CPCU SOCIETY
INSURING YOUR SUCCESS

Personally Speaking

Volume 7 Number 3 October 2005

PL

From the Chair to the Sofa

by Dale M. Halon, CPCU, CIC

Dale M. Halon, CPCU, CIC, is a national account executive with ChoicePoint Precision Marketing where he is responsible for direct sales and consultation for insurance companies' marketing programs. Halon has addressed numerous industry groups on predictive models, databases, and underwriting tools and marketing programs. He has published articles for insurance trade publications and industry groups on predictive modeling, the use of consumer credit in insurance, and multi-channel marketing. Halon serves as chairman of the CPCU Society's Personal Lines Section Committee.

I'm sitting here excited for the upcoming CPCU Society Annual Meeting and Seminars in Atlanta. My reasons are many:

1. Having lived in Atlanta a few years ago, I'm going to make some time to see old friends.

2. I'll also be at another conference the week before also in Atlanta. I can check out the new restaurants and have a leg up on all the other attendees.

3. The weather will be getting colder here in Ohio and it is nice to think about a day of golf while in town.

4. Our section is developing and organizing two seminars. The topic of the first one is the issues regarding seniors and driving. The second one is about using information to avert fraud during the underwriting process. They should be good!

5. There are many other good seminars on the agenda. Check them out online at www.cpcusociety.org.

6. The Personal Lines Section Committee will be holding one of our regular meetings. Although I have re-upped for another three years on the committee, this is the last one I will be chairing.

7. The section has grown, the committee has matured, and the new chairman is much more capable than I am, thus setting the stage for a super three years. I'll be on the sofa much more.

See you in Atlanta and beyond! Thanks for putting up with these columns for the last three years. ■

What's In This Issue

Window on the Future: Emerging Imperatives in the Financial Services Marketplace

by Diane G. Baker, CPCU, ARP

Diane G. Baker, CPCU, ARP, works in the field and product operations area of Allstate Insurance Company. Baker serves as the editor of the CPCU Society's Personal Lines Section Newsletter, *Personally Speaking*.

Editor's Notes: PCI held its annual Joint Marketing and Underwriting Seminar April 17-19, 2005, in St. Petersburg, Florida. The following article contains excerpts from the opening general session conducted by Derek Frost, senior director for Financial Services, Insurance Advisory Board. Demographic changes are transforming the financial services marketplace. Below are the top 10 predictions for the financial services sector. According to the Insurance Advisory Board, there are definite implications for personal lines insurers.

The Insurance Advisory Board is a membership of senior executives at leading life insurance, personal lines, and bancassurance providers around the world. CPCU Society members wishing to learn more about the Board are invited to visit the group's web site at www.insuranceadvisoryboard.com.

The following material has been excerpted from Frost's presentation and handout material.

Through the Looking Glass—The Future Is Now

Observation #10

The Aging of the Global Population Will Create Demand for New-To-World Wealth Management Services and Reinvigorate Some "Traditional" Services

I. Old Money—The number of high-net-worth U.S. seniors will increase more than sevenfold in the next 15 years—to the point that almost a quarter of those aged 65+ will be liquid-asset millionaires.

II. Heaven Can Wait—Across the developed world substantial increases in life expectancy combine with significant increases in living expenses to drive a tenfold increase in the cost of retiring.

III. Their Need; Our Opportunity—The range of financial services for wealthy seniors in terms of "longevity management" are:

- i. Retirement Account Withdrawals
  1. Deferred compensation
  2. Investing of required qualified distributions
- ii. Asset Liquidation
  1. Reverse mortgages
  2. Auctions
- iii. Estate Tax Management
  1. Life insurance
  2. Tax shelters
- iv. Business Succession Management
  1. Buy/sell agreements
  2. Split dollar/key executive insurance
  3. Buy-out loans to younger family members
- v. Trusts
- vi. Charitable Giving
  1. Foundations
  2. Endowments
- vii. Medical Services
  1. Long-term care insurance
  2. Health insurance
- viii. Liquidity Management
  1. Payout annuities
  2. Cash value of life insurance

Observation #9

A New Face of Growth

I. "One size fits all" won't fit the future. (See Figure 1.)

II. The (Shifting) Color of Money—Caucasians are not the highest-earning ethnic group, and in the next decade, the growth in affluent earning power will be found elsewhere. (See Figure 2.)

