From the Editor

by Bruce D. Hicks, CPCU, CLU

■ **Bruce Hicks, CPCU, CLU,** is senior editor, Technical and Educational Products Division, for The Rough Notes Company, Inc. in Carmel, Indiana. He began his career in insurance in 1981, serving several regional and national companies in personal lines underwriting, product research and development, auditing, regulation, and compliance. Hicks has been the research committee chairman for the Central Indiana Chapter of the CPCU Society and he currently serves on the CPCU Society's Information Technology and Diversity Committees.

A wise insurance professional once said, "If it weren't for 'change,' we'd all be stuck doing the same thing, the same way with the same people." Who did I quote? Well, if you don't know, the venerable Informatus Technologen Jr., the namesake of our special interest section, spoke these wonderful words. Okay, so you didn't fall for that. However, it is absolutely true that change is constant. How we deal with change is critical. It is an issue that our society has emphasized through the various ways it has encouraged us all to be resilient. When change is treated as a positive challenge, the results can be amazing.

Your section's committee is embracing a number of changes as we head toward the excitement of the CPCU Society's Annual Meeting and Seminars in Atlanta, GA, this October. The *Cutting Edge*'s former lead editor, **Robert L. Siems, J.D., CPCU,** is our incoming committee chairman. I am, for the time being, handling the editing duties solo (but I am working very hard to recruit more editorial help). We are also adding several new committee members who are stepping up and into the shoes of parting members who have provided several years of successful service.

Working in both insurance and in IT, you are well aware of the impact of change. Many of you, as part of your regular duties, help lead your organizations' efforts in adapting to new ways of doing business, handling data, and offering new or enhanced products and services. In this issue of *Cutting Edge*, we hope we have presented articles that touch upon some important issues. "Internet Security—A Growing Risk for Businesses" focuses on a major concern for most, if not all organizations. "Communication Breakdown in the Information Age" discusses a low-tech, but critical importance of basic communication among insurance professionals with different expertise and duties.

Our new IT section chairman and his predecessor share their thoughts on our goals and discuss the opportunities presented by the CPCU Society's Annual Meeting and Seminars. We also tell you about some special IT members who helped us achieve the Gold Circle of Excellence.

I, along with the other members of the IT Section Committee, are very eager to meet and discuss our continuing objective to make being an IT Section member worthwhile. We'll be sharing some new ideas with you and asking for your opinions. Please consider how you can make the most of your membership. And, as always, please let us know how we may improve the *Cutting Edge*. You're the reason why we publish it. ■

What's In This Issue

Internet Security—A Growing Risk for Businesses

More Types of Companies Are Vulnerable; Agents Step Up Their Risk Management Role

by Len Strazewski

■ **Len Strazewski** is a Chicago-based freelance writer specializing in marketing, management, and technology topics. In addition to contributing to *Rough Notes*, he has written on insurance for *Business Insurance*, the *Chicago Tribune*, and *Human Resource Executive*, among other publications.

Editor's Note: This article originally appeared in the September 2005 issue of *Rough Notes Magazine*. It is reprinted here with their generous permission.

Worms, viruses, identity theft, and Internet fraud of various sorts are old news to high-tech consumers, but commercial insurance clients are just beginning to understand the huge potential for business liability and operational losses these crimes create.

"And they are just discovering how those risks can be prevented or insured," says John Moccia, principal at The Rollins Agency, Inc., in Tuckahoe, New York, and director of its technology and professional division.

"Internet security breaches and other digital risks not only create operational losses for the victims, but they also may provoke third-party liability cases involving clients, consumers, and contractors," he says.

And while risk managers and chief financial officers are getting pretty savvy about the broad issues, they may not be up to speed on the technological issues of network security or the legal issues of privacy that may generate new kinds of liability, he notes. That education falls to their agents.

"Commercial clients are starting to understand that the risks involved with e-commerce and network security are potentially huge and devastating. They are at the point where they realize that privacy and confidentiality of their client information is as necessary as their own security," Moccia says. "And they are starting to ask about whether or not their insurance covers them against these losses."

The answer for many, according to agents, brokers, and insurers with high-tech expertise, is "no," under traditional business package policies and comprehensive general liability insurance.

