

Hello from Your New *RLQ* Editor!

by Karen Porter, J.D., CPCU, ARP, AIS



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So much is happening in insurance regulation that it is hard to choose which articles to publish in this quarterly newsletter. For example, proposed changes to the McCarran-Ferguson Act would result in major changes and challenges for the entire industry. Additionally, many state-level regulatory actions further affect the industry on an ongoing basis. Finally, a new problem, such as global warming, can have anticipated effects not only on the industry, but on the world, and can appear staggering as well as mystifying. Our job is to answer some of your questions in all of these areas and more.

Just recently assuming editorship of this newsletter, with publication of this issue, I follow in some very talented footsteps. Notably, our most recent editor, **Kathleen J. Robison, CPCU, CPIW**, has done an excellent job editing this publication. As I am revising AICPCU/IIA's insurance regulation textbook, I become aware every day of the rapidly changing regulatory climate in the industry and

even more appreciative of those who have edited this newsletter before me.

Even though I am revising and updating our textbook, I still need your input as to what you would like to read about—not to mention your own article submissions! We try to explore issues from various points of view. To further that goal, we need to hear from you as to:

- what you would like to read about in this newsletter
- what you might wish to contribute to the newsletter

If you would like to write about a topic, but think you might need a bit of help, just let me know. I can help you research a topic if you need that kind of assistance—I have the Institutes' great insurance library and its staff at hand, ready to help! I also can assist you if you think you need help expressing your ideas. Put your thoughts on paper and we can add the "polish" for you. ■

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NAIC Update: 2007 Summer Meeting

The National Association of Insurance Commissioners (NAIC) met in San Francisco, California, June 1–4, 2007. It was the NAIC's first meeting since its Executive Committee adopted a new Model Law Development Framework to streamline NAIC processes and better align them with membership priorities and initiatives.

NAIC President and Alabama Insurance Commissioner Walter Bell made strategic planning his highest priority. The new Model Law Development Framework is visible evidence of the NAIC membership's efforts in moving toward a long-term, strategic framework to expand its ability to respond proactively and collaboratively to state, national, and international regulatory environments.

The new Framework calls for the parent committee and Executive Committee to approve, by simple majority vote, the development of a Model Law before drafting begins. To be approved, the Model Law must involve a national standard that requires uniformity in all states and must receive insurance regulators' commitment to support state enactment of the Model Law. Additionally, NAIC members must agree to commit NAIC resources to educate, communicate, and support state implementation of the Model Law.

The revised Framework should provide greater relevance to the NAIC's adoption of a Model Law as fewer topics are expected to achieve the new thresholds for Model Law status. At the same time, the Framework continues to provide work product in the form of guidelines or regulatory best practices when an identified issue does not require a uniform approach or uniform adoption by all states.

The remainder of this article covers issues of interest to CPCUs discussed at the NAIC 2007 Summer National Meeting.

Hearing Planned on Catastrophe Modeling

In a March 19, 2007, letter to NAIC President and Alabama Insurance Commissioner Walter Bell, the Consumer Federation of America (CFA) and the Center for Economic Justice (CEJ) requested insurance regulators to investigate changes to catastrophe models that have resulted in substantial rate increases for coastal homeowners. In their letter, the CFA and the CEJ allege that recent changes by one of the major modelers (Risk Management Solutions—RMS) have spread to other modelers and are contrary to past assertions by the modelers and the scientific community. RMS shortened the time period used for modeling purposes, and the change to a five-year horizon has significantly increased the catastrophe loss cost that insurers use to establish property insurance rates for coastal properties. CFA and CEJ also allege that regulatory oversight of the catastrophe modelers is lacking. They assert that, because the catastrophe modelers provide information to insurers that insurers use in pricing, the modelers should be treated as rating or advisory organizations.

President Bell responded to the CFA and the CEJ, asking that the Property and Casualty Insurance Committee hold a hearing on the matter. His letter states:

While the decision to take a regulatory action against RMS, or the insurers using their modeled results in rate filings, will be up to each state to pursue based on its laws regarding the use of information provided by catastrophe modelers, it would seem that a coordinated effort might be beneficial. Therefore, I plan to refer this matter to the NAIC's Property and Casualty Insurance (C) Committee. The experts on this committee will review the information you have provided and develop a plan of action. I plan to ask that the Committee hold a public hearing where the issues you



raise can be vetted. In particular, I plan to ask the committee to consider the use of the five-year projection and to explore the status of the catastrophe modelers as regulated entities.

During its meeting, Florida Insurance Commissioner Kevin McCarty, chair of the committee, asked that the committee adopt the following charge:

Hold a public hearing at the 2007 Fall National Meeting to gather information on the appropriate regulatory framework for monitoring the activities of catastrophe risk modelers. Explore whether laws and regulations governing rating or advisory organizations are broad enough to be applied to catastrophe modeling vendors. Investigate recent changes by catastrophe modelers to shorten the time period used in hurricane models and consider whether scientific evidence supports these methodology changes. Explore whether a public model would be beneficial to assist insurance regulators in monitoring the activities of catastrophe modeling vendors and insurers that use the

catastrophe loss cost information in their rating systems. Make recommendations regarding the appropriate regulatory framework, the appropriateness of the use of a reduced experience period in hurricane models, regulatory best practices for monitoring the activities of modelers and insurers' use of modeled output and whether a public model should be developed by the 2007 Winter National Meeting.

The committee agreed with the recommendation and is planning to hold a hearing on the afternoon of September 28, 2007, in Washington, DC, in conjunction with the NAIC's 2007 Fall National Meeting.

The Workers' Compensation Task Force

Under the leadership of South Dakota Insurance Director Merle Scheiber, the Workers' Compensation Task Force met Monday, June 4, 2007. The task force received a report from the Large Deductible Implementation Working Group, which reported that working group would proceed with developing third-party administrator guidelines instead of a model law in light of the NAIC's recent changes to the model law development procedures. The working group has suggested amendments to the NAIC's Third Party Administrator Model Act to include TPAs providing services to workers' compensation self-insureds and employers using large-deductible policies within its purview.

The task force received a report from the NAIC/IAIABC Joint Working Group. The working group reported that work on an independent contractor white paper is in progress, and discussions occurred about cross-border coverage for emergency workers during its recent meeting.

The Professional Employer Organization Model Law Working Group reported that recently the NAIC Executive and Plenary had adopted the Guidelines for Regulations and Legislation on

Workers' Compensation Coverage for Professional Employer Organization Arrangements and that the working group would now begin to focus on developing implementation guidelines. Director Scheiber advised that a report was received from the Settlement Review Working Group, which informed the task force of recently filed lawsuits involving the National Workers Compensation Reinsurance Pool (NWCRP) and the American Insurance Group (AIG) in Illinois and New York.

The Surplus Lines Task Force

The Surplus Lines Task Force has been following the Nonadmitted and Reinsurance Reform Act that was introduced recently in Congress. The Nonadmitted and Reinsurance Reform Act was passed in the U.S. House unanimously in 2006 and now has been reintroduced in the U.S. House and the U.S. Senate for 2007 as bills HR1065 and S929, respectively. The task force learned that the bill may be passed through the U.S. House sometime this summer. It is unknown if the Senate will take up the bill this year. One issue that arose was that, when the bill was scored in 2006, the federal government received a small benefit at the expense of states, so under the pay-go budgeting rules there may be an amendment to the bill that would address the additional funds.

The task force received a presentation from interested parties concerning the potential development of an interstate compact to create a clearinghouse through which all multi-state surplus lines risks would be filed. As envisioned, the compact would develop one set of compliance requirements for all multi-state surplus lines risks to establish an appropriate regulatory framework where all compacting states jointly regulate the transactions. It would establish a clearinghouse where all multi-state surplus lines risks would be filed and recorded, thereby eliminating all separate filing requirements by the compacting states. Further, it would establish a

mechanism by which each compacting state would receive its fair share of taxes for the portion of the risk located in the state, as determined by one set of uniform tax allocation formulas.

