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Avoiding E&O Claims From Catastrophes

Sponsored by the Big "I" Professional Liability Program and
Swiss Re Corporate Solutions

Webinar goals

- Provide historical statistics and background on catastrophes
- Help your agency understand more about:
 - Catastrophic exposures facing customers
 - Key coverage considerations regarding products you're selling
 - How your agency can reduce E&O exposure from them.
- Offer general agency E&O risk management guidance to assist in the avoidance and mitigation of E&O claims

Questions

- Dr. Robert Hartwig, CPCU – President of the Insurance Information Institute
 - Statistical overview of catastrophes
- Max J. Cohen – Partner at Lowe, Stein, Hoffman, Allweiss, and Hauver LLP
 - Key considerations with Wind, Flood, and Pollution coverages
- Nathaniel Bunck - Vice President and Claims Team Leader for Swiss Re Corporate Solutions
 - Focus on property loss and Business Interruption
- James Redeker – Vice President and Claims Expert for Swiss Re Corporate Solutions
 - Provide information on liability issues to consider
- David Hulcher – Assistant Vice President of Agency Professional Liability Risk Management
 - Offer general risk management recommendations to avoid E&O claims

Presenters

Please send questions to:

- Nathaniel Bunck at Nathaniel_Bunck@swissre.com
- Jim Redeker at James_Redeker@swissre.com
- Max Cohen at mcohen@lowestein.com
- David Hulcher at David.Hulcher@iiaba.net

For technical coverage questions, Big “I” Virtual University Experts stand ready to assist at:

<http://www.iiaba.net/VU/Experts/ExpertsMain.htm>



Avoiding E&O Claims from Catastrophes *Catastrophe Loss Overview*

**Big “I” Professional Liability Program &
Swiss Re Corporate Solutions**

July 21, 2011

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- **US Catastrophe Loss Update**
 - ◆ 2011: A Year for the Record Books

- **Spring 2011 Tornadoes & Other Severe Storms**
 - ◆ ITV , Contents Issues

- **Hurricane Risk**
 - ◆ Wind vs. Water

- **Flood Risk**
 - ◆ Standard Flooding
 - ◆ Levee Failure

- **Seismic Risk**
 - ◆ Earthquake Coverage Take-Up Rates
 - ◆ Nuclear Exposure (e.g., could Fukushima happen in the US?)



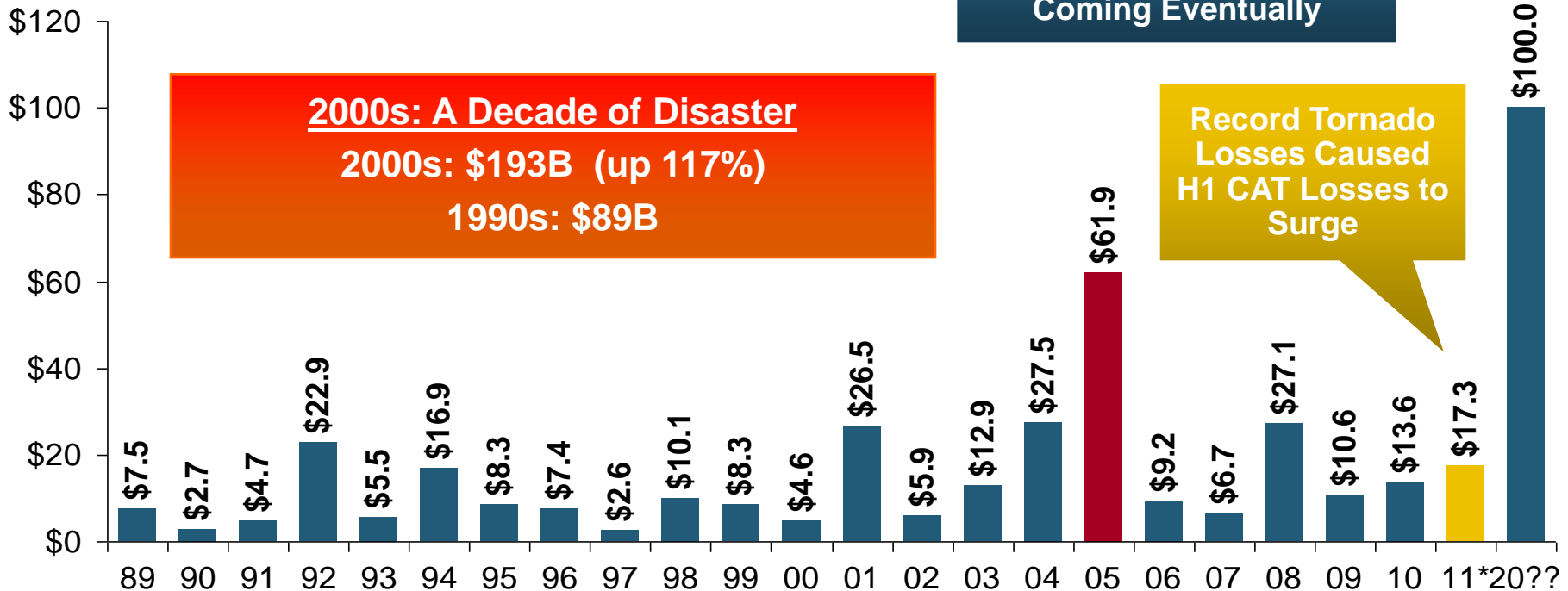
US Catastrophe Loss Update

**2011 Is a Year for the Record Books
But Is Part of a Longer-Term Trend**

Implies Potential E&O Exposure

US Insured Catastrophe Losses

(\$ Billions)



2000s: A Decade of Disaster
 2000s: \$193B (up 117%)
 1990s: \$89B

\$100 Billion CAT Year is Coming Eventually

Record Tornado Losses Caused H1 CAT Losses to Surge

First Half 2011 US CAT Losses Already Exceed Losses from All of 2010. Even Modest Hurricane Losses Will Make 2011 Among the Most Expensive Ever for CATs

*First half 2011.

Note: 2001 figure includes \$20.3B for 9/11 losses reported through 12/31/01. Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = \$12.2B.

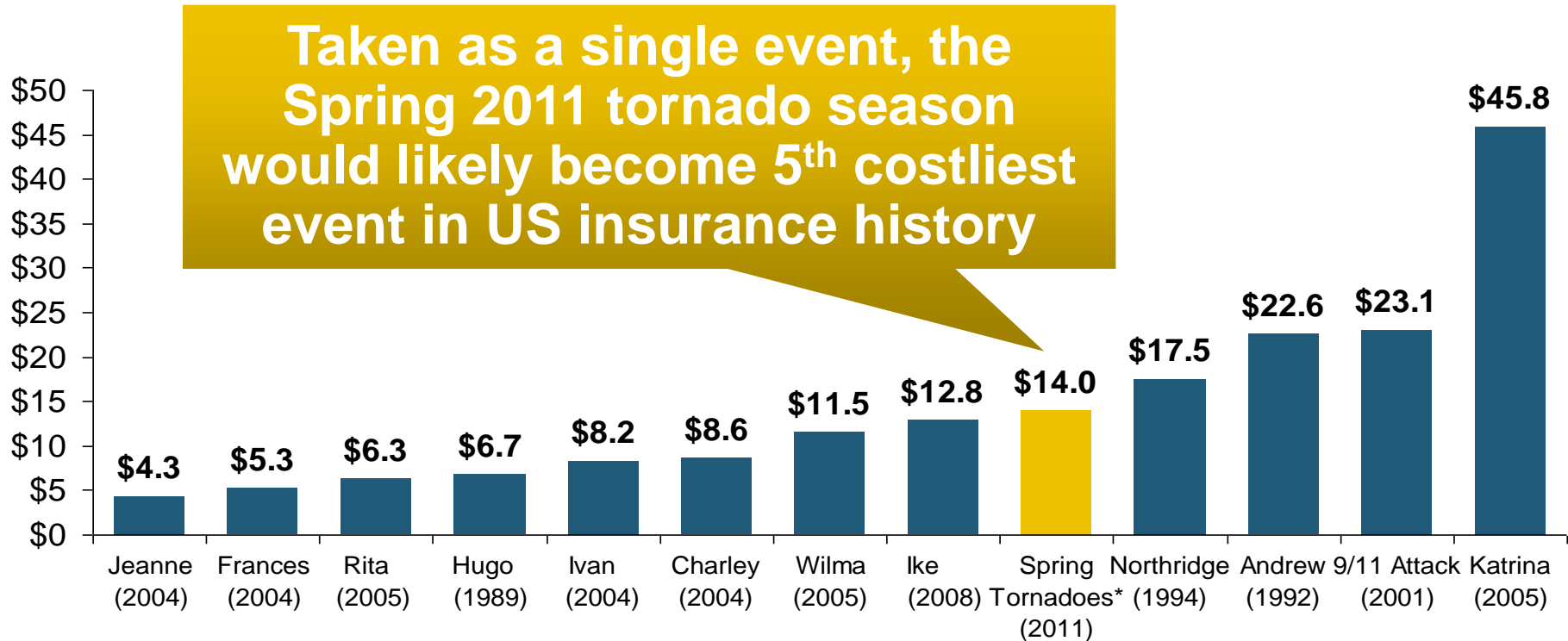
Sources: Property Claims Service/ISO; Insurance Information Institute.

Natural Disaster Losses in the United States: First 6 Months 2011

As of July 6, 2011	Number of Events	Fatalities	Estimated Overall Losses (US \$m)	Estimated Insured Losses (US \$m)
Severe Thunderstorm	43	593	23,573	16,350
Winter Storm	8	15	1,900	1,425
Flood	8	15	2,100	in progress
Earthquake	2	1	105	in progress
Tropical Cyclone	0	0	0	0
Wildfire	37	7	125	50

Top 12 (13?) Most Costly Disasters in U.S. History

(Insured Losses, 2010 Dollars, \$ Billions)



*Losses will actually be broken down into several "events" as determined by PCS.

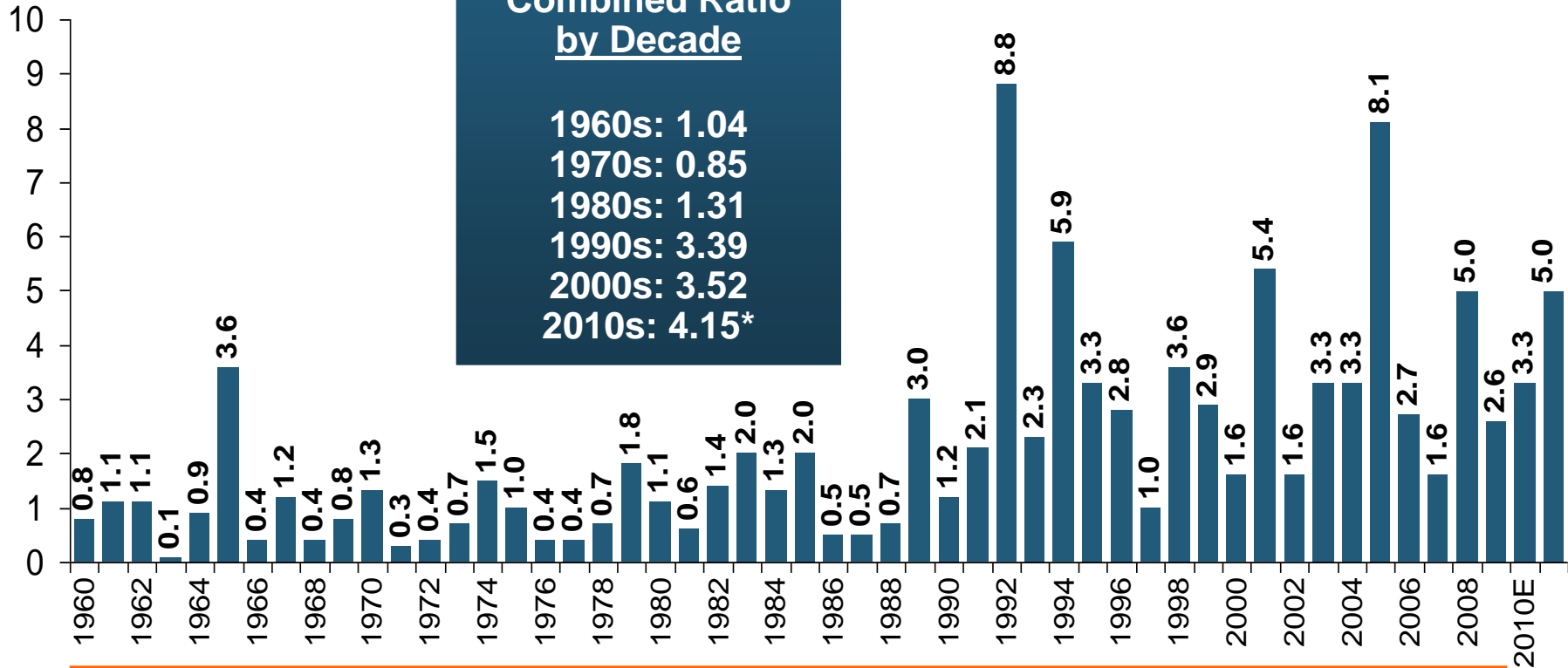
Sources: PCS; Insurance Information Institute inflation adjustments.

Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2011:H1*

Combined Ratio Points

Avg. CAT Loss Component of the Combined Ratio by Decade

1960s: 1.04
 1970s: 0.85
 1980s: 1.31
 1990s: 3.39
 2000s: 3.52
 2010s: 4.15*



The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades

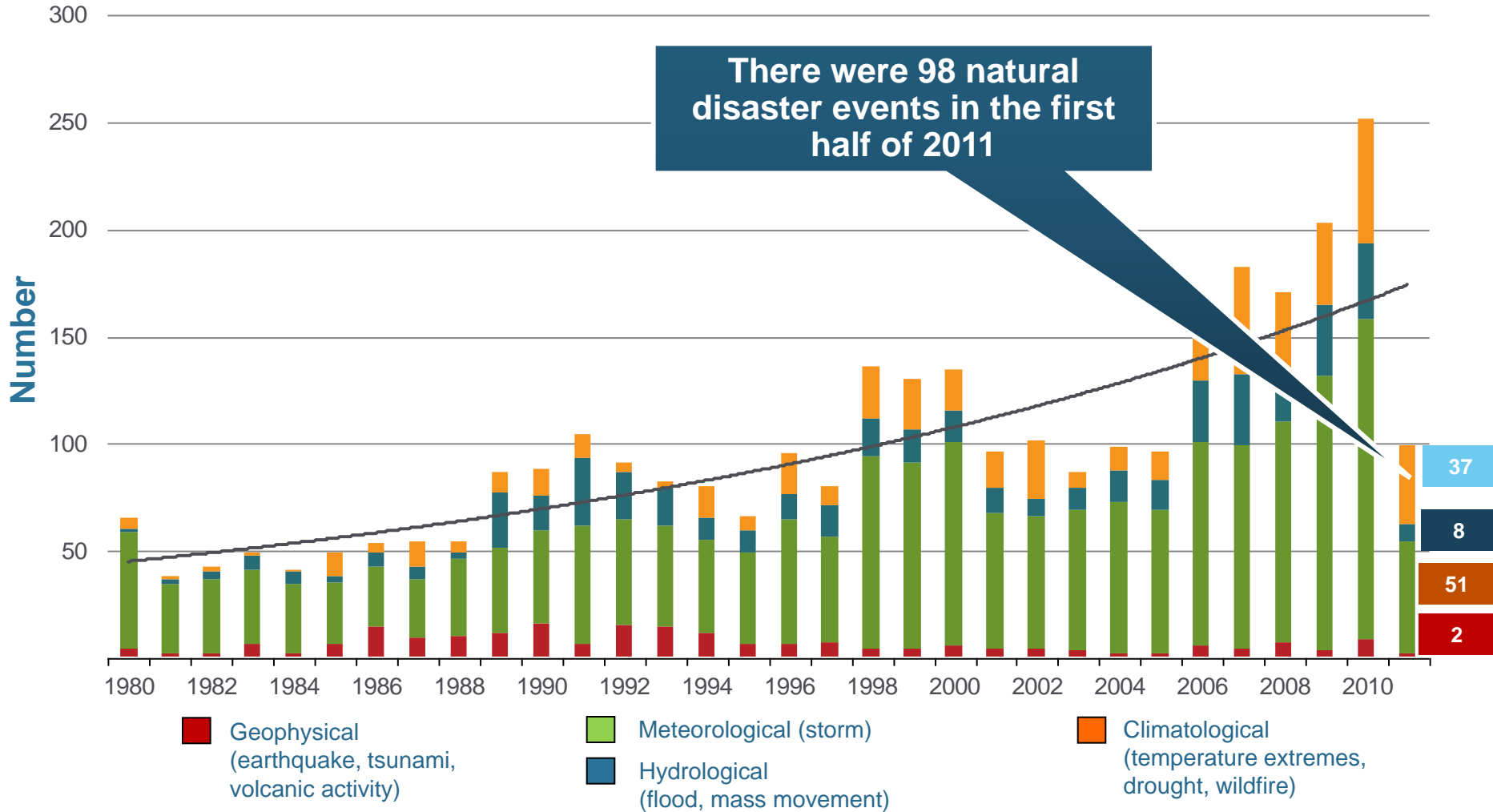
*Insurance Information Institute estimates for 2010 and 2011:H1

Notes: Private carrier losses only. Excludes loss adjustment expenses and reinsurance reinstatement premiums. Figures are adjusted for losses ultimately paid by foreign insurers and reinsurers.

