CPCU SOCIETY
INSURING YOUR SUCCESS

Underwriting Interest Group

Volume 23 • Number 2 • July 2011

Underwriting Trends

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.

It is hard to believe that the summer of 2011 has arrived. It seems like just yesterday when we all gathered in Orlando, Fla., for the 2010 CPCU Society Annual Meeting and Seminars. At the 2010 Annual Meeting, the Underwriting Interest Group co-produced two highly successful seminars, and we are going to continue that success with three seminars during the 2011 Annual Meeting and Seminars in Las Vegas, Nev., Oct. 22–25.

We will again be partnering with the Risk Management and Claims Interest Groups to present the sequel to last year's seminar on commercial property coverage conundrums. "Commercial Liability Coverage Conundrums — An Interactive Case Study Approach" is scheduled for Monday afternoon, Oct. 24. As teams, attendees will formulate solutions to coverage and claim problems presented. This format proved to be a lot of fun last year, and you will not want to miss this year's excitement.

The "What Happens in Vegas … Hazards in Gaming, Hospitality and Entertainment Industries" seminar is being developed as a joint project with the Loss Control Interest Group. Scheduled for Tuesday morning, Oct. 25, this seminar will cover a number of interesting topics — bed bugs, anyone? You absolutely can't miss this!

The Underwriting Interest Group is working independently to prepare and present "How Will the Talent Crisis Affect Me?" This seminar is planned for Monday morning, Oct. 24, and will feature dynamic speaker Martin E. Murphy, CPCU.

We are also proud to be hosting the 11th Annual Underwriting Interest Group Luncheon. The keynote speaker will be Tom Redmond, of the Redmond Group Inc., and his topic will be "Overcoming Sales Contact/Call Resistance." The traditional luncheon raffle, where *everyone* leaves with valuable gifts, will also be held.

Las Vegas should generate a large attendance, so it is strongly recommended that you register for the meeting and secure your hotel accommodations early.

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What's in This Issue

Message from the Chair

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Attendees at last year's CPCU Society Annual Meeting seminar "Commercial Coverage Conundrums — An Interactive Case Study Approach" intently study coverage issues presented by the panelists. This year, the sequel to this seminar will be presented on Oct. 24 in Las Vegas.

Please plan to support the Underwriting Interest Group by attending one or more of our seminars. Be sure to introduce yourself to the committee members, as it would be great to meet you.

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

2011 Annual Meeting and Seminars

Oct. 22–25, 2011 • Las Vegas, Nev.

The CPCU Society Underwriting Interest Group Presents

Underwriting Interest Group Luncheon

Oct. 23 • 11:30 a.m.–1 p.m.

This year, **Tom Redmond** will be the guest speaker and will talk on "Overcoming Sales Contact/Call Resistance." His presentation will be interactive and informative as well as entertaining.

There will be networking and prizes in addition to a good meal. Be sure to sign up when you register for the CPCU Society Annual Meeting and Seminars. We look forward to seeing many of you again this year!

How Will the Talent Crisis Affect Me?

Oct. 24 • 8–10 a.m.

This seminar will give you some thought-provoking ideas to help you manage through the emerging crisis and position yourself, and your talent approach, as a strategic advantage.

Commercial Liability Coverage Conundrums — An Interactive Case Study Approach

Oct. 24 • 1:30–4:15 p.m.

Developed in conjunction with the Claims and Risk Management Interest Groups, attendees will break into small groups to discuss coverage problems. After each has been discussed, a panel of experienced insurance attorneys will present their respective approaches to the problem.

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

Oct. 25 • 8–10 a.m.

Developed in conjunction with the Loss Control Interest Group, this seminar will be an overview of the significant risks faced by the tourism/gaming industry in Las Vegas and how the various parties can beat the odds in this high-stakes environment.

Will the Insurance Industry Dodge Climate Nuisance Liability Bullet?

by William F. Stewart, J.D.

William F. Stewart, J.D., is a partner in the National Insurance Coverage Group of Nelson Levine de Luca & Horst LLC. He concentrates his practice in first- and third-party insurance coverage matters, and has litigated coverage actions on behalf of insurers in 20 jurisdictions nationwide. Stewart has served as national coordinating counsel on numerous coverage issues, including climate change and mold litigation. His work has been featured by *The Wall Street Journal, Best's Review, Business Insurance, The National Law Journal* and numerous other publications. Stewart is the author of *Climate of Uncertainty: A Balanced Look at Global Warming and Renewable Energy*.

Editor's note: A substantially similar article was published in Property Casualty 360, a National Underwriter website, on March 18, 2011. This article is published in *Underwriting Trends* with permission.

It was Dutch physicist Niels Bohr who said, "Prediction is very difficult, especially about the future."

