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GUY CARPENTER

November 2010

Change and Consistency

Guy Carpenter Sixth Annual Specialty Insurance Program Issuing Carrier Marketplace Survey

Executive Summary

Little has changed at the core of the Program Administrators and Managing General Agents (MGA/PA) market from last year, though there has been activity in targeted areas. In general, the MGA/PA space has shown progress in recovering from the 2008 financial crisis and subsequent recession, indicating resilience, consistency and strength. Yet, over the past five years, since Guy Carpenter & Company, LLC ("Guy Carpenter") began tracking the MGA/PA market, there have been some significant shifts, showing that the market has matured.

Among the notable trends that we have observed are a growth in the number of carriers entering the space and an increase in the number of MGAs shifting to writing specialty-driven lines from more commodity-driven lines. Also, MGAs have become more sophisticated as they focus on more complex commercial risks using cutting edge analytical and underwriting tools.

While 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 MGA/PA 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 MGA/PA market and stimulate appetites for program business. We thank all who replied for investing time in this effort.

Market Size and Dynamics

Consistent with the past five years, respondents perceive the MGA/PA market to be large. This year, 90 percent estimate the total MGA/PA market to be at least USD20 billion in gross written premiums (GWP), approaching the 2008 peak of 92 percent. Roughly a third of the participants in this survey estimate the market at greater than USD40 billion in GWP, the highest level in the five years Guy Carpenter has conducted this survey. Respondents believing that the MGA/PA market generates less than USD20 billion in GWP fell from 20 percent last year to 11 percent this year. Like the general increase in size perceived, this is likely the result of restored capital positions following the 2008 financial crisis.

Five years ago, only 5 percent of survey respondents believed that the MGA/PA market was greater than USD50 billion in size, with single-digit perspectives remaining the norm until this year. The number of participants in the USD25 billion-to-USD40 billion range has increased generally over the past half-decade, as well, indicating that perceived growth has become the norm for this market.

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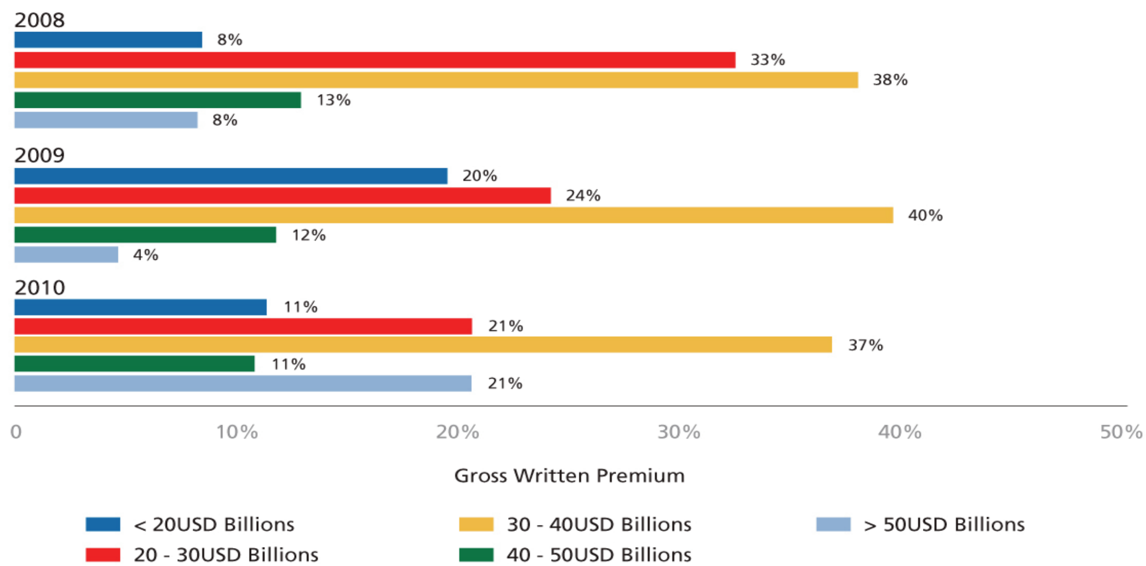
HOW LARGE DO YOU BELIEVE THE CURRENT MGA/PA MARKET IS?

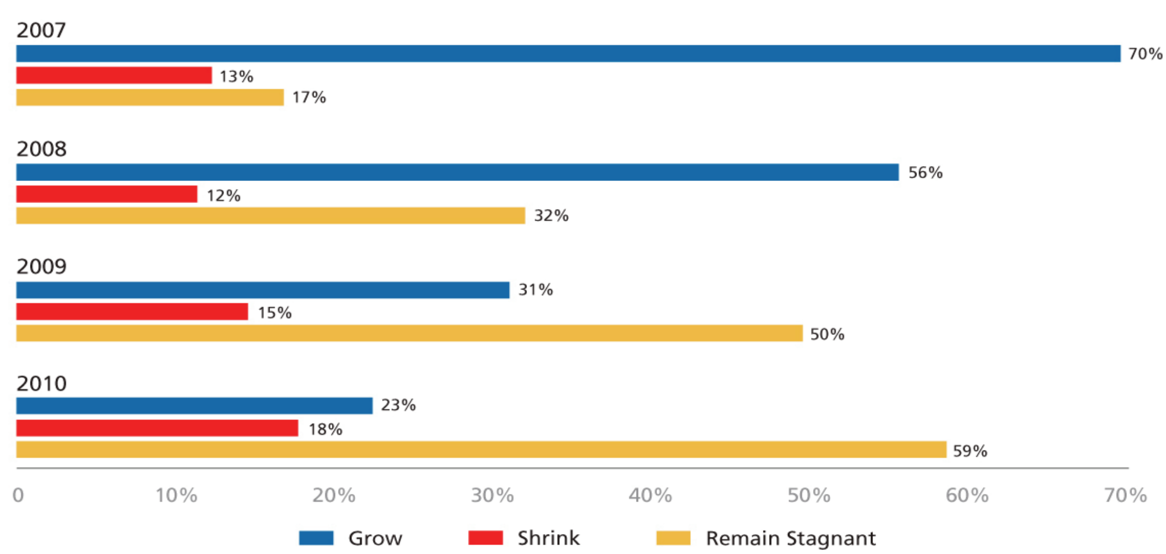


Source: Guy Carpenter & Company, LLC

MGA/PA Market Size

Last year, 31 percent of respondents indicated that the MGA/PA market was growing, with 50 percent believing it would be flat and 15 percent thinking the market would shrink. This year, stability seems to be the prevailing observation, with 59 percent of respondents seeing virtually no change. Only 23 percent are forecasting growth and 18 percent expecting it to shrink.

