

Greetings from Your Chairman

by Patricia A. Hannemann, CPCU



■ **Patricia A. Hannemann, CPCU**, is chairman of the CPCU Society's Risk Management Section. Her insurance career consists of more than 20 years' experience working in agencies and companies. Currently, she is working with The Insurance Society of Baltimore in promoting and teaching various insurance classes. Hannemann served as the CPCU Society's Maryland Chapter president, and chaired both the Public Relations and Good Works Committees. The Maryland Chapter's CPCU Excellence Award was presented to her for spearheading the Good Works Committee and establishing the chapter's scholarship fund in connection with the SADD organization. Serving on the CPCU Society's Chapter Awards Task Force, she helped create and judge the current Circle of Excellence Recognition Program. Hannemann received her CPCU designation in 1987, and holds bachelor's and master's degrees in music from the Manhattan School of Music, and a master's degree in business from Johns Hopkins University.

Everyone knows the saying "time flies when you're having fun." Well, that must be true because it is three years since I was appointed chairman of the Risk Management Section, and my time at the helm is drawing to a close. In my first chairman's message I said, "it really is true, the more you share your knowledge and experience, the more you learn." These past three years have been very exciting and full of growth opportunities for the Risk Management Section Committee and me. I leave the committee and section in the very capable hands of **Stanley Oetken, CPCU, ARM**, who takes the helm following the CPCU Society's Annual Meeting and Seminars in Hawaii. Oetken is extremely knowledgeable with great credentials and will continue to "add value" to your section.

During the past three years we have accomplished an abundance of new activities on the Risk Management Section Committee. Thanks to co-editors **Jane M. Damon, CPCU, CPIW, CIC**, and **James W. Baggett Jr., CPCU, CIC, ARM, CRM**, with **Walter G. York, CPCU**, assisting on articles, the *Risk Management Quarterly* gained new life. It remains in the capable hands of Damon, who recently became the sole editor. Some of the interesting and thought-provoking articles are supplied by our outstanding regular authors **George L. Head, Ph.D., CPCU, CSP, CLU, ARM, ALCM**; **Jerome Trupin, CPCU, CLU, ChFC**; and **Michael J. Moody, ARM**. Because word has spread about the value of the RMQ, we also have several other authors contributing articles for our section to read.

Continued on page 2

What's In This Issue

Greetings from Your Chairman	1
Editor's Note	3
How Do You Respond to the Signs?	4
Business Continuity/Disaster Recovery: Lessons Learned.	6
Building a Better Web	8
Sections Strategic Implementation Task Force Report Summary	10
Can You Keep a Secret? Tips for Protecting Your Proprietary Information	15
Global Warming and You: What Every Insurance Professional Should Know about Climate Change	17
Exclusive Compensation Survey Offer for CPCU Society Members!	20

Greetings from Your Chairman

Continued from page 1

At the CPCU Society's 2005 Annual Meeting and Seminars in Atlanta, your Risk Management Section Committee sponsored the first seminar in many years. We knew we had the train moving on the right track so we kept going. During 2006, in Nashville, we presented **two** seminars thanks to **Jerome Trupin, CPCU, CLU, ChFC**, and **Richard G. Berthelsen, J.D., CPCU, ARM, CRM**. Now it's onto Hawaii in 2007, where more time is allowed for play, so we are teaming up with the IT Section Committee to present one seminar. All in all, we believe you should be proud of the various seminars produced by your section committee.

For those of you who have not yet looked at the "goodies" on the Risk Management Section web page—shame on you. **Martin J. Frappolli, CPCU, AIS**, our webmaster, has done a superb job of keeping you up to date with the latest meeting minutes, PowerPoint presentations, and, of course, pictures. You owe it to yourself to visit the site and find out what you are missing by not being a committee member.

At the recent Leadership Summit meeting in Orlando, we discussed where we were on accomplishing our prior objectives and decided whether or not new ones could be added. Because of the talented section committee members, we decided to offer a webinar soon, so keep your ears and eyes open for those announcements. The webinar committee consists of **Jerome Trupin, CPCU, CLU, ChFC**; **David J. Skolsky, CPCU**; and **W. Edward Carr, CPCU, AIC**. We also decided it was time CPCUs talk about how their designation helped their career or offered opportunities not available in their position. **Salvatore (Bill) W. DiSalvo, CPCU**, and **Joel H. Monsma, CPCU**, will be writing those articles for our RMQ. As you can see, your committee is eager to keep you abreast of the latest activities and moving forward.

At this point, I want to recognize and thank all of the current and past Risk Management Section Committee members who have provided their time, talent, and support in the interest of the Risk Management Section. The

current CPCU professionals on the Risk Management Section Committee are: **James W. Baggett Jr., CPCU, CIC, ARM, CRM**; **Richard G. Berthelsen, J.D., CPCU, ARM, CRM**; **Jeffery L. Bronaugh, CPCU, CLU, ChFC, CIC**; **James E. Brown, CPCU, AMIM, ARE**; **W. Edward Carr, CPCU AIC**; **Jane M. Damon, CPCU, CPIW, CIC**; **Salvatore W. DiSalvo, CPCU**; **Martin J. Frappolli, CPCU, AIS**; **Deborah Ann Kerr-Orlik, CPCU, CRIS**; **George J. Kolczun Jr., CPCU, ARM, AAI**; **Joel H. Monsma, CPCU**; **Stanley Oetken, CPCU, ARM**; **Robert N. Rosenfeld, Ph.D., CPCU**; **David J. Skolsky, CPCU**; **Jerome Trupin, CPCU, CLU, ChFC**; and **Walter G. York, CPCU**. A special thank you goes to a committed and marvelous group of people who have made serving as chairman a wonderful experience.

