

Editor's Note

by U.K. "Rick" Becker, CPCU, CLU, ChFC



U.K. "Rick" Becker, CPCU, CLU, ChFC is underwriting/product director for Nationwide Insurance in Richmond, Virginia. Becker attained the CPCU designation in 1984.

A question one frequently hears these days is "What is the role of the underwriter in the future?" What we should ask is "What sets one apart in the industry?" As a CPCU, you can bring extra value to your organization through your ethics, education, and experience in the business, whether it be as underwriters or another role. Our quest to continue to grow and learn certainly provides the opportunity to set us apart. James R. Nau, CPCU, 2002-2003 CPCU Society President, commented in the CPCU News, "The Society is perfectly positioned to help our industry find and train leaders within our membership." This means we all need to get involved!

The Underwriting Section, as are all sections, continues to strive, but struggles

to provide information and access to professional outlets and insights to our business not just underwriting. David S. Medvidofsky, CPCU, who is spearheading the Underwriting Section web site enhancements, is working hard to make the web site informative and a means to connect us all as a network of professionals. If you haven't done so lately, check out the site and engage in discussion topics or if you have something to share, please do so. Visit the section web site at www.cpcusociety.org, especially Underwriting Section Tools, which provides member postings provided by members for members. For us to be successful, one thing remains missing . . . **you!** We really need to know what you think, what you want to know, and how we can better exercise our professionalism as CPCUs.

For 2003, the section leadership has chosen the following two seminars for this year's Annual Meeting: "Working with the Excess and Surplus Lines Marketplace" (Monday, 10:30 a.m.–12:30 p.m.) and "Predicting the Future: Catastrophe Modeling" (Tuesday, 10:30 a.m.–12:30 p.m.). Here's how **you** can help. Give us feedback on the chosen topics, suggestions, or speaker ideas for future events. The more input we have, the better the programs. More importantly, are these the type of topics important to you?

Knowing that not everyone gets to attend the Annual Meeting and Seminars, your feedback regarding content helps us to determine how we can provide information and access to professional outlets to help you grow as a CPCU and be that leader in our industry!

As most of you know, the CPCU Society's strategic plan includes two goals.

Goal 1: Make CPCU the most widely recognized, valued, and highly respected professional designation/brand in the insurance industry.

Goal 2: All Society members have access to a continually increasing number of programs and services that position them for success.

How we reach these goals is a **team** effort. We really need to hear from you and have you share your learnings and knowledge so we can collectively grow. My e-mail address is beckerr@nationwide.com.

Please share your ideas, input, and thoughts regarding what is important to you and how we can work together to achieve the Society goals and help each other grow as professionals. ■

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The 21st Century Underwriter: Armed and Ready to Make a Profit

A panel of underwriting experts gathered to discuss the changing role of the underwriter and how to prepare for the 21st century during "The 21st Century Underwriter: Armed and Ready to Make a Profit!" a seminar moderated by **Kenneth J. Swymer, Ed.D., CPCU, CLU, CFP, AU**, assistant vice president, Insurance Operations Training, Liberty Agency Regional Markets. The panel was comprised of **Robert M. Fishman, J.D., CPCU, CEO**, Manufacturing Services, Zurich North America; **Barbara Reardon**, CEO, Educating Underwriters; **David Ueeck, CPCU, CLU, ChFC, ARM, AU**, director, Learning and Development, State Farm Group; and **William M. Tarbell, CPCU**, vice president, Commercial Underwriting, Providence Washington Insurance.

The session was divided into the following three segments:

1. How underwriting is affected by market conditions and management philosophy.
2. The role of learning in supporting the achievement of underwriting goals.
3. Underwriting and knowledge management tools.

How Underwriting Is Affected by Market Conditions and Management Philosophy

William Tarbell began the discussion of how underwriting is affected by market conditions and management philosophy. His comments were focused on how changing market conditions (i.e., the hard market) is affecting underwriting and underwriting management, the skills needed by the 21st century underwriter, and obstacles in achieving underwriting goals. During the soft market, there was a lowering of underwriting standards. The focus was more on the production of new business typically outside of a company's normal underwriting appetite, at lower

rates, with broader coverage, and underwritten with a minimal amount of information. The increase in loss ratios and the decrease in investment income have led to the current hard market. The back to underwriting basics of staying with the company's underwriting appetite, analyzing the exposures, and pricing accordingly to the exposures will lead the industry back to profitability.

