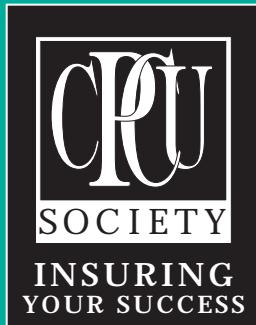


# Underwriting Trends

Underwriting  
Section  
Quarterly

Vol. 14 No. 1  
April 2002



## Tidbits From the Top

by Frederick R. Parcells, CPCU, ARM, ARe

Like any organization, the CPCU Society and the Underwriting Section are constantly challenged to meet the ever-changing needs of our members. To ignore these changing needs is not an option. We must continually assess and evaluate what our members are telling us and act promptly to meet the challenges that we face.

How can we serve you? Our objective is to provide timely and informative material for our members. In addition to *Underwriting Trends*, we're working on getting the Society web site to provide an interactive forum between section members. While this is currently a long-term goal, the Society is targeting to have a new section web site available by the end of the first quarter of 2002. Along with this would come the capability to receive e-mail alerts when site content changes. Stay tuned for further details!

In the meantime, you have an opportunity for your voice to be heard. This edition of *UT* contains a membership survey. Please take the time to complete it and either fax or e-mail your responses to us.

Last but not least, on behalf of all section members, I'd like to thank former chairman **Roger P. Carlson, CPCU**, for his leadership and vision over the last two years. I'm grateful that the national committee will continue to benefit from his insight and expertise for another year. ■

### Editor's note:

*Congratulations to **Frederick R. Parcells, CPCU, ARM, ARe**, our new chairman for the Underwriting Section. We would be remiss not to extend a special thanks to **Roger P. Carlson, CPCU**, for his past leadership to the Underwriting Section.*

## Join us in Orlando, FL!



CPCU Society • Annual Meeting & Seminars  
October 19 - 22, 2002 • Orlando, Florida

The CPCU Society's 58th Annual Meeting and Seminars will be held on October 19-22, 2002, in Orlando, FL.

The Underwriting Section will be developing exciting and informative seminars on toxic mold and underwriting training.

Watch your mailbox for a special Annual Meeting and Seminars issue of the *CPCU News* coming in May!

# New Policies for Home Insurance—Facing Record Losses, Insurers Cut Coverage, Raise Rates; Terrorism's Covered, Not Mold

by Danielle Reed and June Fletcher, Staff Reporters of *The Wall Street Journal*

## Editor's note:

*The events of September 11 will most likely continue to have a major impact on our industry. Insurance agents around the country report significant increases in calls from customers checking their policies and inquiring to determine the extent of coverage on homeowners and commercial policies. Similarly, insurance companies continue to assess their exposure in the wake of recent events.*

*The following article not only addresses the issues of terrorism, but also the significant impacts on the industry from increasingly severe weather and emergence of mold exposure.*

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Since September 11, New Yorker Ken Mogil's phone has been ringing off the hook. But he's not selling gas masks or working on the recovery at ground zero: He's an insurance agent who's getting twice as many inquiries from homeowners as he did a year ago.

In the wake of the World Trade Center attack, it's probably not surprising that a lot of people have been pulling out their homeowner's policy and looking at the fine print. The only problem: Insurers have been looking hard at policies, too. Faced with the prospect of losing more money this year than ever before, more home insurers are pulling out of states, capping "replacement value" payouts and raising premiums ahead of inflation. And with claims through the first half of this year already at a record \$5.5 billion, companies will likely only get tougher, says Merrill Lynch insurance analyst Jay Cohen.

The insurance companies say the problem is what Mr. Cohen calls claim inflation: Homeowners are filing a lot more claims and more expensive ones, too. That's why premiums have been rising, and why companies are pushing harder to keep payments down, especially given the estimated \$550 million in homeowner's and renter's claims they'll have to pay because of Sept. 11.

The changes have already made it harder for homeowners to do even simple things, like find policies. In Texas, so many insurers have pulled out of the state, Matt Woolley, of Plano, had to make 27 calls just to find someone who'd give him a policy. Now he's paying \$145 more a year in premiums than he did on his old house—and his deductible has quadrupled to \$2,000. "It's a real killer," says Mr. Woolley.

