

Chair's Corner—The Good, the Bad, and the Ugly of Technology

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



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My eight-year-old home desktop computer finally breathed its last sigh a few weeks ago, putting me into a frenzy about replacing this huge, heavy, clunky device with a state-of-the-art laptop that weighs 10 percent of my old PC and has probably twenty or thirty times the processing power. Although it has taken me a long time to figure out this new laptop and software (with the help of several friends and techy types), I now understand it better every day. It is nice to be able to sit on my couch while watching a football game and perform valuable and vital football research at the same time. My laptop simply awaits my every command. I like what technology has provided us, but I see its downside as well.

On the positive side, I can see how efficient I am at work compared to the pre-Internet era. I no longer have to drive to the Southern Methodist University library to do research. All the research is on my computer. I can use Mr. Google and, typically, find the

answer I am seeking rapidly and efficiently. According to a *Harvard Business Review* article by Andrew MacAfee, more information crosses the Internet every second than the entire Internet stored twenty years ago! We are the beneficiaries of this explosion of information.

The mind-blowing utilization of technology in the furtherance of mankind can be seen everywhere. A friend recently sent me an article about the growing use of technology in the insurance industry. Fireman's Fund is now deploying advanced thermal imaging technology to detect moisture issues and possible fire hazards in high-value homes. This technology uses "forward-looking infrared" cameras to recognize plumbing or electrical problems before they cause major damage to homes. This noninvasive technology is another example of how our industry can reduce the severity and frequency of losses.

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Chair's Corner—The Good, the Bad, and the Ugly of Technology

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Technology can also help us provide insurance protection at relatively lower costs. When I started in the insurance industry in 1979, my employer used more than 100 file clerks and a large number of distribution clerks all to move paper files back and forth from an underwriter's desk or an adjuster's desk and the file cabinets. Today, nearly all of those jobs are gone. Looking back, I see tremendous inefficiencies (and thus relatively higher premiums) because of this huge and bulky movement of paper. Technology has stepped in and completely altered the landscape of the insurance industry's day-to-day operations.

That brings us to the ugly side of technology. More and more middle-class jobs are vanishing, replaced by technology. These are not just factory jobs, but service-sector jobs as well. Advances in hardware and software are forever altering the way business operates. Large factories can now produce huge amounts of goods and materials with far fewer employees and far more robots. Travel agent jobs are going the way of dinosaurs, with more people booking business and pleasure travel online themselves.

Some people believe technology creates as many jobs as it kills. Just think of all the software and hardware engineering positions that have opened up in the past ten to fifteen years. The idea that new inventions and technology destroy jobs has been around for centuries. Just think back to the Industrial Revolution, with the movement from hand production methods to machines, new iron production processes, and the development of steam power and machine tools. At the time, many of these new products were seen as job-killers, especially without the protective social nets we have in place today.

Innovations and technology breakthroughs bring us more affordable goods and more comfortable lives, but they also pose a plethora of challenges. Yet, there is no stopping this powerful and inexorable trend; let us just hope we can mitigate some of its unpleasant aspects in the years to come.

While on the technology topic, let me remind you of the Personal Lines Interest Group (PLIG) seminar at the annual meeting in New Orleans on October 26-29, 2013. (Mark it on your calendar as a can't-miss event!) The seminar is entitled "How Technology is Changing Personal Lines Now and in the Future." Technology is affecting many aspects of personal lines, including advances and refinements to insurers' core competencies. This seminar will update attendees on the variety of technologies driving the personal lines market cycle's evolving trends and what the future holds in store for their application in areas such as underwriting, marketing, and claims.

We are continuing our tradition of hosting a personal lines breakfast. The topic likely will be the effect of social media on the insurance industry. PLIG leader Don Roinestad will head up the technology session initiative and Dan Blodgett, PLIG newsletter editor, will take the lead on the breakfast event. These two gentlemen are making things happen for the PLIG community!

I would also like to welcome three new PLIG committee leaders. Alison Wardein, CPCU, is an underwriting specialist with the Private Client Group of AIG Personal Lines. Stephanie Wells, CPCU, is a personal lines compliance specialist with Nationwide Insurance. Rob Galbraith, CPCU, is a director of P&C underwriting with United Services Automobile Association (USAA). Welcome to these new volunteers!

All the best,

Rob Olson, CPCU
Chair, Personal Lines Interest Group ■

Get Exposed

We're always looking for quality article content for the Personal Lines Interest Group newsletter. If you or someone you know has knowledge in a given insurance area that could be shared with other insurance professionals, we're interested in talking with you.

Don't worry about not being a journalism major. We have folks who can arrange and edit the content to publication-ready status. Here are some benefits of being a contributing writer to *Personally Speaking*:

- Sharing knowledge with other insurance professionals
- Gaining exposure as a thought leader or authority on a given subject
- Expanding your networking base
- Overall career development

To jump on this opportunity, please email either [Robin K. Olson, CPCU, CRIS, ARM, AAM, ARP](mailto:rob.o@irmi.com), at rob.o@irmi.com or [Daniel L. Blodgett, CPCU, AIM, AIS, PMP](mailto:dan.blodgett.cqsx@statefarm.com), at dan.blodgett.cqsx@statefarm.com.

Note From the Editor

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



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

I hope your 2013 is off to a great start or at least headed in the right direction! My personal direction is one that includes a newly licensed driver in our household and an additional vehicle to insure and maintain. Lately, commercials and articles about on-board diagnostic (OBD) software have sparked my curiosity. OBDs have been around since the early 1980s, but they have recently begun using standardized connections under dashboards to provide real-time data. There are opportunities for discounts on auto insurance and, for parents, peace of mind in knowing where your car is and how fast it is going. I have not yet made a decision on installing an OBD for our new driver; we will just see how things go for a few months!

