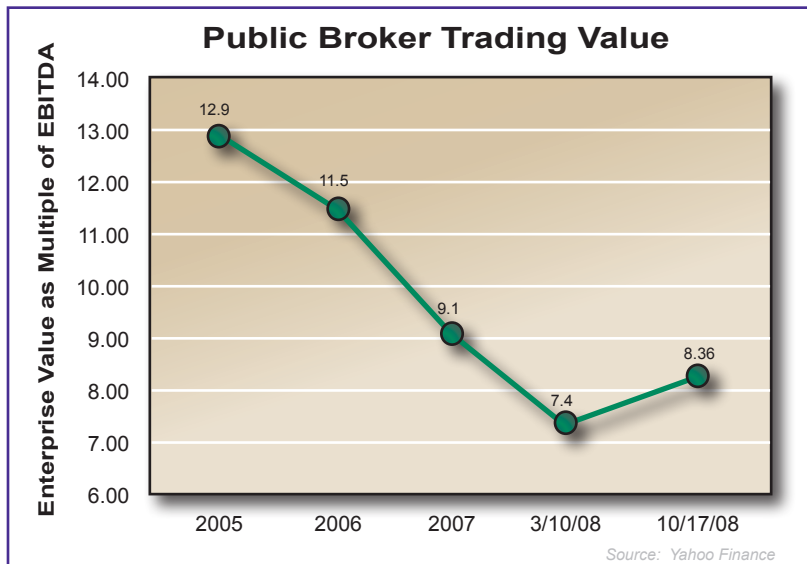


The Coming Hard Market

Despite the recent turmoil in the stock market, public brokers now appear to have become a safe haven for the investment community. Insurance brokerage is a cash flow business and surplus is only stockpiled to fund for core stability, perpetuation and acquisition activities. This is a marked difference compared to industries such as insurance carriers, financial institutions and securities firms that require a significant concentration of capital to offset underwriting exposure or to satisfy regulatory requirements. These companies have a heavy concentration of assets that by their very nature are exposed to market turmoil and economic changes. Insurance brokerage has no such asset class exposure, just plain simple cash flow at an 85% retention rate in a bad year.

Isn't it ironic that the root cause of the credit crisis is irresponsible underwriting? Irresponsible underwriting has run rampant on loans (extending credit to those not worthy) and in the transfer of risk (mortgage-backed securities and credit default swaps). Could irony become a premonition with respect to "irresponsible underwriting" within the P&C insurance distribution system?



While it appears that the balance sheets of some P&C carriers are sufficient to absorb the credit hit and the latest rounds of catastrophic events, we believe the term "irresponsible underwriting" has quickly become a wake-up call for underwriters. As some companies continue to drive down premiums again and again due to favorable retrospective combined ratios, for some the knife will have cut too deep by the time the music stops. If you were a P&C insurance company CEO and you could go forward in time three years and look back to today, would you stop the price slashing in order to keep your company solvent? If you were such a CEO looking back to today would you see a dollar sign or a tombstone?

The economic turmoil combined with the insurance industry's sliding profitability, net underwriting losses, increasing combined ratios and falling investment gains in 2008 indicate that rate stability and hardening may accelerate ahead of MarshBerry's initial 2010 first quarter projection. Unfortunately, the shift in rate during 2009 may well be offset by a reduction in per insured revenue due to reduced underlying risks (insured payroll, assets and sales) if the economy does not stabilize.

Wall Street has proven that genius prognostication can often be nothing more than blissful ignorance. We believe the above table also suggests that Wall Street is placing a bet that responsible underwriting will become fashionable in the insurance industry and is positioning to ride the coming hard market just like the last cycle. We hope their bad luck at gambling has run out.

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