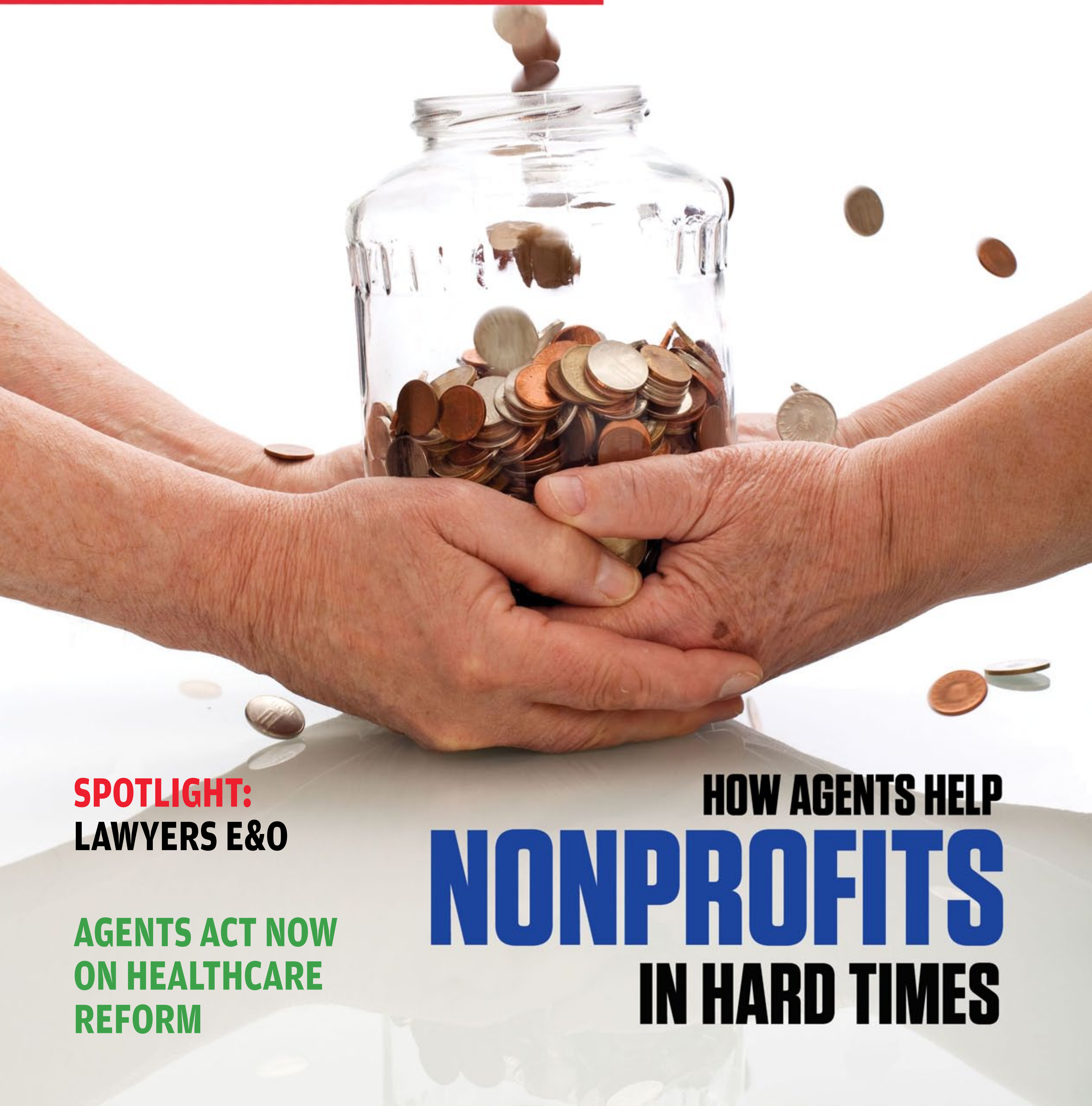
FEBRUARY 11, 2013 | VOL. 91, NO. 3 NATIONAL REGION

INSURANCE JOURNAL

THE NATIONAL PROPERTY CASUALTY MAGAZINE

10 THINGS TO KNOW:
COMMERCIAL AUTO



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Opening Note

Unfair Drivers

In its latest report on auto insurance premiums, the Consumer Federation of America (CFA) said insurers charge higher premiums to safe drivers than to unsafe drivers. That claim seems to go against the grain when predicting risk in the insurance industry.

The CFA report looked at the five largest auto insurers — State Farm, Allstate, GEICO, Farmers and Progressive — and argued that these insurers, with the sole exception of State Farm, routinely use "non-driving-related" factors such as income level and education in their pricing decisions. The consumer group alleged that this practice can often result in safe drivers with good driving records paying higher premiums.

Relevant risk factors for auto insurance account for more than just accident history.

The study used two hypothetical drivers and sought insurance quotes in 12 cities. CFA compared premiums quoted to two 30-year-old women who each had driven for 10 years, lived on the same street in the same middle-income ZIP code, and sought minimum liability coverage required by that state.

But the two women differed in several respects: One was a single receptionist with a high school education who rents, has been without insurance coverage 45 days, and has never had an accident or moving violation. And the other woman was a married executive with a master's degree who owns a home, has had continuous insurance coverage, and has had an at-fault accident with $800 of damage within the past three years.

In two-thirds of the 60 cases studied, the insurers quoted higher premiums to the safe driver than to the driver responsible for an accident, according to the CFA. The consumer group said these higher prices mainly reflect insurer use of rating factors such as education and occupation.

The study cited what it described as wide price discrepancies in premiums quoted for drivers with similar records and said the auto insurance marketplace is "highly uncompetitive."

But for most drivers, competition is a non-issue. Most drivers have dozens of auto insurers competing for their business, said Dr. Steven Weisbart, a senior vice president and chief economist at the Insurance Information Institute (I.I.I.). Price is risk-based, and always will be, he says.

The problem with the CFA study is that it erroneously suggests what it calls "non-driving-related" rating factors are not predictive of risk, says Robert Detlefsen, vice president of public policy, for the National Association of Mutual Insurance Companies.

"CFA simply assumes that the only relevant risk factors are those involving accident history. CFA's entire critique is based on this one false assumption," he said.

In the end, auto insurance consumers do have some control over the price they pay for coverage, the I.I.I. said, since the premium is determined in part by their driving record, the type of car they drive and the miles they drive each year.

These rate-setting variables were downplayed in the CFA report, insurers say.

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Editor-in-Chief

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News & Markets

U.S. Commercial Insurance Prices to Firm in 2013: Marsh

Rates for commercial lines insurance will continue to rise in 2013, thanks to above average losses, low investment returns and receding reserve releases. However, according to a report by Marsh, traditional signs of a conventional hard market have yet to occur.

Casualty insurance markets remain in a state of transition entering 2013, Marsh said in its "US Insurance Market Report 2013." Rates for financial and professional insurance — including directors and officers liability (D&O), commercial errors and omissions (E&O), and cyber insurance — are expected to generally increase in 2013.

Fallout from Superstorm Sandy, one of the costliest storms in U.S. history, will likely temper what had been a generally improving rate environment for property insurance buyers in late 2012, Marsh said.

Underwriters are now seeking "clarification of certain definitions and other language in property policies" said David Bidmead, Marsh's U.S. CEO. "In the Northeast and other regions that they did not previously perceive to be catastrophe-exposed, property insurers are also reconsidering their underwriting approach and seeking higher rates and tighter terms and conditions," he said.

Marsh's annual report provides information on commercial insurance market trends and risk issues. Major findings include:

- Insureds with significant catastrophe exposures renewing programs in fourth quarter 2012 typically saw property rate increases of 5 percent to 15 percent.
- The general liability insurance market was generally stable in 2012, with some moderate firming.
- Workers' compensation rates generally renewed in the range of 5 percent decreases to 5 percent increases in the fourth quarter, with rates generally expected to increase more in 2013.
- The D&O insurance market entered a state of transition in the second quarter of 2012. Pricing at renewal in the fourth quarter was typically flat to up 10 percent for publicly traded companies, and flat to up 15 percent for private companies. Rate increases are likely in 2013.

An increase in frequency and severity of claims drove commercial E&O and cyber insurance rates upward in 2012. Rates for both lines were flat to up 5 percent in the fourth quarter and are expected to continue rising in 2013.

