Personally Speaking

Personal Lines Section Quarterly

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Let's Get Personal

by Dale Halon, CPCU, CIC

This article is being written as I wing my way home from this year's CPCU Society Annual Meeting and Seminars in Orlando. As usual, I am leaving inspired by the role the Society plays in our industry and communities. With the industry facing reserve shortfalls, terrorism risks, rapidly increasing medical and other liability claim costs, and weak investment returns, industry leaders are screaming out for solutions. The most sought-after solution is getting back to basic insurance fundamentals, much like what any athlete would do.

The basic block and tackling in our business are accurate risk assessment, responsible risk pricing, and disciplined claims handling. Talented and educated people are the main ingredients. As CPCUs, we all signed up for a credo when we first matriculated for the program. That is we can do our employers and communities the best by improving our personal capabilities. By joining the Personal Lines interest section, you have taken a big step toward that objective.

The section leadership committee is channeling its skills to provide access to professional outlets for section members. We intend to beef up the section web site with valuable information and to use it to connect us all as a network of professionals. Look for those developments along with some educational opportunities at the next Annual Meeting and at other venues.

We realized, however, at our meeting in Orlando that there is one thing missing in order for us to carry out our mission. A dialogue with YOU is what's missing. Our section leadership committee is very interested in what you think and how you want to exercise your professionalism as a CPCU. That feedback is critical so that all section members get value from their participation. We want to know that we are providing you with what you want. I urge you to call or e-mail me with specific feedback. Don't be surprised if you even get a call from one of us asking you directly.

I also want you to know that your section, while being a pilot section for the first two years, has now attained official permanent status. We achieved that because our membership has contributed to the industry by upholding and promoting the values of CPCU. All activities of section members, which includes all of you, are documented and attributed to the section. These activities also led to our section being recognized at the Gold level (the highest that could be achieved) in the new Section Circle of Excellence program. When a section member attends the Annual Meeting, he or she is recognized with a name tag ribbon for being a part of a recognized section. While we do not join CPCU interest sections for personal recognition, the ribbon is evidence of a level of professionalism that I am proud to be associated with. I urge you to share with any section leadership committee member when you are involved in an activity that will reflect well upon the CPCU designation.

Here's the Real Point of My Quarterly Message: Get Involved!

Do this by:

1. Making yourself available to network with other personal lines professionals.
2. Find others with a shared interest in your local chapter. Ask them to join the section.
3. Help your chapter promote personal lines activities.
4. Visit the Section web site from time to time at **www.cpcusociety.org**.
5. Share your thoughts with us.

Help Wanted

We would like to sponsor a research project on the effect of terrorism on personal insurance. Anyone interested in leading or participating in this project, please contact me directly at dale.halon@choicepoint.net ■

Practical Application of Credit-Based Insurance Scoring

Seminar Notes from October 20, 2002

by Dale Halon CPCU, CIC, and Dan Blodgett, CPCU, AIM

The following is a summary of the panel presentation entitled "Practical Application of Credit-Based Insurance Scoring" at the CPCU Society's 2002 Annual Meeting and Seminars in Orlando, FL. Our Personal Lines interest section sponsored this workshop in cooperation with the Information Technology Section.

Credit-based insurance scoring has been widely accepted in the industry and is being used for underwriting acceptability, premium determination, payment plan offerings, and targeting of potential customers. Companies and producers are faced with consumer questions, unusual score results, inconsistent application of scoring strategies, and redundant processes.

Moderator William T. Atkins, CPCU, CIC, and Personal Lines Section Committee member, explained that credit-based insurance scoring is not well understood by the public. There has been recent backlash from regulators, resulting in the introduction of legislation restricting its use in 30 states. Media attention is negative to say the least.

Lamont D. Boyd, CPCU, of Fair, Isaac & Company agreed that using credit scores to develop risk is not new to the insurance industry. Many insurers have used credit scores for years. So why is this a topic of current debate and controversy? Boyd explained that credit scores used by banks and insurance-based credit scores are different. Banks look at your financial situation as it relates to your ability to pay bills. Insurers look at your score as it relates to your probability of being a higher risk.

