MAY 7, 2012 | VOL. 90, NO. 9 WEST REGION

INSURANCE JOURNAL

THE NATIONAL PROPERTY & CASUALTY MAGAZINE

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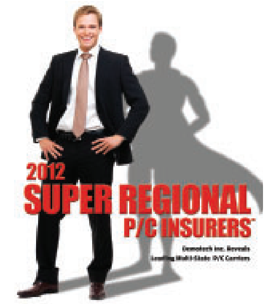
Special Report:
2012 Super Regional P/C Insurers™

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NATIONAL COVERAGE

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IDEA EXCHANGE

DEPARTMENTS

Opening Note

Too Old to Care

Put the following in the "I'll be dead or too old to care" category. Drivers will save $68 billion in fuel costs when the Obama Administration's 54.5 miles-per-gallon standard is fully implemented in 2030, according to a report by the Natural Resources Defense Council.

The 54.5 mpg by 2025 standard, if finalized, would double today's average fuel efficiency, saving drivers $4,400 over the life of the vehicle, the report shows. That's if the goal is reached by 3030, and if the administration and NRDC scientists are correct in their assumptions.

Rarely do projects get done on time. And plans that make sweeping change — for better or worse — seem to take even longer.

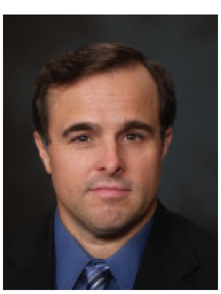
I recall the construction of the Century Freeway, Interstate 105 in Southern California, and being a youth in the back seat of a car and the adult driver would point and say "Look there, that's going to be a freeway someday."

Planning on the 105 began in the 1960s. It opened in 1993.

Environmentalists, community opposition and earthquakes were among reasons given for the long completion time of a much needed highway that takes drivers from the transit stop for the Green Line to Los Angeles International Airport.

> **California's high speed rail is another dream that, when it comes to fruition, most people reading this will long in the tooth – and then some.**

But similar arguments can be made for all projects. Speaking of the Green Line, planning for Los Angeles County's Metrorail system began in the 1970s and it wasn't until 1990 that the first line was in operation. And don't expect the Green Line to be able to take you all the way to LAX until 2028.



While people in the L.A. area are now able to take advantage of the 105 and the Metro, I'm sure there were many area tax-paying residents who have long passed who would have liked to have been served by these transportation options.

California's high speed rail is another dream that, when/if it comes to fruition, most people reading this will be long in the tooth — and then some. As a reporter in the desert northeast of L.A. I covered planning on the route expected to run from Francisco to L.A. That was in the late 1990s, and cost estimates of around $30 billion were being tossed out for an efficient and speedy magnetic levitation train. Despite voter approval of more a $9 billion-plus bond, the project is still being debated, and it's one that would provide a more conventional and slower moving train than the maglev train under consideration early on.

In April the California High-Speed Rail Authority passed a revised business plan that will provide a high speed train "within a decade" at a cost of $68.4 billion. Unlikely on either count.

And I'll be too old to care.

Don Jergler
West Editor

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News & Markets

Meteorologist: Tornado Near Stockton, Calif., not Unusual

The National Weather Service says the tornado that struck five miles outside of Stockton, Calif., last month was not unusual for the time of year.

The twister on farmland near Interstate 5 left a path of damage about a mile long. *The Record* of Stockton reported that it shredded a wood-frame shop, tipped over a big-rig trailer and sent shards of aluminum siding across more than an acre of land.

National Weather Service Meteorologist Stefanie Henry says it also took the shingles off the roof of a home.

There were no reports of injuries. Henry says California averages about eight tornadoes a year. IJ

Poll: Northwest Residents Rely on Vigilance to Protect Identities

Most Northwest residents are concerned about the threat of identity theft, but a majority rely on their own vigilance to protect themselves from fraudulent activity against their personal information, a poll from Seattle, Wash.-based PEMCO Insurance shows.

The poll shows less than one-fifth of drivers in the Northwest — 18 percent in Oregon and 16 percent in Washington — say they subscribe to an identity-theft protection service.

The insurer said a majority in both states engage in other identity-protecting behaviors, such as installing security software, using a shredder to destroy sensitive documents, and removing personal identification from wallets and purses.

A nationwide study cited by Washington State Attorney General Rob McKenna states that while the number of identity theft victims has decreased in recent years, identity fraud is costing consumers more out-of-pocket expenses. The mean out-of-pocket cost due to identity fraud increased 63 percent from $387 in 2009 to $631 per incident in 2010, according to the study. IJ

UC, FBI Reach Settlement in Berkeley Raid Suit

The FBI and University of California have agreed to pay $100,000 and destroy computer files to settle a lawsuit stemming from a raid on the offices of two groups in Berkeley.

Long Haul Inc. and East Bay Prisoner Support were raided in 2008 by federal agents and university police after authorities said threatening messages to animal researchers at the University of California, Berkeley had been sent from a computer at the storefront the two groups occupy.

Long Haul has public computer terminals and meeting rooms that attract people involved in left-wing causes.

Lawyers for Long Haul say officers seized all 14 of the group's computers. No evidence of criminal wrongdoing was found.

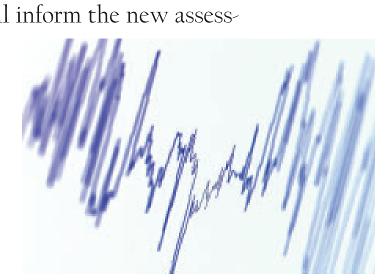
The *San Francisco Chronicle* reported that the university will pay three-fourths of the settlement. UC Berkeley officials maintain that their officers acted properly. IJ

Earthquake Hazard in Washington to Be Studied

The federal government is going to take another look at the potential earthquake hazard at Hanford in Washington.

The seismic assessment will update the Department of Energy's last comprehensive analysis in 1996.

The *Tri-City Herald* reported new understanding of seismic faults in the Pacific Northwest will inform the new assessment.



The largest earthquake recorded in the region was a magnitude-5.7 earthquake 72 miles from Hanford at Milton-Freewater in 1936. That's according to data collected for the design of the Hanford vitrification plant.

Eastern Washington also was hit by an earthquake with an estimated magnitude of 7.3 in 1872 near Lake Chelan. IJ

Declarations

Employee Relief

"An employer must relieve the employee of all duty for the designated period, but need not ensure that the employee does no work."

— Associate Justice Kathryn Werdegar wrote for a unanimous California Supreme Court ruling late last month in a decision that allows part of a class-action lawsuit over employee breaks against Brinker International Inc. to proceed. The court ruled employers only have to provide meal periods to workers, not make sure employees actually take them.

State Fund Discipline

"The competitive market continues to underprice business. We are maintaining our pricing discipline, and as a result we tend to lose business when others underprice it."

— State Fund CFO Dan Sevilla, explaining California's largest workers' compensation insurer's year-over-year drop in premiums from 2010 to 2011.

Kriedler Commish

"Me serving so long is particularly good for an insurance commissioner, who have a fairly short lifespan on average. At the end of this term I will have 12 years, and that's two more than any insurance commissioner in the country."

— Washington State Insurance Commissioner Mike Kreidler following his announcement he's seeking a fourth term in office.

J.D. Power

"Repair times have also increased slightly from the last quarter. This, in addition to customers waiting longer for a more convenient time, or the weekend, to bring their vehicle to the repair shop, has contributed to the overall lower satisfaction scores."

— Jeremy Bowler, senior director of the insurance practice at J.D. Power and Associates, which released its 2012 U.S. Auto Claims Satisfaction Study — Wave 2 showing overall customer satisfaction for auto claims has dropped the lowest level in three quarters.

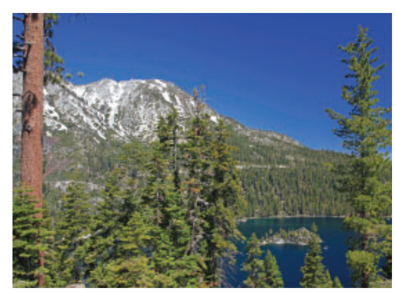
Figures

2,800

BMWs are being recalled by the car maker because a circuit board can overheat and cause a fire. The recall covers some 2011 and 2012 models of the 5-Series, 5-Series Gran Turismo, 6-Series convertible, 7-Series, X5 SAV and X6 SAV.

10,000

Acres of forested area in Lake Tahoe in California will be thinned by the U.S. Forest Service in an effort to reduce fuel for potentially catastrophic wildfires. Pending since 2004, the project won final approval last month.



$600,000

Is the limit of Colorado's liability under state law for a wildfire apparently started by a Colorado Forest Services prescribed burn that killed three people, consumed 4,140 acres, destroyed 25 structures and forced the evacuation of 900 homes.

$200,000

Is what Beth Fischer's medical bills have reportedly amounted to after she suffered a dog bite at the base of Aspen Mountain in Colorado last year. Her attorneys have filed a lawsuit against Aspen Skiing Co. and the dog's owners.

Business Moves

SIAA

Hampton, N.H.-based Strategic Insurance Agency Alliance has signed nine new members in the Western United States.

The new members include:

- Farling Insurance Agency of Litchfield Park, Ariz.
- Baldrica & Company of Colorado Springs, Colo.
- Galli Insurance Agency of Jackson, Calif.
- SVIG Insurance Center of San Marino, Calif.
- Alive Insurance Services of El Cerrito, Calif.
- Nevada Docs Agency of Las Vegas, Nev.
- Solid Gold Insurance Agency of Pasadena, Calif.
- Sorensen, Lewis and Associates of Richfield, Utah
- Risk Managers Insurance of Salt Lake City, Utah

Since it's inception in 1995, SIAA has signed over 4,000 new members. SIAA is focused on the creation, retention and growth of the independent insurance agency distribution system.

Associated General Contractors of California, Zurich

The Associated General Contractors of California (AGC-CA) and Zurich have collaborated to provide insurance services for its members.

Under the agreement, Zurich in North America will provide AGC-CA members with insurance products for workers' compensation, general liability, auto and property coverages, as well as comprehensive safety and risk management services.

AGC represents more than 1,000 construction companies and construction related firms throughout California.

AGC members represent some of the state's smallest business enterprises to some of the nation's largest construction companies, with annual construction volumes ranging from less than $100,000 to more than $100 million.

AGC members perform the majority of non-residential construction, and build the state's highways and bridges, office buildings, hotels, shopping centers, plants, refineries and manufacturing facilities, as well as schools, colleges and universities, hospitals, retirement homes and health care facilities.

California Contractors Insurance

CA-ContractorInsurance.com has been launched for California contractors to go to for information on insurance issues facing their business. The website brings information, tips, products, and expert advice to help California contractors understand and protect their business with insurance policies.

CA-ContractorInsurance.com features descriptions of the coverages California contractors and small businesses need to protect their company assets. ContractorInsurance.com breaks down the laws and regulations into simple forms by coverage, and sorts through the details of workers' compensation, general liability and small business bonds.

CA-ContractorInsurance.com provides California workers' compensation, California liability insurance, California contractors bond and employee leasing products to small business owners looking to save money on their California contractors insurance.

Blue Cross

Blue Cross and Blue Shield of Montana along with Blue Cross of Idaho are buying an Idaho company that provides health products and employee-benefit administration services and merging it with a similar Montana company.

The insurance companies have acquired Peak 1 Administration of Coeur d'Alene, Idaho, and merged it with Blue Cross subsidiary Insurance Coordinators of Montana, which is based in Helena.

The *Independent Record* reported the company will operate under the name of Peak 1 Administration. Insurance Coordinators serves customers in Montana, Idaho, Wyoming, Washington and Oregon.

Officials declined to discuss the purchase price.

Peak 1 President Dan Crawford says the merger allows them to increase the services they offer and expand the area they serve.

PPIB

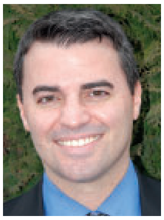
Professional Program Insurance Brokerage of Novato, Calif. has formed a new senior/home health care program.

This program includes, but is not limited to the following: nurse registry, healthcare staffing, adult daycare, medical director, long term care, housekeeper, sitter, host home, live-in companion, assisted living, group home, residence manager, hospice care and e-health.

Coverage is also available for most individuals (including doctors) within this industry needing their own personal coverage or for the entity.

The policy can include professional liability, general liability, sexual misconduct, HNOA, privacy, property and other ancillary coverage lines. Limits are available up to $5 million with minimal deductibles. IJ

People



Steven Tanta

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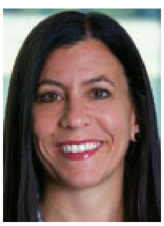

Jill Linhardt

Douglas Benner

Renton, Wash.-based **Bell-Anderson Agency Inc.** named **Steven J. Tanta** chief financial officer.

Tanta joined Bell-Anderson in 2009 as a sales executive.

Bell-Anderson is one of the largest regional insurance agencies in the Pacific Northwest.

Cigna Corp. named **Kim Bimestefer** president and general manager for its Mountain States region, including Colorado, Wyoming, Utah and New Mexico.

Bimestefer will be based in Denver. She will serve as the senior leader for Cigna's operations in the region.

Bimestefer has more than 25 years of experience in the benefits industry. Most recently, she served as president of Cigna's Taft-Hartley and federal business segment. She will continue in this role in addition to her leadership of Cigna's operations in the Mountain States.

Encino, Calif.-based **NAS Insurance Services** named **Jill Linhardt** as senior vice president of claims.

Linhardt has been with NAS since 1994 and is a principal. An attorney by training, she began as an underwriter with NAS and moved to the cliams in 2000. During the past 12 years, she has served as vice president of claims, overseeing the department, including coverage evaluations, communications with attorneys, insureds and reinsurance clients.

NAS is an independent underwriting manager of specialty insurance with full binding authority to underwrite on behalf of Lloyd's of London and other carriers.

San Jose, Calif.-based **EK Health Services**, a national workers' compensation managed care firm, has promoted **Dr. Douglas Benner** to chief medical officer.

As CMO, Benner is responsible for leading the operational management of EK Health's physician services and medical staff administration.

Dr. Richard Thompson, who has been the CMO at EK Health for eight years, will now focus on the Next Step Medical Advisory Program as its medical director.

Benner joined EK Health in 2011 as medical products business development officer. He came from Kaiser Permanente.

EK Health Services provides workers' compensation case management, utilization and peer review and Medicare set aside services to insurance companies, employers, for-profits and public entities.

Global law firm **Mayer Brown** named veteran insurance regulatory advisor **James R. Woods** as a partner and a co-leader of the global Insurance Industry Group.

Also a member of Mayer Brown's corporate and securities practice, Woods will divide his time between the firm's offices in Palo Alto, Calif., and New York.

Previously, he was a partner at Dewey & LeBoeuf, where he served as co-chair of that firm's global insurance industry sector practice.

Woods has more than 35 years' experience representing insurers and insurance-related entities.

Woods is general counsel to The Surplus Line Association of California, and to the Worldwide Broker Network.

He also represents the Insurance Information Institute and the Insurance Industry Charitable Foundation on a pro bono basis.

Pauline Bareno joined **Calabasas**, Calif.-based surplus lines broker Maverick Commercial Insurance Services as senior vice president.

Bareno has more than 30 years of property/casualty insurance experience, including an underwriting and marketing background.

Her experience includes insurance companies, retail and wholesale brokerage specializing in large workers' compensation insurance programs. IJ

News & Markets

Replacement Costs Battle on the Road to Somewhere

By Don Jergler

Steve Young was somewhat upbeat when he was asked what he thought about the outcome of a long-brewing legal battle between three insurance associations and the California Department of Insurance.

That upbeat attitude is because a court of appeals accepted his association's amicus brief last month. That may sound a bit trivial, but Young sees it as a signal there's at least a slight chance the group will have its day in court sooner rather than later.

Young, vice president and general counsel of Insurance Brokers & Agents of the West, applauded the Second District Court of Appeals action in granting IBA West's request to file an amicus brief in the litigation over replacement cost regulations that were successfully pushed through the courts by the California Department of Insurance last year.

In April IBA West filed the brief, a request to support the petition for writ of mandate filed by the Personal Insurance Federation of California and the Association of California Insurance Companies challenging the legality of the replacement cost regulations.

> 'If the commissioner has the authority to go after underwriting on this, his authority could be unbridled.'

The writ would speed the appeals process along. Otherwise, the appeals process could go on for years and draw out a battle that was ignited last year.

Legal Battle

When CDI and Insurance Commissioner Dave Jones came up with the regulations regarding how to deal with and present to consumers replacement costs on homeowners' insurance policies last year, it touched off a legal battle between the three associations and CDI attorneys.

While CDI argues the regulations were necessary to protect homeowners, the groups believe CDI and Jones overstepped their authority, and that this move could be an inroads to enabling the regulators to wield a broader authority over more than just those entities in homeowners insurance.

"It's the commissioner claiming the authority to mandate underwriting guidelines through the replacement costs formula," said Mark Sektnan, president of ACIC. "We believe any additional authority has to be granted by the Legislature."

He added: "If the commissioner has the authority to go after underwriting on this, his authority could be unbridled."

In January, a Los Angeles County Superior Court judge denied a motion for judgment on the pleadings brought by the three associations. It is that denial that the plaintiffs and IBA West are asking the state appellate court to overturn.

While the court's acceptance of the amicus brief doesn't necessarily indicate how it will evaluate the writ of mandate filed by the groups for a speedy appeal, Young took the acceptance as a good sign.

"The fact that the court did accept our amicus brief we think is certainly is not a bad sign," Young said.

The second district court of appeal denies roughly 96 percent of all petitions for writ of mandate, Young said, adding, "We don't hold out a lot of hope that our petition is going to be granted."

continued on page 16

News & Markets

Replacement, continued from page 14

Long Road

However, if the court does end up denying the mandate, IBA West and the other associations will just take the long road and deal with a normal appeal process, Young said.

What's the hurry?

The regulations sought by CDI and California Insurance Commissioner Dave Jones were not stayed when an earlier court gave the state's insurance regulatory body authority to move forward with the new replacement costs regulations.

> **'The fact that the court did accept our amicus brief we think is certainly is not a bad sign.'**

The regulations, intended to reduce underinsurance in homeowners' insurance policies, require all insurance companies to calculate replacement cost estimates using a standardized set of more than 20 criteria. The regulations also require producers to provide detailed information disclosing to customers the amount of the replacement cost estimate, and how it was calculated.

The California insurance code doesn't necessarily authorize CDI to create such mandates. However, CDI lawyers added provisions to the regulations prohibiting insurers, brokers and agents from utilizing any other replacement cost calculation methodology and asserting that alternative methodologies would constitute an "untrue, deceptive, or misleading" statement in the business of insurance, which is prohibited by Insurance Code Section 790.03(b), part of the Unfair Insurance Practices Act.