DO YOU ANTICIPATE THE MGA/PA PROGRAM MARKET GROWING, SHRINKING OR REMAINING FLAT DURING 2010?



Source: Guy Carpenter & Company, LLC

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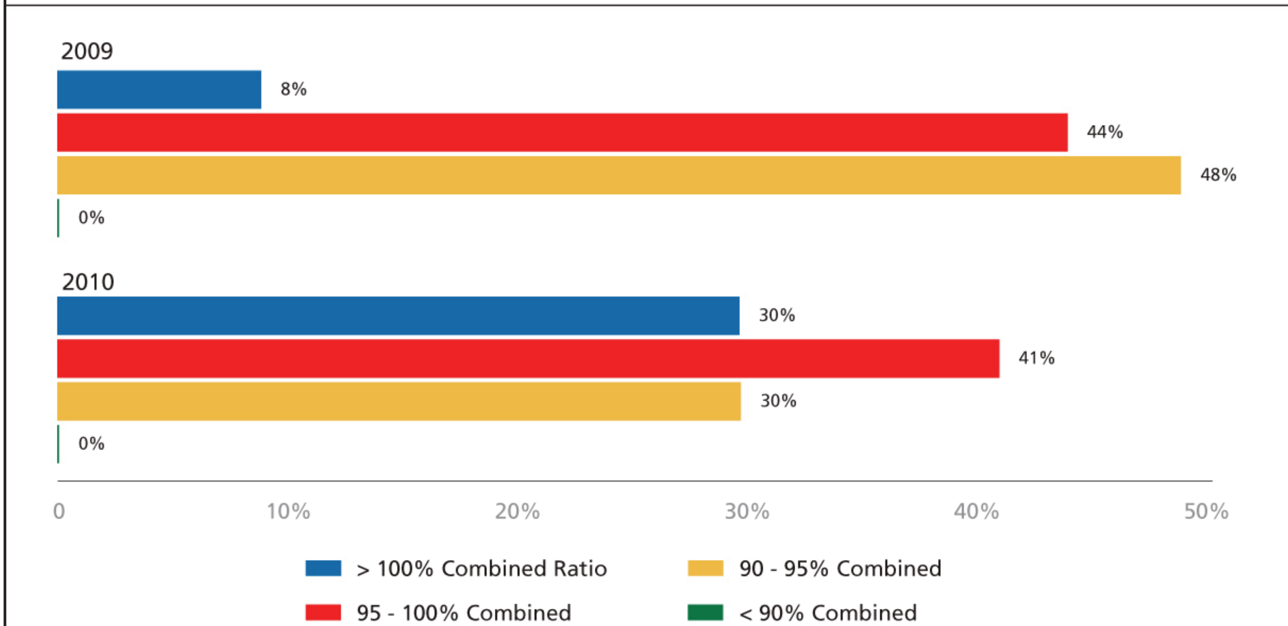
Profitability perceptions have dropped, however. Thirty percent estimate a market-wide combined ratio of above 100 percent, a drastic change from 8 percent in 2009. Last year, 92 percent of respondents estimated a program market combined ratio of 90 percent to 100 percent. In 2010, it fell to 71 percent of respondents. This reflects a continuation of last year's trend of declining profitability, as perceived by survey respondents.

HOW PROFITABLE IS PROGRAM MARKET?



Source: Guy Carpenter & Company, LLC

Greatest Market Challenges

However, business priorities appear to have changed. Only 51 percent indicated that new business production is a challenge, compared to 61 percent last year, which is down from 77 percent in 2008. Only 42 percent see premium growth as a challenge, falling from 54 percent last year and 65 percent the year before. Rate levels, on the other hand, continue to be of concern for the MGA/PA market: climbing to 71 percent this year from 64 percent in 2009 and 58 percent in 2008.

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.

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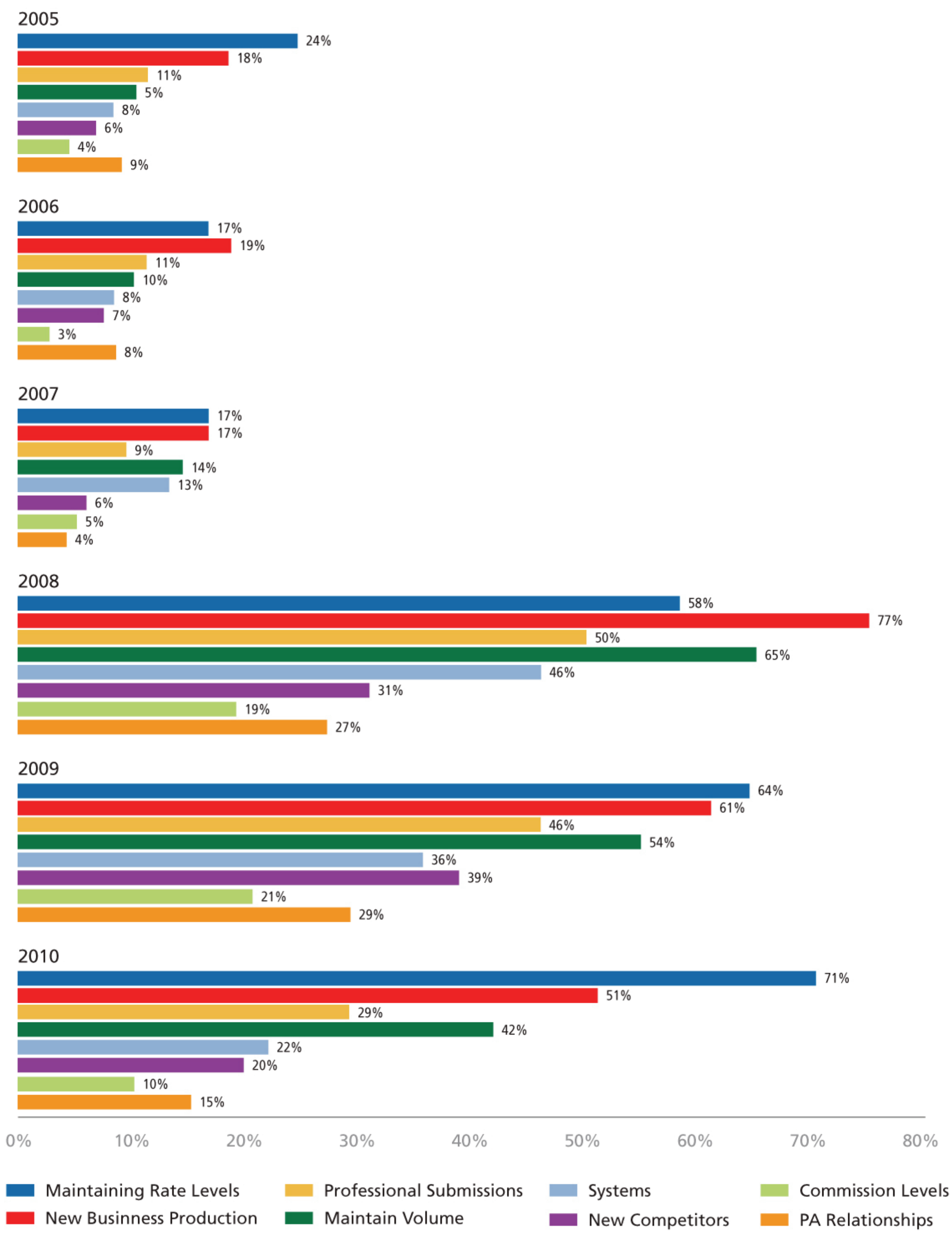
OF THE FOLLOWING PROGRAM COMPONENTS, WHICH THREE PRESENT THE BIGGEST CHALLENGES FOR YOU AS AN INSURANCE COMPANY WRITING PROGRAMS OVER THE COURSE OF THE NEXT 12 MONTHS? PLEASE SELECT THREE



