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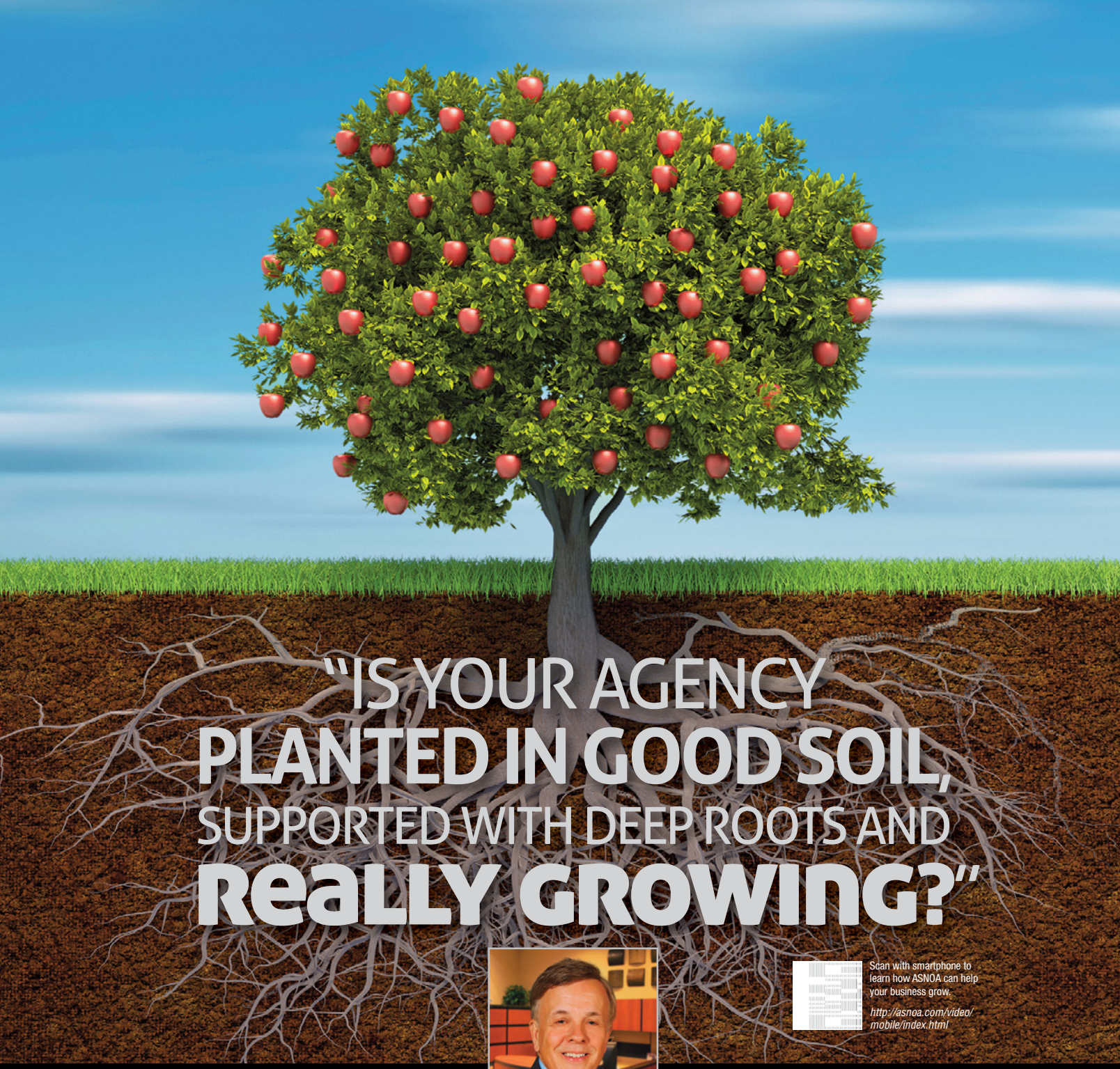
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NATIONAL COVERAGE

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Successful companies typically find 1 or 2 things and do them very well.

We found 5.



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Opening Note

Better Than Feared

It's been four years now since what some were calling the Great Scare in October 2008, tying in the Halloween season with the ugly economic events unfolding during a time in which it appeared the U.S. could be heading into another Great Depression.

And while a great deal of economic news continues to be bit "scary" at times, at least one report is out on the insurance industry that seems to deliver mostly upbeat news.

Analysts at financial services firm Keefe, Bruyette & Woods offered a third quarter earnings preview in October 2012, based on earnings per share that are largely positive, under the title "Better Than Feared."

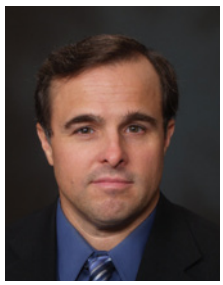
"We are not revising many of our EPS estimates for 3Q12, although we point out that we tend to be on the high side of Street estimates," the report's authors state. "The quarter will reflect initial crop losses from the U.S. drought for which we have already reduced EPS estimates. In addition, there could be $1-2 billion of losses from Hurricane Isaac. All in all, for a third quarter, the world appears to have had good luck."

> 'All in all, for a third quarter, the world appears to have had good luck.'

Some key points in the report:

Prices are rising, and the report's authors expect pricing pressures to remain modestly upward, with U.S. commercial lines likely up in the 6 to 7 percent range. In reinsurance, the expectation for Jan. 1 is generally flat, including catastrophe lines, "despite what is shaping up to be a cat-free year," the report states.

"One potentially bullish point for the sector could be signs that the pricing improvements have outpaced loss trends with the benefit falling to the bottom line," the report states.



Reserve pressures are growing, and the analysts expect reserve releases to continue to slow. "A year ago in 3Q11, we saw 5.3 percent of reserve release benefit and we expect at least a point of deterioration from that level," the report states. "We also remain generally cautious on the companies that have already reported some reserve leakage in 2012 as managements attempt to put issues fully behind them."

The macro picture for the brokerage business is bright, according to the report.

"We expect mid- to upper-single-digit revenue growth driven by gradually improving organic trends as well as robust (merger and acquisition) activity, particularly for the middle-market brokers," according to the report.

So overall things don't look too scary, or as the report states:

"With good EPS and potentially favorable news on capital management activity ahead of us, we expect the P&C sector to have a good 3Q12 earnings season."

Don Jergler
West Editor

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News & Markets

Father and Daughter in Central Calif. Workers' Comp Fraud Must Repay Over $600K

Jerry Buffington, 69, and Cynthia Russell, 47, pled guilty in Kern County Superior Court to one count each of workers' compensation insurance premium fraud and eight counts each of tax evasion and were ordered to pay restitution to California's State Compensation Insurance Fund in the amount of $475,100 and $127,899 to the Employment Development Department.

Both have been ordered to serve 10 years' probation.

According to detectives from the California Department of Insurance Fraud Division, Buffington was the owner and president of Safehome Inc., and Buffington's daughter, Cynthia Russell, was the chief financial officer.

Their guilty pleas are a result of an investigation led by CDI's Fraud Division while working with the San Joaquin Valley Premium Fraud Task Force.

In 2007 State Fund discovered Safehome Inc. was underreporting their employee payroll to avoid paying the proper premium. An audit was completed and indicated that Safehome Inc. had failed to pay the proper premiums for their workers' compensation policy in the amount of $477,285. Additionally, State Fund determined the business was operating out of its classification, which was registered as an alarm company, yet several employees were operating as roofers. The payroll related to the roofing portion of the business was never reported to either SCIF or EDD, according to investigators. IJ

Wyoming OSHA Seeks Additional Fines Against Sinclair

Wyoming's state workplace safety agency is seeking another $155,000 in fines against Sinclair Oil, this time for a refinery fire that injured four workers in early May.

The May 8 fire at the Sinclair Refinery in south-central Wyoming was the first of three this year that have injured a total of seven workers.

The Wyoming Occupational Safety and Health Administration also is seeking $60,000 in fines for a May 25 fire that injured two workers.

Department of Workforce Services Director Joan Evans says a state OSHA investigation found hazards that likely factored into the fire.

Wyoming OSHA has issued 11 citations against Salt Lake City-based Sinclair, including three for alleged repeat serious violations.

Sinclair Vice President Clint Ensign says the company will correct deficiencies identified by the investigation. IJ

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N.M. Private Security Company Target of Myriad Lawsuits



The country's largest provider of private federal court house security officers recently paid a $1.9 million fine to the federal government to settle allegations that some of its guards fudged results of gun-range tests.

Akal Security, a New Mexico company, denied the allegation and said it paid only to avoid further litigation that could cost the company more.

Still, the recent U.S. Department of Justice investigation was just the latest of a long series of legal matters plaguing the company.

The company of 10,000 employees disclosed 134 "pending, or current litigation matters" to a Washington D.C. federal court last year.

Akal president Daya Khalsa says the company is a victim of a litigious society and that other companies of its size face the same number of legal issues. IJ

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Hotel Owner Settles

A Hampton Inn & Suites franchise in Colorado has agreed to pay $85,000 in back pay and compensatory damages to non-Hispanic employees who alleged they were fired because the owners believed non-Hispanics are lazy. The franchise in Craig is owned by Rawlins, Wyo.-based Century Shree Corp. The U.S. Equal Employment Opportunity Commission alleged the company fired at least three Caucasian housekeeping and laundry workers and replaced them with Latino workers, believing Hispanics work harder. Century Shree's lawyer Tim Kingston said the alleged discrimination was by one "rogue" employee who has been discharged and that the owners deny wrongdoing. The company has agreed to offer the fired workers reinstatement to their jobs, and the owners, managers and supervisors of the company will undergo training on federal anti-discrimination laws.

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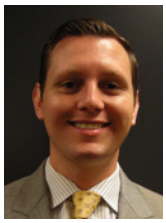
People



Matthew Nichols



Martin Welch



Chris Sindle

Matthew Nichols has been elected president of the **National Association of Professional Surplus Lines Offices Ltd.** (NAPSLO) for the 2013 term.

Nichols has served on the NAPSLO board since 2005 and has chaired several committees.

Currently, he is the president of All Risks Ltd., a large independent property/casualty wholesale insurance brokerage firm. Previously, Nichols held senior positions at Colony Management Services Inc. in Richmond, Va., throughout his 20-year insurance career.

NAPSLO is a national trade association representing the surplus lines industry and the wholesale insurance marketing system.

NIF Group Inc., a program administrator and managing general agent, named **Vince Terlaje** president of NIF Pacific, which is NIF's Bothell, Wash. office.

Gordy Phelps, formerly president, will serve as managing director for NIF in the Pacific office. The change is effective immediately.

Manhasset, New York-based NIF Group is privately held and operates out of six branch offices across the U.S.

Martin J. Welch was named chief executive officer and senior underwriting executive at **Hawaii Employers' Mutual Insurance Co.** Welch was also named president of **HEMIC Insurance Managers Inc.**, a HEMIC subsidiary.

Welch has more than 30 years of workers' compensation and commercial property/casualty experience. He most recently served as president and chief operating officer for Employers Holdings Inc., a publicly traded workers compensation specialty carrier headquartered in Reno, Nev.

Prior to Employers, he spent 25 years with the former Wausau Insurance organization, serving in various underwriting, marketing, management and executive roles.

SullivanCurtisMonroe Insurance Services LLC named **Canaan Crouch** as a vice president in its Irvine, Calif. office.

SCM also named **Randall Mitchell** as a property-casualty consultant in its Irvine office.

Crouch comes from ACE Environmental, where he was an assistant vice president and northwestern regional manager responsible for managing the profit and loss of a diversified book of environmental liability policies. Prior to joining ACE, he was a senior underwriter for AIG and before that he was an environmental consultant, where he managed the environmental compliance for a portfolio of sites throughout Southern California.

Mitchell will focus on building out the firm's real estate and food divisions.

He has eight years of experience in the banking industry. Mitchell joins SCM from Bank of Manhattan, N.A., where he was vice president/relationship manager. Prior to that he was with Northern Trust Bank, N.A. and 1st Century Bank, N.A.

SCM is focused on middle market companies, offering offers commercial property-casualty, employee benefits and personal lines coverage. SCM has offices in Irvine, Pasadena and Corona.

The Leavitt Group's Sacramento, Calif. office named **Chris Sindle** as an adviser in the professional liability program.

Sindle will provide risk management solutions for law firms, including malpractice audits, educational seminars, employee benefits programs and claim services.

Most recently Sindle was an owner of CRS Professional Insurance with experience in insurance sales, administrative management and customer service.

The Leavitt Group is a privately-held insurance brokerage. The Leavitt Group's Bay Area, Sacramento, and San Jose offices are part of the Jenkins Insurance Services agency. IJ

New episode this week!

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Declarations

Fiscal Consequences

"If you're right about this, the consequences are enormous for the federal fisc."

– Justice Ruth Bader Ginsburg told John Jacobs, a lawyer whose client James Bormes had brought a federal case on behalf of a client and paid a filing fee through the federal government's pay.gov system with his personal credit card. The U.S. Supreme Court is considering whether the government could be liable for damages by printing confidential credit card information on a customer's receipt.

Iran Cyber Threat

"I think they're (Iran) closer than we'd all like them to be to come in and cause trouble on our financial services networks."

– Mike Rogers, head of the House of Representatives Intelligence Committee said that significant new cyber threats to U.S. financial networks appeared to be emerging from an "unusual" source.

Escalating Fraud

"The insurance fraud problem is estimated to exceed US $40 billion globally and is showing no signs of abatement."

– Russ Schreiber, head of FICO's insurance practice, commenting on a survey of U.S. insurers showing the high cost of insurance claims fraud.

