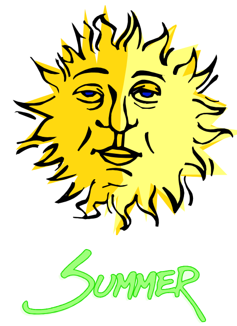
NewsLetter *From* **The Surplus Line Association of Oregon**

June 2009

Editor, Larry Boyd

Graphics and Layout, Carolee Lance



Forgive your enemies, but never forget their names
John F. Kennedy

SLAOR News:

- **Financial** –Time to fasten our seat belts! Premiums fell an additional 38.7% for April, bringing the total for the calendar year to date to -36.0 %. A catastrophic storm might stem the tide of falling premiums but absent that we feel premium reductions of 20% could be the norm for 2009. The fiscal year (eight months) total of -11.2% is better but we feel the four months of the calendar year is a more likely indicator of what will happen for the rest of the year. Item count, too, is showing some volatility with a 13.9 % drop for the month, -16.3 % for the calendar year and -3.6 % for the fiscal year. We are guessing 10% overall decrease in new and renewal items for the year. Industry sources continue to report rates level or slightly up – what is not adequately tracked is policies dropped and limits reduced on renewals or reduction in exposures (reduced sales, payrolls and values of assets insured).

  Even with the reductions, financials for the SLAOR should be ok for the year. In the operating account we are 16.4 % ahead of budgeted revenues from operations and $7.6 K below expenses year to date. We have instituted a new filing fee effective on new and renewal filings effective June 1 and beyond, focusing on a balanced budget for 2010. The new fee is $15 per new or renewal item while endorsements will continue to be processed for no charge. We will be changing to a calendar year accounting system beginning January 1, 2010.

- Big changes are in the works for the SLA filer system to make our filers' jobs easier! It is planned that effective July 1, item basis filers will no longer submit payment with their filings. SLAOR will track filing charges and taxes. We will do away with the distinction between "item" and "bulk" filers. All filers will make filings on individual items as often as necessary to meet the 90-day filing deadline required by Oregon statutes. At the end of each calendar quarter, we will bill filers for any items filed during that quarter. The minimum annual surplus line service charge currently applying to "bulk" filers will be eliminated. As batching will be eliminated, the signed batch declaration statement currently required to accompany all filings will no longer be required; instead, each filer will sign and submit a revised quarterly statement with their quarterly payment.

  In a related project, we are close to having a "paperless" option where filers will be able to submit e-copies of the required filing documents and do away with the exorbitant mail costs for filers and SLAOR. The system is undergoing "beta" testing with a few volunteer filers and if everything goes right, this feature could become available as early as July 1.

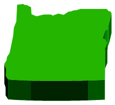
- We have settled into our new quarters at Hilltop Business Center, 7360 SW Hunziker Road, Suite 105, Portland, Oregon 97223. We are west, across I 5 from our old office in the Centerpointe complex and just south of I-205. We are only about a mile from our old Centerpointe office and walking distance to Lowes. Drop in and see our new digs.

My wife is so talented.

She does the best bird imitations.

She watches me like a hawk.

Oregon News:



- Your SLAOR legislative committee, together with our lobbyist, Markee and Associates, has been keeping a close watch on the activity of the Oregon legislature currently in session. So far so good. Nothing we identified as unfavorable to the surplus line business in Oregon appears to be in danger of passing and it is essentially too late to introduce new bills (although new measures can get in as amendments to bills - there can even be a "gut & stuff" where all provisions of an existing measure are deleted and replaced by totally unrelated terms.) Late breaking news has the Senate passing an extension in the product liability statute of limitations. Currently, eight years from the date the product was originally purchased is the limit for bringing suit. The time would be extended to the longer of ten years or the time permitted in the state where the product was manufactured (many states have no limit). Insurers, generally do not favor such a change and the SLAOR has taken a "do not pass" position on this legislation. Hopefully the bill will "die" in the House of Representatives.

