

## Chairman's Corner

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.

### Spring Enthusiasm

If you've ever lived in the upper midwest, you know one sure sign of spring is the sound of songbirds like robins singing in the neighborhood again. Other sure signs are the local youth soccer and little league baseball fields filling up with kids. Of course the sounds of high-pitched yelling coming from these fields are usually just the parents!

One of my favorite parts of spring is the "enthusiasm" it seems to bring. We come out of the winter doldrums as the weather warms up, flowers and trees bloom, and cabin fever gives way to outdoor activity. Even if you live in the south where the weather is warm all year, spring seems to recharge us personally and professionally.

Keeping enthusiasm high on your team is not just a springtime activity, whether it's on the little league diamond, soccer field, at work, or especially with volunteer duty. Maintaining high energy levels can be a daunting task over a longer period of time. The number of tasks at work or with your CPCU Society organization can build to the point that burn-out occurs. So what can you do to keep your team enthusiastic? Here are a few ideas that have been accumulated through various articles that I've presented to my teams before:

- Enthusiasm is contagious and it starts with you as the leader bringing your best effort.
- Keep a positive attitude no matter what the circumstances.
- Have fun. If you enjoy your job then it's hard to think of it as "work."

- Take initiative and act with courage on new assignments.
- Help the folks on your team be right, not wrong, and treat every challenge as a learning opportunity.
- Be optimistic and look for ways to make new ideas work, not why they won't.
- If there's conflict then don't avoid it, resolve it early.
- Don't make assumptions about each other; if you don't know something, ask.
- Help each other win and take pride in each other's victories.
- Speak positively about each other and about your organization at every opportunity.

I hope you find this helpful to keep the enthusiasm high throughout the year with your teams. Bring the energy to your next assignment, and watch the positive results blossom. ■

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# Note from the Editor

by Robert A. Braun, CPCU



■ **Robert A. Braun, CPCU**, is a territory manager with State Auto Insurance Companies, where he is responsible for managing the profitable growth of the central Kentucky region. Beginning in 2006, he shares editorial responsibility for the CPCU Society's Personal Lines Section newsletter, *Personally Speaking*.

I am pleased to introduce the second issue of *Personally Speaking* for 2006. As **Kellie H. Green, CPCU**, noted in January, our mission as a section includes three commitments: to educate members, to create and share knowledge, and to provide expertise to fellow CPCUs and others. Our newsletter is an avenue for achieving this mission, and you'll find in this issue a variety of topics to support your growth and development. Future issues will be devoted not only to personal lines topics, but broader subjects such as industry trends, current events, and leadership. Here's a preview of what's in this quarter's newsletter.

## Personal Risk Management

We continue our series on identity theft with the second of three articles written by **Robin K. Olson, CPCU, ARM, AAM, APR, CRIS**.

You'll recall that Part 1 focused on identifying and analyzing identity theft exposures from a personal risk management perspective. In this issue, Olson writes about risk control techniques, including loss prevention and loss reduction.

## Developing Knowledge of the Industry

As we head into the spring storm season and the summer hurricane season, we are pleased to reprint an article from the March 2006 edition of *Best's Review*, written by senior associate editor Meg Green. This article, titled, "Worst-Case Scenarios," focuses on how insurers and reinsurers are assessing their plans for financing and capitalizing catastrophe exposures.

The brain teaser this month was included in the original publication of this article in *Best's*. Take the quiz and find out if you are a "master of disaster!"

## Networking

We again put the spotlight on a section member, with your editor graciously volunteering to serve as this month's featured member! Beginning with the next issue, we'll be seeking other members to "shine," so if you feel moved to tell your story, please contact Kellie or me!

Also, if you are planning to attend the Annual Meeting and Seminars, you'll find some preliminary information about the first-ever Personal Lines Section Breakfast taking place on September 11. This is an outstanding opportunity to meet fellow section members!

Last, information is again included about the section web site. Please take a moment to surf around—it's a great tool for developing and expanding your knowledge of the personal lines issues we face on a daily basis.

We hope that you find *Personally Speaking* to be enjoyable and of value to you. If you have ideas for topics or additional items to include in the newsletter, please share those thoughts with us. ■

## Personal Lines Interest Section Mission

*Our mission is to educate professionals in all aspects of personal risk management, to create and disseminate knowledge, and provide expertise to CPCUs and others.*

*We do this through research and program initiatives emphasizing high performance, functional expertise, and practical experience.*

# Identity Theft: A Personal Risk Management Approach—Part 2

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



■ **Robin K. Olson, CPCU, ARM, AAM, 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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**A**fter identifying and analyzing the identity theft loss exposure (see Part 1), the next step is to select the appropriate risk management techniques. Arguably, the most important technique is risk control. The goal of risk control is to reduce the possibility that a loss will occur and/or reduce the severity of the loss if one does occur.

Choosing effective risk control techniques is the best mechanism to reduce the likelihood of an identity theft and the severity of the theft. Risk control techniques are classified into two major categories—loss prevention and loss reduction.

## Loss Prevention

The goal of loss prevention is to reduce or eliminate the possibility of loss. In regard to identity theft, the goal is to avoid becoming a victim. There are various techniques a person can take in the home, online, outside the home, at work, and when traveling to reduce the chances of being victimized.

### In the Home

The first step to prevent identity theft from striking at home is to securely safeguard personal information. For example, an alleged representative of a bank may call a customer asking for certain information for "account verification purposes." If a person, however, receives an unsolicited phone call from someone asking for financial information, this call is probably fraudulent since the bank already possesses this data. According to Security Analyst Robert Hammond, "the only

purpose of such a call is to steal that information." Personal information should never be given out by mail, phone, or in person unless the individual has initiated the contact and knows the entity being addressed.

Passwords for credit cards and bank accounts should be memorized and not shared with anyone. Persons should avoid using their mother's maiden name, date of birth, or the first three or last four digits of their Social Security number (SSN). In addition, the SSN should be shared only when absolutely necessary. The Social Security card should not be kept in a wallet or purse except in unique circumstances, such as the first day on a new job. Instead, it should be stored in an extremely safe place, such as a safety deposit box. The SSN should also not be utilized as an account number of any type, according to the Social Security Administration, and should never be printed on personal checks.

