



FEDERAL CROP INSURANCE PROGRAM

PROFITABILITY AND EFFECTIVENESS ANALYSIS

2009 UPDATE

Prepared on behalf of National Crop Insurance Services, Inc.

October 2, 2009

TABLE OF CONTENTS

INTRODUCTION.....	1
KEY FINDINGS.....	3
PROFITABILITY ANALYSIS.....	4
EFFECTIVENESS ANALYSIS.....	8
A&O REIMBURSEMENT SHORTFALL.....	9
EFFECT OF THE 2008 FARM BILL.....	10
SUMMARY AND CONCLUSIONS	11
EXHIBIT 1: PROFITABILITY OF THE MPC I PROGRAM	
EXHIBIT 2: PROFITABILITY OF THE PROPERTY & CASUALTY INSURANCE INDUSTRY	
EXHIBIT 3: COMPARISON OF PRETAX NET INCOME	
EXHIBIT 4: COMPARISON OF TOTAL EXPENSE TO PREMIUM	
EXHIBIT 5: EXPENSE TO PREMIUM RATIOS FOR MPC I AND PROPERTY & CASUALTY INSURANCE INDUSTRY	
EXHIBIT 6: COMPARISON OF COMMISSION EXPENSE TO PREMIUM	
EXHIBIT 7: COMPARISON OF A&O REIMBURSEMENT TO GROSS PREMIUM WITH TOTAL EXPENSE TO GROSS PREMIUM	

INTRODUCTION

Grant Thornton LLP was engaged by National Crop Insurance Services, Inc. (“NCIS”) to update the “Federal Crop Insurance Program Profitability and Effectiveness Analysis 2008 Update” with 2008 results.¹ The analysis benchmarks the Multi-Peril Crop Insurance (“MPCI”) program against the Property & Casualty (“P&C”) insurance industry². The 2008 results are based on an aggregation of the data contained in surveys returned by the 16 MPCI companies.

The primary U.S. crop insurance program is a public-private partnership between 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 2008, the MPCI program provided coverage on 272 million acres of eligible acreage of major U.S. crops, insured liability of \$89.9 billion, generated total premiums of \$9.8 billion (of which \$5.7 billion were premium subsidies) and distributed \$8.7 billion in indemnity payments.³

MPCI companies write a particular class of P&C insurance. Therefore, comparisons of the MPCI program to the P&C industry in the areas of profitability and expenses are informative. However, while the profitability profiles of the P&C insurance and MPCI program are similar, they have distinct differences as detailed in the following table.⁴

1 This report was prepared for NCIS to be used by its members solely in evaluating aggregated, historical data. Our services were provided in accordance with the Statement on Standards for Consulting Services promulgated by the American Institute of Certified Public Accountants and, accordingly, do not constitute the compilation, review or audit of any information. The report does not express a view with regard to the results for any individual member of NCIS. This update primarily addresses the MPCI and P&C information for 2008. However, previous years data was amended if more current information for any year was available from Best's Aggregates & Averages Property & Casualty (“Best's A&A”) or RMA.

2 This report uses aggregate historical data on both the MPCI program and the P&C industry. MPCI data used in this report were taken from a survey by NCIS of its member companies and from public sources (USDA/RMA). 16 of the 16 MPCI companies surveyed responded with requested financial data for the 2008 reinsurance year. Data on the P&C industry were obtained from the industry publication Best's A&A. Data utilized from previous versions of Best's A&A have been updated with data from the 2009 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/sobrpt2006-2009.pdf as of 09-21-2009

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

	P&C Insurance	MPCI Program
Premium	Expense loaded – meaning administrative expenses are included in the premium charged.	Not expense loaded – expenses 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	Ability to underwrite risks. Can choose whether or not to accept risks and to modify rates and coverage to amend participant risk profile.	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 ⁵ – A&O Reimbursements may or may not cover actual expenses incurred.

Therefore, a comparison of the P&C industry to the MPCI program is only valid as long as the major differences in the two lines are recognized, understood, and adjusted for appropriately. Our analysis takes the appropriate adjustments into consideration to the extent possible from the information sources utilized.

⁵ The Food, Conservation, and Energy Act of 2008 (“2008 Farm Bill”) reduces the amount of A&O Reimbursement. Please refer to the “Effect of the 2008 Farm Bill” section of this report for further discussion.