Pricing in the political risk market increased in some Middle East and North Africa countries at the end of 2012; this is likely to continue in 2013. Conditions in the U.S. trade credit insurance market are expected to continue to favor insureds. IJ

Web Resource

Impact Forecasting, the catastrophe model development arm of Aon Benfield, which publishes the Annual Global Climate and Catastrophe Report, has launched a new website, Catastrophe Insight, www.aonbenfield.com/catastropheinsight, which provides 10 years of catastrophe data including economic and insured losses across nine key natural perils.

Half of 2012's Global Economic Losses Due to U.S. Natural Disasters: Aon

While global economic losses were close to average in 2012, insured losses were 36 percent higher than the 10-year average ($72 billion versus $53 billion) because the two most costly events of the year occurred in the United States, which has higher than average insurance penetration.

The two major U.S. natural peril events, Hurricane Sandy and a year-long drought, accounted for two-thirds of all 2012 insurance losses globally and nearly half of all economic losses, according to Aon's annual "Global Climate and Catastrophe Report."

The report shows that 295 natural peril events occurred worldwide in 2012, compared to 257 in 2011, causing total economic losses of $200 billion. The 10-year average is $187 billion.

Overall insured losses in 2012 were significantly lower than the record 2011 insured loss of $133 billion.

Hurricane Sandy caused an estimated $28.2 billion in insured losses across private insurers and government-sponsored programs, and approximately $65 billion in economic losses across the United State, Caribbean, Bahamas and Canada.

The most deadly event of 2012 was Super Typhoon Bopha, which killed more than 1,900 people after making landfall in the Philippines.

A total of 14 tropical cyclones made landfall globally in 2012, compared to a long-term average of 16. Major flooding affected China and the United Kingdom, with other floods recorded elsewhere in Asia, Europe and Oceania.

In 2012, Europe, Asia and North America (outside the United States) all sustained aggregate insured losses above $1 billion due to flooding, earthquakes and tropical cyclones. Losses in Asia and Oceania were well below their recent 10-year averages, and Europe was slightly below its average.

U.S. severe weather losses were close to the recent five-year average and 46 percent less than 2011's record losses.

Records show that 2012 ended as the eighth warmest year in world history since global land and ocean temperature records began in 1880. IJ

Declarations

Loss Prediction

"State insurance regulators should require auto insurers to explain why they believe factors such as education and income are better predictors of losses than are at-fault accidents."

— J. Robert Hunter, Consumer Federation of America. The CFA recently issued a report alleging that most major auto insurers routinely use "non-driving-related" factors such as income level and education in their pricing decisions. The consumer group alleged that this practice can often result in safe drivers with good driving records paying higher premiums.

Rain nor Shine

"It's a little known fact that I also spent 11 years in uniform. Sure, it was a Postal uniform."

— John Ratzenberger, the factoid-dispensing postman from the "Cheers" sitcom, said to group of insurance professionals during an event at the Cosmopolitan hotel in Las Vegas hosted by the "Swett Warriors" organization to raise funds and awareness for injured veterans. One hundred wounded veterans and more than 700 industry professionals were at the event in late January.

Lacking Support

"There were a number of variables factoring into the decision to deny this request and the actuarial support was lacking, prompting concerns regarding the magnitude of the profit provision."

— Louisiana Insurance Commissioner Jim Donelon comments on his decision not to approve a request by State Farm Fire and Casualty Co. (State Farm) to raise homeowners rates in the state by 16.6 percent. State Farm said the rate hike is justified.

Undocumented, Licensed Drivers

"The president can say about his home state of Illinois … we not only passed the Dream Act last year, we passed driver's licenses for those who are undocumented."

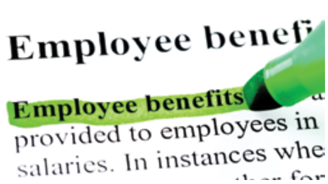
— Illinois Gov. Pat Quinn, who has signed into law a measure allowing the state to issue driver's licenses to illegal immigrants. Illinois is the fourth and most populous U.S. state to do so.

Figures

$10 Million

The amount Chevron Corp. said it has paid in claims stemming from the August 6 crude unit fire at its 245,000-barrel per day refinery in Richmond, Calif. By the end of January, more than 23,900 claims had been made due to the blaze that sent a smoke column over San Francisco Bay, according to a letter Chevron sent to the Contra Costa County Hazardous Materials Program, a local health department.

47%



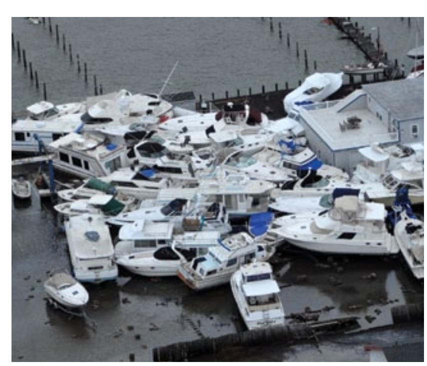
The percentage of small businesses (2 to 99 employees) in the United States that offer benefits to their employees, the lowest level in two decades of research by the life insurance industry research organization LIMRA. According to the U.S. Census Bureau, 98 percent of businesses in the United States have fewer than 100 employees, accounting for approximately 35 percent of the U.S. workforce.

$50.5 Million

The amount of an emergency aid package for Superstorm Sandy victims included in an emergency measure passed by Congress and signed into law by President Barack Obama.

25,000

The estimated number of boats damaged in New Jersey by Supertorm Sandy, according to BoatUS, an insurer and the nation's largest boat-owners association. The associated cost is $242 million.



People


David Freeman


Raymond Longo


Ken Stanley


Kirk Lusk

San Diego, Calif.-based **Barney & Barney LLC** named **David Freeman** director of property/casualty sales.

Freeman, who will be based in San Diego, will oversee a team of client executives in San Diego, Orange County, Oakland and San Francisco, Calif. He has more than 16 years of experience in business insurance and risk management.

Prior to Barney & Barney, Freeman was a producer at USI in Irvine, Calif. Before that, he was with Liberty Mutual, most recently as regional vice president for middle market in Irving, Texas.

Barney & Barney is a risk management and insurance brokerage that specializes in serving mid-tier companies and fast-growing businesses.

Raymond C. Longo joined **Aon Risk Solutions** as resident sales director in its Minneapolis office.

Longo has more than 17 years of carrier and brokerage experience. Most recently, he served as vice president of Marsh's Health Care Practice with a focus on business development and managing customer relationships. Prior to Marsh, he served as director of sales and marketing at Midwest Medical Insurance Co.

Blue Bell, Penn.-based **PMA Companies** promoted **Ken Stanley** to senior vice president-distribution management and field operations.

In this newly created position, Stanley will be responsible for the execution of PMA's agency distribution strategy and will lead PMA's network of branch offices.

Stanley has more than 25 years of insurance and risk management experience. He joined PMA Companies in 1994 as a business developer and has held positions of increasing responsibility with PMA, including vice president-distribution and sales, and assistant vice president-agent/broker relations, specializing in new business production for all of PMA's operating segments.

PMA Companies specializes in workers' compensation and provides risk management products and services, including property/casualty insurance, throughout the United States. PMA is a part of Old Republic International's family of companies.

Pawtucket, R.I.-based **Narragansett Bay Insurance Co.** named **Kirk Lusk** chief financial officer.

As CFO, Lusk will provide financial oversight including developing operating and financial strategic plans.

He recently worked as vice president of finance for The Hartford, where he provided financial oversight to the company's commercial markets including sales and distribution, claims, and the strategic initiatives office.

He also worked for four years as CFO - international for Aetna. He also served as the group CFO and chief operating officer of the Alea Group, and as CFO of both GE Employers Reinsurance Global Casualty and GE Capital (Auto Warranty Services).

Narragansett Bay Insurance offers specialty insurance services and products to homeowners through a network of independent agents along the eastern seaboard. The company provides homeowners coverage in Massachusetts, New Jersey, New York and Rhode Island.

Toledo, Ohio-based insurance brokerage firm **Hylant**, added **William D. (Kip) Irle** as its captive risk practice leader.

Irle is a 20-year insurance industry veteran. He previously served in national and global positions with companies including Aon and Marsh, where he oversaw growth, program development, program repositioning and relationship management.

Irle's areas of expertise include large casualty, loss sensitive program design, program collateral analysis, credit and alternative risk finance structuring, mergers and acquisitions due diligence, cash flow analysis, and private equity industry sales leadership. Industry areas of specialization include real estate and technology.

Irle is located in Hylant's Chicago office.

Hylant was founded in 1935 and is a full-service insurance brokerage with 14 offices in Ohio, Michigan, Illinois, Indiana, Tennessee and Florida.