Time is a great healer, but a terrible beautician

National News:

- Hartford recant's on sale position. Taking advantage of $3.4 billion TARP funds available (now that they own a bank!) Hartford determines they do not need to sell off its U.S. P/C and life business and announce business as usual for their insurance operations.

- Swiss-Re Vice President Jiten Voralia recently pointed out that interest rates are a significant driver of non-life insurance rates. He predicts that in the short term insurance rates in the p/c business should be expected to rise in response to low and falling rates of return on investments.

- Price Waterhouse Coopers has developed a study and identified the top nine issues and rends affecting the insurance industry in 2009. Go to http://www.pwc.com/images/us/eng/insu/Top_9_in_2009.pdf to get a free copy. The issues:

  1. It's Back to Basics
  2. Investment management effectiveness
  3. Maintaining adequate capital and surplus
  4. Cost reduction
  5. Changes in sales and distribution
  6. Privacy and information protection
  7. International Financial Reporting Standards
  8. Regulatory reform
  9. Economic and Tax Policy

- The stimulus package offers five significant areas that insurance industry professionals should be paying attention to:

  1. Energy Retrofits - $16 billion
  2. Alternative Energy Generation - $16 billion
  3. Electrical Grid - $11 billion for smart meters
  4. Private Investment will follow government dollars. The U.S. is full of unused mfg. facilities and the green jobs fever is just catching on.
  5. The Feds are late to the party. Many states have introduced their own plans to stimulate "green" spending.

cont.

A socialist is somebody who doesn't have anything, and is ready to divide it up equally among everybody.
George Bernard Shaw

He loves nature, in spite of what it did to him.
Forrest Tucker

National News *(cont.)*:

- As the "triage" continues, legislators and regulators are now finding time to address the less critical issues:

  April 24: PCI (property casualty Insurers Association of America) has proposed to Congress a detailed and focused framework for monitoring, limiting and addressing systemic risk. They propose a single federal overseer with the institutional expertise and independence to monitor systemic risk. The oversight must be flexible, to quickly respond to market innovations. It should be tiered, focused on greater transparency and disclosure to the regulator to allow broader risk monitoring. Apparently the plan would largely leave in place the system of state regulation, focusing on areas of regulation currently not contemplated at the state level to monitor the entities that are "too interconnected to fail".

  April 24: Sheila Bair, FDIC Chairman, says a council of regulators, not a single entity, should be charged with systemic regulation of firms too interconnected to fail. [Note: it seems legislators and regulators are now favoring "too interconnected to fail" over "too big to fail"]. If the organization's failure would impact only the customers and employees of the organization it should be allowed to fail, no matter how big – there is no "too big to fail". If however the organizations failure would have a "ripple effect" – spreading to numerous other organization's impairment or failure and causing losses far greater than the entity itself – it should be included in a group of companies "too interconnected to fail" which would be subject to oversight of a special council of systemic regulation.

  April 28: Barney Frank, chairman of the House Financial Services Committee, announces that a panel will examine whether an optional federal charter for insurance companies is needed. Frank made it clear that even if optional federal chartering is not necessary, his separately proposed "Systemic Risk Regulator" would have a mandate extending to large insurance companies.

  April 29: State securities, insurance and banking regulators express concern that they aren't included in any of the U.S. Government's proposals floated so far to create a new systemic risk regulator. "We [the North American Securities Administrators Association] believe any such proposal [Federal systemic regulation] should preserve the state insurance regulatory system and its proven track record of solvency and consumer protections," said Monica Lindeen, Montana's state auditor and securities commissioner.

  May 12: GAO has released its report on the uniformity and reciprocity of state insurance regulation. Not surprisingly, they find that while strides have been made to streamline insurance regulation, there is stiff resistance to full uniformity and reciprocity across state lines. Too many states do not participate in the pro-uniformity initiatives developed by the NAIC and implementation remains inconsistent, they found.

