

## Editor's Corner

by Chris O'Donnell, CPCU, ARM, AMIM



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### It's Happening . . . Here It Comes!

**T**he hushed tones and whispers of December 2003 seem now to be coming louder and more confident.

Beginning in the property sector and now spreading into general liability, it seems the softening of our marketplace is under way.

I first had my opinion that this may occur as the U.S. equity markets began their financial recovery in 2003. Our informed readers will recall that the tanking of the debt and equity markets beginning in

2000 were the trigger that began the now expiring hard market. As morning follows the night, our counter-cyclical insurance marketplace was due to react to the financial markets recovery with a softening.

It seems that this cycle repeats in perpetuity.

The clouds that surround this silver lining would seem to include the fact that our insurance industry, it seems, has not yet put its house in order despite the prolonged hard market. The recent announcement by a company such as St. Paul indicating a boosting of reserves for old medical malpractice claims, along with the continued reserve boosting for asbestos and other environmental claims, seems to indicate that old matters will continue to haunt our industry.

There has also been a distinct underinvestment in human capital by our industry during this hard market. When this hard market began, I truly believed that the industry would use some of its increased financial resources to re-open long dormant college recruitment and in-house education programs. While many have done so, most have used the increased premium levels to pay down old liabilities, be they bad financial investment decisions of the past or to boost claims reserves for poor underwriting decisions of the past.

It does not seem that we as an industry have yet dug ourselves out of the hole that we placed ourselves into during the last soft market.

My being on the buying side of the equation for my employer permits me some optimism in looking at budgets for the future of insurance purchases. Obviously the softening will be received

well by our clientele and should spur increased competition among the various distribution channels in our business.

Despite the good news on the buying front and the opportunities for distributors of insurance (agents and brokers), I truly hope our business will try to remain disciplined and responsible. A failure to do so could further impair the insurance industry's ability to meet its obligations to our customers.

In networking opportunities with other buyers of insurance, both at RIMS, of which I'm a member, and the American Bankers' Association Risk Management Conference, a common theme is the hope for responsibility. Stability and reasonable rates are what are being asked for by the buyers of insurance. There is not an overwhelming clamor for a return to a free fall in rates by the buying community.

The desire is that we as an industry provide stable, modest, and forecastable insurance premiums with reliable coverage terms from financially viable insurance companies. Obviously, modest reductions would be appreciated, as would flat or even modest increases.

It is yet to be determined whether or not the dog wags the tail or the tail wags the dog in this instance. I'm quite sure that our various distribution channels will certainly work to provide the most cost-efficient treatment of risk as they always do. Hopefully the urge to "cash flow underwrite" by companies will be resisted and an increase in investment in human capital to properly underwrite, control risk, and adjust claims will be done to assure a professional quality within our industry.

Only time will tell. ■

# Furnishing MVRs . . . Legal But Not Permitted

by Mike Edwards, CPCU

■ **Mike Edwards, CPCU**, heads an insurance training firm in Atlanta, Georgia. Edwards has previously served as the director of education for the Independent Insurance Agents of Louisiana, and as a senior instructor with the Florida Association of Insurance Agents. Prior to becoming a full-time insurance trainer, Edwards taught geography and civics at Rosenwald Jr. High School in Panama City, Florida for nine years, during which he also served as Social Studies Department Head.

**Editor's notes:** This article originally appeared on the Independent Insurance Agents & Brokers of America (IIABA) web site and is reprinted here with permission.

**Important:** The views expressed in articles written by the IIABA faculty members and others do not necessarily reflect the views of IIABA.

## Abstract

When a commercial lines client requests an agency to run an MVR on a new employee in conjunction with adding him or her as a driver to the BAP, the agency may be able to do so without the written permission of the employee. That is, under the FCRA, Section 604, it's legal if necessary to "the underwriting of insurance." However, that doesn't mean you can do it . . .

**C**ommercial insureds in the process of hiring employees who will be driving company vehicles routinely contact their insurance agent to have the drivers added to the business auto policy.

Typically, the commercial insured will provide the agency with the new employee's driver's license number, so that the agency can run an MVR. Some agencies have the practice of faxing the employer a copy of the MVR, especially in situations where the employee's driving record does not meet the underwriting guidelines of the business auto policy. In other instances, the agency might call the employer to discuss problems with the MVR.

