

Perspectives

PARKER, SMITH & FEEK'S



2006



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President's Message



Welcome to the 2006 edition of Parker, Smith & Feek's Perspectives. We appreciate the chance to share a few highlights and trends of the past year and to offer some additional insight into our company and the insurance industry.

Our firm enjoyed one of its best years ever. We strengthened our staff with strategic new hires; welcomed new clients in all departments; enhanced our relationships with the underwriting community; and are celebrating the 20th anniversary of our Anchorage, Alaska office. Given this very positive backdrop, it is hard to imagine that just months ago, we witnessed the largest single natural catastrophe in U.S. history – Hurricane Katrina. Because the clients we represent had marginal losses directly from the hurricane, it would be easy to lose sight of the hurricane's impact on businesses, on the insurance industry, and on the people of the affected region.

In my own case, however, I have a highly personal perspective on Katrina. A colleague and friend, who like me is President & CEO of an insurance brokerage firm, has shared with me his experiences and those of his company during the last months. His firm, Gillis, Ellis & Baker (GEB), is similar to

Parker, Smith & Feek in many ways. We both are ownership partners in Assurex Global, a worldwide affiliation of independent brokers. We are both privately held, and each firm was founded in the 1930's. Gillis, Ellis & Baker is one of the largest insurance brokerages in Louisiana, as Parker, Smith & Feek is among the largest in Washington. Our offices are in urban centers, GEB's are located in a high rise across the street from the Superdome in downtown New Orleans. And, both of us view customer focused services as the reason we exist.

After Katrina hit, when GEB was unable to occupy their offices immediately following the levee failures, they implemented their disaster plan. Temporary office trailers were delivered to them and they were up and running within 48 hours of the event. What GEB had not counted on was the extent of the devastation and the direct impact on employees. Many GEB staff members were homeless. The company responded by purchasing several townhouses that became temporary living quarters for employees and their families. Despite this adversity, GEB went about their business – responding to the needs of their clients when their professional assistance was most critical.

Today, GEB is fighting on as they struggle to assure their clients receive fair claims settlements and to provide them insurance options in a tenuous environment. No one is sure what tomorrow will bring for New Orleans as we enter another hurricane

season. We think often of our friends there and it makes our day-to-day challenges seem small in comparison. We are bolstered by their example, and that of so many others, who fulfilled their responsibilities to their clients in the face of such adversity. The people of Gillis, Ellis & Baker are an inspiration to us all.

Katrina demonstrated what is right and what is often wrong with the insurance industry. Carrier claims performance was varied as everyone's catastrophe claims units were overwhelmed – some doing a poor job initially in responding to the devastation and some doing much better in assisting clients and settling claims promptly and fairly. When combined with the other hurricanes of 2005, the total insured losses will easily exceed \$60 billion. The primary impact has been in large property lines, especially those requiring earthquake and flood coverage. Reinsurers, those specializing in property coverage, were the hardest hit.

We can only hope that our region will never face such a disaster. Should that occur, you can count on Parker, Smith & Feek to be with you, step by step, shoulder to shoulder.

Greg Collins
President & CEO
Parker, Smith & Feek



Commercial Property Casualty

The property/casualty insurance industry presented its policyholders and brokers alike a rare gift last year: a stable marketplace. While typically riding a premium

pricing cycle up or down ("up" in the past few years) the industry's direction for the majority of 2005 and early 2006 was essentially static for most lines of coverage. That the insurance market remained stable early in 2006, in light of huge losses from last years collection of hurricanes, is evidence of tighter underwriting and high premiums that have been with us in the last few years. The overall financial health of property/casualty insurers is good, and this helped the industry absorb nearly \$60 billion in losses.

But stability never lasts for long in the insurance marketplace. At the start of this year there were clearly signs that premiums were noticeably lower and that insurers were looking again for "market share" and the dollars to invest to garner the rising interest rates. But the market is now taking on a dual personality. Most non-construction risks here in the Northwest and in the middle parts of

the country are seeing lower priced renewals in many cases. It's a different story for

large property risks, however, particularly those located in areas prone to disasters involving wind, flood or earthquake. Rates for property insurance are rising dramatically with deductibles increasing and available limits of liability going down. Construction based businesses are experiencing flat rates with a 3-5% decrease at best. Contractors with residential exposures may encounter premium increases. Going forward, commercial insurance buyers can expect an insurance marketplace that may become anything but stable, and that will once again resemble for our industry, business as usual.

