

Industry Surveys

Insurance: Property-Casualty

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Insurers heading into 2005 with numerous headwinds

The property-casualty insurance industry is entering 2005 with a number of challenges: premium prices are softening, and there is heightened regulatory risk as a result of the numerous and widening attorney-general (AG) investigations in different states (spearheaded by New York's politically ambitious AG, Elliot Spitzer) into a number of industry marketing and underwriting practices. Moreover, loss reserves for a number of insurers long tail casualty lines of business are light (to say the least), and the fourth quarter of 2004 could prove to be a difficult one, as a number of companies take that opportunity to take large, one-time reserve boosts, particularly for asbestos liabilities. Despite these challenges — some of which were present throughout 2004 — investors bid up shares of property-casualty insurers. The S&P Property-Casualty Insurance Index rose 10.2% in 2004, versus a 9.0% rise in the broader S&P 500.

First-half 2004 results paint a mixed picture

Many property-casualty insurers, having posted sharply improved underwriting results in 2003, continued this positive underwriting performance into the first half of 2004. The latest available aggregate industry operating results, released in late October 2004 by the Insurance Services Office (ISO), an insurance research and data collection organization, portray industry fundamentals driven by modestly higher (albeit slowing) top line growth and improving claim trends (which can have a powerful impact on bottom line results).

Insurers in the ISO study reported a 4.6% rise in net written premiums in the first half of 2004, to \$212.1 billion, from \$202.8 billion in the 2003 interim. This rate of growth is below the annual growth rate of 8.6% that we had earlier forecasted and provides

empirical evidence to support earlier, anecdotal evidence that commercial lines premium pricing was softening. Commercial lines insurers in the ISO study reported only a 3.2% rise in net written premiums in the first half of 2004 (to \$80.2 billion from \$77.7 billion), while personal lines writers posted a 5.4% rise in written premiums (to \$91.6 billion from \$86.9 billion), and balanced lines underwriters (who write both personal and commercial lines policies) wrote 5.3% more premiums (\$40.3 billion versus \$38.3 billion).

Many commercial lines insurers noted that they were experiencing the most premium price competition in property-based lines of business, such as commercial multi-peril. Many noted that the more complex risks (*e.g.*, certain specialty casualty lines of coverage) were still receiving price increases, albeit at a decelerating rate of growth. Insurers also noted that underwriting terms and conditions (which include things such as policy limits, exclusions, and deductibles) were remaining steady. Personal lines underwriters — whose business is subject to more government regulation than that of commercial lines writers (and who consequently may encounter more difficulty in raising premium rates) — saw less softening in rates.

The favorable written premium growth trends that were under way in 2002 and 2003 have translated into relatively healthy top line growth in 2004. (Earned premiums are a revenue component on insurers' income statements; for a detailed explanation of how written premiums flow through the income statement into earned premiums, please refer to the "How the Industry Operates" section of this *Survey*.) For insurers in the ISO study, earned premiums rose 6.6%, year over year, in the first six months of 2004, to \$202.6 billion from \$190 billion in the first half of 2003. This rate of growth contrasted rather sharply with the 11.4% annual rate of

PROPERTY-CASUALTY OPERATING RESULTS*(In millions of dollars)*

YEAR	UNDERWRITING GAIN (LOSS)	INVESTMENT INCOME	PRETAX INCOME
2003	(5,054)	40,337	35,284
R2002	(32,514)	40,175	7,661
R2001	(52,682)	39,021	(13,661)
R2000	(32,258)	41,957	9,699
R1999	(24,750)	40,071	15,321
1998	(17,669)	41,097	23,427
1997	(6,030)	41,499	35,469
1996	(17,162)	37,962	20,801
1995	(17,375)	36,834	19,459
1994	(22,083)	33,687	11,604

R-Revised.

Source: A.M. Best Co.

earned premium growth posted in 2003 and the 11.9% rise in earned premiums recorded in 2002.

Investment results: not what they used to be

Net investment income is the second largest revenue component for a property-casualty insurer and can account for some one-third of total revenues for many insurers. Insurers in the ISO study reported a modest 3.8% rise in year-over-year net investment income in the first half of 2004, to \$19.0 billion from \$18.3 billion. Despite a modest up tick in interest rates during 2004, investment yields remained at historically low levels. As a result, this depressed the growth in investment income.

Realized investment gains on insurers' investment portfolios showed a slight improvement, rising 11.1% to \$5.0 billion, from \$4.5 billion. (After-tax realized investment gains are typically excluded from analysts' estimates of net operating earnings for insurance companies.) However, unrealized gains on the heavily fixed income-weighted portfolios declined a precipitous 66%, to \$4.1 billion in the first half of 2004 period, from \$11.9 billion in the 2003 interim. We note that, although it is certainly not a positive trend, this sharp decline in unrealized investment gains may serve to restrain insurers from pricing policies too aggressively, since this "financial cushion" from investment results is eroding.

Loss cost trends appear favorable

Top line growth for the property-casualty industry was constrained somewhat by a

moderating rate of growth in premiums, net investment income, and realized investment gains. However, industry profitability was significantly enhanced by an improvement in loss cost trends. Because incurred losses (sometimes referred to as *claim costs*) and loss adjustment expenses are usually the largest expense items facing an insurer, a change in the direction of this cost can significantly alter bottom line results. Examples of loss costs include medical costs and expenses related to home or auto repairs.

During the first half of 2004, insurers in the ISO study reported a 2.6% decline in incurred losses, to \$114.7 billion from \$117.8 billion. Incurred loss adjustment expenses rose 4.2%, to \$25.3 billion in the 2004 interim, from \$24.3 billion in the year-earlier period. Taken together, loss and loss adjustment expenses (LAE) declined 1.5%, year over year, in the first six months of 2004, to \$140.1 billion from \$142.1 billion in the 2003 interim. The drop represented the first year-over-year decline in loss costs since 1997.

Between 1998 and 2003, loss and LAE costs rose by an average of 6.8% a year, with the sharpest increase (15.3%) occurring in 2001, in the aftermath of the September 11 terrorist attacks.

We believe that favorable underlying claim trends in a number of core lines of business, such as personal auto, were primarily responsible for the improved underwriting performance in the first half of 2004. Sharply lower catastrophe losses — an event or series of related events causing at least \$25 million of insured losses — also helped results. Catastrophe losses declined nearly 48% in the first half of 2004, to \$3.4 billion, from \$6.5 billion in the first six months of 2003.

The level and direction of loss reserves can also dramatically affect an insurer's underwriting results and, ultimately, its profitability. Loss reserves are the funds an insurer sets aside to pay future claims. Insurers in the ISO study reported a 7.1% increase in loss and LAE reserves in the first six months of 2004, to \$436.2 billion from \$407.3 billion in the 2003 interim. This rate of increase, which is significantly greater than the average annual rate of 3.1% between 1998 and 2003, is not surprising, given the questionable adequacy of

reserves for certain lines of business, particularly casualty lines underwritten between 1997 and 2001 — when the market was “soft.”

Consequently, the decline in loss costs offset the moderating growth in earned premiums and produced a pretax underwriting profit of \$9.0 billion in the first half of 2004. This contrasted rather sharply with the year-earlier underwriting loss of \$2.7 billion (pretax).

Combined ratio evidence of improved underwriting results

The combined ratio is a key measure of underwriting performance. It is the sum of the loss ratio, the expense ratio, and (where applicable) the dividend ratio. A combined ratio of under 100% indicates an underwriting profit; one in excess of 100% means there is an underwriting loss. (For more information on the combined ratio and its implications for insurer profitability, please refer to the “How to Analyze a Property-Casualty Insurer” and “Key Industry Ratios and Statistics” sections of this *Survey*.)

The combined ratio for insurers in the ISO study improved to 94.4% in the six months ended June 30, 2004, compared with 99.8% in the similar 2003 period. However, underwriting results by type of insurer were mixed; the most improved performance was recorded by the balanced lines underwriters. This group posted a combined ratio of 96.5% in the 2004 period, compared with 107.5% in the 2003 interim. Personal lines underwriters turned in the best overall underwriting performances (on an absolute basis). Their combined ratio was an impressive 91.1% in 2004, versus 99.3% in the 2003 interim. However, commercial lines underwriters actually experienced a deterioration in their underwriting results in the first half of 2004. This group, whose results are less dependent on favorable weather related claims, posted a combined ratio of 97.1%, versus 96.4% in the year ago six-month period.

The improvement in loss trends coupled with a decline in catastrophe losses helped drive down the industry’s loss ratio in the first six months of 2004, to 69.1%, from 74.8% in the 2003 interim. Balanced and personal lines underwriters saw their loss ratios decline, but commercial lines underwriters’ loss ratios inched upward.

Anecdotal evidence that a number of insurers were cutting costs did not translate into the industry’s expense ratio — which crept up slightly to 25.0% in the 2004 interim, from 24.6% in the 2003 period. Finally, the dividend ratio ended the period unchanged at 0.3%.

Surplus also rises

Surplus, in this instance, refers to capital or net worth (or the amount by which an insurer’s assets exceed its liabilities). Surplus is often referred to as statutory surplus under statutory accounting principles, and it is analogous to shareholders’ equity under generally accepted accounting principles. At June 30, 2004, insurers in the ISO study reported combined surplus of \$370.4 billion, up 18.5% from surplus of \$312.5 billion at June 30, 2003. During 2003, surplus increased by nearly 22%; but that followed several years (2000 to 2002) of declines in surplus that averaged 5.1% a year.

Since surplus advanced at a greater rate than written premiums, the industry’s leverage declined. In this instance, leverage refers to the degree to which the industry utilizes its capital or surplus to underwrite policies. The ratio used to measure leverage is the ratio of new written premiums to surplus. (For a more detailed explanation of leverage, please refer to the “How to Analyze a Property-Casualty Insurance Company” section of this *Survey*.)

At June 30, 2004, the ratio of net written premiums to surplus equaled 1.12-to-1, down from 1.25-to-1 at June 30, 2003. To put this ratio into some context, in the 12 months ended June 30, 2004, insurers wrote \$1.12 worth of premiums for every \$1 of surplus, versus \$1.25 worth of premiums for every \$1 of surplus in the same 2003 period. If we assume a “typical” rate of leverage of 2-to-1 (which is what regulators usually allow), we estimate that the industry had more than \$160 billion of “excess” surplus at June 30, 2004. We arrived at this conclusion by using the following data points: the \$415.1 billion in net written premiums in the 12 months ended June 30, 2004, and policyholders’ surplus of \$370.4 billion at June 30, 2004. If we assume a 2-to-1 leverage ratio, the amount of surplus required to support the actual level of premium volume is approximately \$207.6 bil-

ESTIMATED CHANGES IN POLICYHOLDERS' SURPLUS*(Total property-casualty industry, in billions of dollars)*

ITEM	2002	2003	FIRST HALF	
			2003	2004
Policyholders' surplus—beg. of period	289.6	285.4	285.4	347.0
Operating income	5.6	33.7	15.6	28.1
Realized capital gains	6.6	6.9	4.5	5.0
Income taxes	(1.2)	(10.8)	(5.7)	(9.6)
Net after-tax income	3.1	29.8	14.5	23.5
Unrealized capital gains (loss)	(20.8)	25.2	11.9	4.1
Stockholder dividends & other	(7.1)	(9.1)	(4.0)	(5.0)
New funds	18.8	11.5	3.3	2.0
Misc. surplus change	1.8	4.1	1.3	(1.2)
Policyholders' surplus—end of period	285.4	347.0	312.5	370.4

Source: Insurance Services Office.

lion (half of \$415.1 billion). The difference between actual surplus (\$370.4 billion) and so-called required surplus (\$207.6 billion) is \$162.6 billion. Put another way, this excess surplus could support another \$325.6 million of written premiums.

Although this exercise is useful to illustrate the degree to which the industry is underleveraged, we believe these statistics need to be viewed within the context of a number of other considerations. Although insurers might be permitted to operate with the kind of leverage just mentioned, very few do. Also, we continue to believe that loss reserves are still a little shy of where they should be, particularly for certain long-tail casualty lines of business written during the most competitive pricing environment (1997 to 2001). A significant increase to loss reserve would drain some of this cushion of “excess” surplus.

Third-quarter 2004 results affected by record hurricane losses

Seasonal weather factors (*i.e.*, hurricanes) typically render the third quarter the weakest, financially, for most property-casualty insurers. The third quarter of 2004 was certainly no exception. The 2004 Atlantic hurricane season consisted of 16 tropical storms, nine of which grew into hurricanes: Alex, Charley, Danielle, Frances, Gaston, Ivan, Jeanne, Karl, and Lisa. Four of these hurricanes (Charley, Frances, Ivan, and Jeanne) struck the coast of Florida over a six-week period in August and September 2004 and caused an estimated \$20.5 billion in insured losses. To gain some perspective into the magnitude of these losses, the Insurance Information Institute — a non-profit organization that provides information

about the property-casualty insurance industry — estimated that more than one of every five homes in Florida were damaged by a hurricane in 2004.

Allstate Corp. was among the insurers hardest hit by Florida hurricane losses. Allstate's third quarter operating results included \$1.7 billion of pretax catastrophe losses, primarily from the Florida hurricanes. Despite the magnitude of these losses, Allstate still managed to earn a modest (\$0.08 a share) operating profit in the third quarter. However, the company, the second largest writer of homeowners' policies in the state, suspended writing new homeowners' policies in most of Florida until a clearer picture emerged of how the Florida Legislature planned to handle certain issues — such as how to replenish the state's depleted hurricane catastrophe fund.

State Farm Group, the nation's largest insurer, is also the leading homeowners' insurer in Florida. As of late November 2004, State Farm had released its loss estimates only for Hurricane Charley. The mutual insurer (which does not have the same disclosure requirements as publicly traded insurers, such as Allstate) expects to pay about \$1.3 billion in claims from Hurricane Charley. To help offset the anticipated costs associated with these hurricanes, State Farm filed with regulators for a 5% statewide rate increase in its Florida homeowners' business.

Largely as a result of the Florida hurricanes, the Property Claims Service unit of the ISO estimated that third-quarter 2004 catastrophe losses totaled \$21.3 billion, making it the costliest on record and surpassing the previous record in 2001, when the September 11 terrorist attacks led to more than \$19 billion in catastrophe losses.

One of the uncertainties related to these catastrophes is the impact these losses will have on the premium pricing environment. Conventional wisdom in the property-casualty insurance industry dictates that a high level of insured losses usually is followed by price increases, as insurers seek to defray their costs with higher premiums. As the industry heads into a cyclical downturn in its pricing cycle, there is a chance that pricing may be buoyed by selective rate increases that likely will be taken to counterbalance some of these losses. We anticipate that these losses likely will help stem the de-

cline in certain property rates that were beginning to soften. However, catastrophe losses typically will not have an effect on commercial casualty insurance rates. Standard & Poor's does not anticipate that these losses will spark a sharp upturn in industry pricing, in the aggregate. ■



INDUSTRY PROFILE

Underlying results improving

The US property-casualty (P/C) industry comprises thousands of companies, each vying for a share of the multibillion-dollar market for personal and commercial lines insurance coverage. However, the market is dominated by a small group of companies.

According to the latest available data from A.M. Best Co., a provider of insurance company ratings and information, the 10 largest property-casualty insurer groups (based on net written premium volume for property-casualty insurance) wrote just under \$193.0 billion of premiums in 2003. That accounted for approximately 46.5% of that year's \$415.3 billion in industrywide written premiums. The five largest insurer groups

wrote approximately \$132.0 billion in premiums, for a market share of around 31.8%. The two largest P/C insurers — State Farm Group and American International Group — had an 18.0% share of the US property-casualty market. Combined, they wrote some \$74.6 billion in premiums in 2003.

Some US companies (notably American International Group) have a long-established presence in numerous overseas markets, and several large property-casualty insurers have sought to increase their presence in certain overseas markets. For the most part, however, most US-based P/C insurers operate primarily in the United States.

TOP 20 PROPERTY-CASUALTY UNDERWRITERS — 2003

(Ranked by net premiums written)

UNDERWRITER	NET PREMIUMS WRITTEN† (MIL. \$)	2002 RANK	2001 RANK
1. State Farm	46,581	1	1
2. American International	27,972	3	4
3. Allstate	24,637	2	2
4. Zurich/Farmers Group	17,050	4	3
5. Berkshire Hathaway	15,762	5	5
6. Nationwide	13,819	7	7
7. Travelers/Citigroup	13,176	6	6
8. Liberty Mutual	12,514	8	8
9. Progressive Insurance	11,916	9	10
10. Chubb	9,537	12	13
11. The Hartford Ins. Group	8,876	10	14
12. USAA	7,692	13	11
13. State Compensation Insurance Fund of Calif.	7,637	15	21
14. CNA Financial	7,365	11	9
15. St.Paul	6,768	14	12
16. American Family	5,542	16	19
17. SAFECO	5,114	18	15
18. Anthem Group	4,909	19	17
19. GE Global	4,622	17	20
20. Allianz of America	4,113	20	28

†US only.
Source: A.M. Best Co.

INDUSTRY TRENDS

The foremost trend affecting most property-casualty insurers is a softening in premium rates for most lines of business. After years of extremely competitive premium pricing conditions brought on by an overabundance of underwriting capacity, signs of pricing strength in some commercial lines first emerged in 2000, continuing through 2001 and 2002 and well into 2003. However, emerging evidence suggests that the rate of premium price hikes is moderating and, in some lines of business, softening. This is particularly true in the more commodity-type standard lines of coverage and in certain property lines of coverage. Highly specialized coverage lines are less likely to be subject to relatively aggressive rate decreases.

