

the MANAGER



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Getting a Good Night's Sleep – Every Night

Why the Financial Strength of Your Insurer is Important



If you have an insurance claim, will your insurer be there to make the payment? That is a basic concern for many risk managers and business managers. For more than a hundred years insureds

around the country have relied on two fundamental concepts to help them through this concern: a fundamental trust in their broker and independent, third party ratings of their insurers.

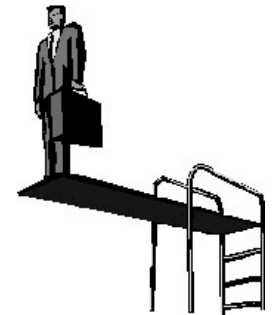
These two concepts are integral to the procedure of selecting appropriate insurers for all risks. An independent financial and operational analysis of an incumbent or prospective insurer is arguably the most critical step in risk management because it is the only process that measures the strength of the insurer to pay prospective claims. Coverage issues are important, of course, but unless the insurer remains solvent with the means to pay insured losses, the coverage is contractual only. Furthermore, if an insurer becomes insolvent, not only may claims go unpaid, but also all premiums paid the insurer may be lost and the insured entity must seek new insurance elsewhere, often at higher rates.

The ability of insurers to pay current, short tail claims, such as auto damage and workers' compensation, can, most

Insureds around the country rely on two fundamental concepts:

- 1) a trust in their broker*
- 2) independent, third party ratings of their insurers*

Is the Pool Deep Enough?



If there is one thing that separates municipal and school managers from their commercial brethren, it is a fondness for budgetary certainty. With revenues highly predictable, costs and expenses are the variables that towns and school districts worry about most. When it comes to insurance, which is a significant line item in the budget, these variables are primarily premiums, self-insured losses, deductibles, uninsured losses, litigation costs, and assessments. Buying insurance strictly on the basis of the lowest premium while ignoring the other cost variables is not a path a seasoned risk manager would take.

Sure, the lowest premium insurance program works fine and provides a stable budget platform – when there are no losses and no litigation.

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METROGARD TO PARTICIPATE
Massachusetts Municipal Association
Annual Meeting & Trade Show
January 10-11, 2003
Hynes Conventions Center



Booth # 1303
just look for the sign!

Stop by and speak with a Metrogard representative about how we can serve your public insurance needs.

**Vermont League of Cities & Towns
Town Fair**

If you were at the VLCT Town Fair on September 26th, you may have seen our new look! METROGARD's booth display caught the eye of many municipal officials, including those from the VLCT P&C insurance fund. But our DVD-player raffle was equally popular - a very happy winner drove home with it after the show!

Over 60 marketing folders were distributed to current Metrogard insureds and VLCT prospects during the one-day event hosted by the Killington Mountain Resort and Conference Center in Killington, VT. Metrogard representatives included Hugh Campbell, Christie Amstein (Underwriting), Ron Quattrochi (Loss Prevention) and Peter Archangeli (Claims.)

We plan to be at next year's annual VLCT Town Fair. We invite you to join us in our promotional efforts.



*Metrogard staff from L to R:
Hugh, Ron, Peter, and Christie.*

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Getting a Good Night's Sleep, cont'd



of the time, be determined from the insurer's current financial statements and from their current and recent claims paying record. Their ability to pay claims from long-term exposures, such as asbestos; litigation losses, such as malpractice; and major disasters, such as earthquakes or flooding, cannot be determined so readily. For these latter situations, a thorough multi-year, forward-looking analysis is necessary.

There are several third party companies that provide this service. The preeminent among them are A.M. Best, Standard and Poor's, Moodys, and Weiss Ratings. These organizations are respected worldwide for their independence, quality of work, and insight. They use models and qualitative criteria that have withstood the test of time, and for many years they have provided invaluable service to tens of thousands of brokers and insureds alike.

