



# The Aon Benfield Aggregate

*FY 2008 Reinsurer Capital Maintenance  
April 2009*

**AON** BENFIELD

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*This new results commentary is based on the Aon Benfield Aggregate (ABA) which currently comprises 24 companies with a specialization in reinsurance and/or a significant volume of premium income related to reinsurance activities. A full list of constituents is available in Appendix 1. Disclosure for Berkshire Hathaway's (re)insurance activities is limited but selected highlights, together with a summary of Lloyd's proforma results, are included in Appendix 4.*

## Reinsurer Capital Maintenance

The 2008 catastrophes – both financial markets and insured – resulted in an 18% fall in 2008 shareholders' funds to USD127bn for the ABA. Capital maintenance became the priority for many given the impact of investment losses, coupled with dislocation in the capital markets and the prospect of further volatility.

Profits remained in positive territory despite higher catastrophe claims and significant investment losses. Investment losses were the principal reason for the decline in reported shareholders' funds but dividend, share buybacks and foreign exchange all played a part.

Investment gains and losses for the ABA companies reported through the income statement swung from a pre-tax gain of USD2.5bn in 2007 to a loss of USD18bn in 2008 representing some 12% of the opening year capital base. Net investment losses direct to shareholders' equity totaled a further USD17bn.

All but three of the ABA companies reported a combined ratio below 100% for the full year, despite 2008 being the third most costly catastrophe loss year on record for (re)insurers. The ABA combined ratio increased from 91.0% to 95.8%, with Hurricanes Gustav and Ike accounting for some 5.5 percentage points (pp) of this increase and attritional losses a further 1.4pp. Reserve releases were once again a positive feature, indeed more than doubling 2007 levels accounting for a 4.7pp reduction in the 2008 ABA combined ratio.

Gross premiums written for the ABA increased by 5% to USD123bn but this masked a wide range of outcomes. Acquisitions rather than organic growth featured in three of the top five high growth companies. Of the five reporting largest declines, lower reinsurance and casualty premium income was a common theme. Reinsurance accounted for 64% of total 2008 ABA premium income.

The depletion of shareholders' funds should be set in the context of exceptional profitability in recent years when both investment gains and underwriting profits bolstered balance sheets. Non-life insurers in general and reinsurers in particular remain relatively well placed, especially in contrast to many banks, hedge funds and life insurers.

The focus on pricing discipline has been reinforced. The global reinsurance market firmed in both the January and April renewals, and continued rate hardening over more lines of business in 2009 is expected. Underwriting profits will be key while capital is being maintained as a much more valuable commodity, investment markets remain volatile and reinvestment yields are low.

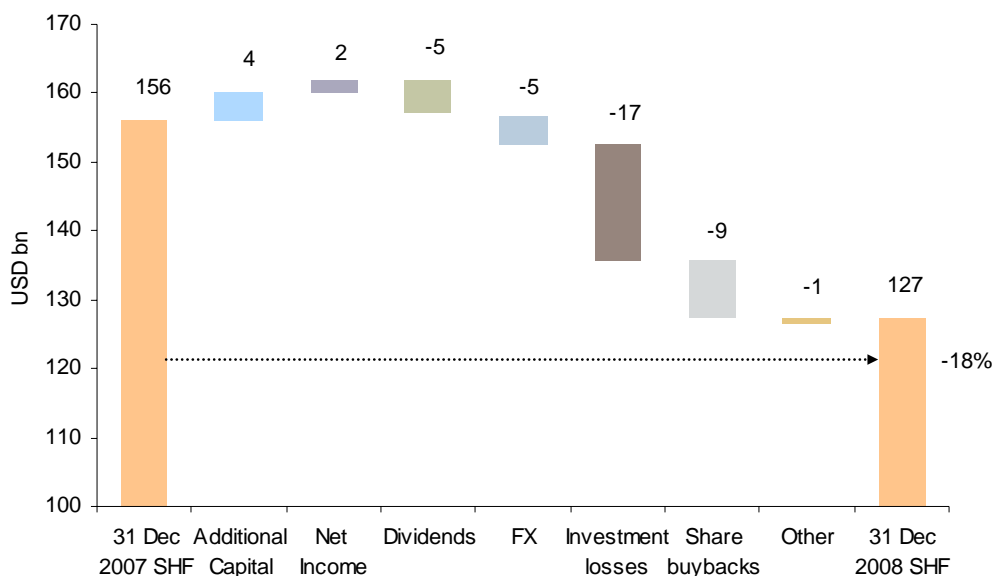
## Balance Sheet

The credit and liquidity crisis spread from asset-backed securities where concerns over the quality of underlying assets – particularly those secured by mortgages – to nearly every other asset class as investors moved en masse to position themselves with significantly greater levels of liquidity. US government action on mortgage agencies effectively converted their pass-through securities to government guaranteed debt. Widening corporate and municipal debt spreads, falling equity markets and illiquidity of alternative investments, however, combined to a significant negative impact. The problem at the start of the year had been to service excess capital with many seeing dividends and share repurchases as the solution. By mid year the challenge centered on capital preservation and maintenance, for the anticipated upturn in premium income.

## Shareholders' Funds

Shareholders' funds of the ABA declined 18% during 2008 to USD127bn. Chart 1 shows the principal elements of the development. Investment losses "below the line" were by far the largest component<sup>1</sup> and accounted for some 12% of the opening capital base.

Chart 1 – Aon Benfield Aggregate Development of 2008 Shareholders' Funds

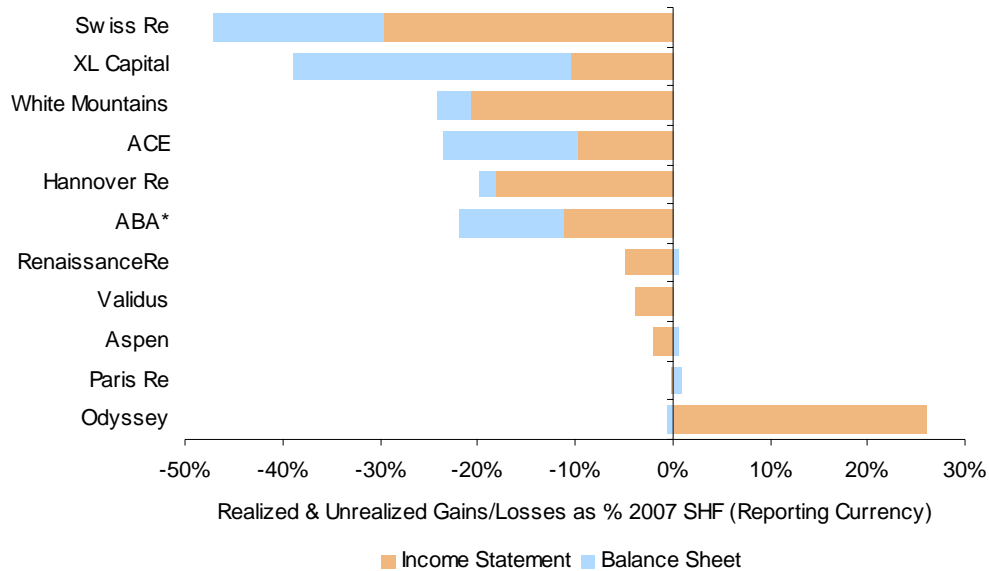


Source: Company Data, Aon Benfield Analytics Research

This was only part of the investment story as the positive USD2bn of net income was after USD18bn (pre-tax) of realized investment losses and other than temporary impairments. Chart 2 shows the impact of these investment losses for selected ABA companies.

<sup>1</sup> Under US GAAP and IFRS, the majority of investments are carried on the balance sheet at fair value (usually market value). Changes in market value are typically posted directly to shareholders' funds except when a reduction in value is deemed to be other than temporary, in which case it is recorded in the income statement.

**Chart 2 – Total Investment Gains/Losses as % 2007 Shareholders' Funds**



\*Aon Benfield Aggregate (USD)

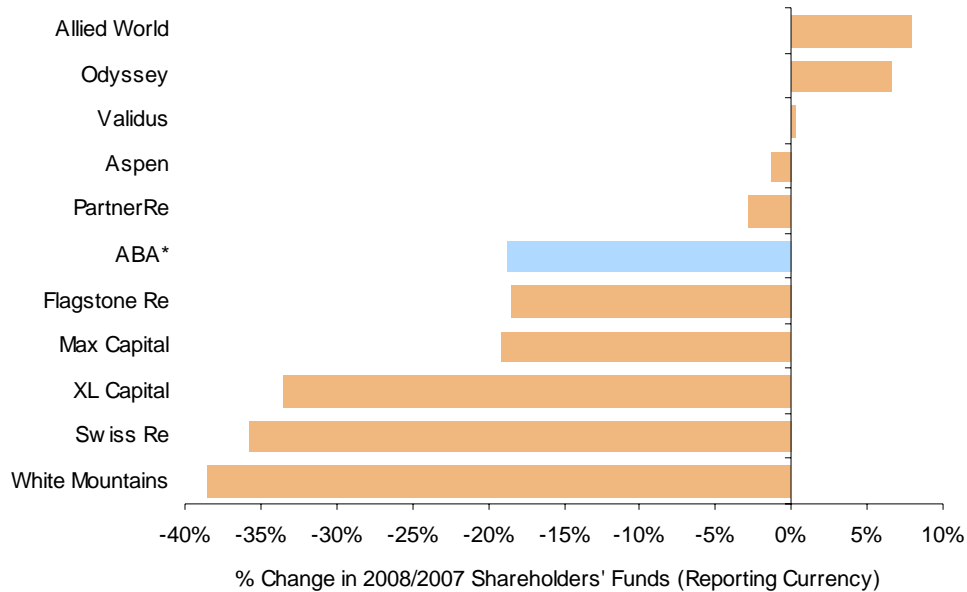
Source: Company Data, Aon Benfield Analytics Research

Within ABA shareholders' funds development, unrealized investment losses were almost twice the amount of the next biggest item which was share buybacks. Companies were active in repurchasing their own shares in the first half of the year. Most programs were subsequently halted in 2008. New capital was the key positive and contributed USD4bn, with XL Capital accounting for over half the total.