Bull's-eye

"We had high expectations for the Dart and our engineers delivered," said Reid Bigland, chief of *Chrysler's Dodge brand, commenting that the 2013 Dodge Dart, the model Chrysler is betting on becoming a top-selling small car, was among four new vehicles on the U.S. market to receive a top crash-test rating by an influential safety group.*



Figures

$3.2 Million

Is how much a federal jury has awarded a mentally ill woman who sued after Los Angeles police shot her and shocked her with a Taser. Jurors found that officers were negligent, malicious and used excessive force in their confrontation with Valerie Allen.to Allstate.



1 Billion

The amount in gallons of gas each year that can be attributed to the weight gain of the drivers and passengers of non-commercial vehicles between 1960 and 2002, according to Allstate.

30,000

Is roughly the average cooking fire claim damage, which is four times higher than the next most expensive type of homeowners claim, according to claims data compiled by Nationwide Insurance.

$10.2 Million

In damages have been awarded by a superior court jury in central California to a man involved in a dirt bike collision in 2007 with another vehicle.



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Legislative Look

California Legislature not Hesitant to Act on Insurance Issues



By Sam Sorich

Dysfunctional. Inefficient, Ineffective. Slow. Partisan. Irrelevant. These are terms that regularly appear on editorial pages and political blogs to describe the California Legislature.

It is true that when the Legislature ended its 2012 session, major problems confronting California were still not solved. Legislators argued about the state's budget, school funding, water, roads, prisons and other big challenges this year, but these challenges will still be on lawmakers' desks when they return to Sacramento in December.

However, that does not mean that this year's legislative session was not productive. The Legislature is capable of taking action on issues.

> 'The always topical area of insurance is a good example of the Legislature's ability to act on important issues.'

The always topical area of insurance is a good example of the Legislature's ability to act on important issues. There is an interest and willingness among California legislators to become actively engaged on insurance issues. Depending on the issue and one's perspective, that may be a positive or a negative.

This year the Legislature passed dozens of bills affecting various aspects of the insurance business. Gov. Jerry Brown signed more than 30 insurance-related bills into law.



Some of the noteworthy bills signed into law can be put into six categories.

- Non-controversial issues
- Modernizing California insurance
- Increased regulation
- Specific concerns
- Politically motivated measures
- A major issue

Non-Controversial Issues

Almost every year the Department of Insurance puts forward an omnibus bill which makes non-controversial changes to the insurance code. AB 2303 was this year's omnibus bill. Among many other things, AB 2303 addresses applications for non-resident surplus lines broker licenses, pre-licensing requirements for bail agents, the creation of a limited lines license for crop insurance adjusters, changes to the conservation and liquidation process, and elimination of reports that insurers had to file with the department.

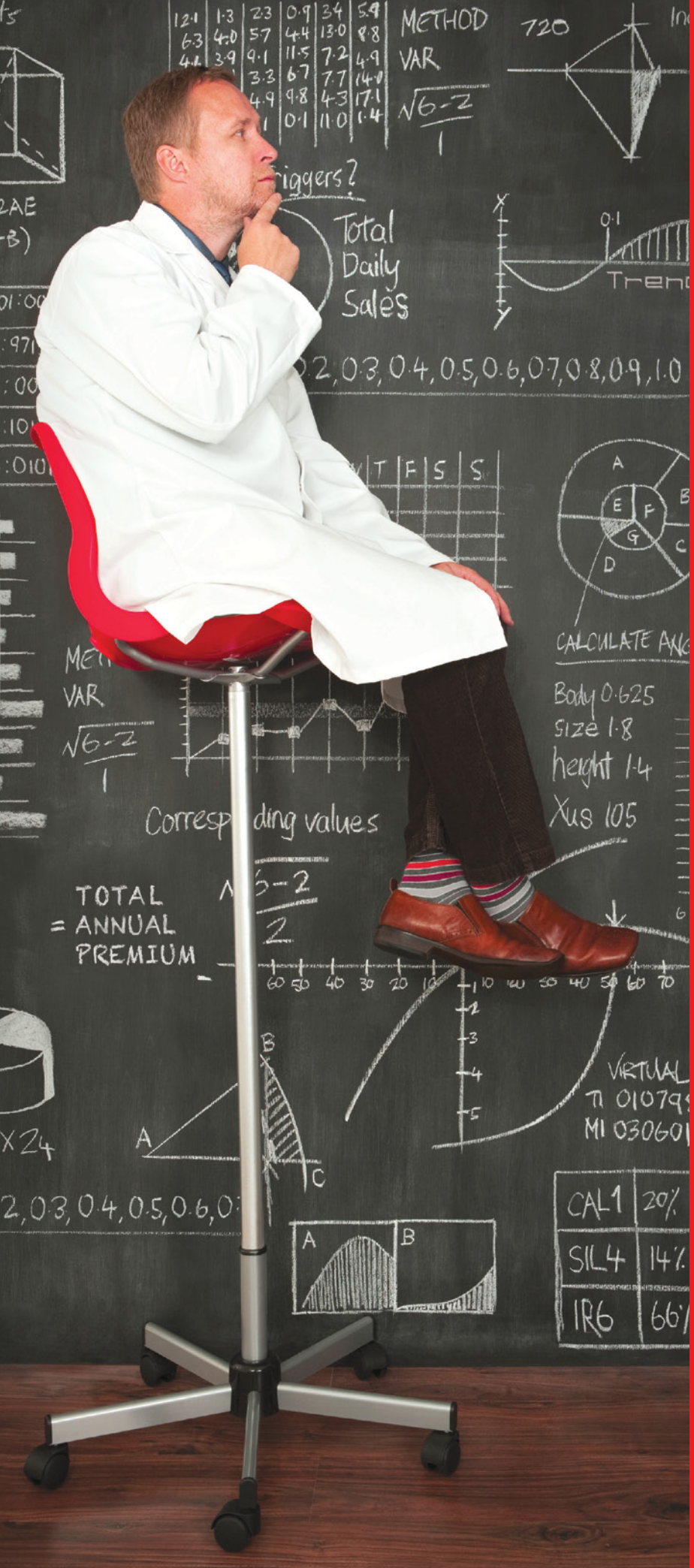
AB 2084 and AB 2354 are two other non-controversial new laws. AB 2084 establishes new permitted types of blanket insurance policies and expands the list of eligible policyholders who can purchase blanket insurance. AB 2354 revises the licensing requirements for travel insurance agents.

Modernizing California Insurance

The National Association of Insurance Commissioners has adopted model laws which incorporate ideas for modernizing state insurance regulation. This year California enacted two new laws that conform California law to NAIC models.

SB 1216 amends the insurance code to include revisions to the NAIC Credit for Reinsurance Model Law. Among other things, SB 1216 establishes criteria that the insurance commissioner is to use in certifying reinsurers. Reinsurance provided by certified reinsurers

continued on page 18



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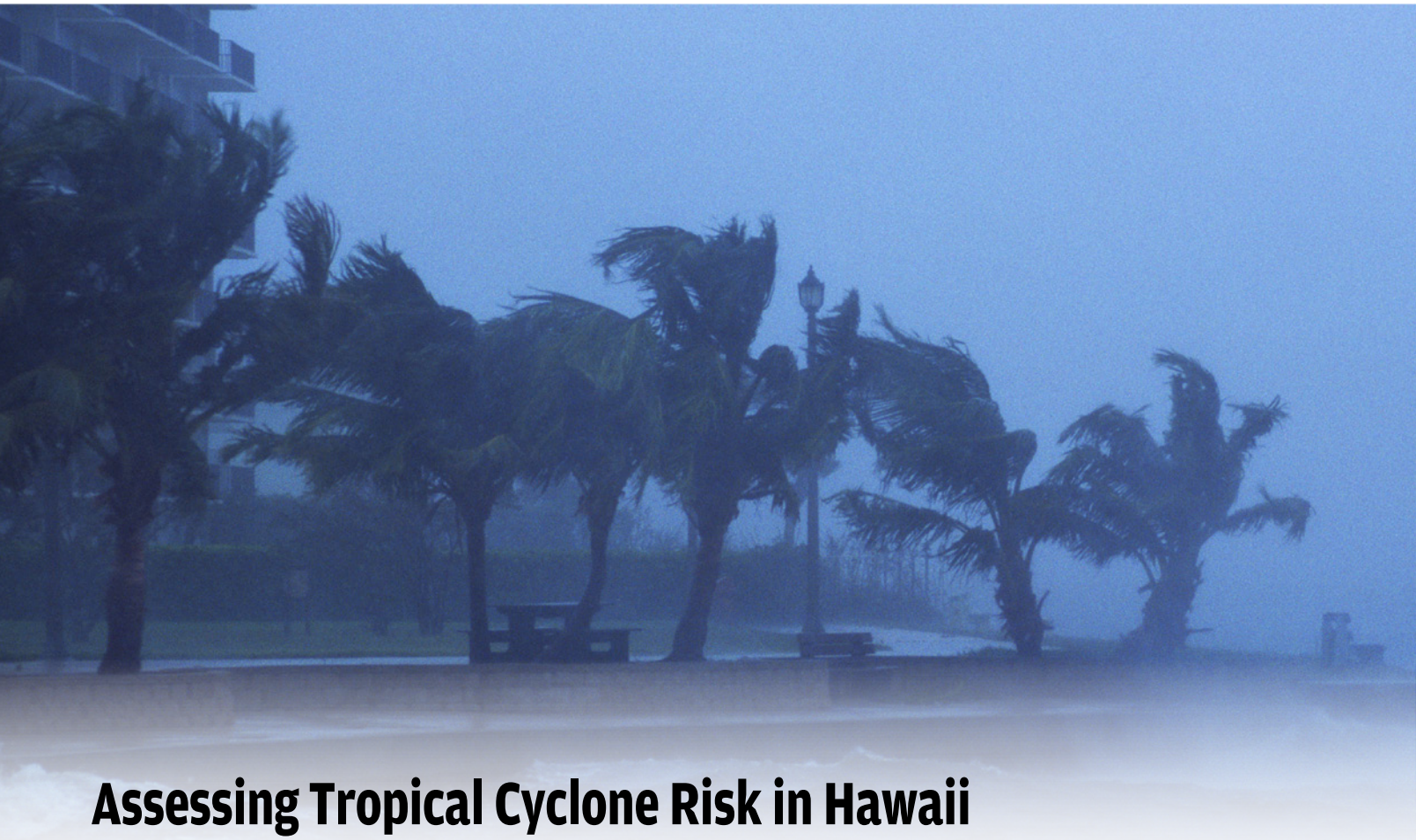
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Hurricane Lessons



Assessing Tropical Cyclone Risk in Hawaii Through the Lens of Hurricane Iniki

Hurricane Risk in the Central Pacific Basin

Twenty years ago, the most powerful storm to strike the Hawaiian Islands in recorded history made landfall on the island of Kauai on Sept. 11, 1992. With sustained winds of 140 miles per hour, Hurricane Iniki pummeled Kauai and seriously damaged beachfront buildings and other structures on Oahu's west coast. In all, Iniki inflicted billions of dollars of property damage on the state of Hawaii, leaving over 14,000 homes damaged or destroyed.



By Scott Stransky
(Edited by Molly J. Markey, Ph.D.)

Hurricanes seldom affect Hawaii, and strong ones like Iniki are even rarer. But given the strength of Hurricane Iniki and the scope of the damage it inflicted, how concerned should residents and insurance companies be about hurricane risk in Hawaii?

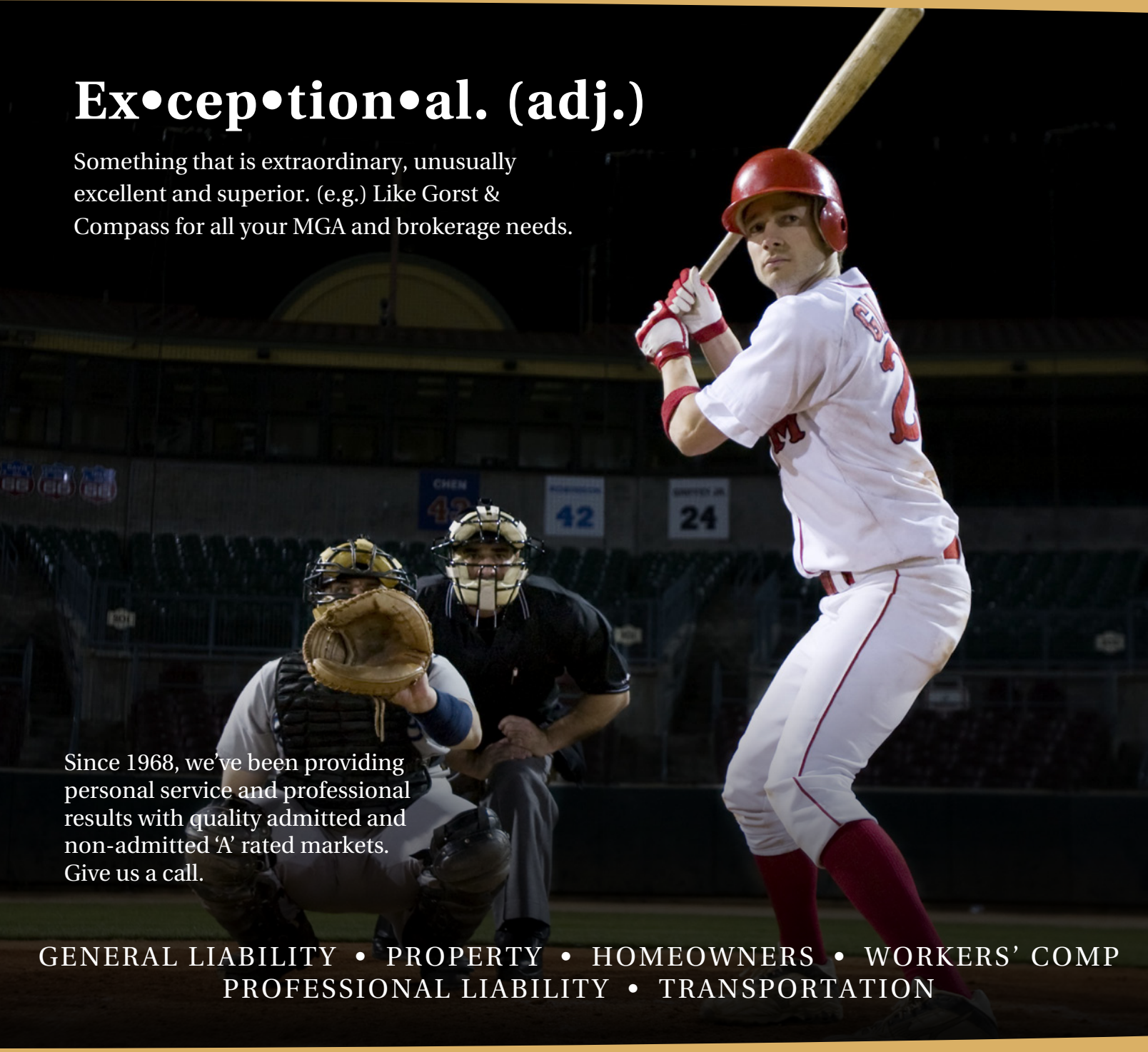
> **'...given the strength of Hurricane Iniki and the scope of the damage it inflicted, how concerned should residents and insurance companies be about hurricane risk in Hawaii?'**

Tropical cyclones that can potentially affect Hawaii only form when vertical wind shear is low and sea surface temperatures of the equatorial Pacific Ocean are warm, usually between June and November. These warm Pacific seas, including coastal waters near Mexico and Central America, can spawn tropical cyclones, which are propelled northwest by the trade winds into the Central Pacific. But, just how common are these "right" conditions for generating tropical cyclones that can affect Hawaii?

