

Member Newsletter

Issue 26 | June 2016

President's Message

What a great AAIMCo conference we had in San Antonio! With 24 (almost half of our membership) in attendance, it was our largest ever. The venue was perfect, the presentations were outstanding and the networking was invaluable. And then there was the food and fun! A special thanks goes out to **Russ Taylor** for arranging everything. Attending a conference, in my opinion, is the only way to truly realize and appreciate the value of AAIMCo. If you were unable to attend this one, please make plans to be in Seattle next spring. We will be getting out full details soon.

Your officers serve two-year terms, so **Peter Marchel** will continue another year as first vice president, **Kevin Hromas** as second vice president and membership Chairman, **Mary LaPorte** as secretary and **Russ Taylor** as treasurer. This group, along with **Lee Hoffman**, makes up our executive committee and works hard on your behalf.

Exciting things continue to happen with AAIMCo! Remember that **Lee Hoffman** has made special arrangements with Versus and Rough Notes and you now have, as a free member benefit, full access to VersusLaw and Producer Online-Plus, which includes PF&M and all ACORD forms. If you haven't done so, please go to the member section of the website and check these out. We're working on other research sources to add, so please let us know if you have any ideas or contacts we should explore.

Al Diamond is nearing completion of the update of the Standards and Guidelines for Appraising Insurance Agencies and Brokerages. This is already one of our best publications, but has the potential to be the authoritative source for agency valuation information in the industry. Al is also leading us in creating a White Paper on Non-competition and Non-Piracy. If anyone is interested in working on the White Paper, please contact Al.

Lee Hoffman is working on a revision of our by-laws, specifically addressing attendance requirements, and could use some help on that as well. **Peter Marchel** will be leading us in a study of cyber liability in general and the needs of our members related to it in particular. **Russ Taylor** is looking into a group E&O Program for AAIMCo. Please contact him if you are interested or have input.

Dale Crawford chairs our Peer Review Committee. As our members continue to publish insurance articles we hope they will take advantage of this committee's input, as well as the ability to testify that the article was indeed "peer reviewed". **Kevin Hromas** is doing great work as chairman of the Membership Committee. Please call Kevin if you know of anyone who should be considered for membership. We currently have 55 members, including all categories, but would like to grow.

Don't forget about our Referral Program! If you are contacted about an engagement and don't have time or don't consider yourself qualified, forward the inquiry to the full membership. I promise that AAIMCo has a member who can handle it. You will be doing both that member and the client a great service. Although strictly voluntary, if you receive a referral from another member or through the AAIMCo site, it is recommended that you donate an amount equivalent to an hour's work to AAIMCo. In 2015, a total of \$2,525.00 was contributed.

The future of AAIMCo is bright and I look forward to working with each of you to improve its value to our members and to the clients we serve.



Van E. Hedges

MI, CPCU, ChFC, CLU, CIC, CRM, AAI



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Association News

Mike Manes & Ed Miltenberger – North Star Strategic Services, LLC

Fellow Louisiana Members **Mike Manes** and **Ed Miltenberger** have joined forces and formed North Star Strategic Services, LLC. They promise to deliver clear and actionable insights to small and mid-size agencies for problem solving and capitalizing on opportunities. They plan to offer Strategic Planning, Valuations, Mergers/Acquisitions, Succession Planning, Staff Evaluations and Training. For further information, contact Mr. Manes or Mr. Miltenberger.

Roy Phillips – Trade Secrets : What’s in Your Files?

AAIMCO Member, **Roy Phillips**, recently published an article titled “Trade Secrets: What’s in Your Files?” in the February 2016 publication of The Insurance Record. The article discusses what constitutes confidential information and/or trade secrets for an insurance agency. To read more of the article, please contact Mr. Phillips.

Kevin Quinley – Claims Magazine

Virginia Member, **Kevin Quinley**, continues to author numerous articles, including one recently published in the April edition of Claims Magazine. “Avoiding Bad Faith Perils of Defense-Within-Limits Policies” includes a list of bad faith landmines that can detonate from defense-within-limits policies, as well as tips to help identify the pitfalls, and preventative steps in each case. For a copy of the article, please click [here](#).

