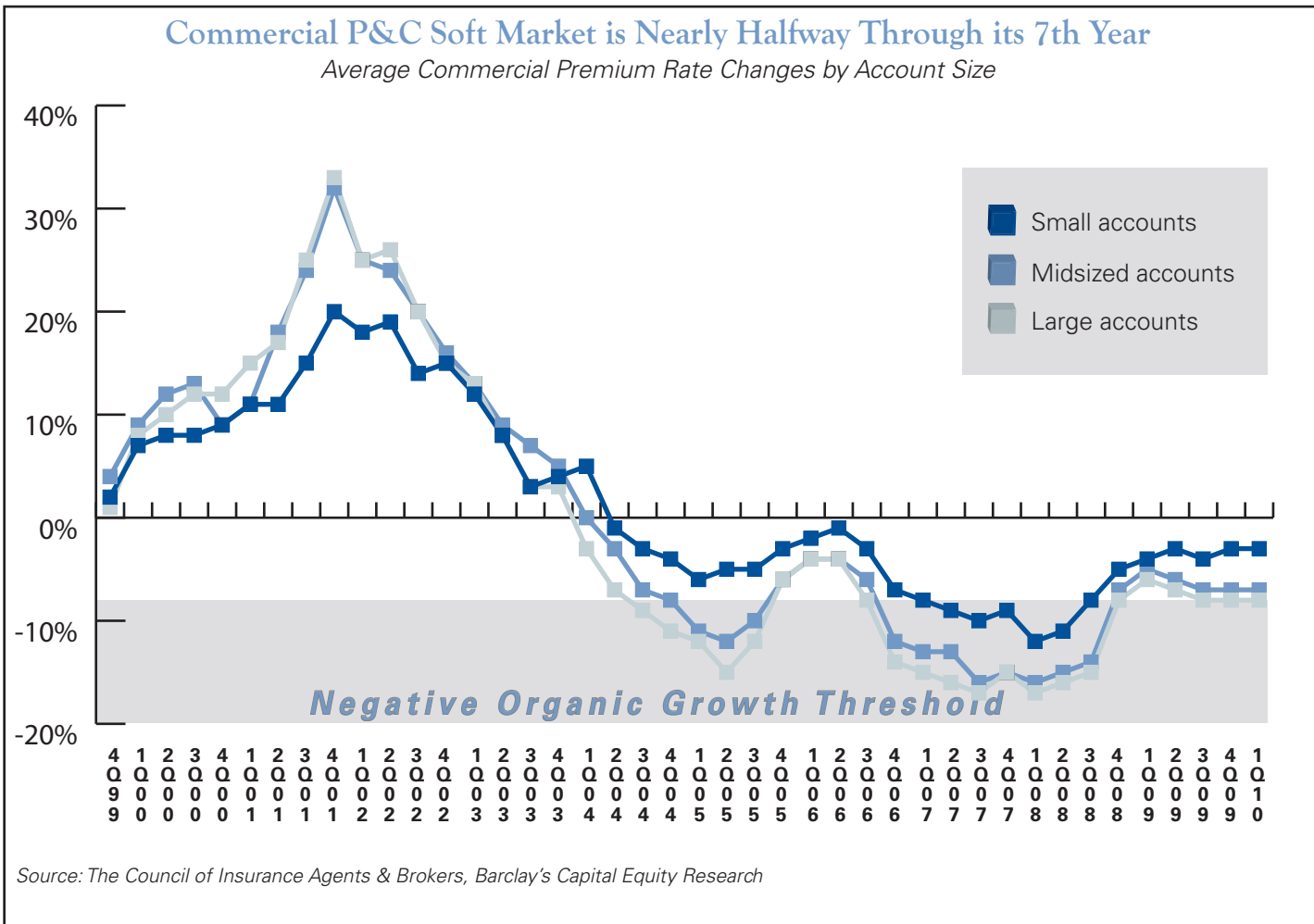


Property Market Update

What is Ahead?

by John H. Nelson

As Hurricane Earl was barreling through the Caribbean in the dwindling hours of August on a path that meteorologists determined could affect the heavily populated areas of the Atlantic Coast, something perversely counterintuitive was happening in the stock market; the share prices of the major insurance companies were rising.