The tropical Pacific shifts between the two phases of the El Niño-Southern Oscillation (ENSO) — La Niña and El Niño — every three to four years, leading to an average of two or three periods of enhanced hurricane risk in Hawaii per decade during El Nino phases. Very few tropical cyclones, however, are known to have affected Hawaii. Hawaii is a very

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Legislative Look



Lesislature, continued from page 14

can qualify as an asset or a credit for a ceding insurer.

SB 1448 amends the Insurance Code to include revisions to the NAIC Insurance Holding Company Model Act. SB 1448 authorizes the insurance commissioner to evaluate the enterprise risk related to an insurer that is part of a holding company.

Increased Regulation

It is common for legislators to pass bills to address perceived problems in insurance transactions. Three new laws are examples of this.

SB 1449 permits the approval of life insurance and annuity products that include the waiver of premium during periods of disability and waiver of surrender charges if the insured encounters specified medical conditions, disability or unemployment.

AB 999 revises the standards used by the insurance commissioner to approve the rates for long-term care insurance. AB 999 also prohibits an insurer from using asset investment yield changes to justify a rate increase for long-term policies unless specified conditions exist.

> **'...the very passage of the bill revives hope that the Legislature is able to take action on critical public policy issues facing California.'**

AB 1747 requires every life insurance policy to include a provision for a grace period of not less than 60 days from the premium due date. AB 1747 also requires an insurer to provide an applicant for an individual life insurance policy an opportunity to designate a person to receive notice of lapse or termination of a policy for nonpayment of premium.

Specific Concerns

Some insurance bills are aimed at concerns about how specific elements of the insurance system are operating.

AB 1708 responds to drivers who want a better way to provide proof of insurance. AB 1708 authorizes auto insurers to provide proof of insurance coverage in an electronic format that may be displayed on a mobile electronic device. Proof of insurance in this format is allowed to be presented to a peace officer.

AB 2298 stems from complaints raised by peace officers and firefighters. AB 2298 prohibits an insurer from increasing the premium charged to a peace officer or firefighter who was involved in an accident while using his or her car at the direction of his or her employer.

AB 2406 addresses concerns about fees paid to consumer advocates. AB 2406 requires the Department of Insurance to publish on the department's website information about fees paid to groups representing the interests of consumers that intervene in proceedings involving insurer rate filings.

Politically Motivated Measures

It is difficult to identify the problems that AB 53 and AB 2160 are supposed to address. Insurers do a good job procuring business from diverse sources, and few insurers make investments in Iran. The best explanation for these new laws is that they are politically motivated.

AB 53 requires each admitted insurer with written California premiums of $100 million or more to submit a report to the insurance commissioner on its minority, women and disabled veteran-owned business procurement efforts.

AB 2160 requires the insurance commissioner to treat a domestic insurer's investment in a company that has business operations in Iran as a non-admitted asset.

A Major Issue

In the last hours of the legislative session, just when political pundits were ready to accuse the Legislature of being incapable of tackling issues of major significance, the Legislature passed a sweeping 160-page workers' compensation bill.

For years, labor representatives had complained about inadequate workers' compensation benefits. At the same time, employers were increasingly alarmed by rising workers' compensation costs.

SB 863 attempts to balance higher workers' compensation benefits with lower workers' compensation costs. Gov. Brown signed the bill into law soon after it was passed.

SB 863 increases workers' compensation permanent disability benefits by an estimated $750 million per year. The new law also changes several aspects of the workers' compensation system. Among other things, SB 863 creates a medical review process for resolving medical care disputes, establishes a bill review process for resolving medical billing disagreements, adopts a statute of limitations for workers' compensation liens, and restricts the reasons that can be used to avoid obtaining treatment within a medical provider network.

It will take many months to determine whether SB 863's goals of higher benefits and lower costs can be achieved. Yet, the very passage of the bill revives hope that the Legislature is able to take action on critical public policy issues facing California. IJ

Sam Sorich is of counsel to Barger & Wolen in the firm's Sacramento office, and a past president of the Association of California Insurance Companies. Email: Ssorich@bargerwolen.com. Phone: (916) 448-2800.

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Hurricane Lessons

Hurricane, continued from page 16

small "target" within the vastness of the Pacific Ocean, which reduces the probability of landfall.

Hurricanes have been causing damage in Hawaii since well before the advent of official meteorological records. For example, several tropical cyclones reportedly struck Hawaii during the 1800s; however, available information about these storms is limited to anecdotes in contemporary newspapers. Since reliable record keeping began in the 1950s, Hawaii has, on average, been affected by just one damaging tropical cyclone per decade. The tracks and Saffir-Simpson categories of the five most significant tropical cyclones to affect Hawaii since 1950 are shown in Figure 1 (note that the colors show how each storm intensified or weakened throughout its lifespan).

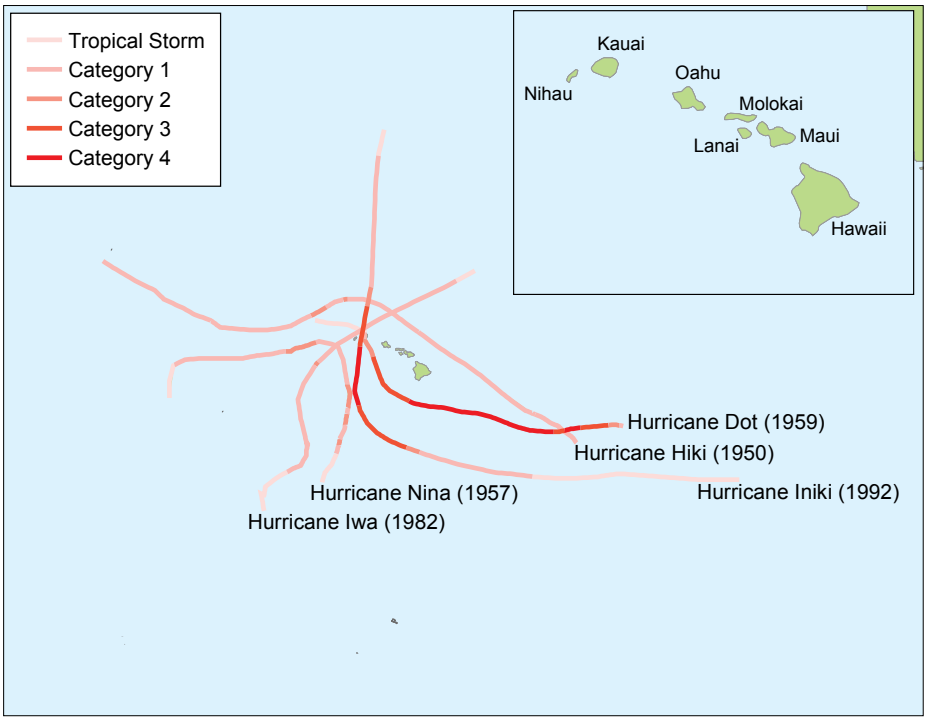


Figure 1. Storm tracks of the five most significant tropical cyclones to impact Hawaii since 1950 (Inset map: the Hawaiian Islands)

Hurricane Iniki: Characteristics and Effects

On Sept. 5, 1992, the tropical depression that would become Hurricane Iniki took shape about 1,600 miles southwest of Baja California. The system intensified as it tracked westward across the Central Pacific, reaching hurricane strength on Sept. 9, about 470 miles southeast of the island of Hawaii (see Figure 1). Over the course of the following day, an increased southerly flow of local winds abruptly turned Hurricane Iniki toward the north, putting the storm on a direct path for Kauai. When Hurricane Iniki made landfall on Kauai on Sept. 11, 1992, this small but intense storm exhibited sustained winds of 140 miles per hour and gusts of up to 175 miles per hour, making Iniki the most powerful storm to strike Hawaii in the officially recorded history, according to the National Hurricane Center.

Although the south shore of Kauai experienced the worst damage from both wind and storm surge, damage was extensive over the whole island. Hurricane Iniki damaged or destroyed more than 14,000 homes on Kauai; of these, more than 5,000 suffered major damage and almost 1,500 residences were completely flattened. In all, nearly 90 perccent of structures on Kauai were damaged. Hurricane Iniki also downed over 35 percent of the power lines on Kauai, inflicting a blackout over the entire island and wiping out nearly all communication systems. Sugar cane, papaya, and banana crops were also significantly damaged by Iniki's high winds and heavy rain.

> **'...if Hurricane Iniki were to strike today, catastrophe modeling company AIR Worldwide estimates that insured losses would exceed $3 billion.'**

In fact, if Hurricane Iniki were to strike today, catastrophe modeling company AIR Worldwide estimates that insured losses would exceed $3 billion.

Could a Storm Like Iniki Strike Honolulu?

Oahu, where Hawaii's capital city of Honolulu is located, is the economic and cultural hub of Hawaii. A direct hurricane strike on this island would have far-reaching effects on the state as a whole. Honolulu hosts many government offices and tourist attractions, and is home to more than 300,000 residents. Indeed, according to AIR Worldwide, over 70 percent of the exposure value on the Hawaiian Islands is located within Honolulu. Waikiki, a major beach destination in Hawaii, is also located in the island of Oahu. Many economically important crops are grown on Oahu, including pineapples, coffee and macadamia nuts.

About one quarter of homes in Honolulu are characterized by single-wall construction, with lightweight metal roofs, "tofu

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Hurricane Lessons

Hurricane, continued from page 20

block" foundation, and light outer cladding. (Homes with a "tofu block" foundation are supported by short wooden posts embedded in concrete blocks, rather than resting directly on a full concrete slab.)

Single-wall homes are likely to experience the worst damage in a hurricane because their weak connections between adjacent structural elements make these homes notably vulnerable to high winds. Although stronger, more wind-resistant conventional (double-wall) timber frame structures make up about 75 percent of residences in Honolulu, these houses would not be exempt from damage inflicted by an Iniki-like storm. For example, all buildings with large windows and garage doors — regardless of wall structure —were notably vulnerable to damage during Iniki.

The effects of an Iniki-like storm on Honolulu and the entire island of Oahu would certainly be significant and far-reaching. But is such a scenario realistic? Information from several 19th century Hawaiian hurricanes contradicts the popular belief that Kauai is the only Hawaiian island vulnerable to tropical cyclones. In addition, using reports of these Hawaiian tropical cyclones from the 1800s, AIR researchers have concluded that Iniki could have made landfall on Maui or Oahu, instead of Kauai, under only slightly different steering conditions. Furthermore, Iniki would have been just as intense had it struck Maui or Oahu, instead of Kauai. The storm's track — and which island it eventually struck — depended mainly on when the storm made its sharp turn toward the north, not on the storm's strength or other parameters. In fact, from a meteorological perspective, the annual probability of an Iniki-like event striking Kauai is similar to the annual probability of an Iniki-like event striking Oahu. Therefore, a powerful Iniki-like storm striking Oahu or any of the other Hawaiian Islands is a realistic, if remote, scenario.

