NERA
ECONOMIC CONSULTING

Services and Capabilities

Insurance Economics

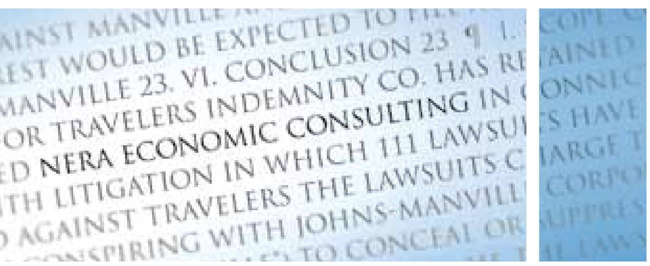
Insight in Economics™

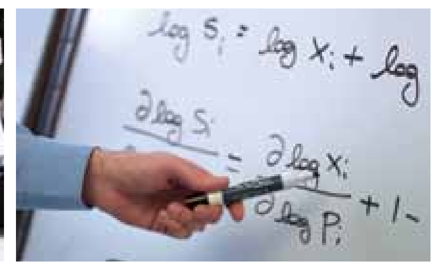
Our team of experts offers an unmatched combination of economic credentials, industry expertise, and testifying experience.

The insurance industry is facing an unprecedented array of regulatory, legal, and economic challenges. Regulatory uncertainty at the federal level has combined with changing state regulations to produce a shifting landscape. Meanwhile, class actions, regulatory enforcement, and contract dispute litigation continue. These challenges are occurring against the backdrop of difficult economic and business environments.

For half a century, NERA experts have been central to client success in some of the world's highest-profile cases related to litigation, regulation, and business challenges. In insurance matters, NERA's team of experts combines extensive experience with insurance-related issues along with deep expertise in economics, finance, statistics, accounting, valuation, and risk management.

NERA's Insurance Economics Practice





NERA has developed one of the largest in-house teams of economists in the economic consulting world. NERA's team of insurance experts has extensive experience working with insurance-related issues. We bring together expertise in economics, finance, statistics, accounting, valuation, risk management, and strategic analysis, as well as specific insurance industry expertise. Our experts have provided oral and written testimony in litigation and regulatory proceedings. We have worked with insurers, reinsurers, policyholders, regulators, and policymakers. We have deep industry knowledge and experience with life insurance and annuity products, health insurance products, property-casualty products, and reinsurance matters. NERA experts have provided independent, expert analysis of insurance markets and competition as well as valuation of insurance and reinsurance contracts. We have extensive experience with antitrust and competition analysis, financial risk management, insurance and reinsurance valuation, insurance industry class certification and class action litigation, and asbestos and product liability claims.

NERA's team of insurance experts has extensive experience working with insurance-related issues. We bring together expertise in economics, finance, statistics, accounting, valuation, risk management, and strategic analysis, as well as specific insurance industry expertise.

Areas of Focus

NERA experts' hands-on experience and deep understanding of how markets work span the range of industries and capabilities that are critical to our clients' success. We are grounded in a set of core principles that have always guided our efforts: focus, independence, defensibility, and clarity. In the field of insurance, our areas of focus include:

Antitrust Markets and Competition

Competition in insurance markets reflects the industry's unique regulatory environment as well as supplier, buyer, and product characteristics. Insurance mergers often require state regulatory approval that may include an analysis of the competitive effects within the state of the proposed merger or acquisition; many large insurance mergers and acquisitions are reviewed by the federal antitrust authorities.

Historically, much of the litigation relating to insurance competition has involved claims of price fixing and cooperation among insurers arising from periods of rapidly increasing insurance prices and insurers' partial exemption from federal antitrust laws. Recent competition cases have also involved allegations of bid rigging, abuse of buyer power, and distortion of competition. Insurance companies have sought consulting services for competition-related issues such as analysis of business models, cost estimates for alternative distribution systems, and analysis of new products.

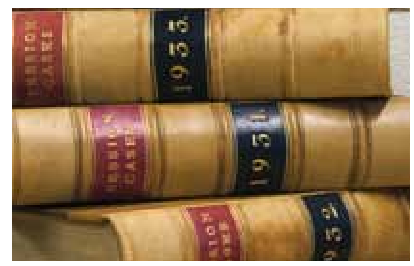
NERA has extensive expertise in economics, finance, and accounting to address insurance markets and competition issues. We have analyzed market structure questions for life (including annuities), health, and property casualty insurers as well as for insurance intermediaries. Our team understands the unique industry regulations and the dynamics associated with property-casualty insurance and reinsurance markets, and provides analyses of market competition within these contexts. NERA's experts have also provided pricing and cost analyses for new financial products as well as business strategy analysis.

