

### Make Your Interest Group Selection Now to Be Included on the New Mailing List

To continue receiving a printed newsletter or to opt for electronic notification of the latest issue, you *must* choose a primary area of interest — if you have not yet done so. Go to [www.cpcusociety.org](http://www.cpcusociety.org), log in and click on “Interest Groups.” For assistance, call the Member Resource Center at (800) 932-CPCU, option 4. Of course, as a paid Society member, you have electronic access to all interest group newsletters.

## Message from the Chair — Changing of the Guard

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



**J. Brian Murphy, CPCU, ARM, ARe, AMIM**, is chief risk officer and director of educational development 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 chair of the CPCU Society's Chicago Chapter Program Committee and the Underwriting Interest Group Committee.

**T**ime goes by quickly. It seems such a short while since I became chair of the Underwriting Interest Group Committee following the Annual Meeting and Seminars in Nashville. But that was almost three years ago! I have truly enjoyed serving you.

I pass the leadership of the committee to **Nancy S. Cahill, CPCU, AU**, under whose direction the interest group will continue to excel. Special thanks go out to so many who have contributed to the success of the committee during the last three years.

In addition to Nancy, **Lamont D. Boyd, CPCU, AIM; Ann E. Lyon, CPCU, ARP, AMIM; Ronata L. Zinnert, CPCU, ARM; and Gregory J. Massey, CPCU, CIC, CRM, ARM, PMP, CLCS**, have produced outstanding

seminars for each of the Annual Meetings.

We continue to offer an Underwriting Interest Group luncheon and speaker at the Annual Meetings, as well. I thank **Anne M. Crabbs, CPCU, CIC; Jack W. Watts Jr., CPCU, CLU, ChFC; Greg Massey; and Nancy Cahill** for coordinating these great events.

Thanks to the hard work of **Stephen W. White, CPCU, AIS**, and Greg Massey, we continue to produce superior newsletters. And **Thomas C. Langley, CPCU**, and Steve White have done a great job shepherding the Underwriting Interest Group's Circle of Excellence (COE) submissions. Under their leadership, we were awarded COE Gold each year.

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# Message from the Chair — Changing of the Guard

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I would also like to thank **Cathie Price, CPCU**, and **Andrew G. Rader, CPCU, CLU, ChFC, ARM, AIC**, who took ownership of the Underwriting Interest Group Web site at the Leadership Summit in Phoenix, Ariz., this past April.

At the Leadership Summit, the committee finalized our plans for the upcoming CPCU Society Annual Meeting and Seminars in Denver, Colo., Aug. 29–Sept. 1. We will be offering two technical seminars and the Underwriting Interest Group luncheon.

“Will They be Survivors? Promote Business Resiliency Planning” will be offered on Monday, Aug. 31, at 10 a.m.–noon. This seminar will focus on disaster planning and recovery planning with speakers from underwriting and claims.

“Embracing Technology in Underwriting” is being developed with the Personal Lines Interest Group. We partnered with Accenture, a global management consulting, technology services and outsourcing company, and conducted a survey of members from the Underwriting and Personal Lines Interest Groups. With speakers from personal and commercial underwriting, as well as from Accenture, the survey’s results will form the foundation of the seminar, which will be held on Tuesday, Sept. 1, at 1:30–3:30 p.m.

The Underwriting Interest Group is continuing its traditional Annual Meeting and Seminars luncheon on Sunday, Aug. 30. Our featured speaker will be **Paul Farrell**, CEO of SafetyFirst Systems LLC, a partner to the insurance industry in providing policyholder services to monitor drivers and reduce collisions. He will speak on “Weaving in Traffic — What Lies Ahead for Commercial Auto?” As always, we will have a drawing in which everyone receives a door prize, so plan to attend! ■

## THE UNDERWRITING INTEREST GROUP PRESENTS

### WILL THEY BE SURVIVORS? PROMOTE BUSINESS RESILIENCY PLANNING

**Monday, Aug. 31, 2009 • 10 a.m.–Noon**

All businesses face the threat of disaster-related closure — and that threat is not just hurricanes, earthquakes and asteroids! This seminar will focus on disaster planning and recovery planning with speakers from underwriting and claims.

### EMBRACING TECHNOLOGY IN UNDERWRITING

*(Developed with the Personal Lines Interest Group)*

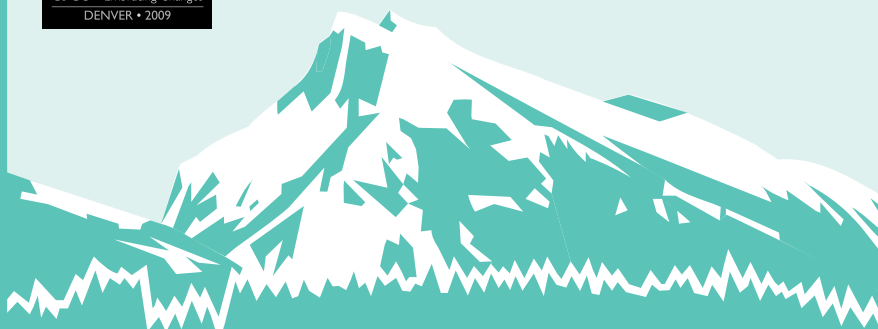
**Tuesday, Sept. 1, 2009 • 1:30–3:30 p.m.**

Want to know what your counterparts throughout the industry see as the future of technology in underwriting? This seminar will center on an analysis of results from a recent CPCU Society/Accenture survey of Personal Lines and Underwriting Interest Group members.



