

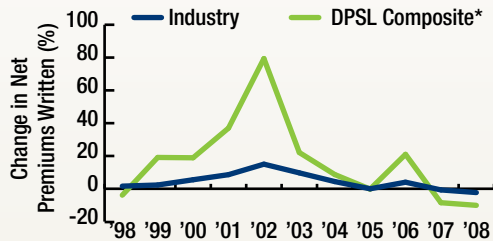
Market Review

September 14, 2009

Sector

Property/Casualty

U.S. DPSL Composite* vs. P/C Industry – NPW Growth (1998-2008)



* A.M. Best's composite of 74 domestic professional surplus lines companies.
Source: A.M. Best Co.

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Surplus Lines Results Dip from Competition, Cat Losses and Economy

In 2008, the underwriting and operating performance of surplus lines companies continued to outpace that of the total property/casualty industry, albeit at a diminished level from 2007 due to persistent soft market conditions, the recession, and underwriting and investment losses.

Although the surplus lines industry generated a profit for the year, it represented an almost 67% decrease from 2007. As expected, market competition began affecting the performance metrics of the surplus lines insurers to a greater extent.

Standard market carriers continue to compete on surplus lines risks, and efforts by American International Group's surplus lines companies to protect their renewal portfolios also have contributed to the sustained competitiveness in the market. Other pressures came from the Bermuda-based carriers with their substantial capital and the desire for top-line growth.

Overall, surplus lines insurers remained very well capitalized, managed the market cycle adequately and maintained conservative balance sheet strength.

In 2008, the surplus lines:

- Direct premium written declined by the largest percentage since 1988.
- Combined ratio rose due to weather-related losses on natural catastrophe-exposed business. Favorable reserve development reduced the combined ratio by 10.7 points.
- Capital losses of \$161.3 million were generated, off from the \$2.38 billion total capital gain in 2007.
- Policyholders surplus declined for the first time since 2001.

U.S. Surplus Lines – Top 10 Groups (2008)

Ranked by direct premium written.
(\$ Thousands)

Rank	AMB No.	Group Name	Surplus Lines DPW	Total SL* Market Share	Policyholder Surplus
1	18540	American International Group	\$7,216,095	23.50%	\$29,906,081
2	85202	Lloyd's	6,062,000	19.74%	25,720,099
3	18549	Zurich Financial Svcs NA Group	1,545,572	5.03%	6,379,116
4	05987	Nationwide Group	1,264,051	4.09%	13,158,099
5	18498	ACE INA Group	1,026,177	3.34%	4,723,853
6	18468	Markel Corporation Group	1,006,139	3.28%	1,030,707
7	04655	W. R. Berkley Group	961,611	3.13%	3,297,190
8	18313	CNA Insurance Companies	712,603	2.32%	8,124,131
9	00811	Berkshire Hathaway Ins Group	708,065	2.30%	50,794,208
10	18640	Alleghany Insurance Holdings	658,183	2.14%	1,342,094

*Surplus Lines
Source: A.M. Best Co.





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