

Chairman's Corner: Gas Prices Got You Down? It's Time to Break Out the Bicycle!

by Daniel L. Blodgett, CPCU, AIM, AIS



■ **Daniel L. Blodgett, CPCU, AIM, AIS,** is a project manager in the Systems Department of State Farm's home office in Bloomington, IL. He started with State Farm in 1990 working various jobs including auto underwriter and supervisor in the State Farm Payment Plan. He 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. Blodgett has earned the CPCU, Associate in Management, and Associate in Insurance Services designations.

I consider myself a lucky person. I have a great family, wonderful friends, super job, and (especially) a fantastic group of volunteer leaders within the Personal Lines Section Committee. As a committee, we have the opportunity to create educational programs and work that benefit CPCUs all over the country, in particular our Personal Lines Section members—you!

Speaking of being lucky, I live close enough to work to ride my bicycle rather than drive. I've been pedaling the six-mile, round-trip commute for years and I enjoy the exercise. I love not having to deal with traffic as our city has paved bicycle trails all

over town—no accidents, no traffic lights, no drivers with cell phones, etc. I do keep an eye open for joggers, other cyclists, and folks out walking their dogs.

All this riding really helps my budget for gasoline expenses, but the weather patterns do keep me guessing as to if I'll be dry when I get home. On really rainy mornings (when Mother Nature pressures me to drive) it feels like I'm missing something from my day. I'm not a hot-weather person, and in the summer months it can be miserable riding home in the afternoon; however, the mornings aren't bad as I'm at work before 7 a.m. Since I'm riding early in the morning, there are always several weeks each spring and fall when I'm riding "in the dark" and need to attach the bicycle headlight for safety. (Speaking of safety, I always wear my helmet and encourage you to do so as well.)

You may wonder why on earth anyone would ride his or her bike to work after September in the midwest, and I honestly ride year-round depending on the weather. Some of our frosty October/November mornings really get my nose red by the time I get to work. I do ride to work in the deep winter months (December through February); however, I don't ride with snow or a heavy frost on the sidewalk—not worth the risk of slipping.

All of the trouble with varying temperatures and the occasional rainy ride home is worth it as I watch gas prices escalate again this summer. I'm sure you are all painfully aware of the roller-coaster price of gasoline too. Just in the last four years where I live, I've watched regular unleaded more than double from \$1.39 to \$2.99; even spiking to \$3.20 after Hurricane Katrina. I can't think of

anything else that's more than doubled in price so quickly. I imagine in some parts of the country you would be happy to pay "midwest" rates. I read the Energy Information Administration's analysis from late last year where it documented the change in gas prices in 2005:

Location	Average Price	Change from a Year Ago
Midwest	\$2.676	+0.828
East Coast	\$2.857	+1.008
Rockies	\$2.873	+0.996
West Coast	\$2.946	+0.912
Gulf Coast	\$2.656	+0.899

The CPCU Society's Central Illinois Chapter (my home chapter) recently hosted an excellent workshop on alternative fuels such as hydrogen, ethanol, and electricity. E85 ethanol is quickly growing in the midwest corn belt, and more fuel plants are planned. E85 is not without controversy and I've heard both sides of the argument. My own opinion is that we must continue exploring renewable energy sources and break dependency on fossil fuel.

I'm not convinced that we will ever reach the \$4 to \$5 range for a gallon of gas like they have for years in Europe due to supply/demand, yet it is possible. Until then, I'll keep pedaling to work to keep my personal demand lower.

Are you also a lucky person? If you're in my situation and are able to bike it to work, then I challenge you to dust off the air pump, check your brakes, your tires, get the helmet off the shelf, and commute to work with leg power. You'll enjoy the workout and I doubt you'll miss the traffic. ■

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. Beginning in 2006, she will share editorial responsibility for the CPCU Society's Personal Lines Section newsletter, *Personally Speaking*.

It is hard to believe that as I am writing this note, summer is upon us, and that as you are reading it, we will be heading quickly toward fall. I continue to be amazed at the speed with which the year unfolds before us, both personally and professionally.

At this time of year, across our industry, our attention typically turns toward the weather, especially to hurricanes as we find ourselves in the midst of the season. I found myself watching the Weather Channel on the "opening day" of hurricane season, and was somewhat surprised at the amount of coverage that was provided for the day . . . I equated it to coverage typically seen for the opening of baseball or football season, although watching this season unfold certainly will not be enjoyable as either of those typically are . . . and I hope it is far less eventful.

I hope you enjoy the informative articles that we have included in this issue—we have focused our issue on articles prepared by fellow CPCUs, as outlined below.

Developing Your Industry and Business Knowledge

Our first article is by **Kevin M. Margruder, CPCU, CSP, CLU, ChFC**, who is a loss control coordinator for State Farm Fire & Casualty Company at its Austin, Texas, Operations Center. Margruder shares his experience and knowledge with us regarding the importance of home maintenance through exterior painting. This information sheds light not only on the importance of home maintenance to the underwriting of a policy, but may also provide you with insights into some actions you can take yourself as a homeowner to protect one of your most valuable investments.

