

Northeast Ohio RIMS Property and Terrorism Market Update

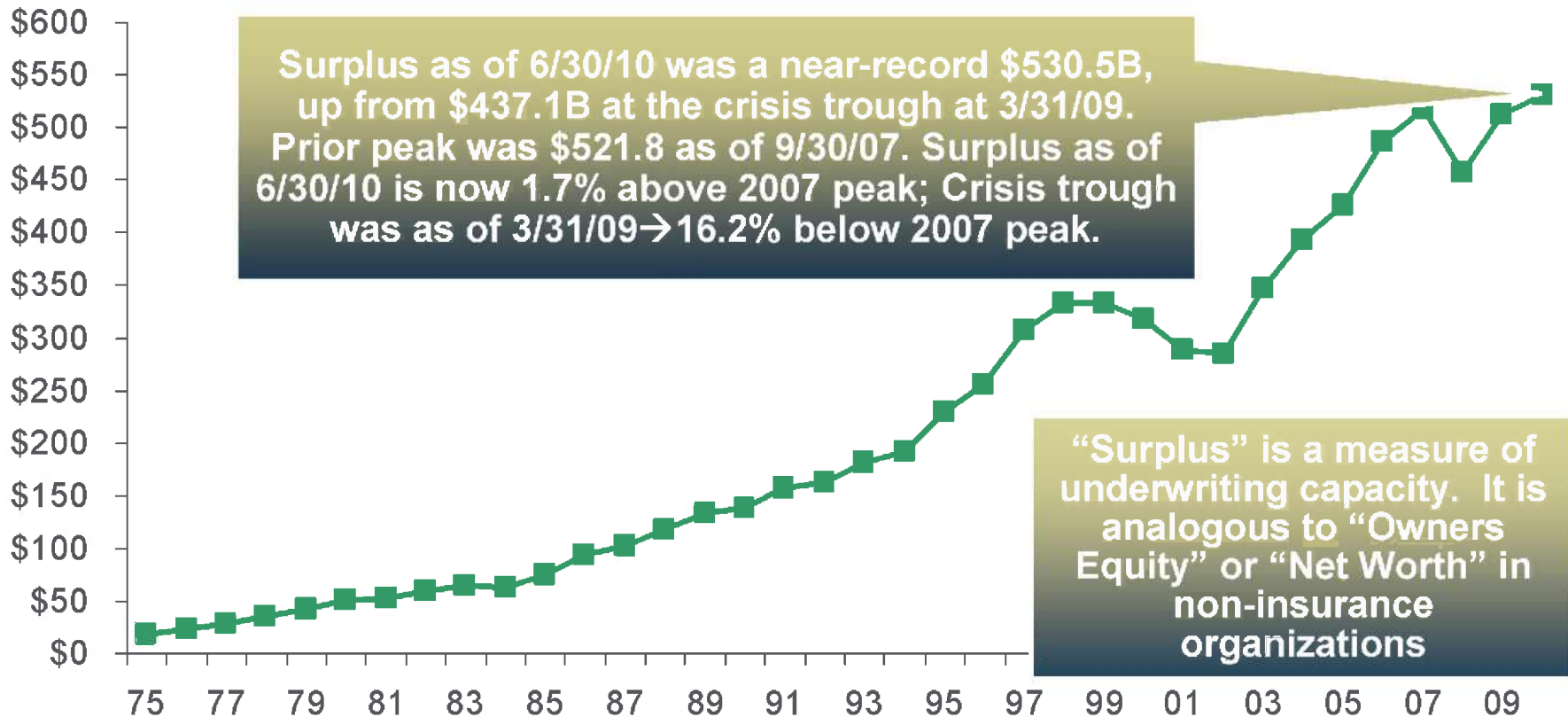
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October 2010



US Policyholder Surplus: 1975–2010*

(\$ Billions)

