



October 2009

A Steady Marketplace

Guy Carpenter Fifth Annual Specialty Insurance Program Issuing Carrier Marketplace

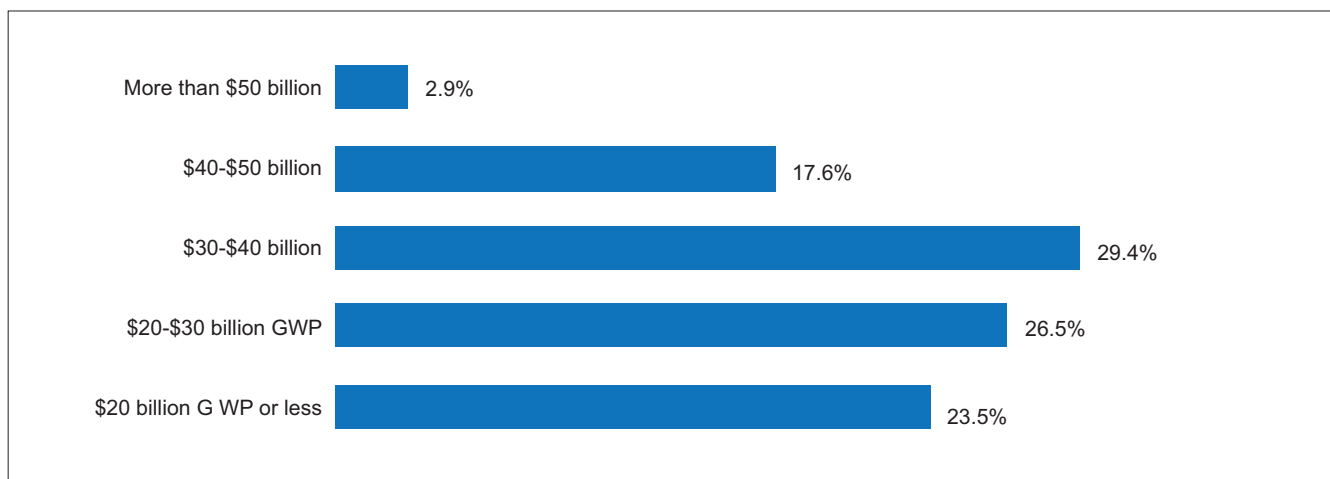
The Program Administrators and Managing General Agents (PA/MGA) market has remained remarkably consistent from 2008 to 2009, despite the outbreak of the worst financial crisis in more than 70 years. While the number of respondents perceiving market growth has declined since last year, the outlook remains quite upbeat, especially given the year's tumultuous market conditions.

While Guy Carpenter & Company, LLC ("Guy Carpenter") attempts to maintain survey consistency from one year to the next, we have to balance this goal against the emerging needs of the PA/MGA marketplace. Further, respondents change each year. Thus, we provide this service as a benchmark for key industry issues rather than as an effort to capture granular detail. Our goal is to shed light on the direction of the PA/MGA market and stimulate appetites for program business. We thank all who replied for investing time in this effort.

Market Size and Dynamics

Almost uniformly, respondents perceive the PA/MGA market to be large. Seventy-six percent estimate the total PA/MGA market to be at least USD20 billion in gross written premium (GWP), which is down from 92 percent last year, likely because the financial crisis has shaped perceptions across the industry. Twenty-seven percent specified a range of USD20 billion to USD30 billion, with 29 percent putting the market at USD30 billion to USD40 billion. Twenty-one percent believe that the PA/MGA market generates GWP in excess of USD40 billion. Respondents believing that the PA/MGA market generates less than USD20 billion in GWP increased from 8 percent in 2008 to 24 percent this year.

How large do you believe the current MGA/PA market is?



Source: Guy Carpenter & Company, LLC

MGA/PA Market Size

Last year, 56 percent of respondents indicated that the PA/MGA market was growing, with 32 percent believing it is flat and 12 percent thinking the market would shrink. This year, nearly half (46 percent) responded that the PA/MGA market would remain flat, with 37 percent forecasting growth and 17 percent anticipating that it will shrink.