Founded in 1910, Rollins has had a technology division since 1997, and is also a founding member of TechAssure, an international group of 15 brokers that specialize in technology clients and risks. The agency has 42 employees with eight in the technology division. The division's clients include software developers, Internet service providers (ISPs), online communities, e-commerce companies, online content providers, hardware manufacturers and distributors, telecommunications companies, consulting companies, and application service providers (ASPs).

The agency also has a special program, called Tech Track, for emerging companies in technology.

Technology division insurance products include professional liability, multimedia liability (personal injury, intellectual property, publishing and advertising liability), Internet commercial liability, Internet breach of security and loss of revenue coverage, research and development business interruption, computer property protection, technology errors and omissions, and patent infringement, as well as more traditional commercial and personal lines.

"Insurance carriers have responded pretty well with new kinds of coverages, but clients also need to understand how operational changes and improved security can help reduce their risks," Moccia says. "There are not good risk audit checklists for this. Clients have to rely on their agent's training and experience."

Steven Haase, chief executive officer of INSURETrust.com, a wholesale broker in Atlanta, Georgia, says he has been marketing cyber liability insurance since 1997 when he began underwriting the coverage for a Lloyd's of London syndicate that was experimenting with the new risks at the time.

The coverage has evolved since then, he explains, as the risks multiplied. Most commercial clients are now insured against their own data losses and some business interruption, the coverage that was first developed in the 1980s and 1990s with the explosion of enterprise computing systems.

Many organizations are expanding the coverage to include losses incurred by the customers, clients, and business partners who may depend upon their networks for business operations. Companies that manage online transactions, store or process data for clients, or maintain supply chain ordering and fulfillment may have particularly large third-party liabilities.

"Agents are finding that their existing clients are adding this coverage at renewal this year and new clients are starting to inquire about coverage and pricing," Haase notes.

INSURETrust.com has six employees and also markets professional liability coverages. Haase says the firm spends at least as much time helping retail agents and their clients with risk management issues as it does marketing coverage.

"Agents now more than ever have to be experts in risk identification," he explains. "We have to work with the retail agents to help them examine the real risk profile for their clients and identify the potential for high frequency and severity of potential losses."

"Helping clients understand their risk profile not only contributes to the application and underwriting process, but also helps organizations develop better overall security," he notes.

Cyber risks continue to grow in number and complexity, according to a recent survey conducted by the Computing Technology Industry Association (CompTIA) in Oakbrook Terrace, Illinois. More than 56 percent of the 500 organizations responding to the CompTIA Study on IT Security and the workforce reported suffering a browser-based attack—some sort of Internet hacking that uses the browser system and user system permissions to disrupt computer functions—in the previous 12 months. Last year, only about 37 percent reported these types of attacks and in 2003, only 25 percent were hit.

Phishing attacks—attempts to use realistic e-mail and imposter web sites to gather financial information from consumers—also increased dramatically. About 25 percent of respondents reported phishing attacks, up from 18 percent the previous year.

However, while viruses and software worms are still the leading problem, their incidence seems to be leveling off, according to the survey. About two-thirds of respondents reported virus or worm attacks, down from nearly 69 percent last year.

"The virus threat is still severe, despite better anti-virus programs," says Brian McCarthy, CompTIA chief operating officer. "Though security software has become increasingly more advanced in its ability to detect threats to networks, applications and operating systems, hackers are sophisticated enough to reverse engineer patches and launch counter-offensives to vulnerable systems in 48 hours," he says.

"These sorts of attacks create the potential not only for direct losses for the victim organizations, but also liability for losses sustained by individuals," says Brad Gow, vice president, ACE Professional Risk in Philadelphia, a leading underwriter of cyber risk coverage.

Last year, after the theft of credit card numbers from a bill processing company, California passed legislation holding businesses liable for consumer losses resulting from violations of their data security.

Gow says, "38 other states are considering similar legislation, creating a new level of liability exposure for many companies." Health industry and insurance companies also have privacy obligations under the 1996 Health Insurance Protection and Portability Act (HIPPA).

The result has been an opportunity for what Gow calls "cyber extortion," situations in which high-tech criminals demand payments from corporations in lieu of an attack, Gow says.