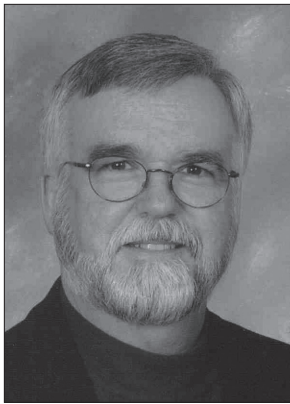
**65th Annual Meeting and Seminars  
Denver, Colo.**

**Register today! For details, visit  
[www.cpcusociety.org](http://www.cpcusociety.org).**



# From the Co-Editor

by Stephen W. White, CPCU, AIS



**Stephen W. White, CPCU, AIS**, is an underwriting section manager of commercial insurance products in the state of California for State Farm. He has held many different positions in four State Farm operations centers over the past 32 years. White is a charter member and past president of the CPCU Society's California Golden Empire Chapter in Bakersfield, Calif. He has been an active member of the CPCU Society's Underwriting Interest Group for the past seven years and is co-editor of the group's newsletter. A golf advocate who also enjoys traveling, White is a graduate of the University of Alabama.

There is no doubt that our economy today is having a tremendous impact on many businesses throughout the country. It has also affected how the insurance industry conducts business with those struggling in this economy.

In this edition, you will find articles that focus on making sales in today's economy and understanding the basics of commercial rating. Whether you are in sales, underwriting or rating of business insurance, we hope you find this information informative and beneficial to the job you do every day.

- In his article, "Eight Ways to Get Serious about Making Sales in Today's Economy," **John R. Graham** says, "There are important selling lessons to be learned from the dramatic selling situations that just about every salesperson is going through currently."
- In her article, "Rating Knowledge — An Endangered Species," **Jeanne Z. Moscarillo, CPCU, CIC, AU, AAI, CRIS**, says, "To be able to do your best job, everyone involved in these processes needs to know the basics of rating."

Please be sure to also check out the article by **Gail E. McGiffin** on the recent Accenture/CPCU Society survey on the use of technology in underwriting, the risk tip by **Jerome Trupin, CPCU, CLU, ChFC**, on carbon monoxide liability, and the special invitation to the Underwriting Interest Group's Annual Meeting and Seminars luncheon.

As mentioned in previous newsletters, if you have an article you would like to get published and share with others, please get in touch with one of the editors. We'll work with you in bringing the article to publish-ready status. Our contact information is on the back page of this issue. ■



## 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.*

# Rating Knowledge — An Endangered Species

by Jeanne Z. Moscarillo, CPCU, CIC, AU, AAI, CRIS



**Jeanne Z. Moscarillo, CPCU, CIC, AU, AAI, CRIS**, is currently an account manager in the construction department at Britton-Gallagher & Associates Inc., a Cleveland, Ohio, insurance agency. Previously, she worked as an underwriter at Progressive Insurance Company. Moscarillo has been a licensed agent since 1980; she earned the CPCU designation in 1989 and the CIC designation in 2006. Moscarillo earned a Bachelor of Science in education from The Ohio State University.

In 1980, when I started my insurance career in a Cleveland area insurance agency, I had the opportunity to learn commercial insurance from the “bottom up.” (This was prior to PCs, the Internet, PowerPoint, cell phones or Blackberrys.) As archaic as it sounds, this training provided me with a very good foundation of knowledge, which, for the most part, has not changed to date. This point is evidenced by my leaving the insurance industry in 1988 to become a stay-at-home mom and returning to the same independent insurance agency in 2002.

During this 14-year lapse, some things had changed — and quite a bit! The assistant that I had once hired was now my manager, one of my former underwriters was now president of a regional insurance company, and business

was now conducted by computer and the Internet. However, most of what I learned in my first eight years in the insurance industry did not change. One company was still using a \$10,400 executive payroll for general liability as the premium-rating basis; automobile, general liability, property and workers compensation rating still used the same classifications; and the RCP property code still had the same components.

The problem I see today is that learning the fundamentals of rating is disappearing, both at the agency level and at the company level. Many company underwriters don’t know how to rate. I called a company underwriter to get the percentage credit to increase the deductible, and this person had no idea what it was. I was advised that an underwriter just enters the information — it’s the computer that generates the rating and premiums’ output!

Agents should always request complete rating worksheets and have the knowledge to read them. This gives them the power to look for potential misclassifications, excessive base rates, credits that were not applied, and errors or omissions in the rating process. They will also, at least, be able to estimate any changes in property limits and general liability premium basis, and delete the collision on a vehicle and facilitate other common changes that come up in client meetings or calls.

Rating training is becoming very rare to find. Companies have cut back on agency training and seldom offer rating training. Agencies can neither afford to send employees long distances nor have them out of the office for long periods of time. My advice is to locate people in your organization who have rating knowledge. Have them develop a simple course and teach this to others in the organization — before it’s too late! All processing, customer service and marketing employees in your agency should have this knowledge to properly service, retain and write new accounts. Audits,

endorsements, policies and proposals all involve understanding rating elements. To be able to do your best job, everyone involved in these processes needs to know the basics of rating. Extinction is nearing.

A sample rating outline follows, which can be amended to meet your needs.

## I. Property.

### A. Basic Fire Rate.

#### 1. Class Rate.

a) Construction.

b) Protection Class.

#### 2. Specific Rate.

a) ISO Contact Information.

