

Back to Business

by Chris O'Donnell, CPCU



■ Chris O'Donnell,
CPCU,

Could you please
send us a bio.
Thank you.

Now that Iraq is behind us on the national scene, our industry on the business scene needs to get back to business. By that, I mean back to business basics without the distraction of overseas events.

Not that those were unimportant. Quite the contrary. As I have opined in this corner over the past year, the incredible events of the past couple of years certainly have had their impact in our industry.

Certainly, we are nowhere near resolution of the international terrorism peril, nor are we necessarily past the issues of potential overt warfare. Nevertheless, the demonstration of overwhelming American military prowess certainly would seem to bode well for us as a nation going forward into the next generation. Hopefully our "mop-up" efforts in Iraq will be analogous to our mop-up efforts for the balance of the foreseeable international problems.

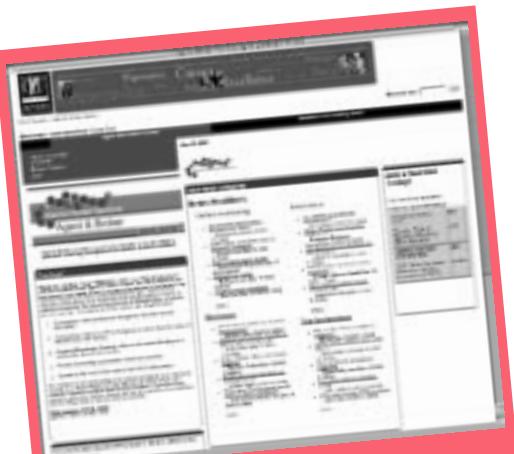
That brings us back to our basics as an industry. Without the "cover" of international events, we must return our business to one of quality service and financial stability. Our marketplace remains firm, which in my opinion, is an improvement over "hard."

Our professional demands are increasing as it becomes apparent that we must continue to properly evaluate and underwrite the risks faced by our clients. Insurance markets and professionals are specializing into their areas of expertise in order to meet those needs. Hopefully the days of "anything goes" with respect to underwriting risks will remain in our past for some time in order that we may reestablish a good foundation for the risk management and insurance industry.

In this issue, we have, in my view, articles of great interest that are connected in theme. We begin a series that will take a couple of issues dealing with toxic mold authored by Dave Dybdahl. Also included and related is an article that was originally printed in *Personally Speaking*, the Personal Lines Section newsletter, entitled "Trouble Brews: Insuring Synthetic Stucco Homes." It is certainly related to the mold issue.

Additionally, we include a reprint from *Florida's Insurance News* authored by fellow CPCU, Andy Barile, to guide us through the services offered through specialty insurance program consultants. It is certainly an area of great need these days.

These articles should be of great interest to our readership. ■



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New Exclusions for Mold

by David J. Dybdahl, CPCU, ARM

■ **David J. Dybdahl, CPCU, ARM,** is an independent risk management consultant and surplus lines insurance broker specializing in environmental risk management. The views and observations contained in this article are his own.

Editor's Note: This is the first of three installments of a very timely series by David J. Dybdahl, CPCU, ARM. The second installment is featured on pages 4-5 of this issue. The next issue of our newsletter will conclude the series.

Mold Damages Will Transform from First-Party Claims to Third-Party Claims in 2003

As tens of thousands of property owners seek funds to pay for expensive mold remediations, universal "mold" exclusions are destined to transform many insurance claims on homeowners and all-risk property insurance policies into toxic tort liability claims against contractors, engineers, architects, building products suppliers, real estate professionals, and landlords.

By fact, history, and circumstance, risk advisors have already been positioned to be "the insurers of last resort" for their clients unintentionally uninsured for environmental and toxic mold claims. In many cases there is prospective insurance available to cover mold and environmental losses. This insurance is either in the form of a buy back on homeowners policies or environmental insurance on commercial accounts.

Nevertheless, based on the current sales of the specialty insurance products covering mold damages, risk advisors are not utilizing them. The combination of an explosive growth in newly uninsured mold-related damages claims, in the face of insurance product availability, has subjected risk advisors to unprecedented levels of professional liability.

The progression of an uninsured mold claim, from the property insurer to the liability insurer and ultimately to the risk advisor, is shown in Figure 1.

Risk advisors can easily avoid professional liability claims for uninsured mold damages by advising their clients of the mold hazard and offering to procure the appropriate insurance. Simply pointing out the new mold exclusion will not keep

a risk advisor out of the professional liability soup if his or her client suffers an unexpectedly uninsured mold loss when coverage was available but not offered to the client.