Stanley Lipshultz – Special Relationship

Member, **Stanley Lipshultz** was recently featured in the CPCU Insights magazine authoring an article entitled “Should Producers Fear the Special Relationship”? Mr. Lipshultz gives insight into the idea of an agent establishing a “special relationship” with a particular customer, which creates a higher level of responsibility on the agent. He gives tips on the awareness of a potential “special relationship” and how to avoid establishing this type of relationship and the responsibilities of an agent when a “special relationship” does exist.

Mike Manes – The Best Risk Manager

Our Cajun philosopher, **Mike Manes**, has penned another interesting article titled “Mirror, Mirror on the Wall, Who’s the Best Risk Manager of All?”, which appeared in the April edition of Texas Surplus Lines Reporter. The article discusses the facets of enterprise risk management. To review the complete article, contact Mr. Manes.

Kevin Hromas – Central Claims Executives Association

Member **Kevin Hromas** spoke at the recent Central Claims Executives Association annual meeting held in San Antonio, Texas. Membership in the Central Claims Executives Association consists of the Home Office Chief Claim Executive or a Senior Claim Executive for insurance carriers domiciled in the Central States. The Central Claims Executives Association (CCEA) has greatly benefited from the high level of participation and responsible leadership provided by CCEA members.

Members of the CCEA consist of mutual and stock insurance companies. Reinsurer or reinsurance broker servicing member companies may also join. Member companies include regional writers of insurance that represent a cross section of personal, commercial and specialty lines.

Have news for the next edition?

We want to know what's been going on in your practice. Received an award? In the middle of a really interesting assignment? Published an article?

Email your news to
Lesley Perkins.

lesley.perkins@aaimco.com

Association News »

Tom & Wendy Braniff – IRM Degree at the University of Houston - Downtown

The Insurance Council of Texas recently awarded scholarships to eight Insurance & Risk Management majors from the University of Houston – Downtown. AAIMCo Member, **Tom Braniff** is a founder of the IRM Program at UH and his wife, **Wendy Braniff** has been the Executive Director since inception of the program seven years ago. Thus far, over 60 students have graduated from the program.



In Memorium »

Marshall Reavis – 1935-2016



Fellow AAIMCo Member, Marshall Reavis passed away earlier this year, below is the Obituary which appeared in the Chicago Tribune.

Marshall W. Reavis, 82 of Lake Forest. Beloved husband of the late Marjorie “Margie” nee Varady. Loving Father of Carrie (Christian) Erzinger, Marshall (Amy) Reavis, and Amy (Todd) Noden. Adored “Pap” to Emily, Maggie, Beau, Jill, Mitch, Henry, Grace, Ellie, Hattie and George. Brother of Martha (Jack) Swanson. Marshall will best be remembered for his devotion to his wife and the many boards and organizations he served. A celebration of his life will take place Saturday, February 27, 2016 at 11:00 am at the Union Church of Lake Bluff, 525 E. Prospect Ave., Lake Bluff, IL 60044. In lieu of flowers, memorials in his name may be sent to the Union Church of Lake Bluff. Info www.wenbanfh.com or 847-234-0022.

Membership Report

While there was a “Membership Report” included in the San Antonio conference materials, for those who weren’t able to attend, here is an update since the last newsletter went out in February.

We have had two new “Professional Members” officially join AAIMCO in the past few months:

James Robertson
Interisk Limited
Newport Beach, CA

President, CEO and Founder of Interisk Limited, a management consulting firm specializing in insurance litigation consulting. Also provides consulting services on captives, risk retention groups, and other insurance and risk management services. James joined in March and even made it to the conference in San Antonio in April!

David Mandt
Professional Claim & Los Consulting
Montesano, WA

Mr. Mandt specializes in claims and litigation assistance to both policyholders and carriers through-out Washington as well as to carriers in Alaska. He also serves as an expert witness in property claims matters through-out the US. His acceptance as a Professional Member in AAIMCO brought our total membership as of the conference to FIFTY!

The Executive Board is currently considering additional applications for membership at this time and I have multiple other candidates that have been sent to me by many of you to reach out to. Keep in mind that there are multiple levels of memberships. Don’t forget about the “Affiliate Membership” as a way to bring in those businesses that provide various services and resources to many of our clients and it is extremely beneficial to have them as part of our “umbrella of services”. Provide me with as much of the person’s contact information as you can obtain and I’ll pick up the ball and run from there but I need your help in targeting qualified applicants.