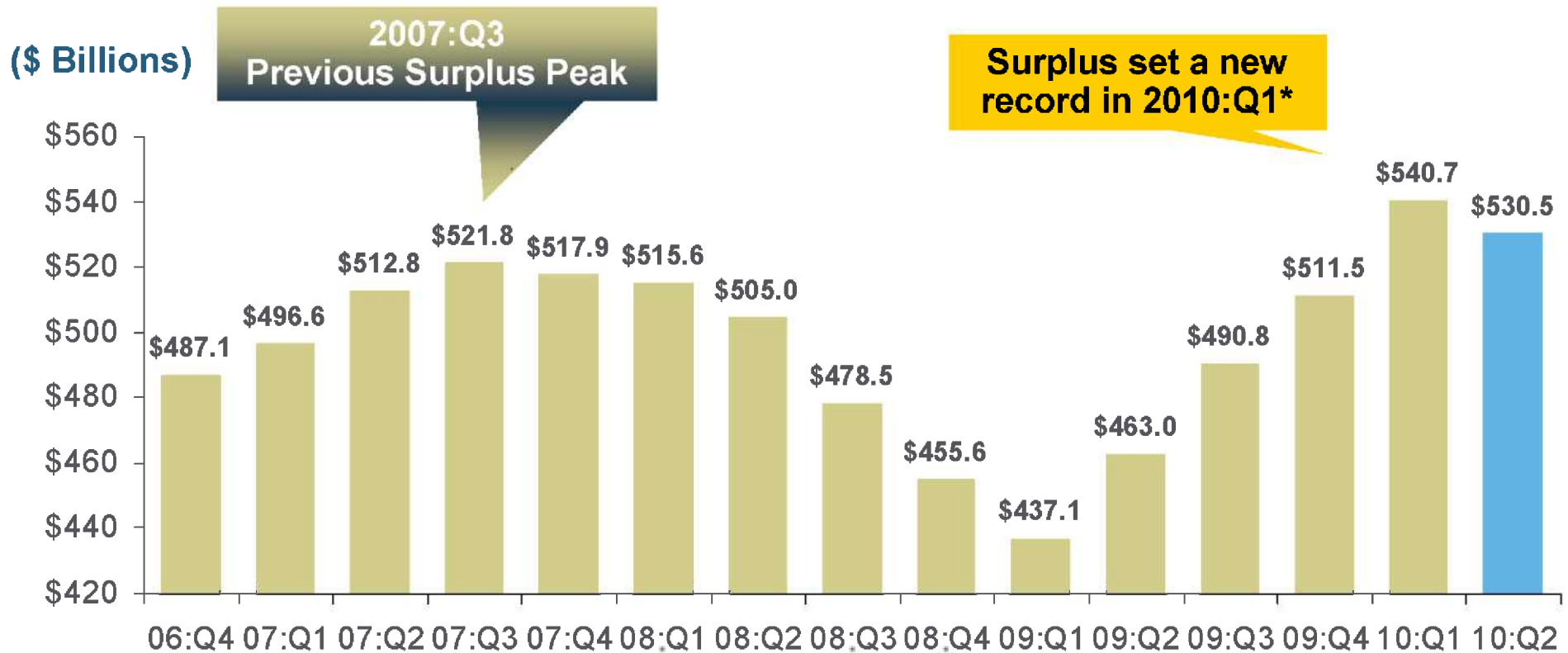


The Premium-to-Surplus Ratio Stood at \$0.80:\$1 as of 6/30/10, A Record Low

* As of 6/30/10; **Calculated using annualized net premiums written based on H1 2010 data.

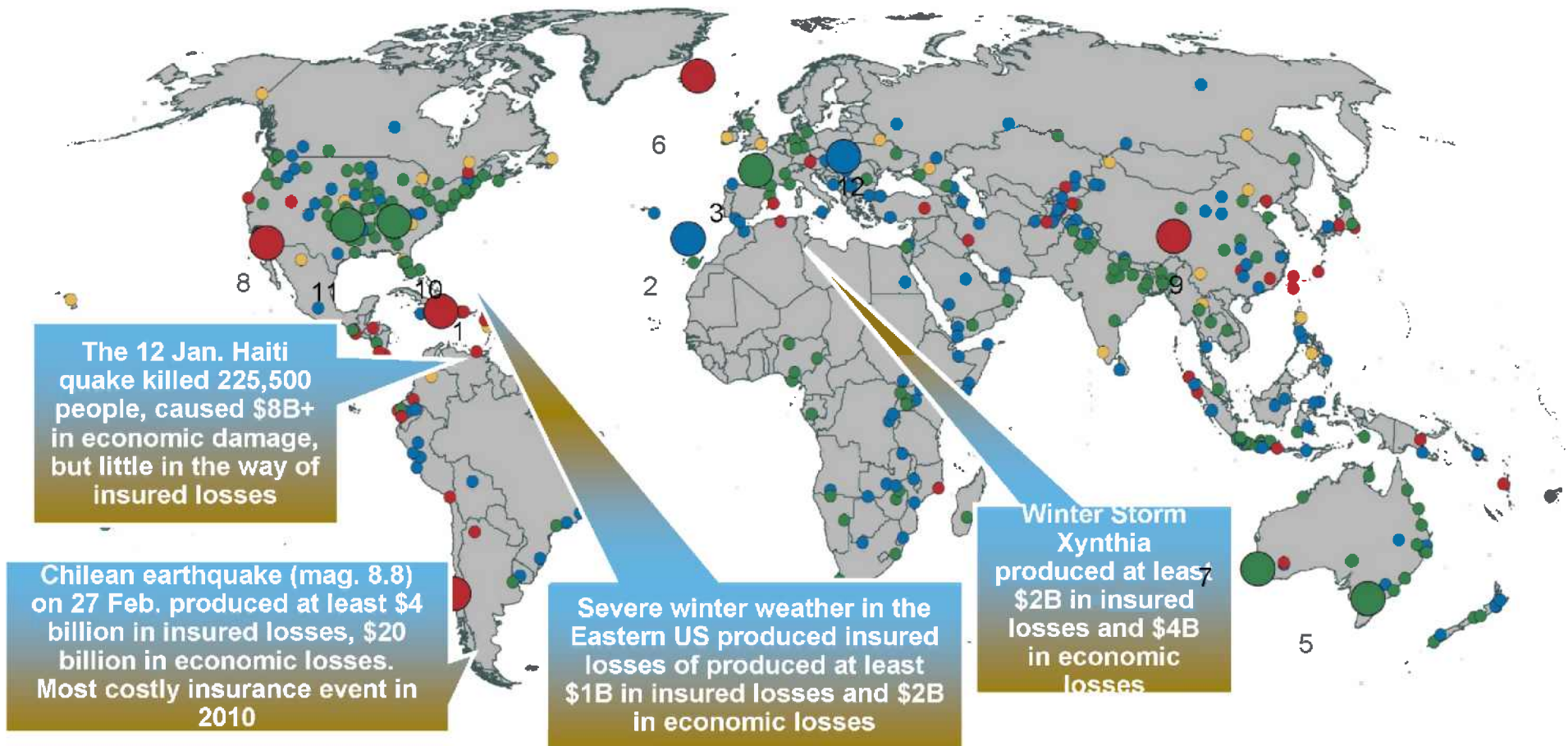
Source: A.M. Best, ISO, Insurance Information Institute.

Policyholder Surplus, 2006:Q4–2010:Q2



Sources: ISO, A.M. Best.