Source: Guy Carpenter & Company, LLC

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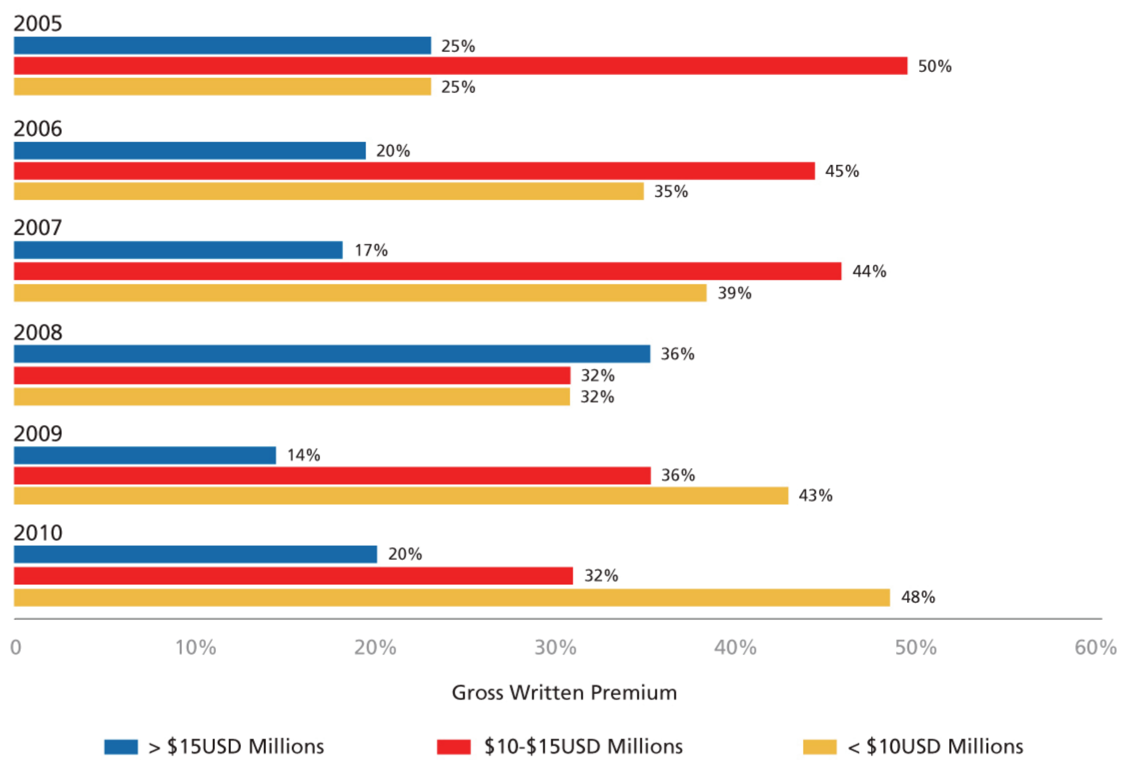
Program Appetite

Program appetite suggests growth potential. Most MGAs/PAs 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. Twenty percent of the respondents are targeting programs with GWP above USD15 million, and 32 percent are targeting programs with USD10 million to USD15 million in GWP, with nearly half (48 percent) looking for programs with GWP of under USD10 million.

WHICH BEST FITS YOUR TARGETED ANNUAL PROGRAM SIZE?



Source: Guy Carpenter & Company, LLC

Since 2005, MGA/PA interest in smaller programs has grown profoundly. In 2005, only 25 percent of survey respondents sought programs of USD10 million or less. This year, the result was much higher, having almost doubled. The middle of the marketplace is getting squeezed, as MGAs/PAs seek growth in places where they may not have looked in the past.

