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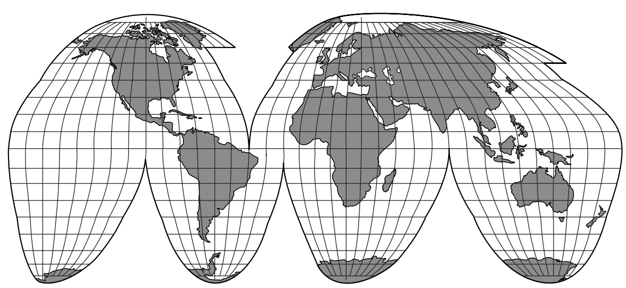
Global warming: What if it's for real?

by Scott Hoober
Special to *The Regulator*

Most of the risks that insurance companies assume on behalf of their customers are pretty predictable.

OK, so maybe four hurricanes in one year, all hitting the same state, is a little unusual. But we're pretty sure that actuaries had already factored that possibility into their models — and if not, they certainly have since the summer of '04.

Remember that year, not long ago, when a number of black churches were torched in arson fires? That may have been a memorable year for a couple of small insurers that specialize in churches, but when you look at the year as a whole, we'll bet the number of fires, and even arson fires or church fires, barely nudged from their year-to-year means.



But every once in a while, something totally new comes along, some paradigm shift that changes the way we all live.

We're not talking about increasing coastal development, for instance, in which more and more people build homes and businesses in areas that are certain to be damaged, indeed repeatedly damaged, by storms and waves and high winds. That's a slow, gradual trend, one that perhaps should have been stopped long ago by local building and zoning officials, but one that insurers have a pretty good handle on.

But what if coastal storms were to become even more prevalent than they are now? What if sea levels were to rise? What then?

Divisive issue

We're talking, of course, about global warming.

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The future of auto underwriting

by Brian Sullivan

Warning: Some people will think I'm overstating the argument that will follow. But even if it's only half right, it's reason enough for auto insurers to be deeply concerned. A small number of insurance companies have developed such superior skill at calculating accurate auto insurance prices that they're able to outperform their competitors by a wide margin. Insurers that fail to match these companies' skills will find themselves faced with adverse selection, an inability to grow profitably or remain the same size profitably, and a poor ability to shrink their way to better profitability.

An excellent illustration of this market development was presented by Keith Toney, CEO of InsurQuote Inc., and Paul Mang, Associate Principal at McKinsey & Co., at

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From the President

Coming to terms with the Spitzer investigation

During the past several months, the Spitzer investigations have dramatically changed the focus of insurance regulation. It seems that many of the functions that once were clearly the realm of insurance regulators have been co-opted by others. And some are now asking: Who really regulates insurance? Does the emergence of new regulatory entities create additional threats for state-based insurance regulation or can states now look to other agencies as partners in overseeing this complex industry?

In truth, states have never had complete control over the business of insurance. This is most obvious with health insurance where most states oversee a commercial health insurance market that comprises less than half their total health insurance writings. Agencies, such as the Centers for Medicare and Medicaid Services regulate Medicare and Medicaid, while the U.S. Department of Labor oversees self-insured group health plans.

Moreover, state regulators share authority for the life and annuity business with state securities regulators as well as the Securities and Exchange Commission. A recent settlement by a major auto insurer regarding salvage title issues arising from total loss claims was settled with the state attorneys general, not insurance commissioners. And HIPAA, Gramm-Leach-Bliley, and Sarbanes-Oxley are daily reminders of the increasing role the federal government plays in insurance regulation.

Time to Retool

Most likely the above are not signs of the end of state-based insurance regulation, as long as state regulators are taking a long, hard look at what is happening, and effectively retooling their state-based operations. Whether state insurance regulators view these outside entities as a threat or a partner will undoubtedly have a major impact on the future of state-based insurance regulation.

Regardless of any political ambitions one might ascribe to the New York Attorney General, he has clearly shone the spotlight on areas where state regulators had not. Having another branch of government uncover such significant wrongdoing is only a threat if we fail to properly evaluate the Spitzer findings and, most importantly, if we fail to evaluate how he arrived at these findings. State insurance regulators have spent years developing financial and market conduct examinations and analysis, complaint processes, and investigative practices in order to detect noncompliant practices of insurers. Indeed, New York insurance regulators worked closely with the Spitzer team as the current cases were developed and expanded. But more needs to be done.

With restricted resources, states must look to everyone as a potential partner in the network of insurance oversight. State legislators should also take heed and provide state insurance regulation with the funding required to do the job properly. State and federal agencies must openly share information regarding insurers, as well as techniques for examination and investigation.

While it is difficult to remove any regulatory process from self-serving promotion, effective coordination among regulators can work, provided the focus of regulatory efforts is devoted solely to the protection of insurance consumers. Effective state regulation must be flexible enough to identify other partners in the regulatory process, break down barriers among those agencies and identify ways to work together. If we can achieve that, I am convinced we will be more effective regulators and, more importantly, insurance consumers will be better served.

Kirk R. Yeager

Kirk R. Yeager, CIE
IRES President

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Insurance and global warming: Is this for real?

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By merely raising the issue, and by appearing to take it seriously, we run the risk of being labeled a mushy-headed liberal environmentalist. If we were to go on to pooh-pooh the idea, though, we'd instantly become a right-wing radical who's totally (and happily) out of touch with the latest in scientific research.

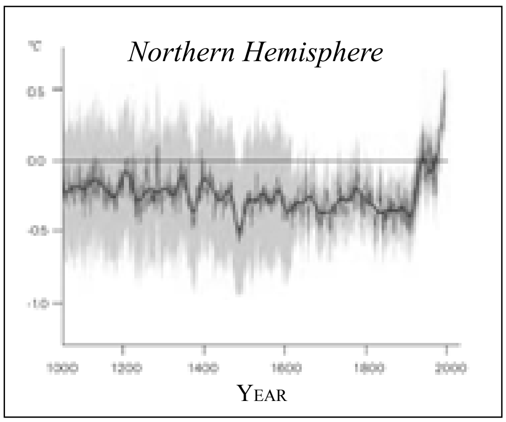
It's always seemed odd that something as reality-based as science can become a political football. Let's face it, though: This is hardly the first time that science has become politicized.

So for a few moments, let's try to set aside the knee-jerk political beliefs and ask one simple question: What if it's true?

If there were in fact a threat to life on earth, wouldn't we want to do something about it? And if there were something we could do to delay its onset, wouldn't we want to know about that?

From our perspective, another interesting aspect of global warming is the way it raises issues of concern to insurers — and insurance regulators.

