

Underwriting Interest Group

Underwriting Trends

Volume 23 • Number 3 • December 2011

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.

The 2011 CPCU Society Annual Meeting and Seminars took place in Las Vegas, Nev., Oct. 22–25, and your Underwriting Interest Group Committee was kept extremely busy the entire time.

The interest group was pleased to co-develop a seminar with the Claims and Risk Management Interest Groups. The topic, continuing with the theme from last year’s popular seminar, “Commercial Property Coverage Conundrums,” was “Commercial Liability Coverage Conundrums.” Inside this newsletter, you will find an article summarizing this interactive and well-attended session. A second seminar, entitled “What Happens in Vegas ... Hazards in the Gaming, Hospitality and Entertainment Industries,” was co-developed with the Loss Control Interest Group. You can read about that seminar as well.

The Underwriting Interest Group, which sponsors a luncheon at every Annual

Meeting and Seminars, was fortunate to have **Thomas M. Redmond Jr., CPCU**, of the Redmond Group Inc. and author of *Selling from the Inside Out*, as our speaker for a sellout crowd. He addressed, “How to Overcome Sales Call Reluctance,” including call reluctance types and “marker” behaviors.

It was enlightening and entertaining to see the descriptions and think of people who fit some of the behaviors. Most people have call reluctance, and Redmond presented ways to overcome sales objections, including identifying various skills that should be used to improve new business hit ratios. Between his practical sales management experience with a global brokerage firm and expertise in working with clients in designing systematic sales processes, he provided a dynamic and entertaining presentation.

Continued on page 2

What’s in This Issue

Message from the Chair	1
‘Commercial Liability Coverage Conundrums — An Interactive Case Study Approach’	2
‘What Happens in Vegas ... Hazards in the Gaming, Hospitality and Entertainment Industries’	3
‘How Will the Talent Crisis Affect Me?’	5
A Fictional Business Plan for NESCON Insurance Company Inc.	6
Premier Reinsurance Event Planned in Philly.	8

Message from the Chair

Continued from page 1

His strategies and techniques for producing and retaining business should help those attendees as they return to their workplaces. Here's the challenge he presented: "How many new people from new or existing agencies can you meet in the next 90 days?" If you hesitate on this challenge, that's "call/contact reluctance." For more information, overcome your call reluctance and reach out directly to Tom at (732) 957-0005.

And lastly, one of the industry's premier speakers on career management, **Martin E. Murphy, CPCU**, a senior partner with Excleration Partners and principal of MEMurphy Consulting, presented "How Will the Talent Crisis Affect Me?" In this issue, you will also see a write-up of this popular and interactive session.

As mentioned in previous editions, your Underwriting Interest Group is always looking for qualified insurance professionals to join the committee and work with fellow CPCUs in a rewarding and fun experience. If you have any questions about volunteering at the Society level with the Underwriting Interest Group, please contact ann.lyon@insurancebis.com, or one of our editors listed in this newsletter. ■

'Commercial Liability Coverage Conundrums — An Interactive Case Study Approach'

by Cathie Price, CPCU

Cathie Price, CPCU, is a commercial lines manager for Liberty Northwest Insurance Company in Portland Ore., a division of Liberty Mutual. She earned her CPCU designation in 1991. Price has held underwriting, marketing and management positions with several carriers and insurance brokerage firms. She is a member of the CPCU Society Underwriting Interest Group Committee and the 2012 Annual Meeting Task Force, and a past president of the Oregon Chapter.

On Monday, Oct. 24, 2011, at the CPCU Society Annual Meeting and Seminars in Las Vegas, a seminar on "Commercial Liability Coverage Conundrums — An Interactive Case Study Approach" was presented to meeting attendees.

Insurance policies are complex documents, and this complexity can lead to disputes between the insured and the insurer as to the scope of coverage. To explore some of these liability situations, attendees were given coverage problems along with the appropriate coverage forms. They broke into small groups to read the forms, discuss approaches to the problem and report back to the entire group. Once the attendees expressed their differing opinions while engaging in lively discussion, the panel of experienced insurance attorneys presented its respective approaches and opinions.