IBA West's argument is the regulation imposes significant burdens on insurance producers, and it grants Jones and CDI broader powers that could be extended into other areas of insurance, Young said.

Young said the standardized set of criteria "isn't a bad idea just in terms of the merits of the idea." IBA West's issue is that Jones is overstepping his authority, and it's the Legislature that makes the laws and the administration and CDI's role is to interpret those laws, Young said.

"The commissioner doesn't have the legal authority to say 'Hey, I got a really great idea and I'm going to make everybody do the following 25 ideas,'" Young said. "There's nothing that says the commissioner can require every homeowners' insurer and every broker-agent to estimate replacement costs using one and only one formula."

He added it's his belief that Jones' legal team "came up with what I think is a pretty sneaky backdoor attempt to find regulatory authority."

Pat McConahay, CDI's deputy press secretary, defended CDI's actions and said the new regulations are necessary to protect homeowners seeking insurance.

"This regulation is an important consumer protection measure," McConahay said. "When a homeowner comes to an agent to buy a policy and the agent provides an estimate of how much it will cost to replace the home if it is destroyed, the consumer should be given a complete and accurate estimate. This regulation achieves that goal."

The regulation places four principal obligations on the insurance industry.

The regulation forbids licensees from communicating an estimate of replacement cost to an applicant or an insured on a renewal of a homeowner's insurance policy that provides coverage on a replacement cost basis unless the estimate takes into account at least 22 factors set forth by CDI.

The regulation states that communicating a replacement-cost estimate not comporting with the method constitutes a misleading statement and pursuant to California's insurance code can lead to a rrange of penalties, including fines of up to $10,000 per violation.

It creates strict liability for use of third-party sources, meaning licensees are bound by the method even if they rely upon information, data or statistical methods obtained through third-party sources.

The regulation requires licensees at least annually to update the sources and methods they use to generate replacement-cost estimates.

All associations involved in the suit contend the regulations constitute an illegal intrusion into insurance underwriting by CDI, and violate First Amendment rights of insurers by prohibiting non-conforming statements regarding other replacement cost methodologies. IJ

Avoiding gaps in public entity insurance coverage

CivicRisk is a managing general underwriter specializing in state-of-the-art excess casualty coverage for public entities large enough to bear some level of risks. Because no two public entities are alike, gaps in coverage are not all that unusual. For over four decades, CivicRisk underwriters have worked with public entities and transit facilities to avoid these gaps.

Today, CivicRisk offers clients—cities, counties, school districts, transit and utility authorities and joint power authorities/pools—a suite of excess liability coverages in a single policy. In fact, one of the CivicRisk underwriters was involved with the original creation of the retained limit and blended coverage approach on a single policy.

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News & Markets

Path Set for ACOs in Healthcare Delivery

By Stephanie K. Jones

Even if the U.S. Supreme Court strikes down the Obama administration-backed healthcare reform legislation, accountable care organizations (ACOs) — models aimed at improving the quality of healthcare delivery while decreasing costs — are likely to survive, say a panel of experts in healthcare liability issues.

ACOs are networks of healthcare providers that band together to provide for the consistency and coordination of services for patients. Developed partly in anticipation of and in response to the Patient Protection and Affordable Care Act of 2010, ACOs are similar in some ways to health maintenance organizations (HMOs), which were developed in the 1980s and fell out of favor mainly due to restrictions in care and services available to patients.

"There are probably as many types of ACOs as there are car models on the market," said Kristin McMahon, chief claims officer for IronHealth. However, they mostly fall into two broad categories — public and commercial. The categories are defined by who pays, whether it's a governmental entity, such as Medicare, or a private insurance organization.

Speaking at a recent PLUS Medical Professional Liability Symposium as part of a panel on liability exposures faced by ACOs, McMahon explained that ACOs are both the result of an evolution in healthcare delivery models in reaction to HMOs and an attempt to improve the quality of healthcare while keeping costs down.

With the early HMOs, insurers would assign "a fixed monthly per patient payment to a provider and that payment was meant to cover all treatments for that patient," McMahon said. "In addition, health insurers implemented a lot of cost containment measures," such as gatekeeper systems, under which a patient could only see a specialist if their primary care physician provided a referral.

"There were restricted networks, there were gag orders forbidding physicians from discussing patients' alternative, albeit more expensive health care options. … This infuriated the American public," McMahon said.

As a result, lawsuits followed as did multimillion-dollar jury awards.

ACOs, on the other hand, are patient-centric models designed to implement quality without limiting choice, she said. Common characteristics of successful ACOs include broader access to care with extended hours and weekend access, case management, management of electronic medical records, care coordinators and use of data analytic systems to track population management.

Liabilities and Exposures

While they differ in a number of ways from HMOs, ACOs may have many of the same liability issues as previous healthcare delivery models, according to Ciara Frost, a partner in the Chicago-based law firm of Kerns Frost Pearlman LLC.

Frost said there are risks that may arise out of the nature of an ACO's structure and its partners, which include a variety of providers, vendors and other participants.

"The ACO liability exposures are similar to historical managed care organization exposures in many respects," Frost said. However, they differ in that there is more freedom of choice for care alternatives — participants can go out of network for care if they choose — and the financial restraints on physicians often imposed by traditional HMOs are absent, so there's a lower risk of litigation over those types of exposures.

"Nevertheless there still are financial incentives to cut costs and underutilize, and you can be sure the plaintiffs' bar will be very focused on those," Frost said.

ACOs are "assuming accountability for quality of care. They also assume the duty to coordinate that care," she said. Theoretically, the assumption of those duties should heighten ACO's liability risk going forward.

"ACOs are the primary provider organization. No matter what they do they're going to be [responsible] for outcomes and that may lead to negligence claims," Frost said.

Medical treatment is one obvious exposure that is likely to give rise to claims against ACOs, she said, but there are others. "I think we're going to see more claims on failure to coordinate care," she said. ACOs have an obligation to coordinate care but "that's easier said than done. … Where things fall through the cracks for various reasons the ACO may be held accountable for those lapses."

Regardless of the liability exposures they may face, ACOs in some form are likely to remain the future of healthcare delivery, the experts say. IJ

P/C Insurance Employment Report

West Insurance Employment: California Job Market to Stay Soft

By Don Jergler

The phrase "Go west young man," may not apply so well to the insurance industry in the nation's most populous state.

An examination of Bureau of Labor Statistics and Economic Development Department data for California shows hiring for the insurance industry looks to be flat for the next two years. The exception might be in jobs for sales agents.

"What I can tell from looking at both sets of data is that employment's mostly going to be flat over the projected time periods," said Kimberly Ritter, an analyst for the Los Angeles County Economic Development Corp., which regularly tracks and examines labor and business data statewide.

In 2011, for insurance carriers and related insurance activity, there were 179,000 jobs in California, which represents a year-over decline of .4 percent. Many of those job cuts were by carriers, the data shows. Employment for insurance carriers declined by 3 percent, while employment for agencies, brokers and other related insurance activities rose by 2.1 percent.

It's unlikely to improve in the Golden State anytime soon. By occupation, insurance-related employment will likely be down for the next two years, according to Ritter's reading of the data.

Adjusters, examiners, investigators, underwriters, and claims processing and policy clerks all show declining employment over the next two years, she added. The only job area that shows promise is sales agents, where jobs are expected to grow slightly, she said.

The short term outlook is stagnant. However over the next five or 10 years, it looks like "better growth," Ritter said.

Still, the long-haul for insurance employment is far from positive. Underwriters will continue to shed jobs, with projections starting in 2008 and going forward to 2018 showing a 700-job loss for California, and insurance claims and policy processing clerks showing 200 jobs lost. Small drops to be sure, but no signs of gains.

However, over that same period, the number of sales agents will grow by 2,100, and claims adjusters and examiners will show a growth of 1,100 jobs, according to the data.

What that all means is that companies will hire slowly, and cautiously, and find a way other than hiring to deal with increased demand for their insurance products, Ritter said.

"As far as the insurance industry goes, demand for insurance is going to increase with the next 10 years, but employment is going to increase slower than demand," she added.

Aside from cautious employers taking some of the steam out of any jobs recovery, that slower job growth will be due to consolidation and corporate downsizing, as well as competition from direct mail and Internet sales, she said.

In other words, clerking duties will continue to be taken over by software and technology, and sales of personal lines like car insurance will be done increasingly over the Internet.

Some good news is that the lackluster growth in the industry may be partially offset by employment gains in healthcare, with the field growing along with the number of aging baby boomers, as well as population growth. And, as the housing market recovers the western region along with the rest of the nation should see some demand for insurance and some employment growth, Ritter said.

Despite the less-than-optimistic employment data, not all companies are preparing for an extended hiring slowdown.

"My estimate would be that we will hire an additional 10 percent of our staff," said Eileen Bacon, senior vice president of human resources for Lockton Insurance Brokers LLC, the southern California subsidiary of Lockton Cos. Lockton has 320 employees in the region.

While the firm is hiring in the region, the brunt of Lockton's future additions will be to replace individuals who resigned or who have been terminated.

Specifically, Lockton will look to add agents to accommodate the anticipated rebound in homebuilding activity, as well as some to handle more commercial business, Bacon said.

"Homebuilders seem to be coming back," she added.

Student Interest

One of the areas Lockton will be adding to is its associate account manager program, which recruits from area colleges and universities, Bacon said, adding that the program has a 95 percent retention rate.

And one of the schools Lockton often taps for new blood for its program is the Mihaylo College of Business and Economics at California State University Fullerton, which is seeing an upswing in interest being expressed from potential employers.

Director Weili Lu said the program, designed for students who are primarily interested in careers in the insurance and financial services industry, has traditionally placed about 100 students a year with firms. That dropped off dramatically when the economic mud hit the fan around 2008. The program placed less than 70 students total in the next two years, she said.

"We had some bad years in 2009 and 2010," Lu said, adding, "but starting from 2011 we saw some pick up, especially this year."

> **'As far as the insurance industry goes, demand for insurance is going to increase with the next 10 years, but employment is going to increase slower than demand.'**

In late 2011 and so far in 2012, commercial carriers, as well as independent agents, have come to Lu expressing interest in hiring, she said.

In 2011, more than 60 students were hired out of the program, and "I'm hoping 2012 will be more," she added.

In fact, in February, Lu had two commercial carriers, who she declined to name, come to the school and express interest in hiring, one of which wanted to hire seven commercial underwriters.

A Bright Sign

Mara Klug, vice president of the Los Angeles region for Adecco USA, a national staffing and employment agency, knows first-hand that firms tend to take on temporary workers before launching any serious hiring, so when she sees an uptick in her business, she knows full-time hiring by area firms typically follows.

"The insurance companies that we have worked with historically have not used our services as much in the last couple of years because of the decline in the economy," Klug said. "But in the last six months we've seen an increase in the number of requests from our insurance company clients to help them with temporary employees in support positions."

These increased employment queries include customer services and claims support, she said.

"A lot of times what has happened during the downturn in the economy, as people left companies, the companies would try to not replace them and have some of the remaining employees take on different roles," she said. "A lot of times they'll start with temp employees, and if the person works out well many times they'll hire them."

So she takes it as a good sign that in the last six months her clients have started to return to her looking to beef up their workforces with temps, she said.

"I have about four or five customers in the L.A. market that have come back to me because all of a sudden they are needing our services again," she said, declining to name her clients.

Some of the companies have needed 10 to 15 people in customer services or billing, almost an entire staff's worth, and others have needed only one or two people in, say, claims support, she said.

"Based upon the information I've gotten from my customers, there will be a need for more temporary employees," she said. "I definitely think there will be more temp hiring."

And the better news for those in search of employment is that she predicts this trend will continue at least through 2012.

Mixed Bag

Insurance employment across the western United States seems to be a mixed bag of good news and bad.

According to the *Insurance Journal* 2012 Agency Salary Survey, only 20 percent of agencies in the states of Arizona, Colorado, Idaho, Oregon and Washington said they increased staff size in 2011.

The good news is most agencies polled said they stayed the same (66 percent), while only 12 percent said they decreased staff size.

In fact, the status quo seemed to be the favored answer for poll takers in terms of employment size. The poll shows that in 2012, 66 percent of agencies in the region answered that staff size would "stay the same" this year. Less than 10 percent said they anticipate decreasing staff size, and nearly 24 percent said they expect it to increase.

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P/C Insurance Employment Report

Employment, continued from page 21

Arizona stood out in the survey as the state in which most agencies responding to the poll (35 percent) expected staff size to increase in 2012, and as the state which had the most respondents say their agencies increased staff size (nearly 29 percent) in 2011.

Oregon had the fewest agencies say they increased staff size (15 percent) in 2011, and that state was among the lowest (23 percent) for western states in which agencies said they are planning a staff increase in 2012. Only 10 percent of respondents in Washington said they anticipate a staff size increase in 2012.

According to the Insurance Information Institute, which provides an employment data compilation that's current to 2011, California leads the western region in terms of insurance employment with more than 200,000 employees in the insurance sector.

In fact, the western region accounts for roughly 16 percent of the nation's 2.2 million insurance employees.

Arizona and Colorado have just over 37,000 insurance employees in each of those respective states. They are followed by Washington with almost 40,400 employees, Oregon with more than 26,000 employees and Utah with nearly 16,400. Nevada has almost 11,000 employees, Idaho has just over 8,300, New Mexico nearly 8,200, Hawaii has slightly over 7,000 and Montana has roughly 6,500 insurance employees.

'Based upon the information I've gotten from my customers, there will be a need for more temporary employees. I definitely think there will be more temp hiring.'

Employment in the insurance industry in the region has fallen in step with U.S. employment, which has dropped more than 620,000 jobs since 2007, according to I.I.I. data.

California shed more than 94,000 of those jobs since 2007. Insurance-related employment losses in other western states since 2007 are as follows: Arizona (12,652), Colorado (11,997); Washington (10,377); Oregon (7,318); Utah (7,082); Nevada (4,976); Idaho (4,101); New Mexico (2,813); Hawaii (2,393); and Montana (1,233). Wyoming and Alaska were not included in I.I.I.'s data. IJ

National Employment

For a National employment outlook see **Insurance Jobs Outlook: Getting Better, Region by Region** on page **N10**.

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News & Markets

OSHA Hit for Taking Too Long to Adopt Workplace Safety Rules

By Sam Hananel

The nation's premier worker safety agency takes nearly eight years on average to adopt new safety regulations, government auditors said in a report.

The Occupational Safety and Health Administration takes far too long compared to other agencies, safety experts said during a Senate hearing on the report by the Government Accountability Office.

Critics claim the agency has become overly cautious in setting new rules on dangerous chemicals and other on-the-job hazards, hamstrung by procedural and political roadblocks.

The process for approving new regulations at OSHA averages about 50 percent longer than the Environmental Protection Agency and at least twice as long as the Transportation Department, auditors said.

'We have created barriers based on false alarms, and the need now is to lower them so that worker protection can proceed again without delay. It is no exaggeration to say that lives are at stake.'

"We have created barriers based on false alarms, and the need now is to lower them so that worker protection can proceed again without delay," Michael Silverstein, former director of the Washington state OSHA program, told the Senate Health, Education, Labor and Pensions Committee. "It is no exaggeration to say that lives are at stake."

Senate Democrats say the delays at OSHA are unacceptable while workers are being injured or killed. It took nearly a decade, for example, for OSHA to issue safety rules on construction cranes. In the meantime, several cranes toppled in accidents, and people were killed.

OSHA officials blame lengthy waits on greater procedural requirements, shifting priorities and a higher standard of judicial review than most federal agencies face. Heavy pressure and litigation from business groups are also factors.

Revae Moran, the GAO's director of education, workforce and income security, said sometimes OSHA will begin work on a set of regulations — construction scaffolding, for example — and then put it aside for years while focusing on other issues.

"Why it would take 19 years to set a scaffold standard doesn't necessarily make sense," Moran said, citing a 1996 rule.

Business groups claim OSHA creates problems for itself by ignoring employer concerns when it develops new standards. OSHA officials often don't seek out industry guidance until after they make a risk assessment, said David Sarvadi, a lawyer representing the U.S. Chamber of Commerce.

"OSHA needs to talk to people before they sit down and start writing the rule," Sarvadi said.

But saying the government needs more regulations is fraught with political risk in an election year. GOP presidential hopefuls and Republican lawmakers have made an issue of what they say is over-regulation by the Obama administration. President Barack Obama signed an executive order last year requiring federal agencies to target and eliminate burdensome rules, even as they issue new ones.

A quarter of OSHA safety rules approved since 1981 have taken more than a decade each to complete, according to the GAO report.

After putting out 47 new safety rules in the 1980s and 1990s, OSHA has slowed, approving just 11 new rules since then.

The GAO report recommended that OSHA officials collaborate more with the National Institute for Occupational Safety and Health, a federal research agency that makes workplace health and safety recommendations.

Randy Rabinowitz, director of regulatory policy at OMB Watch, a nonprofit advocacy group that monitors federal regulations, said OSHA should pick a few hazards and see those priorities through without shifting gears so often. She suggested the agency could also rely more on scientific evaluations prepared by other agencies to avoid duplicating work and get the industry to share more data during consultations.

