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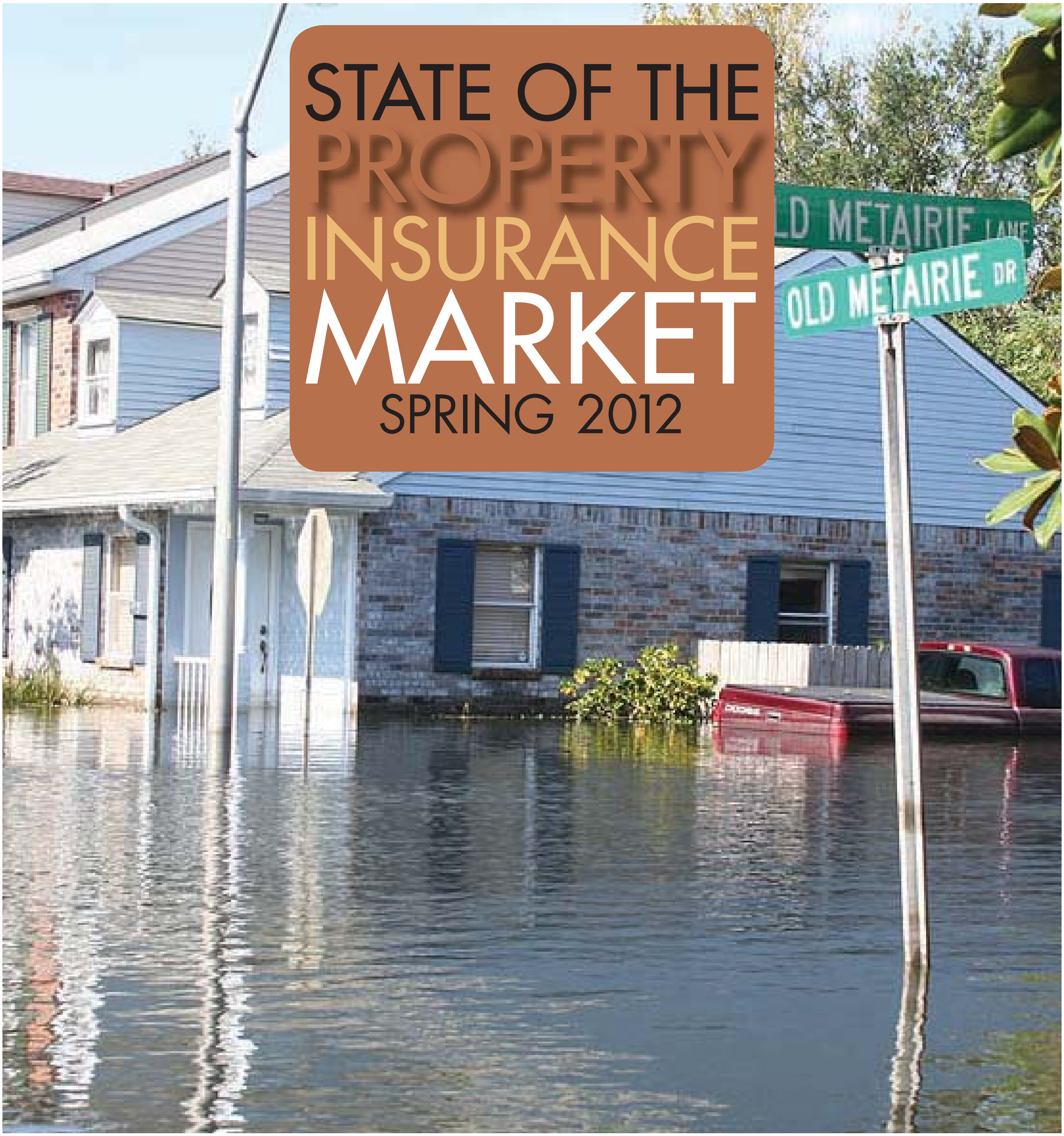
Vice President of Commercial Insurance Specialists, LLC (www.cisllcfl.com) a commercial property/casualty broker based in Tampa, FL. John has over a decade of industry experience with both a national insurance company and a premier national broker. John has established lasting relationships with carriers and clients that help obtain the best deals for his customers. With vast knowledge of policy coverage, John always finds unique strategies to reduce client's risk exposures, which drives down their premiums.

STATE OF THE PROPERTY INSURANCE MARKET

SPRING 2012



State of the Property Insurance Market Spring 2012

After years of a soft market, we are now seeing property carriers raising rates, tightening underwriting standards, restricting coverage, and reducing capacity - especially in catastrophic prone areas. Pricing in the insurance market is cyclical, with prices falling for a time only to move higher when industry returns deteriorate. As this market cycle progresses, insurance buyers will face additional challenges as price continues to rise and capacity and terms become even more limited. ***Only brokers who have practical experience, in depth market knowledge, and strong relationships with carriers can help buyers deliver the best possible outcomes.***

Why is the property market hardening?

A. Catastrophic Losses

Property Insurance companies have been reducing capacity and raising rates in response to catastrophe losses – in the first half of 2011 alone, over $70 billion was paid out – a figure that is nearly five times greater than the first half average for the past decade. At this level alone 2011 ranks as the second most expensive year for catastrophes, surpassed only by 2005. One of the most significant catastrophes in 2011 included a devastating earthquake and tsunami that struck Japan in March. Other losses included an earthquake in New Zealand, floods and Cyclone Yasi in Australia, and a series of tornado outbreaks in the United States. In the third quarter, catastrophe activity declined in comparison to the first half. Hurricane Irene was the largest catastrophic loss in the quarter with insured losses estimated at $6.6 billion. Based on stats posted in December, seven of the largest property markets (ACE, FM Global, Lexington, Munich Re, Travelers, XL and Zurich) all posted losses well in excess of 100% loss ratios, with four in excess of 115%.