The series we have been sharing on identity theft, written by **Robin K. Olson, CPCU, AAM, ARM, ARP, CRIS**, has been extremely informative and very timely. The first and second installments dealt with effectively identifying and analyzing identity theft exposures, then selecting appropriate risk management techniques. With this issue, we will bring the series to a close with a third article, which is focused on the importance of monitoring the exposure and keeping track of emerging reforms aimed at this growing exposure.

Developing Your Network

Don't miss the reminders included with this issue about our upcoming section breakfast and the Personal Lines-developed seminar, "Diminution of Value: Payable Damages from Crash or Trash?" at the CPCU Society's 2006 Annual Meeting and Seminars, in Nashville.

And take a few minutes to check out our highlight of the updated Personal Lines Section web site . . . better yet, take some time to check out the web site itself!

Developing Your Thinking

Get those thinking caps warmed up—more puzzle fun is included to really get the gray matter revved into high gear!

Developing Your Resources

Our focus on sharing information from and about fellow CPCUs continues three-fold with a review written by a CPCU, of a book written by a CPCU, about a person who is a CPCU! **Andrew J. Barile, CPCU**, provides us with an interesting review of the book *The Daenzer Story*, written by **Carolyn I. Furlong, CPCU, CLU, CEBS, CPIW**. This book is an account of the impact that **Bernard J. Daenzer, CPCU**, had on the insurance industry. The CPCU-Loman Education Foundation and the Insurance Scholarship Foundation of America—NAIW Education Foundation will share the royalties from its sale.

I hope this issue is informative, not only about the topics that are included, but about the knowledge and experience that is found within the ranks of our fellow CPCUs. I encourage you to share your newsletter with peers, co-workers, and friends, and introduce them to the value of the CPCU designation, one built on character and confidence!

I look forward to seeing you at our upcoming Annual Meeting and Seminars in Nashville, September 9–12. ■



Home Maintenance: The Importance of Exterior Paint

by Kevin M. Magruder, CPCU, CSP, CLU, ChFC

Editor's Note: This article is reprinted with permission from the author, Kevin Magruder.

There are more than 75 million owner-occupied residences in the United States. Most are of wood frame construction. In theory, there's no reason why a wood frame structure can't last *hundreds* of years. With the advent of stone footings in the 12th century, it became possible to avoid a structure's number-one enemy: decay. In fact, nearly 80 wood-sided New England homes built in the early 1600s still exist with their original siding intact! Even today, due to its availability, abundance, cost, structural integrity, ease, and flexibility of use, wood remains the most common type of exterior building and trim material. When properly maintained, wood frame dwellings last as long, or longer, than buildings made of other materials. Furthermore, even homes not built entirely of wood will likely have considerable amounts of exposed wood surfaces (ie, eaves, soffits, molding, etc.).

A common recommendation made by insurance companies to their policyholders is to paint part, or all, of their home's exterior. Why? What does painting the exterior of a home have to do with its insurability?

The average new home contains about 15,000 board feet of lumber, including framing. Paint is a structure's first line of defense against the elements, and is a vital part of a sound maintenance program. A poorly maintained home may be a sign of neglect. Insurance companies refer to this "neglect" as a lack of pride in ownership, or more specifically, as a "morale hazard." Statistics bear out a correlation between pride in ownership and loss frequency and severity. But, why *specifically* does painting (or repainting) your home help assuage their underwriting concerns?

Wood is a biological material and must, as all living things do naturally, decompose. The main function of paint, therefore, is to delay decomposition and maintain the integrity of the structure's structural members. Once the exterior surface is compromised, it exposes your home to the following:

1. Yearly extremes of temperature, leading to splitting and cracking, permitting the introduction of moisture, and eventually mold and/or insects.
2. Sunlight. Besides fading the color and finish, it will also dry out the wood and cause cracks, loosen joints, or de-laminate surface veneers. This phenomenon occurs fairly rapidly to uncoated wood.
3. Termites and carpenter ants. Termites eat wood, but nest beneath the soil. Carpenter ants do not eat wood, but nest in galleries and tunnels they've created in moist or rotted areas of the wood.
4. Humidity and other sources of moisture can lead to decay or biological deterioration.

Of these, decay is of greatest concern. However, decay is an often-preventable form of damage. Most biological damage starts in poor environmental conditions and is dependent upon four conditions:

1. A supply of oxygen. Oxygen is required by terrestrial life forms, including those that consume wood. When oxygen is removed, consumption will cease.
2. A food supply. Although this may appear obvious, there are cases where the actual food source is not the wood. In the case of fungi (molds and mildew), the food source may actually be on the surface of the wood.