Below, a primer on where things stand, whether you're looking at the fine print on your policy or just wondering:

## Terrorism

You're most likely covered for any terrorism-related damage, though people who live in co-ops and condos may see higher rates soon. Terrorism may have been homeowners' big worry right after the attack, but things like fire, smoke or explosions are covered, regardless of the cause. "It doesn't matter if the airplane that hits your house is being flown by a United pilot or Osama bin Laden—you're covered," says Richard Ort, of high-end insurer Chubb & Son.

At least that's true so far. Re-insurers (who insure the insurance companies) are talking about excluding terrorism from coverage. "My take on it is, it's wait-and-see," says Mr. Mogil. One possibility:

Companies might start to require a separate deductible for terrorism or raise rates.

(Already, no one covers an act of war, and homeowners are unlikely to be insured for anthrax either.)

Co-op or condo owners, though, could be in for a hefty rate hike soon. That's because public areas in those buildings are covered by commercial insurance policies. Experts say premiums on these policies are likely to shoot up by as much as 50% at the end of the year, when most come up for renewal.

## Storms and Mold

In large part, rising rates and other changes can be blamed on increasingly severe weather, which has meant a big jump in storm-damage and mold claims. Insurance claims were up well before Sept. 11, jumping 28% in the first half of this year, chiefly due to bad weather. Some states are particularly hard-hit—72 tornadoes hit Minnesota this year for instance, more than twice the number in any previous year. Weather is partly responsible for the dramatic rise in mold claims, too—between the beginning of 2000 and the middle of this year, they jumped almost \$70 million for the three biggest insurers alone—because they're usually caused by water damage.

As a result, many insurers have decided they just don't want to do business where mold is common. In hard-hit Texas, for instance, insurers like State Farm, Farmers and Allstate have stopped writing new comprehensive policies. The companies that remain have jacked up rates dramatically: Chubb raised its premiums by 25% this year. The industry is also looking to cap payouts for mold and to require homeowners to pay separately for coverage. In the meantime, homeowners who already have policies can expect to be covered if the mold was caused by a covered water leak. Some insurers are stripping that coverage out of new policies, however, so check the fine print.

## Construction Costs

As construction costs go up, so do insurance rates. In fact, according to the Insurance Information Institute, the cost of home repairs rose 3.1% over last year, just under the average increase in the price of home insurance. The biggest change? Few of the major companies are offering guaranteed-replacement coverage anymore. These days the best most homeowners can do is coverage that limits insurers' payments to about 125% of their home's insured value.

Of course, with the economy in a slump, construction costs may actually fall. Does that mean insurance rates will drop as well? Don't hold your breath. Insurers say people are getting fussier about the quality of their repairs and, says Mr. Ort, insurers "have to deal with the bills."

## Under-insurance

A lot of people who fixed up their homes in the last decade may not have enough insurance. Even as home renovation boomed—Americans spent \$100 billion annually on improvements over the last three years—most people didn't bother to add that new deck to their policy, leaving them under-insured. In fact, a recent survey found that three out of four homeowners don't plan to update their coverage when making structural changes.

It took the events of Sept. 11 to get Karen Bakos to call her agent. Despite renovating her apartment and annexing the studio next door, the New Yorker had never added to her homeowner's. She promptly doubled her coverage. "We should have done this regardless," she says.

## — Going Up

Because of a rising number of claims and increasingly expensive repairs, insurance rates have been rising well above inflation nationally. We looked at what's happened to homeowners' bills around the country, and why.

*Continued on page 4*

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## New Policies for Home Insurance—Facing Record Losses, Insurers Cut Coverage, Raise Rates; Terrorism's Covered, Not Mold

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Average Rate State Increase*	Comment
Arizona 7%	Cost of claims pushed up by high value of Phoenix-area homes.
Colorado 3.5% for first six months of 2001	“Credit scoring” by insurers—linking homeowner’s premiums to their credit ratings has led to higher rates.
Florida 12.6% for top 5 companies	State legislature cut disaster fund, so these insurers, who make up half of the market, raised rates.
Oregon 10% to 15%	Higher housing and construction prices have pushed up rates.
Washington 5.6%	Insurers have been losing money for a while here; many raised rates this year.

