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Chairman's Corner: Insurance Education Surrounds Us

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, Ill. He is on the Board of Directors of the CPCU Society's Central Illinois Chapter, and is past president of the Southwestern Michigan Chapter.

Editor's note: Dan Blodgett, CPCU, AIM, AIS, wrote the Chairman's Corner prior to the end of his three-year term as chairman of the Personal Lines Interest Group, which ended following the 2008 Annual Meeting & Seminars. Richard T. Lang, CPCU, the new chairman, will be officially introduced in the next issue of *Personally Speaking.*

Insurance education is all around us, and with a supportive organization like the CPCU Society, opportunities to gain knowledge are easy to find. Local chapters are where most of us can stay current and obtain useful information. For instance, my local chapter (Central Illinois) recently presented a personal lines workshop entitled, "Mortgage Fraud, the Economy, Insurance, and You." We've also featured articles on the topic in recent issues of *Personally Speaking*.

This topic is very timely, and is one of the issues affecting a broad range of individuals throughout the U.S. The chapter recruited workshop presenters from local banks and research departments, as well as a local fraud investigator, a legislative specialist, and a college professor with a background in investments, corporate finance and entrepreneurial finance. One speaker offered that the crisis is a " … perfect storm of consumer spending catching up with a housing bubble … ." He provided some high-level stats on foreclosure activity:

- During the 2001–2005 time frame, the nation averaged 650,000 foreclosures per year.
- In 2007 there were 1.5 million foreclosures alone; and so far in 2008, the number is trending higher.
- Fifty percent of the foreclosures in 2007 were subprime, even though subprime mortgages only represented 13 percent of the market.

According to another presenter, the effect on insurers is most prominent with interest rate reductions triggering inflation. Declining auto sales will equate to fewer new applications for auto insurance, which means less premium on an aging fleet. The group also discussed the economic stimulus plan and the varied opinions on how these funds are being spent by the private sector, including paying down debt and buying nice-to-haves.

The fraud investigator provided a detailed definition of mortgage fraud and of the top five states that experience it. The audience, mainly CPCU Society Central Illinois Chapter members, learned about the "players" of the fraud ring: the ringleader, straw buyer, mortgage broker, real estate appraiser, insurance agent and title company. Some of these "players" are unwilling, or unknowing, participants in the fraudulent activity until an investigation begins — especially the title company and the insurance agent.

Need more education? Practically every newspaper has articles on the mortgage crisis and its overall effect. I'm sure most of you will continue to stay involved with your local CPCU Society chapter and keep the learning process going. Keep up the good work and share what you learn with others. Encourage them to participate in the insurance education that surrounds us. ■

What's in This Issue

Note from the Editor

by Kellie H. Green, CPCU, MBA

Kellie H. Green, CPCU, MBA, works in the product operations area of Allstate Insurance Company supporting personal lines risk management. She is co-editor of the CPCU Society's Personal Lines Interest Group newsletter, *Personally Speaking.*

"Never be ashamed to admit you were wrong. You're only saying that you're wiser today than you were yesterday."
— Dave Gilpin

As I write this, we just returned from the Annual Meeting and Seminars in Philadelphia. I look forward to attending this occasion each year, as it provides the opportunity for me to meet up with my CPCU friends and "family," and to focus for a few days on information and topics that build my personal and professional knowledge.

Our industry, as well as our CPCU Society, is rich with *heritage*, which provides a wonderful foundation as we look ahead at the *horizon* of where our business is heading. I hope you were able to join us in Philly and take advantage of the many opportunities offered to catch up on the emerging trends and issues facing our industry. We are taking a forward-looking view in this issue as well, with several timely and interesting articles.

In the Chairman's Corner, **Daniel L. Blodgett, CPCU, AIM, AIS,** shares information that he learned through one of the many educational opportunities afforded to CPCUs. His local chapter hosted a workshop entitled, "Mortgage Fraud, the Economy, Insurance, and You," and Dan shares insights from this session. If you come across interesting information in your local chapter, I hope you will follow Dan's lead and take time to share it with your interest group peers.

Terry Binion and **John Forcier, CPCU,** provide a look inside the changing data needs of insurers, and how finding ways to meet these needs can provide a competitive advantage in the marketplace. They include a view of how vendors are working to provide data to insurers and the benefits to companies when they find better ways to obtain and use data that is available.

Frequent contributor **Jack Hungelmann, CPCU, CIC, ARe,** shares information about the risks associated with moving a household, and offers recommendations on how best to manage those risks. This article not only provides an opportunity to expand your awareness as an insurance professional, but may also give you some great personal food for thought if you are planning a move of your own.

We are including in this issue a reprint of an article written last year by **William F. Stewart, J.D.,** which provides a thoughtful look at global warming and its impact on our industry. Climate change is emerging as a significant challenge for insurers, and the ability of our industry to respond to the changes it brings is critical. This article will get you thinking on this important topic.

We are pleased to shine this issue's spotlight on one of the newest members of our Personal Lines Interest Group Committee, **Lynn M. Davenport, CPCU, AIC, AIM.** While Lynn is new to our committee, she has a rich heritage of service to the Society, and I know you will enjoy getting to know her better.

William C. Wilson Jr., CPCU, ARM, AIM, AAM, offers reasons why it may be in the best interests of the insured to purchase the rental car damage waiver for short-term rentals from car rental companies.

I hope you find this issue filled with valuable and timely information that will keep you focused on the horizon of personal lines insurance. As always, we are looking for "field editors" who can keep great topics and articles coming in. If you were at the Annual Meeting and Seminars in Philadelphia and attended a seminar that you think others would be interested in learning about, please think about writing an article to share with those who were unable to make the trip.

Any ideas you have are welcome, and can be directed to **Dan Blodgett, CPCU,** (dan.blodgett.cqsx@statefarm.com) or Kellie Green (actyd@allstate.com). ■

Improving Data Accuracy: A Competitive Edge

by Terry Binion and John Forcier, CPCU

Terry Binion has provided risk information and consulting services to the property & casualty and life & health insurance industries since 1988. He received a bachelor's degree from Emory University in Atlanta, and resides with his family in McKinney, Texas.

John P. Forcier, CPCU, is a business information services manager at OneBeacon Insurance Group in Canton, Mass. He began his career in insurance in 1990, and has worked in both claims supervisory and underwriting analytical positions at both regional and national companies. Forcier received his bachelor's degree in business administration from Worcester State College and his master's in business administration from Clark University. He can be contacted at jforcier@onebeacon.com.

