

Business Insurance

RIMS 2008 | DAILY NEWS & CONFERENCE COVERAGE | SAN DIEGO

NEWS IN BRIEF

[AT PRESS TIME]

Cat losses hit \$3.35B in first quarter: PCS

Catastrophes caused an estimated \$3.35 billion in insured property damage during the first three months of 2008, the Insurance Services Office Inc.'s Property Claim Services unit has reported. The property loss figure is the largest for any first quarter in the past decade and is more than double the \$1.26 billion in cat losses registered in the prior-year period. Jersey City, N.J.-based PCS categorized nine events during the first quarter as catastrophes, meaning the event caused at least \$25 million in insured damage and affected a significant number of policyholders or insurers. Georgia sustained the largest insured property losses, with claims totaling \$610 million, followed by Tennessee with \$535 million in losses, California with \$360 million, Texas with \$270 million and Arkansas with \$223 million in insured catastrophe losses. Significant cat events in the quarter included a winter storm across eight states and a sugar refinery explosion.

See **NEWS IN BRIEF** page 10

Questions Answers



Gerald L. Maatman Jr. of Seyfarth Shaw L.L.P. in Chicago discusses

the dramatic increase in the number of wage-and-hour lawsuits in recent years and what risk managers can do to reduce their exposure to these lawsuits.



RIMS leaders, from left, Janice Ochenkowski, Terry Fleming and Mary Roth discussed issues facing risk managers in a Tuesday briefing.

RIMS leaders see room to improve on quality

By JOANNE WOJCIK

Although insurers and brokers have been working to improve the quality of the services they provide, they still have "a long way to go" before the risk management community is satisfied with their progress, according to Janice Ochenkowski, president of the Risk & Insurance Management Society Inc.

In the meantime, a key priority for RIMS is helping its members develop the skills that are necessary to improve the transaction process, because "there are three parties" to all deals—the broker, the insurer and the risk manager, Ms. Ochenkowski said.

Now is the time for improving the skills of the risk manager, she said. To that end, the society Tues-

day unveiled its Risk Management Professional Growth Model (see story, page 3).

"The industry seems to be moving toward transparency. They are establishing criteria and discussing with clients what information should be given," she said. However, "I don't think all of the brokers have gotten there yet. Various brokers are at various points along the continuum."

In particular, "there are still some issues on supplemental fees," which are the commissions some insurers have begun paying instead of contingent commissions.

"But I think the door has been opened so those discussions can occur, and risk managers should

See **LEADERSHIP** page 8

C-suite exec praises role of risk managers

By SALLY ROBERTS

Risk managers deserve a seat in the C-suite, according to one executive officer.

Chief executives today are deeply concerned about determining the next unexpected risk that could damage their company, and "that is why I believe risk management needs to have a much more prominent and dominant role in the C-suite," said Lauralee Martin, chief financial officer and chief operating officer of Jones Lang LaSalle Inc. in Chicago.

The recent subprime mortgage crisis that has led to the current credit crunch was essentially an exercise in risk transfer that failed, Ms. Martin said. "At the heart and soul of it, basic risk management was forgotten" when it came to credit risk.

"If business is about pursuing opportunity...I would say that risk management is about the survival

See **MARTIN** page 9

Lauralee Martin, CFO and COO of Jones Lang LaSalle in Chicago, gave the Tuesday keynote speech.

INSIDE

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RIMS TOOL TO BOOST PROFESSIONAL GROWTH UNVEILED / PAGE 3

DISASTER PLANS HELP FIRMS COPE WITH FIRES / PAGE 4

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RIMS unveils resource designed to aid professional development

By JOANNE WOJCIK

Although it remains a work in progress, the Risk Management Professional Growth Model unveiled at this year's Risk & Insurance Management Society Inc. conference will become a valuable resource to help risk managers develop their careers, according to RIMS President Janice Ochenkowski.

The model, which was developed by the New York-based society's quality advisory council as part of RIMS' three-year quality improvement process, was distributed Tuesday in the form of a brochure. However, in a few weeks, the tool will become available as an electronic document on the RIMS Web site, www.rims.org, which is being redesigned, Ms. Ochenkowski said during a press conference Tuesday.