#### 3. Information Needed for Loss Cost Rate.

#### 4. RCP.

### B. Group II and AOP Rates.

### C. Other Rating Factors.

#### 1. Coinsurance.

#### 2. Deductible.

#### 3. RPM.

#### 4. Schedule Credit.

#### 5. Package Credit.

### D. Premium = Limit of Insurance X Final Rate.

### E. Other Coverage Premiums.

#### 1. BI/EE.

#### 2. Expanded Endorsements.

## II. General Liability.

### A. Sublines.

#### 1. Premises (313).

#### 2. Product/Completed Operations (316).

#### 3. Independent Contractors (315).

### B. Classifications and Codes.

<p>C. Premium Basis.</p> <ol style="list-style-type: none"> <li>1. Payroll (P) per \$1,000. <ol style="list-style-type: none"> <li>a) Payroll Rules.</li> <li>b) Cap on Payrolls.</li> </ol> </li> <li>2. Gross Sale(s) per \$1,000. <ol style="list-style-type: none"> <li>a) Inclusions.</li> <li>b) Exclusion.</li> </ol> </li> <li>3. Total Cost (c) per \$1,000.</li> <li>4. Area (A) per \$1,000.</li> </ol> <p>D. Other Factors.</p> <ol style="list-style-type: none"> <li>1. Increased Limits.</li> <li>2. Deductible.</li> <li>3. Experience.</li> <li>4. Scheduled.</li> <li>5. Package.</li> </ol> <p>E. Premium = Base Rate X Other Factors = Final Rate X Premium Basis.</p> <p>F. Other Coverages.</p> <ol style="list-style-type: none"> <li>1. BFGL.</li> <li>2. Nonowned and Hired Car (NO &amp; HC).</li> <li>3. Additional Insureds.</li> <li>4. Waivers.</li> </ol> <p>G. Audits.</p>	<ol style="list-style-type: none"> <li>1. Light (Gross Vehicle Weight 0–10K/6).</li> <li>2. Medium (Gross Vehicle Weight 10–20K).</li> <li>3. Heavy (Gross Vehicle Weight 20–45,000).</li> <li>4. Extra Heavy (Over 45,000 Gross Vehicle Weight).</li> <li>5. Heavy Truck — Tractors (Gross Vehicle Weight 10–45,000).</li> <li>6. Extra Heavy Truck — Tractor (Over 45,000 Gross Vehicle Weight).</li> <li>7. Trailers.</li> <li>8. Semitrailers.</li> <li>9. Service or Utility (0–2,000 Load Capacity).</li> </ol> <p>D. Radius.</p> <ol style="list-style-type: none"> <li>1. Local (0–50 miles).</li> <li>2. Intermediate (51–200 miles).</li> <li>3. Long Distance (Over 200 miles).</li> </ol> <p>E. Coding of PP (0798).</p> <p>F. Territory (Garaging).</p> <p>G. Liability Premium = Rate X Increased Limit's Factor X Credits.</p> <p>H. Other Coverages.</p> <ol style="list-style-type: none"> <li>1. Expanded Automobile.</li> <li>2. Fellow Employee Exclusion Deleted.</li> <li>3. Nonowned and Hired Car. <ol style="list-style-type: none"> <li>a) Number of Employees.</li> <li>b) Cost of Hire.</li> </ol> </li> <li>4. Medical Payments.</li> <li>5. Uninsured Motorist.</li> </ol> <p>I. Covered Automobile Symbols.</p>	<p>IV. Employer's Liability and Workers Compensation.</p> <ol style="list-style-type: none"> <li>A. Payroll (Workers' Comp Rules).</li> <li>B. Codes (Workers' Comp Codes).</li> <li>C. Premium = Final Rate X Payroll per 100.</li> </ol> <p>V. Employee Benefits.</p> <ol style="list-style-type: none"> <li>A. Rated on Number of Employees.</li> <li>B. May Be Included in Broad Form Endorsements.</li> </ol> <p>VI. Inland Marine — Contractors Equipment.</p> <ol style="list-style-type: none"> <li>A. ACV of Equipment.</li> <li>B. Premium = Rate X Credits X Limit of Insurance per 100.</li> <li>C. Other Coverages. <ol style="list-style-type: none"> <li>1. Leased or Rented Equipment.</li> <li>2. Extra Expense.</li> </ol> </li> </ol> <p>VII. Umbrella.</p> <ol style="list-style-type: none"> <li>A. Percentage of General Liability Premium.</li> <li>B. Percentage of Automobile Liability Premium.  Automobile — Number of Vehicles According to Class.</li> </ol>
<p>III. Automobile.</p> <ol style="list-style-type: none"> <li>A. Vehicle Year, Make, Model. <ol style="list-style-type: none"> <li>1. Model Year.</li> <li>2. Cost New/Symbol.</li> <li>3. VIN (Vehicle Identification Number).</li> </ol> </li> <li>B. Use of Vehicle. <ol style="list-style-type: none"> <li>1. Service.</li> <li>2. Retail.</li> <li>3. Commercial.</li> <li>4. Private Passenger — Code: 0798.</li> </ol> </li> <li>C. Vehicle Weight.</li> </ol>		<p><b>Note:</b> Complete information may be found on Web sites such as ISO, NCCI or Silver Plume, and may involve subscriptions. ■</p>



# Eight Ways to Get Serious about Making Sales in Today's Economy

by John R. Graham



**John R. Graham** is president of Graham Communications, a marketing services and sales consulting firm. He is the author of a number of books on marketing and 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, Mass. 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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**S**tunned. Confused. Shocked. These three words describe the reaction of countless salespeople to the dramatic drop in their numbers. All of a sudden they hit a wall and don't know what to do.

Riding on a record of closed sales, a competent insurance producer didn't know how to cope with a \$28 commission check.

Needless to say, the sales ranks are thinning daily.

*No one really knows what to do.* The answers from the sales gurus are lacking, nebulous or less than convincing. One

such "expert" leaves his audiences rolling their eyes as he tells them that it's time to ask for referrals. Referrals are tough to come by in good times, let alone a recession.

There are important selling lessons to be learned from the dramatic selling situations that just about every salesperson is going through currently.

## (1) We've run out of "silver bullets."

Many salespeople start looking for the next gimmick the moment they encounter a problem, whether it's getting leads or setting up appointments. As one salesperson said after working on a new market for less than 60 days, "If this doesn't work, I'll need a different mousetrap."

For the past 15 years or so, closing sales was relatively easy. Customers have been plentiful and most have been in a buying mode. Unfortunately, many salespeople thought it was their skill that was driving their success, when it was more like order-taking than anything else.

Now, every salesperson is faced with the stamina test: "Do I have what it takes in a recession?" Instead of looking for a fantasy solution, the place to start is to look at ourselves.

