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Flash!

The Periodic Newsletter for Members of the

ASSOCIATED REPORTING COMPANIES

2009 ARCO ANNUAL MEETING SAN ANTONIO IS WAITING!

ARCO's 2009 Annual Meeting is slated for San Antonio, Texas, a great location that was last visited by ARCO some 24 years ago. The pertinent details follow:

LOCATION

111 PECAN STREET
SAN ANTONIO, TX 78205

MEETING DATES

Welcome Reception: Sunday, May 3, 2009
Business Meeting: Monday, May 4, 2009

ABOUT THE HOTEL

Crowne Plaza Hotel

Located on the tranquil end of the Riverwalk



An AAA 4-diamond hotel. Experience the warmth of the grand hotel combined with the comfort and amenities of today's business hotels.

Located near AT&T, Frost Bank, Toyota, Boeing, General Electric and USAA, the hotel is within walking distance of the Alamo, Hemisfar

Park and Tower, El Mercado Marketplace, the San Antonio Convention Center and the RiverCenter Mall. Only a short drive to Fiesta Texas, A Six Flags Amusement Park, Sea World, Schlitterbahn Water Park, the San Antonio Missions and the San Marcos Outlet Center.

The 410-room hotel features 37,000 sq. ft. of meeting space, a grand ballroom and an exhibit hall. All rooms are wired with high-speed Internet access with WiFi (wireless) access in the public areas. Valet and self parking for all guests and meeting attendees. The hotel features a roof top pool, sauna, whirlpool and a complimentary full fitness center. We are a "Pet friendly" hotel; please go to hotel Features for additional information and fees.

TRANSPORTATION TO AND FROM HOTEL

- Distance: 8 MI/12.87 KM South to Hotel
- Shuttle Charge (one way): \$18.00
- Taxi Charge (one way): \$22.00
- Time by taxi: 15 minutes
- From San Antonio International Airport take HWY 281S to IH-35S exit Main Ave turn left under highway turn left onto Pecan Street and the Hotel is on the left.

DRIVING DIRECTIONS

IH-35 SOUTH TO DWTN. TAKE MAIN ST EXIT, TURN LEFT. TAKE LEFT ON PECAN ST. IH-35 NORTH TO DWTN. TAKE DURANGO ST EXIT, TURN LEFT ON SANTA ROSA ST, LEFT ON MARTIN ST. MARTIN TURNS INTO PECAN ST.

!!!MAKE YOUR RESERVATIONS NOW!!!

- Call **1-888-233-9527**
- Identify yourself as a member of the Associated Reporting Companies.

WE'LL SEE Y'ALL IN TEXAS!

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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) 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.

SAD NEWS

PETER MARNE

Long-time ARCO member, Peter Marne (Accu-Audits Inc., Pennsylvania) recently passed away after an illness that spanned several years.

Pete was a great person and his presence at the ARCO Annual Meetings was always appreciated and enjoyed by his many friends. Pete's son, Scott, served as ARCO's President in 2004 and 2005 and Scott and his Brother, Keith, have been regular meeting attendees.

Pete will be missed by his wonderful family and his many friends among ARCO's membership.

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 an 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."

THOUGHTS WORTH PONDERING

When you go into court, you are putting yourself in the hands of twelve people who weren't smart enough to get out of jury duty

The things that come to those that wait may be the things left by those who got there first

THE MAIN STREET AMERICA GROUP INTRODUCES MAIN LINE BOP

February 3, 2009

The [Main Street America Group](#), a super regional property/casualty insurance carrier, announced the availability of its new Main Line business owners policy (BOP) product and Main Street Station for commercial lines quoting and policy issuance system in Arizona, Nevada, Pennsylvania and Utah.

Main Street America's Main Line BOP property and liability product for the small business owner features broader eligibility than its previous BOP. Four new programs — condominium associations, garages, restaurants and light manufacturing — have been added, with 106 new classes. With the existing wholesale, retail, services, offices, apartments and contractor programs, Main Line BOP features nearly 500 classes. The product will be written with either Main Street America's NGM Insurance Co. or its Main Street America Assurance Co.

