

Wi\$e Up Teleconference Call  
Insurance  
September 29, 2006  
Speaker 1 – Eric Nordman

Jane Walstedt: Now, let me turn the program over to Dorothy Witherspoon from our Kansas City regional office to introduce our first speaker. Dorothy--

Dorothy Witherspoon: Thank you, Jane.

It is my pleasure to introduce our first speaker, Eric Nordman. Eric is currently the Director of Research with the National Association of Insurance Commissioners (known as NAIC), which has its executive headquarters in beautiful Kansas City, Missouri. Eric has held this position since 1997 and previously served as NAIC Senior Regulatory Specialist. He has worked with the NAIC organization for 15 years.

Prior to working with NAIC, Eric was employed for 13 years with the Michigan Insurance Bureau. As Director of Research, Mr. Nordman supports a number of NAIC committees and working groups on various topics, including the Property and Casualty Insurance Committee.

He also provides support for the Uninsured Motorist Issues Working Group and the Title Insurance Issues Working Group. Eric provides expertise on auto insurance, catastrophe issues, workers' compensation, and other property and casualty issues.

Eric brings a wealth of experience and expertise to our discussion today on insurance. Thank you, Eric, for being on our Wi\$e Up teleconference call.

Eric Nordman: Thank you so much for that kind introduction.

I'll speak to you about several things. We're going to talk a little bit about risk and what type of insurance mechanisms you can use. I'll touch on renters insurance, homeowners insurance, and auto insurance. We'll start out with a little bit of risk management theory.

First, it is a rather scary world we live in and there're a lot of bad things that can happen, and often insurance products are designed to help us through bad times. We face many risks and there are some that we can identify and do something about. A good example of that might be a fire. If you have a smoke alarm -- which is a relatively inexpensive thing -- and you put that in your house or apartment, that can alert you if a fire happens. You'll have time to get out safely, protecting your life and the lives of your loved ones, and you also will probably minimize your property loss because you'll have prompt attention from the firefighters to get on it and get it put out quickly. Where if you don't have a smoke detector, you potentially lose a life and would have much more substantial property damage.

There are other things that you can identify and think about but have perhaps little control over -- driving down the street and someone decides to run a stop sign and you happen to be in the way. There's not a whole lot you can do about that. But there are things you can do to protect yourself financially to make the financial pain of some of those unintended events go away.

Insurance in its real basic form is essentially a risk transfer. The insurance company is selling you a promise that it will do something in the event of a peril. For example, for life insurance, the peril that they're covering is premature death. In auto insurance, it's being involved in an auto accident or having someone steal your car. In property insurance, it's the things that could happen to damage your property.

There are several things that youthful folks run into particularly. We tend to look at insurance in life stages, and I'm going to cover just a couple -- one would be the young singles and then a youthful family -- and look at some of the risks that you might be facing.

For those of you who have apartments, as renters, many people don't think about getting renters insurance. Some people misunderstand and think that they might be covered under their landlord's policy or think that they might be covered under their parents' insurance policy. But if you're living independently, you need to think about the exposure that you have to loss of your personal possessions, your furniture, your TV, your stereos, lamps, and other furnishings. And another big benefit of the renters insurance policy is it provides some personal liability insurance so actions that you do to others that are unintended can be covered. In my case, it's real important if I happen to go golfing, you know, to protect the others from errant golf balls. So for young singles, if you're living in apartment, that's one of the things you want to think about.

Similarly, a young family in an apartment setting will want to protect the assets that they have in the apartment and have some comfort that their liability exposure will also be covered.

Now if you move to the next stage and actually do become a homeowner, life gets a little more complicated. For a homeowners policy, you'll be covering the property, where in a renter's policy your landlord will actually be covering the property [and] you would only be covering your personal effects, your, you know, furnishings per se.

As you buy a house, you'll want to cover the actual physical structure of the dwelling, and there's a whole host of insurance products available to you that protect your personal belongings and your dwelling, your garage, and out-

buildings, and also provide you some liability coverage, the same sort of liability coverage you get on a renters policy.

