



## NEWS IN BRIEF

[ AT PRESS TIME ]

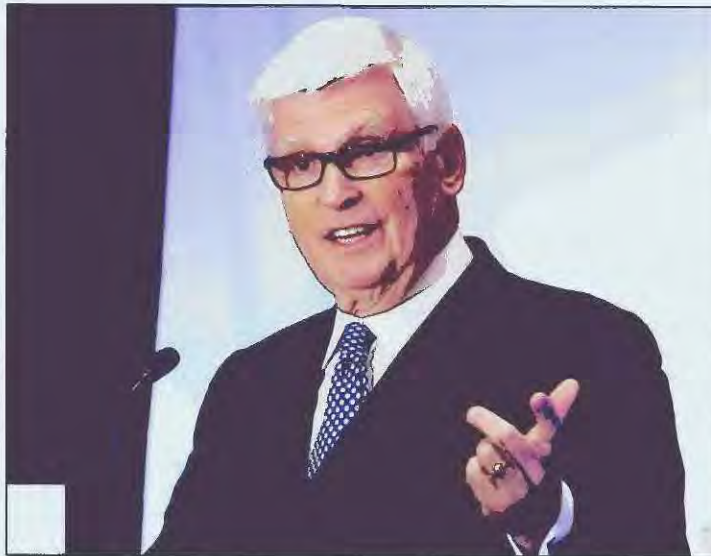
### IFRIMA names top officers

The International Federation of Risk & Insurance Management Assns. has named as president Carl Leeman, chief risk officer of Belgian company Katoen Natie. He succeeds Jorge D. Luzzi, group risk management director at Italy's Pirelli Group, who is now chairman of IFRIMA.

### AIG 'stable,' says GAO, but analyst slams shares

American International Group Inc.'s financial position remains "relatively stable" and its property/casualty operations have "shown some improvements," says a report by the Government Accountability Office. The GAO added that the outstanding balance of government assistance provided to AIG is \$129.1 billion, which is about \$8.4 billion more than the balance on Sept. 2, 2009, when it issued its last report on AIG. But a stock analyst said in a separate report that AIG's publicly traded shares are "grossly

See **NEWS IN BRIEF** page 26



Ignoring conventional wisdom can bring success, according to longtime industry executive Patrick G. Ryan.

## Contrarian thinking opens doors: Ryan

By **ZACK PHILLIPS**

Contrarian thinking can help companies find opportunities for growth, according to insurance industry titan Patrick G. Ryan.

During his keynote address at the *Business Insurance* 2010 Risk Manager of the Year and Risk Management Honor Roll Awards Breakfast in Boston, Mr. Ryan said that some of his most successful business decisions were the result of ignoring conventional wisdom.

"Conventional wisdom is often wrong, and contrarian thinking can in fact make a difference," said Mr. Ryan, who is chairman and CEO of Ryan Specialty Group. His firm, a Chicago-based holding company of managing general underwriters and managing general agencies, was

launched in February.

Mr. Ryan said that many observers believed it was an unfavorable time to enter the MGA and MGU sector because of the soft market and other factors.

"Why would you be looking to set up new lines of business for MGUs and MGAs, when there's so much competition right now?" he said. "The real answer is, in fact we think there's tremendous opportunity for a...debt-free company that is very well capitalized and that can attract high-quality talent for the designing and placing of very complex, hazardous risks."

Mr. Ryan said he thought risk managers would benefit from new products from new wholesale

See **RYAN** page 18

## Attendance up at conference this year: RIMS

By **MARK A. HOFMANN**

The Risk & Insurance Management Society Inc. is enjoying "a quite successful conference" with pre-registration up about 20% over that of last year's meeting, according to RIMS Executive Director Mary Roth.

Speaking at a press conference Tuesday, Ms. Roth said that as of Monday night, the conference had drawn 4,700 registrants with more signing up onsite, as well as more than 3,900 exhibitors. She called the conference a "tremendous success."

RIMS President Terry Fleming noted that with the financial crisis of the past couple of years, the "world's perception of risk management has changed significantly." He added that RIMS has become a resource for risk managers around the world.

"RIMS gets calls virtually every day from around the world," said Mr. Fleming, who is also director of

See **LEADERS** page 24



RIMS' leaders discussed the society's plans Tuesday.

## Thought Leaders



Nowell Seaman of RIMS' Technology Advisory Council

discusses the impact of technology as well as ways that risk managers and RIMS are taking advantage of the latest advances.

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# 'Black Swan' author Taleb to talk risks

By MARK A. HOFMANN

Most risk managers might not be bird watchers, but there's one fowl for which they ought to be on the lookout.

It's a metaphorical bird that Nassim Nicholas Taleb calls a "black swan."

Mr. Taleb, a trader, professor and author of the business best-seller "The Black Swan: The Impact of the Highly Improbable," will discuss the concept at today's leadership luncheon.

A black swan has three attributes, Mr. Taleb wrote in his 2007 tome.

"First, it is an outlier, as it lies outside the realm of regular expectations, because nothing in the past can convincingly point to its possibility. Second, it carries an extreme impact. Third, in spite of its outlier status, human nature makes us concoct explanations for its occurrence after the fact, making it explainable and predictable."

According to Mr. Taleb, "a small number of black swans explain almost everything in our world," from the success of religions to the dynamics of historical events and even elements of personal lives. And the effect of black swans is growing as the world has grown more complicated, he wrote.

