Insurance Information Institute

# 2009 COMMUNICATIONS PLAN

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# *Executive Summary*

The following plan provides a framework for the Insurance Information Institute's (I.I.I.) communications activities in 2009.

The financial crisis and the economic downturn have created special challenges and opportunities for industry communicators and the I.I.I. The regulation of all financial services, including insurance, will be under intense scrutiny by public policymakers, many of whom are newly elected or recently appointed to federal or state office. Moreover, this examination of the financial services system also will consider how our financial institutions manage risk: how it is measured, the clarity of mechanisms used to spread risk, the role those mechanisms, both public and private, can play in distorting the nature of risk, and the responsibility of individuals to understand the nature of the risk they choose to accept or not to accept.

This environment provides the I.I.I. with an opportunity to educate key audiences about the unique role insurance plays in assuming the risks faced by individuals and businesses, the impact of the financial crisis on insurers and their customers, and the role of insurance regulation in helping insurers function as effective risk managers. Unfortunately, this same economic and political environment provides fertile ground for more negative trends, such as bans on the use of credit scores and rollbacks of hard fought tort reforms. The I.I.I. will work closely with advocacy trades at the national and state levels in its educational outreach on such issues.

The recession also provides a new context for consumer education. This includes educating individuals and small business owners about how to save money on insurance, the role credit plays in providing coverage to the safest drivers and homeowners at the lowest costs, what is and is not covered in standard policies, what needs to be done before and after a disaster, the costs and consequences of insurance fraud, and the risks posed by an increased number of uninsured motorists. The I.I.I. will continue to position the industry as a first-responder when disasters occur. Life insurance and annuities have been added to the 2009 plan and an annuity suitability program will be initiated. The I.I.I. also will enhance its outreach to Spanish speakers.

The I.I.I. will be implementing its communications initiatives within a rapidly changing communications environment. The reach of traditional media continues to decline significantly as the general public increasingly turns to online sources for information. The I.I.I. has been adapting to this new dynamic by developing and sharing content with online media, nurturing online media contacts and updating our online technology to better serve the media and consumers.

The I.I.I.'s Web site has been redesigned to more efficiently push content to both a large general audience as well as to targeted constituencies. More video will be incorporated into the Web site. This includes producing and distributing regular consumer-related video podcasts that can be downloaded to a PDA so that users can have the information they need at their fingertips, as well as a series of "Ask an Insurance Question" videos that address common consumer questions. Lastly, the I.I.I. will continue its highly successful Insurance Minute Video News Release (VNR) program. To take advantage of the I.I.I.'s extensive library of Insurance Minutes, the I.I.I. plans to embed links to VNRs in many of the news releases to be issued in 2009.

A key aspect of the I.I.I.'s approach to communications is to respond to industry critics in a rapid, forceful and aggressive manner. The I.I.I. is also prepared to assist the industry or individual insurers with litigation public relations assistance, if necessary. In addition, the I.I.I. will be identifying and working with third-party endorsers more extensively in 2009.

The plan consists of two primary sections: Consumer Communications and Key Issues.

The issues in this plan are listed in *alphabetical* order since all of them are important to the industry's overall public standing but are of varying concern to individual member companies. The I.I.I. needs to have in its communications arsenal a variety of messages at its disposal to ensure a rapid response. It should be noted, however, that the economic downturn and credit scoring will be priority communications issues for the I.I.I. Working with the subcommittees of the Communications Committee, a targeted approach to these issues will be created and implemented in 2009.

Finally, this plan is designed to be a dynamic document that will be updated as needed. It will also be re-issued to the I.I.I. Communications Committee at its June 2009 meeting for further input and review.

## 1. Consumer Education

### a) Insurance Education: Individual Consumers and Small Business Owners

*Objective*

1. Educate individuals and small business owners about what standard insurance policies do and do not cover so that policyholders get the amount and type of insurance coverage they need.
2. Promote a “risk management” approach to the risks that individuals and small business owners face, so that they consider (and, where prudent, adopt) safety measures that are likely to prevent or minimize losses from a variety of disasters.
3. Explain that there are “safety net” arrangements in place for any insurance company that has financial problems, so that individuals and small business owners can feel confident that the industry is financially sound.

*Strategy*

1. Use natural disasters and other news events as “teachable moments” to distribute educational releases that will resonate with the media.
2. Leverage I.I.I. products (including I.I.I. white papers, I.I.I. Pulse findings and Web enhancements) to generate news interest.
3. Use independent research as insurance news hooks for distributing releases.
4. Reach younger and more diverse audiences by utilizing new and emerging technology.
5. Use ongoing relationships with national consumer and personal finance journalists to explain what insurance is and how it works. Provide consumer-friendly information that affirms the industry’s financial soundness.

*Key Messages (General Consumer Messages)*

- The insurance industry is financially stable.
- In the unlikely event of an insurance company failure, there is a system in place to pay claims.
- This system of state guaranty funds is funded by the insurance industry and does not involve taxpayer dollars.
- Research shows that the main reasons for an insurance company failure are inadequate pricing and underestimating the amount that should be set aside to pay claims, not investment problems.
- Consumers concerned about their own insurance company can obtain useful information from their state insurance department.
- Insurance is a very competitive business. There are many choices for consumers when shopping for an insurance policy. It is also very easy for a concerned consumer to switch to another auto, home, business or life insurance company.

- Consumers have rights. If they are dissatisfied with their insurance company or claim, they should work with the company. If consumers are unable to resolve their disputes, they can contact their state insurance department. Insurance is a highly regulated industry and states will investigate consumer complaints.

- Consumers should review their home, auto and other personal insurance policies at least once a year to make sure that they are still up-to-date. They should also contact their insurance company or agent if they make a major improvement to their home or if there is a major lifestyle change such as a marriage, divorce or a teen driver in the family.

- Insurance policies are contracts and any attempt to rewrite them retroactively puts the sanctity of all contracts at risk.

- There are many factors that influence the cost and availability of insurance. Depending on the type of insurance, these include, among others, the type of car driven, the condition/location of the home or business and credit scores.

Annuities

- Annuities are financial products for long-term needs. They should not be bought with money that is needed for emergency or short-term expenses.

- Money invested in variable annuities and variable life insurance policies is placed in “separate accounts”—investment pools that are completely separate from the general assets of life insurance companies.

- The money invested in variable annuities and variable life insurance policies will follow the fortunes of the investment choices of the annuity or policyholder. If, for example, the owner of a variable annuity chooses to invest it in the stock market, it will rise or fall with the market, but it will be unaffected by the financial condition of the insurance company sponsoring the life or annuity policy.

- Fixed annuities earn a guaranteed interest rate during a certain period. They are backed by assets in an insurance company's general account, usually bonds. Fixed annuities depend entirely on the financial soundness of insurers.

- In the rare event of an insurer’s insolvency, both fixed and variable annuities are protected by state guaranty funds.

Auto Insurance

- When purchasing a car, it is important to consider the cost of insuring it. If consumers cannot afford the insurance, they cannot afford the car.

- Auto insurance is a very competitive business. To save money on auto insurance, consumers should shop around for a company that offers a great price and service, consider taking a higher deductible and ask about all available discounts.

- Auto insurance rates have been generally flat or have risen no higher than the Consumer Price Index. Though prices rose at an annual pace of approximately 3 percent during the second half of 2008, according to federal statistics, they still reflect the very competitive nature of the U.S. auto insurance market.

- There is coverage for flood or earthquake damage to your car, less a deductible, if you buy the physical damage comprehensive portion of an auto insurance policy.