## (2) Stop looking for a ray of hope.

Optimism is the salesperson's drug of choice. Without it there's no getting up in the morning. Optimism works — as long as there's another sale in the offing. But not when the orders dry up, not when anyone wants to meet or even talk or not when every day is a Dead Zone.

Hoping things will change, hoping the next call will be different or

hoping the old magic will return is not only a waste of time, but also avoids developing new strategies and ways of approaching and reaching customers.

For example, astute life insurance producers saw an opportunity when so many people lost a considerable portion of their retirement funds in the decline of the stock market. These salespeople are suggesting that life insurance can make up for what has been taken away.

Instead of always hoping things will change, focusing on how to work with the hand we're dealt produces the best results.

## (3) Reposition your message.

Failing to change a sales message to fit the new economic reality is fatal. A human resources firm talks about "investing in retaining valued workers" at the very moment when layoffs are mounting. This approach may resonate with companies when there's low unemployment, but not now.

**Leonard Lodish**, another Wharton School marketing professor, makes this comment about sending the correct message: "If your company has something to say that is relevant in this environment, it's going to be more efficient to say it now than to say it in better times." The task is figuring out a message that addresses the customer's situation. Nothing else works!

## (4) Do something new, but don't cut prices.

Yes, the fashion industry has slashed prices, including the normally sacred high end. That was the right move since retailers were faced with high inventories. The fast food industry got it right

fast. Wendy's, for example, offers three "waaaay better" 99-cent sandwiches, but the price hasn't changed on its regular products.

In the same way, Apple is said to be readying a new iPhone to market, a lower-priced nano version. It certainly makes sense since the nano iPod became a huge success.

**(5) Keep the right perspective.**

There's nothing worse than phony optimism. Everyone can see through it. If we were to go to the Web sites of *The Wall Street Journal*, *USA Today*, the *Financial Times* and any one of a dozen others, there's good reason for pessimism. Here were the top headlines in the *Financial Times* one day recently:

"Consumers rein in spending"

"Fears over jobs and falling home values"

"Wall Street downbeat on stimulus fears"

"Boeing and 3M lead blue chips into negative territory"

Duplicate this "news" day-after-day, and it takes a toll on anyone, particularly those responsible for making sales.

While bad news infects the air we breathe, it is still true that more than 90 percent of the workforce is on the job, the freeways are packed morning and night, homes are being bought and sold, and on Friday nights the bars and restaurants are filled to capacity in many places. And in spite of all the bad news, the economy keeps on going.

No matter how much bad news there is, the cup is far more than half full.

**(6) Avoid trying to convince customers what to buy.**

The best way to lose a sale is to tell the customer that you have what they need. That may have worked in the past, but it's the wrong message now.

A sales rep from a major radio station in the Boston market called, attempting to arrange a "20-minute" meeting. "I think we're a good fit for your client," she stated.

Unfortunately, she did not get the memo that makes it clear that what a salesperson "thinks" doesn't count. She made no attempt to communicate that she understood the client's goals. Even worse, the "product" she wanted us to recommend to our client was being touted to a variety of businesses. The bottom line was that the station expected the client to fit *their* program.

What may be "a good fit" for the radio station may not meet the client's requirements.

**(7) Educate endlessly.**

The fact that today's customers are more suspicious and less trusting than they were in the past isn't a message that salespeople want to hear. Like it or not, it not only takes time, effort and patience for customers to become believers, but it also takes timing.

TriFactor LLC, a leading material handling integrator in the Southeast, understands the sales benefits of educating both current customers and prospects. They describe the company's new Web site ([www.trifactor.com](http://www.trifactor.com)) as "The Learning Center." The company is committed to sharing its experience and its expertise. It's

built into the culture. They see the business as a total learning center.

Customers today connect with information, not sales pitches.

**(8) Invest in tomorrow.**

Salespeople have a long history of being what might be called "today" people. Their focus is on what's happening at the moment; they're not known for thinking about the future.

There is always a need for agility and adjusting to short-term objectives. At the same time, a study by [Dr. Gary Lilien](#) of Penn State's Smeal College of Business makes the point for a consistent approach to marketing and sales. "Companies that have been looking at marketing as an investment," Dr. Lilien states, "and not an expense, and have been running their business through customer knowledge are the ones that are going to come out of this [recession] really, really well."

One of the best examples is Amazon.com. Even when their competitors were suffering, Amazon was beating them by using their extensive knowledge base to stay close to their customers by providing them products and services that were based on their unique interests.

It's a poignant lesson for every business.

Selling is more about understanding the customer than it is about skill or sales techniques. Those who take seriously the challenge of connecting with customers in ways that speak to their issues and meet their needs will prosper whatever the economic circumstances. ■

# Pull Over for Lunch at the Annual Meeting and Seminars

by Stephen W. White, CPCU, AIS



When you register for the Annual Meeting and Seminars in Denver, don't forget to sign up to attend our Underwriting Interest Group luncheon on Aug. 30, 2009, at 11:30 a.m. Tickets are required (\$45 each).

**Paul Farrell**, a fleet safety specialist with 20 years' experience in both the insurance industry and in private practice, will be our guest speaker. His topic is, "Weaving In Traffic — What Lies Ahead for Commercial Auto?"

Currently, Paul serves as CEO of SafetyFirst Systems, a partner to the insurance industry providing policyholder services to monitor drivers and reduce collisions. SafetyFirst monitors more than 200,000 drivers from 3,800 fleets in all Standard Industrial Classification (SIC) divisions.

