



iiabw

Independent Insurance Agents
& Brokers of Washington

SUMMER 2012

BIG I Washington

Big I Washington is a publication of the Independent Insurance Agents & Brokers of Washington

A close-up photograph of a man wearing a yellow hard hat and a light blue checkered shirt. He is smiling and looking towards the camera while holding a large sheet of white paper with blueprints. The background shows the wooden frame of a building under construction.

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IIABW President

DARREN McEUIN



Strength in Numbers

I was part of a group of IIABW members who traveled to Washington D.C. in April to meet with our state's Congressional delegation to discuss issues of importance to independent agents:

- Streamlining the process of licensing nonresident agents to make it easier to write insurance in other states, while keeping the Federal Government out of insurance regulation.
- Preserving consumer access to agents in health insurance by excluding agent compensation from the Medical Loss Ratio spending caps.
- Reforming the national flood program for its long-term solvency by reducing subsidies, dealing with repetitive loss properties and modernizing the coverages.

Our association's political influence is a good example of how independent agents from throughout the country can band together to be a powerful force in our legislative process. As individuals we do not have much of a voice but collectively we are very powerful.

The Big I Pac pools smaller political contributions together to support elected officials and candidates at the state level, to advance IIABW core principles on agent-specific insurance industry and general business issues. InsurPac does the same for the U.S. Congress. I have personally contributed to each PAC again this year and encourage all members to join me in making an investment in our livelihood.

Government affairs is just one example of the power independent insurance agents have when we join together. Collectively, we have lost market share to captive agents and direct writing companies over the last few decades. Project CAP is one of the solutions to our problem with declining market share. Project CAP will help agencies compete with the deep pockets of captive carriers through a new internet-based marketing initiative. CAP uses our collective numbers and our carriers, as well as the Trusted Choice brand, to increase our online presence.

Research shows that almost 75% of consumers use the internet at some point when looking for auto insurance. We



know that social media is everywhere. There are over 845 million Face book users, 100 million LinkedIn users, and 380 million people on Twitter. As an industry, the independent agent distribution channel has been slow to react, partly because of the high cost and complexity of search engine optimization for such a fragmented distribution system. Our individualism is usually our strength but, for such a large initiative, it has held us back. I encourage you to read article in this issue of Big I Washington and go to www.projectcapmarketing.com for more information.

We are all individual business owners and producers who compete against each other on a daily basis. We are truly independent. But sometimes it is in our best interest to come together as one to further our cause in politics and to get a strategic advantage in the marketplace over our true competition in personal lines: direct writers and captives. I encourage you to support your political action committees and to, at a minimum, sign up for the free Bronze level of Project CAP.

Finally, I encourage you and others in your office to attend the Young Agents Annual Conference on June 14-15 at the Beautiful Davenport Hotel in Spokane. This event will be filled with networking events, CE seminars and sales training.

Darren McEuin, President
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MARKETING TO MILLENNIALS

By Michael Fleischner

The Millennial generation, born in the general timeframe of 1977 and 1998, is just beginning to enter the workforce—which means you need to start paying attention to them as potential young producers at your agency. Members of this 75 million person group are being raised at the most child-centric time in our history, and the impact to marketers is undeniable.

In general, it is said that this group displays a great deal of confidence. This could be the result of focus they receive from parents and high expectations placed upon them—not to mention their newfound independence with the advent of cell phones, the Internet and other electronic forms of communication. This is truly the first generation to grow up completely online, and as a result, the marketing mix used to target them needs to evolve. As you might expect, this group is technically literate like none other.

Socially, Millennials are different as well. They are typically team-oriented, banding together to date and socialize rather than pairing off. They work well in groups, preferring this to individual endeavors. They are also good at multitasking and were the ones studying while

listening to the radio or watching television—all the more reason to ensure that you utilize cross-media marketing and ensure consistency among your communications.

From an academic perspective, they are the group that was able to play a sport, attend school and engage in social endeavors all at once. Millennials believe in going green and supporting endeavors that are good for the environment.

When it comes to work, Millennials seem to expect structure. They acknowledge and respect positions and titles, and want a relationship with their boss. Millennials are in need of mentoring, and they'll respond well to the personal attention. When considering the management of Millennials, be mindful that they appreciate structure and stability.

Mentoring Millennials should be more formal, with set meetings and a more authoritative attitude on the mentor's part.

Now that you understand a little more about the target you are seeking to attract, consider the places they go for



information and the way they behave. Millennials are logging into their Twitter and Facebook accounts three to four times each day, sending instant messages to friends and uploading their videos to YouTube. Are you there?

- **Listen to the conversation.** Where many businesses are failing today is that they are not listening to the conversations that the Millennials are having about their products or their company. Sign up for Google Alerts, visit Technorati and see what individuals are blogging about.
- **Create accounts in Facebook, Twitter and other social media.** Put your name out there. Make sure that your company has a space among social media outlets. Keep in mind though not to be overly commercial. Millennials can see right through it. Rather, be genuine and let your prospective market understand what you're really about and what you stand for.
- **Communicate on a personal level.** Create a two-way dialogue with your audience. Give them an opportunity to speak to you. Whether you let them rate your products, share comments or share their experience with friends, providing a forum to socialize is essential.
- **Focus on consistent messaging.** Regardless of which media type you use (email marketing, direct mail, adwords, etc.), keep your messaging consistent. If you say one thing and do another, or change your messaging frequently, you will not be building the trust necessary to ensure lifetime customer value.
- **Be creative.** When your marketing is creative, it can very quickly gain momentum. With the advent of YouTube, Flickr and Delicious, messages are quickly shared and distributed. Don't force the issue. Rather, create something meaningful, fun and worth sharing. Before you know it, the Millennials will be sharing and distributing information about you and your brand.

Improving the effectiveness of your marketing to Millennials is no small undertaking. To be truly successful, you need to understand the social dependence these individuals have when communicating and the value they place on the opinion of others. Although much of Millennial marketing needs to happen online, don't lose track of some traditional media like direct mail. As much as marketing has changed, traditional media can still be effective—just make sure it has a social component.