Home Insurance

- Homeowners looking for ways to save money should not reduce the amount of insurance they have on their home because the market value of their home may be dropping. Instead, they should insure their home for the cost of rebuilding it.

- Consumers should consider purchasing personal umbrella liability policies to provide additional protection above and beyond the standard amounts provided by auto and home insurance policies.

- Renters should purchase renters insurance. A landlord is not responsible for a renter's personal possessions or personal liability. Renters insurance is relatively inexpensive and provides a very important financial protection.

- Consumers need to purchase enough insurance to rebuild their home and repurchase their personal possessions in the event of a disaster. They should also have enough liability protection to protect their assets.

- Standard property insurance policies do not cover damage caused by flooding or earthquakes. Coverage for these disasters is available through separate insurance policies.

- Flood insurance for homeowners and renters is available from the National Flood Insurance Program (NFIP). Some private insurance companies do provide coverage under homeowners policies for the backup of sewers and drains and some companies offer excess flood coverage to homeowners to augment coverage provided by the NFIP.

- Earthquake coverage is available either in the form of an endorsement or as a separate policy for homeowners, renters and small business owners. In California, homeowners can also get coverage from the California Earthquake Authority (CEA), a privately funded, publicly managed organization. Earthquake insurance provides protection from the shaking and cracking that can destroy buildings and personal possessions. Coverage for other kinds of damage that may result from earthquakes, such as fire and water damage due to burst gas and water pipes, is provided by standard home and business insurance policies.

Life Insurance

- Financial planners consider life insurance to be the cornerstone of sound financial planning. Life insurance offers financial protection for your loved ones if they would suffer financially upon your death.
- The difference between your family's long-term needs—daily living expenses, debts, future college or retirement plans, as well as the policyholder's funeral arrangements—and existing resources ought to be considered when considering how much life insurance to purchase.

  Many people whose life insurance coverage (beyond Social Security's survivor benefits) is through their current employer may well be underinsured, risking the financial security of their dependents.

***Key Tactics***

- Re-launch and promote the new version of the I.I.I.'s *Know Your Stuff – Home Inventory* software.
- Utilize sections of I.I.I.'s Web site as news hooks.
- Implement a credit-education campaign on how credit-based insurance scores benefit consumers and provide tips on how to build, protect and repair one's credit. This will include an I.I.I. Insurance Minute VNR and news releases geared toward specific life events such as graduating from college, marriage, divorce, etc.
- Develop information geared toward young people on topics such as teen driving, credit education and the importance of properly insuring personal possessions when away at school.
- Produce and distribute weekly consumer releases (in English and Spanish). Embedded in these releases will be radio actualities and I.I.I. videos.
- Utilize the I.I.I.'s extensive video library of Insurance Minutes by embedding them in consumer releases, thus providing a cost-effective means of getting messages out.
- Begin research and development for an online tool featuring actual standard home, auto and business owners package policies that would allow consumers to click anywhere on the document and get a written or audio explanation of the meaning of that part of the policy.
- Partner with the Institute for Business & Home Safety (IBHS) and the Federal Alliance for Safe Homes (FLASH) to educate consumers about what they can do to protect life and property from disasters.
- Implement an annuities suitability consumer education campaign. This will include an I.I.I. Insurance Minute VNR and podcast as well as several news releases explaining the various types of annuities and the questions a consumer should ask before purchasing one.

*Third-Party Endorsers*

- National Consumers League
- Life and Health Foundation for Education
- Jumpstart Foundation
- NAVA – The Association for Insured Retirement Solutions

<u>Small Business Owners</u>

*Key Messages*

- Business owners should review their insurance coverage at policy renewal time and whenever business changes lead to greater and/or new exposure to loss, such as moving from a leased to an owned facility, buying new equipment or vehicles, and increasing inventory, among other things. This includes life, health, property and liability insurance.

- Many business owners underestimate how long it will take to fully recover from a disaster and return to pre-disaster conditions and performance. This leads to inadequate insurance against this risk, which can be one of the biggest threats to a small business.

- Business interruption and extra expense insurance is vital to the survival of a business. In case of a catastrophe, such as a fire or a tornado, business interruption insurance can provide funds in place of lost profits. The extra expense coverage can help with providing rent for temporary housing or leasing of equipment.

- Workers compensation rates may increase due to inflation and the increasing cost of medical care.

- Many business owners are complacent about the risks of employee lawsuits. They need to educate their managers and employees so that potential problems are minimized. This includes creating effective programs to avoid discrimination in hiring, posting corporate policies throughout the workplace and revising employee handbooks so policies are clear to everyone.

- All companies should have Employment Practices Liability Insurance (EPLI) to help pay the costs of defending themselves against legal actions.

*Key Tactics*

- Utilize the I.I.I.'s Web communications to convey coverage messages in entertaining and compelling ways, (i.e. quizzes, videos) to targeted audiences, such as small business owners, women business owners and minority owned businesses.

- Utilize sections of I.I.I.'s Web site as news hooks.

- Continue to update and promote the *Insuring Your Business* book and Web site along with the accompanying video. The I.I.I. will promote these products to both traditional and Web-based media.

- Produce and distribute releases (in English and Spanish) on business insurance issues such as the importance of a human resources manual and addressing sexual harassment issues, workplace safety and workers compensation, hiring new drivers, credit education and the importance of risk mitigation. Embedded in these releases will be radio actualities and links to I.I.I. Insurance Minutes and videos.

- Partner with the Institute for Business & Home Safety (IBHS) to educate business owners about what they can do to protect property (and the people inhabiting it) from disasters.

- Aggressively pitch stories to business media and Web sites (CNN, Money, Fortune Small Business) on such issues as business interruption insurance, risk management, taking a business inventory and specialty coverage such as EPLI, Directors and Officers Liability (D&O) and key person insurance.

- Pitch stories to minority business publications such as Black Enterprise, Hispanic Business, Minority Business Entrepreneur, Ethnic Majority

*Third-Party Endorsers*

- U.S. Small Business Administration
- National Small Business Association
- National Association of Women Business Owners
- National Women's Business Council
- U.S. Chamber of Commerce

## b) Disaster Communications: Pre-disaster Preparedness and Post-disaster Response

Pre-disaster Preparedness

### *Objective*

Communicate to homeowners and business owners that how well they prepare for a disaster will largely determine how fully and quickly they recover from one.

### *Strategy*

1. Utilize the I.I.I.'s extensive media contacts to educate the public about the things that need to be done to prepare for a disaster, including purchasing the correct amount and type of insurance.
2. Partner with agents associations and groups such as the American Institute of Certified Public Accountants (AICPA), Federal Alliance for Safe Homes (FLASH), Institute for Business and Home Safety (IBHS), national and state insurance trades, the National Flood Insurance Program (NFIP), American Red Cross and the U.S. Small Business Administration.
3. Make use of NFIP statistics suggesting that some policyholders in areas affected by Hurricane Katrina are choosing not to renew their flood insurance policies only two years after the disaster. The same can be shown for earthquake policies in force in California.

### *Key Messages*

- Individuals and small business owners should protect themselves financially against all hazards by purchasing the right type and amount of coverage, including flood and earthquake insurance.
- Simple mitigation measures can protect property, reduce injuries and save lives.
- Individuals and small business owners should have a disaster plan.
- Disaster preparedness is a key element of a business continuity plan. A disaster or pandemic event can have a profound impact on business operations, including the displacement of employees from the worksite. Having an up-to-date business inventory will help you get your insurance claim settled faster, verify losses for your business' income tax return and help you purchase the correct amount of insurance.