Over the last 9 years, the insurance industry has experienced one of the longest periods of pricing weakness in living memory. Several factors have contributed to what is commonly known in the industry as “softness.” Among these have been plentiful infusions of capital chasing otherwise non-existent yields, abundant cheap reinsurance capacity and a lack of significant catastrophic activity. This has led to intensified competition between insurers, ultimately resulting in decreased rates across the board. One of the areas most affected has been property insurance. Even after experiencing this extended period of declining prices, the majority of SilverStone Group’s clients received a flat to 5% rate reduction on their property insurance renewals during the first half of 2010. The only exceptions involved accounts with below average loss experience. However, it must be recognized that these reductions have been less generous than in prior years of this cycle, possibly heralding a shift in the market.

The 2010 hurricane season is not over, and, according to weather experts, conditions are favorable for it to develop into one of the most active seasons in years.

Frequency not severity – so far

Earthquakes in Haiti, Chile, Turkey, Baja, Mexico and New Zealand and as well as windstorm Xynthia in Western Europe, have marked the largest natural catastrophes in 2010. The Chilean quake is expected to cost the industry around \$5 billion, much of it reinsured into the broader catastrophe market. The earthquake in Haiti did not result in a material insured loss to the market, but the magnitude 7.0 disaster is expected to exceed \$8 billion in damages. The destruction caused by Xynthia also carries a high price tag, estimated to cost between \$2 and \$4 billion. These events, while not individually significant, have collectively managed to cause a dent, albeit a small one, in the catastrophe and treaty reinsurance market.

The frequency of these events, however, is a matter of increasing concern for underwriters. Sooner or later, one of these events will, in all likelihood, happen in a highly

concentrated wealthy nation. The 2010 Hurricane season is not over, and, according to weather experts, conditions are favorable for it to develop into one of the most active seasons in years. At the time of this publication, the 2010 season has seen 9 tropical storms and 4 hurricanes, beginning with Hurricane Alex in June and most recently, Hurricane Igor which slammed Bermuda. In September, Hurricane Karl hit the Mexican Coast twice as a Category 3 storm, setting off flooding in parts of the state of Veracruz and a landslide in Nexticapan. AIR Worldwide estimates insured losses will exceed \$200 million.

States in the Southeast have already begun to prepare for the worst, knowing all too well the serious threat these storms can pose. With weeks still remaining in the current hurricane season, there is potential for the property insurance market to be significantly impacted before the end of the year.

