



# NewsLetter

From The Surplus Line Association of Oregon

## December 2009

*Editor, Larry Boyd*

*Graphics and Layout, Carolee Lance*



*"The art of medicine consists  
in amusing the patient while nature cures the disease."  
Voltaire*

### Season's Greetings

## SLAOR News:



### Financial

More good news - October operations showed revenues in excess of expenses making it two consecutive months of not only beating budget but actually in the black! (We budgeted small losses for October and November but finished with revenue excess of expenses in both months). Number of items declined 4.6% over the prior October but ahead our budgeted \$ range. For the calendar year-to-date we are down in item count by only 2.2%. For the two months of our four-month accounting change term we are up 2.6% in item count.

The problem lies where our members make their living: premiums. For the month of October, premiums were off 34.6%. For the calendar year, we are off 17.8%. For the two-month short term (Sept. and Oct.) we were off only 4.5%. The slump was anticipated as there was an unexpected jump last month leading us to anticipate October would be down reflecting some filings made earlier in prior years. No matter what anyone says, it's a soft market out there.

*I almost had a psychic girlfriend  
... but she left me before we met*

## Oregon News:



**General News:** All we have to do is answer the phone – there's always a problem out there.  
We currently are addressing:

- Where is non-admitted Ocean Marine cover being reported? (Someone asked the Division and they sent it to us to research).
- If an additional premium is returned to the insurer for collection (an audit additional premium, for instance), is the surplus line licensee liable for the premium tax? We are taking the position that while the licensee is the collector for the state, he is not a guarantor of payments owed the state unless he is also liable for the premium. (What do you think should be the rule?)
- Last chance to get your SLI-PAC contribution for 2009 in! Up to \$100 (couples filing jointly) of your contribution can be taken as a direct deduction from your Oregon taxes – calculate your Oregon taxes due, deduct your contribution and send the tax man the remainder, it's that simple. The contribution form is attached. We have outstanding success with the Division and the legislature in part because we have sympathetic legislators. Help us keep them in Salem where they can continue to work to understand and support responsible insurance regulation.

*I always wanted to be something ... I wish I'd been more specific*

## National News



- Recent office place romance scandals have emphasized new concerns. It's no longer possible for management to ignore "consenting adult" relationships where no direct supervisory relationship is involved. Other employees may claim a "hostile environment" has hampered their employment rights. Employers need to establish rules with alternate reporting systems (operative if someone in the reporting chain is part of the issue) and act where appropriate.
  - The Allen Stanford Ponzi scheme is now spawning the same "clawback" considerations as are ongoing in the Madoff claim. Receiver, Allen Janvey, is seeking court permission to sue Stanford clients who redeemed their CD's in the weeks shortly before the accounts were seized and customer accounts frozen. As with other "clawbacks", the contention is that funds were stolen from other Stanford clients.
- The Madoff claim, many times larger than the Stanford claim, is pursuing a number of Madoff investors, most notably the estate of Jeffrey M. Picower valued at in excess of \$1 billion.
- Marsh has agreed to a \$435 million settlement of securities and ERISA class actions filed in 2004. \$400 million is for class actions brought by public pension plans and \$35 million for claims brought by participants and beneficiaries of an MMC retirement plan.
  - Five of the largest associations representing insurance interests have complained to Chairman Frank of the House Committee on Financial Services that the recently passed Financial Stability Act should exclude insurance companies from the regulation as the current state-specific regulation has demonstrated its ability to address insurer solvency adequately.
  - Surprisingly, state regulators have expressed support for a Federal Insurance Office (FIO, HR 2609) as long as the bill is amended to provide clear retention of state authority over the business of insurance. They are willing to have the bill include specific situations where federal regulators will have statutory authority to be included in the decision-making process in limited areas. PIA has separately indicated their dissatisfaction with the bill and calls for further amendments. It appears that their opposition is largely based on the belief that the FIO will subsequently be given more direct control over the industry – the bill represents the "camel's nose in the tent."
  - Now we hear from stockholders!! Goldman Sachs Group Inc. is under fire from shareholders to reduce its bonus pool for employees, which could be the biggest in the firm's history, returning more to investors. Stockholder apathy has been the single largest contributor to the proliferation of unnecessarily generous bonus plans. This is one of the first signals that investors may become more pro-active in pay issues.
  - In a decision that may impact a large number of financial advisors/brokers, an investor received an award of \$200,000 from her advisor/broker, UBS AG. An arbitration panel found the broker liable for inappropriately selling the client Lehman Brothers Holdings Inc. principal-protected notes.
  - There is much publicity about the Chinese drywall claims where it is alleged that as many as 100,000 houses may have been constructed or repaired (following Katrina) with gypsum wallboard from China that gives off fumes that are offensive and possibly present a health risk. Subsequent investigations allegedly have found that the fumes can cause corrosion to metal (wiring and plumbing) in affected houses. More recently, wallboard made by some U.S. manufacturers has been implicated. The problem comes along just as the EFIS's claims are winding down and attorneys for those claims are finding fertile grounds for lawsuits in the new problem. The usual defenses for insurers include: damage to insured's product, pollution exclusions, lack of physical damage, "judgment proof" manufacturers, product recall, definition of occurrence, etc. Early estimates put claim costs at between \$15 and \$25 billion.