Profitability perceptions, on the other hand, remain unchanged, with 92 percent of respondents estimating a combined ratio for the market of 90 percent to 100 percent, though only 49 percent put the market at 90 percent to 95 percent, down from 68 percent last year. So, while the industry is expected to remain profitable, the extent has changed.

The changes in financial conditions and expectations for the market have reshaped the challenges that MGAs are facing. Only 67 percent see new business production as a challenge, down from 77 percent last year. Premium growth has fallen as a concern, slipping from 66 percent last year to 58 percent this year. Maintaining current rate levels is perceived as being more challenging, with 61 percent of respondents citing it this year, compared to 58 percent last year.

Of the following program components, which five present the biggest challenges for you?



Source: Guy Carpenter & Company, LLC

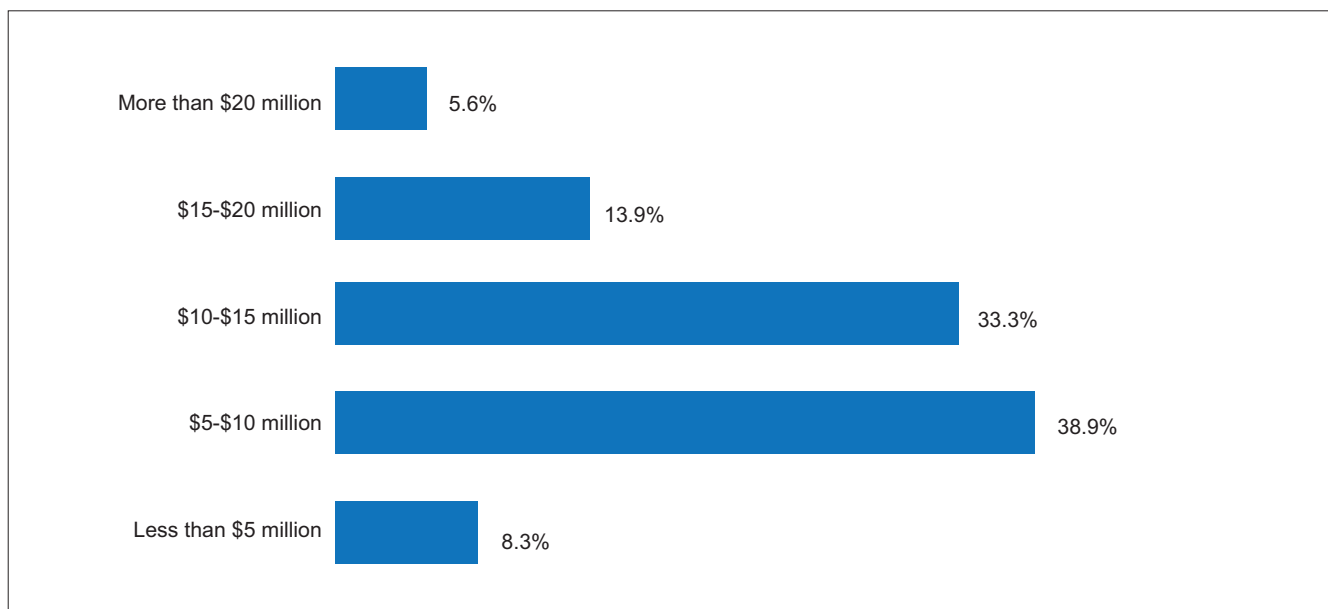
Five Greatest Market Challenges

Because of the dynamics of the insurance industry as a whole and the program market segment in particular, the challenges viewed as most important should be considered collectively rather than individually. A company's rate filings are going to affect the rate level it is able to charge. This, in turn, will determine how competitive its product is in comparison to new competitors and ultimately if it will be able to maintain or increase current premium levels. This year's respondents are obviously working through this set of interrelated challenges.