Amongst the ABA companies, White Mountains showed the biggest reduction in shareholders' funds with a 38% fall to USD2.9bn at 31 December 2008, as shown in Chart 3. More than half was attributable to share repurchases and dividends, and a net loss of USD544mn was also a significant factor. The major element behind a 36% drop in Swiss Re's capital was a CHF5bn unrealized investment loss. Other important influences were share buybacks, dividend payment, the year's net loss and adverse currency translation. At XL Capital, a net capital injection of USD2.4bn was more than offset by the year's USD2.5bn net loss, with the 34% reduction being mostly explained by unrealized losses.

Decreased capital for the year was the predominant theme for ABA company balance sheets. There was a small handful who reported growth in shareholders' funds. Allied World's was at this end of the ABA shareholders' funds percentage change spectrum with an 8% increase, mostly attributable to net income for the year.

**Chart 3 – 2008 Shareholders' Funds, % Change**



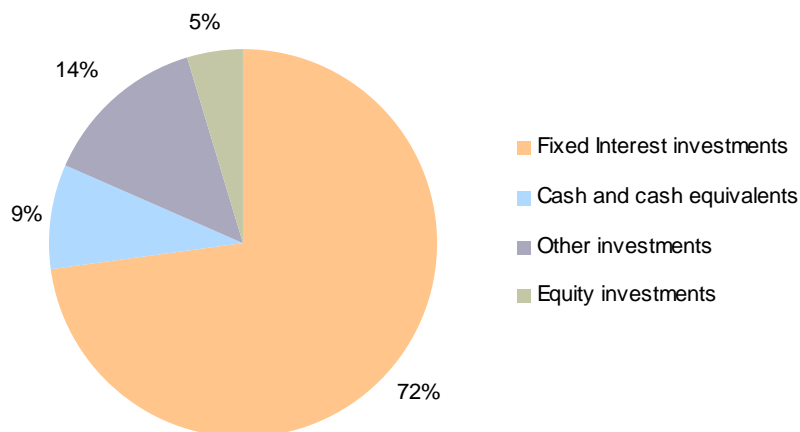
\*Aon Benfield Aggregate (USD)  
 Source: Company Data, Aon Benfield Analytics Research

### Invested Assets

Total invested assets for the ABA were USD698bn at 31 December 2008 as shown in Chart 4. Overall, 72% was held in fixed income with an average credit rating in the AA range. Equity holdings were halved during the year, now amounting to 5% of the total, before hedging. Other investments include assets such as funds held by cedants, real estate, loans, hedge funds and other alternative investments.

**Chart 4 – Aon Benfield Aggregate 2008 Invested Asset Split**

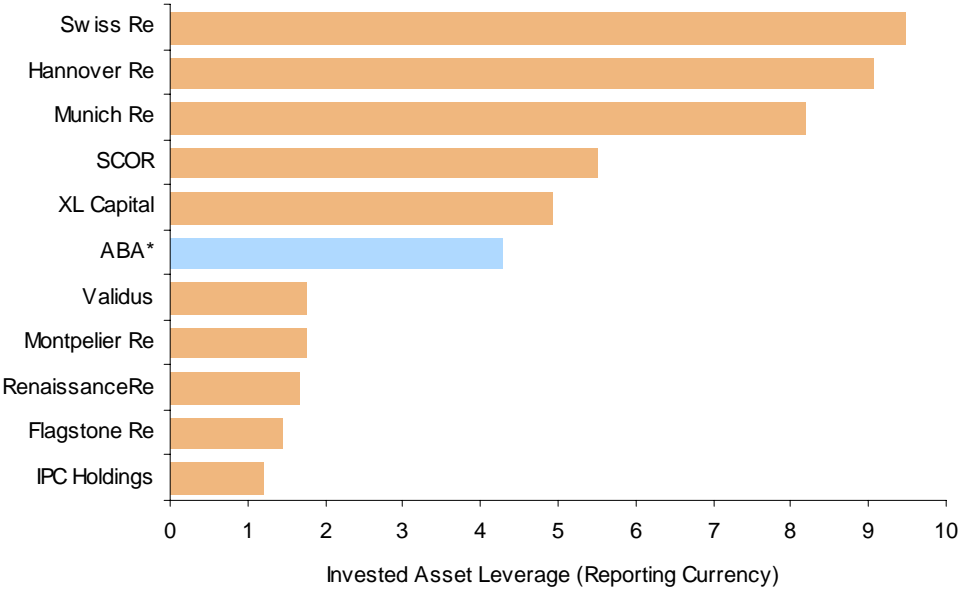
**Total Invested Assets 31 December 2008 USD698bn**



Source: Company Data, Aon Benfield Analytics Research

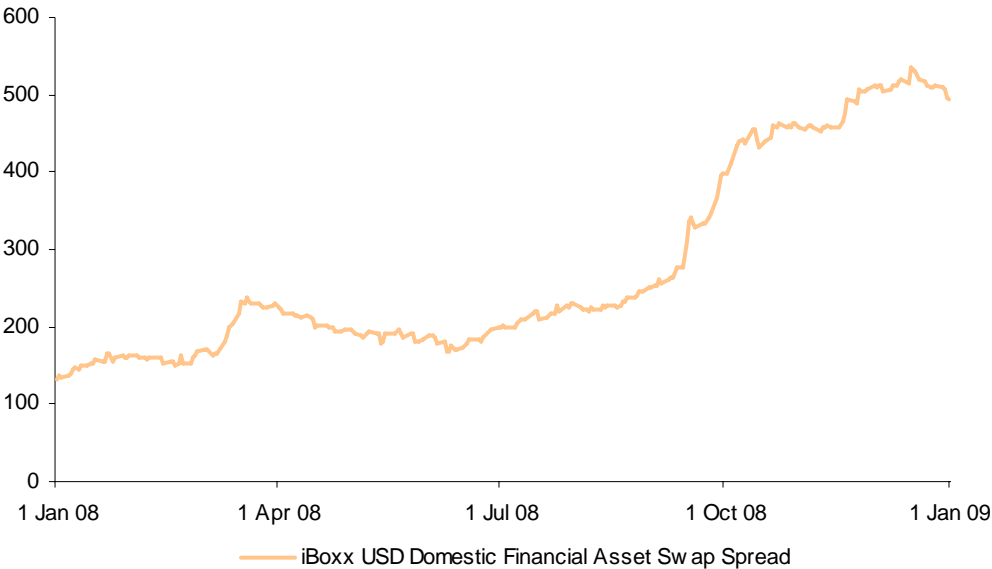
The gearing of investments to shareholders' funds has been of greater interest. At over 9x, Swiss Re had the highest gearing, reflecting the company's relatively high funds held asset, its significant life and annuity business and its use of subordinated debt capital (which is not included in shareholders' funds for this calculation). IPC Holdings had the lowest gearing at 1.2x.

**Chart 5 – 2008 Invested Asset Leverage**



\*Aon Benfield Aggregate (USD)  
 Source: Company Data, Aon Benfield Analytics Research

**Chart 6 – 2008 Corporate Bond Spreads**

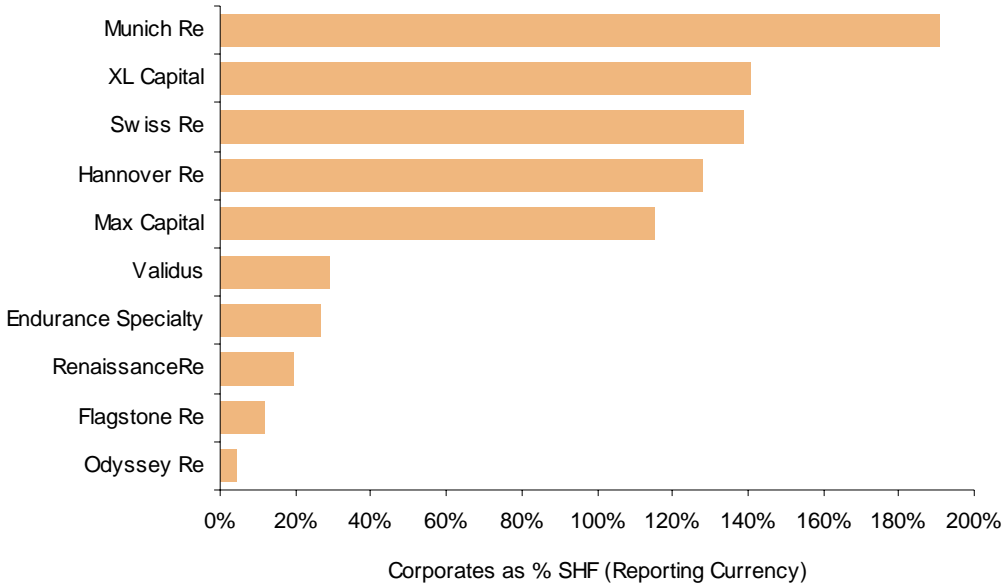


Source: Bloomberg

Credit spreads widened considerably through 2008, as illustrated in Chart 6. The resulting fall in market value was not offset by the increase in the value of government bond holdings. Debt issued by banks and other financial institutions, which comprises a large proportion of the market, was particularly badly affected.

Munich Re had the highest gearing of corporate bonds to shareholders' funds (191%), reflecting the company's substantial primary life insurance operations. Banks and other corporates comprised 11% and 8%, respectively, of the company's total fixed income investments. Odyssey Re was the least exposed to corporate bonds at 4% of shareholders' funds.

