

Business Insurance

\$5

January 3, 2011

www.businessinsurance.com



AIG SEEN MAKING STRIDES IN EFFORTS TO REPAY BAILOUT, RESHAPE COMPANY / PAGE 3

NEW RIMS PRESIDENT SCOTT CLARK SETS AGENDA / PAGE 3

SAFETY PROGRAM HELPS CONSTRUCTION COMPANY CUT INJURIES, LOSSES / PAGE 3

In Brief

Liberty Mutual settles bid-rigging probes

Liberty Mutual Group Inc. has agreed to pay \$7.5 million to New York and Connecticut to settle allegations that it rigged bids and paid contingent commissions to persuade agents to steer customers to the insurer's products, officials said. The settlement stems from separate lawsuits that Connecticut Attorney General Richard Blumenthal and former New York Attorney General Eliot Spitzer filed in 2006 against Liberty Mutual and several other insurers and brokers as part of a nationwide investigation of bid-rigging in the insurance industry.

P/C insurers post net income growth

U.S. property/casualty insurers reported \$26.68 billion in net income for the nine months

See **IN BRIEF** page 21

SPOTLIGHT

PRIORITIES FOR RISK MANAGERS

RISKS OF TODAY AND TOMORROW

Tight budgets, regulatory and health care reform add to uncertainty for risk managers; experts highlight key issues in workers comp, employment practices, directors and officers liability, cyber risk and legislative issues; risk managers discuss their biggest worry for 2011.

PAGE 10

RISK MANAGEMENT

WikiLeaks fuels data breach fears

Managing systems, employee risks vital

By **SONJA RYST**

Could you get WikiLeaked?

Recent headline-grabbing leaks by the controversial website again have highlighted for companies the complex and fast-changing nature of cyber risk exposures.

Although the highest-profile information released by WikiLeaks has centered on government documents, concerns have been raised about corporations also becoming the target of potentially damaging information leaks.

For example, WikiLeaks founder Julian Assange told the Times of London in recent weeks that he had enough information to make the head of a major bank resign. Amid speculation about the identity of that bank, the Charlotte Observer reported in an article titled "Cloud of Suspense Surrounds Bank of America, WikiLeaks" that Charlotte-based Bank of America Corp. recently increased its internal secu-

rity, taking steps to block access to websites such as Google's e-mail application, Gmail, on company laptops. A Bank of America spokesman referred a request for an interview to a colleague, who did not respond.

"Every security incident that you hear about makes you think twice about what you're doing to defend against those things yourself," said Steve Elefant, chief information officer at the Princeton, N.J., card payment processor Heartland Payment Systems Inc.

Mr. Elefant was hired to tighten up Heartland's information security after it suffered a costly data breach in 2008. Several individuals were indicted in August 2009 for stealing data from Heartland and others related to more than 130 million credit and debit cards. The company ultimately paid around \$140 million in data breach-related fines and settlements, though it was able to

See **SECURITY** page 20



White paper offers advice about managing cyber risks. Page 3

RISK MANAGEMENT



U.S.-based auto interior provider Eagle Ottawa lost several workers when gunmen opened fire on buses taking staff home from a manufacturing plant in Mexico.

REUTERS

Drug cartel activity hits firms in Mexico

Companies in hot spots urged to plan, protect

By **ROBERTO CENICEROS**

Escalating crime and violence stemming from drug cartel activity in Mexico poses increasing risks for companies operating along Mexico's northern border, security and risk management experts say.

The risks range from the kidnapping and murder of employees to supply chain exposures caused by cargo thefts as well as potential infiltration of corporate shipping operations to transport illegal drugs, they add.

But companies' exposures stemming from cartel activity can be mitigated with contingency plans, security measures and insurance, sources say.

SUPPLY CHAIN RISK: Cargo theft soars in Mexico, with thieves often using inside information. Page 18

A "significant deterioration in security" has been occurring since 2006 along Mexico's northern border cities, where many multinational corporations assemble and manufacture products, said Sarah Katz, assistant vp of the kidnap, ransom and extortion depart-

See **CARTELS** page 18

HEALTH CARE REFORM

Employers fear cost hikes from health reforms

Some companies say they will drop coverage when insurance exchanges open: Study

By **JERRY GEISEL**

Employers, already facing burgeoning health care plan costs, say the health care reform law will

increase them even more, according to a survey released today.

An overwhelming majority of employers—74%—said they expect the Patient Protection and Afford-

able Care Act to increase group plan costs beyond what they would have had the legislation not passed, according to the survey, which was conducted by the Midwest Business Group on Health and co-sponsored by the National Business Coalition on Health, *Business Insurance* and sister publication *Workforce Management*.

For example, 42% of large employers—those with more than 500 employees—expect cost increases in the range of 2% to 5% due to complying with health care reform law, while 16% expect cost increases in the range of 6% to 10% (see chart, page 21). Just 11% of large employers expect the law

to boost costs less than 1%, according to the survey.

The survey, which was conducted between Nov. 29 and Dec. 15, drew responses from 430 employers, of which 43% have more than 500 U.S. employees.

That employers expect the new law to add fuel to health care inflation is not surprising, said Andrew Webber, president and CEO of the Washington-based NBCH. That is because several provisions—such as extending coverage to employees' adult children up to age 26, eliminating lifetime dollar limits and fully cover-

See **REFORM** page 21

INDEX

Advertiser Index	19
Business Resources	16
Commentary	6
End Page	22
Letters	8
Opinions	8
Up Close	16


UNITED IN CLIENT FOCUS

Organizations benefit from the best of all worlds with Aon:

- 1 Market insight based on real-time data
- 2 Risk consulting from global experts delivered locally
- 3 Unique programs to facilitate collaboration and networking with your peers

Throughout 2011, we will bring the best of Aon to your backyard via roundtables, forums and symposiums on areas such as:

- | | |
|----------------|-----------------|
| Energy | Property |
| Law Firms | Retail |
| Mutual Funds | Risk Consulting |
| Private Equity | Technology |

 Contact your account executive to learn more, and visit aon.com to explore the strategic risk and human resources tools and solutions available.

Business Insurance

Online features & highlights www.businessinsurance.com



D&O IN FOCUS: A CLOSER LOOK AT SIDE A

In this newest D&O In Focus video, *Business Insurance* talks with experts about the risks and benefits of Side A-only coverage. To watch, click through the Multimedia tab to Video Reports.



STOCK INDEX

The *BI* Stock Index offers comprehensive stock and financial information on all companies within the index. Find it under the Research Center tab.

2010 Market Sourcebook available for purchase



"Virtual Advantage: Best Practices in Workers Compensation Management" available on demand at www.BusinessInsurance.com/VirtualAdvantage.

MOST POPULAR STORIES Week of December 27, 2010

1. AIG sets \$4.3B of credit as insurer seeks to exit bailout
2. AIG didn't report \$18.7B of company guarantees
3. HIIG sells wholesale brokerage unit, readies for expansion
4. Congress OKs 6-week health insurance subsidy extension
5. AIG to pay \$146.5M to settle workers comp premiums probe
6. Insurers win Chinese drywall coverage dispute
7. U.S. proposes new rest rules for truckers
8. Marsh agency unit buys benefits firm Trion
9. HSA contribution limit stays same for 2011
10. Bill to extend pension benefit freeze relief dies

GET ONLINE NEWS EACH DAY
Subscribe to *BI's* daily newsletter

COMINGS & GOINGS

Search industry executive changes alphabetically by a person's name or company, as well as by date. Click on Comings & Goings.



FOLLOW *BI* ON TWITTER & FACEBOOK

Get short, timely messages from *Business Insurance's* home on Twitter at www.twitter.com/BusInsMagazine.

 For interesting news, features and information and to connect with other members of the *BI* audience, "Like" us on Facebook at www.facebook.com/BusInsMagazine.



CAREER CENTER

Business Insurance's Career Center, powered by JobTarget, is designed to deliver new career opportunities with the same specialization and quality that *Business Insurance* delivers in its news and information services. Whether you are looking for a new job, or to hire for a new position, sign up for the Career Center to make your search more efficient and successful.

Business Insurance (ISSN 0007-6864) Vol. 45, No. 1, is published weekly, except combined issues the second and third week of August, the fourth and fifth week of November, and no issue the last week of December, by Crain Communications Inc., 360 N. Michigan Ave., Chicago, Ill. 60601-3806. Periodicals postage is paid at Chicago and at additional mailing offices. POSTMASTER: E-mail address change to customerservice@businessinsurance.com or mail to Business Insurance Circulation Department, 1155 Gratiot Ave. Detroit, Mich. 48207-2912. \$5 a copy and \$125 a year in the U.S. \$130 in Canada and Mexico (includes GST). All other countries, \$230 a year (includes expedited air delivery). Canadian Post International Publications Mail Product (Canadian Distribution) Sales Agreement No. 40012850, GST No. 136760444, Canadian return address: 4960-2 Walker Road, Windsor, ON N9A6J3. Printed in U.S.A. Copyright © 2011 by Crain Communications Inc.



RISK MANAGEMENT

Engaging chapters, aiding members key goals for new RIMS president

Scott Clark seeks to help members who have lost jobs

By MARK A. HOFMANN

NEW YORK—Reaching out to Risk & Insurance Management Society Inc. chapters and chapter leadership will be a hallmark of Scott B. Clark's presidency of the society.

"I've always been a real chapter proponent," said Mr. Clark, who became RIMS president Jan. 1. "The overarching theme is that of the engagement of RIMS chapters and of chapter leadership," said Mr. Clark, who is risk and benefits officer of Miami-Dade County Public Schools.

Mr. Clark plans to conduct quarterly webinars with chapter



Mr. Clark

presidents to ensure at the chapter level that they understand the resources that are available. "By the same token, I want to hear back from the chapters what we can do better in providing support at the chapter level. I think that

will help grow our membership," he said.

He said he asked RIMS' staff in New York to create a "President's Corner" on the RIMS website. He added that he might use Facebook and Twitter as well to communicate with RIMS members to provide immediate information as he travels as president of the New York-based society.

Mr. Clark succeeds Terry Fleming, director of the division of risk management at Montgomery County, Md., in Rockville, as RIMS' top officer.

Mr. Clark said one of the biggest challenges RIMS faces is the need to resume membership growth. The economic downturn cut into the society's membership, although there has been an uptick

See **CLARK** page 17

P/C INSURERS

Good progress seen in AIG recovery

Efforts to repay bailout, reshape company fuel optimism, share gains

By JUDY GREENWALD

NEW YORK—American International Group Inc. is making unexpectedly strong progress toward its goal of emerging from government ownership and operating as a smaller, leaner insurer, many observers say.

AIG reached two milestones in its effort late last month with its announcement of a \$3 billion credit facility as well as a \$100 million settlement with state regulators for alleged underreporting of workers compensation premiums (see story, page 19).

The stock market apparently

also is pleased with AIG's progress, with its stock one of 2010's top performers in the S&P 500, according to the Wall Street Journal. The stock closed at \$57.53 per share Dec. 30, up around 92% for the year.

Last week, AIG announced its entry into 364-day and three-year bank credit facilities totaling \$3 billion, split evenly between the two. The company also announced that its Chartist Inc. property/casualty unit had entered into a one-year, \$1.3 billion letter of credit facility.

Thirty-six banks participated in the facilities.

Also in December, AIG raised \$2 billion by selling senior unsecured notes in addition to establishing a \$500 million contingent liquidity facility.

AIG President and CEO Robert Benmosche said in a statement that the credit facilities, debt offering and contingent liquidity facility demonstrate the company "has momentum and has made substantial and impressive progress this year."

Observers are optimistic about AIG's prospects, despite its \$2.4 billion third-quarter loss, which

See **AIG** page 19

Learn strategies for managing cyber risk

With identity theft causing tens of billions of dollars in extra business expenses annually, organizations face an array of direct and indirect costs from data breaches, according to a new white paper from *Business Insurance*.

Risk managers at all organizations should work to minimize their exposure to cyber risks by "expecting the unexpected" and adopting various strategies, both organizational and technological, according to the white paper by cyber risk and insurance expert Mark Greisiger, president of Philadelphia-based Network Standard Corp., which does business as NetDiligence.

Identity theft affects about 10 million U.S. residents a year and

causes an estimated \$50 billion in unnecessary business expenses, according to the Federal Trade Commission.

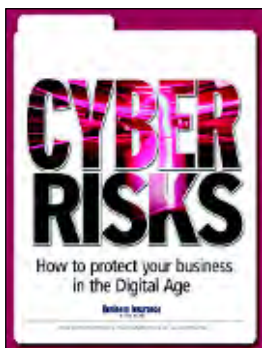
The theft of personal information costs organizations an average of about \$710,000 per incident, according to an annual FBI study. And the sources of those extra expenses are numerous, according to the white paper, "Cyber Risks: How to Protect Your Business in the Digital Age."

Extra expenses can result from:

- Managing a lengthy forensic computer system investigation. Depending on the type of data (personal health information, images, audio files, etc.), the volume of information and other factors, such as centralization of systems, such costs can range from tens of thousands to millions of dollars.

- Hiring a security consultant to assist with remediation and hardening—or increasing secu-

See **WHITE PAPER** page 16



SAFETY



As a result of the Striving Towards Excellence and Professionalism in Safety program at API Group Inc., the company's losses have fallen even as its exposure base has increased.

API safety program cuts injuries, losses

Construction firm wins recognition for loss control plan

By MICHAEL BRADFORD

During a corporate board meeting several years ago, the leaders of API Group Inc. realized that even though the construction and fire protection company already had ambitious risk management goals, it had no clear plan to achieve them.

API had set performance metric goals for safety and loss prevention for years, said Shawn Helmer, director of risk management at the New Brighton, Minn.-based company. "They were the typical ones," he said of the metrics, including experience modification ratings, total recordable incident rates, lost-time injuries and others. "And we set goals to reduce those metrics."

A growing company, API has 36 independently managed subsidiaries in 160 locations, but management was unhappy about the high level of losses.

"We had a lot of them," Mr. Helmer said, adding that the company's board and top management took notice.

During a board review in 2005 of API's efforts to hit its loss prevention marks, it was discussed that the company's goals were sound but lacked clarity in how to achieve them.

That meeting led API President and CEO Russell Becker to chal-

lenge his risk manager. "He said, 'I want you to come up with a program to get people to achieve these goals,'" Mr. Helmer said. "We have 20 safety and loss professionals and our risk management staff. I locked them in a conference room and said, 'We're not coming out until we come up with a plan.'"

It was in that meeting that the idea for a program later called Striving Towards Excellence and Professionalism in Safety took shape. Five years later, the STEPS results are impressive: API has seen losses plummet even as its exposure base has grown dramatically.

From 2005 through 2009, hours worked by API employees rose to just less than 14 million from 9 million as it grew organically and through acquisitions. During the same period, its losses fell 34% to 399 in 2009.

The success of STEPS was impressive enough to win the Gary E. Bird Horizon Award at this year's 30th International Risk Management Institute Inc.'s Construction Risk Conference.

The annual award sponsored by Marsh Inc. recognizes innovative risk management programs implemented by construction companies.

Since inception of STEPS, API's experience modification rating has decreased 20% to a level that is remarkable for a company like API, said Scott Staffon, vp of the construction risk and safety consulting practice at Willis of

See **SAFETY** page 17

AGENTS & BROKERS

Marsh & McLennan Agency adds Trion Group

Northeast benefits firm broadens reach, services of Marsh's middle-market operation

By MICHAEL BRADFORD

NEW YORK—Marsh & McLennan Agency L.L.C.'s recent acquisition of Trion Group Inc. is its latest step toward building a billion-dollar operation, says MMA's top executive.

MMA, a subsidiary of Marsh Inc., acquired Conshohocken, Pa.-based Trion late last month for an undisclosed amount. Trion, a privately held employee benefits company, provides consulting, brokerage, benefit administration, and other services to clients throughout the United States.

With the \$74 million in annual revenues produced by Trion, MMA will have around \$260 million in yearly revenue.

"We said a year ago that we want to become a major player and be among the top 5," said David Eslick, MMA's chairman and CEO. "That says that we want to get to \$1 billion in revenue; we're now at \$260 million."

