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## Message from the Chair — Vacations ... A Networking Opportunity

by Richard T. Lang, CPCU, AIM



**Richard T. Lang, CPCU, AIM,** is a senior examiner/team advisor with Bear River Mutual Insurance Company, where he is responsible for complex liability automobile and homeowner injury losses. He reviews staff files, manages litigation file discussions and provides training. Lang has worked on various projects involving underwriting and claim management systems. In addition, he has performed peer reviews for insurance trade publications. Lang has held several committee positions with the CPCU Society's Utah Chapter, and currently is serving a three-year term as chair of the Personal Lines Interest Group.

Summer is here — lawnmowers are screaming, flowers are blooming and many of us are scheduling new adventures as we plan our vacations. Are you planning to stay near home? Will you capitalize on travel discounts and packages? Perhaps you are considering an international excursion to Europe or Asia.

As CPCUs, we are fortunate to be an international organization. A vacation outside the U.S., or perhaps travel to the U.S. from an overseas location, may provide you with a terrific opportunity to network with a CPCU who resides at your destination. Often, CPCUs are available to give advice that can turn your international adventure into a more fulfilling vacation and help you avoid travel pitfalls. Some information you may be interested in learning about are local customs, places to stay, ethnic restaurants, etc. Reaching out

to other CPCUs also provides you with an opportunity to expand your network and meet new professionals, which may evolve into lasting friendships.

Since obtaining my CPCU designation in 2003, I have been fortunate to meet many insurance professionals from many different places and countries. The CPCU Society's growth has resulted in an increased international presence and the emergence of a new and comprehensive global resource of knowledge about industry issues within not only personal lines but also the insurance arena in general.

Another way to maximize your access to the Society's network of resources is to volunteer for service. My service began the year I received my designation —

*Continued on page 2*

### What's in This Issue

Message from the Chair — Vacations ... A Networking Opportunity . . . . .	1
Note from the Editor . . . . .	3
'Silent' Passenger — The Auto Black Box Today and in the Future . . . . .	4
Economic Downturn May Push Percentage of Uninsured Motorists to All-Time High . . . . .	7
How to Keep Your Sales from Running Out of Gas. . . . .	8
Achieving High Performance in Underwriting — It's Time to Move beyond the Status Quo . . . . .	10

## Message from the Chair — Vacations ... A Networking Opportunity

*Continued from page 1*

first at my local chapter level and then with the Personal Lines Interest Group (PLIG). If you want to get the most out of your membership, being actively involved in the CPCU Society is a big part. Perhaps this coming year you'd like to become a chapter officer, or sign up for national service as a committee member.

The Society provides CPCUs excellent leadership and growth opportunities, which also result in great value to employers as their CPCU employees gain new skills and increase their industry knowledge. While the road of service is not without its challenges, the adventure is full of rewards. If you are willing to make the commitment and put forth the effort, the skills and growth you gain will exceed your expectations.

I want to give a special thanks to **Robin K. Olson, CPCU, CRIS, ARM, AAM, ARP**, a valued member of the Personal Lines Interest Group Committee, who submits countless thought-provoking articles for this newsletter. My appreciation also goes out to our current newsletter editor, **Daniel L. Blodgett, CPCU, AIM, AIS, PMP**, for his dedication in organizing this newsletter and seeking out new and hot industry topics. Finally, thank you to all our contributing authors and our readers for giving us the purpose and venue to share our mutual interests.

Should you come across an important topic affecting our industry, please enter a discussion in the FAQ section of the PLIG Web site or send an e-mail to us at [cpcuplig@gmail.com](mailto:cpcuplig@gmail.com). Better yet, write an article and submit it to this newsletter. Finally, I urge you to review your respective membership profiles and confirm your selection of the Personal Lines Interest Group as your area of primary interest.

In the meantime, your committee is here for you — with the very best we have to offer. I wish each of you safe and exciting travels. ■

### THE PERSONAL LINES INTEREST GROUP PRESENTS

#### EMERGING TRENDS IN PERSONAL LINES INSURANCE

**Sunday, Aug. 30, 2009 • 9:30–11:30 a.m.**

This seminar will provide an informative look at the changing needs of the personal lines marketplace from various perspectives, including underwriting, claims and marketing, and how the industry is responding with new data, analytic tools and approaches. Filed for CE credits.

#### EMBRACING TECHNOLOGY IN UNDERWRITING

**Tuesday, Sept. 1, 2009 • 1:30–3:30 p.m.**

*(Developed with the Underwriting Interest Group)*

An executive from Accenture — a global management consulting, technology services and outsourcing company — will join personal and commercial underwriting executives in analyzing the benefits and challenges arising out of the growing use of technology in underwriting.

Invite your CPCU and non-CPCU colleagues and friends to join you at both of these informative sessions!



**CPCU Society  
65th Annual Meeting and Seminars  
Denver, Colo.**

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# Note from the Editor

by Daniel L. Blodgett, CPCU, AIM, AIS, PMP



**Daniel L. Blodgett, CPCU, AIM, AIS, PMP**, is a project manager in the Systems Department of State Farm's Home Office in Bloomington, Ill. He started with State Farm in 1990, holding positions such as auto underwriter and supervisor in the State Farm Payment Plan. Blodgett is on the board of directors of the CPCU Society's Central Illinois Chapter, and is past president of the Society's Southwestern Michigan Chapter and past chair of the Personal Lines Interest Group.

Some old fashioned risk management recently came in handy for me while I was testing for a Project Management Professional (PMP) exam. The PMP is a 13-week course capped by a four-hour, computer-based, 200-question, multiple-choice exam.

I know that most exams are now administered via computer. But because it's been a while since I've tested for a course, I'm still used to pencil-and-paper exams. By now, you probably know where I'm going with this. Three hours into the PMP exam, the computers crashed in the testing center, affecting more than a dozen folks testing on various topics for different exams.