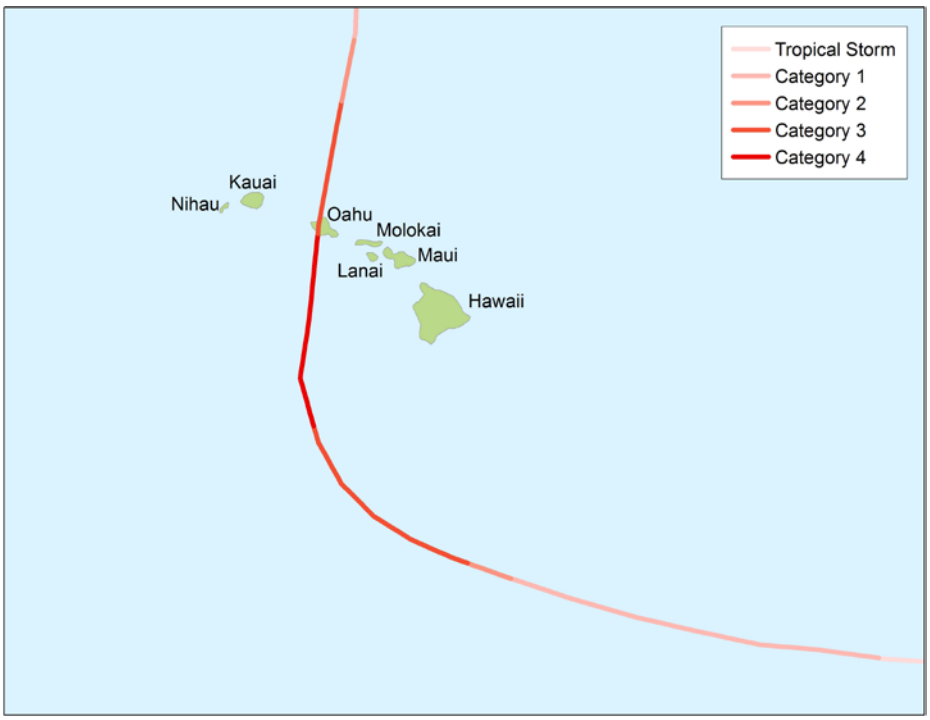


Figure 2. Track and wind speed of a hypothetical Iniki-like storm passing over Oahu

Modeling the Impact

To estimate the effect of a major tropical cyclone on the Honolulu region, AIR Worldwide has simulated a storm identical to Hurricane Iniki in its meteorological parameters — including central pressure, radius of maximum winds, and forward speed — but with a track that takes it to Oahu, about 100 miles east of Kauai (see Figure 2).

Analysis of this simulation shows that insured losses caused by a direct hit on Honolulu by an Iniki-like event would approach $37 billion — over 11 times higher than the estimated losses from a recurrence of Hurricane Iniki on Kauai. In addition, if a more powerful hurricane — one with a lower central pressure, a larger radius of maximum winds or a slower forward speed — were to follow the track shown in Figure 2 and strike Oahu, this tropical cyclone would cause even greater losses. The extremely high losses inflicted by these simulated, though realistic, storms lend insight into the devastation that even rare tropical cyclones may cause in Hawaii.

> 'Although hurricanes seldom strike the Hawaiian Islands, residents of all of the islands and insurers should still understand the risks posed by these events.'

Although hurricanes seldom strike the Hawaiian Islands, residents of all of the islands and insurers should still understand the risks posed by these events. AIR estimates that significant insured losses in Hawaii from natural catastrophes are quite possible, and with tools such as catastrophe models, the insurance industy is better prepared to weather these types of events. IJ

Scott Stransky is a senior scientist at catastrophe modeling firm AIR Worlwide.

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News & Markets

Report: Calif. Workers' Comp Impacted by Recession, Reform, Medical

By Don Jergler



A report out this month from the Workers' Compensation Research Institute rates California's workers' comp system against 15 other states, and the report details several key improvements to the system that could be made after a law to revamp the system kicks in on Jan. 1, 2013.

The latest WCRI CompScope report highlights the impact of the recession, government reforms and the growing costs of medical care are key drivers in the workers' comp system.

The other states rated in the report are: Florida, Illinois, Indiana, Iowa, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, New Jersey, North Carolina, Pennsylvania, Texas, Virginia and Wisconsin. Those states represent nearly 60 percent of the nation's workers' comp benefit payments, according to WCRI.

Among key findings are that workers' compensation costs per claim were declining in Texas after several years of growth, medical costs per claim for injured workers in Virginia were higher than most states, costs of workers' compensation claims are rising in Indiana as payments for medical care increase, and the average costs of workers' comp claims fell in Massachusetts as the state recovered from the recession.

> 'California's $6,692 average defense attorney payment per claim is 30 percent higher than the median and its medical-legal expense claim of $2,588 is 80 percent above the median.'

For California the report shows the state's average indemnity claim of $17,143 is 6 percent above the median, but the average medical claim of $13,589 is 9 percent below the median.

Where the state greatly exceeds the median is in legal expenses. California's $6,692 average defense attorney payment per claim is 30 percent higher than the median and its medical-legal expense claim of $2,588 is 80 percent above the median, the report shows.

It seems any examination of California's workers' comp system cannot be undertaken without a look at the possible impacts of Senate Bill 863, signed recently Gov. Jerry Brown. The workers' comp overhaul bill kicks in to law the first of the year, and the state's Department of Industrial Relations has less than three months to produce a set of regulations that must accompany the reforms.

SB 863 promises to increase benefits for injured workers by an estimated $700 million, while lowering system wide costs. Estimates on those cost savings range from $1 billion in the first year to about half that.

But simply put no one really knows yet how much will be saved, and even the authority on workers' comp rates, the California's Workers' Compensation Insurance Rating Bureau, has changed its mind a few times.

The WCRI report outlines baseline data to watch following the implementation of SB 863, including: average indemnity benefit per claim; average medical payment per claim; duration of medical treatment; price and utilization of medical services; defense attorney involvement and average payment per claim; medical-legal frequency and expense per claim.

The report also outlines key provisions of SB 863 that could impact the state's workers' comp system.

The new law that could impact the state's workers' comp system in that it: increases permanent benefits by more than $700 million; adjusts formula for calculating benefit amount; increases the minimum and maximum weekly wage used to calculate benefits; applies a multiplier of 1.4 to all permanent disability awards; eliminates diminished future earnings

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News & Markets

Calif. State Fund Board: Drop Rates 7%

California's State Compensation Insurance Fund's board has voted for a 7 percent decrease in its 2013 rates, a move that reflects State Fund's anticipated savings from a workers' compensation reform law set to take effect on Jan. 1, 2013.



The rate will apply to a rate filing that's currently under review with the California Department of Insurance. This is State Fund's first tiered rating plan.

When a review is complete State Fund will revise its filing.

"We anticipate they will be effective toward the end of the first quarter in 2013," said Jennifer Vargen, a spokeswoman for State Fund, following the board's announcement of its decision earlier this month.

The board voted on the rates during a two-day strategic retreat session in Napa.

State Fund's estimate is that $543 million in immediate savings will be generated by Senate Bill 863, a workers' comp reform package signed into law by Gov. Jerry Brown in September. The law has several regulations that need to be put in place before it takes effect on Jan. 1, 2013, and savings estimates range up to as much as $1 billion.

> 'State Fund has made significant progress in its restructuring plan that is on track to reduce annual expenses by $300 million over a three-year period.'

State Fund, which said prior to its decision it was looking at rate reductions of between 5 and 7 percent, has said any rate reductions are dependent how those regulations are drafted.

During the retreat the board also declared a 100 million dividend for the 2012 policy year. That dividend represents about a 10 percent estimated annual premium for policyholders.

"State Fund has made significant progress in its restructuring plan that is on track to reduce annual expenses by $300 million over a three-year period," Tom Rowe, State Fund president and CEO, said in a statement. "We've made difficult but necessary decisions over the past couple of years and our improved efficiency, disciplined pricing combined with solid investment returns enables us to return money to California employers who are still struggling with a slow economic recovery. State Fund is committed to serving California's businesses and employees and helping to grow California's future."

As part of that restructuring State Fund in September announced a change to its broker distribution model, requiring most of the roughly 5,000 brokers and agents the entity deals with to go through one of two wholesalers. The change, which is effective Jan. 1, 2013, establishes "premium thresholds to qualify for a direct contract."

The restructuring plan at State Fund has been underway since 2010, and included massive reductions in the ranks of State Fund employees last year. Many of those workers left through attrition, and not layoffs as originally planned. The restructuring decision followed a detailed review of State Fund's business, including comparing State Fund to other state funds and specialty companies that write workers' compensation in California. IJ

Rowe High on Reform

State Fund President and CEO Tom Rowe, who gave a speech in mid October at the opening of Independent Insurance Agents and Brokers of California's, inaugural InsurFEST in San Diego Calif., has a lot of confidence in a law to reform the state's workers' compensation system.

Here's what Rowe said about Senate Bill 863: "If it's well implemented and it's aggressively defended it could be much, much better than we originally believed."

He also stated: "I think SB 863 holds great promise."

What he liked about the bill was that it put the two primary workers' comp parties — labor and employers — in a room together and kept all the secondary stakeholders out of the debate. A move that in the end left out medical providers, the insurance industry and applicants' attorneys. The insurance industry has embraced the new law, while medical providers have offered little feedback and applicants' attorneys have continued to opposed the new law.

While State Fund has estimated the new law could generate more than $500 million in immediate savings, there are those who believe that number could be even larger — upwards of $1 billion.

The state's Worker's Compensation Insurance Rating Bureau has conducted an assessment of SB 863 showing it would reduce system costs by $860 million in 2013, but following an increase in permanent disability benefits in 2014 the savings would fall to $270 million annually.

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News & Markets

Workers' Comp, continued from page 24

capacity from PD determination; prohibits add-ons for psychological conditions, sexual disorder, and sleep dysfunction in PD awards; creates a $120 million return-to-work program; requires disputes over utilization review denials be resolved through an independent medical review; reduces reimbursement for ambulatory surgery centers to 80 percent of the Medicare rate for hospital outpatient department; streamlines medical evaluator process; establishes a $150 lien filing fee and a $100 activation fee for liens already filed.

Several estimates calculate a big savings for the change in the lien filing. According to a State Compensation Insurance Fund analysis roughly $600 million will be saved with the changes in lien filings.

State Fund outlines an estimated $543 million savings. DIR chief Christine Baker has said she estimates savings could be up to $1 billion.

Another major finding in the WCRI report shows that costs per claim in California were mostly flat in 2010 following growth of 5 to 10 percent per year since 2006, with key cost components like medical, indemnity, and expenses largely stable in 2010.

A similar pattern of slower growth or declining costs per claim in many of the states studies, according to the report.

The report shows benefit delivery expenses in California were among the highest of the states studied, with an average of nearly $7,500 per claim, and payments per claim for utilization review services grew rapidly from 2005 to 2010, while the percentage of claims with utilization review steadily increased until 2010 when it flattened out. IJ

Calif. Rating Bureau Drops Workers' Comp Advisory Rates

After a review of a workers' compensation overhaul bill signed in September by Gov. Jerry Brown, the Workers' Compensation Rating Bureau submitted a filing in early October to lower the pure premium advisory rate for Jan. 1, 2013.

WCIRB submitted its pure premium rate filing to California Insurance Commissioner Dave Jones on Aug. 21 proposing rates that averaged $2.68 per $100 of payroll, or 12.6 percent higher than the industry average filed pure premium rate as of July 1. Those rates were based on March 31 premium and loss experience.

In that filing advised the rates could be amended pending the enactment of Senate Bill 863 and the receipt of insurer premium and loss experience valued as of June 30.

"The WCIRB has completed its review of June 30, 2012 insurer experience and



quarter, resulting in a 2 percent deterioration in the indicated pure premium rates based on June 30, 2012 experience. In addition, the WCIRB estimates that the SB 863 provisions that could be evaluated at this time will reduce the cost of losses and loss adjustment expenses on 2013 policies by 4.9 percent. The average indicated

> **'.... given the unusually high level of uncertainty surrounding SB 863, including regulations that have not yet been promulgated .... the WCIRB is not recommending a January 1, 2013 increase in the advisory pure premium rate level.'**

SB 863, which was signed into law by the Governor on September 18, 2012," the WCIRB filing states. "Loss development continued to deteriorate in the second

January 1, 2013 advisory pure premium rate based on June 30, 2012 experience and the WCIRB current evaluation of SB 863 is $2.60 per $100 of payroll, which is 9.3 percent above the industry average filed pure premium rate as of July 1, 2012 of $2.38."

WCIRB typically proposes pure premium rates consistent with the most current actuarial indication, but "given the unusually high level of uncertainty surrounding SB 863, including regulations that have not yet been promulgated, and the potential for significant additional cost savings beyond that which is currently quantifiable, the WCIRB is not recommending a January 1, 2013 increase in the advisory pure premium rate level," the filling states.

Instead, WCIRB is proposing Jan. 1, 2013, pure premium rates that average $2.38 per $100 of payroll, which is the industry average filed pure premium rate as of July 1.

Jones is expected to schedule a public hearing to consider the WCIRB's amended filing. IJ

Growing Your Property Casualty Agency

One Agency – Two Producer Management Methods



By Alan Shulman

Today, as in the past, agencies need to set the stage for future sales (both new and renewal) with continuous marketing efforts.

These actions typically include brand building, highly targeted solicitations and everything in between. The media employed can be traditional, digital or both.

Too many veteran producers forego marketing and focus on their singular strength: interpersonal selling. It's their knowledge of people and how to interact with them that closes new sales and keeps them on the books.

Meanwhile, the production efforts of younger agents tend to blur the line between marketing and sales. The evolution of instant information and two-way communication channels, including social media, makes this possible. Newer producers close sales by combining these complimentary functions.

To grow, agencies must use dual producer management methods: one for seasoned agents and one for newer, digitally minded hires.

Face-to-Face Sales

While many veterans are great closers when in front of new prospects, they frequently need assistance in locating fresh opportunities. Continuous, creative and targeted marketing campaigns, employing varied channels can aid in this regard. Budget for promotional activities to supplement producer's efforts. Help keep prospect pipelines full: the more qualified leads they approach, the more quoting and closing opportunities will follow.

