These are some of the highlights as three well-known specialty-lines company executives, along with an A.M. Best vice president and expert on the sector, discussed pricing and capacity trends in the market at the behest of the National Association of Surplus Lines Offices.

Lee McDonald, group vice president of Communications at A.M. Best, moderated the discussion that drew 1,000 participants. It was hosted in the company’s video studio in Oldwick, N.J., on Oct. 30.

Here are more highlights of their discussion:

**Pricing**

**What pricing trends are you seeing?**

**Markel:** Well, logic would tell you that prices will bottom and rebound but our people are reporting a continued competitive pressure, much to our disappointment. You know, as sort of an old head in this industry, I’m asked occasionally to speak to young insurance majors and people early in the industry and my stock line is “I’ve

**A.M. Best’s Perspective**

**Sizing up the E&S market:** We believe the sector remains strong. We also believe ROEs for 2008 will be sitting somewhere around 12%, down from about 12.4% in 2007. Although a lot of that is good information, all is not well for the surplus lines market in that the challenges are there that have always been there when things get rough in that the admitted markets begin to play in some of the specialty admitted business lines. In recent years, new offshore capacity is beginning to play a bigger role and certainly the economic slowdown that’s occurred is likely to dampen top-line results in growth prospects into 2009. In 2007, the top-line premium was down roughly 7%, giving everyone an indication as to softening and some of the business that’s being lost by admitted carriers. Nevertheless, Best believes the surplus lines market should be able to withstand some of this recent turbulence and a lot of it is based on the healthier balance sheets that surplus lines insurers have been able to get to over the hard-market years, including some of the substantial up-pricing that took place from 2001 to 2003. There’s been a compound three-year average rate increase for the E&S market in excess of 225%.

We believe the E&S market will continue to outperform the property/casualty industry. We believe that’s going to continue through 2009. There is a spread between the two. In 2007 it was an amazing 19-point spread between the property/casualty industry results combined ratio, trade combined ratio and the surplus lines market. That spread is likely to shrink down to something that’s more an average of 7% to 9% over the long term. But again, this spread has always been there as far as measuring the E&S market’s performance relative to the property/casualty industry.

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A.M. Best’s Perspective  

In the E&S market, price competition is not as much of a variable as it is finding availability for a market that in essence is hard to place. So, as a result, while price competition in any market is going to be something to consider, in many cases the E&S market becomes a resource to those folks that need to place that hard-to-place business. Rate and form flexibility is certainly another area that we find is very attractive to the E&S marketplace. It certainly alleviates a lot of that price competition and it certainly gives them the ability to manage the hard market cycles.

Because of these advantages and healthier balance sheets, A.M. Best remains optimistic in the failure frequency rates of surplus lines insurers. We’ve been measuring failure frequency for some time now. We go back, roughly, 33 years and in fact if 2008 holds, where no failure frequencies will be recorded, this will mark the fifth consecutive year in which the surplus lines marketplace has yet to record an impairment, which is quite an achievement. This also goes to show how much capital

got some good news and some bad news for you. The bad news is that you’ve chosen to enter probably one of the most poorly managed industries in the entire worldwide economy. The good news is that you’ve chosen to enter probably one of the most poorly managed segments in the worldwide economy.” Three or four or five years ago I really thought for the first time in my career that the management in our property/casualty worldwide sector was starting to ‘get it,’ they understood the needs for underwriting property. ROEs were going to be anything reasonable, but the last two or three years of straight reductions in pricing have proven to be very, very disappointing to me. The surplus lines industry has always been struggling, but we have not been impervious to reduced margins and we’ve given up ground grudgingly. I’m not very proud of our existing price levels. Clearly, we think they’re profitable, but not necessarily producing the types of underwriting results that we’re used to and the AIG situation you would think, coupled with Hurricane Ike and frankly the erosion of capital that is yet to be reported, would create a backdrop of pricing increases—certainly stability. But we’re not seeing it. Ultimately it will come, but right now I’m very disappointed in the pricing levels.

McDonald: Where are we right now on the spectrum of hard and soft pricing?


McDonald: The other thing we hear is that it went from a hard market to a soft market faster than it’s ever done. Is that pretty much true?

