



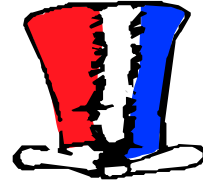
NewsLetter

From The Surplus Line Association of Oregon

July 2010

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CELEBRATE AMERICA
ON THE 4th

SLAOR News:



Financial

Premiums were down \$3 million at \$13.1 million, a -21.6% reduction compared to May of '09. Item count fell only 4.1%, suggesting that we continue to do well retaining renewals but at lower rates / exposures. Premiums for May were the lowest monthly premiums reported over the last four years but May has been a low month for each of those years. Year-to-date we are still looking good: up 9.8% in premiums and 9.5% in item count. We have been the beneficiaries of several "one off" positive occurrences during the first four months to achieve this – maybe May is indicative of what we will see for the rest of 2010. We are still hearing that premiums are soft with a bit of an undertone suggesting that oil spills and windstorms will begin to have a rate impact soon.

Financially we were \$3 k over budget for the month with \$1 k less income and \$2 k more in expenses for the month. In spite of the "flat" month, we are \$25 k ahead of budgeted income and \$19 k below budgeted expenses through May – a total of \$44 k to the good.

On the investment side, we suffered like everyone else with investment gain / loss showing a loss for the month of \$160 k and year-to-date loss of \$73.8 k.

*I don't have a girlfriend.
But I do know a woman who'd be angry at me for saying that.*

Oregon News:



- Insurance Division closure dates (response to requirement to reduce expenses):

August 20, 2010
September 17, 2020
November 26, 2010
March 18, 2011
May 20, 2011

- Mark your calendars now: 3 hours free CE credit (1-4 pm), "State of Surplus Line Insurance Market". Site: Crowne Plaza Hotel, 14811 Kruse Oaks Drive, Lake Oswego. More details later.
- PLUS Northwest Chapter Annual Lake Union Boat Cruise, 2-5 pm, July 21st – non-members welcome, a good time to socialize with your Seattle counterparts. For more information, go to www.plusweb.org.

*What do you get when you mix
an agnostic, an insomniac, and a dyslexic?*

A person who stays up all night wondering if there is a dog.

National News

*It's a rotten fish restaurant.
Their catch-of-the-day is canoe boat paddle.*



- NFIP Policies Cover Property Damage Caused By Oil In Flood Waters plus a Flood Primer

NEW YORK, June 15, 2010 — The Federal Emergency Management Agency (FEMA) has confirmed that National Flood Insurance Program (NFIP) policies will cover property damage caused by oil in flood waters. This is good news for consumers who have purchased flood insurance for hurricane season, according to the Insurance Information Institute (I.I.I.).

“FEMA’s clarification comes after rising concerns over whether flood insurance policies would cover damage to homes and businesses if oil from the Deepwater Horizon spill mixes with flood waters, comes ashore during a storm and causes pollution damage to NFIP-covered buildings and their contents,” said Loretta Worters, vice president of the I.I.I.

Damage by flooding, including storm surge, is not covered by standard homeowners or business owner’s policies.

“Home and business owners seeking to protect themselves from flood losses and associated damage from oil are urged to purchase a policy from the NFIP immediately,” Worters stated. She added that forecasts for a very active hurricane season, combined with the spillage of at least one million barrels of oil in the Gulf of Mexico, makes it more urgent to purchase flood coverage today than at any time before or since Hurricane Katrina struck the Gulf Coast in 2005.

“Oil in flood water is not a new issue for the NFIP, especially in riverine flooding,” explained James A. Sadler, CPCU, AIC, Director of Claims, NFIP. “In the past, the mixing of oil and other pollutants in flood waters resulted from damage caused by a storm.”

According to the NFIP, for coverage under the Standard Flood Insurance Policy (SFIP), the event must first be defined as a flood. In addition, there must also be direct physical loss to property by or from flooding for coverage to apply.

