SURPLUS LINE REPORTER & INSURANCE NEWS

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NEWS IN BRIEF

MERGERS/ACQUISITIONS

LCTA announced March 2 that it has entered into an agreement to sell its managing general agency, LCTA Risk Services Inc., to Trean Corporation. LCTA will represent Trean's affiliated insurance companies, American Liberty Insurance Company and Benchmark Insurance Company, which are rated A VIII by AM Best. The companies offer competitive workers' compensation rates in 49 states. LCTA has provided workers' compensation coverage to Louisiana businesses since 1990. Founded in 1996, Trean is headquartered in Wayzata, Minnesota, and has offices in 10 states. "We are excited to enter the next phase of LCTA's evolution," said **Melissa Campesi**, LCTA's president and chief executive officer. "We will continue to provide our agents and insureds the same great service they have come to expect." Commenting on the agreement, **Joy Edler**, Trean's chief operating officer, said, "We are pleased to welcome LCTA Risk Services into the Trean family. Our organizations share similar cultural values."

Aon plc and Willis Towers Watson announced March 9 a definitive agreement to combine in an all-stock transaction with an implied combined equity value of approximately $80 billion. The combined company, to be named Aon, will be a technology-enabled global professional services firm focused on the areas of risk, retirement and health. Aon will maintain operating headquarters in London, U.K. **John Haley** will take on the role of executive chairman with a focus on growth and innovation strategy. The combined firm will be led by Aon CEO **Greg Case** and Aon Chief Financial Officer **Christa Davies**, along with a leadership team that reflects the complementary strengths and capabilities of both organizations. The board of directors will be composed proportionally of members from Aon's and Willis's current directors. Under the terms of the agreement, each Willis shareholder will receive 1.08 Aon ordinary share for each Willis ordinary share, and Aon shareholders will continue to own the same number of ordinary shares in the combined company. Upon completion of the combination, existing Aon shareholders will own approximately 63 percent, and existing Willis shareholders will own ap-

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LDI presents package of bills at meeting

The Louisiana Department of Insurance presented its legislative agenda for the 2020 Regular Session of the Legislature during the closing session of the LDI Conference 2020 held March 4 and 5 at the Crowne Plaza Baton Rouge Hotel.

Presenting the legislative agenda were, from the department of insurance, Warren Byrd, deputy commissioner of property and casualty; Caroline Fletcher, deputy commissioner of financial solvency; Frank Opelka, deputy commissioner of health, life and annuity; Barry Ward, deputy commissioner of licensing; Tom Travis, executive director, property and casualty commission, and Rich Piazza, chief actuary. Each presented the bills that he/she would shepherd through the legislative process.

The property and casualty bills that Byrd will oversee for the Office of Property and Casualty are:

-HB 170, sponsored by Rep. Paul Hollis, R-Covington, would revise workers' compensation terminology language by changing "La. domiciled independent claims adjusters" to "licensed workers' compensation claims adjusters domiciled in this state."

-SB 72, sponsored by Sen. Gary Smith Jr., D-Norco, will create a flat fee for all form filings. The bill is intended to eliminate administrative burden and confusion for insurers. It will set a uniform filing fee for all insurers making a form filing via SERFF (System for Electronic Rate and Form Filing). The fee would be $50 instead of a unique fee based on the type and amount of forms filed. The proposed law removes the $25 fee for each company filing of property and casualty endorsements, amendments or riders.

-SB 119, sponsored by Sen. Robert Mills, R-Minden, would prohibit a policy or contract of insurance from including defense costs that would reduce the limit of liability set forth in the policy or contract, unless waived by the commissioner. The proposed law allows the commissioner of insurance to waive the prohibition for certain types of policies, including professional liability other than medical malpractice, directors' and officers' liability, errors and omissions liability, pollution liability, em-

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Economy hums if inflation, interest low

Predictions tough with such turmoil in the world

According to an economist who was the White House director of economic policy under George H.W. Bush, the United States economy is in pretty good shape. Inflation is slow. Interest rates are low. Unemployment is nearly at its lowest point ever. Consumers have buying power; they can fill their gas tanks and heat their homes, and they have money invested in the stock market.

Speaking at a gathering of insurance agents held in Austin during the last week of January, Todd Buchholz made his evaluation of the economy several weeks prior to the coronavirus (COVID-19) taking hold in the U.S. and Saudi Arabia getting in a tiff with Russia over whether or not to cut back on the production of oil, all of which led to the stock market bouncing up and down, but mostly down.

Even though a lot has happened to the economy in a short period of time, his remarks remain instructive.

Buchholz, whose books include New Ideas from Dead Economists and, nearly 20 years later, New Ideas from Dead CEOs, talked about megatrends that make the market unpredictable, as well as the status quo of the economy and where it's headed, and leadership.

Things are quick to change

"It's hard to predict what's going to happen with such turmoil in the world," Buchholz said, referring to riots in various parts of the world, to Brexit and before that Mexit. "It is hard to predict economically and financially," he said. "Our icons could crumble."

To show how things got turned upside down during the most recent recession, Buchholz pointed out that during the recession, GM was valued at less than Hot Wheels (Originally made by Mattel in 1968). "Hot Wheels could have bought GM," he said. "We never imagined that we lived in a world where a toy could be worth more than the real thing."

Back then there was no Tesla. Today, Tesla is virtually worth more than any other automobile company. "It is extraordinary how quickly things change," he observed.

The paradox of prosperity and anger

Buchholz talked about the paradox of living in a prosperous time and there being so much "anger, anxiety and discontent" in the world.

He explained the current prosperity by pointing out that in 1959 it took two weeks of labor to purchase a refrigerator. Now, it takes about 20 hours of labor. For every hour an individual worked back then, the person could buy one chicken. Now, the

See **U.S. ECONOMY** Page **21**

Louisiana Citizens board votes on CAT vendors

At the March 7 meeting, of the Louisiana Citizens Property Insurance Corp. (Louisiana Citizens) board of directors, the board voted on the CAT Vendor RFP, the 2019 year-end financials, and the filing of those financials with the Louisiana Department of Insurance.

Due to the overwhelming response to the 2020 RFP for catastrophe services, Louisiana Citizens extended the evaluation period to allow the selection committee additional time to complete the evaluation process, Louisiana Citizens CEO Richard Newberry told the board. Louisiana Citizens received responses from 22 companies to provide at least one of the following: primary catastrophe third-party administrative services, backup catastrophe third-party administrative services, catastrophe adjusting services, or catastrophe first notice of loss call center services.

Alacrity (formerly Worley Catastrophe Services) in Hammond, was selected to handle primary catastrophe third-party administrative services, while MD Claims Group in Covington was selected to provide backup catastrophe third-party administrative services. In a catastrophe, both companies collectively will provide 525 adjusters to Louisiana Citizens.

Five companies were chosen to provide catastrophe adjusting services by providing Louisiana Citizens access to at least 40 catastrophe adjusters. The five companies selected are, BSA Claim Service, Fort Lauderdale, Florida; Inspection Depot, Jacksonville, Florida; Legion Claims Solutions, Baton Rouge; Schafer, Wood and Associates, Denison, Texas, and Team One, Irving, Texas.

Alacrity was also the choice to provide the catastrophe first notice of loss call center services.

Newberry told the board that 725 adjusters would be available to Louisiana Citizens in the event of a catastrophe. Even if there was a claim on every inforce policy, Louisiana Citizens would meet the industry standard of 50 claims per adjuster during a catastrophe, Newberry added.

The board voted unanimously to approve the provider selections.

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Department bills

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ployment practices liability, and cyber and technical liability. The proposed law specifies that defense costs that reduce the limit of liability shall not include overhead costs, adjusting expenses, or other expenses incurred in the ordinary course of business. The bill aligns with an existing Attorney General opinion that the Louisiana Department of Insurance already uses as a guideline.

-SB 417, sponsored by Sen. Kirk Talbot, R-Jefferson, would repeal the law requiring insurers to report to the commissioner of insurance commercial auto information by parish and zip code.

-SB 195, sponsored by Sen. Louie Bernard, R-Natchitoches, would spread the existing requirement to notify of policy reinstatement to relevant parties to all lines of property and casualty policies and not just property policies. Upon reinstatement of a cancelled casualty policy, all parties who were notified of the cancellation would need to be notified of the reinstatement.

-SB 71, sponsored by Smith, would revise the Automobile Insurance Plan to eliminate the duplicative burden shared by all vehicle insurers in the state by permitting the pooling of especially high risk policies into one group to be more efficiently managed by a single third party administrator. The proposed law would create a Personal Automobile Insurance Procedure and a Commercial Automobile Insurance Procedure. The law would provide for allocation of the PAIP operating results to subscribers that write private passenger motor vehicle insurance and allocation of the CAIP results to subscribers that write commercial motor vehicle insurance. The proposed law requires that all companies writing insurance for private passenger motor vehicles, commercial motor vehicles and other motor vehicles be subscribers to the plan and share in the administrative expenses based on a subscriber fee and an assessment based on the market share of premiums.

-SB 65, sponsored by Talbot, would allow deployed military service members to avoid a penalty for lapse of automobile coverage by notifying their insurer of their deployment rather than being required to turn in their license plate or plates to the Office of Motor Vehicles prior to their deployment. The insurer would then notify the Office of Motor Vehicles. The bill would amend both R.S. Title 32 and the Insurance Code, Title 22.

