

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.

The Underwriting Interest Group is very fortunate in having had **Brian Murphy, CPCU, ARM, ARe, AMIM**, as chair for the past three years. He provided dynamic and innovative leadership — a tough act to follow. We extend our thanks and best wishes to Brian as he begins a new chapter in his volunteer activities with the Society. He will be missed.

Under Brian’s leadership this past year, the Underwriting Interest Group was successfully involved in many activities. These efforts were acknowledged at the Annual Meeting and Seminars in Denver by our being awarded Gold Circle of Excellence Recognition. Congratulations to everyone for a job well done!

At the Annual Meeting and Seminars, the Underwriting Interest Group offered two seminars and a luncheon keynote. Summaries of all three are contained in this issue of *Underwriting Trends*; the corresponding PowerPoint slides of all three presentations are posted on the Underwriting Interest Group’s Web site.

The seminar “Will They Be Survivors? Promote Business Resiliency Planning” was developed by **Roni L. Zinnert, CPCU, ARM**, and **Ann E. Lyon, CPCU, CRM, CIC, ARP, AMIM**. The seminar “Embracing Technology in Underwriting” was produced by committee members **Lamont D. Boyd, CPCU, AIM**, and **Gregory J. Massey, CPCU, CIC, CRM, ARM, PMP, CLCS**, in conjunction with the Personal Lines Interest Group Committee.

At the Underwriting Interest Group Luncheon on Sunday, Aug. 30, **Paul Farrell**, CEO of SafetyFirst, presented “Weaving in Traffic — What Lies Ahead for Commercial Auto?” The presentation was organized by **Anne M. Crabbs, CPCU, CIC**.

During the Annual Meeting and Seminars, Underwriting Interest Group Committee members volunteered at the interest group area in CPCU Central and at the New Designee Open House. They provided information on the Underwriting Interest Group, interest groups in general and

Continued on page 2

What’s in This Issue

Message from the Chair	1
Annual Meeting and Seminars Underwriting Luncheon	2
‘Weaving in Traffic — What Lies Ahead for Commercial Auto?’	3
Embracing Technology — A Joint Effort	6
Underwriting Interest Group Committee	7
Lessons from GM’s Bob Lutz on Marketing, Selling and Customers	8
‘Will They Be Survivors? Promote Business Resiliency Planning’.	10

Message from the Chair

Continued from page 1

the value of involvement, and taking advantage of interest group resources.

Looking forward to 2010, the committee agreed to partner with the International Insurance Interest Group on a research project. The objective of the project is to build a user-friendly Web-based tool that will assist agents, underwriters and risk managers in addressing the international needs of their U.S.-based customers and employers. It has been several years since the Underwriting Interest Group has embarked on a research project, and this one should not only be extremely interesting but also especially timely. If you would like to help, please let me know.

Planning for the seminars sponsored by the Underwriting Interest Group at the 2010 Annual Meeting in Orlando also has started. Selected topics have not been finalized, but it seems likely that at least one of our seminars will be on lessons learned and emerging trends in handling catastrophes. Possibilities for a second seminar include "Cultural Diversity — How Can We Help Foreign Business Owners Understand the U.S. Insurance Market?" and "Surplus Lines Hospitality Exposure — Underwriting and Risk Management."

Interest group co-webmasters **Andrew G. Rader, CPCU, CLU, ChFC, ARM**, and **Cathie Price, CPCU**, will be continuing our Web site overhaul. They are focusing on making sure information is current and that there is overall consistency relative to navigating into and through the site. If you have not visited the site recently, we encourage you to do so to see its many changes.

We are always looking for new committee members. If you have an interest in volunteering at the Society level with the Underwriting Interest Group, please contact me at nancy.cahill@libertymutual.com for further information. ■

Annual Meeting and Seminars Underwriting Luncheon

by Anne M. Crabbs, CPCU, CIC

The Underwriting Interest Group Luncheon at this year's Annual Meeting in Denver was very well attended, with more than 50 people enjoying a wonderful meal and an informative talk. We invited a local professor and a student to attend the luncheon as part of our outreach initiative.

We were fortunate to have **Paul Farrell**, CEO of SafetyFirst, as our speaker. A fleet safety specialist with 20 years' experience in both the insurance industry and in private practice, he gave a presentation titled, "Weaving in Traffic — What Lies Ahead for Commercial Auto?"

Farrell spoke about the economic pressures caused by the recent economic downturn. A few of the areas that have been impacted are the trucking industry, municipalities and nontrucking fleets.

