

A PREVIEW OF THE 2008 SPECIALTY MARKET

Déjà vu all over again

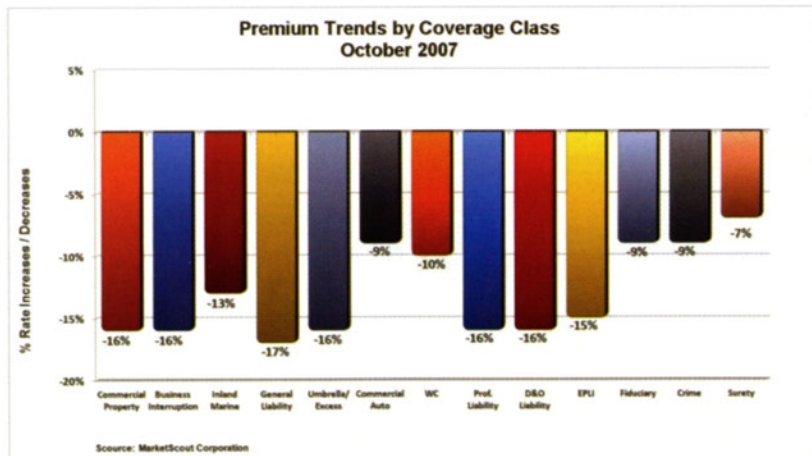
By Larry G. France

At the time of last year's preview, the cost of fuel was a major concern. *Déjà vu* folks. We are seeing the cost of a barrel of oil surpass \$90 for the first time in history and the price at your local gas station is starting to reflect this increase. Many of your clients, commercial and personal, are financially affected—trucking, delivery services, limousine services, and contractors to name a few.

Last year, the sale of new homes was in decline. Many people would love to see the market at the level it was last year. And adding to this year's housing market woes, the mortgage industry is crippled by foreclosures on loans that, for the most part, should not have been made to start with.

Insurance rates generally are still heading downward with the hope that that decline will at least level off. The hurricane season was fortunately not severe enough to cause tightening in certain lines of business. The California fires in October will probably have only a slight effect on the property market in that state unless carriers try to spread those losses across their whole book countrywide, as has been done in the past. Losses are said to be close to \$2 billion dollars. But to paraphrase an old expression: A billion here, a billion there, and pretty soon you are talking about real money.

Mergers and acquisitions are one way to achieve growth when the market is soft and capital is abundant. Some look to access markets and expertise they don't enjoy now, while others strive to increase market share. Carriers, MGAs and MGUs are all involved in the merger and acquisition activity

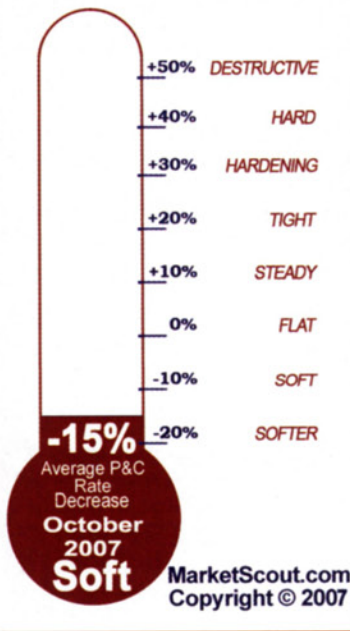


"The big question facing the industry is: Will the market keep its pricing integrity? I believe 2008 will be an interesting year."

—Mary Ellen Rozzell
President
NAPSLO



Market Barometer



and it does not appear that there will be a slowdown in the near future.

"Property and casualty insurers are set to make a nice profit in 2007," according to MarketScout's CEO, Richard Kerr. Noting the many years of tough underwriting results in the past few decades, Kerr says, "This profit is well deserved. Of course, underwriting profit is driving the soft market, resulting in a composite property and casualty rate reduction in October 2007 of minus 15%. MarketScout data reveals commercial property and general liability lead rate reductions at minus 16% and minus 17%, respectively. By industry class, manufacturing and energy are down the most at 16%."

MarketScout forecasts a very competitive market into at least mid-2008. "There is simply too much capacity chasing premium and what is perceived as incredible opportunities for underwriting profits," says Kerr. "The only thing that will turn this market in the next six months is a horrific catastrophe or some type of unknown legislative or legal action which profoundly impacts the insurance industry."

The surplus lines market

What is the state of the surplus lines market? "A.M. Best has reported surplus lines premiums increased to \$38 billion in 2006," says Mary Ellen Rozzell, president of NAPSLO (National Association of Surplus Lines Offices). However, at the recent NAPSLO convention "many members were reporting that business is extremely competitive and, assuming no unforeseen catastrophes, 2007 may