I give credit to the testing center staff members in charge, who worked hard to get things back online in 20 minutes. But students were worried about test data being lost, which is the lesson here. Because I realized the system was "clocking" (or slowing down) about 10 minutes before the crash, I began to write down (using paper and pencil) as many of my answers as I could — just in case the system crashed.

The good news for me was that none of my data was lost, and I spent the final hour just finishing up. The bad news for one of the other test-takers was that staff could not recover her test. She had the option of "retaking" everything from start to finish in the final hour or rescheduling the exam. She opted for the latter, as she had not applied the "panicked" risk management approach that I used. So, from my experience, I hope you always have a back-up and prepare for the unexpected.

I hope your summer is fun and peaceful, and filled with family activity — not computer exams. I offer the following for the summer issue of this newsletter:

- Our chairman, **Richard T. Lang, CPCU, AIM**, leads out the issue with his thoughts about networking.

- Keep current on the latest Black Box/EDR issues with the "Silent Passenger," by **Peter R. Thom**, principal of Peter R. Thom & Associates.
- **David L. Corum, CPCU**, vice president of the Insurance Research Council (IRC), provides an article on an IRC study of the economy and the uninsured motorist risk.
- **John R. Graham**, president of Graham Communications, provides an interesting article looking at why salespeople are "running out of gas."
- Rounding out the issue is a summary by Accenture's **Gail E. McGiffin** of the survey administered by Accenture last fall to members of the Personal Lines and Underwriting Interest Groups. A panel discussion of the results of this survey will be presented at the Annual Meeting and Seminars in Denver.

Until next time ... ■

# 'Silent' Passenger

## *The Auto Black Box Today and in the Future*

by Peter R. Thom

**Peter R. Thom** is principal of Peter R. Thom & Associates Inc., a national firm of consulting automotive engineers.

Contributor **Ryan Devine** is a managing engineer at Peter R. Thom & Associates Inc.

**Editor's note:** This article originally appeared in the Wednesday, Oct. 22, 2008, issue of *Claims Advisor* magazine and is reprinted with permission.

The dawn of a new day brings another gadget onboard the automobile. Behold the Black Box, or, more accurately, the automotive event data recorder (EDR) — a nondescript piece of technology that spends most of its functional life waiting for an electronic wakeup call from a car's airbag safety system to fulfill its mission.

Its anonymous cladding, though, obscures a controversy. This little piece of technology recently has been troubling consumers, the courts, insurance carriers, lawyers and regulators. Even while it promises answers to automotive claims, it's also triggering questions about judicial admissibility, insurance coverage, privacy rights, regulatory concerns and technological capabilities. Many of the questions can be answered with a better understanding of the technology and its implications, while others will be resolved over time as the EDR technology matures.

As a frontline representative for your carrier, you're not only a consumer concerned with the personal ramifications of the technology, but you must present your company's perspective as well. Here we'll take a look from both sides.

### Big Brother

Ever since **George Orwell** released his classic novel *1984* in which he described a totalitarian society where it was announced that "Big Brother is Watching You," people have been leery about losing control of their privacy. The big question is: Can the EDR spy on me as I drive? No. The EDR is a data-gathering module located in your car's airbag control system that is designed to collect specific data in case of deployment — no microphones, no cameras. The EDR is unlike OnStar by GM or similar products that have communications, in-vehicle security, GPS and remote diagnostics capabilities. Their satellite and real-time monitoring make them more vulnerable to questions of privacy invasion than the EDR.

When airbags don't function as designed, automakers become liable for the injuries sustained by drivers and passengers. The EDR was developed to collect operational information about airbags so performance could be improved. It was a very short jump then to apply the technology to the needs of regulatory agencies, like the National Highway Transportation Safety Administration (NHTSA), which require real-world crash statistics for highway safety research. Then, add accident investigators, attorneys and insurance carriers who want access to accident data for their own purposes, and suddenly the EDR becomes a child caught in a custody battle among groups with conflicting needs and interests.

The result is that the EDR is now being re-engineered by the NHTSA and other interested parties to meet operational and reporting standards for a broader audience — although these parameters will apply only to automakers who install EDR modules in their airbag systems, with voluntary compliance set for 2010. To be clear, not all cars have EDR modules in their airbag control systems — the NHTSA estimates 64 percent of model year 2005 have some EDR capability. Those numbers certainly will increase over time, but at this point it is an automaker's decision whether or not to install EDR.

### What Is the EDR?

The EDR is a box of circuitry attached to the airbag module that will collect operational information if the airbag deploys. An important detail: There are crashes and near crashes in airbag lingo. The airbag deployment module activates when it suspects an accident is in the offing, and that is known as a "near crash." The system is ready to react, but the airbag does not deploy. The EDR will store near-crash data until it's overwritten by another near-crash or crash event. It's the crash event that is significant here — that's the data accident investigators will harvest.



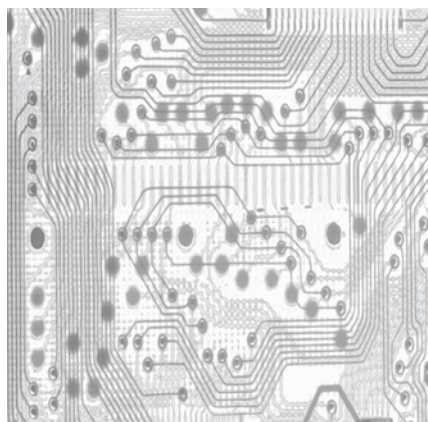
What turns on the airbag deployment system? Sudden changes in speed. When rapid accelerations or decelerations occur, the EDR system wakes up and does two things. First, the EDR takes the data it has been sampling every second and saves the last five seconds of it. This data includes vehicle speed and engine RPM, and also may include seatbelt buckling, brake application, shifter position, cruise control settings and throttle setting. Secondly, the EDR records the subsequent rapid changes in vehicle speed which describe the behavior of the vehicle during the collision. This second type of data sampling may occur for a fixed amount of time, or it may continue until the system determines that the action has ended.

