

## Message from the Chairman

by J. Brian Murphy, CPCU, ARM, ARe, AMIM



■ **J. Brian Murphy, CPCU, ARM, ARe, AMIM**, is vice president of reinsurance for Brokers' Risk Placement Service, a managing general underwriter and reinsurance intermediary located in Chicago. His responsibilities include the marketing and placement of reinsurance for commercial clients. His experience includes underwriting roles in two of the largest commercial insurers spanning more than 25 years, and recently on the brokerage side of the business.

Murphy received his bachelor of arts degree from Central Connecticut State University, and his master of arts from the University of Connecticut, both in economics. He frequently teaches the Insurance Institute of America's General Insurance (INS) course to new members of the insurance community. He serves on the board of the Association of Lloyd's Brokers, which provides information, education, and business contacts to Lloyd's correspondents and coverholders in Illinois.

He also serves on the board of the Elmhurst City Centre in Elmhurst, Ill.; is a director of the CPCU Society's Chicago Chapter; and is the new chairman of the CPCU Society's Underwriting Interest Group Committee.

Your Underwriting Interest Group Committee met at the CPCU Society's Leadership Summit in Orlando, Fla. at the beautiful Rosen Shingle Creek Hotel, in preparation for the CPCU Society's 2008 Annual Meeting and Seminars to be held in Philadelphia, Pa. This year's theme is CPCU: Heritage and Horizons.

The Underwriting Interest Group Annual Meeting events will again include a luncheon on Sunday, September 7, with Charlie Kingdollar, vice president, General Reinsurance Corporation, speaking on emerging issues, such as current events surrounding personal injury claims arising from Internet communications (blogs, Facebook, IM, etc.).

The technical seminar we will hold is on construction wrap ups, to be held on Monday, September 8. The moderator will be **Jack P. Gibson, CPCU**, of IRMI. There has been feedback from the members of the Underwriting Interest Group to conduct such a seminar. We're



excited to have top technical people to serve on the panel presentation and discussion.

Lastly, as mentioned in an article within this issue, Accenture has agreed to partner with the CPCU Society's Personal Lines and Underwriting Interest Groups in conducting a study on the advances and trends within the underwriting area. This is a follow up to a similar study conducted in 2005.

We look forward to seeing you at the Annual Meeting and Seminars in September. Register today on the CPCU Society web site at [www.cpcusociety.org](http://www.cpcusociety.org). ■

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

## *We Need Your Input!*

Accenture and the CPCU Society's Underwriting Interest Group collaborated in 2005 to conduct qualitative and quantitative market research in the underwriting area of the property and casualty industry. The goals of the survey were to better understand insurance industry trends and to study the relationship between technology and underwriting practices. Three years have passed and Accenture is working with interest groups again to refresh the survey and benchmark the new findings against the original study. The goal of the refreshed study is to understand how the industry underwriting practices have changed now that we are three years into a softening market, and measure what progress has been made in the areas of recruiting, training, organizational change and technology investments as well as to gain perspectives about emerging issues that are relevant in today's environment.

The survey is expected to be launched in early summer. We'll let you know via e-mail how and where you can access the survey. As with the prior survey, it is expected to take participants no more than 30 to 40 minutes, and will be open and available over a period of four to six weeks. Accenture hopes to publish



the initial findings in time to distribute them at the CPCU Society's 2008 Annual Meeting and Seminars this fall in Philadelphia, Pa. The target participants for the survey will include all members of the Personal Lines Interest Group (<http://personallines.cpcusociety.org>) and the Underwriting Interest Group (<http://underwriting.cpcusociety.org>).

At this time, we are soliciting ideas for topics to include in the survey. What do you believe would be relevant to the underwriting community at large as well as the CPCU Society membership? Please refer to the link below if you wish to review the Executive Summary or Full Report from the 2005 survey.

Any ideas for topics or other suggestions for the survey can be e-mailed to [Gregory\\_massey@yahoo.com](mailto:Gregory_massey@yahoo.com) or to [gail.e.mcgiffin@accenture.com](mailto:gail.e.mcgiffin@accenture.com).

