Personally Speaking

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CPCU SOCIETY

Nonstandard Auto Ratemaking

by Jerry Tuttle, CPCU, FCAS, FCIA

Editor's note: *This article is a summary of a panel presentation on "Nonstandard Auto Ratemaking" at the Casualty Actuarial Society's March 11-13, 2001, seminar on ratemaking in Las Vegas.*

Wayne Holdredge of Tillinghast began by noting that if nonstandard auto were a separate annual statement line of business, it would be the seventh largest line. He said there is no single definition of "nonstandard," and that each company has its own definition. Drivers with multiple accidents or violations are usually thought of as nonstandard, but many nonstandard drivers are accident and violation-free. Nonstandard drivers often desire minimum coverage, including physical damage, only long enough to satisfy the finance company. Interestingly, Holdredge did not mention that lack of creditworthiness is another reason drivers are considered nonstandard.

Gary Traicoff of Progressive said that his company believes everyone is insurable at the right rate. Progressive analyzes standard and nonstandard experience together, partly because drivers move between the two categories. He said that average severity is similar between standard and nonstandard when the data is analyzed at the same policy limits. The difference between the two categories is that nonstandard drivers have greater claim frequency. Traicoff said it is important to monitor the change in mix between standard and nonstandard, which can mask trends in frequency as well as in average premium.

Traicoff noted that the expenses of nonstandard business are different than the expenses of standard business. Because of the lower renewal persistency of nonstandard, this business may require more advertising expense to replace lost business. Further, nonstandard is written on installment more frequently than standard is, so there are installment fees and installment expenses, and also the potential for bad debt expenses.

Besides charging different base rates for standard and nonstandard, Progressive surcharges the two categories differently for accidents. A nonstandard driver is surcharged a smaller percent for an accident than a standard driver is surcharged, presumably because an accident provides less additional information about future accident propensity for a nonstandard driver than for a standard driver. Most other classification relativity factors are similar for the two categories.

Curtis Parker of Nationwide presented a hypothetical example of the "new business effect" of nonstandard business. Combining the lower renewal persistency of nonstandard with the axiom that new business loss ratios are worse than renewal business, he showed that there could be a natural progression of worsening loss ratios for the book over time. A company should plan new and renewal premium and loss ratio targets separately and monitor the results.

Parker listed a number of underwriting considerations for nonstandard drivers: the percent of single vehicle liability-only drivers, the incidence and length of time of no prior insurance, changes in payment plans that can quickly turn on or off the flow of business, the potential for undisclosed drivers, the potential for rate misclassification from understating mileage, and the need for MVRs, CLUEs, and credit reports.

In response to an audience question, neither Progressive nor Nationwide sells the monthly policies that the questioner said are common in Texas nonstandard.

What are your opinions regarding non-standard versus standard auto insurance? What about non-standard versus standard property insurance? Do you agree or can you expand on the ideas offered by the above speakers? We would like to hear from you. Phone, fax, or e-mail the editor at dbak8@allstate.com. ■

Jerry Tuttle, FCAS, FCIA, CPCU, ARM, AIM, ARe, *is senior vice president and senior pricing actuary at St. Paul Reinsurance Company in New York City. In addition to being a frequent contributor to* Personally Speaking, *he has contributed to a number of textbooks as a reviewer including CPCU 5, ARe 141, and ARe 142. Tuttle currently serves on the CPCU Personal Lines Section Committee. He recently wrote an award-winning actuarial short story "Proof," which may be found at http://users.aol.com/fcas/proof.html. Our thanks again to Jerry Tuttle.*

Road Rage and Aggressive Driving (Part II)

by Clyde "Clint" Gillespie, CPCU, LUTCF

Editor's note: *The following article is Part II of a series about road rage and aggressive driving. In Part I, author Clint Gillespie outlined examples of aggressive driving, and offered suggestions for programs to control aggressive driving behavior. Part II profiles states and the various programs under way to address this issue. Clyde "Clint" Gillespie, CPCU, LUTCF, holds a B.A. degree in public administration from California State University at Chico and an A.A. degree in Business administration/accounting from Los Angeles Harbor College.*

What is your state doing? The report list the following states and their program description:

Arizona

Has the longest-running program in the United States and relies on both enforcement and a media campaign. Several aggressive driving patrols are scheduled each week and there is a zero tolerance for the aggressive driver. It is one of the two states (as of 1999) that has specific aggressive legislation in place.

