The Regulator®
INSURANCE REGULATORY EXAMINERS SOCIETY

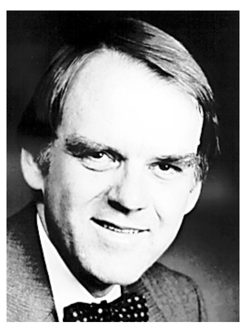
How regulators can return p/c profits to reasonable levels

by J. Robert Hunter
Special to The Regulator

Profits are a good thing. Having a strong insurance industry is a good thing, too. A strong insurance industry can help protect consumers, businesses and the economy from catastrophic and financial shock. However, excessive profiteering while many Americans are being denied insurance or asked to pay outlandish price increases — or while taxpayers are subsidizing the industry — is not a good thing.

Today, property/casualty insurance company profits are excessive. Insurers are overcapitalized and have exceeded the level needed, even with hurricanes and terrorism, for their solidity.

In 2004, with four significant hurricanes in Florida, property/casualty insurers enjoyed record profits — $40.5 billion in net income. The next year, with Hurricane Katrina and Rita battering homeowners, the industry hit another new high, $48.8 billion, in profit. And with no major disasters in 2006, profits last year were nothing short of astonishing — $68.1 billion, according to a January 2007 *Best Review* estimate.


Robert Hunter

The Insurance Information Institute (III) reports the combined ratio (the amount paid out in losses and all expenses related to income) was the lowest in more than half a century. Consider this: In 2006, pre-tax profits rose by more than $30 billion over 2005, a remarkable amount that equals more than $100 for every man, woman and child in America.

Where have the states been?

Since every state requires that rates not be "excessive," one might ask: Where have the states been these past few years? Sure, a few states worked toward lowering auto rates and noncoastal homeowners premiums, but such decreases failed to keep pace with the positive loss results insurers were experiencing.

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Measuring the fallout from State Farm's Katrina settlement

by Scott Hoober
Special to The Regulator

When it comes to hurricanes Katrina and Rita in '05, we all know some basic truths. We know, for instance, that local communities weren't prepared, that the Corps of Engineers' levees failed to protect low-lying areas, that FEMA was asleep at the switch and that many insurers refused to pay legitimate claims.

Some of those great truths may indeed be true. But were insurers really as awful as depicted? And if so, what should be done about it?

One thing has already been done: Scads of lawsuits have been filed. In a way, it's easy to understand why people are suing: When a disaster strikes, many home and business owners will want the maximum possible insurance payout — even if they were not covered for the peril that occurred.

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From the President

IRES to launch new Web site

Thanks to the devoted efforts of the IRES Web Site Subcommittee – led by Jo LeDuc – IRES will soon be launching its new Web site, complete with a new look, additional content, and new features. The revamped Web site will provide IRES with a technological vehicle to help implement our theme of "Building Bridges to Tomorrow: The Next 20 Years."

While our past site served its purpose during our formative years, last year the IRES leadership felt it was time for a change and sought competitive bids. The IRES Membership and Benefits Committee as well as the IRES Executive Committee extensively reviewed the bids and selected a new vendor that has all of us excited. These past few months, the Web Site Subcommittee has put an incredible amount of effort into rewriting the content, revamping the look, and adding features to the new IRES Web site.

So, now, we want to hear from you. The new Web address will be the same as the old one: **www.go-ires.org.** It will be up and running soon.

As you will see, the site has a brand new look, the amount of information on the home page is less cluttered and navigational links have been added on the left hand side to help visitors more easily explore the site. We have also made the home page more personable by adding photos of IRES members. We believe the site captures the mission and purpose of our organization. We hope you agree and that your first impression will encourage you to delve deeper.

The new site will contain more information, organized to make it easier to find exactly what you are looking for. The following is a sample of what is available on the site:

- listings of IRES Officers, Board of Directors, Committees and State Chairs;
- information about upcoming and past

Career Development Seminars;

- IRES Forms: applications for membership and accreditation, continuing education reporting forms, etc.;
- IRES Executive Committee minutes;
- IRES By-Laws and Code of Conduct;
- details on how to be an IRES volunteer;
- information about benefits available to IRES members from continuing education service providers;
- a Career Center;
- an index of *The Regulator*, with links to past issues;
- links to the NAIC, the IRES Foundation, and dozens of other insurance-related Web sites; and
- much, much more.

We will be working with the vendor to add more features as we evaluate the needs of our membership. Enhancements you can expect in the near future include:

- The ability to register and pay online for the 2007 Pittsburgh CDS
- A password-protected IRES Members Only area which will include a membership directory

Most importantly, IRES is looking to serve you – our members. Please let Jo LeDuc and/or me know what else IRES can do to provide even more benefits to you, our valued IRES members. You can reach Jo at **jo.leduc@oci.state.wi.us** or me at **dafreeman18@aol.com**.

Thank you again for your continued dedication and volunteerism to IRES.

Take care,

Douglas A. Freeman, CIE
IRES President

Run for the IRES Board of Directors!

We all know the advantages membership in IRES provides. We're afforded the opportunity to meet and become friends with people who have a common goal – protecting the insurance-buying public. By interacting with other regulators and benefiting from their different perspectives on issues of mutual concern, we are able to achieve a common goal. **Angela Ford**, a former President of IRES and a long time Board member, says that IRES is "the best insurance forum that a regulator could ask for — a meaningful exchange of ideas and a joint effort to find solutions for insurance concerns."

However, IRES can only provide these advantages if every member participates *fully* in our organization. It means running for the Board, participating on committees, etc. We see it in other organizations — year after year the same people do the work. These select few sit on Boards, chair committees, and run seminars for the benefit of other members. Why do they do this? Most of us are not born to be leaders. In fact, most of us are content to let others lead us. It's not easy to put yourself out there to run for election.

It's not easy to squeeze in the work of the organization between your regular work and your personal life. Yet Angela and **Nancy Thomas**, an IRES Board member since 1993 and Vice-Chair of the Finance Committee, agree that being an IRES Board member has given back to them more than they imagined.

Angela says "being a Board member simply makes you more vested in the organization; you take ownership of triumphs and concerns." This sentiment was echoed by Nancy who notes "to gain the full benefit of any organization, you must be involved."

Why not follow the example of these Board members? What better way is there to be involved than to run for the IRES Board? See the need. Meet the challenge – even those of you who are new members. Run for the Board in 2007. Contact the IRES Office at 913-768-4700 for details. Or email the staff at ireshq@swbell.net.

States and property/casualty profits

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The insurance industry carefully cultivates the perception that theirs is an ultra high-risk business, requiring excessive returns and huge premiums to help indemnify policyholders for an anticipated onslaught of increasingly severe catastrophes, such as hurricanes and acts of terrorism. This cultivated perception is a myth.

