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ANNUAL MEETING 2003

Story by **Ann E. Myhr, CPCU**

The 59th Annual Meeting of the CPCU Society was held in New Orleans, LA on October 11-14, 2003. I was pleased and proud to represent the Philadelphia Chapter at this meeting. The highlight of the meeting was the Conferment Ceremony, held on Sunday. This meeting was attended by so many New Designees, their families and guests, and other CPCUs that two large ballrooms were needed to accommodate everyone. The featured speaker at Conferment was nationally known political commentator and Philadelphia native Chris Matthews. The Keynote Speaker at Monday's Opening Session was baseball great Cal Ripken who gave an inspiring presentation on how he is applying his baseball experience to a new career in business.

The Circle of Excellence Luncheon was held on Tuesday and honored those chapters who attained Bronze, Silver, or Gold Excellence Awards in the 2002-2003 year. The Philadelphia Chapter was recognized with a Gold Circle of Excellence for the fourth year in a row.

This award is based on chapter activities over 2002-2003 and reflects the dedication and hard work of chapter officers and directors, committee chairs, and other members throughout the year. We are shooting for another gold for 2003-2004 and are already well on the way to achieving this goal. The meeting concluded on Tuesday with a gala New Orleans style Final Night Celebration complete with Mardi Gras beads and masks. In addition to these functions, the meeting was a great opportunity to catch up with old CPCU friends, meet new ones, and network with other chapter leaders. The Annual Meeting also provided me with the opportunity for professional development as I had a chance to attend several educational seminars on current industry topics. These workshops were well presented and very informative. The Annual Meeting provided me with some great ideas and updates from the CPCU Society, which I will be able to use as we continue to work towards meeting chapter goals over the remainder of the year.

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LEFT: New Designee **Jeffrey Karam** and his wife **Jen** are flanked by AICPCU Curriculum Directors **Marty Frappolli** and **Mary Ann Cook**.

CENTER: New Designee (and AICPCU Curriculum Director) **Donna Popow** celebrates with **Debbie** and **Everett Randall**.

RIGHT: At the Tuesday Gala, New Designees **Patricia Albright** (with husband) and **Livia Hillmeyer** show some New Orleans style.

MARK YOUR CALENDAR FOR I-DAY, BREAKFAST MEETINGS

December 10, 2003 — Annual I-Day meeting at the Wyndham Hotel. Theme: "The Insurance Marketplace...Challenges and Solutions"

January 22, 2004 — January Breakfast Meeting, 8:00 a.m. at the Doubletree Hotel in Philadelphia.

February 19, 2004 — February Breakfast Meeting, 8:00 a.m. at the Doubletree Hotel in Philadelphia.

Get details at our chapter website www.philadelphiacpcu.com

Of Special Interest:

- Franklin Award Luncheon to be held in March, 2004. Watch website for date and details
- Philadelphia Chapter to host 2008 Annual Meeting and Seminars—more information on page 12

President's Message—Ann E. Myhr, CPCU



In this message, I want to update you on what has been happening in the first half of the chapter year and to share with you some of the plans for the second half of the year. Complete details on many of these events are contained in this Chaptergram's articles or on the Website at www.philadelphiacpcu.com.


We have had some changes on the Board due to the relocation, and

hence resignation, of our Treasurer, Dave Shepherd. I was very sorry to hear that Dave was leaving the area, but glad to hear of his new job at Nationwide in Ohio and his wedding plans. Dave has served the Chapter well over the past few years as Treasurer and as an active participant of the Membership Committee. Dave was honored at the June Business Meeting with the Member of the Year Award for his contributions to the Philadelphia Chapter. I wish him well in all of his future endeavors. Larry White, CPCU, has agreed to take over as Chapter Treasurer and was approved by the Board at its October meeting. Larry is Director of Actuarial Services at CompServices, Inc. in Philadelphia and we are very pleased to have him on board.

The first two programs for this year focused on Sarbanes-Oxley and its impact on the insurance industry. In September, the CEOs of ACE INA and of AON Re provided their perspectives on how this important legislation will affect their operations and the industry as a whole. The speakers at the October meeting provided a more in-depth look at Sarbanes-Oxley and focused specifically on the accounting and legal issues for insurers. Please refer to the meeting recaps in this edition for full details. The October membership meeting also included a Good Works project that collected items for Laurel House. This organization provides emergency shelter and other services for women in domestic abuse situations and for their families. In November, a joint meeting was held with the Brandywine Chapter featuring Past National President Marsha Egan on the topic of "Breaking Into Senior Management." A complete recap of this meeting is available on the chapter Website.