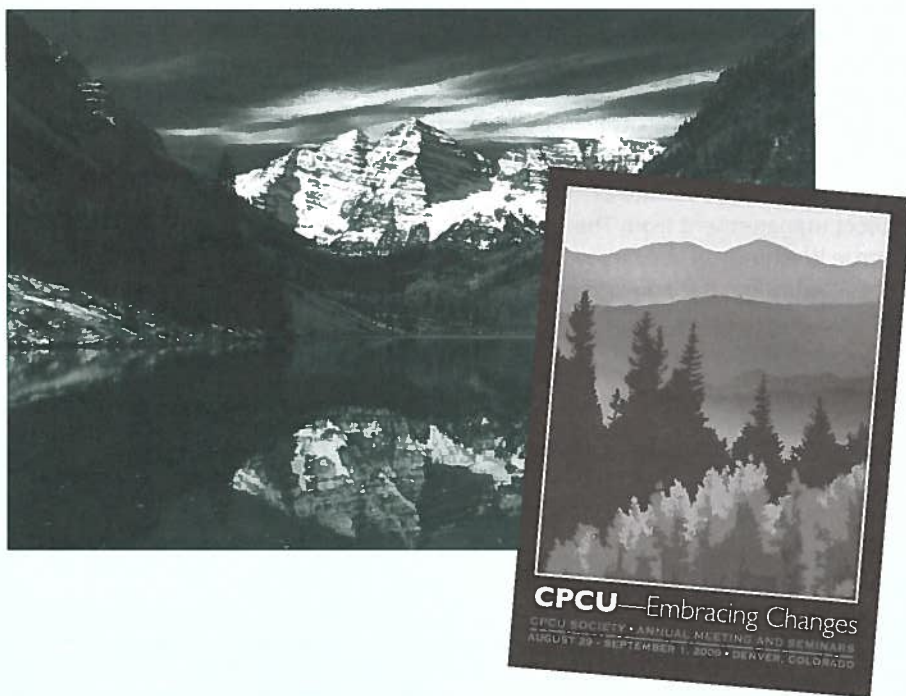
The high rate of unemployment has pushed the number of reported drunk or drugged drivers upward. The potential for a professional driver to come upon

an impaired driver on the highway, therefore, has increased.

Fuel costs and green goals have affected businesses and personal drivers. Businesses cannot adjust as quickly as personal drivers and have fewer options. The number of hybrids, mini-cars and motorcycles on the highway can also affect the number of claims and the costs to administer the claims.

The insurance industry is constantly changing and responding to pressures within the various market segments. Medical treatment costs, uninsured motorists, emerging technology and experimental pricing/pricing models were all discussed. Farrell's talk was well received by all, and I found myself wishing there had been additional time available to hear more about the topic.

After the educational presentation, door prizes were given and many nice gifts were won by the attendees. ■



'Weaving in Traffic — What Lies Ahead for Commercial Auto?'

by Paul Farrell

Paul Farrell is the CEO of SafetyFirst, a team of experts from the transportation, insurance and software industries that specialize in reducing commercial auto collisions through management information systems and programs such as 24/7 call center and "Safety Is My Goal" decals for vehicles. The decals feature a phone number to a call center encouraging motorists to report risk-taking behaviors by drivers. The company provides solutions in partnership with insurance carriers and transportation firms. More information can be found at www.safetyfirst.com.

Editor's note: Paul Farrell based this article on the presentation he gave at the Underwriting Interest Group Luncheon held during the 2009 CPCU Society Annual Meeting and Seminars in Denver, Colo.

Introduction

The past 18 months have been a "roller coaster ride" for businesses and families alike. The economy has been in a downturn, and we've seen record high fuel costs and many changes within various industries. In addition to these volatile trends, we also have the ongoing pressures of inattentive drivers, youthful drivers and traffic congestion.

Economic Pressures

Regardless of the precise cause of the recent economic downturn, we've seen cutbacks in spending on safety and insurance practices. Vehicles with dents are not being repaired, and expensive driver training programs as well as other safety investments are being scaled back or eliminated. Many safety managers have been subject to layoff or "reduction in force" programs. Companies are extending the service life of their equipment instead of following previously developed replacement plans,

and equipment-supplier status has also prevented some fleets from replacing older equipment.

Within certain industries, such as trucking, bankruptcies continue to eliminate competitors due to excess capacity. For instance, during the first quarter of 2009, there were roughly 500 truckers placed out of business. This accounted for roughly 1 percent of the trucking capacity in the U.S., but many analysts concluded that it would take losing 5 percent of the market capacity to stabilize the industry based on available freight. Of course, once the economy restarts its growth, the excess capacity might disappear quickly, causing a shortfall of capacity.

Economic pressures are affecting municipalities, too. To compensate for income shortfalls, many have turned to automated enforcement tools as a revenue-maker. News article headlines include:

- "... [Cedar Rapids, Iowa] anticipates it can raise \$750,000 for the city from the [proposed] enforcement cameras."
- "Tickets go to the owners of vehicles, whether they were driving or not."
- "Arizona has been expecting to raise \$165 million in new revenue from speed cameras"

This rush to automated enforcement has a dark side that may have been unanticipated — citizens' reactions to these technology-based ticket writer programs have ranged from wary to hostile. In fact, on April 19, 2009, a man who was angry about the automated speed-radar program decided to vandalize an automated enforcement van. Assuming it was unmanned, he fired a shotgun at the van and drove away, not realizing that he had killed a technician who was inside the van at the time. Unintended consequences hurt everyone when programs are rushed into place for questionable purposes (i.e., revenue generation rather than safety enforcement).

