



Excess/Surplus/Specialty Lines Interest Group

Volume 23 • Number 2 • August 2011

The Specialist

Message from the Chair

by Carl R. Sadler, CPCU, ASLI



Carl R. Sadler, CPCU, ASLI, is president of Transportation Insurance Consultants LLC (www.TIC-LLC.com), where he offers consulting, expert witness and training services, mostly involving truck and commercial auto insurance. During his 39-year insurance career, Sadler has been an underwriting officer at four separate property-casualty insurance groups and also has extensive truck/commercial auto insurance general agency and surplus lines experience. He can be reached at (610) 783-6644 or csadler@tic-llc.com.

The Excess/Surplus/Specialty Lines Interest Group (E/S/SL) has been inactive for the last several years. As an E/S/SL founder and the second chair (1986–1989), I was asked by the CPCU Society leadership in March to once again become chair and lead the resurrection of E/S/SL.

Our first three goals are to (1) reactivate our newsletter, *The Specialist*, (2) to recruit interest group committee members who have the right knowledge, skills, motivation and time to be active, and (3) to prepare for our participation in the 2012 Annual Meeting and Seminars in Washington, D.C.

We have been fortunate in that **Bruce D. Hicks, CPCU, CLU**, a senior editor at *Rough Notes*, has volunteered to be our interim newsletter editor. Bruce has already resurrected our newsletter, *The Specialist*, by personally creating our first issue, and with a small amount of help, this second issue. Having a professional writer as our newsletter editor is a giant plus. Bruce has made a short-term commitment, so we need to appoint an assistant editor to assume this responsibility before next spring.

We also have recruited two other new interest group committee members and a volunteer. See the accompanying details in this newsletter.

We need additional E/S/SL Committee members. Our goal is for geographic balance, a reasonable spread of ages and experience, various functional roles (underwriting, claims, administration, marketing), and segments of the business (brokers, insurers and reinsurers). We now have three committee members in New Jersey and Pennsylvania. We need members from other geographic areas and the wholesale (E&S) broker community. In addition, we seek some younger committee members, especially those with social media and website skills. It is critical that we address the issue of leadership succession. We do not want to rebuild the interest group only to risk a relapse after our initial group completes its commitment.

Prospective committee members must complete the Society's "Application for CPCU Society Service." Interest group

Continued on page 2

What's in This Issue

Message from the Chair	1
Let's Get It Started!	3
New Excess/Surplus/Specialty Lines Committee Members	4
A Current View of E&S — An Interview with Angelyn Treutel.	5
ASLI — A Helpful, Happy 'Teen'!	6
Transitioning from the ISO Truckers Coverage Form to the Motor Carrier Coverage Form	8
Hope for Hospitality	9

Message From the Chair

Continued from page 1

committee members, per the Society guidelines, serve for three-year terms and are expected to attend both the Annual Meeting and the Leadership Summit each year. Since we are rebuilding, we have the ability to stagger terms. However, I feel the minimum commitment should be 18 months. In addition, committee members must agree to participate in monthly teleconferences and be actively involved in committee work. For planning purposes:

- 2011 Annual Meeting, Las Vegas, Oct. 22–25, 2011.
- 2012 Leadership Summit, Miami, April 26–28, 2012.
- 2012 Annual Meeting, Washington, D.C., Sept. 8–11, 2012.
- 2013 Annual Meeting, New Orleans, Oct. 26–29, 2013.
- 2014 Annual Meeting, Anaheim, Sept. 20–23, 2014.
- 2015 Annual Meeting, Indianapolis, Oct. 3–6, 2015.
- 2016 Annual Meeting, Honolulu, Sept. 17–20, 2016.
- 2017 Annual Meeting, Nashville, Oct. 7–10, 2017.

We have one idea under development for a 2012 Washington, D.C., Annual Meeting seminar involving a panel discussion about risk retention groups. This would be in commemoration of the 25th anniversary of the enabling federal legislation. We are seeking volunteers to work on that seminar plus additional seminar ideas. Other ideas that have been proposed include programs on cyber risk, terrorism insurance, the impact of Dodd Frank reforms on the E&S industry and new approaches to insuring natural catastrophes.

