

PULSE newsletter

Pennsylvania Association of Mutual Insurance Companies

From the President



The prolonged fall season we have been enjoying appears to be ending and soon we will all be caught up in the Holiday Season. But let's look ahead to what 2006 promises.

Mark your calendars now for the Small Company Seminar and the Claims Seminar. These two educational events have traditionally been among the most popular and best attended of PAMIC's many educational offerings.

If you are a smaller insurance company, and most of our members are, you should circle March 8 and 9, 2006. Your Education Committee is already deep in planning for this event. Those of you who have attended in the past know that these meetings are intended to present a variety of issues that impact small company operations. Your Education Committee is mindful of the fact that many smaller companies just can't find the time to send somebody to every important seminar. The annual Small Company meeting is designed for such busy small company managers - people who have to wear all the hats at their shop.

Next up, the Claims Seminar. Year after year, this event is PAMIC's best attended meeting, excepting only the convention. And no wonder. Each year, your Claims Committee makes sure that the important information you receive is timely, accurate, and geared to the problems you face every day. The past two years have been exceptionally well received, and 2006 promise to be even better. Why not set aside April 4-5 and see for yourself?

Finally, I want to make special mention of our annual state legislative day - Mutual Insurance Day in Harrisburg. In 2006, the dates to mark down are February 6-7. This event is one of the most important of PAMIC's government affairs activities. And, as executives of companies heavily regulated by state government, I don't need to remind any of you of just how important is government affairs. In addition to the legislative briefing, the PAC reception, the legislative breakfast in the Capitol Building, and the meetings with legislators, this year will see some new features. First, on the morning of February 6th Dennis Shoop, Director, Bureau of Enforcement, PA Insurance Department, will make an important presentation on market conduct examinations. It will help companies look through the sometimes bureaucratic language of website-posted reports on

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ID STATEMENT

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PHONE: (717)303-0197

FAX: (717)303-1501

WEBSITE: www.pamic.org

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Chairman's Comments



"Disraeli was pretty close: actually, there are Lies, Damn lies, Statistics, Benchmarks and Delivery Dates." - Unknown

So what does the "average" PAMIC member company look like? Our current membership stands at 59 members, and homogenous we are not. What do the numbers tell us about ourselves? Looking at the recently released AM Best data for 2004, the following facts come to light.

Our smallest member has about \$600 thousand in assets; our largest, over \$1.2 billion. Average assets of all companies totaled \$76,936,000; the median assets were \$6,334,000. Policyholder surplus ranged from \$600 thousand to over \$300 million. Average surplus was \$30,049,000; median surplus was \$4,452,000. Due to the significant variance between the average and the median, it is readily apparent that our membership is skewed toward companies with a smaller asset and surplus base.

Thirty two of 59 companies, or 54% reported an underwriting loss for the year and 20 of 59, or 34%, had a pre-tax operating loss. The average underwriting loss for PAMIC companies was \$280,000 and median underwriting loss was \$17,000. Pre tax operating profit showed a better picture, with the average company generating \$1,924,000 in income; the median, though, was only \$77,500.

Wasn't 2004 the year that the insurance industry finally achieved an underwriting profit? Not since the era of the Bee Gees and Saturday Night Fever (1978, to be exact) has the industry managed to have its premium revenue exceed its expenses. I'm somewhat surprised to learn that over half of our members didn't do what the industry overall managed to do. Obviously, things happen and a run of losses can easily tip the balance, but it would have been nice to see more of our members in the black.

Which leads me to issue a challenge to membership: Do you know how you stack up against other PAMIC companies and the industry overall? Benchmarking can be a very powerful learning and management tool to help you guide your company. Getting started is pretty easy, too. Select about a half dozen companies that you think of as a peer group and compare your information to them. You can obtain the information from a variety of sources, including annual statements, AM Best information, and services provided by reinsurers and intermediaries. You may also want to check your results against industry averages for your product line and overall combined ratios, returns on equity, etc. Sometimes we get so involved in doing the urgent work, we forget to do the important work. Give your company a financial physical. You may feel better for it.

