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# Flash!

The Periodic Newsletter for Members of the  
**ASSOCIATED REPORTING COMPANIES**

## **US. PROPERTY & CASUALTY INSURERS' INCOME FALLS MORE THAN 50% IN FIRST HALF OF 2008**

Insurance Journal reports that the U.S. property/casualty insurance industry's net income after taxes, fell by more than 50% in the first half of 2008. The losses were credited to a combination of deteriorating underwriting results and declining investment returns (according to A.M. Best Company).

The industry's overall combined (loss/expense) ratio deteriorated to 102.1% in the first half of 2008, as a result of continued price softening, challenging market conditions, unusually high catastrophe losses and significant underwriting losses by mortgage and financial guaranty insurers.

The industry's investment results continued to be pressured through the first six months by the low interest rate environment, ongoing turmoil in the credit markets and extreme volatility in the equity markets.

The Personal Lines segment's underwriting results deteriorated through the first half of 2008 with a reported combined ratio of 102.5 while the Commercial Lines segment's ratio deteriorated to 102.2 for the first half of the year.



### **Mercury General Reports Net Loss**

Los Angeles-based Mercury General Corp. has announced its results for the third quarter of 2008. Net loss in the third quarter was \$130.5 million. For the first nine months of 2008, net loss was \$73.8 million.

Total catastrophe losses, which resulted primarily from Hurricane Ike, were \$6 million in the third quarter of 2008. There were no catastrophe losses recorded in 2007, the company indicated.

## **INSURANCE PRODUCERS START TO MOVE BUSINESS FROM AIG TO COMPETITORS**

(Insurance Journal web release)

Despite assurance from state regulators that the insurance subsidiaries of American International Group (AIG) are financially sound, insurance producers are moving accounts from AIG.

A survey of 1,000 insurance producers including 782 who say they have accounts with AIG found that 343 producers have had clients ask them to move their account out of AIG. That's 43.8 percent of producers with AIG accounts.

Slightly more than a quarter (202 producers or 25.8 percent) of AIG agents and brokers said they have in fact already moved or agreed to move accounts from AIG.

Industry insiders contend the account movement is understandable even though state regulators are saying that the AIG insurance subsidiaries are in sound financial condition.

If AIG loses business, which of its competitors will gain?

AIG is so big and covers so many markets, the winners could be spread out among major international carriers, large commercial writers, surplus and specialty lines carriers, even regional carriers, according to producers.

Zurich, Travelers, Chubb, The Hartford and Liberty Mutual are among the carriers respondents to the survey cited most often as potential winners, along with Lloyd's and various surplus lines and specialty companies. The large surplus lines carrier, Lexington Insurance, is among AIG's companies.



*Light travels faster than sound.  
This is why some people appear bright  
until you hear them speak.*

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## History and purpose of ARCO

*The Associated Reporting Companies (ARCO) was founded in 1967. The first Officers of the Association were Coulby Gunther, President (Reliable Reporting Service – NY), W. B. “Web” Taylor, Vice President (Index Research Services Inc. – CA) and Guy Holloway, Secretary (Commercial Services – MI). Among the group’s chartered objectives is the intent to “...represent and encourage a standard of performance which will enhance the dignity and prestige of the profession...”*

ARCO holds an annual meeting of the general membership which is always an enjoyable and well-attended event. It often brings presentations from affiliated and support industries. The group’s newsletter, the *ARCO Flash!*, is distributed to members several times each year, and each member maintains a presence on the ARCO Web site ([www.arco-members.com](http://www.arco-members.com)) including links to individual company Web sites.

The *ARCO Directory of Members* is printed and distributed annually, to hundreds of key members of the insurance industry from coast to coast.

## BETTER BUSINESS BUREAU NOTICE

Arlington, VA - October 23, 2008 - Better Business Bureau is alerting consumers and businesses about a phishing scheme that uses both e-mail messages and blog posts directing recipients and viewers to register software with BBB. BBB wants the public to know that such messages and posts are not coming from any element of the BBB System, and that this attack has not affected BBB computer systems or networks nor has any data been compromised.

Reports to BBB indicate that businesses began receiving bogus messages yesterday, requiring them to "register new software and update contact information" with BBB, and provided a link for the process. In investigating the attack, BBB also discovered phony "notices" and postings on various blogs being used as additional tactic to reach victims.

