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Business Insurance

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inBrief

Catastrophes shrink reinsurers' capital

Heavy catastrophe losses trimmed 3% from total global reinsurer capital in 2011, according to an analysis by Aon Benfield. The report, which analyzed the year-end financial position of 28 global reinsurers, estimated total global reinsurer capital at $455 billion as of Dec. 31, 2011, down from the $470 billion recorded a year earlier.

Ind. commission gets stage collapse report

A long-awaited engineering report into last year's fatal stage collapse at the Indiana State Fair concludes the collapse occurred when concrete Jersey barriers attached to guy wires meant to provide lateral support to the stage system began to slide as wind speeds increased during a severe storm. "From a technical standpoint, the structure did not have adequate lateral capacity," said Scott Nacheman, vp at Thornton Tomasetti Inc. "The Jersey barriers slid and that caused the system to fail." Absent the lateral support that the Jersey barrier and guy wire system was meant to provide, "once gravity had essentially taken over, there was no way for the structure to support itself," Mr. Nacheman said.

Vermont renames regulatory agency

The Vermont state agency responsible for insurance regulation is operating under a new name: the Department

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RISK MANAGEMENT

Coverage expands for reputation risk

Some insurers cover loss of revenue, profit in brand incidents

By MIKE TSIKOUDAKIS

Sales and profits that are lost due to reputational and brand damage are an increasing concern for companies and organizations, and some insurers have begun offering coverage that indemnifies financial losses stemming from such a crisis.

While many insurers offer reputational risk policies that cover the costs associated with responding to a crisis, few insurers indemnify revenue or profit that is lost as a result of the devaluation of a brand or reputation.

Such losses are attributed to a change in customer perception of an organization's brand that causes lost sales and revenue.

For such coverage, there is $25 million to $50 million in capacity in the London market, with one Lloyd's of London syndicate already offering capacity while a second syndicate is interested in doing so, said Emily Freeman, executive director of the technology and global privacy group at Lockton Cos. L.L.P. in London.

"There is wording and there is some capacity in London that we're building," Ms. Freeman said.

> **'It certainly is not a large enough market yet to be a real risk transfer for a Fortune 50 company.'**
>
> Emily Freeman, Lockton Cos. L.L.P.

"It certainly is not a large enough market yet to be a real risk transfer for a Fortune 50 company."

The coverage is triggered by an adverse media event that affects consumer trust and brand perception. Typically it is written on a named-peril basis and responds to specific areas of brand damage, such as data breaches or the disgrace of a key executive or advertising sponsor, Ms. Freeman said.

"There are a select few insurers who will underwrite to that on a case-by-case named-peril basis,"

See **REPUTATION** page 42

WORKERS COMPENSATION

Treating the mind along with the body

Cognitive therapy aids return to work

By ROBERTO CENICEROS

Some prominent workers compensation payers are taking an unusual step: actively recommending cognitive behavioral therapy for claimants who suffer from chronic pain and psychosocial issues that are hindering their recovery.

When properly applied, the psychotherapeutic approach can help workers comp and nonoccupational disability claimants return to work sooner by helping them cope with work-related problems and emotional issues, several insurance industry medical doctors and claims experts said.

See **CBT** page 40

LEGISLATION AND REGULATION

Systemic risk rule fails to allay insurer concerns

Questions remain after FSOC sets out assessment process

By MARK A. HOFMANN

WASHINGTON—Property/casualty insurers remain concerned about the Financial Stability Oversight Council's final rule on which nonbank financial institutions present a systemic risk to the U.S. economy and therefore are subject to heightened regulation.

The rule, which was published in the Federal Register last week and takes effect May 11, sets a three-step process for FSOC to follow in determining which nonbank entities present a systemic risk to the economy.

In the first step, a nonbank financial institution must have at least $50 billion in consolidated assets and meet at least one of several thresholds. These include having $30 billion in gross notional credit default swaps, having $3.5 billion in derivative liabilities and having $20 billion in total outstanding debt.

In the second step, FSOC will use a specific framework to make its determination of which companies fall into the category. Those companies deemed to present systemic risks will be subject to heightened examination in the third and final step to determine whether they should be subject to heightened regulation by the Federal Reserve Board of Governors.

The final rule closely resembles the proposed rule for nonbank financial institutions, and observers say that may raise issues for some insurers.

"The first concern is that some of the rules are still yet to be written," said Mike Nelson, chairman of Nelson Levine de Luca & Horst L.L.C. in New York, a law firm that focuses on insurance. He said any insurers determined to be systemically risky would face additional costs when subject to more intense regulation.

Mr. Nelson said property/casualty insurers are vastly different than commercial banks, and they manage their risks and finances completely differently.

Mr. Nelson also noted that insurers already are subject to regulation at the state level, so there is concern that the FSOC rule could create dual regulation.

See **FSOC** page 43

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2. Property/casualty rates going up: Willis report
3. Commercial lines insurance rates increased in first quarter
4. Chartis introduces bundled coverage for public entities
5. Employer did not violate FMLA, comp law in firing injured worker
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7. Risk management, internal audit collaboration valuable: Report
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10. Enrollment in health savings accounts surges: Fidelity

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WORKERS COMPENSATION

RICO suit beats court challenge in comp case

Ruling could allow workers way around exclusive remedy

By SHEENA HARRISON

CINCINNATI—An appeals court ruling that allows injured workers to sue their former employer for alleged racketeering could have a chilling effect on how employers and third-party administrators decide workers compensation claims, observers say.

A panel of the 6th U.S. Circuit Court of Appeals ruled 2-1 in *Paul Brown et al. vs. Cassens Transport Co. et al.* that several Michigan transportation workers can sue Edwardsville, Ill.-based Cassens Transport Co. and Atlanta-based third-party administrator Crawford & Co. for allegedly violating the Racketeer Influenced and Corrupt Organizations Act after their workers comp claims were denied or settled.

However, an attorney for the auto transportation company and the TPA said the defendants will seek a rehearing of the ruling by the full 6th Circuit.

The workers allege that Cassens, which is self-insured, conspired with the TPA and Dr. Saul Margules, a Michigan physician who evaluated and often testified against injured Cassens workers.

The plaintiffs allege that the defendants' communications among themselves constituted mail and wire fraud under RICO and furthered the conspiracy that included using "fraudulent medical reports" and ignoring medical evidence to deny or limit benefits.

In its April 6 decision, the appeals court said Michigan's exclusive remedy workers comp provisions do not bar the workers from alleging that Cassens and Crawford committed RICO violations—which are separate from the workers' injury claims.

"A federal civil RICO claim and a state claim for workers compensation are legally distinct, even though they share factual underpinnings," the majority ruled.

In a dissenting opinion, Judge Julia Smith Gibbons said RICO laws shouldn't apply because the workers didn't suffer damage to "business or property" as required by RICO regulations.

Marshall Lasser, a Southfield, Mich.-based attorney who represents the former Cassens workers and is litigating other similar cases, said such suits will help injured workers receive benefits that were unjustly denied.

"I've alleged that these employers and the insurance companies or the third-party administrators know that these doctors lie," Mr. Lasser said.

In another suit he filed alleging RICO violations in Michigan workers comp decisions, *Christine Jackson et al. vs. Sedgwick Claims Management Services Inc. et al.*, former employees of Atlanta-based Coca-Cola Enterprises Inc. allege that the company and TPA conspired with Dr. Paul Drouillard to deny or terminate their claims. Argued last summer in the 6th Circuit, the case still is awaiting a decision.

Cases such as those filed by Mr. Lasser could undermine insurers' and employers' ability to effectively manage medical treatment and benefit payments for injured workers, said Bruce Wood, Washington-based associate general counsel and director of workers compensation for the American Insurance Assn.

"What the cases essentially do is use the cover of RICO—a federal civil and criminal statute—to undermine and to subvert a state's workers compensation system," Mr. Wood said.

Denis Juge, an insurance defense attorney in Metairie, La., contends that RICO litigation in workers comp cases could result in a flood of such suits and hurt

See **RICO** page 43

RISK MANAGEMENT

Firms find ERM hard to value

Risk manager survey reveals struggles

By MIKE TSIKOUDAKIS

Many companies and organizations with enterprise risk management programs are having difficulty determining their actual value, according to an annual survey by Towers Watson & Co.

While the survey released last week found that 57% of respondents had ERM programs in place—a slight increase from last year—40% said that no one in the organization had been able to articulate their program's value.

Thirty-seven percent said they regularly quantify key risks and use those metrics in making business decisions, and 35% have integrated risk metrics into the budgeting and planning process.

"A lot of companies still just struggle to get beyond the qualitative side," said Corey Gooch, Chicago-based senior ERM consultant at Towers Watson. "Many of them have really good processes for identifying risk on an ongoing basis, but they haven't gotten over that hump yet of generating real value."

Articulating the value of an ERM program may be difficult due to various regulatory requirements that have caused ERM to become a compliance-driven activity, Mr. Gooch said.

"Audit shouldn't own it," he said. "It should be owned by the risk and finance side, and audit has to be a critical part of that, but I think that's where a lot of that disconnect comes from."

WHY NO ERM PROGRAM?

The top three reasons why companies do not have an enterprise risk management process in place

	REASON
40%	Nobody has been able to articulate the value of implementing ERM to our company.
25%	Too resource-intensive and expensive to pursue, regardless of value.
14%	Too compliance-oriented and bureaucratic to pursue, regardless of cost.

Source: "2012 Risk and Finance Manager Survey," Towers Watson & Co.

Among other findings, nearly two-thirds of survey participants were seriously concerned or moderately concerned about a hardening of property/casualty pricing. More than 60% said they are marketing their property/casualty insurance programs.

"Clients are in a position now that they need to differentiate their risks from what's going on in the rest of the marketplace. That's some of the value that analytics can provide," Mr. Gooch said.

One-third of the respondents with property programs are using broker-provided catastrophe modeling and 44% with casualty programs are using actuary-provided retained loss analytics, according to the survey.

A company or organization that uses analytics will have a better understanding of its loss exposure and risk-bearing capacity, which can be leveraged during insurance contract renewal negotiations, Mr. Gooch said.

"It changes the entire dynamic of who has the control of that negotiation," he said.

When it comes to network security and privacy liability policies, however, nearly three-quarters of the finance and risk managers surveyed said they did not purchase such coverage—roughly the same as last year.

When asked why a cyber insurance policy was not purchased, 41% of the respondents said controls within their organization's information technology department were sufficient, and 25% indicated a lack of significant data exposure.

"That was one of the most surprising findings for us," Mr. Gooch said, despite the spate of high-profile data security breaches during the past year.

"Cyber security risk is not one where IT is the end-all be-all of the ways to mitigate that risk, nor is insurance," he said. However, "there are some really valuable benefits to the network security and privacy liability policies that provide coverages for things like defense cost coverages and paying for credit monitoring."

Survey respondents said limits for data security and privacy liability coverage were driven by established benchmarks or insurance brokers, at 68% and 50%, respectively.

The report, "2012 Risk and Finance Manager Survey," surveyed 153 risk and finance managers in the manufacturing, financial services and health care industries.

PROPERTY/CASUALTY INSURERS

Price hikes predicted for property coverage

By BILL KENEALY

Commercial insurance buyers can expect to pay more for certain types of coverage this year, according to separate reports released last week.

An analysis by London-based Willis Group Holdings P.L.C. found property/casualty insurance rates increasing modestly in several lines of business.

The broker's 2012 "Marketplace Realities" said catastrophe-exposed accounts, which saw rates climb an average of 5% to 10% in the fourth quarter of 2011, look to exhibit a similar trend this year with increases in the range of 7.5% to 12.5% (see box).

These numbers largely reconcile with findings also released last week by New York-based Marsh & McLennan Cos. Inc.'s Marsh Inc. unit. Marsh's report, "Global Insurance Market Quarterly Briefing: Q1 2012," notes that rates for catastrophe-exposed U.S. property risks generally increased 10% to 20% in the first quarter of 2012.

Both brokers say the rising rates are a direct result of high insured losses in a series of catastrophes last year, such as the Tohoku earthquake that struck Japan and the floods that inundated Thailand.

Willis said the $108 billion in insured catastrophe losses worldwide last year combined with revisions to Risk Management Solutions Inc.'s U.S. hurricane model have put upward pressure on rates for cat-exposed property.

PROPERTY/CASUALTY OUTLOOK

With 2011 being the second-costliest year for insured catastrophe losses, along with U.S. hurricane modeling changes that increased coastal exposures, cat-exposed property is expected to see higher rates this year, Marsh Inc. and Willis Group Holdings P.L.C. said in separate reports.

LOOKING BACK

- MARSH: Rates for cat-exposed risks increased 10% to 20% in 2011, while rates for non-catastrophe-exposed accounts rose up to 10%.
- WILLIS: Rates for cat-exposed accounts increased an average of 5% to 10% in the final quarter of 2011, with many seeing rises of 10% to 15%.

LOOKING AHEAD

- MARSH: Rates are likely to increase moderately for all property accounts during the first quarter of this year.
- WILLIS: Rates for catastrophe-exposed properties are expected to rise 7.5% to 12.5% this year.

Countries struck by natural disasters last year have seen the greatest increases, rising more than 30% in Japan and New Zealand.

"The global commercial property insurance market is continuing to show signs of upwards rate trends, especially for catastrophe-exposed risks," Dean Klisura, U.S. risk practices leader for Marsh, said in a statement.

See **P/C** page 41

RETIREMENT BENEFITS

Pension funding relief measure hits roadblock

Bill could have saved firms billions in contributions

By JERRY GEISEL

WASHINGTON—A congressional impasse over a highway funding bill is endangering chances that employers will gain long-sought funding relief for their pension plans.

The prospects for funding relief brightened last month when the Senate, in a rare bipartisan vote, overwhelmingly approved a highway funding measure that included unrelated provisions that would allow employers to use higher interest rate assumptions in valuing their pension liabilities.

That would allow employers to slash their defined benefit plan contributions by billions of dollars over the next several years.

The pension interest rate provisions in S. 1813 were welcomed by pension lobbyists and others who have been working for months to convince lawmakers that the extraordinarily low interest rates employers now must use to value plan liabilities are forcing them to contribute more than is necessary, depriving them of cash they use in other areas of their business.

> **'Employers were energized after the Senate vote, but then the air quickly went out' after the House didn't take up the Senate bill.**
>
> Chantel Sheaks,
> Buck Consultants L.L.C.

But employer hopes for quick congressional passage were dashed late last month when the House of Representatives refused to take up the highway bill. Instead, the House—whose concerns largely involve the broader measure, not the pension provisions—passed a 90-day extension of a current highway funding measure. The Senate then followed suit.

"Employers were energized after the Senate vote, but then the air quickly went out" after the House didn't take up the Senate bill, said Chantel Sheaks, a principal with Buck Consultants L.L.C. in Washington.

Observers say the press of other issues means lawmakers may not again consider the bill until late June, when the 90-day extension nears an end.

The highway bill "is not expected to be brought up real fast," said Lynn Dudley, senior vp of policy at the American Benefits Council in Washington.

"Nothing is imminent," said Frank McArdle, a senior director at Aon Hewitt in Washington.

It also remains far from clear whether lawmakers will be able to reach agreement on the pending highway funding measure.

"There are some big challenges to the underlying bill. There will be no slam dunk on that one," Mr. McArdle said.

But even if the highway bill stalls indefinitely, the pension interest rate provisions could be attached to other tax-related legislation that Congress would consider during its lame duck session that is likely to be held after the November elections.

The appeal of that approach is that the pension provisions, which would boost federal revenue by several billion dollars, would help to offset revenue losses from other provisions in a broader bill. That would be the case because employers' pension plan contributions are tax-deductible, so reducing pension contributions would increase employers' taxable income. The Joint Committee on Taxation estimates that the pension provisions would generate $9.25 billion in additional tax revenue through 2018.

"Anything that raises money has a decent shot" in winning congressional approval, said Geoff Manville, a principal with Mercer L.L.C. in Washington.

See **PENSIONS** page 43

CATASTROPHES

AP PHOTO

Cars were overturned in Lancaster, Texas, on April 4 after a tornado outbreak in the Dallas-Fort Worth area. The storms caused an estimated $500 million in insured damage.

