

Property/Casualty Insurers
U.S., Canada, and U.K.
Full Rating Report

Factory Mutual Insurance Company
And Its Subsidiaries

Ratings

Security Class	Rating
Factory Mutual Insurance Co. Affiliated FM Insurance Co. Appalachian Insurance Co. FM Insurance Company, Ltd. FM Global de Mexico, S.A. Insurer Financial Strength	AA

Rating Outlook

Stable

Financial Data

FM Global		
Financials	Date	\$ Mil.
Net Income	12/31/10	686.6
Equity	12/31/10	7,281.1
Debt and Hybrids	12/31/10	—

Analysts

Christopher A. Grimes, CFA
+1 312 368-3263
christopher.grimes@fitchratings.com

James B. Auden, CFA
+1 312 368-3146
jim.auden@fitchratings.com

Related Research

Applicable Criteria

- [Insurance Rating Methodology, March 31, 2011](#)
- [Non-Life Insurance Rating Methodology, March 31, 2011](#)

Other Research

- [2011 Outlook: U.S. Property/Casualty Insurance, Dec. 7, 2010](#)

Rating Rationale

- The ratings of Factory Mutual Insurance Company (Factory Mutual) reflect the company's solid capital position, consistent long-term underwriting profitability, and strong competitive position in the commercial property market for highly protected risks. Fitch Ratings believes the company's ability to incorporate engineering expertise into insurance products and underwriting processes is unparalleled and differentiates the company from its competitors.
- Underwriting results for Factory Mutual declined moderately in 2010 from the near record results of the prior year, but the 82.8% combined ratio for the year is commensurate with its long-term average ratio. FM Global's long-term operating performance continues to be strong and supportive of the current rating level. FM Global's cumulative three-year and five-year calendar year combined ratios on a statutory basis through year-end 2010 were 81% and 78%, respectively.
- FM Global's statutory surplus increased by 12% to \$6.9 billion in 2010 as a result of strong underwriting income and investment-related gains. Statutory operating and net leverage ratios of 0.40x and 1.15x, respectively, are among the most conservative in the industry. Fitch expects FM Global's capital adequacy level to remain strong and an important factor in maintaining the company's current high rating level.
- Fitch believes FM Global's high-quality fixed-income portfolio provides ample liquidity to meet its policyholder obligations. At year-end 2010, the company had approximately \$579 million of cash and cash equivalents.
- FM Global maintains an investment portfolio with an above-average allocation to equities relative to industry norms. The company's long-term total return philosophy has enabled the company to grow book value over the years, but provides greater near-term uncertainty of investment portfolio returns.

Key Rating Drivers

- FM Global maintains higher exposure to equity market risk than the industry and an extended period of equity market declines would have a considerably negative impact on capital and would lead to a consideration of a negative rating action. However, Fitch believes the company's fixed-income portfolio is of high quality and will continue to support the relatively short-duration liabilities generated by its property insurance reserves.
- FM Global has historically maintained a wide margin of underwriting outperformance over comparably rated peers that has represented a positive factor in the company's ratings. Negative pressure on the ratings would result from a severe deterioration in long-term results, to the point where the combined ratio differential no longer existed.
- Fitch believes upward potential for FM Global's ratings are limited due to the company's high current ratings along with its profile as a commercial property insurer with underwriting volatility inherent in its book of business. Consistent levels of strong capital associated with higher rating levels over a multiyear period would be needed for consideration of upward movement in the company's ratings.

Key Rating Issues

Strong Long-Term Results Despite Inherent Volatility

FM Global's 2010 GAAP basis pretax operating income and net earnings were \$529 million and \$687 million, respectively. These results reflect a year that saw below average risk losses and above average catastrophe losses as calendar year underwriting results declined slightly relative to the most recent 10-year average.

FM Global has generated historically strong underwriting results as represented in the cumulative five-year calendar-year combined ratio on a statutory basis through year-end 2010 of 77.5%.

Operating Performance

(\$ Mil.)