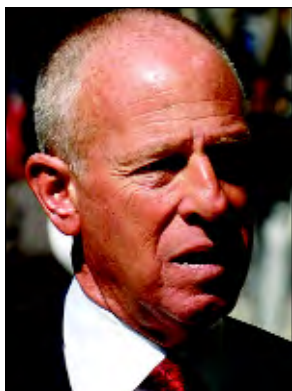
MMA is on the lookout for more acquisitions that will boost its revenue and range of services, Mr. Eslick said. "We have the ability to attract really good, quality firms," the MMA chief executive said, noting that

he expects MMA to look at more property/casualty and employee benefit operations.

Trion is MMA's sixth acquisition since it launched its strategy in November 2009 to build a nationwide platform of property/casualty and employee benefit services. During the past 13 months, MMA has acquired Houston-based Insurance Alliance; NIA Group L.L.C. in Paramus, N.J.; Haake Cos. in Overland Park, Kan.; Thomas Rutherford Inc. in Alexandria, Va.; and the

See **TRION** page 16

AGENTS & BROKERS



BLOOMBERG

Messrs. Gilman, left, and McNenney had their convictions dropped.

New York won't fight toss of bid-rig verdict

Move ends case against ex-Marsh execs

By MARK A. HOFMANN

NEW YORK—The New York attorney general's office has dropped its appeal of a judge's July decision to overturn the bid-rigging convictions of two former Marsh Inc. executives.

The state had appealed a July 2 decision by New York County Supreme Court Judge James A. Yates that tossed out the convictions of former Marsh Managing Directors William Gilman and Edward J. McNenney.

In the opinion, the judge cited new evidence that "undermines the court's confidence in the verdict," including documents that weren't disclosed at the time of the trial that would have proved "invaluable" to the defense as well as contradictory statements by witnesses who cooperated with the prosecution.

Prosecutors' appeal was withdrawn in a document signed Dec. 13 by New York attorney general and Governor-elect Andrew Cuomo and attorneys for Messrs. Gilman and McNenney. The document did not state the reason for the state's action.

Messrs. Gilman and McNenney, the first former Marsh executives to face trial in the case, were accused of colluding with

employees at various insurers to rig the market for excess casualty insurance between 1998 and 2004.

Judge Yates convicted the men in February 2008 of violating New York antitrust law, but acquitted them of 20 counts of fraud and larceny.

They were sentenced to 16 weekends in jail but appealed the convictions.

The judge's decision in July to toss the convictions capped a series of failures by prosecutors targeting individual brokers named in then-New York attorney general Eliot Spitzer's investigation into alleged bid-rigging and other practices by brokers and insurers.

Last October, Judge Yates acquitted three other former Marsh executives of all charges in the case after a nearly 11-month trial. He later dismissed charges against three more defendants before their trial began.

Meanwhile, Messrs. Gilman and McNenney sued Marsh in late October, accusing their former employer of violating federal law and breach of contract, claiming it had fired them without cause and had not paid them severance to which they were contractually entitled.

CLAIMS SERVICES

Sedgwick CMS buys Hartford TPA unit

Deal includes business from the insurer

By ROBERTO CENICEROS

MEMPHIS, Tenn.—The leader of Sedgwick Claims Management Services Inc. said he hopes to retain all the employees and customers of rival Specialty Risk Services L.L.C., which Sedgwick CMS has agreed to purchase for \$278 million in cash.



'We hope to retain 100% of the people and all of the customers' that are part of SRS.

David A. North, Sedgwick Claims Management Services Inc.

The competing third-party administrators share similar characteristics, said Sedgwick CMS President and CEO David A. North. Both have "great employees" and provide "high-quality" service.

"Given those characteristics, the structure of the deal is, we are going to acquire, and we hope to retain, 100% of the people and all of the customers that are currently part of the SRS organization," Mr. North said.

In announcing the deal, Mr. North also praised Hartford, Conn.-based SRS as a "highly respected player in the industry (that) has established a strong reputation for serving and retaining outstanding clients."

Mr. North said the deal would not constrict industry-wide options for employers, as plenty of competitors remain in that sector.

Memphis, Tenn.-based Sedgwick CMS is the nation's largest TPA, with \$600.6 million in 2009 revenues, according to the most recent *Business Insurance* TPA ranking.

It announced Dec. 20 that it had agreed to buy SRS, the nation's seventh-largest TPA, with \$186.6 million in 2009 revenues, from Hartford Financial Services Group Inc. for \$278 million in cash.

Sedgwick CMS is privately held by Stone Point Capital L.L.C., Hellman & Friedman L.L.C. and its management.

The deal is expected to close during the first quarter of 2011 and is subject to regulatory approval.

Hartford has several insurance programs that were customized to primarily use SRS as a claims administrator, Mr. North said. Sedgwick CMS will retain that business as part of the transaction.

"For us, that is an exciting addition of having a strategic partner with Hartford," Mr. North said.

Both TPAs provide full services in all 50 states, and office consolidation is expected to be minimal, Mr. North said.

Hear views on key comp issues

By MIKE TSIKOUKAKIS

Participants in *Business Insurance's* virtual conference, "Virtual Advantage: Best Practices in Workers Compensation Management," interacted with industry experts in discussing trends and issues affecting workers compensation.

The live Dec. 16 online conference featured speakers and sessions, a virtual exhibit hall and networking opportunities.

Trends in workers compensation insurance will continue to frustrate insurers in 2011, but growth in certain industries can offset deteriorating results, Robert P. Hartwig, an economist and president of the Insurance Information Institute Inc. in New York, said during a keynote presentation at the conference.

Workers comp is the second-largest segment within the commercial lines of property/casualty insurance, and the struggling economy and labor market play integral roles as employee payrolls are the exposure base for workers comp premiums, Mr. Hartwig said.

"No line is more deeply affected by the turmoil in the economy over the past two years than workers compensation," said Mr. Hartwig. However, "the economy is likely on a trajectory to continue to create jobs, and that is good news."

But workers comp insurers not involved with growing industries such as health care, energy and shipping, among others, may see little growth in the next decade, Mr. Hartwig said.

Hot topics

Mergers and acquisitions and soft market pricing top the issues and challenges affecting the workers compensation industry, Mark Walls, assistant vp of claims for Safety National Casualty Corp. in St. Louis, and *BI* Senior Editor Roberto Cenicerros said during a webcast, "Workers Comp Hot Topics," that was part of the virtual conference.

Mr. Walls, who also is manager of the Work Comp Analysis Group on LinkedIn.com, and Mr. Cenicerros, author of *BI's* Comp Time blog, discussed 12 pressing issues affecting workers compensation.

M&As topped the issue list as 2010 saw a flurry of activity, mostly from private equity buyers interested in health care within workers comp, as they don't expect it to be affected much by the new health care law, the participants said. They said more M&As are expected in 2011.

Messrs. Walls and Cenicerros discussed other hot topics affecting workers comp, such as illegal immigration, fraud, erosion of states' exclusive remedy laws and medical cost containment.

See **VIRTUAL** page 19



NOBODY WANTS TO TAKE THE FALL FOR A FICTITIOUS CLAIM.



When a patron claimed to take a bad fall outside the entrance of a major retail establishment, the manager first went to her aid, and then came to us. Risk management planning had ensured there were anti-slip mats at the entrance and a surveillance camera, which captured the staged accident. The fraudulent claim was then denied and referred to the local authorities, protecting the customer from unwarranted losses and potential litigation. Whether it's responding quickly, keeping you informed, or helping to mitigate potential losses, our general liability experts are committed to helping you protect your business. That's our policy. For more information, contact your broker or agent or visit libertymutualgroup.com/gl.



LIABILITY | COMMERCIAL AUTO
PROPERTY | WORKERS COMPENSATION

Responsibility. What's your policy?®

© 2010 Liberty Mutual Group

Questions & Answers

This month, Terrence M. Deneen will retire as chief insurance program officer of the Pension Benefit Guaranty Corp. Mr. Deneen joined the PBGC in 1978 and quickly became involved in drafting what became the Multiemployer Pension Plan Amendments Act of 1980. In an interview with Business Insurance Editor-at-Large Jerry Geisel, Mr. Deneen discussed a wide range of issues dealing with the nation's pension system.



Retiring PBGC insurance chief looks at future of agency, plans

Q: If you look at the defined benefit pension plan system today, you will see that virtually no new plans are being established, while many employers have frozen or soon will freeze their plans. Doesn't that suggest that the defined benefit plan system one day will be extinct?

The good news is that a pension plan freeze is not irrevocable. Plans can be unfrozen. As time goes on and corporate America emerges from the recession, it will become clearer (to employers) that if they want employees to retire, a defined benefit plan is one of the best ways to help. If you have frozen your defined benefit plans, that means employees will have to take maximum advantage of their defined contribution plans. If employees want to retire, they are going to

READ an unabridged version of this interview online at www.BusinessInsurance.com

have to save the maximum and invest assets with a lot more ingenuity and flair that the typical American is used to. That won't happen. So, if you want to encourage relatively highly compensated, older employees to step aside, you may have to rejuvenate and turn back to defined benefit plans.

Q: So, you are an optimist?

A limited optimist. As long as frozen plans still are in existence, there still is hope they will be revived again. In addition, the administration is looking long and hard at a variety of ways to encourage the formation of defined benefit plans. For exam-

ple, the administration is looking at how defined contribution plans can be morphed into defined benefit plans. Say there is an employer with a frozen defined benefit plan. People are looking at how the law could be changed so participants could take a defined contribution plan balance and roll it over to a defined benefit plan for an enhanced benefit, a creative mix and match. It is an idea that is being pursued.

Q: Recently, a federal deficit commission recommended that the PBGC board be given authority to raise premiums for the agency's insurance programs. What do you think of that idea?

Under law, the PBGC board has authority to propose premium increases to Congress. Historically, that has not been the vehicle to raise the premium. When the deficit (currently \$23 billion) has gotten big enough, Congress has decided to take action itself and set premiums on the basis it thought best. It is very difficult to know if Congress would be willing to cede that authority to a PBGC board.

Q: Given the size of its deficit, one has to ask if there will be a PBGC 20 years from now.

There will be a PBGC or a successor, if reconfigured, in the benefits payment business for generations to come. This is a long-term proposition. I'm confident that Congress is not going to allow the pension benefit backup to go insolvent. I can see changes in the future that may refashion the guarantee and there is precedent for that.

Commentary

Attorney blitz putting NFL on the defensive?

If you were being paid tens of millions of dollars to work outside, how loudly would you complain if your boss asked you to do your job on a cold, snowy day?

Even if it meant getting a little beat up, if that was the job you had agreed to perform for astronomical wages, then it seems that your obligation would be to take your licks even if the mercury was south of 32 degrees and visibility was limited by swirling snow.

Not so, it appears, if you're a tough-guy athlete in the National Football League.

In a fit of risk management overkill, the NFL postponed last week's game between the Philadelphia Eagles and Minnesota Vikings on the pretext of unsafe conditions. That decision sidelined two teams being paid hundreds of millions of dollars to do their jobs even when it gets a little uncomfortable outside.

Postponing the game came as no surprise in the age when a fair sampling of athletes being paid extremely high salaries have lost touch with the fact that they are ordinary humans.

We have players blaming God for missed catches and others complaining about boos from fans who should respect them in the same way they treat soldiers returning from Afghanistan. Who could expect such pampered athletes to stop counting their money long enough to play outside when it's cold?

Next time you gather with friends to watch Monday Night Football, here's a question to pose: How many would be willing to be bounced a few times off the frozen sod of Lincoln Financial Field for the kind of money the Eagles and Vikings made while wrapped in shawls in front of their fireplaces?

In 1967, when players were paid a fraction of the payrolls handed out today, the Green Bay Packers and Dallas Cowboys played the NFL title game at Lambeau Field in 13 below zero weather. Ray Nitschke, a Packers linebacker, limped to the locker room after the game with frostbite on six toes.

In 1982, the San Diego Chargers and Cincinnati Bengals lined up on the tundra at Riverfront Stadium in a wind chill measured under the formula at the time of 59 below zero, the temperature at which footballs turn to cement blocks.

Given the sensitivities of today's athletes and the



MICHAEL BRADFORD

Senior Editor Michael Bradford can be reached at: mbradford@businessinsurance.com

league's obsession that someone might get hurt if the sport is played in the extreme cold, fans should be thankful there are domed stadiums, or the season would have to be shifted to summertime.

Though I generally am hard pressed to find anything about

If it's the lawyers the league and the team are really afraid of, just admit it.

liberal politicians to praise, kudos are in order for Pennsylvania Gov. Ed Rendell for his passionate response to the decision to postpone the game.

"We're becoming a nation of wussies!" Gov. Rendell railed in one interview. "This is football," he said in another. "Good Lord, Vince Lombardi would be spinning in his grave!"

(I'm fully aware that, by the time this goes to print, the governor's aides may have informed him that his remarks offended someone, and he is now not only opposed to playing football in the cold, but has formed a committee to determine the optimum temperature at which to play all outdoor sports in Pennsylvania).

It is not unreasonable to suspect that there were higher risk management motives than revealed during discussions that led to postponing the game. One thing more fearsome than a blizzard is a storm of lawyers blowing into the courthouse with lawsuits filed by fans who slipped an icy step or broke a tooth on a frozen hot dog.

If it's the lawyers the league and the team are really afraid of, just admit it. It's far more reasonable to fear lawsuits than playing football in bad weather.

Want to STAND OUT from the crowd?

Promote your coverage with Business Insurance Custom Reprints



What are the benefits of reprints?

- Offer a unique opportunity to co-brand your company with a reputable news source
- Help underscore your PR efforts
- Great addition to your press kits
- Great recruitment and retention pieces
- Digital reprints boost your news/press web pages and help drive traffic to your site
- Boost employee and company morale

ASK ABOUT OUR REPRINT PRODUCTS:

HARD COPY REPRINTS • EPRINTS • PLAQUES • BANNERS/BUTTONS • TRADE SHOW COLLATERAL • POSTCARDS



Contact Lauren Melesio at 212.210.0707 or lmelesio@crain.com for information on how to turn your Business Insurance press coverage into great marketing.

Business Insurance
www.BusinessInsurance.com



WITH EVERYTHING FROM P&C COVERAGE TO GROUP BENEFITS, THE HARTFORD CAN HELP PROTECT YOUR PROPERTY AS WELL AS YOUR PEOPLE.

Your customers depend on your company. Your company depends on you. So who can you rely on to help ensure your company's well-being? Trust The Hartford for industry-leading coverage for everything from property and liability protection to group benefits and workers' compensation programs. More than one million businesses do. Call your representative today to learn how The Hartford can prepare your business for today's challenges and tomorrow's opportunities.



With The Hartford behind you, achieve what's ahead of you.®

Business Insurance OPINIONS

Cost fears loom large over health reforms

IF FEDERAL LEGISLATORS are asking why employers haven't been more enthusiastic about the health care reform law, they have to look no further than a survey released this week by the Midwest Business Group on Health.

As we report on page 1, employers say the law has meant more compliance work and higher health care costs.

In fact, nearly three-quarters of employers responding to the survey say the law will result in health care plan costs that are even higher than if the reform legislation had not been made law.

From an employer perspective, it would be premature to label the law a failure, as many provisions have yet to go into effect, especially those that have the potential to ease cost increases.

The best example of that are provisions that will provide federal premium subsidies to enable lower- and middle-income uninsured individuals to buy coverage through new state health insurance exchanges starting in 2014.

That should enable millions of people to obtain insurance and dramatically reduce the amount of uncompensated care, a cost providers now shift to those in insured plans. Whether that reduction in cost-shifting occurs, of course, remains to be seen.

Meanwhile, we hope Congress during the next session takes another look at what steps can be taken to modify the law to better control costs.

And we hope they junk provisions that cause more work for employers, such as reporting the cost of coverage on employees' W-2 statements, and others, such as reducing contributions to flexible spending accounts, that reduce the value of a key benefit while having no connection to health care reform.

From an employer perspective, it would be premature to label the law a failure.

Current market offers chance to boost profile

SUCCESSFUL RISK MANAGEMENT means taking advantage of every opportunity that presents itself to make one's risk profile more attractive.

That's particularly true as exposures proliferate. Sometimes, the very nature of risk changes. Fortunately, as we report beginning on page 10 about risk management buyer priorities for 2011, some risk managers are taking advantage of favorable market conditions to improve their risk profile.