### How Is Data Collected?

If the vehicle has an EDR, then its crash data can be downloaded by using a Crash Data Retrieval (CDR) interface. The only commercially available system comes from Vetronix Inc., a wholly owned subsidiary of Robert Bosch GmbH, and licensed by General Motors (GM), Ford and Chrysler. Some joint venture vehicle lines like Isuzu (GM) and Volvo (Ford) also are compatible, but it's important to know that, even with these automakers, not all models can be accessed through the Vetronix CDR. EDR access for all other automaker models must be initiated through the manufacturers, although they'll now have to facilitate CDR access under the NHTSA rule. Most importantly, CDR downloads are best performed by those trained to operate the interfaces — this could be the automaker, law enforcement personnel or auto accident investigators.

### More on the EDR

With the EDR, there are several key points to keep in mind. Tampering with airbag sensors or attempting to remove the EDR can imperil safe operation of the airbags and related safety systems, nullify



warranties, and abrogate NHTSA safety standards — and should be avoided at all costs. All the EDR matters should be handled by trained personnel.

At present, there are no guarantees for airbag EDR data accuracy and completeness, and there are operational and structural issues that hamper the technology. For example, automotive black boxes aren't as resilient as their aviation cousins — those can withstand concussion, freezing temperatures, infernos and submersion. Airbag EDRs experience glitches, spotty recording and other challenges, especially as automakers adjust the technology to suit regulators. As a result, the data retrieved from an EDR download is best used as an adjunct to a thorough accident investigation, and virtually never as stand-alone testimony as to facts. Certainly, the data may corroborate claimant statements, but then again, when the issues in question are gray rather than black and white, it is crucial that the evidence be as accurate and as indisputable as possible. The EDR is getting there, but it hasn't arrived yet. Thus, the analysis and interpretation of the data is best left to skilled automotive accident investigators who are aware of the EDR's limitations and are schooled in broader analytics.

The airbag EDR is only one example of a vehicular data-gathering module. Today's

automobiles, especially luxury cars, are networks on wheels — newer models average 17 microprocessors onboard. However, current media attention and regulatory action are directed mainly to the EDR modules embedded in airbag safety systems.

### Consumer vs. Carrier

Those who investigate vehicular accidents tend to shrug their shoulders about the fears of privacy invasion. To them, EDR data is akin to any other piece of objective evidence picked up at an accident scene. Law enforcement personnel usually check the brake lights, seatbelts, tire pressures, turn indicators, and more, of the affected vehicles at accident scenes. If they are trained and equipped with a CDR, and the vehicle has an accessible and undamaged system, then they'll download the data, typically with the permission of the vehicle owner. In their world, EDR data is evidence to collect, nothing more.

Things get a little more complicated for consumers. There's something uncomfortable about the chance of being unfairly condemned by a technology deemed infallible. Plus, consumers wonder why they don't get a choice in the matter of the placement of EDRs in their cars. The EDR is not 100 percent accurate, and data can be misinterpreted; but consumers typically don't have the know-how to question its veracity. Thus, fear of a loss of control stimulates the issue of EDR privacy invasion and has typically been the impetus for state and regulatory action about EDR data ownership. Ultimately, the privacy issue boils down to questions of consent: Do you know if your car has an EDR and do you consent to a data download after an accident?

*Continued on page 6*

# 'Silent' Passenger

## ***The Auto Black Box Today and in the Future***

*Continued from page 5*

The EDR perspective is a little different for insurance carriers. Its data can deliver certainty to the resolution of some automotive claims. For example, in a fatal accident on an empty nighttime road, the data from a download can reveal facts when there are no witnesses. That's an extreme example, but evidence that adds clarity is invaluable to those who

***The EDR perspective is a little different for insurance carriers. Its data can deliver certainty to the resolution of some automotive claims.***

calculate exposures: Absolute answers protect reserves. At least for carriers, the privacy issue associated with data ownership dissipates when carriers assume the ownership rights of totaled vehicles. On the downside, though, ownership of totaled vehicles, as well as complex automotive litigation incorporating EDR data, can expose the carrier to new types of risk. Should the carrier download EDR data as a routine measure, and should the carrier remove and store all EDR modules under its control as a matter of policy? Evidence spoliation risk and a new cost stream associated with long-term storage are unforeseen consequences of harnessing a new technology for automotive claims resolution.

### **EDRs and the Court**

Courts are currently admitting EDR data into proceedings, and appellate courts are upholding its use as well across the U.S. So far, the preponderant users of the data are automakers and criminal courts. Both are tech-savvy about the EDR and know how to use the information in the courtroom — automakers design and build them, and law-enforcement personnel are trained in crash data retrieval. This skewed usage should even out as more parties become familiar with the technology and so, too, will the

balance of civil to criminal actions using EDR data as evidence.

### **Invasion of Privacy Protection**

Privacy protection has been a hot button EDR issue for state legislatures and has also affected the EDR strategy of federal agencies with transportation oversight. As of early 2008, 12 state legislatures have passed some form of EDR legislation. A leader in privacy-rights protection, California addresses the EDR's privacy implications by requiring automakers to disclose to new-car buyers the presence of an EDR in occupant protection systems, and to prohibit the downloading of the data without car-owner consent. Other states restrict regulatory focus to a single EDR issue like disclosure or EDR access. At the national level, the August 2006 EDR rule published by the NHTSA requires automakers to disclose the presence of an EDR to car buyers, starting with model year 2011 cars. And, when the NHTSA and others use EDR data for research purposes, the derived data is purged of all identifiers for the sake of privacy.

