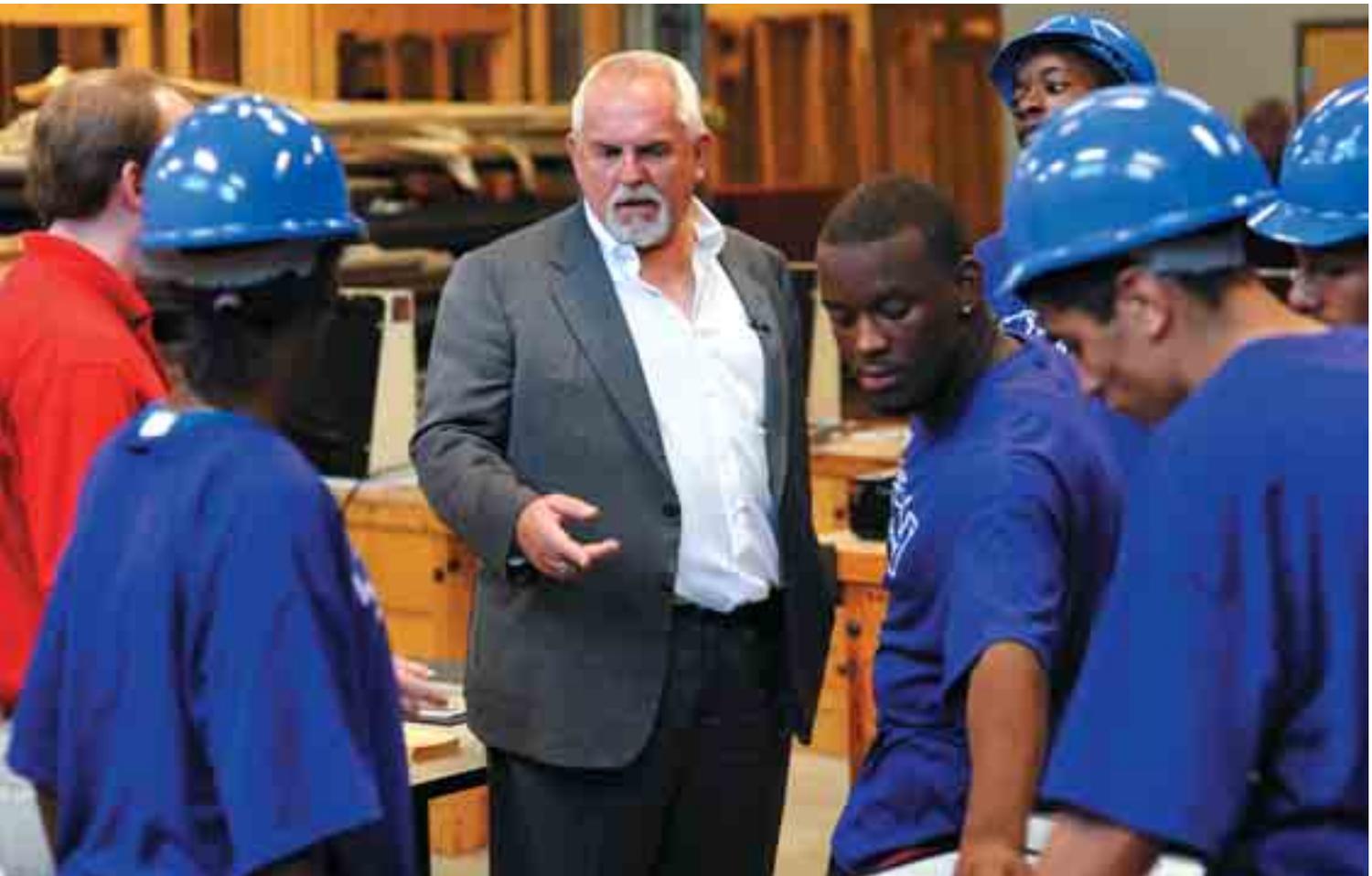




AMERICA'S SKILLED WORKERS CRISIS

Impact on the wholesale insurance industry



OVER THE NEXT decade, America faces one of its most critical tipping points. The U.S. Bureau of Labor Statistics forecasts that by 2012, there will be a shortfall of nearly 3 million skilled workers in America. By 2020, that number will be 10 million in manufacturing-related industries, with millions more in nearly every sector of the American economy.

The average age of American skilled workers is 55 years old. These essential workers will retire soon, and there's not enough young people coming through the skilled training pipeline to fill the gap. This gap is

already costing us billions from the American gross domestic product.