*Why is there an expiration date on sour cream?*

*Is there another word for synonym?*

*If you try to fail and succeed, which have you done?*

*If police arrest a mime, do they tell him he has the right to remain silent?*

*If one synchronized swimmer drowns, do the rest drown too?*

*If you eat both pasta and antipasto would you still be hungry?*

## The Marketplace:

*There comes a time when you should stop expecting  
other people to make a big deal about your birthday.  
That time is age 11.*



- What's Up? (still soft)

10/28: CIAB study shows P&C rates down 6% during third quarter following a 5% drop during second quarter. They predict continued rate softness.

11/4: Hartford reports third quarter loss of \$220 million in third quarter 2009, a substantial change from the \$2.6 billion in 2008 third quarter. Combined ratio for ongoing operations in the third quarter was 93.8 and P&C operations showed a net income of \$190 million for the third quarter.

11/6: Market Scout reports 5% drop in premiums for October. No prospect seen for an early change.

11/8: Best's puts Berkshire P/C and life entities "Under Review with Negative Implications".

11/11: JLT reports: "no consistent evidence" of a hardening of rates across the board.

11/13: Fitch Ratings revised its outlook on the global reinsurance industry to stable from negative.

11/26: Swiss Re CEO reports: The market fundamentals point toward higher prices but the recovery of industry capital and absence of hurricanes may partially delay the market correction. (I'm betting on soft followed by softer reinsurance, Ed.)

12/1: BestWire Service: Despite the recession, the U.S. and Bermuda reinsurance markets are seeing a disciplined January renewal season as reinsurers benefit from both an improved investment market and a quiet hurricane season.

12/4: Aon forecasts stable property rates for the rest of 2009 and downward rate pressure in 2010.

12/7: Market Scout reports P&C rates down another 5% in November. GL posted the largest drop at -6%. They also report significant activity by mega-brokers in search of entry into the small to mid-sized commercial market place. Market Scout suggests that this is a cyclical activity of the mega-brokers and occurs every ten years or so. This time, however, they are buying their way into the market via acquisitions instead of growing the business internally.

*cont.*

### ***Allegedly From Employee Evaluations:***

*Some drink from the fountain of knowledge, he only gargled  
This employee should go far and the sooner he starts the better  
He would be out of his depth in a parking lot puddle  
He's been working with glue too much  
The wheel is turning, but the hamster is dead  
Has two brain cells: one is lost and the other is out looking for it  
Takes him two hours to watch 60 Minutes  
Got into the gene pool while the lifeguard wasn't watching  
A room temperature IQ  
When his IQ reaches 50, he should sell*



Nobody ever forgets where they buried the hatchet

## The Marketplace (cont.):

*Wherever you go, there you are.  
Your luggage is another story.*



### AIG WATCH

AIG taps government for another \$2.1 billion from its government line of credit to aid troubled aircraft leasing company: International Lease Finance Corp.

11/10: Moody's claims AIG operations will be able to repay its government loan and preferred equity stake. AIG has received \$180 billion in federal aid, including \$80 billion in loans and is 80% owned by the U.S. government.

11/11: CEO Robert Benmosche agrees to stay on at AIG in spite of dissatisfaction with the executive compensation controls being mandated by the government.

