

FEDERAL CROP INSURANCE PROGRAM

PROFITABILITY AND EFFECTIVENESS ANALYSIS

2007 UPDATE

Prepared on behalf of National Crop Insurance Services, Inc.

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INTRODUCTION

Grant Thornton LLP was engaged by National Crop Insurance Services, Inc. (“NCIS”) to update the 2004 profitability and effectiveness analysis of the Federal Multi-Peril Crop Insurance (“MPCI”) program for the period 1992-2006.¹ The current study benchmarks the MPCI industry against the Property & Casualty (“P&C”) Insurance Industry², as did previous studies prepared in 2004 by Deloitte & Touche LLP (“Deloitte”) and in 1997 and 1999 by PricewaterhouseCoopers (“PwC”).

The U.S. crop insurance program is a joint effort of the Federal government and private industry. The insurance format, known as MPCI, has been offered to U.S. farmers since the 1930s through the Federal government. Since 1981, the program has operated as a public-private partnership between members of NCIS, as direct insurers or their managing general agents, and the Federal Crop Insurance Corporation (“FCIC”), as their principal reinsurer. The basic terms of this relationship are set forth in a Standard Reinsurance Agreement (“SRA”) signed by FCIC and each individual direct insurer. FCIC, a federal government agency, is managed by the Risk Management Agency (“RMA”), an agency within the U.S. Department of Agriculture (“USDA”). In crop year 2006, the MPCI program provided coverage on 242 million acres (almost 80%) of eligible acreage of major U.S. crops, insured \$49.9 billion in crops, generated a total premium of \$4.6 billion (of which \$2.7 billion were premium subsidies) and distributed \$3.5 billion in indemnity payments.³

The Federal crop insurance program is meeting its targeted loss ratio and is working as intended.⁴ However, criticisms regarding the amount of underwriting gains available to the MPCI insurance companies and the level of expenses incurred by those companies in delivering crop insurance continue. MPCI companies write a particular class of P&C

¹ This report was prepared for NCIS to be used by its members solely in evaluating aggregated, historical data. The report does not express a view with regard to the results for any individual member of NCIS.

² This report uses aggregate historical data on both the MPCI business and the P&C business. MPCI data used in this report was taken from public sources (USDA/RMA) and from a survey by NCIS of its member companies. Data on the P&C business were obtained from the industry publication Best’s Aggregates & Averages Property & Casualty (“Best’s A&A”). Data utilized from previous version of Best’s A&A have been updated with data from the 2006 edition where possible. Data were also obtained from the 2004 analysis prepared by Deloitte and from the 1997 and 1999 analyses prepared by PwC.

³ http://www3.rma.usda.gov/apps/sob/current_week/sobrpr2004-2007.pdf as of 9-17-2007. Statement by RMA Administrator Eldon Gould Before the House Agriculture Subcommittee on General Farm Commodities and Risk Management, June 7, 2007.

⁴ Statement by RMA Administrator Eldon Gould Before the House Agriculture Subcommittee on General Farm Commodities and Risk Management, June 7, 2007. The current loss ratio target is 1.075. It has been proposed by the Administration that the target be reduced to 1.00. For Crop Year 2006, the Loss Ratio totaled 0.79. http://www3.rma.usda.gov/apps/sob/current_week/sporpr2004-2007.pdf as of 9-17-07.

insurance. Therefore, comparisons of the MPCCI program to the P&C industry in the areas of profitability and expenses are informative.

However, while the profitability profiles of P&C insurance and MPCCI insurance are similar, they have distinct differences as detailed in the following table.⁵

	P&C Insurance	MPCCI Insurance
Premium	Expense loaded – meaning administrative expenses are included in the premium charged.	Not expense loaded – partially reimbursed to companies through A&O reimbursements.
Premium Rates	Set by company, approved by State regulators. Rates will differ by company due to risk and administrative loads.	Set by RMA – the same rates apply to all companies.
Premium Payments	Upfront at time of sale. Held by company to generate investment income.	At harvest with companies turning over to RMA within 30 days. Minimal to no investment income. Credit risk to company of nonpayment by policyholders.
Underwriting	Some ability to not write risks via underwriting rules.	No ability to underwrite risks. Must take all eligible participants regardless of risk profile.
Reinsurance	Private	Mixture of private and federal
Administrative Expenses	Set by company and approved by State regulators as part of the Premium rate.	Set by statute and RMA – A&O reimbursements may or may not cover actual expenses incurred.

Therefore, a comparison of the P&C industry to the MPCCI industry is only valid as long as the major differences in the two lines are recognized, understood, and adjusted for

⁵ Crop Insurance Testimony by Ron Brichler to General Farm Commodities and Risk Management Subcommittee; House Committee on Agriculture, June 7, 2007.

appropriately. Our analysis takes the appropriate adjustments into consideration to the extent possible from the information sources utilized.

KEY FINDINGS

The key findings of our analysis can be summarized as follows:

- **The MPCCI program is not as profitable as the P&C industry and writing MPCCI insurance entails greater risk.**
 - MPCCI's ratio of Pretax Net Income as a percentage of Retained Premium averaged 12.2% for the period 1992-2006. P&C's ratio of Pretax Net Income as a percentage of Adjusted Net Earned Premium averaged 17.4%. Furthermore, the volatility of MPCCI's historical earnings was 12.2% compared to only 9.5% for the P&C industry. Therefore, in general, the MPCCI industry is less profitable than the P&C industry, and its return more variable, indicating that the returns are riskier. (Please refer to the Profitability Analysis section of this report).
- **MPCCI expense-premium ratios are significantly below those of the P&C industry.**
 - MPCCI's average ratio of total expenses was only 28.4% of Gross Premiums for the period 1992-2006, compared to P&C's ratio of 59.9% of Adjusted Direct Premiums Written for the period 1992-2005. (Please refer to the Effectiveness Analysis section of this report).
- **Under the current SRA, A&O Reimbursements continue to be below actual MPCCI expenses incurred by private insurers.**
 - For 2005, MPCCI companies incurred total delivery expenses equal to 25.1% of Gross Premiums while the A&O Reimbursement only totaled 21.0% of Gross Premiums, resulting in a 4.1% shortfall.
 - For 2006, MPCCI companies incurred total delivery expenses equal to 24.6% of Gross Premiums while A&O Reimbursements only totaled 20.3% of Gross Premiums, resulting in a 4.3% shortfall.