A flood is defined by the NFIP as a general and temporary condition of partial or complete inundation of two or more acres of normally dry land. The flood definition is also applicable to instances in which two or more properties, at least one of which is the policyholder’s property, are subject to partial or complete inundation from overflow of inland or tidal waters or an unusual and rapid accumulation of runoff or surface waters from any source or mudflow.

Other important clarifications made by FEMA include:

National Flood Insurance Program policies for commercial buildings and contents coverages must be purchased separately and apart from residential NFIP policies. The commercial coverage for damage caused by pollutants is limited to \$10,000.

Damage to ground, soil or land caused by flood, oil or flood water mixed with oil is not covered.

The cost of complying with any local or state ordinance, including one that requires special removal methods for oil, is specifically excluded.

There is no coverage for testing or monitoring of pollutants unless there is a law or ordinance requiring it.

FEMA or the Write Your Own (WYO) companies, private sector insurers who sell NFIP policies, retain the right to subrogate. In other words, if the policyholder makes a claim against an entity that caused a loss and recovers any money, the policyholder must pay FEMA or the WYO back before they may keep any of the money.

cont.

Penguins mate for life.

Not surprising because they all look exactly alike.

It's not as though they're going to meet a better looking penguin someday.



National News (cont.)



- FLOOD INSURANCE BASICS

Standard homeowners and renters insurance does not cover flood damage. Flood damage is excluded under most standard homeowners policies, although it is covered under the comprehensive section of a standard auto insurance policy. A flood insurance policy, which is available to homeowners and renters through the federal government and some private insurers, will cover flood-related losses.

There is a thirty-day waiting period before a flood insurance policy takes effect, so do not wait until flooding in your area is imminent to get the coverage.

It's simple to assess your flood risk: for more information on the level of risk in your area, visit the Your Flood Risk section of the NFIP website; in the lower left hand corner is a One Step Flood Risk Profile tool where you can enter your address to determine your level of flood risk.

Flood insurance is easy to purchase: Federal flood insurance policies can be purchased directly from an insurance agent or a company representative, and are available to communities that participate in the NFIP. Nearly one-hundred insurance companies write and service NFIP policies. In order to find an agent or company in your area, go to FloodSmart.gov or call (888) 379-9531. Coverage is available for homeowners, renters, business owners, and condominium associations and owners.

Flood insurance cost increases with the level of risk and amount of coverage needed: the annual premium for an NFIP flood policy starts at \$119 and depends on factors such as whether or not there is a basement or enclosures, how many the structure has and elevation levels. For homeowners, the maximum amount of coverage is \$250,000 for the structure and \$100,000 for the contents. For businesses, the maximum amount of coverage is \$500,000 for the structure and \$500,000 for the contents. The NFIP policy provides replacement cost coverage for the structure of your home, but only on an actual cash basis for your possessions. Replacement cost coverage pays to rebuild your home as it was before the damage. Actual cash value is replacement cost coverage minus depreciation so that the older your possessions are, the less you will get if they are damaged. There may also be separate limits on coverage for furniture and other belongings stored in your basement.

Excess flood insurance policies add an extra layer of coverage: a growing number of private insurers offer excess flood policies, which are intended to provide water damage protection to homeowners and business owners over and above the coverage provided by the NFIP. This gives policyholders the opportunity to insure their property up to its full value. Limits and coverage vary from company to company.

- A Federal judge has held that it would be unfair to hold Moody's and Standard & Poor's liable as underwriters on securities offerings needing their ratings, as he rejected fraud claims by investors on the safety of \$63.4 billion of mortgage-backed debt (reported by Reuters).

cont.



Whether a man winds up with a nest egg, or a goose egg, depends a lot on the kind of chick he marries.

Trouble in marriage often starts when a man gets so busy earnin' his salt, that he forgets his sugar.

Too many couples marry for better, or for worse, but not for good.