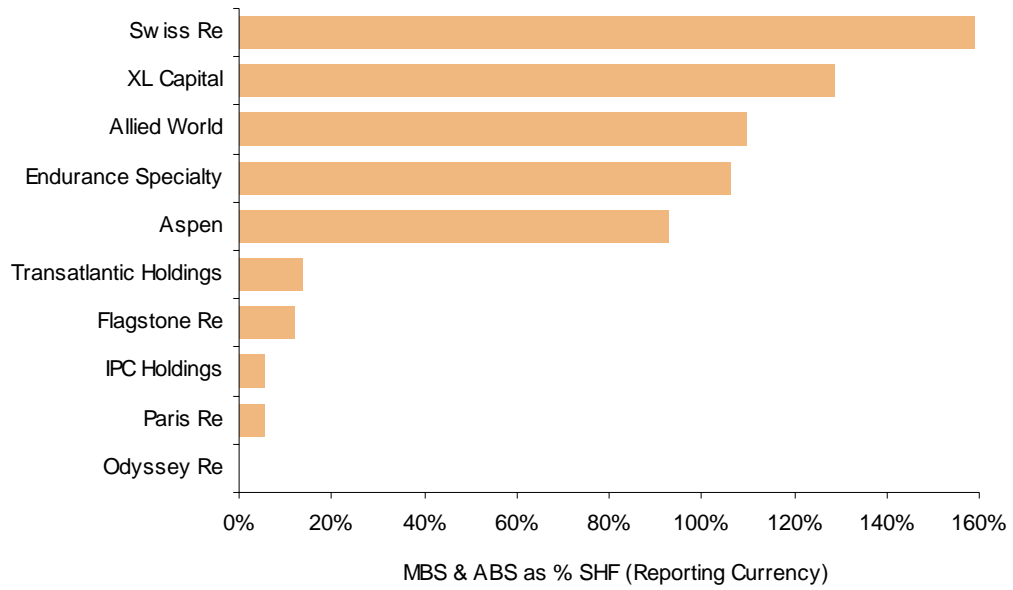
**Chart 7 – 2008 Corporate Bond Exposure**



Source: Company Data, Aon Benfield Analytics Research

Swiss Re had the highest gearing of mortgage-backed securities (MBS) and asset-backed securities (ABS) to shareholders' funds, although 79% of the holdings (excluding Agency issues) were rated AAA with a carrying value at an estimated 77% of par value. Odyssey Re had no exposure to this class.

Chart 8 – 2008 MBS/ABS Exposure



Source: Company Data, Aon Benfield Analytics Research

## Income

Higher catastrophe losses, turbulent investment markets, low government interest rates and the lack of capital flows from investor sources such as private equity and hedge funds reinforced reinsurers' focus on pricing discipline and underwriting profits. Reinsurers experienced firming of most reinsurance rates at January and April 2009 renewals. The main area of improvement was in catastrophe-exposed areas, with other lines of business demonstrating slower growth or slowing levels of rate decline.

## Outlook

While economic conditions are expected to constrain premium growth, the ABA companies anticipate continued rate hardening over more lines of business during 2009. It is clear that until insurance rates begin to increase, the growth in reinsurance premiums will be less than we have seen in previous market hardenings. The economic pressures on the underlying insureds are more severe than at any time in the past 20 years. Insureds recognize that this market's needed hardening has not been driven by insured losses and they are less willing to pay higher premiums for insurers that have lesser quality balance sheets due to investment losses.

Capital constraints amongst global insurers are likely to affect market conditions in 2009. Global insurers saw declines in capital of 25-35% in 2008, compared to 18% for the ABA. Recent analysis by Aon Benfield indicated that these reductions in insurer capital, combined with the continuation of global credit and liquidity problems into the first quarter, have led to increased interest in capital relief transactions globally.<sup>2</sup> This has taken the form of quota share, surplus share, property catastrophe occurrence and aggregate as well as adverse loss reserve development reinsurance contracts.

Mergers and acquisition activity has been relatively light, but if the financial markets stabilize, we expect more consolidations bringing further efficiencies to the market. Insurance-linked securities such as catastrophe bonds are expected to return after dealing with several LIBOR swap related structural issues revealed after the Lehman Brothers bankruptcy. Total issuance prior to the 2009 hurricane season is expected to exceed USD1bn. The Lloyd's market remains attractive, with several reinsurers recognizing the value of the worldwide franchise.

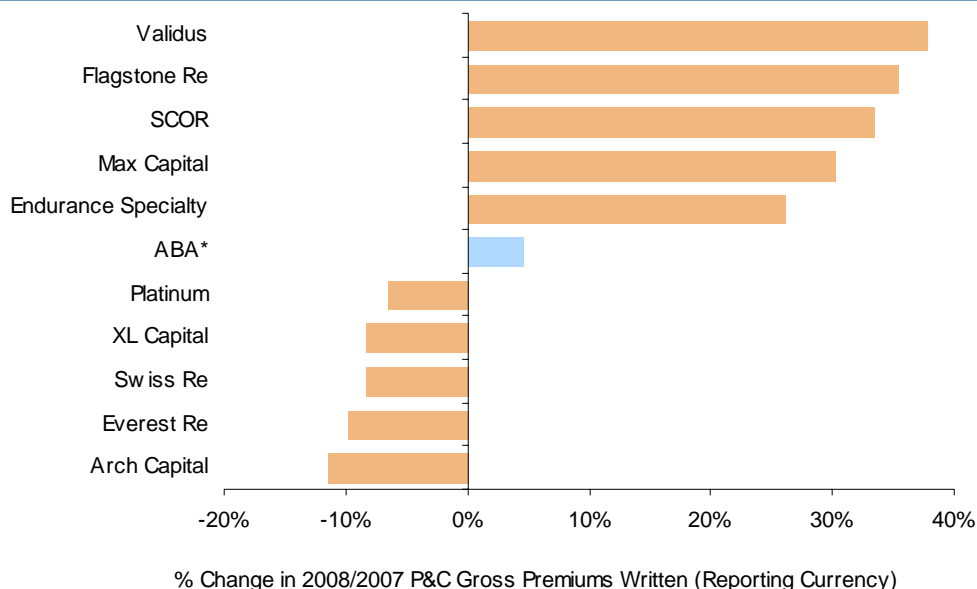
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<sup>2</sup> Aon Benfield Market Outlook, 1 April 2009

## Premium Income

Although total gross P&C premiums written for the ABA grew by 5% in 2008, this figure masks the wide range of outcomes. The five largest rises and falls in gross premiums written are illustrated in Chart 9.

**Chart 9 – 2008 Gross Premiums Written, % Change**



\*Aon Benfield Aggregate (USD)

Source: Company Data, Aon Benfield Analytics Research

Increases at Validus, SCOR and Endurance Specialty were driven by acquisitions. Validus reported the strongest increase in gross premiums written of the ABA companies, at 38%. The rise in premiums reflected a full year's contribution from Talbot, which was acquired in the second quarter of 2007. Talbot added USD709mn to 2008 gross premiums written, compared to USD286mn in 2007. The total increase was partially offset by a 2% fall in premiums from Validus Re. SCOR acquired Converium in July 2007, and this was responsible for the 22% increase in gross premiums written during 2008. Had Converium been included for the whole of 2007, gross premiums written year-on-year would have been unchanged.

The acquisition of ARMtech at the end of 2007 was largely responsible for the 26% top line income growth at Endurance Specialty. The addition of ARMtech's agricultural premiums contributed to growth in gross premiums written of 92% in the group's insurance segment, which was partially offset by a 23% decline in gross premiums written in the reinsurance segment.

In contrast, the 35% increase in gross premiums written at Flagstone Re was organic. Growth was particularly strong in the fourth quarter of the year, at 46%. The company stated that this acceleration in premium growth reflected the "significant business production we are seeing from our global platform as well as firming prices".<sup>3</sup>

Organic top line growth was also the reason behind the 30% rise in Max Capital's gross premiums written. While all the group's segments reported increased income, the main driver of growth was the Bermuda/Dublin segment, and the group's US Specialty segment in its first full year of operations. Gross premiums written for US specialty rose from USD48mn in 2007, to USD194mn in 2008, accounting for 62% of the increase at group level.

<sup>3</sup> Flagstone earnings statement, 17 February 2009

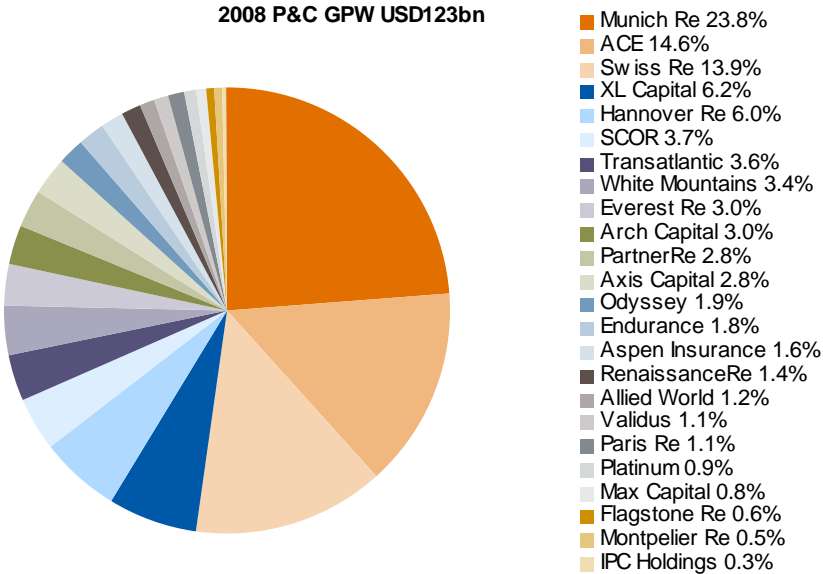
Arch Capital and Everest Re posted the steepest falls in gross premiums written in 2008. Arch's 11% decline was largely attributable to reductions in casualty business written. The 10% fall in top line income at Everest Re reflected a 20% fall in US Reinsurance gross premiums written over the year, but also falls of 13% and 15% in the US Insurance and Bermuda segments, respectively. The decline in reinsurance premiums was attributed to continued competitive conditions in the property and casualty sectors in the US, while insurance levels were affected by more competitive conditions in workers' compensation, public equity and contractors' business. In contrast, Swiss Re's 8% fall in gross premiums written was driven by foreign exchange movements, strict underwriting and higher client retentions.

