NewsLetter *From* The Surplus Line Association of Oregon

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It is hard to understand how a cemetery can raise its burial costs
and blame it on the higher cost of living

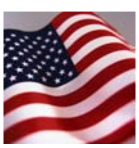
SLAOR News:

Financial

We are off to a good start! Operations for the month of January showed an increase in revenues over budget and a decrease in expenses under budget. Overall, the month was $8.9 k better than budgeted. One month does not a year make, but it's a start in the right direction. Most of the saving was in computer expenses and experience shows the savings will likely be spent sometime during the year.

On the Association's combined side, including investment performance, we had great results: combined income for the "stub" year was budgeted for a loss and actually finished with $19,000 of revenues excess of expenses which has been carried forward to the budget for 2010 and will be used to restore some of the cuts made in early 2009.

National News



- Representative Dingell (D-Mich.) introduced a bill that would require the breakup of banks and other financial institutions whose failure would present a systemic risk to the economy. The FSISA (Financial Services Industry Stability Act of 2010 would empower the Federal Reserve and all entities within the executive branch "to break up financial institutions they deem too large to fail, as well as impose increased capital reserve requirements on those institutions ordered to restructure," Rep. Dingell's office stated.

Restructuring costs would be paid for by the financial services industry itself through a fund composed of levies on individual institutions. Directed primarily at banks, the measure would apply to all companies that are "in whole or in part, directly or indirectly, engaged in financial activities."

- A U.S. judge has let Moody's Corp. and Standard & Poor's off the hook. The rating agencies had been sued by investors over alleged conflicting roles as they continued to rate Lehman Brothers Holdings Inc. mortgage-backed securities while helping to create and structure the securities. The U.S. District for the Southern District Court of New York has dismissed the rating agencies from the law suit.

cont.

"She ran the whole gamut of emotions from A to B." --- Dorothy Parker (about Katharine Hepburn)

"She speaks five languages and can't act in any of them." --- John Gielgud (about Ingrid Bergman)

"Whatever it was that this actress never had, she still hasn't got it." --- Bossley Crowther (about Loretta Young)

National News *(cont.)*:

- The New York State Insurance Department just can't leave well enough alone! They have now issued a revised agent and brokers producer compensation disclosure regulation that will force agents and brokers to explicitly inform customers of their stake in a transaction when asked. Customers must be informed of the producer's role in the sale, whether the producer will be paid by the insurer and also that the customer has the right to request more information in writing, such as how much money the producer stands to earn and what his or her relation is to the insurer.

In its effort to please all parties, the Insurance Department has pleased no one. Both the Independent Insurance Agents & Brokers of New York and the national Risk and Insurance Management Society, Inc. (RIMS) object to provisions in the proposed regulation. Look for more litigation!

In a related matter, the "big three", Marsh, Aon & Willis, have agreed with various jurisdictions that they will be permitted to again receive contingent commissions. The revised agreement will require them to comply with disclosure requirements at a minimum with New York State Insurance Department regulations, and with the laws of Illinois, Connecticut and the remaining states.

The Risk & Insurance Management Society, Inc. expressed its "dismay" at the decision by New York authorities to allow the world's three largest brokers to resume collecting contingent commissions.

- The foreign reinsurance tax loophole addressed, but never passed, in prior national legislative sessions has popped up on the administration's radar and with presidential backing is more likely than ever to be passed. The current system allows U.S.-based insurers to place reinsurance with foreign subsidiaries and the profits to the foreign insurer on the transaction are not subject to U.S. taxation. President Obama's FY 2011 budget proposal explicitly identifies the loophole and seeks legislation to close it.

- The magnitude of the Toyota recall has the potential to be the biggest consumer-fraud case ever. A Kentucky lawsuit accuses the company of knowingly concealing defective, dangerous accelerator systems on its vehicles for years to protect sales so it could become the world's largest automaker. A separate lawsuit filed in California by investors in Toyota stock alleges Toyota misled investors by failing to disclose that there was a major design defect in the acceleration system. Numerous individual lawsuits have been filed for injuries and direct physical damage. Individual statistics at this point: at least 19 deaths; 2,262 incidents; 815 crashes; and 314 injuries.