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



## *The Underwriting Interest Group Committee*

*We put the YOU in underwriting.*

*The importance of this slogan is that insurance is still a people and relationship business. People make the difference.*

*Make sure to put the YOU in the underwriting process.*

# Why an M.B.A. Is Not Enough for Insurance Executives

by Mark C. Brockmeier, CPCU, ARe

■ **Mark C. Brockmeier, CPCU, ARe**, is chairman of the CPCU Society's Excess/Surplus/Specialty Lines Interest Group and is a senior principal for SAP's Value Engineering Group, assisting insurance companies worldwide in building business cases for strategic investments in process and technology tools. He has more than 20 years in the insurance industry and has worked for insurers, reinsurers, TPAs, and self-insurers prior to his current position. Brockmeier received his CPCU designation in 1993 and is a graduate of Boston University's masters of insurance management program.

For many years now, the M.B.A. has been considered the ultimate business tool for managers. It teaches a method of thinking about a broad range of topics, including finance, operations, marketing, and managerial accounting. Most business schools would have you believe that there is little tangible difference between businesses, and that once trained in their managerial method of thinking, almost anyone can apply almost any tool at almost any time to almost any situation. Is that actually the case? Are insurance companies businesses that have such little differentiation as to warrant no other training than advanced business thinking? Where does specialized industry training belong, and specifically, what is the role of the CPCU in today's insurance environment?

Insurance occupies a unique position in American consumer society. It is the only private market product that is mandated by law for consumers. In Massachusetts, as a condition of being a full-time resident of that state, people are required by law to be covered by health insurance. In most states, in order to drive a car, people are required by law to carry insurance against accidents caused by the driver. There are other kinds of insurance that have



compelling ownership requirements as well. Most persons who own homes do so through a mortgage, and that mortgage company requires homeowners insurance as protection of their lien on that asset. Homeowners who buy with very little money down are required to carry private mortgage insurance as protection against default. As a product that is "required" to participate in many of the tenets of American society, insurance's unique place should give it a unique position in education and training as well.

## ■ *Where does specialized industry training belong, and specifically, what is the role of the CPCU in today's insurance environment?*

The M.B.A.'s tools of financial engineering are limited by accounting and other regulatory oversights as well. Rates and pricing, unrestricted in most other product markets, are regulated in many areas by insurance commissioners. Companies must hold reserves, much like banks, and not outstrip their ability to pay pending obligations. Policyholder surplus is closely regulated as well. So the tools of financial engineering and capital allocation, as taught in the business schools, do not apply in insurance. Government has insured that there is great public purpose in a private market, which allows access for most consumers.

And outsourcing some key functions is out of the question, since policies must be underwritten by licensed agents, and claims must be managed by licensed adjusters.

Companies cannot afford, from a regulatory or market reputation risk, to operate in an unrestricted manner. Business schools don't teach the economic value of good public policy behavior and what it means to operate in highly regulated environments. They stress the reliability and time-tested ability of self-correcting product and capital markets. Insurers have learned the hard way that this is simply not enough. There should be, and must be, purpose to the consumer of insurance, whether that is in personal, commercial, or life and health lines. Examples in my working lifetime include the recent scandals around contingent commissions, catastrophe claims services, premium fraud schemes driven by the PEO craze, and others. In my view and the view of many others in the industry, it's time for a "back to basics" focus to succeed in this highly structured and regulated marketplace.

Working with technology for insurers, there has been pressure to come up with ever-more sophisticated tools that help make ever-more sophisticated decisions. Actuaries have catastrophe models. Claims professionals have reserve models. Underwriters have rating models. These tools are no longer decision support systems, but have become decisioning tools in and of themselves . . . with the insurance professional having to explain "why not the model" rather than having education, reason, and experience as the decisioning tool. It's an M.B.A.-like mentality that pressures this kind of operating environment, seeking to push automation and aggregate results down to the individual file level. Are we becoming

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# Why an M.B.A. Is Not Enough for Insurance Executives

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victims of our own training, forgetting what we have been taught by society and our designation?