Years ago, Fair, Isaac & Company provided insurance regulators with data from its proprietary score model. Regulators questioned the fairness of using score and whether or not it would unfairly discriminate against certain groups of society. In reply, Fair, Isaac & Company had an independent study done by Tillinghast. This study confirmed that Fair, Isaac & Company's model did indeed demonstrate the value of consumer credit in predicting insurance profitability. Today, most regulators now believe there is a correlation of credit and risk. There is still some disagreement as to whether insurance-based credit scoring results in unfair discrimination against specific groups.

What can you do to improve your score? "Pay your bills on time," says Lamont. "Improving your credit management is key to keeping or improving your good score."

Gary E. Skerl, senior analyst in product development for Progressive Insurance Company, also served on the panel. Interestingly, Skerl is a relative newcomer to insurance and credit and came into the industry as a skeptic. Since, ". . .seeing, touching and feeling . . ." credit-based models, he has become convinced of the correlation and risk management properties of credit and insurance. Concerned about losing the use of score, his company has been actively involved in the public policy debate.

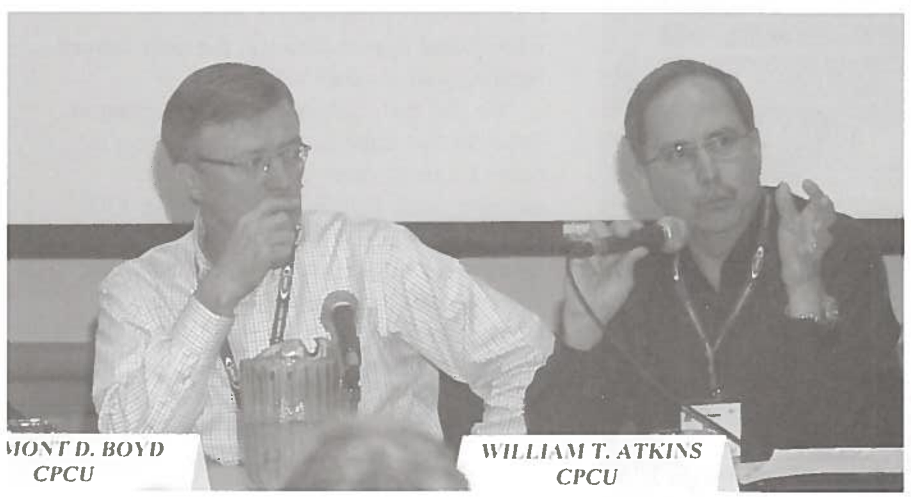
Progressive has its own credit model using only nine variables. Every consumer starts with a score of 100 and has points added or subtracted based on these variables. The higher the score, the higher the risk. The lower the score, the lower the risk. In addition, it has ways of handling risks with no credit score (no hits) or insufficient data (thin files).

Having no score has statistically shown higher-than-average loss ratios. However, there has been pressure from state regulators to not let no hits hurt the consumer. Many states require no hits to be handled in different ways. Progressive has found that older drivers with no hits are better risks than younger drivers with no hits. Adapting products to this data is a key issue.

Dan Blodgett, CPCU, AIM

Dale Halon, CPCU, CIC, *is chairman of the Personal Lines Section Committee.*

Dan Blodgett, CPCU, AIM, *is a Personal Lines Section Committee member.*



Panelist Lamont Boyd with moderator William Atkins.

Progressive also has a Credit Assistance Team. This team is available by a toll-free telephone number in which customers (not agents) can air concerns about their score and its impact on rates. The team helps resolve errors, makes exceptions for extraordinary life events, and provides a personalized credit report. The report tells them how they rate on all the variables used to calculate scores using Progressive's model.

Panelist John Wilson, ChoicePoint, Inc. stressed the importance of using a score model that can be easily understood by carriers and policyholders. The first models used were overly complicated, and state-specific models have to be developed due to regulatory requirements. ChoicePoint would prefer that a single model be used in all states to avoid confusion with agents and consumers. It has a CD score-training program that is a self-executing PowerPoint presentation. It is used by agents to educate themselves and explain insurance-based credit scoring to their customers.

