NewsLetter *From* **The Surplus Line Association of Oregon**

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A good time to keep your mouth shut is when you are in deep water

SLAOR News:

Financial

Saved again! While our peer group of stamping offices continues to report premium reductions, we had yet another unpredicted month. Premiums were up 19.2% over March of '09 and for the year to date we are up 10.0%. The reports of the top five filers in the respective years showed an increase of 11% over March 2009 and we are inclined to suspect $6 million of the month's report is due to timing issues. Nevertheless, the "real" increase is still in the 8% range and we are at a loss for an explanation in light of the significant reductions being reported in other states.

Item counts were also up: 17.8% for the month of March and 13.4% for the year to date. Why? We haven't a clue!

We are already aware of a single "one-off" report that will have a significant impact on April results guaranteeing that it, too, will exceed budget projections. All this while everyone else is reporting reduced premiums as compared to 2009.

More good news: dividends and interest on investments picked up for the month and for the year to date are only $2k behind budget. Market gain / loss for the month was $108k bringing the year to date number to $67k. We do not budget for this gain / loss but increased investment value results in increased interest and dividends over time.

Guilt is nature's way of letting you know you're having too good a time

Oregon News:

- Together with the Insurance Division, we have changed the coding for several classes of coverage:

  Animal mortality and livestock insurance – presently coded as Miscellaneous, in the future should be coded as Inland Marine.

The "Equipment Breakdown" peril – presently frequently reported as Inland Marine or "Fire", most often does not include the peril of "Fire" and should not usually be reported as any coverage that includes fire marshal tax. We will, nevertheless, also accept filings that include Equipment Breakdown premium in a Multi-Peril, Fire or Inland Marine coverage under the presumption that the filer has a reason for such inclusion. Where such situations occur, we will post the filing with a non-fatal "tag" to remind filers that fire marshal tax has been invoked.

- While, generally speaking, the surplus line licensee is responsible for payment of premium and fire marshal taxes on all filings, the Insurance Division has identified some extenuating circumstances where relief may be given to the filer. The terms can be found in "FAQ" on our website. Filers are reminded that they can avoid these situations by never accepting responsibility for placement and tax payment until they have been paid by the retail producer or the insured.

- Looking for some CE credit? The Insurance Professionals of Oregon offer 6 credit hours of CE on May 19th. Three hours (9am to 12 noon) "Idea Theft and Data Compromise". Three hours (1pm to 4pm) "Unfair Claims Settlement Practices - Oregon". More details on our website. www.slaor.org .

National News

I'm in shape. Round is a shape, isn't it?

- Hartford Ins. has paid off its $3.4 billion obligation to the U.S. Treasury by repurchasing preferred stock sold to the Government at the height of the economic meltdown. They also paid $21.7 million in accrued dividends on the deal. The Treasury retains warrants to purchase 52 million shares of Hartford's common stock at $9.79 per share. Hartford stock traded at $29.21 per share on April 1, 2010.

- Bailout cost repayments have reached $181 billion and while still anticipating an overall loss of approximately $100 billion, that is down from the $500 billion at risk in January of 2009.

- HUD and the U.S. Consumer Product Safety Commission (CSPSC) have issued a report stating that victims of "Chinese Drywall" should "gut" any affected homes, removing tainted drywall and replacing all electrical components and wiring, gas service piping, fire suppression sprinkler systems, smoke alarms and carbon monoxide alarms. Apparently, insurers are generally denying coverage based on the standard pollution exclusion in homeowners policies (a position recently rebuffed in a Louisiana court).

- AmWINS Group Inc. and Colemont Insurance Brokers have merged. AmWINS will bring 1,100 employees and $3.5 billion in premiums to the deal while Colemont will contribute 700 employees and $1.3 billion in premiums. The CEO of Colemont, Marshall P. Kath, has resigned and will not play a role in the combined operations.

- Lehman Brothers' ongoing disclosures relating to the bankruptcy of Lehman Brothers have uncovered a firm, Hudson Castle, which may have played a part in Enron like "off the books" transactions. Critics say that such deals helped Lehman and other banks temporarily transfer their exposure to the risky investments tied to subprime mortgages and commercial real estate. Even now, a year and a half after the implosion, it is believed that banks continue to undertake such transactions with businesses whose names are rarely mentioned outside footnotes in financial statements, if at all.

- The insurance department of the state of New York is at odds with the insurance producers it regulates. The New York divisions of both the IIAB and CIB have taken the position that the department promulgated fee, commission and contingent commission disclosure is unacceptable. Basically it says "if the customer asks for fee disclosure, <u>all</u> sources of remuneration directly or indirectly related to the account must be disclosed.