These general findings are consistent with the findings of the 1997 and 1999 PwC reports and the 2004 Deloitte report. All studies consistently show that the MPCCI program compares unfavorably to the P&C industry in the area of profitability and compares favorably to the P&C industry in the area of expense management. The remainder of this report provides a detailed discussion of the analysis supporting each of these key findings.

PROFITABILITY ANALYSIS

Profitability is measured as a function of Pretax Net Income for both the P&C industry and the MPCCI program. For the P&C industry, we measured Pretax Net Income as the sum of Net Underwriting Income(Loss), Net Investment Income and Realized Capital Gain(Loss). For the MPCCI program, we measured Pretax Net Income as the sum of Net Underwriting Gain(Loss) and Net Expense Gain(Loss). Underwriting Gains are defined in the SRA as “the amount by which the Company’s share of retained net book premium exceeds its retained ultimate net losses”.⁶ However, Underwriting Gains do not represent pure profit to the MPCCI companies. As stated by RMA Administrator Eldon Gould, *“It would be a mistake to consider them (Underwriting Gains(Losses)) pure profit or absolute loss for the reinsured companies. Underwriting Gains serve a number of functions – they cover partial delivery expenses for some companies, they are used to build reserves to meet the required policyholder surplus and they provide a return on equity.”*⁷ Therefore, the Net Expense Gain(Loss) must be included in the calculation of MPCCI Pretax Net Income to arrive at a profitability measure.

Furthermore, the function that Underwriting Gains serve in building required policyholder surplus in the MPCCI program is substantial. As part of RMA’s financial integrity requirements, the insurance companies must maintain adequate policyholder surplus to pay losses resulting from two consecutive years of a 500 percent loss ratio (losses equal to 500% of premiums).⁸ These policyholder surplus requirements are generally more stringent than those of state regulators for the P&C industry. As MPCCI program premiums increase, the required policyholder surplus increases. As Mr. Gould recently testified, *“To put this requirement in perspective, the highest loss ratio the program has experienced was 2.39(239%) in 1988. The recent underwriting gains provide the surplus needed to cushion and plan for catastrophic weather events and years like 1988 and 1993. This is important as the companies today retain risk on almost 80 percent of the premiums written, with much of the retained premium in the riskiest Commercial Fund.”*⁹

Exhibit 1 provides the data required to calculate Pretax Net Income for the MPCCI Program while **Exhibit 2** provides data required to calculate Pretax Net Income for the P&C industry. **Exhibit 3** compares the MPCCI and P&C Pretax Net Income figures.

In addition to our comparisons of MPCCI and P&C Pretax Net Income, we also analyzed MPCCI and P&C returns and the risk associated with those returns in the form of their

⁶ 2005 SRA definition of Underwriting Gains.

⁷ Statement by RMA Administrator Eldon Gould Before the House Agriculture Subcommittee on General Farm Commodities and Risk Management, June 7, 2007.

⁸ Ibid.

⁹ Ibid.

standard deviation.¹⁰ To measure returns for the MPCCI program, we divided Pretax Net Income by Retained Premiums. To measure P&C returns, we divided Pretax Net Income by Net Earned Premiums minus Total Expenses (“Adj. NEP”). Premium data for MPCCI and P&C lines do not have the same base. P&C premiums are expense loaded, while MPCCI premiums are not. Expenses for MPCCI policies are intended to be reimbursed through the A&O Reimbursement. Therefore, to accurately compare the two, one must make appropriate adjustments. We chose to subtract expenses from P&C Net Earned Premiums¹¹ to put them on a more equal footing with MPCCI Retained Premiums.

Risk is typically measured as the standard deviation of values. If investors are risk averse, then they will require higher expected returns (or profits) when risks are greater. This is the typical “risk versus reward” analysis referred to in investing literature. In general, one would expect a higher return when taking on more risk.

Exhibits 1 and 2 provide weighted average returns and the standard deviation of those returns for the MPCCI program and the P&C industry, respectively. The MPCCI program has a lower average return of 12.2%¹² compared to 17.4% for the P&C industry. Further, risk as measured by the standard deviation, is greater for the MPCCI program (12.2% versus 9.5% for the P&C industry.) Financial theory tells us that in general, investors will require higher expected returns when risks are greater. Therefore, when allocating their capital between the investment alternatives of the MPCCI business or the P&C industry, a rational investor would be expected to choose to invest in the P&C industry as over the long-term, it has provided greater profits or returns with less variability or risk than the MPCCI program.

The greater risk of the MPCCI program is inherent in its structure. As previously detailed, the P&C industry has greater control over its pricing and underwriting activities.¹³ Insurers can respond to underwriting losses by increasing their prices in subsequent years and/or limiting coverage. In comparison, MPCCI companies must adhere to pricing and policy provisions established by FCIC/RMA, regardless of underwriting loss experience.

¹⁰ Standard deviation is a standard statistical measure of spread in a distribution of values. It is computed by taking the square root of the square of the expected value of the difference between actual returns and expected returns.

¹¹ Furthermore, we chose to differ from Deloitte’s methodology by using Adj. NEP premiums in the denominator of the return ratio rather than Adjusted Direct Earned Premiums (“Adj. DEP”). We made this change as Net Earned Premium for the P&C industry is after reinsurance ceded as is Retained Premiums for the MPCCI industry.

¹² 2005 and 2006 adjusted for Quota Share.

