Yale SCHOOL of MANAGEMENT
135 Prospect Street, New Haven, CT 06511

Property/Casualty Insurance: A Mixed Bag

Property/Casualty Insurance Industry
September 13, 2003

Time Frame
12 Months

Recommendation
SELL

Recommendations:
Buy: >20% Undervalued
Hold: Fair Market Value
Sell: >20% Overvalued

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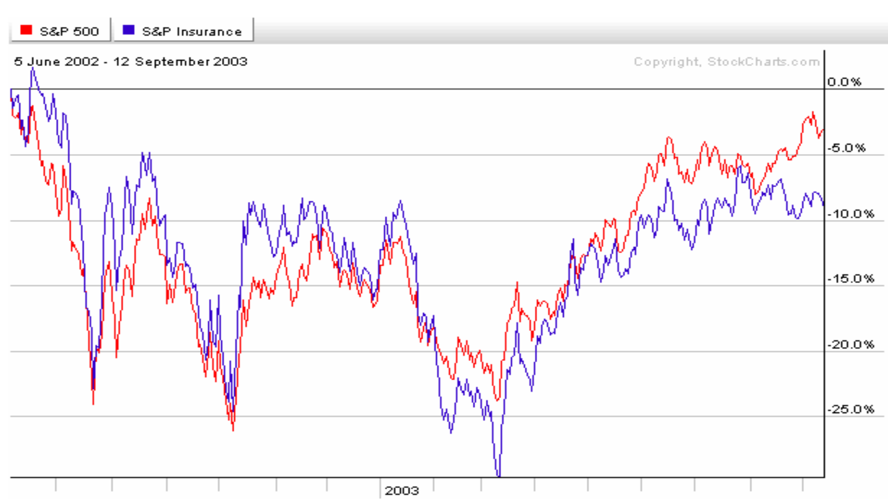
% Returns Over the Last 12 Months

(Prices are as of September 12, 2003)

S&P Insurance Index :	**(8.42)%**
S&P 500:	**(3.19)%**



Highlights

- **Improvement in fundamentals doesn't warrant current valuation.** Despite a fairly optimistic outlook for industry fundamentals, the industry valuation is too high. We see flat valuation at best, with our most likely case calling for a 20%+ decline should any of the below fundamentals not materialize.
- **Net investment yields, dependent on interest rate recovery, likely to expand over medium term.** We forecast a slight recovery in net investment yield to 5.0% in 2003 and 5.5% in 2004, up from 4.3% in 2002, which should be a key driver of improved industry profitability.
- **Net premium growth expected to remain strong at 13% for 2003 and 7% for 2004.** Currently, many insurers have pushed through rate increases and expect to maintain those increases throughout 2003.
- **Costs are coming down, but underwriting still loses money.** Combined ratio is projected to fall to 104%, meaning a P&C insurer still loses four cents on every dollar of premium written.
- **Asbestos reserves likely insufficient.** Claims pertaining to September 11th have overshadowed asbestos claims. P&C insurers have been paying out more than they have reserved and need to transfer, by some estimates, an additional 5% of surplus to reserves.

Property/Casualty 101 – Although it has its own nuances and language, insurance is essentially a financial service industry in the business of spreading risk – much like a bank.

Insurance companies are in the business of spreading risk between insured parties. In specific, property/casualty insurers spread risks such as automobile liability, home damage or loss, workers compensation, and commercial liability. A successful property/casualty company will collect money – called "premium" - from insureds, invest that money during the term of the coverage contract, and payout claims as incidents arise. The inherent risk of such an insurer is that, due to a risky investment portfolio or poor risk management – called "underwriting" – insureds will have insufficient funds to pay claims. Perhaps the most intriguing element of the property/casualty business is that insurers cannot measure costs of goods sold until one, five or even twenty years after they write a policy.

Property/casualty (P/C) insurers produce revenue from both written premiums, and investment gains. Written premiums in this industry totaled $406B in 2002. Since the industry is not a growth industry, premium revenue tends to be volatile and follows pricing cycles. Producing an operating profit on the underwriting of this largely undifferentiated product is rare. Therefore, net income is highly dependent on investment returns.

P/C costs arise from claims and the cost of administering claims. Insurance companies term their payouts "losses" and the direct expenses associated "loss adjustment expense", or LAE. Non loss-related expenses (known as SG&A in other businesses) include items such as sales and brokerage commissions, transaction taxes, and overhead. Large unexpected losses and other losses from catastrophic events – know as CATs – may be covered by a type of insurance for insurers called "reinsurance."

Industry revenues are evenly divided between consumer insurance – called "personal lines" or "PL" – and commercial insurance – called "commercial lines" or "CL". **Figure 1** shows the top P&C insurers in the United States.

Figure 1. Top 20 U.S. P/C Insurers by Net Written Premium (Net of Reinsurance)

($ in billions)

	Company	Net Premiums Written	Market Share
1	State Farm	$42.7	11.3%
2	Allstate	23.3	6.2%
3	AIG	21.0	5.6%
4	Zurich/Farmers	17.4	4.6%
5	Berkshire Hathaway	15.2	4.0%
6	Travelers PC	11.9	3.1%
7	Nationwide	11.7	3.1%
8	Liberty Mutual	10.6	2.8%
9	Progressive	9.5	2.5%
10	Hartford	8.4	2.2%
11	CNA	8.3	2.2%
12	Chubb	7.8	2.1%
13	USAA	7.0	1.8%
14	St. Paul	5.8	1.5%
15	State Comp. Fund California	5.3	1.4%
16	American Family	4.9	1.3%
17	GE Global	4.6	1.2%
18	SAFECO	4.6	1.2%
19	Anthem	4.4	1.2%
20	Erie	3.3	0.9%
	Top 20	227.9	60.3%
	Total U.S. P/C Insurance	377.9	100.0%

Source: A.M. Best

PL carriers, who typically insure autos and homes, include both mutual and public companies. State Farm and Zurich/Farmers are examples of mutuals, while large public insurers include Allstate and Progressive [**Figure 2**].

Figure 2. Top 20 U.S. P/C Personal Lines Insurers

($ in millions)

	Insurance Group	Direct Premiums Written 2002	Growth Year-Over-Year 2002	2001	2000	1999	Market Share 2002	2001	2000	1999	1998
1	State Farm Group	28,492	12.2%	14.7%	-3.6%	-3.4%	19.6%	19.2%	18.1%	19.0%	19.9%
2	Allstate Insurance Group	15,315	4.0%	3.1%	-1.7%	-0.2%	10.5%	11.1%	11.7%	12.0%	12.2%
3	Progressive Insurance Group	8,301	30.1%	12.1%	-0.3%	16.6%	5.7%	4.8%	4.6%	4.7%	4.1%
4	Zurich/Farmers Group	7,883	6.1%	6.2%	-4.9%	-2.0%	5.4%	5.6%	5.7%	6.1%	6.3%
5	Berkshire Hathaway Ins Group	6,786	12.6%	7.1%	16.7%	18.6%	4.7%	4.5%	4.6%	4.0%	3.4%
6	Nationwide Group	6,616	7.7%	10.1%	6.2%	2.7%	4.5%	4.6%	4.6%	4.3%	4.3%
7	USAA Group	5,189	13.7%	10.7%	8.8%	6.0%	3.6%	3.4%	3.4%	3.1%	3.0%
8	American International Grp Inc	3,470	0.0%	10.4%	15.2%	22.4%	2.4%	2.6%	2.6%	2.3%	1.9%
9	Liberty Mutual Insurance Cos	3,460	12.4%	5.5%	5.6%	-0.3%	2.4%	2.3%	2.4%	2.3%	2.3%
10	American Family Insurance Grp	3,112	16.0%	8.2%	3.5%	6.5%	2.1%	2.0%	2.0%	2.0%	1.9%
11	Travelers Prop Cas Group	2,826	7.4%	8.4%	1.5%	3.8%	1.9%	2.0%	2.0%	2.0%	1.9%
12	Hartford Insurance Group	2,318	5.9%	9.1%	7.4%	11.1%	1.6%	1.7%	1.6%	1.5%	1.4%
13	MetLife Auto & Home Group	2,142	13.1%	17.2%	9.9%	0.4%	1.5%	1.4%	1.3%	1.2%	1.2%
14	SAFECO Insurance Companies	2,022	13.1%	3.6%	-0.1%	-1.2%	1.4%	1.3%	1.4%	1.4%	1.5%
15	Erie Insurance Group	1,658	19.6%	10.4%	2.7%	-2.6%	1.1%	1.0%	1.0%	1.0%	1.1%
16	Mercury General Group	1,649	28.5%	12.9%	-2.2%	3.6%	1.1%	1.0%	0.9%	1.0%	0.9%
17	California State Auto Group	1,631	7.5%	3.8%	2.0%	-2.4%	1.1%	1.1%	1.2%	1.2%	1.2%
18	Prudential of America Group	1,563	9.3%	10.6%	0.9%	-9.4%	1.1%	1.1%	1.1%	1.1%	1.2%
19	Automobile Club of S. Calif Gr	1,526	15.9%	5.3%	9.1%	7.0%	1.0%	1.0%	1.0%	0.9%	0.9%
20	GMAC Insurance Group	1,309	10.6%	3.2%	3.1%	-6.0%	0.9%	0.9%	0.9%	0.9%	1.0%
	Top 5	**66,777**	**11.4%**	**9.5%**	**-1.1%**	**1.1%**	**45.9%**	**45.2%**	**44.7%**	**45.8%**	**46.0%**
	top 20	**107,267**	**11.1%**	**9.3%**	**1.4%**	**2.0%**	**73.7%**	**72.8%**	**72.0%**	**72.1%**	**71.7%**
	Industry	**145,631**	**9.8%**	**8.2%**	**1.5%**	**1.3%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Note: U.S. market includes U.S. territories. Source: A.M. Best State Line Database

The more fragmented CL business, which offers coverages such as workers compensation, commercial liability, and commercial auto, include companies such as AIG and Travelers as well as mutuals like Zurich/Farmers [**Figure 3**].

Figure 3. Top 20 U.S. P/C Commercial Lines Insurers

($ in millions)

		Direct Premiums Written 2002	2001	2000	1999	1998	Market Share 2002	2001	2000	1999	1998
1	American International Grp Inc	$20,805	$14,334	$11,874	$10,867	$11,685	9.9%	8.1%	7.8%	7.7%	8.5%
2	Zurich/Farmers Group	13,304	10,644	8,285	6,685	6,158	6.3%	6.0%	5.5%	4.7%	4.5%
3	Travelers Prop Cas Group	8,933	7,533	6,688	5,984	6,114	4.2%	4.3%	4.4%	4.2%	4.4%
4	CNA Insurance Companies	7,850	7,261	6,577	7,208	7,080	3.7%	4.1%	4.3%	5.1%	5.1%
5	Liberty Mutual Insurance Cos	7,757	5,992	5,788	5,488	5,702	3.7%	3.4%	3.8%	3.9%	4.1%
6	St Paul Companies	6,775	6,299	5,004	4,481	4,521	3.2%	3.6%	3.3%	3.2%	3.3%
7	Chubb Group of Insurance Cos	6,559	4,878	4,440	4,234	4,437	3.1%	2.8%	2.9%	3.0%	3.2%
8	Hartford Insurance Group	5,975	4,795	4,171	3,666	3,603	2.8%	2.7%	2.8%	2.6%	2.6%
9	State Comp Ins Fund of CA	5,493	3,638	1,799	1,244	1,216	2.6%	2.1%	1.2%	0.9%	0.9%
10	ACE INA Group	5,275	3,931	2,991	2,556	2,543	2.5%	2.2%	2.0%	1.8%	1.8%
11	Royal & SunAlliance USA	4,364	3,852	3,358	3,228	2,931	2.1%	2.2%	2.2%	2.3%	2.1%
12	Allianz of America, Inc	4,044	4,394	3,953	3,846	3,759	1.9%	2.5%	2.6%	2.7%	2.7%
13	State Farm Group	3,865	3,467	3,029	3,169	3,214	1.8%	2.0%	2.0%	2.2%	2.3%
14	Kemper Insurance Companies	3,810	4,057	2,935	2,427	2,577	1.8%	2.3%	1.9%	1.7%	1.9%
15	Nationwide Group	3,458	2,860	2,508	2,289	2,202	1.6%	1.6%	1.7%	1.6%	1.6%
16	Great American P&C Ins Group	2,766	2,255	1,999	1,897	1,832	1.3%	1.3%	1.3%	1.3%	1.3%
17	FM Global Group	2,757	1,501	1,136	989	1,011	1.3%	0.9%	0.8%	0.7%	0.7%
18	W. R. Berkley Group	2,306	1,520	1,121	1,069	1,024	1.1%	0.9%	0.7%	0.8%	0.7%
19	XL America Group	2,299	1,522	1,127	480	333	1.1%	0.9%	0.7%	0.3%	0.2%
20	Cincinnati Insurance Cos	2,245	2,017	1,396	1,206	1,125	1.1%	1.1%	0.9%	0.9%	0.8%
21	GE Global Insurance Group	2,151	1,817	1,559	1,070	972	1.0%	1.0%	1.0%	0.8%	0.7%
22	Berkshire Hathaway Ins Group	2,006	1,344	963	835	843	1.0%	0.8%	0.6%	0.6%	0.6%
23	Old Republic General Group	1,941	1,633	1,382	1,308	1,296	0.9%	0.9%	0.9%	0.9%	0.9%
24	Fairfax Financial (US) Group	1,938	2,177	1,964	1,930	1,992	0.9%	1.2%	1.3%	1.4%	1.4%
25	HDI U S Group	1,778	1,387	883	687	583	0.8%	0.8%	0.6%	0.5%	0.4%
	Top 5	58,648	45,764	39,212	36,232	36,739	27.8%	26.0%	25.9%	25.6%	26.7%
	Top 15	108,266	87,935	73,400	67,372	67,742	51.3%	50.0%	48.5%	47.6%	49.2%
	Top 25	130,453	105,110	86,929	78,844	78,754	61.9%	59.7%	57.4%	55.7%	57.2%
	Total Industry	**$210,857**	**$175,953**	**$151,447**	**$141,678**	**$137,764**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Note: U.S. market includes U.S. territories. Source: A.M. Best State Line Database

Both PL and CL products are sold through direct sales agents as well as insurance brokers such as Marsh McLennan and Aon.

The environment for P/C insurance is highly regulated by state governments. While insurance companies have the benefit of guaranteed demand through state mandated coverages such as auto liability and workers compensation, they also fall into the restrictive price controls imposed by the same government entities. While the federal government provides a kind of reinsurance for catastrophes, such as acts of terrorism and floods, it is generally unrelated in typical insurance transactions.