The consumer mantra for the EDR is that the owner of the car owns the data. Although that works well enough for now in most states, especially with federal support from the NHTSA and the Federal Highway Administration, that perspective may face challenges as EDR use expands. ■

# Economic Downturn May Push Percentage of Uninsured Motorists to All-Time High

by David L. Corum, CPCU



**David L. Corum, CPCU**, vice president of the Insurance Research Council (IRC), a division of the American Institute for CPCU and the Insurance Institute of America, started with the Institutes and the IRC in December 2005. Previously, he worked for 18 years with the American Insurance Association (AIA) in Washington, D.C., and six years with the Insurance Division of the Minnesota Department of Commerce. He is a graduate of the University of Wisconsin-Madison and Rhodes College in Memphis, Tenn.

**Editor's note:** David L. Corum, CPCU, based this article on the IRC's Jan. 21, 2009, news release announcing the publication of *Uninsured Motorists, 2008 Edition*.

Approximately one in six drivers across the United States may be driving uninsured by 2010, according to a recent study from the Insurance Research Council (IRC). Although the estimated percentage of uninsured motorists decreased nationally, from 14.9 percent in 2003 to 13.8 percent in 2007, the recent economic downturn is expected to trigger a sharp rise in the uninsured motorist rate.

The recently released study, *Uninsured Motorists, 2008 Edition*, estimates the percentage of uninsured drivers countrywide and by state for the period 2005 to 2007. The IRC estimates the uninsured driver population using a ratio of insurance claims made by individuals who were injured by uninsured drivers to claims made by individuals who were injured by insured drivers. The study contains recent statistics by state on uninsured motorists claim frequency, bodily injury liability claim frequency, and the ratio of uninsured motorists to bodily injury claim frequencies.

The magnitude of the uninsured motorists problem varied widely from state to state. In 2007, the five states with the highest uninsured driver estimates were New Mexico (29 percent), Mississippi (28 percent), Alabama (26 percent), Oklahoma (24 percent) and Florida (23 percent). The five states with the lowest uninsured driver estimates were Massachusetts (1 percent), Maine (4 percent), North Dakota (5 percent), New York (5 percent) and Vermont (6 percent).

The report also found a strong correlation between the percent of uninsured motorists and the unemployment rate: An increase in the unemployment rate of one percentage point is associated with an increase in the uninsured motorist rate of more than three-quarters of a percentage point. Based on current unemployment

rate projections, the percentage of uninsured motorists is expected to rise from 13.8 in 2007 to 16.1 in 2010.

"An increase in the number of uninsured motorists is an unfortunate consequence of the economic downturn and illustrates how virtually everyone is affected by recent economic developments," said **Elizabeth A. Sprinkel, CPCU**, senior vice president of the IRC. "Responsible drivers who purchase insurance end up paying for injuries caused by uninsured drivers."

The IRC study examined data collected from nine insurers, representing approximately 50 percent of the private passenger auto insurance market in the U.S. For more detailed information on the study's methodology and findings, you may contact Corum at [corum@cpcuiia.org](mailto:corum@cpcuiia.org) or (610) 644-2212, ext. 7506. Copies of the study are available for \$125 each in the U.S. (\$140 elsewhere) postpaid from the Insurance Research Council, 718 Providence Rd., Malvern, PA. 19355-3402. Phone: (610) 644-2212, ext. 7574. Fax: (610) 640-5388. ■

# How to Keep Your Sales from Running Out of Gas

by John R. Graham



**John R. Graham** is president of Graham Communications, a marketing services and sales consulting firm. He writes for a variety of business publications and speaks on business, marketing and sales issues. Contact him at 40 Oval Road, Quincy, MA 02170; (617) 328-0069; jgraham@grahamcomm.com. The company's Web site is grahamcomm.com.

**Editor's note:** This article is reprinted with permission from Graham Communications.

Most of us have figured out that it's smart to have at least a few gallons of gas in the tank at all times. And it's not very bright to see how far we can go before running out of gas. A couple of "come and get me" calls is usually all it takes before we get the message to head for the gas station before disaster strikes.

Nevertheless, far too many businesses somehow missed this memo. Every day they are running out of gas and don't know how to find their way to the nearest pump.

Now, if this seems somewhat obtuse, try this: Salespeople find themselves trying to run on empty, and there's no gas station within 50 miles. Worse yet, they can't find their way to the pump even with a GPS.

The message here is utterly elementary: As salespeople, we let the good times deceive us. Because we were so successful, it didn't take much to convince ourselves that it would go on forever. But, as we all know, it didn't.

While all that's history, few, if any, salespeople — and even fewer sales managers and business owners — have anything that even resembles Plan B.

Here's where it gets really interesting: These same companies honestly believed their strong sales figures were the direct result of their prospecting prowess, when there was absolutely no connection. While some of the sales executives in several of these companies may now realize they were in error, others do not have a clue why their sales have continued to nosedive. They look everywhere, except at their prospecting. Here's what went wrong:

- Because sales were good, they didn't bother analyzing their best customers so they could reach out and find more that fit the profile. This is the "Huns coming over the mountain mistake." The hordes of customers kept coming, whether consumers or B-2-B buyers.

- They couldn't see the need for an ongoing program to identify and cultivate new prospects. How many times have you heard a salesperson or a sales manager say, "You know, we really have more customers than we can handle"? That was a common attitude until quite recently. If that isn't enough, salespeople let it be known that they weren't hired to do "scut work," a term that can be translated as performing trivial, unrewarding, tedious, dirty and difficult chores.
- These are the same salespeople who talked endlessly about their "great relationships" with customers. They really believed what they said, even though they didn't take the time to understand the customer's business and they weren't there to give help when it was really needed.
- They saw a prospect as someone they could call today for an appointment tomorrow or next week. They didn't see prospecting as a strategy for creating a continuing flow of new business. No matter how you cut it, they acted as if they were in charge. Now, they find themselves faced with customers and prospects that have taken the reins away from them.