Financial Risk Management

The recent turmoil in financial markets has presented new challenges for risk management in financial institutions including insurers. Many companies are trying to enhance their understanding, measurement, and management of risk. Some practices that were begun with the intention of enhancing income have turned out to carry potential risk as well. Senior managers seeking to implement best practices at their company face a two-fold problem. First, they must understand and implement current best practices (if they exist) that apply to their business. For example, in the financial services industry, various value-at-risk (VaR) and stress-testing approaches have long been preferred risk management tools. Though some of these core methods are well known, poor model design and choices can—and have—resulted in major, unexpected, and potentially preventable losses. Periodic examination of overall company risk can identify current risk exposures from income enhancing measures or product characteristics that may not currently be included in the risk management models. NERA is recognized as a leader in the measurement and management of the full range of financial risk faced by organizations such as property casualty insurers, life insurers, multiline insurers, health insurers, and reinsurers.

Insurance/Reinsurance Valuation

Insurance and reinsurance valuation requires a thorough understanding of insurance accounting statements, loss reserving, asset valuation, capital requirements, and insurance contracts in addition to valuation expertise. In the case of a firm valuation, the valuation will include a strategic assessment of a firm's ability to generate profit relative to others in the industry and an assessment of regulatory conditions. A valuation might be restricted to a single contract or portfolio of contracts where the focus would be primarily on expected claims costs, investment assets, and additional contractual features. NERA's insurance experts combine deep industry knowledge with expertise in valuation, economics, finance, and accounting to address insurer and reinsurer valuations. Our experts have experience working with insurer and reinsurer financial statements, regulatory filings, statutory accounting, and actuarial data.



Insurance Industry Class Certification and Class Actions

In recent years property-casualty insurers have faced policyholder class actions relating to coverage and claims settlement disputes, as well as class action lawsuits regarding labor rates from auto body repair shops. Life insurers have faced policyholder class actions regarding sales methods, asset management, disclosures, and contract pricing revisions covering life insurance, annuities, and long-term care policies. Health insurers have faced class actions relating to coverage and provider payments.

The class certification stage typically involves questions of class definition, common impact, and formulaic approaches to damages. Class certification typically requires demonstrating that impact can be measured using evidence that is common to all proposed class members, and that it is possible to determine damages for all or nearly all proposed class members using a "formulaic" method that does not require substantial individualized information. Many disputes require a thorough understanding of the insurance contracts and processes, and work with samples of policyholders or claims. Class action litigation also frequently involves issues of liability and damages.

NERA insurance experts combine deep industry knowledge with expertise in economics, finance, statistics, and accounting to address insurance-related class action litigation. NERA's experts have experience in generating random samples, extracting information from claims files, and working with claims file data. In damages analyses, NERA has the capability to work with large data sets and combine data from different sources. Our experts have the quantitative skills to calculate damages for insurance products including complex financial products and, when needed, we work with actuaries and other claims experts.

NERA's experts are grounded in a set of core principles that have always guided our efforts: focus, independence, defensibility, and clarity.

Mass Torts and Product Liability

NERA's expertise in mass tort and product liability projects ranges from valuing liabilities in multi-billion dollar bankruptcies to assessing potential exposure before products have been marketed. Our experts bring together economics, statistics, accounting, epidemiological modeling, computer programming, and insurance modeling to address complex valuation problems that arise in these matters. Retained by defendants, plaintiffs, insurers, and companies engaging in mergers or acquisitions, we have provided consulting services and expert testimony in a variety of settings, including bankruptcy hearings, fraudulent conveyance actions, forecasts for financial reserves, insurance allocation disputes, M&A due diligence, and consumer class actions.

NERA experts' hands-on experience and deep understanding of how markets work span the range of industries and capabilities that are critical to our clients' success.

Case and Project Profiles

NERA's experts bring to bear a passion for finding the right answer. The following case profiles illustrate the breadth of our experience in the area of insurance.