Texas tornadoes cause up to $500M in losses

DALLAS—Tornadoes that tore through the Dallas-Fort Worth area of Texas early this month caused as much as $500 million in insured damage, according to the Southwestern Insurance Information Service.

The 17 twisters caused "extensive, though localized" damage in seven counties and hit the Dallas suburbs of Arlington and Lancaster the hardest, according to Boston-based AIR Worldwide Corp.

The early April tornado outbreak packed heavy rain, high winds that "tossed empty big rigs nearly 100 feet into the air" and hail as large as baseballs, according to AIR.

In a preliminary estimate, the Austin, Texas-based SIIS put insured losses at $300 million to $500 million.

"We're seeing a couple businesses that are losing $10,000 to $15,000 a per day that they're out of business," said Sandra Helin, president of the SIIS. "That's their entire income."

There have been 411 tornadoes nationwide so far this year, according to a preliminary National Weather Service estimate. That compares with 758 tornadoes just in April of last year, the most active tornado month on record. For all of 2011, there were 1,691 tornadoes, second only to 2004's 1,817 tornadoes, according to the NWS.

CYBER RISKS

Cyber insurance not always enough

By JOANNE WOJCIK

While insurance is widely available to respond to most cyber risks, including data breaches, most cyber policies do not provide sufficient coverage to restore a business' damaged reputation or devalued intellectual property, or to pay for security upgrades after an attack.

Most cyber risk policies also don't cover the cost of a comprehensive written information security program that usually accompanies a fine or penalty, nor the periodic audits that the enforcing regulatory body likely will require for several years after a data breach.

But there are some effective risk management techniques that businesses can implement to reduce the chance that a data breach affecting those intangible and uninsurable assets will occur, experts say.

> **$214**
>
> The average cost of a data breach is $214 per record

According to Traverse City, Mich.-based privacy and information management research firm Ponemon Institute L.L.C., the average cost of a data breach is $214 per record, including notification, credit monitoring, defense, forensics, call center services to handle inquiries from affected customers and the cost of engaging a crisis public relations firm.

However, "almost half of those costs are not transferrable to an insurance policy, and that's the reputational damage" that might cause a company's stock price to plummet or for it to lose customers, said Zach Scheublein, senior account executive at Frank Crystal & Co. Inc.

"Cyber liability policies were intended to focus on personally identifiable nonpublic information that would lead to an investigation," said Emily Freeman, London-based executive director of the technology and global privacy practice at Lockton Cos. L.L.C. "But you

See **CYBER** page 40

Solution Arcs help tackle problems

Managing obesity-related complications that drive up the costs of workers compensation claims. Getting an enterprise risk management program off the ground. Providing health care benefits in a changing and uncertain landscape. These are among the most pressing challenges organizations face today, and overcoming them could be the difference between failure and success.

In an effort to help risk and benefits managers tackle these and other critical challenges, *Business Insurance* has developed special features called Solution Arcs on *www.BusinessInsurance.com.*

Such features take an in-depth look at a business problem, guiding readers through a three-stage process: identifying and analyzing the various dimensions of the problem, evaluating and implementing solutions, and monitoring the efficacy of those solutions.

Solution Arcs include original *Business Insurance* content as well as "Editor's Picks" that highlight relevant outside views, research and resources.

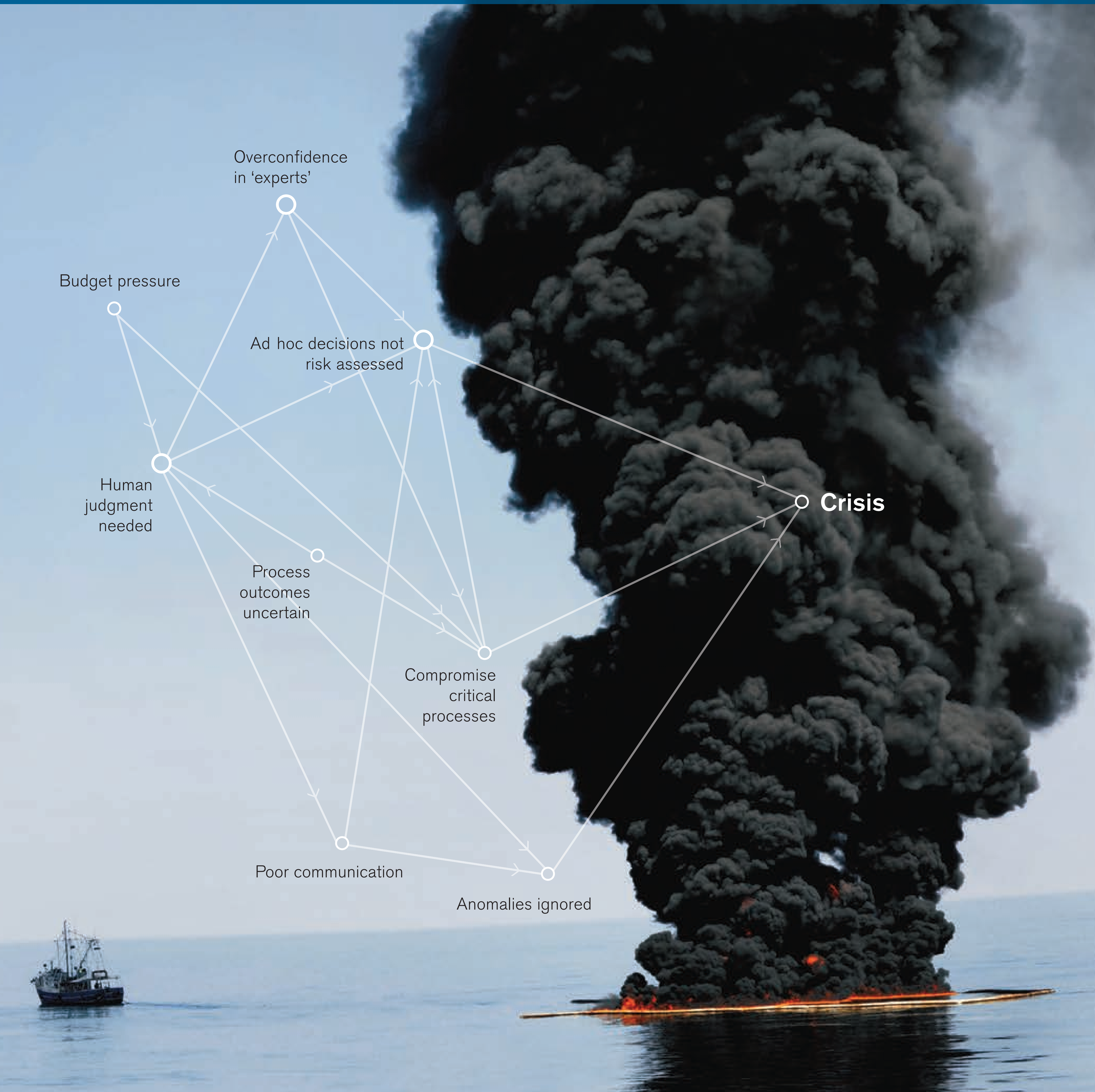
Content is continually added to the Solution Arcs as new dimensions and solutions emerge, and readers can keep up with all the latest by signing up for email updates.

The Solution Arcs reside on the various coverage channels of *www.Business-Insurance.com.* Current features, including the channel on which they appear, are:

IDENTIFYING AND MEASURING ENTERPRISE RISKS: TAKING THE FIRST STEPS TOWARD ERM

How successful enterprise risk management programs overcome the initial challenge of identifying

See **SOLUTION** page 42


Overconfidence in 'experts'
Budget pressure
Ad hoc decisions not risk assessed
Human judgment needed
Crisis
Process outcomes uncertain
Compromise critical processes
Poor communication
Anomalies ignored

Mid-Market EXECUTIVE Helping C-level executives at midsize firms overcome critical risk and benefits challenges

Volunteer firefighters difficult to cover

Communities struggle to pay comp premiums for high-risk positions

By SHEENA HARRISON

70%

Volunteers comprise 70% of all firefighters nationwide and work mainly in smaller communities.

Communities that use volunteer fire departments have been taking a look at how best to pay for workers compensation insurance covering their emergency responders.

As cash-strapped units of governments strive to balance their budgets, some are finding it difficult to pay for workers comp premiums, said Mona Carter, national policy director at Boca Raton, Fla.-based NCCI Holdings Inc.

Meanwhile, insurers are working to balance premium calculations for a labor force that earns either no income or only modest stipends, but often faces high safety risks.

"This whole discussion has been about fairness and doing the right thing from a public policy perspective, and making certain that the public is aware of the value of the firefighters so that they don't get caught…without coverage," Ms. Carter said.

Volunteers comprise 70% of all firefighters nationwide and work mainly in smaller communities, according to the Greenbelt, Md.-based National Volunteer Fire Council.

Volunteers face safety risks that are different than career firefighters, according to the Quincy, Mass.-based National Fire Protection Assn. A study it released in January showed that 57.9% of injured volunteer firefighters were hurt while at the scene of a fire during the three-year period that ended with 2010. That compares with 45.5% of all firefighters injured during that time.

The study noted, however, that volunteers were less likely to be injured at nonfire emergencies compared with all firefighters since many volunteer fire departments do not provide emergency medical services that would increase their risk.

A separate NFPA study showed that 59% of volunteer firefighter deaths while on duty in 2010 were related to exertion or stress, compared with 52% for career firefighters.

John Hall, division director of fire analysis and research for the NFPA, said the data doesn't explain why volunteer injury statistics differ from career firefighters. However, he said volunteer fire departments are less likely to have up-to-date equipment that can protect them during fire emergencies.

Considering those risks, workers comp is a critical protection for those who volunteer for their local fire departments, said Dave Finger, director of government relations for the National Volunteer Fire Council.

"If you get hurt or, God forbid, killed, you need to have that protection there so you don't become financially destitute," said Mr. Finger, who noted that most communities provide some form of workers comp coverage for volunteer firefighters.

Calculating premiums can be tricky, said Ms. Carter. NCCI's rating experience shows that volunteer firefighters tend to pose greater risk than career firefighters.

"The losses are greater, but the biggest thing is the premium is less" to insure volunteers than career firefighters, she said. "So it doesn't balance itself out very well."

NCCI has advised states and insurers since 1942 to use a minimum payroll of at least $300 per year when calculating a workers comp premium for volunteer firefighters. However, annual payroll calculations range from $100 per volunteer firefighter in Kansas to $2,000 per volunteer in Alaska, according to a January NCCI report.

> **'The losses are greater, but the biggest thing is the premium is less' to insure volunteers than career firefighters. 'So it doesn't balance itself out very well.'**
>
> Mona Carter, NCCI Holdings Inc.

Missouri Employers Mutual Insurance Co. uses a payroll calculation of $40 per week or $2,080 a year for volunteer firefighters it covers in the state, said Joyce Underwood, vp of policyholder services for the Columbia, Mo.-based workers comp insurer.

The payroll calculation is based on the minimum amount of indemnity benefits that volunteer firefighters receive when injured, Ms. Underwood said. NCCI said MEM began using that rate in 2003 to collect adequate premiums to cover losses for volunteer firefighters.

While the higher calculation has helped MEM cover volunteers, low pricing for such insurance makes it difficult for some companies to enter the market, Ms. Underwood said.

"It is one of those things that I think everyone wishes they could do as much as they can for them, but you do have to balance the exposure and the claim activity with premium and other policyholders," Ms. Underwood said. "It's a difficult thing when you don't have a payroll changing hands, but you do have potential for catastrophic losses."

Also complicating matters is that communities sometimes have difficulty paying the premiums, Ms. Carter said.

In its January report, NCCI noted that West Virginia set up a $5 million workers comp insurance subsidy program in 2011 to aid volunteer fire departments with increasing premiums.

Still, one volunteer fire department nearly shut down last year because it could not afford its workers comp premiums. A $33,000 loan from a Virginia resident paid for the workers comp coverage and kept the department open while details of the insurance subsidy program were being established, NCCI said.

Elsewhere, several states recently have taken up legislation to help communities provide workers comp for volunteers while calculating sufficient premiums for such coverage, NCCI said.

For instance, Montana passed a bill last year allowing levies for volunteer firefighter disability insurance to also be used for workers comp coverage, according to NCCI.

In Alabama, a bill introduced last year in the state Senate would have allowed volunteer fire departments to form workers comp pools for their firefighters, but the legislation stalled in a Senate committee.

Risk management is important for communities looking to save on workers comp costs for their volunteer firefighters, said a spokeswoman with the New York-based Insurance Information Institute.

Insurers are "going to look at the…loss prevention techniques, the physical makeup of the building where the firefighters are housed, what kind of other training they might get," she said. "So it's a whole package of things that they'll look at to assess the total risk."

As communities work to improve their workers comp coverage for volunteer firefighters, more lawmakers may consider the issue soon. The National Council of Insurance Legislators plans to draft model legislation this year that states could use to revise their volunteer comp programs, said a spokeswoman for the Troy, N.Y.-based organization, who declined to disclose specifics.

NCCI's Ms. Carter said she expects the issue will get more attention as communities continue to face fiscal challenges.

"It's just a matter of helping states walk through the landscape of how they might better provide for those provisions," Ms. Carter said.

Firefighters aging as fewer volunteer

There were about 768,000 volunteer firefighters nationwide in 2010, according to the National Fire Protection Assn., a Quincy, Mass.-based organization that studies fire prevention and safety.

About 68% of all U.S. fire departments were made up entirely of volunteers in 2010, most of which were located in smaller, rural communities, according to the NFPA.

While volunteers play a significant role in less populated areas, the number of volunteer firefighters is declining over time, according to the Greenbelt, Md.-based National Volunteer Fire Council.

The number of volunteer firefighters has decreased 14% since 1984, mainly driven by increased training and scheduling requirements for volunteer departments, NVFC said in a recent report.

Decreased recruitment of younger volunteers has contributed to an aging volunteer firefighter force, according to NVFC. Among communities with 10,000 to 24,999 residents, 43.7% of firefighters were age 40 and older in 2010, up from 33.2% in 1987.

—By Sheena Harrison

Opinions

EDITORIAL

Risk managers bridge the gap

RISK MANAGEMENT, almost by definition, requires a group effort. Risk managers and their staff have little chance of adequately addressing the myriad risks their organizations face without the support and cooperation of operational managers.

They may be able to act independently to put insurance in place to provide financial support when things go wrong, but risk managers have to corral the efforts of a much larger team to prevent things from going wrong in the first place.

Too often, though, risk management, like other centralized or corporate departments, is kept far from the main action at their organizations. Bridging that gap between corporate and line management can be the first crucial step in developing an enterprisewide approach to risk management.

In this issue of *Business Insurance*, we profile four individual risk managers from very different organizations who each, in their own way, pulled off this feat.

John J. Marren, the 2012 Risk Manager of the Year®, came into an organization that already saw the value of risk management, but it was through his efforts that CSL Ltd. and its operating units moved from a fragmented program to a coordinated risk management program built around the daily efforts of operational managers.

Our 2012 Risk Management Honor Roll® members also have successfully taken risk management into the field.

Grace Crickette of the University of California has established an enterprise risk management program that is designed to enable students, faculty members and others to take on potentially risky assignments rather than simply avoid them.

Among other things, Julie DeSantis of Sony Corp. of America regularly takes on the task of ensuring that the exotic risks inherent in the videos that recording artists produce are adequately covered. For an entertainment company, curbing the creativity of its performers is seldom an option, so risk management must provide solutions rather than just raise red flags.

And John Pearce of Fonterra Co-operative Group Ltd. has embedded risk management in his organization to the extent that the reach of his department is felt not only by Fonterra operating units but also by suppliers as he vets their continuity plans as a condition of doing business with Fonterra.

In conjunction with the Risk & Insurance Management Society Inc., *Business Insurance* congratulates all of the 2012 honorees.

