

Message from the Chair

by Nancy S. Cahill, CPCU, AU



Nancy S. Cahill, CPCU, AU, is manager–special projects, for Liberty Mutual Agency Markets Regional Companies Group in Keene, N.H., part of the Liberty Mutual Group. She also holds project manager oversight responsibilities for the Agency Compensation and Information Systems of Agency Markets. Her experience includes more than 30 years in personal and commercial lines underwriting, commercial lines product development, training and being an agent. Cahill received her bachelor's degree from Capella University and also holds a master's certificate in project management from The George Washington University. She is continuing her education and studying to attain Project Management Professional (PMP) certification.

Happy summer! I hope the winter treated you well and that you are as happy to see summer arriving as I am.

This is an exciting time for our Underwriting Interest Group, as we have begun planning the seminars we will be sponsoring at this fall's the Annual Meeting in Washington, D.C.

We are pleased to be developing three seminars this year with other interest groups:

- **Cultural Norms and Their Impact on Business Insurance** will be co-presented with the International Interest Group. Hispanic and Asian business owners now represent a large percentage of the businesses in the United States. Business owners, a broker, and a company underwriter will discuss the rewards and challenges of doing business with the multi-cultural community.
- **Current and Emerging Regulatory Trends Impacting the Insurance Industry** is being co-developed with the Regulatory and Legislative Interest Group and the Agents and Brokers

Interest Group. Representatives from the NAIC, AIA, CIAB, and others will guide meeting participants through issues affecting the industry on state and federal levels. They will identify the pending and emerging regulatory changes and their impact, and will also address strategies that might be used to comply with pending regulatory changes.

- **Winds of Change—Underwriting the Wind Peril in the United States** is being presented in cooperation with the Excess and Surplus Lines Interest Group and the Loss Control Interest Group. This session will explore the wind peril in the U.S. Property-Casualty environment and its effects due to weather events, such as hurricanes and tornados. It will also address the impacts of wind frequency to the wind rating structure, building codes and construction, and catastrophe risk modeling. Representatives from ISO and the Institute for Building and Home Safety (IBHS) will be among the panelists.

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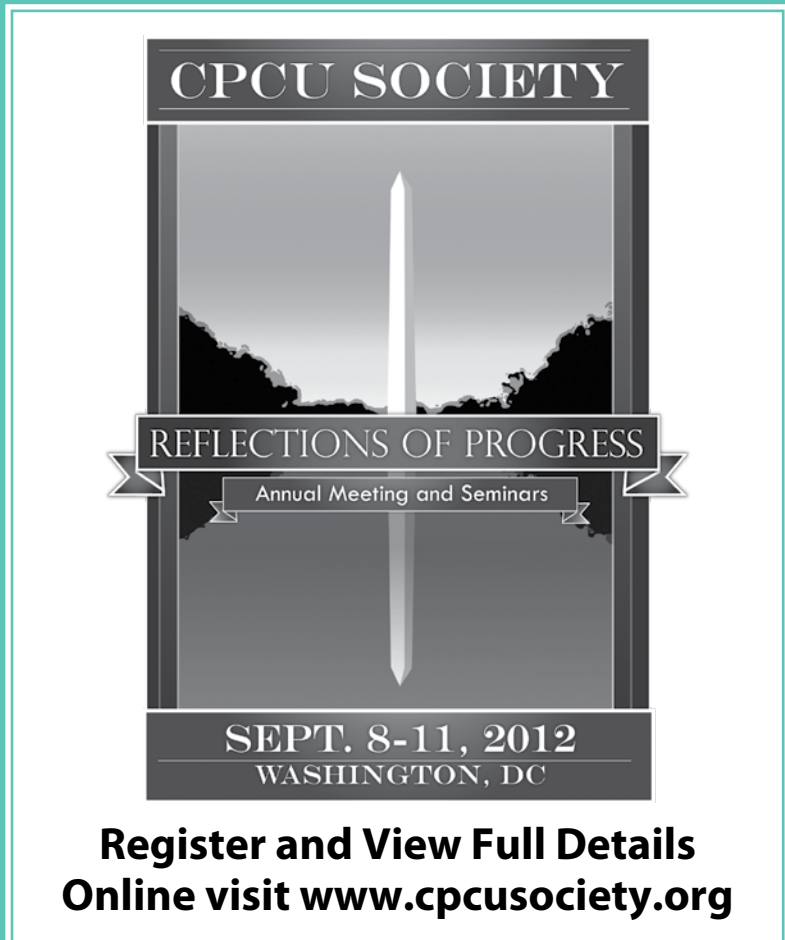
Message from the Chair

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The Underwriting Interest Group will also offer a luncheon meeting with **James L. Britt, CPCU**, as the guest speaker. Britt, formerly the CPCU Society president, is an advisor, coach, author, and speaker with Britt Leadership Partners, LLC; his topic will be Achieving One's Personal Best. This is an event not to be missed and we can almost guarantee that you will leave the lunch with few goodies.