Arkansas Gov. **Mike Beebe** reappointed **Philip Alan Hood** to the state **Workers' Compensation Commission** for a six-year term as the labor representative.

Hood is an executive board member of the Arkansas AFL-CIO.

The committee chairman is **A. Watson Bell**, and the third member is **Karen McKinney**.

Patriot National Insurance Group named **Michael McFadden** regional vice president for California.

McFadden will oversee all marketing and underwriting responsibilities for California, and will be based at Patriot's western regional office in Woodland Hills, Calif.

Before Patriot National, McFadden held various leadership positions at Zenith Insurance Co. He was most recently Zenith Insurance's vice president of claims for the Los Angeles regional office.

McFadden was also the manager of organizational development for RJM Adjusters Inc.

Ft. Lauderdale, Fla.-based Patriot National Insurance Group is an insurance holding company focused on workers' compensation insurance. Patriot National has two operating subsidiaries: Guarantee Insurance Co., and Patriot Underwriters Inc. IJ

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Business Moves

Pinnacle, Schumann

Walnut Creek, Calif.-based Pinnacle Brokers Insurance Solutions Inc. has merged its operations with E M Schumann Risk. The change took effect on February 1.

Ed Schumann has become part of the ownership and management team at Pinnacle. He will be responsible for heading up the acquisitions and association marketing of Pinnacle Brokers in Northern California. This transaction puts Pinnacle at more than $30 million in premiums placed.

Konecki, Leavitt Group

Solana Beach, Calif.-based Konecki Insurance Brokerage combined operations with the Leavitt Group's San Diego office.

In the combined operations, John Konecki will serve as executive vice president in the commercial insurance division, and Carolyn Konecki will serve as a vice president in the personal insurance division.

Konecki Insurance Brokerage was formed by John Konecki in 1990 with Farmers Group of Companies. In 2003, Konecki formed an independent agency, Konecki Insurance Brokerage. In 2012, the agency relocated its offices from San Diego to Solana Beach, Calif. The Leavitt Group is a national privately held insurance brokerage.

Bolton, Preferred Specialty

Pasadena, Calif.-based Bolton & Co. acquired Preferred Specialty Insurance Services, an independent insurance agency in California's San Gabriel Valley.

Preferred Specialty President Todd Jackson is joining Bolton & Co. as vice president. Jackson and his team will relocate to Bolton's Pasadena office. Bolton & Co. is an employee-owned insurance brokerage and a partner of Assurex Global.

Answer Financial

Home and auto insurance seller Answer Financial Inc. has broken ground on a 32,775-square-foot facility in Knoxville, Tenn., that will serve as the company's primary sales center.

The office will have capacity for more than 400 employees, which the company said will support current staff and future growth. The company expects the facility to open for business by fall 2013 and plans to hire more than 100 people at this location over the next two years. Answer Financial, owned by Allstate, also opened a sales office in Chattanooga, Tenn., last December.

Arthur J. Gallagher, Argus Benefits

Itasca, Ill.-headquartered insurance broker Arthur J. Gallagher & Co. acquired Argus Benefits in Atlanta. Terms of the deal were not disclosed.

Argus Benefits offers employee benefit consultation and insurance brokerage services for mid-size corporate clients throughout the southern United States. Argus Benefits CEO Robert W. Taylor Jr. and his associates will continue to operate in their Atlanta and Jacksonville, Fla., locations under the direction of David Ziegler, Eastern region executive vice president of Gallagher's employee benefit consulting and brokerage operations.

Lake Norman, Aquesta Insurance

Mooresville, N.C.-based Lake Norman Benefits acquired an employee benefits practice unit from Aquesta Bank and its subsidiary Aquesta Insurance Agency Inc., based in Cornelius, N.C.

Aquesta Insurance is an independent insurance agency offering mostly commercial and personal property/casualty insurance. Aquesta said the business unit being sold focuses on employee benefits, including medical, supplemental life and disability insurance.

Keystone Insurers Group

Burchfiel Overbay & Associates Insurance Agency of Sevierville, Tenn., operating as BOA Insurance Agency, is now a partner to insurance broker Keystone Insurers Group. The agency is Keystone's 18th franchise partner in Tennessee.

Keystone also recently added another new partner in the Southeast region. Skelton-Morris Associates, a Hartwell, Ga.-based insurance agency, is the 11th Keystone Insurers Group partner in Georgia.

Schroeder Agency, Neace Lukens

Schroeder Agency of Rushville, Ind., became Louisville, Ky.-based insurance agency Neace Lukens' seventh location in Indiana.

Neace Lukens, a member of Assured Partners Inc., now has 26 locations. All Schroeder employees will remain in their current positions, and the firm will operate from its current Rushville location. Schroeder has been specializing in personal lines and property/casualty insurance for more than 50 years.

Scottish American, Buckingham Badler

New York-based investment fund Scottish American Capital acquired managing general agent Buckingham Badler Associates, also of New York.

Buckingham Badler is based in Staten Island, N.Y., with additional offices in Islandia on Long Island, N.Y., and Saugerties in Ulster County, N.Y.

Scottish American Capital is an investment fund formed by a group of high-net-worth individuals to invest in and actively manage a privately held insurance distribution business in the United States. Its previous acquisitions include Orange County, Calif.-based MGA Yates & Associates.

Cross Insurance, Skillings Shaw

Cross Insurance, a subsidiary of Maine-based Cross Financial Corp., and one of the largest independent insurance agencies in New England, acquired Skillings Shaw & Associates, a Lewiston, Maine-based bond specialty agency providing fidelity and surety bonds.

Skillings Shaw & Associates will operate as an independent subsidiary of Cross Financial, retaining its name and product line. IJ


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Available limits: As needed
Carrier: Unable to disclose
States: All states except D.C.
Contact: Customer service at 800-639-4727

Student Accident Insurance

Market Detail: Francis L. Dean & Associates (www.fdean.com) is a national underwriting facility specializing in sports and entertainment insurance, as well as private and public school student accident insurance. Offices are located in Ill., Calif., Texas, Colo., and Fla., so producers receive instant quotations.
Available limits: Minimum $2,500, maximum $100,000
Carrier: W.R. Berkley Cos., Starr Indemnity and Liability
States: All states
Contact: Thomas Wojciechowski at 800-986-5350. Email: twojciechowski@fdean.com

Misc. Outpatient Healthcare Facilities PL/GL

Market Detail: Highland Risk Services Inc.'s (www.highlandrisk.com) professional liability coverage is offered only on a claims-made form, and retro dates may apply. General liability (GL), if offered, is on an occurrence form. GL is not offered on a monoline basis, nor is it offered on a claims-made basis. Eligible classes include: air ambulance up to 4,999 trips; health departments up to 99,999 visits; hospice up to 74,999 visits; imaging centers up to revenue of $9.9 million; medical laboratories up to revenue of $9.9 million; outpatient rehabilitation up to 85,000 visits; pharmacies up to revenue of $9.9 million; sleep centers up to 99,999 visits; and student health centers up to 99,999 visits. This program is not applicable in: Florida – Broward, Dade and Palm Beach counties; Illinois – Cook and St. Clair counties; New York – New York City's five counties; Pennsylvania – Delaware and Philadelphia counties.
Available limits: Minimum $500,000, maximum $3 million
Carrier: Torus Specialty
States: All states
Contact: Ryan Gillespie at 847-832-9099 or email ryan.gillispie@highlandrisk.com

Non-Profit D&O

Market Detail: Commercial Insurance Group LLC (www.cig-llc.biz) offers directors and officers coverage for nonprofits and for-profit companies. A+ rated admitted and E&S, depending on risk.
Available limits: As needed
Carrier: Unable to disclose, admitted and nonadmitted available
States: All states
Contact: Martin Burlingame at 719-233-0209 or email: martin@cig-llc.biz

Chartis Private Client Group

Market Detail: Sadler Wholesale Personal Lines (www.sadlerwpl.com), a division of Cross Insurance, has a homeowners package that can consider waterfront homes. There is guaranteed uncapped rebuilding cost plus many enhancements to the package.
Available limits: Minimum $1 million, maximum $100 million
Carrier: Allianz, Chartis, Lloyd's
States: All except Kan., La., Miss., Mont., N.D., Neb., S.D., Tenn., W.Va., and Wyo.
Contact: 800-969-3218 IJ

Auto Services & Repair

Garagekeepers Sometimes Lags in the Auto Repair Shop

By Andrea Wells

The neighborhood auto repair shop might seem to be an easy risk to insure. But there are a few misunderstood coverages that agents and brokers should know about, says one California broker specializing in the auto services industry.