The property and casualty bills that Fletcher will oversee for the Office of Financial Solvency are:

-HB 232, sponsored by Rep. Alan Seabaugh, R-Shreveport, would authorize the commissioner to determine where control within an insurance holding company system exists. In the event of an insurer "controlling party" appeal, the commissioner would have the discretion to make the final determination of the controlling party according to the percentage of ownership.

-HB 547, sponsored by Hollis, would update and modernize investment requirements regarding permissible investments, investment practices, and investment concentrations. The bill was developed in a series of collaborative meetings with Loui-

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Adapt the Queen for a Day format for business innovation

By Michael G. Manes
Manes and Associates

NOTE: Before you read the article that follows consider this legend about Head and Shoulders Shampoo. Rumor has it that after the success of their first year in the market – all the executives gathered to consider ways to leverage their rookie accomplishments into a doubling of sales in year two.

The day was spent with every ego in the room competing for the best idea. Unfortunately nothing clicked with the decision makers. Finally near the end of the session, a meek and mild administrator raised her hand and suggested, "What if we included the words, 'Rinse and Repeat' on the instructions on each bottle?" And so it was done, and sales doubled.

Now consider this story…

Do you want to be queen for a day?

For over 20 years, this question could be heard in American households five days a week, as it introduced one of the most popular television shows during the 1950s and 60s. Queen for a Day was a daytime television program that served as a precursor for reality television today. Hosted by Jack Bailey, the show first aired as a radio program in 1945. It began airing on local Los Angeles television in 1947, until it was picked up by NBC in 1956. The show remained with NBC until 1960 before moving to ABC, where it remained until 1964.

> *In the long term, the challenge is to determine if concepts presented were fertilizer or manure.*

At the time, Queen for a Day served as a modern day rags-to-riches reality show. Broadcasting live from the historic theatre-restaurant, Moulin Rouge, in Hollywood, each episode would consist of three to four women competing to become Queen for a Day. The women revealed their most personal stories to the American public. Audience members then decided which woman's story was most heart wrenching (by use of the applause-o-meter), and the winner was crowned Queen for a Day. The selected queen was dramatically adorned with a crown, robe, and roses. Queens received gifts such as appliances, fully paid nights out, and many, many other prizes, known today as product integration.

If you're near my age (70+), you'll probably remember this program. It was in a simpler time and a simpler place. It might have been the first Reality TV before that term was invented. Today, no one would have the patience to watch this program.

At its simplest, each contestant told their story and attempted to sell the audience on her issue and need. The winner was the individual with the most compelling story. Efficiency required a story that was short, concise and to the point. Effectiveness was in the storyteller's ability to have the audience feel her pain.

If you want to learn more about this time of innocence – check it out for yourself. If you want to leverage this concept to better your agency, organization or company, consider adapting this award show format of yesterday for your most important business innovation initiatives tomorrow.

What if you periodically facilitated a structured process to allow every employee and/or stakeholder important to your organization an opportunity to conceptualize, prepare, and present their best ideas for change, innovation or transformation and a team of judges truly listened with an open mind?

The participants' job would be to sell their proposed innovation. As the judge, your job would not be an up or down vote; instead, you would encourage a culture of innovation. When the ideas appeared to offer potential, you would provide support for further research and development.

In the long term, the challenge is to determine if concepts presented are fertilizer or manure. If adopted, would the idea help growth/profitability in the future or would it just muck things up? Very few true innovations will be quickly embraced by anyone who is comfortable in the status quo. Leaders must protect and project a culture of innovation.

Your future is in embedding innovation and creativity in the culture and building a can-do attitude in your team. The first step is to stop giving quick answers to new ideas. Eliminate the following questions from your easy answer system:

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Queen for a day

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-Let's not reinvent the wheel.

-We've always done it this way.

-The devil's in the detail. (Michelangelo is sometimes credited with saying, "God is in the detail." His religious inspired paintings and sculptures certainly exhibit exquisite detail.)

Carefully select your team of judges who will hear the new ideas. Choose only those with open minds and enthusiasm. Avoid inflexible old codgers as well as the arrogant youngsters who think high tech is always the answer. All should understand the benefits of balancing high tech with high touch.

This process is not about tweaking the status quo. You already do that. This is about creating anew. Be open to changes in all of the following areas:

-Organization– Transformational development or growth in your organization and individual team members comes with the highest risks, but provides the greatest reward. High tech and high touch are necessary.

-Operations– This is about the things you and your team do, the mechanics of your agency. The goal is efficiency: doing things right.

-Marketing– This is about profitably meeting the wants and needs of your clients and prospects when, where, and how they are. If you want a glass of milk, you don't sit on a stool in the middle of the pasture and expect a cow to back up to you. Go find a cow. The goal here is efficacy or effectiveness: doing the right things.

-Innovation– This is about scanning the ever changing/evolving horizon of the future to determine who will be the customer and what their wants and needs will be, then developing products and services to meet these wants and needs. Most importantly, you must deliver these products and services at a profit. Price your products and services to sell, and then innovate your processes to insure profitable delivery at this price.

Nobody said it would be easy. To the victors go the spoils! For the true skeptics of change, remember, we've already walked on the moon.

MICHAEL G. MANES is the owner of Manes and Associates, a New Iberia based consulting business focusing on planning, sales and operations, and change. He has over 46 years of insurance industry experience, including serving as an instructor of Risk and Insurance at Louisiana State University.

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proximately 37 percent of the combined company on a fully diluted basis. Aon anticipates that the transaction will provide cost reductions of $800 million by the third full year of combination.

AMTRUST TRANSITION

On March 5, AmTrust Financial Services announced it has entered into an agreement with Safeco Insurance, a Liberty Mutual Company, to provide personal lines agents appointed with Republic General Agency an opportunity to transition their Republic policies to Safeco beginning in the third quarter of 2020. AmTrust, a workers' compensation and extended warrant provider, decided to exit, pending regulatory approval personal lines products written through its Republic carriers. AmTrust said its agreement with Safeco will provide a smooth transition for Republic personal lines policyholders across Texas, Louisiana, Oklahoma, Arkansas, Mississippi and New Mexico.

MEETINGS/EDUCATION

The Bossier Parish Community College will hold Property and Casualty Pre-License courses May 8, 9, 15 and 16 from 8:00 a.m. to 6:00 p.m. on Fridays and Saturdays. The course totals 40 hours of instruction by **Ardie Cesario**. The cost is $289, including textbook. The course will be repeated July 17, 18, 24 and 25. Registration is available on line at www.bpcc.edu or by calling 318-678-6558.

CORONAVIRUS

The United States Congress is set to hear a recently introduced multi-billion dollar measure proposed in response to the economic dislocations caused by the coronavirus pandemic. If passed the measure will provide emergency paid sick leave, enhanced unemployment benefits and free coronavirus testing. The bill also expands eligibility for food stamps, school lunches and infant feeding programs to aid those affected by the virus or the economic downturn and would temporarily increase federal spending on state Medicaid programs. The new emergency paid leave benefit would give workers up to two-thirds of their average monthly earnings – capped at $4,000 per month – for up to three months, provided their employers or states aren't paying for that leave. Workers will have to have taken at least 14 emergency leave days related to the coronavirus to qualify. The House is expected to vote on the measure in March.

Government travel alerts and health concerns related to the coronavirus pandemic have caused travelers to cancel trips only to find that they can't get refunds and their travel insurance does not cover epidemics. The International Air Transport Association has said that the airline industry could lose about $113 billion because of the virus. Sales of cancel-for-any-reason insurance jumped 275 percent in January and February, compared to the same time last year, according to NBC News. With high demand for full coverage, some insurers are

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Department bills

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siana insurance industry representatives using NAIC model language. Among other things, the proposed law provides for what assets are admitted and requires that investments not make up more than five percent of the insurer's admitted assets, subject to certain exceptions.

The property and casualty bills that Travis will oversee for the Office of Financial Solvency are:

-HB 131, sponsored by Rep. Michael "Gabe" Firment, R-Pollock, would exempt the Louisiana Insurance Guaranty Fund from liability for Medicare, Medicare Advantage Plans and any agency or program of the federal government or of any state or political subdivision.

-HB 247, sponsored by Rep. Kyle M. Green Jr., D-Marrero, would update rules that allow the Louisiana Department of Insurance to give credit for an insurance company's reinsurance policy. This is an NAIC model update.

The property and casualty bill that Piazza will oversee for the Office of Financial Solvency is:

-HB 682, sponsored by Rep. Lawrence "Larry" Frieman, R-Abita Springs, would allow the Louisiana Department of Insurance to accept the "actuarial opinion" of foreign (other state) and alien (other country) regulators in lieu of the obsolete "Certificate of Valuation."

The bill would also update the "qualified actuary" education requirements to current and more objective NAIC model language, including specific exams required. It takes existing department policy regarding the way insurance companies must calculate their reserves and puts it in statute in order to maintain the department's national accreditation.

The property and casualty bills that Ward will oversee for the Office of Licensing are:

-SB 175, sponsored by Bernard, would repeal the statutory deposit requirements for insurers that are covered by guaranty funds because more recent solvency protections such as uniform liquidation procedures and robust guaranty funds provide much more protection for Louisiana policyholders.

-HB 185, sponsored by Rep. Matthew Willard, D-New Orleans, would codify the Louisiana Department of Insurance's authority to require producers of fraternal benefit society products to be licensed. All producers of the entities known to the department are already licensed and are in favor of the statutory confirmation.

