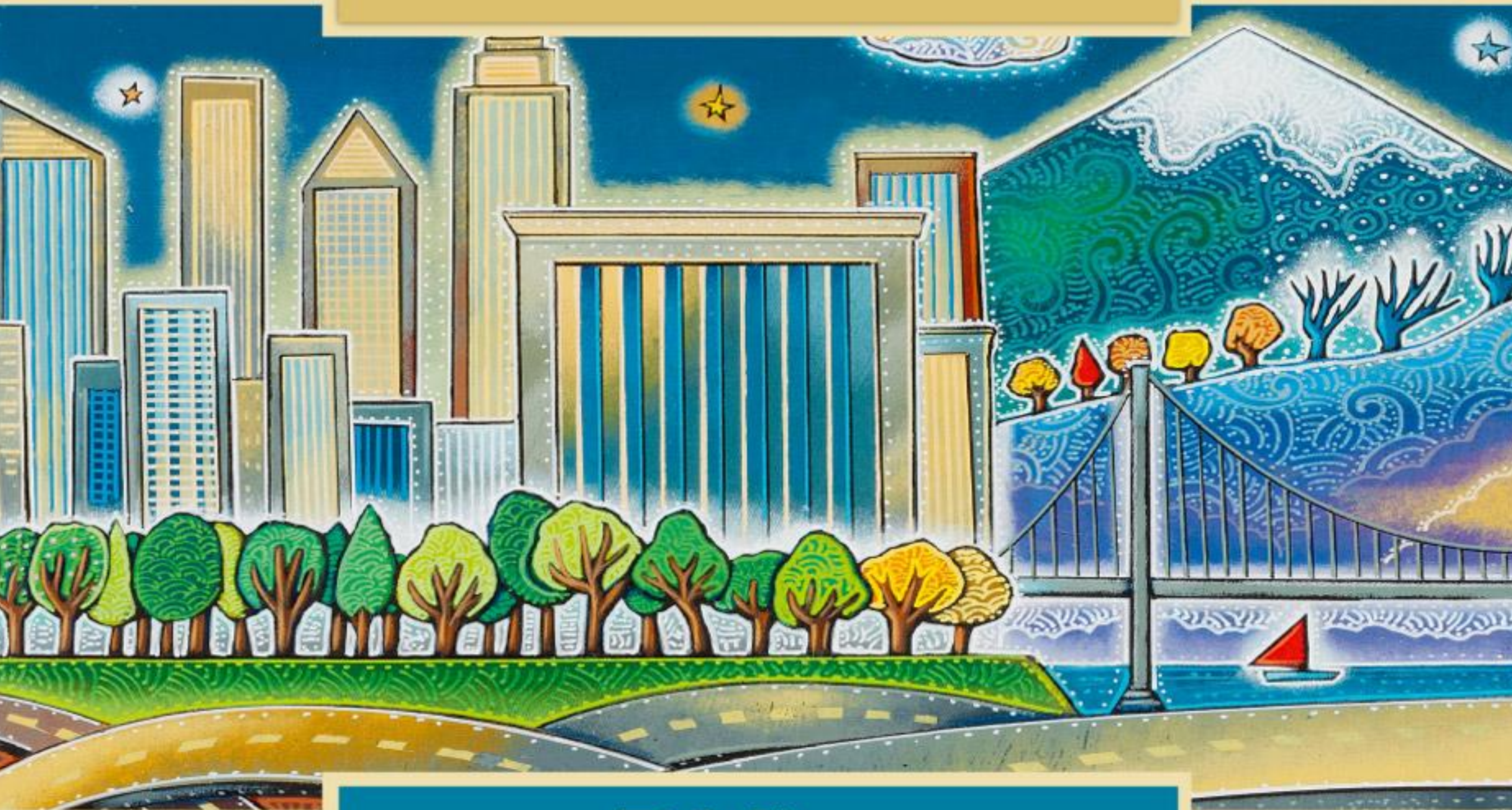
Acquisition Strategy



RLI

DIFFERENT WORKS

Strategy Statement

RLI's strategy statement drives our thinking regarding acquisitions.

RLI will continue to be a premier specialty underwriting company that achieves industry leading combined ratios and book value growth. As a highly regarded underwriting company, we will remain a destination for talented underwriters and entrepreneurial minded people. We will seek out difficult markets while adding diverse and less cyclical products to improve product portfolio balance. Although we will continue to emphasize profit maximization, we will enhance our ability to grow over the long term. This growth will be oriented towards organic opportunities and acquisitions that preserve the unique culture that has made RLI successful.

Acquisition Types

Although start-ups have been the predominant method of growth, acquisitions are sought to drive organic and inorganic growth.

FOCUS AREAS

Organic Growth - Growing existing products

- Acquisitions will tend to be mono-line in nature and smaller in size.

Inorganic Growth - Adding new specialty P&C products

- Acquisition will be either mono-line or multi-line.
- Mono-line acquisitions are ‘cleaner’ because integration efforts and risk are less.
- Diversified P&C companies are not ideal acquisition candidates because the overlap of multiple existing products creates significant integration and social challenges.
- Diversification is an important theme in these efforts.

Transformational - Acquiring outside the traditional boundaries of RLI.

- At this time, RLI is focused on acquisitions within the U.S. P&C underwriting market and oriented towards small to mid sized acquisitions that won’t fundamentally change our profile or culture.
- We do welcome opportunities to discuss transformational and outside-the-box ideas as we are continuously looking for opportunities to adapt our strategy and identify inflection points where a transformation would make sense.