Look at this list of what a consortium of environmental organizations has terms "direct manifestations of a widespread and long-term trend toward warmer global temperatures":



Temperature data from a variety of sources were combined by Michael Mann of the University of Massachusetts and others to create this well-known chart of mean temperature readings over the past millennium. The upturn over the past century or so — since industrialization— has earned this chart the nickname "the hockey stick," and also led to a great deal of controversy among scientists and politicians. For more information on the "hockey stick," see **http://news.bbc.co.uk/2/hi/science/nature/3569604.stm**

- Heat waves and periods of unusually warm weather
- Ocean warming, sea level rise and coastal flooding
- Glaciers melting
- Arctic and Antarctic warming

Other experts have warned us to be on the lookout for increased hurricanes, tornadoes and flooding, and a greater likelihood of forest and range fires.

With more than half of Americans already living within 50 miles of the coast, an area that totals just 11% of U.S. land mass, even a modest rise in sea levels could have a profound impact on, at a minimum, property values.

Insurers have already had to take into account the growing number of properties being built in tinder-dry forests. If droughts, and hence fires, become even more common in years to come, what's that going to do to commercial and personal-lines premiums nationwide?

Perhaps it's time to step back and take an even-handed, objective look at the possibilities.

Tipping the bucket

In *The Day After Tomorrow,* the earth is subject to an overnight shift in climate, with a new Ice Age descending suddenly over much of the Northern Hemisphere.

Since it was a movie, the focus was on saving the hero's son. Audiences were encouraged to ignore the death of hundreds of millions of other people and the loss of the majority of the world's farmland and temperate-zone habitat. But easily the most memorable, and most unrealistic, feature of the film was the sudden onset of climate change. Or was it all that off the wall?

A host of scientific research indicates that, indeed, systems can be prone to sudden change. Even large, complex systems like worldwide climate.

One analogy that's often used is that of a bucket, balanced precariously under a dripping faucet. Year after year, drip after slow drip, the bucket gradually fills — until, all at once, it tips over.

There are signs that the Atlantic Conveyor — a complex system of ocean currents that's responsible for much of the world's weather — may be reaching just such a tipping point. Even if it is, the change won't be quite as rapid as that depicted at the local cineplex. And let's face it, it may never happen at all.

But if we're going to look at all the possibilities, we have to admit that it's possible, just possible, that not only is climate change coming, but that it could be upon us quicker than we expect.

So the environmentally and scientifically sound thing to do would be to eliminate all cars and trucks and factories now, while there's still time. Let's go beyond the 5% reduction in greenhouse gases encouraged by the Kyoto environmental accord. That should make all the difference, right? Well, maybe not.

As Mark Hertsgaard wrote recently in the *San Francisco Chronicle,* "At the core of the global warming dilemma is a fact neither side of the debate likes to talk about: It is already too late to prevent global warming and the climate change it sets off."

In an article headlined "It's Much Too Late to Sweat Global Warming," Hertsgaard wrote that "prevention is no longer a sufficient option.

"No matter how many 'green' cars and solar panels Kyoto eventually calls into existence, the hard fact is that a certain amount of global warming is inevitable," he added.

Why? Because Kyoto governs only future emissions. Even if the treaty works perfectly — and some reputable environmentalists are calling for much higher reductions, in the range of 50-70% — it will be some time before we see any changes. Cutting back emissions will certainly help over the long haul. But some global warming is unavoidable, because the last century or so of greenhouse gases already are at work.

"Contrary to the impression given by some news reports, global warming is not like a light switch that can be turned off if we simply stop burning so much oil, coal and gas," Hertsgaard says.

"Even if humanity stopped burning fossil fuels tomorrow, the planet would continue warming for decades."

Glaciers have been shrinking all over the world for many years now. Sea levels have already risen — by 4-7 inches, according to some estimates.

Reinsurers in forefront

Despite the seeming consensus, it's certain that no single weather event can be definitively linked to global warming. Yet the long-term weather trend (that's a good working definition of "climate," as a matter of fact) is unmistakable to many insurance companies — and especially to reinsurers.

"Man-made climate change will bring us increasingly extreme natural events and, consequently, increasingly large catastrophe losses," said an official of Munich Re, the world's largest reinsurance company. Swiss Re, meanwhile, expects losses to reach $150 billion a year within this decade.

Both Swiss Re and Munich Re are in the forefront of recognizing the risks of global warming to the insurance industry. Check out their Web sites — **www.munichre.com** and **www.swissre.com** — for more detail, including PDFs of several informative reports.

> ***"Both Swiss Re and Munich Re are in the forefront of recognizing the risks of global warming to the insurance industry."***

One of those Swiss Re reports reprints the famous "hockey stick," a chart of mean temperatures over the Northern Hemisphere since 1000 A.D. that shows a sharp increase starting nearly a century ago.

Since that report came out, the chart, created by University of Massachusetts geoscientist Michael Mann, has come under fire for allegedly using data improperly — another example of the politicization of science, but also an example of why insurance regulators have an instinctive wariness toward all computer models. Nonetheless, if you want to act like you know what you're talking about when it comes to global warming, you have to drop the hockey stick into your conversations every so often.

As Swiss Re pointed out in its 1994 publication, *Global Warming: Element of Risk,* through much of modern history, mankind has assumed that climate is constant and predictable, and that it takes a lot to alter it, ergo humans' action can have no significant impact.

"In the end, all four turned out to be false," wrote Rudolf Kellenberger, a member of the board of Swiss Re. "Climate is unstable by nature, its variability is unforeseeable, ruling out any calculability, and it is sensitive to human activities."

He also points out that it is up to politicians and citizens to avoid or reduce the impact of climate change.

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Insurance and global warming: Is it for real?

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"It is the insurance industry's duty to deal with losses," Kellenberger added. If climate changes too rapidly, it could cause "damage which had better not be risked because it can no longer be handled."

Eight years later, the reinsurer published an update, *Opportunities and Risks of Climate Change*. Over that time, the tone of voice changed from uncertainty over whether global climate can indeed be influenced by our actions to a high degree of certainty.

"Today, global warming is a fact," wrote Bruno Porro, Swiss Re's chief risk officer, in the 2002 report. "The climate has changed: visibly, tangibly, measurably.

"An additional increase in average global temperatures is not only possible, but very probable, while human intervention in the natural climatic system plays an important, if not decisive role."

> ***With the aid of science we have to distinguish the possible from the impossible and weigh up the probabilities.***

Many insurers and government officials (including the current Administration, which until recently referred to energy conservation as "a sign of personal virtue") seem to be lagging behind Swiss Re, yet there is growing recognition that there may just be something to it after all. Politics aside, there does seem to be a serious consensus among the scientists who work in the field. The Defense Department, for one, is making plans, just in case climate change increases armed conflict.

British Prime Minister Tony Blair has called climate change "the single biggest long-term problem" facing his country.

And Joseph Romm, a former Energy Department official, recently told a reporter from *BusinessWeek* that today the price of oil is the main force affecting energy policy. "But in the long term," he added, "it will be global warming."

