Meaningful Source of Premium for Insurers

MGA Direct Premiums Written

\$ in millions

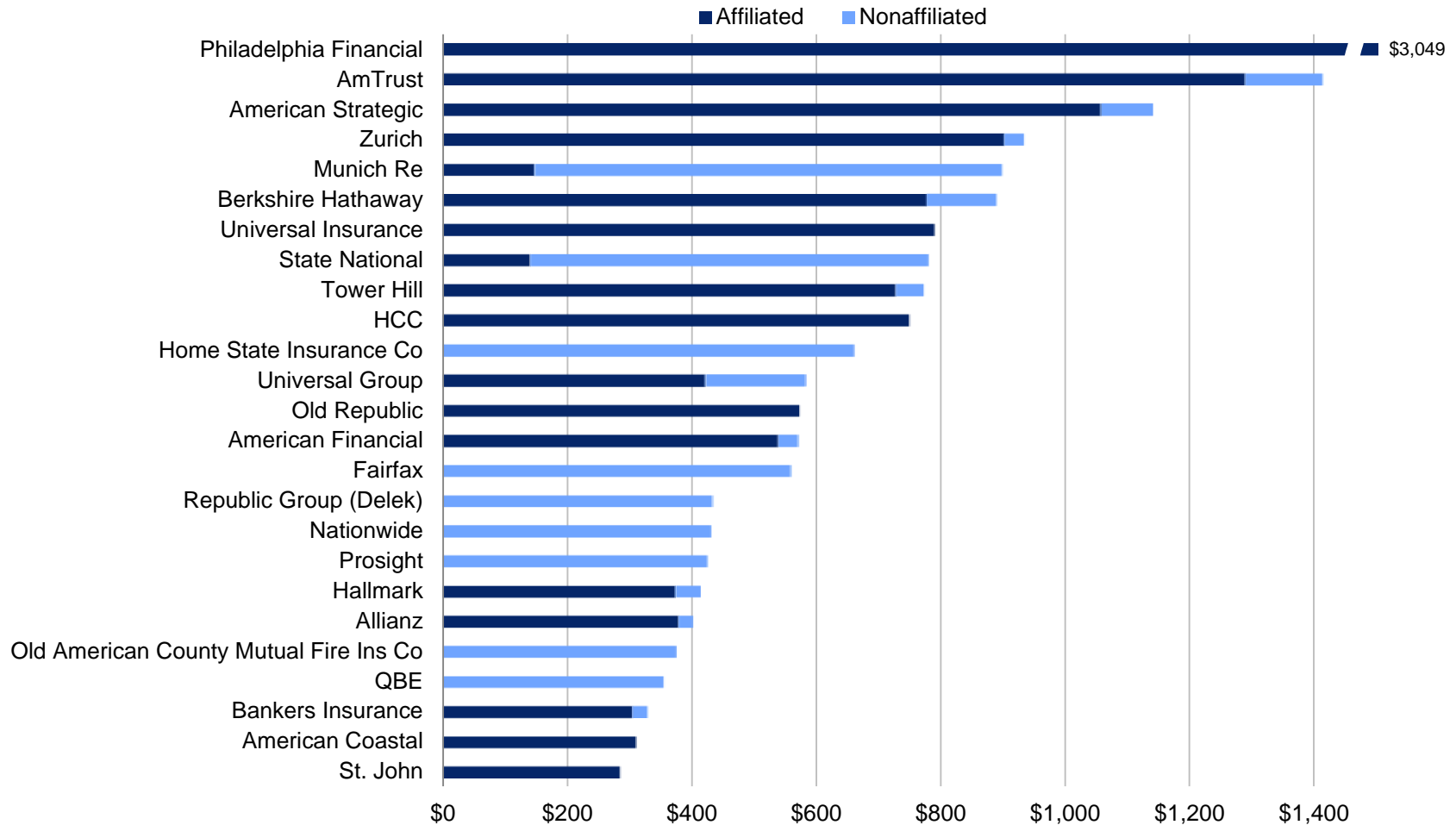


Data source: © A.M. Best Company—used by permission, Conning's proprietary MGA database

Insurers Producing Largest Amount of Premium Through MGAs

MGA Direct Premiums Written by Insurer, 2014

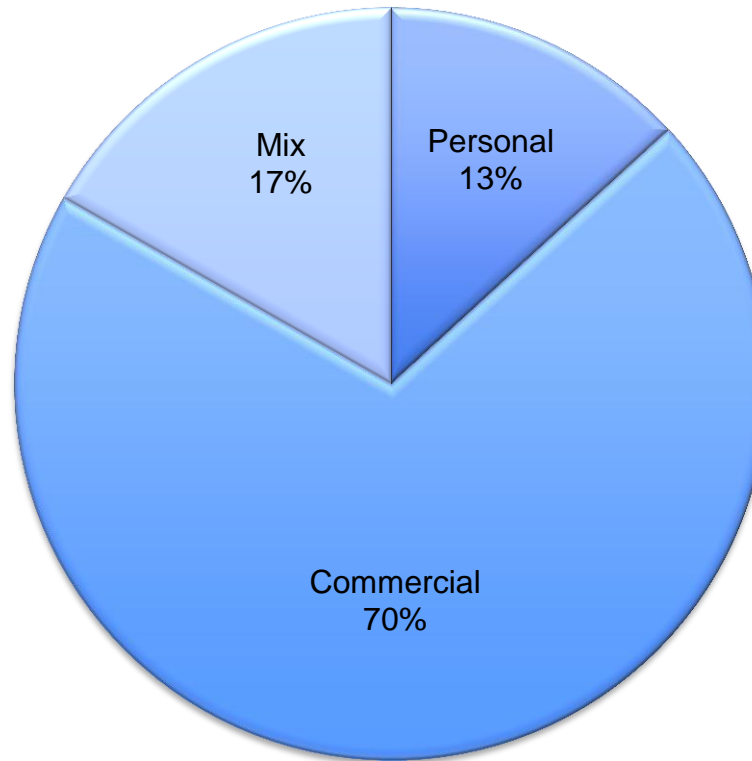
\$ in millions



Data source: © A.M. Best Company—used by permission, Conning's proprietary MGA database

