



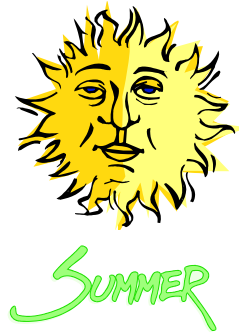
NewsLetter

From The Surplus Line Association of Oregon

June 2010

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Always remember you are unique – just like everyone else

SLAOR News:



Financial

Premiums were up 38.5 % over April of '09 but most of the increase was accounted for in a single "one off" transaction with \$4.5 million premium relating to prior year activities. Without this unusual item, we would have been up only 7.6% for the month. For the year-to-date we are up 17.4 %. Even after discounting the special circumstance issues, our "real" income remains in the plus 8% range for year-to-date while most of our peers show decreases year-to-date.

Item counts are also up: 14.2 % for the month of April and 13.6% for the year-to-date. The "one off" transaction added only one item to item count.

Revenue remains good – year-to-date \$26k over budget - and expenses are \$21k under budget. For the year-to-date we are \$47k better than budget.

On the investment side, dividends and interest for the month did not exceed the cost of investment management for the most recent quarter, leaving a net cost for the month of \$1.9k. Market gain/loss for the year-to-date is \$87k.

A perfect summer day is when the sun is shining, the breeze is blowing, the birds are singing

and the lawn mower is broken

Oregon News:



Effective December 31, Federal identity theft legislation requires any "financial institution" or "creditor" to implement a program to detect warning signs (or "red flags") of identity theft, so that identity theft can be prevented and mitigated. A "creditor" is a person, business, or entity that provides goods or services in advance of receiving payment and "credit" is the right to defer payment of a debt or for services. Insurance agents or brokers with questions about whether the rule applies to their specific business activities should seek guidance from local counsel. Many agencies will be subject to the provisions of this act but even if not formally required to set up special procedures; if you routinely collect information relating to credit, such as social security or credit card numbers, the prudent organization will voluntarily comply with the regulations.

In a recent case, D.A. Davidson & Co., a brokerage firm and regional investment bank based in Great Falls, Montana, with eight offices in Oregon, was fined \$375,000 for a security breach where no actual loss to customers occurred.

National News

My memory's not as sharp as it used to be. Also, my memory's not as sharp as it used to be.



- Approximately one-hundred employees in offices across the county, including brokers and staff, resigned from CRC Insurance Services on May 4th. The suspicion is that they will be joining Ryan Specialty Group, a new specialty services insurance organization founded this year by Patrick Ryan, founder and retired chairman and CEO of Aon insurance brokerage. RSG's CFO would not confirm that RSG hired any of the CRC employees but said: "I'm afraid it's our policy not to comment on any matter that is pending legally. We don't have any comment."
- The Insurance Journal reports independent agency salaries maintained or decreased slightly in 2009 and the same will be true for 2010. Al Diamond, President of the Agency Consulting Group reports: "The attitude (of the agency employee) is very bad. For the most part, the general insurance agency morale has never been lower." Most agencies forecast retaining current personnel levels while riding out the soft market but in the long run layoffs will be unavoidable with remaining staff being expected to absorb the workload of terminated employees with no adjustments in compensation. *(I don't understand why across the board salary reductions are not used more often – isn't it better to keep everyone employed, albeit at less salary, than create more unemployed workers during the financial crisis? Why not a 10% decrease in everyone's salary instead of a 10% layoff? [ed])*
- They have fared well in the recent spate of lawsuits – twelve out of fifteen motions to dismiss have been sustained – but the rating agencies (S&P, Moody's, Fitch) need to win them all to avoid financial problems. Adam Savett, of RiskMetrics, a corporate advisory firm, says: "I'm not seeing any signals that hedge funds are pouring in to short these stocks (rating agencies) like we saw with Lehman and Bear Stearns. But if the ratings agencies lose some of these battles, and especially if we see a big jury verdict, there will be blood in the water, and the sharks are going to swim." In any event, it is likely that the new financial regulation will impose new rules or permit future regulatory action impacting the role and responsibilities of rating agencies.
- IIABNY and the CIC are playing "hard ball" with the NY insurance department and made good on their threat of a law suit. They have filed suit to annul the recently implemented "transparency" regulation. Of interest to the wholesale community is their argument that "Managing general agents and wholesale brokers (entities exempt from the regulation) work closely with retail producers in obtaining coverage [and] have as much influence over the selection of the insurance company providing coverage as the producers who are subject to the regulation. *(Isn't the obvious answer to this an expansion of the required disclosure to include wholesale brokers? Thanks IIABNY! If you can't have an exemption you want the wholesalers' to be taken away! [ed])*
- Wall Street is pulling out the stops to get a financial reform bill that changes as little as possible, reports Public Citizen, a national nonprofit consumer advocacy organization. Lobbyists representing opponents of strong derivatives reform have outnumbered pro-reform lobbyists by more than 11-to-1 (903 to 79 lobbyists).
- Will it never end? Kenneth Starr, a New York investment adviser to celebrities such as movie director Martin Scorsese and actor Uma Thurman, was arrested by U.S. agents on charges of running an alleged investment fraud of as much as \$30 million, prosecutors said.
- Banco Santander, operator of at least two "feeder" funds that placed investments with the Madoff firm, is coming under pressure to provide more relief to investors. Investors are suggesting that any sufficient investigation of the facts around Madoff's investment scheme would have certainly uncovered substantial signs of trouble. Some funds chose not to do business with Madoff because he didn't pass their "sniff" test. Investors are wondering how sophisticated investment managers could be so easily duped.
- A new nonprofit insurance producer association has formed in California. The Insurance Agents & Brokers Association of California said it is unlike any producer association in the state as it will be completely managed by fellow agents and brokers.
- A jury has found Danny Pixler, Anthony and Sheri Huff and Midwest Merger Management liable for a combined \$19.3 million due Cascade National Insurance Co., a Bellevue, Washington, insurance company in bankruptcy.