Sincerely,

Robert L. Lyon
President/CEO
Millers Mutual Group
2005 – 2006 PAMIC Chairman

From the President

(Continued from page 1)

examination to the actual mistakes Shoop and his examiners are seeing in the field. In order to make sure his presentation hits the questions really bothering company people, I will invite attendees to submit questions (anonymity preserved, of course!) to me. These will be used to shape the presentation. This presentation will be of major benefit to all members facing market conduct examinations – which means, ultimately, all members. I realize that adding an additional event makes for a crowded two days. But we want to minimize travel and lodging expenses and ensure the biggest turnout possible for this major presentation.

Secondly, in the afternoon of February 6th we will have a grassroots seminar. The purpose is to teach company people the most effective ways of contacting and positively influencing their state senators and representatives. Those of you who have attended past Mutual Insurance Days know that your state legislator is eager to meet constituents and listens carefully to constituent concerns. Although we meet with legislators all the time in Harrisburg, there is just no comparison with the impact that a local constituent – rather than a "hired gun" – can have. You will come away from this meeting with the knowledge and the self-confidence you need to make your industry's problems and concerns known to government.

So watch for the announcements for these and other important meetings in the next six months. I hope to see all of you at PAMIC!

Sincerely,

Steven C. Elliott, J. D., CPCU, CLU
President

Maintain Your Sanity by Using the 80/20 Rule

Vilfredo Pareto was an Italian economist who lived from 1848 to 1923. His incredible insight (often called the Pareto Principle) in 1898 was simply: “Twenty percent of the people control eighty percent of the money.” The creative adaptation of this 80/20 rule has helped me immensely over the years. I hope you will find these ideas helpful, too.

1. Examine your daily regimen and you will find that 20 percent of your priorities net you 80 percent of your results. Don’t “major in the minor priorities.” Stay focused on the ones that produce bigger payoffs.

2. Observe teams, departments and socially organized groups. Note that 20 percent of the people do 80 percent of the work. Get to know who these folks are. They are the ones that can truly be counted on to follow through and get things done.

3. Know your customer base. It so happens that 20 percent of the customers buy 80 percent of the goods. This group has come to be known as elite/preferred customers and are often granted special status, perks, etc. It makes solid sense to cater to this group.

4. Anticipate problems. Bear in mind that 20 percent of the people cause 80 percent of the problems in organizations. Since “the squeaky wheel gets the grease,” be prepared to

deal with these individuals (have your “grease gun” ready). Indeed, these people often require more energy, time and care than the majority.

5. Be prepared to deal with chaos, change and crisis on a daily basis. Use the Pareto Principle by leaving 20 percent of your day unscheduled to deal with situations that arise.

6. Pay attention to your diet. Make sure that at least 80 percent of your diet is healthy and enhances your performance. Since the other 20 percent may not be nearly as nutritious, control the size of the portions that you ingest.

7. You want to strive to be perfect when “80 percent of your project’s results come from the final 20 percent of your efforts.” Here’s an example: When a top-flight brain surgeon performs brain surgery, she goes to great lengths to see that she completes the surgery perfectly (following up with the final stitches, etc.) and addresses every minute detail. In other words, the final 20 percent of her painstaking efforts have a whole lot to do with the overall project’s success. She strives to be perfect. Conversely, some tasks don’t need to be done perfectly. For instance: When washing your car, it is not necessary to spend several hours making sure it is spotless. In this case, 80 percent of your results do not come from the final 20 percent of your efforts. As the wise sage once said, “In some instances, the

best can become the enemy of the good.” Know when to strive for perfection and when good enough is simply good enough.

Do Pareto proud. Strive to use his principle in your life. It will help maintain your sanity.