The economy has also pushed many nontrucking fleets, especially couriers and sales fleets, to eliminate company-owned (or leased) equipment. Instead, individual drivers must use the vehicles they personally own to complete business tasks. This "Grey Fleet" or "Hidden Fleet" exposure sidesteps many safety controls, such as inspections of vehicles to make certain they are roadworthy; unmonitored maintenance practices; and simple reimbursement of miles driven with no formal driver training or supervision.

Although formal statistics have yet to be published, many anecdotal reports have surfaced in local newspapers suggesting that police have seen an increase in drunk and drugged driving. This may be related to the current high rate of unemployment and represents a potential threat to professional drivers if they happen to cross paths with an impaired driver out on the highway.

Fuel Costs and Green Goals

The unpredictability of fuel costs has affected individuals, families and businesses. To save money on fuel, individuals might curtail leisure driving, join a carpool, move to mass transit (where available) or replace a vehicle for a higher-efficiency model. Some businesses have been able to install speed limiters, train drivers to drive more "gently," establish tire pressure monitoring programs, test new technology to change behaviors (i.e., GreenRoad Safety Center) and replace equipment with hybrid or alternate fuel capabilities. For the most part, businesses can't change practices as quickly as individuals and have fewer options.

Additionally, these types of programs represent added costs and have their own limitations. For instance, hybrids represent the potential of (and early reports confirm) higher maintenance and repair costs because each vehicle

Continued on page 4

'Weaving in Traffic — What Lies Ahead for Commercial Auto?'

Continued from page 3

carries duplicate engine systems and more onboard computers — and crams it all into the same space as a nonhybrid model. Just the time and labor needed to access all of the critical systems adds to operational costs.

Fuel costs and “green initiatives” have spurred more interest in hybrid, exotic and ultra-light vehicles (e.g., golf-cart-type transports, electric cars, Segways and mopeds/motorcycles for local delivery). While the current crop of mini-vehicles is more fuel efficient, there are some safety concerns that can't be ignored:

- In 2007, while the average bodily injury costs were \$8,500, the Insurance Research Council (IRC) found those costs to be 14.3 percent greater if sustained in a lightweight vehicle.
- According to the IRC, claimants injured in lighter-weight vehicles were 12 percent more likely to be hospitalized following their injury than were claimants in heavier vehicles.
- The Insurance Institute for Highway Safety (IIHS) has also conducted crash tests comparing mini-cars and mid-size models with distressing results. (See <http://www.iihs.org/video.aspx/releases/pr041409>.)

Motorcycle use for personal commuting, leisure riding or even business applications has been on the rise. Similarly, the crash rates for motorcycles have also risen. According to the National Highway Traffic Safety Administration (NHTSA):

- 2007 marked the 10th consecutive year of increasing motorcycle deaths and a 6.6 percent increase from 2006.
- In 2007, fatalities were the highest since the NHTSA started collecting data in 1975.
- Motorcycle rider fatalities increased to 12.6 percent of all motor vehicle crash fatalities, compared with 5.5 percent in 1998.
- Between 1998 and 2007, motorcycle fatalities rose 126 percent.



- In 2006, motorcyclists were about 35 times more likely than passenger car occupants to die in a crash and eight times more likely to be injured per vehicle-mile traveled.

Even though your company may not use hybrids, mini-cars or motorcycles, your sales cars or company trucks could interact with them on the highway, and you might see the added costs in claim reserves. How? There have been some disturbing (i.e., expensive) patterns observed regarding costs to administer claims.

Insurance Industry Changes

While the insurance industry is constantly changing and responding to pressures within the various market segments, there are several current trends worth discussing: medical treatment costs, uninsured motorists, emerging technology and experimental pricing models.

An IRC study titled, “Auto Injury Insurance Claims: Countrywide Patterns in Treatment, Cost and Compensation, 2008 Edition,” has found that medical expenses reported by auto injury claimants continue to rise faster than the rate of inflation:

- Average claimed economic losses for bodily injury claimants grew 9 percent annualized — from \$5,520 in 2002 to \$8,522 in 2007.
- In comparison, the Consumer Price Index (CPI) rose only 3 percent over the same period; the CPI inflation rate for medical care rose 4 percent.

The study looked at data on more than 42,000 closed auto injury claims. Two factors emerged as likely explanations for the faster growth in medical care expenses:

- More frequent use of more expensive treatment alternatives for auto injuries.
- Increased unit cost for claimed treatment.

One thing is clear — treating similar injuries cost more if they came from a vehicle crash than if they came from a manufacturing line.

A second concern that could affect insurance costs is a predicted rise in uninsured motorists. Although the estimated percentage of uninsured motorists has decreased nationally, from 14.9 percent in 2003 to 13.8 percent in 2007, the recent economic downturn might reverse that trend. The IRC study titled, “Uninsured Motorists, 2008 Edition” found:

- The extent of the uninsured motorists problem varies widely from state to state.
- There is a strong correlation between the percent of uninsured motorists and the unemployment rate. An increase in the unemployment rate of one percentage point is associated with an increase in the uninsured motorist rate of more than three-quarters of a percentage point.