3. A moderate temperature range. The optimum temperature for insect damage is 75° to 90°F. Unfortunately, this is same temperature range preferred by humans, so temperature cannot be controlled practically.
4. A supply of moisture. This condition is the most difficult to control. Wood requires some moisture in order to retain its optimal characteristics. Wood will reach a balance of moisture content with the surrounding environment, taking on moisture in high relative humidity and releasing it when the humidity is lower. Extremely high moisture content (more than 60 percent) is the ideal for mildew growth. But even moderate conditions can support decay: some insects, such as termites, can generate their own moisture as they consume wood. All painted surfaces contain plenty of nutrients for mildew to thrive, but only some surfaces have enough water needed for mildew to survive.

Remove any one of these factors, and decay will be arrested. And, while environmental controls are the best line of defense, insects and fungi show little interest in penetrating paints and varnishes in order to consume wood.

Failure to properly maintain the structure's exterior is of particular concern to insurance companies. Flaked paint or rotted soffits, fascia, and siding renders the home much more susceptible to wind, and especially hail damage. Even small pea-sized hail can chip away paint and penetrate the wood, exacerbating existing poor conditions. Lack of maintenance to a home's exterior leads to increased frequency and severity of weather-related claims, which, in turn, drives up the cost of insurance.

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Home Maintenance: The Importance of Exterior Paint

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Insurance company underwriters are trained to recognize when deterioration is such that they will require action be taken by the homeowner. These conditions are:

1. chipped and peeling paint
2. exposed, untreated, excessively weathered, and dirty wood surfaces
3. insect damage (e.g., holes, digested wood, etc.) may require more than painting; the insurance company may require that the insect infestation and damage be mitigated prior to refinishing the surface
4. fungal damage, this is usually only noticed in the advanced stages of development, and again the insurance company will require that the conditions responsible be mitigated before repainting

Note that while this deterioration causes a loss in the market value of your home, this loss is not typically covered by the standard home insurance policy. Loss resulting from your failure to maintain your property is an expense that comes out of your pocket.

Of even greater importance is the damage that is being done to your home that is not readily apparent. Insect damage and wood rot, if left unmitigated, can work their way into the home's substrate, to the framing members and its structural elements. Once this occurs, insurable damage (e.g., fire, lightning, wind, wind-driven rain, collapse) becomes not only more likely, but more frequent and expensive to repair. Insurers have a vested interest in you maintaining your home's exterior. So, what's a homeowner to do?

First and foremost, the most common way to protect your home's exterior is to paint it. Unfortunately, though, paint is not designed to serve as a permanent shield for your home. The exterior of your home must be impervious to weather and since paint deteriorates over time, repainting is



necessary every four to eight years, though it is safe to say that a two-coat paint system will last up to 10 years. Generally, paint fails for one of three reasons: the building has a moisture problem, the surface underneath the new paint is damaged, or the paint is simply too old.

There are other reasons why paint fails, however, such as:

1. The wood was wet when it was painted.
2. Unfinished siding was exposed to several weeks of sunlight before painting.
3. The temperature was too cold when the wood was painted.
4. The wood was too hot when it was painted or was heated soon after painting.
5. The weather was too humid when the surface was painted.
6. Wood was installed directly over foam or foil-faced insulation board.
7. The wood siding is dirty.
8. The wood has decayed (rotted).

Moisture problems are often created by a leaking roof, faulty gutters and down spouts, or from high moisture content within the house. These problems must be corrected before the new paint is applied or the same problem will recur. Repair any leaks in the roof, broken gutters, or other moisture problems. Next, repair or replace any deteriorated siding, trim work, or other details. If your insurance carrier is not specific in this regard, contact it and ask its representative to schedule an appointment with you to outline the necessary repairs prior to repainting. A well-maintained paint job can shield a structure so that it will last virtually forever.

While you may spend less than \$1,000 on painting tools and materials, the same job done by a pro could easily cost \$5,000 to \$10,000 or more. To ensure that you're obtaining maximum benefit from the paint you're applying, follow these basic guidelines:

Preparation

1. Use a good-quality, acrylic caulk to fill gaps around windows and doors, joints in siding and trim boards, and anywhere moisture could get into the end-grain wood. Do not caulk where the siding overlaps, as

it could trap moisture behind the paint, causing it to peel. Caulking and weather stripping will pay for themselves within one year in energy savings alone.

2. Remove old paint by scraping and sanding to bare wood. If the siding has deteriorated or is “swelling” due to water absorption, it should be replaced.
3. If you have aluminum siding, first pressure-wash it to remove dirt and peeling paint. If there is no peeling, no primer should be necessary.

Painting (Frame Construction Only)

To compute the amount of paint needed, multiply the height of the house times the entire perimeter. Do not subtract for windows because this area will roughly equal the trim, eaves, and soffits. Divide the total square footage by the number of square feet per gallon cited on the label of the paint.