Employee Benefits

Following dramatic price increases in the past few years, the single digit increases in the costs of healthcare plans in the past 18 months have seemed like a respite, and HR Managers and CFO's have a window to catch their collective breath as they watch for future changes. Employees and employers alike continue to participate in an awkward dance that finds company owners and plan managers devoting more dollars to fund plans that offer their workers less benefit and then ask them to absorb more of the costs. With the improved economy, the need to provide competitive benefit plans to attract and retain employees is putting an added squeeze on plan managers and their benefits programs.

We expect to see increasing interest in account based plans such as Health Savings Accounts (HSA's) and Health Reim-

bursement Accounts (HRA's). These plans offer the positive attributes of defined contribution plans in that they are more portable, employees have more control and accountability, and employers have more predictable costs. Voluntary Benefit plans will also receive serious review by employers. These plans feature payroll deduction, robust benefit choices, and no employer contribution. Preserving choices and options, combined with efficient use of resources, will be paramount in our work with clients as the benefits field reshapes itself to meet a new workforce and changing demographics.

Surety

The surety industry enjoyed a healthy 2005 with most underwriting companies realizing a profit and a positive outlook for future earnings. Underwriting decisions have become more centralized, and virtually all underwriting companies have adopted some form of credit scoring methodology to help them standardize underwriting criteria. Surety rates have remained constant.

Against the backdrop of a predominantly healthy surety industry, three underwriting companies - XL, Crum and Forster, and Harleysville - exited the industry during the first quarter, and there have been no new entrants to take their place.

Capacity for very large projects remains limited, on the scale of the Oakland Bay Bridge as an example. The willingness of

Industry Overview

the surety industry to support surety credit extensions of this magnitude becomes restricted. Underwriters are keeping close track of their aggregate liability, as a way to contain a catastrophic loss from any one source. Contractors in the \$10 to \$150 million range will remain the most attractive to the major sureties.

Personal Lines

International travel is back in vogue and more popular than ever. Many of our clients are vacationing abroad and enjoying their travels with new insurance protection specifically designed for travelers. This new insurance provides trip cancellation and trip interruption coverage which reimburses the travel expenses if their trip is cancelled or interrupted due to illness or accident, or a terrorist incident alters or cancels the trip's itinerary. The policies are written on an annual basis providing year-round coverage for travel to multiple destinations rather than purchasing travel insurance for each trip. Protection is extended to all resident family members including domestic partners.

Closer to home, we are seeing heightened interest in flood insurance. Damage to homes caused by surface water and floods is increasing and the insurance industry is responding with improved coverage. Purchased as an endorsement to the homeowners policy, expanded flood and

surface water coverage provides higher limits (customer may choose) to accommodate high value homes. Claims handling is now seamless if an event such as a severe storm causes multiple kinds of damage, such as wind damage to a roof and water damage to contents. We anticipate new policies and coverages to continue to evolve in the coming year.

Technology

Parker, Smith & Feek added another proprietary tool to our collection of technology products that speed the exchange of data and communication between insurer, client and broker. Named MarketLINK, this program creates a completely electronic process for managing the insurance renewal process. Underwriters are enthusiastic about this new tool and report that Parker, Smith & Feek now has the cleanest and fastest renewal process in the industry. Experience tells us that anything we do that aids the underwriter during the renewal ultimately benefits our clients as well.

This year we will continue introducing new tools to our clients, including an update to our DigitaLINK Client Support Center. We are evaluating new features to enhance DigitaLINK, including a historical certificate request system, and a certificate database with the ability to track certificates of insurance from outside Parker, Smith & Feek.



Construction and Real Estate

Continuing a red hot trend from the previous year, the mixed-use development project is king in our trade area. Virtually all of our general contractor and developer clients have either evaluated a mixed-use project; reviewed proposed projects or have these on the drawing board, or are actually under construction. Because of our longstanding expertise in the real estate and construction practice areas, we have acted as insurance advisor to both owners and contractors to develop strategies to insure the mixed-use type of project. The now commonly labeled "wrap-up" insurance program is the frequent choice and is structured as either a contractor-controlled or owner-controlled insurance program. This is a trend we see continuing in the Puget Sound region for the foreseeable future, and is a strong indicator of the urban growth in Seattle, Bellevue and the surrounding communities.

Healthcare

Our Healthcare practice broadened its geographic scope to include Oregon, Idaho and Alaska. At the end of 2005 we hired our first Healthcare Executive in Oregon, Sherry Heaton. Sherry brings to our group many years of experience in insuring healthcare facilities in Oregon State and is sharing her abundant knowledge of the underwriting

Practice Group Highlights

of hospital professional liability with our clients and our healthcare team. We are also early into an initiative to expand our healthcare services to Alaska through our branch office in Anchorage.