The operating health of companies in the industry is gauged by a few key ratios (ratios as percent of earned premium): loss/LAE ratio, expense ratio and combined ratio. Loss/LAE ratios are a function of claim frequency and severity and are employed to track the quality of insurer underwriting, and new claim trends (such as asbestos or mold). Expense ratios monitor the overall efficiency of operations and ongoing capital expenditures therein. The all-important combined ratio is the sum of the prior two ratios and is used as the primary measure of business health. A combined ratio of 108, for instance, would reveal that the company spends $1.08 for every $1.00 it writes in premium. Over the last 20 years, the average public P/C insurer has an operating profile described by the following equation:

80 (Loss/LAE) **+ 28** (Expense) **= 108** (Combined).

Finally, it is of note to remark that the P/C industry frequently refers to an environment of high combined ratios (and conversely low operating profits), to be a "soft" market, and an environment of low combined ratios to be "hard."

The Business and its Drivers - Interest Rates and Operations

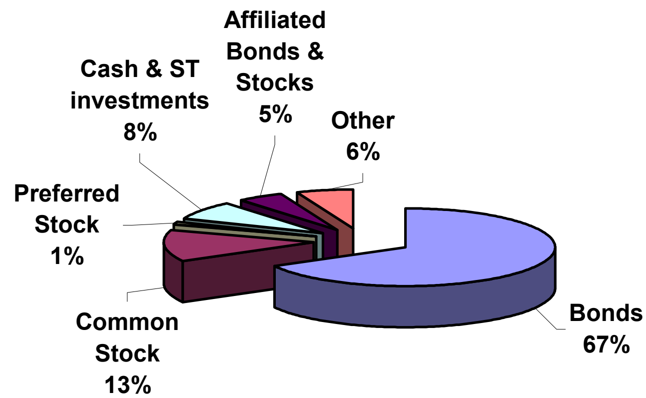
Revenue – Premiums vs. Investments: The chicken and the egg

Property/Casualty insurance companies obtain revenue both from the premiums they collect, and from the market returns gained by investing capital. Other sources of revenue, such as billing fee income, are treated as a function of premium revenue for this analysis. Since competition is so fierce, and the product so commodity-like, premium revenues rarely produce excess operating profits. Therefore, shareholder returns depend highly on revenue from marketable securities in company investment portfolios. Long term, however, an insurance company must maintain premium volume to stay solvent. Premiums feed the investment portfolio, and the investment portfolio insures a net profit.

Investment Revenue – Generating profits at Most P/C firms.

Investment income consists of interest and dividend income produced by the insurance company's investment portfolio. Typically, a company will invest its own capital and the portion of underwriting premiums collected but not needed to pay expenses. The majority of a firm's investment portfolio is invested in low-risk securities, such as bonds, with the balance invested in stocks, cash/short-term investments, preferred stocks, and alternative assets, such as real estate[**Figure 4**].

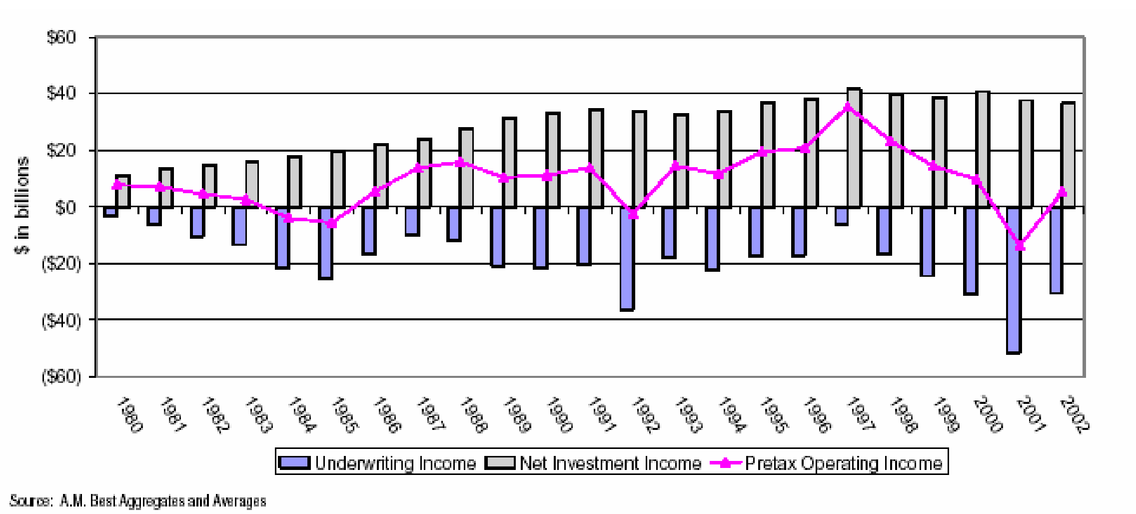
Figure 4. U.S. P&C Industry Asset Investment Allocation



Source: A.M. Best Aggregates and Averages.

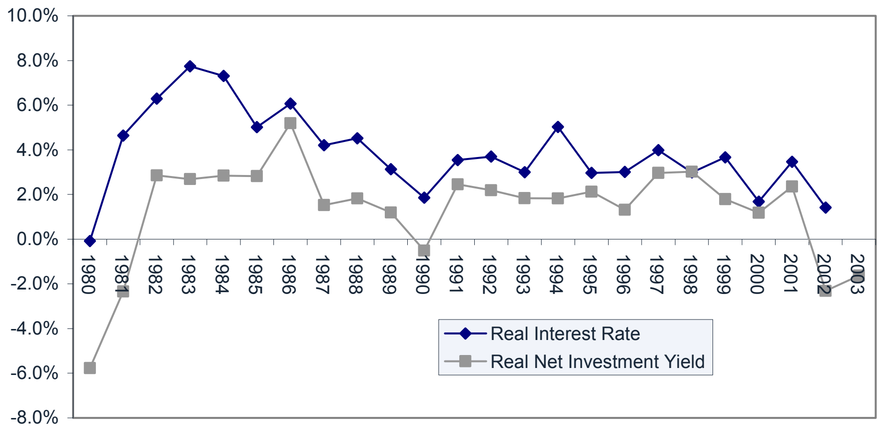
Realized gains or losses resulting from the sale of securities, often volatile from quarter to quarter, are recorded as a separate line item on the income statement. Since many insurers consistently generate a loss from underwriting operations (see Costs section below for discussion of "combined ratio"), the income generated from investments is crucial to an insurance companies profitability.

Figure 5. U.S. P/C Operating Income 1980-2002



The current interest rate environment is most often the key driver behind investment income levels, given the concentration of bonds in a typical insurer's portfolio [**Figure 6**].

Figure 6. Real Net Investment Income for vs. Real Interest



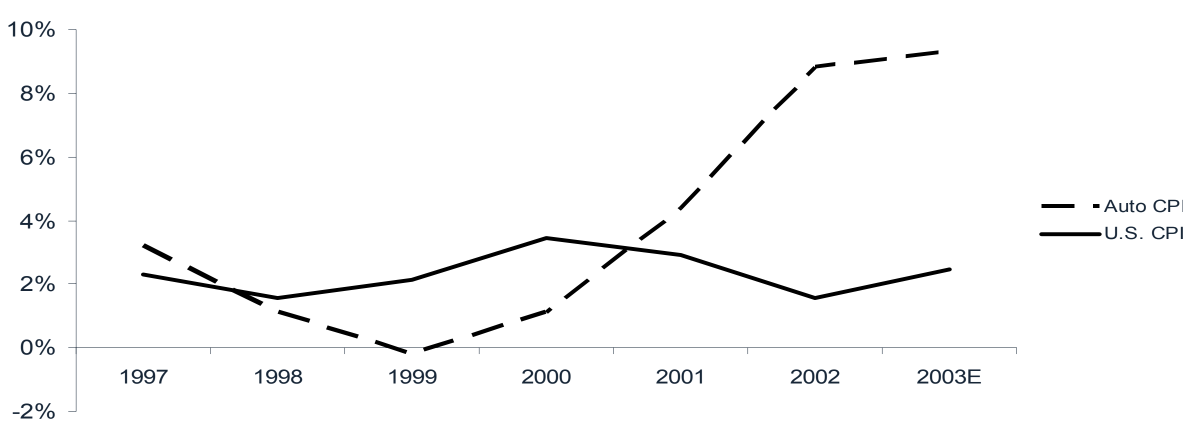
Source: AM Best and U.S. DOC

With interest rates at twenty year historical lows, portfolio net investment yields, defined as net investment income divided by average invested assets, have also suffered. For the year ended 2002, investment yield was at 4.3%, down from 5.3% in 2000 and 4.9% in 2001. A recovery in net investment yield is tied directly to the interest rate environment. Given interest rates are at historical lows, we feel comfortable forecasting an increase at some point, but the exact timing is a more difficult issue. We assume a modest increase will occur through the end of 2003, followed by a sharper rise in 2004, which drives investment yields to 5.0% in 2003 and 5.5% in 2004.

Premium Revenue – Prices and revenue slowly trending up

As firms recoup from the soft market of 2001, prices continue to rise and beat inflation. Mechanisms such as tighter underwriting and state regulatory allowances let products like auto insurance, which accounts for 60% of all P/C premium dollars, take significant rate increases [**Figure 7**].

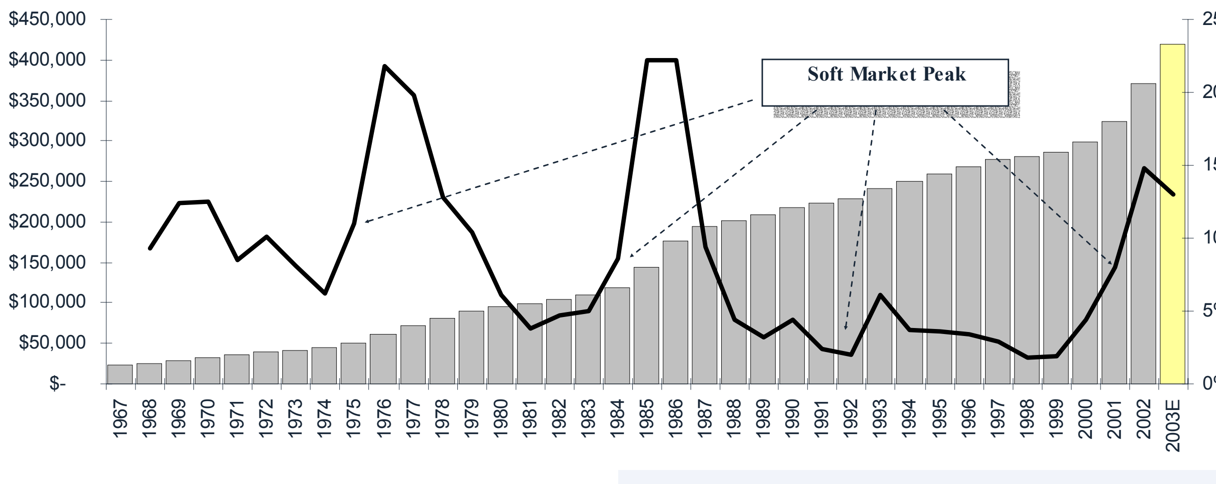
Figure 7. U.S. Automotive Insurance Premium Price Change vs. Inflation



Source: Dowling & Partners

Regardless of whether it is caused by increased demand or contracting supply, the last 30 years provide evidence that soft markets result in 10-50% premium growth over the following 2-3 years [**Figure 8**]. If the soft market of 2001 follows the trend, the property casualty industry should expect at least 13% growth (10% real growth net of inflation) in Net Written Premium over 2003.

Figure 8. U.S. P/C Insurance Industry: Net Written Premiums and Growth



Source: A.M. Best's Aggregates and Averages

Demand – Stable Growth Continues

Although premium revenue is not the dominant driver of net income for property/casualty firms, it is the all-important top line for the statutory measure of operating revenue, which is watched closely in the sector. Premium revenues are cyclical, but have shown modest growth averaging 3% a year over the last 30 years.[1] Government regulations requiring automobile and workers compensation coverage insure a steady demand for insurance products in the foreseeable future. This stable demand is positively supplemented by changing risk profiles in the public and adjacent introduction of new insurance products and coverages such as terrorism insurance, mortgage guaranty insurance, and insurance for company executives. The industry demand/supply imbalance had led to both an increase in the number of premiums written and an increase in the price for these premiums.

Premium Revenue

Both personal and commercial line insurers reported continued written premium growth in the first quarter of 2003. For example, Allstate Corp. reported a 3.9% rise in net written premiums in the first-quarter 2003 and Chubb Corp. reported a 22% rise in net written premiums.[2] It is believed that increased demand has recently been driven by the change in customer's risk profile and the weakened economic environment.

Change in Customer Risk Profile

[1] A.M. Best Aggregates and Averages.
[2] Standard & Poor's, Industry Surveys Insurance: Property & Casualty, July 17, 2003.

With today's global political instability, cyber-terrorism and the scandals we've seen at companies like Enron and Worldcom, customer's are becoming more risk averse, and demanding greater insurance coverage.

Political Instability: In response to the 9/11 attacks and the ongoing threat of terrorist activity, there has reportedly been an increase in the demand for coverage of terrorist related risks by small and medium-sized U.S. companies. According to a report from *Reuters News Agency* in April, there was a five-fold increase in inquiries about terrorist coverage since the beginning of the Iraq war.[3]

Cyber-terrorism: The demand for cyber-risk policies is growing, as cyber-terrorism might be the next weapon used against the United States by its enemies.[4] The insurance industry has developed cyber insurance products to help businesses meet the growing number of network security risks, including shutdown of a network, destroying vital data or stealing customer information. According to the Insurance Information Institute, policies written for cyber insurance are likely to reach $2 to $3 billion within the next four to five years as companies recognize existing gaps in their coverage.
In addition, recent legislation effective this year, such as the Gramm-Leach-Bliley Act (GLB), Health Insurance Portability and Accountability Act (HIPAA) and California's Security Breach Information Act (SB 1386), are also expected to greatly increase possible liabilities in this area, thus increasing the demand for cyber-risk insurance coverage.[5].

Scandals: Lloyd's has released the results of a survey, which shows that the demand for specialist insurance cover is expected to rise, with 85% of brokers anticipating a significant increase in demand for professional liability insurance over the next two years[6]. This includes primarily Directors & Officers (D&O) liability insurance which protects a corporation against certain kinds of wrongdoings by its corporate officers and directors. Due to the well-known corporate governance scandals that have affected the business community in recent months, premium rates for D&O liability have risen dramatically. Chubb Corp., reported that D&O policies for publicly traded companies were up 125% year over year. For example, Tyco International Ltd. recently paid Chubb Corp. $92 million in premiums to reinstate its D&O coverage[7].