Other ideas would require congressional action, such as amending federal law to change the tough judicial standards OSHA rules must meet. IJ

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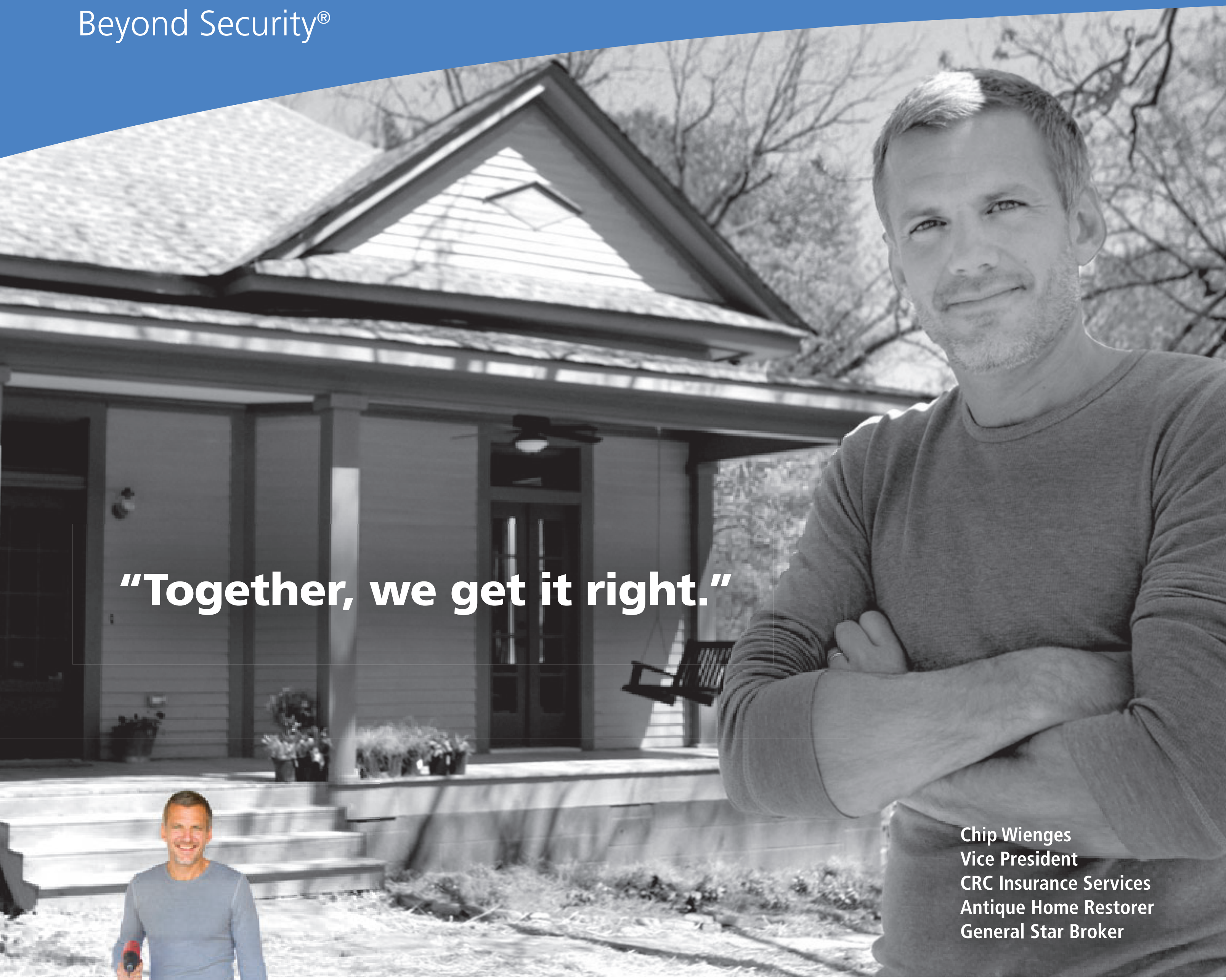

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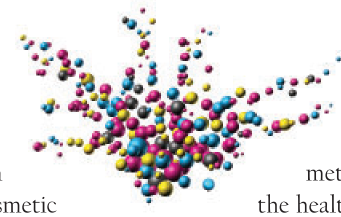
News & Markets

U.S. Tells Industry to Further Test Safety of Nanotechnology Products

By Anna Yukhananov



U.S. health regulators said consumer products that use nanotechnology may have unknown effects on the human body, and advised food and cosmetic companies to further study the safety of these tiny particles.

The U.S. Food and Drug Administration has issued two draft guidelines calling for more studies, putting, for now, much of the onus for safety on companies.

The FDA also rejected a consumer group's petition from 2006 that urged a separate category of regulation for nanotechnology due to its "unique human health and environmental risks."

Nanotechnology involves designing and manufacturing materials on the scale of one-billionth of a meter — so small it cannot be seen with a regular light microscope. It is used in hundreds of products in areas ranging from stain-resistant clothing and cosmetics to food additives, but the health effects of nanoparticles are still poorly understood.

Nanoparticles may be able to penetrate the skin, or move between organs, with unknown health effects.

"Understanding nanotechnology remains a top FDA priority," FDA Commissioner Margaret Hamburg said in a statement. "FDA is strengthening the scientific tools and methods for evaluating food products, cosmetics, drugs and medical devices."

'Understanding nanotechnology remains a top FDA priority.'

The FDA advised companies that use nanotech in food additives or food packaging to consult with the agency and show that the changes are safe before selling their products.

Makers of most U.S. food additives and ingredients can tell the FDA that their ingredients are "generally recognized as safe" in order to legally sell them.

The FDA said nanotechnology does not automatically fall into this category, meaning companies would have to prove additional safety data before approval.

Erik Olson, director of food programs at Pew Health Group, a consumer advocacy group, said companies can often simply inform the FDA that certain food additives are safe. But the new guidelines for the first time show the FDA thinks nanomaterials deserve greater scrutiny.

"The FDA is essentially saying (to companies), we don't think you can just make your own decision a nanomaterial is safe without telling us," Olson said.

The International Center for Technology Assessment, which filed the 2006 petition, sued the FDA late last year for being slow to reply. Jaydee Hanson, policy director at the center, said legal action may have prompted FDA to finally issue guidance for nanotech in food and cosmetics.

The European Union requires companies to prove a nanotech product is safe before it can be sold, Hanson said.

For cosmetics, the FDA said companies should also do additional testing of products. The FDA does not require cosmetic companies to submit safety data before selling their products, and the guidance is unlikely to have a big impact on large cosmetic firms like Avon Products Inc, which already comply with European rules.

Avon said it adds nanomaterials like titanium dioxide or zinc oxide to cosmetic products to boost protection against the sun's ultraviolet rays and let sunscreens rub in without leaving white marks. IJ

News & Markets

Progressive Expands Commercial Auto Coverage Limits

Progressive Insurance has doubled the available liability limits of its commercial auto policies. It now offers options for $1.5 or $2 million. The expanded limits mean business owners won't need to buy a separate umbrella policy to meet the liability requirements for large projects.

"We've seen business owners struggle at times with liability requirements on larger projects," said Cory Fischer, commercial auto product manager at Progressive. "Let's say a business owner with a standard $1 million policy wins a bid for a large project, but the contract requires $2 million in liability. The business owner's best option might be to buy a $1 million umbrella policy to make up the difference. Sure, it meets the contract requirements. But because most umbrella policies have a minimum premium requirement, it comes at quite a cost — often up to

$1,000 of premium for what otherwise might be just $200 worth of coverage."

With this option, business owners pay only incrementally more for the needed limits because it's on top of the standard limits already on their policy. Progressive offers insurance for personal and commercial autos and trucks, motorcycles, boats, recreational vehicles and homes. IJ

Travelers Enhances Cyber Product for Tech Firms

Travelers has introduced an enhanced version of its product-suite CyberFirst with eight first party coverage options designed for technology companies.

The new expense reimbursement module covers costs resulting from cyber attacks including theft of assets, intellectual property or private information; as well as telecommunications theft protection, a coverage option only available through CyberFirst.

This new module complements an existing trio of third party cyber liability coverage options including technology errors and omissions liability; network and information security liability; and communications and media liability – all specifically for technology companies.

The expense reimbursement coverage options include:

- Security breach notification and remediation expense
- Crisis management service expenses
- Business interruption and additional expenses
- Cyber extortion expenses
- Computer program and electronic data restoration expenses
- Computer fraud
- Funds transfer fraud
- Telecommunications theft

The new first party options complement Travelers' existing enterprise-wide and worldwide liability coverage which provide up to $25 million in protection.

According to a recent study, the cost of a data breach per record is $194. According to a Ponemon Institute Research Report: "U.S. Cost of a Data Breach Study, March 2012". These costs can add up quickly. For example, a breach involving 10,000 records could cost nearly $2 million.

In addition to this new product, Travelers offers cyber liability coverage for public sector customers, bond and financial products customers, among others.

CyberFirst will be available in all 50 states. IJ

News & Markets

Transportation Chief Calls for National Ban on Cell Phone Use While Driving

By Jim Forsyth

U.S. Transportation Secretary Ray LaHood has called for a federal law to ban talking on a cell phone or texting while driving any type of vehicle on any road in the country.

Tough federal legislation is the only way to deal with what he called a "national epidemic," he said at a distracted-driving summit in San Antonio, Texas.

LaHood said it is important for the police to have "the opportunity to write tickets when people are foolishly thinking they can drive safely or use a cell phone and text and drive."

LaHood has previously criticized behind-the-wheel use of cell phones and other devices, but calling for a federal law prohibiting the practice takes his effort to a new level.

The National Highway Traffic Safety Administration estimates that 3,000 fatal traffic accidents nationwide last year were the result of distracted driving.

But Gary Biller, president of the National Motorists Association, said laws banning specific actions like talking on a phone or texting are not necessary because those actions are already covered by existing distracted-driving laws. It would be more productive, he said, to invest resources in campaigns that discourage inattentive driving in general.

"It shouldn't matter if the driver is distracted by a conversation with another vehicle passenger, tuning the radio, eating a snack, or talking on a cell phone," Biller said in a statement. "Existing laws cover all those distractions and more."

LaHood said, however, he was not as concerned about people who eat, apply makeup, or perform other distracting activities in cars because "not everyone does that."

LaHood was joined by people who have been hurt in accidents caused by motorists talking on cell phones, including children in wheelchairs who were paralyzed.

LaHood said his department was researching the effect that hands-free devices and new systems like Ford Motor Company's Sync have on distracting drivers. He said he has called the CEOs of major car companies and encouraged them to "think twice" before placing too many Internet-based systems into new cars. IJ

News & Markets

California Workers' Comp Reform Taking Shape – Again

By Don Jergler

At a recent joint hearing in Sacramento on workers' compensation in California with the Assembly and Senate, statistic after statistic flew out of the mouths of speaker after speaker during the nearly four-hour session.

It was titled, "Informational Hearing, Injured Workers Since SB 899: A Discussion on the Impacts of SB 899 on Permanent Disability Benefits."

But the hearing was beyond a focus on permanent disability and the aftereffects of sweeping workers' comp reform enacted in the last decade.

"I think we all agree that we've moved out of that post-reform period into another pre-reform period," said Alex Swedlow, executive vice president of research at the California Workers' Compensation Institute.

CWCI, a private, nonprofit organization of insurers licensed to write workers' compensation in California, was one of many presenters at the hearing offering their taken on what problems the system has developed in recent years.

'I think we all agree that we've moved out of that post-reform period into another pre-reform period.'

In fact the tone of most speakers suggested another reform package approaching the magnitude of Senate Bill 899, the legislation signed by Gov. Arnold Schwarzenegger in 2004 that changed or affected just about every part of the state's workers' comp system.

And last year Gov. Jerry Brown in signing several pieces of workers' compensation legislation called for more comprehensive reform to be brought to his desk, saying that reform should be addressed on "a broad and balanced scale."

Brown's wishes were echoed at the joint hearing, where stats were given that showed just how big and unwieldy the state's workers' comp system is both in billions and in complexity.

Depending on who was giving the stats — applicants' attorneys, insurers, the medical community, employer representatives — those numbers often showed different entities bearing an unfair share of the burden of a system that now seems to again be broken.

One person stated that workers' comp medical treatment costs have been rising in excess of 10 percent each year in the wake of the systemic reform spearheaded by Schwarzenegger during his tenure.

Another speaker noted that accident year combined ratios are up around 130 percent, making those ratios well in excess of premiums. Following that, someone noted that injured workers are getting 60 percent less in benefits today than in the pre-reform era.

But the speakers and their stats had two things in common: they painted a portrait of a system that's broken, and all seemed to agree comprehensive reform is necessary.

Rotten Ratios

Senate Labor and Industrial Relations Chair Ted Lieu, D-Torrance, headed the meeting along with Assembly Chair Jose Solario, D-Santa Anna. Both have drafted successful legislation to address areas of workers' comp.

Lieu's SB 863 will begin the process of reforming how the hundreds of thousands of liens filed each year are handled in the adjudicatory process. Solorio's AB 378 removed financial incentives associated with prescribing expensive compound medications.

Both legislators during the hearing indicated more workers' comp legislation is needed.

Lieu, who spoke to *Insurance Journal* following the hearing, said he believes several more bills will come out of Legislature next year as part of a comprehensive workers' comp reform package. He and others at the hearing also said regulatory changes should be part of the reform.

"My view is to deliver as much cost savings as I can to the governor," Lieu said.

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Reform, continued from page 32

The comprehensive reform — Lieu said it's too early to describe exactly how it would look — would have to address two issues, he said. One is permanent disability benefits, which he said were drastically cut "to an extent that even the proponents of last decade's reform did not intend."

The second workers' comp must, he said, is to make sure that premium rates do not rise in the future.

"There is evidence that workers' comp companies are paying out more than they are taking in in premiums," he said.

Such evidence was presented in detail by California Insurance Commissioner Dave Jones, who was at the hearing to offer his thoughts on the system.

Jones, a Democrat who just completed his first term as insurance commissioner, began by noting that in 1995 the workers comp market was deregulated by Legislature, leading to opening ratings replacing minimum rates. Fierce price competition ensued, he added.

"With no minimum rate law, carriers reduced rates below solvency," Jones said.

The Department of Insurance was forced to take over and liquidate 31 carriers between 1997 and 2006, and California's workers' comp insurer of last resort, State Compensation Insurance Fund, swelled and was at one point writing over 50 percent of total market, Jones said.

Ultimate accident year loss ratios were at 141 percent of premium, and by 2003 workers' comp rates paid by employers per $100 climbed to $6.29, he added.

'The permanently disabled worker is not being fairly compensated.'

Then came SB 899, which ushered in sweeping change and got control of upwardly spiraling costs, but "These major changes came at the expense of injured workers," Jones said.

Quoting data from CWCI that shows average medical expenses per claim have been increasing by at least 10 percent per year from 2005 to 2009, Jones noted that increase in utilization was the main driver.

He also spoke about the positive impact of workers' comp reforms, but those impacts may be losing steam since the rising costs "likely signal erosion in these measures."

In fact, Jones expressed concern the market dynamic may lead to a correction, and eventually to higher premiums due to underwriters being more cautious and raising premiums on risky businesses.

"We can't say for certain when a market correction will occur," Jones said, adding that it's also not known whether a correction will be moderate or severe.

During questioning of Jones by committee members, he noted there are definitive indicators that workers' comp insurers are experiencing ever-increasing losses.

"There appears to be significant evidence that combined ratios are in excess of premiums right now," he said.

There are several cost savings measures being looked at, including possible enhancements or changes to medical costs containment and utilization, but DOI is not at the place to introduce them, Jones said, adding, "We need to identify what those additional cost savings measures are."

Permanent Disability Paramount

Marty Morgenstern, secretary of the California Labor & Workforce Development Agency, testified that the need to raise permanent disability is paramount. However, that goal cannot be achieved on the backs of employers, he cautioned.

"The permanently disabled worker is not being fairly compensated," he said, adding, "We cannot take payroll money to do it. We cannot raise the payroll costs to employers at this time."

Like others who testified, Morgenstern said the key to achieving workers' comp reform is reducing wasted costs by looking at inefficiencies, as well as practices and policies that need reforming.

"We think there is money within the system that can be utilized," he said. "We need the medical and legal practitioners, the insurers, the employees in their organizations, all working together in a cooperative way to fix this system. And that's what's going to do it."

Department of Industrial Relations Director Christine Baker, and Rosa Moran, administrative director of the Division of Worker's Compensation, offered their take

on fixes and talked about their efforts to gather public input. Baker and Moran have been conducting a series of public meetings across the state to provide open forum discussions on issues in workers' comp and to gather information from stakeholders and the public on suggestions for improvements

"We recognize the need to restore essential benefits even while working to mitigate the costs," Baker said, noting that will likely require eliminating unnecessary costs and looking for significant savings in the system.

A consensus will "likely require legislation and regulation," she added.

Moran said internal cost cutting in her division is already under way.

"We've been doing tremendous consolidations to try and bring down the costs," she said.

Michael Nolan, CWCI president, said "there's no doubt that permanent disability is one of the core issues."

Looking at ultimate accident year data, it was rising to 2002 and decreased following the reforms. Now it's beginning to rise again, he said.

"The average cost of everything associated with an indemnity claim is higher today than in 2002," he said, adding, "it's primarily on the medical side."

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News & Markets

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There's been a shift in the average claim percentage to about two-thirds expenditures on the medical side, where previously it was close to 50 percent on medical and 50 percent on indemnity.

And even with workers' comp costs to employers at its present rate of $2.30 per $100 of payroll, "California is in the top tier," he said.

> **'There are too many lawyers in the system; there's too much litigation in the system.'**

CWCI's Swedlow said if those involved are serious about cutting costs, there are a few places to look at and to place blame: the rising influence of attorneys, an aging work population, rising secondary injuries.

"Permanent disability has been in fact rising by about 11 percent per year," he said, adding, "It's harder to manage a claim in workers' compensation relative to other systems."

On the employer side was Sean McNally, vice president of corporate and government affairs for Grimmway Farms, considered the world's largest carrot grower.

McNally said the cost of doing business in California is forcing Grimmway to continue to expand into other states with less problematic workers' comp systems like Washington, Florida and Georgia.

McNally believes there is one overriding problem with California's workers' comp system.

"There are too many lawyers in the system; there's too much litigation in the system," he said.

He called for a system that's "more administrative, more predictable, more affordable."

But such ideology doesn't set well with some.

Brad Chalk, president of the California Applicants' Attorneys Association, argued that it's workers who are being neglected and suffering the largest burden of the state's dysfunctional workers' comp system.

"The California constitution says that the people are supposed to have benefits, and they're supposed to be adequate benefits," he said. "The focus that this has taken is all about the insurance company."

He added, "If you think that this is a hard economy, try being an injured worker."

Angie Wei, legislative director off the California Labor Federation, blamed "unneeded speed bumps in the system that is screwing the injured workers." She added: "permanent disability benefits got slashed much deeper than they were intended too."

Wei suggested that while looking at inefficiencies and waste, "we should look at a minimum loss ratio. A bottom-line loss ratio. What's good enough for the health insurers should be good enough for the workers' comp insurers."

She added that would shine "a brighter light into the insurance industry." IJ

News & Markets

Current Market Not Yet a 'Classic' Hard Market: P/C Executives

By Andrew G. Simpson

The current property/casualty market is not a "classic" hard market, yet anyway.

While prices are clearly rising in certain lines including property and workers' compensation, other conditions of a traditional hard market are not in place, according to property/casualty brokerage and insurer executives.

"There are multiple markets out there," Eric Anderson, CEO, Aon Risk Solutions, Americas, told an audience at the Risk and Insurance Management Society (RIMS) meeting recently in Philadelphia.

A market is defined by more than just pricing, according to the Aon executive. The dynamics include terms and conditions, adequacy of limits, individual carrier appetites, geography and other factors in addition to pricing.

Anderson said Aon's data is "still tracking a soft market" in several areas. Terms and conditions "are still very competitive" and customers appear able to get whatever limits they need.

"I don't see customers struggling to get what they need," he said.

As for pricing, this has not yet attained classic hard market status either. "If you have to ask [if there is a hard market], the answer is 'no,'" he said.

> 'We are in this period where we are moving from one market to then next.'

David J. Bidmead, CEO, Marsh, agreed, characterizing today's market as one in "active transition" but not yet a classic hard market.

"We are in this period where we are moving from one market to then next," Bidmead said.

"Increases are happening especially in property and workers' compensation but so are reductions in other lines and that reality illustrates this is not a classic hard market," he told the risk managers.