KEY FINDINGS

The key findings of our analysis can be summarized as follows:⁶

- **The MPCCI program is not as profitable as the P&C industry and writing MPCCI coverage entails greater risk.**
 - MPCCI's ratio of Pretax Net Income as a percentage of Adjusted Retained Premium averaged 14.2% for the period 1992-2008. P&C's ratio of Pretax Net Income as a percentage of Adjusted Net Earned Premium averaged 17.5%. Furthermore, the volatility of MPCCI's historical earnings was 12.3% compared to only 10.1% for the P&C industry. Therefore, in general, for the period of 1992 - 2008 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 27.7% of Gross Premiums for the period 1992-2008, compared to P&C's ratio of 60.2% of Adjusted Direct Premiums Written for the period 1992-2008. (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 2006, MPCCI companies incurred Total Expenses equal to 24.6% of Gross Premiums while the A&O Reimbursements only totaled 20.3% of Gross Premiums, resulting in an approximate 4.3% (\$201.2 million) shortfall.
 - For 2007, MPCCI companies incurred Total Expenses equal to 23.9% of Gross Premiums while A&O Reimbursements only totaled 20.4% of Gross Premiums, resulting in an approximate 3.6% (\$233.5 million) shortfall.
 - For 2008, MPCCI companies incurred Total Expenses equal to 22.1% of Gross Premiums while A&O Reimbursements only totaled 20.4% of Gross Premiums, resulting in an approximate 1.6% (\$160.8 million) shortfall.

These general findings are consistent with the findings contained in prior years' studies. 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.

⁶ Profitability ratios for the MPCCI program for the 2007, 2008 and 2009 Updates include an adjustment to retained premium for Quota Share for the years 2005-2008.

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”.⁷ 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.”*⁸ 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, at a minimum, adequate policyholder surplus to pay losses resulting from two consecutive years of a 500 percent loss ratio (losses equal to 500% of premiums).⁹

The 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. The policyholder surplus requirement has implications for the amount of underwriting gains that would need to be retained in order to build the reserves to the required minimum level. It could also affect the amount of commercial reinsurance that MPCCI insurers would need to purchase to maintain the required capitalization standard. In either case, this would reduce the available income that would otherwise be paid out to shareholders and reduce the financial incentive for new participants to enter the program. As Mr. Gould testified in June 2007, *“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.”*¹⁰

⁷ SRA definition of Underwriting Gains from www.rma.usda.gov/pubs/ra/#09SRA

⁸ Statement by RMA Administrator Eldon Gould before the House Agriculture Subcommittee on General Farm Commodities and Risk Management, June 7, 2007.

⁹ Ibid.

¹⁰ Ibid.

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 the comparison 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 standard deviation.¹¹ To measure returns for the MPCCI program, we divided Pretax Net Income by Retained Premiums.¹² To measure P&C returns, we divided Pretax Net Income by Net Earned Premiums¹³ 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. The removal of the expense loading from the P&C premiums ensures that comparisons of P&C and MPCCI returns are developed on consistent bases, with denominators of each ratio representing the expected indemnities under each program.

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 14.2% compared to 17.5% for the P&C industry. Further, risk as measured by the standard deviation is greater for the MPCCI program (12.3% versus 10.1% 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 ratemaking and underwriting activities.¹⁴ Insurers can respond to underwriting losses by increasing their rates in subsequent years and/or

¹¹ Standard deviation is a standard statistical measure of spread in a distribution of values. It is computed by taking the square root of the expected value of the square of the difference between actual returns and expected returns.

¹² 2005, 2006, 2007 and 2008 adjusted for Quota Share.

¹³ We chose to differ from Deloitte’s methodology by using Adj. NEP 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 after Federal Reinsurance for the MPCCI industry.

¹⁴ Please refer to chart on page 2.

limiting coverage. In comparison, MPCCI companies must adhere to ratemaking decisions of and policy provisions established by FCIC/RMA, regardless of underwriting loss experience.

The overall findings are consistent with the general findings of the previous years' studies. Historically, the MPCCI industry has had no overall economic advantage over the P&C industry. The results of the current and previous studies are presented on the following page. Please note that the Grant Thornton, Deloitte, and PwC results are not directly comparable due to differences in methodologies used and the time periods covered. The focus is on the overall results of the various studies.

Profitability		P&C Industry			MPCI Industry		
Report	Period	Metric	Wtd. Avg.	Std. Dev.	Metric	Wtd. Avg.	Std. Dev.
Grant Thornton 2009 Update	1992-2008	Pretax Net Income/Adj. NEP	17.5%	10.1%	Pretax Net Income/Retained Premium ¹⁵	14.2%	12.3%
Grant Thornton 2008 Update	1992-2007	Pretax Net Income/Adj. NEP	18.6%	9.9%	Pretax Net Income/Retained Premium ¹⁶	14.7%	12.7%
Grant Thornton 2007 Update	1992-2006	Pretax Net Income/Adj. NEP ¹⁷	17.4%	9.5%	Pretax Net Income/Retained Premium ¹⁸	12.5%	12.4%
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 ¹⁹	15.8%	10.1%
PwC 1997	1988-1995	Pretax Net Income/Surplus	14.1%	7.3%	Pretax Net Income/Surplus ¹⁹	11.7%	10.4%

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 MPCI program.