XL Capital's gross premiums written also fell by 8% in 2008. While this was partly due to a 2% fall in premiums in the insurance segment, the main driver of the fall was a 15% decline in the contribution from the reinsurance business. The main reasons for this decline included the commutation of a large structured reinsurance contract in the fourth quarter, combined with selective treaty cancellations, increased retentions by clients and competitive pressures on rates. These factors were partly offset by a positive premium adjustment of USD24mn related to a number of agricultural contracts in the fourth quarter. Platinum's gross premiums written fell 6% largely due to a 23% fall in casualty lines, partly offset by increases in property and marine and finite risk.

**Market Share**

Chart 10 shows the distribution of total gross P&C premium written by the ABA in 2008. Munich Re, ACE and Swiss Re accounted for 52% of the total, in line with 2007. The market share of the largest ten was 81%, again in line with levels in 2007.

**Chart 10 – Aon Benfield Aggregate 2008 Total P&C Gross Premium Written Split**

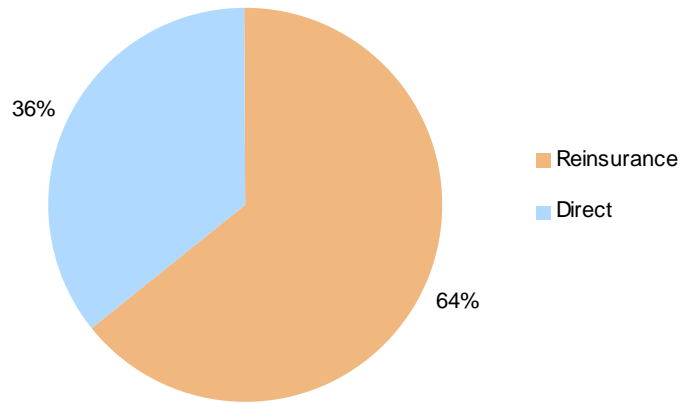


Source: Company Data, Aon Benfield Analytics Research

Of the total gross P&C premiums written by the ABA in 2008, 64% was in reinsurance.

**Chart 11 – Aon Benfield Aggregate 2008 Gross Premium Written P&C Business Split**

**Total Property & Casualty GPW USD123bn**

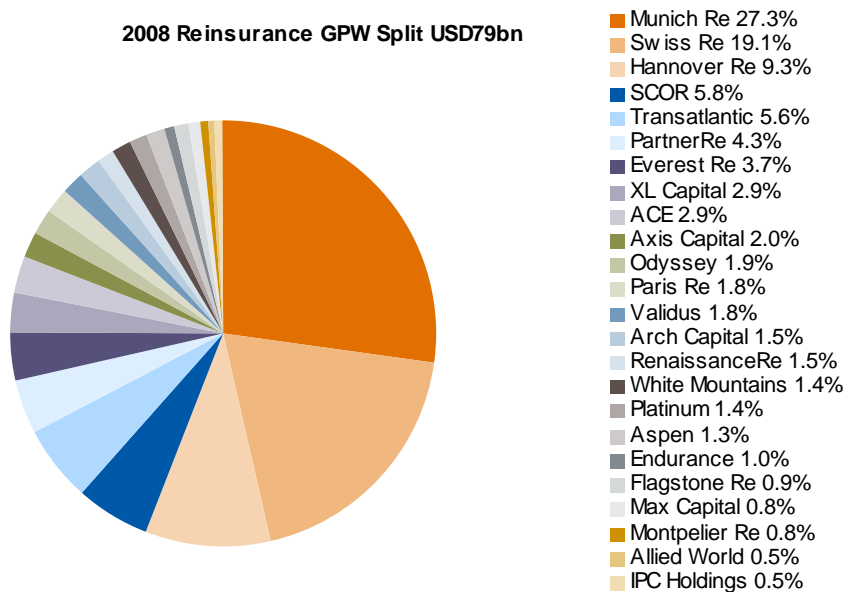


Source: Company Data, Aon Benfield Analytics Research

Chart 12 shows the distribution of gross premiums for P&C reinsurance business written by the ABA companies.

**Chart 12 – Aon Benfield Aggregate 2008 P&C Reinsurance Gross Premium Written Split**

**2008 Reinsurance GPW Split USD79bn**

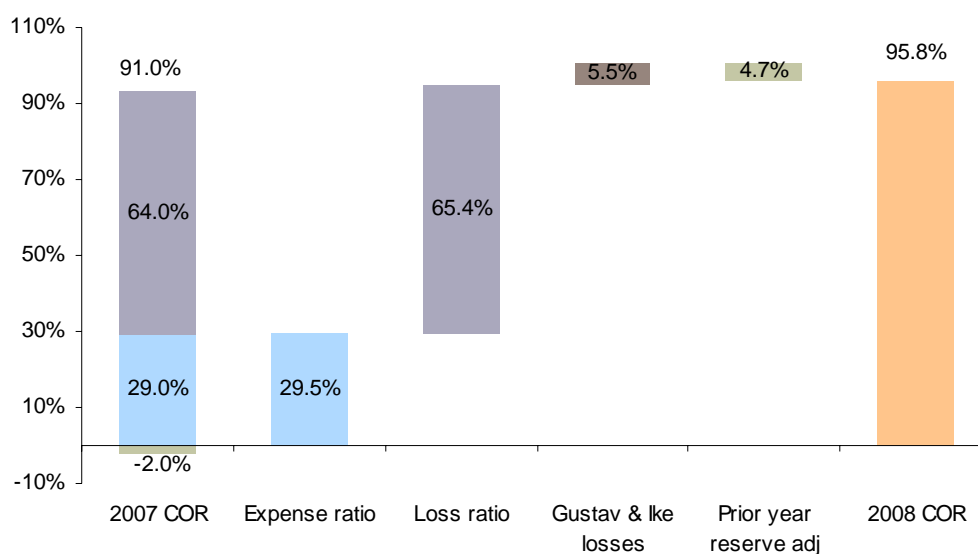


Source: Company Data, Aon Benfield Analytics Research

## Earnings

Favorable prior year reserve releases of USD4.7bn failed to offset losses incurred from Hurricanes Ike and Gustav, which added 5.5pp to the combined ratio of the ABA. All but three of the companies reported a combined ratio below 100% for the full year, despite 2008 being the third most costly recorded catastrophe loss year, with total insured losses reaching USD52.5bn. Realized and unrealized investment losses swung from a gain of USD2.5bn in 2007 to a loss of USD18bn as companies suffered large realized losses and investment write-downs.

Chart 13 – Aon Benfield Aggregate 2008 Combined Ratio development



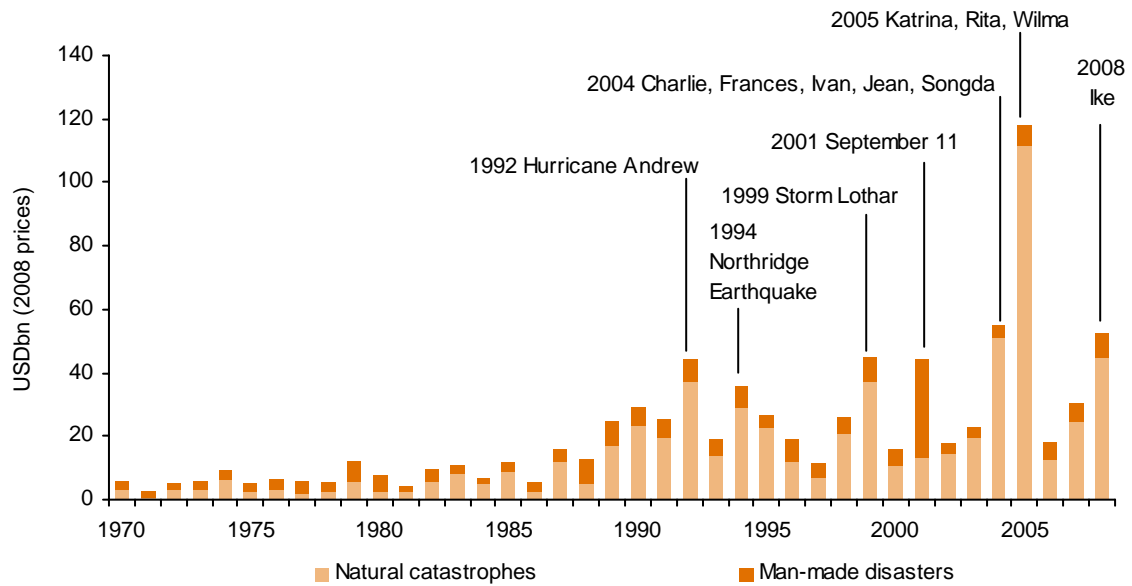
Source: Company Data, Aon Benfield

The ABA combined ratio deteriorated by 4.8pp in 2008, to 95.8%. As demonstrated in Chart 13 catastrophe losses incurred through Ike and Gustav were responsible for a 5.5pp increase in the combined ratio. These losses were in part offset by positive reserve releases of USD4.7bn, which is more than double the USD2.1bn which was released by the group in 2007.

Chart 14 shows that 2008 was the third most costly year of insured catastrophe losses after 2004 and 2005, when insured losses totaled USD55bn and USD118bn respectively. Swiss Re sigma reported that despite a 7% fall in the number of loss events in 2008 compared to 2007, insured losses inflicted by natural and man-made catastrophes increased by 74% to a total of USD52.5bn.<sup>4</sup> Hurricanes Ike and Gustav alone caused a combined total of USD24bn in insured losses, almost doubling the natural catastrophes total from USD24bn in 2007 to USD45bn in 2008. Ike and Gustav excluded, there were four other events where losses exceeded USD1bn, including winter storm Emma (USD1.3bn) and the snow storms in China (USD1.3bn). Man-made catastrophes contributed USD7.8bn, or 15%, to total insured losses in 2008, making 2008 the second highest man-made catastrophe loss year behind the World Trade Center event in 2001. The largest recorded man-made loss in 2008 was a fire at Universal Studios in Los Angeles, which led to insured losses in excess of USD500mn.