Eventually, the online version will become more interactive, allowing risk managers seeking to test and increase their knowledge to click on key words and phrases in the online document that will be linked to other Web sites with additional resources and information, she said.

"RIMS will use its skills and its re-



Robert Cartwright Jr. of BFS Retail & Commercial Operations L.L.C., left, and Richard J. Roberts of Ensign-Bickford Industries Inc. discuss the Risk Management Professional Growth Model.

sources to continue to develop opportunities for our members that are based on this," she said. "So if our members tell us they need help...we'll be able to create an opportunity or point them to one."

In particular, members of RIMS' various committees will be tapped to share their expertise to develop and populate the various links, according to Ms. Ochenkowski. In addition, "we're putting together a program for chapters to teach them how to use it" in tasks such

as writing job descriptions or developing career plans, she explained.

The model is not intended to be static, but rather an evolving tool that risk managers can use throughout their careers as they progress from entry level to chief risk officer, according to Ms. Ochenkowski.

The Risk Management Professional Growth Model is designed

See **MODEL** page 8

Few firms hedge against weather risks

By SALLY ROBERTS

While a majority of senior finance executives and risk managers say weather volatility could significantly hurt their companies, most are not taking steps to mitigate their exposures, a study has found.

Storm Exchange Inc., a New York-based weather risk management brokerage, and CME Group, a Chicago derivative exchange, surveyed more than 200 Fortune 1,000 and middle-market chief financial officers, treasurers and risk managers in

weather-sensitive industries in the U.S. and Canada in an effort to gauge their weather risk management practices. The main industry sectors covered by the survey include energy, agriculture, retail, construction and outdoor entertainment.

The major findings of the benchmarking study were revealed during a press conference Tuesday at the Risk & Insurance Management Society Inc. conference. An in-depth research report will be made available in May.

According to the study, 59% of

respondents said weather-related risks could either "significantly" or "severely" affect their company's bottom line. At the same time, 82% said global climate change will force them to change their business models in the years ahead.

Despite those assertions, 51% of the respondents conceded that their companies are not well prepared to cope with the current day-to-day economic risks posed by weather, the study found.

"Consumers drive the economy, and weather drives consumers to buy products and services," Felix Carabello, director

See **STORMS** page 8



The Rose Canyon Fault lies beneath downtown San Diego.

San Diego sits atop quake fault

By SALLY ROBERTS

While many people may not associate earthquakes with San Diego as closely they do with San Francisco or Los Angeles, this year's conference host city is located on an active fault that could produce a major temblor.

The Rose Canyon Fault, which lies beneath downtown San Diego, is capable of producing a quake with a magnitude of 6.2 to 7.0 on the Richter scale, according to research done by the San Diego Natural History Museum.

To put that into perspective, 1994's Northridge, Calif., earthquake registered a magnitude of 6.7 and is the third-most costly disaster in U.S. history, with insured losses of \$12.5 billion.

But while San Diego has the potential to be at the epicenter of a major earthquake, the chances of that happening remain low, according to Rob Hawk, senior engineering geologist for the City of San Diego. "If we have a (magnitude) 5 event, that's big and that's rare," he said.

Thomas Rockwell, a geology professor at San Diego State University, said that unlike San Francisco and Los Angeles, which are spread across several of very active faults including the main San Andreas fault, San Diego is located "on the edges" of that fault system. "We only have a small fault, the Rose Canyon, which goes through the city," he said.

See **QUAKES** page 10

59%
CHANGE OF RISK:
Percentage of respondents who said weather could "severely" or "significantly" affect their company.

SESSION SPOTLIGHT

Disaster plans helped Calif. companies cope with 2007 wildfires, evacuations

By **KRISTIN GUNDERSON HUNT**

Good disaster response plans helped two California companies mitigate their losses last year when wildfires devastated parts of California.

In October 2007, the San Diego area sustained around \$1.1 billion in insured losses from seven deadly wildfires (see related story). During the fires, which burned into early November, more than 500,000

people were displaced by mandatory and voluntary evacuations.

During a Hot Topic session Tuesday at the Risk & Insurance Management Society Inc. conference, panelists from two California companies noted that their disaster plans proved effective during the sweeping wildfires last year, helping them to avoid significant loss and to assist the community's recovery.