	2010 ^a	2009	2008	2007	2006
Net Premium Written Excluding Membership Credit	2,819	3,028	2,652	2,772	2,851
% Change in Net Premium Written Excl. Mem Credit	(6.9)	14.1	(4.3)	(2.8)	7.7
Membership Credit	183	—	360	341	—
Net Premiums Earned Net of Membership Credit	2,793	3,026	2,703	2,740	2,719
Net Underwriting Gain	598	994	37	822	666
Net Investment Income	251	242	247	242	219
Operating Income	849	1,240	283	1,062	884
Realized Gains	80	16	(527)	215	99
Policyholders' Dividends	—	—	—	—	—
Income Taxes	141	219	315	323	299
Net Income	767	1,037	(559)	954	684

^aFitch's estimate based on individual company data. Note: Statutory accounting principles.

Source: Factory Mutual Insurance Company and affiliates.

The company did not report any changes to previous loss reserve estimates related to asbestos and environmental (A&E) business in 2010, following the \$232 million in adverse loss reserve development taken in the prior year related to discontinued A&E business that added 7.1 points to the 2009 calendar year loss ratio.

FM Global's operating performance over the long term has been very strong despite exposure to periodic catastrophe losses, reflecting the company's underwriting expertise, expense efficiencies and generally favorable market conditions. Fitch believes that there is a significant amount of inherent volatility in FM Global's year-to-year operating performance because of the company's large book of property insurance and its corresponding exposure to both natural and man-made catastrophe-related losses. Given this potential volatility, Fitch believes that FM Global's underwriting results are best viewed on a cumulative basis over a relatively long horizon.

The Reported and Cumulative Combined Ratios table below shows the company's reported annual combined ratios for the 2001–2010 period, as well as three-year, five-year, and 10-year cumulative combined ratios.

Reported and Cumulative Statutory Combined Ratios

(%)

	2010 ^a	2009	2008	2007	2006	2005	2004	2003	2002	2001
Reported	78.3	67.1	99.0	69.7	74.4	76.9	74.5	66.5	72.1	112.9
Cumulative 2001–2010	77.1	77.0	78.6	75.1	76.2	76.7	76.6	77.8	87.6	112.9
Cumulative 2006–2010	77.5	77.2	81.0	72.0	74.4	—	—	—	—	—
Cumulative 2008–2010	81.0	82.2	99.0	—	—	—	—	—	—	—

^aFitch's estimate based on individual company data. Note: Statutory accounting principles. 2001 Reported Combined Ratio and 2001 and subsequent Cumulative Combined Ratios exclude 2001's \$237 million membership credit. 2004, 2007, 2008, and 2010 Reported Combined Ratios as well as 2004, 2007, 2008, and 2010 Cumulative Combined Ratios include membership credits of \$316 million in 2004, \$341 million in 2007, \$360 million in 2008, and \$183 million in 2010.

Source: Factory Mutual Insurance Company and affiliates.

From 2001 through 2010, natural catastrophe losses and losses from the events of Sept. 11, 2001, contributed an average of 15.7 points annually to FM Global's combined ratio. In 2010, catastrophe losses contributed 21.3 points to the loss ratio, which represented the third-largest annual contribution of catastrophe losses to the company's combined ratio since 2001.

Fitch believes commercial property line premium rates will be mostly flat in 2011 with very modest rate improvement in some more recently harder hit property lines. Given the severity of global property catastrophe losses in the first-quarter 2011, the agency expects these events will have a moderately positive effect on FM Global's premium revenues going forward.

FM Global has paid five membership credits to policyholders since 2001, including \$237 million in 2001, \$316 million in 2004, \$341 million in 2007, \$360 million in 2008, and an estimated \$420 million in 2010/2011. Future membership credits will depend on a variety of factors including underwriting results and surplus levels.

FM Global made no adjustment to asbestos reserves in 2010, following the \$232 million increase in reserves during the prior year, which added 7.1% to the 2009 GAAP loss ratio.

Operating and Underwriting Ratios

(%)	2010 ^a	2009	2008	2007	2006
Return on Assets	6.5	12.4	2.8	10.4	9.6
Return on Surplus	11.7	19.0	(10.6)	17.7	14.8
Loss Ratio	50.7	41.9	77.6	44.6	51.3
Expense Ratio	27.6	25.3	21.5	25.1	23.1
Combined Ratio	78.3	67.2	99.1	69.7	74.4

^aFitch's estimate based on individual company data. Note: Statutory accounting principles. Source: Factory Mutual Insurance Company & Affiliates.

