

Editor's Note: The views and opinions of the authors of the articles appearing in the Chaptergram are his or her own and not necessarily shared by the officers and members of the CPCU Society and the Philadelphia chapter.

Chapter "Fire Safety in the Home" Essay Contest Concludes 14th Year

Editor's Note: This was the 14th year that I have been involved with running our Chapter's *Fire Safety in the Home Essay Contest* which we have been co-sponsoring in conjunction with Council Rock School District. Although a lot of work goes into it, I can honestly say that it is most gratifying and well worth the effort. To see the smiling faces of the children and their proud parents as they receive their awards and recognition warms the heart. But more importantly, the fact that so many children enter the contest and write and learn about fire safety, many lives can be saved and after all, isn't that what it's all about? Please enjoy the photos on this and pages of the Chaptergram. They were taken at the Council Rock School Board's Public Meeting of November 20, and the Northampton Township Board of Supervisors Public Meeting of November 25. Both were televised over cable television. My special thanks go to the Council Rock School Board, Superintendent of School, teachers, parents and especially the great students who participated.

- Peter Palestina, CPCU

1997 Fire Safety Essay Winners Receive Their Awards



Holding their awards are the Council Rock School District winners of the 14th Annual Fire Safety in the Home essay contest sponsored by the Philadelphia Chapter of the Chartered Property and Casualty Underwriters (CPCU) Society. First row from the left, 1st and 2nd grade level: Taylor Mangold (1st place), Kate Laska (most creative), Kylie Miller (most creative), Kerri Anne Rabbermann (2nd place) and Amy Bishop (3rd place). Second row: 3rd and 4th grade level: Andrew Budwin (1st place), Adam Hauptman (most creative), Julie Braverman (2nd place), and Caitlin Marchini (3rd place). Third row, 5th and 6th grade level: Kyle Dennis (1st place), Katie Miller (most creative), Jenna Mizia (2nd place). Adults: left, Anne Kopanski, CPCU, President, Philadelphia CPCU Society, Pete Palestina, CPCU, Vice Chairman, Northampton Supervisors and contest coordinator, and Charlene Miller, School Board Director. Special Note: Kylie Miller was initially awarded 3rd place in the 5th-6th grade category but was erroneously classified as she is actually a first grade student. Upon discovery of the error she was awarded a "Most Creative" award in the first-2nd category.

The awards were presented at the Council Rock School Board meeting of November 20th. First place and most creative finishers received a \$100 U.S. Savings Bond and a plaque. Second and third placers received a plaque. The students were also scheduled to receive plaques and citations from the Northampton, Newton and Upper Makefield Township Boards of Supervisors and state Representative Roy Reinard at the November 25th Board of Supervisors Meeting held at Northampton Township. The essays were written during National Fire Prevention Week in October.

ETHICS AWARENESS MONTH MARCH 1998



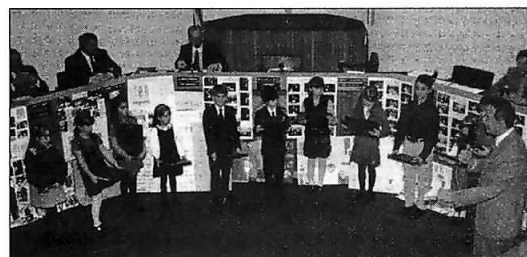
State Representative Roy Reinard presents commendations and congratulations to winner Kate Laska.



Newtown Township Board of Supervisors Chairman Ray (Skip) Goodnoe presents his Township Citation and congratulations to Newtown resident Jenna Mizia.



Northampton Township Board of Supervisors Chairman Bill Benz presents citation and congratulations to winner Julie Braverman.



Contest Chairman and Northampton Township Supervisor Pete Palestina wraps up the ceremonies by praising the entire group of winners.



The President's Corner

by: Anne Kopanski, CPCU

Making Tough Decisions

I am a consultant and a client asked me to guide them in making a difficult decision. I prepared alternative solutions and included the client's original choices for consideration. Which solution will I recommend? What measurements can be used to decide the best choice? Here are some of the questions I asked to clarify the issues and make the ethical recommendation.

Economic

What are the dollar and cents costs for each alternative. How will the costs effect the client? Each alternative proposal can be measured in economic terms for each of the

stakeholders. The economic choices involve an array of trade-offs that will be acceptable to the decision-maker. However, we know that a price tag is not the sole basis for making touch choices.

Regulatory

Since this is an insurance related problem that needs a solution, do the alternatives comply with the various statutory requirements? Are there Federal or State compliance issues? Are there information privacy issues? How do the alternatives respond to the spirit of the laws?

Customer Focus

How well will the solutions being considered, help the client with respect to their customers both short term and in the long run? Supposing the Client had to present these choices to their Board of Directors for final approval? What would happen if the media decided investigative reporting could reveal attitudes about this sensitive issue?