Energy

Parker, Smith & Feek has maintained a team specializing in insurance and consulting for co-generation facilities which convert multiple fuels into efficient energy products like electricity, heat and process steam. We made the strategic decision to expand this practice with the addition of John Larson, who brings many years of experience in risk management and insurance solutions for energy, power generation and utility clients. John's career as an energy specialist will help bring Parker, Smith & Feek's unparalleled services to a broader industry group.

Food Processing

Our food team also pushed into new territory with the addition of fresh fruit packers to our stable of food industry clients. We

continue to work with our long-term clients in the frozen food industry and our development of risk management strategies to help food based businesses prepare for and manage the events resulting from product recall or bioterrorism. A key element prior to such an event is defining and identifying all supply chain components in a product and its delivery. This is particularly important both in the event of a loss caused by contamination, and/or in restarting production lines in a new or temporary facility if all or a portion of an existing is damaged, destroyed or becomes unusable.

Life Sciences and Technology

As the life sciences and technology businesses continue to find a welcoming home in the Seattle area, our practice groups in these areas are extending our services to new clients. We garnered our first client engaged in the development and manufacture of "nutraceuticals". These products are produced from naturally occurring compounds to create health based products such as nutritional supplements, and

exhibit disease resistive properties. This is an exciting new area that will challenge traditional health and medicine.

Hospitality

New concepts in restaurants and dining are both coming into our area as well as expanding out from our local chefs. We welcomed an old favorite, Trader Vic's, back to our region, and arranged the insurance for its new incarnation at Bellevue, Washington's Lincoln Square. On the lodging front, our hospitality team is looking forward to the opening of Seattle's new Four Seasons Hotel in the heart of the downtown district which is currently under construction and protected by insurance arranged by Parker, Smith & Feek.

Others

As the regional economic engines ramp up to full power we expect to see new and revitalized business ventures in manufacturing and retail and we are prepared to continue providing the risk management and insurance services to serve these sectors.

Recognition

Alaska Office Celebrates Twentieth Anniversary

Parker, Smith & Feek opened our Anchorage office in October, 1986. However, our firm had been active in the Alaska marketplace for many years before establishing this formal presence.

In the 1960's we were proud to be involved with several Seattle-based businesses that had significant operations in Alaska, such as The Alaska Steamship Company, NC Machinery, ALPAC (Pepsi-Cola Bottler), Wright Runstad (Property Owner), MB Con-

tracting, and Howard S. Wright Construction Company. By the early 1970's, Parker, Smith & Feek had built a legacy of working with contractors in the Puget Sound region, and these clients began to expand their search for new work, with a focus on Alaska. Because of their expansion, we soon became involved in much of the construction that was occurring in Alaska during the building of the Trans-Alaska Pipeline. We began sending an account executive to call on Alaskan contractors in both Anchorage and Fairbanks a few times each year.

As our reputation grew among Alaskan contractors, it became apparent that there was a unique opportunity for us to further

develop our client base in Alaska. In the mid 1980's the frequency of trips from Seattle had increased, and the ownership of Parker, Smith & Feek decided that it was time to establish a full-time presence in Alaska and become an active part of the business community in Anchorage. Rather than transplant an existing Seattle team member, the firm began searching for a long-term resident of Alaska, experienced with the insurance markets and under-

writers serving Alaskan businesses, and experienced in the insurance needs of construction industry clients.

A tall order, but the ideal candidate was identified in Chuck Szopa.

Chuck had in-depth experience as both an underwriter and manager with Providence Washington Insurance Group of Anchorage, and broker experience with the Alaska office of a national insurance broker. Leasing a small office in the Aleut Plaza Building, Parker, Smith & Feek officially opened our Anchorage office in October, 1986. Chuck hired a senior level insurance administrator, Bev Elliott, and the two of them had an immediate impact in the business community.

A variety of contractors and some of the Alaska Native Corporations were our first clients, and soon many other businesses

such as social service agencies, trucking firms, retail firms, and other organizations joined the growing office. The success of this new venture prompted the shareholders of Parker, Smith & Feek to invite Chuck Szopa to become an owner in the firm in 1990. By 1992, the office had grown to five staff members and a new executive, Dave Eckroth, joined the firm. Dave's insurance brokerage background included experience in construction and forest products and he immediately began working with existing clients and adding new businesses to the Parker, Smith & Feek family. He became an owner in 1998.

Today the Anchorage office has a staff of 15 insurance professionals and serves clients in a broad cross section of business and industry. Our employees are not only dedicated to providing superior service to the business community, but also show commitment to the social community by participating in local charities, contributing to fundraising activities, and volunteering for non-profit service organizations.