A.M. Best has specialized in rating insurance companies since 1900 when it issued the first of its Best Insurance Reports® – Property/Casualty Edition. In its analyses it utilizes advanced models and more than 100 key financial tests and supporting data. Best analyzes the insurer's data for at least the past five years before it grants an insurer one of its top ratings.

Although Best does not audit financial statements, it does complement its reviews of financial statements with analyses of insurer filings with government agencies, including the SEC, and with

meetings with insurer management. As part of the review, Best places considerable weight on the insurer's balance sheet; its income statement (operating performance); its loss and policy reserves; the company's business profile – including its spread of risk, depth of management experience, and competitive position – its reinsurance program; the quality, liquidity, and diversification of its investments; cash flow; and surplus.

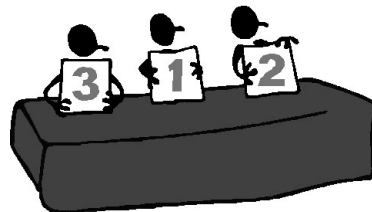
Best Ratings are granted in two broad categories: secure and vulnerable. Insurers rated secure may display the prized Best Security Icon; these include the categories superior, excellent, and very good, and encompass the ratings A⁺⁺ through B⁺. Insurers

with Best Ratings B through F and those under suspension are categorized as vulnerable.

Because of the importance and universal acceptance of Best ratings, many insurers strive to meet Best's stringent standards, which are designed to predict an insurer's ability to remain solvent and to pay claims in the future.

Not all insurers are granted Best Ratings. Insurers who are too small or new may be given a Financial Performance Rating; this system grades insurers from very strong (FRP 9) to poor (FRP 1).

Insurers are also categorized by size, both as individual companies and, if affiliated, by group. Categorization is established by policyholders' surplus plus some conditional or technical reserves. The companies and groups are compartmentalized into one of 15 classes, from the smallest (Class I) to the largest (Class XV), i.e., those with surpluses



Is the Pool Deep Enough?, cont'd

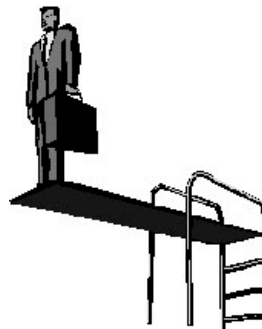
But a zero-loss scenario is neither predictable nor realistic. And that segues into the possibility that there could be cost overruns in the insurance program, a situation that any municipal, agency, or school district manager abhors.

What can go wrong?

Losses can exceed an insurer's or a self-insured group pool's (i.e., state trust SIGs) ability to pay the claims for which it is liable. In the case of an insurer, the remedy may rest with a reinsurer, a parent company, intra-insurer treaties, and the state guarantee funds. Choosing a healthy and stable insurer is one way to mitigate the possibility of being insured by a company that may default on its obligations. That can be readily accomplished by contracting with an insurer that holds a secure third-party rating, e.g., an A.M. Best rating of B⁺ or higher (see accompanying article). On the other hand, if a pool cannot pay its obligations due to unexpected losses – or any other reason – it must levy assessments on its members, even those not responsible for the increase over predicted losses. Unfortunately, assessments are budgetary overruns. It should be noted that (a) A.M. Best does not provide safety, solvency or quality ratings for state trusts and (b) all insurers in the Metrogard insurance program are A.M. Best rated A- or higher.

The state guarantee trust funds are funded by all admitted insurers in the state. Each state has its own guarantee fund, typically paying up to \$300,000 per claim. If an admitted insurer goes into

liquidation, i.e., bankruptcy, the fund takes over to cover legitimate claims against the defaulting insurer. If necessary, the state insurance commissioner will order solvent insurers to contribute additional funds to the trust fund to make up any shortfalls in the trust's assets. Hence, an insured using an admitted insurance carrier, has backup coverage for the most common lines of insurance.



Deficiencies in the pool result in financial assessments against the subscribers to the pool.

On the other hand, state pools neither fund nor have access to the state guarantee trust funds. Any deficiencies in the pool result in financial assessments against the subscribers to the pool.