Economic downturns, the fluctuation of fuel costs (including all-time record highs), and a steady expansion of coverage by case law verdicts have worked together to change the commercial auto landscape. Because of these events, Paul will share with us recent trends in commercial auto, such as:

- While fatality rates have dropped, the total number of collisions, injuries and expenses has not declined at the same rate.
- The rise in fuel costs are moving more drivers to hybrids, motorcycles and "ultra-light" vehicles, which may result in higher repair costs, greater injury costs and more fatalities.
- The combination of sluggish economic conditions and rising fuel costs through 2008 placed many truck fleets out of business and also hurt many construction firms. Fleets are shrinking; and to cut costs, some fleets have been outsourcing to contractors or making employees operate their own vehicles for business purposes. The shift in costs is often unaccompanied by proper safety or risk management controls, exposing the primary commercial auto insurer to greater risk.
- The downturn in the economy could be influencing several possible occurrences, such as increased abuse of drugs and alcohol, driving without insurance, deferring maintenance, and pushing older vehicles longer without replacement as planned.
- Sympathetic courts are expanding the definition of "who" is covered, especially in UM/UIM situations.

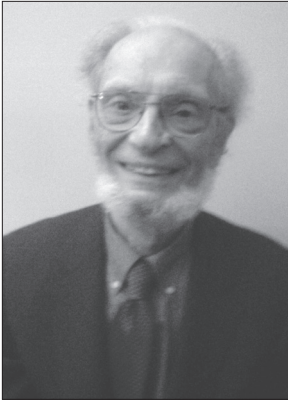
- Medical expenses associated with motor vehicle collisions have increased faster than medical expenses for other types of injuries.
- Teen drivers continue to perish at alarming rates.

Please join us for lunch to examine the impact these changes have already made, and how they may affect commercial auto over the next couple years. ■



# Risk Tip: Avoid a Carbon Monoxide Headache

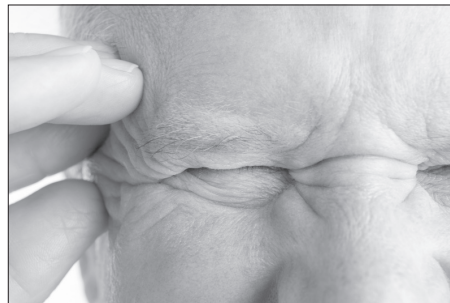
by Jerome Trupin, CPCU, CLU, ChFC



**Jerome Trupin, CPCU, CLU, ChFC**, is a partner in Trupin Insurance Services, located in Briarcliff Manor, N.Y. As an "outsourced risk manager," he provides property-casualty insurance consulting advice to commercial, nonprofit and governmental entities. Trupin regularly writes articles on insurance topics for industry publications and is the co-author of several insurance textbooks published by the AICPCU/IIA. Trupin has been an expert witness in numerous cases involving insurance policy coverage disputes, has spoken on insurance topics across the country, and has taught many CPCU and IIA courses. He can be reached at [cpcuwest@aol.com](mailto:cpcuwest@aol.com).

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Carbon monoxide is colorless, odorless and deadly. One of the early signs of carbon monoxide poisoning is a severe headache — and that's exactly what many insureds get when they submit a liability claim resulting from death or injury due to carbon monoxide poisoning. Insurance companies argue that such claims are barred by the CGL pollution exclusion. (See IRMI Web site, [www.irmi.com](http://www.irmi.com), for the article titled, "Pollution Exclusions in CGL Policy Bars Coverage for Carbon Monoxide Poisoning," February 2007, by J. Kent Holland Jr., of ConstructionRisk.com LLC.)



The pollution exclusion was intended to eliminate the catastrophic Superfund environmental exposures, but it is often read to exclude claims that were accepted by insurers without problems under previous policy wordings. To ameliorate this problem, Insurance Services Office Inc. (ISO) has over the years added exceptions to the pollution exclusion that provide coverage for claims arising from such things as hostile fire, motor vehicle lubricants, etc. A recent broadening was the addition of an exception for claims due to fumes, etc., from equipment used to heat, cool or dehumidify a building or to heat water for domestic use. This coverage is included in the latest ISO

commercial general liability (CGL) form (CG 00 01 12 07) and is available by endorsement (CG 21 65 12 04) for use with prior forms.

That's the good news. The bad news is twofold: (1) Not all carbon monoxide cases arise from heating, etc., equipment (the one in the IRMI article mentioned above didn't); and (2) Many larger insurers use their own forms when insuring middle-market and national accounts. In reviewing policies for our clients, more often than not we find non-ISO CGL policies, and in a surprising number of cases, we find the broadened wording missing.

You have to seek amendments to those policies to close the gaps. Better policy wording beats telling your client to take two aspirin and call a doctor if the pain persists. ■

# Are You Embracing Technology in Underwriting? We Are!

by Stephen W. White, CPCU, AIS

Exciting news from the Underwriting Interest Group — we are partnering with the CPCU Society's Personal Lines Interest Group and Accenture, a global management consulting, technology services and outsourcing company, to present a seminar at the 2009 Annual Meeting and Seminars in Denver, Colo., Aug. 29–Sept. 1, 2009.

The program, titled “Embracing Technology in Underwriting,” will summarize the results of the most recent CPCU Society/Accenture survey, which was administered to members of the Personal Lines and Underwriting Interest

Groups. The survey asked us to delve into our thoughts of what is around the next corner for underwriting and technology. In Denver, Accenture executives will provide a recap of the survey results and offer opinions based on their research.

Leaders of the two interest groups have recruited personal lines and commercial underwriting executives for the seminar. These presenters will share the benefits they've seen, and challenges they've faced, in their respective companies' growing use of technology in underwriting.

If you will be in Denver for the Annual Meeting and Seminars, please plan to attend this seminar to hear what your colleagues throughout the industry see as the future of technology in underwriting. There's a good chance you will hear about the opportunities and challenges of integrating technology into underwriting functions, both from personal and commercial lines' perspectives. ■

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## Achieving High Performance in Underwriting — It's Time to Move beyond the Status Quo

by Gail E. McGiffin

**Gail E. McGiffin** is a senior executive in Accenture's insurance practice, leading its Global Underwriting Transformation Offerings. She is responsible for the market strategies and sales for Accenture's underwriting and product development solutions and assets. McGiffin has more than 25 years' professional experience and has worked with many of the world's leading insurers to help them transform their underwriting capabilities through software and consulting engagements. Prior to joining Accenture in 1999, she spent 16 years in the insurance industry at Chubb and Royal & SunAlliance. McGiffin holds a bachelor's degree with high honors from Colgate University.