Program Appetite

Program appetite suggests growth potential. Most PAs/MGAs want to know the program sizes in which carriers are interested relative to annual minimum GWP thresholds. Survey results indicate that there is interest in programs of almost all sizes. Eight percent of the respondents are targeting programs with GWP below USD5 million GWP, equivalent to last year, though only 6 percent are seeking programs greater than USD20 million in GWP (half the 2008 amount). The remaining 86 percent are looking for program sizes between the two extremes.

Target program size

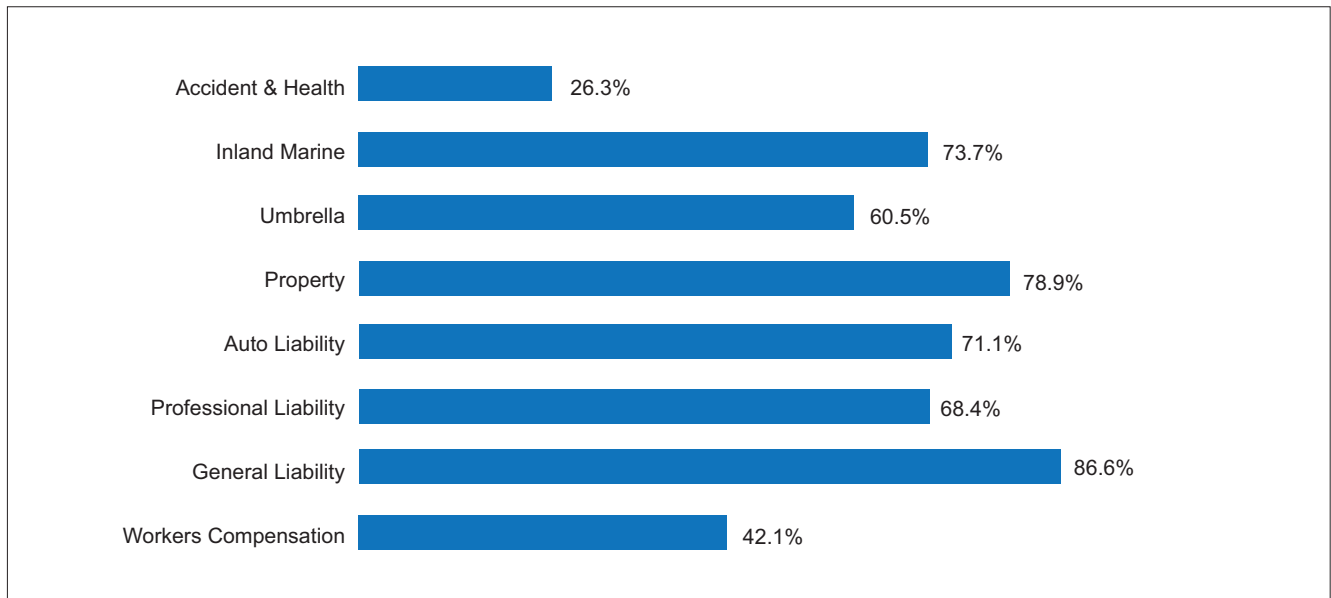


Source: Guy Carpenter & Company, LLC

Target Program Size

In regards to commercial lines, 2009 did not differ substantially from 2008. PAs/MGAs generally are focused on growing the same lines of business, particularly inland marine, property and auto liability, though professional liability interest did climb, equaling auto liability, and general liability surged. Umbrella liability, which grew from 26 percent in 2007 to 62 percent last year, remained relatively stable at 61 percent in 2009.

