Agent & Broker Solutions

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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. He began his 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.

I should be used to the timing of the newsletter editor's request for my Chairman's Corner for the upcoming *Agent & Broker Solutions* newsletter, but in all honesty, I am never ready for it, and have to scramble to write this for the newsletter. I will wish each and every one of you a Happy New Year, but I expect you will be reading this article somewhere in early March. I hope you have a Happy New Year anyway.

I hope 2006 was as good of a year for everyone on the agency side as it appears to have been on the company side. In early 2006, I commented in this newsletter on my perspective of what the insurance industry appeared to be doing to itself from a pricing position. The facts of what soft market conditions can cause to all of us in the long run are simply a matter of looking at history. Inevitably, profit results slide, and we are faced with a hardening market and the communication that has to take place with our customers about why the price has to go up.

Just like last year, I have just read an article that has indicated that the profits the industry obtained in 2006 should easily carry forward into both 2007 and 2008. There is recognition that the next two years may not be as profitable as 2006, and that is due to the complete lack of catastrophe activity that isn't realistic to expect to continue. What really concerned me is the comment made that there appears to be more pricing discipline and that there is only some market softening. Once again, I am concerned that these are opinions on high, and not reflective of the "trenches."

I do believe pricing discipline is being preached, and definitely attempted, but

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## What's In This Issue

## Chairman's Corner

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there is always that market out there that is trying to write the business. There are many reasons, too numerous to mention all of them, but the two that give me the most stress are a new carrier entering the market and trying to make a splash, and any market that thinks it can do it better than the incumbent. That last statement reflects a great degree of confidence in superior risk selection activities, but I am convinced that that is the only way to assure results will remain reasonably predictable.

This is where agents and underwriters can work together to achieve the best mutual results. The key is good, upfront, honest communication with the highest degree of integrity one can muster to build the trust in each other to do the right thing. This can and should create a good win-win result so both operations can profit in the long term. Too often, I believe that many decisions are made with the short term in mind. Don't get me wrong, we all have our strategies, and we try to stick with them, but the pressure of "what have you done for me today" is too prevalent. That is what is currently wrong with this market.

The pressure to retain every renewal and to write new business to achieve a plan is the inherent way we do business. I don't have a solution for doing this part any differently, but with the profits the industry is generating, I see the soft market getting softer by the minute, not by the year as the aforementioned article appeared to indicate. We shouldn't be surprised when, all of a sudden, the results have gone south, and we wonder how that could have happened again. Trust me it will. I just hope I am around long enough to see some firming, but this one looks long term again.

I am writing this for two reasons: to give you my opinion on this market, and how to try to work through it with the long term in mind; and to invite you to the seminar our committee is planning for the CPCU Society's Annual Meeting and Seminars in Hawaii. The title of our seminar is "Agency Survival in a Changing Environment." With the market conditions we are all facing, and the continuing fallout from the Spitzer activities in New York that continue to move countrywide, there are many issues facing agencies of all sizes as we go forward in 2007 and the years to come. These issues will have a lasting impact on how we all do business. If you are able to get to Hawaii, please plan to attend, as I believe it will be interesting. We have already lined up a CEO of a major insurance company, and the president of a large regional agency, and we will fill the seminar out with another pertinent panelist.

Thanks for your membership in the Agent & Broker Section and for your support of the section. Until next time! ■

## Be Sure to Attend Your Agent & Broker Section Seminar at the 2007 Annual Meeting and Seminars!

### Agency Survival in a Changing Environment

Sunday, September 9, 2007 • 9:30 a.m. to 12:15 p.m.


**Speakers:**

**Don Allen**
PIA of Hawaii

**Anita Z. Bourke, CPCU**
IMA Financial Services of Kansas

**Dan R. Carmichael, CPCU**
Ohio Casualty Group

**Dean L. Middour, CPCU, CLU**
Thoits Insurance Service, Inc.

*This seminar will be filed for CE credits.*

**Register today** for the CPCU Society's 2007 Annual Meeting and Seminars at **www.cpcusociety.org.**

And stay tuned for more information!