Valuing a Book of Life Insurance Contracts

A life insurer engaged a NERA team to calculate damages associated with alleged underwriting errors for a portfolio of term and universal life policies. The insurer had contracted with a brokerage to underwrite and sell policies, and the resulting book of business displayed a higher rate of errors and larger deviations from expected categories than typically observed. NERA developed discounted cash flow models to calculate the expected cash flows from the policies as underwritten based on the insurer's pricing formula and the lapse and mortality assumptions used by the company in developing rates. Using a random sample of policies audited by a third party, NERA compared the as underwritten expected cash flows to the expected cash flows in cases where the audit indicated an underwriting error. The difference for the audit sample was extrapolated to the full group of term policies. Damages for the universal life policies were based upon differences in mortality benefits.

Evaluating the Differential Impact of Regulation

Following the investigations into contingent commissions paid to insurance brokers, the largest insurance intermediaries agreed to restrictions on compensation forms, client disclosure, and compliance measures. One large insurance intermediary commissioned NERA experts to analyze the effects of the differential regulation on insurance intermediaries. Using industry data and survey results, NERA experts demonstrated that, despite the ban on contingent commissions at the largest insurance intermediaries, insurance companies continued to pay contingent commissions in similar levels after the investigations as they did before. Surveys confirmed that numerous insurance intermediaries continued to accept contingent compensation, many without buyer disclosure. NERA experts produced a whitepaper that demonstrated that the disparate regulation disadvantaged larger intermediaries, particularly in the market for medium-sized insurance buyers with no offsetting policy or efficiency benefit. By distorting competition, the regulation affected insurance buyers and insurers in addition to large intermediaries. NERA's whitepaper was used in discussions with regulators to help explain the impact of the regulation – discussions that eventually resulted in a more level regulatory framework.

Our Insurance Economics Practice has deep industry knowledge and experience with life insurance and annuity products, health insurance products, property-casualty products, and reinsurance matters.

Assessing Investment Practices and Risk Management of a Life Insurer

A state insurance commission engaged NERA to undertake a review of a leading multiline insurer's risk management and investment practices to assess the overall efficiency/effectiveness of those strategies in light of market turbulence observed in 2007 through 2009. The analysis covered asset pricing, investment decisions, hedge programs, securities lending programs, and overall liquidity and funding risks. After an initial review of documents and discussion with the insurance commission, NERA identified several review dates on which to focus the analysis and particular asset classes, investment models, and embedded product options that affected the insurer's financial risk and results during the period. NERA experts constructed a detailed assessment/measure of the insurer's positions and risk on each date, and provided an assessment of the firm in the context of the industry as a whole. NERA's analysis identified areas of adequate oversight and governance, areas where the company might enhance current oversight and governance procedures, areas where activities undertaken to improve earnings had not been fully integrated into the risk management process, and areas where divisions within the company were operating separately from the rest of the company.

Assessing Suitability and Pricing of Variable Annuity Contracts

In litigation, major insurers have engaged NERA to determine whether variable annuities can be suitable investments for individual investors, particularly those in tax-qualified plans such as employer-sponsored pension plans. The issues NERA addressed in these cases included the designs, costs, and benefits of variable annuities; the competitiveness of the variable annuity industry; and whether variable annuity fees are, in effect, an implicit and noncompetitive payment for tax deferral. NERA experts assessed the product characteristics of variable annuities, in particular the combination of insurance-based living benefits and death benefits, and compared them to alternative investments such as mutual funds sold outside variable annuities. The analyses showed that variable annuities represent a differentiated type of investment offering unique features that can be beneficial for investors. The analysis also showed that variable annuities impose significant costs and risks for insurers. NERA's analyses of competition, based on widely accepted metrics from antitrust analysis, indicated a high degree of competition in the variable annuity market. In studies based on disclosures and market analysis, NERA found no support for the theory that variable annuity fees represent implicit payments for tax deferral.

Estimating the Effect of a Change in Loss Reserves on Stock Prices

A large US insurer engaged NERA experts to provide an analysis of the impact of changes in business mix on loss reserve changes and to evaluate a claim that stock prices would decrease upon an unexpected decrease in loss reserves. The insurer faced allegations that, rather than resulting from a shift in business mix, the observed changes in the loss reserve intentionally misstated expectations at the time in order to avoid a fall in the share price. NERA experts provided an analysis demonstrating that a shift in business mix from lines with longer claims payment periods to lines with shorter claims payment periods was consistent with the observed changes in the insurer's loss reserve over the period. NERA experts also performed a statistical study demonstrating that the typical stock price reaction to unexpected changes in loss reserves was inconsistent with the plaintiff's theory in the case.