Ethical

Will the decision still be the correct solution this time next year or five years from now? Will I have the moral courage to recommend the most ethical course of action? What do I do if new information becomes known? How can situations like this be prevented?

"CPCUs Should Assist in Maintaining the Integrity of the Code of Professional Ethics"

.....is Canon 9 of the Code of Professional Ethics. We agree, as we are conferred, to conduct our professional life by these guidelines. The cost of integrity may be painful. The acid test is "Can I look at myself in the mirror tomorrow? Five years from now?"

March is Ethics Awareness month. It's good to have an annual factors with new perspectives explored. I strongly recommended "Ethical Uses of Information in Insurance" published by the Insurance Institute for Applied Ethics. (610) 644-2100, ext. 2100. Many issues are presented about how we store, access and share highly confidential

information provided by clients. These issues and concerns has been studied and a "White Paper" issued by the National Association of Insurance Commissioners, "Credit Reports and Insurance Underwriting" (816) 374-7529. Order your copies. The knowledge you gain will reduce your exposures.

Future Annual Meeting Sites

1998 - San Diego, CA	October 25-27
1999 - Boston, MA	October 17 - 19
2000 - San Antonio, TX	October 22 - 24
2001 - Seattle, WA	October 21 - 23
2002 - Orlando, FL	October 20 - 22
2003 - New Orleans, LA	October 12 - 14
2004 - Los Angeles, CA	October 24 - 26
2005 - Atlanta, GA	October 23 - 25
2006 - Nashville, TN	October 15 - 17

National Director's Corner

by: Don L. Dudey, CPCU



Now that we have closed the year 1997, I hope each of us can reflect back on what we perhaps did wrong but more important-ly, what we did right. Either way, hopefully, each of us have become a better person and from these experiences, you can now begin making 1998 an even better year for both yourself and those around you.

That is what the Society of CPCU is about, making one's self and the insurance industry better from our actions. Your local chapter's administrative year is just one-half over, so those plans, activities and programs that were set in July 1997 still have time to be completed. As you set personal resolutions like quit smoking, exercise more, lose weight, etc., you should set business goals as well. Involvement in the local CPCU has always been a concern within the Society of CPCU. How do we perform home, business, CPCU, church and charity work all with 24 hours a day, or seven days a week, or 30 days a month? There is no right answer, but priorities are the key in making these hard choices. Some one once said, "you get out of something, what you put into it", and the local CPCU chapter is no different. There are many opportunities available within the Society and local chapter framework. Even if it is not there presently, the availability of it being created by you and/or others is still there. What is not happening in one area, doesn't mean that it perhaps is not being performed elsewhere. The opportunities are what you make of them, but you must get involved first.

So, as we enter a new year - 1998, consider making the resolution that - I will be involved with the Philadelphia chapter, I will pursue that one "burning" idea that I have always wanted to get involved in, I will, through my efforts, be able to help others through my work, and I will "make a difference" during 1998.

Best of luck to the Philadelphia Chapter of 1998 and that it will be equal to or better than the year 1997. In Dallas, your chapter received five awards, so in San Diego I look forward to at lease five and perhaps two more. Keep up the good work!

An enormous thank you goes out to you, the membership.

As you already know. You helped the chapter to capture first prize - The Membership Excellence Award. We, the membership committee, asked you to become current in your CPCU dues and you responded! Thanks!

A hearty congratulations also especially goes out to the Chapter's Membership Committee who worked diligently to win this coveted accolade for the Chapter.

Let's strive to achieve this award again this year. We need your help. Become active and stay involved. We are always looking for new members to join our committee. Not much time is needed. If you would like to get more information on joining us, feel free to contact any Memberships committee member below:

Rina Williams, CPCU, Chairman	SMG	(215) 592-6623
Courtney Algeo, CPCU	PMA	(610) 962-4935
Denise Forbes, CPCU	Fireman's Fund	(215) 928-3541
Bernadette Fuller, CPCU	CNA	(610) 607-6951
Angela Grodanz, CPCU	GA	(215) 625-1639
Marie Grossman, CPCU	Work Finders	(609) 267-8090
Jim Jones, CPCU	CIGNA	(215) 761-3368
Patricia Rakowski, CPCU	Royal	(215) 238-7439
Chuck Walker, CPCU	Am. Ex. Fincl.	(609) 784-7504
Bill Wares, CPCU	Robert Plan	(215) 496-2700 extension 7097

Past President Frank Mason Shares Chapter Highlights 1992 to Present

Last in a Series of Articles

This is the eighth and last in our series of historical segments in celebration of your CPCU Society's 50th anniversary reminiscing about events in our chapter's history and other significant events in our industry and the world. Today, I'm going to cover the years 1992 and the present.