New technologies, distressed and/or unique risks, and catastrophe exposures all have special insurance needs not easily met in the highly regulated admitted market. The Excess/Surplus/Specialty Lines Interest Group provides information

and insight on the less regulated and dynamic specialty and surplus lines marketplace. Through webinars, symposia, newsletters, research projects, Annual Meeting seminars and articles, the E/S/SL Interest Group seeks to promote better awareness of issues affecting the surplus lines and specialty insurance industry.

Our second group of goals includes reactivating the E/S/SL website, encouraging use of our new LinkedIn capability, developing our first webinar, seeking authors for *The Specialist* and other publications, and creating a research project.

Welcome to the resurrected E/S/SL Interest Group. To be successful we need you! Please contact us and get involved! ■

Let's Get It Started!

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.

Like many of you, I have been an active member of the CPCU Society. It has been my particular experience that our interest groups are valuable and underutilized assets. The Society has frequently shared that volunteering is not one-sided. The time and talent you choose to share has benefits. Depending on how you participate, you can build skills and gain experience that transfer directly to your job and that increase your value to your employer.

The Society originally created the various interest groups in order to allow its members to focus their interests and participation in areas that matched their experience and/or job responsibilities. These groups have grown to become an essential part of our organization. They help to unify select sub-sections of our group; they provide research projects, create webinars, publish newsletters and provide many of the educational programs that make our Annual Meetings and Seminars both productive and successful.

For years, the E/S/SL Interest Group has been inactive. That was not a situation that could be overlooked, especially since a significant portion of Society membership is aligned with and are interested in surplus lines. Fortunately for us all, the interest group is being brought back to life.

This second issue of *The Specialist* contains a letter from the brand new chair of the E/S/SL Interest Group, **Carl R. Sadler, CPCU, ASLI**. Besides introducing himself, he has shared his ideas and hopes for a resurrected interest group. He also expresses the need for more volunteers to assist him and the new leadership team being formed.

It bears repeating that we are an organization that lives or dies with the participation of its members ... voluntary participation. It is also important to remind our readers that with volunteering, you get out of it what you put into it.

The E/S/SL Interest Group is an object lesson of what happens when voluntary effort flags ... an important interest group disappears. This is a particularly unfortunate situation because the effort to re-start an interest group is far greater than what is necessary to maintain an active group. Please let's all grasp this new, second chance. Please heed the call to help with this incarnation of the E/S/SL Interest Group!

Besides the "Message from the Chair," this issue contains several other articles that should interest you. "A Current View of E&S" is an interview with an insurance professional who is heavily involved with the effort to ease the difficulty of processing specialty business. "ASLI — A Helpful, Happy 'Teen'!" discusses the Associate in Surplus Lines designation that has reached a milestone. "New Excess/Surplus/Specialty Lines Committee Members" introduces the initial E/S/SL leadership team. "Hope for Hospitality" is a republication from my company's magazine which includes some developing coverage needs that may vault some hotel exposures into the surplus realm. Finally, "Transitioning from the ISO Truckers Coverage Form to the Motor Carrier Coverage Form" is an excerpt of a paper co-authored by our new chair.

Now, if you will forgive me, I wish to make a plug for the manner that I've selected to continue my involvement with the Society. I volunteered to act as *The Specialist* editor to assist with the group's rebirth. I did so as part of my work as the Society's Writing and Research Resource Working Group. Part of this group's mission is to help promote increased writing by our membership, either individually, by chapters and by interest groups. My background is not in surplus lines, so please consider volunteering to become *The Specialist* editor. The group will be best served by someone with actual experience in the E&S trenches! ■

New Excess/Surplus/Specialty Lines Committee Members

by Bruce D. Hicks, CPCU, CLU

In this issue's "Message from the Chair," **Carl R. Sadler, CPCU, ASLI**, announced the resurrection of the E/S/SL Interest Group. We proudly introduce the CPCUs who committed their time and talent to form part of the initial leadership group:



Carl R. Sadler, CPCU, ASLI, is president of Transportation Insurance Consultants LLC (www.TIC-LLC.com), where he offers consulting,

expert witness and training services, mostly involving truck and commercial auto insurance. During his 39-year insurance career, Sadler has been an underwriting officer at four separate property-casualty insurance groups and also has extensive truck/commercial auto insurance general agency and surplus lines experience. He can be reached at (610) 783-6644 or csadler@tic-llc.com. Sadler was a founder of the E/S/SL Interest Group, chair from 1986 to 1989, and again chair in 2011. He is also active in the leadership of the CPCU Society Valley Forge Chapter and is a member of the Trucking Industry Defense Association (TIDA).