In October, the chapter published the second Property Casualty Insurance Supplement to the Philadelphia Business Journal. This project was also a joint venture with the Brandywine Chapter. Past Philadelphia President Val Ullman-Katz, CPCU and Past Brandywine Chapter President Jon Hensinger, CPCU did a great job in coordinating this supplement which contained many informative articles. Also in October, the Chapter held a very successful Mix and Mingle event with terrific attendance and a great opportunity to network with colleagues from the local insurance community. Please refer to the write up of this event in this edition of the Chaptergram.

In November, I was invited to attend a luncheon at Temple



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University and to meet several of the students in the Risk Management and Insurance program. It is encouraging to talk to these bright and enthusiastic students who are the future of the insurance industry. The Philadelphia Chapter holds a Golf Outing every spring in conjunction with the Greater Valley Forge chapter that raises funds for Temple University students in the undergraduate program. The Scholarship is in memory of deceased Philadelphia Chapter member Bob A. Hedges, CPCU and Greater Valley Forge Chapter member Ernie Gaugler, CPCU. This year's golf event raised \$4,000. for the Temple Scholarship fund. November also marks the annual Fire Essay contest awards presentation to students in the Council Rock School District. Many thanks to Past President Pete Palestina, CPCU who has spearheaded this effort for almost twenty years. This event is always well received by school administrators, teachers, students, and parents.

As you can see, it has been a busy year so far, but there is much more planned for the remainder of the year. The next event is the annual Philly I-Day which includes an Opening Session providing an overview of insurance marketplace challenges as well as three education workshops. The Philadelphia Chapter will also hold its local Conferment for New Designees during the I-Day Luncheon. This year, we are pleased to have Terrie E. Troxel, Ph.D., CPCU, President of the American Institute for CPCU do a return engagement as Conferring Officer.

Chapter plans for 2004 include the Franklin Award Luncheon in March and our annual Ethics Awareness program in April. Our ethics speaker this year will be local radio commentator Fred Sherman, who will speak on ethics and its impact in the current business environment. There are several Good Works projects planned including collections for Philabundance and Working Wardrobe, as well as the Special Olympics and the United Cerebral Palsy Insurance Run. We are always looking for suggestions for additional Good Works projects. If you have an idea, please contact Mayleen Gallagher at Mayleen_gallagher@pmagroup.com. Also planned for 2004 is a spring Mix and Mingle event. Watch the Chapter Website for specifics on all of these events.

As always, if you have any questions, concerns, or suggestions, please let me know. I look forward to seeing all of you at one of the upcoming chapter events. Best wishes for a safe and happy Holiday season and for a successful 2004.



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Insurers: To Rescind Or Not to Rescind?

By Akos Swierkiewicz

Rescission of an insurance policy is serious business. Such action could result in serious financial difficulties to insureds, especially if it occurs after a major loss. Furthermore, costly and protracted litigation almost inevitably follows to contest the rescission.

Fortunately, insureds and their brokers can minimize the potential for rescission by simply exercising greater care to ascertain the accuracy of underwriting information, and by providing all material information to insurers. Also, rescission decisions are made by insurers only if they are convinced that they have adequate justification for them.

An insurer may rescind its policy in the event of material misrepresentation or concealment of a fact by the insured. Misrepresentation is false statement of a fact by the insured. Concealment is the neglect to reveal a fact that the insured knows and ought to communicate to the insurer.

Misrepresentation or concealment is material if it affects the underwriting decision of the insurer. For example, the premium would have been higher had the insurer been aware of the true and complete facts.

Property-casualty policies typically include conditions pertaining to the subject of rescission, such as:

- The policy is issued in reliance upon the truth of representations made by the insured.
- The policy is void if the insured intentionally conceals or misrepresents a material fact.
- The insured, by accepting the policy, agrees that the statements in the policy declarations are accurate and complete.