To gain regulatory support, ChoicePoint fully discloses the score model while visiting with the Departments of Insurance and state legislators. In addition, it provides factors that have the most negative impact on the score to consumers. "We want to be helpful to consumers so they can tell what they can do to improve their score," says Wilson. Consumer disclosure is very important. Letting the consumers see the information that affected them and giving them the opportunity and process to correct their credit are vital.

The Fair Credit Reporting Act (FCRA) provides important consumer protection. Wilson said it is in everyone's best interest to keep the use of credit scores honest. ChoicePoint developed a process where consumers can get their own credit report along with the score. He noted that this may not be the score used by that particular policyholder's insurance carrier since many companies use proprietary models. However, it does give the consumer a good idea of what is on his or her report. He reminded us that the main role of credit is to tell us about the personal characteristics of the applicant's financial situation. Other things can be used to disclose risk such as prior loss experience, other lines of business, and prior coverage with other carriers.

Gregg Antenen, of Convergence Data, specializes in finding data that is not normally used for insurance and brings it back repackaged for insurer use. Two types of data were mentioned, check-writing and sub-prime data. To use these, Convergence had to prove the data was predictive, had a decent "hit" rate, and worked in conjunction with the credit score. It focuses on the no-hit and thin-file market segment as well as consumers that have a tendency for a worse loss ratio.

Check-writing data is just what the title implies, information on the checks we use for a payment method. About one-third of consumer spending is done via check. These checks are scanned and registered by the retail operation. Telecheck service, which has more than 300,000 retail locations, tracks this data. A "check-writing score" is developed into Convergence's model. How many checks do we write? What is the total dollar amount? Do we bounce checks? Antenen says, "By taking your credit score and factoring the check-writing score, a predictive model is built."

Sub-prime credit data can be best explained by an example: Have you seen the advertisements offering to give you a short-term loan based on your paycheck stub? How about your car title? This is sub-prime credit and is monitored by Teletrack. The sub-prime credit bureau does not provide data to the other bureaus used for normal credit scoring. However, there is a large volume of data collected from the areas mentioned earlier as well as check cashing, used cars, rent-to-own furniture; there are 37 million records annually per Antenen.

There are links with insurer risk and check-writing/sub-prime factors when combined with your credit score. The benefits to combining this data to a no-hit or thin-file credit score can greatly assist carriers. By adding missing or enhancing data, they can improve loss ratio at most score levels. Antenen said that they find additional credit data on 47 percent of the orders. From a regulation viewpoint, you can treat traditional no hits just like a hit if you have supplemental data; however, state exceptions do apply.

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Practical Application of Credit-Based Insurance Scoring

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In closing, the panel believes that as an industry we have not done a good job of educating agents or the public about insurance-based credit scores. We all have the opportunity to take action and change opinions. You can create better credit for yourself by reducing balances and paying your bills. Although you cannot change your past or predict upcoming catastrophic life events, you can live up to the obligations of your credit. ■

Panelists Gregg Antenen, John Wilson, and Gary Skerl.

Identity Theft: Possible Implications for Property and Casualty Insurance

by the CPCU Society's Connecticut Chapter

Editor's Note: *The research contained in this publication reflects the views of the authors and does not necessarily reflect the views of the CPCU Society and its affiliated chapters. The research is intended to stimulate interest in the subject or subjects covered. The CPCU Society and its affiliated chapters hereby disclaim any liability that may arise from reliance upon any of the thoughts or ideas expressed in this publication.*

Editor's Notes: *This article is a summary of the CPCU Society's Connecticut Chapter's research report on identity theft.*

The complete report will be featured in the December 2002 CPCU eJournal, which will be available on www.cpcusociety.org.

This article was submitted on behalf of the following members of the CPCU Society's Connecticut Chapter: Joan Ashman, CPCU; John P. Franzis, CPCU, ARe, ARP; Clinton Harris, CPCU, ARe, ARP; David Langdon, CPCU, ARe, ARM; Wendy Simoncelli, CPCU; Clarence Smith, CPCU; and Susan Swol, CPCU.

What Is Identity Theft and How Pervasive Is It?

In 1998, Congress passed the Federal Identity Theft and Assumption Deterrence Act and made identity theft a federal felony offense. Specifically, the Act made it a federal crime when anyone "knowingly transfers or uses, without lawful authority, a means of identification of another person with the intent to commit, or to aid or abet, any unlawful activity that constitutes a violation of Federal law, or that constitutes a felony under any applicable State or local law." Identity theft can range from simple purchases using a stolen credit card to actually assuming the identity of the victim and living life as that person.