LETTERS

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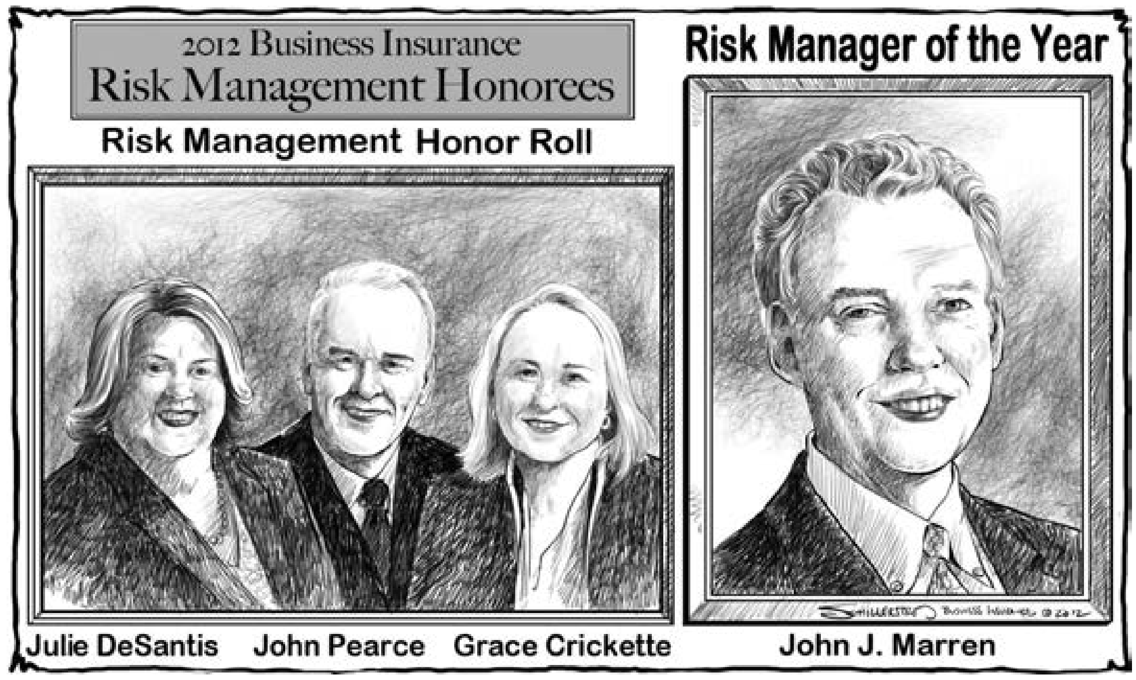

COMMENTARY

Will infighting spur more litigation?

Just before the Supreme Court began oral arguments on the health care reform law last month, I thought back to the last time I covered an oral argument before the high court.

It was in February 1990. The issue before the Supreme Court was whether the Pension Benefit Guaranty Corp. had the right to return to a company a pension plan the agency previously had taken over.

The case involved several massively underfunded pension plans sponsored by LTV Corp., a financially distressed steel producer. In 1987, the PBGC took over three LTV plans and their $2 billion in unfunded liabilities after the company said it no longer could afford to make contributions.

JERRY **GEISEL**
EDITOR-AT-LARGE

A few months later, LTV and the United Steelworkers union reached an agreement on a new low-cost pension program that would guarantee to pay most of the difference between benefits promised by LTV and those guaranteed by the PBGC.

Soon thereafter, the PBGC returned the terminated plans to LTV, contending that the new LTV plans were an illegal continuation of the old plans with benefits now largely paid by the PBGC. In returning the plans to LTV, the PBGC said it would not pay benefits to plan participants. LTV immediately filed suit to stop the PBGC's action.

A multiyear court battle followed, with the case ultimately going to the Supreme Court. Twenty-two years have passed, but I still can vividly recall what then-Chief Justice William Rehnquist said as LTV's attorney began his arguments.

Justice Rehnquist cut off the attorney and suggested that LTV's action's were an attempt to "fob-off" the pension plan liabilities onto the PBGC. In a few words, Justice Rehnquist got to the heart of the issue and made a comment that indicated how he would later rule. A few months later, the Supreme Court, in an 8-1 ruling, sided with the PBGC.

But in the roughly six hours of oral arguments on the health care reform law, I didn't hear any one-liners that definitively indicated how any justice will rule on two key issues before the court: Is the law's individual mandate unconstitutional? And, if it is, is the mandate so intertwined with the broader law that the entire law would fall if the court rules the mandate is unconstitutional?

The justices asked many tough questions, but I don't have any more of a clue to what their ruling on those issues will be than I did before the arguments.

The question I kept asking myself was why the law was before the Supreme Court. How was it the law was drafted in such a way that critical provisions were vulnerable to legal attack?

The answer to that question is clear and it speaks to the breakdown of our political system. The legislation did not go through what was once the traditional extended review process. For the most part, committee consideration was hasty, and there wasn't even a joint conference committee to resolve differences between House- and Senate-passed bills and pass a carefully reviewed and crafted final bill.

Both parties share in the blame. Unless the two parties can once again try to work together, more of our laws—the few that are passed—will end up being challenged in court.

Contact: *jgeisel@businessinsurance.com*

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MICHAEL MARCOTTE

Putting together a risk framework

Risk management instilled in all of CSL's operations

By **RODD ZOLKOS**

At CSL Behring L.L.C. and its parent, CSL Ltd., the process of addressing risk begins with risk management. Insurance is clearly secondary.

As director, global risk and insurance management at CSL Behring L.L.C. in King of Prussia, Pa., and its Parkville, Australia-based parent, CSL Ltd., John J. Marren feels fortunate to be part of an organization that values risk management. As he sees it, his role is to make the company's risk management process better.

"There's support for the deployment of risk management at all levels of CSL, which is refreshing for someone like me," said Mr. Marren. "I know that in a lot of companies, it's a struggle to get the support for the things that you think are important to do from a risk management perspective."

"I was kind of fortunate to walk into a situation where it was already valued and got the opportunity to make it better," he said.

Capitalizing on that opportunity through numerous initiatives that have, in fact, made CSL's risk management process better has led to Mr. Marren's selection as *Business Insurance*'s 2012 Risk Manager of the Year®.

Among Mr. Marren's achievements is the development of a companywide operational risk framework that establishes a common language of risk across the organization. He's also led an effort to map the value stream of company operations, enabling the plasma-derived therapies and vaccines manufacturer to quantify the impact of disruptions at various sites. He's globalized the company's insurance program, and has instituted an annual risk management conference for company leaders to help continue driving the alignment of the risk management approach companywide.

"He inherited a difficult program because it was very fragmented," said Gregory A. Boss, group general counsel at CSL Group, to whom Mr. Marren reports. "He was charged with bringing it all together, and he's done a good job of making sense out of a program that was…fragmented and there wasn't a lot of communication or alignment of strategies."

"He's essentially been working on all this for years and it's timely because he's brought most of it together this year or last year," Mr. Boss said. "Now we're looking at what the future is going to bring based on what we think is a pretty good, aligned

See **MARREN** next page

CSL LTD.

BUSINESS: Manufacturer of human plasma-derived protein therapies and vaccines

FOUNDED: 1916

HEADQUARTERS: Parkville, Australia

2011 FINANCIALS: $941 million Australian ($970.1 million) in net income on revenue of $4.2 billion Australian ($4.33 billion) (fiscal year ending June 30, 2011)

EMPLOYEES: More than 10,000

DID YOU KNOW: Commonwealth Serum Laboratories was established in Australia in 1916 to meet the health needs of a country isolated by war. It was privatized in 1991 and began trading publicly in 1994.

Marren: Building a framework for risk

CONTINUED FROM PREVIOUS PAGE

strategy now."

"I've been in pharmaceuticals for 31 years," said Paul R. Perreault, president of CSL Behring. "I've seen companies really struggle because they weren't managing risk appropriately."

The process is really one of consistency, Mr. Perreault said. "If you don't have a holistic approach, you can miss something quite easily," he said. "It's all about managing it, not overmanaging it."

"Without a doubt, from the board on down—all the senior management—they embrace risk management," said Jack Bodden, Philadelphia-based managing director, global risk management at Marsh Inc., said of CSL and its approach to risk management.

"To the extent that insurance is involved, that's only affected after they've made decisions about what their risk appetite is, what their risk tolerance is, what they can afford to lose, what they don't want to lose," he said.

"I kind of wear three hats, actually," Mr. Marren said describing the position that he's held at CSL since he joined in 2007.

The responsibilities include corporate insurance—"everything other than employee benefits"—as well as structuring CSL's insurance programs and taking them to market.

"Obviously ancillary to that is being involved with the risk engineering, making sure that gets done where we need it to, and that information gets put into the hands of our insurers," he said.

"The other part of my job, and probably the biggest part of my job, is having responsibility for the risk management process, as we refer to it here," Mr. Marren said.

That process is decentralized at CSL, with operational leaders taking responsibility for managing risks and Mr. Marren coordinating and guiding those activities.

Doing so means working closely with various company operations.

"When we go through our risk management program, insurance is not considered as a control for managing risk," Mr. Marren said. "All the considerations in our risk management process for risks and their management are based on operational-type controls."

"John actually worked with me and the team in setting up our initial risk process," said Ted H. Kanigowski III, senior director of finance, commercial operations at CSL Behring, who serves as global risk coordinator for the company's commercial operations. "He's a really good sounding board and kind of helped us with keeping us on the straight and narrow and helping keep it fresh."

Margarete M. Emery, analyst, insurance and risk management at CSL Behring, calls Mr. Marren "probably the best boss I've ever had," and said she sees her role in the two-person insurance and risk management department as not only supporting Mr. Marren but helping to enhance the role of risk management in the company whenever possible.

"Generally, I think that falls on very receptive ears and I think part of that is the groundwork he set," Ms. Emery said.

Looking at CSL's role as a global leader in the manufacture of human plasma-derived protein therapies and vaccines, Mr. Marren said it's important as the company's risk manager to understand just what it is CSL does.

"I think our business is unique; and I don't think it's unique insofar as it presents a difficult risk to the insurance business or we have risks that are difficult to manage," he said. "But what we generally do for a living I think is unique in and of itself, such that for the risk manager it requires a fairly good understanding of what it is we do, how we do it."

"I've invested a fair amount of time—particularly early on—trying to understand what it is we do for a living," Mr. Marren said. "I try to understand how our business works so I can help them better identify and manage any risks or exposures to that business and try to sort out what tools I can bring that help them feel more comfortable from a risk perspective about the business that they run."

Supply chain mapping yields vital risk management tool

By RODD ZOLKOS

As CSL Ltd. grew through acquisitions, one of the inevitable consequences was redundant capabilities at various facilities.

To increase efficiencies, the company's CSL Behring L.L.C. operation adopted a "centers of excellence" model following CSL's 2004 acquisition of Aventis Behring, focusing production of certain classes of products at individual facilities.

While the moves achieved efficiency, eliminating that redundancy introduced disruption-related risks.

In response, John J. Marren, director, global risk and insurance management at CSL Behring in King of Prussia, Pa., and its Parkville, Australia-based parent, CSL Ltd., sought a way to quantify the exposures and manage the risk.

"One of the things that goes along with having this centers of excellence model for CSL Behring—where you've got different locations that are the key locations for making certain classes of products—is that while you're managing an efficient business in structuring it that way, there's clearly risk exposure in not having duplicative production capability in other facilities for some of the products," Mr. Marren said.

"Now, that's not done without knowledge and transparency that that's a natural consequence of employing a model like that," he said. "But you want to do it prudently. You want to do it understanding going in what those risks may be; and in that understanding, you can better manage that exposure, but at the same time you need to know what that exposure is."

Under the centers of excellence model, each of the three CSL Behring manufacturing facilities in Kankakee, Ill., Bern, Switzerland, and Marburg, Germany, focused on a particular category of product.

"Marburg is our center of excellence for what we call coagulant products, Bern is our center of excellence for immunoglobulin products, and Kankakee is our center of excellence for respiratory products," Mr. Marren said.

While each plant has its specialty, all three have the capability of doing basic fractionation of plasma, though each plant has its limits. "We need to process several million liters of plasma a year, but no one plant can do it all. So we split it up among the three; and through that, there's a link," the risk manager said. "That step of the process serves all three facilities."

"Along with that, clearly there's a value chain where those facilities are linked," he said. But "it proved difficult to identify what that value chain represented in dollars to the company."

> 'We need to process several million liters of plasma a year, but no one plant can do it all. So we split it up among the three; and through that, there's a link. That step of the process serves all three facilities.'
>
> John J. Marren, CSL Ltd.

The vital question was, if there was an interruption at one site, what would that mean to the group and to the other sites?

"Depending on what the nature of that could be and where it would happen, it could mean anything from a dollar perspective, from a duration perspective in impact to the company. So we set out to try to figure out what is our true condition, what is our true exposure and quantify that," Mr. Marren said.

The only way to achieve the desired quantification, according to Mr. Marren, was to have a comprehensive understanding of the supply chain, something that was lacking at the time.

In 2009, however, the company was moving toward adopting a globalized supply chain function. "So we then set forth to map our supply chain," Mr. Marren said. "Simultaneous with that, we launched a project to build what we call a value stream model."

In building that model, the primary focus was on quantifying business interruption exposures, identifying strategic points in the value chain from supplier to customer, and quantifying those and the contribution each step makes to CSL's bottom line.

The multiyear project involved contributions from across CSL's operations, considering risks at each plant and the upstream and downstream implications of any disruptions. With the help of forensic accountants, the supply chain was mapped in a way that examined the movement of all products from raw materials through manufacturing to finished product, capturing the economic impact added at each stage.

Completed in 2009, the resulting value stream map is a powerful tool that identifies potential supply chain weaknesses, areas requiring risk mitigation or investment, and the extent of exposures.

"We now have a model that we can run scenarios or conditions through that will help us identify what the result might be financially, who might be impacted, and can ultimately be used for potentially helping us in contingency planning, business continuity planning because we now have a picture of what the supply chain looks like from not only a supply perspective but also a financial perspective and an impact perspective," Mr. Marren said.

Now, five different value stream maps represent the supply chains of CSL Behring U.S., CSL Behring Europe, the company's plasma collection business, the plasma portion of the business of CSL Biotherapies in Australia and the nonplasma operations of CSL Biotherapies in Australia.

"It's all based on what products we're making at the end of the day, how much of them we're selling, where we're selling them and what are the different impact points where things could happen that could interrupt the supply chain," Mr. Marren said.

The maps allow the company to model various scenarios that help determine the best ways to address vulnerabilities through such methods as contingency planning, identifying new suppliers or building new facilities.

"It is a way to understand where the true areas are that we need to concentrate on. Where are the risks that need to be mitigated?" said Ted H. Kanigowski III, senior director of finance, commercial operations at CSL Behring and global risk coordinator for commercial operations at the company.

The value stream maps also help CSL buy insurance.

"If we ever were to have a loss…if we ever had to validate a business interruption claim, this tool would go a long way in helping us do that," Mr. Marren said.

"It really put CSL in a position of control (with underwriters). Knowledge is power here," said Jack Bodden, managing director, global risk management at Marsh Inc. in Philadelphia. "I know it's reflected in their insurance program today."

The company completed an update of the original value stream map with current forecasts, volumes, financial data and more this year.

"That whole exercise was a great project," Mr. Bodden said. "We learned the ins and outs of the company." The process also served to create "a road map for future acquisitions or new product lines," he said.

"Clearly it paints a picture of who we are and what we do, but it also shows where we do it and to what length, to what degree, and what's the value of every step," Mr. Marren said.

MICHAEL MARCOTTE

John J. Marren, right, has made sense of a risk management program that previously was fragmented with little communication, said Gregory A. Boss, left, group general counsel at CSL Group.

CSL develops from need to secure vaccine production during World War I

The company that would become CSL Ltd. had its origins during World War I, when Australian officials realized the war effectively cut the country off from its traditional supplies of vaccines and other bacteriological products.

In response, the Commonwealth Serum Laboratories was founded in 1916 to meet the health care needs of the Australian population and located in Melbourne. In 1918, the company's headquarters was moved to its current site in Parkville, a suburb of Melbourne.

CSL's first major challenge came in 1919 when the Spanish flu epidemic reached Australia. With the company temporarily tripling the size of its staff, CSL produced 3 million doses of a mixed bacterial vaccine in an effort to fight the epidemic.

CSL continued to operate as a nationally owned business until it was privatized and incorporated as CSL Ltd. in 1991. In 1994, the company went public and was listed on the Australian Stock Exchange.