The Chartered Property Casualty Underwriter designation alone takes on this education/ethics continuum. The training received in the business of insurance—its historical context, contemporary importance, and duty to act in the best interests of every party with whom the CPCU acts—is the necessary perspective needed in today's business world. It is simply not enough to operate without context. Companies require identities and have histories of who they are and what they represent beyond just good financial results. We are surrounded by statements of that public purpose in the logos of the many companies of our industry: “the good hands people,” “like a good neighbor,” “on your side,” and many others that suggest high reliability, high ethics, and purpose to our business. We cannot as an industry, and should not, as CPCUs, allow financial engineering and investor pressure to supplant those identities and histories. Insurers have deservedly poor reputations among consumers for the reason that we don't remember why we got into this business in the first place.

Most of us are not in it for the money. There are better paying business careers, but more than 3.2 million people work in insurance to make a difference in the lives of others. There is a social reward and context that while we all generate revenue and income for the corporation, we also provide service and an ethical construct for other businesses to admire. But only if we take the lead ourselves. How many of our CEOs are educated this way, in the basic tenets of insurance, and why we are who we are? How insurance has made a difference in people's lives every day, and particularly at the major catastrophic events in American history, from the Chicago fire of 1871 to September 11, and Hurricane Katrina? Why do we not, as an industry, take the European view that business requires a



360-degree commitment to its customers and employees as well as investors? What is the ultimate value of an insurance company's brand equity, and how can managers be trained to keep it alive?

For my money, the CPCU designation trains managers to think in terms of broader public purpose while protecting the balance sheet. For our industry to survive, we need CPCUs to change how we're perceived, how we do business, how we think, and how we behave. And no spreadsheet or model, no matter how sophisticated, can do that. As important as the philosophy of business

in the M.B.A. program, so shouldn't the CPCU be required reading for the senior manager. History has shown the greatest leaders in business and public life to be those who best know themselves, and it tempers their decision-making toward making great things even better. I challenge those of you who know an executive who is not a CPCU to pursue the designation. In training managers and executives in a world of continuous learning, and 100 new business books a month on managerial decision-making, the CPCU course books are still some of the best books around. ■

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Visit our interest group web site for a complete listing of committee members, useful underwriting links, and to view recaps of past meetings and Annual Meeting seminars.

<http://underwriting.cpcusociety.org>

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# Wrap-Up Seminar at the CPCU Society's 2008 Annual Meeting and Seminars in Philadelphia

**W**rap-ups, also known as Owner Controlled Insurance Programs (OCIPs) or Contractor Controlled Insurance Programs (CCIPs), can be effective approaches to securing broad coverage terms and controlling cost of risk for large construction projects if they are properly structured and administered. These programs will cover the insured lines of business, usually workers compensations and general liability, for all participating contractors and subcontractors involved with the project.

During the CPCU Society's 2008 Annual Meeting and Seminars in Philadelphia, Pa., the Underwriting Interest Group and the Risk Management Interest Group will offer a comprehensive seminar to cover various aspects of this insurance approach to construction projects. **Jack P. Gibson, CPCU, CRIS, ARM**, president of International Risk Management Institute, Inc. will moderate a discussion with distinguished panelists **Donald S. Malecki, CPCU**, a principal at Malecki Deimling Nielander & Associates, LLC; **William D. Motherway, J.D.**, executive

vice president with Tishman Realty & Construction Co., Inc.; **Karen Keniff Schwartzkopf, CPCU, CIC, ARM**, senior vice president—large construction management at Zurich; and **Karen Reutter, CPCU, ARM**, senior vice president at Aon Construction Services.

Because contractors and subcontractors have their own insurance programs, it is important for them to coordinate their coverages with the wrap-up to avoid gaps in coverage as well as redundancies. The session will provide useful information to assist insurance and other risk professionals to help construction clients avoid common problems associated with participating in a wrap-up. In addition, this seminar will address the important coverage points used to insure wrap-ups as well as the administration of the program and the handling of claims.

