

Transure

For The Road Ahead...

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A HARD MARKETS' PERSPECTIVE

For many of the decision makers in the industry, they are perhaps experiencing their first insurance "hard market"; the last one occurring in this industry ended nearly 15 years ago!

The increases in costs appear unprecedented and frankly unfair. In addition, although signs of a changing environment occurred as early as a year ago, the timing

could not have come at a less than favorable period where the events of September 11 and our economic slowdown increased the impact.

But really what was the major average fixed costs of most truckers 15 years ago compared with today's costs?

Will your fixed costs ever go back to the mid-80s or 90s?

- We doubt it.

Will your insurance costs ever adjust downward to a rate comparable to the 80s or 90s?

- We will enjoy a downturn eventually. The cycle will return, albeit will it be as "soft" as it's been in the past?

- We'll have to wait and see.

Average Fixed Costs	1986	2001	% Diff.
Conventional Tractor (Freightliner)	\$75,800	\$95,900	(+)26%
Fuel Per Gallon (National Average)	\$1.23	\$1.49	(+)21%
Driver Remuneration	\$25-30k	\$40-50k	(+)60%
Insurance Costs— Auto Liability (PPU)	\$4,500	\$4,500	-0-
Cargo (Rate)	\$0.50	\$0.50	-0-
Physical Damage (% of value)	4.0-5.0%	3.0-4.0%	(-)20%
Workers Comp (7219 adjusted)	\$4.95	\$4-5.00	-0-

BUSINESSES CONFRONT "PERFECT STORM"

With insurance costs soaring, firms take a hard look at how much coverage they need and how to pay for it.

In a typical year when it's time to renew insurance contracts, Bill Gacki updates H.B. Fuller Co.'s board about negotiations with a short written report. This year, just days after the September 11 attacks, he stood in for the board in a special meeting to give an in-depth analysis of the company's insurance

options.

The meeting is just one indication that decisions on insurance, once left to department heads, have reached the corner office. With premiums expected to rise 25 to 30 percent or more, CEOs must make tough choices: They can either absorb the higher cost and cut elsewhere or assume a greater share of the risk and perhaps incur a big loss if something unexpected happens.

"As corporate America goes out to renew insurance, they are going into the teeth of the perfect storm," said Gacki, who, as vice president and treasurer, oversees risk management for H. B. Fuller.

The perfect storm, a reference to the best-selling book and hit movie of the same name, is how many in the industry describe the current conditions. Premiums were already expected to increase by double digits before terror-



EMPLOYEE LEASING COMPANIES & PROFESSIONAL EMPLOYER ORGANIZATIONS

WHAT YOU NEED TO KNOW

In North Carolina and across the country, Employee Leasing Companies (ELCs) and Professional Employer Organizations (PEOs) are becoming more prevalent. There is little difference between the two organizations as both contract with client companies to provide all or some of the following: payroll processing, tax and other required employee filings and reports, maintenance of employee records, unemployment compensation claims, health benefits, workers' compensation insurance and other human resource services—PEOs point out that the main distinction between the two types of organizations is that PRO contractually share employer risk, rights and responsibilities with their client companies. These responsibilities may include the hiring, discharging, directing and controlling of the work site employees. ELCs may actually become the employer of record for some purposes and may also "lease back" the employees to the client company which retains full operational control over their employees.

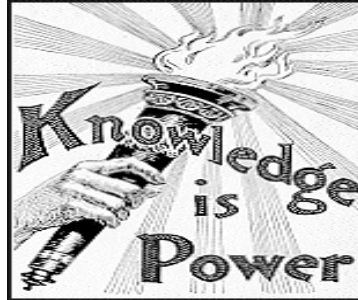
The overall purpose of the two organizations, however, is the same: to relieve the client company — for a fee — of the burdens and liability of managing increasingly complex employee related responsibilities. This allows the client company to focus completely on core business activities while contemporaneously benefiting from access to employee benefits and cost savings in the areas of workers' compensation and certain employee benefit programs.

The concept has become increasingly accepted and is experiencing a growth rate of about 30 percent per year. Like any other industry when operated efficiently and according to established rules and statutory requirements, these organizations have provided their clients with effective and needed service.

Unfortunately, there have been

instances where certain ELCs and PEOs are allegedly operating fraudulently. The Investigations Division of the NC Department of Insurance currently has three such enterprises under investigation and, in each instance, it is in the areas of workers' compensation and health benefits where the alleged fraud has occurred.

Allegations are being examined where certain ELCs or PEOs have offered non-existent workers' compensation and/or health insurance coverage to employees



of the client companies. In certain instances, licensed agents were allegedly utilized to procure workers' compensation coverage that was then fraudulently marketed through other employee leasing concerns, to client companies and their employees.