In addition to reducing production of greenhouse gases, there are a few other things that can reduce the long-term impact of global warming, easing if not eliminating the impact on insurance and reinsurance.

For instance, the deleterious effects of rising sea levels can be ameliorated by doing some of the things that have already been suggested to reduce the impact of hurricanes: restoring coastal marshes and reducing development, especially on barrier islands. It has even been suggested that the places around the Indian Ocean most heavily damaged by the December '04 tsunami were precisely those areas where mangrove swamps had been mostly heavily affected by development .

Sweeping back the tide

Most of us have heard of Canute, the ancient English king who supposedly tried and failed to keep the tide from coming in.

The actual lesson of the ancient tale is a little different. In reality, what King Canute wished to do was teach his courtiers something about the limitations of even absolute power, such as he supposedly possessed. See, he was telling them, even I cannot command the seas.

Perhaps that's a lesson that some modern-day political and corporate leaders could use. If global warming is real, the seas will in fact continue to rise — not just wetting Canute's robe but inundating coastal property. And spin and sound bites won't change a thing. Perceptions? Sure, they can be changed, for a while. But only for a while. Because reality doesn't care whether we believe in it.

We've avoided repeating some of the more drastic scenarios. The more modest, more mainstream predictions are quite scary enough, thank you.

As Swiss Re's '94 report put it: "It would of course be wrong to start devising horrific scenarios and resorting to frantic action. With the aid of science we have to distinguish the possible from the impossible and weigh up the probabilities."

Yet the undeniable uncertainties shouldn't paralyze local, state and national governments, insurers — or regulators — and prevent any further thought or action. Some of the solutions aren't readily apparent, but it's sure seems as if it's time to start thinking about some.

After all, what if even a few of those horrific scenarios turn out to be true? ■

Reinsurance and Mega-Catastrophes

by Warren Buffett

Reinsurance – insurance sold to other insurers who wish to lay off part of the risks they have assumed – should not be a commodity product. At bottom, any insurance policy is simply a promise, and as everyone knows, promises vary enormously in their quality.

At the primary insurance level, nevertheless, just who makes the promise is often of minor importance. In personal-lines insurance, for example, states levy assessments on solvent companies to pay the policyholders of companies that go broke. In the business-insurance field, the same arrangement applies to workers' compensation policies. "Protected" policies of these types account for about 60% of the property-casualty industry's volume. Prudently run insurers are irritated by the need to subsidize poor or reckless management elsewhere, but that's the way it is.

Other forms of business insurance at the primary level involve promises that carry greater risks for the insured. When Reliance Insurance and Home Insurance were run into the ground, for example, their promises proved to be worthless. Consequently, many holders of their business policies (other than those covering workers' compensation) suffered painful losses.

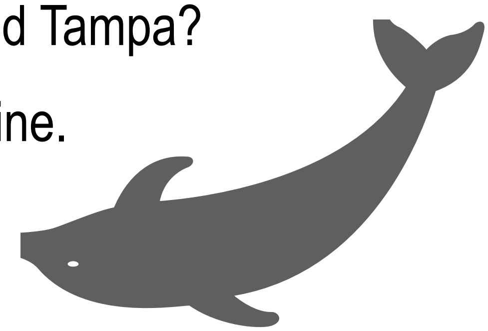
The solvency risk in primary policies, however, pales in comparison to that lurking in reinsurance policies. When a reinsurer goes broke, staggering losses almost always strike the primary companies it has dealt with. This risk is far from minor: GEICO has suffered tens of millions in losses from its careless selection of reinsurers in the early 1980s.

Were a true mega-catastrophe to occur in the next decade or two – and that's a real possibility – some reinsurers would not survive. The largest insured loss to date is the World Trade Center disaster, which cost the insurance industry an estimated $35 billion. Hurricane Andrew cost insurers about $15.5 billion in 1992 (though that loss would be far higher in today's dollars). Both events rocked the insurance and reinsurance world.

But a $100 billion event, or even a larger catastrophe, remains a possibility if either a particularly severe earthquake or hurricane hits just the wrong place. Four significant hurricanes struck Florida during 2004, causing an aggregate of $25 billion or so in insured losses. Two of these – Charley and Ivan – could have done at least three times the damage they did had they entered the U.S. not far from their actual landing points.

Many insurers regard a $100 billion industry loss as "unthinkable" and won't even plan for it. But at Berkshire, we are fully prepared. Our share of the loss would probably be 3% to 5%, and earnings from our investments and other businesses would comfortably exceed that cost. When "the day after" arrives, Berkshire's checks will clear.

© Warren Buffett is CEO and Chairman of the Board of Berkshire Hathaway. The article is excerpted from Mr. Buffett's most recent annual letter to Berkshire shareholders and is reprinted with permission.



Meet Matt Denn

An interview with Delaware's new commissioner

Editor's Note: *Last November, Delaware voters elected Matt Denn as the state's Insurance Commissioner. Since assuming office in January, Commissioner Denn, has been busy on a number of consumer-oriented fronts. In early April,* The Regulator *caught up with the newly elected Commissioner for this interview.*

Is using credit scoring to underwrite and rate auto and homeowners insurance a bad idea? If so, why?

Yes, I think that it's unfair and unnecessary. It's unnecessary because carriers in a variety of states, including California, the largest insurance market in the country, are [rating] and underwriting insurance without the use of credit scoring. They know how to underwrite without the use of credit scoring and appear to be doing quite well at it. For that reason, I think it's unnecessary. And it's unfair because of the discriminatory impact that I think even its advocates recognize it has among both ethnic minorities and low-income policyholders.

Do you believe a link exists between a person's credit score and their tendency to be involved in accidents?

I think the jury is still out on that. But even if that does turn out to be the case, there are a variety of factors that though actuarially sound are nevertheless prohibited by states because of other adverse impacts that they have. So if there is ultimately a conclusion that there is a statistical link, that's not really the end of the story.

You've set forth some interesting proposals for removing uninsured drivers from the road. Could you discuss them?

Sure, our primary proposal is that we've asked the State Legislature to give our Department the legal authority to remove the license tags of vehicles that are believed to be uninsured and their owners have been given numerous opportunities to disprove their uninsured status. Delaware has a reasonably good system for determining which vehicles are uninsured, but does not have very much follow-up enforcement once that information is obtained. So we are looking to get the legal authority to carry out much more aggressive enforcement actions against those vehicles that are known to be uninsured, with the ultimate goal of getting some relief for our policyholders with respect to their auto rates.

You've put forth a bill increasing the penalties on Delaware insurers for late payments and other infractions. Is there a problem in that regard in Delaware? Are the Delaware Insurance Department's monetary penalties too small to be effective?