This six year period can be referred to as the Clinton Era in which the Republicans and George Bush with his Reaganomics policy was supplanted by the Democrats and Clinton. The American people "Read His Lips" and elected the first Democratic President since Carter. Since then we've had six years of government gridlock as the Democratic President and Republican Congress jockey for power. But these have been good years, with relative peace, other than isolated conflicts in Bosnia and Somalia and, of course, our friend in Iraq is occasionally stirring the pot. This period has seen the rise of the United States as the world's only real superpower with the collapse of the Soviet Union. Our economy has sustained moderate growth, low inflation, and low unemployment. From a macro economic perspective, these have been relatively good years.

The key insurance issue during this era continues to be survival in this prolonged soft market. Do you realize the soft market is getting close to spanning ten years? It doesn't seem possible but many of you in this room have probably never had the pleasure of working in a hard market - well let me explain the experience of working in the hard market. It's like having hemorrhoids - everyone is itching to raise prices and the whole insurance business is a royal pain in the rear but the relief was that everyone made money.

The key factor spawning the soft market is its acute overcapacity of surplus. With the era relatively free from catastrophes, overcapacity has intensified fierce industry price competition which has impeded premium growth. This excess surplus has created an insatiable appetite for premium growth. This search for growth has fostered insurance carrier expansion through acquisitions and mergers. Where have the continental, home, and Aetna gone? The prolonged soft market has also significantly depressed revenues for brokers and agents causing fundamental changes with this distribution system. Drastically shrinking profit margins have led to a rash of mergers and acquisitions. Where has A & A and J & H gone? Where have all the regional agents gone? Yes their numbers are getting smaller.

The line of business experiencing the most volatility during this period has been workers' comp with the line's combined in the early 90s approaching 120 and now in the late 90s hovering around 100 combined. Why? Workers' comp reform, managed care and PPOs. But stay tuned as this line's combined is headed upward as it is under severe pricing pressure.

The era has seen an explosion of technological advances. Do you believe the industry is actually getting close to a universal agency interface? Technology changes have made our world truly global with instantaneous access to information. Hold on to your seats as these changes will continue through the new millennium and will continue to radically change the way we conduct business.

This era for your CPCU Chapter mirrored our industry as your Chapter adapted to the technology changes available and purchased a lap top computer to streamline its recordkeeping and committee work. The Chapter's goal was to pass on comprehensive documentation to enhance consistency as the chapter passes.

It's chairmanship of committees down the line on a yearly basis. A computer automated resource listing to record the interests and committee preferences of our CPCU members was implemented. The Chapter worked hard to increase the productivity of its board of directors and committees who were seeking help and support from a shrinking industry in the midst of consolidations and layoffs. Members were finding it very difficult to find the time within their own schedules to serve in a volunteer organization. The Chapter established a web site, used e-mail, used teleconferencing, and videoconferencing, all designed to maximize productivity within the Society. Despite all these changes in the workplace, your CPCU Chapter has continued to grow with well over 600 paid members. Our banner year was 1995 when our Chapter inducted 122 new designees. I wonder if Hawaii had anything to do with that? Unfortunately, I was a year late and a dollar short as I was president the year prior with the Annual Meeting in Chicago where we had less than 30 new designees! From the windy city to aloha now get that picture! If I was a new designee, I know where I would have gone! Come to think about it, I've never been too smart as I was inducted as a CPCU in Detroit back in the 70s?



Past President Frank Mason, Jr., CPCU recaps the years 1992-97 at our December meeting.

This era provided recognition to one amongst us who has served your Society tirelessly for many years. Pete Palestina received the National Society's prestigious National Standard Setter Award in 1995 and, in 1996, Pete received the Philadelphia Chapter's Franklin Award. The Franklin Award has continued as our Chapter's cornerstone industry program recognizing outstanding achievement and contributions to the industry in the Delaware Valley. Other recipients in this era were Bob Clair in 1992, Wayne Snider in 1993, Congressman Curt Weldon in 1994, Norm Baglini in 1995, and Larry Brandon in 1997. Your past chapter presidents during this era were Larry Klein in 92-93, Karen Willimann in 93-94, myself 94-95, T.C. McDonnell in 95-96, Bruce Tuttle, Past President from 96-97, and of course, your current President, Anne Kopanski.

We've now come full cycle in our historical perspective of your Chapter starting from the Chapter's inception in 1947 to the present. We've spanned generations of time. From our start during the post World War II era, through the Cold War, Vietnam, to the emergence of the United States as the only true world super power. Our industry has grown from the post World War II where the industry was spawned as small specialty underwriters with roving special agents distributing its products to an industry now dominated by financial service giants distributing its products through multiple distribution systems. Your Chapter has evolved with these changes to assist its members with the education and networking tools necessary to compete, and most importantly, succeed in this industry.

Fifty years from now, when many of us will be looking down from above, hopefully from above, on the 100th anniversary of the Philadelphia Chapter, as Pete Palestina publishes his 250th Chaptergram on the interactive information highway.

