Source: A.M. Best Special Report September 2004

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The insolvencies of Legion Insurance Group, Highlands Insurance Group, Frontier Insurance Group, Acceptance Insurance Cos. and Reliance Insurance Group highlight the impact that poorly managed program operations can have on their excess and surplus lines counterparts. Each of these groups was engaged primarily in the admitted marketplace but maintained excess and surplus lines subsidiaries (Legion Indemnity Co., Pacific National Insurance Co., Frontier Pacific Insurance Co., United Capital Insurance Co., Reliance Insurance Company of Illinois and Reliance Universal Insurance Co. Inc.), which became caught up when the insolvency was declared. In addition, the failure of Caliber One Indemnity Co. was affected only when its parent company, PMA Capital Corp., decided to pull out of the excess and surplus lines market in May 2002.

On a direct written premium basis, the aforementioned excess and surplus lines subsidiaries represented a fraction of the groups' total writings:

- Pacific National Insurance Co. generated 5.8% of Highlands Insurance Group's $470.4 million of direct written premium (at year end 2001).
- Frontier Pacific Insurance Co. and United Capitol generated 18% of Frontier Insurance Group's $329 million of direct written premium (at year end 2000).
- Legion Indemnity Co. generated 6% of Legion Insurance Group's $1.5 billion of direct written premium (at year end 2001).
- Reliance Insurance Company of Illinois and Reliance Universal Insurance Co. Inc. generated less than 1% of Reliance Insurance Group's $4.3 billion of direct written premium (at year end 1999).
- Caliber One, on the other hand, generated 23% of PMA Capital Corp.'s $543 million of direct written premium (at year end 2001). This percentage, though, is somewhat misleading, as PMA assumed twice as much business as it wrote directly in that year, and therefore, Caliber One's 2001 net written premium was less than 1% of the net written premium of the PMA Capital Insurance Group.

Insolvencies and Failure Frequency, Surplus Lines Companies vs. Total P/C Industry

	Number of Insolvencies			Failure Frequency		
Year	Total P/C Industry	Surplus	Admitted[1]	Total P/C Industry	Surplus	Admitted[1]
1975	6	0	6	0.29	0.00	0.31
1976	31	1	30	1.47	0.63	1.54
1977	8	1	7	0.37	0.62	0.35
1978	10	0	10	0.46	0.00	0.50
1979	10	0	10	0.46	0.00	0.50
1980	12	0	12	0.54	0.00	0.59
1981	6	0	6	0.27	0.00	0.29
1982	10	1	9	0.44	0.52	0.43
1983	9	2	7	0.39	0.98	0.33
1984	9	0	9	0.38	0.00	0.00
1985	29	2	27	1.21	1.01	1.23
1986	54	2	52	2.21	1.08	2.30
1987	29	1	28	1.14	0.54	1.20
1988	26	2	24	0.99	1.06	1.00
1989	48	8	40	1.79	4.22	1.64
1990	48	2	46	1.76	1.03	1.87
1991	40	4	36	1.45	1.99	1.45
1992	46	6	40	1.67	3.03	1.62
1993	59	2	57	2.16	1.03	2.32
1994	36	1	35	1.32	0.54	1.42
1995	17	0	17	0.62	0.00	0.68
1996	9	2	7	0.33	1.15	0.28
1997	8	1	7	0.29	0.58	0.28
1998	26	3	23	0.94	1.72	0.91
1999	7	1	6	0.25	0.57	0.24
2000	30	0	30	1.08	0.00	1.20
2001	30	3	27	1.09	1.52	1.07
2002	35	2	33	1.28	1.03	1.30
2003	21	2	19	0.87	1.06	0.87
2004	5	0	5	0.23	0.00	0.25
1974-2004[2]	**724**	**51**	**673**	**0.91%**	**0.88%**	**0.92%**
1974-1988	**259**	**14**	**245**	**0.72%**	**0.52%**	**0.73%**
1989-2004[2]	**465**	**37**	**428**	**1.10%**	**1.22%**	**1.09%**

[1] Includes alternative markets.
[2] Through June 30, 2004.

Source: A.M. Best Co.

While not technically related to an insolvency, the withdrawal of American Equity Insurance Co. and its affiliate, American Equity Specialty Insurance Co., from writing a substantial portion of its business also represented a noteworthy change in the status of a market participant. St. Paul Travelers, the parent of these two companies, completed a review of the operations of both entities and ordered a phased, orderly withdrawal from writing a substantial portion of business that had been written.

Characteristics Of Insolvencies

Historically, several factors had been responsible for insurer insolvencies, including deficient loss reserves, rapid growth, alleged fraud, overstated assets and catastrophes (Exhibit 20). The primary driver of the insolvencies of property/casualty insurers in the past three years has been deficient loss reserves. Deficient loss reserves were the cause of 77% of the insolvencies in