"Black swan logic makes what you don't know far more relevant than what you do know. Consider that many black swans can be caused and exacerbated by their being unexpected," he wrote.

In his book, Mr. Taleb notes that had the Sept. 11, 2001, terrorist attack on New York's World Trade Center "been reasonably conceivable on Sept. 10, it would not have happened. If such a possibility were deemed worthy of attention, fighter planes would have circled the sky above the twin towers, airplanes would have had locked bulletproof doors, and the attack would not have taken place, period. Something else might have taken place. What? I don't know.

"Isn't it strange so see an event

See **TALEB** page 24



## RISK MANAGER OF THE YEAR 2010

*Business Insurance* and the Risk & Insurance Management Society Inc. on Tuesday presented the 2010 Risk Manager of the Year and Risk Management Honor Roll. From left, *BI* Publisher Martin J. Ross III; Honor Roll member Christine Eick of Auburn University; Honor Roll member Scott P. Borup of Johnson & Johnson; Risk Manager of the Year Debra L. Rodgers of ARAMARK Corp.; *BI* Associate Publisher and Editorial Director Paul D. Winston; and *BI* Editor Regis J. Coccia.

# Broker execs debate contingents, risk manager attitudes toward pay

By SALLY ROBERTS

Executives from Willis Group Holdings P.L.C. and Arthur J. Gallagher & Co. squared off over the issue of contingent commissions during a Hot Topic session Tuesday at the Risk & Insurance Management Society Inc.'s annual conference.

In addition to addressing the positions each firm has taken with respect to accepting contingents, Donald Bailey, CEO of Willis North America, and James S. Gault, president and CEO of Gallagher's brokerage services division, also scrutinized each other's stance on clients' ability to opt out of contingent arrange-



Donald Bailey of Willis North America and James S. Gault of Arthur J. Gallagher & Co. debated contingent commissions Tuesday.

ments and client apathy toward the issue.

During the question-and-answer session, Mr. Gault was asked to explain Gallagher's "opt-out" strategy when it comes to contingents.

"It's a very simple concept,"

Mr. Gault said. After Gallagher discloses all of its revenue sources to clients, if a client chooses not to participate in the broker's contingent or supplemental arrangement with insurers, that client's

See **CONTINGENTS** page 24

## Buyers urged to prepare now for market turn

By **ROBERTO CENICEROS**

Now is the time for insurance purchasers to strengthen their insurer relationships in preparation for a hard market, experts contend.

Pricing for commercial lines are likely to remain "moderate to stable" for the remainder of 2010 without any current indications of a hard market on the horizon, said Juan Andrade, president and chief operating officer of property and casualty operations at the Hartford Financial Services Group Inc.

But emerging forces could change the purchasing landscape, the panelists said.

An improving economy, for example, could drive increases in workers compensation loss frequency as reforms in key states simultaneously lose their effectiveness, the panelists said Tuesday at the Risk & Insurance Management Society Inc.'s annual conference

Managing risk in a hard market is similar to managing risk in a soft market, said Debra L. Rodgers, vp of global risk management for ARAMARK Corp. So risk managers should be working to establish and maintain relationships with their underwriters, which can be done through annual meetings.

"You need to know the people who are underwriting your risk, and they need to know you," Ms. Rodgers said. "They really need to understand your company, and they need to understand your risk and they need to have faith that what you are saying is valid and that you have a lot of integrity."

Yet not all insurance buyers regularly meet with their underwriters, Ms. Rodgers said. Especially in the midst of a soft market, some purchasers think traveling to London, Bermuda or Zurich is not worth the cost.

But risk managers that make the effort will not see the same level of cost increases in a hard market as those buyers who do not meet with their insurers, Ms. Rodgers said.

Risk managers also need to begin preparing for a hard market by constantly evaluating the financial strength of their insurers, session panelists said.



The health care reform law recently signed by President Obama will bring major changes.

## Risk managers wary of health care changes

By **JOANNE WOJCIK**

Risk managers expressed their concern and confusion over how health care reform might affect their companies during a Tuesday Hot Topic session in which two health insurance experts dissected the complex federal law.

The Patient Protection and Affordable Care Act that was signed into law last month by President Obama will require employers to extend coverage to the adult chil-

dren of employees to age 26, eliminate lifetime dollar caps, cover preventive care at 100% and limit coverage waiting periods for new hires to no more than 90 days, among other changes.

While some of these provisions take effect for plan years beginning on or after Sept. 23, 2010, others do not take effect until 2014.

How businesses are likely to react to the new federal requirements will largely depend on economic conditions at the time

they are implemented, said Randy M. Kammer, vp-regulatory affairs and public policy at Blue Cross & Blue Shield of Florida in Jacksonville, Fla.

Responding to a question from moderator John Phelps, director of business risk solutions at the Florida Blues affiliate, Ms. Kammer said: "It used to be until the economy really tanked that you had to offer coverage to be a competitive employer, and so I think if we see an economic improvement over the next three years then the large employers, the self-insured, will continue to offer coverage. They're not going to be dumping people into the individual market."

However, she said "some of those other employers, who have less of a margin and see the penalty as a greater benefit to them in terms of economics, will have some of their employees moving into the individual market, and they may actually offer subsidies to employees to do that."

Other risk managers attending the session asked how expansive their benefit plans are likely to become as a result of new federal coverage mandates.

For example, one inquired whether the legislation would require employers to cover birth control and abortion, while another asked whether her company

See **REFORM** page 24

## Captives' capital exceeds required levels

By **RODD ZOLKOS**

A new captive benchmarking study from Marsh Inc. finds that single parent captives tend to be consistently capitalized beyond statutory minimum requirements, regardless of domicile.

