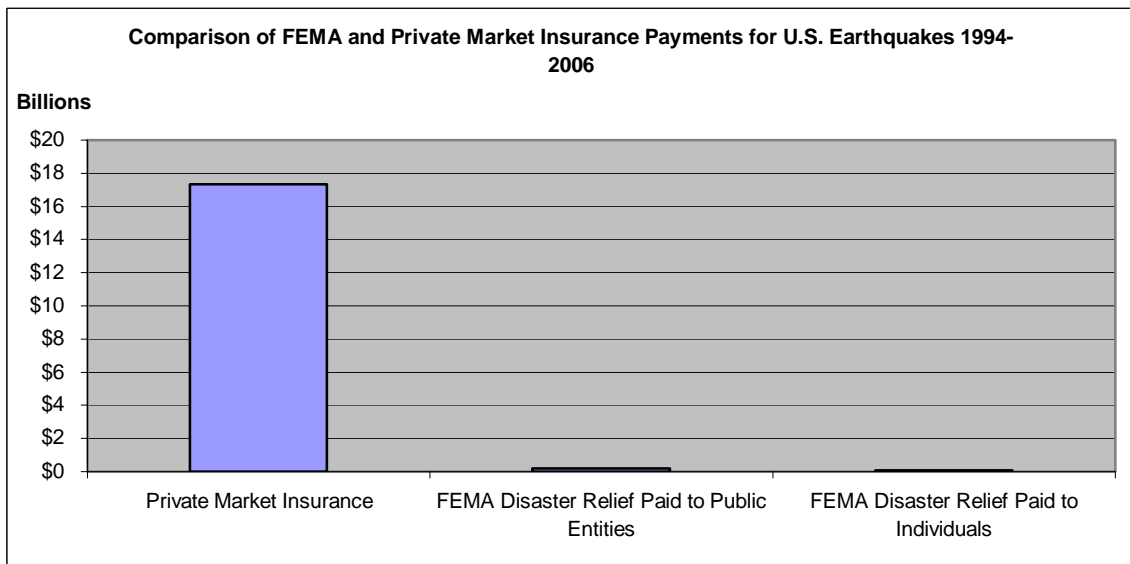
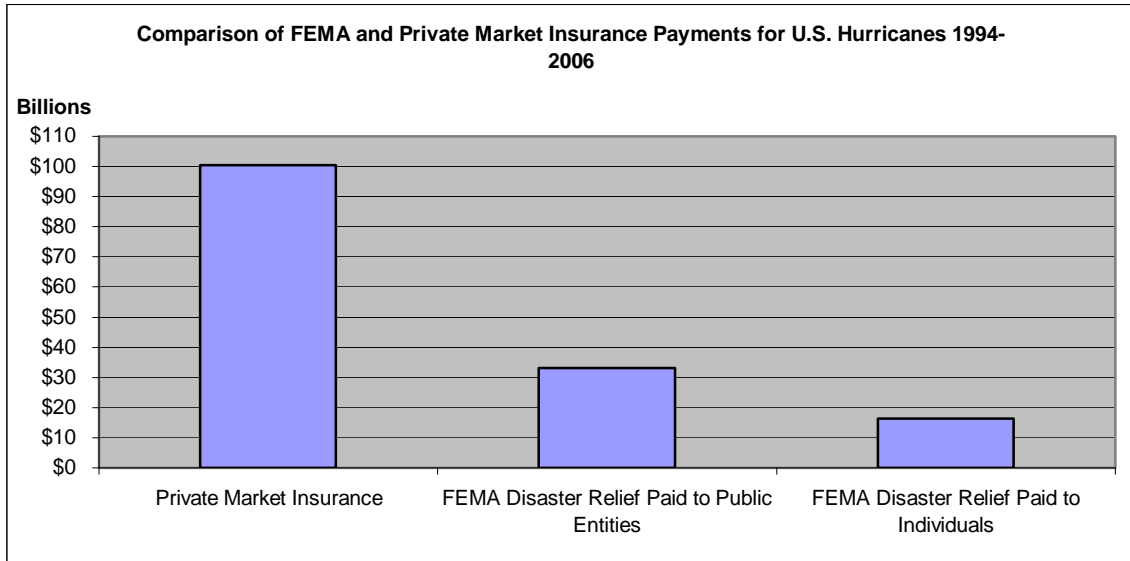


Catastrophe Funds—Good for All Because We All Pay Anyway?

It has been suggested that we all (U.S. taxpayers) pay when there is a catastrophic disaster, such as Hurricane Katrina, because when the "big one" hits, the rest of the nation chips in through federal government spending. At the end of the day, the federal government is going to pick up all the bills—right? Well, not exactly.

