



ALABAMA INSURANCE UNDERWRITING ASSOCIATION

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Ronald E. Hanna
Secretary/Manager

October 21, 2005

Fall Board of Directors Meeting
Perdido Beach Resort, Orange Beach, Alabama

**PRESENT:
BOARD MEMBER COMPANIES**

Alfa Insurance Companies
Allstate Insurance Company
Auto-Owners Insurance Company
Baldwin Mutual Insurance Company
Farmers Insurance Group of Companies
Liberty Mutual Insurance Company
Nationwide Insurance
St. Paul Travelers Insurance
State Farm Insurance Company

Beth Chancey
Nancy Lemke
Drew Klasing
Tim Russell
Jerry Workman
John Terlisner
Richard Thomas
Bob H. Schurke
Kim Robison

ALSO PRESENT:

Alabama Insurance Department: David Parsons, Deputy Insurance Commissioner

STAFF:

Ronald Hanna, Secretary/Manager
Dan Fagan, Claims Manager
Deniece Harris, Sharon Moseley, Cindy Rouse, Selma Stalhood- Office Support Staff

LEGAL COUNSEL:

Denny Hughes, Attorney

OTHER GUESTS:

Joe Cotney and Harold Oakes, Claims Auditors, Alfa Insurance Company
Janine Johnson, Safeco Insurance
Bill Sessions, Agent, Southern Alabama Insurance Agency

I. Chairperson Nancy Lemke called the meeting to order at 8:30 a.m. AIUA Legal Counsel read the AIUA Anti-trust Admonition:

“We are all aware that the purpose of this board meeting is to conduct the affairs of this voluntary underwriting association for the benefit of Alabamians living in the beach areas of the state. Board members, nevertheless, are reminded of the provisions of the various federal anti-trust acts. Subjects such as boycotts, voluntary rates, market sharing and the like, are in violation of those laws and totally contrary to the purposes of this meeting and this association.”

II. Ms. Lemke requested Mr. Hanna call the roll.

III. The adoption of the April 15, 2005 annual meeting minutes and the minutes of several special called Board of Directors Telephone Conference Calls were noted.

IV. Adoption of Operational Reports-

A. Treasurer’s Report

1. The October 31, 2004 and 2003 audit report compiled by Russell Thompson Butler and Houston of Mobile, AL was adopted.
2. Financial Statements and Budget Performance Reports were presented and adopted (Copies of the two reports are attached).
3. The 2005-2006 Fiscal Year Budget was presented and a continuing resolution was adopted to give the staff additional time to finalize this document. Final adoption of the budget would be approved at a later date.
3. A resolution was adopted for the distribution of member equity for FY2001-2002 in the amount of \$3,150,911 (A copy of the resolution is attached).

B. Reports by the Staff and Secretary’s Report-

The Secretary presented the Insurance Exposure Report. He was requested by the Board to advise them of any significant changes in growth of new business. Mr. Fagan discussed the Claims Activity Report, and noted we had already closed approximately 80% of the outstanding claims for Hurricane Katrina. He also explained there have been delays by the National Flood Insurance Program Office that have delayed the assignment of the matching flood claims The Alabama Insurance Department had been requested by the Association to intervene to expedite the assignment of claims so that our customers can be served.

Secretary’s Report-

The Secretary noted that Russell Thompson completed the audit for their first year. He also noted there were approximately 13 companies that had not yet responded to the \$10 million assessment sent September 22, 2005 for Hurricane Katrina, but he anticipated all companies would be complying with the request. He thanked the Board members for their support and the effort by the Chairperson to request Board members designate another person within their

company to be an alternate contact in the event the Board member was not available in an emergency situation. The Board was advised that member companies had voted to extend the Plan of Operation until October 31, 2008. The Manager was instructed by the Board to increase the service fee paid with new applications from \$25.00 to \$35.00. The Alabama Insurance Department would be contacted for approval and requesting a December 1, 2005 effective date.

