

## Message from the Chair

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. Murphy's experience includes underwriting roles spanning more than 25 years in two of the largest commercial insurers as well as more recently on the brokerage side of the business. He serves on the boards of the Association of Lloyd's Brokers and the Elmhurst City Centre in Elmhurst, Ill. Murphy is a director of the CPCU Society's Chicago Chapter, chair of the Underwriting Interest Group Committee and an IIA course leader for the INS program.

The CPCU Society's 2008 Annual Meeting and Seminars were held in Philadelphia from Sept. 6-9. The Underwriting Interest Group sponsored a seminar entitled, "Workable Wrap-Ups for Large Construction Projects," which was attended by more than 65 CPCUs. The panel consisted of four presenters and moderator **Jack P. Gibson, CPCU, CRIS, ARM**, president of International Risk Management Institute (IRMI). Please see the accompanying article by committee member **Ann Lyon, CPCU, CRM, ARP, AMIM**, in this issue. The article and photos can be viewed on the Underwriting Interest Group's home page, which is in the Interest Group area of the CPCU Society's Web site, [www.cpcusociety.org](http://www.cpcusociety.org).

The Underwriting Interest Group also hosted a very successful luncheon meeting that was attended by more than 60 CPCUs. **Charlie Kingdollar**, a vice president at General Reinsurance, was the speaker. His topic was "Emerging Issues." A summary of his presentation,

written by **Anne M. Crabbs, CPCU, CIC**, is also included in this edition of *Underwriting Trends*. Very special thanks go to Anne and her team for this very successful event. Photos of the luncheon are also posted on our Web site.

**Nancy Cahill, CPCU, AU**, was selected as vice chair of the Underwriting Interest Group Committee. Nancy has done a great job producing the underwriting seminars for the Annual Meeting and Seminars. She will take my place as chair after the 2009 Annual Meeting and Seminars in Denver.

I would like to thank all of you who responded to the survey we conducted in partnership with the Personal Lines Interest Group and Accenture. The survey is now closed, and the responses are being analyzed. We plan to publish a summary of the survey results in *Underwriting Trends* during the first quarter of 2009. This study will also be the topic of one of the Underwriting Interest Group seminars at the 2009 Annual Meeting and Seminars. ■

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# Do You Know?

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

**D**o you know that you can find prior issues of *Underwriting Trends* on the CPCU Society's Web site?

Underwriting Interest Group members can access back copies of *Underwriting Trends* articles from either the Underwriting Interest Group Web site or the Society's Online Library. To access issues (from 2002 to present) from the Underwriting Interest Group Web site, go to the Society's Web site, [www.cpcusociety.org](http://www.cpcusociety.org), log on with your password and PIN, click the "Interest Groups" button, click the "Underwriting Interest Group," and select "Underwriting Trends Newsletters." Folders containing the newsletters are grouped by year. To make your search easier, there is also an index of newsletter articles.

You may access *UT* issues dating back to 1998 through the Online Library. Click the "Publications" button on the Society's home page, go to "Online Library" and select "CPCU Society Online Library." You can access a specific publication, or you can go right to the Online Library Database Search to search by author, title, subject, and/or year.

Remember, you have to be logged in as a member to access the Underwriting Interest Group's site or the Society's Online Library.

## *Underwriting Trends* Article Index April 2002–July 2008

### July 2008

- Chairman's Message.
- Joint Underwriting Interest Group and Personal Lines Interest Group/Accenture Survey.
- Why an M.B.A. Is Not Enough for Insurance Executives.
- Wrap-Up Seminar at the CPCU Society's 2008 Annual Meeting and Seminars in Philadelphia.
- Underwriting Interest Group Luncheon.
- 2007 TRIA Extension and the Insurance Industry.

### March 2008

- Chairman's Message.
- Products Liability in Mergers and Acquisitions.
- New Regulatory Challenges for Property and Casualty Insurance Company Independent Board of Directors.
- Oil Heat Retailers Reach Out to Insurance Industry.
- The Future Used to Be Certain.
- Have You Considered Volunteer Leadership Opportunities?
- Risk Management for Insurers: Risk Control, Economic Capital and Solvency II.
- Q & A with Donald S. Malecki, CPCU.

### December 2007

- Chairman's Message.
- Decision Management: Advances in Real-Time, Risk-Driven, Rules-Based Underwriting Decisions.
- Identifying and Controlling Risk in the Information Technology Industry.
- Have You Considered Volunteer Leadership Opportunities?

- The Future of Underwriting Breakfast Meeting Recap.
- Why Actuarial Techniques Do Not Work in Pricing Commercial Fire Risk.
- 2007–2008 Underwriting Interest Group Committee.