### *Key Tactics*

- Aggressively communicate to coastal states what individuals and business owners need to do to prepare for hurricane season. A series of news releases is scheduled to be distributed to the media starting in June 2009.
- Continue to educate Northeast residents about the risk of a hurricane and what they need to do to prepare. The I.I.I. will work with state and local emergency managers, regional insurance representatives, disaster aid organizations and the media.

- Issue a news release on the importance of purchasing flood insurance from the National Flood Insurance Program. The I.I.I. Insurance Minute VNR on flood insurance will be embedded in the release, along with a radio actuality.

- Issue a news release with IBHS on the five inexpensive steps to protect homes from serious storms. The latest I.I.I. Insurance Minute on the subject will be embedded in the release, along with a radio actuality.

- Educate consumers about the need to create an up-to-date home inventory and promote the I.I.I.'s newest version of its popular, *Know Your Stuff* software. The recently updated Insurance Minute on the topic will be embedded in the release, along with a radio actuality.

- Communicate the need for everyone to have a disaster evacuation plan stressing the fact that a catastrophe can occur anywhere. The I.I.I.'s popular Insurance Minute, "The Ten Minute Challenge," will be embedded in the releases.

- Incorporate poll data and use I.I.I. research as news hooks to demonstrate the risk of various natural disasters and levels of preparedness. Localize information for use by state trades in disaster-prone locations.

- Use NFIP information by state to warn consumers against allowing flood policies to lapse.

- Work with coastal news media to educate residents about windstorm deductibles and that while they help to make home insurance more available and affordable, they also mean that consumers will be sharing the cost of hurricanes.

- Focus attention on non-hurricane disasters such as earthquakes, fire, hail, lightning, tornadoes and winter-related damage to educate about insurance coverage issues. Partner with IBHS on mitigation techniques.

- Partner with disaster aid organizations to amplify the I.I.I.'s consumer outreach.

- Continue to update and promote the disaster preparedness information on the I.I.I. Web.

- Continue to participate in important hurricane conferences such as the National Hurricane Conference, Windstorm Conference and the Hurricane Leadership Conference.

***Third-Party Endorsers***

- American Red Cross
- National Flood Insurance Program

## Post-disaster Response

### *Objective*

Create public awareness that the industry is responding rapidly, effectively and compassionately to the needs of its policyholders following a natural catastrophe, and that it has the financial strength to pay claims.

### *Strategy*

1. Position the insurance industry as one of the first responders when a disaster strikes.
2. Work closely with I.I.I. member companies to communicate their activities in the disaster zone.
3. Explain the economic impact of the disaster.
4. Cultivate relationships with local media and community-based organizations in the disaster area.

### *Key Messages*

- Despite the economic downturn, the insurance industry has the financial resources to pay the claims for this and other disasters.
- Explain to consumers how to file a claim and how to prepare for an adjuster's visit after a disaster.
- Damage caused by wind and fire is covered under standard home and renters insurance policies. Damage due to flooding and earthquake is covered under separate insurance policies.
- The comprehensive portion of an auto insurance policy will provide coverage for damage to the car by earthquake, fallen trees, fire, flood, wind and other disasters listed in the policy.
- The insurance industry's number one goal is helping customers recover as quickly as possible after a disaster. An army of adjusters will be adjusting claims in the areas accessible to them. Other adjusters will be gathered in staging areas prepared to move into the most seriously damaged communities as soon as civil authorities allow.
- An estimated 25 percent of businesses do not reopen following a major disaster. Therefore, it is crucial that business owners take steps to prepare for a disaster by having a disaster plan in place.
- Business interruption insurance, also known as business income insurance, covers the loss of income resulting from a fire or other catastrophe that disrupts the operation of the business. It can also include the extra expense of operating out of a temporary location.
- Business owners should work with their insurance agents to make sure their policy limits cover a sufficient amount of time to rebuild their business. It can take more time than anticipated after a major disaster to get a business functioning again.
- Small business owners need to think about how they would manage if a fire or other disaster made their business premises unusable. Business interruption coverage may be sold as part of a property insurance policy or included in a package policy.

### *Key Tactics*

- Continue the 2008 claims education campaign by embedding the I.I.I. Insurance Minute VNR and podcast "How to File an Insurance Claim" in press releases and media advisories**.**

- After a disaster, direct media and consumers to the I.I.I.'s HIIC.org (Hurricane Insurance Information Center).

- Report ISO Property Claims Service loss estimates to the media and work with risk-modeling agencies, insurance company catastrophe coordinators and affected state trade associations.

- Set up locally based disaster information centers in coordination with member companies and national and state trade associations.

- Distribute post-disaster news releases as required by the specifics of the disaster.

- Aggressively promote I.I.I. spokespeople to national news media to represent the industry after a disaster.

- Counter industry critics and regulator misinformation about responsiveness and claim settlement practices.

- Produce and publicize post-disaster surveys on claims settlement rates at periodical intervals.

### *Third Party Endorsers*

- National Flood Insurance Program
- American Red Cross

## c) Diverse Markets: Hispanic Outreach

### *Objective*

The I.I.I. plans to target a variety of diverse markets over the next several years. In 2009, however, the I.I.I. has focused on building on the progress it has made in 2008 in reaching out to the Hispanic community. There has been a continued emphasis on Spanish language insurance education and disaster preparedness. This is important since a large number of Hispanics live in disaster prone locations such as California, Florida, Texas and the Northeast.

### *Strategy*

Expand on the I.I.I. relationship with Hispanic media, business associations and community groups to connect the insurance industry with this fast growing population. Insurance information will be provided in Spanish and delivered in a culturally appropriate manner. A key component in the I.I.I.'s Hispanic outreach will be to address common misperceptions that many Hispanics have about insurance and to explain the suitability of various insurance products.

### *Key Messages*

The messages in the insurance education and disaster communications section of this plan will be applied to the I.I.I.'s Hispanic outreach program.

### *Key Tactics*

- Expand the Spanish language content on the I.I.I. Web site to include business insurance and interactive items such as quizzes and videos.
- Promote the Spanish radio actualities recorded with each consumer news release to Spanish language radio stations.
- Provide Spanish language communications support for state trades such as the Florida Insurance Council, Insurance Information Network of California and others as requested.
- Aggressively promote disaster preparedness information in hurricane prone areas states such as Florida.
- Develop relationships with Spanish language media in states with growing Hispanic populations such as Arkansas, Georgia, North and South Carolina, Tennessee and Virginia.
- Continue to provide content for Terra.com, AOL Latino, MSN Latino and Univision.com.
- Create insurance seminars for Spanish language journalists in major markets such as New York and Florida.
- Develop opportunities to co-brand Spanish language information to consumer organizations and government-sponsored educational organizations.

### *Third-Party Endorsers*

- National Association of Hispanic Journalists
- U.S. Small Business Administration

## 2. Key Issues

### a) Attacks on the Integrity of the Claims Process

***Objective***

Improve the public's understanding of the insurance claims process.

***Strategy***

Educate consumers on how the claims process works, what is done to ensure fair settlements, how claimants can expedite the process and what they can do if they believe their settlement is not adequate.

***Key Messages***

- Insurance companies seek to settle claims fairly and as quickly as possible.
- A prolonged claims settlement process is not in the best interest of either the insurance company or the customer.
- Public opinion surveys show an overwhelming number of claimants are satisfied with their settlements.
- Consumers do not need the assistance of public adjusters or attorneys to settle typical claims. If consumers do decide to hire a third party for assistance, they should understand that the cost of this service is going to come out of their claims settlement.
- There are several measures available to claimants who believe a settlement offer is inadequate that do not involve costly and lengthy litigation.
- Consumers can take steps to expedite the claims process such as being organized for the adjuster's visit and maintaining an up-to-date home inventory.
- Insurance claim payouts basically have remained constant over the years and do not reflect an effort to reduce losses by changing claims handling procedures.
- The insurance industry is financially stable and pays claims in accordance with the terms of the policy.