The Board is also working on a more complete and comprehensive analysis of the application and review process for new members. While AAIMCO will always seek to maintain an extremely high level of competence and expertise in our membership, we realize that the process must be fair and un-biased to any qualified candidates.

If you have any questions about the membership process, don’t hesitate to let me know.



Kevin Hromas
 JD, EGA, RPA, PLCS, HCRI-
 R/C, CPIU

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 **Know of someone who would make a great member?**

AAIMCO is always working to expand its membership with highly qualified consultants and associates.

Contact Membership Chair Kevin Hromas with your recommendation.

Treasurer's Report »



Russell M. Taylor

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The accompanying reports reflect AAIMCo's financial position for the first five months of 2016 compared to the same period last year. This year's growth in dues income reflects the effect of new members added during the last two years, as well as the increase in annual dues levels, our first in many years. In addition there is a sharp increase in conference registrations for 2016, the result of our record breaking attendance at this year's conference in San Antonio.

On the expense side, conference expenses increased as would be expected due to higher attendance, with the overall result being break even. All other expenses are in line with projections, and we should be on target for the rest of the year.

Bottom line is AAIMCo continues to be in excellent financial shape.

Treasurer's Report



Russell M. Taylor

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Balance Sheet

ASSETS

Current Assets

Checking / Savings (Woodforest)

Accounts Receivable

Total Current Assets

Other Assets

Accum Depr - Sect 179

Epson Projector

Total Other Assets

TOTAL ASSETS

LIABILITIES & EQUITIES

Equity

Opening Balance Equity

Retained Earnings

Net Income

Total Equity

TOTAL LIABILITIES & EQUITIES

May, 2016

23,655.97

0.00

23,655.97

-600.35

600.35

0.00

23,655.97

5,265.39

10,642.79

7,747.79

23,655.97

23,655.97

May, 2015

20,879.79

105.00

20,984.79

-600.35

600.35

0.00

20,984.79

5,265.39

12,687.66

3,031.74

20,984.79

20,984.79

Profit & Loss Statement

INCOME

Dues

Dues - New Affiliate Member

Dues - Affiliate Member

Dues - Associate Member

Dues - Retired Member

Dues - New Associate Member

Dues - New Professional Member

Dues - Professional Member

Total Dues

Referral Fees

Application Fees

Conference Registrations

TOTAL INCOME

EXPENSE

Administrative Services

Banking Expense

Conference Expense

Executive Director Services

Insurance

IT Services and Hosting Fees

Other - Misc. Expense

Research Services

TOTAL EXPENSE

NET INCOME

Jan - May 2016

0.00

600.00

0.00

180.00

0.00

400.00

13,125.00

14,305.00

200.00

50.00

12,950.00

27,505.00

1,200.00

10.00

13,043.24

1,850.00

2,261.00

0.00

1,242.97

850.00

19,757.21

7,747.79

Jan - May 2015

220.00

360.00

180.00

270.00

105.00

220.00

9,600.00

10,955.00

0.00

25.00

8,025.00

19,005.00

500.00

0.00

10,197.27

1,250.00

2,186.00

89.99

0.00

1,750.00

15,973.26

3,031.74

Member Spotlight »

Edwin J. Miltenberger

CLU, CEBS

When Tom Braniff asked me to do the Member Spotlight article my initial reaction was probably not dissimilar to most of yours, "but Tom, I hate being the spotlight". Most of us do, but I realized that AAIMCo has been a tremendous resource and help to me as I started my own business and I'm a firm believer in the importance of giving back in the same measure that others have given to me. So I said yes!

This organization, probably more so than any I have ever participated in, is incredibly adept at reaching out and helping others. I never cease to be amazed at how quickly and thoroughly questions are answered when posted. While many of the questions have nothing to do with what I do and where I live, I still enjoy the education, repartee and generous contributions of information by the individuals that make up this group. So, go run and grab a cup of coffee so you don't fall asleep halfway through this missive. The fact is, since all of us grew up in the insurance business (where there is a plethora of people who can single-handedly carry a conversation for hours on end) we are used to listening/reading more than the average Joe.