Lyn Hall, senior manager of

environmental health and safety for San Diego-based telecommunications giant Qualcomm Inc., said important components of her company's fire response included establishing an emergency operations center, employee communications plans and shutting off outside air intakes so air quality wasn't compromised when employees returned to work. In addition, the plan called for technicians to continually change the air filters and clogged heating ventilation and air conditioning units.

Additionally, the company posted information about fire support-related issues online for employees. Ms. Hall said adequate planning aided the company in getting its employees back into the office within days.

An automated alert system was an important part of Qualcomm's disaster plan, as it also was for MiraCosta Community College District in Oceanside, panelists said. The systems notified employees—and, in the district's case, students—of operational changes and other updates.

In both cases, the contact information for such individuals, such as home phone and cell phone numbers and e-mail addresses, are essentially downloaded into automated systems that alert registered users about evacuations, work cancellations and other changes. Such systems helped reduce the confusion that often accompanies a crisis, the panelists said.

For MiraCosta and Qualcomm, business continuity planning also allowed them to help the community at large. MiraCosta served as a shelter and a Red Cross evacuation center, providing 200 evacuees with food and shelter for five days, said Joseph Mazza, direc-



Wildfires that burned large sections of Southern California last year caused about \$1.1 billion in insured damage.

San Diego area hit hard by last year's wildfires

Of the numerous wildfires that burned in Southern California last year, the biggest were in San Diego County.

The largest, the Witch Creek Fire, burned nearly 200,000 acres north and northeast of San Diego, killing two people and injuring 41 others. The blaze destroyed more than 1,000 homes in addition to 414 outbuildings and 239 vehicles.

The Harris Fire, which moved northwest from the U.S.-Mexico border toward San Diego, burned more than 90,000 acres and destroyed

more than 200 homes and 250 outbuildings. Five people died and 55 others, including 34 firefighters, were injured.

According to the Insurance Information Institute, the Witch Creek Fire is the third-costliest in U.S. history, with an estimated \$1.1 billion in insured damage. That fire, however, is not San Diego's costliest wildfire. That distinction goes to the 2003 Cedar Fire, which caused an estimated \$1.2 billion in insured damage using 2007 dollars.

—By Sally Roberts

See **FIRE** page 9

**heard
onthestreet**

[VIEWS FROM RIMS]

Q: Is there a role for risk managers in addressing climate change?



Terry L. Drake

Director of risk management
G&K Services
Minnetonka, Minn.

"I think we can have a role because we need to advise our companies on the activities they are in because it does lead to so much of the operations and our environmental footprint."



Lydia-Sherry Obinim

Liability and insurance management
operational risk
The Canadian Depository for Securities Ltd.
Toronto

"Risk managers have a role to play. It would be good if they could all come together through conferences like RIMS and panel discussions to find ideas on how to handle such issues."



Peter J. Caust

Risk manager
Sandwick Inc.
Fair Lawn, N.J.

"There is. It's becoming a larger function of our jobs, environmental exposures. It seems society as a whole is focusing on it more and more and passing responsibility onto corporations and they look to legal and risk management."



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TODD WINTERS

Questions & Answers

According to a recent Federal Judicial Center report, the number of wage and hour suits filed under the Fair Labor Standards Act increased 228% from 2001 to 2007. The explosion in the number of such continues to result in multimillion-dollar settlements and verdicts against employers. Gerald L. Maatman Jr., an employment attorney with Seyfarth Shaw L.L.P. in Chicago, discusses this increasing risk for employers.

Employers face dramatic rise in wage and hour litigation

Q: What is driving so many wage and hour lawsuits today?

The increase in the number of lawsuits suggest that workers and their attorneys are bypassing the violations reporting system at the U.S. Department of Labor and bringing more private lawsuits in the pursuit of more lucrative resolutions.

Likewise, good plaintiffs lawyers are attracted to wage and hour litigation in increasing numbers for a variety of factors, including relaxed certification standards under the FLSA; the sense that these are "gotcha" lawsuits and require less time and effort than employment discrimination class actions; and

employee-friendly state analog statutes—which mimic federal laws—whereby plaintiffs can certify their classes and seek expanded damages remedies not allowed under federal law.

