



Global and European Casualty market overview

XII Jornada Agers, 22 November 2006

Maurizio Castelli

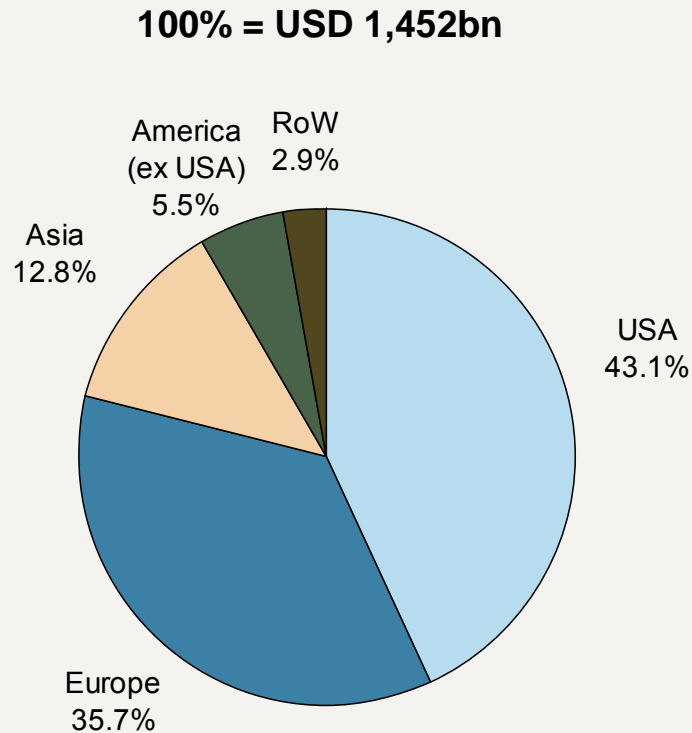
Sales Director - Continental Europe and Asia

XL Insurance



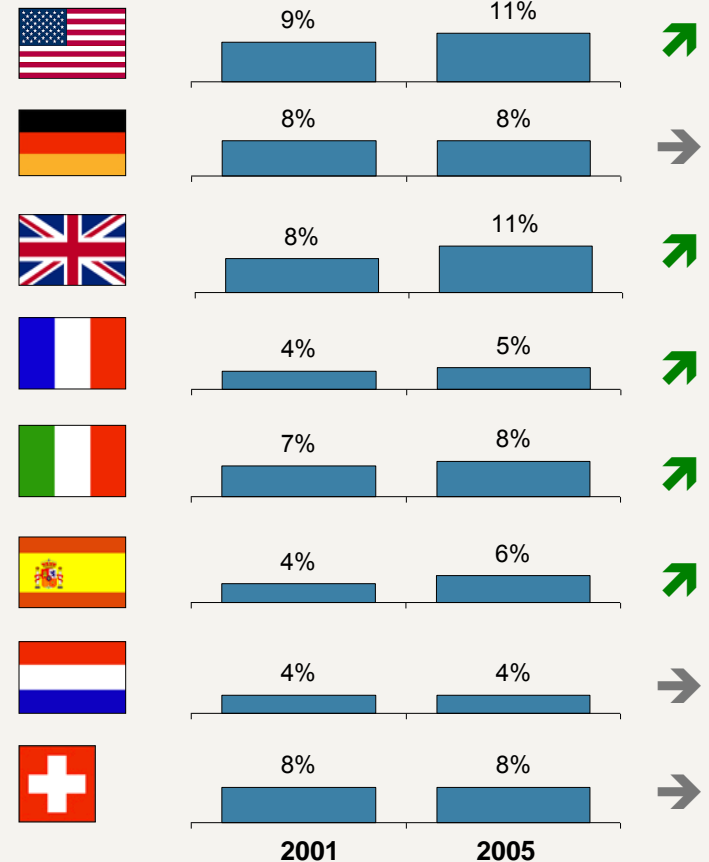
World Non-Life Premium Split and Liability^o Market Share for Selected Countries

2005 Total Non-Life Premium



Data Source: Swiss Re, Economic Research & Consulting

Liability^o market as % of the domestic market*



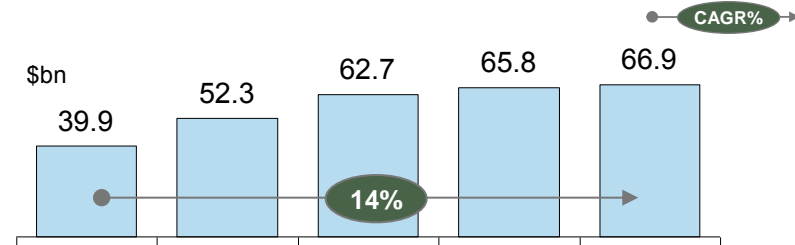
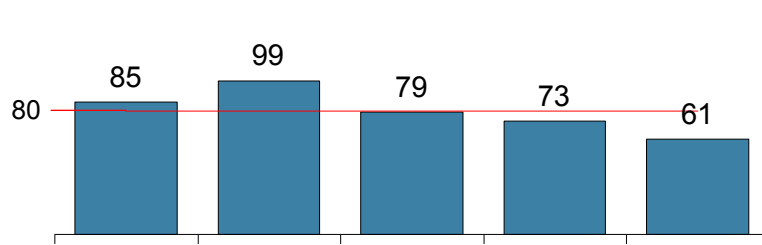
Data Source: Axco; * Total Non-Life Insurance Premium (incl. PA and Health Care)