Insurers are, in fact, low-risk to investors. Using standard measures of stock market performance to gauge financial safety and stock price stability, the property/casualty industry is below the average risk of all stocks in the markets, safer than the risk of a diverse mutual fund.

In 2006, stock insurers will earn a Return on Equity, or ROE, of about 20%, well in excess of what investors typically seek. The industry overall will report lower ROEs than that, but there are several reasons why the figures they report are understated. For one, the industry-wide ROEs include mutual insurers in their averages, which tend to carry excess capital on their books.

Also, the industry calculates ROE in a way that understates returns, using mid-year capital rather than year-start capital for the calculation. If a person invested $100 in a one-year certificate of deposit with a 10% interest rate, that person would earn $10 in interest and have $110 at the end of the year. However, if we calculated return on equity in the manner that the industry does, the 10% interest would be only 9.5% since they would average the beginning investment of $100 with the year-end return of $110 and thus divide the $10 interest by $105, not $100.

Even if insurers corrected the ROE calculation, the ROE would be understated since the income the insurance industry earns today is measured against bloated surpluses. The ROE is lower than it would be if efficient capital levels were in place. By all historic measures, insurers are excessively overcapitalized. Indeed, many insurers are currently engaged in massive stock buy-back programs because of this excess capital situation. The industry now has over $600 billion in retained earnings or surplus. Think about it, the retained earnings of this industry represent $2,000 for every person in the nation. The largest loss the industry ever suffered, Hurricane Katrina in 2005, was $40.6 billion before tax, or an after-tax loss of $26.3 billion. This is a mere 4.4% of current surplus. The awful, wrenching September 11th terror attack was a mere $12.2 billion after-tax event for insurers, representing only about a 2% impact on the industry's surplus at today's levels.

KEY U.S. P/C INDUSTRY FINANCIAL DATA, 1997-2006
($ in billions)

YEAR	INDUSTRY NET INCOME (post-tax)	LOSS & LAE RATIO	POLICYHOLDERS SURPLUS	PRETAX OPERATING INCOME
1997	$36.8	72.8%	$384.1	$35.5
1998	30.8	76.5	423.4	23.4
1999	22.0	78.9	428.1	15.3
2000	20.5	81.4	400.2	10.5
2001	-6.7	88.4	374.4	-12.8
2002	9.1	81.6	376.0	8.4
2003	31.2	75.1	353.8	35.5
2004	40.5	73.1	508.7	45.4
2005	48.8	74.8	551.0	47.3
2006	59.9	68.3	606.7	82.8

Source: *Best's Aggregates and Averages* (2006 data estimated by CFA based on reported industry results for first nine months)

How did insurance become such a low-risk industry, when the premiums consumers pay include profit for risk taking? Well, they initiated legitimate and illegitimate actions to lower their risk. A legitimate risk-lowering effort was their wise use of reinsurance and other risk-spreading mechanisms, such as securitization.

Illegitimate risk-reduction measures

However, many of the risk-reduction measures used by the insurers were, I believe, illegitimate, including:

- Insurers shifted massive risk to policyholders through sharp limits on coverage such as hurricane deductibles and the egregious "anti-concurrent causation clause" that leads to the denial of wind claims when a noncovered event strikes the property, even hours after the wind damage happened. For example, if wind blows the roof off a home but a flood hits the home hours later, the anti-concurrent causation clause permits an insurer, in effect, to retroactively wipe out the wind benefit. Insurers also shift risk by inserting caps on replacement cost coverage and/or bringing a damaged home up to code.

- New programs to turn claims departments into "profit centers" have resulted in inadequate reimbursement for claims. For instance, many insurers are using programs such as "Colossus," sold by Computer Sciences Corporation (CSC).[1] CSC sales literature touts Colossus as "the most powerful cost savings tool" and also suggests that the program will immediately reduce the size of bodily injury claims by up to 20%. In "*From Good Hands to Boxing Gloves — How Allstate Changed Casualty Insurance in America,*" the authors note ". . . any insurer who buys a license to use Colossus is able to calibrate the amount of 'savings' it wants Colossus to generate . . . . If Colossus does not generate sufficient 'savings' to meet the insurer's needs or goals, the insurer simply goes back and 'adjusts' the benchmark values until Colossus produces the desired results."[2] In its settlement of a class-action lawsuit, Farmers Insurance Company agreed to stop using Colossus on uninsured and underinsured motorist claims where a duty of good faith is required and has agreed to pay class members cash benefits.[3] Other lawsuits have been filed against most of America's leading insurers for using these computerized claims settlement products.[4]
- Insurers put huge price hikes in place beyond what was justified by higher risk. The increased rates that were implemented starting in late 2000 throughout the nation were needed to counterbalance the economic cycle of the industry and reverse the soft market. However, insurers kept increasing rates beyond reasonable levels. These hikes are continuing for America's coastline homeowners, even with today's bloated profits. No wonder insurers have launched massive stock repurchase plans: $15 billion by Allstate, 20% of stock by Safeco, and 1.1 million shares by Progressive, a move Bear Sterns says was initiated to "address the company's significant excess capital position."
- Insurers shift risk to taxpayers under programs such as the Terrorism Risk Insurance Act (TRIA) and state pools, where insurers can "cherry-pick" risks, leaving the state with the highest risks and the insurers with the safer, more profitable risks. Remarkably, some insurers have even proposed a natural catastrophe taxpayer subsidy modeled on TRIA. This socialization of risk coupled with privatization of profit has led to a remarkable shift away from the corporate purpose of the nation's insurance industry – *to assume risk*.

What must be done

I should point out that we are, at last, seeing the start of some rate decreases in noncoastal areas. To date, these decreases have been too little and too late to offset the excesses we see in profits and retained earnings today. Much more must be done to end the excessive rates that exist in many states today. California, for example, refused to accept State Farm's offer of a 10% cut in homeowners insurance rates. Instead, they reached an agreement with the company for a 20% reduction.

Studies on whether current pricing is excessive should be undertaken in specific states, such as the study by the Comptroller of New York City in October 2006 on the unjustifiable auto insurance rates in that state. Studies are particularly needed regarding the overpriced auto insurance market in many states, due in part to the decrease in driving associated with higher gas prices.

The movement of this industry to low-risk status is graphically revealed by the steady decline in the portion of the premium dollar that insurers pay out to claimants in benefits. Over the last 20 years, the benefit percentage of premiums paid out fell from a high of nearly 75% to the lowest ever — about 55% — in 2006. Consumers are getting considerably less bang for their premium buck than they were two decades ago.

This startling drop in value occurred as many states moved toward regulatory "modernization" (read: deregulation). The consumer protections that might have stopped this gouging have been gutted in

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States and excessive property/casualty profits

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many states as they rushed ill-conceived deregulation initiatives into place in a vain attempt to keep insurers from embracing federal regulation.