"Knowledge is power," says **Joe Tipton,** president of Hawkeye Insurance Services, a Dallas-based general agent. According to Tipton, "Better data mean better decisions and enhanced profitability." With annual growth at less than 5 percent industry-wide, few property-casualty insurance providers would argue that obtaining the best mix of information over the policy life cycle supports profitable policy growth and retention.

It's common knowledge that vendor- and state-operated databases, such as credit files, motor vehicle records, paid claim repositories and proof of financial responsibility, have successfully supplied powerful combinations of consumer information in support of insurance processes like policy marketing, underwriting and rating. But informational needs evolve to meet changing property-casualty market conditions. Recently, several service bureaus have begun building data repositories that make enhanced consumer identity information available, which can add value in several ways:

- Improving credit results.
- Verifying application information.
- Improving collection processes.
- Reducing returned mail.

Companies using these stockpiles of identity data can inexpensively acquire missing data elements that can augment information previously obtained from their traditional sources, with minimal infrastructure change. Higher policy acquisition and retention rates may result.

"Companies must now analyze their competitive position at the individual policyholder level. High data quality is mandatory to compete in this environment," says **Dale Porfilio,** chief actuary at Kemper Insurance Company, based in Jacksonville, Fla.

Dan Liparini, CPCU, chief underwriting officer for personal lines for OneBeacon Insurance, based in Canton, Mass., agrees. "We constantly consider ways to refine our pricing decisions. Competition forces us to do that. We're all trying to underwrite risks from an applicant pool that grows only 4 to 5 percent a year."

Sophisticated data processors and providers can sometimes link an input inquiry to different life-event-related identity variations for an individual. This can include situations such as multiple recent moves, confirming the subject's identity, or highlighting possible problems if the inquirer's input information links to subjects other than the person inquired on.

Data No-Hits and Tougher Policy Issuance Decisions

Every data requestor has experienced the frustration of an information provider's missing a requested file. When that happens at policy application, it disrupts the issuance process. Missed data also carry a risk of losing the policy to competition if the customer doesn't like the policy price ultimately offered.

For example, when ordering credit reports, some state jurisdictions require that a policy be issued at a "neutral" rate when an applicant's credit file cannot be found or scored. This happens frequently. The industry-wide average for missed credit files is about 8 percent of all inquiries, and some carriers experience even higher rates depending on the type of risk they're trying to place. Recent tests indicate that many policies could have been issued at preferred rates had their credit records been found at the time of policy application. Still others were riskier, and even a neutral rate wasn't justified.

"Most applicants for auto or home insurance who are classified as credit 'no-hits' or 'no-scores' are often quoted with very high premiums and continue

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Improving Data Accuracy: A Competitive Edge

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shopping," says **Brian Dardeen, CPCU,** personal lines analyst at OneBeacon. Other company executives agree.

Says Kemper's Porfilio, "Key considerations for any new data elements are ease of acquisition for our agents, quality of the data and cost. If data cannot be verified electronically, or if we receive a high percentage of 'no hits' or 'unknowns,' then this undermines the predictive power of any new pricing segmentation."

Jeff Gaughan, vice president of underwriting at Oklahoma Farm Bureau in Oklahoma City, says, "No-hits are always a problem because so much of the time we are on a tight schedule with a need to operate within the state's prescribed time frame for underwriting action at issuance. No-hits delay a decision and can result in policies being issued that otherwise should not." What is it that makes some records hard to locate on a data provider's system?

Common life events such as marriage name changes, relocations, new jobs and vehicle purchases can result in changed policyholder data when they wind up in an information provider's data file. Last month's Jane Doe at 123 Oak Street might be this month's Jane Smith at 456 Maple Street. Such changes can, and often do, cause a data provider's system to miss the requested file or return data that are not current. The result? More returned mail, unverifiable applicant identities, missed collections, improperly rated policies, and more. Information providers can supply data elements for use in re-inquiry, often turning "no-hit" or "no-score" results at the original data source into actionable information.

Several national P&C providers and large national banks trying to reduce their credit no-hits have experienced surprising results in recent tests of vendor-provided, information-rich inquiry elements:

- Using data elements not available at the time of initial inquiry and depending on the sample, one identity record provider found credit records for 29 to 60 percent of no-hit records not found at the time the inquirer conducted the initial credit search.
- Significantly, 50 to 70 percent of the files found during the same tests had no derogatory credit information for the previous 12 months, suggesting that a number of policies previously declined or given neutral rates might actually have been issued at preferred rates.

Verifying Application Data

It's been reported by several sources that fraud of all types costs the insurance industry about $100 billion yearly, and that figure is growing. The P&C sector's portion of that bill runs about $20 billion annually. Accordingly, more companies are taking aggressive steps to validate information submitted on policy applications to help contain the problem. Carriers need to know that applicants are indeed who they say they are and live where they say they live. It's easy to see that identity authentication, previously an aspect of policy servicing, will probably become a regular electronic screening tool in the policy-issuing process.

Hawkeye's Tipton says, "Anything that slows down processing is very costly. Unverifiable information must be 'tracked down,' which is time consuming and costly."

A data supplier capable of storing and tracking identity information can be very helpful in verifying application information. Such data sources let the inquirer know if the applicant's data link to other individuals and whether the Social Security number belongs to a deceased person, as well as check the applicant's data with government-specified organization watch lists to comply with the U.S. Patriot Act. Is there a payback?

Using its traditional verification tools, a national bank was having trouble verifying address information supplied on consumer credit applications, causing the application to fail the bank's acceptance criteria. The bank tested a sample of the failed application data on a vendor's database of identity and address data. With the new data, the bank achieved a 22 percent increase in credit verifications. The bank monitored the newly issued credit accounts and found only three that resulted in fraud within six months of issue. See Figure 1.

Improved Collection Processes

Payment recovery efforts can also be improved by applying stronger, more current identity information to the data inquiry process. Positive verification up-front means increasing the likelihood of making contact with people who have avoided paying a legitimate bill. Collections departments of some of the largest national banks and credit card issuers have begun acquiring better contact information from data providers that store deep files of actively used phone numbers and addresses to help companies collect on unpaid bills and beef up their contact attempts, collecting on many cases that were about to be written off. One national bank boosted

Figure 1
Failed Application Data Sample

Item	Total
Record (failed application) count	4,700
Address match rate by vendor	57%
Bank criteria match rate	22%

its own back-end credit collections efforts and reduced its returned mail volume using more current address and telephone data. See Figure 2. Using better contact data to locate individuals and improve collections can translate directly to an insurance carrier's premium recovery or claims subrogation collection processes, ultimately improving recovery of past due payments.