Uninsured losses can be a heavy burden for any entity. These are usually losses arising from unexpected events, coverages or severities that the decision makers concluded were of too low a probability to worry about, or coverages not provided by the insurance program. Commercial insurance programs are more flexible than pools, and insurance buyers may tailor their coverages and limits with insurers to significantly reduce the potential for unexpected or uninsured losses.

Insureds have less control over litigation costs when the insured is associated with a pool than when the entity is individually insured. Litigation against public entities is often expensive for both plaintiff and defendant and the cost and expenses of litigation are seldom well controlled. Litigation costs may or may not be covered by an insurance pool. If not, there typically is both a budgetary overrun and media disclosure, neither of which is appealing to public managers.

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Would you like someone to receive our newsletter?

Want more info on our programs?

Contact:

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Getting a Good Night's Sleep, cont'd



of \$2 billion or more. Best reviews and rates nearly 5,000 insurers doing business in the U.S. Its international edition contains data and ratings on approximately 1,600 international insurers.

creditworthiness of insurers and other companies around the globe. Weiss Ratings Inc. follows approximately 2,300 insurers on a quarterly basis. Unlike the other rating companies, Weiss does not receive compensation from the insurers it monitors. Its income derives from the sale of quarterly and annual reports to brokers, insureds, and others.

Best's objective is to provide an opinion of an insurer's financial strength, that is, its capacity to fulfill its obligations, current and future, to its policyholders. Insurers are rated at least annually, more often if there is a critical event that may impact their rating. Furthermore, Best assigns an outlook to many of its rated insurers; this forward-looking opinion typically covers the next 12 to 24 months. Outlooks are categorized as positive, stable, or negative. These outlooks can be very valuable to brokers as they may influence which insurers are best suited for specific insureds.



Risk managers and other buyers of insurance should ask for the insurance and credit ratings one or more of these rating agencies have assigned to their insurers. Purchasing a policy from a company with a history of stability, a credible claims-paying history, solid financials, strong reinsurers, a positive outlook, and a good business profile is as important as the coverage itself. Does your program have a secure rating? Ask your broker and get a good night's sleep.

Standard and Poor's and Moodys are known worldwide for their acumen in rating the

CLAIMS BULLETIN

Minimizing Water Damage

On average it is three times more likely to receive damage from water as it is from fire or any other type of unfortunate, natural damage. If you know what actions to take immediately following a water loss the damages to both building and contents can be substantially reduced.

Not only does it make sense to take steps to protect your property from further damages, your insurance policy requires you to “Take all reasonable steps to protect the Covered Property from further damages by a Covered Cause of Loss.”

Although many insureds have highly competent custodial staffs, who can, and should initiate the clean up, a professional restoration company should be called in as soon as possible, as they have the equipment and knowledge in water remediation to mitigate damages. If you do not know of a company in your area that is qualified to provide these services, they can be found in the yellow pages of the phone book, under Fire and Water Damage Restoration.



Water Damage

DO's & DON'T's

WATER DAMAGE – DO:

- ✓ Determine the source and do whatever is necessary to prevent further water damage.
- ✓ Remove as much water as possible by mopping, wet vacuuming and blotting.
- ✓ Use dehumidifiers if available (temperature should be above 60 degrees)
- ✓ Use fans to circulate the air and assist drying.
- ✓ Remove wet area rugs and other coverings from wet flooring.
- ✓ Place foam blocks, foil or clear wrap between furniture legs, cabinets and other items that can not be easily removed to prevent staining or rusting on carpet.
- ✓ Wipe furniture and other hard contents dry.
- ✓ Open drawers and closet doors to enhance drying.
- ✓ If in summer, use air conditioning, if available.
- ✓ Report the loss to your insurance agent immediately.

WATER DAMAGE – DON'T:

- ✗ Do not use household vacuum to remove water.
- ✗ Do not use electrical appliances on wet carpet or floors.
- ✗ Do not go into areas with standing water if the electricity is still on.
- ✗ Do not pull up tacked down carpet without professional help as this could promote shrinkage.
- ✗ Do not turn heat up as this may promote bacterial growth.