# Editor's Corner: The Start of a New Year

by Ellen M. Clements, CPCU, ARM, CIC, CPIW

■ **Ellen M. Clements, CPCU, ARM, CIC, CPIW,** is a vice president, senior client advisor, with Banc of America Corporate Insurance Agency, LLC in Boston, MA. Her professional background includes senior management, negotiation, placement and service of property and casualty insurance programs, process improvement, quality initiatives, organizational development, and training. She has worked in the insurance industry for 40 years. Clements is on the Board of Directors for the CPCU Society's Boston Chapter and sits on the Visibility Committee. She is also a member of the CPCU Society's national Agent & Broker Section Committee and is editor for the section newsletter, *Agent & Broker Solutions*.

And so it begins. The New Year has started with unforeseen catastrophic "winter" events across the country. No section of the country has been unscathed. As a result, while we have seen a slight softening of the market in 2006, we do not know what 2007 will hold for capacity or for pricing.

In the Chairman's Corner, Rick Lambert, CPCU, ARM, AIM, ARP, addresses how we as agents need to work with underwriters to achieve the best mutual results. Having been through many market cycles the past few decades, what Rick shares should not be taken lightly.

No agent or broker wants to deliver news to the client, who is loss free, that his or her rates will be going up dramatically due to the negative results caused by others. It becomes so very important to work with our clients in preparation of coverage submissions that not only reflect values, exposures, etc., but also what they, as a company, are doing that makes them the best of the best in their business. Disaster recovery, business continuity, risk mitigation, and claims management programs to name a few should be highlighted.

Another area often overlooked is the elimination or mitigation of future losses when preparing loss summaries for presentation with a submission. Take care to identify past losses where the exposure has either been eliminated or substantially reduced. This will go a long way in reducing "book increases" that underwriters are sometimes charged with when the market turns, for the better risk.

One article that stands out in this issue for me is "Errors and Omissions Corner from 29,000 Feet in the Air," submitted by David A. Thompson, CPCU. His reminder to us all that we do not "go off duty" when we are traveling on personal time will probably bring many memories of just how true this statement is.

In my own experience, I met a gentleman on a flight 20-plus years ago, engaged in conversation, where the ultimate question was raised "What do you do for a living?" I only mentioned briefly that I was an insurance agent, who I worked for, and asked about his company, learning about an industry I knew little about at that time. I left with "If I can ever be of assistance, please call." Upon landing, we were faced with a serious downpour and no cabs. He was waiting by the curb for a cab, and I had my family drive up and give him a ride to his hotel. Several months later he called, remembering from that brief conversation who I worked for, stating that he had a problem with his program, and "Could I help?" I was asked to review his program and make recommendations for improvement. He and his company became a client, and were for more than 10 years, until they sold the business. When I asked how he remembered me, he said, "you were so kind in giving me a ride in the rain, and you really listened to me with interest when I talked about my company, while you were on your own time."

The CPCU Society's Leadership Summit will be taking place April 18–21, 2007, in beautiful Orlando, Florida. You can register online at www.cpcusociety.org. I hope to see you there. ■

# Getting Your Arms Around Marketing

## *If You Think It's Easy, Think Again*

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.

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Marketers have long believed that they could influence the buying habits of consumers. In fact, as the definers of both desire and taste, they took pride in creating demand. As Ford has discovered to its dismay, even what would normally be known as effective marketing can't persuade consumers to buy a very good product such as the Ford Five Hundred sedan. Ford is far from alone.

There's no turning back; it will never be the same. Even the staunchest Luddites must find it difficult to deny the extent to which technology has changed everything.

The Internet has turned consumers into "lowest-price" shoppers, many addicted to surfing the web to save money. Even so, we can fool ourselves when it comes to price. For example, a speaker at sales meetings has shown a particular children's shoe to dozens of groups. He presses a button, and the shoe gets bigger.

Everyone is instantly interested in the shoe. Parents of young children want to know where they can buy them. "What's the appeal of these shoes?" he asks. Anyone with two or three kids gets it instantly. "I wouldn't have to run to the shoe store every few weeks." The appeal is convenience, not price. Yet, the manufacturer positions the shoe as being easy on the family budget.

In the same way, both Kodak and Fuji, long the largest manufacturers of camera film, have been caught off guard by the lack of consumer interest in having prints made from digital cameras. Cell phone, e-mail, and computers changed all that. Prints are yesterday.

