

## Chairman's Corner: Who We Work For . . .

by Daniel L. Blodgett, CPCU, AIM, AIS



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Some of us, including me, had a "working vacation" during the recent Annual Meeting and Seminars in Honolulu, Hawaii. My family traveled to Hawaii a week before the CPCU Society's meeting and had a great time. I still had many things going on back at work and was in touch with my teams at various times. I call it a working vacation because handling e-mail and conference calls from my lanai (terrace of the condo) felt much different than working from the office! The second half of the trip was dedicated to another kind of work for another type of customer.

So who was I working for on the second half of my Hawaiian "vacation"? My focus was on CPCU Society volunteer activity and I work for you, and so do the rest of our Personal Lines Interest

Group Committee members—**Dale M. Halon, CPCU; George L. Bowen, CPCU; Robert A. Braun, CPCU; Roger G. French, CPCU, CIC; Loren B. Gallogly III, CPCU; Kellie H. Green, CPCU; Christian J. Lachance, CPCU, CLU; Richard T. Lang, CPCU; Roger E. Lizakowski, CPCU; Robin K. Olson, CPCU, CRIS, ARM, AAM, ARP; and Philip B. Weymouth Jr., CPCU.** To use a surfing analogy, the Personal Lines Interest Group Committee consistently catches wave after wave with no wipeouts.

Not just in Honolulu, but throughout the year, we diligently work on CPCU Society tasks such as Annual Meeting educational and social offerings or articles for *Personally Speaking* or

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workshops in our home chapters. We also have many communication events such as our web postings for Circle of Excellence or opinions on Society direction, or one-on-one “welcomes” as new members join the Personal Lines Interest Group.

**Educational Offerings**—This year the “destination of choice” was Honolulu, which presented challenges. Not everyone on the committee was able to participate in the events for various reasons. However, your committee proudly offered two events:

- **Robin K. Olson, CPCU, CRIS, ARM, AAM, ARP**, led his committee (**Dale M. Halon, CPCU**; **Roger G. French, CPCU**; **Philip B. Weymouth Jr., CPCU**; and **Christian J. Lachance, CPCU, CLU**) in the development and presentation of the seminar, “Technology in Personal Lines Insurance: Riding the Waves.” In addition to recruited speakers Michael Onofrietti and Christopher Perini, our very own Personal Lines Interest Group Committee members **Robin K. Olson, CPCU**, and **Philip B. Weymouth Jr., CPCU**, presented to a full house how insurers use technology in the personal lines market.
- **Dale M. Halon, CPCU, CIC**, and **Loren B. Gallogly III, CPCU**, led our social event for Honolulu. We once again offered a Personal Lines Interest Group breakfast with a short educational program. Doug Akin, J.D., was our featured speaker discussing the uniqueness of CAT claim handling on the islands.

**Newsletter**—Our editorial volunteers, **Kellie H. Green, CPCU**, and **Robert A. Braun, CPCU**, continue to make it look easy to produce our newsletter. They have great material resources in all of you and a super crew in Malvern who put the final pieces together for everyone's benefit. Kellie and Bob definitely work for you—let them know if you have offerings for the newsletter such as your own articles, suggested articles of others,

or any other ideas or suggestions, as they are welcome.

**Communication**—Here are great examples to show how we work for you:

- Recently you received e-mail from members of the committee soliciting your feedback for the Section Strategic Implementation Task Force. (It's now official—we are interest groups rather than sections.) Your opinions are very important to the CPCU Society, and the Personal Lines Interest Group Committee can/will be your spokesperson so that your voice is heard. Several members of the committee were “riding the waves” to gather your feedback—**Richard T. Lang, CPCU**; **Roger E. Lizakowski, CPCU**; **Roger G. French, CPCU, CIC**, and **Kellie H. Green, CPCU**. Thanks to our webmaster **Richard T. Lang, CPCU** (backed up by **Roger G. French, CPCU**) you can view the feedback received on the FAQ link on our Personal Lines Interest Group web site at <http://personallines.cpcusociety.org>.
- Circle of Excellence input was gathered by **Loren B. Gallogly III, CPCU**, helping the Personal Lines Interest Group to achieve the gold level again this year. Just like our

newsletter editors, Gallogly makes the Circle of Excellence submission look easy, and he cannot do this without the input from all of you in documenting your many local CPCU Society volunteer activities.

- If you joined our interest group in the past two or three years, you have most likely received a phone call, voicemail, and/or e-mail from me or another member of our committee welcoming you to our interest group. I take the welcome wagon communication very seriously as networking is at the core of our Society's goals. Ensuring you receive benefit and feel a sense of belonging to our interest group is important to me and everyone in the committee.

I am proud to be a CPCU Society volunteer and am glad to work for you. I know many of you volunteer too, whether it is in your personal or professional lives so you understand how gratifying it can be to achieve goals with a group of fellow volunteer leaders. Let's keep riding the waves together and we will achieve even more success as an interest group.

Until next time. ■

## Brain Teaser

A young man was carrying three pieces of gold, each weighing one pound. While strolling through the forest he came to a bridge that posted a sign saying the bridge could hold a maximum of 150 pounds. The man weighed 148 pounds and the gold weighed three pounds in total. The young man, however, read the sign and safely crossed the bridge with all the gold. How did he manage?