Source: ISO; Insurance Information Institute.

Natural Disasters in the United States, 1980 – 2011*

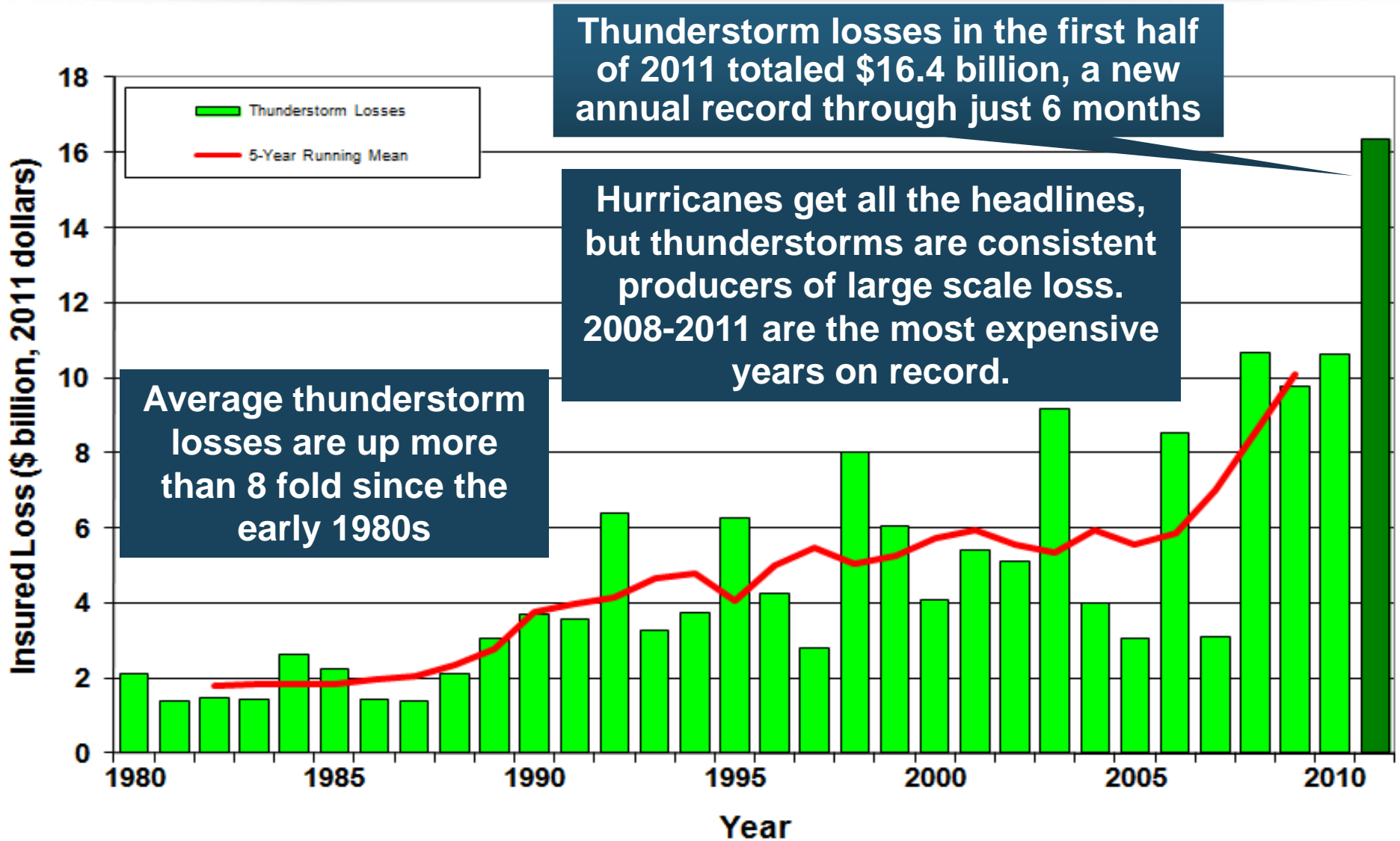
Number of Events (Annual Totals 1980 – 2010 and First Half 2011)



*Through June 30.

Source: MR NatCatSERVICE

U.S. Thunderstorm Loss Trends, 1980 – 2011*



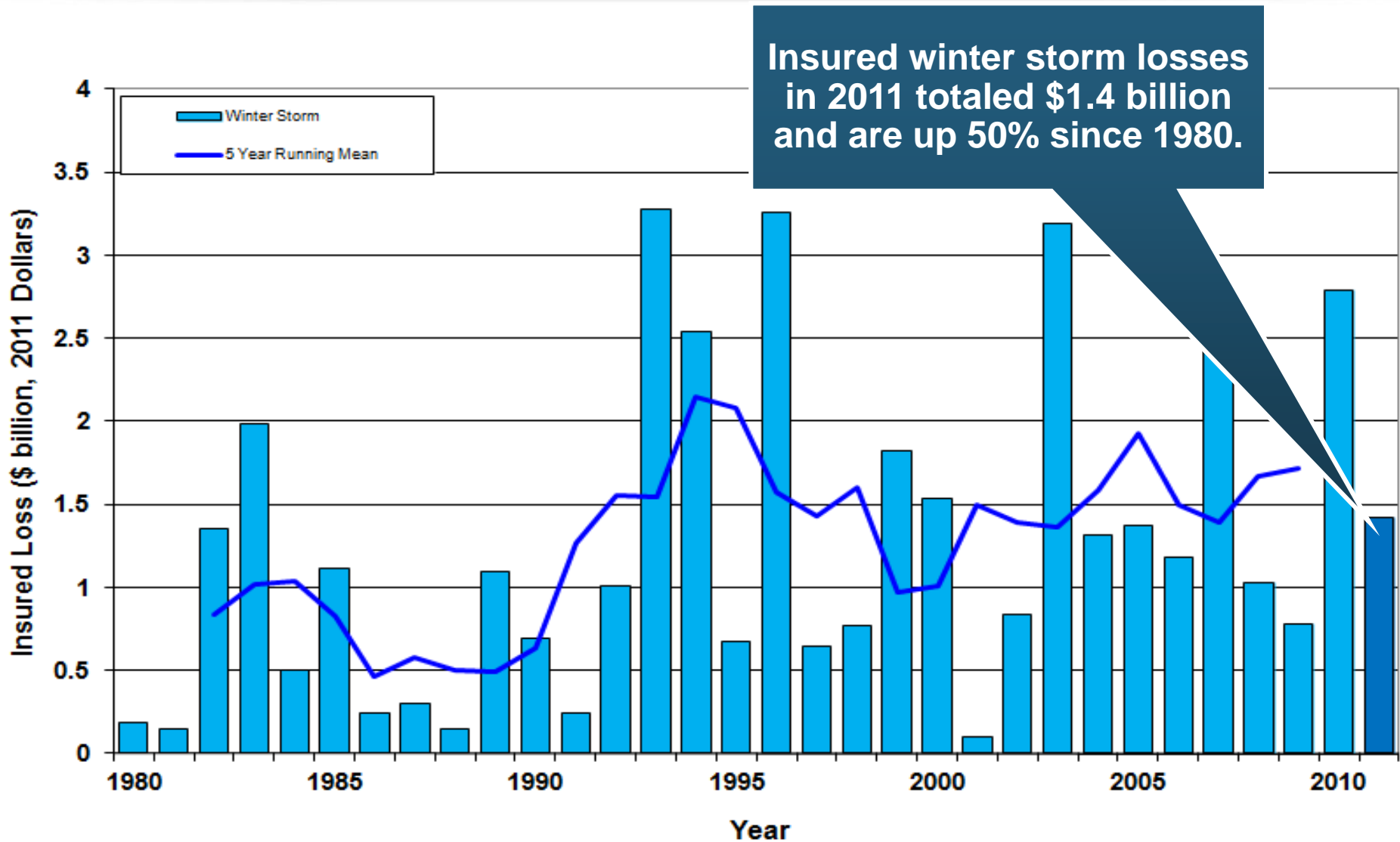
Thunderstorm losses in the first half of 2011 totaled \$16.4 billion, a new annual record through just 6 months

Hurricanes get all the headlines, but thunderstorms are consistent producers of large scale loss. 2008-2011 are the most expensive years on record.

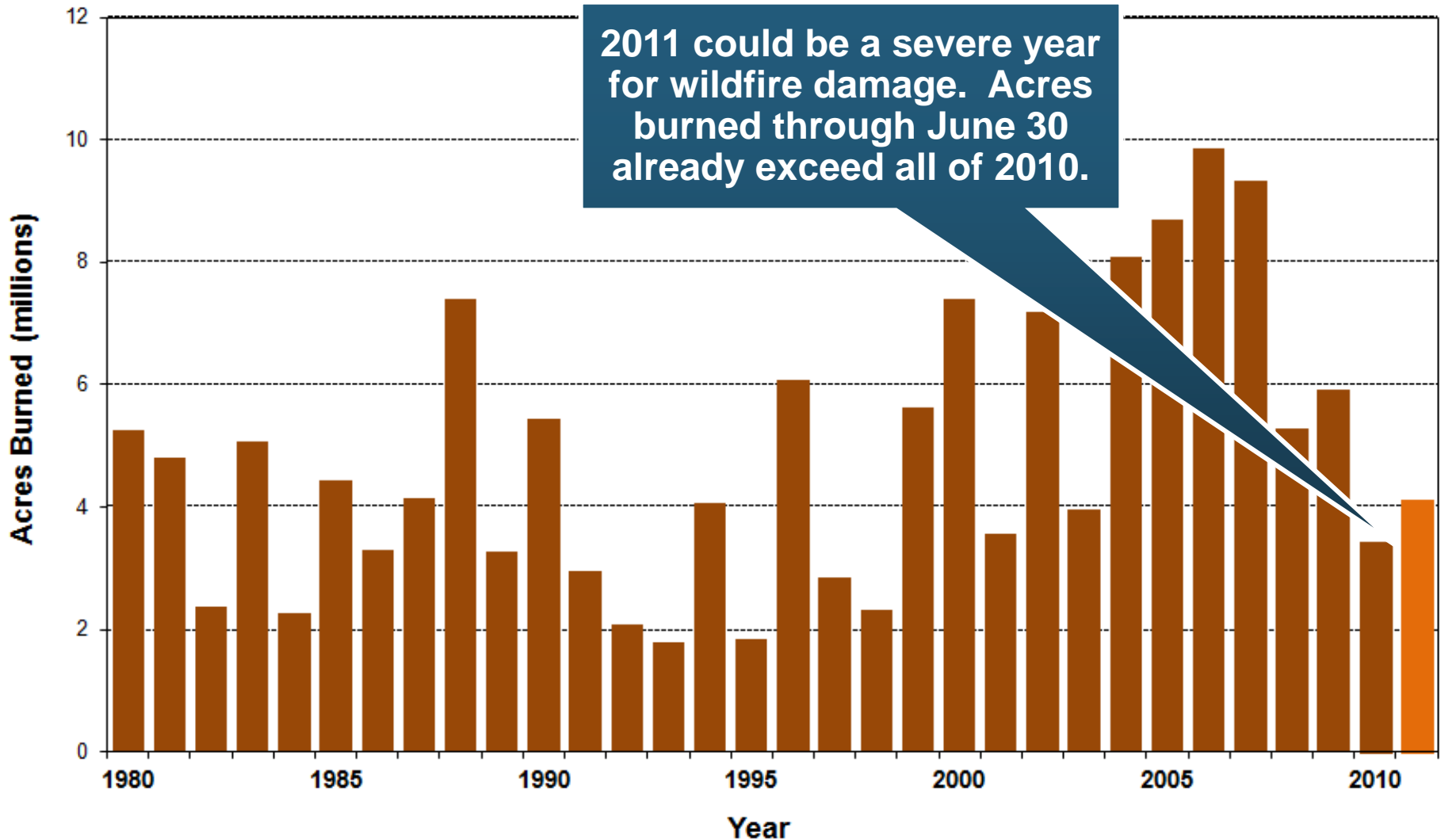
Average thunderstorm losses are up more than 8 fold since the early 1980s

*Through June 30, 2011.
Source: Property Claims Service, MR NatCatSERVICE

U.S. Winter Storm Loss Trends, 1980 – 2010 (Annual Totals) vs. First Half 2011



U.S. Acreage Burned by Wildfires, 1980 – 2010 (Annual Totals) vs. First Half 2011