The hard D&O market has brought on the greatest rise in prices for premiums since the mid 1980s. In 2002, purchasers of D&O insurance faced premium increases that averaged more than 29%.[8]

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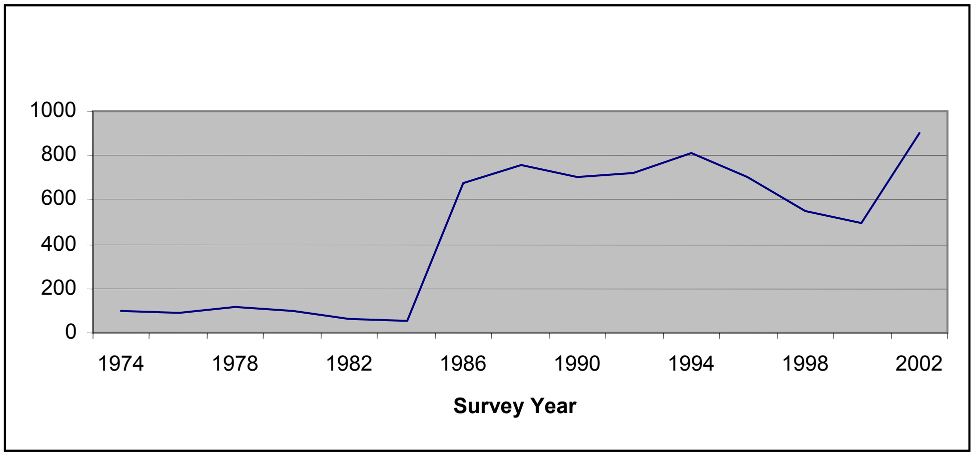
[3] Insurance Journal, April 7, 2003.
[4] BestWeek, November 12th, 2001 Issue.
[5] Insurance Industry Institute (III) www.iii.org .
[6] Insurance Journal, June 23, 2003.
[7] Standard & Poor's, July 17, 2003.
[8] Best's Review, July 2003.

Figure 9. D&O Premium Index for U.S. For-Profit Companies



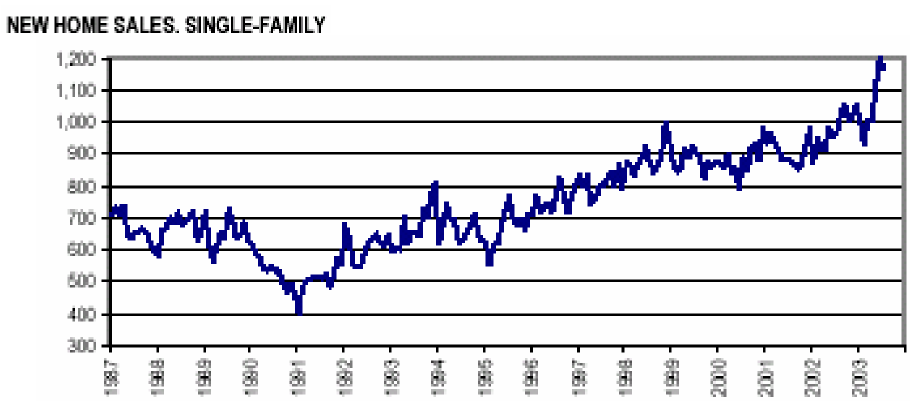
Source: Tillinghast-Towers Perrin 2002 Directors & Officers Survey

Uncertain Economic Environment Boosts Demand for Insurance

Amid a weakened economic environment where 40-year low interest rates have dominated that past year, we have seen an increase in financing both housing and automobiles, which in turn have demanded greater homeownership and automobile insurance.

Homeownership Growth*:* The actual year-to-date new home sales are up 14% this year.[9]

Figure 10. New Home Sales, Single Family (in '000s)



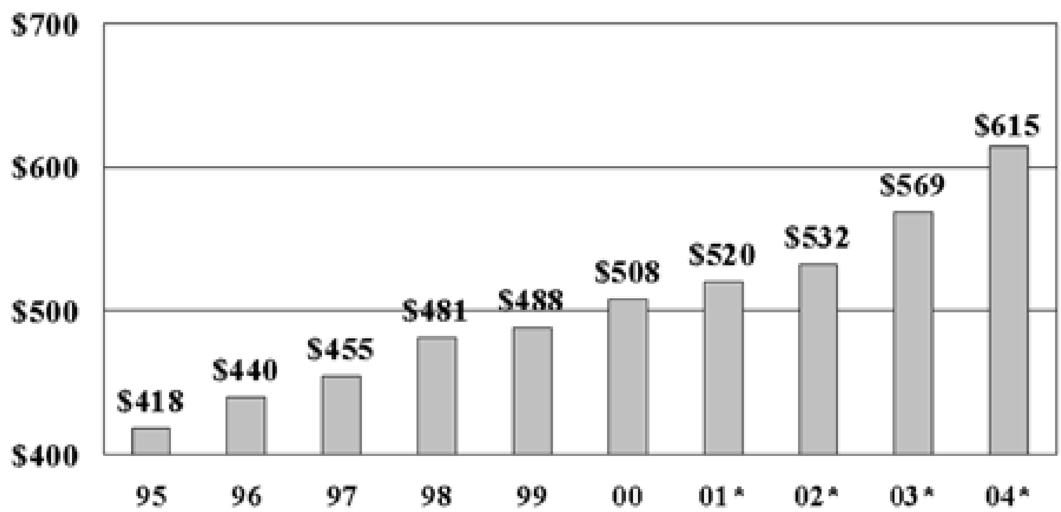
Strong performance was driven not just by low interest rates, but by stock market uncertainties leading people to put money into the housing market.[10] In addition, last year's decline in mortgage rates led to about 40 percent of all outstanding single family mortgages originating in 2002.[11] Mortgage companies most often require their clients

[9] Wachovia Securities, Housing Statistics, 13.
[10] Reuters, July 30, 2003.
[11] Homeownership Alliance, January 16, 2003.

purchase homeowners insurance. Thus, an attractive financing environment has led to an increased demand for homeowner's insurance.

Furthermore, according to the Insurance Information Institute (III) rapidly rising construction costs prices, home remodeling and increasingly expensive natural disasters are expected to push the cost of homeowners insurance up by 8 percent in 2004. The projected increase represents a modest change from the estimated 7 percent increase in 2003. The average cost for home insurance nationwide for 2004 is projected to be $615 - an increase of $46 for the average homeowner over this year.

Figure 11. Average Consumer Expenditures on Homeowners Insurance



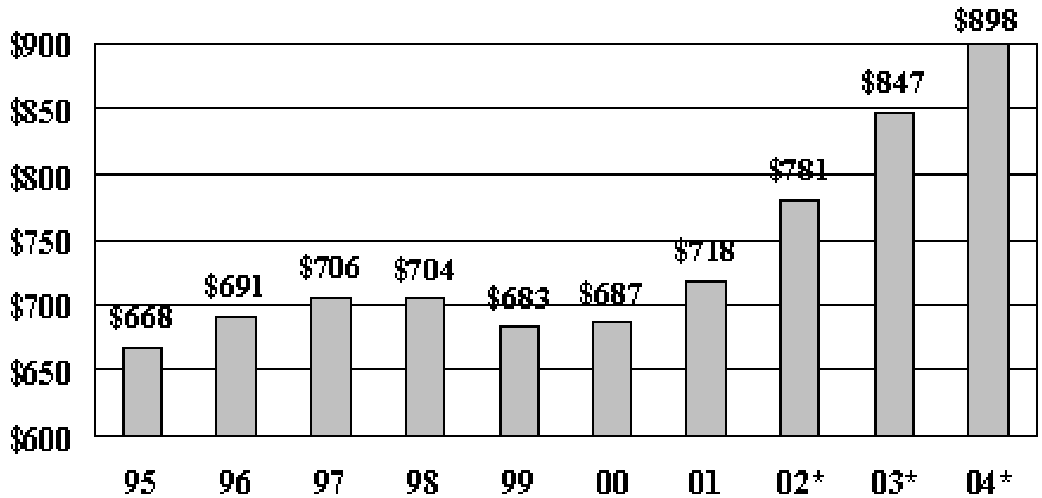
* III estimates based on U.S. Bureau of Labor CPI data, company filings and trend projections.
Sources: National Association of Insurance Commissioners, Insurance Information Institute.

Car Ownership Growth: In a low interest rate regime, financing costs of vehicles has reduced dramatically. This has increased demand for automobiles. This year, we saw one of the best years ever for auto sales. As the US economy recovers – which means more jobs and rising incomes – automotive demand could remain at strong levels. In addition, today, we are seeing more and more "three car families." Since auto insurance is mandatory for all states, the growth in car ownership is directly correlated to the demand for auto insurance.

The average cost of auto insurance climbed by about 8.4 percent in 2002 and is expected climb about 9 percent in 2003. The average amount rewarded for each auto insurance claim rose significantly in 2000 but the rate of increase has reduced since then. There is generally a time gap between an increase in claims costs and an increase in premium rates as companies review the data and file requests for rate increases with state insurance departments. In 2001, rates still lagged behind costs[12].

[12] Insurance Information Institute.

Figure 12. Average Consumer Expenditures on Auto Insurance



* III estimates based on U.S. Bureau of Labor CPI data, company filings and trend projections.
Sources: National Association of Insurance Commissioners, Insurance Information Institute.

Supply – Contracting environment directs business to stock insurers.

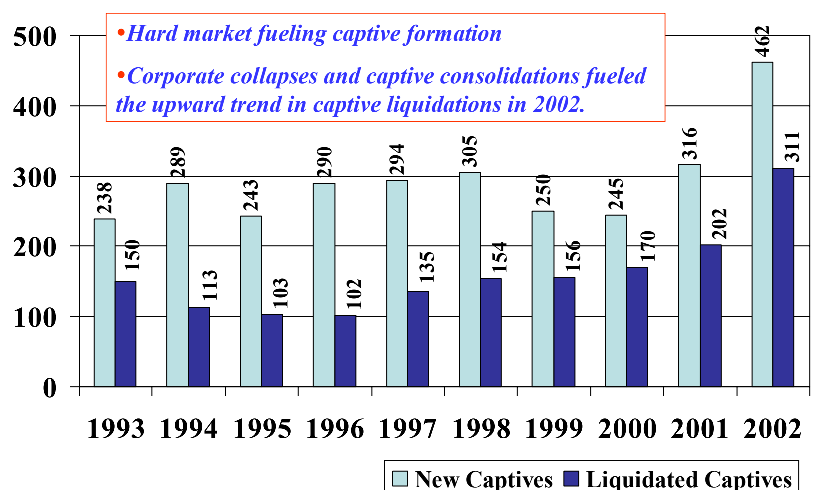
Since demand is relatively predictable, the cyclical nature of premium growth is chiefly due to price competition. The supply – and therefore price – of insurance products ebbs and flows with so-called "soft" and "hard" underwriting cycles. As with most cyclic industries, insurance pricing cycles are a product of competitors lowering price to gain market share, and subsequently raising prices to meet increasing variable costs. The variable cost problem may be amplified in the insurance industry when insurers loosen their underwriting while simultaneously lowering prices. This naturally will produce terrible operating losses, once the poor underwriting is revealed in the form of future losses. Other competitive factors on the supply side of the business will continue to drive premium revenues upward in the near term. These factors include the environment for new entrants, participation of non-stock insurers, and the risk capital environment.

New Entrants – Challenging Environment for New Firms.

The environment for new entrants in the property/casualty industry was more favorable in the "soft-market" of the 90s than the "hard-market" of today. In the past, high investment returns, a favorable regulatory environment (namely 2-to-1 leverage requirements), and relatively easy access to capital allowed new entrants to sell commodity products in the commercial market. Moreover, newcomers to property/casualty – whether startups or established financial services firms – lacked heavy liabilities, such as asbestos and mold claims, on their balance sheets. Presently however, P/C growth seems to be flat or contracting as investment returns decline and firms both exit and consolidate. The last six months alone have produced evidence of this, as the market has seen merger activity between such notables as Prudential and Liberty Mutual, and Travelers and Royal Sun Alliance. It is also of note that the casualty environment, post-September 11th, produced a change in the risk profile of insureds. Catastrophic commercial losses have forced customers to demand excellent insurance ratings[13] from their carriers. In this way, established carriers with strong balance sheets and excess surplus (beyond what regulators require) will maintain a competitive advantage over smaller entrants. The most threatening of all entrants are those with significant capital to produce the leverage and security needed to compete in this hostile pricing market. While large financial service conglomerates seem to be the natural candidates for entry into this market, Citigroup's recent divestiture of Travelers P/C provides evidence that this is not easy task. Not only are barriers to entry imposing for P/C newcomers, but so are barriers to exit. Regulatory obligations to insured parties provide that any firm that enters the current market will be locked in for as long as coverage lasts. This barrier alone is enough to repel many potential property/casualty entrants.

For commercial insurers, a formidable form of competition from new entrants comes in the form of a type of company self-insurance called "captive" insurers. Essentially, captives are set up abroad to take advantage of tax rates offshore. Under-capacity and rising rates have recently swayed entities to form captives [**Figure 12**].

Figure 13. U.S. P/C Insurance Industry: Captive Formations and Liquidations



Source: AM Best, Tillinghast-Towers Perrin

Non-Stock Competition – Going nowhere in particular.

For publicly held insurers, the most dominant form of direct competition for premium dollars is mutual insurers. State Farm, which is responsible for over 11% of industry written premium, is a perfect example of such mutual threat. Mutual insurers play by different rules than the P/C companies in the stock universe. Indeed, their only job is to provide a product at the lowest possible cost to insureds. In the bull market of the 1990s this was an easy job to do, but the recent recession has forced mutuals to raise prices. In the end, mutual companies are subject to the same cyclical pricing trends as the industry, especially since the market is competitive enough to preclude price leadership. Poor underwriting margins have influenced mutual companies to diversify into other areas of financial service. To date, this has not proven to be a successful strategy for the mutuals.

[13] Products rated by firms such as A.M. Best and S&P rate the financial strength of the firm, and its ability to cover future losses.

While this new focus is likely to distract mutual insurers and drive customers to growth-focused stock companies, the net result is likely to be flat or even adverse for stock companies. The momentum of the sizable mutuals allows them to trudge forward and grow regardless of the market environment.