Digital Production

Younger agents typically perform marketing and sales without apparent differentiation. It's partly because consumers who shy away from interpersonal contact prefer to buy online, increasingly on mobile devices. It's also because today's online tools make an almost seamless shift from marketing to the close, without face-to-face selling. Still, digitally focused agents need to entice interested shoppers, and that's where managerial guidance and marketing budgets come into play.

Digital Tools

Online tools are reshaping themselves for today's smaller mobile screens. PCs, phones and tablets all feature web landing pages, web-based rating, online applications, chats, email, and more. Agency-created mobile apps are part of the equation, but they are still in their infancy. Social networking is also integral to contemporary marketing, especially for brand building. It supports marketing and sales by encouraging promotional communications in conjunction with web or app-based closing capabilities. Investing in digital tools is no longer optional; it's a mandatory cost of doing business, helpful to youthful and seasoned producers alike.

Duality

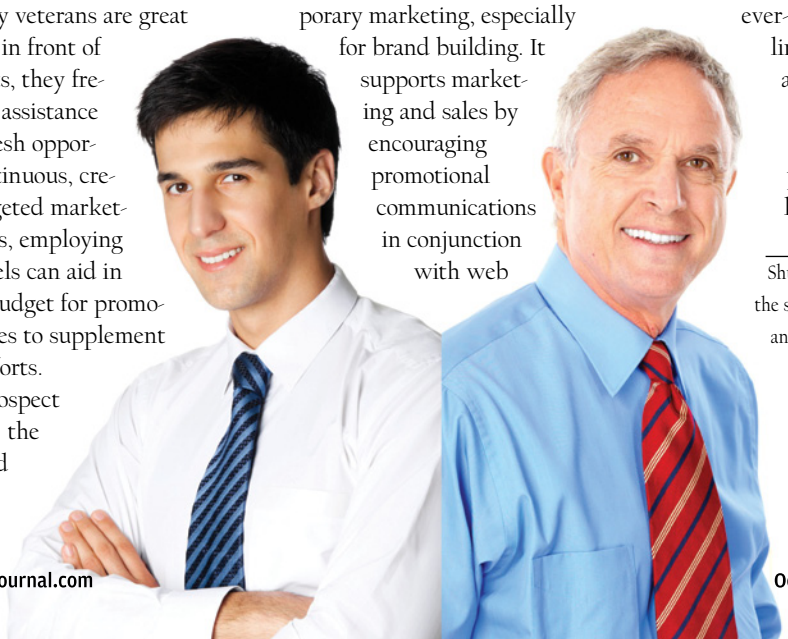
When China (communist) and Hong Kong (capitalist) reunified in 1997, their approach was "one country, two systems." In this vain, forcing older, successful agents to abandon what works for them is counterproductive. Demanding newer agents to accept the traditional ways of their elders is similarly foolish.

Business definitions and functions aren't nearly as fixed as they used to be. Marketing and sales are more interconnected than ever. This duality extends to how agency managers must work with producers. Managers need to support both the old school and the new in terms of budget and resources.

New and Newer

Agencies that employ the right strategies and investments in both producer generations enjoy an ever-expanding top line. This includes a commitment to creative marketing and flowing prospect pipelines for all. IJ

Agency managers need to support both the old school and the new.



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The Competitive Advantage

Four Types of Producers



By Chris Burand

I have spoken at more than 200 insurance industry events. I have met with thousands of agency owners, producers and CSRs. In more than two decades of working with insurance agencies, the No. 1 need has never changed: Agency owners, managers, and staff want quality producers.

This need for quality producers makes hiring, managing and coaching producers favorite topics. But before thinking about any of these steps, it's important to recognize that producers can be divided into four categories. Acknowledging these four different types of producers upfront can be a huge advantage for agencies in need of quality producers.



Type 1: Outliers

Outliers are producers that have books of business far greater than most people can imagine. Most outliers have at least $1 million in self-produced commissions. Many agency owners don't dream of super models. They dream of finding an outlier.

Outliers cannot be replicated. They have a unique skill set that does not need coaching. Most often, agencies do not have room for more than one. Sometimes agencies do not have room for any outliers or a particular outlier. Outliers often cost a fortune, but not in direct wages. They are often difficult personalities, which can create morale issues and disrupt an agency's rhythm.

Outliers usually cannot function like other producers in an agency. At first it seems obvious that they should not function like others. Others should function like them. But they are not replicable, so trying to make others function like them is a recipe for a disaster. Because they cannot be replicated, an agency absolutely should not build its future on an outlier. Even when outliers do not bring expensive baggage with them, an agency should not and cannot base its future on finding more such producers. Outliers are rare, and even the easy ones are a management challenge.

> Some people may be good, but they are never going to be great.

Type 2: Incompetents

At the other end of $1 million producers are incompetent producers. These producers are often great people, but for any number of reasons they are in the wrong job. They are in a job in which they lack the skill set, and they have no hope of being trained, managed or coached to adequacy.

These producers cost a financial fortune. A payoff never happens. The opportunity cost to the agency for hanging on rather than firing them and focusing on finding a higher quality producer is huge. The opportunity cost to the producer is huge, too. I have seen too many incompetent producers lose their jobs upon the sale of their agency, resulting in 40- to 60-year-old people having to start from scratch. They bear some responsibility, but so does agency management. Agency management could have helped these people find a career that better fits their skills when they were younger and more pliable. Owners would do everyone a favor by firing incompetent producers sooner rather than later.

Type 3: Good but Limited Potential

Type 3 producers have potential. For many reasons, they are not yet proven, so no one knows what their potential is. They may be young, new or perhaps no one has taken enough time to develop their potential. They will likely never be rainmakers, but they're unlikely to be duds either.

An agency can achieve considerable success if it only had good producers for whom

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The Competitive Advantage

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no one will ever write a magazine story. Smart management would realize their limitations, build the agency around those limitations, and not spend a fortune in sales training trying to make something out of them that they are not.

Great management requires recognizing people for whom they are. A good way to create ill will is to always be trying to make people something they are not. You cannot make an incompetent great or even good, so why try? Some people may be good, but they are never going to be great. There is nothing wrong with this.



These producers are going to click with a certain kind of account. Critical to making the most of them is to make sure the agency is as efficient as possible. An agency has to be much more methodical and systematic.

Some good but limited potential producers get the short of end of the stick because they are clumped with incompetent producers and compared to outliers. Outliers and incompetents will not benefit by methodical systems. The former will make life hell for forcing conformity, and the latter will fail no matter what, so the agency just gives up on systems. This damages the potential success of good producers with limited skills.

Type 4 – The Goal: Strong Potential, Competent and Coachable

If an agency wants to go from good to great, these are the producers to hire and develop. That written, these producers create management responsibility that will be overwhelming for some. Some managers have never managed these kinds of people, they are not sure what to do, and the idea of not knowing what to do with much raw talent can be scary.

These producers are not rainmakers, but they have significant potential to become high-quality producers. They are coachable. They are likeable. They are technically competent, or they have the intelligence combined with a reasonable ego to know they need to partner with someone within the agency that is technically competent.

These producers can generate between $400,000 and $750,000 in annual commissions within a typical agency, and they do so with only marginally more agency resources. So not only do they produce more, their production is more profitable. They generally work within the agency's system and are more team players than outliers.

People with these ideal qualities only exist en masse when agencies are highly methodical in hiring, training, development, management and coaching. It is not a romantic endeavor where the agency owner just looks across the room, eyes meet, a hire is made on a handshake, and the producer sells merrily into the sunset. Few agencies have the abilities to provide all these resources in-house, so finding the right trainers and coaches is critical (and I do not have any skin in this game because I don't provide these services). Few can actually cause people to truly learn rather than just talk. But for the ones that do, the results are phenomenal.

So, what type of producers do you have? What kind of producers do you want? If the type of producers you have are not the type of producers you want, what commitment are you willing to make to achieve success?

An agency that focuses on Type 4 producers will achieve great success. The agency may never make the cover of an insurance magazine, which is usually interested in rainmakers even if they flame out the day after the cover shoot. However, when the day comes to cash in your chips, these agencies will cash in the biggest pile. IJ

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Carrier: State Compensation Insurance Fund
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Market Detail: American Safety Insurance (www.amsafety.com) is a specialty insurance company that provides customized insurance products for businesses and industries underserved by the standard insurance market. It has been providing coverage for environmental risks for more than 20 years.
Available limits: As needed
Carrier: American Safety
States: All states
Contact: Customer Service at 800-388-3647

Adoption/Foster Agencies

Market Detail: Kinsale Insurance Co. (www.kinsaleins.com) targets adoption/foster agencies with the following policy structure: professional liability and general liability coverage; claims-made and reported coverage form (note: general liability occurrence coverage form may be used for certain risks); policies issued with a per claim deductible that applies to both indemnity and expense; broadened coverage available for select risks and may include incident trigger, defense outside the limit, silent on punitive damages, indemnity only deductible, etc.; one-, two-, three-year tail options available. Professional liability and general liability coverage can be written on a stand-alone basis with separate limits or a combined basis with a shared aggregate limit. Primary GL/PL limits available up to $2 million; limits up to $5 million available on an individual risk basis. Employee benefits and non-owned auto coverages are available.
Available limits: Minimum $1 million, maximum $2 million
Carrier: Kinsale Insurance Co.
States: All states except Minn.
Contact: Bob Neal at 804-289-1318 or email: bob.neal@kinsaleins.com

Workers' Compensation for Health Care Facilities

Market Detail: Corporate Risk Services

LLC (www.HealthcareWC.com) has partnered with the nation's largest workers' compensation insurance carrier to offer an exclusive program open to the following governing class codes: 8824, 8825, 8826, 8829, 8832, 8833, 9040, as well as incidental exposures in other codes. The program is designed specifically for nursing homes, assisted living facilities, convalescent centers, Alzheimer's care facilities, CCRCs, and acute care hospitals that generate between $10,000 and $150,000 in modified premium. Risks with experience modifiers of 1.25 or less are eligible. This program is available exclusively through Corporate Risk Services. Note that a supplemental application is required for this program.

Available limits: Minimum $10,000, maximum $150,000
Carrier: Unable to disclose, admitted
States: All states except Alaska, Calif., Hawaii, Mass., N.D., Ohio, Wash., and Wyo.
Contact: Dennis Laughlin at 479-271-7475 or email: dlaughlin@mrmsi.com

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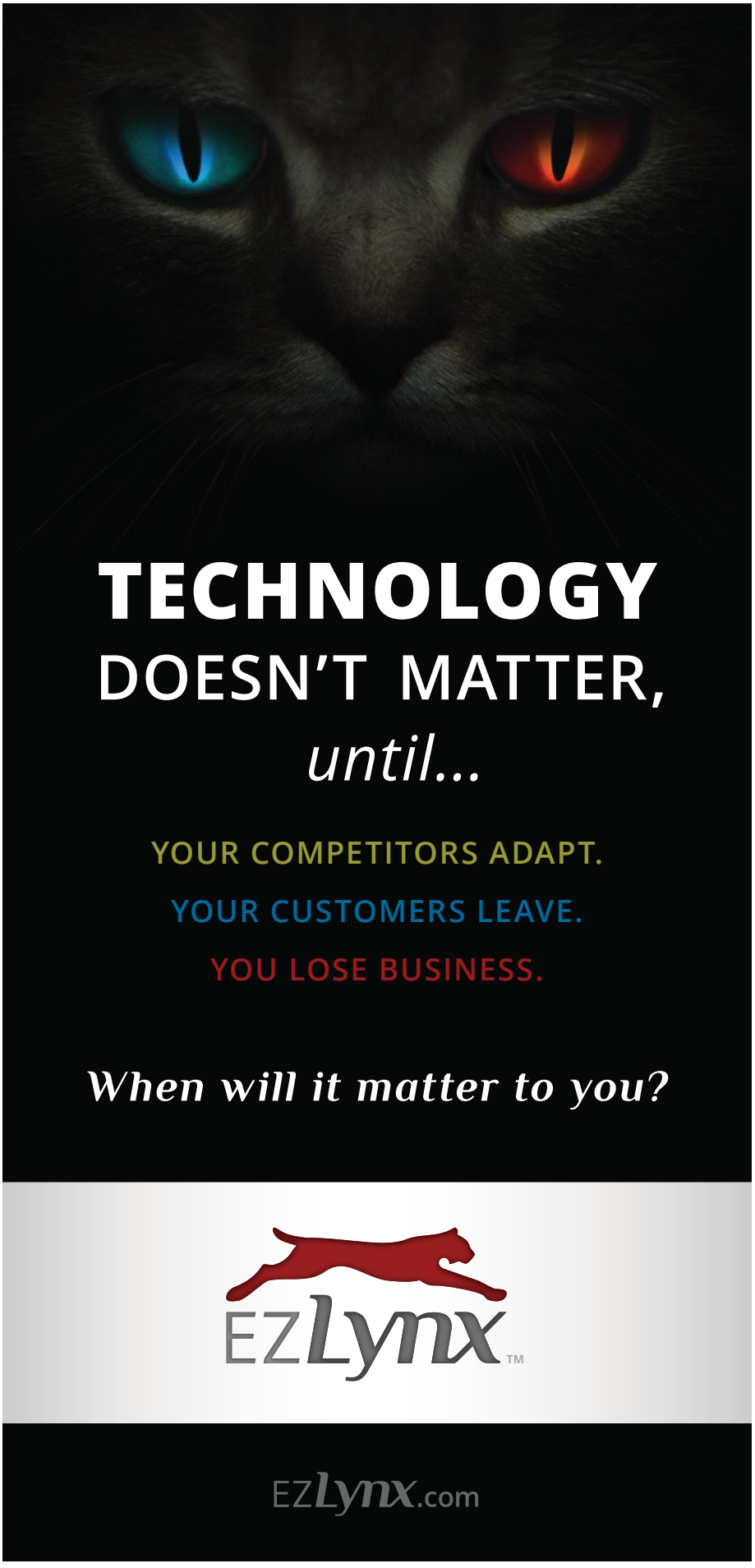
Market Detail: Smith Bell & Thompson Inc. (www.willisprograms.com) offers an insurance program for nonprofit and for-profit social service agencies that provide professional services other than "hands on" medical care. Eligible classes include: alcohol and drug rehab/clinics; adult day care; behavioral/mental health facilities; community service organizations; counseling services; and crisis centers.