The new BOP product also has increased limits, and expanded coverages, including employment practices liability insurance, which is underwritten by Hartford Steam Boiler, and identity theft.

Coverage can be extended with the product's options, such as product withdrawal, and condominium directors and officers, and main line extension and contractors inland marine optional endorsements.

Arizona, Nevada and Utah are new states for Main Street America in 2009 and this will be the first product offered in these markets. Main Street America's customers in Arizona, Nevada, Pennsylvania and Utah will be able to quote and submit new business applications for Main Line BOP on the company's new Main Street Station for Commercial Lines quoting and processing system, which has been launched in conjunction with the new product.

Customers will also be able to use Main Street Station to quote and issue new commercial auto and workers' compensation policies. In later phases of the new system rollout, they will also be able to use it to process endorsements and cancellations. As the new system features automated underwriting, agents will receive an immediate response on eligibility, or notification of referral to a Main Street America underwriter. The processing system is accessed through Main Street America's secure agent Web site within the company's public site, www.msagroup.com.

Main Line BOP and Main Street Station for Commercial Lines will be rolled out on a state-by-state basis throughout the 22 states where Main Street America writes business.

WISDOM FROM WILL ROGERS

"Good judgment comes from experience, and a lot of that comes from bad judgment"

HOW TO SURVIVE IN AN EARTHQUAKE

This makes very interesting reading. It goes against everything you've probably been told about how to survive an earthquake. In this time of earthquakes, tsunamis, mud slides etc... read this... it may save your life.

EXTRACT FROM DOUG COPP'S ARTICLE ON THE "TRIANGLE OF LIFE"

My name is Doug Copp. I am the Rescue Chief and Disaster Manager of the American Rescue Team International (ARTI), the world's most experienced rescue team. The information in this article will save lives in an earthquake.

I have crawled inside 875 collapsed buildings, worked with rescue teams from 60 countries, founded rescue teams in several countries, and I am a member of many rescue teams from many countries. I was the United Nations expert in Disaster Mitigation for two years. I have worked at every major disaster in the world since 1985, except for simultaneous disasters.

In 1996 we made a film which proved my survival methodology to be correct.

The Turkish Federal Government, City of Istanbul, University of Istanbul Case Productions and ARTI cooperated to film this practical, scientific test. We collapsed a school and a home with 20 mannequins inside. Ten mannequins did "duck and cover," and ten mannequins used my "triangle of life" survival method. After the simulated earthquake collapse we crawled through the rubble and entered the building to film and document the results. The film, in which I practiced my survival techniques under directly observable, scientific conditions, relevant to building collapse, showed there would have been zero percent survival for those doing duck and cover. There would likely have been 100 percent survivability for people using my method of the "triangle of life." This film has been seen by millions of viewers on television in Turkey and the rest of Europe, and it was seen in the USA, Canada and Latin America on the TV program Real TV.

The first building I ever crawled inside of was a school in Mexico City during the 1985 earthquake. Every child was under their desk. Every child was crushed to the thickness of their bones. They could have survived by lying down next to their desks in the aisles. It was obscene, unnecessary and I wondered why the children were not in the aisles. I didn't at the time know that the children were told to hide under something.

Simply stated, when buildings collapse, the weight of the ceilings falling upon the objects or furniture inside crushes these objects, leaving a space or void next to them. This space is what I call the "triangle of life". The larger the object, the stronger, and the less it will compact. The less the object compacts, the larger the void, the greater the probability that the person who is using this void for safety will not be injured. The next time you watch collapsed buildings, on television, count the "triangles" you see formed. They are everywhere. It is the most common shape, you will see, in a collapsed building.

TEN TIPS FOR EARTHQUAKE SAFETY

1) Most everyone who simply "ducks and covers" when buildings collapse are crushed to death. People who get under objects, like desks or cars, are crushed.

2) Cats, dogs and babies often naturally curl up in the fetal position. You should too in an earthquake. It is a natural safety/survival instinct. You can survive in a smaller void. Get next to an object, next to a sofa, next to a large bulky object that will compress slightly but leave a void next to it.