He cited a study conducted by the SANS Institute, a computer industry security organization in Bethesda, Maryland, that indicated that as many as 7,000 companies have already been hit by cyber extortionists, demanding from $10,000 to $400,000.

Among the threats used by the cyber extortionists are traditional "hacking" of confidential information held in online databases and "denial of service" attacks in which hackers flood the flow of information to Internet sites to prevent legitimate use.

"In addition to financial service companies that host monetary or credit transactions, online retailers are particularly vulnerable," Gow says, "and these days, many companies have some sort of online sales function, which means they are capturing credit card numbers and other private customer information that is very valuable to criminals." Because of the federal requirements under HIPPA, medical industry companies are also big targets for cyber extortion and hacking, he notes.

Agents and brokers who specialize in technology risks say that as the exposures are growing, insurers are responding with redesigned coverage and broad availability for employers of all sizes. About 15 insurers provide some sort of cyber liability in about 30 different products and packages, agents say.

Peter R. Taffae is managing director of Executive Perils, Inc., in Los Angeles, a wholesale broker specializing in technology and professional liability. The firm has nine employees and markets cyber liability coverage that meets what he says are the new standards of risk.

"There is still a broad misconception among small to medium-sized employers that their comprehensive general liability and business package policies will insure them against cyber risks," Taffae says. "In most cases, they are wrong and the coverage for these risks is either excluded or extremely limited. It really is up to their retail agent to identify their risks with a risk management audit and communicate the need for additional appropriate coverage."

Taffae says admitted markets can provide up to about $50 million in total limits, but most policies will be for much lower limits—from $100,000 for small businesses to about $10 million for larger companies. Underwriters include ACE USA, American International Group, Chubb Group, The Hartford Insurance Group, and Lloyd's of London.

Coverage and exclusions vary widely. For example, ACE USA offers coverage for both first- and third-party digital risks. A digital technology and professional liability policy provides professional liability coverage for technology and Internet errors and omissions, electronic media liability, network operations security liability, and cyber extortion. Minimum premium is $15,000 and limits of up to $25 million are available.

ACE also recently announced the Digital DNA Network Risk program, which insures against organizational and data losses resulting from digital risks. The policy covers business interruption losses, cyber extortion losses, loss of digitally stored assets, and security failure compliance expense. Limits from $1 million to $15 million are available, Gow says. ■
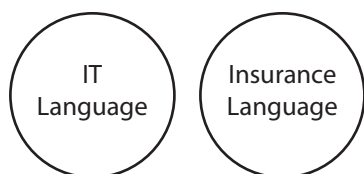
Communication Breakdown in the Information Age

by Bruce D. Hicks, CPCU, CLU

Humanity has long known that its survival involves big gambles. Once people recognized the threat of loss, they developed insurance as one way to deal with that threat. The concept of insurance steadily grew until it has become thoroughly entwined in modern life. It took much longer for people to develop computer technology, but once discovered, it also captured a prominent place in our daily lives, particularly in the form of information technology (IT). Unlike insurance, IT is fast-paced. Like insurance, it has practically spawned its own language. That fact may be an unacknowledged problem, a communications hurdle that hurts our business survival.
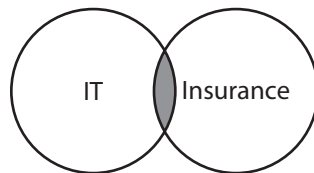
Own Language

What can be bothersome about both insurance and IT is that the languages are filled with special words, phrases, and acronyms. Though both areas are based on English, insurance mixes in contractual and legalese; where IT is saturated with computer, engineering, and Internet terms. Insurance and information technology are specialties where, within each area, communication can be difficult. The challenge is far greater when the two collide. Let's illustrate the situation by considering the following figure:
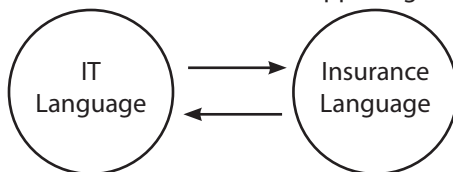

Imagine that there are two worlds with orbits that frequently cross each other's path. One is populated by insurance people who really don't know technology. The citizens of the other planet are technical people who don't know insurance. Certainly there are many persons who are either insurance-savvy IT people or IT-savvy insurance people.

