

AmerInst *ADVISOR*

AmerInst

GIVES BACK

In September, the AmerInst Community Relations Program Committee offered state societies the opportunity to apply for one of two \$5,000 grants to support their community service initiatives. To apply for the grant, each state society was asked to provide a summary of a recent project it developed, who in the community it was designed to benefit and the results.

We were amazed at the innovative community service programs offered by state societies and know it is going to be a difficult decision to choose just two winners. Former AICPA chairs Marvin Strait, CPA, and

Kathy Eddy, CPA, will join AmerInst Board member John Schiffman, CPA, to judge the applications. Winners will be announced in March. Be sure to catch the next issue of the *AmerInst Advisor* for a profile on the winning state societies and their community service programs.



Impact of the Hurricanes
on the Professional

LIABILITY MARKET

The past four years have produced seven of the 10 most expensive disasters in U.S. history. In terms of insured losses from catastrophes, hurricanes Katrina, Rita and Wilma made 2005 the worst year on record.¹

While such horrific disasters have an obvious impact on personal and property and casualty lines, their effect on other industry segments, particularly professional liability, cannot be dismissed out of hand. These staggering loss totals raise speculation among professional liability insureds about pricing increases, capacity issues, and significant underwriting changes. As these ferocious storms continue to affect the industry, it is important to take a realistic look at the far-reaching effects of the hurricanes on professional liability insurance.

In the United States, insurance is highly regulated. As such, it is unlikely that state insurance commissions would approve rate increases in one line to recoup losses incurred in another. Competition from carriers with no property exposure and little or no loss from the hurricanes would most likely create pressure on other carriers to hold rates steady to avoid losing significant market share. In a perfect world, insurance premiums and losses would be contained in separate silos. However, in reality, the line between losses is often blurred. In fact, multi-line carriers can move money readily between lines to meet various short-term needs. Regardless, rate setting still requires the justification of loss analysis by line, and competition demands the best possible pricing.

(Continued on page 2)

Dear

SHAREHOLDER:

Welcome to the second issue of the AmerInst Advisor. Before you get too entrenched in tax season, we wanted to give you an update on what we've been working on in the past six months. As you'll see, it's been a busy and productive time for AmerInst.

Read on to learn about:

- *The latest initiative from the AmerInst Community Relations Program*
- *The impact of the 2005 Hurricanes on the Professional Liability Market*
- *Information on the new dividend schedule*
- *Profiles of three AmerInst Directors*

We appreciate your continued support. If you have any questions or comments on AmerInst's activities, please don't hesitate to contact us at amerinst@vim.usarisk.com.

Yours sincerely,


Ronald S. Katch, CPA
Chairman

KNOW?

- The AmerInst Board has changed its dividend schedule. Dividends will now be paid semi-annually on September 15 and March 15 of each year. All shareholders should have received their first semi-annual dividend payment of \$1.30 per share in September 2005.

LIABILITY MARKET

(Continued from page 1)

A key factor in the pricing of primary lines is reinsurance. While many reinsurers are domiciled in the United States, a significant number of companies offering reinsurance are located in foreign countries. Alien reinsurers, or reinsurance companies that reside outside of the United States, are not subject to the same degree of regulation as evidenced in our domestic world. Reinsurance companies that have incurred losses in recent catastrophes are able to increase rates in other lines to recoup deficits. However, the same competitive forces acting in the primary market would most likely serve to keep premiums in line. Nevertheless, primary carriers that sustain major losses in catastrophes would most likely manage their other lines of business to improve the company's overall performance. Hence, while operating within their rate filings, primary writers could tighten up their underwriting by using credits sparingly and debits liberally, thereby affecting an increase in their premiums per exposure unit. An increase could then be imposed without a new filing; however, competition would again work to offset extreme pricing changes of this nature. If losses in catastrophes create any insolvencies, capacity and availability in professional liability insurance may be affected. However, industry experts agree

The Value of AmerInst**"IN THEIR OWN WORDS"**

"The reason we made the initial investment in AmerInst was because we were concerned about the availability of professional liability insurance in the event of hardening in the market. It was reassuring to know that someone was there to lend a helping hand if the need ever arose. Besides the support and help AmerInst has given to the profession, we are especially pleased with the dividend returns and the ROI we have experienced. It has been a wonderful investment and it's good to know AmerInst exists."

— Timothy I. Michel,
President
Rea & Associates, Inc.
New Philadelphia, Ohio

that insolvencies related to 2005 hurricanes are unlikely, as there is sufficient capital within the market to sustain it. Indeed, industry surplus is at a record high — coming in at \$412.5 billion at the end of the first half of 2005.²

While early estimates of the insured damage from Hurricane Wilma could be as much as \$10 billion and insured losses from hurricanes Katrina and Rita approximate \$40 billion, the industry appears to be able to weather these storms. Although these hurricanes could result in an industry loss for 2005, there is sufficient surplus to compensate for it. Furthermore, U.S. underwriters' after-tax net income for the first half of 2005 is estimated by the Insurance Services Office to be \$30.9 billion.³ This, in itself, could offset most of the hurricane losses for the year. Of course, these numbers are in aggregate, and it is possible that individual insurers may sustain more or less of the loss in degrees disproportionate to their surplus; however, this does not seem to be the case.

As 2005 draws to a close, the effect of these catastrophes on the insurance industry as a whole remains to be seen. For now, one thing is clear — professional liability insurance policyholders can expect little or no change in underwriting and rates as a result of 2005 hurricanes. The

industry appears to be in good financial shape to absorb these losses. Generally, professional liability insurance is rated on the loss experience of its policyholders. Accordingly, any adverse liability that alternate sectors experience is not expected to negatively impact professional liability insureds. As in the past, professional liability underwriters will continue to look closely at the claims experience of their individual programs to determine necessary pricing adjustments.