The opinions of coverage varied not only among the groups of meeting attendees, but also among the insurance attorneys. Ten coverage problems were developed for this interactive seminar. The group was able to get through seven in the three hours allotted. The case topics were varied and ranged from professional liability for a talent agency to the "coverage" provided by a certificate



Seminar attendees discussed various approaches to coverage problems with a panel of experienced insurance attorneys.

of insurance, from the implications of drug testing and medical marijuana use to green building status and coverage under business income if the work of the contractor does not result in the property gaining "green" designation.

Readers interested in learning more about the 10 coverage problems prepared for this interactive case study discussion can check it out on the Underwriting Interest Group Web page, <http://underwriting.cpcusociety.org/>. The coverage problems and opinions provided by the panel of experienced insurance attorneys have been posted for your reading pleasure.

This program was developed by the Underwriting, Claims and Risk Management Interest Groups and was presented by **Janet L. Brown, CPCU, J.D.**, Boehm, Brown, Fischer, Harwood, Kelly & Scheihing PA; **Joshua Gold, J.D.**, Anderson Kill & Olick PC; **Dan D. Kohane, J.D.**, Hurwitz & Fine PC; **Randy J. Maniloff, J.D.**, White and Williams LLP; and **Ernest Martin Jr., J.D.**, Haynes and Boone LLP. ■

'What Happens in Vegas ... Hazards in the Gaming, Hospitality and Entertainment Industries'

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 Inso Dico Group, located in Lake Oswego, Ore. She earned her CPCU designation in 1985. With 39 years in the insurance industry, Lyon has held various underwriting and marketing positions with several national carriers. She is a member of the CPCU Society Underwriting Interest Group Committee and is also very active in the Oregon Chapter.

On Tuesday, Oct. 25, 2011, at the CPCU Society Annual Meeting and Seminars in Las Vegas, a seminar on "What Happens in Vegas ... Hazards in the Gaming, Hospitality and Entertainment Industries" was presented to meeting attendees.

Lance J. Ewing, ARM, CRM, ERMP, from Chartis, opened the panel presentations with an overview of gaming history going back to early civilizations.

Gambling has been part of most cultures including our own; Native Americans and European settlers developed lotteries, which evolved into card playing in the Wild West period. Although gaming is now prevalent in many states due to changing laws, Las Vegas and Atlantic City still attract the most visitors. As a result, these areas have higher concentrations of risk potential due to the nature of entertainment and constant change.

There are property exposures, such as mega-sized casino hotels, convention centers, horse tracks, large construction projects and many other types of unique properties. With an extremely large concentration of values, a catastrophe such as flood, hurricanes or terrorism could produce very serious consequences. Many risks to net income for these large gaming entertainment operators like economic conditions, competition and regulatory changes are not insurable; these must be dealt with using other risk management techniques. Liability

exposures are also higher in these gaming entertainment areas due to the variety of operations available for the patrons seeking a good time. The last major area of concern is from employee liability exposures. Most of the entertainment operations require that a large number of employees perform all of the services expected by their guests, so safety programs must be designed to address all of the exposures encountered by the various types of employees.

The gaming industry has some unusual exposures that can be insured, and **Marlene R. Benoit** of Marsh Inc. discussed some products that are designed specifically for the industry. Approximately \$285 billion dollars is spent on promotions each year, so an insurance product was designed to drive and protect gaming, food and beverage revenue. Much of the risk is transferred to a third party, allowing the client to leverage the promotional dollars for a fraction of the cost. Prize Indemnity is another way these clients can leverage their dollars for many types of programs, including Scratch and Win, Slots promotions, Text-to-Win and others. Special Event Liability and Weather Insurance are products designed for one-time events and can protect their corporate insurance policy against a single increased exposure event.