California

Initiated the long-running media campaign known as "Smooth Operator" a name also adopted by the Washington, DC metropolitan area. Enforcement activity was also expanded, including programs for red-light running. At the municipal level, a number of cities have adopted San Francisco's program, known as **stop**, which impounds cars of unlicensed drivers.

Colorado

Program consists of an extensive media program as well as enhanced enforcement. Known as Aggressive Drivers are Public Threats (ADAPT), the program relies on unmarked cars, motorcycles, and aircraft.

Connecticut

Uses unmarked cars in conjunction with marked patrol cars. A 911 system is available for cellular phone callers to report aggressive drivers.

Delaware

"Take it Easy" features unmarked and nontraditional vehicles in conjunction with marked patrol cars. A media campaign with public service announcements is also being

Florida

St. Petersburg Police Department program "Where's Jockers?" uses a variety of non-traditional vehicles and a plain-clothes officer to record violation with a radar unit and to relay information to patrol vehicles in the area.

Illinois

Uses a decentralized effort that relies on individual districts using a variety of tactics. These can include enforcement teams, catch cars, targeted patrols, air operations, covert operations, and speed enforcement. Notes are being added to tickets to indicate aggravated behavior.

Maryland

Is involved in the Smooth Operator program in cooperation with Washington DC and Virginia. The Maryland State Police program is known as Aggressive Driver Video and Non-Contact Enforcement (ADVANCE). It uses digital video cameras and lasers to record violations on the National Capital Beltway. Added features include a televised public information campaign and letters and photos mailed to aggressive driving offenders.

Massachusetts

Is known as "3D Program" for Drunk, Drugged, and Dangerous Drivers. It includes a special unit that uses unmarked cars and video equipment.

Michigan

Program consists of a media campaign combined with enhanced enforcement efforts (including the use of unmarked cars) in tow with existing programs. Operation C.A.R.E. and Campaign Safe & Sober

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Missouri

The program targets specific problem areas. It relies on cooperation between the State Highway Safety Office for media efforts and police agencies throughout the state for enforcement. The Highway Patrol uses aircraft, unmarked patrol cars, and non-conventional vehicles to spot aggressive drivers. The state is adopting a zero tolerance policy and enforcement officers are placing notes on tickets to indicate aggressive driving behavior.

New Jersey

New Jersey utilizes semi-marked patrol cars as well as unconventional vehicles in a multi-agency enforcement program. The program includes toll-free and cellular telephone numbers.

New Mexico

The City of Albuquerque program is known as "Safe Streets," and uses intensive enforcement to focus on violent offenders and areas with a high number of violent felonies.

New York

Program features enforcement and education components and has been expanded to local law enforcement jurisdictions. Efforts rely on non-conventional vehicles and unmarked cars, some with video cameras.

Ohio

The Ohio Highway Patrol statewide program is known as TRIAD (Targeting Reckless & Intimidating Drivers). The program uses 13 aircraft, along with ground units from the Highway Patrol and other local organizations.

Pennsylvania

"Ticket the Aggressive Driver," uses unmarked cars, aircraft, and DOT vehicles in conjunction with some plain-clothes officers. Operation Centipede establishes police speed zones.

Rhode Island

Features a media campaign and unmarked cars dedicated to an aggressive driving patrol.

South Carolina

Greer Police Department uses a program know as "Targeting the Aggressive Driver." Features both an education and enforcement component.

Texas

The cities of Arlington and Fort Worth efforts include increased attention to aggressive drivers by patrol officers and teams of marked patrol cars and motorcycles. A motorist call-in program has also been implemented, along with follow-up letters and investigations, when warranted. It should be noted that Arlington Texas has been using Red Light Cameras since the '70s and early '80s.

Utah

The Utah Highway Patrol began its aggressive driver program in Salt Lake City, in response to congestion resulting from freeway construction. The program uses unmarked cars and non-conventional vehicles in addition to a training program.

Virginia

The Fairfax County Police Department coordinates the Smooth Operator Program for Virginia in cooperation with Maryland and Washington DC.

Washington

Washington state has initiated a stepped-up law enforcement program and Aggressive Driver Apprehension Team that uses motorcycles and unmarked vehicles to apprehend aggressive drivers. The state has begun compiling road rage statistics.