MGAs Predominantly Offer Commercial Coverages

MGA Direct Premiums Written by Type of Risk, 2014

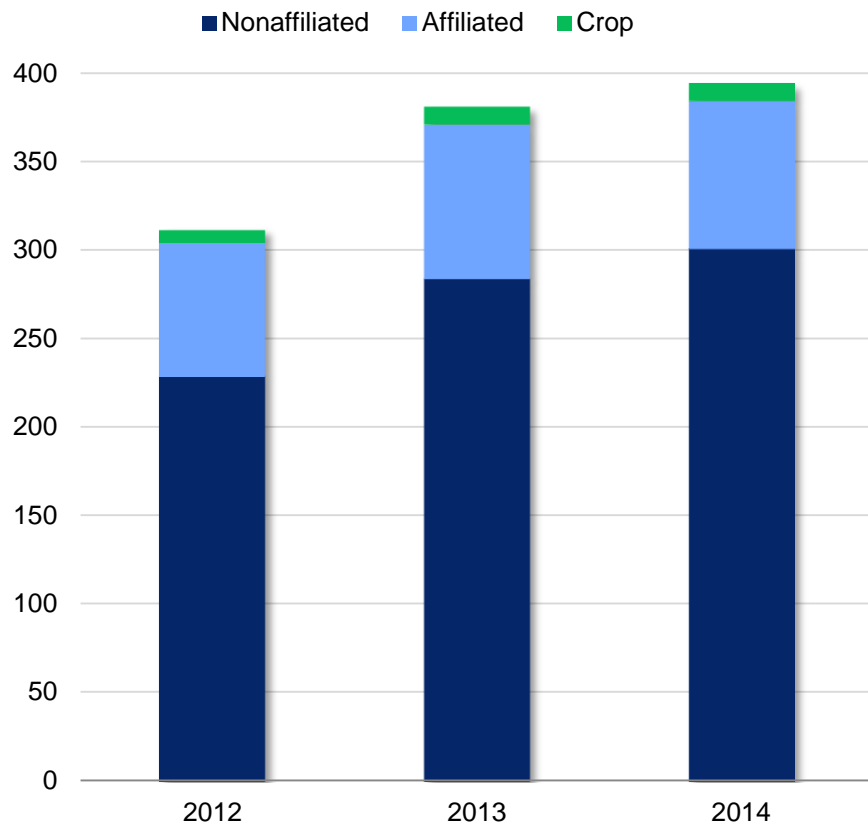


*Commercial includes crop premium

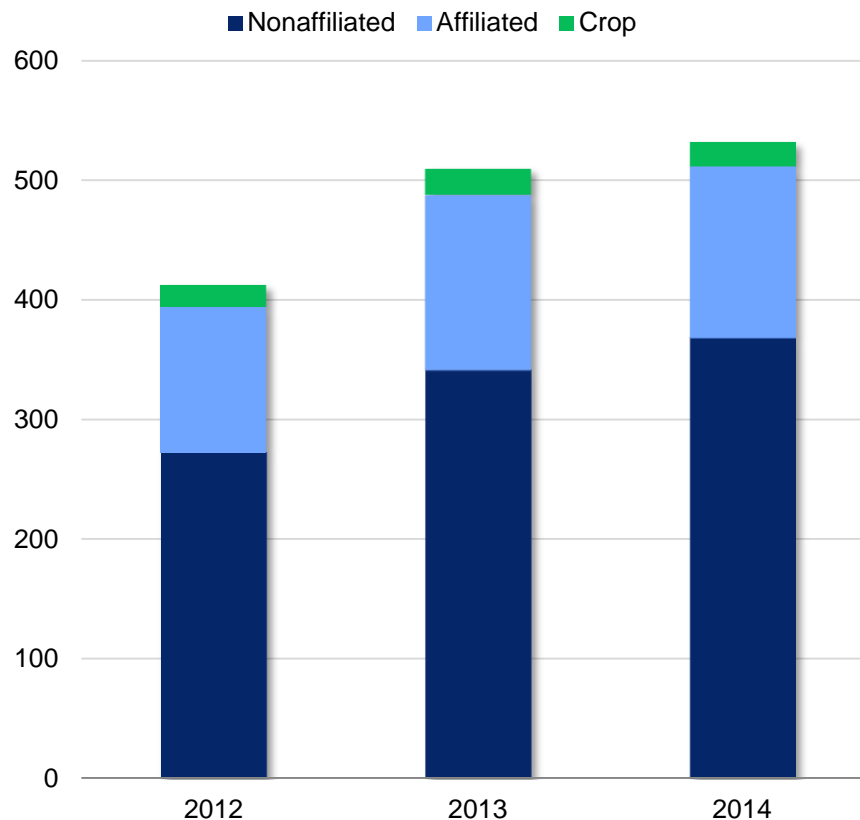
Data source: © A.M. Best Company—used by permission, Conning's proprietary MGA database