Key Strategic Considerations

1. **Ability to reduce cyclicality** by introducing less correlated products.
2. **Complementary to RLI culture**; entrepreneurial mindset, niche orientation, focus on talent
   A. **Acquired talent** that can perpetuate previous strong results or an opportunity to deploy existing RLI talent to improve results.
   B. **A "shared rewards" mentality**, or a culture that would benefit from (and succeed in transitioning to) the introduction of RLI's culture.
3. **Consistency with RLI franchise**. Don't stray too far from core corporate competencies; consider reputation risk.
4. **Must ultimately fit within our 'owner-operator' model;** permanently aligned incentives
5. **Underwriting profit potential;** A demonstrated ability to produce consistent underwriting profit or a clear plan for how RLI resources can be employed to create such.
6. **Opportunity size must fit within our risk tolerance**

Strategic Fit of New Opportunities

Established preferences drive our evaluation of new products acquired via acquisition; the same framework employed for evaluating start-ups.

RLI Areas of ***preference***

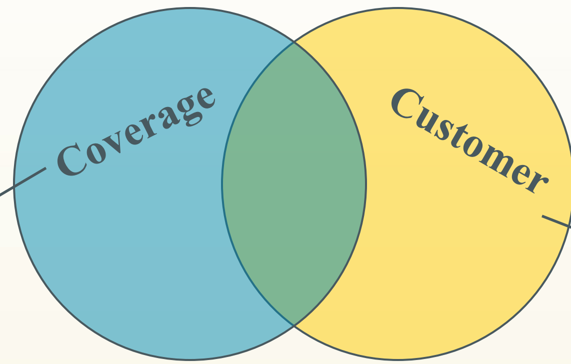
RLI Areas of ***Disinterest***

1. Commercial	Personal
2. Correlated w/exiting bus.	Uncorrelated
3. Individually underwritten	Template driven
4. Wholesale brokerage (steps removed from insured)	Direct to insured
5. Low transaction volume	High transaction volume
6. High loss volatility	Low loss volatility
7. Un-regulated	Highly regulated
8. Small ($2,500) avg account size	Large ($250,000+) avg account size
9. Low limits (under $1 Million)	High limits ($50 Million +)
10. Large Yr 5 premium potential ($100m)	Small Yr 5 premium potential ($10m)

Types of Niches

Customer focused growth represents the next phase of RLI development

2 ways to divide the market



Coverage Category Examples

- ◙ Property – general
- Accident & Health
- Boiler & machinery
- Aviation
- Event insurance
- Political risk
- ◙ Inland marine
- ◙ Crime
- ◙ Cyber Liability
- Trade credit
- ◙ Surety

- ◙ Casualty – general
- ◙ Professional liability
- ◙ D&O & EPL
- Kidnap & ransom
- ◙ Environmental
- Workplace violence/molestation
- ◙ Commercial auto
- Workers comp
- Terrorism
- Loss portfolio transfer

Recognized Niches

- Agribusiness
- Aviation & Aerospace
- ◙ Construction
- ◙ Design Professionals
- Education
- Energy
- Entertainment
- Financial services
- Fine arts
- Gaming
- Healthcare
- Hospitality
- Life sciences

- ◙ Marine
- Media
- Natural resources
- Not for profits
- Public entity
- Railroads
- Real estate
- Religious
- Restaurant
- Retail
- Technology
- Transportation
- Utilities

◙ Existing RLI expertise/focus

MGA ACQUISITION STRATEGY

RLI's MGA Acquisition Strategy

Acquired MGAs may serve as entry into new core products or as bolt-ons for existing products.

1. **New Product Category.** Acquisition of an MGA that could be converted into a stand-alone product.
   - Example: an MGA that specializes in the Fine Arts business becomes a group of in-house underwriters with P&L responsibility writing on RLI paper.

2. **Product Bolt-On.** Acquisition of an MGA with specific underwriting expertise in an existing RLI product
   - Example: an MGA that specializes in small-fleet trucking risks that could supplement RLI's existing transportation business that largely focuses on large trucking and bus accounts
   - These MGA would report up to an existing RLI product vice president and write on RLI paper.

Acquisition Attributes

The bar is set high for MGAs, particularly with regard to demonstrating an attractive long term underwriting profit.

RLI is looking for:

- Niche opportunities; those that allow for highly specialized underwriting talent, technology, or distribution.
- Companies that exhibit strong underwriting capabilities along with strong marketing and distribution.
- Demonstrable underwriting results including IBNR.
- Companies and management teams that have always wanted to capture more of the economic benefits that come with owning the underwriting profit.
- Management teams that wants to operate in an insurance company environment with strong financial and home office support while also enjoying a significant degree of autonomy and flexibility.
- Management teams that are willing to accept accountability for underwriting profitability.

RLI recognizes that the sale of an MGA is a major decision for both the buyer and the seller. RLI is interested in exploring transactions that include an initial traditional underwriting relationship with a plan for eventual ownership.

Case Study: Acquisition of CBIC

Transaction	RLI acquired CBIC from a private owner/founder for $130 million cash.
Company	CBIC writes about $30 million of surety business and $30 million of liability and package business targeted at small contractors. CBIC has an outstanding underwriting track record and is an excellent cultural fit.
Opportunity	RLI scales up a profitable surety niche into new states and obtains unique product expertise (contractor package) that can be sold through existing surety distribution channel.
Unique Attributes	RLI was approached directly by the seller, who placed significant importance on the quality of the acquiring company.