¹³ Please refer to chart on page 2.

Our findings do not differ from the general findings of the previous Deloitte and PwC reports. Historically, the MPCCI business has had no overall economic advantage over the P&C business. The results of the current and previous studies are presented below.

Profitability		P&C Industry			MPCI Industry		
Report	Period	Metric	Wtd. Avg.	Std. Dev.	Metric	Wtd. Avg.	Std. Dev.
Grant Thornton 2007	1992-2005/6	Pretax Net Income/Adj. NEP	17.4%	9.5%	Pretax Net Income ¹⁴ /Retained Premium	12.2%	12.2%
Deloitte 2004	1992-2002	Pretax Net Income/Adj. DEP	12.7%	8.9%	Pretax Net Income/Retained Premium	7.9%	12.9%
PwC 1999	1988-1997/8	Pretax Net Income/Surplus	16.6%	7.6%	Pretax Net Income/Surplus ¹⁵	15.8%	10.1%
PwC 1997	1988-1995	Pretax Net Income/Surplus	14.1%	na	Pretax Net Income/Surplus	11.7%	na

As detailed in the above table, for each time period, the P&C industry has reported more profitability, with less variability in results. In general, this indicates that the participants in the overall P&C industry have the ability to generate greater returns with less risk, and therefore hold an advantage over the MPCCI companies.

GAO TESTIMONY

Representatives from the General Accountability Office (“GAO”) gave testimony on May 3, 2007 before the Committee on Oversight and Government Reform, House of Representatives. In that testimony, the GAO stated that over the five-year period 2002 through 2006, the MPCCI program generated Underwriting Gains representing an average annual rate of return of 17.8% which was considerably higher than the P&C benchmark of 6.4% for the same period.¹⁶ That testimony is contradictory to our findings. We submit that the GAO did not consider appropriate adjustments in their calculation of the rates of return, such as the appropriate measure of profit for the MPCCI program and the exclusion of expenses from P&C premiums. As the numerators and denominators of the ratios are not appropriately matched, the resulting returns are not directly comparable. In addition, it appears that the five-year period for the MPCCI return was 2002-2006, yet the five-year period used for the P&C industry may have been 2001-2005. The year 2001 was the first loss year in the history of the P&C industry with the loss being largely attributable to the

¹⁴ 2005 and 2006 adjusted for Quota Share.

¹⁵ Surplus is defined by PwC as 130% of Retained Premium. Deloitte and Grant Thornton chose to use Net Earned Premium rather than Surplus in this ratio for the 2004 and 2007 updates. Net Earned Premium is a publicly available figure which can be verified through published sources. This differs from Surplus, which cannot be assigned to an individual line of insurance such as MPCCI.

¹⁶ GAO-07-819T, page 4.

terrorist attacks on the World Trade Center.¹⁷ Therefore, its inclusion in the calculation of a return based on a five-year period significantly reduces the average return.

According to the GAO, they defined the rate of return for the MPCCI program as Underwriting Gains as a percentage of premiums on the policies in which companies retained the risk of loss (Retained Premiums). Therefore, it appears that the GAO considers Underwriting Gains to equate to profit for the MPCCI companies. As previously discussed, MPCCI companies utilize Underwriting Gains to cover some delivery expenses as well as to build policyholder surplus and provide for a return. Therefore, Underwriting Gains do not directly equate to profit. Based on our analysis which indicates that the MPCCI companies have generally paid more in expenses than have been offset by A&O reimbursements (please refer to **Exhibit 5**), utilizing Underwriting Gains as a measure of profit overstates the profitability of the MPCCI program. We believe a more appropriate measure of the profitability of the MPCCI program is a return ratio calculation defined as the sum of the Net Underwriting Gain(Loss) and the Net Expense Gain(Loss) divided by Retained Premiums.

Furthermore, the GAO, in calculating its return ratio for comparison of the profitability of the MPCCI program and the P&C industry, used mismatched premium metrics. For the MPCCI program, they used Retained Premiums. For the P&C industry, they used Net Earned Premiums. However, as previously discussed, MPCCI premiums do not include an expense loading, whereas P&C industry premiums include a provision for expense. This results in the rates of return not being comparable due to mismatched denominators. Therefore, we believe it is appropriate to adjust Net Earned Premium for the P&C industry by subtracting expenses to more closely match the denominator utilized in the return ratio for the MPCCI program.

Lastly, it appears that the GAO used the five-year period 2002-2006 for the MPCCI program, but 2001-2005 for the P&C industry. The GAO notes in its testimony that they used *Best's Aggregates & Averages: Property and Casualty 2006* as the source for their P&C industry information and note that the 2005 year was the most recent year for which data was available.¹⁸

When adjusting the GAO's methodology to the methodology utilized in this report for the period 2002-2006, the MPCCI average return falls from 17.8% as calculated by the GAO to 13.0% and the P&C average return increases from 6.4% calculated by the GAO to 20.6% (please refer to **Exhibits 1 and 2**). Once the appropriate adjustments are made, the analysis falls in line with previous results that indicate that the MPCCI program does not generate advantageous returns compared to the P&C industry.

¹⁷ http://www.newsre.com/index.asp?layout=story&doc_id=16424.

¹⁸ GAO-07-819T, page 15, footnote 12.

Furthermore, with regard to the recent criticism of the MPCCI programs Underwriting Gains, RMA Administrator Eldon Gould noted that *“The recent Underwriting Gains provide the surplus needed to cushion and plan for catastrophic weather events and years like 1988 and 1993. This is important as the companies today retain risk on almost 80% of the premium written, with much of the retained premium in the riskiest Commercial Fund.”*¹⁹

EFFECTIVENESS ANALYSIS

A second appropriate area of comparison of the MPCCI program to the P&C industry is their expense ratios. Although there are similarities in the types of expense incurred by both businesses, expenses incurred by MPCCI companies are unique in the insurance industry and involve some costs not usually incurred in other insurance lines such as loss adjustment training for a wide variety of crops.