Michael Fleischner is an Internet marketing expert and founder of MarketingScoop.com. He has more than 13 years of marketing experience and is the author of "SEO Made Simple: Strategies for Dominating the World's Largest Search Engine."



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CERTIFICATES OF INSURANCE RULE ADOPTED



The Office of the Insurance Commissioner has adopted a new rule which makes it illegal for a third party to pressure agents to issue a certificate of insurance that contains false information that is not consistent with the underlying policy. The rule will be effective on May 17, 2002.

IIABW has created a sample letter for member agents to share with third parties who are breaking this law and asking you to do so as well. Contact Dan Holst (dholst@wainsurance.org) or go to our member's only web site for the letter.

IIABW brought this issue to the OIC last year in hopes of creating a solution to the current situation in which agents are pressured to modify a certificate so their customers could win a bid and/or get paid for a job. This new rule reiterates that the agent can't issue a certificate with false information but it would also now makes it illegal for a general contractor, government entity, builder, etc. to even request one.

The new rule, WAC 284-30-355 (4), states "No person may knowingly demand or require an insurer, insurance producer, surplus line broker, or policyholder to issue a certificate that contains any false or misleading information or that purports to alter, amend, or extend the coverage provided by the insurance policy."

NEW SECTION

WAC 284-30-355 Certificates of insurance. (1) The following definitions apply to this section.

(a) "Certificate" or "certificate of insurance" means any document, without regard to title or description, that is issued by an insurer, insurance producer, or surplus line broker as evidence of property or casualty insurance coverage. Certificate or certificate of insurance as used in this section does not include an insurance policy, insurance binder, an automobile insurance identification or information card, or a certificate issued to a person or entity that has purchased coverage under a group master policy.

(b) "Certificate holder" means any person, other than a policyholder, that requests, obtains, or possesses a certificate.

(c) "Property" means the insurance coverages described in RCW 48.11.040.

(d) "Casualty" means the insurance coverages described in RCW 48.11.070.

(e) "Insurance binder" means a temporary document that serves as evidence of insurance until the insurance policy is issued.

(f) "Insurance policy" means the executed insurance policy issued to the named insured as part of an insurance transaction as defined in RCW 48.01.060.

(2) This section applies to all:

(a) Certificate holders, policyholders, insurers, insurance producers, surplus line brokers; and

(b) Certificates issued as evidence of insurance coverage for risks located in this state without regard to where a certificate holder, policyholder, insurer, insurance producer, or surplus line broker is located.

(3)(a) If a certificate holder is named within the policy or endorsement and the policy or endorsement requires notice to

be provided to the certificate holder, a certificate holder only possesses a right to notice of:

(i) Cancellation;
(ii) Nonrenewal; or
(iii) A material change, or any similar notice concerning the insurance policy.

(b) The insurance policy governs the terms and conditions of the notice, including the timing of the notice.

(4) No person may knowingly demand or require an insurer, insurance producer, surplus line broker, or policyholder to issue a certificate that contains any false or misleading information or that purports to alter, amend, or extend the coverage provided by the insurance policy.

(5) No person may knowingly issue or circulate a certificate that contains any false or misleading information or that purports [2] OTS-4608.3 to alter, amend, or extend the coverage provided by the insurance policy.

(6) No person may issue, demand, or require, either in addition to or in lieu of a certificate, a document that contains any false or misleading information or that purports to alter, amend, or extend the coverage provided by the insurance policy.

(7)(a) Nothing in this section affects or excuses a person's obligation to obtain an insurance policy for the benefit of a third party that conforms to specific contractual or legal requirements.

(b) Notwithstanding any requirement, term, or condition of any contract, the insurance coverage provided by the referenced policy of insurance is subject to all the terms, exclusions, and conditions of the policy. A certificate of insurance does not confer new or additional rights beyond what the referenced policy of insurance provides.

IIABW's New Logo >>>



IIABW has changed our corporate logo after 25 years to bring it in line with our national association. The Independent Insurance Agents and Brokers of America changed its logo last year to connect it more closely with our national marketing brand, Trusted Choice.

IIABW continues to encourage our member agents to use the Trusted Choice logo for their own marketing materials including web site, facebook page, business cards, advertising, etc.



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INDEPENDENT AGENTS UNITE TO RECAPTURE MARKET SHARE

In an age when many lament the intrepid rise of direct writers and their effect on personal lines insurance, the Big I and its strategic partners have stepped up to refocus attention on this critical market and reclaim the independent agent's rightful share. Created through an alliance of the IIABA, Trusted Choice® and key insurance carriers, Project CAP is an industry-wide initiative with the vision and resources to elevate the independent agent's online presence and digital marketing expertise.

Not long ago, independent agents owned a majority share of the personal lines insurance market. Today, we barely have 1/3 of the market share. And every point of that personal lines market adds up to about \$2.8 billion in written premium – or roughly \$300 million in agency commissions. That's our market. That's our point. We want the independent channel to get that point and more.”

Most would agree that the independent channel still offers insurance consumers more choices, better service and greater advocacy than direct writers or captive agent carriers. But the way in which consumers seek out and evaluate options has changed. The IA channel hasn't changed quickly enough to keep up. 75% of today's personal auto insurance shoppers begin their search for new coverage online, but independent agents are virtually invisible. We're not showing up where customers are looking, so we're missing the chance to tell our story.

That's where Project CAP comes in.”

Guided by a senior team of specialists with both insurance industry and Internet marketing experience, Project CAP has established a two-pronged strategy to help independent agencies leverage digital marketing, and help consumers find and connect with independent agents. To help drive this strategy, the organization is rallying all 22,000 IIABA member agencies to “join the cause” and participate in two key initiatives:

- A new Consumer Portal that allows online insurance shoppers to compare coverage options from multiple carriers and connect with a local independent agent.
- A comprehensive Industry Website that provides independent agencies with all of the digital marketing technology, tools, training and services they need to attract and relate to today's online consumer.