Individuals should be cautious when storing personal information in the home, especially if he or she has a roommate, employs outside help, or has frequent guests or visitors. According to one legal expert, "The three items identity thieves most covet—your Social Security card, birth certificate, and passport" should be kept in a safety deposit box.

Investing in a high-quality shredder is a wise move to prevent identity theft. Dumpster divers are particularly interested in pre-approved credit card applications, old credit card statements, and other financial documents. Many persons are unaware of the dangers of simply throwing away the credit card applications because a thief can retrieve the application, mail it in with the address changed to the thief's own address, receive the new cards in the victim's name, and immediately run

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up charges. The main point is that a person should shred all financially related documents once they are no longer needed.

A person may opt out of receiving pre-approved offers of credit cards or insurance by calling (888) 5-OPTOUT (888-567-8688) or accessing [www.optoutprescreen.com](http://www.optoutprescreen.com). The Direct Marketing Association operates this service, which excludes a person's name from pre-approved credit card offers for at least five years. In addition, people can instruct the three major credit bureaus in writing not to share their personal information. By writing directly to the three major credit bureaus listed in Figure A, consumers can ensure that their names will no longer appear on direct marketing lists.

Outgoing mail with important information should never be placed in personal mailboxes. Instead, it should be mailed at the post office or a secure postal box. When ordering new checks, an individual should pick them up at the bank. If a person has a post office box, this address should be listed on personal checks, so that thieves will not know the person's residential address.

It's also a good idea to order credit reports on an annual basis from all three major credit bureaus. A new federal law now requires each of these credit bureaus to provide one free annual credit report to each consumer. The free credit reports are available by accessing [www.annualcreditreport.com](http://www.annualcreditreport.com) or calling (877) 322-8228. This service allows consumers to check for unusual activity and take quick action, which could impede an identity theft in its early

stages. This allows consumers to close out all unused accounts so that there is as little information about them as possible.

There are several miscellaneous steps a person can take if a checkbook, wallet, or purse is stolen. Show only your initials rather than your first name on checks. With this method, if your checkbook is stolen, the thief will not know how the checks are signed, but the bank will. When writing checks to credit card companies, place only the last four digits of the credit card number on the check. The credit card company knows the rest of the number. In addition, persons should photocopy both sides of each license, credit card, and other important information and keep in a safe but accessible place. These copies allow the victim to contact the appropriate parties as quickly as possible if a theft occurs.

## Online

There are numerous techniques a person can implement to reduce his or her exposure to online identity theft. First, information on a personal computer (PC) should be secured through the use of the following:

- Anti-virus software, which scans the PC for viruses intended to harm the system. This specialized software removes the virus before any damage occurs.
- Firewalls head off destructive programs before they strike. Norton and McAfee offer firewall software at affordable prices.
- File encryption software that secretly codes and secures the files on a PC.



- Password protection software secures sensitive files.

Never open up unsolicited e-mail or spam. There are several anti-spam programs that effectively filter out spam before it lands in your inbox.

Be wary about shopping online. According to a June 2, 2005, report by *The Dallas Morning News*, one survey showed that three-fourths of Internet users believe that if a web site has a privacy policy, this automatically means the site won't share data on its shoppers with others. This privacy policy, however, often simply explains how a web site shares data with other companies. A consumer should never purchase anything online from a merchant without a secure server. According to Internet Concepts, Inc., "all web servers that handle credit cards should use SSL (secure socket layer) encrypted communications. While a secure server discusses sensitive credit card information with the customer, anyone eavesdropping on this electronic conversation through any Internet computer . . . will only see illegible data."

## Figure A Consumer Opt-Out Contacts

### Equifax, Inc.

Options  
PO Box 740123  
Atlanta, GA 30374-0123  
[www.equifax.com](http://www.equifax.com)  
(800) 525-6285

### Experian

Consumer Opt-Out  
701 Experian Parkway  
Allen, TX 75013  
[www.experian.com](http://www.experian.com)  
(888) 397-3742

### TransUnion

Marketing List Opt Out  
PO Box 97328  
Jackson, MS 39288-7328  
[www.transunion.com](http://www.transunion.com)  
(800) 680-7289



Secure web sites have an address that begins with https://, with the “s” indicating that the site is secure. The “s” only appears in that section of the web site in which customers enter their financial or personal information. Another way to determine the security of a web site is to look for a closed padlock displayed at the bottom right side of the page. If that lock is open, the web site is probably not secure. According to one computer specialist, a person should double click on the closed padlock to check the “certificate” for the site. The Secure Certificate Authority ensures the identity of a remote computer via this certificate process, which should specify to whom the certificate is issued. This party should be the same as the one shown on the web site being visited.

Outside the Home

There are many steps a person can take while outside the home to reduce the exposure to identity theft. First, an individual should reduce the amount of personal information in his wallet. For example, a consumer should pare credit cards down to one or two and cancel the remaining cards. In addition, a person’s Social Security card should nearly always be stored in a safety deposit box.

Second, an individual should be wary of his or her surroundings when approaching an ATM or public telephone, or when using a cell phone in a public location. All efforts should be made to prevent shoulder surfing. In public areas, criminals can more easily abscond with these important numbers by watching the unsuspecting person’s fingers or by utilizing a video camera with a zoom lens. A shoulder surfer can also listen near a public or cell phone while the victim is giving out a credit card number to reserve a hotel room or rent a car. A quiet, private location is best to minimize eavesdropping.

Third, an individual should avoid giving out his or her SSN to merchants when shopping. If an identifier is absolutely necessary, simply reciting the last four digits of the SSN often suffices. Some

businesses request the SSN for general record keeping. In this event, the consumer should ask the merchant to use another identifying number.

At Work

While at the job site, ascertain who has access to the employee records and verify that this information is securely maintained. The employee should also ask his or her employer not to use the SSN as a personal identifier.

When Traveling

When engaged in business or pleasure travel, have your mail held at the post office or ask a trusted neighbor or friend to retrieve it each day. Stop all newspaper delivery as well. While on the road, avoid passing on personal financial information to another party unless the setting is private. In addition, while traveling abroad, passports, driver’s licenses, and other key data should be stored in the hotel’s safe, if possible. Travelers should keep only a copy of their passport on themselves.