We have defined the MPCCI expense ratio as Total Expenses divided by Gross Premiums while the P&C expense ratio is defined as Total Expenses divided by Direct Premiums Written net of expenses (“Adjusted DPW”).²⁰ Total Expenses include Loss Adjustment Expense, Commission and Other Expenses incurred while selling and servicing business.²¹ Total premiums for a line of business such as MPCCI or P&C will be impacted by the price of each policy — which is established by RMA for MPCCI policies on an annual basis — and the number and type of policies sold.

Exhibit 4 shows the Total Expense to Gross Premium ratio for the MPCCI companies has declined significantly over time. Since 1993, MPCCI Total Expense ratios have never been above 34.2%, since 1998, they have not exceeded 29.5%. **Exhibit 4** also shows that the Total Expense ratio for MPCCI companies is well below the Total Expense ratio observed for the P&C industry. The major categories of expenses used in our analysis are Commissions, Loss Adjustment Expense and Other Expenses, which include salaries of company employees, IT support and overhead expenses. **Exhibit 5** provides a breakdown of the components of the Total Expense ratio; the three additional ratios presented are Loss

¹⁹ Statement by RMA Administrator Eldon Gould Before the House Agriculture Subcommittee on General Farm Commodities and Risk Management, June 7, 2007.

²⁰ As previously noted, in order to compare the P&C expense ratios to those of the MPCCI industry, we need to account for the fact that the MPCCI premium is not expected to cover expenses. In contrast, P&C industry premiums are expected to cover both losses and expenses. To ensure that ratios were comparable, we reduced the P&C Direct Written Premium by the associated expenses. Expense ratios for the P&C industry were calculated from those adjusted figures. MPCCI expense ratios were calculated based on Gross Premium.

²¹ Commission expense is the part of an insurance premium paid by the insurer to an agent or broker for his services in procuring and servicing insurance. Loss adjustment expenses are expenses incurred to investigate and settle losses.

Adjustment Expense/Premium, Commission/Premium and Other Expense/Premium. Overall, the MPCCI line has lower expense ratios in all three categories.

The decline in MPCCI expense-premium ratios presented in **Exhibits 4 and 5** is consistent with improved cost effectiveness of the industry as program participation has grown.²² This decline has occurred even under stringent governmental requirements for insurers to provide service to all eligible producers regardless of the cost. Because of this requirement, private companies are precluded from taking many actions that other types of insurers use to contain costs and enhance economic viability. As a result, MPCCI companies are required to offer coverage to growers with poor insurance experience, small acreage or other characteristics that may make them impossible or difficult to serve profitably. While this requirement may significantly increase overall program costs, it does support the social goal of making crop insurance available to all farmers.

Exhibit 6 focuses on commission payments to agents and brokers, which constitute approximately one-half of Total Expenses for the MPCCI program. It indicates that commission to premium ratios for the MPCCI line have never exceeded those for the P&C industry as a whole.

A&O REIMBURSEMENT SHORTFALL

As shown in **Exhibit 1**, column (1), the available data on MPCCI companies' Net Expense Gain(Loss) from the listed sources indicate that the amount of the MPCCI expenses has exceeded A&O Reimbursements every year since 1997. Renegotiations of the SRA and the passage of the Agricultural Research, Extension and Education Reform Act of 1998 have significantly reduced A&O Reimbursements over time. Since 1998, the A&O Reimbursements have fallen short of MPCCI incurred expenses by more than \$100 million annually. In 2002 and 2006 the unreimbursed amounts exceeded \$200 million. **Exhibit 7** compares the historical level of expenses incurred in delivering crop insurance by the MPCCI companies to the historical level of A&O Reimbursements. It indicates that although the MPCCI companies have reduced expenses over time through efficiencies, the A&O Reimbursements have regularly fallen short of covering the expenses incurred. The inadequacy in the A&O Reimbursements is absorbed by the MPCCI companies through a reduction in their profits.

²² Program participation rates (defined as the ratio of net insured acres to total eligible acres) have increased dramatically in the past decade. In 1980, the participation rate was less than 10%. By 1990, participation rates had increased to around 40%, where they hovered in the early 1990s. In 1995, participation rates jumped to over 80%. The jump in participation rates from 1994 to 1995 is coincident with the Federal Crop Insurance Reform Act of 1994, which made enrollment in crop insurance program a precondition for participating in many of USDA's benefit support programs. Though participation rates decreased after 1995, they were above 80% in 2001 and 2002.

SUMMARY AND CONCLUSIONS

This report analyzes the profitability and effectiveness of the MPCCI program. Specifically, it presents Pretax Net Income, risk and return profiles for the MPCCI and P&C businesses. It also compares expense ratios for these two lines of business and examines historical subsidies for A&O reimbursements and their shortfall to actual expenses incurred by the MPCCI companies.

The results of this analysis continue to indicate that the MPCCI program does not possess risk-return advantages relative to the P&C industry. The P&C industry has had an annual net loss in only one year in its history, 2001 (largely due to the extraordinary losses related to September 11) . In contrast, the MPCCI program as a whole lost money in two years between 1992 and 2006 alone (1993 and 2002). MPCCI expense ratios continue to be substantially below those of the P&C industry, and total A&O Reimbursements have fallen short of MPCCI companies' total expenses for all years since 1997. The results of this analysis may be updated and augmented as additional data and information become available.