Please enjoy the latest edition of *Personally Speaking*, loaded with great articles and spotlights on three new members of your Personal Lines Interest Group Executive Committee:

- PLIG chairman Robin K. Olson, CPCU, CHRIS, ARM, AAM, ARP, offers his insight into the good, the bad, and the ugly with today's technology.
- David Thompson, CPCU, offers analysis on options for insuring contents in transit.

- Spotlight welcomes for three new PLIG Executive Committee members: Rob Galbraith, CPCU, Alison Wardein, CPCU, and Stephanie Wells, CPCU.
- Jerry Trupin, CPCU, CLU, ChFC, provides an intriguing article on co-ops and condo coverage with "'Righting' Insurance for Co-Ops and Condos: Who Insures What?"
- How can you help the PLIG? How about contributing to our Circle of Excellence (COE)? Kellie Green, CPCU, provides COE advice from some of our top contributors with "Six Degrees of Separation: Circle of Excellence and You!"
- Lamont Boyd, CPCU, highlights the successful CPCU Society Student Program from our annual meeting in Washington, D.C.
- Wrapping things up is the first of a two-part article that smartly describes the use of predictive analytics to advance insurance, by Wade Bontrager, president and chief executive officer of EagleEye Analytics.

Until next time,

Dan ■

Contents in Transit

David Thompson, CPCU



David A. Thompson, CPCU, AAI, API, is an instructor with the Florida Association of Insurance Agents in Tallahassee, Fla. He travels extensively around the country presenting continuing education seminars.

Recently, a friend and fellow "insurance nerd" posed a good question to me:

What is the best way to cover clients' contents in transit after they sell their home and are moving to a new location? I can think of three options. I am unsure of options Number 2 and Number 3.

Option 1: Buy a policy with the moving company. I do not know about the cost and whether or not there are coverage gaps.

Option 2: Buy an HO-4 Renter's policy for contents coverage the day the property closes. This would not provide coverage for breakage in transit, however.

Option 3: Do not cancel the homeowners policy the day the home is sold. Does coverage exist because there is an insurable interest in the contents? There would be no coverage for breakage in transit on the homeowners policy. Would there be coverage for breakage in transit on the HO5 Homeowners All-Risk policy unless otherwise noted in the exclusions?

I think the safe answer is to buy the policy from the moving company, but I have never read one of their policies.

As usual, my friend spotted a potential coverage gap and identified several good alternatives.

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As to Option 1, he pointed out that as insurance professionals, we do not sell the policy the moving company wants to provide, so we do not have any idea what coverage it provides. Refer the customer to the moving company for a discussion of coverages under the policy. It is certain, however, that the moving company policy alone is not sufficient for the needs of the insured. The moving company would not be in possession of all of the insured's possessions; some would remain in the custody of the insured. In addition, the moving company policy provides no personal liability coverage for the insured and that is a coverage one should never be without.

Option 2 (buying an HO-4 policy) is a good choice, but there may be resistance from the underwriter if the insured's future address is not known. Suppose, for example, the insured sold his house in Tampa and was going to move to Jacksonville. Upon arrival in Jacksonville, he spent a week in a hotel looking for somewhere to live. Without a physical address to use for the policy, getting the HO-4 issued could be a problem. If the future address is known, getting the HO-4 issued would be fairly routine, assuming the insured is renting a home instead of purchasing a home. As to the issue of breakage, breakage would be covered if it resulted from a covered peril. For example, the standard HO-4 provides coverage on a "named peril" basis. For example, if the breakage resulted from the moving truck overturning, the peril of "vehicle" would apply and the broken items would be covered. However, if the breakage resulted from the movers dropping something while walking down the stairs, there would be no coverage because dropping is not a covered peril. While the HO-4 is a "named peril" policy, Insurance Services Office, Inc. rules actually call for it to be endorsed to an "open peril" ("all risk") basis. Granted, few carriers offer that option.

As for Option 3, keeping the old HO-3 Homeowners Special Form or HO-5 policy in force even after the house is sold is another



option and, personally, my selection for "best option." My friend pointed out that while there is no longer an insurable interest in the house itself, there is an insurable interest in the contents. There is also the need to maintain Section II (liability and medical payments) for the insured and keeping the old policy in place accomplishes this. Under the "old" policy, contents (Coverage C—Personal Property) are covered anywhere in the world. For thirty days at the new location, the full amount of Coverage C applies. After thirty days, only 10 percent of Coverage C applies, so it is important to secure a replacement policy as soon as a new location is secured. Please know that keeping the "old" policy in force, even after the house is sold, is a viable option and certainly does not represent any fraudulent conduct on the part of the insured or the agent.

The key concept is that the insured should never be without a homeowners policy, even for one day. Various options are available, as he pointed out, and it is key that the insured always be covered under some type of homeowners policy.

Good question. Keep them coming! ■

Spotlight on New Members

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



Rob Galbraith

What are your primary work responsibilities?

I lead the Property Policy team in the Property and Casualty Insurance Group at USAA that directs the establishment, maintenance, and modification of underwriting policies and guidelines for homeowners, fire, and renters product lines, including probable maximum loss and catastrophe management.

Why did you pursue the CPCU designation?

A former boss encouraged me in 2001 to take the old CPCU 5 when I first started in the property-casualty company to learn more about the industry. I learned a lot, successfully

completed the exam, and decided to keep going. I successfully completed the designation in 2003 after two-and-a-half years and am thankful every day that I did it!

What prompted you to join the Personal Lines Interest Group?

