

CAN/WILL THE “HARDENING” P&C MARKET CONTINUE ABSENT A CAPITAL EVENT?

IMPLICATIONS FOR (RE)INSURANCE INTERMEDIARIES



Vincent J. Dowling, Jr.

12th Annual TMPAA
Summit Meeting

AFFILIATIONS WITH MAJOR INSURANCE INDUSTRY PLAYERS



Research & Capital Markets



Private Equity



M&A Advisory

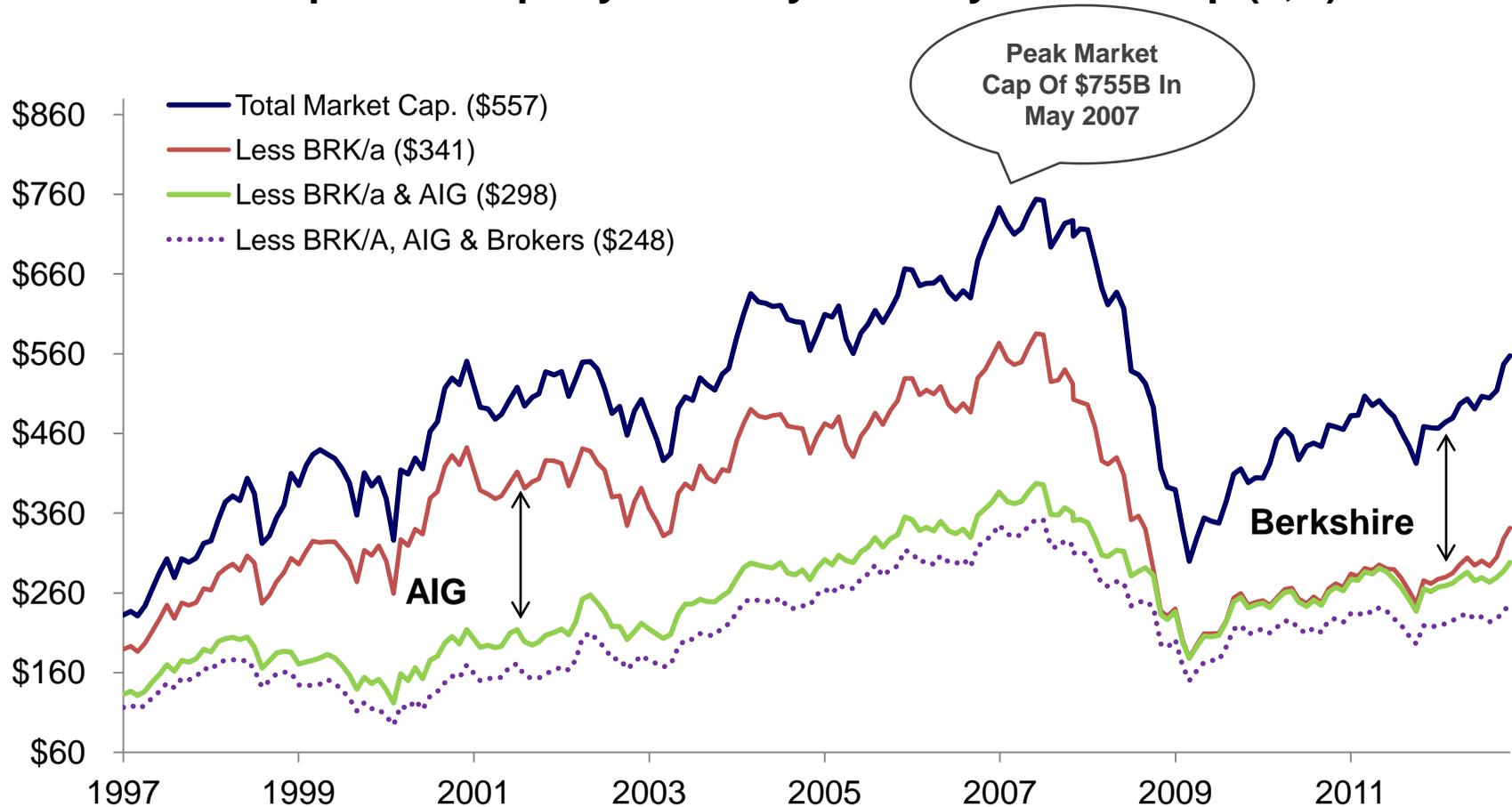
AGENDA

- Why Nobody Cares About P/C (Re)Insurance...But Should**
- What Is A Reasonable Return In The Current Environment**
- How We Think About The Property/Casualty Business**
- Reinsurance Pricing Pressures Drive Channel Conflict**
- Where Are We In The Underwriting Cycle?**
- Can The Industry Earn An “Adequate” Return Without A Decline In Surplus?**
- Q&A**

WHY NOBODY CARES ABOUT P/C (RE)INSURANCE... BUT SHOULD

U.S. & BERMUDA P&C UNDERWRITER MARKET CAP "ONLY" \$248 BB

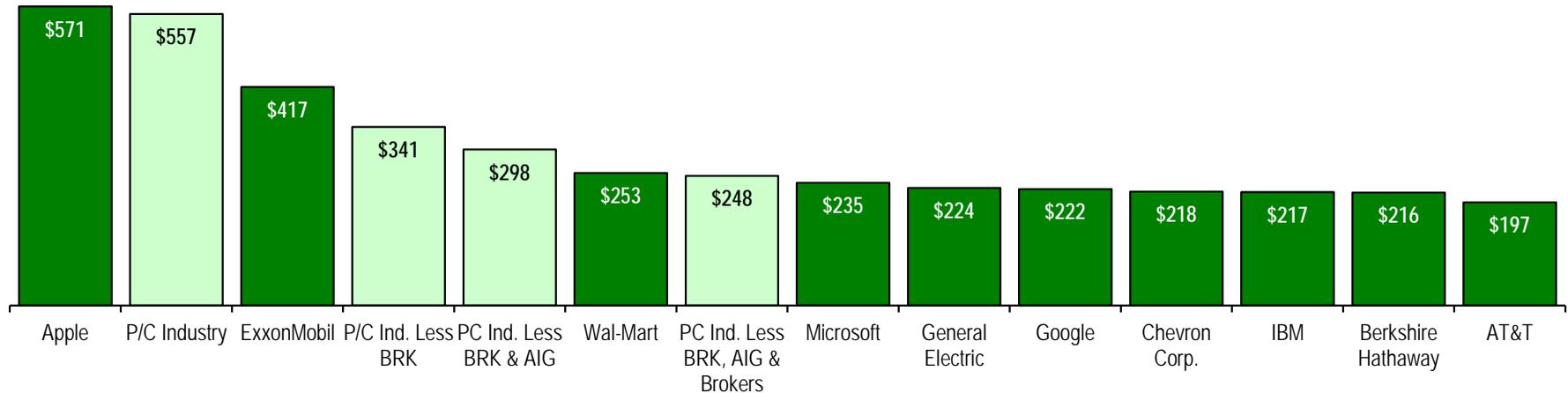
Composite Property/Casualty Industry Market Cap (\$,B)



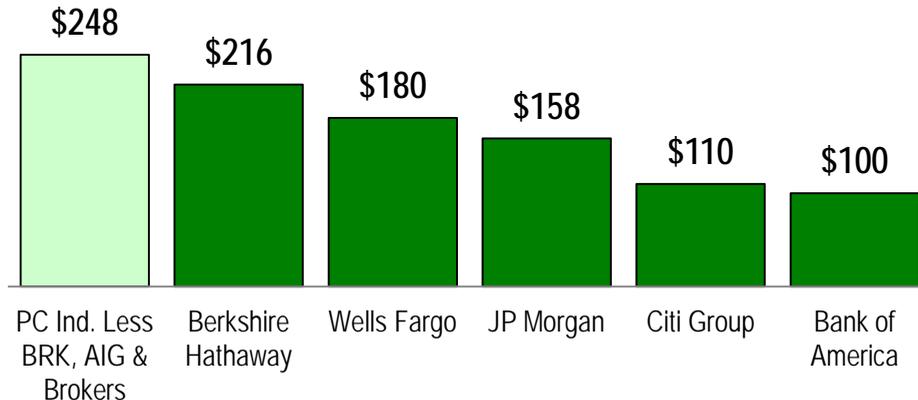
AIG Market Cap Peaked In Late 2000 = Represented ~45% Entire P/C Industry Market Cap

LACK OF INTEREST = SIZE ALLOWS INVESTORS TO “AVOID”

TOP 10 LARGEST U.S. COMPANIES BY MARKET CAP VS. P/C INDUSTRY



P/C (RE)INSURANCE COMPOSITE & TOP 5 LARGEST U.S. LISTED FINANCIALS BY MARKET CAP



P/C Insurance Is Roughly The Same Size Of...

WAL*MART

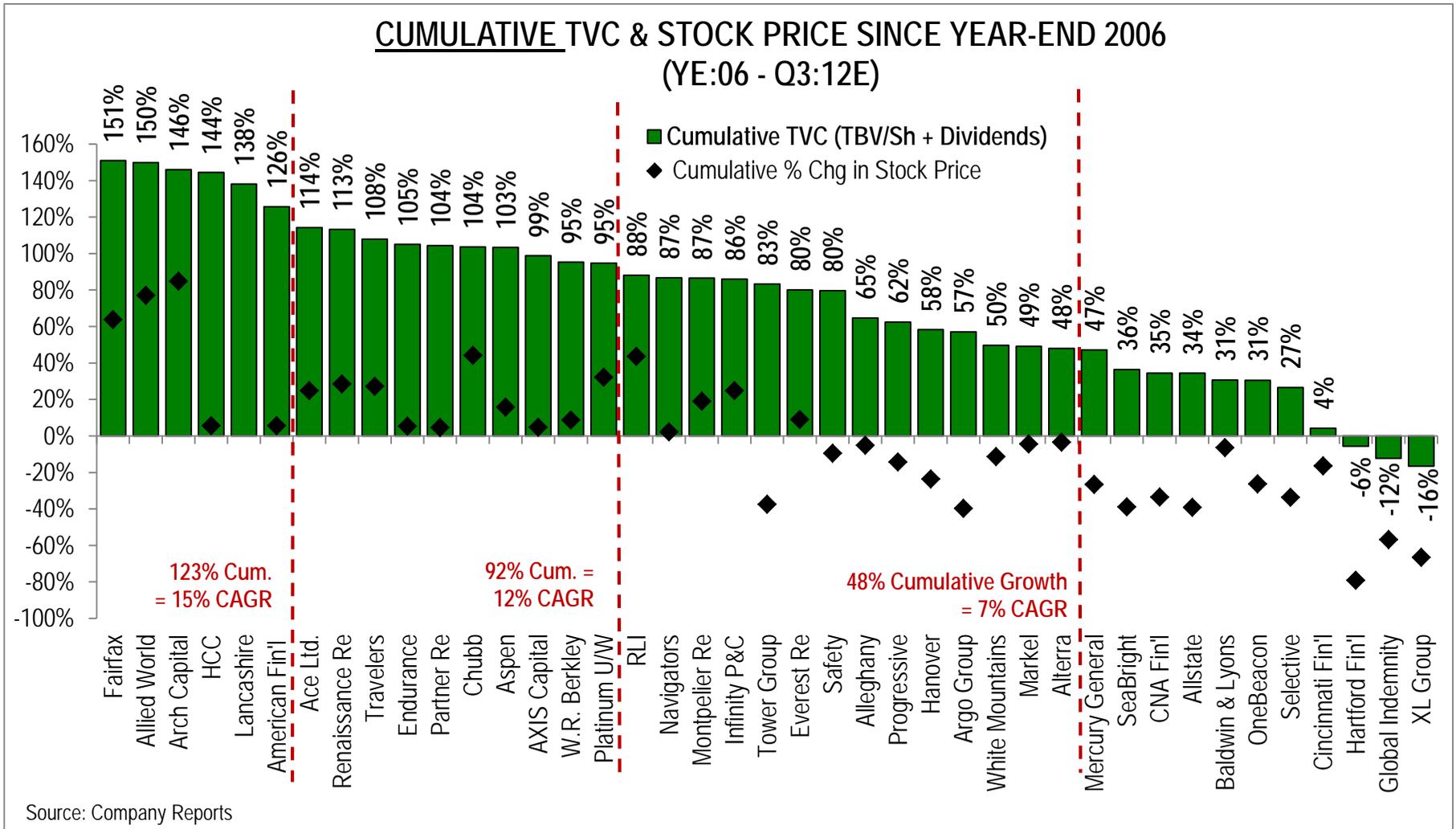
IBM



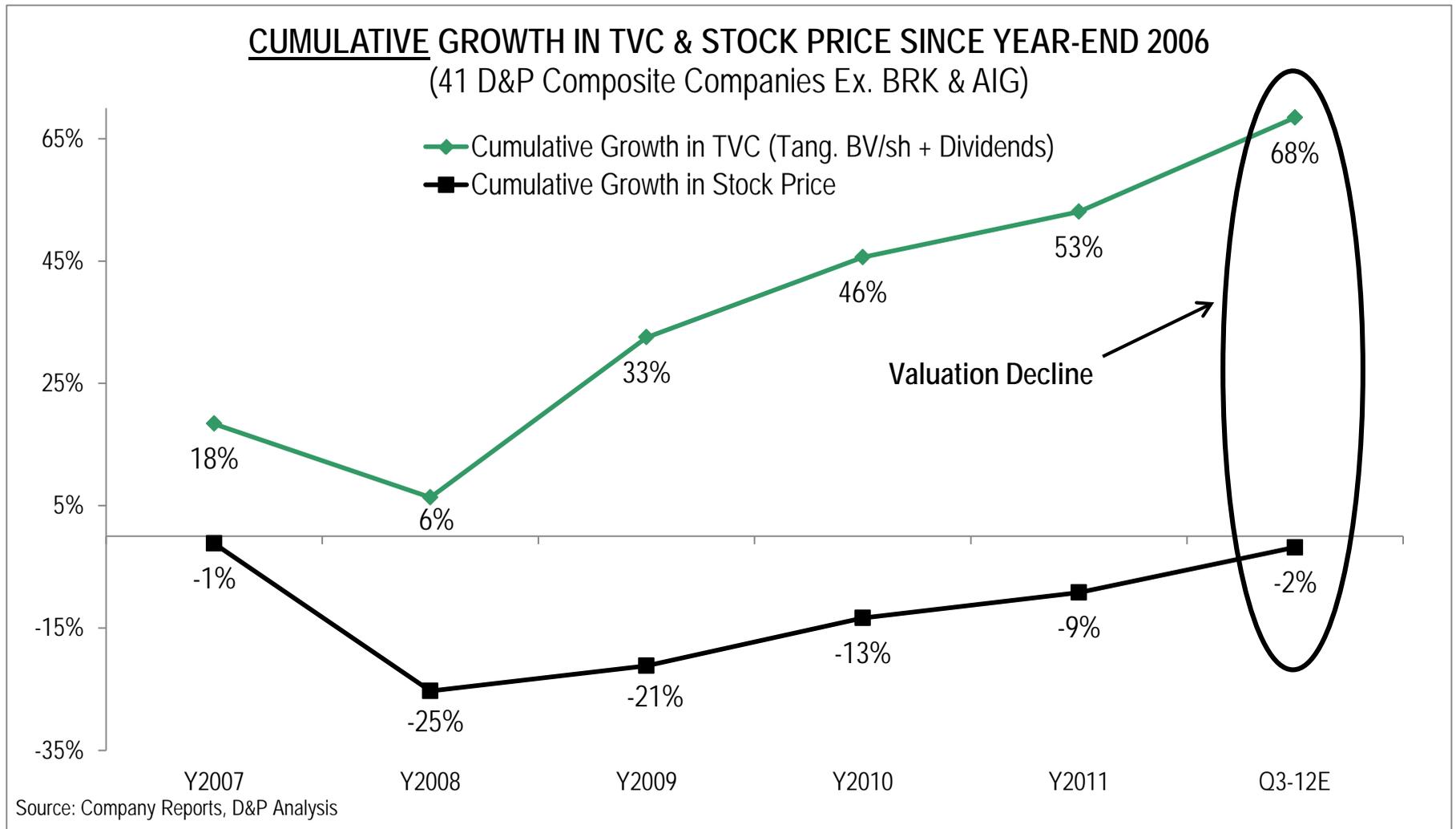
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CUMULATIVE TOTAL VALUE CREATION (TBV/SH + DIVS) SINCE 2006

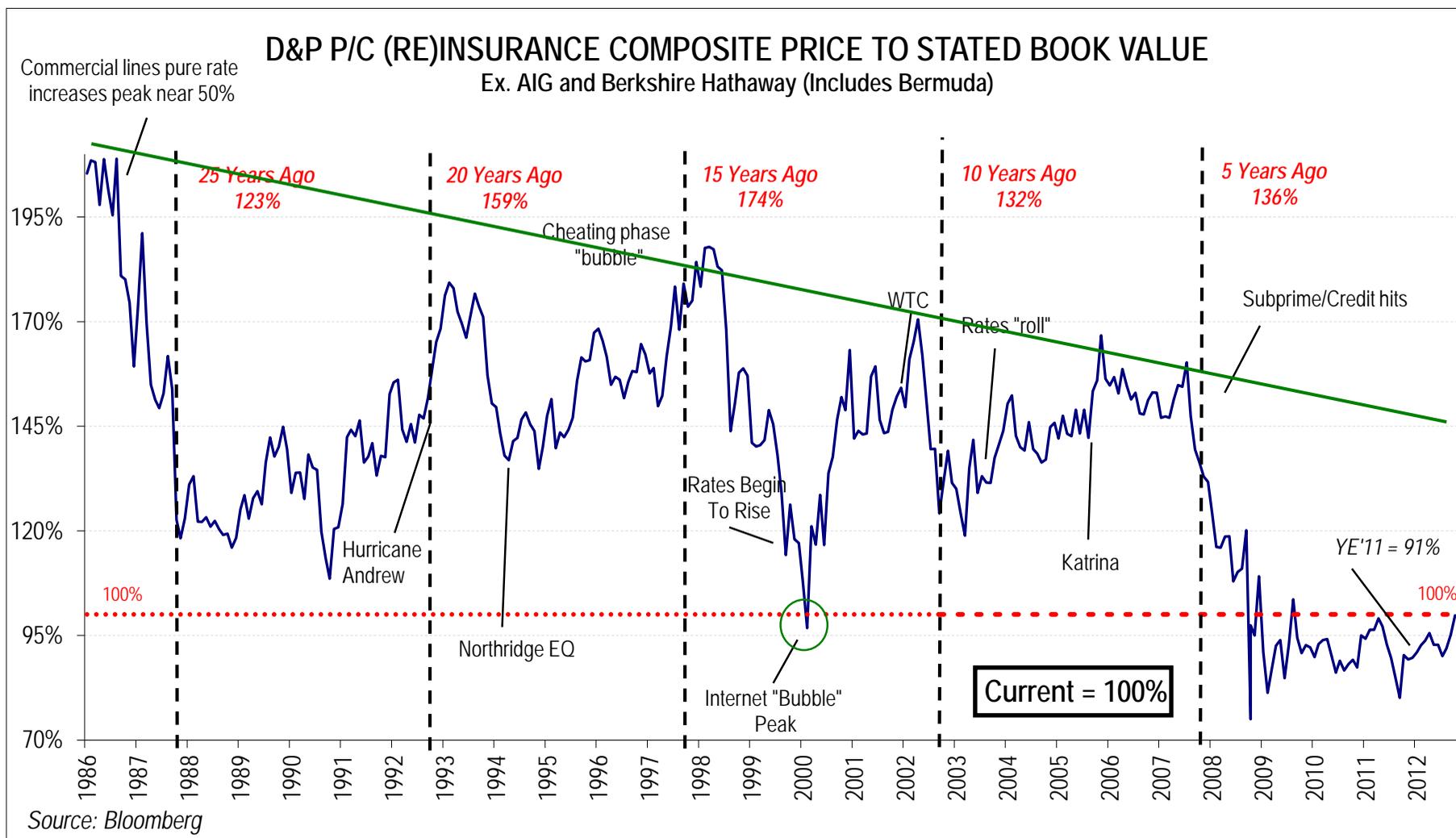


CUMULATIVE TOTAL VALUE CREATION (TBV/SH + DIVS) SINCE 2006



VALUATIONS REMAIN NEAR HISTORIC LOWS

25 Years of Declining Peak Valuations



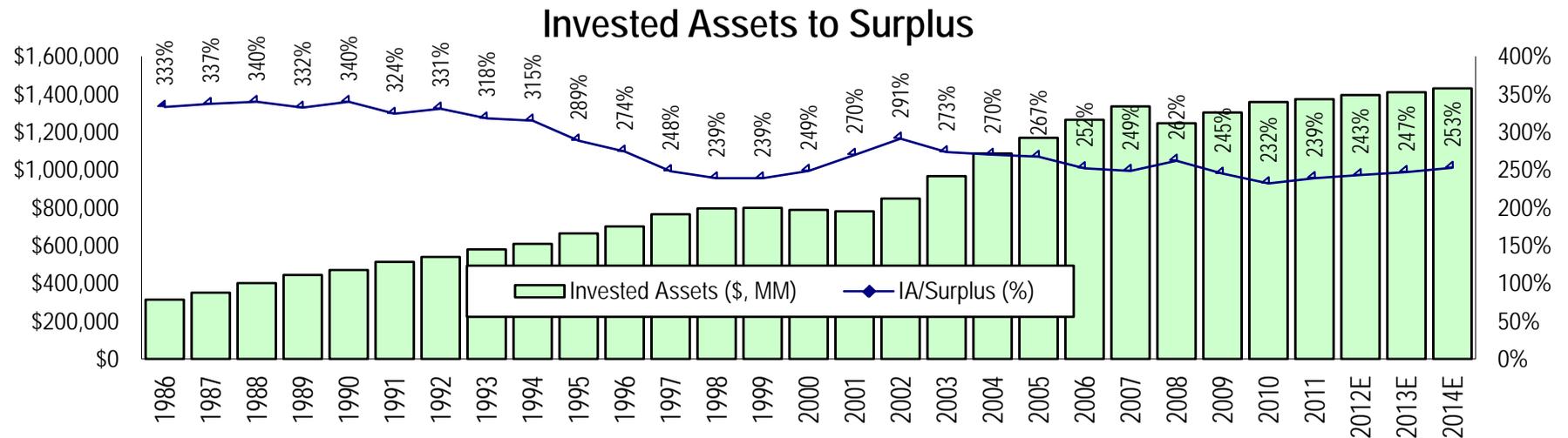
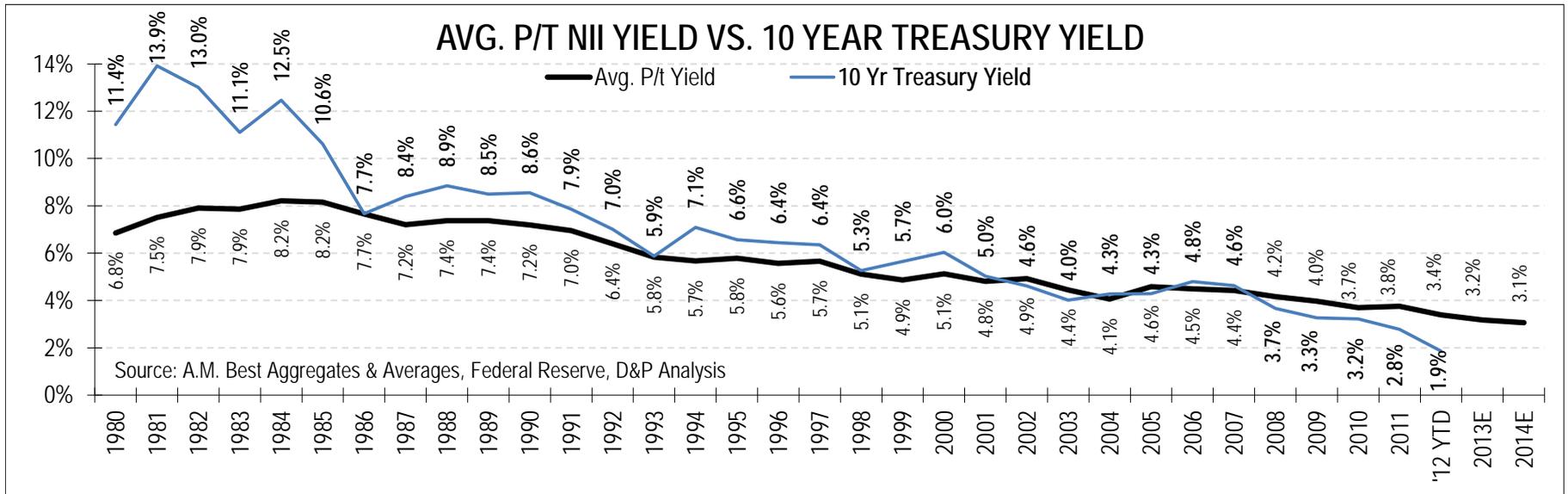
**WHAT IS A REASONABLE RETURN
IN THE CURRENT ENVIRONMENT?**