<sup>4</sup> Swiss Re sigma No 2/2009

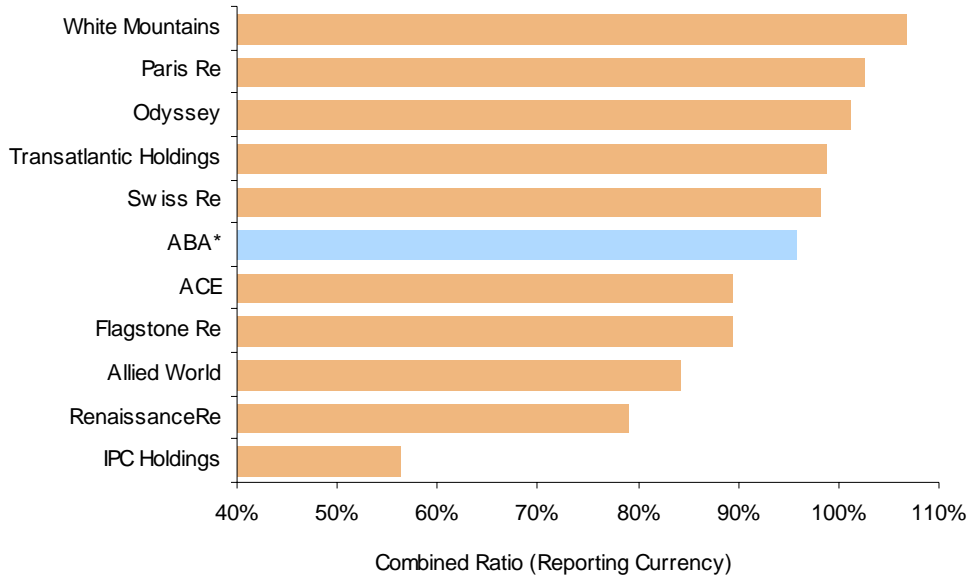
Chart 14 – Insured Catastrophe Losses 1970 to 2008



Source: Swiss Re sigma No 2/2009, Aon Benfield Analytics Research

Chart 15 shows the highest and lowest reported combined ratios, and the aggregate combined ratio of the ABA. IPC Holdings reported the lowest combined ratio within the group, as positive prior year reserve releases benefited the combined ratio by 27.6pp. Excluding the reserve release, IPC's combined ratio would have been 84.0%, and as such still comfortably below the weighted average of 95.8%. This represented a strong underwriting return for a property catastrophe specialist in what was a heavy loss year. Montpelier Re, also a property catastrophe specialist, reported the largest increase in combined ratios, of 29.7pp. This was in spite of the third highest reserve release of the ABA group (see Chart 16), The USD104mn release was not enough to offset incurred Ike and Gustav losses of USD140mn. With the exception of Hannover, all companies in the ABA reported an increased combined ratio in 2008. Hannover's combined ratio was down 4.9pp from 100.6% to 95.7%, benefiting from reserve releases of EUR265mn (USD390mn) in the course of 2008, which flattered the combined ratio by 9.0pp. This was the first time Hannover Re reported reserve releases.

**Chart 15 – 2008 Combined Ratios**

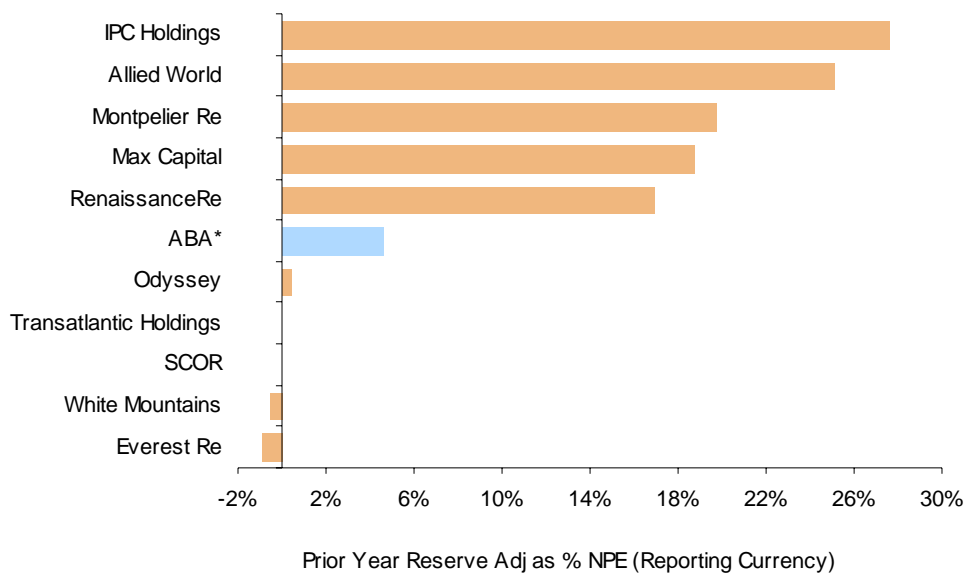


\*Aon Benfield Aggregate (USD)

Source: Company Data, Aon Benfield Analytics Research

Chart 16 shows the impact of prior year reserve movements on the combined ratio for selected ABA companies. The positive values reflect a favorable movement and consequent reduction in the combined ratio. The ABA weighted average of 4.7pp was double the 2.0pp shown in the 2007 results as illustrated in Chart 13. Everest Re and White Mountains were the only members of the ABA to report a strengthening of reserves in 2008, increasing the combined ratio by 0.9pp and 0.6pp respectively. White Mountains posted the highest combined ratio of the group, at 106.8%, owing to a relatively high expense ratio, which at 39.3% was 9.8pp above the aggregate average of 29.5%.

**Chart 16 – 2008 Prior Year Reserve Adjustments**

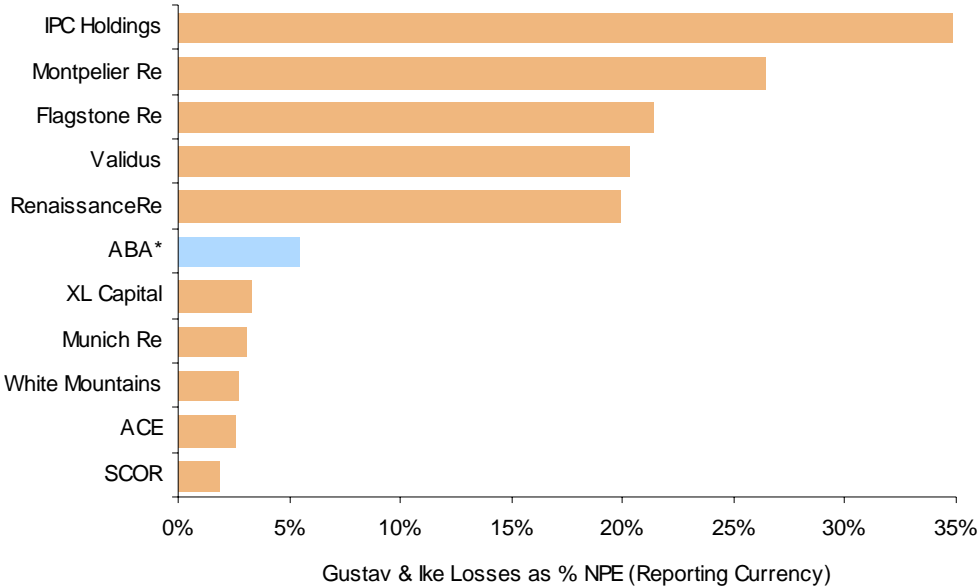


\*Aon Benfield Aggregate (USD)

Source: Company Data, Aon Benfield Analytics Research

Chart 17 shows the reported losses from Hurricanes Ike and Gustav. Disclosure of losses in 10-K statements, annual reports and press releases varies, but where possible the reported net impact is shown in this report. There would appear to be a significant correlation between Chart 16 and Chart 17, as IPC Holdings, Montpelier Re and Renaissance Re experienced some of the largest hurricane losses of the ABA group, and also feature amongst the largest prior year reserve releases. Likewise, White Mountains and SCOR, which experienced very low levels of losses from Ike and Gustav, made no reserve releases. Indeed, White Mountains actually strengthened its reserves by USD21mn in 2008.

**Chart 17 – 2008 Hurricane Losses**



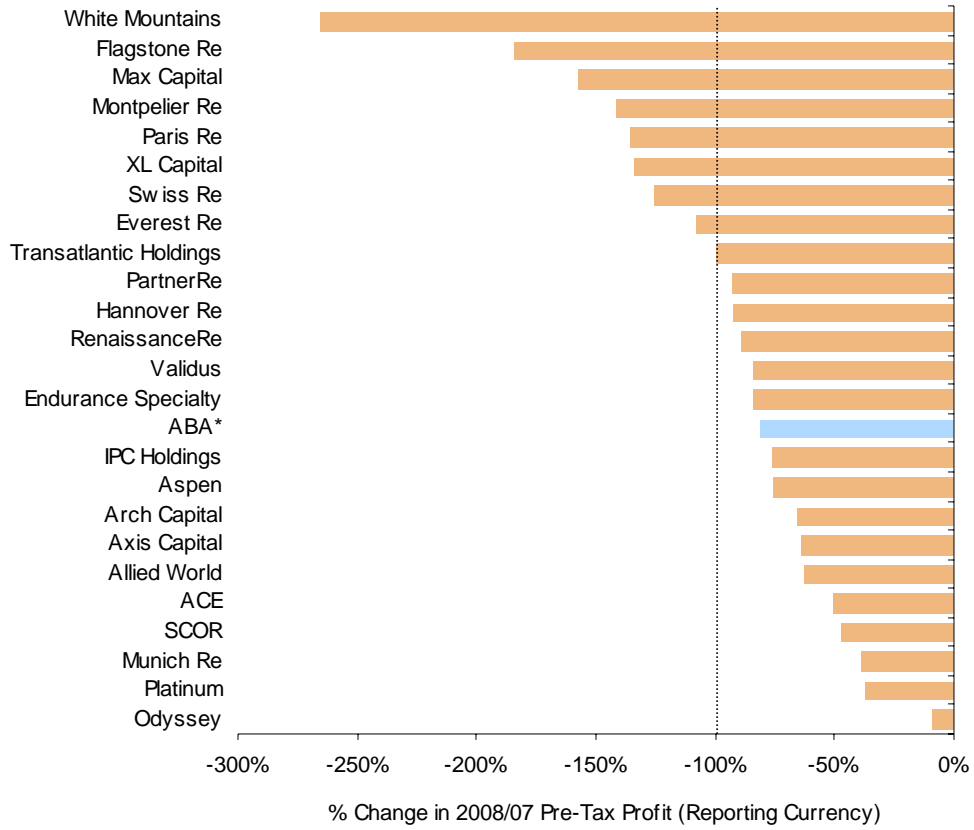
\*Aon Benfield Aggregate (USD)  
 Source: Company Data, Aon Benfield Analytics Research