^o includes: General Third Party Liability, Product Liability, Professional Indemnity, D&O Liability, Pollution & Environmental Liability, Financial & Professional Risks (definitions vary among countries and numbers are therefore not fully comparable)

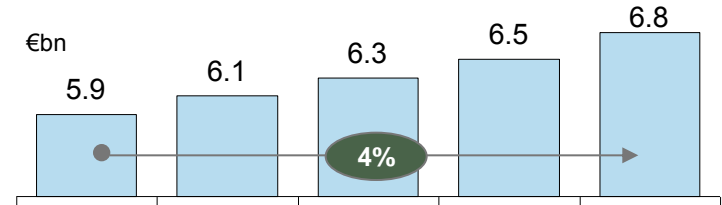
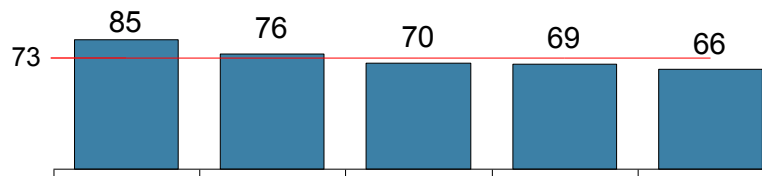
Liability° Premium Development and Underwriting Performance 2001:05 (1/2)

— LR Simple Average

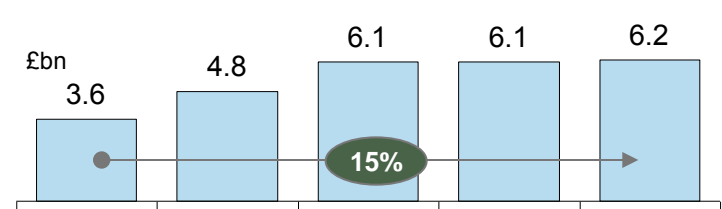
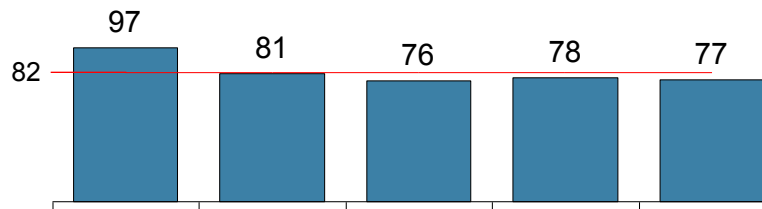
US



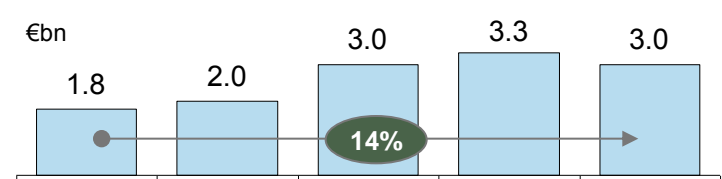
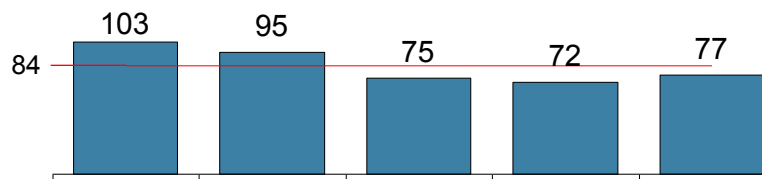
Germany



UK



France



Loss Ratio [%]

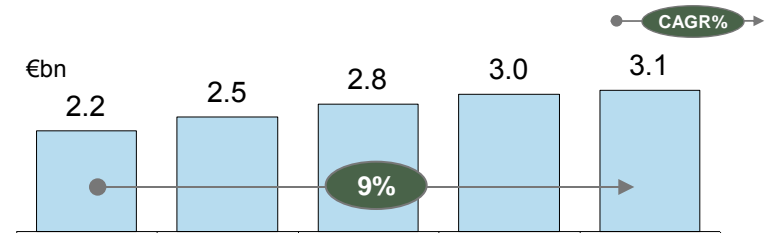
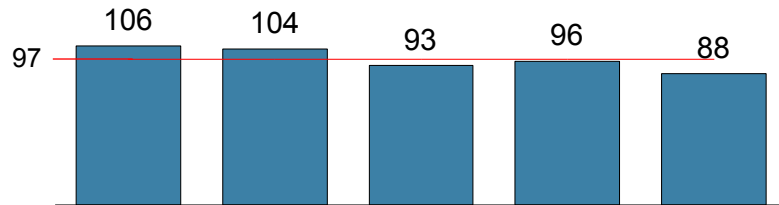
Premium

Data Source: Axco; ° includes: General Third Party, Product Liability, Professional Indemnity, D&O Liability, Pollution & Environmental Liability, Financial & Professional Risks (definitions vary among countries and numbers are therefore not fully comparable)