The Casualty Actuarial Task Force

The Casualty Actuarial Task Force met June 4, 2007, and discussed some potential next steps on risk transfer and coordination with the P&C Reinsurance (E) Study Group. It learned that the risk transfer industry survey completed in 2005 will be repeated to determine the changes in practice and to identify if any further areas in need of discussion exist. The American Academy of Actuaries will provide a training course for regulators. The task force expressed support for the development of actuarial educational material on risk transfer issues and agreed that it was too early for the Actuarial Standards Board (ASB) to create an Actuarial Standard of Practice. A potential change to Schedule P instructions regarding discounting was exposed for 30 days. The proposal would point to SSAP guidance on discounting and clarify that loss adjustment expenses are allowed to be discounted only when a state expressly permits such use.

The task force discussed principles-based reserving activities. A Valuation Manual was exposed for comment by the NAIC's Life and Health Actuarial Task Force. High-level principles and action items were exposed by the Principles-Based Reserving (EX) Working Group. The task force will consider potential contribution to the process and the points at which the task force's input on property and casualty experiences and procedures might benefit the process. The Property and Casualty Actuarial Opinion Model Law was adopted for accreditation by the Financial Regulation Standards and Accreditation (F) Committee. Discussion indicated that the confidentiality requirement of the Summary document

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might cause potential problems for states with sunshine laws.

The Statistical Information Task Force

The Statistical Information Task Force met three times via conference call since the NAIC's 2007 Spring National Meeting. During the meetings, the task force received information on the Insurance Match Initiative by the U.S. Department of Health and Human Services, Administration for Children and Families/Office of Child Support Enforcement (OCSE). OCSE provided information related to legal issues and use of the match results. The Insurance Services Office (ISO) provided background information on the Child Support Lien Network used in 22 states. OCSE is reaching out to other agencies such as workers' compensation bureaus and labor offices, individual insurers, and trade associations to establish a data match. OCSE is seeking the task force's assistance in identifying data sources and making contacts within insurers. Task force members were encouraged to provide contact information and to think about other ways the task force might be of assistance.

The task force discussed the Disaster Reporting (E) Working Group's Disaster Reporting Framework proposal of December 10, 2006. The framework has not yet been adopted. At such time as the working group determines the data elements, the task force will determine if any changes are required of the Handbook of Data Available to Insurance Regulators. As the working group reconsiders the proposal, opportunities for collaboration between the working group and the Statistical Information Task Force may arise.

The task force discussed coding issues for medical malpractice in Supplement A to Schedule T. The task force plans to submit a Blanks proposal to eliminate the need to report data on policies effective prior to January 1, 1976, and to modify

the Annual Statement Blank instructions to include definitions of Other Medical Professionals.

The task force discussed a February 12, 2007, draft of the Medical Malpractice Closed Claim Reporting Model Law before the change in model law procedures became effective. Numerous comments were received from interested parties. The task force discussed benefits and potential drawbacks in making the medical malpractice data as publicly available as possible with identifying data being removed. A drafting note would be inserted for each state to consider both options, and the drafting note should include reasons why the information is important to many outside entities in the review of medical malpractice claims. The task force discussed the need to include non-economic damages data and data from surplus lines insurers, although some interested parties are opposed to these two items. The task force drafted a Model Law Development Request for the Medical Malpractice Closed Claim Reporting Model Law, approved by the Executive Committee. In future meetings, the task force will consider drafting a Medical Malpractice Open Claim Reporting Model Law and consider how open and closed claim reporting would differ.

The task force considered updates to the NAIC Statistical Handbook of Data Available to Insurance Regulators. The task force discussed how information was not readily available to a state if that state had not adopted the handbook, or if the state does not enforce its statistical reporting statute. Members also agreed that a two-pronged approach would be needed to help analyze data in the future, and changes to the handbook and a model law on closed claims would help to match claims and premium and exposure data.

Crop Insurance Activities

The NAIC's Crop Insurance Working Group met June 2, 2007. During the meeting, the working group listened to an update on several Risk Management Agency's (RMA) initiatives, including an update on its Managers Update that will soon be distributed to the working group. Items discussed included the following:

- Judicial repeal of Florida's Hurricane Catastrophe Fund assessment on multi-peril crop insurance premium.
- The status of the pasture, rangeland, and forage pilot program.
- RMA involvement in various briefings and hearings with Congress, including the effect of climate change on crop insurance.
- Implementation of the Plans of Operation for the new crop year beginning July 1, 2007, for the 2008 growing year.
- An Electronic Written Agreement Project, to be implemented either in the Winter of 2007 or Spring of 2008 for its Combo Product, whereby RMA will obtain policy information from agents, companies, and affiliates in a much quicker manner and data flow will be easier.

The Working Group heard RMA's update on loss adjuster licensing. Since 2005, the Standard Reinsurance Agreement (SRA) has required that an approved insurance provider ensure that all of its adjusters are licensed by the state in those states for which crop insurance licensing is required. Some states currently do not require crop adjusters to be licensed, and some crop adjusters are not tested on crop insurance. RMA is considering changes to the SRA to allow loss adjusters in certain states to be certified by an RMA-approved certification program and would apply only to states that either do not require crop insurance licensing or do not have crop insurance topics in their licensing certification curriculum. The working group will bring this issue to the attention of the Producer Licensing (D) Working Group for further consideration.

The working group heard RMA's update on current issues arising from agent rebating schemes. Some of the recent schemes include agent-to-agent rebating, whereby an agent persuades a high-premium policyholder to become licensed as an agent, becomes a sub-agent, and receives a portion of the commission in return. In the second scheme, agents form partnerships or LLCs with their largest premium policyholders and share the resulting commission. No immediate remedies were discussed. The working group will continue to monitor this situation closely.

The working group reviewed a model letter to be distributed to state regulators regarding their roles in the RMA Cooperative and Trade Association Rebate program. Under the program, cooperative and trade associations may, upon RMA approval, provide rebates from a multi-peril crop insurer writing business under the SRA to farmers that are members of the cooperative or trade association, provided that the rebates do not violate state laws in the state in which the program is applied. The cooperative or association must obtain written documentation from

the insurance regulator in the state(s) they wish to offer the rebate, advising the program does not violate state laws. The working group discussed the need for communication going to the states to include a detailed note to them that each state needs first to review its own state laws to be certain there aren't any violations of state law before proceeding. The working group adopted a motion to distribute the model letters.

Risk Retention Group Activities

The Risk Retention Working Group, chaired by Nebraska Insurance Director Tim Wagner, met twice during the quarter by conference call. During the conference calls, the working group reviewed comments submitted by interested parties on the proposed Corporate Governance Standards for Risk Retention Groups. Director Wagner observed that, with the adoption of the standards and improved financial reporting, the regulatory framework for risk retention groups will be much improved over what it is today. The working group made some changes to the standards and presented them to

