

From the Editor — ‘Specialty’ Can’t Be Spelled without ‘E&S’!

by Bruce D. Hicks, CPCU, CLU



Bruce D. Hicks, CPCU, CLU, is a senior editor at The Rough Notes Co. Inc. His prior industry experience includes underwriting and product positions with a number of property-casualty insurers. An active CPCU Society volunteer leader, he currently serves as the Society’s Board Writer-Research Resource Liaison. Hicks is a former member of the CPCU Society Board of Directors, Diversity Task Force, Diversity Committee and Information Technology Interest Group Committee. He is a member of the CPCU Society Central Indiana Chapter.

For many decades, the insuring public and the insurance industry have been well-served by the army of professionals who have pursued, acquired and maintained the designation of Chartered Property Casualty Underwriter. CPCUs are active in every aspect of insurance. Often that participation is in critical leadership roles. A major challenge that we all deal with is the ongoing changes in the loss exposures we must address.

At its simplest, insurance is a part of handling the risk of accidental loss. In fact, the essence of what we handle can be expressed as the interplay among standard, nonstandard and uninsurable risks. While most insurance people understand those terms and are capable of making distinctions about such exposures, the challenge is that the classifications aren’t permanent. Nor should they be! The ability to handle exposures should change according to market capacity, underwriting philosophy, risk management skills, technology and other factors.

Excess and surplus lines coverage is often at the fringe of proving the power of insurance. This is the area where the most difficult, border-stretching exposures exist. It is the area that, in my opinion, most shapes how difficult exposures are ultimately viewed. Some exposures are firmly established within the specialty realm, others are refined and tamed to the point that they become standard exposures, while others still are attempted and entrenched as outside the realm of what can be handled by the private insurance mechanism.

As CPCUs who hold an interest in and/or have experience in excess/surplus/specialty lines (ESSL), you must work particularly hard to maintain and increase your expertise. It is important that the CPCU Society continue to serve your needs as it does all of our organization’s interest groups.

It has been some time since you have enjoyed the privilege of a newsletter addressing the needs and concerns of

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ESSL stakeholders. Because of my own responsibilities, both at work and for the CPCU Society, I sought and was given the opportunity to act as editor (on an interim basis) for *The Specialist*.

Many talented persons are currently working hard to find the right leadership for the E/S/SL Interest Group. You all are invited to volunteer your time and talent to become part of the group that makes certain our organization continues to leverage your expertise for the benefit of us all. However, that effort does not prevent us from immediately re-establishing *The Specialist* as the voice of the interest group.

In order to draw a deep breath and ramp up this effort, this edition offers a variety of articles. “Wariness of E&S Markets Changes to Acceptance” is a re-publication from my company’s article archive. I chose it because it represents some incredible perspective of the market, then and now. **Philip R. Ballinger Jr., CPCU, ASLI**, has graciously shared current stamping office statistics that give a useful view of the excess market. I am testing a new feature I call “CPCU Booknotes.” It allows a CPCU to share his thoughts on a business book that you also may find relevant. After all, if a CPCU is impressed, it may be something that many of us might

explore. I also offer an original piece I titled, “Secrets of the Insurance Mind.” It’s meant to be humorous, and I hope you enjoy it.

As is the case with any venture, success depends upon what effort participants choose to place in that venture. The CPCU Society and the Excess/Surplus/Specialty Lines Interest Group encourages you all to share your talent to help lead this group. I heartily invite you to suggest topics, write articles and send feedback. I’m very excited for the future of the E/S/SL Interest Group. I hope you are too! ■

CPCU Society Travel Program — A Great Way to See the World!

by Richard A. Vanderbosch, CPCU, CLU, AIS



Richard A. Vanderbosch, CPCU, CLU, AIS, retired in 1999 after a 36-year career with State Farm. Named a CPCU Society Standard Setter in October 1998, he continues to be active in CPCU Society activities. Vanderbosch is coordinator of the CPCU Society Travel Program, member of the CPCU Society Colorado Chapter and contributing writer to the CPCU Society Retirement Resource Interest Group.

Want to travel but do not want the hassle of dealing with details such as research, picking a destination, arranging travel plans, identifying attractions and making sure you have all the required documents?