Capitalization Grows With Strong Year-End Results

Due to the high-severity events the company insures and the inherently volatile operating results that correspond to writing such business, Fitch considers FM Global's strong capitalization to be a key factor supporting its rating.

In 2010, FM Global's statutory surplus increased by \$750 million, or 12%, to \$6.9 billion as a result of underwriting income, consistent with long-term averages and favorable investment-related gains. Fitch believes that FM Global's risk-adjusted capital levels will remain strong and supportive of the company's ratings.

FM Global continues to use a reasonable amount of operating leverage. Fitch notes that the company's operating leverage ratios steadily declined from 2002–2010 as growth in surplus outpaced growth in premiums. At Dec. 31, 2010, the company's ratio of net premiums written to statutory surplus was 0.40x, which is slightly below the five-year average of 0.50x. Fitch believes FM Global's operating leverage remains conservative and supportive of the current rating level.

FM Global's year-end 2010 NAIC risk-based capital (RBC) ratio was 420% of the company action level. Fitch views the company's RBC ratio as being higher than many comparably rated peers but believes that the ratio generally fails to adequately capture the underwriting volatility inherent in the company's core insurance products.

FM Global manages its capital by examining catastrophe exposure using a probabilistic approach relative to capital and by evaluating growth in total insured values (TIV) relative to growth in surplus. The company uses location-based insured data to determine its exposure in catastrophe-prone areas. As such, the company performs a ground-up analysis and does not rely solely on catastrophe model simulations to determine its potential shock losses.

Capitalization

(\$ Mil.)

	2010 ^a	2009	2008	2007	2006
Beginning of Period Surplus	6,204	4,734	5,771	5,018	4,205
Net Income	767	1,037	(559)	954	684
Unrealized Gains	193	685	(688)	(109)	133
Paid in Capital/Surplus	—	—	—	—	—
Dividends to Stockholders	—	—	—	—	—
Other Changes	(202)	(252)	211	(91)	(4)
Total Changes	758	1,469	(1,036)	753	813
End of Period Surplus	6,962	6,204	4,734	5,771	5,018
Dividend Payout (%)	—	—	(0.1)	—	—
Net Premium Written/Policyholder Surplus (x)	0.40	0.49	0.56	0.48	0.57
Net Leverage (x)	1.15	1.20	1.53	1.32	1.53
Gross Leverage (x)	N.A.	1.55	1.97	1.68	2.03
NAIC Risk-Based Capital Ratio (%)	420	404	395	357	379
Non-Investment Grade Bonds/Policyholder Surplus (%)	2.6	2.6	2.3	2.3	2.4
Unaffiliated Common Stock/Policyholder Surplus (%)	N.A.	55.3	55.3	79.8	85.2
Investment in Affiliates/Policyholder Surplus (%)	—	—	—	—	—

^aFitch estimate based on individual company data. N.A. – Not available. NAIC – National Association of Insurance Commissioners. Note: Statutory accounting principles. Source: Factory Mutual Insurance Company and affiliates.

FM Global Remains Exposed To Above-Average Equity Market Risk

FM Global's investment portfolio is managed on a total return basis with a long-term investment horizon. The company invests in fixed-income securities to support the relatively short-duration liabilities generated by its property insurance reserves and equities to support surplus growth. As a result, FM Global is significantly overweighted in common stock investments relative to the industry.

At Dec. 31, 2010, Fitch estimates FM Global's surplus exposure to unaffiliated equities on a GAAP basis was approximately 66%. Given the high correlation of the portfolio to the Standard & Poor's 500 Index, Fitch believes the company remains exposed to potential surplus volatility in the near to intermediate term. Additionally, Fitch believes that FM Global's higher than industry-average allocation to equities is reasonable in the long term, while recognizing that investment returns will tend to fluctuate year to year.

The company did not have any significant hedges in place at year-end 2010 to protect the value of its equity portfolio, although in the past it has used futures and options contracts to hedge this risk.

Due to the nature of the company's insureds and the high limit policies the company writes, FM Global's operating cash flow can be volatile, although recent operating cash flow has been strong due to the company's favorable underwriting results.

