CPCU SOCIETY
INSURING YOUR SUCCESS

Personally Speaking

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Chairman's Corner: Midwest Weather in Turmoil

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.

Greetings to all and we hope that 2008 has started well for you! As winter melts away into spring, your Personal Lines Interest Group committee cooks up ways to improve our interest groups while preparing for another CPCU Society Annual Meeting and Seminars in Philadelphia, Pa.

Speaking of cooking, our early winter weather in the upper midwest sure mixed up a recipe for some nasty storms. Typically the first few months of the year are full of snow, ice and the usual wintry mix. However, this year Mother Nature cooked up diversity with severe thunderstorms, complete with lightning, hail, heavy rain, and damaging winds, followed by additional heavy snow (really good for sledding with the kids). Then a few days later another warm front would hit with the next thunderstorms.

Unusual you say? Yes—extremely. The building blocks of these storms were all a matter of chance—the moisture was drawn up from the Gulf of Mexico by unstable rising air masses coming across the Plains and up from the south. The storms resulted in severe flooding problems in central Illinois, among other states. The frozen ground, or ground that was fully saturated lent itself to the flash floods. The south was hit with not only the severe thunderstorms, but tornadoes as well. Even more unfortunate was the loss of life that accompanied this weather—we wish them the best for their recovery.

Enough about the weather; I'll get back on track with what the committee is cooking up for you. Our group is busy preparing for the Annual Meeting and Seminars in Philadelphia and **Loren Gallogly III, CPCU,** is leading the group. The focus is on the Society's Annual Meeting theme of "Heritage and Horizons," a theme that's appropriate to the historical location in Philadelphia.

"Heritage" ideas are defined as follows:

- Fundamentals that are core to our business that do not change over time.
- Past successes that continue to be at the foundation of the industry.

"Horizons" ideas are defined as follows:

- The change in strategy or updating of our past to meet future needs.
- Issues we'll be facing in the future such as globalization, economics, diversity, increasing technology (both in changing of exposures and the way we interact with our customers), regulatory reaction to industry as we launch new ideas, new information sources, a changing workforce and the need for new job skills.

There's no doubt that Gallogly and his team will put together a great program for the attendees in Philly. I hope you are among those at the Society's 2008 Annual Meeting and Seminars to enjoy the heritage, and yet be eager to face the horizons beyond.

Until next time.

What's In This Issue

Note from the Editor

by Robert A. Braun, CPCU

■ **Robert A. Braun, CPCU,** is a regional vice president with State Auto Insurance Companies, where he manages the Cincinnati Branch Office. He joined the CPCU Society's Personal Lines Interest Group Committee in 2006 and he shares editorial responsibility for *Personally Speaking.*

I woke up on April 18 to the feeling of my bed shaking and items on the dresser rattling. We're not accustomed to earthquakes in the midwest, so when one feels the effects of an event more than 200 miles from home, it rattles not only material things, but also your nerves. As an insurance professional, I quickly moved to the next thought—where's the epicenter and how much damage did the quake cause? Thankfully, damage was minimal and there was no loss of life.

Another earthquake of sorts hit on April 23, with Liberty Mutual announcing its intent to acquire Safeco. Consolidations continue to be a way of life in our industry, but by any measure this is a biggie. Significant changes are in store for employees, agents and other stakeholders in both companies.

So what can we do in the face of events over which we have no control? Simple: continue to perform at the highest level possible; develop your personal and professional skills; and improve your knowledge of the industry through continuing education. Coincidentally, these are all things we promised to do when we attained the Chartered Property Casualty Underwriter designation. Have a great spring and here's a preview of this edition.

Personal Development

We're republishing an article from **Laura M. Kelly, CPCU, AIC, AIS, ASQ, CQIA,** a member of the CPCU Society's Total Quality Interest Group Committee. Kelly speaks about the importance of good organizational skills and the impact such skills can have on balancing our daily responsibilities. This article first appeared in the March 2008 issue of *Total Quality Interest Group Quarterly*.

Jeffrey C. Schultz, CPCU, is a new member of the Personal Lines Interest Group Committee and he previews the upcoming joint CPCU Society/Accenture survey examining industry trends and underwriting practices.

Developing Knowledge of the Industry

Two articles with a legal spin are included, both involving current events. Legal activity and coverage issues surrounding Hurricanes Katrina and Rita are still percolating (and will be for years). Contributor **Robin K. Olson, CPCU, CRIS, ARM,** gives us a scorecard on some recent court decisions.