As my brothers and I are apt to say when asked how we got into the insurance business, we always answer the "old-fashioned way... my dad hired me". It really wasn't so much a "hire" as it was an expectation of contribution. With eight kids and a relatively new business on his hands, I think he wanted us to experience the joy of the business which had provided so much for he and his family.

You see, dad had risen through the ranks of the life insurance business and become very successful in that endeavor. As a general agent for The Equitable and then John Hancock he was at the top of his game locally. He and a friend happened to spot a small ad in the paper announcing that the Louisiana State Bar Association was looking for a group insurance consultant, which at that time (1959) was still a nascent evolution crawling out of the muck and mire of the much larger individual marketplace. Needless to say, he and his buddy were hired to provide consulting services as the LSBA developed various benefit programs for their membership.

At that time, the group business in the life and health arena was primarily centered around employers. Several gentlemen in the Northeast had been wildly successful in introducing these new mass marketed, voluntary programs to associations, whose members were small employers or even individuals who did not have access to the large employer alternative and desperately needed them. As they say, timing is everything, and over a relatively short period of time dad left a very secure job at John Hancock and started his own company in a small town north of New Orleans.

Over the next 10 years this new market expanded exponentially. It was obvious, but undiscovered prior to this time, that the number of individuals/small firms with professionals or tradesmen in small-town America greatly dwarfed the population count of all the big businesses that could afford large group benefits. These new-found benefit solutions catered to their needs and were being embraced and established by various affinity groups. The company dad created quickly added a number of associations around the Southeast.

So, when I followed a number of my siblings and attended SMU in Dallas, he encouraged me to take insurance classes. When that first year of classes were over in May, I came back home at 18, got licensed and started working on my CLU. That summer I mostly drove my dad around to appointments throughout the state as he endeavored to build up the company.



Edwin J. Miltenberger

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By the end of the summer I graduated from college, earned my CLU, and began working full-time at the agency. Two years later I met my wife, Laurie, and we were married within the year. Six years later we had four children and somehow during those six years I was able to complete the test to become a Certified Employee Benefits Specialist.

After working for dad for nine years I came to the realization that if I did not get some outside experience soon, the window would pass me by. With dad's blessing, I began interviewing with various firms around the country. During that process, my sister had accepted a position in Germany working for the European head of the Navigators, a Christian ministry that works closely with the U.S. military. Since I had taken German throughout my college career, I took the opportunity to interview with several German brokers and insurance companies. I was given an offer to work for AIG's Personal Lines department in Frankfurt, Germany as the Marketing Manager. At that time there were a quarter million US soldiers still stationed in Germany. AIG was the dominant issuer of automobile and homeowners coverage to that niche market. Most of our brokers were Germans and AIG agreed to put me through a language refresher course. Before the year was out Laurie and the kids joined me in Wiesbaden, Germany.

Those four years were a magical time for our family as we adapted to the German culture. Our children went to the German school system and God opened the door for significant traveling throughout Europe.

But the time was not without hardship. While we were in Germany my father passed away, I helped my mother sell her interest in the family business to the remaining brother who was now running the business. I got to experience the downside of working for AIG whose military market in Germany was significantly dwindling down due to President Reagan's successful strategies to end the Cold War. Even though I had gradually ascended to manage the Personal Lines division in Germany, my enthusiasm for AIG was waning.

During that time, Laurie and I found out we would be expecting twins in April 1992. By the time the twins were born I was enjoying my work with AIG less and less. The drawdown of American troops had decreased our book of business to about a third of when I had arrived in Germany. Both Laurie and I agreed that it was time to take our little tribe back to the US. I resigned from my position, but agreed to stay until a suitable replacement was found and trained. Laurie left with the kids in early July. I followed her a few months later.

Fortunately, I had left the family business on good terms and the business had continued to thrive. I was offered a position in management which I gladly accepted. Just as important, Laurie was able to get some help with the twins from our extended family.

Over the next 18 years my responsibilities in the company increased significantly and the company grew dramatically. I was giving direction to the expansion of our affinity business, managing many of our significant clients and part of the senior management team. During that season, we picked up significant clients in Texas, Virginia, and Illinois. I had also gotten more involved in the national association that represents the major players who are active in affinity programs, the Professional Insurance Marketing Association. After years of volunteer and board service I had been elected President for the 2012 term. In addition, the company dad had created had turned into quite a juggernaut.



