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Chairman's Corner

by Richard C. Lambert, CPCU, ARM, AIM, ARP

Richard C. Lambert, CPCU, ARM, AIM, ARP, is underwriting director of the Phoenix branch of CNA. Lambert has been chairman of the CPCU Society's Agent & Broker Section Committee since 2001. He began his national CPCU Society involvement in 1985. Previously, he has been a regional vice president, director, and chairman of the Chapter Affairs Committee; chairman of the Leadership Development Committee; chairman of the Annual Meeting and Seminars Task Force; and has served on several other committees or task forces.

Happy New Year to each and every one of you! I expect 2006 will continue to bring the changes to our industry that will continue to improve it. At least I hope so. We deserve to get some credit for the overall benefit we provide to our clients.

I will start by saying that when you receive this, I will have started a new position with CNA here in Phoenix. I will be its branch underwriting director with responsibility for its middle market underwriting here in Arizona. This change was caused by the normal flow of the business world as companies change their concentration or direction. I am looking forward to this opportunity with CNA since it is allowing me to go back to my roots, underwriting. If you are thinking why is a company underwriter chairing the Agent & Broker Section, please remember that I was an agent when I began my tenure on the section!

For change number two, I have been waiting to see what the impact of Katrina would have on the property side of the industry. Well so far, my experience indicates the expected change is underwhelming. There are still carriers out there who have plenty of capacity and where rate is not an issue. There may actually be some change, but it appears to me that it is subtle at best.

For change number three, I will pick on the weather. We are seeing record rains and snowfalls in the Pacific Northwest. The southwest is dry, again, with 88 straight days of zero moisture in Arizona at the time of this writing. Using moisture and Arizona in the same sentence may constitute an oxymoron. They are opening golf courses for play in Chicago and the northeast, in January! Is this change due to global warming or just another wacky winter??

For number four, I will pick on Iran and its nuclear news. When you read this, the United Nations may have resolved the issue, or as usual, given its opinion after way too much debate. Will there be teeth to it? Doubt it, why would they change now?

My point here is that change is a perceived constant. Change is consistently inconsistent. It is in the eye of the beholder. Things may be the same, but with a different spin. Things may be changing and the change may not even be noticed. Or, it may be somewhere in between. Whatever your interpretation, everything is constantly "changing." I hope the changes that impact you in 2006 are good for you and those around you.

Have a great 2006! ■

What's In This Issue

Richard A. Gerrond Memorial Award

by Richard C. Lambert, CPCU, ARM, AIM, ARP

Richard A. Gerrond, CPCU, CIC

For the past few issues, I have been keeping you informed of our quest to establish an education award honoring a past Agent & Broker Section Committee member who passed away in a tragic accident. In Atlanta, the CPCU-Loman Education Foundation approved the award, with a couple of caveats. As of January 13, 2006, we have just about met all of the caveats. The key caveat is the achievement of a fund of $5,000 for the award in Rich's name. We are 90 percent of the way to that figure. We could still use your help to fulfill that need. A few more donations, and we are there. I am hoping that we will be awarding the first recipient at the Leadership Summit meeting in late April in Phoenix, AZ. Please help us to finish our quest. As you know, this is an award to recognize an outstanding NLI instructor who embodied Rich's qualities. I have talked with his widow, and she is overwhelmed by the sentiment the CPCU Society is showing for Rich. Again, please help us conclude this wonderful award.

Attend the CPCU Society's 2006 Leadership Summit

Phoenix, AZ • April 26–29, 2006

Register today and get meeting details at www.cpcusociety.org.

Agent & Broker Section members invited to attend CLEW Section retreat!

The CLEW Section will sponsor a retreat on the Sunday, April 30, from 1–5 p.m. and Monday, May 1, 8–11 a.m., following the Leadership Summit—the Pointe Hilton Squaw Peak Resort in Phoenix—what could be more convenient and nice? Attendance is not limited to members of the CLEW Section, but is limited to 30 people. If you would like to get your reservation in right away, just e-mail Norman F. Steinberg, CPCU, at nfsusa@aol.com or Steven A. Stinson, J.D., CPCU, at SASinvest@bellsouth.net. Discussions will revolve around the insurance industry's response to Hurricane Katrina and the Spitzer investigations.