The mortgage industry certainly is experiencing some troubled waters, and eventually some of those waves will strike our industry. We have reprinted an article written by Alan S. Rutkin, published recently in *Best's Review,* that explores a few of the legal arguments impacting some coverage forms.

Networking and Personal Lines Interest Group News

We share spotlight articles on a couple new members of the Personal Lines Interest Group Committee, **David A. Halstead Jr., CPCU, ARM, API,** and **Jeffrey C. Schultz, CPCU.** Also included is a preview of the seminar our group is developing for the upcoming Annual Meeting and Seminars in Philadelphia, Pa. ■

Sharpen Your Saw: Getting Organized for Success

by Laura M. Kelly, CPCU, AIC, AIS, ASQ, CQIA

■ **Laura M. Kelly, CPCU, AIC, AIS, ASQ, CQIA,** is the director of best practice compliance/insurance industry liaison at Goldberg Segalla LLP, a national best practices law firm. She oversees the firm's quality area, ensures that the firm complies with the litigation guidelines of its clients, and works with clients to ensure that the firm understands each client's needs and expectations. Her past experience includes nearly 16 years in the claims area of the insurance industry and she has worked in the roles of a claims adjuster, claims supervisor, and litigation manager. Kelly is a member of the CPCU Society's Total Quality Interest Group Committee and is the treasurer for the Northeastern New York Chapter. She is also an active member of the American Society for Quality, has obtained the Certified Quality Improvement Associated certification, and serves as the moderator of the Insurance Industry Network Discussion Board.

Regardless of your profession, you must have effective organizational skills to survive in today's workplace. We all must balance e-mail, phone calls, and unexpected interruptions while managing to stay on top of everyday tasks. Although technical knowledge, effective communication skills, and customer focus are important ingredients for success, organization is imperative in holding those components together. This article explores several ideas for getting organized and effectively managing your time so that you end the day with a sense of accomplishment.

1. Plan Tomorrow's Schedule Today

Before you leave the office each day, devote at least 10 to 15 minutes developing your action plan for tomorrow. Prioritize your workflow so that you will focus on the most difficult or time-consuming tasks first. Keep in mind that early morning is often the best time of day to work with the fewest interruptions. It is also a great time to catch someone who may be difficult to reach by phone. When planning your schedule, be realistic about what you will achieve and do not schedule more than you can reasonably hope to accomplish in one day.

2. Create a To-Do List

It is quite easy to lose track of all of the things that you must accomplish in a day both at work and outside of the office. It is tremendously helpful to generate a written to-do list including both work-related tasks and personal errands. This can be as simple as a list handwritten on a pad of paper or a more complex diary system utilizing the Task Assistant in Outlook. Relying on your memory alone will likely lead to forgetting a few things if your day takes a path you did not anticipate. Having a hard copy to refer back to throughout the day and checking off tasks as they are completed will keep you on track and contribute greatly to your sense of accomplishment.

3. Eliminate Clutter

A clean and clutter-free work area can be incredibly helpful towards keeping you organized. There will always be work to be done, however it is not necessary to have a nagging reminder of everything that awaits you spread across your desk or office. Use your to-do list to remember what you must work on next and only keep necessary materials on your desk. Once you have finished with materials, return them to their usual storage space. Organize your desk so that the supplies that you routinely use are the most easily accessible.

4. Maintain Your "A" Game by Recharging

To stay focused and motivated, everyone needs what is referred to as a "mental health" break once in awhile. If you find yourself making mistakes or having difficulty concentrating, then it may be time for you to take a break and get recharged. After a break, you often return to work refreshed with greater energy and focus. Although there will be times when it is absolutely necessary to work through lunch, during the evening, or over the weekend, doing so regularly will eventually wear you down and prevent you from putting 100 percent into your efforts. Try to avoid skipping lunch and do not put off working on something during the day simply because you can bring it home.

5. Be Realistic About Multi-Tasking

Multi-tasking is a valued and necessary skill in today's workplace, but be aware of how it can sometimes have an effect on the quality of your work. If you consistently find yourself working on three or more different activities at the same time, you may not be paying close enough attention to any one of them because you are not clearly

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Sharpen Your Saw: Getting Organized for Success

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focusing with the level of detail required of each task. Working on a single activity and giving it your full attention now can help you avoid having to return to that same activity numerous times throughout the day or week.

