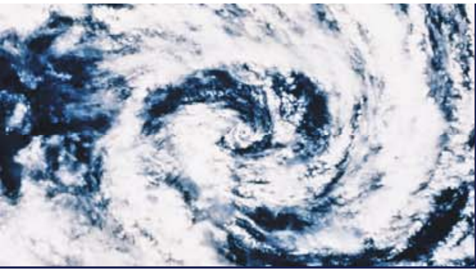

Marketplace Realities 2006
& Risk Management Solutions

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Strategies for a Market in Transition

Willis Webcast

November 17, 2005

Today's Agenda

- The P&C Marketplace – a Satellite View
- D&O Liability – Issues and Opportunities
- Casualty – a Segment Driven by Carrier Fortunes
- Property – Meeting the Challenges
- Reinsurance – Impact of Market Conditions
- The Road Ahead – Positive Differentiation
- Questions & Answers

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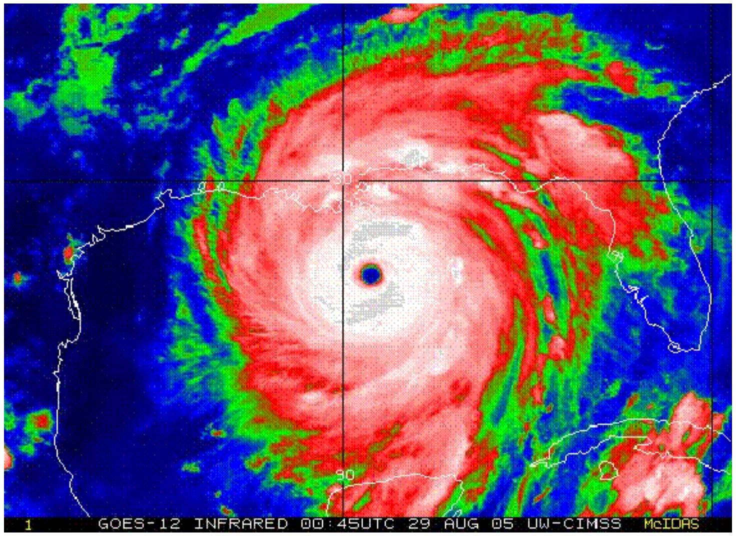
The 2005 Atlantic Hurricane Season

- Katrina was a monster – over 1 million people displaced … with total damages as high as $200 billion
- Katrina, Rita and Wilma – insured losses $80 billion +
- A record 24 named storms, including "Gamma"
- K – R – W plus 2004's Charley, Frances, Ivan and Jeanne = 7 of the 10 most expensive hurricanes in US history



8 of the most expensive disasters in US history have occurred within the past four years

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Marketplace Prognostications – ‘Up, Down & Sideways’

- “A number of potential scenarios exist for commercial insurance pricing post-Katrina – ranging from a broad-based increase to a short-term bump or continued softening.” – *Cochran, Caronia*, Sep. 27, 2005
- “On course for a full-year profit despite significant impact of hurricanes Katrina and Rita.” – *Lloyd’s*, Oct. 6, 2005
- “Heavy losses … will mean high prices for customers. The reinsurance marketplace is ‘near chaotic’ right now.” – *St. Paul Travelers CEO Jay Fishman*, Dow Jones News Service, Oct. 27, 2005
- “We expect pricing in property reinsurance and insurance to rise in the double digits and casualty pricing to stabilize.” – *Banc of America Securities*, Oct. 5, 2005
- “ACE said it will likely reduce its exposure in catastrophe-prone areas, rethink its catastrophe modeling, and increase its own catastrophe coverage.” – Dow Jones News Service, Oct. 26, 2005