1. Apply a high-quality exterior grade primer on new or bare surfaces to seal the surface. A primer also ensures greater paint adhesion and helps prevent blistering, cracking, and peeling of the topcoat. Primers also help control growth of new mildew.
2. Apply two coats of the highest quality exterior house paint you can afford, either acrylic or latex. The best rule of thumb is to use the same type of paint that’s already on your home. In general, the benefits of using an oil-based paint are improved adhesion and better gloss retention, and fade- and mildew-resistance. As a result of this improved durability, you won’t need to repaint as frequently. On the other hand, latex paints are water-based, friendlier to the environment, and tend to contract and expand better with the siding, and clean up with soap and water. Bear in mind, however, that

coatings that can be cleaned up with water can be penetrated by water, especially when there is prolonged contact with moisture. In the warm, humid climate of the Gulf States, 100 percent acrylic paint is recommended.

3. Do not apply exterior alkyd paint over existing latex as the alkyd layer will get hard and brittle as it ages, while the latex underneath will remain flexible, which can result in peeling.
4. For doors and windows, semi-gloss latex paints contain more binder than flat paints, so they tend to be more durable.
5. All exterior paint colors will fade over time. Organic colors (blues and greens) will tend to fade more quickly than inorganic colors (brown and yellow iron oxides).
6. Gloss paints are best for trim because they accentuate architectural details and their finish tends to be hard and smooth.

Bear in mind that insurance companies have the right to cancel a policy within the first 60 days. Some may reject new customers because an inspection reveals that a home is in need of repair. An insurer may also non-renew a policy if the homeowner is notified at least 30 days

prior to the expiration date of the current policy. To avoid such action because of a condition in your home’s exterior, do the following:

1. Fix any obvious signs of damage such as rotting boards, sagging screens, or a loose front door.
2. Replace a damaged or badly worn roof.
3. If your paint is peeling or faded, repaint! ■

Check Us Out on the Web

Where can you go to get up-to-date information about what is going on in the Personal Lines Interest Section? The Personal Lines Section web site, of course!

Check out the updated format found at <http://personallines.cpcusociety.org> where you can

- Interact with fellow CPCUs through “FAQs.”
- Share ideas for upcoming newsletter issues through “Section Newsletter.”
- “Link to Other Sites” for fun and useful information.



Identity Theft: A Personal Risk Management Approach—Part 3

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



■ **Robin K. Olson, CPCU, AAM, ARM, ARP, CRIS**, is the author and principal research analyst for IRMI's newest reference service, *Personal Risk Management and Insurance*.

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 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.

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Insurance is an increasingly important risk management technique for the identity theft loss exposure. As this crime and the accompanying expenses and time involved grow exponentially, the demand for insurance protection has also spiraled. Insurance bureau organizations such as the Insurance Services Office, Inc. (ISO), insurance companies, and banks now offer various types and limits of coverage.

Insurance Services Office, Inc.

ISO is an organization that collects statistical data, promulgates rating information, and develops standard policy forms for more than 1,500 participating insurance companies and their agents. ISO developed an identity fraud expense endorsement in 2002 to its homeowner's policy. This endorsement provides \$15,000 limits for any one-identity fraud incident first discovered during the policy period and subject to a \$250 deductible. This endorsement covers six categories of expenses.

1. Costs for notarizing affidavits or related documents verifying the fraud. Financial institutions, creditors, and related agencies may require these documents to resolve the credit issue.
2. Costs for certified mail to law enforcement agencies, credit bureaus, financial institutions, or creditors.
3. Lost income due to the insured's or policyholder's time off work to complete fraud affidavits and to meet with law enforcement agencies, credit agencies, and legal counsel. The endorsement covers up to \$200 per day, with a maximum limit of \$5,000.
4. Loan application fees for reapplying for loans when the original application is rejected solely because

the lender received inaccurate credit information. These fees range from \$100 to more than \$1,000.

5. Reasonable attorney fees (ranging from \$200 to \$350 per hour in urban areas and from \$100 to \$250 per hour in rural areas) incurred as a result of identity theft, including expenses from the following:
 - Defending lawsuits brought against an insured by merchants, financial institutions, or their collection agencies.
 - Removing criminal or civil judgments wrongly entered against an insured.
 - Challenging the accuracy or completeness of the consumer credit report.
6. Long-distance telephone charges to creditors or merchants, law enforcement agencies, banks, or credit bureaus to report or discuss the incident. Resolving the theft may involve dozens of hours of long-distance charges spanning several months or longer.

This endorsement contains three exclusions. First, there is no coverage for a business-related loss. Second, any expense incurred due to any fraudulent act by an insured, including a spouse or family member, is excluded. Third, any loss other than the six specified expenses is not covered. For example, if the insured victim requests compensation due to the mental aggravation accompanying the theft, no coverage applies.

Insurance companies have some latitude in charging for this endorsement, but the annual premium charge is normally under \$100.

Insurance Companies

More individual insurance companies are now offering their own identity theft protection, normally as an endorsement onto their homeowners policy. American International Group (AIG) offers a homeowners endorsement that reimburses expenses up to \$30,000 with an annual premium of \$75. According to Kirk Hodgson, business development manager with AIG, this coverage provides free credit reports, costs for certified mail, free legal assistance, and lost wages up to \$1,000 per day. The plan currently includes a \$500 deductible, but AIG is in the process of eliminating this deductible. According to Hodgson, this coverage is “not an easy sell, but growing awareness of the problem is slowly making this product easier to market.”