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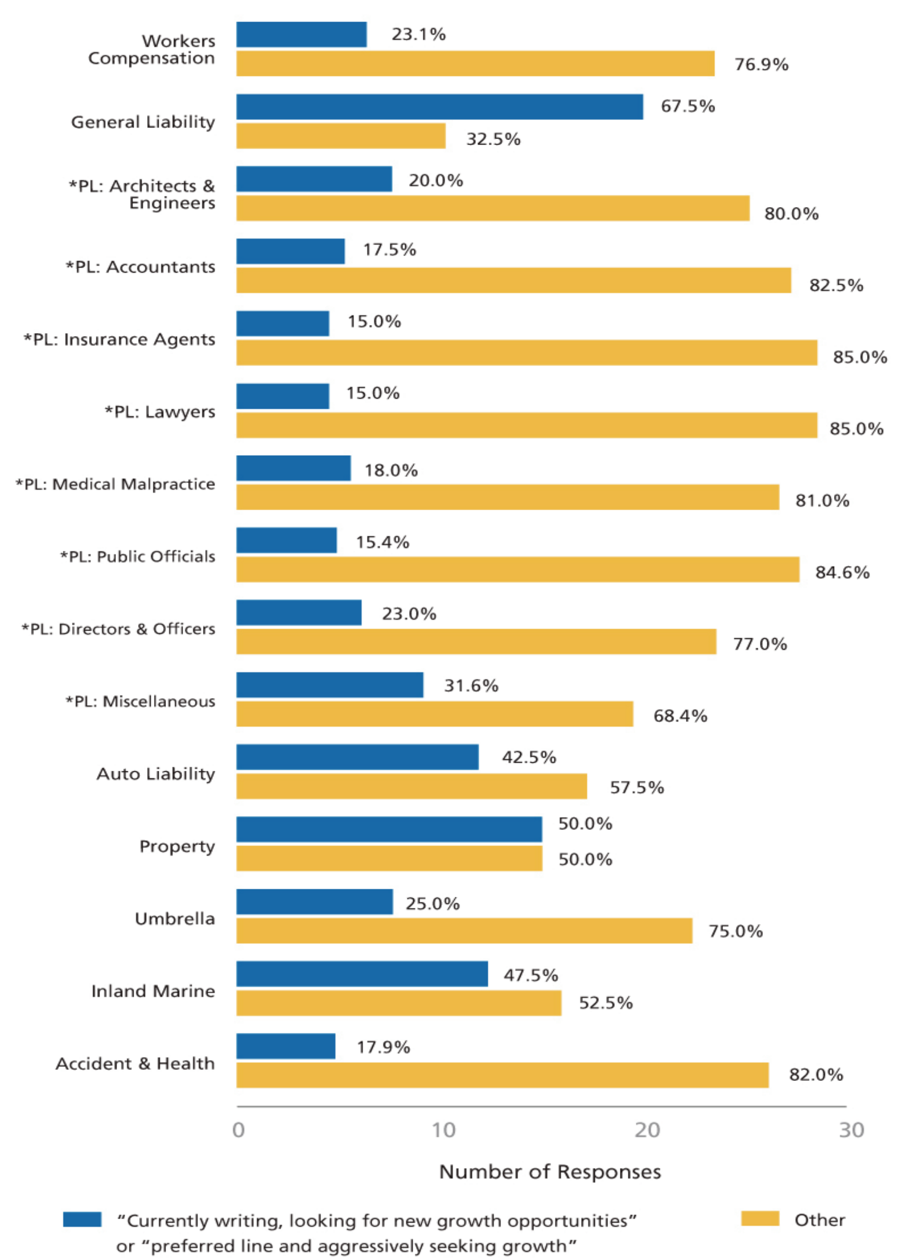
Target Program Size

Interest in growing most commercial lines was low. General liability stood out, with 67.5 percent of respondents indicating an appetite for it. Property, inland marine and auto liability also resonated with many respondents – at 50 percent, 47.5 percent and 42.5 percent, respectively. For the remainder, less than a third of survey participants indicated an appetite for growth. Generally, we see MGAs becoming more sophisticated as they focus on more complex commercial risks using cutting edge analytical and underwriting tools.

COMMERCIAL LINES APPETITE

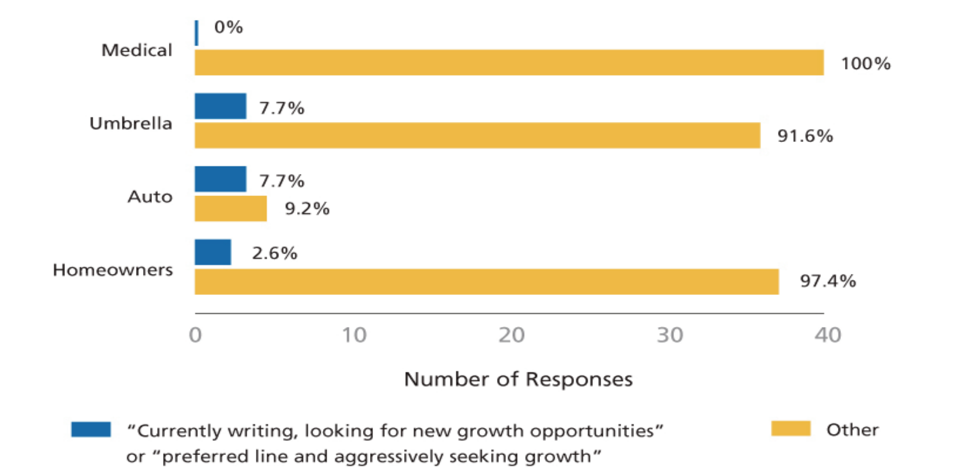


*PL = Professional Liability

Source: Guy Carpenter & Company, LLC

Interest in growing personal lines was also modest, with umbrella and auto lines garnering 7.7 percent of the attention of respondents each. There was no indicated interest in growing medical lines of business, and only 2.6 percent of survey participants expressed an appetite for more homeowners business.

PERSONAL LINES APPETITE

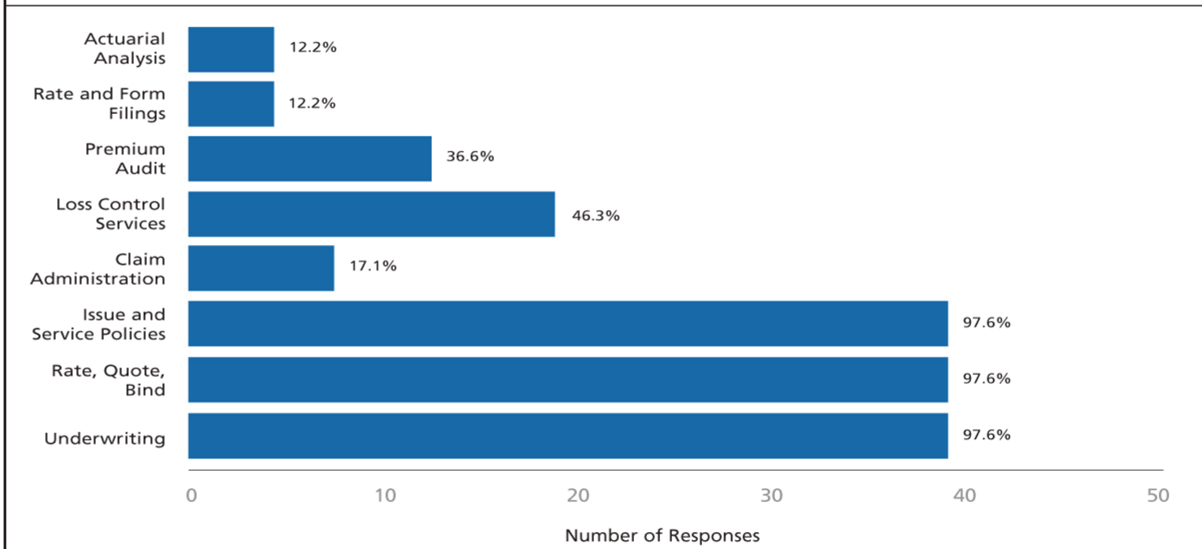


Source: Guy Carpenter & Company, LLC

Operating Platform

Carriers are still flexible with regard to the services that MGAs/PAs provide, including system use and claim handling. Ninety-eight percent of respondents expect the MGA/PA to underwrite, rate, quote and bind the business, as well as issue and service policies, up slightly from 95 percent in 2009 and showing another year of growth relative to 2008's 80 percent. Loss control and premium audit services remain important to some carriers, securing 47 percent and 37 percent, respectively – roughly unchanged year-over-year (as it was from 2008 to 2009).

