The Independent

Nevada Independent Insurance Agents

March/April 2016

The Hazards of Cyber Liability

In this Edition

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The Independent welcomes all advertising and editorial submissions. Inquiries for advertising, news releases, and editorial contributions can be directed to Donna Stewart at the NIIA office, or to donna@niia.org.

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Big ‘I’ Pushes Back on Commission Cuts

BY WYATT STEWART

A troubling trend has emerged in the health insurance marketplace: Insurers in several states have reduced agent and broker commissions for individual health insurance plans.

In many cases, insurers have eliminated commissions for all individual plans. In other cases, insurers suspended commissions for certain metal categories, such as gold plans, and lowered them for others, such as bronze plans.

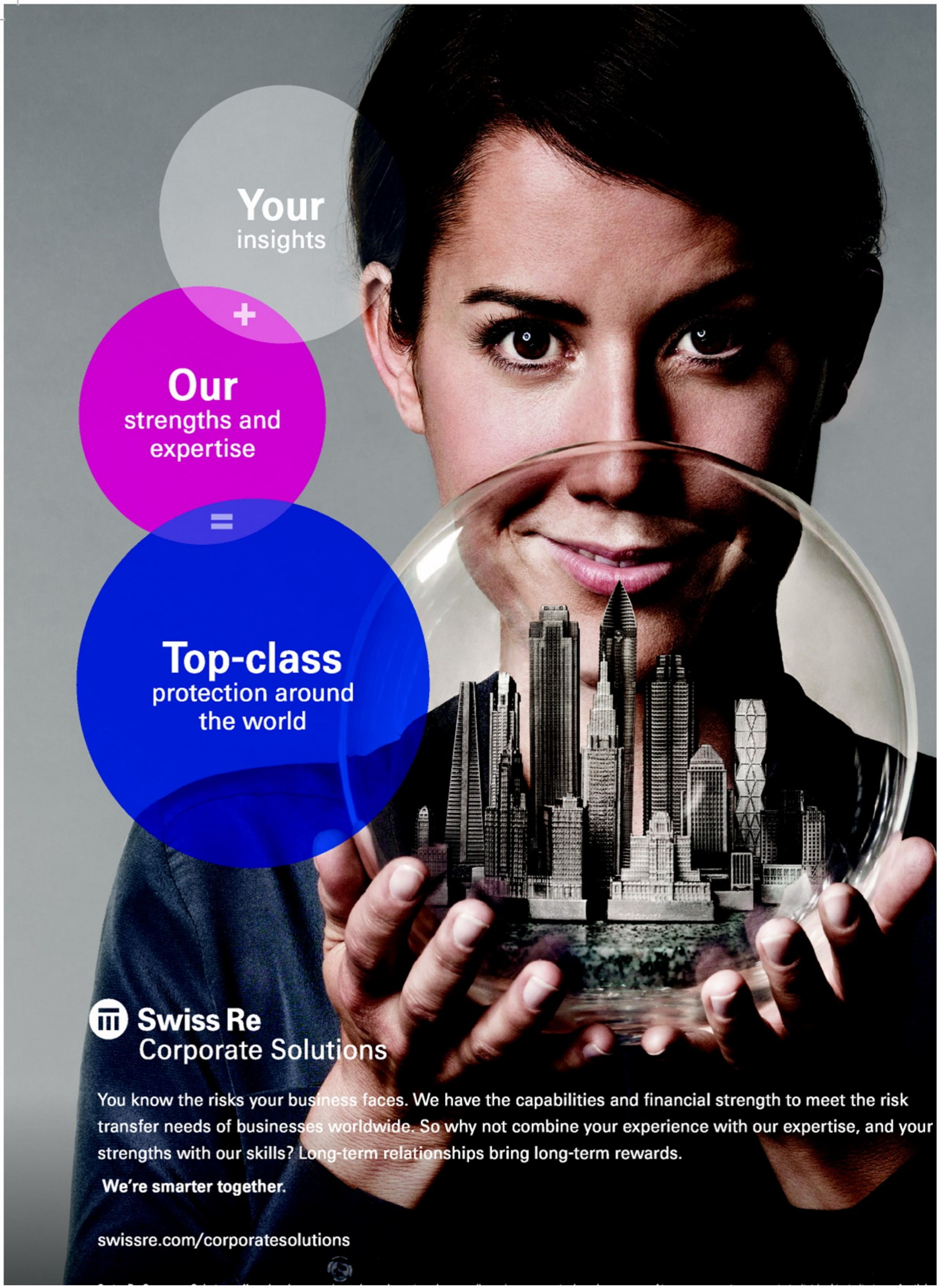
To fight these actions, the Big “I” recently sent a letter to Kevin Counihan, U.S. Department of Health and Human Services (HHS) director and marketplace CEO, expressing the association’s concerns.

In the letter, the Big “I” makes it clear that the association believes this practice will negatively impact consumers and create instability in the marketplace. The Big “I” also makes the case that it is within the authority of the Centers for Medicare and Medicaid Services—the department within the HHS that oversees the Affordable Care Act—to help address these issues. The letter argues that, if an insurer provides agents and brokers with one commission rate during open enrollment and then reduces rates for the remainder of the plan year, an individual’s access to coverage and all channels of consumer assistance will diminish.

The Big “I” also believes this reduction of agent and broker commissions stems in part from implementation of the medical loss ratio (MLR), which limits the amount of money insurance companies can spend on “administrative costs.” Unfortunately, the MLR includes agent and broker commissions as part of those costs.