"The messages and posts are most likely part of a large-scale phishing scam leveraging the trusted nature of the BBB name to entice recipients and bloggers to open messages and access attachments or links," said Steve Cox, BBB spokesperson. "Anyone receiving an e-mail or viewing a blog requiring the registration of software with BBB should not click on any links or in any way respond to the message, because doing so may allow harmful viruses or spyware to enter the recipient's computer or network."



### PROTECT YOURSELF ONLINE

**How easy is it for a stranger to get personal information about you online?** What can you do if someone is cyberstalking you? Parry Aftab, executive director of the Internet safety organization CyberAngels, explains how to combat cyberstalkers, surf safely, and chat with caution.

#### **How vulnerable are people online?**

More vulnerable than most realize. Some people are too trusting and naive when it comes to personal information. Most share information that they would never give someone they met casually offline. Would you tell the person standing next to you in the grocery store check-out line your address and phone number? Of course not, but it's no different than doing so in a chat room, often unknowingly.

#### **How would you do so unknowingly?**

Many chat programs and Internet service providers ask you to fill out a profile about yourself. What most people don't know is that this information is frequently available to anyone who wants to see it online. So if you fill out your profile with detailed information about your life, you're vulnerable. Also, say you're chatting with someone and tell them your last name and what city you live in. All they have to do is search one of many databases available on the Net to locate more information about you.

#### **How else can you protect your personal information?**

Whenever you fill out any form online, check to see what the site's privacy policy is. Who will see your information? Will it be sold? If it's open to others' eyes, don't fill in the blanks. And if you've created your own website, don't feature any personally identifiable information. This would include pictures with identifiable features such as sweatshirts with school names and recognizable landmarks. And certainly don't post your personal address on your site. Just ask yourself, "Is there anything on my site that could help someone find me?" If there is, get rid of it.

#### **Are there other steps to take that can make it difficult for someone to find you?**

Absolutely. There are abundant directories and databases online that list their addresses, email addresses and phone numbers. Several directories now boast reverse look-ups. This is where I can type in your email address and find out who you are, or do the same with your phone number and address. I can even find out who your neighbors are. In some states, I can pull up your driver's license onscreen. So the trick is to get your information removed from as many of these databases as possible. Start by searching for yourself, everywhere you can. If you can find you, so can they.

#### **What other common mistakes do people make online?**

They don't learn the rules before venturing into cyberspace. They don't look before they leap into a chat room or onto a discussion board. You can easily break the rules and upset others. And you never know who's angry until it's too late. Offline we all know the rules of proper social etiquette. However, there is a similar set of online rules we call netiquette. These rules are necessary for staying out of trouble. A lot of cyberstalking cases occur when people inadvertently bend or break these rules. To enter an established and unknown chat room and interrupt ongoing conversation to draw attention to yourself should be seen as no different than wandering into a bar or a party where you weren't invited and don't know anyone. Would you draw attention to yourself there?

#### **Can you further explain netiquette?**

netiquette is simple. We're talking about correct behavior, which should be the same online as it is offline. Basically show respect for others and avoid anything that hints of trouble. If you break the accepted rules of netiquette, often people deputize themselves to correct you by teaching you a lesson. Often this is done the hard way. We tell people, "Just don't park your common sense at the computer when you get online."

#### **Is it possible to email someone or surf anonymously?**

Yes. You can use a free service which cloaks you completely. Any website you've visited will not be able to trace your Internet service provider. To play it safe with email, use a free web-based email account such as Hotmail when writing to strangers. There are many such services. This way no one can track where you live by tracing your Internet service provider, which might be local only to your city.

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**Any safety tips for chatting online?**

The safest place to chat is in a chat room with people you know offline. This may sound odd, but kids do this a lot. They get home and get online with the people they just left at school. Otherwise use a genderless, non-provocative screen name and remember that the moment you get into a chat room with people you don't know, be careful. Keep in mind, these are strangers you're talking to. They may sound friendly, but online anyone can be anything they want. You shouldn't share confidences with them any more than you would with a stranger sitting next to you on the bus.