The third "Marsh Global Captive Benchmarking" report focuses on capital and collateral issues at single parent captives.

"The key points for us are, obviously given the current economy, the focus is very much on capital and collateral," said Scott Gemmell, senior vp at Marsh Manage-

CAPTIVE CAPITAL		
Premium-to-capital ratios at single parent captives		
	Gross	Net
European Union	1.78	1.05
United States	1.54	0.97
Offshore domiciles	6.80	4.70

Source: Marsh Inc.

requirements, "I guess that tells us they're not looking at the capital as a real burden that outweighs the benefits of the captive," Mr. Gemmell said.

Marsh manages more than 1,270 captives, more than 750 of which are single parent captives. Information on each captive is stored in Marsh's proprietary Global Captive Management System, which allows Marsh to use data of the captives under its management for purposes such as the benchmarking report while main-

ment Services (Bermuda) Ltd. "The question we get all the time is, 'How efficient is my captive?'"

Given that most captives are capitalized in excess of minimum

See **CAPTIVES** page 20



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# BEST OF SHOW

The Risk & Insurance Management Society Inc. has selected the exhibitor Best of Show winners for the 2010 Annual Conference and Exhibition. The winners are picked by a group of conference attendees, according to RIMS, with judges weighing various criteria, including presentation of product, creative use of space, and overall design and layout. This year's winners are shown clockwise in the large, small and medium categories.



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Hurricane Katrina  
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# HEARD on the STREET

**Q: What role do you see for enterprise risk management at your organization?**



## Christina Reisinger

DIRECTOR-RISK MANAGEMENT  
CEPHALON INC.  
FRAZER, PA.

We certainly believe in ERM and are in the process of implementing a program. We started on a smaller scale and are focusing on compliance risk first, and looking at these exposures across the entire organization. So far, it has been very well received, and compliance is a critical area for us as a pharmaceutical company. Next we expect to move toward incorporating financial risks into the program.



## Rafael Paz

SENIOR RISK ANALYST  
PSYCHIATRIC SOLUTIONS INC.  
FRANKLIN, TENN.

We are in the very early stages of developing an ERM program. We are in favor of the approach but are still working to get executive management on board.



## Pam Duncan

RISK MANAGER  
PORTLAND DEVELOPMENT COMMISSION  
PORTLAND, ORE.

I don't, unfortunately. I have tried for six years to get executive management to buy into the approach and sign off, but have been unsuccessful. The main challenge has been the high turnover in the management. We are a city agency, so there are a lot of political and economic forces beyond my control.



## Michael Rosenblum

EXECUTIVE VP  
NEW HAMPSHIRE AUTOMOBILE DEALERS ASSN.  
CONCORD, N.H.

We have taken some small steps toward implementing an ERM practice. We are a member organization, and we work hard to understand the current trends and proactively assess risks for our members. We have safety programs in place for members and a loss prevention program for workers comp, which is a big area of concern. The overall advantage is that it will help reduce costs for our members.

# toDO

[ CONFERENCE HIGHLIGHTS ]

## Wednesday

Sessions  
9 a.m.-10:30 a.m.

Workshops  
9 a.m.-11:30 a.m.

Risk Leadership  
Keynote Luncheon  
Nassim Nicholas Taleb, author  
"Robustness and the  
Black Swan"  
12:30 p.m.-2:00 p.m.

Exhibit Hall Dessert Reception  
2:00 p.m.-3:00 p.m.

Sessions  
3:15 p.m.-4:45 p.m.

Wednesday Night  
Extravaganza  
Mel Brooks' "Young  
Frankenstein"  
7:30 p.m.-10:00 p.m.



## Exhibit Hall Hours

Wednesday  
10 a.m.-3 p.m.



## RIMS Thought Leaders

*Nowell Seaman, a member of the Risk & Insurance Management Society Inc. board and director of RIMS' Technology Advisory Council, also is manager of risk management and insurance services at the University of Saskatchewan. In a recent discussion with Business Insurance, he examined the impact that technology is having on the discipline of risk management and how RIMS is using technology to further its goals.*

# Risk managers, RIMS make use of advances in technology

**Q: What impact is technology having on the day-to-day practice of risk management?**

I believe that it is beginning to have a greater impact as the capability and range of available technological solutions to support risk management continues to expand. For each organization, it depends to a degree on the maturity of the risk management function within that organization, as well as the scope of the risk manager's role, which could include enterprise risk management, operational risk, insurance management, claims management or all of the above. In addition to the traditional applications and systems available to track and manage claims and insurance portfolios, many risk managers are using technology effectively to support the integrated management of all types of enterprise-level risks across the organization, and to help ensure that governance and compliance requirements are met. For the risk manager, the availability of adequate resources to obtain, implement and adequately support the information management systems can be a significant concern. As with any risk management measure, the value

proposition of the system must be clear. With the increasing focus on the value of enterprise risk management, I believe that technology will play a much larger role in effective risk management in the future. RIMS' Technology Advisory Council has been working with RIMS' Enterprise Risk Management Committee to identify best practices and successes using technology to support enterprise risk management.

**Q: How does the insurance industry compare with other industries in terms of embracing technology?**

I'm not sure that this question can be answered definitively without more comparative evidence, and I'm not aware that much research has been done to that end. Most of the insurers that I work with have Web sites and Web-based services that offer helpful resources, and those seem to be on a par with other industries. But from the perspective of the risk manager, the underwriting and placement process is still largely paper-based, and establishment of accepted data standards for this purpose has not yet been achieved for various reasons.