The company began growing in earnest in 2000 with the acquisition of Zentrallaboratorium Blutspendedienst, the plasma fractionation business of a nonprofit affiliate of the Swiss Red Cross and the world's fifth-largest manufacturer of plasma products. ZLB Plasma Services began operations in September 2001 after CSL acquired 47 U.S.-based plasma collection centers and related laboratory facilities.

In 2004, CSL became a truly global business with the acquisition of Aventis Behring, combining it with ZLB Bioplasma to create ZLB Behring, now known as CSL Behring L.L.C., a global leader in plasma therapeutics.

Today, CSL has major facilities in Australia, the United States, Germany and Switzerland. With more than 10,000 employees working in 27 countries, it is a leading manufacturer in the plasma products and vaccine industries.

—By Rodd Zolkos

Spreading the gospel of risk management

Outreach programs help communication with business units

By RODD ZOLKOS

With a decentralized approach to risk management responsibility and global operations at CSL Behring L.L.C. and its parent, CSL Ltd., finding ways to communicate and share information are essential elements of the biotherapy manufacturing firm's risk management program.

Among the approaches John J. Marren, director, global risk and insurance management at CSL Behring L.L.C. in King of Prussia, Pa., and its Parkville, Australia-based parent has used to achieve that necessary level of communication are a regular company risk management conference, an effective risk-reporting software tool and considerable travel.

"We do try to take advantage of both things that have gone wrong as well as things that have gone well at individual sites and try to get those communicated across the group," said Gregory A. Boss, group general counsel of CSL Group in King of Prussia, Pa., to whom Mr. Marren reports.

"One way to communicate them is through the risk management meetings and conferences that we have and other reporting processes," Mr. Boss said. "Certainly at the operational level, they have operations meetings that focus on efficiencies that can be applied across the group, and they do touch on risk."

Upon joining CSL in 2007, Mr. Marren sought and obtained approval for the company's first global risk management conference.

Among those participating in the gatherings are the global general counsel, the chief financial officer, the chief sourcing officer and other senior leaders of the company who gather to discuss CSL's risk management goals and objectives.

"It's very high-level people—a few board members, executive vice presidents and some of the managers of the various operating sites," said Margarete M. Emery, analyst, insurance and risk management at CSL Behring.

The conference, said Mr. Marren, "continues to evolve. Since December 2007, when we had our first meeting, we've had two subsequent meetings and we're now planning a fourth for this May."

As with those preceding it, the next two-day meeting will bring together CSL executives from around the world "and continue to advance the (risk management) process across the company," Mr. Marren said.

"The attendance is just under 30 people, so it's a very concentrated group," Ms. Emery said. "That's a good opportunity to present new ideas and talk about what's coming up on the horizon."

The process of communicating risk management goals and objectives—and of gathering input from CSL's various worldwide sites—also involves a fair amount of travel.

"Really, the core of the business is being run from our manufacturing sites," said Mr. Boss. "John and I travel a lot to make sure we get to those sites because, in his position, he has to be known at the sites."

Given the extent of CSL's operations, the decentralized risk management approach is widely embraced, as are the structures that have been put in place to share risk management information.

"For me, for it to be anything else than decentralized, with the breadth that we have, would be difficult to manage," said Ted H. Kanigowski III, senior director of finance, commercial operations at CSL Behring in King of Prussia. "Through the quarterly updates, we can bring forward anything that we want to discuss."

Trying to dictate risk management from the headquarters to the operating sites is an approach that has been tried and proved ineffective at CSL, Mr. Boss said.

"Before John came on board and even before I came here, there was a structure that had a team—a risk management team—that was physically located here, and they would go out to every site and do sort of an audit on their own," said Mr. Boss.

"We just didn't think that was as efficient because you have people in the corporate office who would try to identify risks and establish treatment plans, and they only got to the sites once a year, and they had no real hands-on approach. So we abandoned that quickly," he said.

The alternative was the existing localized approach to risk management, with the headquarters office serving to coordinate risk

See **MESSAGE** next page

Message: Spreading the risk management gospel

CONTINUED FROM PREVIOUS PAGE

management activities across the various sites.

"It's very much a collaborative process. I just sort of shepherd it, really," said Mr. Marren.

"Clearly, I've got ideas, but the process is very much sort of a consensus process so that everybody's part of its development, everybody's part of making sure that it's effective, and making sure that the outcomes and the outputs are relevant," he said.

In addition, a new risk management software system that CSL will implement this year should further enhance its ability to collaborate across the organization on risk management and share information, Mr. Marren said.

"Is it perfect? No. Will it ever be? I don't know. Should it be? Probably not," the risk manager said of the company's risk management approach.

"But I think we're doing a pretty good job at keeping it current, keeping it valid for us; and I'm hoping that, with this software that we're bringing on board soon, sometime this year, it's going to give us opportunities to do even more with the process," Mr. Marren said.

The software, he said, will provide new opportunities to share information across the group, along with a more consistent approach to managing risk.

If "you get an exposure in more than one place that's similar, it gives us the opportunity to see that and maybe try to manage it from a broader perspective," Mr. Marren said.

"You can also see where there might be other areas of the business that may be influenced. There may be other risks that are influenced that aren't related—at least not obviously related, but (it) may very well be—so that you can see where there may be interaction between risks," he said.

In addition, Mr. Marren said the software "will give us a better way to communicate risk information, give some people in the company, I think, a better way to view our risk profile more readily than they are able to today."

Ultimately, Mr. Marren said, "I think it's going to be quite an improvement in how we are able to spread the gospel of risk around CSL."

Checkup aids global compliance

Broker, insurer play key roles

With increased global pressures on companies' local tax and insurance compliance, John J. Marren recognized the potential exposure created in its global insurance program and the need to manage it.

"We put forth a pretty significant effort about three or four years ago to make sure that we're compliant taxwise, particularly in Europe," said the director, global risk and insurance management at CSL Behring L.L.C. in King of Prussia, Pa., and its Parkville, Australia-based parent, CSL Ltd. "Marsh has a name for it. It's called the global checkup."

The focus was on determining the obligations and formalizing consistent processes for how the company allocates premiums, pays premium taxes and purchases local coverage in addition to its global master program. The goal is to determine how CSL makes "sure that all of those tax obligations are satisfied, who's going to make sure it happens, that sort of thing," Mr. Marren said.

The process had its genesis when CSL couldn't document that it had paid necessary taxes. "We had had some issues where, in fact, we were audited and couldn't really provide all the documentation to support the fact that we did pay our taxes," Mr. Marren said. "It was part of the fact that the placements had been different every year for a number of years, and keeping track of who was going to take charge of that responsibility was very difficult until we got to this program."

Mr. Marren also credited Allianz S.E.'s global corporate and specialty group, which fronts CSL's global property program, with assisting in the compliance effort. "We've been very happy with Allianz…being the front," Mr. Marren said. "They're extremely adept at managing and monitoring our compliance with tax obligations in every country where we operate, where we issue paper…how much the tax is, getting it paid, within the fronted program."

CSL has to keep track of its own obligations on excess layers, "but it's only a couple of companies," Mr. Marren said. "For the most part, we don't have exposure at that level in a lot of the countries anyway."

—By Rodd Zolkos

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Congratulations to our client, **Grace Crickette**, Chief Risk Officer, University of California, for being named to the Risk Management Honor Roll. We also applaud the Risk Manager of the Year and all Risk Management Honor Roll award winners for their dedication to the advancement of risk strategies.

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Global insurance program covers CSL's diverse risks

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By RODD ZOLKOS

While the risk management approach at CSL Behring L.L.C. and CSL Ltd. involves managing exposures as though the company had no insurance, CSL does in fact have an extensive insurance program.

Marsh Inc. is CSL's broker across its entire program, said John J. Marren, director, global risk and insurance management at CSL Behring L.L.C. in King of Prussia, Pa., and its Parkville, Australia-based parent, CSL Ltd.

"Originally, our relationship started with them in Australia," Mr. Marren said. "Because CSL Behring was here, Marsh adopted the Philadelphia office as the servicing arm for the Behring business."

Now the Philadelphia Marsh office is the lead office for CSL's business, with some global placements still handled through Marsh's Melbourne, Australia, office, including global directors and officers liability and global marine.

"When I go to Melbourne, I end up spending a fair amount of time with them," Mr. Marren said. In addition, Marsh's Adelaide, Australia, office handles CSL's expatriate medical programs.

"When I started here, we still had a separate property program for Australia and then for the rest of the world. We globalized that program that year, in 2007," Mr. Marren said. "That program is led by Allianz (S.E.). They front the program and they participate to a significant degree in it."

The global master property program is a layered program, Mr. Marren said, with a deductible, then typically a primary layer with two excess layers above. "We're not particularly cat-exposed, so it's really not a driver of our program structure or pricing," Mr. Marren said.

"We do issue local policies in quite a number of countries. Larger limits in our main countries—Germany, Switzerland, Australia, the United States—all again fronted by Allianz, then smaller limits in some other countries," Mr. Marren said. "Essentially, where we've got manufacturing, we've got large local policies." There are 19 local property policies, the risk manager said.

On the liability side, Chubb Corp. is at the front of CSL's product liability program. "They're there for a strategic reason, really," Mr. Marren said. "Chubb has a very good clinical trials insurance management tool globally."

"Before we brought Chubb into the fold, clinical trials around the world were sort of done on an ad hoc basis with particular insurers that were capable and ones that we'd had traditional relationships with, but every single trial had to be bid," Mr. Marren said. "As you could imagine, it was a cumbersome task."

Under the current program, Chubb provides a primary layer of insurance that covers clinical trials and product liability. "But their limit is nominal," Mr. Marren said. "And it's mostly to access their service side and placement side for clinical trials."

"The excess tower over them isn't a follow-form tower," he said. "So really when we talk about the primary layer for underwriting our products risk, that is done by Alterra (Capital Holdings Ltd.) out of Dublin."

There are several excess layers above the primary, with most of the insurers involved having been part of the program since CSL globalized its products liability coverage in 2006. Other insurers involved in those excess layers include XL Group P.L.C. in Dublin, Chartis Inc. out of London, Allied World Assurance Co. out of Dublin, Aspen Insurance Holdings Ltd. out of Dublin and London, ACE Ltd. out of London, QBE Insurance Group Ltd. out of London, and Endurance Specialty Holdings Ltd. in Pembroke, Bermuda.

Elsewhere on the casualty side, "we've got your traditional primary casualty-type structure," Mr. Marren said. Chartis provides CSL's primary general liability globally, as well as U.S. auto liability. Travelers Cos. Inc. is the workers compensation insurer, and First Specialty Insurance Corp. provides CSL's umbrella liability coverage.

The company's plasma collection process creates a "quasi-professional" liability exposure, Mr. Marren said. "We've got people that are sticking needles into donors," he said. "We opted a number of years ago to self-insure that exposure, and we generally don't have issues with it."

Claims that do occur from the phlebotomist exposure "tend to be more like a trip-and-fall (general liability) claim," Mr. Marren said. "They tend to not be for a lot of money."

Still, the company carries some excess coverage above its retention for the phlebotomist exposure in case CSL faces a catastrophic event. But, "the primary coverage for that was quite expensive, which was kind of driving the question of whether to buy it or not," Mr. Marren said, and the company made a strategic and economic decision about six years ago to retain the risk.

"One of our more active polices…is our business travel accident policy," Mr. Marren said.

MICHAEL MARCOTTE

Margarete M. Emery, left, analyst, insurance and risk management at CSL Behring, said her role in the two-person department is to support boss John L. Marren, right, and enhance risk management companywide.

"We do have quite a number of people who travel regularly on business all over the world. People tend to lose things; things get damaged, broken; people get sick while traveling."

The risk manager said that coverage proved particularly useful last year when CSL employees were in Christchurch, New Zealand, for a conference during a catastrophic earthquake.

"Their bags were all left in the hotel and they could not access the hotel after the quake. In fact, their bags were in that hotel for probably the better part of a year," Mr. Marren said. Many had their travel documents at the hotel as well.

The travel insurance company picked up on the ball "for delayed baggage, lost baggage, lost credentials, things like that," Mr. Marren said. In addition, "we had just entered into a relationship with International SOS…for travel-related services" to get the employees home, he said.

"It's a very valuable piece of our insurance program and risk management with the company," he said. "Because it's essentially one of those few places where insurance and risk management touches the everyday employee of CSL."

Mr. Marren

MICHAEL MARCOTTE

Chemical engineer morphs into risk manager

By RODD ZOLKOS

Like many in the business, John J. Marren came into his career in risk management inadvertently.

"I was a chemical engineer in college and I never imagined I'd get into this as a business or a career," said the director, global risk and insurance management at CSL Behring L.L.C. in King of Prussia, Pa., and its Parkville, Australia-based parent, CSL Ltd.

But as Mr. Marren neared his 1986 graduation with a Bachelor of Science degree in chemical engineering from Lehigh University in Bethlehem, Pa., a depressed oil industry reduced demand for new chemical engineers.

"When I was a senior, Factory Mutual Engineering (Corp.) was interviewing at school," Mr. Marren said. "My father knew some people in the business." On his father's suggestion, Mr. Marren interviewed with the company that's now known as FM Global.

"It was kind of a tough business climate for chemical engineers when I was graduating," the CSL risk manager said. "Out of our small class of 34, there were seven who ended up having job offers before graduation and I was one of them, and it was with Factory Mutual."

After spending three years working for Factory Mutual in Philadelphia, Mr. Marren moved through positions at various companies that added to his expertise. He joined Johnson & Higgins in 1989 as a property loss control consultant, and later became part of an oil, gas and petrochemical group the broker formed in New York.

"I was interested in being a dedicated engineer to that group at that time, never thinking that insurance broking might be

Continued on next page

Risk management framework supports local efforts

CSL unit managers required to report operational risks

By RODD ZOLKOS

The overriding risk management philosophy at CSL Ltd. and CSL Behring L.L.C. is operational risk management, and executing the philosophy involves a decentralized approach passing risk management responsibility to the managers of the companies' various operations.

"The process was really born probably 10, 12 years ago. Because of being an Australian company and a publicly traded company, legislatively we were required to have a risk management process," said John J. Marren, director, global risk and insurance management at King of Prussia, Pa.-based CSL Behring and its Parkville, Australia-based parent.

"If you look at our framework, we're very specific in saying what this framework pertains to and, as importantly, what it doesn't pertain to," Mr. Marren said.

While allowing that it could be referred to as an enterprisewide risk management program, Mr. Marren noted that the risk management process in which he's involved doesn't generally include consideration of aspects such as strategic risk, human resource risk, certain elements of legal risk, and certain elements of research and development risk.

"Things like that we specifically spell out as not being part of this process," he said. "Not because we don't manage those risks; we just don't manage them inside of this process."

There are 10 entities within CSL Ltd. that are responsible for reporting risks through the operational risk process, Mr. Marren said. They include all five of the company's manufacturing sites, its plasma collection business and operationally oriented corporate functions that include the global information technology practice, the global sourcing practice, the global logistics practice and the commercial operations practice within CSL Behring.

When Mr. Marren joined CSL in 2007, the operational risk management philosophy already had been in place for some time. But there was no common risk management language across the organization, leading to inconsistency in addressing exposures and making it difficult to share risk management information or lessons learned across the organization.

"When I came to CSL in 2007, the process had existed at that point for quite a number of years," he said. "But…what we continually strive for is comparability and consistency across the group globally as far as how risks are viewed. Not that they're the same, even if you have the same risk at different sites, but to make sure that we're looking at the right things, making sure that we have a common lexicon for managing risks, so that we're talking about the same things."

With Mr. Marren's arrival in 2007, CSL set about establishing a companywide risk management framework.

"It basically put in place the things you'd expect: a purpose, the scope of the process, common language…how we even defined risk, roles and responsibilities, what the different parts of the business are responsible for, who reports to whom, principles, setting some risk tolerance, some framework around how we would assess a risk," Mr. Marren said. "It's really not too different from what you'd find at other companies that employ an ERM program."

The effort led to different views of how the process should be implemented and how risks should be assessed, Mr. Marren said.

"In order to kick this off, we held our first global risk management meeting where all the people in the company globally got together for the first time in December 2007 to be introduced to this, to talk about what works in the process, what doesn't work in the process, what do we want to do to make it better," he said.