**Is it possible to keep kids safe online?**

Yes, but it requires effort. Keeping them safe is a matter of communication, not technology. If you have open and ongoing communication with your kids, meaning you talk to them about their online and offline life on a regular basis, then you'll be okay. But parents need to understand that kids can always inadvertently get into trouble online, generally by accidentally tripping upon a site while searching for something else. Would your kid be okay locating a site that details how to build a bomb? Think about it and talk to them.

**What about filtering software?**

Filtering software can certainly help parents enforce the rules. These various software packages will block access to a lot of sites, although parents need to recognize that it might block access to some good sites that parents don't object to. You need to find the one that meets your child's needs. Some block hate better than sex, some block violence better than drugs and some allow parents to decide what will be blocked.

**Is it okay for kids to chat?**

I believe it is, yes. But they need to learn the same precautions. Teach your children the same rules regarding privacy. They must know what is and what is not shared online. The safest bet will be for them to chat in monitored chat rooms, where live adult monitors are in the room watching and keeping an eye out for suspicious behavior.

**How do you know if you're being cyberstalked?**

Cyberstalking can take many forms, but in general, if you're being harassed online more than once by the same person, you've got a cyberstalker, especially if you're getting a sense that whenever you get online you will have to confront or deal with this person and their abuses.

**So what do you do if you're being cyberstalked?**

First and foremost, start by ignoring the stalker. More often than not, the lack of response on your part will turn the stalker off and the behavior will end. Keep in mind that these perpetrators get satisfaction out of getting a reaction, no matter what that reaction is. They like knowing that they're reaching you. So the minute you reply, you feed the fire. The trick is to starve it instead. Keep this in mind when it comes to reading email sent by the stalker. Many Internet and email programs allow the sender to know if their email has been read. Don't give them the satisfaction to know you've read their messages. Delete them unread, period.

**What if that's not enough and the behavior continues or worsens?**

Then you need help from an organization such as CyberAngels. Or see if your chat program features a CyberAngel channel. If it does, you can likely find one of our 1300 members there to help you. If you do send an email, we'll generally respond within hours with further instructions.

**CONSTRUCTION TERMINOLOGY****Construction**

In fire underwriting, the types of materials used in the building and roof of the insured structure. Construction types include fire resistive, semi-fire resistive, and combustible, depending on the materials used. Other construction factors that an underwriter considers include the number of fire divisions in the building, the adequacy of electrical circuits for the occupancy, the number of stories, the building's age, and the type of heating system. Most underwriters recognize seven classes of construction:

1. Frame
2. Joisted Masonry
3. Incombustible
4. Masonry Incombustible
5. Modified Fire Resistive
6. Fire Resistive
7. Mixed

**Brick construction**

A building or structure with 75% or more of the exterior walls made of some type of masonry material--such as brick, stone, poured concrete, hollow masonry block, etc.--is considered to be of brick construction for underwriting purposes. Walls usually must be of a minimum thickness, depending on the material used.

**Brick veneer construction**

A building with outside supporting walls constructed of combustible materials such as wood, and covered (faced) with a single layer of brick not exceeding a specified thickness is of brick veneer construction for underwriting purposes.

**Fire resistive construction**

A building or structure constructed of fire resistive materials to reduce the severity of a potential fire. Lower fire insurance rates apply to fire resistive construction.

**Frame construction**

A structure with outside support walls, roof and floors of wood or other combustible materials. The exterior walls may be covered with stucco or brick veneer and the interior walls with lath and plaster.

**Joisted masonry construction**

A structure with outside support walls made of incombustible masonry materials (concrete, brick, hollow concrete block, stone or tile) and a roof and floor made of combustible materials (e.g., wood). There are two sub-classes: ordinary construction and mill construction.

**Masonry incombustible construction**

A structure built with exterior walls made of masonry materials, such as adobe, concrete, stone, tile, or gypsum block. The floors and the roof are constructed of incombustible or slow burning materials.

**Mill construction**

A type of joisted masonry construction, which is used in older factories and warehouses. A mill building is constructed of heavy timbers and masonry walls with no concealed wall spaces. It is considered a superior class of construction for fire insurance purposes.

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Construction Terminology cont'd from page 4

### Modified fire resistive construction

Buildings where the exterior walls, floors, and roof are constructed of masonry or fire resistant material, with a fire resistant rating of one hour or more, but less than two hours.