**Q: How is RIMS using technology to further its own goals?**

Technology plays a critical role in achieving RIMS' goals to serve its members, including our comprehensive Web site, which provides a wide range of resources for risk managers such as the ERM Center of Excellence, eGroups for networking on topics of common interest, the RiskWire daily news service, and the RIMS Career Center and job bank. We offer Web training using webinars and podcasts to address a range of needs, from emerging issues for risk managers to resources to support effective RIMS chapters. RIMS has embraced social networking media, such as Facebook, LinkedIn and RIMS' own social network using eGroups. On a more operational note, RIMS is currently involved in a multiyear project to replace its association management system in order to meet the growing needs of its membership. AMS is the software that provides enterprise-level operations functions for (RIMS). RIMS will be better equipped to electronically manage its relationships with members, prospective members, industry partners and the general public.

## HOMeTeam

[LOCAL RIMS VIEWS]

Anastos Chiavaras is aware that changes have occurred since the Risk & Insurance Management Society Inc.'s annual conference last visited Boston in 1990.

"The last Boston RIMS was the first time I went to RIMS and it's funny how it's changed, or maybe I'm just getting older," said Mr. Chiavaras, who is director of risk management at Boston College in Chestnut Hill, Mass.

Mr. Chiavaras recalls being struck by how "seasoned" and experienced all the other attendees seemed to him at the



### Anastos Chiavaras

Director of risk management, Boston College

1990 Boston RIMS meeting. At this year's gathering, though, he finds himself among that group of seasoned risk managers. For three years, Mr. Chiavaras was president of the Massachusetts RIMS chapter, and he currently serves as the local organization's treasurer and delegate. He noted that while the diversity of types of organizations in the Boston area makes for vibrant chapter meetings, it can pose some challenges in planning their content. "You can't really target any industry, so we target more a topic and how it relates to every industry," he said.

No matter the setting of the annual RIMS conference, there are certain things that attendees can always hope to get out of the conference experience, Mr. Chiavaras said.

"No matter where the conference is held, I think the best thing they can get out of it is the networking, whether it's an industry that they're familiar with or not," he said.

"The other thing that I think anyone should get out of it is the opportunity to see so many exhibitors and so many people at the same time," he said.

—Rodd Zolkos

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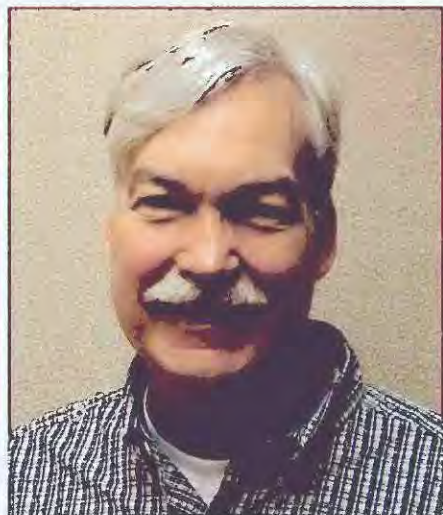
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## Questions & Answers

James A. Swanke Jr. is a senior consultant at Towers Watson & Co. in Minneapolis. In a recent interview with Business Insurance, Mr. Swanke discussed how the financial crisis has fostered greater focus on insurer security among insurance buyers.

# Insurer solvency in spotlight

**Q: How has the financial crisis altered risk managers' views on insurer security?**

You can't assume any insurance company is absolutely financially secure: That's it in a nutshell. I think we learned that, during our last crisis, carriers can get into financial distress very quickly and, despite their best efforts, the rating agencies and the broker security committees don't always identify the point when a carrier gets into financial distress.

**Q: If risk managers want to look beyond traditional measures of solvency, such as ratings, what should they assess?**

I think before the financial crisis, many risk managers didn't look at what limits they had with any particular carrier. Today, that's one of the first exercises they're undertaking to try to figure out what their true exposure is. They need to figure out what is their maximum exposure per occurrence. Diversification is the key—making sure you are not exposed to any single carrier. There are fewer carriers out there for people to diversify with, so this undertaking may not be simple, but it's something that all companies need to go through. One other thing: You need to be more careful obviously with your longer-tail exposures because those are the carriers that five, 10, 15, 20 years from now are going to need to be there and be financially secure to pay the claims on those longer-tail lines such as workers

compensation, for example.

**Q: What other steps can risk managers take to hedge the risk of insurer insolvency?**

My advice is to control your own destiny. Take on greater risk retentions. It's better to rely on your own capital as an organization than to rely on an insurance company, in my opinion. One of the simple things you can do is to basically set up your own captive or self-insurance arrangement, do some prefunding and rely on yourself vs. an insurance company, where you have the counterparty risk exposure. Consider other forms of prefunding, such as cat bonds, to cover catastrophic risk exposures.

## aboutTOWN

[ BOSTON FACTS ]

In 1919, one of the most unusual disasters to strike Boston occurred when a storage tank burst in the North End neighborhood, unleashing a wave of more than 2 million gallons of molasses traveling at 35 mph. Twenty-one people were killed and around 150 were injured in what is known as the Great Molasses Flood. Although the cause of the accident was never determined, the Purity Distilling Co., which owned the tank, was found liable.



