

# What Happened to the Rogue Underwriters?

by Richard Kerr

**W**hen we entered a softening market back in the “good old days,” there were always insurers who would blaze the trail by deeply discounting rates. These companies were almost always staffed by a senior rogue underwriter who would try to make a name by becoming known as “the hot hand.” For some untold reason, the industry proclaimed by default that this new, hot underwriter was the leader or expert in the field. With this moniker attached, the rogue underwriter would book as much business as possible and parlay their newfound fame into a better job, which included a greatly enhanced compensation package. After the hot hand got a new job and moved on, the underwriting losses would start to creep into the picture. The rogue underwriter was then long gone and his former insurance company was left holding the bag.

In London, the rogue underwriters were easy to spot. All one needed to do was stroll through the halls of Lloyd’s. Even a first-year broker could figure it out. Until this market cycle, the underwriting box with the longest queue was run by the hot hand of the market. In 2005, however, a long queue does not mean the underwriter is a rogue.

In the United States, hot markets have historically been led by a wide array of colorful characters. Many of them cut most of their deals by the early afternoon. The trick was to cut a deal at the right time. Such have been soft market cycles over the last 50 years.

So which insurance companies have been left holding the bag? Well, it is pretty easy to name the major marks of the last 10 years. You know most of them and we need not name names for obvious reasons. Except for a very small percentage, the underwriters and management teams of these failed insurers have joined the ranks of various intermediaries as they search for a new deal. We note with interest that these senior rogue underwriters and management teams are not landing with another insurer. This is a new financial world and the insurance industry is certainly adapting to the new way of doing business. That new way does not include irresponsible underwriting.

Is it possible, with the new requirements for fiscal responsibility and accountability, that the rogue underwriter has become extinct? That would be a positive move for the industry, resulting in the elimination of wildly fluctuating premiums. Can you imagine a market that has no fools? Without the rogue underwriter, the market just might stabilize to the extent that wild premium fluctuations will become a thing of the past.

Before we proclaim only smart underwriters and investors remain alive in the market of 2005, we must remember that opportunists lurk in every market. Somewhere, as of this writing, there is a group of investors being courted by a rogue underwriter. There will be a new company, cartel or underwriting syndicate that will emerge before year-end and this company will rock the market with extremely aggressive pricing.

Many accounts will move and some aggressive brokers will cozy up to their newfound friend. However, we predict that this time the solid insurers and many responsible intermediaries will not respond. This time, the long-standing, stable companies will refuse to play the price-slashing game.

Shareholders will recognize that a 2% net profit on a \$500 million dollar book of business is certainly much better than a 1% loss on a billion-dollar book of business. But it never is that simple. Greed takes over and certain investors can always be convinced that the entire market has it wrong, rates can be cut another 20% to 30%, a significant share of the market can be had and everyone will make money. In the end, the only one who will make money is the rogue underwriter who convinced the investors to pony up the cash to fund the new company. Yes, the market is much, much smarter today than in prior soft market cycles. However, there will always be one or two rogue deals.

Stay tuned, they will show up before year-end. **RM**

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