The recent financial weakness of mutual companies has driven a number of them to the securities markets to restore their capital base. The so-called "demutualization" of notable mutuals such as Prudential (2001), Metropolitan Life (2000), and John Hancock (2000) means that more players are entering the stock P/C game. This added competition may drive prices and premium revenue down for other stock companies as these mutuals apply their massive resources to an underleveraged environment.

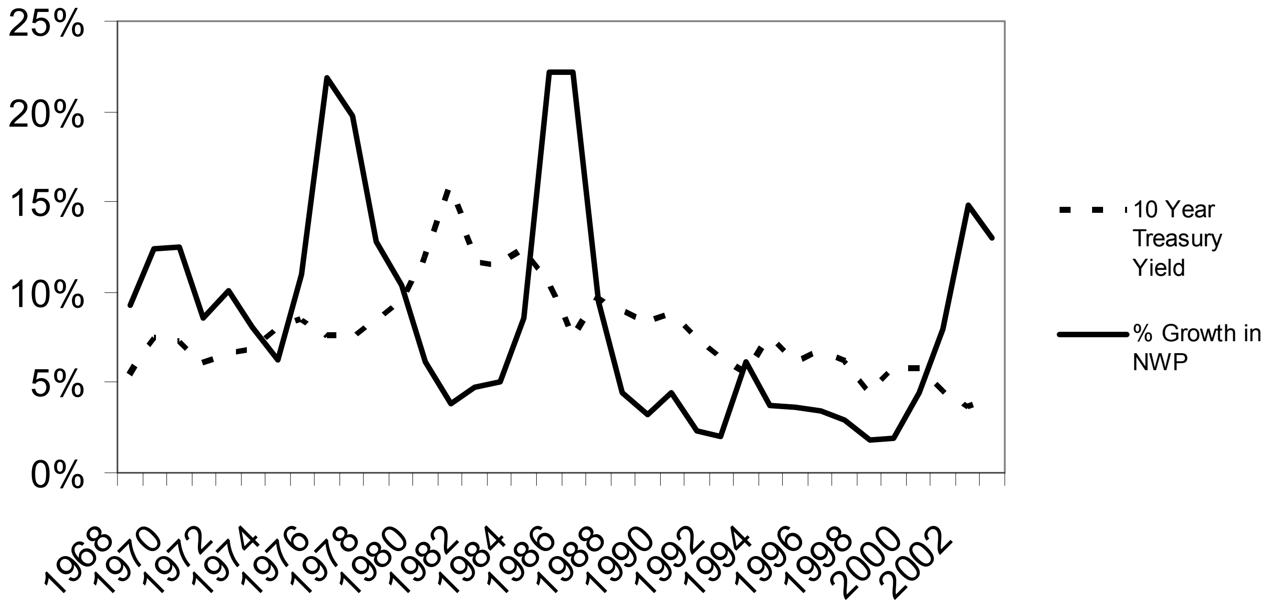
Risk Capital – Favorable borrowing environment but low operating leverage.
The availability of inexpensive risk capital is favorable for stock insurers in this market. Risk capital, in the form of both debt and reinsurance, provides property casualty companies with the capital base to write more in insurance premiums. Although reinsurance rates trend up with other P/C prices, the favorable debt environment will provide stock insurers with the surplus they need to gain market share in an environment of contracting supply.

The most used form of P/C risk capital comes from operating leverage (see Balance Sheet Risk: Operating Leverage in this report). Although raw industry leverage ratios signal 70% over-capacity with regard to legal underwriting constraints, consolidation and rising prices suggest that this over-capacity is nominal only. Indeed supply seems to be contracting, as it traditionally does in a hard market.

Inflation and Interest Rates
Finally, it is important to note that premium revenue and the premium prices that drive this revenue are highly dependant on both inflation and interest rates. The influence of inflation is intuitive as the cost of indemnification increases with inflation. As the CPI rises, so must insurance costs if insurers plan to stay in business. The more tricky relationship is that with insurance prices and interest rates. Standard and Poor's describes this relationship in their Property-Casualty Industry Survey:

> 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 coverage, prompting insurers to withdraw. Either way, supply and demand are brought back into balance. [**Figure 13**]

Figure 14. U.S. P/C Insurance: Net Written Premium Growth vs. Treasury Bills



Source: A.M. Best's Aggregates and Averages

> The fundamental relationship between insurance pricing and interest rates, therefore, is that prices increase when interest rates fall and decline when interest rates rise. The magnitude of changes in price varies with the magnitude of changes in interest rates. [14]

Costs – Predictable costs, possible operational advantages, no combined ratios under 104%

Costs for P/C insurers comprise of losses, loss-related expenses, and overhead. The drivers for each of the costs are outlined below.

Loss

Loss costs for P/C insurers is a function of both the frequency and severity of claims. Losses are primarily a result of underwriting discipline and risk management of the underwriter, however catastrophic events and changes in the trend of claim filings can affect losses in the short and long term.

The P/C industry has seen increased losses over the last 60 years [**Figure 14**]. The loss ratio trend, however, seems to have stabilized safely around 80% of earned premium over the last 20 years. There is no reason to believe that, over the next year, this average trend will drop below 76% in the favorable hard market. It is of note that the cost of indemnification escalates as the CPI of items related to claims increase, however P/C/ rate pricing carefully takes these factors into account so that, on the average, this does not adversely affect losses.

Accounting for losses on P/C balance sheets take a practice called "reserving" into account as well as reinsurance. Simply stated, changes in expectations of future losses will incite insurers to put more money aside for claims. Both reserving and reinsurance

[14] Standard & Poor's Industry Surveys, Insurance: Property-Casualty, pg 22, 7,17,2003.

planning can affect loss ratios since poor reserving and inappropriate reinsurance will result in higher losses going forward. Loss expectations caused by claim epidemics, such as asbestos or house mold, that were unforeseen would also cause present losses to escalate (see Balance Sheet Risks for more detail on the asbestos issue and reserving).

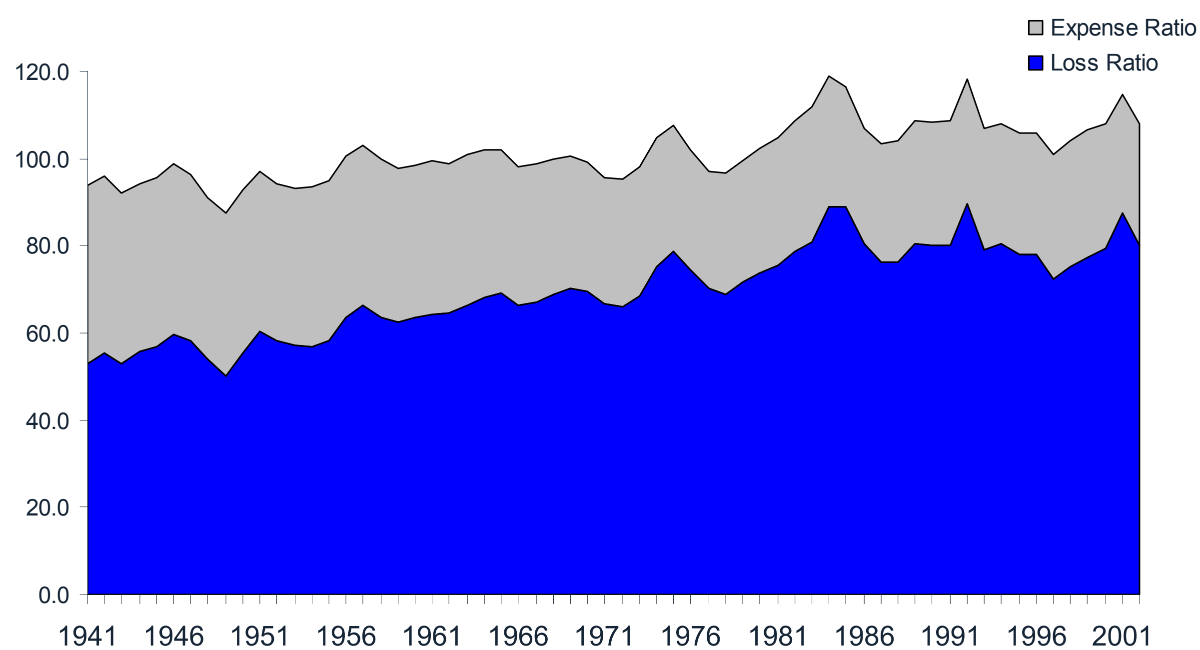
Loss Expense

Loss expenses, or LAE are those variable expenses directly related to losses. Costs such as claim service and estimation are part of LAE. Since LAE are related to losses, the two are frequently analyzed together as Loss/LAE. For ratio analysis, Loss/LAE are analyzed as a percent of earned premium [**Figure 15**]. Operational efficiencies, such as claims filing automation, may cut claims costs in the future, but large-scale change in LAE is not likely over the next twelve months.

Other Costs

Other costs for P/C insures include what most businesses term Sales, General, and Administrative (SG&A). Insurance companies usually term these costs "underwriting expenses." Underwriting expenses have decreased over the last 60 years, as operational efficiencies cut costs for large insurers. Underwriting expenses have hovered around 28% of earned premium since the 1970s, when computing was employed en mass. No foreseeable advancements that will reduce these costs industry-wide are expected. These costs should remain flat at around 28% for the next 12 months.

Figure 15. U.S. P/C Insurance: Loss/LAE and Expense

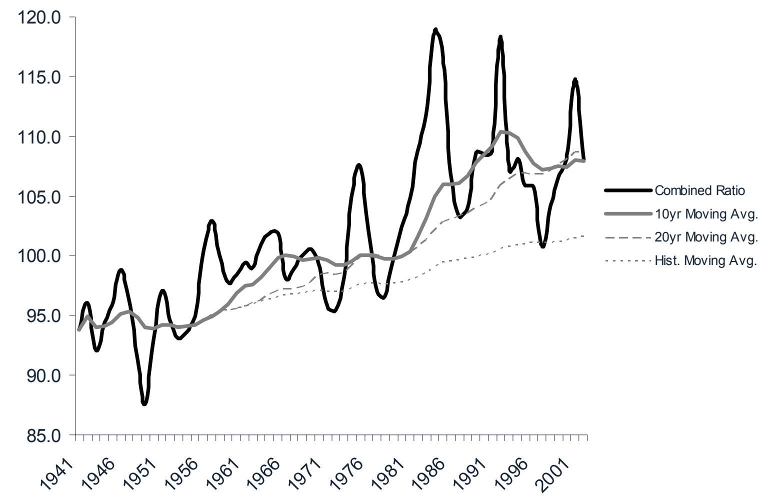


Source: A.M. Best's Aggregates and Averages

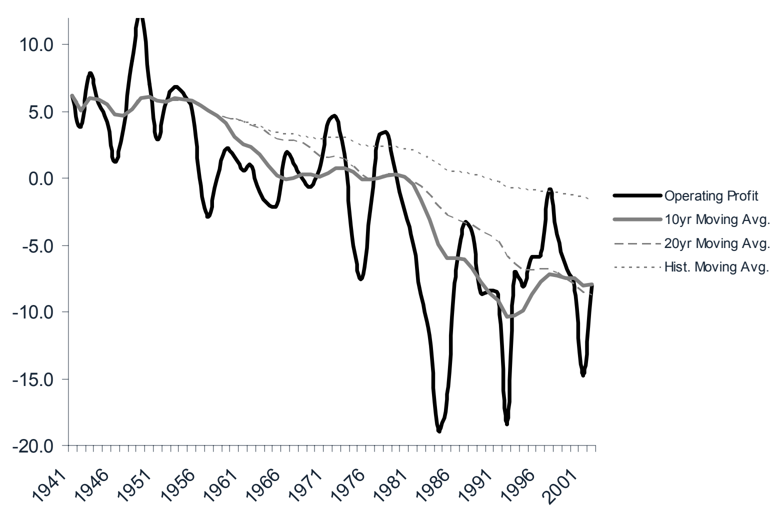
Combined Ratio

Summing Loss/LAE and underwriting expense ratios results in the prime industry operating metric for P/C: the combined ratio. Combined ratios have trended up as operating income has decreased over the history of public insurers. 10 and 20 year moving averages show that operating margins have steadily shrunk since the 1960s [**Figure 16**]. Although Q2 data from insurance companies show combined ratios dropping below 100, fundamentally and historically there is no reason to believe that ratios will drop below 102. Our analysis conservatively projects that combined ratios will drop to 104 producing a 4% operating loss over the next 12 months.

Figure 16. U.S. P/C Insurance: Historical Combined Ratios and Operating Margins



Source: A.M. Best's Aggregates and Averages



Balance Sheet Risk

Assessing balance sheet risks is critical to valuing a P&C insurance company. We analyze the industry's risk in six areas:

- Non-asbestos reserves
- Financial leverage
- Asbestos
- Reinsurance recoverables
- Operating leverage
- Goodwill

Risks due to non-asbestos reserves, leverage, reinsurance and goodwill are limited and do not impact valuation significantly. However, asbestos risk is high and as a result the sector should trade below its historical multiples.

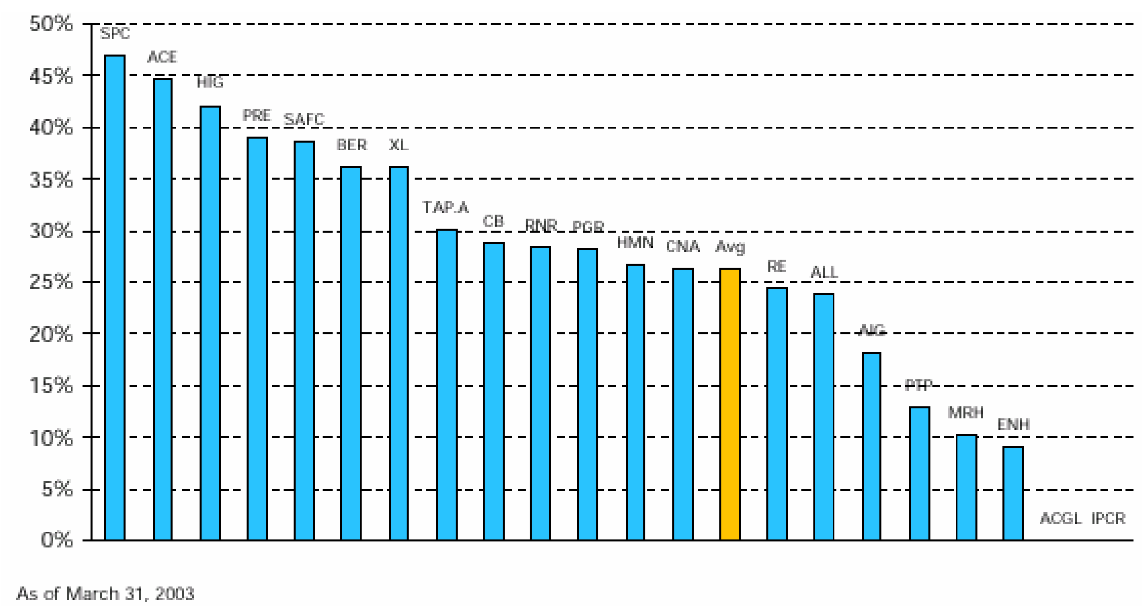
Non-asbestos reserves results are classified by the year in which they were written. For instance, the losses from premiums underwritten in 2002 are shown in accident year 2002 results. These reserves include reserves for lines such as earthquake, mold and auto insurance. Reserves for 2002 premiums for these lines have been extremely high which means that companies are being conservative and will probably be able to favorably revise their 2002 combined ratio in the future. But the profitability of business written from 1998 to 2001 has been poor and the industry has had to revise reserves for those years by billions of dollars. The profitability of this business may remain a problem and may cause continued negative revisions to the industry's combined ratio. All in all, reserve levels are decent and should have no major impact on the industry's multiples.