Assessing risk in a rapidly changing world is perhaps the most formidable challenge facing the insurance industry today.

Tried and true actuarial models become less trustworthy when the historical bedrock that these models are built upon begins to shift. This year, there are at least four emerging threats with the potential to impose seismic change upon the risk management landscape.

In September 2009, all three branches of the United States government were racing headlong toward efforts to mitigate the threat of man-made global warming.

The executive branch (through the U.S. Environmental Protection Agency) sought to impose greenhouse gas (GHG) emission limitations; the House of Representatives passed landmark "cap and trade" legislation; and two Federal Appellate Courts recognized a viable cause of action against carbon dioxide emitters for "climate nuisance."

Less than two years later, with the economic downturn and the 2010 midterm elections in the rearview mirror, the executive and legislative branches have slammed the brakes on their respective climate initiatives, and the focus has shifted to the judiciary.

The case at the center of the climate change controversy is *Connecticut v. American Electric Power Co., et al.*

In *AEP*, several states and environmental groups filed suit against power companies seeking an abatement of "the public nuisance of global warming."

The plaintiffs alleged that the utilities' combustion of fossil fuels had contributed to elevated levels of atmospheric CO_2, which, in turn, had led to beach erosion, droughts and floods.

After a New York Federal District Court dismissed the suit on grounds that the regulation of greenhouse gas emissions was a political question best left for the legislature, the Second Circuit Court of Appeals reversed. The appellate court's decision in September 2009 to let the nuisance case against the utilities proceed sent shockwaves through the energy industry, opening the door for an untold number of climate change claims and lawsuits.

Last fall, the Supreme Court advised that it would hear the appeal over whether the *AEP* plaintiffs' federal nuisance claims are viable. Argument was set for April 19, 2011.

Among the critical issues is whether the judiciary, through the adjudication of nuisance litigation, is the branch of government best suited to regulate greenhouse-gas emissions.

Interestingly, both the Obama administration and several conservative organizations have opposed climate litigation on the grounds that the elected branches of government are in a better position to provide a comprehensive (non-patchwork) approach to establishing a national sustainable energy strategy.

If affirmed, *AEP* threatens to open up a Pandora's Box of global warming suits as well as associated coverage litigation. Under the Second Circuit's ruling, any entity with "special" climate-related harm — harm that is different in kind or in scope from the general public — would have standing to pursue large GHG emitters.

The *AEP* decision not only threatens to create a highly undesirable balkanization

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Will the Insurance Industry Dodge Climate Nuisance Liability Bullet?

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of environmental regulation between one jurisdiction and the next, but it also has the potential to substantially damage the national economy. For these reasons, *AEP* may be the most important environmental case in a decade.

The Year of the Hurricane?

Although forecasting the severity of a particular hurricane season is fraught with uncertainty, there are factors that make some meaningful projection possible. It is generally recognized that higher ocean temperatures (at least 80 F) and lower wind shear (less contrasting wind speed and direction at different levels of the atmosphere) are the key elements in the creation of these powerful and destructive forces. It appears that the 2011 Atlantic Hurricane Season will be fueled by both above-average tropical Atlantic surface water temperature and anomalously low vertical wind shear. In other words, hurricanes will have more fuel and fewer impediments to formation.

As a result of these anticipated conditions, the early prognostications for the 2011 hurricane season are ominous. The renowned Colorado State University (CSU) meteorology team predicts 17 tropical storms, nine hurricanes, and five major hurricanes (Category 3 or higher) — as compared to an average year of 11 tropical storms, six hurricanes and two major events. Historically, one out of every four hurricanes makes U.S. landfall; the CSU team concluded that there is a very high chance (73 percent) of a major hurricane striking the U.S coastline.

Similarly, Tropical Storm Risk (TSR), a consortium that brings together climate experts and statisticians, predicts tropical cyclonic activity in the Atlantic that is 40 percent above normal. CSU, TSR, and the National Oceanic and Atmospheric Administration each will issue updated reports in April and May. At least until then, there is good reason for concern.

Fly Ash — This Year's Asbestos?

There may never be another mass tort that combines widespread bodily injury with long-tail exposure as effectively as the "miracle mineral" of asbestos. But there are some interesting parallels between asbestos and a developing threat known as "fly ash."

Fly ash, which along with "bottom ash" makes up "coal ash," is a byproduct of the combustion of coal. Coal-fueled electricity generation plants produce hundreds of millions of tons of fly-ash waste every year — much of which includes mercury, arsenic, lead and a half dozen other toxins.

Fly ash is often buried in landfills, but for decades, massive amounts of this waste have been used as a component of concrete and drywall.