In addition, the industry is facing the threat of costly asbestos claims for which it may be underreserved. After appearing to have stabilized, asbestos claims are on the rise again, as many claimants are seeking to tap the deep pockets of insurers. Some industry experts have estimated that the ultimate liability for asbestos-related losses could approach \$200 billion, with the US insurance industry responsible for \$55 billion to \$65 billion of that total.

Another recent trend that has affected the insurance industry (and the broader financial services industry as well) is a lapse in large-scale merger and acquisition (M&A) activity. Historically, insurers often attempted to offset slowing premium growth by joining forces in an effort to become more cost efficient. The results have not been entirely positive, however, and many companies have suffered from post-merger integration pains. However, if organic rates of growth continue to slow, insurers may seek to ramp up growth by consolidating.

A parallel trend affecting certain areas of the industry has been a widespread reevaluation of business models. The concept of the financial services conglomerate has fallen from favor, and, in some cases, insurers are narrowing their focus. However, some property-casualty insurers, particularly personal lines carriers, have expanded into the retirement savings market. Still others, primarily commercial lines insurers, have expanded overseas in an attempt to offset slower growth in the maturing domestic market.

Another trend that likely will affect the insurance industry is the probable fallout from the attorney-general (AG) investigations into certain industry marketing practices. Standard & Poor's anticipates that a greater degree of transparency likely will result in the wake of the elimination of certain market placement agreements that have been the source of the initial investigation. Also, the use of finite reinsurance likely will come under continued scrutiny and likely may be discontinued. Finally, the practice of state-based regulation likely also will be reevaluated in the wake of these various industry scandals that apparently went unnoticed by state insurance commissioners.

Insurance premiums rising but at a slower rate

The key condition affecting the property-casualty insurance industry today is a bit of a slowdown in the rate of premium increases. After nearly a decade of weak premium rates brought on by excess underwriting capacity, premium rates began to strengthen in late 2000. That pricing strength continued into 2001 and accelerated after the September 11 terrorist attacks that year. The upturn in the pricing cycle continued into 2003 but began

showing signs of slowing in early 2004. Standard & Poor's currently estimates that written premiums will total approximately \$434.3 billion in 2004, up just under 7.0% from 2003 written premiums of \$405.9 billion. Although we expect the pricing environment to become more competitive, we do not anticipate that market conditions will deteriorate considerably. In late 2004, a number of insurers noted that, while pricing had indeed softened in a number of lines, terms and conditions (like deductibles and policy exclusions) had remained stable. A number of other factors will likely counterbalance some of the competitive pricing pressures that have emerged. Among them are reduced reinsurance capacity in certain lines (a number of overseas reinsurers have faced financial difficulty and have received downgrades to their financial strength ratings) and the impact from the third-quarter hurricanes. Estimated insured losses (from Hurricanes Charley, Frances, Ivan, and Jeanne) of more than \$22 billion likely will act, ironically, as a temper, offsetting some of the competitive pricing pressures that have emerged most prominently in property lines of coverage.

Asbestos issues still not resolved

A combination of social, economic, and legal changes have led to an escalation in asbestos and asbestos-related claims in recent years. That trend is likely to continue. According to the American Insurance Association, an industry trade group, if the terrorist attacks of September 2001 had not occurred, asbestos and asbestos-related issues would be front and center on lobbyists' and Congress's agendas. Asbestos, the common name for a group of naturally occurring silicate minerals, was used in a variety of commercial and consumer products, including roofing and flooring, fireproofing, and thermal insulation. Because of widespread use of this product decades ago, millions of people were exposed to this cancer-causing agent.

The initial wave of asbestos claims, which began more than 20 years ago, was primarily targeted at companies that manufactured asbestos and asbestos-related products. Liability claims made in connection with these lawsuits typically came under a portion of a manufacturer's liability policy that had strict limits on insurers' liability.

These resources were depleted, however, as many asbestos manufacturers filed for bankruptcy protection under the weight of their asbestos liability. The second and more costly wave of litigation involves those companies that used asbestos products. These claims are being filed under a more general area of a company's liability insurance policy — one that typically has less strict coverage limits. Consequently, insurers' liabilities for claim costs have escalated.

The impact on insurers from the shift in the type of claims being filed is being exacerbated by an overall increase in the number of claims filed. Many unions and lawyers are urging workers and others who may have had contact with asbestos to file claims, warning that, if they later develop an illness, there may not be enough resources left to pay their claims. According to the latest data available from the Insurance Services Office (ISO), an industry research and data collection organization, the number of asbestos cases pending in US courts doubled to about 200,000 in 1999, from 100,000 in 1993. By mid-2003, that number had risen to more than 625,000. Published reports estimate that the ultimate number of asbestos claims could rise to well over one million.

Another development that has prompted more people to file claims has been the lack of any meaningful reform in the way cases are settled. A 1999 Supreme Court decision ruled that a class action settlement of claims against Fibreboard Corp., a major asbestos producer, could not proceed because funds might be exhausted before all claims were paid. In addition, because the Supreme Court would not give a number of these cases class action status, the number of cases has increased.

Asbestos reserves appear inadequate

The potential financial impact on insurers is difficult to quantify, given the level of uncertainty surrounding this litigation. Nevertheless, a survey published in mid-2001 by Tillinghast-Towers Perrin, an actuarial consulting firm, estimated that the final tab from asbestos could reach \$200 billion. Tillinghast estimated that the US insurance industry would bear about 30% of the total cost, or between \$55 billion and \$65 billion. An estimated 31% would be borne by overseas insurers. Manufacturers, suppliers, and

other users of asbestos products would pay out the remaining 39%.

According to data obtained from the ISO, insurers paid out \$3.4 billion in environmental and asbestos (E&A) losses in 2002, up from \$3.3 billion in 2001. However, E&A incurred losses and loss adjustment expenses more than doubled in 2002 to \$7.8 billion, from \$3.5 billion in 2001. In each of the five years from 1996 through 2001, however, insurers paid out more than they reserved for E&A loss and loss adjustment expenses. As a result, industry reserves for E&A losses declined from \$28.2 billion at year-end 1996 to \$22.6 billion at year-end 2001. Industry reserves increased to \$26.6 billion at year-end 2002. We anticipate that reserves will show another healthy increase at year-end 2004, given a number of large one-time reserve increases likely to be taken by some companies. However, we continue to be concerned about the adequacy of asbestos reserves, given the increase in claim activity and severity.

A strong P/C market curtailed M&A activity in 2004

Relatively favorable organic growth opportunities among most property-casualty insurers significantly affected the level of M&A activity in 2004 (through late November). This contrasted with 2003, when, thanks to a handful of relatively large, high-profile deals announced throughout the insurance sector, M&A activity picked up considerably from 2002's depressed levels. A recovery in industry pricing fundamentals, coupled with a more buoyant equity market and US economy during 2003, helped provide the necessary catalysts. As we head into 2005, many insurers likely will experience slowing top line growth amid a heightened competitive environment. This slowdown in growth may spark another round of consolidation.

According to information obtained from SNL Securities Inc., a financial services research and data collection firm, a total of 270 insurance and managed care related deals valued at just under \$13.9 billion were announced in 2004 (year to date through November 26). This is down rather significantly from 76 deals, valued at approximately \$56.4 billion, that were announced during 2003. During 2002, 71 deals valued at just \$8.0 billion were announced. Within the

property-casualty segment, 26 deals valued at \$552.4 million were announced, year to date through November 26, 2004. During 2003, 43 deals were announced, valued at \$22.2 billion. This compares with 39 deals valued at only \$439.6 million, announced in 2002, and 50 deals valued at \$2.2 billion, announced in 2001.

The year-to-date comparisons of M&A activity within the property-casualty industry were made even starker amid the absence of any “blockbuster” deals announced in 2004. During 2003, the largest deal within the property-casualty industry (and the second largest deal in the overall insurance industry) occurred as a “merger of equals” — between The St. Paul Companies and Travelers Property Casualty — that was valued at some \$16.1 billion when it was announced November 17, 2003. The transaction — under which each Travelers’ common share was exchanged for 0.4334 shares of common stock of The St. Paul Companies — was completed on April 1, 2004. The combined entity, renamed The St. Paul Travelers Companies Inc., is the second largest commercial lines property-casualty insurer (behind American International Group), with combined net written premium volume of more than \$20 billion (based on estimated pro forma 2003 data).

The changing nature of consolidation activity

In the industry’s consolidation phase of the early to mid-1990s, the companies being acquired were considered vulnerable. In most cases, they had made some missteps and had fallen on hard financial times. Opportunistic acquirers quickly snapped up these “bargain” companies. Subsequently, however, many deals took on a strategic thrust, such as diversification or expansion abroad.

After nearly a decade of inadequate reserve levels for certain liability claims, a number of insurers may find themselves financially vulnerable. Some of these insurers could be acquired, if the price were right. Given the general wariness toward traditional M&A in the present environment, however, we doubt that all of these companies will be snapped up.

Backtracking from conglomeration

Another trend that may emerge as a result of recent events is “de-conglomeration” —

a narrowing of business focus, as opposed to diversification into a wide range of market segments.

Perhaps no company in the financial services industry better embodied the concept of diversification through acquisitions than Citigroup Inc. This financial services conglomerate, which is based in New York City, operates in more than 100 countries and territories and has a presence in virtually every segment of the financial services marketplace, from insurance to consumer and commercial banking to investment services.

Citigroup was created in 1998, with Citicorp’s historic acquisition of Travelers Corp. — the first merger of a bank and an insurance company. Following that deal, Congress enacted financial services deregulation legislation that made similar deals possible. It was widely anticipated that Citigroup’s business model — that of a broad-based financial services conglomerate — would be copied by many competitors. That trend, however, has not materialized so far.

Moreover, in late 2001, Citigroup reevaluated its business mix and decided to spin off its Travelers Property Casualty unit. Citigroup spun off about 20% of Travelers, in a March 2002 initial public offering, and completed a tax-free distribution of most of the balance (excluding about 9.9%) to its shareholders during the third quarter of 2002. Since then, Travelers has found another partner in The Saint Paul Companies. These two insurers joined forces in early 2004 to form The St. Paul Travelers Companies, Inc.

Because investors today cast a wary eye on companies with complicated accounting practices and/or financial structures, many corporations will likely rethink their growth and diversification strategies. Many will likely seek to grow within their core business lines rather than broadening into other segments of the financial services market.

Bid rigging scandal rocks the insurance industry

On October 14, 2004, New York AG Elliot Spitzer fired the first salvo in his battle with the insurance industry when his office filed a complaint against insurance broker Marsh & McLennan Companies (NYSE: MMC). In the civil complaint, the AG’s office alleged that Marsh engaged in numerous

business violations, ranging from fraud to antitrust. Specifically, the lawsuit alleged that MMC illegally steered clients to insurers that paid it the highest commissions and solicited rigged bids for insurance contracts. The complaint also noted that insurance companies participated in Marsh's "steering" scheme, in which it solicited false and inflated bids from underwriters and then predetermined who would be awarded the insurance contract. Specifically mentioned in the lawsuit were American International Group, ACE Limited (ACE), Hartford Financial Services (HIG), and Munich Re.

As of December 9, 2004, the New York AG had not filed any civil or criminal charges specifically against any of the underwriters mentioned in this matter — though we note that two AIG employees pleaded guilty to criminal fraud charges related to their participation in MMC's alleged bid-rigging schemes. An employee of ACE Limited also pleaded guilty to similar charges. We are obviously concerned by these allegations and by the uncertainty that accompanies them. However, we make a few observations. Although the AG suit alleges that this practice of bid rigging is "widespread," evidence of this action was found in the marketing of excess casualty insurance. This type of coverage, because of the typically large policy values, is not offered by numerous carriers. AIG and a handful of other insurers dominate this market. Our sense is that, if additional incidents of this type of activity are discovered, it is likely to be in higher level lines of coverage, for which there are not a lot of carriers (unlike personal auto insurance, for example, where there are numerous insurance carriers and a more efficient market). Also, we believe that resolution of this issue will likely "level the playing field" and increase the visibility and level of disclosure between buyers and underwriters of commercial lines of insurance. Hence, underwriters will compete on the basis of fundamentals like price, policy terms and conditions, and financial strength.

By mid-November 2004, the investigation had widened considerably in a number of ways. First, a number of other state AGs (including those of Connecticut and California) jumped into the fray and began subpoenaing insurers to gather information for their investigations. Second, New York

AG Spitzer expanded his focus to other areas of the insurance industry, including the life, health, disability, and employee benefits industries. The focus of these subsequent investigations also centered on allegations that certain intermediaries rigged bids for insurance contracts and steered business to certain underwriters in exchange for incentive compensation.

Although this investigation could take a number of surprising turns in coming months, Standard & Poor's expects the following trends to occur as a result of this investigation:

- ◆ **The nature of the relationship among commercial lines underwriters, insureds, and intermediaries (brokers and agents) will be significantly altered.** The insurance brokerage business has become increasingly concentrated over the last decade or so (largely as a result of consolidation). At the same time, the role of the commercial lines insurance broker also has evolved, from one of simply bringing together buyers and sellers of insurance to one where the brokers act as facilitators in the transfer of risk — offering an array of risk management and consulting services. This strategy on the part of the insurance brokers was done in part to counter some of the cyclical nature inherent in their business and to shift their business mix to one with wider margins. Since commercial lines insurance brokers represent insurance consumers (in this case, usually some sort of a corporate or public entity) in their transactions with the insurance underwriter or provider, and since these transactions tend to be fairly complex, many clients became dependent on insurance brokers to guide them through this process. In the wake of the bid rigging scandal, that trust (and the attendant fiduciary responsibility) between broker and insured client has been broken. In the aftermath of this scandal, Standard & Poor's expects there to be a greater degree of transparency in the insurance brokering process. No doubt there also will be some market share shifts. Standard & Poor's expects number one broker Marsh & McLennan — the leading target of these investigations as of December 10, 2004 — to lose market share to some of its competitors. The industry also could see the establishment of some sort of independent consultant who takes on the role of advisor to insurance

clients and whose compensation is not tied to the placement of insurance.

◆ **The competitive landscape among insurance underwriters will change in the wake of these allegations.** We assume that the alleged bid rigging and “steering” of business to a particular insurer in exchange for some amount of monetary compensation will end. As a result, the “playing field” will level, and (in theory) insurers will compete on the basis of price, claims and servicing ability, and/or their financial strength or their ability to underwrite a particular risk. Standard & Poor’s expects that this change may exacerbate somewhat the heightened price competition that is already beginning to occur. Further, we expect that the second tier insurers likely will be hurt more, as the level playing field also likely results in a “flight to quality” among underwriters — with the strong gaining at the expense of the financially weaker players.

◆ **The currently state-based regulatory system will come under a heightened degree of scrutiny in the aftermath of these investigations.** Unlike virtually any other subsector in the financial services industry, insurers are not regulated by a federal regulatory authority. Instead, each state has an insurance commissioner. The National Association of Insurance Commissioners (NAIC) is the umbrella organization that serves the state regulators. (For more information on industry regulation, please refer to the “How the Property-Casualty Industry Operates” section of this *Survey*.) To proactively counter these charges, the NAIC, in early December, released draft model legislation that would mandate certain new disclosure requirements. Essentially, the model legislation (entitled “Proposed Compensation Disclosure Amendment to the Producer Licensing Model Act”) would prohibit insurance intermediaries from accepting any compensation from an insurer or other third party without the client’s documented acknowledgment and approval. Further, if the amount of compensation is not known at the time of the disclosure, a reasonable estimate of the amount and method of calculating said amount must be disclosed.

Although we credit the NAIC for putting forth a response amid these scandals, we be-

lieve a couple of points are worth noting. First, the allegations of impropriety being levied, primarily against insurance broker Marsh & McLennan, do not claim that accepting incentive payments (*i.e.*, contingent commissions) over and above commissions was wrong. But, the allegations claim that these incentive payments — usually referred to as market service agreements (MSAs) or placement service agreements (PSAs) — improperly led certain brokers to favor one insurer over another, often to the detriment to their clients. Moreover, according to a report published by the Insurance Information Institute, a provider of insurance-related information, data, and research, Marsh & McLennan Companies, in the late 1990s, already had agreed to a disclosure policy that required its brokers to identify whether they were receiving contingent commissions (or any similar compensation agreement) if the client requests that information and to make a reasonable estimate of the revenue generated therein.

Finally, the action taken by AG Spitzer’s office was prompted by a letter sent in February 2004 from the Washington Legal Foundation (WLF), a public policy think tank. The WLF contacted both the New York and California AGs and insurance commissioners, urging both to investigate the business practices and commission structures of the insurance brokerage industry. Apparently, the New York AG was listening!

HOW THE INDUSTRY OPERATES

The property-casualty (P/C) insurance industry is essentially a risk-bearing enterprise. In the event of a loss, insurance is a means by which the burden of that loss — whether related to the destruction of property or an incurred liability — is shared. Typical property-casualty policies include auto coverage, workers’ compensation coverage, homeowners’ coverage, and others.