WHAT SERVICES DO YOU EXPECT YOUR PA TO PERFORM?



Source: Guy Carpenter & Company, LLC

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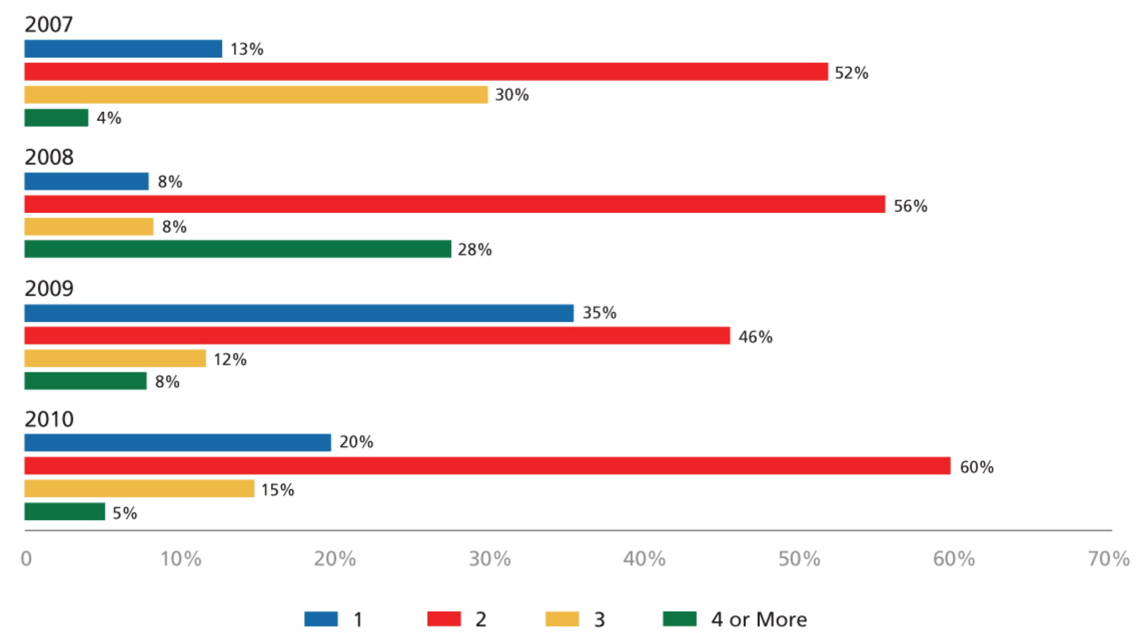
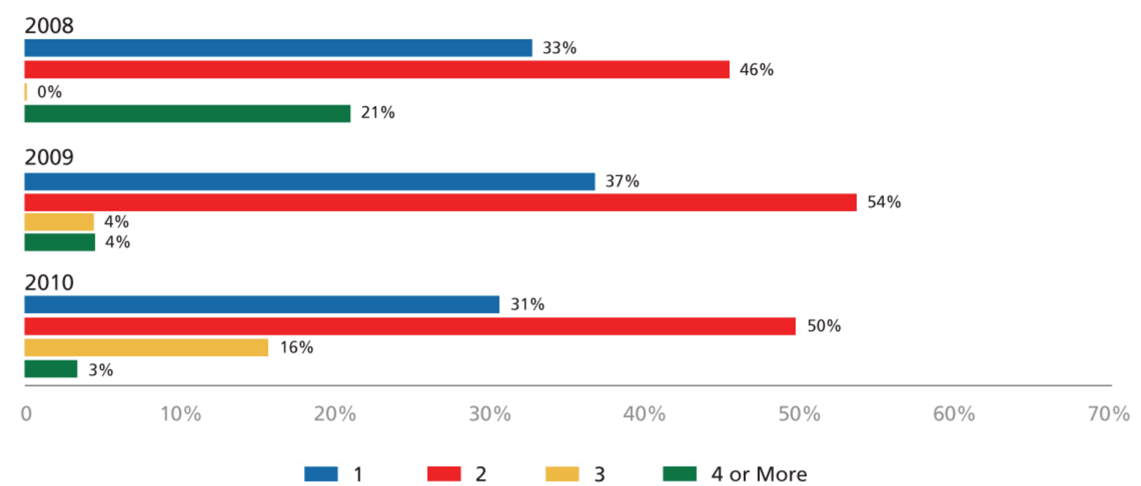
With regard to monitoring activities, the long-term trend reflects an increase in carrier operations management, as they seek to manage underwriting and claims more effectively.