The salespeople we're describing talked about sales and took pride in their success. Unfortunately, they were so blinded by their success that they failed to do what was needed to be successful once the sales tap was turned off.

- They failed to implement the tactics that could continue their success.
- They did little or nothing to pull more and more prospects into their orbit.
- They failed to work at making sure their customers knew they had valuable knowledge and were not just selling something.
- The more sales declined, the more their sales managers urged them to ask for referrals. Of course, referrals are wonderful, but in a recession, no customer is thinking about anything



other than survival, and referrals cannot be forced. They tend to fall into your lap when least expected.

Given an economic environment that's difficult and drags on and on, why do salespeople fail? The answer isn't that they have a negative attitude, don't work hard enough or give up too easily. It isn't because they aren't skilled in selling.

The problem is that they are asked to do something that customers not only don't want but also actually reject.

More than anything else, customers do not want someone around who is trying to sell them something. Americans, for example, have had a 70s love affair with cars, yet they have stopped buying them. We have long had a negative savings rate; yet, savings has gone from below zero to 5 percent almost overnight.

Those who say, "The main task of a business is to make sales" are faced with a tough problem: It isn't working. Rather, from a marketing viewpoint, the main task of a business is to create customers — those who make a conscious decision to do business with you.

Kraft Foods' free recipe app "iFood" for the iPhone illustrates this "pulling-the-customer-to-you" process. It's an ingenious way to attract customers (not try to grab them) by offering easy and successful recipes, complete with shopping lists, shortcuts and even brief "instructional" videos that take the viewer through the cooking process.

Yes, the recipes call for certain Kraft Food products, but the results are so pleasing the user can only have a good feeling about Kraft Food for the help they get. Instead of trying to get people to buy their products, Kraft uses a marketing tactic that pulls customers.

Trying to figure out gimmicks to "grab" customers is a waste of time, but never more so than in a recessionary period. Investing time and effort in helping people solve problems and make life more enjoyable and easier is the way to create customers today.

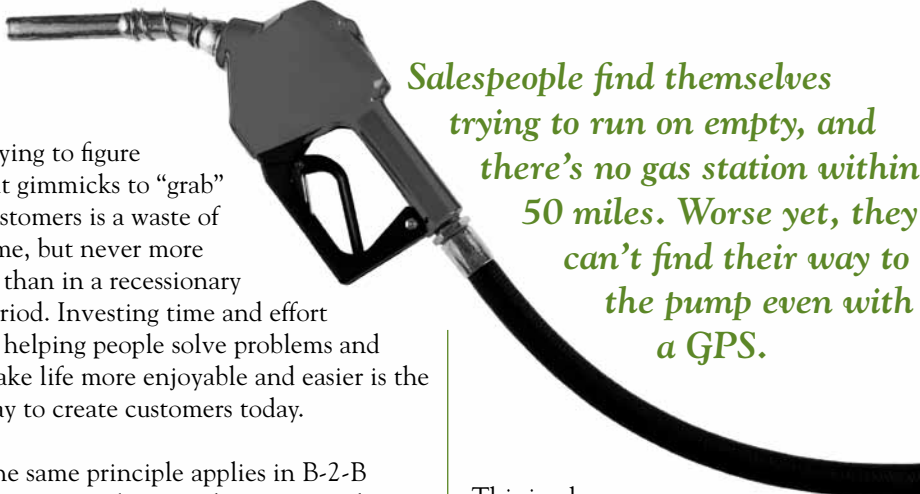
The same principle applies in B-2-B situations. **Ed Testa**, the vice president of sales for Boston-based Greystone Equipment Finance Corporation, specializes in the graphic arts industry where he has practiced the art of pulling customers closer for more than 20 years.

Although he has never taken a booth at a trade show, he maintains a demanding show schedule, and you'll always find him working a customer's booth. "You have to support them," says Ed. "By being there, I can get acquainted with dealers who are buying equipment or will make a purchase in the future. They know we're here to help when they get ready."

It is another example of how salespeople can benefit from constantly pulling customers closer. This example underscores the point. After conducting a training program for a life insurance firm, the presenter made sure the names of the key people at the session were added to his company's database since they made it a practice to stay in touch regularly.

Four years later, a principal of the insurance firm called to arrange a meeting. Changes had taken place, and they were ready to implement a full-blown marketing communications program.

Today, pulling is far more effective than attempts to grab customers and prospects. No one, no matter how competent, is smart enough to know when prospects are ready to buy. If that's true, then it's constant cultivation that creates sales.



*Salespeople find themselves trying to run on empty, and there's no gas station within 50 miles. Worse yet, they can't find their way to the pump even with a GPS.*

This is why a prospecting strategy of building a database combined with constant cultivation is the way to pull customers closer and closer. When this happens, you'll be there when they get ready to make an inquiry, ask for information or place an order. ■

# Achieving High Performance in Underwriting — It's Time to Move beyond the Status Quo

by Gail E. McGiffin

**Gail E. McGiffin** is a senior executive in Accenture's insurance practice, leading its Global Underwriting Transformation Offerings. She is responsible for the market strategies and sales for Accenture's underwriting and product development solutions and assets. McGiffin has more than 25 years' professional experience and has worked with many of the world's leading insurers to help them transform their underwriting capabilities through software and consulting engagements. Prior to joining Accenture in 1999, she spent 16 years in the insurance industry at Chubb and Royal & SunAlliance. McGiffin holds a bachelor's degree with high honors from Colgate University.