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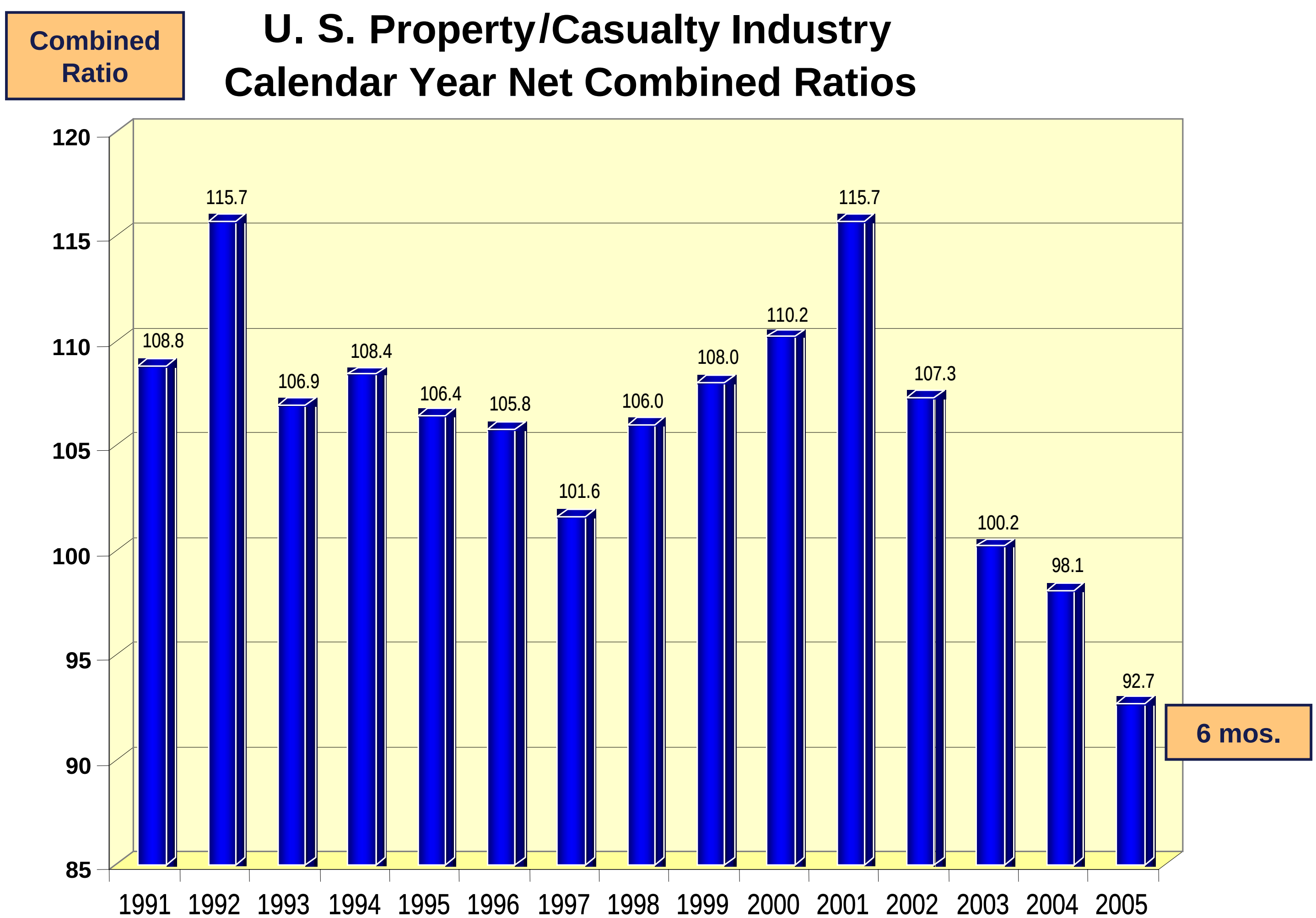
US Property / Casualty Industry Net Combined Ratios



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New Capital – Post-Katrina / Rita / Wilma

Major Catastrophes Relative to US P&C Industry Capital [1]					
Catastrophe	Year	Insured Loss	Existing PHS (Capital)	Loss as % of Capital	New Capital Raised … and as % of Loss
Hurricane Andrew	1992	15.5 B	163.1 B	9.5%	5.0 B = 32%
9/11 WTC Attacks	2001	30.0 B	295.4 B	10.2%	13.8 B = 46%
K / R / W Hurricanes	2005	69.0 B est.	412.5 B	16.7%	14.0 B = 20.1%

Post-Katrina / Rita / Wilma capital formation as a percentage of loss is approaching historical levels – and more is on the way:

– P/C industry is in much better financial condition than pre-9/11

– Evidence again of "opportunistic capital"?