And then there's music. CDs are out, too. When you can choose and pay for the exact songs you want from iTunes, why buy a CD when you were really only interested in one or two songs?

*The bottom line is that there's no way today to hold the customer captive. If you try, you're done.*

Residential real estate is a good example of an industry that is attempting to do everything possible to maintain the mystique of the REALTOR®. For several generations of homebuyers and sellers, real estate brokers played a key role. They were the access point. If you wanted to see listed homes, it was literally necessary to "go through" them to get into the hen house. Control of the product and the process was key to maintaining their hold on the 5 percent commission.

The Internet has changed that, too. The iron grip is going away. The number of homes "for sale by owner" is a clue to what's happening. Certainly, some owners fail at the task, as do some brokers.

Every home listed is available on the world wide web. Homes are being sold to buyers who have never seen them except on a web site.

In effect, the Internet is quickly empowering buyers and sellers. Having had plenty of practice on eBay, they now feel competent and self-assured to take on the task of selling a home. These are also the same people who have been through the refinance process as many as a dozen or more times so the process doesn't intimidate them.

Google, as much as any technology, has emboldened consumers. We can find the information we need almost instantly. Far less dependent on others, it ventures out on its own.

Home Depot says, "You can do it. We can help." This is another example of consumer empowerment, as is online banking, stock market transactions, managing 401(k) accounts, and much more.

Then, there's making clothes. Up until the 1950s or so, every bride started married life with a sewing machine. Sewing courses were in every high school. Then came the discount stores and women working. Sewing machine sales dropped to next to nothing.

Sewing machines are now enjoying brisk sales, as *Time* magazine reported recently. Today's seamstresses didn't learn how to sew from their mothers. They are doing it themselves. They do not want others to decide what they're going to wear.

Customers will not and cannot be held captive. The real estate industry is fighting a losing battle to control the buying and selling of residential real estate, as is anyone who tries to thwart the "taking charge of my life" movement.

Facing such circumstances, what do marketers do to meet these challenges? Here are five principles to follow:

1. **Make everything transparent.** Over a three-month period, the copy equipment dealer offered a series of lease arrangements, each lower than the one before. Rather than generating increased customer interest, the process produced distrust. The company chose another vendor that provided a clear, simple, up-front proposal detailing all the costs.

   Even when notified to pick up the old machine, the original dealer came back with yet another proposal that had a lower price.

   A lack of transparency kills confidence and trust.

2. **Coach, don't sell.** The headline in the ad caught my attention, not because it was compelling but because it presumed to tell me what I was thinking. The ad was for a specialty hospital and the headline read, "The people you trust at the place you know." This is an example of the old marketing, of telling customers how and what to think.

   How different are the TV ads for CDW, the online electronic warehouse? A slightly nerdy IT guy faced with seemingly insurmountable issues comes through every time thanks to his empowering partnership with CDW.

   The difference is significant: coach, don't sell.

3. **Create a brand promise.** If there is no promise, there is no brand. While it seems simple, it's difficult to put into practice. With every cell phone provider making endless claims, how does one stand out from another in a way that resonates with the customer?

   Cingular is particularly adept at using a brand promise strategy to connect with customers. It identified dropped calls as high on cell users' irritation lists. Seeing this as an opportunity, Cingular weds its tagline, "Raising the bar," to the brand promise, "fewest dropped calls."

   Since dropped calls do occur, even with Cingular, the branding reminds the customer that there are fewer with Cingular than with other providers.

4. **Personalize pertinently.** If anything is clear today, customers want to be recognized and appreciated. To some extent, companies have taken advantage of "personalization" when it comes to communications. Personalized letters have long been a marketing staple and a giant leap beyond "Dear Valued Customer," even though such nonsense persists.

   However, the "new personalization" goes well beyond the basic use of the customer's name. In fact, if only the name is used, many customers can be turned off. It's the content that must be personalized today. Amazon.com is very effective at data mining to deliver products that match customer interest. Those frequenting that web site often say, "It's as if they know me." They do.