After the 100th anniversary we'll be talking about how archaic the technology was in 1997 when we look back at the 50th anniversary but we'll be again recognizing the Philadelphia Chapter Society of CPCU for being on the leading edge of change in the industry. We hope you have enjoyed this series of historical moments and we have provided you with insights and personal remembrances from past Philadelphia Chapter Presidents of days gone by. We have a rich tradition in the Philadelphia Chapter and we need your continued help and support to take the Chapter into the next millennium. Thank you!



Former Chapter President Art Hanebury, CPCU, wraps up the last of the historical presentations relating to our 50th anniversary celebration at the December meeting.

Philadelphia Fire Safety Essay Contest Award Ceremony Report

On May 28, 1997 our Chapter held its 4th annual Philadelphia "Fire Safety in the Home" essay contest award ceremony at the school district of Philadelphia's boardroom. The 15 winners from the school district's 3rd, 4th and 5th grade classes celebrated this event with their proud family, teachers and principals. They enjoyed the delicious, healthy breakfast provided by Wade Cablevision, one of our cosponsors; listened to the inspiration stories told by Philadelphia Fire Commissioner Harold B. Hairston, whose sponsorship is the key to this contest's success; and beamed as congratulations were poured upon them from Mr. Fred Farlino, who represented the school district's superintendent David Hornbeck, Dr. Catherine Balsley, the curriculum specialist in charge of the school district's fire safety education, and Mr. William Cahill, the school district's fire marshal. But there can be no fun without learning. So Chief Bernard Dyer, who is in charge of the Philadelphia Fire Department's Fire Prevention Unit, showed everyone how to test and replace the battery for smoke detectors. Then after all the winners had received their certificates, savings bonds (paid by this Chapter) and smoke detectors (from the Philadelphia Fire Department), they were surprised by a visit from Barney the Battery, the mascot of the Philadelphia Fire Department, and were invited by Barney to have a photo session in the sunny courtyard. There were smiling faces everywhere.

Representing the Chapter to host this ceremony were Mr. Bruce Tuttle, then President and Ms. Hsuan-Shiang Wu, the Chairperson of Philadelphia Fire Safety Essay Contest Committee. Special thanks to committee member Ms. Maria Freeman, Ms. Linda Incao and Mr. Sam Garro who took time from their busy schedule to grade the essays for this Chapter. (The winning essays were selected after the gradings were completed by the school district, the fire department, and this Chapter).

THE WINNERS OF THIS YEAR'S CONTEST ARE AS FOLLOWS:

	Grade 3	Grade 4	Grade 5
First Place	Estilita Cotrina Ethan Allen	Angela Caraballo Smedley	Clarissa Ladson Daroff
Second Place	Laura Albano Sharswood	Adam Hedrick H.R. Edmunds	Charlene Walker M.H. Stanton
Third Place	Cherise Heller Pennell	David Le Catharine	Iysha Green Pennell
Fourth Place	Robert McCann Greenberg	Sherrie Gaines Daroff Jasmine Schley Pennypacker	Harry Brown Sharswood
Fifth Place	Meredith Sandler H.R. Edmunds		Joy Y. Deng Greenfield

Test Tips Over Wine and Cheese

by: Val Ullman Katz, CPCU

The Philadelphia and Valley Forge Chapters of the Society of CPCU hosted an evening on November 7th, of practical test taking skills for current CPCU candidates. Four instructors and graders led a round table discussion on examination preparation and "how tos" of exam writing. The discussion was quite festive due to the refreshments provided by the Training and Development Department of CIGNA. Valley Forge and Philadelphia Chapter extend their appreciation to Val Thomas for her efforts and assistance.



Posing with 1st place 3rd grade winner Estilita Cotrina at the May 28th Philadelphia Fire Safety Essay award ceremony are l to r: Fred Farlino (representing school district superintendent David Hornbeck), Bruce Tuttle, CPCU (1996-97 Chapter President), Fire Commissioner Harold Hairston, Charlotte Sistrum (Wade Cablevision) deputy fire commissioner Matthew McCrory and Fire Chief Bernard Dyer.



1st place 4th grade winner Angela Caraballo with the officials at the May 28th ceremony.



1st place 5th grade winner Clarissa Ladson with the officials at the May 28th ceremony.



Barney the Battery posed with all of the Philadelphia contest winners at the May 28th presentation.

Candidate Sponsors to be Recognized at the April 16th Meeting

The Philadelphia Chapter will thank those members who are participating in the Candidate Development Sponsor Program by presenting a Chapter Achievement Award. Sponsors please look for a mailing soon. Please plan to attend the April 16th Breakfast Meeting. If you would like to sponsor a current CPCU candidate please contact Val Ullman Katz 215-761-3876.