***Key Tactics***

- Update the 2008 claims education campaign which explained how the claims process works. This includes re-issuing the Insurance Minute VNR, podcast and news release. This information will be released to the media at the start of hurricane season and after other major disasters as necessary. Information will also be re-distributed to the state insurance trade associations to expand the

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industry's reach to local media markets. The I.I.I.'s 2009 Video News Release on 'Six Steps to Follow When Filing a Homeowner's Insurance Claim' is our latest initiative in this regard.

- Promote stories of satisfied claimants that demonstrate that those who purchased the correct amount of insurance and knew how to properly file an insurance claim were pleased with their claim payout after a disaster.

- Work with personal finance reporters to explain the steps consumers can take if they are not pleased with their claim that does not include hiring third-party representation.

- Link all 2009 I.I.I. press releases on claims education to I.I.I. Insurance Minute and podcast on claim filing.

- Support state trades during and after catastrophes affecting their area, including the Southwest Insurance Information Service in areas affected by Hurricane Ike.

## b) Challenges to Underwriting Criteria and Predictive Modeling Systems

***Objective***

Increase awareness of the benefits consumers receive from the use of predictive modeling and other underwriting tools that enhance the accuracy, efficiency and fairness of pricing and rating systems since attacks could be more commonplace or more intense in the political and regulatory environment at both the state and federal level.

***Strategy***

1. Educate consumers, regulators and legislators on the benefits of predictive modeling and how it works.
2. Support the efforts of the state insurance and advocacy trades in states where credit-based insurance scores (such as Florida, Connecticut, Minnesota and Michigan), as well as traditional underwriting criteria, are under attack.
3. Dispute notion that scoring will automatically lead to higher rates for consumers affected by the current economic downturn.

***Key Messages***

- Unreasonable restrictions on predictive modeling and underwriting criteria in general can have negative consequences such as higher insurance costs and less choice for those purchasing policies.

- The goal of every insurance company is to correlate rates for insurance policies as closely as possible with the anticipated cost of claims. If insurers set rates too high, they will lose market share to competitors who have more accurately matched rates to expected costs. If they set rates too low, they will lose money. This continuous search for accuracy is good for consumers as well as insurance companies. The majority of consumers benefit because they are not subsidizing people who are greater insurance risks—people who are more likely to file claims than they are.

- The computerization of data has brought more accuracy, speed and efficiency to businesses of all kinds. In the insurance arena, credit information has been used for decades to help underwriters decide whether to accept or reject applications for insurance. Now, advances in information technology have led to the development of insurance scores, which enable insurers to better assess the risk of future claims.

Insurance Scores

- For decades, insurance companies have used credit information to help decide whether to accept or reject applications for insurance. An insurance score is a numerical ranking based on a person's credit history. Insurance scores do not include data on race, ethnicity or income.

- Credit-based insurance scores are used to help insurers differentiate between lower and higher insurance risks and thus charge a premium equal to the risk they are assuming. Statistically, people who have a poor insurance score are more likely to file a claim.

- The credit-based scoring process relies on information in a person's credit record, with particular emphasis placed on those items associated with credit management patterns proven to correlate most closely with insurance risk, such as outstanding debt, length of credit history, late payments, collections and bankruptcies, as well as new applications for credit.

- The U.S. Federal Trade Commission (FTC) and the Federal Reserve affirmed in 2007, after studying the issue for years, that auto insurers have been able to price their products more accurately by incorporating a policyholder's insurance score into their underwriting and rating criteria.

- The FTC now plans to study the homeowner's insurance industry and its use of credit-based insurance scores. U.S. homeowners insurers representing about 60 percent of the national market will soon furnish the FTC with detailed information about their incorporation of these scores when pricing policies and assessing potential policyholders.

- The use of credit-based insurance scores has been demonstrated to be predictive of future loss over the course of the economic cycle in every state.

- The reasons behind the predictive value of credit scores appears to be behavioral. The character trait that leads to careful money management seems to show up in other daily situations in which people have to make responsible decisions about how to act, such as driving.

- People who manage money carefully are also more likely to have their car serviced at appropriate times and upgrade their homes in ways aimed at averting potential insurance losses (i.e., taking loss-mitigation steps).

- Consumers need to know how to build and protect their credit history since this information is used in many ways: applying for a job, renting an apartment, securing a loan, leasing a cell phone and purchasing home and auto insurance.

- Factors such as job loss and reduction of income due to the economic downturn do not impact credit-based insurance scores.

Risk-based Insurance Pricing and Underwriting in General

- Every insurance company tries to price insurance for a group of similar risks as closely as possible to the anticipated number and cost of claims for the group. If insurers set rates too high, they will lose market share to competitors who have more accurately matched rates to expected costs. If they set rates too low, their claims and expenses will exceed their premiums, and they will lose money. This continuous search for accuracy is good for consumers as well as insurance companies. The majority of consumers benefit because they are not subsidizing people who are greater insurance risks—people who are more likely to have higher claims than they are.

- The determination of fair and accurate rates requires insurers to identify risk factors that can be used to predict loss. Over time auto insurers have identified many such factors as the type of vehicle owned, miles driven, location, driving experience and numerous other factors, including education and occupation. No single factor determines eligibility for coverage or the premium charged. In fact, insurers simultaneously employ up to 20 or more risk factors.

- Risk-based pricing also reduces subsidies of those who account for a disproportionately large share of losses, such as drivers with relatively poor driving records, and rewards those who are less likely to have claims, like those who have fewer accidents. It therefore creates incentives for those with a high likelihood of loss to change their behavior/circumstances to those that signal a lower likelihood of loss.

- States that want to ban the use of an auto insurance policyholder's occupation or education as underwriting criteria should first review a comprehensive 2006 study on the matter by the Maryland Insurance Administration. Maryland found that both occupation and education were actuarially valid predictors of risk and were not unfairly discriminatory.

- Restrictions on underwriting criteria in general can have negative consequences such as higher insurance costs and less choice for those purchasing policies.

- Insurance premiums are a reflection of risk. To the maximum extent possible, the premium charged should reflect the risk characteristics of each individual policyholder. In the case of auto insurance, risk-based pricing reduces cross subsidies from drivers with relatively poor driving records, who account for a disproportionate share of losses, while rewarding motorists who are involved in fewer accidents and impose comparatively little cost on the system.

- Risk or cost-based pricing also enhances competition. To the extent insurers can employ actuarially valid underwriting criteria to better predict future loss, uncertainty is reduced. Reducing uncertainty leads to more competition among insurers, more choices for consumers and lower average costs. Restrictions on actuarially valid underwriting criteria would lead directly to more uncertainty and therefore less competition, higher prices and growth in auto insurance markets of last resort.

*Key Tactics*

- Develop explanatory materials on predictive modeling and traditional underwriting criteria for use by advocacy trades in key states and in I.I.I. media outreach.

- Support the state insurance and advocacy trades when credit-based insurance scores come under attack. This may include arranging editorial board meetings, writing op-eds and providing expert witness testimony.

- Work with insurance commissioners to discuss how to best incorporate results of catastrophe modeling into the underwriting and ratemaking process.

- Embed credit messages in personal finance communications. This includes producing releases for college students and new graduates on what they need to do to create and protect their credit history.

- Work with credit organizations such as Fair Isaac and ChoicePoint.