Financial leverage (defined as debt plus preferred divided by total capital) for the industry[15] is 26.2% excluding goodwill, which is a significant increase over last year.[16] As underwriting and investing conditions improve and in the absence of another large-scale catastrophe such as September 11th, financial leverage should decline. Debt levels at St. Paul are disconcerting at 47% but most companies are less levered.

This leverage is not necessarily a bad thing. Those companies with higher debt levels will have better returns on equity if the sector does well but will struggle if losses are higher than expected. Due to increased leverage, insurance stocks now offer more equity upside at the price of greater downside risk. Insurance stocks are now riskier but this does not change our industry valuation.

[15] We use the Deutsche Bank P&C index as a proxy for the industry throughout the Balance Sheet Risks section.
[16] Deutsche Bank Securities.

Figure 17. Financial Leverage for 21 P/C Securities[17]



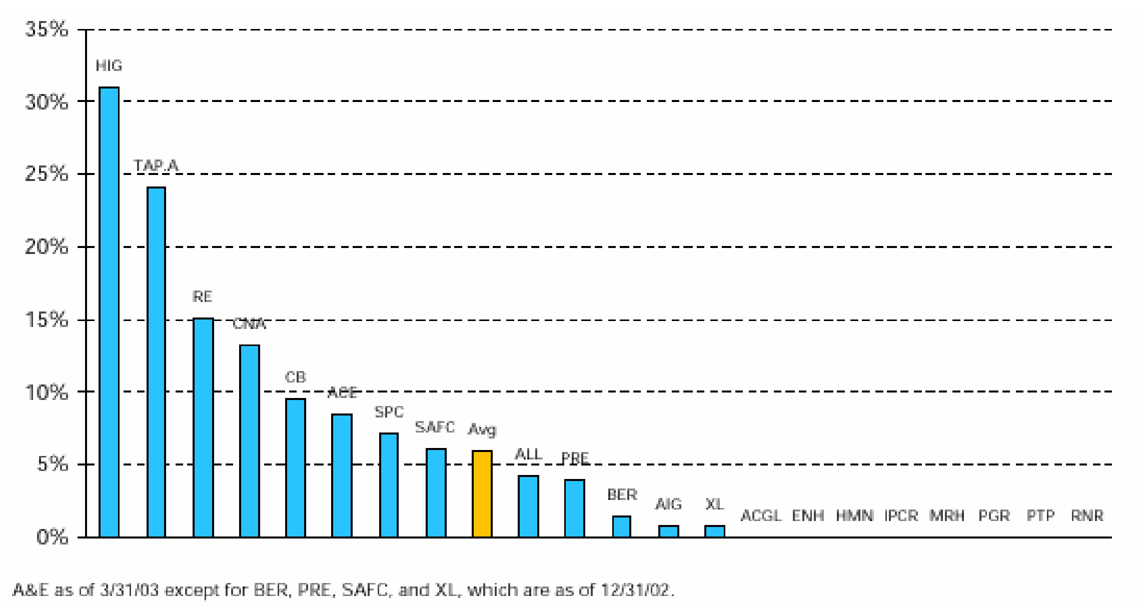
Asbestos claims have been increasing in severity and frequency in the past few years. According to the American Insurance Association, if the events of September 11, 2001 had not occurred asbestos issues would be the country's most important political issue. Some industry experts have estimated that the ultimate liability for asbestos-related losses could be $200 billion, with the domestic P&C firms paying $60 billion of that total. Many unions and lawyers are advising workers who may have contact with the substance but have not developed an illness to file claims now while funds are still available.[18]

Insurers establish loss reserves to recognize expected losses that are not yet paid. Deutsche Bank estimates that each company needs to quadruple its 2000 asbestos loss reserves, and a number of companies have consequently taken large charges. But the average company still needs to transfer 5% of its net tangible equity to reserves in order to quadruple its 2000 reserve levels.

From 1996 to 2001, insurers paid out more than they reserved for asbestos loss and loss adjustment expenses. Consequently industry reserves for asbestos losses declined from $28.2 to $22.6.[19] This combined with increased claims leads us to believe that most companies have insufficient asbestos reserves. Consequently P&C stocks should trade at a discount to their historical multiples.

[17] Deutsche Bank Securities.
[18] Standard & Poor's, July 17, 2003.
[19] Standard & Poor's, July 17, 2003.

Figure 18. Asbestos Reserves to Equity.[20]



Reinsurance recoverables are the amount of losses the insurance company expects to recover from its reinsurers and are shown as an asset on its balance sheet. This exposes the insurance company to the credit risk of its reinsurers and unrecovered portions can have a substantial negative impact. The average reinsurance recoverables to shareholders' equity ratio was 61.4% excluding goodwill and six companies have ratios of greater than 100%.[21] Again Ace Limited is the most risky with a 425% ratio, but several firms have no little or no reinsurance. Overall reinsurance risk is acceptable and reinsurance should continue to allow insurance companies to reduce earnings volatility.

Operating leverage is net premiums plus net reserves divided by surplus. Surplus is approximated by tangible equity plus debt plus preferred.

While high operating leverage may suggest that a company is using its capital aggressively in order to earn higher returns on equity, it can also be a problem. If leverage is already extremely high, a company may not be able to take advantage of new business opportunities without first raising additional funds. If claims are unexpectedly high, a highly-levered company will be more likely to be downgraded. An insurer's credit rating has a major impact on premium prices it can charge and its ability to retain customers; thus downgrades can be very detrimental.

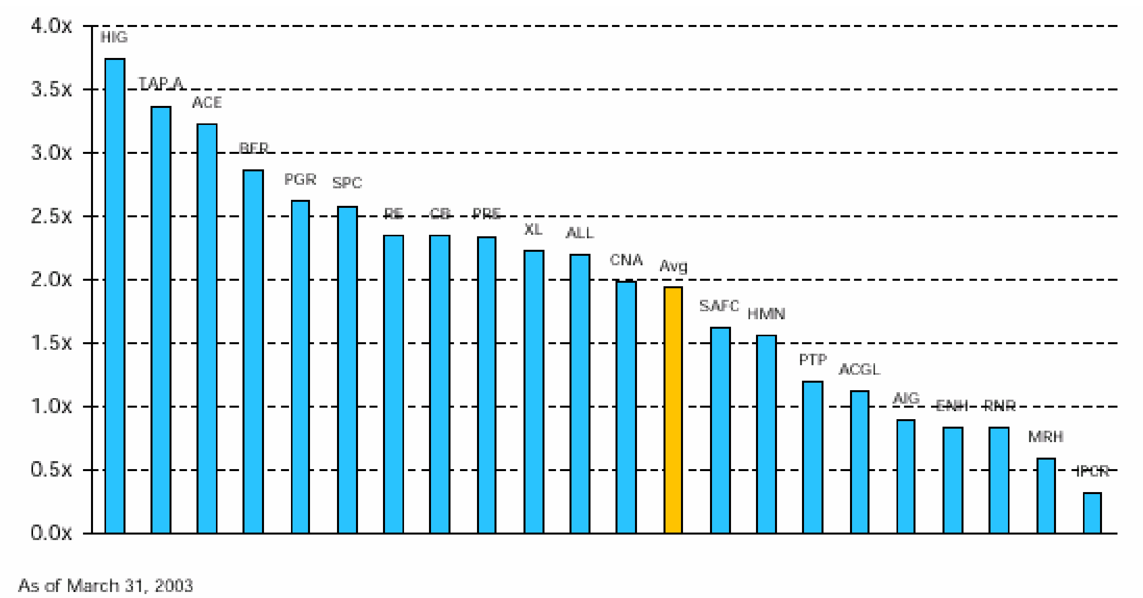
Large investment losses combined with an increase in written premiums led to an increase in operating leverage in 2002. The ratio of net written premiums to policyholder surplus for 2002 for the industry was 1.29 compared with 1.23 for 2001.[22] Regulators allow insurers to write up to $2 premiums for each $1 of surplus.

[20] Deutsche Bank Securities.
[21] Deutsche Bank Securities.
[22] Standard & Poors, July 17, 2003.

At first glance, it may seem that the industry is substantially underlevered and has excess underwriting capacity. However, insurers that are in low frequency, high severity areas such as property catastrophe businesses have lower amounts of leverage to absorb a large loss should one occur. As the industry has increased its casualty coverage and reduced its exposure to more predictable lines such as auto insurance, leverage has declined. Additionally, a continued rise in asbestos claims could easily eliminate most of the surplus. Writing more premiums would be excessively risky. Thus, there is probably no actual available capacity and the industry should not trade at a premium.

As noted above in the cost section, new entrants need extremely good debt ratings to enter while incumbent firms may have trouble exiting the business. The benefits of high barriers to exit offset the disadvantages of the low barriers to entry and net effect on valuations is insignificant.

Figure 19. Operating Leverage. [23]



Goodwill is not a tangible asset and so it does not count towards the statutory surplus. Thus companies cannot write premiums against goodwill and limits companies' ability to expand their business. So extremely high industry goodwill levels are a negative signal. The average goodwill to equity ratio for the industry is about the same as last year at 9% with 12 companies below 5% and five companies above 20%.[24] Companies such as Ace Limited, which has a 45% goodwill to equity ratio, are risky, but we feel the industry's overall goodwill levels are manageable and P&C stocks should not be discounted because of goodwill. If the current consolidation trend continues, investors should monitor goodwill levels more closely.

[23] Deutsche Bank Securities.
[24] Deutsche Bank Securities.

Multiple expansion or dramatic interest rate turnaround only upside

Growth in the property and casualty insurance industry will be driven by several of the macro factors discussed earlier, including net investment yield, net premium growth and cost trends. These key macro drivers were forecasted for the years 2003 and 2004 based on historical trends, company predictions and proprietary estimates. Using actual 2002 industry data as a base year, an estimated income statement and summary balance sheet were created. We believe our projected income statement represents a "best case" scenario and includes most, if not all, of the upside in fundamentals.

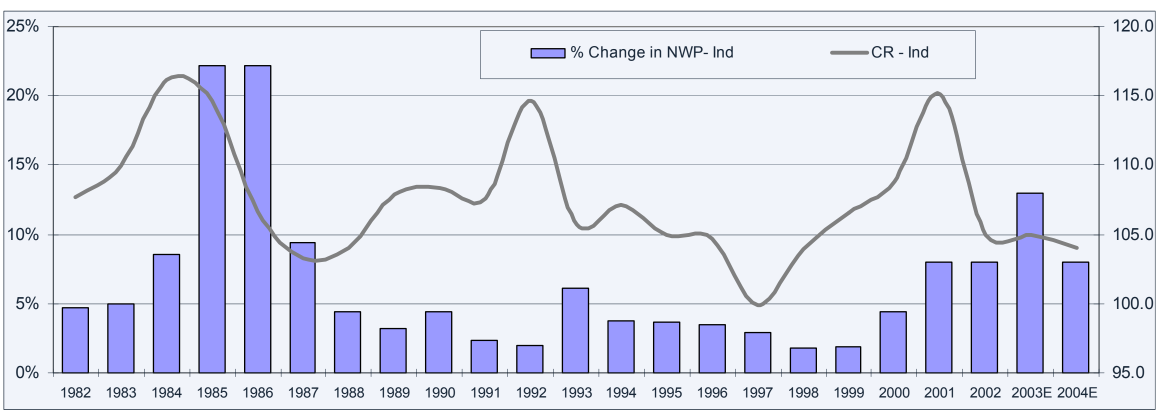
Net investment yield, one of the most important drivers, is forecast to improve 120 basis points over year-end levels. We see from the below table, our projections call for 2004E yields to rise above 2000 levels, which corresponds to 10YR U.S. bonds yielding 6.0%, about 150 basis points above current levels.

	Investment Yields	10Yr U.S. Bond
2000	**5.3%**	**6.0%**
2001	**4.9%**	**5.0%**
2002	**4.3%**	**4.6%**
2003E	**5.0%**	**4.52%(1)**
2004E	**5.5%**	

(1) September 2003.

Net premium revenue growth, aggressively forecast at 13% and 8% growth during 2003 and 2004, respectively, compares favorably with historical trends [**Figure 19**].

Figure 20. Growth in NWP vs. Combined Ratio for P/C Industry.



Source: AM Best

Property and Casualty Industry
(Dollars in Billions)

	2000A	2001A	2002A	2003E	2004E
Investment Income	$41	$38	$37	$51	$60
Net Realized Investment Gains	$16	$7	($1)	$0	$0
Net Premium Revenue	$294	$312	$348	$393	$425
Total Revenues	$351	$356	$384	$444	$485
Expenses	$320	$360	$378	$409	$442
Dividends	$4	$3	$2	$2	$2
Net Income	$21	($7)	$3	$26	$33
Surplus	$317	$290	$285	$311	$344
Net Investment Yield	5.3%	4.9%	4.3%	5.0%	5.5%
Net Premium Growth		6.0%	11.8%	13.0%	8.0%
Combined Ratio	109.3%	115.7%	106.7%	104.0%	104.0%

On the cost side, we forecast combined ratios falling to 104%, below both the 10 year and 20 year moving averages, although not to the most recent trough in [1996]. We believe are forecast cost improvements are aggressive and do not see any upside in the form of lower combined ratios in the near-term.

Property and Casualty Industry
(Dollars in Billions)

	2000A	2001A	2002A	2003E	2004E
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Combined Ratio	109.3%	115.7%	106.7%	104.0%	104.0%

Source: Standard & Poor's, proprietary estimates.

