



IRMI[®]

Preconference Workshop 6

INSURANCE AND SURETY INDUSTRY ISSUES

Presented by

Terrence W. Cavanaugh
Chief Operating Officer—
Chubb Surety
Chubb & Son

Monday, November 8, 9 a.m.–4:30 p.m.



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in construction
financial
management...*

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Terrence W. Cavanaugh
Chief Operating Officer—Chubb Surety
Chubb & Son

Mr. Cavanaugh is a panelist for Monday's Preconference Workshop 6, "What's Hot in Construction Risk Management?" He is presently the chief operating officer for Chubb Surety. He started his career with Chubb as a bond underwriter in the Chicago office. He also held bond manager positions in Cleveland and Los Angeles prior to moving to the Warren home office as an underwriting zone manager for surety in 1979. He was appointed manager of the Walnut Creek, California, branch in 1983 and became the San Francisco branch manager in 1984. From 1988 to 1992 he managed the New Jersey branch operations. From 1992 to 1994 he was Eastern Zone officer and from 1996 to 1999 he was Northern Zone officer. In that position he managed a 16-state territory. He was responsible for all underwriting, claims, loss control, and marketing activities as well as management of Chubb's agency distribution relationships. In 1999 he was named Worldwide Marketing officer. In that role he was responsible for distribution management, product development, business intelligence, and strategic development.

He graduated from the University of Notre Dame with a bachelor's degree in business administration.

Notes

This file is set up for duplexed printing. Therefore, there are pages that are intentionally left blank. If you print this file, we suggest that you set your printer to duplex.

INSURANCE AND SURETY INDUSTRY ISSUES

Terrence W. Cavanaugh
Chubb & Son

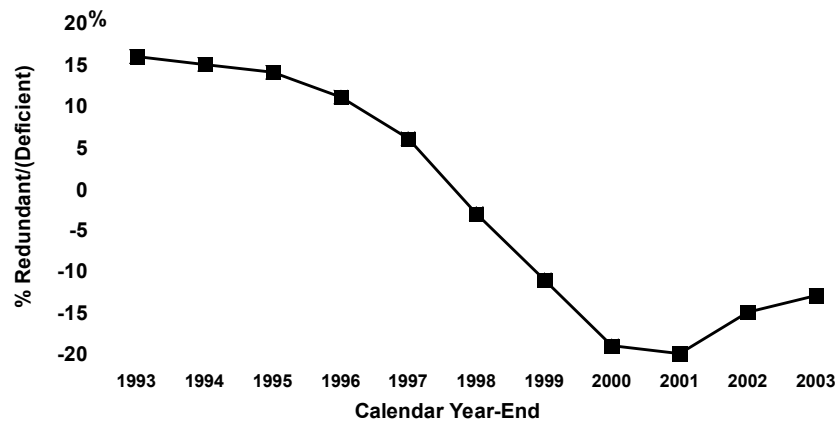
Insurance Industry Perspective



Insurance Industry Issues

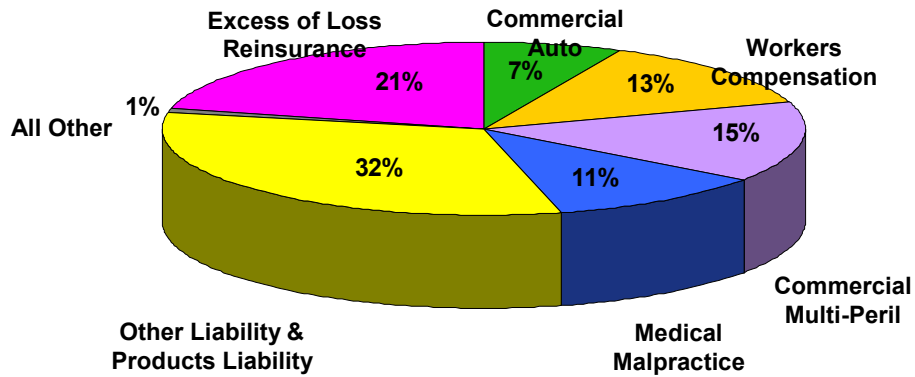
- Lack of Reserve Adequacy

Retrospective View on Core Reserve Adequacy



Note: Figure 1 reflects a simple roll forward analysis based on estimates of development through September 30, 2003.