Although there are many organizations that track incidents of identity theft, it is hard to collect accurate statistics regarding the number of incidents. Part of this is because identity theft, unlike other types of theft, is more difficult to detect. Contrasted with stolen property, the victim still has the use of his or her identity and tends not even to be aware of the theft for a number of months, with the average being 12 months before detection.

The Federal Trade Commission's Identity Theft Data Clearinghouse, launched in November 1999, is a centralized database used to aid law enforcement and track trends involving identity theft. This clearinghouse logged more than 100,000 complaints between November 1999 and January 1, 2002, and reported that identity theft was the number-one consumer fraud complaint in 2001. However, others estimate the number of cases to be much higher, including the FBI, which estimates 350,000 incidents per year.

Furthermore, there are signs that identity theft is increasing. For example, the Social Security Administration reported an increase of more than 500 percent between 1997 and 2000.[1] The FTC reported that as of June 2001 its Identity Theft Hotline received more than 1,800 calls per week, as compared to 445 calls per week when the hotline started in November 1999. A Celent Communications report predicts that identity theft crimes will increase to 1.7 million or more in 2005.[2]

While there are precautions that can be taken to prevent one's identity from being stolen, these will never be adequate to completely remove the threat of identity theft.

Financial Cost

By all accounts, incidents of identity theft are costly, prevalent, and on the rise. *The Wall Street Journal* estimated that identity theft cost consumers and merchants, combined, an estimated $1 billion in the year 2000.[3]

The average amount per victim that the suspect obtained from financial institutions was $6,767.[4] In most instances, victims are not ultimately held liable for debts created by identity thieves. However, about 13 percent of victims do incur out-of-pocket expenses, such as notary fees, copying costs, attorney fees, and other costs. The average out-of-pocket expense per victim is $1,173.[5]

Along with the direct financial loss, the most common harm reported by complainants, as a result of identity theft, is long-term damage to their credit report through derogatory or inaccurate information. Victims may also be forced to spend significant time resolving the problems caused by identity theft, and suffer harassment by debt collectors or creditors, loan denials, and credit denials or credit card rejections.

Managing the Financial Risk

With the victims of identity theft not responsible for the direct financial loss and yet with the total financial cost of identity theft estimated at $1 billion, the question is:

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Identity Theft: Possible Implications for Property and Casualty Insurance

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Which entities bear the financial risk and how do they currently manage the loss potential?

A variety of institutions suffer losses stemming from identity theft, including credit card companies, phone and other utility companies, banks, employers, state and federal governments, hospitals, and insurers. Credit card companies and phone/utility companies experience losses primarily from unpaid charges. Banks' losses are derived from unauthorized withdrawals, unpaid loans, and payments for fraudulent checks. Employers' losses come from theft and lawsuits perpetrated by the identity "stealer." Federal and state governments experience losses associated with the illegitimate payment of benefits; hospitals from unpaid medical expenses and lack of insurance reimbursement; and insurers from improper payment of insurance claims.

In most cases, these institutions manage this risk of loss through retention, and attempt to minimize the amount of loss through active fraud detection. We were unable to identify any insurance product specifically targeted to this type of potential loss. Retention implies that ultimately, losses are reflected back in increased pricing for product/services and thus the costs of identity theft are passed on to the consumer.

Should Identity Theft Be an Insurable Exposure?

Identity theft affects hundreds of thousands of individuals. But is it an insurable exposure? Based on standard definitions of insurable exposures, the answer appears to be yes since there is the risk of significant, measurable, and accidental loss from an identifiable peril that is shared by a sufficient number of potential insureds. Under current laws, the individual whose identity has been stolen is not responsible for the financial consequences that accompanied the theft. The primary cost to the individual is the damage done to his or her credit ratings and the time and aggravation of needing to obtain new bank accounts, credit cards, etc. Since identity theft is an insurable exposure with limited financial damages, there is the expectation that identity theft coverage would be widely available from insurance carriers. Currently, however, this does not appear to be the case.