**Editor's notes:** (1) This article is reprinted with permission of Accenture. Copyright © 2009 Accenture. All rights reserved. For more information about the survey, contact Gail E. McGiffin at [gail.e.mcginffin@accenture.com](mailto:gail.e.mcginffin@accenture.com).

(2) Gail E. McGiffin will present the findings of this survey on Tuesday, Sept. 1, at the CPCU Society's Annual Meeting and Seminars' panel discussion "Embracing Technology in Underwriting." Representatives from commercial and personal lines will join McGiffin to share the benefits they've seen and challenges they've faced in their growing use of technology in underwriting.



Following up on a survey of underwriters in 2005, Accenture, a global management consulting, technology services and outsourcing company, conducted a similar survey in 2008 to gauge progress on the use of technology to help insurers achieve high performance. By polling members of the Chartered Property Casualty Underwriters (CPCU) Society Underwriting and Personal Lines Interest Groups, Accenture has measured the degree to which technology has helped underwriters perform more efficiently and more effectively, as well as explored new issues and trends faced by underwriters.

The underwriter plays a critical role in today's soft insurance market. With the erosion in premium typical of a soft market, made worse by the slump in real estate sales, sagging automotive sales and rising unemployment, it is the work of the underwriter to preserve or improve loss ratios even as exposure-based pricing drops and the potential for fraud increases.

Accenture High Performance Business research and extensive experience show that high-performance businesses invest to strengthen their position even in a downturn. They do not hunker down to ride out the storm of economic uncertainty. Those businesses that come out ahead after a recession, such as the one in the early 1990s, continue to march ahead on the journey to high performance regardless of the financial climate.

Findings from Accenture's latest survey of insurance underwriters, undertaken with the CPCU Society, show efforts from insurance companies to strengthen their position as the market has transitioned from hard to soft, putting technology to work to increase agent loyalty.

However, by neglecting to make meaningful progress in building other distinctive capabilities, many insurers have left their underwriters ill-equipped and too heavily burdened with manual work to devote sufficient

focus to the business of relationship development and profitable growth. After years of maintaining the status quo or at best making only incremental changes, insurers will need to make **transformational investments** to help them achieve high performance across market cycles.

### Agent-Focused Investments Trend Up

Underwriting organizations have grown increasingly agent centric with new investments in technology since the 2005 survey, but the performance gains are not yet yielding the expectations of effectiveness.

Investments in next generation agent portals and service differentiation capabilities are on the rise. For example, over 95 percent of commercial and personal insurers have implemented or are in the process of implementing agent upload and download as well as enhanced Web quoting and Web inquiry tools. Nonetheless, from one-third to one-half indicated that these technologies are not working as expected and need to be changed. While it appears that the standard practice is to invest in technology to strengthen partnerships with agents, for many insurers the effectiveness of the technology is falling short of expectations, limiting their capacity to grow and retain business, especially in today's soft market.

### Sluggish Investments in Underwriting

In a climate of eroding premiums, financial uncertainty, increasing regulatory pressure and the ongoing exodus of talent as expert underwriters reach retirement age, the need for supporting technologies has intensified. Unfortunately, results suggest that while some progress has been made, technology has not been brought fully to bear on underwriting practices. Underwriters responding to the 2008 survey indicate that they are very challenged and enthused with their jobs, however, they feel less well equipped to do their jobs than they did three years ago. For both personal and commercial lines, they found the following missing from their work environments:

- Streamlined and productive processes.
- A balanced workload.
- A high level of automation support.

Training activity has dropped since 2005, and a major misalignment exists between what underwriters feel they need to succeed and what their companies provide. Overall, underwriters value training more highly than their companies do. In particular, underwriters are eager for leadership training, especially within commercial lines, while they believe their companies rank it as low in importance.

One area of concern is that neither underwriters nor their companies seem to

value sales training. In today's market, the imperative is to build effective customer and agent relationships to secure new business, yet underwriters and the insurers are not focused on developing the necessary selling skills. Customer service appears to be a strong area of training, so while insurers value the skills needed to service the business, they do not appear to value the consultative selling skills needed to acquire the business.

### Inadequate Investments in High Impact Areas

Underwriters themselves have a positive outlook on underwriting practices within their own companies. However, the less-than-total adoption of core underwriting technologies suggests that these positive attitudes reflect the performance of individual underwriters, not the underwriting enterprise as a whole. Technology, supported by training, has the potential to raise the performance of all underwriters to a level consistent with the insurer's best underwriters, and sustain that level of performance even as those top performers move on or retire.

In 2005, underwriters identified five key functions that would have the highest impact on their jobs and needed changing for them to be more effective. By 2008, few companies had made the necessary investments to automate these five functions. See Table 1.

*Continued on page 12*

Table 1

	Insurers who had fully automated by 2008		
High impact functions identified as needing change in 2005	Personal	Small commercial	Mid-size to large commercial
Risk selection	38%	28%	20%
Data verification	22%	36%	28%
Rating and pricing	33%	13%	15%
Book management	22%	18%	24%
Product development	19%	17%	13%

# Achieving High Performance in Underwriting — It's Time to Move beyond the Status Quo

Continued from page 11

## Technology in Underwriting — Expecting Results with Deficient Solutions

For insurers that have implemented technologies by 2008, their underwriters view several of the solutions as inadequate and needing to change. Among commercial lines underwriters, automated underwriting decisions and underwriting workstation top the list for applications needing improvement. Among personal lines underwriters, at least half of all respondents indicated that changes need to be made in applications supporting:

- Underwriting workstation.
- Business intelligence.
- Geographical information systems (GIS).

In 2008, underwriters identified additional functions needed for them to become more effective and efficient in their jobs. These are listed in Table 2, with 1 the highest priority among the top 5. Not even half of all companies have fully automated these high-impact functions; for some functions, the extent of automation is startlingly low. For example, fewer than 17 percent of companies have implemented technology to support predictive models, yet it ranks among the top five for all three groups of insurance underwriters.