If the insurance industry has made itself a low-risk business, why should Americans continue to pay such a high cost for their insurance? Why should we tolerate the ever-increasing inefficiency in claim payouts? Why should we accept the abandonment and price gouging of Americans along the coasts? Why should we agree to subsidize their business by providing taxpayer back-up for terrorism or catastrophe losses?

Consumers need strengthened protections such as better information on prices, terms, risks and benefits of insurance policies. Competition should be enhanced through repeal of the antitrust exemptions in state and federal law. Unfair discrimination in pricing (such as the use of credit scores, occupation and education) should end, and private causes of action to fight abuse should be made available to consumers.

But most importantly, to end excessive prices, consumers need a regulatory system that is accountable to the public, promotes competition, remedies market failures and abusive practices such as the use of claims systems that underpay victims of accidents, preserves the financial soundness of the industry and responds to consumer needs ahead of insurer needs.

Insurers have now enjoyed three consecutive years of record profits at the consumer's expense. If the states will not act to protect consumers from excessive prices, why should consumers resist a greater federal role? Abandoning consumer protection in order to "save" state regulation leads to a state regulatory system much less worthy of salvation. ■

J. Robert Hunter is Director of Insurance for the Consumer Federation of America. He has served as Texas Insurance Commissioner and as Federal Insurance Administrator. This article is based on a study, "Property/Casualty Insurance in 2007: Overpriced Insurance, Underpaid Claims, Declining Losses and Unjustified Profits," released earlier this year by the Consumer Federation of America, can be found at www.consumerfed.org/pdfs/2007Insurance_White_Paper.pdf.

PURE LOSS RATIOS, U.S. P/C INSURERS, 1987-2006

YEAR	PURE LOSS RATIO	5-Year Moving Average
1987	66.6%	—
1988	66.4	—
1989	69.2	—
1990	69.4	—
1991	68.5	68.0%
1992	74.7	69.6
1993	66.7	69.7
1994	67.1	69.3
1995	65.7	68.5
1996	65.5	67.9
1997	60.6	65.1
1998	63.2	64.4
1999	65.4	64.1
2000	68.4	64.6
2001	75.3	66.6
2002	68.8	68.2
2003	62.2	68.0
2004	60.3	67.0
2005	61.5	65.6
2006	55.2	61.6

Source: 1987-2005 data from *Best's Aggregates and Averages.* The 55.2% pure loss ratio in 2006 was derived from an estimated 94.3% combined ratio from the Insurance Information Institute's Earlybird Forecast (12/21/06) less a 26.0% expense and dividend ratio and a 13.1% LAE ratio, both based on 2005 results.

Endnotes

[1] Other programs are also available that promise similar savings to insurers, such as the Insurance Services Office's *"Claims Outcome Advisor."*

[2] *"From Good Hands to Boxing Gloves — How Allstate Changed Casualty Insurance in America,"* Trial Guides, 2006, Berardinelli, Freeman and DeShaw, pp. 131, 133, and 135.

[3] *Bad Faith Class Actions,* Whitten, Reggie, PowerPoint presentation, 11/9/06.

[4] Ibid.

Procedure review examinations: The next step?

by Don Koch, CIE

In financial regulation, states have moved to a risk-based approach. The shift has been termed risk-based regulation and market regulation is following in that direction. Risk-based market conduct regulation is primarily an analysis of the management processes in place within a company, the risk that such processes represent to the continued well-being of the company, and the controls that management uses to assure that its directives and decisions are effectively working.

Procedure review examinations

To address this concern, I have developed — in conjunction with examiners that I supervise — a *procedure review examination* process that has been very effective in identifying areas where a company has a high level of risk for violation or error. In a procedure review, examiners evaluate the directions provided by a company's management in the form of written procedures, directives, processes, strategies, etc. A competently executed review reveals how a company manages and controls the various processes it implements to comply with insurance statutes.

A procedure review examination is an effective means to determine that company management in areas under review is proactive or reactive. A proactive company takes steps to recognize and act on deficiencies, while a reactive company tends to change procedures in response to exogenous forces. A proactive process generally results in a minimal level of error, whereas a reactive process has an increased propensity for errors or violations.

Political change/resource allocation

Since the June 2002 meeting of the National Association of Insurance Commissioners (NAIC), the continuing role of market conduct regulation in the regulation of insurance has elicited considerable discussion. Some concerns have been raised, including:

- the extent to which market conduct examinations constitute a duplication of effort;
- the disproportionate burden on large market share insurers;
- the absence of collaborative efforts among states; and
- the methodologies used to select examinees.

Unlike financial examinations, market conduct examinations are not conducted by every state. Many states would have substantial difficulty developing a market conduct regulatory structure due to other demands on their state budgets.

Most states conducting market conduct examinations conduct them on a targeted basis. Routine and comprehensive examinations are rare. Most states believe their resources are better allocated through the target examination mechanism. The challenge for market regulators is how to devise an appropriate regulatory structure that will avoid past inefficiencies, yet provide effective oversight that comports with the intent of statutory mandates to regulate insurance.

Management cycle

Well-run companies adopt processes that are similar in structure. An absence or ineffective application of such processes in an insurance company often is revealed as an adverse result in sample testing conducted during the course of a market conduct examination. These processes, which comprise the management cycle, include:

- a planning function where direction, policy, objectives and goals are formulated;
- an execution of the planning function;
- a measurement function that evaluates the results of the planning and execution functions; and
- a reaction function that evaluates results and takes corrective action to modify the process in order to develop more efficient management of the company's operations.

Developing new tools

Under the conventional method of market examination, as described in the NAIC Market Conduct Examiners Handbook, examiners review insurance company operations for errors or violations of statutes and, if necessary, impose disciplinary actions.

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Market regulation and "procedure review" examinations

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This approach is reasonably effective at identifying violations of state law. It uses sampling methodology to select files for review and then applies tests to determine if the reviewed files are in compliance. It is, however, not particularly effective at determining causation of file failure, and has been truly cumbersome when applied on a multi-state basis.

In an effort to avoid the duplication in regulation, states revisited the role of market analysis. Market analysis existed in states actively engaging in market conduct examinations in one form or another for years. However, refinements have been developed that have significantly improved the process. As this process is refined, and the states collaborate in their regulatory efforts, much of the duplication can be expected to dissipate. The challenge is to more easily recognize indicators that signal further review of a company is required.

The procedure review is a review of management structures and controls in areas impacting market-related issues. This approach is very effective at identifying *causes* of violations of statute. The procedure review market conduct examination uses a review of the processes and controls developed for the operations of an insurer.

Policy and procedure

Policy and procedure are two common terms with two distinct meanings.

"Policy" is the high-level general principle by which an entity guides the management of its affairs. It is probably not critical for the regulator to be concerned with these general principles except to the extent that they represent management direction to proceed in a particular manner that may be the basis for a procedure. A policy is generally going to be too vague to require any regulatory interaction unless it is obviously in conflict with statutes.