A New Perspective on Mold Claims

The frequency and severity of mold-related damages claims on a national basis are somewhat of a mystery, although some estimates are available. One such estimate can be derived from insurance company testimony to the Maryland Insurance Administration on November 7, 2002. That testimony estimates the total property damage claims as a result of mold to be roughly \$8.5 billion.

Prior to the new wave of mold exclusions, the average mold remediation claim was costing \$20,000 on homeowners insurance policies and in the \$200,000 range on commercial property losses. Annualizing the first six-months claims figures for 2002, there were approximately 350,000 property insurance losses for mold-related damages in the year. To contrast mold losses to fire losses, there were 505,000 insured fire losses with an average loss of \$25,000. There were \$12.6 billion in total fire claims in 2000.

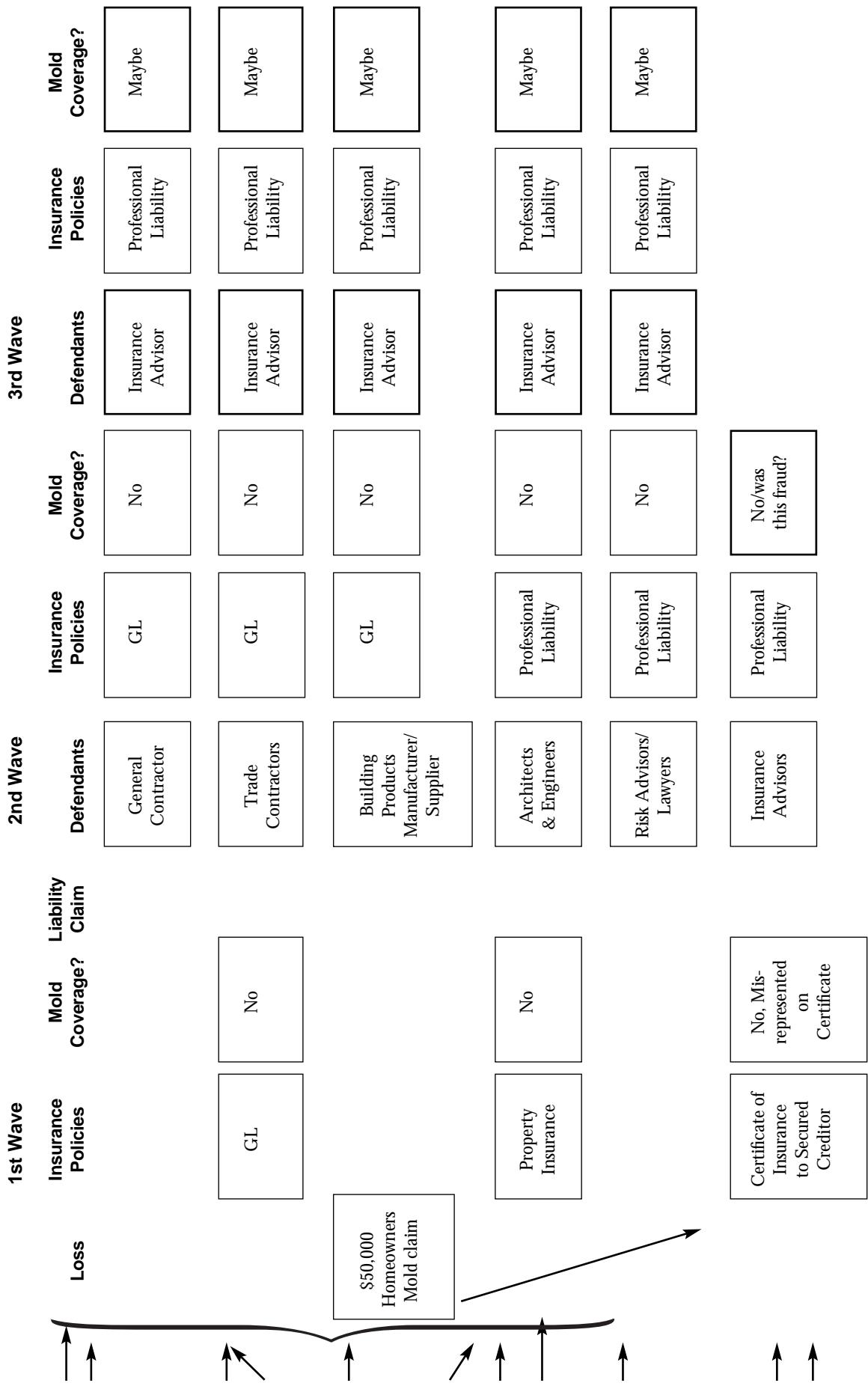
Measuring mold losses based on property damage alone underestimates the total loss content. Unlike fire losses, mold introduces a toxic tort element into property insurance claims. By adding a conservative estimate for toxic tort liability damages to the mold-related property losses, total mold-related damages produce claims frequency and severity that mirrors fire claims in the United States.