When a man marries a woman, they become one; but the trouble starts when they try to decide which one.

If a man has enough horse sense to treat his wife like a thoroughbred, she will never turn into an old nag.

On anniversaries, the wise husband always forgets the past - but never the present.

The bonds of matrimony are a good investment, only when the interest is kept up.

Many girls like to marry a military man - he can cook, sew, and make beds, and is in good health, and he's already used to taking orders.

National News (cont.)

How old would you be if you didn't know how old you are?



- Internet criticism can get you in trouble. After a towing company hauled Justin Kurtz's car from his apartment complex parking lot, despite his permit to park there, Mr. Kurtz, 21, a college student in Kalamazoo, Mich., went to the Internet for revenge.

Outraged at having to pay \$118 to get his car back, Mr. Kurtz created a Facebook page called "Kalamazoo Residents against T&J Towing." Within two days, eight-hundred people had joined the group, some posting comments about their own maddening experiences with the company.

T&J filed a defamation suit against Mr. Kurtz, claiming the site was hurting business and seeking \$750,000 in damages.

The towing company's lawyer said that it was justified in removing Mr. Kurtz's car because the permit was not visible, and that the Facebook page was costing it business and had unfairly damaged its reputation.

Some First Amendment lawyers see the case differently. They consider the lawsuit an example of the latest incarnation of a decades-old legal maneuver known as a strategic lawsuit against public participation, or Slapp.

The label has traditionally referred to meritless defamation suits filed by businesses or government officials against citizens who speak out against them. The plaintiffs are not necessarily expecting to succeed -- most do not -- but rather to intimidate critics who are inclined to back down when faced with the prospect of a long, expensive court battle.

Many states have anti-Slapp laws, and Congress is considering legislation to make it harder to file such a suit. The bill, sponsored by Representatives Steve Cohen of Tennessee and Charlie Gonzalez of Texas, both Democrats, would create a federal anti-Slapp law, modeled largely on California's statute.

"Businesses, unfortunately, have a greater incentive to remove a negative review than the reviewer has in writing the review in the first place," Mr. Wilson said.

The federal bill, in the House Subcommittee on Courts and Competition Policy, would enable a defendant who believes he is being sued for speaking out or petitioning on a public matter to seek to have the suit dismissed.

Under the proposed federal law, if a case is dismissed for being a Slapp, the plaintiff would have to pay the defendant's legal fees. The cost of defending a single Slapp suit could easily wipe out the average person's savings before the case is half done.

Currently, twenty-seven states have anti-Slapp laws, and in two, Colorado and West Virginia, the judiciary has adopted a system to protect against such suits. But the federal bill would create a law in states that do not have one and offer additional protections in those that do.

- The annual rating of legal jurisdictions evaluating tort losses and tort litigation costs is now out. Alaska, Hawaii and North Carolina get thumbs up while New Jersey, New York and Florida get thumbs down for their tort liability costs in the latest ranking by a free-market think tank.

The states with the worst performance had the highest monetary tort losses and tort litigation risks, meaning they had more costly and riskier business climates due to larger plaintiff awards, larger plaintiff settlements, more lawsuits, or some combination of the three, according to the researchers.

cont.

*We live in a world where lemon juice is made with artificial flavor,
and dishwashing liquid is made with real lemons.*



National News (cont.)

'Lollipop' is the longest word typed with your right hand



The Pacific Research Institute (PRI), a non-profit free-market organization based in San Francisco, and the Manufacturers Alliance (MAPI), a public policy and economic research organization for manufacturers based in Arlington, Va., today released their 2010 U.S. Tort Liability Index, a measure of which states impose the highest and lowest cost and risks.