Last month, the organization opened enrollment for its much-anticipated agency marketing programs through the new industry website at www.projectcapmarketing.com. Developed by some of the best marketing minds in the industry, this new resource provides a broad selection of digital marketing products and services for every independent agency – regardless of size, experience or expertise. Current agency offerings range from introductory and advanced self-directed packages to



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fully customized programs with accompanying professional services. In fact, the Platinum and Diamond marketing programs offer a level of service equivalent to hiring a full-time marketing agency, but at a fraction of the cost.

Perhaps best of all, every Project CAP agency marketing program also includes early enrollment for participation in the new consumer portal – and the basic Bronze package is available to IIABA member agencies free of charge.

Scheduled for launch later this year, the Project CAP consumer portal will address the insurance consumer's collective desire for knowledge, choice, and comprehensive service. While some other online options may also offer consumer research and rate comparisons, none present the unique combination of benefits that will be available here. Aside from the ability to evaluate dozens of insurance companies, the opportunity to select an independent agent who will advocate on their behalf is an advantage most shoppers will find irresistible.

Every agency participating in the new Consumer Portal will receive an online profile visible to all visitors to showcase your key producers and all the benefits they provide. Whether consumers choose to request an online quote or not, they'll always have the option of reaching out to your agency for assistance in determining or completing the right coverage.

In its effort to provide something for every IIABA agency, Project CAP has also become the industry source for the new Trusted Choice® Mobile App. Designed to work on Android and I phones (with Blackberry versions coming soon), this amazing resource allows consumers to find a local Trusted Choice® agent, create their home inventory, document an accident, ask a question and read relevant headlines – all from their smartphone, tablet or other mobile device.

Since digital marketing is all about building relationships that build brands, this app can be customized with an agency's color scheme and logo. It's also integrated with both Project CAP and IIABA online systems to provide participating agencies with single sign-on and easy account administration.

To encourage adoption and use, the new Trusted Choice® Mobile App is available as an added component of most Project CAP agency marketing packages or separately for a nominal monthly fee.

According to Project CAP, all of its agency programs, products and services are not only designed to employ the best practices of digital marketing, but to deliver real results in the real world specifically for independent insurance agents. But these programs are just part of a much larger initiative to reunite the independent channel as one collective voice and one Trusted Choice®.

In summary, the Big I believes that if every agency

will raise its hand and join the cause, then the independent channel will raise its presence with online consumers and return its agents to a position of leadership in personal lines. Today's search results rankings are all based on the number of connections each entity enjoys. With our 22,000 agencies all pointing to the portal – and each other – the Big I can't help but dominate its category.

To help spread the word, Project CAP has established an informational website at www.projectcap.info and also recently launched its own page on Facebook. IIABA association members who would like to receive regular updates on any of the above initiatives may sign up through either of these resources.



Independent agents who would like more information about Project CAP agency marketing programs are invited to call 855-372-0070, email info@projectcapmarketing.com or visit www.projectcapmarketing.com.



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Contractual Liability vs. Additional Insured Status



Q.

"I have had discussions with agents who believe that the wording in the ISO CGL policy pertaining to an "insured contract" covers the requirement to add additional insured status to a policy when required in a subcontractor's agreement. They attach a copy of that wording in place of the additional insured endorsement. Is this correct? If so, why are AI endorsements even needed?"

A.

Saying that equating contractual liability coverage to additional insured status is a "stretch" could be the understatement of the year. In our opinion, anyone not providing true additional insured status via endorsement is opening him/herself up to a significant E&O exposure. Below are comments from the VU faculty on this premise.

Faculty Response

It's more than a stretch. The contractual liability coverage exception to the contractual liability exclusion provides coverage to the insured if the insured's breach of an "insured contract" causes bodily injury or property damage. It does not make the other party to the contract an insured, nor does it give that party any right except as a claimant seeking indemnity.

Faculty Response

The answer is no. Subparagraph f. of the definition of an "insured contract" does not give additional insured status to the individual involved. What it does is create the undefined status of "uninsured indemnitee" for the individual that is being held harmless by the named insured in the "insured contract," but has not been added as an additional insured.

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* Available coverages and markets may vary dependent upon risk characteristics.

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PREMIER MARINE

What is the problem or difference, you may ask. The answer is defense costs. All insureds under the CGL have their defense costs outside limits. The “uninsured indemnitee” has his or her defense costs inside limits. Since the 1996 edition of the CGL, it has stated as such. Just refer to the exclusions section of Coverage A in the CGL, exclusion b. Contractual Liability, subparagraph (2). In the fifth line of the subparagraph begin with the sentence that starts, “Solely for the purposes....”

This verbage was added in the 1996 edition of the CGL for clarity that any defense costs to someone “other than an insured” (beginning line 9 of the subparagraph), would be inside the limits of the insurance. The person who is “other than an insured” is the uninsured indemnitee. By the way, this term is not defined nor even found in the CGL

Faculty Response

Paragraph F. adds as an “insured contract,” any contract in which the insured assumes the tort liability of another party for BI or PD. This provides protection for an insured who assumes the liability of a third party in a contract (i.e., hold harmless clauses and indemnity agreements). If the third party wants to be an additional insured, they want to be a party to your insured’s policy. They need to be added by endorsement. Additional insureds and indemnitees are not the same.

Faculty Response

No it does not! Contractual liability provides for the assumption of another party’s tort liability if the loss is covered by the GL policy. The requirement to add an additional insured is not the type of action that is covered by contractual liability. That practice sounds like a great way to lose an E&O claim as well as a client.