SIMPLE ECONOMICS OF THE (RE)INSURANCE BUSINESS

Five Simple Variables = Accident Year ROE

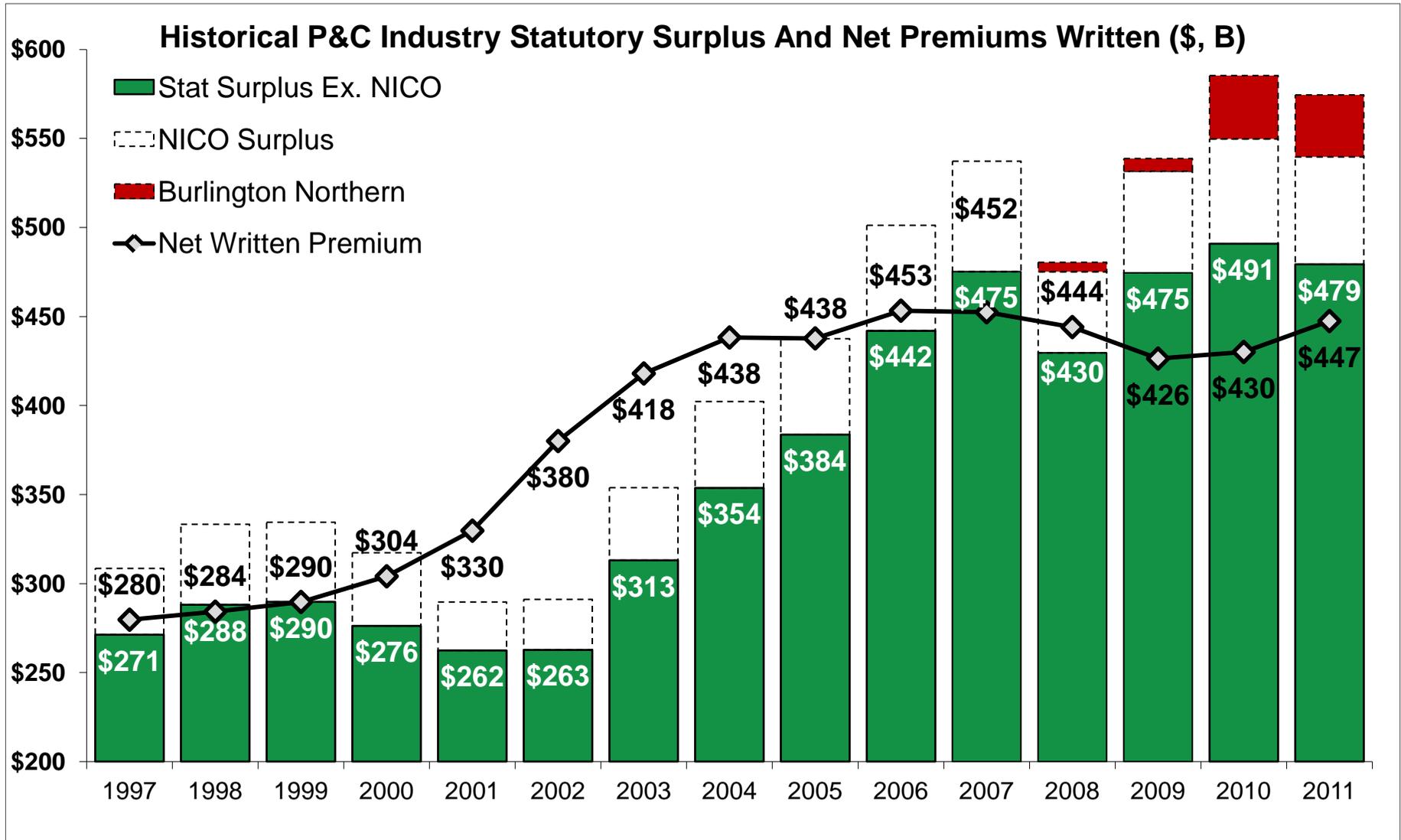
1. Sustainable Combined Ratio: Ultimate Loss Ratio & Exp. Ratio
2. Duration of Loss & LAE Reserves = “Tail” (How Long You Keep \$)
3. New Money Rate - Investment Return 
4. Premium: Surplus (> Leverage, > Return if CR < 100%) 
5. Tax Rate (Taxes Matter = Bermuda, Ireland, Switzerland, etc.)

LOW INTEREST RATES & LOWER LEVERAGE DRIVES DOWN ROE



Source: A.M. Best Aggregates & Averages; D&P Analysis, D&P Estimates

SINCE 2004 U.S. STATUTORY SURPLUS UP 35% WHILE PREMIUMS FLAT



ECONOMICS OF 12% ACCIDENT YEAR ROE OVER PAST 25 YEARS

SOLVE FOR COMBINED RATIO TO EARN 12% A/T ROE

2001

2012

P:S	New Money p/t Yield										
	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%
70%	80.7%	81.9%	83.2%	84.4%	85.7%	86.9%	89.5%	92.2%	94.9%	97.6%	100.5%
80%	83.4%	84.5%	85.7%	86.8%	88.0%	89.2%	91.6%	94.1%	96.7%	99.3%	101.9%
90%	85.5%	86.5%	87.6%	88.7%	89.9%	91.0%	93.3%	95.7%	98.1%	100.5%	103.0%
100%	87.1%	88.1%	89.2%	90.3%	91.3%	92.4%	94.6%	96.9%	99.2%	101.6%	104.0%
110%	88.5%	89.5%	90.5%	91.5%	92.5%	93.6%	95.7%	97.9%	100.1%	102.4%	104.7%
120%	89.6%	90.6%	91.5%	92.5%	93.6%	94.6%	96.6%	98.7%	100.9%	103.1%	105.3%
130%	90.5%	91.5%	92.4%	93.4%	94.4%	95.4%	97.4%	99.5%	101.5%	103.7%	105.8%
140%	91.3%	92.3%	93.2%	94.2%	95.1%	96.1%	98.1%	100.1%	102.1%	104.2%	106.3%
150%	92.1%	93.0%	93.9%	94.8%	95.8%	96.7%	98.6%	100.6%	102.6%	104.6%	106.7%
160%	92.7%	93.6%	94.5%	95.4%	96.3%	97.2%	99.1%	101.0%	103.0%	105.0%	107.0%
170%	93.2%	94.1%	95.0%	95.9%	96.8%	97.7%	99.6%	101.5%	103.4%	105.3%	107.3%
180%	93.7%	94.6%	95.5%	96.3%	97.2%	98.1%	100.0%	101.8%	103.7%	105.6%	107.6%
190%	94.1%	95.0%	95.9%	96.7%	97.6%	98.5%	100.3%	102.1%	104.0%	105.9%	107.8%
200%	94.5%	95.4%	96.2%	97.1%	98.0%	98.8%	100.6%	102.4%	104.3%	106.1%	108.0%

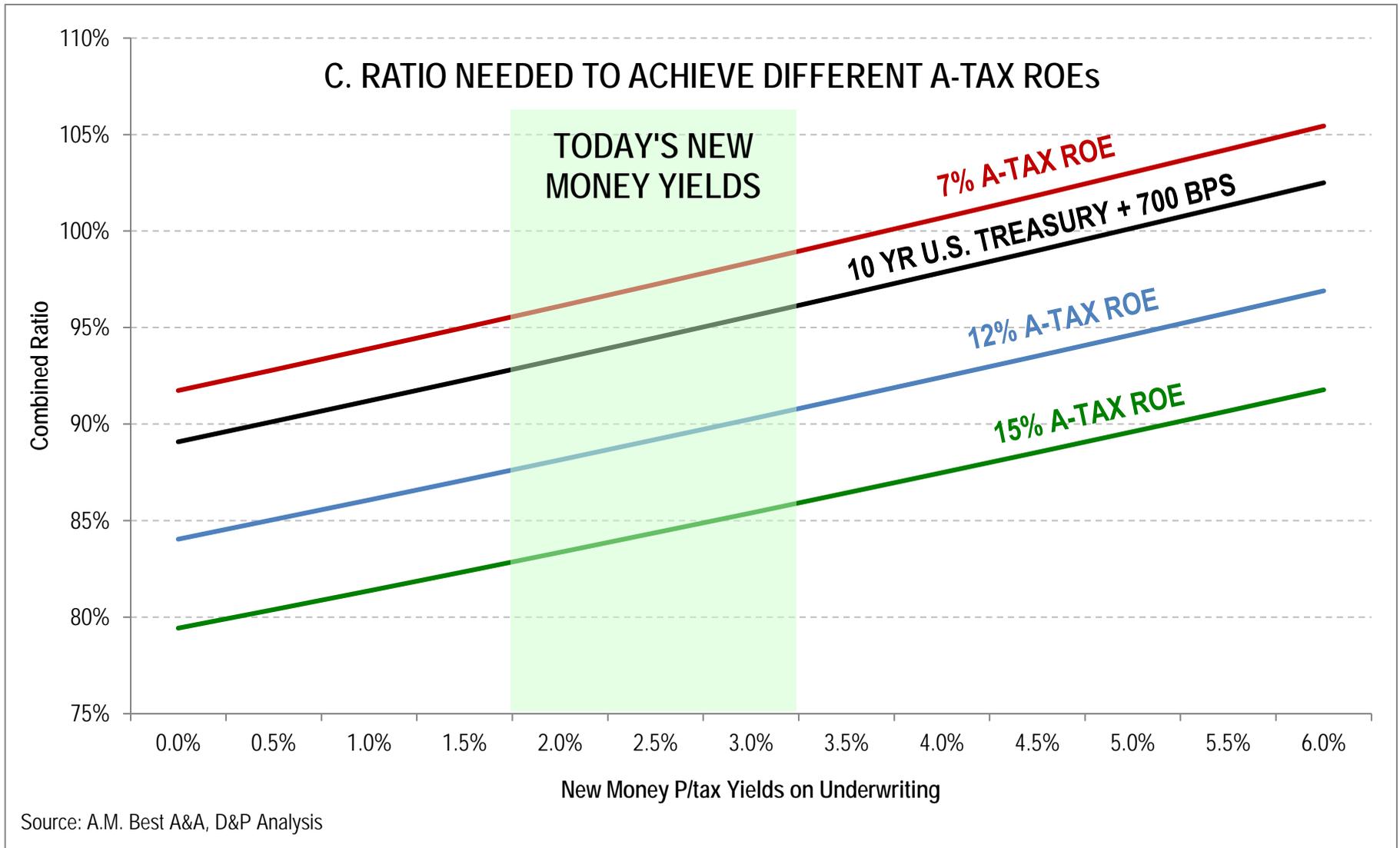
Assumptions

- (1) Duration: 1.8 years
- (2) Expense Ratio: 28%
- (3) Surplus p/t Yield = 250bps Over New Money

9% A/T ROE TODAY = 90-94%

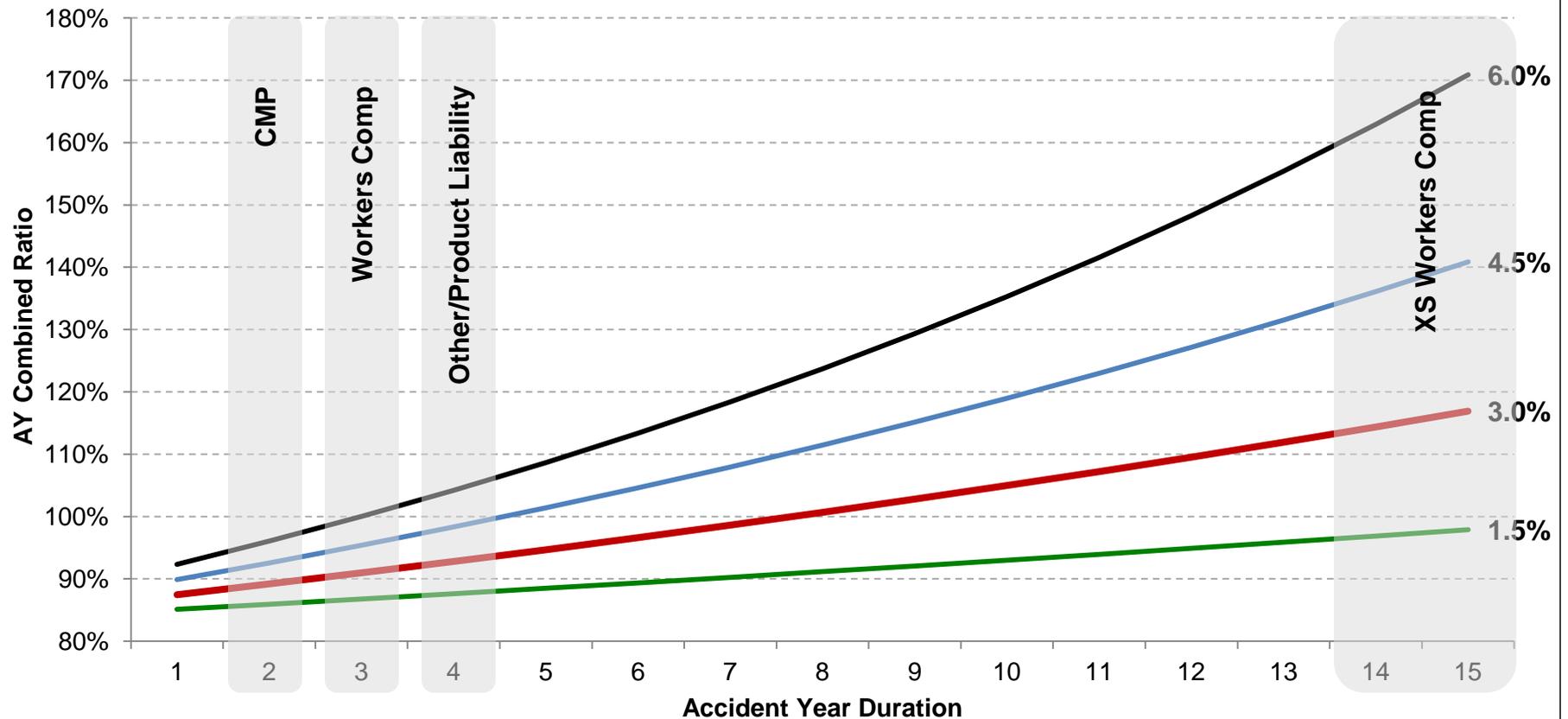
1985

25 YEARS OF LOWER LEVERAGE & LOWER INTEREST RATES



25 YEARS OF LOWER LEVERAGE & LOWER INTEREST RATES

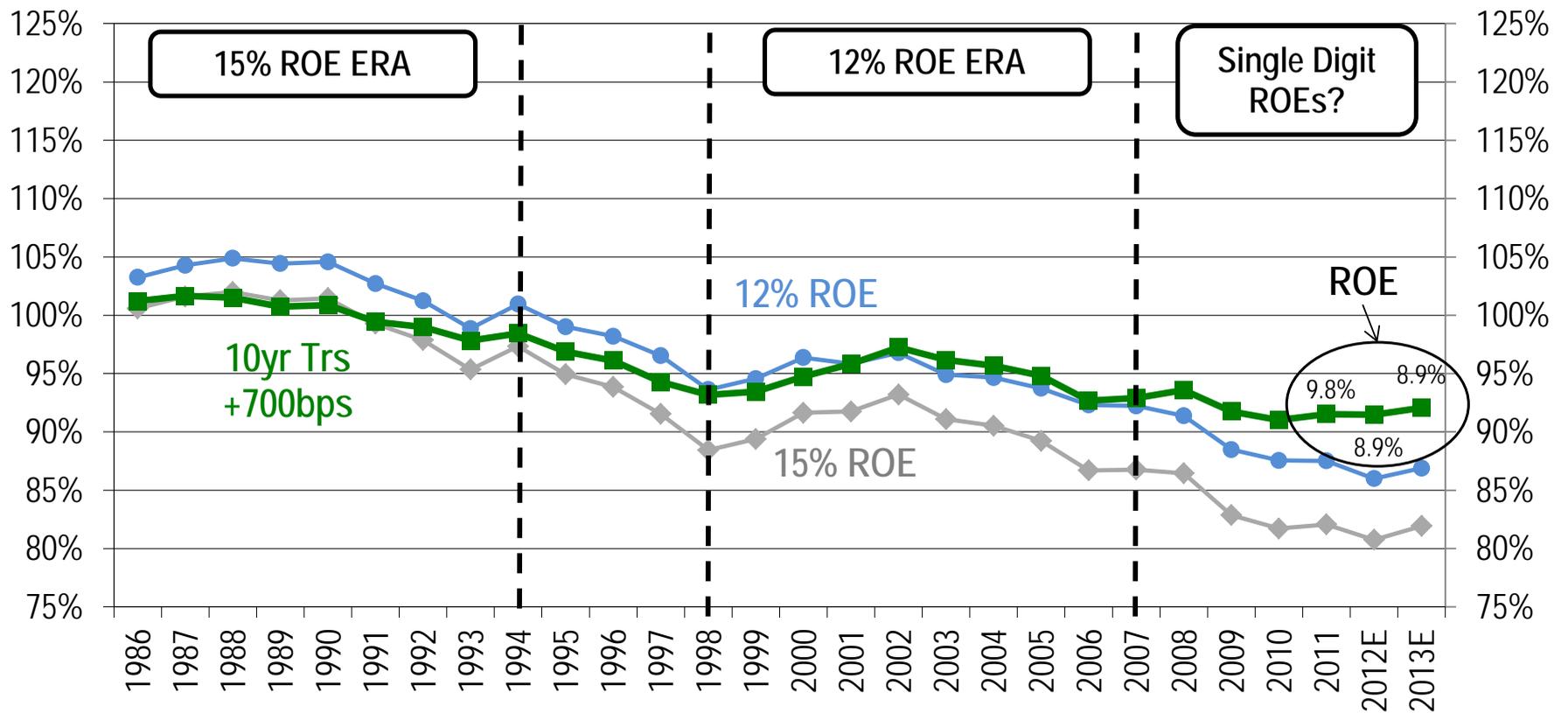
C. RATIO NEEDED FOR A 12% AT ROE AT VARIOUS NEW MONEY RATES