- Learning from the Florida "Zota" claim, the state of Louisiana has passed legislation making it clear that the insurance division has no authority to impose rate or form requirements upon insurers transacting insurance in the state pursuant to the surplus line regulations of the state.

- All of the disclosure requirements currently under consideration in New York and elsewhere may be meaningless if a recent case in Connecticut holds up. At this point, the judge has ruled that Accordia (now Wells Fargo) had a common law (no special statute required) fiduciary duty to its clients to disclose contingent commissions it had negotiated with some of the insurers with which it placed its customers business. The ruling requires that "--- Wells Fargo must now identify and eventually disgorge profits that it illegally earned at the harm of Connecticut businesses and consumers". Not surprisingly, Wells is appealing.

- Florida Governor, Charlie Crist, threatens to veto any legislation that raises insurance rates. How does he expect to pay for losses? At present, experts indicate the entire property insurance system in Florida is substantially underfunded. Without adequate reserves it would likely be necessary to tax future policyholders to cover the deficit (and address the rate inadequacy for future coverage), retroactively assess policy holders, or tax the general taxpayers to address the deficit. [It is never a good thing when politics mix with rate setting, Ed.)

- In spite of the economic woes, Bests' reports good news for 2009. Solid earnings for 2009 helped to increase capital by 24% from 2008. Modest catastrophe losses, favorable loss-reserve development and a significant rise in asset values helped in the remarkable recovery.

- III's president, Dr. Robert Hartwig, a frequent spokesperson for the insurance industry, continues to point out that the insurance industry, in spite of the AIG debacle, weathered very well in the recent economic turmoil and says: "Bank style regulation would needlessly raise insurance costs for hundreds of millions of insurance consumers and could unfairly require insurers to subsidize the reckless lending practices and speculative activities of failed banks."

The Marketplace:

Today is the first day of the rest of this mess

What's Up?

3/30: Moody's [Market] "stabilized in 2009" but they have concerns about insurer's nonlife profitability. "Nonlife insurance combined ratios are rising and rate increases" barely cover claims inflation."

3/30: Munich Re President: "We've got a lot of competition in the market on a premium base that is shrinking. We need to have the discipline to know when to write a piece of business and when to walk." --- "All predictions are that 2010 will also be a year of decreased premium, so we have lots of surplus-rich companies fighting over a smaller pie,.."

3/31: "The first quarter of 2010 likely will be the worst-ever first quarter for natural catastrophe losses, but it's still not enough to turn the market on its own." - (a global reinsurance renewals report). [Maybe loss development on the 1st quarter catastrophes and an expected decrease in prior year claim releases will cause the market to harden but don't bet on it! Ed.]

4/1: Aon Corporation: "--- property catastrophe [reinsurance] rates continued the softening trend witnessed at January 1st as the market completes April 1 renewals."

4/2: Advisen: The recession may be over, but recovery is not happening quickly enough for insurers and brokers. From an unemployment rate hovering at about 10 percent to still rising business bankruptcies, the lingering effects of the recession continue to whittle away at commercial lines insurance revenue. Brokers continue to take a hit from depressed written premiums. Decreased brokerage income has forced many brokers to streamline operations and reduce headcount. Financial pressure is likely to fuel more consolidation in the brokerage sector as stronger companies scoop up struggling companies at bargain prices. [Unable to get premium increases look for insurers and brokers to focus on reducing expenses. More layoffs are likely, Ed.]

4/15: RIMS' "Benchmark" survey shows few signs of any change in the soft market. Average premiums in every line tracked by the Survey fell in the first quarter of 2010. Abundant capacity coupled with diminished demand keeps downward pressure on rates.

4/15: A joint report from ISO and PCIA shows profits leapt to $28.3 billion in 2009, up from $3 billion in 2008. Despite the increase in profitability it is far short of 2007's $62.5 billion and premium increases will be hard to come by in 2010.

4/16: The Council of Insurance Agents & Brokers' quarterly PC Market survey showed commercial rates down 5.3% on average compared to fourth quarter 2009. Ken Crerar, CIAB President, stated: "Until demand picks up, we don't see any significant uptick in commercial rates for the foreseeable future."

4/19: Global insurance broker Lockton reports insurance buyers continue to benefit from lower prices and steady or increasing insurance capacity.

4/20: Brown & Brown insurance brokerage reports first quarter net income down 8.1% and noted shrinking insurable exposure units continue to impact results. [I suspect this is the first of many reports of brokerages showing reduced income for 2010, Ed.]