### Ordinary construction

A type of joisted masonry construction; structures with masonry walls (brick, adobe, concrete, gypsum block, stone or tile) and wood floors and roofs that have concealed interior space. A fire spreads rapidly through this type of building.



## SPRINKLER SYSTEM TERMINOLOGY

### Automatic sprinkler system

An integrated system of underground and overhead piping connected to sprinkler heads (usually mounted in the ceiling) which are activated at a relatively low temperature (the initial stage of a fire). The sprinkler heads release a spray of water to extinguish the fire or prevent it from spreading. Insurance underwriters typically require automatic sprinkler systems in certain types of buildings or occupancies, and sprinkler water supply systems usually must be independent of normal water service to the protected building. Periodic inspection and testing of sprinklers is required. The existence of an approved sprinkler system normally reduces premiums for the insured property.

### Antifreeze automatic sprinkler system

An automatic sprinkler system with pipes containing an antifreeze solution connected to a water supply. The antifreeze solution, followed by water, discharges from sprinklers opened by a fire. This type of system is used in locations subject to freezing.

### Approved sprinkler system

An automatic sprinkler system installed in accordance with fire or building codes that uses the proper automatic sprinkler heads for the structure's occupancy and construction, that has an adequate and reliable supply of water, that has been tested and shown to be in working order, and has been found acceptable to the appropriate governmental authority. Buildings protected by such systems usually qualify for discounts on their fire insurance premiums.

### Cold weather valve

An automatic sprinkler system with an indicating type of control valve that controls ten or fewer sprinkler heads in a wet pipe system protecting an area subject to freezing. The valve is normally closed and the system drained during freezing weather.

### Deluge automatic sprinkler system

An automatic sprinkler system where all the sprinkler heads are open and the water is held back at a main (deluge) valve. When the valve is triggered, water is discharged from all the sprinkler heads simultaneously. The triggering device is usually a heat or smoke detector. This type of system is used where it is necessary to wet down a large area quickly, such as an airplane hangar or explosives factory.

### Dry pipe automatic sprinkler system

An automatic sprinkler system where all piping contains air under pressure. When a sprinkler head opens, the air is released and water flows into the system and to any open sprinkler

heads. This type of system is used in areas where the sprinkler heads and the immediately adjacent piping can be exposed to freezing conditions.

### Emergency impairment

All or a portion of an automatic sprinkler system that is out of service due to an unexpected occurrence, such as a ruptured pipe, opened sprinkler head, or interruption of the water supply.

### Fire extinguishing system

An apparatus or system designed to cause a fire to cease burning or to quench it. Such systems include water spray, carbon dioxide, dry chemicals, halon and foam, portable or fixed fire extinguishing systems.

### Halon

A nontoxic, vaporizing liquid used in fire extinguishing systems. The vapor is injected into the room, depriving the fire of oxygen. It is most often used in computer and laboratory rooms, where foam or water extinguishing systems might do irreparable damage. Although these systems are still in use, production of new halon gas was discontinued in the United States as of January 1, 1994, due to its ozone depleting effects.

### Indicator valve / post indicator valve (PIV)

An automatic sprinkler system control valve that extends above the ground or through a wall for operating the sprinkler system. A target or indicator is visible through an opening in the post, which shows that the valve is open or shut.

### Preplanned impairment

All or a part of an automatic sprinkler system that is out of service due to work that has been planned in advance, such as repairs to the water supply or sprinkler system piping.

### Preaction automatic sprinkler system

An automatic sprinkler system that is similar to a dry-pipe system, but air pressure may or may not be used. The main sprinkler system control valve is opened by an actuating device, which permits water to flow to the individual sprinkler heads and the system then functions as a wet-pipe system. It is generally used in areas where piping systems are subject to mechanical damage and where it is important to prevent accidental discharge of water.

### Present value of sprinkler reduction

A method used in risk management to evaluate the value of installing an automatic fire sprinkler system. The method compares the cost of installing the system today with the reduction in fire insurance premiums in the future. A formula is calculated to make the comparison on a present value of money basis, or on an organization's required rate of return basis.

### Scuppers

Openings in a building wall covered by hinged metal flaps that allow water to flow through, reducing the weight and preventing possible collapse. Scuppers may be put at floor level to allow water from sprinklers to flow through and may be put in parapet walls above roof level to allow rain to run off in the event the roof drains are clogged.