It's legal. The federal Fair Credit Reporting Act (FCRA), which applies to all "consumer reports," including MVRs, CLUE reports, credit scores, and many other types of information on individuals, has very strict guidelines on what is "legal" regarding the use of such reports.

Under the FCRA, an employer is well within their rights to require that a current or prospective employee provide or make available a wide variety of personal information such as an MVR, credit report, criminal background report, etc. At the same time, the employee is granted significant safeguards regarding the access and use of such information for employment.

When any consumer report will be used for employment, the employee or prospective employee must first give written permission for such information to be obtained by the employer. When

the employer requests this information from a "consumer reporting agency" (CRA) such as Equifax, Experian, TransUnion, ChoicePoint, etc., there are certain federally mandated documents and procedures that must accompany the transaction between the CRA and the employer. For a detailed report on this, see the Federal Trade Commission (FTC) report, "Using Consumer Reports: What Employers Need To Know," available on the FTC web site at [www.ftc.gov](http://www.ftc.gov).

An insurance agency that pulls an MVR in conjunction with "the underwriting of insurance," as prescribed in the FCRA, Section 604, does not need written permission. Therefore, when the commercial insured/employer sends a request to the agency to pull the MVR on a new employee in conjunction with adding the employee as a driver under the business auto policy, the agency can do so without the written permission of the new employee.

In addition, to inform a commercial insured that a new driver *does or does not qualify* as a driver for *underwriting* purposes seems to be a part of "the underwriting of insurance."

However, most experts believe that if the agency *shares the specific contents* of an MVR with the employer, via fax or phone, the agency is *no longer* "underwriting insurance," but is now acting as a "consumer reporting agency," and must follow all the steps and procedures required under the FCRA.

Therefore, if the agency chooses to furnish MVRs to commercial insureds on their current or prospective employees, they may legally do so, if they follow all the requirements of a "consumer reporting agency" under the FCRA. Thus, the procedure can be "legal."

*But it's not permitted.* While the practice of an insurance agency furnishing MVRs to commercial insureds on their current or new employees can be "legal" under the FCRA, virtually all sources from whom the agency obtains the MVRs *expressly prohibit* the practice. Following

are excerpts from the contracts of two MVR providers that many insurance agencies use.

**MVR Company A:**

The Consumer Reports provided by Company A are for the sole and internal use of the Insurance Agency, and may not be resold, sub-licensed, delivered or displayed in any way or used by any third party. Insurance Agency certifies that it shall order, receive, disseminate and otherwise use the Consumer Reports in compliance with all applicable federal, state and local statutes, rules, codes and regulations. Insurance Agency agrees to indemnify and hold harmless Company A from any and all damages, costs, judgments and expenses.

**MVR Company B:**

All reports, whether oral or written, will be kept strictly confidential; except as provided by law, no information from reports will be revealed to any person except the subject of the report. No information will be requested for the use of any other person, agency or organization except with the written permission of Company B. Reports may not be resold or transferred to any other person. The unlawful ordering or use of consumer reports can subject you to criminal and civil penalties in accordance with both federal and state laws.

Recently, one of the largest MVR companies in the nation sent this memo to all insurance agency customers:

It has recently come to our attention that some insurance agencies may be furnishing MVRs obtained for commercial underwriting purposes to the commercial insurance buying customer.

Please be aware that the consumer reports you obtain from us may not be used beyond the purpose for which they were ordered and cannot be sold or given to parties outside the ordering insurance company or insurance agency.

Allowing an employer to receive an MVR that was provided to you for commercial underwriting purposes would be a violation of law as well as a violation of your agreement with us.

Thus, the practice of an insurance agency furnishing MVRs to commercial insureds on their current or prospective employees is *not permitted* by most MVR providers, although the practice can be “legal” under the FCRA.

Legal experts caution insurance agencies about getting involved in employee screening on behalf of their commercial insureds. As employers, commercial insureds not only have a right to conduct background checks on employees; in today’s legal climate, they almost certainly also have a duty to do so.

However, there are countless employee screening services that can conduct proper, legal, and permissible background checks on employees. Agencies should refer their commercial insureds to these screening services.