*The young man is an accomplished juggler—as he approached the bridge, he juggled the gold, always keeping at least one piece in the air.*

# Note from the Editor

by Kellie H. Green, CPCU



■ **Kellie H. Green, CPCU**, works in the product operations area of Allstate Insurance Company, supporting personal lines risk management. She is co-editor of the CPCU Society's Personal Lines Interest Group newsletter, *Personally Speaking*.

**H**ard to believe, but our year is quickly drawing to a close!

As you look back, I hope you see a year of progress filled with learning opportunities and memorable experiences. I know that is the case for me as I reflect on my year personally, but also as I reflect on our year as a Society and as an interest group.

We will spend some time in this issue of *Personally Speaking* in reflection as well, as we look back at our progress over the course of 2007.

Our chairman, **Daniel L. Blodgett, CPCU, AIM, AIS**, starts us off with his own thoughts and insights about our efforts this year—you may be surprised to see all that we have accomplished!

For those of you who were not able to attend the Annual Meeting and Seminars in Hawaii, we are providing an overview of the two educational sessions that our interest group developed and presented. Both of these sessions were well attended and well received.

**Robin K. Olson, CPCU, CRIS, ARM**, provides an overview of "Technology in Personal Lines Insurance: Riding the Waves," a seminar focused on the impacts of technological advances on personal lines risks from three perspectives: technology providers, insurers, and agencies.

**Dale M. Halon, CPCU, CIC**, follows with an overview of "Hurricanes in Paradise," a breakfast meeting that provided interesting insights into the unique impacts of hurricanes in the Hawaiian Islands.

Olson returns a second time in this issue to round out his very informative series on insurance implications of home-based businesses. This final installment focuses on the policy and endorsement provisions necessary to cover a business of this type.

And finally, we highlight some of your own efforts and contributions as we share an overview of feedback received from our members relative to our strengths and opportunities as an interest group.

These great articles, coupled with a spotlight on another of our hard-working committee members, a fun puzzle to keep your mental wheels turning, and some leadership quotes for reflection, provide for another full issue.

As you reflect on your year as a CPCU, I hope you find that your membership in the Personal Lines Interest Group and reading *Personally Speaking* are two things you can add to your list of memorable and valuable experiences.

Happy Holidays! ■

# Personal Lines Interest Group Seminar a Hit in Honolulu

by Robin K. Olson, CPCU, CRIS, ARM, AAM, ARP



■ **Robin K. Olson, CPCU, CRIS, ARM, AAM, ARP**, is director of training and education for the International Risk Management Institute (IRMI) and is the editor of IRMI's *Personal Lines Pilot*.

He contributes articles on personal risk management and auto risk management to the Expert Commentary section of IRMI.com.

Olson received a B.A. degree in economics, cum laude, from Southern Methodist University in Dallas. He is a Chartered Property Casualty Underwriter (CPCU) and holds the Associate in Risk Management (ARM), Associate in Automation Management (AAM), Associate in Research and Planning (ARP) and Construction Risk and Insurance Specialist (CRIS) designations. In addition, Olson also serves as an adjunct professor at the University of North Texas where he teaches risk management classes.

Before joining IRMI in 1998, Olson was an underwriting manager for two national insurance companies where his experience encompassed both personal and commercial lines.

The Personal Lines Interest Group recently presented a well-attended seminar at the CPCU Society's Annual Meeting and Seminars in Honolulu on Tuesday, September 11. The seminar, attended by more than 120 people in the Hawaii Convention Center, was entitled "Technology in Personal Lines Insurance: Riding the Waves." This session provided an overview of how technology has changed the personal lines risk and how insurers have responded to (a) the changes in the risk; (b) the technologies used to underwrite applications; and (c) the tools utilized to adjust personal auto and homeowners claims.

The session was composed of three speakers: **Christopher H. Perini, CPCU**, with ISO; **Michael A. Onofrietti, CPCU, ACAS, MAAA**, with AIG Hawaii; and **Philip B. Weymouth Jr., CPCU**, of Weymouth and Smith Insurance Agency.

Perini led off the session with an analysis of the types of technology that insurers use, such as black boxes, Geographic Positioning Systems (GPS), predictive modeling/expert systems in underwriting, and cutting-edge technology for ordering underwriting reports. Of particular interest was his discussion on straight-



■ *More than 120 attendees learned how insurers have utilized technology to underwrite and market personal lines claims.*

through-processing (STP). Simply put, STP is a revolutionary solution that automates the end-to-end processing of insurance transactions from initiation to resolution. STP can streamline back office activities, leading to reduced problems, lower risks, and significantly lower costs per transaction. According to Perini, it encompasses a set of applications, business processes, and standards that will redefine the processing of business within the financial services industry.

The second speaker, **Michael A. Onofrietti, CPCU, ACAS, MAAA**, specifically addressed the reasons direct marketing insurers use technology, searching for the latest "silver bullet," and the challenges of black boxes in the United States. He focused considerable time on the restrictions many states, such as Hawaii, impose on insurers in their underwriting guidelines and operations. In addition, he focused on privacy and ethical issues related to technology in the personal lines arena.

The concluding speaker, **Philip B. Weymouth Jr., CPCU**, addressed technology from an independent agency and personal lines insured perspective. He first addressed how technology has helped agents and insureds. For example, state-of-the-art technology has enhanced communication between agents and insureds through effective e-mail. It has improved the agent's ability to cross-sell through the nearly instant availability of an insured's entire portfolio. Conversely, as Weymouth relates, technology has hindered agency operations at times because the software is very complicated and, as a result, every agent needs a technocrat. He also emphasized that a paperless office is a pipe dream, and there is still a lack of insurer standardization.