Loss Reduction

Rigorous loss prevention efforts reduce the chance of a loss, yet identity theft still occurs. There are multiple steps a person can take to mitigate the effects of the identity theft after it occurs. These include the following:

- contact the “big three” credit bureaus
- notify law enforcement
- contact all creditors
- notify the bank regarding check theft
- complete the ID Theft Affidavit
- contact the Federal Trade Commission (FTC)

- notify the Social Security Administration office
- obtain legal advice if necessary
- organize the repair process

Contact the “Big Three” Credit Bureaus

Identity theft victims should immediately call the three major credit bureaus, as shown in Figure B.

Request that a fraud alert be placed on the account. A fraud alert is a notice placed prominently on a credit report that informs creditors and potential creditors that this person is a victim or a possible victim of identity theft due to the compromising of personal data. With this alert on the credit report, creditors or potential creditors must first call the person for proper verification. This fraud alert should remain in place indefinitely or until the victim asks that it be removed.

The victim’s statement should also be included in the report. This statement may read something like “I am the victim of identity theft. Someone has used my identification to fraudulently apply for credit. If an application for credit in my name is received by your organization, please contact me directly at ###-###-#### prior to extending credit.” The credit bureau must also provide free copies of credit reports for victims every few months to allow the person to monitor all changes.

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Figure B  
Credit Bureau Contact Information

<b>Equifax, Inc.</b> (800) 525-6285 www.equifax.com	<b>Experian</b> (888) 397-3742 www.experian.com	<b>TransUnion</b> (800) 680-7289 www.transunion.com
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The credit bureaus should also remove all inquiries generated due to the fraudulent access. In addition, the victim should ask the credit bureaus to notify those who have received the disputed credit report and alert them about the problem.

## Notify Law Enforcement

According to the FTC, identity theft victims should file a report with the police in the locale in which the theft occurred. They should ask for a copy of this police report, which can help with creditors who need proof of the crime. If the local police are reluctant to take the report, they should ask to file a “miscellaneous incidents” report, or try another jurisdiction, like the state police. Unfortunately, the police are not always keenly interested in assisting in this crime. Victims can also contact the particular state attorney general to discover whether police are required to file reports in incidences of identity theft.

## Contact All Creditors

Identity theft victims should also contact creditors, credit card companies, banks, and other lenders, and close any accounts tampered with or opened fraudulently. The injured party should ask for the security or fraud department of each creditor when calling. In addition, the theft or compromising of data should be reported to these companies in writing.

## Notify the Bank Regarding Check Theft

If checks are stolen, the account should be immediately closed. Be sure to ask the bank to notify the appropriate check verification service, such as TeleCheck or Certegy, Inc. While no federal laws limit check theft losses, state laws may protect the victim. Most states hold banks responsible for losses stemming from forged checks, but banks can require their customers to notify them of the theft in a timely manner.

## Complete the ID Theft Affidavit

In 2002, the FTC unveiled a new tool to assist identity theft victims in restoring their good names. The ID Theft Affidavit allows victims to report the theft to many

companies at once, particularly where new accounts are opened in the victim’s name. Previously, victims typically had to fill out a separate reporting form for each fraudulent account opened by the identity thief. This affidavit is available on the FTC’s web site: [www.ftc.gov/bcp/conline/pubs/credit/affidavit.pdf](http://www.ftc.gov/bcp/conline/pubs/credit/affidavit.pdf).

## Contact the FTC

The Social Security Administration also recommends that identity theft victims, particularly where theft of an SSN is involved, immediately contact the FTC. The FTC serves as the federal clearinghouse for identity theft complaints. While this governmental body does not resolve individual consumer credit problems, it utilizes an online complaint process that helps the government investigate fraud and can lead to effective law enforcement action. The FTC enters Internet, telemarketing, identity theft, and other fraud-related complaints into a secure, online database available to hundreds of civil and criminal law enforcement agencies worldwide.

## Notify the Social Security Administration Office

Identity theft victims should also contact the Social Security Administration (SSA) office if their SSNs are being illegally used by thieves for work purposes. One mechanism to determine this is to check the Social Security statement. In unsolvable cases, SSA can assign the victim a new number, but it cannot guarantee that this measure will permanently fix the problem. It cannot issue a new SSN if a person has filed bankruptcy; tries to avoid the law or legal responsibility; or has had his or her card lost or stolen, but where there is no evidence that a criminal is using the number on the missing card.

## Obtain Legal Advice If Necessary

Even after doing all of the above, it may be necessary to contact an attorney to help restore your good name. Contact the American Bar Association (ABA) for assistance in finding an attorney

who specializes in identity theft issues or consumer law. More information is available for locating attorneys at [www.abanet.org/legalservices/findlegalhelp/home.cfm](http://www.abanet.org/legalservices/findlegalhelp/home.cfm). Many cities also have local ABA offices to call to get attorney leads. Another good online reference for locating attorneys is Martindale-Hubbell at <http://www.martindale.com>.

## Organize the Repair Process

One of the keys to regaining a stolen identity is to be extremely organized during the whole process. Without total dedication to organization, a victim becomes easily overwhelmed when dealing with the countless parties that need to be contacted. Being disorganized can also slow down the process of fixing the problem. Mari Frank, an attorney who experienced identity theft herself, provides several reasons why great organization facilitates the restoration process, including the following:

- **Professionalism**—being organized results in greater respect from creditors, credit bureaus, attorneys, and law enforcement agencies.
- **Peace of mind**—a sense of empowerment is experienced when the victim can access the information when necessary.
- **Effectively answer questions**—when all the documents are efficiently organized, the victim is able to speed up the repair process when answering inquiries.
- **Prove violations**—a documented paper trail assists legal counsel who may need such documentation to analyze the case. It can also save legal fees because the attorney will not have to perform many of these functions.

