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Volume 2, Issue 2

President's Message

By Irene Yesowitch

Welcome to the May issue of your PCAP Newsletter. This month I thought I would share some information that I have been learning regarding the underwriting of several personal lines of insures. More specifically, I recently learned the great extent insurers use credit information and credit scores in the underwriting of certain policies such as homeowners' insurance and automobile insurance. From what I understand, the lower the credit score the higher the premium and, in some cases, the less likely the insurer will agree to issue the policy. "Why?" I asked.



IRENE YESOWITCH

interesting information offered by Personal Insurance Federation of California that I wanted to share with you.

The use of credit history, one of many underwriting tools to help identify people who could have insurance losses, is not a new concept and one that has received strict scrutiny from insurance regulators and consumer advocates around the country. Some insurers have used individual credit histories in underwriting insurance since the 1980s and the Fair Credit Reporting Act strictly regulates the use of credit reports by insurers.

After some research I found some

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Case Updates

Flood Lawsuit Stays Local

Mississippi Attorney General won a small battle last month when the U.S. District Court granted a motion to remand to state court the lawsuits against several insurers regarding coverage for damage resulting from Hurricane Katrina. The lawsuit seeks to make the insurance industry pay for losses caused by Katrina, particularly caused directly or indirectly by water, whether or

not driven by wind. Defendant insurers tried to remove the action to federal court. Defendants contend it has been well known for over a half century that flooding is not covered under most homeowners policies. They further contend the court has not given adequate consideration to the arguments of the defendants the impact this case will have on the uniformity of federal flood insurance programs in states susceptible

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CCNC 2006 Update

Mark your calendar. September 21 and 22 are the dates for the conference.

The board has established the reservation rates for this year to be the same as last year. What a bargain! The cost for a great learning, information and social experience is:

Carriers & Self Insured's=\$35 for 1 day; \$65 for 2 days.

Independent Adjusters, TPA's, Brokers=\$45 for 1 day; \$75 for 2 days.

Attorneys=Flat Rate \$175.

Vendors and all others=Flat Rate \$250.

PCAP member presenters include, Irene Yesowitch; Rene Gamboa; Julian Pardini; Lissa Cooley, Gil Malmgren and Steve Tilghman. This year we hope to have a "Hands On" session for you to experience construction repair, auto damage repair and moisture detection and analysis. Look for the upcoming program mailer for all the topics to be offered.

Bob Fox
Education Committee

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The relationship between how a person handles their personal finances and the possibility of insurance losses has been established and accepted for many years. People with their financial house in order tend to have fewer losses. Insurance companies need to charge premiums that are adequate to pay for expected losses. Any information that improves the ability to assess risk lessens the extent to which those who present high potential risk are subsidized by those who present

lower potential risk. Over the years, there have been a host of independent studies to determine the link between credit histories and insurance losses.

The most exhaustive study of this issue was conducted by the Texas Department of Insurance, released in January 2005 and looked at data for 2.2 million insurance policyholders. The data used in this study surpasses statistical information used in many other published

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Treasurer Report—May 2006

The financial results for the four months ended April 30, 2006:

Revenue:

Member Dues \$1,605

Member Events 7

Total Revenue 1,612

Expenses:

Member Events 127

Giants Game Deposit 1,707

Insurance 508

Website 66

Other 36

Total Expenses 2,444

Net Income (\$832)

For 2006, membership in PCAP is doing well and with our promotional discount on dues for bringing in new members, we are

having some success. We are still attracting new members with each lunch program and expect more new members as we approach our annual Giants baseball game in July 2006. With free lunch programs for members and a significant discount to the Giants game, it is still best to join PCAP and pay the annual dues and enjoy the rest of the year's events.

Are you interested in being a sponsor of the 2006 PCAP Giants game? We are back at Club level for the pre-game events. Last year we had 75 in attendance and the food, drinks and prizes for the pre-game event went very well. Please contact Mike Diliberto at 415/956-8323 to discuss your sponsorship of the 2006 PCAP Giant's game event.

Michael Diliberto

President's Message

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studies and includes race and ethnicity at the individual level rather than the aggregate level used in previous studies (zip codes, census track data).

Among the conclusions of this study are "Preliminary findings indicating a strong relationship between credit scores and claims experience. Poor credit scores are associated with increased claims activity."

In January 2005, the Dr. Robert Hartwig, Senior Vice President and Chief Economist for the Insurance Information Institute analyzed the Texas Department of Insurance study and came to the following conclusions:

- The average loss per vehicle for people with the worst credit scores is double that of people with the best scores for this group.
- Homeowners insurance loss ratios for people with the worst credit scores are triple that of people with the best scores for this group.
- Drivers with the best credit are involved in about 40 percent fewer accidents than those with the worst credit for this group.
- Those with the poorest credit histories generated auto losses more than double that of those with

the best scores.

There is no question that credit scores, while obviously useful to insurers in evaluating whether or not to issue policies to potential insureds, carry other "politically incorrect" baggage that causes most people to reflect on whether the practice could ultimately result in unfair discrimination. While this column certainly is not the place to dissect the issue, it nonetheless is the place to bring it up as a topic we should all consider. As usual, feel free to contact me directly at Iyesowitch@longlevit.com should you have any comments.

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to hurricanes.

Catastrophe Savings Program Proposed

Rep. Tom Feeney (R-Fla) introduced a bill last month that would allow homeowners to set aside money tax-free in anticipation of catastrophe damage. If adopted and passed, a catastrophe tax-free savings account could be opened to cover current and future Cat related expenses. Earnings from the money deposited would be tax-free and unused balances would roll over from year to year.

Qualified expenses would include deductibles, uninsured losses, flood damage, and structural upgrades for future storms. No definition was made to qualify which perils are considered a natural disaster. Could earthquakes qualify? Representative Feeney comes from a state and area that is most susceptible to hurricanes.

Aftermarket Parts Lawsuit Ends

A national class-action lawsuit that stretched back to 1997 came to an end when the U.S. Supreme Court denied the petition of Michael E. Avery, et al in their

suit against State Farm. The lawsuit sought to hold the company liable for using auto repair parts made by someone other than the original manufacturer in car repairs.

PCAP Fourth Annual

Giants Baseball Night!



On July 18, 2006 PCAP will host its fourth annual baseball night at AT&T Park's Club Level. So mark your calendar for an entertaining night of great food, great baseball, and an opportunity to see history in the making. We will provide more details as the game approaches.

Working to better serve its members and the insurance industry, PCAP's mission is to provide a forum for the frank discussion of issues related to property loss adjustment, and a social venue for fostering professional relationships.

If you would like to join PCAP, please go to our website at www.propertyclaimsassociation.org, or contact Mike Diliberto at mdiliberto@us.rgl.com. If you have questions about this or past PCAP newsletters, please contact René Gamboa at rgamboa@rwblaw.com.

May Luncheon

Sponsored by Rudloff Wood & Barrows LLP and Hagen Streiff Newton & Oshiro

May 18, 2006
Watergate Tower II
2200 Powell Street,
Conference Room D (Second Floor)
Emeryville, CA

Less Harder, PhD, Director of the California Water District, will discuss the levee failures and flooding in New Orleans after Katrina, and the implications of levee failure in the Central Valley and the Sacramento-San Joaquin Delta.

Josie Arcurio, Program Advisor, with the Department of Homeland Security/Federal Emergency Management Agency (FEMA) Region IX, will speak on her role as the lead for the Individuals and Households Program in the California Disaster recovery efforts.