Q&A

Yes, the monetary penalties for bad faith insurance practices in the State of Delaware have not been changed since they were implemented in 1973. So they are literally over three decades old and are no longer any sort of real financial deterrent to the type of practices that they're designed to deter. What we've asked the General Assembly to do is to increase them – not to current-dollar values – but at least to late-'80s/early-'90s level dollar values so that we have enforcement actions that have some credibility to them.

How has being a former General Counsel to the Governor helped you in your role as Insurance Commissioner? How important is it in your view for the Insurance Commissioner to have a good working relationship with the State Legislature?

For me, it's very important because we have a fairly broad view of what this office's role is and a substantial part of it involves advocating for changes that require the passage of legislation. So it is critically important that the office has a good relationship with the General Assembly. My prior work as the Governor's legal counsel has been very helpful in that regard in that I developed good personal relationships with most of the legislators during that period of time and, I think, have some credibility with them. And that has been very helpful, even in these early stages, in getting our legislative proposals moving.

What has been the impact, in your opinion, on state insurance regulation of the various investigations into insurer and broker practices?

The current investigations were all generated by state regulators so I think that they demonstrate that diligent state regulators can get the job done.

As part of their mission statements, most states include protecting the consumer and spurring the growth of the insurance industry? Do you believe these goals can coexist? Is there an inherent conflict between these two goals?

I hope they can coexist because those are not statutory mandates for our Department, but those are two of the primary goals for my department — to ensure that consumers are treated fairly and to get some control over rates which necessarily means having a variety of companies doing business here so there is competition. So far, we've been able to strike a good balance. I think the good companies want to have satisfied customers and that the good companies recognize that there is a role to play for an insurance commissioner's office that advocates for individual consumers when necessary.


Denn of Delaware

Most of Delaware's financial examinations are outsourced? Do you favor that approach?

We don't have much of a choice at the state-salary levels under which we are required to pay our employees. It's not really possible for us to hire as state employees people who can do these examinations.

So it's basically a dollar-and-cents issue?

Yes. We are going to be bidding out that work. I think that work has in the past been awarded without any sort of open-bidding process. We will be having an open-bidding process for it during this calendar year.

About 11 states, including Delaware, elect their insurance commissioners. What do you believe are the pros and cons of electing, rather than appointing, an insurance commissioner?

The pros are that you have public discussion and debate about some of the issues that the Commissioner will face, which I think is less likely to happen in a state where the Commissioner does not have to face the voters. It is also likely to generate a more robust and responsive consumer affairs unit simply because an elected Commissioner has to be extremely attentive to that facet of the office.

The downside is that people and entities who should not have a role in determining who the Commissioner is can get involved in the political process through contributions and help elect people who might not, by objective standards, be the people who should be elected. I made a conscious choice when I ran for office not to accept financial contributions from people who my office would regulate. Others might not make that choice and I think that is the downside of an elected commissioners' system.

Do you think that there should be a statutory provision prohibiting contributions to insurance commissioner campaigns from those that they regulate?

Yes.

Lastly, professional organizations, such as IRES and SOFE, provide an opportunity for rank-and-file regulators to learn from other regulators across the country. I wondered if you have had an opportunity to familiarize yourself with such professional organizations and, if so, what are your first impressions?

Some of the regulators who do work on staff here are fairly involved in those organizations. I haven't had the opportunity to form much of a first-hand impression of [the organizations], but I know that our Department staff who are involved are very impressed with them.

Thank you, Commissioner. ■

The future of auto insurance underwriting

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Auto Insurance Report's national conference in Newport Beach, California in May 2004. Toney and Mang's presentation was the result of a year-long examination of auto insurance pricing sophistication, and has established the framework around which pricing discussions will revolve for years to come. InsurQuote and McKinsey conducted a study of leading auto insurers in Illinois. They chose Illinois because it's a large state with an open regulatory environment.

They found that for a sample risk, Nationwide generated one price, while Progressive—the company with the most sophisticated pricing—generated 131 different price points. Progressive's multiple prices were the result of a more expansive list of questions asked at the time of application and a more aggressive analysis of the relationships between rating characteristics.

> ***"A small number of insurance companies have developed such superior skill at calculating accurate auto insurance prices that they're able to outperform their competitors by a wide margin."***

This is merely one example of one risk in one state, and the 131:1 ratio is just an indicator. The ratio for other risks in other states could be 25:1 or 200:1. I'm not picking on Nationwide, and it's not alone; the narrow pricing models of many other insurers were exposed by the InsurQuote-McKinsey analysis (e.g., State Farm had one price point for the sample risk versus Progressive's 76). These statistics were generated from public information, and may fail to take into account unreported pricing-and-underwriting strategies, but even if the numbers are off by 50% — and they're not—it wouldn't change my conclusions.

Time and again in the Illinois study, across multiple risks and carriers, certain companies that have more sophisticated pricing models generated more specific price points than did their competitors with less sophisticated approaches. My premise is simple: greater underwriting sophistication is a significant advantage. Progressive, the epitome of pricing sophistication, is growing much faster than other insurers, and is doing so with a much lower combined ratio than most companies. (From 1994 to 2003, Progressive's revenues grew at a 17% annual rate and its combined ratio averaged 93.7%.) Other insurers that have greater sophistication are also performing well.

Although InsurQuote and McKinsey have not formally concluded that pricing sophistication leads to increased profit, *Auto Insurance Report's* review of the evidence has convinced me of the high correlation between an insurer's level of pricing sophistication and its current growth and profitability. There are leaders in the pricing sophistication game—and laggards. The pricing-sophistication gap isn't necessarily widening between the top and the bottom insurers. Instead, it's shifting among companies in the middle. Some insurers are moving towards increased sophistication while others are stalled by corporate culture, systems troubles, or because they deny that there's a need to change. It's so difficult to build a sophisticated pricing system and takes so long to implement that today's leaders will have at least several years to profit from the laggards' weaknesses. Companies that are already moving towards greater sophistication still have opportunities, but aren't likely to profit to the extent that Progressive has.

Of course, price isn't everything. Brand and customer inertia are formidable factors, and both inure to the benefit of insurance companies that don't have sophisticated pricing skills. So does the lack of price transparency in the personal-auto market. (Few customers really know the lowest price available to them.) Auto insurance buyers are "shopping" more than ever. When an insurance company with a quality brand offers lower prices, it now has a better chance of gaining new business than in the past. If the lower prices are the result of more accurate pricing skills, the new business is likely to be profitable. Ultimately, more accurate pricing is more important than a quality brand.

Progressive can grow rapidly and produce an excellent loss ratio even though its brand is only modestly useful. State Farm, the largest auto insurer, is clearly one of the pricing laggards. It recently lost billions of dollars when it tried to grow market share with a low price—even though it has one of the two best brands in the business.