How to Market and Sell When Everything Keeps Changing

by John R. Graham

John R. Graham is president of Graham Communications, a marketing services and sales consulting firm. He is the author of *The New Magnet Marketing* and *Break the Rules Selling,* writes for a variety of business publications, and speaks on business, marketing, and sales topics for company and association meetings. He is the winner of an APEX Grand Award in writing and the only two-time recipient of the Door & Hardware Institute's Ryan Award in Business Writing. He can be contacted at 40 Oval Road, Quincy, MA 02170; phone (617) 328-0069; fax (617) 471-1504; or e-mail j_graham@grahamcomm.com. The company's web site is www.grahamcomm.com.

There seems to be something of a revolution taking place. The mobs aren't hitting the streets; they're taking to their computers. Rather than flogging their opponents, it's now "death by blogging." According to some reports, 80,000 new blogs appear every day. No matter how accurate or inaccurate the message, every voice is heard.

While Dell Computer blames market saturation as one reason for its noticeable slowdown in sales, a more basic problem may rest with the so-called "Dell Hell" blogs. They may be changing the fortunes of the number-one personal computer company.

"Measuring the Influence of Bloggers on Corporate Reputation," a new study by Market Sentinel, indicates that the "Dell Hell" blogs are having a measurable negative influence on Dell's corporate reputation. The study points to the conclusion that Dell's brand image has taken a long-term negative hit and the blame goes directly to the bloggers.

Tens of thousands of customer complaints are no longer hidden. They are in full view of blog watchers around the world.

Perhaps this is another instance of the vaunted concept of "creative destruction" at work. Wal-Mart finds itself challenged and on the defensive on many fronts, while GM is dazed and in steady decline. At the same time, Ford is floundering, and icon Microsoft sees its near sacred status challenged by Google.

The question, of course, is this: "What, if anything, can we do to avoid a variety of attacks?" Here are some possibilities for consideration:

1. **Ask yourself the most important question.** Some people call it the "unique selling proposition," but why be pretentious? It's actually so quite basic: "What must we accomplish?" It has huge implications. A&I Products of Rock Valley, Iowa, a manufacturer and distributor of agricultural equipment parts, came up with the answer. Knowing that farm equipment cannot be down for more than a day at the most, A&I processes all orders the day they arrive for next-day delivery. It also knows that overnight deliveries are expensive. So A&I's 12 warehouses are located near UPS depots for cost-saving ground delivery.

   It's no surprise that A&I Products shows substantial growth in sales each year and is the largest company of its type in the agricultural market, distributing more than 55,000 parts. It's also no surprise that other manufacturers want A&I to take on their products.

2. **Run from simple solutions.** Simple solutions have a compelling appeal and they include everything from "How to Close Every Sale" and "We'll get you prospects that are ready to buy" to "Hit 50,000 customers for only $395."

   All simple solutions have the same flaw: they don't work. Of course they sell; we want miracles, whether in business or in our personal lives. "Find the love of your life in 90 days"; millions of dollars are made on that promise every year.

   As amazing as it may seem, the lure of the simple solution is so overwhelming that it overrides reason. Otherwise, thoughtful people make purchases without checking the record. This is no accident and the purveyors of these so-called "miracles" count on it.

3. **Plan with the principles.** It isn't enough to have a marketing or sales plan. Companies ask their salespeople for their plans for the upcoming year. Most of these are exercises in futility. In other words, they are worse than useless. They may sound good, but they aren't built on sound principles. And even though everyone is armed with a plan, it only takes a few weeks to shelve them and to venture off in the first of a year-long series of Don Quixote-type ventures.

   It's the same with marketing. Rather than embracing tactics that engage customers and prospects, there is endless tilting at windmills.