This market is "considerably different" from previous cycles, according to J. Patrick Gallagher, chairman, president, CEO, Arthur J. Gallagher & Co. Whereas previous cycles were "driven by significantly reduced cash flows and fear about the balance sheet … this one is being driven by the income statement and lack of return on investment," the brokerage leader said.

"This cycle now to me is many cycles," he said. He likened it to the situation in 1992 after Hurricane Andrew when the property market hardened but the rest of the market did not.

"Underwriters have information on where they are making money and where they are not. They know exactly what their returns are on their portfolio and they're not going to just write cover to lose money. I don't find that to be unhealthy," Gallagher said.

Peter Eastwood, president, CEO, Chartis, Americas, said he agrees it is a "market in transition" with property price increases "leading the charge" along with movement in workers' compensation and some excess casualty.

He called the move toward higher prices "appropriate and necessary" in light of record catastrophes in 2011 and a long history of carriers not earning their cost of capital. He said the industry has to get to better pricing to earn its cost of capital.

Chartis itself ended 2011 with an overall 4.5 percent increase across all of its U.S. business.

John Lupica, chairman, ACE USA, termed today's market "rational and stable" while also agreeing it is not yet a classic hard market.

He seconded the analysis that it is an income statement driven market.

"A real hard market is a period of excess returns over cost of capital and we are not there for most companies," Lupica said.

While it may not be a classic hard market with conditions and prices hardening everywhere, one thing is certain.

"Prices have stopped falling worldwide for sure," said Shivan Subramaniam, chairman, CEO, of commercial property insurer FM Global.

He said there is good reason that property is leading the way in pricing, citing the 2011 natural catastrophes. More gradual change is acceptable in other lines.

"We don't want anything dramatic happening. We want a rational pricing situation with capacity. All of us are rooting for a gradual process to get to decent returns," Subramaniam said.

Risk managers asked if small and middle market businesses are dealing with the same insurance market conditions as large Fortune 100 corporations.

For the most part, the executives said they expect mostly similar conditions.

Marsh's Bidmead said that middle market businesses have been hurt more by the recession, are more sensitive to price, and are more likely to shop around than bigger accounts.

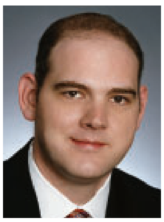
"These clients are really challenging their relationships," he said.

Chartis' Eastwood said that generally the small business segment sees less movement — it does not experience either the hardest of the hard market or the softest of the soft market. He said some regional carriers are adding to the supply available to these segments that he agreed are more likely to shop around. IJ

Cybersecurity

Cybersecurity Disclosure Obligations Raise Insurance Coverage Questions

High-Profile Breaches Highlight Policy, Security Gaps



By Vincent E. Morgan

High-profile data breach events have hastened focus on sensitive data and whether a comprehensive approach to protecting it is being used. The magnitude and impact of these breaches have intensified, garnering media attention and highlighting gaps in policy, protocols and legal frameworks that are compounded by a rapidly evolving cyber-environment with new technologies that currently lack uniform security standards.

Guidance on disclosure obligations concerning cybersecurity threats issued by the SEC's Division of Corporate Finance encourages companies to address their vulnerability and readiness to respond to business risks that are increasingly difficult to anticipate and manage.

Cybersecurity risks are typically associated with data misappropriation and corruption. However, the effects may be far broader, including issues such as misappropriation of assets, operational disruption and financial losses.

The guidance directs an ongoing review of the adequacy of disclosures related to cybersecurity risks and incidents in the context of a company's management discussion and analysis, business description, legal proceedings, financial reporting and disclosure controls and procedures.

Notably, insurance coverage was listed as a disclosure item.

Summary of the Recent Guidance

The high level guidance provides reference to existing rules, and in determining whether disclosure is warranted, it suggests companies consider risk factors such as:

- Prior cyber incidents and the severity and frequency of those incidents;
- The probability of cyber incidents occurring;
- Threatened attacks of which they are aware;
- The quantitative and qualitative magnitude of those risks, including potential costs and other consequences resulting from misappropriation of assets or sensitive information, corruption of data or operational disruption; and
- The adequacy of preventative actions taken to reduce cyber-related risks in the context of the industry in which they operate.

Where disclosure is appropriate, the guidance suggests the following subjects to consider regarding content of the disclosure:

- Discussion of aspects of the registrant's business or operations that give rise to material cybersecurity risks and the potential costs and consequences;
- To the extent the registrant outsources functions that have material cybersecurity risks, description of those functions and how it addresses those risks;
- Description of cyber incidents experienced by the registrant that are individually, or in the aggregate, material, including a description of the costs and other consequences;
- Cyber incident risks that may remain undetected for an extended period; and
- Description of relevant insurance coverage.

A company need not reveal so much that disclosure creates an increased vulnerability.

Insurance Coverage Implications

The enhanced focus on cybersecurity risks is likely to trigger a similarly increased focus on a

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The Residential Earthquake Deductible Buyback Program is distributed and managed by Abacus Insurance Brokers, Inc.

Cybersecurity

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company's use of insurance to mitigate risk, particularly in light of the specific reference to insurance coverage as an appropriate subject for disclosure.

The starting point is a company's existing insurance placement, which may well provide some coverage for cyber incidents. In addition, the past few years have seen rapid growth in the market for cybersecurity policies that are being sold with various names such as "network security insurance" and "cyber-security insurance."

These policies can provide first and third-party coverage for losses associated with cybersecurity incidents, such as costs for data restoration, crisis response, privacy notification and forensic investigation, as well as defense and indemnification arising out of cyber incidents, and business interruption.

New insurance products often see an uptick of coverage litigation as disputes involving new policy language arise and get tested in courts. As this market is still maturing, policy forms vary from insurer to insurer and lack standardization. Although any policy should be carefully studied prior to placement, this is particularly true here until more uniformity develops.

Here are some additional suggestions:

• Pay close attention to limits and sub-limits. Are they sufficient to fully respond to predictable cyber incidents that the company is trying to insure against?

• Consider whether it covers acts of vendors or customers. If the company provides confidential data to a third-party, or allows contractors to access its systems, then the insuring agreement should be broad and encompass losses caused by such third-parties.

• Do the company's vendors or customers have appropriate coverage? If so, is the company covered as an additional insured on their insurance policies?

• Is coverage provided if data is simply destroyed but not used or disclosed?

• Does the insured have the right to select counsel? The company's regular counsel may already be familiar with the company's IT capabilities, personnel and related procedures. It may also make sense to retain counsel with specialized expertise in cybersecurity issues.

Potential coverage gaps deserve special attention. Suppose a cybersecurity incident affecting an industrial facility causes an environmental exposure. A gap may exist due to the potential convergence of two historical trends. Insurers have long inserted computer-related exclusions in commercial policies. Pollution exclusions are also routine, resulting in pollution coverage being limited.

Pollution coverage should be examined for IT-related exclusions. For example, the 2003 version of Insurance Services Office's "Pollution Liability Limited Coverage Form" excludes coverage for: "[d]amages arising out of the loss of, loss of use of, damage to, corruption of, inability to access, or inability to manipulate electronic data."

"Electronic data" includes stored information, programs, software and "any other media which are used with electronically controlled equipment." Thus, a potential environmental incident "arising out of" the excluded IT perils may not be covered under a policy with a similar provision.

Conversely, many cyber insurance policies contain pollution exclusions for claims "alleging, arising out of, based upon or attributable to" the presence of pollutants, the actual or threatened discharge, release or escape of pollutants, or clean-up and response activities involving pollutants.

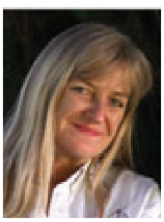
Careful thought regarding possible scenarios and a detailed policy review can identify potential problems to address. Given the division's recent guidance, this rigorous analysis should become a priority.

Note: The U.S. Securities and Exchange Comm'n, CF Disclosure Guidance: Topic No. 2 - Cybersecurity (Dec. 14, 2011, 19:00 CST), may be found online at http://www.sec.gov/divisions/corpfin/guidance/cfguidance-topic2.htm. IJ

Morgan is a partner at Pillsbury Winthrop Shaw Pittman LLP. He focuses on insurance and risk management issues from a legal standpoint.

The Language of Sales

By Bill Schoeffler



& Catherine Oak

Much of life is a sales process. At some point in every relationship, we are, in effect, negotiating, selling and buying ideas. Communication is not an exact science. When we communicate, we use our words, in our own style to express our ideas on our own personal experience. This communication is to another person with different words, style, ideas and experiences. No wonder there is a lot of miscommunication!

Some people have a natural ability to build rapport and convince others to see things their way. They are natural salespeople; people who can "demonstrate" that their product or idea is the best way to go.

The style of natural salespeople can vary. However, the two things all natural salespeople have in common is that they are confident in their ability to persuade others, and they can handle rejection.

For the rest of us, there is on-the-job-training, sales classes, trial and error, etc.

Communication Skills

Aside from building confidence and diminishing the impact of rejection, the next big step to improve sales ability is to improve communications skills. Communication is a collection of words, the way the words are used, the tone and quality of our voice, and nonverbal cues, such as body language.

Nonverbal communication, body language and the use of mirroring and matching the prospect are excellent techniques to build rapport. Rapport is necessary to have the prospect lower his or her defenses in order to be open to the ideas of another person. Neuro Linguistic Programming (NLP), or any good sales class, covers body language in detail.

Understanding the power of nonverbal communication and body language is a "must have" skill for salespeople. If the nonverbal communication is not congruent with the verbal communication, there will most likely be a failure in the overall communication.

Verbal skills often take the most time to master. This is because it is much more complex and subtle then nonverbal skills.

Any specific word might seem obvious. But is it?

For example, take the word "love." "Love" to one person might mean a warm, cozy feeling they get around a friend. To another, "love" might mean toiling in the coal mines to support their family. Someone else might think "love" means no score in tennis.

Also the tone, or how we say the words, will elicit different meanings. Consider the phrase, "I did not do that." By emphasizing a different word, one can invoke a different meaning to that phrase. Stressing the word "I" as in, "I did not do that," is a different meaning from stressing the word "that" as in "I did not do that."

Be Flexible

Humans must make assumptions and generalizations; otherwise we would get bogged down with the first few words we speak seeking clarification. The key is to learn to be flexible enough with one's communication skills to be more like the other person. Adapting to the other person's style will greatly improve the chance of getting one's message across the communication divide.

A simple but effective technique is to use the other person's words when talking. If the prospect says they want a "solid policy at a cheap price" do not say back to them that they want "a cost effective, comprehensive policy." A person's words have a unique meaning to them, so just use them. Otherwise, rapport will be lost.

A second technique is to be vague when soliciting a prospect's feelings, thoughts, desires, vision, etc. This is a

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Minding Your Business

Language of Sales, continued from page N1

classic hypnosis technique. Point the prospect in the desired direction, but let the person have his or her own experience, without outside influence or corruption. A hypnotist might say, "so, as you are experiencing those feelings that are important to you …" A salesperson might say, "think of all the things that are valuable to you that need protection."

In fact, most good sales techniques are the same techniques used in hypnosis and NLP. A natural salesperson, a hypnotist or a NLP practitioner is able to gain rapport through the use of verbal and nonverbal skills, and then use words to have the prospect (or client) access his or her emotions.

Sales are not just a function of a good product at a good price.

Once inside the head of the prospect, the salesperson would have access to the person's needs, desires and fears at a deep level. This allows the salesperson to communicate the benefits of the product in a highly effective manner.

Getting the prospect to a state of openness will lead to a better chance of closing the sale. However, the prospect will still have a choice to buy or not. Of course, ethics in sales is imperative.

Training

Very few people are natural salespeople. Consequently, training is a must to improve communication skills for the average person. A good sales class will cover basic communication skills used specifically for sales. NLP classes will offer a well-rounded approach to general communication skills. Even conversational hypnosis classes are becoming mainstream. Conversational hypnosis is the art of using verbal skills to very quickly gain deep rapport.

Sales are not just a function of a good product at a good price. Relationships are a major factor. Communication is a significant part of relationships. Therefore, sales are a function of communication skills.

Agency owners and sales managers need to develop a training program for all producers. Some of the work can be done in-house. Some training is best left to experienced outside trainers. IJ

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Accounting

Is General Ledger Accounting Adequate for P/C Insurance Premium Transactions?

By Chris Marinescu

In current practice, insurance premium accounting is based on general ledger (GL) accounting. It is used by all agency management software applications including AMS and Applied Systems just to name a few. Developed more than 500 years ago, GL accounting has been successfully used by both profit and non-profit organizations and it was only natural to become standard accounting practice in all software applications offered to P/C insurance retailers.

Only a few years ago, GL accounting was considered adequate by the industry consultants and regulators. To the more discerning insurance agency owners and stockholders the dissatisfaction with its inadequate performance has been most apparent in three important areas of the agency business: agency commission income reporting, return premium and commission accounting and trust account financial solvency.

An insurance policy may be subject to multiple endorsements with the potential to cause the policy commission to either increase or decrease several times during its term. Some insurance brokers have expressed the need to maintain some of their earned commission in the trust bank account as a cushion against cancellation endorsements and related loss of commission income. GL accounting seems to have severe limitations in all these important areas of the agency business.

Many CPAs or accounting service providers argue they can make GL accounting work for both the agency's sales and service operation and premium and return premium management. Some contend that determining an agency's "trust position" or "trust ratio" is sufficient to prove its trust account financial solvency. Despite such assurances, one in three insurance retailers in California is presumed to be out of trust and operate a financially insolvent trust account. Many insurance brokers have lost their licenses and some have even faced legal prosecution for the mismanagement, in most cases unintentional, of premium fiduciary funds.

This article is delving into this controversial debate and attempts to prove that GL accounting is not only inadequate for P/C premium transactions but also a prime contributor to current mismanagement of insurance premium funds. It is published in two parts. This is part one.

General ledger accounting has severe limitations in some areas of the agency business.

Dual Character

Unlike other sales transactions, a P/C insurance transaction places stringent obligations on the seller. Insurance code mandates insurance brokers to receive premiums in a "fiduciary" capacity and assume full responsibility for their financial solvency. Acting as a "custodian" of premium funds is a responsibility an insurance broker must undertake in addition to his/her primary duty of maximizing the agency output and improving its profit performance.

The insurance broker's dual capacity underscores the nature of insurance premium accounting and financial management objectives. On one hand, an insurance broker, acting as "business owner," acquires the authority to invoice, receive and maintain insurance premiums in the agency's trust bank account. On the other hand, the insurance broker, acting as "custodian" of premium funds, assumes the obligation to disburse the premium funds to their legal beneficiaries. The processes of receiving and disbursing premium fiduciary funds set up the premium invoice format in which the insurance broker must appear in his/her dual capacity of "business owner" and "custodian." It is this dual responsibility of insurance broker that defines the insurance transaction's dual character and uniqueness.

GL accounting is inconsistent with the insurance transaction's dual character and therefore unable to adequately respond to its financial management requirements.

General Ledger of Accounts

By its very nature GL accounting places insurance premium

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Accounting

Premium Transactions, continued from page N4

funds in the same general ledger of accounts with the agency business operating funds. One would find this illogical because premium funds must be managed to a different standard. Business operating funds are managed to show business owners and shareholders if the agency is both profitable and financially solvent. They are also managed to enable agency compliance with the Tax Code.

Insurance premium funds are managed to a completely different standard. Since they are "fiduciary" funds, insurance brokers, acting as a "custodians," manage premium funds to secure and report their financial solvency. There is no profit in the insurance trust account, only premium assets and liabilities. The insurance broker's "custodian" position is an expression of his/her fiduciary duty.

It seems obvious that, having a different management standard, insurance premium funds should be placed into a different ledger of accounts, separate from business operating funds. Special journal entries, able to capture the true and unique nature of insurance premium transactions, would enable "custodians" to reliably report the trust account financial solvency.

An insurance transaction is more than a one-time event; it is a process that continues from the policy inception to the end of its term. Moreover, an insurance policy does not have a guaranteed fixed price determined at its inception but one that may change up or down as a client's coverage needs may change. The insurance product is like no other product. In terms of accounting and financial management needs, the insurance product seems fundamentally different from a merchandise or service.

Premium Invoice Accounting

In GL accounting the accounting process starts with an invoice which is known to generate income in the agency P&L and receivables in its Balance Sheet. GL accounting compels the premium accounting process to also start with an invoice rather than the policy transaction itself. The problem is, in its current GL format, premium invoice accounting misrepresents the business nature of the premium invoice transaction.

A premium invoice should never generate "income" in the agency P&L as a merchandise invoice does; it should only generate premium assets and liabilities. A $1,000 premium invoice sets forth the trust account custodian's right to receive from the insured $1,000 and, at the same time, his obligation to disburse $1,000, $900 net premium to the carrier and $100 commission to the agency operating account (10 percent policy commission is assumed). The agency commission "liability" compels the "custodian" to monitor the invoice payment and its bank deposit, so that, at the end of a tedious process, commis-

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Accounting

Premium Transactions, continued from page N6

sion liability can become "income" through the process of transferring the commission funds from the trust bank account to the agency operating account.

Invoice payments are not income; they are just "premium receipts." Once deposited in the trust bank account, premium receipts become "fiduciary funds" subject to Insurance Code processing mandates. Earned commission must be first calculated and then transferred to the agency operating account. An audit trail must be created for each policy not only for department of insurance auditors but also for the agency owners or managers.

Earned commission must be transferred in an exact amount; some of it may be maintained in a "commission reserve account" set up in the trust account. Without proper calculation, an agency is at risk of transferring either more or less commission than it earns. If it transfers more, the agency violates the custodian's fiduciary duty; if it transfers less, the agency will understate its taxable income and therefore violate the Tax Code.

In its current GL format premium invoice accounting is a main source of agency commission and financial solvency mismanagement.

Policy Financial Status

The current GL accounting process is at odds with the very nature of the premium transaction process. After transacting a $10,000 policy, an insurance broker would certainly need to know at any given time during the policy term how much of the transacted premium was invoiced, how much was paid, and how much is still outstanding. Additionally, information on any policy endorsement, its invoice status and payment is critical to the policy financial management. Monitoring the policy financial status and reporting it is an integral part of the premium solvency management.

GL accounting cannot report a policy financial status because in GL accounting there are no accounting records of the policy transacted premium. To the insurance "custodian," it is the policy financial status that matters rather than the number of invoices sent to insureds. To generate a report of how much of the policy transacted premium was invoiced or paid and how much is outstanding, insurance brokers generally maintain a spreadsheet outside the GL accounting system. This practice is not only costly but also unreliable. It is clear GL accounting cannot meet the management requirements of premium financial status.

The second installment will appear in an upcoming issue of Insurance Journal. IJ

Marinescu is president of Paulmar Group LLC. Emma Hart, director of insurance agency operations, Orange County, Calif., and Steven M. Beckett Jr., a P/C insurance broker and industry consultant, also contributed to this article. Email: chris@paulmargroup.com.