Number of MGAs and MGA Relationships with Insurers

Number of MGAs



Number of MGA Relationships

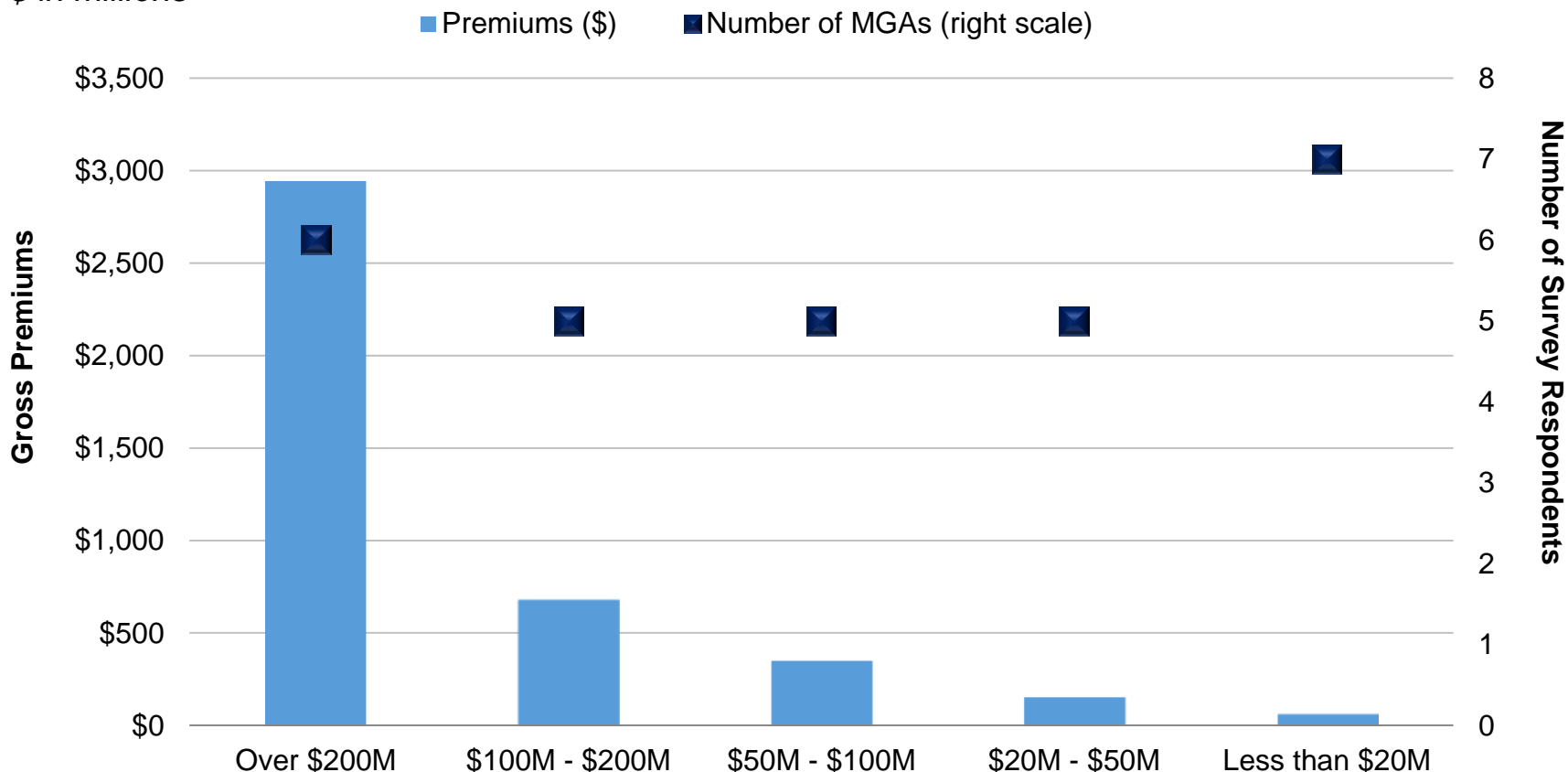


Data source: © A.M. Best Company—used by permission, Conning analysis

Summary of Conning Survey Respondents

Gross Premium by Survey Respondent Size and Number of Survey Respondents, 2014

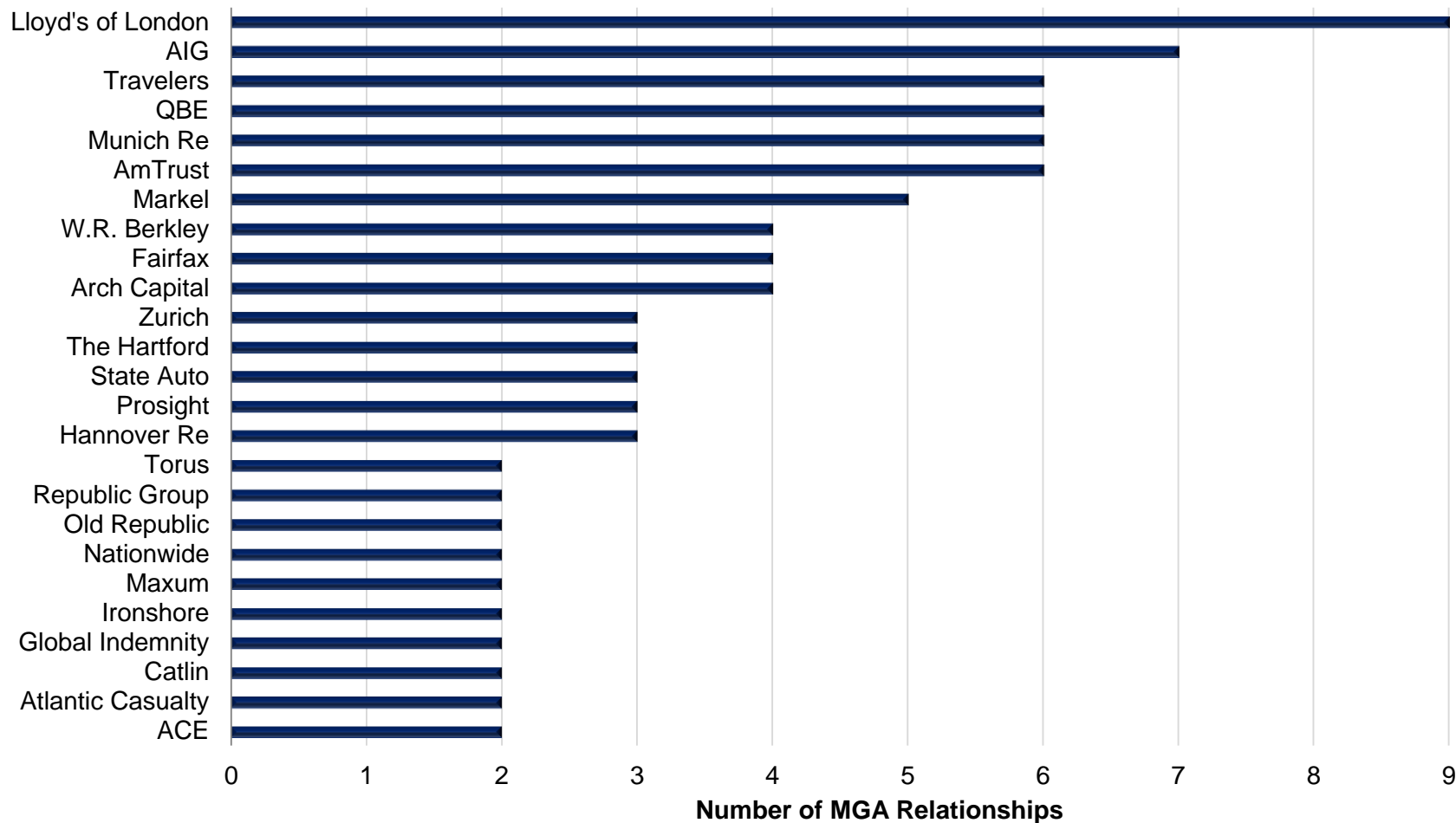
\$ in millions



Data source: © A.M. Best Company—used by permission, Conning's 2015 proprietary MGA and Program Market survey

Frequency of Insurer Relationships

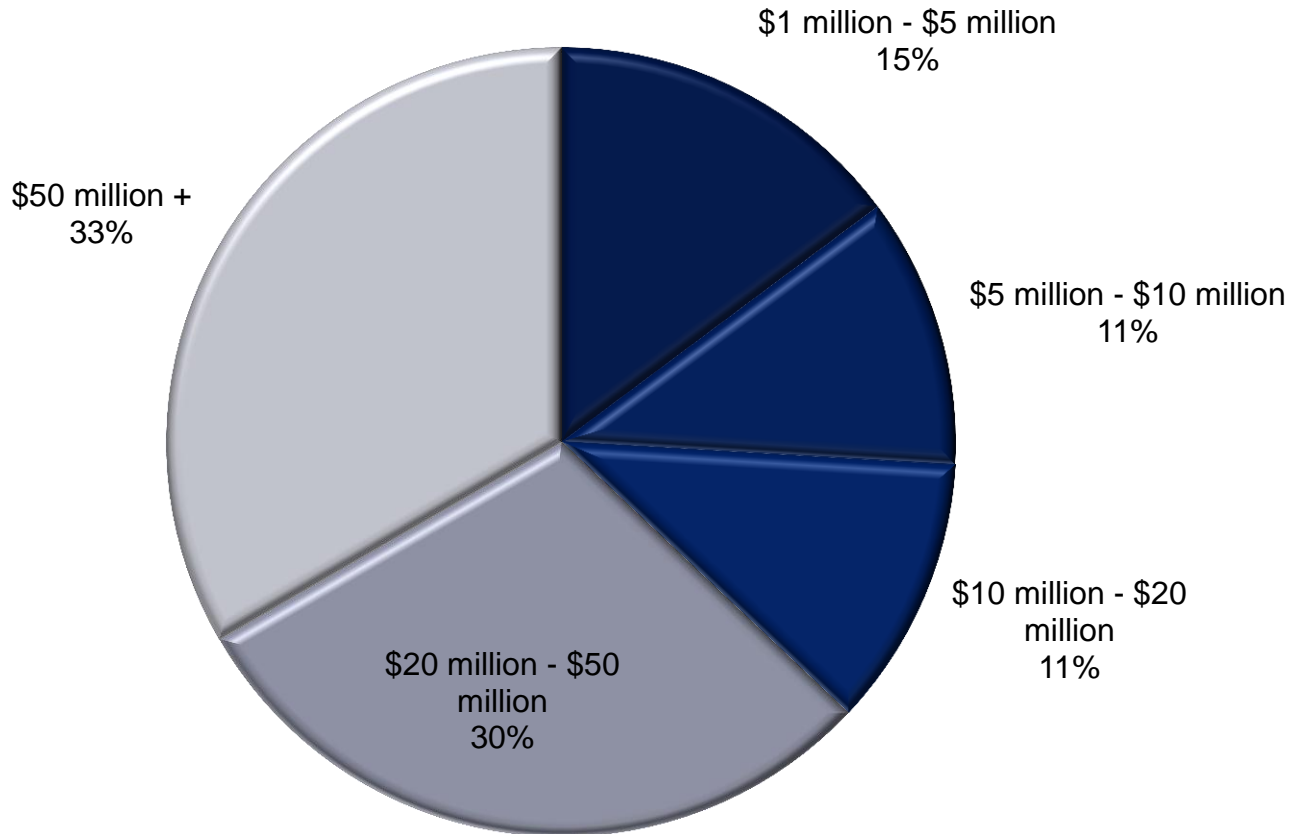
Who are the insurers that you place business with?