3) Wooden buildings are the safest type of construction to be in during an earthquake. Wood is flexible and moves with the force of the earthquake. If the wooden building does collapse, large survival voids are created. Also, the wooden building has less concentrated, crushing weight. Brick buildings will break into individual bricks. Bricks will cause many injuries but less squashed bodies than concrete slabs.

4) If you are in bed during the night and an earthquake occurs, simply roll off the bed. A safe void will exist around the bed. Hotels can achieve a much greater survival rate in earthquakes, simply by posting a sign on the back of the door of every room telling occupants to lie down on the floor, next to the bottom of the bed during an earthquake.

5) If an earthquake happens and you cannot easily escape by getting out the door or window, then lie down and curl up in the fetal position next to a sofa, or large chair.

6) Most everyone who gets under a doorway when buildings collapse is killed. How? If you stand under a doorway and the doorjamb falls forward or backward you will be crushed by the ceiling above. If the door jam falls sideways you will be cut in half by the doorway. In either case, you will be killed!

7) Never go to the stairs. The stairs have a different "moment of frequency" (they swing separately from the main part of the building). The stairs and remainder of the building continuously bump into each other until structural failure of the stairs takes place. The people who get on stairs before they fail are chopped up by the stair treads - horribly mutilated. Even if the building doesn't collapse, stay away from the stairs. The stairs are a likely part of the building to be damaged. Even if the stairs are not collapsed by the earthquake, they may collapse later when overloaded by fleeing people. They should always be checked for safety, even when the rest of the building is not damaged.

8) Get near the outer walls of buildings or outside of them if possible. It is much better to be near the outside of the building rather than the interior. The farther inside you are from the outside perimeter of the building the greater the probability that your escape route will be blocked.

9) People inside of their vehicles are crushed when the road above falls in an earthquake and crushes their vehicles; which is exactly what happened with the slabs between the decks of the Nimitz Freeway. The victims of the San Francisco earthquake all stayed inside of their vehicles. They were all killed. They could have easily survived by getting out and sitting or lying next to their vehicles. Everyone killed would have survived if they had been able to get out of their

Ten Tips.. Cont'd.

cars and sit or lie next to them. All the crushed cars had voids 3 feet high next to them, except for the cars that had columns fall directly across them.

10) I discovered, while crawling inside of collapsed newspaper offices and other offices with a lot of paper, that paper does not compact. Large voids are found surrounding stacks of paper.

KENTUCKY EXPERIENCES MINOR QUAKE

In the midst of a winter storm that has left hundreds of thousands of Kentuckians without electricity, a minor earthquake has hit in southeastern Kentucky.

The University of Kentucky's Kentucky Geological Survey Web site says the magnitude 3.1 quake occurred early Tuesday near Williamsburg in southeastern Kentucky. It was centered 16 miles underground. An emergency dispatcher in Williamsburg says no damage or injuries have been reported.

The U.S. Geological Survey classifies earthquakes between 3 and 3.9 on the Richter scale as minor. The agency says at least three other minor earthquakes have occurred in Kentucky since 2005.

UNION GENERAL OFFERS MARKET FOR DAY CARE CENTERS IN CALIFORNIA

Available to California agents, Union General Insurance of Concord, Calif., has an "A+" rated carrier offering coverage for all types of day care operations, including sick care, drop-in care, and latch key operations. Coverage is also provided for physical/sexual abuse.

Professional liability and personal and advertising injury are included, as well as employees as additional insureds. Medical payments can be purchased. Liability limits of up to \$2 million are available.

EPIC ACQUIRES VRT INSURANCE SERVICES

EPIC (Edgewood Partners Insurance Center) has entered into an agreement to acquire substantially all the assets of VRT Insurance Services Inc. The transaction is expected to close in early February, 2009.

VRT Insurance Services Inc. is owned by David Alvarado, its key producers and Belvedere Capital, a private equity firm based in San Francisco. The company was established in 2007, is led by founder and CEO Alvarado. The firm has offices in Oakland and Rancho Cordova, Calif., and specializes in complex property, casualty, and employee benefits insurance for construction, real estate, information technology and municipalities.