Source: D&P Analysis

DIFFERENT RETURN HURDLES OVER TIME

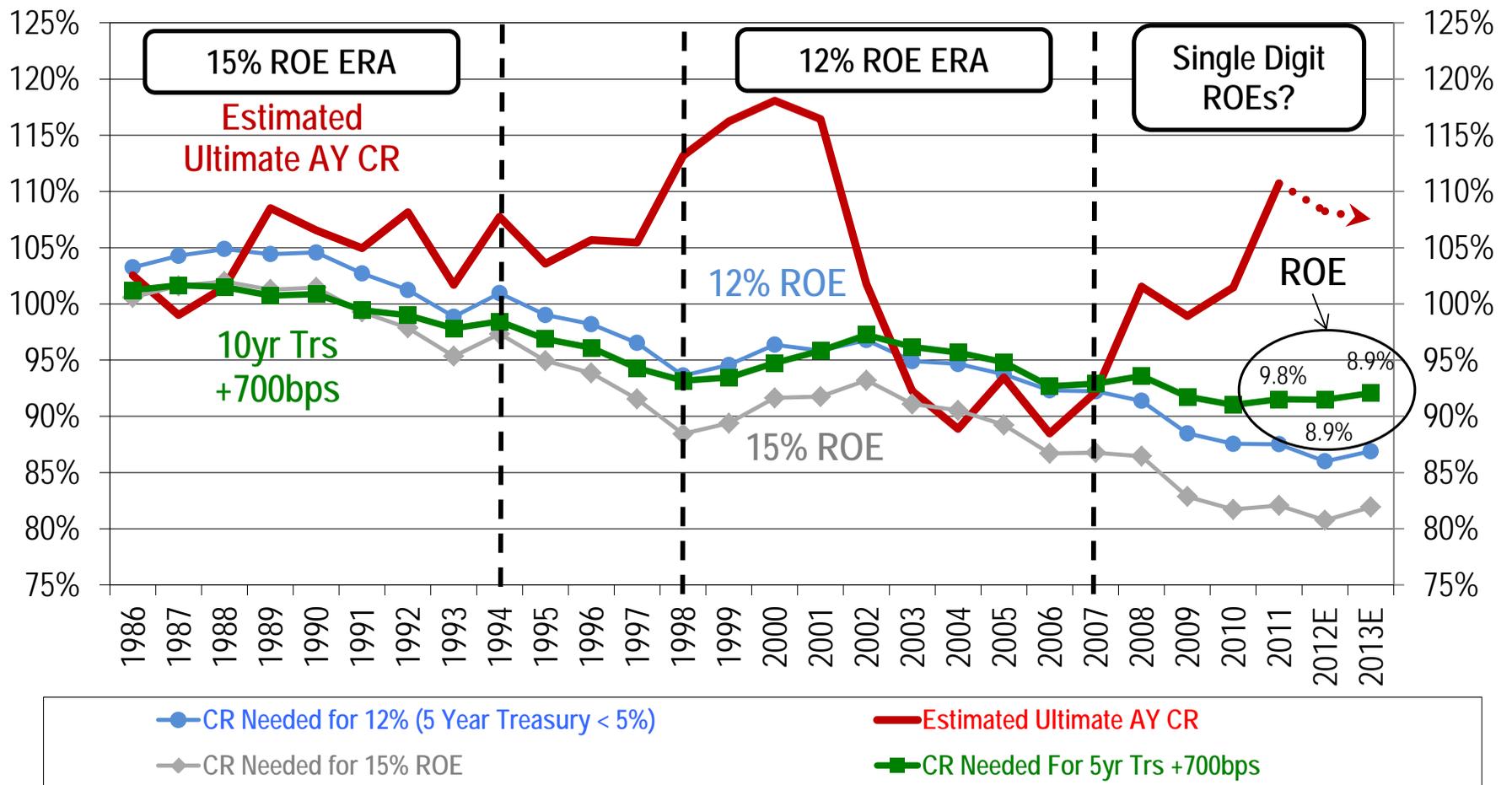
COMBINED RATIO NEEDED FOR ADEQUATE RETURN VS. HISTORICAL ULTIMATE AY
Accident Year Return on Surplus Basis (Excluding National Indemnity)



● CR Needed for 12% (5 Year Treasury < 5%) ◆ CR Needed for 15% ROE ■ CR Needed For 5yr Trs +700bps

DIFFERENT RETURN HURDLES OVER TIME

COMBINED RATIO NEEDED FOR ADEQUATE RETURN VS. HISTORICAL ULTIMATE AY
 Accident Year Return on Surplus Basis (Excluding National Indemnity)



GOV'TS "DESTROYED INSURANCE INDUSTRY VALUE" TO SAVE BANKS

*"The central bankers and policy makers did their best to save the banking system and we are the collateral victims of the bail out of the banking system... **The ultra low rates policy led by central banks has had an impact on all the yields for all investments. In order to save the banks, they destroyed part of the value of the insurance industry... It's well known that when the policymakers have a choice between saving a bank or an insurance company, they will always choose a bank.**"*

- **SCOR Chairman & CEO Denis Kessler**

September 2012



HOW WE THINK ABOUT THE PROPERTY/CASUALTY BUSINESS

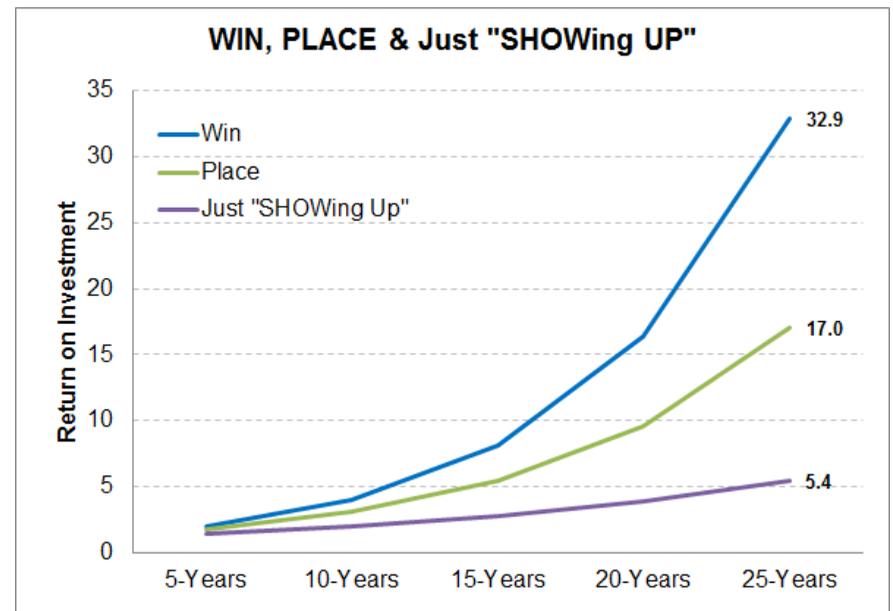
6 KEY INVESTMENT THEMES FOR THE P/C SECTOR

1. Over The Long Term The Only Measure Of Financial Success For Owners Of A Property/Casualty (Re)Insurer Is Growth In Tangible Book Value (Equity) Per Share. Share Price Tracks Book Value Over Time. Volatility Matters.

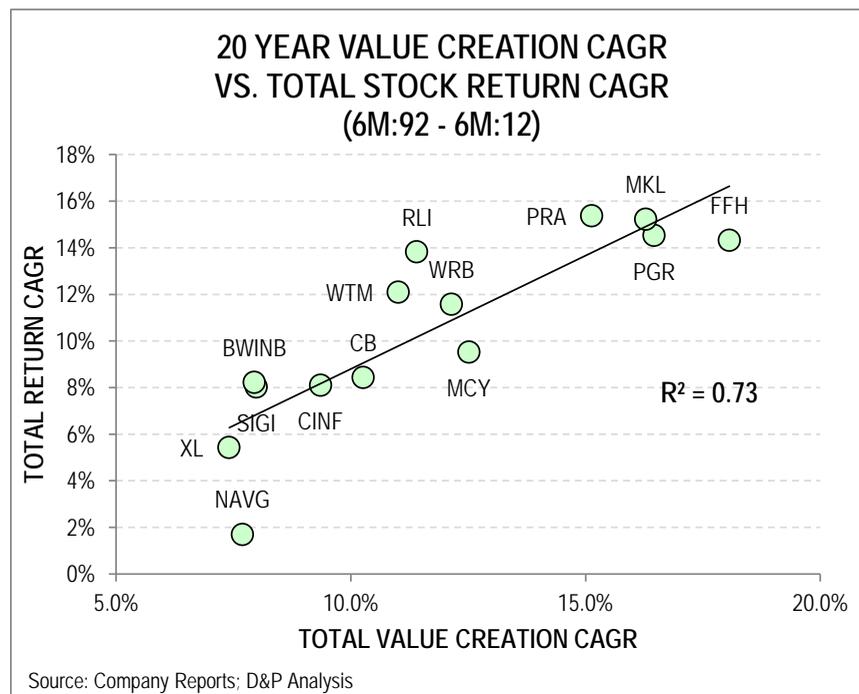
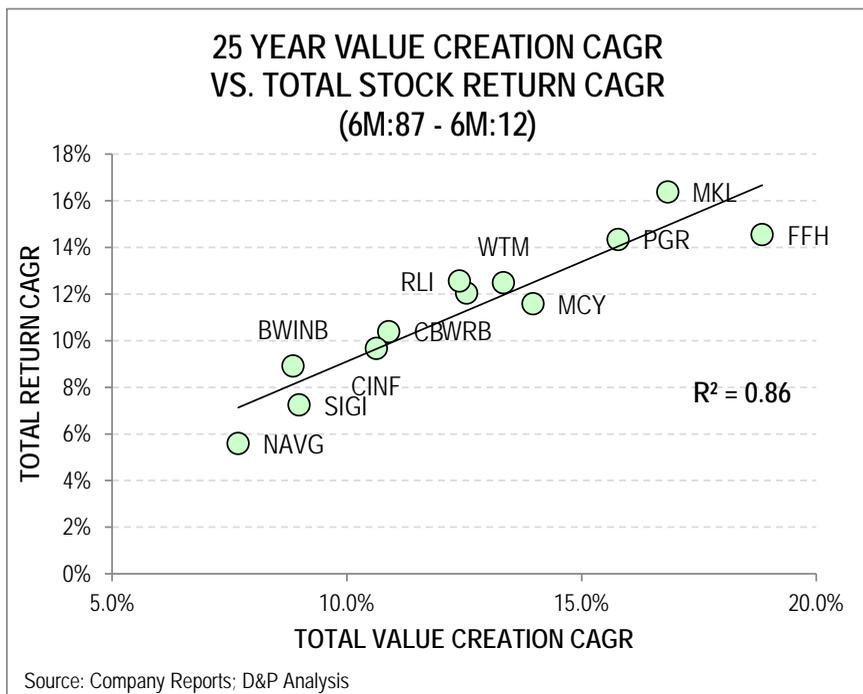
“SUCCESS” IN (RE)INSURANCE = COMPOUNDING BOOK VALUE PER SHARE

- Long-term stock price tracks growth in Book Value per share.
- We think about companies in 3 categories:
 - WIN
 - PLACE
 - Just “SHOWing Up”
- (Re)Insurance is all about the magic of compound returns
- Compounding book value at 12% per year = “double” every 6 years

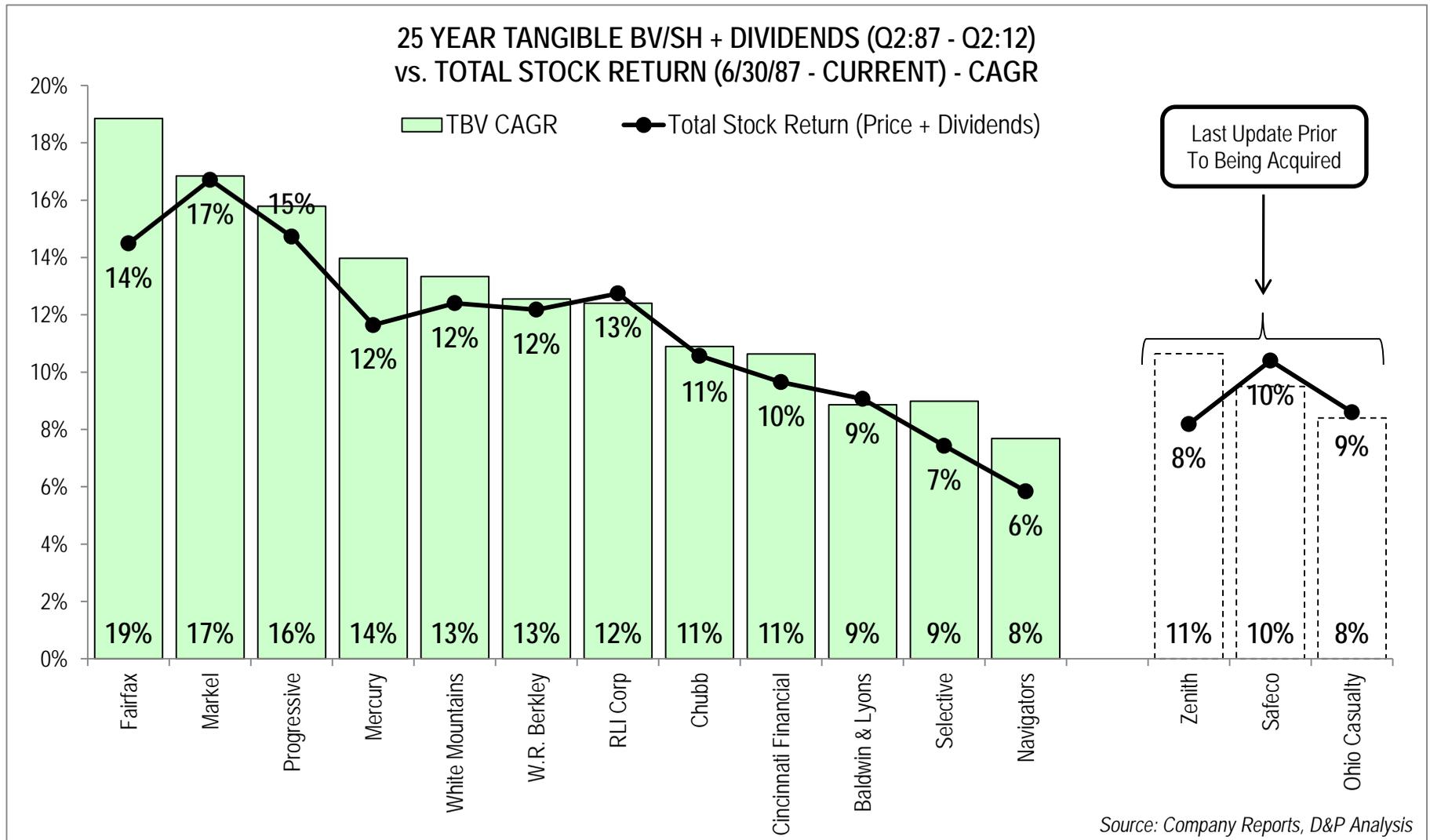
	Win	Place	Show
Length of Time	15%	12%	7%
5-Years	2.0	1.8	1.4
10-Years	4.0	3.1	2.0
15-Years	8.1	5.5	2.8
20-Years	16.4	9.6	3.9
25-Years	32.9	17.0	5.4



25 & 20 Year Total Value Creation Vs. Total Stock Return



QUALITY UWERS ARE GROWTH COS IN TERMS OF BV/SH GROWTH



5 Levers Available to Management to Build Tangible Book Value/share:

1. Underwriting = #1 Driving Force & Price of Entry To “Win”

UNDERWRITING = DRIVER OF PERFORMANCE: 2002 - 2011

Generated Surplus Growth Quintiles

By Underwriting Contribution Quintiles (2002-2011)

(% of Surplus Growth Quintile in Each Underwriting Quintile)

		Generated Surplus Growth Quintile				
		Top Quintile	Second Quintile	Third Quintile	Fourth Quintile	Bottom Quintile
Underwriting Contribution Quintile	Top Quintile	61%	29%	10%	0%	0%
	Second Quintile	15%	35%	35%	6%	8%
	Third Quintile	3%	23%	29%	29%	16%
	Fourth Quintile	6%	5%	18%	48%	23%
	Bottom Quintile	15%	8%	8%	16%	53%
	Total	100%	100%	100%	100%	100%

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4. Capital Management
 - Capital Structure = Appropriate Use of Non-Equity Capital
 - Sale/Repurchase of Common Shares @ Opportune Times
 - Dividend Policy

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3. Rating Agencies = Have Been The De-facto Regulators = Flexing Muscles Again Outside The U.S. With Higher Capital Requirements & Increased Oversight

RATING AGENCIES = THE DEFACTO REGULATORS

A.M. BEST FINANCIAL STRENGTH RATINGS TABLE

Primary Companies					
A++	A+		A		
Chubb	ACE	RLI Corp	Allied World	Endurance	Markel
	Arch Capital	Travelers	American Finc'l	Fireman's Fund	Navigators
	Cincinnati Financial	W.R. Berkley	Argo Group	Hanover	OneBeacon
	HCC Holdings	Zurich	AXIS Capital	Hartford	Old Republic
	Nationwide		Catlin	Hiscox	QBE Insurance
			Chartis	Liberty Mutual	Selective
			CNA Financial	Lloyd's	XL Group

S&P FINANCIAL STRENGTH RATINGS TABLE

Primary Companies					
AA+	AA	AA-	A+	A	A-
	Chubb Corp	Zurich	American Financial	Chartis	Argo Group
	HCC Holdings	ACE	Arch Capital	Allied World	CNA Financial
	Travelers Group		AXIS Capital	Catlin	Hanover Group
			Fireman's Fund	Cincinnati Fnc'l	Liberty Mutual
			Lloyd's	Endurance	OneBeacon
			Nationwide	Hartford	
			Old Republic	Hiscox	
			QBE Group	Navigators	
			RLI Corp.	Selective	
			W.R. Berkley	XL Group	

Positive Outlook

Negative Outlook

Stable Outlook

Watch Negative

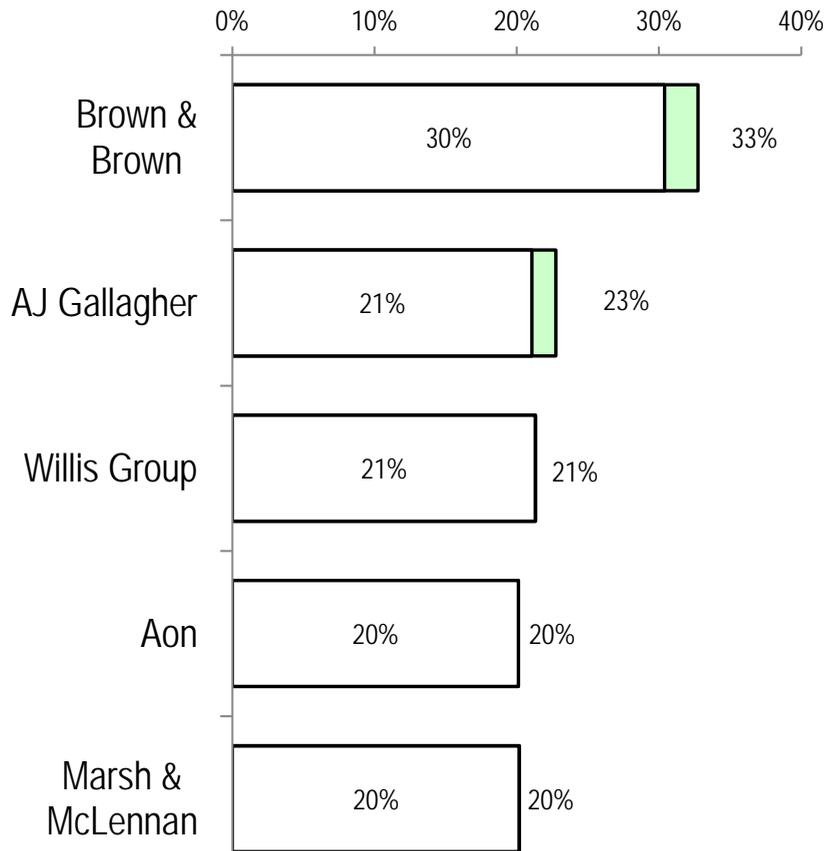
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3. Rating Agencies = Have Been The De-facto Regulators = Flexing Muscles Again Outside The U.S. With Higher Capital Requirements & Increased Oversight
4. **“He Who Controls The Customer Wins”** = Intermediaries Capture Outsized Returns Relative To Underwriters On An Absolute & Risk Adjusted Basis.

“HE WHO CONTROLS THE CUSTOMER WINS”

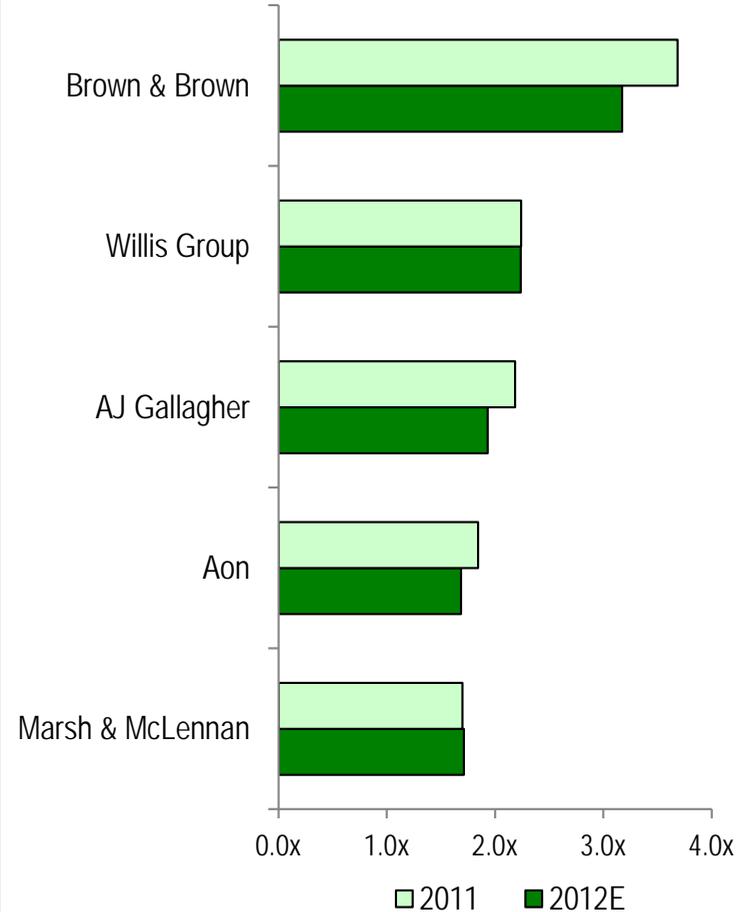
2012E BROKER ADJUSTED MARGINS

With and Without Contingent Commissions



AON, MMC, WSH on operating basis, AJG & BRO on EBITDA(C) basis

ENTERPRISE VALUE TO 2011A & 2012E REVENUE



RISE OF LARGE GLOBAL INTERMEDIARIES CHANGES BUSINESS

	1989		1989*	Relative
	Rank	Broker	(\$, B)	Top 20
			<u>Mkt. Sh.</u>	
	1	Marsh McLennan	\$2.5	27%
	2	Alexander & Alexander	\$1.2	14%
	3	Sedgwick Group	\$1.0	12%
	4	Johnson & Higgins	\$0.8	9%
Willis	5	Corroon & Black	\$0.5	5%
Willis	6	Willis Faber	\$0.5	5%
	7	Frank B. Hall	\$0.4	4%
	8	Rollins Burdick Hunter	\$0.3	4%
	9	Minet	\$0.3	3%
Independent	10	<u>Jardine Insurance Brokers</u>	<u>\$0.2</u>	<u>3%</u>
TOP 10			\$7.7	86%
	11	C.E. Heath	\$0.2	2%
	12	Arthur J. Gallagher	\$0.2	2%
	13	Bain Clarkson PLC	\$0.2	2%
	14	Hogg Group PLC	\$0.2	2%
	15	Faugere & Jutheau	\$0.1	1%
	16	Jauch & Hubener	\$0.1	1%
	17	Hudig-Langeveldt Group	\$0.1	1%
Independent	18	Gras Savoye SA	\$0.1	1%
	19	Sodarcán	\$0.1	1%
Willis	20	<u>Hilb, Rogal & Hamilton</u>	<u>\$0.1</u>	<u>1%</u>
TOP 20			\$9.0	100%

