

US INSURANCE INDUSTRY OVERVIEW

Key trends¹

- U.S. insurance premiums totaled \$955.6 billion in 2005, versus \$956.9 billion in 2004. The 2006 total gross premiums were approximately \$1,200 billion².
- Non-life insurance accounted for 54.8% of total gross premiums written in 2006³.
- The transaction value of insurance-related mergers and acquisitions totaled \$32.7 billion in 2005, versus \$14.2 billion in 2004.
- There were 2,725 property/casualty insurance companies in the United States in 2005, versus 2,700 in 2004.
- The property/casualty insurance industry's rate of return on a statutory basis was 10.4% in 2005, versus 9.3% in 2004.
- The property/casualty insurance industry had after-tax net income of \$46.9 billion in 2005, versus \$38.4 billion dollars in 2004.
- Insured catastrophe losses totaled \$9.2 billion in 2006, versus \$61.8 billion in 2005, the highest on record.

Property/Casualty Insurance

The 2007 Groundhog Survey, carried out by the Insurance Information Institute⁴, suggested that due to relatively low catastrophe losses in 2006 and a strong performance in virtually all other major lines of property/casualty (P/C) insurance, the industry should achieve its best underwriting performance since 1936. Surveyed analysts expected the industry's profitability to continue in 2007, although with a much smaller underwriting profit, and the trend of decreasing underwriting profits was expected to continue in 2008. The poll also revealed that analysts uniformly expected premium growth to become even more sluggish in 2007 and 2008.

According to the survey, analysts expected on average an increase in net written premiums of just 1.8% in 2007 and in 2008, compared with the 4.3% for 2006. The 1.8% expected premium growth would be the third slowest rate of growth for P/C insurers since 1998. Overall, the share of P/C insurance premiums relative to the overall economy is expected to shrink by about 3.1% in 2007.

III notes⁵ that profits (in dollar terms) and profitability (ROE) are rising due to a number of factors, including a fall in catastrophe losses in 2006, allowing insurers to restore their claims paying resources and to reinvest. An improved capital position also helps insurers meet the higher capital requirements imposed on them by ratings agencies in the wake of Hurricane Katrina, requiring them to demonstrate an ability to pay claims arising from more than one major catastrophe per year in order to maintain and improve financial strength ratings.

The combined ratio – the ratio of losses and expenses to premiums – for 2007 is projected to be 96.8, a deterioration from an estimated 93.2 in 2006, while the combined ratio for 2008 is forecast to be 98.7.

¹ Source: <http://www.iii.org/media/facts/statsbyissue/industry/>, unless otherwise indicated.

² 2006 data from <http://www.investor.reuters.com/business/IndustryDmDescr.aspx?industry=INSMSC&target=%2fbusiness%2fbussecindustry%2fbussecindfake%2fbussecindoverview&page=dmdescr>.

³ Source: <http://www.investor.reuters.com/business/IndustryDmDescr.aspx?industry=INSMSC&target=%2fbusiness%2fbussecindustry%2fbussecindfake%2fbussecindoverview&page=dmdescr>.

⁴ Source: http://server.iii.org/yy_obj_data/binary/767376_1_0/Groundhog_2007.pdf.

⁵ Source: http://server.iii.org/yy_obj_data/binary/767376_1_0/Groundhog_2007.pdf.

Property/Casualty Insurance Industry Income, 2001-2005

\$ billions	2001	2002	2003	2004	2005	2006
Net written premiums	\$323.5	\$369.7	\$404.4	\$424.1	\$425.7	\$443.8
Change year-over-year	8.0%	14.3%	9.4%	4.9%	0.4%	4.3%
Earned premiums	\$311.5	\$348.5	\$386.3	\$413.8	\$417.7	\$435.8
Losses incurred	234.5	238.8	238.7	247.8	256.3	283.7*
Loss adjustment expenses incurred	40.9	44.8	50.0	53.1	55.1	n/a*
Other underwriting expenses	86.4	93.8	100.7	106.8	110.3	117.5
Policyholder dividends	2.4	1.9	1.9	1.7	1.9	3.4
Underwriting gain/loss	-52.6	-30.8	-4.9	4.3	-5.9	31.2
Investment income	37.7	37.2	38.6	40.0	49.5	52.3
Miscellaneous income/loss	1.1	-0.8	0.0	-0.3	0.9	1.0
Operating income/loss	-13.8	5.6	33.8	44.0	44.5	84.6
Realized capital gains/losses	6.6	-1.2	6.6	9.1	9.7	3.4
Incurred federal income taxes/credit	-0.2	1.3	10.3	14.6	11.2	24.2
Net income after taxes	-7.0	3.0	30.0	38.5	43.0	63.7

* For 2006, losses incurred include loss adjustment expenses.