**Editor's notes:** (1) This article is reprinted with permission of Accenture. Copyright © 2009 Accenture. All rights reserved. For more information about the survey, contact Gail E. McGiffin at [gail.e.mcginffin@accenture.com](mailto:gail.e.mcginffin@accenture.com).

(2) Gail E. McGiffin will present the findings of this survey on Tuesday, Sept. 1, at the CPCU Society's Annual Meeting and Seminars' panel discussion “Embracing Technology in Underwriting.” Representatives from commercial and personal lines will join McGiffin to share the benefits they've seen and challenges they've faced in their growing use of technology in underwriting.

Following up on a survey of underwriters in 2005, Accenture, a global management consulting, technology services and outsourcing company, conducted a similar survey in 2008 to gauge progress on the use of technology to help insurers achieve high performance. By polling members of the Chartered Property Casualty Underwriters (CPCU) Society Underwriting and Personal Lines Interest Groups, Accenture has measured the degree to which technology has helped

underwriters perform more efficiently and more effectively, as well as explored new issues and trends faced by underwriters.

The underwriter plays a critical role in today's soft insurance market. With the erosion in premium typical of a soft market, made worse by the slump in real estate sales, sagging automotive sales and rising unemployment, it is the work of the underwriter to preserve or improve loss ratios even as exposure-based pricing drops and the potential for fraud increases.

Accenture High Performance Business research and extensive experience show that high-performance businesses invest to strengthen their position even in a downturn. They do not hunker down to ride out the storm of economic uncertainty. Those businesses that come out ahead after a recession, such as the one in the early 1990s, continue to march ahead on the journey to high performance regardless of the financial climate.

Findings from Accenture's latest survey of insurance underwriters, undertaken with the CPCU Society, show efforts from insurance companies to strengthen their position as the market has transitioned from hard to soft, putting technology to work to increase agent loyalty.

However, by neglecting to make meaningful progress in building other distinctive capabilities, many insurers have left their underwriters ill-equipped and too heavily burdened with manual work to devote sufficient focus to the business of relationship development and profitable growth. After years of maintaining the status quo or at best making only incremental changes, insurers will need to make **transformational investments** to help them achieve high performance across market cycles.

### Agent-Focused Investments Trend Up

Underwriting organizations have grown increasingly agent centric with new investments in technology since the 2005 survey, but the performance gains are not yet yielding the expectations of effectiveness.

Investments in next generation agent portals and service differentiation capabilities are on the rise. For example, over 95 percent of commercial and personal insurers have implemented or are in the process of implementing agent upload and download as well as enhanced Web quoting and Web inquiry tools. Nonetheless, from one-third to one-half indicated that these technologies are not working as expected and need to be changed. While it appears that the standard practice is to invest in technology to strengthen partnerships with agents, for many insurers the effectiveness of the technology is falling short of expectations, limiting their capacity to grow and retain business, especially in today's soft market.

### Sluggish Investments in Underwriting

In a climate of eroding premiums, financial uncertainty, increasing regulatory pressure and the ongoing exodus of talent as expert underwriters reach retirement age, the need for supporting technologies has intensified. Unfortunately, results suggest that while some progress has been made, technology has not been brought fully to bear on underwriting practices. Underwriters responding to the 2008 survey indicate that they are very challenged and enthused with their jobs, however, they feel less well equipped to do their jobs than they did three years ago. For both personal and commercial lines, they found the following missing from their work environments:

- Streamlined and productive processes.
- A balanced workload.
- A high level of automation support.

Training activity has dropped since 2005, and a major misalignment exists between what underwriters feel they need to succeed and what their companies provide. Overall, underwriters value training more highly than their companies do. In particular, underwriters are eager for leadership training, especially within commercial lines, while they believe their companies rank it as low in importance.

One area of concern is that neither underwriters nor their companies seem to value sales training. In today's market, the

imperative is to build effective customer and agent relationships to secure new business, yet underwriters and the insurers are not focused on developing the necessary selling skills. Customer service appears to be a strong area of training, so while insurers value the skills needed to service the business, they do not appear to value the consultative selling skills needed to acquire the business.

### Inadequate Investments in High Impact Areas

Underwriters themselves have a positive outlook on underwriting practices within their own companies. However, the less-than-total adoption of core underwriting technologies suggests that these positive attitudes reflect the performance of individual underwriters, not the underwriting enterprise as a whole. Technology, supported by training, has the potential to raise the performance of all underwriters to a level consistent with the insurer's best underwriters, and sustain that level of performance even as those top performers move on or retire.

In 2005, underwriters identified five key functions that would have the highest impact on their jobs and needed changing for them to be more effective. By 2008, few companies had made the necessary investments to automate these five functions. See Table 1.

*Continued on page 12*

Table 1

	Insurers who had fully automated by 2008		
High impact functions identified as needing change in 2005	Personal	Small commercial	Mid-size to large commercial
Risk selection	38%	28%	20%
Data verification	22%	36%	28%
Rating and pricing	33%	13%	15%
Book management	22%	18%	24%
Product development	19%	17%	13%

# Achieving High Performance in Underwriting — It's Time to Move beyond the Status Quo

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## Technology in Underwriting — Expecting Results with Deficient Solutions

For insurers that have implemented technologies by 2008, their underwriters view several of the solutions as inadequate and needing to change. Among commercial lines underwriters, automated underwriting decisions and underwriting workstation top the list for applications needing improvement. Among personal lines underwriters, at least half of all respondents indicated that changes need to be made in applications supporting:

- Underwriting workstation.
- Business intelligence.
- Geographical information systems (GIS).