Gregg Rentko, CPCU, is second vice president at Western World Insurance Group (Franklin Lakes, N.J.), where he is responsible for the Professional Lines Department in the Brokerage Division. His insurance career includes jobs at AIG, CNA and ACE. He is a former E/S/SL chair. He can be reached at (201) 847-2820 or g.rentko@westernworld.com.



James W. Macdonald, CPCU, ARM, of JW Macdonald Associates LLC (Philadelphia), is an independent consultant in insurance and

reinsurance. He has 40 years of insurance experience having worked for a number of major insurers and reinsurers. He has arbitration experience and has written articles for a large number of publications. He can be reached at (215) 925-2188 or jameswmacdonald@mac.com.



Elaine George, CPCU, ARM, has volunteered to help the E/S/SL Interest Group. She is currently on the CPCU Society International Interest Group

Committee. Having newly accepted a job as a commercial regional underwriter at USLI in Southern California, she is eager to increase her exposure to the surplus lines and specialty insurance areas. Her experience with interest group administration has been most helpful. She can be reached at (949) 421-9610 or egeorge@USLI.com.

We need additional E/S/SL Committee members. Contact Carl Sadler about volunteering at (610) 783-6644 or csadler@tic-llc.com. ■

A Current View of E&S — An Interview with Angelyn Treutel

by Bruce D. Hicks, CPCU, CLU

Editor's note: This past spring, while working on Linked In, E/S/SL editor Bruce D. Hicks, CPCU, CLU, came across Angelyn Treutel's profile and read several comments concerning her work on work procedures related to excess and surplus lines. After becoming a member of her network, he approached her about sharing some views and insights on a number of Excess and Surplus Lines Insurance (E&S) issues. Another difference between the standard and surplus markets is the latter is more difficult to process. Readers may find it interesting to see how insurance professionals, such as Treutel, are addressing this problem.

The Specialist: Do retail agents have efficient access to E&S markets? What improvements are needed?

Treutel: The E&S Joint Working Group is working to educate the insurance industry on the "War On Keystrokes." Currently, E&S markets are behind-the-times with modern technology. A submission to an E&S carrier requires duplicate or triplicate data entry in order to write a piece of business.

Supplemental applications are still required by many E&S carriers. Several industry studies have shown that 80 to 90 percent of the data requested on E&S supplemental applications is already available on a standard ACORD application. The E&S Joint Working Group is promoting the use of ACORD standards and encouraging all industry partners to move toward standardized electronic interfaces and to begin using real-time technology to reap the benefits being recognized in the standard market.

The Specialist: Are standard carriers becoming more involved in providing specialty coverage and, if so, how is that affecting the E&S market?



Angelyn Treutel, CPA, is currently president of AST Solutions. She also chairs the Industry Solutions Committee at ASCnet Inc. and the IIABA Agents Council for Technology.

Treutel: The standard market has begun using predictive analytic tools to expand their appetites and identify markets and programs that had been previously served from the E&S market.

By accepting more standardized data submissions from retail agents, the E&S markets are placed on a more level playing field with the standard carriers, and have more opportunities to write the business.

The Specialist: What key difference remains between the E&S and the standard insurance market?

Treutel: The E&S market has much to offer in the insurance industry. There are many unique risks that benefit from the tailored coverages offered by E&S carriers. E&S carriers are agile and easily able to adapt to changing business needs.

The Specialist: What would you consider the critical issue in the relationship between E&S insurers and retail agents?

Treutel: From a retail agent perspective, our focus must be on the end-consumer. We must be as efficient and professional as possible to provide a good consumer experience. It is critical that all parties to the insurance transaction, the agents, vendors and carriers, be able to electronically communicate the data, even globally, in order to provide the insurance product to the consumer.

The Specialist: You host a group on LinkedIn that would be valuable to our readers. Can you tell us about that group, its goals and the type of discussions that occur?

Treutel: There are two interactive LinkedIn discussion groups — ACT (Agents Council for Technology) to discuss agent/carrier issues and Excess & Surplus Lines Joint Working Group (E&S JWG) to discuss issues applicable to the E&S market. We invite your participation!