The property and casualty bills that Travis will oversee for the Office of Consumer Services are:

-HB 296, sponsored by Rep. John R. Illg Jr., R-River Ridge, would require a written request for consumer-requested policy cancellations. Notice must be a visual, tangible form of notification.

-HB 614, sponsored by Seabaugh, would enact the NAIC Insurance Data Security Model Law which requires a licensee to develop, implement and maintain a comprehensive, written information security program. The proposed law requires the licensee to conduct a risk assessment, investigate cybersecurity events, notify the commissioner in 72 hours and consumers of an event, and provides an exemption for licensees with fewer than 10 employees. The NAIC model law has been passed in some form in eight states with others pending.

Louisiana Citizens

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Reinsurance structure

Newberry updated the board on the renewal strategies for the 2020-2021 Louisiana Citizens Reinsurance Structure. The reinsurance structure for 2019 has a $610 million cap that provides coverage for a 302-year probable maximum loss. The 2020 reinsurance structure will have a $560 million cap that provides coverage for a 303-year probable maximum loss.

Newberry explained to the board that the drop in the residual insurer's total insured value is the reason that the $50 million drop in the reinsurance cap still provides protection for a greater probable maximum loss than in the prior year. At the end of 2019, Louisiana Citizens had $6.3 billion in total insured value compared to $6.8 billion at the end of 2018, a drop of 7.6 percent. Louisiana Citizens had $60.8 million in premium at the end of 2019 compared to $65.4 million at the end of 2018, a drop of 7.1 percent.

The parishes with the largest year-over-year decline in total insured value are: Jefferson, down $141 million, or 10.8 percent; Orleans, down $126 million, or 7.3

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Louisiana Citizens

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percent, and Terrebonne, down $45.5 million, or 13.3 percent.

The lines of business that had the greatest decline in total insured value are: Dwelling, down $343.3 million, or 6.2 percent; Commercial, down $65.1 million, or 12.1 percent, and Homeowners, down $110.9 million, or 14.4 percent.

The FAIR Plan and Coastal Plan declined at similar rates on a total insured value basis.

2019 year-end financials

In reporting on the 2019 year-end financials, Vice President of Accounting and Finance Joseph Sciortino indicated that Louisiana Citizens ended 2019 with a surplus of $186.4 million compared to a surplus of $174.4 million at the end of 2018.

Louisiana Citizens' net income for 2019 was $9.8 million, a total that is $6 million more than the budgeted income of $3.8 million. Sciortino attributed this to higher than expected net premiums earned.

He also reported that Louisiana Citizens ended 2019 with $220.9 million in operating cash and cash investments compared to $209.7 million in operating cash and cash investments at the end of 2018.

Sciortino told the board that this years' audit is progressing smoothly, and the audit is on track to be completed in a timely fashion. He reported that the statutory audited financial statement is due by June 1, and the GAAP (Generally Accepted Accounting Principles) audited financial statement is due by June 30.

After Sciortino's report, the board voted unanimously to submit Louisiana Citizens' 2019 Yellow Book financials to the Louisiana Department of Insurance.

Personal lines rate filing

Newberry reported to the board that the Louisiana Department of Insurance approved Louisiana Citizens' 2020 personal lines rate filing with an adjustment in the rates for Louisiana Citizens' FAIR Plan.

In January, Louisiana Citizens' board voted to send its 2020 Personal Lines Rate Filing to the department. The rate filing, as passed by the board, was a 0.4 percent proposed overall average rate increase with a 0.5 percent rate increase in the FAIR Plan and a 0.1 percent rate reduction in the Coastal Plan. Also part of that vote was the stipulation that if the Department approved the rate filing without a change greater than plus or minus 0.5 percent, Louisiana Citizens' management could implement the rate change without a board vote.

The FAIR Plan proposed rate change was altered by the department as a result of an insurance company being included in the market study that should not have been included. The company was later excluded from the market study because it does not sell dwelling policies that include coverage for wind and hail. The company's exclusion from the study caused the FAIR Plan rate change to be a 0.1 percent reduction instead of a 0.5 percent increase, causing the overall rate change to be a reduction of 0.1 percent instead of a 0.4 percent increase. Most of the change benefits Jefferson Parish policyholders. In the new calculation, Jefferson Parish changes from a 10.2 percent rate increase to a 5.3 percent rate increase.

The department's change was within the plus or minus 0.5 percent, so the board was not required to vote on the change in the rate filing. The new rates are effective June 1.

NEWS IN BRIEF

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limiting how much they will write.

The number of families with surprise medical bills related to government-mandated actions is on the rise, especially as the coronavirus continues to spread, The New York Times reported March 2. The federal government has the authority to quarantine and isolate patients if officials believe them to be a public health threat, but these powers are rarely used. They don't say anything about who pays when the isolation happens in a nongovernmental medical facility — or when the patient is brought there by a private ambulance company. These hospital stays could prove expensive. The International Federation of Health Plans estimates that the average day in a U.S. hospital costs $4,293, compared with $1,308 in Australia and $481 in Spain. The hospital stays may be especially costly for patients without health insurance or for those who have large deductibles.

When the number of confirmed cases of coronavirus recently topped 100,000 worldwide, including more than 1,000 confirmed cases altogether in 36 U.S. jurisdictions, the National Association of Insurance Commissioners (NAIC) decided to hold its Spring National Meeting in a virtual-only format. The meeting originally was scheduled for March 20-24 in Phoenix. Now, the various meetings will run from March 20 through April 20. For more information, visit www.naic.org.

Effective in mid-March, IIABL and PIA of Louisiana have postponed all events previously scheduled for March and April, including the IIAGNO golf tournament scheduled for April 3. In addition the University of Louisiana at Monroe Risk and Insurance Management Alumni Club plans to reschedule its fundraiser, a golf tournament, which was originally scheduled for April 2 at Frenchmen's Bend Golf Club.

INSURERS' INVESTMENTS

With the outbreak of the coronavirus, insurers are facing the prospect of paying claims out of invested assets that are unraveling, Reuters reported March 12. United States 10-year bond

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LDI Conference 2020 was held at the Crowne Plaza Baton Rouge Hotel

Bill Schulenberg, left, Apple Adjusters, with Michelle Hughes, U.S. Forensics, and Andy Condrey, The Gray Insurance Company.

Dawn Duhé, left, Stiel Insurance, with Rusty Ruiz, Access Home Insurance Company, and Tammie Acosta, Acosta Insurance Agency.

Paige LaCombe, left, UDB Insurance, with Deidre Arceneaux, LIGA.

Steve Brown, left, Legion Claims Solutions, with Darryn Melerine, MD Claims Group.

From left are Matthew Monson, The Monson Law Firm; Louisiana Insurance Commissioner Jim Donelon, and Chris Landry, The Monson Law Firm.

Tara Miller, Ochsner Health System, with Kelly Daul, Daul Insurance Agency.

From left are Crystal Bunol, Gulf States Insurance Company; Trevor Burgess, Neptune Flood; Marc Carter, and Noel Bunol, both with Gulf States Insurance Company.

Glenda Averitt, left, Amerisafe Insurance Company, with Jackie Shah, AmWINS Brokerage, and Scott Duplechein, Hughes Insurance.

Louisiana Insurance Commissioner Jim Donelon, left, with Marc Eagan, Eagan Insurance Agency.

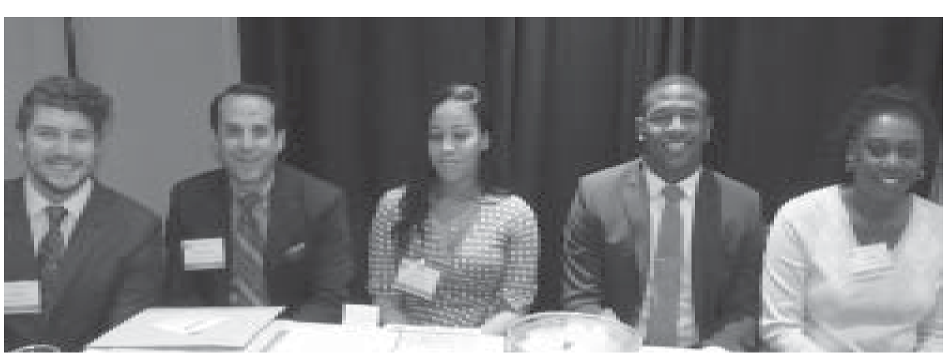
Greg Pellegrini, left, and Bill Leahy, both with Maverick Claims.

Brittany Schule Orlando, left, Emergency Restoration, with James Hailey, Lewis, Brisbois, Bisgaard and Smith, and Brittany Stoudt, Emergency Restoration.

Tay Davis, left, and Oneka Hays, both with the Louisiana Department of Insurance.

Desi Rheams and Barbara Gooden, both with the Louisiana Department of Insurance.

With the Louisiana Department of Insurance are, from left, Danielle Blanchard, Sallie Hitchens, Jessica Creel and Dayna Poché.



With the Louisiana Department of Insurance are, from left, Sam Breaux, Shane O'Quin, Mamie Smith, Chris Butler and Kathleen Dean.

Agency M&A deals in U.S. and Canada inch higher in 2019

Mergers and acquisitions of insurance agents and brokers broke records in 2019, according to OPTIS Partners' annual report. The OPTIS database logged a record 649 deals in the United States and Canada in 2019, including 320 transactions in the second half of the year and 149 transactions during the fourth quarter.

In 2018, previously the most active year, there were 643 M&A deals, OPTIS said in a news release issued Feb. 4.