The big difference between mold and fire claims is that fire is universally covered as a cause of loss on all prospective insurance policies, and mold is universally excluded. Leaving clients bare for an exposure similar to fire claims is the unanticipated and underappreciated result of mold exclusions for risk advisors. ■

Should this be availability or unavailability?

Figure 1

Domino Effect of an Uninsured Mold Claim from Property Insurance to General Liability Insurance to Professional Liability Insurance



Residual Liability Insurance Coverage for Mold-Related Damages

by David J. Dybdahl, CPCU, ARM

■ David J. Dybdahl,

CPCU, ARM

is an independent risk management consultant and surplus lines insurance broker specializing in environmental risk management. The views and observations contained in this article are his own.

Editor's note: This is the second in our series authored by David J. Dybdahl, CPCU, ARM. The next issue will complete our coverage of this topic.

In 2003, virtually all property and liability insurance policies will contain mold, microbial matter, or fungus exclusions. These exclusions are commonly referred to as "mold exclusions" although the definition of the materials excluded goes beyond mold. The new mold exclusions will apply to new loss events incurred during the policy period.

Nevertheless, even with the new mold exclusions on their 2003 policies, most businesses will have some residual liability insurance protection for historical mold-related losses. This is because most businesses purchase "occurrence"-based liability insurance.

In occurrence-based liability insurance coverage, the policy in force when the accident took place, including continuous or repeated exposure to the cause of the loss, is the policy that will apply to the loss. Liability insurance policies purchased prior to May 2002 will most likely be silent on the subject of mold. Therefore, these policies should have a coverage element in them for historical mold-related liability damages.

One important caveat that should be kept in mind, however, is that general liability insurance policies will still have absolute or total pollution exclusions. They may be used by the insurance company to deny a claim for mold-related damages under the theory that mold is a "pollutant" under the policy. In many cases, this will be an unanticipated surprise for the insurance buyer and the advisor.

In mold-related damages, setting the date of loss and which policy should apply will be an inexact process. Arguably the date of loss may be the date the building was constructed, the date water first entered the building, the date the mold was discovered, the period of time the mold was growing, or a combination of these coverage triggers.

The discussions on which insurance policies apply to a mold loss will be reminiscent of those held over pollution and asbestos losses and vary by state. The residual coverage for mold-related damages in historical occurrence-based general liability policies will become considerably less valuable over time. It becomes more and more likely that a new water intrusion event that leads to mold growth will be incurred during the coverage period of a liability insurance policy that has a separate mold exclusion endorsed on to it.

The new ISO Commercial General Liability coverage form attempts to clarify which policy will apply to a loss that occurs over time. Nevertheless, due to the nature of some mold-related losses, where there is subsequent damage each time there is a water event or the humidity reaches a certain level, there will no doubt be considerable debate on which policy or policies should apply to the loss.

Rather than guessing which old general liability insurance policies might address liability for mold-related damages and if the pollution exclusion applies, a more predictable solution on commercial accounts will be to purchase environmental insurance that has been modified to cover mold as a pollutant.

These environmental insurance policies are written on a claims-made basis, which clarifies which policy will respond to a loss.

The environmental insurance market is in a constant state of flux and must be closely monitored in order to advise clients on the availability of environmental insurance covering mold. A recent search of the Internet produced 185,000 hits for the words "mold insurance." The web site of the Environmental Risk Resources Association listed the commercial "mold insurance" market in the "open to the public" section of its web site. There are also a number of specialty environmental insurance wholesalers listed who are excellent resources to monitor the commercial insurance market.

Homeowners insurance, which must be filed and approved by the insurance department in most states, is a less dynamic market. Wide variations in coverage availability for mold-related damages exist in this market ranging from full exclusions to liberal and relatively inexpensive buy backs for mold losses.