It is imperative that agencies distinguish between “insurance underwriting” functions and those that cross the line into “employee screening” activities. While agencies obtain MVRs and other consumer reports as a part of underwriting, there must be clear guidelines limiting their disclosure for any other purpose.

Legal experts recommend that agencies include such a privacy guideline in their employee handbook or agency operations manual. ■

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# Pennsylvania Court Holds Certificate of Insurance Insufficient to Alter Terms of Policy

by Mark A. Fontanella, Esq.

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**Editor's note:** This article originally appeared in the July 2003 issue of the *PLUS Journal*, the monthly publication of the Professional Liability Underwriting Society. It is reprinted here with the permission of *PLUS*.

**I**t is a long-time subject of debate whether a certificate of insurance indicating that a general contractor or owner has been named as an additional insured on a subcontractor's policy is binding where the insurer listed does not, in fact, have an endorsement on the policy indicating such change. This is an issue that vexes agents and carriers alike, as the lines of communication between the agent and the underwriter can frequently break down and create errors and omissions exposures. Some courts have held that the bottom-left corner of the standard ACORD certificate indicating countersignature by an "authorized agent" of the insurer is sufficient to bar the insurer from contesting coverage, even if the signature is by the subcontractor's agent. Other courts have held that the limiting language at the top of the form, indicating that the terms of the certificate does not alter the terms of the policies themselves, is enforceable.

The Pennsylvania Superior Court has recently joined in the latter line of cases. In *Tremco, Inc. v Manufacturers Association Insurance Company*, the

Superior Court determined that Tremco sold roofing products to contractor, Gooding Simpson & Mackes (GS&M), pursuant to a certified contractor agreement, for use in the reconstruction of a local junior high school. During the roofing portion of the project, several students and teachers allegedly suffered injuries as a result of "exposure to toxic fumes." These students and teachers brought suit against GS&M, Tremco, and several other defendants for their alleged injuries.

Tremco, relying on the hold-harmless clause contained in the contract between GS&M and itself, and claiming to be an insured under the GS&M policy issued by Pennsylvania Manufacturers Association Insurance Company (PMAIC), brought an action directly against PMAIC. The Tremco action sought payment of its defense costs, and counsel fees, in addition to a claim for punitive damages for PMAIC's alleged "bad-faith breach of contract" in refusing to defend and indemnify Tremco. Tremco's standing to sue was based upon its argument that it was an insured under the policy or as a third-party beneficiary of the insurance contract.

The contract between GS&M and Tremco contained the following obligations on behalf of GS&M:

E. The Roofing Contractor (GS&M) agrees to indemnify and hold Tremco Incorporated, its officers and employees, harmless from any

and all losses, costs, expenses (including court costs, attorney's fees, interest and profits), claims, demands and suits for any bodily injury, illness, or death of any person, . . .

GS&M's policy with PMAIC also defined "insured contract" as:

That part of any other contract or agreement pertaining to our business (including an indemnification of a municipality in connection with work performed for a municipality) under which you assume the tort liability of another party to pay for "bodily injury" or "property damage" to a third person or organization. Tort liability means a liability that would be imposed by law in the absence of any contract or agreement.

The Superior Court held that because the language of the contract between GS&M and Tremco obligated GS&M to assume liability for tort claims against Tremco arising out of GS&M's negligence. The court held that the construction contract was an "insured contract" within the terms of the PMAIC contract and GS&M was entitled to coverage for the indemnity claim brought against it by Tremco. Yet an issue remained whether Tremco could directly enforce the terms of the policy, as it was not listed as an additional insured on the policy despite paragraph D. Paragraph D of the policy stated:





D. Tremco Incorporated shall be added as an additional insured on the general liability coverage. . . .

The trial court and the Superior Court each found that as Tremco was not actually named on the policy, it could not bring a direct action against the insurance carrier. The Superior Court then summarily analyzed and dismissed Tremco's argument that it was entitled to bring the direct claim as a third-party beneficiary. Once again, Superior Court agreed with the trial court's prior ruling and concluded that Tremco was not a third-party beneficiary.

The appellate opinion reiterated the standard for establishing a third-party beneficiary, which included, "it is necessary to show both parties to the contract had an intent to benefit the third party through the contract and did, in fact, explicitly indicate this intent in the contract," citing *Strutz v State Farm Mut. Ins. Co.* 415 Pa Super 371, 609 A.2d 569, 570 (Pa Super 1993).