And the -- for personal property, there's lots of coverage. And one of the things you might need to know about either the renter's insurance or the homeowners insurance policy is that if you have some things that are kind of out of the ordinary, you'll want to discuss that with your insurance agent because some elements of property, like silverware and jewelry and certain collections, have limits within the policy that are lower than the full policy limit. So if you have an expensive silverware set or expensive jewelry, you'll want to take other steps to cover those.

And similarly, if you inherit some antiques that are passed down in your family or some artwork, you might need special coverage that is outside the scope of the standard coverage. Standard coverage is designed to catch most risks and many people can get by certainly with that.

It's also important to know that both renters and homeowners policies do not cover the peril of flood. And there is a federal program that is available to the public to provide coverage for flood insurance, and in fact lenders will insist that you get flood insurance if your house is in a flood plain. [For more information on flood insurance, visit [www.FloodSmart.gov/](http://www.FloodSmart.gov/).]

Similarly, lenders will encourage you to buy the homeowners policy or at least a property insurance policy if you happen to have a mortgage with them. They will make providing proper insurance a condition of them providing that mortgage.

You can also have problems with driving a car. As you all know, driving a car can be somewhat hazardous. And in 47 of the states, the laws require that people purchase a minimum amount of coverage. In some cases, that is a

minimum liability coverage. In other cases, there is a no-fault coverage that is also required.

Basic coverages in an auto insurance policy. We'll go through two different types of coverage scenarios: one for a no-fault state and one for a tort state.

So you...when you're talking with your agent, you'll need to ask them what type of coverage [is required]. And an insurance agent can be very helpful to you in providing you some guidance about the types of coverage you should have.

Most states have a liability system. And by a liability system--sometimes called a tort system--essentially what is required there is...the concept is that you're responsible for your actions or inactions and the damage it does to others. So if you're driving along and you hit somebody else, you will be held liable for that accident and may be required to compensate the individual that's involved in the accident that's not at fault by either paying money or covering medical bills or paying to have their car repaired. Now that's the risk that you would actually be transferring to the insurance company.

You can also buy coverage on your vehicle [called] comprehensive and collision coverage. Often the comprehensive coverage is also called other-than-collision.

Collision covers damage from two vehicles actually colliding, and it would provide you coverage regardless of fault. If the other person is at fault, your insurance company would assist you in collecting the moneys back from them.

For comprehensive coverage, that covers all other things that could happen to damage your car, like a tree limb falling on it, like it getting struck by lightning, like it catching on fire, that sort of thing.

But all in all you'll get a package of auto insurance coverages from an insurance company that will cover your risk of loss. And that can be a very substantial risk of loss because if you're driving a car, you do damage to someone else and they are hospitalized for an extended period and have any sort of serious injuries, the losses that can be involved can be very substantial and very detrimental to your financial health.

I'd also just like to spend a minute or two on states that have no fault coverage.

No fault coverage is a little bit different. They don't, for the most part, try to figure out who is at fault with regard to bodily injury coverage, but instead would pay ...you would have your own insurance company pay for your medical bills. And in some states, they can actually get compensation back from the other insurance companies. In other states, essentially it lies on your own insurer.

But the big difference is that there are some limited circumstances where a person can sue another person for damages. And the theory behind that [insurance instead of the right to sue] is that it would be cheaper for the individuals to not have all of these extra costs associated with going to court and having each side have attorneys and the associated fees with that to get that all taken care of.

Auto insurance can be very expensive, depending on where you live, and there are several ways that you can go about minimizing the cost of auto insurance to you. You can consider getting just the minimum required by law, or,

depending on the age of your vehicle, you might decide that you don't need to have collision coverage or comprehensive coverage on it, and that can save you substantial amounts of money as well. But you also want to know that if you are at fault in an accident, you might not have any way to put the car back in service. [That should be part of] your considerations.

With that, I think I'm just about out of my 10-minute time. I hope I've been able to provide you with a little bit of basic information about what I consider to be a couple of very essential insurance coverages that most people need to think about as they work their way through life -- covering their property (be it through a renters policy or a homeowners policy), and covering your auto, a very, very important element to operating as a citizen in this society.

Thank you.

Jane Walstedt: Thank you very much, Eric; and that was very useful information.