### Sprinkler leakage coverage

Coverage of damage to a building or contents caused by leakage or discharge from an automatic sprinkler system, or caused by the fall or collapse of tanks that are part of the system.

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Sprinkler Terminology cont'd from page 5

Coverage is included under the Insurance Services Office commercial property basic, broad, and special coverage forms. Many property forms exclude coverage if sprinkler leakage is caused by an earthquake or volcanic action.

#### **Wet pipe automatic sprinkler system**

An automatic sprinkler system where all piping is filled with water under pressure and released by a fusible mechanism in the sprinkler head.



## **MISCELLANEOUS LOSS CONTROL TERMINOLOGY**

#### **Adjacent building**

A building situated very close to, but not in contact with, another building.

#### **Adjoining building**

A building that touches another building.

#### **Class rating**

A property insurance rating method where the type of building or occupancy is used to determine the rate. The rating bureau establishes rates for various building construction types (e.g., wood frame, brick, etc.) and protection classes and for occupancy by hazard categories (e.g., office, computer manufacturing, etc.). This information is published in a manual used by underwriters. If the rate classification is not listed in the manual, the risk must be specifically rated.

#### **Fire protection**

Methods of providing for fire control or fire extinguishment. Also, the prevention, detection, and extinguishment of fire.

#### **Occupancy**

In fire insurance underwriting, the type or character of the property and its intended use. Occupancy is an important consideration in determining both the appropriate amount of insurance and the premium rate.

#### **Party wall / common wall**

A wall shared by buildings constructed on either side of it.

#### **Protection**

The existence and nearness to an insured risk of firefighting facilities. Protection includes fire hydrants, adequacy and reliability of water supply, the number and quality of available firefighters, adequacy of equipment, etc.

#### **Protection class**

A grade assigned to a fire protection district, usually expressed in a number between 1 (best) and 10 (worst).



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Please Pay Promptly!**

## **2008 A ROUGH YEAR FOR TEXAS INSURERS**

Insured losses in Texas lead all other states by a wide margin as claims from the state's hurricanes continue to pour in, the Insurance Council of Texas (ICT) reported. Insured losses from the first three quarters of 2008 amount to \$7.7 billion for Texas. The figure is expected to top \$10 billion by the end of the year.

"Texas leads all other states by several billion dollars because of the damage caused by Hurricanes Ike and Dolly," said Mark Hanna, a spokesman for the ICT. "Violent thunderstorm activity primarily in north and central Texas in the first six months of the year resulted in an additional \$1 billion in losses."

The Insurance Services Office (ISO) reports that the U.S. had 35 catastrophes during the first three quarters of the year resulting in 3.5 million claims. The costliest damages occurred in the past quarter from Hurricanes Ike, Dolly and Gustav.

The insured losses from Hurricane Ike that struck Texas on Sept.13 could exceed \$10 billion. The storm caused \$1.2 billion in insured losses in Ohio.

The losses from Hurricane Gustav that struck in Louisiana on Sept.1, have reached \$1.9 billion and insured losses from Hurricane Dolly which struck South Padre Island and south Texas on July 23, could reach \$1 billion.

"Thankfully, Texas insurers had some good years prior to 2008 that financially prepared them for what they are going through this year," said Hanna.

#### **2008 Insured Losses to Date**

Texas: \$7.75 billion

Louisiana: \$1.96 billion

Minnesota: \$1.58 billion

Ohio: \$1.3 billion

Georgia: \$1.04 billion

Source: The Insurance Council of Texas



## **DEER PLUNGE THROUGH ROOF**

A spooked four-point buck and his companion apparently jumped from an Interstate 470 bridge ramp in West Virginia and plunged through the roof of the Wheeling Distribution Center.

Owner Dan Shay says workers were stunned when they arrived on the morning of Nov. 3 to find a hole in the ceiling and a deer on the floor. The warehouse sells doors, windows and siding.

Shay says the buck came to, then began moving around, but police eventually had to put it down.

The other deer hit the roof, leaving a visible dent, then fell from there to its death.