The Specialist: What activities are being pursued by the E&S JWG?

Treutel: The E&S JWG is an industry initiative sponsored by AAMGA, ACORD, ACT and NAPSLO to educate and challenge the industry to move toward the use of ACORD standards and electronic data exchange among systems used by retail agents, general agents and E&S carriers. There are four concurrent work efforts underway:

- (1) The Retail Agent Interfaces group is identifying standard data requirements that can be used to reduce or eliminate the use of supplemental applications

Continued on page 6

A Current View of E&S — An Interview with Angelyn Treutel

Continued from page 5

- (2) The General Agent Integration group is engaging partnerships of retail agents, vendors, general agents and E&S carriers to showcase a roundtrip transaction of data without having to be re-keyed
- (3) The Lloyds to MGA/Coverholder team is a collaborative effort to enhance communication and implementation, and
- (4) The JWG Marketing Group is developing a public relations campaign to highlight the E&S JWG successes and encourage more participation. More information is available at www.esjwg.org. ■

ASLI — A Helpful, Happy ‘Teen’!

by Bruce D. Hicks, CPCU, CLU

If you're a parent, entering and enduring a child's teen years can be quite the challenge. If you're an insurance professional who deals with the E&S market, a certain “teen” has been available for many years to provide significant help with your daily work challenges! The Associate in Surplus Lines (ASLI) designation, offered by The Institutes, is 15 years old! The program was introduced in 1996 and has been significantly revised in 2003 and, most recently, in 2007. Today, the designation is acquired by completing five courses, consisting of the following:

- ASLI 163 — Surplus Lines Insurance Operations.
- ASLI 164 — Surplus Lines Insurance Products.
- Ethics 311 — Ethical Guidelines for Insurance Professionals.
- Two of nearly two dozen Institutes courses from among the CPCU, AIS, AU, ARM, AIC and other programs.

Note: Persons holding the Registered Professional Liability Underwriter (RPLU) designation satisfy the ASLI program's elective course requirement.

ASLI 163 and 164 provide a foundation on learning how to effectively use the resources of the surplus lines market, becoming familiar with its practices, and gaining knowledge of coverage forms and products. The ethics course requirement was added this year. It acknowledges the importance of dealing with others in a manner that builds and maintains trust (it is a free online course). The wide array of electives allows the insurance professional to tailor his or her educational needs to a current or desired position or learning objective.

Previously, the program consisted of ASLI 161 — Surplus Lines Insurance Principles and Issues and ASLI 162 — Surplus Lines Practices. The original program paired these courses along with CPCU 510 (formerly CPCU 1) —



Foundations of Risk Management, Insurance and Professionalism and CPCU 520 (formerly CPCU 5) — Insurance Operations and Regulation. The first revision paired the above ASLI courses with a substantially expanded list of electives. Students had the option of choosing one elective in each of two, required tracks consisting of nearly 30 programs from The Institutes. The 2007 revision consisted of the introduction of ASLI 163 and 164. These courses (which replaced ASLI 161 and 162) included broader content specific to the surplus lines market. The content change allowed The Institutes to reduce the number of elective options (since the essential information was now incorporated into the new ASLI courses). Further, the current program allows students to select their two required electives from a single course list.

The ASLI program was developed via a partnership between The Institutes and the Derek Hughes/NAPSLO (National Association of Professional Surplus Lines Offices) Educational Foundation.

The ASLI program's history reaches back a decade earlier than its birth year. In the 1980s, the E&S market was dealing with a severe image problem. Years of

dealing with the stress of providing coverage for high-risk exposures within a protracted hard market created questions of whether the surplus lines market was viable and reliable. In 1986, NAPSLO's Board, with the urging and funding of surplus lines insurer Western World Insurance Company, worked on creating an educational foundation. After years of hard work, the Derek Hughes/NAPSLO Educational Foundation¹ was born. Its primary objective was to inform others of the critical role played by surplus lines professionals in providing a market that supplemented the coverage available in the standard insurance market.

During the foundation's first board meeting in 1991, the initial board members decided to pursue the creation of a professional designation specific to surplus lines insurance. The rationale was that the availability of professional courses and an accredited designation would assist in their objectives to enhance the image of the E&S market and provide educational opportunities to those working in their market segment.