I have been very involved at the chapter level for many years and gained a lot of great knowledge and relationships. I wanted to extend that knowledge and those relationships with other professionals throughout the United States and internationally who were also focused on cutting-edge issues related to our products.

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

Two pretty cool experiences stand out. The first was attending a cooking demonstration by Wolfgang Puck at our home office. The second was participating in a group walk through our building with Jared from Subway.

What has been your biggest challenge?

I started my career as a programmer and data analyst supporting people in our Finance,

Actuary, and Underwriting departments, but I really wanted to get more involved in the business side. Earning the CPCU designation was critical in helping me develop the skills to learn our industry. By serving as a volunteer leader with the CPCU Society, I was able to acquire the leadership skills I needed to get into management at my firm.

Please share an interesting fact about you that our fellow CPCU colleagues may not know.

My wife, Dani, also works at USAA as a Product Management Director. We have a blended family with two boys, Nick, age eleven, and Andrew, age eight, and a daughter, Sienna, who will be three in March. Although I have inspired many folks over the years to pursue their CPCU designations and I am always excited when they make it, I am still working on getting my wife to start! ■



Alison Wardein

What are your primary work responsibilities?

I have three main responsibilities:

- As an underwriting specialist, I successfully maintain and service

assigned renewal portfolios and attain new business production objectives.

- As an underwriting training specialist, I communicate updates and new releases and train employees in new roles and responsibilities.
- As a zonal personal lines workers compensation specialist, I handle all types of workers compensation referrals that are above the underwriter's authority.

Why did you pursue the CPCU designation?

I wanted to differentiate myself in my pursuit to further my career and to gain valuable knowledge in assisting my company in being successful.

What prompted you to join the Personal Lines Interest Group?

I was eager to gain pertinent and valuable knowledge for educating fellow employees, clients, and other CPCUs.

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

Being a business analyst for developing a new personal lines system was quite eye-opening as far as how the process worked or did not work in some cases. What amazed me the most were the endless meetings to explain the thought process behind a workflow or a rating in an understandable, step-by-step process to the programmers. At times, explaining certain processes that

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took minutes to accomplish manually ended up taking hours to explain in a step-by-step format; it was often quite challenging!

What has been your biggest challenge?

Passing CPCU exams! I think there should be an award for not only taking the longest time to become a CPCU (seventeen years), but also for failing exams more times than I passed.

Please share an interesting fact about you that our fellow CPCU colleagues may not know.

I was in labor with my first child at Wrigley Field. I had taken off work the week of my due date and was bored by Wednesday. I went to the Cubs game against my husband's wishes. Because this was my first child, I did not know what back labor felt like and I at first

thought the seats were just uncomfortable for a woman who was nine months pregnant. It was not until the game went into extra innings that I finally broke down and told my parents we had to leave! ■



Stephanie Wells

What are your primary work responsibilities?

I am a compliance specialist with Nationwide Insurance. I am responsible for the compliance of our personal lines product, including personal auto, homeowners, dwelling fire, and personal umbrella. I have responsibility for the states of Illinois, Indiana, Iowa, Minnesota, and Wisconsin.

I am responsible for reviewing, analyzing, interpreting, and communicating changes to state laws and statutes that impact our personal lines products and procedures. My responsibilities also include initiating and leading projects to update our products and procedures to comply with changes to laws and regulations and acting as the compliance liaison for corporate strategic and countrywide product projects.

Why did you pursue the CPCU designation?

I began pursuing the CPCU designation in 2006. I was new to the insurance industry and I wanted to gain as much

knowledge about my new field as possible. After researching the various insurance education programs, I knew I wanted to pursue the CPCU designation because I saw it as the best in the industry for insurance knowledge. I have not regretted my decision. Obtaining my designation has been one of the best career decisions I have made.

What prompted you to join the Personal Lines Interest Group?

I joined the Personal Lines Interest Group after attending the 2012 Annual Meeting and Seminars in Washington, D.C. I had the opportunity to attend several personal lines seminars, which I found very informative and helpful for my work. I am primarily responsible for personal lines for my work and joining the Personal Lines Interest Group has helped support me in my career.

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

The most unique experience of my career actually is not related to my day-to-day job. I am the co-chair of Nationwide's Iowa Civic Action Program. During the 2012 election cycle, Nationwide invited all presidential candidates to visit our Des Moines, Iowa, campus. I had the opportunity to organize these events and met all but two of the 2012 presidential candidates. It was a great opportunity for Nationwide associates to be involved in the political process and to hear directly from candidates on issues affecting us individually and as an industry.

What has been your biggest challenge?

The constantly changing regulatory environment is always a challenge. As legislatures and governorships change political parties and insurance commissioners change, the priorities and the direction for each state also change. What was acceptable one year may change the next year, or legislation that is passed may be overturned a few years later. The interest from the federal government in insurance regulation is also interesting to monitor as it has the potential to impact my work. While the changing nature of the regulatory environment is a challenge, it is also what makes my work interesting. I know that each day will be different and there will always be something new to challenge me.

Please share an interesting fact about you that our fellow CPCU colleagues may not know.

I have an extensive music background, including beginning college as a music minor. I have played the piano for twenty-eight years. During college, I performed in the concert band, marching band, and choir and was the flag line instructor for a local high school. Currently, I am the flag line choreographer and instructor for another local high school. ■

Righting Insurance for Co-ops and Condos: Who Insures What?

by By Jerome Trupin, CPCU, CLU, ChFC



Jerome Trupin, CPCU, CLU, ChFC, is a partner in Trupin Insurance Services, located in Briarcliff Manor, N.Y. As an “outsourced risk manager,” he provides property-casualty insurance consulting advice to commercial, nonprofit, and governmental entities. Trupin regularly writes articles on insurance topics for industry publications and is the co-author of several insurance textbooks. Trupin has been an expert witness in numerous cases. He can be reached at cpcuwest@aol.com.