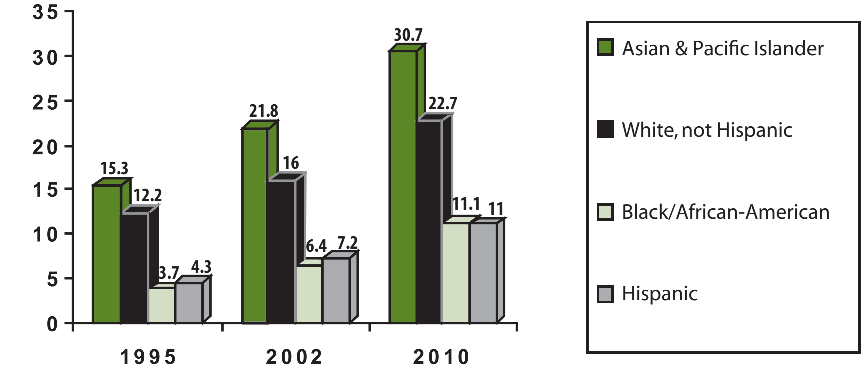
Figure 1

A Different Target—Projected Average Growth in Select U.S. Population Groups

Source: U.S. Census Bureau.

Figure 2

Percentage of Households with Annual Income of $100,000* or more by Ethnicity



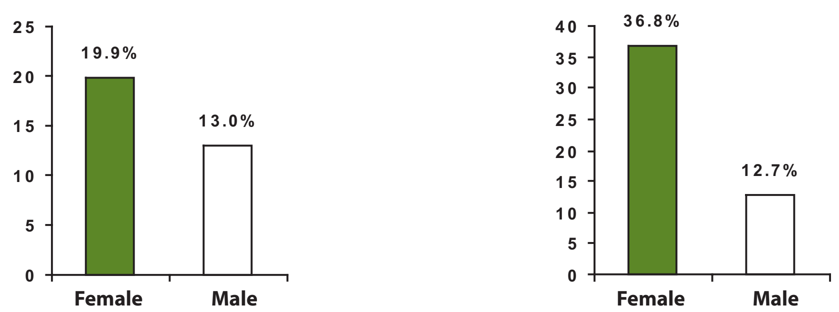
*constant 2002 dollars

Source: VIP Forum Analysis of U.S. Census data.

Figure 3

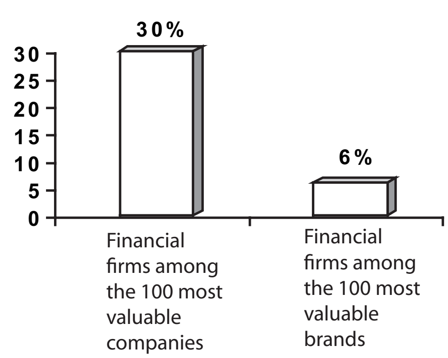
Compound Annual Growth Rate (1995–2001)

Revenue Growth of U.S. Businesses (1997–2001) by Gender Ownership



Source: Removing the Boundaries . . . etc.

Figure 4



Source: Business Week

III. (More Than) Equal Pay for Equal Work—The number of female size-figure earners is growing rapidly, outpacing their male counterparts in wealth creation potential. The first chart in Figure 3 is the Compound Annual Growth Rate (1995–2001 by gender). The second chart in Figure 3 is the Revenue Growth of U.S. Businesses (1997–2000 by gender ownership).

Observation #8

Business Owners Will Continue to Be the Most Stable High-Potential Prospect Group for Financial Services Providers for the Next Decade

I. Business, As Usual—Business owner wealth creation has been remarkably resilient, despite the downturn, and there is tremendous overlap between business owners and the high net worth.

II. Taking Care of Business—While serving entrepreneurs' personal wealth management needs, firms can earn the right to manage owner's equity down the road primarily through monetization and succession planning.

Observation #7

Definition of Products (and Organizations) by Needs, Not Product

I. Outcomes, Not Products—Providers are recognizing that needs fulfillment requires redefining the offering and restructuring the organization.

- Future solutions will be around needs and organized around "life event" needs.
- For P/C companies, the question will be how effective are we at developing customer relationships?

Observation #6

Brand and Financial Services Business Become Inseparable

I. Just a Face in the Crowd—The concern by most financial services

Continued on page 4

Window on the Future: Emerging Imperatives in the Financial Services Marketplace

Continued from page 3

executives that their firms lack distinctive brands is borne out when compared to brand strength in other industries. (See Figure 4.)