*NASA reports that galaxies are speeding away from earth at 90,000 miles a second.
What do you suppose they know that we don't?*

The Marketplace:

I 'm not paranoid. Which of my enemies told you this?



5/6: Swiss Re posts \$158 million Q1 income, despite natural catastrophes. This was an increase of 22% over the \$130 million recorded in 2009. Mark-to-Market gains drove an equity increase of \$800 million in the same period. Operating income was \$259 million, a decrease of 69% compared to \$846 million in first quarter 2009. Combined ratio was 109.4% - included were \$600 million in catastrophe losses.

5/6: Zurich Financial Services reported first quarter profit up 76% to \$935 million in spite of high catastrophe losses. General insurance profit fell 30% and combined ratio on insurance business went from 95.8% to 99.0%. Chilean catastrophe losses were \$200 million.

5/7: Berkshire Hathaway Inc. earnings for first quarter were \$1,390 compared to 1,101 in 2009 excluding investment and derivative gains and losses. Overall revenue increased 40%. Insurance segment earnings fell 2.3%.

5/7: Lockton reports commercial buyers continue to benefit from lower prices and steady or increasing insurance capacity in property and casualty markets.

5/7: Munich Re reports 11% increase in profit to \$617 million for first quarter 2010, largely due to strong investment performance for the period. Combined ratio was 109.2 % with natural catastrophes accounting for 20.8%.

5/12: Allianz, Europe's biggest insurer, almost quadrupled profits, helped by a gain from selling a stake in Industrial & Commercial Bank of China Ltd. Profits for the quarter were \$2.02 billion (\$536 million from the sale of the bank interest). Operating profit rose 20% over prior year results. Natural catastrophe losses accounted for \$706.6 million.

5/20: According to Marsh's report, "Competition Nets Rewards — Multinational Client Service Insurance Market Report 2010", here are some thoughts for 2010:

Marsh's report indicates the continuation of stable market conditions in 2010, as illustrated by regional trends:

- Intense competition among insurers, increased capacity, and fewer insured catastrophe losses kept U.S. insurance markets generally stable in 2009. Barring a large catastrophic event, property insurance markets will likely continue to stabilize and premium rates will moderate in 2010.
- Clients across Europe, the Middle East and Africa were able to secure premium rate reductions for most classes of business in the second half of 2009, but there is evidence of rising loss ratios in many lines of business — which could prompt carriers to review pricing. Local markets are generally expected to stabilize over the course of 2010.
- Despite large natural catastrophe losses in Pakistan, the Philippines and Indonesia, Marsh expects most Asian markets to remain soft throughout 2010.
- Stability in Latin America and the Caribbean is expected to continue, and insurers appear well-positioned to provide solutions to emerging exposures, though significant concerns remain: natural catastrophes, volatile political and economic environments, safety concerns linked to drug cartels, and dependence on international markets for large and complex risks.
- With no signs of a change until the end of 2010 or possibly into 2011, Canada's market remains soft.
- Marsh expects buyers to continue enjoying relatively favorable market conditions in Australia.

cont.