Source: <http://www.iii.org/media/facts/statsbyissue/industry/>,
http://server.iii.org/yy_obj_data/binary/770634_1_0/pcoverview.ppt.

<http://www.iii.org/media/industry/financials/2006yearend/>,

Property/Casualty Insurance Market Outlook

Analysts expect \$40 billion-plus storms to become more common, and many within the industry expect a \$100 billion CAT year in the not too distant future⁶. Pricing and underwriting discipline also remain a key issue. The III notes that regulators, especially in catastrophe-prone areas, are reluctant to allow insurers to charge risk-based rates. Most insurers are also paying more for reinsurance, which causes them to report lower “net” written premium growth figures if they cannot fully recoup those costs at the retail level. Increased interest by traditional commercial insurance buyers in alternative forms of risk transfer, especially captives, self-insurance arrangements and large deductibles, is causing significant leakage of premiums from the system. Also, insurer pullbacks from coastal areas are resulting in the ceding of significant premiums to state-run residual market mechanisms, often in states that otherwise offer significant growth opportunities.

High on the list of external threats are adverse court decisions in Mississippi and Louisiana. The suits threaten insurers’ ability to operate in coastal sections of these states. Regulatory and legislative risks also loom large in 2007. Florida’s governor imposed a freeze on all rate changes and non-renewals, potentially leaving insurers exposed to excessive catastrophe losses and ratings downgrades. Separately, some states are attacking the right of insurers to use certain underwriting criteria, despite the fact that such criteria are accurate predictors of future loss and result in a rating system that is more equitable for all policyholders.

Among other major external risks, terrorism remains a key concern, despite the two-year extension of the Terrorism Risk Insurance Act signed by President Bush in late 2005. The extension, which has a new expiration date of December 31, 2007, pushed considerably more risk onto private insurers.

Life/Health Insurance

According to Plunkett Research⁷, life insurance in the United States was a \$517 billion business (in gross premiums) in 2005, while life and health insurers earned about \$34 billion in net investment income in that year.

Plunkett Research notes that the biggest challenges currently facing the insurance industry lie in the health coverage sector, where soaring costs and a rapidly aging U.S. population make it extremely difficult for insurers to forecast future costs and appropriately price their products. Meanwhile, health coverage underwriters face growing demand from patients for more choices of providers and treatments.

⁶ Source: http://server.iii.org/yy_obj_data/binary/767376_1_0/Groundhog_2007.pdf.

⁷ Source: <http://www.plunkettresearch.com/Industries/Insurance/InsuranceTrends/tabid/239/Default.aspx>.

Life/health insurance industry operating data, 2003-2005:

\$ billions	2003	2004	2005
Premiums and annuity considerations (1)	500.2	531.2	518.5
Net investment income	142.9	145.5	149.0
Net gain from operations (2)	39.1	41.1	40.2
Federal and foreign income taxes (3)	7.9	10.0	9.0
Net realized capital gains/losses	-4.7	1.0	3.2
Net income	26.6	32.2	34.3
Dividends to stockholders	-11.0	-13.0	-21.7
Capital and surplus (end of year)	223.8	237.0	239.7

(1) Life and accident and health policies and contracts.

(2) After dividends to policyholders and before federal income taxes.

(3) Incurred (excluding tax on capital gain).

Source: <http://www.iii.org/media/facts/statsbyissue/life/>.

Other Insurance Subsectors

- According to the 2007 Groundhog Survey⁸, countrywide auto insurance expenditures are expected to fall 0.5% in 2007 – the first drop since 1999.
- Businesses are expected to see declines of 5% or more in 2007, across their entire insurance program.

Main players

Top five US property/casualty companies by revenues, 2006 (\$ millions)

Rank	Group	Revenues	Assets
1	American International Group	\$113,194	\$979,414
2	Berkshire Hathaway	98,539	248,437
3	State Farm Insurance Cos.	60,528	170,249
4	Allstate	35,796	157,554
5	Hartford Financial Services	26,500	326,710

Source: <http://www.iii.org/media/facts/statsbyissue/industry/>.