Expanded Customer Relationships and Retention

The concept of using information-rich consumer data to improve informational returns carries the prospect of strengthening relationships with existing policyholders, carriers and agency partners.

Says **Patrick Cronin, CPCU,** vice president of The Protector Group, an independent insurance agency based in Worcester, Mass.: "In a highly competitive market environment, carriers that excel present themselves as a unified franchise that promotes cross-marketing across their lines of business."

It's well known that carriers and agencies able to cross-market to their best customers across multiple business lines can profitably expand their policy books while carrying lower new business acquisition costs. Data sources that can provide reliable consumer contact information can be of help to insurers and agents in growing sales volume.

With the help of rich contact information, a carrier might discover that one of its policyholders has a vacation home but has no corresponding coverage for that vacation home with the carrier. Such insight can arm the carrier and the agent with an opportunity to more completely service a policyholder's needs, increase positive contact with the customer and possibly build greater customer loyalty.

Reducing Returned Mail

Most insurers know that making addresses U.S. Postal Service compliant will qualify them for continued USPS mail discounts. More than a few companies are also aware that a significant number of addresses in their policy databases haven't been updated by any recent contact with their policyholders and may not be deliverable to an exact location, as the USPS may require by 2009.

It's true that many, if not most, insurance companies cannot update a policy address without the representing agent's endorsement certifying that the policyholder has confirmed the address change; however, using a database containing actively used and current consumer address information might afford carriers an opportunity to proactively alert agents of the need to verify certain address changes. This step presents another means for maintaining positive contact with policyholders, with the added benefit of strengthening the relationship with the customer.
As an example, a large national bank tested vendor-provided alternate address information to see if the data would be useful in its back-end collections efforts. By using more complete address data, the bank cut its collection-related mail returns to 16.43 percent as compared to 100 percent for the control group.

So despite competitive pressures for a slow-growing risk pool, profitable policy growth may be achieved by using data sources that can provide richer consumer identity information with a consequent improvement of the results obtained from data sources already being used. It's a simple solution, available to providers and agents today.

Says Kemper's Porfilio, "Competition in personal lines is becoming ever more intense, and it is not solely on an overall rate level anymore. Instead, companies are using new data elements and innovative rating structures to enhance the pricing of risks."

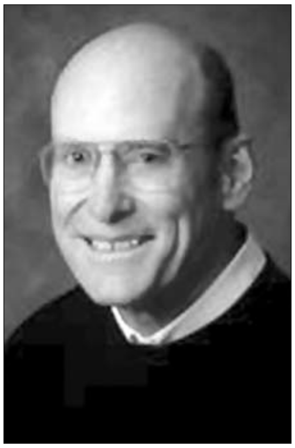
Or as Joe Tipton puts it, "Knowledge is power." ■

Figure 2
Example of One Bank's Results From Using More Current Address and Telephone Data

Line Item	Test Group	Control Group
Number of bank-furnished accounts	112,517	12,487
Vendor's best address provided	64,074	n/a
Percentage of bank addresses updated with best address	56.95%	n/a
Bank's return mail rate	16.43%	100%
Vendor's best phone number provided	25,749	n/a
Percentage of bank phone numbers updated with vendor phone numbers	22.88%	n/a
Dollars collected by bank	$1,091,850	$32,183
Average dollars collected per account	$9.70	$2.58

Managing the Risks of a Household Move

by Jack Hungelmann, CPCU, CIC, ARe



Jack Hungelmann, CPCU, CIC, ARe, author of *Insurance for Dummies* (Hungry Mind Books, 2001) and regular contributor of articles on personal risk management to IRMI.com, has more than 30 years' of insurance experience. He has provided insurance counseling for more than 1,000 clients as an insurance agent/owner, and has coached individuals and small business owners on non-insurance solutions for more than 25 years. Hungelmann's expertise is in policy knowledge, analysis and problem solving. A longstanding supporter of continuing professional development, he teaches a wide variety of insurance and risk management courses. Hungelmann may be reached at jhungelmann@corporate4.net.

Editor's note: This article is reproduced with permission from the author, and currently appears on the International Risk Management Institute (IRMI) Web site: http://www.irmi.com/Expert/Articles/2007/Hungelmann02.aspx.

Abstract

Selling one house and moving to another creates a plethora of added risks in your life. You cannot manage or treat risks unless you have identified those risks. This article shows you what those added risks are — focusing on three different types of moving scenarios — and recommends how to best manage those risks.

Scenario 1 — Selling One House While Building Another

Phillip Sanderson and his wife, Alice, are selling their house of 20 years, and are buying a "manor home," under construction, to be completed in 4 months. The kids are gone, and they are downsizing. The closing won't take place until completion, so there are no construction risks to be concerned about at this point. They are having their $600,000 of personal property professionally moved. However, due to the downsizing, they are selling or giving away to their children and charities about $200,000 of property, leaving them with a $400,000 exposure. Until their new home is completed, they are renting a furnished apartment. They will store with the moving company $300,000 of their personal property while using the remaining $100,000 of personal property at the apartment.

What the Mover Does and Doesn't Cover

Unless you declare a higher value and pay extra, the standard moving contract from most moving and storage companies limits their liability for damage to your property to cents per pound — typically 50 or 60 cents. So if they damage your $5,000, 60-pound plasma television set, they will only owe you $30 (60 lbs. x $.50/lb.). In addition, the moving contract typically excuses them for any responsibility for damage caused by acts of God (i.e., if the warehouse floods from heavy rains, ruining your personal property in storage). For an additional cost, you usually can upgrade the coverage from the moving company from cents per pound to "full value," either on a per-piece basis or on a blanket basis. A lot of people naively do upgrade, without knowing that there are some pitfalls. First, settlement is on a current value/depreciated basis — not full replacement cost. Second, breakage is excluded unless the movers do the packing and you pay some significant extra charges. Third, there are still some excluded losses, such as flooding, groundwater, etc.