HERE ARE THE 1997 "FIRE SAFETY IN THE HOME" ESSAY CONTEST WINNERS FROM COUNCIL ROCK SCHOOL DISTRICT

1st and 2nd Grade Categories



1st Place Winner
Taylor Mangold, Holland Elementary



Most Creative Winner
Kate Laska, Holland Elementary



2nd Place Winner
Kerri Anne Rabbermann, Sol Feinstone



3rd Place Winner
Amy Bishop, Hillcrest Elementary

3rd and 4th Grade Categories



1st Place Winner
Andrew Budwin, Holland Elementary



Most Creative Winner
Adam Hauptman, Hillcrest Elementary



2nd Place Winner
Julie Braverman, Hillcrest Elementary



3rd Place Winner
Caitlin Marchini, Churchville Elementary

5th and 6th Grade Categories



1st Place Winner
Kyle Dennis, Rolling Hills Elementary



Most Creative Winner
Katie Miller, Rolling Hills Elementary



2nd Place Winner
Jenna Mizia, Goodnoe Elementary



3rd Place Winner
Kylie Miller* Hillcrest Elementary

**NB Kylie is actually a 1st grader and due to error in classification she was later awarded a Most Creative award for the 1st and 2nd grade category.*

December Meeting Recap

by: Larry L. Klein, CPCU

Despite unprecedented underwriting capacity in both the insurance and reinsurance markets the uncertainty and potential magnitude of catastrophic losses continues to plague insurers and their policyholders. This was the theme for the Philadelphia CPCU Chapter's December 1997 meeting. Presenting the program was Thomas M. Brinker, MSFS, CLU, ChFC, founder and president of Fringe Benefits, Inc. and Financial Foresights, Ltd. Brinker, a well known and highly regarded talk show host whose programs have aired on WWDB and WFLN, raised the audience's awareness of the potential magnitude a catastrophe could have on most of the country and the insurance industry. In addition to his presentation, Brinker distributed a reprint from *Global Reinsurance, The Foundation and Evolution of the Catastrophe Bond Market* by Michael S. Canter and Joseph B. Cole.

Brinker cited sources that estimate the insurable value of property located proximate to the Atlantic and Gulf of Mexico coastlines at \$3.15 trillion. Through several illustrations, he conveyed the message of how large a trillion dollars really is. With this backdrop of the values at risk, he added the fact that the aggregate U.S. insurance industry surplus now stands at approximately \$200 billion. When the earthquake exposure values along the Pacific coast and the New Madrid Fault are added to this, the apparent conclusion is that the traditional property insurance industry is undercapitalized to underwrite and significant portion of this risk.

Some recent catastrophe losses have resulted in a brief withdrawal of underwriting capacity, followed by a sharp increase in pricing on the capacity that returned in the ensuing months. Despite increased pricing for coastal windstorm and concurrent flood and earthquake the property insurance industry has not responded with any substantive increase in capacity.

Insurers and policyholders are subjected to two challenges caused by this:

- Uncertainty of the availability of sufficient catastrophe loss insurance limits to provide assurances of recovery following a loss
- Volatility in pricing of catastrophe risk insurance coverage that is available.

As a result insurers and insureds have begun to look outside the traditional risk transfer mechanisms. According to sources quoted by Brinker, the capital markets present a viable supplemental source of capacity for catastrophic risk transfer. With a current total market value in excess of \$19 trillion, this represents a largely untapped market nearly 100 times larger than the total U.S. insurance industry's surplus.

In recent years the capital markets have been a source in three different techniques to provide additional capacity:

- Catastrophe bonds
- Catastrophe swaps
- Chicago Board of Trade (CBOT) catastrophe options

A widely reported application of the catastrophe bond market was the issuance of a catastrophe bond issue by USAA. Desiring balance sheet security against the risk of catastrophic losses resulting from a hurricane on the east and gulf coasts including Texas, USAA issued, in two transactions, \$477 million in Cat bonds. The transactions consisted of the issuance and sale of bonds which paid the investor coupon payments as interest. The bond proceeds were invested accumulating interest at LIBOR. If no catastrophe occurs, the investor would receive face value of the bonds plus LIBOR. This is in addition to the previously paid coupon interest. If a catastrophe loss were to occur and trigger the stipulated threshold, the investors would lose some or all of the principal. The USAA program provided for repayment of the principal of some of the bonds on a deferred basis.

Swiss Re made a similar bond issue to securitize its exposure to California earthquake by selling \$137 million of two year bonds.

The mechanics of catastrophe swaps are similar except the investor provides a letter of credit in lieu of cash. This provides the insurer with the security of catastrophe capacity while allowing the investor to generate a greater return on its cash than might be earned at LIBOR.