To help monitor this concern, insurers and state governments are looking to leverage technology. In Texas, a Web-based system is now available to check whether a driver has auto insurance. An estimated one in five vehicles — about 4 million — did

not have proper insurance, according to TexasSure, the vendor that provides this new system. The program is funded by a \$1 fee on vehicle registrations, and it is a joint effort by the Texas Departments of Public Safety, Transportation and Insurance. The bottom line is that if an uninsured motorist hits your commercial vehicle, you can guess who will be paying for the claim.

Another emerging trend is for fleets to adopt new “telematics” and “on-board recorders.” This move to recording data has developed into a new area of expertise in litigation called “e-discovery.” E-discovery focuses attention on preserving all electronic records post-crash. This data can be used to prove the speed of your vehicle at the moment of impact as well as many other details. Sometimes this data could exonerate your driver, but it might also “prove” fault.

Further, if any electronic records are lost, claims of “spoliation of electronic evidence” can be filed within the jurisdiction suggesting that the loss of the data was prejudicial to the outcome of the case. Depending on the jurisdiction, this can have a “range of effects” on the case, none of which will be helpful to the defendant, who is typically the policyholder who lost the data.

Finally, there is some experimentation with “Pay As You Drive” (PAYD) insurance, based on GPS-tracking devices. The GPS records mileage driven and reports it back to the insurer, who issues billing based on average mileage. While this is presently limited to personal-use vehicles, a commercial application could emerge.

Persistent Issues to be Addressed

There are several problem areas that were with us long before the economy turned and will likely be with us for years to come. These issues continue to affect crash rates, and we need to find ways to address them:

- While fatality rates dropped along with the mileage driven, the overall crash rate didn't decline nearly as much. During 2008 and early 2009, overall mileage driven was down, and so were the initial estimates of fatalities. While the fatality rate improved by 8 to 9 percent, the overall crash rate only improved by 1.2 to 1.5 percent. Simply put, more people survived their collisions, and the number of collisions didn't decrease at the same rate as mileage or fatalities.
- Youthful drivers continue to present alarming crash and fatality rates despite graduated driver license (GDL) programs. The persistence of the problem comes from a number of areas: Driving While Intoxicated/Driving Under the Influence (DWI/DUI); binge drinking as a new hotspot for DWI/DUI crashes; and the fact that GDL programs may be shifting the fatalities to older drivers without eliminating the root cause of the problem. We need to do more to protect our nation's youth, and we need to educate commercial drivers to avoid sports cars loaded with teenagers.
- Cultural insensitivity to traffic safety is an age-old problem in the U.S. Most citizens see driving as an undeniable right and privilege rather than a serious responsibility. Additionally, most do not view the overall crash statistics as a real “issue,” even though the number of traffic deaths in 2008 represent the same number of people who would have perished if 300 mid-range airliners had crashed during the year. Finally, most drivers perceive themselves to be “good drivers” while admitting in surveys to recently having run red lights, shaving while driving and other risk-taking maneuvers.

Summary

It's never easy to predict the future. I wish I could tell you when the markets will rise, when real estate will rebound and that everything will be back to normal within the next couple of months. It's just

not going to happen. By industry segment, here's a recap of key issues to monitor:

- Truckers/Transportation.
 - ♦ Excess capacity in their market forcing steep competition, bankruptcy.
 - ♦ Pushing for larger, heavier rigs for efficiency.
 - ♦ Freight could rebound and create driver shortage.
- Sales/Office Fleet.
 - ♦ Grey fleet trades off control for fractional expense savings.
 - ♦ Gadget overload, distracted driving, personal use continue to be a problem.
 - ♦ Supplier availability seems to be easing.
 - ♦ Cells/texting — the next big litigation area?
- Public Auto (Bus, Limo, Van, Shuttles).
 - ♦ New law in September for daycare, church and human services — inspect for children left behind in the vehicle.
 - ♦ Seatbelts, roof strength during rollover as emerging issues.
 - ♦ On-board, evidential, post-crash data recorders — boon or bane?
- Manufacturing/Wholesale/Retail.
 - ♦ Major expansion of alternate fuel engines for medium trucks (new technologies, cost to repair).
 - ♦ If economy heats up, could see rash of claims as safety lags behind the ramp up of productivity.
 - ♦ Nonprofessional drivers on tight schedules, little training, no oversight. ■

Embracing Technology — A Joint Effort

by Daniel L. Blodgett, CPCU, AIM, AIS, PMP



Daniel L. Blodgett, CPCU, AIM, AIS, PMP, is a project manager in the Systems Department of State Farm's Home Office in Bloomington, Ill. He started with State Farm in 1990, holding positions such as auto underwriter and supervisor in the State Farm Payment Plan. Blodgett is on the board of directors of the CPCU Society's Central Illinois Chapter, and is past president of the Society's Southwestern Michigan Chapter and past chair of the Personal Lines Interest Group.

Joint effort. I love the process involved in teamwork and enjoy the challenge of bringing a project to completion by joining forces with colleagues. A most recent example is the seminar "Embracing Technology in Underwriting," which was presented at the 2009 CPCU Society Annual Meeting and Seminars in Denver.