  May 15: The House shows little consensus on whether the federal government should play some role in regulating the insurance industry:

  PRO National regulation: "We can no longer continue to ask the question about whether the federal government should oversee insurance. The answer here is clearly yes". [Rep Paul Kanjorski]

  ANTI National Regulation: "replacing the current state-based regulatory system is seriously misplaced and misguided. The insurance industry and its lobbyists are looking to dull down consumer protections." [Rep Jackie Speier]

- The Obama administration and senior congressional Democrats are moving to tighten financial regulation to prevent another banking crisis like the one now shaking economies worldwide.[1]

  Changes will affect banks, insurers, credit rating agencies, hedge funds, private equity firms, brokerages, exchanges and other institutions, while greatly extending the government's reach into the financial sector – one wonders if they haven't too much on their plate, after all there is a stimulus package to monitor and a few international issues to cope with too! Here is a look at a few of the major financial issues currently in the legislative "hopper":

cont.

What do you call an unemployed jester?
Nobody's fool.

[1] FACTBOX: Major U.S. Financial Regulation Reform Initiatives

He is not only dull himself, he is the cause of dullness in others.
Samuel Johnson

National News *(cont.)*:

CREDIT CARDS

A U.S. Senate committee and a House subcommittee have approved bills to crack down on the credit card industry by limiting fees and barring retroactive interest rate increases on existing balances, among other steps.

The Federal Reserve finalized new credit card rules last year, but some lawmakers were unhappy with the Fed's long, eighteen-month implementation period. The Senate bill calls for a nine-month implementation; the House bill for one year from approval, or by July 2010, whichever comes first (a bill has now been passed). The Senate bill barely passed committee, clouding its chances for full Senate approval. The House bill stands a better chance with Democrats in firm control in that chamber. The House Financial Services Committee is scheduled to consider and probably vote on the bill on April 22. Senior administration officials plan to meet on April 23 with fourteen top executives from banks with big credit card units. Political risk exposure: American Express Co, Bank of America, Capital One Financial Corp, Citigroup, Discover Financial Services.

UNWINDING FAILING FIRMS

The administration has sent Congress draft legislation to empower the government to seize and unwind large, failing financial firms that are not banks. No clear procedure for doing this now exists, as shown by the erratic, case-by-case bailouts of troubled firms such as insurer American International Group Inc. A seizure would require approval of the Treasury Department, the Federal Reserve and the Federal Deposit Insurance Corp, in consultation with the White House. The Treasury and FDIC would decide whether to offer financial aid to the seized firm or to put it into conservatorship. The U.S. House Financial Services Committee plans to hold hearings on the legislation in late April and early May.

SYSTEMIC RISK REGULATOR

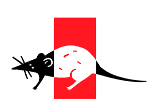
Treasury wants a single, independent regulator to oversee systemically important firms and critical payment and settlement systems, but has not said which agency should get this job. No agency formally does it now. Some in Congress favor giving it to the Federal Reserve, but some are skeptical that the Fed is up to the task. Alternative legislation has been introduced in Congress to establish an inter-agency council on financial stability. Congress' Joint Economic Committee will hold a hearing on too-big-to-fail banks on April 21.

EXECUTIVE PAY

The House has approved a bill to curb "excessive" employee pay at firms getting government bailout funds. It would let the Treasury block compensation and bonuses not based on performance standards. It would apply to all employees, not just executives, at bailed-out firms. The bill now moves to the Senate, where Republicans have more power and could water it down. Some analysts expect passage of a modified version that exempts some forms of compensation and applies only to future bonuses.

cont.

It was recently discovered
that research causes cancer in rats



A Freudian slip is when you say one thing but mean your mother

National News *(cont.)*:

HEDGE FUNDS, PRIVATE EQUITY

Treasury has recommended that all advisers to hedge funds, private equity funds and venture capital funds, whose assets under management top a not-yet-determined level, must register with the Securities and Exchange Commission. The recommendation imposes investor and counterparty disclosure requirements on funds' SEC-registered investment advisers. The SEC would share the reports it gets from funds with the systemic risk regulator, which would decide whether any hedge fund poses a systemic threat and should be subjected to higher standards for systemically important firms. Political risk exposure: Bridgewater Associates, D.E. Shaw Group, Farallon Capital Management, Citadel Investment Group, Fortress Investment Group.