Faculty Response

These agents are wrong. The complexity of the situation is outlined, in part, in this article from the public area of the International Risk Management Institute:
<http://www.irmi.com/Expert/Articles/2006/Stanovich03.aspx>

Faculty Response

The limited contractual liability coverage in the CGL won’t cut it when AI status is needed. Even full contractual liability coverage may be inadequate. Here’s an article from CGL guru Don Malecki on this from the archives of *Rough Notes* magazine:
<http://www.roughnotes.com/rnmagazine/2003/sept03/09p70.htm>

More information:

- <http://www.contractormag.com/articles/column.cfm?columnid=362>
- http://www.constructionweblinks.com/Resources/Industry_Reports_Newsletters/May_24_2004/insured.html

Faculty Response

If you are relying solely on contractual liability coverage, even the provision that says it applies to the assumption of tort liability, you’re opening yourself up to claims that an event is not an “occurrence” under the policy if it consists of a pure breach of contract shrouded in tort. This is a real danger in many legal jurisdictions, as discussed in this article:

<http://www.iiaba.net/VU/Lib/Ins/CL/CGL/WilsonNoOccurrence.htm>

When the other party is given additional insured status, this becomes a non-issue since you aren’t relying exclusively on contractual risk transfer.

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Social Media and Online Marketing –



What's the Real Deal?

By Jason Hoeppner, CIC

Often when I speak with an agency owner, COO, or marketing manager about social media, I get asked about the results other agencies are seeing, in particular their return on investment (*ROI*). As a result of lacking good solid data to provide an answer, I decided to put together this survey to learn what industry people were doing in online marketing with social media. I'm not making any recommendations in this report, just presenting the results for you to use as you see fit. With that being said, the following three findings were the most eye-opening to me:

- More than 60% of those of you who responded are not measuring the return on investment of your current marketing efforts! So until you do, why ask about social media's ROI? (OK, that was an editorial comment.)
- Close to half of respondents who are not using social media will start to do so within a year.
- Of those who responded, a bit more than 60% do not have a coordinated marketing plan of any kind.

Our survey received responses from 293 agencies across 41 states and Canada. Just about 60% of respondents identified themselves as agency principals or management. Another 40% or so said they worked in IT, marketing, or sales. Throughout the summary that follows, the term *nontraditional marketing* encompasses both social media and online marketing.

As you can see below, the three most popular traditional marketing methods (used by approximately half the respondents) are the Yellow Pages, direct mail, and local newspapers.

Respondents' most-used online marketing method, far and away, is their website. After that, in order, come Facebook, LinkedIn, and e-mail blasts.

Across all agency sizes, respondents' Facebook pages have an average of just over 200 *Likes*; the average Twitter account has 440 followers. Respondents in the \$2.5MM-\$5MM and \$5MM-\$10MM revenue ranges are the most active — with the most Likes, Followers, and Contacts — in the various social-media platforms. Those in the \$25MM+ revenue range (which may skew toward large regionals) were also much more active in on-line

marketing. Additionally, agencies in the \$1MM and lower revenue range showed a greater usage of LinkedIn and Twitter. Close to the majority of respondents indicated that they maintain their platforms internally, including the creation of the content they post on them.

Of those who responded, about 40% have a coordinated plan for traditional and/or nontraditional marketing. About 60% do not include nontraditional channels in a coordinated marketing plan.

Almost 70% of the agency respondents indicated that they do not have a formal or documented social media plan, either as a part of an overall marketing plan or as a stand-alone document. 32% of the agencies did say they have a documented social media plan in place. Almost 50% of respondents who do not currently use social media plan to begin doing so within a year and a total two-thirds will eventually do so.

Among those respondents who use social media in their daily operations, Facebook and LinkedIn are the favorites by far, with Twitter coming in a distant third. Just over a quarter of respondents do not use online marketing methods.

Nearly every respondent reported having a website, close to two thirds have a Facebook page, just under half use LinkedIn, and approximately a third use Twitter, a website blog, and Google Places.

In addition, 13% indicated that they use some sort of



location-based platform, and about 23% use a third-party sales or marketing platform (not their primary management system). In both traditional and nontraditional marketing, respondents said that “New Leads” and “Brand Recognition” were their primary goals, with “Relationship Building” cited third.

Well more than half the respondents do not measure the results of their marketing, whether traditional or nontraditional. Of those who do track it, use of a sales-management or agency-management system and use of a spreadsheet or similar document was fairly even. And although 64% of the respondents said that they do not measure the return on investment of their marketing, one respondent stated: “We measure it (ROI) by growth, but also in the quality of client we are getting, what type of call-ins and referrals we are generating. Our marketing is for branding purposes; we use our sales force to sell

For respondents who use social media, Twitter and Facebook are the most frequently updated sites, LinkedIn and Google Places Profiles, the least. About 65% of the respondents said they updated their Facebook Pages at least weekly (Note: this result does contain all respondents, not just agencies.)

This survey was created, evaluated, and the report written by Jason Hoeppner, CIC, an independent agency consultant at B. H. Burke & Co., Inc. of Westbrook, CT. You can learn more about us at <http://www.bhbco.com>.

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Courses and Bottom-Line Benefits

AAI 81: Foundations of Insurance Production—Segments:

- A—Principles of Insurance: Insurance and the Legal System, Risk Management and the Producer, and Sales and Account Development
- B—Personal Insurance: Homeowners Insurance and Personal Auto, Other Personal Lines, and Personal Financial Planning
- C—Commercial Property Insurance: Commercial Property, Business Income and Extra Expense, and Commercial Inland Marine Insurance

AAI 82: Multiple-Lines Insurance Production—Segments:

- A—Commercial Liability Insurance: Commercial General Liability Insurance, Commercial Auto, and Garage and Motor Carrier Insurance
- B—Other Commercial Insurance: Commercial Crime, Business-Owners, Other Commercial Coverages, and Workers Compensation and Employers Liability
- C—Specialized Insurance and Bonds: Specialty Property, Excess and Umbrella, Ocean Marine and Aviation Insurance, and Surety Bonds

AAI 83: Agency Operations and Sales Management—Segments:

- A—Principles of Agency Management: Agency Formation/Environment, Organizational Management, Agency Sales Management, and Personal Production Plans
- B—The Insurance Product Environment: Producer-Insurer Relationships, Agency Image, Agency Growth/Customer Communications, and Market Segmentation/Target Marketing
- C—Agency Management Tools and Processes: Agency Information Technology, Management of Customer Services, Financial Management, and Legal and Ethical Responsibilities

Course Level: Intermediate

Exams: Nine total. A 30-question exam is given at the end of each class.