Only 6 Remain:
 Marsh McLennan
 Aon
 Willis
 Arthur J. Gallagher
 Gras Savoye
 Jardine

Source: A.M. Best Review; *Brokerage Revenue

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	Rank	Broker	Ownership	Top 20
			(\$, B)	Mkt. Sh.
	1	Marsh & McLennan	Public	\$11.5 30%
	2	Aon Corp.	Public	\$11.3 29%
	3	Willis Group Ltd.	Public	\$3.4 9%
	4	A.J. Gallagher	Public	\$2.1 5%
	5	Wells Fargo	Bank / Public	\$2.0 5%
	6	Jardine Lloyd Thompson	Public	\$1.3 3%
	7	BB&T	Bank / Public	\$1.2 3%
	8	Brown & Brown	Public	\$1.0 3%
	9	Lockton	Private	\$0.9 2%
	10	Hub Int'l	Private Equity	\$0.9 2%
	TOP 10		\$35.6	91%
	11	USI Holdings	Private Equity	\$0.7 2%
	12	Insphere Ins. Solutions	Private Equity	\$0.7 2%
	13	AmWins Group	Private Equity	\$0.5 1%
	14	Alliant Insurance Services	Private Equity	\$0.5 1%
	15	Cooper Gay Swett & Crawford	Private Equity	\$0.3 1%
	16	The Leavitt Group	Private	\$0.2 0%
	17	Confie Seguros	Private Equity	\$0.2 0%
	18	AssuredPartners Inc.	Private Equity	\$0.2 0%
	19	Frank Crystal & Co, Inc.	Private	\$0.1 0%
	20	Hays Group Inc.	Private	\$0.1 0%
	Top 20		\$39.0	100%

Source: A.M. Best, Business Insurance, D&P Analysis; P&C Predominating

*Total Revenue for all except: AssuredPartners, Frank Crystal and Hays Group = Brokerage Revenue

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TOP 20			\$9.0	100%

Source: A.M. Best Review; *Brokerage Revenue

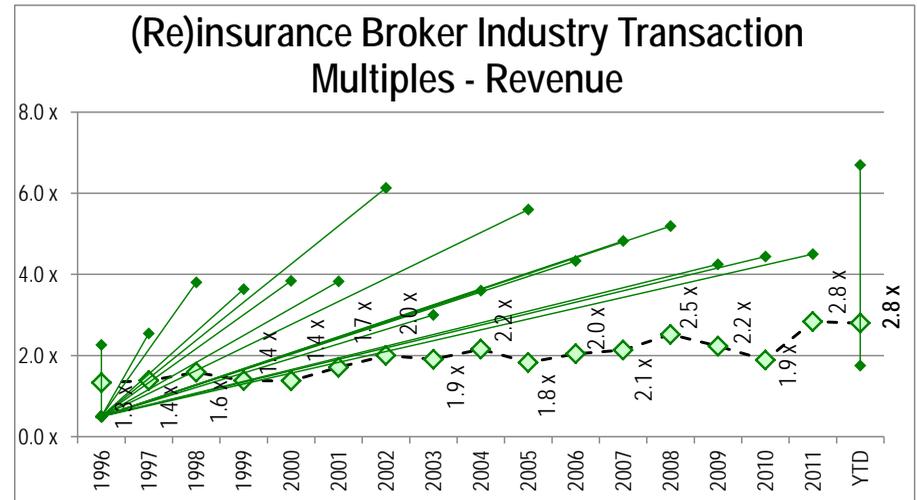
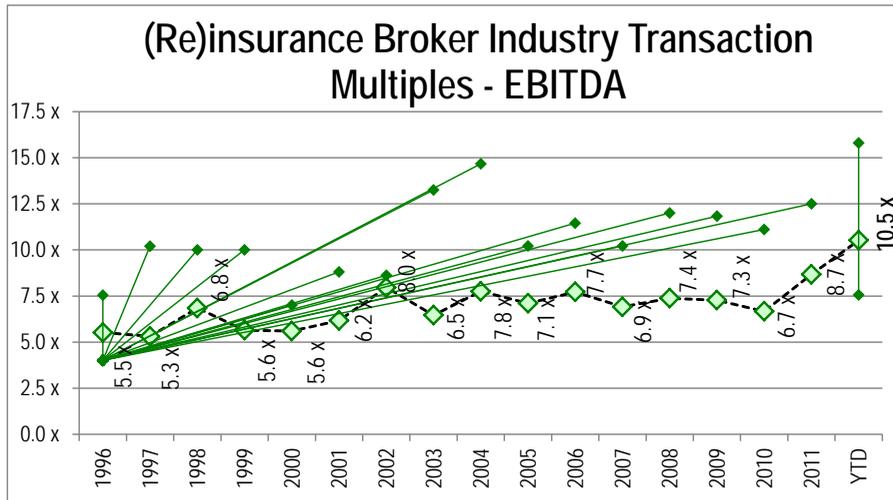
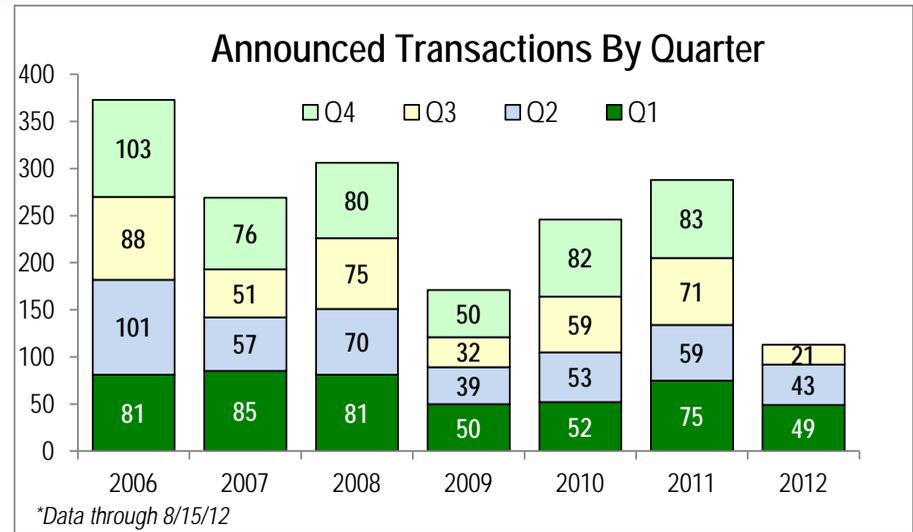
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M&A REBOUNDS OFF RECESSION (2009) LOWS ... WITH RISING PRICES

M&A has returned at higher prices given low interest rates and improved pricing

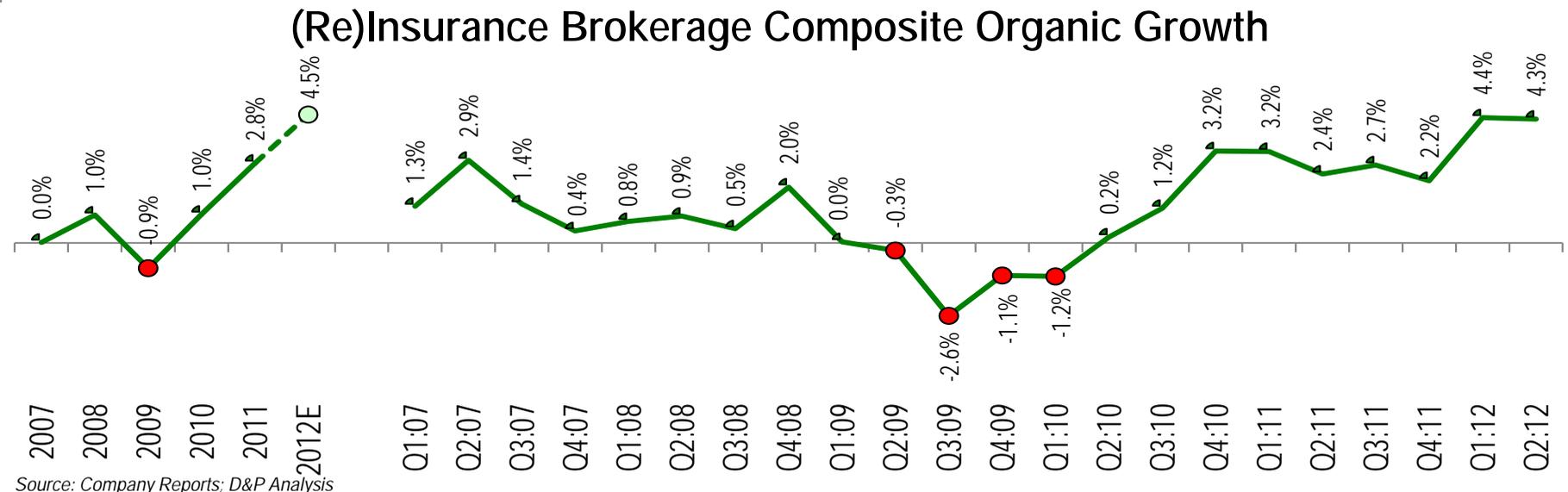


Source: Dowling Hales Proprietary Database

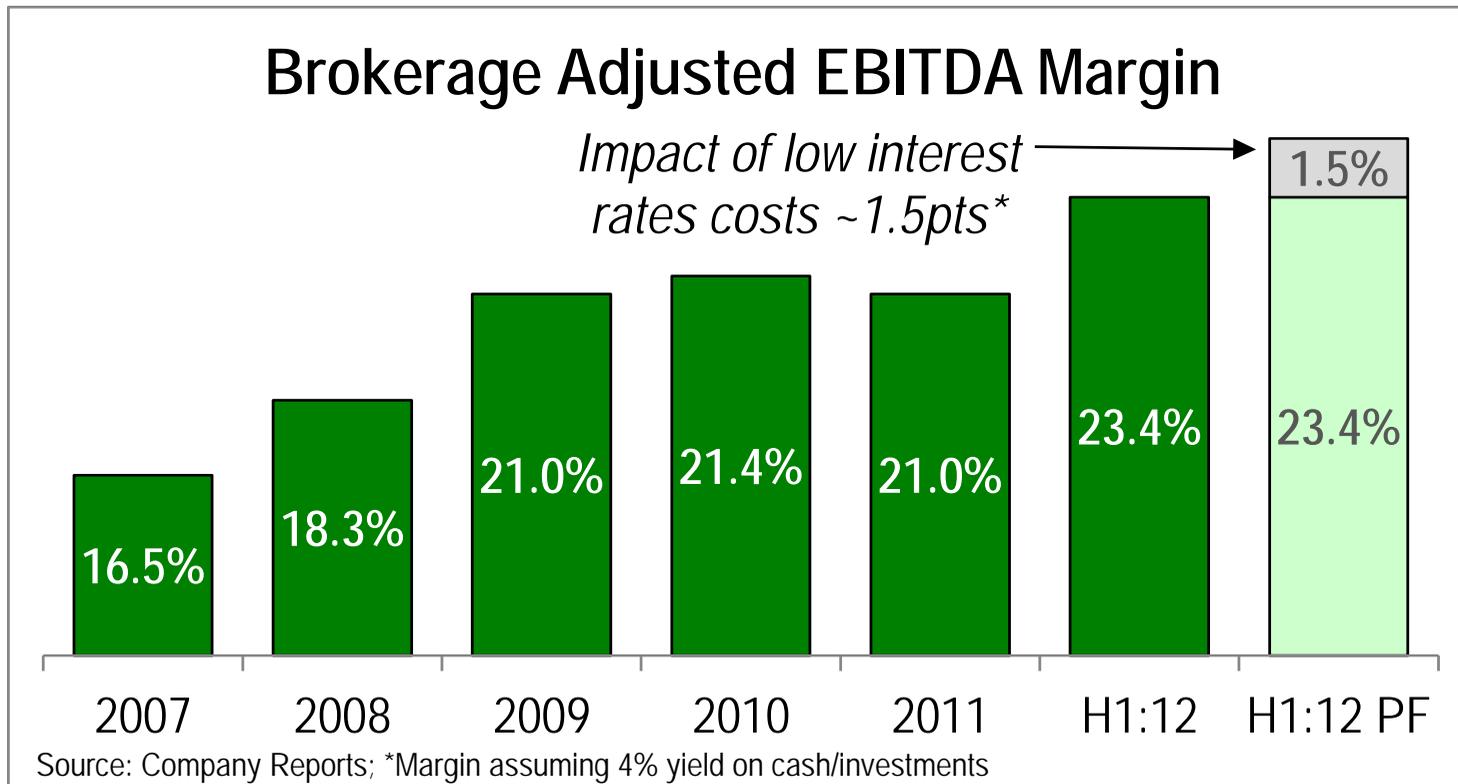
ORGANIC GROWTH REBOUNDS, BUT STILL INCONSISTENT

Public Brokers' Organic Growth Turned Positive In H2:10, Led By The “Big 3” Global Brokers = International Diversification And Initiatives To “Enhance Yield.”

Momentum Shifting To The U.S. Middle Market With Economy Stable And Rates Increasingly “+” (Compares To Europe/UK Headwinds & Slower Rate Movement On The International Front).



MARGIN EXPANSION = A FUNCTION OF ORGANIC GROWTH



With “Expense Levers” Pulled (During 2008/2009) Margin Expansion Largely Subject To (Organic) Revenue Growth.

Low Interest Rates have far less impact than on underwriters

(RE)INSURANCE INTERMEDIARY BUSINESS REMAINS A GREAT BUSINESS

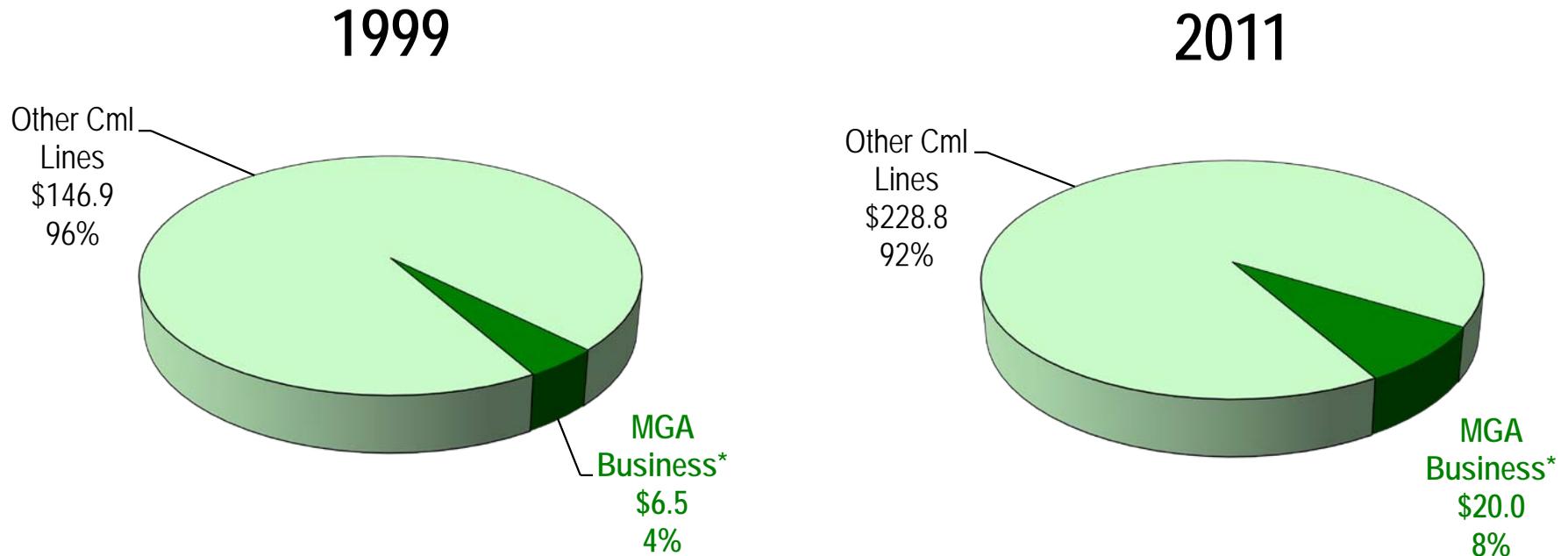
- Not Capital Intensive
- Stable Cash-Flow Business
- Relationships & People Are Critical
- Rating Agencies Not A Factor
- Economies of Scale Matter
- Constant Consolidation & Regeneration of New Firms

“He Who Controls The Customer Wins”

MGA / PROGRAM BUSINESS SNAPSHOT*

MGA Business: Small But Rapidly Growing As A % Of Commercial Lines

COMMERCIAL LINES DIRECT PREMIUMS WRITTEN (\$, BILLIONS)

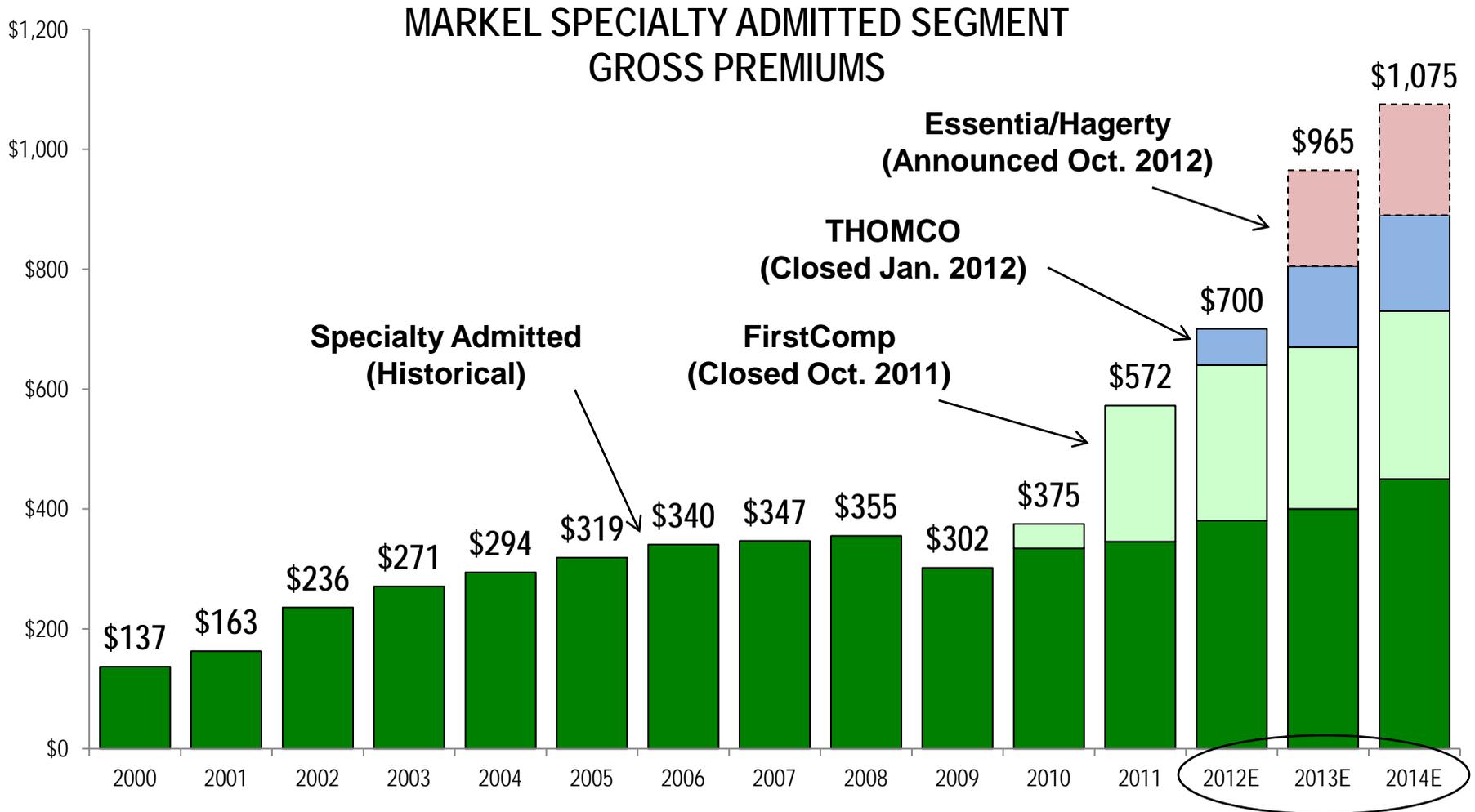


Source: D&P Analysis, Statutory Filings, A.M. Best Aggregates & Averages

*Statutory Filings = Based on Statutory Disclosures Of Top Commercial Lines Writers