A lengthy question-and-answer segment completed the session, with several lively interactions about the role of technology in the personal lines insurance arena. ■

# Breakfast in Paradise and a Hurricane in Paradise

by Dale M. Halon, CPCU, CIC



■ **Dale M. Halon, CPCU, CIC**, is assistant vice president for ISO Innovative Analytics, where he has responsibility for sales and marketing of ISO's newly formed predictive modeling analysis tools. Halon is an active member and leader in the CPCU Society, and he is also a member for the DMA Financial Services Council. He has published articles for *Personally Speaking* on a variety of topics, and has also published articles for other insurance trade publications and industry groups on predictive modeling, the use of consumer credit in insurance, privacy and e-mail marketing.

**T**hirty of us were lucky enough to share each other's company for the second annual Personal Lines Interest Group Breakfast at the CPCU Society's Annual Meetings and Seminars. While the breakfast, company, and scenery fit the paradise theme, the subject matter of the educational topic reminded all of us that even paradise has its boundaries.

While we dined on french toast and Hawaiian tropical fruit and sipped our Kona coffee, **Doug Aiken, J.D.**, shared the details of Hurricane Iniki on its fifteenth anniversary of ravaging the Garden Isle of Kauai. Aiken is vice president of claims, Hawaiian Insurance and Guaranty Company (HIG).

Kauai is the oldest of the four major islands with a land area of roughly 550 square miles. The 2000 census shows the population at 58,303 with the primary industry of tourism. As insurance professionals, we're used to reading about disasters. We're used to standing by our customers in such times as well. The challenges presented by this nearly Category 5 storm made this event much different.

- Remember, our fiftieth state is an island, or set of islands. This brings many more logistical facts into play during and after the storm. First, there is no place to run. Landfall was not predicted—until 24 hours before Iniki hit. The rough seas prevented any possible evacuation.
- Since all electric and other utility service was devastated, the government could not operate. There were no services, no communication, and no organized form of sustained government for several weeks on the island.
- Nearly all of the buildings in the state were damaged, there was no way off the island, and no place to evacuate—there was no place for victims to go who had lost their homes. While this made for much less ALAE (temporary living expenses), it created a sizeable temporary homeless population.



■ **Doug Akin, J.D.**, vice president of claims for Hawaiian Insurance and Guaranty Company, talked about the unique differences of handling hurricane claims in Hawaii compared to the mainland.

- All labor and materials have to be shipped to the island. In fact, all building materials have to first be shipped to Honolulu on the island of Oahu and then transferred to Kauai. Since there were not adequate supplies of materials readily available in the state, rebuilding took much longer than it would have taken on the mainland.
- For the first two weeks, only emergency personnel were allowed to go to Kauai. Therefore, insurance adjusters were turned away and could not begin the assessment or settlement process for at least that long.
- Many of Hawaii's homes are built with single wall construction. The older homes were built with high-quality redwood, which is no longer available. Repair and reconstruction costs were formidable.

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# Breakfast in Paradise and a Hurricane in Paradise

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■ *Doug Akin, J.D., provided some eye-opening statistics and facts about Pacific hurricanes and Iniki to attendees of the Personal Lines Interest Group Breakfast.*

Some facts about Pacific hurricanes and Iniki:

- At 2,500 +/- miles from the west coast, Hawaii is in the center of the Pacific Ocean a “hot spot,” whose origin is tectonic plates underneath the ocean.
- Such a remote location gives the chance of hurricanes finding the islands to finding a needle in a haystack.
- Hurricanes in the Pacific either cross over or are formed off the coast of Central America or Mexico. They move north or west and die in the colder waters east of Hawaii or pass south of the islands.
- The number of storms during hurricane season relate to El Nino. During El Nino years, the number and intensity of storms increase, while the number and intensity during La Nino years is lower.
- In 1992 (El Nino) there were 11 tropical cyclones in the central Pacific. Three became hurricanes and Iniki was at least a Category 4 and possibly a Category 5 when it struck

the island of Kauai. Iniki’s origin likely formed as a tropical storm off the coast of Africa. Favorable conditions strengthened it—a combination of water temperature and upper level winds.

- Wind/wave damage stretched from Kauai to Oahu; crops, businesses, tourism, 14,000+ homes, etc. All of HIG’s 4,000 insureds on the island had storm damage. There were no bad-faith disputes for the entire event.

- \$2.6 billion in damage and six deaths; among the costliest hurricanes on record in the eastern Pacific.

In the aftermath of Iniki, many insurers left the market after the incident so the Relief Fund of 1993 helped protect Hawaiians. Insurers began returning to the market in 2000 so the Relief Fund was not needed again. New modeling software was designed with storm approach and impact calculated using the historic information provided by Iniki. However, if another “Iniki” hit it, the costs are estimated at \$25 billion in damages.