II. Lost in the Crowd—The cumulative effect of a strong brand is significantly higher profitability driving higher returns to shareholders.

Observation #5

Less Time to Manage More Risk

I. Hysteresis—Accelerated globalization of activity will cause a continued rise in the severity and volatility of high impact risk exposures . . . whereas reduced costs of information and transactions will fuel rapid changes in demand patterns and switching behavior.

Observation #4

Always a Flight to Quality

I. Creatures of Habit—A long-established pattern of seeking the traditional provider of a service has been accentuated by the recent global flight to safety. (See Figure 5.)

Observation #3

Companies of Half (or Twice) the Size

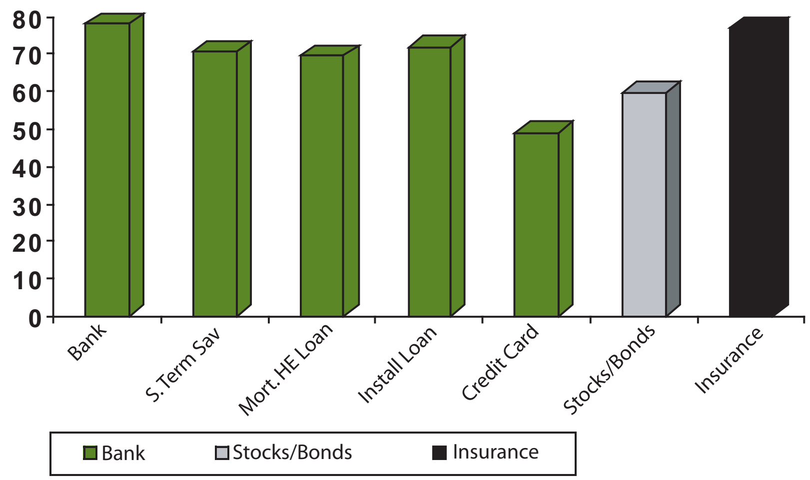
I. Choosing Sides—Institutions are making initial movements to outsourcing distribution and product fulfillment.

II. Emerging role of independent brokers.

III. Long-Term Trend of Consolidation in Marketplace—In 1986, top 25 companies had 69 percent auto market, and top 15 companies had 59 percent property market. In 2001, top 25 companies had 81 percent auto market, and the top 15 companies had 73 percent property market.

Figure 5

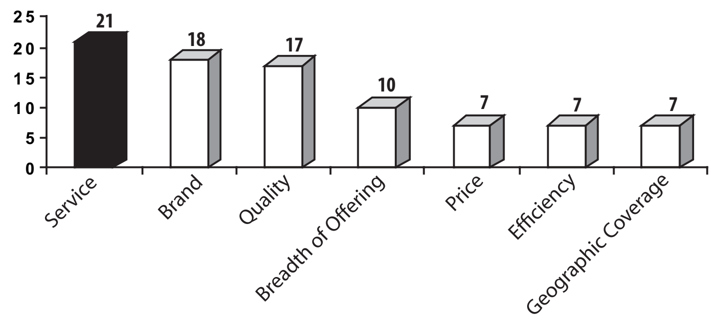
First Choice Providers by Financial Product, U.S. 2000



Mortgage Providers Not Found as an Option

Source: CFC Research

Figure 6



Source: Cap Gemini Ernst & Young. Paths to Differentiation, 2001.

Note: Weighted average, based on survey of more than 120 institutions in 13 countries.

Observation #2

Customers will pick their providers not on operational characteristics—which are converging around similar standards of performance—but on intangible, emotional, or personalized interactions.

I. Anxious Days—Executives point to service as key to differentiation but while they feel the urgency they do not believe they are "world class." (See Figure 6.)

II. Exception(al) Service—Customers point to operational factors as a cause of dissatisfaction . . . but consider relational factors more important when deciding where to give more wallet share.

- Customers are getting harder and harder to please.