Evaluating Class Certification

A provider of long-term care insurance contracts raised premiums after running deficits for a period of time. After being sued by a group of policyholders seeking class status, the insurer asked NERA experts to analyze plaintiffs' request for class certification. NERA experts studied the contracts held by the lead plaintiffs, the contracts included in the proposed class, and the plaintiffs' proposed damages methodology. NERA experts demonstrated that out-of-pocket damages for the named plaintiffs were small or nonexistent. In addition, the proposed damage methodology was based upon class, not individual, damages, and it ignored the individualized nature of actual contracts and thus potential damages under the allegations. The NERA report demonstrated that each policyholder's damages under the alleged misconduct depended on a large number of idiosyncratic factors that were not effectively measured on a class-wide basis. Class certification was denied.

Allegations of a Nationwide Conspiracy to Reduce Physician Reimbursements

A group of large, for-profit health insurers were sued by a nationwide class of physicians claiming that all the health insurance companies in the US formed a conspiracy that acted as a collusive monopsony buyer of physician services and systematically denied, delayed, and diminished payments to the class members for more than fifteen years. Plaintiffs claimed the alleged conspiracy had resulted in the adoption of a common set of claims processing practices to reduce payments to physicians. The health insurers hired NERA experts to asses the theoretical and empirical evidence in support of these claims. NERA experts provided a detailed analysis showing that neither economic theory nor the evidence in the

case supported such a self-enforcing conspiracy among the health insurers. They pointed out why the existing structural characteristics of the market made it implausible for the insurance companies to reach, implement, or monitor a nationwide conspiracy. They further showed that there were large differences in defendants' reimbursement rates to physicians. Finally, using a large volume of claims data, NERA experts demonstrated that there were significant differences in claims processing practices and outcomes across defendants. The judge granted summary judgment in favor of the remaining defendants.

Analyzing the Effectiveness of Asset Size to Indicate Systemic Risk

In the wake of the 2007-2008 financial crisis, policymakers considered a number of proposals intended to reduce systemic risk posed by financial institutions. One popular proposal would have required financial institutions above a specified asset size to pre-fund a "systemic dissolution fund." A leading property casualty trade association asked NERA to provide an analysis of the effectiveness of this proposal with particular focus on its ability to correctly identify systemically risky institutions. NERA experts authored a whitepaper demonstrating that reliance on asset size for systemic risk identification would pose several problems. The whitepaper shows that use of asset size as a proxy for a firm's systemic risk would erroneously identity a number of firms as systemically risky while failing to identify certain firms that do pose significant systemic risk. A second whitepaper discussed the role of financial system interconnectedness in systemic risk. It described the types of connections between various financial firms, including property and casualty and life insurance companies. The paper illustrates that the extent of interconnectedness and hence systemic risk contribution varies by institution type and concludes that an appropriate assessment of interconnectedness is critical for any systemic risk oversight process. The property casualty trade association used the NERA whitepapers to help explain its position about financial reform.