*Give a man a fish and he will eat for a day. Teach a man to fish and he will sit in a boat all day drinking beer.*

## DISCOUNT WAREHOUSE SHOPPING NOT EVERYTHING IS A BARGAIN

**AS MOST PENNY-PINCHING** consumers know, joining a warehouse club can result in great deals on everything from 46-inch flat-screens to 12-packs of chicken-noodle soup. But that doesn't mean every product in the rustic aisles of **BJ's** or **Costco** is a steal.

"You *could* make the argument that everything in the building is a good deal," insists Michael Clayman, editor of Warehouse Club Focus, a trade publication. Clubs make most of their profit from annual membership fees, which range from \$40 to \$100. That's one of the reasons why warehouse club markups are just 8% to 13% above wholesale prices, while mainstream retailers charge 25% to 50% more, he says.

But those great prices don't always mean you're getting the best deal. Here are five of the best warehouse club buys, and five to steer clear of:

### BEST BUYS

#### Alcohol

[Wine](#), liquor and beer prices can be 35% lower than at the supermarket. The best deals, however, are on high-end bottles. Warehouse clubs sell more [Bordeaux](#) than fine wine shops. Costco offers a magnum of Chateau d'Yquem Sauternes 1997 for \$500 -- \$300 cheaper than WineAccess.com. Bonus: Old state blue laws let you buy alcohol without having to pay for a [membership](#).

#### Milk, butter and eggs

In all but a few cases, you can beat warehouse club food prices at the supermarket by combining weekly store sales with manufacturer's [coupons](#). The notable exceptions: milk, butter and eggs, which are at least 20% cheaper at warehouse clubs, says Teri Gault, founder of [The Grocery Game](#), a shopping site. At **Sam's Club**, for example, a four-box pack of salted butter quarters is \$8.67. At Shop Rite, it's \$13.96.

#### Electronics

More often than not, gadget shoppers will find a better deal at the warehouse than at mainstream retailers -- BJ's beats **Amazon.com** by \$6 on the Olympus FE-340 digital camera. But the real draw is the clubs' generous return policies, which encompass everything from price drops to out-of-warranty glitches. Costco accepts electronics returns within 90 days of the purchase, three times longer than **Best Buy's** policy. Sam's Club permits returns of most computers within six months, with no deadline for other electronics.

#### Meat

When it comes to the meat at the warehouse club, think: Top-notch butcher shop quality meets supermarket prices. "It's a home run every time," enthuses Phil Lempert, founder of [Supermarket Guru](#), a news site. Two fresh racks of lamb (no antibiotics, no hormones) cost \$95 at Costco.

The same quality and quantity of meat is \$120 and \$135 at iGourmet.com and Lobel's of New York, respectively.

#### Prescription medications

Warehouse clubs routinely charge 50% less than local pharmacy chains, and may even beat the \$4-a-month offerings at superstores like Wal-Mart and **Target**, says Gabriel Levitt, vice president of research for pharmacy-rating site [PharmacyChecker.com](#). Buy 100 pills of generic blood-pressure medication Lisinopril (20mg) and pay \$9.53 at Costco or \$10 at Sam's Club -- much less than Drugstore.com's \$35.54. Better yet, most clubs even allow nonmembers to fill prescriptions at the pharmacy in person or online.

### WORST BUYS

#### Designer clothing

Forget about finding the latest styles from the pages of Vogue. Most designers generate warehouse-only lines. The rare piece from mainstream labels graced the runways years ago. "Price-wise it's not bad, but you'd get the same deals at a Marshalls or TJ Maxx without paying to get in," says Kathryn Finney, founder of [The Budget Fashionista](#), a frugal shopping site.

#### Items that won't get fully used

If you end up throwing out half of that four-pound can of tuna or still have a full tube of sunscreen after the three-pack expires, you didn't get a good deal. "If you have 10 kids, of course you're going to be able to eat all of a warehouse food [you buy] before it goes bad," says Tawra Kellam, editor for frugal-living site [Living on a Dime](#). "But that's not realistic for the average family."

#### Frozen food

Lempert recently scored a free frozen pizza from a neighbor, who had returned home from the warehouse club with a 12-pack that wouldn't fit in her freezer. "You will save money on frozen goods," he says, "but most people don't have room to store them." Unless you plan to eat that 115-count of Gorton's fish sticks or five-quart bucket of [ice cream](#) in one sitting, think twice before letting it take up the bulk of your freezer.