MARKEL AS A CASE STUDY = CONTINUES TO BUILD ITS PROGRAM BUSINESS

Announces 3rd "MGA" Acquisition In The Last Year = Buying The Premium Source



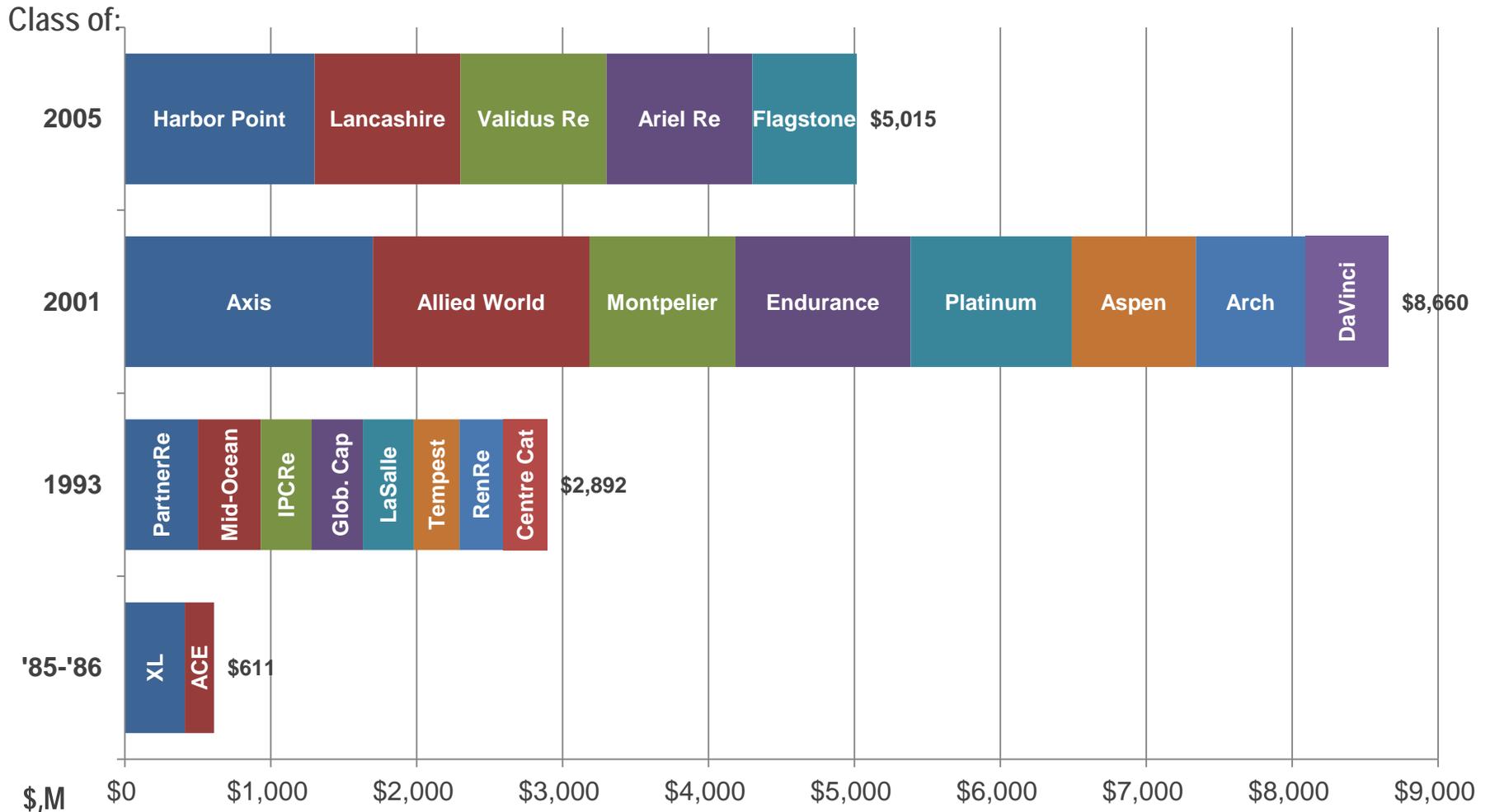
Source: Company Reports, D&P Estimates

6 KEY INVESTMENT THEMES FOR THE P/C SECTOR

1. Over The Long Term The Only Measure Of Financial Success For Owners Of A Property/Casualty (Re)Insurer Is Growth In Tangible Book Value (Equity) Per Share. Share Price Tracks Book Value Over Time. Volatility Matters.
2. Underwriters' Reported Financial Statements Are Always Wrong. Reported Results, With The Income Statement Driving The Balance Sheet, Are Either Too High Or Too Low (Intentionally Or Not) = But Are Always Inaccurate
3. Rating Agencies = Have Been The De-facto Regulators = Flexing Muscles Again Outside The U.S. With Higher Capital Requirements & Increased Oversight
4. “He Who Controls The Customer Wins” = Intermediaries Capture Outsized Returns Relative To Underwriters On An Absolute & Risk Adjusted Basis
5. “Bermuda Was a Better Mousetrap” And Underwriters Operating From The U.S., Paying Full U.S. Taxes, Are At A Distinct Competitive Disadvantage

BERMUDA WAS DOMICILE OF CHOICE FOR OVER LAST 25 YEARS

STARTUP CAPITAL BY "WAVE" = POST EVENT(S)



THERE WILL NOT BE A BERMUDA CLASS OF 201X POST EVENT

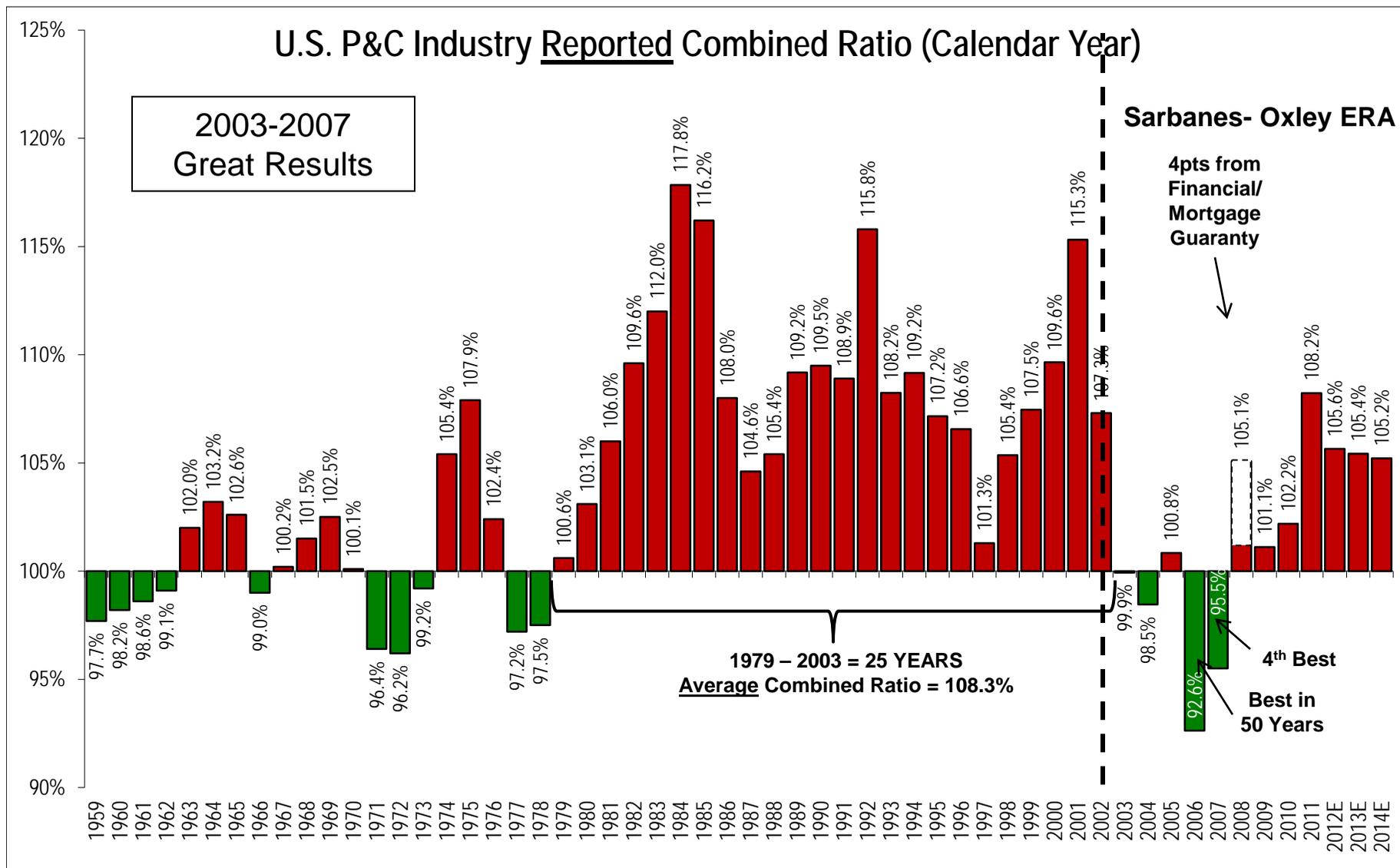
- **Public (Re)Insurance Stocks Selling Below Book**
- **Class of 2005 Did Not “Work” For P/E Investors**
- **Rating Agency Capital Model Changes Dampen Returns**
- **Acceptance of Other Risk Transfer Mechanisms**
 - Cat Bonds – No Longer “An Eloquent Solution In Search of Demand”
 - Sidecars
 - Fully Collateralized Reinsurers

Exception: Tax Driven “Hedge Fund” Strategies

6 KEY INVESTMENT THEMES FOR THE P/C SECTOR

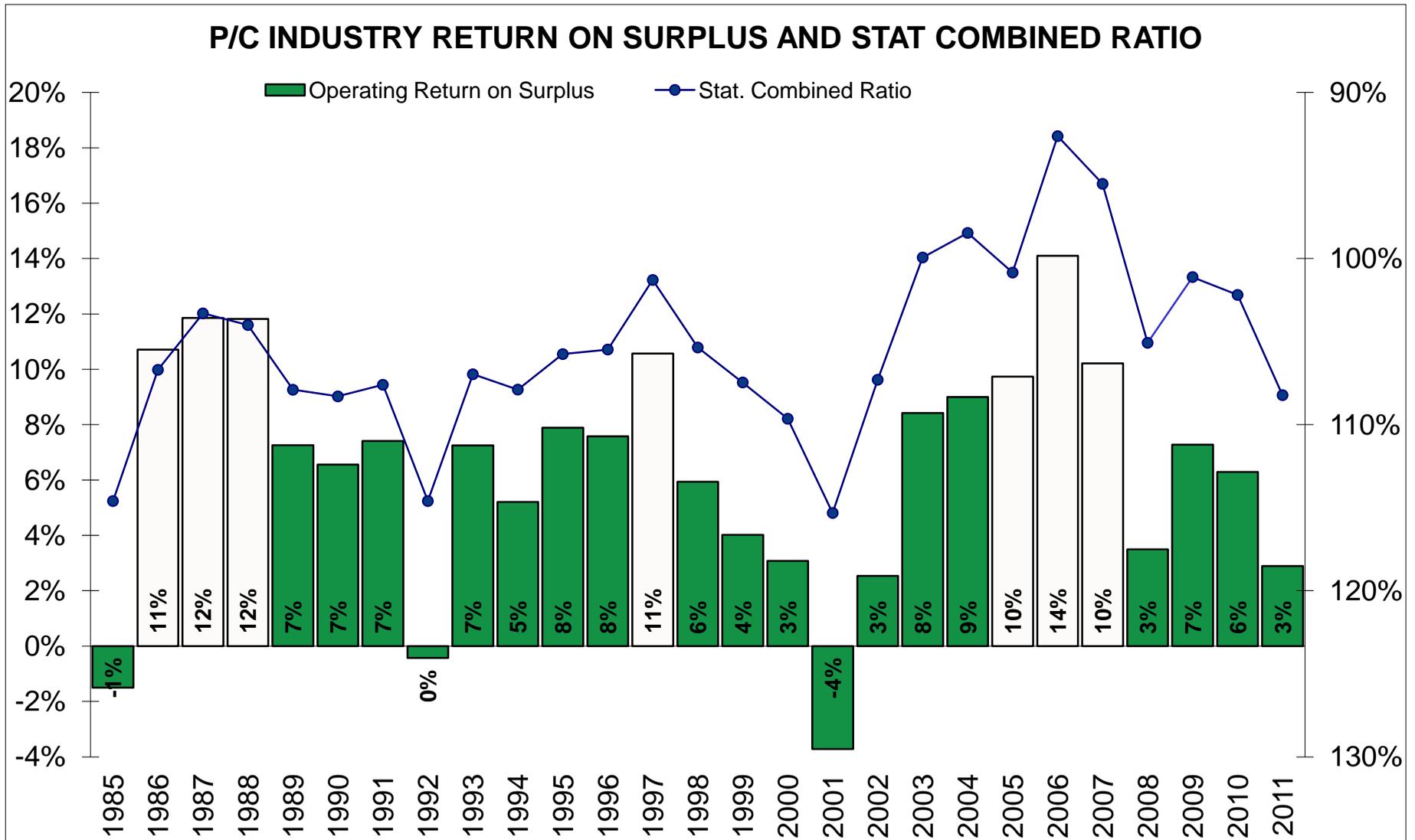
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6. In The Aggregate (Re)insurance Has Been/Is/And For The Invest-able Future Will Be A Lousy Business (Fails To Earn Its Cost Of Capital Over Time).

COMBINED RATIOS RISING AGAIN. 2012 RESULTS ARE "BAKED IN"

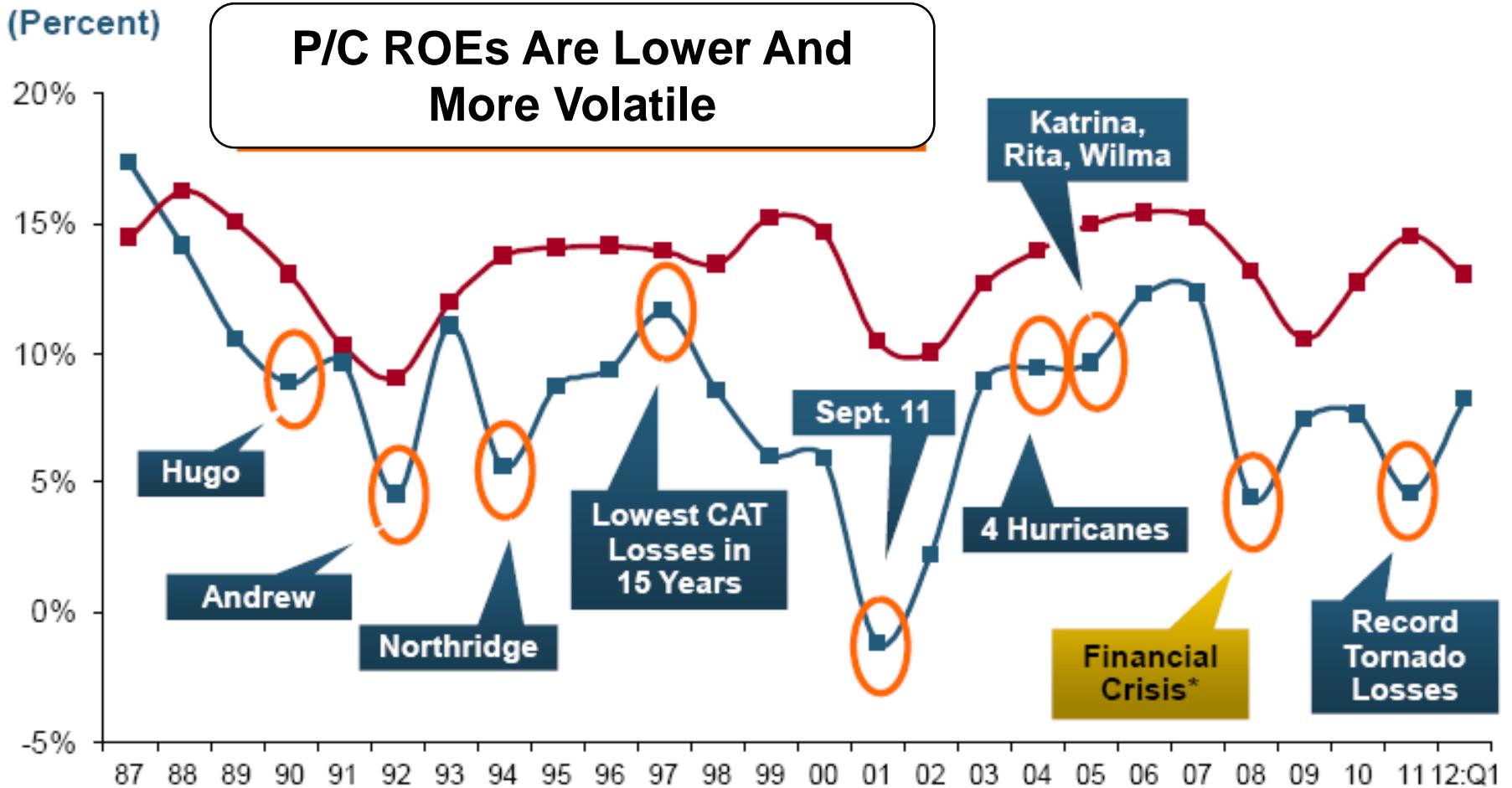


Source: A.M. Best Aggregates & Averages, D&P Estimates

1985 – 2010: 25 YEARS WITH ONLY 7 YEARS OF 10%+ ROE



PROPERTY/CASUALTY INSURANCE ROEs VS. FORTUNE 500

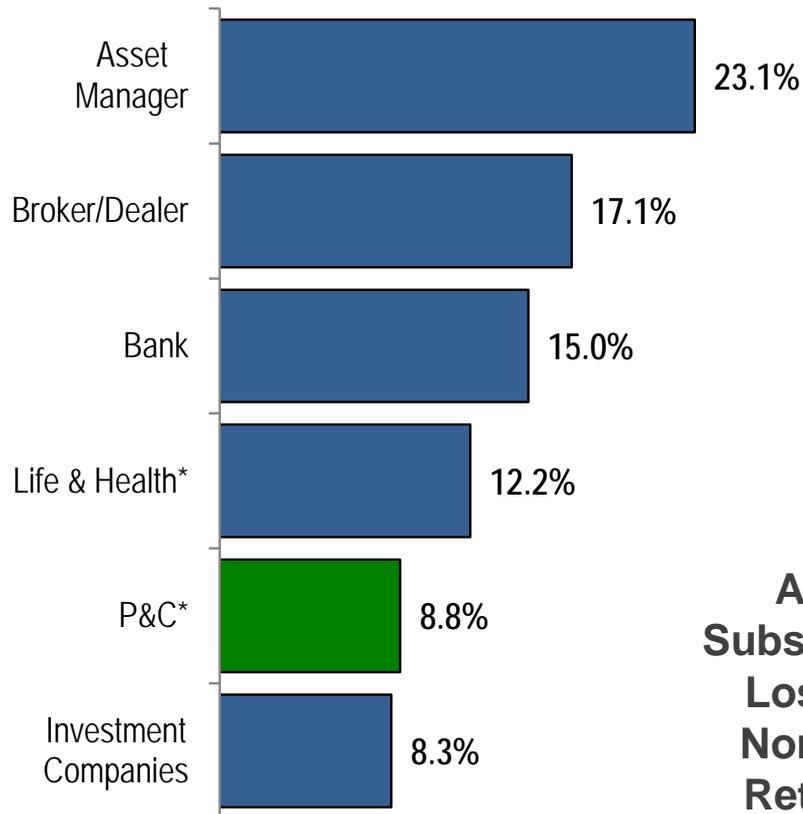


* Excludes Mortgage & Financial Guarantee in 2008 - 2012.

Source: Insurance Information Institute

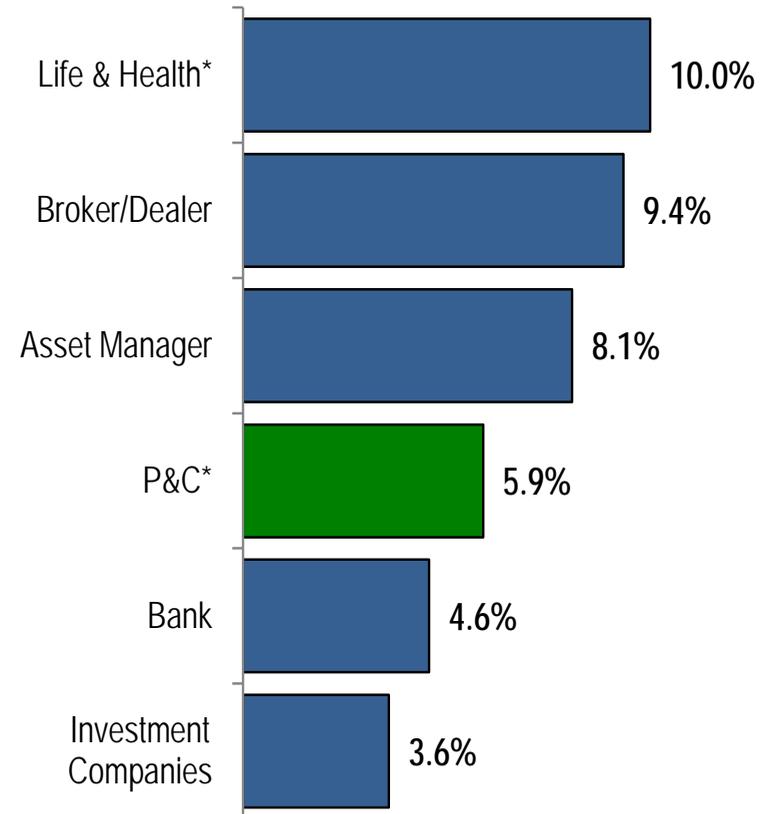
UNDERWRITING IS/WAS/WILL BE A LOW RETURN BUSINESS