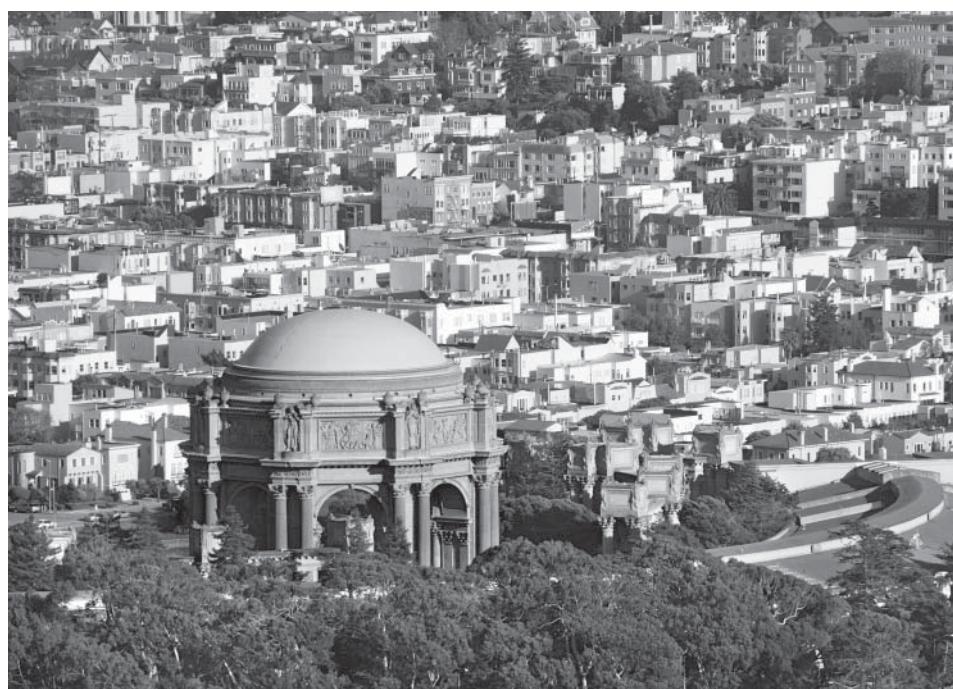
the Property and Casualty Insurance Committee for action. The Property and Casualty Insurance Committee adopted the standards and referred them to the Financial Condition (E) Committee for consideration to include the standards in the Annual Statement Instructions for Property Insurers.

The Risk Retention Group (E) Task Force met on Saturday, June 2, 2007, to continue its discussions on the tenth Part A standard regarding reinsurance ceded. This standard requires adoption of the Credit for Reinsurance Model Law and Regulation or substantially similar language. The task force also discussed the seven significant elements of the Model Law required for accreditation. These elements indicate that an insurer may take credit for reinsurance in four different situations:

1. When the business is ceded to a licensed insurer
2. When the business is ceded to an accredited insurer that meets specific requirements set forth in the Model Law
3. When the business is ceded to an insurer domiciled in a state that employs substantially similar standards for credit for reinsurance and maintains capital and surplus of at least \$20 million
4. When the business is ceded to an insurer who maintains a trust fund meeting various requirements

The task force briefly discussed significant element (a) and voted to add a sentence to the current standard, stating that, "If the reinsurer is licensed as a risk retention group, then the ceding risk retention group or its members must qualify for membership with the reinsurer."

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The task force also continued discussions on the sixth significant element, which indicates that, for those insurers taking credit for reinsurance under situations (c) and (d) above, the assuming insurer must agree in the reinsurance agreement that, in the event of the assuming insurer's failure to perform its obligations, it shall submit to the jurisdiction of any competent court in any state and that it will designate the commissioner or a designated attorney as its true and lawful attorney. During its 2007 Spring National Meeting, some concern was raised by the task force regarding this item; and it was decided to survey the task force members regarding any potential issues. The task force reviewed the results of the survey and voted that significant element (f) should be included in the Part A standards applicable to risk retention groups incorporated as captives.

The task force also discussed the survey results regarding significant element (g) that allows an insurer to take credit for reinsurance in an amount up to the amount of funds held by or on behalf of the ceding insurer when said insurer does not meet any of the requirements discussed in elements (a) through (d) above. Based on the results of the survey

for this item, and further discussion during this meeting, the task force agreed to hold at least one interim conference call prior to the 2007 Fall National Meeting to continue its discussions as to whether significant element (g) should be included in the Part A standards applicable to risk retention groups incorporated as captives.

Catastrophe Insurance Issues

The Catastrophe Insurance Working Group met June 3, 2007, to discuss several matters. The working group heard an NAIC staff update on current natural disaster legislation. The working group learned that the House is considering 10 bills (HR 91, HR 164, HR 330, HR 537, HR 913, HR 920, HR 922, HR 1787, HR 17682, and HR 2407), and the Senate is considering four bills (S 928, S 1061, S 931, and S 545). The working group learned that testimony provided was by NAIC President and Alabama Insurance Commissioner Walter Bell, Arkansas Insurance Commissioner Julie Benafield Bowman, and Florida Insurance Commissioner Kevin McCarty to various Congressional Committees related to natural disasters.

The working group listened to a presentation by Utah Insurance Commissioner Kent Michie on an alternative proposal to address the risk of catastrophe loss. The proposal calls for development of an all-perils policy that uses a "hedge row" defense system of multiple deductibles. The homeowner bears the first of three deductibles (10 percent of the dwelling value). The second deductible is a fixed dollar amount funded by the state. The federal government would provide the third deductible in an amount calculated at four times the amount of the state funds (i.e., an 80-20 match). The state must purchase a policy covering each state resident and to assess residents through property taxes to cover the homeowner's share of the premium. The proposal includes implementation

of a philosophical concept that society has an insurable interest in protecting its residential tax base. Several interested parties provided comments on Commissioner Michie's proposal.

The working group heard about insurance industry changes to wildfire exposures from Florida's Ray Spudeck, Ph.D., noting that the recent increase in wildfire activity might result in increased prices and availability of property insurance. It also heard from Bill Newton (Florida Consumer Action) regarding a request for enhanced data collection and identification of best practices related to residual market mechanisms.

Terrorism Insurance Issues

The Terrorism Insurance Implementation Working Group did not meet during the quarter. There was some activity of interest related to the possible renewal of the Terrorism Risk Insurance Act (TRIA). The House appears to be working on a TRIA bill that would be of longer duration than the most recent two-year extension. Among the items under consideration in the House bill are the following:

- including coverage for domestic acts of terrorism
- adding group life insurance as a covered line
- addressing the Nuclear, Biological, Chemical and Radiological (NBCR) exposure

The timing of the introduction of bill is uncertain.

The U.S. Senate Committee on Banking, Housing, and Urban Affairs held a hearing February 28, 2007, titled Examining the Terrorism Risk Insurance Program. A panel of nine witnesses, including Illinois Insurance Director Michael McRaith on behalf of the NAIC, addressed the committee. Chairman Christopher J. Dodd (D-CT) said in his opening statement that he believed that the Senate should act to establish a more permanent federal initiative to provide coverage for

potential terrorist attacks. Most of the witnesses supported an extension of TRIA. The working group plans to continue to monitor the efforts to extend TRIA and will convene conference calls to discuss matters when necessary.

Title Insurance Issues

The Title Insurance Issues Working Group met on June 1, 2007. During the meeting the working group received a report from the GAO concerning its April 2007 report entitled "Title Insurance: Actions Needed to Improve Oversight of the Title Industry and Better Protect Consumers." The working group received an update on the new NAIC model law development framework and is considering whether potential changes to the Title Insurer Model Act and the Title Insurance Agent Model Act should be promulgated as models or guidelines. The working group also received an update on potential blanks changes concerning title insurance.

A presentation on possible alternatives to title insurance was given. Of particular interest to the working group is a proposal to have lenders pay for title insurance so they could use their market power to secure a more favorable deal for consumers. The working group also viewed a presentation on mortgage fraud and its impact on title insurance.

Advisory Organization Activities

The Advisory Organization Examination Protocol Working Group met via conference call March 21, 2007. The working group considered various revisions to the *Market Regulation Handbook* chapter, "Conducting the Statistical Agent or Advisory Organization Examination or Other Continuum Type Response." Interested parties will provide additional comments and suggestions to the December 12, 2006, draft by June 20, 2007. Work has been divided, and separate teams are working on different aspects of the project. A survey tool is being used to

seek state participation in examinations of advisory organizations.