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"Kick Save and a Beauty..."



It's common knowledge the Metrogard Insurance Program employs some of the most highly trained and professional staff in the insurance industry, but what you may not know is that talent abounds as well.

Marketing Manager Hugh Campbell found himself providing radio color commentary for the University of Massachusetts at Amherst Men's Ice Hockey team for the 2001-02 season. The Minutemen compete in Division 1 Hockey East, arguably the strongest division in North America.

"It all came about by accident. A buddy of mine took over as Program Director of the radio station carrying UMass games. He did the play-by-play and was looking for a color person to fill in on a spot basis," said Campbell. "I'm an alumnus and season ticket holder, so I was happy to help out any way I could. I had a lot of fun."

Could there be bigger things ahead for Hugh in the sports radio field? "I'm not quitting my day job, that's for sure," he said.

Is the Pool Deep Enough?, cont'd

Other benefits of direct insurance

There are many benefits – your broker can elaborate – but here are a few examples:

- Services can be unbundled. If you do not want certain services from the insurer, you generally can segregate them from the insurance and purchase them elsewhere. This includes loss prevention services, legal representation, claims administration, management information processing, investigations and loss evaluations, actuarial services, and the like.

- Insurance services can be provided by local service organizations, including local brokers. Services provided by pools are generally centrally located, which is okay if you are near "the" city.

- Brokers and insurers with whom the public entity has a personal and business relationship will be more willing to accommodate the occasional special needs of the entity, sometimes at favorable premiums or conditions, should those needs arise. These might include special bonds, event coverage, umbrella or excess insurance, political risks, and other coverages not obtainable through state trusts.

- Circumstances may arise when a public entity may want special services from a qualified provider, often without media attention. These services may be available from an insurance company for its insureds, but would seldom be available from a state insurance pool. In the post-Columbine (Colorado) and -9/11 era, such services might include vulnerability assessments (security); an assessment of potential new threats and liabilities; kidnap, ransom, and extortion; and cyberterrorism. As an astute manager, you can see that it's not just about premiums anymore.

Risk Management Programs & Workshops

Session	Date	Location(s)
<p><u>Employment Practices Liability</u> Are you perceived as a fair manager? METROGARD Claims METROGARD Loss Control Kopleman & Paige, PC</p>	<p>Nov 21, 2002 Dec 03, 2002 Dec 04, 2002 Dec 11, 2002</p>	<p>West – Clarion Northampton, MA Central – Ramada Auburn, MA Metro – Holiday Inn, Dedham, MA Cape – Ramada Regency Hyannis, MA</p>
<p><u>Sexual Harassment in the Workplace</u> METROGARD Claims METROGARD Loss Control Kopleman & Paige, PC</p>	<p>Jan 14, 2003 Jan 15, 2003 Jan 21, 2003 Jan 22, 2003</p>	<p>West – Clarion Northampton, MA Central – Ramada Auburn, MA Metro – Holiday Inn, Dedham, MA Cape – Ramada Regency Hyannis, MA</p>
<p><u>Law Enforcement Liability</u> Pursuit and Emergency Response Decision Making Steve Charette, Instructor Emergency Vehicle Operations Consultants</p>	<p>Feb 25, 2003 Feb 26, 2003 Feb 27, 2003 Mar 04, 2003</p>	<p>West – Clarion Northampton, MA Central – Ramada Auburn, MA Metro – Holiday Inn, Dedham, MA Cape – Ramada Regency Hyannis, MA</p>

**Published by Massamont Insurance Agency, Inc.,
to Actively Participate with Public Officials in Protecting Their Communities and
Schools**

Note: Any coverages described in this newsletter are summarized and subject to terms, conditions and exclusions printed in policies. References to specific policy language, terms or conditions should not be construed as binding. Refer to policy forms for specifics on the coverage's and limits. All coverages are subject to state law, which may vary materially from the stated information.