



FLASH

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ARCO is Vegas-bound

2017 Annual Meeting set for May 7-8

Mark your calendars for ARCO's 2017 Annual Meeting! We have just secured space for **May 7-8, 2017** at the **Treasure Island Hotel & Casino** in Las Vegas. Plan to join ARCO for this important annual meeting at a fun and exciting venue!

We have secured a group room rate for ARCO members of only \$99/night at Treasure Island. Details on making your reservations will be sent shortly. As with previous events, we will plan an informal reception Sunday evening, an all-day business meeting on Monday with breakfast and break for lunch as well as dinner at night.

Guest / Member Presentations — If you have a topic or area of interest you would like to present to the group...or wish to refer someone you think would provide a valuable discussion for ARCO Members, let us know. We have allotted time during the day's activities on Monday for guest presentations and discussions.

We hope you all have the chance to join us in Vegas next year!

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Greetings from your president

It is exciting to plan for the year ahead with our membership, some of whom have supported ARCO for many years. May I begin by extending a warm welcome to our newest ARCO members. We were excited to have new faces and input at our meeting in San Diego in May and look forward to a growing organization that speaks to the needs of its members.

One of the changes that has occurred in the last six months, as you may know, is that ARCO has been fortunate to bring in a new administrator, Jeff Shelton, to handle many of the day to day operational items at ARCO.

Jeff has also been a great asset in helping us find and add new members. Building on these efforts, as well as re-starting the Membership Committee, will provide continued momentum for a strong organization.

A collaborative ARCO organization, with its members' vast experience in the industry, can provide helpful direction. I am inviting ideas, proposals, and input of the members to be ARCO's roadmap.

Serving as president, I see my job goals revolving around three main categories:

- * Membership growth
- * Provision of relevant resources and learnings for the membership
- * Moving forward industry "issues"

Membership Growth: Membership expansion is already in process. I look forward to working with Jeff and re-starting our Membership Committee to grow the member base from referral and new outreach.

Relevant Resources: Provide relevant talks, training materials, and discounts to the membership. We are working on speakers from the CPCU for our Las Vegas meeting. We have already secured two insurance discounts for our membership (from Hanover and Allstate insurance). We are looking at other training materials we could offer our membership.

Moving Forward Industry Issues: With the membership I would like to focus on items that, as a group, we may be able to move forward, including independent contractor issues; industry standards; or anything that could help move the industry forward as a whole.

I am excited about what ARCO can do in the times ahead. As always, our industry faces challenges and opportunities, but I believe as an organization we can further the industry and, in turn, our businesses by working together. I look forward to hearing from you as to your thoughts and requests at any time. As for my vision, I hope to leave ARCO with goals met and an informed, active, growing membership that serves the industry well, and make my father (Mel Tobias), who served as president in 1988, proud.

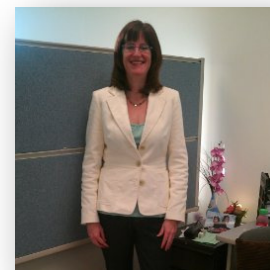
With best regards and looking forward to our next meeting together,

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2016 ARCO Session a Success

Here are the minutes of the 2016 ARCO Conference.