In most cases, rescission is based on materially misrepresented facts in the policy application, or in underwriting information provided by the insured or its broker. However, unless there is a satisfactory answer to each of the following questions, the rescission is not justifiable:

- *Is the fact known only to the insured?*
If the insurer possesses a fact that differs from what the insured had provided, then it must attempt to reconcile it before proceeding further with consideration of rescission.
- *Is it false?*
The insurer must have incontrovertible evidence to demonstrate that the fact obtained from the insured is false.
- *Is the falsity material?*
Materiality is determined within the context of probable and reasonable influence on the insurer by the false fact. Consequently, if the insurer's underwriting decision is

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not affected, then the falsity cannot be deemed material.

- *Is it reasonable to rely on it?*
The insurer cannot reasonably rely on a fact received from the insured alone if it is aware of a conflicting fact.
- *Did the insurer rely on it?*
There must be clear evidence to demonstrate that the insurer did rely on materially false facts when making its underwriting decision.
- State insurance codes and legal precedents also have an impact on the insurer's decision-making process concerning rescission. For example, the California Insurance Code allows policy rescission even in cases of unintentional misrepresentation or unintentional concealment, and it provides that materiality is to be determined solely by the probable and reasonable influence of the facts on the insurer. Also, case law precedent prevents insurers from relying solely on representations contained in the policy application or underwriting information if an inspection of the insured's property is conducted. A policy may be rescinded even after a loss that would otherwise be covered by the policy. Since rescission could have severe negative financial impact on the insured, the insurer must be certain that the reasons for rescission are based on solid grounds and able to withstand potential legal challenge. In a 2001 case, an insurer rescinded their policy following a major fire loss, alleging material misrepresentation and concealment by the insured, pertaining to several matters, including square footage of the premises. The pre-trial discovery proceedings included examination of ambiguous questions contained in the insurer's application form, and the accuracy of the inspection report provided by an independent inspection company retained by the insurer. Major weaknesses emerged in the insurer's justifications for its decision to rescind the policy, including:
 - The insurer previously issued policies for a previous owner, covering the same premises, and therefore it had prior knowledge of the underwriting information, including square footage, which differed from what the insured

"Rescission of an insurance policy is serious business..."

Insurers: To Rescind Or Not to Rescind, continued

had provided.

- Just because the square footage information provided by the insured differed from the prior information in the insurer's underwriting files, it was not sufficient for the insurer to conclude that the insured's statement is false, especially since the insurer failed to make any attempt to reconcile the difference.
- The square footage figures provided by the insured and its broker in the application was lower than the figure in the inspection report that was ordered by the insurer after it issued the policy. In asserting materiality, the insurer disregarded another inspection report subsequently ordered by the insured, which confirmed the original figures in the application for the policy.

Based on the above points, it was not reasonable for the insurer to rely on the square footage information provided by the insured, and the insurer's contention that it did rely on the square footage data provided by the insured was questionable. Although this case was resolved and the insured received payment for its claim, the pre-trial discovery process took over a year, with detrimental financial consequences to the insured.

The lesson from cases like this is that all parties should take thorough measures to ensure the accuracy and completeness of underwriting information, and that conflicts or ambiguities are promptly resolved before coverage is bound.

Lilly Cowan Receives Award for Academic Excellence



Lilly Cowan is an active member of the Philadelphia Chapter CPCU Society. We are proud to share with you this news release from The Insurance Institute in Malvern. Congratulations, Lilly!

The Insurance Institute of America (IIA) presented an Award for Academic Excellence in the Associate in Management (AIM) program to Lilly Cowan, CPCU, ARM, AIS, AIM, claim handler, major claims, for ACE USA, Philadelphia, Pa. The award is given each year to the persons who earn the highest grade averages for the national examinations in this Institute program. The winner of an Award for Academic Excellence receives a \$250 cash award and a commemorative plaque. The American Association of Managing General Agents sponsored the award.

Ms. Cowan joined ACE USA in March of 2001. Previously, she was in the health care field, where she worked as a risk manager/director and as a director of quality improvement/assessment. She earned a Bachelor of Arts degree from the University of Pennsylvania, a Master of Social Work from the University of Michigan, and a Juris Doctor degree from the University of Dayton.

Ms. Cowan holds the Chartered Property Casualty Underwriter (CPCU®) designation from the American Institute for CPCU. She holds the Associate in Risk Management (ARM) and the Associate in Insurance Services (AIS) designations from the Institutes. Ms. Cowan is a member of the Philadelphia Chapter of the CPCU Society. She and her husband, Kenneth M. Kite, live in Cherry Hill, N.J.