To avoid unanticipated uninsured losses in their customer base and the resulting professional liability exposure, risk advisors should always offer to procure environmental and mold insurance coverage if it is available in the marketplace.

Unanticipated Coverage Gaps from Mold Exclusions

Without separate mold exclusions on old general liability insurance policies, some insurance companies may still attempt to deny mold-related damages under the pollution exclusions that universally appear in general liability insurance contracts.

Mold Is Not a Pollutant in the Absolute Pollution Exclusion

Pollution exclusions could be the most litigated words in the history of insurance. In my opinion, mold-related damages should not be subject to the absolute pollution exclusion for the following reasons:

- Mold does not release or escape within the intent of the pollution exclusion.
- Mold is not a waste.
- The proximate cause of mold is water, and water does not fit the definition of a pollutant in the policy.
- Mold is a naturally occurring, living material that does not fit the definition of a pollutant within the insurance policy.

• Environmental Impairment Liability (EIL) insurance policies were specifically developed to fill the gap in insurance coverage created by the pollution exclusions in general liability insurance contracts. Some EIL policies specifically exclude naturally occurring substances from the definition of "Pollutants" in the environmental insurance contract. This is evidence that senior insurance underwriters looking into the need for environmental insurance thought naturally occurring substances were not excluded under the absolute pollution exclusion in the general liability insurance policy. Therefore, there was no need to cover naturally occurring materials (molds) as pollutants within in the environmental insurance contract. This evidence tracks back to at least the early '90s.

- Underwriters were not addressing mold as a separate loss exposure or coverage issue until late 2001. The training materials used in the insurance industry to illustrate the intent of pollution exclusions are silent on mold as a potential pollutant in liability insurance contracts.
- If pollution exclusions excluded mold, then there would be no need for separate mold exclusions on new liability insurance policies.

I am sure based on the litigation history of pollution exclusions over the past 17 years, there are even more arguments that could be made as to why mold is a "pollutant" within the definition of the term in the policy. The coverage determinations on the meaning of pollution exclusions are made in state courts and it is not unusual to see directly conflicting judicial opinions within the same state. ■

Are You Ready to Deal with Mold?

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Trouble Brews: Insuring Synthetic Stucco Homes

by Robin Olson, CPCU, ARM, AAM, ARP

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Olson contributes articles on personal risk management and auto risk insurance to the IRMI Insights section of IRMI.com.

Olson received a B.A. degree in economics, cum laude, from Southern Methodist University in Dallas. He is a Chartered Property Casualty Underwriter (CPCU) and holds the Associate in Risk Management (ARM), Associate in Automation Management (AAM), and Associate in Research and Planning (ARP) designations. He has been recognized twice by the Insurance Institute of America (IIA) for his outstanding scholarly achievements in its programs. In addition, Olson also serves as an adjunct professor at the University of North Texas where he teaches risk management classes.

Before joining IRMI in 1998, Olson was an underwriting manager for two national insurance companies where his experience encompassed both personal and commercial lines.

Editor's Note: The article was first published on IRMI.com and is reproduced with permission of the publisher. Copyright 2002, International Risk Management Institute, Inc.

This article was reprinted with permission in the November 2002 issue of the CPCU Society's *Personally Speaking*.

Congratulations on the purchase of your new synthetic stucco home. But perhaps congratulations are premature, because your homeowner's insurer is hesitant to write insurance for it. What is the problem?

Synthetic stucco is commonly referred to as Exterior Insulating and Finish System (EIFS). Homes with this exterior finish are often strikingly beautiful, offer great flexibility in home design, and provide energy savings. EIFS (usually pronounced "eefs") constructed homes, however, have a dark cloud surrounding them—allegations of water accumulation and damage resulting in mold growth.

EIFS construction consists of an insulation board secured to the exterior

wall surface (e.g., plywood), a durable, water-resistant base coat applied on top of the insulation and reinforced with fiberglass mesh, and a finish coat, which gives the product its stucco-like appearance. See Figure 1.