On the other hand, "procedure" is the specific method or course of action used to implement a policy or corporate directive. Many companies have processes in place that do not derive from policy, thus do not really constitute a procedure. How a company structures and documents its procedures tells the regulator a considerable amount about the company. It indicates whether a company is proactive or reactive in the management of its operations, whether the corporate compliance activities are a cause for concern, and whether particular areas of concern to the regulator are managed in a way to avoid the need for regulatory action.

The NAIC Market Conduct Examiners Handbook suggests that such procedures be reviewed, but is silent concerning what constitutes such a review. A procedure review should determine whether the management cycle related to the procedure of interest adequately considers each of the elements noted in the previous "management cycle" section of this article.

The management analysis of written procedures through a procedures review is a top-down look at how a company operates. It can be thought of as a vertical view of a company's operation. It represents a somewhat different skill set than typically used in the traditional market conduct examination that is more of a "bottom of the ladder" view of a company operation. Both methods are valid and may be used in conjunction with each other. In order to test the validity of the use of this approach, we have conducted examinations for the last four years using both methods, procedural and traditional, including sampling. The examiners have then compared the results of the samples impacted by particular procedures with the management analysis performed related to that procedure. The findings have been striking.

Since the examinations conducted during this testing phase have been comprehensive with reasonable levels of sampling, the samples support the notion that the proactive/reactive analysis is a valid tool. The samplings of business areas for companies with proactive tendencies generally yield fairly "clean" results. Where the analysis indicated that there was a passive or reactive process (or no process) in place, the samples revealed considerable human error, systemic error, and certainly more intentional violations than occur with proactive management.

Confirming procedures

Often a company will claim to maintain procedures, but in fact it does not. Therefore, it is important that the examiner confirm the existence and use of the procedures a company purports to maintain. This can be accomplished in several ways. The first is conducting a "walk-through," which provides the examiner with the opportunity to question how the process actually functions.

Another method is to interview mid-level managers and persons using a purported procedure. Some companies may use an informal or undocumented process. The challenge with an undocumented process is it frequently cannot be measured, meaning that the company really does not know how that process is working. It also means that there is an increased likelihood of inconsistent application, posing potential unfair discrimination issues.

The final method is to actually test a sample of files to determine that the process is applied as described.

Conclusion

The use of the procedure review examination can provide several advantages to a market conduct regulator. These include:

- the regulator can pinpoint where a company has some problem areas that have resulted in errors or violations;
- the regulator can anticipate where a developing issue is likely to occur and begin appropriate discussions with the company;
- the exam requires less time to conduct, and a considerable amount of the work can be conducted off-site;
- the exam fosters cooperative regulatory ventures with companies interested in operating in compliance with the statutes;
- the exam is less confrontational than conventional market conduct examinations;
- the exam's focus is corporate-wide, thus increasing the multi-state utility of the process; and
- the information developed in the process makes a good addition to any existing market analysis conducted about a company. ■

Donald Koch, CIE, is Director of Market Regulation for INS Regulatory Insurance Services, Inc. (InsRis). A former IRES President, he previously worked for the Alaska Division of Insurance, where he served as Chief of Market Surveillance. He also chaired the working group that drafted the initial version of the NAIC Market Conduct Examiners Handbook.

California regulators form local organization

It's official, the California Insurance Regulators Society (CAIRS) has been formed and we are now incorporated! A full slate of officers has been appointed with Deputy Insurance Commissioner Woody Girion, CIE, serving as president and David Langenbacher, CIE (the author of this article), president-elect. CAIRS' firm support of state-based regulation will provide the foundation for the organization's future endeavors. One of our primary goals is to provide opportunities for professional growth through training and positive interaction with our peers and business contacts.

Our membership drive is in the early stages and we already have about 30 applications. The number is expected to grow as future meetings and events are announced. Many of us are also members of the informally organized IRES California State Chapter.

CAIRS looks forward to continuing to explore the possibility of becoming an official state chapter of IRES. Our Board has pledged to work closely with the leadership of IRES in this endeavor. In the meantime, we will continue to operate as a separate, but complementary, organization.

The Society hosted its first major event just days after completing the incorporation process. Approximately 100 participated in our meeting at which nationally recognized consumer advocate Harvey Rosenfield was the featured speaker. The response was overwhelmingly positive. We have four more meetings scheduled for the year and have high hopes that they will mirror the success of our first. In addition, we hope to host a career development seminar in the later part of the year.

The upcoming year promises to be both exciting and challenging! Those seeking more information about CAIRS or seeking to join, should contact David Langenbacher either by phone (213-346-6364) or via e-mail at Langenfam@netzero.com.

— David Langenbacher, California

Measuring the fallout from State Farm's Katrina settlement

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As George Dale, Mississippi's insurance commissioner, put it: "When this isn't done, well, they need to blame somebody. And that's what happened here. There are a lot of people who didn't have coverage. They didn't get paid, and they're unhappy."

Though there have likely been too many lawsuits, there's no reason to believe all the suits are bogus.

"Were some people done wrong? I'm sure there were," said Commissioner Dale. "That's what we're trying to find out. We're doing market conduct exams now on the companies — there weren't but six that wrote 91% of the business on the Mississippi Gulf coast — so we're doing market conducts on those, starting with State Farm, and then we'll go to the rest of them."

> **"*However the deal plays out, many observers question why State Farm agreed to it in the first place.*"**

State Farm Group has a 30.3% share of the Mississippi market. The rest of the top writers are Southern Farm Bureau Group, Allstate Insurance Group, Nationwide Group, Farmers Insurance Group, and USAA.

Like many in the insurance community, Dale believes that the dividing line between wind and water is well established. Policy wording has been tested repeatedly in court, and there's little dispute over where the line falls.

Perhaps a few home and business owners have legitimate cases — Mississippi's Attorney General, Jim Hood, says insurers pressured engineers and adjusters to deny legitimate claims — but probably nowhere near the 35,000 cases that could be reopened if the big case that Hood filed goes against the state's largest insurers. (State Farm is no longer part of that suit, now that they've agreed to a settlement.)

At this writing, most of those lawsuits, and a good portion of the State Farm settlement, are still up in the air. It appears, though, that enough time has passed to take a good look at the merits of many of those cases.

The settlement

The Mississippi settlement began with a lawsuit filed by Attorney General Jim Hood against five of the state's largest carriers (all of the insurers previously listed above except the Southern Farm Bureau Group).

The case sought to block the companies from invoking flood exclusions to deny claims generated by policies that did not specifically exclude damages caused by storm surge.

"The insurance companies made a mistake in failing to specifically and expressly exclude the most destructive event from a hurricane: storm surge," Hood said in published accounts. "In order to stabilize our coastal insurance market and rebuilding efforts, it is crucial that we quickly settle the pending litigation."