The working group is an offshoot of the multi-state examination of the National Council on Compensation Insurance (NCCI). The regulatory actuaries that oversaw the NCCI examination thought it would be a good idea to establish protocols for examination of advisory organizations. Advisory organization exams are much different from market conduct examinations of insurers. Yet, if they are to be done, they typically are assigned to market conduct examiners. The goal for the working group is to develop the protocols and to add uniformity to the process. A secondary desire is to avoid duplication of effort.

Market Analysis Activities

The Market Analysis Priorities (D) Working Group discussed ways of collecting the information for a public report, highlighting how market analysis has been used to identify companies for further scrutiny, as well as how it has eliminated the need for further scrutiny. The working group reviewed the market analysis definition recommended by the Market Regulation and Consumer Affairs (D) Committee and discussed whether the definition should be included in the core competencies or the Market Regulation Handbook. The working group reviewed ways in which its members could successfully use outreach through quarterly MAP-MAC educational calls to educate states and encourage participation in market analysis systems and efforts.

In addition, the Market Analysis Research & Development (MARD) Subgroup created task teams to review possible enhancements to NAIC reports and tools. The Market Conduct Annual Statement (MCAS) Subgroup had held two conference calls since the 2007 Spring National Meeting. The working group adopted the certification language submitted by the MCAS, which will be required of all companies filing data with states for the MCAS. The working group

learned that MCAS had created three task teams to review the data elements collected in the current MCAS, ensure that data elements are being interpreted and reported in a consistent manner, investigate the possibility of releasing aggregate Market Conduct Annual Statement data, develop a uniform analysis process for MCAS data, and develop recommendations regarding the inclusion of additional data elements into the MCAS.

Producer Licensing Activities

The Producer Licensing (D) Working Group met on June 2, 2007, and received an update from its Continuing Education Subgroup about the Continuing Education Reciprocity (CER) form and learned that it is being used actively in 31 states. The subgroup has been disbanded. The working group also received an update from the Independent Adjuster Licensing Subgroup, which reported that the model law will now be developed as a guideline. The working group also received a report from its Uniformity Standards Subgroup. New Jersey, Kentucky, and the District of Columbia each reported they are now 100 percent compliant with all uniformity standards and that several other states are at least 90 percent compliant. The working group received an update on flood insurance and coordination of state efforts with FEMA. Forty-one states currently grant three CE credits for flood training to agents who successfully complete the NFIP Basic Agent Tutorial course. ■

Sections Strategic Implementation Task Force Report Summary

by Kathleen J. Robison, CPCU, CPIW, ARM, AU



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A Brief History

At the CPCU Society's 2005 Annual Meeting and Seminars, the Board of Governors created a Sections Strategic Task Force. The task force developed a strategic vision for sections. It was presented to the Board at the 2006 Annual Meeting and Seminars in Nashville, in September.

The Sections Strategic Task Force proposed the sections' strategy should be, "to position sections as a provider of readily available, high-quality, technical content to stakeholders." The level of content and delivery would vary based on the audience. To successfully accomplish the strategy, the task force recommended a series of strategic initiatives aligned with four key perspectives: Organizational Structure (OS), Leadership Development (LD), Membership (M), and Value-Added Services (VA).

The Board of Governors accepted the report and referred it to the Executive Committee to develop detailed recommendations for consideration by the Board at the April 2007 Leadership Summit meeting. The Executive Committee created the Sections Strategic Implementation Task Force to develop the detailed recommendations.

Board Approved

The Sections Strategic Implementation Task Force outlined implementation steps for each of the Sections Strategic Task Force's categories of recommendations. On April 20, 2007, the CPCU Society's Board of Governors approved and accepted the Sections Strategic Implementation Task Force report.

The Board approved the formation of the Interest Group Resource and Governance (IGRG) Task Force to manage the implementation of the various tasks recommended except for OS4—Open Interest Groups to all Society members.

The Board requested that the Sections Strategic Implementation Task Force remain in existence to undertake the necessary research on OS4 and present to the Board at the 2008 Leadership Summit meeting.

The Board decided it will announce at the 2007 Annual Meeting and Seminars in Hawaii the timetable for moving from the name sections to interests groups. Until that time the title will remain "sections."

This article summarizes the Sections Strategic Implementation Task Force report and recommendations.

Task Force Members and Structure

W. Thomas Mellor, CPCU, CLU, ChFC, chaired the task force. Members of the task force were: **Karl M. Brondell, CPCU; Nancy S. Cahill, CPCU; Robert Michael Cass, J.D., CPCU; Donald William Cook, CPCU; Todd G. Popham, CPCU, CLU; Kathleen J. Robison, CPCU, CPIW, ARM, AU; Brian P. Savko, CPCU, CLU, ChFC; and John J. Kelly, CPCU**, as CPCU Society liaison. Tom Mellor, CPCU; Nancy Cahill, CPCU; and Kathleen Robison, CPCU, served on or consulted to the previous Sections Strategic Task Force.

The original Strategic Sections Task Force distributed its recommendations into four categories: Organization Structure, Leadership Development, Membership, and Value-Added Services. The current task force agreed on a division of work and organization structured around these four categories, and divided themselves into four teams. Each team identified steps to be undertaken in order to implement the recommendations.

Special Note: The task force understands that the actualization of its recommended implementation process will not be accomplished quickly. It will require the

contributions, deliberations, and efforts of a large number of Society volunteers. It will also take time. The task force believes a two-to three-year timetable is realistic.

Organizational Structure

OS1—Re-brand Sections as Society Interest Groups

1. Authorize and implement new interest group names specifically using the words *Interest Group* in the title (e.g. *Claims Interest Group*) and formally identify interest groups collectively as CPCU Society Interest Groups.
2. Determine appropriate interest groups that should exist by aligning the groups with current industry functions or by roles (such as leadership or project management).
3. Institute changes in verbiage from *Section* to *Interest Group* in all formal Society communications and materials (current sections publications, Society web site, stationery, etc.) to be effective on a specified date.
4. Communicate the changes to Society members, including impacts and rationale, via print and electronic media. This should be done in advance of the change date and also after the change date.

Special Note: The re-branding of sections as Society Interest Groups will be announced at the 2007 Annual Meeting and Seminars in Hawaii. A timetable will then be established for items 3 and 4.

OS2—Create CPCU Society Interest Group Resource and Governance (IGRG) Task Force

To manage and direct all of the changes recommended, the task force proposes the formation of the Interest Group Resources and Governance Task Force (IGRG). The IGRG's leadership and direction will provide continuity,

consistency, and quality to this crucial transformational project.