   Without following the principles, there is no direction, only wrong results.

4. **Stop watching taillights.** When the road is dark or there's fog, it seems comforting to follow the taillights of the vehicle ahead. This is almost always a sure-fire prescription for accidents. It's no different in business; following a competitor can be folly.

   What's so amazing is that it happens almost constantly at so many companies. They take their lead

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How to Market and Sell When Everything Keeps Changing

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from the competition, whether it's products, pricing, or marketing and sales programs. What makes anyone think the competition knows what it's doing? Just because they advertise in a certain publication, doesn't necessarily make it the right venue.

5. **Take a laser-like approach.** Mass marketing has been dead for years. Today, it's all about niches and individuals, whether they be companies or consumers. It's appalling how easy it is for management to say, "Hey, cut it out. We know our customers and we know what they want," when a marketer raises the question of gathering objective, detailed data.

   The goal is not just to get close to the target, but to hit it dead center. That takes two types of information: (1) A complete understanding of how the company is perceived by its customers; and (2) finding prospects that are a precise fit.

   Armed with the right information, the task is to take a laser-like approach to reaching the prospects.

6. **Junk brilliant ideas.** Watch out for seemingly "brilliant ideas"; they're almost always deadly. Their appeal is so strong that they transform otherwise sensible business people into "idea junkies" who can't wait to find the next "great idea," particularly when it comes to marketing. They're child-like in the way they collect "brilliant ideas."

   Brilliant ideas are dangerous because they divert attention from doing what needs to be done. Stay away from them.

7. **Take time to plan.** In business, it seems as if "doing" gets more points (and attention) than planning. Actually, planning is quite simple. It all revolves around answers to one simple (and unavoidable) question: Who's going to do what to whom and when?

   The answers to this question reveal that planning takes time. Just think about a few projects that were started but failed because they were implemented too late. Too late is always the killer. Every business has given the seminar for which no one registered. Or, "It's the end of the month and we haven't sent out the newsletter," the manager says. "Get something together and get it out now." Then everyone is so surprised that no one reads the newsletter!

8. **Do it all well.** The invention of the laser printer is the curse of good marketing. Standards for all aspects of direct mail, newsletters, flyers, e-mail bulletins, and letter writing are often abysmally low, from the content to design and reproduction.

   Dispensing junk is the perfect way for a company to shoot itself in the foot or worse. We should all cringe when someone says, "Oh, don't worry about it, George can run it off." Of course, he can, but that's not the point. Is it the right message presented the right way so that it captures the customers' attention? If this question isn't important to you, the chances are that your company is dispensing information and materials that harm its image and credibility.

9. **Juggle more.** With both marketing and sales, the key is managing a number of initiatives at the same time, even though someone says, "I just can't handle anything more. There's too much on my plate now."

   Why do we feel overloaded when managing more is the required task? The manager of a large residential property waits until a couple of days before the board meeting to make calls or to follow up on those he placed earlier. At the meeting, his reports are punctuated with such phrases as "They haven't got back to me" and "I'm still waiting to hear from them."

It isn't that he is not doing the job. In effect, he is actually bouncing less than half the necessary balls. He is limiting his performance and effectiveness because projects drag on and on.

   Juggling more doesn't take special skill; it takes effective management. Business success demands the ability to manage more and more initiatives.

Where does this leave us? While we seek a sense of equilibrium in our lives, the life of our business is no different. Getting things running well is the unspoken objective. That may have been possible at some time in the past, but not today. What's in place must constantly be replaced. It's a state of mind that's necessary, but difficult to accept. ■

Excess Flood Rejections

by David A. Thompson, CPCU

David A. Thompson, CPCU, graduated from Mercer University in Macon, Georgia and then served seven years as a commissioned officer in the U.S. Army and U.S. Coast Guard. Thompson began his insurance career in an independent agency in Vero Beach, Florida, where he was a licensed agent selling all types of insurance for more than 10 years

He taught insurance pre-licensing and continuing education classes at a local community college before joining FAIA in 1996. Thompson is a well-rounded instructor with a specialty in personal lines. His classes are upbeat and hands-on, so you can apply the information in real-life situations with customers. Being a runner and barbecue connoisseur he always finds a way to work those topics into his seminars!