Since Judge L. T. Senter Jr. of the Federal District Court in Gulfport has already ruled that water can be excluded from a homeowners policy under certain circumstances, which is consistent with previous rulings, wind vs. water doesn't appear to be a huge issue. If State Farm wasn't guilty, though, why did it agree to settle? One guess: to avoid the damage to its wallet and its reputation that would come from a highly publicized, politicized trial.

"I would say a lot of it had to do with fear of the Attorney General's threatening them with indictment," said Dale. "That's the word on the street here.

"If you're a prosecutor, you can indict the Pope for rape, but that doesn't mean you'll get a conviction," he continued.

State Farm chose not to comment for this article, but shortly after the settlement was announced, spokesman Fraser Engerman told the press: "We're always open to exploring reasonable, fair and efficient ways to resolve pending litigation."

"State Farm did not settle out of fear," Hood insisted in a letter to *The Wall Street Journal,* "but because an independent federal judge ruled that the law was not on its side. . . .

"The judge simply applied Mississippi law and held that in an all-risk policy, such as a homeowners policy, the burden of proof was on the insurer to show exactly what percentage of the excluded peril caused the damage."

The settlement had two parts. One part, which settled 640 lawsuits arising from the hurricane for $80 million, is still in force.

The other, which required State Farm to reopen nearly 35,000 damage claims that state officials and trial lawyers said had been underpaid, was to cost State Farm at least $50 million. In late January, Senter rejected that agreement because it didn't provide enough information to conclude that it was "fair, just, balanced and reasonable." But his order dealt solely with the second part, the reopening of the claims.

Participants said that State Farm had refused during earlier negotiations to settle unless both the lawsuits and the 35,000 damage claims were combined into one agreement. Nonetheless, payment on those 640 claims is proceeding.

By the time you read this, Judge Senter may have come to a decision about the other half of the settlement agreement.

> *"Many of the bills are almost criminally short-sighted. Rep. Gene Taylor has introduced a bill to eliminate the insurance industry's anti-trust exemption."*

Setting a precedent

However the deal plays out, many observers still question why State Farm agreed to it in the first place.

"My argument with State Farm is if they settle here, don't you imagine the attorneys general of Louisiana and Alabama are going to want the same thing?" Mississippi's Dale said.

"And then don't you imagine next year, when another storm hits Florida, that you're going to have the same thing: an aggressive attorney general saying, 'Oh, if you don't pay all these claims 100%, we're going to indict somebody'?

"It starts a terrible trend."

Next door, in Louisiana, Insurance Commissioner Jim Donelon said that he sees no reason why settlements wouldn't make sense for policyholders in his state.

Louisiana law excludes punitive damages like those awarded in a couple of high-dollar Mississippi cases, but the state does allow penalties for improper claims handling, limited to 50% of a claim.

Donelon has been quoted as saying that other companies should hop on the settlement bandwagon. "I expect Allstate will be shortly behind State Farm in doing just that," he said after the settlement was announced but before Senter put it into question. "And thereafter the rest of the market no doubt will be greatly influenced by those major players."

Donelon said that Alabama Insurance Commissioner Walter Bell, president of the National Association of Insurance Commissioners, seems to have some interest in pushing for settlements too.

At least lawsuits and settlements are a means of settling claims.

Some of the post-Katrina actions, especially by politicians from Gulf states, seem motivated more by vengeance. By one count, fully 35 bills have been introduced in Congress to "reform" disaster coverage. And that doesn't count all the legislative activity in Gulf states.

Some are genuine attempts to fix problems. For instance, bills introduced in the Mississippi Legislature would replenish the state's wind pool. One bill would raise premiums, while another would add a sales tax on items sold for the rebuilding effort. But in the long run, they'd stabilize rates and keep insurers from fleeing — a tradeoff that other states, especially Florida, seem to be having a hard time accepting.

Many of the bills are almost criminally short-sighted.

For instance, Rep. Gene Taylor, who along with his colleague, Sen. Trent Lott, has sued State Farm for storm losses, has introduced a bill to eliminate the insurance industry's anti-trust exemption.

Commissioner Dale knows that neither Taylor nor Lott would be very thrilled if that actually came to pass.

continued on next page

Measuring the fallout from State Farm's Katrina settlement

continued from preceding page

"If you removed it, what does it do?" he asked. "I'm still having a hard time seeing what it does, other than punish your small insurance companies, like our Mississippi Farm Bureau, which is only in the state of Mississippi.

"If you remove anti-trust, it means that they could not use a collective entity like ISO for compiling their rates. You've got big companies, the Allstates, the State Farms, that are big enough to make a determination of their own rates. But the small domestic companies like the Farm Bureaus do not have the expertise to be able to do that on their own.

"If they can't use ISO, they'd have to be bought up by the big companies — which is not what Sen. Lott would really want to cause to happen."

Dale isn't impressed with the quality of the debate.

"One of our congressmen makes statements that are not even close to the truth," Dale said. "He refers to insurance as being an unregulated entity, when it's one of the most regulated entities there is — you've got 50 commissioners of insurance looking over their shoulders.

"And you've got one of our senators who lost his house wanting to punish the insurance industry."

One of the reasons Judge Senter is hearing the State Farm settlement and other major cases is that two other federal judges in the region lost their own homes to the storm and might have a hard time being unbiased.

Dale himself has been accused of being in the industry's hip pocket, apparently because — unlike some other political leaders in the state —he never compared insurance company executives to sexual predators or called them "robber barons."

"I couldn't do all those things, because I knew I had to go back to them," Dale said. "You know: 'I said all these bad things, but I didn't really mean them. Now come back and write more business in our state.'

"You've got to have a market," the commissioner emphasized. "You cannot rebuild the coast without a viable insurance market."

Mississippi vs. Louisiana

For all the carping and suing, you'd think the industry had bugged out, leaving Mississippians in the lurch.

In reality, the overwhelming majority of the nearly half-million insurance claims filed in the state have been settled. All across the Gulf, the '05 storms led to a total of 1.2 million claims totaling $17.6 billion.

"Is everybody happy? No," said Dale. "We've got 3,900-plus claims that have been submitted to our mediation program, and there's 83% closure rate on them."

The commissioner is proud of his mediation program, which was based on what Florida has done.

"We had been told that Florida had a high closure rate, even in the Pensacola area, when there was [dispute over] wind vs. water. We implemented it here, and I was very pleased with how it worked. "The American Arbitration Association has done a great job."

In fact, Judge Senter placed 25 cases in mediation, then came back and ordered another 100. "And I'm told that he ordered another 180 last week," Dale said. None of these cases were part of the State Farm settlement.

Why would a judge send cases out of the courthouse, over to the Insurance Department's mediation program? As Dale put it: "Some of these people will be 15 years getting to the courthouse."

In the meantime, though rebuilding has been slow in New Orleans and elsewhere in Louisiana, things are moving along in the state next door — especially when one moves slightly inland.