Markel: I don’t know. I’ve been around a lot of these cycles. I’m not sure it’s a whole lot different. It came gradually and then picked up speed, but it just continues. You know it doesn’t take a rocket scientist to figure out that if you look at the rate erosion over the last three of four years that there was not that much cushion where that type of rate can be given away and still produce the type of results that we as an industry ought to be receiving. Very, very disappointing.

McDonald: Chris, you come from a different perspective, the wholesale side, the brokers’ side. You’re out there shopping every day. What are you seeing?

Trecarier: We are not seeing price increases but some stabilization in the areas you’d expect, the areas that have been hit hardest. In catastrophe property you’re seeing more of a level pricing, certainly not the decreases we were seeing earlier in the year. I would say in the D&O, particularly financial institutions D&O, you’re actually seeing price increases. But I think to a point everyone’s taking a wait and see. Everybody’s talking about the hard market. I was in Bermuda last week and talked to every property underwriting company on the island and they all said hard market’s coming, hard market’s coming, but it’s wait for the 1/1 treaties and we’re keeping our powder dry. So, what we’re seeing is that the cat players are pulling back a little bit because they think there’s going to be a better rate environment in Q1 of ’09. You know most people look back to the last events and it takes a while for it to wash through the system. If you look at Katrina, prices didn’t really kick up hard until first quarter of the following year, 2006. So, there certainly is a little bit of a lag and I think people are anticipating that. What’s going to be interesting is people have capital, they still have capacity, so if
Lloyd's or whether it's VJ Dowling, everybody starts to be coalescing around the $20 billion to $25 billion number. I think that's got people worried. But until the treaty renewals, they're not doing stupid things but they're not exiting the market. They're becoming more conservative. They're sitting back because they expect a change. It hasn't happened yet. Certainly we're not seeing 10%, 20%, 30% rate increases that we've certainly seen in the past after catastrophes.

Lassiter: It does take some time post-event for these things to work through the system. In our estimation the event here is not so much like. If you want to define a date it would be Sept. 19, which was the day that AIG got their bailout and Lehman went bankrupt and Merrill was acquired, which was the start of all the volatility, or really the acceleration of the volatility in the investment world, which has sucked somewhere around $40 billion in capital out of the marketplace as of Sept. 30.

So it takes time for that to work through the system. So far we're not seeing any real substantive changes. We will know when it happens. The broker mindset is we've got to get a reduction. When a carrier says no, can't reduce, then he's got to test the market. We're seeing a lot of that yet. That's one sign. The second sign is when the expiring carrier asks for an increase. We're not seeing that yet. We're not being told that's occurring.

Third is when a standard company says I'm not renewing this account. That's substantive ways that we in the specialty field will see it happening when it's happening.

There's shopping going on. There are some things happening. I'm a little bit distressed too by the third quarter earnings calls. If you look at them, the people are talking about it and they're seeing some signs of a market turn and then they say, we're poised to take advantage, well-positioned for a market turn. Well, there's got to be fear or pain. There's some of that but there's not much. I'm not saying that's not going to occur because we do have to get an acceptable return and we're not getting it in investments right now. So it may be that the management pushes through enough of a mindset driven by need for acceptable returns on capital, which is not so much of what we have historically had, which is pain and fear.

McDonald: Within specialty lines are there any areas you can point to that you think are particularly under-priced or particularly overpriced that are kind of aberrations at this point?

Lassiter: Well our assessment right now is that the most difficult line of business for us is general liability, especially primary general liability. It was the first to soften. It's been under extreme pressure for four years plus. I think some other lines are under pressure but that one seems to us to be the one where we have had the most erosion of our premium levels and somewhat erosion of the price that is available in the market.

McDonald: Dan, what have we seen in terms of pricing?

Ryan: In terms of pricing, these folks know it better than we do. They're in the trenches every day. But I'd certainly agree with a lot of the sentiments that these folks have expressed. Certainly financial institution, D&O, and Fortune 500 are certainly coming under extreme upward pricing pressure. Certainly credit sensitive (trade credit) business offered by companies like Euler Hermes, those lines have been ahead of the curve and have implemented price increases where appropriate.