Why not join us on one (or more) CPCU Society Travel Program adventures and leave all of the details to us. Not only do we make traveling easy, but you will also be able to join other CPCU professionals as you enjoy the wonders of the world. Once you register for a trip, you will be prompted and reminded of all the things you will need to do from a personal standpoint — everything else is taken care of by the travel company. Then, just follow the group leader to enjoy all the sights and attractions of the trip.



Over the past several years, we have traveled to Germany, Canada, Czechoslovakia, Ireland and France.

And our upcoming May 2011 adventure, which is now sold out, will be China. Future destinations are selected from the input of past travelers and the general CPCU membership. If you have a travel preference you would like considered, just send me an email at rbosch@aol.com. Selection and announcement of the next year’s trip take place each summer.

Give us a try and see for yourself just what you’ve been missing — a great program established for you, your families, your guests and other CPCUs. You’ll be glad you did! ■

Wariness of E&S Markets Changes to Acceptance

by Robert C. Speicher

Editor's note: This article was written by **Robert C. Speicher**, at the time an agent in Indianapolis, Ind. It comes from the September 1979 edition of *Rough Notes* magazine and is reprinted with permission. We offer the article to provide some valuable perspective about the current E&S market.

Among the many difficult problems which the independent agent must face, none is more frustrating than the experience of running into a brick wall in marketing a risk. This is especially true, of course, when the premium is substantial. During the last red-ink cycle in the insurance industry, our agency and I personally were faced all too often with situations where the standard markets were simply not receptive to our submission of prospects and established clients. Since we are an old, established agency with an experienced staff, we were well aware of the availability of excess and surplus lines facilities. Our previous experience with this type of carrier was somewhat limited, however, because most of us were reluctant to get involved in this area for a variety of reasons:

- In many cases, the people with whom we must deal are located in a distant city.
- Ordinarily, the underwriting company feels no obligation whatever to the agent in that it is usually dealing with an isolated piece of business or two. Also, it is well aware that the agent has probably "run out of places to go." Because of this, service can very well (and does often) suffer considerably.
- The financial responsibility of the company.
- Concern about equitable claim handling.
- The market might not be a permanent one and/or the price might change drastically from year to year.
- Lack of day-to-day contact with the people with whom you must deal.

The old cliché "familiarity breeds contempt" is true only if the relationship deserves it. More often, regular contact results in mutual respect and understanding, which is important in a good agency/company relationship.

In spite of the above, potentially negative factors increasing marketing problems forced our account executives, one-by-one, into substantial involvement in the excess-surplus lines area. This started during the severe underwriting crisis of the mid-1970s.

One example of the type of "squeeze" I found myself in was with a not-for-profit public facility. In this particular case, there was added urgency to marketing the risk because of its importance to our community. It is a medical facility which is vital to the entire health service industry and, in addition, develops a substantial premium. An interruption in its operation would have worked a severe hardship on the health service industry and, indeed, in the absence of the health industry's ability to find alternatives could have actually cost some lives.

Desperate for Coverage

The carrier which had been providing coverage suddenly decided to stop writing the class. We asked that an exception be made because of the risk's excellent loss history and superior management. Our appeal fell on deaf ears, which, of course, is the norm when red ink is flowing through the industry. Time was short, and I got absolutely nowhere with the standard carriers. My concern about the situation was deepened when I was informed by my client that it would not operate without adequate liability insurance protection.

The only viable alternative was the excess-surplus lines field. After much searching about and many urgent long-distant phone calls, a market was found for the primary. Additional effort produced an excess carrier. Although my client's insurance costs were dramatically

increased, all thought of shutting down its operations ceased.

Since the above incident, I have experienced considerable additional involvement in the excess-surplus lines field and have formed some conclusions about the several reservations mentioned earlier.

There is no satisfactory way to completely overcome the distance problem, but we have learned that we do have some excellent local surplus lines brokerage houses, which we use whenever possible.

We have come to look upon cold, impersonal underwriting as a fact of life. Indeed, we find that many of our standard carriers plague us with service problems equally as great as, and sometimes even worse, than our experience with the excess-surplus lines carriers and brokers.