*I went to see Pavarotti once and I'll tell you this much,
he doesn't like it when you join in.*

The Marketplace (cont.):

 Marsh's report further indicates a need to monitor global insurance and tax regulations, which are being enforced more vigorously than in the past. In the European Union, Canada and elsewhere, tax authorities have begun to challenge multinational companies' insurance programs with a view to assessing and collecting unpaid premium-related taxes — a trend that is likely to escalate.

Risk managers should also monitor several local trends, according Marsh's report:

- New regulations in the E.U., such as the new Environmental Liability Directive, have impacted rates in environmental insurance, employers' liability/workers' compensation, and other lines of insurance.
- Many carriers in Latin America and the Caribbean are looking to diversify away from concentrations of large industrial property risks towards personal lines and consumer business. The earthquakes in Haiti and Chile may cause local rates to increase, and policy texts and definitions may be amended.
- Brazil appears to be a strong growth target for insurers, owing to its large economy and domestic consumer market. Opportunities are particularly strong in personal lines, life, and health, as consumers become more conscientious about their insurance choices.
- In China, a greater focus on underwriting profit has led to a reduction in capacity among local insurers for property and construction insurance. New regulations have further enhanced the rights of consumers, clarifying the rights and obligations of parties in an insurance contract.
- Rates in the Indian market appear to have bottomed out and local clients are now facing some premium increases, particularly those with unfavorable risk profiles. Marsh anticipates that the market will continue to harden over the course of 2010.

Read more: <http://www.insurancejournal.com/news/national/2010/05/20/110035.htm#ixzz0pd8JTMfV>

5/26: AON reports property rates expected to decrease 5% to 15% and casualty rates for clients with good experience will have no increase or single digit increases. Excess coverages may stay soft because of competition.

FOREIGN

Richard Ward delivers a stern warning to Lloyd's:


LONDON, May 18, 2010 /PRNewswire/ -- Capacity will need to be cut and Lloyd's underwriters will have to 'stop writing rubbish business' in order for the market to maintain its profitability through the uncertain economic environment, Lloyd's chief executive officer, Richard Ward warned on the opening day of the Insurance Day Summit in London.

Describing 2010 as the 'worst and most challenging' year that Lloyd's had faced since he became chief executive officer of the market in March 2006, Ward said: "Every year I normally stand up on this platform and say it is going to be a tough year. There is a challenging investment environment and therefore we have to focus on underwriting profitability."

"Well, you might have accused me of crying wolf for the past four years but I don't think that will be the case this year."

"Don't talk to me about growing, talk to me about how you are going to shrink and make underwriting profit," he urged underwriters at the Insurance Day Summit.

cont.

 *The only thing that wakes you up faster than coffee is spilled coffee*

The Marketplace (cont.):



Ward said that the market's large losses from the Chilean earthquake and the Transocean oil spill, combined with low rates and investment returns meant that it was faced with an uncertain outlook moving forward.

"We need to make money from underwriting profit but this has been dropping off since 2005," he continued. "It doesn't look too good moving forward."

"So what do we need to do? We need to stop writing the rubbish business. Cut it out. Focus on the good business where we can generate the profit."

"We have got to lose some weight. We need capacity to reduce so rates can go up and we need to get fit. Rest assured we have got our own Mr. Motivator in the Lloyd's market in Tom Bolt [director, performance management, Lloyd's] who will make sure your businesses remain lean and mean to fit the challenging environment of 2010 and 2011. If we can do all that, then the Room will remain a very profitable place to do business."

Ward concluded that the insurance industry had performed very well through the financial crisis, without the need to fall back on either government or taxpayer support.

"We've helped protect the economy during the crisis. Now it's time to protect ourselves," he concluded.

- Canada announces a crack down on banks that market "unauthorized insurance" on their websites, spelling out new rules designed to keep the realms of banking and insurance separate.

Canada's banking laws have long forbidden banks from selling insurance directly through their branches, but in recent years they have skirted the rules through the Internet and stand-alone insurance offices. The new rules distinguish between authorized insurance products, such as credit and travel-related insurance, and non-authorized products, such as life, property and casualty insurance.