Until recently, fly ash was not viewed as a significant environmental hazard, but at 1 a.m. on Dec. 22, 2008, that all began to change. That morning a dike containing fly-ash waste at the Tennessee Valley Kingston Fossil Plant ruptured, dumping 5.4 billion cubic yards of fly-ash slurry into Tennessee's Emory River. Thereafter, tests of river water showed elevated levels of arsenic, copper, lead, nickel and mercury.

Since this event, fly ash has received far more national scrutiny. In June 2010, the EPA formally advised that it was considering a reclassification of coal ash as hazardous waste. Courts have seen a sharp increase in coal-ash-related bodily injury and property damage lawsuits. And, on Feb. 1, 2011, a collaborative group of medical, environmental and social justice organizations issued a report suggesting that the toxin hexavalent chromium may be leaching into residential drinking water from coal-ash dump sites.

(The report "EPA's Blind Spot: Hexavalent Chromium in Coal Ash" is available under the resources link www.psr.org.)

The name Erin Brockovich is commonly associated with hexavalent chromium because of a lawsuit led by the lawyer and environmental activist against Pacific Gas and Electric alleging contamination of drinking water with hexavalent chromium in the Southern California town of Hinkley.

Given the increasing focus on the toxins found within coal ash — and given its presence in our buildings, infrastructure and landfills — coal-ash liability is likely on the rise.

Big Problems in Small Packages?

Nanoparticles are extremely small objects, measured in terms of nanometers — equivalent to one billionth of a meter. In recent years, the use of engineered nanomaterials in consumer products, such as sunscreen, cosmetics, clothing and baby products, has soared. These materials are sometimes small enough to enter the human body through the skin and through inhalation. As a result, substantial concern has developed because these tiny materials are often made of toxic substances, and closely resemble asbestos fibers.

For years, we have heard rumblings that nano litigation and nano class actions are just around the bend. And because no nanotech suit has yet been filed, it is tempting to consider nano exposure as "the tort that cried wolf."

But with a global market for nano-based products expected to reach a trillion dollars within the next five years, with increased scientific scrutiny associated with nano materials, and with a plaintiffs' bar watching with rapt attention, there are reasons for real concern. While it is safe to say that 2011 will not see an onslaught of nano litigation, there is every reason for insurers to carefully manage nano-related risks. ■

Leveraging Telematics Data for Auto Rating

by Christopher Sirota, CPCU, and Steven Craig

Christopher Sirota, CPCU, is product development and research manager at ISO's Applied Informatix Division.

Steven Craig is general manager of ISO's Applied Informatix Division and A-PLUS™ (Auto-Property Loss Underwriting Service).

Auto insurers are increasingly turning to telematics devices as a new source of information to better price auto risks and secure new customers. A telematics device enables insurers to wirelessly collect actual data about the usage of the insured vehicle from the accelerometer, Global Positioning System (GPS) and the engine diagnostics port. The data set allows insurers a unique way to analyze personal and commercial auto risks and provide valuable policyholder services.

Value of GPS Data

To collect driving behavior data using telematics, an onboard device must be installed that records and wirelessly transmits information — such as maneuvers, latitude/longitude, speed, time and date as well as vehicle operations and emissions — to the insurer. Moreover, insurers can link GPS data with layers of geographic data known as geographic information systems (GIS) to create a unique source of information about personal and commercial driving behavior.

Insurers can also use accurate driving location data obtained through telematics and GPS devices to more accurately assess the risk of an insured based on actual driving locations as well as develop distinctive auto insurance products. Although it can take some time for an insurer to collect enough credible data to use in underwriting, rating and claim models, some analyses using GPS data can be done relatively quickly. For example, carriers can use GPS information to more accurately determine the actual vehicle garaging address, the commuting distance, the time of day the vehicle is operated and the radius of operations.

Similarly, insurers can combine driving behavior, GPS and event data with map layers and other GIS-based information to create a comprehensive look at driving conditions and auto risk. An insurer can take that further by linking the data with geographic loss costs and policy-level information for further risk analysis and comparison. Consider data regarding hard braking. Taken alone, such information may not predict loss as well as when combined with additional information

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Leveraging Telematics Data for Auto Rating

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about driving conditions, such as hard braking during inclement weather, rush hour and on highways rather than on side streets.

Enhancing the Claim Process

Telematics is not only useful for risk assessment, underwriting and rating services, it can also point to extreme vehicle movements when used with accelerometers and the appropriate algorithms. For example, in the event of a collision or blown-out tire, telematics, data can trigger a call to a service center or 911 for emergency driver assistance. This is especially valuable when used in concert with GPS data.

Furthermore, GPS data offers an accurate time-and-date stamp for incidents, which allows the telematics device to quickly initiate first notice and potentially reduce costs. In the future, collecting such incident data with GPS information will offer additional geoanalytics opportunities, allowing insurers to create products that produce competitive advantage.