Global Natural Catastrophes: First Half of 2010



- Global natural catastrophes
- Selection of significant natural catastrophes (see table)
- Geophysical events (earthquake, tsunami, volcanic activity)
- Meteorological events (storm)
- Hydrological events (flood, mass movement)
- Climatological events (extreme temperature, drought, wildfire)

2010 Earthquakes

Event	Magnitude	Deaths	Insured Loss*	Total Loss*
Haiti (January 12 th)	7.0	222,570	\$10m - \$30m	\$8b - \$14b
Chile (February 27 th)	8.8	521	\$3b - \$8b	\$15b - \$30b
Mexicali (April 4 th)	7.1	2	\$0.3b	\$1b
Canterbury, NZ (September 4 th)	7.0	0	\$1b - \$2b	\$4b

*** Preliminary Loss Estimates obtained from various sources accessed via internet**

Haiti – Typical Damage



Chile – Tsunami



Chile – Tall Buildings affected



Chile – Tall Buildings affected



Chile – Non Structural Damage



Mexicali EQ



Photo - Fred Lewis

Canterbury (NZ) – Old Masonry



Photo – New Zealand Herald

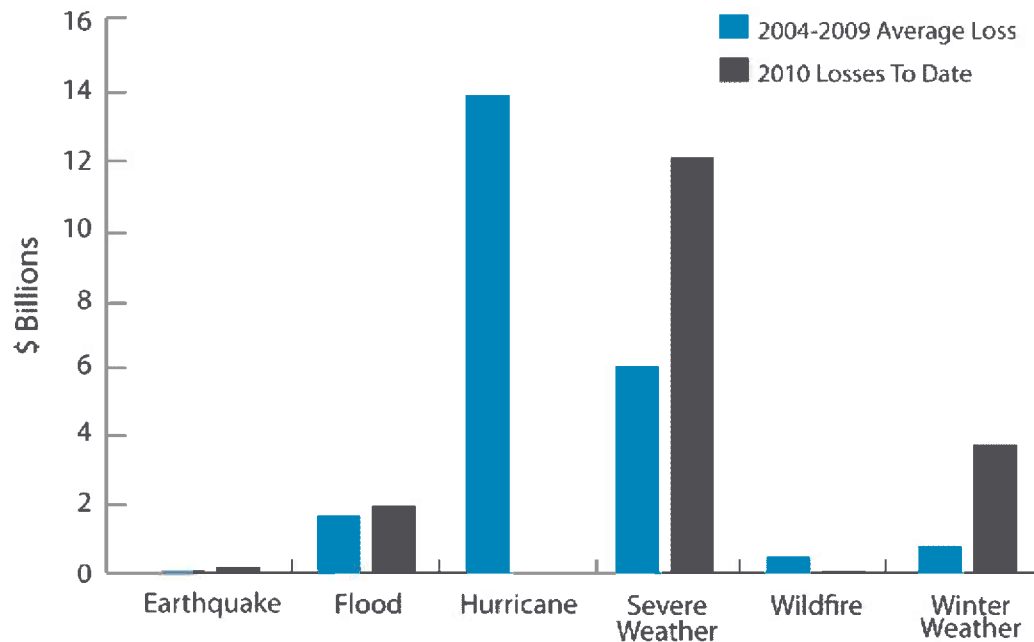
Canterbury (NZ) – Non Structural



Photo – New Zealand Herald

2010 Non-U.S. Catastrophe Losses Activity

- Significantly higher non-U.S. catastrophe activity
 - With insurance penetration at 50% similar to the U.S., insured losses increases from \$18B to \$80B (8X U.S. 2010 insured loss)



Source: Impact Forecasting

Outlook for 2010 North Atlantic Hurricane Season*

Forecast Parameter	Average (1950-2000)	2010 Forecast*
Named Storms	9.6	18
Named Storm Days	49.1	90
"	5.9	10
Hurricane Days	24.5	40
Major Hurricanes	2.3	5
Major Hurricane Days	5.0	13
"	96.1	185
Net Tropical Cyclone Activity	100%	195%

Source: Colorado State University, Department of Atmospheric Sciences; Insurance Information Institute.

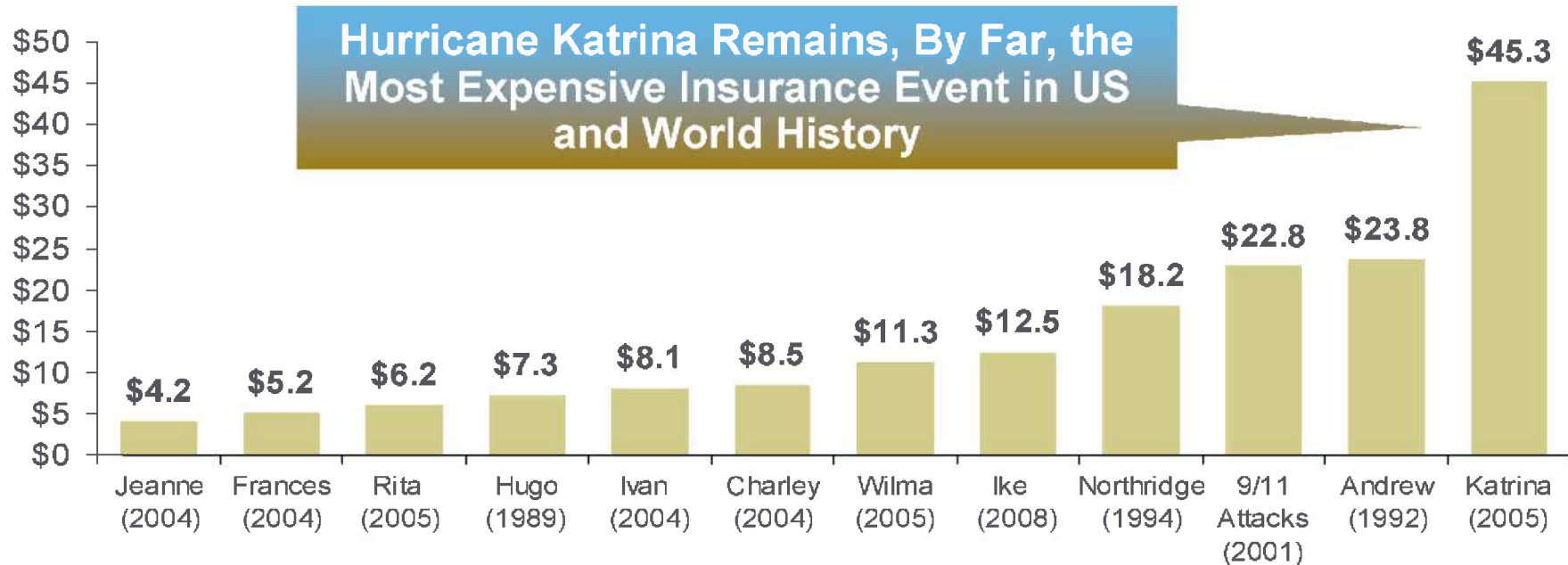
Probability of Landfall of at Least One Major Hurricane (CAT 3-4-5) in 2010*