WILDFIRE: 10 Most Costly Wildfires, by Insured Loss



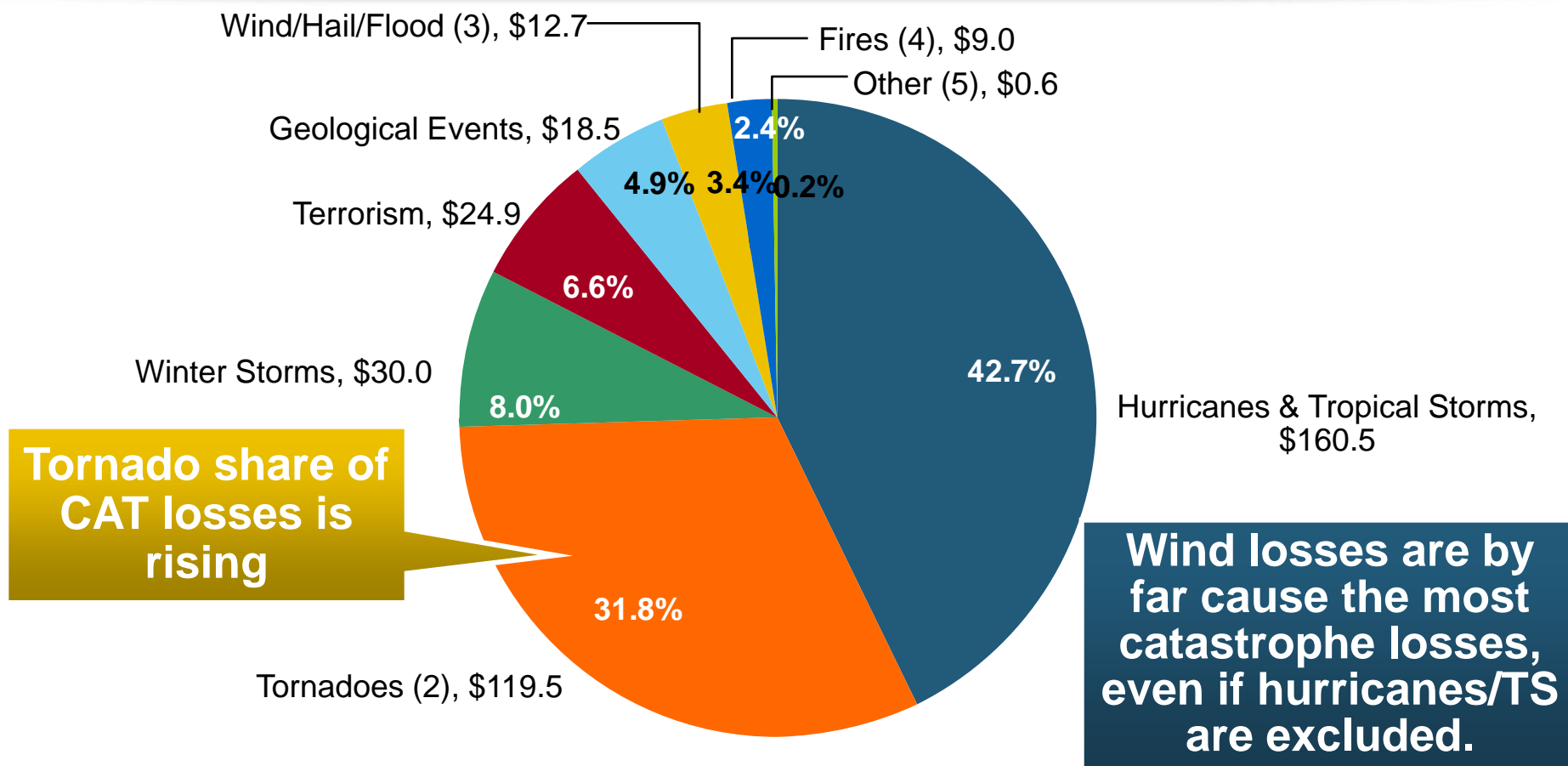
Rank	Date	Location	Estimated insured loss	
			Dollars when occurred	In 2009 dollars (2)
1	Oct. 20-21, 1991	Oakland Fire, CA	\$1,700	\$2,496
2	Oct. 21-24, 2007	Witch Fire, CA	1,300	1,344
3	Oct. 25 - Nov. 4, 2003	Cedar Fire, CA	1,060	1,237
4	Oct. 25 - Nov. 3, 2003	Old Fire, CA	975	1,137
5	Nov. 2-3, 1993	Los Angeles County Fire, CA	375	526
6	Oct. 27-28, 1993	Orange County Fire, CA	350	491
7	Jun. 27 - Jul. 2, 1990	Santa Barbara Fire, CA	265	403
8	May 10-16, 2000	Cerro Grande Fire, NM	140	173
9	Jun. 23-28, 2002	Rodeo Chediski Complex Fire, AZ	120	143
10	Sep. 22-30, 1970	Oakland and Berkeley Hills Fire, CA	25	112

(1) Property coverage only for catastrophic fires. Effective January 1, 1997, ISO's Property Claim Services (PCS) unit defines catastrophes as events that cause more than \$25 million in insured property damage and that affect a significant number of insureds and insurers. From 1982 to 1996, PCS used a \$5 million threshold in defining catastrophes. Before 1982, PCS used a \$1 million threshold.

(2) Adjusted for inflation through 2009 by ISO using the GDP implicit price deflator.

Source: ISO's Property Claim Services (PCS) unit.

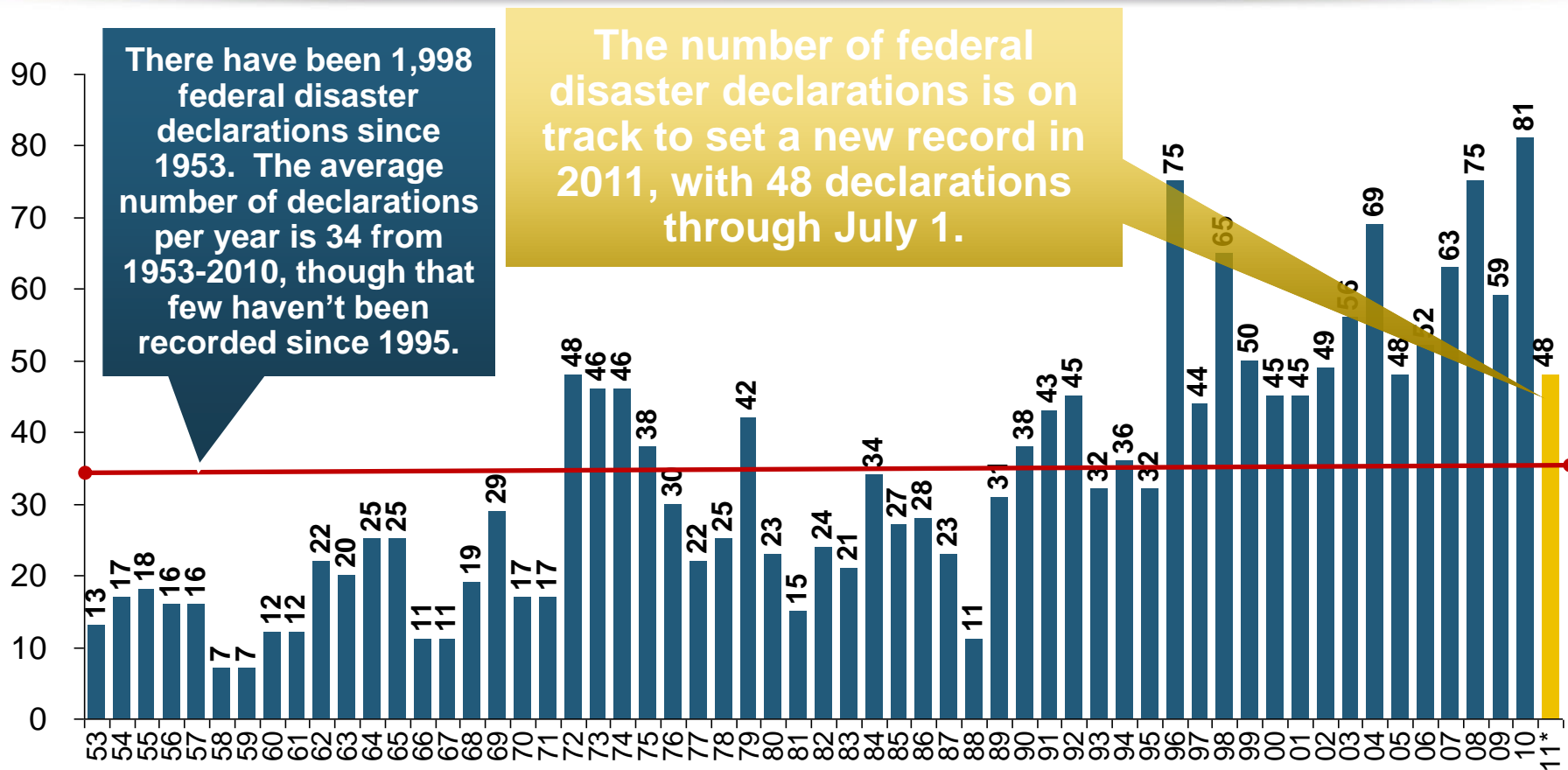
Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1990–2011:H1¹



1. Catastrophes are defined as events causing direct insured losses to property of \$25 million or more in 2009 dollars.
2. Excludes snow.
3. Does not include NFIP flood losses
4. Includes wildland fires
5. Includes civil disorders, water damage, utility disruptions and non-property losses such as those covered by workers compensation.

Source: ISO's Property Claim Services Unit.

Number of Federal Disaster Declarations, 1953-2011*

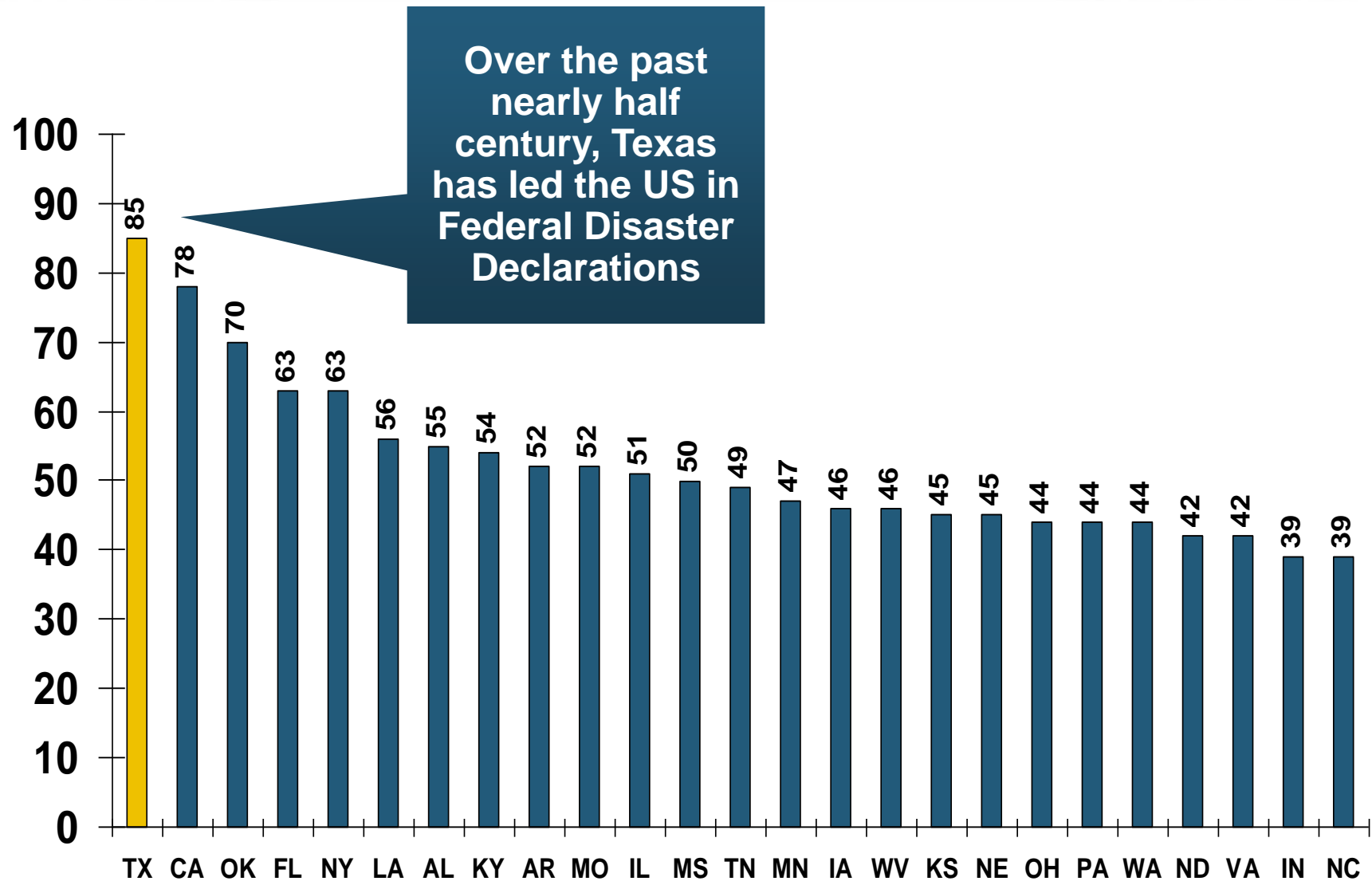


The Number of Federal Disaster Declarations Is Rising

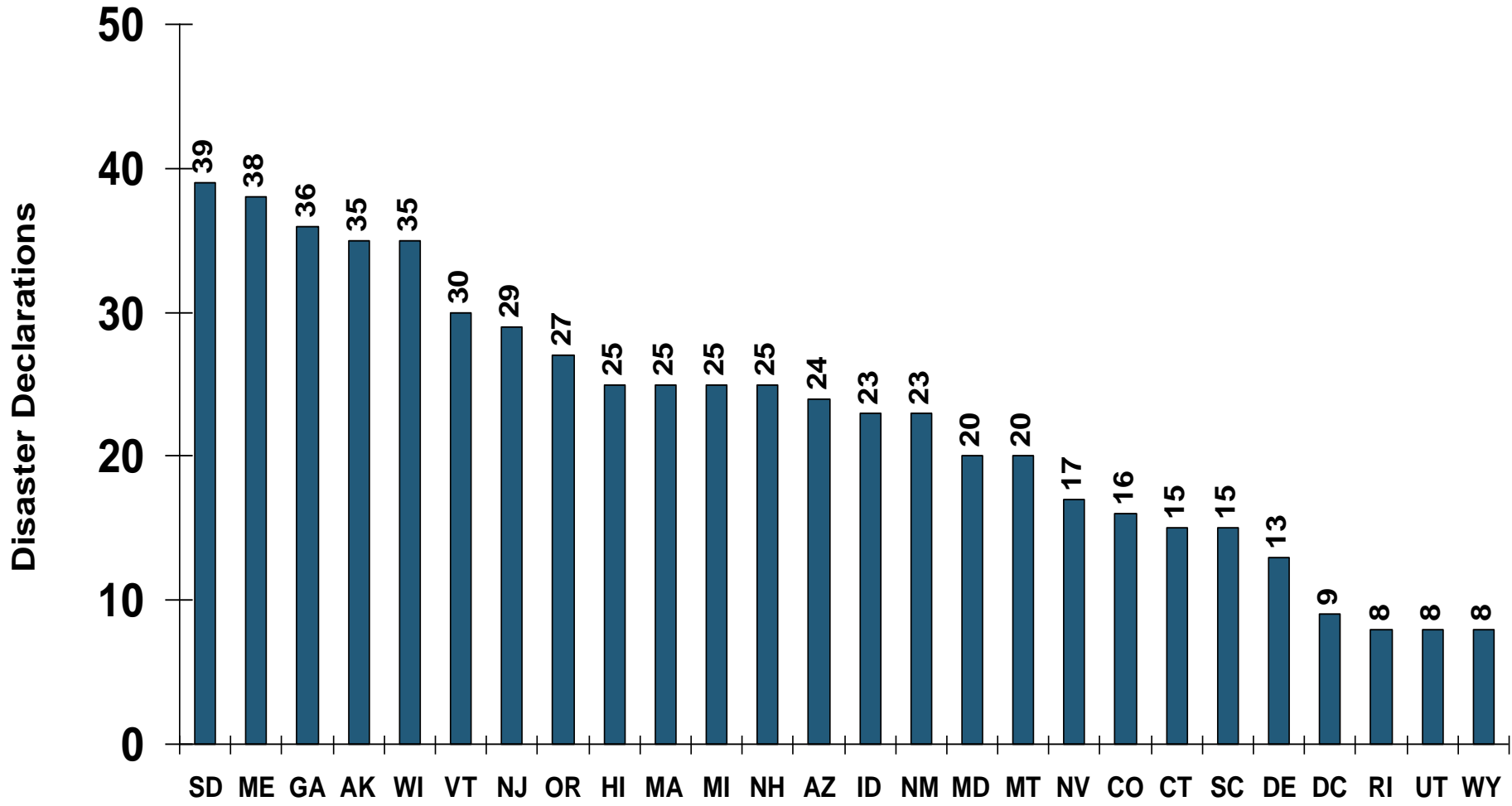
*Through July 1, 2011.