III. Relational Serve Attributes (See Figure 7.)

IV. The New Service Imperative—Service is the business . . . but a business that demands new skill.

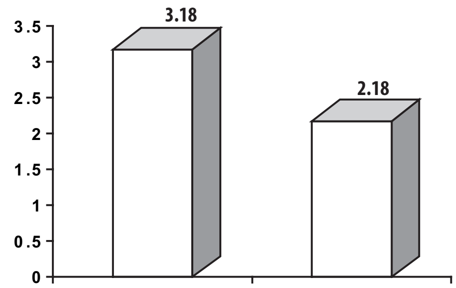
a. Unlike the steady returns to be found in the original service-profit curve, only two inflection points matter in the emerging model—the point of "satisfying" and the point of "delight." (See Table 1.)

Observation #1

Distribution Evolution

I. Cross-Sold, Not Bought—As providers are forced to combat declining effectiveness of core channels and core products that are troublesome as platforms for expanded scope of sales . . . they face difficult repositioning challenges in an era of channel divergence. (See Table 2.) ■

Figure 7



Top 5 Relational
- Treated as a valued customer
- Privacy
- Treated fairly
- Best interests at heart
- Standing by me

Top Five Operational
- Comprehensive statements
- Branches and offices
- Telephone representatives
- 24 hour access via phone
- One telephone number

Source: CFC Research

Table 1

	Point of "Satisfying"	Point of "Delight"
Service Objective	Meet basic expectations by investing in a minimally acceptable service level	Exceed customer expectations by maximizing investment in service "delighters"
Targeted Service Elements	Drivers of customer dissatisfaction	Drivers of extreme customer satisfaction
Influence on Customer Behavior	Eliminates causes of premature shopping or switching behavior, thereby improving retention	Introduces reasons to deepen the relationship with the firm, thereby improving share of wallet and marketing efficiency
Source of Returns	Savings from previously lost business, problem resolution, and rework costs	Increased share of wallet and marketing efficiency due to referral activity

Table 2

Summary of Top 10 Predictions

Rank	Observation
10	The aging of the global population will create demand for new-to-world wealth management services and reinvigorate some "traditional" services.
9	A new face of growth
8	Business owners will continue to be the most stable high-potential prospect group for financial services providers for the next decade.
7	Definition of products (and organizations) by needs; not product.
6	Brand and financial services business becomes inseparable.
5	Less time to manage more risk
4	Always a flight to quality
3	Companies of half (or twice) the size
2	Customers will pick their providers not an operational characteristics—which are converging around similar standards of performance—but on intangible, emotional or personalized interactions.
1	A distribution revolution

Credit Guard Mania and Loss Control

by Ellen Yamshon, Esq., CPCU

Ellen Yamshon, Esq., CPCU, is an advocate for risk reduction through conflict prevention and dispute resolution. She is an attorney and a mediator for the Western Center for Alternative Dispute Resolution; chair emeritus of the Board of Directors of the Sacramento Mediation Center; and a recipient of the California Mediation Week Peacemaker of the Year Award for her pioneering work in negotiation and mediation.

Yamshon is on the National Panel of Arbitrators for the American Arbitration Association. She has negotiated mortgage loans on behalf of major banks and savings associations for subsequent sale to government programs. She is a former claims supervisor; has held insurance agent and broker licenses; and has been licensed by the National Association of Securities Dealers.

A recognized expert in program development, Yamshon has evaluated conflict resolution operations of government agencies and community-based organizations at home and abroad. She has lectured on conflict management and negotiation in the College of Business Administration, California State University, Sacramento; and is a contributing author on alternative dispute resolution and ethics topics in *Understanding the Law,* a popular textbook. She sits on the National Advisory Board of the Consortium for Alternative Dispute Resolution in Special Education, a National Center for Dispute Resolution funded by the United States Department of Education.

Chances are you already know a fair amount about identity theft. You don't need to be an insurance professional to recognize that identity theft is a big problem. As a consumer, you've heard the horror stories and you get the solicitations for "fraud alerts." If you log onto the Internet, pay credit card bills, listen to the radio, attend sports events, or watch television, you can't miss it. I call it "credit guard" mania. It's ubiquitous.

Non-insurance entities are competing for a segment of the identity theft insurance market. Credit reporting agencies, consumer credit counseling services, banks, and credit card companies have fashioned protection plans touted as your "insurance against identity theft." Competition is intense. In addition, new businesses have emerged and grown as a result of society's fear of identity theft. They include documentation destruction companies, credit restoration counselors, and advocates.