The Superior Court found that although the insurance policy issued by PMAIC to GS&M "apparently envisioned" the existence of an "insured contract" such as the one between these parties, Tremco did not establish that both GS&M and PMAIC "explicitly indicated" their intent to benefit Tremco in particular in that policy. Therefore, Tremco was not a third-party beneficiary and could not bring suit directly against PMAIC for coverage under the policy.

This decision is a warning signal to agents who issue certificates of insurance without carefully confirming that the coverage has in fact been endorsed to include the party so named as an additional insured. The Superior Court's rejection of third-party beneficiary arguments (and its acknowledgement that a breach of the contract insurance procurement provisions is not itself a covered exposure) leaves the agent open to a potential errors and omissions claim if coverage is requested but not ultimately obtained on the policy at issue. ■



## Save the Date!

Plan now to attend the 60th Annual Meeting and Seminars **October 23-26, 2004**, in Los Angeles, CA.

Look for future issues of *Agent & Broker Solutions* for more information about Agent & Broker Section-sponsored seminars.



## October 23-26, 2004

# Standards Boost Efficiency of Licensing, Appointments, and Contracts

by Joel Volker

■ **Joel Volker**, ACORD's chief counsel, is responsible for all contracts and licensing agreements and the development and maintenance of ACORD forms.

**Editor's note:** We are pleased to include in this issue of *Agent & Broker Solutions* three articles written by staff members at ACORD, which has created a "syndicated column" available for inclusion in publications such as *Agent & Broker Solutions*. The following was written by ACORD to announce its syndicated column:

## **ACORD's Syndicated Column**

Throughout the year, ACORD receives many requests for articles on technology-related subjects. Ordinarily we're able to fulfill most requests, but to better manage the flow of information, we're offering a regular feature for your publication's use: a syndicated column from ACORD—a reliable, respected source in the industry.

We're excited about this new feature service, and we're confident you'll find this new series of value to your readers. Requests and comments should be directed to Cliff Cole, Public Relations Coordinator, ACORD, 2 Blue Hill Plaza 3rd Floor, Pearl River, NY 10965.

**T**echnology developments in the past few years have delivered cost and time savings to virtually every facet of the insurance business. But in few areas have the benefits been so dramatic as in the producer licensing and appointment arena. This breadth and depth of expense and efficiency gains comes, in large part, from the number of repetitive—and often duplicative—transactions that take place in processes among producers, carriers, and the states.

## **Tech Helps Agents Get Licensed**

The use of Internet technology and standards has made it markedly easier in most states and jurisdiction for agents to get and renew resident individual licenses. Different states achieve varying degrees of sophistication in their electronic offerings, ranging from simple enhanced communication via web sites to full-fledged, interactive, online functionality.

Changes also have taken place in how non-resident licenses are processed. About one-third of all states participate in electronic non-resident licensing, through the National Insurance Producer Registry (NIPR), a non-profit subsidiary of the National Association of Insurance Commissioners. Agents can get non-resident licenses and new lines to an existing license using an electronic application. Agents who hold an active resident license in one of the home states in the NIPR Producer Database can apply to other participating states for life, accident and health or sickness, property, casualty, personal lines, or variable life/variable annuity non-resident licenses.

But this state licensing of agents is just one area where technology is helping. Producer appointments—not the type of normally thought of by agents, but a process in which states and carriers communicate with each other—is another, and perhaps more far-reaching

tech-based success story. It is an area in which major progress has been made over the past four or five years.

## **Carriers Comply via Electronic Communication**

In this process, a carrier appoints individual producers with state insurance departments to the carrier's legal entity or entities that actually underwrite insurance policies. One commercial insurance carrier, for instance, has between 15 and 20 distinct companies in its group. The broad number of legal companies address pricing tiers, product lines, or geographic locals. The appointment to each company is a legal, compliance process all carriers must perform.

When I worked for a carrier, we had relationships with 6,000 distinct agents, but had to handle some 150,000 of these appointments. At the carrier I mentioned earlier, 10,000 contracted agencies represent some 90,000 individual producers and nearly 900,000 appointments, which are done each year.