Top five US life/health insurance groups and companies by revenues, 2006 (\$ millions)

Rank	Group	Revenues	Assets
1	MetLife	\$53,275	\$527,715
2	Prudential Financial	32,488	454,266
3	New York Life Insurance	28,365	165,665
4	TIAA-CREF	26,757	412,980
5	Massachusetts Mutual Life Insurance	24,863	154,071

Source: <http://www.iii.org/media/facts/statsbyissue/industry/>.

Company profiles

American International Group⁹

Revenues:

- Premiums and other considerations - \$74.1 billion;
- Net investment income - \$25.3 billion;
- Realized capital gains (losses) - \$0.1 billion;
- Other income - \$13.7 billion;

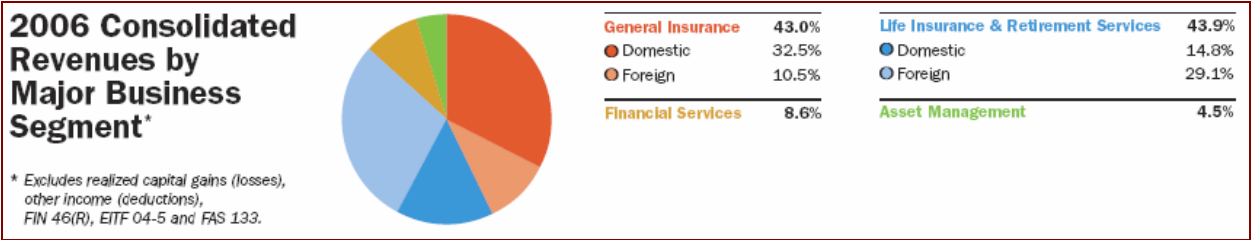
Total revenues - \$113.2 billion.

Market share in US P/C sector – 10.1%¹⁰.

⁸ Source: http://server.iii.org/yy_obj_data/binary/767376_1_0/Groundhog_2007.pdf.

⁹ Source: AIG, data for 2006 unless indicated otherwise.

¹⁰ AIG's Net premiums written in General insurance as % of total US P/C net premiums written.



Source: AIG

Berkshire Hathaway¹¹

Revenues:

Insurance and Other:

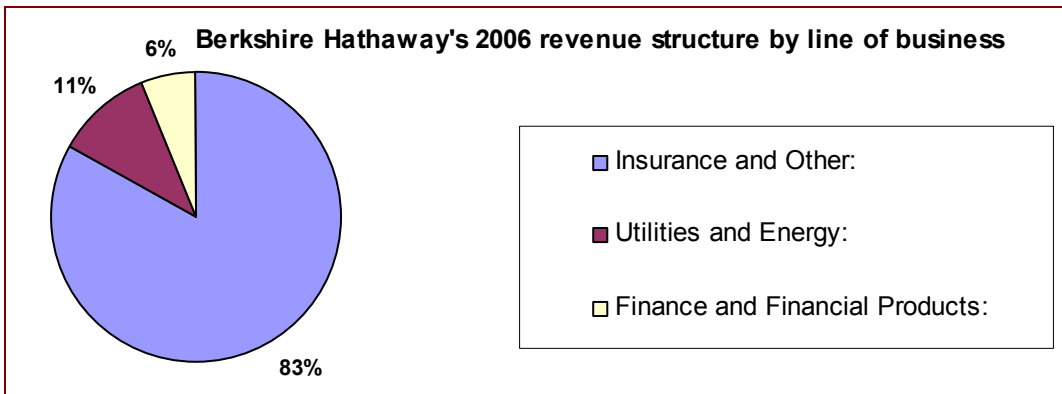
- Insurance premiums earned - \$24.0 billion;
- Sales and service revenues - \$51.8 billion;
- Interest, dividend and other investment income - \$4.4 billion;
- Investment gains/losses - \$1.7 billion;

Total Insurance and Other - \$81.8 billion.

Other (Utilities and Energy; Finance and Financial Products) – \$16.7 billion.

Total revenues - \$98.5 billion.

Market share in US P/C sector – 5.0%¹².



Source: Berkshire Hathaway, analyst calculations.

State Farm¹³

Total revenues - \$60.5 billion¹⁴.

Market share in US P/C sector – 11.0%¹⁵.