There are two kinds of ownership structures in the P/C industry: mutual and stock. A mutual insurance company is owned by its policyholders, and its capital is called policyholders’ surplus. State Farm Group — the largest property-casualty insurer in the United States, based on premium volume — is a mutual insurance company.

The second-largest P/C insurer, American International Group Inc., is a stock insurance company. Investors (that is, shareholders) are issued stock as evidence of their ownership interest, which is represented by shareholders' equity.

The money flows in...

Regardless of an insurance company's ownership structure, the insurance business is one of shared risk. Insurers collect payments in the form of premiums from people who face similar risks. A portion of those payments is set aside to cover policyholders' losses. Therefore, earned premiums are typically an insurer's primary revenue source.

At the time a policy is issued, it is recorded on the insurer's books as a written premium. Then, over the life of the policy, the premium is "earned," or recognized as revenue, on a fractional basis. These premiums are classified as deferred revenues and assigned to an unearned premium reserve, which is listed as a liability on an insurer's financial statement.

There is usually a lag of about 12 months between the time a policy is written and the time the full premium is recognized as revenue. For example, a \$600 premium for a year of auto insurance coverage would be "earned" by the insurer at the rate of \$50 a month for 12 months. (The flow of funds is shown in detail in the cash flow diagram.)

After premiums, the second-largest component of insurer revenues is investment income. This is derived from investing the funds set aside for loss reserves and unearned premium reserves and from policyholders' surplus or shareholders' equity.

The third and usually smallest revenue component is realized investment gains; this component is the most volatile and hardest to predict. Realized investment gains arise from the sale of securities (usually stocks and bonds) in an insurer's investment portfolio. Because the timing and magnitude of the gains depend on conditions in the securities markets, which by their nature are dynamic, it is difficult to forecast realized investment gains.

...and the money flows out

An insurer's revenue must cover a variety of expenses. One expense is the commission

paid to the insurance broker, agent, or salesperson for selling a policy; this is usually deducted immediately from the collected premium. The insurance company generally accounts for this commission by deducting it from its policyholders' surplus account and crediting it to the unearned premium reserve.

After commissions are paid, premium dollars are used to cover a variety of expenses. The largest expense facing a property-casualty insurer is losses, also referred to as policyholder claims. Funds are also used to pay claims-related expenses and loss adjustment expenses, including insurance adjusters' fees and litigation expenses. Insurers also face expenses related to the underwriting process, such as salaries for actuarial staff. The underwriting profit (or loss) is determined by subtracting these expenses from earned premiums.

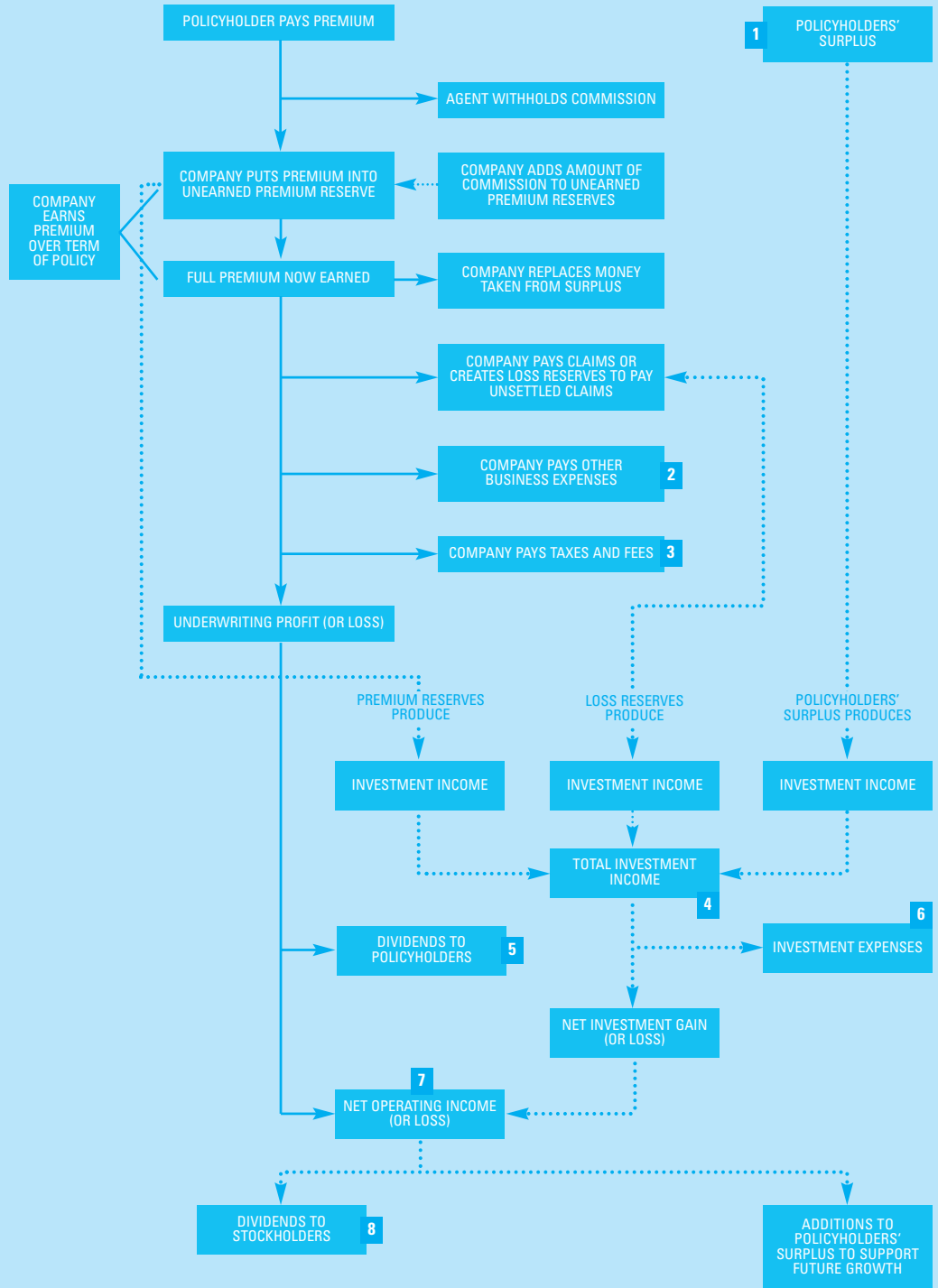
Like most other companies, insurers incur various other operating expenses and interest costs. Pretax profits are calculated by subtracting these expenses from underwriting profits. Finally, after-tax (or net) income is derived by taking pretax profits and subtracting dividends and federal and state income taxes.

According to data obtained from the Insurance Services Office (ISO), an industry research and data collection organization, net written premiums for the property-casualty insurance industry rose approximately 9.8% to \$405.9 billion in 2003, from \$369.7 billion in 2002 (as restated). Net earned premiums advanced some 11.4% to \$388.1 billion in 2003, from \$348.5 billion in 2002 (as restated).

Underwriting results in 2003 improved considerably over 2002 results, despite higher catastrophe losses. According to the ISO's property claim services unit, catastrophes caused \$12.9 billion in direct property losses in 2003, compared with \$5.9 billion in 2002. (A catastrophe is defined as an incident or series of incidents causing insured losses of \$25 million or more.) This contrasts rather sharply with 2001, when 20 catastrophes produced reported losses of \$28.1 billion. Included in the 2001 catastrophe losses were losses from the September 11 terrorist attacks. (Note: Based on information as of late 2004, insured loss estimates totaled just under \$20 billion. This number likely will continue to rise over time as more claim information becomes available.)

CASH FLOW DIAGRAM—PROPERTY-CASUALTY INSURANCE COMPANIES

(A simplified model)



- 1 The excess of assets over liabilities.
- 2 Overhead costs — rent, salaries, etc.
- 3 Federal, state, local taxes, licenses, and fees.
- 4 Includes interest, dividends, rents, and realized capital gains.
- 5 On certain lines only.
- 6 Costs of operating the company's investment program.
- 7 If underwriting loss exceeds investment gain, there will be a net operating loss.
- 8 Applies only in the case of capital stock companies.

Source: Insurance Information Institute.

Consequently, total incurred losses rose fractionally, to \$239.7 billion in 2003, from \$238.8 billion in 2002. Loss adjustment expenses (the expenses incurred in settling claims) increased a surprising 11.8% to \$50.1 billion in 2003, from \$44.8 billion in 2002.

The modest rise in incurred losses was partly offset by the double-digit increase in both loss adjustment expenses and other underwriting costs. As a result, incurred losses and loss adjustment expenses rose 2.2% in 2003, to \$289.8 billion, from \$283.6 billion in 2002.

Investment activities contributed rather significantly to insurers' bottom line results in 2003, thanks to a relatively low interest rate environment (which buoyed bonds) and to a robust stock market (the S&P 1500 advanced by more than 27% in 2003). Net investment income rose 4.0% in 2003, to \$38.7 billion, from \$37.2 billion in 2002. However, this modest growth was offset by net realized investment gains of \$6.9 billion in 2003, versus \$1.2 billion of realized losses in 2002. As a result, total investment results advanced nearly 27% in 2003, to \$45.6 billion from \$36.0 billion in 2002. Unrealized investment gains for the industry exceeded \$25.2 billion in 2003. This contrasted rather sharply with unrealized losses of nearly \$20.8 billion in 2002.

The sharply lower underwriting loss, coupled with the significantly larger contribution from investment activities, led to a surge in net income in 2003. Insurers in the ISO study reported after-tax income of nearly \$29.9 billion, versus net income of just over \$3.0 billion in 2002.

Keep the cash circulating

Many property-related insurance claims are settled relatively quickly. They often are referred to as "short-tail" liabilities because the period between the incident causing the loss — such as a storm that damages a home — and the claim settlement is relatively short. Because of this, P/C insurers maintain the vast majority of their assets in highly liquid investments that can be converted quickly to cash. This liquidity ensures that policyholders can be paid promptly in the event of a loss.

Based on statistics from A.M. Best (which includes both mutual and stock insurance companies in its survey), total assets of the P/C industry totaled \$1.17 trillion at year-

end 2003, up 12.5% from \$1.04 trillion at year-end 2002. Of the total year-end 2003 assets, investments constituted 82.4%, or approximately \$967.7 billion. As a portion of invested assets, bonds accounted for 66%. Other investments included common stocks (13%), preferred stocks (1%), and cash and short-term investments (9%). The remaining 12% of the P/C industry's investments were in mortgage loans, real estate, and other investments.

An insurer derives funds for investment from three primary sources: its loss reserves, its unearned premium reserve, and its policyholders' surplus. Loss reserves — the funds set aside to pay claims — are by far the largest component of the property-casualty industry's liabilities. For the insurers in the A.M. Best survey, loss and loss adjustment reserves (including related reinsurance obligations) amounted to \$445.4 billion at year-end 2003, or about 54% of total liabilities of \$820.5 billion.

The second-largest liability on an insurer's books, and a principal source of investment income, is the unearned premium reserve. At year-end 2003, unearned premiums for the insurers in the A.M. Best survey equaled \$176.3 billion, or just over 21% of total liabilities. The unearned premium reserve represents the liability for that portion of a written premium that has been charged to the policyholder but has not yet been used. Using our earlier example of the \$600 annual auto insurance premium, the unearned premium reserve would total \$550 at the end of the first month, because \$50 (or one-twelfth) of the annual premium had been "earned," or accounted for as an earned premium on the insurer's books.

Loss reserves: the financial buffer

As the largest component of an insurer's liabilities, loss reserves have an important bearing on financial results. An insurer's prosperity depends largely on its ability to quantify accurately the ultimate cost of the losses from the risks it assumes.

When reserve levels are too high — that is, when an insurer sets aside too much money to pay future claims — profits appear lower than they actually are. Consequently, premium rates might not appear high enough to cover losses, causing the insurer to raise

PROPERTY-CASUALTY OPERATIONS

(In millions of dollars)

	2000	2001	2002	2003
Net premiums written	299,652	323,510	369,673	405,855
% change from previous year	4.4	8.0	14.3	9.8
Net premiums earned	294,024	311,529	348,507	388,142
% change from previous year	8.8	16.7	1.8	0.4
Incurred losses	200,943	234,518	238,815	239,665
Loss adjustment expense	37,838	40,882	44,825	50,135
Underwriting gain/loss	(31,220)	(52,602)	(30,840)	(4,635)
Net investment gain	56,908	44,370	36,010	45,604
Pretax operating income	9,857	(13,800)	5,581	33,227
Net income after taxes	20,559	(6,970)	3,046	29,877

Source: Insurance Services Office.

its rates unnecessarily. Conversely, if reserves are too low, profits will be inflated, leading an insurer to lower its rates inappropriately. In either situation, once losses develop, inaccurate reserve levels ultimately will have to be adjusted. Such erratic accounting adjustments can make an insurer's financial position seem unstable.

Establishing premium and loss reserve levels requires an insurer to estimate the ultimate value of future losses, which is extremely difficult to do accurately. Along with the unpredictability of natural disasters, forecasts of future losses are subject to several other variables, including (but not limited to) real economic growth, inflation, interest rates, sociopolitical trends, judicial rulings, and voter initiatives.

Moreover, the trend in recent years toward a greater proportion of the insurance business being written in casualty lines has made the reserving process even more difficult. It is considerably harder to estimate the ultimate losses from casualty lines than from property lines such as homeowners' coverage, because casualty lines have "long tails" — that is, the period between the origination of the policy, the event leading to a claim, and the subsequent payment of that claim may be years or even decades. Inflation can have a highly negative impact on the insurer's eventual costs as the liability's "tail" lengthens. On the plus side, however, this characteristic of casualty lines lets the insurer invest those premium dollars for a longer time.

Estimating the losses...

The calculation of loss reserves involves considering four different kinds of losses, each with differing levels of uncertainty.

◆ **Losses that have been incurred, reported, and settled, but not yet paid.** These losses are the most certain of the four loss types.

Because the size of the ultimate loss has been established, setting aside an accurate reserve level is easiest here.

◆ **Losses that have been incurred and reported, but not settled.** These carry a slightly increased level of uncertainty. Here, the insurer is aware that a loss has occurred, but final payment terms have not yet been established.

◆ **Losses that have been incurred and reported, but not settled, due to a liability.** Because such losses usually involve longer-tail liabilities, calculating the ultimate cost of settlement is more difficult.

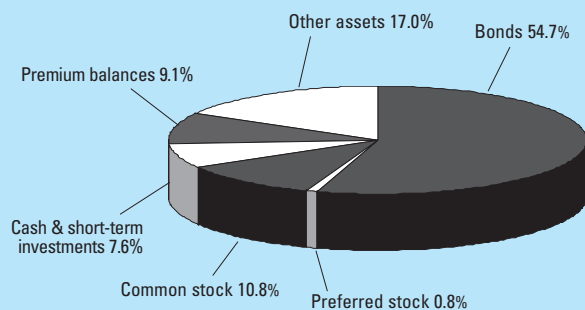
◆ **Losses that have been incurred, but not reported (IBNR).** These losses carry the most uncertainty. In some cases, insurers know about IBNR losses and try to make preliminary loss estimates. For example, suppose an earthquake hit a certain area on December 30, and a local P/C insurer ends its fiscal year on December 31. In its year-end statements, the insurer could estimate its earthquake-related IBNR loss based on its experience in prior earthquakes.

In other cases, however, IBNR losses emerge years after the damage first occurs. Such losses are very difficult to predict. For example, the various asbestos lawsuits that have recently plagued P/C insurers relate to injuries incurred many years ago, but which were reported much later.

...and calculating the loss reserves

Most insurance companies assign the task of establishing appropriate loss reserve levels to their actuarial staffs. Actuaries — specialists trained in mathematics, statistics, and accounting — are responsible for calculating premium rates, reserves, and dividends. They use a variety of quantitative methods to establish loss reserves. The five most commonly used methods are the following:

◆ **Claim-file estimates plus.** This method establishes the estimated liability for reported losses by aggregating pending claim-file estimates (such as estimates being prepared by the claims department), from which payments that have already been made are de-

DISTRIBUTION OF ASSETS — 2003*(Total US property-casualty industry, in percent)*

Source: A.M. Best Co.

ducted. To this total are added formula calculations for additional payments on closed claims that will be reopened and for IBNR losses. The sum of the component parts constitutes the full loss liability as of the end of the accounting period.

This method, considered the least sophisticated, is appropriate for property lines in which claim frequency is low and the range of loss costs is sizable. Furthermore, its dependence on claims department estimates exposes it to a degree of subjectivity.

◆ **Extrapolation from accumulated paid losses.** This method indirectly estimates the liability by extrapolating losses paid to date. Although this method is regarded as simple to apply, its use is limited to coverages where payment patterns are relatively consistent.

The percentage of losses paid to ultimate incurred losses is calculated for various stages of development for prior years. From this history, percentages paid are selected for each stage of development. The amount of losses paid to date for the period under review is then divided by the appropriate percentage, to arrive at the estimated ultimate loss cost. The amount of losses paid to date is subtracted from this figure to produce the estimated loss liability.

◆ **Counts and average costs of incurred losses.** This method indirectly establishes the liability for losses from loss counts and average costs. The projected number of loss units is obtained from the number of loss units received to date, based on percentages reported in prior years at the same stage of development.