Investments

(\$ Mil.)

	2010	2009	2008	2007
Cash and Invested Assets	11,032	9,585	8,078	10,036
% Fixed Income	45.8	47.9	52.6	43.9
% Common Equities	43.8	40.1	35.0	46.9
% Other Securities	4.0	3.6	3.2	2.5
% Real Estate	3.2	3.6	3.4	2.1
% Cash and Cash Equivalents	3.2	4.8	5.8	4.6

Note: U.S. GAAP basis. Source: Factory Mutual Insurance Co. and subsidiaries.

Liquidity

(%)

	2010 ^a	2009	2008	2007	2006
Public Bonds/Total Bonds	96.2	96.0	97.6	97.4	97.7
Total Investment-Grade Public Bonds/Total Public Bonds	97.5	97.5	97.7	97.7	97.9
Below Investment-Grade Public Bonds/Total Public Bonds	2.5	2.5	2.3	2.3	2.1
Liquid Assets to Liabilities	190.1	177.0	156.3	173.8	176.3
Cash Inflows (\$ Mil.)	3,154	3,094	3,021	3,023	3,095
Cash Outflows (\$ Mil.)	2,126	2,467	2,498	2,444	2,323
Cash Flow Ratio	148.4	125.4	120.9	123.7	133.2

^aFitch's estimate based on individual company data. Note: Statutory accounting principles.
Source: Factory Mutual Insurance Company and affiliates.

FM Global's bond portfolio exhibits high credit quality and liquidity. At Dec. 31, 2010, approximately 97% of the portfolio consisted of publicly traded investment-grade bonds, which translates into statutory surplus exposure to below investment-grade bonds of 3%.

FM Global has built a strong franchise in the commercial property lines market for highly protected risks.

Peer Analysis

Relative to other similarly rated 'AA' companies, FM Global is much smaller in size and more narrowly focused on large commercial accounts that require extensive engineering and loss prevention services. However, Fitch views FM Global's market share and competitive positioning in its key lines of business to be better than those of its peers.

Fitch believes that FM Global has a strong and unique franchise, largely derived from its engineering capabilities and loss prevention services that are difficult for competitors to replicate. The organization employs more than 1,800 engineers, who are engaged in a wide variety of roles. Fitch considers FM Global the industry leader in incorporating engineering expertise into insurance products and underwriting processes.

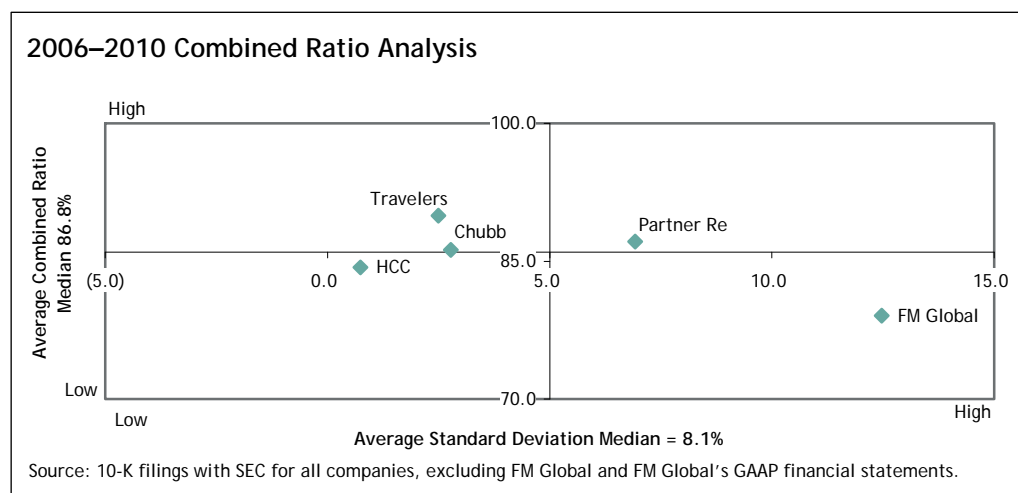
Additionally, Fitch believes that the company's mutual company status insulates it somewhat from concerns about volatility in short-term financial results. Fitch believes that these factors contribute to the company's willingness and ability to consistently provide large-limit capacity throughout changes in cyclical market conditions. Fitch views this as a key competitive advantage.