*Third Party Endorsers*

- National Consumer League
- ChoicePoint
- Fair Isaac
- Consumer Data Industry Association
- American Center for Credit Education

## c) Climate Change

*Objective*

Communicate that climate change could alter how catastrophe risks are construed, assessed and managed.

*Strategy*

1. Work closely with the I.I.I. Board of Directors to develop ongoing messages that resonate with member companies.
2. Broaden I.I.I.'s reach to relevant stakeholders by partnering with academics, scientists, environmental groups and catastrophe modelers to help consumers and the media understand the underlying implications of climate change and its direct correlation to underwriting and pricing.
3. Promote examples of research and educational programs on climate change by individual insurers, as well as insurance policies for structures built to environmentally friendly, or "green", standards.

*Key Messages*

- Having sustained significant natural catastrophe losses in 2008 (Hurricanes Gustav and Ike) and with the expectation of more such losses in the future, insurers and reinsurers are looking at the possible link between climate change and extreme weather and its short- and long-term financial impact on the insurance industry.

- Climate change may pose a fundamental threat to the long-term availability and affordability of insurance. This threat has tremendous potential implications for the economy, which is why insurers are now beginning to focus on the issue.

- Many insurers are taking action to help the environment, giving lower rates to drivers of hybrid cars and pushing lawmakers for stiffer building codes and land-use controls in coastal areas.

- Insurers are among the biggest real estate owners and are beginning to use this power to promote green building practices and energy efficiency in buildings.

- The insurance industry supports the development of alternative energy sources. Commercial insurance protection, hedges and weather derivatives are all tools that enable investors to invest in alternative energy sources where the outputs and inputs are not well defined.

*Key Tactics*

- Distribute information to science media to educate them on the impact global climate change has on coverage issues.

- Work with the national media to educate business and homeowners about the effect global climate change can have on weather, and ultimately on insurance pricing.

- Interact with insurance commissioners to educate them on how climate change is playing a greater role in catastrophe models.

- Work with insurance trade press to promote the work insurers are doing in the area of climate change.

- Work with insurance companies to find examples of innovative research and program. This can be promoted in I.I.I.'s online version of *Impact.*

- Work with advocacy trades to educate lawmakers and others on the impact climate change will have on insurance pricing.

- Promote the NeighborWorks "green building initiative."

***Third-Party Endorsers***

- Risk Modeling Solutions
- Harvard School of Public Health

## d) Florida-Related Issues

### *Background*

The high cost of property insurance in Florida and the lack of availability from the established, largest private insurers remain a dominant issue in that state's media and among public policymakers. New insurers have entered the market, spurred by incentives to assume policies from the state-run insurer, but these start-up companies are generally not well capitalized. Further complicating matters is the fact that no major hurricanes have made landfall in Florida over the past three years, and premiums have been frozen through 2009 for Citizens Property Insurance Corporation policyholders.

Florida Governor Charlie Crist and Insurance Commissioner Kevin McCarty have repeatedly denied rate increase requests. The anti-insurer climate in the state persists, only moderately ameliorated by a focus on the state's increasing vulnerability to assessments in light of the current financial crisis.

### *Objectives*

Improve understanding of current market conditions and future prospects for property insurance in Florida, focusing on:

- What's behind the high cost of property insurance
- How prices are determined
- The role of profits
- The risks faced by Florida property owners and their insurers.

Warn consumers about the potential impact litigation can have on the cost and availability of insurance.

### *Strategy*

Coordinate activities with the Florida Insurance Council (FIC), American Insurance Association (AIA), National Association of Mutual Insurance Companies (NAMIC), Property Casualty Insurers Association of America (PCI) and large independent companies. This includes leading the discussion regarding the industry's long-term communications structure in Florida. An I.I.I. subcommittee has been created to facilitate long-term planning.

### *Key Messages*

- The threat of a number of hurricanes striking Florida in any given year remains, despite the three most recent quiet seasons (2006-2008), because we are in the midst of a 30-year cycle of more intense hurricanes.

- Historically, Florida's homeowners insurance market has produced small profits for private insurers in most years and enormous losses in other years. For example, it took about a decade of small profits to fully offset the losses from Hurricane Andrew in 1992, and even despite the three recent "quiet" years of profits the industry has not offset the losses from hurricanes in 2004 and 2005.

- Most property insurers offer discounts to policyholders who take loss mitigation steps.

- New property insurers are entering the Florida marketplace, even as others look to reduce their exposure.

- Florida policymakers continue to favor coastal land-use policies that give rise to new densely populated developments. Since private property insurers that have significant exposure in coastal areas are not looking to expand in those areas, this public policy stance relies heavily on newly formed insurance companies and/or Citizens to bear these property insurance risks.

- Citizens, Florida's "insurer of last resort," has distorted the property insurance marketplace because its rates are below what private companies believe are needed to pay all expected claims and expenses for the risks it assumes. These rate inadequacies, in turn, have contributed to a sizable potential shortfall in Florida's Hurricane Catastrophe Fund.

- By law, profits that private insurance companies earn from businesses in other states cannot be used to subsidize rates for property insurance in Florida.

- Florida experienced severe flooding in portions of the state from Tropical Storm Fay in 2008, and many residents were unprepared. Reminding residents that hurricane season also brings torrential and prolonged rainstorms, in addition to windstorms, will be a focus. Educating residents about their vulnerability to flooding and the need for flood insurance will be central to hurricane season communication.

### *Key Tactics*

- Conduct periodic briefings for Florida media on industry financial results.

- Utilize statistics in *A Firm Foundation* to demonstrate the industry's contribution to the Florida economy.

- Arrange for editorial briefings as needed or as requested by FIC or by advocacy trades.

- Develop and deliver analyses before legislative bodies at the request of lobbying trades.

- Continue to work with influential local media, including the *Miami Herald*, *Orlando Sentinel*, *Palm Beach Post*, *Florida Today*, *Herald Tribune*, *El Nuevo Herald* and *El Sentinel* to explain the economics of doing business in Florida.

- Work closely with the Institute for Business & Home Safety and FLASH to educate Florida home and business owners about effective mitigation to reduce wind damage.

- Make arrangements for appearances on TV and talk radio programs.

- Expand existing Spanish-language media efforts in the state to educate Hispanic residents about the insurance marketplace in the state and what they can do make their homes safer to withstand a hurricane.

- Partner with organizations such as the Competitive Enterprise Institute to advance some of the industry's key messages.

***Third-Party Endorsers***

- Florida Chapters of the Hispanic Chamber of Commerce
- Florida Society of Newspaper Editors

## e) Impact of Fraud on the Insurance Market

***Objective***

Explain the costs and consequences of insurance fraud and what the insurance industry is doing to combat it.

***Strategy***

1. Proactively work with the consumer media to educate home and business owners about fraud and how they can avoid becoming victimized by criminals.
2. Broaden the I.I.I.'s reach to consumers and other relevant stakeholders by continuing to partner with the National Insurance Crime Bureau (NICB), the Coalition Against Insurance Fraud and state coalitions such as the New York Alliance Against Insurance Fraud.
3. Solicit examples of popular fraud scams and trends, new investigative tools and success stories from member companies to share with news media. The resurgence of no-fault auto insurance fraud in New York State is a key recent concern for 2009.

***Key Messages***

- Fraud accounts for an estimated 10 percent of the property/casualty insurance industry's incurred losses and loss adjustment expenses. This brings the fraud tab to tens of billions of dollars each year.

- Data shows that insurance fraud tends to increase during tough economic times. Policyholders should not be tempted to defraud their insurance company in order to obtain extra money or to avoid paying mortgages or making car payments. Insurance fraud is a serious crime and is now classified as a felony in many states. Those found guilty of insurance fraud may face a jail sentence and be unable to purchase insurance in the future.

