



December 2011

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Graphics and Layout, Carolee Lance



Season's Greetings

*BOB HOPE - May 29, 1903 - July 27, 2003
ON RECEIVING THE CONGRESSIONAL GOLD MEDAL*

"I feel very humble, but I think I have the strength of character to fight it"

SLAOR News:



Wow! A single policy with a premium of \$7 million resulted in a 48% increase in October premium over the premium reported for October 2010. This brings our total premiums reported for the year to date to \$184.6 million, off 8.7% compared to the equivalent period in 2010.

What continues to amaze us is that the new/renewal item count (what our revenue is based on) for the month was plus 6.8% over 2010 and the YTD number of taxable items reported is almost identical to last year (less than a 1% variance). We budgeted an 11% reduction in SLSC income for the year, anticipating a continued soft market. We see YTD lower premiums but no change in the number of new/renewal policies transacted. Sure doesn't look like a hard market yet. It does suggest that the excess and surplus markets are aggressively competing for renewals and new business.

The bad news remains in the stock market over which we have little control. But even there we had a good month, reporting a gain of \$221,909, reducing our year to date portfolio losses to \$71,551.

Oregon News:



Self-insurers left high and dry [Oregonian (Portland, OR)]

Publication Date: November 6, 2011

Source: Oregonian (Portland, OR)

Summary: A workers' comp trust for construction contractors goes bankrupt, and former customers are liable for workers' claims

For a decade, hundreds of Oregon contractors successfully self-insured through the trust rather than using SAIF, the quasi-public agency that leads the workers' comp industry in the state. But the construction economy's collapse in 2008 devastated many of the builders and remodelers that constituted the bulk of the trust's membership. The meltdown forced hundreds of them out of business, which had a domino effect on the trust.

Last January, the trust filed bankruptcy, the first step toward liquidation. Now, the surviving trust members are learning a bitter lesson about self-insurance and the nature of workers' comp coverage. Though their trust has gone belly-up, the members remain on the hook for decades to finance claims awarded to injured workers or their survivors.

For struggling contractors it was another body blow in a bruising fight for survival.

Meanwhile, the trust's collapse raises questions about whether it was operated in a safe and sound manner. Al Kennedy, a Portland bankruptcy attorney representing the trust, said it was the severity of the recession, not internal failures, that led to its demise. As contractors went out of business and the survivors cut back their payrolls, the trust's annual revenue fell by nearly half, creating a hole it could not escape.

cont.

Oregon News (cont.):

Claims can last lifetime.



SAIF enjoys 42% market share in Oregon. Liberty Mutual and other private carriers own another 42%. The remaining 16% are self-insured, either by themselves or as parts of collectives of like-minded companies. The contractors trust, formed in 1996, was one of those collectives. It worked well for a decade. Membership swelled from 63 companies at the end of 1997 to 383 in 2007. Small contractors all over the state jumped at the trust's relatively low rates, which generally undercut SAIF's rates by 25% to 30%, according to Davie. The trust's annual revenue peaked in 2007 at more than \$13 million.

From the beginning, a clause in the customers' contract stated that they were "jointly and severally liable" for the trust's obligations. The language may not have meant much to the drywall hanger and framers that bought into the trust. But it would loom large in coming years.

Then came the recession, double-digit unemployment and an unprecedented shakeout of Oregon's housing market. Hundreds of contractors went out of business. Many of the survivors drastically pared payrolls. The trust's revenue fell from \$13 million in 2007 to \$11.5 million in 2008 to \$5 million in 2010. By November 2010, the trust's fate was no longer in doubt. In a letter, board chairman Rob Yorke, of Beaverton-based Yorke & Curtis Inc., notified customers that the operation would file for bankruptcy. That resulted in a triple whammy for trust customers. They didn't get the coverage they'd paid for. They had to scramble to find another workers' comp carrier, usually at higher prices. And, worst of all, they remain on the hook to pay the continuing claims of injured workers and the cost of the bankruptcy.

An actuary hired by the trust pegged its total unpaid loss at \$6.5 million. To cover that, the trust figured it needed to raise a fresh \$4.5 million from its customers. The trust sued more than 400 customers in October as part of its bankruptcy proceeding to collect the money. As former insured contractors become insolvent or otherwise unable to pay their debt, their debt may be re-distributed to the remaining solvent firms.