Q: What types of payroll practices make employers vulnerable to claims?

Payroll practices particularly vulnerable to challenge include alleged improper classification of workers as being exempt from overtime; allegations that nonexempt employees were required to work "off the clock" without pay; and an alleged lack of compliance with a wide variety of state law wage and hour requirements, such as meal and

rest breaks and other state law-driven obligations.

Q: What should risk managers be doing to mitigate their exposures?

It is important that a company have a sufficient comfort level with its exempt status classifications, as well as its compliance with FLSA record-keeping requirements. Other areas to focus upon include confirming that the company pays its exempt employees on a salary basis, includes all required elements in and correctly calculates the regular rate of pay for overtime purposes, pays employees for all hours worked and adequately prohibits off-the-clock work.



Asian fusion shapes the menu at Red Pearl Kitchen.

local FLAVOR

[BI RECOMMENDS]

Red Pearl Kitchen

440 J St., San Diego
619-231-1100

With its vivid interior and ultra-modern furnishings, Red Pearl Kitchen is a nearly perfect setting for contemporary Asian "fusion" dining in San Diego's Gaslamp quarter.

The menu, a mix of Eastern cuisines borrowing from the tastes, styles and textures of a handful of countries, features more than two dozen options served family style.

The spicy tuna tartar and eggplant tempura (\$12) and the hearts of palm, tomato, and avocado salad (\$9) make excellent starters. For a main course, diners can choose a wok fried specialty—with tasty options like the Kobe beef, sweet papaya and mint stir-fry (\$18)—or a unique curry such as the chicken coconut green curry (\$11). The black pepper and caramel shrimp stir-fry (\$17) is also a top pick.

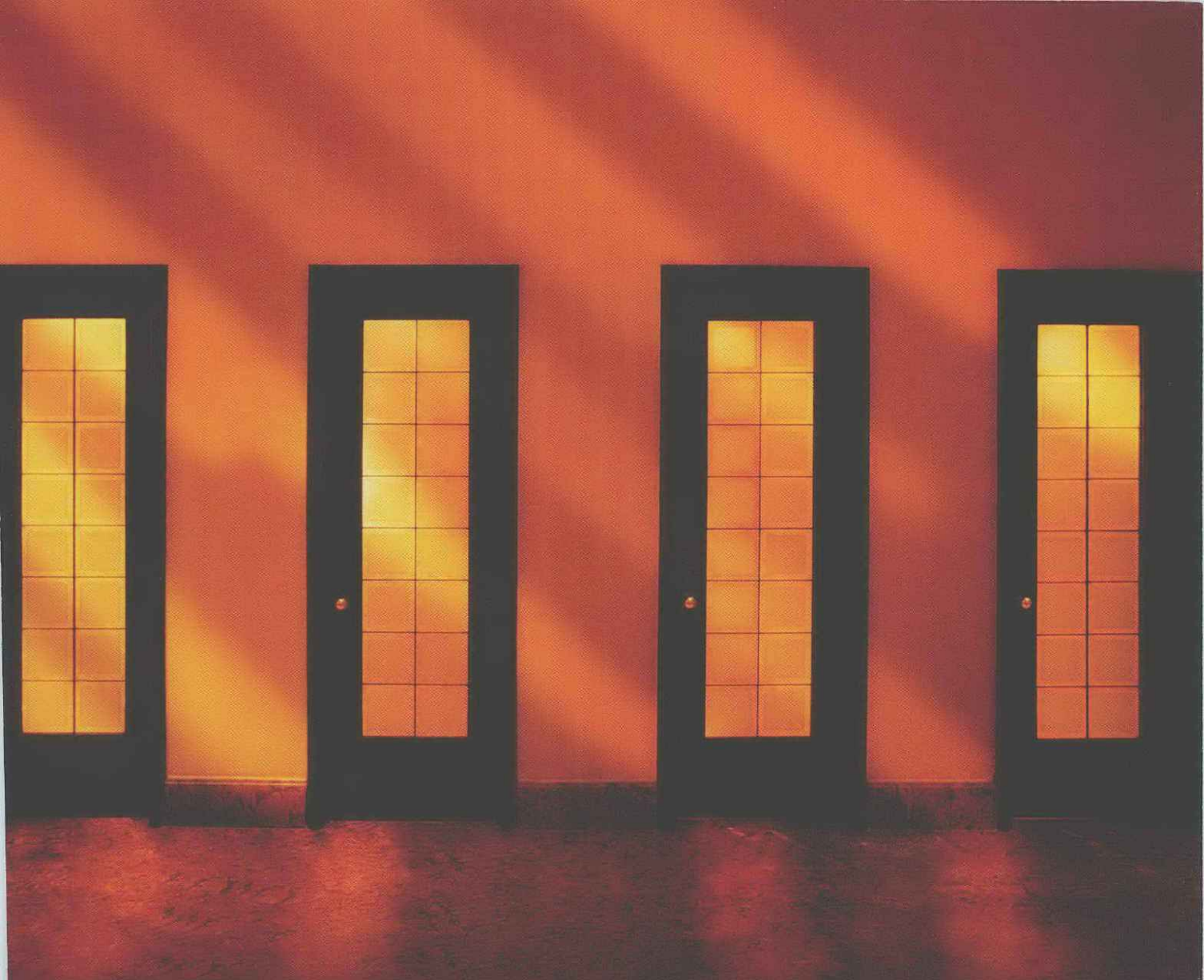
A great place to mix business with socializing, the restaurant features two semi-private dining rooms and intimate booths along with a popular "chef's table" where up to a dozen diners can enjoy their dinner—for \$45 per person—alongside the kitchen.