Commercial lines appetite



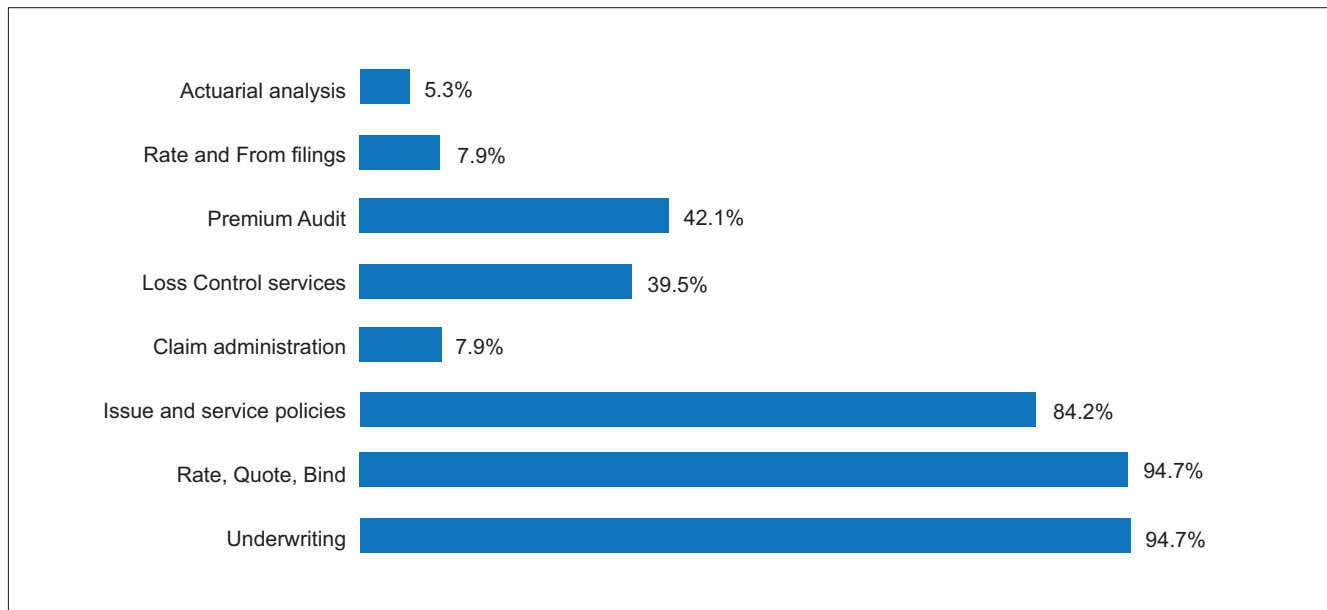
Source: Guy Carpenter & Company, LLC

Personal lines interest changed again this year. Only 21 percent of respondents expressed an interest in growing business in the homeowners segment, returning to its 2007 level after jumping to 31 percent last year. Auto remains at 16 percent, virtually unchanged from last year, and personal umbrella fell by half to 8 percent.

Operating Platform

Carriers are still flexible with regard to the services that PAs/MGAs provide, including system use and claim handling. Ninety-five percent of respondents expect the PA/MGA to underwrite, rate, quote and bind the business, as well as issue and service policies, up from 80 percent in 2008. Loss control and premium audit services remain important to some carriers, securing 40 percent and 42 percent, respectively – roughly unchanged year-over-year.

What services do you expect your program administrators to perform?



Source: Guy Carpenter & Company, LLC

The buyers' market continues, but the desire for new business while maintaining rate levels remains critical. This year's respondents continue to have robust procedures in place to monitor results and control the processes involved in working with PAs/MGAs. Sixty-seven percent of all respondents conduct two or more underwriting and operational audits of the PA/MGA each year, which is down from 92 percent in 2008 and 86 percent in 2007.

Reinsurance Purchasing

Reinsurance continues to play an important role for program issuing carriers. No respondents this year indicated that they work exclusively with direct reinsurers. Rather, 37 percent work with reinsurance intermediaries, and 63 percent use a combination of intermediaries and direct reinsurers. This represents a substantial shift from 2008, in which 83 percent used both intermediaries and direct reinsurers.