The average cost of loss units closed to date is calculated and compared with average

closed costs of prior years at the same stage of development. The estimated ultimate average cost so derived is then multiplied by the projected ultimate number of loss units, to arrive at the total estimated ultimate loss. Losses paid to date are then subtracted to obtain the estimated liability.

◆ **Counts and average values of unpaid losses.** This method directly establishes the liability from loss counts and average values of unpaid losses. In this case, a selected average value is applied to the number of loss units. If the data are based on reported losses, the selected average value is applied to the number of open loss units, and a separate calculation for IBNR losses is necessary. If the data are based on accidents incurred, the selected average value is based on the total number of open and IBNR losses.

◆ **Loss ratio.** This method estimates the ultimate loss by using an estimated loss ratio. Selected for whatever period of coverage is involved, the ratio is applied to the applicable earned premiums, producing the estimated ultimate losses incurred for that period. Losses paid to date on accidents occurring during the period are deducted from this total to derive the estimated total loss liability.

This overview illustrates the various methods used to quantify an insurer's estimated liability for losses as of the evaluation date. Obviously, a great deal more detail and considerable judgment are involved in applying these methods. Furthermore, no single method is ideal for all situations, and the method chosen by a particular insurer will depend on that company's unique experience and product mix. In fact, many companies use more than one method to ensure a high degree of accuracy and reliability.

For a more detailed discussion of the various loss-reserving methods, Standard & Poor's recommends *Property & Casualty Insurance Accounting*, published by the Insurance Accounting and Systems Association.

Surplus funds: capital counts

After investment assets and loss reserves, the third largest component of an insurer's balance sheet is policyholders' surplus, analogous to shareholders' equity. At December

31, 2003, the insurers in the ISO study had an aggregate surplus of \$347.0 billion, up 21.6% from the year-end 2002 surplus of \$285.4 billion.

Policyholders' surplus is one of the indicators that state regulators use to monitor and control insurers' solvency and growth.

Industry surplus (sometimes referred to as capital or equity) appreciates or depreciates through retained earnings or losses, unrealized gains or losses from investment portfolios, and additions to investors' capital.

Typically, regulators permit insurers to leverage their surplus to a certain extent, allowing them to underwrite business equal to two to three times the amount of their surplus. Regulators tend to give insurers more leeway on the short-tail property lines than on the long-tail casualty lines, because of the former's relatively greater predictability of underwriting performance.

Thus, as the industry has increased its exposure to casualty lines, its leverage has declined. Industry leverage also has declined because of overcapacity. (Industry surplus leverage is discussed further in the "How to Analyze a Property-Casualty Insurer" section of this *Survey*.)

Two accounting methods used

Property-casualty insurers generally account for their surplus by using statutory accounting principles (SAP), which require them to expense immediately all costs related to writing business, rather than by using generally accepted accounting principles (GAAP), which attempt to match an insurer's income and expenses by prorating the costs of an insurance policy over its assumed life.

Many insurers report their financial results using both accounting systems. They report their results to regulators using SAP; for investors, they use GAAP. (Many analysts, however, also use SAP financial statements when analyzing an insurer.) This difference largely reflects the disparate priorities of shareholders, investors, and regulators. Shareholders and investors are likely to be most interested in a company's ability to earn a profit, while regulators' primary concern is the company's solvency — its ability to meet policyholder obligations.

The primary difference between GAAP and SAP lies in an accounting concept known as the matching principle. Under GAAP ac-

counting, an insurer charges expenses to the period in which they were used to generate revenues. Under SAP accounting, expenses are recognized as soon as they occur.

For example, when an insurer uses SAP, any expenses associated with writing an insurance policy — such as commissions and other underwriting expenses — are immediately deducted from income. Under GAAP accounting, these same charges are treated as assets — referred to as *deferred policy acquisition costs* — and are amortized over the insurance policy's life. Hence, the more conservative SAP emphasizes a company's solvency. An insurer's income and surplus tend to be lower under SAP than under GAAP, which emphasizes the firm's ongoing profitability.

Forms of ownership

A property-casualty insurer's ownership structure can take one of two forms: that of a publicly held stock insurance company or that of a mutual insurance company owned by its policyholders. In addition, a company can be structured as a hybrid mutual holding company.

Stock insurance companies

Stock insurance companies, as their name implies, are owned by shareholders, who can buy or sell shares in the public stock market. The capital of a stock insurance company is called shareholders' equity. Since these companies are publicly held, they are required to file quarterly financial reports with the Securities and Exchange Commission. Thus, obtaining timely financial information about these companies is relatively easy.

As publicly owned companies, these insurance companies are obligated to provide the most favorable return on shareholders' capital. Sometimes this goal may conflict with the interests of policyholders.

For example, a stockholder-owned insurer may be under pressure to keep claim costs in line in order to return a profit to its shareholders. This scrutiny of claims, although certainly legal, may not always be in the best interest of the policyholder, who relies on the insurer to promptly pay his or her claim.

Mutual insurance companies

Mutual insurance companies, in contrast, are owned by their policyholders. A mutual

insurance company's capital is called policyholders' surplus. Because these companies are owned by their policyholders, they are not required to publicly disclose financial information. Although some mutual insurers distribute financial information to policyholders, obtaining financial information about a mutual insurer is more difficult.

In some instances, insurance companies have formed mutual holding companies to combine the benefits of mutual ownership with those of public ownership. In this case, the holding company remains in the hands of the policyholders, while shares in the operating subsidiary are sold to the public. This arrangement can lead to conflicting priorities, however, as management seeks to please policyholders, who prefer that the company retain its capital to pay claims, as well as shareholders, who prefer that management use its capital to grow the business and pay dividends.

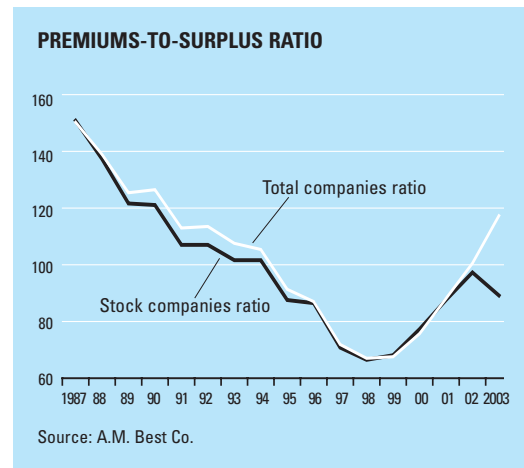
Demutualization

The process by which a mutual insurance company converts to a shareholder-owned structure is called demutualization. Over the last several years, several of the nation's largest mutual insurers have demutualized. Prudential Financial Inc. completed its initial public offering in December 2001. In April 2000, Metropolitan Life Insurance Co. completed its demutualization on the heels of John Hancock Financial Services Inc., which completed its demutualization in January 2000. (Note: Manulife Financial Corp. acquired John Hancock Financial Services on April 28, 2004.)

The forces behind these high-profile demutualizations differ from those that drove a number of other companies, including The Equitable, to demutualize in the late 1980s.

Back then, insurers needed access to the capital markets to sell equity and debt securities in an attempt to boost their sagging capital bases. At that time, many companies were saddled with illiquid and underperforming real estate loans and assets, which eroded the strength of their capital bases and threatened their solvency. They needed to raise capital in order to survive.

The more recent spate of demutualizations was driven by insurers' need to increase their operating and financial flexibility. One aspect of this is the ability to issue stock. Although



the merger and acquisition boom of the late 1990s has slowed considerably, the ability to acquire another company through the issuance of stock (the currency of choice in most deals) is a critical success factor for many companies. Furthermore, in this era of rewarding performance with stock options, many mutual insurers believed they were at a disadvantage in recruiting and retaining top management talent by not being able to offer this benefit to employees.

Lines of coverage

Although property-casualty insurance is available on a wide variety of coverages, several lines constitute the bulk of industry premium volume, as shown in the chart entitled "Property-Casualty Industry's Product Line Distribution."

◆ **Automobile coverage.** This is the largest P/C line; it covers both physical (property) damage and car owners' liability. According to A.M. Best, this sector accounted for approximately 43% of the industry's net written premium volume in 2003.

Automobile coverage (both personal and commercial) has long dominated the industry's product mix. Its growth over the past 20 years has been fueled by the adoption of mandatory automobile insurance in many states and by escalating litigation and medical care costs.

◆ **Homeowners multi-peril.** This is another principal line of business for the property-casualty insurance industry, accounting for some 11% of written premium volume in 2003. Homeowners' insurance covers both the physical damage

to the insured property and the liability or legal responsibility arising from any injuries and or property damage the policyholder may cause to other people. Damage caused by most natural disasters is covered, except that which is caused by floods and earthquakes. A separate policy usually is required to cover earthquake and flood damage.

◆ **Workers' compensation.** Another major line of business for the P/C industry is workers' compensation, which accounted for 10% of 2003 premium volume. This business line insures organizations that are required by state laws to compensate employees who are injured or disabled because of an occupational hazard. It also helps compensate families of employees killed on the job.

During the 1960s and 1970s, the growth in this business line was helped by changes in certain state laws that increased mandated coverage and by the general upgrading of benefit levels. However, in the past several years, this market has contracted as corporations and local governments have sought less costly means of providing this coverage, such as self-insuring. Some insurers have also withdrawn from this line of business in response to poor underwriting results.

◆ **Other lines.** The remaining 36% or so of the market comprises a variety of types of coverage, including homeowners' multiperil coverage, commercial multiperil coverage, and an array of liability coverages.

Getting policies to the people

Insurance companies distribute their personal and commercial policies through either direct selling systems or agency systems. In a direct selling distribution system, the insurance company (sometimes referred to as a direct writer) contacts its customers ("insureds") through its own employees. Within this framework, the insurer sells policies through a number of outlets, including direct mail and company-run agencies.

Under an agency system, the insurer contracts outside agents to sell its policies in exchange for a commission. Some agents may sell only a single insurer's policies ("exclusive agents"), while others ("independent agents") may offer policies from various insurance companies.

While there are advantages and disadvantages to both systems, the tradeoff is between costs and control. A direct selling system can be expensive to establish and operate, but it gives an insurer more control over the distribution process. The agency system reduces the amount of control an insurer has over each aspect of the distribution system, but it usually offers an established network through which the insurer can distribute its products. This is especially helpful to small and regional insurers without the means to establish their own distribution network.

Regulation, competition hold insurers in line

The insurance industry is regulated on a state-by-state basis. Each of the 50 states and the District of Columbia has an insurance commissioner, who grants insurers operating licenses letting them conduct business within that state.

State regulators serve three primary functions. First, they monitor the financial condition and claims-paying ability of each insurance company operating in their state. Second, they serve as consumer watchdogs, ensuring that policyholders are not overcharged or discriminated against. Finally, regulators try to ensure that essential insurance coverage is readily available to all consumers.

The National Association of Insurance Commissioners (NAIC), based in Kansas City, Missouri, coordinates the activities of state insurance commissioners. Founded in 1871 as the National Convention of Insurance Commissioners, the NAIC undertook the formulation of uniform accounting procedures as one of its first actions. Today, one of the NAIC's main functions is to develop and improve insurance reporting and accounting standards and practices. These actions are intended to improve state regulators' knowledge of the financial condition of insurers in their jurisdiction.

Insurance companies are required to file a set of financial statements each year with regulators in every state in which they operate. These records, called annual statements, use statutory accounting terms to outline the company's profits, losses, and overall financial condition.

Other forms of regulation and control also govern the insurance industry. For instance, publicly held insurance companies —

CLASSIFICATION OF NET PREMIUMS — LEADING LINES FOR PROPERTY-CASUALTY INSURANCE COMPANIES

(Premiums written, in millions of dollars and as a percentage of total)

YEAR	†AUTO LIABILITY		‡AUTO PHYS. DAMAGE		WORKERS' COMPENSATION		**MISC. LIABILITY		STRAIGHT FIRE		HOMEOWNERS' MULTIPLE PERIL		COMMERCIAL MULTIPLE PERIL	
	WRITTEN	%	WRITTEN	%	WRITTEN	%	WRITTEN	%	WRITTEN	%	WRITTEN	%	WRITTEN	%
2003	107,457	25.9	68,946	16.6	41,411	10.0	47,028	11.3	8,369	2.0	45,690	11.0	27,360	6.6
2002	99,197	26.3	64,881	17.2	36,518	9.7	37,928	10.1	7,134	1.9	40,013	10.6	25,384	6.7
2001	89,709	27.2	59,967	18.2	31,373	9.5	27,963	8.5	4,889	1.5	35,172	10.7	22,209	6.7
2000	82,766	27.3	56,387	18.6	28,136	9.3	25,511	8.4	4,631	1.5	32,414	10.7	19,817	6.5
1999	82,469	28.5	54,294	18.7	24,607	8.5	23,872	8.2	4,646	1.6	30,662	10.6	18,931	6.5
1998	83,755	29.5	51,798	18.2	25,683	9.0	24,170	8.5	4,739	1.7	28,997	10.2	18,974	6.7
1997	83,427	29.8	48,401	17.3	26,512	9.5	25,010	8.9	4,919	1.8	26,915	9.6	18,954	6.8
1996	80,679	29.7	44,734	16.5	27,714	10.2	24,574	9.0	5,293	1.9	25,448	9.4	18,919	7.0
1995	77,558	29.4	41,611	15.8	29,538	11.2	23,461	8.9	5,176	2.0	23,987	9.1	18,844	7.1
1994	74,129	29.0	39,438	15.5	32,708	12.8	23,802	9.3	5,053	2.0	22,556	8.8	17,812	7.0
1993	71,471	29.0	38,376	15.6	34,261	13.9	22,368	9.1	4,549	1.8	21,549	8.7	17,310	7.0

†Bodily-injury and property damage combined. ‡Fire-theft and collision combined. **Includes product liability, malpractice, etc.
Source: A.M. Best Co.

those that issue stock — are subject to regulation by the Securities and Exchange Commission (SEC).

Finally, the intense level of competition among industry participants in all lines also usually serves as a measure of control. Competition helps keep pricing in line and prevents any one participant from becoming too powerful.

KEY INDUSTRY RATIOS AND STATISTICS

For purposes of formulating industrywide benchmarks, Standard & Poor's defines the property-casualty insurance industry as comprising the companies that report their operating statistics to A.M. Best; there were approximately 2,380 such companies in 2003 (latest available).

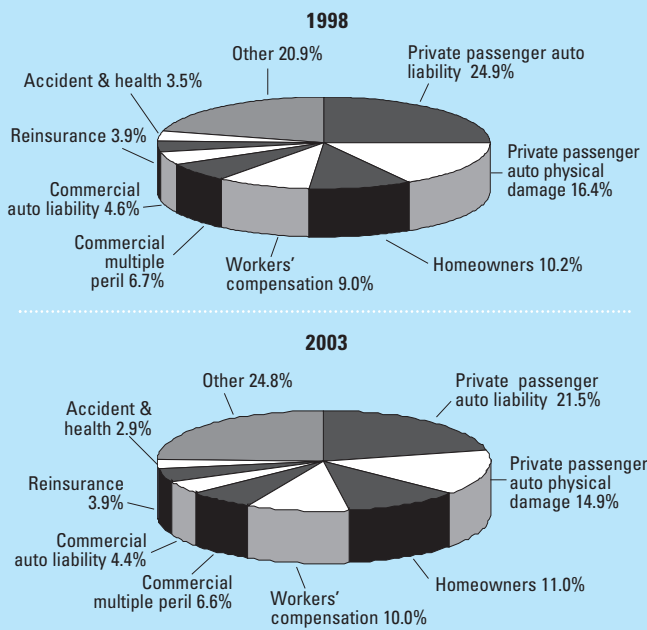
The following three ratios are derived from statistics available in A.M. Best Co.'s annual publication, *Aggregates & Averages*.

► **Return on assets (ROA).** This is a measure of profitability; it is equal to net income divided by average total assets. The ROA for most property-casualty insurers typically ranges from 2.0% to 5.0%.

► **Return on equity (ROE).** Usually considered in tandem with ROA, ROE is another measure of profitability. For a stockholder-owned insurance company, ROE is calculated by dividing net income by average shareholders' equity.

To calculate the ROE for the entire property-casualty insurance industry (which includes mutual insurance companies), the denominator in this equation would be policyholders' surplus, not shareholders' equity. Policyholders' surplus is a statutory accounting term that is generally analogous to shareholders' equity. The return on equity/surplus for property-casualty insurers typically

PROPERTY-CASUALTY INDUSTRY'S PRODUCT-LINE DISTRIBUTION (In percent, by net premiums written)



Source: A.M. Best Co.

ranges from 8% to about 18%. Most insurers strive to earn an ROE of 12% to 15%. During the five years from 1999 to 2003, the average ROE for insurers in the A.M. Best universe was 2.8%. This rather meager performance largely reflected the impact of negative returns in 2001 and 2002.

► **Net investment yield.** This is a measure of investment performance; it is typically calculated as net investment income divided by average invested assets. Investment yields typically range from under 4% to well above 12%, depending on the mix of invested assets in an insurer's portfolio. For the property-casualty industry, the average yield on invested assets was 4.5% in 2003, down from 4.9% in 2002.

The next two ratios, which measure underwriting performance, are derived from data published quarterly by the Insurance Services Office (ISO).

► **Net premiums written to surplus.** This ratio measures the extent to which the industry (or an insurer) has leveraged its capital to write business. Sometimes referred to as a measure of capacity utilization, it is equal to net written premiums divided by policyholders' surplus.