In addition to expressing the association’s concerns regarding the MLR to the HHS, the Big “I” continues to advocate on Capitol Hill for two pieces of legislation that would exclude agent commissions from the MLR. In the U.S. Senate, the Big “I” supports S. 1661, the “Access to Independent Health Insurance Advisors Act,” by Sens. Johnny Isakson (R-Georgia) and Chris Coons (D-Delaware). In the U.S. House of Representatives, the Big “I” supports H.R. 815, the “Access to Professional Health Insurance Advisors Act of 2015,” by Reps. Billy Long (R-Missouri) and Kurt Schrader (D-Oregon). Both pieces of legislation will be topics of discussion at the Big “I” Legislative Conference in April.

Wyatt Stewart is Big “I” senior director of federal government affairs.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…….from the Executive Director

If you have been following **EDAWN** (Economic Development Authority of Western Nevada) then you already know that the projected growth of population in Northern Nevada over the next five years is substantially large. The decision of billionaire entrepreneur Elon Musk to move **Tesla** to Northern Nevada was soon followed by the world's largest data storage company, **SWITCH**. Now the grumblings of relocating Silicon Valley companies like **GOOGLE** are starting to surface, and let's not forget that **Zulily** and **eBay** have already moved in.

Clark County is the new home to **Faraday**, the $1 billion auto plant that plans to build electric cars in the next two years. Additionally, **Hyperloop Technologies** announced plans to locate to North Las Vegas, where it will build a facility to test high speed transportation models. And let's not forget how this statewide development will certainly drive the supply and demand for sub-contractors to keep up with the progress.

For independent insurance agencies, this type of growth is called "job security." It certainly sweetens the pot for Sales Executives and creates a renewed competition for "new, new business" in a secondary market that, until now, needed a new phrase for "prospect list." It also creates a need to think outside the box, get away from the status quo, and look at a competitive edge that drives a need, or a demand. For many larger agencies, this is not a problem because they are staffed to provide resources outside of traditional brokerage services. Large national brokerage houses all employ risk management programs that can provide support to the new companies, their developers and sub-contractors. Safety programs, loss control, claims management, human resource consulting, and collateral reduction are just a few of the programs designed to create a need for the larger agency.

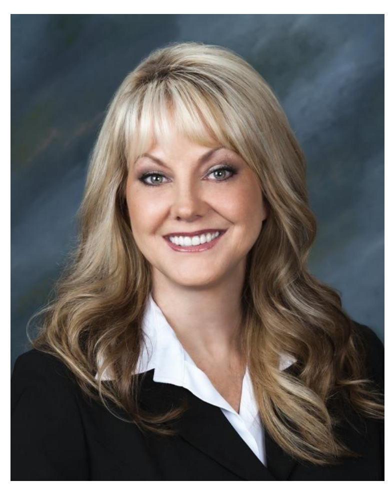
So how can small to mid-sized agencies compete for the same business? How does a medium sized broker put "boots on the ground" to compete for large premiums without having to hire an army? The answer is that *most* of those resources are available for **free** or at a minimal cost. It is a matter of knowing where to look to find them, and how to implement those resources as part of your sales model.

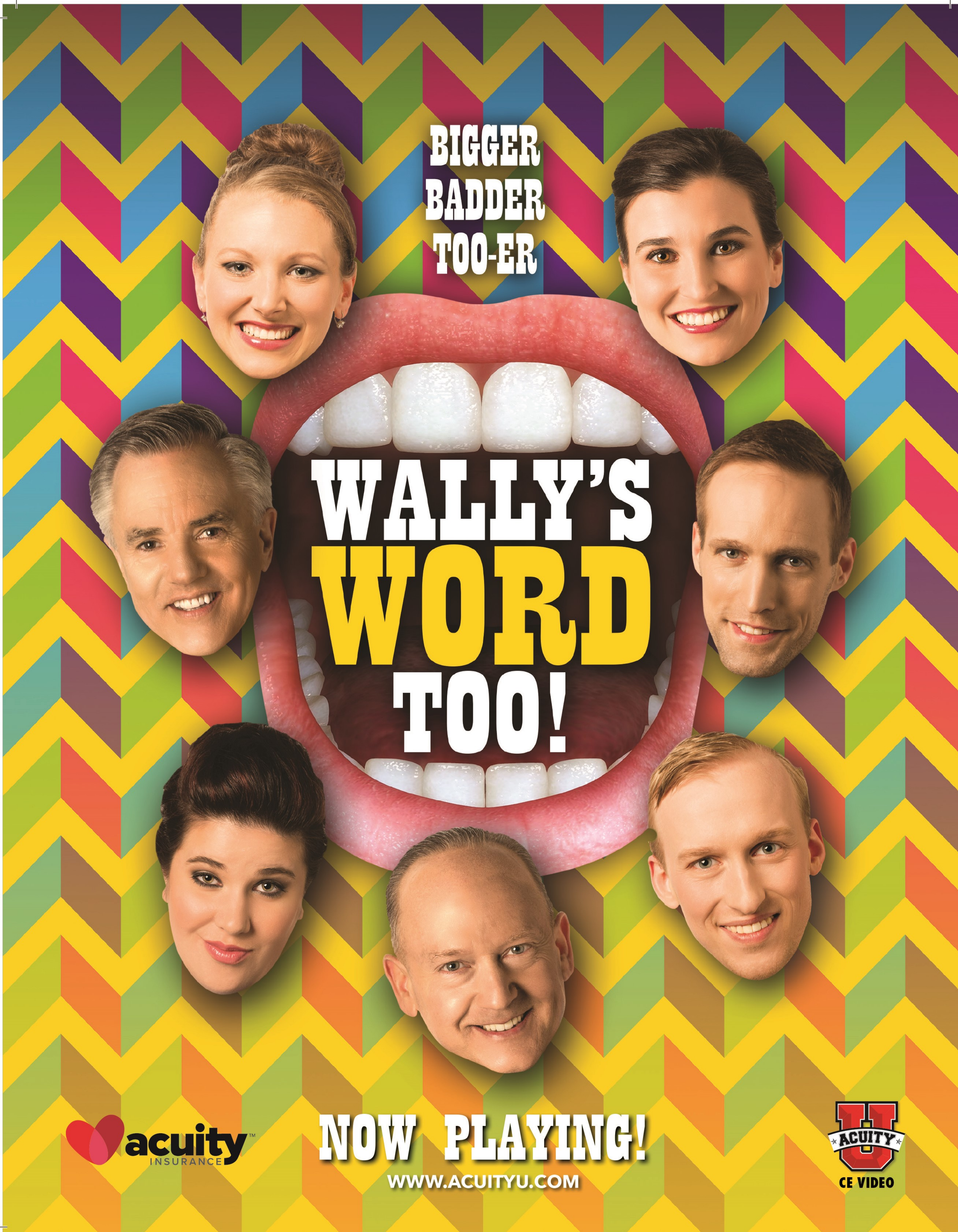
The Nevada Independent Insurance Agents Association is your BEST RESOURCE for getting started. Let us help your agency identify the type of program you want to offer, the types of resources available to you, and how the NIIA and the IIABA can help you grow your agency. Be part of the new growth in Nevada.