% Estimated Deficiency by Line of Business

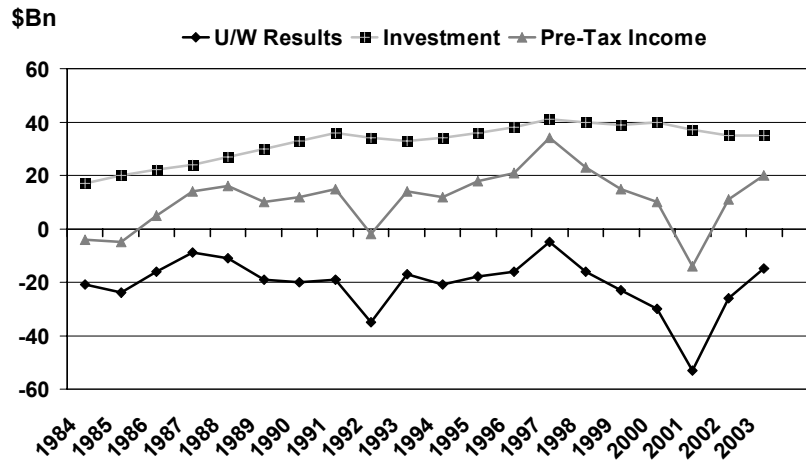


Note: Figure 2 is based upon 12/31/02 statutory data and has not been adjusted for development in 2003.

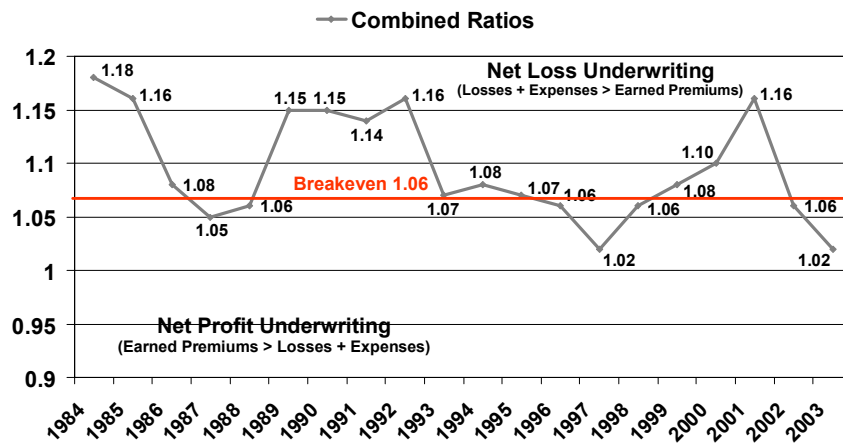
Insurance Industry Issues

- Lack of Reserve Adequacy
- Lack of Profit

Pre-Tax Income Estimated to Rebound as Underwriting Loss Trend Reverses



Insurance Industry Combined Ratios Reduced to Levels that Support Underwriting Profitability