After all, the economy, while recovering, remains a problem for risk managers. A less-than-robust economy can result in a continued emphasis on doing more with less. Not surprisingly, that can mean bolstering loss control efforts and improving business continuity plans. That way, risk managers can leverage the soft market into better protecting the assets they already have.

Enhancing cyber defenses also is among some risk managers' priorities in the coming year. Protecting the security and flow of information is an increasingly important facet of loss control.

The stable insurance market also gives risk managers an opportunity to broaden the view of risk management within their organizations. This means initiating, formalizing and expanding enterprise risk management plans and getting others in the business to buy into and contribute to ERM.

2011 will be a challenging year for risk managers. Those who take advantage of the opportunities to enhance their risk profile may well find their own professional profile within their organizations is enhanced as well.



WRITE

Business Insurance welcomes letters to the editor. The section is intended to be a forum for readers' opinions and comments. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters.

Please send your letters to:

Letters to the Editor
Business Insurance
360 N. Michigan Ave.
Chicago, Ill. 60601-3806

fax: 312-280-3174, e-mail:
pwinston@crain.com

VOTE

in the BI Online Poll at
www.businessinsurance.com

THIS WEEK'S RESULTS

Q Is Internet security a risk management issue or just an IT issue?



Just IT

37%

Risk management and IT

62%

NEXT WEEK'S QUESTION

Q: Do you expect organizations to boost their enterprise risk management efforts in 2011?

LETTERS

Health reform repeal effort appropriate

To the editor: You had an article in the Nov. 8 publication titled "Two States Vote to Invalidate Health Care Mandate." In the article you stated: "Federal law pre-empts state law under the U.S. Constitution." This statement is a serious error. The supremacy clause says the U.S. Constitution is superior, not the federal government. The people of the states comprising the United States of America created the federal government to be their agent for certain enumerated powers as set forth in the Constitution, and nothing more. The 10th Amendment to the U.S. Constitution defines the total scope of federal powers as being those which have been delegated by the people of the states to the federal government, and all powers not delegated to the federal government are reserved to the states respectively, or to the people themselves. Thus, the states have final authority over any law not specifically delegated to the federal government. The nullification movement regarding the health care law is very appropriate and constitutional.

David Black
Willoughby, Ohio

PERSPECTIVES

Business Insurance accepts articles from experts in commercial insurance, risk management and employee benefits management for publication in its Perspectives section.

All articles for the Perspectives page should address the concerns of the corporate buyer of insurance; i.e., the risk management or employee benefits manager. Material written for only the concerns of brokers or underwriters is not appropriate.

All authors must assign the copyright on the article to Business Insurance.

Because of the volume of Perspectives submissions we receive, we cannot guarantee a date in which an article will appear. To submit a Perspectives article query or for more information, send a note to biweb@crain.com.

Publisher/General Manager,
Strategic Business Media
Mark Stach (Chicago)

Associate Publisher/
Online General Manager/Event Director:
Paul D. Winston (Chicago)

Editor-at-Large: Jerry Geisel (Washington)

Managing Editor: Gavin Souter (Chicago)

Assistant Managing Editor - Multimedia:
Kathy L. Barnes (Chicago)

Assistant Managing Editor - News:
Matt Scroggins (Chicago)

Art Editor: William Murphy (Chicago)

Special Projects Editor: Rodd Zolkos (Chicago)

Senior Editors: Michael Bradford (Dallas);

Roberto Ceniceros (Boise);

Judy Greenwald (San Jose);

Mark A. Hofmann (Washington);

Sarah Veysey (London); Joanne Wojcik (Denver)

Associate Editors:

Jeff Casale (Chicago); Sonja Ryst (New York);

Mike Tsikoudakis (Chicago)

Copy Editors: Charmain Benton (Chicago);

Ann Reus (Chicago)

Editorial Assistant: Mallory Gillikin (Chicago)

Research Director: Kevin P. Edison (Chicago)

Research Editor: Karen Brown Tucker (Chicago)

Online Editor: Katherine Downing (Chicago)

Online Producer: Amy R. Curtis (Olathe)

Editorial Cartoonist: Roger Schillerstrom (Chicago)

Regional Sales Managers:

William J. McGuire (Chicago);

Ron Kolgraf (Boston); Robert B. Murray

(New York); Mary Pemberton (Denver);

Classified Advertising Manager:

Monique Murray (New York)

Events Manager: Rebecca Briggs (New York)

Production Manager: J. Thomas Janka (Chicago)

Promotion Director:

Michael Ambrosio (New York)

EDITORIAL: Boise: 208-286-1425;

Chicago: 312-649-5200; Dallas: 972-691-7960;

Denver: 303-278-7444; London: 44-207-457-1400;

New York: 212-210-0100; San Jose: 408-774-1500;

Washington: 202-662-7200

ADVERTISING: Boston: 617-292-4856;

Chicago: 312-649-5286; Denver: 303-898-4043;

London: 44-207-457-1412; New York: 212-210-0133

SUBSCRIPTIONS: Detroit: 888-446-1422

Business Insurance is published by

Crain Communications Inc.

Chairman: Keith E. Crain

President: Rance Crain

Secretary: Merrilee Crain

Treasurer: Mary Kay Crain

Executive Vice President/Operations:

William A. Morrow

Senior Vice President: Gloria Scoby

Vice President/Group Publisher:

Christopher Crain

Group Vice President/Technology,

Circulation, Manufacturing: Robert C. Adams

Vice President/Production & Manufacturing:

Dave Kamin

Corporate Circulation/
Audience Development Director:

Kathy Henry

Chief Information Officer: Paul Dalpiaz

G.D. Crain Jr. Founder (1885-1973)

Mrs. G.D. Crain Jr. Chairman (1911-1996)

S.R. Bernstein

Chairman-executive committee (1907-1993)

Published at 360 N. Michigan Ave., Chicago, Ill. 60601-

3806, Fax: 312-280-3174, biweb@crain.com. Offices: 711

Third Ave., New York, N.Y. 10017-5806, Fax: 212-210-

0704; Suite 814, National Press Building, Washington,

D.C. 20045-1801, Fax: 202-638-3155; 6500 Wilshire Blvd.,

Suite 2300, Los Angeles, Calif. 90048-4947, Fax: 323-

655-8157; 967 Bermuda Court, Sunnyvale, Calif. 94086-

6750, Fax: 408-774-1155; 21 St. Thomas St., London SE1

9RY, U.K. Fax: +44-(0)20-7457-1440; 12524 Acuff Court,

Olathe, Kan. 66062, Fax: 312-280-3174, 77 Franklin St.,

Suite 809, Boston, Mass. 02110-1510; Fax: 212-210-0704.

\$5 a copy and \$97 a year in the U.S., \$130 in Canada

and Mexico (includes GST). All other countries, \$230 a

year (includes expedited air delivery). E-mail

subscription correspondence and address changes to

customerservice@businessinsurance.com or mail to

Business Insurance Circulation Department, 1155

Gratiot Ave., Detroit, MI 48207-2912. Send subscription

correspondence to Circulation Department, Business

Insurance, 711 Third Ave., New York, N.Y. 10017-5806.

Microfilm copies available: University Microfilms, 300

Zeeb Road, Ann Arbor, Mich. 48103. Microfiche copies:

Bell & Howell, Micro Photo Division, Old Mansfield Road,

Wooster, Ohio 44691. Portions of the editorial content

of this issue are available for reprint or reproduction

in other media. For reprints or reprint permission,

please contact Lauren Melesio/Crain Communications at

212-210-0707 or e-mail BusinessInsurance@reprints.crain.com.

To subscribe, Call 888-446-1422, or

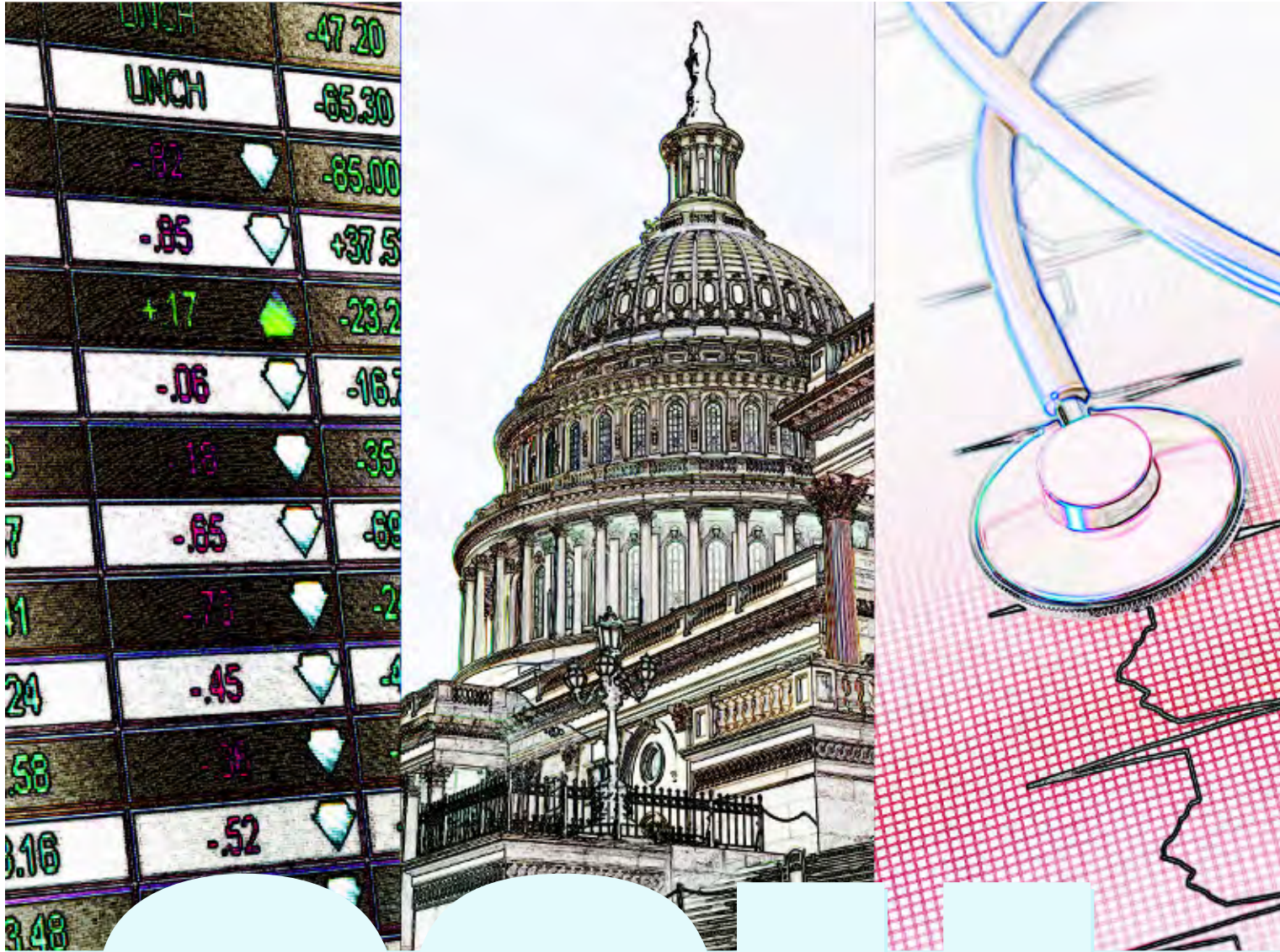
313-446-0450 outside the U.S.

www.businessinsurance.com



Calendar of 2011 industry conferences and events

	Dates	Name: Sponsor	Location	Website
January	Jan. 12	Property/Casualty Insurance Joint Industry Forum: Insurance Information Institute	New York	www.iii.org
	Jan. 20-21	Public Policy Summit: National Assn. of Mutual Insurance Cos.	Washington	www.namic.org
	Jan. 30-Feb. 2	ABA Insurance Risk Management Annual Forum & Meetings for the Financial Services Industry: American Bankers Assn.	Phoenix	www.aba.com/Events/IRM_showguide.htm
February	Feb. 2-3	2011 D&O Symposium: Professional Liability Underwriting Society	New York	https://plusweb.org/event/DAND02011
	Feb. 2-4	AMRAE Annual Conference: Assn. pour le Management des Risques et des Assurances de l'Entreprise	Deauville, France	www.amrae.fr/rencontres-amrae/2011.html
	Feb. 8-10	Cat Modeling 2011: Reinsurance Assn. of America	Orlando, Fla.	www.reinsurance.org/i4a/pages/index.cfm?pageid=3292
March	Feb. 23-26	Mid-Year Leadership Forum: National Assn. of Professional Surplus Lines Offices Ltd.	Naples, Fla.	www.napslo.org/imispublic/AM
	March 8-9	2011 National Policy Forum: America's Health Insurance Plans	Washington	www.ahip.org/content/default.aspx?bc=40
	March 13-15	2011 International Conference: Captive Insurance Cos. Assn.	Tucson, Ariz.	www.cicaworld.com/EventsCalendar.aspx
	March 13-16	2011 ERM Symposium: Casualty Actuarial Society, Canadian Institute of Actuaries, Professional Risk Managers' International Assn. and Society of Actuaries	Chicago	www.ermssymposium.org/2011/index.php
	March 14-16	25th Annual Legislative/Regulatory Conference: Self-Insurance Institute of America Inc.	Washington	www.siiia.org/i4a/pages/index.cfm?pageid=3280
	March 14	<i>Business Insurance</i> Innovation Awards	New York	www.businessinsurance.com/innovation
	March 15-16	<i>Business Insurance's</i> 2011 Risk Management Summit	New York	www.businessinsurance.com/rmsummit2011
	March 24-25	2011 Medical PL Symposium: Professional Liability Underwriting Society	Chicago	https://plusweb.org/event/MPL11
Apr.	March 24-25	2011 Professional Risk Symposium: Professional Liability Underwriting Society	Chicago	https://plusweb.org/event/PRS10
	April 13-15	Big "I" Legislative Conference & Convention: Independent Insurance Agents & Brokers of America Inc.	Washington	www.iiaba.net/events
May	May 1-3	2011 PCS Catastrophe Conference: Insurance Services Office Inc.	Orlando, Fla.	www.iso.com/Conferences/Confrences-Landing/ISO-Conferences.html
	May 1-5	RIMS 2011 Annual Conference & Exhibition: Risk & Insurance Management Society Inc.	Vancouver	www.rims.org/annualconference/RIMS2011/Pages/default.aspx
	May 10-12	Self-Insured Workers' Compensation Executive Forum: Self-Insurance Institute of America Inc.	Charleston, S.C.	www.siiia.org/i4a/pages/index.cfm?pageid=4733
	May 22-24	ACORD LOMA Insurance Systems Forum: ACORD and LOMA	San Diego	www.acordlomaforum.org/2011/index.aspx
	May 22-25	AAMGA Annual Meeting: American Assn. of Managing General Agents	Orlando, Fla.	www.aamga.org/events/209
	May 31-June 3	Employee Benefits Leadership Forum: Council of Insurance Agents & Brokers	Colorado Springs, Colo.	www.ciab.com/Meetings.aspx
June	June 5-8	Bermuda Captive Conference	Southampton, Bermuda	www.bermudacaptive.bm
	June 5-8	PRIMA 2011 Annual Conference: Public Risk Management Assn.	Portland, Ore.	www.primacentral.org/content.cfm?sectionid=5
	June 6-8	Airmic 2011 Annual Conference: Assn. of Insurance & Risk Managers	Bournemouth, England	www.airmicconference2010.com
	June 9-10	2011 NetDiligence Cyber Risk & Private Liability Forum: NetDiligence	Philadelphia	www.netdiligence.com
	June 12-15	Safety 2011: ASSE Professional Development Conference & Expo: American Society of Safety Engineers	Chicago	www.asse.org/education
	June 15-17	Institute 2011: America's Health Insurance Plans	San Francisco	www.ahip.org/links/institute2011
	June 19-22	International Insurance Society 47th Annual Seminar: International Insurance Society Inc.	Toronto	www.regonline.com/Checkin.asp?EventId=869593
	June 26-29	IMCA Annual Meeting & Showcase Awards: Insurance & Marketing Communications Assn.	Toronto	www.imcanet.com/index.php?q=node/257
August	Aug. 7-10	ARIA 2011 Annual Meeting: American Risk & Insurance Assn.	San Diego	www.aria.org
	Aug. 9-11	VCIA 2011: The DNA of Captives: Vermont Captive Insurance Assn.	Burlington, Vt.	www.vcia.com/annualconference/
September	Sept. 11-16	Les Rendez-vous de Septembre	Monte Carlo, Monaco	www.rvs-monte-carlo.com/main.php
	Sept. 18-21	IUMI Paris 2011: International Union of Marine Insurance	Paris	www.iumi2011.com/site/-11IUMI
	Sept. 18-21	2011 RIMS Canada Conference: Risk & Insurance Management Society Inc.	Ottawa	http://conference.rimscanada.ca/RIMS/RIMS_Canada_Conference/Home
	Sept. 18-21	NAMIC's 116th Annual Convention: National Assn. of Mutual Insurance Cos.	Indianapolis	www.namic.org/Home/ReadArticle/4ff92886-1f9a-4c64-9085-8980d8347765
October	Oct. 1-5	Insurance Leadership Forum: Council of Insurance Agents & Brokers	Colorado Springs, Colo.	www.ciab.com/Meetings
	Oct. 2-5	FERMA Risk Management Forum 2011: Federation of European Risk Management Assns.	Stockholm	www.ferma-forum.eu/site/-Homepage,1971
	Oct. 9-12	SIAA 31st Annual National Educational Conference & Expo: Self-Insurance Institute of America	Phoenix	www.siiia.org/i4a/pages/index.cfm?pageid=4413
	Oct. 10-13	NAPSLO Annual Convention: National Assn. of Professional Surplus Lines Offices Ltd.	San Diego	www.napslo.org/imispublic/AM/Template.cfm?Section=Upcoming_Events
	Oct. 16-19	ASHRM Annual Conference & Exhibition: American Society for Healthcare Risk Management	Phoenix	www.ashrm.org/ashrm/education/annual_conference/index.shtml?page=index
	Oct. 22-25	CPCU Society's 2011 Annual Meeting & Seminars: Chartered Property Casualty Underwriters Assn.	Las Vegas	www.cpcusociety.org/page/2011AM/
	Oct. 23-26	2011 PCI Annual Meeting: Property Casualty Insurers Assn. of America	New Orleans	www.registration123.com/pci/11Annual/Home.cfm
	Oct. 24-28	Baden-Baden Meeting	Baden-Baden, Germany	www.badendirectory.com
Nov./Dec.	Nov. 2-4	PLUS Annual Conference: Professional Liability Underwriting Society	San Diego	http://plusweb.org/events
	Nov. 13-17	IRMI Construction Risk Conference: International Risk Management Institute Inc.	San Diego	www.irmi.com/conferences/crc/default.aspx
	Dec. 6	<i>Business Insurance's</i> Women to Watch Luncheon	Chicago	www.businessinsurance.com/womentowatch