General liability is typically the first line to go and we see through the course of the years general liability pricing and the loss ratios begin to tick up, even though there had been some price firming in the marketplace. But over the last few years general liability has given way. Specialty workers' compensation is probably another line of business that is going to give way again; probably to some price competition, especially in California where some folks are still looking at some of the tort reform
that’s been in place there. The question is whether tort reform will hold over the long term given some of the activity in California workers’ compensation and certain plaintiff’s bars getting involved and finding some loopholes to get around some of the benefits of tort reform.

So in terms of what these folks have said, I would agree with everything that’s been said thus far. Pricing in the marketplace is going to continue to come under pressure. Capital has to be taken out of the market for this market to behave differently. That’s the way the cycles have been forever. We have to experience the pain in order to take corrective actions. Unfortunately, I don’t think anyone is experiencing the pain yet. The question is whether or not any issues regarding further financial fallout, and its effects on insurance companies’ balance sheets, is going to have an effect on pricing. Because now it takes capital out of the market, which includes Bermuda players as well.

Financial Stability

McDonald: You’ve got the credit crisis, the stock market meltdown and of course a very heavy catastrophic year. What do you see for the coming year in terms of financial stability of the industry and particularly players in the specialized market? Are we going to see some possible end to this five-year streak of so far defying mortality?

Ryan: That’s quite possible. Right now the health of the industry in general is very strong, even with some of the takeout with respect to the capital losses, unrealized in the investment market. But they’re still very helpful. Liquidity is an issue for many companies. Liquidity because no one, banks in particular, are lending money these days. So the capital markets are frozen. So companies that are looking or are interested in raising additional capital, we haven’t seen a whole lot of activity recently. In fact, folks that have share repurchase programs have actually shut those doors down over the interim, simply taking a “wait and see” approach.

Catastrophes are always one of the main culprits for failure in the industry. So the perfect storm could be a catastrophe and further deterioration in the financial markets. We also have the fair market value of securities that insurance companies hold on their balance sheets that could be affected, depending on conclusions at the NAIC who have been looking at this over the course of the year to determine how they want to handle any other than temporary impairments at the insurance company level on a statutory basis.

This market, this industry is probably even more fluid than it’s been in the past. That’s another thing that could lead to some questionable financial security. So again it’s more of a wait and see. But I think there will be a lot more clarity at some point during the first quarter of ’09.

McDonald: Tony, what’s your take on financial stability? That’s always a prime concern with producers. Do you see what’s going on now having an impact?

Markel: Clearly, I still think that our sector of the market in contrast to standard carriers, in general has much more conservative management. So the point that Dan raised earlier about the relative strength of these specialty surplus lines market, I still think is very much intact. But overall for the property/casualty industry, I think there will be some real financial stress. The combined ratios that are being posted right now, frankly, I think have more to do with the reduction of reserve cushions and redundancies from the earlier part of this decade than they do anything to be proud of in terms of their current price levels.

That coupled with the investment portfolios and the damage that’s been done there, I think clearly we’re going to see some financial stress although I would reiterate that I think our sector will shine in relative comparison.

McDonald: Chris, that’s always a big issue for the producer sector. What are you seeing?

Toreanor: It really is. It’s increasingly complex. From a personal standpoint, I can’t imagine how we get through this without a major failure. There’s so many big players who are in distress in one form or another. The game is not over yet. So getting through this unscathed I think is unlikely.

What that means is the tough part. Names are consistently banded about. What we don’t know as an industry is what’s going to happen and who is going to end up with the worst difficulty. If you said to anybody five years ago that Hartford, AIG, Swiss Re and Liberty Mutual would all be under pressure, people would laugh at you. Those are some of the names who are experiencing difficulty at some level.

So there’s more to come. If you look back at the rest of the financial sector, Indy Bank in the first quarter was saying that they were massively overcapitalized and 60 days later the government had to take them over. So there’s just such uncertainty and lack of clarity and lack of ability to fully understand how this is going to play out.

That makes it very difficult for our customers. It makes it very difficult for us. When we advise customers we always start with A.M. Best. That’s a gratuitous plug of course.

McDonald: We’ll take it.

Lassiter: Absolutely. But you guys have been the industry stalwart for certainly for the 25 years I’ve been doing this and certainly beyond. But
we’re going much beyond that. You look at other rating agencies. You look at industry analysts. You stay very close to who is acting irrationally in the marketplace because that’s frequently a sign that there’s trouble on the horizon. But what you have to be careful of, and this is what I always caution our people, is don’t trade on rumor. Don’t trade on gossip. That can be very destructive.