We hope that you will be able to join us in D.C.!

As mentioned in previous newsletters, your Underwriting Interest Group can always use additional assistance. Please consider joining the committee and working with fellow industry professionals in a rewarding and fulfilling experience. If you have any questions about volunteering at the national level with the Underwriting Interest Group, please contact me at nancy.cahill@libertymutual.com or (603) 358-4251. ■



The poster features a central image of the Washington Monument reflected in water, framed by a dark border. Above the image, the text 'CPCU SOCIETY' is displayed in a serif font. Below the image, a banner reads 'REFLECTIONS OF PROGRESS', followed by 'Annual Meeting and Seminars'. At the bottom, the dates 'SEPT. 8-11, 2012' and the location 'WASHINGTON, DC' are listed. Below the poster, the text 'Register and View Full Details Online visit www.cpcusociety.org' is provided.

Register and View Full Details
Online visit www.cpcusociety.org

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.



Don't Get Burned: Evaluating Wildfire Loss Exposures

by Susan Kearney, CPCU, ARM, AU, AAI



Susan Kearney, CPCU, ARM, AU, AAI, is senior director of knowledge resources for The Institutes in Malvern, Pennsylvania. The Institutes are the leader in delivering proven knowledge solutions that drive powerful business results for the risk management and property-casualty insurance industry. The material in this article is covered in the Associate in Commercial Underwriting (AU) designation program, which is among The Institutes' numerous educational offerings. Ms. Kearney can be reached at kearney@TheInstitutes.org.

According to Munich Re, 8.3 million acres¹ were burned by wildfires in 2011, with estimated insured losses of \$855 million. The number of catastrophic wildfires in some regions of the United States poses an increasing risk for insurers. Wildfires present unique challenges for insurers evaluating accounts for property owned in wildfire hazard areas.

A wildfire is an unplanned, uncontrolled burning of vegetation, often occurring in wildlands (timber, woodlands, or brushy or grassy areas). Wildfires can spread rapidly to damage or destroy residential and commercial properties, especially those that are located in a wildland/urban interface (WUI) or in heavily forested areas. Considering the increase of catastrophic wildfires and the population movement into WUIs, insurers should evaluate any variables that may increase their loss potential and the impact of potential wildfires on their exposure accumulation.

A major contributing factor to the occurrence and extent of wildfires is the availability of fuel to burn. Heavy fuels, such as significant underbrush in a forest, cause wildfires to grow intense and to spread rapidly. Wildfire fuels and their impact have been studied and categorized to determine the potential wildfire hazard and are often color-coded on wildfire maps. Insurance Services Office, Inc. (ISO), Risk Management Solutions, Inc. (RMS), and other organizations interested in preventing and mitigating wildfires have developed maps using satellite imagery in geographic information systems (GIS) to indicate areas that are at greatest risk for wildfires.

The most common cause of ignition in wildfires is lightning strikes; however, several other factors contribute to the spread and extent of wildfires:

- Weather conditions—High temperatures and lack of rain or humidity are major contributing

factors in the ignition and spread of wildfires.

- Wind velocity—High winds fan flames, causing them to spread rapidly. Additionally, high winds can cause burning embers and sparks to land on structures or other vegetation away from the fire itself.
- Location—Wildfires differ from fire in heavily populated areas because, in remote areas, they can ignite and develop into significant fires long before they are detected and before any or sufficient fire suppression efforts can reach and extinguish the blaze.
- Slope of the land—Wildfires spread more rapidly in terrains where slopes are steep. Terrains with steeper slopes are more difficult for fire suppression efforts to access.
- Availability of access roads—Some organizations that study wildfires develop access ratings, which consider dead-end roads, access to water hydrants, access to roads wide enough for water-tanker engine passage, access roads through heavy fuel regions, and related issues.

The causes of wildfire and its spread indicate that some regions are more prone to wildfires than others. For example, remote areas with heavy fuels that are subject to arid conditions and high winds are more prone to wildfires. Based on past wildfires and studies of the conditions that support the ignition and spread of wildfires, various regions in the U.S. have been identified as wildfire hazard areas. Although most states in the U.S. are subject to wildfires in forests and grasslands, the most costly wildfires have been reported in California, New Mexico, Arizona, and Texas.