Today, underwriters have assumed the blended role of both marketing and underwriting. To meet the production and profitability goals inherent in these roles, underwriters must possess both marketing and technical skills. In addition to communication and relationship skills needed to market effectively, underwriters must also maintain their decision-making and

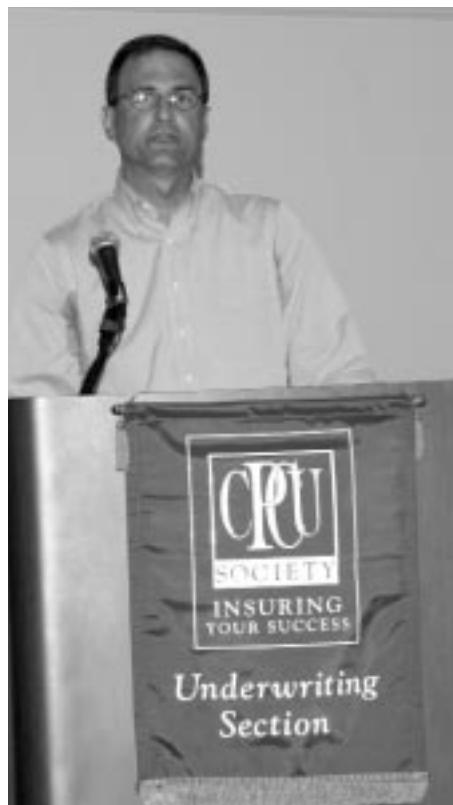
technical expertise. According to Tarbell, "it takes a skilled professional to balance these needs."

The focus of underwriting management in the hard market has changed from production to underwriting. There is a recommitment to training on the underwriting decision-making process. Individual risk selection and centralized underwriting are valued. Underwriting audits, which had been abandoned during the soft market, have been reinstated. The question is "how long will this last?" Even during the soft market, a recent study indicated that small property and casualty companies that maintained their market focus and underwriting discipline were twice as profitable as the larger carriers that did not. Hopefully the industry will learn from its past mistakes and not return to the soft market underwriting management philosophy.

Rob Fishman continued the discussion of the effects of the soft market by displaying a number of slides containing industry data. His first slide indicated that the top 20 reinsurers had increased reserves by \$4.1 billion and direct insurers by \$10.9 billion in the year 2001. His next slide indicated that the industry's reserves are deficient by \$119.4 billion, which represents 40 percent of the industry's surplus. His conclusion was given the industry's financial condition, underwriting will dominate.

Underwriting is needed to offset reinsurance cost—net rise, the current environment will force management to book accident year results prudently, and cheating and restoration will not get the highest price/earnings ratio by the market. Fishman expects the current hard market to last until 2006 because European insurers have been hurt, reinsurers will act with more discipline, calendar year results will be slow to recover, and investment results will remain low.

Several questions were directed to Fishman and Tarbell by the audience based upon their comments. In response



■ ??? addresses the audience at one of the Underwriting Section's 2002 Annual Meeting educational programs.

to the question, "Do we really know how underreserved the industry is and how long it will take to fund this inadequacy?" Fishman indicated that there are several studies that indicated that the estimate of the amount of reserving deficiency is from \$30 million to \$120 million and depending upon the correct figure may take up to five years to fund. In response to the observation that companies are being run by financial professionals instead of underwriters, Fishman responded "companies not run by underwriters will not survive." Tarbell was asked about his impression of the evolving dual marketing and underwriting responsibilities of underwriters. He responded that there has been a recognition that marketing and underwriting roles are distinct and that he sees the trend for underwriters to focus primarily on the decision-making process with production goals secondary.