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P/C Insurance Employment Report

Insurance Jobs Outlook: Getting Better, Region by Region

By Young Ha

The property/casualty insurance jobs outlook is slowly, gradually getting better — or at least not getting worse. A growing number of insurance businesses are hiring more workers this year. Meanwhile, many others are still making do with their current staff level, keeping an eye on the economic recovery and gradually firming insurance prices, according to a report by *Insurance Journal*.

What happens in the insurance industry has repercussions for the rest of the country. The entire insurance sector, which the Insurance Information Institute estimates employs 2.2 million Americans, is an important part of the overall U.S. employment market.

Insurance Journal editors spoke with dozens of property/casualty insurance companies and agencies and came away with reports from each region of the country on employment opportunities and advice for job-seekers.

Reported increases in hiring of temporary insurance workers is seen as a signal that more permanent hires could be coming soon.

Major U.S. insurance companies with online careers sections have significant job vacancies advertised on their online career web pages. They include Liberty Mutual, Travelers, Allstate, State Farm, Main Street America Group, Farmers and CNA.

Liberty Mutual posted more than 500 U.S. job openings in the past month alone. They include openings in Boston, Seattle and Portland, Ore. But the competition is fierce, "as we receive thousands of applications every month," Liberty Mutual said.

At The Travelers Cos., there are about 360 U.S. job opportunities including jobs in Houston, Little Rock, Ark., and Colorado Springs, Colo.

Regional carriers with opportunities include FCCI in Florida and Meadowbrook Insurance in Michigan.

Large brokers looking to hire include Willis, Lockton, Hylant, Brown & Brown and wholesaler AmWINS.

Employment prospects vary greatly by region and job specialty. The Southeast, Northeast and Texas appear to have the most active insurance hiring climates. *Insurance Journal* found insurance job prospects in California to be among the weakest.

Technology is limiting certain opportunities in personal lines and service positions across the country, but sales jobs are always in demand by agencies. And, no matter where they are, insurance employers still have some difficulty finding quality people with technical insurance knowledge. Perhaps a detected rise in enrollment in insurance education courses will help fill that need going forward.

Advice From Pros

Job hunting takes time and effort.

"My advice to job-seekers is that if you are unemployed, you need to make finding a job your full-time job," advised Todd Mitchell, who operates New York-based insurance recruiting firm Todd Mitchell Associates.

Savvy candidates are increasingly using social media, such as LinkedIn, to engage potential employers.

"As an employer, we see that the social media have become more prevalent," said Shawn Tubman, manager of corporate employment at Liberty Mutual.

"Social media has given candidates a good avenue to connect directly with the company," Tubman said. "That's really different from years past."

Insurance Journal also identified 15 trends in insurance employment and recruitment, including the importance of social networking, what jobs are in most demand and what regions are most promising for jobs. IJ

Resource Box

The complete report on insurance employment can be found in *Insurance Journal* regional magazines and online at **www.insurancejournal.com:**

- **East: Insurance Hiring Is 'Slightly Elevated' in 2012**
- **West: California Insurance Employment to Stay Soft**
- **Southeast: Agency, Carrier Plans Brighten Southeast Jobs Picture**
- **South Central: Oil, Economy Fuel Texas Hiring**
- **Midwest: Good Talent Always a Priority for Midwest**

15 Trends in P/C Insurance Employment

The current P/C insurance employment picture, much like the economic outlook, is mixed. Employers remain cautious about adding to payroll, but there are opportunities depending on the region of the country and job type. After speaking with dozens of insurance employers, *Insurance Journal* uncovered a number of trends that characterize today's job situation.

1. More with Less
Many employers got used to doing more with fewer people during the downturn.

2. Slow Going
Insurance hiring may rise, but it will likely still lag behind insurance demand.

3. Touch Somebody
Referrals from employees, friends and clients remain the most popular recruitment tool.

4. Bright Spots
Sales and claims areas appear to have the best opportunities.

5. Tech Knowledge
Where employers are hiring, finding people with good technical skills remains a challenge.

6. Opportunity Agents
Only one-third of independent agencies nationwide expect to boost staff size in 2012: *IJ* survey.

7. Hidden Opportunities
Importance of networking: Only a fraction of all job openings ever get advertised.

8. Positive Signs
The recovering economy and hardening market are positive signs for the insurance job market.

9. Constant Lookout
Many agencies are perpetually on a lookout for good producers.

10. Temp to Perm
Increase in hiring of temporary workers could signal more permanent hires soon.

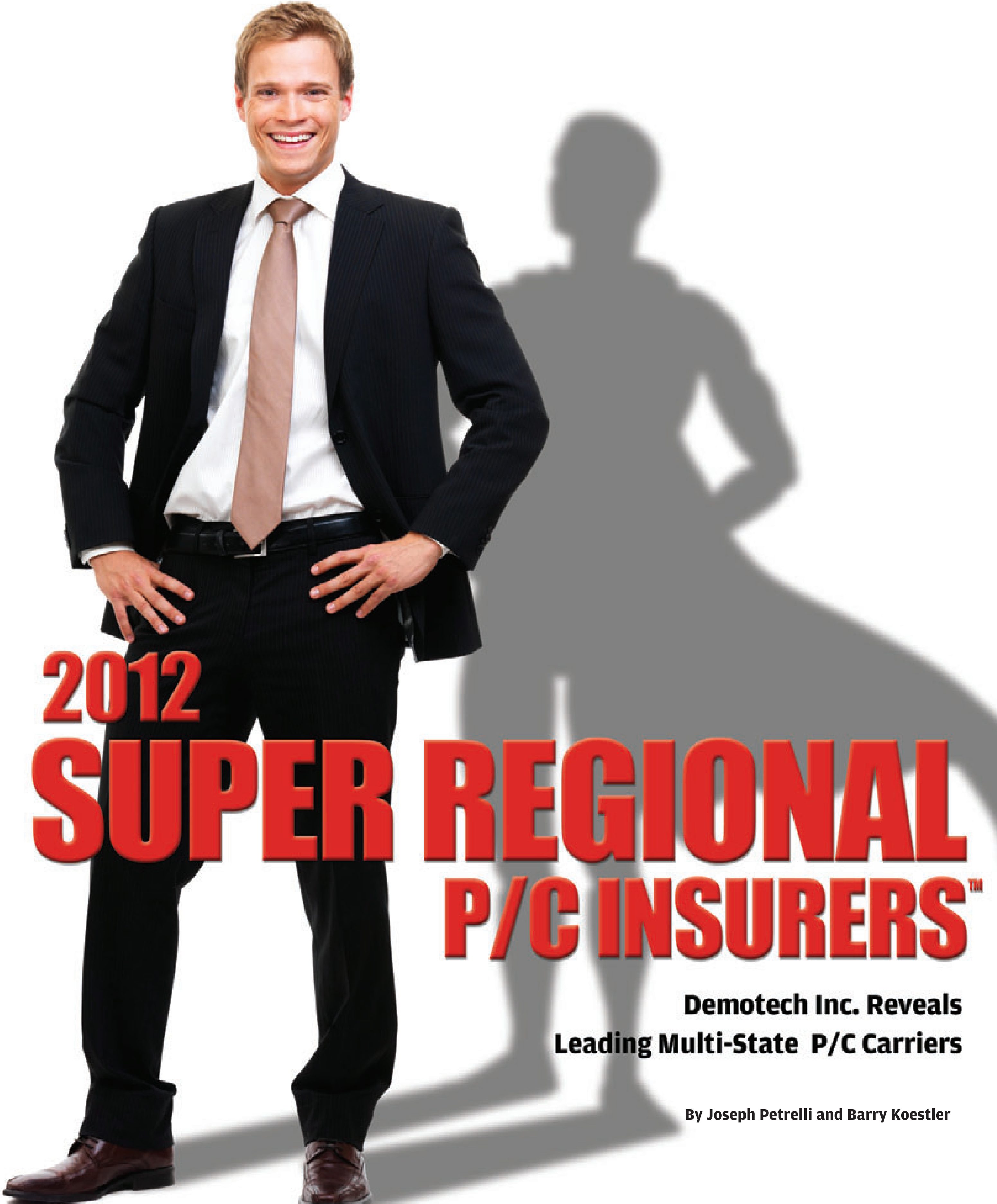
11. Tech Takeover
Technology is replacing jobs for service and some personal lines jobs.

12. Smarten Up
Enrollment in insurance degree courses is up.

13. Sticking Around
Turnover in insurance jobs is low.

14. Linked Up
Employers and job-seekers are using social media like LinkedIn to connect with each other.

15. Rising in the East
East Coast looks most favorable for insurance jobs in short-term than West Coast.



2012 SUPER REGIONAL P/C INSURERS™

Demotech Inc. Reveals Leading Multi-State P/C Carriers

By Joseph Petrelli and Barry Koestler

2012 Super Regional P/C Insurers™

As developed by Demotech Inc. for Insurance Journal. Ranked by Direct Premium Written as of 12/31/2011.

	Company	12/31/2011 DPW 000s omitted	Group Name	State of Domicile	Number/States with Greater than $1 Million DPW 12/31/2011
1	American Family Mutual Insurance Co.	4,951,288	American Family Insurance Group	WI	18 - AZ,CO,ID,IL,IN,IA,KS,MN,MO,NE,NV,ND,OH,OR,SD,UT,WA,WI
2	Erie Insurance Exchange	3,498,348	Erie Insurance Group	PA	11 - DC,IL,IN,MD,NC,OH,PA,TN,VA,WV,WI
3	Farmers Insurance Exchange	2,840,149	Zurich Insurance Group	CA	33 - AL,AZ,AR,CA,CO,ID,IL,IN,IA,KS,LA,ME,MI,MN,MS,MO,MT,NE,NV,NH,NM,ND,OH,OK,OR,SD,TN,TX,UT,VA,WA,WI,WY
4	Mid-Century Insurance Co.	2,655,989	Zurich Insurance Group	CA	30 - AL,AZ,AR,CA,CO,ID,IL,IN,IA,KS,MI,MN,MO,MT,NE,NV,NM,ND,OH,OK,OR,PA,SD,TN,TX,UT,VA,WA,WI,WY
5	Auto-Owners Insurance Co.	2,051,648	Auto Owners Group	MI	26 - AL,AZ,AR,CO,FL,GA,ID,IL,IN,IA,KS,KY,MI,MN,MO,NE,NC,ND,OH,PA,SC,SD,TN,UT,VA,WI
6	Nationwide Mutual Fire Insurance Co.	1,664,765	Nationwide Corp. Group	OH	31 - AL,AZ,AR,CA,CT,DE,DC,FL,GA,IL,IN,KY,ME,MD,MI,MS,NH,NY,NC,OH,OK,OR,PA,RI,SC,TN,TX,VT,VA,WA,WV
7	Owners Insurance Co.	1,557,938	Auto Owners Group	OH	24 - AL,AZ,AR,CO,FL,GA,ID,IL,IN,IA,KS,KY,MN,MO,NE,NC,ND,OH,SC,SD,TN,UT,VA,WI
8	Fire Insurance Exchange	1,473,412	Zurich Insurance Group	CA	16 - AL,CA,CO,MI,MN,MO,MT,NE,NV,ND,SD,TX,UT,WA,WI,WY
9	American Home Assurance Co.	1,327,507	American International Group	NY	21 - AR,CA,CT,DC,FL,HI,IL,KS,KY,MA,MT,NV,NJ,NY,NC,OK,RI,TX,VT,VA,WA
10	Progressive Northern Insurance Co.	1,251,186	Progressive Group	WI	24 - CT,DE,IL,IN,IA,KY,ME,MN,NE,NV,NH,NM,NY,OK,OR,PA,RI,SC,SD,UT,VT,VA,WI,WY
11	Safeco Insurance Co. of Illinois	1,235,925	Liberty Mutual Insurance Group	IL	29 - AL,AK,AR,CA,CT,FL,GA,ID,IL,IN,KY,MD,MI,MN,MS,MO,MT,NE,NV,OH,OR,PA,TN,TX,UT,VA,WA,WI,WY
12	Westfield Insurance Co.	1,198,699	Westfield Group	OH	25 - AL,AZ,CO,DE,FL,GA,IL,IN,IA,KY,MD,MI,MN,MO,NM,NC,OH,OK,PA,SC,TN,TX,VA,WV,WI
13	Country Mutual Insurance Co.	1,171,193	Country Insurance & Financial Services	IL	14 - AK,AZ,CO,IL,IA,KS,MN,MO,NV,ND,OK,OR,WA,WI
14	Shelter Mutual Insurance Co.	1,103,605	Shelter Insurance Group	MO	14 - AR,CO,IL,IN,IA,KS,KY,LA,MS,MO,NE,NV,OK,TN
15	Peerless Insurance Co.	1,101,021	Liberty Mutual Insurance Group	NH	31 - AR,CA,CT,DE,GA,IL,IN,IA,KS,KY,LA,ME,MD,MA,MI,MN,MO,NE,NH,NY,NC,OH,OK,PA,RI,SC,TN,TX,VT,VA,WI
16	Farm Bureau Property & Casualty Insurance Co.	940,853	Iowa Farm Bureau Group	IA	8 - AZ,IA,KS,MN,NE,NM,SD,UT
17	Citizens Insurance Co. of America	915,440	The Hanover Insurance Group	MI	21 - CA,CT,GA,IL,IN,KS,ME,MA,MI,MN,MO,NH,NJ,NY,OH,PA,RI,VT,VA,WA,WI
18	Acuity, A Mutual Insurance Co.	839,592	N/A	WI	20 - AZ,CO,ID,IL,IN,IA,KS,KY,MI,MN,MO,NE,NM,ND,OH,PA,SD,TN,UT,WI
19	Progressive Casualty Insurance Co.	784,374	Progressive Group	OH	24 - AZ,AR,CA,CO,CT,DC,HI,IL,KY,ME,MD,MA,MN,MO,NV,NY,OH,OR,PA,RI,TX,VT,VA,WA
20	MemberSelect Insurance Co.	777,532	Automobile Club MI Group	MI	8 - IL,IN,IA,MI,MN,NE,ND,OH
21	Netherlands Insurance Co.	759,724	Liberty Mutual Insurance Group	NH	32 - AR,CA,CT,DE,GA,IL,IN,IA,KS,KY,LA,ME,MD,MA,MI,MN,MO,NE,NH,NJ,NY,NC,OH,OK,PA,RI,SC,TN,TX,VT,VA,WI
22	Farmers Mutual Hail Insurance Co. of Iowa	712,576	Farmers Mutual Hail Insurance Group	IA	15 - AR,CO,IL,IN,IA,KS,MI,MN,MO,NE,ND,OH,OK,SD,WI
23	West Bend Mutual Insurance Co.	706,698	N/A	WI	10 - IL,IN,IA,KS,KY,MI,MN,MO,OH,WI
24	Mercury Casualty Co.	697,544	Mercury General Group	CA	5 - AZ,CA,NV,NY,VA
25	State Auto Property & Casualty Insurance Co.	642,764	State Auto Mutual Group	IA	26 - AL,AZ,AR,CT,GA,IL,IN,KS,KY,MD,MI,MN,MS,MO,NC,ND,OH,OK,PA,SC,TN,TX,UT,VA,WV,WI
26	Automobile Insurance Co. of Hartford, Connecticut	597,498	Travelers Group	CT	33 - AL,AZ,AR,CO,CT,DC,GA,ID,IL,IN,KS,KY,ME,MD,MI,MN,MS,MO,MT,NV,NH,NY,NC,OH,OK,OR,PA,SC,TN,UT,VA,WA,WI
27	Grange Mutual Casualty Co.	589,260	Grange Mutual Casualty Group	OH	8 - GA,IL,IN,KY,OH,PA,SC,TN
28	Companion Property and Casualty Insurance Co.	551,999	BCBS of SC Group	SC	30 - AL,AZ,AR,CA,CO,DC,FL,GA,IL,IN,KS,KY,LA,MD,MN,MS,MO,NV,NJ,NC,OK,OR,PA,SC,TN,TX,UT,VA,WV,WI
29	Hudson Insurance Co.	514,333	Fairfax Financial Group	DE	34 - AL,AZ,CA,CO,CT,DC,FL,GA,HI,ID,IL,IN,IA,KY,LA,MD,MA,MI,MN,MO,NV,NJ,NY,NC,OH,OR,PA,SC,TN,TX,UT,VA,WA,WI
30	Tower Insurance Co. of New York	506,724	Tower Group	NY	32 - AL,AZ,AR,CA,CO,CT,FL,GA,ID,IL,IN,IA,KY,LA,MD,MA,MI,MN,MS,NV,NH,NJ,NY,NC,OK,OR,PA,SC,TN,VA,WA,WI
31	Frankenmuth Mutual Insurance Co.	492,364	Frankenmuth Group	MI	14 - AL,GA,IL,IN,KY,ME,MI,NH,NC,OH,SC,TN,VT,WI
32	Virginia Surety Co. Inc.	467,793	The Warranty Group	IL	27 - CA,CO,CT,DE,DC,FL,GA,IL,IN,LA,MD,MA,MI,MN,MO,NH,NJ,NC,OH,OR,PA,SC,TN,TX,VA,WA,WI
33	Central Mutual Insurance Co.	463,499	Central Mutual Insurance Co. Group	OH	18 - AZ,CO,CT,GA,IL,IN,MA,MI,NH,NM,NY,NC,OH,OK,SC,TN,TX,VA
34	Pennsylvania National Mutual Casualty Insurance Co.	446,879	Pennsylvania National Insurance Group	PA	10 - AL,DE,MD,NJ,NC,PA,SC,TN,TX,VA
35	NGM Insurance Co.	441,388	Main Street America Group	FL	23 - AZ,CT,DE,FL,GA,IL,ME,MD,MA,MI,NV,NH,NJ,NY,NC,PA,RI,SC,TN,TX,UT,VT,VA
36	Erie Insurance Co.	433,009	Erie Insurance Group	PA	10 - IL,IN,MD,NY,NC,OH,PA,TN,VA,WI
37	Selective Way Insurance Co.	431,768	Selective Insurance Group	NJ	10 - DE,DC,GA,MD,MI,NJ,NY,PA,SC,VA
38	Selective Insurance Co. of America	430,385	Selective Insurance Group	NJ	25 - CA,CT,DE,DC,GA,HI,IL,IN,IA,MD,MI,MN,MO,NE,NJ,NY,NC,OH,PA,RI,SC,TN,VA,WA,WI
39	State Automobile Mutual Insurance Co.	412,246	State Auto Mutual Group	OH	24 - AL,AZ,AR,CO,GA,IL,IN,IA,KS,KY,MD,MI,MN,MS,MO,NC,OH,PA,SC,TN,TX,VA,WV,WI
40	Motorists Mutual Insurance Co.	400,001	Motorists Mutual Group	OH	6 - IN,KY,MI,OH,PA,WV
41	Bankers Standard Insurance Co.	399,864	Ace Ltd. Group	PA	28 - AZ,CA,CO,CT,DE,DC,FL,GA,IL,KS,KY,MD,MA,MI,MN,MO,NJ,NY,NC,OH,PA,SC,TN,TX,VT,VA,WA,WI
42	Occidental Fire and Casualty Co. of North Carolina	381,310	IAT Reins Co. Group	NC	32 - AL,AZ,CA,CO,FL,GA,IL,IN,IA,KS,KY,LA,MD,MA,MI,MN,MS,MO,NE,NV,NJ,NY,ND,OH,OK,PA,SC,SD,TN,TX,VA,WI
43	Farm Family Casualty Insurance Co.	377,611	American National Financial Group	NY	11 - CT,DE,ME,MA,NH,NJ,NY,RI,VT,VA,WV
44	Pennsylvania Manufacturers' Association Insurance Co.	371,149	Old Republic Group	PA	33 - AL,AZ,AR,CA,CO,CT,DE,FL,GA,HI,IL,IN,KY,LA,MD,MA,MI,MN,MO,NV,NJ,NY,NC,OH,OK,PA,SC,TN,TX,VT,VA,WV,WI