During 2010 I was getting the urge to act on a, not-so-dormant, steady entrepreneurial gene I'm sure was passed down by my father. I was also getting older and could sense that unktion was going to pass me by unless I did something very soon. To that end, I resigned from the family business in December 2010 and by January 2011 had started Carrier and Affinity Group Strategies, LLC.

CAAGS has afforded me the opportunity to do many of the things I love. Over the last 5 1/2 years I have consulted with some of the largest national associations and brokers, helped several friends sell their books of business, performed valuations for national, regional and local firms and led several major projects on behalf of clients and friends

I also have had the opportunity to reconnect with an old friend, Mike Manes. Mike joined AAIMCo years ago, and is the "dean of insurance consulting" in Louisiana. After a successful insurance career, Mike taught insurance at LSU. He has consulted with governors, dignitaries and legislators at the national and state level and knows practically every agent and agency in the state of Louisiana. He encouraged me to join AAIMCo and we quickly formed a business alliance and began working together. That went so well, we decided to form a separate company that both of us own-North Star Strategic Services, LLC (NS3). We each continue to handle some business under our personal companies (CAAGS and Square One Consulting) but more and more of our attention and time is focused on NS3. At this point, we anticipate merging both of our practices underneath NS3 at the end of 2016.

Of course, during all this time our kids grew up. In what seemed like a few minutes, we went through diapers, sports, dances, and graduations. From 2011-2015 there were four marriages! In the midst of this busyness, a dear friend encouraged us to get involved in fostering children. We went to the training and decided we would be "Bridge" parents. These are the couples who take in displaced children for the months during which the state is working through a reformation plan with the birth parents and/or preparing adoptive parents.

The first child we got was a beautiful girl whose grandparents ended up adopting her. The next little girl that came through we had from four weeks until about seven months when she was handed off to her adoptive mother. We stayed in touch and regularly offered assistance during the transition, but it did not work out. When it was clear the situation was not going to work out, the state asked us to resume our fostering, but by then we had fallen in love with Gloria. That was when Laurie and I agreed to adopt. So, in 2013 we added one more little one to the family!

What can I say, but that the Good Lord has been good to us!



Spotlight Article »

Edwin J. Miltenberger

CLU, CEBS

Over the last five years I have consulted and/or related to a significant number of the major players in the affinity business. I have also been fortunate to have a front row seat in working on business valuations, business reviews, strategic planning projects, management issues, and “skunkworks” for a good number of the folks receiving this update. What follows is a bit of a stream of consciousness meets informed observation for a market we care a lot about.

THE COMING DIVIDE

We grew up in a world that respected the value of affinity products. Purchases made by individuals and small groups through program managers, associations, loyalty plans, and membership organizations were validated by their heretofore consistent growth. It is still a huge market. Put a number on the size today and it would still be well over \$100 BB*. By the way, that only includes the non-issuer, broker and/or intermediary owned slice.

For years, our industry has set the pace in communications, efficiency of purchase, low-cost transactions and generally sticky retention levels. During the last 70 years, state insurance departments recognized the value of these programs and were generally agreeable to facilitating the necessary regulatory updates, forms and processes that insurance carriers were required to perform. Over the course of the last few years there have been some ominous developments. It started over three years ago with the Affordable Care Act and has now reverberated through dozens of states regulatory departments.

Initially, the ACA literally sucked up all the oxygen in every DOI. Over the last three years regulators have adapted to the new world order of benefits, but unfortunately, they also contracted the contagion of ACA rules and definitions. In a regulators world today there are only group programs and individual programs. When a filing hits their desk for an association program, which is neither fish nor fowl, it is handled with suspicion and caution. That pushback has had a significant psychological effect with the carriers who play in our space. They look at the narrower guard rails and the additional hurdles and have become much more reticent about new opportunities.

Compare that approach to what we see in the world of supplemental employee benefits. The level of creativity, adaptability and market intensity by the risk community looks more like a free-for-all compared to the polite and rigid world where affinity programs exist. Left unabated, the world of affinity benefits will eventually move to the domain of individual products. That development may eventually put all the leverage in the hand of the carriers and rob plan sponsors (and/or their TPAs/Brokers) of control, participation and creativity. On the other hand, it is apparent that those GAP products (eg. CI, Medigap, PA, etc.) are the hot ticket and the center of attention even outside their employee benefit applications. This helps one understand the rapid growth of non-traditional players like CHUBB.