A remarkable number of agents require written rejections when a customer declines to purchase flood insurance. However, when it comes to asking the customer about excess flood coverage and requiring written rejections for declinations, fewer agents obtain such rejections.

Since 1994 the maximum limit of building coverage under the National Flood Insurance Program (NFIP) has been $250,000, and for contents the limit is $100,000. On the commercial side it's $500,000 each for building and contents. Clearly, a significant number of structures around the country have values exceeding these limits.

A very recent lawsuit associated with Hurricane Katrina has highlighted the importance of offering excess flood insurance and documenting any rejection. After the storm devastated the gulf coast, a lawsuit was filed against an exclusive agent over the excess flood issue. The policyholder owned a $1.4 million home, and the agent provided a flood policy with limits of $250,000 and $100,000. Hurricane Katrina caused more than $800,000 in damage to the home. According to the attorney, the policyholder was told, "This is the maximum coverage available."

This lawsuit illustrates that despite an agent's best efforts, it's impossible to avoid an E&O claim. There is a good lesson to learn here though, and that is to explain to customers the limits of coverage available under the NFIP, and when property values exceed those limits tell the customer that excess limits are available. If the customer declines the offer for excess coverage, have him or her sign a rejection form, just like most agents already do for primary flood coverage.

The cost for excess flood coverage is not always inexpensive, and the annual premium is often in the thousands of dollars. Many customers will not want to spend that kind of money on flood insurance. Of course once the flood causes significant damage, customers will often claim they were never offered such excess coverage or they may say they were not aware of the limits of coverage. Having a signed rejection will likely either prevent an E&O claim or better the probability of winning such claim. The rejection could be a simple as:

> I understand that I have purchased the maximum limits of flood insurance available under the National Flood Insurance Program. I further understand that higher limits of flood coverage are available and my agent has offered such policy to me. By signing this form I am declining the opportunity to purchase excess flood insurance.

While offering excess flood insurance and documenting a rejection is more work for an already busy agent, it should be a part of a comprehensive checklist used for new and existing customers. The time invested could pay off when that $1 million house floods.

Is the Roth IRA a Better Choice?

by David Chwalek

David Chwalek is an independent financial advisor and the president of Capital Retirement Strategies, Inc. in Acton, Massachusetts. A graduate of Boston College, Chwalek has been helping individuals, families, and business owners achieve their investment and financial goals since 1991. His areas of expertise include divorce financial planning, investment management, and the implementation of small business retirement plans. He can be reached at (978) 264-4017 or dave@capretirement.com.

The Roth IRA turned eight years old in January and many investors still don't fully appreciate the benefits of this retirement plan.

The Roth IRA was named for the late Senator William V. Roth Jr. of Delaware. The basic premise of the Roth is that contributions are invested on an after-tax basis and generally withdrawn during retirement completely tax-free. In a traditional IRA, contributions are tax-deductible; that is, we get our tax savings when we put the money in. All withdrawals from traditional IRAs are taxable as ordinary income, so we pay taxes when we take money out. As I tell my clients, Uncle Sam will always get his cut—it's either going in or coming out. With the Roth IRA, he gets it at the beginning. In a traditional IRA, Uncle Sam gets his share (the taxes you pay) when you take money out at the end.

Roth IRA Advantages

Before discussing the advantages of the Roth IRA, I should point out the main disadvantage. There is no tax deduction for investing in a Roth. For many people accustomed to getting that break on their taxes each year, this may be an unwelcome sacrifice. In addition, many tax preparers look for ways to reduce their clients' taxes this year, so they'll often suggest the old-fashioned, tax-deductible traditional IRA. For most people, however, the advantages of the Roth far outweigh the disadvantages.