My last expression of appreciation goes to the many talented and hard-working individuals at the CPCU Society who keep things moving under the watchful eye of **John Kelly, CPCU, ARM**. They really are the engine of the train, or boat, we drive. Without their wonderful assistance much of what is accomplished would go undone.

Needless to say, my experience as chairman of the Risk Management Section Committee will always be remembered as one of the best due to the great friendships developed, the networking opportunities, the challenges and successes, and fun throughout these past three years. You really have no idea of the "benefits" of committee participation until you are actually involved. With all of my ramblings it is time for me to move on and allow Stan to have the helm. Please congratulate Stan when you see him in Hawaii. ■

Leadership Summit Meeting Orlando, FL • April 2007



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

From left: David Skolsky, CPCU; Jerome Trupin, CPCU, CLU, ChFC; Martin J. Frappolli, CPCU, AIS; Richard G. Berthelsen, J.D., CPCU, ARM, CRM; Walter G. York, CPCU; Patricia A. Hannemann, CPCU; Stanley Oetken, CPCU; Salvatore W. DiSalvo, CPCU; and Joel H.

Editor's Note

by Jane M. Damon, CPCU, CPIW, CIC



■ **Jane M. Damon, CPCU, CPIW, CIC**, is an assistant vice president and commercial account executive with Wachovia Insurance Services in Dallas, Texas. She earned a bachelor of business administration in management and master of business administration in strategic leadership from Amberton University.

Damon also has earned the Chartered Property Casualty Underwriter, Certified Insurance Counselor, and Certified Professional Insurance Woman designations. She is past president of the CPCU Society's Dallas Chapter, and currently serves on the CPCU Society's Risk Management Section Committee and edits its quarterly newsletter. Damon has more than 20 years of experience in the insurance industry, and works on large complex accounts in the real estate, construction, and technology fields. She has administered the two largest privately held construction projects (at the time) under a Contractor Controlled Insurance Program (CCIP) through a captive program. Damon joined Wachovia Insurance Services in October 2001.

As we approach summer, the Risk Management Section Committee has assembled another great issue of *RMQ*. Hope you enjoy.

In Texas, we have not reached 100° yet, but we are well on our way. **William F. Stewart** has written an article on global warming and the insurance professional that will help you look at how to adapt and measures to take in the insurance industry.

Business continuity has been a hot topic of late, and we are again including an article showing disaster recovery lessons learned by **Walter G. York, CPCU, AIC, CCLA**. It has been a little time since the Virginia Tech incident, but it is still on our minds and in our hearts. **Earl D. Kersting, CPCU, ARM, ALCM, AIC, AU, AAI, AIS**, has written an article on responding to the signs.

George L. Head, Ph.D., CPCU, CSP, CLU, ARM, ALCM, director emeritus, American Institute for CPCU, and a regular contributor to the *RMQ*, has provided an article to let you look at reporting a claim to your insurance agent instead of directly to your insurance company, and the issues that may arise.

It appears that the recent articles in the *RMQ* are all concerning disasters, death, and future issues in our industry. The insurance industry needs to be in the forefront of these issues, and we must keep up so we can plan and prepare for the future. Remember that one of the key elements of risk management is planning.

As always, please feel free to let us know your thoughts on the articles, what you would like to see, and what you like and don't like. If you would be interested in providing an article, please contact me at jane.damon@wachovia.com. We welcome all authors and commentaries. ■

Make Hawaii Your Destination of Choice!

CPCU Society 2007 Annual Meeting and Seminars September 8-11, Honolulu, HI

Be part of one of the Society's largest meetings in history. And be sure to bring your family for the experience of a lifetime.

- **Celebrate at Saturday's Opening Session**, AICPCU Conferment Ceremony, and Congratulatory Reception.
- **Hear Sunday's Keynote Speaker**, James Bradley, best-selling author of *Flags of Our Fathers*.
- **Choose from more than 40 exceptional educational seminars**, and meet top leaders of the industry.



Register Now!

Visit www.cpcusociety.org for details and to register online, or call the Member Resource Center at 800-932-CPCU (2728), option 5.

How Do You Respond to the Signs?

by Earl D. Kersting, CPCU, ARM, ALCM, AIC, AU, AAI, AIS

■ **Earl D. Kersting, CPCU, ARM, ALCM, AIC, AU, AAI, AIS**, is assistant risk manager for The Kroger Co., Delta Division, in Memphis, TN, a position he has held since 1986. He oversees all areas of risk faced by more than 100 retail stores located throughout a five-state area. Kersting is a past president of the CPCU Society's Memphis Chapter, and previously served on the CPCU Society Risk Management Section Committee.

As I write this, it is four days since the Virginia Tech incident. I reference the date because by the time you read this article, months will have passed and much more will probably be known about the incident and the perpetrator; many fingers will have been pointed and accusations made regarding who knew and ignored what information and signs; and undoubtedly, much litigation will have been filed. Insurers will be defending claims on behalf of the school regarding issues of security and event response; claims on behalf of teachers and counselors regarding alleged ignored signs and precursors; claims on behalf of the retailer that sold the handguns; and claims under many more theories, far too many to list, and irrelevant to this article. However, this article is not about the Virginia Tech incident. This article is about how you, and your clients, respond to the signs of possible impending violence.

Violence has become commonplace in today's environment. I could quote statistics and examples, but it's not necessary, as you needn't look far to see the proof for yourself. Not a day goes by when your local news media doesn't report an act of violence. It could be workplace violence, domestic violence, violence in the schools, violence stemming from road rage, and the list goes on. It doesn't have to result in a death; it could be a threat—verbal, visual, or written—intimidation, harassment,

or any act that could cause a reasonable person to feel threatened or unsafe.