Allstate, the other big brand, has a much better pricing model than State Farm (but not as good as Progressive's). Allstate's pricing has produced excellent profits, but little growth. The company is now confident enough in its "standard" and "preferred" auto-pricing skills and will become more aggressive.

The Four Keys to Pricing

After examining numerous pricing plans, Toney and Mang identified four key pricing characteristics: granularity, dispersion, interactions, and variables. Let's look at each characteristic.

Granularity

Granularity is the number of pricing "cells" an insurer generates based on the data it gathers to underwrite a risk. Age, for example, would be four cells if drivers are placed in broad ranges such as 16-25, 26-40, 41-60, and 61 and up. But age would be 70 cells if each year from 16 to 85 is considered individually. If it can be calculated that each year has a distinct risk characteristic, then a pricing model that analyzes age by year—rather than range—would generate a price that's more closely correlated with risk than a model that analyzes age by range.

> *"The more variables an insurance company uses, the more pricing cells it will have."*

The same idea of granularity applies to how a pricing model slices up territories, vehicles, occupation, annual mileage driven, and education. The more variables an insurance company uses, the more pricing cells it will have. If it's able to find correlations among these variables, it will have even more cells. Greater granularity increases a company's ability to adjust and adapt pricing as it learns more about the relative importance of variables and their relationships to each other. If the correlation between age and credit is such that credit is more important for middle-aged drivers than young or old drivers, that would result in more cells than if credit is given the same weight for all age groups.

The InsurQuote-McKinsey study found that in Illinois the variations of insurance companies' granularity were huge. Progressive, which has more than one billion pricing cells, was the clear leader in granularity. The Hartford was in second place, with about one-hundred million cells. State Farm was at the other end of the spectrum, with about one million cells. Most insurers in Illinois were closer to State Farm than to Hartford. (Progressive was off the charts.) Bear in mind that these results are from one state at one particular time. Also, some companies that fared poorly in Illinois may have more sophisticated pricing models in other states.

Dispersion

The second characteristic of sophisticated pricing is dispersion. Dispersion is the range of premium that an insurance company generates from its cells. A company with low dispersion may have auto insurance premiums ranging from $400 to $600. A more sophisticated analysis of the same risks might result in a $250-to-$750 range.

A company may have high granularity, but if its dispersion is low it isn't bringing more accurate prices to the marketplace. At first I assumed that high granularity and low dispersion meant than an insurer wasn't too sharp. Why build a fancy model and then fail to use it?

Toney and Mang explained that when a company transitions from a simple pricing model to a more sophisticated model, it would be risky to roll out the new prices immediately. It could disrupt an entire book of business, costing a company a significant number of customers and agents. The assumptions and premiums in a new pricing model must be tested before they can be relied on.

continued on next page

The future of auto insurance underwriting

continued from prior page

(More than one business has been undone by overconfidence in numbers generated by computer programs.)

It's a good bet that a new pricing model won't be accurate from the start. The companies with the most sophisticated pricing share a common characteristic: they're constantly changing as they learn from mistakes and think up new ideas to test. The least sophisticated companies are static. They fail to respond to changes in the market and changes made by competitors.

Interaction Among Variables

The third characteristic of sophisticated pricing is the analysis of the interaction among variables. Each variable has a certain importance. The interaction of variables, however, creates an exponential increase in granularity. Age, credit scores, and territory are all important variables. They are especially important when used with each other.

A vehicle's "symbol" (the relative risk of one vehicle versus another), is a measure of risk. While it may be useful to consider a vehicle's symbol in an entire state, it is far more powerful to consider the vehicle's symbol by territories within a state. A pickup truck, for example, is probably a work vehicle in downstate Illinois, but it may be more of a sports car in a wealthy suburb. Small imported sedans are less likely to be stolen in the suburbs than in the city.

New Variables

The fourth characteristic of sophisticated pricing is the implementation of new variables. To be at the leading edge of pricing sophistication, an insurance company cannot merely identify new interactions among established rating factors, it must also identify new variables. Although relatively rarely used, education and occupation are examples of leading-edge variables identified by InsurQuote and McKinsey.

Here are two more examples: 1) At least one company is asking applicants for bodily injury limits on their existing policies. If a customer is looking to move from minimum limits to much higher limits, that might say something interesting about that customer; and 2) Companies have always looked at the repair and theft replacement cost of different vehicles. (These are known as "physical damage symbols.") Now, a handful of insurance companies are looking at the relationship between liability claims and the car an insured was driving. This "liability symbol" is proving to be predictive.

The search for new variables — and variations on old variables — is the insurance business's search for the Holy Grail. It would be rash to say that there will never be another variable as powerful as credit scoring, but there's nothing on the horizon that has a chance of having that kind of impact.

Winning at the insurance-pricing game requires constant revision and testing. Perhaps "occupation" and "education" will have limited use. Maybe they will be too difficult to group together and verify in an independent-agent environment. But insurance companies must find competitive advantages through more sophisticated analyses. Many of these advantages will be small. For example, suppose that most occupations are not predictive, but it turns out that bartenders are worse-than-average risks and engineers are better-than-average risks. Those data points are useful by themselves. But, depending upon interactions, they may be extremely useful. Perhaps young bartenders are average drivers, and older bartenders are poor drivers. Perhaps female engineers are fabulously analytical in their driving behavior, but male engineers overreact to their perceived nerd status and have a psychological compulsion that leads them to drive with a heavy foot. (I'm making this up for illustration, so please—no nasty notes from the engineers' defense society.)

The testing of assumptions and new ideas are critical components of the underwriting-sophistication process. Sadly, many insurance companies are ill-equipped for this. They are limited by their computer systems and, more importantly, by their corporate cultures. Someone who actually comes up with a new idea is rare indeed at most insurance companies. Carrying that idea to implementation is even rarer. The careers of those who generate and champion new ideas are tied to the success or failure of these new ventures. As a result, those who propose change fight to the death to protect it, even when signs show that it is failing.

At the most innovative insurer, Progressive, things are different. It isn't a career-ender to have been the proponent of a failed idea as long as it was rational and executed with skill. "Smart" failures are considered learning experiences — building blocks for future revisions and new ideas that may be successful. At Progressive, those who propose a new idea are often the first to speak up if it isn't working. This isn't unusual in business — but it is unusual in the insurance business.

Consumers Shopping More

Having a competitive pricing model has always been important, and McKinsey's research on consumer buying behavior has determined that it has become increasingly important in recent years. A study released at the Auto Insurance Report national conference found that the percentage of consumers who shopped their insurance had grown from 36% in 1996 to 53% in 2003, putting about $25 billion of premium in play each year. (Remember, personal auto is a $160 billion market.)