Market Share Based on 2009 Direct Premiums Written

Business Line	2008 Ranking	Largest Competitors in Line (2009 Ranking)		
		No. 1	No. 2	No. 3
Boiler and Machinery	No. 2	FM Global (27%)	AIG (19%)	Travelers (9%)
Fire and Allied Lines	No. 3	AIG (14%)	Assurant (9%)	FM Global (8%)

Note: Statutory data.
Source: Highline Data.

FM Global has significantly outperformed similarly rated companies on a long-term basis and maintained its long-term performance gap over peers in 2010 as the company produced a GAAP combined ratio of 82.8%. The company's average combined ratio of 79.1% for the five-year period through 2010 was roughly 8.0 points better than the peer median, although its volatility of 12.5% is significantly higher than the peer median of 3.2%. When looking at performance over a longer period, from 2001–2010, FM Global's average combined ratio of 79.9% is still 14.3 points better than peers in the 'AA' category.



FM Global conducts onsite loss prevention and engineering reviews on the majority of its insured sites including all of its larger policyholder sites, and Fitch believes that these reviews have a significant positive effect on the company's underwriting results. Additionally, Fitch believes that FM Global's strong underwriting results are due in part to the extensive engineering and loss prevention studies the company conducts at its state-of-the-art engineering test facility. Fitch views FM Global's ability to conduct these studies and the insights they bring to the company's underwriting processes as key competitive advantages.

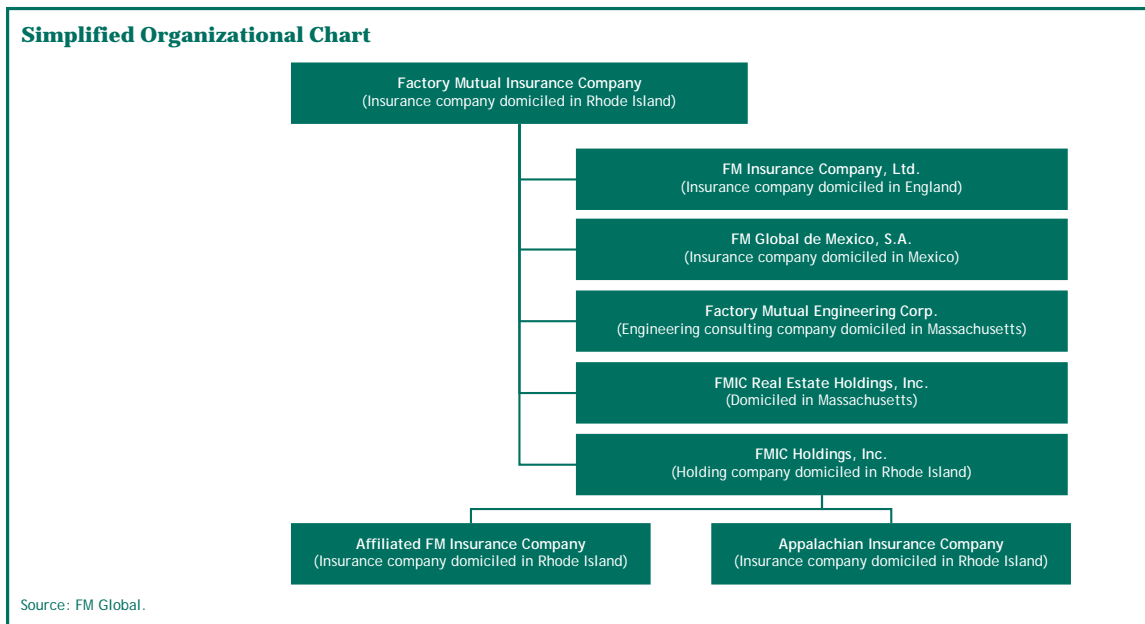
Additionally, given the short-tail nature of FM Global's business, the company has comparatively little reserving risks relative to its peers.