Region	Average Over Last Century	2010 Forecast*
Entire U.S. Coastline	52%	76%
U.S. East Coast Incl. FL Peninsula	31%	51%
U.S. Gulf Coast	30%	50%
Caribbean	42%	65%

Source: Colorado State University, Department of Atmospheric Sciences; Insurance Information Institute.

Top 12 Most Costly Disasters in US History

(Insured Losses, 2009, \$ Billions)

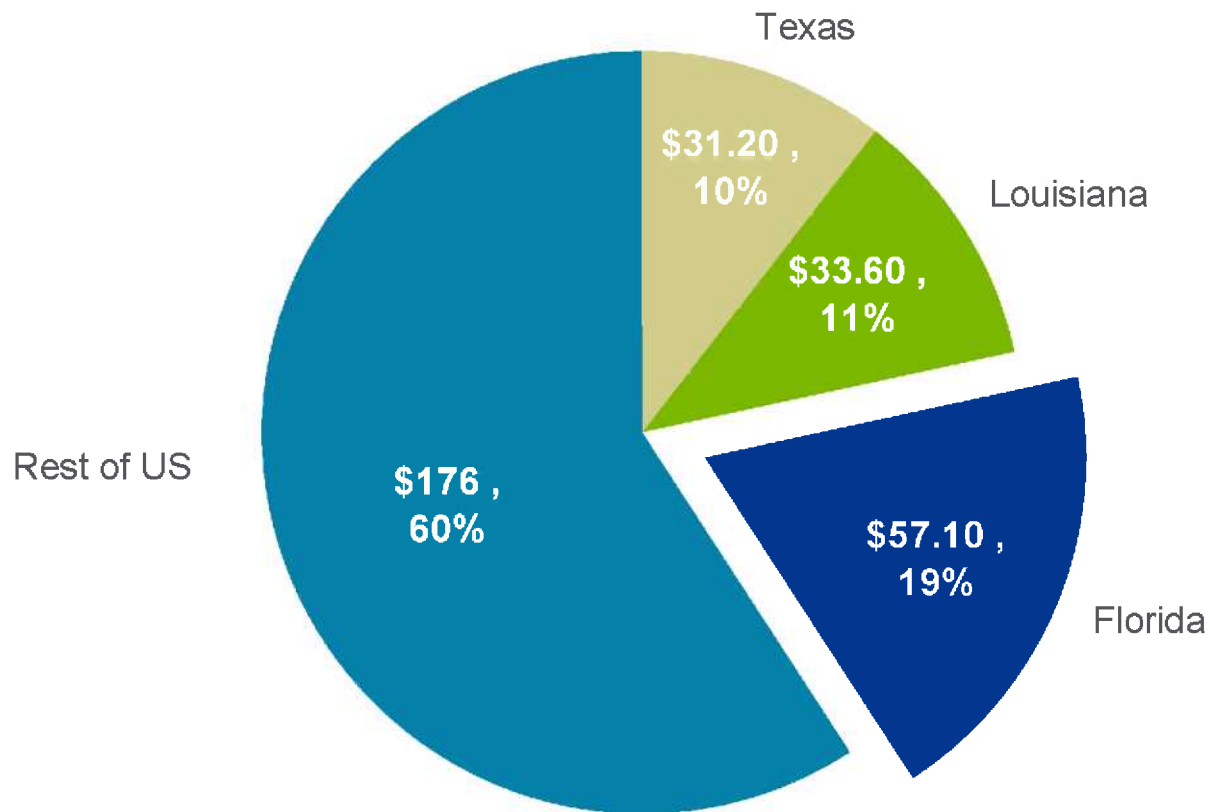


**8 of the 12 Most Expensive Disasters in US History
Have Occurred Since 2004;
8 of the Top 12 Disasters Affected FL**

Sources: PCS; Insurance Information Institute inflation adjustments.