¹⁵ 2005, 2006, 2007 and 2008 MPCI adjusted for Quota Share.

¹⁶ 2005, 2006 and 2007 MPCI adjusted for Quota Share.

¹⁷ P&C 2006 updated for final AM Best figures.

¹⁸ 2005 and 2006 MPCI adjusted for Quota Share.

¹⁹ Surplus is assumed by PwC to be 130% of Retained Premium. Deloitte and Grant Thornton chose to use Retained Premium rather than an assumed Surplus in this ratio for the 2004, 2007, 2008 and 2009 Updates. Retained Premium is a publicly available figure which can be verified through published sources. This differs from statutory Surplus, which cannot be assigned to an individual line of insurance such as MPCI.

EFFECTIVENESS ANALYSIS

A second appropriate area of comparison between the MPCCI program and the P&C industry is their expense ratios. Although there are similarities in the types of expenses 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 As previously stated, expenses are removed from P&C premiums to put those premiums on a consistent base with MPCCI premiums, which are not expense loaded. Total Expenses include Loss Adjustment Expense, Commissions 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 program has declined significantly over time. Since 1993, MPCCI Total Expense ratios have never been above 34.2%, and since 2004, they have not exceeded 25.1%. **Exhibit 4** also shows that the Total Expense ratio for the MPCCI program is well below the Total Expense ratio observed for the P&C industry. The major categories of expense 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 Adjustment Expense/Premium, Commission/Premium and Other Expense/Premium. Overall, the MPCCI program has lower expense ratios in all three categories.

²⁰ As previously noted, in order to compare the P&C expense ratios to those of the MPCCI program, 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 Premiums 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 Premiums.

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 compute losses.

The decline in MPCl 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, MPCl 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 eligible farmers.

Exhibit 6 focuses on commission payments to agents and brokers, which constitute more than one-half of Total Expenses for the MPCl program. It indicates that Commission to Premium ratios for the MPCl program 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 MPCl companies' Net Expense Gain(Loss) from the listed sources indicate that the amount of the MPCl 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 MPCl incurred expenses by more than \$100 million annually. In 2002, 2006 and 2007 the unreimbursed amounts exceeded \$200 million.

Exhibit 7 compares the historical level of expenses incurred in delivering crop insurance by the MPCl companies to the historical level of A&O Reimbursements. It indicates that although the MPCl companies have reduced expenses over time through efficiencies, the A&O Reimbursements have regularly fallen short of covering the expenses incurred. The inadequacy of the A&O Reimbursements is absorbed by the MPCl 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 two decades. 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 the crop insurance program a precondition for participating in many of USDA's benefit support programs. Though participation rates decreased some after 1995, they were 80% in 2006, 77% in 2007 and 80% in 2008.

EFFECT OF THE 2008 FARM BILL

The Food, Conservation, and Energy Act of 2008 (“2008 Farm Bill”) further diminishes the profitability of MPCCI companies by reducing the amount of A&O Reimbursement and delaying payment by FCIC of both A&O Reimbursement and Underwriting Gains as noted below:

7 U.S.C. § 1508 (b) (11) CAT Loss Adjustment Expense Reimbursement:

- Reduces the maximum rate of reimbursement for “expenses incurred by the approved insurance provider or agent for loss adjustment” from 7.0%²³ to 6.0% of “the premium for catastrophic risk protection that is used to define loss ratio.”

7 U.S.C. § 1508 (k) (4) Reinsurance A&O Reimbursement:

- Effective beginning with the 2012 reinsurance year, delays the reimbursement of allowable A&O costs to October of the following reinsurance year. Reimbursements covering the 2012 reinsurance year ending June 30, 2012 will not be paid until October 2012.
- Effective beginning with the 2009 reinsurance year starting July 1, 2008, reduces the rate of reimbursement of allowable A&O costs (currently 24.2%) by 2.3 percentage points. Only half of the reduction will apply “to the total premium written in a State in which the State loss ratio is greater than 1.2.” If this reduction is applied retroactively to actual results for reinsurance years 2005 through 2008, the result is as follows:

Year	Original Shortfall (000,000)	Reduction in A&O Reimbursements (000,000)	Revised Shortfall (000,000)
2005	\$160.9	\$89.2	\$250.2
2006	\$201.2	\$96.0	\$297.2
2007	\$233.5	\$145.3	\$378.8
2008	\$160.8	\$215.4	\$376.2

- Effective beginning with the 2009 reinsurance year, reduces the reimbursement rate for area policies and plans of insurance to 12.0% of the gross (net book) premium.