We encourage Annual Meeting attendees interested in this subject to attend "Workable Wrap-Ups for Large Construction Projects" on Monday, September 8 from 10 a.m. to noon. ■



*The Philadelphia Marriott Downtown, headquarter hotel for the CPCU Society's 2008 Annual Meeting and Seminars, is located at the corner of Market and 12th Streets.*

## Underwriting Interest Group Luncheon

**Sunday, September 7, 2008 • 11:30 a.m. – 1 p.m.**



*J. Brian Murphy, CPCU, ARM, ARE, AMIM, welcomed attendees to the 2007 Underwriting Interest Group breakfast held in Honolulu, Hawaii.*

**W**hen you register for the CPCU Society's 2008 Annual Meeting and Seminars, please be sure to sign up for the Underwriting Interest Group Luncheon. The speaker for the luncheon will be **Charlie Kingdollar**, vice president in the emerging issues unit of the Corporate Underwriting Department at General Reinsurance Corporation. The topic will be cyber exposures, and Kingdollar will point out some of the changes and the exposures that have resulted from the new products. He will also point out the impact these new items may have on companies. Please join us as Kingdollar addresses these items.

The luncheon will provide you with an opportunity to network with fellow insurance professionals while you enjoy a plated chicken luncheon. The cost of the luncheon is \$50. After the presentation there will be a drawing for prizes and recognition of our sponsors. We hope to see you there! ■

# 2007 TRIA Extension and the Insurance Industry

by Susan Kearney, CPCU, ARM, AAI



■ **Susan Kearney, CPCU, ARM, AAI,** is senior director of knowledge resources at the American Institute for CPCU and Insurance Institute of America (the Institutes) in Malvern, Pa. She based this article on material published by the Institutes, independent, not-for-profit organizations offering educational programs, professional certification, and research to people who practice or have an interest in risk management and/or property-casualty insurance. The material in this article is covered in the Chartered Property Casualty Underwriter (CPCU®) designation program and the Associate in Commercial Underwriting (AU) designation program, which are among the Institutes' numerous educational offerings.

As 2007 neared its end, the insurance industry breathed an almost audible sigh of relief. On Wednesday, December 26, 2007, President Bush signed H.R. 2761, the Terrorism Risk Insurance Program Reauthorization and Extension Act (TRIPRA) of 2007, which reauthorizes the Terrorism Risk Insurance Act (TRIA) program through December 31, 2014.

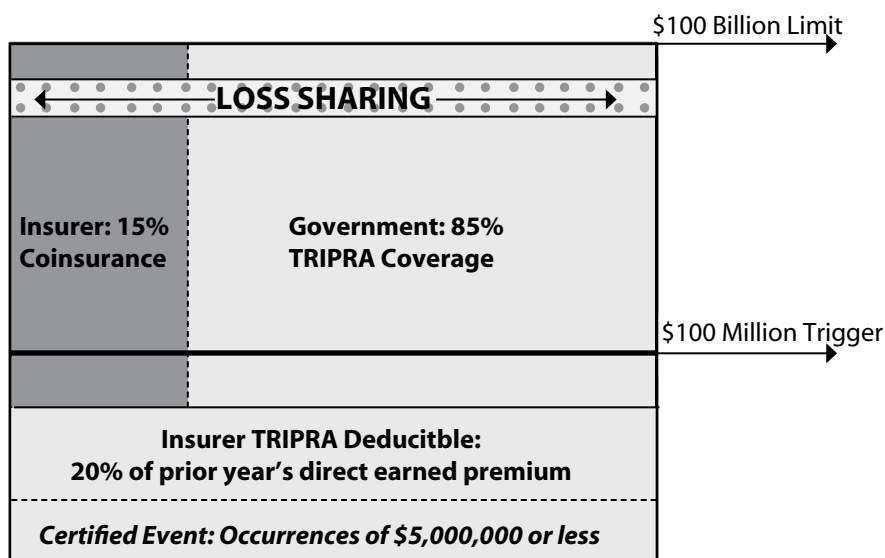
This was great news for our industry especially considering the TRIA Act remains mostly unchanged from the 2005 extension. This terrorism backstop will continue to benefit the insurance market with certainty and stability—for at least the next seven years—even though the threat of terrorism remains.

According to the National Association of Insurance Commissioners (NAIC), some of the more significant statutory features of the 2007 TRIA extension include the following:

- Creates a seven-year federal backstop.
- Includes “domestic” acts of terrorism by eliminating the distinction between foreign and domestic acts of terrorism in the definition of the TRIA term “certified act of terrorism.”