Distribution of US Insured CAT Losses: TX, FL, LA vs. US, 1980-2008*

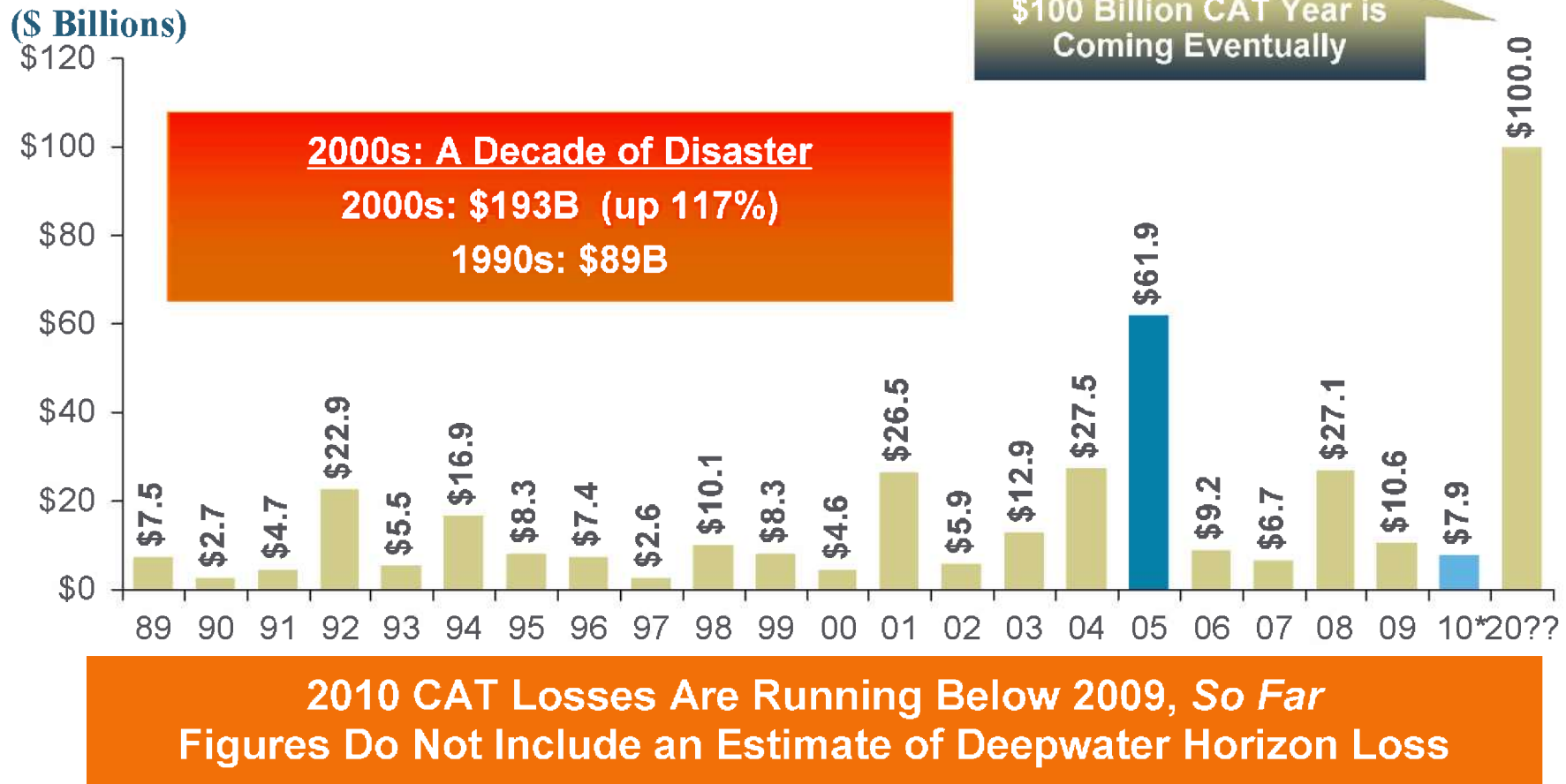
(\$ Billions)



Florida Accounted for 19% of All US Insured CAT Losses from 1980-2008: \$57.1B out of \$297.9B

Source: PCS division of ISO.

US Insured Catastrophe Losses



Sources: Property Claims Service/ISO; Munich Re; Insurance Information Institute.

Summary – Property Market Overview

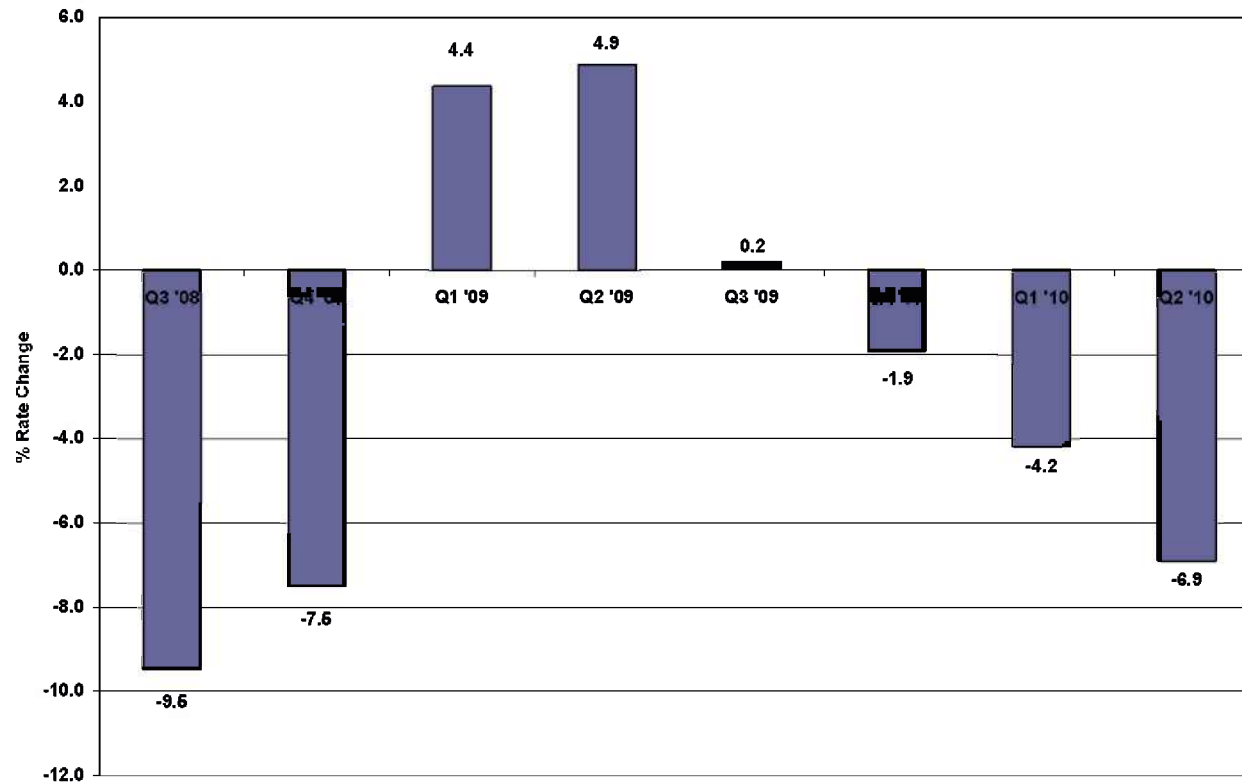
1) Carrier defense of incumbent market share and aggressive pursuit of new business continues to dominate and influence the property market