5. **Practice the power of persistence.** The 2006 holiday season was a challenging one for the Macy's brand. After acquiring Filene's, The May Company, and Marshall Fields department stores, there was one major question: Could Macy's hold the customers? Throughout the fall of 2006, Macy's discount coupons filled mailboxes and were featured in full-page print ads across the nation. When Thanksgiving arrived, they stepped up the pace.

   It was war: "Don't let the consumer go anywhere else." The owner, Federated Department Stores, reported an 8.5 percent November sales increase, higher than just about all rivals. It also increased its December sales forecast from 5 percent to 8 percent.

   It was a strategy of staying in front of the consumer with a continuous stream of compelling offers designed to take them straight to Macy's.

   Persistence goes a long way to keep customers focused—and buying.

Getting out of the way is the overwhelming problem in marketing. As it turns out, the only way to get our arms around marketing is to get them around the customer. ■

# Errors and Omissions Corner from 29,000 Feet in the Air

by David A. Thompson, CPCU, AAI, API

**David A. Thompson, CPCU, AAI, API,** is a full-time instructor with the Florida Association of Insurance Agents in Tallahassee, Florida. He travels extensively around the country presenting continuing education seminars.

On a recent flight to teach an E&O class, I overheard the passenger in front of me say to the flight attendant, "I am from Sylvester, Georgia." Knowing the area, and how small the town is, I struck up a conversation with the passenger. The conversation turned to jobs and she told me, "I am an independent contractor for a gift distributor; what do you do?" When I mentioned that I worked for the Florida Association of **Insurance** Agents, she replied with, "Oh, neat because I need some workers compensation insurance on myself." I explained to her that my job was to teach about insurance, not sell it. I suggested that a good source of coverage would be the agent who wrote her automobile and homeowners insurance.

Even at 29,000 feet I can't "go off duty" as my family begs me to do at times. I asked the lady, "So, you're employed by the gift distributor?" (Some readers are following me here, go on and admit it!) Her response was, "No, I was an employee somewhere else before this job, but now I am self-employed. It's called an independent contractor." If she only knew my motive! I asked her, "So do you have a liability policy to protect you in your business?" She replied, "Oh no, it's just me. I don't have any employees." I closed with, "When you get back home you might want to give your agent a call and let him or her know about this business you have in your home. You really should sit down and go over all of your insurance coverages." The conversation turned to Sylvester, peanuts, the big black old-time steam locomotive in Sylvester, and small-town America. We parted as the cabin door opened without her having a clue that she had just crossed paths with an insurance nerd who would write about the simple 10-minute conversation.

What struck me was the complete innocence the lady had about her insurance. She was a "small-town gal" who probably knew about as much about insurance as I do about peanut farming. No doubt she never once considered the insurance implications of leaving an "employment" situation and becoming an independent contractor *working from her home*. Her business *operations* of hauling cases of gifts around the country, setting up store displays at various *premises* in airports and retail gift shops, and selling her *products* to others clearly are not covered by any policy she has. The good news for her is that a simple "in-home business policy" would likely be available to give her great coverage for an annual cost of around $500. The problem is, her insurance agent has most likely not asked her what she does for a living, and has no way to know if her insurance is adequate.

From my desk in Tallahassee I can hear the rumblings of some of those reading this. "When in the world am I supposed to find time to review my client's coverage? I am buried in crisis after crisis and don't have time to contact my clients." To which I reply, "I understand fighting fires. If the fires seem bad now, just wait until the fire of the E&O deposition rages up. See how much time is available then."

Do you have a system in place to identify new exposures your clients come across? Do you contact them on a regular basis to review coverages? Doing so, and documenting those conversations in writing, can go a long way toward providing appropriate coverage for your client . . . coverage they count on (and pay) you to provide for them.

# Tell Insureds to Save Old Policies and to Complete Applications Accurately

by Jerome Trupin, CPCU, CLU, ChFC

**Jerome Trupin, CPCU, CLU, ChFC,** has worked as a consultant for mid-sized commercial and governmental entities since 1975 and as an expert witness in a variety of insurance coverage disputes. He has written extensively on insurance topics including numerous insurance textbooks for the American Institute for CPCU and the Insurance Institute of America such as *Commercial Property Risk Management and Insurance* and *Commercial Liability Risk Management and Insurance,* the texts for CPCU 551 and 552 (formerly CPCU 3 and 4). He is currently working on the revision of *Commercial Insurance,* the text for INS 23 and CPCU 557. He has spoken on insurance topics across the country

Trupin headed a local insurance agency until 1989 and is a graduate of Syracuse University School of Management, with a major in accounting, and Columbia University Graduate School of Business where he majored in insurance.