Regardless of the nature of the violent act, or where the act takes place, it is usually not spontaneous and without warning. A violent act is often the final outlet of pending building frustration, be it due to marital issues, family problems, financial issues, drug or alcohol use or abuse, job pressures or feelings of being overworked, or simply a perception of a factor that may be insignificant to one individual, yet seem insurmountable to another. The causes of violence may be as varied as there are individuals, as each of us has different life experiences and tolerance levels. Knowing this, it becomes critical that none of us ignores the warnings and symptoms that there may be an impending problem. Don't dismiss the frustrations of another simply because, in your frame of reference, the issue with which he or she is dealing seems minor to you.

What Are the Signs of an Impending Problem?

There are usually observable warnings of someone experiencing a drug or alcohol use or abuse problem. He or she may act in a manner that causes you suspicion, or there may be the odor of alcohol about him or her. Drug and alcohol use and abuse affects one's judgment and mental abilities, and is a problem that crosses boundaries between home, work, in public, and on the road. Any sign of drug or alcohol use or abuse should be considered a warning sign, and should not be ignored. If you are uncertain if there may be a problem with drugs or alcohol, there are experts, agencies, and organizations skilled in making such a determination, so you aren't left having to make that decision on your own if you're not certain of a problem, or not certain how to respond if a problem does, in fact, exist.

If someone speaks of problems he or she is experiencing at home—marital, family, relationship, financial—his or her speaking about it is a sign that it is a very real problem, and a serious problem. Problems at home don't stay at home, and again cross boundaries between home, work, in public, and on the road. If the problem is being openly brought up by the individual, that, in and of itself, should be considered a warning sign, and should not be ignored. Individuals who speak of romantic obsessions also should not be ignored, particularly if they speak of the feelings not being mutual or not being reciprocated.

Changes in job performance or productivity may be a warning sign. Excessive or unexplained absences, missed deadlines, unusual disorganization, or apparent lack of interest in the job may be symptoms that the individual feels abnormal stress or pressure. Again, it becomes a matter of perspective. What may be insignificant to you, may be a monumental issue to him or her, one which he or she doesn't know how to overcome. Don't dismiss these signs simply because your point of reference and approach would be to "get over it." If an issue is affecting someone's day-to-day routine and performance, it needs to be taken seriously and not ignored.



Persons with few interests outside of work or school, or who seem to be loners and have no friends, are in general more prone to violence. If someone seems withdrawn, paranoid, avoids contact with others, seems depressed, these are all signs that could warn of potential violence.

These examples are not intended as an all-inclusive checklist of all signs and symptoms of persons who may have underlying violent tendencies. Instead, these examples are provided to get you thinking about for what you should be looking. In many cases, it's easy to tell when someone's attitude or behavior changes, or when he or she is acting abnormal as compared to what is normal for him or her. Other times, your intuition tells you something just isn't right. The bottom line is, don't ignore your observations or feelings. Think back to how many times after someone commits a violent act reported in the media that the events leading to the act seem in hindsight so clear and obvious. Now is the time to take steps to prevent having to someday look back in hindsight.

Steps to prevent acts of violence must include awareness, communication, education, and response.

Awareness

We've covered some of the signs and symptoms of persons who may have underlying violent tendencies. However, we and others with whom we interact, must remain aware at all times of acts and actions that could or should be considered warning signs. If everyone is conscious of his or her environment and those who are a part of his or her surroundings, the likelihood of sensing something "not quite right" increases exponentially with the number of observers.

Communication

Preventive communication may take on many aspects.

- We must communicate that at work, at school, or wherever our environment,

there is a zero-tolerance policy for acts of violence, harassment, or intimidation.

- We must communicate that there are resources available to help work through issues such as drug or alcohol abuse, problems at home, depression, or whatever issues our associates, co-workers, friends, students, or family members are facing, and that seeking help is a respectable approach and not a sign of weakness nor anything that will reflect ill upon the individual.
- We must communicate that all potential signs and symptoms should be reported, and that all will be taken seriously and all will be followed up. We must then live up to that commitment.

Education

We must provide information to our clients and customers that allows and encourages others to also gain an understanding of how to recognize those potential signs and symptoms, and what to do once they are faced with such a situation. The larger the audience we can reach, the greater the impact.

Response

After we've made others aware of the signs and symptoms and for what to look; after we've communicated our expectations and the resources available to help others in need; and after we've educated others to also gain an understanding of how to recognize those potential signs and symptoms, and what to do once they are faced with such a situation; we've got to have a response plan already in place to deal with the information reported. Once the need has arisen is not the time to be considering what we should do next.

- Is there an Employee Assistance Plan in place, and have those who may need to know been made aware?
- Are there specific guidelines and procedures established for investigating tips?

- At what point will law enforcement be contacted and asked to provide assistance?
- Is there a manner in which to anonymously report tips so that individuals won't fail to report due to fear of retribution?
- Should the need ever arise, have plans been made, communicated, and tested, to secure individuals' safety or if necessary, evacuate to an area of safety?

This article has been written not as a plan to resolve the potential of violence, but was written in an effort to encourage and motivate **you** to create a plan—one very specific to your particular needs—to reduce the likelihood of violent acts, and the consequences of such acts. There are resources available to assist you, and your clients and customers, in creating a plan, but this is not an area in which you can purchase a "canned" plan, stick it in a binder on your shelf, and feel good that you're ready. You need a plan; it must specifically fit your needs and environment; it must be communicated; it must be practiced; and it must be updated and maintained current as changes take place, and the changes practiced. You cannot operate under the theory that violent acts only happen to others, or only happen someplace else, and that you're immune to such threats. The threat of violence is very real in today's environment. Violent acts may occur in any city or town, at any location, in any business, school, home, or even church. No one and no place are free from the risk of violence. However, preparedness can reduce the exposure and mitigate the outcome. It's a tremendous responsibility, but you hold the power to save lives, if you'll plan in advance how to do so.