- Fraud may be committed at different points in the insurance transaction by different parties: applicants for insurance, policyholders, third-party claimants, and professionals who provide services to claimants such as medical service providers and attorneys.

- Catastrophes provide an opportunity for unscrupulous contractors and others to take advantage of disaster victims.

- Insurance fraud from flooded vehicles is a common occurrence after a hurricane. To combat the problem, a database was created in which vehicle identification numbers (VINs) and boat hull identification numbers (HINs) from flooded vehicles and boats could be stored and made available to law enforcement, state insurance department fraud bureaus, insurers and motor vehicle departments. The database, which was developed and is maintained by the NICB, is online and can be accessed by the general public. In an effort to reduce fraud, some auto insurers now crush insured vehicles that were flooded and declared a total loss.

- One in four Americans says it is acceptable to pad a claim to make up for premiums they have already paid. *Insurance Research Council* (2000).

- There is an increasing trend toward workplace fraud, with businesses losing more than $400 billion per year, or about 6 percent of total annual revenue. *The Association of Certified Fraud Examiners (ACFE).*

- Small companies can be especially affected by theft and embezzlement because they cannot afford extensive safeguards and are not large enough to absorb losses.

- Defining the insurance crime specifically helps educate law enforcers about insurance fraud and provides prosecutors with clear-cut cases. Raising the level of the crime from a misdemeanor to a felony not only increases the penalties, but also acts as a deterrent to future crimes.

- Insurers may also file civil lawsuits under the federal Racketeering Influenced and Corrupt Organizations Act (RICO), which requires proving a preponderance of evidence rather than the stricter rules of evidence required in criminal actions and allows for triple damages. Since 1997, some of the largest insurers in the country, especially auto insurers, have been filing and winning lawsuits against individuals and organized rings that perpetrate insurance fraud.

- Insurers are required by law to set up a specific program that identifies insurance fraud and outlines actions taken to reduce the problem.

- Special units have been set up as part of fraud bureaus in state insurance departments to identify fraudulent acts, collect information on repetitive offenders and investigate cases. The main purpose of the bureau is to set up documented criminal cases that can be readily prosecuted. Some bureaus have law enforcement powers.

*Key Tactics*

- Work with NICB to educate consumers that insurance fraud is a serious crime and can result in a felony conviction.
- Partner with member companies affected by certain types of fraud.
- Coordinate industry meeting on fraud issue to determine best course of action.
- Use disasters as a news hook to warn disaster victims about fraudulent and unscrupulous contractors and other service providers who prey on disaster victims.
- Continue to chair NICB's public awareness committee, one of five committees created and staffed with industry professionals charged with identifying weak spots in existing fraud fighting efforts. These groups found that the industry's approach to fraud was fragmented and inadequate. While there are isolated examples of effective anti-fraud programs, a nationwide, coordinated effort on multiple fronts is necessary to reduce this costly economic problem.
- Issue news releases on behalf of NICB, an I.I.I. subscriber, on the most frequently stolen vehicles and the top cities for auto theft.
- Continue to promote NICB's new free service, "VINCheck" for unrecovered stolen vehicles.
- Contribute op-ed pieces on fraud issues, as requested by NICB or the advocacy trades, on behalf of the insurance industry.
- Develop press releases on important steps to help safeguard against identity theft during the holiday shopping season. A key emphasis will be insurance products and services to help victims of this crime.
- Arrange, as appropriate, editorial board visits with I.I.I., NICB and one or two key company insurance executives to discuss the growing threat of insurance fraud in tumultuous economic times.

## f) Natural Disasters and the Cost and Availability of Coverage

### *Objectives*

1. Develop information for use by the advocacy trades, regulators, legislators, and targeted media outreach, on the economics of providing insurance (e.g., explaining the rationale used to have products to reflect the risk) and insurance markets in disaster prone areas.
2. Communicate the importance of responsible land use when building in vulnerable locations.

### *Strategy*

Educate the media, regulators, legislators, insurance agents and brokers on insurer operating procedures, financial performance, rate-making, modeling, profitability, capacity, investments and rating agencies.

### *Key Messages*

- If insurers are not able to charge a price that is commensurate with the risk of a disaster, they may be forced to withdraw from the marketplace, and further add to the financial burden borne by the state-run property insurers of last resort.

- Illustrate growth in markets of last resort by issuing annual Residual Markets Report. Emphasize weakness in funding of many plans, exacerbated by the current economic and credit crisis.

- The decision by one major insurer to discontinue writing all property lines following years of regulatory wrangling is an illustration of the depth of the problem in Florida.

- The Florida Hurricane Catastrophe Fund is underfunded and unable to pay the claims it would receive if a major storm were to hit the state, prompting tax hikes and insurance policy assessments.

- By law, the rates charged for insurance are based exclusively on past and expected losses in that state. For example, profits from California or from other types of insurance cannot be used to subsidize losses in places like the Florida homeowners insurance market. Likewise, losses in California cannot be subsidized by Floridians.

- It took home insurers in Florida 11 years (1993-2003) to erase the underwriting loss associated with 1992's Hurricane Andrew. The four hurricanes of 2004 erased the prior seven years of profits and 2005 deepened the hole. Over the period 2004 through 2007, private home insurers in Florida paid out $6.7 billion more in losses than they earned in premiums.

- More than half of the U.S. population now lives within 50 miles of the coast. In 2003, 53 percent of the nation's population—153 million people—lived in coastal counties (including those that abut the Great Lakes), which in total make up 17 percent of the country's land mass. The percentage of the nation's population in coastal counties is increasing and might soon (i.e., during 2009) approach 60 percent.

- Between 1980 and 2003, according to a NOAA study based on U.S. Census data, the population of coastal counties grew by 33 million people, or 28 percent. Florida grew 75 percent, Texas 52 percent and Virginia 48 percent. More growth is expected. Between 2003 and 2008, the coastal population in the Southeast region, the area most vulnerable to windstorms, is expected to grow by 1.1 million, or 8 percent, with the highest growth expected in the southernmost part of Florida. Coastal counties in the Carolinas and Georgia are also expected to see considerable population increases. Large increases are forecast for the Houston, Texas area and Florida's central Gulf Coast, as well.

- Coastal storms often damage inland areas after making landfall. Hurricane Ike, after hitting Texas in mid-September 2008, then moved north, where it teamed up with an extra tropical cyclone in Ohio. The two systems then battered Ohio and Illinois with winds from 60 mph, causing tens of millions of dollars in property damage. Also hit by Hurricane Ike were parts of Arkansas, Indiana, Kentucky, Missouri, Pennsylvania, New York, Tennessee and West Virginia.

- Insurers, reinsurers and risk managers use catastrophe modeling as a tool for both underwriting and pricing.

- Modeling firms have different methodologies and data bases. Insurance companies may use more than one modeling firm or use them in conjunction with their own model. Models are used to project the frequency and severity of storms, as well as how different types of construction will perform under a variety of conditions. These results are used along with an individual insurance company's loss experience as part of their underwriting and pricing process.

- Limiting the use of models by insurers would make it more difficult for insurers to price risk appropriately. The result of such restrictions would be to make insurers even more reluctant to provide coverage in catastrophe prone areas.

- The insurance industry is divided on whether to enact a national catastrophe fund as a mechanism to avert the need for taxpayer-funded recovery programs in states hit by natural disasters. The issue will almost certainly come to the fore in Washington, D.C., in 2009.