What connects these topics are two recent court decisions.

In the first case, an insurer denied coverage contending that the insured couldn't prove that it had had a policy. Contrary to what insureds often expect, insurers do not save copies of old policies; it is the insured's obligation to prove that coverage existed.

In the second case, when the claim was reported, the insurer sought to void the policy from inception because of an alleged misrepresentation in the application.

The first case involved coverage for asbestos exposure claims dating from the 1960s. The insured was unable to locate a copy of the policy but did find a certificate of insurance showing coverage for the 1965 year. The insured also presented other evidence, including testimony from the agent who wrote the policy that he had obtained coverage for the insured from the insurance company, a statement from a former employee of the insurance company that he recalled issuing the policy, and documents from 1967 and 1968 dealing with the transfer of coverage from the insurance company to another insurer. In spite of this evidence, the insurance company contested coverage, and when the first court decided against them filed an appeal, which was also unsuccessful. *ACMAT Corporation v Greater New York Mutual Insurance Company, No. 25099-Appellate Court of Connecticut-April 12, 2005-869 Atlantic Reporter 2d 1254*

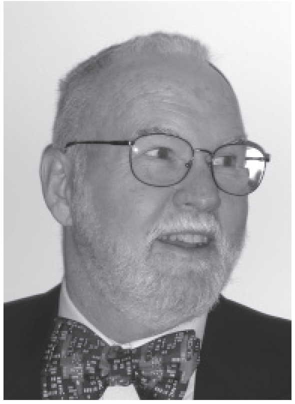
The second case involved a $4.7 million employee dishonesty claim—not relevant to this discussion, but the insured had only $1 million in coverage. How many of your clients have inadequate employee dishonesty coverage? In reviewing the accountant's report of its investigation of the defalcation, the claims examiner noted that it showed that the embezzler reconciled a checking account over which he had signatory authority. The policy application asked whether employees who reconciled monthly bank statements "also either sign checks, handle deposits, or have access to check signing machines or signature plates." The insured had answered the question "No." The claims examiner consulted with a fellow examiner who agreed with her that this constituted a material misrepresentation. After discussion with in-house counsel, the matter was referred to outside counsel and the insurer brought a declaratory judgment action seeking recision of the policy based on intentional misrepresentation. Again, the insurance company was unsuccessful, and is in fact facing penalties including paying the insured's costs and attorney fees and a doubling of the award. The insurer is appealing the decision. *Federal Insurance Company v HPSC, Inc., 2005 U.S. Dist. Lexis 19713; 2005 WL 2206071 (U.S.D.C. Ma. 2005)*

In both cases, the insured prevailed, but think about the time, money, and aggravation involved. It's not the way to get coverage, and, as with any court case, it could have gone the other way. The courts didn't say that the insurers' legal theories were in error, only that in these cases the facts didn't support their decisions. ■

# Insurance for Emerging Technologies Entrepreneurs: A Challenge Not To Be Ignored

by Gregory V. Serio, J.D., and Edward W.S. Neff, CPCU, ARM

■ **Gregory V. Serio, J.D.,** former superintendent of insurance for the state of New York, is managing director of Park Strategies, LLC in Albany and New York City.



■ **Edward W.S. Neff, CPCU, ARM,** is president of The Compass Company, Inc., a Capital Region-based risk management and insurance consulting firm.

**Abstract**

*Emerging technology businesses face many challenges as they grow through the development stages into successful operations. Adequate and appropriate risk management policies and coverages are often among the significant but overlooked challenges that can contribute to their failure rate. The risk management and insurance communities, companies, and brokers alike should be working with these developing businesses in their earliest incubator stages to understand their unique risks, and develop programs and new coverage forms that will address their needs not only in their earliest days but also as they develop into mature businesses. Home-based businesses face the same challenges, as was reported last year in a little noticed Independent Insurance Agents and Brokers of New York report.*

The Independent Insurance Agents and Brokers of New York released to little notice last year a report raising a critical issue for many home-based businesses: the (in)adequacy of insurance coverages for the business operations within residences. This study, which showed that many home-based businesses are exposed to potential financial peril because of inappropriate or insufficient coverages for business-related activities, should direct our attention to another unspoken and potentially critical problem: the (in)adequacy of insurance coverages for New York's emerging technologies businesses.