The multiple implications for the wholesale insurance industry due to the "skilled shortage" will be profound. Expanded liability issues and new potential claims in a worker-shortage environment may arise against the backdrop of strained capital reserves and a soft premiums marketplace.

Since hosting and producing the TV series, "John Ratzenberger's Made in America," I have spoken with hundreds of business owners and managers who all say the same thing – if we don't have more trained workers in the years ahead, we may have to close or drastically

change our business model. That will be devastating for America.

Although general unemployment remains high, many employers are desperate now for skilled workers to fill essential jobs and this problem will grow as veteran workers retire. We can already see how the skilled worker shortage is causing us to lose the production edge that has fueled America's economy.

WHY IT MATTERS FOR THE INSURANCE INDUSTRY

Today's insurance environment is demanding, to say the least. Unprecedented losses due to natural disasters – floods, fires, earthquakes, tornadoes and hurricanes – have drained insurance capital reserves. At the same time, market and regulatory forces have kept premiums from rising to replenish reserves.

Against this backdrop comes the skilled worker crisis. Companies want skilled workers in key positions, particularly when the product or service is considered essential. The decline in the number of available skilled workers will result in companies changing their manufacturing and production processes and, in some cases, utilizing workers not fully qualified in specialized areas. There is high potential for an increase in liability claims due to construction defects, workplace injuries, product liability and other causes.

Enterprising plaintiff attorneys and their allies in a number of state legislatures have introduced and passed legislation and/or administrative guidelines creating and expanding claims for “faulty workmanship” under worker's compensation and CGL policies. In effect, the novel causes of action convert work contracts into warranties and expose contractors and manufacturers – and their insurers – to a wave of litigation.

From plumbers to pipefitters to machine tool operators to precision component producers, the new liability risks generated by under-skilled workers would be enormous and costly. More lawsuits, novel claims and increased liability exposure due to “faulty workmanship” could create unprecedented strains on the general liability insurance sector. A declining skilled workforce also means fewer workers covered by insurance, declining rather than prosperous business customers, and higher lapses on personal insurance policies across the board – all damaging trends to the insurance industry.

According to current projections, the insurance industry itself also faces skills shortages. Allianz CEO Michael Diekmann, commenting recently on the company's efforts to recruit much-needed actuaries, IT and other personnel, said, “We are able to measure the scope of the shortage of personnel. We now know that the shortage of skilled workers is no myth.”

All these factors and more combine to create a potentially dangerous and complex environment for insurers across all lines of business. The insurance industry can only benefit from a successful national campaign

to expand skills training and graduate millions of new skilled workers to meet America's looming shortfall.

WHAT DOES THE “SKILLED WORKER SHORTAGE” MEAN?

The skilled worker shortage has practical and potentially devastating consequences for our economy. At the height of the recession, 32 percent of U.S. manufacturers reported that they had jobs going unfilled because they could not find workers who have the right skills. This shortage has far-reaching consequences.

For example, our country's infrastructure requires major upgrades and repairs. Municipal water and sewer systems are failing, with leakage reaching as high as 20 percent. Many bridges and overpasses are unsafe, leading to potential injuries and deaths as well as long-term traffic and business delays. The shortfall of 500,000 nationwide welders is causing huge delays or cancellations for repair projects that are already funded.

Heavy construction equipment, such as cranes, must be built in America to meet the demand. Finding the skilled workers to build cranes is a major hurdle. Once built, a crane requires skilled operators, as well as skilled repair and maintenance workers to keep the cranes operating. This scenario is typical of virtually every industrial enterprise in the nation.

From aviation to energy, the skilled worker gaps are enormous. This also has dangerous implications for our national security. In order to maintain the world's most sophisticated military, we must produce systems, parts and hardware in America. Without domestic manufacturing operations, some critical component work has actually been moved to other countries as a stop-gap measure.

The hard costs are painful, too. A 2011 survey by The Nielson Company among executives from 103 large U.S. manufacturing firms found that on average, the shortage of skilled workers will cost each company \$63 million over the next five years, some as much as \$100 million. These costs include training and recruiting, followed by problems caused by lower quality and resulting decreases in customer satisfaction. Manufacturers and builders cannot afford to utilize under-skilled workers without increasing many types of severe liability risks.