2) First half of 2010 has had record nat/cat property losses, but losses are not expected to change the property market

3) Property market is buyer friendly with declining rates and stable terms and conditions

Category	Q2 '10	Comment	Rest of 2010	Comment
Pricing	↓	Rates on average were down 6.9%	↓	Downward pressure expected to continue
Limits	↔	Most risks purchased same limits	↔	Anticipate little change in limits purchased
Deductibles/Retentions	↔	More than 90% of insureds maintained deductible/retention levels	↔	Expect the vast majority of insureds to maintain deductibles/retentions
Coverage	↔	No appreciable change in property coverage, and coverage availability for broad property coverage is readily available	↔	Anticipate no appreciable change in property coverage
Capacity	↔	Most carriers offered similar line sizes	↑	Anticipate increased capacity for most carriers
Losses	↑	Losses mount from Chilean earthquake, the European storm Xynthia, Northeast and Tennessee Floods	↑	Forecasts predict a more active 2010 hurricane season

Property– Quarterly Year-Over-Year Change in Average Rate



Source: Aon Analytics Research

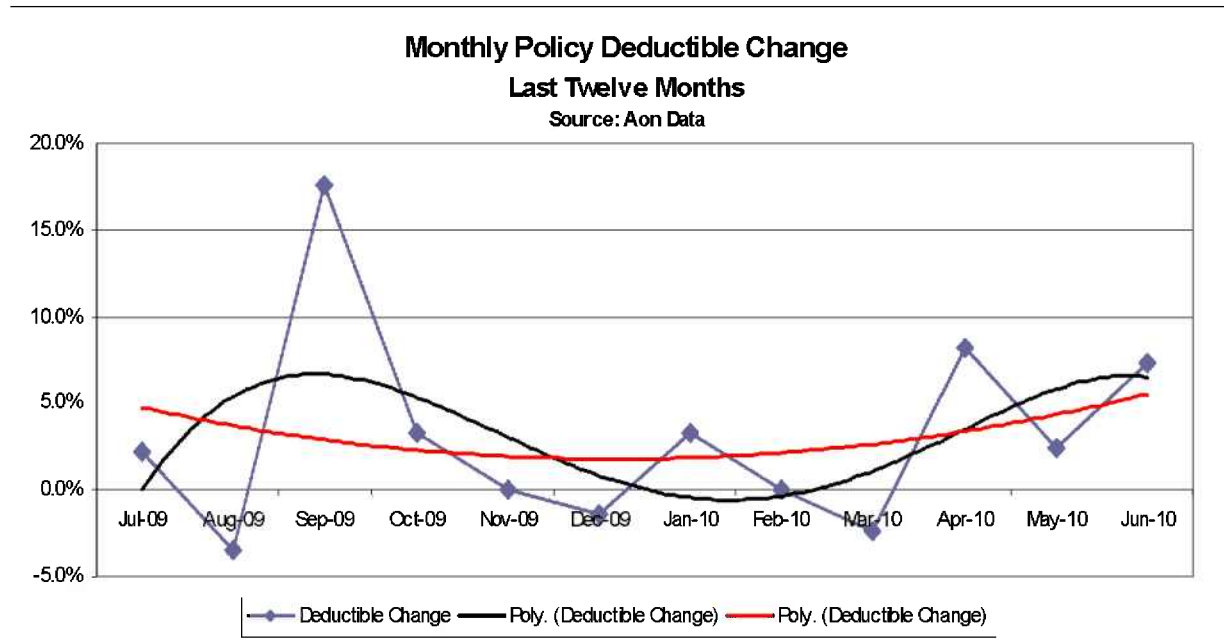
Rates on average were down 6.9% for Q2'10

Average rates reduced by 6.9% for Q2'10 following a 4.2% reduction in Q1'10 and 1.9% in Q4'09.

We expect similar rate reductions to be available on most accounts throughout the remainder of 2010.

We do not anticipate any significant increases in rates without a substantial hurricane, earthquake or terrorism loss event.