The acquisition expands EPIC's market presence in construction, contracting, public entity, employee benefits and other in-

EPIC was launched in 2007 by former president and CEO of ABD Insurance, Dan Francis and John Hahn, former president of BISYS Commercial Insurance Services, Inc. They have opened seven offices throughout the state of California since the firm's launch.

CHUBB'S PROFITS CONTRACTED IN 2008

Fourth quarter profits at Warren, New Jersey-based The Chubb Corp. fell 37 percent to \$407 million from \$650 million in the same quarter last year.

For the full year, net income was down 36 percent to \$1.8 billion from \$2.8 billion last year. Net written premiums for the fourth quarter were down 4 percent to \$2.9 billion - with about half the decline attributable to currency fluctuation. For the full year, net written premiums decreased 1 percent to \$11.8 billion.

In 2008, premiums were down 3 percent in the U.S. and up 6 percent outside the U.S.

Chubb said its combined ratio in 2008 was 88.7 percent, compared with 82.9 percent in 2007. The impact of catastrophes accounted for 5.1 percentage points of the combined ratio in 2008 and 3 points in 2007. The expense ratio was 30.2 percent in 2008 and 30.1 percent in 2007.

Breakdown by Lines

In 2008, Chubb Personal Insurance (CPI) net written premiums grew 3 percent to \$3.8 billion. CPI's combined ratio was 87.1 percent in 2008 compared to 84.8 percent in 2007. The impact of catastrophes accounted for 5.4 percentage points of the combined ratio in 2008 and 6.3 points in 2007.

The Homeowners line grew 1 percent and had a combined ratio of 83.7 percent. Personal Automobile net written premiums declined 3 percent, and the combined ratio was 87.6 percent. Other Personal lines grew 17 percent and had a combined ratio of 97.5 percent.

Chubb Commercial Insurance (CCI) net written premiums declined 2 percent in 2008 to \$5 billion. The combined ratio was 93.9 percent in 2008 and 85.8 percent in 2007. The impact of catastrophes accounted for 8.1 percentage points of the combined ratio in 2008 and 2.6 points in 2007. Average 2008 renewal rates in the U.S. were down 5 percent for CCI, which retained 85 percent of the U.S. premiums that came up for renewal. In the U.S., the ratio of new to lost business was 1 to 1.

Chubb Specialty Insurance (CSI) net written premiums declined 2 percent in 2008 to \$2.9 billion. The combined ratio was 83.3 percent in 2008 and 77.4 percent in 2007.

Source: The Chubb Corp

2009 Dues Invoices Have Been Mailed!!
Please advise if you did not receive.

APPELLATE COURT OVERTURNS NEARLY \$3M JUDGMENT AGAINST TEXAS MUTUAL

An appellate court in Houston has reversed a nearly \$3 million jury verdict against Texas Mutual Insurance Company in a dispute over cancellation of a workers' compensation policy, the insurer announced.

Former policyholder Sembera Security Systems Inc. of Cypress, Texas, had sued its insurance agent in Harris County District Court for allowing coverage with Texas Mutual to lapse for non-payment of a premium. The agent then added Texas Mutual to the case, alleging that the insurer cancelled the policy in error.

Sembera settled with the agent, El Dorado Insurance Agency Inc. of Houston, Texas, and then sued Texas Mutual for breach of contract, among other claims. Texas Mutual maintained that its cancellation of the Sembera policy had been proper, as the insurer had given the permitted 10 days' notice of cancellation for non-payment.

At trial, Sembera won its case, and a jury awarded nearly \$3 million against Texas Mutual. Much of that verdict was attributed to lost profit from a contract with a major Sembera customer.

The First Court of Appeals of Texas in Houston sided with Texas Mutual in its appeal of the lower court's decision by throwing out Sembera's claims and the nearly \$3 million judgment. The court ruled that because the terms of the policy gave Texas Mutual the right to cancel coverage, the cancellation of the Sembera policy was not a breach of contract.