[1] Sources: Insurance Information Institute; Friedman Billings Ramsey; Banc of America Securities, Willis Bermuda

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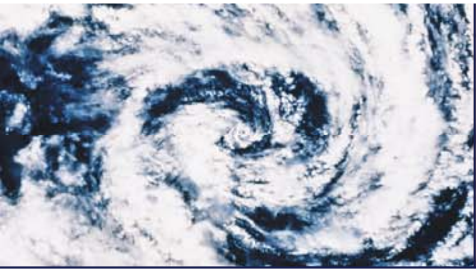

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D&O Liability – Issues and Opportunities

Environment for D&O Liability and Insurance

As we enter 2006…

- Record level of settlements in 2005
- D&O claims inventories still at historic highs
- Apprehension regarding additional payments that may be required of individual directors
- Global companies concerned about potential for cross-boarder or international D&O litigation – e.g., settling a claim in the US and still facing exposure abroad
- More and more companies adding dedicated A-Side D&O coverage to their insurance programs

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D&O Insurer Response – and Positive Differentiation

- Carriers (and their reinsurers) are reassessing D&O pricing
- Some have reached the walk-away point
- Others are most concerned about the burn layer – the level at which claims are deemed likely to completely exhaust the underlying coverage
  - However, there is little/no agreement on just what this level might be
  - Potentially, it may be different by industry, market capitalization, etc.
- A growing challenge: responding to international D&O program local country issues – e.g., differences in exposures, taxation and admitted policies
- While pricing remains in flux, the good news is that there are opportunities to improve coverage terms and conditions through positive differentiation

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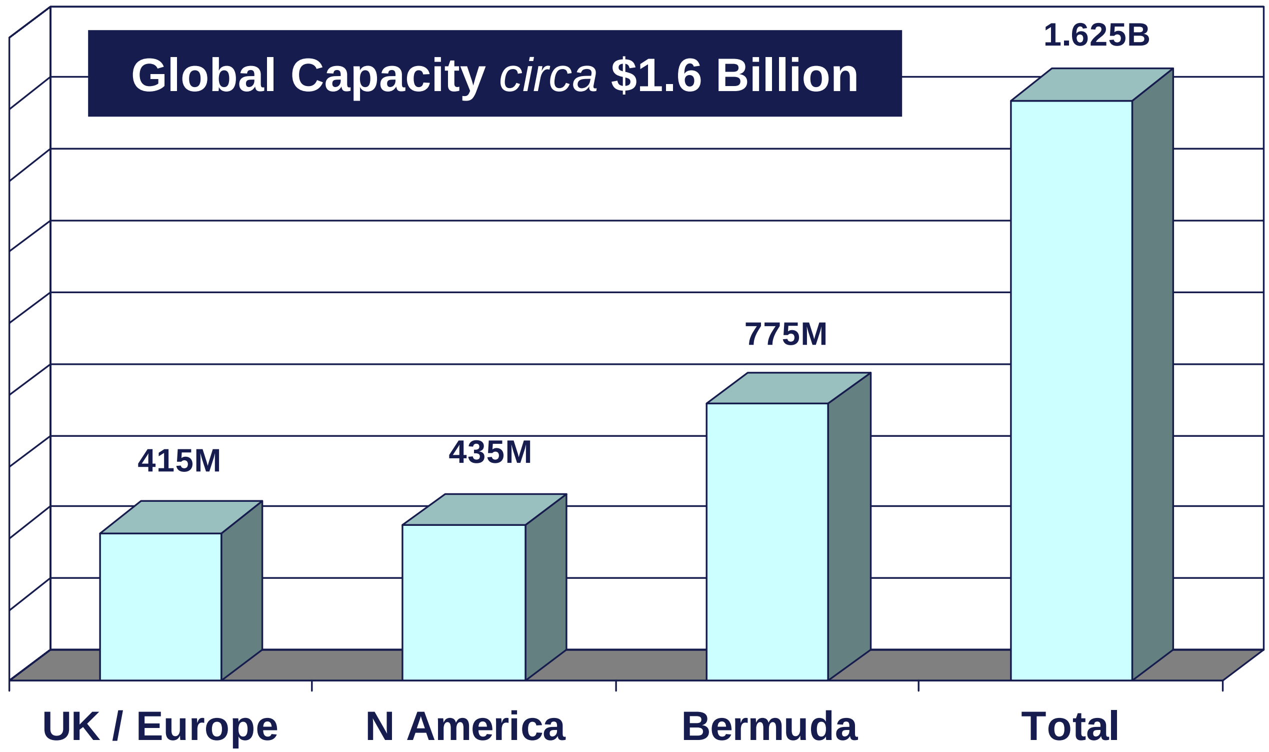
The Casualty Market