CE Credit: Each AAI Seminar is approved for 8 CE credits / 1 ethics credit

Completer Info: Passing the required exams earns the designation.

We Recommend AAI for: Agents/brokers, agency principals, and customer service representatives

Sequence: We recommend taking AAI 81 before AAI 82. AAI 83 can be taken at any time.

Waiver Info: See our Web site for full details.



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▶ IIABW 2012 Schedule for AAI Classes

To register for a seminar, see registration form on the back of this flyer.
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AAI 81

Segment A- Feb 28 **Bellevue**
Segment B- April 24 **Bellevue**
Segment C- June 5 **Bellevue**

AAI 82

Segment A- Sept. 11 **Bellevue**
Segment B- Nov. 14 **Spokane**
Segment C- March 14 **Spokane**

AAI 83

Segment A- May 9 **Spokane**
Segment B- July 11 **Spokane**
Segment C- Sept 12 **Spokane**

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2010 P & C Market Share

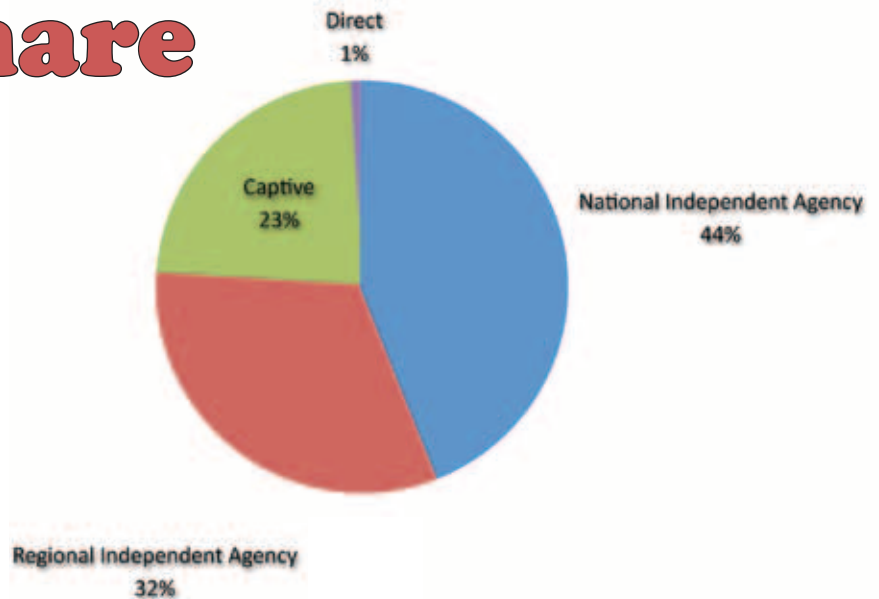
For the past 15 years, A.M. Best Co. has provided the Big I with year-end industry market share data to make an assessment of the state of the independent agency system. This is the most accurate picture of changes with P & C insurance distribution because it separates the three main distribution systems: independent agency, captive agency and direct response carriers – even separating individual company data when they use more than one distribution source.

Commercial Lines

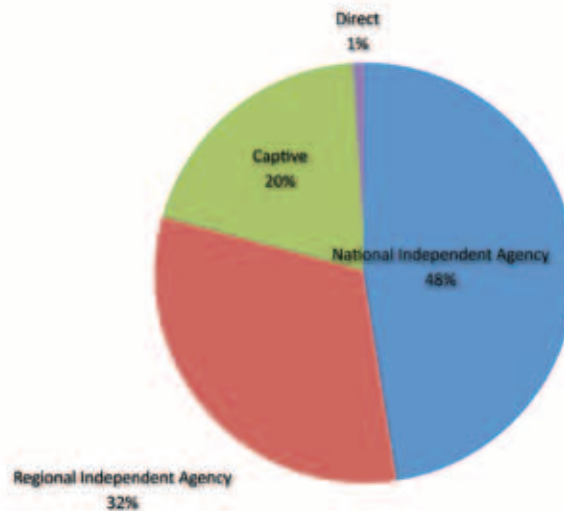
On the commercial lines side, the most prominent challenge facing independent agents is a shrinking marketplace. Total commercial premiums through all channels shrank by more than \$3 billion nationally. Since independent agents control three fourth of this market in Washington state, they felt much of that loss.

However, the study noted signs of opportunity in the commercial market. When weighing performance by channel, the study shows that exclusive agencies have lost slightly more in premiums relative to their share of the market, and independent agents' share of the market actually is up slightly over 2008 levels. Seven states saw total independent agent share of the commercial market increase more than one full percentage point in 2010.

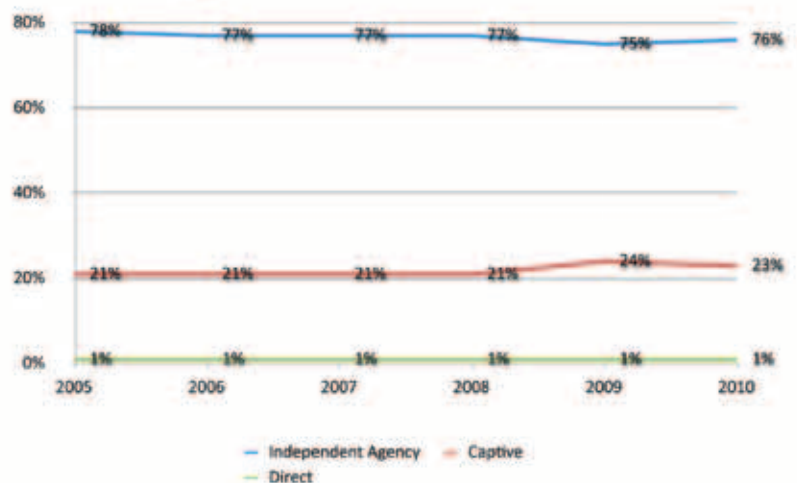
2009 WA Commercial Lines Market Share



2010 WA Commercial Lines Market Share



Washington Commercial Lines Market Share



Personal Lines

In the major consumer battleground of private-passenger auto insurance, the success of direct advertising combined with the ease of online purchasing helped direct response firms grow premiums nationally by \$1.7 billion in 2010. By comparison, regional independent agent carriers increased their premium base by \$700 million, while captive agents and national independent agency carriers both saw premiums decrease.