AP PHOTO



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### Lucky's Lounge

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Hours: Daily, 11 a.m. to 2 a.m.  
\$\$

For attendees searching for stylish cocktails or a happy hour scene, Drink and Lucky's Lounge are worth a visit. Both are located near the conference center in Boston's seaport district. Drink is located downstairs at the same address as Sportello and is another creation of Boston celebrity chef Barbara Lynch. The trendy, upscale bar features a zig-zag, counter space where patrons essentially line up for designer cocktails. Simply tell your server what kind of alcohol you prefer and the server will pour a cocktail just for you. Meanwhile, Lucky's Lounge is a speakeasy-style bar and restaurant, which offers a lively happy hour and late night scene. Lucky's features live music Thursday through Saturday, and a Frank Sinatra-style show begins at 7 p.m. on Sundays.



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## theSIGHTS

[ BOSTON ATTRACTIONS ]



### Boston Public Garden

**LOCATION:** Bounded by Charles Street and Arlington Street

**WEBSITE:**  
[www.cityofboston.gov/Parks/emerald/public\\_garden.asp](http://www.cityofboston.gov/Parks/emerald/public_garden.asp)

**HOURS:** Daily  
**PRICE:** Free

**F**or locals, springtime in Boston begins with a stroll through Boston Public Garden. Visitors can meander along America's first public botanical garden, which honors the Victorian traditions of the past. The 24-acre park is in the heart of the city, adjacent to Boston Common, and features hundreds of formal plantings that vary from season to season. At this time of year, look for the tulips to be in full bloom. Enjoy a stroll around the lake or take a ride on the famous swan boats. If you want to continue to explore, follow Charles Street into Boston's historic Beacon Hill neighborhood for a glimpse into Boston's Brahmin past. The 19th century neighborhood is known for its brick sidewalks, working gas lamps, ancient elms and brick row houses of the Federal, Greek Revival and Victorian periods.



### John F. Kennedy Presidential Library & Museum

**LOCATION:** Columbia Point  
**INFORMATION:** [www.jfklibrary.org](http://www.jfklibrary.org)  
**HOURS:** Every day, 9 a.m. to 5 p.m.  
**PRICE:** \$12

**R**elive the powerful story of the Kennedy years at the John F. Kennedy Presidential Library & Museum, which is dedicated to the life, legacy and leadership of the nation's 35th president. Visitors can revisit the events of the 1960s and President Kennedy's administration. Many exhibits use recordings of the president's voice, which makes for a moving experience. The complex, designed by architect I.M. Pei, is the official repository for original papers and correspondence of the Kennedy administration. President Kennedy's 26-foot sailboat, *Victoria*, is on display on the museum grounds at the edge of Boston Harbor.

**MORE ONLINE:** For RIMS coverage and videos as well as links to Boston cultural and dining Web sites, visit [www.businessinsurance.com/RIMS2010](http://www.businessinsurance.com/RIMS2010).

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## BY THE NUMBERS: CAPTIVE DOMICILES

### LARGEST U.S. CAPTIVE DOMICILES

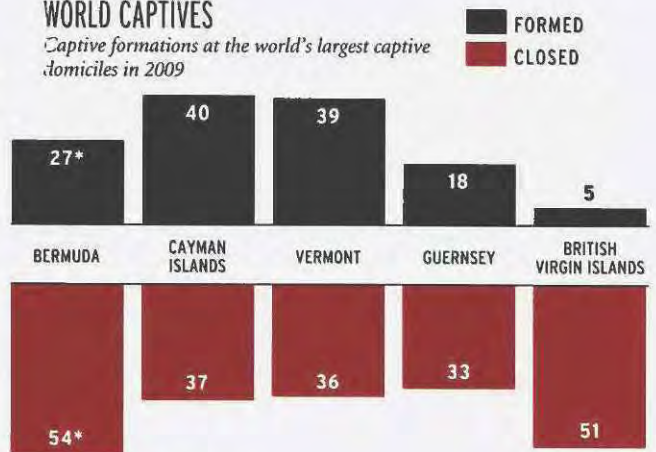
Ranked by number of captives in 2009

DOMICILE	2009	2008
Vermont	560	557
Hawaii	162	165
South Carolina	161	156
Utah	148	122
Nevada	126	123
District of Columbia	116	90
Kentucky	105	67
Arizona	99	106
Delaware	49	41
Montana	47	35

Source: BI survey

### WORLD CAPTIVES

Captive formations at the world's largest captive domiciles in 2009



\*Estimated. Source: BI survey

**THESE CHARTS** were derived from information submitted to *Business Insurance* for our various directories. All *Business Insurance* directories and rankings are available from our online Resource Center, which also features white papers on a variety of topics. For more information, visit [www.businessinsurance.com/research](http://www.businessinsurance.com/research).

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## Ryan: Contrarian strategies

CONTINUED FROM PAGE 1

business.

"We think there will be a lot of capital that will become available for new lines of business through the MGU and MGA markets," he said.

Mr. Ryan, the architect of Aon Corp. and its former CEO, said that contrarian thinking also was behind Aon's successful expansion in the early and mid-1990s.

At the time, Aon was the only large brokerage making acquisitions, he said. Investors and insurance buyers had little interest in large brokers, Mr. Ryan recalled, noting that a Risk & Insurance Management Society Inc. survey at the time reported that many risk managers anticipated using brokers less in the subsequent five years.

"We thought a contrarian strategy made sense—we thought the value would be there for the role of adviser," he said. "We seized on a

point in time when there really was no competition to make acquisitions. In fact, I think it did work."