The next presenter was **Tommy J. Burns, M.A., CPP**, of Burns & Associates Inc., who has been involved in security and policing for several decades, and had much to say about security in high-stakes environments like the Las Vegas strip. If an establishment hires its own security staff, it must be extremely diligent in training staff members about what they can and cannot do if a situation arises. If they overstep what they are legally allowed to do, they can be sued by the detainee. The operator of the establishment owes a legal duty



Marlene R. Benoit discussed insurance products that are designed specifically for the gaming industry.

Continued on page 4

'What Happens in Vegas ... Hazards in the Gaming, Hospitality and Entertainment Industries'

Continued from page 3



The seminar drew a large crowd of meeting attendees eager to learn more about gaming history, hazards and potential solutions.

of reasonable care to anyone on the property, so the security department must provide reasonable care against foreseeable harm. Problems arise when the security staff is not properly trained and believes it knows what is reasonable. Although many security officers come from the ranks of law enforcement, private security officers are not police and don't have the same authorities to act. Many lawsuits come from inappropriate actions from the security staff, ranging from wrongful detention to lack of presence and failure to act. Good training and supervision is the key to having a successful security department.

The panel then turned to **Christian E. Hardigree, J.D.**, a University of Nevada, Las Vegas law professor who is an expert on bedbug legal issues. She focused her discussion on the topic of the recent bedbug recurrence. Bedbugs

had been essentially eliminated from our environment long ago using DDT, which is no longer legal. The banned substance wouldn't work on today's bedbugs because they have evolved into a type of superbug. Freezing doesn't kill them even after several months. The only way to effectively eliminate them is to heat the infested room to at least 120 F, which, in turn, can possibly set off sprinkler systems. Bedbugs are very small and can hide in almost anything in a room, including screw holes in furnishings. The reason they are becoming widespread is they get into travelers' belongings and move with them to new locations. Although many people and animals do not have reactions after being bitten, others have significant or severe reactions to the bites. It is inconclusive if bedbugs are capable of transferring diseases.

For the hotel and entertainment industry, an infestation could become a significant problem. In the event that an infestation should occur, hotels should have a written response plan for guest inquiries, media inquiries and overall crisis management. Hardigree recommended hiring qualified pest management professionals, but an integrated approach will be necessary since there is no silver bullet for eradication. She also advocated educating the employees and guests or customers. Make certain that the employees are supervised and are doing what they are supposed to do. Document the employee training on the subject, and document any claims of finding bedbugs and the action taken.

The program was developed by the Underwriting and Loss Control Interest Groups, and was moderated by **Andrew G. Rader, CPCU, CLU, ChFC**, of State Farm. ■

'How Will the Talent Crisis Affect Me?'

by Karen McCormack, CPCU, RPLU, AU



Karen McCormack, CPCU, RPLU, AU, is an underwriting manager at Princeton Insurance Company in Princeton, N.J. She earned her CPCU designation in 2003. She has achieved other designations such as the Registered Professional Liability Underwriter and Associate in Commercial Underwriting. She has more than 18 years of diverse property-casualty experience in various positions in the insurance industry. McCormack is currently a member of the CPCU Society Central Jersey Chapter and the Underwriting Interest Group Committee. She has a New Jersey Producer License.

On Monday, Oct. 24, 2011, **Martin E. Murphy, CPCU**, a senior partner with Exceleration Partners and principal of MEMurphy Consulting, presented a seminar on "How Will the Talent Crisis Affect Me?" at the CPCU Society Annual Meeting and Seminars in Las Vegas. The program was developed by the Underwriting Interest Group.

The interactive program focused on the changes in the workplace landscape, and their effect on an individual and the business world. Discussions were lively as we reviewed the impact the changing dynamics had on the business world, including how to recruit and maintain

talented employees. Individuals must evaluate "who they are" and "where they plan to go," since both influence their career plans.