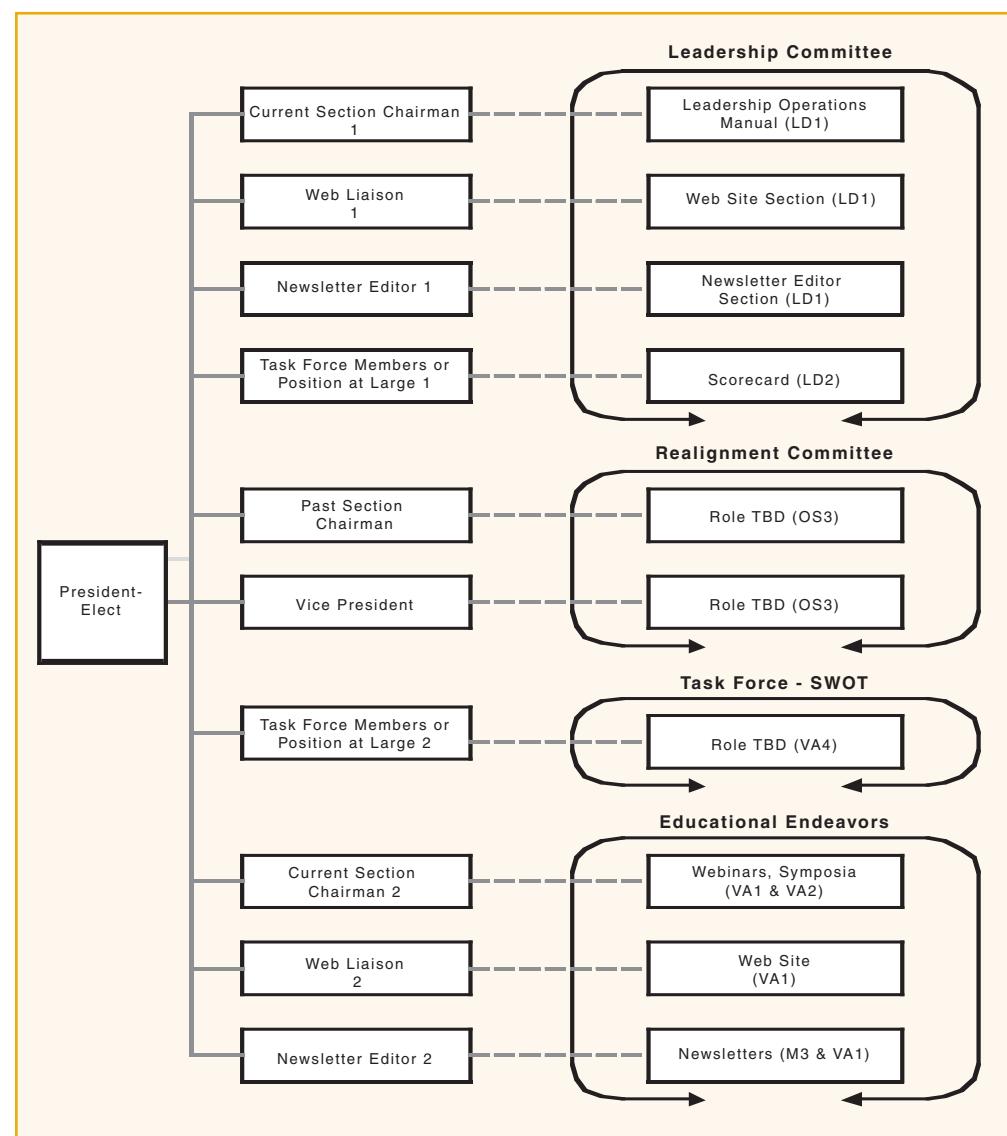
The CPCU Society's president-elect will chair the IGRG. Each of the other members will be responsible for chairing a specific subcommittee dedicated to the implementation of a recommended group of tasks. (See Table 1.)

The recommended composition and responsibilities of the IGRG members are as follows:

- Society president-elect—chairman.
- Society vice president—assistant to the committee chairman/realigning.

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Table 1
Proposed Interest Group Resource and Governance (IGRG) Task Force and Sub-Task Forces



Sections Strategic Implementation Task Force Report Summary

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- Two current section chairmen—leadership operations manual/educational webinar and symposia.
- One past section chairman—realignment.
- Two current or past web liaisons—leadership operations manual and web liaison section/educational endeavors (web site).
- Two current or past newsletter editors—leadership operations manual and newsletter edition section/educational endeavors (newsletter).
- Two task force members from the 2006–2007 task force or from the 2005–2006 task force. Immediate responsibilities to include Scorecards/ SWOT Analysis.

Special Note: These recommendations encompass both the breadth and depth of sections' organization, products, services, and membership. The Sections Strategic Implementation Task Force quickly realized the enormity and complexity of the undertaking. It requires a large number of section and Society volunteers. If the reader is interested in servicing on this task force please let the Society know by e-mailing your name and e-mail address to Mary Drager at mdrager@cpcusociety.org.

OS3—Assess Current Sections and Align them with Major Industry Functions

1. Form a representative group of section members to determine the best alignment, including the possibility of combining, broadening, or eliminating current sections, and/or fostering the creation of new groups based upon industry findings. This group should undertake a research effort that focuses on aligning groups with current industry functions. (See Table 1).

OS4—Open Interest Groups to All Society Members

1. Determine the reaction and position of companies and members to this proposed change—especially if section membership dues are incorporated into general membership dues.
2. Determine a dues policy for members who wish to belong to more than one interest group (i.e. should they be surcharged for this?).
3. Determine a dues policy for lifetime retired members who wish to belong to one or more interest groups.
4. Determine the expense impact to the Society that would probably result from a significant increase in the interest groups' collective population.
5. Determine the impact to Society administration from an organizational, staffing need, and technological perspectives that could result from a significant increase in the interest groups' collective population.
6. Examine any potential negative consequences (e.g. possible dilution of perceived value in belonging to an interest group) that might result from including interest group membership within general membership.

Special Note: The Board requested that the Sections Strategic Implementation Task Force remain in existence to undertake the necessary research on OS4 and present to the Board at the 2008 Leadership Summit meeting. The IGRG will not be responsible for OS4.

Leadership Development

LD1—Formalize Standard Section Leader Training and Orientation for the Chairman, Newsletter Editor, and Web Liaison. This Training Will Include an Operations Manual and an Updated List of Best Practices.

1. Form a task force to develop an operations manual on leadership requirements for interest group chairmen, web liaisons, and newsletter editors. The task force should establish a formal process for continuously updating the best practices. This should be a how-to manual on how to lead a section. The operations manual should include an overall section on the section leadership responsibilities. Within the operations manual there should be specific sections devoted to the responsibilities, tasks, checklists, timelines, etc. for the chairman, web liaison, and the newsletter editor.
2. Provide leadership training for incoming section chairmen, web liaisons, and newsletter editors. This training should occur before the person assumes his or her section leadership position. This training should occur at Leadership Summit, mid-year meetings, or chapter sponsored Society/NLI courses. Variations in leadership experience among interest group leaders should be taken into consideration when developing the leadership training. Outgoing interest group chairmen should continue to be a resource to the incoming leaders.

Leadership training for incoming section leadership should consider that those who have no leadership experience will require both basic management training (organizing, planning, controlling, decision making, motivations, and leadership), as well as training in

“virtual leading” and/or leading volunteers. Those who have prior on-the-job leadership experience may require leadership techniques for motivating volunteers and/or leading “virtual teams.”

3. In addition to leadership training, specific training for incoming web liaison and newsletter editors should be established. Two task forces should be formed, one for the web liaison position and one for newsletter editors. The task forces should develop the training curriculums for both positions. Training could be done by Society staff in Malvern or as an online course. The outgoing web liaisons and newsletter editors should continue to be a resource to the person coming into the positions.

LD2—Create a Developmental Scorecard for Section Volunteers and Society Members. (This is something that section members and volunteers can present to their employer evidencing the technical and developmental value of membership.)

1. A task force should be formed to develop a “tactical scorecard,” that can be used by section leadership to measure the section’s progress toward strategic goals and related tasks. The scorecard criteria should be developed based on the results of the section SWOT analysis, as proposed under section VA4—Conduct SWOT analysis for each section. Each criterion should have a set of tasks, which are required to achieve the goal.
2. A task force should be formed to develop a “value scorecard,” which can be used by section members to evidence the technical and developmental value of membership. Consideration can be given to expanding this scorecard to the value of membership in the Society,

not just interest group membership. Development of the “value scorecard” should consider:

- a. The value to the member and the member’s employer of involvement in particular activities.
- b. The role of the individual during the particular activities, i.e. leader, committee member, etc.
- c. The skills and experience obtained as a result of involvement and role in particular activities.

Membership

M1—Create Value Statements and other Communications Tools to Promote Interest Groups

1. Collect the value statements and other communications currently used by the existing sections. Assess the current state of the value statements and communications against the new interest group branding strategy.
2. Assess and incorporate branding strategy for interest groups.
3. Solicit feedback from interest groups on gaps between current state and future state (focus groups, surveys, etc.).
4. Draft language for new value statements and communications, targeting the increased value (technical content, reduced cost, etc.) to existing members and incorporate new value statement and communications messages into society publications.