6. Control Interruptions

Unfortunately, interruptions are unavoidable, however you must try to maintain some control over your day and not allow each interruption to dictate your schedule. Although fires will erupt, and you should anticipate that you will devote some time to extinguishing them, not all interruptions are emergencies that require immediate attention. Additionally, when you establish the habit of stopping your current activity to respond to outside interruptions, it becomes an expectation that you are always immediately available. If you are working in this manner, you may find that you are not getting through your day-to-day responsibilities until they also become emergencies demanding immediate attention.

It is necessary for you to determine what is urgent and what can be responded to within a reasonable time frame. If an interruption is not urgent, then decide if it is possible to respond later in the day or at a specific time that works for both parties involved.

7. Delegate

Reassessing whether some of the activities you perform can be done effectively and efficiently by someone else in your workgroup is necessary as your responsibilities increase. Assigning tasks to others when possible can free up some of your time for things that truly require your individual expertise. It can be difficult to delegate due to fear of losing control, concern that the work will not be done properly, or not feeling comfortable adding to the workload of someone else. You may even like the activity and prefer to do it yourself.

You can overcome these difficulties by devoting time to teaching someone how the work should be done and explaining exactly what is expected. Investing your time to train another individual can help you develop the confidence and trust needed to relinquish some control. If you simply enjoy the work and prefer to do it yourself, then evaluate if you are successfully accomplishing all of your other day-to-day responsibilities. If you find that you are not, then it may finally be time to start delegating.

8. Stop Procrastinating!

Procrastination is one of the most common reasons you may not complete projects in a timely manner. In order to stop, it is important to consider what may cause you to procrastinate in the first place. A few of the most common reasons are:

a. You feel completely overwhelmed and do not know how or where to begin.

b. You do not fully understand the project or what is expected of you.

c. You anticipate the assignment will take more time to accomplish than you have to work on it, so you put it off until you have more time.

d. You immediately respond to each outside interruption and as a result do not get through the day's planned work. Eventually you spend most of your time putting out fires.

e. You believe that you work well under pressure and wait until the deadline approaches to get started.

Now that we have explored a few common reasons why you may procrastinate, let's consider some of the ways to start moving forward.

a. If you feel overwhelmed to the point that you are not accomplishing anything, clear your mind and develop a comprehensive action plan before you begin.

b. When you receive a new assignment take notes and ask questions while the details are fresh in your memory. It is important to understand exactly what is being asked of you. Don't be apprehensive of asking questions right away in order to avoid confusion later.

c. Break up the project into small manageable increments and work on it regularly, even if just for a few minutes every day. Working in this manner makes tackling that large project less overwhelming.

d. Don't rush to respond to each interruption as it occurs. Plan to set aside a specific time to respond, unless the interruption involves an emergency.

e. It is obviously not a good habit to delay work on a project in anticipation of working well under the pressure of a deadline. Begin work on a project as soon as possible once it has been assigned to you. Realize that you will need to review your work and make revisions so that you are putting forth your best effort possible, and not just scrambling to finish on time.

Although the previous suggestions may seem simple enough, actually putting them into practice will help you to become highly effective in your efforts to organize your workload and truly take charge of your day. Sometimes just trying a new way of handling your daily routine can give you a different perspective on how to best use your time. There is always room for improvement when it comes to efficiency and quality. By trying some new tactics to maintain that "A" game, you have nothing to lose but disorganization. ■

Joint Underwriting Interest Group and Personal Lines Interest Group/Accenture Survey

We Need Your Input!

by Jeffrey C. Schultz, CPCU

Jeffrey C. Schultz CPCU, is the product operations senior manager, contract strategy and execution, for Allstate Insurance Company in Northbrook, Ill. Schultz earned his CPCU designation in 2007 and joined the Personal Lines Interest Group Committee this year. He can be reached at jschultz@allstate.com.

Accenture and the CPCU Society's Underwriting Interest Group collaborated in 2005 to conduct qualitative and quantitative market research in the underwriting area of the property and casualty industry. The goals of the survey were to better understand insurance industry trends and to study the relationship between technology and underwriting practices. Three years have passed and Accenture is working with interest groups again to refresh the survey and benchmark new findings against the original study. Plans for 2008 include adding the Personal Lines Interest Group to the survey, as well as refreshing the survey for the Underwriting Interest Group.