Source: Federal Emergency Management Administration: http://www.fema.gov/news/disaster_totals_annual.fema ; Insurance Information Institute.

Federal Disasters Declarations by State, 1953 – June 30, 2011: Highest 25 States



Federal Disasters Declarations by State, 1953 – June 30, 2011: Lowest 25 States



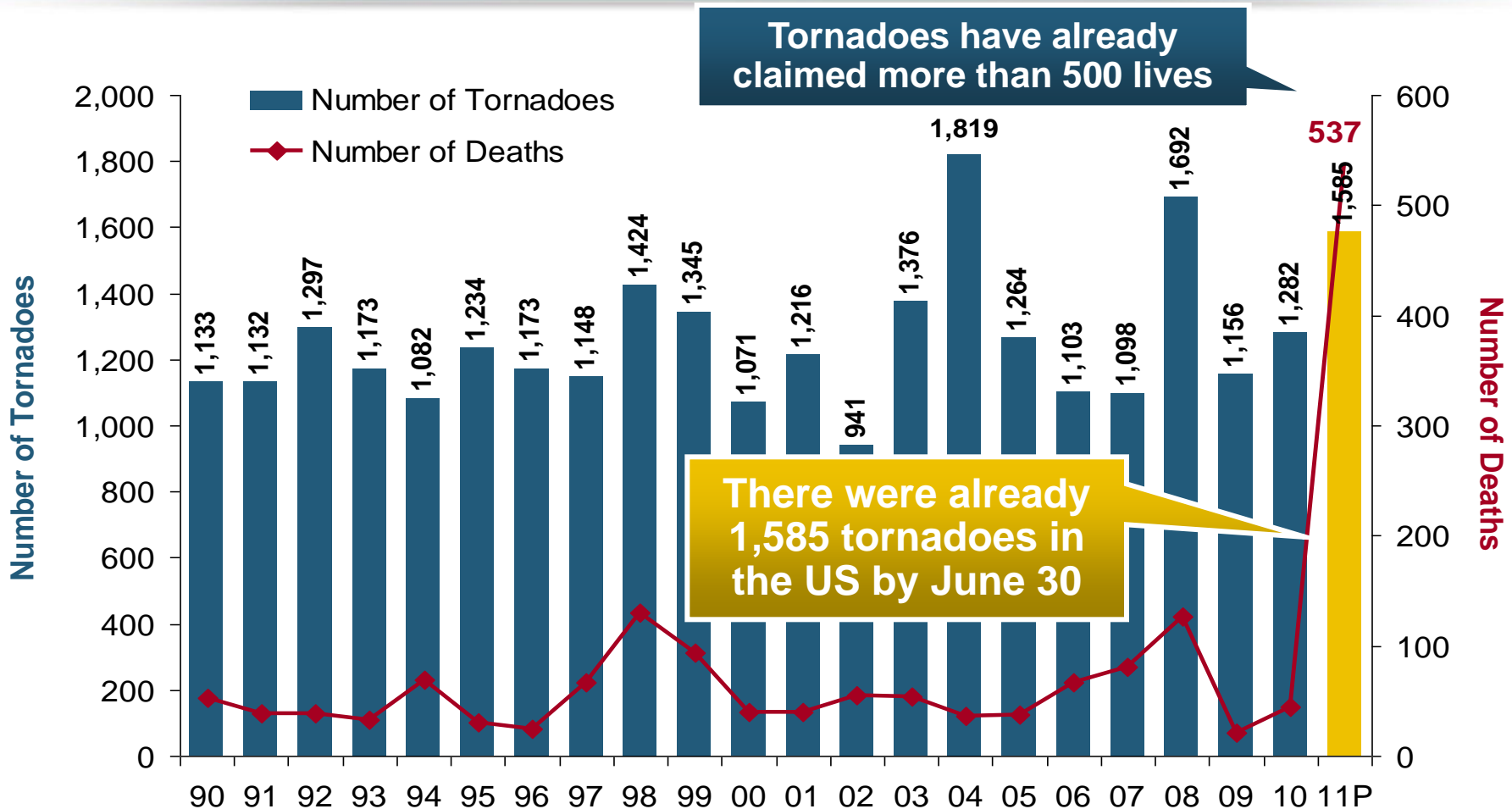
Source: FEMA.



Spring 2011 Tornadoes & Severe Storms

Few Coverage Disputes, ITV and Contents Disputes Can Sometimes Be an Issue

Number of Tornadoes and Related Deaths, 1990 – 2011*



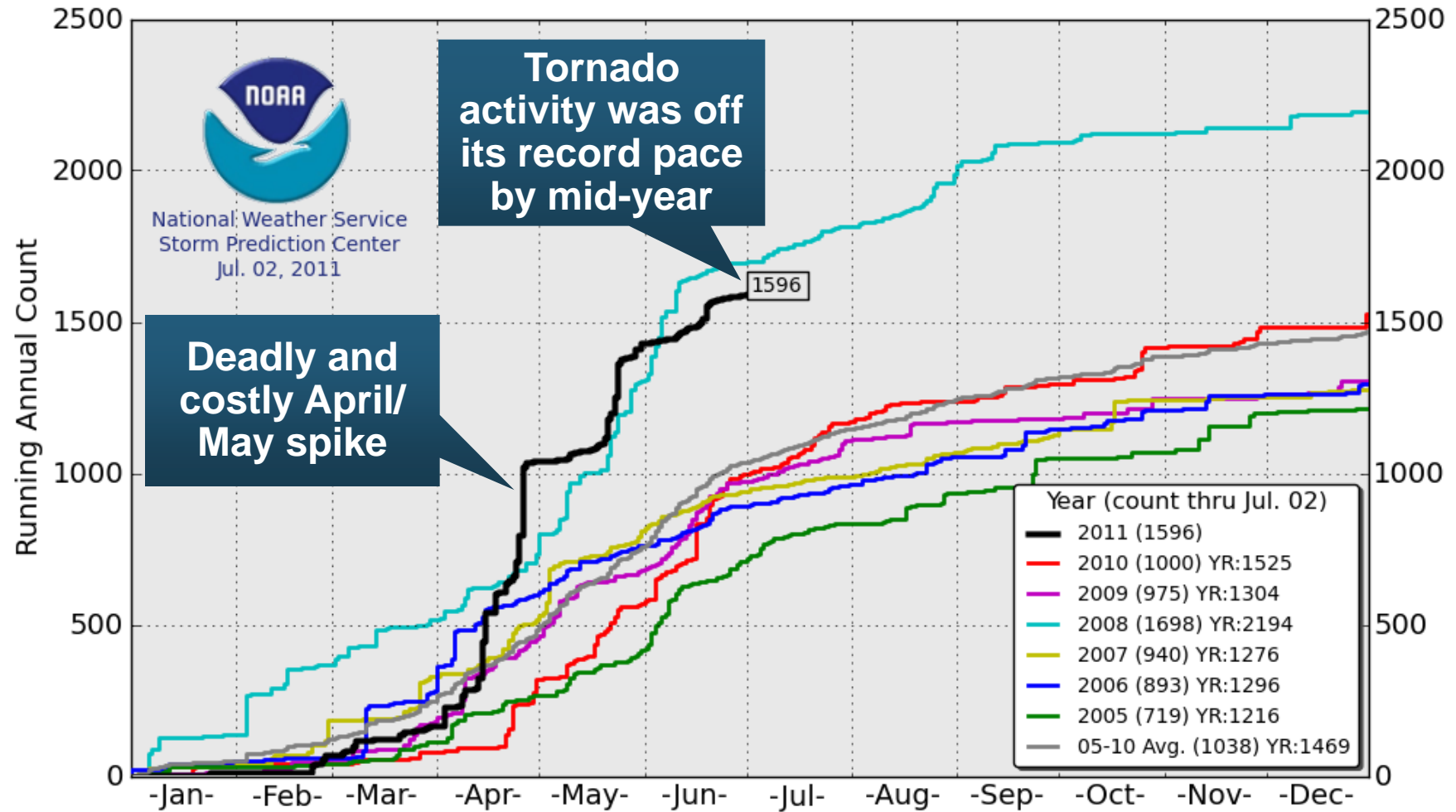
Insurers Expect to Pay \$2 Billion on 165,000 Claims Arising from the April 2011 Tornadoes in the Birmingham and Tuscaloosa Areas

*2011 is preliminary data through June 30.

Source: U.S. Department of Commerce, Storm Prediction Center, National Weather Service.

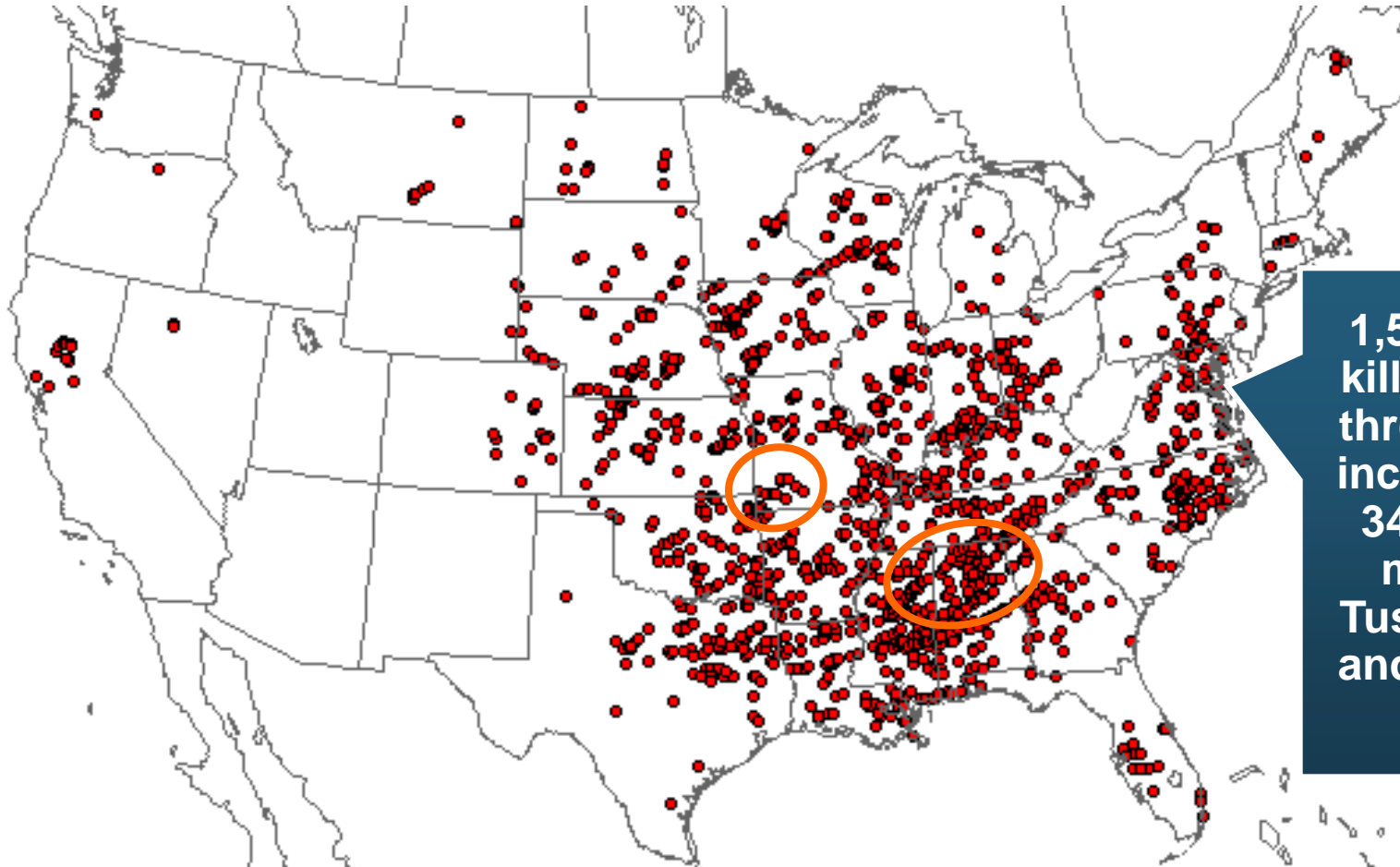
U.S. Tornado Count, 2005-2011*

United States Annual Trend of LSR Tornadoes*



*Preliminary tornadoes from NWS Local Storm Reports (LSRs)
Annual average is based on preliminary LSRs, 2005-2010

Location of Tornadoes in the US, January 1—June 30, 2011



1,585 tornadoes
killed 537 people
through June 30,
including at least
340 on April 26
mostly in the
Tuscaloosa area,
and 130 in Joplin
on May 22



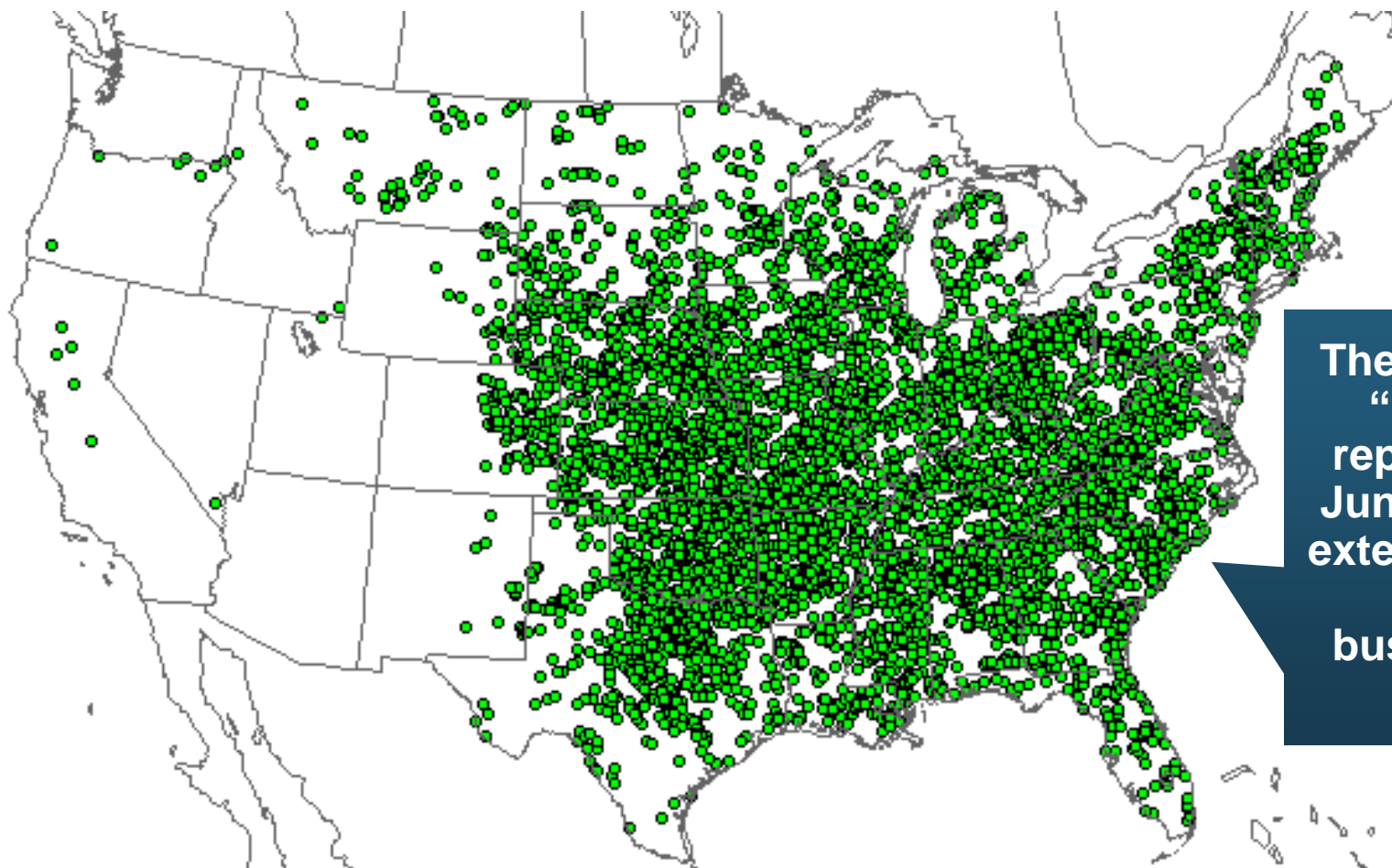
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Tornado Reports
January 01, 2011 - June 30, 2011