Like banking, we live and die based on consumer confidence. So once you get a run on the bank it’s hard to stop it. You can’t trade on gossip. At the same time you don’t want to put your customer in a bad situation. So it’s a really delicate balance trying to give good advice but not trying to give advice that’s based on a hunch or what you hear in the market.

**McDonald:** But as you place business and proposals, is financial stability part of the conversation in a way that it hasn’t been before?

**Treator:** Absolutely. What’s really become a bigger part of that is aggregate counterparty risk. One of the difficulties AIG has these days is that they’re a victim of their own success. They over the last 10 years have focused very hard on getting bigger market share on a customer to customer basis. Higher limits per account and cross-selling that account, from D&O to property and casualty. So when a CFO wakes up and looks at his insurance portfolio he’s got half a billion dollars of exposure to AIG and I’m just using AIG as one example. That’s where they’re focused.

So you start with a rating and then you say, what’s my aggregate exposure to any one name. Because you can’t sell for sure. You know something is going to happen. You can’t tell what it’s going to be. You start with strong-rated companies but then you don’t put too much capacity with any of them. So we’re absolutely seeing a flight to quality and a broader diversification of risk where in the past everybody put more with one carrier because there are a lot of advantages to that. People are much more hesitant to do that at this stage and I think rightfully so.

**McDonald:** E.G., financial stability, particularly your outlook on where it’s going in this sector here but also how it’s going to affect your business when you see some of the impact here. What are you seeing?

**Lassiter:** Well it will have some impact. We are fairly conservatively managed. We’re currently writing at about 0.6 premium to every dollar of surplus. The industry is roughly 1 to 1. There are carriers out there that are 1.5 or 2 to 1. The overall in the specialty market is more down where we are. Tony, you’re probably right at 0.9 to 1 or something like that?

**Markel:** Right.

**Lassiter:** I think those are very conservative approaches to the business. However, there are carriers out there that because of the profits they’ve made the last few years, because of the cost of reinsurance, they have retained more on their own books. Now that their capital is eroded they’re going to be looking to cede more, just when the reinsurers don’t have the capital to accept more or maybe not as much as they’d want to take.

Maybe some of the carriers are capital impaired and we don’t want them to have as much as they have, the counterparty credit that you were talking about a few minutes ago. There’s a lot of things at play that are difficult for us to analyze right now. We will be able to do it with more clarity after Dec. 31 when the financiales are published and we see what the changes are that have occurred in October, assuming there’s just no dramatic recovery in November and December, what it’s done to the various people. But right now it’s a little bit difficult for us to assess. Those kinds of things do drive changes. It actually bodes pretty positively for the reinsurers. They are going to be holding some cards. I do think that they will be able to push through some rate increases at Jan 1. Frankly to the extent that we are buying from them, some of that has got to be passed on. They have had more rate integrity than the direct market has had over the last two or three years. They have held the line. If they push through increases something has got to give because we’re getting squeezed from two different directions here.

**Ryan:** Just to expand on that, with respect to reinsurance companies as ceding companies like RSUI and Markel are sizing up their programs, there certainly is going to be a flight to quality. I think what folks need to keep in mind is not only that these insurers could be impaired simply because of the fact that they might be more willing to accept some risk on the investment side. But the point of the matter is if there are some impairments there which they have to further write down and then you have a catastrophe event and then what happens is many reinsurers, they’ve been very successful in going down to the capital markets to replenish these balance sheets, at this point in time if something were to occur the ability to go back and replenish what was lost is going to be very difficult.

So from that perspective as you’re dealing with reinsurers one has to go back in history and look at which companies had bigger appetites and which companies go back to the capital markets to replenish. Those might be the companies that are disfavored in the market as tight as this in terms of the credit markets.
The Impact of AIG

McDonald: Chris, you kind of foreshadowed our next topic, which is to talk about AIG. Dan mentioned some of the rating perspective there and we’ll come back to that in a few minutes. What we’re really concerned about here is just the impact. The headlines, the news obviously, the situation, what’s that done in the specialty market?