"Agency valuations continue to climb based in part on the continued expansion of interest from the PE/hybrid group," said Timothy J. Cunningham, managing director of OPTIS, an investment banking and financial consulting firm specializing in the insurance business. "There's nothing on the horizon to indicate any change should be expected in the current state of agency M&A."

The report covers firms selling primarily property and casualty insurance and related MGAs and TPAs, both P&C and employee benefits, and employee benefits agencies.

Private equity/hybrid buyers accounted for 448 transactions, representing 69 percent of the total, compared with 434 transactions, or 68 percent, in 2018.

The number of unique buyers has dropped from 153 in 2016 to 131 in 2019, while the number of PE/hybrid buyers has increased from 27 to 35 during the same period. At the same time, the top 10 buyers in 2019 accounted for 58 percent of transactions, a slight decrease from 61 percent in 2018.

The top five buyers were Acrisure (98 acquisitions), HUB International (51), AssuredPartners (44), Broadstreet Partners (34) and Gallagher (33). All were in the PE/hybrid category except publicly owned Gallagher.

Privately owned firms completed 118 transactions in 2019, up from 114 acquisitions in 2018.

P&C agencies were top sellers

By seller type, property-and-casualty-focused agencies dominated the list. They accounted for 329 of the 2019 transactions, 51 percent of the total. Employee benefits brokers accounted for 162 transactions, 25 percent of the total.

"Despite the slight reduction in the number of deals completed during the latter half of 2019, we believe the environment remains very strong for agencies looking to sell," said Daniel P. Menzer, OPTIS.

"With the multiples being offered, few sellers should have any difficulty achieving the financial returns they are looking for. And with such a variety of buyers in the marketplace, sellers need to fully explore their options in order to find the right partner with a culture and business model that will best fit their people, clients, and organizational structure."

The OPTIS database tracks a consistent pool of the most active acquirers and other announced transactions, and is, therefore, a reasonably accurate indication of deal activity in the sector. The actual number of agency acquisitions was far greater than the number reported, as many buyers and sellers do not report transactions, and some acquirers do not report small transactions.

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yields have more than halved since the end of 2019. Analysts estimate that at least half of insurers' $20 trillion in assets under management is invested in government bonds. Falling yields require insurers to set aside more capital now for future payments to policyholders, puncturing their solvency levels, Reuters reported. After years of rock-bottom bond yields, insurers turned to riskier corporate debt. U.S. life insurers had more than 34 percent of their portfolios in triple-B rated debt in 2018, according to AM Best. Increased equity exposure adds to vulnerability.

ABUSIVE LITIGATION

Nat Wienecke, senior vice president of federal government relations at the American Property Casualty Insurance Association (APCIA), submitted a statement into the record of the Senate Subcommittee on Transportation and Safety hearing on Feb. 4, to steer the committee to include consideration of "the costs of abusive litigation on the trucking sector." The subcommittee met to hear about technological advances that make vehicles safer and improvements needed for the nation's roads. APCIA members write approximately 70 percent of the commercial auto insurance coverage in the U.S., including commercial trucking. Through a 2019 survey by APCIA, insurers ranked transportation liability and legal costs as the second most worrisome liability trend, second only to construction liability.

CAPTIVES FINED

Efforts by Washington State to make captive owners pay the state's two percent premium tax have led to fines, settlements, legal challenges, and proposed changes to the law, according to news sources. In December 2019, Washington State Insurance Commissioner **Mike Kreidler** ordered Olympic Casualty Insurance Company, a captive owned by Seattle-based Starbucks Corp., to pay $23.9 million in unpaid taxes and fines, and in September 2019, he ordered ASA Assurance Inc., a captive owned by Seattle-based Alaska Airlines Group, to pay more than $2.5 million. Kreidler ordered both captives to stop insuring risks in Washington, ac-

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LDI submits the Act 412 report to Joint Legislative Committee

Act 412 of the 2019 Regular Legislative Session mandated that the Department of Insurance establish the Louisiana Guaranteed Benefits Pool, which only becomes active in the event that the Patient Protection and Affordable Care Act of 2010 is ruled unconstitutional by the United States Supreme Court. In fulfillment of the mandate Commissioner of Insurance Jim Donelon on March 11 submitted an Act 412 report to the Joint Legislative Committee on the Budget.

The report was addressed to Sen. Mack “Bodi” White Jr., R-Baton Rouge, who chairs the joint committee, and to Rep. Jerome Zeringue, R-Houma, vice chairman of the joint committee.

The LGBP is a risk-sharing program designed to reduce premiums for health insurance products offered in the individual market by defraying claims cost of high-risk insureds in the market. The LGBP will apply to lives covered by non-grandfathered health insurance products in the individual market.

In designing the LGBP, the department surveyed stakeholders and other states to determine best practices and engaged actuarial firm Lewis and Ellis Inc. to conduct an actuarial analysis of the cost of the program.

“Based on the outside actuarial study, this program is slated to reduce individual market premiums by 35 percent to 40 percent, or nearly $300 per month, and this level of savings represents an earth-shattering financial benefit to potential policyholders,” Donelon said. “This level of reduction is sure to create a significant return to the individual marketplace by moderate-income Louisianans, in particular those with pre-existing conditions, who are currently priced out of the market” by the income only focus of the current federal subsidy program.

The PPACA structure has three interrelated central provisions, according to the report. The provisions are core substantive protections, federal subsidization and the individual mandate. The first provision defines the minimum of health benefits all policies must cover, provides a wide array of protections for individuals with pre-existing conditions, requires that insurers determine rates at a community level rather than health factors of a particular insured, and prohibits annual and lifetime coverage limits.

The second provision is critical to keeping the individual market health insurance affordable. To preserve the protections, the LGBP needs to have sufficient funding.

While the LGBP program is targeted at protecting individuals with pre-existing conditions rather than directly addressing the loss of income-based subsidization, it provides a critical first step to affordability while preserving more than half of the funding available under Act 412 to further enhance affordability for low- to moderate-income Louisianans, the report explains.

In addition, the department suggests a number of affordability-focused programs for further evaluation based on Act 412.

The LGBP program cannot become effective until the attorney general notifies the commissioner of insurance that the PPACA has been held unconstitutional and adequate funding exists through appropriation by a combination of federal and state legislatures.

The Risk Manager in Residence Luncheon was held at the Petroleum Club of Lafayette

Dr. William L. Ferguson, left, UL Lafayette, presents a plaque to Lance J. Ewing, Cotton Holdings Inc., thanking him for being the Risk Manager in Residence.

Current and former students of the UL Lafayette Insurance/Risk Management Program who were in attendance at the Risk Manager in Residence luncheon, sponsored by the B.I. Moody III College of Business, the UL Lafayette Insurance/Risk Management program and student members of the UL Risk Management and Insurance Society, to hear Lance J. Ewing speak on current events affecting the insurance world.

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cording to a press release issued by the Washington department Dec. 31. ASA demanded a hearing, which is set for July 13. Olympic Casualty has asked for a hearing, and a stay is in place for the fine and C&D pending the outcome of the hearing. ASA issued four policies for Alaska Air Group and its subsidiaries, collecting $91 million in premium. Olympic Casualty issued 44 policies in Washington State from 2008 through 2019, collecting $633.4 million in premium. According to the press release, captives are not authorized under Washington State law. Washington offered reduced fines to captives that self-report unpaid taxes by June 30. So far, 16 companies have self-reported, and two captives have paid $2.9 million in unpaid premium taxes and $1.4 million in fines, the release noted. Kreidler reached a settlement of $876,820 with Cypress, a captive insurer for Microsoft Corp., in August 2018 and reached a settlement of $3.6 million with NW Re Limited, a captive insurer for Costco Wholesale Corp., in March 2019.

NAIC REPORTS

The National Association of Insurance Commissioners issued its profitability report last month showing that the property/casualty sector of the insurance business had direct premiums earned of $11.8 billion in 2018. Private passenger auto at $4.8 billion accounted for nearly 40 percent of the total premiums earned. Homeowners direct premium earned at $1.9 billion accounted for another 16 percent of the total. Underwriting profit for all lines written in Louisiana stood at 7.1 percent in 2018. Commercial auto was the big loser, with liability and physical damage together having $727 million in earned premium and an underwriting loss of 42.1 percent. Breaking out the commercial auto, commercial auto liability had an underwriting loss of 51.5 percent (among states only Nevada did worse) while commercial auto physical damage showed an 8.6 percent profit (middle of the road among states). Private passenger auto showed an underwriting loss of 0.2 percent, with liability losing 7.7 percent (among states only Michigan and New York lost more) and physical damage gaining 13.5 percent (Nebraska, Oklahoma and Texas

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State senator speaks at PIA meeting in Shreveport

State Senator Barrow Peacock, a Shreveport Republican, said in early March that he expects tort reform to be successful in the Senate when the Louisiana Legislature convenes on March 9. It's the House that could be a problem in the 2020 session he speculated.

Peacock chairs the Senate Judiciary A Committee, where the tort reform measures that originated in the House last year hit a brick wall. The composition of the committee has changed for the 2020 session and now has four Republicans and three Democrats. Two of the committee's three most zealous opponents to tort reform, one a Democrat and the other a Republican, failed to get re-elected to their Senate seats.

Last year's omnibus tort reform bill did four things, Peacock told members of the Northwest Chapter of PIA at the chapter's March 3 meeting. The bill attempted to reduce the $50,000 jury threshold to $5,000; increase the prescriptive period to two years; repeal the direct action statute, and limit the recovery of medical or healthcare expenses to the amount actually paid on or behalf of the claimant.