- Contains a program trigger at \$100 million for all additional program years.
- Upholds insurer deductible at 20 percent of an insurer’s prior year direct earned premium and the federal share of compensation set at 85 percent of insured losses that exceed insurer deductibles.
- Maintains a \$100 billion cap with a requirement that the U.S. Treasury submit a report to Congress and issue final regulations for determining pro-rata shares of insured losses under the program when insured losses exceed \$100 billion.
- Introduces disclosure requirement at time of offer, purchase and renewal of a policy stipulating that insurers give “clear and conspicuous” notice to policyholders of the existence of the \$100 billion cap on liability (the compliance date for meeting this requirement is March 31, 2008).
- Sets up accelerated timing of the mandatory recoupment of the federal share through policyholders surcharges.

**Figure 1**  
**TRIPRA 2007 Retention Summary**



While coverage was not granted for nuclear, biological, chemical or radiological (NBCR) events in the final version, the Act does include a requirement for the study and recommendations by the General Accounting Office (GAO) on the expansion of the program to include NBCR terrorism, including an examination of the availability and affordability of insurance coverage for losses caused by NBCR materials, and an insurer's capacity to manage NBCR risk. This report is to be issued no later than one year after enactment of TRIPRA.

TRIPRA also calls for the study of the availability and affordability of terrorism insurance in specific markets in the United States where there are unique capacity constraints on the amount of terrorism insurance available. There will also be ongoing studies by the President's Working Group of the long-term availability and affordability of terrorism insurance.

The insurance marketplace seems to have reacted favorably to TRIPRA, especially considering the provisions remain relatively unchanged from 2005 and the fact that its provisions have fortunately not been tested. This has enabled insurers to continue to make terrorism solutions available and affordable.

The terrorism risk will not fade away. And while the debate continues over the insurability of terrorism in general and NBCR in particular, TRIPRA will provide some certainty and protection to our industry until the end of 2014. Most insurers and many public policymakers still agree that an affordable long-term solution to replace TRIA, with a permanent federal backstop included, is needed to protect those most vulnerable to terrorist attacks. ■

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## Get Exposed!

We're always looking for quality article content for the Underwriting Interest Group newsletter. If you, or someone you know, has knowledge in a given insurance area that could be shared with other insurance professionals, we're interested in talking with you. Don't worry about not being a journalism major; we have folks who can arrange and edit the content to "publication-ready" status. Here are some benefits of being a contributing writer to the Underwriting Interest Group newsletter:

- Share knowledge with other insurance professionals.
- Gain exposure as a thought leader or authority on a given subject.
- Expand your networking base.
- Overall career development.

To jump on this opportunity, please e-mail either Stephen W. White, CPCU, at [steve.white.bnbg@statefarm.com](mailto:steve.white.bnbg@statefarm.com) or Gregory J. Massey, CPCU, CIC, CRM, ARM, PMP, at [greg.massey@selective.com](mailto:greg.massey@selective.com).



## Attend the CPCU Society's Annual Meeting & Seminars

September 6-9, 2008 • Philadelphia, PA  
Philadelphia Marriott Downtown

### Commemorate "CPCU: Heritage and Horizons"

#### Celebrate with colleagues and new designees at Conferment!

Hear Phil Keoghan, adventurer and television host. Best known for his role in *The Amazing Race*.

**Gain first-hand historic insights!** Hear Keynote Speaker Doris Kearns Goodwin, an award-winning author and historian. Author of the New York Times best seller, *Team of Rivals: The Political Genius of Abraham Lincoln*.

**Glean inside perspectives on where the industry is heading!** Attend two new exciting panel discussions: "Heritage and Horizons: Leadership Perspectives of Large Regional Carriers," and "Through the Looking Glass: Industry Insiders Contemplate the Future."

**Increase your professional value!** Experience an all-new educational lineup of 30-plus technical, leadership, and career development seminars.

**Register online today** at [www.cpcusociety.org](http://www.cpcusociety.org).



**Underwriting Trends** is published four times a year by and for the members of the Underwriting Interest Group of the CPCU Society. <http://underwriting.cpcusociety.org>

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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.

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Printed on Recycled Paper

PRSR STD  
U.S. POSTAGE  
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BARTON & COONEY

July 2008

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Number 2

Volume 20

Underwriting Trends



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