Frank also recommends that identity theft victims follow nine specific steps in this organization process, as abbreviated in Figure C. ■

## Figure C Organization Steps

Steps	Details
Obtain proper supplies and equipment	Examples include file folders, filing cabinet, color labels, legal pads, word processor, and printer.
Be prepared at the start	A legal pad, pen, and master log should be ready for the first phone call.
Log all phone calls	The name of the person, title, direct phone number, e-mail address, mailing address, date, and time of call should be properly documented.
Record details of conversation	Information should include an overview of what each party said, tasks each must perform, and information or documentation that is needed by either party.
Establish a filing system	This step involves setting up a file folder for each merchant, bank, or agency involved in the process. In addition, a filing system on the computer for items that can be stored electronically should be established. A master list of all the names and contact information for the people at the various entities is important to maintain.
Establish an expense file	This file should include costs incurred, time spent for each step of the process, payments to anyone hired to assist, travel and mileage expenses, and lost wages or time off from work.
Maintaining composure	The victim should not panic or let the situation become overwhelming. Establishing a time of day to check the log and calendar helps to reduce stress.
Innovate	While engaged in this process, the victim should incorporate any improvements or innovations into the plan.
Persist	Real effort and perseverance finally results in the recovery of the victim's identity.

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# Worst-Case Scenarios

by Meg Green

*Reinsurers and insurers are taking steps to deal not only with mega-catastrophes, but also with individual catastrophes that might strike at the same time.*

**Editor's note:** This article was originally published in the March 2006 edition of *Best's Review*. It is reprinted with permission of the A.M. Best Co.

**Author's note:** David Dankwa contributed to this article.

As Hurricane Katrina made landfall on August 29, 2005, three earthquakes struck California. Katrina stole the headlines as the single costliest U.S. hurricane ever, while the earthquakes proved to be fairly minor ones.

"Just because the wind blows doesn't mean the Earth isn't going to move," said Ken Slack, senior underwriter, global property catastrophe, for GE Insurance Solutions. "It's not so much the single peril of an individual event that we're concerned with—the industry has been gearing itself up to be capitalized for a giant catastrophe—but the confluence of events that is a concern."

As with any major catastrophe, insurers will learn from how they handled Katrina and look to use new techniques to prepare for future disasters. They're tweaking underwriting and modeling, as well as exploring new risk transfer solutions, including the need for a federal natural catastrophe reinsurance fund.

But because the market is not in turmoil the way it was after Hurricane Andrew in 1992 and the terrorist attacks of September 11, 2001, some say the industry already is better prepared to handle disasters than it's ever been before.

## Hostile Planet

In the insurance world, a catastrophe is an event causing \$25 million or more in insured losses. The property/casualty insurance industry handles numerous catastrophes of that size every year, but it also can expect to face a \$20 billion

loss every 10 to 12 years, usually due to hurricanes, according to the Insurance Information Institute.

Hurricanes are the biggest causes of insured property loss, and the past couple of years have been bad ones. Charley, Frances, Ivan, and Jeanne caused \$22.9 billion in insured losses in 2004. Katrina, Rita, and Wilma struck in 2005, causing \$50.8 billion, according to the Insurance Information Institute. And 2006 could be another record-breaking year, according to forecasters.

While some will debate whether the past two hurricane seasons were more severe due to global warming or simply part of a routine cycle—which includes more active periods—there's no debate that even a normal year on planet Earth features many natural catastrophes.

The typical year sees 50 or so volcanic eruptions, 100 potentially destructive earthquakes, 40 to 50 tropical cyclones and "numerous floods, tornadoes, and more tropical storms than we can really keep track of," said Bill McGuire, director of Benfield Hazard Research Centre and Benfield professor of geophysical hazards at the University College London.

One in 30 people were affected by natural hazards in 2000, but that number is likely to be close to one in one by 2050, when few will be able to escape the consequences of climate change, more volatile weather, and population growth.

There are more people living in harm's way, said Paul Budde, senior vice president of catastrophe modeling at Benfield.

"There are more people on the earth and more property. So it's more likely to be a significant event today than it would have been 100 years ago," Budde said.

## Cluster of Risks

As the concentration of risks has changed, so has the way insurers view them.

"In the early days of my career, accumulation modeling was done on maps on the wall," said Gary Kaplan, chief underwriting officer and head of Zurich North America Commercial's technical center. "We now use PCs and technology and cat models. It started after [Hurricane] Hugo, and took off after Andrew. Every time there's a catastrophe we go back and we learn from the claims we have, learn from the exposures we have, and then we go and improve those models."

Concentration of risk is important because about half of all Americans now live in coastal counties, and one-third of the population lives in a potential earthquake area.

"Not only in the United States, but worldwide, we see a bigger concentration of risk in more exposed regions. People want to live close to the water, and there are more risks there. The more risks there are, the bigger the losses will be," said Matthias Weber, a member of Swiss Re's extended management board.

Insurers worry about such perils as earthquakes, hurricanes, tornadoes, floods, and terrorism. Keeping an eye on their concentrations of risk helps them deal with them all, said Jason Schupp, assistant general counsel supporting Zurich's technical center.

## Underwriting Changes

As is the case after most catastrophes, insurers and reinsurers took a second look at their underwriting after both of the past two hurricane seasons. In some cases, they used risk transfer to cap and reduce their exposures. For instance, in January, Allstate Corp. said it had signed a new catastrophe aggregate excess reinsurance



**Table 1**  
**Catastrophes with More Than \$1 Billion in Insured**  
**Losses in Inflation-Adjusted Dollars Since 1949**

**Catastrophic losses will continue to rise as population density and development keep increasing, even if the frequency and severity of events remained the same.**