Pre Financial Crisis
1996-2007 Avg. Trailing ROE
% By Industry



Source: SNL Financial; * Statutory Filings

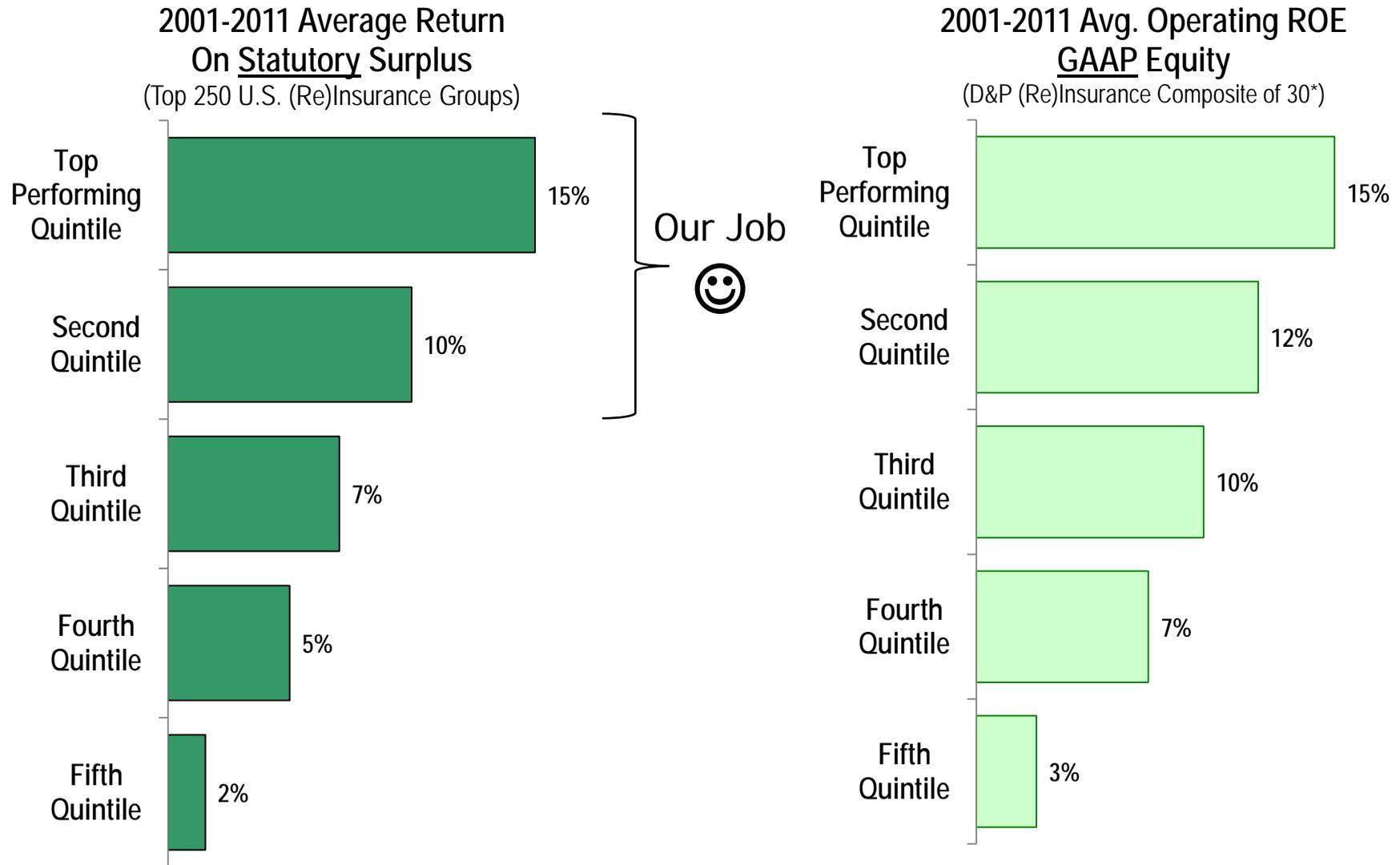
Post Financial Crisis
2009-2011 Avg. Trailing ROE
% By Industry



Source: SNL Financial; * Statutory Filings

**After
Subsequent
Losses,
Non-P/C
Returns
Were All
Overstated**

RELATIVE RETURNS IMPROVE IN “NEW WORLD” & “SPREAD” IS WIDE



Source: SNL Financial

* Underwriters under coverage with applicable history
Source: D&P Analysis, Company Reports

WHY P/C IS DIFFERENT & WELL POSITIONED RELATIVE TO OTHER FINANCIALS

Less Invested Asset Leverage

P&C Companies Usually Take Risk On Liability Side, Not Asset Side

Largest Liability (Loss Reserves) Have No Covenants = No “Run On The Bank”

“Matching” Of Assets To Liabilities = Ability To Hold To Maturity

Economic “Distress” Less A Negative On Operating Results

Business Model Not Required to Change Post 2008-2009

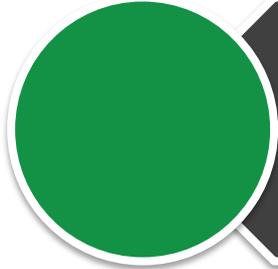
Last Man Standing In Time of Financial Distress

RELATIVE RETURNS OF P/C UNDERWRITERS WILL IMPROVE GOING FORWARD



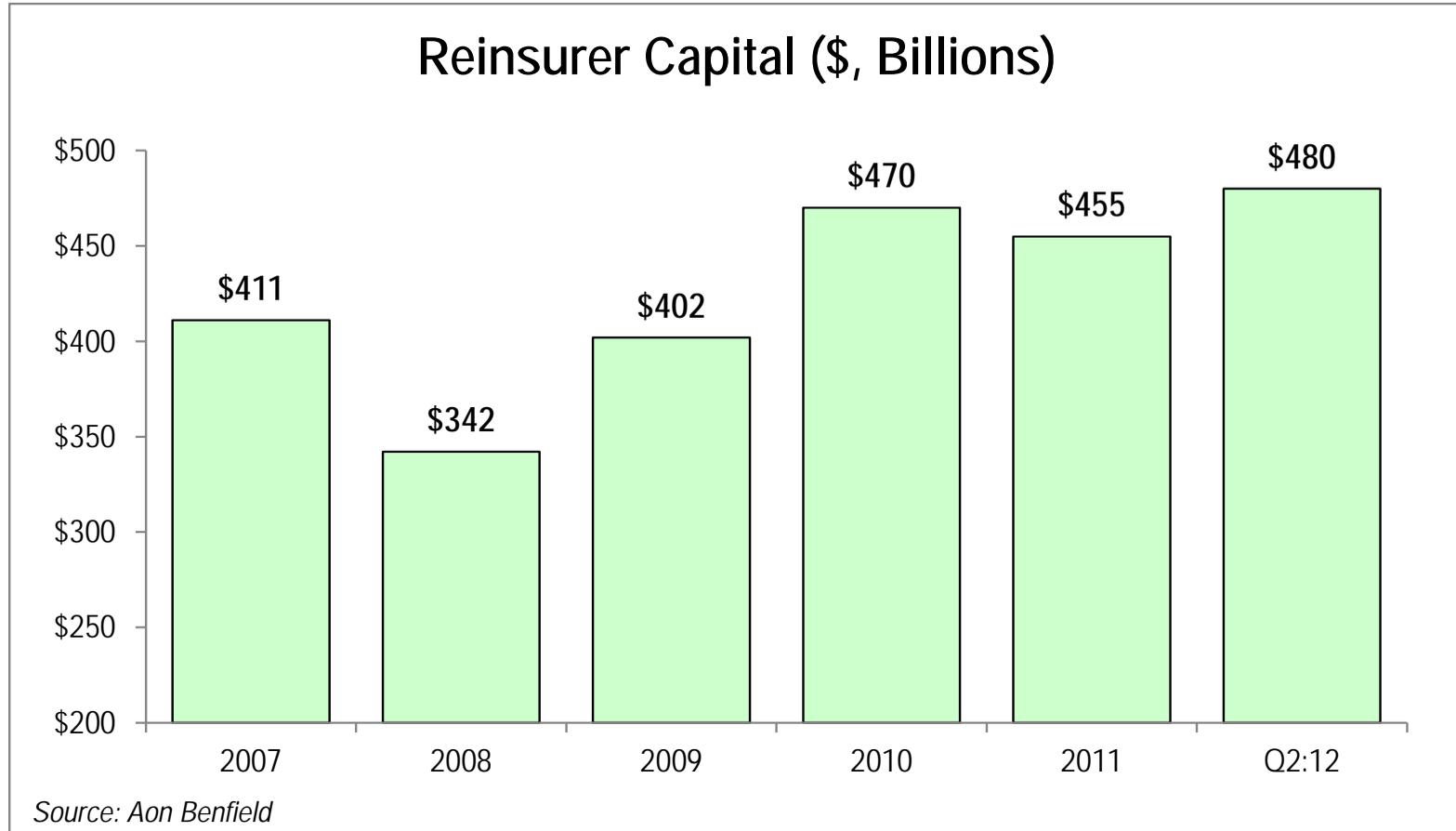
REINSURANCE PRICING PRESSURES DRIVE CHANNEL CONFLICT

REINSURANCE PRICING PRESSURES



Excess Capital (Industry Wide)

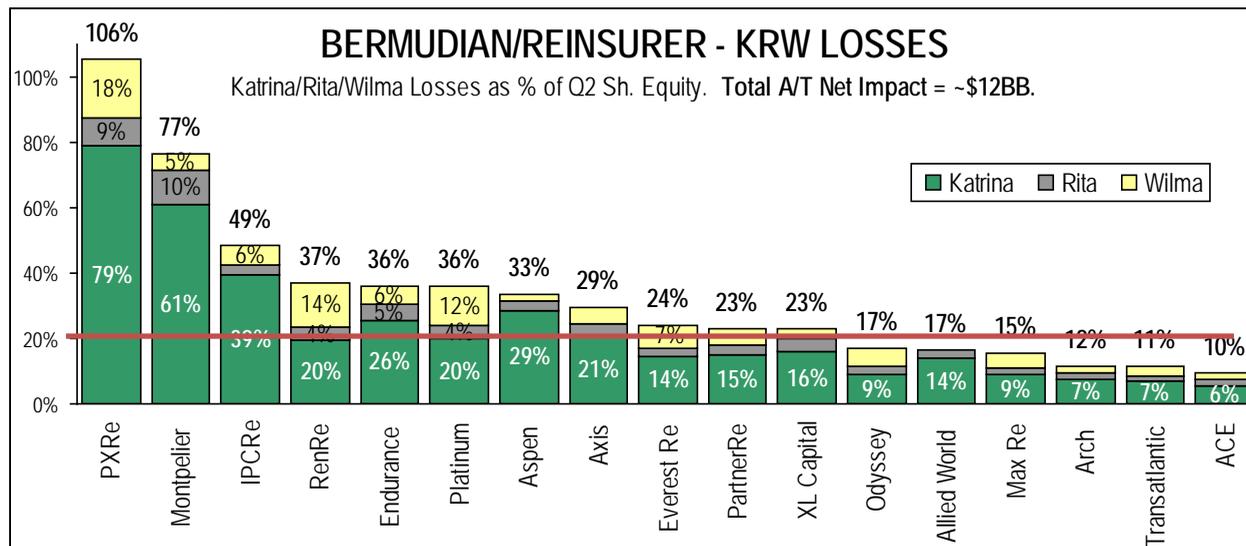
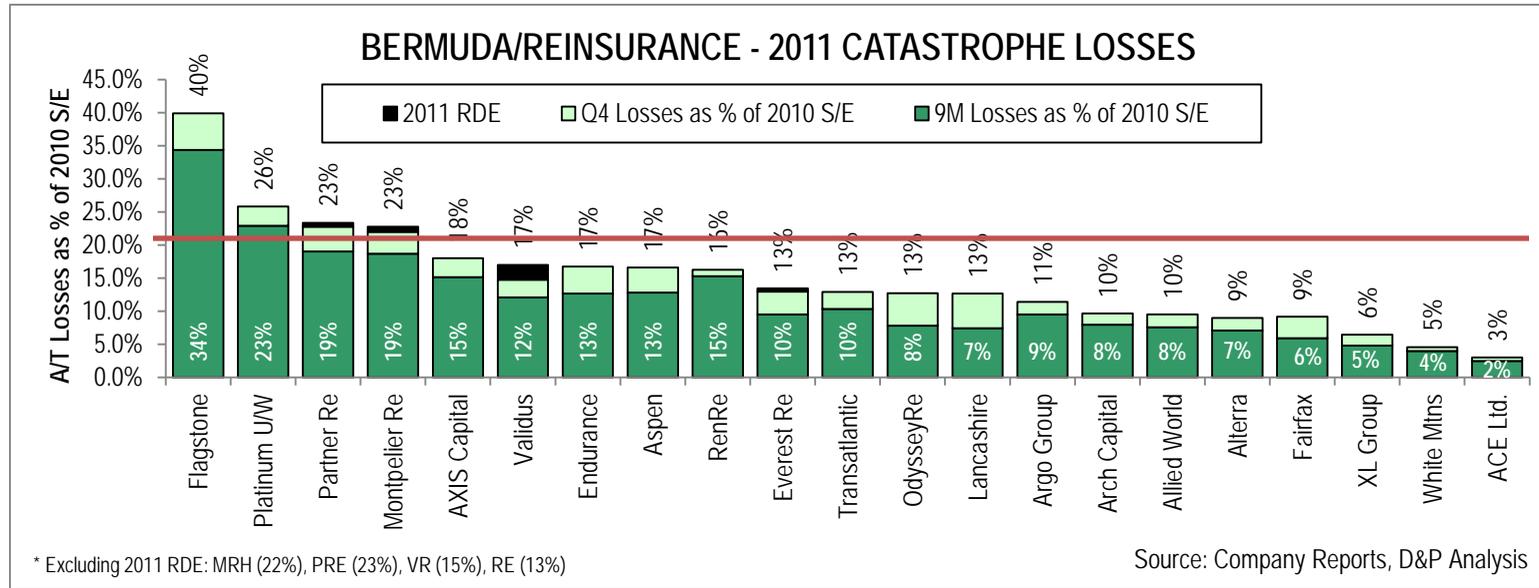
(RE)INSURANCE CAPITAL UP DESPITE 2011 CAT LOSSES



Reinsured Loss From 2011 Cat Events = ~\$45B*

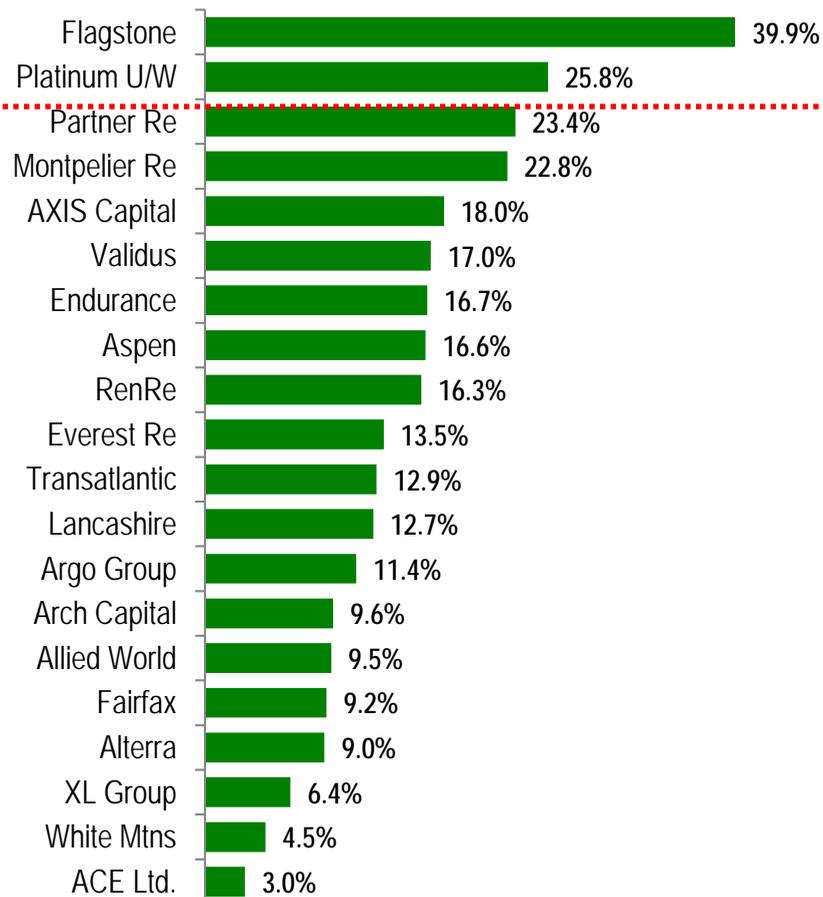
Source: Guy Carpenter

POST 2011 ... NO REINSURERS RAISE CAPITAL/GO OUT OF BUSINESS



2011 INTERNATIONAL CAT LOSSES REVEAL “DEWORSIFIERS”

2011 Catastrophe Losses as % of Beginning S/E

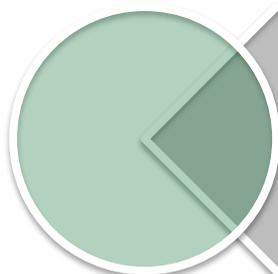


Source: Company Reports; D&P Analysis

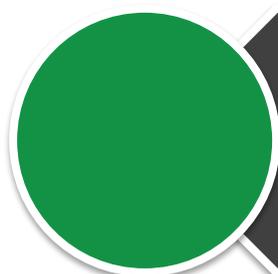
"It's only when the tide goes out that you learn who's been swimming naked."
[Warren Buffett]



REINSURANCE PRICING PRESSURES

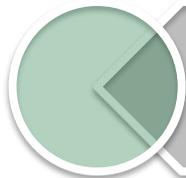


Excess Capital (Industry Wide)

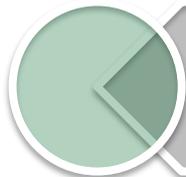


Increased Retention By Clients

REINSURANCE PRICING PRESSURES



Excess Capital (Industry)

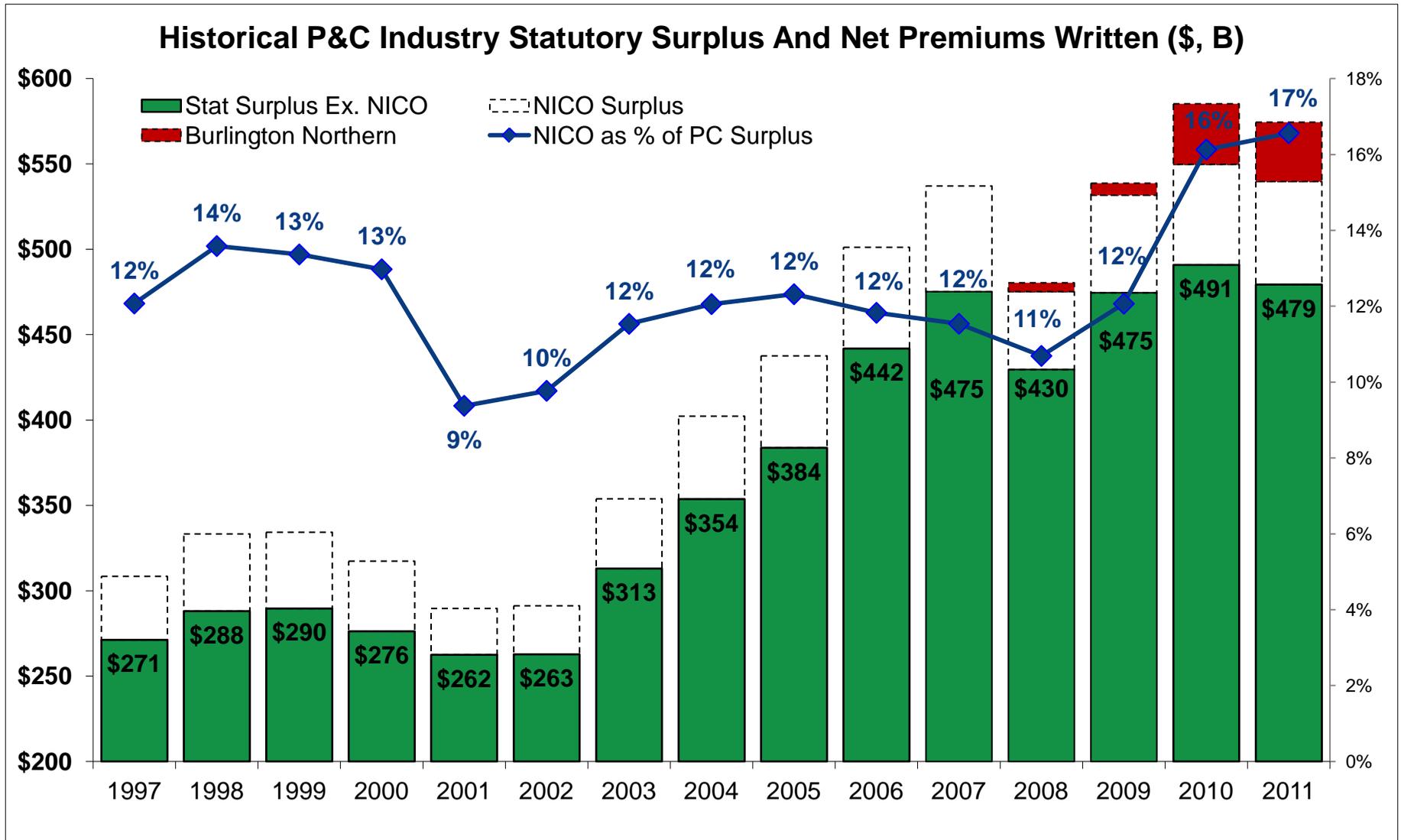


Increased Retention By Clients



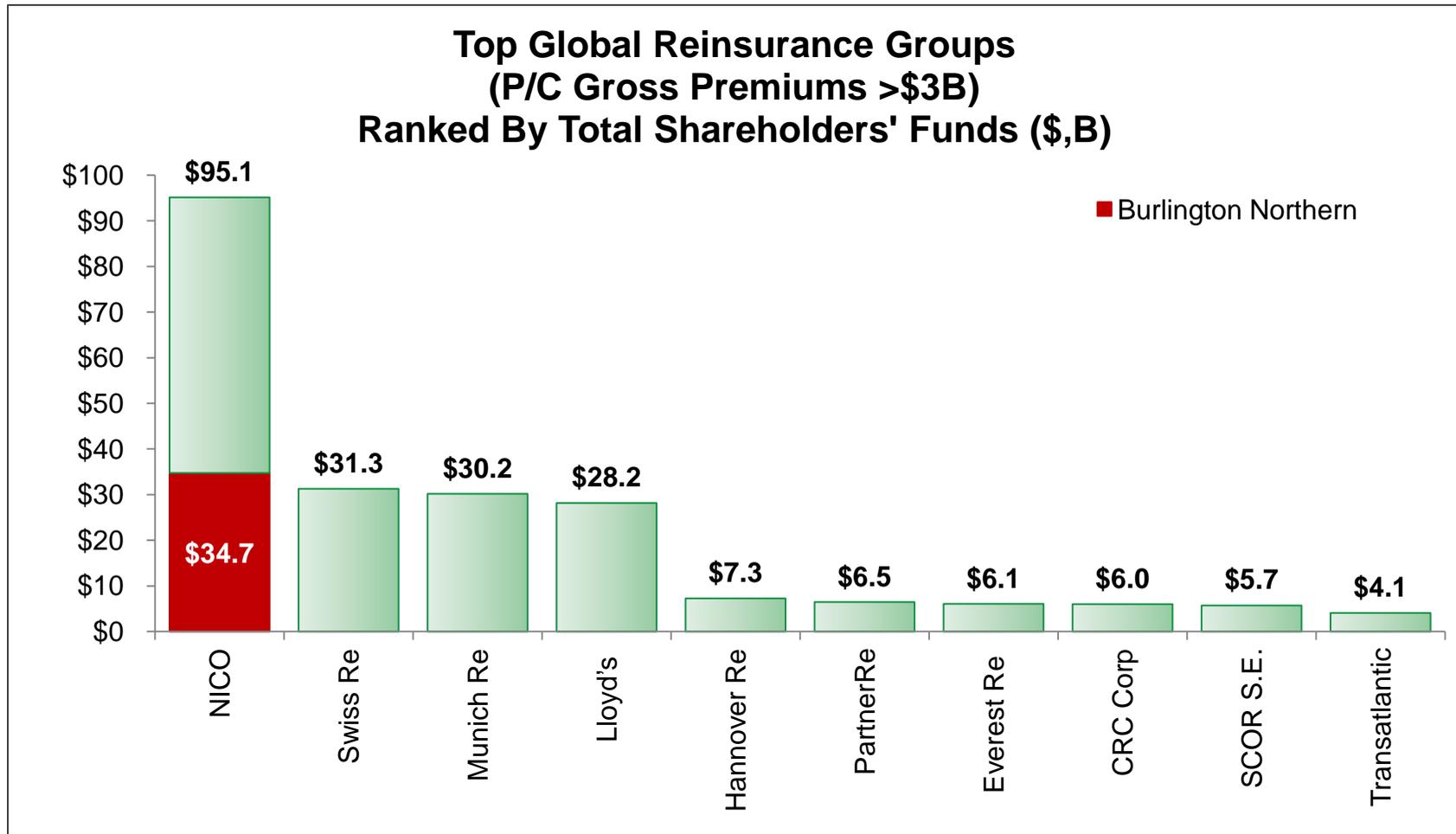
Ajit Jain = The “Cycle” Killer?