For more information, call Donna Stewart at 775-499-5977 or email

donna@niia.org

Donna

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Current National Legislative Issues

Flood Insurance: The Big "I" strongly supports the National Flood Insurance Program (NFIP) and is proud that its members serve as the distribution force for this important program. The Big "I" also believes that the private market has a role to play in enhancing the NFIP and supports **Senator Heller's bill S. 1679 "Flood Insurance Market Parity and Modernization Act of 2015."**

This legislation further strengthens the NFIP by increasing the likelihood that private insurers will explore entering the flood insurance market as a complement to the NFIP. This bill is particularly important to the Big "I" because it clarifies that a private flood policy can satisfy the mandatory purchase requirement for flood insurance under the terms of the NFIP. Mandating that state insurance regulators will be in charge of determining what is "acceptable" private market flood insurance helps to provide additional clarity to the program. Finally, ensuring that policyholders will not lose their flood insurance subsidies or their grandfathered status if they decide to move their coverage from the NFIP to a private market policy and one day wish to return to the NFIP, is a vitally important feature to agents and the customers they serve. The Big "I" supports a modernized NFIP that provides efficient and effective coverage for customers across the country and believes this legislation will enhance the current program.

Insurance Regulatory Reform: The Big "I" remains dedicated to preserving the state-based system of insurance regulation and firmly believes that the attributes of this system dramatically outweigh any perceived shortcomings or inefficiencies. The Big "I" has always strongly supported state regulation of insurance and opposes any day-to-day federal oversight of the market. Opposing federal regulation of insurance and educating Congress on the detrimental impact an increased federal role in regulation could have on the market and consumers remains a priority for the association. Therefore, the Big "I" supports S. 798 the "Policyholder Protection Act of 2015".

This legislation clarifies some ambiguities within the Dodd-Frank Wall Street Reform Act (Dodd-Frank) to allow state regulators to protect insurer assets designated for insurance consumers and not be used to "bail out" non-insurance related failures within a diversified financial services company. This clarification extends to insurers organized as thrift holding companies. Specifically, the bill ensures that capital intended to pay the claims of policyholders is protected and not subject to risk-taking elsewhere in the firm. It also reaffirms the authority of state regulators to approve transactions within the insurance company, such as liens on assets, to protect policyholders. This common sense legislation further reinforces the strong consumer protections contained within the state oversight model.

<u>Cadillac Tax:</u> Starting in 2018, the Affordable Care Act (ACA) will impose a 40% tax on health benefits that exceed an established annual cost. In 2018, health plans exceeding $10,200 a year in value for individuals or $27,500 a year for families will be subject to this 40% tax. Over time, this tax will impact more and more individuals because Congress tied the threshold to a slow measure of inflation that will not keep up with the rising cost of health care. According to a March survey by Mercer, a benefits consulting firm, about one-third of employers will face the tax in 2018 if they do nothing to change their plans. By 2022, almost 60% will face the levy. Although this provision of the ACA is billed as a tax on high-cost plans, it will have a huge impact on middle-income Americans. The excise or "Cadillac" tax will cause an increase in health insurance costs for employers or a decrease in the quality of health insurance benefits for their employees as employers are forced to choose between paying the tax or reducing benefits to get under the threshold.

Currently, there are two bipartisan bills in the House of Representative regarding this tax. Rep. Frank Guinta (R-NH)) has introduced H.R. 879, the "Ax the Tax on Middle Class Americans' Health Plans Act," which would repeal the excise tax. Rep. Joe Courtney (D-CT) has also introduced the "Middle Class Health Benefits Tax Repeal Act," which would also repeal the tax. The Big "I" supports both bills and is urging members of Congress to cosponsor both.

<u>Department of Labor Fiduciary Standard:</u> The Big "I" supports H.R. 1090, "The Retail Investor Protection Act" introduced by Rep. Ann Wagner (R-Missouri). This bill requires that the Securities and Exchanges Commission (SEC) go first in issuing its rulemaking on a uniform fiduciary standard before the Department of Labor (DOL) can put forward its rule to expand the definition of a fiduciary under ERISA. The DOL is proposing to expand the application of the fiduciary standard from just registered representatives to also include broker-dealers who are currently subject to a suitability standard. The Big "I" is concerned that this move would lead to investor harm and limit consumer access to professional advice.