Casualty – a Profile of Capacity



Capacity is nominally "abundant" – however:

- ✓ Theoretical vs. Actual ✓ Account Size ✓ Industry Sector
- ✓ Attachment Points ✓ Tail Exposure ✓ Volatility
- ✓ Reinsurance Interdependencies

Casualty – a Segment Driven by Carrier Fortunes

- Umbrella vs. Excess – capacity varies according to tranche
- Maintaining underwriting discipline, with specific emphasis on key risk attributes
- Rating / premium expectations vary according to capacity needs, market venues and carrier pricing regimens
- Major qualitative differences in policy terms and conditions
  - Drop-down provisions • Coverage triggers • Integrated Occurrences
- Differentiation and optimization
  - Detailed risk profiling to support case for attachment points
  - Loss prevention – life safety and aggregation risk

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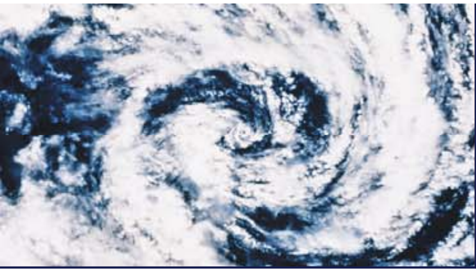

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The Property Market

Property – in the Wake of the Hurricanes

- How accurate are the estimates?
  - New Orleans still non-functional
    - Infrastructure lost … levees still compromised
    - Schools and universities remain shuttered
    - Healthcare facilities consider their futures
    - Habitable housing scarce
  - Upward potential for loss estimates
    - Demand surge throughout the area (45%+)
    - Labor costs rising
    - Fuel and gas prices near peak levels
    - Contingent losses still being calculated
    - Litigation on the horizon

Are these market-changing events?

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Property – a Spate of New Capital in Bermuda

- Moratoria declared
  - Endurance Specialty suspends direct Property underwriting
  - Quanta stops writing new direct and reinsurance Property
  - Aspen UK closes facultative operation
- New Bermuda re/insurer facilities (formed or proposed)
  - Validus – $1B to $1.5B in capital
  - Harbor Point – $1.5 B in capital
  - Ariel Re (formerly Rosemont) – $750M to $1B in capital
  - Amlin Bermuda – $1B in capital
  - Lancashire – $1B in capital
  - New Castle Re – $500M in capital
  - Hiscox Bermuda – $500M in capital
  - Flagstone Re – $1B capital
  - … plus 5 others announcing intentions

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Property – 4th Quarter Renewals

- What we have seen on 4th quarter renewals
  - Some re/insurers shedding catastrophe exposures
  - Fewer rate reductions and coverage enhancements
  - Wind deductibles in Tier 1 (high-risk coastal) are firm at the 3 to 5 percent level
  - Attempts to aggregate Wind peril losses
  - Concentration on identifying exposure to Flood losses
  - Some increase in CA EQ pricing
- Near-term renewals will be subject to the same factors

Property – Questions on 2006 Renewals

- Will everyone pay more?
- Will there be sufficient coastal Wind and Flood capacity?
- What will "coastal" mean?
- Will Wind aggregates prevail?
- Will Wind and Flood deductibles be pushed upward?
- Will extensions of coverage be further limited – e.g.:
  - Miscellaneous Unscheduled Locations
  - Miscellaneous Personal Property
  - Service Interruption
  - Contingent Time Element
- Will policy terms become more (or less) transparent?