V. Committee Reports:

- A. Accounting and Fiscal Affairs Committee- Tim Russell, Chairperson (Baldwin Mutual) The Chair of this Committee had no other issues to report. There was also lengthy discussion regarding the payment of member company equity paid on a fiscal year instead of the calendar year. **Didn't we ask this committee to help create salary bands for positions?**
- B. Advisory Committee – Bob Schurke, Chairperson (St. Paul Travelers). The Committee had no report. (Note: The Board Chair requested in Thursday's committee meetings the Advisory Committee study the issue and make a recommendation of AIUA retaining future member company equity for the purpose of paying catastrophe losses to avoid the possibility of assessments. The Chair also made the Board aware that in the event there is an appeal of a decision of the staff- other than policyholder claims- it would be assigned to the Advisory Committee for their recommendation.)
- C. Appeals Committee – Jerry Workman, Chairperson (Farmers). The Committee had no report.
- D. Liaison Committee – John Terlisner, Chairperson (Liberty Mutual). Mr. Terlisner expressed appreciation to the Alabama Insurance Department for their support and direction in working with AIUA. The Committee had nothing further to report. The committee was requested to work with the Manager in creating a job description for a new administrative staff position designated as the "Operations Manager".
- E. Loss or Claims Committee – Beth Chancy, Chairperson (Alfa). Ms. Chancy requested Joe Cotney (Claims auditor from Alfa) to make the claims report that Harold Oakes and he conducted. (A copy of his report is attached.) Approximately ten-percent of the claims were audited from April 1, 2005 until October 1, 2005. The auditors recommended that the language in our policy forms be reviewed to address recovered salvage. Ms. Lemke assigned this issue to the Claims Committee for study. The Claims Committee was also requested to look into the issue of wind vs. flood and how the staff was paying excess losses over flood payments up to the actual cash value of the dwelling. The Board expressed appreciation to Mr. Cotney for his work, as this was the last audit he would be conducting due to his retirement from Alfa.
- F. Meetings Committee - Drew Klasing, Chairperson (Auto Owners). Mr. Klasing reported that the Manager would be given the authority to contract with the Perdido Beach Resort, Orange Beach for the April 19-21, 2006 spring meeting. The Manager was also given authority to contract with the Perdido Beach Resort, Orange Beach for the October 25-27, 2006 fall meeting. The dates for the 2007 annual meeting would be April 18-20, 2007.

- G. Reinsurance Committee- Drew Klasing, Chairperson (Auto Owners). It was recommended by Mr. Klasing and approved by the Board that AIUA contract with Benfield as their broker for the 2006-2007 reinsurance treaty for \$30 million "X" of \$20 million (for a total of \$50 million). The Committee was requested to study whether member companies purchase reinsurance for residual market assessments and whether our present reinsurance coverage amounts should be increased. The Committee was requested by the board chair to conduct a survey of board members to determine whether their individual reinsurance treaties provided for assessments and the impact of a mega storm resulting in a number of insolvent companies. A lengthy discussion was conducted on several issues to study whether the current reinsurance limits were adequate for the Plan's objectives.
- I. Underwriting Committee-Kim Robison, Chairperson (State Farm) The Committee had no report. The Chair assigned the following issues to the Underwriting Committee: mitigation credits, review of our commercial rating structure, tools for determining building values, possible increase of coverage limits, and whether excess flood coverage should be required to match AIUA policy limits; as well as a review our reinspection program.
- J. Voluntary Writings Committee-, Chairperson (Nationwide) The Committee had no report. The Chair asked the committee to make a recommendation regarding territory redefinitions.

The Chairperson then recognized Deputy Commissioner Parsons for his comments. He expressed appreciation for the manner in which the program is being operated and also noted that the Alabama Insurance Department would continue to study rates and the operational structure of the Plan. Mr. Parsons also noted that the development of a new rate territory ("Gulf" territory that would include Gulf Shores, Orange Beach and Dauphin Island) was important to the Department.

At the conclusion of the discussion, a motion was made and adopted to adjourn the meeting.

Approved By
Ronald E. Hanna
Secretary/Manager

December 15, 2005