The goals of the 2008 study are:

1. Understand how industry underwriting practices have changed now that we are three years into a softening market.

2. Measure progress in the areas of recruiting, training, organizational change and technology investments.

3. Gain perspective about emerging issues that are relevant in today's environment.

4. Gather similar data for the Personal Lines Interest Group and establish a baseline for future surveys.

The survey is expected to be launched in early summer. We'll let you know via e-mail how and where you can access the survey. As with the prior survey, it is expected to take participants no more than 30 to 40 minutes, and will be open and available over a period of four to six weeks. Accenture hopes to publish the initial findings in time to distribute them at the CPCU Society's 2008 Annual Meeting and Seminars this fall in Philadelphia, Pa. The target participants for the survey will include all members

of the Personal Lines Interest Group (http://personallines.cpcusociety.org) and the Underwriting Interest Group (http://underwriting.cpcusociety.org).

At this time, we are soliciting ideas for topics to include in the survey. What do you believe would be relevant to the underwriting community at large as well as the CPCU Society membership?

Any ideas for topics or other suggestions for the survey can be e-mailed to Gregory_massey@yahoo.com or to gail.e.mcgiffin@accenture.com.

Keep an eye out for further detail around this survey. Thank you in advance for your input and participation! ■

Wind or Water? A Katrina Update

by Robin K. Olson, CPCU, CRIS, ARM

Robin K. Olson CPCU, CRIS, ARM, is a senior research analyst for the International Risk Management Institute (IRMI) and is the editor of IRMI's *Personal Lines Pilot*. 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 also 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.

The wind-versus-water debate concerning various Hurricane Katrina and Rita claims continues to garner headlines. I have spent some time recently reviewing eight of the more noteworthy court cases arising from these 2005 cataclysmic events, cases dealing primarily with the wind versus water debate or the breaching of the New Orleans levees. Courts ruled in favor of the policyholder in four of these cases, and courts ruled in favor of the insurer in the other four cases. After reviewing these cases, I see some clearly recognizable arguments or positions from the policyholders' perspective and the insurers' perspective.

The policyholders' argument typically focuses on the fact that they procured an "all-risks" homeowners policy, with the burden of proof being on the insurer to prove that the applicable exclusions are clearly worded and unambiguous. The policyholders often contend that both the water damage exclusion and the anti-concurrent causation (ACC) exclusion are ill-worded and ambiguous. For example, in one of the more publicized cases (*In Re: Katrina Canal Breaches Litigation*, 495 F.3d 191 (5th Cir. 2007)), the plaintiffs argued that the policies' flood exclusion did not clearly exclude coverage for losses arising from inundation of water in New Orleans. They contended that the levee breaches releasing the water were actually caused by the negligent design, construction, or maintenance of the levees, which were not mentioned within the flood exclusion.

The policyholders also accused insurers of bad faith action. For example, in some of the wind-versus-water cases, they alleged that insurers chose to use only engineers that would agree with the insurer's position and even forced some engineers to change the cause of loss wording in later reports. In some documented cases, the initial engineer's report showed the cause of loss as wind damage, and later reports indicated storm surge as the cause of loss.

In contrast, insurers argued that the exclusions are valid, broadly drawn, and unambiguous. They contend that the Louisiana and Mississippi DOIs approved both the water damage and ACC exclusions. According to the Insurance Information Institute (III), there were tens of thousands of cases where homes were flooded, but insurers paid the proportion of losses associated with wind and made every good faith effort to distinguish wind-versus-water damage. Insurers also state that they settled over 96 percent of the Katrina losses within one year of the event.

The chief problem, from the insurer's perspective, is that few people procure flood insurance. Based on statistics from the Federal Emergency Management Agency (FEMA), only 49 percent of people in flood zones buy flood insurance, and only 1 percent of people outside the flood zones buy this coverage. And yet, about 33 percent of all flood losses occur outside the flood zones (see the risk tip below). Insurers contend that this is a critical problem that needs to be addressed.

Late last month, the Louisiana Supreme Court heard two more Katrina-related cases. The trend is that the federal courts tend to rule in favor of the insurers on this issue, and the state courts tend to rule in favor of the policyholders. And as we all know, a Louisiana Supreme Court ruling will likely trump federal appellate court rulings when it comes to Louisiana insurance laws. This ruling will be followed with great interest since it could turn out to be a seminal one. ■

Subprime Crisis Fallout

by Alan S. Rutkin

Alan S. Rutkin is a partner at Rivkin Radler, LLP, Uniondale, N.Y. He may be reached at alan.rutkin@rivkin.com.