How will you respond to the signs? Will you ignore them, or will you be able to recognize them, and be able to diffuse a potential situation before it escalates into a catastrophic event? ■

Business Continuity/Disaster Recovery: Lessons Learned

by Walter G. York, CPCU, AIC, CCLA



■ **Walter G. York, CPCU, AIC, CCLA**, is a vice president with RCM&D, Inc. in Baltimore, MD. He is a past president of the CPCU Society's Maryland Chapter, and is currently a member of the CPCU Society's Risk Management Section Committee.

Over the years, I have been involved in several major losses due to fires, floods, both Hurricanes Hugo and Andrew, as well as business income losses.

I would like to share with you observations that I have made, plus thoughts from my clients on what they have learned after going through these disasters that almost destroyed their organizations.

Fortunately, almost every one of my clients had a business continuity plan in place. Some of the plans were very detailed, while others were simple, yet effective. For example, one client who was involved in Hurricane Hugo had a two-page plan that outlined what to do and how to prepare for a hurricane. One section of the business continuity plan stated that all employees should fill

sinks and bathtubs with fresh water for drinking and bathing purposes. Reflecting back on the events after Hurricane Hugo, the simple plan worked, and helped the hospital through the crisis.

I happened to be in Charleston, South Carolina the day before Hurricane Hugo made landfall on a scheduled service visit to my hospital client. It was preparing for the potential worst-case scenario—a direct hit from the hurricane. Hurricane Hugo did, in fact, directly hit Charleston. The client sustained severe damage to its roof and lost power. Due to the loss of electricity, the staff had to use the stairways of the 12-story hospital to provide care to its patients. Several months after the hurricane, t-shirts were given out to the staff stating, “We Survived the Stairways.”

The back-up generator was on the lower level of the building and sustained major damage due to the flooding that occurred from the heavy rains. One of the first things that was done following the hurricane was to move the generator from the ground floor to the second floor. This preventive measure was an important lesson learned from the experience.

I was in north Miami Beach two days after Hurricane Andrew made landfall. My client was a nursing home facility. The facility sustained roof damage and lost electrical service. After the storm, the weather in south Florida got extremely hot. Due to the lack of power, the air conditioning system was inoperable. The administrator was afraid that patients may die due to the heat and lack of water and ice. There was no back-up generator to provide power at this facility. Such back-up power was not contemplated in its business continuity plan.

A community college client of mine sustained water damage when a pipe broke. The area where the pipe broke was near the computer system. Severe damage

to the computer system was sustained. Prior to this incident, the client did not see the need to have a business continuity plan in place. Shortly after, the client hired a firm and created a plan for all personnel. A lot of money was spent on hiring the consultant and developing the plan. Six months later, I was speaking to the CFO and found out that the plan was in the trunk of his car. It was so complicated and out of date that it was of no use to the college. The lesson I learned from this is that any plan has to be useful, practical, and kept current.

A few years ago, I received a phone call at 2 a.m. from a client informing me that water was coming out of the front door of his lobby. When I arrived at the scene, I saw paper, computer tapes, and other documents floating out of the building. I learned that a fire hydrant located on a street near the insured's warehouse broke and created a water cannon hitting the building. The force of the water over several hours eventually created a hole in the building. From a worst-case scenario, this was it—behind the wall, where the water pressure burst through, was the company's computer center. One million gallons of water poured into the building. The claim for property damage and business income totaled more than 20 million dollars. The client had a business continuity plan in place and, within a few days, the company was back in business using cell phones and laptop computers.

Based upon my interviews with risk managers, facility managers, and chief financial officers that have suffered through a major loss, I have outlined the following recommendations/suggestions that are paramount to any disaster recovery plan:

1. It is extremely important to have good relationships with vendors, government agencies, and business leaders. These connections will help in restoring needed services such as electrical power and telephone service.



When my firm was working on our business continuity plan, a committee was formed from various departments within the firm. We also had help from the loss control representative from the Hartford by holding mock simulations and “what if” scenarios. We also consulted a local restoration firm for its opinion of the risks that our company faced. The firm did a walk-through and made several recommendations on how we could improve both our plan and operations.

After a major loss, the dynamics can be complicated. My advice is to be proactive and to consider what your firm can face before a disaster strikes. Every business is different and the risk manager, facility manager, or the CFO of any entity must consider what is needed to maintain vendor relationships and customer contact. A well-developed and tested business continuity plan is a must for a timely recovery to a disaster. ■

2. Create a list of vendors that includes restoration firms, electricians, real estate contacts, furniture contacts, architects, data vendors, food service, office movers, trailer companies, storage facilities, etc.
3. Make sure that an employee calling tree has been established and kept current.
4. Engage an outside vendor or service to establish back-up computer connections to allow your employees to maintain contact with clients and vendors with laptops and cell phones.
5. Holistic thinking is a must and should include good attitude, teamwork, communication, a healthy spirit, and a sense of humor. These are important to survive a major loss.
6. Delegate responsibilities to make sure that everyone is in the loop. Have meetings at set times and communicate with all employees.

7. Maintain adequate insurance coverage. Based upon my experience, there are always coverage issues that follow a major claim. Make sure that your broker/agent is involved in any potential coverage dispute.
8. Cooperate with both the insurance adjuster and insurance company. Consider using outside consultants if the claim is complicated. For example, it may be necessary to hire a public adjuster, engineer, or accountant to assist with claim issues that may arise.

In assisting my clients with business continuity planning, there is a wealth of information available and there is no need to recreate the wheel. Several insurance carriers, including the Hartford, Chubb, and Travelers, offer model business continuity plans that can be used as a starting point for a firm to create its own plan. And lastly, seek the advice of the carrier's and broker's risk control department.

Building a Better Web

by George L. Head, Ph.D., CPCU, CSP, CLU, ARM, ALCM



■ **George L. Head, Ph.D., CPCU, CSP, CLU, ARM, ALCM**, is director emeritus at the AICPCU in Malvern, PA.