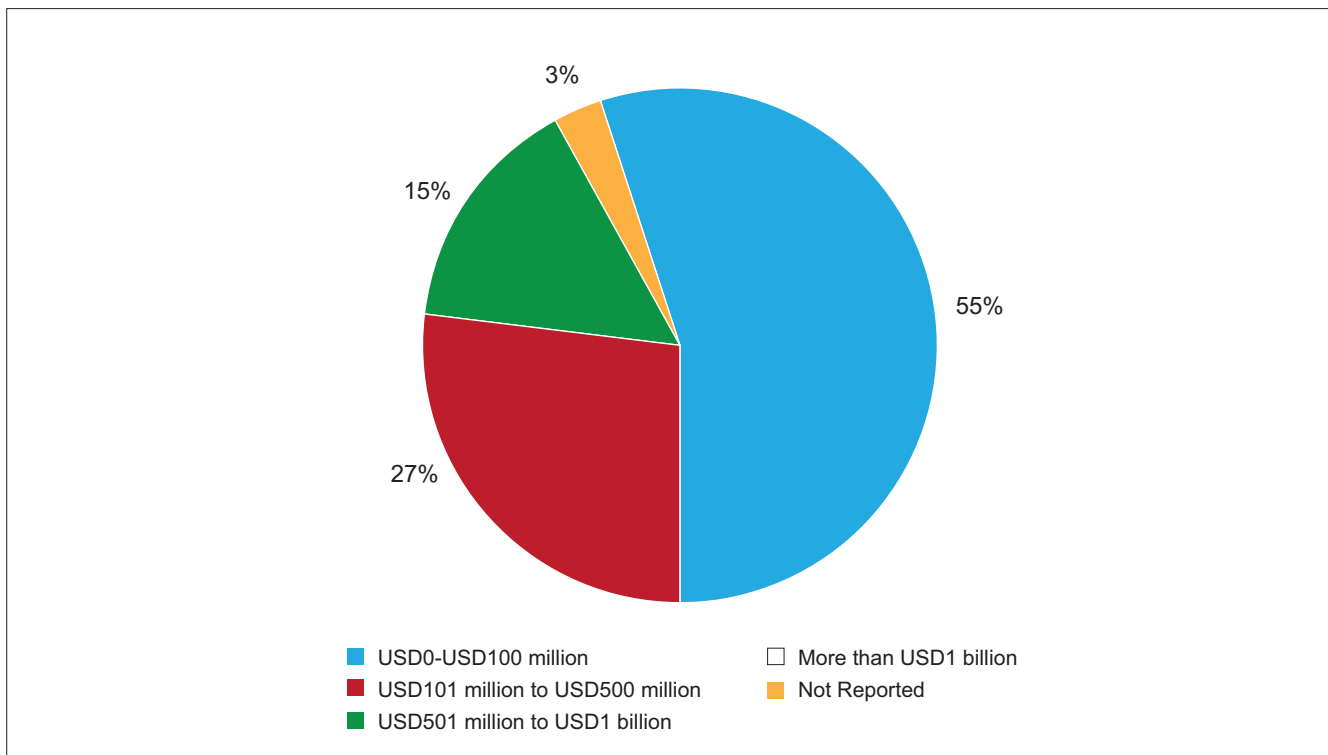
Structural preferences have changed, as well. Last year, 50 percent of respondents indicated that they prefer quota share. This year, quota share dropped to 33 percent, commensurate with the 30 percent indicated in 2007. Excess of loss grew from 50 percent last year to 67 percent in 2009, putting it ahead of the 2007 response rate of 61 percent.

Tighter financial conditions have had a slight impact on MGAs' willingness to compensate reinsurance intermediaries when program-specific reinsurance is not purchased. Last year, all respondents indicated that they would compensate intermediaries either by paying a finders fee or increasing MGA commissions. This year, 18 percent said they would do neither. Forty-eight percent are willing to pay a finders fee (down from 69 percent in 2008), and 45 percent would increase the MGA commission so they can pay the intermediary (up from 31 percent).

About the Respondents

This year, the number of traditional multi-line insurance carriers increased from 50 percent to 63 percent, with specialty carriers slipping to 34 percent. The response in 2007 was equivalent to 2008. More than half of all respondents had 2008 GWP of less than USD100 million, and 24 percent were between USD101 million and USD500 million. None wrote more than USD1 billion in 2008.