To contribute to the IIABA InsurPac click on the link <u>InsurPac@iiaba.net</u> or send contributions to IIABA InsurPac 20 F Street, NW, Suite 610 - Washington, DC 20001.

To contribute to our state NIIPAC, please send contribution to NIIPAC 310 N. Stewart Street, Carson City, NV 89702 or contact Donna Stewart at <u>donna@niia.org</u>.

NIIA Legislative Chair 2015-2016

Susan Bauman

Letter from the Chairman

As I sit here writing the Chairman's letter for MARCH, it seems like it was just December. The older I get the faster each years fly by. This is the time of year everybody is or should be planning for the year ahead. We have sat with several of our carriers seeing how each one of them fits into our agency goals and plans this year. I have high hopes that the economy continues to make small steps to becoming stronger. As one of our Past Chairman once said (Mike Menath) *"With determination, focus and creativity, these three characteristics will create unlimited growth, unlimited production and unlimited success"*. Execute these and all your 2016 goals, plans and New Year resolutions will be successful.

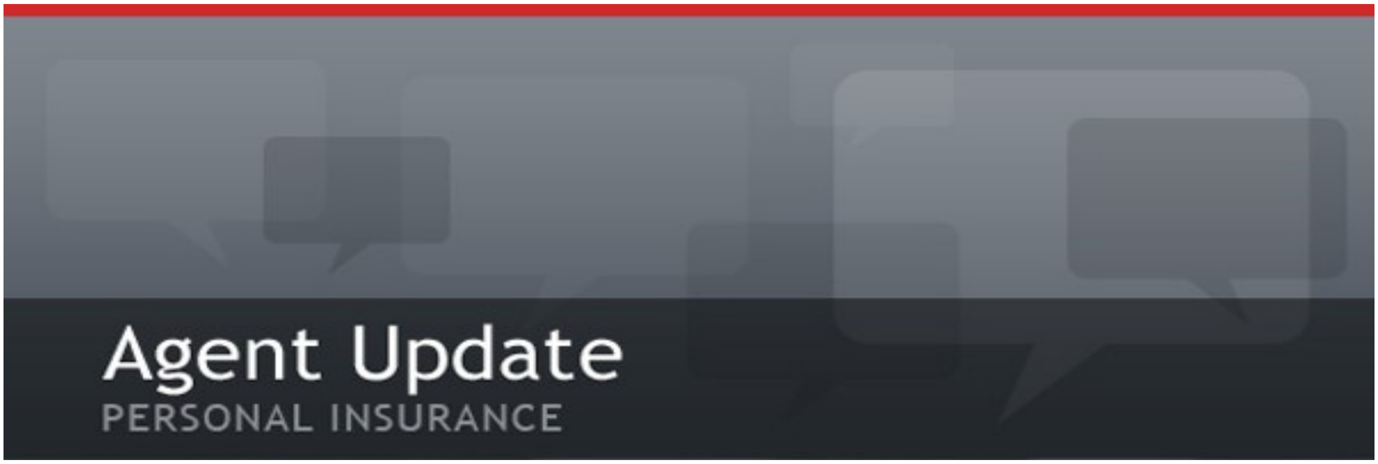
This year our association has made great strides to get the support and trust back from our membership. Donna Stewart and Dave Kulikowski are working hard to get the level of service that goes beyond what is expected of our membership. It has been a long road and we still have a lot of ground to cover. If you have left the association and moved your E&O please give Dave a try, myself and other agencies have a had a very different experience in the renewal and communication process it has been a pleasant change, (*thank you Donna and Dave)*. Along with all the changes this year Donna also had to move the office. The Association office moved from Carson City to Reno to a very nice historic building located at 491 Court Street. if you have not stopped by to say Hi and see the new digs please do so!

Congratulations to our very own Donna Stewart who somehow found time to this year to win the Western Nevada title in Cutting Horses!!!!! This is a hobby and passion of Donna's. Gitty Up Cowgirl!!

I hope everyone is looking forward to the 70th Annual Convention at the Aquarius Casino Hotel from June 12th through the 14th, 2016. Please consider attending the event this year, as it commemorates 70 years in Nevada as the Nevada Independent Insurance Agents. This is a great time for your agency to meet new and enforce old company relationships. It promises to be an informative, and memorable event.

On behalf of myself and the association office, thank you for your support and dedication to the NIIA and IIABA.