Exhibit 1 Profitability of the MPC I Program
(in millions)

Calendar Year	Net Expense Gain/(Loss) [a]	Net Underwriting Gain/(Loss) [b]	Pretax Net Income	Pretax Net Income after Quota Share [actual] [4]	Pretax Net Income after Quota Share [applied to all years] [5]	Retained Premium [c] [6]	Pretax Net Income / Retained Premium [3]/[6]	Pretax Net Income after Quota Share / Retained Premium [actual] [4]/[6]	Pretax Net Income after Quota Share / Retained Premium [applied to all years] [d] [5]/[6]
Formula	(1)	(2)	(3) = (1) + (2)	(4)	(5)	(6)	(3)/(6)	(4)/(6)	(5)/(6)
1992	\$ 5.4	\$ 21.8	\$ 27.2	\$ 27.2	\$ 26.1	\$ 465.6	5.8%	5.8%	5.6%
1993	2.6	(83.3)	(80.7)	(80.7)	(76.5)	434.5	-18.6%	-18.6%	-17.6%
1994	(4.1)	103.3	99.2	99.2	94.0	534.5	18.6%	18.6%	17.6%
1995	20.3	131.7	152.1	152.1	145.5	768.5	19.8%	19.8%	18.9%
1996	1.3	247.5	248.8	248.8	236.4	1,155.1	21.5%	21.5%	20.5%
1997	(60.5)	352.1	291.6	291.6	274.0	1,263.1	23.1%	23.1%	21.7%
1998	(109.7)	279.2	169.6	169.6	155.6	1,591.7	10.7%	10.7%	9.8%
1999	(113.5)	271.8	158.2	158.2	144.6	1,836.9	8.6%	8.6%	7.9%
2000	(140.1)	281.8	141.8	141.8	127.7	1,894.2	7.5%	7.5%	6.7%
2001	(180.0)	345.9	165.9	165.9	148.6	2,373.0	7.0%	7.0%	6.3%
2002	(200.3)	(47.4)	(247.7)	(247.7)	(245.3)	2,295.0	-10.8%	-10.8%	-10.7%
2003	(164.8)	378.4	213.6	213.6	194.7	2,607.1	8.2%	8.2%	7.5%
2004	(134.3)	692.0	557.7	557.7	523.1	3,145.2	17.7%	17.7%	16.6%
2005	(160.8)	964.6	803.7	755.6	755.6	3,045.1	26.4%	24.8%	24.8%
2006	(201.0)	886.7	685.7	641.4	641.4	3,686.2	18.6%	17.4%	17.4%
Totals	\$ (1,439.4)	\$ 4,826.0	\$ 3,386.6	\$ 3,294.2	\$ 3,145.4	\$ 27,095.8			

1992-2006	Weighted Average	12.5%	12.2%	11.6%
	Standard Deviation	12.4%	12.2%	11.8%
2002-2006	Weighted Average	13.6%	13.0%	12.6%
	Standard Deviation	14.3%	13.8%	13.7%

Sources:

[a] Expenses:

1992-1998: PwC 1999 Update Exhibit 4 and Deloitte 2004 Report Exhibit 5.1
1999-2006: Surveys of NCIS member companies

A&O Reimbursement:

1992-2006: MPC I data from RMA charts, August 14, 2007 as provided by NCIS

[b] 1992-1994: MPC I data from RMA charts, August 14, 2007 as provided by NCIS

1995-2006: Underwriting gain/loss data from RMA, excludes CAT business written by FSA

[c] 1992-2006: From Underwriting gain/(loss) data per RMA adjusted to remove CAT business written by FSA

Exhibit 2

Profitability of the Property/Casualty Insurance Industry
(in millions)

Calendar Year	Net Underwriting Gain/(Loss) [a]	Net Investment Income [a]	Realized Capital Gain/(Loss) [b]	Pretax Net Income	Net Earned Premium [c]	Total Expenses [d]	Adjusted Net Earned Premium	Pretax Net Income / Adjusted NEP	Pretax Net Income / NEP
Formula	(1)	(2)	(3)	(4) = (1)+(2)+(3)	(5)	(6)	(7) = (5) - (6)	(4) / (7)	(4) / (5)
1992	\$ (36,260)	\$ 33,734	\$ 9,874	7,348	\$ 225,778	\$ 92,288	\$ 133,490	5.5%	3.3%
1993	(18,094)	32,645	10,153	24,704	235,514	94,910	140,604	17.6%	10.5%
1994	(22,083)	33,687	1,620	13,224	244,230	98,557	145,673	9.1%	5.4%
1995	(17,375)	36,834	5,997	25,456	254,048	104,074	149,974	17.0%	10.0%
1996	(17,162)	37,962	9,249	30,049	266,572	106,147	160,425	18.7%	11.3%
1997	(6,030)	41,499	11,068	46,537	275,801	110,275	165,526	28.1%	16.9%
1998	(17,669)	41,097	17,506	40,934	280,315	115,442	164,873	24.8%	14.6%
1999	(24,750)	40,071	13,034	28,355	285,481	118,795	166,686	17.0%	9.9%
2000	(32,143)	42,650	16,484	26,991	298,233	121,790	176,443	15.3%	9.1%
2001	(52,692)	39,849	6,978	(5,865)	317,595	129,303	188,292	-3.1%	-1.8%
2002	(32,620)	41,037	2,794	11,211	358,539	142,037	216,502	5.2%	3.1%
2003	(5,642)	41,142	6,493	41,993	399,089	153,883	245,206	17.1%	10.5%
2004	3,610	41,769	9,186	54,565	423,558	162,789	260,769	20.9%	12.9%
2005	(4,432)	51,735	12,194	59,497	425,631	166,742	258,889	23.0%	14.0%
2006	32,200	54,400	3,500	90,100	438,900	170,800	268,100	33.6%	20.5%
Totals	\$ (251,142)	\$ 610,111	\$ 136,130	\$ 495,099	\$ 4,729,284	\$ 1,887,832	\$ 2,841,452		