Available limits: As needed
Carrier: Unable to disclose, admitted
States: All states
Contact: Matthew Charlton at 720-921-2145 or email: matthew.charlton@willis.com

Duct Cleaning Contractors

Market Detail: UCPM Environmental Insurance (www.ucpm.com) offers coverage for contractors engaged in duct cleaning operations, which may represent an untapped source of revenue for your agency. These contractors often face a number of environmental exposures, and are a class that environmental carriers are more comfortable with than many of the standard markets. This class of business can often be written on a combination package policy with general liability and pollution coverages together. Minimum premiums start at $4,000.

Available limits: Minimum $1 million, maximum $10 million
Carrier: Unable to disclose, non-admitted
States: All states
Contact: Customer service at 800-685-8185 IJ



Technology



MOBILE PRODUCERS

GOING WHERE TECHNOLOGY IS GOING

By Andrea Wells

Every independent agent wants to know what the next big thing will be to help grow their agency into the future. Well, for some, the future is now and agencies that follow technology's lead today will be the ones on top in another five or 10 years.

Jason Cass, founder and owner of JDC Insurance based in Centralia, Ill., is a firm believer in Internet marketing as well as in the benefits it can deliver to the independent agency system. After all, his entire business model is virtual.

"I am a virtual agency," Cass told *Insurance Journal*. "I tell people a lot that I have a 70 square foot office on the 18th hole of a golf course and it's called the basement of my house. I have a laptop, all-in-one printer, and an extra monitor." He also doesn't advertise his services in the traditional sense. He advertises 100 percent through digital communications via social media posts and Facebook ads. And it works, he says.

Cass says people tend to worry about the next available technology that could help grow their business, but the tools independent agencies need to grow are available now.

"Whether it be the smartphone, social media, or cloud based technologies … The

tools are already there," says Cass, who serves as chair of the Independent Agents & Brokers of America's Young Agents Committee.

The problem is most agents just don't know how to use them effectively.

Ryan Hanley, an agent at The Murray Group Insurance Services Inc., an independent family-owned insurance and financial services agency in Albany, N.Y., agrees and says agencies that do not implement a strong digital communication presence now may not be around tomorrow.

"You don't have to have a Facebook page if you don't want to," he says, but agencies should have some way to digitally communicate with clients. "If you don't do it today, then maybe you'll be in business five years from now but you are not going to be doing well," Hanley says.

"And if you are in business then, there's a very good chance you won't be in business in 10 years. There's going to come a time when there will be more people that use those tools than don't," he says.

Today, plenty of people are willing to forego use of digital communications, he says. "But once those people are gone [in five years], we'll have an entire generation in the prime buying years of their life — the 28 to 40 year olds — the people that have never taken an adult breath without knowing Facebook."

These people are going to be starting families, opening businesses, buying homes, buying toys. "Those are the people that every independent agency wants to target," Hanley says.

These agents are convinced that today's early adopters of digital communication — such as social media and other forms of digital marketing — will be the ones best positioned in the future.

Mobile Producers

Hanley agrees with Cass that there's nothing new when it comes to high-tech tools that put agencies on a fast-track to success. But there's one tool — a tool that most agents already own — that may be the perfect tool. That's the smartphone.

Almost half of all mobile phone users today use a smartphone device, according to comScore's August survey of 30,000 users nationwide. Social networking on mobile devices also continues to rise, according to the survey. Social media sites and blogs were accessed by 36.9 percent of all consumers.

The job description for producers of the future will encompass more than it does today, but Hanley has no doubt a producer must be mobile.

"Part of our job description is going to be professional content creators. If you believe in the fact that digital and social media work, you need to have quality content for that presence to get your message out, to allow people to build a relationship with you," Hanley says.

He says the smartphone is the absolute perfect tool for this.

"You can create audio podcasts, you can create high quality HD videos, you can take HD photos, you can create blog posts, you can post things to every social network, you can share slide share files, you can pull up presentation files, you can do all the things that a producer needs, in addition to being a professional content creator on your smartphone."

Technology will change, but high mobility will always come first, he says.

"The iPad that we carry today might not be the iPad that we carry five years from now but the idea of easy to use, highly functional, and mobile, we are only going to move more toward those concepts," Hanley says.

Being a mobile producer means not being tied to an office.

"All principals like to say that you can't make any money behind your desk but they always want us to be in the office," Cass says. "It just doesn't make any sense."

Cass doesn't have a traditional brick and mortar office setting and because of that, his agency's costs are reduced and efficiency is increased.

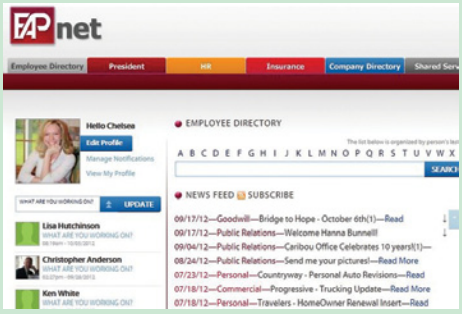
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Maine Agency Improves Communication With Intranet Social Networking

By Young Ha

It's a common challenge for business professionals: how to communicate effectively and foster a culture of collaboration with colleagues — especially if their colleagues happen to be in offices hundreds of miles away.

One common method is sending out mass emails, but keeping track of mountains of inbox messages and relevant data can be a daunting task.



Maine-based F.A. Peabody installed iKNO Intranet to boost employee collaboration.

One major independent agency in Maine is tackling this challenge by adopting an alternative method — an interactive, intranet social networking platform. The system was developed by a Portland, Maine-based startup company called iKNO (pronounced "I know"). It offers a social media-like interface — providing blog forums, news feeds and employee profile pages where workers can team up and share information in a searchable database. The platform also offers employee directories with customized biographies and photos, similar to what one might find on Facebook or LinkedIn.

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Technology

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F.A. Peabody, a Houlton, Maine-headquartered agency offering property/casualty, life and health insurance, installed the platform one year ago. And the firm says this interactive intranet is helping to improve communication and spark a more cooperative environment.

"We have eight offices and roughly 90 employees spread throughout northern Maine. It encompasses territories spread over some 200 miles, so it's a large territory," said F.A. Peabody's president, Christopher Anderson. "The furthest office from our central office is a two-hour drive away. So it's not like we can just drive down the road to a nearby office to have a meeting."

But in an insurance agency, employees' collaborative efforts are important in placing appropriate insurance on behalf of customers, Anderson remarked.

"So if I am working on a commercial vacant building, I might want to put that information on our new intranet under my user profile, informing my colleagues that I am working on a vacant property," he said. "Because there might be someone else in the organization who's in a similar position. And they could appreciate that information."

If other colleagues want to pitch in and help with a project, the interactive social networking platform makes it easy to find out what everyone is working on and see if there is anything they might need help with.

F.A. Peabody also uses its intranet to inform employees of changes in carrier partners' product lines and other updates.

"As the president, I may get a piece of information from an insurance company announcing some change to their product line," Anderson said. "In the past, I might just broadcast that via email, which I still do today. But now, I will also post it to our intranet," he said. "So that when people want to go back and reference that company's change, they can easily find it from our intranet's searchable database. People get lots of information across their daily workload. And they read it, and they delete it. They might save it, but they might forget where they saved it."

F.A. Peabody employees also post insurance news articles on the platform's news feed section, where others can join and write comments, in a manner similar to social media sites. The agency also archives its human resources-related forms and information on the intranet, accessible to employees.

"So this enhances our communication, which is now on a two-way basis as opposed to a one-way basis which we had before," Anderson observed. "This is another tool in our arsenal as a company to enhance communication, so that we can serve the customers better and serve ourselves better as employees of the company." The entire installation took about six weeks for the agency.



Becky McKinnell, left, and Mark Girr, co-founders of Maine-based iKNO.

'This is another tool in our arsenal to enhance communication, so that we can serve the customers better and serve ourselves better.'

Corporate Intranets

But corporate intranets have been around for decades. Microsoft's SharePoint is perhaps the most dominant system used by large corporations. But such a platform, which requires dedicated administrative staff and a large upfront fee, may not be a good fit for insurance agencies with tens or hundreds of employees, said Mark Girr, a technology consultant who co-founded iKNO with entrepreneur Becky McKinnell last year.

McKinnell says that for F.A. Peabody, one key component was the feature that brings colleagues together and "put the power of all knowledge of the company in a searchable intranet database," so that employees from any of their eight offices can quickly search for product lines, contact information and other proprietary data posted and updated by other members of the company.

Girr says his company's goal is to offer an interactive and intuitive platform for small businesses. "I noticed that small to medium-sized organizations didn't really have any good options," according to Girr, who has been running a consulting firm specializing in employee communications and intranet optimization.

Girr said the iKNO intranet is an internal website that employees have access to and serves as an online forum where they can collaborate. "They are able to access company information such as policies and procedures, and also put their hands on forms, sales and product information, and vendor information." Everything that the company's operation consists of are reflected in the intranet.

"We wanted our system to reflect technologies people are familiar with, yet not overwhelm them with gadgets, functions and information that they can't, won't or don't use," he remarked. "Our iKNO system specifically addresses information overload while at the same time increasing access and knowledge sharing."

At a time when companies are demanding more from their employees because of hiring freezes or downsizings, it is important to engage workers and provide them with a tool that mitigates information overload, provides easy access to information, and fosters cooperation, according to iKNO co-founders.

The company offers two versions of the platform. One is a cloud-based application with no additional requirement for hardware or IT support by the client. Another is an enterprise version whose platform would be placed on the client's own servers.

Prices start at around $4 per employee per month for small businesses, plus a $5,000 initial fee and the customization and training fee starting at $2,500. Girr said iKNO was designed for companies that have between 50 and 1,000 employees and more than one location. The system is currently used by several Maine-based financial services and healthcare companies. IJ

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Hanley thinks Cass' virtual set-up makes sense.

"In an agency like mine where we are the traditional agency where each of us has a big desktop and an office, there's a cost associated with all of that," Hanley says.

In a perfect world, an independent agency should be completely web-based, according to Hanley. It should able to share all files through some sort of cloud file sharing system and access its agency management system online. Producers should be able to create content using social and visual marketing tools from anywhere.

"And a smartphone and a tablet ensure that you almost never have to be in the office," he says. "I can work from home, I can work from a client's office, from a parking lot of client that I'm soliciting. I can almost never have to be in the office and I can be completely functional," he says.

'A smartphone and a tablet ensure that you almost never have to be in the office.'

While the tools are there for agents' use today, there's no real solid model for the independent insurance agency, yet.

"There's a lot of agencies in the country that are starting to go this way, but we don't necessarily have one yet that we can say, 'OK, if we do exactly what they do, then we'll be just fine,'" Hanley says.

While more agencies are moving toward a mobile working environment, many are not.

Cass and Hanley have spent the last three years marketing their own agencies using blogs, social media, podcasts and more that have helped their agencies grow. With this experience under their belts, they have now launched the GROW Program (Generate Revenue Online Workshop), an Internet marketing workshop for insurance professionals looking to generate new business revenue from online activities.

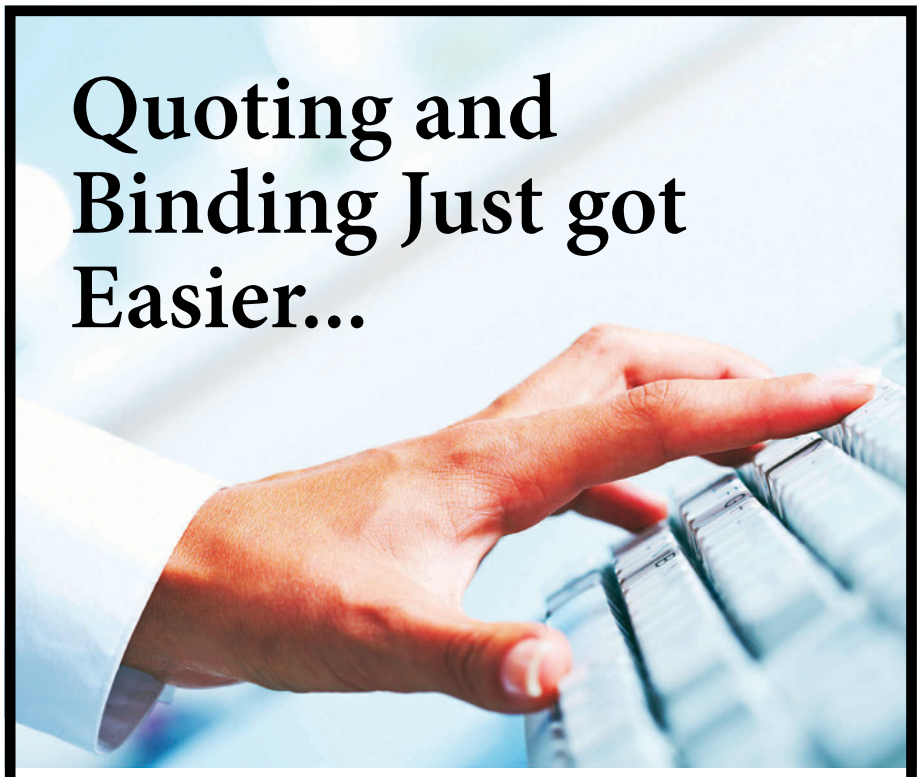
"People started asking us, how are you guys using these tools?" Cass says. "We started to realize that what we have is of value, and not money for our pocket, but it's of value for the insurance industry to move it forward."