There are a few insurers that offer identity theft fraud expense coverage for individuals, either through a standalone policy or as an endorsement to a homeowners, condominium, or renters policy. The Travelers, AIG eBusiness Risk Solutions, and Chubb seem to be taking a leadership role in providing this new coverage. In all policies, the coverage provides reimbursement for the expenses that individuals incur to restore their financial health and credit history after they fall victim to identity theft. As the incidence of identity theft continues to grow rapidly, many other insurers may add identity theft expense coverages too.

The FTC data indicates a higher frequency of identity theft among certain age groups, certain geographies, and certain activities. While these do not yet have actuarial credibility, they could potentially be used as inputs to underwriting and pricing functions. However, the coverages that are currently available provide a fixed amount of money for a specified price to reimburse individuals for their expenses and time to recover from the identity theft. Risk-based underwriting is not explicitly being done.

For those insurance products that are available, another question is whether the coverage amounts accurately indemnify the individual for the theft of his or her identity. Here again the metrics associated with the total cost of undoing the damage caused by the identity theft are vague. Logic would seem to suggest that an individual with greater wealth and with multiple accounts (bank, brokerage, credit card, etc) would incur more time and expense in restoring his or her identity, but there does not appear to be a quantitative formula that can be invoked.

Summary

Clearly, identity theft exists and is becoming a greater threat to society; yet the metrics associated with identity theft are vague and filled with uncertainties. Conceivably because of these uncertainties, the insurance offerings are currently limited to fixed expense reimbursements, without explicit consideration of risk. In addition, while there is protection for one of the victims, the individual, the same kinds of protection do not exist for the other victims—the banks, credit card companies, retailers, etc. that provided the goods and services.

Assuming that despite our best efforts to eliminate identity theft it continues to survive, we should expect more insurance companies to provide identity theft insurance for individuals and to include some consideration of the risk in their underwriting and pricing processes. Furthermore, we should expect some form of insurance for the losses incurred by those third parties that provided goods and services to the identity thief. ■

Endnotes

1. Press release, Senator Feinstein Unveils Comprehensive Measure to Better Protect Americans' Privacy, June 15, 2002.
2. The Banking Channel, Tripling of Identity Theft Cases Projected by 2005, October 18, 2001.
3. Greenberger, Robert S. and Simpson, Glenn R.; "Identity Theft Dogs Credit Bureaus in the Supreme Court and Congress," *The Wall Street Journal*, April 12, 2001.
4. Based on 86,168 victims reporting from 1/1/01 - 12/31/01 - from FTC Report dated 1/7/02.
5. Victims may have continued to incur out-of-pocket expenses after they reported to the FTC.

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Trouble Brews: Insuring Synthetic Stucco Homes

by Robin Olson, CPCU, ARM, AAM, ARP

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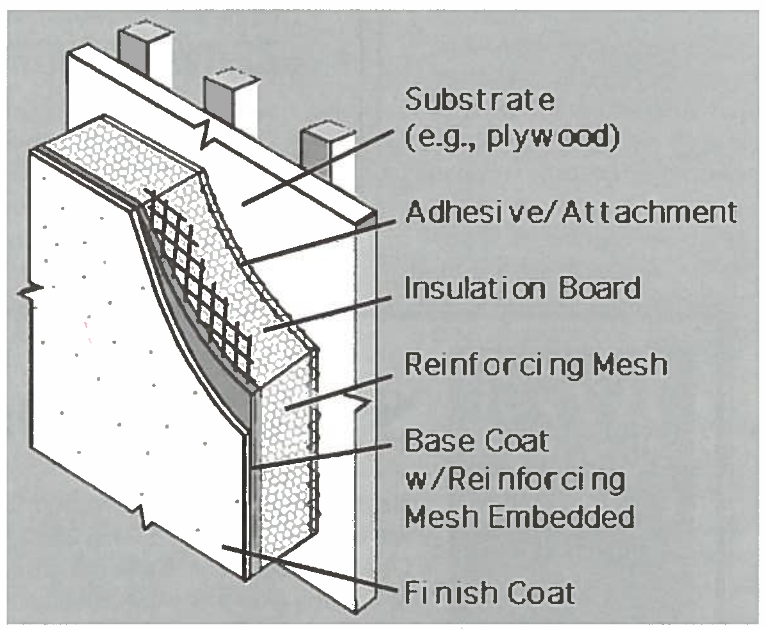
Congratulations on the purchase of your new synthetic stucco home. But perhaps congratulations are premature, because your homeowner's insurer is hesitant to write insurance for it. What is the problem?