Author's note: Lisabeth A. Groller contributed significantly to the substance of this article.

The contract we call an insurance policy weaves an elegant web of duties, rights, and conditions by which an insurer and an insured establish a relationship for gathering funds to pay for individually unpredictable losses. These contractual rights, duties, and conditions are linked in interdependent strands: if one party—whether the insurer or the insured—is at fault in not performing a duty or not fulfilling a condition that the policy assigns to it, the other party is released from a corresponding duty to the party at fault. For example, if an applicant for insurance fails to answer truthfully and fully all the questions on the application, or does not pay the premiums for the insurance once the policy is issued, the insurer is released from its duty to pay for any otherwise covered losses. Similarly, the insurer has a duty to hold an insured's premium payments in properly invested reserves, ready to pay covered losses if they occur. Should the insurer be at fault in failing to do so, an insured has a right to a full refund of the premium it entrusted to the insurer.

The Nature of the Web

These and many other reciprocal rights and duties of insurers and insureds within the contractual web of insurance law are clear; moreover, courts, legislatures, and administrative agencies strive to repair, or to anticipate and prepare for, failures in this web. Nonetheless, just as in the world for which insurance strives to provide some level of protection, accidents and other unforeseen events can disrupt the supposedly-fully-orchestrated and harmonizing symphony of transactions between insurers and their policyholders. Sometimes, however, completely unforeseen events create situations for which insurance policies and supporting legal rulings have not clearly provided. In such cases, I believe insurance professions have an ethical duty to step beyond the often-technical limits of the law—an ethical duty to try to “simply do what is right.”

Consider with me two claims-related examples, focusing on situations where “crazy things happen” to a well-meaning insured or to a conscientious representative of a well-managed insurer. In situations like the two that follow, situations in which I believe neither the policyholder nor the insurer is significantly at fault, and the law is silent in almost all jurisdictions, our ethics as insurance professionals must guide us. Please consider in each case what the insurer should do to simply “do what is right.” (Also, if you are aware of any statutes, court decisions, or administrative rulings that are precisely on point for either of these examples, please let me know. I will try to share with other RMQ readers what I learn from you.)

Case 1—Insured Does Not Realize All That Happened

When a seemingly small fire broke out on Ruth's kitchen stove, she grabbed the faucet sprayer, turned on the cold water, and put out the flames. Everything was soaked, but the damage looked minimal. Her dinner guests would be arriving soon and she was more concerned with what to do with them. The meal was obviously ruined; the local restaurant would have to do. All in all, the evening went well and Ruth didn't get home to well after midnight. She decided to go to bed and deal with the kitchen in the morning. Two days later, she managed to get her old stove cleaned up and all was working fine. The kitchen wall was blackened all the way up to the ceiling, but Ruth decided that paint would work fine once she scrubbed everything down. There would be no need to call her insurance agent, Ruth decided—she had everything under control.

But five weeks later, her cast iron, claw-footed tub fell through the ceiling of Ruth's kitchen, smashing her stove to pieces. This collapse made both her kitchen and her upstairs bathroom unusable. This time, Ruth called her insurance agent immediately. The insurer's adjuster and an inspector from

the local fire department determined that the fire a month earlier—the fire about which Ruth had never told her insurer, even though she had more than a month to do so—had weakened the bathroom floor and supporting joists to the point that the tub fell through. The adjuster believed that, had Ruth called her insurer right after the fire, the adjuster would have seen the true extent of the fire damage and would have ordered steps to prevent the more serious collapse damage.

Ethically—and keeping in mind the insurer's contractual duties to Ruth, to its other homeowners policyholders, and to its stockholders (as well as Ruth's contractual duty to report losses as soon as practicable to her homeowners insurer so that it can verify the circumstances of any loss) should the insurer even consider paying Ruth's claim? Beginning with putting out the fire four months ago, Ruth has done what she considered the right thing. Now what is the right thing for her insurer to do?



Case 2—Insurer's Representative Suddenly Passes Away

Harry telephoned his insurance agent right away from his cell phone, standing outside his burning roadside restaurant as the fire department was extinguishing the last of the flames. Fortunately, his agent—the long-time head of this agency—was still in his office, alone, at 6:30 p.m. on a Friday evening; the agent acknowledged Harry had coverage, commended him for his prompt accident report, and promised to relay his claim to the insurer's home office the next morning. The agent agreed with Harry that it was very important to repair the restaurant so that it could reopen as soon as possible, thus minimizing Harry's business interruption loss, for which he also had coverage from the same insurer. Unfortunately, just after hanging up with Harry, the agent had an instantaneously fatal heart attack. The lit cigarette the agent had been smoking while talking to Harry fell from the dying agent's lips, and set off a fire that destroyed the entire office, including the agent's notes about Harry's call. So none of the agent's surviving office colleagues knew anything about Harry's claim until a month later, when Harry telephoned the agency's newly restored office, inquiring why he had not yet heard from any adjuster. As the new head of the agency explained to Harry, he had not heard from any adjuster because no one in the agency realized that Harry's restaurant had been closed by a fire. The new agency head wanted to ask Harry if Harry could prove that he had really ever called to report the fire, but the agent decided that this was not the best question to ask at the moment.

Ethically, what is the best thing for this agent to do at this moment? If Harry's claim is valid, any further delay increases the size of this covered business interruption loss. But again, as with Ruth's claim, remember that the insurer for whom this agent acts owes somewhat conflicting duties not only to Harry but also to the insurer's other restaurant-owner insureds and to the holders of the insurer's common stock.