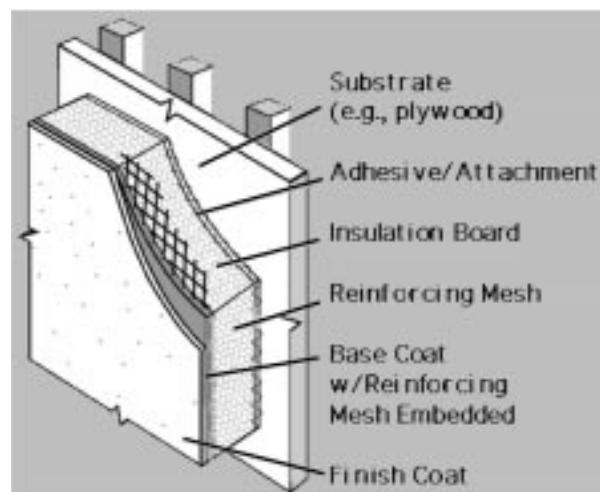
EIFS was developed in post-World War II Germany to repair war-related damage to large buildings. It was introduced in the United States on commercial buildings in the 1970s and on homes in the 1980s. This system is currently applied to approximately 2 percent of residential structures.

The moisture intrusion controversy erupted in 1995, with several EIFS-related lawsuits filed in North Carolina. Homeowners alleged the following:

- increased level of humidity within the home
- infestations of termites, ants, and other insects
- mold, mildew, or fungi growth on the interior walls or on window frames
- cracking of the drywall
- cracking, peeling, and bubbling of paint

Continued on page 8

Figure 1
Conventional EIFS System Components



Trouble Brews: Insuring Synthetic Stucco Homes

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- cracking on the EIFS dressing bands around windows
- delamination—EIFS coming loose from the sheathing of the house
- rotting of wood trim
- loss of structural integrity

Growing evidence suggests that once water gets into the EIFS insulation board, it has no way of getting out. Thus, water penetration is not the problem itself, as water can easily penetrate many types of exterior finishes, such as wood and brick. The problem is, according to some civil engineers, water retention. The EIFS system virtually wraps the exterior of the home in an energy-efficient blanket, which promotes energy efficiency but can leave water trapped within.

According to Homer Barham, a member of the Georgia Area Home Inspectors and the owner of Barham Inspections in Atlanta, "This product cannot breathe." He contends that it collects moisture, and the moisture has no way to drain or evaporate. "If the EIFS contractors or applicators could only develop vapor barriers, this could solve much of the problem," he said. Barham said that some "speed merchant" contractors focus only on applying the product as quickly as possible and ignore the water retention problems.

To counteract these problems, the EIFS industry developed a more drainable type of exterior finish in the last few years. The new "drainable" or "water-managed" system incorporates a secondary moisture barrier and a drainage mat with weep holes in the bottom that allow the escape of water that might get trapped. Barham contends that these are still unproven.

Lawsuits

Since 1995, thousands of EIFS-related lawsuits have been filed in the United States. Typically, this involves the homeowner filing suit against the builder, manufacturer of the EIFS product, distributor, and the applicator. According to Peter Burke, a partner with Whatley Drake in Birmingham, Alabama, between

400 and 600 lawsuits have been filed in Alabama since 1998. "There are tremendous problems in North Carolina and Virginia as well," he said, "involving hundreds of cases. At first, we thought this was perhaps unique to the Carolinas due to their high humidity levels, but we soon saw cases in Virginia and surrounding states." He stated that the vast majority of these cases have been settled out of court.

Burke, who has represented numerous homeowners in these cases, argues that the damages include not only moisture-related problems such as mold, but diminution of value as well. "When people try to sell these homes, they often cannot find buyers," he said. "When they do, they have to sell the home at a discount of 20 percent or more. In addition, they normally have to purchase a warranty policy."

When asked about the newer drainable EIFS products, he said all of his lawsuits involved the older "barrier" type of product. He also stated that he has seen very few lawsuits from homeowners suing builders for similar water-related damage on other types of exterior finish, such as traditional stucco or brick.

There has been one successful EIFS-related class-action suit, *Ruff, et al. versus Parex, et al.*, 508 SE2d 524 (NC App 1998). Another case, *Posey, et al. versus Dryvitt Systems, Inc.*, was preliminarily certified by a Tennessee judge, according to Brent Crumpton, with Brent L. Crumpton, P.C., also out of Birmingham. Crumpton, who has settled 200 EIFS-related cases with 150 more still pending, said that the *Posey* fairness hearing is set for October 1, 2002. This involves a national settlement with one company, Dryvitt Systems, an EIFS manufacturer.