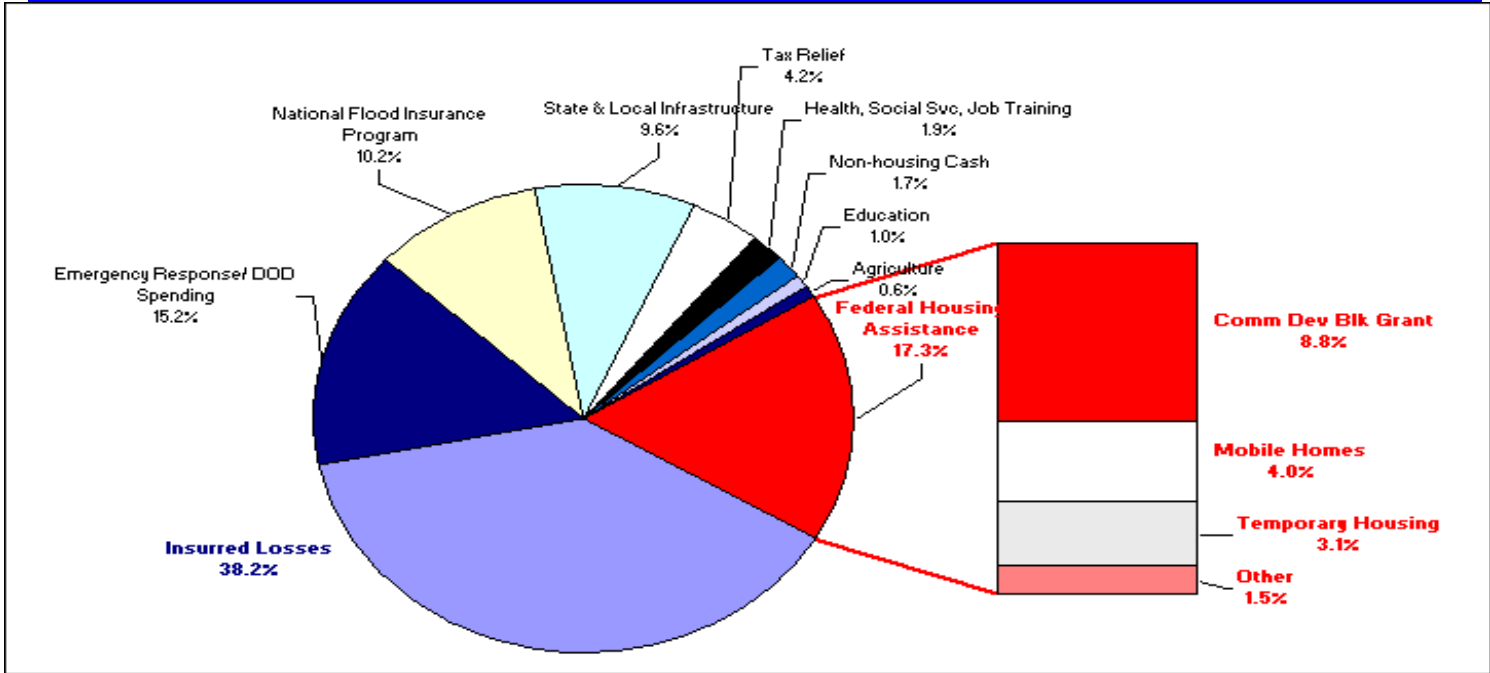
Prior to Hurricane Katrina, almost all federal disaster-related funding went through FEMA. What few realize is that the majority of FEMA disaster assistance goes to public infrastructure and local governments. As a percentage, very little assistance goes to individuals. The payments that do go to individuals are very different from insurance, because they largely help out with temporary living expenses—not permanent reconstruction (think FEMA-trailers).



Private market insurance and reinsurance still pay for the vast majority of the costs associated with private sector long-term recovery and reconstruction.

Hurricane Katrina was the largest disaster in our nation's history in terms of insured losses and property damage. Likewise, the level of government disaster assistance funding following Katrina was unprecedented. Still the money allocated by the federal government went largely to public entities and infrastructure. Private market insurance and reinsurance still paid for the largest insured loss in history.

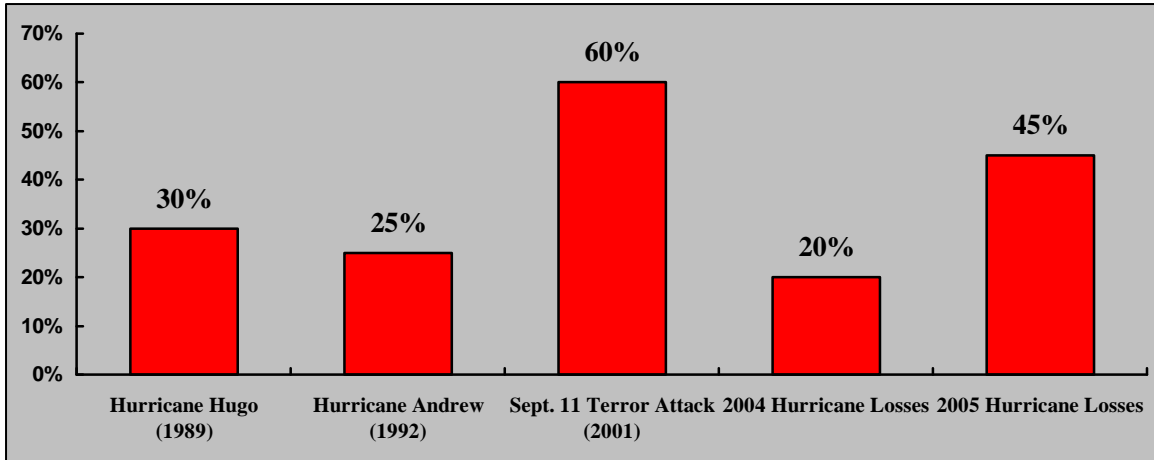
Insurance Industry Losses Compared to Federal Disaster Funding