In an August 2011 memo, the state warned that failing to collect sufficient money now will only force the trust to turn once again to the long-suffering customers. "Members will not be happy now about having to pay anything for workers' compensation insurance they thought they already paid for," state officials wrote. "They will certainly not be paying more willingly the second or third time they are asked to pay again."

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Understanding Engineers

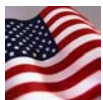


To the optimist, the glass is half-full.

To the pessimist, the glass is half-empty.

To the engineer, the glass is twice as big as it needs to be.

National News:



SEC examination finds failures at ten rating agencies

Posted on: September 30, 2011 - 1:35pm CST, Mark A. Hofmann

Regulators Publish Surplus Lines 'Alien' Insurer Eligibility List—The National Association of Insurance Commissioners (NAIC) posted its Quarterly Listing of Alien Insurers, available for reference and download.

The listing, also mentioned in the Nonadmitted Insurance title of the Dodd-Frank Wall Street Reform and Consumer Protection Act, identifies nonadmitted insurers domiciled outside of the United States. By way of reference in the federal legislation, these insurers are provided recognition on a national basis.

"Excess and surplus lines brokers and consumers will now be able to access this listing of eligible non-U.S. surplus lines insurers," said NAIC Vice President and Louisiana Insurance Commissioner James J. Donelon. "The listing provides brokers with a level of assurance regarding the acceptability of policies quoted or written with these alien insurers."

The full list is available at:

http://www.naic.org/documents/committees_c_surplus_lines_fawg_related_docs_quarterly_listing_alien_insurers.pdf.

cont.

National News (cont.):



Flash mobs pose threat to retailers: Marsh November 17, 2011 - 1:18pm, Business Insurance

NEW YORK—Marsh Inc. is warning retailers of potential risks posed by criminal “flash mobs” that might suddenly swarm stores to steal merchandise during the holiday shopping season. In a statement, the New York-based brokerage unit of Marsh & McLennan Cos. Inc. noted that while flash mobs—groups organized through social media to suddenly assemble in a public place—are generally thought of as harmless or entertaining, thieves that take advantage of flash mob techniques to organize and overwhelm stores present a risk this holiday shopping season.

Marsh noted that 10% of retailers surveyed by the National Retail Federation this summer reported being victimized by at least one criminal flash mob event over the previous twelve months, with the occurrences often resulting in injuries to customers or employees, theft and property damage.

Groups directed to specific locations—Marsh noted that, using social media, criminals can direct large groups of individuals to specific locations to disrupt business and traffic, with the chaos that sometimes results escalating to a level that can't be controlled by loss prevention, mall security or police.

In a report released Thursday, Marsh suggests several steps retailers could follow to prepare for or respond to a flash mob, including monitoring social media sites to identify potential threats and reviewing business interruption plans and insurance programs. Marsh also recommended training employees on how to respond to disorderly conduct, assault, theft and looting; developing appropriate internal and external communications plans prior to an event; and communicating regularly with local law enforcement congressman to ask for some help.

States cause confusion in implementing surplus lines reforms: Broker Exec November 16, 2011 - 12:16pm

WASHINGTON—Multiple state approaches in implementing the surplus lines reform provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act are causing “confusion and compliance headaches,” a brokerage executive told a congressional panel Wednesday.

Steven Monroe, chief compliance officer-U.S. and Canada for New York-based Marsh Inc., noted that the surplus lines provisions of the financial services reform law were designed to reform state regulation of the surplus lines market. “Unfortunately, despite Congress' best intentions in drafting the law, the state implementation process has been marked by confusion and frustration,” Mr. Monroe testified before the House Financial Services Committee's Subcommittee on Insurance, Housing and Community Opportunity on behalf of the Washington-based Council of Insurance Agents & Brokers.