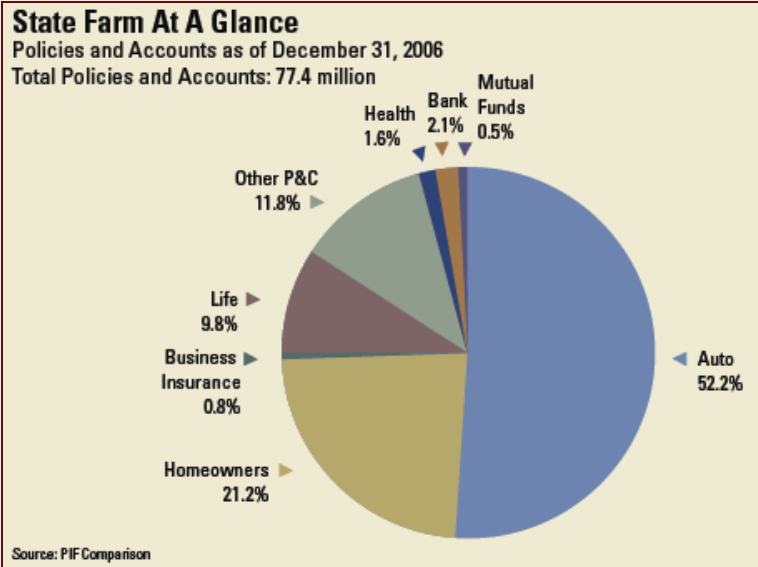
¹¹ Source: Berkshire Hathaway, unless indicated otherwise.

¹² Berkshire Hathaway's Net premiums written in P/C insurance as % of total US P/C net premiums written.

¹³ Source: State Farm, unless indicated otherwise.

¹⁴ Source: <http://www.iii.org/media/facts/statsbyissue/industry/>. Detailed financial data is not available.

¹⁵ State Farm's earned premiums in P/C insurance as % of total US P/C earned premiums.



Source: State Farm

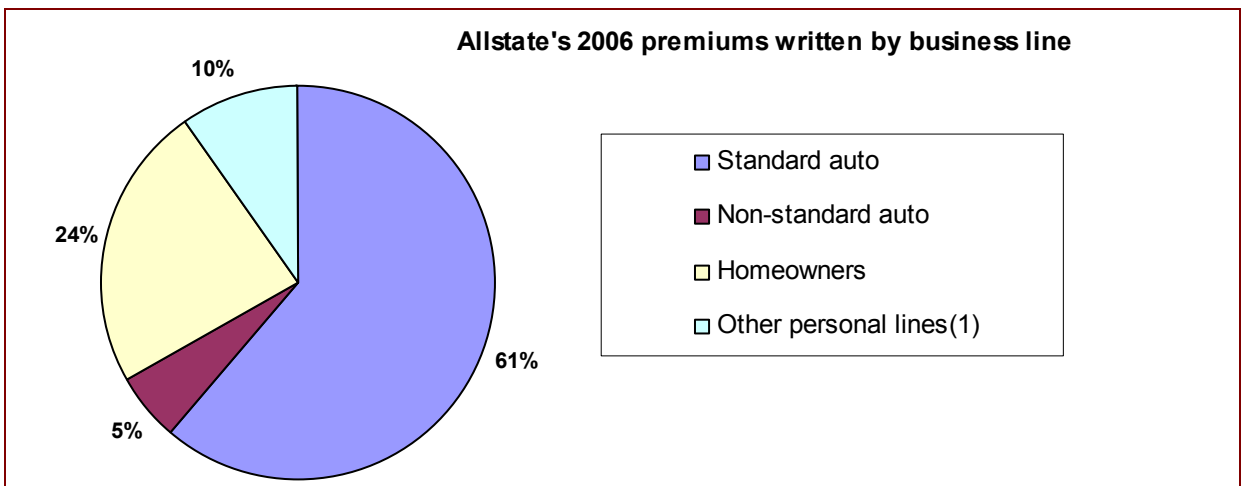
Allstate¹⁶

Revenues:

- Insurance premiums and contract charges - \$29.3 billion;
- Net investment income - \$6.2 billion;
- Realized capital gains and losses - \$0.3 billion;

Total revenues - \$35.8 billion.

Market share in US P/C sector – 6.2%¹⁷.



Source: Allstate, analyst calculations.