Mr. Ryan also said that Aon's expansion of its reinsurance brokerage business contravened conventional wisdom. Many observers thought that reinsurance brokers would be replaced by the direct market and the Internet, he said.

"People were looking at the reinsurance brokerage business saying it's done," he said. "They were wrong."

Aon had \$10 million in reinsurance brokerage revenue in 1988 and by 1998 was the largest reinsurance broker in the world, he said.

After leaving Aon in August 2008, Mr. Ryan led Chicago's failed bid to host the 2016 Summer Olympic Games. He said he returned to the insurance industry for several reasons.

"I missed the insurance industry because of the intellectual challenge we all get in risk manage-



**'We thought a contrarian strategy made sense—we thought the value would be there for the role of adviser. We seized on a point in time when there really was no competition to make acquisitions.'** -PATRICK G. RYAN

ment, because of the...really social-ly valuable work that risk managers and those of us involved in risk

management provide to our society. And, frankly, I missed the people," Mr. Ryan said.

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# Celtics risk manager has his 'dream' job

By SALLY ROBERTS

There are dream jobs and then there are "beyond a dream" jobs, says Rob Billings, who landed his with his lifelong favorite basketball team, the Boston Celtics, following 25 years in insurance underwriting.

"I was born and raised in New England and was always a Boston Celtics fan," said Mr. Billings, the team's risk manager since 1999.

As head of risk management, Mr. Billings oversees all the insurance and employee benefit programs of Banner 17 L.L.C., the operational entity of the Boston Celtics. Banner 17, which employs roughly 100 full-time employees including the players and more than 60 part-time employees, is the investment group that bought the franchise for \$360 million in late 2002.

For the Boston Celtics, no risk is greater than that of a marquee player sustaining a season- or career-ending injury. Because player contracts are guaranteed and often multiyear, the team remains on the hook for a player's salary if he is out for an extended period of time.

"The thing that routinely concerns me is the whole issue of player injury, honestly, because of their contracts," Mr. Billings said.

"When you look at a team such as ours that has several marquee

players...it's not only going down for injury (for a long period of time) and the cost of continuing their compensation...it's also the potential loss of patrons, which is huge," he said. "What if going into the season you were to have a Kevin Garnett or a Paul Pierce or a Ray Allen out? What happens to your ticket sales?"

Messrs. Garnett, Pierce and Allen



are among the 20 highest-paid NBA players, according to various Web sites that estimate each player's salary at between \$16 million and \$19 million.

"The need for key man coverage (for the Celtics) is as high as any company could possibly have,"



A key concern for Boston Celtics risk manager Rob Billings, above, is the financial impact of injuries to marquee players such as Paul Pierce, left.

said Don Lewis, president of USI New England, the team's insurance broker. "In most companies, a reasonable replacement can be found for even the best employees." But "replacing a Paul Pierce or Kevin Garnett—there are only maybe five people in the world who could play at those kinds of levels."

For the Celtics, that means purchasing life insurance and additional disability insurance to augment the mandatory league disability program, which covers the team's five biggest contracts.

Under the program, once a player is disabled for more than 41 games, the NBA's insurer pays out 80% of the guaranteed portion of the player's base salary up to a cap.

While "there is a great deal of comfort" from the league program,

"when you're looking at a marquee player with contract values in excess of the league program, where discretionary coverage comes into play, that's the unsettling thing," Mr. Billings said.

He noted that the Celtics decide each year player-by-player whether to purchase additional temporary or permanent disability coverage. The team also purchases life insurance on many players, he said.

The player's union, the National Basketball Player's Assn., provides their employee benefits.

"What we purchase on the players is for the interest and protection of Banner 17," Mr. Billings said. "That doesn't mean it doesn't inure to the players in one way or another, but we're really protecting our risk."

## Captives: Overcapitalization common across domiciles

Continued from page 4

taining the confidentiality of that data. In addition to finding that captives tend to be capitalized beyond statutory requirements, this year's study found that offshore captives tend to have higher premium-to-capital ratios than those domiciled onshore in the United States or the European Union.

U.S. captives are writing only \$0.97 in net premiums for every \$1 in capital, despite regulatory guidelines that generally allow for \$5 in net premiums for every \$1 in capital, Marsh said. Offshore captives, meanwhile, are writing \$4.70 in

net written premiums for every \$1 in capital, the Marsh study found.

One reason premium-to-capital ratios might be higher in offshore domiciles is that intercompany loans are slightly less common in those domiciles, Marsh said, prompting captives to be more likely to return excess capital to the parent through dividends in offshore domiciles than in onshore domiciles.

Another reason is that many Cayman Islands-domiciled captives operate with the minimum \$120,000 capital requirement, the study said. Such captives are used for retrospectively rated insurance programs.

The study also found that intercompany transactions, such as parent company commercial paper or intercompany loans, are the most common form of asset allocation among single parent captives. That's particularly true among U.S. captives, which have 70% of their assets invested in intercompany transactions.