The first four months of 2012 did not begin well – so far, 600 tornadoes have been reported this year. As of April 22nd, reported tornadoes were 31% higher than the seven year average. There have been over 60 tornado related deaths and the estimated insured losses for these storms is $2 billion. With over $26 billion in losses, 2011 ended up being the worst year on record for tornado losses for the insurance industry - $10 billion greater than the previous record.

B. New Hurricane Model

Property insurers are also reacting to a release of a hurricane model that has significantly increased probable maximum loss estimates for many insurers and has increased insurer concerns about potential loss accumulations. The result is reduced appetite for risks in hurricane prone locations such as the gulf coast and Florida. The capital impact of this newly adopted model (RMS version 11) has been estimated by some to be in the range of $20 billion to $25 billion on top of the losses already being paid by insurance companies. Insurers are being left with few options: Increase capital reserves, buy more reinsurance or reduce their aggregate accumulations by writing less catastrophe coverage in those affected areas.

C. Investment Yields and Operating Performance

In addition to the pressures on the liability side of the balance sheet, insurers are facing significant challenges on the asset side as investment yields, which have been shrinking for years, have fallen to historic lows. The

Federal Reserve earlier in the month vowed to keep its benchmark interest rates near zero through mid-2013.

Net income fell nearly 72% to $4.8 billion in the first half of 2011, hurt by significant catastrophe losses. Catastrophes striking the United States in the first half of 2011 caused $23.9 billion in direct insured losses, nearly three times the level in the same period a year ago. Net losses on underwriting rose to $24.1 billion in the first half of 2011, up from $5.1 billion a year ago. Underwriting profitability deteriorated with the combined ratio rising to 110.5% compared with 101.7% a year ago. That was the worst six month combined ratio since the 111.1% combined ratio for the first half of 2001. Unfortunately, insurers have not been able to make up this shortfall with investment income, as this fell another 2.8% to $23.1 billion in the first half, primarily from dividends on stock and interest on bonds.

D. Reinsurance Treaty Renewals

Reinsurance is the insurance purchased by insurers from other insurers to limit the total loss they would experience in case of a disaster. The losses in the first half of 2011 exhausted the global reinsurer's annual catastrophe budgets for the entire year. Reinsurance treaties that renewed on June 1st of 2011 saw average CAT driven increases of 5 to 15%. Reinsurance renewals for January 2012 were up an average of 8-15% with Tier 1 & 2 wind garnering the higher increases.

E. Conclusion

At recent industry conferences much of the discussion focused on the fact that underwriting will take on more importance in the coming months as a result of the margin compression stemming from the catastrophe losses, the updated catastrophe model, the low investment yields, and the increase in reinsurance renewals. The industry has weathered a tough year, and although it has plenty of capital to pay claims, profitability has been deteriorating – insurers are under even greater pressure to make a profit on underwriting. On catastrophe exposed risks, we are beginning to see carriers looking for more rate – in many cases they are looking for at least 10 – 20% increases.

What Commercial Insurance Specialists, LLC can do for you:

Catastrophic Modeling

- Calculate Probable Maximum Loss so we can look at possible wind sublimits – successful in having your lending institution accept these lower wind limits
- We've been successful with the updated RMS 11 modeling program that carriers are using – depending on the secondary construction characteristics of the building and/or roof that are provided to the carrier, the model can change drastically

Manuscript Policy Forms

- Developed forms that we have had pre-approved by carriers that offer the most advantageous wording on wind deductible
  - Named Storm vs. All Wind
  - Percentage based on "insured values", not "insurable values"
- Waive co-insurance
- Higher sublimits
  - Mold (very important in Florida, and many times excluded)
  - Law and Ordinance
  - Valuable Papers and Records

Business Income and Extra Expense Evaluation

- One of the least understood coverages – we will evaluate your proper limit so we can keep your business running in case of loss.
- Verify that carrier is using proper policy wording so that BI loss is paid timely and in full

Building Limit Evaluation

- Marshall and Swift report detailing the replacement cost

Claims Management

- Successful in assigning a dedicated claims adjuster on mnay policies

Excellent Relationship with Carriers

- Strong relationships with wholesalers and carriers who write Florida property – We will get you the BEST coverage available at the best possible premium

Policy Review – Allow us to provide you with a full no obligation policy review to ensure that you are receiving the proper coverage that you are paying for. Too many times we find commercial property policies that are not worth the premium because the coverage is so restrictive that it makes it difficult for a claim to be paid. ***Even though the market is hardening, a good broker can still negotiate an affordable policy that will protect your company.***

COMMERCIAL INSURANCE SPECIALISTS, LLC

Workers Comp • Property • Professional (E & O) • Liability • Auto

Protecting Tampa Bay Area Businesses

Commercial Insurance Specialists, LLC (CIS) provides business insurance solutions including:

+ Workers' Compensation
+ Property & Liability
+ Auto Coverage
+ Professional Liability
+ Personal Lines Coverage

Please contact us regarding Pay-As-You-Go Workers' compensation solutions that can be combined with your payroll firm.

Friendly and affordable. That's CIS!

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