Data source: Conning's 2015 proprietary MGA and Program Market survey

Size of Largest Program

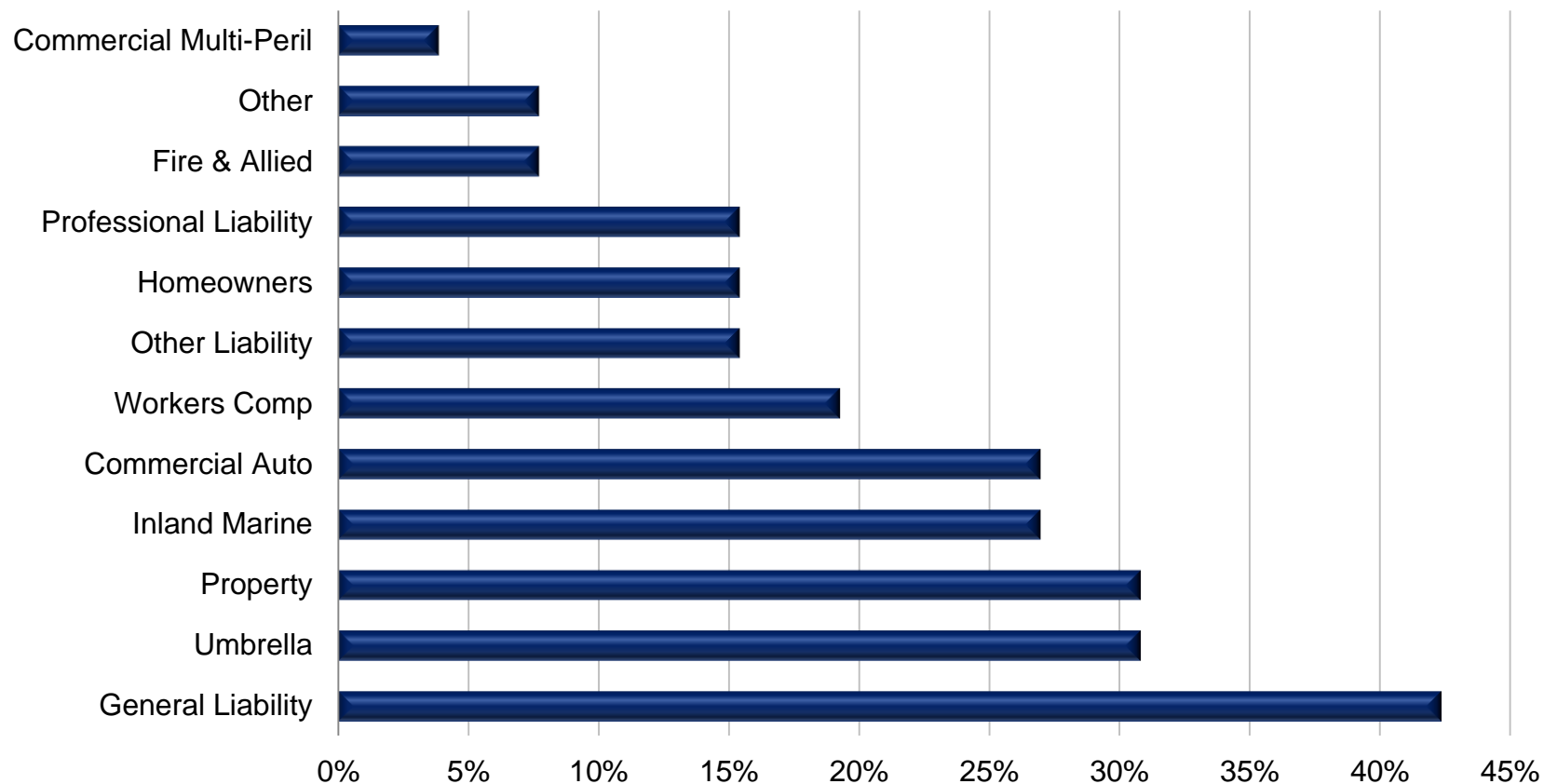
What is the size of the largest program?



Data source: Conning's 2015 proprietary MGA and Program Market survey

Largest Program—Types of Coverage Offered

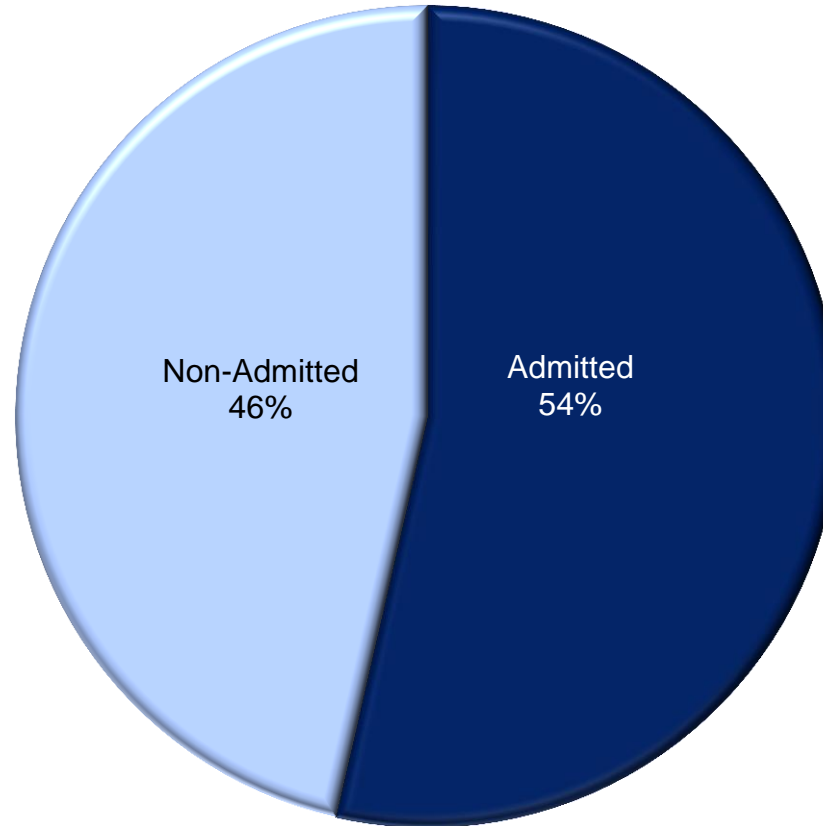
What types of coverage are included in your largest program?