"Any of your auto repair — general auto repair, auto body, transmission repair — all of that fits into a nice little box and you can write them on a business owners policy (BOP) pretty easily," says Earl VanBuskirk Jr., assistant vice president and small business sales manager, Heffernan Insurance Brokers based in Walnut Creek, Calif.

However in Van Buskirk's view, one important coverage that insureds and their agents often misunderstand is garagekeepers liability. Many shop owners, especially newer shop owners, confuse garage liability coverage with garagekeepers liability.

"Shop owners think they are one in the same and they are very different," VanBuskirk says. "Garage liability is really the liability that arises out of your work — bodily injury and/or property damage arising out of your work. Garagekeepers is a separate coverage that covers the damage to the vehicle."

Shop owners are very loyal because it's a loyalty business.

Garagekeepers is more like auto coverage and protects shop owners while vehicles are in the care, custody and control of the shop.

"Garagekeepers is where we usually find the least sufficient coverage," he says. Insureds don't understand how to calculate the right amount of coverage and often brokers don't accurately figure out how much garagekeepers insureds should carry, according to VanBuskirk.

"We look at a lot of policies where shops might have five bays and they might keep 10-15 cars at any one given time, yet they've got $60,000 in comp and collision coverage for vehicles in their care, custody and control," he says. "If something happens, a big catastrophic event like a fire, they're not going to have nearly enough limits to cover all of the vehicles that were damaged in the fire."

While garagekeepers is not a required coverage to operate, it's a critical coverage, he says. "I've seen plenty of times where folks don't carry it."

Mobile auto repair businesses are at risk as well. "With mobile repair guys, the guys that fix windshields, their mindset says, 'I don't have a garage so why do I need garagekeepers?' But again, it's while the vehicle is in your care, custody or control."

For example, if a mobile repair business services cars at auto dealerships, there's a need for garagekeepers. "If something happens to those vehicles, you need garagekeepers. Especially, if you test drive them," he says.

Most auto repair shops fit nicely into the standard market. VanBuskirk says the exception might be a shop that works on high performance vehicles or heavy vehicles, which may need coverage through the excess and surplus market.

Heffernan, which has served as the preferred broker for the Automatic Transmission Rebuilders Association for the past 11 years, writes risks on a national level. "We are one of a handful of agents who have access to an MGA program through Markel," he says.

VanBuskirk, who has specialized in the auto services segment for 11 years, says the best thing about working in this market is the customer.

"Shop owners are very loyal because it's a loyalty business. They make money the same way I do: by referral," he says. "Pricing in this segment is so competitive. At the end of the day, I might only be able to save someone $150." What keeps his customers happy is the value he brings to the table. "It's what else can I offer." IJ

Commercial Auto

10 Things to Know About the Commercial Auto Market

The commercial auto segment saw an underwriting loss in 2011 for the first time in nine years, with a combined ratio of 103.6 percent, according to a special report on the U.S. commercial auto insurance industry published by Fitch Ratings in October 2012.

A commercial driver study by LexisNexis Risk Solutions found employers tripled their employment verifications of commercial drivers during the first half of 2012.

16,000 brand new vehicles were scrapped because of Superstorm Sandy (Reuters)

False or unverifiable driver history rose nine percentage points from 2008 to 2012, topping 2012 at 38.97 percent, according to the LexisNexis Risk Solutions Commercial Driver Study.

Commercial auto is the third-largest commercial lines segment, with 9.8 percent of commercial lines premiums in 2011 (Insurance Information Institute).

Commercial auto net premiums written in 2011 totaled $21.04 billion and direct premiums written totaled $23.5 billion. (SNL Financial LC)

TRAVELERS

Travelers Group had the most market share of the commercial auto market in 2011, with 8.41 percent and $2.02 billion in direct premiums written, according to the National Association of Insurance Commissioners (NAIC).

Liberty Mutual.

Liberty Mutual had the second-highest market share in 2011 (6.56 percent), with $1.57 billion in direct premiums written (NAIC).

Commercial auto rates rose 5 percent in November 2012, compared with November 2011, and were up 6 percent in December 2012, compared with December 2011 (MarketScout).

Travelers' 2012 third-quarter earnings report cited its commercial auto rates rose 9 percentage points.

Nonprofits

HOW AGENTS HELP NONPROFITS IN HARD TIMES

By Don Jergler

Still struggling through the recession, the last thing the nonprofit sector needed is the negative publicity generated by Jerry Sandusky and Lance Armstrong.

The recession was hard on just about everyone, particularly the nonprofit arena and those who provide services and products for that sector. From 2005 to 2010, private charitable contributions fell by nearly 10 percent after adjusting for inflation, according to Washington, D.C.-based economic and social policy research group Urban Institute.

Giving finally began to rise, but growth in giving in 2010 and 2011 was a modest 1 percent in each year, still well below pre-recession levels, according to the group. While final numbers for 2012 aren't in yet, anecdotal evidence indicates giving may not have been any more brisk in 2012.

Now add two potential big black eyes to the nonprofit sector. First there was former Penn State assistant football coach Sandusky and his The Second Mile charity. Following Sandusky's child molesting convictions the organization struggled, and in late January one of the victims filed a suit against Sandusky, the charity and Penn State seeking at least $75,000 in damages claiming that Sandusky's behavior was "ratified" by the defendants.

Now nonprofits are watching how the multiple Tour de France winner Armstrong's fall from grace may affect his Livestrong cancer survivors' charity. After denying doping charges for years before being stripped of his Tour titles, Armstrong admitted in January in an interview with talk show host Oprah Winfrey that he used performance-enhancing drugs.

While the negatives associated with Armstrong's doping scandal may be much further removed than Sandusky and his charity that is targeted toward youth, both matters have given rise to concerns in the nonprofit sector about integrity and public perception, say those who deal with nonprofits.

'My concern is that people in the general public are going to be far more leery about giving because of these scandals.'

— Rhonda Sciortino, national child welfare specialist for Markel Insurance Co.

The questions now are whether such publicity will hurt other nonprofits, how the sector will adjust and, from an insurance perspective, how insurers, brokers and agents are dealing with all of this.

"My concern is that people in the general public are going to be far more leery about giving because of these scandals," said Rhonda Sciortino, national child welfare specialist for Markel Insurance Co., who also chairs Successful Survivors Foundation, a nonprofit in Southern California that assists abused children.

In the wake of the Sandusky and Armstrong affairs, Sciortino in her role as chair of Successful Survivors said she is trying to "wrap her arms" around how to explain to donors and others there are no scandals waiting to unfold at the organization.

And as an insurance professional, she said, "It's all about identifying the risks and assessing the risks."

A friend of Sciortino's, whom she declined to name, has been involved in an acquisition of The Second Mile. The friend, Sciortino said, has been focused on delivering one message to the clients: "Make sure you don't assume the liability. You don't know if every molested kid has come forward yet."

Since the Sandusky news and now again with Armstrong, Sciortino has been hearing anecdotally about a decrease in charitable giving, and she's heard directly from clients and colleagues about charities taking a greater interest in the risks for which they are covered.

"I've talked to people, because of what's happened, who are taking a closer look at their coverages," she said. "The greatest nonprofit executive in the world can't have their eyeballs on every single employee, and every single volunteer, every hour of the day. It has raised awareness about appropriate coverages."

Among the coverages for which nonprofits are lately expressing interest are sexual misconduct, professional liability, directors and officers liability and employment practices liability. "Those things are definitely on the radar screens of the folks that I've talked to running nonprofit organizations," Sciortino said.

Unlike Sandusky's The Second Mile, Livestrong, which Armstrong, a cancer survivor, started in 1997, seems to have thrived. At the end of 2011 the group reported nearly $110 million in assets, a large increase from its $96 million in assets a year earlier.

However, it's hard to say what will happen as the cyclist's drama continues to unfold, and how the giving public will regard Livestrong. Armstrong has resigned from the board of the organization he founded.

"I think it will affect them in the short term in terms of donations," said Stacy Palmer, editor of *The Chronicle of Philanthropy*, a nonprofit news source in Washington, D.C.

In the long term, if the charity is managed well, Palmer thinks Livestrong can continue to do well.

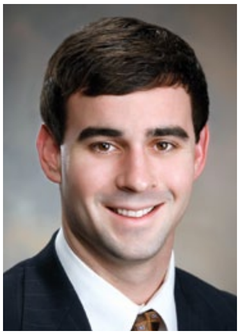
"They've established themselves enough as an institution that is operating well on its own," she said. In fact, she added, "It may be easier now that the air is cleared and [Armstrong is] not an official part of the organization."