However, the reality is that such persons are in a minority represented by the following:
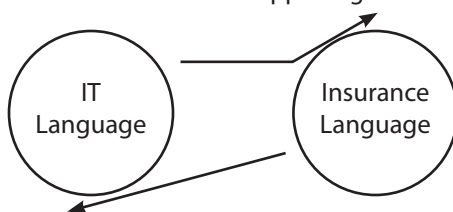

In today's world, we are constantly re-evaluating how we transact business. We are using higher levels of technology to handle everything, including rating, issuing, pricing, underwriting, inspecting, adjusting, billing, renewing, terminating, and so on. In order to use more technology in insurance, we first have to talk about how we want to use it. That means memos, e-mails, presentations, flowcharts, and meetings where we try to discuss or announce ideas and strategies. Unfortunately that communication is flawed. Here's another depiction:

What we often assume is happening . . .

What is REALLY happening . . .

How Were You Introduced to the Language?

Think back on how you became initiated in the special language of either insurance or information technology. Was it via a school model or an environmental model? In all likelihood, it was the latter. Like an infant growing up in a given household, you found yourself in a certain set of surroundings and you absorbed the language as you interacted with peers, management, and office operating systems. You learned

as you performed your job. That's not training, it's a corporate version of subsistence level survival. While it allows you to understand the bare minimum of what it takes to exist within your work environment, it is far from the ideal way to accomplish business goals.

Is this an appropriate analogy? Consider how it may apply to your current insurance/IT situation. How many meetings and discussions are held where participants know just enough about each other's area of expertise to struggle through. How many times does the next meeting occur or a project update come through and there's a breakdown about what was decided or what needed to be accomplished? The communication level is not where it needs to be in order to operate as efficiently as many insurers need to reap the benefits of their internal insurance and IT resources.

Communication Barriers

Let us be fair about this issue. First, in most instances, IT and insurance professionals do their best to communicate with each other. Second, special words, phrases, and acronyms serve a legitimate purpose. They act as either more precise ways of conveying meaning or they are shortcut descriptions. When used properly, they assist communications, at least among persons in the same special area of knowledge. However, when acronyms and special terms are used too much, communication seriously suffers. Terms and catchy phrases are flung around in a parody of communication, leaving listeners numb rather than enlightened. No interaction between workers should result in paralysis in the place of taking action to advance company goals. Another major complication is that both insurance and IT often use third parties as consultants to assist with new programs. Consultants often add a whole new set of special language into the mix. Unfortunately, attempts to share information often

results in spreading confusion because we are all frequently guilty of the following:

- assuming that other parties are familiar with definitions and acronyms

- using language to impress others, rather than attempting to communicate

- putting too much emphasis on creating more acronyms and buzzwords

- handing over unquestioned authority and communication responsibility to hired outsiders

Become a Communication Advocate

At this point we could act like a stereotypical consultant and suggest a complicated, proprietary set of strategies for dealing with communication problems faced by agencies and companies. But the answer is not complicated. Here's the secret to tackling insurance versus IT communication issues. First, keep repeating the following: "It all begins with me." The suggestion may seem humorous or whimsical, but it is critical for individuals, regardless of their area or level of expertise, to take full responsibility for creating accurate, meaningful communication. When meetings and discussions are confusing, it is quite likely that all of the participants made a contribution to the sub-optimal exchange of information. Your own communication effort is the only component that is under your full control, so each person must take active control of how he or she gives and receives information. Here are some steps that can help improve understanding:
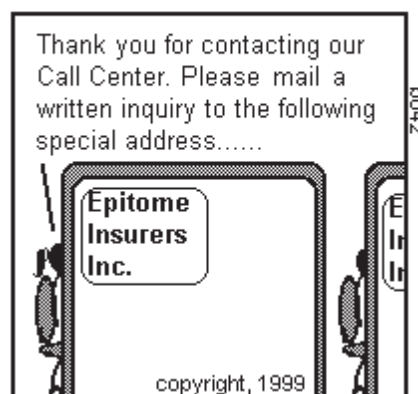
- Do not assume that other persons understand your point, so make your messages (oral and written) as simple and clear as possible.

- If you do not understand a term or phrase, ask for an explanation.

- Refuse to embrace needless buzzwords, acronyms, and special terms.