Data source: Conning's 2015 proprietary MGA and Program Market survey

Admitted vs. Nonadmitted

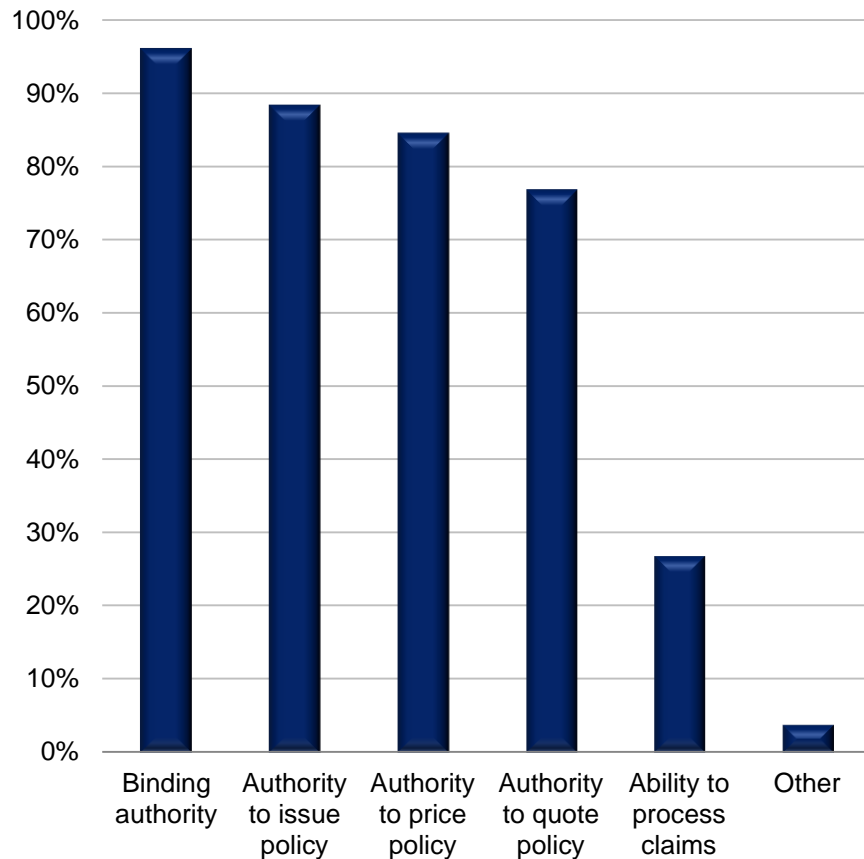
Are your programs primarily written for admitted or nonadmitted lines?



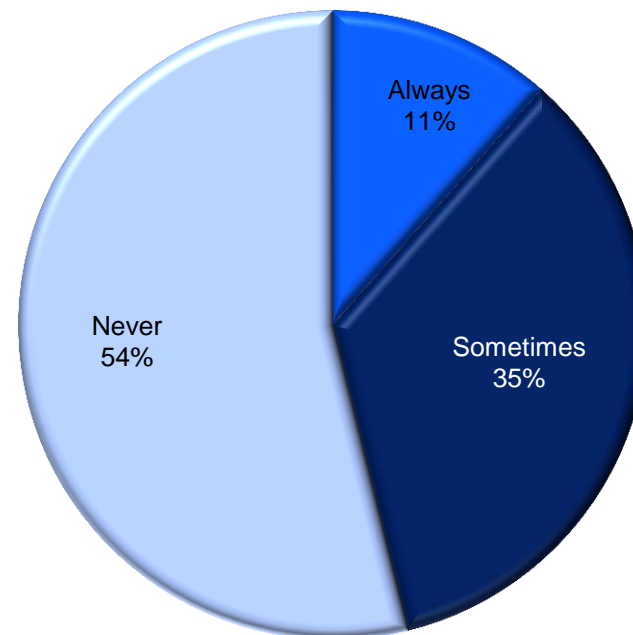
Data source: Conning's 2015 proprietary MGA and Program Market survey

Authority Granted and Risk Sharing

What authority does your firm enjoy in your largest program?



Do insurers require retention of a portion of risk?



Data source: Conning's 2015 proprietary MGA and Program Market survey

Premium Growth Opportunities

Near-Term Outlook

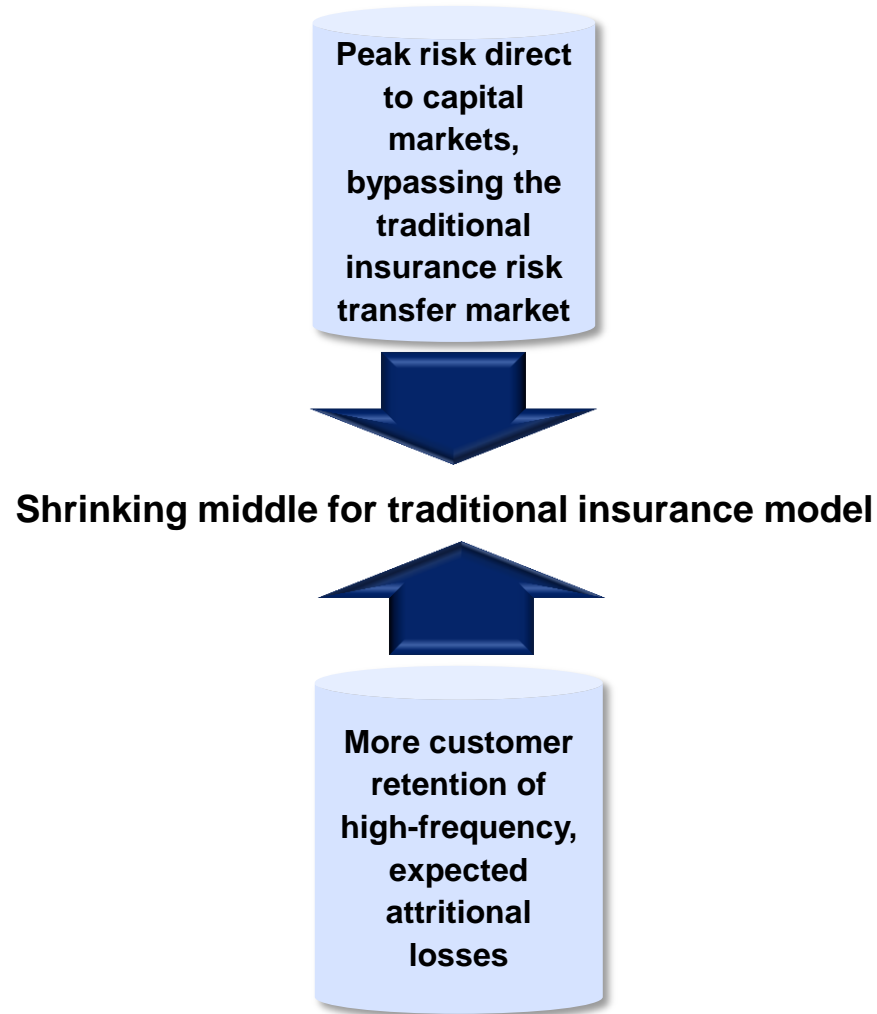
- ◆ Opportunity to achieve premium growth above commercial property-casualty industry.
- ◆ Expanding relationships with existing insurers and introduction of new product offerings.
- ◆ Expectation of small contribution from pricing.

Long-Term Outlook—Positive

- ◆ Driven by trend toward specialization and underwriting expertise often associated with types of risks in the MGA market.
- ◆ Standard market movement into MGA market is typically short-lived.
- ◆ Technology offers plenty of opportunity—potential differentiator.