Tax-Free Retirement Income

Most retirement plans that Americans participate in require that you pay taxes on withdrawals during retirement. This is the case with 401(k) plans, 403(b)'s, SIMPLE IRAs and SEP accounts, as well as others. The Roth IRA is different. All earnings withdrawn from a Roth—assuming you're over 59 ½ and the account has been open for at least five years—are tax-free. In addition, the contributions you made into the account can always be withdrawn tax-free.

No Required Minimum Distributions

Traditional IRAs require that you begin taking money out of the account by the age of 70 ½, even if you don't need the money. Again, this is Uncle Sam's way of making sure he gets his tax revenue before you die. In a Roth, there are no required minimum distributions, so your account can continue to grow tax-free even longer!

Flexibility

The fact that the Roth gives you easier access to your money is another great advantage. If you need to withdraw money from a traditional IRA, the withdrawals are taxed as ordinary income and assessed a 10 percent early withdrawal penalty if you're younger than 59 ½. Because contributions to a Roth IRA can always be withdrawn with no taxes or penalties, this gives us one more option if we need money in a pinch.

Eligibility

You can make a contribution to a Roth IRA—up to $4,000 in 2006 or $5,000 if you're over 50—even if you participate in an employer-sponsored plan like a 401(k). You can contribute up to the maximum level as long as your income is below $95,000 for a single taxpayer or $150,000 for married taxpayers filing jointly.

Who Should Consider a Roth IRA?

The Roth IRA is a sensible choice for almost everyone. The best candidates for a Roth believe their income (and their tax bracket) will increase in the future, so they'd rather pay taxes now at a lower rate in exchange for the tax-free income later. The younger you are, the better off you tend to be in a Roth as well.

Hot tip: Many clients ask me how much they should contribute to their 401(k) plan. Most financial planners agree that you should contribute at least as much to qualify for the maximum employer match—that is, if your company provides a matching contribution. Any contributions above that should be made to a Roth IRA. ■

I Drive the Insurance Bus!

by David A. Thompson, CPCU

In my nearly 20 years in the insurance business, I've run across hundreds of situations where a non-insurance professional has made a specific request to the insurance agent dealing with how to issue or change a policy. A few examples will illustrate the point:

- A lender says, "We want an amount of insurance to cover the mortgage, even though that's more than the replacement cost of the house."
- An estate planning attorney tells the agent, "Issue the auto and homeowners policies with the named insured shown as the trust I just set up."
- A general contractor tells the agent, "If you don't issue the certificate of liability insurance like I requested, I won't pay the subcontractor that you provide insurance for."

Good agents know the correct way to deal with insurance transactions; after all, that's their profession. Other professionals such as lenders, attorneys, and contractors may be experts in their respective fields, but often don't understand the inner working of insurance coverages. When agents are presented with situations where non-insurance professionals make requests that the agent knows is not the correct way to do things, the agent needs to stand firm and do it the way it should be done.

Think of the situation as a big 40-passenger bus with the word "Insurance" painted in huge letters on the side. Then envision the driver of that "insurance bus." Who is driving the insurance bus? To drive the insurance bus you must be both qualified and licensed as an insurance professional. Those who are not properly qualified and licensed don't get to drive the insurance bus.

When presented with a request that the agent knows is not the way to do things, the reply should be, "I'm sorry, I drive the insurance bus and that's not the way we do things here." If the other person persists reply again with, "I'm sorry, I drive the insurance bus . . . you don't."

Good agents know the correct way to deal with insurance transactions . . .

I've mentioned this in several classes and an agent recently contacted me saying she was providing a quote on a commercial policy to a law firm. When one attorney said, "Here's how you are going to do this" she interrupted with, "Hey, I drive the insurance bus; you drive the legal bus." The attorney probably thought the agent was crazy, but the policy was issued the correct way, just like the driver of the insurance bus knew it should have been issued.

So my friends, go . . . drive your insurance bus and never let anyone else sit behind the wheel! ■

Getting the CEO to Get Marketing

by John R. Graham

"What does it take to do good marketing?" This is the question a speaker asked the 50 seminar participants from financial services companies. No sooner had the question been asked when a woman said, "Keep the CEO out of it." Along with laughter, heads were nodding all over the room.