- Use meaningful illustrations or examples to clarify concepts or complex issues.

- Try to make everyone comfortable enough to share their opinions.

- Create company mini-glossaries with definitions of terms, acronyms, etc. that are frequently used by different departments, and make sure they're maintained and distributed.

There are a couple of assumptions that could actually help communication. One is to assume that everyone wants to share their ideas and opinions. Another is to assume that each person intends to contribute to successful communications. These assumptions should encourage open, honest discussions. Careful, attentive listening, supplemented by the habit of asking for clarification, will improve communications between persons and departments. ■

Liten Up!
by B.D.Hicks

Thank you for contacting our Call Center. Please mail a written inquiry to the following special address......

Epitome Insurers Inc.

copyright, 1999

IT Section Develops Annual Meeting Seminars

Cyber Liability Insurance Issues

Monday, October 24

10 a.m. to Noon

The Future Underwriter— Automation Yesterday, Today, and Tomorrow

Tuesday, October 25

10 a.m. to Noon

Visit www.cpcusociety.org to register for the CPCU Society's Annual Meeting and Seminars and to get details on these Information Technology Section seminars.

Get Your Career In Gear

Atlanta, Georgia
October 22-25, 2005

Special Thanks for IT Section Members' Special Efforts

The CPCU Society's Circle of Excellence (COE) program challenges its chapters and special interest sections to tackle activities that fulfill the objectives of our strategic plan. This year the Information Technology section has qualified for the Gold level. Our meeting the highest performance level is due to the efforts of the members of our IT Section Committee; the work performed by our Circle of Excellence submission coordinator, **David Mowrer, CPCU, CLU, ChFC;** and the contributions of several IT section members.

CIRCLE OF EXCELLENCE
RECOGNITION PROGRAM
GOLD

As is the case with all section committees, we expect solid, steady work from our committee members. However, we can only encourage and hope for assistance from our regular members. Therefore, it is exciting and gratifying that several section members made strong contributions that helped us to qualified for Gold-level COE recognition. The IT Section Committee, on behalf of itself and the section's membership, offers a heartfelt "**Thank You**" to:

• Section member **Tracy Spadola, CPCU,** who presented "Avoiding Toxic Data: A Basic Approach to Editing, Testing, Standards and Data-Mining Techniques" at the Insurance Technology Conference (ISOTECH), "Get Connected 2004." Spadola also presented the seminar "Understanding Data Quality" at the Insurance Data Management Association (IDMA) 2005 Annual Conference.

• Section member **Randy Garner, CPCU,** who spoke about the benefits of the CPCU designation to a non-CPCU audience at a "Technology Trends in Insurance and Banking" seminar.

• Section member **Janice Poppen, CPCU,** who conducted an outreach program supporting both national and chapter membership by co-chairing the CPCU Society's Central Illinois Chapter's Candidate Recruitment and Development (CRD) Committee. The chapter promotes the CRD Scholarship to local CPCU candidates and also works to attract sponsors to the program.

All of the IT Section's members can play a critical part in our success. Besides thanking the above members for their fine work, we encourage everyone to make contributions that display our expertise and skills in order to serve the insuring public and the CPCU Society.

For details on the Circle of Excellence Recognition Program, please visit www.cpcusociety.org. ■

Liten Up!
by B.D.Hicks

What is it about me that makes you question my "people" skills?

b053

SYSOut

by Robert L. Siems, J.D., CPCU

■ **Robert L. Siems, J.D., CPCU,** is an insurance defense trial attorney with the Law Offices of Robert L. Siems, P.A. He focuses on coverage and claim-handling issues, trial advocacy, and ADR; and consults on litigation management and risk management issues. He was National Extra-contractual Group Counsel for St. Paul Fire and Marine Insurance Company and USF&G Insurance Company. Siems is past president of the Maryland Association of Defense Trial Counsel.

This is written from both Patricia L. Saporito, CPCU, and me. I write as the incoming chairman to express my optimism for the section's future. That optimism is a direct product of watching our progress while Pat has served as your chairman.

The highest accolade a section is given is the Gold Circle of Excellence. Pat has steered us to annual Gold distinction. Fortunately, she will remain on the section committee to provide her insight and leadership.