Multiple approaches—“Instead of taking advantage of the opportunity the Dodd-Frank reforms presented to the states to devise a single, uniform approach to surplus lines regulation...the states have gone the opposite way—devising multiple approaches that are causing confusion and compliance headaches,” Mr. Monroe said. He pointed out that the reform provisions are based on the concept of “home state rule.” Among other things, the law limits the regulation of a surplus lines transaction to the home state of the policyholder and allows sophisticated buyers to approach the nonadmitted market without first having to attempt to obtain coverage in the admitted market. It also holds that only the home state of the policyholder can require payment of premium tax. The law allows, but does not require, the states to allocate premium taxes among themselves.

But Mr. Monroe said the states are following five different approaches to the tax issue, ranging from taking no action to keeping 100% of the tax collected to allocating taxes through competing—and as of yet nonoperational—multistate allocation systems. The result is that brokers are left to determine how to calculate, collect and pay applicable taxes in the states that have approved multistate agreements. In addition, some states want to impose and collect taxes on premiums stemming from non-U.S. risks, he said.

Federal pressure urged—Mr. Monroe said that while “we believe the situation will improve,” the states have again demonstrated “that they will not modernize insurance regulation without federal pressure and even then they will not go easily.” The hearing was called to discuss several draft changes to the Dodd-Frank Act, including changing the law to exclude insurance companies from the Federal Deposit Insurance Corp.'s orderly liquidation authority.

cont.

National News (cont.):



New York law allows insurers to issue policies without submitting rate filings November 21, 2011 - 2:06pm

NEW YORK—New York has issued regulations implementing a new law deregulating most insurance business with companies that employ risk managers or generate annual commercial risk premiums totaling more than \$25,000 in property/casualty insurance. The regulation allows insurers to issue commercial insurance policies to large companies with risk managers in New York without submitting rate filings to the New York Department of Financial Services or obtaining official prior approval for the sale of policies, said Benjamin M. Lawsky, superintendent of the New York State Department of Financial Services, in a statement.

“The new law and regulation enhance the ability of insurers to underwrite large commercial insureds in New York, increase speed to market for certain insurance products not currently exempted, and eliminate barriers to economic development in New York,” said Mr. Lawsky in the Monday statement.

Definition of ‘large commercial insured’—Under the exemption, a business is considered a “large commercial insured” if it generates annual gross revenues exceeding \$15 million and has a net worth of at least \$1.5 million, among other things, according to the statement. A nonprofit organization is deemed a “large commercial insured” if it has an annual budget exceeding \$20 million for each of its three fiscal years preceding the policy’s effective date, among other things.

The insurer using the exemption must file a certificate of insurance with the terms of the policy within one business day of binding the insurance coverage and must file any other policy forms no later than sixty calendar days after the inception date of the policy, according to the statement.

Insurers are not exempt from New York’s insurance laws and regulations and the exemption does not apply to workers compensation and medical malpractice coverages, along with certain other property/casualty insurance lines, according to the statement.

Bumper Stickers

*Change is inevitable, except from a vending machine
Time is what keeps everything from happening at once
Born free . . . Taxed to death*

Marketplace:



SOFT MARKET SEEMINGLY HITS BOTTOM, ACCORDING TO RIMS BENCHMARK SURVEY™ Three of Four Lines Post Increases in Average Premium in Third Quarter

New York (November 15, 2011)—Average renewal premiums in three of four lines of business tracked by the RIMS Benchmark Survey™ increased in the third quarter, strongly suggesting that an eight year period of falling commercial insurance rates is at its end. The RIMS Benchmark Survey™ tracks changes in average program renewal premiums for director & officers liability (D&O), general liability (GL), property and workers’ compensation, as reported by risk managers. The survey is administered by Advisen Ltd. Of the four lines, only D&O posted a decrease, falling 1.9%. The average renewal premium increased 1.2% in GL, 1.6% in property and 2.1% in workers’ compensation.

“Indications have been strong over the past couple of quarters that the market was near bottom, so it’s not surprising to see premiums drifting upward a bit now,” says Dave Bradford, President of Advisen’s Research & Editorial Division and editor-in-chief of the survey. “Sharply higher rates like we saw in 2001 are nowhere in sight, though. The market is still quite competitive.”