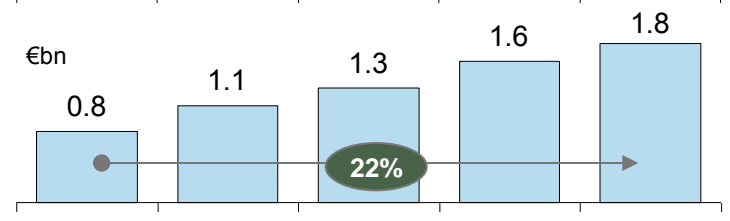
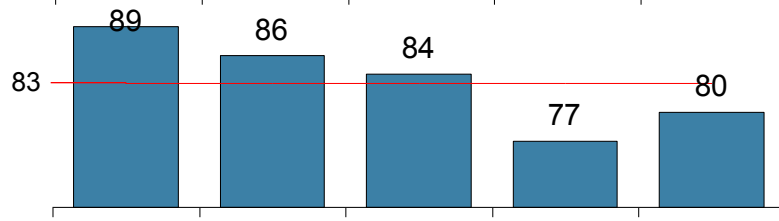
Liability° Premium Development and Underwriting Performance 2001:05 (2/2)

— LR Simple Average

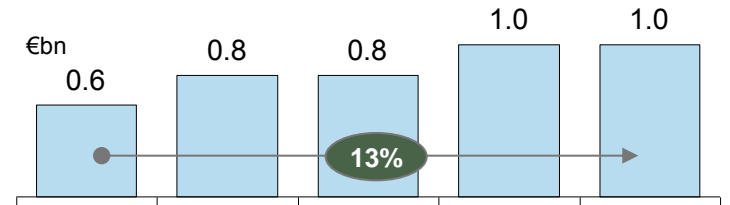
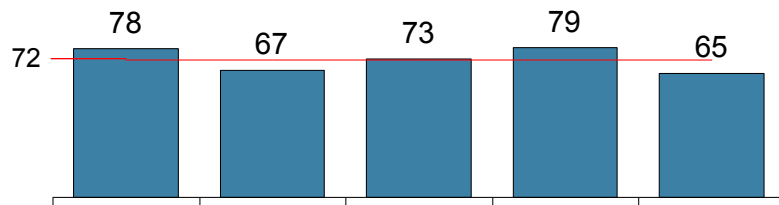
Italy



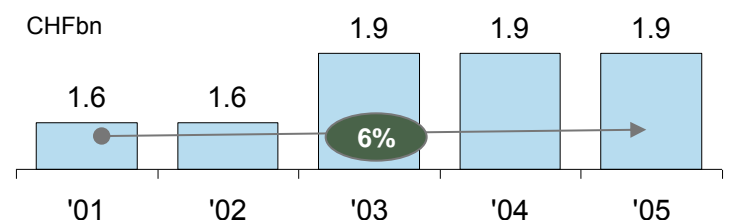
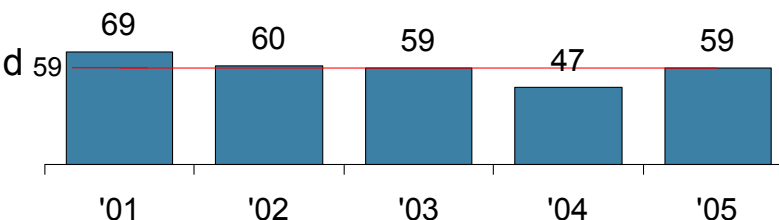
Spain