Source: *Texas Mutual Insurance Company*

SOFT MARKET TO GIVE WAY TO "PROLONGED" HARD MARKET

This article was extracted from the January 9, 2009 issue of THE STANDARD, New England's Insurance Weekly. It was furnished to The FLASH courtesy of Jim Schmidt (Alexander & Schmidt – Maine)

NEW YORK CITY - So long, soft market, according to a recent report from Advisen Ltd., provider of information, analytics, and technology to the global commercial insurance industry.

Advisen rang in the new year by releasing a report predicting that the commercial insurance premium market cycle is close to its bottom and that general commercial insurance prices will begin increasing by the fourth quarter of 2009 or the first quarter of 2010. Advisen research is based on its own industry-leading database of premium history and its database of the financial performance of 13 million companies.

"In years past, insurance companies recouped underwriting losses with investment income, but in 2008 the combination of underwriting losses and material investment losses means a five-year soft market is coming to an end," said David K.

Bradford, Advisen Executive Vice President and Chief Knowledge Officer. "The global recession may delay the return of hard market conditions by keeping demand for insurance down, but once the hard market sets in, it is likely to last longer than was the case in recent cycles.

"In previous hard markets, price increases attracted new capital investment to the market, and the increase in insurance supply led to short hard market cycles," continue Bradford. "In the current economic environment, where credit markets are essentially frozen, capital to create new insurance and reinsurance capacity may be in short supply. With capital scarce, the coming hard market could be longer in duration than those of the past several decades."

ECONOMIC STIMULUS THAT WORKS

By Thomas J. Donohue, President & CEO - U. S. Chamber of Commerce

You've heard me say it before – Congress must pass an economic stimulus package as soon as possible to help jumpstart the economy, get credit flowing again, and create jobs. The U.S. Chamber agrees with President Obama, members of Congress, and most economic experts, that a timely, targeted and temporary stimulus bill could help blunt the impact of the current recession and put us on a path toward growth. But, as always, the devil is in the details!

We support many things in the House and Senate versions of the stimulus legislation. Investments aimed at updating our aging electricity grid, modernizing our crumbling infrastructure, and speeding adoption of health care information technology can help spur both short- and long-term growth and improve our global competitiveness.

We like several of the tax provisions, including extending the net operating loss carryback period, providing for bonus depreciation, increasing small business expensing, fully repealing the 3% tax withholding on all government payments, and a housing credit for first-time buyers. Tax relief will help people start spending again – don't forget consumption is 70% of the economy.

But there is still significant room for improvement. The House bill, for example, doesn't meet the "timely, targeted, temporary" test – the spending is unfocused, it comes on line too slowly, and it lasts well beyond what would commonly be labeled temporary. Even worse, some provisions would lead to job destruction instead of job creation. The expansion of COBRA eligibility and duration, for instance, would impose significant compliance burdens and economic costs on employers.

Both bills would benefit from the inclusion of additional tax relief. Congress should consider adding a temporary payroll tax holiday and a temporary allowance for U.S. companies to repatriate foreign subsidiary earnings at a reduced tax rate. These modifications would inject more cash into the private sector, stimulating investment and consumption.....

....passing a stimulus bill now-and re-igniting growth-will actually save us money in the long run. We would pay an even higher price in lost jobs, wages and growth-and in supporting a massive number of unemployed-if we tried to ride things out and did nothing. The ultimate measure of success will be how well the final package stimulates economic growth and job creation. We are all in this together, so let's hope for the best.

ALLSTATE POSTS 9% DECLINE IN PROFIT FOR 2008; COMBINED RATIO AT 99.4%

Allstate reported consolidated revenues were \$6.6 billion in the fourth quarter of 2008 and \$29.4 billion for the 2008 year, a 9 percent drop from the previous year. The decrease in revenue of \$2.4 billion and \$7.4 billion for the quarter and full year in comparison to 2007 is primarily the result of realized net capital losses in 2008, which are treated as a reduction in revenue, the company said.

Allstate's underwriting income declined in 2008 primarily due to increased catastrophe losses last year, including a record level of tornadoes and two substantial hurricanes.