The Parker, Smith & Feek team is particularly proud of the intense loyalty our clients have shown, making us one of the premier brokers in Alaska. For the last two decades we have enjoyed being a part of the Alaskan business community. Our commitment is to continue providing exceptional support and service to our clients for many years to come.

Parker, Smith & Feek at a Glance

Founded - 1937, Seattle, Washington

Ownership - Privately held S-Corporation.

Offices - Bellevue, Washington
Anchorage, Alaska

Annual Sales - \$279 million in policy premiums.
Ranked in Top 100 U.S. Insurance Brokers.*

Insurance Companies - Over 300 national and international insurers represented

Employees - 165 salaried staff. No commission salespeople.

Parker, Smith & Feek is an ownership partner in Assurex Global, an international corporation of 130 independently owned insurance brokers with more than 20,000 insurance professionals generating over \$19 billion in annual policy premiums.

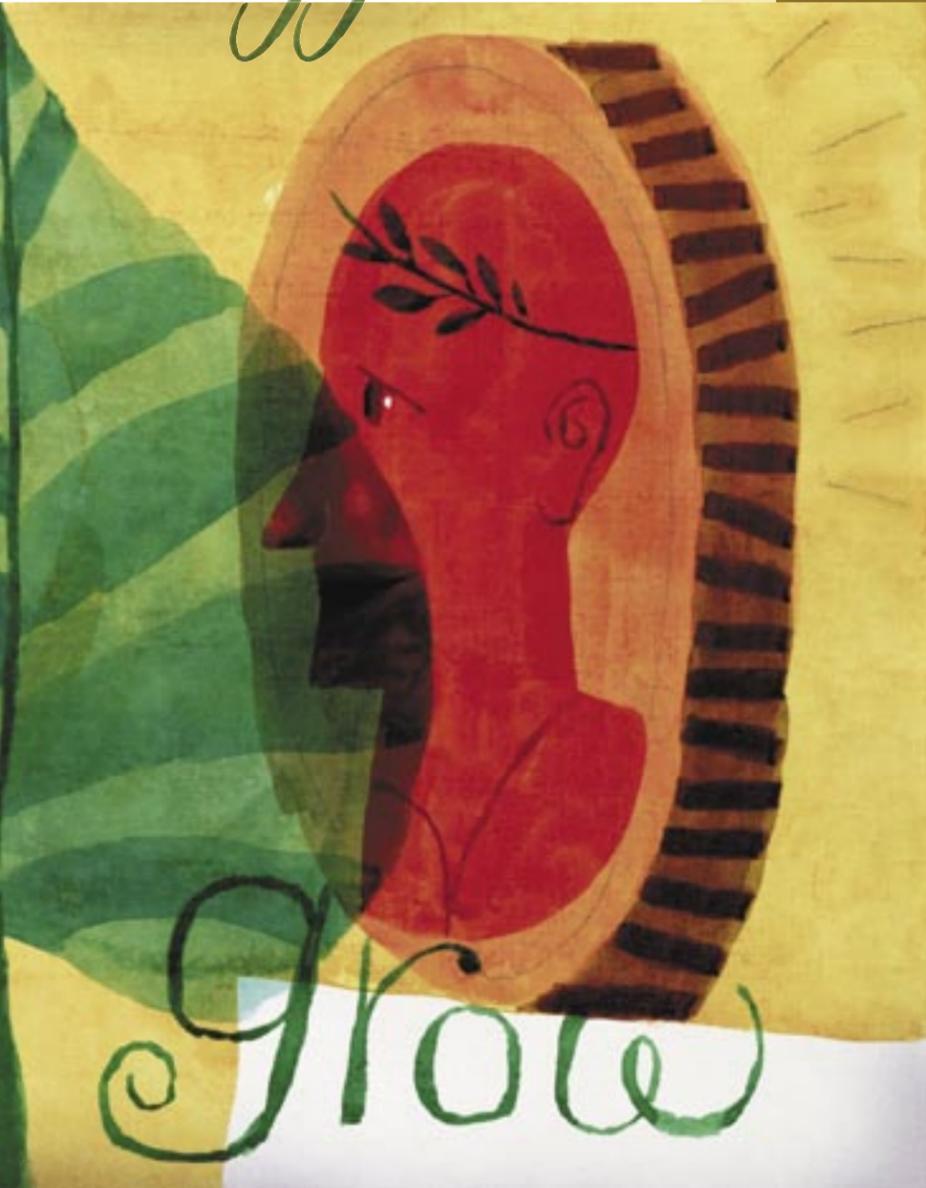
**Business Insurance, July, 2005*



Officers

Parker, Smith & Feek Mission Statement

We guide our clients to make informed risk management decisions and develop innovative insurance, surety and employee benefits solutions uniquely suited to their needs.



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