April 12, 2013

Spring 2013 Board of Directors Meeting
Perdido Beach Resort, Orange Beach, Alabama

BOARD MEMBER COMPANIES PRESENT:

Alfa Insurance Companies  Al Schellhorn
Allstate Insurance Company  Fred Strauss
Auto-Owners Insurance Company  Sandra McCullough
Baldwin County Public Sector  Leonard Kaiser
Baldwin Mutual Insurance Company  Kevin Russell
Farmers Insurance Group of Companies  Jerry Workman
Liberty Mutual Insurance  Joseph Mattaini
Mobile County Public Sector  Jay Ison
Nationwide Insurance  Patrick Foy
State Farm Insurance Company  Sue Cook
Travelers Companies  Paul Bianco

ALSO PRESENT:

Alabama Department of Insurance  Charles Angell

STAFF:

Bob Groves, Secretary/Manager
Ursula Jackson, Assistant Manager-Operations
Ray Skinner, Assistant Manager-Claims
Chuck Woods, Assistant Manager- I.T.

LEGAL COUNSEL:

Denny Hughes  Haskell, Slaughter, Rediker, & Young

OTHER GUESTS:

Ken Selzer  AON Benfield
Robert Fox  AON Benfield
Renee Carter  AIIS
Alex Cary  Smart Home America
Jeff Powell  First Baldwin Insurance
I. Chairman Jerry Workman called the meeting to order at 8:34am. He asked Vice Chairman Patrick Foy to conduct the meeting.

II. AIUA Legal Counsel read the AIUA Anti-Trust Statement:

“We are all aware that the purpose of this board meeting is to conduct the affairs of this underwriting association for the benefit of the citizens of Alabama living in the coastal 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.”

III. Patrick Foy requested Bob Groves call the roll. All board members were present.

A. A quorum was present.

IV. Recognition of Guests/Visitors:

A. Charles Angell – Alabama Department of Insurance
B. Denny Hughes - Haskell, Slaughter, Rediker, & Young
C. Ken Selzer – AON Benfield
D. Robert Fox – AON Benfield
E. Renee Carter- AIIS
F. Jeff Powell – First Baldwin Insurance
G. Alex Cary – Smart Home America

V. Adoption of Minutes from October 21, 2012 Board Meeting. Paul Bianco made a motion to waive the reading of the minutes of the October 21, 2012 meeting and adopt as submitted. Jay Ison seconded the motion. The motion passed unanimously.

VI. Operational Reports

A. Treasurer’s Report – Kevin Russell, Baldwin Mutual Insurance Company
   1. 1st Quarter 2013 Financial Statements were presented. (Balances for Sterne Agee, First National Bank of Baldwin County, and Bryant Bank accounts were presented in the exhibits as of January 31, 2013.)
   2. Stern Agee Members Equity Account: $51,369,696.10
   3. Surplus Account: $4,893,489.19
   4. Total Assets: $79,113,068.15
   5. Premiums Earned: 6,323,984.77

B. Manager’s Report
   1. Bob Groves, Secretary/Manager
A. Presented 2012 - 2013 budget reports as approved at the October 2012 Board Meeting with actual figures year to date as of February 28, 2013.

   i. Total operating Expense through February is favorable at $575,456

C. Growth
   i. February, 2013 - 406 new business policies per month
   ii. Renewal retention at 90% as of February 2013.
   iii. Net increase in policies per month on average as of February 2013: 117

D. Budget
   i. Reviewed Budget Forecast presented at the October 2012 Board Meeting.
   ii. Presented revised growth Forecast for the past 14 months
      a. Policies in Force: 32,500
      b. Written premium: $55M (Budget is based on $45M)
      c. Total Insured Value: $5.5B
   iii. Growth Forecast for October 2013 if February numbers remain constant:
      a. Policies in Force: 28,000
      b. Written Premium: $48M
      c. Total Insured Value: $5.2B

E. Changes in Operation
   i. Topics presented to AIUA committees for consideration:
      a. Cash flow needs following CAT
      b. Code+ Discount Factor Analysis is complete and will be considered in the next rate view and will be shared with DOI
   ii. Staffing
      a. February 2013 – 20 filled positions
      b. Anticipate filling two Authorized Positions this summer, one within the next 30-60 days.
      c. 23 positions authorized

F. Information Technology-Chuck Woods, IT Manager
   i. New Rate Filing (Revised zones, premiums, and deductibles)
a. April 1-June Renewals generation
b. June 1- New Business roll out

ii. Programming Budget Variance
   a. Will likely exceed budget by $100K
iii. Continue to Improve/Refine Continuity Plans
   a. Expansion of Catastrophe Response team to 8 members
   b. Off site backup Facility/Server
iv. Patrick Foy commented on how the board appreciates Chuck and Bob having improved technology and productivity.