Editor's note: This article is reprinted by permission of the A.M. Best Company. First published in the April 2008 issue of *Best's Review* magazine.

Recent reports indicate that the subprime mortgage crises surely will develop into an insurance coverage issue.

I pause before identifying an "emerging" issue. Remember Y2K? In the late 1990s, there were countless reports concerning Y2K, and firms were even preparing Y2K Practice Groups (I was not invited to join a group because, among other reasons, I rejected Y2K doomsday as nonsense).

Subprimes, however, will not follow the Y2K path. We already know that individuals and entities are suffering actual losses arising from subprimes and we are seeing substantive reports projecting that the subprime losses will substantial. In January, a leading consultant estimated that directors and officers insurers may face $9 billion in claims-related losses.

To put this in perspective, let's compare this subprime projection to recent insurance issues. The $9 billion for subprime suits roughly matches the World Trade Center reconstruction cost; insurers' payments following Katrina and Rita were about $28 billion; on asbestos liability, it's estimated that insurers ultimately will suffer a total liability of $65 billion. The subprime crises, therefore, appears to be significantly smaller than long-term insurance problems, but is comparable to other recent catastrophes, and certainly is large enough to consider the coverage issues.

To identify those coverage issues, it is useful to note the types of suits being filed: borrower lawsuits against lenders; borrower lawsuits against investment banks; lender lawsuits against banks; shareholder suits against lenders; individual

investor lawsuits; and regulators' suits against lenders. The common thread is that the suits generally allege some form of dishonest conduct, creating the likely key coverage issue: fraud.

D&O policies generally exclude coverage for acts that are fraudulent. Although the policies are consistent in the concept of excluding fraud, the policies vary in the language for excluding fraud.

A common exclusion bars coverage "for any deliberately fraudulent act or omission or any willful violation of any statute or regulation if a judgment or other final adjudication adverse to such Insured Person establishes that such Insured Person committed such an act, omission, or willful violation . . . " Fraud, in this form, must be "established" by a "judgment or other final adjudication."

Other policies set the evidentiary bar lower, and coverage is barred for conduct that is fraudulent "in fact," which does not require a final adjudication. In some circumstances, the "final adjudication" will be a brighter line than "in fact." On the other hand, parties might dispute what is final or even what is adjudicated.

Dishonesty can raise coverage issues besides the fraud exclusion. For example, some policies are subject to personal profit exclusions. Coverage is barred for claims "based upon, arising out of, or attributable to such Insured Person gaining in fact any personal profit . . . to which such Insured Person was not legally entitled." Some subprime suits surely will involve claims that the officers and directors made profits to which they were not entitled.

The personal profit exclusion was asserted in other recent corporate governance scandals. For example, it was applied to Dennis Kozlowski's claims concerning his compensation from Tyco. We can expect this exclusion to be asserted in the subprime context as well.

Ultimately, based on reports now being received, the subprime mortgage crises will be a significant insurance issue, with significant coverage issues. Insurers should now prepare to handle these claims. ■

Spotlight on Personal Lines Interest Group Committee Members

David A. Halstead Jr. CPCU, ARM, API, senior product manager, Kemper, A Unitrin Business

What is your primary work responsibilities?
Manage and promote profitable growth of all lines of business within assigned states by developing products, rates, coverage options and strategies. Currently, I handle the Midwest states and all personal lines business within those states.

Why did you pursue your CPCU designation?
I pursued the designation so that I could learn the most about the insurance industry in the shortest amount of time possible. Once I felt that insurance was going to be the career path for me, I knew I wanted to be as knowledgeable about all insurance topics as possible and be part of the best and most respected group within the industry.

What prompted you to join the Personal Lines Interest Group?
Since I began my career in the insurance industry, I have exclusively worked in the personal lines arena and have enjoyed every minute of it, having held positions in the underwriting, claims and product management departments in various organizations. I wanted to be on a committee which takes a broader view of the business, but also keeps close tabs on the individual responsibility sections.