Instead of an omnibus bill, this session similar proposals will be made, but as four separate bills by various legislators. Peacock is handling a collateral source bill and a jury threshold bill. Peacock's jury threshold bill proposes to reduce the jury threshold to $15,000 – down to the threshold level of the state nearest to Louisiana.

A bill sponsored by Rep. Alan Seabaugh, R-Shreveport, provides for the introduction of evidence showing the tortfeasor's failure to wear a safety belt and prohibits the recovery of the first $15,000 in damages for failure to wear a safety belt. A bill sponsored by Rep. Jack McFarland, R-Jonesboro, provides for introduction of evidence showing a tortfeasor's failure to wear a safety belt, but does not prohibit any recovery amount.

Currently, there are 35 bills pending in the Senate Insurance Committee and 47 bills pending in the House Insurance Committee, according to the Louisiana State Legislature website.

Most folks who follow the legislature expect the 2020 session to be contentious and intense relative to tort reform.

The opposition to tort reform is throwing out bills to "muddy the water," Peacock said. "They are trying to make the insurance industry look bad."

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State Sen. Barrow Peacock was the guest speaker at the Northwest Chapter of PIA's meeting held March 3. He is with chapter President Brad Craft, RISCOM.

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fared better). The homeowners multiple peril line returned an underwriting profit of 30.5 percent (only Oklahoma did better). In Louisiana the workers' compensation line made an underwriting profit of 3.1 percent (38 states did better, not including Texas). Medical professional liability was profitable in 2018 with a 36.6 percent underwriting profit. Mortgage guaranty turned around in the last decade, making a 69.6 percent underwriting profit in 2018, according to the NAIC.

The NAIC Property/Casualty Market Share report, released March 2 contains cumulative market share data for the following lines of business: personal auto, commercial auto, workers' compensation, medical professional liability, homeowners and other liability (excluding auto liability) insurance. Highlights from the report include: With 84.62 percent of property/casualty insurance companies reporting to date, direct premiums written for all lines of business are $623,639,809,558; The top 10 property/casualty companies reporting to date have a cumulative market share of 49.03 percent; Total private passenger auto insurance has the largest amount of direct premiums written reported as of March 2 at $222,554,185,066. This makes up approximately 36 percent of reported written premiums.

NRA V NEW YORK DFS

The National Rifle Association (NRA) has taken legal action against New York State over the marketing of its insurance policies, Bloomberg reported Feb. 29. In a Feb. 28 court filing, the NRA requested a judge to halt an enforcement proceeding initiated by the New York Department of Financial Services alleging the DFS's action is biased treatment. DFS says NRA acted as an unlicensed insurer by marketing Carry Guard insurance to state residents in 2017. The policies offer coverage for costs associated with the purposeful use of a firearm, including defending a possible criminal prosecution. DFS says such coverage is illegal in New York. DFS said the NRA's filing is an attempt to distract from the DFS's allegations that the NRA violated state law. DFS's Feb. 5 enforcement proceeding accuses NRA of illegally promoting other types of policies for firearms instructors, gun collectors, and others.

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Bills have been filed that would prohibit rate determination based on risk classifications, based on gender of an insured over the age of 25, based on the fact that an insured is a widow or widower, based on the fact that the insured is deployed in the military for more than six months and based on the insured's credit score.

They say limiting insurance companies' advertising will bring rates down, Peacock said. However, in his opinion what brings rates down is competition.

Peacock received comments and advice from the audience, which consisted of agents, brokers, company representatives and claims professionals. Among the comments:

-There should be more agents at the table when tort reform bills come up.

-For tort reform to succeed, proponents need to change the message and explain that those who can least afford it pay. When people buy something, 20 percent of the cost goes to the insurance arena.

Not everyone in the room believes all of the proposed tort reform measures will reduce insurers' expenses and bring rates down. A claims person came close to voicing opposition to reducing the jury threshold, saying that would cause an increase in defense expenses.

Peacock explained that health insurance is taxed at five percent, and that the five percent goes to pay for the governor's Medicaid expansion.

When asked about bills prohibiting hand-held cell phone use while operating a vehicle, Peacock said he would not vote for such a bill. There are already laws on the books prohibiting driving while distracted, he said. Singling out cell phone use is not necessary in his opinion. He is disinclined to vote for a bill that prohibits someone from touching their cell phone while driving.

On March 10, a day after the session started, the Senate Judiciary A Committee held an organizational meeting to lay out procedures. The committee was scheduled to meet again the following week, but in the interim, Gov. John Bel Edwards ordered bars, gyms and movie theaters to close and restaurants are limited to delivery and take out only.

The new restrictons will last until April 13. Casinos will also close, and public gatherings of 50 or more people are banned. Under the governor's order, no one is allowed to eat onsite at a restaurant.

Under an earlier order, the governor closed the state's K-12 schools and postponed the state's presidential primaries.

Shortly after the governor's March 14 order, state legislators agreed to temporarily suspend the session, at least until March 30.

By March 18, the number of positive tests for the virus in Louisiana reached 196, according to news sources which quoted the health department's figures, and there had been four deaths.

United States Sen. Bill Cassidy, R-Baton Rouge, said Louisiana has the third highest infection rate in the country. The confirmed cases do not reflect the number of infections, said Cassidy, a physician.

Prior to the spread of COVID-19, legislators expected to deal with tort reform legislation during the first week or so of the legislative session. As it stands now, sometime during April is the soonest reform measures can move.

Emergency plans for epidemic may force Lloyd's to ban access

Lloyd's tests emergency trading procedures

London Views
By Len Wilkins
London Correspondent

Lloyd's closed the market for 24 hours from midnight on March 13 to stress test the emergency procedures it will take to ensure continued operation if access to 1 Lime Street is banned or restricted because of the U.K. government's attempt to control the coronavirus (COVID-19) epidemic. Lloyd's earlier created emergency trading protocols amid concerns that the market, employees and policyholders need reassurance that Lloyd's has the ability to cope with the epidemic.

With the market closed, Lloyd's business continuity team wanted to assess the extent to which the market is ready to continue trading if the underwriting room is closed. Lloyd's believes the closure provided valuable information on the real-life effectiveness of the protocol. While the room closed to the market, Lloyd's took the opportunity to deep clean the underwriting room and all public areas in the building.

Lloyd's informed relevant regulators of its plans and stressed its commitment to being there when its policyholders need it the most. Lloyd's set up a dedicated contact point – coronavirus@lloyds.com – to provide assistance and help policyholders find the right person to confirm cover or process a claim. Lloyd's confirmed its aim to pay all valid claims as quickly as possible.

The problem Lloyd's has is that, while electronic trading is being pushed by the market and the London Market Group, and 70 percent of Lloyd's risks are placed electronically, the London market still engages in a lot of face-to-face pre-placing and placing discussions. At present, Lloyd is not restricting access to the building or restricting the number of brokers using the market or attendees for meetings, but this is under continuous review.

The ultimate effect of the coronavirus on Europe and the U.K. is unknown. As of March 12, there were 596 confirmed cases of virus in the U.K., which has resulted in 10 deaths. All of those who died were over 60 years of age and all had major underlying health problems. Compared to other European countries, one would get the impression that the U.K. is getting off light. There are 12,462 cases in Italy, with more than 1,000 deaths; 2,281 cases in France, with 48 deaths; 2,078 in Germany, with six deaths (Germany has excellent intensive care facilities), and 3,013 in Spain with 84 deaths.

Lloyd's Italian office staff is working on a rota basis. Around one-third of employees are in the office at any one time, while two-thirds work from home. In its Singapore and Hong Kong offices, staff returned to normal working patterns on March 2, and its Shanghai and Beijing offices are phasing in opening fully.

So far so good. As far as insurance losses are concerned, both Lloyd's and London companies learned from the SARS outbreak and deleted cover for communicable-diseases. The one area of the industry that might pick up losses is event cancellation. Analysts at Fitch Ratings said recently, "The largest event taking place is the Tokyo Olympics in July 2020. Industry experts anticipate coverage of approximately $2 billion for this event."

Lloyd's in the red for 2017 and 2018

Lloyd's syndicates have updated their forecasts for the 2017 and 2018 underwriting years of account. The usual figures have been provided for 2017, but as all the figures are not yet in, the overall market results have not been published.

The 2017 underwriting year results that are in have changed marginally. The worst case market result is now a loss of 11.78

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percent against 11.79 percent three months ago. The best case figure is now a loss of 6.16 percent against 6.17 percent, while the mid-case figure is now a loss of 8.97 percent against a loss of 8.98 percent. The 2017 underwriting year is now closed, and the final results will be declared in a few weeks.

The nonaligned syndicates have performed slightly worse than the aligned corporate syndicates. Chaucer's Syndicate 1176 predicts a best case result of 65.0 percent profit. Only 10 other syndicates expect profits on best case figures. ERS's Syndicate 218 and QBE's Syndicate 386 show a likely double-digit profit. On the bottom end, Asta's syndicates 6123 and 4242 expect losses of 68.15 percent and 59.75 percent, respectively. Brit's Syndicate 2988 could also cause some misery with forecasted losses of 60.04 percent. All told, 29 syndicates will lose money in a worst case scenario, and three will be in the black, one by just 0.19 percent. Under best case results, the loss making syndicates drop from 29 to 21, and the profit making syndicates increase to 11.