2. Claims – Ray Skinner, Assistant Manager
   A. Open Claims report: 12 Routine, no Catastrophe
   B. Made a change in the call center and revisions will be entered in the Loss Claims Procedure Manual.
   C. Will work with Legal and the Claims Committee to put in a fraud procedure requirement.
   D. With the December tornadoes there was a total payout of $1,620,000

3. Legal Report – Denny Hughes (Haskell, Slaughter, Rediker, & Young)
   A. Pleased to report that there are no pending litigations against the association which is believed to be a direct reflection of high quality of operations within the association.

VII. Proxy Report – Bob Groves, Secretary/Manager
   A. As of April 8, 2013
      1. 77,073 votes assigned by proxy to the Board Chairman to be cast for board membership.
      2. 461,662 votes assigned by proxy to the Board Chairman for business other than board membership.

VIII. Standing Committee Reports:
   1. Accounting and Fiscal Affairs Committee – Kevin Russell, Chairperson (Baldwin Mutual)
      A. Kevin Russell made a motion to authorize AIUA to obtain line of credit. Paul Bianco seconded the motion. The motion passed unanimously.
      B. Reviewed financial statement audit of AIUA for the year ended October 31, 2012 which was performed by Russell, Thompson, Butler & Houston, LLP. Commended Bob Groves, AIUA accounting staff as well as Warren Averett for a clean audit with no discrepancies.
C. Kevin Russell made a motion to accept the audit. Sue Cook seconded the motion. The motion passed unanimously.

D. AIUA’s participation in PPIO (pension) under review.

B. Appeals Committee – Paul Bianco, Chairperson (Travelers)
   1. 5 appeals made since October 2012, 1-claim denial, 4-cancel/nonrenew due to unrepaird damage.
      i. All were resolved by AIUA management without the need for an appeal hearing.

C. Claims Committee- Al Schellhorn, Chairperson (ALFA)
   i. The Claims audit committee and will be expanding from just ALFA to ALFA and State Farm. They will be conducting a joint review and will report at the next board meeting.

D. External Affairs Committee – Sandra McCullough, Chairperson (Auto-Owners)
   1. AIUA/Producer meetings on April 4th. Commended Bob and his team on a great meeting to educate the agents on the new changes.

E. IT and Operations – Sue Cook, Chairperson (State Farm)
   1. February 14 committee conference call to review backup facility/server proposal.
   2. Discussed contingency planning, location, current service provider and costs.
   3. Initiative approved and will have a targeted completion date by July 31.

F. Meetings Committee – Leonard Kaiser, Chairperson (Baldwin County Public Sector)
   1. 2013 Fall Board Meeting
      i. Date: October 23-25, 2013
      ii. Location: The Grand Hotel, Point Clear, AL
   2. 2014 Spring Board Meeting
      i. Date: TBD
      ii. Location: Battle House Resort, Mobile, AL
   3. 2014 Fall Board Meeting
      i. Date: TBD
      ii. Location: The Grand Hotel, Point Clear, AL
   4. 2014 Spring Board Meeting
      i. Date: TBD
      ii. Location: The Grand Hotel, Point Clear, AL
G. Nominating Committee – Jay Ison, Chairperson (Mobile County Public Sector)
1. Commissioner of Insurance re-appointed Leonard Kaiser as the Baldwin County Representative and Jay Ison as the Mobile County Representative.
2. The Ballots for Board membership have been counted and the member companies represented have been elected to remain in their roles on the board.
3. Board Member nominations:
   A. Chairman - Jerry Workman
   B. Vice Chairman – Patrick Foy
   C. Treasurer - Kevin Russell
   D. Secretary/Manager - Bob Groves
4. Jay Ison made a Motion to accept nominations as presented. Leonard Kaiser seconded the motion. The motion passed unanimously.