In 2008, underwriters identified additional functions needed for them to become more effective and efficient in their jobs. These are listed in Table 2, with 1 the highest priority among the top 5. Not even half of all companies have fully automated these high-impact functions; for some functions, the extent of automation is startlingly low. For example, fewer than 17 percent of companies have implemented technology to support predictive models, yet it ranks among the top five for all three groups of insurance underwriters.

For those companies that have not yet applied technology to these functions or that have only partially automated these functions, there is a clear demand for improved support.

While underwriters appear to have received short shrift compared to agents when it comes to putting technology to work, it is encouraging that the survey indicates planned investments over the next 12–24 months to address the system inefficiencies and gaps. See Table 3. However, it is also clear that improvements must also be made in

**Table 2**

<i>Personal Lines</i>	Respondents indicating that the function inhibits job performance and needs to change	
High impact functions identified in 2008	<i>Manual functions</i>	<i>Partially automated functions</i>
1. Predictive models	100%	78%
2. Business intelligence	95%	81%
3. Rules Engines	67%	81%
4. Mapping (GIS)	100%	88%
5. Workflow	86%	87%

<i>Small commercial lines</i>	Respondents indicating that the function inhibits job performance and needs to change	
High impact functions identified in 2008	<i>Manual functions</i>	<i>Partially automated functions</i>
1. Workflow	100%	96%
2. Rating	85%	88%
3. Predictive models	85%	88%
4. Rules-based risk assessment	83%	85%
5. Documentation	81%	83%

<i>Mid-size to large commercial lines</i>	Respondents indicating that the function inhibits job performance and needs to change	
High impact functions identified in 2008	<i>Manual functions</i>	<i>Partially automated functions</i>
Documentation	92%	92%
Pricing	83%	87%
Rating	83%	87%
Predictive models	83%	87%
Business intelligence	92%	91%



**Table 3**

<i>Personal Lines</i>	Respondents selecting “No Activity” indicate where there are plans to implement these applications in the next 12–24 months	
<b>Applications</b>	<b>12–24 Months</b>	<b>No Plans</b>
Agent Upload	100%	0%
Web Inquiry for Agents	0%	100%
Automated Underwriting Decisions	67%	33%
Underwriting Workstation	50%	50%
Product Development Workbench	22%	78%
Business Intelligence	67%	33%
Data Driven Underwriting & Marketing	43%	57%
Mobile (Wireless) Technology	0%	100%
GIS Technologies	25%	75%
Timely Reporting Tools for Book Management	67%	33%

<i>Small commercial Lines</i>	Respondents selecting “No Activity” indicate where there are plans to implement these applications in the next 12–24 months	
<b>Applications</b>	<b>12–24 Months</b>	<b>No Plans</b>
Agent Upload	0%	100%
Agent Download	0%	100%
Web Quoting Facility for Agents	100%	0%
Web Inquiry for Agents	0%	100%
Automated Underwriting Decisions	20%	80%
Underwriting Workstation	25%	75%
Product Development Workbench	25%	75%
Business Intelligence	33%	67%
Data Driven Underwriting & Marketing	50%	50%
Mobile (Wireless) Technology	40%	60%
GIS Technologies	0%	100%
Timely Reporting Tools for Book Management	0%	100%

Table continued on page 14

how these insurers build, introduce and maintain these underwriting technologies. Underwriters continue to rank their companies as only average when it comes to purchasing, developing and integrating technologies, and they see the lack of process and data integration as having the biggest impact on the ineffectiveness of today's systems.

Even with underperforming systems and incomplete automation, most underwriters are optimistic about the promise and potential of technology and do expect ongoing automation to have a significant impact on their jobs. See Figure 1 on page 14.

## Underwriting Practices and Product Development Stay Bound in Status Quo

Introducing innovative product offerings drives profitable growth in any market cycle. In a soft market, creating differentiated products and services tailored to the end customer is the only way to defeat commoditization and win the pricing game. Two technology opportunities are being overlooked — opportunities that can help to bring compelling, profitably priced offerings to market quickly: business intelligence and product development. See Figure 2 on page 15.

Business intelligence helps generate the unique insights needed to develop superior underwriting rules and distinctive market offerings. Few commercial insurers that cited no activity in implementing business intelligence technologies have plans to do so in the future.

Product development workbenches speed the configuration, testing and deployment of new offerings that beat out the competition. Most insurers who have not industrialized product development have no plans to do so. Rather, they will continue to rely on anecdotal history rather than data-rich insight as well as current manual approaches to product development. This inhibits their

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**Table 3 (continued)**

Mid-size to large commercial lines	Respondents selecting "No Activity" indicate where there are plans to implement these applications in the next 12–24 months	
Applications	12–24 Months	No Plans
Agent Upload	22%	78%
Agent Download	50%	50%
Web Quoting Facility for Agents	20%	80%
Web Inquiry for Agents	17%	83%
Automated Underwriting Decisions	17%	83%
Underwriting Workstation	13%	87%
Policy Administration	0%	100%
Product Development Workbench	17%	83%
Business Intelligence	0%	100%
Data Driven Underwriting & Marketing	0%	100%
Mobile (Wireless) Technology	0%	100%
GIS Technologies	0%	100%
Timely Reporting Tools for Book Management	33%	67%

ability to innovate and perpetuates the risk of adverse selection and product commoditization.