Holland



Switzerland



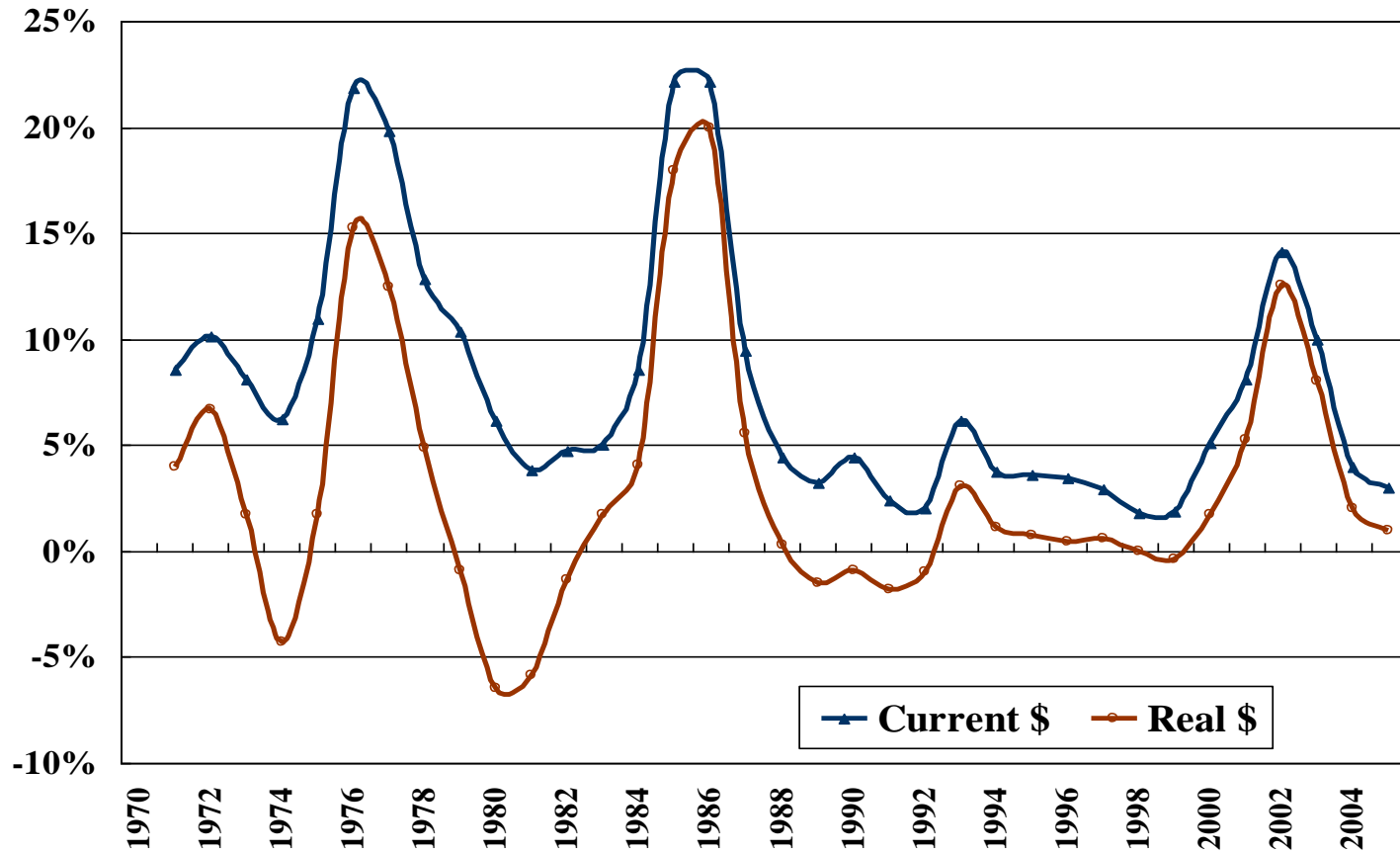
Loss Ratio [%]

Premium

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The market cycle: US P&C NWP trend 1970-2005



Source: A.M. Best, Insurance Information Institute

Global Casualty Market trends (1)

Factors driving towards further rate reduction:

- Good industry combined ratios in 2006 (so far)
- Positive projected returns on capital / surplus
- Current interest rate development
- Sufficient capacity available (except specific areas)
- Appetite for good risks in most casualty areas
- No major natural catastrophies in 2006 (Hurricanes)

Global Casualty Market trends (2)

Factors driving towards market hardening:

- Concerns over tort costs
- Concerns over adverse rulings
- Concerns over emerging/hidden risks (next asbestos ?)
- Concerns over spread of litigation environment outside of U.S.
- Heightened rating agency scrutiny has driven a reduction in average rating of insurers/reinsurers:
 - Reduced financial security
 - Scarce high quality capacity