H. Rate Committee – Patrick Foy, Chairperson (Nationwide)
1. Moving forward with approved rate/rule/form changes effective June 1, 2013.

I. Reinsurance Committee – Fred Strauss, Chairperson (Allstate)
1. Thanked Bob Groves and AON on all of the work they do.
2. Fred Strauss made a motion to purchase reinsurance in three layers of 340M in excess of 100M with 1 reinstatement within the budgeted amount and provide member companies with the opportunity to purchase optional layers for their shares of 50M excess 50M and 210M excess 410M. Kevin Russell seconded the motion. The motion passed unanimously.

J. Underwriting Committee – Joe Mattaini, Chairperson (Liberty Mutual)
1. No adverse findings.

K. Voluntary Writings Committee – Jay Ison, Chairperson (Mobile Public Sector)
1. Independent, external audit of AIUA Voluntary Writings procedures/calculations on hold.
2. Need to update “Rules and Procedures for submitting Voluntary Writings” document to reflect any changes in AIUA rate zone boundaries.
3. Amend the rules and procedures for submitting voluntary writings:
   1. Remove Zone factors
   2. For every $1 of Voluntary Written Premium, give $1 of credit to the writing carrier for both Baldwin and Mobile Counties. (Continue factors for policy type i.e. C/L-.50, HO-.75, DF&CF- 1.00)
4. Jay Ison made a motion to amend. Sandra McCullough seconded the motion. The motion passed unanimously.

IX. New Business:
   A. Paul Bianco made a motion to extend the operation of AIUA to October 31, 2016. Joe Mattaini seconded the motion. The motion passed unanimously.
   B. Should AIUA offer only Wind/Hail coverage?
      1. Assigned to Underwriting Committee for consideration.
   C. Should AIUA change producer compensation to a flat fee?
      1. Assigned to Rate Committee for consideration.

X. Questions and/or Comments:

A. Charles Angell (Alabama Department of Insurance) – Congratulates Bob and the AIUA Staff/Board for their wonderful record in regards to efficiency and all audits being clean audits. Mr. Angell applauds Bob and staff for taking the lead on the by peril approach that has been implemented. For accuracy of rating it is believed to be a win/win situation for all. Commissioner Ridling and Mr. Angell considering changing the departments stance with the cost of capital. Industry has suggested that commissioner consider introducing auto flex rating by regulation instead of requiring the bill.

B. Renee Carter (AIIS) – Most things are for the good of the industry as a whole. Thanks to the board for the opportunity to attend. Thanks to Charles and the Department.

C. Alex Cary – Executive Director of Smart Home America.
   1. Main focus is educating consumers on building smarter and stronger. Working very closely with home builders and improving building codes.
      i. Smart Home America (formerly Smart Home Alabama) created a coastal supplement to match education with mitigation to encourage residents of coastal areas to build stronger, safer homes.
      ii. Working with Department of Insurance on creating uniform rating credits for IBHS/IRC fortified structures. Alabama leads the country with the number of fortified homes in existence.
      iii. Working on improving building codes. Adopted 2012 building codes including a coastal supplement. Working to get Mobile County on the same codes.
iv. Will be working on educating insurers. Will do CE classes for agents and real estate agents working with Department of Insurance and Charles regarding our program.

v. Working with Charles and the Department of Insurance on putting together a report on mitigation programs in other states to help fund mitigation projects along our coast. Hoping to have a report together by next month.

D. Jeff Powell – First Baldwin Insurance

i. Commended Bob and Chuck for embracing technology and having an advanced system that is accommodating to the agents. Thanked Ray and Ursula for the ability to connect their agency with AIUA.

E. Jerry Workman (Farmers Insurance) – Thanked Jared Stuckey, Liberty Mutual and Patrick Foy, Nationwide Insurance for serving on the board.

XI. Sandra McCullough made a motion to adjourn the meeting at 9:25 am. Kevin Russell seconded the motion. The motion passed unanimously and the meeting was adjourned.