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816-578-4516

mark@speakoutseminars.com
www.speakoutseminars.com

Government Affairs

Safeguarding Confidential Personal Information; Notice of Security Breach

In the past several years insurance companies have gone to great lengths to protect the confidentiality of their policyholders' personal financial and medical information. With the passage of the Gramm-Leach-Bliley federal legislation, state insurance regulators were directed to develop regulations governing notice of any data-sharing activity, giving consumers opt-outs in certain cases, and requiring companies to develop privacy plans with the detailed policies aimed at keeping private information private. PAMIC has been instrumental in helping its member companies come into compliance with these myriads of regulations in the most efficient and effective manner possible. Development of model privacy notices and of a privacy manual template are notable examples.

Just as that spate of privacy-related regulation was prompted by developments in the economy (entry of banks into insurance), so recent breaches of data security have prompted the latest round of Pennsylvania privacy related legislation. Consumers are increasingly alarmed about the apparently increasing number of security breaches of firewalls built to assure the confidentiality of information that, if stolen, could be used for identity theft. Several bills

have been introduced to address this situation. They all focus on the idea that consumers should have the right to be notified if such a security breach happens.

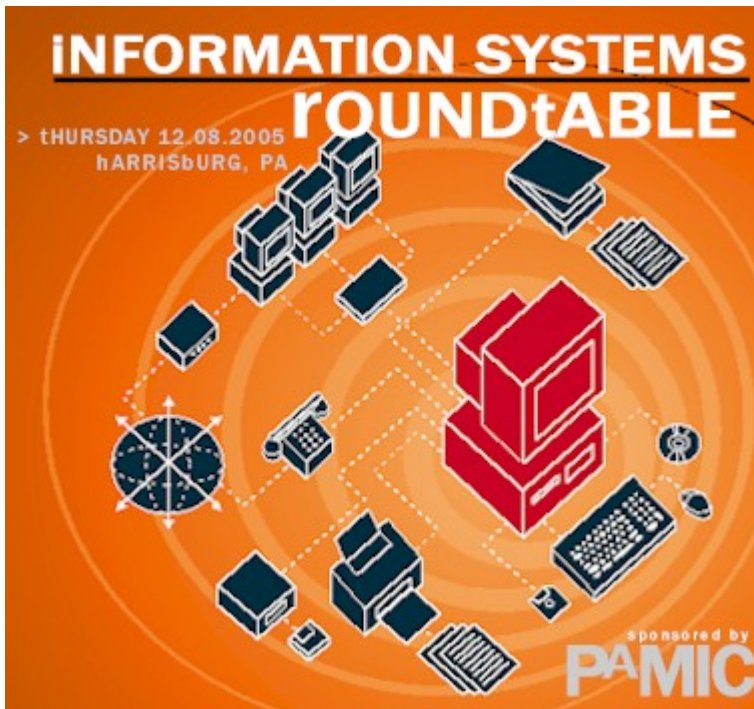
The bill most likely to become law is SB 712. Introduced by Senator Robert Wonderling (R-Bucks, Lehigh, etc.) and passing the Senate in July, it is ready for third reading in the House of Representatives. The Pennsylvania Attorney General has problems with the bills "willful and knowing" standard of culpability, apparently fearing that would make violations very hard to prove. That standard may well be tightened up on final approval. The two important things for insurance companies to know is that they are not exempted from compliance with this bill and that it is to be enforced by the Attorney General, not the Insurance Commissioner.

Here are the basic provisions. When a breach of a business or other entity's electronic security system has occurred, and consumer's personal information has been "hacked," the consumer must be notified. Personal information includes social security number; drivers license number; and financial account number or credit or debit card number in combination with PIN or other password. Notice to the consumer will be without unreasonable delay. The methods of notifying the consumer are specified in the bill. Any



one of the following notice methods may be used: Written notice to last known home address; telephone call to last known home telephone number; email notice (but only if a prior business relationship exists and the business has a valid email address for the consumer). In case of certain breaches substitute notice may be employed. Such breaches are those in which the cost of notice would exceed \$250,000 or the number of consumers to be notified exceeds 500,000 or the business simply does not have sufficient contact information. Substitute notice is email notice where that is known and conspicuous posting on the business's website and notification to major statewide media. There is also a requirement for notice to consumer credit reporting agencies. Willful and knowing failure to accomplish any of these provisions is a violation of the Unfair Trade Practices and Consumer Protection Law. The Attorney General shall bring all actions for violation; there is no private right of action created.