Hartford Financial Services¹⁸

Revenues

- Earned premiums - \$15.0 billion;
- Fee income - \$4.7 billion;
- Net investment income - \$6.5 billion;
- Other revenues - \$0.5 billion;
- Net realized capital gains (losses) - \$(0.3) billion;

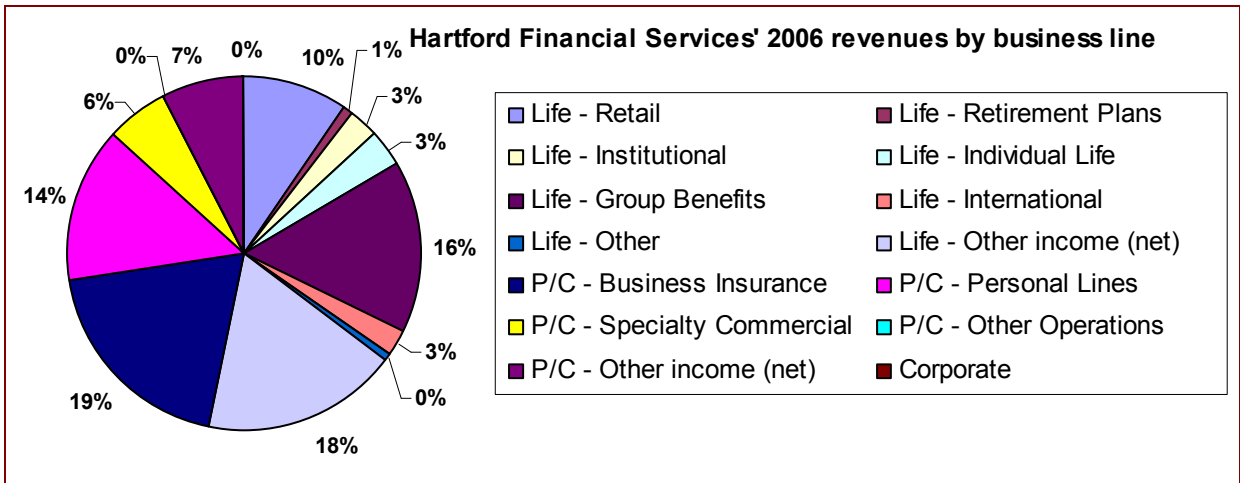
Total revenues - \$26.5 billion.

¹⁶ Source: Allstate, unless indicated otherwise.

¹⁷ Allstate's property-liability segment premiums written as % of total US P/C net premiums written.

¹⁸ Source: Hartford Financial Services, unless indicated otherwise.

Market share in US P/C sector – 2.4%¹⁹.



Source: Hartford Financial Services, analyst calculations.

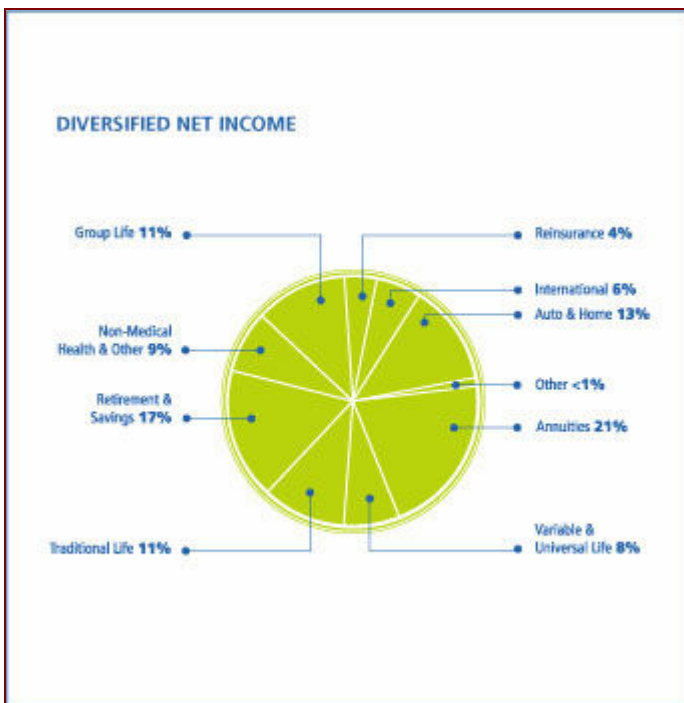
MetLife²⁰

Revenues:

- Premiums - \$26.4 billion;
- Universal life and investment-type product policy fees - \$4.8 billion;
- Net investment income - \$17.2 billion;
- Other revenues - \$1.4 billion;
- Net investment gains (losses) - \$(1.4) billion;

Total revenues - \$48.4 billion

Market share in US Life sector – 3.2%²¹.