A Concluding Query

Both of these cases suggest that failure to communicate can put stress on the web of intertwined rights and duties that bind insurers' with insureds' shared wellbeing in the conduct of the insurance enterprise. Are failures such as these unavoidable accidents—with neither party (insured nor insurer) being culpably at fault, but also unfortunate events that cannot be avoided at reasonable cost? Or do these and similar failures point to systematic changes that will enhance the reliably, cost-effectiveness, and ethical standards that support the insurance-transactions web? ■

Sections Strategic Implementation Task Force Report Summary

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



■ **Kathleen J. Robison, CPCU, CPIW, ARM, AU**, has more than 30 years of experience with leading claims organizations, and possesses a wide range of commercial and personal insurance coverage knowledge and applicability. K. Robi & Associates, LLC, which she founded in 2004, provides customized consultant services in the property and casualty insurance fields, including expert witness testimony, litigation management, claims and underwriting best practices reviews/audits, coverage analysis, and interim claims management. She can be reached at (423) 884-3226 or (423) 404-3538; or at info@krobiconsult.com.

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 (IGRC) 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.

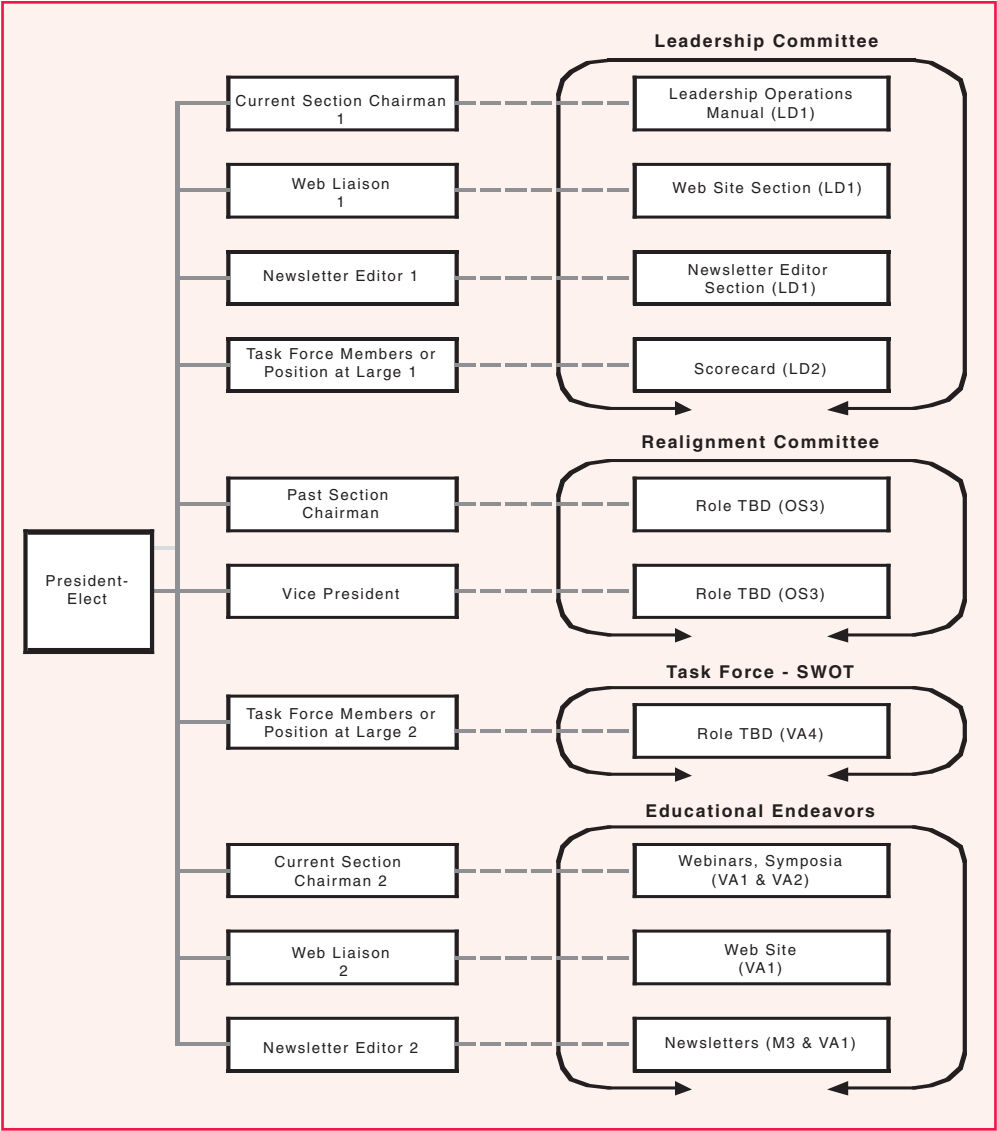
The CPCU Society's president-elect will chair the IGRG. Each of the other members will be responsible for chairing a specific subcommittee dedicated to the implementation of a recommended group of tasks. (See Table 1.)

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

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

Continued on page 12

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



Sections Strategic Implementation Task Force Report Summary

Continued from page 11

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

Continued on page 14

Sections Strategic Implementation Task Force Report Summary

Continued from page 13

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. ■

Can You Keep a Secret? Tips for Protecting Your Proprietary Information

by Harold J. (Jack) Fassnacht

■ **Harold J. (Jack) Fassnacht** is an attorney with Clausen Miller, P.C., specializing in intellectual property law. He has more than 15 years of experience in counseling both large and small clients regarding their patent, trademark, and copyright matters. His practice includes patent prosecution, patent infringement analysis, trademark acquisition and registration, patent and trademark licensing, and copyright registration.

Fassnacht is admitted to practice before the United States Patent and Trademark Office, and is a member of the bars of the State of Illinois, the U.S. District Court for the Northern District of Illinois, and the U.S. Court of Appeals for the Federal Circuit. He graduated from Washington University in St. Louis in 1977 with a degree in chemical engineering, and went to work as a research engineer in Bartlesville, OK, for Phillips Petroleum Company before entering law school in 1987. He graduated with high honors from IIT Chicago-Kent College of Law in 1990, where he was a member of the Moot Court Society and elected to the Order of the Coif.