Palmer does not believe that the Armstrong saga will impact other nonprofits, though it may make those groups take a closer look at how they choose their representatives, especially those that relate to the public primarily through one personality or a celebrity ambassador.

"I think it points out to nonprofits the risks if you tie your identity to one person and that person gets into trouble," she said.

Armstrong's admission hasn't affected Wayne Tesch, founder and CEO of Royal Family Kids, a network of camps for abused, neglected and abandoned children across the country. But the Sandusky case has.

"I realized the Sandusky case points to the one thing that keeps me awake," Tesch said. "A perp has between 70 to 90 encounters before they are caught."



'Technology has greatly changed the way we approach working with social service organizations.'

— Paul Tucker, an account executive at BancorpSouth Insurance Services Inc.

Tesch described a set of protocols in place at the group for all volunteers: application forms with references; a background check; a 30-minute interview with a three member panel; 12 to 15 hours of annual training; private places to change; and rules like no sitting on beds and open doors at all times.

The effects of Sandusky hit home for Pamela Cutchlow, executive director of two centers for abused and abandoned

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Nonprofits

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children. It hurt her nonprofit, but not by costing donors who were scared away, or from increased costs for beefing up security measures.

Some of the children at her homes saw Sandusky on the news, heard the reports that he ran a charity to help youth, and they developed trust issues with their counselors, she said.

'The nonprofits will try to get you to help them for free as a form of donation.'

— Kathy Messmer, president of New Beginnings Insurance Services Inc.

"That was devastating," she said. "I think some of those kids, they kind of shut down. It may not have hurt me financially, but hurt our efforts to help children who started questioning the agenda of those trying to help them."

Last year was a tough one for Cutchlow, who runs a boy's home called Orange County Children's Foundation Inc., and a girl's home called Paragon Center Inc. The groups have four facilities around Southern California.

"I used to have far more contributors than I do now, but that's because of the economy," she said.

Every year a regular benefactor used to host parties that would net about $10,000 in donations for her nonprofit through raffles, gifts and checks.

"This past year they decided to go with a group of people who were doing far worse than us," she said.

Tesch's operation has been hit much the same as Cutchlow's.

"The economy has caused some distress," he said. "We haven't made budget four out of the last five years."

While nonprofits are ailing, they can still be seen by the insurance broker community as a future source of business growth.

Despite the financial woes following the recession, the nonprofit sector has continued to grow, according to the Urban Institute. Data from the group shows the sector has been growing in size and financial impact. Between 2001 and 2011, the number of U.S. nonprofits rose 25 percent to nearly 1.6 million currently registered with the Internal Revenue Service. According to Urban Institute, in 2010 products and services from nonprofits added nearly $800 billion to the U.S. gross domestic product, or 5.4 percent of the nation's GDP, and accounted for 9 percent of the economy's wages.

Broker Impact

Kathy Messmer is president of Newbury Park, Calif.-based New Beginnings Insurance Services Inc., which handles nonprofit clients doing work for foster care, group homes for kids, missions and developmentally disabled adults. Many of her clients have been impacted as much by government cutbacks as a reduction in giving.

One of Messmer's clients is a drug rehabilitation organization whose insurance coverage is in jeopardy due to a financially strapped California state government.

"Their policy's in cancellation status and the state owes them $60,000," she said.

To deal with diminishing coffers, her clients are trimming to keep their operations going, and they seem to be going to greater lengths to cut costs, including asking brokers to work for free, Messmer said.

"The nonprofits will try to get you to help them for free as a form of donation," said Messmer, who noted that she donates to several nonprofits, but that she doesn't work for free. "The best thing I can do is do my job and save them money," she said. "It's different out there right now. I think they're all looking for money wherever they can find it."

Despite increased interest in nonprofit risk protection, Messmer is seeing clients cut down on coverages like directors and officers liability, employment practices liability and healthcare.

It's a prime way to cut costs, considering Messmer's nonprofit clients typically pay $25,000 and up annually for insurance.

"D&O and EPLI coverage is very high," she said. "We're seeing that minimum deductibles for a renewal are like $10,000 for D&O, and it's about $25,000 on an EPLI policy."

Messmer, who has been in the business since 1988, recalls not so many years ago when D&O deductibles were $5,000, and about $10,000 on EPLI.

Additionally, some of Messmer's clients have been dropping umbrella coverage in excess of $1 million on their primary policies, reducing property coverage, or turning down comprehensive and collision insurance on their older vehicles.

Some clients are also looking to reduce their workers' compensation premiums, particularly in California, where employers have been hit hard by rising workers' comp costs.

"They want to try to find creative ways to get out of their situation with workers' comp," she said. Among those creative situations is to lease employees through professional employer organizations in an effort to reduce their experience rating. She added, "I do have clients that don't have workers' comp."

Greg Chapman, area president of Chapman, a division of Arthur J. Gallagher & Co. Insurance Brokers of California Inc., counts mental health providers, homeless shelters and charter schools among his clients. Many of these clients continue to

'Right now I would say 99 percent of our nonprofit clients do not purchase cyber liability. But I think in the next few years, probably at least 50 percent will.'

— Greg Chapman, area president of Chapman, a division of Arthur J. Gallagher & Co. Insurance Brokers of California Inc.

experience the lingering effects of the recession, he said.

"It seems like nonprofits are kind of the last to feel it when times get tough," he said, adding that corporations that donate often calculate their cycles a year out. "They've been a lot slower to recover and are kind of lagging behind now. During these hard times our clients are needed more than ever."

In particular small- and mid-sized nonprofits are hurting, often by being precluded from grant giving because of their size, where they weren't before. Or they are shunned by donors who have been more selective in choosing nonprofits, preferring bigger, or more financially healthy charities, or those which have a smaller percentage of their funds going into operations, Chapman said.

He is also hearing more about donors using tools like GuideStar, an online nonprofit database, or Charity Navigator, to get information on nonprofits and check their

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Advice for Nonprofit Brokers

By Don Jergler

Pamela Cutchlow, executive director of two centers for abused and abandoned children, in Southern California, doesn't mince words when asked what she wants to hear when an insurance broker comes in to speak to her about her operation.

"Workers' compensation issues. Are the rates the same across the board, or are they determined by the size, type of clients, or judged on merit, etc.?" Cutchlow said. "Their availability to speak directly to employees about the importance of keeping their driving records clean. The importance and training of staff in the right procedures needed to protect our ability to get proper insurance at an affordable rate."

Cutchlow, who runs a boy's home called Orange County Children's Foundation Inc., and a girl's home called Paragon Center Inc., said the biggest mistakes brokers make is thinking she hasn't heard about any of this before.

"I get approached all the time," she said. "They always say they can undercut the price. They'll look at the policy and say they're not insuring you enough in this area."

Rhonda Sciortino, national child welfare specialist for Markel Insurance Co., who also chairs Successful Survivors Foundation, a nonprofit in Southern California that assists abused children, is in a unique position to talk about how brokers should deal with potential clients.

Sciortino's Child Welfare Insurance Services in Rancho Cucamonga, Calif., was acquired by Markel in 2008, she's been involved in the sector for several years and knows a great many nonprofit executives.

"People in nonprofits say if another broker walks in here and takes 35 minutes telling me about their great services and their agency I'm just going to throw up," Sciortino said. "Instead they want to hear, 'I feel your pain, I understand what you're doing, and here's how I can help you.' Period."

Sciortino recommends brokers ask nonprofits these five questions:

1) What are your programs?

2) Are you doing fund raising and what does it consist of? Sciortino offers a cautionary tale. She was working with an abuse foundation that had a fundraising event during which a stunt motorcyclist had one of the kids lay down in dirt while he popped a wheelie and jumped over the kid. She didn't know that was the plan, or "I would certainly have had something to say about it," she said. "Almost any wild crazy thing you can think of these folks will do because they're so strapped financially."

3) Are you contracting with staff, or other organizations? Because so many organizations are working to keep costs down, "lots and lots of collaborations are happening," Sciortino said. "A broker should look at those contracts, and say, 'Let's see if you just offered to indemnify the other group, and the county and the city and the state.'"

4) What sort of population are you serving? Whether serving abused kids, the elderly or recovering addicts, the needs and the risks can vary greatly. Organizations serving the physically handicapped may have a greater risk of premises liability, while those serving the mentally ill may be at greater risk of professional liability related to comments misunderstood or taken out of context, and those serving rescued victims of human trafficking may be at a greater risk of allegations of sexual misconduct due to sexualized behavior that can result from sexual abuse.