Bea and Ben Aden purchased a vacation condo in western New Jersey and were looking forward to peace and quiet in the country. When their unit was devastated by fire, what they got was exasperation and expense. First, they were faced with the ordeal that any homeowner must deal with following a fire, but then they discovered that, under the terms of the condo association agreement, they were responsible for restoring the interior of the unit at their own expense. The cost of restoration was \$21,000. The amount of insurance provided by their insurance: \$1,000. Result: an errors and omissions lawsuit against their broker. Amazingly, the case went all the way to the New Jersey Supreme Court. The court ruled against the broker and awarded the insured damages plus interest, saying that the insurance broker was a professional and that insureds were entitled to depend on his expertise.¹

It is doubtful that courts in every state would impose a similar duty on the broker to advise the insured, but you do not want to get dragged through the courts to find out. If you do business in New Jersey, be forewarned. But, even ignoring possible professional liability, is this the way to treat your clients and build an insurance practice? Get good word-of-mouth instead of bad; write the insurance the right way.

Find Out What the Condo or Co-op Agreement Says

Does a co-op or condo unit owner need an HO-3Special Form Homeowners policy? Silly question. The HO-3 is for a homeowner; the HO-6 Condominium policy is for a unit owner. But that does not always happen. My practice is centered on commercial insurance, so I do not see many homeowners policies. Yet, in the handful I have looked at as a favor for a client, I have come across two HO-3 policies written for condo unit owners.

In both cases, the condo agreement called for the association to insure the structures, so my clients were paying for unnecessary coverage. Once in a great while, a condo agreement will put the burden on the unit owners to

insure the buildings, but that is rare. It is more common in the case of homeowners associations, but even homeowners association agreements may require the association to insure the structures.

How do you find out? As with so much else in insurance, review the documents. You should request a copy of the insurance requirements portion of the co-op or condo agreement or ask your clients to find out from the board or the managing agent what they, as unit owners, are responsible for insuring.

Insuring personal property is universally the unit owner's responsibility. If the association is required to insure the structure, the next question is, who is responsible for insuring the real property within the unit? There are three ways that responsibility for insuring the real property within the “four walls” is handled in condo and co-op agreements: bare walls, original specifications, and all-in.

Bare Walls

The most common arrangement is referred to as “bare walls.” Under this approach, the unit owner is responsible for the cost to restore everything from the bare walls inward, even when the damage is caused by an insured peril. This includes kitchen and bath cabinets, appliances, plumbing fixtures, decorating, and other expenses. In the Aden case, discussed at the beginning of this article, the association agreement made the association responsible up to the bare walls. The repairs beyond that were the unit owners' responsibility. It cost the Adens \$21,000 for a one-room studio in a seasonal resort. Imagine what the cost would be for a five-room, high-end apartment.

Original Specifications

Original specifications coverage requires the association to insure the building additions that were part of the structure when it was originally developed. This is true even if the building additions are owned by the unit owner and not by the association. This option is often called for by condo agreements. If the Adens' condo agreement had called for original specifications coverage, the \$21,000

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cost for interior repair would have fallen on the association. (Original specifications coverage is sometimes referred to as single-entity coverage.)

All-In

All-in coverage is similar to original specifications coverage, except that it includes improvements and upgrades made by the unit owner and those that were part of the original specifications. Again, it does not matter whether the building additions and improvements are the property of the unit owner or the association. All-in coverage is not common. I have reviewed numerous co-op and condo agreements and I have never seen one that called for all-in coverage.

Insurance Coverage for Unit Owners

Most insurance policies for unit owners handle this problem quite simply. The Unit Owner Policy Form, HO-6, contains a dwelling coverage item that allows the unit owner to select an amount of insurance to cover those items that are the unit owner's responsibility. Policies generally make clear that the insurance can apply regardless of who owns the property, if the agreement calls for the unit owner to insure it. The Insurance Services Office, Inc. Form HO 00 06 05 11 states:

... Property which is your insurance responsibility under a corporation or association of property owners' agreement...²

Note the reference to the condominium association agreement as the basis for determining coverage. If you do not know what the agreement says about insurance requirements, how can you properly write insurance for your clients? If the unit owner is responsible for building additions, the solution is to include an adequate amount of dwelling (real property) coverage in addition to the personal property coverage.

Effect of State Law

Some state laws go into much more detail about condominium insurance than New York law does. If your client is in another state, you must check the state law in addition to the association documents. Connecticut, for

example, requires that developer-installed improvements be insured by the association for multistory or townhouse buildings.³

The National Conference of Commissioners on Uniform State Laws drafts recommended laws for state legislatures to adopt in numerous areas to create greater uniformity. The conference published a Uniform Condominium Act that, in essence, calls for at least original specifications coverage for multiunit attached or stacked condominiums.⁴

My Preference: Original Specifications Coverage

I believe original specifications coverage is the way to go for all condos and co-ops, particularly in metropolitan areas where so many unit owners have more of a tenant mentality than an owner mentality. It is one thing to specify in the agreement that unit owners will insure the building additions and improvements that are their responsibility. It is quite another for unit owners to actually purchase adequate insurance—again, consider the Adens. Without insurance, a case can become a fight over who pays for what. Even if there is insurance, there can easily be four or five units damaged in one loss in a multitenant structure. That means there may be as many as five or six adjusters (one for each unit plus one for the building). When original specifications are selected, there may be just one adjuster. Simplifying the adjustment of losses was one of the principal reasons for adopting the Uniform Condominium Act.