Premiums skyrocketed in 2001 and 2002, following a deep and prolonged soft market. The stock market crash of 2000-2002 and massive insured losses from the September 11 terrorist attacks are often cited as catalysts for that hard market.

“Average premiums may be showing modest increases, but it seems pricing generally is still quite favorable in most lines,” says Frederick Savage, FCII, ARM, RIMS Board of Directors. “It would likely take a very large catastrophe or series of catastrophes to trigger a hard market along the line of what we saw a decade ago. Of course, that could happen at any time, but at the moment the insurance market seems to be behaving rationally. Risk managers should budget for somewhat higher insurance costs, but capacity remains abundant, which should help to dampen rate increases.”

AIG Watch:

Greenberg's Starr sues U.S. for \$25B over AIG takeover **November 21, 2011 - 10:00am**

(Reuters)—A company run by former American International Group Inc. Chief Executive Maurice "Hank" Greenberg on Monday filed a \$25 billion lawsuit against the United States, claiming that the government takeover of the insurer was unconstitutional. In its complaint, Greenberg's Starr International Co. said that in bailing out AIG and taking a nearly 80% stake, the government failed to compensate existing shareholders. It said this violated the Fifth Amendment, which bars the taking of private property for public use without just compensation.

"The government's actions were ostensibly designed to protect the United States economy and rescue the country's financial system," Starr said. "Although this might be a laudable goal, as a matter of basic law, the ends could not and did not justify the unlawful means employed." The United States, it went on, "is not empowered to trample shareholder and property rights even in the midst of a financial emergency."

Monday's lawsuit was filed with the U.S. Court of Federal Claims in Washington, which handles lawsuits seeking money from the government. The \$25 billion estimate reflects what Starr called the value of the government's stake on Jan. 14, 2011, when it swapped AIG preferred stock for 562.9 million common shares.

The Treasury Department did not immediately respond to a request for comment. AIG spokesman Mark Herr declined to comment. AIG was named as a nominal defendant in the lawsuit.

Once the world's largest insurer by market value, AIG accepted \$182.3 billion of federal bailouts beginning on Sept. 16, 2008, amid a liquidity crisis spurred by its exposure to risky debt through credit default swaps. The government's stake in AIG has fallen to about 77%. AIG itself has sued Bank of America Corp. for \$10 billion over alleged losses on mortgage securities. Greenberg left AIG in March 2005, after nearly four decades at the helm, amid questions by regulators over its accounting practices.

AIG in 2006 paid \$1.64 billion to settle federal and state probes into its business practices, and in July 2010 agreed to pay \$725 million to settle a shareholder lawsuit accusing it of accounting fraud and stock price manipulation.

Government will be long-term shareholder in AIG: Greenberg **November 11, 2011 - 11:54am**

NEW YORK—The U.S. Treasury will be a shareholder in American International Group Inc. for a "very long time," former AIG chairman and CEO Maurice R. Greenberg said Thursday.

The government took a major holding in AIG in 2008 to rescue it from near-collapse and it still owns a 77% stake in the New York insurer. The government has previously stated that it intends to sell its stake over time. "With that stock overhanging, it's difficult to see how they'll come out of government ownership for some time," Mr. Greenberg said in a television interview on Bloomberg Television's "Street Smart."

"The decision should be to reduce ownership to something under 50%," Mr. Greenberg added. "The stock would soar and the government would get its money back, but politically they'll never do that." The company has already repaid debt related to its 2008 bailout, in large part by last year selling off American Life Insurance Co. for \$16.2 billion and raising about \$17.8 billion by selling two-thirds of its shares in Asian life insurer AIA Group Ltd. Despite having lost "many of the crown jewels," AIG should be able to grow with the right leadership, said Mr. Greenberg, who is now chairman and CEO of C.V. Starr & Co. Inc.

AIG President and CEO Robert H. Benmosche "is doing as well as could be expected," Mr. Greenberg said. "He's a decent guy, and I think he's trying. But his hands are tied behind him with the government." An AIG spokesman declined to comment on Mr. Greenberg's assertions about the company.

The government originally took a close to 79.9% stake in AIG in 2008. Its stake increased to 92% this year after AIG swapped the government's preferred shares for common stock. The government's stake fell to 77% in May after a stock sale.

cont.