5) Who else is involved? If the client is dealing with abused kids, those kids may have dysfunctional or dangerous family members to consider, and shelters for abused women may have to consider that there are potentially violent abusers out there looking for their clients or their employees.

Wayne Tesch, founder and CEO of Royal Family Kids, a network of camps for abused, neglected and abandoned children across the country, said he wants to hear from brokers who care about his organizations' mission and its vision, and who can be at their side when the organization is in trouble.

"I don't want to be an expert in insurance," Tesch said.

"I want a broker who has passion to educate and help so I can fulfill my calling and passion," he said. IJ

Nonprofits, continued from page 25

tax returns to view financials like revenue and overhead.

"We're seeing a lot more people utilizing those tools," he said, surmising the goal of those using the tools is to get a "better bang for their buck."

As they continue to scrimp, beside eliminating or reducing coverages, nonprofits are asking their brokers to go to the market more often, according to Chapman.

"People that often go to the market every three years, they're having us do that on a lot of our accounts every year," Chapman said. "We're spending a lot of time going out to the marketplace checking with other underwriters, can they beat the price?" Fortunately, the marketplace has been pretty receptive and we have been able to lower prices in the last few years."

And while Messmer has seen some clients cut out EPLI, Chapman has seen an increased demand for that coverage in the wake of what he called a "rash of EPLI claims" from people getting fired or laid off by nonprofits while the economy was stagnating.

Technology

Among Chapman's areas of expertise are medical clinics that provide medical care to low income families and individuals. The firm represents 200 of the 220 such operations in California by Chapman's count.

"For medical clinics in particular, cyber liability is a big new issue for them," Chapman said.

The Health Insurance Portability and Accountability Act (HIPPA) is still changing the way medical operations handle digital information, Chapman said, adding, "They've got a whole new set of exposures there."

Best practices for dealing with sensitive data, and for how the data is being encrypted and stored, are rising to the top of the worry list for these groups, he said.

Web Box

To listen to a podcast interview with Rhonda Sciortino visit: www.InsuranceJournal.tv.

The Affordable Care Act is funneling grants to help some of these nonprofits transfer medical records to digital form and make the appropriate adjustments to their procedures, Chapman said. These reforms mean these operations must consider cyber liability insurance and take data security more seriously.

"Right now I would say 99 percent of our nonprofit clients do not purchase cyber liability," he said. "But I think in the next few years, probably at least 50 percent will."

In terms of technology, smartphones and social networking are on Sciortino's mind.

"The issue of technology continues to evolve quickly," Sciortino said. "For example, we have yet to see the level to which social services organizations will be held liable for the unauthorized uses of smartphones and social networking."

For New Beginnings' Messmer, technology concerns have been moving to the forefront with clients.

"Technology has been an issue the last few years," Messmer said. "A lot of the nonprofits have websites and will include services or exaggerate what services that they actually will provide to the consumers which are not truthful. This causes problems with the insurance markets that receive submissions for insurance terms."

Paul Tucker, an account executive who handles nonprofits at BancorpSouth Insurance Services Inc. in Tupelo, Miss., said technology has altered the way he deals with clients.

"What the worst part is, and hardest part to control is, that with the rate technology is increasing and how it seems that everybody in the world now has a smartphone or access to some type of social media publication, we really don't know all of the risk an organization could face," Tucker said.

This technology that puts so many people in touch could actually pose a bigger risk in particular settings, according to Tucker.

"Whether we are talking about children's homes or battered women's shelters or emergency shelters, there are certain levels of controls that need to be maintained to prevent tragedies from occurring," he added.

Those who run these nonprofits share these concerns. Cutchlow, the executive director of the centers for abused and abandoned children, embraces the technology that enables her to ferret out bad employees and sexual predators, such as the Megan's Law databases, but there's a big downside that weighs on her.

"The scary part of all of this is the social networking," Cutchlow said. "Now children can buy these phones where you don't have to have a contract and you can get Internet on them and there's people sometimes on there they are not supposed to be talking to."

Besides reducing funding, the recession has caused other risks for nonprofits, too, according to Markel's Sciortino, citing risks related to collaborations, including mergers and acquisitions.

"Social services organizations are looking for ways to create economies of scale, and often do it through collaborations with other social services organizations that offer related services," Sciortino said. "It's important that the broker explore this with their client and that the carrier has a good understanding of the programs and services offered and the contractual relationships between the organizations involved." IJ

Nonprofits

Top 5 New Enhancements in Nonprofit Liability Coverage

By Cristina Moreno

Some people hold the misconception that directors, trustees and officers of nonprofit organizations do not have a meaningful exposure to personal liability. The reality is quite the opposite. The standards of conduct and fiduciary duty of directors/trustees of nonprofits are at least as high, if not higher, than similar positions in the for-profit world.

Nearly 85 percent of nonprofits have an annual budget that is less than the average cost to defend and settle litigation against its board. Yet there is affordable insurance coverage available to protect those serving on nonprofit boards.

For many nonprofits, the cost of directors and officers (D&O) insurance is under $1,000. Meanwhile, the average cost of a claim is more than $250,000.

Today, coverage enhancements available on nonprofit D&O liability policies are broader than ever and can make a huge difference when a board is subject to litigation.

When seeking to insure the trustees, directors, officers and volunteers of a nonprofit, look at the quality of the insurance carrier (financial stability as well as claims reputation), breadth of coverage being provided and the cost. Every insurance carrier has its own nonprofit liability policy/language. The scope of coverage varies significantly. Do not underestimate the differences between one policy and another. These are legal contracts between the insurance company and the nonprofits — perceived little differences in wording can mean huge, real problems.

Today, coverage enhancements available on nonprofit D&O policies are broader than ever.

Here are five coverage feature enhancements currently available on the market.

Defense and Settlement

Expanded defense and settlement wording, specifically allocation wording, is important. All policies have exclusions; therefore, claims often arise that contain both covered and uncovered allegations of misconduct. A good nonprofit liability policy will cover the costs of defending 100 percent of these claims until the limits of liability are exhausted by payment of the covered loss, or the covered portion of the claim is resolved by settlement, verdict or judgment. This is referred to as "the cooperation clause," or "hammer clause." There are "soft" to "sledge" hammers. The difference is mainly the percentage the car-

rier will pay if the plaintiff makes a settlement offer the carrier wants to accept but the insured prefers to continue litigation.

Also, under the defense and settlement provision, one should seek "order of payments" coverage in case of the nonprofit's financial meltdown. This will prioritize payment of a claim(s) so that the portion of the loss that applies to individual insureds (trustees, directors, etc.) is paid out before payment of the portion of a claim against the entity. Without the provision, the liability limit may be eroded by loss payments on behalf of the entity first, exposing the personal assets of individual insureds.

Definition of Loss

The policy should have an expanded definition of loss that includes pre/post judgment, front and back pay, most favorable venue wording, enhanced breach of contract, and final adjudication wording on the personal liability exclusions. In the past two years, frequency and severity on D&O and employment practices liability litigation under the nonprofit policy has increased.

Definition of Insured

The definition of insured should include debtor in possession, domestic partners, independent contractors, volunteers and interns. Although volunteers are afforded some protection by state statutes and the federal Volunteer Protection Act, protection is limited and varies by state. And even then, there is nothing to prevent lawsuits against volunteers. Defense costs will be incurred asserting lawful immunity. Volunteers should not have to worry about defending themselves in litigation. Spousal coverage is standard, but coverage for domestic partners is often lacking.

Definition of Wrongful Act

A wrongful act should include personal injury coverage such as actual or alleged invasion of privacy, malicious prosecution, libel, slander or defamation.

An example of a defamation suit filed in 2004 against a nonprofit organization is

Fashion 21 v. Coalition for Humane Immigrant Rights of Los Angeles (CHIRLA). In this case, the nonprofit was sued by the clothing retailer for calling a nationwide boycott, and issuing of a press release and website articles claiming Fashion 21 engaged in illegal business practices by contracting with manufacturers that did not pay minimum wage, overtime, or provide meal and rest breaks. CHIRLA prevailed in its defense when the suit was dismissed on appeal, but not before incurring sizable legal fees.

Additionally, with the increased use of the internet and social media, the exposure has increased. Tweets are often sent with little thought and not atypically, by younger, less judicious staff members. Defamation land mines are everywhere today.