AJIT JAIN = THE "CYCLE" KILLER? NICO AS % OF P/C SURPLUS



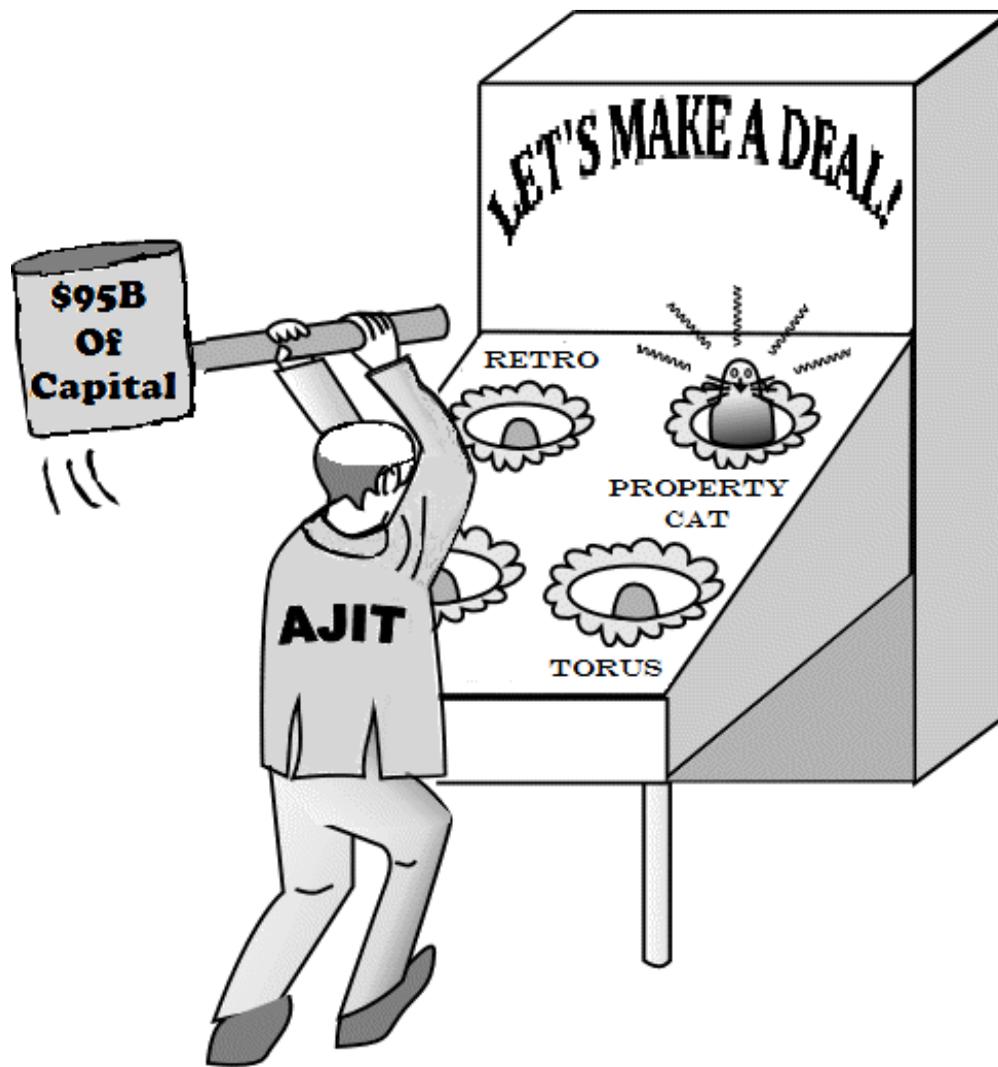
Source: A.M. Best Aggregates & Averages, SNL Financial

BURLINGTON NORTHERN = SECOND LARGEST GLOBAL REINSURER



Source: A.M. Best, Statutory Filings

AJIT JAIN = THE CYCLE KILLER?



REINSURANCE PRICING PRESSURES

Excess Capital (Industry Wide)

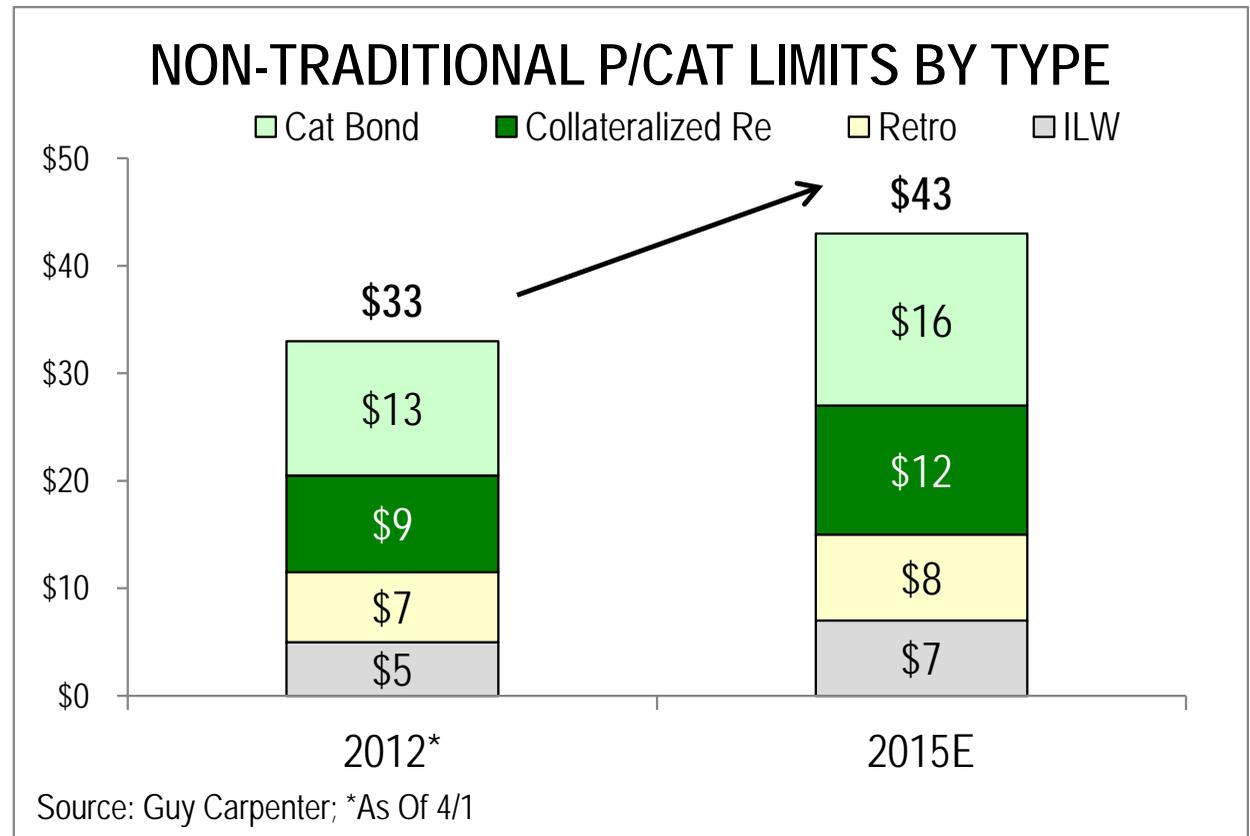
Increased Retention By Clients

Ajit Jain = The “Cycle” Killer?

“Tipping Point” For Alternative Sources Of Capital

ALTERNATIVE CAPACITY BECOMING A BIGGER PLAYER IN THE MARKET

- A major reinsurance broker predicts alternative capacity will ultimately comprise 20-30% of total reinsurance spend.
- Currently non-traditional capacity is estimated to provide ~13% of total worldwide cat limits.



“The ‘Tipping Point’ For The P/Cat Market May Have Been Reached at 6/1.”

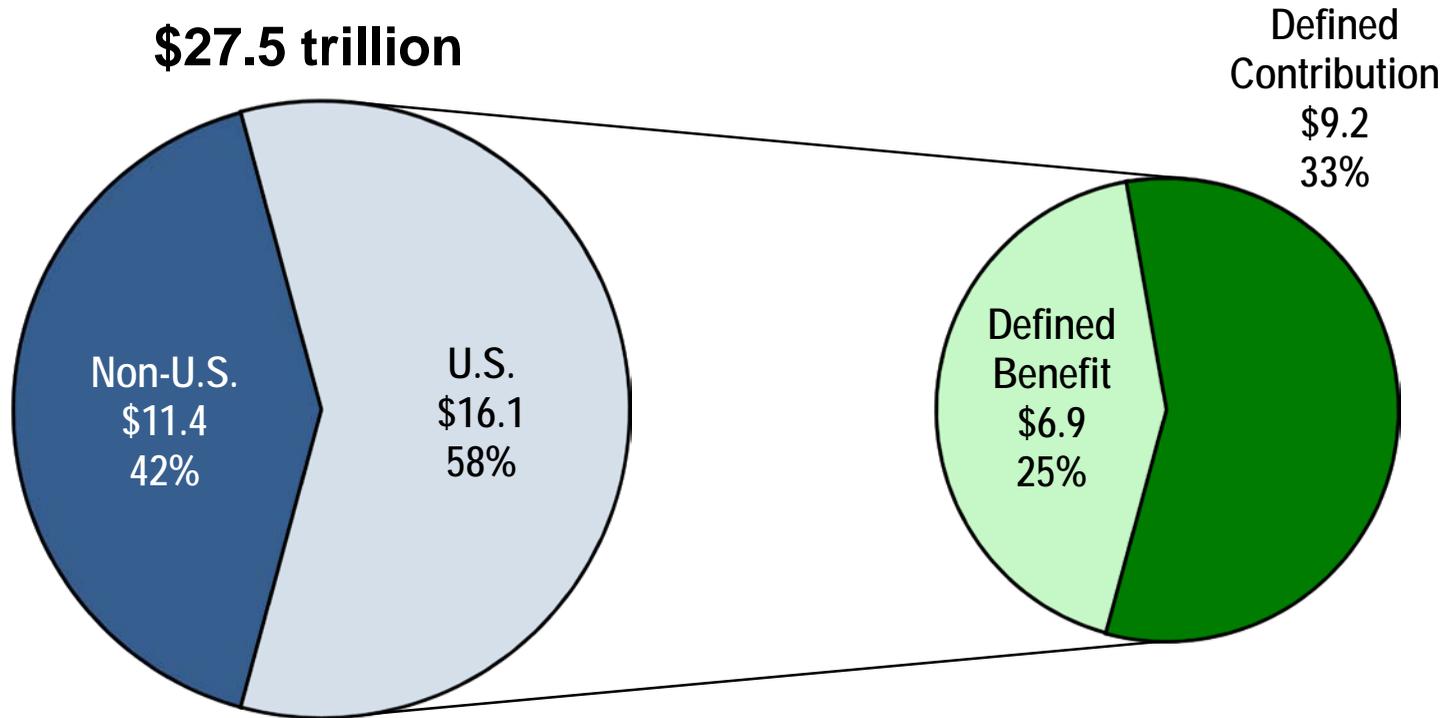
[IBNR Weekly 6/14/12]

- **Willis Re Chairman Peter Hearn – 7/1/12** *“... It is clear that the damping impact on rates due to the influx of new capital is frustrating for existing reinsurers who are battling concerns over falling investment income and dwindling reserve releases.”*
- **Validus Re CEO Ed Noonan – 7/27/12** *“There are places where third party capital or institutional money has a disproportional impact and right now we would point to Florida...”*
- **RenaissanceRe CEO Neill Currie – 8/1/12** *“We had anticipated additional firming at June 1 renewals, but as it turned out, pricing was relatively flat. We believe this was due primarily to new supply entering the market...”*

REINSURANCE GOES MAINSTREAM = CAT GAINS INSTITUTIONAL ACCEPTANCE

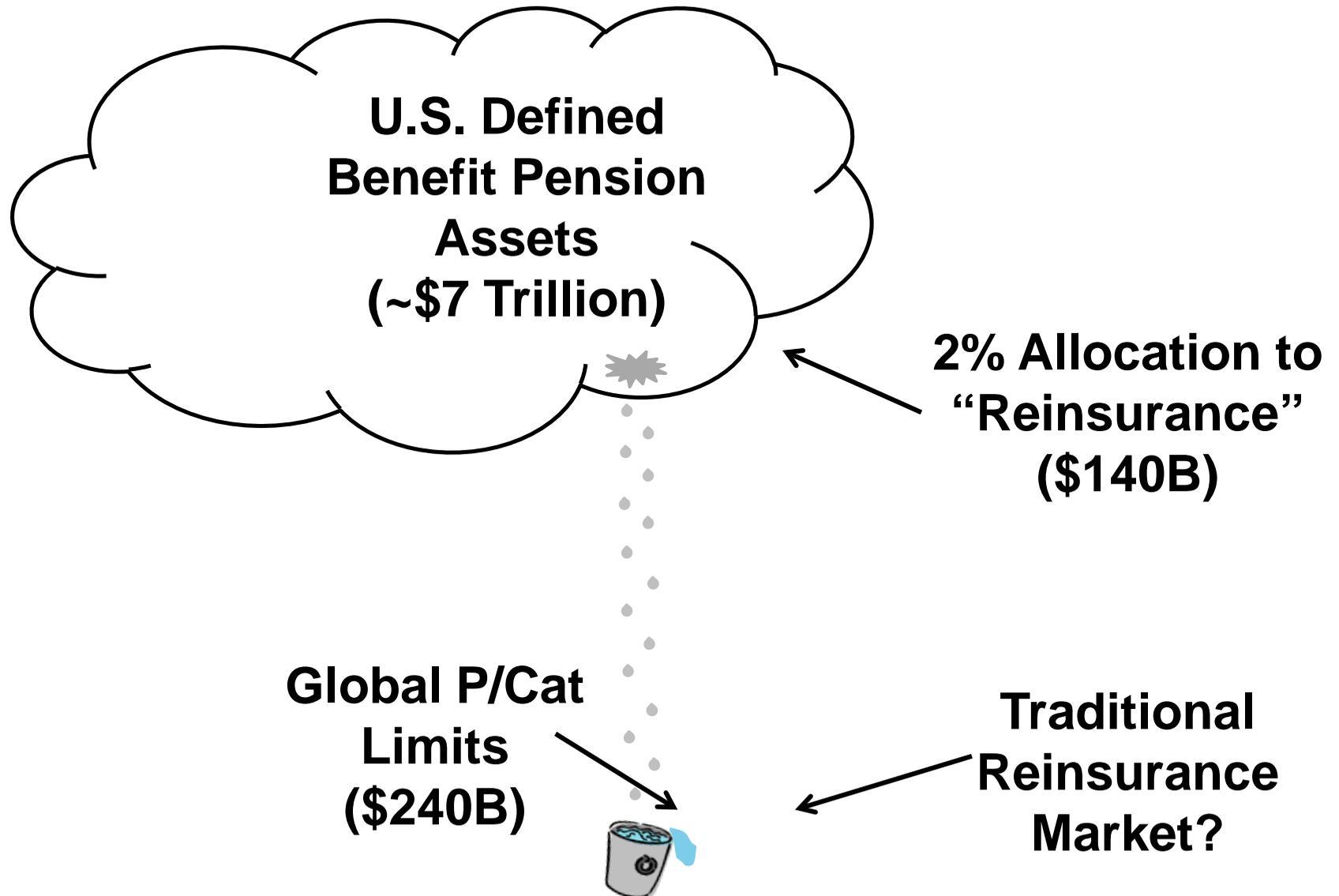
PENSION FUND ASSETS

\$27.5 trillion



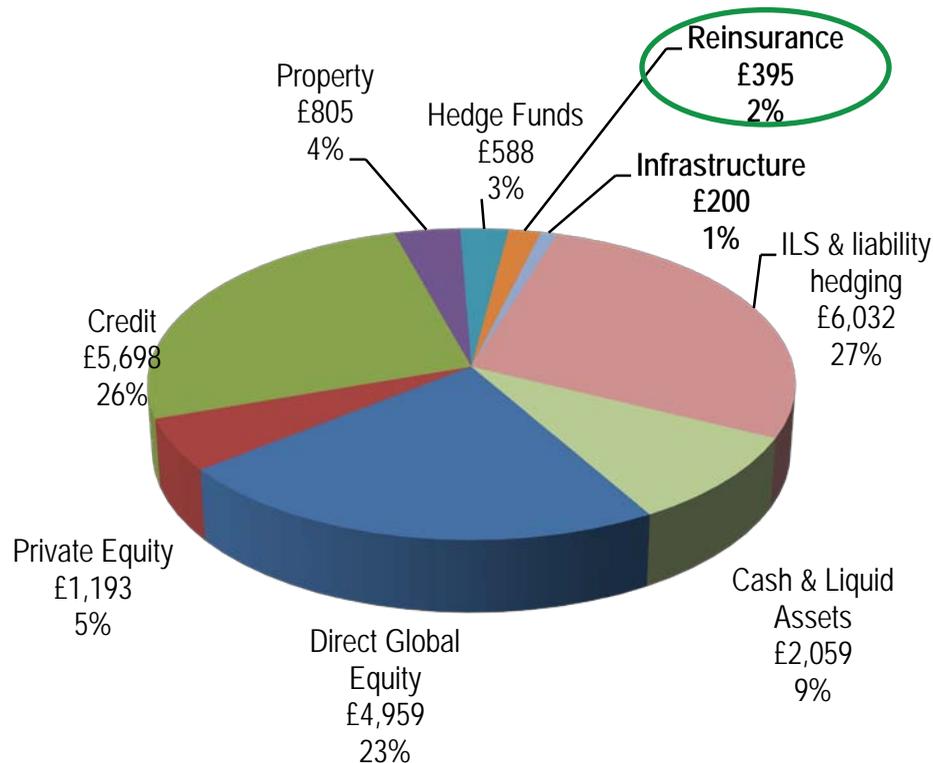
Source: Towers Watson Global Pension Assets Study 2012

PENSION FUND ASSETS RELATIVE TO GLOBAL PROPERTY CAT LIMITS



RBS GROUP PENSION FUND ALLOCATES 1.8% TO NEW ASSET CLASS: “REINSURANCE”

RBS Group Pension Fund
Distribution of Assets as of 3/31/12

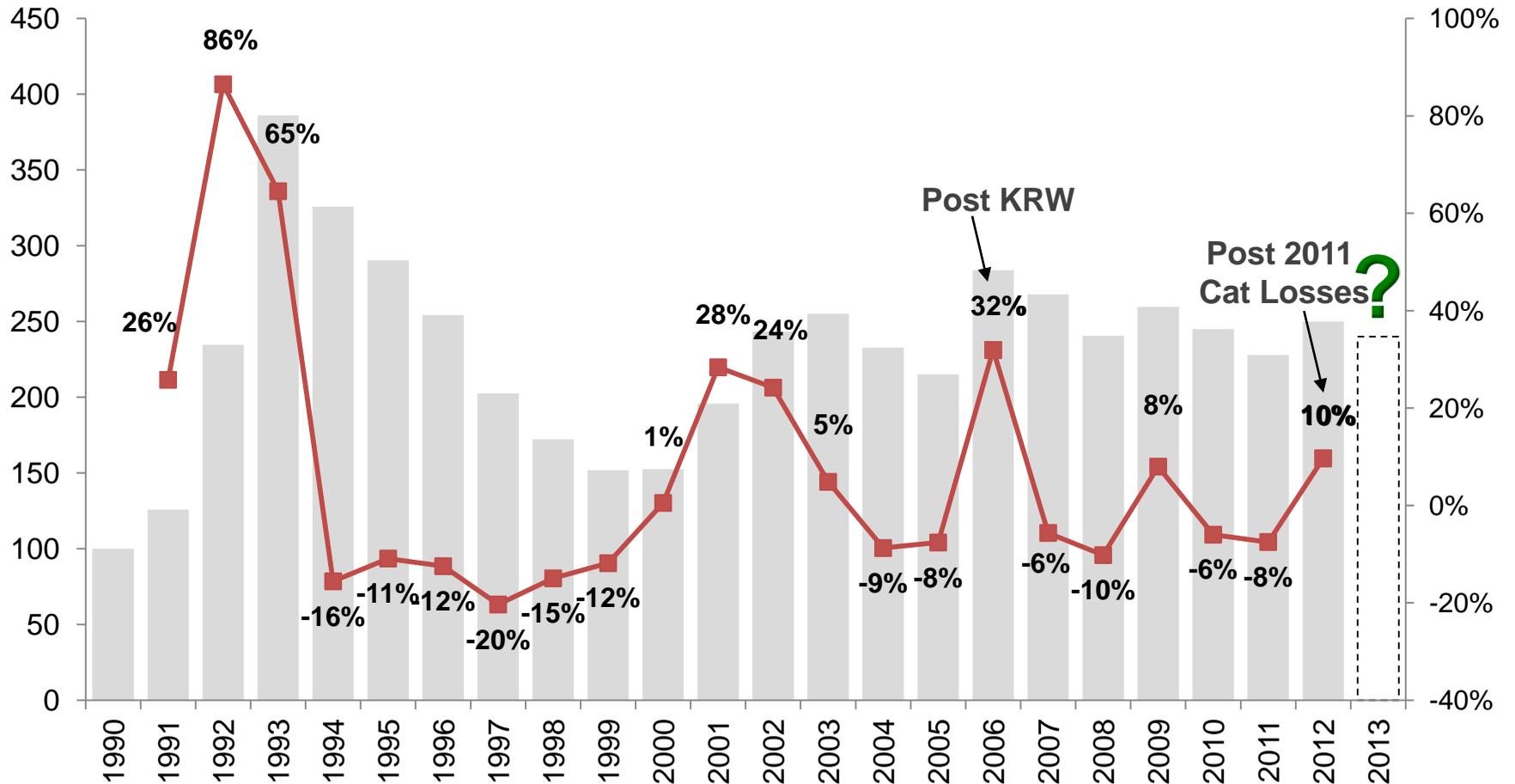


“The new strategic benchmark is being phased in through 2011 and 2012. So far the Fund has reduced its equity exposure by £2 billion to reduce investment risk and introduced two new asset classes – reinsurance and infrastructure.”