M2—Establish Affiliations between Interest Groups and other Industry Organizations (e.g., PLRB, The “Big I,” and RIMS)

1. Identify key organizations to focus our research by soliciting feedback

from sections and the CPCU Society.

2. Assess the current collaboration between interest groups and key industry organizations (focus groups, surveys, etc.).
3. Assess the current collaboration activity against new opportunities with joint sessions with interest groups and key industry organizations.
4. Draft and validate an action plan to build collaboration.
5. Confirm plan with interest groups and industry organizations.
6. Publicize new direction in CPCU Society publications.

M3—Refresh the Interest Group Newsletters

1. Examine alternative publication options to current newsletters, including the potential use of a magazine-styled compilation of comprehensive interest section information and articles in a journal-style publication.

M4—Designate Liaison(s) to Promote Interest Group Benefits to Chapters, Major Employers, and the Insurance Services Community

1. Identify the key major employers and insurance services community organizations.
2. Assess the current outreach underway between interest groups and local chapters, major employers, and the insurance services community (focus groups, surveys, etc.) and identify gaps.
3. Identify responsibilities of a liaison and prepare training conducted for liaisons by the Society.

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4. Identify liaison volunteers, establish a process for selecting them, and introduce and promote them through various industry publications.

M5—Strengthen Connection between CPCU Society and Accredited Risk Management and Insurance Degree Programs

1. Identify the key major insurance degree programs to focus our research by soliciting feedback from sections and CPCU Society.
2. Assess current outreach underway between sections and key insurance programs (focus groups, surveys, etc.).
3. Identify new collaboration opportunities with joint sessions between interest groups and industry organizations and develop and implement an action plan to institute collaboration between interest groups and insurance degree providers.
4. Publicize new direction in CPCU Society publications.

Value-Added Services

VA1—Develop Consistent Format and Content Standards for Core Interest Group Offerings (Newsletter, Web, Symposia)

1. Create a committee for each—newsletter (this dovetails with M3 and might best be accomplished there), web, symposia. Each committee should be composed of section members responsible for the format. Each committee chairman would be a member of the Interest Group Resource and Governance Committee.
2. The committee establishes guidelines and templates for each: newsletter, web, symposia.

3. The committee is responsible for coaching and mentoring the sections on the guidelines and templates.

VA2—Expand Delivery Methods of Technical Content

1. Establish a vehicle, guidelines, and templates for webinars. The webinars would focus on pertinent and timely topics that are delivered in one hour or less. The structure should be such that it will easily facilitate the rapid development and presentation of a topic.
2. Establish guidelines, templates, and vehicles for teleconferences and videoconferences.
3. Expand delivery of technical content by partnering with other insurance organizations and presenting at their meetings.
4. Each committee outlined in VA1 would also be charged with the responsibility of identifying avenues to expand the delivery methods of technical content.

VA3—Encourage Interest Groups to Convert Highest Rated Annual Meeting Technical Seminars into Symposia

1. Within 30 days of the Annual Meeting and Seminars, the Interest Group Resource and Governance Committee selects three to five technical seminars. The selection is based upon the rating feedback sheets, number of persons attending the seminars, and the pertinence of the information content.
2. The Society and the section seminar liaisons will format and package the seminars making them available to the chapters and as regional meetings as in VA3.
3. The top three to five seminars would be packaged into a day of training, knowledge transfer, and held four

to six months after the Annual Meeting and Seminars at three different strategic sites around the country.

VA4—Conduct SWOT Analysis for Each Interest Group; Implement Findings

1. Introduce the SWOT concept to the section chairmen during the sections leadership meeting with reference material at the Leadership Summit in Orlando.
2. At the 2007 Leadership Summit, the section chairmen would identify a committee member responsible for the SWOT analysis as a “point person” for contact.
3. Designate a SWOT coordinator to liaison and assist the section SWOT “point persons” in conducting the SWOT within each section. The SWOT coordinator would be a member of the section task force, and ideally would transition to serve on the initial Interest Group Resource and Governance Committee. This group would develop a SWOT template to be used by all sections. In addition, they would develop and conduct a SWOT training program.
4. Before the 2007 Annual Meeting and Seminars, a SWOT training program for section chairmen and all other interested section committee members would be conducted through an appropriate medium.
5. At the 2007 Annual Meeting and Seminars, the section chairmen will conduct the SWOT analysis with his or her committee and complete the SWOT templates.
6. Society Interest Group Resource and Governance Committee would review, coordinate, encourage, and challenge each interest group to then create interest group goals based upon the SWOT. ■

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

by William F. Stewart



William F. Stewart 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 Insurance*, 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 Arrhenius 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 Arrhenius' 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 CO₂ were 280 parts per million (ppm), by 1960 CO₂ levels had risen to 330 ppm, and now CO₂ 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.

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

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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 CO₂ 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 levees 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; and (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 CO₂ emissions. Travelers offers a 10 percent auto insurance discount to the owners of hybrid cars. Firemans'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 twelfth 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 emissions. 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 sum, 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.

Identity Theft Raises Many Industry, Consumer Concerns

by Catima Potter

Catima Potter received her master's degree in public health from the University of Kansas School of Medicine. As an epidemiologist for the Kansas Department of Health and Environment, she managed and conducted population-based surveillance systems and provided epidemiologic advice and help to the program staff by analyzing and interpreting population-based epidemiologic data/information. Currently, she works as a research analyst with the National Association of Insurance Commissioners. Her responsibilities include writing insurance and regulatory related articles as well as analyzing statistical and literary information. She communicates with both internal and external customers concerning the results of her analyses.

It's in your wallet or purse, in your employer's laptop, and in your trash.

It's personal information, such as your Social Security number, name, date of birth, and bank account information, which anyone can obtain easily and use to ruin your financial history and future.

According to a recent Federal Trade Commission (FTC) survey, more than 10 million adults were victims of identity theft in the past year.¹ The identity theft issue has caught the attention of financial institutions; federal, state, and local governments; and the insurance industry. Questions have arisen as to the needs for identity theft insurance coverage and identity theft services such as credit monitoring and credit reports. However, an understanding of the overall impact of identity theft is necessary to understand these needs.

Identity theft fits into two categories:

- account takeover
- application fraud

Account takeover occurs when an individual obtains someone else's current account information (e.g., credit card, debit card, or checking account information) and makes unauthorized purchases.

Application fraud, also known as "true name fraud," occurs when an individual uses someone else's name, Social Security number, or other identifying information to open a new account.² An individual's use of someone else's personal information to rent an apartment or home or to obtain medical care or employment fits within the application fraud category.³

Individuals use various methods to obtain personal identification information, such as stealing wallets or purses, pilfering discarded documents from trash, taking mail from unlocked mailboxes, and collecting data from online sources.⁴ The majority of identity theft victims are not aware of when or how the identity theft occurred.⁵

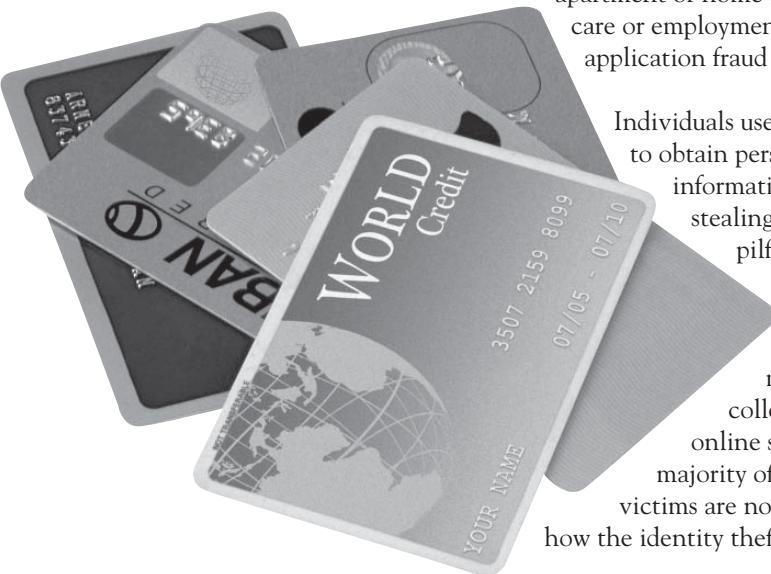
According to the FTC survey, the average amount of unauthorized purchases from account takeover fraud is \$4,800 per person, resulting in more than \$17 million per year nationwide. The average amount of unauthorized purchases as the result of application fraud is \$10,200 per person, resulting in more than \$33 billion per year nationwide. The overall cost of unauthorized purchases resulting from identity theft is more than \$50 billion per year.⁶