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Don't Get Burned: Evaluating Wildfire Loss Exposures

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In addition to the loss of natural resources—such as forests, grasslands, and wildlife—wildfires cause significant insured damage. When property, such as buildings, personal property, and autos, is in the path of a wildfire, the result will most likely be total losses. Other property may be destroyed by sparks and burning embers that are carried on the wind some distance from the actual wildfire. The majority of wildfire insurance claims are paid to property owners for damage to property, rather than for destruction of property.

Some extensive wildfires that were difficult to suppress have resulted in government-mandated evacuations of entire communities. Whether evacuation is government mandated or needed to remediate smoke or other damages, losses from wildfires include tremendous business interruption.

With technology's fast spread of information and warning systems, people are generally informed in sufficient time to evacuate an area that is threatened by wildfires. But rapidly changing winds can catch people off guard and result in deaths and injuries. Also, some people fail to heed warnings and evacuation orders and stay to defend their property against fire, often causing injuries and deaths. Loss of human lives and injuries sustained from fire, heat, and smoke inhalation are tremendous costs to society and can also result in workers compensation, medical, and life insurance claims.

Insurers can introduce programs and other loss mitigation efforts to help reduce damage and destruction from wildfire hazards. Many insurers preclude coverage for properties located in a WUI or other wildfire-prone areas or charge significantly higher rates for properties in such regions. Insurers can also create education programs for insureds that own property in wildfire-prone areas to explain how to create and maintain defensible space, introduce more fire resistance in structures, and develop procedures that help mitigate damage when a property



is threatened by wildfire. Providing discounts to insureds who follow insurers' wildfire mitigation recommendations encourages building owners to accept responsibility for protecting their own property from wildfire.

It is important for insurers to manage and monitor their overall books of business. Because losses from wildfires often simultaneously affect many insured properties, insurers must be aware of the distribution and aggregation of their wildfire exposures. Effectively mapping exposures can assist an insurer in its loss mitigation efforts, new or updated business development programs, and reinsurance programs.

Additionally, insurers can work with federal, state, and local governments and other organizations to mitigate loss due to wildfire. Insurers can share information with governments and authorities on wildfire hazards, develop programs for inspection of wildfire-prone areas, and assist with improvements to help reduce the risk of wildfire spread and damage. ■

Endnote

(1) source info:

"2011 Natural Catastrophe Year in Review," Munich RE, January 4, 2012, www.ctnow.com/media/acrobat/2012-01/67158951.pdf (accessed June 14, 2012).

Get Exposed

We're always looking for high-quality articles for the Underwriting Interest Group newsletter. If you have knowledge in a given insurance area that you could share with other insurance professionals, we're interested in talking with you. Don't worry if you're not a journalism major; we have folks who can organize and edit the content to make it "publication ready."

Here are some benefits of being a contributing writer for the Underwriting Interest Group newsletter:

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

To jump on this opportunity, please e-mail Steve White, CPCU, AIS, at Steve.White.bnbhg@statefarm.com or Greg Massey, CPCU, CIC, CRM, at greg.massey@zurichna.com.



AU Program Update and New AU-S Designation

by Susan Kearney, CPCU, ARM, AU, AAI

The Institutes have released an updated, even more practical Associate in Commercial Underwriting (AU) program and a separate new course and designation, the Associate in Commercial Underwriting—Strategic Techniques (AU-S). These programs provide practical skills you can use today, thereby enhancing your productivity and career opportunities.

To clarify the recent AU changes, **Susan Kearney, CPCU, ARM, AU, AAI**, senior director of knowledge resources for The Institutes, has answered the following frequently asked questions:

What changes have been made to the AU program?

The newly revised AU requirements are as follows:

- AU 60—Commercial Underwriting Principles
- AU 61—Underwriting Commercial Property
- AU 62—Underwriting Commercial Liability
- AINS 23—Commercial Insurance (completing CPCU 551 and CPCU 552 can be substituted for AINS 23)
- Ethics 311—Ethical Guidelines for Insurance Professionals

The revisions to our AU program were based on invaluable input from the industry, our students and course leaders, and a task force of commercial underwriting professionals. The program was also revised to better align with industry commercial underwriting competencies and with an underwriter's standard career progression.

What specific content changes were made to these courses?

While the new courses cover many of the same topics contained in the current AU 65 and AU 66, content was made more current and concise and altered to directly

link educational objectives with learning elements. We updated references, exhibits, and illustrative materials. We also added case studies, underwriting tips, and Apply Your Knowledge exercises to support a more application-oriented approach. In addition, courses are available in both print and online formats.

What will happen to those who already started the AU program?

If you have credit for the current AU 65 or 66 courses, you will not lose those credits. You may choose to complete the designation program by either finishing the program by December 31, 2012, based on the previous completion requirements or transitioning to the new completion requirements. Under the new completion requirements, AU 65 provides credit for AU 60 and 61, and AU 66 provides credit for AU 62. A student who has credit for the current AU 65 or AU 66 course can still use it as a CPCU elective.