Nationwide Insurance Company’s plan extends beyond simply reimbursing a policyholder’s expenses. According to Deb Harmon, project manager with Nationwide, “What makes this plan unique is its service component. We work on the policyholder’s behalf to rectify the problem by directly contacting creditors, credit bureaus, and law enforcement agencies.” When the insured contacts Nationwide regarding the identity theft, the company brings in an identity theft assistant to perform all the legwork and deal with the hassle of resolving the issue. Harmon added that “emergency cash advances are provided for customers out of the country, including unique translation services.” This protection is so extensive that it even provides emotional support via licensed professional counselors to help victims deal with the stress. The policy limit is \$25,000 with no deductible, carrying a \$45 annual premium.

Allstate offers the standard reimbursement plan with a \$20,000 limit that costs \$30 per year with no deductible. According to spokesperson Bill Mellander, the insured “has the option of selecting the restoration services plan for the same \$30 annual premium, which provides the insured with an expert in electronic data recovery. This ‘personal assistant’ articulates the whole process to our

insured, gives them constant updates, and educates them about the crime in general.”

Other insurance companies playing an active role in identity theft protection are the Chubb Group of Insurance Companies, Encompass Insurance, Farmers Group, Fireman’s Fund, Travelers, and Hartford Insurance, per the Insurance Information Institute.

Banks

Banks are also beginning to offer this protection to their customers. Pittsburgh-based PNC Bank implemented a plan in April 2004 that is very popular. This protection is a no-cost reimbursement plan with \$2,500 limits, which can range up to \$10,000 based on the level of banking services provided. According to Laila Krause, executive vice president of PNC, “our customers started expressing concerns about this exposure. Thus, this product gives them peace of mind with worldwide protection.” It contains a \$100 deductible per policy period. Customers also have the option of purchasing the True Credit Plan for \$3.65 per month, which provides ongoing credit monitoring. American International Specialty Lines Insurance Company, a subsidiary of AIG, underwrites this plan.

According to Bankrate.com, Washington Mutual Bank offers a free plan to its customers, which includes a toll-free access line to the bank’s Identity Theft Resource Center, free access to credit education specialists, and \$5,000 in insurance (no deductible) to offset recovery costs, including legal fees and lost wages.

Current Laws and Legislation

The federal government has passed various laws and taken other action in the last few years designed to stem the rising tide of identity theft losses. More reforms, however, are needed in this endeavor, particularly in the area of prevention and relief for victims of this crime.

Several new important actions are discussed below. In addition, many state

laws have now passed in an effort to reduce the impact of this crime.

Identity Theft and Assumption Deterrence Act of 1998

Enacted by Congress in October 1998, this act makes identity theft a federal crime. Under this federal law, identity theft occurs when someone:

- knowingly transfers, possesses, or uses, without lawful authority, a means of identification of another person with the intent to commit, or to aid or abet, or in connection with, any unlawful activity that constitutes a violation of federal law, or that constitutes a felony under any applicable state or local law

Under this act, a name or Social Security Number (SSN) is a “means of identification” along with a credit card number, cellular telephone electronic serial number, or any other piece of information that can be used to identify a person. Federal agencies such as the U.S. Secret Service, the FBI, the U.S. Postal Inspection Service, and the Social Security Administration’s Office of the Inspector General investigate these crimes. The U.S. Department of Justice prosecutes federal identity theft cases.

According to *Identity Theft* (Silver Lake Editors, 2004), this act accomplished four objectives:

- It identified persons whose credit had been compromised as true victims. In the past, the person whose credit was decimated was not recognized as a victim.
- It established the FTC as the central point of contact for victims to report acts of identity theft. The FTC assists law enforcement agencies in this crime.
- It provided increased sentencing potential and stronger asset forfeiture provisions.
- It closed loopholes in federal law by making it illegal to steal someone’s identity.

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ID Theft Data Clearinghouse

The ID Theft Data Clearinghouse was created pursuant to the Identity Theft and Assumption Deterrence Act and began operation in November 1999. The Clearinghouse operates the federal government's database for tracking identity theft complaints and serves as a place for victims to receive valuable information to mitigate their losses. This information is shared electronically with other law enforcement agencies nationwide, allowing these agencies to spot patterns of illegal activity. The Clearinghouse also sends information to private companies to assist them in providing better protection for consumers. The Clearinghouse received more than 247,000 identity theft complaints during the 2004 calendar year.

Identity Theft Penalty Enhancement Act

California Senator Dianne Feinstein spearheaded the drafting of the Identity Theft Penalty Enhancement Act, allowing harsher sentencing when identity theft occurs in connection with other serious crimes such as terrorism. In signing the bill in July 2004, President George W. Bush remarked that this act will "dramatically strengthen the fight against identity theft and fraud. Prosecutors across the country report that sentences for these crimes do not reflect the damage done to the victim. Too often, those convicted have been sentenced to little or no time in prison. This changes today."