Investors in these types of transactions found them appealing for several reasons:

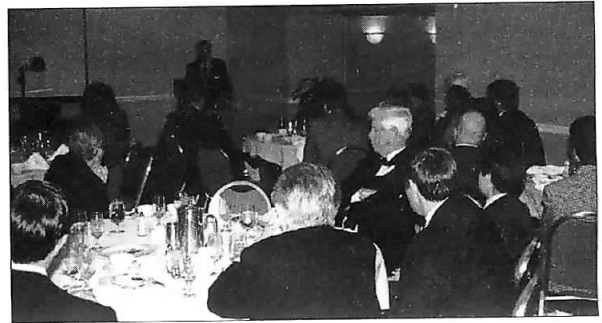
- The offerings were rated by financial rating agencies, therefore the capital market investors were familiar with the relative measure of risk. Presumably, Wall Street investors believe they understand Standard & Poors and Moodys and other financial service ratings better than they might understand A.M. Best Company ratings.
- The offerings paid a significantly higher interest over comparably rated issues. The premiums were, in one case, more than 300 basis points higher than another BB rated issue.

One recent instance of an unsuccessful capital market solution was an expected offering by the California Earthquake Authority (CEA) nearly a year ago. On the threshold of its release, National Indemnity offered the CEA better terms under a traditional reinsurance product.

Some insurers are guarded about the capital markets as a viable long term player in taking catastrophic risks. While the total market value is currently at \$19 trillion, its daily swings have averaged more than \$133 billion during the past year. The volatility may be unacceptable for an industry steeped in the tradition of conservative reliability.



Keynote speaker Thomas Brinker, MSFS, CLU, President, Fringe Benefits, Inc. and Financial Foresight, Ltd. discusses "Capital Markets" at our December 18th meeting.



Some of the members at our December meeting on Capital Markets.

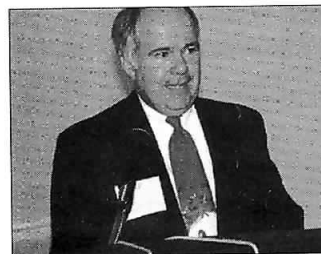
Philadelphia CPCU Chapter Gavel is Returned

Past president Larry Klein, CPCU passed the 31 year old Loman Foundation Chapter Achievement Award to 1st Vice President Sandy Loeb at the December chapter meeting. Forgotten by most members, the Philadelphia CPCU Chapter was one of the three CPCU chapters that received the award by the Harry J. Loman Foundation at the annual meeting in 1966. The inter-chapter competition designated as the Chapter Achievement Goal Effectiveness (CAGE) program recognized chapters for obtaining donations and pledges during the preceding year to the Loman Foundation. The Philadelphia Chapter qualified for the award and was first presented with this gavel at the Foundation's Executive Council Meeting in St. Louis, October 12, 1966. Other chapters similarly recognized were the Kentucky and Pacific Northwest chapters.

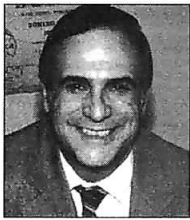
In returning the award, Larry noted that chapter presidents will no longer have to use a coffee cup, shoe or other device to call meetings to order or adjournment.



Former Chapter President Larry Klein, CPCU, currently living in Dallas, paid us a visit at the Chapter's December meeting and returned the long lost gavel to Philadelphia Chapter 1st V.P. Sandra Loeb, CPCU. Seems Larry borrowed it while chairing other associations, forgot it belonged to us, and mistakenly brought it with him to Dallas. Rumor has it that the truth is we actually had Larry extradited from Texas in order to return the gavel less we bring charges of grand theft against him.



Past Chapter President Larry talks about his new home in Dallas and reminisces about the good times from his Philly Chapter years.



From the Editor

by: Peter Palestina, CPCU

A Timely Article

Time flies when you're having fun! In fact, as we get older it seems to fly whether you are having fun or not. Having attended all of our meetings in 1997, during which we celebrated our 50th anniversary, it was both interesting and delightful to hear past chapter presidents talk about what took place during the history of our chapter. Since I'm only 52 (only?...Oh well), I can only remember perhaps what took place in our industry from 30 years ago until present time. But the amazing thing is that when I and others recapped the highlights of the 60's and 70's, it just didn't seem that any of it took place that long ago.

Even if life expectancy today were 100, and it's not, I've already lived half my life and what a short life it seems to be. My children are grown up now and I'm even a grandfather. I believe I accomplished a lot in my life with family, friends, industry and community, but my God, where did the time go? The answer, I guess, might be basic and logical. The busier you are, the quicker time goes by. Is this a bad thing? No, I don't think so. It simply means that you have accomplished very much in a relatively shorter time frame than one who does not give back to society and family. It means you are productive and yes, you do enjoy life, because if you didn't, then you wouldn't be as busy as you are. Now I'm not talking about the workplace mind you (i.e. the typical stereotyped workaholic), although that's not to be interpreted as a negative, but rather those who are involved in extracurricular activities on a volunteer basis if you will. There are those of us that have worked long hours simply because it may mean loss of employment or the need for additional income. In these scenarios, one may not like what they are doing but time flies anyway. However, without all of the other activities we can become involved with, our focus or memories are more limited because of narrow boundaries. The more varied we are in our extracurricular activities, the more we accomplish in life and the memories we, for the most part, will be fond ones and easily remembered as though they were yesterday.