Network Security

Nonprofit D&O policies do not offer the most comprehensive network security coverage (privacy breaches and identity theft) as a standalone policy, but certain carriers offer cyber exposure endorsements. For nonprofits that collect and store personally identifiable information, a full network security/privacy liability policy is advised. For smaller nonprofits, an endorsement to the nonprofit liability policy is recommended. Social media's role in the nonprofit sector has increased in the past few years as a low-cost, efficient and quick way to spread the word and gain recognition. Buyers should seek the added coverage when securing nonprofit liability protection.

A good nonprofit policy will include all five of these enhancements. In today's litigation environment, enhancements can make the difference between a policy that provides solid comprehensive coverage, and one that leaves gaps that may lead to financial problems and a lost client. IJ

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Errors & Omissions

Price Stability on the Horizon for Lawyers E&O Class

By Amy O'Connor

Claims from the real estate and financial meltdown of 2008 are finally catching up to carriers in the lawyers professional liability marketplace, pushing rates up and eventually forcing out the short-term players.

Professional liability rates overall were up 4 percent in November and December of 2012, according to MarketScout. But those who specialize in the lawyers class say that's not enough to impact competition, which is still extremely tight.

"For every one market that has pulled out, another has jumped in," said Bill Gordon, executive vice president and chief underwriting officer for JLT Facilities in Latham, N.Y.

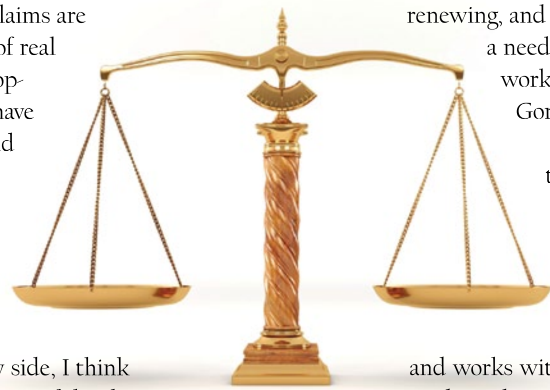
Gordon said there are at least 50 different insurance markets writing lawyers professional liability coverage, and they all have different and constantly changing appetites. Newer carriers can have a false sense of security because they see the lawyers class to be a reliable and profitable one.

"Lawyers professional liability is a very active marketplace because there are a large number of attorneys in the country, and attorneys have always seen and recognize the need for professional liability coverage," Gordon said.

Some carriers are getting more restrictive with underwriting, decreasing limits, increasing deductibles or non-renewing coverage.

Claims

The main targets of claims have been lawyers who focus on real estate transactions because of lawsuits related to the housing bust. Chris DePuy, senior vice president at Liberty International Underwriters, said plaintiff's attorneys dealing with real estate are seeing a spike in claims frequency.



"A lot of claims are coming out of real estate developments that have gone bad, and houses that have been foreclosed on and so forth," he said. "From the company side, I think there is an issue of developing claims now in a soft market where rates are still depressed, so it makes profitability quite a challenge. We've seen losses increase in the last 12 to 24 months, and yet again, we're in a soft market generally so our loss ratios are starting to increase."

DePuy said that unfortunately the increase in claims is not convincing lawyers to buy more coverage. The tough economy has led to lower revenues in law firms, and some have completely gone out of business. Another function of the bad economy, DePuy said, is that smaller firms have also gone into areas of practice where they don't have expertise just to survive, which also leads to claims.

The hope, DePuy said, is that this year some stability will return to this market as the newer players realize they cannot keep charging such low rates and their loss history catches up.

Gordon said JLT Facilities began preparing for that scenario last August when it launched a nonstandard lawyers E&O program. He said his company wanted to complement its existing standard lines program for those small- to mid-size law firms that had claims in the past and have been non-renewed or cancelled.

"Some carriers, even if they haven't had claims, are getting more restrictive with underwriting and decreasing limits, increasing deductibles or non-renewing, and that is creating a need for some of the work we are seeing," Gordon said.

For law firms that have had claims problems, JLT looks at what has happened and works with the broker to remediate the situation so the account can hopefully go back to the standard market down the road.

Cyber Liability

Gordon said JLT Facilities also has had several inquiries about cyber liability coverage for lawyers. It is considering offering an option sometime in 2013, but that is just in preliminary talks at this point.

LIU's DePuy said his company also has seen an increased interest in cyber liability products because attorneys have begun to realize their vulnerability to a privacy breach.

"Particularly in litigation, if some opposing attorney gets the right information, it can turn the case against the rivals," he said.

LIU came out with a trio of cyber liability products in February 2012 that give policyholders access to pre- and post-loss support services.

DePuy said with so much choice and competition in this marketplace, agents may have to go through 15 to 20 carriers to do their job completely for their client, but they need to be careful they are utilizing the right ones.

"Some of those carriers are fairly new and won't necessarily be around in four or five years' time, when their losses start hitting them and they have to get out of the business," he said. IJ

A Future Filled With Driverless Cars

Visions of robotic self-driving cars may appear like something from a George Lucas film but in June 2011, this vision took a giant leap toward becoming reality when Nevada became the first state to enact legislation that allows driverless cars. This move allowed Google to begin testing its experimental driverless technology. The prospect of highways full of self-driving cars is now a few decades away and will undoubtedly change our social lives in many ways. The impact of this new technology on the $200 billion automobile insurance industry will be equally profound.

By Graeme Newman

Led by the Google engineer who co-invented Google Street View and whose team won an award for the development of a robotic vehicle in 2005, the driverless car system combines Google's advanced mapping technology with inputs from in-car video cameras and various sensors and lasers outside. Advanced software then computes these inputs to control every aspect of the car, from steering and navigation through to accelerating and braking. Although a human driver must still be present, with the ability to enable a manual override, the role will be mostly redundant.

If the statistics are to be believed, we will be far safer as a result.

With more than 90 percent of current car accidents attributable to human error, it is unsurprising that Google's co-founder Sergey Brin recently stated that "self-driving cars will be far safer than human-driven cars." To prove it, the development team has completed more than 300,000 driverless miles accident-free with cars tested on winding and traffic-filled roads like San Francisco's Lombard Street and the Golden Gate Bridge. Many expect the first commercial driverless car to arrive on our roads

continued on page 32

Automobiles

Driverless cars, continued from page 31

before this decade is out, and to become mainstream within 20 years.

Three U.S. states — California, Florida and Nevada — already have passed laws permitting driverless cars and the test fleet includes major brands like Toyota Prius, Audi TT and Lexus RX450h. In addition, Nevada's state legislature has passed a bill to provide an exemption from the ban on distracted driving, allowing those sitting in the driver's seat of an automated vehicle to send a text message. The law is now fighting to keep pace with the technology.

Many expect the first commercial driverless car to arrive on our roads before this decade is out and to become main stream within 20 years.

Effect on Insurance

Driverless cars will have a profound effect upon our lives; it is a truly disruptive technology that will transform the world we live in. But what will be the effect on the insurance industry?

Auto insurance represents the largest class of non-life insurance, with net premiums of almost $200 billion and more than 250,000 employees working in the sector in the United States alone. This is an industry fueled by claims. With a motor vehicle accident occurring on U.S. roads every 14 seconds and a fatal crash every 16 minutes, it is clear why this has become such a big insurance market.

In the past 10 years, however, there have been significant advances in road safety. The effect of this can be seen in premium numbers. Improved braking systems, advanced impact protection mechanisms and on-board computers have collectively meant that the frequency of claims has fallen by almost 20 percent. In the same period, total auto insurance net premiums also have fallen almost 7 percent in real terms.

In an almost perfect insurance market, where claims values exactly mirror premium movements, it is clear that the impact of Sergey Brin's driverless utopia will be huge.

Not only is claims frequency expected to tumble — by as much as 90 percent according to some estimates — it is also expected that claims fraud will almost be eliminated by the presence of vast amounts of data relating to every single motion of the cars involved.

Claims inflation is also likely to stagnate, as near perfect information about every incident will ensure disputes are settled long before they reach the courts.

What Does All This Mean?

If in 20 years we are living in a world where driverless cars are mainstream and total automobile insurance claims contract by almost 90 percent, we will be looking at an industry that is worth closer to $20 billion than its present state of $200 billion. The role of claims handlers and loss adjusters will change dramatically, and instead become the domain of data analysts. Insurance will be priced and sold by computers, as the industry benefits from near-perfect information. It will be the cars that are insured, not the drivers.