The foundation's board devoted much of its time to identify and contact experts with the experience and skills to develop a curriculum. The selected group worked on creating the necessary information and, after finishing its task, the board took the next step. It circulated a RFP (Request For Proposal) among a group of educational organizations to solicit proposals to build and help monitor the program. The board chose the submission from the organization now known as The Institutes. The first ASLI program was offered in 1996 and students, composed primarily of CPCUs who already met the elective requirements, eagerly took advantage of the new program with the first designees being recognized at NAPSLO's convention in 1997². Today, the ASLI program continues to be supported and monitored by both The Institutes and NAPSLO, and more than 1,700 persons hold the highly-regarded designation.

Persons completing the program appear to be glad that they did. **Michael Povich, CPCU, AU, ASLI**, shared the following: "I received my ASLI designation back in 2001. I know the ASLI program provides a broad overview of the surplus lines industry, helping to build broad knowledge of specialty lines products and how things work in this segment of the industry."

Lisa Wink, CPCU, ASLI, ARM, AIM, MBA, is a recent ASLI designee. Her experience was quite positive. "I really enjoyed and found all the content valuable for the ASLI Surplus Lines Operations course. This not only provided a good overview, but was an excellent reference document I pull out occasionally and have shared with others (as a) reference Additionally, I've been asked to provide an E&S 101-type course ... at my organization," she said.

All of us know that the E&S market is vitally important to the insurance industry. This market is fast-paced, particularly in the development of new insurance products. Persons actively involved in the market must have access to education that will provide a proper foundation in which to operate in this challenging market. The Institutes and the Derek Hughes/NAPSLO Educational Foundation created and maintains a key program that assists in the development of E&S insurance professionals. In its 15th year, the ASLI Program is a "teen" in which The Institutes/NAPSLO partnership can be justifiably proud. All of us who are part of the E&S community should look forward to the program's continued growth and maturity. ■

Endnotes

- (1) Derek Hughes is a former president of the Western World Insurance Group. He was also a NAPSLO director and NAPSLO education committee chair.
- (2) E/S/SL Chair Carl R. Sadler, CPCU, ASLI, was a member of the inaugural class of ASLI designees.

References

www.aicpcu.org (including staff members Arthur Flitner, CPCU, and Kara Davis). Please visit this site for complete details on the ASLI designation.
www.naplslo.org
www.slsot.org
www.westernworld.com
May 3, 2011, interview with Joseph Timmons, past president of the Derek Hughes/NAPSLO Educational Foundation Ltd.

Transitioning from the ISO Truckers Coverage Form to the Motor Carrier Coverage Form

by Arthur L. Flitner, CPCU, ARM, AIC, and Carl R. Sadler, CPCU, ASLI



Arthur L. Flitner, CPCU, ARM, AIC, is senior director of knowledge resources at The Institutes, creators of CPCU and other professional development solutions. Flitner is the author of several textbooks about commercial insurance and risk management, and a frequent speaker at insurance meetings. He can be reached at Flitner@TheInstitutes.org.

Editor's note: The following article is an abstract of the authors' full-length research article, "Transitioning to the Motor Carrier Coverage Form: A Scenario-Based Truck Claims Comparison," published in the Summer 2011 issue of the *John Liner Review* of Standard Publishing Company. It is reprinted with permission.

When Insurance Services Office, Inc. (ISO) revised its commercial auto program, effective June 2010 in most states, ISO also withdrew the Truckers Coverage Form (TCF). The TCF, introduced in 1978, has been the preferred form for insuring motor carriers of property in the United States for over three decades, even though ISO introduced the Motor Carrier Coverage Form (MCCF) in 1993 to reflect the deregulation of the transportation industry in the early 1980s. Although many insurers continue to use the TCF, it seems likely that most insurers will eventually switch to the MCCF.

Customers who are most likely to be affected by a change to the MCCF are owner-operators who are hauling for motor carriers under written lease agreements in which the owner-operator agrees to hold the motor carrier harmless. If the motor carrier is insured under the TCF, the motor carrier's policy includes the owner-operator as an insured, and on a primary basis. If, instead, the motor carrier is insured under the MCCF, the owner-operator is not included as an insured. The same result occurs if the owner-operator is hauling without a written lease agreement. However, that is a less likely occurrence because federal regulations require written leases.