What is the most unique experience you have had in your career?
The most unique experience I've had during my career is being on the claims conference calls in the aftermath of Hurricane Katrina. At the time I was the product manager for both Louisiana and Mississippi. Listening to the executives' and managers' responses and eagerness to help policyholders reinforced my belief that we, as insurance professionals, are doing good for our policyholders.

What has been your biggest challenge?
My biggest challenge so far has been learning to take a global view of the business as a product manager. Every change I consider or implement has to be thoroughly evaluated for its impact to all departments within the company as well as its impact to our current and future customers. Small changes can sometimes have very big impacts, whether deliberate or unintentional.

Please share an interesting fact about yourself of which your fellow CPCUs may not be aware?
On January 3, my wife and I were very pleased to introduce our first child into our family (especially my wife who, at the end, was done being pregnant). Our son, Tyler David, was born and he is extremely happy and healthy.

Jeffrey C. Schultz, CPCU, product operations senior manager, Allstate Insurance

What is your primary work responsibilities?
Point of contact on leadership team for technical questions regarding our contract (policy) language. Leadership of a team of technical experts who work with our contract (policy) language on a day-to-day basis.

Why did you pursue your CPCU designation?
I had two objectives in pursuing the CPCU designation. First, I desired a thorough and broad knowledge of the industry in which I worked. Second, I aspired to be part of a community of insurance professionals to whom industry knowledge is a priority.

What prompted you to join the Personal Lines Interest Section?
The Personal Lines Interest Group allows me a forum in which to interact with other insurance professionals with similar goals and objectives.

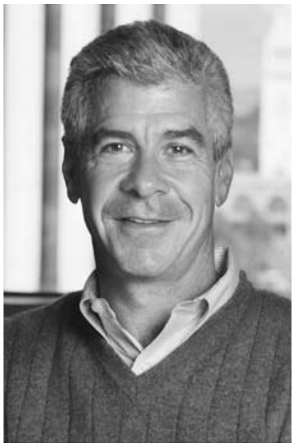
What is the most unique experience you have had in your career?
Working as a Special Investigation Unit (SIU) adjuster early in my career was truly a unique experience.

What has been your biggest challenge?
To help elevate our profession—through education and a broader general view—in the eyes of my colleagues and society.

Please share an interesting fact about yourself of which your fellow CPCUs may not be aware?
I am fascinated by words—the discrete meaning and use of words, as well as their colorfulness and the seemingly limitless possibilities they represent. ■

Predictive Analytics: An Essential Tool for Insurance Providers

by Dale M. Halon, CPCU, CIC



Dale M. Halon, CPCU, CIC, is assistant vice president of Business Development at ISO Innovative Analytics, a unit of ISO. He is responsible for sales and marketing of ISO's newly formed predictive modeling analysis tools. Halon is an active member and leader of the CPCU Society, and he is also a member of the DMA Financial Services Council. He has written articles for *Personally Speaking* on a variety of topics. He also has written articles for other insurance trade publications and industry groups about predictive modeling, the use of consumer credit in insurance, privacy, and e-mail marketing.

Editor's note: Dale Halon and fellow-ISO employees recently presented a two-part CPCU Society webinar on this subject. Either session can be purchased for viewing on demand at www.cpcusociety.org.

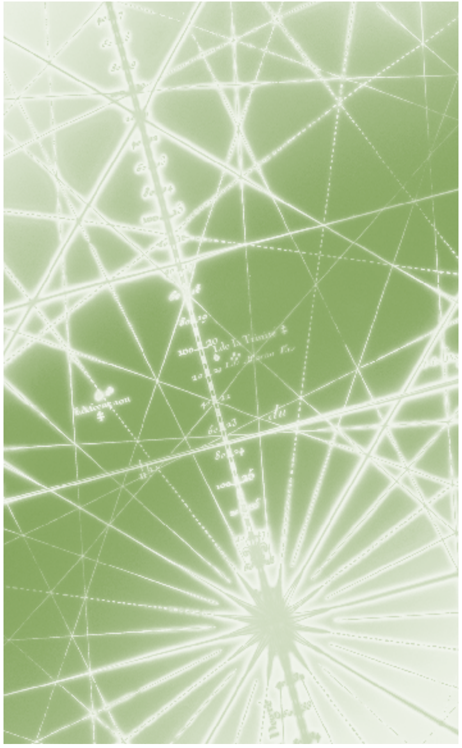
Companies in all industries looking for competitive advantage are investing in predictive modeling to create greater efficiency in their operations, enhance their products and services, and develop more coherent service and retention strategies.