Typically, regulators permit an insurer to have a ratio of net written premiums to surplus of 2-to-1. In other words, insurers would be permitted to write \$2 in premiums for every \$1 in capital. Despite the growth in written premiums that occurred in the 12 months ended December 31, 2003, the industry remained somewhat underleveraged. At December 31, 2003, the ratio of net written premiums to policyholders' surplus was 1.17-to-1. In other words, the industry wrote \$1.17 worth of premiums for every \$1 in capital.

► **Combined ratio.** A key measure of underwriting performance, the combined ratio is calculated by adding three figures: the loss ratio (losses plus loss adjustment expenses, divided by earned premiums), the expense ratio (other underwriting expenses divided by written premiums), and the dividend ratio (policyholder dividends divided by earned premiums). A combined ratio of 100% or less indicates an underwriting profit; in excess of 100%, it signals an underwriting loss.

Companies strive to earn a profit from underwriting, but only a small percentage actually achieves this goal. According to a study by the ISO, between 1952 and 1998, the industry earned a profit from underwriting — and achieved a combined ratio below 100% — in just 15 of those 47 years. Until the first half of 2003, the last time this happened was in 1978, when the industry's combined ratio equaled 97.5%.

A typical range for combined ratios is 100% to 110%. The loss ratio usually ranges from 60% to 80%, and the expense ratio from 25% to 35%. The dividend ratio usually ranges from 1.0% to 2.0%.

For the 12 months ended December 31, 2003, the industry's combined ratio equaled 100.1%, compared with 107.3% in the year ended December 31, 2002. The combined ratio for 2003 consisted of a loss ratio of 74.7% (versus 81.4% in the 2002 period), an expense ratio of 24.9% (25.4%), and a dividend ratio of 0.5% (0.6%).

HOW TO ANALYZE A PROPERTY-CASUALTY INSURANCE COMPANY

When analyzing a property-casualty (P/C) insurer, consider three central points: its profitability, or ability to make money; its liquidity, or ability to convert assets into cash to pay claims and meet other expenses; and its leverage, or the extent to which it uses its capital to produce business.

As with the markets for most other goods and services, the P/C insurance market functions within supply and demand curves. Demand for insurance is fairly stable and inelastic: it is influenced by growth in the economy (as measured by gross domestic product), the inflation rate, and the need to protect assets. The supply curve, however, moves primarily with interest rates.

Pricing moves inversely with interest rates

Theoretically, when interest rates rise, insurers are willing to provide more insurance at the same price, because each premium dollar generates more investment income for the insurer. Thus, insurance prices decline until additional demand is stimulated or until it becomes unprofitable to provide cover-

age, prompting insurers to withdraw. Either way, supply and demand are brought back into balance.

The fundamental relationship between insurance pricing and interest rates, therefore, is that prices increase when interest rates fall, and they decline when interest rates rise. The magnitude of changes in price varies with the magnitude of changes in interest rates.

Price and premium growth levels also are influenced by competitive pressures within the industry and by each firm's capacity to underwrite. The industry is competitive and has relatively few barriers to entry, so companies tend to overreact to interest rate changes, either overpricing or underpricing as situations warrant. However, in recent years, this theory did not match reality. During a period of historically low interest rates, insurance pricing also remained competitive. This is largely attributable to an oversupply of underwriting capacity, or capital, that remained within the insurance marketplace.

Prospects for inflation also play an important role in insurance prices. If claim costs are expected to rise because of inflation, a higher level of income will be needed to cover these potentially higher costs in the future. Thus, insurance companies must incorporate estimates of future inflation into their pricing structures.

When there's a wide range of inflation expectations, companies with lower-than-average estimates of future inflation may offer their products for below-average prices. Of course, insurers often can garner market share when their policies are priced below those of their competitors. Therefore, overall price trends tend to move toward the levels set by companies with a less inflationary outlook.

Predicting profits

Two broad measures of profitability that are applicable to P/C insurance companies are return on assets (ROA) and return on equity (ROE). ROA is net income divided by average total assets. A typical range of ROAs for the P/C insurance industry is somewhere between 0.5% and 2.0%, with the average somewhere around 1.5%. ROE is calculated by dividing the insurer's net income by average shareholders' equity. Most insurers strive to achieve an ROE of at least 15%.

A property-casualty insurer's profitability depends primarily on two components: underwriting income and investment income. Below we discuss each of these components of an insurer's operating income.

Principles of underwriting

The first element to consider when analyzing underwriting results is the rate of written premium growth. It should be compared with industry data to judge how a company stacks up against its peers.

Pay careful attention to the circumstances surrounding the rate of premium growth. For example, if a company expands its written premium base at 10% a year while the overall industry is growing at 6% a year, that company would appear to be outperforming its peer group. Presumably, the stock market would award that firm a higher valuation than some of its slower-growing counterparts would enjoy. However, if the insurer is achieving premium growth by following risky underwriting standards — such as underpricing policies to gain market share or writing a great deal of business in a high-risk coverage line avoided by other insurers — the insurer's valuation would have to be adjusted downward.

Conversely, a company growing its premium base at a rate slower than the overall industry could be doing so because it is limiting its exposure to an unattractive class of business. For example, a number of insurers have reduced their exposure to workers' compensation insurance in response to that line's adverse claim trends. These insurers may have posted minimal written premium growth in recent years, but many have seen their profitability improve after purging these loss-laden business lines.

A final factor that affects a company's premium growth rate is the extent to which an insurer uses reinsurance, the practice of transferring some of its risk — and premium income — to reinsurance companies. In an attempt to offset slowing premium growth in the past, some insurers have reduced the level of premiums that they cede to reinsurers. Using less reinsurance lets an insurer keep more of each premium dollar, so a reduced level of reinsurance may enhance year-to-year premium growth comparisons. At the same time, using less reinsurance removes the protection it affords, potentially exposing the primary insurer to a large financial claim.

◆ **The combined ratio.** To evaluate an insurer's underwriting performance, many analysts use a statistical measure called the combined ratio. This ratio equals the sum of the loss ratio, the expense ratio, and the dividend ratio, which are described below. A combined ratio below 100% indicates an underwriting profit; one above 100% means an insurer has incurred an underwriting loss. Unless otherwise stated, most companies calculate these ratios using statutory accounting principles.

◆ **The loss ratio.** The loss ratio measures claims cost experience. It is derived by dividing losses and loss adjustment expenses by earned premiums. It typically ranges from 60% to 80%, but it can soar during a period of heavy catastrophe losses.

◆ **The expense ratio.** The expense ratio measures how cost-effectively an insurer writes new business. It is derived by dividing operating expenses by written premiums. It typically ranges from 25% to 35%.

◆ **The dividend ratio.** The dividend ratio, the smallest component of the combined ratio, is obtained by dividing policyholders' dividends by earned premiums. It typically ranges from 1% to 2%. (The combined ratio is often presented excluding the dividend ratio. This is the case in the "Underwriting experience" and "Premium volume and underwriting ratios" tables.)

Playing the investment field

Investment income is an important source of profits for property-casualty insurers. Theoretically, investment income should be used to provide financial protection against unforeseen and unanticipated underwriting losses. Many insurers, however, have come to rely on investment income to remain profitable. When evaluating an insurer's investment portfolio, analysts review a company's asset allocation strategy, making sure its mix of invested assets is appropriate for the type of business it writes.

For most property-casualty insurers, this process is fairly straightforward: the typical P/C insurer maintains most of its invested assets in relatively liquid fixed-income or equity securities that are converted easily into cash. This is because most P/C insur-

ance claims are settled in a relatively short amount of time. Within each asset class, such as stocks or bonds, a review of asset quality and diversification is necessary. To help in the analysis of asset quality, insurers usually provide the debt rating of bonds in their portfolio or an average debt rating for their entire portfolio.

Two important ratios used in analyzing investment results are the investment yield and the total return on the portfolio. Investment yield is usually calculated as the net investment income during a certain time period, divided by the portfolio's average value during the same period. Total return is usually calculated as net investment income plus or minus realized and unrealized gains, divided by beginning market value of the portfolio, plus or minus the weighted average of additions or dispositions.

Cash flow and liquidity

Liquidity is another key benchmark for analyzing a property-casualty insurer, because of the insurer's need to pay claims promptly. An insurer's sources of liquidity arise from underwriting cash flow, investment cash flow, and asset liquidation cash flow. These are all considered internal sources because they are generated by the insurer's operations.

Because of the somewhat unpredictable nature of the P/C insurance business, cash flow from underwriting activities is probably the most volatile element of an insurer's total cash flow. Nevertheless, the underwriting cash flow for most insurers is usually positive; when combined with the cash flow from investment activities, most insurers end up with a substantial positive cash flow.

Looking at leverage

For property-casualty insurers, leverage refers to how the company uses its surplus, or capital, to write policies. The ratio of net written premiums to policyholders' surplus is usually a good indicator of the industry's capacity utilization.

Historically, insurers leveraged their surplus by a multiple of two to three, depending on the types of business they underwrote. For example, an insurer with \$10 million of surplus could probably write \$20 million to

UNDERWRITING EXPERIENCE — LEADING LINES FOR PROPERTY-CASUALTY INSURANCE COMPANIES

YEAR	STRAIGHT FIRE RATIOS			HOMEOWNERS' MULTIPLE PERIL RATIOS			COMMERCIAL MULTIPLE PERIL RATIOS (NON-LIABILITY PORTION)			COMMERCIAL MULTIPLE PERIL RATIOS (LIABILITY PORTION)			WORKERS' COMPENSATION RATIOS			†AUTO LIABILITY RATIOS			†AUTO PHYS. DAMAGE RATIOS		
	LOSS	EXP.	COMB.	LOSS	EXP.	COMB.	LOSS	EXP.	COMB.	LOSS	EXP.	COMB.	LOSS	EXP.	COMB.	LOSS	EXP.	COMB.	LOSS	EXP.	COMB.
2003	54.2	24.7	79.0	69.3	28.5	98.2	55.6	33.6	90.5	84.6	31.7	116.3	85.6	20.8	107.8	79.3	23.1	102.9	68.3	23.3	92.1
R2002	59.4	27.8	87.4	80.4	28.5	109.3	62.4	33.0	97.3	86.1	30.1	116.2	87.0	22.5	112.2	86.1	23.6	110.1	72.2	23.1	95.9
2001	83.1	34.7	118.0	91.9	29.4	121.7	83.9	33.0	117.0	87.7	33.0	120.8	92.4	25.0	120.9	88.1	23.4	112.0	78.2	23.6	102.3
2000	75.9	37.7	113.7	80.4	30.6	111.4	79.6	35.3	115.0	80.3	34.7	115.0	89.6	25.8	120.8	88.1	24.3	113.7	78.0	24.2	103.6
1999	67.5	39.1	106.8	77.4	30.3	108.2	84.6	37.7	122.4	77.6	35.4	113.1	84.3	27.5	118.5	81.3	24.4	106.6	73.9	24.3	99.0
1998	69.3	38.0	107.7	77.8	30.8	109.4	77.8	37.3	115.3	90.1	34.8	125.0	78.2	26.3	111.2	76.4	23.5	102.0	73.8	23.7	99.7
1997	59.5	37.2	97.1	69.0	31.1	101.0	76.0	37.5	113.6	73.4	35.1	108.5	72.1	25.6	103.7	75.0	22.8	99.8	74.3	22.6	99.0
1996	58.6	35.4	94.2	91.4	29.8	121.7	80.1	36.6	116.8	84.9	34.8	119.8	72.1	24.9	102.4	77.4	21.9	100.3	79.6	21.7	102.2
1995	69.9	34.5	104.8	81.7	30.6	112.7	69.3	36.7	106.2	84.5	34.4	119.0	69.8	22.7	99.5	79.7	22.1	103.0	75.3	21.9	98.4
1994	69.9	36.5	106.6	87.2	30.8	118.4	83.0	37.3	120.3	81.9	35.3	117.2	73.6	21.0	101.6	83.1	21.8	105.7	70.9	21.7	93.4

Exp.-Expense. Comb.-Combined. †Including state funds. †Bodily injury and property damage combined. †Fire-theft and collision combined. R-Revised.
Source: A.M. Best Co.

\$30 million of annual premiums. Regulators tend to give insurers more leeway in surplus leverage on shorter-tail property lines of coverage than on longer-tail liability lines, because the former have greater predictability. (The terms “short-tail” and “long-tail” refer to the time between the occurrence of a claim and its settlement; short-tail claims usually can be settled more quickly than long-tail claims.)

Thus, as the industry’s exposure to casualty lines has increased, surplus leverage has decreased. Overcapacity in the insurance business also has caused surplus leverage to decline, as have strong investment returns. Thus, while regulators still may use a 2-to-1 leverage of surplus as a benchmark, this

benchmark has to be considered against a backdrop of industrywide “underleverage.” In fact, industry leverage had been below 1-to-1 from the mid-1990s until recently. However, in the wake of the September 11 terrorist attacks, industry leverage has increased somewhat because of the payment of these extraordinarily large claims.

Based on data obtained from A.M. Best, a provider of insurance company ratings and information, and the Insurance Services Office, an industry research and data collection organization, the ratio of net written premiums to policyholder surplus was 1.12-to-1 at June 30, 2004, and 1.17-to-1 at December 31, 2003 — both of which were down slightly from 1.30-to-1 at December 31, 2002. Using a benchmark leverage ratio of two times surplus, then the capital required to support the \$415.1 billion in net premiums written in the 12 months ended June 30, 2004, would be approximately \$207.6 billion. At June 30, 2004, the industry’s actual surplus level stood at more than \$370.4 billion. The difference between actual and required surplus is approximately \$162.8 billion. This is called excess surplus, or excess underwriting capacity.

Viewed another way, if we use a two-times-surplus leverage ratio, that excess capital could support more than another \$325 billion in written premiums. Against this backdrop of an industrywide underleveraged surplus, however, an insurer that leveraged its surplus by more than two times would probably be considered relatively highly leveraged. ■

PREMIUM VOLUME AND UNDERWRITING RATIOS FOR THE TOTAL US PROPERTY-CASUALTY INDUSTRY

YEAR	NET PREMIUMS WRITTEN	NET PREMIUMS EARNED	†LOSS RATIO (%)	†EXPENSE RATIO (%)	COMBINED RATIO (%)
	MILLIONS OF DOLLARS				
2003	414,863	396,141	74.9	24.7	99.6
2002	377,518	356,131	81.6	25.2	106.8
2001	329,310	317,239	88.5	26.6	115.1
2000	303,239	297,415	81.5	27.5	109.0
1999	289,650	287,436	78.8	27.9	106.7
1998	284,205	280,315	76.5	27.6	104.1
1997	279,687	274,670	72.8	27.1	99.9
1996	271,846	266,551	78.4	26.3	104.7
1995	263,656	258,075	78.9	26.1	105.0
1994	255,189	248,685	81.1	26.0	107.1

†Incurred to premiums earned. †Incurred to premiums written.
Source: A.M. Best Co.

GLOSSARY

Acquisition cost — The amount of money paid by an insurance company for the purchase of another business; it includes commissions to agents and brokers and, in some cases, field supervision expenses.

Actuary — An insurance professional whose job is to estimate statistical risks, set premium levels, and analyze other technical aspects of insurance.

Administrative services only (ASO) agreement — An agreement under which an insurer provides a client with such services as actuarial work, benefit plan design, claims processing, financial advice, and report preparation. The client typically accepts the underwriting risk or self-insures.

Agent — A person who sells insurance policies as a representative of the insurer. An independent agent represents two or more underwriters, while an exclusive agent may be an employee or commissioned representative of a single company.

Broker — A producer who legally represents the buyer of insurance rather than the underwriting company. The broker deals with either agents or underwriting companies to arrange the required coverage.

Capacity — The level of underwriting business an insurer can support, based on its ability or willingness to accept risks, with certain protection limits.

Captive insurer — An insurance organization established by an entity to insure its own risks.

Catastrophe — An incident or series of related incidents causing insured losses of \$25 million or more. (Note: Prior to 1997, a catastrophe was defined as an event or series of related events that caused insured losses of \$5 million or more.)

Cede — The transfer of part of an insurer's liability to a reinsurance company. The insurer "cedes" its liability; the reinsurer "assumes" the liability.

Combined ratio — A financial measure of underwriting performance used in the insurance industry; it is the sum of the loss ratio, the expense ratio, and the dividend ratio. A combined ratio of less than 100% generally indicates an underwriting profit, while a ratio in excess of 100% indicates an underwriting loss.

Convention statement — Documents filed with state insurance departments detailing the financial statistics of individual insurance companies. Convention statements are prepared using statutory accounting principles, rather than generally accepted accounting principles.

Dividend ratio — Policyholders' dividends as a percentage of earned premiums. It is a component of the combined ratio.

Earned premium — Portion of a premium for which the insurer already has provided protection to the policyholder.

Expense ratio — Operating expenses as a percentage of premiums written, calculated on a statutory basis. It measures an insurer's efficiency in writing new business and is a component of the combined ratio.

Finite reinsurance — A broad term used to describe reinsurance transactions that include limited transfer of risk. Finite reinsurance also can refer to financial reinsurance, or the transfer of a known loss, with the only uncertainty being the timing of the loss payment.