Financial Stability

It is possible to make an investigation of a company's finances, but heavy involvement in the field by necessity must scale down some of the lofty requirements one can make of the standard carriers' ratings and performance. In other words, we sometimes have to settle for markets whose Best rating is considerably under "A+" and for carriers whose assets are not what we would like them to be.

Claim handling does present difficulties, but this is also frequently true of the standard field. The result is that we must sometimes involve ourselves in claims more than we would like. To a lesser degree, wide price fluctuation is true of the standard markets as well as the surplus lines carriers.

We have found that we also developed some very good relationships in the excess-surplus lines field and that there are good and effective people employed by this segment of the industry.

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Wariness of E&S Markets Changes to Acceptance

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Our agency has gotten to the point where more than 10 percent of our volume is in the excess-surplus lines field. By placing some of our more difficult risks with these carriers, we tend to improve loss ratios with our standard carriers. In addition, we find a home for unusual exposures which could not be handled in the standard field. Occasionally, we even find a situation where there is a competitive advantage in placing a risk with an excess or surplus lines carrier. The experience of the last few years has taught us that this is an area in which we will probably

always be involved. The extent of our involvement will vary with the industry's "swing of the pendulum" from red ink to black ink and back again.

When we tend to become impatient with some of the shortcomings of the E&S carrier, and particularly with its frequent arbitrary positions, we must remember that they are cut off at the drop of a hat when a standard "home" is found for a risk it has been handling. As any experienced insurance persona knows, dealing with new, unknown and untried

business presents far more problems than handling accounts with which we have had experience. The excess-surplus lines person's situation is certainly much more difficult by the more frequent turnover of his or her business as compared to the standard market segment of the industry.

There seems to be no doubt that the excess-surplus lines people are performing a worthwhile and necessary service, and despite their shortcomings, we agents who deal with commercial accounts should be grateful to them. ■

CPCU Booknotes — *presentationzen*

Reviewed by Mark Fisher, CPCU, SCLA

Mark Fisher, CPCU, SCLA, has more than 20 years' experience in the auto collision industry and 15 years' experience in the insurance industry. Fisher is currently an insurance claim manager with expertise in policy, liability and auto physical damage. He is ICAR-Platinum-certified and an ASE-certified estimator. He achieved his SCLA designation in 2003 and his CPCU designation in 2007. He is a CPCU Society Alamo Chapter board member, and he serves as the chapter's webmaster.

Editor's note: CPCUs pride themselves on seeking information that hones their insurance and business skills. However, it can be difficult to find quality sources. *The Specialist* is introducing a new feature — "CPCU Booknotes." We invite CPCUs to share a brief review of a book that he or she has found to be helpful and educational.

I had this annoying feeling that I should scrap my near-complete PowerPoint project and start over. Instead, I decided to go to the bookstore to search for ideas, hoping to revive my creativity. I scanned through some prospective reads, most of which offered similar advice — no more than six words to a bullet, no more than six bullets to a slide — useful information, but nothing new. Then I picked up **Garr Reynolds'** *presentationzen* (published by New Riders in 2008), and I was captivated.

Many books teach that slides are to enhance a live presentation, but Reynolds drives this point home with robust examples that entice the reader to take their presentations to another level. Besides teaching visual concepts, Reynolds connects the importance of preparation, design and delivery. He takes the reader through the whole process, starting with the planning stage, where he offers sage advice to put up the laptop and go analog.

I listened to the Zen-master and walked away from the computer. With pencil and paper, I started crafting ideas that soon led me to recognize that I definitely needed to scrap my current project and start over. I incorporated simplicity,

signal vs. noise ratio, picture superiority and empty space. My effort resulted in a crisp new presentation that kept my audience engaged.

I later had an experience that reinforced my appreciation of Reynolds' concepts. I had the pleasure of attending a wonderful presentation. The PowerPoint slides were simple in design, but rich in color with contrasting script that made the brief points easy to read. I complimented the speaker afterwards and asked if he had heard of *presentationzen*. He knew the book intimately. This experience gave me another perspective of Reynolds' concepts — that of the audience. This book will open your mind to explore new concepts and teach you how to put clarity and elegance into your presentations.