Updated: Thursday June 30, 2011 11:49 CT

Location of Large Hail Reports in the US, January 1—June 30, 2011



There were 7,176
“Large Hail”
reports through
June 30, causing
extensive damage
to homes,
businesses and
vehicles



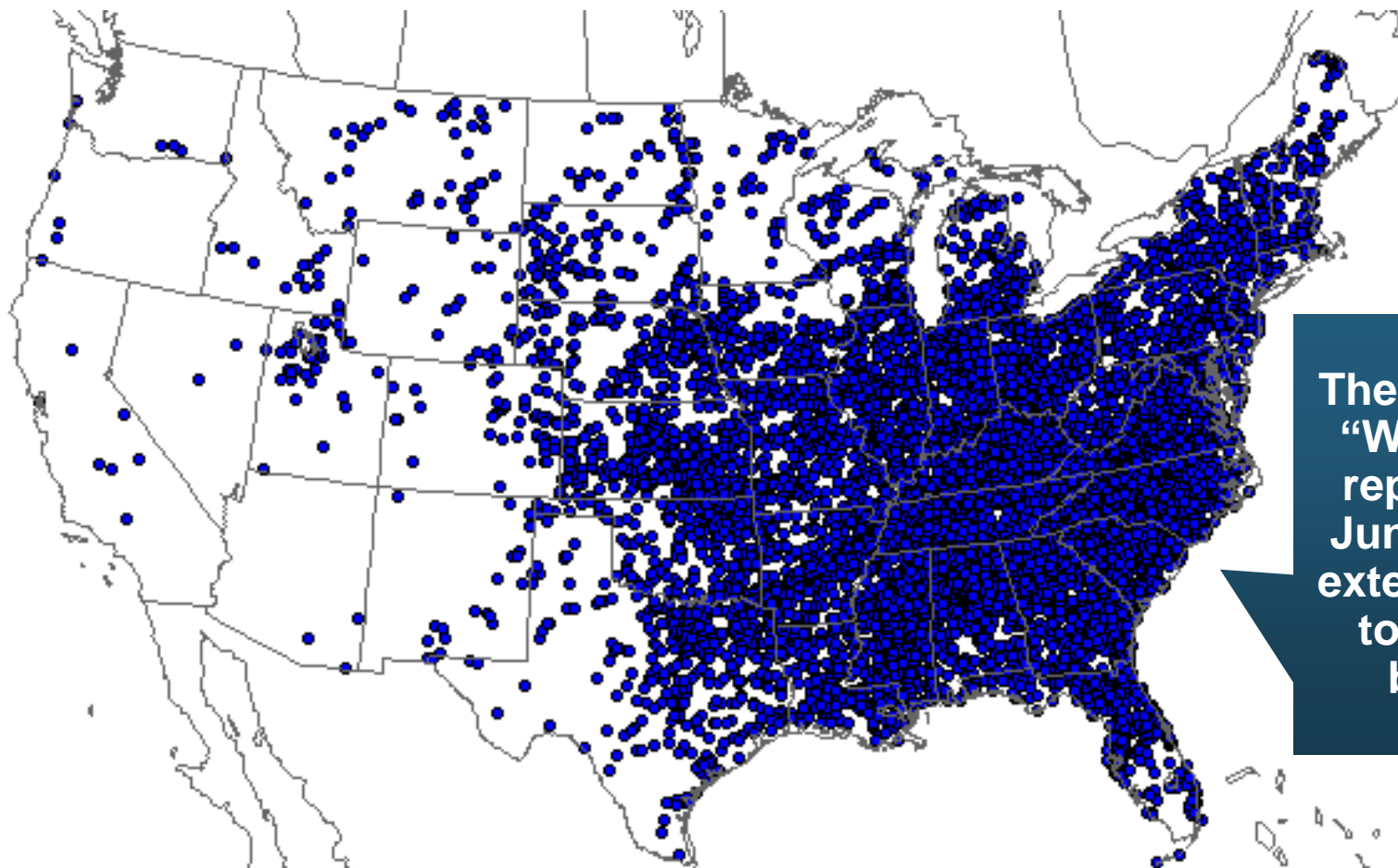
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Hail Reports
January 01, 2011 - June 30, 2011

Updated: Thursday June 30, 2011 11:49 CT

Location of Wind Damage Reports in the US, January 1—June 30, 2011



There were 11,283
“Wind Damage”
reports through
June 30, causing
extensive damage
to homes and,
businesses



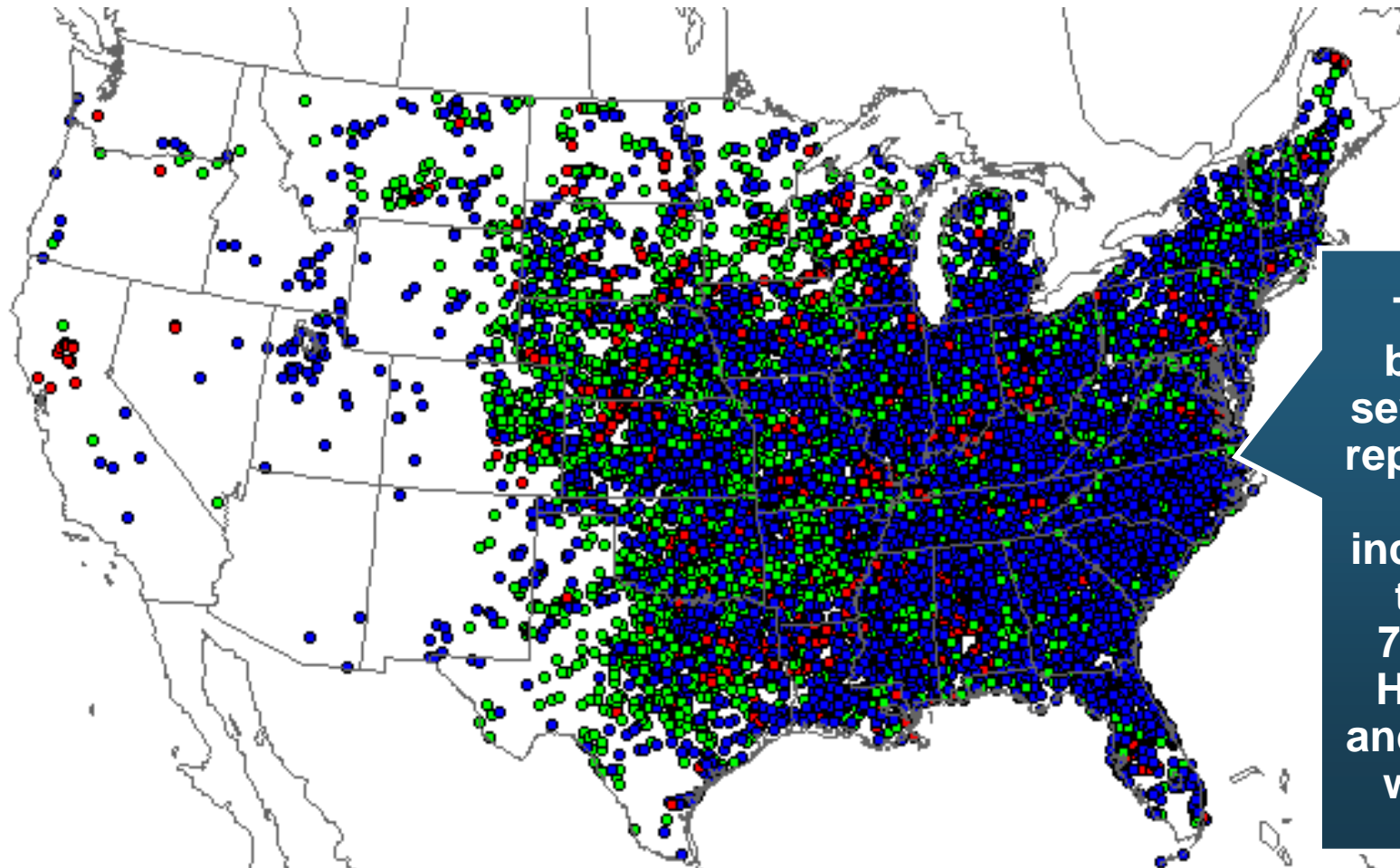
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Wind Reports
January 01, 2011 - June 30, 2011

Updated: Thursday June 30, 2011 11:49 CT

Severe Weather Reports, January 1—June 30, 2011



There have been 20,044 severe weather reports through June 30; including 1,585 tornadoes; 7,176 “Large Hail” reports and 11,283 high wind events



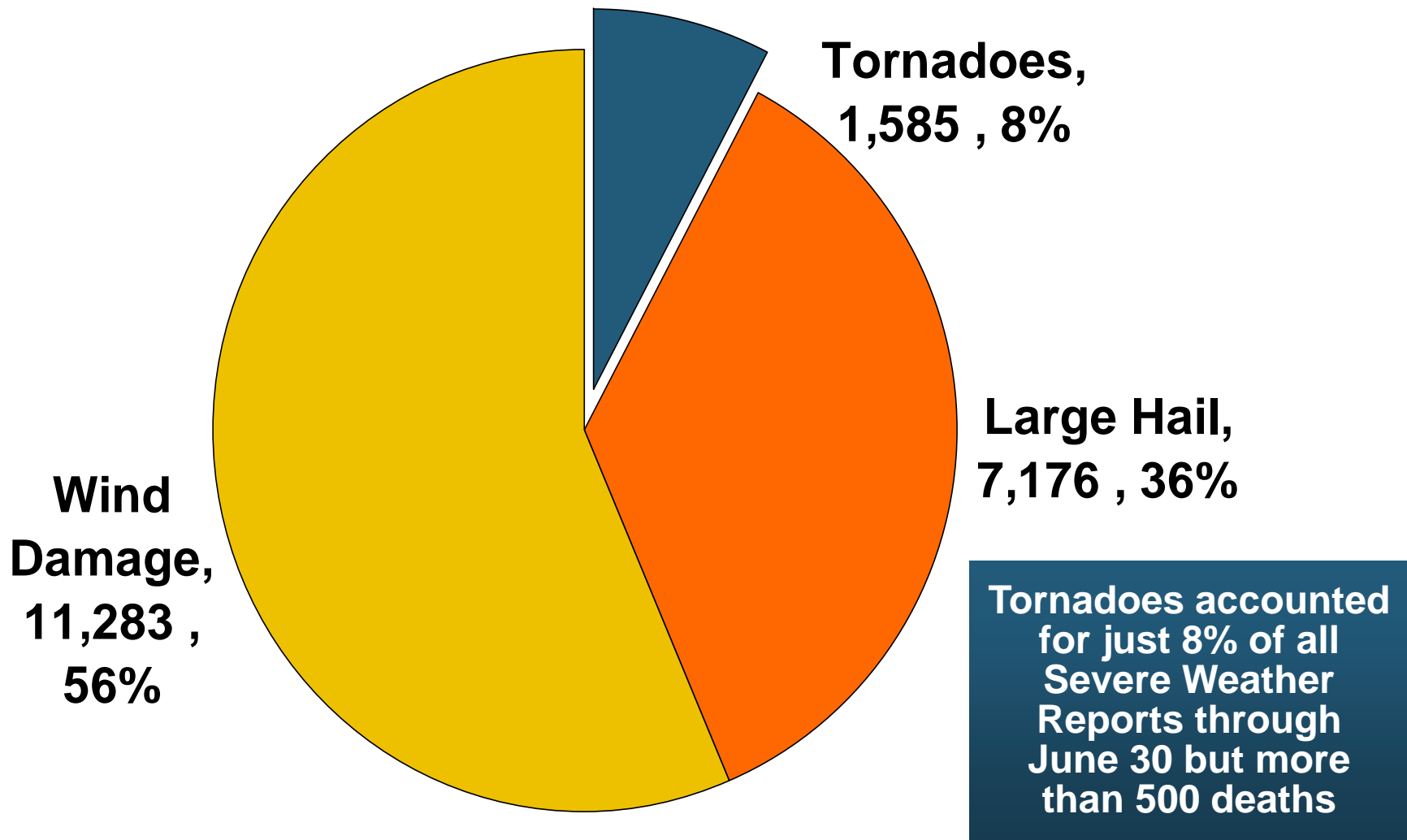
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Severe Weather Reports
January 01, 2011 - June 30, 2011

Updated: Thursday June 30, 2011 11:49 CT

Number of Severe Weather Reports in US, by Type: January 1—June 30, 2011





Outlook for the 2011 Atlantic Hurricane Season

Wind vs. Water Debate Could Potentially Reemerge

Outlook for 2011 Hurricane Season: 75% More Active Than Average

	Average*	2005 (Katrina Year)	2011F
Named Storms	9.6	28	16
Named Storm Days	49.1	115.5	80
Hurricanes	5.9	14	9
Hurricane Days	24.5	47.5	35
Intense Hurricanes	2.3	7	5
Intense Hurricane Days	5.0	7	10
Accumulated Cyclone Energy	96.1	NA	160
Net Tropical Cyclone Activity	100%	275%	175%

*Average over the period 1950-2000.

Source: Dr. Philip Klotzbach and Dr. William Gray, Colorado State University, June 1, 2011.

