

Broker Channel Check

Discussion With Insurance Intermediary

- We spoke with an insurance broker that participates in a number of markets, including the excess and surplus markets, in which it has a significant presence:
- **Property:** Primary property rates continue to improve, although the market is relatively uneven. On average, property rates are up 2% to 4%. This compares with down 2% at the beginning of the year. Rates are moving due to several different factors, including discipline among some of the larger competitors, pressure from RMS 11, and general unprofitability.
- **Liability:** The E&S liability market tends to be relatively stagnant, but the rate environment is less negative. Underwriting results are relatively negative, but most carriers are maintaining positions in the market and there have even been one or two new entrants. Rates were roughly -10% last year, but are closer to -2% now. The only notable fact is that public D&O rates, which had been negative, have turned positive recently.
- **January 1 renewals:** Many of the E&S underwriters that tend to rely heavily on reinsurance for property capacity renew their treaties on January 1. RMS 11 remains an unknown, but it appears to be having an impact on the upcoming renewals. The broker mentioned several instances where underwriters that had renewed in earlier renewal periods incurred property catastrophe rate increases of 10% to 15%; the broker said it would not be surprising if that momentum carries into January 1, which would likely further pressure rates in the primary property markets.
- **Excess and surplus competitive dynamic:** The E&S market is still competitive, but it is markedly improved from a year ago. One major factor is that several of the largest competitors in the market are showing restraint and walking away from bad business and in some cases reducing lines sizes. Another factor is that standard carriers are being less aggressive in poaching business from traditional E&S segments. This does not mean they are retrenching, but their underwriting is more cautious. One negative is that the managing general agents continue to be aggressive in the market and have substantial backing (i.e., capacity) from large international insurers and Lloyd's.

Bottom Line. The conversation confirmed that primary rates should show moderate rate increases by the end of the year. Momentum for a full pricing turn does not appear to be in place. However, positive rate is a step in the right direction.

Financial Services and Technology | Insurance Brokers

September 29, 2011

Aon Corporation

Stock Rating: **Outperform**
 Company Profile: **Established Growth**
 Symbol: AON (NYSE)
 Price: \$40.05 (52-Wk.: \$39-\$55)

Arthur J. Gallagher & Co.

Stock Rating: **Market Perform**
 Company Profile: **Established Growth**
 Symbol: AJG (NYSE)
 Price: \$26.10 (52-Wk.: \$24-\$32)

Brown & Brown, Inc.

Stock Rating: **Market Perform**
 Company Profile: **Established Growth**
 Symbol: BRO (NYSE)
 Price: \$17.90 (52-Wk.: \$17-\$27)

Marsh & McLennan Companies, Inc.

Stock Rating: **Market Perform**
 Company Profile: **Established Growth**
 Symbol: MMC (NYSE)
 Price: \$26.71 (52-Wk.: \$23-\$32)

Willis Group Holdings Public Limited Company

Stock Rating: **Outperform**
 Company Profile: **Established Growth**
 Symbol: WSH (NYSE)
 Price: \$33.75 (52-Wk.: \$31-\$42)

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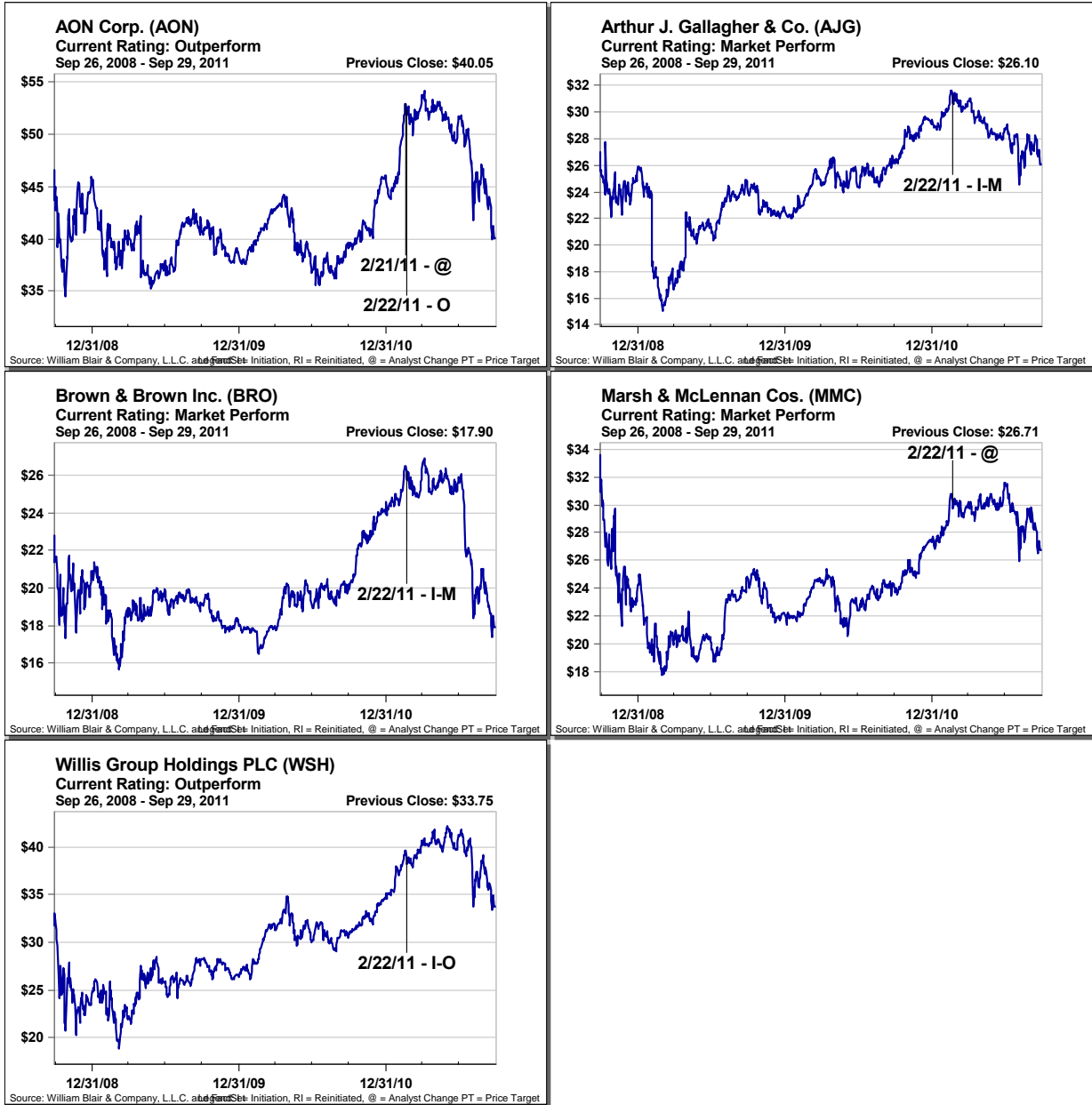
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Outperform (Buy)	59	Outperform (Buy)	8
Market Perform (Hold)	31	Market Perform (Hold)	2
Underperform (Sell)	1	Underperform (Sell)	0

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

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