NUMBER OF U/W - OPERATIONAL AUDITS EACH YEAR



Source: Guy Carpenter & Company, LLC

NUMBER OF CLAIM AUDITS EACH YEAR



Source: Guy Carpenter & Company, LLC

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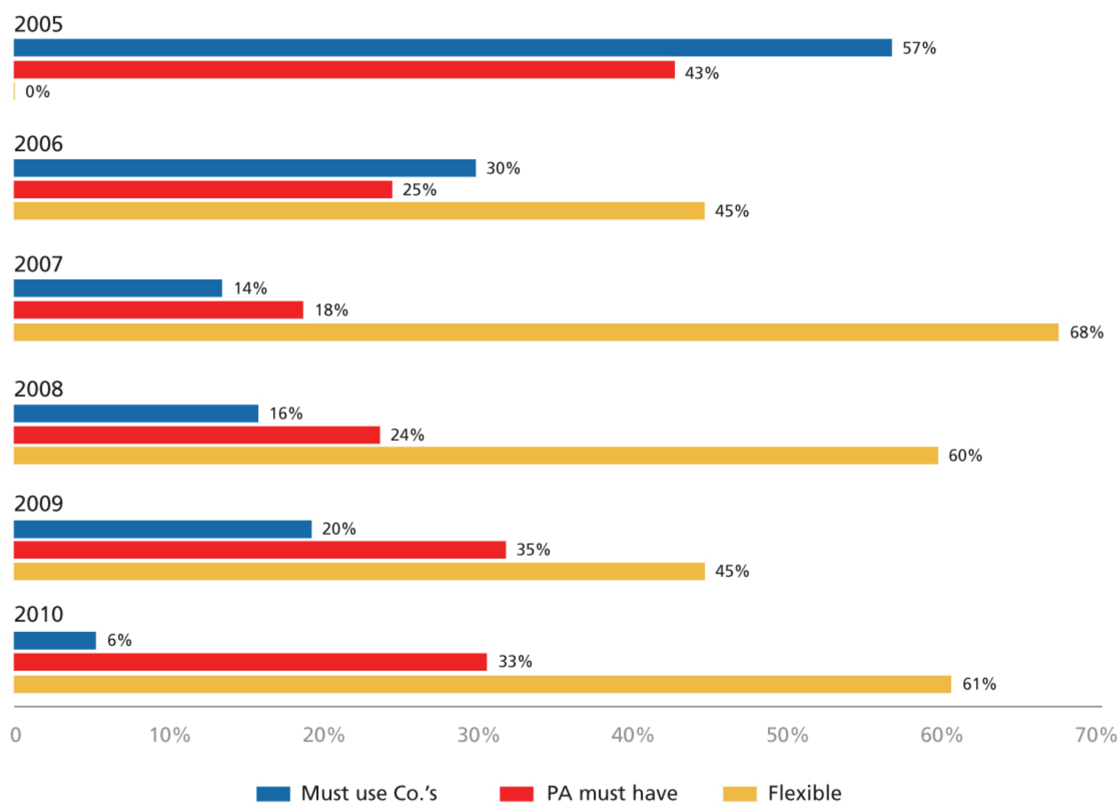
Interestingly, since 2005, carriers have been pushing more work to the MGAs/PAs, including actuarial filings and reporting. It seems likely that this is the result of cost management efforts by insurers, who seek to reduce expenses by moving workload to the MGA/PA level. Yet, insurers are becoming more flexible in regards to the use of their systems by MGAs/PAs. In 2005, 57 percent of carriers required this, compared to 6 percent this year. This reflects an effort by insurers to entice MGAs to do business with them in an effort to increase revenues and affect growth.

COMPANY SYSTEMS REQUIREMENTS



Source: Guy Carpenter & Company, LLC

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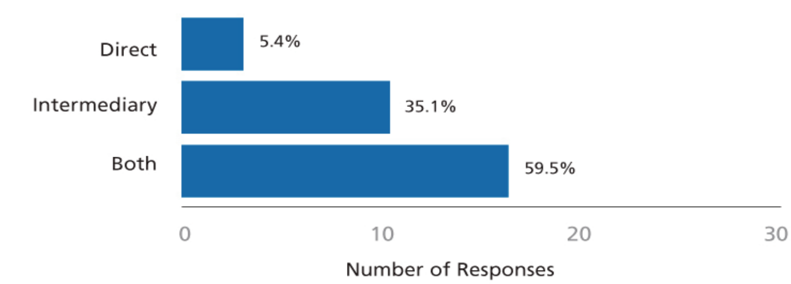
Reinsurance Purchasing

Reinsurance continues to play an important role for program issuing carriers. Only 5 percent of respondents this year indicated that they work exclusively with direct reinsurers (up from none last year). Meanwhile, 35 percent work with reinsurance intermediaries, and 60 percent use a combination of intermediaries and direct reinsurers – virtually unchanged from last year. Yet, it's still a vast departure from 2008, in which 83 percent used both intermediaries and direct reinsurers.

HOW DO YOU APPROACH REINSURERS?

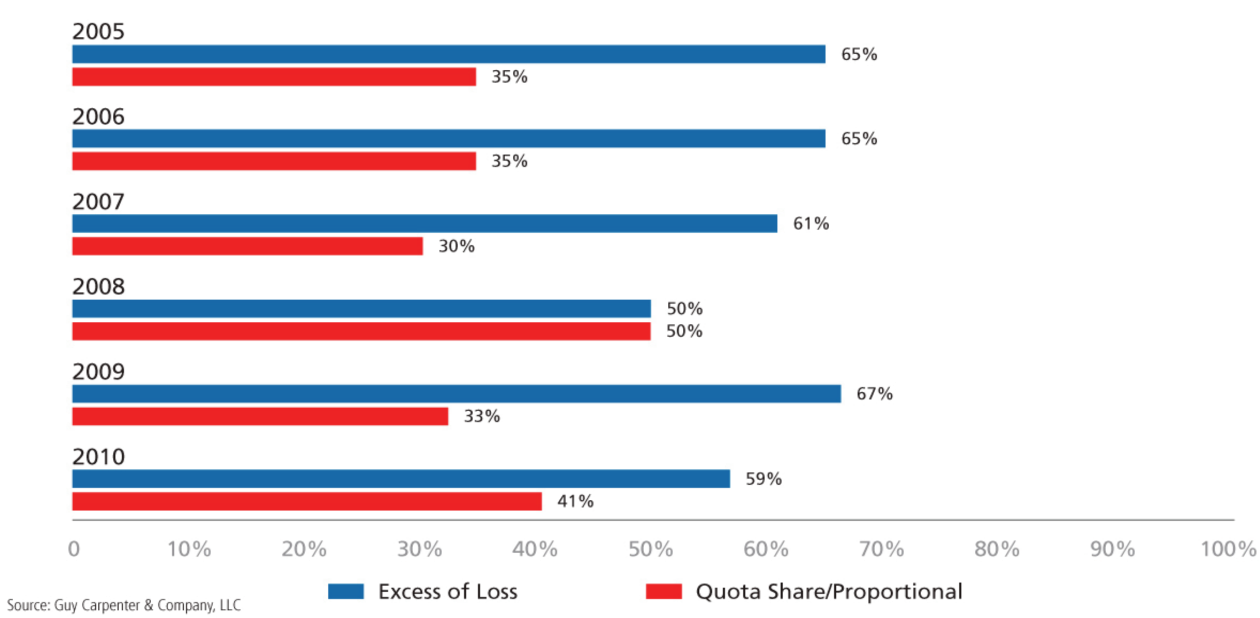


Source: Guy Carpenter & Company, LLC

About the Respondents

Structural preferences have changed, as well. Excess of loss continues to be most popular, though falling slightly. Last year, 67 percent of respondents indicated that they prefer excess of loss structures, falling to 59 percent this year. Interest in quota share grew to 41 percent. In 2008, interest in the two structures was split evenly, and in 2007, only 30 percent preferred quota share. Increases in program-specific reinsurance indicate that buyers are likely less comfortable with expected results and are willing to lean on first dollar protection for the first few years. We have seen this trend develop over the past five years. Respondents indicated that they will take advantage of the soft reinsurance market to help them grow top line.