For the 2018 year, so far figures are available only from the nonaligned syndicates, with no overall market statistics. As these expectations have hardly changed, the overall market figures are holding steady. The December figures were: worst case, a market loss of 8.2 percent; best case, a loss of 2.06 percent, and mid case, a loss of 5.13 percent.

For 2018, Chaucer's Syndicate 1176 predicts a best case profit of 35.0 percent and a worst case profit of 15.0 percent. Two syndicates, Beazley's Syndicate 623 and Astra Syndicate 2525, show best case figures of 10.0 percent profit, but the worst case figure for Beazley's 623 is a 10.0 percent loss, while Astra anticipates its worst case is breakeven. From the figures released, 31 syndicates will lose money on their worst case projections (seven are losses under five percent). The best case figures have loss making syndicates dropping to 22 and profit making syndicates climbing to eight, with one syndicate hoping to break even.

Brit's Syndicate 2988 could also cause some misery with forecasted losses of 60.04 percent. All told, 29 syndicates will lose money in a worst case scenario, and three will be in the black, one by just 0.19 percent.

Lloyd's publishes plans

Having raised the money to update the market, Lloyd's issued an online update to Blueprint One, which includes confirmation of its 2020 priorities as well as detailed plans for Phase 1 of the Future at Lloyd's. It started in March.

One surprise was the announcement that Lloyd's Corporation will take a 40 percent stake in the London market's electronic placing platform (PPL), which will form a key component of the new complex risk platform. This saves Lloyd's from reinventing the wheel and investing a surge of money into PPL Limited, which is a not-for-profit company set up in 2016 to create a single market for electronic placing that would allow brokers and insurers to quote, negotiate and bind business electronically. The update also confirms the 2020 trial of the risk exchange pilot, connecting broker and insurer e-trading portals.

Lloyd's spent the transition period working with stakeholders to prioritize and plan the work-streams that create the foundations for the Future at Lloyd's. Next comes setting the program in position to move into the first phase of delivery. Lloyd's secured the funding for Phase 1 of the program during the transition period and, at the same time, set up the governance structure and the delivery teams.

Most market reorganizations get lost in the detail, and the objective of the reorganization is overlooked. For Blueprint One, Lloyd's prioritized delivery of the solutions that offer the most benefit to key stakeholders and customers. The investment and development of the next generation PPL will form part of the complex risk platform. A digital solution for coverholder business as part of Lloyd's risk exchange will make it quicker and easier for capital to attach to risk and accelerate the claims process, including piloting automated settlement.

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That's 2020, but Lloyd's did not forget about future development. During 2020, three foundational initiatives will create the essential infrastructure and lay the groundwork for Lloyd's ecosystem. The three are data and technology architecture, lead/follow (modern syndication of risk), and middle and back office transformation. These are necessary to provide the major changes needed to bring the market into the 21st Century and provide vital cost savings. In addition to the three foundational initiatives, Lloyd's will push forward with the prototype of the "data-first" version of the complex risk platform; the new capital investment opportunities, including the syndicate-in-a-box framework that's already occurring, and a commitment to ongoing cultural change.

A number of Blueprint One initiatives already are happening. In January, Lloyd's confirmed that marine hull and international casualty binder classes of business will take part in the first lead/follow pilot, which will commence in early Q2, led by the Lloyd's Market Association. Also in January, Lloyd's specialty insurer Brit Ltd. launched its Sussex Specialty Insurance Fund, offering alternative capital, such as insurance linked securities (ILS), to investors via improved access to the Lloyd's market.

Blueprint One puts Lloyd's at the forefront of the London market, and fortunately, the London Company market's trade association, the International Underwriters Association (IUA), seems to have the "if you can't beat them, join them" attitude and is working with Lloyd's on two of the Blueprint One projects.

In its business plan for 2020, the IUA announced it will participate fully in projects, such as claims processing, being developed as part of the Future at Lloyd's blueprint. The IUA believes this has important consequences for the whole London Market. The IUA sees PPL as the principal vehicle to deliver e-trading and, in the coming 12 months, expects to see significant enhancements to the platform to make sure it can deliver an effective end-to-end digital solution.

At the moment, the London market segments are working together, but this could alter if changes at Lloyd's cause a loss of business to the company market.

Lloyd's launches cryptocurrency policy

Lloyd's has always been known as the producer of innovative products, and a new one just rolled off the production line. The new policy protects cryptocurrencies against theft or other malicious hacks.

This is the first of its kind liability policy with flexible limits. Created by Lloyd's Syndicate Atrium in conjunction with Coincover, the policy protects against losses arising from the theft of cryptocurrency held in online hot wallets. It is believed to be the first type of liability insurance policy with a dynamic limit that increases or decreases with the price changes of crypto assets. This means policyholders will always be indemnified for the underlying value of their managed asset even if the amount fluctuates over the policy period.

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Commissioner: health-sharing ministries not subject to regs

The Louisiana Department of Insurance issued a statement in December clarifying that faith-based health sharing ministries are not recognized insurance products; therefore, they are not subject to the same regulations as traditional health insurance or oversight by LDI.

Health care sharing ministries collect monthly payments from members under the agreement that the money will be used when a member has medical bills. However, these programs do not have to follow the same rules as insurers, and there is no requirement that they pay, according to the LDI.

"While some families may feel that the lower-cost membership and the alignment with members' religious values works for their lifestyle, I would like to caution that these products are not regulated like insurance and may leave Louisiana families on the hook for expensive medical care and emergencies.," said Commissioner of Insurance Jim Donelon.

While consumers who have problems with traditional insurance can get assistance from LDI, the department can do nothing to assist customers who have problems with health care sharing ministries. Under Louisiana law and the Affordable Care Act, health care sharing ministries are not required to register or be regulated. according to an LDI news release.

There are no exact figures, but some industry groups speculate that close to one million Americans get health care coverage through health care sharing ministries, some of which are advertising in Louisiana.

Across the country other commissioners of insurance took a more pro-active stance.

The Connecticut Insurance Department in December issued a cease and desist order against Aliera and Trinity HealthShare, saying the groups illegally advertise their plans as health insurance.

Insurance Commissioner Andrew Mais accused the organizations of "misleading consumers and trying to avoid insurance regulation."

In Washington State, the insurance commissioner fined Trinity HealthShare $150,000 and prohibited it from offering plans to residents because it was operating as an unauthorized insurer. New Hampshire's insurance department also issued a cease and desist order against Aliera and Trinity, while the Texas attorney general sued Aliera Healthcare for offering "unregulated insurance products."

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It's not just Atrium and Coincover that are involved in the new product. The policy is backed by a panel of other Lloyd's insurers, which include TMK and Markel, who are members of Lloyd's Product Innovation Facility. The PIF is part of the Blueprint for the Future of Lloyd's, and the facility is a step toward building a marketplace that offers better value for the changing and diverse needs of customers through highly responsive, cutting-edge risk management products and services.

The team behind the project is excited by its creation.

Trevor Maynard, head of Innovation at Lloyd's, said, "As more money flows into the crypto asset market, losses from hacks are on the rise. Nevertheless, cryptocurrency companies have found ways to protect their digital assets from theft and, by working closely with Lloyd's underwriters, to insure losses that do slip through the net…."

The Product Innovation Facility has almost £150 million of capacity and 27 underwriters.

Aon/ Willis merger

The news of the Aon/Willis merger was the worst kept secret in the market. Mergers between brokers go back a long way, and the London market thought the world had come to an end when Willis Farber merged with Henry Dumas and Wylie back in 1928.

While Willis and Aon staffs wait nervously for news of their new positions, London's smaller brokers wait to pounce on anything that falls from the table top.

Having seen a number of mergers since then, London expects to see a number of senior players from both broking houses leaving to set up their own organizations. Noses are put out of joint with mergers, and senior staff members, who felt they deserved a greater say and position in the new organization, will either set up their own broking houses or leave to join smaller competitors. Where brokers have a close client relationship, they will try to take their clients with them.

It's not just the broking staff who will feel put out. Major clients will feel affronted that they don't receive the same recognition from the merged organization. Once, when they arrived for a visit, they would meet the chairman and lunch in the boardroom. In the new set up they are no longer major clients, so they are downgraded to being met by a senior director and lunching in one of the firm's private dining rooms. Unfortunately, many feel that their business is suffering the same fate, and the experts who looked after it before are now doing other things. It's not just staff who tend to leave; the smaller clients tend to look around too.

While Willis and Aon staffs wait nervously for news of their new positions, London's smaller brokers wait to pounce on anything that falls from the table top. Lloyd's brokers, such as Lockton, Howden, BMS and Gallagher, will be licking their lips in anticipation.

Underwriters also will be concerned with the news. The new mega brokers will control over 60 percent of the market, which will give them serious muscle on pricing, cover and claims payments, and many underwriters will be worried about upsetting them. The effect is likely to be negative for insurers and reinsurers in the short term.

U.S. economy

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individual can buy two, or three or four chickens with one hour of labor. “It’s a matter of agricultural productivity,” he said.

In 1997, it took 31 weeks for a family to make enough money to afford an average car. Now, even with the inflation of car prices, it takes far less than 31 weeks. “Technology has played a huge role,” he said.

In the agricultural sphere, 120 years ago, 60 percent of the population worked on farms. Now, one percent can grow enough food and raise enough livestock to feed not just the United States, but a good part of the world.

Today, homes are 50 percent bigger than in the 1970s, and families have 50 percent more automobiles than they did in the 1970s.