The U.S. Tort System

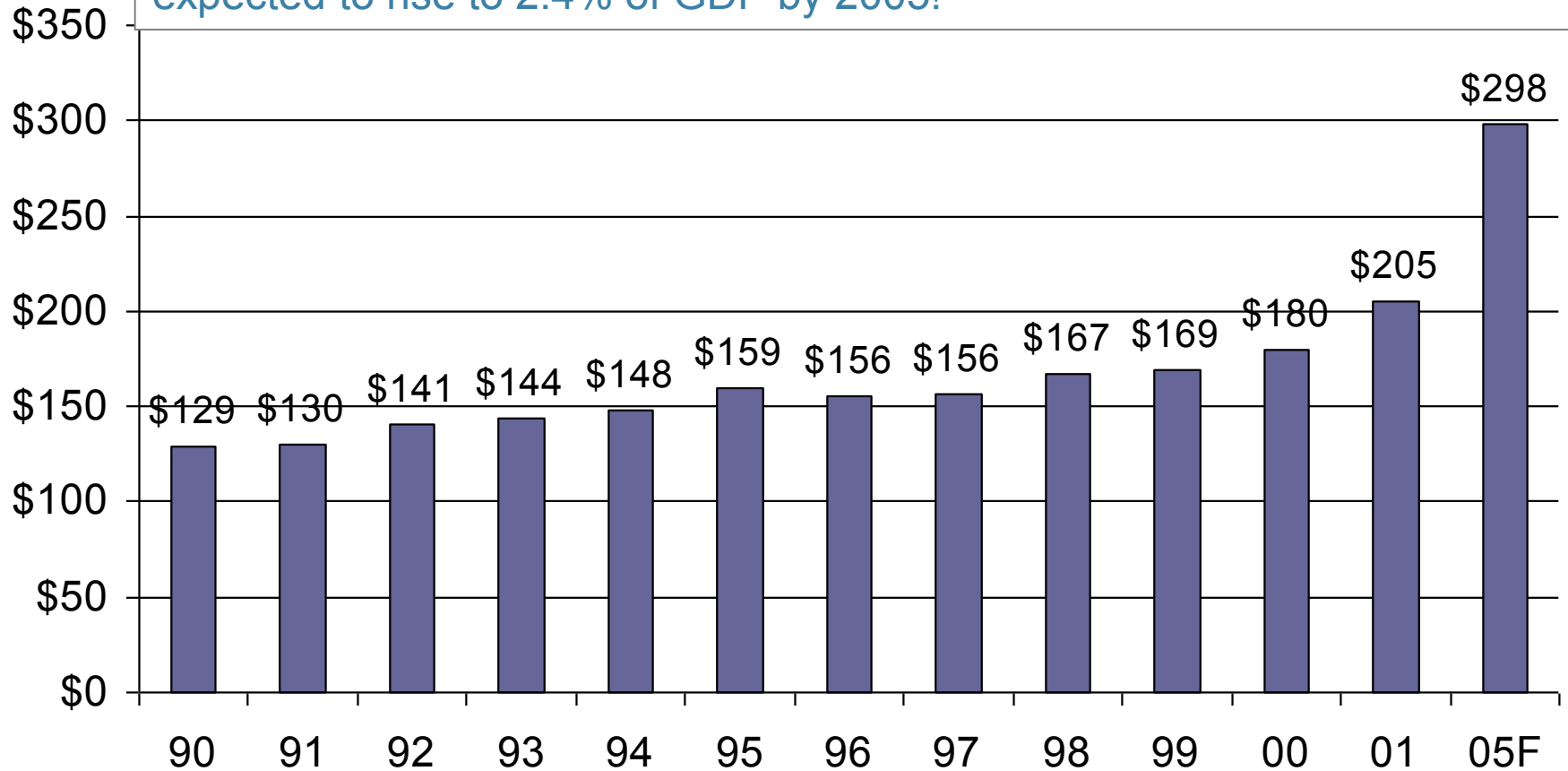


“Discourage litigation. Persuade your neighbors to compromise whenever you can. Point out to them how the nominal winner is often a real loser—in fees, expenses, and waste of time.”

- Abraham Lincoln -

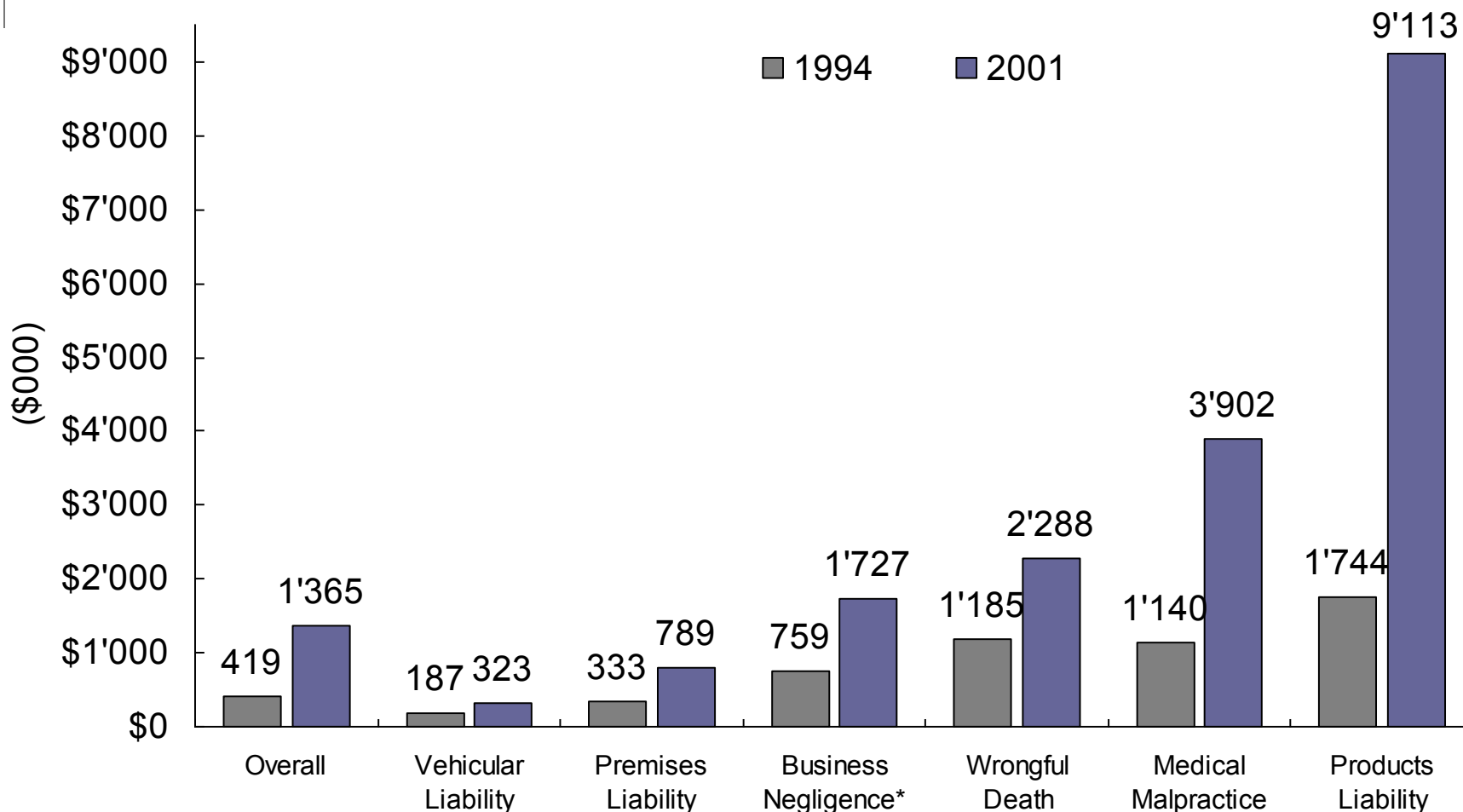
Cost of U.S. Tort System (\$ Billions)