Credit monitoring services are reportedly generating $500 million in annual revenues. Fees vary significantly as do the package of services offered. For $69.95, Equifax, one of the big three credit reporting agencies, will monitor and send e-alerts within 24 hours of any change in your credit. If you incur any expenses in clearing an unauthorized charge, Equifax will reimburse you up to $2,500. In contrast, Experian, another big three company, will monitor and report back to you for $79.95, but that doesn't include reimbursement for the out-of-pocket expenses to clear your credit or time lost at work.

The relentless play on our collective anxiety over identity theft makes rational evaluation of the various insurance products difficult, if not impossible. Recognizing that the menace of identity theft can be controlled, if not completely prevented, will help frame the analysis. Loss prevention does not eliminate the need for insurance. However, insurance dollars should be spent on the unforeseeable and catastrophic, not on risks that are preventable.

Identity theft is perpetrated invisibly, completed in no time, and is generally detectable only after the fact. Identity theft is not a violent crime in the strictest sense because your bodily integrity is not threatened or breached, at least at the outset. They stick it to you painlessly but the financial consequences and reputational harm can be devastating. It can be quite sickening, literally.

Like AIDS, you can get this financial virus without knowing it and unless you are vigilant about discovering it, it can develop into an illness that is difficult to treat. Confirmation of identity theft can be traumatic in and of itself and the recovery process can be lengthy and stressful. If prolonged, it can result in the sort of emotional distress that manifests physically and may need medical attention.

As far as your good name and your credit rating are concerned, though, you could be dead on arrival. The good news is you can resurrect your credit rating and repair your reputation. The bad news is that in the process, you may lose your job, be forced to declare bankruptcy, or accused of committing a crime perpetrated by a larcenist using your identity.

In a recent nationwide survey, Fireman's Fund discovered that almost every homeowner knew about identity fraud (97 percent) and nearly all were concerned, to some degree (90 percent). Furthermore, 80 percent of the homeowners surveyed claim they know what they need to reduce the chances of identity theft, but only 70 percent report that they have taken action. Assuming that action is actually doing something beyond putting together a to-do list, which leaves 30 percent who are especially vulnerable.

I will venture a guess that you too have given some thought to this matter and have taken steps. You're required to shred sensitive documents at the office and you probably do the same at home. Do you use a crosscut paper shredder?

I bet at some point you realized that carrying multiple credit cards was a bad

idea if only because it makes your wallet heavy. So now you only carry a few, right? You never give out your social security number or credit card number to a stranger over the telephone. If you shop the web, you use discretion in placing your account information, right? Speaking of credit cards, you check your statements for unauthorized charges promptly, every time, right?

Think about your mailbox—not your e-mail—your physical mailbox, where you get deliveries from the United States Postal Service. Is it secure? Does it lock?

Let me ask you this: Do you know the exact dates that your bank statements are mailed? Do you have your computer programmed to remind you when to expect your bank statement? Do you call the bank right away if you don't get your statement? Do you reconcile the check register and the statement promptly?

Do you periodically scan your supply of blank checks, in the middle of your checkbook and in storage? Are both blank and cancelled checks under lock and key?

If you are taking these precautions, you are in good shape. You may think that if you are vigilant about following them, it can't happen to you, right? Don't make that mistake. Even if you are doing all the right things, you are not immune. However, vigilance will dramatically reduce the likelihood and severity of any breach of your financial security.

Let me tell you about my brush with financial disaster. I can't claim to have been doing all the right things, but I was conscientious to the extent that I was aware of ways to prevent identity theft. This went a long way to reduce the consequences of the breach. But it still happened. Vigilant is what I need to be now that I have joined the ranks of the one in four people who experience identity theft every year.

I tracked the due dates of my credit card and bank statements. I programmed my PDA to remind me when a statement was due and synchronized it with my personal computer, so that wherever I was I would not forget to track my accounts. I learned in law school that if you put your trash on the curb, it becomes public domain. Ever since, all documents with personal identifying information get shredded.

My house was burglarized over the July 4 holiday weekend last year. My family and I were on vacation. We returned to find the contents of our house upside-down. The burglars rammed in the side door entrance to get in the house, taking out the doorframe. We live on a winding levee road in the unincorporated section of Sacramento County, about 10 miles from the police station. The burglar alarm limited but did not prevent the burglary.