Just as home-based enterprises, comprising a healthy portion of the state's small business community, provide structural strength to the backbone of the state's economy, the new technologies sectors—bio, nano, and other emerging areas—represent the most positive business development trends that our region has seen in generations. The Sematech initiative that has become the cornerstone of the Capital District's nanotechnology boom, the recent announcement of AMD's decision to build a chip-fabrication facility in Saratoga County, and the seemingly unstoppable forces behind the Tech Valley movement have all contributed to the strong foundation upon which upstate New York's economy will rest for the foreseeable future.

Key to the progress of this economic expansion, of course, will be the proliferation of smaller companies either spawned to support the larger developments or to start mapping the next generation of technological breakthroughs. Small businesses in the Capital Region, including a new crop of home-based businesses, will take on a decidedly high-tech flair.

While the grander initiatives like Sematech and AMD most likely have adequate and tailored insurance programs, the many smaller technology and software companies that are cultivated from this tremendous economic wave may well not be sufficiently covered. Failing to adequately cover them (in types of or breadth of coverages) for the eventualities that come to confront all businesses, large and small, will have profound effects beyond the four walls of those enterprises, and will directly impact the regional economy and its ability to sustain the technology-based business boom it is now enjoying.

(Among those "eventualities" are shortcomings in the operational security and continuity of the Internet, and other information pathways that have become critical for many emerging businesses and crucial for small businesses in particular. The Business Roundtable recently released a report, "Essential Steps to Strengthen America's Cyber Terrorism Preparedness," which highlighted many deficiencies in the protective mechanisms that would prevent or mitigate the effects of some cyber interruption. While it did not even address the gaps in the financial safety net for high-tech and emerging market companies, i.e. insurance, the report did concentrate on the need for fixing the operational defects in our preparedness strategy.)

The new and emerging technologies businesses need protections unlike any other components of the small-business sector. And, these new entrepreneurs need to focus as much on protecting the businesses they create as on growing them. The efforts to protect and develop these fledgling businesses, however, are made difficult given that current, off-the-shelf policy offerings don't fit their needs. Economic advances in emerging technologies will be short-lived if the insurance professionals serving these new businesses do not challenge the status quo in terms of the coverages that are typically furnished to the small businesses that do and will populate the sector. As the Independent Agents' study indicated, agents and brokers need to educate insureds and prospective clients as to how available coverages fit or do not fit the operating realities of their businesses. The question is: are existing coverages suitable (or affordable, for that matter) for the businesses seeking coverage?

The forces behind the tech sector boom in the Capital Region will need to instigate this discussion. While they share, together with insurers, agents, and public policy makers, the duty to make sure that our new economic base is properly protected, it is the visionary element of the Tech Valley concept that can best articulate the needs of this marketplace. The growing economic force of the business entities that are deciding to call this area home can best persuade insurance agents and brokers (who may have their own errors and omission exposure for mismatching coverages to risks) to seek appropriate coverages more aggressively and compel insurers to provide such coverages.

Some within the insurance community will see this as a challenge they are not willing to take on. Inserting new and perhaps unknown risks into an insurance industry that has become increasingly risk averse—asbestos liabilities, for example, have mushroomed far beyond the known science at the time that the applicable liability policies were written—will of itself be a difficult task. For many insurers, it may well be more advantageous to ride the far slower path of letting legal interpretations of traditional policy language, shoehorned into these new business contexts, determine the breadth of coverage. This track may well be preferable to venturing out with new policy coverage concepts and language that have no interpretive track records.

The traditional insurance carriers may pass on the opportunity to play a role in the maturation of this branch of the economy. If so, then the emerging technology sectors and the businesses within them, from the incubated to the established, will have to take matters into their own hands. The same entrepreneurial spirit that has fueled the rejuvenation of this segment of upstate New York's economy will be necessary for the creation of a whole new insurance sector, catering to the emerging technology fields, merging the dynamism of venture capital with the security of insurance capital, and delivering for these companies coverages that work for them in terms of quality, breadth, and affordability. But this will not be your father's insurance sector, as they say, for it will be built upon contemporary notions of alternative risk financing and risk pooling, underscored by an attentiveness to risk management and loss control that does not exist in many traditional insurance relationships.