	Company	12/31/2011 DPW 000s omitted	Group Name	State of Domicile	Number/States with Greater than $1 Million DPW 12/31/2011
45	Technology Insurance Co. Inc.	364,545	Amtrust Group	NH	30 - AL,AZ,AR,CA,CT,DE,FL,GA,IL,IN,IA,KS,KY,LA,MD,MA,MI,MN,MS,MO,NV,NH,NY,NC,PA,SC,TN,TX,VT,VA
46	Harleysville Mutual Insurance Co.	355,115	Harleysville Group	PA	21 - AL,AR,CT,DE,DC,FL,GA,LA,MD,MA,MI,MS,NJ,NC,OH,PA,RI,SC,TN,TX,VA
47	General Casualty Co. of Wisconsin	344,453	QBE Insurance Group	WI	25 - AR,CA,CO,CT,FL,GA,IL,IN,IA,KS,MA,MI,MN,MO,NE,NY,NC,ND,OH,PA,SC,SD,TN,TX,WI
48	Hastings Mutual Insurance Co.	341,951	N/A	MI	6 - IL,IN,IA,MI,OH,WI
49	United Fire & Casualty Co.	315,028	United Fire & Casualty Group	IA	23 - AL,AR,CO,FL,ID,IL,IN,IA,KS,LA,MN,MS,MO,MT,NE,NM,ND,SD,TN,TX,UT,WI,WY
50	Farmington Casualty Co.	304,165	Travelers Group	CT	30 - AL,AZ,AR,CO,CT,DE,DC,GA,IL,IN,KS,KY,LA,MD,MI,MN,MS,MO,NH,NM,NY,NC,OK,OR,PA,SC,SD,TN,TX,VT
51	Mutual of Enumclaw Insurance Co.	299,622	Mutual of Enumclaw Group	WA	4 - ID,OR,UT,WA
52	Loya Insurance Co.	293,338	Loya Group	TX	4 - CO,IL,NM,TX
53	Westfield National Insurance Co.	291,234	Westfield Group	OH	10 - CO,IL,IN,IA,KY,MN,NC,OH,PA,TN
54	Progressive Gulf Insurance Co.	275,679	Progressive Group	OH	3 - GA,MS,VA
55	General Insurance Co. of America	273,488	Liberty Mutual Insurance Group	WA	31 - AL,AZ,CA,CO,CT,FL,GA,ID,IL,IN,KY,LA,MA,MI,MN,MO,MT,NJ,NY,NC,OK,OR,PA,SC,TN,TX,UT,VT,VA,WA,WV
56	Insurance Co. of the West	272,895	ICW Group	CA	9 - AK,CA,FL,IL,NV,OR,TN,UT,WA
57	Amerisure Mutual Insurance Co.	272,352	Amerisure Co. Group	MI	21 - AL,AZ,AR,CA,FL,GA,IL,IN,KY,LA,MI,MS,MO,NC,OK,PA,SC,TN,TX,VA,WI
58	Indiana Insurance Co.	271,958	Liberty Mutual Insurance Group	IN	8 - IL,IN,KY,MI,NJ,OH,TN,WI
59	Amerisure Insurance Co.	270,249	Amerisure Co. Group	MI	19 - AL,AZ,AR,FL,GA,IL,IN,KS,KY,LA,MI,MS,MO,NC,OK,SC,TN,TX,WI
60	American Commerce Insurance Co.	267,461	Mapfre Insurance Group	OH	15 - AZ,CT,ID,IL,IN,KY,NJ,NY,OH,OR,PA,RI,TN,TX,WA
61	Vermont Mutual Insurance Co.	266,694	Vermont Mutual Group	VT	7 - CT,ME,MA,NH,NY,RI,VT
62	Merrimack Mutual Fire Insurance Co.	265,489	Andover Group	MA	8 - CT,IL,ME,MA,NH,NJ,NY,RI
63	Motors Insurance Corp.	263,907	GMAC Insurance Holding Group	MI	24 - AL,AR,CA,CO,FL,GA,IL,IA,KS,LA,MI,MN,MO,NE,NJ,NY,NC,ND,OH,OK,PA,TN,TX,WI
64	Secura Insurance, A Mutual Co.	263,613	Secura Insurance Group	WI	12 - AZ,CO,IL,IN,IA,KS,KY,MI,MN,MO,ND,WI
65	Auto Club Insurance Association	262,306	Automobile Club MI Group	MI	6 - IL,MI,MN,NE,ND,WI
66	American Economy Insurance Co.	257,881	Liberty Mutual Insurance Group	IN	34 - AL,AZ,CA,CO,CT,FL,GA,ID,IL,IN,KS,KY,LA,MA,MI,MN,MS,MO,MT,NV,NM,NY,OH,OK,OR,PA,SC,SD,TN,TX,UT,VA,WA,WY
67	Pekin Insurance Co.	252,433	Pekin Insurance Group	IL	5 - IL,IN,IA,OH,WI
68	Brotherhood Mutual Insurance Co.	249,966	N/A	IN	30 - AZ,AR,CA,CO,GA,IL,IN,IA,KS,KY,MD,MI,MN,MS,MO,MT,NE,NM,NY,NC,OH,OK,OR,PA,SC,TN,VA,WA,WV,WI
69	North Star Mutual Insurance Co.	249,848	North Star Co. Group	MN	6 - IA,MN,NE,ND,OK,SD
70	Harleysville Preferred Insurance Co.	249,773	Harleysville Group	PA	22 - AL,AR,CT,DE,DC,GA,IL,IN,MD,MA,MI,MN,NH,NJ,NY,NC,ND,PA,RI,SC,TN,VA
71	Bituminous Casualty Corp.	242,298	Old Republic Group	IL	30 - AR,CO,FL,GA,IL,IN,IA,KS,KY,LA,MI,MN,MS,MO,MT,NE,NM,NC,ND,OK,OR,PA,SC,TN,TX,UT,VA,WA,WV,WY
72	Preferred Mutual Insurance Co.	239,549	N/A	NY	4 - MA,NH,NJ,NY
73	Farmers Automobile Insurance Association	234,241	Pekin Insurance Group	IL	4 - IL,IN,IA,WI
74	Protective Insurance Co.	233,424	Protective Insurance Group	IN	31 - AZ,AR,CA,CO,CT,FL,GA,IL,IN,IA,KY,LA,ME,MD,MA,MI,MN,MO,MT,NJ,NY,NC,OH,OR,PA,TN,TX,UT,VA,WA,WI
75	Old Republic General Insurance Corp.	231,551	Old Republic Group	IL	26 - AL,AZ,CA,CO,CT,FL,GA,HI,IL,IN,LA,MD,MA,MO,NV,NJ,NY,NC,PA,RI,SC,TN,TX,UT,VA,WA
76	Unigard Insurance Co.	231,321	QBE Insurance Group	WI	8 - AZ,CA,ID,MT,NV,OR,UT,WA
77	California Casualty Indemnity Exchange	229,642	California Casualty Management Group	CA	22 - AL,AZ,CA,CO,CT,DE,GA,ID,IL,IN,IA,KS,LA,MD,MN,NV,NM,OK,PA,TN,TX,VA
78	CastlePoint National Insurance Co.	229,265	Tower Group	IL	16 - AZ,CA,FL,GA,IL,IN,MI,MO,NJ,NY,OK,PA,SC,TN,TX,VA
79	Harleysville Worcester Insurance Co.	228,796	Harleysville Group	PA	17 - AL,AR,CT,GA,MD,MA,MN,NE,NH,NJ,NY,ND,OH,PA,RI,TN,VA
80	Farmers Mutual Insurance Co. of Nebraska	227,890	N/A	NE	2 - NE,SD
81	Courtesy Insurance Co.	222,684	JM Family Group	FL	18 - AL,AZ,CA,CO,FL,GA,IL,ME,MD,MO,NJ,NC,OH,PA,SC,TN,VA,WI
82	American Strategic Insurance Corp.	221,281	ARX Holding Corp. Group	FL	8 - AL,AZ,CO,FL,GA,NJ,SC,VA
83	Western National Mutual Insurance Co.	221,261	Western National Mutual	MN	6 - IL,IA,MN,ND,SD,WI
84	American Road Insurance Co.	219,229	American Road Group	MI	24 - AL,CA,CO,FL,GA,IL,IN,KS,LA,MD,MA,MI,MN,MO,NJ,NY,NC,OH,OK,PA,TN,TX,VA,WI
85	Donegal Mutual Insurance Co.	217,421	Donegal Group	PA	6 - DE,GA,MD,OH,PA,VA
86	National Liability & Fire Insurance Co.	214,616	Berkshire Hathaway Group	CT	25 - AL,AZ,AR,CA,CT,FL,GA,IL,LA,MA,MI,MN,MS,MO,NJ,NY,NC,OH,OK,OR,PA,TN,TX,WV,WI
87	Quincy Mutual Fire Insurance Co.	213,086	Quincy Mutual Group	MA	4 - CT,MA,NY,RI
88	Horace Mann Insurance Co.	208,725	Horace Mann Group	IL	34 - AK,AZ,CA,CO,CT,DE,FL,GA,IL,IN,LA,ME,MD,MA,MI,MN,MO,MT,NV,NH,NM,NC,ND,OR,PA,SC,SD,TN,TX,UT,VT,VA,WA,WV
89	FCCI Insurance Co.	204,090	FCCI Mutual Insurance Group	FL	12 - AL,FL,GA,IL,IN,KY,MI,MS,MO,NC,SC,TN
90	Sompo Japan Insurance Co. of America	203,272	Sompo Japan Insurance Group	NY	33 - AL,AK,AZ,AR,CA,CO,FL,GA,IL,IN,IA,KS,KY,LA,MD,MA,MI,MN,MS,MO,NJ,NY,NC,OH,OR,PA,SC,SD,TN,TX,VA,WA,WI
91	CastlePoint Insurance Co.	186,450	Tower Group	NY	2 - NJ,NY
92	Utica Mutual Insurance Co.	186,201	Utica Group	NY	25 - CO,CT,DE,GA,IL,IN,KY,MD,MA,MI,MN,MO,NH,NJ,NY,NC,OH,OR,PA,SC,TN,TX,VA,WA,WI
93	Mitsui Sumitomo Insurance Co. of America	184,348	MS & AD Insurance Group	NY	27 - AL,AZ,CA,CO,CT,FL,GA,HI,IL,IN,KY,LA,MA,MI,MO,NJ,NY,NC,OH,OR,PA,RI,SC,TN,TX,VA,WA
94	Darwin National Assurance Co.	184,316	Allied World Assurance Holding Group	DE	34 - AL,AZ,CA,CO,CT,FL,GA,IL,IN,KS,KY,LA,MD,MA,MI,MN,MO,NV,NJ,NM,NY,NC,OH,OK,OR,PA,RI,SC,TN,TX,UT,VA,WA,WI
95	Canal Insurance Co.	165,610	Canal Group	SC	32 - AL,AZ,AR,CO,CT,DE,FL,GA,IL,IN,KY,ME,MD,MI,MN,MS,MO,NV,NC,OH,OK,OR,PA,RI,SC,TN,TX,UT,VA,WA,WV,WI
96	New York Marine and General Insurance Co.	160,657	New York Marine & General Group	NY	27 - AL,AZ,CA,CO,CT,FL,GA,IL,KS,KY,LA,MA,MS,MO,NV,NJ,NM,NY,NC,OK,OR,PA,SC,TN,TX,VA,WA
97	Pacific Specialty Insurance Co.	159,268	Western Service Contract Group	CA	7 - AZ,CA,CO,CT,FL,NJ,TX
98	Alaska National Insurance Co.	156,712	N/A	AK	6 - AK,CA,ID,MT,OR,WA
99	North River Insurance Co.	154,570	Fairfax Financial Group	NJ	29 - AL,AZ,CA,CT,FL,GA,HI,IL,IN,KY,LA,MD,MA,MI,MN,MS,MO,NJ,NY,NC,OH,OK,OR,PA,SC,TN,TX,VA,WA
100	Lancer Insurance Co.	149,991	Lancer Financial Group	IL	31 - AL,AZ,AR,CA,CO,CT,FL,GA,IL,IN,KY,MD,MA,MI,MN,MS,MO,NV,NJ,NY,NC,OH,OR,PA,SC,TN,TX,UT,VA,WA,WI

	Company	12/31/2011 DPW 000s omitted	Group Name	State of Domicile	Number/States with Greater than $1 Million DPW 12/31/2011
101	Federated Rural Electric Insurance Exchange	146,719	N/A	KS	34 - AL,AZ,AR,CO,FL,GA,ID,IL,IN,IA,KS,KY,LA,MI,MN,MS,MO,MT,NE,NM,NC,ND, OH,OK,OR,PA,SC,SD,TN,TX,VA,WA,WI,WY
102	Merchants Mutual Insurance Co.	146,168	Merchants Mutual Group	NY	9 - MA,MI,NH,NJ,NY,OH,PA,RI,VT
103	Mountain West Farm Bureau Mutual Insurance Co.	142,464	Mountain West Farm Group	WY	2 - MT,WY
104	Pennsylvania Lumbermens Mutual Insurance Co.	141,848	N/A	PA	30 - AL,AZ,AR,CO,CT,FL,GA,IL,IN,KY,LA,ME,MD,MA,MI,MN,MS,MO,NJ,NY,NC, OH,OK,PA,SC,TN,TX,VA,WA,WI
105	Concord General Mutual Insurance Co.	134,792	Concord Group	NH	3 - ME,NH,VT
106	Century-National Insurance Co.	132,494	N/A	CA	4 - AZ,CA,IL,NV
107	Markel American Insurance Co.	131,908	Markel Corp. Group	VA	34 - AL,AK,AZ,AR,CA,CO,DE,FL,GA,IL,IN,KY,LA,MD,MA,MI,MS,MO,NV,NJ,NY,NC, OH,OK,OR,PA,RI,SC,TN,TX,UT,VA,WA,WI
108	Jewelers Mutual Insurance Co.	131,507	N/A	WI	30 - AL,AZ,AR,CA,CO,CT,FL,GA,HI,IL,KS,LA,MD,MA,MI,MN,MO,NV,NJ,NY,NC, OH,OK,PA,SC,TN,TX,VA,WA,WI
109	Atlantic States Insurance Co.	130,679	Donegal Group	PA	6 - DE,GA,MD,OH,PA,VA
110	Old United Casualty Co.	128,412	Van Enterprises Group	KS	6 - AZ,CA,FL,KS,MI,TX
111	Cherokee Insurance Co.	127,375	N/A	MI	12 - AR,IN,KS,MI,MS,MO,NC,PA,SC,TN,TX,VA
112	Federated Service Insurance Co.	125,627	Federated Mutual Group	MN	33 - AL,AZ,AR,CA,CO,CT,FL,GA,IL,IN,IA,KS,KY,MD,MI,MN,MO,NE,NV,NY,NC,ND, OH,OK,OR,PA,SC,SD,TN,TX,VA,WA,WI
113	Mid-Continent Casualty Co.	125,328	American Financial Group	OH	10 - AR,FL,KS,MO,MT,ND,OK,TX,UT,WY
114	Grange Insurance Association	124,649	Grange Insurance Group	WA	6 - CA,CO,ID,OR,WA,WY
115	Farmland Mutual Insurance Co.	118,976	Nationwide Corp. Group	IA	27 - AL,AR,CA,CO,GA,ID,IL,IN,IA,KS,KY,MI,MN,MS,MO,NE,NC,ND,OH,OK,PA,SD, TN,TX,UT,WA,WI
116	Public Service Mutual Insurance Co.	117,005	Public Service Group	NY	11 - CA,CO,CT,IL,MA,NJ,NY,OR,PA,TX,WA
117	OneBeacon Insurance Co.	116,649	White Mountain Group	PA	28 - AZ,CA,CO,CT,DC,FL,GA,IL,IN,IA,LA,MD,MA,MI,MN,MO,NJ,NY,OH,OK,OR, PA,SC,TN,TX,VA,WA,WI
118	Preferred Professional Insurance Co.	116,278	Christus Health Group	NE	24 - CA,CO,FL,IL,IN,IA,KS,KY,LA,ME,MD,MN,MT,NE,NH,NJ,NM,NY,OH,PA,TN, TX,WA,WI
119	Seneca Insurance Co. Inc.	116,271	Fairfax Financial Group	NY	20 - AZ,CA,CO,CT,FL,GA,IL,KY,MD,MA,MI,NV,NJ,NY,NC,OH,PA,TX,VA,WY
120	Lyndon Property Insurance Co.	114,986	Protective Life Insurance Group	MO	22 - AZ,CA,CO,FL,IL,IN,IA,KY,ME,MI,MN,MO,NE,NV,OH,OK,PA,TN,TX,VA,WA,WI
121	First Colonial Insurance Co.	113,546	Allstate Insurance Group	FL	24 - AR,CO,FL,GA,IL,IN,IA,KS,MA,MI,MO,NE,NV,NJ,NC,OH,OK,OR,PA,TN,TX, UT,VA,WA
122	Hartford Insurance Co. of Illinois	113,392	Hartford Fire & Casualty Group	IL	3 - IL,NY,PA
123	Brethren Mutual Insurance Co.	113,119	N/A	MD	3 - MD,PA,VA
124	Imperium Insurance Co.	112,027	Lightyear Delos Group	TX	17 - CA,FL,IL,IN,LA,MD,MI,MN,MO,NJ,NY,OH,PA,TX,WA,WI,WY
125	Builders Mutual Insurance Co.	111,624	Builders Group	NC	6 - MD,MS,NC,SC,TN,VA
126	Farmers Alliance Mutual Insurance Co.	107,919	Alliance Insurance Group	KS	8 - CO,ID,KS,MT,NE,ND,OK,SD
127	American Mercury Insurance Co.	107,872	Mercury General Group	OK	8 - AK,CA,FL,GA,MS,OK,TX,VA
128	Cambridge Mutual Fire Insurance Co.	106,852	Andover Group	MA	8 - CT,IL,ME,MA,NH,NJ,NY,RI
129	Columbia Mutual Insurance Co.	106,032	Columbia Insurance Group	MO	10 - AR,IL,IA,KS,MS,MO,NE,OK,SD,TX
130	Trinity Universal Insurance Co.	105,376	Unitrin Group	TX	7 - AL,AR,ID,MT,OK,TX,UT
131	Vanliner Insurance Co.	99,422	American Financial Group	MO	23 - AZ,CA,CT,FL,GA,IL,IN,KY,MD,MA,MI,MN,MO,NJ,NY,NC,OH,PA,SC,TN,TX, VA,WA
132	Berkley Regional Insurance Co.	98,926	WR Berkley Corp. Group	DE	27 - AZ,CA,CO,CT,DC,FL,GA,IL,IN,LA,ME,MD,MA,MI,MO,NV,NH,NJ,NY,NC,PA, SC,TN,TX,VT,VA,WA
133	Insurance Co. of North America	98,732	Ace Ltd. Group	PA	5 - CA,FL,MA,NY,SC
134	Cumberland Mutual Fire Insurance Co.	97,858	Cumberland Group	NJ	4 - DE,MD,NJ,PA
135	Triton Insurance Co.	93,780	Citigroup Group	TX	23 - AL,AZ,CA,DE,FL,GA,HI,IN,IA,LA,MN,NJ,NM,NY,NC,OH,PA,SC,TN,TX,VA, WA,WV
136	Physicians Insurance, A Mutual Co.	90,578	Physicians Insurance, A Mutual Group	WA	3 - ID,OR,WA
137	Republic Underwriters Insurance Co.	89,336	Delek Group	TX	7 - AR,CA,LA,MS,NM,OK,TX
138	IMT Insurance Co.	88,142	IMT Mutual Holding Group	IA	5 - IL,IA,NE,SD,WI
139	National Indemnity Co.	87,642	Berkshire Hathaway Group	NE	28 - AK,AZ,AR,CA,CO,CT,DE,GA,IL,IN,KS,KY,MD,MI,MO,MT,NV,NM,NC,ND,OH, PA,RI,TX,UT,VA,WA,WI
140	Milbank Insurance Co.	84,843	State Auto Mutual Group	IA	7 - AZ,CO,IN,MN,ND,SD,UT
141	Harford Mutual Insurance Co.	80,640	Harford Group	MD	8 - DE,DC,MD,NJ,NC,PA,TN,VA
142	Penn National Security Insurance Co.	79,399	Pennsylvania National Insurance Group	PA	8 - AL,DE,MD,NC,PA,SC,TN,VA
143	Lightning Rod Mutual Insurance Co.	78,870	Western Reserve	OH	2 - IN,OH
144	Endurance American Insurance Co.	74,776	Endurance Group	DE	12 - AZ,CO,GA,IL,MA,MI,NJ,NY,OH,PA,TX,WI
145	Fidelity National Insurance Co.	74,381	Fidelity National Financial Group	CA	13 - AZ,CA,FL,LA,MO,NE,NV,NY,PA,SC,TX,VA,WA
146	MHA Insurance Co.	68,065	Promutual Group	MI	7 - IA,MI,MN,ND,OH,SD,WI
147	Gray Insurance Co.	60,451	Gray Insurance Group	LA	7 - AL,CA,FL,LA,MS,OK,TX
148	Dentists Insurance Co.	57,514	N/A	CA	5 - CA,HI,IL,MN,PA
149	Capitol Indemnity Corp.	55,707	Alleghany Group	WI	15 - AZ,IL,IN,MI,MN,MO,MT,NV,NY,ND,OH,OK,PA,WA,WI
150	Bituminous Fire and Marine Insurance Co.	52,791	Old Republic Group	IL	17 - AR,CO,FL,IL,IA,KS,LA,MO,NE,NC,OK,OR,PA,SC,TX,VA,WI
151	Lititz Mutual Insurance Co.	49,807	Lititz Mutual Group	PA	8 - DE,KS,MD,MO,NC,PA,SC,VA
152	Civil Service Employees Insurance Co.	49,033	Civil Service Employee Group	CA	3 - AZ,CA,NV
153	Middlesex Insurance Co.	40,369	Sentry Insurance Group	WI	7 - CA,CT,FL,MN,NJ,TX,WI
154	All America Insurance Co.	35,993	Central Mutual Insurance Co. Group	OH	13 - AZ,CT,GA,IL,IN,MA,MI,NY,NC,OH,SC,TN,VA
155	Bay State Insurance Co.	30,254	Andover Group	MA	3 - MA,NJ,NY