As an example of people being generally disgruntled he cited the shrinking duration of Thanksgiving Day dinners. The amount of time that families are willing to sit down at the table has been reduced mostly because people “just want to talk about grandpa and the turkey….They get up from the table because they don’t want to talk about politics.”

Not long ago Buchholz watched the 1970s movie Network, in which the leading character’s (Howard Beale) life is falling apart. The American economy is falling apart. There is unemployment and the Arab oil embargo. Beale is hooked on opioids and becomes an alcoholic. He decries fake news and is upset because the corporate suits have taken over the newsroom and undermined the integrity of the news department. Beale goes on the air one night and tells the audience to tune in next Tuesday because he plans to blow his brains out on the air. Instead of turning off the camera and microphone, one of the producers wants to let Beale go on. “Think about the ratings we are going to get next Tuesday,” the producer says.

When he watched the movie recently, Buchholz said he thought: “There goes Donald Trump and Bernie Sanders. The millionaire and the socialist both saying that the system is corrupt and that we have been sold out by the Chinese.”

The prosperity/anger paradox is partly caused by good news, Buchholz explained, such as when the Berlin Wall came crashing down in 1989 after President Ronald Reagan said, “Mr. Gorbachev tear down this wall.”

What does that have to do with the U.S. economy?

Buchholz answered his own question by saying that “for every square foot of the Berlin Wall cement that crumbled to the ground as dust, hundreds and hundreds of workers who had been trapped behind that wall under communism were suddenly free to vote, to travel, to start a newspaper and also to compete against your friends, against your neighbors, against somebody writing software at UT Austin or assembling textiles south of the border.”

One reason why the economic models of places such as the Federal Reserve Board and Harvard haven’t done a bit of good, according to Buchholz, is that in 25 years when hundreds of millions of workers are put into the worldwide work force, and then

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Donelon issues emergency rule

Commissioner of Insurance Jim Donelon issued Emergency Rule 36 on March 18 to address the statewide public health emergency that Gov. John Bel Edwards declared to exist in the state of Louisiana as the result of the imminent threat posed to Louisiana citizens by COVID-19.

Donelon’s emergency rule, authorized by delegation of the governor’s emergency declaration, is a proactive effort by the Insurance Department staff to provide specific guidance to insurers as these conditions continue to impact the lives and health of citizens of our state. “This effort will ensure Louisiana policyholders will have seamless access to testing, pharmaceuticals and care throughout Louisiana,” Donelon said in announcing implementation of the emergency rule.

Under Emergency Rule 36, insurers must:

-Waive cost sharing for COVID-19 testing when ordered in accordance with CDC guidelines and are prohibited from requiring prior authorization for this testing;

-Permit early refills, except for drugs in certain drug classes like opioids, when consistent with doctor/pharmacist approvals;

-Prohibit the use of step therapy;

-Enhance access to mail order pharmaceuticals, and

-Continue to ensure network adequacy given the anticipated increase in demand due to COVID-19.

The full text of Emergency Rule 36 can be found at the Department of Insurance website, www.ldi.la.gov.

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the curtains for China and India are opened, and a billion workers stream out, it will "slam down labor rates, create a new kind of competition and put America's middle class in a pincer movement."

On the positive side, the war on poverty that Lyndon Baines Johnson declared in the 1960s has been won, "but not in this country." The war on poverty has been won in Asia. The number of people starving, the number of people living on less than one meal a day or less than $1.00 per day "has plummeted from billions down to hundreds of millions."

While the standard of living in Asia has improved, "many of our friends and neighbors (are) staying up late at night at the kitchen table wondering, 'How am I going to pay my bills? What is my retirement going to be like? How can I afford to pay my premium?'"

There is the paradox: Globalization raises the standard of living in many parts of the world, but not the standard of living for everyone.

When he ran for president, Donald Trump figured out how to tap into that anxiety. Hillary Clinton didn't. She didn't even campaign in Wisconsin and Michigan. She figured those states were a lock, Buchholz said.

As a result of the anxiety in the world economy, we have a backlash against free trade. Trump has just signed an agricultural deal with the Chinese, Buchholz said. It is yet to be understood what teeth are in the deal, but basically no one in Washington cares about free trade anymore. It used to be the Republican Party was in favor of free trade while the Democratic Party was a little queasy about it. For example, NAFTA was negotiated by George Herbert Walker Bush, but when he lost his election, it was left to Bill Clinton to push it over the goal line. Clinton relied almost entirely on Republican votes and only had to pick up a couple of votes from his own party to get NAFTA through, according to Buchholz.

Now, depending on who gets the Democratic nomination, there could be even more antipathy toward free trade than there has been under the Trump administration, Buchholz said, explaining that it's not just the U.S. that has implemented tariffs. India keeps out U.S. steel. Russia keeps out cars and chickens.

"It is very difficult to understand how these things ultimately work out," Buchholz said. President Obama slapped 35 percent tariffs on Chinese tires. The Chinese retaliated with 50 to 100 percent tariffs on American chickens. Ultimately, chicken growers in Arkansas and Delaware are making less money because of a dispute about low-end rubber tires from China.

"It's very difficult to get a synchronized global economic recovery when countries begrudge any other country that makes money in the process," he said.

Debt and demographics

"You don't hear much about the impact of anxiety on debt and demographics" during this election year, he said.

To explain, Buchholz used a graph of debt as a percent of GDP, with the deficit as the vertical axis. "The only thing you need to know is it's dangerous to be in the southeast quadrant of the matrix because that tells you your country has racked up loads of debt and is digging deeper and deeper each year because of a high deficit," he said. That is the quadrant where the Eurozone, Greece, Italy, Japan and the U.S. are, which has political implications.

In the "enviable" northwest quadrant with low debt and low deficit is Russia. Vladimir Putin could "strip off his jacket and strut bare chested through Crimea," because he is not worried about borrowing on the international bond market.

As it turns out, it is the more democratic countries that are the most heavily in debt, Buchholz observed.

Medicare and Social Security

Before the great recession, before President Obama, up to one-third of U.S. households had no federal income tax liability. It is not likely that a country can survive with one-third of the people not paying.

"Blame my wife's grandparents," he said. They were honored for having been married longer than any couple in America – more than 81 years. Life expectancy is "fabulous," but "if you are trying to balance the books of Medicare and Social Security, and grandma retired 45 years ago, it's tough to balance the books."

It is a sociological truth that when na-

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tions move from poor to middle class status, people have fewer children. Fewer children as the years roll by also makes it hard to balance Medicare and Social Security, according to Buchholz.

Franklin Roosevelt and his advisers were "honest and smart," Buchholz said. In the 1930s when Social Security was established, they set the retirement age at 65, which made sense because the average 65 year-old back then was dead. Franklin Roosevelt himself did not live to see age 65.

In the 1940s there were about 40 workers for every retiree. Then in the 1950s there were about 15 to 20 workers per retiree. Now, the U.S. is almost to the point where there are two workers for every retiree.

When Lyndon Johnson set up Medicare in the 1960s, the retirement age again was set at 65. LBJ did not live to see 65. "The numbers just don't work (now)," Buchholz said.

Tongue in cheek, Buchholz told his audience that someone should announce a "nationwide campaign to drive down life expectancy. No more guardrails on mountainous roads. No more guardrails on grandma's bathtub…. Let's stop the senseless inspection of meat," he said.

"We have these big demographic debt issues that we are not tackling," but "someday we will have to."

Commenting on current demographics, Buchholz said that the U.S. has more golf courses than it has McDonald's restaurants. "That is not a forecast," he said. "It is now." He described it as a bit queasy that in Japan, they sell more adult diapers than baby diapers.

Even with so much bad news, Buchholz contends that the economy is doing really well. Until a few hours before his speech, the stock market was "on fire."

> *Tongue in cheek, Buchholz told his audience that someone should announce a "nationwide campaign to drive down life expectancy. No more guardrails on mountainous roads. No more guardrails on grandma's bathtub….*

The enemies list

Every president of every party has an enemies list, Buchholz said. Lyndon Johnson and Richard Nixon had a list of names. President Obama came into office, and "it was as if he was on a tank turret that spun 360 degrees." One by one he looked at different industries and put them in the crosshairs. Obama said, insurance collects premium but never wants to pay out; oil, gas and coal are there to pollute the environment; healthcare doesn't really care if the patient lives, it's about collecting fees; agricultural chemicals are there to poison the soil; finance is about the customers' yachts, and hotels and restaurants exploit minimum wage labor. "Before you knew it, outside of green energy, there were virtually no segments of the S&P 500 that didn't think they would be subject to new taxes and new regulations," Buchholz said.

However, President Trump comes into office, and "God knows President Trump has enemies, but the difference is that Trump's enemies have not been sectors of the S&P 500."

According to Buchholz, the economic recovery actually began as early as the fourth quarter of 2009 under the Obama administration. The weakest part of that recovery was business capital investment. Exports came back and government spending was off the charts, but business suffered. "Finally, in the last couple of years, business capital investment returned to a more healthy trend," he said.

Where is the economy now?

To know where the economy is right now, Buchholz said the three critical markers are rates, oil and trade.

The Federal Reserve Board has pretty much rewritten everything, according to Buchholz, with interest rates standing at about zero percent.

Most of his Republican friends, when

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Ben Bernanke and Janet Yellen were running the Fed, told him low interest rates would be a disaster. They would lead to hyper-inflation, and the U.S. dollar would "fritter away to nothing," but it turns out the only downside to low interest is that pensioners can't make money on their bank certificates of deposit and maybe without low interest there would not have been the craze for crypto currencies. "Overall, the Fed's policy can be defended," he said. "Not just in the U.S., but pretty much across the world, interest rates are at or near zero."