Source: MetLife

¹⁹ Hartford Financial Services' P/C net written premiums as % of total US P/C net premiums written.

²⁰ Source: MetLife, unless indicated otherwise.

²¹ MetLife's 2006 Institutional and Individual premiums as % of total US 2005 life gross premiums. Because 2006 US life insurance industry data is not available, 2005 market size was used to calculate market share.

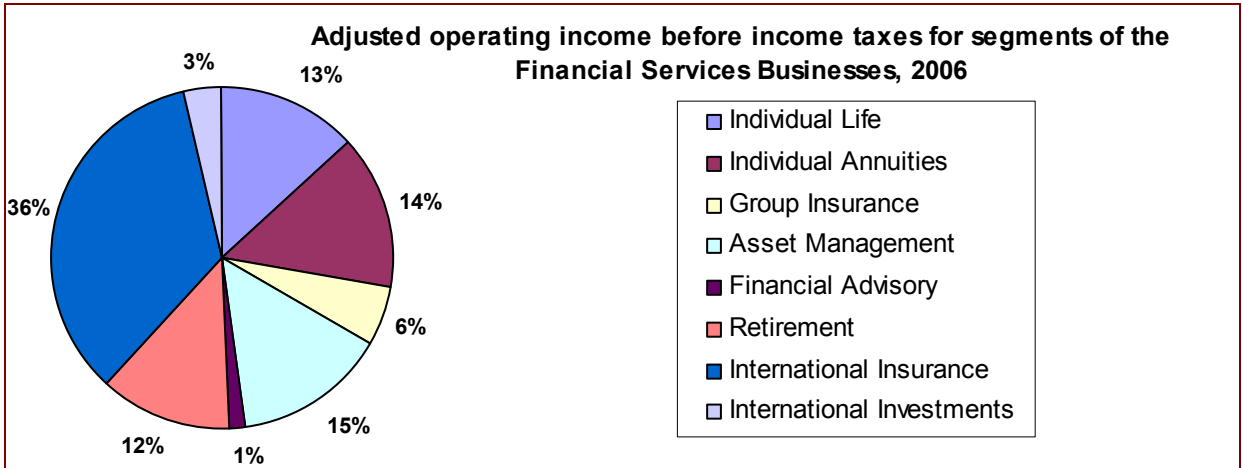
Prudential Financial²²

Revenues

- Premiums - \$13.9 billion;
- Policy charges and fee income - \$2.7 billion;
- Net investment income - \$11.4 billion;
- Realized investment gains (losses), net - \$0.8 billion;
- Asset management fees and other income - \$3.8 billion;

Total revenues - \$32.5 billion.

Market share in US Life sector – 3.2%²³.



Source: Prudential Financial, analyst calculations.

New York Life Insurance²⁴

Revenues:

- Premiums - \$9.1 billion;
- Fees – universal life and annuity policies - \$0.9 billion;
- Net investment income – \$8.2 billion;
- Net investment gains – \$2.1 billion;
- Other income - \$0.7 billion;

Total revenue - \$21.0 billion.