In addition to the threats from the ACA, there are other destabilizing forces at work in our community. During the last five years, what have been generally predictable retention rates are destabilizing. Whether this is a reflection of boomers aging out of programs or better economic alternatives, retention levels are suffering. This dynamic, in combination with lethargic organic growth, makes our world much less attractive for new capital. All of a sudden, we are a much less alluring date to the insurance prom.



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Make no mistake; this is exactly what we are seeing in the risk space at PIMA and AIPAGIA. At least three major carriers in our market over the last six months have taken a serious step back from the affinity marketplace. Sadly, it is quickly becoming a world of the haves, and the have-nots. Talk to various individuals who are active on both sides of the aisle. The effort required to hit the targeted ROI can only be facilitated by identifying accounts which have critical mass, strong growth metrics and extensive membership. We are entering the economic version of the survival of the fittest.

These dynamics, are exacerbated by a generational disconnect in our forms of distribution. While many of our members have invested significant dollars in online buying platforms, there are no huge success stories. While private exchanges have been significantly valuable and successful in the employee benefits world, with no corresponding mandate, we will continue to have trouble getting people to enroll in our member benefits.

Ironically, as we gaze into the world of Property and Casualty program business there is much to envy. Our peers have had significant year over year organic growth on sponsored niche programs. At last glance, they make up roughly 10% of the commercial property and casualty market. That is roughly \$40B+. Why the difference? For one, they have been able to quickly build and adapt package programs that add significant value to commercial buyers. In addition, there have been no corresponding ACA events in their world. When you consider the creativity in risk financing, unique service capabilities, experience rated bonus structures and even risk sharing, it makes our world look archaic and feeble.

So what does this add up to for those of us who live in the life and health affinity world? At the very least, it is time for a gut check. If you look at your systems, clients, and validated market capabilities what do you see? Are your clients significant? Are you demonstrating organic growth? Are you experiencing strong bottom-line profits every year? If the answer is yes, then you may be one of the "haves". If the answer is no, then you should take stock of your situation. Don't remain in a state of false hope. It is time to tighten up your operations in order to build a strong, profitable track record. It's time to determine, am I a buyer or a seller?

You will probably need to be bigger than you are in order to survive the next cut. If you don't have the appetite for that sort of risk you need to consider selling...sooner than later. The truth is your best year may be the most recent one. If carriers start cutting back on financial support and/or compensation, next year may look worse. We all care about this community, but the market we love has taken a turn for the worse.

Over the last five years I have helped several affinity brokers sell their books of business. Those sales were for much higher multiples of earnings than even they expected. The market has turned and the dynamics have shifted. That was a seller's market. In the last few months, it has become a buyer's market. The multiples are coming down and the appetite of the aggregators is more cautious. Revenues are less predictable and we are seeing a decrease in appetite for risk by the financial markets. Capital is getting re-appropriated and has become more discerning. Hopefully, none of this catches you by surprise, but only helps you coalesce your thinking.

FULL DISCLOSURE: While I do believe I have a fairly accurate bead on the market, I make a good chunk of my living consulting with agents and brokers. Some of them have already made the decision and have asked for my help in getting ready for the next chapter, while others are ready to sell and want to achieve the maximum value they can for who they are today. My approach on behalf of my clients is to do my best towards getting the highest possible value they can for their book of business. Feel free to give me a call should you have any questions, disagreements or enlightenment to the above thoughts.

* While this may seem like a large number, consider that published surveys and available information reveal the following stats: PIMA Survey - \$9.5B, Target Markets Survey - \$40B, PLUS - Individual Physicians, Attorneys, Engineers alone represent over \$60B. When you add in Financial Institution Programs, approximately \$2B and other endorsed Trusts, Manufactured Associations, approximately \$5.5B (AARP Medicare Programs alone represent over \$2.5B in premiums). Of course, there are a number of other insurers and fraternal societies who are organized around core constituents not represented in these numbers but including the likes of USAA, Farm Bureau, etc. Were they included the number would be absurdly high.

2016 AAIMCo Conference › San Antonio, Texas