I believed I modeled good risk management behavior in preparing for our vacation. Before we left, my family and I planned how we would secure our valuables. I left my laptop at the office, my son hid his behind the vacuum cleaner in the broom closet, and my husband left his in his closet behind some clothes. The few very special pieces of jewelry I own were in the bank vault along with my credit cards, blank checks, and my social security card.

We did not lose much as a result of the burglary, or so I thought: kids' backpacks, CDs, videos, sports jerseys and shoes, some camera equipment. My husband's laptop was taken, but one of three is better than all. I was grateful for my homeowners coverage and frankly I was pleased that we had thought about spreading the risk of losing all three laptops.

My bank statements are mailed from the bank on the fifteenth of every month. I expect them by the twentieth at the very latest, so when I got that annoying ding from my PDA on July 17, I was mildly concerned. When I didn't receive a statement by the twentieth, I called the bank since I hadn't gotten my checking account statement.

Honestly, I wasn't too concerned and I did not close my account. I was satisfied that the bank was on notice that my statement hadn't arrived and that if there were any wrongful activity, the bank would catch it.

Also, lost mail is not all that unusual where I live. On occasion, my neighbors and I exchange misdelivered mail. I assumed my neighbor had gotten my bank statement in error. I got a duplicate statement from the bank when I found out that it was not misdelivered.

Three weeks later, my banker informed me that three checks cleared my account including one with my account information, but with a man's name and identifying information. The two with my name and personal identifying information, including my California driver's license number, were signed with signatures that were obvious forgeries.

The bank was on notice that my bank statement was lost or missing and three checks totaling $3,000+ cleared before we all figured out what had happened.

Continued on page 8

Credit Guard Mania and Loss Control

Continued from page 7

Whether the forgeries should have been caught before they went through is not the issue.

Nothing short of closing my checking account could have prevented this outrage, unless you consider I should have locked up my cancelled checks in the first place. I hadn't thought about that.

I shall spare you the agonizing details of what I went through to clear my credit and my good name. It was infuriating that I had to get "me" back from the imposter(s) and the thieves who procured my checking account information.

As an attorney, I am comfortable advocating for myself and navigating the various agencies including the Police Department, State Department of Motor Vehicles, Social Security Administration, and others, which must cooperate to facilitate the resolution of identity theft. I was unintimidated by bureaucratic red tape and I prevailed. It took three months to get a new driver's license and write checks at establishments that subscribe to Tele-Check. Three fraudulent checks with my identifying information were passed, but no fraudulent credit card charges, loans, or crimes were effected in my name. I consider myself lucky.

Like most identity fraud victims, I am not certain how my personal information was stolen, but I have a theory. The thieves did not get my driver's license or credit cards or blank checks. They got my personal identifying information from my cancelled checks and printed their own with my identifying information.

I was immediately aware that something was awry, but I didn't go far enough to prevent it.

Remember the Independence Day burglary? The burglars either got into my filing cabinet or they stole the mail out of my USPS approved mailbox and lifted my personal identifying information from my checking account statement. Neither the filing cabinet nor the mailbox was locked.

The filing cabinet held paid medical bills and general correspondence. I thought locking up blank checks was sufficient. Who would want my paid medical bills and cancelled checks, anyway? Identity thieves want your personal identifying information too. It can happen to you.

Little did I know that there had been a rash of identity theft on the Garden Highway. I should have closed my checking account. Had I known then what I know now, I absolutely would have closed the account.

Credit monitoring and insurance are critical components of personal finance risk management. However, prudence and prompt action reduces the risk and minimizes the consequences of identity theft. Preventing the harm in the first place is the least expensive way to treat the risk of identity theft. Insurance purchasing decisions should be made in consideration of a well-thought-out loss prevention plan and a commitment to implement and monitor. ■

Personally Speaking
is published four times a year by and for the members of the Personal Lines Section of the CPCU Society.
http://personallines.cpcusociety.org

***Personally Speaking* Editor**
Diane G. Baker, CPCU, ARP
Allstate Insurance Group
e-Mail: dbak8@allstate.com

Personal Lines Section Chairman
Dale M. Halon, CPCU, CIC
ChoicePoint Inc.
e-Mail: dale.halon@choicepoint.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

Personally Speaking

Volume 7 Number 3 October 2005

PL

CPCU Society
720 Providence Road
Malvern, PA 19355
www.cpcusociety.org

PRSRT STD
U.S. POSTAGE
PAID
BARTON & COONEY