



November 2009

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Happiness comes through doors you didn't know you left open

HAPPY THANKSGIVING

SLAOR News:



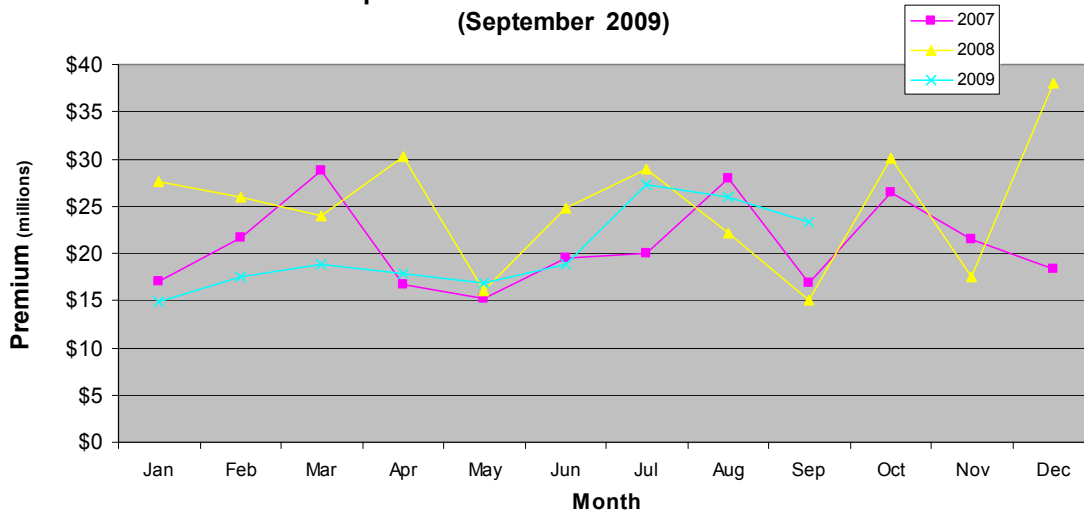
Financial

September operations and investment performance both showed positive for the month. Operations showed a gain of \$7.6 k compared to a budgeted loss of \$7.8 k. Success was attributable to the number of new and renewal filings which exceeded last year's by 326 (\$ 4,890). We had budgeted for a decrease. Separately, investment gain added another \$81 k to the total revenues.

Volume of business for September was far ahead of 2008: premiums up 55% and item count up 12%. Our best guess is that the big increase is due to earlier reporting this year of some items that previously were not reported until October or later. In the graph below you can see that in '07 and '08, September was almost the slowest month in each year followed by big Octobers. We are suspecting that the result of our big September will be below budget performance in October.

In summary: September premiums are \$23.3 million, up 55% over last September, items are up 12%. Calendar year (nine months) premiums are down minus 15.4% and item count is essentially "flat" at minus 1.9%.

Surplus Lines Premiums 2005 to Date
(September 2009)



cont.



If your car could travel at the speed of light, would your headlights work?

If a turtle doesn't have a shell, is he homeless or naked?

If a parsley farmer is sued, can they garnish his wages?

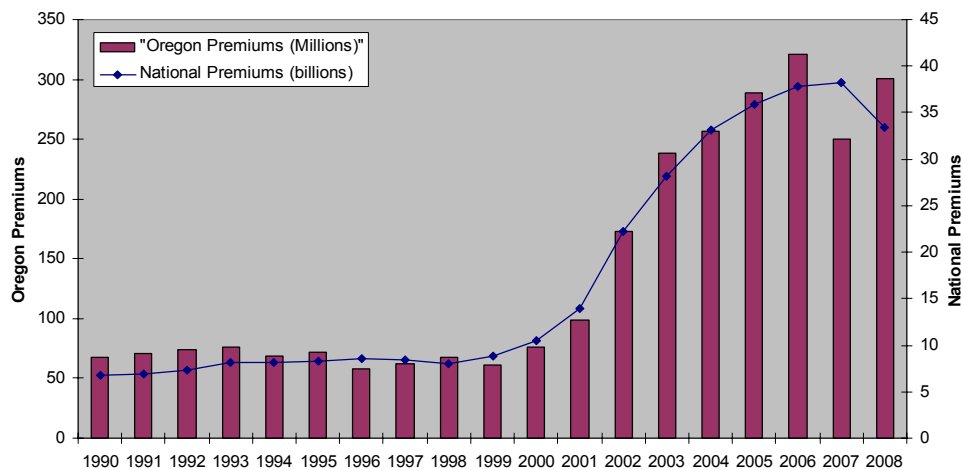
SLAOR News (cont.):



Final figures for 2008 were reported in the October 5th issue of Business Insurance and summarized below (red numbers are stamping office states). The table reflects Oregon's position, having jumped three places from 30th to 27th place and likely to move upward again in 2009 based on reported trends in the stamping office states in 2009. Only ten states showed premium increases in 2008 and Oregon was the leader.