11/16: Inspector General for TARP criticizes Federal Reserve Bank of N.Y. for handling of AIG trading partners in the handled the negotiations poorly. (That's water over the dam – let's learn from our mistakes and move on! Finger pointing over past acts doesn't benefit any of us, Ed.)

11/18: Goldman Sacs points to themselves as free from any criticism and alleges they were never in need of bail-out money. Government report contradicts this and points out that without the government bail-out of AIG, Goldman would have had difficulty liquidating its trading positions with AIG. Goldman received \$12.9 billion from AIG at the time of the bail-out.

11/24: Kenneth Feinberg, the Obama administration's pay czar, is being pressed by federal officials to relax executive compensation restrictions at AIG.

11/24: Lex Baugh, CEO of AIG UK states that "Chartis" – the new holding which will emerge to carry on AIG's world wide insurance operations, will provide international lines of non-life cover.

11/25: Benmosche, CEO of AIG, announces he is committed to stay on with AIG.

11/30: AIG shares fall nearly 15% in response to a report of insufficient reserves for IBNR losses.

11/30: AIG and former CEO Maurice "Hank" Greenberg agree to amicable resolution to their various suits and countersuits stemming from Greenberg's forced resignation more than four years ago.

12/1: AIG announces pay-down of notes with the Federal Reserve Bank of New York by \$25 billion, reducing the debt with the bank to \$17 billion.

12/7: Five senior AIG executives threaten to leave AIG if their pay demands are not met.

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### **From French Comedian Coluche**

*A neutral country is one which does not sell weapons to a country ... unless they pay cash.*

*People say, "We live in a world full of morons!" They are right, but they still underestimate their number.*

*A sandwich in the USSR consists of one ticket for ham between two tickets for bread.*

*If we are to believe what is said, then the rich are the bad guys and the poor are the good guys.  
Then how come everyone wants to be a bad guy?*

*They say 3 million people are looking for a job. False: all they really want is money.*

*There are two kinds of justice: the lawyer who knows everything about the law  
and the lawyer who knows everything about the judge.*

*One half of the politicians can't do anything, the other half would do anything.*

## Catastrophe News:



9/7: Guy Carpenter reports reinsurance rates increasing by an average of 8% through 2009 insurance renewals. Increase largely attributed to the financial crisis and its negative impact on insurers' balance sheets.

9/14: El Nino suppresses tropical storm development in Caribbean and Atlantic. Change provides boon for reinsurers. Current year will likely be better than any year since 1997.

10/26: SEC may join the NAIC in requiring special disclosure of climate risk information. Disclosure would be required in the annual 10-K filings of U.S. companies.

11/19: A federal judge has awarded \$719,900 to four of five flood victims of Katrina who sued the government (U.S. Army Corps of Engineers). The judge found the Corps guilty of "gross negligence" in failing to maintain a navigation channel resulting in levee breaches that flooded large swaths of greater New Orleans. This opens the door for roughly 100,000 New Orleans-area residents and businesses who have filed flood-damage claims with the Corps of Engineers.

11/30: Barring a major disaster in December, natural and man made catastrophes are expected to cost insurers about \$24 billion this year compared with \$50 billion last year, a Swiss Reinsurance Co. report concludes. The likely substantial profits for 2009 will likely reflect in lower reinsurance rates in 2010.

### Cowboy Wisdom

Life is simpler if you plow around the stump  
Every path has a few puddles  
Timing has a lot to do with the outcome of a rain dance  
If you find yourself in a hole, the first thing to do is stop digging  
Sometimes you get and sometimes you get got  
Do not corner something that you know is meaner than you

The main reason Santa is so jolly  
is because he knows where all the bad girls are



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

**SLI-PAC  
(SURPLUS LINE INSURANCE  
POLITICAL ACTION COMMITTEE)**

**c/o Markee & Associates, Inc.  
5605 Inland Shores Way N, #202  
Keizer, Oregon 97303**

**Phone: 503.378.0412    Fax: 503.378.7155**

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Up to \$50 (if filing as an individual) or \$100 (if filing jointly) in contributions received prior to January 1, 2010 may be eligible as a tax credit on 2009 Oregon tax returns