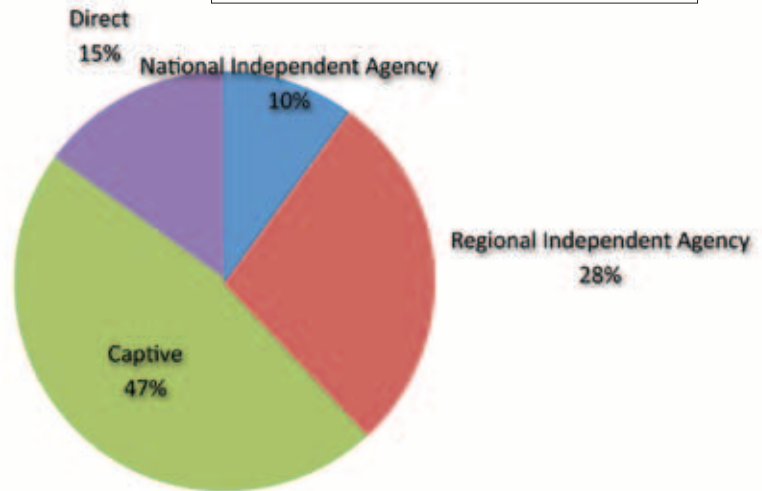
This is an improvement for more independent agent carriers over the prior year: In 2009, premiums decreased for all channels except for direct response, which added \$2.3 billion.

The success of GEICO and other direct carriers over the last decade is unmistakable. In 2010, fully 1 in every 6 dollars in personal auto premiums generated was through the direct response channel. The direct share is now 17% of the market, and each percentage point is worth \$1.6 billion in premium revenue.

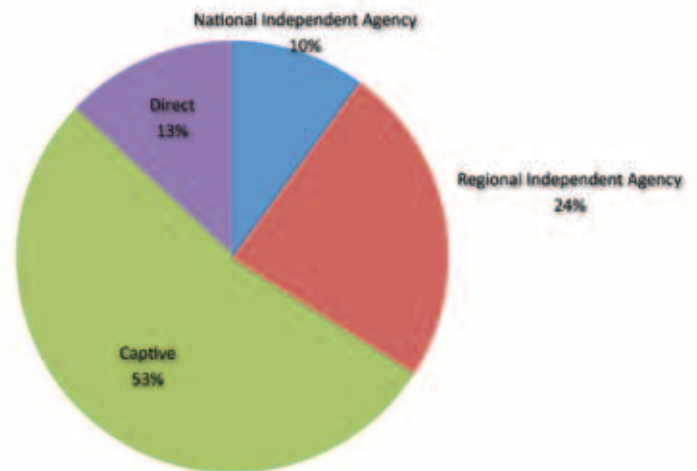
The direct response channel is growing steadily in personal lines, taking share away from the national agency writers, as well as captive agency carriers. Here is some national data:

- Captive agent carriers continue to hold a consistent share of just over half the market (54%) but this share has declined by over 5 points since 1995.
- Direct response writers are steadily increasing share, up 5 points since 1995.
- National Independent Agent companies, however, continue to face declining share (down 5 percentage points to 10.3% since 1995).

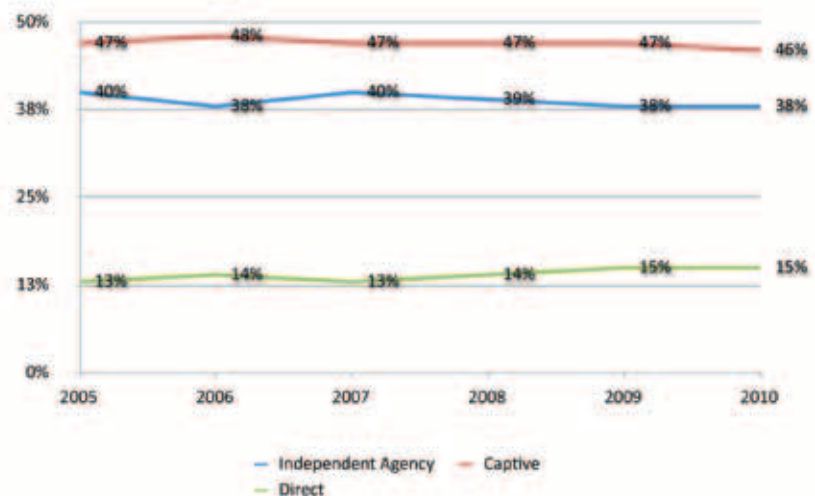
2009 WA Personal Lines Market Share

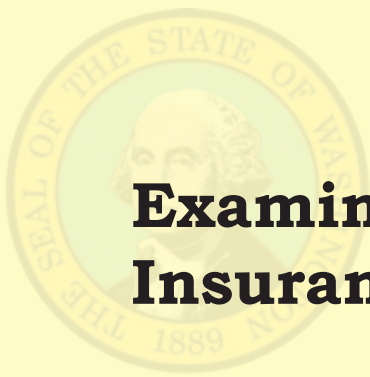


2010 WA Personal Lines Market Share



Washington Personal Lines Market Share





Examinations by the Insurance Commissioners' Office

By Mary Tunis, CPA, CFE, Financial Examiner
Washington State Office of the Insurance Commissioner

Washington State has over 33,000 licensed resident insurance Producers and Brokers, many Affiliated to the 4,000-plus insurance agencies operating throughout our state. That's quite an impressive number! Our state has consistently been on the forefront of insurance regulation, and is one of the few states with a financial examination program to verify licensees are "playing by the rules" and following regulatory requirements for engaging in the business of insurance. RCW 48.03.020 grants us the authority to examine your records.