- Derek called the meeting to order. Scott made a motion to waive the reading of the minutes from 2015 conference. John Henebry seconded the motion. Motion accepted.
- There are 35 active members. The financials was presented and was accepted as presented. Motion made by John Henebry and John Reggero seconded. Motion accepted.
- Introduction to Arco was given for new members. New members were welcomed from Sutton Inspections. Axle Hoewt and Melissa Love are representing Sutton Inspection Bureau.
- Derek explained the administrator change from Carol to the new administrator who is Jeff Shelton with Association Works. We are currently on a month-to-month basis with Association Works to handle administration of ARCO. Next year will vote on annual contract with Association Works and D & O Insurance. Association Works is costlier but they do more with the association. We might have to raise dues to adjust.
- We will focus on membership and mission for organization. We must have value to sustain organization. It was discussed that members should link to ARCO on their website to show support for organization. Most members attending supported the idea.
- Last year, we discussed the possibility of creating and using an online database of independent contractors through a third party, Inspector123, for use by all ARCO members. This was discussed again this year. This idea will favor ARCO as the database grows. Once we have a good data set, this will decrease advertising expenses for all. It was recommended that ARCO members send email to independent contractors and ask them to sign up in the database on their own free will.
- ARCO never has been structured as an entity and has never paid taxes. The bank account was moved to Wells Fargo. It was decided that ARCO needs to have a corporation. It was decided that ARCO will be a non-profit 501 C. Dave will make an inquiry to find out expenses for incorporating. Up to \$5,000 was granted. Holly Henebry has a brother-in-law who will be consulted.
- Jon Feldhammer did a webinar presentation concerning how the IRS might view independent contractors as employees. Presentation was sent out in an email after the conference. Mr. Feldhammer was a lawyer for IRS and now represents companies using independent contractors. The presentation provided Do's and Don'ts of operating procedures using independent contractors for inspections. All work must be contract-based with no training or telling the contractors how to do their job. No material, such as business cards, or photo ID, should be provided to inspectors. Flat rate pricing in contract should be used as compensation. More information can be found in the presentation.
- The 2017 location in Vegas was chosen with Seattle as a strong second. The meeting was adjourned, followed by dinner at Seasons 52.



CHINN TO SPEAK AT VEGAS ARCO MEETING

Looking ahead to our meeting in Las Vegas in May, Tiffany Chinn will be the featured speaker.

Chinn is the Commercial Account manager for MacCorkle Insurance Service in San Francisco and has been both an agent and an underwriter in her career.

THOSE IN ATTENDANCE AT THE MAY ARCO CONFERENCE INCLUDED THE FOLLOWING:

Scott Doyle	Transtar Technical Services, Inc.
John Henebry	Pacific Inspections
Holly Henebry	Pacific Inspections
John Reggero	TIS Inc
Marella Schmidt-Baker	Alexander & Schmidt
Axel Hoewt	Sutton Inspections Bureau
Melissa Love	Sutton Inspections Bereau
Derek Smith	Cox & Smith
Dave Tobias	RSI
Morgan Cassady	CIS

Drones Could Alter Insurance Industry

Jordan Wathen
TMFValueMagnet
Sept. 22, 2016

Drones aren't just for hobbyists and wannabe pilots. The insurance industry could soon use unmanned aircraft to reduce fraud, evaluate risks, and collect valuable data to reduce losses.

It's not something out of a science

fiction novel. Already, one reinsurance broker has established a drone rental service to provide drones to its insurance company clients!

There's a very good reason for the insurance industry's sudden interest in unmanned aircraft. An [analysis](#) by PricewaterhouseCoopers (PwC) estimated that drones could help save as much as \$6.8 billion per year by eliminating costs that plague the insurance industry around the world.

Here are three ways drones could help insurers cut costs and reduce losses.

FIGHTING FRAUD

Fraud costs property & casualty insurance companies as much as \$32 billion per year, or about \$0.10 of every dollar paid out in loss and loss adjustment expenses. (Property and casualty insurers insure risks to property and provide liability coverage for injury or damage to other people or their possessions. Car and homeowners insurance are forms of property and casualty insurance.) PwC expects that drones will enable insurers to keep better tabs on their customers and reduce payments on fraudulent claims.

One of the biggest risks to insurance companies is that their customers use a convenient event to claim damages that existed before the event that would reasonably cause a loss. For example, a homeowner might use a recent storm as cover to claim pre-existing damage to aluminum siding as a storm loss. By using a drone to consistently capture images of insured property before natural disasters, insurance companies can protect themselves from paying out on fraudulent claims. Fraud losses are very often a local problem based on an area's laws, and one perhaps best attacked by the air.

Fraud can also come from the inside. **Markel** ([NYSE:MKL](#)) cited employee error and misconduct as a risk in its most recent annual report. It stands to reason that drones could be used to double check the work of adjusters whose claims



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deviate significantly from their peers. Beyond the direct costs of fraudulent claims, there are also indirect costs like legal expenses. **Berkshire Hathaway's** (NYSE:BRK-A)(NYSE:BRK-B) Geico unit has been particularly aggressive in fighting what it believes are fraudulent claims.