Tort costs consumed 2.0% of GDP annually on average since 1990, expected to rise to 2.4% of GDP by 2005!



Source: Tillinghast-Towers Perrin. 2005 forecasts from Tillinghast.

Average Jury Awards 1994 vs. 2001



*Figure is for 2000 (latest available)

Source: Jury Verdict Research; Insurance Information Institute

Increased Solicitations of Claimants

Join people who want to file a class action against the following:

- Aspartame allegedly causing brain tumors...
- Elidel alleging lymphoma and skin cancer from the eczema cream...
- Protopic alleging lymphoma and skin cancer from the eczema cream...
- Vioxx alleging heart attack and stroke...
- Credit Card Abuse allegedly improper rate hikes, late fees, annual fees...

More possible Class Actions listed on website.

<http://www.lawyersandsettlements.com>



Global Casualty Market trends (3)

Factors driving towards further rate reduction

+

Factors driving towards market hardening



**MARKET STILL SOFT BUT OVERALL RATES ARE EXPECTED TO BE STABLE
INCREASED CAPACITY – INCREASED COVERAGE**

Overall markets are taking more and more risk for less and less premium

European Casualty Market trends

Factors driving towards further rate reduction:

- Same as for global market
- Eastern European fast growing economy attracting Foreign Direct Investments resulting in potentially lower exposures but also in lower premium revenue

Factors driving towards market hardening:

- Concern on increasing litigious environment in more and more European countries
- Lack of capacity in specific areas such as product recall (i.e. for the automotive / automobile industry incl. subcontractors), pharmaceutical industry, and environmental.
- Basel II results in more tailored rates based on a more thorough risk assessment reflecting the actual risks of the insured
- Significant negative trend in Employer's Liability risks and concern on the „still to be unveiled“ size of the exposure

XLI vision in Casualty (and beyond)

- To be viewed by our clients, employees and competitors as a key leading global provider of commercial property/**casualty** insurance products and services, delivering superior long-term value to our clients and shareholders.
- XL Insurance is a leader in the world-wide commercial property/**casualty** insurance market, helping companies around the world to achieve their financial objectives by minimizing, mitigating and transferring risk.
- Employees of the XL entities are the key to XLI success, developing innovative and flexible risk management solutions for clients around the world.
- We also offer specialized coverage for professional liability, fine art and specie, environmental, marine, energy, aerospace, surety, and other lines of insurance

XLI Market Position in Casualty Corporate Insurance in Europe as of Sept. 2006

| Country | Estimated Market Size* | XLIC | Estimated |
|----------------|------------------------|-----------------|--------------|
| | AGWP | AGWP | Market Share |
| Germany | \$ 1,200 m | \$ 155 m | 13 % |
| France | \$ 711 m | \$ 103 m | 15 % |
| Switzerland | \$ 320 m | \$ 71 m | 22 % |
| BENELUX | \$ 454 m | \$ 27 m | 6 % |
| Italy | \$ 346 m | \$ 9 m | 3 % |
| Spain/Portugal | \$ 474 m | \$ 22 m | 5 % |
| Austria | \$ 125 m | \$ 21 m | 17 % |
| Total | \$ 3,630 m | \$ 408 m | 11 % |