One of the other things that came out of those discussions was the question of just what sort of tool managers would use to manage the risk management process. CSL Behring's chief information officer suggested the company's information technology staff could develop a tool that would suit that purpose until the company could find a more appropriate system on the market.

While the tool has been highly effective, CSL will soon replace it with a more up-to-date system the company is set to purchase.

The decentralized operational risk management approach is seen by many as the most logical way of managing CSL's exposures.

"Historically, (risk management) was very fragmented and each operational component of the business took responsibility," said Gregory A. Boss, group general counsel at CSL Group. "We do continue that philosophy. Nobody can point to John and say, 'John, you're the risk manager. It's your responsibility to make sure we're doing things right.' His job is to help coordinate activities, make sure they're aligned, make sure they're efficient."

"Definitely we as a company have a philosophy that management of the risks should be at the most basic or local level, where real action can be implemented to prevent risks in advance," Mr. Boss said. "Certainly, John or me or many others can respond to risks quickly and efficiently, but we do want to manage them before they happen and that's best done at the local level."

While the risk management responsibility is local, the company has succeeded in globalizing the language of its operational risk management approach, said Mr. Marren.

"We've put a process in place for risk identification and assessment—a reporting chain for all of the businesses that are obligated to report their risks. Fast-forward to today, we've updated this framework considerably," he said.

Parameters have been upgraded, and the company adopted AS/NZS ISO 31000 as its standard of reference for guiding the principles of the company's risk management process when the CSL board approved the latest version of the risk framework in February. "Wherever a risk falls in this residual risk matrix, we've got reporting thresholds," Mr. Marren said.

Those common thresholds are another key element of globalizing CSL's risk management approach effectively, Mr. Marren said.

"Reporting thresholds are important because, previous to that, people were sending in reports with every risk they had," he said.

"One site might report 10 or 11 or 12 risks, and another site might report 100, because there were no criteria for what was important to report up the food chain," Mr. Marren said.

Data collection exercise creates global risk register

As CSL Behring L.L.C. and its parent, CSL Ltd., released a new company risk framework in 2008, CSL Behring's information technology department began devising a Microsoft Excel-based tool to manage the process.

The tool proved to be a useful one, according to John J. Marren, director, global risk and insurance management at King of Prussia, Pa.-based CSL Behring and its Parkville, Australia-based parent, CSL.

The system began with a basic risk profile summary on which information could be entered about every identified risk, he said. "We built essentially a one-page data entry for every given risk in Excel," Mr. Marren said.

"From all that data, it created a risk register. So every risk would appear in this table on a separate Excel tab in this file," Mr. Marren said. "Based on certain risk ratings or risk assessments, it would set priority for those risks."

Among other things, the tool also included a "management effectiveness" element "to provide credit for controls in place," such as processes, programs or equipment aimed at controlling an exposure, the risk manager said.

Designated risk leaders for the various operations in the company are responsible for logging any risk changes or updates in the system and provide an explanation for the changes. Mr. Marren then prepares a quarterly risk management report and participates in a corporate risk management committee meeting.

The risk management software tool has proved highly successful, though the company now is prepared to move on to its successor, which is awaiting corporate approval.

"Four years later, we're still using it," Mr. Marren said. "However, much of my job lately has been devoted to a project to replace it with something that's more current and specific to managing risk." Approval of the new system was expected this spring, with hopes that it will be in place by the end of the year.

—By Rodd Zolkos

CONTINUED FROM PREVIOUS PAGE

part of my future," Mr. Marren said. "But they said, 'Well, we like your experience, but we need property brokers, and we'd like to make you one.'"

When J&H moved that group to Houston in 1995, Mr. Marren remained in New York, managing the broker's property loss control department there. Tiring of the daily commute between Philadelphia and New York after a year, he moved into a position as a global property broker and strategic risk consultant in J&H's Philadelphia office.

Two years later, a Philadelphia-area client was looking for a replacement when the individual who had handled insurance approached retirement. "They'd never had a full-time risk manager," Mr. Marren said, so he approached them about the possibility of going to work for them. It was shortly after Marsh & McLennan Cos. Inc. acquired J&H, Mr. Marren said, "and things were uncertain for everybody. It was a convenient time to entertain another option."

The timing was perfect for Mr. Marren to became the first global risk manager for Firmenich International S.A., a Geneva-based flavors and fragrances company with its U.S. headquarters in Plainsboro, N.J. Again, though, a 55-mile commute each way became a factor, as was the desire for additional challenges.

"I was fortunate to find an opportunity with Henkel of America," Mr. Marren said, joining the then-Gulph Mills, Pa.-based Henkel of America Inc. as North American risk manager in January 2003.

Several years later, he was approached about an opportunity at CSL. Mr. Marren was not actively looking for a new position, but the opportunity sounded interesting.

"So I took the interview and, as it turned out, shortly thereafter Henkel announced that they were going to be closing their office here and moving it to Connecticut," he said.

In another incident of good timing, Mr. Marren joined CSL as global risk manager based in CSL Behring's King of Prussia, Pa., headquarters in March 2007.

Away from work, Mr. Marren, 47, enjoys vacations with his wife, Kim Solari; daughter Claire, 12; and stepdaughter Katelyn, 17. The family recently traveled to Australia.

He also likes to play golf, ski, go to the gym and, he said, "I think about playing tennis again."

Mr. Marren also finds an outlet in music.

"I play the drums," he said. "I have an off-and-on little band here that tries to get together as time will allow—mostly open mic nights."

He's been playing drums since he was 10 and said, "I still play the same set my parents bought me when I was 12."

The current band has been together about two years. "We may have our first paying gig in June," Mr. Marren said. "It remains to be seen if we can get everyone together that day."

MICHAEL MARCOTTE

ERM plan accentuates the positive

University's approach sees opportunity in risk

By JOANNE WOJCIK

To Grace Crickette, chief risk officer of the University of California, Office of the President, enterprise risk management means saying "yes" rather than "no" to most potentially risky activities.

For example, when researchers from the University of California, San Diego's global conflict department said they needed to go to Afghanistan, the Office of the President made it possible for them to enter the Middle Eastern war zone and get out safely.

"Unlike a private company, we don't necessarily have restrictions on such travel," said Cheryl Lloyd, director of liability and property in the Office of the President. "We just need them to tell us where they are going, and we use our travel partner to provide tools like real-time travel alerts and maybe a security process to get them out of the country, if necessary. But we don't tell them that they can't go."

"Grace came in with that mantra, basically pulling us all in a room and saying we are not going to say no, we're going to say, 'How can we help you?' and provide tools to help them be successful, because then you are really valued by those who serve and they will tell you more. You can't manage risk you don't know about," Ms. Lloyd said.

Since 2004, when Ms. Crickette began implementing this ERM philosophy, which she has dubbed "Everyone Is a Risk Manager," the university has lowered the cost of risk by $493 million by reducing losses, raising awareness of insurable and uninsurable risk, and successfully implementing numerous loss-prevention efforts. At the same time, ERM has helped to support the university's ongoing mission to provide education, research and public service.

Continued on next page

'In Chinese, it takes two symbols to make the word 'risk': danger and opportunity. The saying is, "Where there is danger, there is opportunity."'

Grace Crickette, University of California

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Ms. Crickette's successful implementation of ERM also has earned her a spot on the 2012 *Business Insurance* Risk Management Honor Roll®.

"One of the first things I noticed within days of coming to the University of California was that other members of the risk management team were constantly saying 'no,' which is the usual response most organizations expect from risk managers," Ms. Crickette said. "I brought them all in my office and said, while I'm not a micromanager, from this day forward you're not allowed to say 'no' unless you come and ask me first."

For example, "when you get a request from a campus, student, faculty or staff member asking to do something, the answer has to be 'yes,'" Ms. Crickette told her team. "There can be a 'yes, but,' as in, 'Yes, you can get in the car, but you have to put your seat belt on.' But you can't say 'no.'"

"For enterprise risk management to be effective, you have to be yes people with solutions. You've got to help the organization to move forward, for people to be entrepreneurial and take risks. Our job as risk managers should be to help keep them out of trouble, but to be facilitators," Ms. Crickette said. "ERM means providing everyone in the organization at all levels the information and tools they need to identify, manage and monitor their risks so that they can meet their objectives."

"You know, in Chinese, it takes two symbols to make the word 'risk': danger and opportunity," Ms. Crickette said. "The saying is, 'Where there is danger, there is opportunity.'"

Coincidentally, Ms. Crickette said the Chinese symbol was displayed prominently in the office of her boss, Peter Taylor, when she first met with him shortly after he joined the university as executive vp and chief financial officer in 2009.

At the time, she informed him, "See, you're a risk manager, too," she said.

"I always thought of ERM as a financial strategy. But there also has to be an investment strategy that allows you to get in front of that constant cycle of putting in place insurance and paying claims that allows you to drive down the overall cost of risk and improve the quality of the worker experience and, in our case, the student experience and the patient experience, too," said Mr. Taylor.

"Grace, through her extensive experience, her ability to leverage technology and, frankly, through her force of personality, has put in place a culture that says mistakes are going to happen, like at any other $22 billion organization, but let's make sure we're learning from them with a mindset of constant improvement to make sure we're not making the same mistakes over and over again," he said.

For example, when an analysis of workers compensation costs showed that 32,593 of the university's 187,201 faculty and staff had filed repeat claims, Ms. Crickette introduced Be Smart about Safety, an environmental health and safety program that shifted the focus from compliance to prevention, driving down workers compensation costs by more than half to $40 million from $90 million (see story, page 24).

And when underwriters were hesitant to tackle the university's cyber liability risks because the data was being housed on too many servers, many off-site, Ms. Crickette persuaded them to implement a process she called "reverse underwriting." If the university met all the data security protocols set by underwriters, then the policy would respond to any losses that might occur; if not, the university would be left to fend for itself.

Just having the policy in place helps raise the awareness of data security throughout the university and is driving loss prevention efforts. After a year of good experience, underwriters agreed to double coverage limits to $10 million from $5 million per occurrence (see story, page 24).

To coordinate and track the results of the university's ERM strategy, Ms. Crickette forged an enterprise risk management information system comprising numerous campus risk information management systems that automatically assembles data collected from these numerous internal sources to create "dashboard" reports that are updated monthly or quarterly, depending on how often the information changes (see story, page 22).

"At the end of the day, whether it's ERM or any other program you're trying to implement, you need to know where you are today, where you're heading," she said. "A side benefit was we saved money on IT redundancy. Groups were spending a great deal of administrative time to create reports. For example, we saved $48,000 by creating a custom dashboard from existing data for one team at UC Irvine. Now $48,000 to the whole university isn't that much, but if you repeat that with the number of dashboards we have, and it ends up becoming quite material."

And as word spreads about the potential efficiencies and savings that can be generated by the university's ERM program, demand is increasing for Ms. Crickette's consulting services, internally and externally. In fact, she is working with the Singapore Health System to develop an ERM program for the island nation's largest health care group.

"As the program grew, and people find out that we have this system, they want to leverage it. It's been one of the entries to getting people engaged in ERM. Once they start using the ERMIS, they become aware of the risk assessment tools. I'm constantly getting emails and calls asking for risk assessments," she said.

Integrated RMIS tool aids holistic approach

By JOANNE WOJCIK

The University of California's enterprise risk management information system, or ERMIS, is the compilation of numerous smaller risk management information systems woven together like a quilt depicting the colorful story of the university's myriad and diverse risks.

The system, which serves as the hub of the university's enterprise risk management program, automatically assembles data collected from numerous internal sources to create "dashboard" reports that are updated monthly or quarterly, depending on how often the information changes, according to Grace Crickette, chief risk officer and the system's architect.

"At the institution level, it allows us across the organization to quickly identify leakage—not just financial leakage, but inefficiencies, compliance issues, organizational challenges…and helps us determine where to deploy resources," Ms. Crickette said.

For example, "we can tell the chief human resources officer where there are multiple issues related to the management of people" based on a dashboard report showing high employee turnover rates, she said. "It also tells us here at the Office of the President where we might need to deploy a systemwide program."

The ERMIS evolved out of the campus visits Ms. Crickette made during the first year after she was hired. Instead of asking campus and medical center risk managers "what keeps you up at night," she asked them "what information do you need to know whether you are operating efficiently?"

What Ms. Crickette found was that most of them were using systems that tracked certain discrete information, but they were all decentralized and ad hoc, usually requiring manual data entry.

"We asked them to come up with key performance indicators and ended up with over 1,000, which we narrowed down significantly. People describe the same things in different ways," she said.

After developing the prototype for the ERMIS, Ms. Crickette issued a request for proposal, and the contract for building the system was awarded to Armonk, N.Y.-based IBM Corp. The end product is a fully automated suite of business intelligence tools that "talk to each other" without the need for manual data entry.

The ERMIS also is continuing to grow and evolve as Ms. Crickette discovers other applications being used by university campuses and integrates them into it. For example, a mission continuity tool called Restarting Berkeley, developed by the university's Berkeley campus, recently was incorporated into it. Another tool, called My Manage Risk, developed by University of California at Davis and described as "revolutionary" by Ms. Crickette, will be added this summer.

All of the tools can be found on the Office of Risk Services' website, and UC Davis provides helpdesk services. They also are available at no charge to members of the Kuali Community, a collective of universities, colleges, businesses and other organizations that share open-source software.

UNIVERSITY OF CALIFORNIA

BUSINESS: The University of California operates 10 public campuses, five medical centers, three U.S. Department of Energy national laboratories, as well as museums, concert halls, art galleries, botanical gardens, observatories and marine centers. Its fiscal and business operations are managed by the Oakland-based Office of the President.

FOUNDED: 1868

HEADQUARTERS: Oakland, Calif.

2011 FINANCIALS: Operating budget of approximately $22 billion

EMPLOYEES: 187,201

BY THE NUMBERS:

- 235,000 students
- 57 Nobel Prize recipients
- 16 health professional schools
- 150 academic disciplines
- 200 study-abroad programs
- UC contributes more than $46 billion to the California economy annually

DID YOU KNOW: The Scripps Institution of Oceanography, part of the University of California, San Diego, operates a fleet of four oceanographic research vessels and the Floating Instrument Research Platform, a 355-foot, 700-ton Navy barge that flips vertically onto its side when it is parked at port.

Themed events have common message: Need for ERM

By JOANNE WOJCIK

Some of her colleagues say Grace Crickette, chief risk officer for the University of California, Office of the President, is to enterprise risk management what Brownie Wise was to Tupperware.

Ms. Wise, Tupperware's first female CEO, developed the direct marketing strategy for which Tupperware is best known.

"You get people together, have a lot of workshops to teach people goals and how to implement strategies in the coming year, and you use a lot of fun and themes," said Ms. Crickette. "That's what we do with our Risk Summits. But we're not selling Tupperware, we're selling ERM."

The annual meetings typically begin with the screening of a two-minute clip from a popular film whose title or subject matter are integral to the theme Ms. Crickette has chosen for the year.

She said she learned the technique from a mentor, Bradley S. Jacobs, the former president and chairman of United Rentals Inc., where Ms. Crickette worked prior to joining the university in 2004.

> **'We've built our field of dreams, and now we need players from throughout the university to play in the league that will implement ERM.'**
>
> Grace Crickette,
> University of California,
> Office of the President

"He believed that we are very visual learners. Media is something we're very comfortable with," Ms. Crickette said.

For example, one year Ms. Crickette used a clip from the 1960s television series "Mission: Impossible" to convey the message that ERM is "Mission: Possible." After the clip was shown, she and her team walked out on stage wearing black suits, dark sunglasses and carrying black briefcases.

Last year, the stage was set with a wall of cornstalks from which her team emerged, all wearing baseball uniforms. The message? "We've built our field of dreams, and now we need players from throughout the university to play in the league that will implement ERM," Ms. Crickette said.

The themes are always closely guarded secrets until the day of the event, so Ms. Crickette declined to divulge the theme of this year's Risk Summit, scheduled for June 6-8.

"The world is so dynamic and always changing. I always want the theme to fit with what's happening at the university at the time so that it resonates," she said.

For example, in the year the state slashed the university's budget, she used a "Pirates of the Caribbean" theme, urging those in attendance to hunt for buried treasure to find money and resources needed to support the university's ERM programs.

The summits are attended by numerous university personnel including campus risk managers and individuals from student affairs and human resources, as well as those from outside organizations seeking to learn from the University of California's ERM experience, such as Singapore Health Services, which has hired Ms. Crickette as a consultant.