Much more about producing effective presentations can be found in Garr Reynolds' book. Additional information is available on his website, <http://www.garrreynolds.com/index.html>, and his blog, <http://www.presentationzen.com/>. Reynolds not only teaches his own concepts, but shares ideas from other creative thinkers. ■

Stamping Office Statistics

by Philip R. Ballinger Jr., CPCU, ASLI

Editor's note: We are grateful to **Philip R. Ballinger Jr., CPCU, ASLI**, the general manager of the Surplus Lines Stamping Office of Texas, for providing these statistics. Twice a year, Ballinger gathers information from peers at stamping offices across the country to identify surplus lines trends in their states. He believes that the information represents a "real-time" market measure. The information below is a comparison of annual data between 2009 and 2010. The 14 stamping offices process surplus line premium representing approximately 60 percent of total U.S. surplus line premium. ■

State	Rates		Premium (millions)			Items			Comments
	State Fee	SL Tax	2010	2009	% Change	2010	2009	% Change	
AZ	0.20%	3%	\$337	\$392	-14.0%	61,483	68,214	-9.9%	
CA	0.25%	3%	\$4,190	\$4,634	-9.6%	420,938	424,135	-0.8%	New stamping fee rate effective Feb. 1, 2010
FL	0.10%	5%	\$3,979	\$4,157	-4.3%	1,052,500	1,070,472	-1.7%	
ID	0.25%	1.5%	\$66	\$64	2.5%	14,653	13,789	6.3%	
IL	0.10%	3.5%	\$1,027	\$987	4.0%	150,270	124,301	20.9%	
MN	0.08%	3%	\$295	\$248	18.9%	33,481	25,409	31.8%	New stamping fee rate effective Jan. 1, 2011
MS	0.25%	4%	\$352	\$372	-5.5%	107,808	99,954	7.9%	
NV	0.40%	3.5%	\$207	\$232	-10.6%	27,321	27,079	0.9%	Penalty of \$50 for late filing
NY	0.20%	3.6%	\$3,025	\$3,091	-2.2%	208,320	203,776	2.2%	Additional fee of \$25 applies for late/erroneous filing
OR	\$15	2%	\$239	\$244	-2.3%	39,436	37,787	4.4%	
PA	\$25	3%	\$801	\$865	-7.4%	170,023	175,334	-3.0%	Additional fee of \$25 applies for late filing
TX	0.06%	4.85%	\$3,310	\$3,421	-3.2%	850,725	859,732	-1.0%	Flat stamping fee per original filing (no fee on endorsements). Additional 1% premium tax on "fire" premium
UT	0.15%	4.25%	\$149	\$157	-5.3%	19,489	19,122	1.9%	
WA	0.25%	2%	\$533	\$587	-9.2%	85,037	92,422	-8.0%	
Total			\$18,509	\$19,452	-4.8%	3,241,484	3,241,526	0%	

NY data is gross premium; 2010 net premium = \$1,993.7 million

FL data includes \$600 million /12,189 policies in IP insurance.

TX data is net premium, excluding in 2010 \$830.2 million in "other state" and \$202.6 million in "tax exempt" premium

Stamping fee rates are at Jan. 1, 2011, except where noted.

Source: Surplus Lines Stamping Office of Texas

Secrets of the 'Insurance Mind'