Personally, I was moved by the information as the last leg of my trip to the Annual Meeting and Seminars was to visit Kauai for some R&R and three days of golf. I am happy to report the island is fully functional and one of the most beautiful places I have ever seen. While it may be many years before the next CPCU Society conference is in Honolulu, it would be worth a visit. Island hospitality and the constant peaceful weather and scenery should be more than a draw. Trust me, I intend to return before another “Iniki” does. ■

## About the Presenter:

**Doug Aiken, J.D.,** graduated from L’Anse Cruese High School in Harrison Township, Michigan; San Francisco State University; and John F. Kennedy School of Law with a juris doctorate degree. He has been in claims and litigation throughout his insurance career and is currently the vice president of claims with HIG. Over the past 13 years at HIG, Aiken has given more than 14 seminars on insurance-related issues; 12 of which were approved for MCLE credits. The subjects have included Hawaii Auto Insurance Coverage and Issues, Homeowner Insurance Coverage, Insurance and Bad-Faith Litigation, Adjust in Auto Claims under Hawaii’s Revised No-Fault Legislation, and Act 300: Hawaii’s Good Faith Settlement Act.

# Insuring the Home-Based Business (Part 3)

by Robin K. Olson, CPCU, CRIS, ARM, AAM, ARP

**Editor's notes:** This article is reproduced with permission from International Risk Management Institute's web site, IRMI.com. IRMI retains the full copyright to this article.

Part 1 of this series examined homeowners policy restrictions regarding home-based businesses. Part 2 of this series discussed court decisions and interpretations of what constitutes a "business." This article looks at the proper endorsements and policies needed to adequately protect home-based business owners.

There are clearly gaps in coverage for home-based businesses under the unendorsed homeowners policy, gaps that are often enforced by the courts. Different homeowners endorsements, however, can be added to address loss exposures arising from these businesses but many of them still leave gaps in coverage.

## ISO Business-Related Homeowners Endorsements

A simple way of expanding the limit for business property under the homeowners policy is via the Insurance Services Office, Inc. (ISO), increased limits on business property (HO 04 12) endorsement. This homeowners endorsement increases the \$2,500 limit of liability for business property located on the residence premises by the amount shown in the endorsement schedule up to \$10,000. The problem with this endorsement, however, is that it does not affect the business liability exclusion. Thus, its value to home-based businessowners is suspect.

Another endorsement, the business pursuits (HO 24 71) endorsement, is also not the best option for the home-based businessowner. This endorsement expands business pursuits liability coverage and is geared toward occupational categories such as sales, clerical, and instructional.

The endorsement, however, does not apply to any business that is either owned or financially controlled by the insured or by a partnership of which the insured is a member.

A better option is ISO's home business insurance coverage (HO 07 01) endorsement, promulgated in 2000 due to the growing number of home-based businesses in the United States. There are four principal classifications applicable to this program, as shown in Table 1.

The home business must meet the following four criteria to be eligible for coverage under this endorsement.

1. It must be owned by (a) the named insured, or (b) a partnership, joint venture, or other organization that is composed only of the named insured and resident family members.
2. The business must be operated from the residence premises, which is primarily used and designed for private residential purposes.
3. The business can have up to three employees but cannot produce gross annual receipts over \$250,000. Larger businesses need to be insured under the appropriate commercial coverage forms, such as the businessowners policy (BOP).
4. The business cannot involve the (a) manufacture, sale, or distribution of food; and (b) manufacture of personal care products and the sale or distribution of these types of products. However, the exception concerns a business involved in the sale or distribution of nationally recognized personal care products (e.g., Avon) manufactured by a reputable company.

This endorsement (informally referred to as HOBIZ) provides business property, business income, extra expense, personal liability, and medical payments coverage.

Additional business property covered includes accounts receivables and valuable papers and records.

Valuable liability coverage not found in the unendorsed homeowners form is provided with this endorsement. For example, personal liability coverage is extended to include personal and advertising injury, covering incidents such as infringement on copyrights in advertising and written publication of material that violates a person's right to privacy. Products and completed operations coverage can also be included in the liability coverages. Note that there is no professional liability coverage (e.g., accountant's errors and omissions) with this endorsement. A separate professional liability or errors and omissions (E&O) policy is necessary to cover this loss exposure.

There are also several more specific endorsements utilized in connection with the HOBIZ endorsement. For example, the additional insured-vendors (HO 07 51) endorsement adds liability coverage for vendors or distributors arising out of the specified vendor's sale or distribution of the named insured's products. Thus, if the insured operates an Amway business in his home and occasionally uses a vendor to help sell these products, the vendor can be designated as an additional insured.

The loss payable provisions (HO 07 52) endorsement provides for situations involving a loss payee or lender's loss payee under a contract of sale. For example, assume Donna operates a sole proprietorship out of her home and purchases sophisticated computer equipment for this business. She signs a contract for the sale of this property, including the financing. The computer store has a financial interest in the equipment. Thus, if a major fire decimates Donna's home, the store could be protected with this endorsement.

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# Insuring the Home-Based Business (Part 3)

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<b>Table 1</b> <b>ISO Home Business Classifications</b>	
<b>Classification</b>	<b>Description</b>
<b>Office</b>	Applicable when the business concerns professional or administrative activities for its customers. Examples include accounting, résumé writing, telephone answering, and technical writing.
<b>Service</b>	Applicable when the business provides repair or other services for its customers. Examples include computer repair, pet-sitting, bicycle repair, clock and jewelry repair, housecleaning, and photography.
<b>Sales</b>	Applicable when the business involves product sales, other than crafts made in the home or other structures and when sold from the home. Examples include the sale of books, magazines, costume jewelry, cosmetics, household products, plants and flowers, and stationery.
<b>Crafts</b>	Applicable when the business involves selling from the home, other structures, or other locations, crafts made in the home or other structures. Examples include crafts such as ceramics, dolls, flower arrangements, miniatures, and quilts.
<i>Source: Insurance Services Office, Inc., Homeowners Policy Program Manual, 2000, p. HO-28, HO-29.</i>	

The special coverage for valuable papers and records (HO 07 57) endorsement extends coverage for valuable papers and records from a named perils basis to an all-risk basis up to \$2,500. Thus, if the insured sells a limited number of historical documents via the Internet out of his home, broader coverage (e.g., mysterious disappearance) would be provided with this endorsement.