"How can I get my CEO into a marketing mode?" Many a company president would be surprised to learn that I've been asked this question more than any other over the years. It comes from entry-level employees to sophisticated sales executives, from engineers to frustrated marketing directors.

The question is always serious, and the voice more often than not conveys signs of desperation and discouragement. "The president can't see how we're slipping," says a frustrated sales manager. "He thinks the problems are only 'temporary.' He sees us like we were 30 years ago. But nobody knows us today. How can I get him to understand what's going on?"

Then there's the thoughtful and well-educated marketing person who reports that her job is "churning out proposals." This is her boss's "uninformed view of marketing."

Perhaps the most common form of idiocy is a CEO's benighted belief that the role of marketing is to make sales. Instead of looking at the sales force to see if it is following up on the leads generated by marketing and actually closing sales, marketing gets the blame. Far fetched? Check it out by asking any marketing manager.

It's not surprising that CEOs focus on sales. That's what gave them their starts and that's where they were successful, so that's what they see as the solution to the problem. "Make more calls" is their mantra and magic solution to everything.

"I just can't understand how this guy can be so blind," said a confused young marketer at a manufacturing company. "He's on top of so many things but marketing is certainly not one of them."

Those CEOs who are blind when it comes to marketing tend to view themselves as entrepreneurs, and everyone knows that an entrepreneur is an "expert on everything," including marketing.

Marketing can be all but irrelevant to a CEO other than providing "glitzy" sales materials and puffed-up press releases filled with unsubstantiated claims and finessed figures. And under the guise of marketing, there are the countless vendor-funded "events" specifically designed to showcase the CEO as the head duck in a not-too-large pond.

All that's not marketing; it's bullshit, a technical term brilliantly articulated by Princeton professor Harry Frankfurt in his ground-breaking book, *On Bullshit*, and ably articulated by another academic, Laura Penny in *Your Call is Important to Us*.

Ignorance is never bliss, and in the case of marketing it only leads to unsatisfactory results. As the art of attracting and holding customers, marketing is too important to be thwarted and dismissed by ignorance, misunderstanding, and misinformation.

Aside from not having a clue how to move recalcitrant CEOs to see the light and embrace marketing, there are a couple of questions that may be worth discussing:

1. **Where does growth come from?** For many companies, it comes from acquisitions, increased prices, and just plain luck. Being able to say, "We're the third largest widget works in the world" floats some boats even though the achievement may be built on something other than growth in actual sales. In the insurance industry, for example, luck plays a key role. Every insurance executive lives for what is called "a hard market"—the increase in insurance rates by insurance companies or the regulators. Higher rates mean higher commissions, which translate into higher revenues, all without raising a finger. Every industry has such gimmicks for pseudo growth.

Getting new customers can be more of an exercise in customer replacement, rather than an activity of growing the customer base.

2. **Why should anyone want to do business with us?** A real estate broker showing an attractive condo regaled prospective buyers during an open house with the virtues of the property. Realizing that none of the visitors expressed an interest, an observer recognized that the salesperson made little or no attempt to discover what the prospective buyers were looking for in a home. Without understanding customer dreams and expectations, how can the salesperson make a sale?

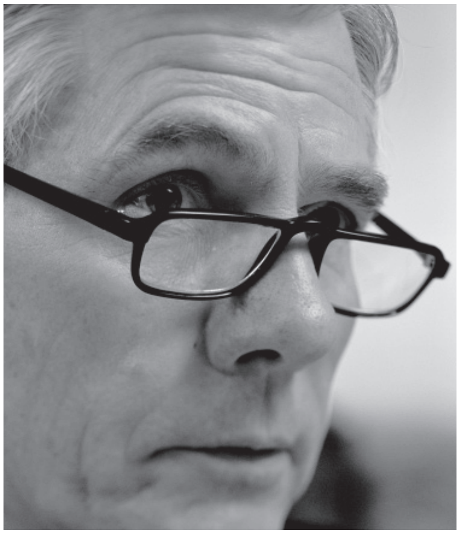
Just because we want to make a sale doesn't mean someone wants to buy. The only reason why anyone chooses to do business with a company is necessarily based on that company's ability to meet customer needs. It's not an accident that Apple's incredible success has come at the moment when it has been rated as "the most innovative company." Apple is about marketing—understanding what the customer wants—not about technology.