What the Homeowner's Form 3 (HO-3) Does and Doesn't Cover

The HO–3 covers personal property in transit for the full Coverage C personal property limit. (The 10 percent off-premises limit usually only applies to property at another residence not listed on the policy.) The policy also covers personal property for the full limit in storage facilities. (See definition of "insured location.") Losses are settled at actual cash value or optionally full replacement cost if that option is included or purchased, and then only for those items that are actually replaced. Optional Special Perils contents coverage will cover breakage of all but fragiles (collectibles, china, vases, fine arts, etc.).

The Risks to be Concerned About

The following are seven types of risk that the Sandersons face in their move:

- Loss/breakage, theft, collision, etc., to $400,000 of personal property while being loaded and moved to two locations — a storage facility and a temporary apartment while the new home is being built.
- Loss, damage, theft and flood/groundwater damage, etc., to the $300,000 of personal property while being stored.
- Loss, damage, or theft to $100,000 of personal property that will be used in the apartment.
- The moving company's contractual limit of 60 cents per pound, with a breakage exclusion and water damage exclusion.
- $400,000 loss or damage to the property in the moving truck while being moved from the two locations to the new home.

- Homeowner's Coverage C covers only named perils (i.e., no breakage from load shifting; no water damage coverage). Losses are settled on an actual cash value basis unless the replacement cost optional endorsement is added.
- Optional special perils contents coverage covers most breakage and flooding away from the described residence premises but excludes breakage of fragiles, such as collectibles, china, vases, fine arts, etc.

The Risk Management Strategy I Recommend

The warehouse location is over 10 miles away from the rented apartment, so the risks of property at both locations being destroyed in the same loss in Minnesota is extremely remote (i.e., no exposure in Minnesota to hurricanes or earthquakes).

Step 1: Don't cancel the homeowners policy when the current house is sold until the move to storage and to the apartment is completed so that the full Coverage C $400,000 transit limit will apply. If the current homeowners policy does not include optional coverage for replacement cost valuation and special perils, add those endorsements to the current Homeowner's Form 3. The special perils coverage will cover the transit and breakage risks, except for fragiles.

Step 2: Set up a Homeowner's HO–4 Renter's policy covering contents for $300,000 at the apartment. This full $300,000 coverage also extends to items in storage. (Note: the 10 percent limitation on personal property away from the premises only applies to property at other residences not covered by the policy.) The temporary storage facility is not another residence. Thus, although there is only $100,000 personal property exposure at the apartment, by insuring the contents for $300,000, you also pick up the full $300,000 away from premises at the storage facility.

Step 3: Hire the moving company to pack the fragiles and buy specific optional full-value coverage from the moving company on just those fragiles, including breakage.

Step 4: Include both the replacement cost and special perils coverage endorsements on the HO–4 Renter's Policy. The special perils coverage excludes groundwater and flood damage except to personal property away from the described residence premises.

Step 5: Start the new Homeowner's Form 3 on the manor home under construction with both replacement cost and special perils coverage effective the earlier of the closing date or the date personal property is being moved into the home or the garage so that the full Coverage C limit will apply to the second move. Raise the Coverage C Contents limit to the full $400,000 if the new homeowners policy doesn't automatically cover that amount.

Step 6: Don't cancel the Renter's Policy until the later of the day after the personal property is moved out or the date the lease ends. (It is necessary to keep liability coverage in force until the lease ends, even after the personal property has been moved out, in case any injuries occur to anyone at the vacant premises.)

Scenario 2 — Moving Yourself

When you rent a truck and get friends to help you load and unload, there is the same need for replacement cost and special perils contents endorsements on the current homeowners policy to give the best possible coverage to the items being moved. Those fragile items that are not covered by the Special Perils Endorsement — especially if they are of high value — can be appraised and scheduled on a Fine Arts Floater with optional breakage coverage added. However, in most cases, reducing risk is the best idea with thorough, careful packing with bubble wrap, etc. There are a couple of new risks in this scenario pertaining to the rental of the large truck — liability for injuries and property damage to the public and liability for damage to the rented truck itself, often worth $50,000 or more.

If you have a personal automobile policy, regardless of the size of the truck, you and your spouse have automatic bodily injury

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Managing the Risks of a Household Move

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and property damage liability coverage when driving this rented truck. However, the coverage won't extend to friends driving the trucks. So, because you often could be dragged into lawsuits caused by the friend's negligent driving, it's best to avoid that risk by limiting the driving to family members only. Under most rental contracts, you are also responsible for any kind of physical damage that occurs to the truck while it is in your custody, from collisions that you cause to collisions that someone else causes to hail damage, windstorm damage, vandalism, glass breakage, etc. If you have a Personal Automobile Policy with Collision and Comprehensive coverage on at least one vehicle, those coverages generally will not transfer to a non-owned rented moving van because coverage for non-vehicles requires that they be of the private passenger type. A large rented moving van does not fit the definition of private passenger vehicle. A few states like Minnesota require that the automobile property damage liability coverage cover the damage to rented vehicles with no deductible (in Minnesota, as long as the gross vehicle weight is 22,500 pounds or less). If you are in such a state, you just have to make sure that your rented moving vehicle falls within the parameters of the law (i.e., has a gross vehicle weight under 22,500 pounds) and that your property damage liability limit is adequate to replace the rented vehicle — in this case a $50,000 truck.

But even if there is coverage in your policy for damage to the rented van, for a one-day move and due to your unfamiliarity with driving a large truck, it's probably best to buy the optional collision damage waiver coverage from the rental company if it's not too expensive. It definitely makes your claim settlement easier with the rental agency if there is damage. And if you live in a state where your personal auto policy collision and comprehensive coverage is required to cover the rented van, buying the optional collision damage waiver coverage will protect your personal auto insurance

rates from increasing due to an at-fault accident you cause while using the van.