Insurance Industry Loss or Federal Funding Type	Amount	Percent of Total
Insured Losses	72,200,000,000	38.2%
Federal Housing Assistance	32,700,000,000	17.3%
Emergency Response/ DOD Spending	28,800,000,000	15.2%
National Flood Insurance Program	19,300,000,000	10.2%
State & Local Infrastructure Repair	18,200,000,000	9.6%
Tax Relief	8,000,000,000	4.2%
Health, Social Svc and Job Training	3,600,000,000	1.9%
Non-housing Cash Assistance	3,200,000,000	1.7%
Education	1,900,000,000	1.0%
Agriculture	1,200,000,000	0.6%
Total	189,100,000,000	100%

So, what the U.S. taxpayer funds is not at all the same as what is paid by private market insurance. With the exception of flood, which is not covered by private insurance, insurance losses are paid by the private market and are not passed on to the taxpayer. Instead they are diversified around the globe through reinsurance. So investors in Bermuda, London and the EU pay a share of those catastrophic losses. That is what insurance and reinsurance is all about—transferring risk and diversifying it around the globe so that when disaster strikes, the responsibility for payment of the loss is not concentrated in one place.

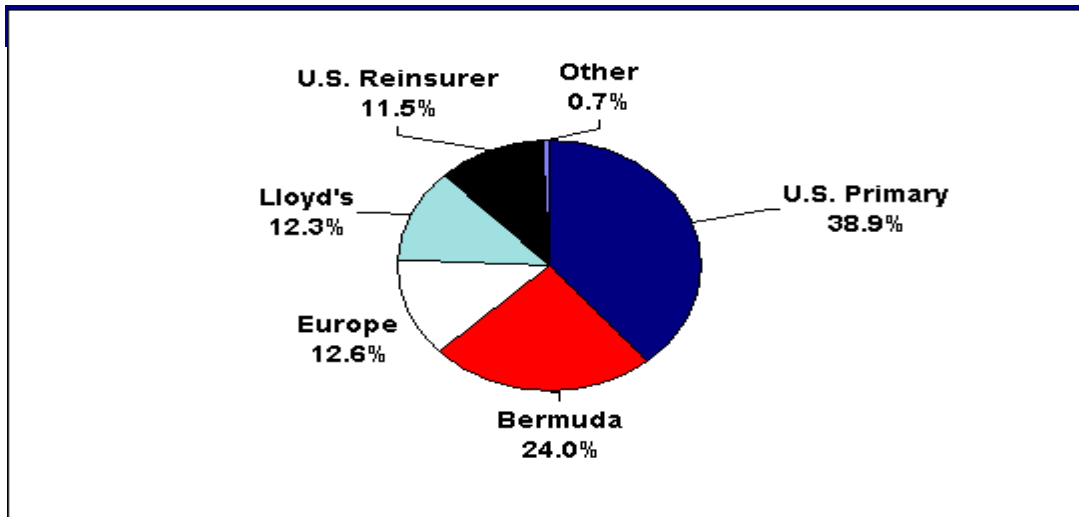
Share of Losses Paid By Private Reinsurance



Source: Wharton Risk Center, Disaster Insurance Project

Excludes Losses paid by the Florida Hurricane Catastrophe Fund, a FL-only windstorm reinsurer, which was established in 1994 after Hurricane Andrew. FHCFC payments to insurers are estimated at \$3.85 billion for 2004 and \$4.5 billion for 2005.

Announced Katrina/Rita/Wilma Losses by Industry Segment



Segment	KRW Loss \$ in Billions	% of Total Loss
U.S. Primary	\$ 28.1	38.9%
Bermuda	\$ 17.3	24.0%
Europe	\$ 9.1	12.6%
Lloyd's	\$ 8.9	12.3%
U.S. Reinsurer	\$ 8.3	11.5%
Other	\$ 0.5	0.7%
Total	\$ 72.2	100.0%

Government Catastrophe Funds by their nature do just the opposite. Instead of spreading the risk around the globe, they concentrate all the risk to be paid by the taxpayer. So with Government Catastrophe Funds, the individual as policyholder first pays the insurance premium (a portion goes to the Catastrophe Fund) and then the individual as taxpayer is responsible for paying the insured loss.

In essence, the individual policyholder reinsures his/her own insurance policy and the catastrophe risk is not really transferred at all.

So, with private insurance we all pay our premiums once, and then the private markets around the globe pay the catastrophe losses. With Government Catastrophe Funds we pay the premiums and then retain all the risk. If there is a loss, we pay for that too! With Government Catastrophe Funds, we all really do pay anyway—Twice!!