By Ken Mackunis, President of Aon Insurance Services, Aon Corporation's division responsible for the AICPA Member Insurance Programs.

The AICPA Professional Liability Insurance Program insures nearly 24,000 accounting firms nationwide.

¹ Estimated by Robert P. Hartwig, Ph.D., CPCU, chief economist of the Insurance Information Institute, in a recent presentation regarding the impact of Hurricane Katrina on the industry (updated with Hurricane Rita loss estimates published by the Insurance Services Office, ISO, on November 1, 2005). See <http://www.iii.org/media/presentations/katrina/> and http://www.iii.org/media/updates/press_745708/.

² Press release from ISO (formerly, Insurance Services Office) for ISO and the Property Casualty Insurers Association of America, 10/5/2005; http://iso.com/press_releases/2005/10_05_05.html.

³ "Storms Wipe Out Record First-Half Profits," Matt Brady, *National Underwriter*, October 10, 2005; page 8.

DIRECTOR PROFILES

As you learn about AmerInst's latest projects, we also want to take the opportunity to introduce you to the Board members that see them through to fruition. To that end, in each of the next few issues of the *AmerInst Advisor*, we will profile three Directors. This issue, get to know AmerInst Board members Jerry Atkinson, Irv Diamond and Jeffrey Gillman.



Jerry Atkinson spent 40 years in public accounting because he loved numbers and working with people, but today

you are more likely to find him pursuing his other passion — tending to animals. A full-time rancher, Jerry said “working the cows” is a lifelong dream and a source of great satisfaction after an equally gratifying career in accounting.

Although he currently lives on a ranch in Texas, Jerry spent his entire accounting career in New Mexico. He spent the first seven years of his career at a small firm and then formed Atkinson & Co. in 1970. Jerry grew Atkinson & Co. into a highly respected 65-person firm that today has more construction clients in New Mexico than any other firm.

Even though Jerry is retired from the profession, he is “busier than he has ever been,” doing some part-time consulting, strategic planning and mediation work and serving on a number of Boards, including AmerInst. His involvement and commitment to New Mexico and the accounting profession has earned him a number of awards, including the New Mexico State Society's Lifetime Achievement award. He also works as a full-time rancher, finds time for wood-working and has recently earned his truck-driving license.

“The profession has been good to me,” Jerry said. “AmerInst can have a positive impact. I am happy for the opportunity to be a part of this Board. The Directors are an interesting group who find innovative ways to bring about change.”



Irv Diamond left upstate New York for the warmer climate of New Mexico in 1963 and never looked back. He became

an accountant after enjoying a stint in the bookkeeping department of a small accounting firm. He pursued the profession by returning to school at the University of New Mexico, where he earned his BBA in accounting. He is a founding member of Rogoff Diamond & Walker (now REDW Business & Financial Resources) and has been with the firm since 1974.

REDW has grown from less than 10 people when he joined 31 years ago to more than 100 people today. The firm grew substantially in the 1970s by offering full-service work to small businesses and is now one of the largest accounting firms in New Mexico. Today, REDW focuses on auditing for privately-held businesses with a specialty in gaming and Indian tribes.

Irv serves on a number of Boards, including the National CPA Financial Literacy Commission, First National Bank of Santa Fe and AmerInst. “I became interested in the AmerInst Board when I was on the AICPA Board,” Irv said. “Insurance costs were going through the roof. I realized how volatile the insurance market can be. I thought I could bring something to the table this way and help out. I have always been a big supporter of AmerInst and its mission.”



Jeffrey Gillman has been a stockholder in AmerInst since 1998, served as a Director since 1999 and is the

Chairman of the Audit Committee.

He left his mark on the state of Florida through a long and prosperous career in accounting, a happy family life and community involvement. A life-long Florida resident, Jeff was attracted to the profession while he was a student at the University of Florida.

“It was the furthest thing from my mind,” he said. “My dad was a CPA, so I wasn't initially interested in accounting.”

He originally pursued a degree in veterinary medicine, then switched to business administration but finally settled on accounting after excelling in the course work. Since then, Jeff has spent the majority of his career in small firm practice. He practiced with his father in the early part of his career and then spent the last 25 years at his firm Gillman & Shapiro, where he now concentrates on estate, trust and income tax services.

Jeff is very active in his local community and in the profession. He has served as Vice President and as an Executive Committee Member of the Florida Institute of Certified Public Accountants (FICPA). He is also the founding President of the South Dade Chapter of the FICPA. He enjoys traveling, fishing, boating and spending time with his wife, Jo, two children and three grandchildren.

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HATS OFF TO YOU!

Congratulations to the following shareholders, who each won a golf hat for being among the first 20 readers of the inaugural issue of *AmerInst Advisor* to correctly answer questions about AmerInst:

Larry Wolfe	Miami, FL
Charles B. Larson	St. Joseph, MO
Rob Riedmiller	Sciota, PA
David Brotman	Virginia Beach, VA
Milton Abrams	Montpelier, VT
Joseph Pirinea	Seaford, NY
Frank Mandola	Houston, TX
Greg Olson	Dubuque, IA
George M. Hall	Oklahoma City, OK
David C. Andrews	Las Vegas, NV
Joel Goldberg	Natick, MA
John A. Mindler	Metuchen, NJ
Calvin Meeusen	Grand Haven, MI
Greg Hodits	Belleville, IL
Richard K. Peterson	Louisville, KY
Richard Souther	Pleasanton, CA
Ronald M. Schulkin	Northridge, CA
Lyn R. Meyers	Danbury, CT
Williard Blind	Lancaster, OH
John Dore	Winnetka, IL



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