> *"The percentage of consumers who shopped their insurance has grown from 36% in 1996 to 53% in 2003."*

Thus, there are two powerful forces at work in the market that will accelerate the risks of being on the wrong side of the price sophistication battle: 1) More consumers are shopping each year, which means that more consumers are likely to be exposed to insurers that have sophisticated pricing, and 2) more insurers are attempting to create sophisticated pricing models.

As more insurers move forward, the market will eventually reach a "tipping point" where there will be a critical mass of accurate prices. Despite the inefficiencies of the auto insurance market, a large number of shoppers will find more accurate prices, thereby speeding up the mispricing cycle and increasing the pain for insurers that haven't caught up to the middle of the pricing-skill pack.

And so it has come to this: Progressive is all alone at the top, armed with the most potent pricing model. Due to this competitive advantage, the company is growing rapidly and profitably. Most insurers have made little progress at catching up to Progressive. They're struggling to find growth and profit, and clinging to market inertia and inefficiency. Among the largest insurers, State Farm, Farmers, Nationwide, and American Family fall into the category of insurers that don't have sophisticated pricing. They are joined by the vast majority of small insurers. There are a number of insurers in the middle that are rapidly achieving a significant advantage over those that have done little. These include Hartford, Allstate, Safeco, Travelers, MetLife, and 21st Century.

The big game is not catching Progressive. It has a competitive advantage that will last for many years. Instead, the game is to avoid being in the bottom tier of pricing sophistication. Companies in that position will lose their best risks and suffer from adverse selection in the mispricing death cycle.

A final, important point, especially for regulators: there are public policy issues related to underwriting sophistication. The public is still struggling to accept the use of territory in pricing. Credit scoring is an ongoing battle. Insurers may be bad at pricing sophistication, but they're even worse at explaining themselves to consumers. At every single step of this evolution, insurance companies must think about the public impact of pricing changes with the same vigor that they consider the virtues of competitive advantage.

The new tools are powerful, and they must be handled with great care. ■

Brian Sullivan is editor of *Auto Insurance Report,* a weekly newsletter. This article was adapted from a piece that was featured in *Schiff's Insurance Observer.*

C.E. News

By mid-May, you should be receiving your NICE continuing ed transcript showing hours you have turned in so far for the 9/1/04 - 9/1/05 compliance year. Don't worry — you have until Sept. 1, 2005 to obtain your CE hours.

If in August you find yourself short a few hours, you can now take advantage of the new "Reachback"program. You are allowed to reach back one year and use up to 3 qualifying CE hours that were not used for last year's compliance. A Reachback form can be downloaded from our Web site. The form also will be included with your May transcripts. Please add this form to your NICE information manual.

IRES members holding an AIE or CIE can view their continuing ed credits online. Go to our Web site **www.go-ires.org,** find the Accreditation heading, and click MY CREDITS. From there, just follow the instructions. If you forgot your password or have never logged on, call the IRES office.

N · I · C · E

National IRES Continuing Education

Quote of the Month

"Our concerns are deeply rooted in the basic structure of the SMART Act that mandates federal preemption of state laws and regulations, federal supervison of state regulation and complete rate de-regulation for all states. We do not believe that tweaking the language of the SMART Act discussion draft can resolve these basic conflicts."

— NAIC President Diane Koken

IRES State Chapter News

COLORADO — **Gerry Lewis-Jenkins** of COPIC Insurance Company spoke on medical malpractice insurance at our February Chapter meeting. Our March speaker, **Edward Fronapfel** of Professional Investigative Engineers, discussed construction defect claims.
— Dayle Axman; Dayle.Axman@dora.state.co.us

DISTRICT OF COLUMBIA — At our February meeting, we discussed recruitment plans for 2005. We also discussed drafting a proposal for developing internal incentives for recruiting and retaining our members. Three new members from the DC Department are considering joining the organization.
— Betty M. Bates; betty.bates@dc.gov

FLORIDA — The IRES chapter sponsored a half-day continuing education seminar March 30 at the Florida Office of Insurance Regulation. It featured a presentation by **Karla Pius**, Investigation Manager, Market Investigations and by **Claude Mueller**, Director, P&C Financial Oversight. The education seminar was well attended. In addition, **David Chartrand** of the IRES headquarters spoke about the benefits of IRES membership and plans for this summer's annual CDS in Tampa.

KANSAS — The Kansas Chapter's initial 2005 meeting featured Assistant Insurance Commissioner (and IRES member) **Bob Tomlinson**. Assistant Commissioner Tomlinson spoke about legislative issues affecting insurance this session, and also enlightened us regarding various ways bills are handled by the Legislature. We also discussed the upcoming CDS in Tampa. It should be noted several baseball fans expressed disappointment that the Devil Rays would not be playing at home during the CDS.
— Marty Hazen; MJHAZEN@ksinsurance.org

LOUISIANA — Our most recent chapter meeting was held March 31. The meeting featured **Larry Hawkins**, Director of Market Conduct, who provided a PowerPoint presentation on using IRES as a recruitment tool. The presentation included a brief history of IRES; an overview of professional designations as well as the educational paths to these designations; a discussion of IRES officers and committees; and the upcoming CDS in Tampa. There were 28 attendees at the meeting.
— Larry Hawkins; lhawkins@ldi.state.la.us

NEBRASKA — **Jim Snyder**, Fraud Division Supervisor, and **Mark Wolf**, Fraud Division Investigator, presented an overview of the Department's Insurance Fraud Prevention Division at our February meeting. They explained how cases are handled, reports are developed and referrals for prosecutions executed. They also included case examples. Details of upcoming meetings can be found on the IRES Web site, as they are scheduled.
— Karen Dyke; kdyke@doi.state.ne.us

OREGON — Our February meeting featured **Christina Jaramillo**, Senior Health Insurance Benefits Assistance (SHIBA) Field Officer of the Oregon Insurance Division, discussing "SHIBA – 2006 Medicare Drug Benefit." In addition, **Richard L. Renken**, Supervising Examiner of the Banks and Trusts Division of Finance and Corporate Security, discussed "Insurance Products offered by Financial Institutions." At our March meeting, **Chris Apgar**, President, Apgar & Associates, LLC, offered a presentation on the Health Insurance Portability & Accountability Act (HIPAA).
— Gary Stephenson; gary.m.stephenson@state.or.us

VIRGINIA — Thirty-three regulators attended our March Chapter meeting, chaired by **Julie Roper**. Two representatives from one of Virginia's largest health care providers discussed the Health Insurance Portability & Accountability Act (HIPAA) and the National Health Information Infrastructure (NHII). The meeting was quite informative, generating multiple questions from attendees.
— Sheryl Hines; Shines@scc.state.va.us

In the next REGULATOR:

√ **The controversy over life settlement sales**

√ **Looking back at Lloyd's**

Regulatory Roundup

by
Stroock & Stroock & Lavan LLP

NEW YORK – Legislation to impose fiduciary duty on producers, permit profit-sharing with disclosure is introduced