Statutory Leverage Comparison

	2009			
	RBC Ratio (%)	NPW/PHS (x)	Net Leverage (x)	Gross Leverage (x)
FM Global	404	0.49	1.20	1.55
Chubb	282	0.63	2.23	2.43
HCC	264	0.55	2.14	2.91
PartnerRe	131	0.96	4.32	5.22
Travelers	312	0.90	3.23	3.74

NPW – Net premium written. PHS – Policyholders' surplus.
 N.A. – Not available. RBC – Risk-based ratio. Note: U.S. property/casualty subsidiaries only, RBC ratio is for the lead company in each group.
 Source: 2009 combined statutory financial statements, Fitch Ratings.

Relative to peers, FM Global has a stronger NAIC RBC and lower operating leverage. However, Fitch believes these measures' usefulness in evaluating FM Global's capital adequacy are limited since they fail to fully capture the potential earnings volatility from catastrophes, other large losses such as fires and explosions, and the company's higher exposure to equity market risk.



Company Profile

Ownership Structure

Factory Mutual is a mutual insurance company that specializes in providing engineered loss prevention services and high-limit commercial property coverage to its member clients. The company has a 15-member board of directors, who are elected by policyholders for three-year terms. Thirteen of the current directors are affiliated with FM Global policyholders.

The company's primary domestic insurance subsidiaries are Affiliated FM Insurance Company (Affiliated FM) and Appalachian Insurance Company (Appalachian). The organization conducts operations internationally through its U.K.-domiciled subsidiary, FM Insurance Company, Ltd. (FMI), which has branch offices worldwide, and FM Global de Mexico S.A. de C.V. (FM Global Mexico).

Affiliated FM writes its own new and renewal business for smaller middle-market clients. Appalachian writes some excess and surplus (E&S) business directly and assumes business under an intercompany reinsurance pooling agreement. Terms of the intercompany agreement call for premiums, losses, loss adjustment expenses, and underwriting expenses to be shared among the three companies based on their relative contribution to combined surplus. Factory Mutual's pooling percentage is 86%, whereas Affiliated FM's pooling percentage is 12% and Appalachian's is 2%. Fitch has used a group rating approach to refer financial strength from Factory Mutual to Affiliated FM and Appalachian because of the pooling agreement.

FMI writes property insurance and, like its U.S.-based parent, focuses on providing comprehensive commercial property coverage that requires significant engineering expertise. Fitch's rating on FMI reflects support provided by Factory Mutual in the form of a policy level guaranty and reinsurance contracts between the two companies. The rating also reflects Fitch's view that FMI is a core component of the organization's strategy of providing engineered loss prevention services and insurance coverage on a global basis.

FM Global Mexico was created in late 2008 to provide coverage for Factory Mutual's current insureds that have locations in Mexico. Previously, this business was written by

FM Global operates in more than 130 countries.

FM Global has roughly 5,800 policyholders worldwide and insures approximately 32% of the Fortune 1,000 companies.

Individual Company Data

(\$ Mil.)

Company	State of Domicile	Country or States Licensed In	2010			NAIC RBC Ratio
			Net Premium Written	Surplus/SH Funds	Total Assets	
Factory Mutual Insurance Company	Rhode Island	50 United States, Canada	2,416	6,962	11,029	420
Affiliated FM Insurance Company	Rhode Island	50 United States, Canada	348	933	1,915	786
Appalachian Insurance Company	Rhode Island	Rhode Island. Operates on a surplus lines basis in other states.	56	157	246	660

NAIC – National Association of Insurance Commissioners. RBC – Risk-based capital. Note: Statutory accounting principles. Source: Individual company statements.

fronting companies for Factory Mutual in Mexico. The rating of FM Global Mexico is dependent upon reinsurance agreements between FM Global Mexico and Factory Mutual. Throughout the remainder of this report, Fitch refers to Factory Mutual, Affiliated FM, Appalachian, FMI, and FM Global Mexico collectively as FM Global. Data shown throughout the report is taken from the combined Factory Mutual Insurance Company and Affiliates' statutory annual statement unless otherwise noted.

Key Historical Events

FM Global was formed in mid-1999 through the merger of Allendale Mutual Insurance Company, Protection Mutual Insurance Company and Arkwright Mutual Insurance Company. Prior to the merger, these companies shared an engineering research facility as well as shared ownership of FMI and participated in various reinsurance agreements with one another.