For those companies that have not yet applied technology to these functions or that have only partially automated these functions, there is a clear demand for improved support.

While underwriters appear to have received short shrift compared to agents when it comes to putting technology to work, it is encouraging that the survey indicates planned investments over the next 12–24 months to address the system inefficiencies and gaps. See Table 3. However, it is also clear that improvements must also be made in

**Table 2**

<i>Personal lines</i>	Respondents indicating that the function inhibits job performance and needs to change	
High impact functions identified in 2008	<i>Manual functions</i>	<i>Partially automated functions</i>
1. Predictive models	100%	78%
2. Business intelligence	95%	81%
3. Rules Engines	67%	81%
4. Mapping (GIS)	100%	88%
5. Workflow	86%	87%

<i>Small commercial lines</i>	Respondents indicating that the function inhibits job performance and needs to change	
High impact functions identified in 2008	<i>Manual functions</i>	<i>Partially automated functions</i>
1. Workflow	100%	96%
2. Rating	85%	88%
3. Predictive models	85%	88%
4. Rules-based risk assessment	83%	85%
5. Documentation	81%	83%

<i>Mid-size to large commercial lines</i>	Respondents indicating that the function inhibits job performance and needs to change	
High impact functions identified in 2008	<i>Manual functions</i>	<i>Partially automated functions</i>
Documentation	92%	92%
Pricing	83%	87%
Rating	83%	87%
Predictive models	83%	87%
Business intelligence	92%	91%



**Table 3**

<i>Personal lines</i>	Respondents selecting “No Activity” indicate where there are plans to implement these applications in the next 12–24 months	
<b>Applications</b>	<b>12–24 Months</b>	<b>No Plans</b>
Agent Upload	100%	0%
Web Inquiry for Agents	0%	100%
Automated Underwriting Decisions	67%	33%
Underwriting Workstation	50%	50%
Product Development Workbench	22%	78%
Business Intelligence	67%	33%
Data Driven Underwriting & Marketing	43%	57%
Mobile (Wireless) Technology	0%	100%
GIS Technologies	25%	75%
Timely Reporting Tools for Book Management	67%	33%

<i>Small commercial lines</i>	Respondents selecting “No Activity” indicate where there are plans to implement these applications in the next 12–24 months	
<b>Applications</b>	<b>12–24 Months</b>	<b>No Plans</b>
Agent Upload	0%	100%
Agent Download	0%	100%
Web Quoting Facility for Agents	100%	0%
Web Inquiry for Agents	0%	100%
Automated Underwriting Decisions	20%	80%
Underwriting Workstation	25%	75%
Product Development Workbench	25%	75%
Business Intelligence	33%	67%
Data Driven Underwriting & Marketing	50%	50%
Mobile (Wireless) Technology	40%	60%
GIS Technologies	0%	100%
Timely Reporting Tools for Book Management	0%	100%

Table continued on page 14

how these insurers build, introduce and maintain these underwriting technologies. Underwriters continue to rank their companies as only average when it comes to purchasing, developing and integrating technologies, and they see the lack of process and data integration as having the biggest impact on the ineffectiveness of today's systems.

Even with underperforming systems and incomplete automation, most underwriters are optimistic about the promise and potential of technology and do expect ongoing automation to have a significant impact on their jobs. See Figure 1 on page 14.

### Underwriting Practices and Product Development Stay Bound in Status Quo

Introducing innovative product offerings drives profitable growth in any market cycle. In a soft market, creating differentiated products and services tailored to the end customer is the only way to defeat commoditization and win the pricing game. Two technology opportunities are being overlooked — opportunities that can help to bring compelling, profitably priced offerings to market quickly: business intelligence and product development. See Figure 2 on page 15.

Business intelligence helps generate the unique insights needed to develop superior underwriting rules and distinctive market offerings. Few commercial insurers that cited no activity in implementing business intelligence technologies have plans to do so in the future.

Product development workbenches speed the configuration, testing and deployment of new offerings that beat out the competition. Most insurers who have not industrialized product development have no plans to do so. Rather, they will continue to rely on anecdotal history rather than data-rich insight as well as current manual approaches to product development. This inhibits their

Continued on page 14

# Achieving High Performance in Underwriting — It's Time to Move beyond the Status Quo

Continued from page 13

**Table 3 (continued)**

Mid-size to large commercial lines	Respondents selecting "No Activity" indicate where there are plans to implement these applications in the next 12–24 months	
Applications	12–24 Months	No Plans
Agent Upload	22%	78%
Agent Download	50%	50%
Web Quoting Facility for Agents	20%	80%
Web Inquiry for Agents	17%	83%
Automated Underwriting Decisions	17%	83%
Underwriting Workstation	13%	87%
Policy Administration	0%	100%
Product Development Workbench	17%	83%
Business Intelligence	0%	100%
Data Driven Underwriting & Marketing	0%	100%
Mobile (Wireless) Technology	0%	100%
GIS Technologies	0%	100%
Timely Reporting Tools for Book Management	33%	67%

ability to innovate and perpetuates the risk of adverse selection and product commoditization.