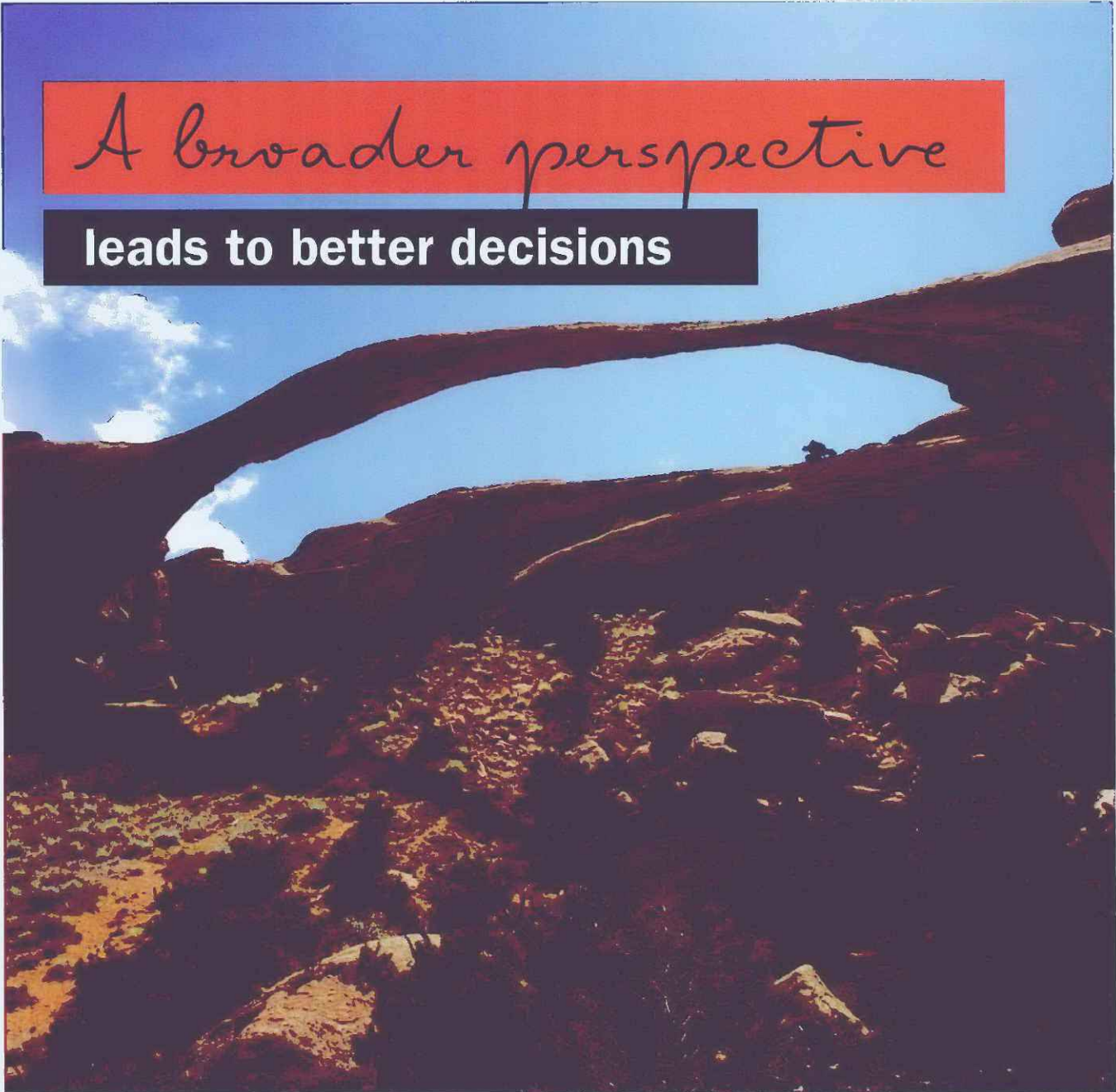
Many companies can get a better return on capital by investing it in their own operations than through any other investment strategy, Marsh said.

The Marsh study found that 70% of the policies for which their clients are providing collateral are

casualty policies. Letters of credit are by far the most common form of collateral used, used by 59% of those in the study, with escrow accounts and trusts used by 19% each.

"Letters of credit are still by far the most popular method of collateralization," Mr. Gemmill said. But, he noted, "trusts can be cheaper than LOCs in some cases."

Trust costs are based on flat fees, as opposed to LOCs, where costs are based on the amount collateralized, so for a larger collateral requirement, a trust might be more efficient, Mr. Gemmill said. "There are options," he said. "It doesn't have to be a letter of credit."



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## Contingents: Brokers debate positions

CONTINUED FROM PAGE 3

premiums and loss histories are removed from the calculation, he explained.

"At Gallagher we believe in client choice," he said.

However, Mr. Bailey said that while risk managers may "take comfort" in the idea of being excluded from a broker's contingent calculation, those insurance buyers are still paying for the contingents through higher premiums.

Mr. Bailey said looking back at 2005 settlement agreements, a number of brokers, including Willis, were required to return contingents to clients in the form of client restitution.

"All of us who were forced/asked to do that will tell you that the math associated with figuring out what company, what premium and what loss scenario required what type of return payment...it was a crazy, complicated, incredibly inexact science," he said. "I don't know how you segregate a single company's premiums and loss history from a portfolio

that sometimes is hundreds of millions of dollars of premiums."

So while risk managers may "take comfort" in opting out of a contingent arrangement, "the fact of the matter is, your premiums are going to be inflated because the entire group is not going to opt out so you'll be paying higher premiums anyway," Mr. Bailey said.

When it comes to risk manager apathy toward the issue of contingent commissions, Mr. Bailey said he boils the indifference down to two issues: compensation being an uncomfortable topic and the lack of education and ignorance on the topic.