AIG Watch (cont.):

AIG loses \$4B on planes, weak markets

November 3, 2011 - 3:30pm

NEW YORK (Reuters)—Insurer American International Group Inc. lost more than \$4 billion in the third quarter, as its aircraft leasing unit took an impairment charge on a portion of its fleet and the fair value of the company's one-third stake in Asian insurer AIA Group Ltd. fell. AIG reported a loss of \$4.11 billion, or \$2.16 per share, compared with a year-earlier loss of \$2.52 billion, or \$18.53 per share. In the year-earlier period AIG took a number of charges on asset sales; it also had a smaller share count. On an operating basis AIG lost \$3.04 billion, or \$1.60 per share.

Analysts polled by Thomson Reuters I/B/E/S had on average expected a loss of 63 cents per share in the quarter, though the range of estimates was extremely wide, from a loss of 22 cents to a loss of 99 cents.

AIG said that International Lease Finance Corp., its plane leasing business, took a \$1.5 billion impairment on ninety-five planes as customers' appetites shifted toward newer, more fuel-efficient planes. The fair value of its AIA stake also fell \$2.3 billion, the company said.

AIG plans offer to swap up to \$2.5 billion in debt.

NEW YORK (AP) - Aiming to reduce its debt costs and improve its financial flexibility, American International Group Inc. on Monday said it plans an exchange offer for up to \$2.5 billion in outstanding bonds. The bailed-out insurance company issued a list of five old bonds denominated in euro, British pounds and dollars that it will exchange for new notes between Nov. 8 and Nov. 22.

AIG is offering to exchange the debt in a specific order of priority.

- 1 billion euro (\$1.39 billion) outstanding of 4.875% euro notes for new notes due 2017
- 750 million British pounds (\$1.2 billion) of 5.75% sterling notes for new notes due in 2017
- \$1 billion of 6.25% notes for new notes due 2037
- 900 million British pounds (\$1.43 billion) of 8.625% sterling notes for new notes due in 2017
- \$4 billion in 8.175% notes for new notes due 2037

Earlier this month, AIG said it has two new bank credit facilities totaling \$4.5 billion. One is for four years and \$3 billion and the other for 364 days and \$1.5 billion. They replaced earlier credit lines that had less favorable rates.

AIG shares gained in Monday trading, adding \$1.01, or 4.2%, to \$25.02.

Bailout of AIG provides lessons for the future: GAO

Posted On: Oct. 31, 2011 - 2:57pm CST, Mark A. Hofmann

WASHINGTON—The federal government's handling of financial assistance to American International Group Inc. provides lessons for dealing with similar situations should they arise in the future, according to a report issued Monday by the Government Accountability Office. The report, "Review of the Federal Reserve System Financial Assistance to American International Group Inc.," said that "time pressure was an important factor" in the Federal Reserve System's decision-making regarding aid to AIG as the insurer appeared in danger of failing in September 2008.

After discussing the federal actions, the GAO said that easing time pressure "could aid future government decision-making and the process of seeking private financing." In particular, the GAO said the government could have begun the process of seeking private financing earlier and could have compiled information for would-be investors as soon as warning signs emerged. "Potential private-sector financiers told us the process would have benefited from both more time and information," the GAO said in the report. The GAO also said that identifying and monitoring issues associated with collateral "may offer opportunities for enhancing regulators' surveillance or developing warning signs that firms are coming under stress." The report also said that more sophisticated monitoring of financial companies' liquidity positions could be of value.

AIG's near-collapse in September 2008 led the federal government to provide it with financial assistance, which resulted in the government becoming the insurer's majority owner.

International:



Insurance investors at risk of euro hit: Swiss Re

December 1, 2011 - 1:30pm

LONDON (Reuters)—European insurers could face losses big enough to wipe out a quarter of their shareholders' equity if the eurozone's most critically indebted nations were to default, according to Swiss Reinsurance Co. Ltd., the world's No.2 reinsurer.

The sector, a heavy investor in sovereign bonds, would lose up to €143 billion (\$190.48 billion) in the event of a restructuring or default requiring a 50% write-down in Greek, Irish, Portuguese, Spanish and Italian debt, Swiss Re said Thursday.