REINSURANCE

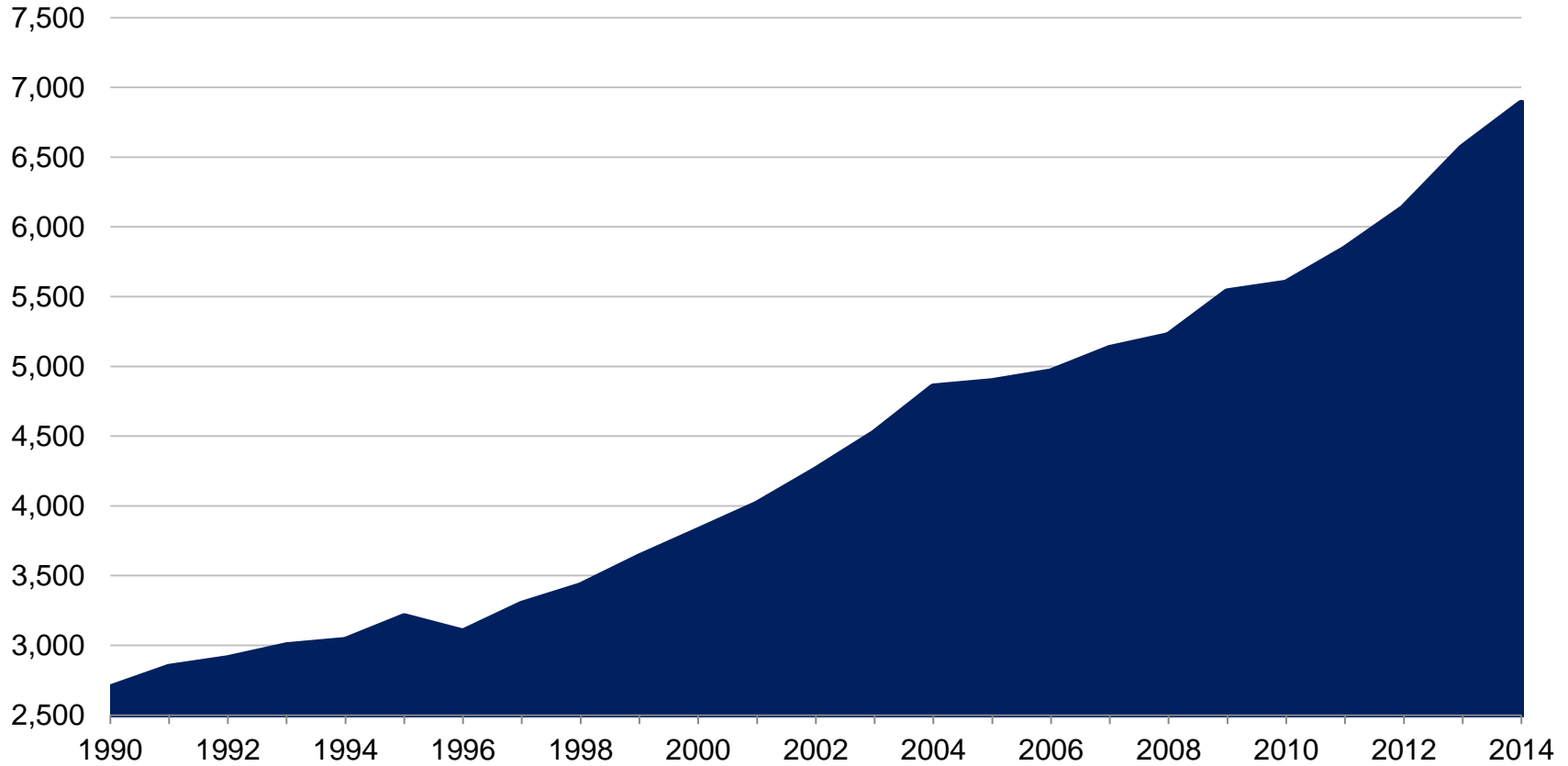
Exodus of Peak Cat Risk and Attritional Risk



Source: Conning

Growth in Captives

Number of Captives

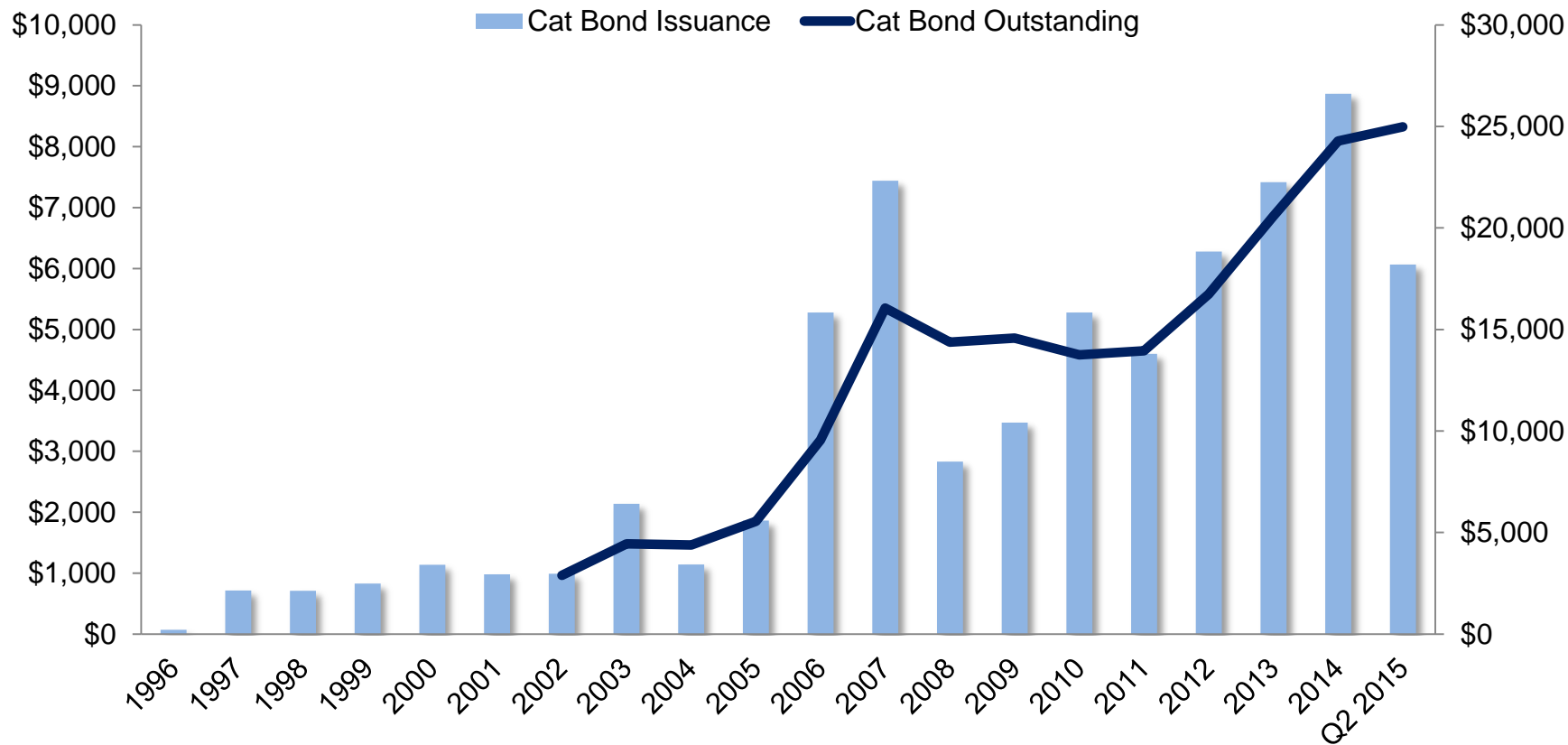


As of March 2015 (includes some restatements)
Source: *Business Insurance*, Conning analysis

A Fast-Growing ILS Market

Catastrophe Bond Issuance

\$ in millions



Source: Aon Benfield Securities, Artemis, Conning analysis

The Hedge Fund Reinsurance Model

Hedge Fund Reinsurers

\$ in millions

	Greenlight	PaCRE	Hamilton Re	Third Point	Watford Re	Fidelis	ABR Re
Date Formed	2004	2012	2012	2011	2014	2015	2015
Sponsor(s)	Greenlight Capital	Paulson & Co., Validus	Two Sigma	Third Point, Kelso & Co., Pine Brook	Arch Capital, Highbridge Capital	Crestview Partners, CVC Capital Partners, Pine Brook	ACE Ltd., BlackRock Inc.
Domicile	Grand Cayman	Bermuda	Bermuda	Bermuda	Bermuda	Bermuda	Bermuda
Current Capital(1)	\$1,194	\$616	\$500	\$1,452	\$1,485	\$1,500	\$800
Assets % with Sponsor	Substantial	Substantial	100%	100%	100%	0%	100%

(1) As of December 31, 2014, except Hamilton Re, Fidelis, and ABR Re, which are as of formation date.