4/23: Chubb reports first quarter profits up 36% over 2009.

cont.

Darwin Awards:

A bus driver in Zimbabwe carrying a bus load of mental patients stopped to have a drink. He apparently stayed too long and when he returned to the bus the patients were nowhere to be found. Not wanting to explain the loss to his superiors, the driver went to a nearby bus stop and offered everyone a ride. He took them to the mental hospital and told officials there that they were prone to fantasies and were very excitable. Since they didn't belong at the institution the extreme stance is understandable. It took officials three days to figure out they really didn't belong.

The Marketplace:

"Veni, Vidi, Velcro" … I came, I saw, I stuck around

4/26: According to Best's, the U.S. property/casualty industry reported a strong fourth quarter topping off a solid year. Net income climbed to $31.1 billion in 2009, driven by improved underwriting results, the continued recovery of the financial markets and disciplined capital management.

The rating agency said the industry's underwriting results were buoyed by a quiet hurricane season, significant reserve releases and a sizable reduction in underwriting losses in the mortgage and financial guaranty segments. The industry's much improved investment returns were driven by the significant upturn in the financial markets in 2009.

For the first time in A.M. Best Co.'s recorded history, net premiums written (NPW) have declined in three consecutive years. NPW fell approximately 5.9% to $419.3 billion in 2009.

The industry's combined ratio improved to 101.2 in 2009, down approximately 3.0 percentage points from 104.0 recorded in 2008.

Overall net investment gains also increased approximately 31 percent to $43.5 billion in 2009 from $33.1 billion in 2008. The data also shows the industry recognized about $11.0 billion of favorable prior year loss reserve development in 2009. These factors contributed to the U.S. P/C industry's policyholders' surplus position rebound of approximately 9 percent to $519.3 billion in 2009 from $477.2 billion at year-end 2008.

Source: A.M. Best Company www.ambest.com

4/28: Despite being on the heels of the worst first quarter for catastrophes on record, Willis Group Chairman and Chief Executive Joe Plumeri expects rates to be either flat or down when the June 1 reinsurance renewal season gets under way. "There was about $16 billion in cat losses and nothing moved," Plumeri said. "There was no sense of precaution." He said companies are still chasing down rates to gain market share, there is still a lot of cash on balance sheets and the market remains very soft. Plumeri also reported first quarter increase in revenues of 4.5 % over the same period in 2009. Profits were up 5.7%. All in spite of a 3% decline in commissions and fees for North American business.

4/29: Ace Ltd. reports an earnings jump of 33% for first quarter 2010. Investments contributed greatly to results as overall profit grew from $1.69 to $2.22 per share while operating (non-investment) income fell from $1.99 to $1.70.

5/3: CNA reports first quarter net income results of $245 million compared to $195 million last year. Improved results were due largely to a $22 million gain in first quarter investment income as compared to investment losses of $344 during the same period in 2009. Combined ratio at 102 % was up 3.8% from 98.2% in 2009.

FOREIGN

Lloyd's reports record profit for 2009, more than doubling to $5.81 billion in 2009 on strong investment gains and a lack of severe catastrophes. A premium growth of more than 20% was reported to be substantially due to currency fluctuations. Gain in investment income was $2.66 billion, up 84.8% from 2008. Combined ratio dropped from 91.3% to 86.1%.

Facing a possible challenge from Wall Street and a New York insurance exchange, Lloyd's announced they are participating in a working group on setting up such a market with the New York insurance commissioner, James J. Wrynn, with a report due out in September.

cont.

Reputedly from Abby's mailbox:

Dear Abby:
What can I do about all the Sex, Nudity, Fowl Language, and Violence on my VCR?

Dear Abby:
I joined the Navy to see the world. I've seen it, now how do I get out?

Dear Abby,
Our son writes that he is taking Judo.
Why would a boy who was raised in a good Christian home turn against his own?

The Marketplace *(cont.)*:

My motto is never say never.
Which makes it difficult to tell people my motto.

AIG WATCH

3/28: Adding insult to injury, Wall Street is benefiting from the chaos they created. Auctions of AIG assets have generated more than half a billion dollars in fees with every major Wall Street bank getting a piece of the action (figures from Freeman Consulting). Many of the banks were also among the recipients of tens of billions of federal bailout dollars funneled through AIG at the height of the crisis.

4/2: AIG CEO, Robert Benmosche, is optimistic about AIG's future as he ties up the sale of two life insurance subsidiaries AIA and Alico, enabling AIG to pay back a portion of its bailout money. He feels "pretty comfortable" the bailed-out insurer will be able to repay the government before the 2013 expiration of its credit line. Total amount outstanding now is $182.3 billion.