### August 2007

- Chairman's Message.
- Global Warming and You: What Every Insurance Professional Should Know about Climate Change.
- Insuring the Home-Based Business.
- Data Breaches Expose Businesses, Highlight Need for New Insurance Programs.
- Have You Considered Volunteer Leadership Opportunities?
- Driving Miss Daisy: Fleet Safety and Older Drivers.
- Sections Strategic Implementation Task Force Report Summary.

### June 2007

- Chairman's Corner.
- Underwriting Section Presents the CPCU Society's First Webinar.
- Growing Appreciation of EPL Exposures.
- Coverage Gone Mild: Sixth Annual Look Back at the Year's 10 Most Significant Insurance Coverage Decisions.

### March 2007

- Chairman's Message.
- Institute Revises the Associate in Risk Management Program.
- Sections Strategic Task Force Report Summary.
- Underwriting Beyond Intuition: Structured Decisions with a Customer Focus.
- Insurance for Emerging Technologies Entrepreneurs: A Challenge Not To Be Ignored.

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## November 2006

- Message from the New Chairman.
- High-Tech Tools: How's the ROI?
- Highlights of the Underwriting Section Luncheon.
- Society's Addictions and Their Impact on Insurance
- Have You Considered Volunteer Leadership Opportunities?

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## August 2006

- Message from the Chairman: Passing the Baton.
- Join the Underwriting Section Committee at the CPCU Society's 62nd Annual Meeting and Seminars.
- Underwriting Processes and Compliance Issues.
- It Could Happen to You — Or to Your Customers (and They Might Not Like It).
- Identifying Drivers Who May Be 'At Risk' of Becoming Involved in a Collision: MVR Analysis.
- Maximizing Value from Data Warehouse and Drill-Down Tools.
- Construction Defect Coverage Analysis-Easy as 1, 2, 3?
- When the Next Storm Strikes.
- The Daenzer Story: A Book Review.
- Being CPD Qualified Just Got Easier!
- Section Committee Member Spotlight.

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## May 2006

- Message from the Chairman.
- The Auto Insurance Residual Market: An Overview.
- Six Tips for a More Fulfilled Life.
- Negligent Entrustment.
- Underwriting Audits: Opportunities to Excel.
- Clear Eye for the Claims Guy: Fifth Annual Look Back at the Year's 10 Most Significant Insurance Coverage Decisions.

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## February 2006

- New Year's Resolutions.
- Your Price Is Too High.
- Ten Reasons Why Driver Monitoring Programs Fail and How You Can Guarantee Success.
- Establishing Compliance Procedures for New Federal Trade Commission Disposal Rule.
- NAIC Adopts Enhanced Disclosure and Attestation Requirements for Finite Reinsurance Contracts.
- Underwriting Section Committee Member Spotlight.

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## June 2005

- We Put the 'You' in Underwriting.
- Credit Guard Mania and Loss Control.
- Underwriting Section Luncheon at 2004 Annual Meeting and Seminars.
- Finding Sustainable Excellence.

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## September 2004

- Personal Development: Our Incumbent Obligation.
- Riding the Underwriting Coaster.
- A Quality E&S Marketplace: An Oxymoron ... Not!

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## June 2004

- Tidbits from the Top.
- Drilling Down High-Level Data for Forensic Study of Loss Runs to Improve Underwriting Territory Profitability.
- Catastrophic Loss Seminar at the 2003 Annual Meeting and Seminars.
- Viewpoint: Perspective from the Insurance Industry Leadership.

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## January 2004

- Tidbits from the Top.
- Message from the Editor.
- Underwriting Section Committee Member Listing.

- The Case for an Extended Hard Market.

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## September 2003

- Tidbits from the Top.
- Note from the Editor.
- Toxic Mold: Don't Let It Overgrow Your Bottom Line Annual Meeting Update.
- New Mold Exclusions = Unanticipated Coverage Gaps + E&O Exposures!

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## June 2003

- Editor's Note.
- The 21st Century Underwriter: Armed and Ready to Make a Profit.
- The Need for a Better Decision-Making Process.
- Annual Meeting Seminars.
- Underwriting Section Committee.

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## December 2002

- Tidbits from the Top.
- When All Hail Breaks Loose.
- Motor Vehicle Records May Not Provide an Accurate or Complete Account of Driving History.
- Third Annual Underwriting Section Luncheon.