This report is a year-and-a-half old but the low number of states that were actually doing something is alarming. Thirty-four percent of the states had active state programs and yet more than 54 percent of the people surveyed felt the road rage and aggressive driving was a problem in their area. In reality not much is being done and the incidents and cost of those incidents continue to rise.

Remember:

- The National Highway Traffic Safety Administration (NHTSA) estimates that aggressive behavior is a factor in nearly 28,000 traffic fatalities each year.
- Anger was identified as a major factor in approximately two-thirds of 41,907 highway deaths in 1996.
- Incidents of aggressive driving have increased 51 percent in the last seven years.
- Statistics compiled by the NHTSA and AAA

Insurance Fraud Relating to Jewelry

by Brenda K. Reichel

Editor's note: *This article originally appeared in the March 1999 issue of* Underwriting Trends. *What questions, concerns, or opinions do you have relating to the selling, underwriting, or claim handling regarding jewelry? Let us hear from you. Phone (847) 402-7998, fax (847) 402-9695, or e-mail the editor at dbak8@allstate.com.*

Jewelry is generally insured of unverified values. The value is usually based on a sales receipt or sometimes an appraisal. Many times the values and descriptions are vague, inflated, and lacking the actual total value paid by the consumer.

Jewelry fraud can happen to anyone: to the consumer at point of purchase, and to the insurance company at the time of binding the policy and especially at the time of loss.

What can the insurance industry professional do to avoid insurance fraud related to jewelry?

1. The jewelry should have an appraisal by a qualified appraiser. A qualified appraiser is someone who possesses proper credentials by recognized appraisal organizations, and also has been trained as a gemologist or graduate gemologist, by the Gemological Institute of America. Appraisal valuation science and theory education is also necessary for a qualified appraiser. The appraiser must provide a thorough, detailed document that would supply a third party with all the pertinent information. Be aware there are appraisal organizations that require nothing more than paying a fee for a certificate.
2. What is the purpose of the appraisal (insurance, donation, or estate)? The insurance appraisal should state it is only for insurance purposes and for the replacement of the item only. No other purpose or function should be on the document. If the document states Fair Market Value, you are using a document that has been issued for an estate, court, probate, or a federal tax-related function.
3. What should you look for in an appraisal document? A professional appraisal should include in-depth descriptions of the jewelry. A complete, written appraisal should include the following:
   a. The millimeter dimensions, quality, weight, and identification of each stone and a description of small stones or group of stones.
   b. Cut, color, clarity, and carat weight of the diamonds.
   c. For colored stones, it should include the hue, tone and saturation, intensity, transparency, and clarity of the stones.
   d. For pearls, the report should describe the luster, nacre thickness, color, shape, blemishes, and if the pearls are natural or cultured if known.
   e. Identification and assessment of the workmanship of the metals used in the mounting. The trademarks, hallmarks, along with engraving that is on the item (14kt, 18kt, 585, 750, 925, Plat, Irid, etc.).
   f. A thorough description or photograph of the item.
   g. The estimated value of the items and applicable tax. If the item was purchased in a foreign country any applicable duty that would be involved in replacing the item should also be included.
4. Be cautious of appraisers who charge a percentage of the value for the appraisal rather than an hourly or carat weight fee. This is disallowed by the Internal Revenue Service and is unethical by most professional organizations. The qualified jewelry appraiser will charge fees commensurate to professional fees charged for his or her services, depending on the intensity of the work and level of the expertise required.
5. The insurance professional and the consumer need to be aware that the jewelry may have to be in the appraiser's possession to thoroughly examine and document the jewelry. The items are cleaned and checked for loose stones and any damage to the mountings. The time is also determined by how many items are being appraised and the level of expertise required to appraise them. (For example, an extremely rare colored stone will require more research and study than a less valuable, less rare gem.) The appraiser should also complete (and give you a copy) a detailed appraisal-take-in form, which includes a description of the items, along with an estimated value while it is with the appraiser. Once the appraisal is completed the actual appraised value will cover the item for insurance while in the possession of the appraiser.
6. Does an appraisal ever have to be updated? The appraisal document should be updated every two years. The jewelry should be re-examined for changes in its condition; mounting re-checked, and stones tightened. By re-issuing the appraisal, the jewelry is not over- or underinsured. Market conditions, availability of gemstones, and changes in the market metals should be noted.
7. Keep the original appraisal with the policy. Make sure the appraiser keeps copies of the documentation. Read and examine the jewelry to make sure the documentation accurately describes the item. Is the ring all yellow gold or is it two-tone yellow and white gold? Is the shape of the diamond marquise, round, pear, princess, rectangular, or emerald cut, etc.?
8. The agent insuring the item for the insurance company may need to verify information contained on the sales receipt with the store selling the item or the appraiser. Get your client's permission to ask the jeweler or appraiser about the jewelry, and if the underwriter has questions regarding replacement, if a loss is suffered, can this item be replaced?
9. The appraisal must be in writing, and signed by the appraiser. Verbal appraisals should not be accepted by the client or the insurance company. An appraisal should have a valid signature of the appraiser, not a rubber stamp. The fibers of the paper should be broken where the value figure is on the document to prevent tampering with the values stated on the appraisal.