The Personal Lines and Underwriting Interest Groups partnered with Accenture, a global management consulting, technology services and outsourcing company, to present the results of a 2008 Accenture survey. It 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 Annual Meeting session was very well attended, by new designees and

experienced CPCUs alike. I offer the following summary on behalf of the Underwriting and Personal Lines Interest Groups to those of you who were in attendance (thank you, by the way) and to those of you who were unable to attend the Society's Annual Meeting.

Survey Results

Gail McGiffin, a senior executive in Accenture's Insurance Practice, leading its Global Underwriting Transformation Offerings, was the first of two speakers who addressed technology in personal lines. She discussed the results of a comprehensive 2008 Accenture survey of CPCU Society underwriters, a follow-up to the original 2005 survey. Accenture surveyed members of the CPCU Society's Underwriting and Personal Lines Interest Groups to measure underwriters' perceived performance improvement relative to accomplishing their jobs more efficiently.

McGiffin reported that at least half of all personal lines underwriters indicated that technology has *increased* their workloads. (A case in point ... Have any of you been involved with going "paperless" in the last 15 years?) The surveyed underwriters report that lack of process and data integration is key to the increase in their work in areas such as submission handling and risk evaluation.

The survey further indicates that personal lines underwriters identify certain functions as critical for their becoming more effective in their jobs. These functions are listed below, with predictive models being the highest priority among the top five.

1. Predictive models.
2. Business intelligence.
3. Rules engines.
4. Mapping — Geographic Information System (GIS).
5. Workflow.

Underwriters indicate that improvements in these areas can free them up to focus on often-neglected areas such as portfolio management and agency relations.

Our second presenter was CPCU candidate **Laura Bartlett**, an assistant vice president with Allstate, who addressed, from her perspective, some of the key technology issues. She believes many smaller insurers can make more rapid improvements in technology because these companies typically are not burdened with legacy computer systems that are older (but useful) and not as quick to adapt to the rapid pace of change needed in our industry. As Bartlett told the audience, "Nimble wins the day."

Communication is the major concern with regard to improving agency technology and interface issues. (This is something I relate to as a project manager — 90 percent of my issues are communication-related.) It's also important to think about social networks as holding valuable information.

Bartlett concluded her presentation with the recommendation for insurers to be proactive in expanding their use of technology in the future, including consideration of the following.

- Evaluating more active involvement with social networking Web sites (e.g., Facebook, LinkedIn).
- Look into mashup applications — utilizing two existing but disparate applications and effectively merging them together (e.g., telematics and auto safety devices).
- Partner with weather and meteorological researchers to improve forecasting, rating and loss control activities.

Erin A. Fenlon, CPCU, CIOP, AU, an executive with the Hanover Insurance Group, was the final presenter of the program. She offered her thoughts on aligning strategies for developing technology and underwriting goals with the corporate vision.

Underwriting Interest Group Committee

Identifying strengths and risks with technology is a critical factor; of course, obtaining the appropriate funding is always a driving force for actually implementing the needed changes.

Knowing how to deliver technology improvements via your organization's unique "roadmap" improves chances of success and increases buy-in from your agency partners. Usually, technology is the impetus behind the success of predictive modeling and aggressive pricing strategies.

Fenlon also provided "lessons learned" from prior projects. (I really appreciated this aspect from a fellow Project Management Professional — PMP.) These assistive lessons can help move initiatives forward more smoothly and reduce time-to-market for future efforts. She closed with a reminder to all for the necessity of clean and accurate underwriting data and tied it in nicely with how technology has bolstered our ability to deliver this in the recent times.

My colleague and fellow Personal Lines Interest Group member, **Robin K. Olson, CPCU, CRIS, ARM, AAM, ARP**, director of training and education for the International Risk Management Institute (IRMI), says it best: "The message from this seminar was clear — insurers that invest in smart and effective technology in order to make their underwriters more efficient will benefit in myriad ways. As long as this technology can be properly integrated into an agent's operations, these benefits will also be reaped by their agency partners."

A great program, a great partnership, and a great joint effort — all thanks to our two interest groups and Accenture. I can't wait to work on my next effort on behalf of the Society for the benefit of our membership. ■

Chairman

Nancy S. Cahill, CPCU, AU
Liberty Mutual Agency Markets
E-mail: nancy.cahill@libertymutual.com

Co-Webmaster

Cathie Price, CPCU
Liberty Northwest Insurance Company
E-mail: cathie.price@libertynorthwest.com

Co-Webmaster

Andrew G. Rader, CPCU, CLU, ChFC, ARM
State Farm
E-mail: andy.rader.lt45@statefarm.com

Newsletter Co-Editor

Gregory J. Massey, CPCU, CIC, CRM, ARM, PMP, CLCS
Selective Insurance Company
E-mail: greg.massey@selective.com