- Lloyd's results for 2009 set a record in sterling terms which was achieved during challenging economic conditions. Not only are the profits great, the Lloyd's balance sheet remains strong and was strengthened.

All this success can be traced back to the formation of the Lloyd's franchise board. The continued focus on underwriting discipline in 2009 produced these results. So far, market discipline is holding in 2010, but losses are coming in.

Lloyd's improved its combined ratio in 2009 to 86.1 (compared to 91.3 in 2008). Lloyd's says this compares favorably with an estimated average of 100% for U.S. property and casualty insurers; 94% for U.S. reinsurers; 99% for European insurers and reinsurers; and 84% for Bermudian insurers and reinsurers.¹

cont.



Reputedly from Abby's mailbox:

Dear Abby,

My forty year old son has been paying a psychiatrist \$50 an hour every week for two and a half years. I think he's crazy.

Dear Abby,

I was married to Bill for three months and I didn't know he drank until one night he came home sober.

¹ Len Wilkins, London as reported in the *Texas Surplus Line Reporter & Insurance News*, Vol. 27 Number 4, April 2010

The Marketplace (cont.):

■ ■ ■ G WATCH

5/10: AIG reports first quarter earnings of \$1.5 billion compared of to a loss of \$4.4 billion in first quarter 2009. Still, the company remains on the hook for \$182 billion from the Federal Reserve and the Treasury. The Congressional Budget Office has estimated that the total cost to the Treasury of rescuing AIG will be \$9 billion.

5/12: AIG is reviewing its dealings with all its counterparties during the financial crisis, including Goldman Sachs Group Inc., to see if it was harmed, CEO Robert Benmosche has said. The bailed-out insurer will take appropriate action if it finds something, he told shareholders at the annual meeting.

5/24: AIG has \$109 billion notational value in derivatives and credit-default swaps held by European banks which exposes them to the European financial problems. If events in Europe turned sharply against AIG, its maximum possible loss on these derivatives would be \$109 billion although 100% loss would be extremely remote.

5/24: Maurice R. Greenberg will receive this year's Double I Award from the New York division of the Insurance Industry Charitable Foundation for his influence and impact in the area, the group announced.

5/24: Federal prosecutors won't bring charges against former AIG executive Joseph Cassano related to AIG's collapse, according to a person familiar with the investigation. The Justice Department found that there was insufficient evidence to charge Mr. Cassano, who was the former chief executive officer of AIG's Financial Products division, the person said.

5/26: Bailed-out insurance giant AIG has slashed its exposure to credit derivatives by nearly two-thirds under government ownership, but a full recovery for taxpayers remains uncertain, a senior U.S. treasury official said.

5/28: U.K. insurer Prudential PLC is waffling on its bid for AIG's China based life insurer AIA. AIG maintains "We have a signed agreement with Prudential, and we expect them to use their best efforts to live up to it."

Darwin Awards:



A man walked into a Circle-K in Louisiana and asked for change for a \$20. When the clerk opened the cash drawer the man pulled a gun and demanded all the money in the drawer. The clerk handed it over. The man fled and left his \$20.

He got \$15 from the drawer – a loss of \$5.

A man in Michigan tried to rob a Burger King at 5:00 am. Flashing a gun he demanded cash. The clerk said he couldn't open the drawer without an order. Grrrr. The robber ordered onion rings.

The clerk said onion rings were not available for breakfast and that he'd have to come back later. The frustrated robber walked away.

It's scary when you start to make the same noises as your coffeemaker.

Catastrophe News:

*If you think nobody cares if you're alive,
try missing a couple of car payments*