My Recommendations

If the co-op or condo agreement does not call for original specifications coverage or is unclear, suggest changing the agreement. Insurance requirements often read as if they were drafted in the middle of the last century by people who were getting paid by the word. It is common to see recently drafted insurance requirements that call for "extended coverage," despite the fact that extended coverage endorsement has not been used by standard insurers since 1986.

Amending an agreement can often require a supermajority of the unit owners, which is

not easily attained. Sometimes, the insurance provisions are so ambiguously worded that it is worth the effort. If the co-op or condo just wants to change to original specifications, I have found that some insurers will accept a resolution passed by the condo board as a sufficient amendment. Check with the insurer to be sure he or she will accept that as triggering coverage for original specifications before your client goes that route.

Coincidentally, just as I was finishing up this article, one of our clients sent us the insurance requirements for a new condo to review. Surprisingly, I like it. Here is an excerpt:

The all-risk hazard policy shall cover the interests of the Board of Managers and all Unit Owners and Permitted Mortgagees, as their interests may appear. Coverage shall be for 100% of the insurable replacement cost of the Improvements (excluding land, foundations, excavations, footings and other items normally excluded from such coverage), including fixtures (to the extent they are Common Elements), building service equipment and supplies, and other personality comprising Common Elements. *The hazard policy maintained by the Board is not required to cover, but may cover, in the sole discretion of the Board of Managers, improvements and betterments made by Unit Owners in their Units, fixtures that form part of Units and other interior elements of Units...* (emphasis added)⁵

This lets the condo board choose bare walls, original specifications, or all-in coverage, whichever fits its needs the best. It could even change its decision if, for example, an insurance company offered a much more attractive rate if it accepted bare walls coverage.

Setting the Amount of Insurance for Unit Owners

If your client is the unit owner, find out what his or her responsibilities are and tailor the insurance accordingly. (Did I mention that you want to check the insurance provisions in the co-op or condo agreement?) This can be a

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by Kellie H. Green, CPCU, MBA

win for all parties. The producer writes more insurance and has more satisfied clients, the insurer collects more premiums, and, when the loss occurs, the insured gets reimbursed promptly and adequately.

I have asked three brokers that I know how they set the amount of insurance for condo or co-op unit owners. Two passed the exam with flying colors; they ask HO-6 applicants about the need for real property coverage. One even suggests \$100 to \$150 per square foot if the unit owner is responsible for the interior. That is high, but upmarket kitchen and bath renovations can run \$100,000 to \$200,000 or more.

Write it right. You will smile all the way to the bank, and when the loss occurs, your insureds will be smiling, too. ■

Endnotes

- 1 Benjamin Aden, et al. v. Robert Fortsh, et al., New Jersey Supreme Court 169 N.J. 64 (2001).
- 2 Insurance Services Office, Inc., Form HO 00 06 05 11, 2010.
- 3 E-mail correspondence with James Orlando, Office of Legislative Research, Hartford, Conn., May 21, 2012.
- 4 Christopher Boggs, "Condo Insurance Requirements Not Cookie-Cutter," Insurance Journal, June 30, 2008 (<http://www.insurancejournal.com/news/national/2008/06/30/91454.htm>).
- 5 From an Offering Plan drafted by Erica R. Forman, Esq., Bryan Cave LLP, New York, NY, and used with her permission.



Kellie H. Green, CPCU, MBA, is a director with Allstate Insurance Company with focused accountability for driving customer satisfaction and retention. She has been employed with Allstate since 1989, working in both home office as well as field offices. Green's experience includes assignments in field underwriting, project management, compliance, education and employee development, and communication, as well as various leadership positions. She currently serves on the Personal Lines Interest Group Committee and is a facilitator for the CPCU Society's Center for Leadership. Green received her master's in business administration from Kent State University.

What is the Circle of Excellence, and what could it possibly have to do with you?

You are more connected to it than you might think. To understand how, we will borrow a popular game associated with a famous actor linked to a popular breakfast food (I will let you think about that for a minute).

Let us explore the six degrees of separation between the Circle of Excellence and you, starting with the end in mind and working our way backward.

First Degree: Last year, the Personal Lines Interest Group achieved Gold recognition through its Circle of Excellence submission.

Second Degree: Our recognition was based on actions and activities completed and

submitted by members of our interest group. While we certainly had a strong submission, it is interesting to note that only a handful of members contributed to the application. This could be because people are not aware of the application process. Hopefully, this article takes care of that issue. It could also be that some of us have lost the connection to the foundational elements that are encouraged and recognized through the Circle of Excellence program.

Third Degree: The Circle of Excellence recognition program is structured around the CPCU Society's Strategic Plan and is designed to recognize chapters, interest groups, and task forces as they achieve goals.

Components of Circle of Excellence submissions align with four areas of emphasis:

- Providing access to technical insurance knowledge on current industry issues
- Promoting the professional qualifications of CPCUs
- Promoting risk management and insurance as a career
- Chapter best practices and governance (for local chapter submissions)

You can find more information about the Circle of Excellence program and activities that are eligible for submission on the newly updated CPCU Society website. Simply complete your member log-in, and head to the following address: cpcusociety.org/chapters/awards-recognition.

Fourth Degree: I bet the last thing you expected to see here was a reference to the CPCU Society Code of Professional Ethics. Well, believe it or not, that represents the next degree of connection between you and the Circle of Excellence. The canons contained in the code of ethics paint a picture of the obligation we have to serve the betterment of our industry and the interests of the public. As CPCUs, we are dedicated to "improving the functioning of the insurance mechanism," to raising the professional standards of our profession, and to "improving the public

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Six Degrees of Separation: Circle of Excellence and You!

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understanding of insurance.” These are lofty goals and provide the motivation needed to serve and lead at a local level.