* **Source:**

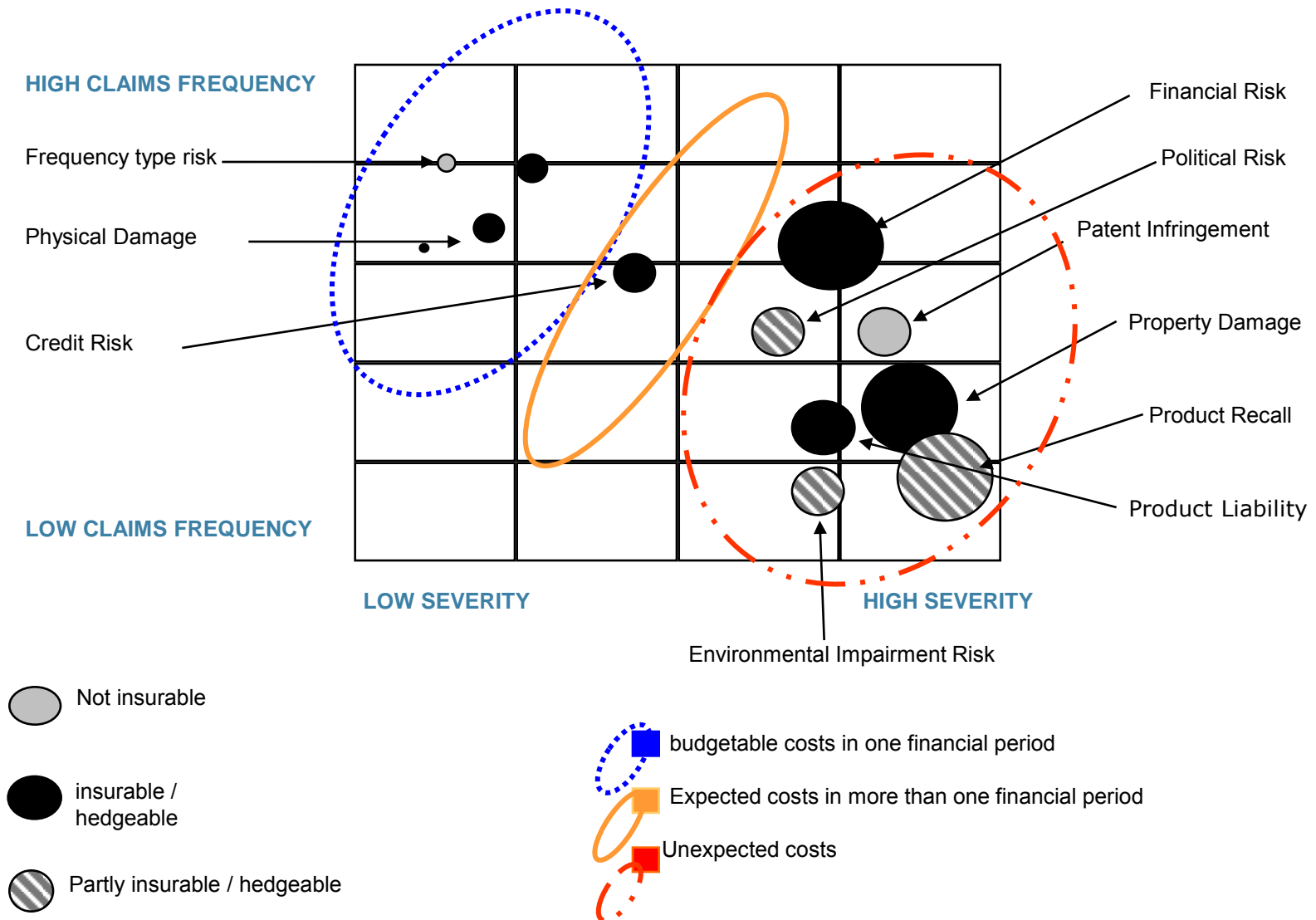
- *Top 500 in 2003 – SHZ/October 2004*
- *Large Industry and Energy Enterprises – 250+ pers. employed/Eurostat; Structural Business Stat./2004*
- *Multinationals: Estimate from MBA thesis work from 2002*
- *Assumed Average GWP's: Top 500 Euro Multinationals: \$2 m; Large Firms: \$ 150 k; Multinationals: \$ 300 k*

XLI casualty solutions

- Disciplined Underwriting based on solid risk management approach (Risk Mapping)
- Preferred targets: risk managed accounts across a wide range of consumer, industrial and manufacturing industries
- Severity vs. frequency: meaningful deductibles for sophisticated buyers
- Basic limit pricing vs. capacity pricing
- Proprietary loss database (**LossLink**) developed by XL Insurance for the exclusive use of selected customers and brokers on a limited-access basis, designed to increase awareness of the level of exposure faced by insureds within various risk classes and lines of coverage.
- Ability to set-up and to service complex international programs to suit the needs even of the most sophisticated clients globally
- Wide range of program clauses, and extensions. Different triggers available. Multiyear possible subject to term aggregate
- One single IT platform for effective administrative handling of global programs
- Good global network effectively coordinated by means of regional hubs