Data Source: The National Association of Insurance Commissioners, Kansas City, Mo., by permission. Information derived from an SNL product. The NAIC and SNL do not endorse any analysis or conclusion based upon the use of its data.

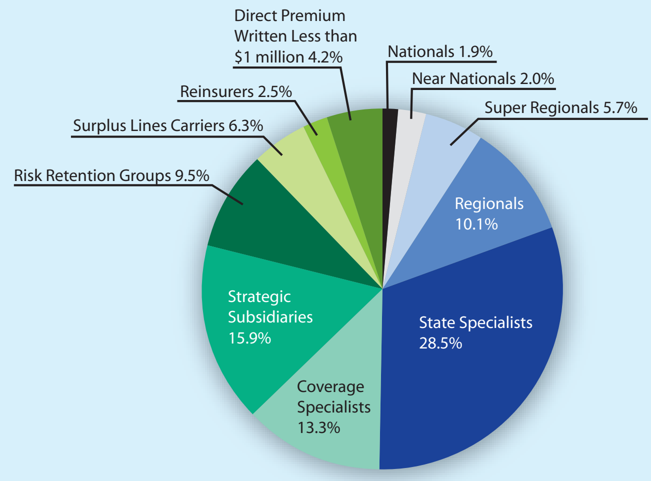
The original criteria and objective definition for Super Regional P/C Insurers™ was established in the Feb. 12, 2007, issue of *Insurance Journal*. Prior to the establishment of an industry-wide definition, a number of property/casualty insurers had referred to themselves as Super Regionals. Demotech Inc., the official research partner of *Insurance Journal*, has compared the data to the criteria and updated the list of Super Regionals.

To continue the discussion regarding what constitutes a Super Regional and to give definition to this important group of insurers, Demotech, a financial analysis firm based in Columbus, Ohio, analyzed year-end 2011 data. This data was used to classify and stratify those insurers reporting data to the National Association of Insurance Commissioners.

Demotech Company Classification System

The experts at Demotech have refined their classification system for property/casualty insurance companies. The Demotech Company

2012 Property & Casualty Insurance Cos. - Demotech Company Classifications



2012 Super Regional Property/Casualty Insurers™

Alphabetical Listing

Acuity, a Mutual Insurance Co.
Alaska National Insurance Co.
All America Insurance Co.
American Commerce Insurance Co.
American Economy Insurance Co.
American Family Mutual Insurance Co.
American Home Assurance Co.
American Mercury Insurance Co.
American Road Insurance Co.
American Strategic Insurance Corp.
Amerisure Insurance Co.
Amerisure Mutual Insurance Co.
Atlantic States Insurance Co.
Auto Club Insurance Association
Automobile Insurance Co. of Hartford, Connecticut
Auto-Owners Insurance Co.
Bankers Standard Insurance Co.
Bay State Insurance Co.
Berkley Regional Insurance Co.
Bituminous Casualty Corp.
Bituminous Fire and Marine Insurance Co.
Brethren Mutual Insurance Co.
Brotherhood Mutual Insurance Co.
Builders Mutual Insurance Co.
California Casualty Indemnity Exchange
Cambridge Mutual Fire Insurance Co.
Canal Insurance Co.
Capitol Indemnity Corp.
CastlePoint Insurance Co.
CastlePoint National Insurance Co.
Central Mutual Insurance Co.
Century-National Insurance Co.
Cherokee Insurance Co.
Citizens Insurance Co. of America
Civil Service Employees Insurance Co.
Columbia Mutual Insurance Co.
Companion Property and Casualty Insurance Co.
Concord General Mutual Insurance Co.
Country Mutual Insurance Co.
Courtesy Insurance Co.
Cumberland Mutual Fire Insurance Co.
Darwin National Assurance Co.
Dentists Insurance Co.
Donegal Mutual Insurance Co.
Endurance American Insurance Co.
Erie Insurance Co.
Erie Insurance Exchange
Farm Bureau Property & Casualty Insurance Co.
Farm Family Casualty Insurance Co.
Farmers Alliance Mutual Insurance Co.
Farmers Automobile Insurance Association
Farmers Insurance Exchange
Farmers Mutual Hail Insurance Co. of Iowa
Farmers Mutual Insurance Co. of Nebraska
Farmington Casualty Co.
Farmland Mutual Insurance Co.
FCCI Insurance Co.
Federated Rural Electric Insurance Exchange
Federated Service Insurance Co.
Fidelity National Insurance Co.
Fire Insurance Exchange
First Colonial Insurance Co.
Frankenmuth Mutual Insurance Co.
General Casualty Co. of Wisconsin
General Insurance Co. of America
Grange Insurance Association
Grange Mutual Casualty Co.
Gray Insurance Co.
Harford Mutual Insurance Co.
Harleysville Mutual Insurance Co.
Harleysville Preferred Insurance Co.
Harleysville Worcester Insurance Co.
Hartford Insurance Co. of Illinois
Hastings Mutual Insurance Co.
Horace Mann Insurance Co.
Hudson Insurance Co.
Imperium Insurance Co.
IMT Insurance Co.
Indiana Insurance Co.
Insurance Co. of North America
Insurance Co. of the West
Jewelers Mutual Insurance Co.
Lancer Insurance Co.
Lightning Rod Mutual Insurance Co.
Lititz Mutual Insurance Co.
Loya Insurance Co.
Lyndon Property Insurance Co.
Markel American Insurance Co.
MemberSelect Insurance Co.
Merchants Mutual Insurance Co.
Mercury Casualty Co.
Merrimack Mutual Fire Insurance Co.
MHA Insurance Co.
Mid-Century Insurance Co.
Mid-Continent Casualty Co.
Middlesex Insurance Co.
Milbank Insurance Co.
Mitsui Sumitomo Insurance Co. of America
Motorists Mutual Insurance Co.
Motors Insurance Corp.
Mountain West Farm Bureau Mutual Insurance Co.
Mutual of Enumclaw Insurance Co.
National Indemnity Co.
National Liability & Fire Insurance Co.
Nationwide Mutual Fire Insurance Co.
Netherlands Insurance Co.
New York Marine and General Insurance Co.
NGM Insurance Co.
North River Insurance Co.
North Star Mutual Insurance Co.
Occidental Fire and Casualty Co. of North Carolina
Old Republic General Insurance Corp.
Old United Casualty Co.
OneBeacon Insurance Co.
Owners Insurance Co.
Pacific Specialty Insurance Co.
Peerless Insurance Co.
Pekin Insurance Co.
Penn National Security Insurance Co.
Pennsylvania Lumbermens Mutual Insurance Co.
Pennsylvania Manufacturers' Association Insurance Co.
Pennsylvania National Mutual Casualty Insurance Co.
Physicians Insurance A Mutual Co.
Preferred Mutual Insurance Co.
Preferred Professional Insurance Co.
Progressive Casualty Insurance Co.
Progressive Gulf Insurance Co.
Progressive Northern Insurance Co.
Protective Insurance Co.
Public Service Mutual Insurance Co.
Quincy Mutual Fire Insurance Co.
Republic Underwriters Insurance Co.
Safeco Insurance Co. of Illinois
Secura Insurance, a Mutual Co.
Selective Insurance Co. of America
Selective Way Insurance Co.
Seneca Insurance Co. Inc.
Shelter Mutual Insurance Co.
Sompo Japan Insurance Co. of America
State Auto Property & Casualty Insurance Co.
State Automobile Mutual Insurance Co.
Technology Insurance Co. Inc.
Tower Insurance Co. of New York
Trinity Universal Insurance Co.
Triton Insurance Co.
Unigard Insurance Co.
United Fire & Casualty Co.
Utica Mutual Insurance Co.
Vanliner Insurance Co.
Vermont Mutual Insurance Co.
Virginia Surety Co. Inc.
West Bend Mutual Insurance Co.
Western National Mutual Insurance Co.
Westfield Insurance Co.
Westfield National Insurance Co.

Super Regional Insurers

Classification System categorizes all property/casualty insurers into one of 11 categories based on an analysis of data reported by the companies.

The 11 categories that comprise the system are: Nationals, Near Nationals, Super Regionals, Regionals, State Specialists, Coverage Specialists, Strategic Subsidiaries, Risk Retention Groups, Surplus Lines Carriers, Reinsurers and companies with less than $1 million in direct premium written.

A company cannot be assigned to more than one category. Therefore, a company not designated as a Super Regional is given another classification, perhaps Near National, Regional or State Specialist.

Super Regional Criteria and Thresholds

To select the companies for the Super Regional Property/Casualty Insurer™ list, Demotech used the following specific, objective qualifying criteria and thresholds:

- Active, individual companies not under regulatory supervision at Dec. 31, 2011;
- Reporting data to the National Association of Insurance Commissioners using the property/casualty annual statement format;
- At least $1 million of direct premium written in each of two to 34 states at Dec. 31, 2011;
- Less than 90 percent of Dec. 31, 2011, direct premium written in any one state;
- Less than 90 percent of Dec. 31, 2011, direct premium written in any one line of business;
- Policyholders surplus of at least $100 million at Dec. 31, 2011;
- Net premium written of at least $50 million at Dec. 31, 2011; and
- Direct premium written of at least $25 million at Dec. 31, 2011.

In general, a Super Regional Property/Casualty Insurer™ is an individual company writing multiple lines of insurance in mul-

NEW 2012 Super Regionals

Company Name	2012 Demotech Company Classification	2011 Demotech Company Classification	2010 Demotech Company Classification	2009 Demotech Company Classification	2008 Demotech Company Classification	2007 Demotech Company Classification
All America Insurance Co.	Super Regional	Regional	Super Regional	Super Regional	Regional	Regional
American Economy Insurance Co.	Super Regional	Near National	Near National	Near National	Near National	Near National
Dentists Insurance Co.	Super Regional	Regional	Regional	Regional	Regional	Regional
Farmers Insurance Exchange	Super Regional	Near National	Near National	Near National	Near National	Near National
Horace Mann Insurance Co.	Super Regional	Near National	Super Regional	Near National	Near National	Near National
Lancer Insurance Co.	Super Regional	Coverage Specialist	Coverage Specialist	Near National	Near National	Regional
Loya Insurance Co.	Super Regional	State Specialist	State Specialist	State Specialist	State Specialist	Strategic Subsidiary
Lyndon Property Insurance Co.	Super Regional	Strategic Subsidiary	Regional	Super Regional	Super Regional	Super Regional
MHA Insurance Co.	Super Regional	Strategic Subsidiary	Super Regional	Super Regional	Super Regional	Regional
Pekin Insurance Co.	Super Regional	Regional	Regional	Regional	Regional	Regional
Physicians Insurance A Mutual Co.	Super Regional	State Specialist	State Specialist	State Specialist	State Specialist	State Specialist
Progressive Northern Insurance Co.	Super Regional	Coverage Specialist	Coverage Specialist	Coverage Specialist	Coverage Specialist	Super Regional

RECLASSIFIED 2011 Super Regionals

Company Name	2012 Demotech Company Classification	2011 Demotech Company Classification	2010 Demotech Company Classification	2009 Demotech Company Classification	2008 Demotech Company Classification	2007 Demotech Company Classification	Why Company Does Not Qualify as a 2012 Super Regional
AIU Insurance Co.	State Specialist	Super Regional	Super Regional	Super Regional	Super Regional	Super Regional	State > 90%
American Hallmark Insurance Co. of Texas	Regional	Super Regional	Super Regional	Regional	Regional	Regional	PHS
Berkley Insurance Co.	Coverage Specialist	Super Regional	Super Regional	Strategic Subsidiary	Strategic Subsidiary	Strategic Subsidiary	LOB > 90%
Contractors Bonding and Insurance Co.	Regional	Super Regional	Super Regional	Regional	Regional	Regional	PHS, NPW
Harco National Insurance Co.	Regional	Super Regional	Super Regional	Super Regional	Super Regional	Super Regional	NPW
Health Care Indemnity Inc.	Coverage Specialist	Super Regional	Super Regional	Coverage Specialist	Coverage Specialist	Coverage Specialist	LOB > 90%, NPW
Keystone Insurance Co.	Regional	Super Regional	Super Regional	Super Regional	Super Regional	Super Regional	NPW
LM Insurance Corp.	Near National	Super Regional	Strategic Subsidiary	Strategic Subsidiary	Coverage Specialist	Coverage Specialist	States > 34
Meritplan Insurance Co.	Strategic Subsidiary	Super Regional	Super Regional	Regional	Regional	Strategic Subsidiary	NPW
Motorists Commercial Mutual Insurance Co.	Strategic Subsidiary	Super Regional	Super Regional	Super Regional	Super Regional	Super Regional	DPW
ProAssurance Casualty Co.	Coverage Specialist	Super Regional	Coverage Specialist	Coverage Specialist	Coverage Specialist	Coverage Specialist	LOB > 90%
Providence Mutual Fire Insurance Co.	Regional	Super Regional	Super Regional	Regional	Super Regional	Regional	PHS
Republic Indemnity Co. of America	Coverage Specialist	Super Regional	Super Regional	Super Regional	Coverage Specialist	Coverage Specialist	LOB > 90%
Sparta Insurance Co.	Near National	Super Regional	Super Regional	Regional	State Specialist	Strategic Subsidiary	States > 34
St. Paul Protective Insurance Co.	Strategic Subsidiary	Super Regional	Super Regional	Strategic Subsidiary	Strategic Subsidiary	Coverage Specialist	DPW
Stonebridge Casualty Insurance Co.	Regional	Super Regional	Super Regional	Super Regional	Super Regional	Regional	States > 34, PHS
Stonington Insurance Co.	Strategic Subsidiary	Super Regional	Near National	Near National	Near National	Regional	PHS, NPW
ULLICO Casualty Co.	Regional	Super Regional	Regional	Regional	Regional	Strategic Subsidiary	PHS
United States Fidelity and Guaranty Co.	Coverage Specialist	Super Regional	Super Regional	Coverage Specialist	Super Regional	Near National	LOB > 90%

PHS = Policyholders' Surplus; LOB = Line of Business; NPW = Net Premium Written; DPW = Direct Premium Written tiple states. Risk retention groups, surplus lines insurers and reinsurers are not eligible for the Super Regional category because they are assigned to other classifications.