Possessing a strong capability in predictive modeling and deriving real value from the multidimensional analysis of data are quickly becoming competitive imperatives in the insurance industry as well.

Establishing and using predictive analytics is essential for insurers to be successful in today's property/casualty environment. Pricing, underwriting, marketing, investments, catastrophe management, fraud detection, and claims operations are being reinvented with the help of predictive analytics. To facilitate successful implementation, insurers must pay significant attention to both efficient project management and comprehensive implementation of complex, interrelated analytic initiatives.

The race for effective predictive modeling will ultimately result in more cost-effective products and new services for insureds. Insurance companies that understand and adopt these trends are reshaping the industry and leaving behind the companies not deploying these solutions.

Predictive modeling is both the science and art associated with exploiting statistical analysis of past events to predict future outcomes. This is similar to what actuaries have always done: look at risk characteristics to predict loss levels for similar future risks. However, recent capabilities to store and manage vast amounts of data in a desktop environment—and innovative analytic techniques to evaluate that data—enable those predictions to be much more precise and powerful.



For example, traditional personal auto rating territories might have been derived from a combination of several counties or, at best, several zip codes analyzed together. Modern predictive techniques can now differentiate risk levels in areas just a few city blocks apart.

Property/casualty insurers have more data available to them today than ever before. A wide variety of valuable information is now accessible from internal, third-party, and government sources. Insurers that successfully mine and interpret data for the marketing, underwriting, and pricing of risks can reap the benefits of increased market share and growth. While most companies have access to such

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Predictive Analytics: An Essential Tool for Insurance Providers

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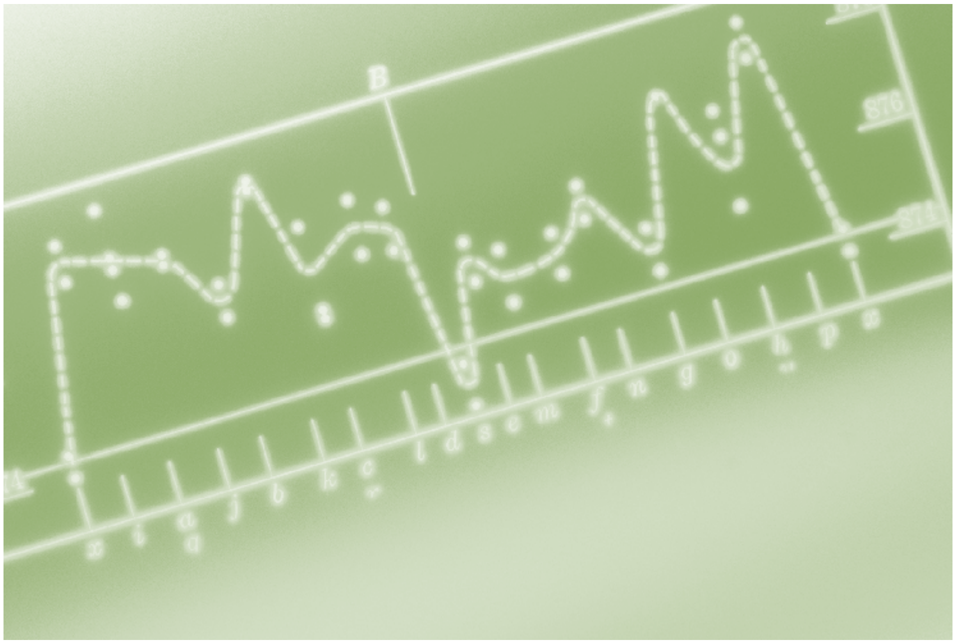

information, those that understand how to wield it will be the most successful.

As access to vast new data sources increases, a variety of predictive modeling solutions and statistical data mining tools are also emerging. And to process these diverse data repositories, the industry's ever-increasing computing power can leverage them at a fraction of yesterday's costs.

By applying predictive modeling techniques to underwriting, insurers can overcome the recurring challenge of selecting risks that match the criteria acceptable to their business. Building a solid predictive modeling solution is much like developing a solid rating plan for a specific line of business. It involves integrating appropriate business knowledge, sufficient data, and the right mathematical procedures.

By using predictive principles similar to those in the underwriting environment, insurers can develop and deploy powerful models to optimize both the selection and pricing of risks. Acceptable risks can be charged premiums commensurate to the expected losses.