## AAIS Home-Based Business Endorsement

American Association of Insurance Services (AAIS) developed a home-based business endorsement in 1998 to be attached to its homeowners, farmowners, or mobile-homeowners policies. There are six principal classifications applicable to this program, as shown in Table 2.

Ineligible classes include the following.

- contracting operations that offer installation services
- child and adult care services
- home healthcare services
- lawn care services

- risks with more than a single business conducted on the premises, with some exceptions

To be eligible for coverage, the home business must meet the following requirements:

- The business must be owned by one or more insureds on the underlying policy.
- The business must be an incidental occupancy of the insured residence.
- The annual gross receipts cannot exceed \$250,000.
- Business operations cannot be permanently conducted at any other locations under the same legal name.
- The business cannot have more than three employees, including family volunteers.

Property coverage is expanded to accommodate the needs of the home-based businessowner under the AAIS endorsement. Thus, other structures used to store business property are covered. The full personal property limit applies to business property. Property coverage options include guests' personal property

coverage for bed and breakfast businesses, accounts receivables, loss of income, extra expenses, and spoilage coverage.

The liability limits include a general aggregate limit and a products-completed work hazard aggregate limit. Liability coverage options include personal injury/advertising injury, expanded contractual, non-owner auto/hired auto, cosmetologists liability, watercraft, and incidental fire legal liability. There is no professional liability coverage under this endorsement.

## Businessowners Policy

For certain home-based businesses that may be ineligible for any type of homeowners endorsement coverage (e.g., businesses whose annual receipts exceed \$250,000), the businessowners policy (BOP) provides another option. The ISO BOP is a package policy designed to provide both property and general liability coverage for eligible small businesses. It is written on special BOP forms and rated in accordance with special BOP rates and rules.

<p><b>Table 2</b></p> <p><b>AAIS Home-Based Business Classifications</b></p>	
<b>Classification</b>	<b>Description</b>
<b>Offices</b>	Includes businesses such as word processing, tutoring, real estate agents, counseling, and insurance agents. There is no professional liability coverage and the classification does not contemplate any products or completed operations loss exposures.
<b>Service</b>	Includes businesses such as hair styling, photography, furniture upholstery, and house sitting. There is no professional liability coverage, but cosmetologist's liability coverage is available as an option. Completed work exposures are contemplated in the service rating information.
<b>Retail</b>	Includes the sale of cosmetics, collectibles, vitamins, and healthcare products, and artwork. Products liability exposures are reflected in the retail rating information. Businesses, however, that manufacture their own products or sell products packaged under their own label, are ineligible for coverage under the home-based business program.
<b>Crafts</b>	Applicable to businesses that make and sell crafts. This classification includes craft sales at other locations and on consignment. Examples include flower arrangements, wood products, fabrics, and decorative clothing. Products liability exposures are reflected in the crafts rating information.
<b>Food</b>	Applicable to businesses that make, handle, distribute, or sell food to be consumed either on or away from the residence premises. Examples include baked goods, canning, fruit and vegetable stands that do not have pick-your-own operations, and picnic baskets. There is no liquor liability coverage if the insured is involved in manufacturing, distributing, selling, or serving alcohol. Products liability exposures are contemplated in the food rating information.
<b>Bed and Breakfast</b>	Applicable to small bed and breakfast operations with a maximum of six rooms for overnight guests. The bed and breakfast must be owned <b>and</b> operated by one or more persons insured by the underlying policy. A liquor liability exclusion applies for liquor sold for a charge and liquor that is given away and not sold when a license is required for such activities. Products liability covers products consumed on or off the residence premises.
<p><i>Source: American Association of Insurance Services, AAIS Educational Materials—HO Section 1: Home-Based Business Program Revision 2.0, 1998, pp. 1.2, 1.3.</i></p>	

In general, the BOP is designed for insuring small businesses. However, eligibility is based on the nature as well as the size of the insured's business. For a business to be eligible for coverage under a BOP, none of its locations can exceed 25,000 in square footage (excluding basements not open to the public) and \$3 million in annual gross sales. The following types of businesses are ineligible regardless of their size.

- manufacturers
- auto repair or service stations; auto, motor home, mobile home, and motorcycle dealers; parking lots or garages

- bars and pubs
- places of amusement
- banks and other financial institutions
- self-storage facilities that provide outdoor storage of motorized vehicles of any type

Many of the property coverages that are optional in the home business endorsements are automatically covered under the BOP, such as business income, extra expenses, and valuable papers and records. Liability coverage under the BOP is similar to those offered through home-based business endorsements, such as personal injury and advertising injury

protection. Like the endorsements, the BOP does not provide any professional liability coverage.