Fifth Degree: Additional motivation comes in the form of the pledge we each recited as part of our conferment ceremonies. Through this pledge, we made a personal commitment to uphold and to be accountable to the code of ethics and to the canons that define standards for our conduct as designated CPCUs.

Sixth Degree: The last step is you!

Maybe, six degrees of separation is a bit of a stretch. Let me try another angle, with two of our interest group members explaining the connection in their own words. We recently interviewed Ryan Humphrey and Michael Nibbelin, both of whom were valuable contributors to our Gold distinction last year. Let us hear what they have to say.

Personally Speaking: Your Circle of Excellence contributions highlight involvement in your local communities, and sometimes more broadly, to advance insurance knowledge and to participate in community service activities. Why is this involvement important to you as a CPCU?

Ryan: As a CPCU and as an individual, giving back to the community and helping others is imperative. It is only through giving to others that we grow as a community.

Michael: Involvement in my local community is important to me because people need to recognize that their local CPCUs are the people next door. We live, grow, serve, and thrive together with them. Everyone has contributions they can make to others in the communities where they live. I have focused on broadening education of university students who are at a stage of exploring the insurance and risk management profession. Serving as a mentor in your local community provides a very valuable function and can help in growing the profession for generations to come.

Personally Speaking: What have you personally gained through your service and involvement?

Ryan: I have personally gained leadership skills and been able to practice leading a group of people. As a volunteer, I am able to practice these leadership skills in a safe environment.

Michael: I have personally gained a sense of satisfaction [knowing] that I have helped others in furthering their professional journeys. Providing a sounding board for an individual's plans, answering questions, and making helpful suggestions are just a few of the ways that we can develop those we work with.

Personally Speaking: How do you go about finding opportunities to serve as a CPCU?

Ryan: Generally, by talking with the leaders of my local chapter.

Michael: I am quite fortunate to be part of a local chapter that has active programs. We have an annual membership survey that asks us where we might consider serving within the chapter. We also hold an expo each fall where chapter committees have informational booths where you can learn more about their function in the chapter. Sometimes, the person sitting next to you at a monthly meeting or luncheon might just ask you if you would be interested in helping them out.

Personally Speaking: Any words of advice for interest group members who are trying to get more involved?

Ryan: Talk to the leaders of the CPCU chapter to which you belong. Actively seek opportunities to help in the community. If you know of a worthwhile charity, give it a call and ask how you can become involved.

Michael: Take the time to read and find out what activities are taking place. Contact people you see are involved. Be proactive in your involvement and



CIRCLE OF EXCELLENCE RECOGNITION PROGRAM ▲

you will find your affiliation to be more fulfilling.

Personally Speaking: Thank you, Ryan and Michael, for your contributions and for taking the time to share your thoughts and experience with our readers!

So, let us recap:

1. There is you –
2. And your commitment, through your CPCU designation, to make a difference in and for our industry –
3. In connection with the code of conduct to which we all agreed at the start –
4. In alignment with the strategic goals of the CPCU Society –
5. Which qualifies for submission through the Circle of Excellence –
6. Leading us, together, to GOLD.

Maybe that is not so much of a stretch after all! ■

Editor's Note:

If you have activities that you think might qualify for inclusion in our Circle of Excellence submission, please feel free to email those, at any time, to Kellie Green at Kellie.Green@allstate.com.

CPCU Society Student Program for 2012—A Look Into the Future!

by Lamont D. Boyd, CPCU, AIM



Lamont D. Boyd, CPCU, AIM, director, insurance market, with FICO® (Fair Isaac Corporation), is responsible for client and partnership opportunities that make use of FICO's predictive analytics technology, scoring products, and consulting services. Speaking regularly to industry, regulatory, and consumer groups on behalf of FICO for the past eighteen years, he is recognized as a leading expert in predictive scoring technology. In addition to managing the CPCU Society Student Program, he is a member of the Underwriting Interest Group Committee and the Annual Meeting Task Force.

Washington, D.C., was a great experience for over two dozen risk management/insurance and actuarial studies students from universities and colleges across the nation. As director of the CPCU Society Student Program, I thank the professors and advisers who nominated our DC students, the many volunteer mentors who guided our students throughout the Annual Meeting and Seminars, the Interest Groups who opened their breakfasts and lunches to our students, and the many CPCU Society chapters who either directly sponsored a student or two or who contributed money to our general fund to assure the Student Program's ongoing success.

These 29 chapters of the CPCU Society stepped up once again this year for our 2012 Student Program:

Arizona	Hawaii
Atlanta	Kentucky
Bayou	Minnesota
Boston	New Hampshire

Brandywine Valley	New Jersey
Central Illinois	Northeastern
	Pennsylvania
Central Missouri	Pacific Northwest
Central Texas	Philadelphia
Charlotte	Quad City
Cincinnati	Rhode Island
Colorado	San Diego
Columbus	Santa Clara
Connecticut	Spokane
Dayton Miami Valley	Westchester
Europe	

Our sincere hope is that all chapters of the CPCU Society see the value of the Student Program in assuring that the best and brightest will find their place in the industry, throughout the world, and within CPCU Society chapters. We cannot offer this program without the significant support of chapter leaders and the contributions of our Society chapters.

Our 2012 Student Program enjoyed two very nice, new experiences while in D.C.—a dinner hosted by Diana L. Van Horn, CPCU, of QBE North America and a breakfast hosted by Cheryl R. Constantine, CPCU, of Travelers. These events gave our students opportunities to engage with industry leaders.