Every company, including yours, has some proprietary information that gives it a competitive edge in the marketplace, even if it's only a customer list. How you treat that information can be the difference between keeping and losing that competitive edge.

Customer lists are just one example of information that companies often consider proprietary. Other examples include formulas, product specifications, financial information, manufacturing methods, and operating manuals. Just about any kind of information, if it is not generally known outside your company and gives you a competitive advantage, qualifies as a trade secret, and thus is protectible under trade secret law.

Trade Secrets versus Patents

Trade secret law may be thought of as an alternative to patent law as a way to protect information you and your company have developed. Both can be used to prevent others from using that information to compete against you. But that's where the similarity ends.

In order to protect a technological innovation under patent law, you must disclose the innovation to the world in your patent. In return, you are granted the ability to prevent others from making, using, selling, or offering for sale articles covered by your patent for a period of 20 years.

In order to protect a technological innovation or other form of proprietary information under trade secret law, you must take active steps to keep the information secret. As long as you do so there is no time limit on how long you can maintain your trade secret.

Developing and Following a Trade Secret Protection Plan

The most common mistake companies make with regard to their trade secrets is not taking the necessary steps to properly protect the secret. Courts consider multiple factors when determining whether information is a trade secret, including: (1) the extent the information is known outside the company; (2) the extent the information is known within the company; and (3) the measures taken by the company to guard the information. Simply not disclosing your proprietary information outside the company may not be enough for it to qualify for protection under trade secret law; you must take active steps to guard your trade secrets.

Failure to take the necessary steps to protect your trade secrets can result in the loss of the ability to prevent their use by your competitors. The following practices can assure that your company adequately protects its trade secrets and, if they are stolen, can successfully prosecute the responsible party.

- 1. Identify your trade secrets.** Only by knowing what your trade secrets are can you take the proper steps to protect them. Take some time now to review your operations to identify those formulas, specifications, processes, and other information that give your company a competitive edge.
- 2. Label trade secret documents.** Buy or make a stamp that reads "Confidential Information." Stamp any documents, including operating manuals, blueprints, engineering drawings, etc. that contain your proprietary information. Don't overdue it, though, so the impact of the stamp is not diluted. Have a document handling policy

Continued on page 16

Can You Keep a Secret? Tips for Protecting Your Proprietary Information

Continued from page 15

that includes provisions for the destruction of all documents containing trade secret information once they are no longer needed.

3. Restrict access to your trade secrets. Only employees with a need to know should have access to your trade secrets. Restrict public access to work areas where trade secret information can be gleaned merely by looking around. Install a security system, especially around those rooms or areas where trade secrets are kept. These precautions will have the added benefit of impressing upon your employees the importance of protecting the company's proprietary information.

4. Notify your employees. Inform your employees that their jobs may involve knowing and dealing with proprietary information. Include a non-disclosure clause and an invention assignment clause in your employee agreements. (The most common way to lose a trade secret is through employees.) During exit interviews remind the employee of his or her ongoing duty of confidentiality.

5. Maintain computer secrecy. Use passwords. Lock your computers after hours if possible.

6. Screen speeches and publications. Review planned speeches and publications for possible trade secret content. Information contained in patent applications will eventually become public information, so screen any patent applications for unnecessary disclosures.

7. Deal cautiously with third parties. If you do have to disclose your trade secret to someone outside the company, such as a supplier, customer, consultant, or contractor, tell him or her that it's confidential information. Better yet, have him or her sign a non-disclosure agreement.



Parting Is Such Sweet Sorrow: The Special Case of Departing Employees

Maintaining trade secrets that have become known to departing employees can be difficult. In general, employees are allowed to take with them the general skills and knowledge they acquired during their tenure with your company. They may not take with them confidential, particularized plans or processes developed by your company that are unknown outside the company and give you a competitive advantage. In other words, they may not take with them your trade secrets.

As already noted, the risk of having departing employees steal your trade secrets can be reduced by having all employees sign an employment agreement having a non-disclosure clause. Your employee agreement should also have a clause providing for the return of all physical and other media containing the company's proprietary information upon departure from the company. An exit interview can be the appropriate forum for the return of these materials.

Some companies include a non-compete clause in their employee agreements. Non-compete clauses need to be carefully drafted, but that is the subject for another article.

It may be worthwhile to monitor the conduct of your former key employees—in a legal manner of course. Where are they now working? Are their new companies making competitive products that require knowledge of your trade secret information?

If you suspect that a former employee, or anyone, has stolen your trade secret information, you should take immediate action. Legal remedies include temporary injunctions that can be obtained quickly and sometimes without notifying the other party until the injunction is granted. Some states provide criminal penalties for stealing trade secrets.

Conclusion

Developing and following a trade secret protection plan such as that outlined above will minimize the chances that your trade secrets will be lost or stolen. If you must go to court to protect your trade secrets, faithfully practicing the steps outlined above will greatly enhance your chances of success. ■

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

by William F. Stewart

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 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.