So get involved wherever and whenever you can. Life is too short not to enjoy it and leave your legacy at the same time by not wasting time. Well I have to run now as I have no more time to continue writing. So have a healthy, prosperous and productive 1998.

THE CHAPTER YEARS 1986-1992 PRESENTED AT THE NOVEMBER MEETING BY PAST PRESIDENT AL FEDERICO, CPCU

Being an E&S specialty broker, I look on particular fondness for the years 1986-92 since this was the height of the last "hard" market. For those in the audience who were not in the business at that time let me put this into some perspective.

There was NO capacity of any kind for any type of insurance. It was front page news in the papers including Time magazine. Casualty insurers allowed me only four submissions a month - and they better have ended in orders. My total capacity on property lien was only \$2,000,000 and that took participation from the six carriers I had that was willing to write any business. There was only one market that wrote Liquor legal in Pennsylvania and their rates were high with many restrictions. There were only two effective Nonprofit D&O markets and a handful of For profit markets.

The number of insurer failures during this period was unrelenting as familiar names like the Mission, Ambassador, Integrity etc. bit the dust. These upstarts were first but many "old-line" carriers sold off their real estate and then themselves such as the Home, Fireman's Fund, Maryland Casualty to name a few. Brokers were not immune as the beginning of the small to medium agency mergers began (of which recently we have seen this progress into all the major houses).

The resonance of the past cycles reverberated during this period as this super hard swing set the stage for what we are now going through - the softest of soft markets. I hear from the current pundits that we are in a "perpetual" soft cycle. The reasons may seem compelling now but I believe that we have not seen the last of the swings. The length and breadth is not the question here because the fundamental changes in the "insurance paradigm" is being transformed daily. The 1986-92 period was only a part in this technology driven change.

Your past presidents during this period were:

- | | |
|---------------------------|---------------------------|
| 1986-87 - Pamela Godwin | 1989-90 - Joseph McNasby |
| 1987-88 - Albert Federico | 1990-91 - Arthur Hanebury |
| 1988-89 - Raymond Lindsey | 1991-92 - Bruce Kelly |

Reagan and Bush were in office; The Berlin Wall came tumbling down (as well as Russia); Oral Roberts didn't die as he predicted if he didn't get 8 million; No one team or league dominated the World Series during this period and the movies reflected our moods with winners such as *Driving Miss Daisy*, *Rain Man*, *The Last Emperor*, *Platoon* and *Dances with Wolves*. Our television watching mostly family (of sorts) oriented with hit shows such as *Roseanne*, *Bill Cosby*, *Family Ties* and *Cheers*.

You may remember that housing pricing were continuing to have a bounty time as they went upward and upward (kind of like the stock market now???)

If there is any legacy from this period its that while hi-tech as we are going, it is still a "people" business and although you may be dealing with companies, brokers and clients around the globe and in new, exciting capacities the basic trust and "utmost good faith" are probably as important as ever. Regardless of the cycle, treat everyone with the respect that they deserve - one must do the "right thing" all the time.



Membership committee enjoys celebratory breakfast during a committee meeting. Standing left to right are: Marie Grossman, CPCU, Courtney Algeo, CPCU, William Wares, CPCU, Bernadette Fuller, CPCU, Patricia Rakowski, CPCU. Sitting is committee chairperson Rina Williams, CPCU.



A scouted "little helper" helping to arrange breakfast festivities.



Past president Al Federico, CPCU providing the chapter history 1986-92 at the November meeting.



Membership committee members left to right: Marie Grossman, Bernadette Fuller and Rina Williams hard at work and play during celebration kick-off.

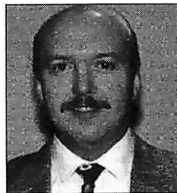


Ambitious and energetic committee members Marie Grossman, left and Courtney Algeo, right lend their experience while enjoying the event.

November Meeting Recap

The Actuaries Today

by: Michael Petrocik



On Tuesday morning, November 18, 1997 the Philadelphia Chapter of the CPCU Society held its monthly breakfast meeting at the DoubleTree Hotel in Philadelphia. The topic for discussion was "How the Actuary Affects Underwriting and Claims". Included on this month's panel were three executives from the CNA Insurance Companies, specifically, Frederick O. Kist, Senior Vice President and Corporate Actuary; Donald R. Allard, Group Vice President Corporate Claims Consulting Divisions; Ward Jungers, Group Vice President and Chief Underwriting Officer. Each of these gentlemen gave their own perspective on the changing role of actuaries within insurance companies, and on the new business model evolving within many companies.