Often, the only auto liability insurance carried by an owner-operator is Insurance for Non-Trucking Use (IFNTU), which excludes coverage for any auto while used to carry property in any business. Therefore, the owner-operator will have no auto liability coverage for an accident involving hauling cargo for a motor carrier insured under the MCCF.

Complicating matters even more, the owner-operator will usually have no way of knowing whether the motor carrier/lessee is insured under the TCF, MCCF, or some other auto liability form.

If owner-operators who have only IFNTU find themselves without any coverage under their lessees' auto liability insurance for an accident for which they are held liable, their only recourse may be an E&O liability claim against their insurance agent or broker. Producers can protect themselves against such claims by informing their owner-operator customers, when they sell them IFNTU, that it will not cover them while using their vehicles to carry property in any business, and that they may also not be covered as insureds under the auto liability policies of the motor carriers with whom they enter into lease agreements.

In light of the coverage situation described above, truck insurance producers can also recommend that their owner-operator customers purchase full (as opposed to IFNTU) liability coverage under the MCCF or TCF. While such coverage comes as a substantially higher cost, it will ensure that an owner-operator has a source of liability coverage while using his or her vehicle to carry property for a motor carrier/lessee, regardless of whether the lessee's policy includes the owner-operator as an insured. ■



Hope for Hospitality

by Dave Willis

Dave Willis is a regular feature writer for *Rough Notes Magazine* whose journalism background is enhanced by experience with an insurance company and an insurance technology company.

Editor's notes: (1) Though hotels are generally handled by the standard market, this article discusses a number of issues that may create a need for seeking specialty coverages and that's where our readers make their mark. (2) This article originally appeared in the June 2011 edition of *Rough Notes* magazine. It appears here with permission of The Rough Notes Company, Inc.

In general, the hospitality business is experiencing an upswing — modest as it may be. “Occupancy percentage, room rates and payroll exposures have stabilized and, in most cases, there is limited but steady growth,” says **Joseph Dolce, CPCU**, executive vice president of National Accounts for Venture Insurance Programs. Venture's hospitality focus is largely on golf destination resorts and hospitality management companies with multiple-location hotels, resorts and restaurants.

Dusty Rowland, president and CEO of Mainstay Insurance Group, which recently launched a new hotel and resort insurance program, is seeing similar growth. “The industry is slowly improving in most segments,” he says, “with upscale and luxury showing the strongest growth.”

Improvements taking place in the hospitality market are allowing hotels to pursue new initiatives to drive business, Rowland adds. “Travelers are seeking out new experiences and are more aware of hotels' environmental impacts,” he notes. Some hotel owners have achieved LEED and Energy Star status to reduce their environmental impact while improving their image and attracting new guests, he adds. “In addition, the non-profit Association of Green Property Owners and Managers has identified a connection between quality of risk and going green,” Rowland notes. “The organization offers an entry-level green building platform where owners can reduce insurance costs, along with utility costs, and boost guest satisfaction.”

Restaurants are also seeing a rebound. “Most of our clients are reporting higher revenues as policies renew,” explains **Heidi Strommen**, president of ProHost USA. “This follows a 24-month period of steady exposure decrease. That's good for our customers and for us.”

In the midst of the turnaround, **Michael Maher**, marketing vice president at RCA Insurance, draws a correlation between the

business — restaurants in particular — and the hospitality insurance arena. “In the restaurant business, the mantra has been ‘Location, Location, Location,’” he explains. “During this endless soft market, in our restaurant and tavern segment, the insurance business can be best described as ‘Competition, Competition, Competition.’”

Protecting Businesses

In the midst of such competition, agents and brokers can help clients and prospects adequately cover their risks — at generally good prices. “In the restaurant/tavern segment, many insureds fail to take advantage of additional coverages, such as umbrellas, property enhancement endorsements and mechanical breakdown,” Maher says. “Also, they often carry insufficient liquor liability limits and they don't really understand business income coverage.”

For instance, he adds, “They are surprised when business interruption claim recoveries are less than anticipated, because loss is ‘net’ and not the gross income they thought they'd recover.”