As with every other step of the way for the tech-sector entrepreneur, this won't be easy. Arcane laws will have to be revisited, and the flexibility in assembling coverages currently enjoyed by only the largest corporate entities will have to be offered to all the members of the new economy as well. Just as our technology-sector leaders could not play the role of bystander when it came time to figure a way to reinvigorate the local economy—creating the opportunities for their enterprises as well—they certainly cannot be mere observers as it relates to the changes will have to be made to allow for enhancements in insurance coverages for the market and their own insurance programs. Like their non-technology home-business colleagues in our economy, they have as much a duty to educate themselves to the insurance program they choose or have chosen for them as any agent or broker, and they need to know, in detail, how these coverages either protect *or do not protect* their enterprises.

When more than half of the home-based businesses in the Independent Agents' study are found to be without business coverage, and fully two-thirds of those studied lack adequate coverage, the challenge of properly covering the most vulnerable elements of our economy is already daunting. But when one considers that our present and future economies are similarly situated, the task does not simply become exponentially more difficult; rather, it takes on the proportion of a mission for everyone concerned or connected to this economy to make the moves necessary to marshal the resources, tear down the blockades, and do what has to be done to make these businesses more secure because, after all, they will one day make us all more secure. ■

# 2007 Market Predictions

by David J. Chwalek

**David J. 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.

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The following are my market predictions for 2007:

- The stock market will surely go up—and down.
- There will be at least one unforeseen disaster. It could be a hurricane, a political scandal, a financial scam, an overthrown government, or terrorist plot. We don't know when or where, but you can count on it. Markets will drop, and panicked investors will sell low.
- Financial "experts" will continue to predict the bursting of the real estate bubble. They'll tell you to look for a 20 percent drop in real estate prices; meanwhile prices remain steady or increase.
- Oil prices will rise. Local television reporters will interview people at gas stations and ask how the prices are affecting their consumer behavior. People will complain about the greed of the oil companies as they speed off in their Expeditions and Range Rovers. AAA will predict that less people will drive over Memorial Day weekend due to the spike in gas prices. Despite this, here in Boston it will still take seven hours to drive to the Cape.
- There will be several new books about becoming a millionaire. They will all become bestsellers, making their authors instant millionaires.
- After three years of solid gains in the stock market, scores of investors will fire their brokers and re-open their E-trade accounts. After subscribing to *Barron's* and *The Wall Street Journal* and reading books by Jim Cramer and Peter Lynch, they buy shares of companies they never heard of and don't know what they do. They somehow manage to lose money.
- Two big U.S. companies will merge. Analysts will applaud the move as good for the shareholders. The new CEO promises no job cuts. Once the deal is approved, there is a quiet announcement about "restructuring." Thousands of employees will lose their jobs, and the stock price finishes the year down 28 percent.
- A big pharmaceutical company will announce a clinical breakthrough with one of its new medications that is still in the testing phase. The stock price will shoot up.
- A big pharmaceutical company will announce that it is pulling a drug from further development. Its stock price will tank.
- A large brokerage firm or mutual fund company will be investigated for allegedly giving kickbacks. Investors are shocked and dismayed. These are the same folks who switch their checking accounts to get the free hockey tickets. The company is later relieved when they settle out of court with investigators for only $50 million.
- Properly diversified long-term investors will sleep easier knowing that they have a solid financial plan in place that weathers market downturns and generates positive returns during bull markets.

This last one I'm sure about! ■

# Bringing Insurance Education to the Mountain States Region

by Tim Query, Ph.D., ARM

**Tim Query, Ph.D., ARM,** is an associate professor and holder of the Mountain States Insurance Group Chair at New Mexico State University.

With the introduction of an insurance minor coupled with the establishment of the Insurance and Financial Services Center (IFSC) in 2005–2006, New Mexico State University (NMSU) joined a select group of universities offering insurance and risk management studies at the collegiate level. A majority of those programs are located east of the Mississippi River. In fact, of the U.S. insurance and risk management programs listed at the American Risk and Insurance Association web site, only 16 percent are in the western half of the United States.