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## April 2002

- Tidbits From the Top.
- New Policies for Home Insurance.
- International Insurance — Don't Leave Home Without It. ■

# Wrap-Up Seminar at the CPCU Society 2008 Annual Meeting and Seminars

by Ann E. Lyon, CPCU, CRM, ARP, AMIM

**Ann E. Lyon, CPCU, CRM, ARP, AMIM**, is senior vice president and chief underwriting officer for Builders Insurance Services, part of Insko/Dico Group, located in Lake Oswego, Ore. She earned her CPCU designation in 1985 and subsequently earned the Certified Risk Manager, Associate in Research & Planning, and the Associate in Marine Insurance Manager designations. With 38 years in the insurance industry, Lyon has held various underwriting and marketing positions with several national carriers. She is a member of the CPCU Society's Underwriting Interest Group, and is also very active in the Oregon Chapter.

On Monday, Sept. 8, 2008, at the CPCU Society Annual Meeting and Seminars in Philadelphia, "Workable Wrap-Ups for Large Construction Projects" was presented to a full room of rapt attendees. This seminar, developed jointly by the Underwriting Interest Group and the Risk Management Interest Group, was moderated by **Jack P. Gibson, CPCU, CRIS, ARM**, president of International Risk Management Institute Inc. (IRMI). A very knowledgeable panel, representing various participants in a wrap-up program, included **Donald S. Malecki, CPCU**, Malecki, Deimling, Nielander & Associates; **William D. Motherway, J.D.**, Tishman Realty & Construction Co. Inc.; **Karen Reutter, CPCU, ARM**, AON Construction Services; and **Karen Keniff Schwartzkopf, CPCU, CIC, ARM**, Zurich.

The seminar began with an explanation of the basics of a wrap-up program. Under the traditional insurance structure for a construction project, the owner and each contractor and subcontractor purchase

their own casualty coverages and the builder's risk policy is centrally purchased. Responsibility for loss is transferred contractually, typically from the strongest financial parties down to the weakest. A wrap-up program takes a very different approach. It can be arranged by either the owner of the project (owner controlled insurance program or OCIP) or the general contractor (contractor controlled insurance program or CCIP). A wrap-up covers all enrolled contractors on a single policy for the lines of insurance included. A traditional wrap-up would typically include workers compensation, general liability, and umbrella or excess liability.

Some of the more common types of wrap-up arrangements include:

- **Single Large Project.** The usual minimum size is about \$100 million, and this can be regulated by jurisdiction.
- **Rolling Wrap-Ups.** This program will cover several smaller projects for an owner or general contractor. Many times the program will limit the projects to \$25 million or more.
- **Maintenance or Gate Wrap-Ups.** Large sites such as refineries or mines with ongoing needs for construction work will benefit from this type of program.
- **Dirty or Environmental Wrap-Ups.** This type of program is designed for Superfund sites or other pollution clean-up jobs.

In recent years, a general liability-only wrap-up approach has taken hold, driven primarily by the unavailability of coverage and adequate limits for residential construction projects such as condominiums, townhouses, tract subdivisions and mixed-use structures. Many contractors and subcontractors' general liability policies contain exclusions for this kind of work. These wrap-ups differ from the traditional approach in several ways. Standard markets are reluctant to provide coverage, so the forms available

are non-standard and vary from carrier to carrier in terms of restrictiveness. In addition, these wrap-ups do not include workers compensation coverage, and the size of the projects written is generally much smaller and is not regulated by jurisdiction.

## Why Do a Wrap-Up?

- Cost savings (range from 1 to 3 percent of project cost).
- Broad coverage for all participants.
- High limits for all participants.
- Coordination of risk control and claims functions.

## Potential Problems with a Wrap-Up

- Conflicts between the sponsor (either the owner or general contractor) and the contractors enrolled in the wrap, especially for deductions of insurance costs.
- Increased administration responsibilities for the sponsor.
- Enrolled contractors also have increased administrative responsibilities.
- Coverage gaps or overlaps may exist.
- Sponsor may have unforeseen costs, especially with loss sensitive plans.

When considering a wrap-up for a project, you should evaluate the following major categories:

- **Feasibility.** In the beginning stages, there are several critical elements to investigate, including:
  - Jurisdiction — Can a wrap-up be legally done in that state? Workers compensation rules, state regulation and type of project are all areas which may prohibit using a wrap-up approach.
  - Size — Construction size based on hard costs only usually needs to be \$100 million.





■ Attendees of “Workable Wrap-Ups for Large Construction Projects,” held on Monday morning, Sept. 8, during the Annual Meeting and Seminars.

- Coverage — Subcontractors may not be able to bring adequate and required coverage to the table.
- Commitment to loss control to a central site.