The company has successfully sued and settled cases with chiropractic and physical therapy offices it believes have improperly billed the insurance company, or provided treatment intended to maximize profits, according to the *Boston Globe*. It reports that Geico, Allstate, and State Farm Insurance are the most active in fighting fraud through the courts, an expensive process that insurers would likely prefer to avoid with documentation by drone, if possible. Fraud losses go well beyond amounts paid out on fraudulent claims.

RISK MONITORING

Risk is difficult to measure and always changing. Winding roads are inherently less safe than straight roads, and they are particularly risky when coated in a layer of ice. Similarly, properties are at a greater risk of flood loss when nearby waterways have an elevated stage.

PwC suggests drones could be used for instantaneous data collection and risk monitoring. English insurer **Aviva** (NYSE:AV) used drones in January 2016 to assess flood damage and direct employees on the ground. But PwC sees a scenario in which drones are employed to prevent losses rather than measure losses that have already happened.

The report says drones could be used to immediately identify risks from natural disasters as they happen, from volcanic eruptions to floods and hurricanes. By collecting better data, and encouraging people to avoid particularly risky areas, insurers could help their customers avoid undue risk.

TAILORED PRICES

Insurance is all about measuring risk and pricing policies appropriately. Increasingly, insurers are competing on their expertise in pricing policies in everything from homeowner's policies to car insurance. **Progressive** (NYSE:PGR) famously created its "Snapshot" device to record a driver's habits in real time, with a promise that less risky drivers would get discounts for their good driving habits. A company president noted that the device enables Progressive to collect data that has twice the predictive power of traditional rating variables.

Drones may be the next step in personalized premiums. PwC believes drones could be used to calculate better insurance premiums by assessing risks that can't be assessed efficiently. For example, an insurer might use a drone to survey a residential property, perhaps deciding not to insure the contents of an unlocked garage against theft, or to cancel a policy on a home with an undisclosed pool.

The LAST Last Word

In this quarter's edition of the FLASH, we have included an article on drones. As anyone who has paid attention to events in the news and our industry, we know that many tasks that have historically been done by humans are increasingly being done or supplemented by machines and technology. Look at our industry and the change from doing paper reports to online systems, Polaroid photos to digital cameras, etc. While our specific industry doesn't seem to have changed all that much in the past 20-30 years, take for instance the questions you asked on a garage risk inspection 25 years ago versus what you ask today? I would imagine many of the "forms" we all are using today are not much different from the "old days." But there are some major shifts going on in the insurance industry that are either impacting us today or will be impacting us soon. Drones certainly are on the forefront of impacting insurance VERY soon!

The obvious first stop for this technology will be on the claims side. Field adjusters in some of the larger carriers are already either experimenting with drones or are actually implementing them into their operations. Certainly when you have large CAT losses and a team of adjusters is sent to a given area hard hit by losses, they still are hampered by their ability to efficiently survey damages. Claims adjusters may not be available in the number needed to get to these large loss areas and handle the problems in an acceptable time frame for their distraught clients. Since drones can cover a large area in a short period of time, you won't need as many boots on the ground to accomplish the gathering of key information on your losses.

Large engineering firms are also starting to use drones for inspection of very large, multiple building risks.

As the technology of drones improve, they are becoming much more attractive to our insurance clients on the personal and commercial lines underwriting actions. Better cameras, easier to fly controls and the cost of drones will be drastically different in the next couple years than they are now. The changes are substantial as major players such as Amazon come into the game.

Perhaps many ARCO members have gone into sales calls with your clients and been asked the question, "What are you guys doing with drones, if anything?" I know at JMI Reports, we have fielded this question from numerous clients. While we have not taken any steps yet on this direction, it is high on our list of priorities to look at going into 2017! Perhaps a good topic of discussion for our 2017 Las Vegas meeting?



ARCO FLASH

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