■ **What used to be a 100 percent paper process, fraught with errors, is now virtually 100 percent electronic, and error-free, for participating carriers.**

Over the last few years, there's been an enormous leap forward in how carriers deal with the 50 states on getting these appointments completed. An electronic interface has been set up between carriers and NIPR that sends appointments received each day to individual states, so those states can link agents to specific companies. For the license to be appointed, NIPR uses information in its producer database that shows that the producer license is, in fact, valid and certified.

What used to be a 100 percent paper process, fraught with errors, is now virtually 100 percent electronic, and error-free, for participating carriers. A transaction that once took up to 120 days to get done now can be knocked out in a matter of 48 to 72 hours.

But timing and accuracy are not the only benefits. An executive from the large company cited earlier says that what used to cost about \$6.80 a transaction under the old paper process now costs one dollar. When you have a carrier spending anywhere between \$10 and \$14 million a year in appointment fees, not to mention the operating cost, that makes a dramatic difference.

## Producer Contract Standards in Process

A related area is what agents more traditionally think of as “appointments”—but which is more accurately described as producer contracts—getting a contract to write business with a certain carrier. When agencies want to execute new contracts with carriers, they complete individual applications for each. But in most instances, they answer the same or similar questions on each application. They’re asked their name, address, license number, what states they’re licensed in, background information, and so on. It is a paper process between the agency and the carrier. And it is the type of thing that is ripe for application of standards. As my company executive friend described it, there is a need, a crying need, for a standard on requesting these appointments.

ACORD has developed and is implementing an agency contract or appointment standard for the life insurance community. We plan to take that standard, check its effectiveness, verify or add or delete whatever is necessary, and apply it to the property and casualty business. And once that standard has been approved and in play, we need for every carrier and agency to be able to use it.



It is a move that offers opportunities to capitalize on the work we have been doing at ACORD, and what our partners have been doing to boost overall industry efficiency. ■

This will require agencies, large and small, to recognize the value and benefit of incorporating standards into their proprietary programs—or, in some cases, see the need to actually automate their contracts. It also will require participation by vendors that offer products to manage licensing and continuing education. Those vendors can incorporate the soon-to-come—and in the life case, existing—standard data-stream, and the carriers will be able to capture the data.

This will represent a big step forward, and will benefit agents because it is all electronic. No longer will agents have to fill out different applications for different carriers.

Agents can continue to put pressure on their distribution system to modernize the data exchange. Those who use vendors can encourage them to have a seamless connection to their carriers of choice. Such action will move the industry, and agents in particular, even closer to error-free, speedier processing of routine business communication.

# Identity Theft—It Can Happen to You

by Rick Gilman

■ **Rick Gilman** is vice president of corporate communications for ACORD

**A**s an industry, insurance has been sold to protect people from all kinds of loss. Most of that coverage is around insuring property against loss due to a variety of risks including theft. But in today's day and age, a new wrinkle has come to light. What if the item at risk is someone's identity? How do you protect against identity theft?

The public's growing anxiety over this type of crime has led to the development of new insurance products. They can help a person recover from identity theft and restore his or her good name. Identity theft insurance coverages are not formal "insurance" policies; rather they are "legal advisory plans" that provide identity theft information and advocacy. Coverage levels range between \$5,000 and \$30,000, but the benefits vary and do not provide reimbursement for fraudulent credit card charges. Those charges must be resolved directly with the credit card companies. The average cost of an individual identity theft policy is about \$25 a month.

Many carriers offer an identity theft coverage that reimburses policyholders up to certain amounts for legal fees, certain mailing costs, loan reapplication fees, and phone charges in connection with the "loss." One carrier also covers lost wages of up to \$500 a week, for four weeks, for taking time off from work to straighten out their affairs.



The average victim will spend \$1,374 and 175 hours cleaning up his or her credit report, according to Bankrate.com.

There are three major types of identity theft insurance:

- Riders that can be purchased to add identity theft protection to existing homeowners, condominium, or renter's policies.
- Freestanding policies available for individual purchase.
- Identity theft insurance made available to workers by their employees.