Generally accepted accounting principles (GAAP) — An accounting method that, among other things, attempts to match income and expenses by prorating costs over the assumed life of an insurance policy. The GAAP method is used in the audited financial statements of publicly held companies. (See **Statutory accounting principles**.)

Insurance examiner — A state insurance department representative assigned to participate in the official audit and examination of insurance companies.

Insurance in force — The potential maximum claim against an insurer.

Loss ratio — An insurer's loss and loss adjustment expenses as a percentage of premiums earned, calculated on a statutory basis. A component of the combined ratio, it is a measure of an insurer's claims cost experience.

Managing general agent (MGA) — A special type of producer that, unlike other persons or firms selling insurance, often has "binding authority" in certain insurance and reinsurance markets. MGAs have contractual agreements whereby they can accept entire books of business on behalf of insurance and reinsurance underwriters.

Mutual insurance company — An incorporated insurance organization with a governing body elected by policyholders. Mutual insurance companies generally issue participating policies.

Net operating income — After-tax income before net realized investment gains or losses. Analysts most commonly use this measure of insurer profitability when modeling future earnings of an insurer.

Net premiums written — Premium income brought in by insurance companies, directly or through reinsurance, minus payments made for business reinsured.

Nonparticipating policy — An insurance policy in which the insurer does not distribute any part of its surplus to policyholders. Premiums are usually lower for nonparticipating policies than for comparable participating policies.

Participating policy — An insurance policy under which the insurer agrees to distribute to its policyholders the portion of its surplus that management does not deem necessary to retain. Such a distribution serves to reduce the premiums each policyholder has paid during the year.

Policy reserves — The funds that an insurer holds specifically for the fulfillment of its policy obligations.

Premium — The payment, or one of the periodic payments, that a policyholder agrees to make for an insurance policy.

Premium loan — A policy loan made for the purpose of paying premiums.

Primary insurer — An insurance company that, either through an independent insurance agent or a broker, provides coverage in the outside market. The buyers of primary insurance are consumers.

Producer — A person or firm that sells insurance. A producer may be an agent or a broker.

Reinsurance — Coverage that a primary insurer (or “reinsured”) purchases from another company to protect itself from losses beyond a dollar amount it feels can be safely carried. This amount is normally called the reinsured’s “net line.” The reinsurance company can, in turn, reinsure through a process known as retrocession.

Reserves — Funds that an insurer sets aside to cover obligations to policyholders; the amount may represent both actual and potential liabilities.

Rider — A special provision or group of provisions that may be added to a policy to expand or limit the benefits otherwise payable.

Statutory accounting principles (SAP) — An accounting format used by state insurance regulators. As opposed to the generally accepted accounting principles method, statutory accounting is essentially cash-oriented (rather than accrual) and has such requirements as immediately expensing all costs related to writing business. More conservative than GAAP, SAP focuses on a firm’s ability to meet its obligations (its solvency), whereas GAAP focuses on profit growth.

Stock insurance company — An insurance company owned by its stockholders, who elect a board to direct the firm’s management. In general, stock companies issue nonparticipating insurance, but they may also issue participating policies.

Surplus lines — Generally, a risk for which no normal insurance market exists.

Terrorist insurance — Coverage that can be added to a property insurance program to provide protection against destruction of property by terrorists.

Underwriting profit/loss — Profits or losses of an insurance company that result from insurance activities, calculated on a statutory basis. A net underwriting profit or loss represents underwriting results after policyholder dividends are deducted.

War risks insurance — Coverage on ships or cargo against loss or damage by enemy action and against damages sustained in fighting such an action. The perils of war are excluded from most policies.

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PERIODICALS

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Best's Review
BestWeek***

A.M. Best Co. Inc.
Ambest Rd., Oldwick, NJ 08858
(908) 439-2200
Web site: <http://www.ambest.com>

The first is an annual that provides financial and underwriting data on the entire property-casualty insurance industry; the other two are monthly and weekly publications, respectively, that cover topics and issues in the property-casualty insurance industry.

Business Insurance

Crain Communications Inc.
360 N. Michigan Ave., Chicago, IL 60601
(312) 649-5398
Web site: <http://www.businessinsurance.com>
Weekly; covers corporate risk, employee benefit, and managed healthcare news.

National Underwriter (Property/Casualty edition)

The National Underwriter Co.
5081 Olympic Blvd., Erlanger, KY 41018
(800) 543-0874
Web site: <http://www.nunews.com/pandc>
Weekly newspaper; covers issues related to the property/casualty insurance market.

BOOKS

Glossary of Insurance Terms, 2nd ed.
Richard V. Rupp, CPCU
Chatsworth, Calif.: NILS Publishing Co., 1996

Property & Casualty Insurance Accounting, 8th ed.
Insurance Accounting and Systems Association, 2003
4705 University Dr., Ste. 280, Durham, NC 27717
(919) 489-0991
Web site: <http://www.iasa.org>

TRADE ASSOCIATIONS

Insurance Information Institute (III)
110 William St., New York, NY 10038
(212) 346-5500
Web site: <http://www.iii.org>
Nonprofit, industry-supported organization that provides information about the property-casualty insurance industry.

Insurance Services Office Inc. (ISO)

545 Washington Blvd., Jersey City, NJ 07310
(800) 888-4476
Web site: <http://www.iso.com>
Trade organization and publisher of aggregate industry underwriting statistics.

COMPANY REPORTS

ACE Limited

17 Woodbourne Ave., Hamilton HMDX HM08, Bermuda
(441) 295-5200
Web site: <http://www.ancelimited.com>

Allstate Corp.

2775 Sanders Rd., Northbrook, IL 60062
(847) 402-5000
Web site: <http://www.allstate.com>

American International Group

70 Pine St., New York, NY 10270
(212) 770-7580
Web site: <http://www.aig.com>

The Chubb Corp.

15 Mountain View Rd., Warren, NJ 07059
(908) 903-2000
Web site: <http://www.chubb.com>

Cincinnati Financial Corp.

P.O. Box 145495, Cincinnati, OH 45250
(513) 870-2000
Web site: <http://www.cinfin.com>

CNA Financial Corp.

CNA Plaza, 333 S. Wabash Ave., Chicago, IL 60604
(312) 822-5000
Web site: <http://www.cna.com>

Hartford Financial Services Group

Hartford Plaza, 690 Asylum Ave., Hartford, CT 06115
(860) 547-5000
Web site: <http://www.thehartford.com>

Progressive Corp.

6300 Wilson Mills Rd., Mayfield Village, OH 44143
(440) 461-5000
Web site: <http://www.progressive.com>

SAFECO Corp.

SAFECO Plaza, Seattle, WA 98185
(206) 545-5000
Web site: <http://www.safeco.com>

St. Paul Travelers Cos. Inc.

385 Washington St., St. Paul, MN 55102
(651) 310-7911
Web site: <http://www.stpaultravelers.com>

XL Capital Ltd.

XL House, One Bermudiana Rd.
Hamilton HM 11, Bermuda
(441) 292-8515
Web site: <http://www.xlcapital.com>

DEFINITIONS FOR COMPARATIVE COMPANY ANALYSIS TABLES

Operating revenues

Net sales and other operating revenues. Excludes interest income if such income is “nonoperating.” Includes franchised/leased department income for retailers and royalties for publishers and oil and mining companies. Excludes excise taxes for tobacco, liquor, and oil companies.

Net income

Profits derived from all sources, after deductions of expenses, taxes, and fixed charges, but before any discontinued operations, extraordinary items, and dividend payments (preferred and common).

Return on revenues

Net income divided by operating revenues.

Return on assets

Net income divided by average total assets. Used in industry analysis and as a measure of asset-use efficiency.

Return on equity

Net income, less preferred dividend requirements, divided by average common shareholder’s equity. Generally used to measure performance and to make industry comparisons.

Price/earnings ratio

The ratio of market price to earnings, obtained by dividing the stock’s high and low market price for the year by earnings per share (before extraordinary items). It essentially indicates the value investors place on a company’s earnings.

Dividend payout ratio

This is the percentage of earnings paid out in dividends. It is calculated by dividing the annual dividend by the earnings. Dividends are generally total cash payments per share over a 12-month period. Although payments are usually calculated from the ex-dividend dates, they may also be reported on a declared basis where this has been established to be a company’s payout policy.

Dividend yield

The total cash dividend payments divided by the year’s high and low market prices for the stock.

Earnings per share

The amount a company reports as having been earned for the year (based on generally accepted accounting standards), divided by the number of shares outstanding. Amounts reported in *Industry Surveys* exclude extraordinary items.

Tangible book value per share

This measure indicates the theoretical dollar amount per common share one might expect to receive should liquidation take place. Generally, book value is determined by adding the stated (or par) value of the common stock, paid-in capital, and retained earnings, then subtracting intangible assets, preferred stock at liquidating value, and unamortized debt discount. This amount is divided by the number of outstanding shares to get book value per common share.

Share price

This shows the calendar-year high and low of a stock’s market price.

In addition to the footnotes that appear at the bottom of each page, you will notice some or all of the following:

NA—Not available.

NM—Not meaningful.

NR—Not reported.

AF—Annual figure. Data are presented on an annual basis.

CF—Combined figure. In this case, data are not available because one or more components are combined with other items.

COMPARATIVE COMPANY ANALYSIS — INSURANCE: PROPERTY-CASUALTY

Operating Revenues

Ticker	Company	Yr. End	Million \$							Compound Growth Rate (%)			Index Basis (1993= 100)				
			2003	2002	2001	2000	1999	1998	1993	10-Yr.	5-Yr.	1-Yr.	2003	2002	2001	2000	1999
PROPERTY CASUALTY†																	
ACE	* ACE LIMITED	DEC	10,689.7	7,123.0	6,644.7	5,266.7	3,017.0 A	1,406.9 A	537.9	34.8	50.0	50.1	1,987	1,324	1,235	979	561
ALL	* ALLSTATE CORP	DEC	32,149.0	29,579.0	28,865.0 A	29,134.0	26,959.0 A	25,879.0	20,946.3	4.4	4.4	8.7	153	141	138	139	129
ABK	* AMBAC FINANCIAL GP	DEC	1,256.2 D	965.3	724.5	622.5	522.6	452.3	327.6	14.4	22.7	30.1	383	295	221	190	160
BER	† BERKLEY (W R) CORP	DEC	3,630.1	2,566.1	1,941.8	1,781.3	1,673.7	1,582.5	673.3	18.4	18.1	41.5	539	381	288	265	249
CB	* CHUBB CORP	DEC	11,461.0	9,115.6	7,739.9	7,237.8	6,715.9	6,336.6	5,363.6 F	7.9	12.6	25.7	214	170	144	135	125
CINF	* CINCINNATI FINANCIAL CORP	DEC	3,181.0	2,843.0	2,561.0	2,331.0	2,128.2	2,054.3	1,442.2	8.2	9.1	11.9	221	197	178	162	148
FNF	† FIDELITY NATIONAL FINL INC	DEC	7,715.2 A	5,082.6	3,874.1	2,742.0 A	1,352.2	1,288.5 A	575.4 A	29.6	43.0	51.8	1,341	883	673	477	235
FAF	† FIRST AMERICAN CORP/CA	DEC	6,140.8	4,660.9	3,750.7 F	2,934.3 F	2,988.2 A,F	2,877.3 A,F	1,396.9	16.0	16.4	31.8	440	334	269	210	214
LFG	§ LANDAMERICA FINANCIAL GP	DEC	3,406.0 A	2,586.6	2,170.5	1,802.4	2,048.0	1,848.9 A	503.9	21.1	13.0	31.7	676	513	431	358	406
MBI	* MBIA INC	DEC	1,769.5	1,232.8	1,144.7	1,057.5	964.4	911.9 A	429.0	15.2	14.2	43.5	413	287	267	247	225
OCAS	† OHIO CASUALTY CORP	DEC	1,669.6	1,702.8	1,902.0	1,736.7	1,900.1	1,452.3 A	1,669.8	(0.0)	2.8	(1.9)	100	102	114	104	114
ORI	† OLD REPUBLIC INTL CORP	DEC	3,285.7	2,756.4	2,373.4	2,070.6	2,102.1	2,171.7	1,736.3	6.6	8.6	19.2	189	159	137	119	121
PHLY	§ PHILADELPHIA CONS HLDG CORP	DEC	616.7	456.2	332.5	273.8	196.0	138.8	43.2	30.4	34.7	35.2	1,426	1,055	769	633	453
PRA	§ PROASSURANCE CORP	DEC	709.6	555.8	382.6	222.6	208.0	193.6	87.7	23.3	29.7	27.7	809	634	436	254	237
PGR	* PROGRESSIVE CORP-OHIO	DEC	11,880.5 F	9,282.9 F	7,475.5 F	6,761.9 F	6,109.5 F	5,285.0 F	1,944.6	19.8	17.6	28.0	611	477	384	348	314
RLI	§ RLI CORP	DEC	519.9	382.2	309.4	263.5	225.8	168.1	155.1	12.9	25.3	36.0	335	246	199	170	146
SAFC	* SAFECO CORP	DEC	7,503.7	7,065.1	6,862.5 D	7,118.4 F	6,717.1	6,452.1	3,516.7	7.9	3.1	6.2	213	201	195	202	191
SKP	§ SCPIE HOLDINGS INC	DEC	187.0 F	338.5	278.4	210.6	191.2	210.0	NA	NA	(2.3)	(44.8)	**	**	**	**	NA
SIGI	§ SELECTIVE INS GROUP INC	DEC	1,356.1	1,178.9	1,059.0 D	1,004.8	974.8 A	837.3 A	679.6	7.2	10.1	15.0	200	173	156	148	143
STA	* ST PAUL TRAVELERS COS INC	DEC	15,139.2	14,269.7	12,231.0	11,068.0 A	10,572.0	10,451.0	NA	NA	7.7	6.1	**	**	**	**	NA
STC	§ STEWART INFORMATION SERVICES	DEC	2,243.3	1,779.7 F	1,271.6 F	935.5 F	1,072.6 F	968.8 F	345.6	20.6	18.3	26.0	649	515	368	271	310
XL	* XL CAPITAL LTD	DEC	7,883.1	6,513.4	3,976.2 A	2,643.1	2,470.1 A	1,169.7	799.7	25.7	46.5	21.0	986	814	497	330	309
ZNT	§ ZENITH NATIONAL INSURANCE CP	DEC	849.3 D	602.2 D	622.0	459.6	492.1	636.8 A	583.3	3.8	5.9	41.0	146	103	107	79	84
REINSURANCE†																	
RE	† EVEREST RE GROUP LTD	DEC	4,106.7	2,557.6	1,801.5	1,479.8 A	1,306.7	1,315.2	NA	NA	25.6	60.6	**	**	**	**	NA
MULTI-LINE GROUP‡																	
AFC	† ALLAMERICA FINANCIAL CORP	DEC	3,263.6	3,316.6 C	3,311.8	3,087.9	3,145.2 D	3,432.5 A	NA	NA	(1.0)	(1.6)	**	**	**	**	NA
AFG	† AMERICAN FINANCIAL GROUP INC	DEC	3,339.8 D	3,751.1	3,923.6	3,767.1	3,334.5	4,063.2	1,763.3 A,C	6.6	(3.8)	(11.0)	189	213	223	214	189
AIG	* AMERICAN INTERNATIONAL GROUP	DEC	81,303.0	67,482.0	62,402.0 A,C	45,972.0	40,656.0 A	33,239.0	21,155.3	14.4	19.6	20.5	384	319	295	217	192
HIG	* HARTFORD FINL SVCS GRP INC	DEC	18,733.0	15,907.0	15,147.0 A	14,703.0	13,528.0	15,022.0 A	NA	NA	4.5	17.8	**	**	**	**	NA
HCC	† HCC INSURANCE HOLDINGS INC	DEC	942.0 D,F	669.4 A,F	505.5 A,F	466.2 C,F	337.0 A,F	308.0 A,F	52.3	33.5	25.1	40.7	1,801	1,280	966	891	644
HMN	† HORACE MANN EDUCATORS CORP	DEC	866.2	771.9	804.5	781.2	775.4	779.4	707.6	2.0	2.1	12.2	122	109	114	110	110
LTR	* LOEWS CORP	DEC	15,809.6 A,C	16,827.8 D,F	18,799.1 F	20,669.9	20,952.6 F	20,713.0 F	13,254.0 F	1.8	(5.3)	(6.1)	119	127	142	156	158
UTR	† UNITRIN INC	DEC	2,943.8	2,298.2 A	1,971.7	1,953.2	1,813.6 A	2,085.9 A	1,363.2	8.0	7.1	28.1	216	169	145	143	133
INSURANCE BROKERS‡																	
AOC	* AON CORP	DEC	9,810.0 D	8,774.0	7,676.0 A	7,375.0 A	7,070.0 A	6,493.0 A	3,844.8	9.8	8.6	11.8	255	228	200	192	184
BRO	† BROWN & BROWN INC	DEC	551.0 A	455.7 A	365.0 A	209.7 A	176.4 A	153.8 A	94.4 B	19.3	29.1	20.9	584	483	387	222	187
AJG	† ARTHUR J GALLAGHER & CO	DEC	1,289.5 A	1,120.8 A	903.9 A	740.6 A	605.8 A	554.5 A	317.7 A	15.0	18.4	15.1	406	353	285	233	191
HRH	§ HILB ROGAL & HOBBS CO	DEC	563.6 A	452.7 A,C	330.3 A	262.1	227.2 A	181.0	135.0 A	15.4	25.5	24.5	418	335	245	194	168
MMC	* MARSH & MCLENNAN COS	DEC	11,588.0 A	10,440.0 A	9,943.0 A	10,157.0 A	9,157.0 A	7,190.0 A	3,163.4	13.9	10.0	11.0	366	330	314	321	289

Note: Data as originally reported. ‡ S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year. ** Not calculated; data for base year or end year not available. A - This year's data reflect an acquisition or merger. B - This year's data reflect a major merger resulting in the formation of a new company. C - This year's data reflect an accounting change. D - Data exclude discontinued operations. E - Includes excise taxes. F - Includes other (nonoperating) income. G - Includes sale of leased depts. H - Some or all data are not available, due to a fiscal year change.