Brenda K. Reichel *is the president, graduate gemologist, and appraiser for Carats and Karats Fine Jewelry located in Honolulu, Hawaii. She actively engages in all aspects of appraisal, gemstone identification, quality analysis, and has served as an expert witness since 1982. Reichel can be reached at (877) 593-8122, or fax (808) 591-9124. Her e-mail address is flawless@lava.net.*

Jewelry fraud is a costly occurrence in the jewelry and insurance industry. Jewelry that is missing any type of marking may not be a precious metal, but gold plated or gold filled. The diamonds may be imitation, cubic circonia, glass, or another type of simulate, called Moissenite. Currently, Moissenite is being sold fraudulently across the United States. Numerous jewelers, consumers, and secondhand dealers have been ripped off by this new synthetic material nationwide, including Hawaii. If the diamonds are not verified with proper documentation, it may not be a diamond. If the gemstones were insured in one type of jewelry and the client has remounted them in another type of jewelry, the policy is void.

Types of Jewelry Fraud

1. Enhanced diamonds, lasered or fracture filled.
2. Underkarating of gold.
3. Misrepresenting other white metals as platinum or white gold.
4. Synthetic or imitation gemstones being sold as natural gemstones.
5. Cultured pearls being sold as natural pearls.
6. Color enhanced diamonds, colored stones and pearls being sold as natural.
7. Credit card fraud on transactions of jewelry purchased in the Caribbean Islands, Antwerp, the Orient, or other foreign countries.

The insurance company must use diligence to avoid insurance fraud. Qualifications and organizations for personal property appraisers are listed below:

- Gemological Institute of America, Gemologist, Graduate Gemologist along with additional appraisal theory and valuation science
- International Society of Appraisers, Courses 101, 102, and 103
- American Society of Appraisers
- National Association of Jewelry Appraisers
- Accredited Gemologists Association
- Accredited Gem Laboratory or Certified Gem Laboratory
- Gem Equipment and Library
- Diamond Grading Master Stones (not cubic zirconia master, which fades over time)
- Appraisal Society of America
- American Gem Society ■

From the Insurance Research Council

Editor's note: *The Insurance Research Council (IRC) is a division of the American Institute for CPCU and the Insurance Institute of America. The Institutes are independent, nonprofit organizations dedicated to providing educational programs, professional certification, and research for the property and casualty insurance business. The IRC proves timely and reliable research to all parties involved in public policy issues affecting insurance companies and their customers. The following IRC information is an excerpt from a press release issued by the American Institute for CPCU and the Insurance Institute of America. I would be interested in your thoughts regarding these and other topics. Phone (847) 402-7998, fax (847) 402-9695, or e-mail the editor at dbak8@allstate.com.*

Most Americans Surveyed Support Shorter Drive Times for Truckers and Are Willing to Pay for It

A recent survey of Americans conducted by the IRC found that a majority of the public (57 percent) believes that increasing from 10 to 12 the number of hours a truck driver is allowed to drive with no break is unsafe. More than half (56 percent) said they would be willing to pay more for goods and shipping to have truckers' total working hours reduced to no more than 12 hours per day. Eighteen percent of Americans were willing to pay 1 percent more; 18 percent would pay 3 percent more; 12 percent would pay 5 percent more; and 8 percent were willing to pay 10 percent or more for goods and shipping to limit truck drivers to working no more than 12 hours per day.