Note: £395M = \$640M, or ~ the entire size of Flagstone @ take out.

P/CAT PRICE SPIKES MITIGATED. PRICING ON SECULAR DECLINE

Guy Carpenter World Property Cat Reinsurance Rate on Line Index*
 * 1990 = 100



Source: Guy Carpenter; 2013 = D&P Estimate

WHERE ARE WE IN THE UNDERWRITING CYCLE?

CYCLE MANAGEMENT = WELL INTO THE “CHEATING PHASE”

Phases of P/C Cycle

Reported results are always wrong

Reported results are a lagging indicator of true profitability

2 main drivers

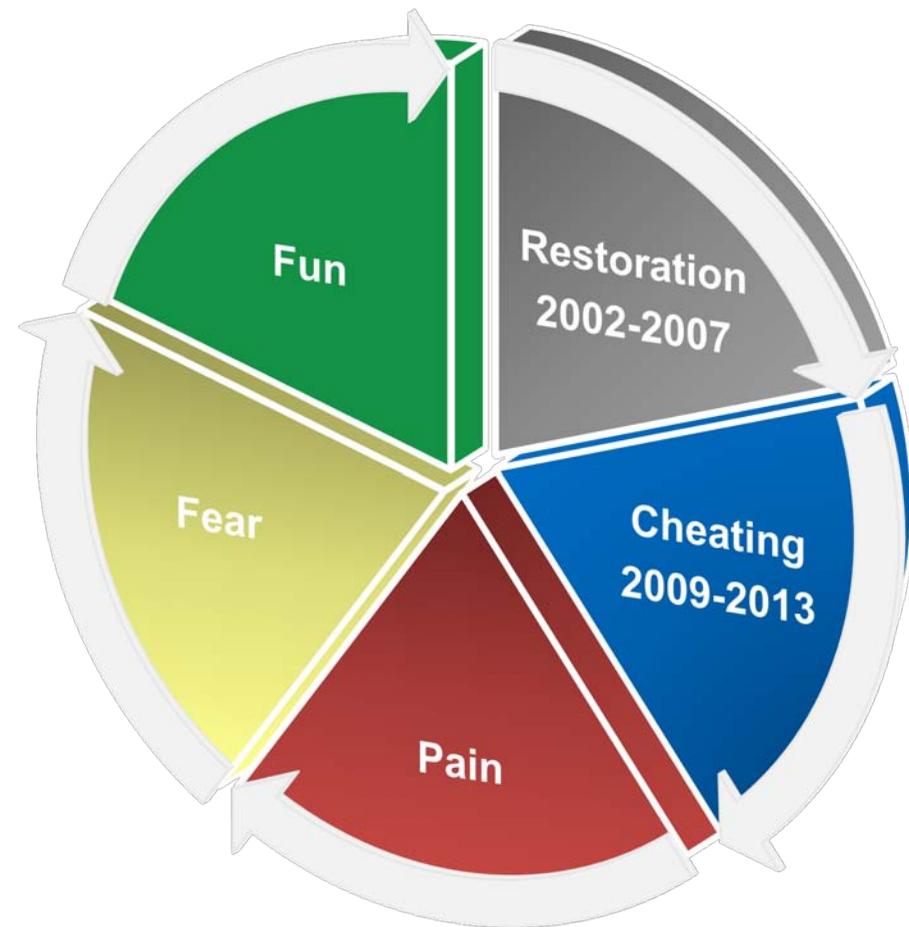
- Initial AY Loss ratio “pick”
- Prior period reserve adjustments

Reported results (Calendar Year) worse than underlying results (Accident Year) =

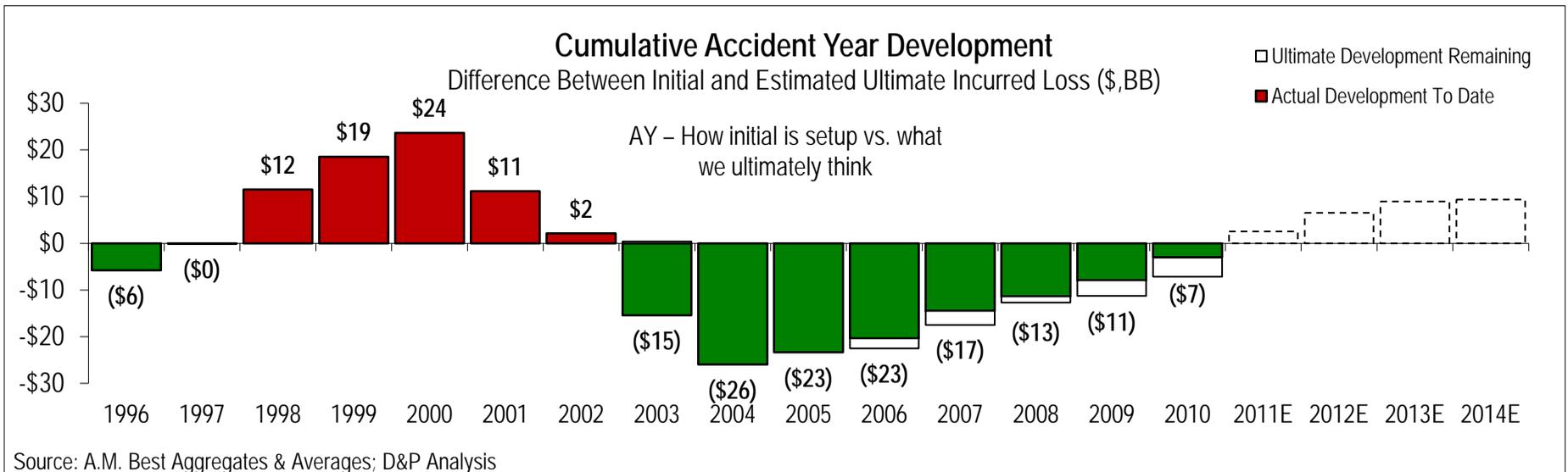
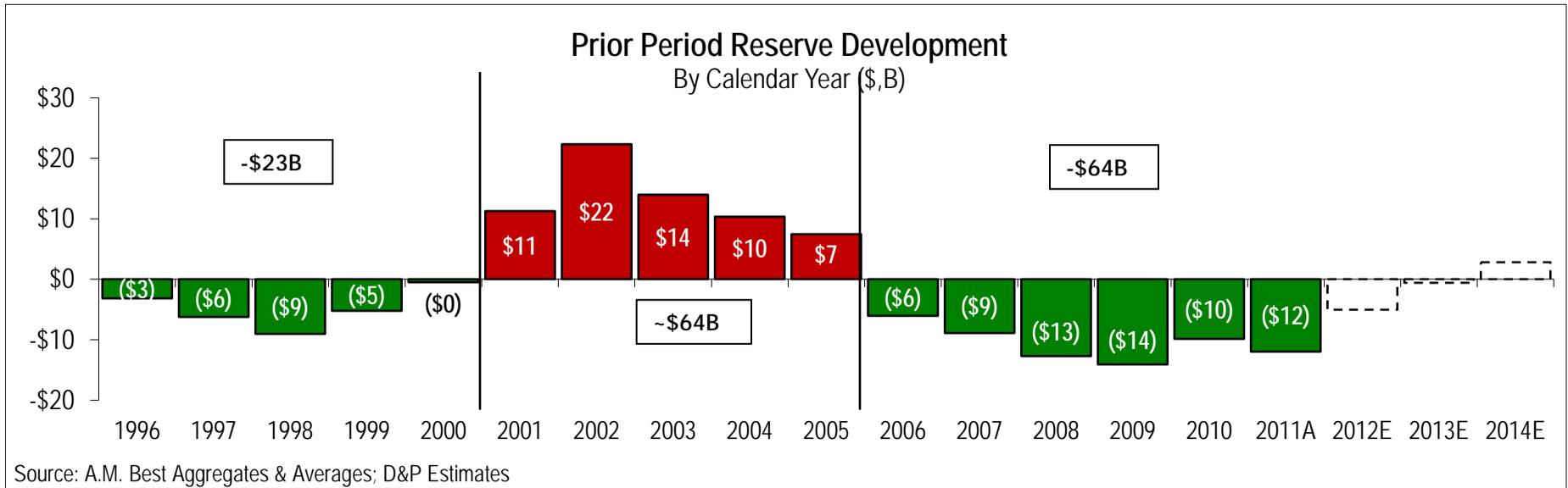
Restoration Phase

Reported results (Calendar Year) better than underlying results (Accident Year) =

Cheating Phase

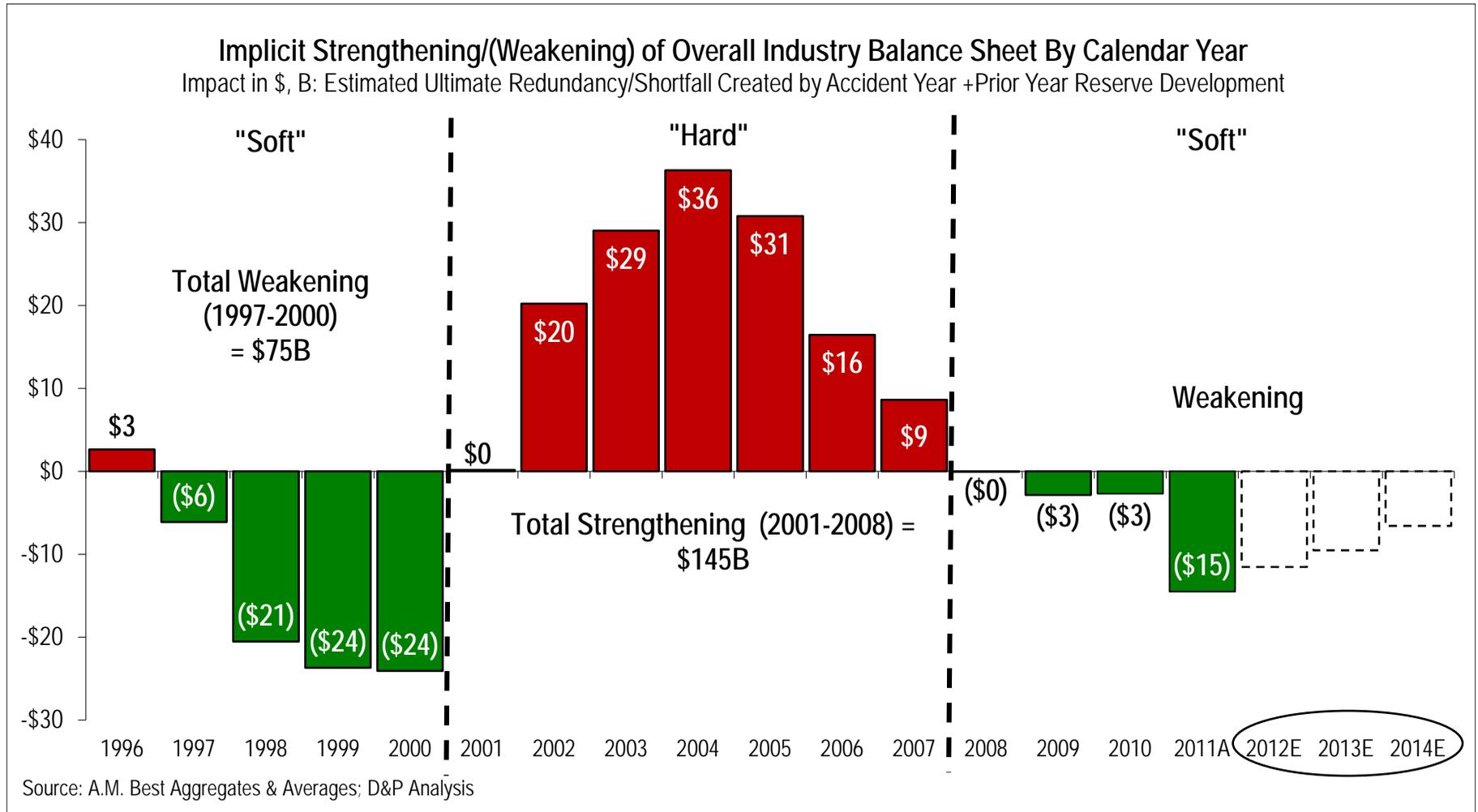


REPORTED RESULTS ARE ALWAYS WRONG.



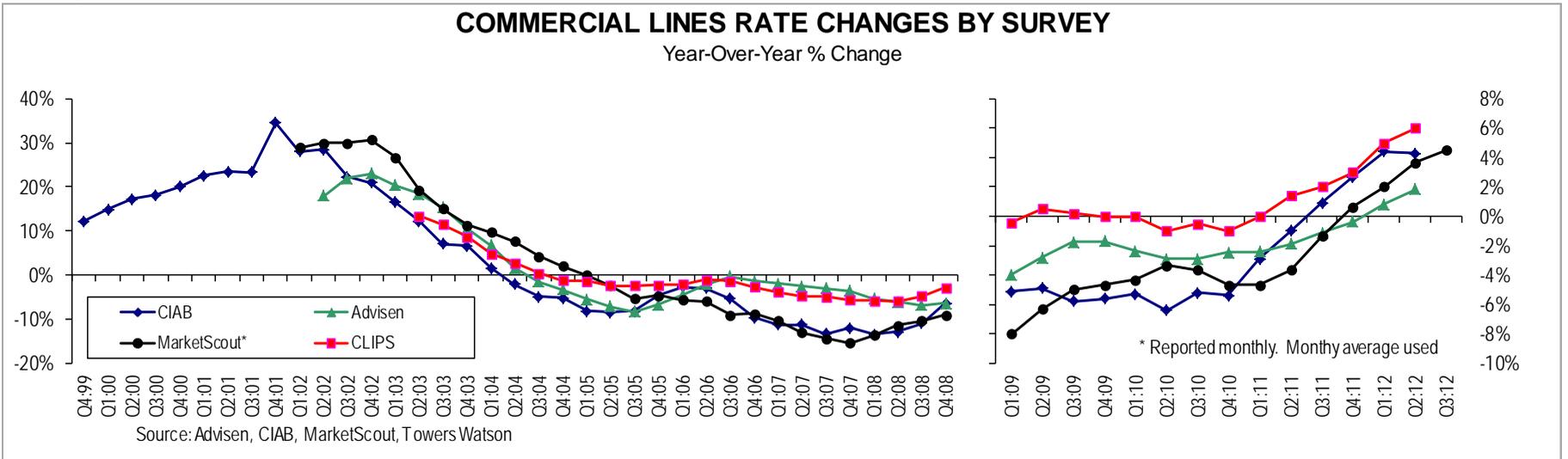
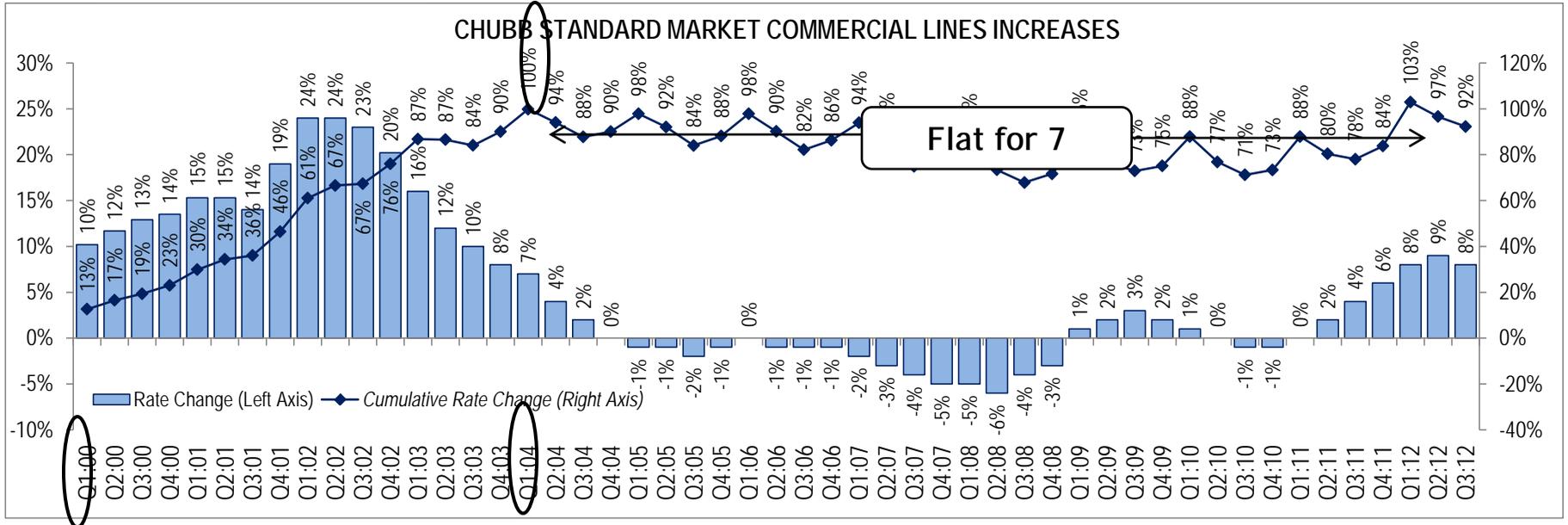
THE "CYCLE" = INCOME STATEMENT LAGS

Declining Conservatism In Initial Loss Ratio Picks Combined With Reserve Releases = Cheating Phase



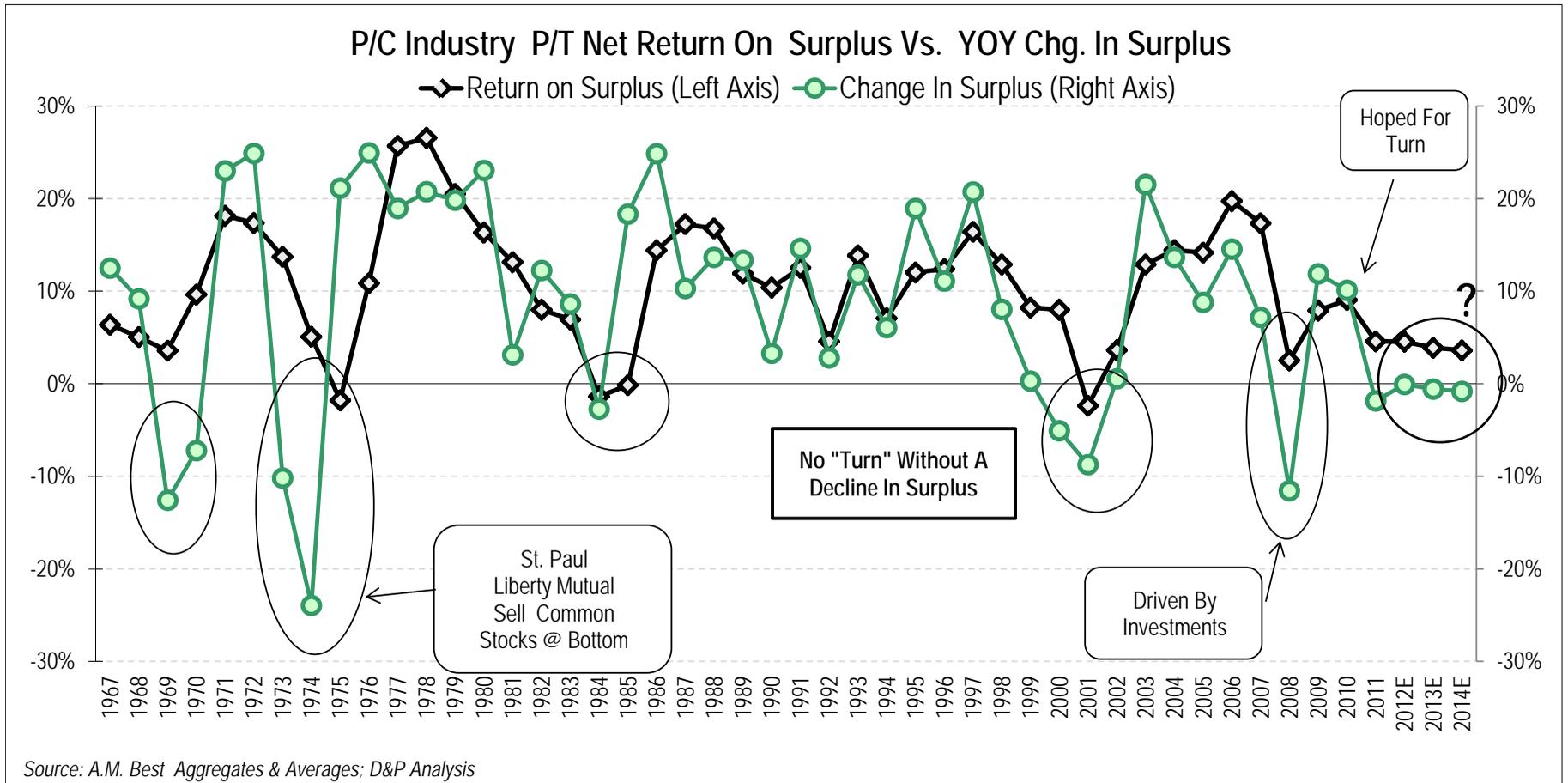
U.S. COMMERCIAL LINES PRICING NOW BACK TO 2004 LEVELS

Doubled in 2 years



**CAN THE INDUSTRY EARN AN “ADEQUATE” RETURN
WITHOUT A DECLINE IN SURPLUS?**

CAN THERE BE A MAJOR MARKET TURN WITHOUT A DECLINE IN SURPLUS?



VARIABLES FOR 2013 - 2014

■ Price Increases vs. Loss Costs



■ Investment Returns



■ Reserve Adjustments



Q&A