Compounding our optimistic outlook on the income statement are conservative estimates for the balance sheet. We assume surplus to grow with net income (after dividends) and do not forecast additional gains or losses in the surplus account, nor new equity investment. Historically, losses have more than offset new equity investments, causing surplus to grow at a rate lower than net income additions. Invested assets, which in conjunction with net investment yield, drive net investment income, are projected to grow at the same rate as premiums. Traditionally, the primary growth engines for invested assets have been written, but unearned, premiums and loss reserves. Both of these drivers will tend to grow at the same rate as premiums, but a full analysis on the correlation of their growth rate to invested assets growth rate could not be performed. We believe, at a maximum, invested assets will grow at the same rate as premiums grow, and have forecasted following that methodology.

P&C Insurance Industry Valuation

With limited industry information available, a full discounted cash flow analysis could not be produced. Similarly, resources were not available to conduct an actuarial analysis either by company or industry. However, using price to book and price to earnings multiple analysis, the current value of the industry was estimated. Currently, a universe of 27 public property and casualty companies covered by Merrill Lynch trades at 1.4x book value, 12.3x 2003E earnings and 9.6x 2004E earnings.

(Dollars in Billions)

Method	Multiple	Financial	Market Value
P/Book (2003E)	1.4x	$311	$450
2003E P/E	12.3x	$26	$324
2004E P/E	9.6x	$33	$314

By applying these current multiples, the value of the property and casualty insurance industry is estimated to be between $314 and $450 billion. The year-end 2002 value of the industry implied by the public equity markets was calculated as a point of comparison. Surplus, as reported by A.M. Best, for the industry in 2002 was $285 billion, implying a total industry value of $412 billion, based on a book value multiple of 1.44x. Based on price to book analysis, the industry should appreciate 9% from $412 billion to $450 billion by year end and price to earnings multiples suggest the industry is overvalued by approximately 20%. For the year, prices for the Merrill Lynch universe are up 12.8%, suggesting that, if the price to book methodology is correct, any potential appreciation has already occurred.

At best, the industry will not appreciate and at worst, assuming price to earnings analysis is more appropriate, the industry will decline meaningfully. Our forecast calls for continued net premium growth, lower expenses and an investment yield recovery. Should any of these not materialize, particularly an investment yield improvement (see below for sensitivity analysis), the possibility for a significant downturn in valuation exists.

Multiple Expansion/Contraction Can Drive Value

The impact of multiple expansion or contraction can be seen the tables below. On a price to earnings basis, the multiple would have to expand over thirty percent for the industry valuation to reach year-end 2002 levels. On a price to book basis, significant upside is apparent with any expansion of the multiple.

2003E P/E Sensitivity

Multiple	Market Cap.	%Change from '02
10.0x	$263	-36.1%
12.0x	$316	-23.3%
14.0x	$368	-10.6%
16.0x	$421	2.2%

2004E P/E Sensitivity

Multiple	Market Cap.	%Change from '02
8.0x	$262	-36.3%
10.0x	$328	-20.4%
12.0x	$393	-4.5%
14.0x	$459	11.4%

Price to Book Sensitivity

Multiple	Market Cap	%Change from '02
1.2x	$374	-9.3%
1.3x	$405	-1.7%
1.4x	$436	5.9%
1.5x	$467	13.4%
1.6x	$498	21.0%

Operating Sensitivities

Our industry valuation was also tested for sensitivity to key operating drivers. The impact of operating results was isolated by holding the valuation technique, 2004E P/E multiple of 9.6x, constant.

Net Investment Yield

Change	Market Cap.	%Change from '02
-1.00%	$230	-44.0%
-0.75%	$251	-38.9%
-0.50%	$272	-33.8%
-0.25%	$293	-28.7%
0.00%	$314	-23.6%
0.25%	$335	-18.6%
0.50%	$356	-13.5%
0.75%	$377	-8.4%
1.00%	$398	-3.3%
1.25%	$419	1.8%

A slight change[25] in net investment yield can have a big impact on value. Each 25 basis point change in yield causes a $20 billion dollar move in valuation. Our forecast calls for an increase in yields, and our valuation is still flat to down. Should interest rates not rise and yields exhibit a recovery, the value of the industry will plummet, all other things constant. For example, the valuation would increase by about $40 billion, only 10% improvement, if net investment yield rose 50 basis point beyond our forecast to 6.0%. A 6.0% yield corresponds to bond yields expanding to levels above average yields in 2000 within

[25] "Change" represents gross percentage point increases or decreases in the growth rate, not a percent change in growth rate.

Net Premium Growth

Change	Market Cap.	%Change from '02
-10.00%	$260	-36.9%
-6.00%	$281	-31.7%
-2.00%	$303	-26.4%
2.00%	$326	-20.9%
6.00%	$349	-15.1%
10.00%	$374	-9.2%

Because an increase in premiums brings an increase in losses, which is offset by growth in investment income that can be generated off the larger book of business, a fairly large change in premium growth is required to have a significant valuation impact. Note that if our forecast of 13% and 8% growth in 2003 and 2004, respectively, were to improve by 1000 basis points in each year, the valuation would move to $374 billion, still a negative change relative to the value at year-end 2002.

the next 15 months.

Combined Ratio Sensitivity

Change	Market Cap.	%Change from '02
-4.0%	$445	8.0%
-3.0%	$412	0.1%
-2.0%	$380	-7.8%
-1.0%	$347	-15.7%
0.0%	$314	-23.6%
1.0%	$282	-31.6%
2.0%	$249	-39.5%
3.0%	$216	-47.4%
4.0%	$184	-55.3%

Any retreat in combined ratio towards last year's results (107.2%) will have a dramatic negative impact on industry valuation. Each one percentage point change in the combined ratio has a $30 billion impact. If combined ratios fell to the 20-year trough of 100% in 1996 (a 400 basis point improvement over our forecast), valuation jumps to $445 billion (see table, left), which is still only moves the valuation to a "Hold".

P&C Industry Publicly Traded Comparable Companies

Name	Ticker	Price	Mkt. Cap (millions)	ROE 2004E	Book Value	Price / Book	EPS[1] 2002A	EPS[1] 2003E	EPS[1] 2004E	P/E[2] 2002A	P/E[2] 2003E	P/E[2] 2004E
Ace Limited	ACE	$33	$9,121	14.9%	$27.24	1.2x	$1.81	$4.15	$4.65	18.1x	7.9x	7.1x
Allstate Corp	ALL	$36	$25,126	12.7%	$27.33	1.3x	$2.82	$3.60	$3.85	12.8x	10.0x	9.4x
American Financial Group	AFG	$22	$1,499	9.1%	$27.61	0.8x	$2.42	$2.16	$2.96	9.0x	10.1x	7.3x
American International Group	AIG	$62	$162,421	15.6%	$24.68	2.5x	$2.70	$3.85	$4.45	23.1x	16.2x	14.0x
Arch Capital Group	ACGL	$34	$2,289	14.4%	$23.42	1.5x	$1.60	$3.35	$3.90	21.4x	10.2x	8.8x
Chubb Corp.	CB	$66	$12,342	12.9%	$44.79	1.5x	$1.18	$5.20	$6.30	55.8x	12.7x	10.5x
CNA Financial Group	CAN	$22	$4,984	7.8%	$42.65	0.5x	$1.76	$0.95	$3.15	12.7x	23.5x	7.1x
Endurance Specialty	ENH	$30	$2,048	14.8%	$22.68	1.3x	$1.43	$3.30	$3.80	21.0x	9.1x	7.9x
Hartford Fin. Services	HIG	$53	$15,053	12.8%	$40.75	1.3x	$4.96	($1.41)	$5.80	10.8x	NM	9.2x
Horace Mann	HMN	$15	$601	10.2%	$13.81	1.1x	$1.09	$0.95	$1.45	13.5x	15.5x	10.1x
Infinity P/C	IPCC	$26	$529	12.3%	$20.31	1.3x	$2.17	$2.40	$2.80	11.9x	10.8x	9.2x
IPC Holdings	IPCR	$35	$1,663	13.1%	$29.91	1.2x	$4.20	$4.75	$4.40	8.2x	7.3x	7.8x
Markel Corp.	MKL	$273	$2,684	11.5%	$135.07	2.0x	$4.27	$14.80	$17.45	63.9x	18.4x	15.6x
Mercury General	MCY	$45	$2,438	14.6%	$21.98	2.0x	$2.06	$3.10	$3.50	21.8x	14.5x	12.8x
Ohio Casualty	OCAS	$14	$858	7.3%	$18.75	0.8x	($0.42)	$0.75	$1.45	NM	18.8x	9.7x
Philadelphia Cons.	PHLY	$40	$878	14.3%	$22.84	1.8x	$1.73	$2.55	$3.80	23.2x	15.7x	10.6x
Platinum Underwriters	PTP	$27	$1,149	12.1%	$23.34	1.1x	$0.18	$2.40	$3.15	NM	11.1x	8.5x
Progressive Corp.	PGR	$65	$14,207	18.4%	$20.15	3.2x	$3.20	$4.90	$4.55	20.4x	13.3x	14.3x
RenaissanceRe	RNR	$44	$3,092	19.6%	$25.94	1.7x	$5.20	$6.45	$6.15	8.5x	6.8x	7.1x
SAFECO Corp.	SAFC	$36	$5,027	9.0%	$37.22	1.0x	$1.92	$3.25	$3.60	18.9x	11.2x	10.1x
Selective Ins. Group	SIGI	$28	$750	10.0%	$26.37	1.1x	$1.50	$2.05	$2.85	18.5x	13.6x	9.8x
St. Paul Cos.	SPC	$35	$7,834	14.4%	$27.25	1.3x	$1.24	$3.50	$4.40	27.9x	9.9x	7.9x
Travelers	TAPA	$16	$15,837	15.5%	$11.24	1.4x	$0.12	$1.70	$2.00	NM	9.3x	7.9x
W.R. Berkley Corp	BER	$51	$2,812	17.1%	$27.53	1.8x	$2.97	$4.80	$5.60	17.1x	10.6x	9.1x
XL Capital Ltd.	XL	$78	$10,652	16.4%	$51.40	1.5x	$5.07	$8.05	$9.60	15.3x	9.6x	8.1x
Average				**13.2%**		**1.4x**				**20.6x**	**12.3x**	**9.6x**

(1) EPS are on operating income basis (i.e., exclude realized gains/(losses)).
(2) Excludes P/E <0 and >65.

Source: Merrill Lynch.

Overview of Publicly Traded P&C Companies

Ace Limited

Company Description

ACE Limited provides a broad range of insurance and reinsurance products to insureds worldwide through operations in the United States and almost 50 other countries. The Company entered the property catastrophe reinsurance market in 1996 with the acquisition of Tempest Reinsurance Company Ltd. and added to its existing market position when it acquired CAT Limited in 1998. The Company also entered the Lloyd's market in 1996, which broadened its international exposure through Lloyd's worldwide insurance licenses. The Company entered the United States market in early 1998 with the acquisition of the Westchester group. In 1999, the Company acquired the international and domestic property and casualty businesses of CIGNA Corporation. In 1999, it also acquired Capital Re Corporation, which added depth, expertise and new products to its financial reinsurance capabilities.

Source: Onesource (Multex).

Financial Overview

	2002A	2003E	2004E
Net Premiums Written	$7,909	$10,125	$11,251
Loss Ratio	73.5%	64.2%	63.9%
Expense Ratio	28.2%	27.2%	27.5%
Combined Ratio	101.7%	91.4%	91.4%
P/E	18.2x	7.9x	7.1x
P/Book	1.2x	1.2x	1.1x
ROE	7.6%	15.6%	14.9%

Source: Merrill Lynch & Co.

Recent Developments

ACE's quarterly results were stronger than the comparable quarter a year ago, with net income up 25%, excluding net gains and losses. Net premium growth drove the positive results, with a quarter over quarter improvement of 28%. Net investment income also grew, while the combined ratio remained relatively constant at 91.7%

Source: Company press release.

Allstate Corp.

Company Description

Provider of direct property and casualty insurance services, direct life insurance services, direct health and medical insurance services, and insurance agency and brokerage services. Parent/holding company with a unit involved in insurance. Products and services are sold to multiple industries.

Source: Onesource (Multex.)

Financial Overview

	2002A	2003E	2004E
Net Premiums Written	$23,917	$25,215	$27,014
Loss Ratio	75.5%	71.6%	71.9%
Expense Ratio	22.8%	23.5%	23.5%
Combined Ratio	98.3%	95.1%	95.4%
P/E	12.8x	10.0x	9.4x
P/Book	1.3x	1.3x	1.2x
ROE	11.2%	13.3%	12.7%

Note: Operating results are property-liability unit only.
Source: Merrill Lynch & Co.

Recent Developments

Allstate reported strong results for the second quarter of 2003. Allstate's core business, property-liability, recorded premium growth of 6.3%, quarter over quarter. Allstate continues to feel the benefits of rate increases and intends to continue raising rates as necessary to meet returns targets. Allstate raised earnings guidance for the year and anticipates generating an ROE of 10.7% for the year ended 2003, as compared to 5.3% for 2002.

Source: Company press release.

American Financial Group

Company Description

American Financial Group Inc. (AFG) is engaged primarily in property and casualty insurance, focusing on specialized commercial products for businesses, and in the sale of retirement annuities, life and supplemental health insurance products. AFG's property and casualty group has been engaged primarily in specialty and private passenger automobile insurance businesses that have been managed as two major business groups: Specialty and Personal. AFG's annuity and life operations are conducted through Great American Financial Resources Inc., a holding company that markets retirement products, primarily fixed and variable annuities, and various forms of life and supplemental health insurance through subsidiaries. GAFRI offers a variety of life and supplemental health products through subsidiaries.

Source: Onesource (Multex).

Financial Overview

	2002A	2003E	2004E
Net Premiums Written	$2,414	$1,986	$2,034
Loss Ratio	74.3%	68.3%	63.5%
Expense Ratio	25.3%	30.0%	31.1%
Combined Ratio	99.6%	98.3%	94.6%
P/E	9.0x	10.1x	7.3x
P/Book	0.8x	0.8x	0.7x
ROE	10.4%	7.8%	9.1%

Source: Merrill Lynch & Co.

Recent Developments

American Financial group's second quarter results were good, but not as strong as many peers. Net income was up quarter over quarter by 18% on the strength of improved underwriting margins, offset by lower investment income. However, management still expects to meet its year-end net income target. American was able to generate rate increases in many business lines and looks to maintain average increases of 20% across all lines for the remainder of the year.

Source: Company press release.