"People truly don't understand the inner workings of a brokerage firm in the context of supplementals, and in the context of contingents and the emerging context of enhanced commissions," Mr. Bailey said. "When I see a risk manager who thoroughly understands the issue I'm much more comfortable based upon what they do. All too often though, the norm is...when you engage people on this topic...there's a lot of gaps in understanding how these things work."

Mr. Gault disagreed.

"I don't think there's a risk manager here who isn't aware...of how they work. I think the risk management community is pretty well educated on the topic," he said.

## Reform: Concerns, questions numerous

CONTINUED FROM PAGE 4

would have to extend coverage to seasonal and temporary workers.

Ms. Kammer said basic benefit requirements will be outlined by the Department of Health and Human Services but that "never in my 23 years in insurance have I seen a policy that covered elective abortions."

As for covering seasonal and temporary employees, Ms. Kammer said the legislation contains a formula for determining which workers would be subject to the coverage mandate.

Yet another risk manager expressed a concern about whether his company's self-insured "minimed" plan would be permitted under the new law.

"If they don't meet the qualifications that are defined by the secretary" of HHS, "they may not count as meeting the individual or employer mandate," Ms. Kammer said. "A lot is going to depend on how broad and comprehensive they are. If they're defined as 'mini-meds' right now, and not insurance limited benefit plans, they probably will not meet that insurance mandate."

## Leaders: Society's priorities include state, federal initiatives

CONTINUED FROM PAGE 1

the division of risk management for Montgomery County, Md. Callers are seeking knowledge and leadership, he said, and RIMS is responding.

Mr. Fleming said that he will go to Malaysia in July to speak on risk management.

On the regulatory and legislative front, RIMS is continuing to push at the state level for a ban on contingent commissions paid to brokers by insurers, said Scott Clark, RIMS secretary and risk and benefits officer for the Miami-Dade County, Fla., Public Schools. He

said RIMS is "very concerned" about the New York Insurance Department's recent decision to lift a total ban on the three largest brokers' ability to accept contingent commissions.

He said there's "a sense of duty on behalf of RIMS" to provide risk managers with information regarding contingent commissions. "We advocate full prohibition on payment or acceptance of contingent commissions," said Mr. Fleming. Absent that, RIMS wants full transparency on commissions.

"Most sophisticated risk managers manage this very well," said Mr. Fleming. But he said risk man-

agers need "to walk the talk" and go with brokers who don't accept contingency payments from insurers or go with insurers that don't pay contingent payments.

On the federal level, Mr. Clark said RIMS' two big priorities are enactment of legislation that would streamline the regulation of non-admitted insurers and reinsurers, as well as the creation of a new federal insurance office within the Treasury Department. Both initiatives are contained in financial services regulatory reform legislation passed by the House late last year as well as a Senate measure that has yet to reach the floor.

## Taleb: Author to talk risks

CONTINUED FROM PAGE 3

happening precisely because it was not supposed to happen? What kind of defense do we have against that? Whatever you come to know...may become inconsequential if your enemy knows that you know it. It may be odd that, in such a strategic game, what you know can be truly inconsequential," he wrote.

In an article last years, Mr. Taleb listed 10 principles for a black swan-proof world.

The first was, "What is fragile should break early while it is still small," Mr. Taleb wrote. "Nothing should ever become too big to fail. Evolution in economic life helps those with the maximum amount of hidden risks—and hence the most fragile—become the biggest."

"Do not let someone making an 'incentive' bonus manage a nuclear plant—or your financial risks," Mr. Taleb offered as another principle. "No incentives without disincentives: Capitalism is about rewards and punishments, not just rewards."

Following such principles would create "an economic life closer to our biological environment: smaller companies, richer ecology, no leverage. A world in which entrepreneurs, not bankers, take the risks and companies are born and die every day without making the news. In other words, a place more resistant to black swans."

Mr. Clark said RIMS had hoped that the federal insurance office "would have had more teeth," but noted that the measure has come a long way. He said that RIMS would like to see creation of optional federal charters for insurers as well.

Mr. Clark said that RIMS also supports allowing risk retention groups to write commercial property insurance. RIMS continues to oppose legislation that would subject certain offshore reinsurance transactions to less favorable tax treatment than they currently enjoy, a move Mr. Clark said would raise costs and restrict access for risk managers.

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## NEWS IN BRIEF

[ AT PRESS TIME ]

CONTINUED FROM PAGE 1

overvalued." According to Cliff Gallant of Keefe, Bruyette & Woods Inc., "Under the current ownership and capital structure, we see little long-term value in the common shares."

### La. Chinese drywall bill bans cover changes

A bill that would ban property insurers from changing or dropping coverage of buildings that contain Chinese drywall has passed the Louisiana Senate and moves to the Louisiana House for consideration. The bill would prohibit property insurers from canceling, refusing to renew, or increasing premiums or deductibles for businesses and homeowners due to a property containing Chinese drywall. The insurance industry has argued that the bill would invalidate existing insurance contracts and could force rates to rise across Louisiana.

### Liberty Mutual debuts charity golf events

Liberty Mutual Group Inc. said that the Liberty Mutual Invitational, an amateur charity golf tournament series, will begin April 30 in Omaha, Neb. The insurer said it expects the 73-tournament series to raise more than \$5 million to support national and local charities.



# around the HALL

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attractions this week included lessons on how to "taahk" like a Bostonian at the Liberty Mutual Group Inc. booth; Paradigm Management Services L.L.C. letting visitors play The Beatles: Rock Band; a crash test dummy at the Corporate Claims Management booth; and an alligator mascot at BMEGateway Inc.'s booth.



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