Treonor: It’s created a tremendous amount of activity. Right after the event we saw a ton of instant shopping. We saw a ton of folks out there looking at midterm movement of the business. At the end of the day hardly any of that business moved. But you had a lot of nervous customers. You had a lot of nervous brokers. People were taking a look at what else is available in the marketplace and trying to make quick decisions.

That’s dissipated, that slowed down. Certainly at renewal AIG is under a lot of pressure. It’s where you’d expect it to be. I think their D&O book is probably under the most pressure. That’s a very visible line of coverage and a line where they have a dominant market share, particularly in Fortune 500, commercial more than in financial institutions, but commercial D&O. That’s where they’re seeing a lot of the pressure and that’s creating a lot of movement, a lot of opportunity. They’ve lost a bit of that book.

The other area which really plays to us in terms of opportunity is there are a lot of areas where AIG wrote a ton of capacity. If you’ve got $150 million of capacity on your umbrella program, there’s no way you’re keeping that at renewal, unless you’re just buying the entire marketplace. There are probably half a dozen customers who buy the entire commercial marketplace, get over a billion dollars. But short of that, if you’ve got $150 million of AIG capacity and a $300 million tower, you’re not going to keep it there.

That creates certainly umbrella opportunities and excess liability opportunities, which typically fall into the specialty marketplace. So there’s a lot of activity going on there.

On the property side, Lexington is a dominant player in our space. Certainly a lot of activity in that space as the result of people’s concerns about Lexington. The Berkshire program, the credit enhancement program that Berkshire Hathaway provided them has stabilized that book. But they’re under pressure and they’re getting tested all the time.

So some movement of business certainly, some movement of business in key areas and a ton of activity. I would say we’re all seeing a substantial increase in submission activity as good, prudent customers are testing what they’ve got. They’re making sure that at renewal AIG puts the best program on the table in terms of coverage, price and financial security.

McDonald: E.G., how has the AIG situation changed your life?

Lassiter: What a world of talk. I think it’s all still to play out. We don’t have quite the crystal ball to see with clarity what they’re going to look like when all of the timbers have fallen and everybody knows what’s going to happen. We don’t know whether they’re going to be a viable entity going forward with their P&C operations intact or will they have been sold separately.

Our take is that they have been unable to sell anything so far, maybe not so surprising because there’s no credit out there. The worst time you can sell something is when you’re being forced to. So they’re probably not getting primo quotes. Nobody is putting things on the table they really like. How long is it going to take them to do that and what is it going to look like when it’s over?

We are seeing some movement in the D&O in not just accounts but in people. That’s going to have some impact there. We are not yet seeing anybody in any other product lines. We do expect it. Our take is that they may not have enough assets, the $122 billion may not cover their total financial obligation. There’s just so much to play out. We forecast it was going to be at least midyear 2009 before we would have with greater clarity and understanding of what AIG’s future is.

McDonald: Tony, I’d like to ask you to answer the question a little more broadly because of your company. You play in the admitted, specialty, you’re in international markets. AIG is in all those markets. What does it mean to you?

Markel: Well you would think logically that the wounding of the 800 pound gorilla in all of our specialty markets would certainly signal more movement of rate back up, the stopping of the erosion of the rate fall. But, in fact, and I think this is a short-term phenomenon, the AIG problems have exacerbated the rate fall. They are even more aggressive now than they have been over the last three or four years in an effort to retain business. They are dramatically eroding what was already very questionable pricing in order to make sure that business does not walk out the door.

Most of the producers that I talk to, and again dealing in the short run here where we’ve already said that we have not seen any visible change in pricing, as a matter of fact it continues to go down. Most of the producers are taking some comfort in their view of AIG. They’re also saying, “Look, I’d like to diversify my book a little bit because I’ve got all this AIG business. So if you can come in within five or 10 percentage points of AIG I’ll give serious consideration to moving it because I’ve got too much business in AIG.”