²³ The 2008 Farm bill states the reduction is from 8% to 6%; however, the current SRA indicates that the current reimbursement rate is 7%.

7 U.S.C. § 1508 (k) (9) Due Date for Payment of Underwriting Gains:

- Effective beginning with the 2011 reinsurance year, delays the payment of underwriting gains to October 1 of the following calendar year. Payments for underwriting gains covering the 2011 reinsurance year ending June 30, 2011 would not be paid until October 1, 2012.

SUMMARY AND CONCLUSIONS

This report analyzes the profitability and effectiveness of the MPCCI program, based on certain available data. Specifically, it presents Pretax Net Income, risk and return profiles for the MPCCI and P&C industries. 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 2008 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	Retained Premium [c]	Retained Premium Adjusted for Quota Share	Pretax Net Income after Quota Share / Retained Premium	Pretax Net Income after Quota Share / Adjusted Retained Premium
Formula	(1)	(2)	(3) = (1) + (2)	(4)	(5)	(6)	(4)/(5)	(4)/(6)
1992	\$ 5.4	\$ 21.8	\$ 27.2	\$ 27.2	\$ 465.6	\$ 465.6	5.8%	5.8%
1993	2.6	(83.3)	(80.7)	(80.7)	434.5	434.5	-18.6%	-18.6%
1994	(4.1)	103.3	99.2	99.2	534.5	534.5	18.6%	18.6%
1995	20.3	131.7	152.1	152.1	768.5	768.5	19.8%	19.8%
1996	1.3	247.5	248.8	248.8	1,155.1	1,155.1	21.5%	21.5%
1997	(60.5)	352.1	291.6	291.6	1,263.1	1,263.1	23.1%	23.1%
1998	(109.7)	279.2	169.6	169.6	1,591.7	1,591.7	10.7%	10.7%
1999	(113.5)	271.8	158.2	158.2	1,836.9	1,836.9	8.6%	8.6%
2000	(140.1)	281.8	141.8	141.8	1,894.2	1,894.2	7.5%	7.5%
2001	(179.9)	345.9	166.0	166.0	2,373.0	2,373.0	7.0%	7.0%
2002	(200.3)	(47.4)	(247.7)	(247.7)	2,295.0	2,295.0	-10.8%	-10.8%
2003	(164.8)	378.4	213.6	213.6	2,607.1	2,607.1	8.2%	8.2%
2004	(134.0)	692.0	558.0	558.0	3,145.2	3,145.2	17.7%	17.7%
2005	(160.9)	964.6	803.6	755.4	3,045.1	2,892.9	24.8%	26.1%
2006	(201.2)	886.7	685.5	641.2	3,686.2	3,501.9	17.4%	18.3%
2007	(233.5)	1,681.4	1,447.9	1,363.8	5,156.5	4,898.7	26.4%	27.8%
2008	(160.8)	1,163.3	1,002.5	944.9	8,151.4	7,743.8	11.6%	12.2%
Totals	\$ (1,833.7)	\$ 7,670.7	\$ 5,837.1	\$ 5,602.9	\$ 40,403.7	\$ 39,401.7		

1992-2008	Weighted Average	13.9%	14.2%
	Standard Deviation	12.0%	12.3%

Sources:

[a] Expenses:

1992-1998: PwC 1999 Update Exhibit 4 and Deloitte 2004 Report Exhibit 5.1
1999-2008: Surveys of NCIS member companies

A&O Reimbursement:

1992-2006: MPC I data from RMA charts, August 14, 2007 as provided by NCIS
2007-2008: Surveys of NCIS member companies

[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
2007-2008: Surveys of NCIS member companies

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

2007: RMA Reinsurance runs as of October 2008
2008: Surveys of NCIS member companies