To resolve an identity theft situation, the victims can contact the credit grantor, local police, credit bureaus, a lawyer, the state attorney general's office, depository institution, the FTC, or other federal agency, or any combination of these offices. However, according to the FTC survey, 38 percent of victims stated they did not contact anyone to report that they were victims of identity theft.⁷ The amount of personal time and money to resolve the issue are considerable. Each year, a total of 297 million hours and \$5 billion of personal resources go toward resolving identity theft problems.⁸

Victims of account takeover spend an average of 15 hours and \$160 to resolve the issue. Victims of application fraud spend even more time and money, with the average expenditure per victim totaling 60 hours and \$1,180.

The key to early detection of identity theft is routine monitoring of credit reports.⁹ The Fair Credit Reporting Act enables consumers to receive free copies of their credit reports from the major credit reporting companies (Experian, TransUnion, and Equifax) annually.¹⁰ Annual monitoring enables consumers to check the accuracy of their credit reports.¹¹ Inconsistencies, including open accounts of which the consumer is not aware and larger account balances than expected can be signs of identity theft.¹²

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Identity Theft Raises Many Industry, Consumer Concerns

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Individuals who believe their identities have been stolen can put fraud alerts and/or credit freezes on their accounts. Under fraud alerts, lenders ask for identifying information when anyone opens an account in an individual's name.¹³ However, lenders sometimes ignore fraud alerts.¹⁴

Fraud alerts can be initial or extended. With an initial alert, the alert stays on an individual's record for 90 days and is most effective when, for example, a wallet or purse was stolen or if a victim experiences e-mail fraud. An extended alert stays on record for seven years, and the victim's name is removed from marketing lists of pre-screened credit offers for five years. To implement or remove a fraud alert, consumers must provide personal information and identification.¹⁵

A credit freeze prohibits lenders, employers, insurers, and thieves not only from accessing an individual's credit report, but also from opening an account. To implement a credit freeze, an individual sends an application containing various personal information and identification by certified mail to the appropriate agency. To lift the freeze, the individual must contact the appropriate agency, pay a specified amount, and wait a specific amount of time. Credit freeze laws vary by states in terms of availability, eligibility, and costs.¹⁶

In 1999, Robert Nigham, a St. Paul Travelers vice president, became a victim of identity theft, leading the development of identity theft coverage, or insurance covering the costs for restoring credit history destroyed by identity theft.¹⁷ Currently, insurers and partnering financial institutions offer identity theft coverage in various forms. Identity theft insurance coverage is an option on homeowners or renters insurance, or it can be a stand-alone policy. Financial institutions, such as banks and credit card companies, and some employers offer this coverage.¹⁸ With the growing demand for identity theft coverage, some

insurers now offer it as an option in auto insurance policies.¹⁹

While policies for identity theft vary, covered expenses include the following:

- costs of credit reports
- costs for applications that victims must resubmit
- notary fees
- long-distance telephone calls
- postage
- lost wages
- legal fees²⁰

Policies do not cover the costs of items purchased with the victim's personal information or the potential damage to individual credit ratings.²¹ Coverage levels range between \$5,000 and \$30,000.²² The average cost of an individual policy is approximately \$25 per month.²³ The identity theft coverage option on homeowners or renters insurance costs approximately \$25 to \$50 per year.²⁴

Some debate has arisen as to whether identity theft coverage is really "insurance." One argument is that, because identity theft insurance covers only expenses associated with restoring credit and correcting information—and not with direct monetary losses and repair of ruined credit ratings—it is not a true type of insurance. This argument cites that other types of insurance (such as homeowners or auto) pay for direct monetary losses, such as repairs, damages, and replacement of lost items.²⁵ However, the definition of "insurance" does not include only losses. "Insurance" can also include "... render[ing] services connected with the risk."²⁶

As the FTC survey indicates, identity theft victims have numerous problems associated with identity theft:

- credit card problems
- harassment by bill collectors
- loan rejection

- insurance rejection
- utilities disconnected
- civil suits
- banking problems
- criminal investigation²⁷

Therefore, consumers have requested that insurers provide services associated with credit restoration and identity theft prevention. If the insurance industry is providing services that help consumers resolve these problems, then it is living up to those responsibilities.

The data demonstrate that a large number of consumers face identity theft and that it has a huge overall impact on the economy. However, many consumers do not know how to deal with identity theft. The insurance industry should increase efforts to educate consumers on how to reduce the risk of identity theft and what steps are necessary to take when identity theft occurs. ■

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NAIC Signs Memorandum of Understanding (MOU) with Association of Latin American Insurance Supervisors (ASSAL)

by Lauren Scott

Lauren Scott is an international policy analyst at the NAIC in the Office of Government Affairs. She works with U.S. insurance commissioners on a variety of international issues, including the development of international regulatory standards by the International Association of Insurance Supervisors. Scott also works with the delivery of technical assistance to insurance experts in other countries, through information exchange and coordination of visits by foreign insurance regulators to the United States, and the participation by U.S. commissioners in training programs abroad.

On May 8, 2007, NAIC President and Alabama Commissioner of Insurance Walter Bell participated in a formal signing of a Memorandum of Understanding (MOU) with the Association of Latin American Insurance Supervisors (ASSAL). The MOU was signed during ASSAL's 18th Annual Meeting and 8th Conference on Insurance Regulation and Supervision in Rio de Janeiro, Brazil. The NAIC now has entered into seven Memoranda of Understanding.

The ASSAL, an international organization that monitors insurance activity in Latin America, includes members from Argentina, Chile, Ecuador, Guatemala, Nicaragua, Peru, Bolivia, Colombia, El Salvador, Honduras, Panama, Uruguay, Brazil, Cuba, Mexico, Paraguay, Puerto Rico, Venezuela, and the Dominican Republic. Because of cultural and economic ties with the region, Portugal and Spain also are ASSAL members, giving the association a total of 21 members.

During the elections for 2007–2009 at the meeting, Manuel Aguilera, lead supervisor from Mexico, became ASSAL president for the next two years. Argentina was elected as vice president for the South American region; and Puerto Rico, with a unanimous vote, won the vice presidency for the Central and North American Region.

Puerto Rico, both an NAIC and ASSAL member, has been a strong proponent and key player in the finalization of the MOU between the two associations. In his remarks during the signing ceremony, Bell emphasized Puerto Rico's hard work and dedication to ensure the completion of the MOU. He also urged its continued support as a liaison between the NAIC and the ASSAL.

After signing a MOU with Brazil last year, Commissioner Bell noted that the MOU was a critical step to expanding the NAIC's cooperation in our own hemisphere as Latin America's insurance markets continue to grow and face new challenges. In addition, he also promoted next October's International Association of Insurance Supervisors (IAIS) 2007 Annual Conference in Fort Lauderdale, FL.

As a key presenter on two panels during the conference, Commissioner Bell highlighted the NAIC's Insure U program, a comprehensive public education campaign aimed to help consumers and

small businesses with information about insurance options. He also illustrated how Alabama has financially managed large-scale catastrophes.