For the year ending Dec. 31, 2008, Allstate's property liability underlying combined ratio was 86.8 percent, which was within the updated outlook range provided of 86.0 percent to 88.0 percent and better than the initial estimate. This ratio benefited from favorable frequency (the number of claims per 100 policies) and only moderate severity (the average cost per claim paid). For the fourth quarter of 2008, the property liability underlying combined ratio was 91.5 percent.

While catastrophic events were less costly in the fourth quarter of 2008, the full year included two of the 10 most costly hurricanes in U.S. history. Total catastrophe losses were \$3.3 billion in 2008, compared to \$1.4 billion in 2007. The full year combined ratio was 99.4 percent which led to Property Liability operating income of \$1.4 billion.

Operating income per diluted share was \$0.97 in the fourth quarter of 2008 compared to \$1.24 in the fourth quarter of 2007, reflecting lower net investment income and decreased underwriting income. Investment income was lower in both the 2008 year and the fourth quarter due to a reduction in short-term interest rates and the decision to maintain ample liquidity given the uncertainty in the financial markets and economy, the company said.

Operating income per diluted share was \$3.22 for the year ending December 31, 2008 compared to \$6.47 in 2007, reflecting lower net investment income and decreased underwriting income.

"Allstate remains financially strong and delivered solid operating performance in 2008, despite costly natural catastrophes and unprecedented financial market deterioration," said Thomas J. Wilson, chairman, president and chief executive officer of The Allstate Corporation. "2008 was our second highest year for catastrophe losses in the past decade, which added to investment losses and led to a net loss for the year. Fortunately, strong underlying operating cash flow and conservative risk management of investments, liquidity and capital kept us financially strong for the 17 million households served by Allstate.

During 2008, Allstate continued its proactive strategy for both catastrophe and investment portfolio risk management in order to maintain strong capital and liquidity. The company's catastrophe risk management program includes reinsurance, policy changes that increased deductibles, and market share reductions in high risk coastal regions.

These actions served Allstate well, the company said. Allstate's analysis shows that losses from Hurricanes Ike and Gustav would have been approximately twice the amount recorded without the catastrophe exposure management actions put into place beginning in 2005.

Allstate Financial initiated a number of actions to reduce risk and improve returns in the face of unprecedented deterioration of the fixed income markets. Liquidity was substantially increased to ensure cash was available to meet customers' needs which reduced operating income.

The operational transfer of the variable annuity business, which was sold in 2006, was completed. Fixed annuity volumes were reduced in the second half of 2008 reflecting an inability to earn attractive returns. In addition, a strategic review to narrow the business focus and lower expenses was initiated which will be implemented over the next two years.

Capital Position

At year-end 2008, Allstate held \$12.6 billion in capital. This total included \$3.6 billion in deployable invested assets at the parent holding company level. The substantial earnings capacity of the operating subsidiaries is the primary source of capital generation for the Corporation.

The recent turmoil in financial markets has caused many financial institutions to reflect significant unrealized loss positions on their balance sheets. Allstate is no different, and during the fourth quarter, pretax unrealized loss position grew from \$4.1 billion to \$8.8 billion, primarily due to significantly widening credit spreads in fixed income securities. The company says it has the intent and ability to hold these securities to recovery.

"Our ability to do so is substantially enhanced by our strong liquidity position, which cushions us from the need to liquidate securities with significant unrealized losses to meet cash obligations. Furthermore, the high quality of underlying assets provides further protection against credit impairments. During 2008, our fixed income securities portfolio provided approximately \$8.6 billion in principal and interest cash flows, of which substantially all have been received in accordance with the contractual terms."

Investment Portfolio

Consolidated total investments were \$96.0 billion as of December 31, 2008, a decline of \$9.0 billion from September 30, 2008, due primarily to a \$4.7 billion increase in unrealized net capital losses and net reductions in both contract-holder obligations of \$1.7 billion and securities lending balances of \$1.2 billion.