"If you drove to the Mississippi Gulf Coast, says Dale, "you would drive down U.S. 49, which runs right into the Gulf [at Gulfport] and you wouldn't even know there'd been a storm until you get to a railroad track that is just a short distance from the water.

"And then from the railroad track south, it's devastating.

"You've got three or four lines. You've got U.S. 90, which is about on the water, and then you come to the railroad track, and then you got I-10 which runs east-west — that's always been the line of demarcation. Well, all of that up to the Interstate, south of it, is beginning to rebuild, and you can't even tell a storm has hit until you get down to the railroad track."

Some observers have said recovery has been slowed by the perception that Southern politicians will skim off federal funds. That lack of trust has led to extra layers of bureaucracy — as if the everyday layers weren't enough when it comes to distributing federal aid that arrived in the form of block grants.

"We hear that about the state of Louisiana," Dale said. "But keep in mind that our governor is Haley Barbour, the chairman of the Senate Appropriations Committee prior to Jan. 1 was Sen. Thad Cochran, and then [we have] Sen. Trent Lott. Both of them, especially Sen. Cochran, had pretty much a direct line to the national treasury and pumped millions and billions of dollars into down here.

"In Louisiana [whose leadership tends to be Democratic], they had a little more difficulty in getting money, and probably didn't get as much as we did in Mississippi.

"They've given billions and billions of dollars, and if they gave us all that much and don't trust us, I'd hate to see how much money they'd give us if they did trust us."

Who pays next time?

With all the intense focus on getting funds into homeowners' hands so they can rebuild and get on with their lives, it's easy to lose sight of the big picture.

"In my Rotary Club speech," Mississippi's Dale said, "one of the things I'm saying is, 'There's a societal question. Should a person be able to live anywhere they want to. Should we make insurance companies provide insurance for these folks?'

"And bigger than that, should the taxpayers be required, through the federal flood and earthquake programs, to pick up the tab if something should happen? No one wants to address that. Not so far they don't."

"You know," he added, "50% of the American people live within 50 miles of the water — we're a water-loving people. The construction is unprecedented near the water. Each storm is going to be more expensive than the previous storm, simply because of the increase in buildings along the water.

"And when that next storm hits, there are only three ways that you'll pay for it. It's going to be state or federal subsidies, or insurance, or the general public."

And as we all know, it's not *if* another big storm hits, it's *when*.

When buildings are reduced to rubble, Dale said, "the easiest one to complain against and to rail against is the insurance industry. They make good profits."

But many of the loudest critics, such as Bob Hunter, speak of companies' record profits without mentioning that those figures are for all lines and all states.

"The law says, in our state, that each line of business has to stand on its own, by state," said Dale. "And in our state, from 2001 through '06, the property insurance industry took in $1.8 billion in the state of Mississippi and paid out $3.1 billion.

"From 2001 through [pre-Katrina] 2005, they made a profit. If you took Katrina out, most companies would have done well."

It's not unusual for recovery from a catastrophe of this magnitude to take years, even decades. Dale isn't prepared to guess how long before his state is back to normal.

"I don't know," he said. "There are so many phases of it.

"My job from Day One was to get as many claims paid as we could . . . the second part of my responsibility was to maintain a market for the coast when they started to rebuild, and I think I'm finding out that second responsibility is more difficult than the first." ■

> ***". . . you've got one of our senators who lost his house wanting to punish the insurance industry."***
>
> — George Dale,
> Mississippi Insurance Commissioner

IRES State Chapter News

DC — The D.C. Chapter of the Insurance Regulatory Examiners Society is on the move! On Tuesday, January 9, 2007, the D.C. Chapter held its first 2007 meeting. We are delighted to extend a warm welcome to a new member of our D.C. Chapter, **Gary Stephenson**, Market Conduct Examiner, a former 2005–2006 Oregon State Chair.

Our previous meeting — held November 9, 2006 — featured an exceptional in-house speaker, **P. "Sean" O'Donnell**, Chief Financial Examiner of the Financial Examination Division, who compared Oregon's old and new financial examination process. Also, hats off to **Edward Bannister** who rejoined IRES last fall. We are glad to have Ed back in the fold and look forward to his active participation.

Last, but not least, **Patrick Kelly,** a former commissioner of the Department of Insurance, Securities and Banking (DISB) retired in December 2006. Commissioner Kelly was an active supporter of IRES during his tenure at DISB and continued to support our organization when he moved to the Department of Health. We will be honoring the former commissioner at our March 6 meeting.

—*Hazel Mosby; hazel.mosby@dc.gov*

LOUISIANA — The Louisiana Chapter meeting was held on December 7. **Clarissa Preston**, Deputy Commissioner of the Property & Casualty Division, introduced "Property & Casualty 101" that featured the following speakers: **John Lamke**, Property & Casualty Policy Forms Section; **Barbara Payne**, Property & Casualty Consumer Complaints Section; and **Linda Gon**zales, Insurance Rating Section. The speakers discussed the basic functions of their sections and how their work impacts Louisiana consumers of this state. Forty members attended.

Our chapter held an Officers/Committee meeting on January 11 to discuss the upcoming Louisiana Health Care Conference and the feasibility of featuring an IRES booth at the Conference. The group also discussed creating an IRES brochure for the State Chapter.

Highlights of our February 8 Chapter meeting included a PowerPoint presentation by Tom **Portier**, Director of Quality Management in the Office of Health, on "Discount Health Plans." Mr. Portier discussed differences between Discount Health Plans and health insurance coverage. Over 30 members attended the informative session.

—*Larry Hawkins; lhawkins@ldi.state.la.us*

Welcome, new members!

Louise Bowie, LA
David Browning, MS
Tara Buehner, UT
William L. Chadwick, Jr., NC
Sheila Curtis, UT
Michael Dinius, IN
Sandra Halladay, UT
Robert Herrera, UT
Robert R. Jeansonne, LA
Daryl Johnson, LA
Randolph Lamberjack, IN
Philip A. Lyons, CO
Jason A. McCartney, NE
Robert W. McManus, MN
MaryLou Moran, MA
Robert Panah, IN
Betty H. Patterson, TX
Douglas A. Pennington, WA
Ronald J. Poplos, DE
Anne Stewart, UT
Bill Stimpson, UT
Mindy H. Thede, ID

If you have state chapter news, send it to Larry Hawkins at ***lhawkins@ldi.state.la.us***

April 15-17 at Hilton Head

Market Regulation School for Industry Professionals Gears Up

The IRES Foundation each spring sponsors The National Insurance School on Market Regulation, which brings experienced state insurance regulators together with insurance industry personnel to review the latest market regulation and compliance issues and practices. This year's conference has some exciting new features and is better than ever! The School will be held in Hilton Head, SC at the Westin Hotel from Sunday, April 15, through Tuesday, April 17, 2007. Registration materials and more information can be found at **www.ires-foundation.org.**

The IRES Foundation is a separate organization from the Insurance Regulatory Examiners Society (IRES) yet works very closely with IRES to develop and support educational programs. Several IRES officers are members of the IRES Foundation's Board of Directors. The proceeds from the IRES Foundation's School help fund regulators' educational programs. In 2006, the Foundation provided over $20,000 in grants to IRES to help fund the CDS and the IRES Continuing Education program.