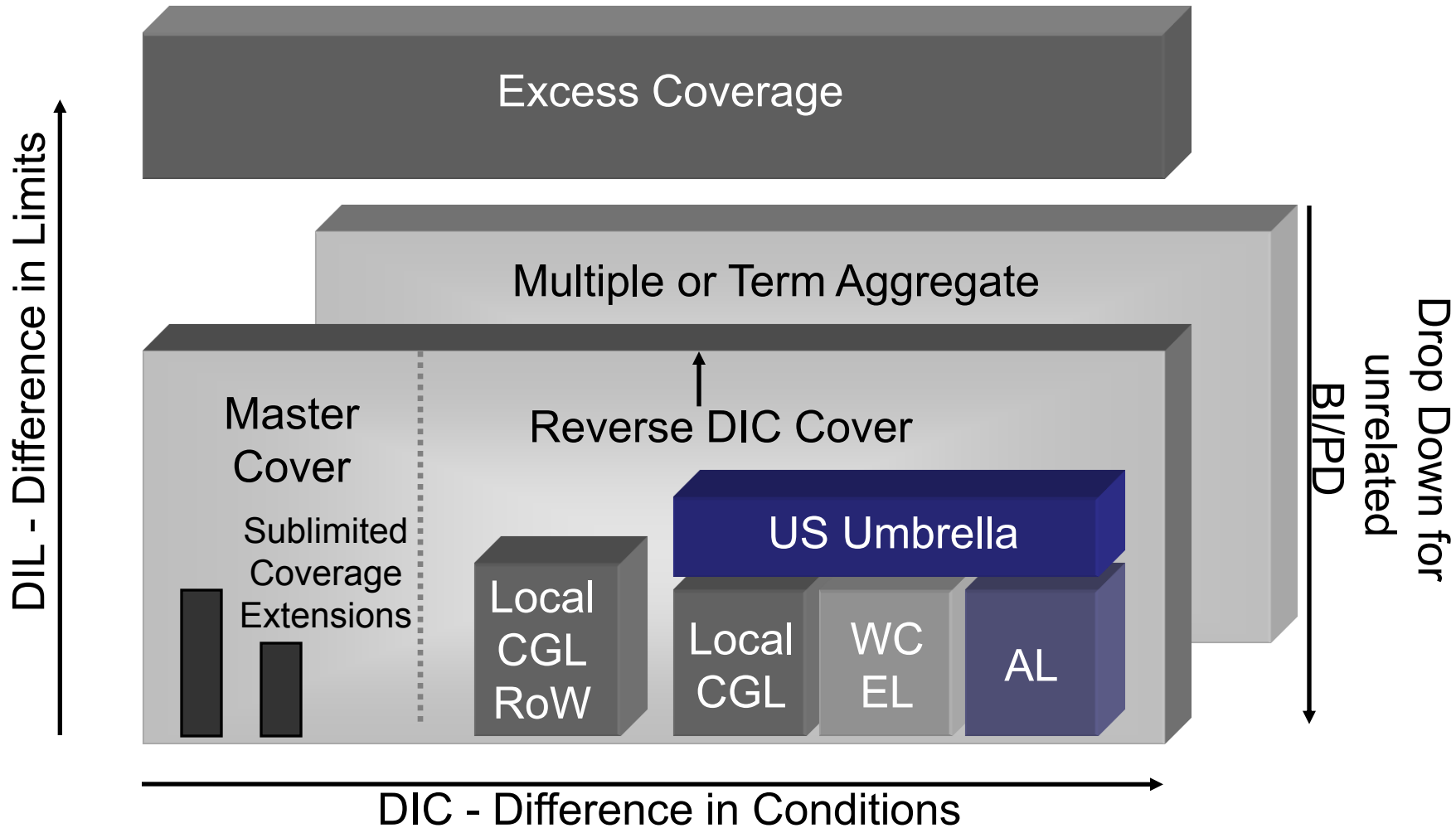
Risk Mapping Example

Risk Selection



International Casualty Program

Set up example



XLI Worldwide Network

- 
- A world map with small white dots indicating the locations of XLI network members across various continents, including North America, South America, Europe, Africa, Asia, and Australia.
- Argentina
 - Austria
 - Australia
 - Benelux
 - Bermuda
 - Brazil
 - Colombia
 - Canada
 - Czech Republic
 - Denmark
 - France
 - Germany
 - Hong Kong
 - Hungary
 - Italy
 - India
 - Ireland
 - Japan
 - Mexico
 - Poland
 - Portugal
 - Singapore
 - Spain
 - Switzerland
 - United Kingdom
 - United States



2007 Renewal Challenges

In 2006-2007, challenges,
both **NEW** and **FAMILIAR**, will continue to
confront
the Insurance and Reinsurance Industry!



2007 challenges: “Familiar” Claims

Insurers will tackle familiar claims involving:

- Asbestos
- Tobacco
- Mold
- Environmental Hazards and Toxic Torts
- Pharmaceuticals
- Guns
- Construction Defects
- Sexual Harassment
- Various Products

2007 challenges: New Threats

- However, claims involving novel liability theories or new twists on established claims are also anticipated.
- More recently advanced risks likely to be seen include:
 - Obesity and Food-Related Claims
 - Welding Rod
 - Chemical Exposure (e.g. Perfluorooctanoic Acid (PFOA) (Chemical used to make Teflon®))
 - Deep Vein Thrombosis (DVT) risks

2007 Renewal Scenarios

- Stable to slightly decreasing rates (linked to loss runs)
- Need for capacity: still increasing (in Spain significantly)
 - Internationalisation
 - Increased awareness
 - New/Increased risks
- Need for more coverages:
 - New exposures
 - New clauses
 - Environmental
 - Territorial scope (following internationalization)

2007 Renewal scenarios (2)

- More emphasis on administrative services:
 - Increasing complexity of contracts
 - Increasing need for global servicing
 - Reaction time needs to be faster – „Administrative agility“
- More emphasis on claims services
 - Claims are bigger and more complex, and tail is becoming longer
 - Each party (insured, broker, insurer) has to respond adequately; in particular the insurer has to deliver added value in settling effectively large claims

In summary more emphasis should be put on capacity, coverage, services, rating, long term relationship than on (modest) rate decreases

FUNDAMENTAL STRENGTH – CAPITAL AND PEOPLE