Negative media images of skilled workers – what I call “essential workers” – pervade our culture and are contributing to the problem by discouraging young people from pursuing careers in the skilled trades. Educators, employers and community leaders are slowly becoming engaged in efforts to counter this dangerous trend that often portrays “blue collar workers” in TV shows and movies as thugs, drunks and murderers. Advertisers can be alert to these cultural stereotypes and use advertising dollars to support TV shows and movies that show respect for skilled workers. It is in America's interest to mobilize the public to restore the dignity of essential skilled workers.

Another contributing factor to the coming shortage is that most of high school vocational arts programs so popular in the '50s and '60s have been closed in the >>

last two decades. California has closed more than 75 percent of its high school programs. Just this year, the state of Connecticut has proposed eliminating its 100-year-old vocational high school network of 17 schools with more than 11,000 students. Like the captain of the Titanic, some public officials are turning a blind eye to the iceberg straight ahead when millions of veteran workers retire.

Young people who are trained in the skills trades are a key source of innovation for our future. When we encourage people with skills to work with their hands, we foster innovation that leads to a “better mousetrap.” Before becoming an actor, I worked as a carpenter and always tinkered with better ways to do things. In one project, I developed packaging alternatives made from biodegradable and non-toxic recycled paper as an alternative to Styrofoam peanuts and plastic bubble wrap. I started Eco Pak Industries to carry on with this and then sold it in the mid-90s. Since then, it has grown to five manufacturing plants providing the product worldwide. Tinkering pays off!

THE 10 BY 20 PLEDGE FOR AMERICA

I have joined forces with The Center for America, a non-profit organization, to kick off a national campaign on Labor Day – the “10 By 20 Pledge for America” – seeking one million signers mobilized to support the expansion of skills training to produce 10 million new skilled workers by 2020. With the endorsement and participation of industry and professional trade associations like the American Association of Managing General Agents, national and community groups and companies, we are inviting Americans to take the Pledge at www.centerforamerica.org and to click through to the action steps that can be taken at the community level.

The skilled worker and jobs crisis threatens the lifeblood of American prosperity, and adds further exposures to the insurance marketplace – especially the excess and surplus industry, where new companies, and others with difficult loss records can seek the security they need. This is bigger than partisan politics and the rhetorical bombast that characterizes most issues in today’s marketplace of ideas.

As part of this nationwide effort, well-known leaders, celebrities and heartland organizations will share compelling stories and empowering ideas to inspire community action. Multimedia outreach – print, website, electronic, TV and radio – will reach millions of Americans with the “10 By 20 Pledge for America” messages. As the managing general agent and wholesale insurance company members of AAMGA know and demonstrate every day, the American success story is built on teaching each other how to achieve. Every community must create the right combination of programs tailored to local needs without waiting for government to do it for them.

John Ratzenberger is an actor, television producer/host and entrepreneur. Reach him at admin@CenterForAmerica.org.

WHAT CAN YOU DO TO HELP?

First, encourage your employees, business colleagues and customers to sign the pledge on the Center for America website!

How do we tackle this challenge? We believe it starts in our local communities. The goal is to help support local training programs that are well matched to local and regional needs. As AAMGA members, as parents and as community volunteers, you can be part of the solution.

Here are some suggested action steps:

Young People and Parents

- Help your child become interested in working with his or her hands by building a bird house, fixing a bicycle or the lawn mower together
- Enroll in after-school programs or summer camps that focus on skills-building projects
- Attend events sponsored by skills training centers to find programs that are exciting

High School Students and Parents

- Talk with guidance counselors about careers in the skilled trades and technical fields
- Visit local manufacturing companies to learn about their jobs, training and factories
- Learn about what skills training programs are offered by community colleges, nonprofit organizations and visit the most interesting ones

Business Managers, Owners, Agents

- Invite local student and youth groups to tour your facilities and talk about the benefits of careers in various fields, including insurance
- Consider whether you can offer apprenticeships in collaboration with local training programs
- Consider whether several businesses can work together to support and sponsor local training programs
- Encourage employees to volunteer as faculty for non-profit or public school training programs

Teachers and Guidance Counselors

- Work together to invite speakers from manufacturers to talk about their companies and jobs and visit their factories to learn about new and emerging jobs
- Organize field trips for teachers and students to visit employers

School System Administrators

- Work with local business and existing nonprofit training centers to expand cooperative training opportunities for students
- Consider how to support manufacturing skills and technical curricula in your schools

Retirees

- Volunteer to teach your skills to others or help with community outreach activities

I hope you will join me in this effort to add the wholesale insurance community’s dedicated efforts to this important objective. Let’s work together and do our part by signing the pledge and look for ways to become personally involved in local initiatives to ensure the continuity of skilled labor in our country.