4/7: AIG has agreed to a $9 million settlement with the Ohio attorney general in a lawsuit alleging false quotes that misled Marsh clients in insurance placements.

4/8: SAN FRANCISCO (MarketWatch) -- After making millions of dollars betting against subprime mortgages, Steve Eisman of hedge-fund firm FrontPoint Partners is advising investors to short shares of American International Group Inc., according to a recent presentation he makes the following case.

AIG owes roughly $111 billion, even after proceeds from sales of "crown jewels" like Alico and AIA. That doesn't include any debt AIG may have to assume from its ILFC aircraft-leasing unit and its AGF consumer-finance business, which have more than $13 billion of debt coming due, he said. AIG's remaining businesses, which include property- and casualty-insurer Chartis and its domestic life and retirement unit, may be worth about $88 billion, Eisman estimated, while noting there's a lot of uncertainty about this valuation. That leaves a loss of $23 billion, or $36 a share, for common stock holders of AIG, Eisman calculated. [This is an interesting study but one has to question the reporter's impartiality – after all, he has already taken a short position on AIG and further short selling will likely enhance the value of his position, Ed.]

4/12: AIG shares rise on rumor that Treasury officials are considering converting the government's preferred stake in AIG into common shares that would be sold to other investors.

4/13: Maurice "Hank" Greenberg argues that a long-running civil-fraud case running against him should be dismissed.

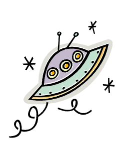
4/14: AIG subsidiary International Lease Finance Corp has negotiated the sale of fifty-three aircraft for $1.99 billion.

4/20: New York State Supreme Court Justice Charles Ramos has told the attorney for Mr. Greenberg that "[the attorney general] has put together a devastating case, a very strong case, and we both know it…." in respect to the civil fraud case against Mr. Greenberg.

4/22: AIG shares have surged 36% during 2010 trading as the company's holding rebound and investors bet there will be value remaining for common shareholders after taxpayers are repaid. The AIG rescue package is valued at $182.3 billion including a $60 billion Fed line of credit, as much as $69.8 billion in Treasury assistance and $52.5 billion to buy mortgage-linked assets that were owned or backed by the company. In December the GAO said taxpayers stand to lose $30 billion from the AIG bailout.

4/28: GAO releases report stating that "while its insurance units are showing signs of recovery, AIG remains heavily reliant on its federal bailout. The government's ability to fully recoup the federal assistance will be determined by the long-term health of AIG, the company's success in selling businesses as it restructures and other market factors."

The findings echoed a report from analyst Cliff Gallant, KBW Inc., who downgraded AIG's stock after concluding the shares "cannot be valued in the normal sense" because of the company's obligations to the U.S. Government. He wrote: "the publicly traded shares are grossly overvalued."



What is ET short for?
Because he's only got little legs.

Catastrophe News:

- Reinsurance rates for April 1 renewals declined 8% to 13% across most property catastrophe lines of business – Guy Carpenter & Co.

- Aon Benfield Inc. said reinsurance capacity continues to exceed demand despite first-quarter catastrophe losses from the earthquake in Chile, Windstorm Xynthia in Europe and other events worldwide.

- The April 5 California / Mexico earthquake should not exceed $300 million in insured losses or total economic damage of $1 billion according to risk modeling firm EQECAT. More than $100 million in damages are forecast for California.

- The Colorado State hurricane team now predicts an above normal incidence of activity including fifteen named storms (eight hurricanes and four major hurricanes). A 69% chance that a major hurricane will make landfall along the U.S. coastline. 45% East Coast and 45% Gulf Coast from Florida to Texas. The 2009 season had nine named storms and three hurricanes in the Atlantic, the lowest totals since 1997. Current conditions resemble the conditions prior to the storms of 2005.

- PERILS A.G. estimates insured losses from Windstorm Xynthia at $1.73 billion.

- Catastrophe bond activity likely will gain momentum in the second quarter of 2010 amid ongoing favorable market conditions for sponsors, according to Guy Carpenter & Co.

- Iceland ash cloud could cost European Union airlines $ 2.01 billion to $ 3.34 billion and may bankrupt some European airlines.

- April tornadoes killed ten people and destroyed at least seven-hundred homes and did tens of millions of dollars in damage.

- New flood insurance regulations should make the national flood program more actuarially sound as rates are adjusted, flood plain maps updated and some properties excluded (second homes and vacation homes).

Remember, one careless match can start a forest fire,
but it takes a whole box to start a campfire

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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