## The Figures Don't Lie

The Federal Trade Commission (FTC) recently released a survey showing that 27.3 million Americans have been victims of identity theft in the last five years, including 9.9 million people in the last year alone. In a separate report, the FTC claims that more than half of all identity thefts where the method of theft is documented, are committed by criminals that have relationships with their victims, such as family members, roommates, neighbors, or co-workers.

■ ***... the FTC claims that more than half of all identity thefts ... are committed by criminals that have relationships with their victims ...***

Identity theft happens when someone obtains a name, Social Security number, driver's license number, or e-mail address, and then uses it fraudulently or criminally. Under this scenario, thieves can get personal information in many ways. For example, they might send a spam e-mail message asking for verification or credit or account information. It is also quite easy to get Social Security numbers from the Internet.

Identity information routinely consists of three elements:

- What is known, such as passwords and PINs (personal identification numbers).
- What a person has, such as credit or debit cards.
- What a person is, for example, your photograph, signature, or fingerprint. Once criminals have this vital information, they can impersonate you, obtain credit cards, transfer money out of your bank account, buy goods, and/or worse.

Sadly, it is so simple to assume someone's identity today. Say someone makes a trip to the local hardware store and writes a check for \$25, the check has a full name, address, maybe a phone number. It also will have the full name and address of the bank where the check is drawn and an account number. An individual may also be asked to provide a driver's license number, which in 19 states also doubles as a Social Security number. Thieves can also access work phone numbers and find out where someone is employed. The cancelled check can then be seen by hundreds of people from the time it is presented at the hardware store to the time it either is returned or sent to a check-clearing house where they presumably shred the document.

Another example pertains to golfing legend Tiger Woods, who testified three years ago that someone stole his Social Security number, applied for and received credit cards, then proceeded to ring up \$17,000 worth of charges. The thief was finally apprehended when he aroused suspicion trying to purchase a used luxury car. This seemed odd given the fact that Woods earned in excess of \$44 million in endorsements alone this year. Woods' case is not unique. In fact, TransUnion, one of the country's three major credit-reporting agencies, claims to receive in excess of 2,000 calls a day from identity theft victims.





## What Victims Can Do

To help victims of identity theft, the Federal Trade Commission (FTC) has developed an I.D. Fraud Affidavit providing standard means to dispute debts and credit problems left by identity thieves. Upon completion of the form, it is distributed to all creditors, most of whom have agreed to accept the form. In addition, the FTC developed an ID theft program in 1998, which affords consumers the chance to file complaints by calling the toll-free hotline at (877) IDTHEFT. The agency reports that complaints about identity theft have nearly doubled each year since its inception. These complaints are then entered into a secure database, the "Identity Theft Clearinghouse," which can be accessed by criminal law enforcers across the country.

The FTC also recommends the following measures to reduce the risk of becoming an identity theft victim:

- Guarding Social Security numbers and monitoring credit reports.
- Sign up for a monitoring service, which will notify a person whenever someone applies for credit in his or her name or checks.
- Shred account documents before tossing them in the garbage.

The insurance industry continues to do its part by providing assistance to those victims of ID theft, through its offerings of specific coverages that can help them get people back on their feet. Credit card companies through creative advertising campaigns are letting people know how vulnerable all segments of the population are to ID theft. And lastly, the federal government has stepped up its law enforcement efforts as was demonstrated by the recent nationwide sweep that resulted in more than 100 arrests of "cyber criminals."

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For now though, a proactive prevention plan seems to be consumers' most viable course of action in combating identity theft. ■