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Congratulations to Chapter Members Dave Shepherd and Matt O'Malley



LEFT: Dave Shepherd



RIGHT: Matt O'Malley

Best wishes to Treasurer Dave Shepherd and his bride Selinda who were married in September. The couple will be residing in the Columbus, Ohio area where Dave has recently accepted a position with Nationwide Insurance. Also, congratulations to Membership Chair Matt O'Malley and his wife Jen on the arrival of their first child, Kaitlin Madison, on October 13, 2003.



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Insurance Data Management Association

JERSEY CITY, NJ – The Insurance Data Management Association (IDMA) has announced its 2004 annual seminar, to be held in Philadelphia at The Westin Hotel on March 29–30, 2004. Evidence of a vast change in the industry, the theme will be **Data Discussions Have Moved to the Board Room: Do You Have a Data Strategy?**

Ed Marynowitz, Senior Director-Data Resources at NCCI Holdings, President-Elect of IDMA and Chair of the seminar planning committee, said in announcing the event, “Developing an enterprise data strategy is on everybody’s mind these days. At the highest levels of management, they’re asking data professionals: *What if policyholders suffer intentional damage (read terrorism)? Do we have the necessary data to deal with the fallout?* We’re working in a changed world, a changed industry, and a changed profession. We need to deal with it. The March 29-30 seminar will present participants with invaluable information and expose them to new ideas so they can succeed in this differently focused industry climate.”

The seminar will have three tracks, a first for an IDMA seminar. There will be a Business Strategy Track, an Information Technology Track, and a Primer Track for newcomers to the discipline.

“Board-level executives have new expectations and they’re asking very specific questions. IT people will be asked if they have the necessary data to deal with a crisis, or how to get and use such data. Newcomers to the profession need to hit the ground running. They

“Board-level executives have new expectations and they’re asking very specific questions. IT people will be asked if they have the necessary data to deal with a crisis, or how to get and use such data.”

need to know how recent issues such as terror, TRIA, and Sarbanes-Oxley will affect their careers. And, they need to know how to prepare,” noted Carol K. Hill, AIDM, Consultant-Data Management with The Hartford and Vice Chair of the seminar planners.

Reserve the dates now for this important seminar. Program and registration materials will be distributed as details are tacked down. Registration costs are \$700 for non-members; \$550 for IDMA members / \$450 for multiple members from one organization. There are opportunities to sponsor individual catering events and to exhibit; contact IDMA with queries.

IDMA is a not-for-profit, independent professional association of insurance data managers. For more information contact Richard L. Penberthy, Executive Director, Insurance Data Management Association, Inc., 545 Washington Boulevard, 22-16, Jersey City, New Jersey 07310-1686, phone (201) 469-3069, fax (201) 748-1690, or via e-mail at RPenberthy@idma.org.



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September Meeting Recap— View From the Top: Sarbanes Oxley Legislation Impact

Story by Martin J. Frappolli, CPCU, AIS

The 2003-2004 chapter year of breakfast meetings kicked off on September 25 with our annual “View From the Top” discussion. A packed room listened to panelists Susan Rivera, CPCU, President, ACE INA, and Jon Ingersoll, Senior Vice President, AON Re, who discussed the impact of the Sarbanes-Oxley legislation on the insurance community.

Susan began the discussion of the effect on the business environment, and she summarized the essence of Sarbanes-Oxley as “do the right thing.” She mentioned the edge that CPCUs have in this regard, having already completed ethical training as part of the CPCU curriculum. In responding to Sarbanes-Oxley, businesses need to test and assess – apply internal controls, and document them. According to Susan, Sarbanes-Oxley “forces us to get the knowledge that is in our heads onto paper.” For insurance companies, the effect of this legislation is that it brings internal control consistency across an organization.

Another benefit of Sarbanes-Oxley is the disclosure requirement, which compels insurers to be as transparent as possible. Also, Sarbanes-Oxley requires insurers to think about risk on an enterprise level, considering both the short-term and the long-term.