Shares in Europe's biggest insurers have fallen 14% since the start of the year, reflecting fears that rising borrowing costs for financially weak peripheral eurozone states could force them to repudiate or renegotiate their loans, inflicting big losses on creditors.

But Mr. Pain warned that defaults by major international debtors Italy and Spain likely would trigger economic and financial market turmoil that would expose insurers to "significant" indirect consequences.

"You're talking about a very nasty scenario," he said. "It's not something you want to think too hard about if you're having difficulty sleeping."

Analysts and other industry experts have previously said insurers would be forced to share losses with customers and rely on regulators to be lenient if Italy, the world's third-biggest debtor nation, were to default.

Swiss Re economists' base scenario—the one they consider most likely—is that European Union governments take sufficient measures to prevent defaults by big eurozone nations.

The insurance industry also faces challenges from persistently low interest rates and a potential economic slowdown in emerging markets, which many European and U.S. insurers had been relying on to offset stagnant growth at home, Swiss Re said in its annual outlook report.

Low interest rates make it harder for insurers to replace maturing assets with investments that yield comparable returns, hindering their ability to pay guaranteed rates offered with some long-term savings policies.

However, the industry remains well-capitalized overall and should benefit from better economic growth and rising nonlife insurance prices in 2013, Swiss Re said.

APHORISM:

A SHORT, POINTED SENTENCE EXPRESSING A WISE OR CLEVER OBSERVATION OR A GENERAL TRUTH

Be careful reading the fine print. There's no way you're going to like it.

The trouble with bucket seats is that not everybody has the same size bucket.

After 60, if you don't wake up aching in every joint, you are probably dead!

Do you realize that in about 40 years, we'll have thousands of old ladies running around with tattoos?

And rap music will be the Golden Oldies!



These alleged quotes from employee evaluations have been seen before but are just too good not to revisit occasionally

He would argue with a signpost.

He brings a lot of joy whenever he leaves the room.

When his IQ reaches 50, he should sell.

Catastrophe News:



Catastrophe-exposed insurance rates rise by double digits: Catlin November 14, 2011 - 9:50am

HAMILTON, Bermuda—Rates for catastrophe-exposed insurance and reinsurance rose by a weighted average of 10.5% during the third quarter, Catlin Group Ltd. said Monday.

In its interim management statement, Hamilton, Bermuda-based Catlin said that its average weighted premium rates for noncatastrophe business were flat during the third quarter. CEO Stephen Catlin said Catlin expects rates and conditions for underwriters to improve in many classes of business.

Change on the horizon—“We believe that fundamental changes in the marketplace are on the horizon as a result of the series of catastrophe losses, several years of falling rates for many classes of business, the challenging investment environment, and the increasing strain on some insurers’ and reinsurers’ balance sheets due to all of these factors,” he said in a statement.

Catlin said it had catastrophe losses of about \$670 million for the first nine months of this year. During the same period, it posted gross written premiums of \$3.68 billion, up 12% compared with the first nine months of 2010.

Catastrophes hit property/casualty income, rates stabilizing: Moody's November 23, 2011 - 10:17am

BLOOMBERG

Commercial insurance rates continued to show signs of stabilization and “modest improvement” in the third quarter of the year, according to an analysis by Moody’s Investors Service.

In its analysis, “U.S. P&C Insurers’ 3Q11 Earnings Down Significantly; Pricing Continues to Stabilize,” New York-based Moody’s said Tuesday (11/22) that net income for publicly traded property/casualty companies dropped to \$1.6 billion in the third quarter of the year compared with \$5.4 billion during the same period last year.



Ratio of an igloo's circumference to its diameter = Eskimo Pi

2000 pounds of Chinese soup = won ton

1 millionth of a mouthwash = 1 microscope

Time between slipping on a peel and smacking the pavement = 1 bananosecond

Weight an evangelist carries with God = 1 billigram

Editor’s note: “Newsletter” is compiled from press releases and news articles published in industry publications such as Advisen FPN, The Insurance Journal, and Business Insurance, among others

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 Oregon unless so noted