**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 / NEP	Pretax Net Income / Adjusted NEP
Formula	(1)	(2)	(3)	(4) = (1)+(2)+(3)	(5)	(6)	(7) = (5) - (6)	(4) / (5)	(4) / (7)
1992	\$ (36,260)	\$ 33,734	\$ 9,874	7,348	\$ 225,778	\$ 92,288	\$ 133,490	3.3%	5.5%
1993	(18,094)	32,645	10,153	24,704	235,514	94,910	140,604	10.5%	17.6%
1994	(22,083)	33,687	1,620	13,224	244,230	98,557	145,673	5.4%	9.1%
1995	(17,375)	36,834	5,997	25,456	254,048	104,074	149,974	10.0%	17.0%
1996	(17,162)	37,962	9,249	30,049	266,552	106,147	160,405	11.3%	18.7%
1997	(6,030)	41,499	11,068	46,537	275,801	110,275	165,526	16.9%	28.1%
1998	(17,669)	41,097	17,506	40,934	280,335	115,450	164,885	14.6%	24.8%
1999	(24,750)	40,071	13,034	28,355	285,501	118,804	166,697	9.9%	17.0%
2000	(32,143)	42,650	16,484	26,991	298,233	121,790	176,443	9.1%	15.3%
2001	(52,692)	39,849	6,978	(5,865)	317,596	129,303	188,293	-1.8%	-3.1%
2002	(32,347)	41,099	2,824	11,576	358,551	142,043	216,508	3.2%	5.3%
2003	(5,230)	41,147	6,519	42,436	399,127	153,895	245,232	10.6%	17.3%
2004	1,692	41,776	9,191	52,659	423,583	162,800	260,783	12.4%	20.2%
2005	(5,574)	51,875	12,121	58,422	428,669	167,878	260,791	13.6%	22.4%
2006	34,300	54,835	3,585	92,720	442,634	171,615	271,019	20.9%	34.2%
2007	18,663	57,698	8,984	85,345	445,137	174,124	271,013	19.2%	31.5%
2008	(21,385)	53,765	(21,019)	11,361	439,779	172,274	267,505	2.6%	4.2%
Totals	\$ (254,139)	\$ 722,223	\$ 124,168	\$ 592,252	\$ 5,621,068	\$ 2,236,228	\$ 3,384,840		

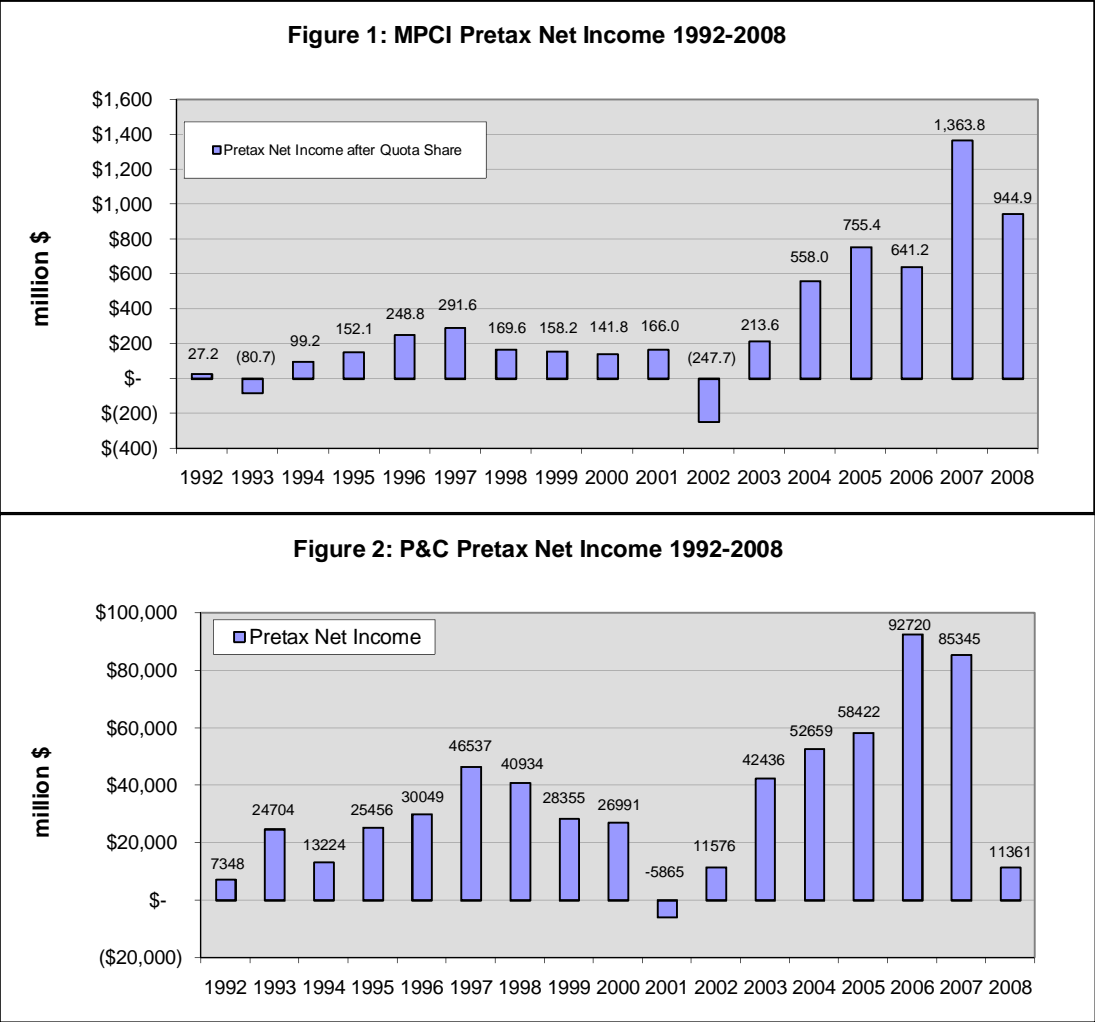
1992-2008 Weighted Average Standard Deviation 10.5% 17.5%
6.1% 10.1%