Susan spoke of the four categories of costs associated with Sarbanes-Oxley compliance. First, there are documentation costs; for instance, ACE has devoted 70,000 work-hours in Sarbanes-Oxley compliance. She advised, “Don’t wait until the last minute to document. Make sure there are no surprises for the Internal Audit staff.” Next are the costs of lost opportunity. Sarbanes-Oxley compliance is a large project management undertaking;

LEFT to RIGHT: Jon Ingersoll, Philadelphia Chapter Past President **Val Katz**, and **Susan Rivera**



when you put your best people on the task of documenting internal controls, this removes them from other functions that can move the company forward. Thirdly, she discussed the “risk avoidance pitfall.” One unintended consequence of Sarbanes-Oxley is that organizations change their focus from risk management to risk avoidance. Progress often depends on risk taking, with prudent risk management. The fourth cost is certification; in large organizations such as ACE, the position of Chief Compliance Officer is frequently established to meet this obligation.

According to Ms. Rivera, Sarbanes-Oxley has changed the role of the Board of Directors for public companies: more outside directors are mandated, the audit committee is now more hands-on, and there is a bias toward early disclosure, so that any bad news comes out sooner. Sarbanes-Oxley has also affected reserving practices, making insurers more vigilant in genuine efforts to “book to best estimate.”

She concluded her portion of the panel looking at the overall positive impact of Sarbanes-Oxley: internal controls are no longer just best practice, but the law. Although it is not a fool-proof methodology, Sarbanes-Oxley can make us better at our purpose. “It’s up to all of you to do the right thing and maintain our ethical standards in business.”

Jon Ingersoll followed, and began with a discussion of how Sarbanes-Oxley is “about increased corporate governance.” There are requirements on officers and directors, guidelines for stock analysts who cover public companies, new disclosure mandates, and an order for CEOs and CFOs to certify financial results. He noted that sections 401-409 of Sarbanes-Oxley are key to insurance companies, in the requirement to “disclose on a rapid and current basis.”

What does Sarbanes-Oxley mean for insurers? According to Jon, certainly more expense, particularly for smaller, publicly traded companies. In theory, improved corporate governance should decrease the cost of D&O coverage, but this remains to be seen. D&O is the line of business most affected by the legislation – D&O underwriters will become more disciplined, and CEOs will take a more active role in selecting D&O coverage.

Jon expressed a concern that Sarbanes-Oxley will retard the movement of companies into the public sector; time will tell. He then discussed the impact of Sarbanes-Oxley on the reinsurance market, noting that: all reinsurance transactions will be more closely monitored; purchase of reinsurance will be more centralized within an insurance company; treaty reinsurance will require much more documentation; there will be more analysis on the risk being transferred.

Jon concluded his portion by discussing the impact of Sarbanes-Oxley on mutual insurers and privately owned companies. Though they are not formally required to follow Sarbanes-Oxley, they will be pressured to come in line. The costs to smaller organizations may have a significant impact, more so than in the larger, public companies that are better staffed to handle these requirements.

Following the presentations by each panelist, they fielded questions on Sarbanes-Oxley from the audience; the session concluded with Val Katz presenting a Philly Chapter CPCU Society t-shirt to each speaker as a token of thanks.

PHILLY CHAPTER CPCU SOCIETY—DECEMBER PHOTO GALLERY



Audience members listen to **Jon Ingersoll** and **Susan Rivera** field questions on Sarbanes-Oxley at the September Breakfast Meeting (story on page 8)



At the September Meeting, **Jon Ingersoll** discusses the Sarbanes-Oxley requirement to “disclose on a rapid and current basis.”



Susan Rivera tells September audience that Sarbanes-Oxley “forces us to get the knowledge that is in our heads onto paper.”

OCTOBER BREAKFAST MEETING (Full story on page 11): Pictured to the right, **Torpey White** of Goldenberg Rosenthal, LLP, takes questions from audience members. Immediately below, former Pennsylvania Insurance Commissioner **Linda S. Kaiser** tells how Sarbanes-Oxley standards are affecting insurers. Bottom left, **Torpey White** cites statistics on company survival rates following a disaster-related business interruption.



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OCTOBER MIX'n'MINGLE EVENT IS A NETWORKING SUCCESS



LEFT: Membership Committee Chairman **Matt O'Malley**



RIGHT: New Designee Chairperson **Storm Wilkins**

Story by Matt O'Malley, CPCU

On October 2, 2003, the Philadelphia Chapter CPCU Society membership committee sponsored its seventh Insurance Industry Mix'n'Mingle. The event, co-sponsored by the Casualty Club and Mariners Club, brought together over 75 members of the insurance community for networking and socializing.