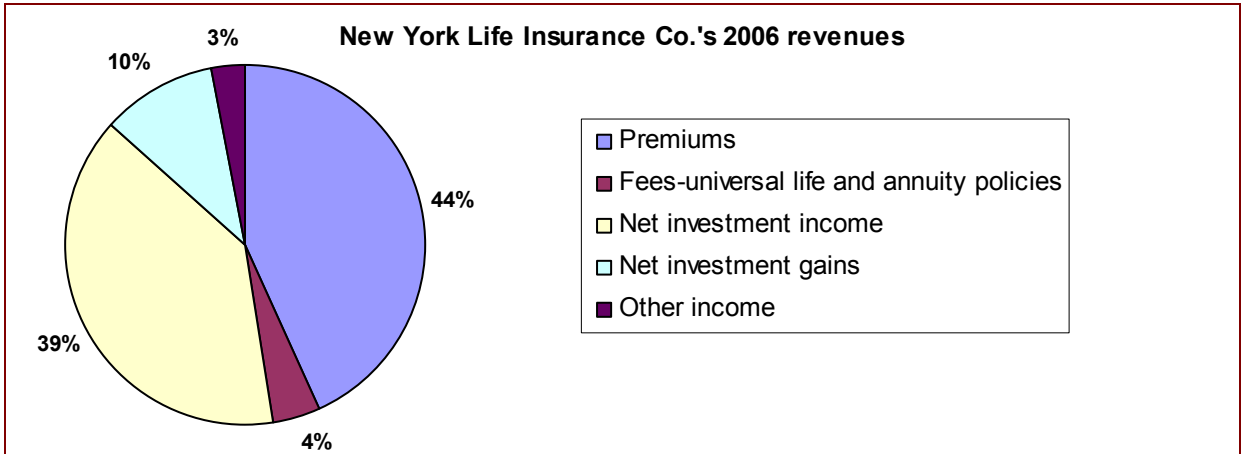
Market share in US Life sector – 1.8%²⁵.

²² Source: Prudential Financial, unless indicated otherwise.

²³ Prudential Financial's 2006 Premiums and Policy charges and fee income as % of total US 2005 life gross premiums. Because 2006 US life insurance industry data is not available, 2005 market size was used to calculate market share.

²⁴ Source: New York Life Insurance Co., unless indicated otherwise.

²⁵ NY Life's 2006 Premiums as % of total US 2005 life gross premiums. Because 2006 US life insurance industry data is not available, 2005 market size was used to calculate market share.



Source: New York Life Insurance, analyst calculations.

TIAA-CREF²⁶

Total revenues – \$26.8 billion²⁷

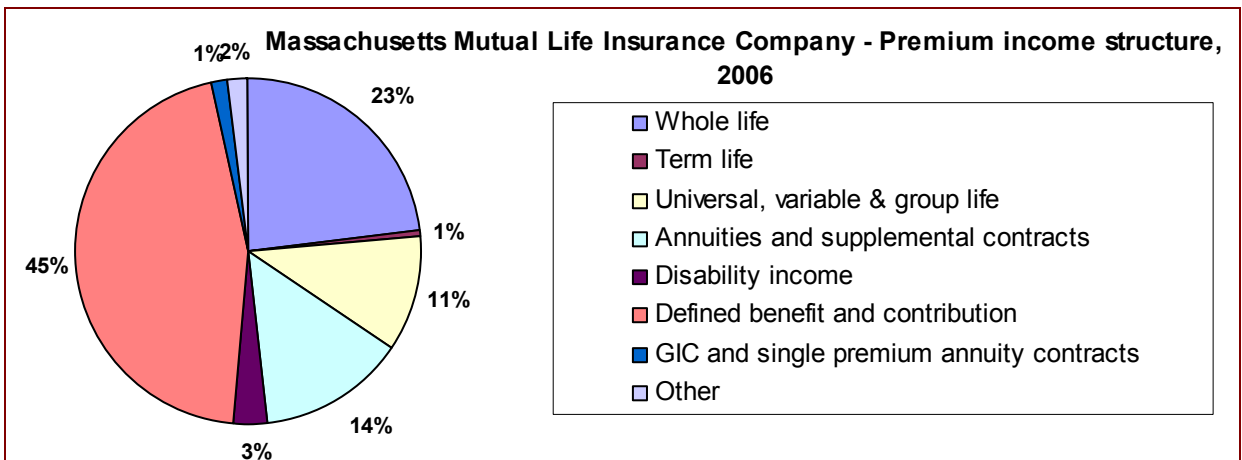
Massachusetts Mutual Life Insurance²⁸

Revenues:

- Premium income - \$13.0 billion;
- Net investment income - \$4.5 billion;
- Fees and other income - \$0.5 billion;

Total revenue - \$18.0 billion.

Market share in US Life sector – 2.5%²⁹.



Source: Massachusetts Mutual Life Insurance Company, analyst calculations.

²⁶ Because TIAA-CREF is not a public company, detailed information about its activity is not available.

²⁷ Source: <http://www.iii.org/media/facts/statsbyissue/industry/>.

²⁸ Source: Massachusetts Mutual, unless indicated otherwise.

²⁹ Massachusetts Mutual's 2006 Premiums as % of total US 2005 life gross premiums. Because 2006 US life insurance industry data is not available, 2005 market size was used to calculate market share.