The Best and Worst Tort Climates

The Best

- | | | |
|-------------------|-----------------|--------------|
| 1. Alaska | 5. North Dakota | 9. Wisconsin |
| 2. Hawaii | 6. Maine | 10. Iowa |
| 3. North Carolina | 7. Idaho | |
| 4. South Dakota | 8. Virginia | |

The Worst

- | | | |
|---------------|-----------------|----------------|
| 1. New Jersey | 5. Pennsylvania | 9. Connecticut |
| 2. New York | 6. Missouri | 10. California |
| 3. Florida | 7. Montana | |
| 4. Illinois | 8. Michigan | |

Saints, Sinners, Suckers, and Salvageables

The Index sorts states into four groups based on their ranking for outputs (tort costs and tort litigation risks) and inputs (tort rules and reforms on the books).

Saints: States that have relatively low tort costs and/or low tort litigation risks and relatively strong tort rules on the books.

Sinners: States that have relatively high tort costs and/or high tort litigation risks and relatively weak tort rules on the books.

Suckers: States that have weak tort rules on the books because they currently have relatively low tort costs and/or low tort litigation risks.

Salvageables: States that have moderate to high relative tort costs and/or tort litigation risks, yet have moderate to strong tort rules, usually as a result of recent reforms.

Five states made 'Saint' status, twenty states were labeled 'Sinners'.

- An Australian hedge-fund manager has filed a lawsuit seeking more than \$1 billion in damages from Goldman Sachs Group Inc., accusing the Wall Street firm of fraudulently selling a "now notorious" financial instrument called Timberwolf. The complaint alleges Goldman was pressuring investors to take the risk of toxic securities off its books with knowingly false sales pitches.
- The Arizona District Court has found that Sarbanes – Oxley (SOX) provides for a company to require return from the CEO or CFO of any incentive compensation or profits on sale of stock which was given to the CEO and/or CFO in the twelve months following the first public notice of a financial document that is subsequently restated. Even if the CEO or CFO is not guilty of any impropriety, the innocent CEO or CFO must disgorge such funds.



*Australians are getting stronger.
twenty years ago it took two people to carry \$10 worth of groceries.*

Today, a five-year-old can do it.

The Marketplace:

*I don't know how I got over the hill
without getting to the top*



- 2009 Statutory Data from SNL Financial:

Charlottesville, VA (Vocus) May 4, 2010 -- Excess and surplus insurers endured another year of declining premiums in 2009, writing 7.5% fewer direct premiums versus the prior year, according to SNL Financial's analysis of the U.S. E&S market. The slide comes after significant declines in 2008, when premiums were down 8.6% from 2007.

All of the top ten E&S insurers by market share saw year-over-year declines in premiums written. American International Group Inc. wrote 15.1% fewer premiums in 2009, but retained its No. 1 position with nearly a quarter of the market share. Rounding out the top three, Zurich Financial Services Ltd. and Nationwide Mutual Group saw declines of 11.2% and 4.6%, respectively.

The gap between standard and specialty markets for declines in commercial lines direct premiums narrowed to 2% in 2009, down from 5% in 2008, suggesting that competition in standard lines is catching up to specialty, and the market is getting closer to a bottom, said Jon Wright, Director of Insurance at SNL.

- The soft insurance market is likely to continue despite an increase in the number of natural catastrophes in early 2010, according to the latest issue of Marketplace Realities & Risk Management Solutions, the long-standing annual series published by global insurance broker Willis Group Holdings (NYSE:WSH). Available free of charge on the company's website, www.willis.com, the report compiles market intelligence and analysis from Willis experts in the areas of Market Security, Property, Casualty, Employee Benefits, Directors & Officers Liability, Cyber, Construction and Surety coverage.

"The persistence of the soft rate environment in most lines, however, does not mean the marketplace is static," Willis Chairman and CEO Joe Plumeri wrote in an introduction to the report. "As these articles attest, the offerings and strategies of insurance carriers are always in motion, and the smart buyer will take advantage of a buyer's market not only to lower costs, but to adjust and improve coverage..."