<b>Year</b>	<b>Catastrophe Name</b>	<b>Actual Loss</b>	<b>Inflation-Adjusted Loss</b>
2005	Hurricane Katrina, Wind, Tornadoes, Flooding	\$38,111,000,000	\$38,111,000,000
2005	Hurricane Wilma, Wind, Tornadoes, Flooding	8,418,000,000	8,418,000,000
2005	Hurricane Rita, Wind, Flooding	4,976,200,000	4,976,200,000
2005	Hurricane Dennis, Wind, Tornadoes, Flooding	1,115,000,000	1,115,000,000
2004	Hurricane Charley, Wind, Tornadoes, Flooding	7,475,000,000	7,728,255,691
2004	Hurricane Ivan, Wind, Tornadoes, Flooding	7,110,000,000	7,350,889,359
2004	Hurricane Frances, Wind, Tornadoes, Flooding	4,595,000,000	4,750,680,254
2004	Hurricane Jeanne, Wind, Tornadoes, Flooding	3,655,000,000	3,778,832,716
2003	Wind, Hail, Tornadoes, Flooding	3,205,000,000	3,401,828,804
2003	Hurricane Isabel, Wind, Flooding	1,685,000,000	1,788,480,978
2003	Wind, Hail, Tornadoes, Snow, Ice, Freezing, Flooding	1,605,000,000	1,703,567,935
2003	Cedar Fire, California	1,060,000,000	1,125,097,826
2003	Fire, California	975,000,000	1,034,877,717
2002	Wind, Hail, Tornadoes, Flooding	1,675,000,000	1,818,385,214
2001	Fire, Explosion 9/11 Terrorism	18,778,500,000	20,708,306,324
2001	Tropical Storm Allison, Wind, Flooding	2,500,000,000	2,756,916,996
2001	Wind, Hail, Tornadoes, Flooding	2,200,000,000	2,426,086,957
1999	Hurricane Floyd, Tornadoes, Flooding	1,960,000,000	2,297,647,059
1999	Wind, Hail, Tornadoes, Flooding	1,485,000,000	1,740,819,328
1998	Hurricane Georges, Tornadoes, Flooding	2,955,000,000	3,540,561,350
1998	Wind, Hail, Tornadoes	1,345,000,000	1,611,524,540
1996	Hurricane Fran, Tornadoes, Flooding	1,600,000,000	1,991,586,998
1995	Hurricane Opal, Tornadoes, Flooding	2,100,000,000	2,691,141,732
1995	Wind, Hail, Tornadoes	1,135,000,000	1,454,498,031
1995	Hurricane Marilyn, Tornadoes, Flooding	875,000,000	1,121,309,055
1994	Fire, Northridge Earthquake, California	12,500,000,000	16,472,672,065
1994	Wind, Ice, Flooding	800,000,000	1,054,251,012
1993	Wind, Hail, Tornadoes, Freezing, Ice, Snow	1,750,000,000	2,365,224,913
1992	Hurricane Andrew, Tornadoes, Flooding	15,500,000,000	21,576,265,146
1992	Hurricane Iniki, Flooding	1,600,000,000	2,227,227,370
1992	Los Angeles Riots, Riot, Vandalism	775,000,000	1,078,813,257
1992	Wind, Hail, Tornadoes	760,000,000	1,057,933,001
1991	Oakland Fire, California	1,700,000,000	2,437,665,198
1989	Hurricane Hugo, Tornadoes, Flooding	4,195,000,000	6,607,125,000
1989	Loma Prieta Earthquake, California	960,000,000	1,512,000,000
1983	Wind, Snow, Freezing	880,000,000	1,725,542,169
1983	Hurricane Alicia, Tornadoes, Flooding	675,520,000	1,324,588,916
1979	Hurricane Frederick, Tornadoes, Flooding	752,510,000	2,024,314,091
1974	Wind, Hail, Tornadoes	454,364,450	1,799,946,797
1970	Hurricane Cecelia	309,950,000	1,560,134,923
1965	Hurricane Betsy	515,000,000	3,193,000,000
1950	Wind Event North East and Mid West	174,000,000	1,410,049,793