How You are Selected for Examination

Licensees are generally selected for examination in accordance with the annual examination plan objectives. There are many criteria taken into consideration. Agency location, size, and time since last examination are some of the criteria we use. A randomizing factor may also be applied. If your agency has been in operation for several years and never been examined before, it may have a greater chance of being selected. Substantial changes in ownership structure, business operations, or significant web or media advertising are also part of the plan. A regulatory change or interest in a business practice or particular aspect of the marketplace may also trigger an exam. Consumer complaints to the OIC or cancellation of an Appointment by an Insurer for cause may also trigger an examination. However, most exams are not for cause, and being selected does not mean there is a problem.

How the Examination Process Works/What to Expect

Most examination assignments will follow a standard process that includes five (5) phases.

1. Notification. Your Agency receives an official

letter indicating the Agency/Licensee has been selected for an exam, as well as the examiner's name and contact information, and a *target* date for the examiner to arrive. A fact sheet about the process is included. If the target date is not convenient, please let us know. Several agencies have indicated that a letter from the OIC prompted them to cancel a vacation or miss an important event. *That is absolutely not necessary.* Examiners may be working several open assignments simultaneously, so we can be flexible on the timing.

2. Pre-exam research. The examiner will send an advance copy of our interview questionnaire and arrange a phone conference approximately 1-2 weeks before the on-site work. The questionnaire helps us to become familiar with your agency's business operation, so that we can better plan for the on-site work. The phone conference may take up to one hour. Some agencies find it helpful to include a member of the production team and the accounting manager or bookkeeper on the call to help answer some of the questions and discuss how you can prepare for the exam.
3. On-site fieldwork. Most examinations are targeted to areas of greatest concern and require about 2-3 days onsite. Although the examiner reviews production records, bank statements, and other records, our process is limited to sampling some of the insurance transactions and performing some analytical review of the accounts. We understand that these are very challenging economic times; many agencies are lean staffed and facing a lot of competing demands for your time. The examiner will work as rapidly and

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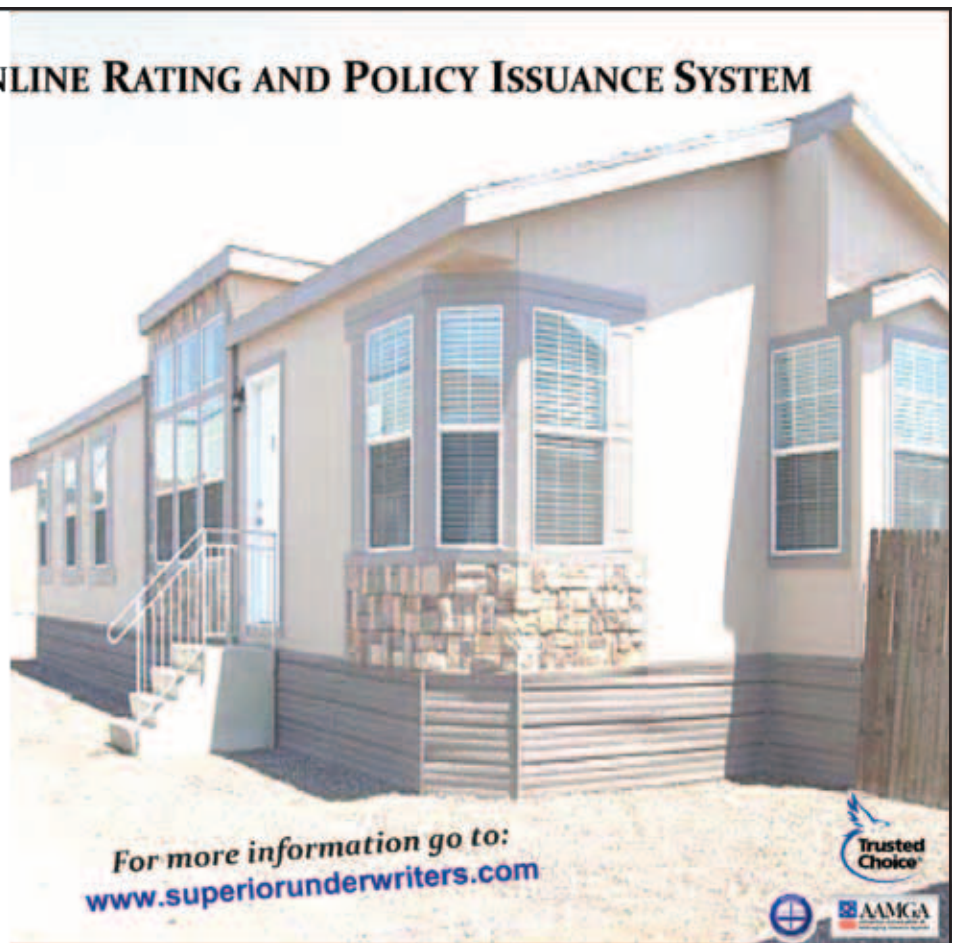
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efficiently as possible to complete the assignment. If the records are organized and complete, the assignment often requires less time. If instances of non-compliance or concern are identified, an accounting review form is prepared for you to sign, and educational instruction is provided to assist you in coming into compliance.

4. Report preparation. Any open issues requiring more research or contact with other entities to acquire information are completed. The examiner prepares a draft report summarizing the work performed, documenting any non-compliance findings, and specifying any required action you need to implement. [There should be no surprises in the report, because the accounting review form should have been provided to you before the report is written.] The summary section at the end of the report states whether the examination is considered to be an “acceptable” or “unacceptable” exam.
5. Exam completion and report issuance. All examination reports are reviewed by OIC management prior to issuance. Our goal is to issue the final report within a couple of weeks of completing the assignment, in order to provide timely feedback. If there are no serious findings, the

examination process is terminated and the report is issued. *Most examinations do not result in serious findings.* In rare circumstances our representative may refer the Licensee for consideration of administrative action.