Scenario 3 — The Sale and Rent-Back Agreement

Many times, although the closing date and ownership changes occur on the same day, on both the property you are selling and the new property you are buying, the dates of occupancy do not coincide. This can occur when you, the buyer of a home, have agreed to let the seller of your new home, stay on for a couple of months or so because they can't get into their new place right away. So, you become a landlord for two months on the new house and perhaps a tenant for the same two months on the home you are selling. What are the risks? First, since you're now a landlord, liability for injuries to the tenant may be excluded under your current homeowners policy. On your current home that you have closed on but in which you are still residing, you are now a tenant, Although you no longer own the building per se, you still need coverage on contents and liability, and your existing homeowners policy on that property will continue to provide those coverages for you. You also need liability and structural coverage at the new location where you are renting the home out to the seller. I think the safest and easiest thing to do there is to buy a homeowners policy on the new location while communicating to the insurance company underwriter the existence of a temporary rental situation — that the home will not at first be owner-occupied. In effect, you will have two homeowners policies in place for the duration of the rental arrangement — one covering your contents and liability at the old location and one covering your ownership structural exposures and liability at the new location. I think these strategies for handling this temporary rental exposures at two locations are easier by far and probably better coverage than the "by the book" approach, which is to cancel your homeowners policy the day you sell. Buy a tenant's policy at your current location to be canceled in two months and rewritten as a full homeowners policy. And set up a Dwelling Fire Policy for the structure and liability exposures at the new location, which also has to be canceled in a couple of months.

Closing Thoughts

Household moves introduce a significant number of new or volatile exposures, many of which go uncovered mostly because they are unidentified. But really taking the time to identify the exposures related to household moves for both property and liability, and then developing a strategy that works to greatly reduce or transfer these exposures, is hugely important. ■

Cautionary Note

Because property and liability coverages under homeowners forms used by different insurers vary somewhat, the recommendation made pertaining to those policies are for illustrative purposes. If the coverages in your company or companies are different than what is cited in this article, you will have to adjust the recommendations accordingly.

Global Warming and You: What Every Insurance Professional Should Know About Climate Change

by William F. Stewart, J.D.

William F. Stewart, J.D., practices in the West Conshohocken office of Cozen O'Connor. He concentrates his practice in insurance coverage, fraud defense, bad-faith defense, environmental, toxic tort and mold coverage defense. Stewart is a member of the Pennsylvania, Philadelphia, Montgomery County and Camden County Bar Associations. He is a frequent contributor to *Business Insurance, Best's Review,* and *Mealey's.* Stewart is an arbitrator for the U.S. District Court for the Eastern District of Pennsylvania, and for the Philadelphia Court of Common Pleas and the Montgomery Court of Common Pleas. In 2005, he was selected by the Pennsylvania Supreme Court to serve on the state rules committee. Stewart earned his law degree at the University of Notre Dame, where he graduated cum laude. He is admitted to practice in Pennsylvania and New Jersey, and has practiced pro hac vice in more than 10 U.S. states and territories.

The good news is, if you are reading this article, you are employed in a growth industry. The overwhelming weight of evidence suggests that global warming will dramatically increase both the frequency and severity of property and liability claims. The bad news? Unfortunately, in the coming decades, our planet will experience some combination of unprecedented hurricanes, wildfires, floods, hail, heat waves and drought. This article endeavors to provide practical commentary on what is happening, how it will impact insurers, and what the insurance industry can do in response.

Isn't Global Warming Just Scientific Conjecture?

In the 1890s, a Swedish scientist named Svante Arrhanius made a novel prediction about climate change. He opined that if humans continued to release high levels of carbon dioxide into the air, it would trap heat within the atmosphere and increase temperatures on the planet's surface. Although Arrhanius' theory was rejected in his own time, the "greenhouse effect" is almost universally accepted by contemporary environmentalists. Indeed, according to an April 6, 2007, article published by the *Insurance Journal:* "No serious scientist today disputes the existence of global warming, even though its potential impact remains the subject of continued analysis." In February 2007, the United Nation's Intergovernmental Panel on Climate Change (IPCC) issued a report stating: (1) "Warming of the climate system is unequivocal"; and (2) It was very likely that human activity since 1750 has overloaded the atmosphere with carbon dioxide — which in turn has resulted in the retention of solar heat.

In 1750, atmospheric levels of CO_2 were 280 parts per million (ppm); by 1960 CO_2 levels had risen to 330 ppm, and now CO_2 levels are 380 ppm (which is higher than at any time in the last 650,000 years). To make matters worse, the IPCC has predicted that atmospheric carbon dioxide levels could reach 450 to 550 ppm by 2050. Correspondingly, 11 of the 12 warmest years in history have occurred since 1995. Thus, the debate is no longer whether global warming is occurring, but whether we are headed toward some sort of abrupt and cataclysmic change to our environment.

How Will Global Warming Impact the Insurance Industry?

The U.S. Environmental Protection Agency's Web site states: "[W]hile the effects of climate change will impact every segment of the business community, the insurance industry is especially at risk." At an April 19, 2007, international conference on Climate Change Regulations and Policy, the insurance industry was referred to as "the big canary in the coal mine" — because insurers will be the first to feel the impact of an increase in the frequency and/or severity of natural disasters.

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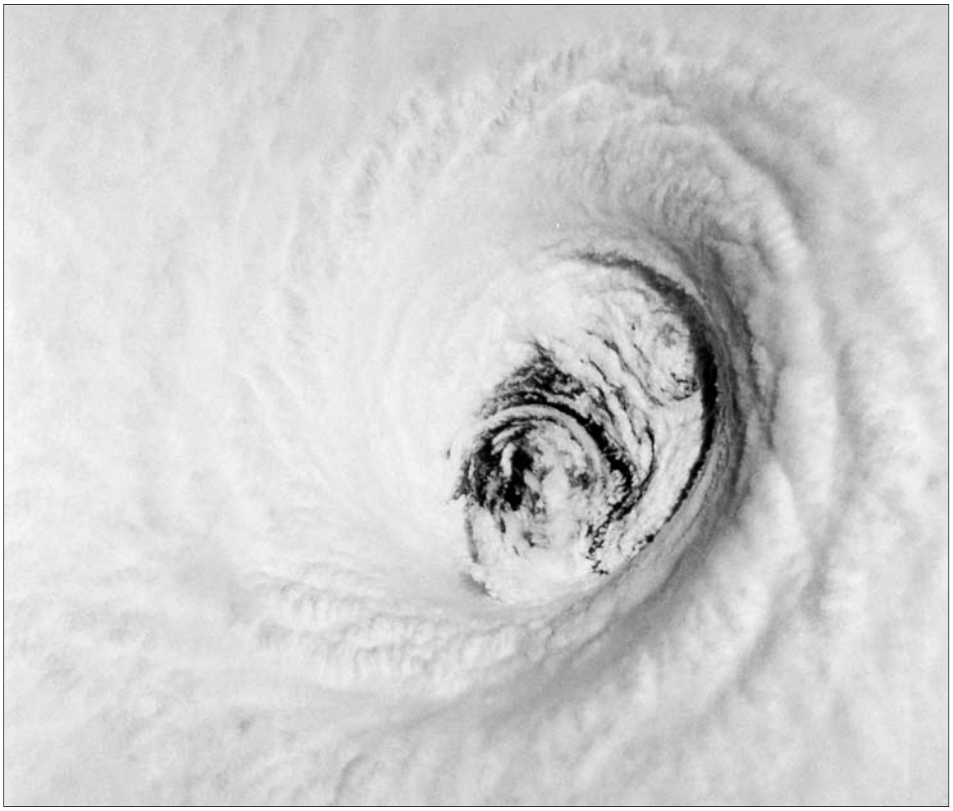
Global Warming and You: What Every Insurance Professional Should Know About Climate Change