- 5/14: BP's oil spill could make for one of the highest-stakes U.S. gulf hurricane seasons on record. Storms may scuttle clean-up efforts, force containment vessels to retreat, or propel spilled crude and tar balls over vast expanses of sea and beach, scientists have said.
- 5/17: Three forecasters predict four intense hurricanes in the Atlantic Basin, well above the long-term average of two to three intense storms. Warmer sea surface temperatures and a transition to neutral El Nino conditions are expected to enhance hurricane activity.
- 5/17: A quiet storm of Hurricane Katrina claims is simmering along the Gulf Coast. They are not new claims. They are reopened claims, highlighting a lesson adjusters and insurers learned from the 2005 hurricane: don't bite off more than you can chew. Claims are being reopened as insureds invoke the appraisal clause of their policies, something seldom done before Katrina.
- 5/17: Dr. J. David Rogers, Hasselman Chair of Geological Engineering at Missouri University of Science and Technology says: "The National Flood Insurance Program was bankrupted by Katrina and Rita. We are under water in debt from hurricanes, floods and other natural disasters. According to Rogers, more money has been spent on natural disasters in the last twenty years than the total amount spent in all the years before that. Compounding the problem, more than half of all Americans live within fifty miles of the ocean, well within range of ocean-generated storms.
- 5/19: Final insurance damage estimates for Colorado's 2009 summer storm season has been tallied at \$1.4 billion, making it the most expensive in state history, according to the Rocky Mountain Insurance Information Association.
- 5/19: NFIP estimates that Rhode Island claims for flooding could total \$26.3 million, half the cost of all claims paid in Rhode Island since officials began keeping records in 1978.
- 5/21: Weather forecasters report that a below-average total of two to three hurricanes are likely to pass through Central Pacific waters this year as ocean surface temperatures cool. Last year was an El Nino year and warmer-than-average ocean surface temperatures generated an above-average number of seven tropical cyclones in the Central Pacific, none of which made landfall. In an average year there would be four to five hurricanes.
- 5/25: Forecasters have increased expected named storms to eighteen including ten hurricanes, five of which will have sustained winds above 111 miles per hour. Average storm activity would be ten storms in the June 1 - November 30 hurricane season. The 2009 season was the mildest since 1997. "However, the primary drivers for tropical activity have sharply reversed course this year and everything is in place for an incredibly active season," said Todd Crawford, Weather Services International chief meteorologist.
- 5/25: London based Tropical Storm Risk forecasters predict two hurricanes and three tropical storms to make U.S. landfall during the June 1 - November 30 hurricane season.
- 5/26: Lloyd's estimates Chile earthquake loss at \$1.4 billion and Deepwater Horizon explosion and sinking at \$600 million. Although the economic loss of these claims may be far greater, this is the extent to which Lloyd's underwriters will be exposed.
- 5/27: An "active to extremely active" hurricane season is expected for the Atlantic Basin this year, according to the seasonal outlook issued today by NOAA's Climate Prediction Center - a division of the National Weather Service.

cont.

*The 50-50-90 rule:
Anytime you have a 50-50 chance of getting something right, there's a 90% probability you'll get it wrong*

Catastrophe News *(cont.)*:



- Across the entire Atlantic Basin for the six-month season, which begins June 1, NOAA (National Oceanic and Atmospheric Administration) is projecting a 70% probability of the following ranges:

14 to 23 named storms (top winds of 39 mph or higher), including:
 8 to 14 hurricanes (top winds of 74 mph or higher), of which:
 3 to 7 could be major hurricanes (category 3, 4 or 5; winds of at least 111 mph)

"If this outlook holds true, this season could be one of the more active on record," said Jane Lubchenco, Ph.D., under-secretary of commerce for oceans and atmosphere and NOAA administrator. "The greater likelihood of storms brings an increased risk of a landfall. In short, we urge everyone to be prepared."

The outlook ranges exceed the seasonal average of eleven named storms, six hurricanes and two major hurricanes.

According to NOAA, the expected factors supporting this outlook are:

Upper atmospheric winds conducive for storms. Wind shear, which can tear apart storms, will be weaker since El Niño in the eastern Pacific has dissipated. Strong wind shear helped suppress storm development during the 2009 hurricane season.

Warm Atlantic Ocean water. Sea surface temperatures are expected to remain above average where storms often develop and move across the Atlantic. Record warm temperatures – up to four degrees Fahrenheit above average – are now present in this region.

High activity era continues. Since 1995, the tropical multi-decadal signal has brought favorable ocean and atmospheric conditions in sync, leading to more active hurricane seasons. Eight of the last fifteen seasons rank in the top ten for the most named storms with 2005 in first place with twenty-eight named storms.

"The main uncertainty in this outlook is how much above normal the season will be. Whether or not we approach the high end of the predicted ranges depends partly on whether or not La Niña develops this summer," said Gerry Bell, Ph.D., lead seasonal hurricane forecaster at NOAA's Climate Prediction Center. "At present we are in a neutral state, but conditions are becoming increasingly favorable for La Niña to develop."²

Read more: <http://www.insurancejournal.com/news/national/2010/05/27/110239.htm#ixzz0pdsJ2ry0>

Hell hath no fury like the lawyer of a woman scorned

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

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² *Insurance Journal*, May 27, 2010