Addressing the Privacy Issue

The use of GPS data in telematics devices is a valuable asset for insurers, but it has raised concerns about driver privacy. To avoid these concerns, insurers can use telematics devices without accompanying GPS data to better understand their books of business. However, doing so forfeits a valuable information link.

When GPS data is used appropriately by a carrier, the information can lead to beneficial policyholder services. For example, many insurers currently offer teenager or senior citizen risk management programs that use location-derived information to assess driving behaviors. Some programs even allow policyholders to set geographic boundaries on a map that will trigger an alert when a vehicle enters or leaves — such as when a teenager arrives at school or a vehicle leaves home late at night. Other valuable programs that use location-based data include crash assistance, parking location identification, breakdown towing and stolen vehicle recovery.

In some cases, a policyholder may not want an insurer to have access to data about his or her exact locations for all driving journeys. In these cases, insurers using telematics devices with GPS can choose to collect summarized data on a policyholder's driving journeys. But carriers should be careful because too much summarization will be less valuable for modelers and potentially diminish future analytics. Carriers should consider the level of summarization, what time periods of data to collect and how frequently the GPS data should be recorded.

The use of telematics and GPS devices in the auto insurance sector creates significant opportunities for carriers and policyholders alike. Insurers can use this information to create a platform for improving existing products and developing new driving behavior programs. Consumers can benefit from such unique policyholder services as emergency crash assistance, teen and senior risk management programs, stolen vehicle recovery and individualized premiums. ■

Get Exposed!

We're always looking for quality article content for the Underwriting Interest Group newsletter. If you, or someone you know, have knowledge in a given insurance area that could be shared with other insurance professionals, we're interested in talking with you.

Don't worry about not being a journalism major. We have folks that can arrange and edit the content to publication-ready status. Here are some benefits of being a contributing writer to *Underwriting Trends:*

- Sharing knowledge with other insurance professionals.
- Gaining exposure as a thought-leader or authority on a given subject.
- Expanding your networking base.
- Overall career development.

To jump on this opportunity, please email either **Steve White, CPCU, AIS,** at steve.white.bnbg@statefarm.com or **Greg Massey, CPCU, CIC, CRM, ARM, PMP, CLCS,** at greg.massey@zurichna.com.

The Underwriting Interest Group Welcomes New Committee Members

by Stephen W. White, CPCU, AIS

The Underwriting Interest Group Committee is delighted to welcome two new members to its fold:

Kane

Abraham "Abe" Kane, CPCU, ARM-P, ARe, AU, ASLI, RPLU

Abe Kane currently is a second vice president and senior underwriter with Genesis Underwriting Management Company (GUMC), a Berkshire Hathaway Company. As an underwriter for the Public Entity Division, Kane provides alternative risk solutions on an insurance and reinsurance basis to municipalities, schools, colleges and universities as well as reinsurance placements for public entity pools and higher education consortia.

Prior to joining GUMC, he worked for General Star Management (GSM), underwriting product liability business in the wholesale market, where he developed an expertise in nutraceuticals and dietary supplements.

Kane has a bachelor's degree in economics from the University of Michigan. He served as the 2010–2011 president of the CPCU Society Westchester Chapter. Kane may be reached at abe.kane@gumc.com.

Karen McCormack, CPCU, RPLU, AU

Karen McCormack has more than 18 years' diverse property-casualty experience in various positions in the insurance industry. She joined Princeton Insurance Company in 1999. Since then, McCormack has held various titles, including underwriter, senior underwriter, information and systems coordinator, and, since 2006, underwriting manager.

Her current responsibilities include the supervision of underwriters, liaison between the information technology department and underwriting, system administrator for imaging systems, and new business development. McCormack has a New Jersey producer license.

She has a master's degree in organizational leadership with a concentration in insurance from Quinnipiac University and a bachelor's degree in business management with a concentration in health care management from St. Peter's College. McCormack currently is a member of the CPCU Society Central Jersey Chapter. She can be reached at Karen.McCormack@PrincetonInsurance.com. ■

McCormack

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.

Underwriting Interest Group
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10 Reasons Why You Should Attend the CPCU Society Annual Meeting and Seminars

1. Celebrate with the CPCU Class of 2011.
2. Spend four great days with the best and brightest in the business.
3. Hear exclusive insights from senior-level executives on today's hottest topics.
4. Sharpen your knowledge through the industry's finest array of educational programs.
5. Be inspired by compelling speakers to achieve your goals.
6. Learn new technical skills that you can put to use immediately.
7. Strengthen your leadership skills.
8. Find out how to take control of your career.
9. Network with your CPCU Society peers at special events.
10. Be energized to achieve your personal best!

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Underwriting Interest Group
http://underwriting.cpcusociety.org

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