# Agents, Carriers Embracing GPS for Marketing, Underwriting

by Phil Brown

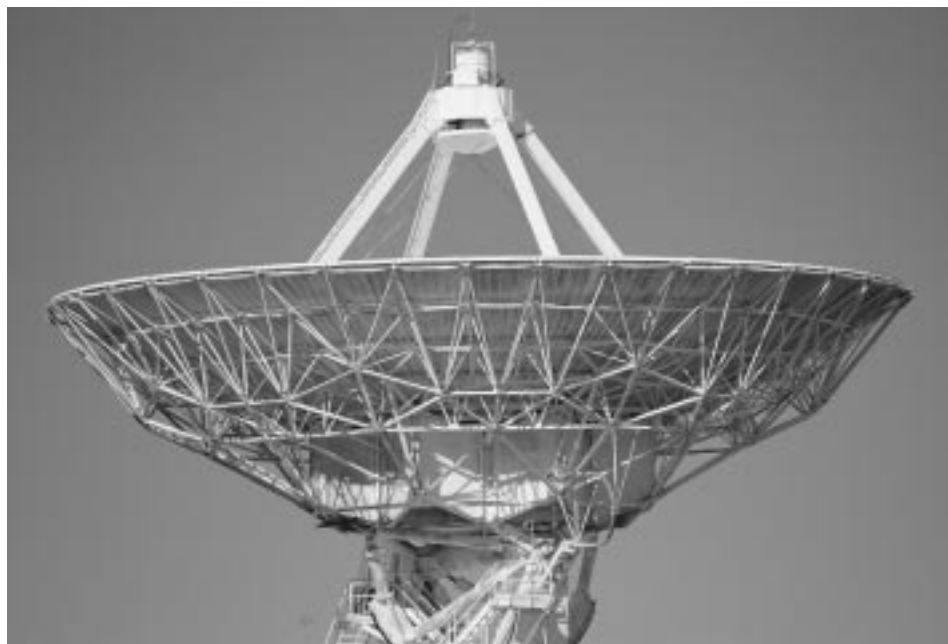
■ **Phil Brown** is ACORD's program manager, reinsurance EU/UK and is based in London.

**T**he global positioning system (GPS)—first embraced by outdoor enthusiasts and techno-geeks—has gained prominence in a variety of insurance disciplines. From agents, who tap GPS technology for marketing and sales purposes, to claim adjusters, who now can locate losses with precise accuracy, professionals throughout the industry find the technology helps them work smarter and more quickly.

GPS is built on a network of satellites orbiting some 10,000-plus miles above Earth, transmitting data to and from ground receivers used to pinpoint a geographic location. The receiver figures out exact location—latitude and longitude—by getting bearings from three different satellites. If a signal from a fourth satellite is received, the receiver can tell altitude, too. And if the receiver is moving, its computer can help calculate speed and direction of travel, and give estimated times of arrival to specified destinations.

■ ***From agents, who tap GPS technology for marketing and sales purposes, to claim adjusters, who now can locate losses with precise accuracy, professionals throughout the industry find the technology helps them work smarter and more quickly.***

A man who rented a car in 2001 learned how GPS technology can do just that. In a much-publicized incident, the man was fined \$450 by the rental car agency for speeding. With a GPS receiver in the car,



the firm could show on a map the exact locations—three of them—where the man exceeded the company's threshold speed of 79 miles an hour. The incident led to a lawsuit, as well as battles with regulators over how rental car companies should use the technology.

Today, rental car firms continue to use GPS, integrated with geographic information systems (GIS). In laymen's terms, a GIS offers computer-generated analysis and display of data in graphic form, most often presented on a map. One rental car firm uses GPS to catch customers taking vehicles outside specified state limits. Another operates a fleet from a Texas border community, and uses the system to recover high-end vehicles that previously might have crossed into Mexico and never returned.

## Benefits for Agents and Brokers

But benefits aren't limited to loss prevention and recovery. They actually start in an agent's office. GPS-based geographic information systems can be used in marketing, to help agents know where customers are, what their

characteristics are, and what market share is likely. They can show where competition is and define growth areas. They even can help agents decide how and where to advertise products. The systems target data based on distance from a central point, which often is more precise than traditional means, such as using ZIP codes.

The systems also can help agents process business. For some time, agents have used GPS to plot farmland, to make sure premiums weren't charged for non-productive parcels or areas. Today, some agents tap into municipal GIS maps via the Internet, enter the GPS location for property they wish to insure, and get a precise distance from the nearest fire hydrant, which also was plotted using GPS. This leads to more equitable fire-insurance rates for property owners, and provides greater efficiency for agents and municipal officials.

Other risk assessment capabilities have been borne out of GPS technology. Vendors today offer detailed and precise risk data, based on exact location. One such firm introduced a product at this year's ACORD conference, but others exist, too. The products give carriers a

single, integrated view of exposures across all product lines and across the enterprise. It also lets insurers determine distance from a broad range of hazards. Armed with this data, carriers can set premiums more accurately and analyze potential risks in an existing or potential policy base. Insureds and risk managers can know how to better manage location-specific risks.