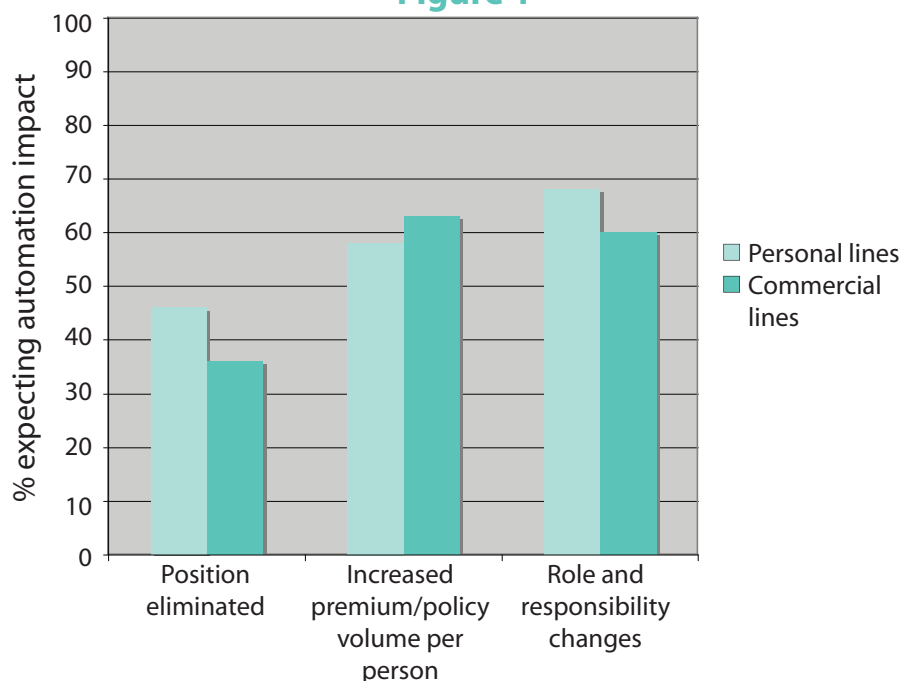
## Achieving High Performance throughout Market Cycles

For property and casualty insurers of all types, cyclical markets are a certainty. With the distinctive capabilities developed through the pragmatic application of technology, sustained profitability and growth can also become more of a certainty.

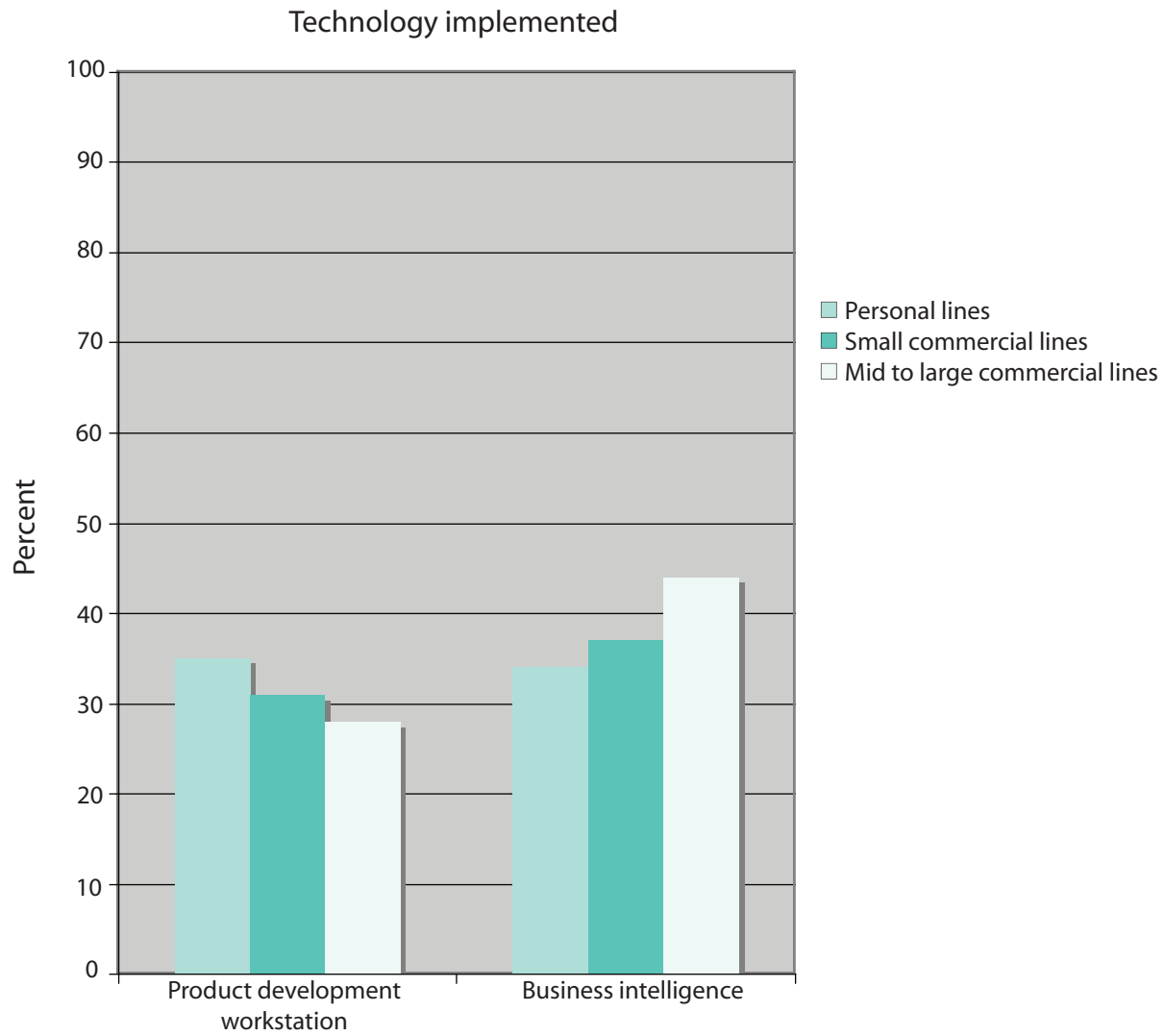
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Accenture is a global management consulting, technology services and outsourcing company. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. With more than 186,000 people serving clients in over 120 countries, the company generated net revenues of U.S. \$23.39 billion for the fiscal year ended Aug. 31, 2008. Its home page is [www.accenture.com](http://www.accenture.com). ■

**Figure 1**



**Figure 2**





# Underwriting Interest Group

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