WHAT STRUCTURE DO YOU PREFER?



Source: Guy Carpenter & Company, LLC

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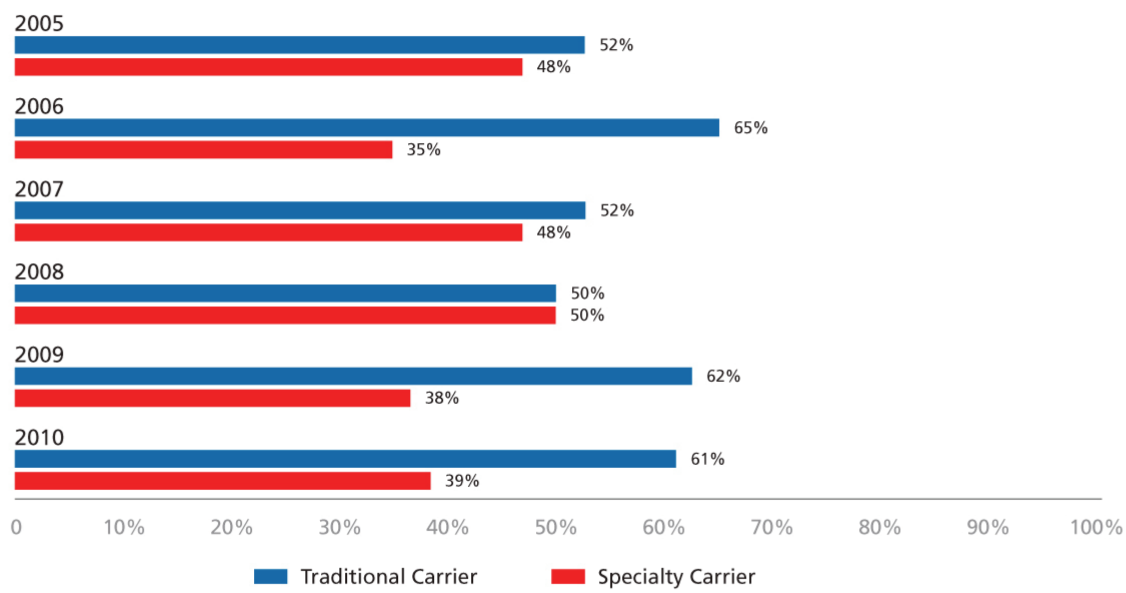
Last year, tighter financial conditions had a slight impact on MGAs' willingness to compensate reinsurance intermediaries when program-specific reinsurance was not purchased. Only 48 percent were willing to pay a finder's fee (down from 69 percent in 2008), with 45 percent willing to increase the MGA commission so they can pay the intermediary (up from 31 percent in 2008). This year, the situation is slightly better for intermediaries: 59 percent are willing to pay a finder's fee, 49 percent say they would increase the MGA commission and only 5 percent say they would do neither.

This year, the number of traditional multi-line insurance carriers stayed steady at 61 percent (compared to 62 percent last year), with specialty carriers climbing slightly to 39 percent. Nearly half of all respondents had GWP of under USD100 million – 44 percent compared to more than 50 percent last year. The number of mid-sized MGAs/PAs (GWP of USD101 million to USD500 million) grew significantly, from 24 percent in 2009 to 38 percent this year. Eight percent had GWP of USD501 million to USD1 billion, and 5 percent exceeded the USD1 billion threshold – which none did last year.

PROGRAM OPERATIONS



Source: Guy Carpenter & Company, LLC

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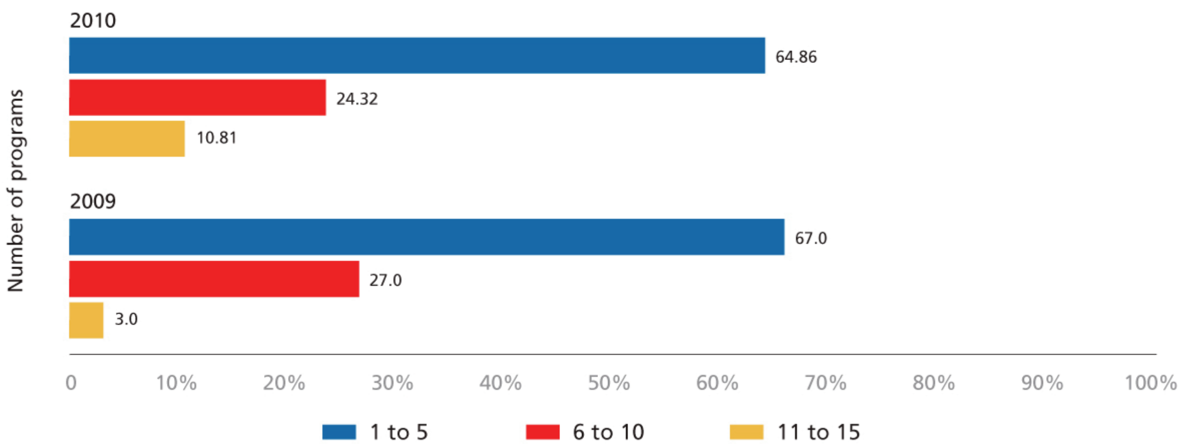
Sixty-seven percent of respondents are only planning to write between one and five programs this year, with 27 percent planning on six to 10 and 3 percent planning on more than 10 programs.