Although the BOP can be written for certain home-based businesses, it is designed for traditional small businesses with commercial locations. Thus, the home-based business endorsements are a preferable way of covering these exposures since the endorsements were written specifically for home businesses.

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# Insuring the Home-Based Business (Part 3)

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## Other Insurance Lines

The chief focus of this discussion concerns how the unendorsed homeowners policy is insufficient for home-based businesses. However, a brief mention of other types of property and casualty insurance for these businesses is in order. This includes an overview of loss exposures pertaining to automobile, excess liability, professional liability, and workers compensation coverages.

## Automobile

In most cases, an insured's personal auto policy (PAP) provides coverage for automobile-related losses arising from the home-based business. For example, the ISO PAP contains a general business liability exclusion, but this exclusion does not apply to the maintenance or use of a private passenger auto, a pickup or van, or a trailer used with one of these vehicles. Thus, a business-related auto loss arising from a large commercial vehicle (e.g., three-ton truck) would not be covered. Most home-based businesses, however, do not utilize vehicles of this size.

There are other personal auto liability exclusions that could apply. For example, there is no bodily injury coverage to an employee of an insured. The home businessowner would need to procure workers compensation coverage for this loss exposure.

There is also no liability coverage for a loss arising out of a vehicle being used as a public or livery conveyance. In this case, a commercial auto policy may become necessary, based on the circumstances and the extent of the business use. Note that this exclusion pertains primarily to delivery and conveyance of people (e.g., taxicab) and not the incidental hauling of property. [See *Life & Cas. Ins. Co. v Brame*, 22 S.W.2d 439 (Ky. 1929).] Thus, if the insured has a part-time, home-based business of repairing lawn mowers and occasionally delivers the repaired mowers back to customers, this exclusion would not likely apply.

However, if the primary purpose of the vehicle is to deliver products, the exclusion normally holds. In *Morris v Buttney*, 606 N.W.2d 626 (Wis. App. 1999), the insured owned a delivery service and negligently caused an automobile accident. The insured argued for coverage because he hauled property rather than people, contending that the "public or livery conveyance" exclusion applies more to the transporting of passengers as opposed to the delivery of packages. The Wisconsin appellate court disagreed, affirming the circuit court's ruling that this term applies to the "transport for hire of things as well as people."

One final applicable liability exclusion pertains to losses emanating from automobile-related business activities such as selling, buying, servicing, storing, or parking vehicles. If the home-based business deals primarily with automobiles (e.g., using the Internet to buy and sell used cars), the PAP's liability coverage does not apply. A separate commercial auto policy is needed in this case.

If the insured uses her automobile in connection with her home-based business, she should advise her agent to verify the appropriate personal auto rating classification is used. The business rate is typically higher than a "drive-to-work" rate but low business mileage or incidental business use could also be a factor that could decrease the rate.

## Excess Liability

A personal umbrella policy or a personal excess liability policy provides high limits of liability to protect an insured against a catastrophic liability loss. These policies grant liability coverage that stacks on top of the primary liability coverage provided by the underlying policy. A personal umbrella policy is highly recommended for the owners of home-based businesses, particularly when customers visit the home.

The personal umbrella policy is structured on either a "stand-alone" or, less commonly, a "following form" basis.

A stand-alone form relies exclusively on its own policy terms, conditions, and exclusions, and is normally a longer form. Conversely, a following form policy incorporates the terms, conditions, and exclusions of the underlying policies and is thus a shorter form. Thus, if the insured has a home-based business endorsement of some type and a following form umbrella policy, then any liability loss covered under the underlying homeowners form/endorsement would also be covered under the personal umbrella form.

If a stand-alone personal umbrella form is used, any business-related restrictions should be examined carefully along with the form's "business" definition to ascertain if there are gaps in coverage. For this reason, it is best for the home-based businessowner to procure the umbrella policy from the same insurer that provides the homeowners policy.

## Professional Liability

Professionals hold themselves out as possessing special skills and experience. They are relied on by society to exercise intellectual judgment in their particular areas of knowledge. Professional services often form the heart of the home-based business. Examples include legal services, accounting, computer consulting, web mastering, financial advising, career coaching, and technical writing. Liability losses arising from these activities are not covered by the homeowners policy or endorsements nor by the BOP. Thus, a separate professional liability or E&O policy needs to be procured. Professional liability insurance provides coverage to protect traditional professionals (e.g., attorneys) and quasi-professionals (e.g., webmasters) against liability incurred as a result of errors and omissions in performing professional services.

## Workers Compensation

A high percentage of home-based businesses do not utilize any outside employees. If the business does hire employees, workers compensation insurance may be required subject to the jurisdiction and the number of employees

hired. Workers compensation insurance offers a schedule of benefits, payable regardless of any negligence or legal liability on the employer's part, should an employee become injured on the job. Coverage is available to the owner as well in most jurisdictions.

## Conclusion

The strong growth of home-based businesses in America dramatically illustrates the need for insurance agents to proactively engage in more risk management activities with their personal lines clients. Rather than just sell homeowners and personal auto insurance, the agent should actively ask the type of questions that uncover unusual loss exposures. One study indicates that one out of 10 Americans are running a business out of their home. As a result, specific up-front questions concerning home-based businesses will uncover these activities, leading to the proper insurance coverage and protection for these businessowners. If the insured does have a home-based business, follow-up questions concerning the type of business, annual revenue, number of employees, business visitors to the home, manufacturing processes, and loss control measures are in order. The agent should be an advocate for effective loss control measures for this business, just as the risk manager is for a large company.