Source: Insurance Services Office

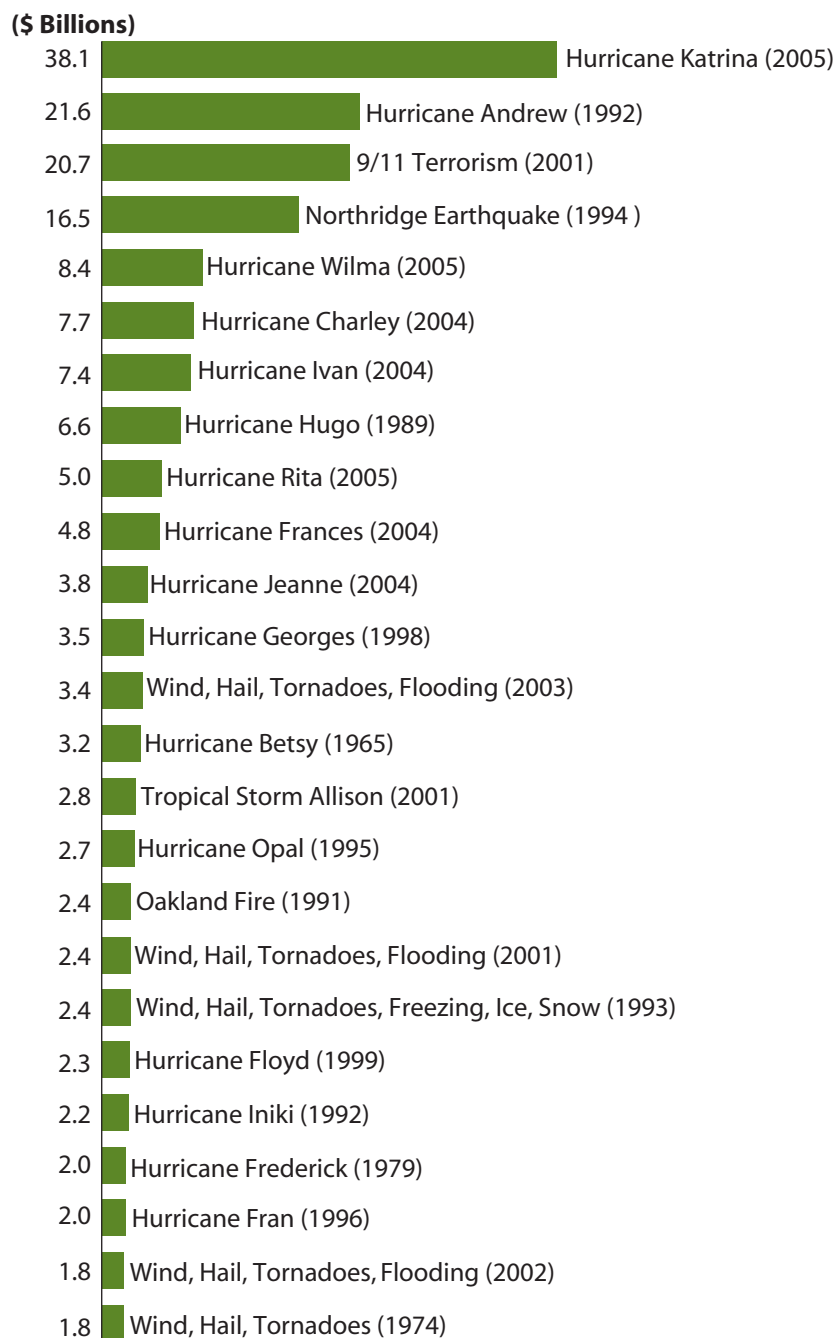
Continued on page 10

# Worst-Case Scenarios

Continued from page 9

**Table 2**  
**U.S. Catastrophes**

**25 Largest Insured Property Losses Since 1949**  
*Ranked by losses related into 2005 dollars*



Source: Insurance Services Office

agreement that will provide \$2 billion of coverage in excess of \$2 billion in retained losses from storms named or numbered by the U.S. National Weather Service, earthquakes, and fire following earthquakes.

Companies have lowered limits on property business, raised deductibles, added exclusions or restrictions on coverage for certain perils, such as wind, and raised prices, Weber said.

“Insurers are being more conservative in what they are writing. They are excluding certain places in the country or having lower limits there,” said Chris Kende, vice chair of the reinsurance practice for the law firm Cozen O’Connor.

While some in the industry may blame the catastrophe modelers for initially underestimating Katrina’s damage, many insurers cautioned that the cat models are just one of many tools that insurers use.

“The models only give you so much information, then you have to step back and think what it means for your overall exposure,” said Zurich’s Kaplan. “But I think the models have gotten better and better over time, and will continue to improve.”

Both reinsurers and insurers are also re-evaluating their probable maximum loss (PML), industry jargon for the reasonably expected worst-case loss scenario.

“We as an industry came to the conclusion that what we perceived to be the exposures of the past were too optimistic,” Weber said. “PMLs have risen to reflect the growing economy and more exposure.”

One change that many insurers made after paying claims from the four major hurricanes that struck Florida in 2004 is to account for the cost inflation of building materials after a catastrophe. So-called “demand surge” was added to many reinsurers’ models in 2005.

Also, insurers are asking for more detailed information. For instance, Zurich realized the year a building was constructed makes a big difference on how well it will weather a storm, Kaplan said. “For example, in Florida, we found buildings constructed after 1995 performed much better than those built before 1995.”

Zurich is going beyond categorizing buildings into one of six major types by including more details, such as how the foundation’s walls are anchored to the building.

“One of the things we believe in is using risk engineering to help prevent the losses from happening,” Kaplan said. For instance, during a hurricane, a lot of damage can be prevented if a building’s roof stays in place. Roofs constructed with straps to the walls can help.

## Federal Backstop Debates

The insurance industry is divided over whether there’s a need for the federal government to launch a reinsurance backstop, similar to the Terrorism Risk Insurance Act, for natural catastrophes. Many European countries have

government-funded natural catastrophe emergency funds, which are similar to TRIA, although TRIA is designed solely to respond to terrorist attacks.

Allstate and State Farm are supporting a bill before Congress that would establish a federal fund that would offer reinsurance to state and regional catastrophe funds.

“Eight of the 11 most costly disasters in history have occurred in the last four years. We should take notice. We simply cannot as a can-do country stand by and do nothing,” Edward Liddy, Allstate Corp.’s chief executive officer and chairman, said during a presentation at the National Press Club in Washington in January. “Can the insurance industry handle what just occurred at the Gulf Coast? The answer is no. These kinds of large-scale events are unpredictable. There’s not enough money in the system to handle these large-scale events.”

Weber of Swiss Re disagreed. “The industry as a whole is able to handle very, very, very big events. This does not mean that every company will survive

extreme events. Some companies have disappeared in the past, and this will happen in the future,” Weber said.

While the industry was too optimistic in its use of cat models in the past, natural catastrophes are quantifiable—unlike terrorism events, Weber said.

Other industry leaders, including Brian O’Hara, chief executive officer of XL Capital, also have spoken against the need for a federal natural catastrophe fund. “I’m a big believer in a free market and the ability of the capital markets to move quickly with solutions,” O’Hara said at a round table in New York. “I’m always wary of the government involved in any solution.”

Schupp of Zurich said there is a place for broader risk transfer for mega-catastrophes such as a nuclear attack by terrorists, and the government is “clearly the vehicle for that to occur.”

He noted there are a variety of conceptual proposals but the details of any proposal are critical to evaluating viability. “It’s a process that will take awhile to work through,” Schupp said.

## Greater Risk, Greater Opportunity

As is often the case with the insurance industry, many leaders say they see greater opportunity coming with the greater risks they face.

“I look at ’04 and ’05, and I always say to my troops, the Chinese character for catastrophe is also opportunity,” O’Hara said at a conference in New York.

More risks in the world mean more potential business. “More insurance is being bought, and more reinsurance is being bought,” Weber said. “I think that will continue.”

*Continued on page 12*



# Worst-Case Scenarios

Continued from page 11

## The Day After Tomorrow

You want a good scare? Try talking with Bill McGuire, director of Benfield Hazard Research Centre and author of *Surviving Armageddon: Solutions for a Threatened Planet*.

He'll tell you about extreme risks that insurers are tracking, such as:

- In the Canary Islands, a giant volcanic rock about the size of Manhattan is poised to slide into the Atlantic Ocean. When it falls, it will create a giant tsunami, which will race across the ocean. Six to 12 hours later, waves as high as a five-story building could strike the length of the U.S. East Coast and the Canadian Maritimes.
- In Yellowstone National Park, a volcanic crater that's been silent for thousands of years could awaken. It's always restless, but that does not mean there's an eruption on the way. There could be one in 10 years, or it could be 100,000 years. But when it does erupt, the force of the eruption could be enough to obliterate 10,000 square kilometers around the park. Ash could pile up knee deep in areas more than 900 miles away.
- A giant asteroid, a quarter-mile wide, is spinning toward Earth. In 2029, it will come close enough to pass through the orbits of some of the satellites that circle the planet. If the asteroid is captured by the Earth's gravitational pull, it could be knocked off its orbit, and when it next returns to Earth on February 13, 2035, it could strike the planet with an impact strong enough to obliterate a New England state.