Newsletter Co-Editor

Stephen W. White, CPCU, AIS
State Farm
E-mail: steve.white.bnbg@statefarm.com

Lamont D. Boyd, CPCU, AIM

FICO
E-mail: lamontboyd@fico.com

Anne M. Crabbs, CPCU, CIC

State Auto Insurance Companies
E-mail: anne.crabbs@stateauto.com

Margaret E. Gil, CPCU, CIC

Guard Insurance Group
E-mail: egil@guard.com

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

Builders Insurance Services
E-mail: ann.lyon@insurancebis.com

Lawrence S. Totura, CPCU, CLU

Golden Eagle Insurance Company
E-mail: lawrence.totura@goldeneaglecorp.com

Jack W. Watts Jr., CPCU, CLU, ChFC

State Farm
E-mail: jack.watts.bqxx@statefarm.com

Ambika T. Williams, CPCU, AU

Deloitte Consulting LLP
E-mail: ambiwilliams@deloitte.com

Ronata L. Zinnert, CPCU, ARM

ICW Group
E-mail: rzinnert@icwgroup.com

Liaison

Connor M. Harrison, CPCU, ARe, ARP, AAM, AU
AICPCU
E-mail: harrison@cpuiia.org

Liaison

Susan J. Kearney, CPCU, ARM, AU, AAI
AICPCU/IIA
E-mail: kearney@cpuiia.org

Liaison

John J. Kelly, CPCU
CPCU Society
E-mail: jkelly@cpusociety.org

Lessons from GM's Bob Lutz on Marketing, Selling and Customers

by John R. Graham



John R. Graham is president of Graham Communications, a marketing services and sales consulting firm. He writes for a variety of business publications and speaks on business, marketing and sales issues. Contact him at 40 Oval Road, Quincy, MA 02170; (617) 328-0069; jgraham@grahamcomm.com. The company's Web site is grahamcomm.com.

Editor's note: This article is reprinted with the permission of Graham Communications. In it, John Graham discusses often overlooked, or taken-for-granted, areas within our business. Many insurance companies employ best practices with respect to financial metrics scorecards; however, to tell a company's entire story, a balanced scorecard approach that also measures success relative to marketing, selling and customer relationships should be used. Graham raises awareness about these "other areas" by sharing lessons learned from General Motors' Robert A. Lutz, the company's current vice chairman responsible for all creative elements of products and customer relationships.

This is about the three most important words in business today — marketing, selling and, most important, customers.

The scenario is simple: Customers have changed, while marketers and salespeople are struggling to figure out what's happened — and is happening.

Nowhere, perhaps, is the scene more dramatic than at General Motors Co. With a litany of customer dissatisfaction, a Neanderthal corporate culture, descending sales and an embarrassing bankruptcy, the company's "vice chairman," 77-year-old **Bob Lutz**, abandons his retirement plans (again) and leaves his product development position, only to turn up as GM's chief marketer.

If nothing else, such a scenario dramatizes the incredible impact the state of the economy is having on business.

The GM/Bob Lutz story has implications for every business in our post-recession world, one that has to do with marketing, selling and customers.

1. Marketing is in Near Total Disarray.

When Bob Lutz arrived back at GM a decade ago, he said (in no uncertain terms) there was something wrong with GM's vehicle line-up and his job was to fix it. While the reviewers now give most GM cars high marks, the sales fail to reflect consumer confidence. Now, Bob makes it clear that there's something wrong with the way GM is advertising its products.

Why he is upset is no surprise. A few years ago, he gets the Chevy Malibu ready for the road and the marketers come up with a bizarre advertising theme: "The car you can't ignore." It didn't take an expert to figure out what would happen. Of course, consumers took the bait — and ignored the Malibu.

As GM's new head marketer, Bob recently delivered a devastating body blow to Buick's marketers when they told him a new Buick TV commercial had "tested well." That's when he gave them a page out of Marketing 101: Just because an ad tests well doesn't mean it's an effective ad.

Demonstrating how far off the mark marketers are today, a Buick VP commented to *Advertising Age* on the TV spot this way, "The pretesting landed in the 'top quartile' for originality and breakthrough work." As Bob might say, "So what?"

This is why marketing is in disarray. The legendary marketer **Jack Trout** points out that "chief marketing officers have shorter tenures than NFL coaches," most of them less than two years. Why? According to Trout, part of the answer can be found in an Anderson Analytics survey of a large group of "senior marketing executives." When asked to rank the marketing concepts they give most attention to, the responses are revealing: customer satisfaction, 88 percent; customer retention, 86 percent; segmentation, 83 percent; competitive intelligence, 82 percent; brand loyalty 82 percent; search-engine optimization, 81 percent; marketing ROI, 80 percent; quality, 79 percent; data mining, 78 percent; and personalization, 79 percent.

No wonder marketing (and marketers) are in trouble. An ad may test well, but does it sell cars? It appears that too many marketers are more interested in defending their decisions than connecting with customers.

2. Messed-Up Selling.

The business of selling is just as messed up as marketing. The images of a road warrior and "the hunter stalking the prey" continue to

influence the thinking and behavior of salespeople, who are practitioners of what may be the world's most narcissistic profession. Simply put, too many salespeople have one favorite subject — themselves.

This seems to be what Bob Lutz and others have found at GM. It had become a company focused on serving itself. In good times, salespeople — who think every sale is due to their incredible skills and carefully cultivated relationships — should be treated as heroic figures deserving endless praise and impressive rewards. In bad times, they blame others for their lack of success.