There is every indication that home-based businesses will continue to grow in America, particularly with the expanding utilization of the Internet. Unfortunately, a high percentage of these businesses are bereft of the proper insurance, with many of the owners simply assuming that the business will be covered by a standard homeowners policy. This policy, however, contains many business-related exclusions and limitations, with the courts usually enforcing these restrictive provisions. Therefore, additional coverage provided by the appropriate homeowners endorsement(s) is typically the best measure to properly cover these business activities. As a result, the insurance agent should play a proactive role in uncovering

these businesses, educating insureds about the potential gaps in insurance protection, and procuring the proper endorsements and policies to adequately protect their clients. ■

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# Focusing On Our Strengths . . . Addressing Our Opportunities

by Kellie H. Green, CPCU

In the July 2007 issue of *Personally Speaking*, we were introduced to the important work of several special task forces created to develop and implement a strategic vision for interest groups. The task force recommendations included initiatives in four distinct areas:

1. Organization Structure (OS)
2. Leadership Development (LD)
3. Membership (M)
4. Value-Added Services (VA)

As a part of this important work, each interest group was asked to obtain feedback from its members in reference to each of these areas. Specific emphasis was placed on our interest group's strengths and the opportunities they present us, as well as on our areas of weakness and the impact they could have on our success in accomplishing our mission.

Many of you took time to respond to this request for feedback, which is greatly appreciated. The information we compiled is being shared with the task force charged with carrying forward the specific recommendations associated with the strategic vision. Our response, along with feedback from other interest groups, will inform the work that is currently underway to address our collective opportunities.

What follows is a summary of the feedback you provided (based on responses from interest group membership).

## Strengths

### What Do We Do Well?

- We represent a cross-section of the industry rather than focus on a specific functional area or specific membership demographic (VA).

- Communication with interest group membership—keeping members informed of current issues and the Society's direction; seeking input and feedback (M, OS).
- Our interest group's focus on succession planning to ensure individuals are prepared to take on key leadership roles, coupled with gathering input for leaders from membership (LD).

### What Unique Resources Can We Draw On?

- active participation by committee members (VA)
- breadth of membership across demographic, geographic, functional, and experiential areas (VA)
- diversity of our membership, which offers and supports personal and professional growth (M, OS, LD)

### What Do Others See As Our Strengths?

- quantity and quality of professionals presentations and publications (VA)
- other interest groups should see our mission statement as an example for others to follow—provides clarity for our membership around our intent and purpose (M)
- the diversity of our membership (OS)
- our active interest and participation in seeking opinions and thoughts of membership at large (OS)
- the commitment of leadership to provide value to membership (LD)

## Weaknesses

### What Could We Improve?

- recognition of interest group and its members as resources/experts on personal lines (VA)
- communication to the wider insurance industry and marketplace on key issues (VA)

- the administration requirements of "OS" are high, and could diminish responsiveness to the industry (OS)
- members expressed mixed feelings on dues—some would prefer having them included in the CPCU Society general dues, and others expressed an interest in a sliding scale, with decreasing dues for subsequent years or interest group membership (OS).
- Mixed feelings were expressed on the newsletter format—some are comfortable with just an online format (OS).
- Training structure for leaders—will encourage greater participation and volunteerism (LD).
- Scorecard should measure not just interest group effectiveness, but also Society membership value for members and company support . . . this should be the lowest priority—perhaps certificate of accomplishment is a better approach that achieves the same results with fewer tasks/less time (LD).
- Training manual could easily become outdated—training should be more hands-on (LD).

### Where Do We Have Fewer Resources than Others?

- The Personal Lines Interest Group is not large, making it more difficult to accomplish additional tasks without increased active membership (LD).

### What Are Others Likely to See as Weaknesses?

- Opening interest groups to all members—possibility of diluting the interest in the specialty (OS).
- Formalized training may be viewed as intrusive and time-consuming rather than value-adding; should ensure that timeless training is produced (LD).

## Opportunities

### What Good Opportunities Are Open to You?

- speaking at chapter meetings (VA)
- presentations at I-Days (VA)
- publishing in industry, trade, and business publications (VA)
- development of research on emerging or controversial topics (VA)
- establishing a relationship with the Professional Insurance Agents of America (M)
- a reach-out campaign to active CPCUs who are not a member of an interest group as well as to inactive CPCUs to inquire about the challenges they face in their positions—use this information to inform how we can help meet those needs/show the value and support we can provide (M)
- allowing membership in one interest group with general dues would open and strengthen the communication/networking channels in our Society (OS)
- creating a comprehensive communication plan for the outcome of the task force work, including communication before and after any changes (OS)
- leadership training—resulting in higher interest in leadership and volunteering (LD)

## Threats

### What Trends Could You Take Advantage Of?

- the need for consumer information and service in the Internet-marketing age (VA)
- information related to planning for and dealing with catastrophic losses (VA)
- desire/need for personal risk management resources (VA)

### How Can You Turn Your Strengths Into Opportunities?

- develop speaking notes and resources (VA)