Besides the annual risk summits, whose attendance grew from 125 in 2005 to nearly 500 in 2011, Ms. Crickette also uses webinars and in-person site visits, and is developing a social media strategy to reinforce her personal interpretation of ERM, that "everyone's a risk manager."

"It's getting people to recognize they have to own their own risk and become risk managers," she said. "That's why we use the slogan 'Everyone's a risk manager.' That's what it takes if it's going to be sustainable."

Two hundred people from inside and outside the university, representing the public and private sectors, are on the exclusive invitation list for the university's monthly ERM toolbox webinars, according to Emily M. Breed, risk services analyst in charge of webinar production.

The university also provides educational programming assistance on numerous risk management topics to the Golden Gate Chapter of the Risk & Insurance Management Society Inc., including a webinar series led by Erike Young, director of environmental health and safety, to prepare for the associate in risk management certification exams conducted by the American Institute for Chartered Property Casualty Underwriters.

Ms. Crickette also hosts monthly "all hands" meetings, bringing together all of the vendors that support the university's ERM program including its insurance brokers, third-party claims administrators and technology partners.

University adopts novel technique on cyber coverage

By JOANNE WOJCIK

When insurers balked at the prospect of covering the University of California's cyber risks because of the vast scope of potential liability exposures associated with higher education and health care, Chief Risk Officer Grace Crickette turned the tables on their underwriters and asked them do something they had never done before.

She suggested the underwriters try "reverse-underwriting," a process similar to reverse-engineering, in which something is taken apart to see how it works in order to duplicate or enhance it.

If the university met all the cyber security protocols set by underwriters, then the policy would respond to any losses that might occur. If not, the university would be left to fend for itself.

The end result was a $5 million cyber liability policy responding to all damages and expenses stemming from a university data breach, including notification costs, forensic investigation expenses, credit monitoring, identity restoration and call center services, said Gary Leonard, the university's property and fleet program manager, who also is in charge of its cyber liability risk transfer program.

"Grace had been talking to our brokers about wanting to purchase this type of insurance for some years, and for a university system of our size it was really difficult," he said. "Grace would show the applications to some of our campus information officers, and it was just an overwhelming task to try to fill out a traditional insurance application."

For example, the underwriting applications typically used for cyber risk coverage ask how many computer servers are used to store data, and what types of firewalls are being employed to ensure they are secure, but "in the academic world, many researchers have their own servers, and they do not fall necessarily within the university's guidelines of how the university likes to see information protected," Mr. Leonard said.

MICHAEL MARCOTTE

University of California Chief Risk Officer Grace Crickette is backed by UC executives. From left, Dr. John Stobo, senior vp, health sciences and services; Mark G. Yudof, president; Nathan Brostrom, executive vp, business operations; and Peter Taylor, executive vp and chief financial officer.

Moreover, a single campus could have more than 1,000 servers containing not only student and employee data, but also patient data if it has a medical center, as well as research data, he said.

"So it was decided to turn the tables a little bit. Instead of underwriting to the actual conditions that we have at the university, why not write to standards that the underwriters would like to see in place?" Mr. Leonard said.

While "it was a new way of thinking for many people," he said, it eventually piqued the interest of the London market. One of the university's brokers, Alliant Insurance Services Inc. in San Francisco, worked with London broker Price Forbes & Partners Ltd. to develop the university's cyber risks policy, which is underwritten by Lloyd's of London underwriter Aspen Underwriting Inc.

Just having the policy in place is helping to raise the awareness of data security throughout the university and is driving loss prevention efforts, according to Mr. Leonard. Each campus also is required to follow an incident response plan in the event of a data breach. The plan includes protocols for reporting losses designed to improve data collection, he said.

Since the coverage was bound in 2011, a handful of claims have been reported, none of which exceeded the university's $1 million per-occurrence retention, said Mr. Leonard. However, some were denied because the conditions of coverage were not met, he said.

Premiums, which are allocated to the campuses based on an actuarial analysis of exposures, increased slightly in 2012 after the university doubled its limits to $10 million, Mr. Leonard said.

"The underwriter was a little bit more comfortable opening up some more limits, and we thought it would be a good time to take advantage of that," he said.

After securing cyber risk coverage for its indigenous exposures, Ms. Crickette is exploring what types of cyber risks coverage may be available to respond to cyber risks associated with the university's use of outside contractors and vendors that store data off-site or in "the cloud," said Mr. Leonard.

Prevention program has huge impact on workers comp costs

By JOANNE WOJCIK

MICHAEL MARCOTTE

University of California risk management staff. From left: Heather Pineda, director, UC Student Health Insurance Plan; Cynthia Low, program manager, insurance and construction; Karen Hsi, risk analyst, environment health and safety and travel insurance; Nilofeur Samuel, senior system analyst; Larry Wong, program manager, loss prevention and control; Kevin Confetti, director, workers compensation; Carol Lake, financial analyst, UC Student Health Insurance Plan; Susan Mahoney, program manager, UC Student Health Insurance Plan; Janine Ford Crocker, program assistant, environment health and safety; Shaudreya Waterman, program assistant, general liability, property and emergency management environmental protection; Grace Crickette, chief risk officer; Emily Breed, risk services analyst; Robert Charbonneau, program manager, emergency management and environmental protection; Ruby Antonio, program assistant, environment health and safety; Gary Leonard, program manager, property and automobile; Karen Vecchi, risk manager, risk financing; Kenny Lim, program assistant.

After an analysis of the University of California's workers compensation claims experience showed that 32,593 of the university's 187,201 faculty and staff had filed repeat claims, Chief Risk Officer Grace Crickette decided it was time to focus on prevention.

Of those employees, 7,149 had five or more injuries, and 1,401 had 10 or more injuries, the data revealed. Moreover, the cost of treating these subsequent injuries often was significantly higher than that of the first injury, further driving up the university's workers compensation costs.

Before Ms. Crickette came on board, environmental health and safety managers on the university's 10 campuses and five medical centers were focused on compliance, with the primary objective being to meet Occupational Safety and Health Administration regulations, according to Erike Young, director of environmental health and safety in the Office of the President.

"Most EH&S folks see themselves as compliance-focused, to make sure they don't have OSHA fines. Unless your title was 'injury reduction specialist,' that wasn't part of your job," he said.

In fact, even though musculoskeletal injuries accounted for 50% of all claims, responsible for $40 million in annual workers compensation costs, the university only employed two ergonomists systemwide, Mr. Young said.

Two programs were introduced to address these high-cost areas: Be Smart About Safety and WorkStrong.

TERRELL LLOYD

From left, Cheryl Lloyd, program director, liability and property; Chief Risk Officer Grace Crickette; Teresa Kielhorn, program director, professional medical and hospital liability; and Erike Young, director, environment health and safety.

Under the BSAS program, 10% of the work comp premiums paid by each campus and medical center is allocated to injury prevention programs, including ergonomics and Shoes for Crews, a program that equips food service workers with nonslip footwear. According to the university's workers comp claims analysis, approximately 4,000 employees file claims for slips and falls each year, costing the university $7 million annually.

WorkStrong is a post-rehabilitation wellness program to which workers who have had two or more work-related injury claims are referred. Usually beginning after the claimant has completed medical treatment and physical therapy, it comprises three main components—nutrition, fitness and mental well-being—said Kevin Confetti, risk manager, workers compensation.

Investments in both programs have paid back in spades. "If you looked at how much we were spending, ultimate losses were $90 million a year in workers compensation vs. $40 million today. We've basically cut it in

See PREVENTION next page

'Ghost story' first chapter in risk career tale


MICHAEL MARCOTTE
Ms. Crickette

By JOANNE WOJCIK

Grace Crickette, chief risk officer for the University of California, Office of the President, often tells people that "a ghost story" led to her entering the risk management profession.

While she admits she didn't actually see a ghost, she conjured up a ghoulish memory while being interviewed for a risk management position by Ed Godwin, then-vp of risk management at U.S. Rentals Inc. in Modesto, Calif.

"I said I knew something about dump trucks, but I looked around the yard and didn't see any," she said. So Mr. Godwin escorted Ms. Crickette around to the back of a building, where she confronted a big white dump truck.

"That's when I had to get my game on," she said. "I told him I understand the power takeoff unit, or PTO, and how it works to transfer energy from the drive train to the bed of the truck."

When Mr. Godwin asked Ms. Crickette how she had learned about PTOs, she explained that while serving as a legal specialist at insurance defense firm Bruggeman Smith & Peckham in San Bernardino, Calif., she worked on a case involving a laid-off tailor who was killed during a temporary job as a truck driver.

"The first day on the job, they had him drive a dump truck from the job site out to the dump. He was there by himself, and he figured out how to get the bed up, but he couldn't figure out how to get the bed down. It was supposed that he noticed that there is a mechanism under the bed of the truck and believed he could reach in and trigger that mechanism and get out in time," Ms. Crickette said.

"Then I looked at Ed and his jaw was dropping. He said, 'This is the truck,' and then he shook my hand and said, 'You're hired,'" she said.

Since that fateful day in 1991, Ms. Crickette moved up the ranks at U.S. Rentals, eventually becoming vp of risk services in 1998. She joined the University of California in Oakland as chief risk officer in 2004.

Ms. Crickette, who holds a Bachelor of Science degree in business administration from the University of Redlands, has received numerous recognitions, most recently being named Information Security Executive of the Year by Atlanta-based Tech Exec Networks Inc. and as one of *Business Insurance's* 25 Women to Watch in 2011.

A mother of three adult children and, since her 2010 marriage to insurance defense attorney Patrick Taylor, stepmother to three more, 51-year-old Ms. Crickette also plays guitar and sings lead vocals in a rock band aptly named "The Endorsements" in her spare time.

CONTINUED FROM PREVIOUS PAGE

half," said Mr. Young. "We used to have 10,000 injuries a year, now we're under 4,000 in 2011."

In addition, slip-and-fall injury costs in the university's food service operations are down 40% after a mere $8,000 investment in new shoes, he added.

A study of the cost-effectiveness of ergonomics showed returns on investment averaging between 3:1 and 5:1, depending on the intervention. And the Office of Risk Services created a Web-based tool that workers can use to conduct ergonomic self-assessments of a variety of work functions, ranging from using a computer to driving a forklift.

Of the more than 70 injured workers who have completed the WorkStrong program, only one has had another workers comp claim in four years, and that was for a different body part, according to Ms. Crickette. Not only that, "supervisors say the person's attitude has changed toward work" and is more productive, she said.

Peter Taylor, the university's executive vp and chief financial officer, said although the programs originated out of workers comp, they also have reduced the university's third-party liability costs.

"It's not just a workers compensation program. It's a program designed to have a safety-aware culture," he said.

"It has borne fruit not only in lower work comp costs, but also fewer claims against the university, whether it be for slips and falls or for other types of claims."

Julie DeSantis

SONY CORP. OF AMERICA

DOUG GOODMAN

Entertaining a world of exposures

Streamlined risk program tackles diverse concerns

By MIKE TSIKOUDAKIS

As vp, risk management for one of the world's largest electronics and entertainment companies, Julie DeSantis manages broad, complex risks in an ever-changing business environment.

Responsible for overseeing and managing the global insurance programs for Sony Corp. of America, Ms. DeSantis' duties stretch across 13 Sony business units with operations in electronics, media, film, music, Web content, computer entertainment and gaming in 43 countries.

Her main responsibilities include the identification and analysis of business risks for the New York-based subsidiary of Sony Corp. and other business functions under that umbrella.

Those include the engineering, manufacturing, marketing and sales of various electronics; the company's manufacturing and packing of optical discs such as CDs, DVDs and Blu-ray Discs; recorded music operations; and the PlayStation family of products, among others—all of which represent more than $20 billion of Sony's annual $87 billion in operating revenues.

When she first joined Sony in 2003, Ms. DeSantis' top priority was centralizing Sony's diverse risk and insurance programs by securing the broadest terms and conditions possible to streamline hundreds of insurance policies, resulting in premium savings of $20 million over a five-year period (see story, page 30). She works with four insurance brokerages, with Marsh Inc. supporting all of Sony's corporate insurance programs (see story, page 29).

Ms. DeSantis' risk management knowledge, spanning 20 years, and her deep knowledge of Sony have directly impacted the company's bottom line, said Gary Podorowsky, New York-based senior vp at Sony.

"She's gained the confidence of the underwriters and very much of Marsh because she's really reached out to each of our business units and developed really good relationships with business units," Mr. Podorowsky said.

This successful management of Sony's risk portfolio among a broad range of tasks earned Ms. DeSantis a place on *Business Insurance*'s Risk Management Honor Roll® for 2012.

Ms. DeSantis' work experience with other Japanese companies during her risk management career helped sharpen her risk management skills to foster a collaborative approach to risk management.

"One of the things that makes Julie stand out in her profession is the ability to seek efficiency. She's very detail-oriented and process-driven, and I believe what she's been able to accomplish at Sony Corp. of America is to take a number of different programs and really drive efficiency across the broader spectrum," said David J. Liston, managing director and New York metro partnership leader at Marsh in New York.

Across multiple business units, Ms. DeSantis said Sony's top five global risks are supply chain, cyber risks, entertainment-related risks, people and assets. With 2011's natural catastrophes in Japan and Thailand that disrupted supply chains, riots in the United Kingdom that caused property damage, and a massive cyber attack against Sony's gaming system, Ms. DeSantis and her team were put to the test (see story, page 28).

"Julie continually deals effectively with a rapidly changing risk landscape driving challenging, often out-of-the-ordinary, risk exposures," said Jonathan Thompson, London-based global client advocate at Willis Risk Solutions, a unit of broker Willis Group Holdings P.L.C. "These in turn create major insurance and claims issues impacting the group significantly at both national and global levels."

The challenges of the role at Sony are what led Ms. DeSantis to accept the position at the company in 2003.

"Sony was just a great brand, and I thought it was an enormous company," Ms. DeSantis said. "It had a diversified portfolio then, and it's even more diversified today.

See DESANTIS page 28

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DeSantis: Managing array of complex exposures

CONTINUED FROM PAGE 26

There was no way I could get bored in this job," she said.

As Sony continues to grow, mergers and acquisitions also pose risks for Ms. DeSantis and her team, who worked on identifying risks and integrating insurance programs to include the recent $2.2 billion acquisition of EMI Music Publishing in November and game developer company Sucker Punch Productions L.L.C. in August, for an undisclosed amount.

Sony also entered the medical device arena with the acquisitions of electronic medical firms iCyt Mission Technology Inc. in 2010 and Micronics Inc. in September, adding life sciences to its risk profile.

"That's something new to all of us," Ms. DeSantis said. "My staff, none of us came from a pharma background or life sciences, and so we have had to ramp up on our education over the last two years on that. Because there are different risks and different exposures, we're also trying to learn the insurance products that go with that as well and learn about those companies."

In addition to addressing risk management and insurance programs for Sony, Ms. DeSantis also manages a risk management department with a full-time team of six and one part-time employee. The team handles all lines of business, from day-to-day administration to insurance negotiations.

"They support me on everything," Ms. DeSantis said.

2011 proved challenging year for Sony around the world

By MIKE TSIKOUDAKIS

As vp, risk management for Sony Corp. of America, Julie DeSantis and her risk management team were put to the test in 2011.

"It was a very challenging year last year," Ms. DeSantis said.

Sony's PlayStation Network in North America and Qriocity online services in Japan were hacked last April, exposing more than 100 million customer accounts that included identity and financial data. The breach has led to numerous claims against the company.

Zurich American Insurance Co. has sued Sony, alleging that it is not obligated to cover the company for lawsuits and investigations related to the hacking because Sony's primary commercial general liability policy and its excess policy with Zurich do not qualify for such coverage, according to court documents.

Ms. DeSantis and Sony said they were unable to comment on the PlayStation data breach due to pending litigation.

But last year's cyber attacks reportedly will cost Sony $175 million in damages, including information technology and legal costs, and costs associated with retaining customers.

"All of our clients face different challenges in any given point in time, and I think Julie certainly has had to face a great deal of challenges in 2011," said David J. Liston, managing director and New York metro partnership leader at Marsh Inc. in New York. "Claims can come up at inopportune times, but being able to remain focused on the day job, running the programs, seeing things through efficiently, and also dealing with crises as they unfold, are just another example of what makes Julie stand out in her profession."