Source: Company websites, Conning analysis

FUTURE OF SPECIALTY MARKETS

Top Ten Risks Bear High Loss Severity Potential

Global Risks

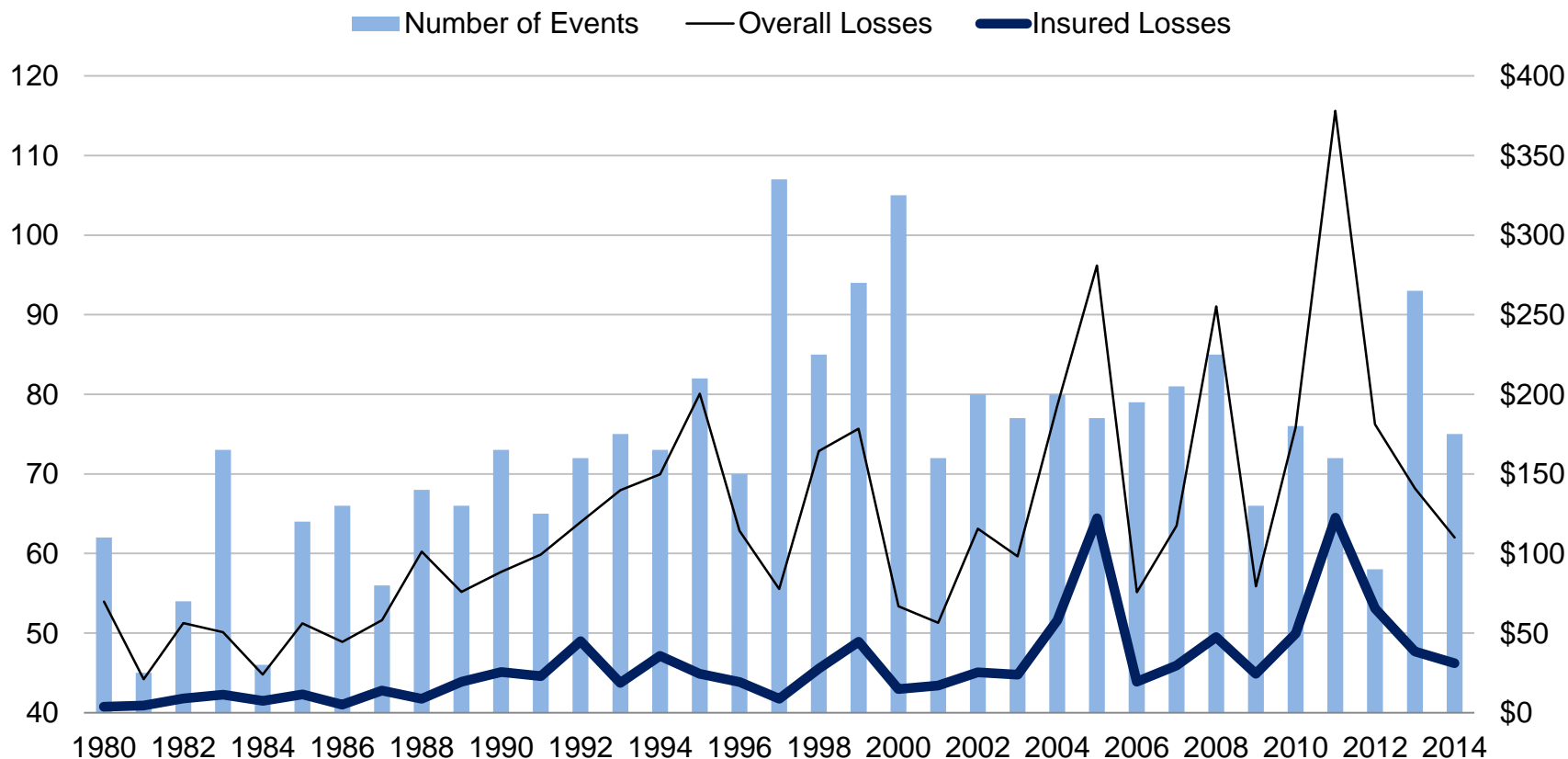
Rank	Most Likely	Greatest Impact
1	Interstate conflict	Water crises
2	Extreme weather events	Spread of infectious disease
3	Failure of national governance	Weapons of mass destruction
4	State collapse or crisis	Interstate conflict
5	Unemployment or underemployment	Failure of climate-change adaptation
6	Natural catastrophes	Energy price shock
7	Failure of climate-change adaptation	Critical information infrastructure breakdown
8	Water crises	Fiscal crises
9	Data fraud or theft	Unemployment or underemployment
10	Cyber attacks	Biodiversity loss and ecosystem collapse