### What Trends Could Harm You?

- lack of interest by all levels of the business and consumers (VA)
- increased perceptions that personal lines insurance is a commodity (VA)
- legislative and judicial (as well as claims and underwriting) erosion of sound insurance principles and contract language (VA)
- failure to see consumerism as an opportunity (VA)
- individuals and/or groups other than interest group executive committees reaching out to members for feedback—need to keep it centralized (M)
- the push for making interest group newsletters available only in an online format (M)
- a move toward increasing interest group membership dues will have a detrimental impact on membership; additionally, included with general dues, and increasing that charge, may backfire as employers choose not to support the higher fee (OS)

### What Is Your Competition Doing?

- What competition? (VA)

### What Threats Do Your Weaknesses Expose You To?

- dissolution of the interest group (VA)
- increased depersonalization of the personal lines market (VA)
- if the objectives are not carefully produced, they may become too labor intensive and result in the need for additional manpower—diminished effectiveness (LD) ■

# Spotlight On . . . The Personal Lines Interest Group Committee



■ **Roger G. French, CPCU**

Year of Designation: 1980

Employer: Commerce Insurance Company

Position: Underwriting Training Instructor and Manager

Other Designations: AIS, ARM, AU, CIC

Chapter: Central Massachusetts

Personal Lines Interest Group

Webmaster

## Primary Work Responsibilities

- provide and manage the training and professional development of all members of the Underwriting Departments
- coordinate with the managers/coordinators of training throughout the corporation
- provide research and technical information on insurance contracts for all employees of the corporation
- manage the Underwriting Training Department

## Why did you pursue your CPCU designation?

I needed to decide whether to concentrate on property and casualty (CPCU) or life, accident, and health (CLU). One or the other was indicated as a strong recommendation for management in the company I represented in the mid-1970s. I needed to develop professional expertise in the area I chose. (Did I mention that the 1980 Conferment Ceremony was in Hawaii??—and that my employer would have sent me and my wife?? (I changed jobs with only one exam left!))

## What prompted you to join the Personal Lines Interest Group?

Personal Lines was the third interest group I joined. I had talked to **Dale M. Halon, CPCU**, several times at CPCU Society meetings while the idea of a Personal Lines Interest Group was being developed. It just made sense for me to join since I left the “general” (especially large CL) account focus I had as an agent and brokerage manager and started working with Commerce which was about 80 percent personal lines. I wanted to associate with others who are personal lines experts.

## What is the most unique experience you have had in your career?

It had nothing to do with personal lines insurance . . . I spent a few years as a representative of a specialty property and casualty company. As a field representative, I had to maintain brokerage relationships, service existing accounts, and develop new ones. For new accounts, I developed the insurance specifications and I developed specific fire rates for high-risk and complicated property risks all the way from detailed assessments of the public protection (if any) to the specific ratable aspects of the buildings and business personal property. Then the mission was to sell the insurance to the account. I was a mini-insurance company in a car! The company is no longer with us but the memories and the education I got lingers strongly.

## What has been your biggest challenge?

Putting aside all of the years I had as an agent/broker/manager and becoming a “company” person.

## Please share an interesting fact about yourself of which your fellow CPCUs may not be aware.

I spent two great years as a seminarian in Canada—would have been a priest—hopefully assigned to a mission in South America. ■

# Personally Speaking Index of 2007 Articles

The following list provides an index and reminder of the quality articles and information that were provided for your enjoyment, awareness, and development throughout 2007.

We are already looking ahead to 2008, and we continue to welcome your input regarding topics or articles of interest. Please share your ideas with us—in addition, if you have an interest in writing an article on a topic that you think would be of value to our fellow CPCUs, please let us know. It is a great way to share your expertise with your peers, and it may even support your personal continuing professional development (CPD) efforts and qualification.

You can contact **Kellie H. Green, CPCU**, at [actyd@allstate.com](mailto:actyd@allstate.com) or **Robert A. Braun, CPCU**, at [bob.braun@stateauto.com](mailto:bob.braun@stateauto.com).

## Volume 9, Number 1 (April 2007)

- Insuring the Home-Based Business (Part 1)
- Managing the Townhouse/Condominium Unit Owner Risk
- Introduction to the *Personal Lines Pilot*
- Insurance for Emerging Technologies Entrepreneurs: A Challenge Not to Be Ignored
- Sections Strategic Task Force Summary Report

## Volume 9, Number 2 (July 2007)

- Even More Predictable (a look at underwriting innovations)
- Secrets to Successful Commercial Segmentation
- Hard-Learned Lessons (a look at modeling)
- Insuring the Home-Based Business (Part 2)
- Sections Strategic Implementation Task Force Report Summary

### What Great Leaders Have to Say ...

"The leadership instinct you are born with is the backbone. You develop the funny bone and the wishbone that go with it."

—Elaine Agather  
(Chairman of Chase Bank – Dallas)

"Don't tell people how to do things, tell them what to do and let them surprise you with their results."

—George S. Patton

# Mark Your Calendar!

April 2–5, 2008 • Orlando, FL

## CPCU Society's 2008 Leadership Summit

### Witness Leadership in Action!

Plan to be a part of this distinguished gathering of CPCU Society leaders and insurance industry professionals. Open to all volunteer leaders.

This unique event will feature:

- Society business meetings.
- A brand-new leadership development schedule with greater flexibility and convenience.
- New specialized chapter leader workshops.
- CPCU Society Center for Leadership courses (previously known as NLI), including new courses designed for chapters and interest group leaders. Open to all Society members.

Visit [www.cpcusociety.org](http://www.cpcusociety.org) in early 2008 to register and for the latest information.

### Personally Speaking

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