Sources:

- [a] 1992-2002: Best's Aggregates & Averages 2007, Industry Operating Results, p. 407, includes State Funds
2003-2004: Best's Aggregates & Averages 2008, Industry Operating Results, p. 407, includes State Funds
2005-2008: Best's Aggregates & Averages 2009, Industry Operating Results, p. 367, includes State Funds
- [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: Best's Aggregates & Averages 2006, QAR, p. 89
2002-2004: Best's Aggregates & Averages 2007, QAR, p. 91
2005-2008: Best's Aggregates & Averages 2009, QAR, p. 81
- [c] 1992-1995: Best's Aggregates & Averages 2002, Cumulative By Line Underwriting Experience, Net Premiums, p. 278
1996: Best's Aggregates & Averages 2006, Cumulative By Line Underwriting Experience, Net Premiums, p. 407
1997 & 2000: Best's Aggregates & Averages 2007, Cumulative By Line Underwriting Experience, Net Premiums, p. 417
1998-1999 & 2001-2003: Best's Aggregates & Averages 2008, Cumulative By Line Underwriting Experience, Net Premiums, p. 417
2004-2008: Best's Aggregates & Averages 2009, Cumulative By Line Underwriting Experience, Net Premiums, p. 377
- [d] 1992-1995: Deloitte 2004 Report, Exhibit 2
1996: calculated from ratios in Best's Aggregates & Averages 2006, Cumulative By Line Underwriting Experience, Net Premiums, p. 407
1997 & 2000-2001: calculated from ratios in Best's Aggregates & Averages 2007, Cumulative By Line Underwriting Experience, Net Premiums, p. 417
1998-1999 & 2002-2003: calculated from ratios in Best's Aggregates & Averages 2008, Cumulative By Line Underwriting Experience, Net Premiums, p. 417
2004-2008: calculated from ratios in Best's Aggregates & Averages 2009, Cumulative By Line Underwriting Experience, Net Premiums, p. 377