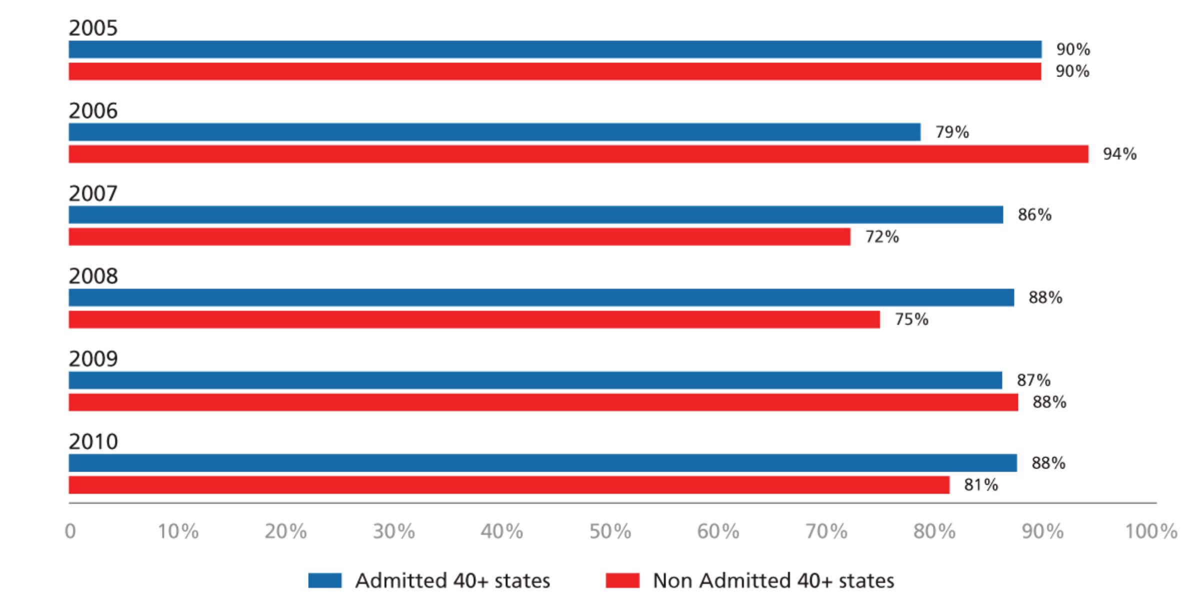
NUMBER OF PROGRAMS PLANNING TO WRITE IN 2010



Source: Guy Carpenter & Company, LLC

Eighty-eight percent of respondents have access to admitted paper in 41 or more states, roughly the same as last year. Only 8 percent are admitted in 25 or fewer states, while 5 percent are admitted in 26 to 40 states. Eighty-one percent of respondents have access to non-admitted paper in 41 or more states, down slightly from last year's 88 percent.

ADMITTED VS. NON ADMITTED



Source: Guy Carpenter & Company, LLC

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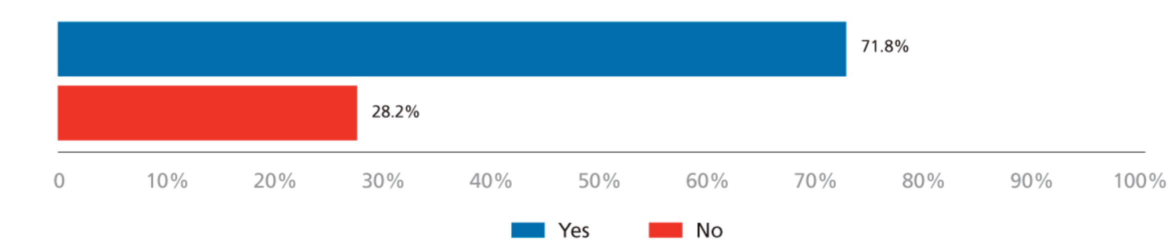
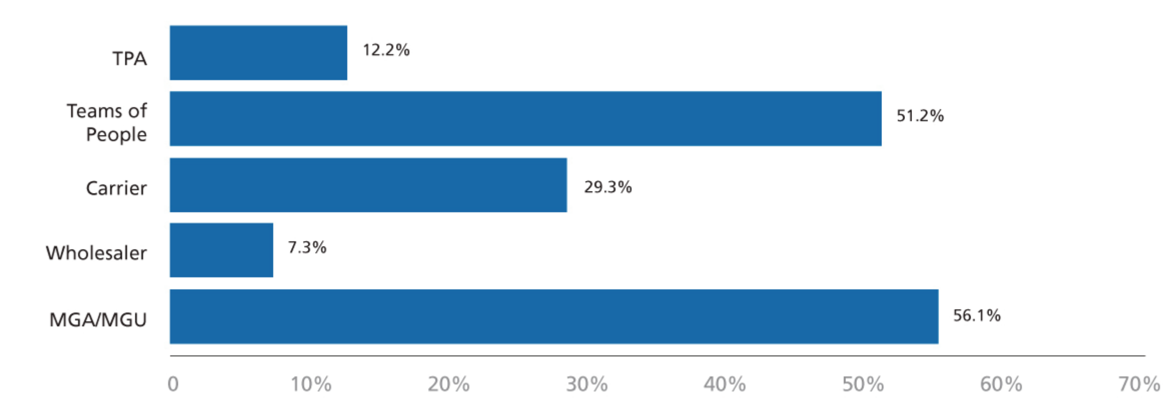
Acquisitions

ARE YOU INTERESTED IN MAKING ACQUISITIONS?



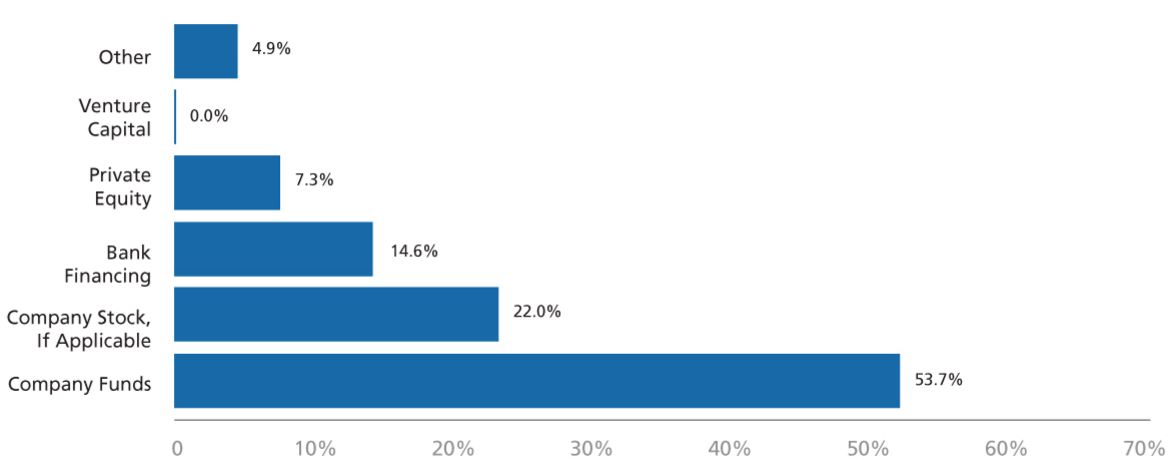
Source: Guy Carpenter & Company, LLC

WHAT TYPE OF ACQUISITIONS?



Source: Guy Carpenter & Company, LLC

WHAT TYPE OF FINANCING?



Source: Guy Carpenter & Company, LLC

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Guy Carpenter Briefing

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