In addition to evaluating the elements above, the sponsor should be aware of potential errors in feasibility. They can include overestimating savings by the broker; underestimating the size of the project to recognize cost savings; and because each state jurisdiction is different, not identifying the restrictions for a wrap-up. Sponsors should also be involved from the start to make sure that coverages are adequate for the project. Administrative burden is increased for the sponsor, and many retain a third party to administer the program, including enrollment, record keeping and claim handling.

- **Program Design.** A wrap-up bid can be done in a couple of different ways. The first involves the owner getting a “gross” bid from the contractor. This process is time consuming, and a lot of negotiation ensues when the contractor wants to take his insurance costs out of the bid. An alternative method is a “net” bid, in which the bids do not include any insurance costs and they are then added onto the bid based on the wrap-up insurance costs.

Who is covered under a wrap-up?

Any contractor who is enrolled in the program is covered. A wrap-up is not intended to cover transitory-type contractors, vendors, suppliers or services. A purchase order should be used for these. The wrap-up is intended to cover major contractors and subcontractors working on the project. Contractors are not considered enrolled and allowed onto the jobsite until the papers are signed and they go through orientation for which they get a hard hat sticker to allow them to begin work. One exception to this approach is the general liability-only wrap-up, in which it is anticipated that all contractors will be covered and a list of contractors is sent to the carrier on a monthly basis.

- **Coverage Issues.** When contractors participate in a wrap-up program, the insurance policy they purchased for their regular work likely has a wrap-up exclusion so the project is not covered. This may create gaps in coverage for off-site work related to the project. It may also give contractors inadequate limits for their exposure, especially if the wrap-up limit is less than what they carried on their own program. Another problem is that contractors may be exposed to losses that would be covered by their own program if the wrap-up has more restrictive coverage

or higher deductibles that are allocated back to the contractor. Regardless of coverage issues and policies in play, the contractual indemnification clauses will transfer uncovered losses down to the responsible party.

Once a project is completed, the premises/operations liability coverage ceases. This presents a problem for the contractors going back onto the site to do punch list or warranty work. The wrap-up program should include a manuscript endorsement to extend coverage to this work because it is excluded from the individual contractor’s own insurance policies. It is also critical that all involved understand how the end of the project is defined and how long the completed operations coverage will continue. Does it extend through the statute of repose period for the jurisdiction? Is there a sunset clause limiting coverage to a period less than the statute of repose? Is there only one limit providing coverage for the full period, which often can be up to 10 years? If this is the case, it may be prudent to purchase an excess wrap-up policy with adequate limits.

After the presentation by the wrap-up experts, there was a lively question and answer session. All attendees were given a copy of *Malecki on Insurance*, September 2008, Volume 17, Number 11, which was a special issue written for the CPCU Society Annual Meeting and is available upon request by contacting [postmaster@MDNconsults.com](mailto:postmaster@MDNconsults.com). ■

# Predictive Analytics: An Essential Tool for Insurance Providers

by Dale M. Halon, CPCU, CIC



**Dale M. Halon, CPCU, CIC,** is assistant vice president of Business Development at ISO Innovative Analytics, a unit of ISO. He is responsible for sales and marketing of ISO's newly formed predictive modeling analysis tools. Halon is an active member and leader of the CPCU Society, and he is also a member of the DMA Financial Services Council. He has written articles for *Personally Speaking* on a variety of topics. He also has written articles for other insurance trade publications and industry groups about predictive modeling, the use of consumer credit in insurance, privacy, and e-mail marketing.

**Editor's note:** This article first appeared in the July 2008 issue of *Personally Speaking*, the newsletter of the CPCU Society's Personal Lines Interest Group. Dale Halon and fellow-ISO employees presented a two-part CPCU Society webinar in May 2008 on predictive modeling, which is available on the CPCU Society Web site, [www.cpcusociety.org](http://www.cpcusociety.org).

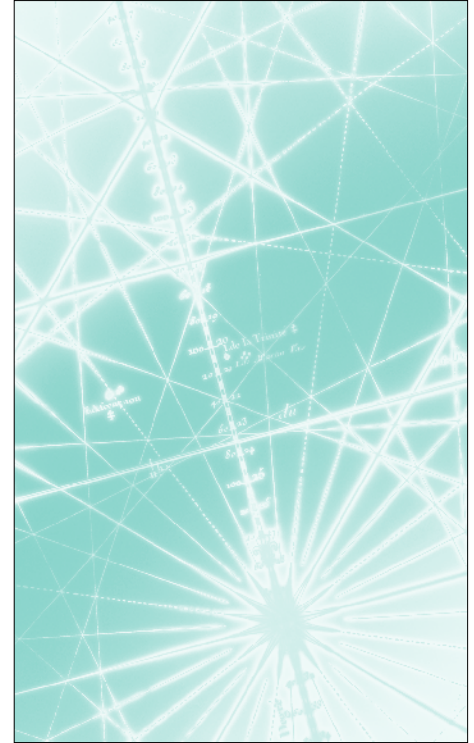
Companies in all industries looking for competitive advantage are investing in predictive modeling to create greater efficiency in their operations, enhance their products and services, and develop more coherent service and retention strategies.