- The property/casualty industry returned to profitability in the first quarter of 2010 despite continuing declines in both written premiums and earned premiums. Private U.S. property/casualty insurers' net income after taxes swung to positive \$8.9 billion in first-quarter 2010 from negative \$1.3 billion in first-quarter 2009, according to ISO and the Property Casualty Insurers Association of America (PCI). Insurers' overall profitability as measured by their annualized rate of return on average policyholders' surplus (or statutory net worth) increased to positive 6.7% for the first quarter of 2010 from negative 1.2% for the first quarter of 2009.

Insurers reported net written premiums dropped \$1.4 billion, or 1.3%, to \$105.1 billion for the three months ending March 31, 2010, from \$106.5 billion for the three months ending March 31, 2009. Net earned premiums declined \$2.8 billion, or 2.7%, to \$102.8 billion for first-quarter 2010 from \$105.6 billion for first-quarter 2009. The 1.3% decline in net written premiums in first-quarter 2010 reflects the ongoing consequences of a once-in-a-generation economic storm. In first-quarter 2010, seasonally adjusted total private-sector employment fell 2.7% compared with its level a year earlier, private-sector wages and salaries dropped 1.4%, and the average unemployment rate rose to 9.7% from 8.2% in first-quarter 2009.

Insurers' net investment gains — the sum of net investment income and realized capital gains (or losses) on investments — more than tripled, rising \$8.8 billion to \$12.6 billion through three-months 2010 from \$3.7 billion through three-months 2009.

Also contributing to the turnaround in insurers' overall results, underwriting results improved in first-quarter 2010 even though premiums continued declining. Net losses on underwriting fell by \$0.8 billion, or 29.6%, to \$1.8 billion through March 31, 2010, from \$2.6 billion through March 31, 2009, as loss and loss adjustment expenses (LLAE) dropped \$4.3 billion to \$74.5 billion from \$78.8 billion.

cont.



*I went to the doctor and was diagnosed with low blood pressure.
He wrote me a prescription for two IKEA self-assembly wardrobes.*

The Marketplace (cont.):

A 'jiffy' is an actual unit of time equal to 1/100th of a second



Reflecting the decline in LLAE, the combined ratio — a key measure of losses and other underwriting expenses per dollar of premium — improved to 101.1% for first-quarter 2010 from 102.2% for first-quarter 2009.

About a fifth of the decline in net LLAE is attributable to a drop in the LLAE caused by catastrophes that struck the United States. ISO estimates that private insurers' net LLAE from such catastrophes fell to \$2.7 billion in 2010 from \$3.5 billion in 2009, with net catastrophe LLAE for first-quarter 2009 including some late-emerging losses from Hurricane Ike in 2008.

Mortgage and financial guaranty insurers continued to suffer disproportionate losses on underwriting consequent to the recession, foreclosures, and defaults on securities. But their underwriting results improved significantly. Mortgage and financial guaranty insurers' net written premiums declined 24.8% to \$1.3 billion for first-quarter 2010. But their loss and loss adjustment expenses fell 40.8% to \$3.4 billion, and their combined ratio improved to 232.1% for first-quarter 2010 from 291.4% for first-quarter 2009. Excluding mortgage and financial guaranty insurers, industry net written premiums fell 1%, loss and loss adjustment expenses dropped 2.7%, and the combined ratio rose to 99% for first-quarter 2010 from 98.5% a year earlier as a result of increases in underwriting expenses and dividends to policyholders.

Policyholders' surplus — insurers' net worth measured according to Statutory Accounting Principles — rose \$29.2 billion, or 5.7%, to \$540.7 billion at March 31, 2010, from \$511.5 billion at year-end 2009, as a result of the \$8.9 billion in net income for first-quarter 2010 and a record \$22.7 billion in new funds paid in (new capital raised by insurers).

The figures are consolidated estimates for all private property/casualty insurers based on reports accounting for at least 96% of all business written by private U.S. property/casualty insurers.