## Standards Needed

Growth of such capabilities requires uniformity in how agents, insureds, carriers, and reinsurers communicate and record the data. ACORD has a working group looking at that issue right now. The group, the Exposures Working Group, is developing standards for information on risks by individual location and catastrophe zone.

As it stands, the variety of reporting formats is problematic. The working group wants electronic solutions in place to eliminate or reduce rekeying, manual reviewing, and more. A single standard will provide increased, and more accurate, flow of information electronically throughout the chain of business partners, using XML and spreadsheet formats.

### ■ ***Standards adoption will help the industry achieve touch-free electronic processing.***

Information would be location-based, but would extend beyond property risks to include business interruption or business income, and workers comp exposures. Data would include values at risk for a commercial entity at one location, and details of all locations and values, plus related insurance limits, deductibles, and other details, for a multi-site business. The standard also would incorporate details of all locations and values at risk, plus related insurance limits, deductibles, and other details, for a whole portfolio of commercial property, representing multiple insureds.

Standards adoption will help the industry achieve touch-free electronic processing. It would let carriers more fully understand their exposure to risk in different locations. Carriers could buy reinsurance more easily—and economically—if they can give better, more accurate risk exposure information to reinsurers. Better data input would help catastrophe exposure modeling software to deliver better results, and would offer companies more accurate estimation of probable maximum losses.

Inclusion of GPS-based data when a policy is generated, using a standardized format, carries with it added benefits. Data will be available immediately for rescue personnel and adjusters when calamity strikes. For instance, within hours of the space shuttle Columbia's crash last year, GPS and GIS helped pinpoint the likely location of shuttle debris, by defining its probable path and narrowing the area to search.

In everyday use, a major U.S. automaker touts its GPS system, coupled with cellular technology, as a way to immediately communicate distress calls and dispatch police or emergency services right to a customer's location.

In the case of disasters, insurers using GPS and GIS can more quickly understand potential losses across several product lines—life and health, property and casualty, workers comp, liability, and more—and can deploy teams more quickly and more precisely, speeding assistance and settlements.

So from policy inception to claim settlement, GPS and GIS—relatively new technology, in the big scheme of things—are boosting efficiency and precision among insurance professionals and boosting service to customers. In all likelihood, the technology's reach is just beginning to be felt. ■

# Who's Managing Your Success?

## CPCU Society National Leadership Institute

### Invest in Your Professional Development— and Take Charge of Your Career Success!

Spring 2004 CPCU Society  
National Leadership Institute  
April 22-23, 2004 ♦ Tampa, FL

- ♦ Develop effective leadership, communication, and management skills to guide your company—and your career—to success.

- ♦ Gain real-world knowledge about managing and leading in the P/C industry.
- ♦ Prove that you have the drive and the know-how to get ahead in today's competitive marketplace.

### Set Your Schedule for Success!

#### Thursday, April 22

8 – 11:30 a.m.

- ♦ Developing Resilience in a Rapidly Changing World

8 a.m. – 4 p.m.

- ♦ Effective Communication Skills
- ♦ Practical Techniques for Project Management
- ♦ Finance for Nonfinancial Managers
- ♦ Facilitative Leadership Skills
- ♦ Power Tools for Successful Negotiations

Noon – 1 p.m.

- ♦ Thursday Leadership Luncheon

1 – 4 p.m.

- ♦ Delivering Compelling Messages to Your Staff

1 – 4:30 p.m.

- ♦ Time Management—Managing the Only Non-Renewable Resource

5 – 6 p.m.

- ♦ Reception

#### Friday, April 23

8 – 11:30 a.m.

- ♦ Developing Resilience in a Rapidly Changing World
- ♦ Time Management—Managing the Only Non-Renewable Resource

8 a.m. – 4 p.m.

- ♦ Effective Communication Skills
- ♦ Practical Techniques for Project Management
- ♦ Finance for Nonfinancial Managers
- ♦ Facilitative Leadership Skills
- ♦ Managing Conflict in the Workplace

Noon – 1 p.m.

- ♦ Friday Leadership Luncheon

1 – 4 p.m.

- ♦ Becoming a Successful Leader

#### Agent & Broker Solutions

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