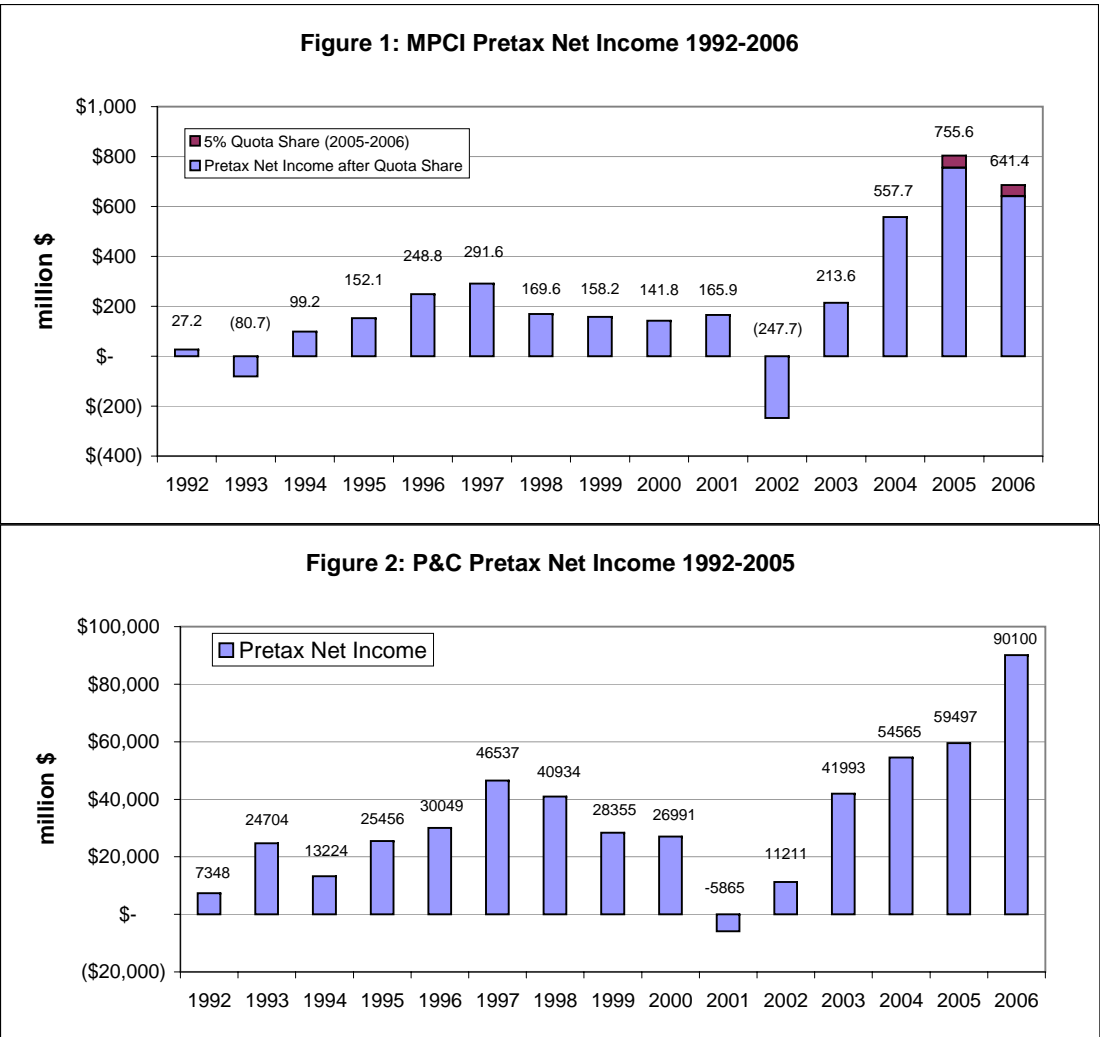
1992-2006	Weighted Average	17.4%	10.5%
	Standard Deviation	9.5%	5.7%
2002-2006	Weighted Average	20.6%	12.6%
	Standard Deviation	10.3%	6.3%

Sources:

- [a] 1992-2005: Best's Aggregates & Averages 2006, Industry Operating Results, p. 397, includes State Funds
2006: A.M. Best Special Report, April 23, 2007, www.ambest.com
- [b] 1992-1996: PriceWaterhouseCoopers 1999 Update, Exhibit 1 (used in Deloitte 2004 report Exhibit 2)
1997-2000: Best's Aggregates & Averages 2002, QAR p. 106
2001-2005: Best's Aggregates & Averages 2006, QAR, p. 89
2006: A.M. Best Special Report, April 23, 2007, www.ambest.com
- [c] 1992-1995: Best's Aggregates & Averages 2002, Cumulative By Line Underwriting Experience, Net Premiums, p. 278
1996-2006: Best's Aggregates & Averages 2006, Cumulative By Line Underwriting Experience, Net Premiums, p. 407
2006: A.M. Best Special Report, April 23, 2007, www.ambest.com
- [d] 1992-1995: Deloitte 2004 Report, Exhibit 2
1996-2005: calculated from ratios in Best's Aggregates & Averages 2006, Cumulative By Line Underwriting Experience - Industry, Net Premiums, p. 407
2006: A.M. Best Special Report, April 23, 2007, www.ambest.com