PRIORITIES

FOR RISK MANAGERS

By MIKE TSIKOUKAKIS

Dealing with the economy, federal regulations and health care reform top risk managers' priority lists for 2011. Stable insurance pricing is allowing risk managers—many of whom are operating with limited resources and under regulatory uncertainty—to prioritize loss prevention programs, business continuity plans and enterprise risk management initiatives for the coming year.

"With limited resources, you've got to think about alternatives," said Dan Hurley, risk manager at Norfolk Public Schools, who manages insurance programs for the school system in Virginia.

"The biggest challenge we all have with government is that we're contracting all the time. My district particularly has had to deal with reduced funding, primarily from the state and some from the (federal government), so it's very difficult," Mr. Hurley said.

Tight budgets are forcing the district to consolidate some schools,

which "is somewhat of a challenge for our school board because, obviously, everybody loves their neighborhood school," he said.

The sluggish economy, the shift in the next Congress due to the November elections and the new health care reform law together create the perfect formula for uncertainty, said Carolyn Snow, who is director of insurance risk management at Humana Inc. in Louisville, Ky.

Concerns about Republicans' vow

See **PRIORITIES** page 12

Risk Management
Buyer Priorities
2011

SPOTLIGHT

PERSPECTIVES ON CURRENT ISSUES IN KEY AREAS

Gary Anderberg of Broadspire on workers compensation **PAGE 12**

Dan A. Bailey of Bailey Cavaliere on D&O **PAGE 12**

Gerald L. Maatman Jr. of Seyfarth Shaw on employment practices liability **PAGE 12**

Robert Parisi of Marsh on cyber risk **PAGE 13**

Scott B. Clark of RIMS on legislative issues **PAGE 13**

WHAT'S KEEPING RISK MANAGERS UP AT NIGHT?

Risk professionals discuss their biggest concerns for the coming year.

PAGE 14



Business Insurance 2011
**INNOVATION
AWARDS**

NOMINATIONS NOW OPEN

Business Insurance's Innovation Awards, now in their second year, recognize leadership and innovation in new products and services for professional risk managers.

Awards will be presented March 14, 2011 in New York City

Nominations open until Jan 14, 2011

Presented by:

Business Insurance

For information on nominations or attending the event, please contact
Becky Briggs Tel: 212-210-0132 E-mail: RBriggs@BusinessInsurance.com

www.businessinsurance.com/Innovation2011

PRIORITIES

FOR RISK MANAGERS

CONTINUED FROM PAGE 10

to overturn the health care reform law and court challenges over the constitutionality of mandatory health care coverage have added uncertainty.

"Even though the law has passed, there are still some unknowns around some of the regulations and rulings," she said. "It creates uncertainty for our members; and when it creates uncertainty for our customers, then we need to respond to their concerns," said Ms. Snow, who oversees operational and clinical risk management for the health care company.

Major regulatory changes due to the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act are a concern for 2011 for Newark, N.J.-based energy services company Public Service Enterprise Group Inc.


"It's the overall impact of that regulation that we don't know what the consequences from it are going to be for our industry, and they could be significant," said Laura L. Brooks, executive consultant of enterprise risk management and formerly vp of risk management and chief risk officer for PSEG.

The Dodd-Frank law, Ms. Brooks said, may cause financial investors to exit the market,

2011 KEY ISSUES IN:

WORKERS COMPENSATION

GARY ANDERBERG



Practice Leader of Analytics and Outcomes
Broadspire Services Inc.
Philadelphia

The new area of concern that appears to be emerging is, ironically, related to the economic recovery, tepid as it is. Many employers have cut deeply into training and safety resources over the last couple of years. Now they are beginning to hire again. A new employee's first few months on the job tend to be the most dangerous as he or she encounters new co-workers, new processes, new surroundings and new equipment. This is when accidents happen. If adequate training and safety resources are not in place, both frequency and severity could see a definite spike in workers compensation—and not incidentally, in auto liability and general liability as well. The uptick in all areas of the economy is certainly good news, but it has to be giving risk managers some degree of indigestion as they anticipate the impact on claims dollars.

which could hurt liquidity and access to capital not only for PSEG but also for organizations with which PSEG does business.

To address these concerns and long-term risks, PSEG's first priority is expanding its enterprise risk management plan—which historically has centered on financial risk—to broaden its scope, Ms. Brooks said.

"We decided that we are going to do (the new approach to ERM)

in tandem with our strategic planning organization and make it part of the whole planning cycle to help people understand that there's truly strategic value in monitoring emerging risks in particular and looking at assumptions of the business-planning process," she said.

For Norfolk Public Schools, budget cuts and possible school closures require business continuity planning and a more formal,

aggressive ERM plan for the coming year, Mr. Hurley said.

"The biggest thing we're looking at is a business continuity plan," he said. "With that is a risk management committee," part of which encompasses an ERM program that aims to be more aggressive and formal, broadening the view of risk management of school staff, principals and budget officers to feed back into his department, he said.

The insurance buyer "has had the unique pleasure of stable pricing over the past few years," said Mark W. Baker, vp of risk management at Hyatt Hotels Corp. in Chicago, who oversees health and safety, claims management and insurance.

"This has allowed risk managers to concentrate less on insurance negotiation and more on prevention. This is certainly true at Hyatt," Mr. Baker said.

Continuous improvement on the hotel company's safety record regarding frequency and severity of injury claims by employees and guests is Mr. Baker's No. 1 priority in 2011.

To do this, Mr. Baker is examining existing technology and "collecting existing data and making sure it is delivered to the correct individuals and locations to ensure resources are optimally deployed."

For Humana, integrating the

recently announced \$790 million acquisition of Concentra Inc. is the top priority, Ms. Snow said.

"One of the most important things that we will be doing in 2011 is incorporating the acquisition of Concentra, blending the two programs and keeping abreast of the new programs being developed at Humana," Ms. Snow said.

Another key priority for Humana this year is protecting customer information. "I believe there are going to be more surprises in the cyber risk area," Ms. Snow said. "The attacks move so quickly, and so much damage can be done in such a short period of time."

To prepare, Humana has an information technology department within its ERM program that specifically addresses cyber risks.

"We try to anticipate what might occur so we are prepared with the right processes, procedures and coverage in place as we move into new areas," Ms. Snow said. "But sometimes we're so down in the trenches meeting deadlines and getting the day-to-day work done that we lose sight of the overall plan. My No. 1 goal for...our department is more time for planning and discussions that are less deadline-driven and more conceptual in nature."

2011 KEY ISSUES IN:

DIRECTORS AND OFFICERS LIABILITY

DAN A. BAILEY
Member
Bailey Cavalieri L.L.C.
Columbus, Ohio



I believe the No. 1 priority for risk managers in 2011 regarding D&O insurance is to re-evaluate the company's D&O insurance basic purchasing needs and desires. The current highly competitive market for D&O insurance will continue—if not become even more competitive—in 2011, even for large portions of the financial institutions sector. As a result, there will be unprecedented opportunities for risk managers to get what they want at their 2011 D&O renewals. But, risk managers need to first determine what they want by revisiting

some basic questions about the goals and desired characteristics of their D&O insurance program. That process should include a fresh evaluation of the quality of their existing coverage terms when compared with current market standards; the amount of desired limits; the mix of Side A and ABC coverage limits; the benefits of more specialized D&O policies, such as independent director liability policies and officer-only policies; the importance of long-term insurer relationships vs. short-term program enhancements through other insurers; and the desire to minimize costs. Based on that evaluation, the risk manager can prioritize the most important goals for the 2011 D&O renewal process.

2011 KEY ISSUES IN:

EMPLOYMENT PRACTICES LIABILITY

GERALD L. MAATMAN JR.
Partner, Seyfarth Shaw L.L.P.
Chicago



The No. 1 concern would be to construct a viable, effective compliance program to keep the company and its employment practices out of harm's way. There are five reasons why I would say that's a priority in 2011. The first is, by having a compliant program, you're going to be ready when government regulators come knocking. The Equal Employment Opportunity Commission is expanding year by year and doubling every year—and I would expect that it will double again in 2011—its investigation of what it calls systemic problems, or problems that occurred to groups of employees. The third area would be social media and the way in which

digital technology impacts employees within the company....Fourth area would be retaliation....Having systems and processes in place to make sure retaliation

doesn't occur and to minimize exposure to retaliation probably is one of the (main) pressure points in the office of risk management or HR professionals. Fifth would be pay and promotions. There'll be a decision issued by the Supreme Court sometime in 2011 and it is sure to focus on the way in which plaintiffs attorneys may or may not bring large claims against companies over pay and promotion practices.

2011 KEY ISSUES IN:

CYBER RISK

ROBERT PARISI
National Practice Leader
for Technology, Network Risk
and Telecommunications
Marsh Inc.
New York



aggressive regulatory environment, the changing nature of threats and the constant pressure of day-to-day operations, which are increasingly information- and technology-driven processes. Add into the mix the fact that in order to truly understand their cyber and privacy risks, they need to engage a varied group of stakeholders, including the firm's general counsel, the chief technology officer, head of physical security and the chief information officer.

Being able to understand and by extension to quantify their cyber and privacy risk remains the No. 1 concern for risk managers. That being said, understanding and quantifying the risk is not a simple exercise. Risk managers are increasingly forced to focus on the

2011 KEY ISSUES IN:

LEGISLATION

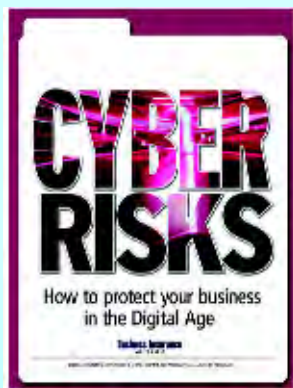
SCOTT B. CLARK
President, Risk & Insurance
Management Society Inc.
New York;
Risk and Benefits Officer
Miami-Dade County Public Schools



the agencies implement these provisions consistent with congressional intent. We will always have as one of our priorities fighting the Neal bill (a measure that would change the U.S. Internal Revenue Code to cap the deductibility of reinsurance premiums paid by insurers to their foreign affiliates). Also support for (an optional federal charter), but right now we are not clear how much of a priority it will be for the new committee leadership. Additionally, we will be looking to the new leadership and having discussions with them about their priorities.

In the regulatory arena, RIMS has been and will continue to work with the executive branch charged with implementation of our priorities in the financial services modernization legislation, such as surplus lines, creation of a federal insurance office and risk committees. We view this as a major priority for 2011 and will want to ensure

Business Insurance®
White Papers



NEW
White Paper

*Cyber Risks:
How to Protect
Your Business
in the Digital Age*

Cyber risk is a major exposure for many corporations. Whether it is product information, client and customer data, or employee records, data breaches can result in massive class action lawsuits and huge liabilities for corporations holding the data.

In this latest *Business Insurance* White Paper, "Cyber Risks: How to Protect Your Business in the Digital Age," cyber risk expert Mark Greisiger outlines the threat to corporations, the safeguards they can install and the financial protection available in the insurance market.

\$199
\$99 for
Premium Subscribers

To view samples, purchase,
and see more BI White Papers:
www.BusinessInsurance.com/whitepapers

RISK MANAGEMENT SUMMIT

WALDORF=ASTORIA · NEW YORK CITY · MARCH 15-16, 2011



REGISTRATION IS NOW OPEN

BUSINESSINSURANCE.COM/RMSUMMIT

VISIT THE RISK MANAGEMENT SUMMIT WEBSITE TO:

~ REGISTER TODAY ~

~ CHECK OUT THE AGENDA AND SESSION TOPICS ~

~ VIEW CONFIRMED SPEAKERS ~

The 2011 Risk Management Summit is open to all senior level Fortune 500 risk managers, past Risk Managers of the Year and Risk Management Honor Roll Honorees who are still active risk managers.

For information on attending the 2011 Risk Management Summit, please contact
Becky Briggs, Event Manager at rbriggs@businessinsurance.com or 212-210-0132

Presented by: **Business Insurance**

In Partnership with:



RISK MANAGER PRIORITIES

WHAT KEEPS YOU
UP AT NIGHT?By **RODD ZOLKOS**

In examining risk management challenges for 2011, *Business Insurance* asked past Risk Manager of the Year honorees and members of the Risk Management Honor Roll what keeps them up at night as they consider risks to their organizations.

Reflecting different entities and types of business, their responses varied; but in many cases, there also were common concerns that transcended business sector. Here are some of the issues that are of concern to risk managers going into 2011:

**WILLIAM R. POWELL**

Manager, Risk Management Department
Salt River Project
Tempe, Ariz.

Risk Management
Honor Roll, 1997

I am serving on an electric and gas industry task force sponsored by Associated Electric & Gas Insurance Services (Ltd.) that is studying this very question. That is: What are the evolving risks in our industry that we had better be concerned about? Here's a partial list:

- Climate and the environment, including mandated CO² reductions, coal-combustion residual regulations, competition for ever-increasingly scarce water resources (especially in the West) and other environmental initiatives associated with the Clean Air Act, Clean Water Act, etc.

- Cyber risk, i.e., digital connectivity issues. Security of the "smart grid," loss of sensitive customer information, breaches of automated control systems, etc.

- Requirement to effectively balance regulatory and other legislated mandates—e.g., energy efficiency standards, renewables portfolio—while at the same time meeting electric reliability standards as promulgated by the North American Electric Reliability Corp.