Geoffrey Holmes, CIC
Chairman—NIIA



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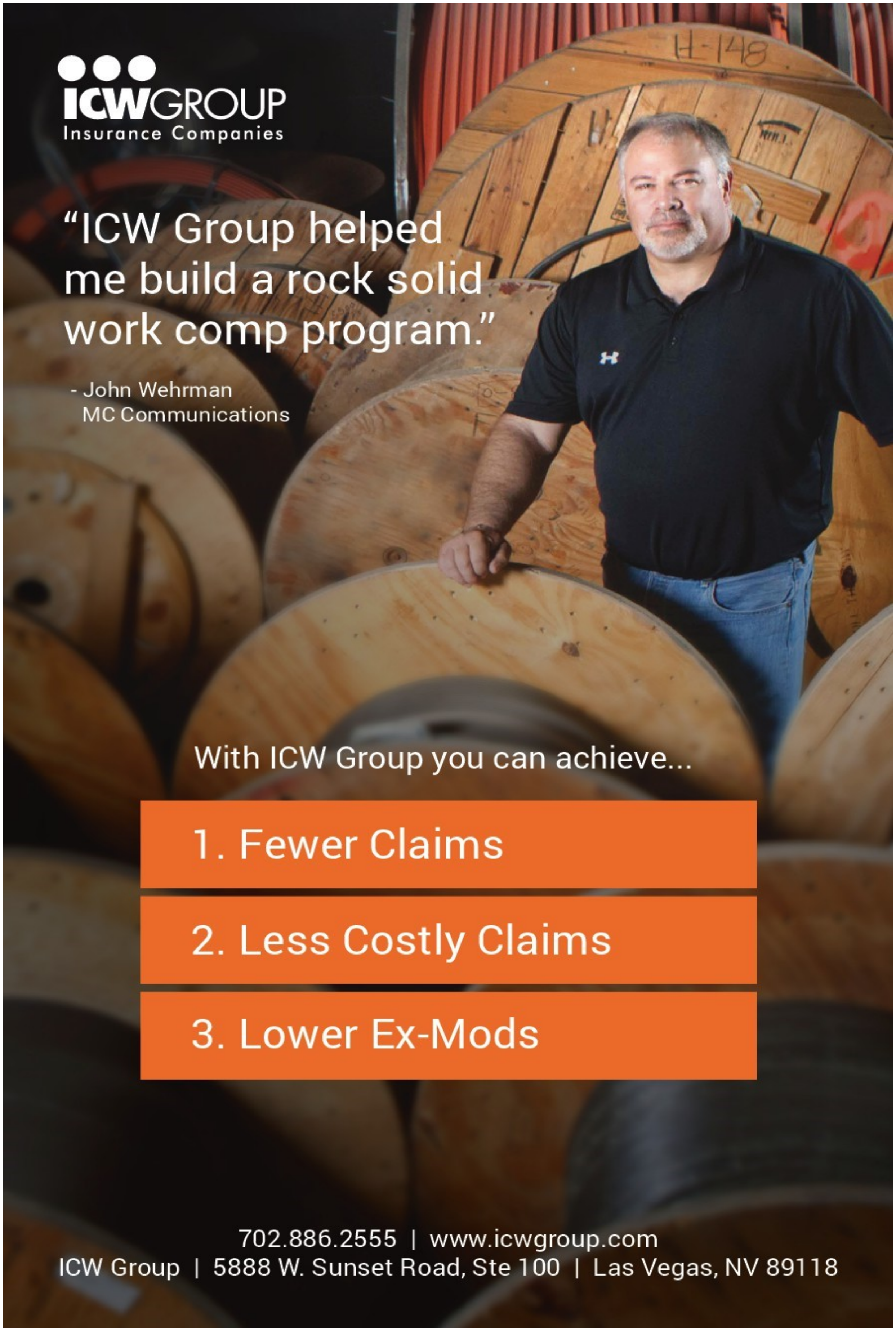
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Small Company Cyber Hazards Hiding in Plain Sight

Today, companies would never think of operating without property and casualty insurance. Yet, everyday companies are ignoring a risk that has the potential to cause just as much financial damage and even impact future viability.

An Overlooked Risk

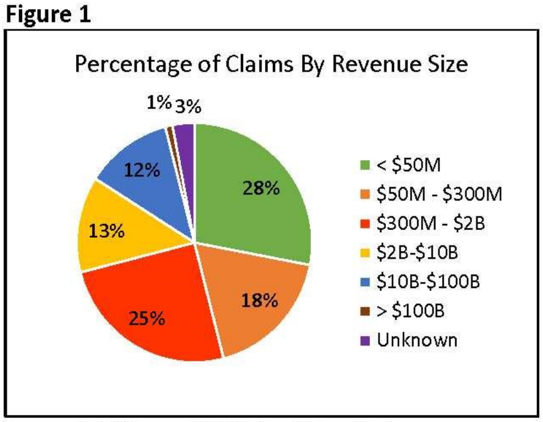
In the last 20 years, small companies, like large companies, have become hyper-dependent on technology. Technology is the lifeblood of each and every company today. Whether simply storing employee and customer information, or conducting e-commerce, technology has become a significant risk that companies can't afford overlook. As reliant on technology as small companies have become, there are still only small percentage that have invested in cyber liability insurance.

Small Company Exposure

Many small companies are unaware of the high risk that data breaches are to their financial viability. The misconception is that hackers only attack high-profile, high-revenue firms. The fact is, small businesses are statistically more likely to be hacked. The reason is that they are easier and more attractive targets. Many small firms are unaware of the potential exposures and some don't have the financial resources to adequately protect their data.

According to the NetDilligence 2015 Cyber Claims Study, only 13% of all cyber claims filed were from companies with revenues in excess of $10 billion. Amazingly, 28% of all cyber claims are against companies with revenues under $50 million, and almost half of all cyber claims filed were from companies with revenues under $300 million (Figure 1).

Figure 1



Source: *Netdilligence 2015 Cyber Claims Study*

Five Financial Exposures

When a company has a breach, restoring data is not the only expense that will occur. Below are five common exposures that can incur after a breach:

1. Notification Costs—There are 46 U.S. states that have adopted a breach notification law. The laws generally apply to all companies that own, license, store or maintain certain sensitive personally identifiable information ("PII").

2. System Recovery—Recovering data can be expensive. Recovery strategies should be developed for Information technology (IT) systems, applications and data. This includes networks, servers, desktops, laptops, wireless devices, data and connectivity.

3. Regulatory—If a data breach results from your business' lack of compliance regulatory guidelines, the government will levy substantial fines. In many cases, small companies did not even know they had violated a law or statute.

4. Liability—Small companies will be responsible for costs incurred by customers and vendors as a result of a cyber breach.