Possessing a strong capability in predictive modeling and deriving real value from the multidimensional analysis of data are quickly becoming competitive imperatives in the insurance industry as well.

Establishing and using predictive analytics is essential for insurers to be successful in today's property/casualty environment. Pricing, underwriting, marketing, investments, catastrophe management, fraud detection and claims operations are being reinvented with the help of predictive analytics. To facilitate successful implementation, insurers must pay significant attention to both efficient project management and comprehensive implementation of complex, interrelated analytic initiatives.

The race for effective predictive modeling will ultimately result in more cost-effective products and new services for insureds. Insurance companies that understand and adopt these trends are reshaping the industry and leaving behind the companies not deploying these solutions.

Predictive modeling is both the science and art associated with exploiting



statistical analysis of past events to predict future outcomes. This is similar to what actuaries have always done: look at risk characteristics to predict loss levels for similar future risks. However, recent capabilities to store and manage vast amounts of data in a desktop environment — and innovative analytic techniques to evaluate that data — enable those predictions to be much more precise and powerful.

For example, traditional personal auto rating territories might have been derived from a combination of several counties or, at best, several zip codes analyzed together. Modern predictive techniques can now differentiate risk levels in areas just a few city blocks apart.

Property/casualty insurers have more data available to them today than ever before. A wide variety of valuable information is now accessible from internal, third-party, and government sources. Insurers that successfully mine and interpret data for the marketing, underwriting and pricing



of risks can reap the benefits of increased market share and growth. While most companies have access to such information, those that understand how to wield it will be the most successful.

As access to vast new data sources increases, a variety of predictive modeling solutions and statistical data mining tools are also emerging. And to process these diverse data repositories, the industry's ever-increasing computing power can leverage them at a fraction of yesterday's costs.

By applying predictive modeling techniques to underwriting, insurers can overcome the recurring challenge of selecting risks that match the criteria acceptable to their business. Building a solid predictive modeling solution is much like developing a solid rating plan for a specific line of business. It involves integrating appropriate business knowledge, sufficient data and the right mathematical procedures.

By using predictive principles similar to those in the underwriting environment, insurers can develop and deploy powerful

models to optimize both the selection and pricing of risks. Acceptable risks can be charged premiums commensurate to the expected losses.

The creation, maintenance, and updating of predictive modeling tools will eventually be part of insurers' day-to-day operations for marketing, underwriting, claims processing and pricing risks — if they are not already integrated. Once implemented, those modeling tools need to be refreshed with recent data, as well as maintained with new predictive modeling techniques, new data sources and new business parameters. The tools also need to be updated with regard to the changing market and regulatory environments. And the results need to be monitored to ensure business needs are continually met.

To achieve a winning implementation plan, predictive models need to be integrated smoothly into current and planned business workflows. There may be separate business workflows for underwriting and pricing, as well as for new and renewal policies, different rating tiers, and the like. Sound implementation

must also address systematic analysis of market growth and expectations, regulatory compliance, and methods to handle exceptions and adjustments.

The rewards of deploying agile predictive modeling are compelling for insurers. Flexible analytic solutions can measurably enhance management decision making, market responsiveness and competitive positioning.

Analytics management is fast becoming an agent for disruptive change that leads to measurable growth. Smart, forward-looking implementation of predictive analytics will deliver sharper business performance and meaningful competitive advantage for property/casualty insurers. ■



# Highlights of the Underwriting Interest Group Philadelphia Luncheon

by Anne M. Crabbs, CPCU, CIC



**Anne M. Crabbs, CPCU, CIC**, is a commercial specialist II for State Auto Insurance Companies. She is a past president of the Columbus Chapter and the former Mid Ohio Chapter. Crabbs currently is serving as a member of the Underwriting Interest Group Committee, a member of the board of directors and interest group chair of the Columbus Chapter, and assistant chair for the 2009 Columbus I-Day.

**A**t the 64th CPCU Society Annual Meeting and Seminars, held in Philadelphia, Pa., the Underwriting Interest Group hosted its annual luncheon on Sunday, Sept. 7. There were 63 CPCUs in attendance. As part of our outreach project, AICPCU President Emeritus and Life Trustee **Norman Baglini, CPCU, Ph.D., CLU, AU, ARe**, and two of his risk management, insurance and business ethics students from Temple University's senior class were invited to attend the luncheon as our guests.