So, where does this leave us with attempting to help CEOs recognize the role marketing can play in growing the business? Here are a few thoughts for consideration:

1. **Admit to marketing ignorance.** No one is expected to be an expert on everything; we all have our blind spots. And believe it or not, that goes for CEOs, particularly when it comes to marketing.

   Marketing is not about personal preferences ("I don't like green.") or individual likes and dislikes ("Nobody reads mail today."). But it's sometimes shocking to hear a company president display what in other circles would be called ignorance.

   There's nothing wrong with asking questions, and there's everything right about relying on those with specialized knowledge and experience for recommendations. One can certainly hope that the



   CEO finally sees the light and acknowledges that marketing isn't about the company, but about its customers. It's a difficult concept but one worth fighting for.

2. **Become brand conscious.** As difficult as it is to grasp, marketing is about value to the customer. This is not the ever-popular and ever-irrelevant "value-added" idea, but something far more important and rare. We call it "value-inherent," and it's what sets one company apart from everyone else in the same business.

3. **Stop chasing the competition.** While they appear strong, CEOs are often vulnerable, particularly when it comes to following the competition. They jump around from one sure-to-fail initiative to the next aping competitors. The truth is that competitors are doing the same thing! Just because they are advertising in a particular publication doesn't mean it's effective.

4. **Figure out what's going on.** Far too much money and time are wasted on fooling around with the CEO's "great ideas." Chances are these almost-other worldly insights are "borrowed" from a competitor or another company, but they instantly become the "property" of the CEO. The tragedy is that the entire organization must stop in its tracks and make the useless and unproductive nonsense happen.

On the other hand, it's often difficult or impossible for CEOs to grasp the value of research. They are so committed to "going with their gut," that facts are unnecessary, even irrelevant. If you know everything, then research is borderline ridiculous. Right? It's far too easy to be exuberant, excited, and totally committed to the brilliance of our own untested ideas.

Here's the point. Today's General Motors is the poster company for enterprises where those in charge don't have a clue about marketing. The Big GM blinds them. The ideas of their executives are often far different from those in the heads of their customers.

More than 40 years ago, marketing guru Theodore Leavitt of the Harvard Business School labeled this CEO disease as "marketing myopia." Unfortunately, his insight continues to stand the test of time. ■

Editor's Corner

by Manus C. O'Donnell, CPCU, ARM, AMIM

Manus C. O'Donnell, CPCU, ARM, AMIM, is an administrative vice president of M&T Bank, and is the director of corporate insurance and risk for M&T, which is estimated to currently be the eighteenth largest commercial bank in the United States. He remains affiliated with M&T's property and casualty insurance subsidiary M&T Insurance Agency, Inc.

It's "*Another Year Over and a New One's Just Begun*" to paraphrase John Lennon in his Christmas ballad.

The insurance industry survived its worst loss year attributable to natural disasters, 2005, with estimates ranging from $57 billion to $95 billion, depending upon which industry projection you want to use. It will be years before the actual final tally is known with certainty. It may be decades before the southeast United States from New Orleans to Biloxi to Florida recovers fully.

As I write these thoughts I am in central Florida enjoying the week between holidays. Although I very much enjoy skiing, which I did do with my family the weekend before Christmas, I increasingly practice that risk management technique known as avoidance with the snow of Buffalo. Interestingly, the local weather commentators editorialized that the weather of this week and into the next few months explains why the folks here endure hurricane seasons. It is wonderful!