- Lastly, we have to effectively manage these evolving risks in a financially constrained environment due in part to the worst recession in modern times. I should point out that most of these emerging issues are not of the type that are typically insurable.

Now I know this all sounds scary, but I don't lose any sleep over these issues, mainly because this industry has a well-established track record of always rising up to meet new challenges.

**LORI JORGENSEN**

Senior Director of Finance
and Risk Management
Microsoft Corp.
Redmond, Wash.

Risk Management
Honor Roll, 2009

It will not surprise you to read that interest is centering on risks related to economics and technology.

Economics: Interesting is the potential for expense impacts to the (profit/loss statement) and future revenue stream stressors to the (balance sheet) from continuing weakness in the overall economy.

For example, risks to revenue in the near term to the extent customers' declining revenues, the credit crunch and other pressures weaken customer payment; and in the long term from customer cost-cutting, nontraditional entrants, etc. Throw into the mix geopolitical consequences for worldwide currencies from economic woes in such countries as Portugal, Italy, Ireland, Greece and Spain. Then consider possible spikes in litigation as the plaintiffs bar seeks new sources of revenue.

Technology: Cloud computing efficiently delivers computing power on demand, enabling new types of applications and new business models. Cloud computing brings about greater reliance on an increasing number of devices from the desktop to the smartphone, connected cars, connected television, etc. In Ernst & Young's "2010 Global Information Security Survey," appropriately titled "Borderless Security," EY writes, "The trend toward anywhere, anytime access to information will continue changing the business environment, blurring the lines between home and office, co-worker and competitor, and removing traditional enterprise boundaries."

As a cloud computing user and provider, particular attention is paid to logic/physical security, reliability, integrity, and actionability risks related to cloud computing services.

**PEGGY NAKAMURA**

Assistant Vp,
Chief Risk Officer,
Associate Counsel
Adventist Health
Roseville, Calif.

Risk Management
Honor Roll, 2001

Considering my position as a health care chief risk officer, the major items that create sleeplessness for me are:

- What impact will health care reform have on our operations and strategic planning? The potential for adverse consequences are almost unimaginable, yet optimizing the benefit for the corporation is within our control. This is a perfect setting for enterprise risk management.

- How can we truly incorporate and integrate ERM into our corporate culture and processes when we have so many diverse business units, and the implementation processes involve long-range planning and organization?

- How can we create (accountable care organizations) in rural and urban areas in multiple states that utilize available resources, yet maximize provider capabilities?

- How can the risk management function at the corporate level sustain credibility and value in an environment that changes so rapidly in response to legislative and economic trends/initiatives?



FRED O. PACHÓN

Vp of Risk Management and Insurance
Select Staffing Inc.
Santa Barbara, Calif.

Risk Manager of the Year, 2009

The evident apathy and disconnect of government officials to a broadly dysfunctional (workers compensation) system that is continually being patched with quick fixes and reforms that are short-lived by every change in political/party-shifting.

The unsustainable (workers comp) soft market. The combination of political shifting, re-election fears, unemployment rates and market conditions are forcing insurers and politicians to hold back rate increases. The end result could be sudden and substantial rate increases for a broad range of employers. Clearly, the effect could be very damaging to the financial outlook of many companies just exiting a very rough recession.

The lack of action and prosecution on the part of governmental agencies responsible for avoiding fraud and insurance abuse. The perpetrators—medical mills, lawyers and unscrupulous claimants—continue to abuse the system unchallenged. They have systematically found ways to deceive, discard, bypass, circumvent or pierce holes into the well-intentioned reforms.

Many states are scheduled to increase (temporary disability, permanent disability) or death benefits. These increases are scheduled to take effect in many states (in 2011) and incrementally for the next two to three years. These are add-ons to the already painful Medicare set-aside element combined with the ever-increasing pharmacy and medical costs.

In California, the defeat of the long-disputed *Almaranz, Guzman and Ogilvie* (cases) clearly sets the stage for additional costs in benefits. This once again punches another hole to the reform.

The quality of (third-party administrators) and adjusters handling complicated claims. It is evident at many levels (that) insurers have done what many companies have done to meet their financial goals: downsized. As part of the strategy, highly compensated employees are being dismissed. This is translating in removal of the more seasoned adjusters and managers. The end result: substandard delivery of the service product.



RAYMOND J. ALLETTO

Vp-Risk Management
United Rentals Inc.
Irving, Texas

Risk Management Honor Roll, 2009

My major concern for 2011 is economic uncertainty and government interference. For the economy to recover, business needs some assurance as to tax policy and changes thereto; the future of health care reform; government spending;

environmental regulation; collective bargaining law changes; and capital availability.

We can only hope for bipartisan efforts to support economic growth, and to restrain short-term solutions that are unproven. If the economy is healthy, we all have a great deal less to worry about.



DEBRA GRIFFITH

Director, Properties Department
Boy Scouts of America
Irving, Texas

Risk Manager of the Year, 2006

In 2006, just before being named Risk Manager of the Year, I moved from being the risk manager for Boy Scouts of America to the position of manager, properties department. I now emphasize the strong relationship between risk management and performance management.

Risk-taking, and the accountability for it, is encouraged. There is very little success without the taking on of risk, and this keeps managers up at night. With the help of Mark Dama, BSA's risk manager, we have created a risk-aware culture. Managers will be successful when they seek and recognize opportunity, evaluate and manage the risks involved (do the risks cross functional lines?), and establish roles and responsibilities. Managers must take those risks that lead to success. This new culture of risk and risk-awareness scares and excites me.

BRADLEY R. WOOD

Senior Vp-Risk Management
Marriott International Inc.
Bethesda, Md.

Risk Management Honor Roll, 2005



The question of whether California workers compensation legislative reforms that passed earlier this decade will be eroded during 2011 is a major concern. Employers can ill afford for California loss costs to once again be two- to threefold above other states'.

The cyber bad guys only seem to be getting better and better at disrupting individual companies and markets. Now more than ever, risk managers need to closely partner with their information protection counterparts to protect the homeland and stay ahead of those who wish to harm.



**ALL THE DATA YOU NEED
FROM A SOURCE YOU TRUST**

Business Insurance® Research Center

www.businessinsurance.com/research

Trion: MMA adds benefits-focused firm

CONTINUED FROM PAGE 4

Bostonian Group in Boston.

Mr. Eslick said Trion “becomes a very significant hub for us” in the Northeast, while allowing MMA to leverage the acquired company’s capabilities across MMA’s growing platform.

All of Trion’s employees are expected to join MMA, and its four principals—Ed Garno Jr., Ed Garno III, Dave Oberkircher and Chris Veno—will continue to lead the company.

The deal makes sense for MMA, said Kevin P. Donoghue, managing director at Mystic Capital Advisors Group L.L.C. in New York.

“They are building a middle-market insurance broker, and (Trion) is a solid benefits-focused company,” Mr. Donoghue said.

If they are going to make it to the billion-dollar revenue mark, “they need to continue getting these kind of good hits,” Mr. Donoghue said of MMA’s growth strategy.

Timothy J. Cunningham, principal at OPTIS Partners L.L.C. in Chicago, agreed that the acquisition appears to be a good fit for Marsh. The challenge is likely to come from integrating Trion’s expertise, which is based in the Northeast, into Marsh’s offices in New Jersey, New York and Virginia, he said.

It’s a good time for brokers to make such deals, Mr. Donoghue said. “You’re buying at the soft end of the cycle,” he said. “You’ll have some buoyancy if the market turns.”

Mr. Eslick said the economic downturn and soft market conditions have put pressure on some brokers to work out whether they can perform well enough on their own or need to look for opportunities to partner with other companies.

Although the Trion deal appears to be one that will work well for the companies, now may not be the best time for most employee benefit companies to consider selling their operations, Mr. Cunningham said.

Such companies have seen revenues fall because head counts among their clients are down during the economic slump, Mr. Cunningham said. “Unless they have a compelling reason to sell, or they have a committed, strategic buyer, my advice to clients is to wait a couple or three years and see what happens with the economic recovery.”

“There is still some unknown about the impact of (health care) reform and what that will mean to the employee benefits business,” said Mr. Cunningham. Good consulting firms will find opportunities regardless of that impact, he said, but “nevertheless, there is some uncertainty out there.”

White paper: Learn tips for managing cyber risk

CONTINUED FROM PAGE 3

rity—of vulnerable systems and processes.

- Notifying and assisting victims. A mailer alone can cost \$1 to \$3 per person.

- Expert legal support to interpret federal privacy law, ascertain which state laws may have been triggered and help craft notice letters. Expanding call-center support and website FAQs in response to a breach.

- Credit monitoring. If identity theft or fraud is possible due to a breach, many organizations offer free credit monitoring for as long as three years. Annual costs can range from \$20 to \$100 per person.

- Dealing with U.S. agencies and state attorneys general with authority to mount investigations and seek enforcement of privacy laws.

- Defending class action lawsuits.

- Recovering from damage done to the organization’s reputation and trust by customers or business partners, which is difficult to quantify.

The white paper argues that organizations should develop a layered approach to cyber risk management and includes practical advice on how risk managers can achieve that goal. Strategies discussed include technological defenses, such as firewalls and encryption, and system management changes, such as effective password-protection policies.

Specialty insurance protection against cyber risks first was offered more than 10 years ago and is becoming more readily available, which is reflected in the directory of cyber insurers included in white paper, with about 20 insurers offering coverage.

To purchase the white paper, please visit www.businessinsurance.com/whitepapers.



UP Comings & Goings CLOSE

ROBERT ANSEHL

NEW JOB TITLE: New York-based partner with law firm Clyde & Co. L.L.P.

PREVIOUS POSITION: New York-based partner with Nixon Peabody L.L.P.

GOALS FOR NEW POSITION: Building Clyde & Co.’s U.S. corporate insurance industry group into a first-tier firm across the life, (property/casualty), specialty lines and reinsurance sectors, including hedge and private equity funds and other market participants—and have fun doing it. We have to be smarter than our competition in everything we do, and coordinate our global corporate expertise to serve current and future clients.

FIRST MARKET EXPERIENCE: After graduating from Washington University in St. Louis, I entered an executive training program and spent almost three years working in the business sector. Running a business, something I have done twice since, has been most helpful to me throughout my career and afforded me insights not only into (profit and

loss) management but the importance of understanding and staying ahead of the competition.

WHAT YOU WANTED TO BE GROWING UP: I wanted to play baseball for the St. Louis Cardinals. My hero is Bob Gibson, one of the best and most competitive pitchers ever to take the mound. I carry his autographed baseball card with me to this day. I have not given up that dream.

OUTSIDE THE INDUSTRY, A DREAM JOB: I love what I do, but if pushed to leave this career, other than play baseball, I would like to write for (animated sitcom creator) Seth MacFarlane. If that job were taken, I would write editorials for an international newspaper or own a sports franchise.

MOST PASSIONATE ABOUT: I am passionate about the law.

FAVORITE BOOK: Anything John Irving writes is great, but my favorite is “A Prayer for Owen Meany.”

CAN’T-MISS TV SHOW: “Family Guy.”

Business Resources

To place your ad, contact Monique Murray 212.210.0129 • E-mail: mmurray@BusinessInsurance.com

Business Insurance, Classified Department, 711 Third Ave., New York, NY 10017-4036 • Call for details on blind box and internet advertising

You're hired.

Business Insurance CAREER CENTER

The ultimate career resource in the insurance industry.

<http://careers.BusinessInsurance.com>

EDUCATION & TRAINING

Totally ONLINE master's degree in Risk Management and Insurance
Complete your degree from anywhere in the world
Classes taught by full-time faculty
Affordable and Flexible
Visit <http://riskmanagement.fsu.edu>

Mark your Calendar...

Property/Casualty Insurance Market Report
Publishing: January 10
Extra Distribution: JIF

Contact Monique Murray at 212-210-0129 For Details

Comings & Goings ONLINE

VISIT www.businessinsurance.com/ComingsandGoings for a full list of this week’s personnel moves and promotions. Check our Web site daily for additional postings and sign up for the weekly e-mail.

TO SUBMIT ITEMS

Business Insurance would like to report on senior-level changes at commercial insurance companies and service providers. Please send news and photos of recently promoted, hired or appointed senior-level executives to:

Mallory Gillikin
Business Insurance
360 N. Michigan Ave.
Chicago, Ill. 60601-3806
mgillikin@businessinsurance.com

POSTING THIS WEEK

BROKERS:
Willis of Illinois Inc.
Marsh Inc.
Willis North America Corporate Synergies Group Inc.
Aon Risk Solutions
Willis of Virginia Inc.
J.M. Wilson Corp.

INSURERS:
XL Group P.L.C.
Chartis Aerospace Insurance Services Inc.
Meadowbrook Insurance Group Inc.
Navigators Group Inc.
First Nonprofit Insurance Co.

OTHER PROVIDERS:
Associated Banc-Corp.
Buck Consultants L.L.C.

Market Moves

NYBGH changes name to reflect broader reach

NEW YORK—The New York Business Group on Health has expanded its services and, to reflect that change, has taken a new name.

The New York-based nonprofit health care business organization said it has changed its name to the Northeast Business Group on Health.

The new moniker better reflects the region the organization now serves, which includes Connecticut, Massachusetts, New Jersey

and upstate New York.

"For nearly three decades, NYBGH has enabled hundreds of area employers to speak with one voice when dealing with health plans and providers," said Laurel Pickering, NEBGH's executive director. "This expansion will bring more employers to the table, and increase our leverage to improve quality and value in the region's health care delivery system."

Formed in 1982, the group is a network of employers, health plan providers, insurers and other health care professionals that focuses on improving the delivery of health care services.

Alliant Insurance acquires California benefits firm

WALNUT CREEK, Calif.—Alliant Insurance Services Inc. has

acquired employee benefits firm ArlenGroup Inc. for an undisclosed amount.

The acquisition of ArlenGroup will expand Alliant's employee benefits practice in the San Francisco area, the Newport Beach, Calif.-based brokerage said in a statement.

Walnut Creek, Calif.-based ArlenGroup, with offices also in San Francisco, specializes in providing employee benefits services to technology and professional services companies with 50 to 2,500 employees.

Headed by founder and CEO Roger Arlen with a staff of more than 40 individuals, ArlenGroup has four practice groups: benefits, outsourcing, technology and wellness.

ArlenGroup will continue to operate under its existing identity, Alliant said in the statement.

Verisk buys environmental compliance firm 3E

CARLSBAD, Calif.—Verisk Analytics Inc., the parent company of Insurance Services Office Inc., said it has signed an agreement to acquire 3E Co. for \$110 million.

The Carlsbad, Calif.-based company provides environmental health and safety compliance services to meet government mandates on workplace and product safety.

"Supply chain is a 21st century risk, and its complexities are enormous," said Scott Stephenson, chief operating officer of Jersey City, N.J.-based Verisk.

"By adding environmental health and safety aspects as well as a global footprint to our supply chain tool kit...we are taking a significant step toward internalizing

the data and skill sets relevant to our current and future customers."

The transaction, subject to normal closing conditions and 3E shareholder approvals, will be completed through cash on hand and available capacity under a credit facility to fund the purchase, Verisk said.

Bob Christie, CEO of 3E, will continue to lead the company, which serves 5,000 customers worldwide.

TO SUBMIT ITEMS

BI's Market Moves column reports on activities by insurance industry companies and related entities. Please send news of Market Moves to Mike Tsikoudakis, 360 N. Michigan Ave., Chicago, Ill. 60601 or e-mail mtsikoudakis@businessinsurance.com.

Safety: Program at APi reduces injuries, losses

CONTINUED FROM PAGE 3

Minnesota Inc., and APi's broker.

APi's total recordable incident rate has dropped 47% and the Occupational Safety and Health Administration injury frequency rate has fallen 75% since STEPS was put in place.

Building STEPS involved several concepts, with accountability, training and management buy-in at the top of the priority list, Mr. Helmer said.

"If you don't have (top management commitment), it's going to fail," he said. "Our CEO is our biggest champion of loss prevention. He really does get it."

"They've got a president who believes in it, supports it, and lives and breathes it," Mr. Staffon said. "Without that, it's all pie-in-the-sky stuff."