**Charlie Kingdollar**, a vice president at General Reinsurance Corporation, was our speaker. He spoke about emerging issues related to nanotechnology and coverage issues arising out of Internet

communications, including blogs. Nanotechnology has provided us with countless scientific and medical advancements. Along with these advancements, studies have associated exposure to nanomaterials as potentially raising adverse health concerns, as reflected in judicial decisions and interpretations, and laws and regulations. New or changing issues are shaping the future. Insurers have often turned to exclusions to address emerging issues. Examples of recent exclusions are asbestos and pollution exclusions. Many states have, however, punched holes in the exclusions.

Nanotechnology is the ability to organize or manipulate matter as small as 1 billionth of a meter. Scientists are taking two paths toward developing nanomaterials:

- (1) The reduction of existing materials.
- (2) Creating new materials that have never before existed.

■ *When materials are brought down to nano-size, the properties of the materials can dramatically change.*

When materials are brought down to nano-size, the properties of the materials can dramatically change. Most disconcerting is the possibility that what was once benign may become toxic. For instance, nano-sized silver is 45 times more toxic than larger pieces of silver. In 2007, product development funding in the U.S. was \$1.4 billion and globally, \$12.6 billion. But, for example, toxicity/environmental safety studies received only 3 percent of the funding in the U.S., and it is unknown how much was spent on health and safety studies globally. On Aug. 13, 2008, the Federal agencies were to report on nano research efforts. All they announced, however, was that additional research was needed.



■ *Charlie Kingdollar, a vice president at General Reinsurance Corp., speaks to CPCU members and guests at the Underwriting Interest Group luncheon.*



Nano-based products can help alleviate many claims. Stronger building materials, dent-free autos and stain-free materials are examples of nanomaterials. Exposures are already here, as U.S. firms are creating thousands of tons of nanomaterials annually. According to one survey of nanomaterial manufacturers, 66 percent of the materials are not tested for toxicity and 61 percent of manufacturers are not monitoring workers, who are sometimes only provided conventional protective equipment. Certain nanomaterials are lighter and stronger than some other materials. There are more than 600 consumer products containing nanomaterials. Many skin creams, sunblocks, paint and coatings, plastic wrap, food containers, wound dressings, cooking oil, diet shakes, vitamin and mineral supplements, chewing gum and tea are just a few of the products containing nanomaterials.

### ■ *How far below the skin's surface do nanomaterials in the sunblock go?*

A study done by the EPA in February 2008 found that brain cells died within six hours in a petri dish after sunblock was applied. We put sunblock on our children in generous portions. How far below the skin's surface do nanomaterials in the sunblock go? Two other recent studies found that carbon nanotubes can mimic asbestos in the lung. A French study found that when certain nanoparticles

are inhaled they can cause cancer. Many of the risks producing nanoparticles are written on businessowners policies (BOPs).

### **Blogs**

Charlie also spoke on blogs and the use of the Internet. There are coverage issues on the CGL policy. Can we underwrite it? Personal injury claims arise from the use of the Internet. There are "gripe" sites that can be tracked by manufacturers who can sue you for comments you post. A blog is a weblog or journal, but people also can blog on social web pages such as MySpace, Friendstar, Facebook, Faceparty and LinkedIn. Sixty percent of bloggers, when asked, felt they could be sued for comments posted on their blogs. Twenty-three million Americans post on the blogs of others.

Postings can lead to defamation suits paid out with large settlements. Homeowners and personal umbrellas are written on a "per offense" basis. In many policies, "offense" is not defined. This means that a judge has to decide. AAIS amended their homeowner forms in 2006 to exclude coverage for personal injury arising from chat rooms, bulletin boards, gripe sites and other electronic forums, but only for those sites that an insured hosts or controls. Some trends that are being seen are more homes with Internet access, cyber bullying, Internet-assisted suicides and cyber security breaches.

The potential impact on homeowner policies or personal umbrellas is that there are 45 million blog sites, of which

15 percent contain material that can result in increasing litigation. Claims arising from Internet communications can also impact CGL and commercial umbrella policies, as there are 8,000 to 12,000 businesses adding blogs daily.

The presentation left the audience thirsty for more information about these topics. ■



# 2008–2009 Underwriting Interest Group Committee

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# Improving Data Accuracy: A Competitive Edge

by Terry Binion and John P. Forcier, CPCU

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**Editor's note:** This article first appeared in the October 2008 issue of *Personally Speaking*, the newsletter of the CPCU Society's Personal Lines Interest Group.