But the fact of the matter is that...
when AIG comes in and nobody can get anywhere close to them, nobody is moving business. Basically right now it’s talk and a lot of practice. We practice enough. So I’m anxious to see this thing play out with AIG—their ability to sell, to pay back this government loan and now speaking as a shareholder of AIG since the government owns 80% of a major competitor which is not another particularly great subject for me, but they’re going to have the issue of everybody knows they’ve got to sell. Due diligence: As a potential buyer I’m not sure I’m young enough to ferret my way through some of those issues in order to get comfortable with the price; and credit, in terms of the ability to raise capital to make acquisitions of some of their subsidiaries, given as Dan said, the lockup of the capital markets.

They’re all going to manifest themselves in the fact that AIG is going to have a tough time realizing the value that they legitimately probably had in their subsidiaries, which is going to add pressure. Right now we’re just waiting for the reality to start feeding out. When the dominant player worldwide in every one of these specialty markets is significantly wounded as it is, and it may survive but it’s certainly going to look a lot different than it has, it would suggest that the market should consolidate and stop what has been suicidal pricing. I think ultimately it will.

Treasnor: Let me pick up on something that E.G. said, which I think is germane with AIG. They’ve got a host of issues that they’re grappling with. To me their biggest issue is talent. E.G. talked about teams leaving. They’ve done a good job of holding on to talent but people are looking and people are leaving. If they lose their key talent in my estimation, it’s game over.

Ryan: It’s very important to bifurcate what’s going on at the holding company, which is AIG Inc. and what’s going on at the insurance company level. Now there are certainly different sets of issues. Certainly from the operations standpoint, everything that’s been discussed here is everything that we’ve been very mindful of—flight to quality, the layering of some of the larger accounts that Chris has mentioned and certainly teams leaving.

These are all discussions that we’ve already had things that we’re mindful of over the course of time. I agree that a lot of what’s been mentioned here is certainly concern regarding to some extent the operations, the operation risk that Lexington and other insurance companies in the AIG family will be experiencing over the course of the short time. The AIG holdings and the issues surrounding that is a separate issue altogether, not that one doesn’t affect the other to some degree. I’m not going to get into specifics on AIG Inc., but I do want to make sure that folks understand that there is a distinction. There is capital that is actually dedicated to an operating company, in this case Lexington, American International Specialty, among others. That capital is intended to be available to pay policyholder claims.

So the question is how are they utilizing that capital. As Tony pointed out and E.G. pointed out, maybe there is a little bit of aggressiveness because of the flight to quality issues and the fact that they are losing some of that. They may be losing some of those big accounts and the bundling of accounts. That’s something we monitor very regularly with the AIG companies and we’re very mindful of it.

**Specialty Market Hot Spots**

**McDonald:** Given what’s happened in the market, what are the hot-spot lines right now? What things surprise you the most in terms of specific specialty lines either as being difficult or unusually available?

**Lassiter:** Well I touched on general liability earlier. We’re seeing some pricing there, umbrellas. I don’t think we’re seeing a lot if it, it’s sort of a continuation of the same trends in terms of the percentage reductions that we might have to compete with in order to get a renewal order in most of our product lines. D&O is in general flat to slightly up, especially in some financial institution areas. It’s up pretty big in that area. But the only real place where we see extreme competition frankly is in general liability.

**McDonald:** Chris, at the producer level you get a pretty wide spectrum of coverages. What’s your biggest challenge right now?

**Treasnor:** Well I think as we said before, what we anticipate and what we’re starting to see is financial institution business is going to fundamentally change. The estimates of what that loss is going to be, based on the meltdowns and the bankruptcies and everything else, it’s tough to say. I heard a number this morning of $8 billion. The premium in that for D&O and E&O and financial institutions is what, a billion and a half? So there’s certainly going to be some movement in that area. In the general D&O market you’re certainly going to see more bankruptcies as the economy worsens, as credit becomes more difficult. There’s going to be a spike in D&O claims.

We are anticipating that’s the line that’s going to be under the most pressure. We don’t think that’s a short-term phenomenon. Beyond that I absolutely agree with E.G. that the general liability stuff, whether it’s the admitted markets doing stuff that they have no expertise in doing but do it anyway, the standard markets, or whether it’s just crazy pricing, I think that’s absolutely the one that continues to be under the most pressure.
We do see tough, large products holding up better and people walking away from that and we anticipate the cat property market rebounding. But short of that we’re still seeing a lot of softening.

**Lassiter:** There certainly are some lines we don’t know. I don’t know if you do, Tony, like auto or workers’ comp. Maybe you can speak to those, but we don’t.