Fair and Accurate Credit Transactions Act (FACTA)

A new federal rule effective June 1, 2005, requires companies that use consumer reports to discard the personal information properly, rather than simply tossing paper files in a trash container or sending unscrubbed computer hard drives to the recycler.

State Laws

Many states have promulgated laws making identity theft a crime or providing help in recovery for victims. Where specific criminal identity theft laws do

not exist, the practices may be prohibited under other state laws. California's Notice of Security Breach Law specifies that if any company or agency that has collected financial or personal information about a California resident discovers that non-encrypted information has been stolen by an unauthorized party, the company or agency must immediately report this incident to the resident.

Texas State Representative Helen Giddings was herself a victim of identity theft, when checks she ordered during the fall of 2004 were stolen. She has spent more than 1,000 hours in an effort to clear up her good name. In addition, she was forced to hire an attorney and an additional person on a part-time basis to keep up with the faxing of documents, e-mails, and various correspondences with merchants, banks, and credit bureaus. As a result of this terrible experience, she pushed through several important pieces of legislation, which the governor signed into law in June 2005.

- When a customer requests a signature be obtained upon delivery of blank checks by a courier, the courier must honor the consumer's request. A violation carries a penalty of \$1,000 per delivery.
- Debt collectors are prohibited from continuing to contact a consumer who has proved the debt incurred was the result of a theft.
- A merchant must delete any electronic record indicating a customer has issued a dishonest check, provided the customer presents a copy of the report filed with a law enforcement agency stating the check was unauthorized.
- Banks must note "forged" instead of "account closed" when the customer's checks are stolen and used fraudulently. This notation prevents a merchant from attempting to have a victim arrested or turning the check over to a collection agency. The victim must complete a forgery affidavit and a police report as a prerequisite to this process.

- An identity theft victim may not be denied access to credit that would otherwise be approved in the absence of the theft.
- Civil penalties are imposed on identity thieves. Representative Giddings commented that "The current laws addressing identity theft are woefully inadequate and the rights of victims are not clearly defined. This bill gives law enforcement guidelines to more appropriately respond to cases that do arise."

Other states have also passed numerous statutes concerning this growing crime. Citizens can access http://www.consumer.gov/idtheft/id_laws.htm for a list of state statutes specifically addressing identity theft.

Necessary Reforms

Additional reforms are needed, including those outlined below.

Stricter Sentencing of Identity Thieves

Even though the Identity Theft Penalty Enhancement Act was passed in 2004, this law applies only to U.S. Postal Service and interstate acts of identity theft. For acts of intrastate identity theft, many states still do not classify this action as a felony and the criminal is given a lenient sentence. Stronger state laws requiring stiffer sentences will assist in deterring some of these thefts.

Tougher Standards on Breeder Documents

Breeder documents are documents used to obtain other documents used for identity; eg, using a birth certificate to get a driver's license. Driver's licenses present particular problems in this regard. According to the American Association of Motor Vehicle Administrators (AAMVA), a person's driver's license is easily counterfeited. The AAMVA asserts that the variety and dissimilarity make it easy for criminals to counterfeit. Having a uniform design with certain security specifications would help make driver's licenses more difficult to counterfeit. Shared and well-integrated

databases among all the state motor vehicle departments would also assist in this regard.

Increased Use of Biometrics

Biometric technologies (the study of physical characteristics such as finger prints, hand geometry, eye structure, or voice pattern) are being tested and used to fight identity theft include fingerprinting, earprinting, retina scanning, iris scanning, voice recognition, facial recognitions, and handwriting analysis. The use of this technology can add layers of security that standard.

Improved Encryption Standards for Businesses

Encryption is converting data into a form or code that is not easily understood by unauthorized persons. Enhanced encryption standards would prevent many of the personal identification thefts from financial institutions occurring in 2005. Businesses that retain computerized personal information on their customers should be required to utilize encryption technology to reduce the exposure to this crime.

Stricter Reporting Requirements

The financial services industry has received considerable criticism for not promptly reporting incidents of compromised personal and financial information. There are numerous bills on data breaches on the federal level and hundreds on the state level under consideration. Most of these bills aim to push credit-card issuers and banks to quickly advise cardholders and customers whose accounts are breached. Many of these financial institutions disagree with any types of draconian laws, arguing that too many such warnings may result in a "cry wolf" response. The current system, however, is clearly not working.

Heightened Assistance for Victims

Identity theft victims struggle in multiple ways to restore their good names. Adding to the problem is the fact that the victims bear the burden of proof in restoring their good names. Fortunately,

more states are passing laws designed to assist victims in this effort. According to the Congressional Research Service, *Remedies Available to Victims of Identity Theft* (July 2003), a consumer may have a security freeze placed on his or her credit report by making a request in writing with a consumer credit reporting agency. This prohibits the consumer-reporting agency from releasing the consumer's credit report or any information without the consumer's express authorization. California law also stipulates that identity theft victims who are sued regarding an obligation resulting from the theft may bring a cross-claim alleging identity theft.