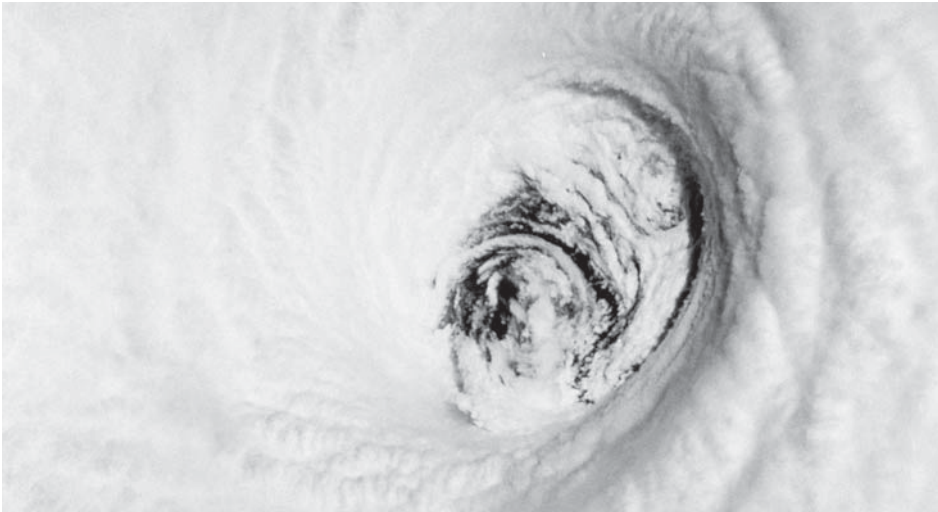
One of the most alarming aspects of global warming is rising sea levels. An April 6, 2007, IPCC report stated, with "medium confidence," that "sea-level rise and human development are together contributing to . . . coastal flooding in many areas." In Florida, sea levels have risen six to eight inches 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

Continued on page 18

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

Continued from page 17



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 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 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.

Don't Miss Your Risk Management Section's Seminar at the 2007 Annual Meeting and Seminars in Honolulu

Sustaining Profitability through Enterprise Risk Management and Enterprise Performance Management

September 10, 2007 • 10:45 a.m. – 12:45 p.m.

As insurers seek to improve enterprise performance, Enterprise Risk Management (ERM) is gaining momentum. Insurers are leveraging Enterprise Performance Management (EPM) and Enterprise Risk Management (ERM) strategies, technologies, applications, and data in this effort.

Both EPM and ERM can incorporate external political, economic, social, and technological factors—such as regulatory changes, interest rates, demographic shifts, and global warming—into their strategic and tactical planning model assumptions. This seminar will review an ERM framework and its components; risk management exposures with a focus on emerging sustainability risks; and best practices use of EPM & ERM technologies and applications.

And since ERM is a global topic, the program will include a discussion of its evolution in Europe, from the banking industry's Basel Accord to Solvency II for insurance, and its effect in the United States. An ERM case study encapsulating all of the above will be presented.

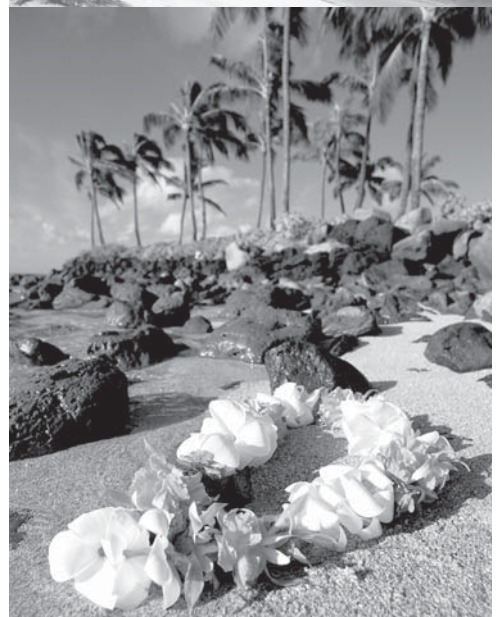
Speakers

Dan R. Anderson, Ph.D., CPCU
University of Wisconsin-Madison

Richard G. Berthelsen, J.D., CPCU
AICPCU

Patricia L. Saporito, CPCU
Business Objects Americas

Chris Suchar, FCAS, MAAA
DFA Capital Management Inc.



Register today at www.cpcusociety.org.

Exclusive Compensation Survey Offer for CPCU Society Members!

The CPCU Society and the Risk and Insurance Management Society, Inc. (RIMS) have arranged this special offer just for you. RIMS collaborated with Salary.com, a nationally-recognized company specializing in compensation surveys and software, to create the 2007 Risk Management Compensation Survey. This survey includes data from more than 1,300 participants in the United States and Canada.

The survey includes 12 key jobs found in the risk management profession:

- enterprise-wide risk management professional
- insurance and risk management professional
- insurance management professional
- employee benefits manager
- claims manager

- workers compensation claims manager
- business continuity manager
- safety manager
- risk management analyst (enterprise-wide)
- risk management analyst
- claims analyst
- administrative assistant

CPCU Society members receive more than 50 percent off of the regular price of \$795 for this survey!

Visit www.RIMS.org/compensation and choose the PDF option of the standard report. During checkout, enter the discount code CPCU, and your exclusive discount price of \$395 will be charged. ■

Risk Management Quarterly

is published by and for the members of the Risk Management Section of the CPCU Society.
<http://riskmanagement.cpcusociety.org>

Risk Management Section Chairman

Patricia A. Hannemann, CPCU
E-mail: pah@hoco150.com

Risk Management Quarterly Editor

Jane M. Damon, CPCU, CPIW, CIC
Wachovia Insurance Services
E-mail: jane.damon@wachovia.com

Sections Manager

John Kelly, CPCU, ARM
CPCU Society

Managing Editor

Michele A. Ianetti, AIT
CPCU Society

Production Editor/Design

Joan Satchell
CPCU Society

CPCU Society
720 Providence Road
Malvern, PA 19355
(800) 932-CPCU
www.cpcusociety.org

Statements of fact and opinion are the responsibility of the authors alone and do not imply an opinion on the part of officers, individual members, or staff of the CPCU Society.

© 2007 CPCU Society



PRSR STD
U.S. POSTAGE
PAID
BARTON & COONEY

Risk Management Quarterly
Volume 24 Number 3
July 2007

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