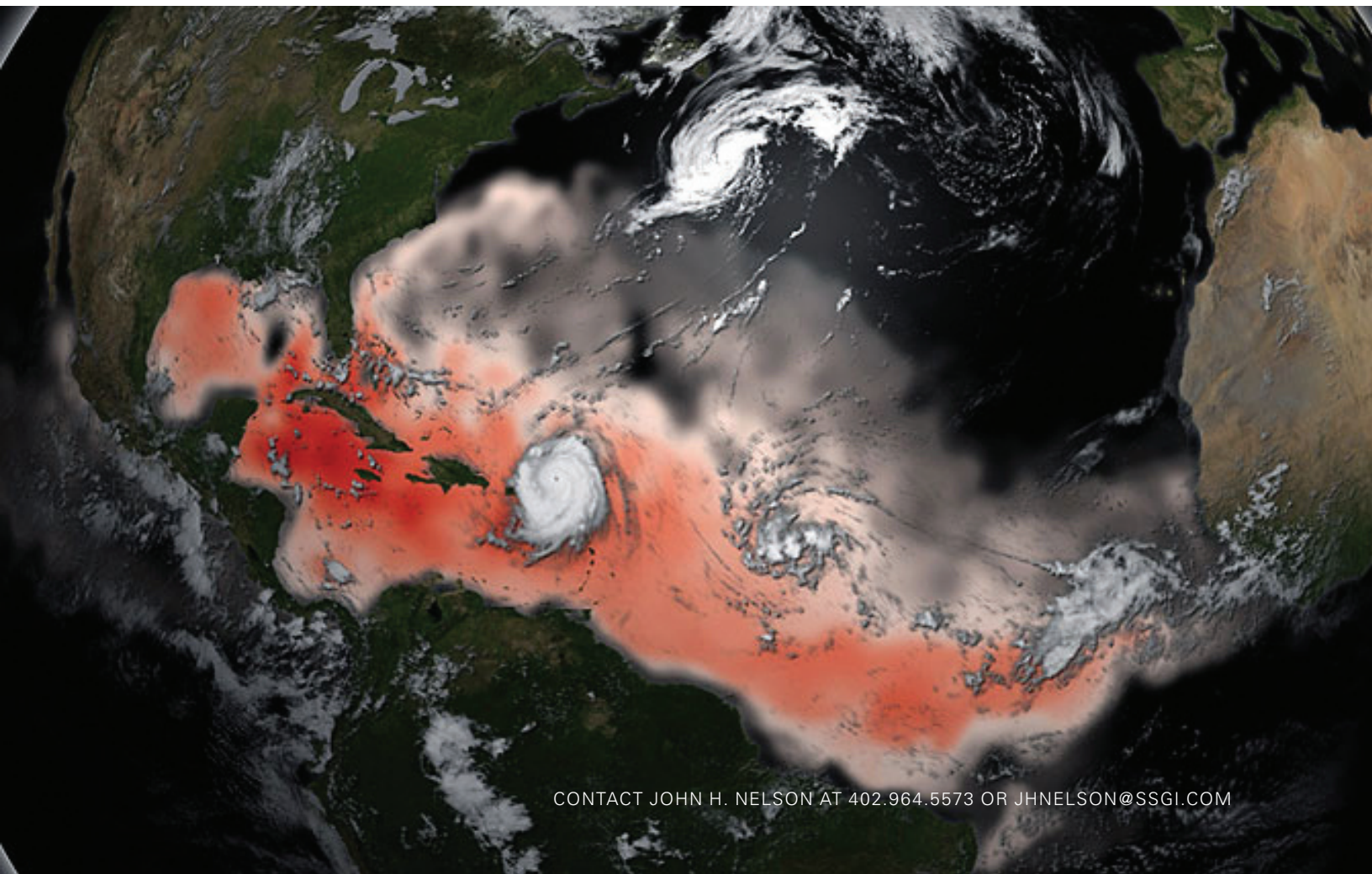
Major players reduce CAT exposure

In anticipation of the worst, several insurers have started cutting back on their exposures. AIG/Chartis has been the most active major property underwriter pursuing risk management initiatives, decreasing its exposure to coastal windstorms and high risk quake zones. Berkshire Hathaway and its subsidiaries have also been withdrawing their property catastrophe reinsurance capacity due to the current pricing environment.

Preparing for the hard market

With the industry stretched, it is only a matter of time before a market-changing event occurs. The simple *anticipation* that Hurricane Earl was going to be a catastrophic event led to the rise in the stock price of several major public insurance carriers.

In order to lessen the impact of a potential hardening of rates, SilverStone Group continues to improve the range of risk transfer mechanisms that we offer our clients. We are working to evaluate their risk profiles, making certain that the critical information underwriters demand in a hard market is both current and complete. We know that those who are the most prepared will be in the best position to differentiate themselves when capacity becomes scarce.



CONTACT JOHN H. NELSON AT 402.964.5573 OR JHNELSON@SSGI.COM