aboutTOWN

[SAN DIEGO FACTS]

People for the Ethical Treatment of Animals, in a clever act of protest, bought a commemorative brick in the center plaza of PETCO Park, home of the San Diego Padres. The first letter of each word on the brick—"Break out your cold ones. Toast the Padres. Enjoy this champion organization"—is an acrostic urging a PETCO store boycott.



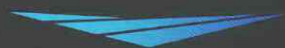


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**TOWERS
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Leadership: Key priorities

CONTINUED FROM PAGE 1

feel empowered to have them," Ms. Ochenkowski said during a press conference with RIMS leadership Tuesday afternoon.

"RIMS' position on transparency has always been the client should know what the client wants to know and needs to know," Ms. Ochenkowski said. "We believe our members are fully capable of deciding what their organization needs, and they need to press their vendors and their suppliers to get that. The strength of RIMS is to support the validity of their requests."

In the legislative arena, RIMS is continuing to lobby in Washington for legislation to further facilitate the insurance buying process, according to Terry Fleming, a member of RIMS' board who oversees the society's legislative committee. For example, RIMS is continuing to support an optional federal charter, because it will foster competition among insurers and make the insurance placement process easier, according to Mr. Fleming.

"We see it as a marketing tool and a competi-

tion opportunity," he said. "There is not one insurance regulator with the ability or the authority to manage international insurance placements. We look at this as efficiency of operations for members with multistate and foreign operations."

RIMS also will continue to work with the Government Accountability Office to ensure the availability of terrorism coverage, Mr. Fleming said. The society conducted a survey that found that more than 10% of its deputy members are still finding it difficult to obtain coverage for terrorism risks, Mr. Fleming said. "We will reiterate that to the GAO."

RIMS will also work to ensure that any surplus lines reform bill that passes Congress includes a definition of "qualified risk manager" that enables all of the society's members to take advantage of the reforms, he said.

The organization has not taken a position on a natural catastrophe pool proposal, because the commercial insurance market was not as affected by events such as Hurricane Katri-

na as was the personal lines market, according to Mr. Fleming.

However, RIMS would support changing the underwriting of certain catastrophic risks, such as coastal windstorm, so that pricing is spread across the country, he said.

'We believe our members are fully capable of deciding what their organization needs, and they need to press their vendors and their suppliers to get that.'

Janice Ochenkowski

Model: Tool aims to identify skills

CONTINUED FROM PAGE 3

to be flexible, yet "identify the skills and the techniques and the characteristics and the qualities" that all risk managers—regardless of the type of risk management they practice or their level—need to succeed, Ms. Ochenkowski explained.