Probability of Major Hurricane Landfall (CAT 3, 4, 5) in 2011

	Average*	2011F
Entire US Coast	52%	72%
US East Coast Including Florida Peninsula	31%	48%
Gulf Coast from FL Panhandle to Brownsville, TX	30%	47%
<i>ALSO...Above-Average Major Hurricane Landfall Risk in Caribbean for 2011 (61% vs. 42%)</i>		

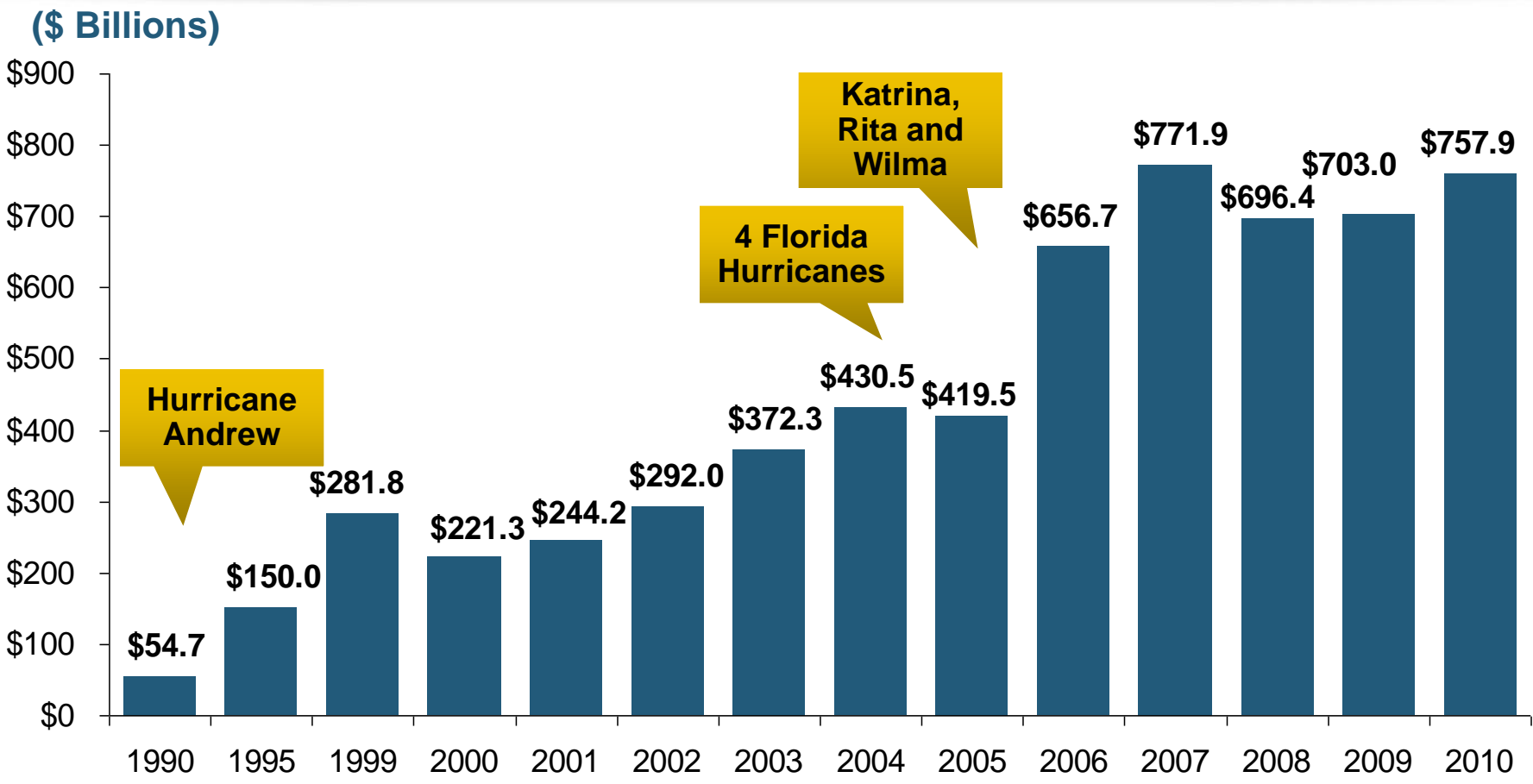
*Average over the period 1950-2000.

Source: Dr. Philip Klotzbach and Dr. William Gray, Colorado State University, June 1, 2011.

US Property Residual Markets Remain Under Strain

**Some Coastal Policies Need
to Obtain All or Part of
Their Coverage via State-
Run Pools and Plans**

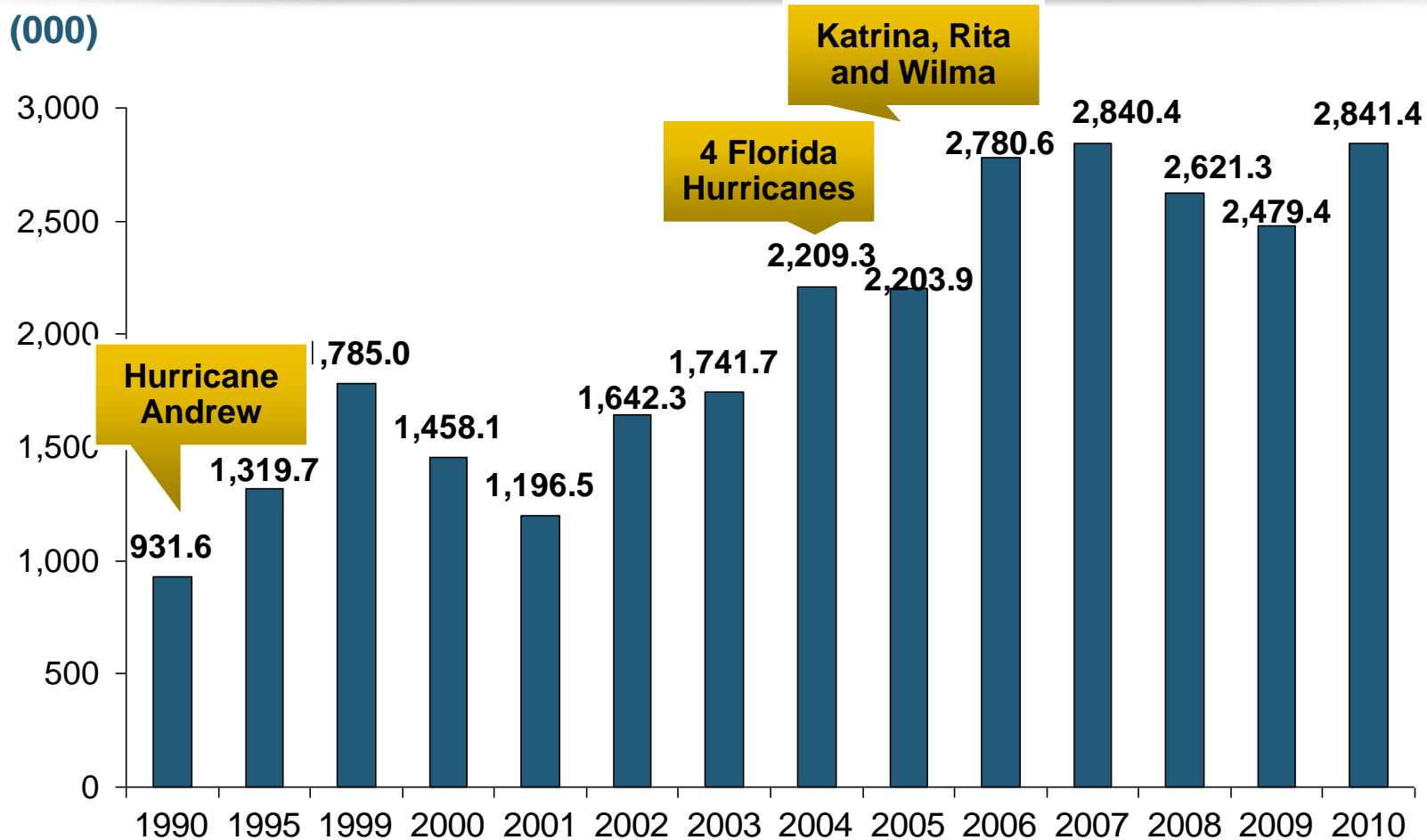
U.S. Residual Market Exposure to Loss (\$ Billions)



In the 21-year period between 1990 and 2010, total exposure to loss in the residual market (FAIR & Beach/Windstorm) Plans has surged from \$54.7 billion in 1990 to \$757.9 billion in 2010.

Source: PIPSO; Insurance Information Institute (I.I.I.); <http://www.iii.org/pr/last-resort-2010>.

U.S. Residual Market: Total Policies In-Force (1990-2010) (000)



In the 21-year period between 1990 and 2010, the total number of policies in-force in the residual market (FAIR & Beach/Windstorm) Plans has more than tripled.

Flood Risk, Levee Failures

**Record Flooding in the US,
Possibility of Levee Failures Can
Lead to E&O Exposures**

FLOOD: 10 Most Significant Flood Events by NFIP Payouts

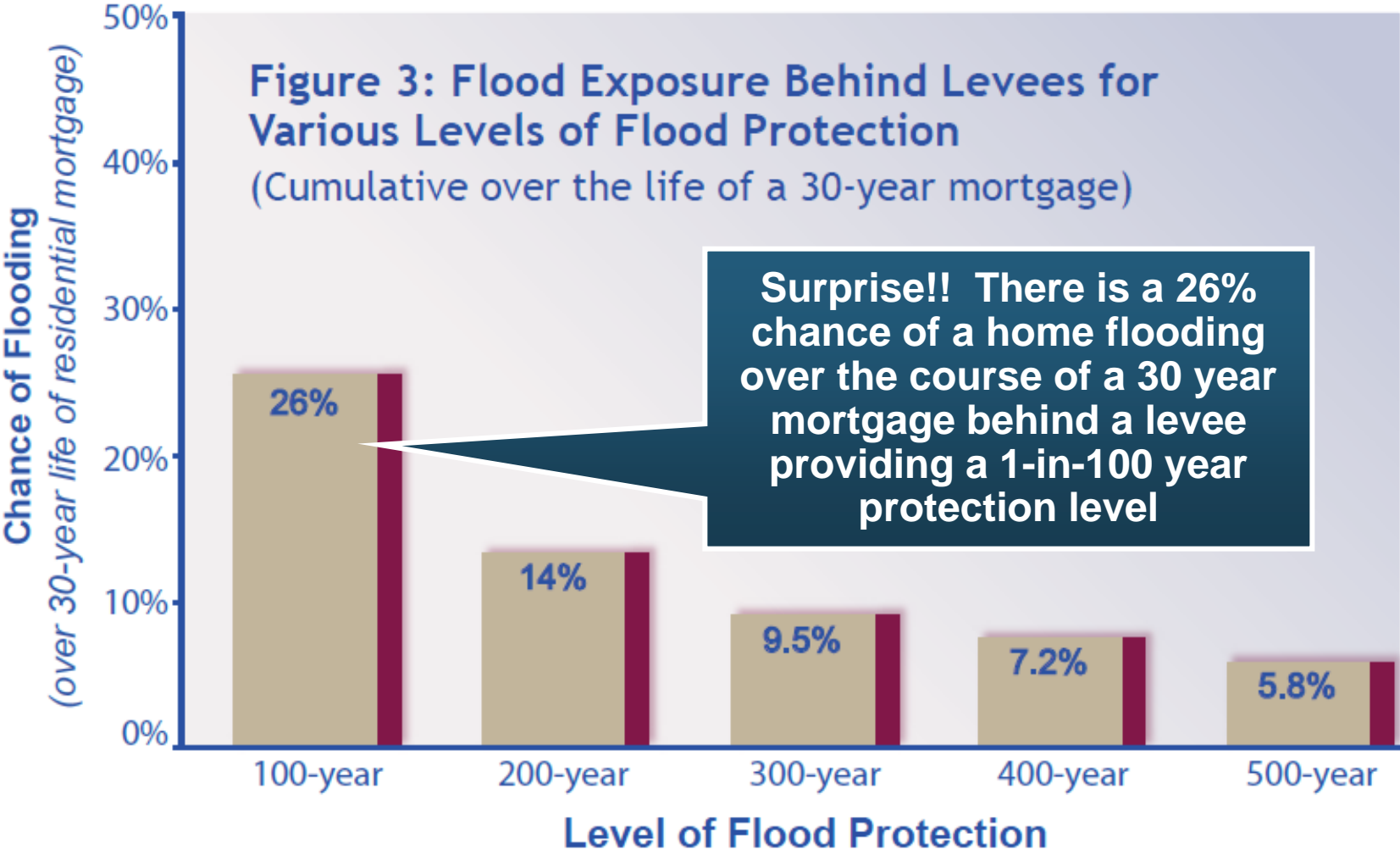


Rank	Event	Location	Date	Number of paid losses	Amount paid (\$ millions)	Average paid loss
1	Hurricane Katrina	AL, FL, GA, LA, MS, TN	Aug. 2005	167,074	\$16,139	\$96,599
2	Hurricane Ike	AR, IL, IN, KY, LA, MO, OH, PA, TX	Sep. 2008	46,208	2,616	56,609
3	Hurricane Ivan	AL, DE, FL, GA, LA, MD, MS, NJ, NY, NC, OH, PA, TN, VA, WV	Sep. 2004	27,631	1,582	57,243
4	Tropical Storm Allison	FL, LA, MS, NJ, PA, TX	Jun. 2001	30,663	1,104	36,000
5	Louisiana flood	LA	May 1995	31,343	585	18,667
6	Hurricane Isabel	DE, MD, NJ, NY, NC, PA, VA, WV	Sep. 2003	19,863	493	24,801
7	Hurricane Rita	AL, AR, FL, LA, MS, TN, TX	Sep. 2005	9,506	469	49,348
8	Hurricane Floyd	CT, DE, FL, GA, MA, ME, MD, NH, NJ, NC, PA, SC, VA, VT	Sep. 1999	20,438	462	22,618
9	Hurricane Opal	AL, NC, PR, SC, TN	Oct. 1995	10,343	406	39,208
10	Hurricane Hugo	GA, NC, PR, SC, VA, U.S. Virgin Islands	Sep. 1989	12,840	376	29,317

(1) Includes events from 1978 to July 31, 2010. Defined by the National Flood Insurance Program as an event that produces at least 1,500 paid losses. Stated in dollars when occurred.

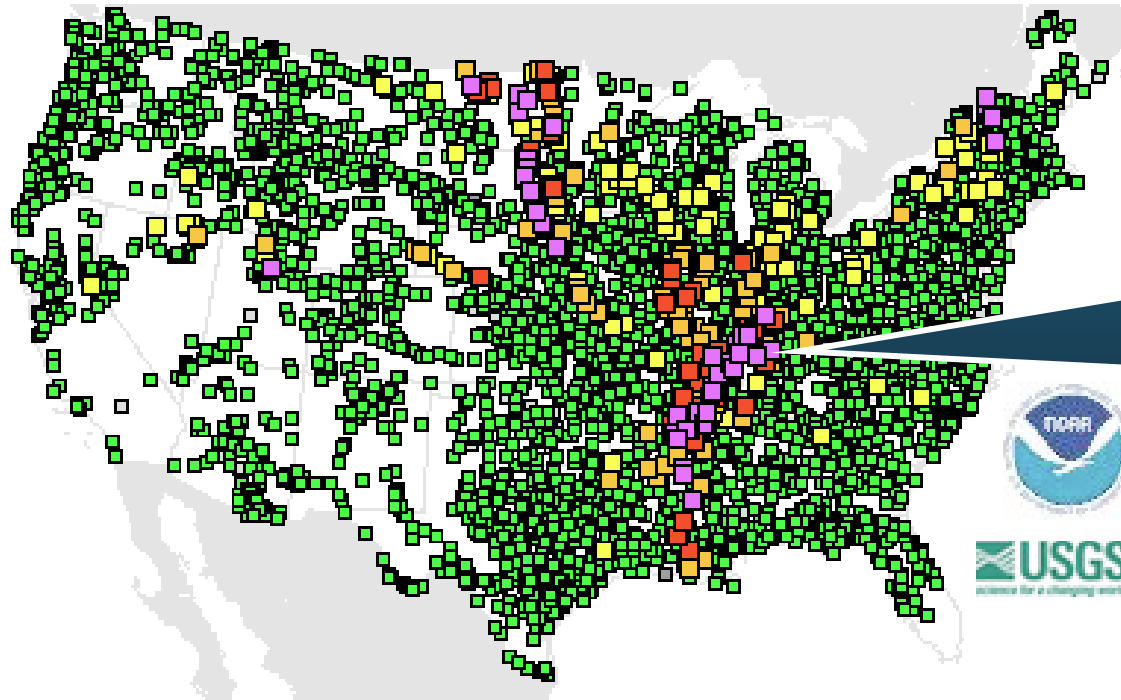
Source: U.S. Department of Homeland Security, Federal Emergency Management Agency.

