



CSAC EXCESS
INSURANCE
AUTHORITY

CALIFORNIA
PUBLIC ENTITY
INSURANCE
AUTHORITY

May 25, 2006

To: Members, Board of Directors
Primary Contacts, County Members
Primary Contacts, Public Entity and CPEIA Members

From: Michael Fleming, Chief Executive Officer

Re: Driver Alliant Broker Contingent Income Update

This memo is being distributed directly to all of our County Members. A copy of this memo is being provided to Driver Alliant who will in turn distribute this information to all of our Public Entity and CPEIA Members.

It has been nearly a year since we have provided any updates on the broker contingent income issue. We issued an initial report dated December 2, 2004 and a final report dated June 14, 2005. For reference, you can find copies of these reports on our website by clicking on "News" and then "Articles". Just a reminder, both reports indicated that we have concluded there was no wrong-doing and nothing improper about Driver's receipt of contingent income. However, through this process we determined that the combination of commission income and contingent income may have violated our contractual limitations on income, and therefore, Driver voluntarily returned all amounts of income that might have been characterized as exceeding our contract.

The purpose of this memo is to provide an update on recent developments. As of January 1, 2006 the contract between the EIA and Driver Alliant was updated to specifically:

1. Limit Driver's income to a specified amount.
2. Strictly prohibit Driver's receipt of contingent income in connection with our account.
3. Require disclosure of all compensation in connection with insurance placements on our behalf including, to the best of their ability, compensation received by surplus lines brokers.

In addition, Driver recently changed their corporate position on the acceptance of contingent income. As of January 1, 2005, Driver's position was to not accept any contingent income. Attached is a copy of the April 18, 2006 memo from Driver advising clients that their new position is to fully disclose contingent income arrangements and allow clients to "opt-out" of these arrangements if desired. Also attached is a May 10, 2006 letter from Driver advising specifically how this new corporate decision will affect the EIA and all of our members.

California Association of
Joint Powers Authorities
Accredited with Excellence



3017 Gold Canal Drive
Suite 300
Rancho Cordova, CA 95670
916/631-7363
FAX 916/ 631-7112
www.csac-eia.org

In summary, the EIA's contract prohibits Driver's receipt of contingent income in connection with EIA programs including all major programs, miscellaneous programs and employee benefit programs. We do not have to take any additional action to preclude Driver's receipt of contingent income. In addition, as explained in Driver's May 10, 2006 letter, Driver is extending this prohibition on contingent income to apply to all of our members in cases where there is a stand-alone policy that is not part of the EIA. Therefore, all of our members can rest assured that Driver will not accept any contingent income in connection with their policies, either through the EIA or on a direct basis. Nothing more needs to be done by our members to ensure this agreement is in place.

Should anyone have any questions, please feel free to contact me or your Driver Alliant representative.

Attachments: Driver Memo dated April 18, 2006
Driver Letter dated May 10, 2006

cc: Driver Alliant

driver•alliant | INSURANCE SERVICES

May 10, 2006

INTEGRATED INSURANCE & FINANCIAL SERVICES

Michael Fleming, CEO
CSAC Excess Insurance Authority
3017 Gold Canal Drive, Suite 300
Rancho Cordova, CA 95670

Re: Contingent Income

Dear Mike,

Attached is a memo from Jerry Hall, President and COO of Alliant, describing changes to our organization's handling of potential contingent income payments from insurance companies with which we transact business. This is an important announcement that we ask you to review since it represents a change in our corporate position in the area of contingent income. We have found that, while the contingent income issue was problematic for some public entity clients, it was not an issue for most all of our commercial clients. We ask that you review the attached that explains our reasons for this change.

Despite the change in this corporate-wide practice, we currently have an agreement with CSAC Excess Insurance Authority that **precludes** our firm from collecting any contingent income as a result of premiums placed on your behalf, and we fully intend to honor both the terms and spirit of this agreement. We are not requesting a change to the agreement. As we recently discussed, we will also extend the applicable terms of the agreement to apply to all premium placed on behalf of your members unless there is a direct agreement between a member entity and Driver Alliant to the contrary. This would apply to both County and Public Entity members and to all premiums whether placed as part of an EIA or related program or placed on a stand-alone basis. In other words, Driver Alliant agrees to be precluded from collecting any contingent income as a result of premiums placed on behalf of all CSAC EIA members.

Since your Service Agreement already precludes collection of contingent income, no action is required at this time on your part. We wish to discuss this topic with our valued clients in an open and straightforward manner, so if you have any questions, or concerns, please do not hesitate to call.

Sincerely,



Kevin Bibler, Vice President
Driver Alliant Insurance Services, Inc.

cc: Jerry Hall

MEMORANDUM

DATE: April 18, 2006
TO: Driver Alliant Clients
FROM: Jerry Hall, President and COO
RE: CONTINGENT INCOME AGREEMENTS

As you may recall, in 2004 there were numerous press reports describing various governmental investigations about alleged improper activities of independent insurance brokers. These inquiries have extended beyond criminal investigations on issues such as bid rigging and kickbacks, to include inquiries on various forms of contingent commission arrangements. We expressed to our clients then our strong belief that our firm consistently conducted our business in conformity with all applicable insurance regulations and in furtherance of the best interests of our brokerage clients. We conducted an internal investigation and cooperated fully with all inquiry on the part of regulators and other interested parties and our entire industry delved into this matter with the utmost concern with sustaining the invaluable commodity of your trust. We also notified our clients of our proactive position to no longer enter into contingent commission arrangements as of January 1, 2005.

Included in our announcement was recognition that the prior proceeds of the contingent income agreements had provided our firm with a funding source for many services that our clients have come to value. As such, we acknowledged that we would approach the carriers to discuss redesigning our compensation structure, while maintaining the existing level of client services and staff support levels as part of our service commitment to our clients.

Since then there has been considerable national scrutiny throughout the industry on the part of regulators, carriers, brokers and agents alike. Yet, throughout this process of reflection and scrutiny, contingent income agreements have continued as the preferred model to acknowledge and reward those agents and brokers that are able to provide carriers with high quality portfolios of business in an effective and efficient manner. This reality has considerably hampered our ability to secure alternative compensation plans. Recognizing the need to maintain our competitive position within the industry in support of our level of services and staff support levels, we are announcing that effective immediately we will again accept contingent income.

Notes:

- To assure ourselves that our practices are consistent with the majority of the brokerage industry we will revisit this issue at least annually. As a benchmark, should participation in contingent income agreements within the brokerage industry drop below 65%, we will again consider discontinuing entering into such agreements.
- Your servicing Broker(s) will not receive any commission, salary or bonus based on the results of such agreements and will not have any incentive to place business with certain carriers in hopes of additional compensation.

- Where requested we will provide our clients with copies of any such agreements for the carriers they are considering or have been placed with for a given year.
- Should you prefer to not have your premium considered in any such agreement, please contact me to discuss your ability to exclude or “opt out” the premium from the calculation.

Please note that, as before, the compensation associated with such agreements will be borne as a distribution expense of the carrier. Inclusion or lack of inclusion of any placement affected by a contingent commission agreement will not affect your premium.

You are a valued client and we regard all aspects of our brokerage services and compensation to be appropriate topics for discussion with you. If you have any questions regarding your account, to include any compensation related matters, please contact your broker and we will use our best efforts to provide a full disclosure in a timely manner. Additionally, should you have any questions regarding our policies and practices, you are welcome to contact me directly.