In addition to the ASSAL conference, a regional seminar on capital adequacy and risk-based supervision was jointly organized by the Financial Software Innovations, Inc. (FSI), IAIS, and ASSAL. NAIC's reinsurance expert, Bryan Fuller, and Chief Deputy Edward Rivera for Puerto Rico gave presentations during the conference on risk mitigation through reinsurance and other means and the role of disclosure in presenting financial information. Other topics included IAIS Solvency Framework, Effective Insurance Supervision—Moving Towards a Risk-Based Approach, Supervision of Assets and Liabilities, Corporate Governance, Risk Management and Internal Control, and Case Study: Applying Risk-Based Supervisory Methods.

The NAIC places a high level of importance on strengthening relationships with countries around the world. To date, the NAIC has signed Memoranda of Understanding with China, Vietnam, Iraq, Russia, Brazil, and Hong Kong. The association currently has draft MOUs with Egypt and Korea, as well. The NAIC also agreed to an MOU on information exchange between EU supervisors and U.S.-led supervisors of insurance group members with transatlantic operations. ■



Leadership Summit Meeting Orlando, FL • April 2007

Your Regulatory & Legislative Section Committee met during the CPCU Society's 2007 Leadership Summit to create an action plan to serve the members of the Regulatory & Legislative Section.

Storybook Landscapes Along the Rhine

by Veronica M. Molloy, CPCU, CIC, ARM

Note: Ronni was a first-time traveler with the CPCU Travel Program, which sponsors an annual travel adventure to prime destinations around the world. There were a total of 42 CPCUs and guests that made this trip in March 2007 to see the Storybook Landscapes along the Rhine.

Thanks to the CPCU Travel Program and the sponsoring Senior Resource Section for arranging for such a fabulous vacation! For all of us aboard the **MS River Concerto** with Grand Circle Travel in March this year, we will never forget this other worldly experience. A great trip was made even more enjoyable by having our CPCU group together for the tours, attending a special party in our honor, and making new friends with common interests. It was easy to dine or chat with a CPCU since we made up one-third of the passengers.

We could never have planned to see so much in one trip on our own. There was a perfect mix of expertly guided tours, free time, and cruising that enabled all to enjoy Amsterdam and Germany from many perspectives. The program directors were knowledgeable, friendly, and had great senses of humor. They and the crew catered to our every need. There was so much to take in during "port talks" and city walks. Perhaps reminiscing will bring it all back again.

Amsterdam proved quaint and welcoming. The charm of the canals, windmills, bike-strewn streets, flower markets, and interesting nightlife made it easy to understand why there is such an influx of eastern European and other immigrants. Most residents speak English, which made us feel even more at home. Housing is expensive so 80 percent of the populace rents homes or apartments. Many live on houseboats. There are few automobiles since gas is twice U.S. prices. The Smart car is catching on. These are so small they are often left on curbs or sidewalks. Every resident has at least two

bicycles, and everyone rides everywhere. There is little crime except for bike violations.

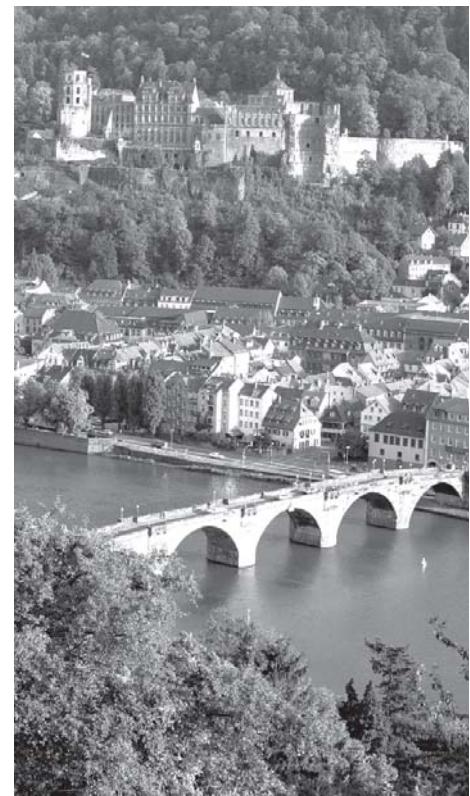
Flowers abound. Houses are clean, full of color, and usually without curtains. Residents are very open about their private lives. Amsterdam is home to the Van Gogh (pronounced Van Gock by the natives) and Rijks Museum (home to Rembrandt artwork). We stared spellbound at the originals remembering the replicas in our school books. Yes, there is a red-light district and yes, marijuana is legal (sold only in small quantities in "coffee shops") but the character of the city is defined more by the friendly residents and the beautiful scenery. This was evidenced in Volendam that was destroyed in 1953 when the Zierderzee broke through the dike, and the town was rebuilt in the original style and as charming as ever, and in Zaanse Schans with its working windmills and cheese factory.

In Enkhuizen, we experienced the best in Netherlands hospitality. Our group separated into smaller sections, and each visited a native family. We learned how they lived, where they worked, how they perhaps came from another country, and what they enjoyed most about living in The Netherlands. They treated us with delicious food and drink, stories, and family albums.

Dusseldorf and Cologne (Kohn in German) showed us the true German culture. Dusseldorf is a populated city with 575,000 people. As you view it from the Rhine, you can tell it has long been a highly industrial city. Now it leans toward light industry and technology.

Ford is the largest employer here. There were so many wonderful local pubs; and at one we enjoyed a treat of delicious homemade beer and sausage hosted by our program directors.

As we know, much of Germany including Dusseldorf and Cologne was almost totally destroyed in the world wars.



Surprisingly, the Cologne Cathedral remained untouched, and its magnificent spires can be seen far down the Rhine. Construction began in 1248 in the French High Gothic style, and continued for 632 years. Today there is ongoing cleaning to maintain its original patina as air pollution has taken its toll. However, its 67,000 square feet of space, 100,000 square feet of stained glass, 50 different types of stone, 18-foot tall Byzantine cross, and relics dating to the Magi make for a most breathtaking site.

Some of us took an optional tour to Bruehl Castle, copied after Versailles' Baroque style. It was royalty's summer palace complete with acres of topiary maze-like gardens. The pastel mosaic walls and gold leaf-painted dome ceilings are reminiscent of St. Peter's Basilica in Rome.

We next sailed to Koblenz, where the Rhine and Mainz Rivers converge. An oversized bronze William I on his horse

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Storybook Landscapes Along the Rhine

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sits proudly at the meeting point. From here an optional trip for the athletically adept visited Marksburg Castle for a totally different experience. Perched atop a steep cobblestone hillside, is the thirteenth century true "knights' castle." This is the only thirteenth century castle not destroyed in the war. The three towers, knights' armor room, wine brewery, and open hearth kitchen in their original rawness made you feel as if you stepped back to the middle ages.

Sailing from Koblenz, we sighted the Lorelei. We had read about the siren that lured sailors to their deaths around a sharp curve in the Rhine; but seeing it made it all too real. We made our trip safely. We were in true "castle country" now as we sailed toward Mainz. Castles sat on every hillside and made great picture-taking opportunities. It didn't matter that some were partially destroyed. There was little elbow room on the top deck or at the salon windows of our ship.

The town of Mainz, we learned, is home to the origin of the printing industry via the Gutenberg Press. The Gutenberg museum opened just for our group. The tour was fascinating. Our guide demonstrated the press and showed us some original printings. Mainz is also the home of Richard Wagner and his music and the cathedral of Martin of Tours and St. Stephen's Church. This church is one of the oldest. Construction began in 975, and took 34 years to complete. In spite of several fires, its beauty remains and the community still worships here.

Following a final-night culinary feast (one of the many) we sailed toward Frankfurt—for some of us our final destination for a flight home. Some extended their stay to see more of Frankfurt and the surroundings. Needless to say, we were all sorry to see it end; but memories and new-found friendships will remain in our hearts. ■

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