One wonders why selling seems to attract the wrong people. As contrarian as it might be, what would happen if companies, including auto dealerships, hired social workers? Many salespeople will be quick to say, "That's just plain crazy." That's what I felt — until I came across a comment by a social worker, **Rob Plotkin**, who is also an entrepreneur. On his blog, he writes, "Social workers make great salespeople, believe it or not. Why? They listen first. Sell later."

Salespeople can be so totally focused on wanting to make the sale they fail to listen to buyers. So absorbed in what they want to accomplish, they actually alienate customers, which may explain why the average salesperson's closing rate is about 20 percent.

Plotkin is on target when he says, "After all, isn't a good therapist selling something besides his or her time? At its basic level, therapists are selling mental health." And then he adds, "They are selling themselves as the conduit for the person to find solutions." That may be the most accurate definition of a salesperson.

3. Fickle, Frightened and Frustrated Customers.

Customers not only come in all sizes, shapes, ages and income, they come with a variety of mental images. Even though Chrysler products have long been at the bottom of the reliability

charts, the company struck gold (at least for awhile) with the "chopped look" of Chrysler 300 and Dodge Charger with their Hemi® engines. When BMW adopted "The Ultimate Driving Machine" tagline in 1974, its sales ballooned from 15,000 annually to more than 260,000 in 2005.

In the same way, many a "McMansion" was sold to willing buyers who could ill afford the monthly payments, but who had a vision of "the American dream." One car dealer reported that customers bought "loaded" trucks at prices exceeding their annual income. Not surprising, an unemployed 56-year-old man with a bleak job future said recently that he didn't know what he was thinking about when he bought his truck. Whatever went through his mind when buying the truck certainly wasn't a need for it.

What caused this truck owner to change his thinking? Protracted unemployment. It was the basic change in his economic situation. He had come face-to-face with facts, not fantasy.

The explosion in consumer acceptance of "store brands" indicates the nature of the change in the customer mindset. Long looked down on, store brands are pushing popular brands off just about every shelf.

Today, "the ultimate driving machine" may well be "the reliable driving machine." Across the board, customers are experiencing what might be called "a value assessment and realignment." **David Kent** of The Right Group offers clarity when he states, "Providing more for less is what today's customers expect, if not demand."



It was none other than Bob Lutz who got it right when he said, "We have to reconnect with this depressingly large part of the American public who won't give us consideration."

That's the task of business today.

If we didn't have a Bob Lutz, we would probably need to create him. He's what our country is all about. He tells us to take a risk, stop the meetings, forget about the "process," cut out consensus and all the play-it-safe "team" stuff, quit defending ourselves — get the job done.

William Pike, the hero of his historical novel at the time of the founding of the nation says, "We might be dreamers, but we have to be doers, too. So we get up in the morning, we go to work and we solve our problems." That's what Bob Lutz is all about. And I'll bet, "I did it my way," the old **Frank Sinatra** favorite, works for Bob, even though the words may be politically incorrect.

Well, someone got smart and put Bob in charge of GM's communications. What a hoot! As Bob said in a recent *USA Today* article, "I do believe we have to be much bolder and much more self-aware, and in some cases, more controversial or willing to tell it like it is rather than putting out a more sanitized version."

Let's hope Bob wins big. If he does, we all do. ■

'Will They Be Survivors? Promote Business Resiliency Planning'

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

Ann E. Lyon, CPCU, CRM, CIC, ARP, AMIM, is senior vice president and chief underwriting officer for Builders Insurance Services, part of Insko Dico Group, located in Lake Oswego, Ore. With 39 years' experience 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 Committee and is also very active in the Oregon Chapter. Lyon earned her CPCU designation in 1985 and subsequently earned a number of other insurance designations.

On Aug. 31, 2009, the seminar "Will They Be Survivors? Promote Business Resiliency Planning" was held at the CPCU Society's Annual Meeting and Seminars in Denver. The program was developed by the Underwriting Interest Group and presented by **Keith Gregorio, CBCP**, a vice president at Marsh Risk Consulting, and **James D. Klauke, CPCU, AIC**, semi-retired executive general adjuster for Crawford Global Technical Services, a division of Crawford and Company.

Gregorio, who is certified in CompTIA Security+ and a Microsoft Certified IT Professional and Enterprise Administrator (MCITP:EA), has more than 15 years' experience in assessing the adverse affects of business interruption and providing the mitigation plans and resiliency program components for clients in various industries. Klauke, an active member of the CPCU Society, has handled large first-party property claims reserved in excess of \$50 million for Crawford and was the 2002 recipient of the "Claims Professional of the Year" award from *Claims* magazine.

The seminar began with some common causes of what might cause a suspension of business operations. These may include major catastrophic events such as hurricane, earthquake or flood, but can also include events that are very localized and specific to a certain area or industry. A large number of businesses do not recover from these events, and the primary reason is that they have not planned how to deal with unexpected losses.

There are many reasons for planning ahead for a significant loss. Publicly owned businesses have a responsibility to all stakeholders — including shareholders. Directors and officers can be held liable for poor planning or lack of planning. Even privately owned companies need to plan and prepare

to ensure business continuity. Most organizations will face a crisis every four to five years.