Interestingly, as brainstorming about the program gained momentum, STEPS' planners found that most of the risk management issues were covered in APi's existing approach. "We had a plan that was customized for our organization," said Mr. Helmer. "It told you line by line what you needed to be doing. Then, we had this kind of 'Aha!' moment when we realized that we had all of this," but had no clear way to put it into practice, he said.

That meant training had to become a critical part of the approach, Mr. Helmer said. "It was not a one size fits all" because APi's subsidiaries are involved in different aspects of construction and fire protection, he said. "We required each subsidiary to develop a training matrix for their employees...The training involves all levels and all disciplines, not just in the field; management needs to be trained as well."

Several best practices were adopted, from an employee stretching exercise program to executive leadership getting involved in risk management

functions, Mr. Helmer said.

Accountability ensured that training and risk management awareness were instilled in each unit and that risk management and safety goals were being met. A scorecard was developed to measure each unit's upper management performance in meeting APi's goals. Management is scored on criteria such as whether they regularly conduct project safety audits and measure claims activity.

Points are awarded according to the quality of training and education, utilization of best practices developed by the risk management department, enforcement of company policies, handling of contractual risks, and the visibility of the STEPS program through logos on company equipment and in mission statements available to all employees.

Additionally, each APi unit is scored on five metrics: its total recordable incident rate, frequency of lost-time cases, experience modification rate, loss costs and average claim costs.

When the scores are tallied, winners and losers are easy to spot, Mr. Helmer said.

Those that fall short will have some explaining to do. "If management of a company is deficient, our CEO will address that," said Mr. Helmer.

In addition, units that excel are recognized. Each year, APi awards its X Cup trophy in a ceremony honoring the subsidiary that best meets loss prevention and safety goals. "X is for excellence in loss prevention," Mr. Helmer said.

Just as important, APi's insurers have recognized the company's efforts and rewarded it with stable insurance costs.

"While premium costs have gone up because the exposure base has increased, they haven't gone up as much as they would have" without STEPS, said Mr. Staffon. "Insurance pricing has been positively impacted."

Clark: Engaging chapters a key goal

CONTINUED FROM PAGE 3

in recent months, Mr. Clark said.

Since March, membership at RIMS has grown about 5.8% for the year, said a spokesperson for the society.

Mr. Clark, who was named to *Business Insurance's* 2007 Risk Management Honor Roll, said helping members who have lost their jobs is crucial for the society.

This assistance includes creating membership categories for those who have lost their jobs so they can continue to make use of RIMS resources and seek employment through the society's job bank, he said. It also includes an alternative cost structure for attending the annual conference, which will take place in Vancouver in May.

Assisting unemployed members ties into his larger goal of supporting and engaging the chapters, said Mr. Clark.

"We can only do so much from New York and leadership down," he said. "I think the real value of this organization, and the opportunity for networking for those risk managers who may be displaced, is for them to be supported at the chapter level and to network. That's where they're going to be successful in finding jobs," Mr. Clark said.

Another goal is making sure RIMS continues to serve as an advocate for its members on legislative and regulatory matters, he said.

Mr. Clark wants to grow the regional RIMS on the Hill events, which are modeled after RIMS' annual RIMS on the Hill conference in Washington. He said this already has been done in California and Connecticut and will be extended to Florida, so the seven Florida chapters have their own event "so we have a voice of the risk manager in Tallahassee for this upcoming legislative session."

RIMS also is monitoring implementation of the surplus lines provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which gives qualified risk managers easier access to

the surplus lines markets, he said.

"We're going to be working closely with insurance departments and (the National Assn. of Insurance Commissioners) to make sure that the intent of that provision is upheld," said Mr. Clark. He added that moves to impose new taxes on certain reinsurance transactions are "certainly on our radar screen."

SCOTT B. CLARK

President of the Risk & Insurance Management Society Inc.

■ **Job Title:** Risk and benefits officer, Miami-Dade County Public Schools, 1986-present

■ **Previous experience:** Sales executive, Wausau Insurance Cos., 1984-1986; claims manager, Alexis Risk Management Services, 1982-1984; multiline claims adjuster, Crum & Forster Insurance Cos., 1980-1982

■ **Notable award:** *Business Insurance Risk Management Honor Roll*, 2007.

One ongoing issue of interest to RIMS is broker compensation, including contingent fee payments to brokers by insurers, Mr. Clark said. He called for "transparent and well-written" contracts between risk managers and brokers.

"Whatever that risk manager feels comfortable with" and is right for his or her company "needs to be put into a contract," he said. That contact needs to contain "all the terms of compensation, so everybody understands what the platform is and nobody can do anything that is not in concert with the terms of their contract," he said.

Mr. Clark also will be involved in rolling out RIMS' new strategic and enterprise risk practice. RIMS recently tapped Carol Fox, a veteran risk manager, to lead the effort, he said.

"I want to strengthen the member resources and use the enter-

prise and strategic risk management practice to design resources specifically in that space," he said. "We know that while we all want every risk manager to be an enterprise and practicing strategic risk manager, in fact, they're not."

The society needs to provide value to part-time risk managers, beginning risk managers and others, said Mr. Clark. "We want a fully developed and engaged resource for those who are at the enterprise and strategic level. By the same token, this organization, in my opinion, needs to fully support all levels of risk management and make sure that member resources are there to do that."

RIMS will not neglect international efforts, said Mr. Clark.

He said the society's goals in the international area focus on two issues: to help risk managers with international exposures and international risks "so we can create products and services to support those managers in the work they do protect the employers" and to broaden the work and reputation of RIMS to a worldwide basis. Mr. Clark will be in Tokyo in March and in Australia in November to discuss risk management issues.

"We're not the be all and end all of all risk management solutions," he said. "While we think we have a very good strategic and enterprise program risk practice, we know there are pockets of that across the world that we as a society based in the United States will benefit from as well."

Mr. Clark also plans to continue student outreach, ratcheting up the society's efforts.

Through the Student Advisory Committee, RIMS has produced a student mentorship podcast series, with risk management professionals serving as mentors. In addition, like last year, RIMS has planned special events and sessions aimed at students at its annual conference.

"We'll create student tracks so they have an opportunity to go through those sessions that we think will be most valuable," Mr. Clark said.

Cargo thefts surge with drug-related violence in Mexico

Inside information blamed for up to 85% of freight losses

By JEFF CASALE

Warring drug cartels in Mexico and the associated violence and thefts have pressured supply chains between Mexico and the United States as cargo thefts have soared, often with insider help, experts say.

Cargo theft long has been an issue in North America, experts say. With the problem continuing to grow in Mexico due to the influence of drug cartels, companies are under pressure to keep their employees safe and their supply chains intact from outside, sometimes violent attacks.

However, cargo theft in Mexico also has increased due to internal information leaks and driver collusion, according to Austin, Texas-based FreightWatch International, a global provider of logistics security solutions that monitors supply chain risk management in Mexico.

In the third quarter of 2010, FreightWatch said food products were the top target of thieves, followed by building materials and miscellaneous products (see chart, page 19). Nearly 90% of all cargo thefts in Mexico during the sec-

ond quarter were done by armed hijackers, FreightWatch said.

The National Multimodal Transport Alliance estimated that cargo thefts in Mexico cost businesses between \$650 million and \$750 million in 2009, a 40% increase over the average during the previous three years. In 2006, Mexico's president announced a crackdown on drug cartels.

Gangs and drug cartels searching for alternative means of funding by selling the stolen products on the black market often are the perpetrators. However, experts say information leaks and driver collusion about shipments are occurring at an alarming rate.

"We know that between 80% to 85%...of hijackings or thefts that occur are linked to inside information," said Peter Scrobe, New York-based vp of Starr Marine Agency Inc.'s loss control services unit. "This is why it's important for companies to vet their global supply chain and to make sure the people within it are trustworthy."

Mr. Scrobe was part of a team of insurers and underwriters that put together an October white

paper on cargo loss in Mexico for the American Institute of Marine Underwriters. The paper was put together to help understand and mitigate exposures to cargo theft and provide underwriters with a snapshot of current trends in Mexico. The white paper concluded that cargo theft in Mexico is a problem and that if companies take steps to minimize the threat, they can avoid becoming a target.

Hotbeds of cargo theft activity include the State of Mexico and Federal District of Mexico City, which FreightWatch reported was where 33% of all Mexico cargo thefts took place between January and June 2010. Meanwhile, ports of entry between Mexico and the United States—Ciudad Juarez, Nuevo Laredo and Nogales—all saw increases in freight disruptions and thefts.

Nuevo Laredo is the busiest of the port of entry corridors, accounting for 33% of trade volume between the United States and Mexico, while Juarez is the second-busiest with 16%, according to FreightWatch. Juarez also is the most violent and deadly.

"Ciudad Juarez is the second-



REUTERS

Gangs, reportedly using stolen trailers and other stolen vehicles, in August closed roads in Mexico, including a main road in Monterrey. Vehicle and cargo theft are key risks for companies operating in Mexico.

busiest commercial port of entry, and is now considered the most dangerous city in the world in terms of violence and murder rates, accounting for nearly 10% of all drug-related murders in Mexico," FreightWatch said in its

November report, "Violence in Mexico and the Impact on Supply Chain Operations."

A security director for a U.S.-based Fortune 500 company oper-

Continued on next page

Cartels: Drug activity in Mexico threatens companies, employees

CONTINUED FROM PAGE 1

ment at Victor O. Schinnerer & Co. Inc. in Chevy Chase, Md.

Mexican officials recently said that more than 30,000 people have died in drug-related violence since President Felipe Calderon began cracking down on the drug cartels four years ago. More than 12,400 deaths occurred in 2010 through Nov. 30, up from 9,600 for all of 2009.

The drug-related slayings are affecting employers, said Hilaire Damiron, CEO of Willis Mexico, a Mexico City unit of Willis Group Holdings P.L.C.

Some clients in Ciudad Juarez have seen significant increases in life insurance payouts because of innocent employees caught in the crossfire, Mr. Damiron said.

Juarez lies across the border from El Paso, Texas, and is known for violence by rival cartels that has claimed thousands of lives.

"There is not one week that goes by that I don't get a call about an employee being attacked, raped or killed," said the security director for a U.S.-based company with thousands of employees in the region who asked not to be identified.

Companies in the region also face kidnapping and extortion concerns, Ms. Katz said. Extortion attempts range from criminals threatening to shut off a company's water supply to burning commercial buildings if their demands are not met, she said.

"Even when it is not directly related to the drug cartels, we often see in the areas where the drug cartels operate that ancillary

crimes increase," Ms. Katz said. "It will often involve members of the cartels or corrupt members of police force or government."

So far, however, large corporations with vigilant security have avoided extortion, several sources said.

But more recently, the violence has spread south to Monterrey, which is known as Mexico's northern business capital because it is home to many of the country's largest conglomerates.

Criminals there have expanded their "line of business" beyond drug trafficking to other crimes, such as extortion, said Rodrigo Velarde Santos.

Mr. Velarde is director of security for Axtel S.A.B. de C.V., a nationwide telecommunications company based in Monterrey, but he spoke to *Business Insurance* in his role as a board member the North Mexico chapter of ASIS International, formerly the American Society for Industrial Security.

The criminals also have expanded from extorting illegal businesses to preying on school teachers and small legitimate companies, Mr. Velarde said. But he said he fears that if the extortions are not stopped, the criminals eventually will target larger corporations.

Although mitigating northern Mexico's crime exposures falls largely on corporate security departments, risk managers sometimes are called in to assist, several sources said.

"It tends to be a partnership," said Bruce McIndoe, president of Annapolis, Md.-based iJET Intelli-

gent Risk Systems, which helps multinational corporations address such threats.

While security departments work to eliminate crime risk, managers evaluate crimes that do occur to determine whether filing an insurance claim may be appropriate, said Mr. McIndoe, whose company has helped companies operating in Mexico quantify the "risk threat" and evaluate the effectiveness of their mitigation efforts for insurance purchasing purposes.

Coverage types that may come into play include property insurance, crime insurance, and kidnap and ransom coverage, sources said.

"We have definitely seen a large increase in claims...along the border over the past few years," Ms. Katz said.

Risk management steps

Brokers and security consultants, meanwhile, are helping companies develop crisis management and contingency plans.

For example, Willis has helped Mexican companies train employees on personal security measures, such as being aware when arriving at or leaving the workplace and alternating their commuter routes, Mr. Damiron said.

Willis also is helping companies prepare should they receive extortion threats or if an employee is kidnapped. Quick reaction and preparation before such an event is vital, Mr. Damiron said.

"You don't just start finding out what to do when it happens because then things (can) get very messy," Mr. Damiron said.

A crisis management team can help, for example, by knowing which governmental authorities can be trusted to pressure corrupt officials participating in kidnapping a company's employee, Ms. Katz said.

Also of concern is the potential for criminals to infiltrate corporations, security experts said.

For instance, Kroll Inc. has been helping companies in northern Mexico analyze their warehouse and transport facility security, said David Robillard, managing director for Kroll in Mexico City.

"We have seen several cases with clients, and it's been reported in the news in the past six to eight months, from companies that export from their Mexican plants to the United States having their supply chains and transportation logistics usurped by organized crime to move drugs," Mr. Robillard said.

In one case, criminals essentially engaged in corporate identity theft by marking their trucks to resemble those owned by the company, Mr. Robillard said.

The victimized company had a Customs-Trade Partnership Against Terrorism certification, which is a U.S. Customs and Border Protection program aimed at strengthening international supply chains by allowing companies with proven security measures to undergo less scrutiny when their employees or equipment cross the border.

Conducting extensive background checks of employees can help prevent criminals from gaining access to a company's shipping operations, several sources said.

While Ms. Katz said she expects security conditions in northern Mexico will continue to deteriorate, "that is not to say that in a number of years there couldn't be improvement. We have certainly seen in other countries that security situations can be turned around."

SAFE TRAVELS

Precautions for business travelers in Mexico

- Register with home country's embassy/consulate in Mexico prior to departure. Program the embassy/consulate phone number, emergency company phone number and other key numbers into a mobile phone, and contact those numbers first in the event of an emergency.
- When traveling, check in with home office at least twice a day.
- Coordinate hotel accommodation and ground transportation with local sponsors/partners before departure.
- Maintain a low profile. Avoid wearing expensive jewelry or watches, and limit the amount of cash and credit cards carried.
- Where possible, avoid traveling alone or after dark. Be vigilant at all times.
- When driving or being driven, keep the doors locked and windows closed, particularly at traffic lights.

Source: Victor O. Schinnerer & Co. Inc.

Continued from previous page

ating in Juarez, who asked not to be identified, said Mexico quickly has become a very violent country and that most of techniques being used by the Mexican drug cartels are similar to those employed by Colombian drug cartels during the 1970s and 1980s.

"Depending on the operation, you can mitigate risk of cargo theft or supply chain disruption by having layers of security," the security director said. "You need to be especially careful in Mexico not only because of violence, but because the shipment can be compromised with drugs" stealthily added to the cargo.

Scott A. Cornell, national manager-special investigations group in Travelers Cos. Inc.'s Rochester, N.Y., office, said companies need to be "extremely critical" of information security pertaining to shipments. Vetting employees associated with the supply chain and reducing how many are privy to shipment information can help mitigate losses.

At the Fortune 500 operation in

Juarez, the security director said employees and security personnel within the supply chain are subject to thorough background checks and drug and polygraph testing.

"Information is on a need-to-know basis," he said. "We compartmentalize information about shipments, and people are given small pieces, so it is limited on who gets to see the big picture. This is so we don't compromise the entire operation."

Companies also should work with freight carriers and drivers with experience working in Mexico. More importantly, the company shipping the product and the carrier should have protocols in place that protect not only the driver but also the cargo, experts said.

Insurance coverage for the shipments vary depending on the safety protocols used, the commodity being shipped and the route it takes to get to its destination, said Paul A. Friel, New York-based managing director and cargo broker for Marsh Inc.'s global marine practice.

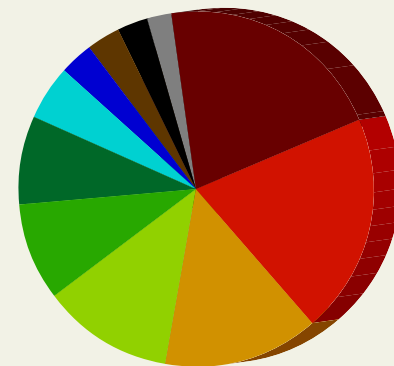
"We evaluate the protocols drivers follow and how a company selects its transportation carriers," Mr. Friel said. "We also look at the customers they are shipping to and how that company controls information about shipments, the timing of the shipments, how long the cargo is in motion and what route it takes."