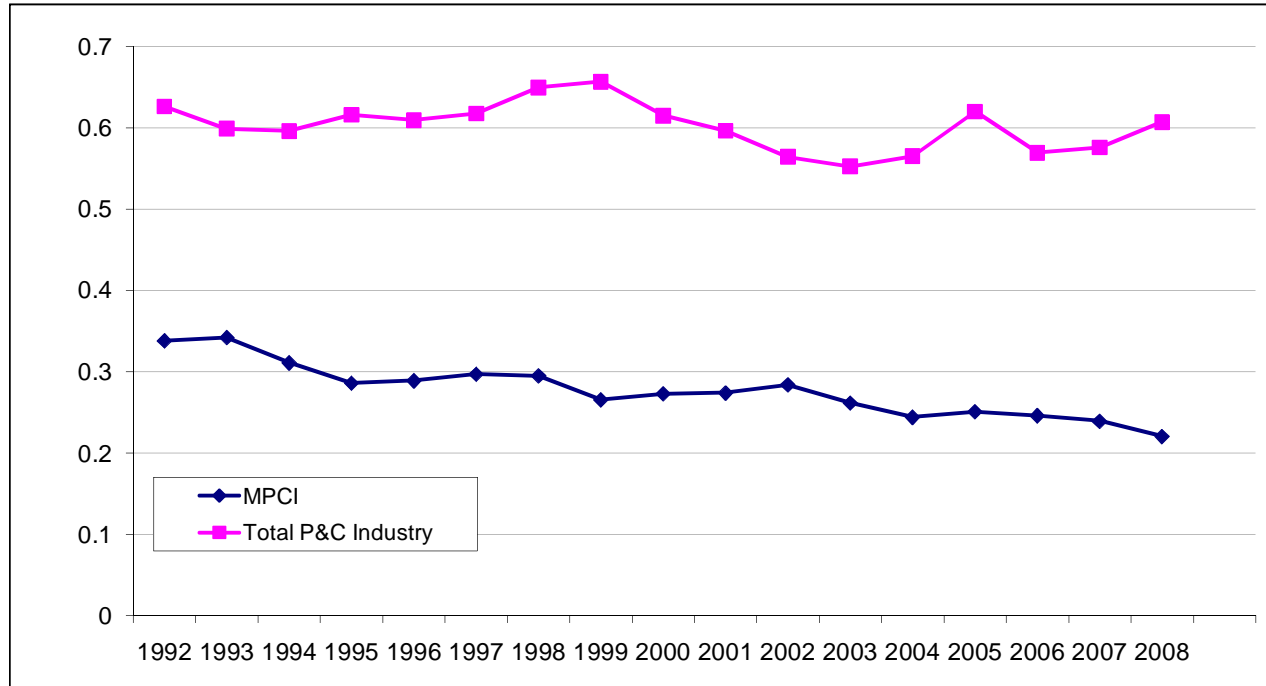
Exhibit 3

Comparison of Pretax Net Income



Sources: See Exhibits 1 and 2 for sources

Exhibit 4 **Total Expense to Premium Ratio**
MPCI vs. Property & Casualty



Sources:

MPCI 1992-1998: PwC 1999 Update Exhibit 4 and Deloitte 2004 Report Exhibit 5.1
1999-2008: Surveys of NCIS member companies

P&C 1992-1995: PwC 1999 Update Exhibit 4 and Deloitte 2004 Report Exhibit 5.2
1996: A.M. Best's Aggregates & Averages 2006,
1997 & 2000: A.M. Best's Aggregates & Averages 2007, and
1998-1999 & 2001-2003: A.M. Best's Aggregates & Averages 2008
2004-2008: A.M. Best's Aggregates & Averages 2009

Expense ratios from A.M. Best's Aggregates & Averages were converted to adjusted Direct Premiums Written (Direct Premiums Written less Total Expenses) to provide a base comparable to MPCI Gross Premiums. See our report for further explanation.

Exhibit 5 Expense to Premium Ratios for MPCCI and Property & Casualty

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%
2007	2.3%	17.0%	4.6%	23.9%	20.4%	-3.6%
2008	1.8%	16.8%	3.0%	22.1%	20.4%	-1.6%

Averages 1992-2008 3.5% 16.0% 8.3% 27.7% 24.7% -3.1%

Sources: **Expenses:**
1992-1998: PwC 1999 Update Exhibit 4 and Deloitte 2004 Report Exhibit 5.1
1999-2008: Surveys of NCIS member companies
A&O Reimbursement:
1992-2006: MPCCI data from RMA charts, August 14, 2007 as provided by NCIS
2007-2008: Surveys of NCIS member companies