Specific accomplishments and knowledge areas are divided into four levels of risk practitioners: entry-level risk, intermediate, senior and executive. The model is further broken down into abilities and knowledge, skills and attributes, tools and distinguishing features.

For example, an entry-level risk practitioner should have basic negotiation skills, be computer proficient and be developing presentation skills. A beginning risk manager should also be a team player who is logical, curious and a quick learner. An executive risk practitioner should have sharpened those skills and be decisive, a strategic thinker and be willing to serve as a mentor to others.

Although risk managers have different roles in each organization, "the keys to success are the same," according to Ms. Ochenkowski. "We think at the end of the day this will help our members be better risk managers and that's what we're trying to do."

Storms: Weather perils pervasive

CONTINUED FROM PAGE 3

of alternative investments at CME, said during the press conference. About one-third of the United States' gross domestic product—or \$4 trillion—is affected by weather, he said.

"If it's too cold out, people don't buy air conditioners, and if it's too hot out, people don't buy sweaters," said David Riker, president and chief executive officer of Storm Exchange.

Depending on the industry, adverse weather could mean late planting and reduced crop yields, lost demand and reduced margins, and diminished productivity, the companies said.

Despite the risk, most companies continue to view weather-related losses simply as a cost of doing business, the survey found.

Only 42% said their companies have attempted to quantify their exposure, and only 10% said they had used weather options or futures to hedge their exposure. Most of the companies that have used hedges are from the energy sector, the executives said.

Nearly half of the respondents—45%—said they were unaware of any effective or cost-effective ways to manage weather risks, the survey said.

... as seen at RIMS

PHOTO BY MICHAEL MARCOTTE



REUSE: Crawford & Co. said it plans to donate to Habitat for Humanity materials used in the construction of its exhibit hall booth at this year's Risk & Insurance Management Society Inc. conference.

Fire: Disaster plans tapped

CONTINUED FROM PAGE 3

tor of risk management.

Qualcomm, meanwhile, provided equipment and technical support to the local community's information phone line, which was overwhelmed with calls from citizens. It also provided insurance assistance, temporary housing, and counseling and support services to affected employees.

Ms. Hall noted that evaluating the response plan after a disaster is crucial. Qualcomm is currently tweaking some of its plans, specifically employee communications, to further improve operations in crisis. They also will identify employees in advance that will be counted on during an emergency, designate two evacuation areas on campus for pets and people stocked with cots and food, and develop a better process to track and communicate with international travelers.

With experts predicting another active wildfire season, Mr. Mazza said, "Preparation is key."



In Tuesday's keynote address, Lauralee Martin of Jones Lang LaSalle advised risk managers to communicate their knowledge to C-suite executives.

Martin: Managing risks a critical role

CONTINUED FROM PAGE 1

of the business and that opportunity," she said during Tuesday's risk leadership keynote luncheon at the Risk & Insurance Management Society Inc. annual conference.

As another example, she cited a recent Ernst & Young survey of analysts on the 10 biggest risks facing global business. Regulatory compliance ranked No. 1, while climate change risks came in at No. 9. In the real estate industry, she said while regulatory compliance was viewed as "critical" in terms of its impact, climate change was seen as only having a "medium" impact.

But the key question, she said, is when will those risks intersect? "That is why your knowledge needs to help your C-suite" because risk managers can see those connections while upper management does not, she said.

"You get up every day and think about risk," she said, challenging risk managers to communicate their knowledge and advice to senior executives. "If you step up...the future of business is very bright."

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NEWS IN BRIEF

[AT PRESS TIME]

CONTINUED FROM PAGE 1

AIRMIC, Advisen join to survey U.K. buyers

The London-based Assn. of Insurance & Risk Managers plans to launch a benchmarking service for buyers of insurance in the United Kingdom. According to AIRMIC, the initiative will be the first in the United Kingdom to collect such information directly from risk managers. The move was prompted by the success of the U.S. survey produced by Advisen for the New York-based Risk & Insurance Management Society for the past six years. The "AIRMIC Benchmark Survey" will provide an accurate tracking of buying trends for all major coverage lines across a wide range of commercial insurance buyers and will include benchmarking charts.