Key changes that affect the way an individual's job has changed include technology, real estate, personal lifestyle, sustainability and international competition. Participants were divided into groups based on generational status: boomers, Gen Xers and millennials. Boomers made up the largest section of the group and the Gen Xers were second largest. A discussion on the implications on an individual's role, hiring and opportunities for both followed. We identified how these trends can create opportunities for future hiring and roles.

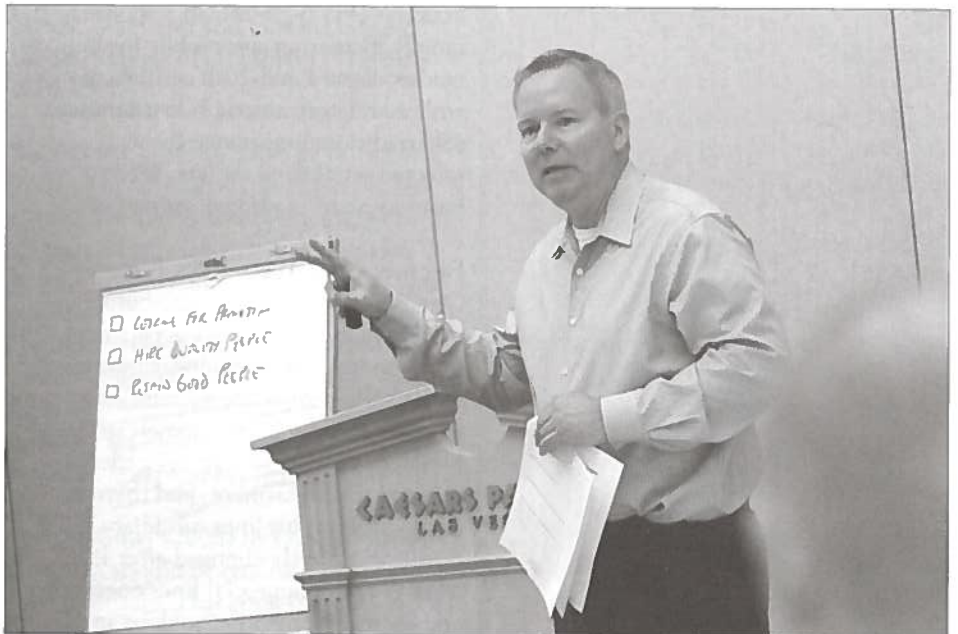
Lessons Learned

Participants were provided with insights into how they could analyze their careers and their future goals. Emphasis was placed on finding ways to look at changes as opportunities rather than crises. The corporate ladder is now the corporate lattice, and organizations need to embrace this to be successful. We no longer seek

job security but rather look for career security. There are no more "jobs for life." Employees need to learn how to balance work life and personal life.

As we look to the future, we need to recognize our hopes and fears as they relate to our careers while doing things to capitalize on the hopes and overcome the fears. The ways to accomplish this include reviewing the activities that give fulfillment, keep dreaming, and recognizing the work environment and personal priorities. There are also things that companies can do to engage an individual in this process. Interestingly, studies show that 29 percent of employees are truly engaged, i.e., they feel a connection to their employers, leaders and teams; 54 percent are working on autopilot; and 19 percent are actively disengaged.

Finally, we looked at what is on the horizon. We can set short-term and long-term goals according to where we are in our careers and actively evaluate them at each milestone, because these changes in the workplace are here to stay. ■



Martin E. Murphy, CPCU, offered some thought-provoking ideas on how to manage through the talent crisis.

A Fictional Business Plan for NESCON Insurance Company Inc.

by Stephen Wilkovich, CPCU, ARe

Stephen Wilkovich, CPCU, ARe, held various positions with a major insurance carrier, including reinsurance consultant, territorial underwriting consultant, home office umbrella and general liability consultant, and senior regional office underwriter. He earned the CPCU designation in 1996 and the Associate in Reinsurance designation in 2010. Wilkovich holds a Bachelor of Science from California University of Pennsylvania and a Master of Arts from West Virginia University. He currently resides in Wilmette, Ill.