Steven Weiss, Houston-based vp of project cargo and marine risk engineer at Liberty International Underwriters, said some steps that carriers can take to mitigate the risk of being targeted include moving product in a convoy, using team drivers to ensure the cargo is always in motion and when stopped is always protected, avoiding predictability and routines, traveling at least 200 miles before the first stop to get out of the vicinity of any gang that might be following the shipment, and securing parking spots in advance along the route that are safe.

While global positioning systems on trucks are good at tracking cargo, Mr. Weiss said thieves can disable the units, which is

CARGO THEFT TARGETS

A side effect of increased drug trafficking and organized crime in Mexico is greater theft of cargo traveling in Mexico and traveling between Mexico and the United States. Products that thieves take and usually sell on the black market are:



Source: FreightWatch International

why it is better to position tracking devices within the cargo itself.

"These are steps we can take as a group (businesses, transportation carriers and insurers) to

make shipments less of a target," Mr. Weiss said. "All shipments are targets of opportunity, but using best practices can keep you one step ahead."

AIG: Insurer's recovery progress fuels optimism

CONTINUED FROM PAGE 3

was largely attributable to nonoperating issues (*BI*, Nov. 8, 2010).

"The patient's recovering," said John Wicher, principal at John Wicher & Associates Inc. in San Francisco.

"They've accomplished pretty much what they said they would accomplish" and are on a path to reducing the government's ownership "in a real, meaningful way," Mr. Wicher said. People "feel a lot better about where they are, and there's far less uncertainty and far more confidence that this is a company that's really looking forward now," with fewer distractions.

Furthermore, AIG "still has some pretty exceptional people" who are "capable of solving problems others historically haven't been able to" as companies "move into a tighter marketplace where expertise and talent have value," Mr. Wicher said.

"They've moved faster than what was originally thought," said Steven Ader, credit analyst with rating agency Standard & Poor's Corp. in New York.

The insurer originally was expected to repay the Federal Reserve Bank facility in the latter

part of 2013, he said.

But now, with the recapitalization plan announced in September; the sale of American Life Insurance Co.; and the initial public offering for its Asian life insurance unit, AIA Group Ltd., "you're looking at this being perhaps completed by the end" of 2011, Mr. Ader said.

Furthermore, "not having that overhang of the government" will benefit the operating companies' competitive positions, Mr. Ader said.

Clark Troy, Chapel Hill, N.C.-based senior analyst with research and consulting firm Aite Group L.L.C., said: "In general, I think that their recovery is proceeding as well as anyone could hope it to. It's been a long time since they've had any serious missteps, and they appear to be taking steps both in terms of issuing debt and securing the bank credit line and also closing ALICO and the AIA IPO, which indicates the markets have confidence in the organization."

Furthermore, "it seems like there's a reasonable chance that the government and the taxpayer may be able to exit the AIG rescue whole," Mr. Troy said.

However, Cliff Gallant, an analyst with Keefe, Bruyette & Woods Inc. in New York, said the company's turnaround "has mostly been about restructuring and stabilizing the organization."

"In terms of the company showing real earnings strength, I think that's still forthcoming," he said.

AIG settles probe into comp premiums

HARRISBURG, Pa.—American International Group Inc.'s \$100 million settlement with state insurance regulators over its alleged underreporting of workers compensation premiums relieves a long-term headache for the insurer, observers say.

Acting Pennsylvania Insurance Commissioner Robert L. Pratter announced the settlement on Dec. 22, under which AIG will pay about \$46.5 million in taxes and assessments in addition to the \$100 million settlement.

The \$100 million will be divided among regulators in all 50 states and the District of Columbia.

Amounts range from \$500,000, which 13 states and the District of Columbia will receive, to \$15.6 million for California.

The multistate examination, which was led by regulators in Delaware, Florida, Indiana, Massachusetts, Minneso-

ta, New York, Pennsylvania and Rhode Island, found non-compliance with rating, forms and financial reporting laws. Most significantly, according to the Pennsylvania Insurance Department's statement, it found that AIG misreported \$2.12 billion in workers comp premiums as general commercial or automobile liability premiums.

The settlement must be approved by 35 of the remaining states and the District of Columbia by March 1, 2011, to be effective.

The agreement is also conditional upon settlements of AIG's pending litigation with insurer members of the workers compensation residual market and separate claims by insurance guaranty funds, according to the Pennsylvania Insurance Dept.

The residual market and guaranty fund claims arise from AIG's under reporting of workers comp insurance pre-

mium and its impact on the assessments charged others for the operation of the residual market and guaranty fund systems, according to the department.

In a statement, AIG said the examination focused on allegations of misconduct that occurred between 1975 and 1996, the same period that was the subject of a 2006 regulatory settlement between AIG and New York state (*BI*, Feb. 13, 2006).

"We are pleased that if this settlement becomes final, we will have resolved all remaining regulatory issues related to AIG's workers compensation premium reporting for our stakeholders," AIG said in the statement.

Julie Burke, managing director at Fitch Ratings in Chicago, said the settlement brings "some certainty and closure" to an issue that has been "out there for a long time."

—By Judy Greenwald

Virtual: Web conference

CONTINUED FROM PAGE 4

During another webcast, "Risk Manager Roundtable: Workers Comp Best Practices," three risk managers discussed best practices in workers comp, including how to manage third-party administrators, medical cost containment and employer political advocacy.

Best practices

The first thing to consider, said Fred O. Pachón, vp of risk management and insurance for Select Staffing Inc. in Santa Barbara, Calif., is finding the right TPA with the appropriate set of skills to handle an employer's program.

"Managing your TPA or insurance company is very much like a chess game," said Mr. Pachón. "In this, you have different players—all with a different set of skills—with one mission in mind," which he said is effectively managing workers comp claims.

Carla Wynn, assistant vp of strategic claims management for ARAMARK Corp. in Philadelphia, said risk managers, TPAs and insurers need to control rising medical costs.

Ms. Wynn detailed the importance of understanding medical networks, specialty networks and the administrative costs of a workers comp program.

Risk managers also can reduce their overall workers comp costs by getting involved with shaping legislation and regulation of the workers comp system, said William Zachry, vp of corporate workers compensation for Safeway Inc. in Pleasanton, Calif.

To watch the Virtual Advantage conference and to access other archived materials related to the event, go to www.businessinsurance.com/virtualadvantage.

ADVERTISER

INDEX

Issue of January 3

ADVERTISER	PAGE #
Aon Corporation	2
Business Insurance	6, 11, 13, 19, 21
Florida State University	16
Global Risk Consultants	24
The Hartford	7
HCC Insurance Holdings	23
Liberty Mutual	5

Security: Cyber risks from systems, employees need to be managed

CONTINUED FROM PAGE 1

recover tens of millions in insurance proceeds, Mr. Elefant said.

Heartland has made changes designed to protect it against further data breaches, including end-to-end data encryption and other steps that make it much more difficult, if not impossible, to get from its corporate network into the payment network, where transactions are processed. The networks now are more segmented, physically and logically, so that type of communication can't

take place.

"There's more awareness about (data breach prevention) among companies," said Nicolas Christin, associate director at the Information Networking Institute at Carnegie Mellon University in Pittsburgh.

"They've clarified their policies with respect to data breaches, and they've made it clear to their employees that this can be a potential problem," he said.

Some say the WikiLeaks affair offers lessons for companies in how to avoid the release of potentially damaging information.

Bo Holland, founder and CEO of the identity protection network Debix Inc. in Austin, Texas, said existing data regulations are centered around protecting consumers' information, such as Social Security and credit card numbers, rather than protecting corporate intellectual property.

"WikiLeaks, I think, has done a lot to raise attention to this issue, but the government regulations aren't focused in that direction," Mr. Holland said.

Harlan Loeb, director of U.S. crisis and issues management at the public relations firm Edelman Inc., said companies should attempt to understand employee concerns and head off problems that might drive the staff to leak information to third parties.

Mr. Loeb cited the example of an energy company that had contacted him after an employee threatened to disclose damaging information to the press.

The employee had raised his concerns about a pricing issue three or four times to his manager, who essentially ignored him, Mr. Loeb said. The company's chief financial officer intervened, dealing directly with the employee to address what was a misunderstanding. "The manager was so driven by his ego about being questioned that he missed the opportunity to explain something straightforward," Mr. Loeb said.

Nearly half of data breaches involve insiders, and nearly a quarter of those involve individuals who recently experienced a job change, such as termination, resignation or demotion, according to the "2010 Data Breach Report" from Verizon Business and the U.S. Secret Service.

In addition, roughly half of the breaches in 2009 involved the use of organizational resources or privileges for purposes contrary to those intended—actions typically done in ignorance of policy or for the sake of convenience, personal gain or malice, according to the report.

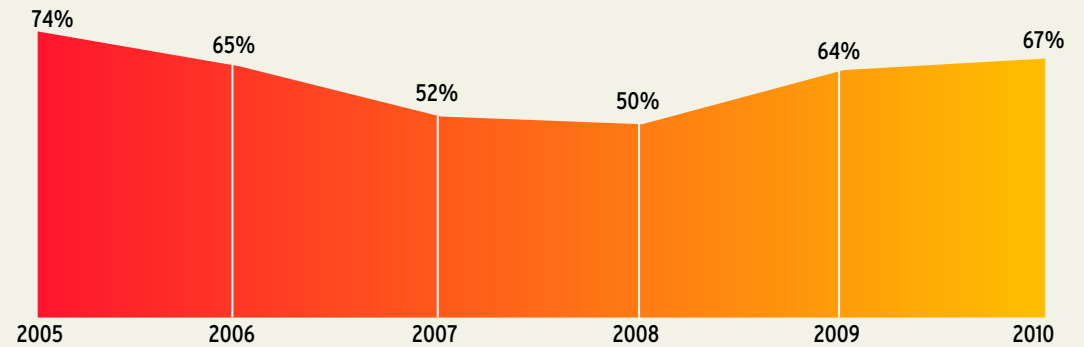
Managing data risks

In addition to being sensitive to employee concerns, companies can take various steps to keep closer tabs on their information—and those handling it.

Bryan Sartin, director of the investigative response and forensics team at Verizon Business, recommends that companies first consider what data they have and

TOP CYBER RISK ON THE RISE AGAIN

Malware infection has been the No. 1 attack type reported by survey respondents for six years. In 2010, 67% had such an attack.



Source: Computer Security Institute's "2010/2011 CSI Computer Crime and Security Survey"

Industry, government join to study cyber risks

GAITHERSBURG, Md.—A council of financial institutions and governmental agencies have agreed to work together to speed the application of research into improving cyber security for financial services firms.

The partnership, which was announced Dec. 6, involves the Financial Services Sector Coordinating Council for Critical Infrastructure Protection and Homeland Security, which was established in June 2002 by the private sector and recognized by the U.S. Treasury Department to coordinate critical infrastructure and homeland security activities in the industry.

Its members are from a range of financial institutions, including insurers such as Travelers Cos. Inc.

The governmental agencies are the Department of Homeland Security's Science and Technology Directorate and the U.S. Commerce Department's National Institute of Standards and Technology.

The groups aim to facilitate "high assurance" network infrastructures, advanced identity management technologies and improved usability of security technologies. The results of their collaborative research are expected to be applicable to health care and other cyber security needs.

"Both the public and private sectors have vital interests in securing financial services against threats," the National Institute of Standards and Technology said in a statement.

—By Sonja Ryst

why they have it.

Depending on the business involved, some might not need to maintain their customers' identifying information after a transaction is processed.

For example, some companies use a system in which information from customer credit card transactions is sent out to a so-called black box maintained by a third-party service provider, which then sends it onward to the payment processor for authorization and settlement. Customer credit card data, therefore, never resides in the company's own computer systems.

When sensitive data must be maintained, proper training of employees is vital, experts say.

Daniel Groszkruger, a risk manager at Stanford University Medical Center in Palo Alto, Calif., said his team emphasizes the need for training to include lessons on importance of keeping patient information confidential.

"Employees, particularly new ones, could be ignorant about the risk and almost innocently disclose information that they shouldn't," he said.

Kevin Kalinich, national managing director for cyber liability for Aon Risk Solutions, a unit of Chicago-based Aon Corp., said companies often mistakenly assume their employees will cooperate on cyber security procedures.

For example, the information technology department might make sure nobody can get onto computer networks without a password, but such steps are lacking if employees never bother to change their default passwords into something that is less easily hacked.

To solve that problem, the company might make its computer system lock people out unless they change their passwords every 90 days—but then more than one-fifth of the staff will begin writing their passwords on sticky notes to leave in plain sight near their monitors, he said.

The "most common mistake" is inadequate education and monitoring of employees, Mr. Kalinich said.

Monitoring employees' system use also can help identify problems, some experts say.

Mr. Sartin said he recently met

with a company that made a list of the top 10 Internet users in the company—measured by time spent online—and asked those employees why they were using the Internet so much. "Something that simple will probably spread the word fast that Big Brother is watching" the staff's network activity, Mr. Sartin said.

Monitoring essential

Mr. Sartin said many companies invest in resources to enable monitoring, but then they check their logs only for trouble-shooting. Better monitoring, he noted, can help identify problems.

"Security monitoring is never something done proactively," he said. "It always happens reactively to a problem."

Most of the time, Mr. Sartin's team doesn't even need to do forensics to figure out why a company had a data breach, and instead they end up finding evidence of little problems in the logs that the clients hadn't recognized for many months.

For example, he said that examining network logs might reveal suspicious outbound traffic, such as a heavy amount of data being transferred to the same Internet Protocol address every day between 2 a.m. and 3 a.m. Or someone might have connected to the corporate network from a country where the company has no employees.

There are a plethora of security services and tools to help companies prevent unauthorized access and misuse of their information, but companies need to think carefully before just throwing money at a problem, some caution.

"Many security managers proudly exhibit the latest and greatest security tool. You may have bought cutting-edge technology with lots of bells and whistles, but don't assume that it will automatically protect you from changing threats," Khalid Kark, analyst at Cambridge, Mass.-based information technology research firm Forrester Research Inc., said in an August research note.

He recommends that companies use many layers of security rather than relying on only one. "You always need complementary people, process and technology controls," he said.

MOST COMMON EXPOSURES

Companies that suffered a cyber attack in 2010 reported that those events took numerous forms. The most common* attacks last year were:

- Malware infection: 67%
- Being fraudulently represented as a phishing message sender: 39%
- Laptop or mobile hardware theft or loss: 34%
- Insider abuse of Internet access or e-mail (pornography, pirated software, etc.): 25%
- Bots/zombies within the organization: 20%
- Denial-of-service attack: 17%
- Unauthorized access or privilege escalation by insider: 13%
- Password sniffing: 12%
- System penetration by outsider: 11%
- Theft of or unauthorized access to personally identifiable information or personal health information due to all other causes: 11%
- Exploit of client Web browser: 10%
- Financial fraud: 9%
- Website defacement: 7%
- Other exploit of public-facing website: 7%
- Exploit of wireless network: 7%
- Exploit of user's social network profile: 5%
- Instant messaging abuse: 5%
- Theft of or unauthorized access to personally identifiable information or personal health information due to mobile device theft/loss: 5%
- Theft of or unauthorized access to intellectual property due to mobile device theft/loss: 5%
- Theft of or unauthorized access to intellectual property due to all other causes: 5%
- Exploit of DNS server: 2%
- Extortion or blackmail with threat of attack or release of stolen data: 1%

*Respondents could identify multiple types of cyber attacks suffered. Source: Computer Security Institute's "2010/2011 CSI Computer Crime and Security Survey"

News In Brief

CONTINUED FROM PAGE 1

ended Sept. 30, a 62.2% increase over the same period last year, according to the Insurance Services Office Inc. and the Property/Casualty Insurers Assn. of America. Net written premiums increased 0.8% to \$323.15 billion. The insurers reported a 101.2% combined ratio vs. a 100.7% for the comparable period last year.