Mr. Kist opened the discussion by describing the origin of the actuarial profession within Property/Casualty insurance. The Casually Actuarial Society (CAS) was formed in 1914 in response to the advent of Workers Compensation laws that were sweeping the country. The CAS is one of several actuarial organizations operating today. Prominent among the others are the Society of Actuaries which deals with life and health insurance, and the American Academy of Actuaries, an umbrella organization handling public policy issues for all facets of the profession. Membership of the CAS has steadily grown to its current level of 2,700. Mr. Kist attributed this growth to two factors: inflation and lawyer involvement in claims, as both factors have made the determination of future loss costs much more difficult.

The traditional roles for actuaries have typically been in ratemaking and loss reserving. While those functions are still prominent, new roles have emerged in the last decade due to the increasing complexity of the business, the skills which actuaries provide and the computer resources available. Some of these emerging areas include risk modeling, especially for catastrophe losses, dynamic financial analysis, and merger and acquisition related work. Perhaps the most fundamental change for actuaries, and insurance companies in general, in recent years has been the integration of actuaries into business units. Rather than being set apart from underwriters in a separate department, they have become active collaborators in the business process. Mr. Kist felt that this blending of talent from various disciplines has been a benefit to all parties via improved two-way communication.

Following up on the theme of interdisciplinary teams becoming the favored business model for insurance companies, Mr. Jungers discussed many of the ways in which this interaction is beneficial to all parties. Simply put, actuaries become better at their jobs when they understand the pressures of the marketplace, underwriters become better at their jobs when they understand the factors that drive the ratemaking process. One example of an area where both professions working together can produce a better product than either could alone, is in the case of a new class or line of business. By combining the actuary's knowledge of loss frequency and severity distributions with the underwriter's expertise in exposure and risk analysis, an acceptable price can be determined even in the absence of experience data.

Mr. Jungers went on to explain several other important issues that are best handled via collaboration. The risk retention/reinsurance decision and catastrophe or exposure management are two places where better economic decisions can be made when underwriters make use of an actuary's skills. Another more arcane topic which requires the collaboration of all insurance disciplines, is the securitization of insurance risk. This is the packaging of insurance risk into capital products that can be bought and sold. The most famous of these is probably the catastrophe options which have been traded on the Chicago Board of Trade. If this is to become a common source of risk management for insurance companies, all of the insurance disciplines must work together to make the product more appealing and understandable to the investment community.

Mr. Jungers closed with the very telling comment that when bad decisions are made it is rarely because the proper knowledge does not exist; it is more often because that knowledge was not brought together and used properly.

Just as the collaboration of actuaries and underwriters can be seen as an outgrowth of the traditional

actuarial role of pricing, the collaboration with claims personnel is an extension of the actuary's reserving function. As Mr. Allard pointed out in his presentation, the latter interaction is every bit as mutually beneficial as the former. Actuaries and claims people have always worked with much the same information, but in different levels of detail. Both are concerned with claims payments and case reserves, but actuaries have normally focused on aggregate data and claims on individual files. The most immediate benefit of their work together is improve communication. In order to do their job properly actuaries must understand the philosophy of the claims department, and must be aware of any changes in claims handling. Similarly, claims adjusters can benefit from a greater understanding of trends in loss severity, medical inflation, and other actuarial information.

As the claims - actuarial relationship has evolved, many new areas of interaction have emerged, as Mr. Allard pointed out. In the merger and acquisition process the dual analysis of the claims portfolio conducted by the actuaries and claims personnel are among the most vital parts of due diligence work. Claims people review the reserving methodologies while actuaries do a mathematical analysis. In the area of environmental liabilities, neither traditional claims adjusting, nor traditional actuarial techniques, were creating dependable reserves. Working together the two disciplines have developed methodologies that have made this volatile class of claims more predictable. Among the other opportunities for valuable interactions between claims and actuarial which were cited by Mr. Allard were structured settlements and new product development.

The presentation closed with a brief question and answer period. One important topic that arose via question is managed care. All the panelists agreed that understanding all the ramifications of managed care require the combined expertise of actuarial, claims and underwriting. Mr. Kist added that much of what had been discussed revolved around breaking the traditional departmental silos into interdisciplinary teams; collaborating on managed care could go a step further by breaking down the industry silos which separate property/casualty companies from life and health insurers.



Our distinguished panel of actuaries, all from CNA at the November meeting are left to right: Ward Jungers, Group V.P. and Chief Underwriting Officer, Donald Allard, Group V.P. Corp. Claims and Frederick Kist, Sr. V.P. and Corp. Actuary.



Some of the crowd at our November 18th meeting.

PHILADELPHIA CHAPTER, CPCU

P.O. BOX 1499

PHILADELPHIA, PA 19105

BULK RATE
PERMIT NO. 15
HUNTINGDON
VALLEY, PA
19006