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

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

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

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

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

**Dan Liparini, CPCU**, chief underwriting officer for personal lines for OneBeacon

Insurance, based in Canton, Mass., agrees. “We constantly consider ways to refine our pricing decisions. Competition forces us to do that. We're all trying to underwrite risks from an applicant pool that grows only 4 to 5 percent a year.”

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

## Data No-Hits and Tougher Policy Issuance Decisions

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

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

“Most applicants for auto or home insurance who are classified as credit ‘no-hits’ or ‘no-scores’ are often quoted with very high premiums and continue shopping,” says **Brian Dardeen, CPCU**, personal lines analyst at OneBeacon. Other company executives agree.

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# Improving Data Accuracy: A Competitive Edge

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

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

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

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

- Using data elements not available at the time of initial inquiry and depending on the sample, one identity record provider found credit records for 29 to 60 percent of no-hit records not found at the time the inquirer conducted the initial credit search.

- Significantly, 50 to 70 percent of the files found during the same tests had no derogatory credit information for the previous 12 months, suggesting that a number of policies previously declined or given neutral rates might actually have been issued at preferred rates.

## Verifying Application Data

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

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

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

comply with the U.S. Patriot Act. Is there a payback?

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

## Improved Collection Processes

Payment recovery efforts can also be improved by applying stronger, more current identity information to the data inquiry process. Positive verification up-front means increasing the likelihood of making contact with people who have avoided paying a legitimate bill. Collections departments of some of the largest national banks and credit card issuers have begun acquiring better contact information from data providers that store deep files of actively used phone numbers and addresses to help companies collect on unpaid bills and beef up their contact attempts, collecting on many cases that were about to be written off. One national bank boosted its own back-end credit collections efforts and reduced its returned mail volume using more current address and telephone data. See Figure 2. Using better contact data to locate individuals and improve

**Figure 1**  
**Failed Application Data Sample**

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



collections can translate directly to an insurance carrier's premium recovery or claims subrogation collection processes, ultimately improving recovery of past due payments.

### Expanded Customer Relationships and Retention

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

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

It's well known that carriers and agencies able to cross-market to their

best customers across multiple business lines can profitably expand their policy books while carrying lower new business acquisition costs. Data sources that can provide reliable consumer contact information can be of help to insurers and agents in growing sales volume.

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

### Reducing Returned Mail

Most insurers know that making addresses U.S. Postal Service compliant will qualify them for continued USPS mail discounts. More than a few companies are also aware that a significant number of

addresses in their policy databases haven't been updated by any recent contact with their policyholders and may not be deliverable to an exact location, as the USPS may require by 2009.

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

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

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

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

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

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

# A Memo to Salespeople ... Get Ready to Sell More in 2009

by John R. Graham



**John R. Graham** is president of Graham Communications, a marketing services and sales consulting firm. He is the author of *The New Magnet Marketing* and *Break the Rules Selling*, as well as an upcoming book on sales. His articles appear in business and trade publications, and he speaks at company and association meetings. He can be contacted at 40 Oval Road, Quincy, MA 02170; phone (617) 328-0069; or e-mail [j\\_graham@grahamcomm.com](mailto:j_graham@grahamcomm.com). The company's Web site is [www.grahamcomm.com](http://www.grahamcomm.com).

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Even though the economy is in serious trouble, nothing has changed. You still need to make sales. Whatever your industry and whatever else is happening, one task remains: closing sales.

Here's the problem: Even though you may know your products and have the right selling skills, that may not be enough to get you where you want to be in 2009. If your job is demanding in good times, what do you think it will be like in the year ahead? So, here's the question: What do you need to add that can help you meet your numbers?

That's what the next 1,250 words are all about. Just so you'll know, they are based on 25 years of working with sales professionals. If that doesn't grab you, stop now and have a nice day. Otherwise, get ready because what's coming may be irritating. At least I hope so. Here goes:

## 1. Get over seeing an "executive when looking in the mirror."

Get the idea out of your head that you're some sort of "sales executive" or that wearing a suit makes you special. It doesn't. You sell and you'll get farther if you think of yourself as a "working stiff."

Playing executive messes up your head. Before you know it, you get the idea that work is for everyone else in your company and particularly for those on what you euphemistically call "my support team." Get over it. Selling is no longer about picking the so-called "low hanging fruit." That's over and done. Now, it's about managing your job. And that means lots of work.

## 2. Maximize your visibility.

"In this business it's better to be seen," comments an editor of a well-known publication. But not like "yesterday's salespeople," who thought "schmoozing" was what it

was all about. They may love you, but that doesn't mean you're going to get the business.