The work of IRES and the IRES Foundation ultimately benefits all those involved or impacted by insurance regulation. Well-trained and well-equipped regulators do a better job of protecting the public and monitoring the insurance marketplace. Regulators who continue their education are better positioned to regulate and communicate with the insurance industry, resulting in a clearer understanding of regulatory requirements and expectations as well as more efficient and cost-effective examinations.

Similarly, it is beneficial to have a forum for insurers, producers, attorneys, and insurance industry compliance professionals and others to exchange ideas with insurance regulators. While the August IRES Career Development Seminar (CDS) is geared more toward regulators and welcomes insurance industry representatives, the April IRES Foundation School is primarily focused on issues of importance to the insurance industry; however, many regulators who are not on the faculty also attend. The School is pre-approved for 12 hours of continuing education credit for IRES members.

IRES Foundation Board members and School Chair Jon Brynga and Agenda Chair Sue Stead invited The Honorable Insurance Commissioners George Dale of Mississippi and Susan Voss of Iowa, senior insurance regulators from 16 other states, and key NAIC staff to serve as faculty for the April 2007 IRES Foundation School.

During the three-day School, individual and group sessions with senior regulators and with industry experts provide ample opportunity for attendees to meet senior regulators, learn about hot compliance topics and techniques, address specific concerns about market regulation, and receive updates about new state laws and recent examination findings.

A unique feature of the School is the ability to schedule private appointments with regulators. In addition, the School provides plenty of networking events to give attendees the chance to get to know the regulators and meet others in the industry. ■

Regulatory Roundup

by
Stroock & Stroock & Lavan LLP

Florida — Governor signs homeowners insurance reform legislation

On January 25, Governor Charlie Crist signed House Bill No. 1A, which seeks to provide homeowners insurance relief to Florida residents. According to a press release issued by the Governor's office, the Bill seeks to curtail a practice referred to as "cherry picking," whereby insurance companies sell only profitable automobile insurance and do not offer homeowners insurance, which involves more risk. In order to eliminate this practice, the Bill prohibits insurers from writing auto insurance in Florida if the insurer writes homeowners insurance in another state but does not write homeowners insurance in Florida unless the insurer writing auto insurance is affiliated with an insurer writing homeowners insurance in Florida.

The Bill also effects changes in the rate filing process for homeowners insurance in that (i) rate filings, which were previously approved and took effect January 1, 2007, are now rescinded, except for those filings that lowered rates; (ii) policyholders who paid higher rates as a result of a rescinded rate filing must be issued a refund; (iii) the Florida Office of Insurance Regulation may consider the profitability of national parent companies during the rate review process for Florida-based subsidiaries; and (iv) a senior officer of the insurer must provide a sworn statement under oath, under penalty of perjury, certifying the appropriateness of the information contained in the rate filing. Rate filings that seek to increase rates on homeowners insurance may not be submitted for approval before Jan. 1, 2008. The Bill also mandates that insurers writing homeowners insurance return "excess profits" to their policyholders (excess profits are deemed to exist when the insurer's surplus exceeds direct probable maximum loss for a 1-in-250 year return period and it has earned a net underwriting gain in Florida in excess of 10 percent of earned premiums above its anticipated underwriting profit over the most recent ten-year period). In addition, the Bill requires insurers to give at least 100 days' written notice, or written notice by June 1, whichever is earlier, for any nonrenewal, cancellation, or termination that would be effective between June 1 and November 30 (which coincides with Florida's hurricane season).

With respect to a domestic homeowners insurer that is a wholly owned subsidiary of an insurer authorized to do business in any other state formed after the effective date of the bill (so-called "pup company"), such insurer's required surplus as to policyholders is increased from $5 million to $50 million. To view Gov. Crist's Jan. 25, 2007 press release, visit **www.flgov.com/release/8551**. To view House Bill No. 1A, visit **www.myfloridahouse.gov**.

Indiana — Legislation introduced to reduce insurance premium tax

On January 11, HB 1250, a Bill that would reduce the insurance premium tax incrementally from 1.3% in 2008 to 1% in 2010, was introduced in the House of Representatives. According to the Fiscal Impact Statement that was submitted in connection with HB 1250, the insurance premium tax is imposed on gross premiums received by domestic and foreign insurance companies on policies covering risks in Indiana, less deductions for reinsurance premiums, dividends paid to insured residents, and premiums returned. The reduction in the insurance premium tax, however, is not expected to result in a corresponding percentage of revenue loss because, under Indiana's retaliatory

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The New York-based Stroock & Stroock & Lavan LLP Insurance Practice Group includes Donald D. Gabay, Martin Minkowitz, William D. Latza and William Rosenblatt. The Insurance Practice Group also includes insurance finance consultants Vincent Laurenzano and Charles Henricks. They gratefully acknowledge the assistance of Robert Fettman and Rachael Newman, associates in the group. This column is intended for informational purposes only and does not constitute legal advice.

tax scheme, a foreign insurance company must pay the greater of the insurance premium tax rate imposed in its domicile or the insurance premium tax rate imposed in Indiana, and according to the Fiscal Impact Statement, only six states have insurance premium tax rates below 1.3%. HB 1250, if passed into law, will be effective as of Jan. 1, 2008. To view HB 1250, visit the Indiana General Assembly's Web site at **www.in.gov/legislative.**

Mississippi — Commissioner announces policyholder bill of rights regulation

On January 26, Mississippi Insurance Commissioner George Dale held a public hearing on the Mississippi Insurance Department's proposed Regulation 2007-1 (the "Regulation") regarding a homeowners insurance policyholder bill of rights. According to the Regulation, the Insurance Department found that many homeowners insurance policyholders who filed property loss claims following Hurricane Katrina were inadequately insured or did not fully understand the insurance they had purchased. The bill of rights contained in the Regulation would give insureds a quick reference to what is covered or excluded in their insurance policies and where that information can be located in their policies.

It would require insurance companies to include in plain language descriptions of what a policy covers, including, but not limited to fire, lightning, explosion, named windstorm damage, flood, earthquake, collapse, mold or theft. Section 5 of the Regulation creates a new outline and comprehensive checklist that companies would have to include in addition to the homeowners policies, declarations pages, and any other documents they currently must provide to insureds. The effective date of Section 5 of the Regulation is April 1, 2007. The remainder of the Regulation will be effective upon adoption. To view Regulation 2007-1, visit **www.doi.state.ms.us/regulations/2007-1reg.pdf.**

Washington — Proposed bill to create a replacement insurance company market conduct oversight program

On January 22, Representative Steve Kirby introduced HB 1532, a Bill to create an insurance company market conduct oversight program within the Office of the Insurance Commissioner. The Bill would provide tools to the Insurance Commissioner for collecting information from companies relating to the marketplace, trends, and emerging issues.

