Stability in Difficult Times-PDRMA

2008 was a challenging year. The Dow Jones Industrial average finished the year down 33.8%, making it the worst year of returns since 1931. Twenty-five banks failed nationwide in 2008 (compared to only three failed banks in the prior three years combined). The U.S. government designated $700 billion in a Troubled Asset Relief Program and used a portion of those funds to bail out AIG, the largest U.S. insurer. 2008 saw a significant number of companies declaring bankruptcy including Lehman Brothers, which constituted the largest bankruptcy filing in U.S. history. These examples of the economic downturn are both global and regional. The PDRMA members can add hundreds of local examples to this list and PDRMA's investment portfolio suffered as well. The market value of PDRMA's investments declined 10.76%. This requires an accounting entry, but does not represent an actual loss. Diversification, PDRMA's conservative investment policy and the oversight of the Finance Committee have protected PDRMA members from the level of impairment that other entities experienced.

Although it is a troubling time for the overall economy, the PDRMA members can take comfort in the stability provided by their membership in PDRMA. As an example of this stability, consider the fact that the members are making contributions to PDRMA at the same rate per dollar of operating expenditures and payroll for coverage in 2009 as they paid in 2001.

The current stability the members are experiencing in 2009 is the direct result of the past decisions members made to plan for the difficult times by adopting a risk management philosophy, accumulating member balances for future uses, and establishing a conservative investment portfolio.

In 1996 the PDRMA members started a rate stabilization program to insulate the members from the uncertainty of the financial and reinsurance market cycles. The goal of that rate stabilization program was to use accumulated member balances to maintain member contribution increases at the same level as member exposure increases. The funds for rate stabilization were designated in 1996, however, the rate stabilization funds were **first used** to offset member contributions in 2002. Since then, a total of $12.4 million has been used to stabilize member contributions. In a real sense, the members collectively have saved $12.4 million in member contributions because of that decision in 1996 to start the rate stabilization program.

In addition to rate stability, members receive stability in coverage availability and limits. The 2009 coverage documents and insurance policies remain essentially unchanged from 2008, and the liability limits have been increased. In 2008, members were provided with a liability coverage limit of $16.5 million per occurrence. For 2009, the liability coverage limit has been increased to $21.5

million per occurrence due to favorable liability insurance market conditions and the members' good loss history.

Despite the general economic woes, members continue to operate their agencies and continue to need risk management services. Members' proactive risk management programs will be as important as ever in reducing the adverse impact of losses on operations.

2009 looks to be another challenging year from an economic standpoint. The good news for the PDRMA members is that they are part of a financially sound risk management organization that is positioned to continue to provide stable rates and comprehensive coverage well into the future.