**Markel:** We don’t do any comp and very little auto. But you know, Lee, either you or Chris brought up and he’s reiterated the dramatic increases that are coming out in D&O and I think you in your earlier remarks or maybe Dan alluded to credit related coverages. But I don’t think the industry deserves a lot of credit for that knee-jerk. It’s like we’ve been smacked across the face with the two-by-four and these rates are responding to obvious rating inadequacies.

So, if you get pounded long enough you finally start coming to your senses. I think those two areas are going up but they’re going up basically because losses are so obvious.

**McDonald:** Dan, anything on that in that regard there?

**Ryan:** No, not really. Where folks are looking to perhaps more so now is probably the program market. That’s been drawing a lot of attention. Insurers are trying to find good program managers, MGAs, MGUs, whatever acronym you want to use and just trying to get to the ease of use and automation. Whatever lines of business it is, whatever program it is, try to make the life of the program manager a lot easier. But in terms of line, I would agree with what we talked about here. The general liability is always the first line to collapse and then everything follows after that. D&O is certainly an issue we’re looking at. I heard somewhere in between $8 billion to $10 billion in terms of potential losses from class action. That’s a range that we’re looking at. We’re watching that very closely in terms of development there and certainly that is pushing some of the up pricing in that marketplace and we’ll continue to probably see that, given the level of premium that’s out there at the moment, the need there.

**What Producers Should Know**

**McDonald:** What do producers need to know about this market and what are you hearing from them? What do you want them to know?

**Markel:** Clearly the surplus lines market and its wholesale partners are sitting prepared to take advantage when the market turns. But we are a safety valve type of industry. We come to the fore, wholesaler and company, when the market discontinues making cheap pricing and competitive rate levels and coverages, capacity and everything so available. We have not at this stage collectively, our wholesale partners and ourselves really come to the fore yet. Because the market is still so soft. That’s not the market that we shine in and win.

It’s a question of when the market does tighten as the result of the confluence of events that we discussed. I think the dry powder that we have as companies and the expertise that the wholesalers bring to the equation will fill the need the way we always have.

Very few of the surplus lines carriers and I would assume from that, very few of the wholesalers, have really had organic growth in the last two or three years because the opportunities are not there. In general we’ve been disciplined enough not to push the envelope because we understand our position in the marketplace.

**McDonald:** Chris, you’re a producer and you work with a lot of producers. What do they need to know here?

**Treanor:** They should be calling their wholesaler on every transaction. I think that’s obvious. Realistically we do provide a relief valve in tough markets. But our industry and the wholesale part of the industry, we’re certainly good information gatherers and disseminators. My company is relatively small and we trade with over 1,000 retailers. As a retailer you’re a little bit in a box. Your information is limited to your customer base. So to the extent that we can magnify that by 1,000 and play back what’s going on in the industry and where the hot spots are and where the opportunities are, and do it on a specialty basis because we’re all specialized by product and industry, that’s a big value.

We’re in a very unsettled time. I think what we all do right now is try to gather more information and more data points. Making a decision in a vacuum is always dangerous. Making it with a few data points is always dangerous. So one of the things we provide as an industry is information and a different perspective.

I would like people to use us on every transaction. Certainly they won’t but I think in this environment, in this unsettled time more conversation, more interaction, more engagement is one of the things, more information is one of the things we provide.

**McDonald:** Thank you, Chris. E.G.? What do producers need to know and what are you hearing?

**Lassiter:** The value that the wholesale broker brings to the marketplace. They have the skills and expertise to know who to go to for what product line, for what type of limits and coverage and they add a value.

One of the things that differentiates them is at the retail level very often the person placing it, the agent, is a generalist. The people we deal with are specialists and they focus on D&O as we’ve talked about or general liability or property. They can have a broader skill set than you can have when you’re just a generalist.

It’s tough in the soft market. In the soft market things move away. Where we have to guard is the things that move away from us and back to standard companies happen to be the things that are fringe E&S. That leaves us with a more difficult book. It may be more difficult but hopefully we price it right and we still make money. But there are some accounts that stay here forever and there are some that move back and forth and some that we never see. It’s between us and our customers to ferret out which ones are really true opportunities when we work on them together.