What are the goals of your section as we move forward? My sense is that a brief summary includes these:

1. To promote your careers by increasing the perception in our industry that your designation as a CPCU and your associate designations and membership in the IT section make you the best choice for employment and promotions.

2. To provide educational and networking opportunities for you that facilitate development of the professional expertise that corresponds to the first goal.

The question about the section's goals is really yours to answer. My e-mail address is bobsiems@lawrls.com. Please share your thoughts with me. This October at the CPCU Society's Annual Meeting and Seminars in Atlanta, your section committee meets to define the section's short-term goals for the upcoming year and longer term goals for the next three years. Any ideas that you e-mail me will be considered in deciding where the section needs to go and what strategies and tactics are best implemented to get there.

Feel free to share your recommendations and ideas with any of the other committee members:

Bruce D. Hicks, CPCU, CLU
The Rough Notes Company Inc.
11690 Technology Drive
Carmel, IN 46032-5600
bruceh@roughnotes.com
(W) (317) 816-1062

David L. Mowrer, CPCU, CLU, ChFC
State Farm Group
david.mowrer.apxd@statefarm.com
(W) (918) 641-7892

Christopher H. Ketcham, CPCU
National Alliance Insurance Co.
102 Honeysuckle Lane
Pflugerville, TX 78660-4140
chrisketcham@msn.com
(W) (512) 349-6120

Patricia L. Saporito, CPCU
Information Builders, Inc.
26th Floor, Two Penn Plaza
New York, NY 10121-2898
patricia_saporito@ibi.com
(W) (917) 339-6246

Michael J. Highum, CPCU
McGowan Insurance Group Inc.
Suite 1850, 10 West Market Street
Indianapolis, IN 46204-2972
michaelh@mcgowaninc.com
(W) (317) 464-5000

Mitchell C. Motu, CPCU
Marsh Risk and Insurance Services
Suite 300 (W)
4445 Eastgate Mall
San Diego, CA 92121-1979
mitchell.c.motu@marsh.com
(W) (858) 552-4231

John P. Franzis, CPCU
IBM Corp.
jfranzis@us.ibm.com
(W) (765) 463-8519

GET YOUR CAREER IN GEAR!

**CPCU SOCIETY ANNUAL MEETING AND SEMINARS
ATLANTA • OCTOBER 22-25, 2005**

SYSOut

continued from page 7

Kevin S. Letcher, CPCU
State Farm Insurance
2550 Northwestern Avenue (W)
West Lafayette, IN 47906-1394
kevin.s.letcher.a5ju@statefarm.com
(W) (765) 463-8519

Mitchell C. Motu, CPCU, John P. Franzis, CPCU, and **Kevin Letcher, CPCU,** are new members who we are fortunate to now have on the committee. I look forward to working with them.

The Annual Meeting and Seminars provide an excellent opportunity to prepare for the upcoming year. Ideas are shared not only with your section committee members but with creative and active CPCU Society members from the other sections and from the national office.

The Conferment address will be given by columnist, **George Will. Lou Dobbs** from CNN gives the keynote address. Educational opportunities will abound. Your section developed two seminars: "Cyber Liability Insurance Issues" and "The Future Underwriter—Automation Yesterday, Today, and Tomorrow." They promise to be excellent sessions.

Michael Highum from McGowan Insurance has planned a seminar that focuses on issues to consider in purchasing the wide variety of policies available to cover technology, media, privacy, and e-commerce risks, and it will analyze market availability and the current "players" offering cyber insurance.

"Breach of Privacy and Identity Theft," developed by **Richard G. Clarke, CPCU, CIC, RPLU,** addresses the existence of coverage for possible allegations; "dos" and "don'ts" relating to an individual's protection of sensitive personal information, a general summary of the legislation applicable to privacy and identity theft; policy comparisons; important coverage provisions of personal and commercial lines policies; and relevant statistics.

"Poof, It's Gone" is a mock trial in which I will participate. **Stanley Lipshultz, CPCU,** has worked up an imaginative case study to exhibit how fraud in an information technology context is litigated, focusing on E&O exposures, underwriting, and claim implications.

Finally, Welcome to the Class of 2005! We look forward to meeting you in Atlanta and to working with you in the future. ■

♲ Printed on Recycled Paper

Cutting Edge

IT