It's time to invest yourself. Look around and figure out what needs to be done. Start looking and acting like a leader. Oh, yes, take a stand. Too many salespeople are so fearful of offending someone they are little more than well-dressed wimps.

## 3. Become a total producer. OK, so you see yourself as some sort of "specialist."

Perhaps you harbor the fantasy of "executive sales" or some other equally meaningless euphemism. That's fine, unless it blinds you on how to go about building a solid business. (Remember, you are in business for yourself.)

Your customers (that's what they are; not clients) want less stress. You're in the perfect position to help them simplify their lives. In fact, make that your primary product. Figure out how to make it easier and more convenient for your customers. If that seems like too much work, try doing something else.

## 4. Go after as many accounts as possible.

Stop thinking small accounts are beneath you, no matter where you are in your sales career. If you're just chasing "the big ones," forget it. Keep it up and you're on the way out.

Sure, you should be ready when one comes along, but spending your time dreaming about winning the big account lottery distracts you from the business you could be writing.

The more happy customers you have, the closer you get to the big ones, which will probably drop in your lap!

#### 5. Be an ardent customer advocate.

Far too often, salespeople are focused on the sale and not the customer. It doesn't take too many smarts to understand that you're working in an environment fraught with dangers and that your customers are on edge. They need help. Your help. What they want is someone they can trust and count on to be on their side when a problem arises. But, come to think about it, that takes a lot of effort. "Cozying up" to a customer is more fun.

#### 6. Stop trying to sell something.

Let's cut to the chase: Selling is getting more difficult by the day. If your sales manager doesn't believe it, suggest that he/she go out and make a few sales calls.

The problem is that "the buying mindset" has changed. You're up against customers who flatly refuse to be your "prey." All the cunning of the greatest "hunter" won't help you "bag" the customer.

Why? The answer is awesome: The customer is now the "hunter" and you're the "prey." Your job is to help the hunter bag you (what you're selling). Trying to grab the customer is gone; now the task is helping the customer grab you.

Here's the sales task: Figure out and then focus on what your customers care about. Nothing else matters today. Nothing. That's what will draw them closer and closer to you. When you see them smile, close the sale.

#### 7. Blow up your Web site.

It's not an act of terrorism; you will be doing yourself, your customers and the World Wide Web a favor. Everybody else, too. At least 99.99 percent of Web sites have no value. Actually, they have a negative impact.

Here's the point: They fail to make the case why a visitor would want to do business with the company. Oh, you give great service? Isn't that nice. Every business says that, including the people they are doing business with now who can't do anything right!

Stop thinking about how long you've been in business and start thinking about what it will take to get customers to want to do business with you.

Here's an idea: As a salesperson, you may want to think about having your own Web site or blog. Waiting for your employer to get the message will only cost you sales.

#### 8. Talk to customers about what matters to them.

Although it takes commitment and work, it's so easy today to communicate with customers. You have so much that can really make a difference and connect with those you work with: showing customers how to reduce costs and increase productivity, for example. As a salesperson, you have actual case histories of how you have benefited your customers.

Message: Let customers know you listen and care. It also keeps their attention on you as their advisor and not just another sales rep.

#### 9. Manage your business.

No matter whom you work for, you're really [insert your name here], Inc. You're a business owner and need to do everything any other business owner does. You are in charge of marketing, administration, follow up and sales. If this isn't clear, let's put it this way: If it's going to get done, you're going to do it. So, stop whining that the company isn't

giving you the support you need to be successful.

#### 10. Act like you're in charge.

Never let customers get the idea that you're going to "hand them off" to someone else, ever. When that happens, they get the message that once the sale is made, you're on your way. When that happens, it undermines your relationship with the customer.

Even when it's appropriate to hand off a task, customers want to know you're in charge and involved. That's what trust is all about.

#### 11. Avoid meetings.

Your job is about having time to do what needs to be done making sales and that's the reason most meetings are your enemy. They steal your time, causing you to cut corners in serving customers.

The rule is never to attend a meeting unless it will benefit you directly. Meetings kill time and drain energy; they are interruptions in your work day. Your job is selling and your performance will improve in relation to the number of meetings you miss.

At this point, you may think that all this is unrealistic and places too heavy a burden on salespeople. My response is simple: the problems you can solve for your customers with the products you sell deserve the effort, unless, of course, you would rather be an executive. ■

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

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Underwriting Trends

November 2008

Number 3

Volume 20

PRSRT STD  
U.S. POSTAGE  
PAID  
BARTON & COONEY