When asked about other class-action lawsuits, Crumpton said that several state courts, including a federal court, have denied certification. "Most courts have reacted this way because these cases are so complex," he said. "They often involve numerous parties including the

manufacturer, distributor, applicator, contractor, and homeowner." Crumpton has seen many cases in which, for example, the manufacturer may blame the applicator, or the distributor may blame the manufacturer, and so on.

"Class-action cases need more clear-cut issues in order to work and that is not the case with EIFS claims," he said. "This is why these are normally handled, and eventually settled, on an individual basis." In his opinion, the *Dryvitt* case was preliminarily certified only because Dryvitt agreed upfront to it.

In addition to the wide variety of water and other damages due to EIFS—structural failure, mold and fungi, termites, respiratory and allergy ailments, diminution of value of the home averaging 20 to 35 percent after the damage is repaired—Crumpton's clients have seen their termite policies and homeowners policies nonrenewed. "Several of my clients advised me that they filed no claims against their homeowners policy," he said, "but were nonrenewed anyway. These clients attributed this to the EIFS construction, although the insurers did not admit to this."

Insurers' Response

Many personal lines insurers are concerned about writing homes clad with EIFS. However, the major insurers, such as State Farm, Nationwide, Farmers, Chubb, and SAFECO, declined to comment on the EIFS issue. One insurance industry source said that the dominant player in the high-end home sector "is scared to death of synthetic stucco and makes no exceptions for it, at least in Texas and probably other states." Other sources confirmed this policy; in addition, the company does not appear to differentiate between the "barrier" or conventional EIFS and the newer "drainable" EIFS.

Spokespersons for these insurers referred us to the Institute for Business and Home Safety (IBHS), located in Tampa, Florida, for comments on this issue. IBHS is a nonprofit association that engages in

communication, education, engineering, and research. Its members include nearly 500 insurers and reinsurers. Jeff Sciaudone, P.E., director of engineering with IBHS, said that EIFS is “probably not the best choice as far as sustainable wall cladding or exterior siding. It is hard to pull off a high-quality EIFS job.” He says that because the system is so tight, water cannot get out.

“Any imperfections over time become magnified and can result in water retention,” he said. “There is simply no room for error.” Sciaudone contends that once the insulation or gypsum board becomes wet, it loses strength and capacity. “The problem is insidious because people cannot see it until it is too late,” he said. When asked about the newer drainable EIFS, he believes it is an improvement, but for “long-term wear, a consumer is better off with brick cladding.” In summary, he believes his member insurers should be very wary about insuring homes with any type of synthetic stucco.

Other insurers referred us to the Insurance Information Institute (III), based out of New York. The III seeks to improve public understanding of insurance—what it does and how it works. Robert Hartwig, chief economist with III, encountered the EIFS issue when researching mold problems in homes. He believes that “Insurers are increasingly recognizing this as a problem and are justified in their concerns.”

Some insurers do still write EIFS-constructed homes; however, one regional southwestern insurer stated that if there are any water damage claims or signs of water damage, it declines it. This insurer also does not differentiate between the conventional EIFS and the drainable variety.

With the most influential and major insurer of the high-end home sector opting not to write EIFS clad homes, there is a distinct possibility that other insurers will follow its lead. Perhaps, on the other hand, some will decide that the water-managed system is insurable if properly maintained, and see an opportunity to write more business.

Defense of EIFS

The EIFS Industry Members Association (EIMA) is a nonprofit trade association based in Morrow, Georgia, composed of more than 500 leading manufacturers, suppliers, distributors, and applicators involved in the EIFS industry. Bernie Allmayer, a spokesperson with EIMA, said, “The moisture intrusion problem within the wall cavity is a universal problem that can damage homes sided with brick, wood, stucco, and vinyl as well as EIFS.” According to Allmayer, brick has many more moisture entry points than EIFS; however, moisture problems are more difficult to test in brick homes.

■ Insurers are increasingly recognizing this as a problem and are justified in their concerns.

Allmayer believes that the drainable EIFS is an effective moisture barrier provided the entry points are adequately flashed and sealed. “In addition,” he said, “other components, such as a high-quality roof, windows, gutters, and downspouts need to be properly installed and maintained to prevent moisture retention, which is also true with other exterior finishes.”

Stephen Klamke, executive director of EIMA, expressed concerns that many underwriters have failed to recognize the latest generation (drainable system) of EIFS-developed in response to the ongoing moisture intrusion debate. He stated that this system is “designed to eliminate incidental moisture buildup in the wall assembly of homes. There is not a higher likelihood of moisture intrusion in these homes than in traditional brick homes.”