\*Based on estimates from state departments of insurance.

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# International Insurance—Don't Leave Home Without It

by Roni Zinnert, CPCU

## Editor's note:

*At the CPCU Society's 57th Annual Meeting and Seminars held in Seattle, WA, the Underwriting Section developed an excellent seminar on issues surrounding the insurance markets in Canada and Mexico. A special thanks to Roni Zinnert, CPCU, for pulling together this article so we can share with everyone key points from the discussions.*

**W**ith 31 million residents in Canada and 97.4 million residents in Mexico, the insurance needs of these nations and the United States will become more interwoven over time.

The CPCU Society's 57th Annual Meetings and Seminars were held in Seattle, WA, October 21-23, 2001. The theme for the meeting was "Business Without Borders." The Underwriting Section developed a seminar presented Sunday, October 21, that explored the issues surrounding the insurance markets in Canada and Mexico.

**Matt Foster, CPCU**, American Re, served as the panel moderator. The speakers were **Juan Buendia, CPCU**, Seguros Commercial America, and **Dan Evans**, St. Paul Fire & Marine Insurance Co. They explored the unique exposures presented when conducting business in Canada and Mexico, and explained how these exposures can be underwritten.

## Mexico

In Mexico, 50 percent of the population is under 24 years old. And, 41 percent of the population resides in the "central states" of Mexico, Federal District, Veracruz, Jalisco, and Puebla. These facts increase the need for employment opportunities in these areas in the near future.

NAFTA has affected the insurance market in Mexico:

- increase in insurance company capital/foreign investment
- development of new insurance products
- creation of niche-oriented companies
- more competition and penetration of the insurance industry in the economy
- better technology and overall service



The cross-border business with Maquiladoras has greatly increased since the enactment of NAFTA. This presents issues of transportation exposures as well as the need for coverage of U.S.-owned goods while being processed or manufactured.

There are very few lines of compulsory insurance in Mexico, and low insurance penetration. Pension plans, previously handled by social security, are being privatized.

- 29 percent of the cars are insured
- Less than 8 percent of households are insured
- 20 percent of the labor force holds life insurance

The General Insurance Law forbids the purchase of insurance from foreign insurers:

- personal insurance: If the insured resides in Mexico when the contract is made
- transit of goods: Ownership or responsibility is of a resident of Mexico
- hull (ships, aircraft, or vehicles): When registered in Mexico or owned by Mexican residents.
- property/liability: For risks that may occur within Mexico.

If none of the legally established insurers can or will accept a proposed insurance, then the corresponding authorities may authorize the purchase from a foreign company.

## Property Insurance

All-risk coverage is available (Mexican form); theft is excluded and can be purchased as a separate coverage.

*Continued on page 6*

# International Insurance—Don't Leave Home Without It

*Continued from page 5*

Earthquake and Flood are available subject to insured participation of 10 to 30 percent.

Transportation of property is highly hazardous in some areas that experience hijacking. The policies may include "day only" warranties or require armed guards or escorts for higher valued shipments.

Business interruption (U.S. form and European form) is available, as well as extra expense, boiler, crime, COC, and Contractors' Equipment coverages.

Earthquake is a major threat in the western and central area of the country. Volcanic eruption is also possible. Hurricane and windstorm represent exposures for the East and West coasts.

## Liability

The legal system is Civil Law (derived from Roman law) based on codes of written laws. Basic coverage is Premises and Operations. Additional coverage is added by request. Products and Completed Operations, Independent Contractors, Tenants (fire legal) Contractual, Pollution, Employers Negligence, and Cross Liability can all be purchased. The jurisdiction is Mexico only for occurrence and the suit.

Although the legal system does not lend itself to high awards, the Mexican people in rural areas are not very claims conscious. There is a slight tendency for increased awards in the larger cities.

## Automobile

Tourist Auto covers vehicles with a United States or Canadian license plates that enter Mexico. Comp/Collision, Liability, medical Expenses for Occupants, and Legal Assistance Coverage are available. Blanket and fleet policies are available for commercial exposures.