These changes, however, will always be a process of evolution rather than revolution. The smartest insurers and brokers will be the ones that react to this changing landscape the quickest. Those that harness and make use of the increasing volumes of data being generated by our computer-powered cars will still find opportunities to make profit in a contracting market. Those that build policies that recognize it is the car that is the risk and not the driver will rapidly move ahead of their competitors.

Where will the new insurance opportunities arise? Probably in the long-term care business, if the safety statistics are to be believed. IJ

Newman is the director at CFC Underwriting Limited.

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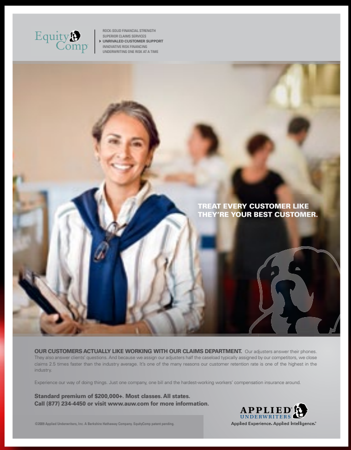

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Our next issue available for study will be Nov. 4, 2013. Visit insurancejournal.com/advertise for more info. IJ

Minding Your Business

How to Grow Your Own Producers

Finding a good, qualified producer has always been difficult. When one finds a good producer, that person might be restrained by a contract from another agency or specialize in a line the agency does not sell,or the person could be a producer you should not hire because he or she has been a problem elsewhere.

By Catherine Oak

As an alternative, agencies can hire from outside the industry and grow their own talent. The following tips were gathered from some of our clients that are not hiring traditional producers from other agencies, but instead are essentially growing their own staff.

Testing Is Important

Always test for the right skills. People tend to seek their own best qualities in the people they hire. It is no surprise that agency owners will look for producers who share the same qualities and skills of the owner. They often do not interview them well, nor ask the right questions. It is essential to test personality and skills, so the agency hires people with good sales skills. A simple way to do this is to use the First Step test by Caliper. It is not expensive and doesn't take a long time. If the person looks good in the First Step, then the longer Caliper test can be taken.

Get Advice From Others

We all have blind spots and tend to overlook some personality traits in others. It is a good practice to have any prospects interviewed by other employees in the agency. First, they are the ones that will work with the person, so it makes sense to see if there is a fit. It is equally important to have people evaluate the prospect from a different perspective than your own.

For good benefits producers an agency can look at individuals with finance backgrounds.

Look and Promote From Within

It is important that employees in an agency do not feel dead-ended and know that if they are good, that they can be promoted up through the ranks. Often there are individuals in customer service that have sales potential. They may not be people that can go out and bring in new business, but often they can hang onto an account well and can become what we call account executives.

AEs can handle accounts from the owners or top producers and perform the producer role, and still have a CSR to delegate to. This essentially frees up the top producers and owners to write new business and know their accounts are handled well by the AEs. The producer still receives part of the commission on the account, usually at least 10 percent, and the AE is paid a percentage of the book they handle, usually 15 percent to 25 percent as a salary.

Carrier Marketing Reps or Claims Pros

Most agency owners know how difficult it can be to make most insurance company employees agency producers, or even employees. The mentality in a company is totally different. There are many layers to which to delegate. Usually they are not on the firing line. Insurance companies learn to say "no" to agents that try to place business with them, and agents need to say "yes, we can help you" to even difficult clients. Marketing reps and claims persons are the exception. They both work with people to solve their problems and are much more interactive with agency employees in working to make business happen and keep customers happy.

Look to Other Sales Industries

Agency owners should look for producers who have been successful in other sales industries. But which ones? It is best to profile what you already write (your top 10 niches) and what markets you have for those niches. If a salesperson is found from one of these niches, he or she is more likely to succeed. The niches could, for example, be equipment dealers, technology reps, commercial real estate, manufacturing, or agriculture related, for example.

As individuals are brought in, it is best to see what their centers of influence are. So a "fit" also could be determined with those centers if they gel with what the agency is already doing or helps them get involved.

Hire Financial People

For good benefits producers, an agency can look at individuals with finance backgrounds from banks, stock brokerages, or loan or title companies. These individuals seem to transition well to employee benefits producers. Remember that insurance companies are also good at helping new benefits producers produce, so this can be a great way to bring in individuals new to insurance. Most property/casualty agencies want a benefits arm or to enhance the department they already have, so they are writing the entire account for a client.

Hire Those That Have a Drive to Win

Rather than focusing on finding a "salesperson," it often is a good idea to look for people outside of sales that have an inner desire and drive to win. They tend to end up being great producers. This is especially true if they are also dead-ended in their current income generating ability. For example, owners should look at sports coaches, athletes and teachers. Anyone can be taught insurance, if they have this inner drive. These people can make a lot of money if they can be supported well initially and learn the insurance business. Usually, they are well-known and connected in the community in which they live, which helps with prospecting.

It is important to think out of the box, when searching for new, great producers for your agency. The old way of thinking was that we needed to find producers with books from other agencies because it is too difficult to teach insurance. On the contrary, it is almost impossible to teach sales to non-sales types. These suggestions have merit, and it might be the right avenue for your agency.

Oak is the founder of Oak & Associates, based in Santa Rosa, Calif. The firm specializes in financial and management consulting for independent insurance agencies, including valuations, mergers acquisitions, clusters, sales and marketing planning, as well as perpetuation planning. Oak will be conducting a three-part producer series in March, April and May in Fullerton, Calif., for the IBA West of Orange County. Phone: 707-936-6565. Email: catoak@gmail.com. Website: www.oakandassociates.com.

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Urbandale, IA 50322-3707

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One Hartford Plaza
Hartford, CT 06155

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Underwriting Coordinator

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Closing Quote

Agents Act Now on Healthcare Reform

By Steve Purkapile

The year is a prime time for agents and brokers to begin preparing their clients for Affordable Care Act (ACA) requirements coming in 2014.

Don't assume that you can wait until the beginning of the plan year to implement ACA requirements. Human resources departments that have variable-hour employees, for instance, need to decide in 2013 how to measure hours of work to determine who is eligible for coverage under ACA rules.

Plus, expect the federal government to want to begin receiving penalty revenue immediately after the regulations take effect because the exchanges have to start accepting participants and will need that revenue to offset the subsidies. There also will be reporting issues, changes to eligibility definitions and changes to waiting periods, among other changes.

Healthcare reform provides a great opportunity to provide wise counsel for building a reasonable benefits program.

In short, 2013 should be the year to educate and prepare clients for 2014. The earlier you prepare them, the less frustrated they will be.

Healthcare reform has brought about positive changes. Unfortunately, the low-middle class is paying for these benefits but can't afford to pay for it.

"The law will have cost implications on a lot of different business sectors, but restaurants and retail are in the bull's eye," adds Rob Green, executive director of the National Council of Chain Restaurants.

Two parts of the legislation may raise costs for restaurant chains and other industries: The definition of full-time employees as those who work 30 or more hours per week, rather than 37-40 hours per week, and the law applies to any business with more than 50 employees — a number some say will discourage franchise growth.

Human resources staff will have more piled on their plate trying to track variable hour employees to determine who is now eligible for benefits from one month to the next.

Higher Premiums

Employers are spending 36 percent more on healthcare cost than they did five years ago, according to national trend watchers. High deductible plans are becoming more popular as employers try to cut costs and pass costs onto employees. As the new law takes full effect in 2014, employers are looking at potentially significant cost increases to their bottom line.

Agents and brokers should provide their clients with various financial models to show how increased participation, improperly structured plans or improperly structured contributions, can impact their overall financial picture. Employers need to know if their current program is in compliance with the ACA requirements, but also what the impact is of adding new participants to the plan.

Here's some advice for agents and brokers:

- Introduce high-deductible health plans with a health savings account.
- Link biometric screenings and health risk assessments to lower employee contributions.
- Link employer contributions to health savings accounts, flexible spending accounts or health reimbursement accounts.
- Implement a tobacco-free workplace.
- Reward employees who meet corporate wellness goals.

Difficult Decisions

Most employers are taking a cautious look at rising costs and will begin using cost-saving measures like employee wellness programs. If agents and brokers provide sound counsel as to all the options available, it is more likely they will "play" versus dropping their benefits program altogether.

This is a great opportunity to provide wise counsel and see the positive side of building a reasonable benefits program that complies with ACA, while making modifications so that it does not become a financial burden to the company. The ACA legislation provides significant incentives to drive healthier behavior. IJ

Purkapile is vice president of employee benefits at Denver-based Van Gilder Insurance Corp. Phone: 800-873-8500. Email: SPurkapile@vgic.com.

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