Products

FM Global's products provide large-limit property insurance to commercial entities. The company's policies generally provide protection against property losses, including losses caused by fires, explosions and natural catastrophes such as hurricanes and earthquakes. The company also writes specialized lines of coverage that protect against equipment and machinery failures and corresponding business interruption losses.

Fitch believes that there is a high degree of operating risk associated with FM Global's products because of the extensive engineering and loss prevention services underlying the products and their underwriting. However, in comparison with other companies that write commodity-like products, Fitch believes that FM Global faces less transaction-oriented operating risk.

Target Markets

FM Global's target markets include industrial properties such as pulp and paper plants, as well as other manufacturing and warehousing facilities. These properties typically have large loss exposures and policies covering these properties often have high loss limits and high policy deductibles.

Fitch believes that FM Global's target market generates comparatively less operating risk for the company than a focus on many other target markets would generate. These markets typically require a high degree of loss prevention services and consistent large-limit capacity. As a result, Fitch believes that FM Global's target market provides the company with business that is somewhat less price sensitive than more commodity-oriented commercial line markets.

In 2010, approximately 64% of the organization's premiums written was derived from insured property in the U.S. and 36% was derived from insured property outside the U.S. The organization's market penetration is lower internationally than it is domestically.

Distribution Channels

Fitch believes that FM Global's distribution methods generate comparatively little operating risk. The company uses direct distribution to market its products and Fitch believes that this provides the company with a high degree of cost-effective operational control over its distribution. FM Global also relies on brokers to source its business and this distribution channel presents more operating risk for the company because of the relative lack of control. The operations staff is composed of engineers and underwriters, and its members complement the company's distribution channels and have a significant amount of client interaction.

Financial Analysis

Profitability

See the Key Rating Issues section.

Investments and Liquidity

See the Key Rating Issues section.

Reinsurance Protection and Credit Quality

Fitch believes that FM Global's reinsurance programs provide adequate protection against the large losses the company could face and that the credit quality of the company's reinsurers is good. FM Global has a significant exposure to natural and man-made catastrophic losses from its large book of property insurance. As a result, Fitch believes that reinsurance is a very important component of FM Global's risk management process.

FM Global evaluates its reinsurance needs on an individual location basis and purchases facultative reinsurance on specific lines of business and when policyholders request coverage limits that generate concentration risks it is unwilling to accept. The company uses modeling software commonly used in the insurance industry to estimate its losses from potential catastrophes and to manage its aggregate exposures.

FM Global uses vendor-produced models to simulate natural catastrophes and their effect on the company's insured exposures and to estimate potential losses. Fitch believes that the quality and resolution of exposure data used in these simulations is a key factor in the models' effectiveness. Fitch also believes that the quality of the data FM Global uses in these processes is enhanced by the engineering inspections it does at its insured properties.

FM Global's excess of loss reinsurance program consists of a per-risk program and a catastrophe program. The per-risk program provides the company with coverage on losses in excess of \$150 million, and the company's catastrophe reinsurance program provides coverage on losses in excess of \$250 million. The company also purchased additional California and Pacific Northwest earthquake coverage in late 2008.

FM Global's largest reinsurance recoverable is from Mutual Marine Insurance, Inc. (MMI). This recoverable is derived from a discontinued book of marine business where MMI acted as the underwriting manager for a group of companies. FM Global effectively wrote the business on a direct basis and then ceded the portion in excess of its pool participation to the fellow insurers participating in the pool. FM Global has \$225 million in collateral related to this recoverable, which reduces its exposure.

Reinsurance Recoverables

(\$ Mil.)

	2009	2008	2007	2006	2005
Paid Losses	81	145	184	168	134
Unpaid Losses	400	518	479	909	1,064
Incurred But Not Reported Losses	505	495	372	417	521
Unearned Premium	367	314	338	323	287
Total Recoverable	1,353	1,472	1,373	1,818	2,006
Affiliates	9	11	9	10	10
Pools and Associations	434	356	268	324	422
Net Recoverables	910	1,105	1,096	1,483	1,574
Total Recoverables/Policyholder Surplus (%)	21.8	31.1	23.8	36.2	47.7
Net Recoverables/Policyholder Surplus (%)	14.7	23.3	19.0	29.6	37.4
Provision for Reinsurance	32	24	31	29	25
Total Recoverables/(PHS + Provision for Re) (%)	21.7	30.9	23.7	36.0	47.4
Net Recoverables/(PHS + Provision for Re) (%)	14.6	23.2	18.9	29.4	37.2

PHS – Policyholders' surplus. Note: Statutory accounting principles.
Source: Factory Mutual Insurance Company and affiliates.