- Nationwide, the wildfire problem is growing. More people have moved into wildfire prone areas known as wild land urban interfaces (WUI). According to a University of Wisconsin study, in the West more than 8.6 million new homes have been built within 30 miles of a national forest since 1982. This would increase the wildfire-damage risk even if the number and scale of fires remained constant, but 2006 set a record both in the number of forest fires and their size (96,385 fires and 9.9 million acres of forest and woodland burned). This was a 125 percent increase over the 10-year average, according to the National Interagency Fire Center. These were not just California fires; half of the total occurred in the American Southeast from Texas to Georgia. Climate studies suggest warmer and drier weather is extending the length of the wildfire season, leaving forests that are clogged with dead and dying trees even more vulnerable to fire.

- Less than 20 percent of all Americans have a flood insurance policy and 27 percent of those surveyed nationally by I.I.I. in 2008 still believe a standard homeowners insurance policy will cover them for flood-related losses. The good news is that 73 percent of Americans understand they need to purchase a wind AND a flood policy.

- Flood insurance is easy to purchase. Federal flood insurance can be purchased directly from an insurance agent or a company representative. In order to find an agent or company servicing your area, visit the National Flood Insurance Program's (NFIP) FloodSmart.gov. A few insurance companies write flood insurance directly.

- More than 20,000 communities in all 50 U.S. states and territories voluntarily participate in the NFIP, encompassing nearly all properties in the nation's high-risk flood zones. A FloodSmart.gov search engine just needs your zip code in order to assess your risk.

- Flood insurance is affordable. The maximum NFIP coverage available is $250,000 for the structure and $100,000 for a home's contents.

- Excess flood insurance policies add an extra layer of protection. This coverage is available from some private insurers for those who need additional insurance protection over and above the maximum coverages provided by the NFIP policy or whose community does not participate in the NFIP.

- The cost of property insurance is often higher in places where the government imposes onerous or punitive restrictions on insurers than in states that foster competition.

- Earthquakes occur periodically in states other than California, with the Pacific Northwestern states and those around Missouri's New Madrid fault line being most at risk.

***Key Tactics***

- Educate the news media, through detailed factual financial data, about the impact and implications of catastrophes on the insurance industry.

- Reissue the I.I.I.'s *Homeowners Checklist* which recommends that consumers consider insurance costs before purchasing a home. This includes not only the cost and availability of a standard homeowners insurance policy, but also the cost of purchasing flood and earthquake insurance, along with the potential cost of a percentage deductible when there is a qualifying catastrophe.

- Incorporate into all I.I.I. disaster presentations the latest information on the risk of various types of natural disasters; pitch content to business, science and technology reporters.

- Develop information for use by state trades and local media in disaster-prone states such as California, Florida, Louisiana, and Texas.

- Arrange editorial board meetings and write op-ed pieces in coordination with the advocacy trades in disaster prone areas.

- Promote I.I.I. Insurance Update white papers on catastrophes and insurance, flood insurance and residual markets**.**

- Assist state trades in coastal areas such as Florida and Texas to counter the assertion that insurers exaggerate the hurricane risk to raise rates and earn excessive profits.

## g) Industry Financial Performance and Market Conditions

### *Objective*

Reassure policyholders and the media that the industry is financially stable while acknowledging that the economic downturn has proved to be challenging for many insurers.

### *Strategy*

1. Develop thoughtful economic analysis for use with the news media.
2. Make presentations throughout the country on the issue.
3. Distinguish between the experience of p/c insurers and banks and life insurers.
4. Work closely with the advocacy trades and member companies in the development of messages.

### *Key Messages*

Financial Strength

- While the turmoil in the financial markets affects individual insurers differently, the insurance industry, as a whole, remains fundamentally strong.
- The basic function of insurance—the orderly transfer of risk from client to insurer—continues today without interruption.
- Yet insurers and all other segments of the financial services industry have been adversely impacted by the current economic and market conditions.
- The property/casualty insurance industry's financial strength, as measured by the excess of an insurance company's assets above its legal obligation to its policyholders, dropped significantly in 2008 from its near-record levels of 2007. Still, the cumulative policyholder surplus stands at more than $400 billion.
- The profits of the property/casualty industry dropped in 2008; the decline was partly attributable to a spillover of the housing and credit bubble's collapse into the mortgage and financial guaranty segment of the industry.
- The rest of the decline in profits is consistent with a cyclical downturn that is characteristic of the industry and lower investment returns that are affecting every industry.
- One insurer (AIG) has received approximately $150 billion in assistance from the federal government. The aid has largely been used to provide liquidity to meet AIG's contractual obligations to post collateral to counterparties arising from activities associated with credit derivatives originating with AIG's non-insurance, London-based, AIG Financial Products unit.
- According to regulators, AIG's insurance subsidiaries are solvent and meet the capital requirements of the jurisdictions in which they operate.

- Most property/casualty insurers have indicated either directly or through their trade associations, that they do not want, do not need, and therefore do not plan to access the Treasury Capital Purchase Program. Some argue that federal (tax-payer financed) cash infusions are unfair, providing some insurers with cheap capital that could be used to make acquisitions or to undercut competitors' prices to gain or retain market share.

- Throughout its nearly 200-year history in the United States, the insurance industry has endured every conceivable economic circumstance and crisis and has managed to persevere. These include not only events like the Great Depression and numerous economic recessions, but also stock market crashes, gyrations in interest rates and inflationary spikes.

Guaranty Funds

- The guaranty fund system was created by policymakers and the insurance industry nearly 40 years ago and is designed to protect those least able to deal with losses associated with insurance company failure: the average citizen, small business policyholder or claimant. The guaranty fund system safeguards countless policyholders who might otherwise face financial ruin because of unpaid claims.

- Guaranty funds pay covered claims within limits set by individual state laws and the insurance contract. Guaranty funds generally pay the amount of coverage stipulated by the policy or $300,000, whichever is less. These "caps" are fixed by state law; the guaranty funds play no role in setting coverage caps. New York has a cap of $1 million.

- Most guaranty funds pay 100 percent of their state's statutorily defined workers compensation benefits. The guaranty fund system offers coverage of covered claims, but not a "replacement policy." A guaranty fund system also exists for the life, health and annuity insurance industry, but it operates independently from the property/casualty system.

Investments

- While the investment environment remains volatile, the financial assets of the industry are very conservatively invested, with more than two-thirds of these funds in highly rated corporate and government bonds. Less than 20 percent of the property/casualty insurance industry's portfolio is in stocks.

- The insurance industry is not suffering from a credit or liquidity crisis. Unlike many of the banks and other financial companies that have struggled, insurance companies, in general, do not borrow to make investments. Nor do they borrow to pay claims. So, even when some investments perform poorly, the effect is not magnified as it is when investments are highly leveraged.

Liability Issues

- Subprime related lawsuits could cause a rise in Directors and Officers (D&O) liability insurance rates for some businesses. The lawsuit trend is starting to spread from the usual targets, such as brokers, appraisers and loan securitizers, to those in other industries, such as investment advisers and corporate buyers of debt.

- Independent directors of public companies face increased levels of scrutiny and heightened prospects for the risk of personal liability. Recent court decisions have criticized directors of public and private companies for insufficient attention to their duties.

- Independent directors today operate under a microscope. More is expected of them than ever before, and shareholders, employees, competitors, the government, the media, and others are watching them and their decisions closely under the light of the Sarbanes-Oxley Act. Understanding the scrutiny under which they work, independent directors must take every precaution to protect themselves. Two of the most important steps they can take are to follow principles of good corporate governance and ensure broad financial protection through comprehensive internal indemnification provisions and solid D&O liability insurance coverage.