Phony certificates of insurance were allegedly distributed to the client companies and, as a result, the companies and their employees were duped into believing that they had legitimate coverage. Premiums, instead of being forwarded to the appropriate carriers, were retained by certain unscrupulous ELC and PEO owners. The coverage, in essence, became self-insured in violation of state statutes. Some claims were paid through bogus companies allegedly set up for this purpose by the ELC and PEO operators. Due to the fact that appropriate reserves were never in place, the ELC and PRO were soon unable to pay these claims; the alleged fraud was exposed and numerous employees were left with unpaid workers' compensation and medical claims.

There are also further allegations under investigation relating to potential tax violations and purposeful misclassification of employees to the North Carolina Rate Bureau by the operators of certain ELCs and PEOs. Whether or not the ELC/PEO criminal allegations involve tax violations or insurance related violations, the resulting investigations are lengthy and complicated, requiring extensive record reviews and interviews of hundreds of individuals by investigators from several different agencies.

Additionally, in North Carolina as in numerous other states, regulation of these entities needs to be clarified and appropriately delegated. The current lack of clear regulatory jurisdiction over ELCs and PEOs may be actually increasing the potential for fraud within the industry by providing an opportunistic environment for certain ELC/PEO "fraudsters." The Department of Insurance is actively investigating allegations of insurance fraud within the ELC/PEO arena and will continue to do so.

As ELCs and PEOs become more widely interspersed into our North Carolina business communities, the potential for fraud also increases. It is essential that North Carolina agents and businesses exercise due diligence before entering into contracts with ELCs or PEOs.

Agents and consumers with questions about workers' compensation and/or health insurance being offered in connection with ELC or PRO contracts are urged to contact the North Carolina Department of Insurance, Consumer Services Division, at (800) 546-5664 or (919)733-2032. The North Carolina Industrial Commission may also be contacted for workers' compensation questions at (919) 807-2500.

Article from the "Insurance Newsletter"

"the companies and their employees were duped into believing that they had legitimate coverage."

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...PERFECT STORM CONTINUED FROM PAGE 1

ists attacked the World Trade Center.

The human toll of the tragedy, of course, can't be calculated. But damages that insurers will cover may reach \$40 billion, the worst insured catastrophe ever.

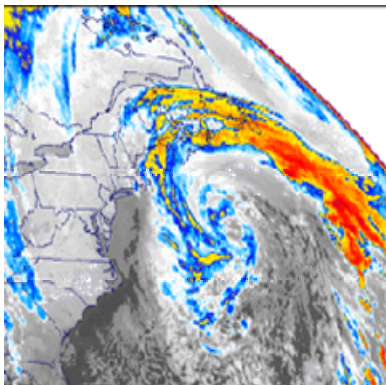
Paying those claims will consume a large portion of the insurance industry's available capital, industry experts say, with so-called reinsurers - essentially insurance firms for insurers - taking a huge hit.

In part to recover those losses, reinsurance rates will spike dramatically. As primary insurers pass those costs along and reassess risks, virtually every type of commercial insurers will rise.

That shift will affect all businesses, from construction

and manufacturing to high-tech. In some industries, the increases will be passed along in higher prices. In industries where inventory is piling up and competition remains sharp, companies will have to absorb the cost.

Virtually all companies will be taking on more risk, often in larger deductibles - so



safety will have to become an even higher priority.

In some cases, companies won't be able to find the coverage they want.

Insurers are especially wary of the energy market these days because power plants are so high-profile and would cost so much to replace. "When 9/11 occurred, it frankly turned that market into a panic market," said Sandy Calvert, director of risk management for NRG Energy, based in Minneapolis. "Even proposals that were already on the table were immediately removed. Pricing that was only good for 30 days was off the table. Some insurers simply suspended coverage."

Article by Kevin Mailer from Knight Ridder News Service

"with premiums expected to rise 25 to 30 percent or more, CEOs must make tough decisions."

WHAT IS A BURN RATE?

In your renewal process you may have heard your agent mention this terminology. While examining your insurance program, you may be looking at ways to mitigate the increases in your premiums by assuming more risk. The "burn rate" developed at various deductible levels allows you to recognize your probability of loss within the

options available to you, and, compare those probabilities to the dollars the insurer is willing to return for your assumption of that exposure.

In the example below, if the insurer was to offer an allowance to have you undertake a \$5000 deductible for a \$.40 break, you should not take it knowing your losses (from 1001-5000) equate to \$.60

for every \$100 of revenue you generate. Obviously, the benefit would lean in your favor if the insurer offered you \$.80 for assumption of that exposure!