AIG

American International Group

Company Description

American International Group, Inc. (AIG) is engaged in insurance and insurance-related activities, principally general insurance and life insurance, in the United States and abroad. The principal general insurance company subsidiaries are American Home Assurance Company; National Union Fire Insurance Company of Pittsburgh, Pennsylvania; New Hampshire Insurance Company Lexington Insurance Company; The Hartford Steam Boiler Inspection and Insurance Company (HSB); Transatlantic Reinsurance Company; American International Underwriters Overseas, Ltd., and United Guaranty Residential Insurance Company. AIG's operations are conducted principally through four business segments: general insurance, life insurance, financial services and retirement savings and asset management.

Source: Onesource (Multex).

Financial Overview

	2002A	2003E	2004E
Net Premiums Written	$27,414	$34,868	$40,249
Loss Ratio	85.8%	74.0%	73.7%
Expense Ratio	19.3%	18.8%	18.8%
Combined Ratio	105.1%	92.8%	92.5%
P/E	23.1x	16.2x	14.0x
P/Book	2.5x	2.1x	1.8x
ROE	12.7%	15.7%	15.6%

Source: Merrill Lynch & Co.

Recent Developments

AIG's general insurance division recorded a 29.4% increase in net income, driven by net premium growth of 30.4% and a lower combined ratio of 92.3%, compared with 94% one year ago. Like many peers, AIG instituted rate increases which were as high as 30% to 40%.

Source: Company press release.

Arch Capital Group

Company Description

Arch Capital Group Ltd. provides insurance and reinsurance on a worldwide basis through operations in Bermuda and the United States. The Company's reinsurance operations are conducted on a worldwide basis through its principal reinsurance subsidiaries, Arch Reinsurance Ltd. (Arch Re Bermuda) and Arch Reinsurance Company (Arch Re U.S). Arch Capital's insurance operations are conducted in the United States and Bermuda. The Company also underwrites non-standard automobile liability and physical damage lines of insurance through its subsidiaries, American Independent Insurance Company and Personal Service Insurance Company (PSIC).

Source: Onesource (Multex).

Financial Overview

	2002A	2003E	2004E
Net Premiums Written	$1,262	$2,452	$2,760
Loss Ratio	64.8%	66.5%	68.1%
Expense Ratio	27.0%	25.0%	24.0%
Combined Ratio	91.8%	91.5%	92.1%
P/E	21.4x	10.2x	8.8x
P/Book	1.5x	1.4x	1.2x
ROE	7.8%	14.4%	14.4%

Source: Merrill Lynch & Co.

Recent Developments

Arch Capital reported record results for the second quarter of 2003. Net premiums more than doubled, the combined ratio fell from 93.9% to 90.7% and net investment income rose, primarily as a result of a significant increase in invested assets. Investment yield actually fell quarter over quarter from 4.1% to 3.3%, while return on equity jumped from 4.7% to 15.4%.

Source: Company press release.

Chubb Group of Insurance Companies

Chubb Corp.

Company Description

Chubb Corporation is a holding company for a family of property and casualty insurance companies known informally as the Chubb Group of Insurance Companies (the Group). The Group provides property and casualty insurance to businesses and individuals around the world. Chubb Commercial Insurance offers a full range of commercial customer insurance products, including coverage for multiple peril, casualty, workers' compensation and property and marine. In 2000, the Corporation organized Chubb Financial Solutions to develop and provide customized risk-financing services through both the capital and insurance markets.

Source: Onesource (Multex).

Financial Overview

	2002A	2003E	2004E
Net Premiums Written	$9,047	$11,035	$12,484
Loss Ratio	75.0%	64.7%	64.3%
Expense Ratio	32.3%	31.4%	30.7%
Combined Ratio	107.3%	96.1%	95.0%
P/E	55.7x	12.7x	10.5x
P/Book	1.5x	1.4x	1.2x
ROE	3.0%	12.0%	12.9%

Source: Merrill Lynch & Co.

Recent Developments

Chubb announced record second quarter results, with net income rising 20% quarter over quarter. P&C premiums grew 24%, while the combined ratio fell to 95.3% from 98.0%. Earnings expectations were raised and management announced that rate increases would continue for new business.

Source: Company press release.

CNA Financial Group

Company Description

CNA Financial Corporation (CNAF) is an insurance holding company whose primary subsidiaries consist of property and casualty and life and group insurance companies. The Company's property and casualty insurance operations are conducted by Continental Casualty Company and The Continental Insurance Company. Life and group insurance operations are conducted by Continental Assurance Company, Valley Forge Life Insurance Company and CNA Group Life Assurance Company. Insurance products include property and casualty coverages; life, accident and health insurance; retirement products and annuities, and property and casualty reinsurance. The Company's services include risk management, information services, healthcare claims management and claims administration. CNAF conducts its operations through five operating segments: Standard Lines, Specialty Lines, CNA Re, Group Operations and Life Operations.

Source: Onesource (Multex).

Financial Overview

	2002A	2003E	2004E
Net Premiums Written	$7,008	$7,536	$8,243
Loss Ratio	74.2%	75.2%	68.2%
Expense Ratio	31.1%	32.8%	30.8%
Combined Ratio	105.3%	108.0%	99.0%
P/E	12.7x	23.5x	7.1x
P/Book	0.5x	0.6x	0.6x
ROE	4.6%	2.4%	7.8%

Source: Merrill Lynch & Co.

Recent Developments

Gross written premiums grew 19%, quarter over quarter, while rates were raised 19%, on average. Combined ratio, however, ballooned to 135.2% from 108.4%. The company experience lower investment yields, which caused a drop in net investment income.

Source: Company press release.

Endurance Specialty

Company Description

Endurance Specialty Holdings Ltd. is a holding company with operating subsidiaries based in Bermuda, the United Kingdom and the United States. The Company focuses on writing specialty lines of commercial property and casualty insurance and reinsurance on a global basis. Endurance defines specialty lines as those lines of insurance and reinsurance that require dedicated, specialized underwriting skills and resources in order to be profitably underwritten. The Company's portfolio of specialty lines of business is organized into six segments: property per risk treaty reinsurance, property catastrophe reinsurance, casualty treaty reinsurance, property individual risk, casualty individual risk and other specialty lines.

Source: Onesource (Multex).

Financial Overview

	2002A	2003E	2004E
Net Premiums Written	$765	$1,529	$1,847
Loss Ratio	55.3%	59.9%	65.0%
Expense Ratio	30.7%	26.7%	24.6%
Combined Ratio	86.0%	86.6%	89.6%
P/E	21.0x	9.1x	7.9x
P/Book	1.3x	1.2x	1.1x
ROE	7.7%	14.4%	14.7%

Source: Merrill Lynch & Co.

Recent Developments

Endurance more than double net income, quarter over quarter, and grew gross written premiums by 147%. Combined ratio, however expanded to 84.2%, up from 75%.

Source: Company press release.

THE HARTFORD

Hartford Financial Services

Company Description

Hartford Financial Services Group, Inc. (The Hartford) is a diversified insurance and financial services company that provides investment products, individual life, group life and group disability insurance products and property and casualty insurance products in the United States. The Hartford is organized into two major operations, Life and Property & Casualty. Life has four reportable operating segments: Investment Products, Individual Life, Group Benefits and Corporate Owned Life Insurance. Property & Casualty is organized into five reportable operating segments: the North American underwriting segments of the Business Insurance, Personal Lines, Specialty Commercial and Reinsurance and the Other Operations segment. In May 2003, the Company sold most of its Property & Casualty Reinsurance business to Endurance Specialty Holdings Ltd.

Source: Onesource (Multex).

Financial Overview

	2002A	2003E	2004E
Net Premiums Written	$8,527	$9,081	$9,768
Loss Ratio	70.8%	70.2%	68.0%
Expense Ratio	29.5%	28.6%	28.8%
Combined Ratio	100.3%	98.8%	96.8%
P/E	10.8x	NM	9.2x
P/Book	1.3x	1.3x	1.1x
ROE	12.6%	12.4%	12.8%

Source: Merrill Lynch & Co.

Recent Developments

The Hartford almost tripled net income quarter over quarter. Earned premiums for the North American P&C lines were up 14% and investment yield decreased from 6.2% to 5.8%. Management stated The Hartford was achieving targeted P&C returns and planned to grow the business in 2004.
Source: Company press release.

Horace Mann
Educated Financial Solutions

Horace Mann Educators Corporation

Company Description

Horace Mann Educators Corporation (HMEC) is an insurance holding company. Through its subsidiaries, the Company markets and underwrites personal lines of property and casualty and life insurance and retirement annuities in the United States. The Company markets its products primarily to educators and other employees of public schools and their families.
Source: Multex.

Financial Overview

	2002A	2003E	2004E
Net Premiums Written	$524.9	$65.5	$605.1
Loss Ratio	79.2%	75.4%	75.4%
Expense Ratio	23.0%	24.0%	22.5%
Combined Ratio	102.2%	101.8%	97.7%
P/E	15.2x	13.8x	11.4x
P/Book	1.3x	1.2x	1.1x
ROE	9.2%	7.3%	10.2%

Sources: Company documents and Merrill Lynch & Co.

Recent Developments

Horace Mann Educators Corporation reported for the second quarter of 2003 that the property and casualty segment recorded a net loss of $4.5 million, compared to net income of $3.3 million for the same period in 2002. Horace Mann's property and casualty statutory combined ratio was 110.7 percent for the second quarter of 2003, compared to 107.0 percent a year earlier.

Source: Company press release.

Infinity P/C

Company Description

Infinity Property and Casualty Corporation is a holding company that, through subsidiaries, provides personal automobile insurance on a national level, with an emphasis on non-standard auto insurance. Approximately 80% of the Company's personal auto business is non-standard auto insurance. Non-standard auto insurance is coverage to drivers who, due to their driving record, age or vehicle type, represent higher-than-normal risks and pay higher rates for comparable coverage.
Source: Multex.

Financial Overview

	2002A	2003E	2004E
Net Premiums Written	$687.3	$751.1	$738
Loss Ratio	82.2%	81.1%	79.9%
Expense Ratio	14.0%	13.7%	15.3%
Combined Ratio	96.1%	93.8%	94.0%
P/E	11.1x	10.7x	8.9x
P/Book	1.3x	1.1x	1.0x
ROE	--	11.9%	12.3%

Sources: Company documents and Merrill Lynch & Co.

Recent Developments

Infinity Property & Casualty Corporation reported net earnings for the second quarter of $12.3 million, compared to net earnings of $2.1 million for the second quarter of 2002. Second quarter net written premiums were $169.8 million, an 18.1% decrease over the $207.4 million net written premiums in the second quarter of 2002.

Source: Company press release.

IPC Holdings

Company Description

IPC Holdings, Ltd. provides property catastrophe reinsurance and, to a limited extent, property-per-risk excess, aviation (including satellite), marine and other short-tail reinsurance on a worldwide basis. Property catastrophe reinsurance covers unpredictable events such as hurricanes, windstorms, hailstorms, earthquakes, volcanic eruptions, fires, industrial explosions, freezes, riots, floods and other man-made or natural disasters. During 2002, the Company had approximately 327 clients, of which approximately 44% were based in the United States.

Source: Multex.

Financial Overview

	2002A	2003E	2004E
Net Premiums Written	$254.3	$300.2	$318.2
Loss Ratio	17.1%	30.1%	35.1%
Expense Ratio	17.0%	16.4%	17.0%
Combined Ratio	34.1%	41.0%	51.4%
P/E	8.0x	7.4x	7.2x
P/Book	1.3x	1.1x	1.0x
ROE (Op. Inc.)	16.9%	16.3%	13.1%

Sources: Company documents and Merrill Lynch & Co.

Recent Developments

IPC Holdings reported net income for the quarter ended June 30, 2003 of $65.6 million, compared to $48.6 million for the second quarter of 2002. Our net premiums earned in the second quarter of 2003 were $72.3 million, compared to $56.5 million earned in the second quarter of 2002, an increase of 28.0%.

Source: Company press release.

MARKEL CORPORATION

Markel Corp.

Company Description

Markel Corporation sells specialty insurance products and programs to a variety of niche markets. The Company competes in three segments of the specialty insurance marketplace: Excess and Surplus Lines (the E&S Market), Specialty Admitted and the London Insurance Market. The E&S Market focuses on hard-to-place risks and risks that admitted insurers specifically refuse to write. In the Specialty Admitted Market, Markel writes business through the Specialty Program Insurance and the Specialty Personal and Commercial Lines units. In the London Insurance Market, the Company writes specialty property, casualty, marine and aviation insurance on a direct and reinsurance basis.
Source: Multex.

Financial Overview

	2002A	2003E	2004E
Net Premiums Written	$1,617.2	$1,878.9	$2,043.7
Loss Ratio	72.0%	65.1%	65.5%
Expense Ratio	31.4%	30.7%	30.0%

Combined Ratio	103.4%	95.5%	95.1%
P/E	59.0x	17.0x	14.4x
P/Book	2.1x	1.9x	1.7x
ROE (Op. Inc.)	3.7%	11.3%	11.5%

Sources: Company documents and Merrill Lynch & Co.

Recent Developments
For the six months ended 6/30/03, revenues rose 30% to $1.01 billion. Net income totaled $95.3M, up from $40.3M. Revenues benefited from growth in property and casualty premiums due to increased submission activity and prices increases. Earnings also benefited from reduced loss ratios.

Source: Company press release.

Mercury Insurance Group

Mercury General

Company Description
Mercury General Corporation (Mercury General) is an insurance holding company that is engaged primarily in writing all risk classifications of automobile insurance in a number of states, principally California. The Company also writes homeowners insurance, mechanical breakdown insurance, commercial and dwelling fire insurance and commercial property insurance. The Company is the parent of Mercury Casualty Company (MCC), an automobile insurer. In addition to MCC, Mercury General has seven direct and six indirect subsidiaries.

Source: Multex.

Financial Overview

	2002A	2003E	2004E
Net Premiums Written	$1,865	$2,266.5	$2,558.2
Loss Ratio	72.0%	65.1%	65.5%
Expense Ratio	31.4%	30.7%	30.0%
Combined Ratio	98.9%	94.8%	95.1%
P/E	22.3x	15.4x	13.1x
P/Book	2.3x	2.1x	1.9x
ROE (Op. Inc.)	10.3%	14.4%	14.6%

Sources: Company documents and Merrill Lynch & Co.

Recent Developments
Mercury reported today that net income was $43.4 million in the second quarter 2003 compared with $1.3 million in the same period for 2002. Revenues reflect increased policy sales and rate increases in CA, FL and TX automobile and CA homeowner insurance. Net income also reflects decreased interest costs.
Source: Company press release.