What is the new AU 67 course and AU-S designation?

AU 67—Strategic Underwriting Techniques, is a high-level course that provides underwriters with the technical knowledge needed to improve efficiencies. Upon completing this course, individuals will learn how to manage and reunderwrite a book of business that achieves profitability and other strategic goals.



The Institutes

Proven Knowledge. Powerful Results.®

The AU 67 course explains how to do all of these:

- Develop competitive underwriting strategies
- Manage underwriting profitability
- Underwrite and use loss-sensitive plans for large accounts
- Use reinsurance to help solve underwriting problems
- Manage and reunderwrite a book of business

By successfully completing AU 67, a person who holds the AU designation can reach the next level and earn the AU-S designation. Those who earned the AU designation before January 2011 will also need to meet an ethics requirement by taking Ethics 311 or 312.

When will the new study materials and exams be available?

The new AU and AU-S study materials are available for purchase now, with exams beginning in the July to September testing window.

To learn more about changes to the AU program, visit The Institutes' website at www.TheInstitutes.org/AU. ■

2012 Annual Meeting and Seminars

September 8–11, 2012 • Washington, D.C.

The CPCU Society Underwriting Interest Group Presents

Sunday, September 9

2:45–4:45 p.m.

Winds of Change—Underwriting the Wind Peril in the United States

Change blew through Insurance Services Office (ISO), Inc. and into the insurance industry late last year, when ISO introduced a rating based on a building's wind-related construction characteristics and surrounding environment. This new rating also affects ISO's Building Underwriting Reports. Learn how the wind peril is now determined by individual building and consider how rating changes may affect your customers at this important seminar for property underwriters, agents and brokers, risk managers, and anyone else interested in the pricing and cost of wind peril in the overall property rating scheme. **Filed for CE credits.**

Developed by the Excess/Surplus/Specialty Lines, Loss Control, and Underwriting Interest Groups

Moderator: Maureen Brown, CPCU, ARM-P, AIC, Munich Reinsurance America Inc.

Presenters: Debra T. Ballen, CPCU, Institute for Building and Home Safety; Stephen C. Clarke, CPCU, Insurance Services Office; Glen Daraskevich, Karen Clark & Company

Monday, September 10

1:30–3:30 p.m.

Cultural Norms and Their Impact on Business Insurance

To remain competitive and be truly effective, insurance professionals must understand and relate to all members of its client base. Latino and Asian American populations are among the fastest growing in the United States, with the multicultural marketplace rapidly expanding accordingly. Gain a better understanding of multicultural business practices at this informative session, and learn how to use this knowledge to better target your underwriting and marketing efforts for diverse business owners.

Developed by the International Insurance and Underwriting Interest Groups

Presenters: Jorge E. Cacho-Sousa, CPCU, ARM, MexiPass International Insurance Services; Mercedes Ortiz, State Farm Insurance

1:30–3:30 p.m.

Current and Emerging Regulatory Trends Impacting the Insurance Industry

The Dodd-Frank Act of 2010 has only just begun to change the regulatory landscape for distributing commercial insurance in the United States. For example, qualified risk managers must now hold professional designations such as CPCU, ARM and others to access specialty insurance markets. This seminar will cut through the legalese to discuss the Dodd-Frank requirements, the new Federal Insurance Office, how the McCarran-Ferguson Act is affected, and what Dodd-Frank means for CPCUs.

Developed by the Agent & Broker, Regulatory & Legislative, and Underwriting Interest Groups

Moderator: Chris O'Donnell, CPCU, AMIM, ARM, M&T Bank

Presenters: Tracey Laws, Reinsurance Association of America; Eric Nordman, CPCU, CIE, National Association of Insurance Commissioners; Joel Wood, The Council of Insurance Agents & Brokers; J. Stephen Zielezienski, American Insurance Association



Underwriting Interest Group

Volume 24 • Number 1 • July 2012

Underwriting Trends

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www.cpcusociety.org

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REGISTER TODAY!

The 2012 Annual Meeting and Seminars and
CPCU Conferment will be the best yet!



Highlights

Conferment Ceremony Keynote Speaker
Joan Lunden

Annual Meeting Keynote by General
Stanley McChrystal

Dynamic General Sessions

More than 30 exciting and informative
sessions covering topics like:

- Cyber Risk
- Ethics
- Financial Planning
- Kidnap and Ransom
- Lloyd's of London
- Surplus Lines

Register

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www.CPCUsociety.org

The Underwriting Interest Group newsletter is
published by the Underwriting Interest Group of the
CPCU Society.

Underwriting Interest Group

<http://underwriting.cpcusociety.org>

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