Continued from page 9

While it is rarely possible to conclude that any particular weather-related loss is the result of global warming, there has been an alarming increase in both the number and extent of catastrophe (CAT) claims. According to the EPA, "there were four times as many natural catastrophes in the 1990s as there were three decades ago." Seven of the 10 most expensive hurricanes in U.S. history (Katrina, Charlie, Rita, Wilma, Jeanne, Ivan and Frances) occurred during the 14-month period between August 2004 and October 2005. The 2004 and 2005 hurricane seasons resulted in $75 billion in insurance payments, and CAT losses during that period equated to 12 percent of overall property insurance premium — which is more than three times the historical average.

One of the most alarming aspects of global warming is rising sea levels. An April 6, 2007, IPCC report stated, with "medium confidence," that "sea-level rise and human development are together contributing to … coastal flooding in many areas." In Florida, sea levels have risen six to eight inches over the last 100 years because of melting Arctic ice, and an accelerated upsurge is predicted because even a one-degree increase in temperature would result in massive melting of the Greenland ice cap. While there are no reliable models to predict how an anticipated two- to three-degree-temperature increase would affect the ice caps, there is a growing view that low-lying coastal cities like Miami may be in grave risk before the end of the century.[1]

While most of the focus to date has been on coastal areas, the effects of global warming will be universal. Tim Wagner, the director of the Nebraska Department of Insurance, recently offered the following assessment: "After New Orleans, it's becoming clearer that we are experiencing more frequent and more powerful weather events that pose huge challenges for the insurance industry … [but] this is both a coastal issue and a heartland issue … we're seeing all kinds of extreme weather in the Great Plains, including drought, tornadoes, brushfires and severe hailstorms."



How Can the Insurance Industry Most Effectively Respond to Climate Change?

Scientists broadly characterize responses to global warming into two main categories: mitigation and adaptation. Mitigation involves attempts to reduce greenhouse emissions through conservation, alternative energy usage and underground carbon storage. The reality, however, is that while mitigation efforts are imperative, they are unlikely to eliminate the problem. By the end of 2007, China will surpass the United States as the nation with the highest level of carbon dioxide emissions. For the present and foreseeable future, China's first priority will be the elimination of poverty, and, thus, it has consistently refused efforts to reduce or capture its emissions. Moreover, because CO_2 remains in the atmosphere for decades, and because the oceans retain heat for centuries, temperatures would continue to rise even if we could curtail the global production of greenhouse gases.

Adaptation involves the response of individuals, businesses and communities to cope with the inevitable consequences of climate change. Examples of adaptation range from the conventional construction of levies to the futuristic "seeding" of clouds with chemicals to produce rain when and where it is needed.

Insurance professionals will be called upon to employ strategies that include both adaptation and mitigation measures. Three common examples of adaptation are pricing adjustments, risk sharing with insureds (e.g., increased windstorm deductibles) and cancellation. In February 2006, Allstate announced plans to stop offering property coverage in several counties along the Chesapeake Bay. Many property insurers have ceased writing business in Louisiana and Florida, and those still issuing policies have raised rates significantly. Another example of adaptation involves a proposed National Catastrophic Fund, which would aid insurers in the event of major climatic disasters — similar in certain respects to both the Terrorism Reinsurance Act of 2002 and the National Flood Insurance Program.

In addition to adaptive measures, the insurance industry is in a unique position to mitigate climate change. The EPA has asked insurers to address global warming by:

(1) Educating policyholders about the financial risks associated with climate change.

(2) Supporting stricter building codes to minimize the impact of severe weather.

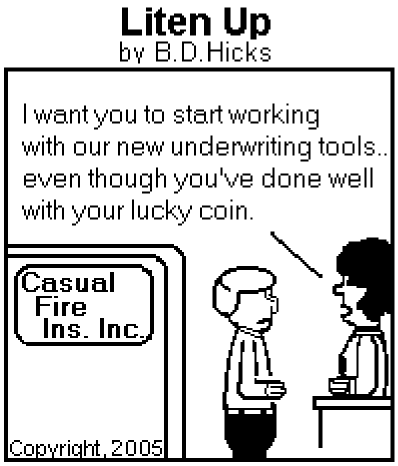
(3) Promoting energy efficiency and renewables to cut greenhouse gases.

And indeed, despite its unfairly maligned reputation, the insurance industry has been a leader in combating CO_2 emissions. Travelers offers a 10 percent auto insurance discount to the owners of hybrid cars. Fireman's Fund not only reduces premiums for environmentally friendly buildings, but also encourages its insureds to use green products to repair losses. In April 2007, AIG became the 12th company, and the first insurer, to join the United States Climate Action Partnership (USCAP) — which supports a number of immediate mitigation measures, including a nationwide limit on carbon dioxide omissions. Swiss Re has invested substantially in solar technology. And, the Risk and Insurance Management Society (RIMS) has entered into an agreement with the EPA to research and educate its members on mitigation and adaptation strategies.

In summary, climate change will be one of the great challenges of our time, and the insurance industry will be among the sectors most fundamentally impacted. While the prospects of global warming still present more questions than solutions, companies that take the lead in evaluating and addressing climate impact are likely to enjoy a significant competitive advantage in the years to come. ■

Endnote

1. See e.g., Brian Handwerk, *National Geographic News,* November 9, 2004.



Spotlight on … Lynn M. Davenport, CPCU, AIC, AIM

Lynn M. Davenport, CPCU, AIC, AIM, claim team manager, State Farm
Chapter: Colorado
Year of Designation: 1999

What are your primary work responsibilities?