5. Class Actions—Class action lawsuits are less prevalent against small companies, but they do exist. There are class action cases on record of customer data stolen.

Inadequacy of Traditional Policies

Many small companies believe that their Business Owners Policy (BOP) provides coverage for cyber breaches. Unfortunately, the coverage can be limited to replacement and recovery cost of equipment, but not lost data. A standalone cyber liability policy can cover the following:

- Identity theft
- Loss or corruption of data
- Computer and legal forensic costs
- Credit monitoring costs
- Business interruption
- Website media liability
- Cyber extortion

Risk Management and Prevention

Unlike large corporations, many small companies do not have a risk management department. Insurance companies that write cyber liability contract with third party risk management firms, which can provide guidance and suggest risk management policies and procedures. Below are examples of risk management services provided to better secure data systems:

- Installing security software and hardware
- Using cloud computing services
- Developing and using a data privacy policy
- Backing up data at offsite locations
- Contracting with a security services vendor

Regardless of size or industry, companies should consider implementing additional risk management practices to protect their data. Doing so on the front end can secure your and your customers' valuable data against the possibility of a cyber-attack.

For most companies, data is the number of records kept. Hackers are usually after social security numbers, credit card numbers, addresses, bank account numbers and other personal identifying data. There is a correlation between the number of records kept and the amount of loss incurred after a breach. (Figure 2).

Figure 2

Records Kept	Expected Loss	Average Loss	Predicted Loss
100	$25,450	$35,730	$555,660
1,000	$67,480	$87,140	$1,461,730
10,000	$178,960	$223,400	$3,866,400
100,000	$474,600	$614,600	$10,283,200
1 million	$1,258,670	$1,775,350	$27,500,090
10 million	$3,338,020	$5,241,300	$73,943,950
100 million	$8,852,540	$15,622,700	$199,895,10

The average loss should contain the mean loss (if there were multiple incidents). The predicted loss shows the (rather large) estimated range we should expect from any single event.

Source: Verizon 2015 Data Breach Investigations report

The High Cost of a Breach

In many instances, when small companies' data systems are hacked, customer and employee data is lost or stolen. The cost of an investigation and reconstruction can be significant. Customer and vendor notification expenses alone can be enough to financially impair a small company.

Once a breach is detected, the process of getting everything back to "normal" can be very expensive.
The affected company will need to hire experts to determine if lost data can be retrieved or if new hardware and software need to be purchased. Other costs associated with internet-based attacks and breaches include losses in productivity. Also, hired experts will need to assess what it will cost the company to protect its data systems and websites, from future breaches.

A small company's level of preparedness is often insufficient for a cyber breach. Companies without insurance can expect to pay significantly more, primarily because they generally don't have instant access to resources and experts needed to mitigate the breach in a timely manner. Insurance companies have third party specialty firms on call that are deployed at the time of the claim.

The Solution

Today, business owners can protect themselves by purchasing cyber liability insurance. Cyber liability insurance can provide peace of mind for any company, in any industry. In recent years, the cyber liability insurance market has expanded greatly and there are policies available for any size company. The coverage provided is broad and tailored to each company's needs.

For business owners to operate their company with peace of mind, cyber liability insurance should be considered an essential part of their firm's insurance portfolio.

Dan Vecchio is an Executive Vice President of Founders Professional, a specialty wholesale broker. He places cyber liability, management liability, and all classes of professional liability.
dan.vecchio@founderspro.com
312-219-6588

Builders Risk: Get It While It's Hot

BY JACQUELYN CONNELLY

"It's kind of like a drug."

That's how Alexander McGinley, vice president, marine underwriting at XL Catlin, describes the builders risk insurance market.

Pricing in builders risk tends to coincide with two sectors of the U.S. economy: construction and transportation. And according to McGinley, for all of 2015,construction growth jumped about 10.5% to $1.1 trillion. That's the highest total since 2007—and far eclipses U.S. GDP growth of only 2-3% in 2015.

"When the construction market is doing well, you try to do as much of it as you can," says McGinley. "But unfortunately, you'll get a bad hangover when a financial crisis occurs. You have to be very quick to adapt, leveraging the benefits of a diverse portfolio."

"The U.S. underlying construction market has rebounded quite a bit over the last few years, so talking to our contractors and our insureds, we're seeing more opportunities to quote projects that are coming up," notes Joe Vierling, vice president, construction at XL Catlin, who works with larger risks above $100 million in value.

Wondering what construction trends are affecting builders risk underwriting and pricing? Here's what's

Construction Trends

Last year, the energy sector was one to watch in the builders risk arena. Not anymore: "A lot of the oil and gas projects will probably slow down just because of the price of oil," Vierling says. "In the past few years, oil was driving a lot of new construction. That's probably not going to happen for the next 12-18 months."

Instead, keep an eye on new construction trends in the infrastructure, road and bridge spaces, as well as residential high-rise construction in major cities. For example, in New York City, Vierling has observed heightened investment in high-end condominiums near Central Park.

“And as of recently, we’ve seen an awful lot of investment in combined cycle power plants under construction too—that has to do with the price of natural gas,” he says.

When it comes to power plant construction, Vierling says the big insurance question is whether the insured is using proven technology with the equipment. For example, “are you using a new gas turbine that has not been utilized in the field for a few years?” he points out. “That’s something we as underwriters have to keep an eye on when we’re looking at it.”

Anthony Gadaleta, vice president of inland marine’s property and construction practice at Travelers, observes significant construction growth in commercial buildings, warehouses, hotels and multifamily housing. He also notes that construction of manufacturing facilities is increasing slightly, while institutional construction—educational and health care—is mostly flat.