Their goal is to show agencies how to use these tools to be more efficient and communicate with the consumers who want this type of communication.

GROW will debut at four state association meetings in the fourth quarter of 2012.

Cass says the idea is not to invent any new tool, but instead show agents how to use those tools.

"Ryan's way is not perfect. My way is not perfect. But that's the beauty of this," Cass says. "As long as you know the basic foundation of what the tools are and what they do … you can use your own creative ingenuity to create a new way to market and develop an industry." IJ



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Technology

Doing Business with Mobile Devices

Need for Risk Mitigation Grows Along With Wider Adoption



By Jim Whetstone

Insurance agencies are in the business of managing risk for clients. But as mobile becomes mainstream, they're facing new risks of their own. Agencies see mobile use as an essential competitive advantage, and they're responding to producer and customer demands for more access and options. As more agencies utilize the benefits of mobile, they also need to manage the risks of their new technology capabilities.

The marketplace of mobile-based tools is quickly expanding. Agents can use mobile capabilities to streamline application fulfillment, collect data, issue policies, handle claims, and communicate with clients and carriers, among other tasks. For producers and agencies, mobile has the potential to boost efficiency and productivity.

Many agencies are on a steep learning curve as they strike the right balance between benefits and risks. Mobile devices designed for consumer use don't have professional security protections in place, but they're increasingly used like personal computers. For professional use, they require the same security now standard in PCs, such as antivirus protection and encryption, but the security protections are meager.

The problem is compounded by the fact that many people use the same devices in their professional and personal lives, mingling email, social media, data gathering, document creation and storage, web browsing, ecommerce and gaming, among other uses. Juniper Research predicts that 350 million workers worldwide will use personal mobile devices at work by 2014, more than double today's figures.

In some cases, agencies are struggling to get ahead of the trend, contributing to a high incidence of BYOD — Bring Your Own Device to work. Malware is an issue for mobile devices that aren't regulated, as well as loss and theft.

A weakness in an agency's security could have severe consequences. Among the possible pitfalls are data breaches, which may lead to identity theft, legal liability and damaged customer relationships. Data breaches also carry heavy financial and reputational penalties, and high costs. Clients expect sensitive personal or corporate data, credit card accounts and other information to remain private, and to be safe from being hacked, stolen or inadvertently revealed.

Following are some guidelines that can help agencies capture mobile's benefits while managing the risks.

Centralize Information and Policies

Ideally, every employee would be equipped with the same mobile devices from the same manufacturer. But BYOD is already widespread, and employees may not like having separate smartphones and tablets for work and personal use. Whether everyone has the same or different devices, an agency should have standard policies and procedures to secure client and agency data, and set parameters for mobile use.

Every device should be inventoried and password-protected. Employees should be required to change passwords frequently and choose passwords that don't mimic ones used elsewhere.

Agencies should establish policies for using social media; adding apps and software; taking care of maintenance, patches and updates; and using wireless networks. It's also helpful to have a reporting and action protocol if a device is lost, stolen or infected with malware.

These requirements need to be taken seriously. A 2011 report by McAfee and Carnegie Mellon CyLab found that four out of 10 organizations have had mobile devices lost or stolen, and half of those devices contained business-critical data. More than a third of mobile device losses have had a financial impact on the organization, according to the report, which surveyed 1,500 respondents in 14 countries.

Employ Security Technology

Security measures have expanded along with the development of mobile devices, apps and software. Some useful technology is mature and readily accessible, such as antivirus and malware protection, as well as GPS tracking capabilities that can be used to locate lost or stolen devices.

Technology also enables users to remotely wipe data if needed, providing protection from hackers and ensuring the data won't be available to a new user if a stolen phone or tablet is resold. Yet if the criminal finds the phone or tablet before it's wiped, it's still possible to hack into the data.

Encryption is critical for client privacy. It is also essential for compliance regulations such as HIPAA, and an agency's internal security policies. Email, files, folders, calendars and other data should be encrypted.



Another potential safeguard is

app wrapping, which gives managers the ability to add layers of security to an app, including who can access it. The app wrap might require user authentication to access the app, control where data can be stored or limit actions, such as file sharing. Note that app wrapping doesn't affect the performance of the underlying app.



Vet Vendors

As tens of thousands of agencies adopt custom-designed insurance software for mobile devices, the number of companies that are in the business of supplying them has grown. Some, but not all, have experience and a track record of building robust security measures into their products.

When selecting a software vendor, do extensive due diligence on the company and the security it claims to provide for its software and services. Agencies looking to add software or apps should involve representatives from IT and legal, producers and agency management early in the process.

Purchase Data Breach Insurance

Agencies are familiar with the need for insurance, but not all have extensive experience with data breach coverage. Data breaches do occur, and personal information can be disclosed through a criminal act, carelessness, software security gaps or other factors. Nearly all of the 50 states have laws mandating customer notification if a breach occurs, and costs can add up if large numbers of records are compromised. Data breaches can also result in litigation.

Data breach policies can cover notification costs, forensic services, credit monitoring, legal assistance, identity restoration and public relations services. They can also cover specific exposures, such as personal health data breaches.

Mobile technology has become indispensable for many businesses, including insurance agencies. By taking precautions, agencies can use mobile to better serve their clients and run more efficiently, while minimizing the possibility of security problems. An industry that focuses on risk needs to protect itself as well as it protects its clients. IJ

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Top 50 Commercial Lines Leaders

Commercial Lines Leaders

About the Commercial Lines Leaders: The 2012 Commercial Lines Leaders in this special feature are taken from *Insurance Journal*'s Top 100 Property/Casualty Independent Agencies as reported in August. This list utilizes only the 2011 commercial lines numbers of the privately owned agencies and brokerages that submitted data to the Top 100 agencies report. For more information on *Insurance Journal*'s Top 100 Property/Casualty Independent Agencies list, contact awells@insurancejournal.com.

Top 50 Commercial Lines Agencies

Ranked by Total 2011 P/C Premium Written

2012 Rank	Agency Name	2011 Commercial Lines P/C Premium	2011 Total P/C Premiums Written	2011 Other than P/C Premium	2011 Total P/C Revenue	No. of Employees	Main Office	Web site
1	Lockton Cos.	$9,495,919,551	$9,543,637,740	$8,049,945,280	$680,030,000	4,450	Kansas City, Mo.	www.lockton.com
2	HUB International Ltd.	$3,536,444,533	$4,875,399,819	$2,710,591,696	$738,013,000	5,703	Chicago, Ill.	www.hubinternational.com
3	Alliant Insurance Services Inc.	$2,388,009,000	$2,428,240,000	$2,645,960,000	$296,199,600	1,456	Newport Beach, Calif.	www.alliantinsurance.com
4	USI Holdings Corp.	$1,980,000,000	$2,472,000,000	$6,732,000,000	$301,000,000	2,857	Briarcliff Manor, N.Y.	www.usi.biz
5	AssuredPartners LLC	$1,104,126,030	$1,411,162,772	$940,953,500	$124,706,871	955	Lake Mary, Fla.	www.assuredptr.com
6	Keystone Insurers Group Inc.*	$1,070,951,186	$1,784,918,649	$275,307,740	$214,190,237	2,320	Northumberland, Pa.	www.keystoneinsgrp.com
7	ISU Agency Network*	$921,000,000	$1,619,000,000	$266,000,000	$214,950,000	1,446	San Francisco, Calif.	www.JoinISU.com
8	Leavitt Group Enterprises Inc.	$881,557,000	$1,112,285,000	$906,108,000	$141,000,000	1,410	Cedar City, Utah	www.leavitt.com
9	IMA Financial Group Inc.	$786,000,000	$799,000,000	$430,000,000	$72,054,938	456	Denver, Colo.	www.imacorp.com
10	Beecher Carlson	$743,325,000	$748,193,000	$85,182,000	$83,193,000	420	Atlanta, Ga.	www.beechercarlson.com
11	Hylant Group Inc.	$588,000,000	$615,000,000	$555,000,000	$69,978,000	591	Toledo, Ohio	www.hylant.com
12	J. Smith Lanier & Co.	$501,080,183	$562,013,900	$470,241,523	$69,202,231	550	West Point, Ga.	www.jsmithlanier.com
13	Heffernan Insurance Brokers	$461,756,000	$482,604,000	$167,185,000	$63,598,000	420	Walnut Creek, Calif.	www.heffins.com
14	Risk Strategies Co.	$446,117,000	$478,250,000	$269,555,000	$34,500,000	180	Boston, Mass.	www.risk-strategies.com
15	Mesirow Insurance Services Inc.	$427,595,518	$462,655,273	$944,860,833	$55,716,005	306	Chicago, Ill.	www.mesirowfinancial.com
16	INSURICA Insurance Mgmt. Network*	$409,863,827	$461,460,167	$117,455,623	$59,467,489	453	Oklahoma City, Okla.	www.insurica.com
17	Bollinger Inc.	$397,000,000	$525,000,000	$635,000,000	$69,570,000	524	Short Hills, N.J.	www.bollingerinsurance.com
18	Capacity Coverage Company of N.J. Inc.	$395,620,646	$412,148,499	$98,376,824	$59,919,775	214	Mahwah, N.J.	www.capcoverage.com
19	Woodruff-Sawyer & Co.	$391,509,477	$394,025,978	$359,079,238	$50,492,358	299	San Francisco, Calif.	www.wsandco.com
20	Combined Agents of America LLC*	$363,074,628	$511,193,620	$58,085,446	$67,084,631	646	Austin, Texas	www.combinedagents.com
21	Higginbotham	$348,590,000	$394,361,000	$755,249,000	$44,753,000	517	Fort Worth,Texas	www.higginbotham.net
22	United Valley Insurance Services Inc.*	$344,593,268	$441,786,241	$77,087,905	$69,279,709	98	Fresno, Calif.	www.unitedvalley.com
23	Barney & Barney LLC	$342,000,000	$351,000,000	$1,152,000,000	$44,000,000	417	San Diego, Calif.	www.barneyandbarney.com
24	EPIC (Edgewood Partners Ins. Center)	$332,604,000	$342,775,000	$370,606,000	$45,014,000	297	San Francisco, Calif.	www.edgewoodins.com
25	Frenkel & Co.	$308,136,530	$334,758,174	$310,153,000	$38,301,212	224	New York, N.Y.	www.frenkel.com
26	Houchens Insurance Group*	$301,023,147	$312,400,000	$235,000,000	$31,750,498	199	Bowling Green, Ky.	www.houchensins.com
27	Assurance	$299,811,509	$304,787,926	$184,687,301	$38,264,391	250	Chicago, Ill.	www.assuranceagency.com
28	M&T Insurance Agency Inc.	$290,000,000	$298,000,000	$140,000,000	$22,200,000	116	Buffalo, N.Y.	www.mandtbank.com
29	RCM&D Inc.	$286,745,186	$295,297,276	$72,047,128	$27,564,788	267	Baltimore, Md.	www.rcmd.com
30	MHBT Inc.	$250,000,000	$262,250,000	$250,000,000	$28,025,000	216	Dallas, Texas	www.mhbt.com
31	Propel Insurance	$249,000,000	$275,000,000	$180,000,000	$33,500,000	236	Tacoma, Wash.	www.propelinsurance.com
32	Bowen, Miclette & Britt Inc.	$245,791,000	$264,448,000	$143,531,000	$30,512,000	240	Houston, Texas	www.bmbinc.com
33	SullivanCurtisMonroe	$245,432,000	$258,232,000	$162,534,000	$19,785,000	180	Irvine, Ca.	www.sullivancurtismonroe.com
34	InterWest Insurance Services Inc.	$243,899,000	$264,461,000	$93,214,900	$32,421,000	254	Sacramento, Calif.	www.iwins.com
35	Sterling & Sterling Inc.	$241,000,000	$266,000,000	$136,000,000	$32,179,000	194	Woodbury, N.Y.	www.sterlingrisk.com
36	Robertson Ryan & Associates Inc.	$223,000,000	$257,000,000	$55,000,000	$24,000,000	195	Milwaukee, Wis.	www.robertosnryan.com
37	Insurors Group LLC	$216,051,119	$278,065,943	$130,301,827	$42,447,192	235	College Station, Texas	www.insurorsgroup.com
38	The Horton Group	$205,927,273	$241,256,552	$271,738,321	$29,630,064	295	Orland Park, Ill.	www.thehortongroup.com
39	Ascension Insurance Inc.	$205,648,000	$238,733,000	$402,119,000	$33,711,000	431	Kansas City, Mo.	www.ascensionins.com
40	Marshall & Sterling Enterprises Inc.	$204,557,157	$272,948,355	$117,171,254	$42,546,739	351	Popughkeepsie, N.Y.	www.marshallsterling.com
41	The Mahoney Group	$197,000,000	$214,000,000	$83,000,000	$31,382,455	192	Mesa, Ariz.	www.mahoneygroup.com
42	The Graham Co.	$194,653,341	$196,522,416	$33,274,448	$33,775,611	150	Philadelphia, Pa.	www.grahamco.com
43	Moreton & Co.	$190,000,000	$231,110,000	$444,435,000	$23,902,319	175	Salt Lake City, Utah	www.moreton.com
44	LMC Insurance & Risk Management Inc.	$178,882,345	$194,265,528	$120,443,203	$19,889,621	173	West Des Moines, Iowa	www.lmcins.com
45	United Agencies Inc.*	$177,000,000	$197,000,000	$45,000,000	$45,000,000	275	Pasadena, Calif.	www.unitedagencies.com
46	Acrisure LLC*	$176,864,434	$209,917,523	$133,874,018	$22,880,980	270	Caledonia, Mich.	www.acrisure.com
47	Cobbs, Allen & Hall	$170,960,502	$178,788,936	$37,455,712	$18,863,510	135	Birmingham, Ala.	www.cahins.com
48	Advanced Insurance Underwriters LLC	$170,220,000	$214,000,000	$5,000,000	$21,425,000	155	Hollywood, Fla.	www.advancedins.com
49	The Insurance Alliance of Central Pa. Inc.*	$164,563,164	$196,471,985	$0	$24,131,346	197	Camp Hill, Pa.	www.tiacp.com
50	Bainswest Inc.	$162,539,583	$195,497,882	$102,940,802	$21,585,397	218	Tulsa, Okla.	www.bainswest.com

** Indentified as having an affiliation with an independent network or cluster group. Employee count for these groups does not necessarily include all affiliates responsible for total premium written.*

Commerical Property

E&O Insights: Insuring Commercial Property – What Could Possibly Go Wrong?