Property – Quarterly Year-Over-Year Change in Deductibles/Retentions



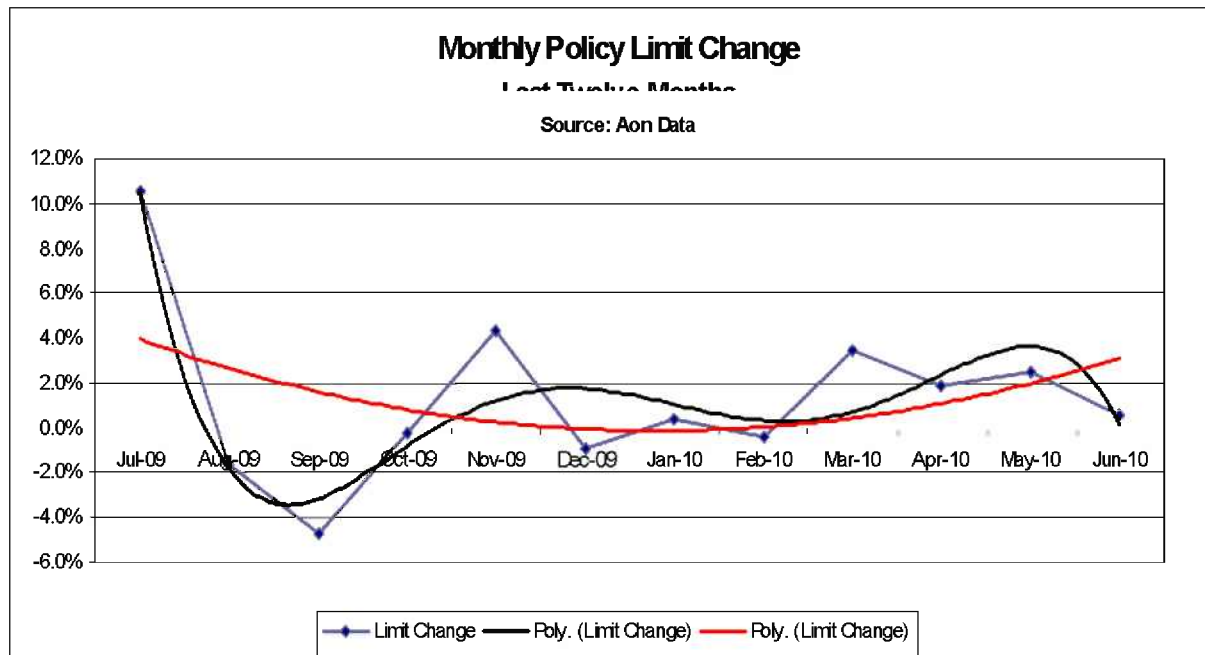
Over 9 out of 10 insureds renewed with same deductibles/ retentions

There continues to be no market pressure on deductibles/retentions except for accounts with poor experience and high loss frequency

Type of Change	Q3 09	Q4 09	Q1 10	Q2 10
Lower	2.38%	1.12%	1.32%	3.25%
Same	94.05%	97.75%	94.74%	92.21%
Higher	3.57%	1.12%	3.95%	4.55%

Source: Aon Analytics Research

Property – Quarterly Year-Over-Year Change in Limits



Most insureds purchased the same limits

Those buyers purchasing the same limits rose to 78% in Q2 '10, which has consistently trended upwards for the last four quarters, is evidence of a stable market with consistent and available capacity.

We expect these trends to continue in the absence of a significant industry event.

Type of Change	Q3 09	Q4 09	Q1 10	Q2 10
Lower	8.60%	14.74%	6.76%	6.92%
Same	70.97%	70.53%	74.32%	77.99%
Higher	20.43%	14.74%	18.92%	15.09%

Source: Aon Analytics Research

Property Forecast

- **We expect rates to continue to decrease for most accounts for the remainder 2010.**
- **Non Nat/cat exposed accounts continue to be an attractive counter-balance to most property underwriters and remains a very competitive segment of the overall property market.**
- **Record early season losses are not expected to negatively impact the property market**
- **Catastrophic event modeling continues to dominate and dictate almost all Nat/cat underwriting.**
 - **Many accounts have seen lower modeled results from the current RMS version 9.0 with lower Probable Maximum Loss (PML) and Average Annual Loss (AAL)**
 - **Aon Property continues to strongly suggest clients provide the most detailed risk information possible in order to get the most accurate results and best represent a risk to the market for underwriting.**
- **Without a significant hurricane, earthquake or terrorism loss event, we do not expect any substantial change in the current “soft” property marketplace.**

Terrorism Market Overview and Key Metrics

Summary – Terrorism Market Overview

1) Carrier defense of incumbent market share and aggressive pursuit of new business continues to dominate and influence the terrorism market

2) Thailand political violence losses have resulted in over USD500 mm of insured loss to the standalone terrorism markets (largest losses since 9/11)

3) Terrorism market is buyer friendly with declining rates and stable terms and conditions – total Aon take-up rate for terrorism coverage remains at 63%