Ohio Casualty

Company Description

Ohio Casualty Corporation is engaged in the property and casualty insurance business through a group of six direct and indirect subsidiaries. The Company has three business units: commercial lines, specialty lines and personal lines. The commercial lines sells primarily: commercial multiple peril, commercial auto, general liability and workers' compensation insurance. The specialty lines sells primarily: commercial umbrella and bond insurance. The personal lines sells primarily: personal automobile and homeowners insurance.

Source: Multex.

Financial Overview

	2002A	2003E	2004E
Net Premiums Written	$1,448.6	$1,440.1	$1,509.7
Loss Ratio	77.9%	70.8%	69.1%
Expense Ratio	39.2%	38.1%	36.0%
Combined Ratio	111.3%	106.9%	103.0%
P/E	--	16.9x	9.3x
P/Book	0.8x	0.7x	0.7x
ROE (Op. Inc.)	-2.9%	4.5%	7.6%

Sources: Company documents and Merrill Lynch & Co.

Recent Developments

For the six months ended 6/30/03, revenues decreased 3% to $831.2 million. Net income decreased 23% to $30.9 million. Revenues reflect lower premiums and finance charges earned. Earnings also reflects higher loss ratios from the Commercial and Specialty Lines, and higher general operating expenses.

Source: Company press release.

Philadelphia Cons.

Company Description

Philadelphia Consolidated Holding Corp. designs, markets and underwrites specialty commercial and personal property and casualty insurance products incorporating value-added coverages and services for select target markets or niches. The Company's operations are classified into three reportable business segments: Commercial Lines Underwriting Group, Specialty Lines Underwriting Group and Personal Lines Underwriting Group

Source: Multex.

Financial Overview

	2002A	2003E	2004E
Net Premiums Written	$523.2	$560.8	$876.4
Loss Ratio	63.5%	60.9%	60.9%
Expense Ratio	30.8%	31.5%	31.5%
Combined Ratio	94.3%	91.3%	89.4%
P/E	23.1x	15.1x	12.3x
P/Book	1.9x	1.6x	1.4x
ROE (Op. Inc.)	8.4%	11.1%	14.3%

Sources: Company documents and Merrill Lynch & Co.

Recent Developments

Philadelphia Consolidated reported net income for the second quarter ended June 30, 2003 was $3.6 million versus $9.0 million for the same period in 2002. Net earned premiums increased 21.1% to $121.4 million, versus $100.3 million for the same period in 2002. The combined ratio for the quarter was 103.1%, versus 91.6% for the same period in 2002.

Source: Company press release.

PLATINUM™
UNDERWRITERS HOLDINGS, LTD.

Platinum Underwriters

Company Description

Platinum Underwriters Holdings, Ltd. is a Bermuda reinsurance company whose objective is to provide property, casualty and finite reinsurance coverage on a worldwide basis to a diverse clientele of insurers and select reinsurers.

Source: OneSource (Multex).

Financial Overview

	2002A	2003E	2004E
Net Premiums Written	$298.1	$1,157.3	$1,207.5
Loss Ratio	56.4%	63.6%	65.6%
Expense Ratio	35.1%	26.7%	24.0%
Combined Ratio	91.5%	88.7%	89.6%
P/E	NM	13.3x	8.7x
P/Book	1.3x	1.2x	1.0x
ROE (Op. Inc.)	1.7%	10.4%	12.1%

Sources: Company documents and Merrill Lynch & Co.

Recent Developments

Platinum Underwriters Holdings, Ltd. reported second quarter net income of $26.6 million. Second quarter net premiums written for Platinum's property and marine, and casualty segments were $83.5 million and $132.3 million, respectively. Combined ratios for these segments were 80.8% and 99.6%, respectively. Results are not comparable due to the April 19, 2002 inception of operations.

Source: Company press release.

Progressive Corp.

Company Description

The Progressive Corp. is an insurance holding company that has 69 subsidiaries, one mutual insurance company affiliate and one reciprocal insurance company affiliate. The Company's insurance subsidiaries and affiliates provide personal automobile insurance and other specialty property-casualty insurance and related services throughout the United States. Its property-casualty insurance products protect its customers against collision and physical damage to their motor vehicles and liability to others for personal injury or property damage arising out of the use of those vehicles. The Company's non-insurance subsidiaries generally support its insurance and investment operations. The Company has three business segments: personal lines, commercial auto and other business.

Source: Multex.

Financial Overview

	2002A	2003E	2004E
Net Premiums Written	$9,452	$12,117	$14,463
Loss Ratio	70.9%	69.5%	72.7%
Expense Ratio	21.4%	19.7%	19.9%
Combined Ratio	92.3%	89.2%	92.6%
P/E	20.4x	13.3x	14.3x
P/Book	3.8x	2.9x	2.4x
ROE	20.0%	24.7%	18.4%

Source: Merrill Lynch & Co.

Recent Developments

For the six months ended 6/30/03, revenues rose 30% to $5.64 billion. Net income increased 72% to $577.8 million. Revenues reflect increases in premiums earned and investment income. Earnings also reflect decreased investment expenses.

Source: Multex.

RenaissanceRe

Company Description

RenaissanceRe Holdings Ltd. provides reinsurance and insurance to various types of customers through its subsidiaries. Renaissance Reinsurance Ltd. is the Company's principal subsidiary and provides property catastrophe reinsurance coverage to insurers and reinsurers on a worldwide basis. Renaissance Reinsurance also writes specialty reinsurance in certain lines, including such lines as catastrophe-exposed workers' compensation coverage, surety, property per risk, terrorism, aviation and finite reinsurance. RenaissanceRe also has an individual risk segment that provides insurance for commercial and homeowners catastrophe-exposed property business and also provides reinsurance on a quota-share basis. The Company's individual-risk operations principally include Glencoe Insurance Ltd., and Stonington Insurance Company.

Source: Multex.

Financial Overview

	2002A	2003E	2004E
Net Premiums Written	$924	$1,111	$1,138
Loss Ratio	38.1%	38.3%	43.0%
Expense Ratio	19.0%	20.9%	20.9%
Combined Ratio	57.1%	59.2%	63.9%
P/E	8.5x	6.8x	7.2x
P/Book	2.1x	1.5x	1.3x
ROE	28.0%	25.8%	19.6%

Source: Merrill Lynch & Co.

Recent Developments

For the six months ended 6/30/03, revenues increased 72% to $699.7 million. Net income before accounting change and applicable to Common rose 81% to $331.4 million. Results reflect higher premiums on catastrophe reinsurance and other lines of reinsurance and higher income from the minority interest in DaVinci.

Source: Multex.

SAFECO Corp.

Company Description

SAFECO Corporation, through its operating subsidiaries, is engaged in the insurance industry and other financial services-related businesses. The Company's two principal businesses are property and casualty insurance, including surety; and life insurance and asset management.

The Company manages its Property & Casualty business through four operating segments: Safeco Personal Insurance (SPI), Safeco Business Insurance (SBI), Surety and Property & Casualty Other (P&C Other). Life & Investments provides a broad range of products and services that include individual and group insurance products, annuity products, mutual funds and investment advisory services. These operations are comprised of the following reportable segments that focus on different products, markets or distribution channels: Retirement Services, Income Annuities, Group, Individual, Asset Management and Life & Investments Other (L&I Other).
Source: Multex.

Financial Overview

	2002A	2003E	2004E
Net Premiums Written	$4,585	$5,063	$5,371
Loss Ratio	73.6%	68.1%	67.6%
Expense Ratio	31.7%	30.7%	30.0%
Combined Ratio	105.3%	98.8%	97.6%
P/E	18.9x	11.2x	10.1x
P/Book	1.1x	0.9x	0.9x
ROE	6.3%	9.2%	9.0%

Source: Merrill Lynch & Co.

Recent Developments
For the six months ended 6/30/03, revenues rose 3% to $3.63 billion. Net income applicable to Common rose 20% to $201.9 million. Revenues reflect targeted growth in selected markets and premium rate increases. Earnings also benefited from a lower loss ratio.

Source: Multex.

SELECTIVE

Selective Ins. Group

Company Description
Selective Insurance Group, Inc. offers property and casualty insurance products and diversified insurance services products through its subsidiaries. The Company offers commercial and personal insurance products through Selective Insurance Company of America, Selective Way Insurance Company, Selective Insurance Company of the Southeast, Selective Insurance Company of South Carolina and Selective Insurance Company of New York. The Company's Diversified Insurance Services' products are sold by Alta Services LLC, a managed care company that provides medical claims handling services to Selective and other insurers, Consumer Health Network Plus, LLC, a New Jersey-based preferred provider organization, Selective HR Solutions, Inc., a Florida-based human resources administration outsourcing organization and Flood Connect, a provider of flood insurance and claim services to homeowners and commercial customers.

Source: Multex.

Financial Overview

	2002A	2003E	2004E
Net Premiums Written	$1,055	$1,201	$1,312
Loss Ratio	72.3%	70.4%	69.2%
Expense Ratio	31.1%	31.3%	30.4%
Combined Ratio	103.4%	101.7%	99.6%
P/E	18.6x	13.6x	9.7x
P/Book	1.1x	1.0x	0.9x
ROE	6.3%	7.9%	10.0%

Source: Merrill Lynch & Co.

Recent Developments

For the six months ended 06/03, revenues rose 15% to $653.6 million. Net income from continuing operations rose 49% to $27.8 million. Results reflect growth in commercial insurance operations, and higher operating margin.

Source: Company press release.

The St Paul

St. Paul Cos.

Company Description

The St. Paul Companies, Inc. is a management company principally engaged in providing commercial property-liability insurance products and services through its subsidiaries. The Company also has a presence in the asset management industry through its 79% majority ownership of Nuveen Investments, Inc. As a management company, the Company oversees the operations of its subsidiaries and provides them with capital, management and administrative services.

Source: Multex.

Financial Overview

	2002A	2003E	2004E
Net Premiums Written	$7,110	$7,228	$7,659
Loss Ratio	81.1%	66.4%	63.9%
Expense Ratio	28.3%	30.2%	29.8%
Combined Ratio	109.4%	96.6%	93.7%
P/E	27.8x	9.9x	7.8x
P/Book	1.4x	1.2x	1.1x
ROE	5.0%	13.0%	14.4%

Source: Merrill Lynch & Co.

Recent Developments

For the six months ended 6/30/03, revenues fell 8% to $4.29 billion. Net income applicable to Common from continuing operations and before accounting change totaled $388 million, vs. a loss of $79 million. Results reflect the repositioning and transfer of the reinsurance operations to Platinum Underwriters Holdings, offset by the absence of charges to increase prior-year loss reserves at the Lloyd's operations.

Source: Multex.

Travelers

Company Description

Travelers Property Casualty is a leading provider of a wide range of insurance products. Travelers is the third largest commercial lines insurer in the United States, providing a broad range of insurance products including workers compensation, integrated disability, property, liability, specialty lines, surety bonds, inland/ocean marine, and boiler and machinery. The company is the second largest writer of homeowners and auto insurance through independent agents.

Source: Company Press Release

Financial Overview

	2002A	2003E	2004E
Net Premiums Written	$11,945	$13,249	$14,458
Loss Ratio	97.7%	70.0%	67.8%
Expense Ratio	26.9%	26.0%	25.7%
Combined Ratio	124.6%	96.0%	93.5%
P/E		9.2x	7.9x
P/Book	1.6x	1.3x	1.1x
ROE		15.4%	15.5%

Source: Merrill Lynch & Co.

Recent Developments

Travelers Property Casualty Corp. reported net income for the second quarter of $441.2 million or $0.44 per share, basic and diluted, compared to net income of $332.0 million or $0.33 per share in the prior year quarter. These results reflect strong underwriting performance, a lower charge for prior year reserve development, and net realized investment gains versus net losses in the 2002 quarter, offset in part by higher weather-related catastrophe losses.

Source: Company press release.

W.R. Berkley Corp

Company Description

W. R. Berkley Corporation is an insurance holding company that, through its subsidiaries, operates in five segments of the property casualty insurance business: specialty lines of insurance, including excess and surplus lines and commercial transportation; alternative markets, including the management of alternative insurance market mechanisms; reinsurance; regional commercial property casualty insurance, and international. The Company's specialty insurance, alternative markets and reinsurance operations are conducted nationwide. Regional insurance operations are conducted primarily in the Midwest, New England, southern (excluding Florida) and mid-Atlantic regions of the United States. International operations are conducted primarily in Argentina and the Philippines.

Source: Multex.

Financial Overview

	2002A	2003E	2004E
Net Premiums Written	$2,711	$3,614	$4,077
Loss Ratio	65.2%	63.6%	63.6%
Expense Ratio	30.2%	28.3%	28.4%
Combined Ratio	95.4%	91.9%	92.0%
P/E	17.1x	10.6x	9.1x
P/Book	2.1x	1.7x	1.4x
ROE	13.8%	17.7%	17.1%

Source: Merrill Lynch & Co.

Recent Developments

For the six months ended 6/30/03, revenues rose 54% to $1.72 billion. Net income totaled $167.5 million, up from $61.8 million. Results reflect increased net premiums earned due to growth in the Specialty segment and a lower loss ratio due to higher prices and more favorable terms.

Source: Multex.

XL Capital Ltd.

Company Description

XL Capital Ltd. provides insurance and reinsurance coverages and financial products and services to industrial, commercial and professional service firms, insurance companies and other enterprises on a worldwide basis. Insurance business written includes general liability, other liability, professional and employment practices liability, environmental liability, property, program business, marine and energy, aviation and satellite, as well as other product lines. Reinsurance business written includes treaty and facultative reinsurance to primary insurers of casualty and property risks. The Company's reinsurance operations also write life reinsurance business, primarily European term assurances, group life, critical illness cover, immediate annuities in payment and disability income business. Financial products and services business written includes insurance, reinsurance and derivative solutions for complex financial risks.

Source: Multex.

Financial Overview

	2002A	2003E	2004E
Net Premiums Written	$5,949	$7,233	$8,268
Loss Ratio	67.0%	61.1%	60.4%
Expense Ratio	30.1%	28.0%	28.2%
Combined Ratio	97.1%	89.1%	88.6%
P/E	15.3x	9.6x	8.1x
P/Book	1.7x	1.4x	1.2x
ROE	11.9%	16.2%	16.4%

Source: Merrill Lynch & Co.

Recent Developments

For the six months ended 6/30/03, total revenues increased 60% to $3.68 billion. Net income applicable to Common totaled $587.5 million vs. a loss of $2.3M. Revenues reflect higher net premiums earned due to increased syndicate capacity. Net income reflects a decrease in loss and expense ratios.

Source: Multex.

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