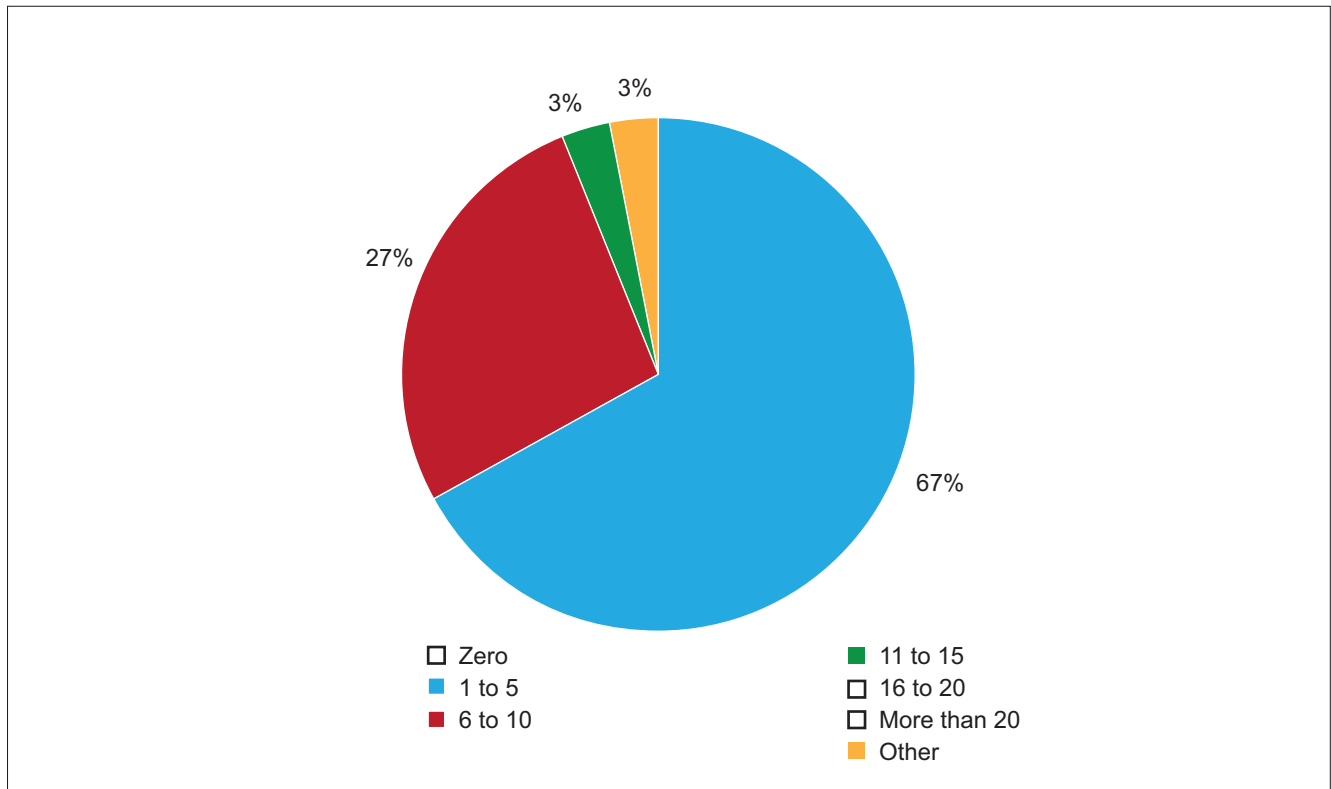
Respondents by 2009 program writing size



Source: Guy Carpenter & Company, LLC

Few changes are expected for the rest of the year, as most respondents did not indicate that their sizes will increase or decrease substantially. Forty-five percent of respondents indicated that they are likely to exceed USD100 million in GWP compared to 33 percent in 2008. Nearly 70 percent respondents plan to write between one and five new programs in 2009, with 27 percent anticipating six to 10 new programs.