Synthetic stucco is commonly referred to as Exterior Insulating and Finish System (EIFS). Homes with this exterior finish are often strikingly beautiful, offer great flexibility in home design, and provide energy savings. EIFS (usually pronounced "eefs") constructed homes, however, have a dark cloud surrounding them—allegations of water accumulation and damage resulting in mold growth.

EIFS construction consists of an insulation board secured to the exterior wall surface (e.g., plywood), a durable, water-resistant base coat applied on top of the insulation and reinforced with fiberglass mesh, and a finish coat, which gives the product its stucco-like appearance. See Figure 1.

EIFS was developed in post-World War II Germany to repair war-related damage to large buildings. It was introduced in the United States on commercial buildings in the 1970s and on homes in the 1980s. This system is currently applied to approximately 2 percent of residential structures.

Figure 1
Conventional EIFS System Components



Robin Olson, CPCU, ARM, AAM, ARP, is the author and principal research analyst for IRMI's newest reference service, Personal Risk Management and Insurance. He was formerly the principal research analyst for Commercial Auto Insurance.

Olson contributes articles on personal risk management and auto risk insurance to the IRMI Insights section of IRMI.com.

Olson received a B.A. degree in economics, cum laude, from Southern Methodist University in Dallas. He is a Chartered Property Casualty Underwriter (CPCU) and holds the Associate in Risk Management (ARM), Associate in Automation Management (AAM), and Associate in Research and Planning (ARP) designations. He has been recognized twice by the Insurance Institute of America (IIA) for his outstanding scholarly achievements in its programs. In addition, Olson also serves as an adjunct professor at the University of North Texas where he teaches risk management classes.

Before joining IRMI in 1998, Olson was an underwriting manager for two national insurance companies where his experience encompassed both personal and commercial lines.

The moisture intrusion controversy erupted in 1995, with several EIFS-related lawsuits filed in North Carolina. Homeowners alleged the following:

- increased level of humidity within the home
- infestations of termites, ants, and other insects
- mold, mildew, or fungi growth on the interior walls or on window frames
- cracking of the drywall
- cracking, peeling, and bubbling of paint
- cracking on the EIFS dressing bands around windows
- delamination—EIFS coming loose from the sheathing of the house
- rotting of wood trim
- loss of structural integrity

Growing evidence suggests that once water gets into the EIFS insulation board, it has no way of getting out. Thus, water penetration is not the problem itself, as water can easily penetrate many types of exterior finishes, such as wood and brick. The problem is, according to some civil engineers, water retention. The EIFS system virtually wraps the exterior of the home in an energy-efficient blanket, which promotes energy efficiency but can leave water trapped within.

According to Homer Barham, a member of the Georgia Area Home Inspectors and the owner of Barham Inspections in Atlanta, "This product cannot breathe." He contends that it collects moisture, and the moisture has no way to drain or evaporate. "If the EIFS contractors or applicators could only develop vapor barriers, this could solve much of the problem," he said. Barham said that some "speed merchant" contractors focus only on applying the product as quickly as possible and ignore the water retention problems.

To counteract these problems, the EIFS industry developed a more drainable type of exterior finish in the last few years. The new "drainable" or "water-managed" system incorporates a secondary moisture barrier and a drainage mat with weep holes in the bottom that allow the escape of water that might get trapped. Barham contends that these are still unproven.

Lawsuits

Since 1995, thousands of EIFS-related lawsuits have been filed in the United States. Typically, this involves the homeowner-filing suit against the builder, manufacturer of the EIFS product, distributor, and the applicator. According to Peter Burke, a partner with Whatley Drake in Birmingham, Alabama, between 400 and 600 lawsuits have been filed in Alabama since 1998. "There are tremendous problems in North Carolina and Virginia as well," he said, "involving hundreds of cases. At first, we thought this was perhaps unique to the Carolinas due to their high humidity levels, but we soon saw cases in Virginia and surrounding states." He stated that the vast majority of these cases have been settled out of court.