The 2012 Super Regional Property/Casualty Insurers™

Demotech identified 155 Super Regional Property/Casualty Insurers™ for 2012. They are presented in this exclusive *Insurance Journal* special report both alphabetically and by size, as ranked by direct premium written as of Dec. 31, 2011.

Also included in this report are the 12 companies that are new to the Super Regional Classification, as well as a list of 19 insurers that have been reclassified into another category based on year-end 2011 information.

"Super Regional insurers are critically important to the insurance industry and to their agents, producers and insureds," said Joseph Petrelli, president of Demotech. "These companies are strong, stable markets that work hard for their agents, insureds as well as their reinsurers. This is why *Insurance Journal* expressed interest in quantifying and identifying what criteria can be used to define an insurer as a Super Regional."

*Insurance Journa*l and Demotech expect this year's report to further the discussion on the role of Super Regionals, as well as on the definition and criteria used in determining the classification, so that future reports can continue to appreciate an industry definition of Super Regional Property/Casualty Insurers™.

"Insurers and interested readers are encouraged to review the selection criteria and thresholds used to determine the 2012 Super Regionals. Our selection criteria remain quantitative and transparent. We are focused on setting benchmarks at levels that accurately categorize the industry," said Barry Koestler II, CFA, senior financial analyst and chief ratings officer at Demotech.

The authors stress that this is an objective stratification of the companies that comprise the industry, not ratings of the individual insurers. Inclusion on the list of Super Regionals is not meant to suggest that a company is superior to companies not categorized as Super Regionals.

Future issues of *Insurance Journal* will report on other categories within the Demotech Company Classification System, including a report on Near National carriers to be featured in June 2012.

Since 1985, Demotech has been providing independent Financial Stability Ratings® of property/casualty insurers and title underwriters. Other services include consulting and financial analysis. For more information, visit www.demotech.com.

Please send suggestions, comments and criticisms about the classification and report to Demotech's Barry Koestler at bkoestler@demotech.com, or Andrea Ortega-Wells, editor in chief for *Insurance Journal*, at awells@insurancejournal.com. IJ

AAMGA

AAMGA President Chaffin Stresses Need for Perpetuation; Cites Effect of Revised Catastrophe Model on E&S Business

By Andrea Ortega-Wells

Relationships are important to the success of any insurance business, but it's perpetuation that matters most when it comes to survival.

R.C. Chaffin, president and CEO of Coral Gables, Fla.-based SeaCoast Underwriters Inc., and the incoming president of the American Association of Managing General Agents (AAMGA), says surviving in today's marketplace comes back to perpetuation.

R.C. Chaffin

"I think perpetuation is key to surviving in this market," Chaffin says. That includes not only perpetuation at the ownership level, but also perpetuation at each level of the organization, he says, including underwriting, accounting, claims, and all areas of the agency.

Chaffin says that while relationships with insurance companies and retail agents remain critical for the survival of MGAs, just as important is keeping up with technology.

"If you are not keeping up with technology today you are not going to survive," he says.

Chaffin understands that smaller MGAs and retail agencies might find it difficult to invest as heavily in technology as larger entities. But failing to do so might put some of those firms at risk for failure.

"What happens with a lot of MGAs and retailers as well, if they don't have the finances to keep up with technology it's going to be very difficult to survive in this market."

But Chaffin stresses that bigger is not always better in the insurance business. His firm, with just 31 employees, has fared well in the tough market conditions of the past several years.

"We've been very fortunate," Chaffin says. "We've been able to hold our own over the last three years," thanks in part to his commitment to "relationships," he says.

For his MGA, which focuses primarily on Florida business but also has an office in Georgia, business appears to be heading up.

"Where we saw some of our E&S business going over to the admitted; now we are seeing some of that business come back to us," he says.

But insurance is a regional business and every MGA is different, he says.

"If you look at our [AAMGA] members by region, we still have a lot of small to medium MGAs that are doing very, very well."

Others may be not so well.

"You might get a different answer depending on who you are talking to. Some of the changes are regionalized," he says.

But overall, Chaffin sees an upward tick in business, and that's a good thing.

RMS 11

One change in the marketplace that's leading to an uptick in business for the excess and surplus lines sector has to do with a revised hurricane model introduced last year. That model has dramatically raised certain estimates of potential hurricane losses throughout the country.

California-based modeling firm RMS' revised hurricane model, version 11, includes updated construction and roof types, higher inland wind speeds, heightened building vulnerability, and increased losses due to storm surge. The changes have sparked an increase in wind risk for hurricane states on

an industry-wide basis, even though individual portfolios differ depending on the region and line of business.

RMS 11 has also led to an increased focus on education industry-wide, Chaffin says. Not everyone understands RMS 11 and the impact the new catastrophe model is having on the industry, he says.

"We are already seeing aggregate being reduced," he says. "We received two calls today from some of our agents that are looking for a home for some business because it no longer qualifies for the wind program." All thanks to RMS 11, he adds.

Chaffin predicts more business moving to the E&S side as the model is used by more and more carriers.

"We are already seeing some folks using it quite a bit," he says. But not all markets have jumped on board with RMS 11.

"Some folks are taking a wait-and-see attitude, some are saying they are going

Perpetuation, education and technology are the ingredients to success.

to blend it in with their other models, and some say they may not have a choice because the reinsurers are definitely going in that direction," he says.

"It's sort of wait and see right now," Chaffin says. "It's going to depend on the amount of exposure that companies have or think they have."

Either way, RMS 11 is going to be a key factor for MGAs and retail agencies going forward.

MGAs and retailers will need to understand RMS 11, know exactly what the model is looking for, and complete applications with the most accurate information possible, he says. "I think over the next year or two that's going to be pretty significant."

In the end, success and survival in today's marketplace comes back to perpetuation, education and technology at all levels of the agency, Chaffin says.

"I think those are the three key elements," he says. "If you have those ingredients, you are probably more optimistic about where you are going." IJ

News & Markets

New Ventures Ready, Waiting for Market to Turn

By Amy O'Connor

The time appears to be right for new ventures including program managers, wholesaler brokers and retail agencies despite uncertainty with the economy and insurance market.

Why are these companies starting these endeavors now?

"Buy low, and sell high," says Robin Stough, CEO of the new LevelFirst wholesale brokerage and managing general agency in Dallas. "The market isn't the best and neither is the economy, but it is a great opportunity to get started as the insurance marketplace and economy improve. If we can do it [successfully] now, we can do it anytime."

Stough is not alone in his sentiment. Since July 2011, a number of entrepreneurs have launched small ventures focusing on different niches.

Glenn Clark, president of Rockwood Programs in Wilmington, Del., says he wanted to get his new Public Servants Defense Agency (PSDA) up and running before the end of 2011 so in 2012 they could focus on growth.

"We are trying to make [the bad economy] work for us," says Clark.

Clark says this means highlighting the fact that his new company, which targets police, firefighters and emergency medical technicians (EMTs) individually and in groups, doesn't appear to have any direct competitors.

He is also taking advantage of cost-saving marketing techniques, such as social media, the Internet in general and e-marketing.

So far, so good.

"In the first month, we had over 100 inquiries and [as of the end of March] have had a total of 472 inquiries," says Clark. "There is very good acceptance because there is no product like this out there."

Martin Jones and Parker Hix, who started PentaRisk, a retail agency in Atlanta, Ga., say they were ready to leave the big agency environment and go "back to basics." They have found that this is also true of many agents and this philosophy has helped the company attract talent.

"There are a lot of agents that aren't happy where they are at," says Jones. "They want to go to different places and to a smaller broker but are scared to do it so it keeps people pinned down. We are going to give people an opportunity to move somewhere."

'There are a lot of agents that aren't happy where they are at.'

LevelFirst's Stough agrees.

"Recruiting people into a new environment is a challenge, but I think there is an allure of leaving big corporations for a smaller environment," says Stough.

Flexibility Essential to Success

Starting a new venture in this market isn't without its challenges. One particular difficulty has been getting buyers to commit, according to Clark.

"A new sale means the money must come from other budgets," he says. "There are very cautious buyers who take a long time to decide."

New agencies also have to be willing to make changes when it's clear they could improve their way of operating.

Clark says his company has already reevaluated how it brings in business, including refocusing its efforts on larger group leads. The company is also retooling its website to allow one-off individual submissions and provide better e-services so that it can be more effective at working with agents.

Stough says it has been easier than he expected to get markets, but harder to break relationships between customers and their current companies.

"A lot of the first year is getting good staff, getting markets in place, getting your name out there," he says. "I don't think we expected a ton of money in the first year but you have to hang in there and get in a position where we can take the next step forward."

LevelFirst

The new MGA and wholesale broker in Dallas, Texas, is focusing on a few niches right now, including apartments, transportation, professional liability and janitorial services. Stough says the company is also starting to write energy business and wants to develop that into an energy practice going forward.

"We want to be a generalist, but also focus on a few areas," says Stough. "With E&S business, you have to go with the flow and what's up and coming in the marketplace."

The company has put together 10 binding authorities and more than 60 brokerage markets so far and can offer general liability, property, professional liability, auto, physical damage and cargo. It can also offer environmental and umbrella coverage to excess business.

Stough is also actively looking for people with established relationships and expertise to come in and develop new practices. "You have to be a different person and confident you can produce in this kind of environment but it can be more fulfilling."

PentaRisk

Jones and Hix are also going the route of hiring experienced people to concentrate on a few niches for their new retail agency, including most recently someone to specialize in energy.

Hix and Jones have pooled their experience in the construction and real estate industries, respectively, to make their new venture a full-service provider for insurance and surety products.

The company will also offer employee benefits and health insurance. Their target business is $500,000 to $10 million in premium.

Although the construction market has been slow to rebound, Hix says getting their firm established will give them an advantage when things get better.

"When it comes back around in 2013 or 2014, we will be in a position to handle it. We don't want to be starting then, we want to be already running and fully operational," he says.

PentaRisk is making customer service a cornerstone of their agency, which they say

continued on page N24

News & Markets

Market to Turn, continued from page N23

the big companies lack. "At larger agencies the focus is on the bottom line, rather than the customers themselves," Jones says.

The company has secured more than 35 carriers so far, and Jones and Hix have an aggressive growth plan for PentaRisk, with a goal of $350 million in premium by the end of 2013. They plan to open additional offices in California, Texas, and Florida, and potentially the Midwest and Nevada. The company will also make agency acquisitions if the right opportunities come along.

Public Servants Defense Agency

PSDA, the new subsidiary company from Rockwood Programs Inc., was started because of the success of Rockwood's other insurance agency WrightUSA, which provides errors and omissions (E&O) coverage to federal government employees.

Rockwood bought WrightUSA two years ago and saw that police, firefighters and EMTs have exposures similar exposures to those of federal employees.

"Federal employees don't own their business but they own their career," says Clark. "Anything that threatens their career is a threat to them."

The company offers personal liability coverage against exposures that these workers may encounter because of their careers, even if they are off duty. The exposures include sexual harassment, improper touching, or improper use of a firearm.

> **'To create a new brand for program business made a lot of sense.'**

"An EMT [for example] has a Good Samaritan exposure just because they are an EMT; they are held to a higher degree of standard as a passerby that is helping out," says Clark. "They can be accused of practicing medicine because they are EMTs."

Clark says with employer cutbacks in services and benefits, employees can't rely on their work to buy coverage that protects them from these exposures. For that reason, PSDA is targeting unions, benevolent organizations, paternal organizations, employer groups and associations. PSDA will market to individuals through its new website. The company also plans to add two new products: a group life policy designed to payout the beneficiary within 48 hours of a death notification; and a self-defense policy for retired law enforcement officers who are permitted to carry a gun.

Premiums start at about $250. Limits for individuals are $100,000 but people can buy $250,000; PSDA can go up to $1 million for groups. The coverage is available nationwide and is written through Markel, but PSDA has the authority to bind and settle claims.

Glatfelter Program Managers

The formation of Glatfelter Program Managers is more of a rebranding of Glatfelter Insurance Group's internal wholesale specialty products, according to Art Seifert, the new president of Glatfelter Program Managers in Albany, N.Y.

It is a division of Glatfelter Insurance Group but has its own employees and is a separate business unit with three divisions targeting separate insurance segments:

- Volunteer Fire Insurance Services (VFIS), which writes both property/casualty, and accident and sickness for about 18,000 emergency service organizations.
- Glatfelter Public Practice, which covers educational institutions; municipalities; independent school bus contractors and water/sewer entities for towns or cities with less than 75,000 people.
- Glatfelter Religious Practice for hospice and home healthcare agencies.

Seifert joined Glatfelter in June 2011 and saw that outside of the company, Glatfelter's program business was relatively unknown.

"To create a new brand for program business made a lot of sense," he says. "I like to say we are one of the largest program managers that people have never heard of."

The company would like to grow through mergers and acquisitions as well as expand into social services. In January, it acquired senior living and religious organizations programs from Bunker Hill Underwriters Agency in Houston. It also plans to expand its healthcare business and appointed Bruce Williams as president of the newly formed Glatfelter Healthcare Practice division. Most recently, Glatfelter Public Practice introduced cyber liability and privacy crisis management expense coverage for municipalities and water-related entities nationwide. It is also planning to announce a significant new product within an existing practice area very soon.

"The whole program segment has become pretty popular so there is a lot of competition out there trying to get eyeballs to pay attention," says Seifert. "Our biggest challenge is making sure we work with agents selling value versus selling price."

Sports Insurance Specialists

Jeff Ladd, president of the new Sports Insurance Specialists in Fort Wayne, Ind., also thought the timing and his 20 years of experience in the sports and entertainment insurance business would set him up for success in this market.

"I had a group of strong investors behind me, I had knowledge, resources in the markets and lots of customers that I had dealt with in the sports industry," he says. "The time seemed right so away we go."

The company is focusing on the sports arena, including professional and amateur sporting events. On their Web site an applications page has been set up for certain events such as basketball, softball, or golf clinics, youth baseball or little league, and tournaments or other types of short term events. For bigger events, more underwriting may be needed. The company can also cover concerts that are part of these events, or standalone concerts if they are big enough, as well as festivals.

Coverage can include participant accident, general liability, participant legal liability, and some medical products for conferences. Limits are typically around $5 million on liability, depending on the type of event. The main carriers so far are Western World, CNA and Chubb. The company can operate in all 50 states.

Ladd says they hope to expand into more entertainment events down the road, but their three- to- five year plan for now is to get these products up and running and profitable within a year or two.

He says this class doesn't have a lot of competition, but he thinks relationships will be essential to making the company work.

"It's a small community when you get into business administration for events and if you do it for a while, you get to know a lot of people and fortunately that is where I am at," says Ladd. IJ

2012 Premium Finance Directory

Welcome to Insurance Journal's 2012 Premium Finance Directory, a comprehensive listing of premium finance companies able to assist agents and brokers with their clients' financing needs.

All company information listed in this directory was directly submitted to Insurance Journal. To be listed in future editions of Insurance Journal's Premium Finance Directory, or any other directory, contact Kristine Honey at: khoney@insurancejournal.com.

We hope you find this directory to be a valuable resource when searching for financing options for your clients. Feel free to send us comments and suggestions on how we might improve this directory, or for additional help, e-mail: editorial@insurancejournal.com.

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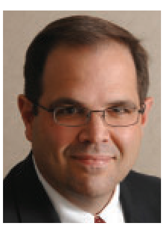

By Robert Passmore

Approximately one year ago, on Sunday, May 22, 2011, at about 5:30 p.m., Joplin, Mo., was devastated by a massive EF 5 tornado that at times was 1 mile wide and traveled on the ground for more than 20 miles. This storm, Missouri's largest insurance event, resulted in roughly $2 billion in insurance payouts and nearly 20,000 claims.

As we all recall, the industry's response was immediate. Catastrophe teams and adjusters swarmed in, and more than $1 billion was paid out within the first 100 days. The insurance payouts jump-started the rebuilding effort, and despite the widespread damage, homes were repaired, schools opened on time in the fall and Joplin's can-do spirit inspired the nation.

However, following these events we have not only seen the best in people as neighbor helps neighbor, we also have seen the seamy underside of society as some seek to prey on the misfortune of others.

Criminals and Disaster Recovery

It is important to remember that Joplin's recovery, like any recovery effort following a major natural disaster, was not a straight line. Residents were forced to contend with criminal activity and potential scams. Looters stole property from storm victims' homes. Individuals exploited the opportunity and used personal papers and documents that had blown away to commit identity theft. People impersonated government officials and attempted to charge processing fees for disaster assistance. And fly-by-night contractors ran home repair scams.

Whether it is a major event like the Joplin tornado or a small neighborhood hail storm, it is common to see some crooked contractors descend upon a community and take advantage of unsuspecting homeowners.

With all of the storm activity in the past few years and the opportunity for contractor fraud, lawmakers and insurers have banded together to advance much needed legislation that could help protect homeowners from contractor fraud and abuse.

Bills were introduced this year in Arizona, Colorado, Indiana, Iowa, Nebraska, South Dakota and Tennessee. As of mid-April, bills have been enacted in Arizona, Indiana, Nebraska, and South Dakota, and are still pending in Colorado, Iowa and Tennessee.

These bills provide important consumer protections that require homeowners to receive notices and contract termination rights. They prohibit roofing contractors from requiring deposits or advance payment, except for emergency repairs necessary to protect the property from further damage, pending insurance claim determination. The bills also prohibit rebating or other compensation to induce consumers to enter into contracts.

These consumer protections strike right at the heart of the business model of contractors who use questionable solicitation and business tactics. As an example, the Iowa Attorney General recently investigated an Omaha, Neb., contractor who allegedly took more than $7,000 from an 87-year-old Council Bluffs, Iowa, man. The Attorney General alleged that the contractor collected an insurance payment in advance but failed to perform the storm repair work. The contractor was doing business in Iowa but was not registered with the state as the law requires.

Industry's Role

The vast majority of contractors are honest, reputable business people and these bills will not negatively affect their ability to treat customers fairly and conduct business. While these bills have sailed through in most states, they have faced stiff opposition from some contractors in states like Iowa and Colorado. Those who are relying on deceptive practices and bogus incentives to lure in customers are out in force to stop any effort that will impede their ability to make a quick buck.

As a counterweight, it is important for insurance professionals to make sure their voices are heard and push forward legislation that will protect our customers. Our industry plays a crucial role in providing lawmakers with information that will help them take affirmative steps in protecting the interests of consumers.

Like after Joplin or any event, insurers want to be able to quickly mobilize and meet the needs of their customers. Customers want to know they will not be victimized twice — one by the storm and a second time by an unscrupulous contractor. Insurers devote many resources to ensure that the claims process is smooth, easy and meets consumer needs. The Storm Chaser bills are designed to accomplish these goals and most importantly, they add vital consumer protections. IJ

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