This gathering was held at Tir Na Nog, in the former INA Building at 1600 Arch Street, and the perfect space for such an event. The refurbished lobby was the setting that sparked memories for many who started their insurance

careers at the site. More recent entrants to the industry focused on making new contacts and the abundant good cheer. Complimentary appetizers added to the spirit of the evening.

Storm Wilkins, new designee chairperson, welcomed new designees to the CPCU Society. The event gave new designees an opportunity not only to expand their contacts but also to interact with many of the Philadelphia Chapter's officers and board members including Ann Myhr, Chapter President.

"...a great opportunity to meet old colleagues and establish new professional contacts"

With all of the change in the industry, our Mix'n'Mingles provide a great opportunity to meet old colleagues and establish new professional contacts. The upcoming Mix'n'Mingle will be held in early Spring. The location and date are to be announced; keep an eye on both this ChapterGram and our website, www.philadelphiacpcu.com. If you joined us on October 2, you know what a great event it was. If you missed it, make sure that you grab the opportunity at our spring Mix'n'Mingle. We look forward to seeing you there.

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Sarbanes-Oxley Impact Assessed at October Breakfast Meeting

Story by Martin J. Frappolli, CPCU, AIS

At the breakfast meeting on October 23, 2003, the Philadelphia Chapter of the CPCU Society presented an in-depth analysis of the Sarbanes-Oxley Act's impact on carriers, brokers, agents, and reinsurers. The attendees were treated to an informed review from two prominent experts -- Torpey White, CPA, CISA, Senior Consultant at Goldenberg Rosenthal, LLP, and Linda S. Kaiser, Esq., CPCU, Member at the law firm of Cozen O'Connor (and Insurance Commissioner for the Commonwealth of Pennsylvania from 1995 to 1997). At the September breakfast meeting, Sarbanes-Oxley was introduced and its fundamental features were discussed. The October session built upon the points established in the September meeting and provided a look at the effect of Sarbanes-Oxley through the eyes of auditors, regulators, board members, and insurance staff.

Torpey White began by discussing that Sarbanes-Oxley is a landmark event, equivalent to the original creation of the SEC. Why was it passed? Its main purpose, said Torpey, was the creation of an all-new accounting oversight board. Sarbanes-Oxley is a broad-base act that affects everyone -- lawyers, accountants, markets, insurance industry workers. He estimates that 14,000 companies are involved in Sarbanes-Oxley -- 9,000 public companies and 5,000 other required filers.

What prompted Sarbanes-Oxley? Mr. White cited several big-news events, such as the fraudulent financial reporting alleged at Enron and Global Crossing, insider trading such as alleged with ImClone, excessive executive pay (WorldCom), excessive retirement perks (GE -- Jack Welch), loan forgiveness (Tyco, Dennis Kozlowski), and personal expenses paid with shareholder money (Tyco). Torpey described the goal of Sarbanes-Oxley as the restoration of faith in the capital markets. This will be accomplished in large part by three key provisions: Section 302 -- the requirement for management certifications in the form of sign-offs by the CEO and CFO; Section 404 -- attestation by external auditors; Section 409 -- real time disclosure of "material" changes in internal control procedures.

What does Sarbanes-Oxley mean to insurance entities today? Mr. White tells us that companies must document internal control systems, within an acceptable framework, and must focus on key controls related to financial reporting. He cited COSO (Committee of Sponsoring Organizations of the Treadway Commission), established in 1992, as the organization that has been involved in defining the acceptable framework for internal controls. COSO has helped to define five key components of internal control -- risk assessment, information & communications, the control environment, control activities, and monitoring. COSO has defined internal control as "a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations; reliability of financial reporting; compliance with applicable laws and regulations."

Mr. White told the audience that Sarbanes-Oxley particularly affects these areas of the insurance industry: loss reserves, IBNR, investments, IT controls, control self-assessment, and premium receivables. Insurance company personnel will contend with issues like documentation of policies and procedures, authorizations/reviews/reconciliations, segregation of duties, code of ethics, and communication of concerns to senior man-

agement. Agent and broker Sarbanes-Oxley issues include D&O risks to members of the audit committee and Board of Directors, "key person" insurance considerations, theft, and environmental threats. Agents and brokers must be particularly concerned about general liability exposures to business interruptions; Torpey cited the startling statistic that of companies who experience a disaster-related business interruption, 50% never open again and 90% are out of business within 2 years. He reported that reinsurers, too, are impacted by Sarbanes-Oxley and will need a sound risk assessment process, concerns for concentration of risks, better scrutiny of agency arrangements, careful use of estimates in loss reserves, and heightened assessment of counterparty credit worthiness.