Source: World Economic Forum

More Catastrophes, Higher Losses

Trend in Worldwide Natural Catastrophes

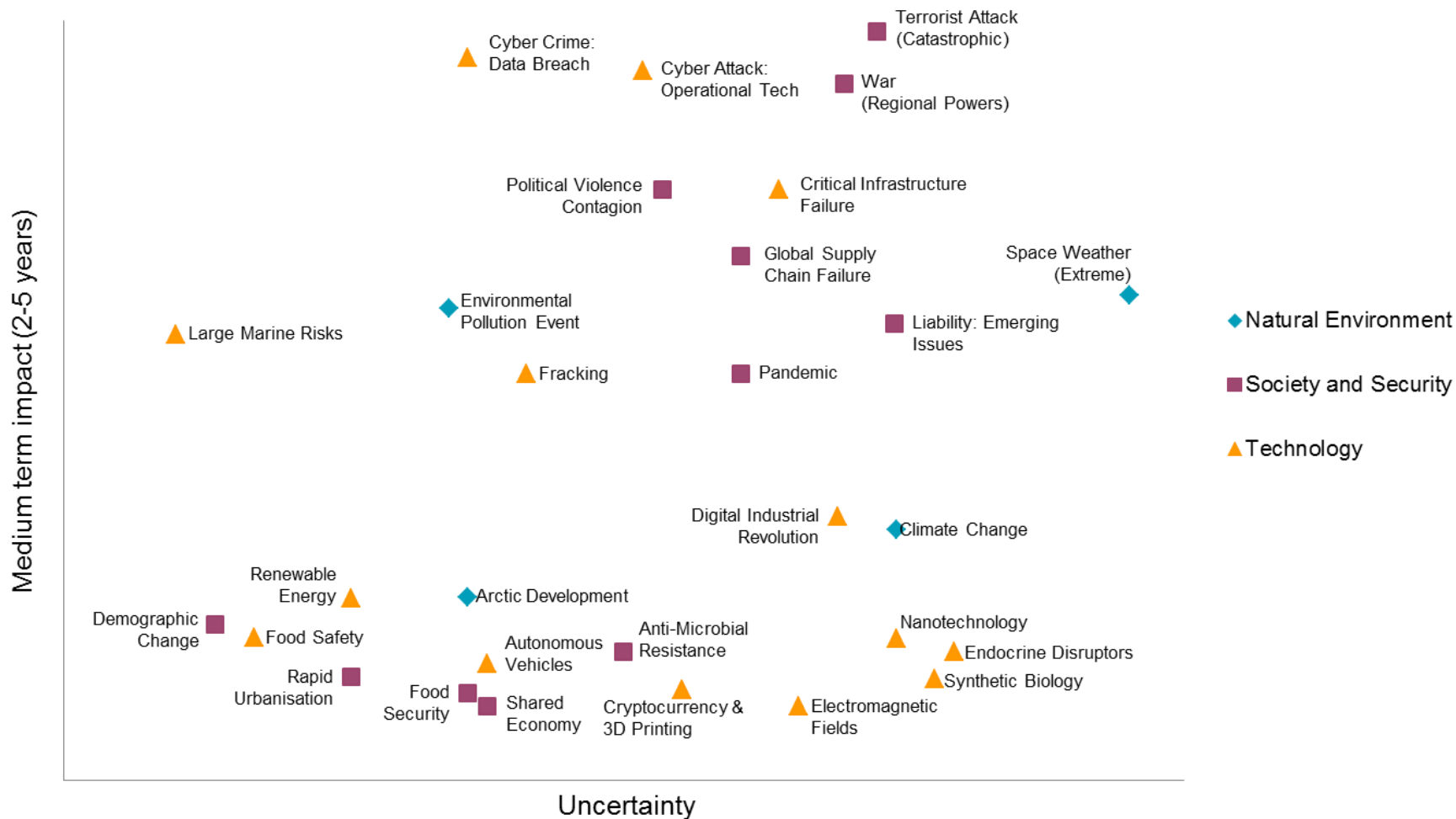
\$ in billions (2014 constant \$)



Source: Adapted from ©2015 Münchener Rückversicherungs-Gesellschaft, Geo Risks Research, NatCatSERVICE (as of January 2015)—used by permission

Lloyd's Emerging Risk Map

Lloyd's Emerging Risks

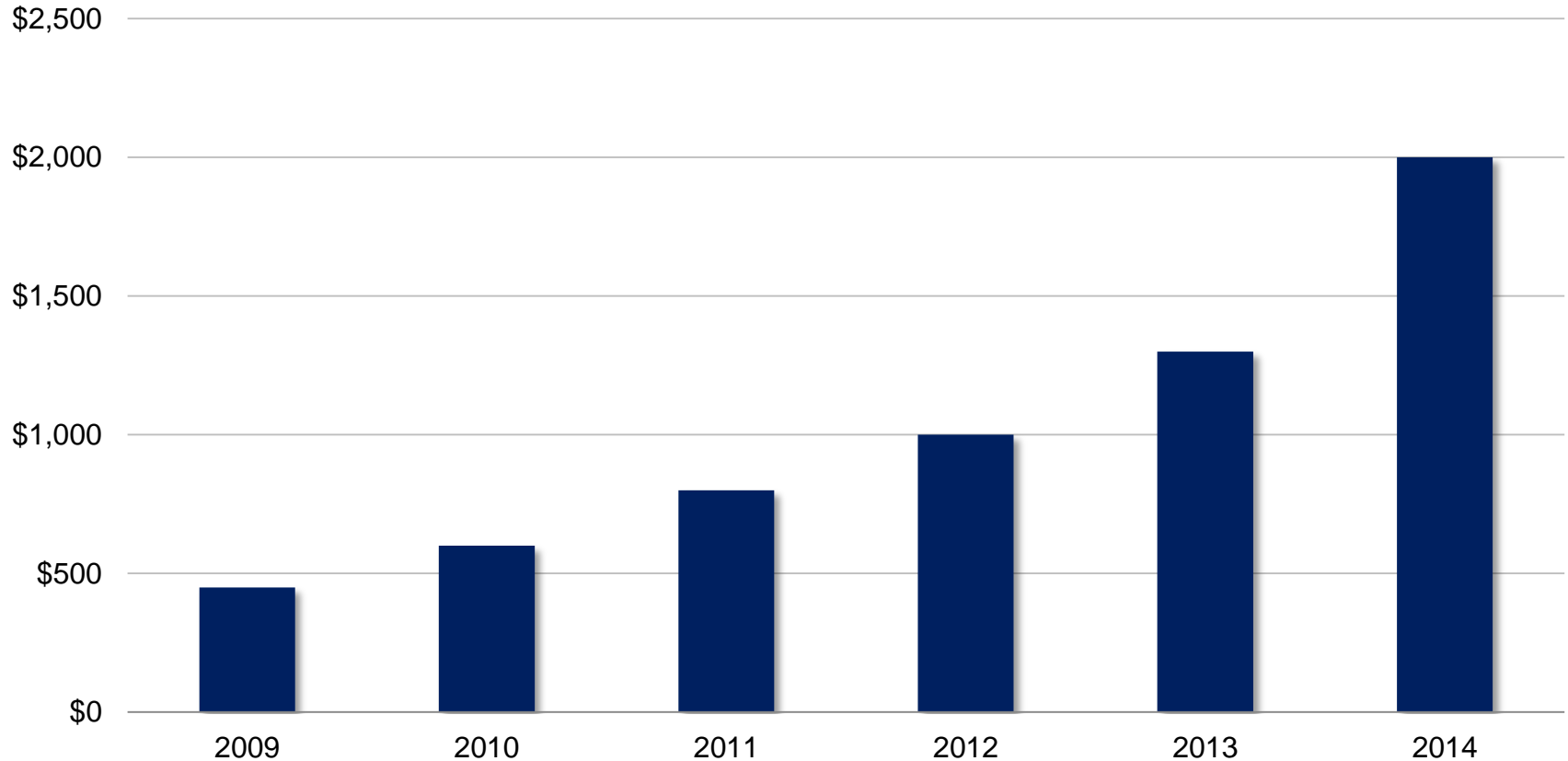


Source: Lloyd's 2014 Survey of Managing Agents

Growth of Cyber Insurance Market

U.S. Cyber Insurance Premium

\$ in millions



Data source: Betterley Risk Consultants, Conning analysis

The Future of Specialty Markets

- ◆ Specialty insurers (or their teams) are in demand and make logical acquisition targets.
- ◆ The P&C industry's weak investment results will continue for some time, so there will be heightened pressure for underwriting profit.
- ◆ Insurance companies are also looking to use their excess capital to diversify away from competitive commodity business and into specialty business.
- ◆ As more companies look to write specialty risks, the market may become crowded. However, there's only so much underwriting talent to go around, so there will be companies that try to write specialty risks but ultimately fail.
- ◆ Insurer profitability may suffer at first, but will improve over time as weaker performers fail and exit the market.
- ◆ There will always be teams of underwriters that choose to branch off on their own, so smaller specialty insurers won't disappear.
- ◆ The demand for new products will continue, and smart underwriters will continue to meet that demand.

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