It would also authorize the Insurance Commissioner to perform market conduct examinations in accordance with the market conduct uniform examination procedures established by the National Association of Insurance Commissioners ("NAIC") and the NAIC Market Regulation Handbook. Detailed provisions of HB 1532 relate to market analysis procedures, market conduct actions, market conduct examinations, personnel and immunity for personal access to records and information, penalties, and coordination with other state insurance regulators. To view HB 1532, visit ***www.leg.wa.gov/pub/billinfo/2007-08/Pdf/Bills/House%20Bills/1532.pdf***.

"Quote of the Month"

"There's something civil servants have that the private sector doesn't ... that is the duty of loyalty to the greater good — the duty of loyalty to the collective best interest of all rather than the interest of a few. Companies have duties of loyalty to their shareholders, not to the country."

— David M. Walker, U.S. Comptroller General, on the proliferation of private contractors taking on U.S. government responsibilities. Mr. Walker heads the U.S. Government Accountability Office (GAO).

Casual Observations

What's to be done with junior regulators?

Anyone wondering whether federal regulation of the insurance industry would benefit the average consumer should look no further than federal Executive Order 13422 issued in January, which amends a 1993 Executive Order.

The new Order not only introduces additional hurdles for federal agencies to overcome before promulgating regulations, but makes it far more difficult for them to issue so-called "guidance documents," typically advisory in nature.

Perhaps the most disturbing aspect of the Executive directive is the requirement that every federal agency designate a Presidential appointee as Regulatory Policy Officer who must sign off on virtually all agency rules and guidance documents. In other words, without a Policy Officer's consent, agency rulemaking grinds to a halt.

Insurance legislation is inherently complex and few legislative bill drafters have the expertise to craft airtight statutes. In fact, we'd estimate that roughly nine out of ten new insurance statutes desperately need additional clarification in the form of regs or advisory opinions. You could view insurance statutes as the abbreviated "Quick Start" instructions for your new computer, while regulations would be the complete owner's manual.

The Junior Regulator's Role?

Of course, one partial answer to the problem would be to allow civil servants a greater role in the bill-drafting process in order to minimize those nasty implementation problems down the road. But that's a pretty unpopular idea, particularly among the industry.

Case in point: We recently were introduced to the term *junior regulator* through a *BestWeek* interview with a representative from the Independent Insurance Agents and Brokers. The producers' rep was lamenting the fact that these junior regulators, as he characterized them, were permitted to draft model legislation that state legislatures frequently failed to pass.

Still confused regarding the curious term, we learned more when the interviewer herself began editorializing:

> I want to point out to you your argument is right on with what I've heard others say, that these junior regulators get out there and you know, very good intentions, they work very hard, but the industry is concerned. These people aren't appointed by any governor. They're not elected. Who are they?

So, now we finally get it. *Junior regulators* are the technical experts who have devoted their careers to regulating the insurance industry and protecting consumers. Thus, we can only assume that *senior regulators* must be political appointees who often have limited insurance expertise, no regulatory training, and a proclivity to move on to high-paying industry jobs within a few short years.

Something is seriously amiss when those with the most expertise and experience are considered *junior* members of the regulatory community, not fit to draft laws or promulgate regulations. George Orwell must be smiling.

— W.C.

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AUGUST 12-14, 2007 HILTON PITTSBURGH

Fill out and mail to IRES: 12710 Pflumm Rd, Suite 200, Olathe, KS 66062

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Yes! Sign me up for the IRES Career Development Seminar.
My check payable to IRES is enclosed.

Name

Title First name for Badge

Insurance department or organization

Your mailing address Indicate: ☐ Home ☐ Business

City, State, ZIP

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Seminar Fees

(includes lunch, cont. breakfast and snack breaks for both days)

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- ☐ IRES Member (regulator)............. $320
- ☐ Industry Sustaining Member......... $520
- ☐ Non-Member Regulator............... $460
- ☐ Retired IRES Member.................. $125
- ☐ Industry, Non-Sustaining Member............................. $805
- ☐ Student Sustaining Member............ $80
- ☐ Spouse/guest meal fee.................. $80

PAID Spouse/Guest name

Hotel Rooms: You must book your hotel room directly with the Hilton Pittsburgh. The room rate for IRES attendees is $139 per night for single-double rooms. Call group reservations at 800-445-8667 or 412-391-4600. The IRES convention rate is available until July 20, 2007 and on a space-available basis thereafter. Our room block often is sold out by early June, so guests are advised to call early to book rooms. See the hotel's web site at www.hilton.com/en/hi/groups/personalized/pitphhh_ire/index.jhtml to book a room online.

If registering after July 20, add $40.00. No registration is guaranteed until payment is received by IRES.

A $25 cancellation fee will be assessed if canceling for any reason.

SPECIAL NEEDS: If you have special needs addressed by the Americans with Disabilities Act, please notify us at 913-768-4700 at least five working days before the seminar. The hotel's facilities comply with all ADA requirements.

SPECIAL DIETS: If you have special dietary needs, please circle: Diabetic Kosher Low salt Vegetarian

CANCELLATIONS AND REFUNDS

Your registration fee minus a $25 cancellation fee can be refunded if we receive written notice before July 20, 2007. No refunds will be given after that date. However, your registration fee may be transferred to another qualifying registrant. Refund checks will be processed after Sept. 1, 2007.

Seating for all events is limited. IRES reserves the right to decline registration for late registrants due to seating limitations.

Insurance Regulatory Examiners Society ™

Call for more details: 913-768-4700. Or see IRES web site: www.go-ires.org

BULLETIN BOARD

√ If you'd like to be on a panel, or put one together, at the IRES CDS in Pittsburgh next August, NOW is the time to let us know. Call IRES at 913-768-4700 and leave a message with David or Susan.

√ Want to run for the IRES Board of Directors? Now is also the time for that. Call the IRES office, or send an e-mail to ireshq@swbell.net. See details on page 3.

√ The all-new and revamped IRES Web site is nearly complete. You'll see it soon at www.go-ires.org. See: President's Column, page 2.

√ Coming up: The IRES Foundation's Market Regulation School. Story on page 15.

In the next REGULATOR:

Special IRES 20th Anniversary Issue

BULLETIN BOARD items must be no more than 75 words, and must be accompanied by the sender's name, e-mail address and phone contact information. Submit plain, unformatted text without special font stylings, underlined hyperlinks or special margins and headings. A submission will be posted in the next edition of *The Regulator* as well as on the IRES Web site.

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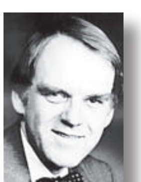

Consumer advocate Bob Hunter wonders what states are doing about "excess" property-casualty profits? See story, page 1.

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