**Investment Income**

Net investment income for the ABA was reduced to USD24.4bn (2007 USD27.7bn) as companies de-risked investment portfolios, shifting to higher allocation of short term and cash investments, sacrificing yield in return for lower volatility. Realized and unrealized losses reported through the income statement swung from a gain of USD2.5bn in 2007 to a loss of USD18bn in 2008, as a result of mark to market losses and other than temporary impairments. The use of different reporting methods limits company comparison, as some companies show unrealized and realized gains through the income statement, whereas others continue to report asset value movements below the line in other comprehensive income. Chart 2 shows total investment in the income statement and balance sheet movement for a selected group of the ABA.

For completeness Chart 18 shows the decrease in reported pre-tax profits for the ABA companies. Losses featured for those beyond the -100% line.

Chart 18 – 2008 Decreases in Reported Pre-Tax Profit



\*Aon Benfield Aggregate (USD)

Source: Company Data, Aon Benfield Analytics Research

## Financial Strength Ratings

Despite the turmoil in the financial markets, there has been little change to ratings for the majority of the ABA since 1 December 2008. Not all escaped unscathed as there were a handful of downgrades but there were also a small number of upgrades during the period.

Swiss Re was the subject of speculation as the share price weakened and credit default swap (CDS) spreads widened in the latter part of January. On 5 February, the company pre-announced financial results for 2008 which undershot market expectations as significant investment losses took their toll. This results announcement included a proposal to raise CHF2bn of new capital through the sale of convertible debt to Berkshire Hathaway. This prompted negative actions by all of the rating agencies. S&P placed its AA- financial strength ratings on CreditWatch negative, commenting that “both the magnitude of the additional write-downs and the resulting need to raise capital are outside of our expectations.”<sup>5</sup> On the eve of Swiss Re’s detailed results announcement, S&P lowered its financial strength ratings to A+ and assigned a stable outlook. The agency pointed to “the much greater than anticipated capital depletion... and the potential adverse flow-on effects that Standard & Poor’s believes this could have, particularly on the group’s future earnings and financial flexibility.”<sup>6</sup> S&P noted that it expected the group’s capitalization to remain in the AA range, but to be vulnerable to further volatility in the financial markets. A.M. Best also downgraded Swiss Re one notch to A from A+ on 27 February 2009 reflecting concerns regarding the group’s capitalization exposure to the further negative effects of the continuing turmoil in the financial markets and other unexpected events.<sup>7</sup>

XL Capital and Transatlantic Reinsurance were other notable downgrades during the period. XL Capital subsidiaries were downgraded one notch by S&P to A from A+ with the outlook remaining negative. Diminution of XL’s prospective competitive position and resulting underwriting performance due to “perceived franchise issues stemming from a string of material earnings and capital charges over the past several years” was cited.<sup>8</sup> Moody’s also downgraded XL to A2 from A1, with the outlook remaining negative. In addition Fitch lowered its rating on XL to A from A+, placing it on Risk Watch negative.

Transatlantic Reinsurance was downgraded by S&P to A+ from AA- with a stable outlook. The rating action reflected Transatlantic’s “...inability to meet operating performance expectations over time” and, to a lesser extent, the uncertainty surrounding the majority ownership stake of AIG. S&P also voiced concerns over Transatlantic’s inability to successfully leverage its strong market position.<sup>9</sup>

S&P was the only agency to alter its rating on Everest Re. The downgrade to A+ from AA- (outlook stable) was based on “Everest’s inability to exploit its competitive position to generate sustainable, strong underwriting and operating results commensurate with the former rating”.<sup>10</sup> The rating also reflected Everest’s “continuous adverse reserve developments and slower than expected improvements to the company’s enterprise risk management (ERM) program”. However, S&P’s rating did take into account Everest’s strong competitive position (and global reach), very strong capital adequacy and strong financial flexibility.<sup>11</sup>

Fitch affirmed its insurer financial strength ratings on White Mountains companies, but lowered the outlook to negative from stable. This action was based on the sharp decline in shareholders’ funds primarily caused by heavy investment losses.<sup>12</sup>

<sup>5</sup> Standard & Poor’s press release, 5 February 2009

<sup>6</sup> Standard & Poor’s press release, 18 February 2009

<sup>7</sup> A.M. Best credit report, 27 February 2009

<sup>8</sup> Standard & Poor’s press release, 15 December 2008

<sup>9</sup> Standard & Poor’s press release, 20 January 2009

<sup>10</sup> Standard & Poor’s press release, 13 March 2009

<sup>11</sup> Standard & Poor’s press release, 13 March 2009

<sup>12</sup> Fitch Ratings press release, 16 March 2009

Despite the turbulent financial markets there were also a number of upgrades by the rating agencies during the period. SCOR was the beneficiary of upgrades from both S&P and Moody's with rating changes to A from A- and A2 from A3 respectively. S&P based its upgrade on "the continuing positive trend in SCOR's non-life underwriting performance" and recognized "the resilience of SCOR's financial and business profile to major financial shocks."<sup>13</sup> The rating change also reflected SCOR's strong competitive position as well as strong capitalization, strong liquidity and invested asset quality. In addition SCOR's ERM program was highlighted as "...adequate with a positive trend."<sup>14</sup> Moody's upgraded its rating on 4 December 2008 citing "SCOR's significant and good progress made with regard to the integration of both Revios and Converium, recent good profitability, maintenance of excellent asset quality and the meaningful improvement in financial leverage."<sup>15</sup>

AXIS Capital was also upgraded in this period by S&P to A+ from A (outlook stable). The rating change was a result of AXIS consistently outperforming many of its peers with strong operating results since its inception in 2001.<sup>16</sup> Other reasons given were "AXIS' strong competitive position, seasoned management team, very strong capital adequacy, strong liquidity and significant enhancement to the group's ERM framework, which we now view as strong."<sup>17</sup>

Table 1 shows the financial strength ratings of the principal operating entities of the ABA as at 22 April 2009.

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<sup>13</sup> Standard & Poor's press release, 13 March 2009

<sup>14</sup> Standard & Poor's press release, 13 March 2009

<sup>15</sup> Moody's press release, 4 December 2008

<sup>16</sup> Standard & Poor's press release, 2 February 2009

<sup>17</sup> Standard & Poor's press release, 2 February 2009

**Table 1 – Financial Strength Ratings**

<b>Company</b>	<b>A.M. Best</b>	<b>Fitch</b>	<b>Moody's</b>	<b>S&amp;P</b>
ACE Bermuda Insurance Ltd	A+	AA-	Aa3	A+
Allied World Assurance Company Ltd	A	NR	A2	A-
Arch Reinsurance Ltd	A	A+	A2	A
Aspen Insurance Ltd	A	NR	A2	A
Axis Specialty Ltd	A	NR	A2	A+
Endurance Specialty Insurance Ltd	A	A	A2	A
Everest Reinsurance (Bermuda) Ltd	A+	AA-	Aa3	A+
Flagstone Reinsurance Ltd	A-	A-	A3	NR
Hannover Rückversicherung AG	A	A+	NR	AA-
IPCRe Ltd	A	NR	NR	A-
Max Re Ltd	A-	A	A3	NR
Montpelier Reinsurance Ltd	A-	A-	Baa1	A-
Munich Reinsurance Co	A+	AA-	Aa3	AA-
Odyssey America Reinsurance Corp	A	A-	A3	A-
Paris Re SA	A-	NR	NR	A-
Partner Reinsurance Co Ltd	A+	AA	Aa3	AA-
Platinum Underwriters Bermuda Ltd	A	A	NR	NR
Renaissance Reinsurance Ltd	A+	A	A2	AA-
SCOR Global P&C SE	A-	A	A2	A
Swiss Reinsurance Company Ltd	A	NR	A1	A+
Transatlantic Reinsurance Co	A	NR	Aa3	A+
Validus Reinsurance Ltd	A-	NR	A3	NR
White Mountains Re Bermuda Ltd	A-	A-	A3	A-
XL Re Ltd	A	A	A2	A