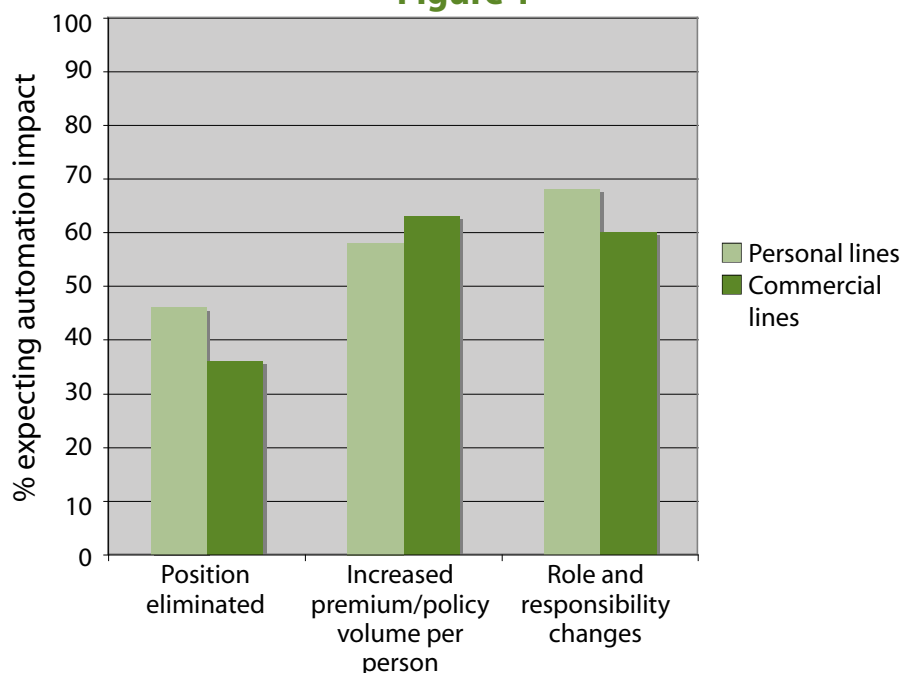
## Achieving High Performance throughout Market Cycles

For property and casualty insurers of all types, cyclical markets are a certainty. With the distinctive capabilities developed through the pragmatic application of technology, sustained profitability and growth can also become more of a certainty.

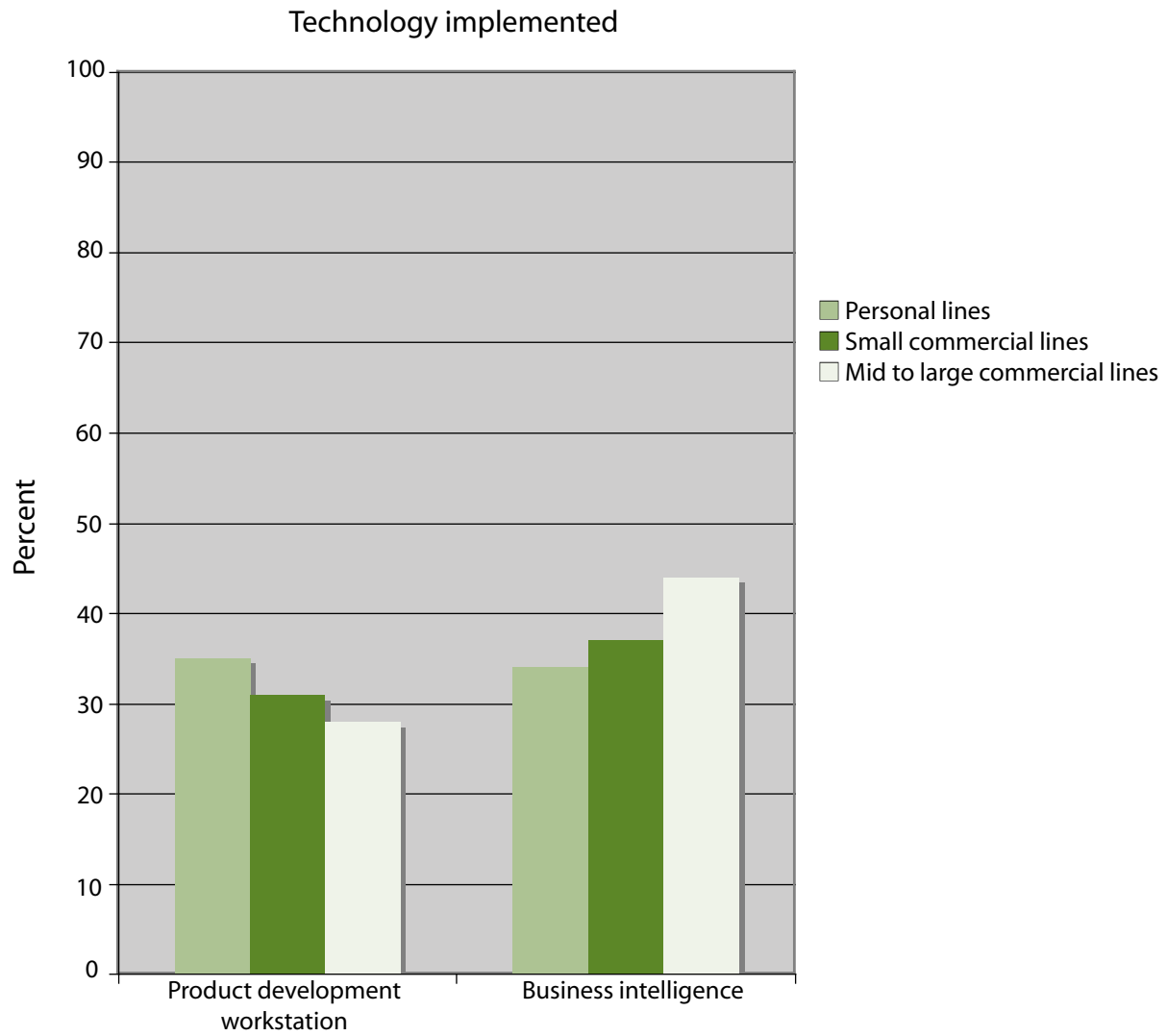
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**Figure 1**



**Figure 2**





# Personal Lines Interest Group

Volume 11 • Number 4 • August 2009

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