- Just another number to worry about: State pension plans (most not subject to the federal pension insurance plan) are seriously underfunded and in a "worst case" scenario could force some states into default on their obligations. The Pew Center, a Washington-based policy research organization estimates that collectively the states have $2.35 trillion in assets earmarked for pensions, health care and non-pension retirement programs but require another $1 trillion to match their liabilities.

The Marketplace:

To err is human,
to arr is pirate

- What's Up? (still soft- softer ahead)

January: London market insurers report rate reductions in almost all lines. Increase in capital, an influx of capital and a lack of rate increases in the primary market rates has resulted in 10% + in reinsurance renewal rates.[1] Lloyd's maximum premium written in 2010 is set at $35.5 billion, 25% more than 2009. The number is somewhat misleading in that it is a maximum limit, not a goal and insurers will likely react to market conditions and write less than the limit. Exchange rates also create issues. The forecast weakening of the pound in relation to the dollar will mean that Lloyds must write 40% more in pounds to cover the same dollar value of premiums in 2020. Effectively, this translates to a reduction in capacity for the U.S. market in 2010 – if the exchange rate averages $1.50: £1.00 for the year.

cont.

[1] *"London Views" as reported by Len Wilkins in the January 2010 Texas Surplus Line Reporter & Insurance News*

The Marketplace *(cont.)*:

1/28: Marsh reports stable throughout 2009, providing many U.S. businesses the opportunity to enhance their coverage or obtain moderate price reductions. Only risks with substantial earthquake or hurricane exposure encountered problems with fourth quarter renewals. All other risks saw premium declines or modest increases.

1/28: Hales & Co., merger and acquisition experts, reported M&A's down 49% in 2009. The year finished as one of the least active in the past decade. They suggest improvement in 2010. Guaranteed price or "fold in" acquisitions fell into a range of 4.75 to 5.75 times EBITDA. This compares to a 2008 range of 5.75 to 6.50. Hales suggests that some buyers simply sat out 2009 looking for better terms in 2010 and beyond.

1/29: Chubb reports 21% ($2.28 billion) increase in profits in 2009. Operating income rose 6% on a combined ratio of 86%. Investment income was a big help going from a loss of $241 in 2008 to a gain of $15 million in net realized income for 2009.

2/2: Ace Ltd profits double, growing 11 3% ($2.54 billion) as investment income is "flat" with loss of only 1.5% ($30 million). Combined ratio is 88.3%.

2/2: Munich Re announces profits up $1.37 billion (62%) and an increase of dividend to $8.01 (up 4.5%).

2/4: Several industry executives who declined to be identified believe 2010 will be a year with little change and they hope a pickup before 2012. *(How soon in 2011? Ed.)*

2/4: Zurich reports increased business operating profit in 2009 of $5.593 billion, an 8% increase from 2008. Dividend is proposed to go up 6.2%.

2/4: Selective Insurance Group Inc earnings were down 7.1% ($7.4 million). Combined ratio: 99.8 %

2/4: Hanover had a big reversal going from a 2008 net of $20.6 million to $108.2 million in 2009 - a 425.2% increase.

2/4: Willis reported year-end net income of $459 million, a 41.7% ($135 million) increase over 2009 but almost all due to acquisition of HRH. Organic growth in commission and fees was only 2%.

2/8: Aon reported year-end net income of $198 million, a $204 million increase over the 2008 loss of $6 million.

2/9: CNA Financial reports income for 2009 at $419 million and improvement of $718 million over the loss posted in 2008 of $299 million.

2/9: Beazley plc. reports net profit up 37.3 % to £88.4. Investment income went from a loss of £25.8 million in 2008 to a gain of £56.1 million in 2009.

2/10: Aspen (Bermuda) reports net profit of $473.9 million in 2009, a 357% increase over 2008 ($ 349.2). Combined ratio dropped from 99.8% in 2008 to 91.5% for 2009. Investment income rose 78.5% from $139.2 million to $248.5 million.

2/16: Brown & Brown national brokerage firm reported net income of $153.3 million down 7.7% from $166.0 million in 2008.

2/18: Swiss Re reports net income of $469.9 million in 2009 compared with a loss of $802.5 million in 2008 - a differential of $1.2724 billion. Investment income was $5.73 billion, down 10% from 2008.