The situations all sound like plots to Hollywood movies. But they are more than potential doomsday scenarios—they're real risks that scientists are studying.

"These extreme events can range from something that happens every 100 years to several thousands or even tens of thousands of years. The bigger the gap, the worse they are . . . and the less likely to happen, but totally catastrophic for the whole planet if they do," said McGuire.

For instance, could insurers handle a major earthquake causing \$4.3 trillion in losses to Tokyo, another possible scenario?

"The issue there isn't the direct impact on the insurance industry, which would be pretty awful, but the threat of the collapse of the global economy. How does the insurance sector survive?" McGuire said.

Or consider the fault lying off the West Coast, which is very similar to the one off the north coast of Sumatra. When a magnitude 9 earthquake (measured on the Richter scale) struck the Sumatra fault in December 2004, it caused a devastating tsunami that killed more than 200,000 people.

Think that can't happen to the United States? It already has. In 1700, the Casadia fault tore apart in a magnitude 8 or 9 quake that resulted in a tsunami that struck the United States, and even killed people across the Pacific in Japan.

So the question becomes: Are we ready for these mega-catastrophes?

"This is a very well-known hazard," McGuire said of the threat of a tsunami in the Pacific Northwest. "We have [tsunami] measurements down the West Coast. Yet we had a magnitude 7 earthquake in California in December. Tsunami warnings went off, and hardly any [people] paid any attention. It doesn't bode very well for when the very big one will happen. It's amazing: People don't think that things will happen to them."

As for the threat of a tsunami striking the East Coast—from that Manhattan-sized rock on LaPalma, an island in the Canaries—McGuire said the National Oceanic and Atmospheric Administration is establishing sensors along the East Coast to pick up warnings of a tsunami. "If the tsunami was 10 to 20 meters high, you'd be talking trillions in terms of dollars in losses," McGuire said.

But McGuire says he has no problems sleeping at night. "These things could happen next year, but it could be a hundred years. It could be a thousand," he said.

While insurers are aware of the potential for catastrophes of this magnitude, they aren't building such risks into their modeling or underwriting, said Kevin Campion of Benfield, a broker.

"We are aware of these types of scenarios, a geophysical event that would cause a very big disaster. But it's an extremely low likelihood of happening, maybe once in a few thousand years or 10,000 years, if ever," said Matthias Weber, a member of Swiss Re's extended management board.

McGuire, the father of a 2-year-old boy, is most concerned about climate change and predicts the world will look quite different by the time his son is a grown man. "Climate change is accelerating. It's incredible. The picture looks worse and worse almost day by day," McGuire said.

The worst piece of news is that the Gulf Stream has slowed by 30 percent since 1990.

"The Gulf Stream is the only thing that's keeping Britain and Europe warmer than the Antarctic," McGuire said. "It's the scenario from the movie *The Day After Tomorrow*. Without the Gulf Stream, the whole north Atlantic would be much colder. There would be devastating ice storms and blizzards; it would have a huge effect on the economies of countries, particularly in Europe."

The Earth is getting warmer and as it does, there are likely to be more violent storms, he said. Humans have been responsible for most of the change. Greenhouse gases have risen as much since 1970 in terms of concentration in the atmosphere as they rose between the Industrial Revolution and 1970. Eight of the 10 hottest years on record occurred in the past decade, with Northern Hemisphere temperatures rising a huge 0.4 degrees over



that period, compared to a 0.6 degree rise in global temperatures in the past 100 years. They are estimated to increase by 1.4 degrees to 5.8 degrees in the 21st century.

The Kyoto Treaty, which calls for nations to reduce greenhouse gas emissions to 6 percent less than 1990 levels, is much too little too late, McGuire said. "We need 60 percent cuts, at least," he said.

He credits insurers with being more familiar now than before with potential mega-catastrophes, but said he's "not convinced the industry is involved enough in getting its weight behind climate change initiatives. There's a long way to go before the insurance industry starts kicking up a fuss about climate change." ■

## Learn More

### Allstate Insurance Group

**A.M. Best Company** #00008

**Distribution:** Exclusive agencies

### GE Insurance Solutions

**A.M. Best Company** #18572

**Distribution:** Brokers and direct

### Swiss Re Group

**A.M. Best Company** #85010

**Distribution:** Reinsurance brokers

### XL Re Ltd.

**A.M. Best Company** #86106

**Distribution:** Reinsurance brokers

### Zurich Financial Services Group

**A.M. Best Company** #86976

**Distribution:** Multichannel

For ratings and other financial strength information about these companies, visit [www.ambest.com](http://www.ambest.com).

## Are You a Master of Disaster?

Think you know a lot about catastrophes? Take this test to find out how much you really know.

**1. In March 1964, an earthquake measuring 9.2 on the Richter scale struck Alaska. Which of the following occurred as a result:**

- A) Huge fissures that raised and lowered structures as much as 10 feet
- B) Massive landslides
- C) Waves as high as 65 meters at Valdez Inlet
- D) All of the above

**2. In which state was the epicenter for the strongest earthquake ever to strike the continental United States?**

- A) Missouri
- B) Washington
- C) Oregon
- D) California

**3. How many states in the United States face the threat of hurricanes?**

- A) 5
- B) 10
- C) 15
- D) 20

**4. What percentage of homeowners in California have purchased optional earthquake coverage?**

- A) 7%
- B) 14%
- C) 28%
- D) 42%

**5. Four hurricanes struck Florida in 2004. How many homes were damaged?**

- A) One in every 20
- B) One in every 10
- C) One in every 5
- D) One in every 2

**6. In 1812, a strong earthquake struck the New Madrid Fault System, which lies in the Mississippi River Valley. Which of the following happened:**

- A) Church bells rang in Boston more than 1,000 miles away
- B) Forests were leveled
- C) The course of the Mississippi was temporarily reversed
- D) All of the above

**7. True or False: The cost to recover from Katrina will probably exceed what America spent on the Marshall Plan to rebuild Europe after World War II.**

**8. True or False: Charleston, S.C., has been hit by a 7.1 magnitude earthquake.**

**9. True or False: The U.S. Geological Survey and the Southern California Earthquake Center released a study in May 2005 warning that an earthquake on the Puente Hills fault under Los Angeles could kill 18,000 people and cause \$250 billion in property damage.**

**10. True or False: In 1938, a strong hurricane struck Long Island and New England, killing an estimated 600 people and causing \$300 million in damage (in 1938 dollars).**

How did you do? 1-3 right: You need a remedial course in catastrophes; 4-6 right: Not too bad, but catastrophes aren't your strong point; 7-9 right: Way to go! You know a lot about catastrophes! Perfect score of 10: You are truly a Master of Disaster!