Property – What You Can Do

- What you can do
  - Understand your vulnerabilities to catastrophes
  - Reduce them
  - Re-vet business continuity plans
  - Consider your employees – your most precious asset
  - Re-assess values at risk
  - Identify key suppliers and customers
  - Identify consignment, royalties and commissions exposures
- In short, manage your risks – then consider insurance

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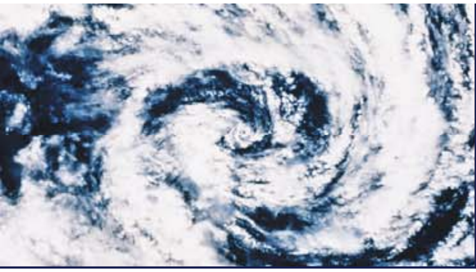
Property – the Fate of TRIA

- Monday, Nov. 14 – House Representative Richard Baker offers TRIA extension legislation
- Tuesday, Nov. 15 – White House expresses points of concern and opposition
- Wednesday, Nov. 16 – Senate panel agrees on its own bill to extend TRIA by two years
- Treasury Department says Senate bill appears to address the Administration's concerns
- Passage of a consensus bill now deemed likely



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The Reinsurance Marketplace

Reinsurance – Dramatic Change for the Industry

- Ceding companies seeking more vertical and horizontal protection
- Reinsurer security a persistent issue – heightened concern for those involved in multiple Nat Cat events
- Alternative sources of capacity – e.g., hedge funds and capital market vehicles
- Ratings agencies differentiating between mono-line Property reinsurers and others with a multi-line portfolio
  - Increase in capital requirements
  - Expectations regarding risk portfolio management
  - Issue of collateralizing LOCs
- Reinsurers questioning underlying assumptions in their Nat Cat models

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Impact on Insurance Market Capacity and Pricing

- Capacity and pricing a factor for large, global, per-risk Property reinsurance programs subject to Nat Cat perils
- Pressure to restructure layering, with higher attachment points
- For regional insurers, ample capacity with pricing dependent on individual risk attributes – experience and exposure
- Reinsurers demanding evidence of enhanced risk management by insurers – using risk selection and capacity rationing as incentives
- Ceding insurers may retain more net risk to contain reinsurance costs – prioritizing their spend on buying more adequate horizontal and vertical protection
- Contract certainty – more imperative than ever

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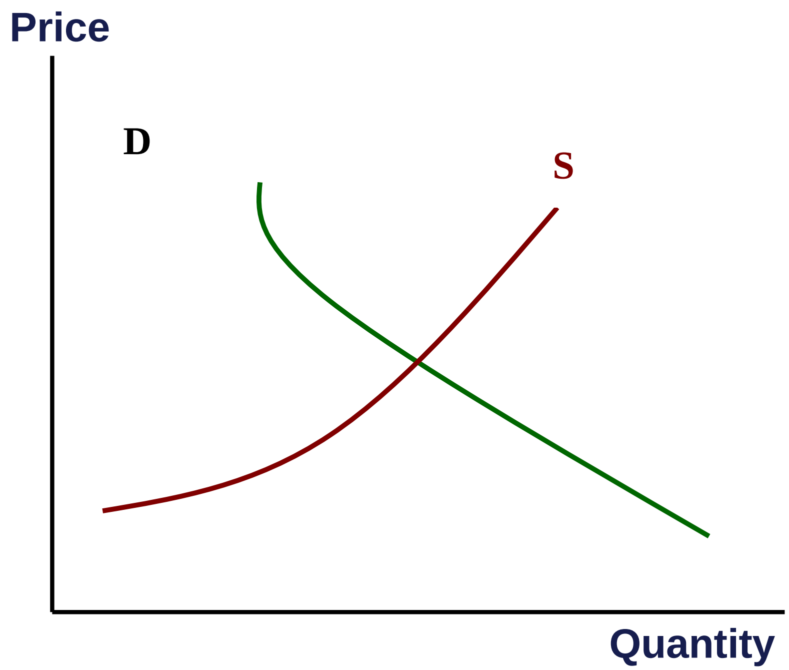
The Road Ahead

Marketplace Dynamics – “Supply and Demand”



What are the parameters?
What are the relationships?
How is the outcome determined?