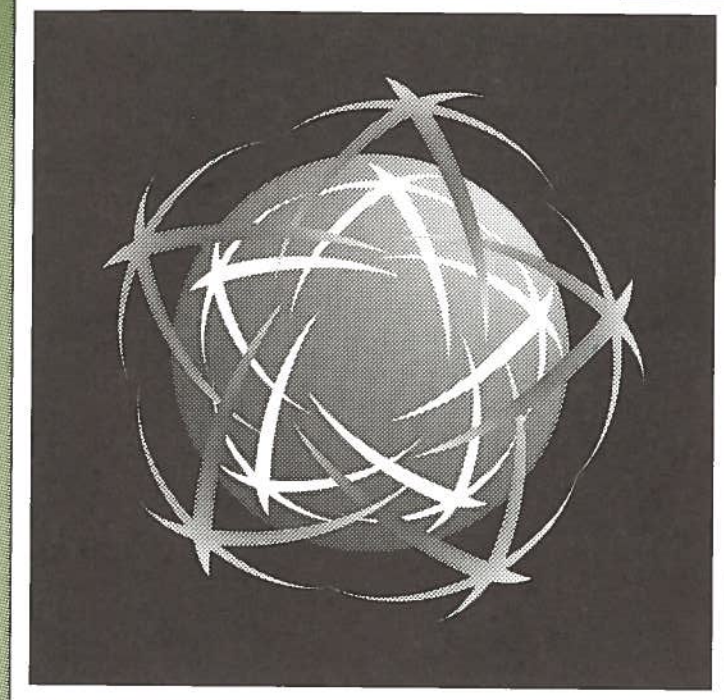
Six in 10 Americans reported seeing a large truck being operated in an unsafe manner "frequently," "fairly often," or "sometimes." Eighty-one percent oppose allowing bigger tractor-trailers on the road, which would increase the trucking industry's efficiency but would be harder to control and potentially threatening to highway safety.

Auto Accidents Are Down, While Claims for Insuries Are Up

There has been a dramatic drop in the frequency of auto accidents over the past two decades.

In spite of that, however, people are now more likely to claim injuries as a result of auto accidents. Auto accidents, as measured by property damage claims, decreased 17 percent from 1980 to 1998. They dropped from 4.94 per 100 insured cars in 1980 to 4.09 in 1998. During the same period, bodily injury claims resulting from those accidents soared 33 percent going from 0.88 per 100 insured cars in 1980 to 1.17 in 1998. The injury rate, however, has recently shown signs of improvement. After peaking at 1.22 in 1995, it declined in 1996, 1997, and 1998.

The study also found that accident and injury rates, as well as claims costs, varied broadly among and within the states. Massachusetts had the highest accident frequency in 1998 at 7.06 property damage claims per 100 insured, compared with Wyoming, which had the lowest rate of 3.05. Massachusetts also had the highest bodily injury claim frequency at 2.29 per 100 insured cars compared with North Dakota's 0.20 rate. ■



CPCU 2001

Business Without Boundaries

CPCU Society Annual Meeting & Seminars • October 21 - 23 • Seattle

Join us in Seattle, WA!

The CPCU Society's 57th Annual Meeting & Seminars will be held on October 21-23, 2001, in Seattle, WA. Be sure to register using the new Senior Limited Registration and Senior Limited Guest Registration. (These reduced registration fees apply only to those who have a lifetime retired or retired membership in good standing.) Watch your mailbox for a special Annual Meeting and Seminars issue of the *CPCU News* or visit the CPCU Society's web site at www.cpcusociety.org for more information!

From the Editor

by Diane G. Baker, CPCU

I hope you will find this issue of interest. There are a variety of topics covering such items as: insurance fraud relating to jewelry, notes from a recent ACT conference addressing non-standard versus standard insurance, Part II and the conclusion of the road-rage series, and notes from the Insurance Research Council.

In the upcoming issue we will begin running a column for you to post problems, issues, concerns, or questions you have or encounter. Here's the way it will work . . . send in your question or problem etc., and it will be run in the next issue. We'll ask our colleagues to answer, and then we'll post the solutions/answers in the following issue.

I am very interested in topics or ideas you have that will make this newsletter one of value to you.

I can be reached by phone, fax, or e-mail. Please take a moment and let me hear from you. ■

Diane G. Baker, CPCU, ARP, *is an assistant vice president of risk management at Allstate Insurance Company in Northbrook, Illinois. A graduate of UNC-Chapel Hill, she earned her CPCU in 1989. She is a past member of the CPCU Society's Underwriting Section and past editor of* Underwriting Trends.

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