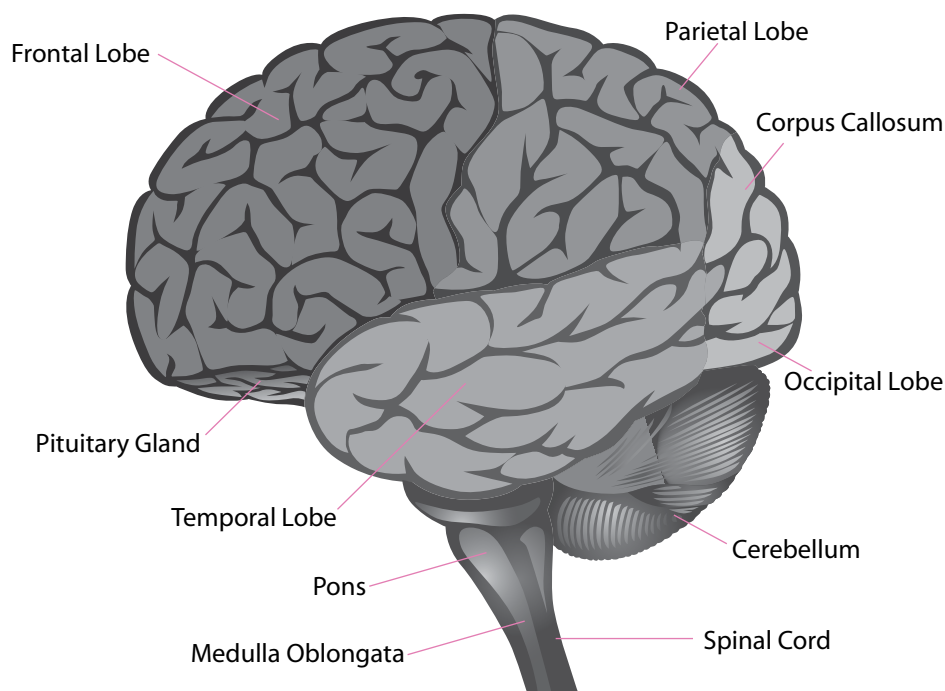
by Bruce Hicks. CPCU, CLU

How well do you know the mind of a veteran insurance professional? You're likely quite aware that the human brain is a true marvel! It consists of specialty areas that control different, critical functions. What you may be surprised to find is that after decades of study (led mostly by "The Institute of Insurology"), the brain's various areas highly correspond to distinct insurance industry specialties.

Yes, we could merely label and share the areas; but we thought it would be an interesting opportunity for our readers to test their knowledge. We've provided a diagram, a brief description of each area and a set of insurance functions. We invite you to study the information and match the function to each brain area.

Hint: You may find it will help your selections if you study the normal functions and review the size of the various areas. An answer key is located in another part of the newsletter. Have fun! ■

Area of Brain	Regular Function	Insurance Function
1. Cerebellum	Regulates balance, posture, movement, and muscle coordination	
2. Corpus Callosum	Nerve fibers that connect the left and right cerebral hemispheres.	
3. Frontal Lobe	Center of reasoning, emotions, judgment and voluntary movement.	
4. Medulla Oblongata	Controls automatic functions, including heartbeat and breathing	
5. Occipital Lobe	Center of vision and reading ability	
6. Parietal Lobe	Contains important sensory centers	
7. Pituitary Gland	Secretes hormones	
8. Pons	Connects the cerebrum with the cerebellum	
9. Spinal Cord	Nerve fibers facilitating connection of brain to body's nervous system	
10. Temporal Lobe	Temporal lobe centers of hearing and memory	



- A. Accounting.
- B. Actuarial.
- C. Claims.
- D. Executive.
- E. Information Technology.
- F. Legal.
- G. Policy Processing.
- H. Product Development.
- I. Sales/Agents.
- J. Underwriting.

Minting Intellectual Currency

by Bruce Hicks, CPCU, CLU

I am in the midst of an effort to encourage CPCUs to substantially increase their level of writing and research. I will share more details on the specifics, but I want to explain why I think it's necessary.

Imagine a huge, brick building with floors of thick-hewed planks. Sitting on those sturdy floors, picture several industrial-sized printing presses with wide, long-winding conveyor belts. Now, imagine that the huge building and the massive presses capable of issuing tons of material, such as magazines, books or paper currency, are sitting largely unused ... and are silent. There are no pallets of papers, books or magazines; no blocks of money being issued; no press operators hurrying around overseeing operations or maintaining active machinery.

In nearly any setting, the thought that valuable facilities, expertise and materials that are available to meet important needs are being seriously underutilized is a tragedy. Having such resources creates an obligation upon the resource owners to make proper use of them for the benefit of themselves and others.