Net Income

Ticker	Company	Yr. End	Million \$							Compound Growth Rate (%)			Index Basis (1993 = 100)				
			2003	2002	2001	2000	1999	1998	1993	10-Yr.	5-Yr.	1-Yr.	2003	2002	2001	2000	1999
PROPERTY CASUALTY†																	
ACE	* ACE LIMITED	DEC	1,417.5	76.5	(123.7)	543.0	365.0	560.2	223.5	20.3	20.4	1,751.7	634	34	(55)	243	163
ALL	* ALLSTATE CORP	DEC	2,720.0	1,465.0	1,167.0	2,211.0	2,720.0	3,294.0	1,301.5	7.6	(3.8)	85.7	209	113	90	170	209
ABK	* AMBAC FINANCIAL GP	DEC	628.1	432.6	432.9	366.2	307.9	254.0	179.4	13.3	19.9	45.2	350	241	241	204	172
BER	† BERKLEY (W R) CORP	DEC	337.2	175.0	(91.5)	36.2	(34.0)	58.8	51.6	20.7	41.8	92.6	654	339	(177)	70	(66)
CB	* CHUBB CORP	DEC	808.8	222.9	111.5	714.6	621.1	707.0	344.2	8.9	2.7	262.9	235	65	32	208	180
CINF * CINCINNATI FINANCIAL CORP																	
FNF	† FIDELITY NATIONAL FINL INC	DEC	861.8	531.7	311.2	108.3	70.9	105.7	36.3	37.3	52.2	62.1	2,374	1,465	857	298	195
FAF	† FIRST AMERICAN CORP/CA	DEC	451.0	234.4	167.3	82.2	88.6	198.7	62.1	21.9	17.8	92.4	726	377	269	132	143
LFG	§ LANDAMERICA FINANCIAL GP	DEC	192.1	149.4	60.3	(80.8)	54.3	93.0	29.0	20.8	15.6	28.6	663	516	208	(279)	188
MBI	* MBIA INC	DEC	813.6	586.8	583.2	528.6	320.5	432.7	246.1	12.7	13.5	38.6	331	238	237	215	130
OCAS † OHIO CASUALTY CORP																	
ORI	† OLD REPUBLIC INTL CORP	DEC	459.8	392.9	346.9	297.6	226.8	323.7	166.4	10.7	7.3	17.0	276	236	208	179	136
PHLY	§ PHILADELPHIA CONS HLDG CORP	DEC	60.3	36.0	30.6	30.8	18.8	20.0	4.2	30.4	24.7	67.4	1,424	851	722	727	445
PRA	§ PROASSURANCE CORP	DEC	38.7	10.5	12.4	24.3	46.7	48.5	26.9	3.7	(4.4)	268.1	144	39	46	90	174
PGR	* PROGRESSIVE CORP-OHIO	DEC	1,255.4	667.3	411.4	46.1	295.2	456.7	267.3	16.7	22.4	88.1	470	250	154	17	110
RLI § RLI CORP																	
SAFC	* SAFECO CORP	DEC	339.2	301.1	(1,045.3)	114.6	252.2	351.9	425.9	(2.3)	(0.7)	12.7	80	71	(245)	27	59
SKP	§ SCPIE HOLDINGS INC	DEC	(12.8)	(38.4)	(58.0)	17.3	29.9	37.0	NA	NA	NM	NM	**	**	**	**	NA
SIGI	§ SELECTIVE INS GROUP INC	DEC	66.3	42.1	26.3	26.5	53.7	53.6	22.7	11.3	4.4	57.4	293	186	116	117	237
STA	* ST PAUL TRAVELERS COS INC	DEC	1,696.0	215.6	1,062.0	1,480.0	1,409.0	1,343.0	NA	NA	4.8	686.6	**	**	**	**	NA
STC § STEWART INFORMATION SERVICES																	
XL	* XL CAPITAL LTD	DEC	412.0	405.6	(576.1)	506.4	470.5	587.7	379.2	0.8	(6.9)	1.6	109	107	(152)	134	124
ZNT	§ ZENITH NATIONAL INSURANCE CP	DEC	65.8	1.0	(23.8)	(47.8)	54.1	19.1	53.2	2.2	28.1	6,380.9	124	2	(45)	(90)	102
REINSURANCE†																	
RE	† EVEREST RE GROUP LTD	DEC	426.0	231.3	99.0	186.4	158.1	165.2	NA	NA	20.9	84.2	**	**	**	**	NA
MULTI-LINE GROUP†																	
AFC	† ALLAMERICA FINANCIAL CORP	DEC	86.9	(302.4)	0.1	199.9	345.1	201.2	NA	NA	(15.5)	NM	**	**	**	**	NA
AFG	† AMERICAN FINANCIAL GROUP INC	DEC	321.2	125.0	(4.8)	(47.0)	147.0	125.2	242.7	2.8	20.7	156.9	132	52	(2)	(19)	61
AIG	* AMERICAN INTERNATIONAL GROUP	DEC	9,265.0	5,519.0	5,499.0	5,636.0	5,055.0	3,766.0	1,918.1	17.1	19.7	67.9	483	288	287	294	264
HIG	* HARTFORD FINL SVCS GRP INC	DEC	(91.0)	1,000.0	549.0	974.0	862.0	1,015.0	NA	NA	NM	NM	**	**	**	**	NA
HCC	† HCC INSURANCE HOLDINGS INC	DEC	106.9	105.8	30.2	55.4	25.1	72.3	8.0	29.6	8.1	1.0	1,335	1,322	377	692	314
HMN † HORACE MANN EDUCATORS CORP																	
LTR	* LOEWS CORP	DEC	(666.1)	982.6	(535.8)	1,876.7	521.1	464.8	594.1	NM	NM	NM	(112)	165	(90)	316	88
UTR	† UNITRIN INC	DEC	123.6	(8.2)	380.9	91.0	201.0	510.8	95.0	2.7	(24.7)	NM	130	(9)	401	96	212
INSURANCE BROKERS†																	
AOC	* AON CORP	DEC	663.0	466.0	147.0	481.0	352.0	541.0	323.8	7.4	4.2	42.3	205	144	45	149	109
BRO	† BROWN & BROWN INC	DEC	110.3	83.1	53.9	33.2	27.2	23.1	8.0	30.0	36.8	32.7	1,379	1,039	674	415	340
AJG	† ARTHUR J GALLAGHER & CO	DEC	146.2	129.7	125.3	87.8	67.8	57.4	32.3	16.3	20.6	12.7	453	402	388	272	210
HRH	§ HILB ROGAL & HOBBS CO	DEC	75.0	61.2	32.3	22.1	19.5	14.9	8.4	24.4	38.1	22.5	890	726	384	263	231
MMC	* MARSH & MCLENNAN COS	DEC	1,540.0	1,365.0	974.0	1,181.0	726.0	796.0	332.4	16.6	14.1	12.8	463	411	293	355	218

Note: Data as originally reported. † S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year. ** Not calculated; data for base year or end year not available.

Ticker	Company	Yr. End	Return on Revenues (%)					Return on Assets (%)					Return on Equity (%)				
			2003	2002	2001	2000	1999	2003	2002	2001	2000	1999	2003	2002	2001	2000	1999
PROPERTY CASUALTY‡																	
ACE	* ACE LIMITED	DEC	13.3	1.1	NM	10.3	12.1	3.0	0.1	NM	1.7	1.9	18.2	0.8	NM	10.6	8.9
ALL	* ALLSTATE CORP	DEC	8.5	5.0	4.0	7.6	10.1	2.2	1.3	1.1	2.2	2.9	14.3	8.5	6.7	13.0	16.1
ABK	* AMBAC FINANCIAL GP	DEC	50.0	44.8	59.7	58.8	58.9	3.9	3.1	3.9	3.4	2.7	15.9	13.1	15.5	15.9	15.0
BER	† BERKLEY (W R) CORP	DEC	9.3	6.8	NM	2.0	NM	4.1	2.8	NM	0.7	NM	22.3	15.4	NM	5.7	NM
CB	* CHUBB CORP	DEC	7.1	2.4	1.4	9.9	9.2	2.2	0.7	0.4	2.9	2.8	10.5	3.3	1.7	10.8	10.4
CINF	* CINCINNATI FINANCIAL CORP	DEC	11.8	8.4	7.5	5.1	12.0	2.5	1.7	1.4	1.0	2.3	6.3	4.1	3.2	2.1	4.6
FNF	† FIDELITY NATIONAL FINL INC	DEC	11.2	10.5	8.0	4.0	5.2	13.7	11.0	7.5	4.5	7.1	28.1	27.3	22.7	14.1	17.1
FAF	† FIRST AMERICAN CORP/CA	DEC	7.3	5.0	4.5	2.8	3.0	10.9	7.5	6.6	3.8	4.5	27.8	19.0	16.9	9.8	11.5
LFG	§ LANDAMERICA FINANCIAL GP	DEC	5.6	5.8	2.8	NM	2.7	8.3	8.3	3.6	NM	2.8	20.1	18.8	9.9	NM	8.1
MBI	* MBIA INC	DEC	46.0	47.6	50.9	50.0	33.2	3.3	3.3	3.9	4.0	2.7	13.8	11.4	13.0	13.7	8.8
OCAS	† OHIO CASUALTY CORP	DEC	4.5	NM	5.2	NM	5.6	1.5	NM	2.2	NM	2.3	6.9	NM	9.0	NM	8.6
ORI	† OLD REPUBLIC INTL CORP	DEC	14.0	14.3	14.6	14.4	10.8	5.0	4.7	4.6	4.2	3.2	13.7	13.2	13.3	12.8	10.1
PHLY	§ PHILADELPHIA CONS HLDG CORP	DEC	9.8	7.9	9.2	11.2	9.6	3.7	3.0	3.5	4.6	3.5	11.8	7.9	10.0	17.9	12.6
PRA	§ PROASSURANCE CORP	DEC	5.5	1.9	3.3	10.9	22.4	1.4	0.4	0.7	2.2	4.2	7.4	2.3	3.3	7.2	14.4
PGR	* PROGRESSIVE CORP-OHIO	DEC	10.6	7.2	5.5	0.7	4.8	8.4	5.4	3.9	0.5	3.2	28.5	19.0	13.4	1.6	11.1
RLI	§ RLI CORP	DEC	13.7	9.4	9.8	10.9	13.9	3.7	2.3	2.3	2.3	2.9	14.1	9.1	9.1	9.3	10.7
SAFC	* SAFECO CORP	DEC	4.5	4.3	NM	1.6	3.8	1.0	0.9	NM	0.4	0.8	7.2	7.5	NM	2.5	5.1
SKP	§ SCPIE HOLDINGS INC	DEC	NM	NM	NM	8.2	15.6	NM	NM	NM	2.1	3.4	NM	NM	NM	5.7	8.8
SIGI	§ SELECTIVE INS GROUP INC	DEC	4.9	3.6	2.5	2.6	5.5	2.1	1.5	1.0	1.0	2.2	9.5	6.8	4.5	4.6	9.1
STA	* ST PAUL TRAVELERS COS INC	DEC	11.2	1.5	8.7	13.4	13.3	2.6	0.4	1.9	2.9	2.8	15.3	2.1	9.9	15.1	15.6
STC	§ STEWART INFORMATION SERVICES	DEC	5.5	5.3	3.8	0.1	2.6	13.2	12.4	7.8	0.1	5.5	22.2	21.3	14.1	0.2	10.4
XL	* XL CAPITAL LTD	DEC	5.2	6.2	NM	19.2	19.0	1.0	1.2	NM	3.2	3.7	5.5	6.6	NM	9.1	9.1
ZNT	§ ZENITH NATIONAL INSURANCE CP	DEC	7.8	0.2	NM	NM	11.0	3.6	0.1	NM	NM	3.2	18.8	0.3	NM	NM	15.4
REINSURANCE‡																	
RE	† EVEREST RE GROUP LTD	DEC	10.4	9.0	5.5	12.6	12.1	3.8	2.6	1.3	2.9	2.7	15.4	11.3	6.0	12.8	11.3
MULTI-LINE GROUP‡																	
AFC	† ALLMERICA FINANCIAL CORP	DEC	2.7	NM	0.0	6.5	11.0	0.3	NM	0.0	0.6	1.2	4.0	NM	0.0	8.6	14.7
AFG	† AMERICAN FINANCIAL GROUP INC	DEC	9.6	3.3	NM	NM	4.4	1.6	0.7	NM	NM	0.9	16.9	7.8	NM	NM	9.6
AIG	* AMERICAN INTERNATIONAL GROUP	DEC	11.4	8.2	8.8	12.3	12.4	1.5	1.0	1.4	2.0	2.2	14.2	9.9	12.0	15.5	16.7
HIG	* HARTFORD FINL SVCS GRP INC	DEC	NM	6.3	3.6	6.6	6.4	NM	0.6	0.3	0.6	0.5	NM	10.1	6.7	15.1	14.5
HCC	† HCC INSURANCE HOLDINGS INC	DEC	11.3	15.8	6.0	11.9	7.5	2.5	3.1	1.0	2.1	1.2	11.1	12.9	4.7	11.2	5.6
HMN	† HORACE MANN EDUCATORS CORP	DEC	2.2	1.5	3.2	2.7	5.7	0.4	0.3	0.6	0.5	1.0	3.6	2.3	5.8	5.0	9.9
LTR	* LOEWS CORP	DEC	NM	5.8	NM	9.1	2.5	NM	1.3	NM	2.7	0.7	NM	9.4	NM	17.7	5.2
UTR	† UNITRIN INC	DEC	4.2	NM	19.3	4.7	11.1	1.5	NM	5.7	1.5	3.4	6.8	NM	21.1	5.3	11.4
INSURANCE BROKERS‡																	
AOC	* AON CORP	DEC	6.8	5.3	1.9	6.5	5.0	2.5	1.9	0.6	2.2	1.7	15.7	12.6	4.2	14.8	11.5
BRO	† BROWN & BROWN INC	DEC	20.0	18.2	14.8	15.8	15.4	13.6	13.4	14.1	13.0	11.7	24.8	29.3	36.3	29.5	29.0
AJG	† ARTHUR J GALLAGHER & CO	DEC	11.3	11.6	13.9	11.9	11.2	5.4	6.6	9.9	9.0	8.2	25.5	28.8	36.5	31.5	30.2
HRH	§ HILB ROGAL & HOBBS CO	DEC	13.3	13.5	9.8	8.4	8.6	8.0	9.2	7.6	6.6	7.7	20.1	27.0	28.0	27.8	33.3
MMC	* MARSH & MCLENNAN COS	DEC	13.3	13.1	9.8	11.6	7.9	10.7	10.1	7.2	8.8	5.8	29.4	26.8	18.7	25.1	18.5

Note: Data as originally reported. ‡ S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year.