5.2: Total P&C Industry

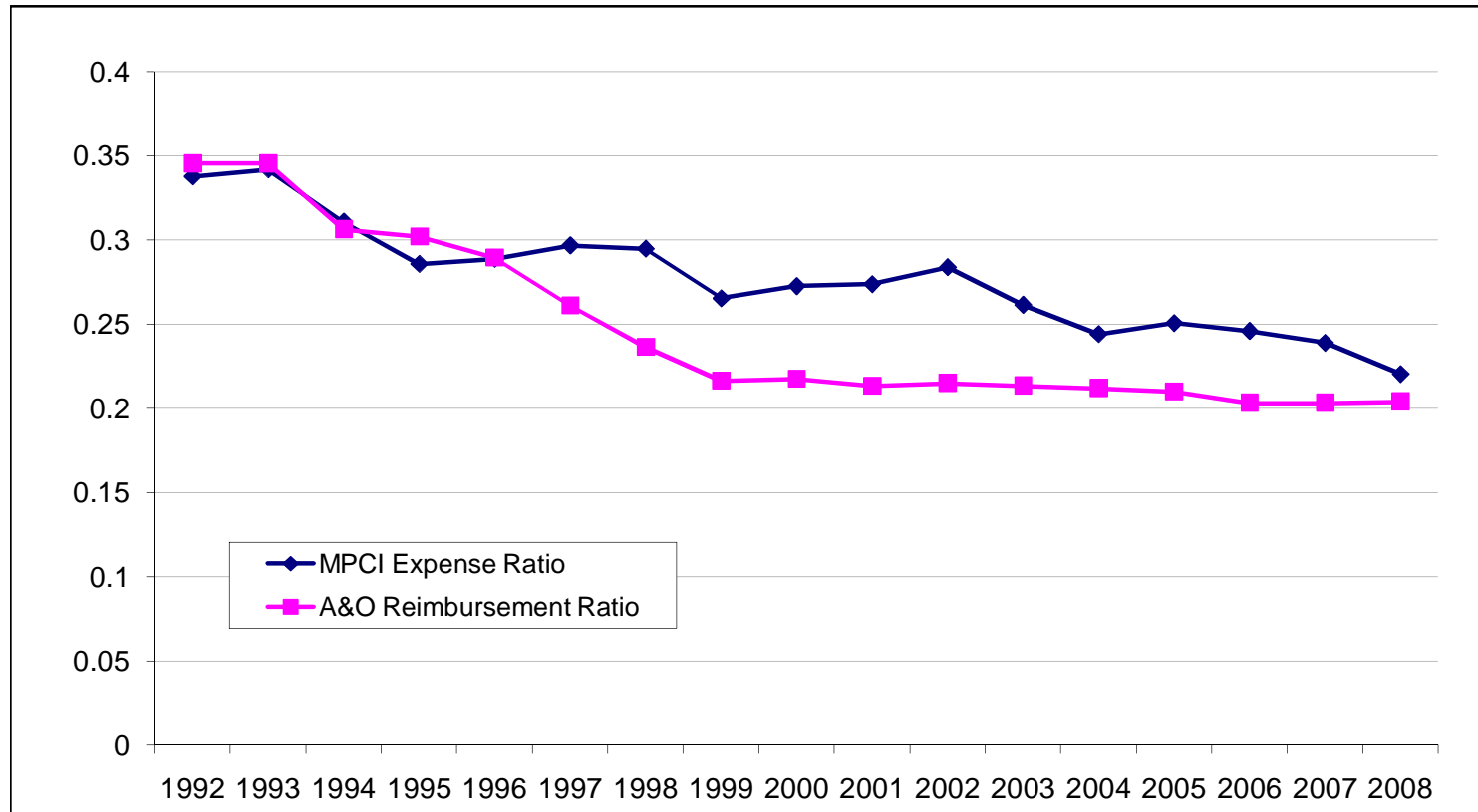
Year	Loss Adjustment Expense / Adjusted DPW [a]	Commission / Adjusted DPW [a]	Other Expense / Adjusted DPW [a]	Total Expense / Adjusted DPW [a]
1992	21.7%	18.1%	22.8%	62.6%
1993	20.0%	17.1%	22.7%	59.9%
1994	20.1%	17.3%	22.3%	59.6%
1995	20.8%	17.6%	23.1%	61.6%
1996	20.1%	18.2%	22.7%	60.9%
1997	19.5%	18.8%	23.5%	61.8%
1998	21.2%	19.1%	24.6%	64.9%
1999	20.9%	19.4%	25.3%	65.7%
2000	19.3%	18.6%	23.6%	61.5%
2001	19.7%	18.2%	21.7%	59.6%
2002	18.6%	17.4%	20.5%	56.4%
2003	18.0%	17.2%	20.0%	55.3%
2004	18.8%	17.8%	19.9%	56.5%
2005	22.8%	18.1%	21.1%	62.0%
2006	17.9%	17.7%	21.3%	56.9%
2007	17.4%	18.0%	22.2%	57.6%
2008	18.6%	18.3%	23.8%	60.7%

Averages 1992-2008 19.7% 18.1% 22.4% 60.2%

Sources: 1992-1995: PwC 1999 Update Exhibit 4 and Deloitte 2004 Report Exhibit 5.2
1996: A.M. Best's Aggregates & Averages 2006, expense ratios converted to adjusted Direct Premiums Written
1997 & 2000: A.M. Best's Aggregates & Averages 2007, expense ratios converted to adjusted Direct Premiums Written
1998-1999 & 2001-2003: A.M. Best's Aggregates & Averages 2008, expense ratios converted to adjusted Direct Premiums Written
2004-2008: A.M. Best's Aggregates & Averages 2009, expense ratios converted to adjusted Direct Premiums Written

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

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

1999-2008: Surveys of NCIS member companies

A&O Reimbursement:

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

2007-2008: Surveys of NCIS member companies