Klamke contends that with the drainable EIFS, there is air space provided in the application, just as with brick. “It is exactly the same configuration as brick,” he said. “In fact, drainable EIFS is a superior weather barrier.” When asked why there are so many lawsuits

concerning the EIFS product as compared to brick or traditional stucco, he claims that with brick, there is not an “entity as definitive to sue.” He also believes that the brick industry has “fanned the flames of this controversy due to their loss of market share to EIFS.”

Allen Entrekin, a Philadelphia-area builder, echoes some of EMA’s views. Entrekin has installed EIFS on more than 100 homes in the last decade and has never been sued. “EIFS is a premium system, particularly the drainable types, if the application is carefully performed with strict guidelines,” he said. He believes the main problem is with poor installations performed by improperly trained applicators. He said the EIFS lawsuits are “wholesale attacks on manufacturers without justification.” He does admit, however, that other exterior products may be more forgiving.

Conclusion

So, which way is this dispute headed? If other insurers follow the dominant player’s lead, it may be more difficult to insure these homes, particularly with the major concerns over mold problems. If insurance becomes less attainable, these homes will suffer continued diminution in value.

It is incumbent on insurers to look at the evidence regarding the new “drainable” EIFS, as research suggests that this is a vastly improved product. A differentiation between conventional EIFS and drainable EIFS by insurers may be in order, which could provide insurers the opportunity to write more high-value homes.

From this vantage point, the great synthetic stucco debate is far from resolved and one worth watching closely in the future. ■

Finding Insurance Company Markets for Agents

The Role of the Specialty Insurance Program Consultant

by Andrew J. Barile, CPCU

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Editor's Note: This article is reprinted with permission from *Florida's Insurance News*.

Introduction

In addition to the reinsurance intermediary, a new type of intermediary is emerging known as the specialty insurance program consultant.

Whereas the reinsurance intermediary operates between the ceding insurance company and the reinsurance company market, the specialty insurance program consultant operates between the insurance agents and the insurance company.

Program brokers, marketing insurance consultants, and specialty insurance program intermediaries have all existed for a number of years. They essentially perform a valuable service for an agent, and should be part of the agent's cadre of expertise, along with lawyers and public accountants. Without a suitable insurance company market, the agent cannot exist. The insurance company market finder is a unique service, and agents have come to recognize that it cannot always be performed by a staff member of the agency.

Why Use a Specialty Insurance Program Consultant?

The first question asked by an owner of an agency is, "Why should I pay a consultant for a service that I, the owner of the agency, should be able to perform myself?" Certainly, visiting with insurance company markets is the function of an owner of any agency. However, owners should first attempt to quantify their time spent on an hourly basis. Once that is done, how much of that time do they want to spend developing new insurance company markets?

The Engagement Agreement or Consulting Services Agreement

Some specialty insurance program intermediaries have adapted a formalized approach to representing insurance agencies by using an "engagement agreement," or a "consulting services agreement." The purpose of the "engagement agreement" is to outline what specific services the specialty insurance program intermediary is going to perform, and also what it is going to cost the agency for this service. Having provided agencies with this service for more than 25 years, I know that one fact remains: each engagement is different.

The fees charged by these types of consultants vary from a single flat fee to a specific percentage of the premium volume going into the agency agreement. Some engagement agreements have a fixed time frame, whereas other agreements run as long as an agency contract between the parties (agency and insurance company) is in force.

Finding a Specialty Insurance Program Consultant

In the past, many agents (particularly general agents) used a reinsurance intermediary to perform the initial service of putting together an insurance agent with an insurance company. Now, with more stringent reinsurance regulations for reinsurance intermediaries, the reinsurance intermediary should not perform this type of service.

Reinsurance intermediaries, licensed by the various states, should be used to structure the appropriate reinsurance program behind the insurance company making the agency appointment. On this basis, agents will have to become more familiar with knowing the difference between the insurance company marketplace and the reinsurance company marketplace. Specialty insurance program consultants who have

access to both risk-taking types of markets are able to perform better for agents.

The agent should interview the specialty insurance program consultant in much the same way that insurance companies scrutinize the appointment of reinsurance intermediaries. On the basis of the exchange of information, the appointment process is made. The agent must realize that this is only the beginning of the process in finding an insurance company market.