AIG WATCH

- 6/7: Barron's opines that at around \$35 per share AIG is overpriced and there is very little up-side potential. They suggest that if investors are interested in investing in AIG they would be better advised to buy AIG bonds rather than equities.
- 6/8: Commenting on the failure to consummate the sale of subsidiary, Hank Greenberg says that Prudential was just too small - they would have had to borrow money equal to their market cap to fund the acquisition and make some special arrangement with the Chinese to retain the insurance license currently issued to Greenberg and AIG.
- 6/10: The Congressional Oversight Panel lambasted the U.S. Government's decision to rescue American International Group in September 2008, saying the bailout continues to have a poisonous effect on the marketplace.
- 6/14: American International Group Inc's U.S. government-rescue spared European banks from raising as much as \$16 billion in capital during the depths of the global financial crisis, according to a Congressional panel, Bloomberg News reported.

ABN Amro Holding and Danske Bank, Denmark's biggest bank, were among the firms that bought the most derivatives from AIG to trim reserves they held against investment losses, the Congressional Oversight Panel said last week in a report. ABN Amro may have had to raise \$3.5 billion if New York-based A.I.G. was allowed to fail in 2008, and Danske Bank would have lost as much as \$2.1 billion in relief, the panel wrote.

cont.



*My son has taken up meditation.
At least it's better than sitting doing nothing.*

*A Zen master once said to me "Do the opposite of whatever I tell you."
So I didn't.*

The Marketplace (cont.):

Ah, being young is beautiful, but being old is comfortable



6/17: U.S. market regulators have closed an investigation of American International Group and some of its executives over the giant insurer's near collapse in 2008 that led to a \$182 billion government bailout, two sources with knowledge of the matter said on Wednesday.

The U.S. Securities and Exchange Commission ended its probe focusing on AIG Financial Products head Joseph Cassano and others several weeks after the U.S. Department of Justice closed its criminal investigation in May.

The parallel criminal and civil probes were among the most high-profile inquiries stemming from the 2008 financial meltdown. Neither criminal prosecutors nor the SEC ever filed charges against AIG or any executives.

6/21: ICP Asset Management L.L.C. and its founder have been sued by U.S. regulators for their role in selling mortgage-backed securities to vehicles insured by American International Group Inc. as the housing market declined.

Thomas Priore, 41, and New York-based ICP allegedly directed more than \$1 billion of trades starting in 2007 by multibillion-dollar collateralized debt obligations known as Triaxx at artificially high prices to protect other clients from losses or generate profits for ICP, the U.S. Securities and Exchange Commission said in a lawsuit filed in federal court in New York.

The lawsuit may open a new front for the SEC in examining firms that managed mortgage-backed assets before the credit crisis that followed the 2007 collapse of the U.S. housing market. ICP allegedly violated its fiduciary duty by entering into prohibited investments, failing to obtain approvals for trades, misrepresenting the value of holdings and deceiving clients, the SEC said.

"The CDOs were complex, but the lesson is simple: collateral managers bear the same responsibilities to their clients as every other investment adviser," George Canellos, director of the SEC's New York regional office, said in a statement. "When they violate their clients' trust, we will hold them accountable."

6/22: The federal government's investments in American International Group Inc. "likely" will result in some losses, according to testimony Treasury Secretary Timothy Geithner presented to a congressional panel Tuesday morning.

The federal government is "making progress getting out of AIG," said Mr. Geithner during this oral testimony to the Congressional Oversight Panel, a congressionally created body to oversee the expenditure of the Troubled Asset Relief Program.

"However, TARP investments in AIG will likely still result in some loss," Mr. Geithner added.

In its 2010 first quarter earnings report, AIG estimated that it owed the government about \$101.6 billion.



*Three dreams of a man:
To be as handsome as his mother thinks.
To be as rich as his child believes.
To have as many women as his wife suspects.*

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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