Cholnoky named Gen Re president

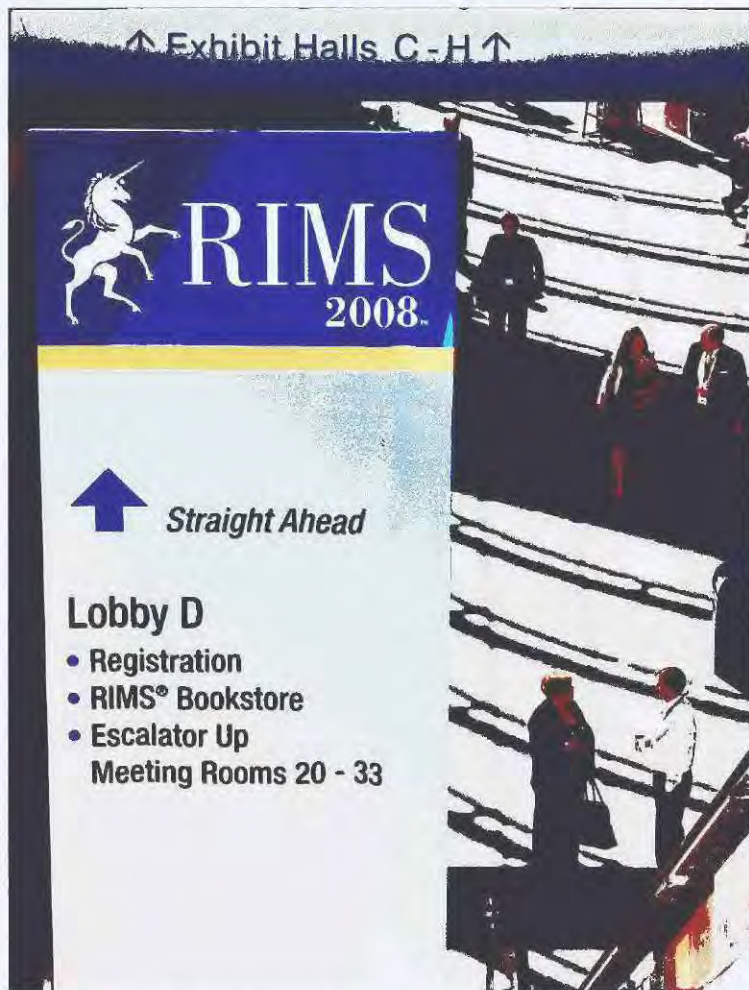
I. John Cholnoky has been promoted to president of General Reinsurance Corp. and manager of Gen Re's global direct property and casualty operations. Franklin Montross IV, who had been Gen Re's president since 2001, earlier this month was promoted to replace Joseph Brandon, former chairman and chief executive officer of Gen Re, after Mr. Brandon resigned. Mr. Cholnoky previously served as manager of Gen Re's global property facultative business. His new responsibilities will include General Re's direct treaty, both marketing and underwriting, facultative and claims divisions. He has also been elected to Gen Re's board of directors.



WATCH

See interviews with RIMS' leadership and highlights of the Risk Manager of the Year luncheon at www.businessinsurance.com.

... as seen at **RIMS** PHOTO BY MICHAEL MARCOTTE



CATCHING UP: The halls of the San Diego Convention Center were busy Monday as conference-goers attended events and chatted with peers.

Quakes: Some exposure seen

CONTINUED FROM PAGE 3

"The long-term rate of accumulation of strain on the Rose Canyon Fault is only one to two millimeters a year," Mr. Rockwell said. "You'd need to wait 1,000 years to get (an earthquake) in the high sixes or 2,000 years to get something in the low sevens."

By contrast, Los Angeles measures about six to eight millimeters of active movement each year distributed among the various faults, he said.

It is estimated that the last major quake produced by the Rose Canyon fault—a temblor estimated at 7.0—occurred about 500 years ago, Mr. Rockwell said.

The city, however, has experienced damage as a result of earthquakes on other faults located in the surrounding areas—the most recent being the 1956 6.8 quake on the San Miguel fault in Mexico, Mr. Rockwell said. "It shook San Diego pretty good."

While the chances are low that anyone attending this week's Risk & Insurance Management Society Inc. conference will experience a major earthquake—or even a minor one—geologists say it's only a matter of time.