Linda Kaiser began her portion of the Sarbanes-Oxley analysis by discussing its scope. While Sarbanes-Oxley is focused on publicly traded companies, some provisions affect all entities. Ms. Kaiser opined that Sarbanes-Oxley standards are likely to migrate and thus become de facto law for subsidiaries of public companies, for private companies, and for nonprofit companies. She cited the serious penalties provided for in Sarbanes-Oxley -- up to 20 years for violations of requirements on document destruction in an official proceeding (US Code -- Title 18), noting that insurance state filings come under this umbrella. And while Sarbanes-Oxley is directed toward public companies, its obstruction of justice provisions are applicable to all entities. Linda spoke of the requirement that auditors of public firms retain work papers for seven years, and how this effectively creates a de facto retention period for the audited company. She then reviewed how Sarbanes-Oxley tightens several existing laws and insurance regulations. The Pennsylvania insurance holding company law requires that one-third of directors be "independent" and Sarbanes-Oxley goes to great length in restricting the qualifications for "independent." Existing Pennsylvania law establishes audit committee responsibilities; Sarbanes-Oxley establishes tighter, more precise standards such as the requirement that the audit committee include at least one "financial expert" and that company accountants must report to the audit committee.

Ms. Kaiser continued to list other Sarbanes-Oxley standards that affect insurers: real-time disclosure of material changes in financial condition or operations; requirements to post financials on company website; disclosure of internal controls and assessment of their effectiveness; disclosure of code of ethics for senior financial officers; CEOs and CFOs must repay bonuses if financials must be restated; restriction of loans to directors or executive officers.

Linda described how the changes that will evolve into the non-public sector: a reevaluation of director qualifications; ongoing director education; elimination of overlapping directorships within a company and subsidiaries; engagement of independent consultants; more frequent board meetings; board meetings without management; evaluation of board performance. She closed her portion with notes that insurance regulators, so far, have been slow to react to Sarbanes-Oxley.

Both Mr. White and Ms. Kaiser then fielded questions from the audience. Prompted by an inquiry, they discussed at length the fact that the increased diligence, scrutiny, and liability attached to being a member of a board of directors has created turnover -- directors are unqualified or unwilling to meet the new standards. Linda noted that this is especially problematic for smaller and rural companies, who find it difficult to place a qualified "financial expert" on the board.

Mr. White left the audience with a series of questions to consider regarding the impact of Sarbanes-Oxley -- How will your company proceed? Have you been affected? What will you and your company do next in response to Sarbanes-Oxley? Where will you go for help? Do you have a plan? We were reminded that compliance is required by 12/31/2004, so that companies should have solid plans in place by September of 2004.



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FROM THE EDITOR

MARTIN J. FRAPPOLLI, CPCU, AIS



Are you thinking about 2008? Here at the Philadelphia Chapter of the CPCU Society, we are. That will be an historic year, as for the very first time, Philadelphia will be the host city for the National CPCU Society's Annual Meeting and Seminars. Although it is almost five years away, there is a lot of work to be done. As members of the Philadelphia Chapter, we will be the host chapter for this event. Although we certainly expect that many surrounding chapters will join us in preparing for and working the 2008 Annual Meeting and Seminars, we will be the focal point. At these early stages, our primary goal is fund raising. It takes a lot of money to be the host chapter! At the most recent Annual Meeting, I spoke with chapter officials from the Deep South Chapter (this year's host) and the Los Angeles Chapter (hosts for 2004). Both spoke of the great excitement and reward in serving as the host chapter for the national event, and

both conducted fund raising for several years.

We will be consulting with those chapters and others to formulate a strategic plan for our duties as host chapter in 2008. With that information, we can get a plan for how much money we will need to raise. We will need good planners, good workers, and good fundraisers! If you want to share in the experience of helping to host the Annual Meetings and Seminars, if you have ideas or energy for our fundraising efforts, please contact any chapter officer, or send me an email at frappolli@cpcuia.org.