The Role of Learning in Supporting the Achievement of Underwriting Goals

David Ueeck, CPCU, began the next section of the program by reviewing the traditional underwriting learning methodologies and sharing his view of the effective use of e-learning. The traditional methods of learning consist of one-to-one, small group, classroom, case study, and experiential learning activities. Ueeck challenged the audience, "are you doing this type of training?" The one-to-one, also known as the master/apprentice approach, allows experienced underwriters to share with trainees their underwriting stories resulting in the reinforcement of underwriting philosophy and the building of emotional intelligence (i.e., relationship skills) required of underwriters in order to deal effectively with agents. Experiential learning activities allow groups of underwriters to come together to review case studies and practice their decision-making and communication skills. According to Ueeck, "technology can be used to teach the basics and prepare new underwriters for the classroom and



■ David Ueeck, CPCU, and Barbara Reardon listen to another panelist.

experiential activities." He encouraged the audience to take the blended approach of using technology along with traditional methods to ensure that underwriters have both the technical and emotional intelligence skills required of effective underwriters.

Barbara Reardon continued this discussion by asking the audience "is training underwriters important?" By a show of hands, the audience agreed training underwriters is important. Reardon talked about new exposures that are emerging such as mold and terrorism and challenged the audience to ponder, "is it better to simply exclude these exposures or teach underwriters how to analyze and handle these exposures effectively?" Using the term profit as a mnemonic, she encouraged the audience that underwriter training needs to be practical, real time, occupationally real, focused, informational, and technical. Reardon also encouraged the audience to use technology to deliver training because it requires the learner to take responsibility for building a plan to address individual learning needs. In order to directly impact profitability, training should be focused on the class or line of business that is bleeding. Where is your book on fire? Teach your underwriters how to put it out. This

action will immediately impact your profitability. In closing, she challenged the audience to "believe in educating your underwriters."

A member of the audience asked Ueeck and Reardon what three things they would suggest companies do in the way of training their underwriters. Reardon responded that she would begin with a review of the risk analysis process and apply it to unprofitable business. Ueeck stated that he would evaluate the current training situation by looking at the investment in training, the number of trainers and their development programs, and the current curriculum. Another member of the audience shared her view that in addition to training underwriters, companies have a responsibility to train agents/brokers with whom they do business in order that they understand the companies' underwriting appetite and are able to sell based on factors other than simply price. An audience member who works with agents to provide them continuing education credits commented that agents feel that underwriters are not accessible and if they are accessible won't

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The 21st Century Underwriter: Armed and Ready to Make a Profit

Continued from page 3

make decisions. This situation creates an errors and omissions exposure for agents, and he believes that underwriters need to be assessable and trained to handle agents' needs. In closing this segment of the program, Fishman challenged the audience to have annual training requirements for their underwriters.

Underwriting and Knowledge Management Tools

Rob Fishman began this segment of the program by discussing the combined ratio and noting that efficiencies affect the expense portion of the ratio while underwriting affects the much larger loss portion. He concluded that it makes sense to manage the loss ratio. One way to manage the loss ratio is to cut down on underwriting leakage, which ranges from 5 to 10 percent. The identified sources of underwriting leakage are information collection (25 percent), exposure measurement (30 percent), coverage structure (35 percent), and price calculation (10 percent). The underwriting diagnostics to be employed to address leakage include the following:

1. Quality underwriting manuals and guidelines.
2. Consistent deployment at the desk level.
3. Documentation.
4. Anticipating and reacting to emerging exposures.

Fishman demonstrated the technology being developed by Zurich to capture and disseminate information needed to reduce underwriting leakage. He concluded his session by challenging the audience to identify the obstacles to quality underwriting, use technology and learning to overcome these obstacles, and to prevent the next soft market or at least change the game when it arrives.

In response to this presentation, an audience member with a personal lines underwriting background commented how he has seen the numbers of personal



■ Attendees take notes during *The 21st Century Underwriter: Armed and Ready to Make a Profit*, held in Orlando, FL.

lines underwriters in his organization reduced by two-thirds due to the use of technology. He asked, "how do we blend the new and old underwriting models and what will be the responsibilities of the 21st century underwriter? Ueeck responded that the technology in use by personal lines underwriting today allows the system to scrub the data submitted and pass along to the underwriter the difficult account. The personal lines underwriter will be responsible for managing a book of business, which will include marketing and loss mitigation activities. He also sees this trend with small commercial lines accounts. Fishman agreed and stated that the less data a company has, the more underwriters they will need. He also believes that there will always be a need for commercial lines underwriters, particularly in the middle-market segment, because of the individual decision-making process required. ■

The Need for a Better Decision-Making Process

by John T. Gilleland Jr., CPCU, AIS, API, AU

John T. Gilleland Jr., CPCU, AIS, API, AU, serves USAA as a personal and commercial lines sales representative. Gilleland works to sell more by listening to prospects and customers to improve his work processes.