#### Paper goods

Save your paper plate, paper towel and napkin purchases for the supermarket. "Toilet paper is extremely expensive at the warehouse club," says Mary Hunt, founder of money management site [Debt-Proof Living](#). At Sam's Club, a 36-pack of Charmin Ultra is \$18.32, or 51 cents a roll. A 24-pack on sale for \$9.99 at Safeway works out to 42 cents per roll -- and is easier to store.

#### Gasoline

When gas prices are falling, deals at the warehouse club pumps are great. But when prices are rising, be more cautious, warns Clayman. The same quick supply turnaround that allows clubs to pass along lower prices can backfire. Clubs may temporarily have higher prices than surrounding stations. Price compare before you pull up to the pump.

## THE LAST WORD

**UNSOLICITED – AND PROBABLY MOSTLY UN-READ -  
COMMENTS FROM THE TEMPORARY EDITOR**

### IS A NEW HARD MARKET NEAR? SOME THOUGHTS



The busiest and most demanding of times for our reporting industry is the Hard Market period. This is a cyclical phenomenon among the insurers and, historically, peaks only about every dozen years. This peak period usually lasts about three years at which time the market begins to soften and gradually decline into a Soft Market.

The decline is evidenced by rate softening which is an outgrowth of the increased competition for new and renewal business. Along with softer rates, the insurers are generally more willing to write a broader range of applicants. Properties that formerly turned to the Excess and Surplus Lines markets for coverage may find that they are able to obtain coverage from Standard companies, usually at very competitive rates. During the Soft Market period, carriers may inspect a reduced percentage of applications, usually adjusting, downward, the Minimum Premium amount below which no inspection will be obtained. This results in a diminished volume of inspection business and has often been shocking to newer reporting businesses that were established during a prior Hard Market period.

Soft Markets invariably result following periods of profitability in the Property & Casualty Insurance field. Careful underwriting and use of inspections have contributed to a more selective approach to the consideration of new and renewal applications. Inspection costs, because of the labor-intensive nature of our industry, are a high-visibility item on any insurer's Balance Sheet and Operating Statement and budget-minded companies usually seek to reduce expenses by trimming the amount spent for inspections.

The less stringent standards of acceptability, coupled with the reduced use of eyes-in-the-field inspections, invariably impacts the quality of business written. Over a period of a few years, this increases loss ratios. When added to the normal growth in general expenses, the Combined Loss & Expense Ratio eventually becomes too burdensome, requiring a return to more cautious premium calculations, and to an updated assessment of the business written during the period of relaxed standards – as well as a more extensive use of field inspections for new applications.

A significant factor in the process is the question of the returns being realized by the insurers, on their investments. During any era of high earnings from investments, the growth of the Loss & Expense Ratio is regarded in the context of its comparison to those earnings.

Should the earnings on the investments decrease, the growth of the Loss & Expense Ratio looms as a more serious concern.

The industry is currently only a few years out of the last Hard Market period. The build-up to another Hard Market would usually require several more years. The erratic behavior of the conventional investments, evidenced by the recent performance of the Dow Jones and other indicators, suggests that investment returns may, in fact, be less than anticipated and are certainly less predictable. The impact of the economic actions taken to attempt the rescue of core financial industries is even less predictable though the contribution of and infusion of newly-created dollars into the monetary system undoubtedly contributes to a less valuable dollar.

Recent quarterly results from the Property & Casualty Insurance industry (see ARCO Flash – Fall 2008 article and the related article in this issue) suggest a growth in losses and a reduction in net income. Coupled with the volatility of the general economic indicators, there is a suggestion that we may be seeing a move toward the conditions that typically inspire Hard Market conditions. What is significant is not that these conditions exist and are on the upswing, rather that they may be coming into play much sooner than the usual cycle. At this point, it's impossible to forecast economic conditions from one day to the next, so, collectively, we'll wait and watch and the inspection industry will, no doubt, be prepared to step-up in the event of a rapid growth in the need for eyes-in-the-field.



#### E-MAIL ADDRESS CHANGE

Please revise your records to reflect my new e-mail address. Feel free to write anytime. Your contributions to this newsletter are always appreciated.

**Ken Taylor**

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## Happy Holidays Everyone!