Know your risk probability in making these important decisions and your program can work for you!

EXAMPLE	Segregated Losses					
	Year	Revenue	Total Losses	0-1000	1001-5000	5001+
	00-01	5,000,000	100,000	10,000	20,000	70,000
	99-00	4,800,000	140,000	8,000	30,000	102,000
	98-99	4,650,000	80,000	5,000	20,000	55,000
	97-98	4,500,000	50,000	5,000	20,000	15,000
	96-97	4,500,000	75,000	15,000	50,000	10,000
	Total	23,450,000	445,000	43,000	140,000	262,000
	Burn Rate		\$1.90	\$0.18	.60	1.12

To calculate the "burn," you utilize the following formula:

losses (developed within various deductible levels) + exposure base* (annual revenue or miles) *100.

* It is important to note that the experience and revenue developed over a 5 year period is more credible than that on a lesser exposure base.

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For The Road Ahead...



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Transure Services, Inc. **Your Truck Insurance Specialists**

For over four decades, Transure has been fulfilling the insurance needs of the transportation trade. By specializing exclusively in the associated risks of that business, Transure is clearly the best qualified broker to recognize and respond to the exceptional demands created by a unique industry.

Specialization is a key to Transure's success. Our clients are provided with a host of ancillary services not available through other brokers that are not focused in the transportation insurance field. This single industry concentration enables Transure to remain consistently informed about cycles and changes in both the insurance and transportation industries. A single focus helps us match clients with the most cost effective program offered, custom tailored by a Transure team, you (the client), and the insurance carrier.

Transure Services is composed of a staff of proven professionals with over 100 years of collective experience in transportation insurance. Both sales and administrative personnel have had experience and success in direct and retail sales of this kind of insurance placement. This industry knowledge and dedication, coupled with our outstanding insurance company relationships, adds value to Transure's strength in marketing.

We pride ourselves on individual attention to service which contributes to our success and to client satisfaction. Statistical loss analysis is designed specially for various client needs. Our staff identifies the risks that adversely impact your financial statement. Once identified, we make recommendations to eliminate, reduce or transfer the risks via insurance or alternative risk financing methods.

One of our most important services is providing prompt claims services to clients when a claim occurs. Our claims department handles each loss with efficiency and speed whether we do the adjustment or it is sent to a company for handling. We follow through with the companies to ensure the satisfaction of our most valued asset, our client.

STELLA AWARDS

In 1994, a New Mexico jury awarded \$ 2.9 million US in damages to 81-year-old Stella Liebeck who suffered third-degree burns to her legs, groin and buttocks after spilling a cup of McDonald's coffee on herself. This case inspired an annual award - The "Stella" Award -for the most frivolous lawsuit in the US The ones listed below are clear candidates. All these cases are verging on the outright ridiculous and yet (in the good old USA) with the right attorney you could win anything! (see OJ trial).

1. January 2000: Kathleen Robertson of Austin Texas was awarded \$780,000 by a jury of her peers after breaking her ankle tripping over a toddler who was running amuck inside a furniture store. The owners of the store were understandably surprised at the verdict, considering the misbehaving little prick was Ms. Robertson's son.

2. A 19 year old Carl Truman of Los Angeles won \$74,000 and medical expenses when his neighbor ran over his hand with a Honda Accord. Mr. Truman apparently didn't notice there was someone at the wheel of the car, when he was trying to steal his neighbor's hubcaps.

3. October 1998: A Terrence Dickson of Bristol Pennsylvania was leaving a house he had just finished robbing by way of the garage. He was not able to get the garage door to go up, because the automatic door opener was malfunctioning. He couldn't reenter the house because the door connecting the house and garage locked when he pulled it shut. The family was on vacation. Mr. Dickson found himself locked in the garage for eight days. He subsisted on a case of Pepsi he found, and a large bag of dry dog food. Mr. Dickson sued the homeowner's insurance claiming the situation caused him undue men-

tal anguish. The jury agreed to the tune of half a million dollars.

4. October 1999: Jerry Williams of Little Rock Arkansas was awarded \$14,500 and medical expenses after being bitten on the buttocks by his next door neighbor's beagle. The beagle was on a chain in it's owner's fenced-in yard, as was Mr. Williams. The award was less than sought because the jury felt the dog may have been provoked by Mr. Williams who, at the time, was shooting it repeatedly with a pellet gun.

5. May 2000: A Philadelphia restaurant was ordered to pay Amber Carson of Lancaster, Pennsylvania \$113,500 after she slipped on soft drink and broke her coccyx. The beverage was on the floor because Ms. Carson threw it at her boyfriend 30 seconds earlier during an argument.

- More to come...