2/23: A.M. Best reports thirty-six P/C insurers received upgrades in 2009 while only twenty-four were downgraded.

3/1: Berkshire Hathaway reported profits for 2009 up 61% to $8.06 million over 2008 results. The General Re insurance companies, Geico and other insurers are included in the eighty or more businesses reported in the consolidated figures.

cont.

I hate it when I miss a call by the last ring (Hello? Hello? Damn it!)
but when I immediately call back, it rings nine times and goes to voice mail.

What do they do after I don't answer? Drop the phone and run away?

The Marketplace *(cont.)*:

- **AIG WATCH -** 1/9: Hank Greenberg granted a long interview with Holman Jenkins of the Wall Street Journal – some observations: Greenberg believes the Government's "taking" of a 79.9% interest in AIG has created an unstable platform for AIG to recuperate. He believes that if the Government's interest was reduced to 15% to 20% the value for the Government could be worth more than the 79.9% is now worth; he feels the government should force Goldman Sacs and other banks that unfairly profited at the expense of AIG to provide some low-interest loans to help the insurer back on its feet; he wants reform of the Maiden Lane II and III, the Federal Reserve vehicles that relieved AIG of some of its subprime exposures and have been reaping the lion's share of the gains (75% compared to 25% for AIG), as the securities rebound in value now that the economy is mending and the crisis has passed; and he hopes that some investigative reporter will delve into the machinations of the deal that enabled Goldman Sachs and other banks to "cash out" their AIG contracts at 100% on the dollar at the height of the crisis.

1/29: More than 95% of the current employees of the Financial Products division of AIG have agreed to a retro-active reduction of at least 10% in the special "retention" bonus agreed to earlier.

2/2: N.Y. Times reports that one of the problems with Credit-default swaps was where they belong in the overall scheme of financial products. While a few believe they are insurance and thus subject to state insurance regulatory control, including provisions for reserving funds for future losses, most believe they are a unique financial product and not insurance. Whichever they are, there needs to be appropriate regulation relating to their use, including reserves in anticipation of some level of losses.

2/4: Barclay's bank has stepped up to help AIG. Not all of the deals AIG made have gone sour. Now AIG faces potential loss of premiums on these profitable investments because of a clause in the contracts allowing the managers of those mortgage-related securities to cancel the agreements if AIG's credit rating fell below a stipulated level. The solution for AIG was to find a more credit worth partner (Barclay's) to "back-up" their obligation. Barclay's is essentially renting out its stronger credit rating to AIG to enable the insurer to remain a participant in currently lucrative interest rate swaps.

2/10: Federal Reserve chairman, Ben Bernanke, says the Federal Reserve expects to eventually recoup the $116 billion loaned to AIG and Bear Stearns.

2/26: Oregon Public Employee Retirement Fund will receive $8 million from AIG in settlement of a lawsuit against the insurer that claimed it inflated the value of its shares between 2000 and 2005. The company was charged with repeatedly failing to disclose allegedly unethical and improper activities, including a bid-rigging scheme with other insurers. AIG admitted no guilt, wrongdoing or liability as part of the settlement.

2/26: Chartis (the re-named insurance group of AIG companies) reported $699 million of operating income for 2009 and net investment income of $3.3 billion. Accident year combined ratio was 99.2% but the calendar year ratio was inflated to 108.0 % due primarily to strengthening of reserves related to accident years 2002 and prior.

Catastrophe News:

2/11: Colorado State's hurricane team reports 2010 will be somewhat more active than average. They predict between eleven and sixteen tropical storms of the Atlantic, up from the average of nine to ten. Six to eight of those storms will become full-fledged hurricanes, compared to the usual five to six. Up to five of those storms will become major hurricanes ranging between 111-155 miles per hour.

2/26: The Florida Hurricane Catastrophe Fund needs $710 million to pay claims still coming in from 2005's Hurricane Wilma but the Florida Cabinet has postponed approval of the hurricane fund's request to extend and increase to 1.3 % the current premium assessments on auto and home policyholders. This is the kind of problems you get when politicians instead of businessmen run insurance companies.

Please share this NewsLetter with your staff – Thanks

Note: The opinions expressed in this newsletter are those of the Editor and do not reflect an official position of The Surplus Line Association

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