

**Review of Analysis of the Loss and ALAE Reserves of  
US International Reinsurance Company (in Liquidation)**  
Reserves as of December 31, 2000, Rolled Forward to December 31, 2004

September 8, 2005

Prepared for: Liquidator of US International Reinsurance Company

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As of December 31, 2004

**I. INTRODUCTION**

***Background***

The Liquidator of US International Reinsurance Company ("USI Re") engaged Milliman, Inc. ("Milliman") for the purpose of evaluating USI Re's estimate of its loss and allocated loss adjustment expense reserves as of December 31, 2004.

Previously, Milliman performed a review of USI Re's internal analysis of reserves which was based on data as of December 31, 2000. We concluded that the methodology used by USI Re, and the resulting reserve indications as of December 31, 2000 were reasonable. In order to estimate the reserve as of December 31, 2004, USI Re re-evaluated the December 31, 2000 reserve, reflecting actual payments made, notices of determination issued, and commutations effected between December 31, 2000 and December 31, 2004.

This report presents the results of our review of USI Re's estimate of the reserve as of December 31, 2004. We will be available to answer questions regarding this review if authorized to do so by the Liquidator of USI Re.

***Conclusion***

We conclude that the USI Re booked reserves as of December 31, 2004 are reasonable.

***Organization of Report***

This Introduction describes the scope of our review and certain limitations on its use. It is followed by a Summary of Results.

***Limitations on Use***

All work described in this report is subject to the Limitations described in our Consulting Services Agreement dated October 1, 2003, which states that Milliman's work is prepared solely to be relied upon by Roger A. Sevigny, New Hampshire Commissioner of Insurance, in his capacity as Liquidator of The Home Insurance Company (Home) and US International Reinsurance Company. Milliman's work may not be provided to third parties without Milliman's

prior consent, which consent may be granted conditioned on the execution by the third party of a Release Agreement. We consent to such distribution as long as the report is distributed in its entirety. Milliman does not intend to benefit any third party recipient of its work product, even if Milliman consents to the release of its work product to such third party. We agree that this report may be submitted to the Merrimack County Superior Court, or other such tribunals as may be necessary in connection with the liquidation of USI Re.

***Scope of Study***

The purpose of this report is to present an independent review of USI Re's internal actuarial evaluation of the loss and allocated loss adjustment expense reserves needed as of December 31, 2004 by USI Re.

***Data***

The primary data and other information used in our analysis were provided to us by USI Re. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our review may be materially distorted.

We have performed a limited review of the data used directly in our review for reasonableness and consistency, and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or relationships that are materially inconsistent. Such a review is beyond the scope of our assignment.

***Variability of Results***

It is important to understand that any estimate of future claim activity is necessarily subject to substantial uncertainty due to the unpredictability of changes in inflation, the legal system, and claims handling, among other variables. The estimates reviewed in this report represent USI Re's estimates of outstanding losses as of December 31, 2004 based upon claim experience through December 31, 2000, and subsequent reserve commutations, claim payments, and notices of determination.

As estimated losses are replaced by actual claim payments or notices of determination, the actual

ultimate losses could vary substantially from the estimates reviewed in this report.

**II. SUMMARY OF RESULTS**

During 2002, Milliman performed a review of USI Re's internal analysis of reserves, which was based on data as of December 31, 2000. We concluded that the methodology used by USI Re, and the resulting reserve indications as of December 31, 2000 were reasonable. This report reviews USI Re's calculations updating the December 31, 2000 reserve estimate to reflect commutations effected and claim payments made between December 31, 2000 and December 31, 2004.

The table below summarizes the estimated total outstanding loss for USI Re at December 31, 2000, and at December 31, 2004.

	(1)	(2)	(3)	(4)
	Total Outstanding Evaluated as of 12/31/2000	Total Indicated Outstanding Evaluated as of 12/31/2004	(2) - (1)  Change in Total Outstanding	Total Booked Outstanding Evaluated as of 12/31/2004
<b>Assumed</b>				
Case Reserves	\$42,269,759	\$36,863,930	(\$5,405,829)	\$36,863,930
IBNR	43,205,000	33,298,439	(9,906,561)	33,542,449
<b>Total Outstanding</b>	<b>\$85,474,759</b>	<b>\$70,162,369</b>	<b>(\$15,312,390)</b>	<b>\$70,406,379</b>
<b>Ceded</b>				
Case Reserves	\$7,052,000	\$2,369,020	(\$4,682,980)	\$2,369,020
IBNR	1,864,000	482,195	(1,381,805)	464,302
<b>Total Outstanding</b>	<b>\$8,916,000</b>	<b>\$2,851,215</b>	<b>(\$6,064,785)</b>	<b>\$2,833,322</b>
<b>Net</b>				
Case Reserves	\$35,217,759	\$34,494,910	(\$722,849)	\$34,494,910
IBNR	41,341,000	32,816,244	(8,524,756)	33,078,147
<b>Total Outstanding</b>	<b>\$76,558,759</b>	<b>\$67,311,154</b>	<b>(\$9,247,605)</b>	<b>\$67,573,057</b>

Column (1) is based on the most recent full analysis of the USI Re reserves at December 31, 2000, performed by the USI Re and reviewed by Milliman. Column (2) is based on USI Re's "roll-forward" of its December 31, 2000 reserve estimates to December 31, 2004. The roll-forward is calculated by reducing the December 31, 2000 reserves to reflect payments made and commutations effected between December 31, 2000 and December 31, 2004. The roll-forward is

based on the presumption that the December 31, 2000 reserve estimate is still reasonable at December 31, 2004. In other words, subsequent claim activity through December 31, 2004, does not indicate that the December 31, 2000 reserve estimate was either inadequate or excessive.

The roll-forward calculations indicate that between December 31, 2000 and December 31, 2004:

1. There was a net decrease in assumed case reserves of \$5.4 million. The reporting of claims that had been unreported as of December 31, 2000, and upward revision of some individual case reserves was more than offset by reserve decreases due to claim payments, commutations and downward revisions of some individual case reserves.
2. Assumed IBNR decreased by \$9.9 million. In other words, \$9.9 million of loss that was unreported at December 31, 2000:
  - a) had been reported and paid between December 31, 2000 and December 31, 2004,
  - b) had been reported after December 31, 2000, and was carried as case reserves at December 31, 2004, or
  - c) had been commuted between December 31, 2000 and December 31, 2004.
3. Estimated assumed total outstanding loss as of December 31, 2000 decreased by \$15.3 million. The decrease results from pre-liquidation loss payments of \$9.5 million, and the commutation of \$5.8 million of assumed reserves. Some of the reserves that were subsequently commuted had been reported at December 31, 2000, and some were unreported at December 31, 2000.

The USI Re reserve estimate at December 31, 2004 is the December 31, 2000 reserve estimate, reduced to reflect claim payments made and commutations effected between December 31, 2000 and December 31, 2004. The December 31, 2004 reserve estimate does not reflect any subsequent revision of the December 31, 2000 reserve estimate.

The ceded reserves shown in the table on page 4 of this report represent cessions to entities other than Home. Under a quota share arrangement, all remaining USI Re reserves are ceded to Home, and USI Re's true net reserve is zero.