Insurers win Chinese drywall cover dispute

Insurers don't have to pay a series of Chinese drywall-related homeowners claims, a federal judge has ruled, hinging his decision on two policy exclusions. On Dec. 16, U.S. District Court Judge Eldon Fallon in New Orleans granted 10 insurers' motions to dismiss claims in the case, *In re: Chinese Manufactured Drywall Products Liability Litigation*, ruling that coverage was barred under faulty materials and corrosion exclusions contained in the policies. Noting that the policies do not define "faulty" or "corrosion" and that neither term has been defined under Louisiana case law, Judge Fallon cited dictionary definitions of the words to support his ruling.

Congress approves food safety changes

The U.S. House of Representatives on Dec. 21 approved the FDA Food Safety Modernization Act, clearing the measure for President Barack Obama's signature into law. Among other things, the measure would give the Food and Drug Administration power to force companies to recall food products and require the agency to conduct inspections of farms and food processing facilities regularly and set safety standards for imported foods. The Senate approved the measure in late November.

HIIG sells wholesaler to private equity firm

Houston International Insurance Group has sold wholesale brokerage subsidiary Southwest Risk L.P. to private equity firm GCP Capital Partners L.L.P. and will use some of the funds from the transaction to expand through acquisitions. HIIG

will retain an equity interest in Southwest Risk, it said. Terms of the sale were not disclosed.

Flagstone Re, Swiss Re place cat bonds

Flagstone Reassurance Suisse S.A. has purchased \$210 million of securitized retrocessional coverage against natural disasters from Montana Re Ltd., a special-purpose reinsurer in the Cayman Islands. The coverage protects against losses from hurricanes and earthquakes in the United States, typhoons and earthquakes in Japan, windstorms in Europe and hurricanes in the Cayman Islands. Meanwhile, Swiss Reinsurance Co. has completed a catastrophe bond placement that will give the reinsurer \$106.5 million in protection against losses from European windstorms, earthquakes in California and Japan, and typhoons in Japan.

N.Y. sues Ernst & Young over Lehman dealings

New York state prosecutors have sued Ernst & Young L.L.P., accusing the accounting firm of helping conceal Lehman Bros. Holdings Inc.'s financial woes prior to its September 2008 bankruptcy filing. The civil fraud case seeks more than \$150 million in fees that E&Y received from 2001 to 2008 as Lehman's outside auditor, plus other unspecified damages. The suit does not name any of the Lehman executives who ran the firm when it filed the largest U.S. bankruptcy in history in 2008, at the outset of the global financial crisis.

Boeing risk manager to head Chartis unit

Chartis Inc. said Mark Meyerhoff has been named president of Chartis Aerospace Insurance Services Inc., effective Jan. 24, 2011. Mr. Meyerhoff joins Chartis from Boeing Co., where he most recently was senior director of risk management.

Noted

Brian Duperreault, president and CEO of **Marsh & McLennan Cos. Inc.**, is the 2011 Insurance Hall of Fame honoree, the International Insurance Society Inc. announced....The China Insurance Regulatory Commission has granted **XL Group P.L.C.** a license to operate as a property/casualty insurer in Shanghai....Meanwhile, **XL** appointed Fielding L. Norton III as senior vp, deputy chief enterprise risk officer.

Reform: Employers fear cost increases

CONTINUED FROM PAGE 1

ing preventive services—kicked in Jan. 1 for most employers.

Given those cost increases, it is not surprising at this stage that employers "are not big fans of health reform," Mr. Webber said.

Still, employer attitudes could change when, as Mr. Webber put it, the "second chapter" of the reform law unfolds. That stage begins in 2014, when federal health insurance premium subsidies will be offered to the lower- and middle-income uninsured to buy coverage from commercial insurers offering policies through state health insurance exchanges that are to start operating that year.

That new benefit entitlement, plus certain other changes, such as expanding the Medicaid program, could mean another 30 million people will gain coverage, accord-

6% of large employers said it is "very likely" that they will drop coverage in 2014 when the new insurance exchanges begin. In addition, 14% of all respondents and 6% of large employers said it was "likely" they would drop coverage.

Whether employers drop coverage—which would require them to pay a \$2,000 per full-time employee penalty and, to remain competitive, increase salaries to partially offset employees' premiums for coverage through insurance exchanges—won't be known for a while.

But that such a high percentage of employers are considering dropping coverage reflects their fears that the health care reform law will boost costs enough to undermine their economic stability, said Larry Boress, president and CEO of the Chicago-based MBGH.

According to Mr. Webber, whether employers drop coverage

COST CONCERNS

How much employers think the health care reform law will increase plan costs*

Amount expected	Respondents
No increase	1%
Less than 1%	11%
2% to 5%	42%
6% to 10%	16%
More than 10%	11%
No modeling done	20%

*For employers with more than 500 employees
Source: "Employer Reaction to Health Reform After the November 2010 Elections"

make at \$2,500 a year effective in 2013. Prior to the health care reform law, there was no legal limit on FSA contributions, though employers typically impose annual limits between \$4,000 and \$5,000.

"Employers don't like the feds telling them how they can design their plans," Mr. Webber said.

Another provision strongly opposed by employers requires them to report the cost of health insurance coverage on employees' 2012 W-2 wage and income statements. Nearly 70% want that provision repealed.

Aside from being an administrative headache, employers don't see the relevance of the reporting provision to health reform, Mr. Webber said.

On the other hand, opposition is much less when it comes to other health care reform law provisions. For example, only 32% of employers backed repeal of the requirement of fully covering preventive services. Fifty-two percent of employers said the provision should be retained, while 16% said it should be modified in some way.

Many employers voluntarily have expanded coverage of preventive services, believing that it will be cost-effective in the longer term if medical conditions are detected before they become more serious and expensive to treat, Mr. Webber said.

Summaries of the survey, "Employer Reaction to Health Reform After the November 2010 Elections," are available at www.mbgh.org. The full survey, which costs \$100, will be available at the end of January. For information, contact Mr. Boress at 312-372-9090, ext. 101 or lboress@mbgh.org.

SUPPORT FOR REPEAL EFFORTS

Employer opposition to health care reform law provisions varies*

Provision	% backing repeal
Ban on flexible spending account reimbursement of over-the-counter drugs not prescribed by a doctor	72%
Reporting health insurance cost on W-2 statements	69%
Capping FSA contributions at \$2,500 a year	64%
Imposing excise tax on costliest health care plans	61%
Requiring employers to offer health insurance vouchers	53%
Financially penalizing employers not offering coverage	50%
Financially penalizing individuals not enrolled in a plan	50%
Covering employees' adult children to age 26	43%
Defining minimum essential benefits	34%
Removing preventive service copayments	32%
Establishing state health insurance exchanges	31%
Banning annual, lifetime dollar limits for essential services	27%

*The remaining percentage of respondents for each provision support retention or modification of the provision.
Source: "Employer Reaction to Health Reform After the November 2010 Elections"

ing to congressional estimates. Last year, about 50 million U.S. residents were uninsured, according to the U.S. Census Bureau.

In theory, that expansion should result in a big reduction in uncompensated care, a cost that providers, where possible, now shift in the form of higher charges to patients in employer plans. But whether a reduction in uncompensated care results in an easing of health care inflation remains to be seen.

"We will have to see if that promise comes to fruition," Mr. Webber said.

Clearly, some employers are skeptical that health care reform will bring more benefits than costs.

In fact, 8% of all respondents and

will greatly depend on a major unknown: the ability of the yet-to-be established exchanges to offer affordable coverage.

Interestingly, employers are most opposed to health care reform provisions that will have little direct effect on their costs. For example, 72% of respondents said they want Congress to repeal a provision, which begins next year, that bars employees from tapping their flexible spending accounts to reimburse themselves for over-the-counter medications not prescribed by a doctor (see chart).

Similarly, 64% want to repeal another FSA-related provision, which caps the maximum FSA contribution that employees can

Business Insurance RESEARCH CENTER

Get the Information You Need for Less!

- All Exclusive BI Rankings & Directories
- Contact Info for Buyers and Suppliers
- Just \$299 for more than \$2,000 worth of data

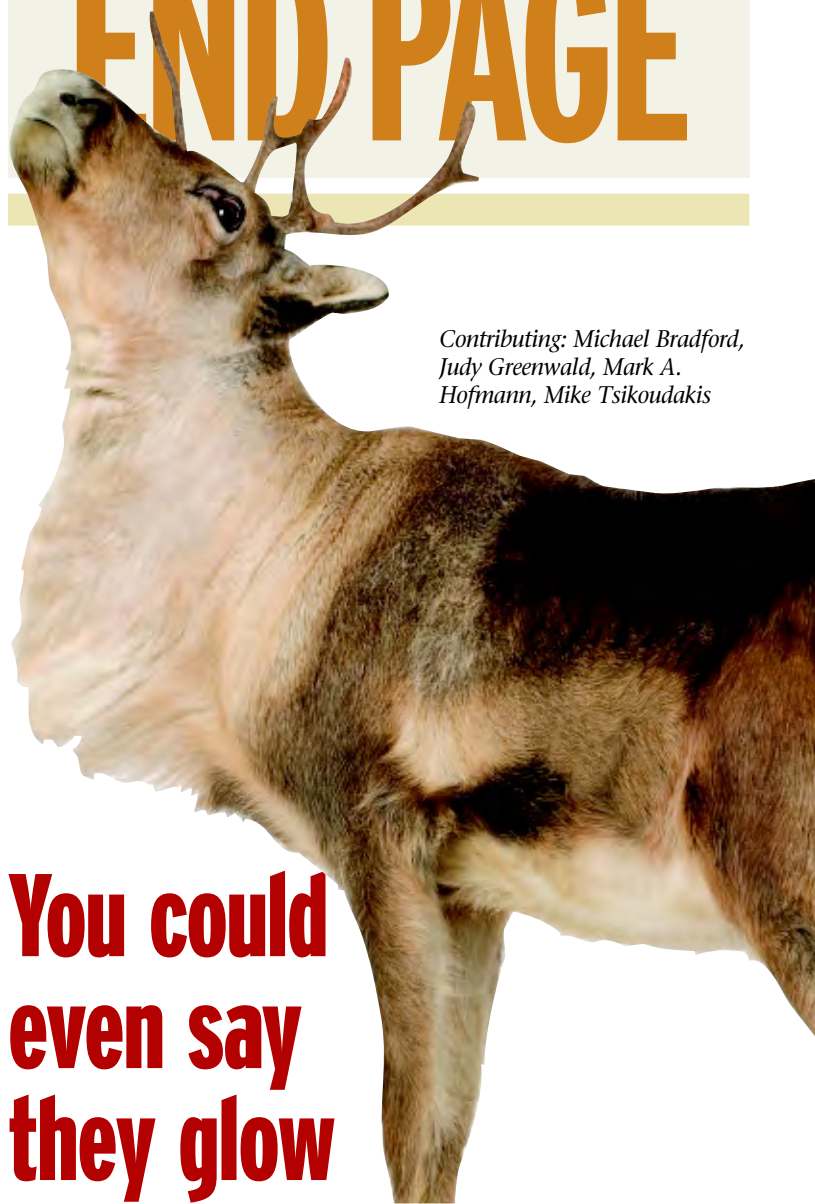
To learn more, and subscribe today, visit
BusinessInsurance.com/research.

DANGERS PAR FOR COURSE, COURT SAYS

Golfers assume the risks inherent in the sport, says New York's top court in dismissing a suit brought by an injured golfer. According to the recent decision in *Azad Anand et al. vs. Anoop Kapoor* by the New York Court of Appeals, Messrs. Kapoor and Anand were playing golf together in 2002 when Mr. Kapoor's ball landed in the rough. Without calling "fore" or providing any other warning, he hit the ball, which struck Mr. Anand in the eye, resulting in retinal detachment and a permanent loss of vision in that eye. Mr. Anand, along with his wife, sued Mr. Kapoor, claiming his failure to warn of the shot amounted to negligence. But the appellate court affirmed a lower court ruling dismissing the case. A participant assumes certain risks that are inherent to a sport when he or she decides to play that sport, the court said in a unanimous opinion. Mr. Kapoor's "failure to warn of his intent to strike the ball did not amount to intentional or reckless conduct, and did not unreasonably increase the risks inherent in golf to which Anand consented," said the opinion. "Rather, the manner in which Anand was injured...reflects a commonly appreciated risk of golf."



Business Insurance END PAGE



Contributing: Michael Bradford, Judy Greenwald, Mark A. Hofmann, Mike Tsikoudakis

You could even say they glow

Norwegian reindeer may not be red-nosed, but they are easier for motorists to spot thanks to new gear they're wearing this holiday season. Reindeer owners have outfitted around 2,000 of their animals with reflective yellow collars or small antler tags in an effort to lessen the odds that they will be hit by vehicles, according to news reports from the icy Scandinavian country. Car crashes kill around 500 reindeer in Norway

each year, the reports say. A project leader with the Norwegian Public Roads Administration was quoted as saying this is the first time reindeer marking has been put to use on such a large scale, and it appears to be keeping the herds and motorists safer. The International Center for Reindeer Husbandry says on its website that around 200,000 reindeer live in Norway. The animals, which largely roam free, are raised for their meat.



FRAUDSTER SNARED IN KNOTTY SCAM

A Lynnwood, Wash., man, who repeatedly spun yarns that his expensive silk tie collection had been stolen, racking up thousands of dollars in insurance proceeds, last week pleaded guilty to insurance fraud and paid restitution of nearly \$33,400. According to state officials, Carlton H. Wopperer told police in Mill Creek that 212 silk ties were stolen from his vehicle while it was parked outside a greeting card store in January 2009. He explained that he had the four plastic containers filled with his ties because he was going to take them to a quilt shop to be made into a quilt. Seattle-based PEMCO Mutual Insurance Co. paid Mr. Wopperer \$33,370 to replace the "stolen" items, for which receipts were submitted from Nordstrom Inc., Butch Blum, Barneys New York, and Mario's of Seattle, state officials said. Six months later, Mr. Wopperer reported an almost identical crime, this time in Everett, and filed another insurance claim for \$35,000, according to reports. A PEMCO adjuster who checked with retailers found that the ties purchased in January almost immediately were returned. PEMCO denied the claim and reported the incident to state officials who, during an investigation, learned that in 2000 Mr. Wopperer had been paid \$16,900 by his insurer for 212 silk ties that had been stolen from his car parked outside a mall in Lynnwood. In July, he was charged with two counts of insurance fraud in Snohomish County Superior Court. As long as he complies with certain conditions, Mr. Wopperer will avoid felony charges with his plea, according to state officials.


Coverage for things that go bump in the night

Ever wonder exactly which insurance policy—if any—would respond if you suffered a catastrophic loss due to a vampire? Or, for that matter, a ghost, mummy, werewolf or zombie? A website called paranormalpolicies.com may have the answer. With tongue clearly planted in cheek, the site boasts that "we cover anyone—living, dead or undead." For a

mere \$14.95—first-class shipping is free—those who wish can choose an insurance policy to respond to any one of the five perils listed above. "All of our policies are underwritten by The Paranormal Policies Insurance Co., a subsidiary of zanzaboonda enterprises," says the website, adding that "the actual author is, naturally, a ghost writer." The site says that the policies make

great gifts, but warns that "you need to have a sense of humor, without one the policy is void." Visitors to the site are invited to contact Paranormal Policies with requests for customized coverage if they desire. But all contact apparently must be via e-mail—as might be suspected given the nature of this enterprise, no earthly address is provided.





RISK

What's behind every great venture? Typically, considerable risk. And right behind that, there's us. HCC brings you over 30 years of experience, 100-plus lines of specialty insurance, industry-leading financial ratings and experts who know what to do with it all. Intelligence beats the odds every time. We call it

mind over risk.



HCC

hcc.com

STRENGTH & STABILITY

IN TURBULENT TIMES

Built on over 50 years of rock-solid risk control experience.

The pioneer of unbundled loss prevention engineering, Global Risk Consultants reduces your company's risk. Our diverse array of in-house services is delivered worldwide and backed by over 50 years of risk control experience.

- Fire Protection Engineering
- Natural Hazards Analysis
- Boiler & Machinery Engineering
- Jurisdictional Boiler & Pressure Vessel Inspections
- Infrared Thermography
- Database Management



Global Risk Consultants®

www.globalriskconsultants.com