Insurance Industry Issues

- Lack of Reserve Adequacy
- Lack of Profit
- Legacy Loss Issues

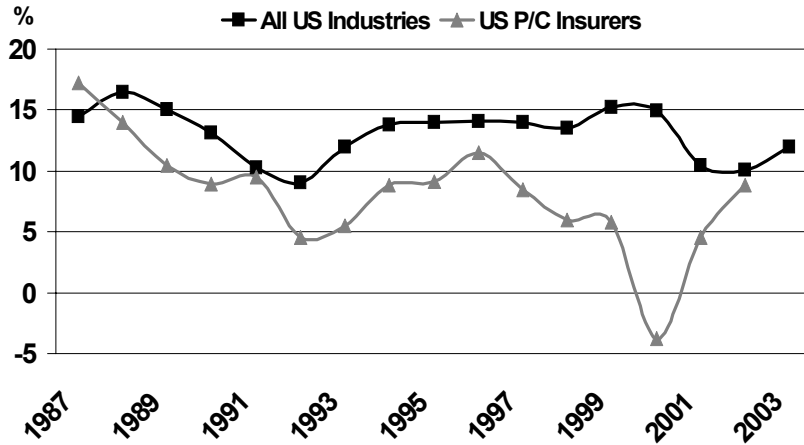
Insurance Industry Issues

- Lack of Reserve Adequacy
- Lack of Profit
- Legacy Loss Issues
- Uncollectible Reinsurance

Insurance Industry Issues

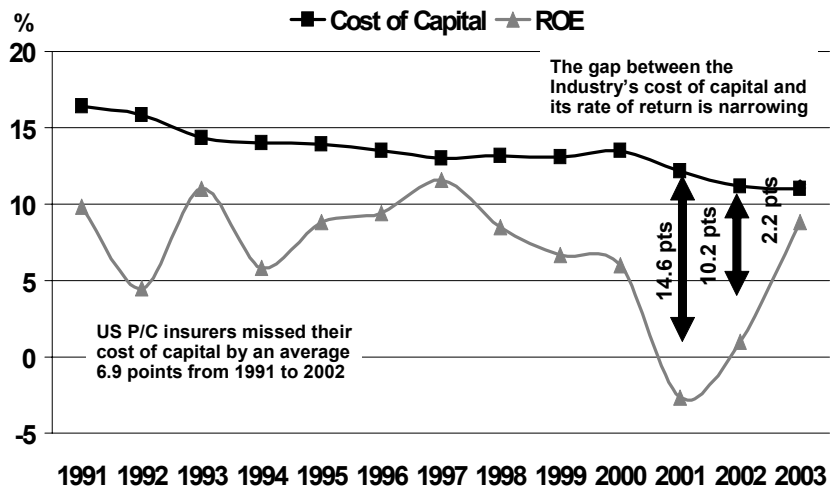
- Lack of Reserve Adequacy
- Lack of Profit
- Legacy Loss Issues
- Uncollectible Reinsurance
- Poor ROE (2000 2%; 2001 5%; 2002 4%; 2003 8%)

ROE: P/C vs. All Industries 1987 – 2003E*



*2003 p/c estimate based on first quarter data.
Source: Insurance Information Institute; *Fortune*

ROE vs. Cost of Capital: US P/C Insurance: 1991 – 2003E



Source: The Geneva Association, Ins. Information Inst.

Insurance Industry Issues

- Lack of Reserve Adequacy
- Lack of Profit
- Legacy Loss Issues
- Uncollectible Reinsurance
- Poor ROE (2000 2%; 2001 5%; 2002 4%; 2003 8%)
- New Financial Demands (External / Internal)



2004 Market

- Improved Underwriting Results 96.3% Combined
- Premium Growth - 16%
- Surplus Growth 24% - 62.5 Billion
- Industry Participants Can Have Good Earnings
 - But ...
 - “The Cycle” Mentally (at what speed and breath) Exists
 - pricing
 - contract terms
 - customer selection

Construction Insurance / Surety Overview

- Weaker Results
- Reserve Issues
 - Latency & Expanding Liability
 - Prior Year Strengthening
- Capital Allocation Realities
- Senior Management Concerns
- Customer Characteristics

Tactical Action Steps

- Partner With The Strongest Resources
 - Broker
 - Accountant
 - Legal
- Full & Consistent Information
- 360 Day Plan
- Safety & Risk Management Skill
- Make Everyone Accountable
- Balance “Cost” vs. “Value”
- Manage Over The Long-Term