Editor's note: Gilleland recently shared a paper he wrote, "Drilling Down High-Level Data for Forensic Study of Loss Runs to Improve Underwriting Territory Profitability." Chapter 1 is featured here, which describes the need for a better decision-making process—more to come in future issues of *Underwriting Trends*.

This article describes how and why underwriters should improve how they underwrite. Underwriters are encouraged and enabled to manage their territories more profitably. Improvement can result from the recommended process for: gathering information about their markets, learning what is not working well, and resolving how to underwrite more wisely in each market.

Traditionally property and casualty underwriters have relied upon their company and/or regional exception underwriting eligibility guidelines whenever evaluating applications, renewals, referrals, and change requests. These guidelines are often set when a company or a product is initially rolled out. Most guidelines are not updated to reflect analysis of markets' performance. Therefore, rates are usually the only things that get updated/revised when loss ratios increase. Many underwriters assume their rates will be adjusted appropriately to market trends. We suggest guidelines be adjusted much more often than rates.

We need "acceptability guidelines to help underwriters know how to react more profitably to risks that are eligible but have adverse characteristics or tendencies.

Guidelines are static; markets are volatile. Use of guidelines that do not reflect current market conditions will not enable underwriters to react to their markets' pressures, characteristics, events, or trends. Lack of market analysis and tailored underwriting action permits inception and continuation of negative underwriting result trends. Growth and profitability are the key underwriting results/objectives.

We need "acceptability" guidelines to help underwriters know how to react more profitably to risks that are eligible but have adverse characteristics or tendencies. Underwriters who manage their books of business in reaction to their markets' trends work to make eligible exposures more acceptable because they know what is and is not likely to be profitable in their markets. This article proposes that any book of business' growth and profitability should be managed in a new way. Our use of the term "managed" is meant to indicate we expect underwriters to:

- Learn about whatever is relevant to improving their underwriting territory's performance.
- Plan how they can act as agents of change/improvement.
- Do the right things for the right reasons at the right times in the right ways.

Management techniques such as MBO, goal setting, process improvement, and statistical analysis should be considered for use when evaluating, planning, and working to improve any book of business. Underwriters should use much more than just program eligibility guidelines and gut feeling to underwrite. Underwriters should constantly develop market acceptability guidelines that serve specific purposes for limited times. Acceptability guidelines should change as markets change. ■

Annual Meeting Seminars

Working with the Excess and Surplus Lines Marketplace

Monday, October 13, 2003
10:30 a.m. –12:30 p.m.

This timely seminar covers the “ABCs” of accessing the surplus lines marketplace. With the hard commercial market in full swing, many retail producers have been caught scrambling at the last minute trying to place their insured’s coverage. After the prolonged soft market, that may now seem like ancient history, many insurance and risk management professionals need a refresher course on the value of the excess and surplus lines marketplace. Attendees will learn what the surplus lines marketplace is, how it differs from the standard lines marketplace, how it is regulated, why it exists and what purpose it serves, how to find a wholesale broker, and what information is needed by a surplus lines underwriter.

Filed for 2 CE credits.

Predicting the Future: Catastrophe Modeling

Tuesday, October 14, 2003
10:30 a.m. –12:30 p.m.

This seminar, which builds on the two-part Claims Section program “Terrorism, Sabotage, Negligence,” provides a detailed presentation on the challenging subject of catastrophe modeling. Attendees will learn how “CAT models” can be used by management, underwriters, regulators, risk managers, and other professionals; why it is so necessary to attempt to predict frequency and severity of catastrophic events; and the potential consequences of ignoring “CAT models.” Attend this seminar for valuable information on this important topic and to see a presentation of a highly publicized modeling tool for terrorism.

Filed for 2 CE credits.

Developed by the Underwriting and Reinsurance Sections.



Register Today!

For more information or to register, go to www.cpcusociety.org.

If you have questions, contact the Member Resource Center at (800) 932-CPCU, option 5, or at membercenter@cpcusociety.org.