Burke, who has represented numerous homeowners in these cases, argues that the damages include not only moisture-related problems such as mold, but diminution of value as well. "When people try to sell these homes, they often cannot find buyers," he said. "When they do, they have to sell the home at a discount of 20 percent or more. In addition, they normally have to purchase a warranty policy."

When asked about the newer drainable EIFS products, he said all of his lawsuits involved the older "barrier" type of product. He also stated that he has seen very few lawsuits from homeowners suing builders for similar water-related damage on other types of exterior finish, such as traditional stucco or brick.

There has been one successful EIFS-related class-action suit, *Ruff, et al. versus Parex*, et al., 508 SE2d 524 (NC App 1998). Another case, *Posey, et al. versus Dryvitt Systems, Inc.*, was preliminarily certified by a Tennessee judge, according to Brent Crumpton, with Brent L. Crumpton, P.C., also out of Birmingham. Crumpton, who has settled 200 EIFS-related cases with 150 more still pending, said that the *Posey* fairness hearing is set for October 1, 2002. This involves a national settlement with one company, Dryvitt Systems, an EIFS manufacturer.

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When asked about other class-action lawsuits, Crumpton said that several state courts, including a federal court, have denied certification. "Most courts have reacted this way because these cases are so complex," he said. "They often involve numerous parties including the manufacturer, distributor, applicator, contractor, and homeowner." Crumpton has seen many cases in which, for example, the manufacturer may blame the applicator, or the distributor may blame the manufacturer, and so on. "Class-action cases need more clear-cut issues in order to work and that is not the case with EIFS claims," he said. "This is why these are normally handled, and eventually settled, on an individual basis." In his opinion, the *Dryvitt* case was preliminarily certified only because Dryvit agreed upfront to it.

In addition to the wide variety of water and other damages due to EIFS—structural failure, mold and fungi, termites, respiratory and allergy ailments, diminution of value of the home averaging 20 to 35 percent after the damage is repaired—Crumpton's clients have seen their termite policies and homeowners policies nonrenewed. "Several of my clients advised me that they filed no claims against their homeowners policy," he said, "but were nonrenewed anyway. These clients attributed this to the EIFS construction, although the insurers did not admit to this."

Insurers' Response

Many personal lines insurers are concerned about writing homes clad with EIFS. However, the major insurers, such as State Farm, Nationwide, Farmers, Chubb, and SAFECO, declined to comment on the EIFS issue. One insurance industry source said that the dominant player in the high-end home sector "is scared to death of synthetic stucco and makes no exceptions for it, at least in Texas and probably other states." Other sources confirmed this policy; in addition, the company does not appear to differentiate between the "barrier" or conventional EIFS and the newer "drainable" EIFS.

Spokespersons for these insurers referred us to the Institute for Business and Home Safety (IBHS), located in Tampa, Florida, for comments on this issue. IBHS is a nonprofit association that engages in communication, education, engineering, and research. Its members include nearly 500 insurers and reinsurers. Jeff Sciaudone, P.E., director of engineering with IBHS, said that EIFS is "probably not the best choice as far as sustainable wall cladding or exterior siding. It is hard to pull off a high-quality EIFS job." He says that because the system is so tight, water cannot get out.

"Any imperfections over time become magnified and can result in water retention," he said. "There is simply no room for error." Sciaudone contends that once the insulation or gypsum board becomes wet, it loses strength and capacity. "The problem is insidious because people cannot see it until it is too late," he said. When asked about the newer drainable EIFS, he believes it is an improvement, but for "long-term wear, a consumer is better off with brick cladding." In summary, he believes his member insurers should be very wary about insuring homes with any type of synthetic stucco.

Other insurers referred us to the Insurance Information Institute (III), based out of New York. The III seeks to improve public understanding of insurance—what it does and how it works. Robert Hartwig, chief economist with III, encountered the EIFS issue when researching mold problems in homes. He believes that "Insurers are increasingly recognizing this as a problem and are justified in their concerns."

Some insurers do still write EIFS-constructed homes; however, one regional southwestern insurer stated that if there are any water damage claims or signs of water damage, it declines it. This insurer also does not differentiate between the conventional EIFS and the drainable variety.