As a team manager, I supervise a team that handles complex property claims for Colorado, Utah and Wyoming in a call center environment. I also am involved in projects related to diversity and inclusion, business continuity and disaster planning, and identity theft. These are areas that really spark my interest.

Why did you pursue your CPCU designation?

My father, **Dick Vanderbosch,** is a CPCU, so it was in the family, and I naturally migrated toward the designation when deciding which continuing education courses to pursue early in my career. My husband, **Dave Davenport,** earned his CPCU in 1998 (a year before I earned my CPCU designation), so he encouraged me as well. The CPCU designation is important for my personal and professional development, and helps me become more competitive for career advancement in my job.

What prompted you to join the Personal Lines Interest Group?

My 20-year work background has been in property-casualty claims and technology. I previously was a committee member of the Information Technology Interest Group, and I'm currently ending a three-year term on the CPCU Society's Board of Governors, so I was looking for a new avenue to pursue. The Personal Lines Interest Group will further broaden my scope, and I hope to learn more about this area during my tenure on the committee.

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

The most unique, and ironically the most beneficial, experience I've had happen in my career was when I recommended that my job be eliminated. This occurred during a time when my company was combining two geographical zones into one; my colleague and I were asked to recommend the best way to merge our two departments. I loved my job and my department, so it was very hard to suggest eliminating my role when I didn't know where I'd go next — but it made the most sense to me. Our proposal included eliminating my position and my colleague's taking over the entire department.

I believe things always work out for the best if you work hard and have a good reputation. I was offered a temporary project management position for 18 months, which allowed me to gain great experience and develop business relationships in six states. After the project, I was offered my current position, where I have enjoyed managing in a team environment and having the ability to bring fresh ideas to a different department. Stepping out of my comfort zone enabled me to see new possibilities and opened new doors to my career. In fact, author and career coach **Helene Lerner** included my risk-taking story in her book, *Smart Women Take Risks*. Needless to say, I was surprised and honored that she asked me to share this story with others.

What has been your biggest challenge?

My biggest challenge was juggling work demands and a young family while pursuing my master's degree in business administration a few years ago. I earned my Master of Business Administration in Knowledge and Learning Management in 2004, but it required getting up to study at 3 a.m. every day and staying up until midnight writing papers — while also traveling on business. It was a huge sacrifice that I could not have accomplished without the support of my husband and Walden University's Accelerated MBA Program for CPCUs.

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

I took one of those personality-type tests, similar to the Myers-Briggs, a few years ago, and many people are surprised that I am a "social introvert." Often, people think I am an extrovert because I can function in social settings, work well in a team and can handle public speaking. However, I am very much an introvert who gains my energy from within. One of my favorite things to do is to go shopping all by myself! In the end, I guess it doesn't matter what "type" you are, as long as you understand yourself and how you interact most effectively with the world around you. ■

2008–2009
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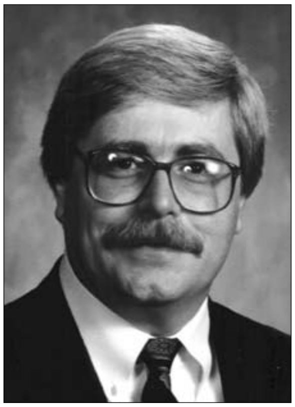
Top 10 Reasons to Purchase the Rental Car Damage Waiver

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



William C. Wilson Jr., CPCU, ARM, AIM, AAM, is the director of the Independent Insurance Agents & Brokers of America's Virtual University. He is the former director of education and technical affairs for the Insurors of Tennessee and, prior to that time, he was with the Insurance Services Office Inc. Wilson is a graduate of the Illinois Institute of Technology with a bachelor's degree in fire protection and safety engineering. He is a committee member of the Agent & Broker Interest Group. Wilson is a former member of the CPCU Society's Board of Governors and past president of the CPCU Society's Mid-Tennessee Chapter.

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Abstract

Although most damage waiver fees are considered outrageous, the insured is best advised to purchase the waiver for short-term rentals. This is not only in the best interest of the insured, but also the agent since an inadequately covered loss may result in the loss of an account or worse, an E&O claim.

Although most collision damage waiver (CDW) or loss damage waiver (LDW) fees are considered outrageous, **the insured is best advised to purchase the CDW/LDW** for short-term rentals. This is not only in the best interest of the insured, but also the agent since an inadequately covered loss may result in the loss of an account or worse, an E&O claim.

This is becoming increasingly the case as rental car companies charge ever-higher fees and penalties for occurrences not covered by most auto policies. The following are 10 reasons to purchase the rental car damage waiver:

1. Loss Valuation The value of a rental car, according to virtually all rental agreements, is determined solely at the discretion of the rental company and may be significantly different from the "ACV" basis used by most auto policies. The ISO Personal Auto Policy (PAP) covers the lesser of the "actual cash value" of the vehicle or the amount "necessary" to repair or replace the damaged property.

The rental agreement may very well contractually obligate the insured to reimburse the lessor for the "full value" (whatever that is) of the vehicle. Under the current PAP, the "betterment" clause may result in the insured being significantly underinsured relative to his/her obligations under the rental agreement.

2. Loss Settlement As implied above, there may very well be disagreement over the value of the vehicle or the amount charged for labor and materials to repair the property—depending on the PAP edition, the Appraisal clause may be invoked by the insurer with its accompanying costs covered partially by the insured.

More importantly, the PAP insurer has the right to "*…inspect and appraise the damaged property before its repair or disposal*"—the rental company may choose to effect the repairs immediately, potentially resulting in a lack of PAP coverage because of failure to comply with the condition cited above.

In a recent claim involving farm equipment under a similar policy provision, the insurer denied coverage when the farmer had the property repaired immediately in order to minimize lost production and the insurer never had the opportunity to appraise the damage.

3. Loss Payment The rental agreement may require immediate reimbursement for damages and it is not uncommon for the rental company to charge the insured's credit card. This can create a significant debt, "max" out the card's credit limit (perhaps shortening a vacation or business trip), result in litigation, etc.

4. Loss Damage Waivers (LDW) The rental agreement usually requires reimbursement for more than collision, making the insured responsible for ANY "loss" in value beyond normal wear and tear regardless of fault. Obviously, the PAP must include collision coverage on at least one insured owned vehicle for collision coverage to transfer to the nonowned auto.