Resident Auto policies cover vehicles with Mexican license plates. Comp/Collision coverage extends to the United States and Canada.

United States Auto Liability policies are available to cover vehicles with Mexican license plates for liability only in the United States at minimum limits required by states.

Senor Buendia discussed the cultural sensitivity needed when conducting business in Mexico. The pace of business is

slower than the United States, and personal relationships are extremely important in business dealings. The business day may have hours different than the United States, and one should determine those hours before setting expectations for response to communications.

## Canada

Across our northern border, Canada is an independent constitutional monarchy with a democratically elected parliament. There are 10 provinces and three territories that make up this second largest country in the world (land mass).

Ninety percent of the population lives within 99 miles of the United States border. There is a common law legal system, except for Quebec, where a civil code based on Napoleonic Code exists.

Non-admitted insurance is permitted, except for compulsory lines. Compulsory lines of insurance include:

- auto third-party property damage
- auto accident benefits
- workers compensation
- health insurance
- nuclear liability

There is government involvement in the following lines:

- workers compensation
- health and hospital insurance
- auto third-party liability in British Columbia, Saskatchewan, and Manitoba
- auto third-party business interruption in Quebec
- nuclear liability

## Property

- basic named perils apply (FLEXA)
- all-risks coverage is increasingly being used
- coinsurance is 80-100 percent
- ACV is standard with replacement cost available



*Continued on page 8*

# ***Underwriting Section Survey***

The Underwriting Section is always looking for opportunities to serve its members. Already, the section develops symposiums and seminars. Additionally, the section communicates topical items four times a year through *Underwriting Trends*. The Underwriting Section Committee is soliciting your input into future topics that might be the subject of a symposium, seminar, or *Underwriting Trends* article. Also, the committee wants your suggestions for future endeavors of the section.

A. What is your current job title?

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B. What would you consider your underwriting specialty?

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C. What lines of business do you currently underwrite?

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D. What challenges are you confronted with on the job that additional information might help?

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E. What topics would you like to see presented in either *Underwriting Trends* or through symposia?

Priority

1. 

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2. 

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3. 

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4. 

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5. 

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Can we share your e-mail address with others who have your specialty?

Yes / No (circle one); e-mail address 

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**Please e-mail your responses to Connor Harrison  
at [harrison@cpcuiia.org](mailto:harrison@cpcuiia.org)  
or fax to (610) 993-7583.**

# International Insurance—Don't Leave Home Without It

*Continued from page 6*

- business interruption insurance—loss of profits coverage most common, extra expense and gross earnings coverages are available

Construction standards are generally good and comparable to the United States. NFPA standards are widely recognized. Earthquake hazards exist on the West coast of British Columbia and the East Central areas of Ottawa to Montreal. Windstorm and flood are serious exposures in the Great Plains and farther east.

## General Liability

- occurrence form is the norm
- sudden and accidental pollution coverage is available
- defense costs are covered in addition to limits
- worldwide coverage available, United States not usually excluded

Although the majority of court cases do not involve injuries, claims consciousness among Canadians has increased due to United States influence. Asbestos is one of the major subjects of litigation.

## Automobile

- statutory limits C\$200,000 per BI and PD
- Quebec C\$50,000 for PD
- physical damage coverage is available
- No fault coverage applies in Manitoba, Ontario, Quebec, and Saskatchewan. Tort liability applies in the other provinces.

A large percentage of Canadians live within 100 miles of the United States border. Since many Canadians cross the border into the United States, those exposures play an important role in Canadian claims experience.

## Workers Compensation

- expatriate coverage is available
- extra territorial coverage is included
- medical expenses included
- occupational disease included
- travel to and from work not included
- right to sue the employers exists
- employers liability coverage can be insured separately ■

**Underwriting Trends**  
is published four times a year  
by and for the members of the  
CPCU Society's Underwriting  
Section.

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CPCU Society.

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Printed on Recycled Paper

Underwriting  
Trends



720 Providence Road  
PO Box 3009  
Malvern, PA 19355-0709

Underwriting  
Section  
Quarterly

Vol. 14 No. 1  
April 2002

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