SHORT SELLING

The SEC has floated five proposals to curb short selling, drawing fire from short sellers who feel they are being made scapegoats for the financial crisis. The agency is taking public comment for sixty days on the proposals, which include reinstituting the "uptick rule," which allows such bets that a stock will fall only when the last sale price was higher than the previous price. An SEC round-table will be held on the issue on May 5. Final action is months away.

- Montana surprised us with the announcement that the State will be taking the collection of premiums "in-house" and future filings will be made directly to the State. As happened with Colorado, the Association will cease its participation in the WSSLC. This is a surprise as the State used the Association as a revenue producer for the State – having the Association collect a more than adequate filing fee and then paying the excess earned to the State.

- The Madoff victims got some good news. $116 million in compensation is now being offered to in excess of 230 individual investors who have made claims through the SIPC insurance for securities holders (similar to the FDIC for banks). The maximum due any one individual security holder is $500 thousand. Although a very small portion of the more than 8,800 claimants and $65 billion in losses, its comforting there is something out there that may be returned to investors. Remaining, of course, are issues relating to amounts of loss as the alleged returns on individual investments were in reality non-existent and any payments distributed came from an investors own contributions or funds taken from other investors contributions. Must all disbursements made over time by Madoff to investors be returned (minus any cash invested by the individual investor)? If not, is there a cut-off date? Some corporate investors are alleged to have voluntarily returned sums received from Madoff in the ninety days prior to disclosure of the fraud. If you have purchased a stolen car in good faith and later discover it was stolen, you have to return the car to the owner and your only claim is against the crook you bought the car from – good luck!! Doesn't the same rule apply to stolen money given to you as "investment return?"

It's those few bad lawyers who ruin it for the other 2% of us.
Dale Roberts

Idealism is fine, but as it approaches reality, the costs become prohibitive.
William F. Buckley, Jr.

I don't want to achieve immortality through my works. I want to achieve immortality by not dying.
Woody Allen

The Marketplace:

- Chubb reports reduced earnings in first quarter. Written premiums down 7%, net income halved from $1.77 to $0.95. Combined ratio 88.1 %.

- Willis reports profit growth on first quarter: Revenues up 17%, heavily influenced by acquisitions. Profits up 14.9% to $201 million.

- Allianz reported a 97.5% drop in first-quarter net income – but still a profit!

- Marsh posts first quarter profit compared to a loss last year. Net profit was $ 176 million ($0.33 per share) compared to a loss of $210 million last year ($ -0.40 per share).

- A survey of forty-five professional forecasters recently found 75% expected the economic downturn to end by the third quarter of this year. None of the forecasters believed the recession, now in its seventeenth month, would extend beyond the first quarter of 2010. Continued job losses and plunging house prices will slow the pace of recovery.

- Industry spokesperson, Dr. Robert Hartwig, president of the Insurance Information Institute (I.I.I.), noted that while the P/C insurance industry will be smaller in scale in the post-financial catastrophe world, it will emerge with its risk management model more intact than most other financial service segments. It will shrink by about 3% in dollar terms and by 8 % on an inflation- adjusted basis from 2007 to 2008 but will remain profitable overall. Key threats to the system will be:

  1. Investment return. Insurers must learn to live with investment earnings accounting for a smaller fraction of profits.

  2. Capital. Though still adequate, the cost and availability of capital will be difficult issues for the industry to cope with as changes occur.

  3. Catastrophes. The worst is yet to come. The $100 billion CAT year is not improbable over the next five to eight years.

  4. Underwriting. The salvation of the industry will be in its return to disciplined underwriting of a magnitude not witnessed in the industry over the last thirty years. "Winners" will be those insurers that make the necessary changes promptly, losers will be those insurers that continue to follow the "cash flow" theory and expect improved investment performance to cover any underwriting "errors".