Strommen says cyber liability is another area of under-protection. “A lot of restaurants — and probably too many agents — think that if you're not actually selling a product on the Internet, you don't really have a cyber liability exposure,” she says. “That's not true.”

The issue hit home in her own community. “Our local paper ran an article about cyber crime,” she says, “and an example they used was a restaurant just outside the Twin Cities where a hacker infiltrated the restaurant's customer database and sold credit and debit card information. The owner had to notify those who were affected — to the tune of \$20,000.”

This coverage is normally excluded under standard GL forms, she notes. “Unless

Continued on page 10

Hope for Hospitality

Continued from page 9

somebody actively addresses it, the restaurant won't be covered. Fortunately, there is an education process going on both with agents and with restaurants as to the actual exposures."

Another area where restaurants have skimped on coverage is umbrellas. "They're opting out or reducing limits," Strommen explains. "They've looked at their bottom line and, where they felt coverage was expendable, they cut it."

In the resorts and hospitality management arena, business income and extra expense are especially important, notes Dolce. "Any business interruption can have a long-term impact on bookings for weddings, banquets, tournaments, conferences and trade shows," he explains. "While property can be repaired/replaced relatively quickly, loss of income due to cancellations can extend for years. This must be factored into BI/EE limits."

Dolce cites as an example a private country club loss. "It took a year and half of extensive renovation and reconstruction before the facility was completed," he recalls. "But the business income extended well beyond the completion date, due to the lack of advance bookings. The unlimited extended period of indemnity offered to this club was crucial in letting it retain potential lost income."

For restaurants, Strommen says agents and brokers should address industry-specific coverages. "For instance, make sure they have coverage for contamination and spoilage," she says. "If you buy a generic package policy, you may not have those. Especially when changing from one carrier to another, make sure you compare policies and endorsements. They're not all created equal." And, she adds, document when clients turn down recommended coverages or go against suggested limits.

Rowland, who has been insuring hotels, resorts and casinos since the late 1990s, has seen more than his fair share of corner



cutting. Areas that concern him include those listed in the box located on page 11.

Delivering Value

Agents and brokers should build partnerships with experienced providers and rely on their expertise. "A good provider will help educate their good partners and teach them the important coverages needed in each segment," says Rowland.

Maher encourages agents and brokers in his marketplace to learn all they can about the business. "This is a specialized segment," he says, "and brokers need to provide expert service to their client."

Learning can involve taking part in local, regional and national hospitality trade shows or conferences," Dolce points out. "Ask a hospitality client for a list of conferences and trade shows that hospitality senior managers, CFOs or controllers attend," he says. "You may not know all of the insurance issues facing the industry, but you will get a much better understanding of the issues facing your client."

Participation in loss control surveys and claim review meetings can also drive learning. "Use information learned to become an expert," Dolce notes. "Walking through a hotel, resort or restaurant with a qualified safety engineer or sitting through a claim review meeting on hospitality-specific claims are fast, efficient and worthwhile training tools."

Strommen encourages agents to click their way to knowledge. "I can't emphasize enough how many resources are on the Internet," she says. "And I'm surprised at how little they are used. In addition to restaurant industry Web sites, a lot of carrier Web sites have good information, whether or not you use that carrier."

In working with clients, Rowland suggests using a market-specific BI worksheet and keeping a reference checklist of important coverages. Maher agrees. "Offer and explain available additional coverages," he says, "and make certain clients insure to value on their property."

Add value by focusing on risk management and loss control. "Encourage clients to self-inspect their businesses every day for

obvious hazards, both inside and out,” Maher says. “Teach employees to watch for and immediately report hazards.”

Strommen adds, “Make sure clients treat loss control representatives as partners in their program. It should not be an antagonistic relationship. The key is to really participate in the inspection process, and not put it off to a low-level manager.”

Dolce stresses accountability. “Require on-site property management to be fiscally responsible and accountable for its loss experience,” he says. “Base it on factors on-site management can control and measure — not just frequency and severity of losses.”

He also encourages use of early/modified return-to-work programs for injured employees. “This may seem counterintuitive,” he explains, “but the positive impact can be both short- and long-term. The overall loss experience is affected and, more important, the positive message sent to other employees is invaluable.”