Editor's note: As Steve Wilkovich tells us, this story is "definitely fictitious — indefinitely. We thought our readers might enjoy finding the reality within the fiction!"

Stage I — The Quest for Identifiable, Credible, Verifiable Underwriting Profit

I am in the process of developing a business plan for a primary commercial insurance company, designed and destined to be the ultimate underwriting company. The vision and what I seek to accomplish are straightforward. The tasks become daunting when I attempt to develop, articulate and execute that vision to add market capacity.

After leaving full-time employment more than four years ago, my interest increasingly turned to *underwriting* the underwriting company. In search of a model for NESCON, I wanted to comfortably use a company that has historically produced an underwriting profit over any given period of time.

Interestingly, there is at least one national domestic insurer, One Big State Underwriters Inc., where profitability from auto and other personal lines ventures has been transparent. The fictional One Big State, in response to the rapidly increasing automobile insurance market around mid-20th century, along with mandatory automobile insurance, sold traditional insurance through selected retail store outlets. What a business plan! It worked, perpetually.

Fast forward to 1960–1985. Fictional One Big State ventured into business insurance in a big way. A department was set up to write large domestic businesses, with captive employee account executives marketing and selling commercial lines products. A little later, it opened a reinsurance department, and then an excess and surplus lines subsidiary. That direction abruptly changed after 1985. Most of the commercial lines operations and entities were either sold, or are now in "run-off" status, due to decisions

possibly based, at least partially, on irrational future loss aversion.

All things considered though, One Big State is the standard by which NESCON will be based. The goal will be to realize continuous, credible, verifiable underwriting profit. There will be some differences in vision and mission — for example, NESCON could become global. One Big State is big domestically, but not global. One Big State has never been close to bankruptcy. It would be a good model for NESCON. The business plan for NESCON must extend far beyond its predecessor, though. It must plan for perpetuity.

Stage II — Setting the Stage for Underwriters at NESCON

The stage is now set for underwriting. Unfortunately, necessary, experienced and savvy underwriters are not all where they want or need to be. Where are those experienced underwriters who were deemed no longer necessary due to company downsizing, consolidation and discontinued operations?

My guess is many are involuntarily unemployed. Some are now independent contractors wishing they were still employed at a firm. They are advised to network and be flexible. Being flexible sometimes features the underwriter as fitting into a continued blurring of the traditional insurance business model — that is, separate underwriting, marketing and claims functions. Underwriting and marketing have increasingly meshed into the "two hat" approach.

There could be benefits to this, mostly in the area of growth. From a pure underwriting viewpoint though, it must be considered a "mixed bag" with questionable results. Could one unintended consequence of the two-hat approach be a prolonged "soft market"? Historically, in a struggling economy,

underwriting tightens and prices firm, as insurance companies cannot rely on investment income to overcome underwriting losses. Consequently, underwriting must take center stage.

Cash flow underwriting grounded in inflation and an increasing gross domestic product is now out of vogue — or should be. This was prevalent when the economy was thriving, unemployment was low and wages kept pace with prices. For risks that were auditable, especially, when based on sales or payroll, revenues increased. Even if underwriting profits were distorted, companies were perceived to be prospering.

There is one other suggestion commonly made to the unemployed, and that is to be entrepreneurial. This brings me back to — yes — NESCON!

Experience gained during my last five years as an employee provides much of the impetus for this fictional entity. As an employee consultant, offering underwriting perspective and support to facilitate “run-off,” discontinued business, I gained unexpected insights into and an enhanced appreciation of macro underwriting. Looking at a discontinued lines “book of business” in its entirety provides invaluable information.

One of my responsibilities was to review policies with claims and concisely provide coverage information to support the claims department. It gave me the opportunity to see where claims were coming from and, just as important, where they were not.

Claims personnel were naturally concerned about specific claims. I was too, but given my underwriting background, insight was gained that would be invaluable to the underwriting department in the future. There is just one hitch: When no longer writing business in a discontinued operation, there is no underwriting department.