Number of new programs for 2009

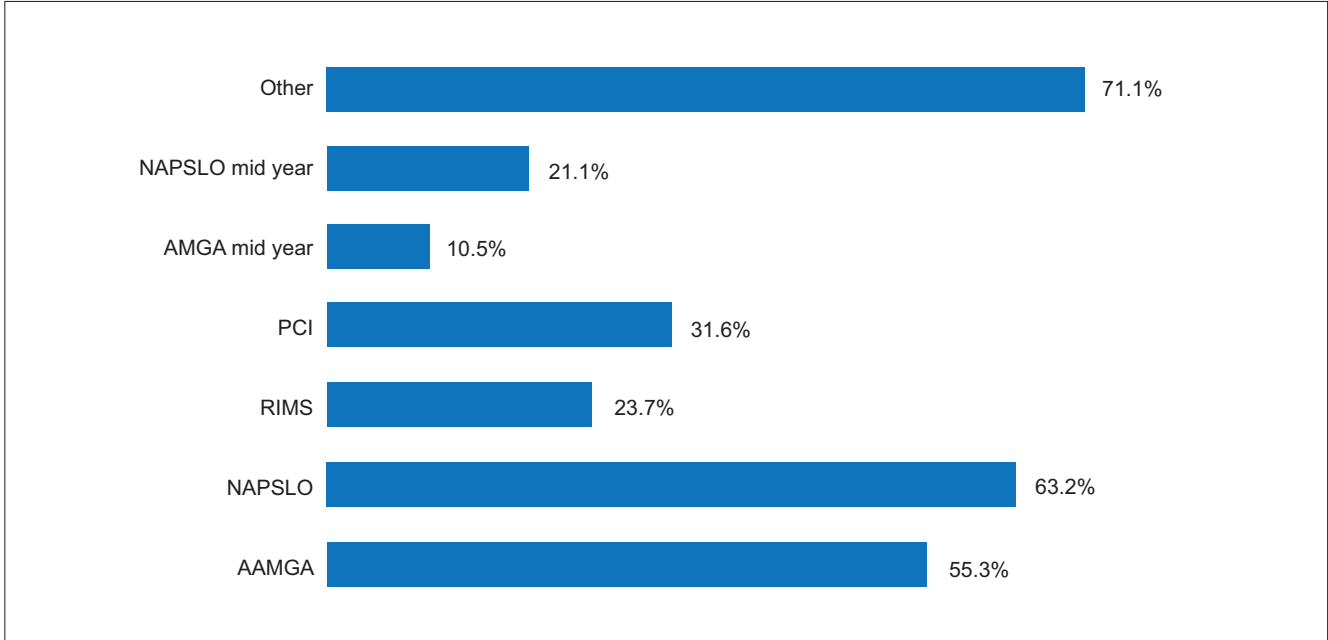


Source: Guy Carpenter & Company, LLC

Eighty-seven percent of respondents have access to admitted paper in 41 or more states. Only 8 percent are admitted in 25 or fewer states, while 6 percent are admitted in 26 to 40 states. Eighty-eight percent of respondents have access to non-admitted paper in 41 or more states up from last year's 75 percent and consistent with 2007's 86 percent.

Carrier interest in industry meetings and conferences continued to increase in 2008. This year, NAPSLO is the most popular with our respondents, as 63 percent claim they benefit from attending, roughly unchanged year-over-year. But, the AAMGA annual meeting, last year's most popular event, slipped behind NAPSLO. Seventy-one percent replied that they benefited from other conferences such as Peak Performance, PLUS, VCIA, to name a few; this is basically unchanged from 2008. Mid-year meetings are less popular, with only 11 percent of respondents saying they benefit from the AAMGA mid-year meeting and 21 percent for the NAPSLO mid-year event.

Being a program witer, what annual meetings/conventions do you benefit from attending?



Source: Guy Carpenter & Company, LLC

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Guy Carpenter Briefing

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