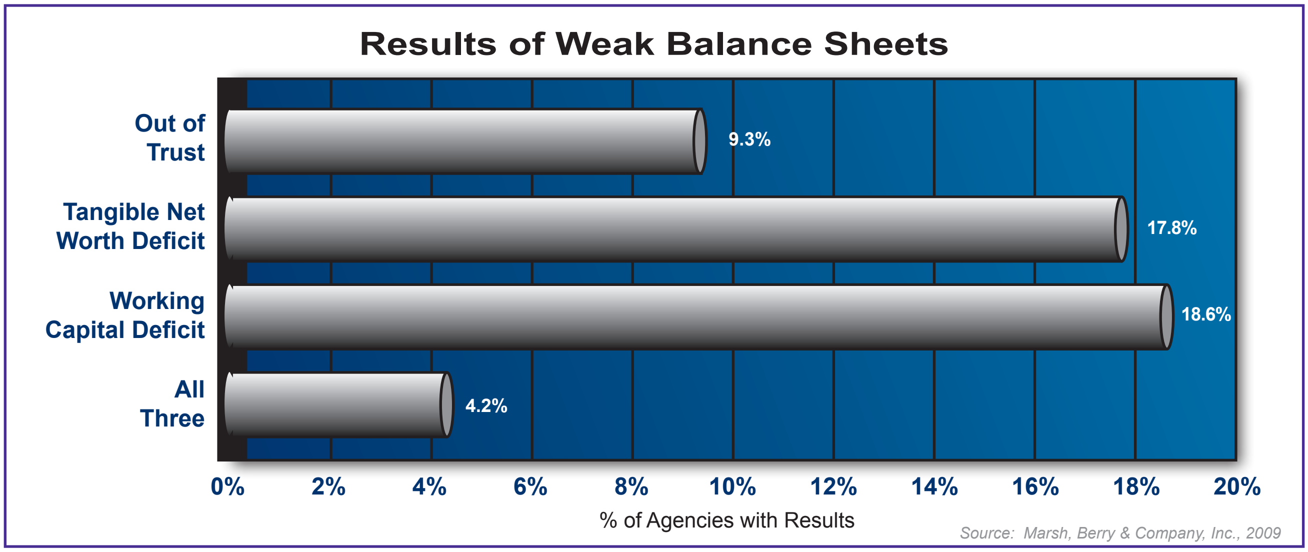
FOR THE RECORD
A MarshBerry Publication
MARSH BERRY Exceeding the Standard
Volume III, Issue 5 May, 2009

The Importance of a Strong Balance Sheet

The importance of maintaining a strong balance sheet has never been greater than during these difficult economic times, which are filled with unforeseen challenges and hurdles. Agencies that have managed their balance sheets effectively are better prepared to weather this (and other) storms as well as to seize opportunities that may present themselves as a result of others not effectively managing their balance sheets. MarshBerry analyzed several key balance sheet ratios as of December 31, 2008 to determine how agencies are positioned for this economic downturn. Our data is indicated on the chart below.



While the results of first quarter 2009 have shown modest improvement over the 2008 declining trends, they should not create a false sense of optimism. First quarter results are often driven by the receipt of contingent commissions and overrides, so we expect to see significant balance sheet erosion during the second through fourth quarters of 2009. Furthermore, MarshBerry forecasts that 17% of agencies will not survive the next five years due to 1) thinly-capitalized balance sheets; 2) no growth; and 3) no perpetuation plan or lack of capitalization to accomplish that plan.

MarshBerry has long been a proponent of strengthening agencies' balance sheets for a multitude of reasons, including:

- *Continued and consistent reinvestment in your most valuable asset – your agency*
- *Flexibility when considering perpetuation options (i.e., providing the down payment for seller-financed notes, collateralizing corporate and personal notes, funding share repurchase liabilities and other financing tools)*
- *Swift action when considering producer hiring/investment*
- *Cushion against the impact of government involvement in insurance distribution*
- *Collateral or tangible assets necessary for bank borrowing and satisfaction of loan covenants*
- *War chest for unforeseen needs and opportunities*

Saying that an agency should have a strong balance sheet is one thing. Helping an agency accomplish that is another. June's For the Record will provide ideas to help build a strong balance sheet.

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