Key: 1. D; 2. A; 3. D; 4. B; 5. C; 6. D; 7. True; 8. True; 9. True; 10. True

Source of Data: [ProtectingAmerica.org](http://ProtectingAmerica.org)

# Spotlight On the Personal Lines Section Committee



**Robert A. Braun, CPCU**

**Year of Designation:** 1995

**Employer:** State Auto  
Insurance  
Company

**Position:** Territory Manager

**Editor:** *Personally Speaking*

**Chapter:** Cincinnati

## **Primary work responsibilities:**

Underwriting and sales. State Auto combines these two functions at both the management level and for associates working directly with our independent agents. I am responsible for growing my central Kentucky territory and earning an underwriting profit on the book of business.

## **Why did you pursue your CPCU designation?**

The CPCU designation is a vehicle for professional growth. Any person who is committed to a profession should constantly seek ways to learn and grow within their career choice. The designation and involvement with the Society at a local and national level provide that opportunity.

## **What prompted you to join the Personal Lines Section?**

My book of business is heavily weighted in personal lines—about 75 percent of the premium is generated in this line. In the course of my career, most of my professional challenges have come in personal lines, and it's been a very fulfilling part of my job. It was a natural fit to start national service in this section.

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

I became president of the CPCU Society's Cincinnati Chapter in the fall of 2001. Our first chapter event that year, the New Designee Dinner, was scheduled to take place on September 11, 2001. Of course, we cancelled the event, but I can still recall the emotion and numbness on that tragic day while trying to make that decision with our leadership team. As the day wore on we knew we made the right decision, but early in the day we had just a brief window of time to assess the situation and come to the correct conclusion.

## **What has been your biggest challenge?**

In the mid-1990s, my territory suffered a string of weather-related events and other issues that significantly impacted our results. From that came a series of initiatives designed to improve our operations at a number of levels. It took a great deal of time, energy, and effort by our team, and it affected our agents and policyholders. But we emerged with a stronger, more stable book of business that provided more business opportunities over the long term.

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

I'm a little nutty when it comes to organizational skills—just ask my co-workers. I also love to coach my children in their sporting endeavors! ■

## Check Us Out on the Web

The Personal Lines Section has a web site (<http://personallines.cpcusociety.org>) that can be accessed from the CPCU Society site ([www.cpcusociety.org](http://www.cpcusociety.org)).



Accessing the Personal Lines Section site will give you the opportunity to network with other section members in sharing knowledge and expertise on a variety of topics. Simply click on "Ask the Expert" from the main page, and check out the topics that are posted.

Our site also gives you access to archived issues of *Personally Speaking*, and provides you with an opportunity to let us know what topics you would find of interest for the newsletter.

Another great way to stay connected!

## Attend this 2006 Annual Meeting Seminar Developed by the Personal Lines Section



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

### **Diminution of Value: Payable Damages from Crash or Trash?**

Sunday, September 11, 2006  
2:45 – 4:45 p.m.

**A**ttendees at this provocative seminar will learn about a growing trend in our industry. 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. Learn about the controversy surrounding these claims, and how it is affecting our industry.

#### **Presenters:**

**Douglas G. Baker**  
ADP Claims Services Group

**William C. Wilson Jr., CPCU**  
IIABA's Virtual University

**David Broemel, J.D., CPCU**  
Greenebaum, Doll & McDonald PLLC

Visit [www.cpcusociety.org](http://www.cpcusociety.org) for updated speaker information.

**Register today for the 2006 Annual Meeting and Seminars  
at [www.cpcusociety.org](http://www.cpcusociety.org)!**

# Break Bread with Your Colleagues



*The Gaylord Opryland Resort & Convention Center is known for its indoor gardens, world-class spa, and first-class entertainment.*

Here's another good reason to build character and confidence in Nashville this September. The Personal Lines Section is announcing the first annual breakfast for members to be held at the CPCU Society's Annual Meeting and Seminars. The breakfast is at 7 a.m. on Monday, September 11, prior to the business meeting and general session. This is a unique opportunity to share war stories, boasts, and insurance lore with other section members from around the country. The breakfast will include an enriching buffet breakfast along with a nourishing educational presentation. We hope the combination of learning, food, and community offer an opportunity you don't want to miss.

Please note there will be a separate sign-up on the Annual Meeting registration form. Register today at [www.cpcusociety.org](http://www.cpcusociety.org). See you there! ■



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and Seminars  
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## **Personally Speaking Co-Editor**

Robert A. Braun, CPCU  
State Auto Insurance Companies  
e-Mail: [bob.braun@stateauto.com](mailto:bob.braun@stateauto.com)

## **Personally Speaking Co-Editor**

Kellie H. Green, CPCU  
Allstate Insurance Co.  
e-Mail: [actyd@allstate.com](mailto:actyd@allstate.com)

## **Personal Lines Section Chairman**

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

## **Sections Manager**

John Kelly, CPCU, API  
CPCU Society

## **Managing Editor**

Michele A. Ianetti, AIT  
CPCU Society

## **Production Editor/Design**

Joan Satchell  
CPCU Society

CPCU Society  
720 Providence Road  
Malvern, PA 19355  
(800) 932-CPCU  
[www.cpcusociety.org](http://www.cpcusociety.org)

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Malvern, PA 19355  
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