Contrast that thought to what we were all thinking this past, October at the CPCU Society's Annual Meeting and Seminars in Atlanta. Katrina and Rita were recently past, and Wilma was bearing down upon Florida, the sixth hurricane in 12 months to strike the peninsula. I recall the disaster recovery presenters at the conference referring to Florida as the "plywood state." Those were native Floridians making the joke. Nevertheless, admittedly thanks in part to our industry, the scars of those terrible couple of days are fading into new construction repairing or replacing the damage.

We went so far up into the Greek alphabet to name last year's storms, that I lost count. The last one recorded this year, a matched record by the way, is Zeta, as I edit this article. I did not pledge in school, where most Americans learn the Greek alphabet, among other skills, or so I heard. The point is, there were a lot of named storms and they were historically devastating! I am afraid that we may all become better acquainted with the Greek alphabet over the next several years.

The other big news locally was that of Tiger reportedly moving to the coast from central Florida. Other than being of interest to golfers and to the locals losing, perhaps, a celebrity neighbor, Tiger is following a general migratory population trend of moving to the coast.

There is the apparently increasing flow of the United States population migrating to the coasts and, with it, a rapid run-up of real estate development and values in areas exposed to severe weather extremes. Since I began visiting Florida more than 25 years ago, I have witnessed the development of former pastureland and citrus groves into rather expensive housing and commercial infrastructure.

The last five years seem to be the greatest in terms of new and expensive development with builders trying to stay ahead of the retirement curve of my "Baby Boom" generation.

It appears that a lot of us aging boomers want a warmer place, and many of us want a view of the ocean. The risk manager in me picked the center of this particular warm state to avoid, at least, the storm surge, and hopefully some of the wind. So far, so good!

Another anecdotal item I picked up today is the $500 million purchase offer by a developer to purchase a whole seaside town of 43 acres containing 500 trailer homes here in Florida in order to build significantly more expensive residential housing and commercial infrastructure.

Likewise, the entire southeast area devastated this past season by Katrina and Rita is, according to experts, on the verge of a development boom. Many of the folks displaced fear that they will be unable to afford to resettle in their former communities once they are reconstructed.

If we think that the devastating storm activity of the past few seasons will subside, we are kidding ourselves. This unbridled development will only sow the seeds of even greater loss years in the future.

On another personal note, my local agent was able, at the last moment, to secure the December 29 renewal of my Florida condo policy, a switch from Vanguard to Tower Hill, at a 35 percent premium increase. Since my building suffered no real damage, a missing shingle from the 2004 season and no damage this year from Wilma, I guess I am lucky. Some carrier, however, is contributing to rebuilding my association-owned golf clubhouse, security building, and a few maintenance buildings as well as course repairs. This is the third time insurance has rebuilt the clubhouse, according to the newsletter. All of those structures were built pre-Andrew.

Aside from the insurance industry being able to use last year for increased "pricing power" for 2006 property renewals, one would hope that some of our industry's formidable expertise in loss prevention engineering might be tapped to prepare for the next series of onslaughts from Mother Nature. I think we, as an industry, did a good job with the folks here in Florida after Hurricane Andrew. It was clear that my place was constructed post-Andrew and using the better standards put into place thereafter.

Hopefully, our voices will be made clear and be heard as the reconstruction in the southeast proceeds and we at least attempt to rebuild to better standards. We do not need a fourth clubhouse courtesy of the insurance industry. On a more serious note, we cannot allow placement of people into shoddily reconstructed communities subject to more devastation and heartbreak in future storm seasons. New Orleans need not be rebuilt to the same shoddy standards that arguably were in place pre-Katrina. We now know better . . . sadly, we did or should have known better before the storms struck also.

Now is the opportunity to get these things right!

If we do not work with our customers and with governments involved, state and local, those increased premiums our industry collect next year or so will one day disappear faster than they were accumulated and we will have failed to seize the opportunity before us now to make a lasting difference.

Let's try. Happy New Year! *"Let's Hope It's a Good One . . . Without Any Fear . . . "* ■

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