Maher’s closing advice is simple: “The restaurant segment has many markets available to agents and brokers when the market is soft, but if and when there is a firming, many of the players that drifted into this segment will leave. An agent or broker focused on this segment would be wise to have markets that have demonstrated that they are also specialists, and will remain viable partners no matter how the markets ebb and flow.” It’s valid counsel for the entire hospitality insurance arena. ■

Areas of Concern for Hotels

Dusty Rowland, president and CEO of Mainstay Insurance Group, lists the following cautions for hotels and related risks.

- Proper insurance to value (ITV). The market sometimes offers blanket and agreed amount limits, which can help buyers overcome an instance where the insured has purchased too little building coverage.
- Employee dishonesty limits. Hotel owners think they’ll never use this, and then learn their controller has been siphoning off small amounts of money for years, and the total loss is substantial.
- Guest discrimination coverage. Hotels might buy employment practices coverage and not the guest coverage. Some specialty programs provide the coverage in the GL form.
- Property in your care, custody or control. This is a “must have” for all hotels. Agents can offer this in the GL form or buy it as a legal liability (innkeepers) coverage on the crime policy.
- Health care professionals as insureds. Resorts with spas have this exposure and need this coverage.
- Valet parking services. Most full service upscale and luxury hotels and resorts offer valet parking services and need to be sure they are covered properly.
- Ordinance and law. This is key property coverage with the ever-changing building codes. Buyers either buy too little or go without to help control cost. That’s not a good decision.
- Green building coverage. The three key coverages are:
 - ♦ Green certified coverage. For a loss to a green certified building, coverage available from AGPOM will apply to rebuilding and additional expenses driven by regaining green certification.
 - ♦ Green upgrade coverage. This coverage pays the extra expense when a non-certified building opts to go green after a loss. Added costs might result from use of Energy Star equipment; eco-friendly lighting, paint and carpet; or water-efficient plumbing fixtures.
 - ♦ Green commissioning expense. This coverage provides for a commissioning engineer to inspect a newly built or repaired system after a covered loss to confirm operation at peak performance and expected efficiency.
- Business income limits. Most insurance buyers don’t take time to complete a BI worksheet — a valuable tool to determine proper exposure levels. The tool forces buyers and agents to address all aspects of a potential loss and its business impact.
- Abuse and molestation coverage. Depending on hotel amenities, this can be an important coverage that is overlooked. If there is an exposure, most underwriters will try to exclude it or increase the premium. Either way, agents and clients need to address the exposure.
- Pollution exclusions givebacks. Hotels and resorts should never buy a stripped-down GL form with an absolute pollution exclusion. Specialty programs will give back hostile fire and exposures to swimming pool pollution from the pool chemicals. Resorts with golf courses need coverage for pesticide and herbicide applications, since an absolute pollution exclusion might cause a gap in coverage.



Excess/Surplus/Specialty Lines Interest Group

Volume 23 • Number 2 • August 2011

CPCU Society
720 Providence Road
Malvern, PA 19355
www.cpcusociety.org

Address Service Requested



10 Reasons Why You Should Attend the CPCU Society Annual Meeting and Seminars

1. Celebrate with the CPCU Class of 2011.
2. Spend four great days with the best and brightest in the business.
3. Hear exclusive insights from senior-level executives on today's hottest topics.
4. Sharpen your knowledge through the industry's finest array of educational programs.
5. Be inspired by compelling speakers to achieve your goals.
6. Learn new technical skills that you can put to use immediately.
7. Strengthen your leadership skills.
8. Find out how to take control of your career.
9. Network with your CPCU Society peers at special events.
10. Be energized to achieve your personal best!



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
<http://essl.cpcusociety.org>

Chair

Carl R. Sadler, CPCU, ASLI
Transportation Insurance Consultants LLC
Email: csadler@tic-llc.com

Editor

Bruce D. Hicks, CPCU, CLU
The Rough Notes Co. Inc.
Email: bruceh@roughnotes.com

CPCU Society

720 Providence Road
Malvern, PA 19355
(800) 932-CPCU (2728)
www.cpcusociety.org

Director of Program Content and Interest Groups
John Kelly, CPCU

Managing Editor
Mary Friedberg

Design/Production Manager
Joan A. Satchell, PPPC

Statements of fact and opinion are the responsibility of the authors alone and do not imply an opinion on the part of officers, individual members, or staff of the CPCU Society.

© 2011 CPCU Society