A "crisis" is an event or series of events that threatens severe negative impact to an organization's financial results, brand name, or relationships with employees, customers, business partners or suppliers. Planning on how to handle a crisis before, during and after the event is of paramount importance and should be comprehensive in addressing and integrating emergency response, crisis management, IT recovery, business continuity, supply chain and claims management.

Lessons Learned

Klauke had some very good examples of lessons learned from handling losses in the midst of catastrophe. If the event affects a large number of people and businesses, a demand surge occurs. As a result, trying to get a contractor, building materials, permits and labor becomes very difficult because there is more demand than resources available.

Other issues may also impact the operation, such as civil authorities barring access to the business, communications being cut off, code compliance and employees fleeing to more lucrative jobs that become available in the rebuilding process of the area. The lesson here is to expect the unexpected and institute processes to respond to unplanned occurrences.

Some ways to plan for the unexpected are to review business interruption exposures annually and make sure the insurance limits are adequate. Also, consider having extra expense coverage to be able to set up temporary operations elsewhere after a loss occurs. Consider having more than one location for key operations and staff.

Many cities have older or historic buildings that could be affected by building and zoning codes, which can impact the repairs. If a building is damaged extensively, rather than undergo repairs the building codes may require that the entire building be torn down and rebuilt to meet current building codes, which can tremendously increase the actual loss.

Planning for the Worst

There are many resources available to assist in the planning process. Insurance is one tool available but does not provide the total solution. Insurance and risk management professionals should be involved to lead the exposure analysis and evaluate coverage options. There are readily available sources that provide information useful in the analysis, including, for example, business resiliency professionals, trade organizations, financial records and data available from organizations such as the Federal Emergency Management Agency (FEMA), the Small Business Administration (SBA), the Centers for Disease Control and Prevention (CDC) and the Insurance Information Institute (III).

The process for planning and recovery includes the following:

- Exposure analysis.
- Business impact analysis — disruption vs. survival.
- Select options for a planned response.
- Communication of plans.
- Challenging participants to continually evaluate.
- Readiness assessment.

Once the plan is in place, it is critical to its success to practice the plan and do drills. Responsibilities should be defined, documented and updated based on feedback from the drills. Personnel

may be impacted by the catastrophic event and unable to perform, so backups should be identified during the drills.

Another important aspect of the business continuity plan is to keep it updated to ensure that it will have value when needed. Business continuity is part of business operations and not an add-on activity or project. Each business needs to incorporate this process based on the priorities of the organization. Each time the plan is reviewed, all situations, events, activities and disasters that may not have been considered in earlier planning should be incorporated.

There are many reasons why planning for unexpected situations should be done. The list is long. Some of the most important are to:

- Safeguard employees, guests and the public.
- Protect physical assets (buildings and equipment).
- Minimize business impact.
- Avoid environmental contamination.
- Protect reputation and image.
- Ensure regulatory compliance.
- Uphold good corporate governance.



The primary message delivered by the two speakers was that any company that spends the time, money and other resources to develop a comprehensive plan will be much more likely to overcome the challenges of the crisis, minimize the damages and be successful in staying in business. For a multihazard approach, they also highly recommended using trained specialists to help develop the most encompassing plan. ■



CPCU Society
720 Providence Road
Malvern, PA 19355
www.cpcusociety.org

Address Service Requested

Underwriters ... Do You Need Help in Predicting the Future?

Forget the Crystal Ball — Sign up to Attend the CPCU Society's Webinar

"Emerging Issues for Today's Insurance Professional"

Wednesday, Dec. 9, 2009 • Noon–1 p.m. EST

You will learn to identify and evaluate the most significant current developments and trends in insurance coverage by exploring hot topics such as Chinese drywall, recoupment of defense costs, green construction and much more.

Presented by **Richard J. Cohen, J.D.**, the managing partner of Goldberg Segalla LLP and chair of the firm's Global Insurance Services Group. Moderated by **Laura M. Kelly, CPCU, AIC, AIS, ASQ, CQIA**, director of best practice compliance/insurance industry liaison for Goldberg Segalla.

To register and obtain a detailed content description, go to the CPCU Society's Web site, 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>

Chair

Nancy S. Cahill, CPCU, AU
Liberty Mutual Agency Markets Regional
Companies Group
E-mail: nancy.cahill@libertymutual.com

Co-Editor

Gregory J. Massey, CPCU, CIC, CRM, ARM, PMP, CLCS
Selective Insurance Company of America Inc.
E-mail: greg.massey@selective.com

Co-Editor

Stephen W. White, CPCU, AIS
State Farm
E-mail: steve.white.bnb@statefarm.com

CPCU Society

720 Providence Road
Malvern, PA 19355
(800) 932-CPCU
www.cpcusociety.org

Director of Program Content and Interest Groups

John Kelly, CPCU

Managing Editor

Mary Friedberg

Associate Editor

Carole Roinestad

Production Manager

Joan A. Satchell

Design

Susan B. Leps

Statements of fact and opinion are the responsibility of the authors alone and do not imply an opinion on the part of officers, individual members, or staff of the CPCU Society.