A main objective of being CPCUs is to use our knowledge to assist others at the highest level of which we're capable. In certain areas, we do an admirable job. As individuals, we use much of the knowledge we've acquired to perform our jobs better. As chapter members and interest group participants, many of us volunteer our time and expertise to meet specific objectives. These objectives are framed by the Circle of Excellence (COE) program. Each year's awards (gold, silver and bronze) document our efforts.

However, there is one area that, in my opinion, has long been lacking — the flow of papers and research projects. How about answering a couple of questions:

- (1) On a Society level, how many potential COE submissions are made each year (remember that interest groups also participate):

- A. < 10
- B. 10 to 50
- C. > 50 to 125
- D. > 125

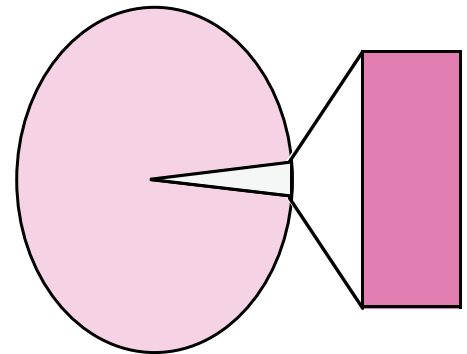
- (2) Keeping in mind that research projects may be selected as a COE activity, how many submissions include a research project?

- A. < 10
- B. 10 to 50
- C. > 50 to 125
- D. > 125

I won't keep you in suspense. The answers are "D" to question No. 1 and "A" to No. 2. Does this information bother you? I hope so! I think it's incredible that we own an intellectual mint that produces pocket change. In my opinion, our mint is capable of issuing a level of intellectual currency that could enhance our impact and our profile among others, particularly the insurance-consuming public.

We have spent years investing the time and effort necessary to master the material needed to secure our designations. We have gained incomparable levels of knowledge about all aspects of insurance and risk management. In our daily jobs, we strive to apply our expertise to meet the needs of our employers, employees, co-workers and the public. Considering this, are we properly meeting our objectives as individual CPCUs

Research Project Output



Potential Annual Research Submissions

Average Annual Submissions

and as the insurance industry's premier organization with the current level of research and writing generated by our chapters and interest groups?

Look at a simple picture of the situation that has existed for many years:

Year in and out, interest group by interest group, chapter by chapter, we sacrifice opportunities to leverage our expertise. Each failure to mint a new issue of intellectual currency is a lost chance to expand our insurance knowledge bank. It also means valuable missed chances to increase our organization's profile with the insurance industry as well as the insuring public.

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Secrets of the 'Insurance Mind' — Answers

Did you finish your guesses ... oops, selections? Great, now here are a few items the author wishes to share with you:

(1) It's a good bet that your selections reveal a great deal about your particular job and work experience in insurance. It would likely be quite entertaining to spend time analyzing them!

(2) The author of this article is, like you, a veteran insurance professional — who wants to remain one. There's no way in the world he's actually going to provide answers that would reveal his own insurance industry issues! But we hope you found this to be a fun exercise!

(3) The author sincerely hopes you realize that there is no "Institute of Insurology"!



Excess/Surplus/Specialty Lines Interest Group

Volume 23 • Number 1 • April 2011

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Minting Intellectual Currency

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During the 2010 CPCU Society Annual Meeting and Seminars held in Orlando, the Board of Directors approved my proposal to create the Writing and Research Resource Working Group (WaRR). My primary goals, in the broadest terms, are to do the following:

- Create strategies to facilitate writing and research for individual CPCUs, chapters and interest groups.
- Develop a resource group of persons with writing, research, proofing and editorial skills for use by CPCUs.

Would you be interested in trying to put together a research project for your company, chapter or interest group? Would you like to make articles available for sharing with other CPCUs? Would you like to be a part of WaRR, offering your writing, editing, proofing and/or research skills?

CPCUs are smart and highly experienced. So many people would benefit if we substantially increase our level of writing and research.

If you want to help mint more intellectual currency, contact me at (317) 816-1062 or bruceh@roughnotes.com. ■

The Excess/Surplus/Specialty Lines Interest Group newsletter is published by the CPCU Society Excess/Surplus/Specialty Lines Interest Group.

Excess/Surplus/Specialty Lines Interest Group
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