Exhibit 3

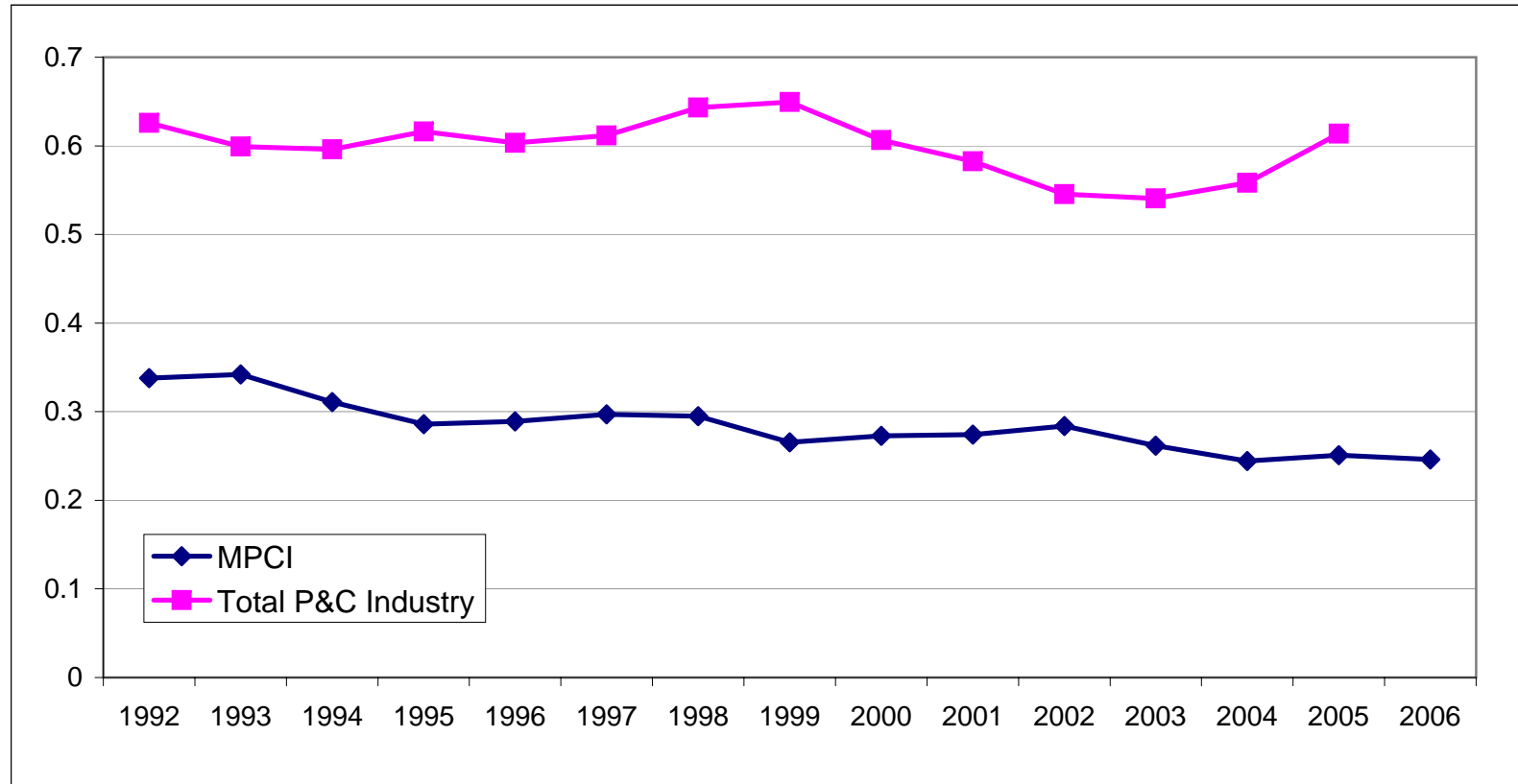
Comparison of Pretax Net Income



Sources: See Exhibits 1 and 2 for sources

Exhibit 4

Total Expense to Premium Ratio
MPCI vs. P&C



Sources:

MPCI 1992-1998: PwC 1999 Update Exhibit 4 and Deloitte 2004 Report Exhibit 5.1
1999-2006: Surveys of NCIS member companies

P&C 1992-1995: PwC 1999 Update Exhibit 4 and Deloitte 2004 Report Exhibit 5.2
1996-2005: A.M. Best's Aggregates & Averages 2006, expense ratios converted to adjusted Direct Premiums Written (Direct Premium Written less Total Expenses) to provide a base comparable to MPCl Gross Premiums. See our report for further explanation.

Note: Detailed 2006 expense figures for P&C Industry were unavailable.

Exhibit 5

Expense to Premium Ratios for MPCCI and P&C

5.1: MPCCI

Year	Loss Adjustment Expense / Gross Premium	Commission / Gross Premium	Other Expense / Gross Premium	Total Expense / Gross Premium	A&O Reimbursement / Gross Premium	A&O Reimbursement Excess / (Shortfall)
1992	4.2%	16.0%	13.6%	33.8%	34.6%	0.8%
1993	5.4%	16.8%	12.0%	34.2%	34.6%	0.4%
1994	3.9%	17.0%	10.3%	31.1%	30.7%	-0.4%
1995	3.9%	14.9%	9.8%	28.6%	30.2%	1.6%
1996	3.6%	15.9%	9.4%	28.9%	29.0%	0.1%
1997	3.4%	15.6%	10.6%	29.7%	26.1%	-3.6%
1998	3.7%	16.6%	9.2%	29.5%	23.7%	-5.8%
1999	3.1%	15.5%	8.0%	26.6%	21.6%	-4.9%
2000	3.5%	15.9%	7.9%	27.3%	21.8%	-5.5%
2001	3.7%	15.7%	8.1%	27.4%	21.4%	-6.0%
2002	4.2%	15.8%	8.4%	28.4%	21.5%	-6.9%
2003	3.3%	15.9%	6.9%	26.2%	21.4%	-4.8%
2004	2.8%	15.6%	6.0%	24.4%	21.2%	-3.2%
2005	3.3%	15.2%	6.6%	25.1%	21.0%	-4.1%
2006	2.9%	15.6%	6.2%	24.6%	20.3%	-4.3%
Averages 1992-2006	3.7%	15.9%	8.9%	28.4%	25.3%	-3.1%
Averages 1999-2006	3.3%	15.6%	7.3%	26.2%	21.3%	-5.0%

Sources:

Expenses:

1992-1998: PwC 1999 Update Exhibit 4 and Deloitte 2004 Report Exhibit 5.1
1999-2006: Surveys of NCIS member companies

A&O Reimbursement:

1992-2006: MPCCI data from RMA charts, August 14, 2007 as provided by NCIS

5.2: Total P&C Industry

Year	Loss Adjustment Expense / Adjusted DPW [a]	Commission / Adjusted DPW [a]	Other Expense / Adjusted DPW [a]	Total Expense / Adjusted DPW [a]
1992	21.7%	18.1%	22.8%	62.6%
1993	20.0%	17.1%	22.7%	59.9%
1994	20.1%	17.3%	22.3%	59.6%
1995	20.8%	17.6%	23.1%	61.6%
1996	20.1%	18.2%	22.7%	60.3%
1997	19.5%	18.8%	23.5%	61.2%
1998	21.2%	19.1%	24.6%	64.3%
1999	20.9%	19.4%	25.3%	64.9%
2000	19.3%	18.6%	23.6%	60.6%
2001	19.7%	18.2%	21.7%	58.3%
2002	18.6%	17.3%	20.3%	54.5%
2003	18.0%	17.2%	20.0%	54.1%
2004	18.8%	17.8%	19.9%	55.8%
2005	22.8%	18.1%	21.1%	61.4%
Averages 1992-2005	20.1%	18.1%	22.4%	59.9%
Averages 1999-2005	19.7%	18.1%	21.7%	58.5%

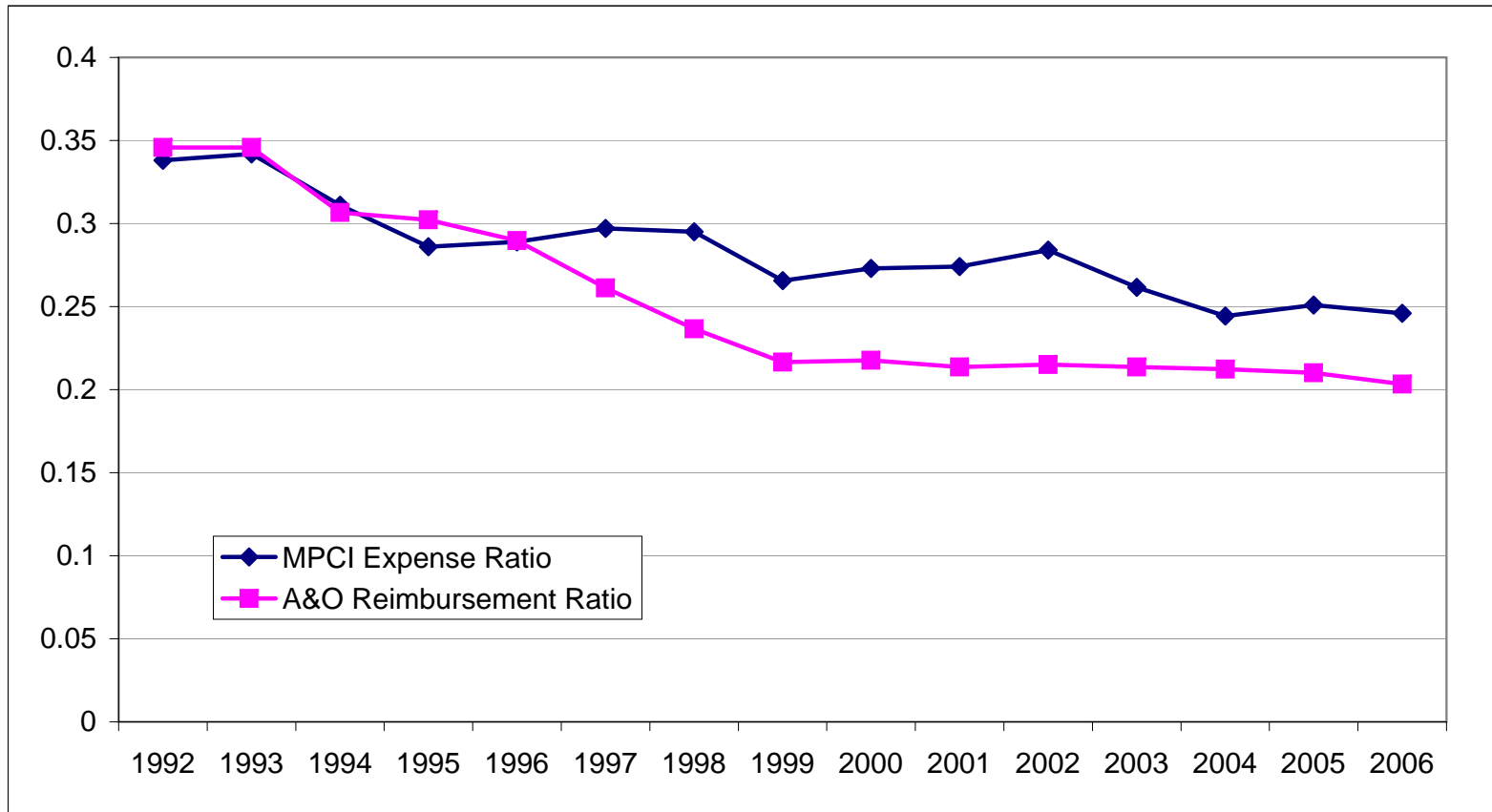
Sources:

1992-1995: PwC 1999 Update Exhibit 4 and Deloitte 2004 Report Exhibit 5.2
1996-2005: A.M. Best's Aggregates & Averages 2006, expense ratios converted to adjusted Direct Premiums Written

[a] Adjusted DPW is Direct Premium Written less Total Expenses

Note: Detailed 2006 expense figures for P&C Industry were unavailable.

Exhibit 7 **Comparison of A&O Reimbursement to Gross Premium with
Ratio of Total Expense to Gross Premium**



Sources: Expenses:

1992-1998: PwC 1999 Update Exhibit 4 and Deloitte 2004 Report Exhibit 5.1

1999-2006: Surveys of NCIS member companies

A&O Reimbursement:

1992-2006: MPCCI data from RMA charts, August 14, 2007 as provided by NCIS