Education Update



This Roundtable is designed for all Insurance Professionals with Information Systems responsibilities.

AGENDA

9:00 AM

Welcome and Introduction

Lydia Stephan - VP, Information Systems
Lititz Mutual Insurance Company

-and-

Phil Nolt - VP, Information Systems
Goodville Mutual Casualty Company

9:05 AM

Mobile Computing Initiatives

Cindy Todoroff, Penn National Insurance

-and-

Bob Hare, Penn National Insurance

10:30 AM

Refreshment Break

10:45 AM

Roundtable Discussion

12:00 AM

Lunch

Register online by December 1, 2005.
www.pamic.org

For more information on this seminar and other education opportunities available through PAMIC, visit the association website at www.pamic.org or contact Marri Lamoureaux at 717 303.0197 or mlam@pamic.org



Member News & Views

NEWS FROM MDWC&G



On October 18, 2005, Jacqueline H. Canter, Esquire, of the regional defense litigation firm Marshall, Dennehey, Warner, Coleman & Goggin (MDWC&G), participated in the Pennsylvania Bar Institute's annual Auto Law Update, giving a presentation entitled *Limited Tort Update*.

Ms. Canter, a shareholder who works in MDWC&G's Philadelphia office, is a member of the firm's Casualty Department and Co-Chair of the Retail Liability Practice Group. She also has a general liability practice, concentrated in the areas of automobile law, premises liability, and products liability. She has served as a faculty member at numerous continuing legal education programs. Ms. Canter is a member of the Philadelphia Bar Association and serves regularly as a Judge Pro Temp and Arbitrator for the Philadelphia Court of Common Pleas.

Ms. Canter received her Juris Doctorate from the University of Pittsburgh School of Law in 1986, where she also served as a staff member of *Law Review* from 1985 to 1986. Ms. Canter is a member of the Philadelphia Bar Association.

BEARD MILLER COMPANY ANNOUNCES NAME CHANGE

October 27, 2005 -Beard Miller Company LLP announced today that it is now operating as **bmc**. Capitalizing on more than 75 years of providing high quality accounting and consulting services, **bmc** - with the firm's new brand identity - better positions itself as an industry leader.

"The introduction of our new brand launches an exciting phase in our firm's history," Chairman and Chief Executive Partner Lamar Stoltzfus said. "Our new corporate identity expresses **bmc**'s energy and service-driven philosophy and aligns well with **bmc**'s goal to be the Mid Atlantic region's choice for small business and middle market clients. The purpose of the year-long branding process was to redefine **bmc**'s brand - as a firm that continually

pushes towards the highest level of client satisfaction." The firm's new tag line, *Moving Your Vision Forward*, was inspired by the value of success and reflects the firm's commitment to working with clients to enhance their business' growth.

As the acronym for Beard Miller Company, **bmc** was already widely used by employees, clients and in the industry.

The name reflects the dynamic nature of the firm and its professionals. "We're 380 employees strong and growing, with a vast talent pool of specialized expertise and a reach that extends across the Mid Atlantic region," noted Mr. Stoltzfus. "In addition to being auditors and tax accountants, a **bmc** CPA can also be, among others, a personal financial advisor, a forensic investigator, a valuation professional, or a small business advisor.