Through chapter and industry contributions, this year's students met industry leaders from around the world, learned, and networked. Here are just a few of the comments we've received from our 2012 students:

Taylor Mohr, State University of New York—Oswego:

I had an amazing time and thought the opportunity was once in a lifetime. I made a lot of connections and met some influential people. The program was well planned and extremely organized from the moment we arrived in Washington, D.C. I instantly befriended the other students nominated to participate and hope to keep those friendships, even though most of us live across the United States from each other. I loved the CPCU experience and cannot wait to become a new designee!

Grant Craigmiles, Missouri State University:

The CPCU Society Student Program has been one of the greatest experiences of my entire risk management and insurance education. The networking opportunities offered through this program were phenomenal. Beyond gaining valuable connections within the industry, I learned about the intricacies of so many different areas within the industry. I feel like I am a much more informed student of insurance and that I have an advantage in career possibilities thanks to the CPCU Society Student Program.

The CPCU Society Student Program is great in that it allows students to network on multiple levels: Students make connections with a wide variety of insurance professionals, a personal mentor, and bright students from insurance schools across the nation. When all these levels of networking opportunities are concentrated into one conference, the sky is the limit for the knowledge and connections that can be attained. I am now energized to enter such a dynamic industry!

Amy Johnson, Katie School, Illinois State University:

I would like to sincerely thank the CPCU Society and you for everything. You did a wonderful job putting everything together for the students, and I know we all very much enjoyed the experience.

I was also lucky to have Daniel L. Blodgett, CPCU, AIM, AIS, PMP, as a mentor. As I'm sure you're well aware, he does a great job! He helped us with choosing sessions, introduced us to many people, brought us to the Personal Lines Interest Group Committee meeting, and was always available when we needed him.

Throughout the conference, there were several people who came up to me to ask about my being a student. It was obvious that people were aware students were there and were interested in conversing with us, which was obviously very beneficial for us!

Anna Berry, University of Houston Downtown:

What a wonderful event! I thank you from the bottom of my heart for allowing me (and all

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CPCU Society Student Program for 2012—A Look Into the Future!

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of the students) to participate in this amazing CPCU Society Annual Meeting and Seminars. I networked with so many professionals and I will be following up with each and every one of them. As for my mentor, I'm not sure how you matched us all up, but I had the *BEST ONE*, Alicja Lukaszewicz-Southall, CPCU.

Steve McElhiney, CPCU, MBA, ARe, AIAF, 2011–2012 CPCU Society president and chairman, shared his thoughts about the Student Program:

During the Washington, D.C., Annual Meeting and Seminars, I had a chance to meet virtually all of the attending students, who had varied academic backgrounds and experiences and represented various regions of the country. They were highly engaged in both the student program and in the various interactions I was able to be part of, and each of them was truly a pleasure to get to know. They asked insightful questions, and have proven they are very motivated to succeed in insurance careers in various facets of the property-casualty industry—at the carrier and broker level and as underwriters, claims professionals, and actuaries.

We have spoken much about the “pipeline challenge” confronting our industry as the “Baby Boomer” generation retires, and a new generation of knowledge workers needs to be identified, trained, and developed. The CPCU Society Student Program (now in its third year) is one of the tangible solutions we are embarking upon to meet this industry need. I am confident these students will be future leaders in the organizations they serve, as well as in the Society. A special recognition needs to be extended to Lamont Boyd, who has diligently supported the CPCU Society Student Program since its inception.

“A Look into the Future—Student Seminar” was a success, once again. This seminar allowed us to highlight the property-casualty insurance industry's need for the “best and brightest” now and in the future, and allowed our students to ask any questions to prepare them for their careers in the industry. The seminar is designed to help risk management/insurance and actuarial students understand more fully the variety of paths available to them



(Left to right) Hannah Dimmick, Appalachian State University; Grant Craigmiles, Missouri State University; Liz Pitts, Appalachian State University; Chase Conover, Missouri State University; Glenn Morgan, The University of Georgia; [unknown local student]; Kathryn Foege, Georgia State University; Genevieve Parks, University of North Texas; Harvey Powers, University of Texas–Austin (Research Award winner: Gold); Elizabeth Saxe, St. John's University; Ali Nematpour, University of Houston Downtown; Taylor Mohr, State University of New York–Oswego; Allison Crosby, University of Colorado–Denver; Anna Heliotis, St. John's University; James Heuker, Olivet College; Jay Willer, State University of New York–Oswego; Chase T. Russell, University of North Texas; Luna (Weiyue) Gu, University of Illinois at Urbana–Champaign; Christopher Watkins, Olivet College; Amy Johnson, Katie School, Illinois State University; Dan Pettie, Katie School, Illinois State University; Jill Feeney, Saint Joseph's University; LaKenya Patrice Young, Georgia State University; Kyle Guestin, Utica College (Research Award winner: Bronze); Sarah Nichols, The University of Georgia; Joe Hemminger, University of Colorado–Denver; Joe Drobny, Katie School, Illinois State University (Research Award winner: Silver). [Missing from the photo: Anna Berry, University of Houston Downtown]

in the property-casualty industry. Our students also gained a clear understanding of the value of the CPCU designation in helping them on their chosen path.

Many thanks to our 2012 student seminar speakers: Noelle Codispoti, ARM, executive director of Gamma Iota Sigma, the international risk management, insurance and actuarial sciences collegiate fraternity; Connor M. Harrison, CPCU, ARe, AU, director of custom products, The Institutes; and James R. Jones, CPCU, ARM, AIC, executive director of the Katie School of Insurance and Financial Services at Illinois State University.

Our hope is that all students and CPCUs in attendance walked away from this seminar with great ideas and a clear understanding of what is needed to grow our industry through the development of talented individuals. The CPCU Society is uniquely positioned—in large part due to the direction and support provided by chapter and interest group leaders—to offer a clear path between those who are seeking a rewarding future in the industry and those who are seeking people to contribute to that successful future.