In addition to its somewhat unique position in the mountain states region, NMSU also has a distinctive student base as well. The Las Cruces campus enrolls more than 16,000 students, with nearly 10,000 more enrolled at satellite campuses. Students come from all 50 states and nearly 80 foreign countries, embodying a vibrant mix of ethnicities, cultures, religions, and age groups. Many NMSU students hold part-time or full-time jobs while going to school, and a number are also first-generation college students. NMSU is a remarkably successful, educational value-added university. We take in students from widely varied backgrounds, and those who graduate from NMSU are uniformly well educated and strongly motivated.

The Insurance and Financial Services Center in the College of Business is dedicated to supporting students, faculty, and industry in the pursuit of knowledge as it relates to the field of insurance. IFSC facilitates interaction between students and industry primarily through scholarships and internship programs. The center also promotes research on issues relevant to the insurance industry in the mountain states region.

As with any successful insurance program, support from the insurance industry is critical. The establishment of the IFSC was made possible by major donors such as Mountain States Insurance Group, New Mexico Mutual Casualty Company, Blue Cross Blue Shield of New Mexico, the Lujan family, Nestor and Angela Romero, Independent Insurance Agents of New Mexico, Kemper Auto & Home Insurance Company, and RL Regulatory Consultants, Inc. We are also working with CPCU Society members in New Mexico to secure a set of CPCU textbooks for the IFSC library.

More than $15,000 is awarded annually to students studying insurance and risk management at NMSU. The large amount of financial assistance has been made possible by generous contributions by the insurance industry. The insurance industry in New Mexico is encouraging young people to pursue a course of study that will prepare them for careers in risk management and insurance. The New Mexico Department of Labor estimates a 7.5 percent growth in insurance industry employment from 2002 to 2012, so this is an efficient investment in the future of the industry.

The Insurance and Risk Management Program at NMSU is also fortunate to have a group of leading professionals with a wide range of insurance experience that makes up our Industry Advisory Council. They provide New Mexico State University with ongoing interaction with the insurance industry to ensure that our program produces graduates with the skills to be successful in today's job marketplace.

Faculty members of the Insurance and Risk Management Program have extensive academic and applied industry experience. The director of the Insurance and Financial Services Center is Al Berryman. Berryman is a past president of the Independent Agents of New Mexico, and owned his own agency for 23 years. He's also been general manager of a property and casualty insurance company, and has more than 30 years of insurance experience, including claims, underwriting, and marketing positions. Tim Query holds the Mountain States Insurance Group Chair and has a Ph.D., in risk management from the University of Georgia. He has published articles in numerous academic and trade journals, including the *CPCU Journal, Risk Management and Insurance Review, Journal of Insurance Regulation, Risk Management, Best's Review,* and *National Underwriter*.

Whether you are in the Mountain States region or in other parts of the United States, I encourage you to support university insurance and risk management programs. This can be done in a number of ways, including financial support for student scholarships, and recruitment of students for internships and career opportunities. In addition, many faculty invite guest speakers from the "real world" to share their experiences and expertise with today's college students. With an ever-increasing need for insurance products and financial services, skilled professionals will be in high demand for many years to come. One of the primary goals of programs such as ours is to ensure a steady supply of bright, motivated, high-quality candidates for insurance and financial services positions in the future. ■

# NAIC Life Insurance and Annuities (A) Committee Adopts Changes to Viatical Settlements Model Act

**Editor's note:** the following material was provided by Morris, Manning & Martin, LLP of Atlanta, Georgia. Contact information is listed at right.

On December 10, 2006, the NAIC Life Insurance and Annuities (A) Committee approved significant changes to the Viatical Settlements Model Act. The changes are scheduled to be considered by the full NAIC at the 2007 Spring National Meeting in March.

The amendments approved by the committee are aimed primarily at curtailing "investor-initiated life insurance" or, as it has been termed more recently, "stranger-initiated life insurance." To this end, the amendments establish a five-year prohibition on the settlement of a policy following issuance, except under certain narrowly defined circumstances.

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