- more -

While we continue to be uniquely connected to serving our local communities, we believe that in adopting the stronger and more direct **bmc**, we have clarified our position as one of the leading accounting and consulting firms in the Northeast and the US. We're making it clear to current and future clients that **bmc** stands among the major players in the accounting profession - locally, regionally, and nationally."

bmc is ranked in the top 50 accounting firms nationwide by all three major accounting industry publications. Additionally, the firm is the sixth largest in the Northeast outside metro NYC and is in the top 20 firms in the country providing audit services to publicly traded companies. **bmc** is considered one of the 100 fastest growing public accounting firms in the US.

The use of **bmc** as the firm's name coincides with the launch of a new web site, www.bmcvision.com, and an industry and media advertising campaign. "We believe our enhanced brand identity will help us continue to attract new clients," noted Mr. Stoltzfus. Finally, Mr. Stoltzfus adds that as the visual representation of the brand identity, **bmc** has a new logo. "We also asked our design team to develop a logo that relays that **bmc** is strong and versatile - we want our clients to know that we will

work hand-in-hand with them to make decisions."

bmc engaged *dio strategic marketing*, headquartered in York, PA, to conduct the brand research study and develop the brand strategy for the firm.



THOMAS, THOMAS & HAFER LLP
is pleased to announce

SUZANNE B. MERRICK
has joined the firm as a Partner
in the Pittsburgh office,
and

PAUL J. CROOKS
has become a Partner of the firm
in the Pittsburgh office,
and

DANIEL G. SNYDER,
SHAWN P. PHILLIPS
and

BERNARD T. KWITOWSKI
have joined the firm as Associates
in the Lehigh Valley Office,
and

JAMES A. TINNYO
and
JOHN T. HUSKIN, JR.
have become Partners of the firm
in the Harrisburg Office,
and

ANTHONY T. LUCIDO
and
LOUIS J. MICHELSEN
have joined the firm as Associates
in the Harrisburg Office,
and

JAMES T. WEIKEL
is Associated with the firm
in the Pittsburgh Office
and

BRET KEISLING
is Associated with the firm
in the Harrisburg Office.

Suzanne B. Merrick, a graduate of the University of Notre Dame, focuses her practice in the defense of civil

litigation claims with an emphasis on civil rights, employment, professional liability and insurance.

John T. Huskin, a graduate of the California Western School of Law, focuses his practice in the defense of workers' compensation claims.

James A. Tinnyo, a graduate of the George Washington University School of Law, focuses his practice in the defense of workers' compensation claims.

Paul J. Crooks, a graduate of the University of Kent, England, and the University of North Carolina School of Law, focuses his practice in employment law, including the defense of workers' compensation claims and civil litigation.

Anthony T. Lucido, a graduate of the Dickinson School of Law, focuses his practice in the defense of personal injury and insurance claims.

Daniel G. Snyder, a graduate of Widener University School of Law, focuses his practice in the defense of workers' compensation claims.

Shawn P. Phillips, a graduate of Washington & Lee University School of Law, focuses his practice in the defense of medical malpractice claims and representation of physicians and health care providers in corporate health care matters.

Louis J. Michelsen, former Law Clerk of Justice Michael Eakin of the Supreme Court of Pennsylvania, and a graduate of the Dickinson School of Law, focuses his practice in employment law, including the defense of workers' compensation claims and civil litigation.

Bernard T. Kwitowski, former Law Clerk of Judge Emil Giordano, of the Court of Common Pleas of Northampton County, and a graduate of Widener University School of Law, focuses his practice in the defense of personal injury and insurance claims.

James T. Weikel, a graduate of Duquesne University School of Law, focuses his practice in the defense of workers' compensation claims.

Bret Keisling, a graduate of Widener University School of Law and former Judicial Aide/Clerk to Justice Michael Eakin of the Supreme Court of Pennsylvania, focuses his practice in the

defense of personal injury and insurance claims.

AAIS PROMOTES LARSEN TO ASSISTANT V.P. OF COMPLIANCE

WHEATON, Ill., Apr. 26, 2005— Larris Larsen was recently promoted to assistant vice president of compliance by the American Association of Insurance Services (AAIS), a national advisory organization that develops and files policy forms and rating information used by more than 600 property/casualty insurers throughout the U.S.