Source: A.M. Best, Fitch, Moody's, Standard & Poor's

## Appendix 1 – Aon Benfield Aggregate

**Table 2 – Aon Benfield Aggregate 2007 and 2008 Financial Results**

Company	Reporting Currency mn	P&C GPW 31/12/2007	P&C GPW 31/12/2008	Change %	COR 31/12/2007	COR 31/12/2008	Loss Ratio 31/12/2008	COR Change pp
ACE	USD	17,349	17,915	3%	87.9%	89.5%	60.5%	1.6pp
Allied World	USD	1,506	1,446	-4%	81.3%	84.2%	57.4%	2.9pp
Arch Capital	USD	4,140	3,669	-11%	85.3%	96.1%	65.0%	10.8pp
Aspen	USD	1,819	2,002	10%	83.0%	95.6%	65.8%	12.6pp
Axis Capital	USD	3,590	3,390	-6%	73.2%	89.9%	63.7%	16.7pp
Endurance Specialty	USD	1,781	2,246	26%	79.9%	93.5%	64.3%	13.6pp
Everest Re	USD	4,078	3,678	-10%	91.6%	95.6%	66.0%	4.0pp
Flagstone Re	USD	577	782	35%	72.9%	89.4%	58.1%	16.5pp
Hannover Re	EUR	5,190	4,988	-4%	100.6%	95.7%	70.8%	-4.9pp
IPC Holdings	USD	404	403	0%	49.9%	56.4%	40.2%	6.5pp
Max Capital	USD	776	1,012	30%	88.2%	91.9%	68.9%	3.7pp
Montpelier Re	USD	654	620	-5%	61.3%	91.0%	55.8%	29.7pp
Munich Re	EUR	19,021	19,884	5%	96.1%	98.1%	67.3%	2.0pp
Odyssey	USD	2,283	2,295	1%	95.5%	101.2%	72.7%	5.8pp
Paris Re	USD	1,277	1,403	10%	91.1%	105.1%	75.4%	14.0pp
PartnerRe	USD	3,210	3,426	7%	80.4%	94.2%	63.9%	13.8pp
Platinum	USD	1,140	1,067	-6%	81.0%	91.9%	64.4%	10.9pp
RenaissanceRe	USD	1,810	1,736	-4%	59.3%	79.0%	54.8%	19.7pp
SCOR	EUR	2,329	3,106	33%	95.6%	97.0%	70.2%	1.4pp
Swiss Re	CHF	20,178	18,484	-8%	92.2%	98.2%	68.4%	6.0pp
Transatlantic Holdings	USD	4,284	4,423	3%	95.7%	98.8%	71.5%	3.1pp
Validus	USD	989	1,362	38%	60.5%	90.0%	61.5%	29.5pp
White Mountains	USD	4,190	4,117	-2%	102.9%	106.8%	67.6%	4.0pp
XL Capital	USD	8,255	7,569	-8%	88.7%	95.7%	66.2%	7.0pp

Reporting Currency mn

Source: Company Data

**Table 2 – Aon Benfield Aggregate 2007 and 2008 Financial Results (cont'd)**

<b>Company</b>	<b>Gustav &amp; Ike Losses 31/12/2008</b>	<b>G &amp; I Losses as % NPE 31/12/2008</b>	<b>Prior Year Reserve (Release) Strengthen 31/12/2007</b>	<b>Prior Year Reserve (Release) Strengthen 31/12/2008</b>	<b>Prior Year Reserve Adj as % NPE 31/12/2008</b>	<b>Net Investment Income 31/12/2007</b>	<b>Net Investment Income 31/12/2008</b>	<b>Change %</b>
ACE	-311	2.6%	-217	-770	6.4%	1,918	2,062	8%
Allied World	-113	10.1%	-123	-280	25.1%	298	309	4%
Arch Capital	-293	10.3%	-185	-310	10.9%	463	468	1%
Aspen	-182	10.7%	-107	-84	4.9%	299	139	-53%
Axis Capital	-408	15.2%	-337	-376	14.0%	483	247	-49%
Endurance Specialty	-140	7.9%	-159	-157	8.9%	281	130	-54%
Everest Re	-257	7.0%	207	35	-0.9%	682	566	-17%
Flagstone Re	-140	21.4%	-4	-16	2.4%	74	51	-30%
Hannover Re	-240	5.6%	0	-265	6.2%	1,027	989	-4%
IPC Holdings	-135	34.9%	-64	-107	27.6%	122	94	-23%
Max Capital	-50	8.7%	-64	-107	18.7%	188	182	-3%
Montpelier Re	-140	26.5%	-36	-104	19.7%	133	86	-35%
Munich Re	-560	3.1%	89	-191	1.0%	7,482	6,543	-13%
Odyssey	-127	6.1%	41	-10	0.5%	329	255	-23%
Paris Re	-130	11.0%	8	-25	2.1%	231	226	-2%
PartnerRe	-305	9.1%	-414	-418	12.5%	523	573	9%
Platinum	-165	14.8%	-78	-148	13.2%	214	187	-13%
RenaissanceRe	-276	19.9%	-233	-235	16.9%	402	24	-94%
SCOR	-54	1.9%	0	0	0.0%	563	665	18%
Swiss Re	-589	4.1%	0	-300	2.1%	10,692	7,881	-26%
Transatlantic Holdings	-170	4.2%	88	0	0.0%	470	440	-6%
Validus	-256	20.4%	-68	-70	5.5%	125	140	12%
White Mountains	-100	2.7%	14	21	-0.6%	533	410	-23%
XL Capital	-197	3.3%	-425	-611	10.2%	2,249	1,769	-21%

Reporting Currency mn

Source: Company Data

**Table 2 – Aon Benfield Aggregate 2007 and 2008 Financial Results (cont'd)**

<b>Company</b>	<b>Pre-tax Profit 31/12/2007</b>	<b>Pre-tax Profit 31/12/2008</b>	<b>Change %</b>	<b>SHF 31/12/2007</b>	<b>SHF 31/12/2008</b>	<b>Change %</b>	<b>Pre-tax Operating ROE 31/12/2007</b>	<b>Pre-tax Operating ROE 31/12/2008</b>
ACE	3,153	1,567	-50%	16,677	14,446	-13%	21%	21%
Allied World	469	176	-62%	2,240	2,417	8%	21%	19%
Arch Capital	874	305	-65%	4,036	3,433	-15%	22%	18%
Aspen	574	140	-76%	2,818	2,779	-1%	22%	7%
Axis Capital	1,134	407	-64%	5,159	4,461	-14%	24%	10%
Endurance Specialty	542	89	-84%	2,512	2,207	-12%	23%	6%
Everest Re	1,028	-84	-108%	5,685	4,960	-13%	17%	12%
Flagstone Re	203	-171	-184%	1,210	986	-19%	17%	7%
Hannover Re	884	71	-92%	3,349	2,830	-15%	21%	22%
IPC Holdings	385	90	-77%	2,126	1,851	-13%	15%	13%
Max Capital	303	-174	-157%	1,584	1,280	-19%	8%	5%
Montpelier Re	348	-144	-141%	1,653	1,358	-18%	19%	6%
Munich Re	4,724	2,901	-39%	24,915	20,966	-16%	11%	15%
Odyssey	913	827	-9%	2,655	2,828	7%	16%	5%
Paris Re	87	-60	-169%	2,474	2,172	-12%	4%	-2%
PartnerRe	880	62	-93%	4,322	4,199	-3%	23%	14%
Platinum	381	239	-37%	1,998	1,809	-9%	20%	12%
RenaissanceRe	758	85	-89%	3,478	3,033	-13%	18%	7%
SCOR	502	265	-47%	3,614	3,410	-6%	13%	14%
Swiss Re	5,187	-1,350	-126%	31,867	20,453	-36%	19%	31%
Transatlantic Holdings	596	3	-99%	3,349	3,198	-5%	19%	13%
Validus	405	64	-84%	1,935	1,939	0%	26%	7%
White Mountains	682	-1,128	-266%	4,713	2,899	-38%	8%	1%
XL Capital	1,746	-592	-134%	9,948	6,115	-39%	23%	6%

*Reporting Currency mn*

*Source: Company Data*

**Table 2 – Aon Benfield Aggregate 2007 and 2008 Financial Results (cont'd)**

<b>Company</b>	<b>Total Investments 31/12/2007</b>	<b>Total Investments 31/12/2008</b>	<b>Invested Asset Leverage 31/12/2007</b>	<b>Invested Asset Leverage 31/12/2008</b>	<b>Total Gains/Losses 31/12/2008</b>	<b>2008 Total Gains/Losses as % 31/12/2007 SHF</b>
ACE	44,814	42,255	2.7	2.9	-3,935	-24%
Allied World	6,503	7,085	2.9	2.9	-277	-12%
Arch Capital	11,707	10,780	2.9	3.1	-739	-18%
Aspen	5,879	5,754	2.1	2.1	-37	-1%
Axis Capital	11,263	10,925	2.2	2.4	-820	-16%
Endurance Specialty	5,798	5,502	2.3	2.5	-219	-9%
Everest Re	15,081	13,863	2.7	2.8	-932	-16%
Flagstone Re	1,876	1,708	1.3	1.4	-261	-22%
Hannover Re	29,042	30,202	7.4	9.1	-777	-23%
IPC Holdings	2,504	2,263	1.2	1.2	-168	-8%
Max Capital	5,172	5,410	3.3	4.2	-240	-15%
Montpelier Re	3,060	2,379	1.8	1.8	-243	-15%
Munich Re	176,500	174,457	6.9	8.2	-3,417	-14%
Odyssey	7,850	7,959	3.0	2.8	679	26%
Paris Re	5,144	5,061	2.1	2.3	18	1%
PartnerRe	11,749	11,893	2.7	2.8	-516	-12%
Platinum	4,496	4,289	2.2	2.4	-152	-8%
RenaissanceRe	7,004	6,344	1.6	1.7	-176	-5%
SCOR	19,092	18,818	5.2	5.5	-478	-13%
Swiss Re	255,687	193,912	8.0	9.5	-15,008	-47%
Transatlantic Holdings	12,900	10,660	3.9	3.3	-648	-19%
Validus	3,291	3,401	1.7	1.8	-73	-4%
White Mountains	12,565	9,700	2.3	2.8	-1,350	-29%
XL Capital	41,302	32,641	4.2	5.3	-3,882	-39%