The creation, maintenance, and updating of predictive modeling tools will eventually be part of insurers' day-to-day operations for marketing, underwriting, claims processing, and pricing risks—if they are not already integrated. Once implemented, those modeling tools need to be refreshed with recent data, as well as maintained with new predictive modeling techniques, new data sources, and new business parameters. The tools also need to be updated with regard to the changing market and regulatory environments. And the results need to be monitored to ensure business needs are continually met.

To achieve a winning implementation plan, predictive models need to be integrated smoothly into current and planned business workflows. There may be separate business workflows for underwriting and pricing, as well as for new and renewal policies, different rating tiers, and the like. Sound implementation must also address systematic analysis of market growth and expectations, regulatory compliance, and methods to handle exceptions and adjustments.

The rewards of deploying agile predictive modeling are compelling for insurers. Flexible analytic solutions can measurably enhance management decision making, market responsiveness, and competitive positioning.

Analytics management is fast becoming an agent for disruptive change that leads to measurable growth. Smart, forward-looking implementation of predictive analytics will deliver sharper business performance and meaningful competitive advantage for property/casualty insurers. ■

Your Personal Lines Interest Group Presents a Seminar at the CPCU Society's 2008 Annual Meeting and Seminars

Market Availability and Government Regulation: Walking the Tightrope

Monday, September 8 • 1:30 – 3:30 p.m.

This seminar will examine the correlation between the degree of state government regulation and the availability of product in particular lines of business. This seminar will examine approaches that states have used to deal with problems of availability and the degrees of success they have experienced. Attendees will gain an understanding of the forces that drive product availability, as well as the consequences when these forces work against each other. This seminar will benefit underwriters, brokers and insurance industry personnel in regulatory, product development and actuarial areas.

Moderator

Loren Gallogly, CPCU, ARe, director of underwriting Citizens Property Insurance Corporation. Gallogly received his B.A. from the University of Alabama in Tuscaloosa. He is currently a member of the CPCU Society's Personal Lines Interest Group Committee, and a member of the CPCU Society's North Florida Chapter. He is a past president of the North Alabama Chapter in Birmingham, Ala. Prior to joining Citizens in 2005, he held management positions in marketing and underwriting for several companies in Florida and the southeast.

Presenters

Travis Plunkett Legislative Director of the Consumer Federation of America

Scott Richardson, CPCU, Insurance Commissioner of South Carolina

Tom Ahart, CPCU, AAI, president, Ahart Frinzi and Smith. He has taught CPCU and AAI courses at Raritan Valley College; serves as a grader and exam reviewer for the IIA; and has taught insurance courses for the Independent Insurance Agents of NJ (IIANJ.) Ahart has served on the board of directors of IIANJ, as president, and served on several committees. He was national director for New Jersey on the Independent Insurance Agents & Brokers of America (IIABA) board of directors. Ahart served as IIABA's president, chairman of state government affairs, and served on their education, finance and executive committees. He has been awarded numerous insurance industry awards.

John Lobert, J.D., CPCU, ARe, senior vice president, State Government Relations Property Casualty Insurers Association of America (PCI) and manages PCI's regional state government relations operations. He is a graduate of the West Virginia University College of Law; served as a law clerk to the West Virginia Supreme Court of Appeals; and in 1971 he entered the private practice of law. Lobert was a lobbyist for life, health, and property and casualty insurers; served as counsel to both the West Virginia Property and Casualty Guaranty Fund and the West Virginia Life and Health Guaranty Fund; and was executive vice president and general counsel of the West Virginia Insurance Federation and executive director of the West Virginia Defense Trial Counsel Association. He was assistant vice president and state government affairs counsel for Aetna Life & Casualty in Hartford, Conn.; and served as vice president and counsel and manager of government affairs Erie Insurance Group of Erie, Pa. He was appointed senior vice president of government relations for the National Association of Independent Insurers, in charge of the organization's Washington lobbying office.

Lobert is currently a Charted Life Underwriter candidate, and a member of the American Society of Association Executives. He is admitted to the bar in Connecticut, Pennsylvania, and West Virginia. He is also a member of the United States Supreme Court bar and is admitted to practice in the United States Tax Court, the United States Fourth Circuit Court of Appeals, the United States Bankruptcy Court, and a number of federal district courts.

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