At year-end 2010, approximately 89% of the company's reinsurance recoverable on paid losses was current. In addition, approximately 21% of the amounts past due were less than 90 days past due.

FM Global uses a diverse mix of financially sound reinsurers and Fitch believes the overall credit quality of the company's reinsurance recoverable is strong.

15 Largest Reinsurance Recoverables at Year-End 2009

(\$000)

Reinsurer Group Name	Fitch IFS Rating	Recoverable	Collateral	Net Recoverable
Swiss Re Group	NR	85,309	2,907	82,575
Berkshire Hathaway Group	AA+	70,825	0	70,825
Endurance Group	A	64,964	2,922	64,799
XL Capital Group	A	58,131	5,724	57,806
Everest Re Group	AA-	47,586	0	47,586
Ecra Pool	NR	42,616	0	42,616
ACE Ltd Group	AA-	45,065	10,579	38,135
Lloyd's of London	NR	30,541	0	30,541
Aspen Insurance Ltd	NR	28,290	1,284	27,833
Fairfax Financial Holdings Limited	A-	24,743	724	24,019
Allstate Group	A+	23,644	0	23,644
Hannover Group	A+	23,548	945	22,603
Munich Re Group	AA-	23,393	1,615	21,778
Travelers Corp	AA	22,203	995	21,216
Public Service Group	NR	11,372	0	11,372
Total Largest 15 Recoverables		602,230	27,695	587,348

IFS – Insurer financial strength. NR – Not rated.
Source: Schedule F.com.

Reserve development related to current business was significantly favorable in the most recent 6 year period, while slightly offset by asbestos reserve strengthening in 2009 and 2006.

Reserve Adequacy and Development

Fitch believes that FM Global's loss reserves are adequate and that the company follows a disciplined approach when establishing reserves. Fitch also believes that the relatively short duration of FM Global's reserves reduces reserve uncertainty. The vast majority of the company's loss reserves tend to develop into paid losses within three years.

Fitch uses a reserve adequacy model and reported paid loss and incurred loss data from Schedule P data to estimate ultimate accident year losses and required accident year reserves. Using FM Global's year-end 2009 data, Fitch's model estimates an adequate level of reserves using paid loss data and case-incurred data.

Reserves

(\$ Mil.)

	2010 ^a	2009	2008	2007	2006
Loss Reserves	2,106	2,024	2,342	2,051	2,188
Loss Adjustment Expense Reserves	268	263	225	205	186
Asbestos and Discontinued Lines Reserves Adverse Development	—	232	—	—	150
Other Adverse (Favorable) Reserve Development	(319)	(216)	(439)	(102)	(93)
Adverse (Favorable) Reserve Development/Premiums Earned (%)	(11.4)	0.5	(16.3)	(3.7)	2.1
Adverse (Favorable) Reserve Development/Policyholder Surplus (%)	(4.6)	0.3	(7.6)	(2.0)	1.4

^aFitch's estimate based on individual company data. Note: Statutory accounting principles.

Source: Factory Mutual Insurance Company and affiliates.

Unfavorable development on asbestos-related reserves generated adverse reserve development in three of the past six years including a \$232 million strengthening in 2009. Despite these unfavorable developments, FM Global still has been able to produce strong calendar year underwriting results over that six-year period.

Fitch believes that FM Global's reserves for asbestos-related claims are strong and that unlike many of its peers, FM Global has been able to bolster its asbestos reserves while still generating strong calendar year profitability. The company's gross and net survival ratios based on three-year average paid asbestos losses were 9.6x and 11.3x, respectively, at year-end 2010. Fitch also believes that FM Global is solidly reserved for environmental claims. At year-end 2010, the company's gross and net survival ratios based on three-year paid environmental losses were 7.2x and 10.6x, respectively.

Capitalization

See the Key Rating Issues section.

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