*Reporting Currency mn*

*Source: Company Data*

**Table 3 – Aon Benfield Aggregate 2008 Balance Sheet**

Company	Reporting Currency mn	Invested Asset Split as % SHF				Invested Assets
		Fixed Income Securities	Equities	Cash	Other	
ACE	USD	235%	7%	6%	44%	42,255
Allied World	USD	250%	1%	27%	16%	7,085
Arch Capital	USD	255%	0%	7%	52%	10,780
Aspen	USD	160%	0%	29%	18%	5,754
Axis Capital	USD	180%	2%	41%	22%	10,925
Endurance Specialty	USD	176%	1%	48%	24%	5,502
Everest Re	USD	218%	3%	4%	55%	13,863
Flagstone Re	USD	66%	0%	66%	11%	1,708
Hannover Re	EUR	537%	1%	37%	332%	30,202
IPC Holdings	USD	97%	20%	4%	1%	2,263
Max Capital	USD	281%	0%	74%	68%	5,410
Montpelier Re	USD	126%	18%	19%	12%	2,379
Munich Re	EUR	704%	33%	11%	73%	174,457
Odyssey	USD	139%	60%	30%	53%	7,959
Paris Re	USD	184%	7%	31%	11%	5,061
PartnerRe	USD	242%	12%	20%	9%	11,893
Platinum	USD	186%	0%	45%	6%	4,289
RenaissanceRe	USD	79%	0%	7%	81%	6,344
SCOR	EUR	182%	34%	109%	226%	18,818
Swiss Re	CHF	574%	79%	113%	182%	193,912
Transatlantic Holdings	USD	289%	16%	9%	19%	10,660
Validus	USD	127%	0%	23%	26%	3,401
White Mountains	USD	157%	16%	12%	93%	9,700
XL Capital	USD	387%	5%	66%	35%	32,641

Reporting Currency mn

Source: Company Data

**Table 3 – Aon Benfield Aggregate 2008 Balance Sheet (cont'd)**

Company	Fixed Income Split as % SHF					Total Fixed Income	Fixed Income Split by Rating Category				
	Govt	Corp	Municipal / State / Other	MBS & ABS as % SHF	Other		AAA	AA	A	BBB	Below Inv Grade Unrated
ACE	79%	61%	15%	81%	0%	34,020	61%	9%	15%	9%	6%
Allied World	58%	59%	28%	110%	0%	8,749	77%	9%	9%	2%	3%
Arch Capital	51%	51%	0%	57%	0%	4,433	76%	11%	11%	2%	0%
Aspen	85%	56%	15%	93%	0%	6,032	83%	3%	11%	3%	0%
Axis Capital	38%	47%	8%	86%	0%	8,013	74%	6%	12%	8%	0%
Endurance Specialty	38%	26%	5%	106%	0%	3,875	86%	4%	8%	1%	1%
Everest Re	54%	44%	77%	43%	0%	10,803	52%	20%	18%	9%	1%
Flagstone Re	42%	12%	0%	12%	0%	784	83%	3%	10%	4%	0%
Hannover Re	168%	128%	139%	90%	12%	17,894	59%	17%	17%	5%	2%
IPC Holdings	14%	65%	0%	6%	13%	1,793	59%	22%	19%	0%	0%
Max Capital	83%	115%	0%	82%	0%	3,592	70%	11%	17%	2%	0%
Montpelier Re*	41%	34%	0%	44%	7%	1,707	n.a.	n.a.	89%	9%	2%
Munich Re	407%	191%	0%	29%	77%	149,654	63%	17%	12%	4%	5%
Odyssey	42%	4%	81%	0%	0%	3,594	82%	8%	2%	0%	8%
Paris Re	63%	72%	44%	6%	1%	4,032	70%	13%	11%	3%	3%
PartnerRe	89%	81%	0%	72%	0%	10,182	62%	5%	19%	11%	3%
Platinum	66%	38%	22%	60%	0%	3,369	68%	14%	13%	4%	0%
RenaissanceRe	26%	20%	0%	34%	0%	2,997	84%	5%	7%	2%	2%
SCOR	82%	71%	0%	29%	0%	6,209	67%	8%	17%	4%	3%
Swiss Re	290%	139%	7%	159%	0%	121,771	77%	4%	7%	10%	3%
Transatlantic Holdings	10%	65%	199%	14%	0%	9,224	39%	47%	13%	1%	1%
Validus	45%	29%	1%	51%	1%	2,455	79%	6%	14%	1%	1%
White Mountains	44%	47%	0%	64%	2%	5,481	65%	2%	13%	16%	5%
XL Capital	111%	140%	7%	129%	0%	25,636	54%	21%	16%	7%	3%

\*89% rated A or better; 9% rated B or below

Reporting Currency mn

Source: Company Data

## Appendix 2 – Reinsurance Segment

Table 4 – Aon Benfield Aggregate Reinsurance Segment FY 2008

Company	Reporting Currency mn	GPW	NPW	NPE	U/writing profit / loss	Loss Ratio	Expense Ratio	COR	R/I as % total GPW
ACE	USD	2,248	2,112	2,187	641	41.7%	29.0%	70.7%	12%
Allied World	USD	430	428	465	81	53.6%	29.0%	82.6%	30%
Arch Capital	USD	1,202	1,148	1,170	172	55.9%	29.4%	85.3%	33%
Aspen	USD	1,005	977	946	80	62.0%	29.5%	91.6%	50%
Axis Capital	USD	1,548	1,533	1,504	118	70.0%	22.1%	92.1%	46%
Endurance Specialty	USD	825	809	855	78	53.7%	37.2%	90.9%	37%
Everest Re	USD	2,900	n.a.	3,032	n.a.	61.2%	n.a.	n.a.	79%
Flagstone Re	USD	740	694	642	73	58.8%	29.9%	88.7%	95%
Hannover Re	EUR	4,988	4,434	4,277	185	70.8%	24.9%	95.7%	61%
IPC Holdings	USD	403	397	387	169	40.2%	16.2%	56.4%	100%
Max Capital	USD	662	569	584	-19	89.2%	14.2%	103.3%	53%
Montpelier Re	USD	620	541	529	48	55.8%	35.2%	91.0%	100%
Munich Re	EUR	13,995	n.a.	12,808	-617	73.4%	31.4%	104.8%	37%
Odyssey	USD	1,502	n.a.	1,526	n.a.	n.a.	n.a.	n.a.	65%
Paris Re	USD	1,403	1,197	1,211	-33	73.7%	29.1%	102.7%	100%
PartnerRe	USD	3,426	3,392	3,334	195	63.9%	30.2%	94.2%	85%
Platinum	USD	1,067	1,038	1,115	90	64.4%	27.5%	91.9%	100%
RenaissanceRe	USD	1,154	872	910	282	48.5%	20.6%	69.0%	66%
SCOR	EUR	3,106	2,886	2,852	86	70.2%	26.8%	97.0%	53%
Swiss Re	CHF	16,280	12,394	14,379	230	68.6%	29.8%	98.4%	53%
Transatlantic Holdings	USD	4,423	n.a.	4,108	89	70.8%	27.1%	97.8%	100%
Validus	USD	1,397	1,238	1,257	136	61.5%	27.7%	89.2%	103%
White Mountains	USD	1,076	931	1,001	-99	74.4%	35.5%	109.9%	26%
XL Capital	USD	2,260	1,753	1,993	191	61.7%	28.7%	90.4%	27%

*n.a.* = segmented data not available

Reporting Currency mn

Source: Company Data

## Appendix 3 – Reporting Dates

Table 5 – Reporting Dates

Company	1Q 2009 Results
ACE	28/04/2009
Allied World	07/05/2009
Arch Capital	28/04/2009
Aspen	29/04/2009
Axis Capital	27/04/2009
Endurance Specialty	06/05/2009
Everest Re	29/04/2009
Flagstone Re	04/05/2009*
Hannover Re	05/05/2009
IPC	24/04/2009
Max Capital	05/05/2009
Montpelier Re	27/04/2009
Munich Re	06/05/2009
Odyssey	30/04/2009
Paris Re	13/05/2009
PartnerRe	27/04/2009
Platinum	22/04/2009
RenaissanceRe	29/04/2009
SCOR	30/04/2009
Swiss Re	07/05/2009
Transatlantic	30/04/2009
Validus	07/05/2009
White Mountains	01/05/2009*
XL Capital	27/04/2009

\*Estimated Date

Source: Company Announcements

## Appendix 4 – Berkshire Hathaway and Lloyd's

Table 6 – Summary Financial Data

	Berkshire Hathaway (USD mn)			Lloyd's (GBP mn)		
	31/12/2007	31/12/2008	Change %	31/12/2007	31/12/2008	Change %
P&C Gross premiums written (GPW)	29,372	24,913	n.a.	16,320	17,936	10%
P&C Net premiums written	28,818	24,209	n.a.	13,226	14,189	7%
P&C Net premiums earned	29,321	22,945	-22%	13,067	13,768	5%
Net claims	21,010	16,259	-23%	6,547	8,464	29%
Net expenses	n.a.	n.a.	n.a.	4,451	4,134	-7%
Net investment income	4,758	4,722	-1%	2,007	957	-52%
Pre-tax underwriting profit	3,374	2,792	n.a.	2,099	1,198	-43%
Claims ratio	71.7%	70.9%	-1%	50.1%	61.5%	11.4pp
Expense ratio	n.a.	n.a.	n.a.	34.1%	30.0%	-4.0pp
Combined ratio	n.a.	n.a.	n.a.	84.2%	91.5%	7.3pp
Group equity	120,155	109,267	-9%	13,449	14,182	5%
Gustav and Ike losses	-	904		-	1,430	
Prior year reserve releases	1,478	1,140	-23%	856	1,265	48%
Prior year reserve releases as % of NPE	5%	5%		7%	9%	
Insurance invested assets	130,860	116,204	-11%	36,981	44,370	20%
Insurance invested asset leverage	n.a.	n.a.		2.7	3.1	
Total realized/unrealized investment gains/(losses)	5,230	-21,381		n.a.	n.a.	
Reinsurance gross premiums written (GPW)	13,316	7,960	-40%	5,453	6,298	15%
Reinsurance GPW as % P&C GPW	45%	32%		33%	35%	

Reporting Currency mn

Source: Company Data, Lloyd's

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