Price / Earnings Ratio (High-Low)

Dividend Payout Ratio (%)

Dividend Yield (High-Low, %)

Ticker	Company	Yr. End	2003	2002	2001	2000	1999	2003	2002	2001	2000	1999	2003	2002	2001	2000	1999
PROPERTY CASUALTY‡																	
ACE	* ACE LIMITED	DEC	8-5	NM-NM	NM-NM	19-6	19-8	15	347	NM	21	22	3.1-1.7	3.0-1.5	3.2-1.3	3.6-1.1	2.7-1.2
ALL	* ALLSTATE CORP	DEC	11-8	20-15	28-19	15-6	12-7	24	41	47	23	18	3.1-2.1	2.7-2.0	2.5-1.7	4.0-1.5	2.6-1.5
ABK	* AMBAC FINANCIAL GP	DEC	12-7	17-12	16-10	17-7	14-10	7	9	8	9	10	1.0-0.6	0.8-0.5	0.8-0.5	1.2-0.5	0.9-0.7
BER	† BERKLEY (W R) CORP	DEC	9-6	12-9	NM-NM	34-10	NM-NM	7	10	NM	37	NM	1.1-0.7	1.2-0.9	1.5-0.9	3.7-1.1	2.6-1.4
CB	* CHUBB CORP	DEC	15-9	60-40	NM-85	22-11	21-12	32	107	209	32	35	3.4-2.1	2.7-1.8	2.4-1.6	3.1-1.5	2.9-1.7
CINF	* CINCINNATI FINANCIAL CORP	DEC	18-14	32-22	36-28	59-35	27-19	43	61	70	103	44	3.0-2.4	2.7-1.9	2.5-2.0	2.9-1.8	2.3-1.6
FNF	† FIDELITY NATIONAL FINL INC	DEC	6-4	6-4	10-5	21-6	13-6	11	7	10	16	16	2.9-1.8	1.9-1.2	2.1-1.1	2.6-0.8	2.8-1.2
FAF	† FIRST AMERICAN CORP/CA	DEC	5-4	7-5	14-6	25-8	26-8	8	10	11	19	18	2.3-1.6	2.1-1.5	1.7-0.8	2.3-0.7	2.1-0.7
LFG	§ LANDAMERICA FINANCIAL GP	DEC	5-3	5-3	15-7	NM-NM	18-5	3	3	6	NM	6	1.0-0.6	1.0-0.6	0.9-0.4	1.2-0.5	1.3-0.3
MBI	* MBIA INC	DEC	11-6	15-9	15-9	14-7	22-14	14	17	15	15	25	2.3-1.3	1.9-1.1	1.7-1.0	2.3-1.1	1.8-1.1
OCAS	† OHIO CASUALTY CORP	DEC	14-9	NM-NM	10-5	NM-NM	13-9	0	NM	0	NM	53	0.0-0.0	0.0-0.0	0.0-0.0	9.6-3.3	6.2-4.2
ORI	† OLD REPUBLIC INTL CORP	DEC	10-6	11-7	11-7	13-4	13-7	44	19	20	22	28	6.8-4.3	2.6-1.8	2.8-1.9	5.2-1.7	4.1-2.2
PHLY	§ PHILADELPHIA CONS HLDG CORP	DEC	19-10	29-16	22-13	12-6	17-7	0	0	0	0	0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0
PRA	§ PROASSURANCE CORP	DEC	25-15	53-35	38-23	22-10	16-10	0	0	0	0	0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0	0.0-0.0
PGR	* PROGRESSIVE CORP-OHIO	DEC	15-8	20-15	27-15	NM-71	43-17	2	3	5	43	6	0.2-0.1	0.2-0.2	0.3-0.2	0.6-0.2	0.4-0.1
RLI	§ RLI CORP	DEC	13-9	17-12	15-13	15-9	12-9	14	19	20	20	18	1.6-1.0	1.6-1.1	1.6-1.4	2.2-1.3	2.0-1.4
SAFC	* SAFECO CORP	DEC	16-13	16-11	NM-NM	40-20	25-11	30	32	NM	164	76	2.3-1.9	3.0-1.9	4.3-2.8	8.2-4.1	6.6-3.1
SKP	§ SCPIE HOLDINGS INC	DEC	NM-NM	NM-NM	NM-NM	20-10	14-9	NM	NM	NM	22	12	7.0-2.5	10.7-1.4	2.6-1.3	2.2-1.1	1.4-0.9
SIGI	§ SELECTIVE INS GROUP INC	DEC	13-9	19-12	26-19	24-14	11-8	24	36	56	56	30	2.8-1.9	3.1-1.9	3.0-2.1	4.1-2.3	3.6-2.6
STA	* ST PAUL TRAVELERS COS INC	DEC	10-8	92-51	NA-NA	NA-NA	12-8	17	NA	NA	NA	14	2.2-1.6	NA-NA	NA-NA	NA-NA	1.8-1.2
STC	§ STEWART INFORMATION SERVICES	DEC	6-3	4-3	7-5	NM-NM	16-5	7	0	0	0	8	2.2-1.1	0.0-0.0	0.0-0.0	0.0-0.0	1.6-0.5
XL	* XL CAPITAL LTD	DEC	33-23	34-20	NM-NM	22-10	21-11	71	64	NM	44	48	3.0-2.2	3.2-1.9	3.0-1.9	4.6-2.0	4.2-2.3
ZNT	§ ZENITH NATIONAL INSURANCE CP	DEC	9-5	NM-NM	NM-NM	NM-NM	8-6	29	NM	NM	NM	32	5.2-3.0	4.5-3.1	4.4-3.3	5.3-3.4	5.2-3.7
REINSURANCE‡																	
RE	† EVEREST RE GROUP LTD	DEC	11-6	17-9	37-22	18-5	12-6	5	7	13	6	7	0.8-0.4	0.8-0.4	0.6-0.4	1.2-0.3	1.2-0.6
MULTI-LINE GROUP‡																	
AFC	† ALLMERICA FINANCIAL CORP	DEC	19-6	NM-NM	NM-NM	20-9	10-7	0	NM	NM	7	4	0.0-0.0	0.0-0.0	0.7-0.3	0.7-0.3	0.5-0.4
AFG	† AMERICAN FINANCIAL GROUP INC	DEC	6-4	17-10	NM-NM	NM-NM	18-10	11	27	NM	NM	41	2.8-1.9	2.8-1.7	5.4-3.3	5.4-3.4	4.1-2.3
AIG	* AMERICAN INTERNATIONAL GROUP	DEC	19-12	38-23	47-31	43-22	35-23	6	8	8	6	6	0.5-0.3	0.4-0.2	0.2-0.2	0.3-0.1	0.2-0.2
HIG	* HARTFORD FINL SVCS GRP INC	DEC	NM-NM	18-9	31-20	18-7	17-10	NM	26	44	22	24	3.4-1.8	2.8-1.5	2.2-1.4	3.3-1.2	2.5-1.4
HCC	† HCC INSURANCE HOLDINGS INC	DEC	19-13	17-11	57-39	24-10	49-16	17	15	47	20	39	1.3-0.9	1.3-0.9	1.2-0.8	2.0-0.8	2.5-0.8
HMN	† HORACE MANN EDUCATORS CORP	DEC	39-28	86-49	36-23	44-24	31-18	95	150	67	82	35	3.4-2.5	3.1-1.7	2.8-1.9	3.5-1.9	2.0-1.2
LTR	* LOEWS CORP	DEC	NM-NM	14-8	NM-NM	6-2	22-12	NM	13	NM	5	21	1.6-1.2	1.6-1.0	1.4-0.8	2.6-1.0	1.7-1.0
UTR	† UNITRIN INC	DEC	23-12	NM-NM	7-6	31-21	15-11	91	NM	28	114	51	7.7-3.9	6.0-3.9	4.7-3.8	5.5-3.6	4.6-3.3
INSURANCE BROKERS‡																	
AOC	* AON CORP	DEC	13-8	24-8	83-55	23-11	35-19	29	50	166	47	60	3.4-2.2	6.2-2.1	3.0-2.0	4.2-2.0	3.1-1.7
BRO	† BROWN & BROWN INC	DEC	23-17	30-19	37-17	31-13	21-15	15	16	19	23	23	0.9-0.6	0.8-0.5	1.1-0.5	1.7-0.8	1.6-1.1
AJG	† ARTHUR J GALLAGHER & CO	DEC	20-14	25-15	26-15	31-10	18-11	44	40	35	41	43	3.1-2.2	2.8-1.6	2.4-1.3	4.0-1.3	3.8-2.4
HRH	§ HILB ROGAL & HOBBS CO	DEC	20-13	22-13	27-14	25-15	19-10	17	17	29	40	43	1.4-0.8	1.3-0.8	2.1-1.1	2.6-1.6	4.2-2.2
MMC	* MARSH & MCLENNAN COS	DEC	19-13	23-14	33-22	31-16	35-21	52	43	58	44	62	3.9-2.7	3.1-1.9	2.6-1.7	2.7-1.4	3.0-1.8

Note: Data as originally reported. † S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year.

Ticker	Company	Yr. End	Earnings per Share (\$)					Tangible Book Value per Share (\$)					Share Price (High-Low, \$)				
			2003	2002	2001	2000	1999	2003	2002	2001	2000	1999	2003	2002	2001	2000	1999
PROPERTY CASUALTY#																	
ACE	* ACE LIMITED	DEC	5.10	0.19	(0.64)	2.37	1.88	21.87	13.98	12.83	11.08	7.49	42.80-23.59	44.98-22.01	43.19-18.10	43.94-14.06	35.25-15.50
ALL	* ALLSTATE CORP	DEC	3.87	2.07	1.62	2.97	3.40	27.89	23.52	22.35	22.26	21.09	43.27-30.05	41.95-31.03	45.90-30.00	44.75-17.19	41.00-22.88
ABK	* AMBAC FINANCIAL GP	DEC	5.90	4.08	4.10	3.49	2.93	39.71	34.20	28.26	24.60	19.23	72.21-43.79	71.25-49.86	64.00-42.20	58.31-25.92	42.00-29.79
BER	† BERKLEY (W R) CORP	DEC	4.06	2.29	(1.40)	0.63	(0.60)	19.43	15.41	11.59	10.56	8.94	36.93-24.39	27.20-19.93	25.96-15.53	21.17-6.22	16.11-8.81
CB	* CHUBB CORP	DEC	4.51	1.31	0.65	4.10	3.70	42.85	37.33	35.62	37.13	32.85	69.29-41.78	78.64-51.91	86.63-55.54	90.25-43.25	76.38-44.00
CINF	* CINCINNATI FINANCIAL CORP	DEC	2.22	1.40	1.14	0.70	1.48	36.93	32.91	35.26	35.49	31.87	39.91-31.50	45.05-30.89	40.89-32.38	41.25-24.94	40.48-28.69
FNF	† FIDELITY NATIONAL FINL INC	DEC	5.81	4.06	2.41	1.11	1.43	8.60	9.55	6.41	2.91	9.56 J	35.35-22.18	24.71-15.68	22.92-11.84	23.67-6.99	18.48-8.08
LFG	† FIRST AMERICAN CORP/CA	DEC	5.89	3.27	2.51	1.29	1.37	6.51	10.46	9.78	8.20	8.17	31.24-21.60	23.20-16.14	35.49-16.30	32.88-10.25	35.19-11.50
FAF	§ LANDAMERICA FINANCIAL GP	DEC	10.43	8.10	3.42	(6.60)	3.21	24.51	36.08	28.88	20.05	15.19	53.18-35.50	38.30-25.25	50.45-23.20	42.94-16.06	58.94-15.56
MBI	* MBIA INC	DEC	5.67	4.00	3.94	3.58	2.15	42.88	37.32	31.56	27.86	22.79	60.72-34.14	60.11-34.93	57.49-36.00	50.79-24.21	47.92-30.08
OCAS	† OHIO CASUALTY CORP	DEC	1.25	(0.01)	1.64	(1.32)	1.73	16.46	14.78	13.96	14.20	14.27	17.79-11.38	22.24-11.01	16.18-7.94	17.88-6.13	21.69-14.88
ORI	† OLD REPUBLIC INTL CORP	DEC	2.53	2.17	1.95	1.66	1.17	19.57 J	17.45 J	15.60 J	13.75 J	11.99 J	26.06-16.40	23.33-16.27	21.04-14.13	21.38-7.08	15.17-8.04
PHLY	§ PHILADELPHIA CONS HLDG CORP	DEC	2.75	1.67	1.85	2.53	1.51	23.54	20.67	18.73	11.28	10.53	52.73-28.57	48.15-26.24	41.30-24.25	30.88-14.13	25.50-10.81
PRA	§ PROASSURANCE CORP	DEC	1.34	0.40	0.51	1.04	1.95	18.77	17.49	16.02	15.22	13.97	33.30-20.00	21.24-14.10	19.25-11.88	23.13-10.00	31.55-19.05
PGR	* PROGRESSIVE CORP-OHIO	DEC	5.79	3.05	1.86	0.21	1.35	23.25	17.28	14.76	13.01	12.55	84.68-46.25	60.49-44.75	50.60-27.38	37.00-15.00	58.08-22.83
RLI	§ RLI CORP	DEC	2.84	1.80	1.54	1.46	1.55	20.98	17.37	15.36	14.99	13.11	38.15-24.50	30.20-22.23	23.08-19.38	22.53-13.13	19.41-13.94
SAFC	* SAFECO CORP	DEC	2.45	2.33	(8.18)	0.90	1.90	34.92	30.69	27.72	26.55	22.80	39.79-31.79	38.00-24.99	32.95-21.50	35.88-18.00	46.75-21.81
SKP	§ SCPIE HOLDINGS INC	DEC	(1.37)	(4.12)	(6.22)	1.84	2.63	20.13	23.10 J	25.88	31.57	30.24	15.90-5.71	29.60-3.73	31.40-15.18	36.94-18.31	36.06-23.69
SIGI	* SELECTIVE INS GROUP INC	DEC	2.54	1.67	1.07	1.07	1.98	25.88	22.91	21.33	20.97	19.50	33.00-21.81	31.48-19.36	28.21-19.94	25.88-14.63	22.50-16.50
STA	* ST PAUL TRAVELERS COS INC	DEC	3.90	0.53	3.18	NA	8.35	21.00	17.76	24.33	NA	44.99	40.19-29.95	48.57-27.11	NA-NA	96.91-67.78	96.62-63.88
STC	§ STEWART INFORMATION SERVICES	DEC	6.93	5.33	3.01	0.04	1.96	30.08	24.07	19.19	17.17	17.23	41.45-20.76	22.50-15.05	22.25-15.80	22.31-12.25	31.50-10.13
XL	* XL CAPITAL LTD	DEC	2.71	2.92	(4.55)	4.07	3.69	37.07	36.13	28.35	31.86	30.91	88.87-63.49	98.48-58.45	96.50-61.50	89.25-39.00	75.75-41.94
ZNT	§ ZENITH NATIONAL INSURANCE CP	DEC	3.50	0.05	(1.35)	(2.78)	3.15	19.16	15.77	15.15	16.47	19.32	32.85-19.15	32.25-22.00	30.70-22.80	29.75-18.75	26.69-19.25
REINSURANCE#																	
RE	† EVEREST RE GROUP LTD	DEC	7.89	4.60	2.14	4.06	3.26	56.84	47.00	37.16	34.42	28.55	85.25-47.90	76.50-42.59	78.50-46.51	74.75-20.69	38.94-20.50
MULTI-LINE GROUP#																	
AFC	† ALLMERICA FINANCIAL CORP	DEC	1.64	(5.72)	0.00	3.75	6.27	39.47	36.69	45.20	45.71	41.33	31.35-9.82	50.80-7.04	71.75-36.70	74.25-35.06	64.81-46.06
AFG	† AMERICAN FINANCIAL GROUP INC	DEC	4.53	1.82	(0.07)	(0.80)	2.46	26.11	21.37	17.31	18.24	17.25	26.70-18.00	30.30-17.90	30.75-18.35	29.00-18.38	43.63-24.50
AIG	* AMERICAN INTERNATIONAL GROUP	DEC	3.55	2.11	2.10	2.43	2.18	24.39	20.32	19.94	16.98	14.33	66.35-42.92	80.00-47.61	98.31-66.00	103.75-52.38	75.25-51.00
HIG	* HARTFORD FINL SVCS GRP INC	DEC	(0.33)	4.01	2.31	4.42	3.83	35.00	35.31	29.81	32.98	25.16	59.27-31.64	70.24-37.25	71.15-45.50	80.00-29.38	66.44-36.50
HCC	† HCC INSURANCE HOLDINGS INC	DEC	1.69	1.70	0.52	1.11	0.51	10.02	8.54	7.07	5.23	3.97	32.09-22.30	28.95-19.11	29.65-20.50	27.19-10.94	25.13-8.00
HMN	† HORACE MANN EDUCATORS CORP	DEC	0.44	0.28	0.63	0.51	1.08	10.67	10.53	9.17	8.29	7.26	16.95-12.43	24.08-13.61	22.40-14.80	22.19-12.00	33.00-19.13
LTR	* LOEWS CORP	DEC	(4.21)	4.49	(2.75)	9.44	2.40	57.86	59.63	48.70	54.82	45.79	49.48-38.25	62.30-37.50	72.50-41.05	52.47-19.13	52.25-29.25
UTR	† UNITRIN INC	DEC	1.83	(0.12)	5.64	1.32	2.76	21.75	21.56	23.27	19.93	18.98	42.50-21.50	42.80-27.85	41.95-33.90	41.13-27.19	42.38-30.50
INSURANCE BROKERS#																	
AOC	* AON CORP	DEC	2.08	1.65	0.54	1.84	1.35	(0.60)	(1.41)	(2.29)	(2.03)	(3.16)	26.79-17.41	39.63-13.30	44.80-29.75	42.75-20.69	46.67-26.06
BRO	† BROWN & BROWN INC	DEC	1.61	1.24	0.86	0.58	0.50	0.40	0.17	2.77 J	2.12 J	1.88 J	37.66-26.75	37.00-24.00	31.50-14.38	17.94-7.81	10.16-7.33
AJG	† ARTHUR J GALLAGHER & CO	DEC	1.63	1.49	1.48	1.12	0.93	4.40	4.44	3.60	3.75	3.14	32.74-23.28	37.24-21.70	38.82-21.88	34.25-11.53	16.56-10.56
HRH	§ HILB ROGAL & HOBBS CO	DEC	2.17	2.09	1.18	0.85	0.75	(5.08)	(3.92)	(4.54)	(4.08)	(4.32)	43.89-27.16	46.15-26.65	31.38-16.88	21.06-12.81	14.56-7.78
MMC	* MARSH & MCLENNAN COS	DEC	2.89	2.52	1.77	2.17	1.38	(0.66)	(0.72)	(0.28)	(0.45)	(2.57)	54.97-38.27	57.30-34.61	59.03-39.50	67.84-35.25	48.38-28.56

Note: Data as originally reported. † S&P 1500 Index group. * Company included in the S&P 500. † Company included in the S&P MidCap. § Company included in the S&P SmallCap. # Of the following calendar year. J-This amount includes intangibles that cannot be identified.

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