On March 1, a legislative package of bills (A5825 – A5828) was introduced aimed at expanding the fiduciary duties of insurance agents and brokers and setting forth guidelines regarding permissive incentive or profit-sharing arrangements. New York State Assembly bill A5825 imposes a fiduciary duty on agents and brokers to avoid any conflict of interest, self-dealing and excessive compensation. Another bill, A5826, requires agents and brokers to disclose to each client or potential client, on a form prescribed by the New York Insurance Department, the existence and nature of all of the producer's compensation with respect to the client, including but not limited to, the source, nature, form, value and method of calculation of such compensation. Gifts of *de minimis* value and statutory fees or expenses from compensation would be exempt from the disclosure requirement. Failure to disclose compensation received would constitute a violation of the fiduciary duty of the producer. Bill A5827 permits incentive or profit-sharing compensation arrangements between insurance companies and agents or brokers, provided that any such arrangement is based on "the agency's or broker's overall performance on its book of business, based on a combination of profitability, volume, growth and/or retention." However, any such incentive or profit-sharing compensation arrangement must be filed annually with the Insurance Department. The fourth bill in the series, A5828, imposes on every agent and broker a duty to exercise reasonable care in obtaining the best possible terms on an insurance policy for its client. While an agent or broker who fails to provide a client with a proposal of the best terms or fails to obtain a quote from an insurer that might reasonably be believed to offer the best terms would be deemed to have breached its duty to exercise reasonable care, the agent or broker will not be held responsible for its client's failure to select the best terms offered in the proposal. The bills, if enacted, would take effect 180 days after they become law. To view bills A5825-A5828, visit **www.senate.state.ny.us**

FLORIDA – Proposed legislation would permit certain alien insurers to operate without a certificate of authority

A proposed bill, SB 1508, would add an exception to the general requirement that an insurer must obtain a certificate of authority (COA) before it may transact insurance in Florida, by allowing certain alien insurers domiciled outside the United States to operate from offices within Florida without a COA. The exception is limited to life insurance policies or annuity contracts issued by an alien insurer covering only persons who are not residents of the United States, and who are not nonresidents illegally residing in the United States, at the time of issuance. To be eligible to operate without a COA, the insurer must be authorized in its country of domicile to issue life insurance policies or annuity contracts for the preceding three years, provided, however, that the three-year requirement may be waived by the Florida Office of Insurance Regulation if the insurer has operated successfully for the past year and has capital and surplus of at least $25 million. The insurer must also maintain a policyholders surplus of at least $15 million, and must be of "good reputation" as to service to policyholders and payment of losses and claims. . The bill, if enacted, would take effect on July 1, 2005. To view bill SB 1508, visit **www.flsenate.gov/data/session/2005/Senate/bills/billtext/pdf/s1508c1.pdf**

MISSOURI – Legislature tightens the definition of injuries covered by workers' compensation

On March 17, the Missouri Legislature passed SB 1, a bill that redefines compensable injury under the Missouri workers' compensation law for certain injuries incurred by employees. Most significantly, the bill modifies the definition of "injury" by limiting the definition to only allow compensation if the accident was the "prevailing factor" in causing the condition, as opposed to merely occurring at the workplace.

The New York-based Stroock & Stroock & Lavan LLP Insurance Practice Group includes partners Donald D. Gabay, Martin Minkowitz, William D. Latza and William Rosenblatt. The Insurance Practice Group also includes insurance finance consultants Vincent Laurenzano and Charles Henricks. They gratefully acknowledge the assistance of Todd Zornik, an associate in the group, and Robert Fettman, a law clerk in the group. This column is intended for informational purposes only and does not constitute legal advice.

The bill also rejects and abrogates earlier case law interpretations of the meaning of "accident," "occupational disease," "arising out of," and "in the course of the employment." Additionally, injuries sustained in company-owned or subsidized automobiles in accidents that occur while traveling to or from work are likewise not compensable. The bill further limits compensation by as much as 50% where an injured worker is found to have been partly responsible for the accident due to drug use, intoxication or failure to follow safety rules. The bill also exempts from coverage injuries from unknown causes and personal health conditions that manifest themselves at work, when an accident is not the prevailing factor in the need for medical treatment. Moreover, the bill provides that where inconsistent or conflicting medical opinions exist, objective medical findings must prevail over subjective medical findings. The bill defines objective medical findings as demonstrable on physical examination or by appropriate tests or diagnostic procedures. If signed into law by the Governor, the bill would become effective on January 1, 2006. To view SB 1, visit **www.senate.mo.gov/05info/billtext/tat/SB1.htm**

NEW YORK — Emergency regulation creates stronger reserving guidelines for universal life insurance with secondary guarantees, and for credit life insurance

On January 19, the New York Insurance Department published in The New York State Register an emergency regulation, which requires insurers that sell universal life insurance in the state to set aside adequate reserves in keeping with the spirit of the actuarial guideline of the National Association of Insurance Commissioners (NAIC) that establishes the standard for the industry nationally. The amendment to Regulation 147 (11 N.Y.C.R.R. Part 98), which took effect on Dec. 29, 2004, provides detailed examples of various policy designs that constitute guarantees and describes the reserve methodologies to be used in valuing such policy features that constitute guarantees, and also provides minimum mortality standards and minimum reserve standards for credit life insurance. The amended Regulation was promulgated on an emergency basis in large part to deal with inadequacies of reserves as a result of secondary guarantees in certain life insurance policies. In a January 19, 2005 press release, the Insurance Department cited as a reason for implementing the amendment efforts among some insurers to design life insurance products that circumvent existing reserve standards to gain a competitive edge. The Insurance Department also stated that it was amending Regulation 147 in part because the Insurance Department believes that NAIC Actuarial Guideline 38, a model rule that offers a standard mathematical formula for calculating reserves and takes into account policy guarantees and the flexibility of premiums, needed clarification. In addition to universal life insurance products, the regulation also regulates reserve requirements for non-level premium and/or non-level benefit life, indeterminate premium life, variable life and credit life insurance policies. The Insurance Department sent out a survey to all New York-licensed life insurers and reinsurers, asking that the insurers provide to the Insurance Department an estimate of the amendment's financial impact on their operations. To view amended Regulation 147, visit **www.ins.state.ny.us/remgindx.htm.** The press release issued by the Insurance Department can be viewed at **www.ins.state.ny.us/p0501191.htm**

ARIZONA — Department of Insurance issues Bulletin regarding licensing requirements applicable to individuals procuring surplus lines insurance coverage