Larsen was previously director of compliance and state filings, and continues to have supervisory responsibilities for those functions at AAIS, in addition to monitoring regulatory developments in the states.

"Larris's promotion reflects the expanding range of special projects he is engaged in," says Deborah Summerlin, AAIS vice president for insurance lines. "He is also the 'go-to' person for questions about how products and product changes affect company operations from a compliance standpoint."

Larsen came to AAIS in August 2000 from Legion Ins. Co., Milwaukee, Wis., where he was manager of research and development. Prior to that, he held positions as director of compliance for Vesta Ins. Co., Birmingham, Ala. and as manager of product development and state filings for John Deere Ins. Co., Moline, Ill.

He started his career as an underwriter for Iowa Kemper, Mason City, and holds a master's degree in business administration from St. Ambrose University, Davenport, Iowa. He is a member of the Association of Insurance Compliance Professionals.

AAIS HIRES TECHNOLOGY PROFESSIONAL TO ENHANCE ELECTRONIC SERVICE

WHEATON, Ill., August 10, 2005—David Linton, an information technology specialist with 14 years' experience in programming, applications development, and systems implementation, has joined the American Association of Insurance Services (AAIS) as director of information services.

AAIS is a national advisory organization that develops policy forms and rating information used by more than 600 property/casualty insurers throughout the U.S.

Member News & Views

In his new position, Linton will be responsible for expanding AAIS's capabilities for providing service and sharing information electronically with its member companies.

Linton comes to AAIS from Metavante Corp., Willowbrook, Ill., where he was manager of application development for the corporation's electronic funds group. Prior to that, he was a technical consultant and manager for ICS Advantage, Aurora, Ill., a software development and system implementation firm that specializes in adapting Microsoft tools to business purposes, particularly in financial services. At ICS Advantage, Linton was instrumental in developing and implementing an e-commerce consulting practice.

Linton started his career in programming and marketing positions with PagePath Technologies, Bensenville, Ill., a firm that develops systems for the printing industry. At PagePath, Linton was involved in developing and maintaining forms development and forms management systems for MetLife and CUNA Mutual Ins. Co.

"Dave brings a great deal of business and technology expertise to AAIS, making him a valuable addition to our management team," says Paul Baiocchi, AAIS president. "We are looking forward to having Dave lead new initiatives in the way our information is delivered electronically to our customers."

Linton holds a multidisciplinary degree in computer science, business, and social science from Michigan State University and teaches a course on e-commerce management at the Illinois Institute of

(Continued on page 8)

Interested in having an announcement or article about your company in a future edition of the PULSE Newsletter?

Please send all items to:

Sara Bylotas

PAMIC

1017 Mumma Road, Suite 103

Wormleysburg, PA 17043

ph 717-303-0197

fx 717-303-1501

pulsenewsletter@pamic.org

Please note that via email is the preferred way to receive items.

January 15, 2006 is the deadline for items to be included in the January/February newsletter.

Member News & Views

(Continued from page 7)

Technology.

REVISED RATING RULES AND WORKSHEETS DEVELOPED FOR MOTOR TRUCK CARGO

WHEATON, Ill., June 1, 2005— Insurers that write motor truck cargo liability insurance have access to new rating rules and worksheets provided through the *Inland Marine Guide*, published by the American Association of Insurance Services (AAIS). AAIS is a national insurance advisory organization that develops standardized policy forms and rating information used by more than 600 property/casualty companies throughout the U.S.

The *Inland Marine Guide* provides forms, rating procedures, underwriting guidelines, and other information for the traditionally nonfiled classes of inland marine insurance, including motor truck cargo. Policy forms provided in the *Guide* are filed in states that do not exempt inland marine insurance from filing requirements.

The revised rating rules address new coverages, risk modifications, and risk characteristics in the latest revision to the *Guide's* Motor Truck Cargo section.