Allegations of Monopolization in Distribution Market

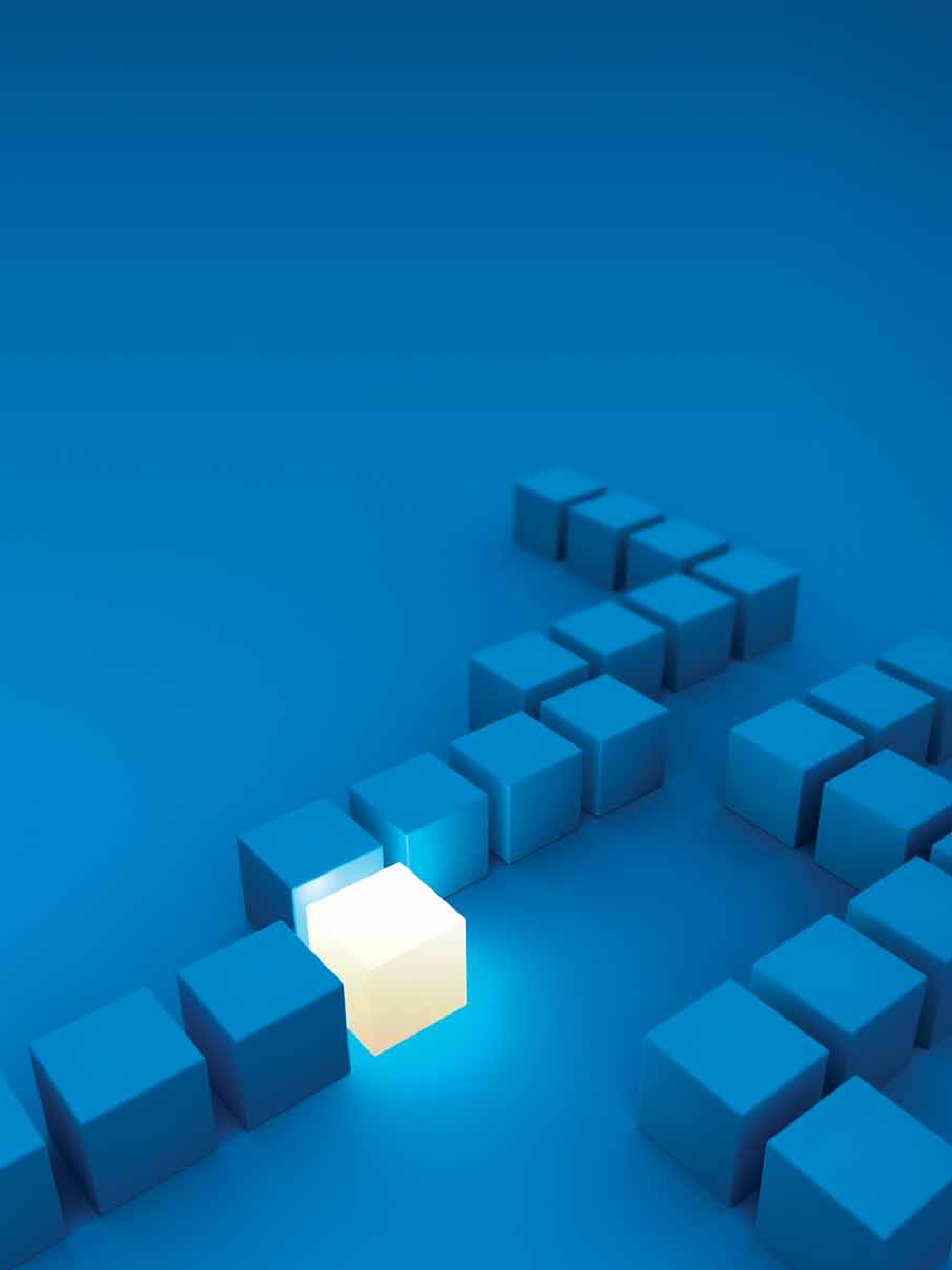
A leading distributor of a specialty life insurance product was accused by a rival of monopolization of the market. NERA provided a market analysis and assessment of market power associated with a monopolization claim against a leading distributor of a particular insurance product. To begin the analysis, NERA experts provided a definition of the relevant market at the product level. NERA then assessed the accused distributor's share of that product market and the likelihood that the company could monopolize the market and raise price by boycotting a competitor. The NERA analysis found that the relevant market should include distributors of closely related specialty products and that any market analysis should also consider the lack of barriers to expansion by existing distributors.

About NERA

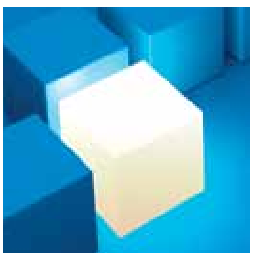
NERA Economic Consulting (**www.nera.com**) is a global firm of experts dedicated to applying economic, finance, and quantitative principles to complex business and legal challenges. For half a century, NERA's economists have been creating strategies, studies, reports, expert testimony, and policy recommendations for government authorities and the world's leading law firms and corporations. We bring academic rigor, objectivity, and real world industry experience to bear on issues arising from competition, regulation, public policy, strategy, finance, and litigation.

NERA's clients value our ability to apply and communicate state-of-the-art approaches clearly and convincingly, our commitment to deliver unbiased findings, and our reputation for quality and independence. Our clients rely on the integrity and skills of our unparalleled team of economists and other experts backed by the resources and reliability of one of the world's largest economic consultancies. With its main office in New York City, NERA serves clients from more than 20 offices across North America, Europe, and Asia Pacific.

For more information about our capabilities and services in Insurance Economics, please visit **www.nera.com/insurance**.



NERA
ECONOMIC CONSULTING



Visit **www.nera.com** to learn more about our practice areas and global offices.