- A second catastrophe bond backed by Lehman Bros. has defaulted. Ajax Re Ltd. failed to make the full payment on the outstanding principal amount of notes due May 8. The notes provided $100 million in reinsurance coverage for Aspen Insurance.

- Market Scout reports rates fell an average of 7% in April.

I'm a marvelous housekeeper.
Every time I leave a man I keep his house.

Zsa Zsa Gabor

Catastrophes:

- Insurers Can Expect Severe Storm Seasons Every Four or Five Years Chad Hemenway

Analysis by catastrophe risk management firm Risk Management Solutions concludes that although insurance companies may have been taken by surprise by an above-normal tornado, hail and storm season in 2008, insurers can expect the same level of loss every four or five years.

"This means there's potential for far more extreme loss seasons, and insurers should quantify and manage their exposures to this peril as they would hurricanes and earthquakes to help avoid future unpleasant surprises," said Matthew Nielsen, product manager at RMS, in a special report.

According to analysis by the group, last year's storm season in the Midwest and Great Plains caused more than $10.5 billion in insured loss -- an amount comparable to projections of losses caused by Hurricane Ike. The season included nearly 1,700 tornadoes and was the costliest in a decade.

"The 2008 severe convective storm season caught the insurance industry by surprise predominantly because a year like 2008 has not occurred for a number of years, and thus did not feature in many companies' claims histories, especially as exposure has grown so rapidly," the reports says. "Many aggregate insurance covers were exhausted in 2008 and earnings receded throughout the year."

Different perspectives

- *A little boy went to his father and asked: "Dad, where did my intelligence come from?" The father replied: "Well, son, you must have got it from your mother, cause I still have mine..."*
- *"Mr. Clark, I have reviewed this case very carefully," the divorce court judge said, "and I've decided to give your wife $775 a week." "That's very fair, your honor," the husband said. "And every now and then I'll try to send her a few bucks myself."*
- *A doctor examining a woman who had been rushed to the Emergency Room, took the husband aside, and said, "I don't like the looks of your wife at all." "Me neither doc," said the husband. "But she's a great cook and really good with the kids".*
- *An old man goes to the Wizard to ask him if he can remove a curse he has been living with for the last 40 years. The Wizard says, "Maybe, but you will have to tell me the exact words that were used to put the curse on you." The old man says without hesitation, "I now pronounce you man and wife."*
- *A blonde calls Delta Airlines and asks, "Can you tell me how long it'll take to fly from San Francisco to New York City?" The agent replies, "Just a minute." "Thank you," the blonde says, and hangs up.*
- *A man is recovering from surgery when the surgical nurse appears and asks him how he feeling. "I'm O.K but I didn't like the four letter word the doctor used in surgery," he answered. "What did he say," asked the nurse..... "Oops!"*
- *The graveside service just barely finished, when there was a massive clap of thunder, followed by a tremendous bolt of lightning, accompanied by even more thunder rumbling in the distance. The little old man looked at the pastor and calmly said, "Well she's there."*
- *Suicidal twin kills sister by mistake.*
- *In just two days time, tomorrow will be yesterday.*
- *A bartender is just a pharmacist with a limited inventory.*
- *I may be schizophrenic, but at least I have each other.*

Watch for May 2009 Submission Statistics in the July 2009 Newsletter!

Please share this NewsLetter with your staff – Thanks

The opinions expressed in this newsletter are those of the Editor
and do not reflect an official position of The Surplus Line Association of Oregon unless so noted

The ***Surplus Line Association of Oregon NewsLetter*** is published monthly by
SLAOR, 7360 SW Hunziker Street, Portland, OR 97223 - Phone: 503.718.6700, Fax: 503.718.6702
Previous issues of this newsletter are available on the SLAOR web site at: http://www.slaor.org. Inquiries can be directed to: slaor@slaor.org