If the rental agreement includes a Loss (not just Collision) Damage Waiver (LDW), the policy must also include comprehensive coverage to protect the insured. Even so, keep in mind that the insured's contractual liability under the rental agreement may be almost absolute, so it's possible the PAP may not respond to all losses.

(Note: Likewise, the PAP might respond to losses not covered by the LDW such as use off paved roads, use while intoxicated, use by unlisted drivers such as valet parking (see below), etc. Therefore it is important to have BOTH PAP and LDW coverage.)

5. Indirect Losses The insured most likely will be responsible for the rental company's loss of rental income on the damaged unit. The PAP has, at best, daily and maximum caps for this indirect loss and, depending on the edition date, an unendorsed policy or proprietary company form may pay only for loss of income resulting from theft.

In addition, many rental companies will not divulge their fleet utilization logs for competitive reasons or their rental agreements may make the renter responsible for loss of use without regard to fleet utilization rates. If so, the renter may be charged even though unused rental vehicles are sitting on the lot. In one case, a renter was hit with a $2,000 loss of use charge, far more than what her PAP covered.

Most alarmingly, rental car companies are increasingly inclined to charge for "diminution of value," an indirect loss that is not covered by the PAP's physical damage section (nor most credit card coverages). We have seen documented examples of these charges for amounts of $5,000 and almost $8,000 and heard of one that was allegedly $15,000 on an upscale SUV rental.

6. Administrative Expenses The rental contract may make the insured liable for various "administrative" or loss-related expenses such as towing (e.g., one insured was charged for a 230-mile tow), storage, appraisal, claims adjustment, etc. None of these expenses are typically covered by the PAP.

7. Other Insurance The PAP says it is excess over: (1) any coverage provided by the owner of the auto (does "coverage" include rental car company self-insured plans?), (2) any other applicable physical damage insurance, and (3) any other source of recovery applicable to the loss—CDW/LDW, travel policies, credit card coverages, etc. (What if the credit card coverage says it's excess over the auto policy?) The potential controversy over who pays what is obvious and can result in litigation.

In addition, keep in mind that many states (e.g., MD, MN, NY, TN, etc.) have statutes, proprietary forms, and/or case law precedents that may govern this and other rental car exposures. For example, the PAP is primary rather than excess for nonowned autos loaned or rented by a dealer, but not rental agencies. Another state makes the PAP primary only if the auto is rented without purchasing a damage waiver. Another state only modifies the PAP with regard to liability for rental cars, not physical damage. Another state makes no exceptions for any nonowned autos including rentals.

Needless to say, since the PAP Out of State condition says the policy will comply with state laws, it can become virtually impossible to know whether the PAP will respond on a primary or excess basis in a given state while on a trip . . . yet another reason to rely on the rental company's damage waiver.

In one final example, a consumer was given a loaner vehicle from a Cadillac dealer while his car was being serviced. He proceeded to total the vehicle in an accident to the tune of $37,000. His PAP insurer refused to pay on the basis that the PAP provided excess coverage over the dealer's garage policy, offering only to pay a portion of the dealer's deductible. The garage insurer paid the entire claim, then subrogated against the PAP insured by filing a lawsuit.

When the insured turned the suit in to his PAP insurer, the claim was denied under the liability section of the PAP, citing the care, custody or control exclusion. While this involved a dealer loaner auto, the same result could have been reached in this state if the auto was a rental.

8. Excluded Vehicles & Territories The PAP normally does not provide physical damage coverage for motorcycles or other non-auto/pickup/van vehicles (e.g., motorhomes) and use of covered vehicles is limited to the U.S., its territories and possessions, Puerto Rico, and Canada. (The rental agreement may also exclude operation outside a specific geographical area, in which case the PAP could provide coverage not provided for under an LDW.)

In addition, if the insured is renting a trailer (U-Haul, camper trailer, etc.), PAP coverage is typically limited to only $500–$1,500. The insured usually has no choice but to rely on the rental company's damage waiver for coverage under these circumstances.

9. Excluded Uses & Drivers The PAP may have limitations on use of vehicles that are not otherwise excluded by the rental agreement damage waiver—for example, some older editions of the PAP (and perhaps some proprietary company forms) provide no physical damage coverage for the business use of nonowned pickup trucks or vans. Also, the PAP may include an exclusionary endorsement for certain individuals or may apply only to designated individuals that can be covered by listing them on the rental agreement. In contrast, the damage waiver usually only applies to designated individuals (with certain omnibus "insureds" such as spouses), so having both a PAP and the damage waiver can again be advantageous.

One often overlooked issue where a large coverage gap might exist is using valet parking at a hotel or restaurant during a trip. Agents often rent cars while on vacation or at a business convention. The ISO PAP covers physical damage to nonowned autos if you have physical damage on at least one declared auto. However, this coverage extends only to a nonowned auto "while in the custody of or being operated by you or any 'family member' . . . "

If the rental car is being valet parked, it's certainly not being operated by you. The question is whether it is still technically in your custody. Does custody mean possession or entrustment? Is the rental car in your custody from the moment you rent it or only when you have physical control? It's a matter of law and contract interpretation. That's why it is probably not a good idea to valet park a rental car.

The Catch-22 is that, even if you purchase the rental car damage waiver, most rental agreements void the coverage if the vehicle is being driven by an

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Top 10 Reasons to Purchase the Rental Car Damage Waiver

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unauthorized driver. Typically the only authorized drivers are those identified by name on the rental agreement and perhaps a spouse or co-worker. Hotel or restaurant valets? Unlikely.

10. Additional and/or Future Costs

The PAP will most certainly include a deductible in the range of $100–$500 or more. In addition, payment for damage to a rental car may result in a significant premium increase (if not nonrenewal) via surcharges or loss of credits.

Conclusion

When making recommendations to customers, it is best to advise that they purchase the rental car damage waiver and use their PAP as a backup. It is also suggested that agents take their own advice.

Disclaimer

The above information is based on the ISO standard Personal Auto Policy in force in most states at the time of publication and typical rental car agreements. Be aware that these contracts may vary from state to state and there may be statutory exceptions (e.g., the State of NY) that may govern. In addition, these provisions can change at any time, so it is important to review the laws and contracts in effect in your jurisdiction at any point in time. Due to the brevity of this article, we cannot analyze every possible loss exposure and exception to the general guidelines above.

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