"We do have the potential for a big one, and it's likely someday that a big one will occur," the city's Mr. Hawk said.

The good news is, "we design for it because we know we do have an active fault system," he noted. "All new construction meets the highest seismic codes," similar to those used in San Francisco and Los Angeles.

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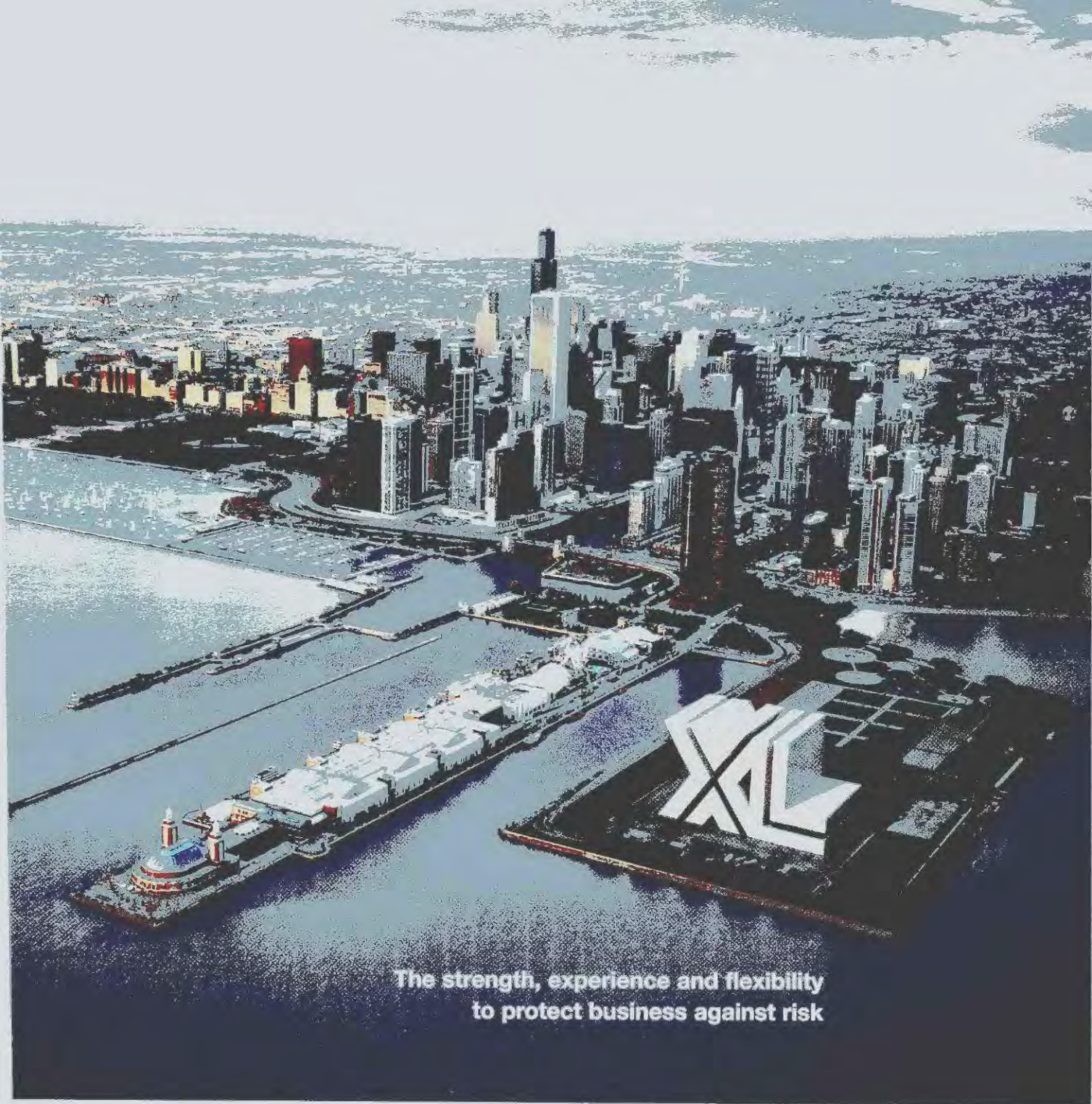
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