Business Plan for an Agent

Most insurance company markets have attempted to standardize the minimum amount of information they want to see in order to begin the process of making an agency appointment. Some insurance companies even have standardized forms that the specialty insurance program consultant must complete.

The following is a list of the basic ingredients required to build the initial business plan for an agent to find an appropriate insurance company market:

1. Copies of the agency's certified balance sheets and income statements for the current and also prior years.
2. Biographical profiles of the agency principals and staff.
3. Premium and loss experience for three to five years, segregated by line, class, territory.
4. Sample policy forms and rating examples.
5. Analysis of trends in the rate level and insurance company competition.
6. Copies of existing and prior agency agreements with insurance companies.
7. Trade references.
8. When applicable, full details concerning the existing reinsurance program or proposed reinsurance structure.
9. Copies of cover notes, proposed placed reinsurance, and reinsurance agreement, where applicable.

Marketing the Specialty Insurance Program

Once the initial business plan is completed, the marketing strategy begins to identify the appropriate insurance company. Although there are some 2,000 property and casualty insurance companies in the United States, there are a significant number of differences among these insurance companies. Licensed companies, non-admitted companies, regional companies, mutuals, stocks, owner-operator, all present a significant opportunity to obtain the appropriate agency-company relationship.

Insurance company market knowledge can go to great extents. For instance, knowing individuals who are about to purchase new property and casualty insurance companies is beneficial to a specialty insurance program consultant. Another trait for this type of consultant would be access to top management of the various insurance companies. Treaty reinsurance brokers are not good specialty insurance program consultants.

Understanding the Specialty Insurance Program

Unfortunately, a very few specialty insurance program consultants have the depth of technical knowledge necessary to market the program. Once the program moves to the various technicians in an insurance company, the specialty insurance program consultant must be able to negotiate with the underwriters and must have the necessary educational qualifications to respond to the many underwriting questions if the program is going to be satisfactorily completed with a good insurance company market.

Case Study—Specialty Insurance Program

Here's an illustration to help clarify: the successful placement of a general agency agreement for a hospital malpractice program requiring a \$25 million occurrence limit. The first concern should be how many insurance companies in the United States have the net worth

necessary to issue a \$25 million gross policy limit before treaty or facultative reinsurance. Just understanding that simple marketing strategy could save weeks of insurance company market research.

Suppose the general agency has already built up a very favorable relationship with a direct writing reinsurance company market. Due to this, the specialty insurance program consultant has been given another constraint on the program because the direct writer not only has determined what the terms and conditions of what the reinsurance should be but also is in control of what type of insurance company security is required. This may hamper the specialty insurance program consultant. The reinsurance terms are frequently too stringent.

An effective specialty insurance program consultant should have access to the many reinsurance company markets that use reinsurance intermediaries as their exclusive source of production. In this way, the agent is protected in that there is no one dominating reinsurance company market.

In our case study, suppose that with the continuing vertical integration going on with the reinsurance business, a large direct-writing reinsurance company, who has been writing the hospital malpractice program for many years, decides to purchase a domestic property and casualty insurance company. If the specialty program is running well, the chances are the reinsurer, having the new insurance company vehicle, will be in a position to replace the agent's current company.

Going a step further, the general agent may also be purchased. If this is what an agent wants, the specialty insurance program consultant should be told at the beginning of the discussion part of the overall strategy in working on behalf of the general agent.

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Finding Insurance Company Markets for Agents

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Type of Specialty Insurance Programs

The specialty insurance program consultant must have access to a great deal of information. Switching from hospital malpractice to errors and omissions to private passenger auto liability to demolition contractors liability to auto default insurance to crane rigging contractors to truck insurance to yacht insurance to amusement park risks to gasoline haulers to homeowners insurance requires a broad understanding of the property and casualty insurance business. The specialty insurance program consultant must be able to use the in-depth knowledge of his or her agent client to accelerate his or her learning curve in all these specific insurance product lines.

Many progressive-thinking insurance agents are recognizing that their future lies in developing specialty insurance products that can be sold to groups of insureds and their associations. A comprehensive insurance package can go a long way in keeping clients for the agency, despite the underwriting cycle.

Conclusion

The services of the specialty insurance program consultant doesn't end with the consummation of the agency contract, it only just begins. The challenge comes from listening to agents describe their new insurance products that require a specialty insurance company market. Agents are recognizing that along with legal and accounting services, they can purchase insurance company marketing service. The future looks bright for the specialty insurance program consultant who has a successful track record of agency-company accomplishments. ■

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