His friends who said it would be a disaster thought it would take the economy back to the 70s. Just to remind his audience, Buchholz said the term of the 70s was "stagflation" – a recession that would not end, combined with inflation.

In certain sectors of the economy, Buchholz knows that prices have been "galloping." He has two kids in college. "I know what tuition bills look like," he said.

For insurance companies, premiums are up, but overall, the Fed's low interest rate policy has not sparked the hyperinflation people were worried about, he said.

One of the biggest mysteries of economics in the last 20 years, according to Buchholz, is how the country can enjoy 3.5 percent unemployment with no inflation.

Price wars go on

To explain the economy, the Amazon effect is important, Buchholz said, pointing out that there are still price wars going on.

Amazon has invested so much in logistics that it has helped contain overall inflation and driven down the price of products, according to Buchholz. For instance, after Amazon bought Whole Foods about two years ago, food prices at Whole Foods became more reasonable.

The mutual fund company, Vanguard, is known as the "skin flint" of the mutual fund sector, Buchholz said. Their management fees have been "tiny, tiny." Part of the reason for the low fees is Vanguard's location. "If you look at their return address, it is not 6th Avenue in Manhattan where Bank America is. It is not State Street in Boston. The return address is Valley Forge, Pennsylvania. They are working in unheated, discarded barracks of George Washington, and they pass that savings along to the mutual fund investor." Yet, about six months ago, Fidelity put out full page ads saying that Fidelity will undercut Vanguard. Then a couple of months ago, Charles Schwab announced no commissions on trades.

"We still have price wars going on despite super low unemployment," he said.

> *"It is hard for a hotel...to raise prices when Airbnbs effectively added 25 percent to the number of hotel rooms in the U.S." The GIG economy, he said, created supply side shock.*

Gig economy and strong dollar

The Gig economy, such as Airbnb and ridesharing, and the strong dollar also contribute to low inflation.

"It is hard for a hotel…to raise prices when Airbnbs effectively added 25 percent to the number of hotel rooms in the U.S." The Gig economy, he said, created supply side shock. "It takes idle resources, such as land, labor or vehicles, and shoves them unto the market."

Another factor is the reason the "Abercrombie dude" is lonely. Directly across the street from Trump Towers in Manhattan is the Abercrombie and Fitch store. For years, there has been a half-naked dude standing in front of the A&F store. He is not a vagrant; he is a model. There have been velvet ropes down the street for tourists, mostly foreign, to line up to take selfies with the half-naked dude in front of A&F. The dude is a lonely boy today, not just because it is cold, but because the foreign tourists are gone. The tourists are gone "because the U.S. dollar, instead of frittering away to nothing, has been really strong," making it difficult for foreign tourists to come to the states.

If the dollar is strong, it helps contain inflation because, "with a strong dollar, foreign stuff looks cheap to us." It is hard for

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U.S. companies to raise their prices when foreign competitors “can sell stuff cheaply to us because the dollar is strong.”

Buchholz recently stayed at the Waldorf Astoria in New York City. Turns out he could do that because it cost $220 a night because the foreign tourists are gone. While he was there, a steward came in to swap out contents of the mini-bar. The steward took out the vodka and put in Pringles potato chips. The reason: Russian tourists are gone because the U.S. dollar is strong.

“So the Gig economy and the strength of the dollar have helped contain inflation, and the result is that interest rates have stayed very low,” Buchholz said.

Consumers in good shape

Consumers are in good shape, he said, but they are not buying automobiles like they once were.

“Those of you selling automobile insurance…have a long-term issue,” Buchholz told his agent audience.

These days one-third of high school kids are not getting drivers’ licenses. “When I was a kid everyone in our high school class got a driver’s license except Linda Pizniac. Linda did not feel comfortable driving, so we took turns driving Linda around. Everybody else got a driver’s license.”

When his youngest daughter asked him what kind of car he planned to buy her when she turns 16, he responded, “Alexia, give me your phone. I am going to get you an Uber.”

Apparently, automobiles have “plateaued.” In 2010, the economic recovery was fueled by automobiles and iPhones. “If it weren’t for texting while driving, we might not have had an economic recovery,” he said.

Now, people are buying experiences, according to Buchholz.

Those who want to know whether or not consumers are in decent shape need only keep their eyes on the share prices of Capital One and Allied Financial. Buchholz described the two companies as the “canaries in the coal mine.” Allied owns automobile leases and Capital One is one of the biggest credit card issuers. They are obligated to report to Wall Street whether people are paying back automobile loans and credit card loans on time, according to Buchholz.

“When you see those share prices shudder, maybe there is a canary in the coal mine that is causing the shudder.” So far, “we are not seeing consumers so strapped that they are not able to pay their auto loan debt or their credit card debt, but keep an eye on them,” he advised.

Relative to the insurance sector of the economy, Buchholz said that Allstate and others are complaining that car accident claimants are more lawyered up, and there is the long-term issue of automobile ownership in the United States. Nonetheless, despite all the discussion of catastrophic global climate change, insurance companies have done okay. This could change, just like the coronavirus, at any moment. “It looks as if the insurance sector itself is in reasonably good shape as we go ahead,” he said. Whether the market is soft or hard depends on the kind of insurance, he observed.

Those who want to know whether or not consumers are in decent shape need only keep their eyes on the share prices of Capital One and Allied Financial.

“It is interesting how technologically adept insurance companies have become, in terms of attracting clients, especially in the auto sector. The number of people who are now buying auto insurance on their phones is accelerating, which hasn’t translated into homes, but maybe it will.” Aerial photography allows underwriters to streamline quoting. “People want more tech, lower cost and convenience. Your clientele expects answers and service sooner than ever before,” he said.

The price of oil

With oil at $40 to $70 a barrel, the price is at the “sweet spot.” The price is high enough for oil companies to make a profit and low enough that consumers can afford to fill up their automobiles and buy heating oil.

“Every once in a while we pop out of that zone. Sometimes it’s because Iran launched missiles into Iraq. Sometimes it’s because Saudi Arabia has a conflagration with Yemen. Maybe there is an explosion at an oil refinery, and the price goes up.”

Buchholz believes oil will stay in this zone because about one-third of the oil rigs

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are off line because the price is too low to make them profitable. Whenever the price goes up, there is enough supply off line that can be brought back online to shove prices back into that "lovely zone."

He does not believe the stock market has been a massive gambling operation, even though the Dow Jones was down about 477 points during the morning when he stepped onto the stage. The tax decrease brought companies' tax liabilities down from 35 percent to 21 percent, so after tax earnings went up, and 74 percent of companies beat earnings expectations. With the 10-year treasury at 1.68 percent, where else are people going to put their money but in the stock market.

Currently, he said, more people have money in the equity market than in the bank because they can't earn interest on money in the bank. That is a danger point he warned because, if interest rates return to normal, people will take money out of the stock market and put it back in the bank.

Whether or not interest rates are going to stay low is the most important economic question for the next 12 to 24 months, he said.

Buchholz believes interest rates will stay low because inflation will stay low. Low interest rates support the stock market, but more important than that, low interest rates support the housing sector. There was a lull in the housing sector up until a couple of months ago. Now, housing starts and home sales perked up a little bit, according to Buchholz.

The auto sector is flat, and "even iPhones can be bought at zero percent financing."

The low interest environment helps the overall economy and the stock market sustain itself.

The dirty secret of the U.S. economy

"The U.S. economy is benefitting from the fact that the world economy is flat on its back. The world economy has been limp and laggard, and that has kept world interest rates super low. So, we have benefitted from the fact that the rest of the world's economy is not good, which has made their interest rates stay low, which has allowed ours to stay lower than they otherwise would be." Buchholz said.

"This confounds the economic text books," he added.

Tax cut created winners, losers

The winners: Buyers of industrial equipment have been able to write off the purchases. Energy companies have done well. Pharmaceutical companies and banks have done well.

The losers: People who live in a state where home prices are high and local and state taxes are high are not doing so well. Residents of California, New Jersey, New York or Connecticut may be losers because housing prices are "outrageous." They can only deduct home interest up to $750,000 and can only deduct $10,000 of state and local taxes. "Keep an eye on real estate prices in California, New Jersey, New York and Connecticut, because they could spark a recession in the rest of the country," he said.

Looking down the road

If Buchholz is wrong about inflation, if the Fed slams on the brakes, and interest rates go up and the stock market loses 30 percent of its value, "all bets are off," he said.

He believes the most important long-term issue for the economy is intelligence. We are in a world-wide race for IQ points. "Whichever town, city or country harnesses the most intelligence will prosper most in the 21st Century," he said.

"If you don't have a high school education, you are competing against the last peasant in Mongolia who yoked a Yak to a plow. You are probably competing against the Yak," Buchholz said.

He worries about education and encouraged those present to get involved in education. "You are more involved in your local community than anyone in any other industry," he said. "In the end, you are not just dependent on your children's education, but on the education of people you will never meet. So educate others' children."

Buchholz talked about Ray Kroc and explained that Kroc did not invent McDonald's. He bought it from the McDonald brothers. He did not come up with the idea of franchises. Instead, he created partnerships, lasting partnerships. "You are here to cement relationships and create new relationships," he told the agents at the management seminar.

"Create relationships because that is what is going to sustain you in the end," he said.

"You hold the ticket to the 21st Century economy, which is going to be turbulent and tumultuous, but holds great promise."

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