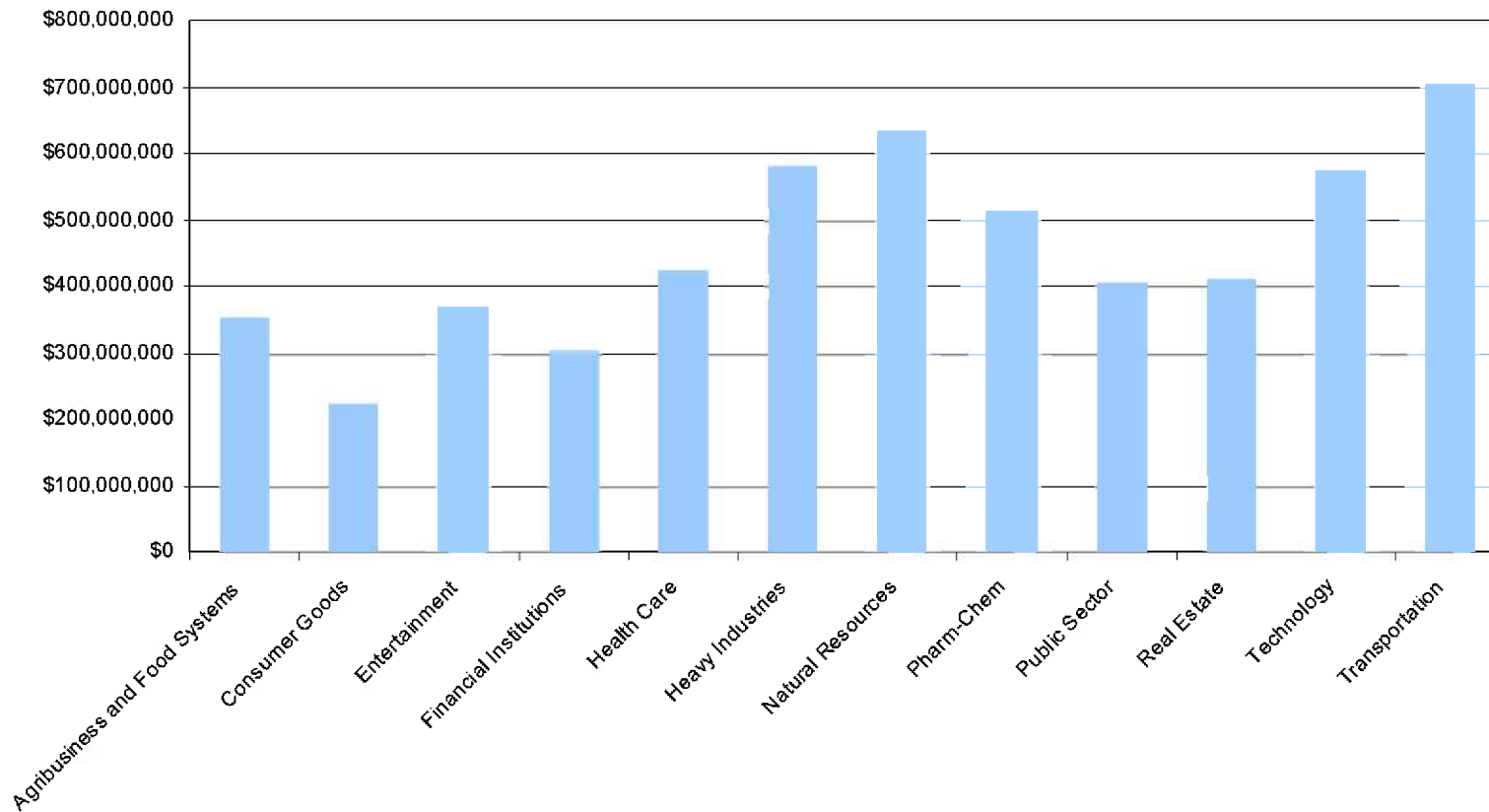
Category	Q2 '10	Comment	Rest of 2010	Comment
Pricing	↓	Terrorism rates on average were down 9.20% with standalone terrorism rates down to a somewhat higher degree	↓	Downward pressure expected to continue
Limits	↔	Most risks purchased same limits – average USD460 mm	↔	Anticipate little change in limits purchased
Deductibles/Retentions	↔	More than 90% of insureds maintained deductible/retention levels	↔	Expect the vast majority of insureds to maintain deductibles/retentions
Coverage	↔	No appreciable change in terrorism coverage, however, some expanded political violence coverage	↔	Anticipate no appreciable change in property coverage
Capacity	↔	Most carriers offered similar line sizes	↑	Anticipate increased capacity for most carriers
Losses	↑	Thailand losses are not noticeably impacting global placements – some impact regionally	↑	Terrorism activity up on a global basis

Average Terrorism Limit by Industry

Average Terrorism Limit by Industry

Twelve Months Ending 6/30/10

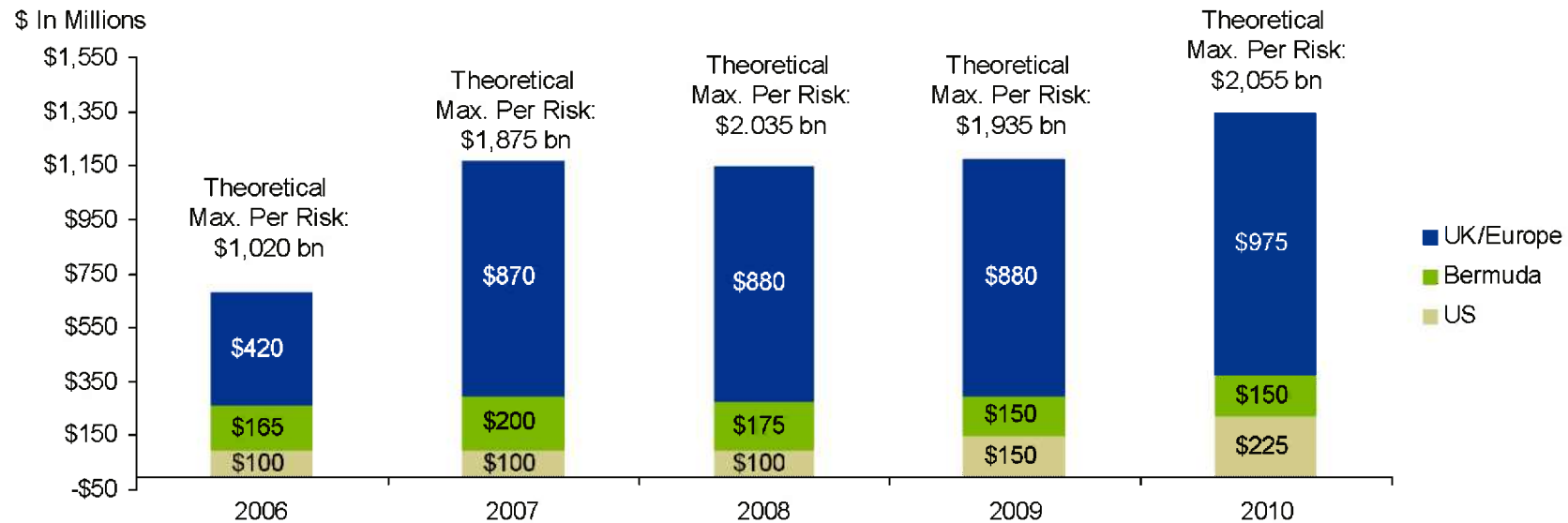
Source: Aon Data



Standalone Terrorism Capacity Trending: 2006 to 2010

Year-On-Year: US, Bermuda & Europe Markets

Standalone Capacity by Region – Normal Per Risk Maximum Line (Excludes Berkshire Capacity) – Includes Theoretical Maximum Per Risk Capacity



Source: Aon Risk Solutions
Annual Capacity Charts

Questions?