The state of Washington has also enacted an extensive identity theft statute that includes a provision, which allows victims to receive information about the alleged crime from parties who engaged in transactions with the thief. The victim can request that such parties provide copies of all relevant information related to the fraudulent transaction.

Conclusion

The mass media is spotlighting with increasing frequency the scourge of identity theft, primarily due to the escalating incidents of the crime and the evolving methodologies identity thieves utilize. Where identities were previously stolen one by one, thieves are increasingly stealing massive numbers of them in a single strike.

With the odds growing daily that an individual may become a victim, a comprehensive personal risk management approach is essential. Persons should be aware of the many ways this crime can occur. They should also recognize the factors that make them a better target for thieves. In this regard, effective loss prevention techniques should be practiced to mitigate the threat.

If a theft occurs, the victim needs to follow a highly organized set of procedures to reduce the severity of the crime. Organization, patience, and a calm and methodical approach to this problem help immensely.

An individual should also look into insurance and protection plans offered by insurers and banks, particularly since the number of identity theft cases is rapidly escalating. A thorough comparison of these plans is necessary and an analysis of the financial strength of each company is also in order.

After the risk management techniques are implemented, the individual should annually monitor the plan because the crime is rapidly evolving, the individual's circumstances and environment change, and insurance and protection policies often are amended. By following a systematic, organized, and comprehensive personal risk management plan, a person can be properly informed and prepared to face America's fastest growing crime. ■

Thoughts on Leadership

"Leadership should be born out of the understanding of the needs of those who would be affected by it."

—Marian Anderson

The Daenzer Story: A Book Review

by Andrew J. Barile, CPCU

■ **Andrew J. Barile, CPCU**, is president and CEO of Andrew Barile Consulting Corporation, Inc. (www.abarileconsult.com). He first met Daenzer at the 1970 CPCU Society Annual Meeting and Seminars in Los Angeles, and later joined the Alexander Howden Group to start the Howden Reinsurance Corporation, in New York City.

The biography of **Bernard John Daenzer, CPCU**, written by Carolyn I. Furlong, CPCU, CLU, CEBS, CPIW, is a must-read for all insurance professionals, as this dedicated insurance industry personality over his long lifetime “would paint the insurance industry not as it was, but as it ought to be.”

As Furlong makes clear in *The Daenzer Story*, the book is written to cover the 100-year period from 1900 through December 31, 1999. Although Furlong is quick to point out “in early 2005, having just turned 89 years old, Daenzer was instrumental in founding an insurance agency, Angelfish Risk Management, owned and operated by several businessmen in Ocean Reef Club, Key Largo, Florida.

The Daenzer Story is a detailed account of Daenzer’s insurance industry exploits, and all of the insurance executives he influenced along the way, and there were many. In 1947, Daenzer was the 88th person in the country to get a Chartered Property Casualty Underwriter designation. Daenzer was rightly considered a pioneer in the field of personal packages. *Rough Notes* magazine made Daenzer the authority for homeowners insurance.

Many of us referred to Daenzer as the “Father of the Surplus Lines Insurance Industry.” Furlong writes, by 1957, Daenzer found that there was no body of literature in the United States or England on the broad field of excess and surplus lines or Lloyd’s-type coverages. This led to his writing a series of articles for the *Weekly Underwriter*, about 400 over the years, in



■ **Bernard J. Daenzer, CPCU**, was recognized for attending 58 out of 61 CPCU Society Annual Meeting and Seminars during the 2005 Annual Meeting in Atlanta.

a bi-weekly column called Cover Notes. Booklets were made from the articles that later became the *Excess and Surplus Lines Manual* published by The Merritt Company. These publications included thousands of pages on several hundreds of topics peculiar to the business. “I made them required reading by all of us at Howden Reinsurance Corporation.”

In the field of risk management, Daenzer was also instrumental in “leading the way.” Daenzer and several other CPCUs were working on a professional designation for risk managers and came up with Associate in Risk Management. He wrote one of the textbooks for the ARM course, and a later one for RIMS on risk analysis of company locations.

On November 27, 1968, Daenzer was the first non-Briton to go through ROTA and to be elected a name at Lloyd’s. “This broadened membership base is good for both Lloyd’s and the insurance-buying public in general,” Daenzer noted, “because it helps to fill the need for a greater capacity in the world-wide insurance market.”

Daenzer, in 1978, was elected chairman of the Board of Trustees of The College of Insurance, the only fully accredited college and graduate school under the support of one industry.

Furlong does a great job in documenting the institutions that had touched

Daenzer’s life and have undergone changes, such as:

- The College of Insurance that Daenzer worked to support and promote over the years remains the prominent source of higher insurance education. It merged with St. John’s University and is now known as the School of Risk Management and Actuarial Service, a part of the Tobin College of Business, the New York City branch of St. John’s University.
- RLI Corporation of Peoria, Illinois continues to flourish.