	STATE	2008	2007	2008 Change from 2007	2008 Market Share
1	California	\$5,671,679,594	\$6,813,968,858	-16.8%	17.0%
2	Florida	\$4,350,075,914	\$4,799,006,734	-9.4%	13.0%
3	Texas	\$3,912,420,734	\$4,848,000,425	-19.3%	11.7%
4	New York	\$3,282,162,085	\$3,691,581,963	-11.1%	9.8%
5	Louisiana	\$1,303,277,762	\$1,363,817,132	-4.4%	3.9%
6	New Jersey	\$1,062,208,793	\$1,170,386,670	-9.2%	3.2%
7	Illinois	\$1,062,017,764	\$1,089,883,883	-2.6%	3.2%
8	Pennsylvania	\$919,848,150	\$1,000,878,746	-8.1%	2.8%
9	Georgia	\$773,019,300	\$860,021,750	-10.1%	2.3%
10	Massachusetts	\$693,187,811	\$699,058,618	-0.8%	2.1%
	Total Top 10	\$23,029,897,907	\$26,336,604,779	-12.56%	68.9%
27	Oregon	\$300,709,492	\$250,210,825	20.18%	0.9%
	All Others	\$10,083,631,086	\$11,600,370,108	-13.07%	30.2%
	Grand Total	\$33,414,238,485	\$38,187,185,712	-12.50%	100.0%

Oregon vs National Surplus Line Premiums



Ambition is merely anger without enthusiasm

Oregon News:



- An Oregon insurance producer was fined \$11,000 for improper disposal of sensitive client information. Old records were simply dumped in an unlocked garbage dumpster behind the office building of the producer in violation of the Oregon Consumer Identity Theft Protection Act and the Insurance Code. Some disposal firms offer secure one-time “on-site” shredding of sensitive documents. Either use such a service or have a shredder as part of your office equipment.
- Portland Law firm Davis Wright Tremaine has agreed to pay \$30 million to settle their exposure in securities fraud and malpractice claims arising from the Sunwest Management investment scandal. The firm did not admit to any wrongful acts saying ...”Although our position was strong, it made more sense to resolve this now, given the inherent cost, disruption and uncertainty of complex litigation. We stand by the legal representation and advice we provided our client and are happy now to move on.” Investors are claiming damages of more than \$400 million from multiple defendants.
- The Insurance Division is asking dentists, oral surgeons and insurance producers for any information they may have on insurance offered to Oregon dental and oral medical practitioners by Brenda L. MacLaren-Beattie and her Seattle-area company, the MacLaren Group. The group allegedly collected premiums to place malpractice insurance with Mutual of Enumclaw or Berkshire Hathaway but never made any placements.
- Oregon lawsuits now face increased fees. As an example, under the old fee schedule, for plaintiffs in a condo construction lawsuit involving more than thirty plaintiffs filed last month, the fee was \$189. The same suit filed now would have fees of over \$13,000. The new law will generate \$40 million through June 30, 2011, when they are scheduled to sunset.

Humor is Universal (from the routine of French comedian and satirist Coluche)

Left-wing politicians like poor people so much they create them

Just because there are so many of them being wrong doesn't mean they're right

Long term credit means that the less you can pay, the more you pay

I'm following two diets simultaneously because with only one I wasn't getting enough to eat

Capitalism is man exploiting man. Socialism is just the opposite.

If there were a tax on stupidity, the government would be self-financing

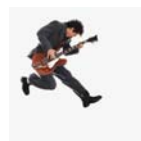
I am capable of the very best and the very worst, but I'm the best at being the worst!

National News



- Willis re-affirms they will not accept insurer commissions based on profitability – the “contingent commission” issue. Marsh, Aon and Willis currently are prohibited by court agreement from receiving such commissions. Arthur J. Gallagher previously was also prohibited from collecting such remuneration but recently received permission from the Illinois Insurance Department to resume collection of such payments. Proponents of such payments claim that as long as such payments are fully disclosed to insureds there is no conflict of interest.
- The SIPC (Securities Investor Protection Corp.) has approved customer claims in the Madoff Ponzi scheme of \$534 million of \$4.44 billion submitted. The SIPC covers up to \$500,000 of theft or unauthorized trading per individual investor.
- The Obama administration has introduced several bills to address the systemic regulation of the financial system giving vast new powers to the Federal Reserve and the FDIC. The House is considering the bills and has, for the time being, put off a proposed bill to set up a new National Insurance Office to monitor insurers. Of issues to be resolved is the concept of a federal Consumer Financial Protection Agency (CFPA) and whether insurance issues should be included in the Agency's responsibilities if created.

cont.