Stage III — Searching for a Stage for NESCON

A group of senior bank managers, in response to personally experiencing the fallout from consolidation in the banking industry, saw an opportunity to build a successful community bank. The chief financial officer of this newly proposed bank in suburban Chicago said, “We’ll have an advantage because we don’t have any loans. We’ll start clean. We don’t have the sins of our fathers.” (Excerpted from the *Chicago Tribune*, April 18, 2008.)

This idea was of particular interest to me, since my vision of NESCON was initially being formulated around this time. Would underwriting profitability be increased by starting anew? I don’t know. What I saw and encountered during the thriving years of excess and surplus lines business now in “run-off” at some companies were seemingly well-run, respected operations.

Were they profitable? I don’t know. There are more complexities, variables and vagaries than anyone can imagine, or at least than meet the eye. One thing I do know is that with an underwriting biased business plan, developed with the benefit of reverse and forward vision, the probability of profitability is greatly enhanced.

Should any of those doors be re-opened? Perhaps by a venture capitalist? For me, it would be much more enticing if the sponsor already has many substantive parts of the business plan available. One requisite would be that the new entity be underwriting-led, with **underwriting** profit being the goal. A “closed to business,” functional “run-off” operation could be the ticket to a new, “open for business,” perpetual entity.

Perhaps *Sway* (2008) by **Ori** and **Rom Brafman** should be requisite pre-reading for this article. This book has influenced my thinking. For a great review, go to *Reinsurance Encounters*, Volume 27, March 2009. **Richard G. Waterman**,

CPCU, previews *Sway* in his article, “Dynamic Influences that Sway Our Decision Making.”

Without going into detail, the book’s reference to loss aversion — our tendency to go to great lengths to avoid a possible loss regardless of the rational expected outcome — has special application regarding NESCON and particularly its predecessor.

Other readings brought me to the NESCON stage. One book in particular, *The Fallen Giant*, Second Edition (2009), by **Ron Shelps**, is highly recommended. He was a home office executive “insider” at one of the largest global insurance companies. What he has to say is not fiction. Mine is mixed, but completely based on experience, knowledge and observations gained as a long-time home office (complex) insider. ■



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

Address Service Requested

Premier Reinsurance Event Planned in Philly

The CPCU Society Reinsurance Interest Group and the CPCU Society will once again hold the premier reinsurance educational event of the year in Philadelphia on March 15, 2012.

Conducted by industry leaders, this year's symposium offers the theme "Reinsurance — An Industry in Transition: Is 2012 the End of the World as We Know It?" The meeting will provide new insights into and important discussions of the field's emerging issues.

CPCU Society President and Chairman Steve McElhiney, CPCU, MBA, ARe, AIAF, president of EWI Risk Services Inc. and Tall Pines Insurance Company, will deliver the keynote address. McElhiney's experience spans over two decades in both corporate finance and reinsurance markets.

As well as offering an outstanding educational opportunity, the symposium will give attendees a chance to reconnect with old friends and meet new ones. The symposium kicks off with a networking reception on March 14 from 5 to 6 p.m. at the Union League. ARe Conferment will be presented by The Institutes during a luncheon ceremony on March 15. Come welcome your new colleagues!

Due to popular demand, the reinsurance symposium will again be held at the historical Union League. A special rate on overnight rooms at the Inn at the Union League is available for symposium attendees.

For more information and online registration, go to www.cpcusociety.org, click on "Professional Development," "Educational Events" and "Symposia." ■

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
Email: nancy.cahill@libertymutual.com

Co-Editor

Gregory J. Massey, CPCU, CIC, CRM, ARM, PMP, CLCS
Zurich North America
Email: greg.massey@zurichna.com

Co-Editor

Stephen W. White, CPCU, AIS
State Farm
Email: steve.white.bnbg@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

Design/Production Manager

Joan A. Satchell, PPPC

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.

© 2011 CPCU Society