The Arizona Department of Insurance issued Regulatory Bulletin 2004-4 on November 30, 2004 to correct a reportedly common misinterpretation of Arizona Insurance Code Section 20-411(E), which provides that "[a]t least one individual in each office or place where surplus lines insurance is transacted in [Arizona] shall be licensed as an insurance producer authorized for property or casualty insurance under this title and shall have passed the examination required by this section." Apparently some property/casualty producers (who are not separately licensed as surplus lines brokers) have interpreted this provision to permit them to act as a surplus lines broker where they do so in affiliation with entities that are so licensed. Regulatory Bulletin 2004-4 corrects this misconception, noting that Section 20-411(A) requires every individual and entity acting as a surplus lines broker to be so licensed. Section 20-411(E) simply requires any entity that is licensed as a surplus lines broker to have someone on staff who is licensed as a property or casualty insurance producer. That individual must still be separately licensed as a surplus lines broker to procure surplus lines coverage. The Regulatory Bulletin notes, however, that such property or casualty insurance producer could lawfully refer such business to a properly licensed individual within the surplus lines brokerage entity. To view Regulatory Bulletin 2004-4, visit **www.id.state.az.us.**

Casual Observations

Fido's gone, now sue your vet

When pet owners were asked in a recent survey by the American Animal Hospital Association if they were deserted on an island, who would be their companion of choice, 50% picked their dog or cat over a human. Moreover, when asked "Who listens to you best?," 45% chose their pet. Only 30% selected a spouse or significant other.

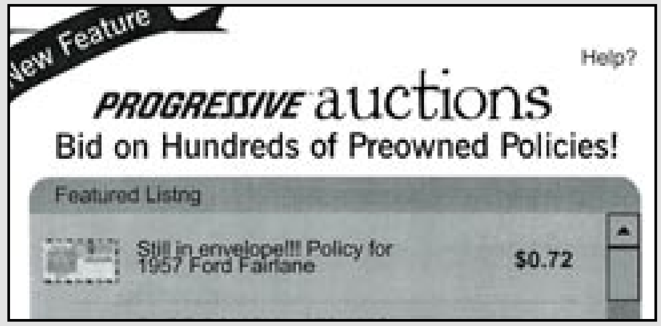
Thus it comes as no surprise that more and more pet owners are searching for med mal lawyers after losing their pets on the operating table. A Florida man, Adam Riff, and his mother sued their veterinarian for medical malpractice after their 8-year old sheepdog, Lucky, died following complications from dental surgery.

Some might think Lucky's lucky streak had simply run out, but Mr. Riff, disputing that notion, sued. Lucky's case represents the latest in a series of pet medical malpractice cases challenging long-held precedents that treat pets as property, their value determined by the pet's orignial cost, less depreciation. A ruffled Riff, insisting a cur is not a car, decided to press his case.

Although Riff's case is still wending its way through the courts, last year a California man was awarded $39,000, the largest U.S. pet malpractice award to date. The man's dog, Shane, had died from liver failure following a misdiagnosis, but only $9,000 of the verdict was devoted to vets' bills. The rest compensated the owner for the "unique value" of Shane, a mixed breed. The vet is appealing.

We love our pets too, but let's face it, they're animals. Such cases, we fear, will simply drive up the costs of pet medical care to unaffordable levels, discouraging pet owners from getting the preventative care their beloved animals need. What's next? Animal bodily injury limits on auto policies? Life insurance for hamsters?

It should be noted we have fully explained our position on this issue to our dog and cat, and they couldn't agree more. After all, they listen to us best.



April Fool

As investigations into the insurance industry slog on, it's encouraging to see at least one major carrier hasn't lost its sense of humor. The Progressive Group is proof positive that a cutting-edge business model (see Brian Sullivan's page-one article) can coexist with a cutting-edge sense of humor.

Case in point: Earlier last month, we found the Progressive Web site promoting auctions of "preowned auto policies" on old Ford Fairlanes and Honda Accords (see inset). However, on closer inspection we noticed all auctions opening and closing the same day, April 1. We'd been had.

But for those who didn't get it, Progressive attorneys felt compelled to post the following disclaimer:

> **No, you can't really bid on old policies. Someone in Marketing thought this would be funny. Then Legal Guy got wind of it and made us display this disclaimer. Like you wouldn't have figured it out on your own. He even said we couldn't keep the money if anyone really did bid. What a drag.**

It's a sorry state of affairs, but lawyers can even siphon the fun out of April Fool's Day. Our advice to Progressive is tell "Legal Guy" to focus on Spitzer et al. and leave corporate humor to those wacky wags in Marketing.

— *W.C.*

TAMPA

The 2005 IRES Career Development Seminar

JULY 31 - AUG. 2, 2005 TAMPA MARRIOTT WATERSIDE

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Yes! Sign me up for the 2005 IRES Career Development Seminar. My check payable to IRES is enclosed.

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Title ____________________ First name for Badge ____________________

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Your mailing address Indicate: ☐ Home ☐ Business ____________________

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Area code and phone ____________________ $ ____________________ Amount enclosed

Seminar Fees

(includes lunch, cont. breakfast and snack breaks for both days)

Check box that applies

- ☐ IRES Member (regulator) $285
- ☐ Industry Sustaining Member $460
- ☐ Non-Member Regulator $410
- ☐ Retired IRES Member $110
- ☐ Industry, Non-Sustaining Member $710
- ☐ Spouse/guest meal fee $80

____
PAID Spouse/Guest name

If registering after June 29, add $40.00. No registration is guaranteed until payment is received by IRES.

A $25 cancellation fee will be assessed if canceling for any reason.

Hotel Rooms: You must book your hotel room directly with the Tampa Marriott Waterside. The room rate for IRES attendees is $139 per night for single-double rooms. Call group reservations at 888-268-1616. The IRES convention rate is available until June 29, 2005 and on a space-available basis thereafter. Our room block often is sold out by early June, so guests are advised to call early to book rooms. See the hotel's web site at http://www.tampawaterside.com

SPECIAL NEEDS: If you have special needs addressed by the Americans with Disabilities Act, please notify us at 913-768-4700 at least five working days before the seminar. The hotel's facilities comply with all ADA requirements.

SPECIAL DIETS: If you have special dietary needs, please circle: Diabetic Kosher Low salt Vegetarian

CANCELLATIONS AND REFUNDS

Your registration fee minus a $25 cancellation fee can be refunded if we receive written notice before June 29, 2005. No refunds will be given after that date. However, your registration fee may be transferred to another qualifying registrant. Refund checks will be processed after Sept. 1, 2005.

Seating for all events is limited. IRES reserves the right to decline registration for late registrants due to seating limitations.

Insurance Regulatory Examiners Society™

Call for more details: 913-768-4700. Or see IRES web site: www.go-ires.org

BULLETIN BOARD

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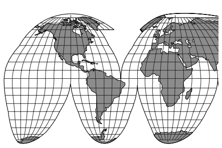

The risks of global warming

See page 1