*Most of us go to our grave
with our music still inside of us*

National News (cont.):



- The House is moving forward with legislation to regulate the rating agencies and increase their accountability. Affected would be Moody's Corp, Standard & Poor's and Fitch Ratings.
- The Wall Street Journal reports that U. S. banks and securities firms are on track to award record pay in 2009. They estimate compensation and benefits at \$140 billion which will exceed the record \$130 billion paid in 2007.
- Swiss RE chief underwriting officer, Brian Gray, says low interest rates are a potential problem for underwriters. As the low rates promise little investment return over the mid-term for insurers, it is necessary for rates to be adjusted to make up for the lost investment returns. The market place is not receptive to this and actual claims lower than forecast over the last few years have filled in for the lost investment income. That claim windfall can't be expected to continue and underwriters are going to be under pressure to increase rates to maintain profitability.
- RIMS is now taking the position that buyers should require full disclosure of the nature of all compensation earned by their broker in placing their coverage, as well as any service relationship or financial interest the broker may have with the recommended insurers, whether or not such disclosure is required by insurance departments.
- Wonder where your pension went? You are not alone. A study by Employee Benefit Research Institute and the Investment Co Institute shows that for 401(k) plans active since 2003 or before, the balances fell an average of 24.3% from year end 2007 to year end 2008.
- In the unintended consequences category: employers with defined benefit pension plans will have funding requirements in 2010 of 178% more than 2009 contributions and 356% over 2009 contributions in 2011. The increases are the result of losses in current pension fund asset values and operation of Federal funding requirements. The Great Recession may mark the end of all the remaining defined benefit pension plans.
- The U. S. Southern District Court has ruled against developer Larry Silverstein and quashed his suit against the airlines and security services for \$2.8 billion in damages incurred in the World Trade Center losses.
- Analysis from the nonpartisan Congressional Budget Office estimates that government health care programs could save \$41 billion over ten years if nationwide limits on jury awards for pain and suffering and other similar curbs were enacted.
- Former Federal Reserve Chairman, Paul Vlocker, has recommended that there should be created a national charter for the largest insurance companies to avoid an AIG-like situation in the future.
- AIG WATCH
 - 9/24: Greenberg is seeking summary judgment dismissal of the lawsuit originally brought by Eliot Spitzer in 2005. He alleges that virtually all of the allegations in the complaint have been dismissed leaving only three matters which he says are unfounded and "miniscule relative to AIG's size."
 - 9/28: AIG moves to reinstate RICO claim against its competitors who they claim "formed a conspiracy to conceal" their underreporting [of workers compensation premiums to several states] and harm AIG. The competitors claim AIG's underreporting harmed them in addition to RICO violations.

cont.

Washington Post Alternate Definition Contest:



Coffee (n.) the person upon whom one coughs.
Flabbergasted (adj.), appalled over how much weight you have gained.
Abdicate (v.), to give up all hope of ever having a flat stomach.
Esplanade (v.), to attempt an explanation while drunk.
Lymph (v.) to walk with a lisp.

National News (cont.):



10/6: AIG explains that its “aid” from the federal government is like a line of credit. They have up to \$182.3 billion available but at the current time they have only drawn down \$83.6 billion of their limit.

10/8: Greenberg speaks at St. John’s University and warns against imposing additional insurance regulation, maintaining that “There is already plenty of regulation right now. It just needs to be implemented properly.”

10/15: AIG subsidiary, International Lease Finance Corp., announces it will pay \$2 billion due creditors with a loan from AIG.

10/22: AIG CEO, Robert Benmosche, assures AIG employees that pay “czar” Kenneth Feinberg will limit his compensation directives to the top twenty-five AIG employees and he will not seek retroactive salary adjustments.

10/22: Kenneth Feinberg notifies AIG that the twelve highest-paid AIG executives (not including CEO Robert Benmosche) will have basic cash salaries not larger than \$500,000 (a 91% decrease from 2008) and additional amounts paid in the form of stock units reflecting the value of a “basket” of four AIG insurance subsidiaries.

A clear conscience is usually the sign of a bad memory

The Marketplace:



- What’s Up? (very unsettled market – no consensus seen)

Willis reports fees & commissions up 28% (2% organic)

PartnerRe reports operating income of \$282 million through 3rd quarter and \$479.4 gain on investments

Arch Capital: 3rd quarter \$274.4 million income, nine months, \$566.4 million

Travelers, Chubb, CNA, Lloyds all post substantial gains for the 3rd quarter and for the year to date

Contrary to the preceding reports, ISO and PCI reported net income for the industry off nearly 60% for the first six months

Scor Re reports reinsurance prices up 3% - 5%

RIMS reports profits for insurers are sharply lower and rates down 3% - 4.5%

Advisen projects tough year in 2010 as declining rates and deduced exposures combine to prolong the industry recovery. Lack of catastrophe losses has preserved profitability this year but can’t be counted on to help 2010 too.

Best’s analysis of 2008 year for surplus line insurers shows: direct premium decline largest % since 1988; combined ratio rose due to catastrophe loss; favorable reserve development on pre-2008 losses reduced combined ratio by 10.7 points; total investment losses incurred were \$161.3 million compared to prior year gain of \$2.38 billion; policyholder surplus declined for the first time since 2001.

Please share this NewsLetter with your staff – Thanks

Note: The opinions expressed in this newsletter are those of the Editor and do not reflect an official position of The Surplus Line Association of



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