2013 Student Program

As a direct result of the efforts of so many of you and your colleagues over the past three years, the Society has given our Student Program an enthusiastic “green light.” The 2013 New Orleans program is likely to be a significant component of the collective “Engaging the Next Generation” initiative. You'll learn more about the initiative and the 2013 Student Program in the months ahead, but please plan now to support this critical program.

A final note of thanks: Once again, my sincere appreciation to all who contributed in so many ways to the success of our 2012 Student Program. As we begin working toward another successful program for 2013, please don't hesitate to contact me (lamontboyd@fico.com) with any suggestions or thoughts you may have, or assistance you're willing to offer to help us attract bright, young minds to the insurance industry and the CPCU Society! ■

Predictive Analytics—Part 1

by Wade Bontrager



Wade Bontrager is an insurance industry executive with deep experience in growing insurance businesses. He joins EagleEye after twenty years of business experience, with a strong background in pricing and marketing in a variety of industries. For fifteen years, he applied predictive analytics on the insurance carrier side. Most recently, Wade held the position of senior vice president at GMAC Insurance. His previous roles at GMAC Insurance include chief marketing officer, senior vice president of the Affinity Division, vice president of Insurance Partner Marketing, and senior marketing manager of the Independent Agency Channel. Wade was also a product manager at Windsor Group Insurance.

Wade received his master's in business administration degree from Emory University and his bachelor's degree in German from Florida State University.

Much has been written about the power of predictive analytics in insurance. It is a powerful tool for uncovering new knowledge in your portfolio and gaining market advantage. We thought it would be helpful, in preparation for the 2013 CPCU Annual Meeting, to go back to basics to look at the core of predictive analytics and how it can be used across business processes.

This article delves into the specifics of advanced predictive analytics. In the next issue, we will address the topic of how to leverage the insights provided by advanced predictive analytics throughout your business.

A Long History of Predictive Analytics

According to Dr. Charles Nyce of the American Institute for Chartered Property and Casualty Underwriters, predictive analytics encompasses a variety of techniques, including statistics, modeling, machine learning, and data mining, that analyze current and historical facts to make predictions about future events.¹

Traditional insurance analytics is based on actuarial science and primarily uses a range of linear models. The most advanced linear model is the Generalized Linear Model (GLM), which was developed in 1975. These methods provide a solid baseline approach and a flexible framework for understanding the predictive power of multiple variables. GLM is often used to form new rate plans or adjust existing rate plans.

The New Era of Advanced Predictive Analytics

An important series of technological breakthroughs in the analytics field, known as machine learning, has gained substantial traction within carriers that are using these techniques to advance their competitive positions. These technological advances enable insurers to establish commercial advantages across their operations, from more sophisticated rating and underwriting and insightful business management to improved customer conversion and retention

and more effective optimization of insurance customer portfolios.

In contrast to traditional analytical techniques, machine learning requires no assumptions about linearity or the shape of the underlying error distributions. Machine learning searches the solution space of the data and lets the data speak for themselves. Results derived from machine learning methods are a pure, unadulterated representation of the predictive signal.

To efficiently apply machine learning methods to insurance data, substantial research and development were necessary. This included blending the machine learning method with traditional actuarial and statistical methods. First, problems associated with the matching of base machine learning methods to the complexity of insurance data had to be addressed. Then, substantial levels of predictive signals were extracted from insurance data, above and beyond the level achieved using traditional methods. The primary benefits of the new fusion methods include superior model performance (lift and consistency), improved analytical productivity and speed of results, and enhanced ease of implementation.

How Is Advance Predictive Analytics Relevant to Underwriters?

Underwriting insurance policies is a complex task at the best of times. Lately, underwriting has become much more difficult as linear analytic methods have set rates in such a way that rates have captured the signal from individual variables. For example, looking at a single variable such as driver age, the underwriter is able to accept all risks because the rates compensate for the appropriate level of risk. This is also becoming true of a number of two-way interactions such as gender and marital status in auto insurance. If one-way and two-way interactions are successfully addressed in rates, how does the personal lines underwriter discover and identify good and bad risks?

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Predictive Analytics—Part 1

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The answer is to utilize fusion-based machine learning methods that break portfolios into a controllable number of subdivisions based on variations in rate adequacy (loss ratio), with each subdivision described by a simple intersection of variables (e.g., with a vehicle older than 1998, a rated male driver over age thirty-five, and a minimum operator from age sixteen to age nineteen). The subdivisions can also be consumed as three-digit scores, used as a determinant of underwriting decisions.

Advanced analytic approaches have proven to uncover significant rate subsidies in current classification plans, ranging from negative 50 percent to 100 percent or higher. Applying these methods to insurance portfolios will provide the underwriter with new, empirically-driven knowledge, promoting the acceptance of previously unidentified good risks and the rejection of previously accepted poor risks. Tools like this enable underwriters, in combination with their own valuable and specific knowledge, to improve performance.

The fusion methods have consistently demonstrated an ability to find a signal that improves the performance of the underlying model. This has produced amplified dispersion, improved goodness of fit relative to historical data, and better generalization of results on unseen data. Stay tuned for more information about how to effectively utilize advanced predictive analytics across carrier business processes in the next issue of *Personally Speaking*. ■

Endnote

1 Dr. Charles Nyce, "Predictive Analytics White Paper," AICPCU/IIA, 2007 (www.aicpcu.org/doc/predictivemodelingwhitepaper.PDF).

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Questions? Contact the Member Resource Center at (800) 932-CPCU (2728) or email membercenter@cpcusociety.org.

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