LEVEES: Probability of Flooding Behind Levees Over Life of 30-Yr. Mortgage



Source: FEMA.

FLOODING: 2011 Flooding Was Extensive, Especially Along the MS/MO Rivers



Widespread, major floods could create a potential E&O exposure for agents

4851 Total Gauges

193 Locations in Flood

- 302 Gauges: Observations older than 24 hours
- 7 Gauges: Out of Service

- 48 Gauges: Major Flooding
- 52 Gauges: Moderate Flooding
- 93 Gauges: Minor Flooding
- 118 Gauges: Near Flood Stage
- 4231 Gauges: No Flooding

Last map update: 05/08/2011 at 03:30:40 am EDT / 05/08/2011 07:30:40 UT

Seismic Risk, Earthquakes & Nuclear Power

**Could the Tragedy of Fukushima
Happen in the US**

Is There an E&O Exposure?

EARTHQUAKE: 10 Most Costly Earthquakes, by Insured Loss

Ranked by insured losses when occurred	Date	Location	Overall losses when occurred	Insured losses (2)		Fatalities	Rank based on insured losses in 2009 dollars
				When occurred	In 2009 dollars (3)		
1	Jan. 17, 1994	California: Northridge, Los Angeles, San Fernando Valley, Ventura, Orange	\$44,000	\$15,300	\$22,200	60	1
2	Oct. 17, 1989	California: Loma Prieta, Santa Cruz, San Francisco, Oakland, Berkeley, Silicon Valley	10,000	960	1,660	70	3
3	Feb. 28, 2001	Washington: Olympia, Seattle, Tacoma; Oregon	2,000	305	370	1	5
4	Apr. 18, 1906	California: San Francisco, Santa Rosa, San Jose	524	180	3,901 (4)	3,000	2
5	Oct. 1-4, 1987	California: Los Angeles, Whittier	358	73	138	8	6
6	Oct. 15, 2006	Hawaii: Big Island, Kailua Kona, Oahu, Honolulu	200	50	53	NA	9
7	Sept. 3, 2000	California: Napa	80	50	62	NA	7
8	Mar. 27-28, 1964	Alaska: Anchorage, Kodiak Island, Seward, Valdez, Portage, Whittier, Cordova, Homer, Seldovia; Hawaii	540	45	312	130	4
9	Dec. 22, 2003	California: Paso Robles, San Simeon, San Luis Obispo, Atascadero	200	40	47	2	10
10	Jun. 28, 1992	California: San Bernardino County	100	40	61	1	8

(1) Costliest U.S. earthquakes occurring from 1900 to 2009, based on insured losses when occurred.

(2) Based on property losses including, if applicable, agricultural, offshore, marine, aviation and National Flood Insurance Program losses in the United States and may differ from data shown elsewhere.

(3) Adjusted to 2009 dollars by Munich Re.

(4) Adjusted to 2009 dollars by the Insurance Information Institute based on 1913 Bureau of Labor Statistics data (earliest year available).

NA=Data not available.

Source: © 2010 Munich Re, Geo Risks Research, NatCatSERVICE.

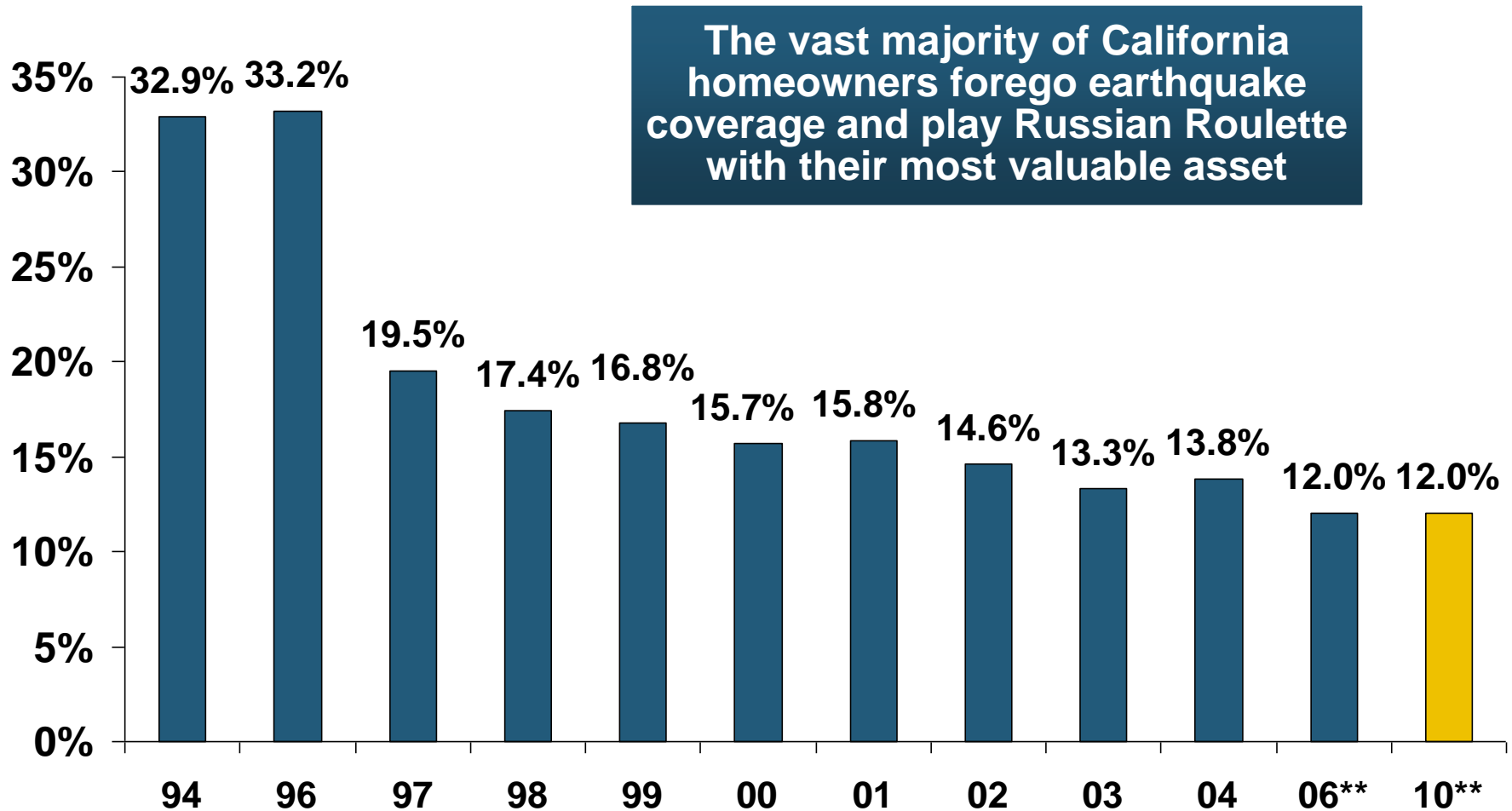
Estimated Insured Losses for the Top 10 Historical Earthquakes Based on Current Exposures (1) (\$ Billion)



Rank	Date	Location	Magnitude	Insured loss (current exposures)
1	Feb. 7, 1812	New Madrid, MO	7.7	\$100
2	Apr. 18, 1906	San Francisco, CA	7.8	96
3	Aug. 31, 1886	Charleston, SC	7.3	37
4	Jun. 1, 1838	San Francisco, CA	7.4	27
5	Jan. 17, 1994	Northridge, CA	6.7	21
6	Oct. 21, 1868	Hayward, CA	7.0	21
7	Jan. 9, 1857	Fort Tejon, CA	7.9	8
8	Oct. 17, 1989	Loma Prieta, CA	6.3	6
9	Mar. 10, 1933	Long Beach, CA	6.4	5
10	Jul. 1, 1911	Calaveras, CA	6.4	4

(1) Modeled loss to property, contents, and business interruption and additional living expenses for residential, mobile home, commercial and auto exposures as of December 31, 2008. Losses include demand surge and fire following earthquake. Policy conditions and earthquake insurance take up rates are based on estimates by state insurance departments and client claims data.

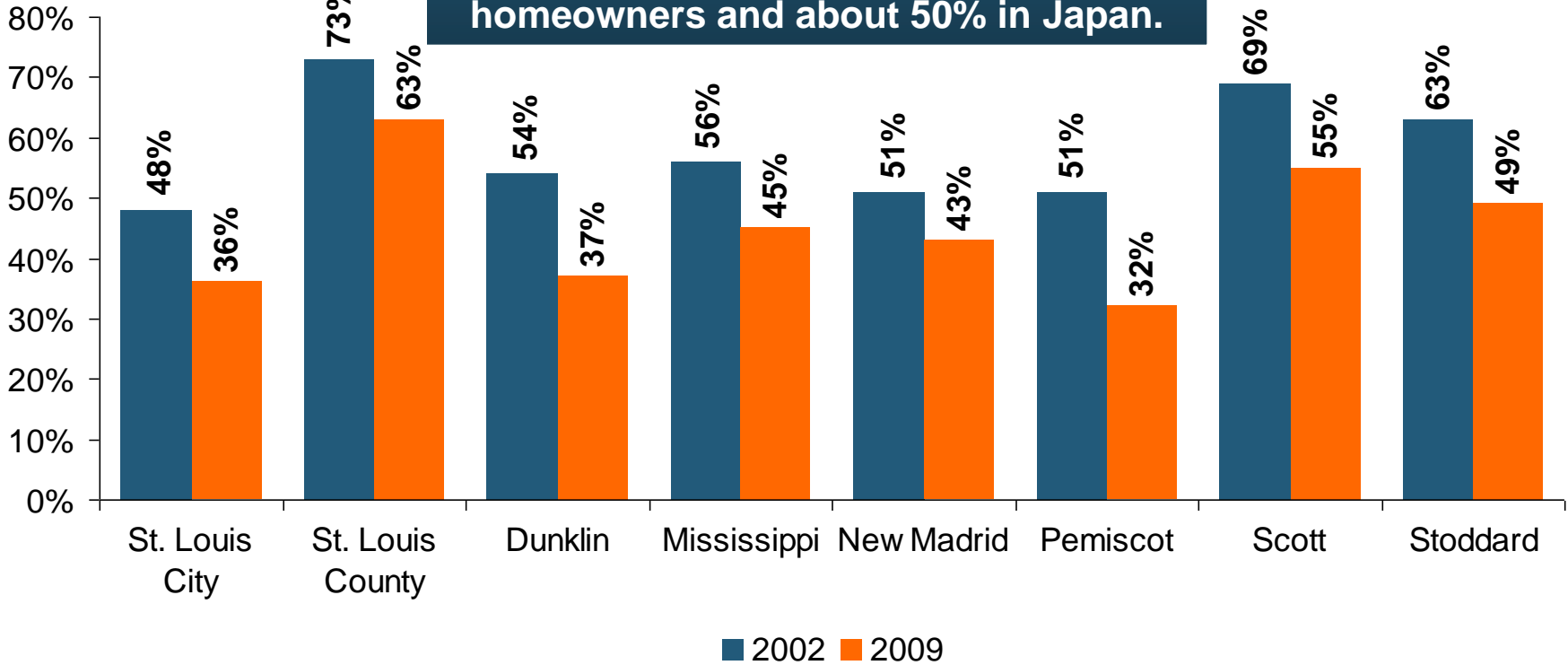
Percentage of California Homeowners with Earthquake Insurance, 1994-2010*



*Includes CEA policies beginning in 1996. **2006/10 estimates from Insurance Information Network of CA.
Source: California Department of Insurance; Insurance Information Institute.

% of Residences in MO Quake-Prone Areas with Earthquake Coverage, 2009 vs. 2002

Between 32% and 63% of MO homeowners buy quake coverage in vulnerable areas compared to 12% of CA homeowners and about 50% in Japan.



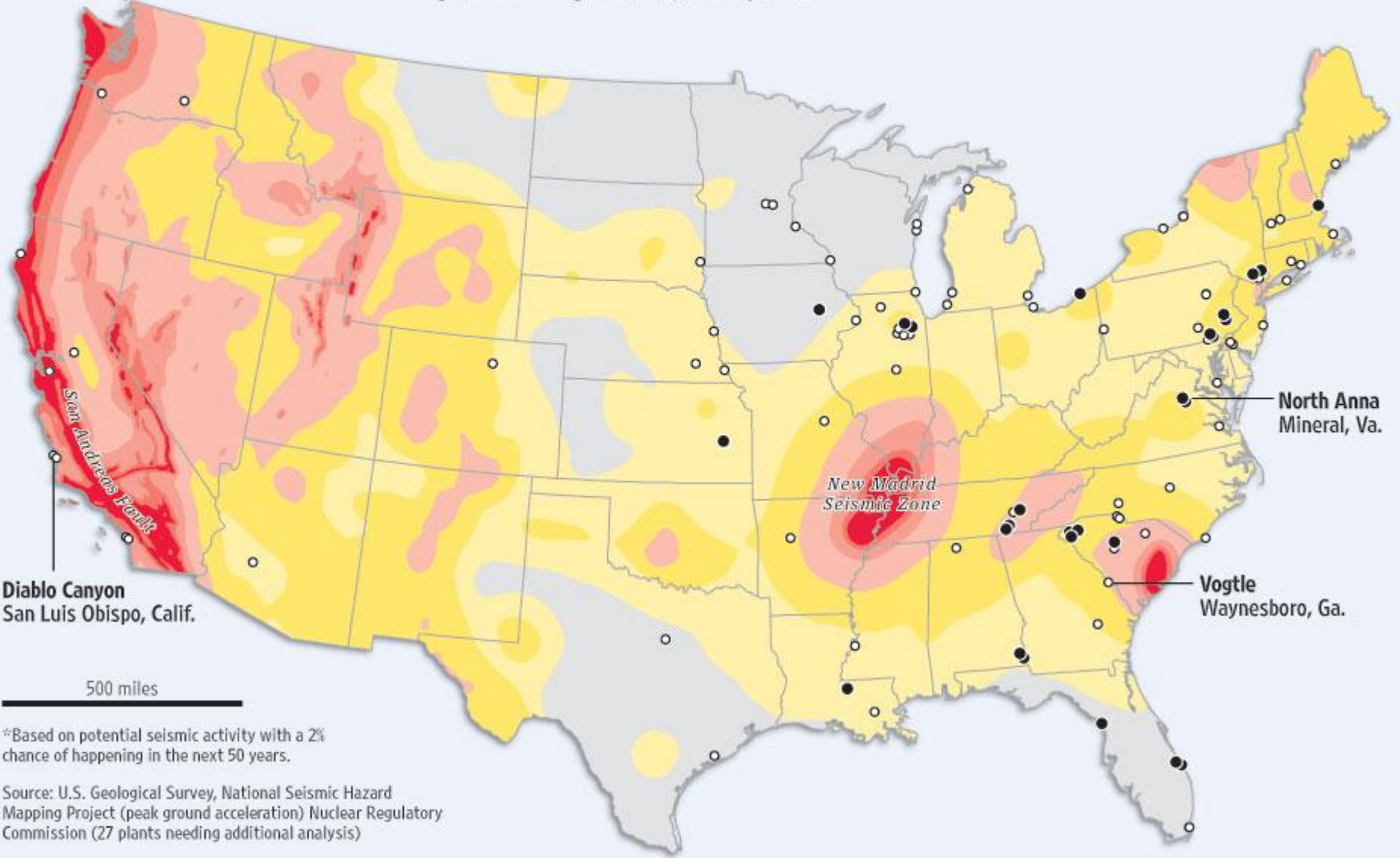
Residential Take-Up Rates in Missouri Quake-Prone Counties Have Fallen Significantly in Recent Years, but Compare Favorably to California (12%)

Sources: Missouri Department of Insurance news release, Feb. 11, 2011; Insurance Information Institute.