By Curtis M. Pearsall

It seems that every year commercial property is one of the top three lines of business generating errors and omissions (E&O) claims against agents. Because most agents insure a fair number of commercial buildings, this is an area in which agents would be wise to dedicate time and resources. Each commercial building has its own complexity and uniqueness — and failing to address this could lead to E&O issues.



Occupancy

There is a lengthy list of possible occupancies, and vacancy is also a possibility. As a result, a personal visit by the producer, at minimum, is a must. This will enable the producer to walk through the building and ask the building owner whether there are plans for a change in the businesses occupying the building. If some areas are vacant, the producer should ascertain what percentage is vacant and what the plans are. If the building is undergoing renovations, what is the projected completion date, and who will be the tenant?

When completing the application for the carrier, provide a complete, unbiased narrative with these details. Misleading the carrier just to get the account written is not suggested. For example, calling a vacant building a "dead air storage facility" (a true story!) will backfire in more ways than one.

The following claim speaks to many of the problems that can arise when the producer doesn't know the account being insured:

The agency secured coverage for a building owner, who leased part of the premises to a customer. The rest of the building was vacant. A vagrant sleeping in the vacant area knocked over a candle, causing a fire. The building damages were around $1 million. Following the fire, the carrier denied coverage and started a rescission action. The carrier claimed: 1) the application stated the building was fully occupied; 2) the square footage was twice as much as was reported on the application; and 3) the application noted the building was fully renovated, when it was not. The agent knew he lied about the square footage and the vacancy issue. The demand was $500,000, with the claim against the agency settled for $210,000.

Complete the App With the Prospect

The application is designed to address all pertinent underwriting and rating issues. Because the goal is to ensure a complete, thorough application, meeting with the building owner to ask the relevant questions and accurately record the responses is suggested. Without this process, it is realistic that you may not even know the correct name of the named insured. Getting that information correct is obviously important.

continued on page N16

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Commerical Property

continued from page N15

Building owners provide numerous services. Operations include rent collection, security, building maintenance, grounds keeping, accounting and advertising, to name a few. The producer should ask how these duties are performed. If contracted out, what are the insurance requirements expected of those firms? The carrier underwriter will want to know how these situations are handled.

Depending on the age of the building(s), the status of key building updates and fire protection should be well documented.

Given that a significant amount of information required, ensure you have recorded the details correctly by having the insured review and sign the completed application.

Is Building Ordinance or Law Coverage an Issue?

While property policies may provide some coverage for the increased cost of construction due to the enforcement of laws arising from a covered loss, coverage is typically limited in both scope and available limit. Broadening the coverage would require an endorsement. The additional coverage usually includes: 1) a limit for the value of the undamaged part of the building when a building code requires its demolition after a partial loss; 2) coverage for the expenses associated with the demolition of the undamaged property; and 3) coverage for the increased cost of the construction due to the building codes. The costs for these areas could be substantial.

Other Property Issues

Boiler and machinery/equipment breakdown is an area often overlooked, yet it has the potential to cause significant property damage in the event of an explosion, electrical surge or other equipment-related losses not covered by the standard property forms.

The time element can be an issue because if there is a loss, the building owner would have a loss-of-rents exposure and could incur extra expenses. Tenants Move Back Insurance provides coverage for a tenant who was forced to move out after a loss and is now looking to move back in.

Losses from earthquakes and floods can be significant. Does your client have this coverage now? Discuss these exposures and provide your client with a proposal.

Exposure Analysis Approach

The potential list of exposures building owners have is lengthy, so an exposure analysis checklist is a great way to ensure that the exposures have been identified and the necessary questions asked and answered.

Because no two building risks look the same, agents should have a detailed process to ensure the information presented to the carrier is current and correct. This is the best way to minimize the potential for errors and omissions litigation.

Pearsall is president of Pearsall Associates Inc., a risk management consulting firm. He is also a special consultant to the Utica National Agents E&O program. Phone: 315-768-1534. Email: curtis@pearsallassociates.com.



News & Markets

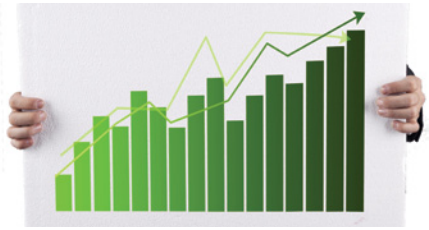
P/C Insurers' Profits Jump as Catastrophe Losses Drop

U.S. property/casualty insurers' net income after taxes jumped to $16.4 billion in first-half 2012 from $4.8 billion in first-half 2011, with insurers' overall profitability as measured by their annualized rate of return on average policyholders' surplus climbing to 5.9 percent from 1.7 percent.

Insurers' pretax operating income — the sum of net gains or losses on underwriting, net investment income, and miscellaneous other income — rose to $18.4 billion in first-half 2012 from $1.3 billion in first-half 2011.

Improvement in underwriting results drove the increases in insurers' pretax operating income, net income after taxes, and rate of return, with net losses on underwriting dropping to $7 billion in first-half 2012 from $24.1 billion in first-half 2011. The combined ratio improved to 102.2 percent for first-half 2012 from 110.5 percent for first-half 2011, ISO and the Property Casualty Insurers Association of America said.

The improvement in underwriting results is largely attributable to a drop in net losses and loss adjustment expenses (LLAE) from catastrophes. ISO estimates that insurers' net LLAE from cats in first-half 2012 totaled $12.6 billion, down from $25.7 billion in first-half 2011. These amounts exclude LLAE that emerged after insurers closed their books for each period but do include late-emerging LLAE from events in prior periods.



The figures are consolidated estimates for all private P/C insurers based on reports accounting for at least 96 percent of all business written by private U.S. property/casualty insurers.

Underwriting Results

Net losses on underwriting fell $17.1 billion to $7 billion in first-half 2012 from $24.1 billion in first-half 2011.

Net written premiums rose $7.9 billion, or 3.6 percent, to $226.7 billion for first-half 2012 from $218.8 billion for first-half 2011. Net earned premiums rose $6.5 billion, or 3 percent, to $218.9 billion from $212.5 billion.

Net LLAE (after reinsurance recoveries) dropped $13.3 billion, or 7.6 percent, to $160.9 billion in first-half 2012 from $174.2 billion in first-half 2011.

Other underwriting expenses — acquisition expenses; expenses associated with underwriting, pricing, and servicing insurance policies; and premium taxes — increased $2.7 billion, or 4.3 percent, to $64.3 billion in first-half 2012 from $61.6 billion in first-half 2011.

Underwriting results for first-half 2012 benefited from $7.2 billion in favorable development of LLAE reserves based on new information and updated estimates for the cost of old claims from prior accident years. The $7.2 billion in favorable reserve development in first-half 2012 follows $7.3 billion of favorable development in first-half 2011. Excluding development of LLAE reserves, net LLAE fell $13.3 billion, or 7.4 percent, to $168.1 billion in first-half 2012 from $181.5 billion in first-half 2011. The combined ratio improved by 8.4 percentage points to 105.5 percent from 114 percent.

The $7 billion in net losses on underwriting in first-half 2012 amounted to 3.2 percent of the $218.9 billion in net premiums earned during the period. The $24.1 billion in net losses on underwriting in first-half 2011 amounted to 11.3 percent of the $212.5 billion in net premiums earned during that period. IJ

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by Chris Boggs

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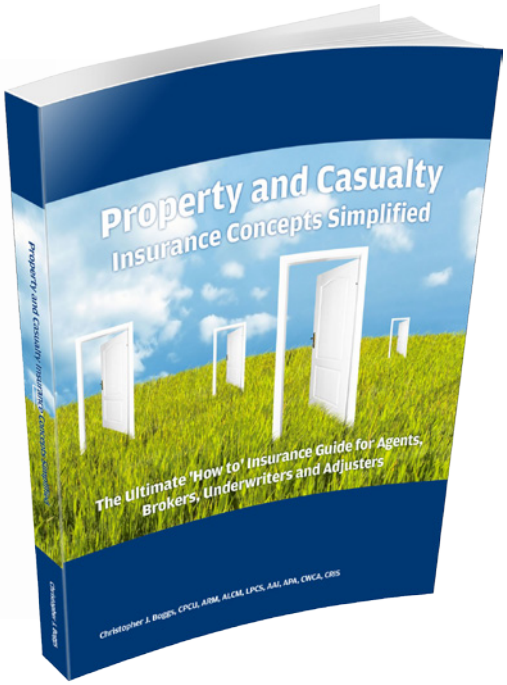
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About the Author

Christopher J. Boggs, CPCU, ARM, ALCM, LPCS, AAI, APA, CWCA, CRIS, AINS is the Director of Education with Insurance Journal's Academy of Insurance. With more than 22 years insurance and risk management experience, Boggs' background includes loss control, insurance production, consulting, and teaching.

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Closing Quote



Why the 'Insurance Consumer Protection and Solvency Act' Seems Destined to Fail



By Andrew J. Lorin

The debate over double taxation usually takes place in connection with capital gains or dividend taxes. But Republicans have introduced a bill that seeks to amend the Dodd-Frank Wall Street Reform and Consumer Protection Act to eliminate the possibility of "double-taxation" of insurance companies by both state and federal insolvency funds. Unfortunately, the proposed legislation goes further than fixing that narrow problem, imperiling the bill's chances.

Will a worthy idea again get buried by partisan politics?

Let's take a step back. In 2010, Congress passed Dodd-Frank in response to the global financial crisis. The law dramatically altered the regulatory landscape, creating new oversight agencies and imposing regulations on financial institutions in an effort to end "too big to fail." In particular, Title II, "Orderly Liquidation Authority," expanded the Federal Deposit Insurance Co.'s liquidation power beyond banks to "Covered Financial Companies," defined to include insurance companies and any other companies that are "predominantly engaged in activities that the Board of Governors has determined are financial in nature."

But the expansion of the FDIC's liquidation authority to non-banks created the problem of funding those liquidations. Banks already paid into the Deposit Insurance Fund, so an additional money source was needed to pay for the liquidation of non-bank financial companies. Dodd-Frank's solution is the FDIC-managed Orderly Liquidation Fund, which is funded by fees assessed by the Financial Stability Oversight Council. The fees paid by a particular financial company depends on market conditions and that company's assessed risk. In theory, larger or less stable companies should pay more than smaller or more financially sound companies.

Insurance companies, however, are regulated at the state level and are already required to pay into state guaranty funds. Paying into two guaranty funds, one state and one federal, seems tantamount to double taxation and imposes a burden on insurance companies that does not exist for other financial companies. Furthermore, insurance companies have long argued that they are fundamentally different from banks and should not be subject to the same types of regulations and fees. This is especially true on the property/casualty side, which does not carry the same inherent systemic threat as banks or investment companies. Yet Dodd-Frank makes no distinctions.

Representatives Bill Posey, R-Fla., and Judy Biggert, R-Ill., have introduced legislation aimed at ending the double-taxation, but their bill also stalks bigger game. The proposed legislation, H.R. 6423, "Insurance Consumer Protection and Solvency Act of 2012," would alter the definition of a Covered Financial Company to specifically exclude insurance companies. In other words, the bill would reverse one of the signal provisions of Dodd-Frank. H.R. 6423 was introduced on Sept. 14, 2012, and is currently before the House Committee on Financial Services.

"The permanent Dodd-Frank bailout fund is a bad approach to banking and an even worse approach for insurance, which is already regulated effectively at the state level," said Rep. Biggert, chair of the House subcommittee on insurance, housing and community opportunity. "Our legislation will simply ensure that the fog of regulatory uncertainty created by Dodd-Frank doesn't force insurance consumers to pay into a new, federal bailout fund."

Paying into two guaranty funds imposes a burden on insurers that doesn't exist for other financial companies.

Whatever one thinks of Dodd-Frank as a whole, that ship has sailed and, barring the unlikely event of one party controlling 60 seats in the Senate, the ship won't be returning to port anytime soon. Extracting insurance companies from FDIC authority just two years after that authority was granted is a major legislative shift that Dodd-Frank's supporters are highly unlikely to support.

By contrast, a narrowly-drafted bill aimed solely at fixing a limited and perhaps unforeseen consequence of Dodd-Frank might have passed. For example, the sponsors could have restricted the carve-out to property/casualty insurers or limited the assessments on insurers by the Financial Stability Oversight Council. A narrower amendment could have been presented as fine-tuning Dodd-Frank, rather than a direct attack. But by taking a broad partisan approach, H.R. 6423 seems destined for the legislative trash heap — taking a good idea along with it. IJ

Lorin is a partner in the Life Insurance and Annuities Practice Group at Drinker Biddle & Reath LLP.

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