In public works, Gadaleta notices more local governments using a process called accelerated bridge construction. “It’s a means for replacing your aged workhorse bridges—a short-span bridge maybe 200 or less in linear footage,” he explains. “What you’re doing there is actually completing construction so that the old bridge will be removed and the new bridge will be basically lifted into place. In that cost-effectiveness, you’re getting potentially more bridges built and replaced.”

Another trend on the rise: use of lightweight steel. “When there’s offsite steel fabrication, a lot of the elements are computer-based design and computer-controlled manufacturing, and this is all done at an offsite facility,” Gadaleta says. “The computer-based designs allow for a little bit more intricacy. From that point, those materials will be just-in-time delivered to a jobsite.”

Using lightweight steel offers significant benefits in terms of not only speed and efficiency, but also safety. With a wood roof framing system, for example, “depending on the fire retardency of that wood trust system and its reaction to fire, it may or may not be unfavorable to untreated wood,” Gadaleta points out. “Using lightweight steel, you don’t have to worry whether it’s going to rot out. And if you have a fire, some of that fire loss potential gets minimized just by the nature of the construction type.”

Overall, “construction materials are becoming more sophisticated,” McGinley says. “The structures themselves are becoming larger, and that’s helping to drive a lot of the private building boom.”

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Pricing Developments

As a result, “the insurance market is competitive, but I wouldn’t say rates are in a free fall—not at all,” Vierling says. “If you’re looking at a more complex type of project, infrastructural tunnel or bridge, you’re probably getting better terms and conditions for the insurance company, and higher rates than you would be if you’re looking at standard four-wall construction.”

“For builders risk, it’s very difficult to say definitively that rates are changing X%. It’s just not broken out to that level from a statistical reporting standpoint,” McGinley cautions. “But generally speaking, rates are flat to a bit lower than where they’ve been.”

Across the board, builders risk marketplace is “pretty flat,” agrees Steve Coombs, president of Risk Resources, a risk management and insurance consulting firm. “I’m not expecting any major decreases; I’m not expecting any major increases.”

But Coombs notices heightened underwriting scrutiny in two areas in particular: large frame commercial construction, rehabilitation and renovation projects—“there have been a few very large losses in the industry,” he says—and coastal construction projects.

“There’s much greater scrutiny with water intrusion loss prevention protocols,” says Coombs, who co-wrote “The Builders Risk Book” with Don Malecki. “There will be a dip in rates on coastal properties, only because reinsurance is less expensive as compared to past years just because we haven’t had major hurricane losses in several years now.”

Another pricing factor is the construction period: “Projects with longer construction terms tend to see higher rates than ones with shorter construction terms,” Vierling explains.

But McGinley cautions against focusing on price as your main selling point. “Whether you’re selling towels or any other kind of product, price is important, but it’s not the only thing,” he points out. “Your knowledge as a broker, particularly of how coverage and construction projects work—it’s just as important to have that as being able to sell the lowest price.”

For insight into builders risk coverage issues, keep an eye on IAmagazine.com and upcoming editions of the Markets Pulse e-newsletter.

Jacquelyn Connelly is IA senior editor.

“Builders Risk: Get It While It’s Hot” by Jacquelyn Connelly originally appeared on IAmagazine.com and is reprinted here with permission

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27	Personal Auto Policy	AM - 1 PM	Keith Wilts
28	Farm Liability Coverages	AM - 9 AM	Keith Wilts
28	Commercial General Liability Coverages	AM - 1 PM	Patrick Deem

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10	E&O Risk Management: Meeting the Challenge of Change - Part Two	10 AM - 1 PM	Keith Wilts
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11	Fiduciary Liability, ERISA Bonding, and Employee Benefits Liability *The Affordable Care Act contains significant responsibilities for benefit plan decision makers*	10 AM - 1 PM	Richard Clarke
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September

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12	Dispelling the Myths of Workers' Compensation	10 AM - 1 PM	Patrick Deem
13	E&O Risk Management: Meeting the Challenge of Change - Part One	6 AM - 9 AM	Keith Wilts
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19	Cyber Liability	10 AM - 1 PM	Paul Burkett
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28	Insuring Trusts - Protecting Your Client's Wishes	10 AM - 1 PM	Paul Burkett

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Lessons From Mergers And Acquisitions

M&A

by Herb Greenberg, Ph.D., Founder and CEO of Caliper

As we emerge from the toughest years that many of us have experienced in quite some time, many companies are analyzing their true strengths and weaknesses. Many of us had to restructure, downsize and even merge into new, more diverse organizations to help us make it through.

Immediately after a merger, the newly formed organization enters one of the most difficult transition periods imaginable. It is a time of enormous upheaval. At least on corporate culture and many jobs are at stake. It is during this time that the people side of the equation comes into play, when the vision and possibilities of the new organization captures the imagination of everyone within the organization - or does not.

This transition period is when management must quickly determine, foster and inculcate the values, philosophy and style it wishes to see emerge. In a very brief span, management has to establish the operating environment and determine how the new organization will be perceived by its employees, clients and the public.

At the same time, employees face the stress of an unknown situation. Some employees may leave, either by design or their own decision, and the rest decide whether they want to play the new game under the new rules. Often these decisions are made amid confusion and apprehension. While trying not to set off too many stress signals, management has to determine who has the necessary skills and motivations to help take the new organization forward.

It is usually in this frantic, confused environment, immediately after the new organization is created, that, with little forewarning, the most important people decisions are made. These often hastily-formed decisions irreversibly imprint upon the newly-created organization.