Fault Lines | U.S. nuclear reactor proximity to high earthquake risk areas

NUCLEAR POWER PLANTS
 ● Need additional analysis for seismic risk, regulators say
 ○ Others

Peak ground acceleration, measured as a percentage of the earth's gravity, used in risk assessments of the potential surface ground shaking caused by earthquakes*



*Based on potential seismic activity with a 2% chance of happening in the next 50 years.

Source: U.S. Geological Survey, National Seismic Hazard Mapping Project (peak ground acceleration) Nuclear Regulatory Commission (27 plants needing additional analysis)

Insurance Information Institute Online:

www.iii.org

***Thank you for your time
and your attention!***

Twitter: twitter.com/bob_hartwig

Flood, wind & pollution

Max J. Cohen

Lowe, Stein, Hoffman, Allweiss &
Hauver, L.L.P.

New Orleans, Louisiana

Flood (1/2)

- Readily available through the National Flood Insurance Program (NFIP)
- What is the NFIP?
- Who may purchase a flood policy?
- Does your community participate in the NFIP?
 - www.fema.gov/fema/csb.shtm
 - 800-427-4661
 - Big “I” Flood Program – Linda.Mackey@iiaba.net
- What types of property are insured by a NFIP policy?
- What property is not insurable?
- Is there a waiting period?

Available to members:



Need help writing flood coverage? Check with your state association – they may have a program designed for you. Members can also access to the Big “I” Flood Program.

Learn more at:
www.iiaba.net/flood

Flood (2/2)

- Types of coverage available from the NFIP
 - Dwelling Form
 - General Property Form
 - Residential Condominium Building Association Policy (RCBAP)
- Limitations on amount of coverage available and valuation
- Excess Flood Insurance
- Duty to recommend and/or offer excess coverage

Wind (1/2)

- Some policies exclude wind coverage.
- Some policies are renewed without wind coverage
- Some policies are renewed with significant changes in the deductible
- Carefully review renewal quotes and policies and inform your client of significant changes
- Off-premises power failure

Wind (2/2)

- Homeowner policies contain limits for certain items
- Scheduled items
 - Coverage for wind and/or flood
 - No deductible
 - Does not reduce general limit of contents coverage

Pollution (1/2)

■ Total Pollution Exclusion

- Intended to exclude claims for pollution and environmental hazards
- May or may not be enforceable
- Application of exclusion in Louisiana

■ Pollution events occur during catastrophes such as hurricanes, tornadoes and earthquakes.

- Hurricane Katrina - Murphy Oil Refinery Spill

Pollution (2/2)

- Does your client have a pollution risk?
- Does your client need a separate pollution and environmental liability policy?
- Pollution insurance can protect your client's business in two important ways:
 - First party coverage
 - Third party coverage

Available to members:



Need help writing environmental impairment-pollution coverage? Big "I" Markets can assist you with your customer's environmental impairment or pollution needs.

Learn more at:
www.bigimarkets.com



Corporate Solutions

Swiss Re



Property Insurance issues with catastrophes

Nate Bunck

Vice President and Claims Team Leader

Swiss Re Corporate Solutions

General Property Coverage Issues

- Setting Limits
- Wild Fires
 - Protection Class
 - Insuring to value
- Nuclear
 - Total Nuclear Exclusion?
 - No E&O experience – virtually none in general
 - 1994 Pennsylvania lawsuit
- Future Concerns
 - Broad Geographic Exposure
 - Applicability of lessons from Katrina

Earthquake Coverage

- Limited Experience – 3 cases in 10 years
 - "Where" may be surprising
 - Same errors as other lines
- Future Concerns
 - Broader Geographic Exposure than Perceived
 - Applicability of lessons from Katrina
- Risk Management
 - Discussion
 - Documentation

Business Interruption

- Broad experience
 - Katrina/Rita/Wilma
 - Other CAT Events
- Not commonly understood by insureds
- Historical Business Interruption Errors:
 - Failure to obtain indirect loss coverage
 - Failure to add new locations
 - Failure to arrange proper coverage
 - Failure to advise of restrictions and limitations in policies
 - Failure to provide adequate amounts of coverage
- Even more important following a CAT claims event

Business Interruption and Global Challenges

- Interrelated Global Business Systems: Even small businesses in rural areas are increasingly part of a supply and customer chain that can stretch across international borders with multiple, dependant layers.
- These systems are heavily dependent on new technology and easy access to transportation to rapidly changing markets.
- These systems are more vulnerable than previously imagined to CAT perils.

Contingent Business Income

- Insurability for damage to 3rd parties on which the insured is dependant is complicated by new Lean Production Models:
 - “Just In Time” Production
 - Outsourcing
 - Reduced Suppliers
 - Eliminating Stock
- Third World Suppliers
- Contingent Extra Expense
 - Designed to cover increased costs following CAT event
 - Avoids Contingent Business

Restricted Access

- While business interruption damages due to restricted access by official order is generally covered, there is also need for similar losses where there are physical impediments to access but no government order restricting the same.
- Clear limitation on access will be the challenge rather than showing a direct causal connection to the damages.
- Natural Catastrophe Driven - Avalanches, Landslides, Earthquakes. Events that make access difficult but not technically impossible.

Service Interruption

- IT Outage
 - Local Outages
 - External Network Outages
- Loss of Data
- IT failure presents additional complications to insurability due to pace at which network changes and updates are made, as well as the ever changing security environment.

Future Challenges for Agents

- Increasing number of risks that include the elements of conventional business interruption insurance, but are not triggered by direct property damage.
- Heightened Evaluation of Client's Risks
 - Increasingly Changing Nature
 - Wider Breadth of Risk
 - Quantify Damages
- As carriers expand coverage for these risks or major CAT events test expectations around such coverage, we expect claims around these products.



Corporate Solutions



Liability issues with catastrophes

Jim Redeker

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Commercial General Liability

General policy exclusions include:

- Asbestos
- Lead
- Mold
- Nuclear
- Pollution (and pollution related damages)
- Silica

Umbrella Coverage – Make sure it follows form

Professional Liability

Directors & Officers exposures include:

Home Owners Associations

Condo Associations

Errors & Omissions exposures include:

Architects & Engineers

Insurance Agents

Anyone who provides a service for a fee has an errors & omissions exposure.



Business Continuity Management (1/2)

- While Risk Management protects the company's earning power, BCM focuses on ensuring that a company can quickly recover from disruptions to its operations.
- A Business Continuity Management (BCM) plan will include how the company will work with its insurance carrier to:
 - Provide first notice
 - Mitigate losses
 - Provide financial data for loss evaluation
 - Minimize the duration of the interruption loss



Business Continuity Management (2/2)

- Estimation: Identifying and prioritizing all possible business interruption risks by likelihood and amount of damage to the company's income.
- Design: Formulating a plan for addressing each interruption concern and putting resources in place.
- Management: Both initial and ongoing testing of the plan will be necessary to ensure that it meets and continues to meet business needs. In addition, testing should identify areas where risks can be greatly reduced and/or eliminated.

General Agency E&O risk management guidance

David Hulcher

Assistant Vice President of Agency
Professional Liability Risk Management

IIABA

E&O Risk Management considerations of catastrophes

- It takes an uncovered claim
 - E&O claim ≠ you did something wrong
 - “To say or Not to Say”
 - E&O risk management culture within the agency
- State standard of care and duty to advise a customer
 - Understand your duties
 - Legal duty vs. agency best practices
 - Article at www.iiaba.net/EOhappens under “Standard of Care” tab
 - “Say what you do and do what you say!”

What to Do When an E&O Incident Occurs

All agency staff should consider the following when responding to customers when faced with an E&O situation:

1. Never admit liability. You can be empathetic, but never admit you've done anything wrong.
2. Don't participate in any settlement discussions or enter into a settlement without written consent from your E&O carrier.
3. Ask them to explain what they think it is you've done wrong and write it all down including names, dates, and telephone numbers.
4. Don't tell them you have E&O liability insurance unless they ask you specifically if you do. Then, only advise them that you do and that you will provide all the information to your insurance carrier and they will be in touch with them.
5. Report the incident immediately to management so they can submit it to your E&O carrier.



Visit www.iiaba.net/EOhappens today to review exclusive agency risk management information that can help the agency avoid the hassle and expense of E&O claims.



Risk Management (1/5)

■ Product knowledge

- What's covered and what's not
- Invest in training staff (work with your state association)
- Educate your customer (www.trustedchoice.com)

■ Know your carrier and your authority

- Financial ratings
- Carrier contracts and binding authority

■ Understand your customer's operation

- Communication
- Risk exposure identification
- Exposure analysis and increased profits

Exclusive to
members:



- Commercial and Personal Lines Risk Exposure Evaluation System (including E&O coverage checklist)
- PF&M provide detail analysis of policy forms and endorsements
- Insurance Word Glossary
- Insurance related articles to educate customers.

Learn more at:
www.iiaba.net/VRC

Risk Management (2/5)

■ Applications

- Timeliness
- Additional steps to bind
- Material facts
- Customer signature

■ Proposals

- Give options, let customer decide
- Increased limits – umbrella/excess policies
- Disclaimer language
- Explain complex terms
- Coverage limitations or uncovered exposure
- Duties in event of a claim
- Expiration date on quotes and proposals

Sample proposal disclaimer language:

This is a proposal (or summary) provided for illustration purposes only; it is not a legal contract. It is provided to facilitate your understanding of your insurance program. Please refer to the actual policies for specific terms, coverage, conditions, limitations and exclusions that will govern the event of a loss. Specimen copies of all policies are available for review prior to the binding of coverage. In assisting you with your insurance needs we have been dependent upon information provided to us by you. If there are other areas that need to be evaluated prior to binding of coverage, please bring them to our attention. Should any of your business operations or exposures to loss change after coverage is bound, it is the customers responsibility to let us know promptly so proper coverage(s) can be discussed.

Risk Management (3/5)

- **E&O Coverage Checklist/Rejection Forms**
 - Coverages available and offered/rejected
 - File documentation
- **Documentation**
 - Importance in an E&O claim
 - Reductions in coverage and limits
 - Consistent procedures
 - Invariable practice
 - Documentation - Who, What, Where, When, How

AGENCY CUSTOMER ID: _____	
	FLOOD INSURANCE SELECTION / REJECTION
DATE (MM/DD/YYYY)	NAIC CODE
AGENCY	CARRIER
POLICY NUMBER	EFFECTIVE DATE
APPLICANT / NAMED INSURED(S)	
IMPORTANT NOTICE	
<p>Flood insurance is available under the National Flood Insurance Program (NFIP) in thousands of communities nationwide. It provides coverage for residential and non-residential buildings and their contents, in both high risk as well as low risk areas. Historically, about one quarter of all losses under the NFIP are in low risk areas.</p> <p>Flooding is the largest single cause of natural disaster loss and damage in our country. The standard homeowners, dwelling or commercial property insurance policy typically excludes or does not otherwise provide coverage for flood damage. Purchasing separate flood insurance coverage will allow covered flood losses to be adjusted in a similar manner as losses from other perils in other property policies.</p> <p>The Federal Emergency Management Agency (FEMA) advises that although federal disaster relief assistance is sometimes available after a flood, such financial assistance is typically in the form of a loan and must be repaid to the Government in addition to any other outstanding loans.</p> <p>To the extent that NFIP and/or alternative market flood insurance is available for the property, as your insurance representative, we strongly recommend that you purchase flood insurance.</p>	
SELECTION / REJECTION OF FLOOD INSURANCE COVERAGE	
<p>I understand that flood insurance coverage, either with NFIP or an alternative market, may be available for the property located at the address below. I understand that not all properties are eligible for NFIP coverage (non-participating community properties or coastal barrier resources system properties) and Loss of Income and/or Additional Living Expense coverage is not currently available from the NFIP. I select or reject coverage as indicated below.</p> <p>I also understand that my selection / rejection of this coverage will apply to all future renewals, continuations and changes unless I notify you otherwise in writing.</p>	
<u>TYPE OF COVERAGE</u>	<u>ACCEPT</u> <u>REJECT</u>
NFIP Building Coverage	<input type="checkbox"/> <input type="checkbox"/>
NFIP Contents / Personal Property	<input type="checkbox"/> <input type="checkbox"/>
Excess Building Coverage	<input type="checkbox"/> <input type="checkbox"/>
Excess Contents / Personal Property	<input type="checkbox"/> <input type="checkbox"/>
Alternative Market Primary Building Coverage	<input type="checkbox"/> <input type="checkbox"/>
Alternative Market Primary Contents Coverage	<input type="checkbox"/> <input type="checkbox"/>
Alternative Market Loss of Income or Additional Living Expense	<input type="checkbox"/> <input type="checkbox"/>
Applicant's Signature _____	Date _____
Address of Property _____	
_____ _____	
Producer _____	Date _____
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Risk Management (4/5)

■ Claims

- Coverage determination
- Reporting claims to carrier
- Notify all relevant carriers
- Follow-up until resolution

■ Disaster Plan for the Agency

- Business continuity plan
- Resources available: *Best Practices of Crisis Management—A Step-By-Step Business Recovery Planner*

Available to members:



Agility works with over 1,000 insurance agencies helping them be prepared to get back in business after a disaster. They provide disaster preparedness services like remote location or “hot site” or their Agility ReadySuite mobile replacement office capability.

Learn more at:
www.agilityrecovery.com

Risk Management (5/5)

■ Catastrophe extra expense

- Swiss Re Corporate Solutions policy feature at no extra charge

CATASTROPHE EXTRA EXPENSE. We will pay up to \$10,000 per catastrophe subject to a per “policy period” aggregate limit of \$25,000 for the actual extra expenses incurred by you as a result of a catastrophe during the “policy period” beginning on the date of a catastrophe and for thirty (30) days thereafter. **The extra expense incurred must be incurred by you only to assist in the insurance claims processing needs of your customer(s) who have been affected by the catastrophe.** The catastrophe must be a declared catastrophe by the Property Claims Services. A \$500 Deductible for each “claim” shall apply to each “claim” made under this paragraph. Limits provided by this paragraph are part of and not in addition to the limits provided by this “policy.”

Questions

Please send questions to:

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- Jim Redeker at James_Redeker@swissre.com
- Max Cohen at mcohen@lowestein.com
- David Hulcher at David.Hulcher@iiaba.net

For technical coverage questions, Big “I” Virtual University Experts stand ready to assist at:

<http://www.iiaba.net/VU/Experts/ExpertsMain.htm>



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Swiss Re



Thank you!

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