Net realized capital losses were \$1.9 billion on a pretax basis for the fourth quarter of 2008, due to \$652 million of impairment writedowns, \$585 million of net losses on the settlement and valuation of derivative instruments, \$357 million of net losses on sales, \$241 million of change in intent writedowns and \$97 million of net losses on the valuation of limited partnerships.

Continued on page 7

The C-DO market is as real and certain as the hard market in this business. As might follow, you can be sure that a C-DO market is Allstate continued from page 7

2009 Outlook and Focus

"We expect 2009 to challenge businesses and consumers alike," Wilson said. "As people focus more on value, we're reaching out with a variety of initiatives to help consumers make the best use of their insurance and investment dollars. We are taking the actions necessary to protect Allstate's financial strength, improve customer loyalty and introduce new products and services."

Property Liability

- Continued emphasis on preserving auto insurance margins by providing customer-focused products and services
- Reducing homeowners exposure to catastrophe losses
- Short-term growth will be limited reflecting a transition to a value-based strategy in the competitive environment and reductions of catastrophe exposure
- Property-Liability combined ratio, excluding the effects of catastrophes and prior year reserve re-estimates, to be between 87.0% and 89.0% for the full year of 2009

Allstate Financial

- Continued focus on improving returns and reducing Allstate Financial's concentration in spread based products, primarily fixed annuities and institutional markets products, will result in lower premiums and deposits and a smaller balance sheet
- Finalizing plans to improve efficiency and narrow the focus of product offerings to better serve the needs of everyday Americans. Targeting savings at 20% of certain operating expenses, excluding acquisition costs, estimated to yield annual savings of \$90 million beginning in 2011. We anticipate a reduction of approximately 1,000 workforce positions, through a combination of attrition and position elimination over the next two years
- Maintaining high liquidity in the investment portfolio will result in lower operating income but ensure ability to meet contract-holder obligations. We will target sales of our spread based products at levels that allow us to avoid sales of investments with significant unrealized losses into distressed or illiquid markets
- Continued investment spread compression due to credit losses, reduced contract-holder funds balances and maintenance of liquidity will result in operating income of approximately \$300 million in 2009

REMEMBER TO MAKE YOUR RESERVATIONS NOW FOR THE 2009 ARCO ANNUAL MEETING IN SAN ANTONIO, TEXAS - MAY 3-4, 2009.

CALL THE CROWN PLAZA RIVERWALK NOW TO GET THE SPECIAL ARCO ROOM RATE OF \$129.00 PER NIGHT!

1-888-233-9527

THE LAST WORD

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

ARCO ANNUAL MEETING LOOMS



ARCO President, John Reggero (Technical Insurance Service – New York) assures us that he has all arrangements in-place for another interesting and beneficial ARCO gathering.

The location – San Antonio, Texas – couldn't be better. Why

have we waited nearly 25 years to return to this scenic, interesting location?

The River Walk meanders along the San Antonio River and is a key attraction for visitors to this picturesque city. A highlight of the River Walk is, of course, The Alamo – an American shrine familiar to all. Many other attractions and events abound.

John has negotiated a room rate of only \$129.00 per night (plus tax, of course) at the AAA Four-Diamond CROWN PLAZA HOTEL – RIVERWALK. The familiar and always popular Welcome Reception is scheduled for Sunday May 3rd, at 5:00PM. The Business Meeting will take place on Monday, May 4th and begins with an 8:00AM Continental Breakfast for the attending ARCO members.

The Group Dinner, which typically concludes the ARCO gathering each year, is planned for one of the popular Tex-Mex restaurants near the hotel.

If you've attended the ARCO Annual Meetings, you know they are an excellent business resource and an opportunity for some important networking with knowledgeable associates. If you have not previously attended or haven't attended for some time, make it a point to participate in the 2009 session. You'll love the location and if you are like most who attend annually, you'll take some important new contacts and knowledge with you when you leave.



YES, VIRGINIA, THERE IS ANOTHER E-MAIL ADDRESS CHANGE FOR ME

Please revise your records to reflect my newest e-mail address which I promise not to change anytime soon! Feel free to write anytime. Your contributions to this newsletter are always appreciated.

Ken Taylor

ken@index-research.com