Records You Will Need

RCW 48.17.470 and RCW 48.17.480 require you to maintain records of the insurance contracts procured and the monies received and paid, including return premiums, for a period of five years. The following are examples of records the examiner may ask to look at:

- Commission statements
- Inter-agency billing statements
- Check registers and cleared checks
- Bank statements and bank reconciliations
- Cash receipts and detailed (itemized) bank deposits
- Accounts receivable and accounts payable (insurer) records
- General ledgers
- Financial reports, such as balance sheets and income statements
- Policy files
- Fee disclosure forms



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- Loan agreements
- Carrier agreements
- Any other relevant information to verify that the consumer's interests are protected.

Are You "In Trust" and How that is Determined

Licensees examined run the gamut of true captive agencies with no separate premium account to large independent agencies writing primarily surplus line business. Financial record keeping systems are diverse and functionality runs from very simple to fully integrated agency management systems. The Insurance Commissioner's Office has not adopted an official "Trust" formula to test an agency's separate premium account, because we have not been able to come up with one uniform calculation that could be applied to every agency and yield consistent and accurate results. State law does not currently prescribe the accounting methods your agency applies to maintain the financial statements. Some agencies advance bill renewals several months in advance and carry a large volume of accounts receivable. Other agencies may apply virtually all of the consumer funds received on the carriers' website. It would be an overly-simplistic approach, we feel, to adopt one formula without establishing standards that specified uniform accounting methods.

However, the general concept of using a calculation is valid. That helps demonstrate that the monies actually received and due to be received were conserved and are available to pay the carrier to secure insurance for the consumer. The examiner will generally identify the Balance Sheet accounts directly related to insurance transactions and compare the Assets to the Liabilities. The Assets should equal or exceed the Liabilities. The Balance Sheet accounts used include the separate premium account(s), accounts receivable, carrier/inter-agency payables and premium taxes payable (surplus line). Adjustments are often made by the examiner to the calculation for non-insurance transactions identified in the accounts, non-collectible accounts receivable, and timing differences in the agency's financial records. A bank deposit account must meet the requirements of WAC 284-12-080(3) to be included as a "trust" asset.

Current Issues of Concern to the OIC include:

1. Separate premium account anomalies.
 - Premium money deposited into the operating account.
 - Account improperly named at the bank; can't distinguish from an operating account.
 - Pledging separate account as collateral to secure loans and/or operating lines of credit.

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- IRS liens (payroll and business taxes), WA state other agency liens, and garnishments coming out of the separate premium account. Many government agencies, including the IRS, understand that this has been a very challenging economic time and are willing to work out payment arrangements. It is important to engage in that dialog, when necessary, and keep making the payments agreed to. Separate premium accounts are not set up as true “trust” accounts at the bank, and that makes them especially vulnerable to being attached by third parties.
 - Depositing checks made payable to the carrier or the insured in the agency’s separate account. If the agency/licensee is not the payee on the check, it should not be deposited into the separate account, per WAC 284-12-080(6)(a).
 - Depositing the return premium and not refunding the gross amount due to the insured.
 - Advance billing customer renewals and removing the commission prior to the effective date of the policy. [Flat cancellation may require refunding commissions effectively spent.]
 - Significant bank fees coming out of the account and not being replenished from operating funds. Bank fees are an operating expense and the consumer’s money cannot be used to pay them. RCW 48.17.600(3) and WAC284-12-080(2)(a) permit maintaining additional funds in the account to pay bank charges and cover “contingencies.” Some agencies have changed their business practice to mitigate the risk of accepting a bad check by applying virtually all non-currency payments to the insurers’ website. [Processing checks as e-checks and also credit or debit card transactions into the carrier’s account rather than the agency’s account.] Other agencies are finding that it may be necessary to maintain additional funds in the account as a reserve to cover NSF payments. One sizeable bad check may create a significant amount of overdraft fees when multiple insurer sweeps fail and checks paid to insurers initially rejected for payment are re-presented multiple times.
 - Failing to issue receipts to consumers and/or depositing less than the amount received.
 - Exchanging currency and coin received to secure a money order. WAC284-12-080(6)(b) requires the Licensee to recognize taking custody of “cash” and to deposit these funds in the separate account.
2. Policy Fee Disclosure violations of RCW 48.17.270.
- Charging a policy fee when the agency-insurer agreement prohibits charging a fee, violating RCW 48.17.270(2).
 - Charging a policy fee without making any disclosure.
 - Making incomplete, non-compliant policy fee disclosure. If you charge policy fees, it is important to make sure the compensation disclosure form you use meets the requirements of RCW 48.17.270(3). The Insurance Commissioner’s website contains a sample form designed to meet all disclosure requirements at: http://www.insurance.wa.gov/agents_brokers/disclosure-form.shtml. If you chose to use your own form, OIC Compliance Analyst Cheryl Penn can review it for. You can reach Cheryl Penn at (360) 725-7153 or CherylP@oic.wa.gov
3. Surplus Line Premium Tax filing anomalies:
The Commissioner’s Office conducted a premium tax variance analysis project during the summer of 2011 to identify surplus line policies not filed and associated premium taxes not paid for calendar years 2009 and 2010. We identified and collected over \$250,000, which went into the state’s general fund. RCW 48.15.130 and RCW 48.14.060(1) stipulate a mandatory total penalty of 20 percent. Filing these policies and paying the premium tax on time really protects your bottom line.
4. Producer Bond violations of RCW 48.17.250:
- Placing insurance with a non-appointed insurer without maintaining a bond.
 - Maintaining a bond in an insufficient amount. If your bond is less than \$100,000 -- the maximum amount that could be required by RCW 48.17.250(1) -- it is a good practice to run the math at the end of the year to verify that you are still in compliance.
5. Record keeping.
If the records made available to the examiner were not sufficient to perform a complete exam, you may be required to reconstruct them. This may include ordering deposit items and check copies from the bank.
- Your financial examination can be less stressful when you maintain the proper records. For questions about a requirement; please e-mail AskMike@oic.wa.gov or call Mary Tunis at (360) 725-7109. Consumers inquiries can be referred to either AskMike@oic.wa.gov or to the Office of Insurance Commissioner’s consumer hotline at (800) 562-6900.

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