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2002-2003 Underwriting Section Committee

Chairman

Frederick R. Parcells, CPCU

Apex Insurance Managers
500 West Madison Street, Suite 450
Chicago, IL. 60661
Phone: (312) 930-9726
Fax: (312) 930-9736
E-mail: fparcells@apexamerican.com

U. K. "Rick" Becker, CPCU

Nationwide Insurance Company
7545 Midlothian Turnpike
Richmond, VA 23225
Phone: (804) 675-3585
Fax: (804) 675-3592
E-mail: beckerr@Nationwide.com

Anne Martha Crabbs, CPCU

State Auto Insurance Companies
5626 Willow Springs Drive
Lewis Center, OH 43035-9381
Phone: (614) 464-5463
Fax: (614) 887-1282
E-mail: anne.crabbs@stateauto.com

Tom C. Langley, CPCU

American Reinsurance Company
101 California Street, Suite 4400
San Francisco, CA 94111-5802
Phone: (415) 834-3760
Fax: (415) 981-1958
E-mail: tlangley@amre.com

Dave Medvidofsky, CPCU

Information Systems & Services
Corporation
55 West Street
Keene, NH 03431
Phone: (800) 258-5310, ext. 1359
E-mail: medvidod@msagroup.com

J. Brian Murphy, CPCU

Brokers Risk Placement Service
525 W. Monroe Street, Suite 2400
Chicago, IL 60661
Phone: (312) 930-6131
E-mail: murphyb@brps.com

L. Kent Runyan, CPCU

Shelter Insurance Companies
1817 West Broadway
Columbia, MO 65218
Phone: (573) 214-4223
E-mail: krunyan@shelterinsurance.com

Rodney K. Stoffels, CPCU

Harleysville Insurance Company
7900 West 78th Street
Edina, MN 55439
Phone: (952) 829-1445
Fax: (952) 829-1487
E-mail: rstoffels@harleysvillegroup.com

Nancy Vavra, CPCU

Liberty Regional Agency Markets
18 Taggard Rd.
Walpole, NH 03608-9734
Phone: (603) 358-4251
Fax: (603) 357-9595
E-mail: nancy.vavra@libertyram.com

Jack W. Watts Jr., CPCU

State Farm Group
2550 Northwestern Ave.
West Lafayette, IN 47906
Phone: (765) 463-8203
Fax: (765) 463-8910
E-mail: jack.watts.bqxx@statefarm.com

Stephen W. White, CPCU

State Farm Group
900 Old River Road
Bakersfield, CA 93311-6000
Phone: (661) 663-5311
Fax: (661) 663-5337
E-mail:
steve.white.bnbg@statefarm.com

Ronata L. Zinnert, CPCU

Realm National Insurance Co.
125 Maiden Lane, Fifth Floor
New York, NY 10038
Phone: (212) 269-6700, ext. 131
Fax: (212) 269-6758
E-mail: roni_zinnert@bdacos.bm

Liaisons

Connor M. Harrison, CPCU

AICPCU
720 Providence Road, PO Box 3016
Malvern, PA 19355-3442
Phone: (610) 644-2100, ext. 7557
E-mail: harrison@cpcuiia.org

John J. Kelly, CPCU

CPCU Society
720 Providence Road
Malvern, PA 19355-3446
Phone: (800) 932-CPCU, ext. 2773
Fax: (610) 251-2775
E-mail: jkelly@cpcusociety.org

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Underwriting Trends Editor

U.K. "Rick" Becker, CPCU
Nationwide Insurance Group
7545 Midlothian Turnpike
Richmond, VA 23225
Phone (804) 675-3585
Fax (804) 675-3592
E-mail: beckerr@nationwide.com

Underwriting Section Chairman

Frederick R. Parcells, CPCU
Apex Insurance Managers
500 West Madison Street, Suite 450
Chicago, IL 60661
Phone (312) 930-9726
Fax (312) 930-9736
E-mail: fparcells@apexamerican.com

Sections Manager

John Kelly, CPCU
CPCU Society

Managing Editor

Michele A. Leps, AIT
CPCU Society

Production Editor/Design

Joan Satchell
CPCU Society

CPCU Society
PO Box 3009
Malvern, PA 19355-0709
(800) 932-2728
www.cpcusociety.org

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