Daenzer had an almost encyclopedic knowledge of how the insurance industry worked, but he did not stop there. As related in this story of his life, Daenzer responded to new types of risks by creating new coverages to protect policyholders and by carving out niche products to respond to the needs of industry.

This book should be read by all in the insurance industry, and set the example for the actions of future insurance leaders. ■

You can order *The Daenzer Story* at Amazon.com. Royalties from the sale of this book will be shared by the CPCU–Loman Education Foundation and the Insurance Scholarship Foundation of America—NAIW Education Foundation.

Don't Miss These Great Opportunities to Network with Fellow Personal Lines Section Members at the 2006 Annual Meeting and Seminars in Nashville, TN, September 9–12

Diminution of Value: Payable Damages from Crash or Trash?

Sunday, September 11, 2006

2:45 – 4:45 p.m.

Attendees at this provocative seminar will learn about a growing trend in our industry, and how it may affect the industry in the future. Diminution of value refers to a situation in which a vehicle is damaged in an accident, the damage is repaired, and the claimant alleges that the value of the vehicle has been decreased, even if the repairs are perfect. States vary on whether claims for diminution should be covered. Claims personnel, underwriters, agents/brokers, and anyone involved in the personal lines arena will want to learn about the controversy surrounding these claims, and how it is affecting our industry.

Moderator:

Dale Halon, CPCU, CIC

Director of New Business Development
ChoicePoint

Presenters:

Douglas G. Baker

Product Manager
Automatic Data Processing, Inc.
(ADP), Claims Services Group

William C. Wilson Jr., CPCU, ARM, AIM, AAM

Director
Independent Insurance Agents and Brokers of America,
Inc. (IIABA) Virtual University.

David Broemel, J.D., CPCU

Greenebaum, Doll and McDonald PLLC

Personal Lines Section Breakfast

September 11, 2006

7–8 a.m.

Have you been a victim of identity theft? If no, consider yourself very lucky. If you have been, are you positive you have done everything to keep from again being a target? To find out what is lurking “out there” and some safety precautions, come to the Personal Lines Section breakfast presentation, where Robert L. Siems, J.D., CPCU, and Patricia A. Hannemann, CPCU, will be speaking on “Identity Theft—The Causes and the Cures.”

Tickets are required. Tickets can be purchased for \$28 each. To register, select this option under Section 4 of the Annual Meeting registration form.



The Personal Lines Section's 2005 Annual Meeting seminars attracted 49 attendees.

Register today for the 2006 Annual Meeting and Seminars at www.cpcusociety.org!

Get Your Brain in Gear!

See how well you can do with these thinking challenges . . . don't peek at the answers until you have tried to figure it out!

Puzzle

I have two U.S. coins totaling 55 cents—one is not a nickel. What are the coins?

Answer

How literal are you?? I said, "one is not a nickel"—doesn't mean the other one isn't!

Puzzle

Albert Einstein supposedly made up this quiz, and he declared that 98 percent of those trying will not solve it—will you be in the 2 percent that can?

There is a row of five houses, each of a different color. In these houses live five people of various nationalities. Each of them has a different pet, likes different drinks, and smokes different brand of cigars.

Using the clues below, figure out who has a fish as a pet.

- The Brit lives in the red house.

- The Swede has a dog.
- The Dane drinks tea.
- The green house is on the left of the white house.
- The owner of the green house drinks coffee.
- The person who smokes Pall Mall owns a bird.
- The owner of the yellow house smokes Dunhill.
- The man living in the center house drinks milk.
- The Norwegian lives in the first house.
- The man who smokes Blends lives next to the one who has a cat.
- The man who keeps horses lives next to the man who smokes Dunhill.
- The man who smokes Blue Master drinks beer.
- The German smokes Prince.
- The Norwegian lives next to the blue house.
- The man who smokes Blends has a neighbor who drinks water.

Answer

Dog	Fish	Bird	Horse	Cat
Beer	Coffee	Milk	Tea	Water
Blue Master	Prince	Pall Mall	Blends	Dunhill
Swedish	German	Briton	Dane	Norwegian
White	Green	Red	Blue	Yellow

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Personally Speaking Co-Editor

Robert A. Braun, CPCU
State Auto Insurance Companies
e-Mail: bob.braun@stateauto.com

Personally Speaking Co-Editor

Kellie H. Green, CPCU
Allstate Insurance Co.
e-Mail: actyd@allstate.com

Personal Lines Section Chairman

Daniel L. Blodgett, CPCU, ARM, AIS
State Farm Group
e-Mail: dan.blodgett.cqsx@statefarm.com

Sections Manager

John Kelly, CPCU, API
CPCU Society

Managing Editor

Michele A. Ianetti, AIT
CPCU Society

Production Editor

Joan Satchell
CPCU Society

Design

Susan Leps
CPCU Society

CPCU Society
720 Providence Road
Malvern, PA 19355
(800) 932-CPCU
www.cpcusociety.org

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CPCU Society
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www.cpcusociety.org

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