Rating steps have been added for new coverages for mobile equipment, moving equipment, electronic equipment, personal property, and trailers. Risk modification steps have been added for long haul operations, contingent coverage, and exposures at terminals.

In addition, the revised rating rules include a deductible modification step and the expansion of the types of risk characteristics that are used to document the selection of loads or modifications.

Companies using the *Guide* have been issued a series of rating worksheets that take underwriters step-by-step through the process of rating cargo coverage on a per vehicle or gross receipts basis, and of rating coverage for equipment, trailers, and other property.

NATIONWIDE AGRIBUSINESS ADOPTS AAIS AGRICULTURAL OUTPUT PROGRAM

WHEATON, Ill., May 4, 2005— Nationwide Agribusiness, a member of the Nationwide

group of companies, has affiliated with the American Association of Insurance Services (AAIS) for use of AAIS's Agricultural Output Program (AgOP).

AAIS is an advisory organization that develops policy forms and manuals used by more than 600 property/casualty companies. Its AgOP is a commercial property program specifically designed for agribusiness operations.

Nationwide Agribusiness specializes in insuring agricultural cooperatives and independent agribusinesses, and writes farm insurance as well. For 2003, it reported approximately \$54 million in written premium for commercial multi-peril coverage and \$8 million for farmowners insurance.

The company plans to use the AgOP to insure commercial accounts with agricultural features, such as grain elevators and operations that integrate growing, packing, and shipping, according to Ryan Albers, senior staff specialist.

Among other things, Albers says Nationwide Agribusiness was attracted to the fact that the AgOP includes property coverage for a dwelling, a common exposure in agriculture, even for large risks.

Modeled in part after the AAIS Commercial Output Program (COP), the AgOP provides broad commercial property and inland marine coverage in a single policy form. Four business income options are provided in the base form, and optional coverage parts are available for providing crime and equipment breakdown coverage.

AAIS FILES NEW EXCLUSIONS FOR ASBESTOS, SILICA, AND UNSOLICITED COMMUNICATIONS

WHEATON, Ill., July 25, 2005— The American Association of Insurance Services (AAIS) has filed three new commercial lines endorsements that will allow insurers to exclude coverage for liability claims arising from asbestos, silica, and violations of federal restrictions on unsolicited electronic communications.

AAIS is a national insurance advisory organization that develops policy forms and rating information used by more than 600 property/casualty insurers throughout the U.S. The new endorsements were recently filed countrywide under the AAIS Artisans, Businessowners, Commercial

Liability, and Commercial Umbrella programs.

The endorsements addressing asbestos and silica are similar in that they exclude coverage for claims of bodily injury and property damage arising from two substances that have been linked to diseases in people exposed to them.

"The health hazards and liability exposures associated with asbestos have been recognized for years," says Janice Nieman, AAIS manager of commercial liability.

"Lately, however, there has been a renewed concern about the size of the exposure, and some of our member companies are reporting that their reinsurers are demanding asbestos exclusions in policies with commercial liability coverage."

Concern over silica is more recent and the extent of injury is not expected to be as widespread as with asbestos, but there was a surge in silica-related litigation in recent years, and requests from carriers for an exclusion option.

The exclusion for claims arising from unsolicited electronic communications applies to violations of two federal acts:

- The 1991 Telephone Consumer Protection Act, which restricts the use of automatic dialing systems, artificial or prerecorded voice messages, and fax machines to send unsolicited advertisements; and
- The 2003 "CAN-SPAM" Act (for "Controlling the Assault of Non-Solicited Pornography and Marketing" Act), which specifies requirements for the sending of commercial e-mail messages.

The new exclusions were filed together as optional endorsements with a proposed effective date of Oct. 1, 2005.

For information on affiliating with AAIS for use of its commercial lines programs, contact Rick Maka, director of marketing, at rickm@AAISonline.com or by calling 800/564-AAIS.