With the most influential and major insurer of the high-end home sector opting not to write EIFS clad homes, there is a distinct possibility that other insurers will follow its lead. Perhaps, on the other hand, some will decide that the water-managed system is insurable if properly maintained, and see an opportunity to write more business.

Defense of EIFS

The EIFS Industry Members Association (EIMA) is a nonprofit trade association based in Morrow, Georgia, composed of more than 500 leading manufacturers, suppliers, distributors, and applicators involved in the EIFS industry. Bernie Allmayer, a spokesperson with EIMA, said, "The moisture intrusion problem within the wall cavity is a universal problem that can damage homes sided with brick, wood, stucco, and vinyl as well as EIFS." According to Allmayer, brick has many more moisture entry points than EIFS; however, moisture problems are more difficult to test in brick homes.

Allmayer believes that the drainable EIFS is an effective moisture barrier provided the entry points are adequately flashed and sealed. "In addition," he said, "other components, such as a high-quality roof, windows, gutters, and downspouts need to be properly installed and maintained to prevent moisture retention, which is also true with other exterior finishes."

Stephen Klamke, executive director of EIMA, expressed concerns that many underwriters have failed to recognize the latest generation (drainable system) of EIFS-developed in response to the ongoing moisture intrusion debate. He stated that this system is "designed to eliminate incidental moisture buildup in the wall assembly of homes. There is not a higher likelihood of moisture intrusion in these homes than in traditional brick homes."

Klamke contends that with the drainable EIFS, there is air space provided in the application, just as with brick. "It is exactly the same configuration as brick," he said. "In fact, drainable EIFS is a superior weather barrier." When asked why there are so many lawsuits concerning the EIFS product as compared to brick or traditional stucco, he claims that with brick, there is not an "entity as definitive to sue." He also believes that the brick industry has "fanned the flames of this controversy due to their loss of market share to EIFS."

Allen Entrekin, a Philadelphia area builder, echoes some of EMA's views. Mr. Entrekin has installed EIFS on over 100 homes in the last decade and has never been sued. "EIFS is a premium system, particularly the drainable types, if the application is carefully performed with strict guidelines," he said. He believes the main problem is with poor installations performed by improperly trained applicators. He said the EIFS lawsuits are "wholesale attacks on manufacturers without justification." He does admit, however, that other exterior products may be more forgiving.

Conclusion

So, which way is this dispute headed? If other insurers follow the dominant player's lead, it may be more difficult to insure these homes, particularly with the major concerns over mold problems. If insurance becomes less attainable, these homes will suffer continued diminution in value.

It is incumbent on insurers to look at the evidence regarding the new "drainable" EIFS, as research suggests that this is a vastly improved product. A differentiation between conventional EIFS and drainable EIFS by insurers may be in order, which could provide insurers the opportunity to write more high-value homes.

From this vantage point, the great synthetic stucco debate is far from resolved and one worth watching closely in the future. ■

Helpful Web Sites on the EIFS Issue

Organization	Description	Web Site
EIFS Industry Members Association	Nonprofit trade association composed of 500 leading manufacturers, suppliers, distributors, and applicators of EIFS	http://www.eima.com/
EIFSFACTS	Consumer organization developed by residential consumers of EIFS	http://www.eifsfacts.org/
Kinsella Communications, Ltd.	Communications company that provides notification and information regarding class-action lawsuits, including EIFS	http://www.kinsella.com/
Georgia Area Home Inspectors	Statewide organization dedicated to improving the service and reputation of the home inspection profession	http://www.gahi.com
Homeowners Against Deficient Dwellings	Consumer protection group for homeowners and home buyers	http://www.hadd.com

What Are You Thinking About?

Your colleagues have a lot on their mind. The following list are things we heard at the CPCU Society's 2002 Annual Meeting and Seminars:

- credit scoring education for agents and consumers
- the changing role of underwriters as automation becomes more pervasive
- niche (If you want to be really cool you say "neesh" rather than "nitch.") underwriting such as the urban market, specific ethnic markets and the elderly market
- the cost and availability of personal insurance
- public education of insurance
- personal risk management
- personal loss control techniques

How 'bout you?

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