Not surprisingly, most newly-merged organizations are simply not prepared for this transition phase. By the very nature of two companies merging, the process is never as smooth as a dance. But there are some things the new management can do to make sure that the unfolding arrangement does not look like a wrestling match. The key challenge for management is getting the opportunity to see people in their best light, so that the most intelligent judgments can be made without offering any false promises.

Quickly identifying the individuals who can help steer the organization onto a new course is a difficult assignment. One study has found that almost 60 percent of the top managers of acquired companies leave within five years of the acquisition. In some cases, the management team of the acquired firm is the single most valuable resource to be acquired. Therefore, it is important to take aggressive steps to ensure that key people are not discouraged by the acquisition.

And, it is not simply a matter of keeping the best managers, but how you keep them. Conflicts can arise from a number of issues, not the least of which is: What do you do with very talented professionals who are accustomed to holding positions of power and responsibility?

Can they work together in a collaborative effort? How can they focus their energies on helping the newly formed company through this difficult transition, while staying ahead of the competition? How can they obtain insights, information and objectivity about the new people they are supposed to manage? How can they motivate individuals to collaborate and adapt to the new environment? If you don't know the inherent strengths, limitations and motivations of each of the key managers, the deal will go sideways.

So, who should you look for? Ultimately, those who can help a new venture rise to its next level bring technical expertise; a desire to sign onto a new vision and help mold a new, emerging culture; an ability to learn quickly; and an ability to inspire others while being able to keep one eye focused on achieving new goals.

The process of selecting the final management team is an on-going one which focuses on assessing each senior manager's strengths and weaknesses; not so much their technical and functional skills as their potential to get along and cooperate productively with their counterparts from the other company, and their ability to provide a strategic viewpoint on managing the merged operations.

Still, there is no simple formula. By its nature, it is a time of re-assessment. Some people just can't psychologically make the shift, and others do not have the necessary skills. There are bound to be fears and conflicts throughout this volatile period. The best thing you can do is let everyone know you understand this is a trying time, then be clear about the goals of the new venture, and how you will approach those goals. You have to get people focused on solving the external problems, rather than worrying about their seating arrangements.

By setting a tone that is forthright and caring, and making the transition as short as possible, you will be better able to win cooperation and trust so that an accurate assessment can be made of everyone's strengths, potential and abilities to contribute to the emerging organization. Ultimately, leadership must communicate openly and consistently to create a vision of the newly emerging organization that is so appealing everyone will want to sign-up.

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Does a Homeowners Policy Cover Water Damage?

BY BILL WILSON

An insured's water service line for their house started leaking while he was out of town. It leaked for about a month. The city water supplier noticed it when the meter reported use of 30,000 gallons of water a day—amounting to a bill of $7,500.

Q: "Does an HO-3 policy cover this?"

A: "It depends on the type of homeowners policy. Is it an ISO or a non-ISO form?

If it's an ISO form, we also need the edition date to know for sure. If it's not an ISO form, we need a searchable PDF of the complete non-ISO form in order to review the specific language in the insurance contract and determine coverage.

Let's assume it's an ISO form. ISO added an exclusion for water under Property Not Covered in the 2000 edition of its policies. That means the 2000 and 2011 editions specifically exclude water as a type of covered personal property.

But prior editions of the ISO HO-3—including 1976, 1984 and 1991—cover water loss, right? Not so fast. Even if water is not excluded as a type of Property Not Covered, a 'covered peril' must cause the loss. Damage to the water line itself is likely Coverage A and subject to open perils.

Check out a Big 'I' Virtual University article, 'Tree Roots and Sewer Lines,' that discusses coverage for water and sewer line breaks. But remember: Under an unendorsed HO-3, loss of the water itself is subject to named perils and may or may not be covered, depending on exactly what caused the leak and resulting loss."

Bill Wilson is director of the Big "I" Virtual University.

This question was originally submitted by an agent through the VU's Ask an Expert Service. Answers to other coverage questions are available on the VU website. If you need help accessing the website, email

NYAC

Nevada Young Agents Committee

Being a native of the Louisiana, of course I have been taking a few moments of pause to reflect on the 10 year anniversary of hurricane Katrina. I had family and friends that were directly impacted by the tremendous amount of water and winds generated from that natural disaster. Of course there are several reasons why there was so much destruction and I'm sure at this point your asking yourself where is he going with this and what is the connection to insurance and young agents. Aside from the obvious references to flood insurance, property damage, etc. I can't help but think of one of the main reasons why the water damage was so great – the ineffectiveness of the levee systems.

I think about the insurance industry and how much pressure today's customer is putting on us to expand and challenge the way we conduct business. We are dealing with a client base that is much more techy and diverse. This lends to the question of what type of levee system do we have around our agencies or our personal books of business that will protect us from getting flooded by the numerous potential threats to the independent agency system. Are we using technology to help us conduct business for efficiently, is there a plan in place that will allow for future sustainment of the agency and are we actively working to understand the importance of selling to a society and is becoming increasingly diverse by the minute?

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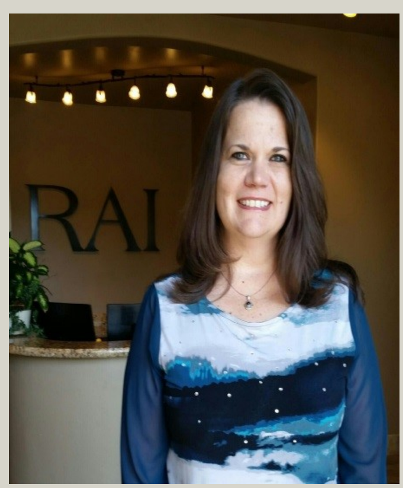

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