Oversight

- Insurance companies are regulated by state insurance departments that monitor the financial strength of insurers doing business in their states.

- State regulators have repeatedly stressed that the insurance system is financially sound.

- Independent rating agencies also closely scrutinize the financial strength of individual insurance companies and make their rankings available to the public.

- It is important to distinguish between the financial strength rating of an insurance company and the credit rating of the holding company of which it is a part.

- In one noteworthy case, the troubled non-insurance financial products subsidiary of a holding company required the rescue of the holding company, even though its insurance subsidiaries were, and continue to be, financially sound.

Profits

- Property/casualty insurers paid out about the same amount in claims and associated expenses in 2008 as they earned in premiums.

- 2007 and 2008 were the first two straight years in which there was negative overall property/casualty premium growth (less than one percent in each year, excluding the financial guarantee insurer sector) since 1932 and 1933 in the U.S.

- In years when there are profits, shareholders are compensated for the assets they put at risk and new capital is encouraged to enter the insurance marketplace.

*Key Tactics*

- Promote the I.I.I. Insurance Issues Update paper on Industry Financials.
- Promote the I.I.I.'s quarterly financial reports on industry performance, which will include podcasts.
- Continue to work with business and financial media to provide a greater understanding of the financial soundness of the insurance industry.
- Arrange interviews with the I.I.I. staff of economists for trade and general media to discuss the state of the insurance market for 2009.

## h) Regulatory Modernization

*Objective*

Provide balanced and thoughtful information on the issue of regulatory modernization in light of the financial crisis for use by individual insurers and the advocacy trades.

*Strategy*

Support the advocacy trades with information and analysis as new legislation is introduced in 2009. The 331-page Insurance Handbook for Policymakers, produced by I.I.I. earlier this year, was created in coordination with them and can now be accessed electronically, too.

*Key Messages*

- The National Insurance Consumer Protection Act was introduced in April 2009 and is only the latest Congressional effort to create a federal charter and revamp the nation's insurance guaranty fund system.
- Federal lawmakers are also considering measures to create a regulatory entity which would assess 'systemic risk' within the financial services industry.
- The 1999 Gramm-Leach-Bliley Financial Services Modernization Act reaffirms that insurance activities—whether conducted by banks, broker-dealers or insurers—are regulated by the states. The act specifically protects 13 areas of state insurance regulation from federal preemption.
- Any change in the regulation of insurers should be considered in light of what, under existing regulation, has performed well and, therefore, should be retained as much as possible.
- In 2008 and 2009, no p/c insurance company has, because of its investments, had financial difficulties so severe that regulatory intervention was required. Moreover, over the last four decades, very few life and property/casualty insurers have had such severe financial difficulties due to their investments. This is a substantially better record in this area than any other financial services sector.

- A small number of life insurers have requested and received a limited relaxation of capital requirements from regulators in their state of domicile.

- It is important to distinguish between the financial strength rating of an insurance company and the credit rating of the holding company of which it is a part. This is because the holding company may be engaged in other businesses besides insurance and is not regulated or monitored by state insurance departments.

- In one noteworthy case (AIG), the troubled non-insurance financial products subsidiary of a holding company required the rescue of the holding company, even though its insurance subsidiaries were, and continue to be, financially sound according to regulators.

- Some insurers favor federal regulation of the insurance industry, arguing that it is more efficient and that it would provide a better means of regulating insurers organized as financial holding companies.

- Under current regulation, rates for most types of property/casualty insurance are determined based on statewide experience.

- Current regulation requires insurance companies to use a "rules-based" accounting system mainly intended to be conservative (i.e., it tends to undervalue assets and overvalue liabilities to reduce the likelihood that an insurer would become insolvent). However, for a number of years U.S. and international accounting standards setting organizations have been discussing switching to a "fair value" system for insurers (as they have with banks). This system aims to be more attuned to current financial and economic conditions but, in the process, ends the conservative accounting approach now in use.

### *Key Tactics*

- Update the I.I.I.'s Insurance Issues Update papers on Regulation Modernization and the Optional Federal Charter as the issues evolve.

- Create information beyond the Insurance Handbook for Policymakers, as needed, for advocacy trades and individual insurers in order to coordinate industry communications activities.

### *Third party endorsers*

- The National Association of Insurance Commissioners

## i) Shifts in the U.S. Tort System

### *Background*

With Democrats strengthening their control of Congress and a Democratic president in the White House in 2009, it is expected that efforts to roll back tort reforms enacted in recent years will gain momentum and the prospects of proposed tort reforms will be diminished. The efforts of the trial bar to generate more bad-faith litigation against insurers will continue.

### *Objective*

Improve the public's understanding of how litigiousness drives up insurance premiums, as well as the cost of goods and services.

### *Strategy*

1. Support the work of the national and state advocacy trades and tort reform groups such as the Institute for Legal Reform of the U.S. Chamber of Commerce with information, research and analysis on how litigiousness affects the insurance industry.
2. Work with business, insurance, legal and consumer media to explain the litigation is financially harmful to both consumers and business.
3. Educate consumers on how insurance disputes can be resolved in ways other than filing lawsuits.

### *Key Messages*

- The American civil liability system cost about $252 billion in 2007 in direct costs and many billions more in indirect costs.

- Tort costs accounted for 2.0 percent of the nation's gross domestic product, compared with 1.4 percent in 1970 and 0.6 percent in 1950, according to the latest data from Tillinghast, an actuarial consulting firm. Looking at the data another way, tort costs equaled $835 per U.S. citizen in 2007, compared with $12 in 1950.

- The tort system has historically been one of the most important cost drivers for property/casualty insurers.

- Higher tort costs increase the premiums paid on many types of insurance.

- Trial lawyers have a vested financial interest in taking insurance disputes to court.

- Tort 'crises' not only lead to higher prices but also contribute to decreased availability of products and services (e.g., prescription drugs, obstetrical care).

- Insurance prices have come down in states where damage awards have been capped, such as Texas.

- In December 2007, Tillinghast-Towers Perrin released its "2007 Update on U.S. Tort Costs," highlighting trends and findings on the cost of the U.S. tort system. The study found that tort costs fell by 5.5 percent in 2006, the first decline since 1997. However, the study predicts a 4.5 percent increase for 2008 and 2009. Litigation from investors who have lost money in the current subprime loan crisis and an increase in auto claims caused by more young drivers on the roads and rising use of cellphones and other devices that distract drivers are cited among reasons that the trend toward lower tort costs may only be temporary.

### *Key Tactics*

- Highlight in media interviews the link between litigation against insurers and the cost of insurance.
- Update regularly the I.I.I.'s Issues Update white paper on the Liability System.
- Provide I.I.I. research and analysis resources to third-party sources, such as the U.S. Chamber of Commerce and Americans for Tort Reform Association which can speak authoritatively about the cost to consumers of excessive litigiousness.
- Work with personal finance reporters to point out that trial attorneys are only telling them half the story.
- Assist the state and national advocacy trades by participating in editorial board meetings and presenting testimony, as needed.

### *Third-Party Endorsers*

- U.S. Chamber of Commerce
- American Tort Reform Association

## 3. Timeline (See attached Grid)

**1st Quarter**

**2nd Quarter**

**3rd Quarter**

**4th Quarter**

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## 4. *Evaluation*

There will be three forms of evaluation.

1. The I.I.I. will provide a quarterly dashboard reporting on the successful completion of tactics outlined in the plan.

2. The I.I.I. will track the media's coverage of key issues through its Media Index and Meltwater on a quarterly basis.

3. A detailed analysis will be provided of two or three key issues such as the financial crisis and credit scoring.

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