A digital camera factory was submerged by floodwaters in Thailand in October, which also halted production at a semiconductor plant because of supply shortages.

As a result of direct damage from the Thai floods, Sony incurred expenses of $114 million for repair, removal and cleanup costs, and $59 million of business interruption-related costs, according to Sony's consolidated results for its 2011 third quarter ending Dec. 31.

The earthquake and tsunami in Japan in March 2011 forced Sony to halt production at 10 factories, including a Blu-ray Disc plant that was entirely overrun by waves from the tsunami.

Sony incurred costs of $66 million for repair, removal and cleaning. Of those charges, $16 million have been offset by insurance claims that are deemed probable, the company said in its consolidated results for the 2011 first quarter ending June 30.

"We did have significant claims for the U.S.," Ms. DeSantis said. "They were very complex, very sensitive given the situation of the local people, and a lot of coordination was needed."

Ms. DeSantis noted that supply chain concerns under her purview are different in that, for example, they can involve a record company that may rely on foreign countries for its product and is not directly involved in the loss control and management of the supply chain.

"It's been a significant undertaking in coordination and also securing the data because business interruption or contingent business interruption claims take much longer," she said. "We're actually still working through those claim issues on both of them, and it's taking time."

To tackle supply chain risks, Ms. DeSantis and her team do annual formal requests of vendor listings of Sony's top suppliers and analyze each one to see if there are any similarities or symmetry.

"We're more involved to ensure that we have the adequate insurance to cover our supply chain," she said. "So through that data and that analysis, we're able to generate some type of limit that we think we should maintain as a company."

The London unit of Sony DADC US Inc., the company's optical disc manufacturer, suffered a complete loss after rioters in August set fire to the distribution center. "We had property damage in London in the riots," Ms. DeSantis said. "You can't predict, you can't plan for it."

Ms. DeSantis said that her team discusses emerging risks a couple of times a year, leaning on her broker and insurer relationships for material, products and data to assist in planning for those unexpected risks.

Streamlining coverage a key goal

Relationships with insurers long-term

To streamline and consolidate more than 200 policies into 100 policies over five years across multiple Sony Corp. of America business units under the broadest terms and conditions, Julie DeSantis has fostered strategic relationships in the insurance industry.

Consolidating and buying insurance coverage such as commercial general liability across several Sony subsidiaries is not viewed as buying a commodity or as a purchasing function to get the lowest price, said Ms. DeSantis, New York-based vp, risk management at Sony.

"We're always trying to look for the broadest terms and conditions and also partner ourselves with carriers," she said. "So we want to be with carriers not for the short term. We want to be with carriers for the long term. I think that is something that works well at Sony."

Sony works primarily with four insurance brokerages, with Marsh Inc. in New York supporting all of its corporate insurance programs. For industry depth internationally, Sony uses a combination of Willis Ltd. in London and Marsh.

"In certain countries, one broker does it better than the other or might have more resources," she said, noting that forcing competing brokerages to work together yields better market information for Sony.

Entertainment liabilities

For its concert liability program and entertainment exposures, Sony uses Aon P.L.C. in London and New York-based DeWitt Stern Group Inc., respectively.

The most important aspect when working with brokers is partnership and credibility, Ms. DeSantis said.

"They will display and explain Sony in the marketplace because they're the front people with the insurance carrier," a crucial step when helping underwriters understand the breadth and depth of Sony's risks to streamline multiple subsidiaries' coverages into a single policy, Ms. DeSantis said.

Ms. DeSantis also meets and discusses Sony's insurance programs with underwriters yearly—a practice that insurers increasingly welcome, she said.

"If they know that it's a quality program, a quality risk management department, you're going to get preferential treatment," Ms. DeSantis said. "I think that is important, because you don't want to be a week or two away from a deadline and you're just getting your quote. You want time to analyze things."

—*By Mike Tsikoudakis*

DOUG GOODMAN

Sony Corp. of America Vp, Risk Management Julie DeSantis and Senior Vp Gary Podorowsky

SONY CORP.

BUSINESS: New York-based Sony Corp. of America, founded in 1960, is the U.S. subsidiary of Sony Corp. Its U.S. businesses include Sony Electronics Inc., Sony Computer Entertainment America L.L.C., Sony Pictures Entertainment Inc. and Sony Music Entertainment.

FOUNDED: 1946

HEADQUARTERS: Tokyo

2010 FINANCIALS: Loss of $3.13 billion on revenue of $86.5 billion (2011 financials will be reported in May 2012.)

EMPLOYEES: 168,200 people worldwide

DID YOU KNOW: Sony recently entered the medical device and life sciences arena with acquisition of iCyt Mission Technology Inc. and Micronics Inc.

Helicopters? Check. Insurance? Check.

Nimble policies meet creative visions at Sony music unit

By MIKE TSIKOUDAKIS

Managing Sony Corp. of America's entertainment exposures poses unique and interesting challenges for Julie DeSantis, vp, risk management.

Sony Music Entertainment, the company's recorded music operations and artist development unit, holds a variety of promotional events, concerts and filming of music videos that raise numerous exposures needing quick attention.

When Ms. DeSantis arrived at Sony in 2003, the risk management department was struggling to keep up with the insurance demands of its record labels for numerous media events. Under the SME banner, there are 26 record labels with approximately 150 artists under each label. At some level, SME is promoting each one of these artists with events that may call for unusual insurance coverage for fireworks, live ammunition and animals, among other things.

Requests for specific coverages or certificates of insurance can come at a moment's notice, Ms. DeSantis said. To address these and other risks—including promotional events at music stores, radio stations or other public settings, along with high-value jewelry and clothing—she and her team established a process through which they can issue the appropriate insurance without disrupting the event.

The opportunity to work with a business unit that employs musicians and artists who aren't insurance- and risk management-focused attracted Ms. DeSantis to Sony. With "entertainment people, insurance is not going to be their interest," Ms. DeSantis said. "So I thought that would challenge me as an individual to change my thinking, to think of how another person would want something presented to them, and how (it) could get risk management on their radar."

Ms. DeSantis and her team met with senior management and creative groups and learned that, typically, a lead time of two to three weeks is needed prior to an event. Ms. DeSantis developed a questionnaire tracking pertinent information for risk management, security and legal departments, and developed a decision tree to identify the applicable insurance policy based on certain criteria.

"That process works to this day like you wouldn't believe," she said.

Sony works with London-based Aon P.L.C. and New York-based DeWitt Stern Group Inc. as brokers for its niche concert liability program and film wrap-up insurance program.

"Julie had to corral the entertainment music people to understand that there is risk to the things they do," said LeConte Moore, managing director at Dewitt Stern in New York. For example, an artist may decide while filming a music video to include three helicopters that were not in the original contract and, therefore, not insured.

"It doesn't happen overnight. It takes a determined risk manager to push that through without harming the creativity. That's the art of it," Mr. Moore said.

DOUG GOODMAN

Sony Corp. of America Vp, Risk Management Julie DeSantis, third from right, heads up a team that includes, from left, Kenji Nakamura, manager, risk management; Kathy Turck Rose, director, risk management; Jeanne Erland, analyst, risk management; Lisa Winter, analyst, risk management; and Jonathan Rodriguez, senior manager, risk management.

Generally, filming activities are excluded from core policies, Ms. DeSantis said. With DeWitt Stern, she created a film wrap-up insurance program that includes all the insurance coverage needed for an artist or a video shoot.

"Artists today—if you've seen any music videos recently—love to bring their bling, their cars, their lions and tigers, everything that's exciting, into a music video," Mr. Moore said. "While some people call it the fun side of the business, I call it the last-minute, artistic-people-making-changes-please-get-it-covered-and-you've-got-15-minutes-to-do-it business."

Working with Ms. DeSantis and her team, DeWitt Stern can make quick insurance placements for very unusual risks, Mr. Moore said.

"Julie doesn't stifle the creativity. If you're not careful, insurance can bring things to a grinding halt. Julie knows how to get the insurance, get it done right, and that the show must go on," he said.

The film wrap-up insurance also is used by Sony Computer Entertainment America L.L.C., which markets the PlayStation gaming systems. PlayStation films live actors or athletes performing various movements to be transferred onto the game using motion capture technology.

"We can plug and play anyone, because when we approach something we don't just say this is unique to Sony Music or PlayStation," Ms. DeSantis said. "We try to make it the broadest-name insured so that when it comes time, we can have a quick call with the underwriter and say we have this new business opportunity."

One of the biggest projects Ms. DeSantis is working on is with the music group Big Time Rush, which tours around the world performing large concerts. While Sony has a concert liability program in place, "they actually didn't fit into that," she said. "These are a mainstream artist concert, so that requires a lot more limits."

Working with Aon, Ms. DeSantis and her team piggybacked off the concert liability program to build a wrap-up program with six insurers to reach the scale they needed.

"Entertainment definitely keeps your eyes wide open because there are just things you never imagined that go on that are important in that industry," Ms. DeSantis said.

DeSantis crafts standardized, customized insurance programs

By MIKE TSIKOUDAKIS

As vp, risk management for Sony Corp. of America, Julie DeSantis consolidated many of the media and electronics company's large, complex and diverse risks into a blend of customized and standardized insurance programs.

In the United States alone, Sony maintains more than 100 insurance policies that address unique risk exposures across 13 business units. That compares with the more than 200 U.S. policies in force prior to Ms. DeSantis' arrival at Sony, where many of the insurance programs were dispersed, largely because of Sony's widespread risk profile.

"When I came to Sony in 1993, there were probably in excess of 200 insurance policies, and we were covering fewer operations than we do today," Ms. DeSantis said, noting that "we're a centralized function supporting a decentralized organization."

Sony's centralized risk management department comprises six full-time risk professionals and one part-time employee who meet, consult and respond to the various risks of the business units.

Ms. DeSantis' top priority and focus has been to identify synergies among Sony's insurance portfolio to secure the broadest coverage and enhance overall coverage terms.

This collaborative and consolidated approach has resulted in premium savings of $20 million dollars over a five-year period.

"It's resulted in the savings, but it's also resulted in a more efficient program for Sony Corp. of America and all of the business units within that umbrella," said David J. Liston, managing director and New York metro partnership leader at Marsh Inc. in New York. "It is very innovative, and we certainly don't see that with all of our clients. But I think it takes somebody with Julie's skill set to approach that sort of opportunity and be able to see it through to conclusion with such positive results."

To accomplish insurance policy consolidation year-over-year, Ms. DeSantis and her team worked with senior executives at each of the Sony groups, primarily with the chief financial officer, controller and general counsel. She focused on different coverage segments, first targeting Sony's casualty insurance program.

To consolidate various casualty insurance programs—including commercial general liability, auto liability and workers compensation—from various Sony companies, Ms. DeSantis looked for similarities.

"We looked for commonalities and the broadest terms and conditions that were being provided from one carrier," she said. "I'm not just about price. I want quality coverage for the best price."

For example, if there were seven CGL policies, many of them were with different carriers. The business units "all had different buying styles, because they are all different entities with different CFOs. The risk appetites were different. So we might have had one that guaranteed costs and maybe one that had a higher retention, or some with short retentions," she said.

Working with the Sony business units, Ms. DeSantis identified and evaluated risk exposures associated with the companies' operations, and then combined risk analyses, risk transferences, insurance and self-insurance to address the exposures.

If there were seven different CGL policies that five insurers were providing, Ms. DeSantis would approach those insurers and other markets as well with underwriting data from the various business units to consolidate the CGL program across all entities.

"It's a big undertaking, because the underwriting data comes from the various companies, and the application would be different," she said. "Then we had to do a consolidated submission, have meetings with the carriers, and make our presentation to them."

"Then we started being successful," Ms. DeSantis said, noting that the first casualty coverage to be consolidated was Sony's auto liability coverage, followed by general liability, umbrella excess and workers comp before moving on to property.

The consolidation of Sony's property programs was a particularly significant process, as it wasn't a single insurer covering one business unit. The property policies are generally layered to get to the proper capacity needed, Ms. DeSantis said. "There were

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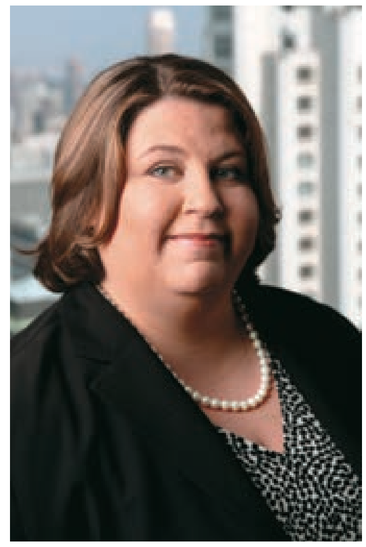
School trip set DeSantis on risk management path



DOUG GOODMAN

Ms. DeSantis

On a school trip to Europe that brought her to London at age 14, Julie DeSantis saw the Lloyd's of London building from the tour bus and thought, "I want to work there one day."

Nearly 20 years later in 2004, that dream was realized when Ms. DeSantis, vp, risk management for Sony Corp. of America, attended her first meeting in the Lloyd's building.

Born in Cranston, R.I., Ms. DeSantis attended Bryant University in Smithfield, R.I., earning a Bachelor of Science degree in business administration.

While finishing her third year at Bryant, Ms. DeSantis took a temporary position with the risk management and legal department at the Providence Journal-Bulletin broadcasting and newspaper publishing company, handling day-to-day administration, certificates of insurance and contract reviews. She became a full-time employee in 1993.

"I was so lucky that I had that opportunity in college," she said. "I am truly a math nerd. But what I liked about the risk management department was…you were out there actually getting to meet with other departments and learn more about what they worked on, their risk, their exposures, and how could you help them."

In 1994, Ms. DeSantis became the assistant risk manager at Nortek Inc. in Providence, R.I., where she developed the philosophy that if she were to change employers, she must attain more risk management experience than in her previous position.

"If I was missing some core fundamental principle in risk management, or some task, or some responsibility, I better hope that I had that at the next job," she said.

Following that philosophy, Ms. DeSantis moved through career roles at Panasonic Corp. of North America, Mitsubishi International Corp. and KMC Telecom Holdings Inc., with ever-increasing responsibilities, experience and breadth as a risk practitioner.

In 2003, Ms. DeSantis joined Sony with responsibility and design of the company's global insurance programs.

Ms. DeSantis, 41, lives in Nutley, N.J., with her husband, Vincent, and son, Alexander, who will turn 3 in June.

—By Mike Tsikoudakis

CONTINUED FROM PREVIOUS PAGE

multiple insurance carriers for different entities, and some entities were already combined, but some weren't," she said.

"So we went under this massive undertaking again to get the broadest terms and conditions in each policy, do the matrix analysis, make a proposal, and try to get the lowest retention that would satisfy everyone and optimize the program."

While Ms. DeSantis earned Sony executive buy-in for the philosophy that a consolidated approach was best for the business units by achieving insurance premium savings, the actual goal was efficient claims handling, Ms. DeSantis said.