- **Risk retained and risk transferred**
- **Insurers and reinsurers**
- **Preferred risk, commodity risk and problematic or uninsurable risk**
- **Private capital and the public coffer**

“Where will we be?”

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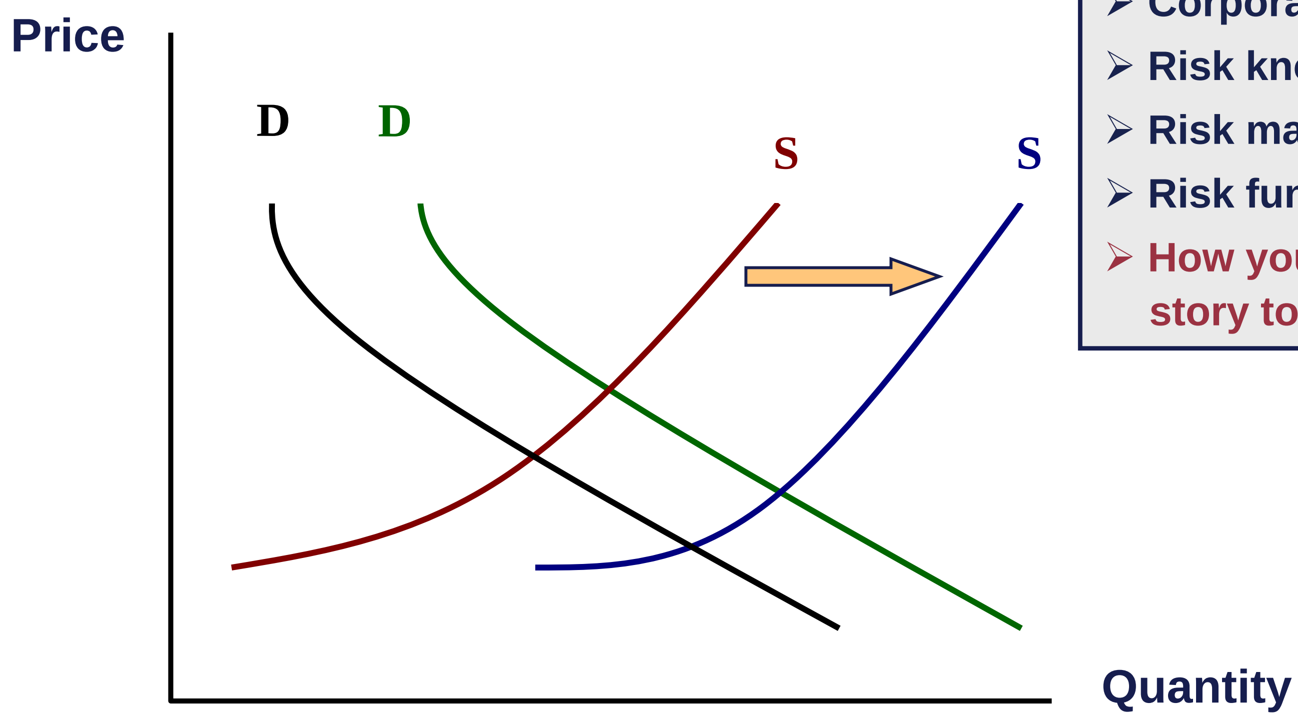
Positive Differentiation – Motivating the Market



- Corporate governance
- Risk knowledge
- Risk management
- Risk funding
- How you present your story to underwriters

You determine your own demand curve – and you can influence the shape and position of marketplace supply curves

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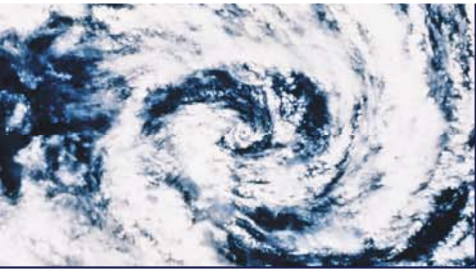

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Questions and Answers for The Road Ahead

Thank You!

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We gratefully acknowledge the following sources for data points and quotations cited in this presentation: Insurance Information Institute; Business Insurance; The Wall Street Journal; Dowling & Partners