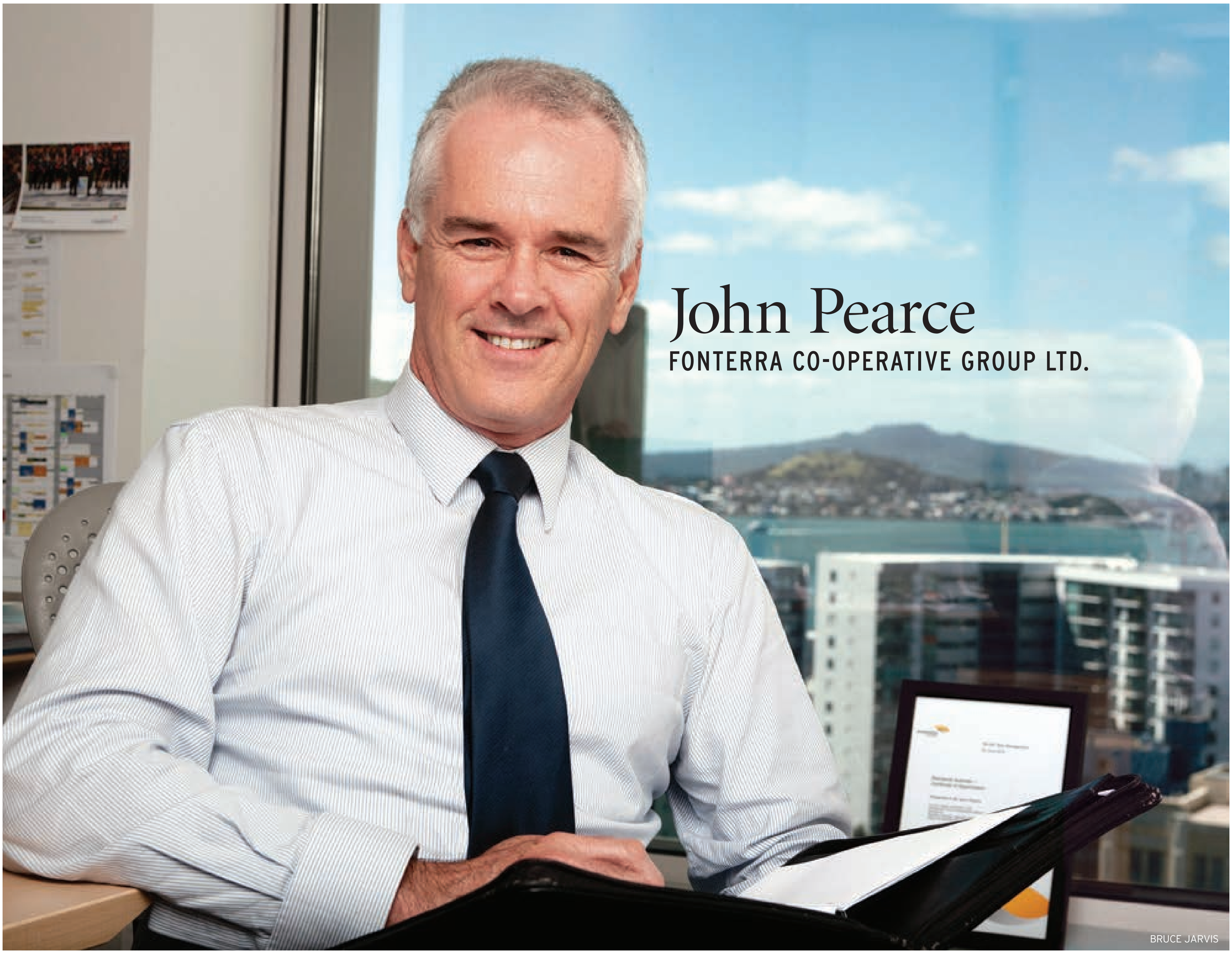
"If you have six different workers comp policies, that's six different third-party administrators or in-house claims departments you would have to work with, different safety and loss control expectations," she said.

Insurance policy consolidation is now woven into the fabric of Sony's risk management and insurance purchasing practices. As the company grows and continues to acquire new businesses, Ms. DeSantis and her team assess the acquired company's risk portfolio prior to actual acquisition, looking at ways to fit that company's exposures into existing policies.

"So during the due-diligence process, whether we complete a transaction or not, I always task my team to think forward, because we want to be quick to react on day one instead of waiting," said Ms. DeSantis. "Most companies will say, 'Let's wait another year and we'll evaluate it.' We wanted to be able to start thinking about integration, if we could, and if we could have any challenges, and how to get around it. So we're always trying to think. We're very proactive toward thinking."

April 1 renewals for Sony were challenging, Ms. DeSantis said, noting that negotiations were focused on increased premiums and reductions and modifications in terms and conditions.

"This year, we were successful in consolidating six stand-alone cyber, media, tech (and) errors and omissions policies into one consolidated program. This resulted in broader terms and conditions for Sony consolidated," Ms. DeSantis said.



John Pearce

FONTERRA CO-OPERATIVE GROUP LTD.

BRUCE JARVIS

Creating a culture to manage risk

Systematic risk structure embeds ERM at Fonterra

By **MARK A. HOFMANN**

John Pearce admits that being responsible for managing the risks of an entity that accounts for about 25% of New Zealand's exports is a considerable undertaking.

"There's quite a responsibility there when you think about it, I suppose, but I don't tend to focus on this all that often," said Mr. Pearce, general manager, policy and risk for Auckland, New Zealand-based Fonterra Co-operative Group Ltd., the world's largest diversified milk processing company.

"It's even more of an issue when you think that there are a couple of sites in New Zealand that account for a meaningful percentage of exports on their own. We have some very large dairy factories," he said.

"It's an important responsibility for the country," he said. "It has advantages, because I think we work very well with the government. It's a productive relationship, but we also have a lot of people looking over what we are doing to make sure it is right for the country as well as right for the company."

Since joining Fonterra in 2006, Mr. Pearce has:

- Instituted an enterprise risk management process that extends throughout the company;
- Created a framework to deal with a multitude of risks in New Zealand and beyond;
- Worked to extend Fonterra's risk management philosophy beyond the company into its suppliers (see stories, page 34).

These and other achievements earned Mr. Pearce a place on *Business Insurance*'s 2012 Risk Management Honor Roll®.

And he has done so with a staff of seven to deal with the risks of an enterprise with 17,000 employees around the world.

"John's significant impact on Fonterra's risk management has been to implement a system which embeds risk management into our everyday business," said Fonterra General Counsel David Matthews, to whom Mr. Pearce reports.

"Any kind of business activity involves taking risk and managing risk, often without any recognition that this is occurring," he said. "It is important for large organizations to have a system which provides a consistent and uniform framework to think about and deal with risk. John has led the establishment of this system in Fonterra."

"Risk management has come a long way in Fonterra since John joined the company

Continued on next page

'There's quite a responsibility there when you think about it, I suppose, but I don't tend to focus on this all that often.'

John Pearce, Fonterra Co-operative Group Ltd.

CONTINUED FROM PREVIOUS PAGE

in 2006," said Grant B. Milne, country head for Marsh New Zealand Ltd., a Marsh Inc. unit, which is Fonterra's global broker. "Fonterra now has a comprehensive enterprise risk management program incorporating governance, risk, compliance, business continuity and crisis management. John developed and implemented an enterprise risk management policy and framework for reviewing and quantifying risks across the Fonterra Group globally."

"John's communication skills combined with his passion for risk management have enhanced the effectiveness of the various risk management programs and the overall acceptance by senior management at Fonterra that risk management is an integral part of their businesses," said Mr. Milne.

Mr. Pearce's commitment to risk management extends beyond Fonterra. He is actively involved with OB-007, the standards committee responsible for the risk management standard for Australia and New Zealand. Australia and New Zealand have an agreement on standards that often sees committees representing organizations from both countries combining to develop key standards. He represents the Dairy Companies Assn. of New Zealand on the committee.

"OB-007 is constantly looking to harmonize standards so we have a common approach to managing risk," he said.

"In Fonterra, our program is kind of multidisciplinary in that when we're talking risk management, we've got risk management in the business area, we've got the same program adapted to property, we've got the same program adapted to warehousing risks, including third-party warehousing, and we have also adapted it to process risks, acquisitions, projects and the like," said Mr. Pearce.

Mr. Pearce said that another challenge for risk management, although not the biggest, is that Fonterra is running the risk management program on spreadsheets, and "we do need eventually to invest in a system to be able to manage the volumes of data."

"My fear is that most systems I have looked into want to prescribe how to do risk management," he said. "We need a system that will support the way we want to do risk management."

In addition, "New Zealand's reputation as a clean and green country is very important to us, and Fonterra's actions are in line with preserving and enhancing the image," he said.

Not surprisingly, another challenge for Fonterra is its geographic location, said Mr. Pearce.

"New Zealand is far away from just about everywhere, which means we have some unique supply chain challenges and sovereign risk, which is an exposure for Fonterra because we are subject to local in-market laws that can change overnight without necessarily having any notification."

FONTERRA CO-OPERATIVE GROUP LTD.

BUSINESS: Diversified milk processing company

FOUNDED: 2001

HEADQUARTERS: Auckland, New Zealand

2011 FINANCIALS: $771 million New Zealand ($631.1 million) in net income on revenue of $19.9 billion New Zealand ($16.3 billion)

EMPLOYEES: 16,800 worldwide

DID YOU KNOW: Fonterra accounts for 25% of New Zealand's exports.

Implementing ERM program key to strategy

By MARK A. HOFMANN

When John Pearce joined Fonterra Co-operative Group Ltd. in 2006, the company did not have a developed enterprise risk management program.

In fact, "risk management was seen as a separate activity, not integrated into the way that the business operates," he said.

"There were a few things that had to be done," said Mr. Pearce, general manager, policy and risk for the Auckland, New Zealand-based milk processing company. One of the first things was selling the benefits of risk management to management, he said.

That required running test programs to show there was potential for value to the business by engaging in risk management, he said. In turn, doing so meant "we had to run a range of different risk management programs in the property area, business risk and so on."

Once Mr. Pearce and his team were able to show there was value to be had, the next target was to develop the framework to establish the processes that would be used and taking that up to top management and the board's Audit, Risk and Finance Committee.

Mr. Pearce said the framework included the risk management policy, which stated the intent; the risk management standard, which defined accountabilities and responsibilities; and the risk management guidelines, which outlined how to achieve the requirements of the policy and standard, pointing out that, at Fonterra, policies and standards are requirements of any program.

"We also have regular meetings with the commercial directors of the strategic business units. Business units report to strategic business units, which report to group" level, he said.

"I think the really key accomplishment for me is the fact that we've now got a common enterprise risk management program operating across the whole company that adds value from the business unit to the board room," said Mr. Pearce.

"Now we have a common language for risk management that goes across the whole enterprise. We've got a common risk universe, so when we describe risks, we're putting them into categories that the businesses understand and that have been signed off by our board," he said.

Fonterra has common risks matrices, so what is used to define and quantify risk is common across the business, said Mr. Pearce. Fonterra does annual assessments of the risks in the business, he said, "and we've got much stronger links in terms of where risk fits in the overall business planning and strategic activities."

For most new projects, acquisitions and the like, there is a requirement that a risk assessment occurs as a part of the review process before approval goes to the board.

Mr. Pearce said Fonterra's risks are directly related to its objectives. "The associated controls to manage these risks are identified, and the effectiveness of the controls is assessed," he said. Where required, control improvements are developed and implemented, and Fonterra has a process that tracks and reports on the effectiveness of controls relied upon to manage risks.

"The outcome of this activity is that the business is better able to achieve its objectives because its risks are known and controls improved where required," said Mr. Pearce. "We are focusing on what is important, and therefore risk management has relevance."

Mr. Pearce said there are challenges still. The biggest one is "sustaining the momentum that we've developed over the years by building risk management into the DNA of the business."

BRUCE JARVIS

David Matthews, left, general counsel, and John Pearce, general manager, policy and risk, at Fonterra Co-operative Group Ltd.

Adapting to changing risks

Risks are not static. In fact, they change regularly.

As a result, Auckland, New Zealand-based Fonterra Co-operative Group Ltd. requires each of its key business units to do an annual risk assessment, according to John Pearce, general manager, policy and risk.

"This comprises just over 50 separate businesses, some of which are really quite sizeable," he said.

Each unit is required to identify its top 15 risks. That's rolled up to the strategic business unit level, Mr. Pearce said. "We do all the aggregating and collating of the information and present to the C-suite management level the top 20 risks, which are then presented to the board for review and ratification," he said.

"The sorts of things that might be in our top risks might include major disaster, food quality and safety," Mr. Pearce said. "Each of these top risks will have identified risk owners in the business whose job includes driving risk improvements and reporting on the status of the risks and their respective controls."

—By Mark A. Hofmann

Continuity plans of key suppliers put to the test

For John Pearce, risk management extends beyond the corporate boundaries of Fonterra Co-operative Group Ltd. In fact, doing business with Fonterra can mean that suppliers buy into the Auckland, New Zealand-based milk processing company's risk management approach.

"We have now stepped into pushing our risk management requirements onto key suppliers so that we can get better assurance that key suppliers will be able to meet our need," said Mr. Pearce, who serves as Fonterra's general manager, policy and risk.

This includes, for example, getting assurances that key suppliers have adequate business continuity plans to be able to maintain supply, or that their property risk management is up to Fonterra's standards before Fonterra will agree to use their storage facilities, he said.

"For example, when we engaged a back-office IT support supplier based in India, built into that contract was a requirement for them to have a business continuity program that we signed off on," said Mr. Pearce.

"If they didn't meet our standards, they didn't get a certain amount of their fee. One of my guys went to India to test that they met our standards, and when they did, we signed off and they got paid," he said.

Mr. Pearce admits that "we do get some difficulties from taking this approach." He said that when Fonterra insists on minimum risk management standards from suppliers, he is sometimes met with the reply "that if we want these standards then we have to pay for it."

But he said even though that can present a difficulty, "it is probably not a bad one to have because it does force our managers to decide if they really want to do business with a partner who doesn't, for example, have adequate business continuity plans or whose storage facility doesn't meet our standards."

He said that sometimes "commercial reality is that we will proceed. However, often we look elsewhere. Even if we proceed, we are proceeding in the knowledge of what the risk is rather than in ignorance."

—By Mark A. Hofmann

Series of major earthquakes highlight catastrophe risks

By MARK A. HOFMANN

The challenges facing John Pearce, general manager, policy and risk for Auckland, New Zealand-based Fonterra Co-operative Group Ltd., range from the managerial in the sense of continuing to build on the milk processing cooperative enterprise risk management process (see story, page 34) to the decidedly terrestrial risk presented by earthquakes.

And that exposure is of particular concern to Fonterra these days, he said.

Fonterra has had to deal with four serious earthquakes in the past couple of years, said Mr. Pearce. Two of the quakes were in New Zealand, one was in Chile and the other was in Japan.

Fonterra has focused on earthquakes and other natural catastrophes as a major risk, said Mr. Pearce. When the Tohoku earthquake struck Japan in March 2011, "we had very good business continuity strategies and were able to relocate the business operations to an area away from Tokyo to keep the business running," he said. "It was traumatic, but it went really quite smoothly."

Fonterra did a property risk review of its operations in Chile in December 2008, more than a year before the major 2010 earthquake, said Mr. Pearce. The review identified several actions to improve quake resilience, and almost all were implemented, minimizing damage when the quake occurred.

"I suppose the lesson learned from this was if you're in a potential earthquake zone, it really is important to focus on this as a risk and make sure you address all those things," he said. "A lot of people think earthquakes happen so infrequently that they are reluctant to take the necessary measures. The other thing is having good business continuity plans, so when it does happen, you know what you're going to do about it.

"I think our operations in Chile were back up and operating within 48 hours of the 2010 earthquake," said Mr. Pearce. "The problem was, we had difficulty supplying customers because the distribution channels, including road networks, were disrupted."

The earthquake risk in New Zealand, highlighted by the quakes in 2011, has led some insurers to decline to participate in the insurance business in that country, said Mr. Pearce.

"Some tend to see the whole of New Zealand as an earthquake risk, whereas the earthquakes have been confined to one relatively small part of the country," he said.

BRUCE JARVIS

From left, Richard Mitchell, managing principal at Marsh Inc.; Martin Houghton, risk adviser at Marsh; John Pearce, general manager, policy and risk at Fonterra; and Paul Casey, executive director at Marsh.

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Issue of April 16

Risks flow around milk processing

By MARK A. HOFMANN

BRUCE JARVIS

Milk might not seem to be a particularly risky commodity. But for Fonterra Co-operative Group Ltd., milk is at the heart of the key risks that John Pearce, Fonterra's general manager, policy and risk, must manage.

Milk is what the Auckland, New Zealand-based dairy processor deals in, making business continuity one of the enterprise's major challenges.

Mr. Pearce points out that there are two parts to Fonterra's business. There is a commodity side that comprises dairy products, such as milk powder, sold mainly to other food manufacturers around the world, he said.

"We also have a strong brand presence, particularly in Australia, Asia and in Chile, selling dairy products under a variety of brand names," he says.

Business continuity is a particularly important concern for Fonterra, he said.

"We have to process enormous volumes of milk," said Mr. Pearce. "At peak, we need to process around 80 million liters of milk a day just in New Zealand, and the problem is you just can't turn that flow off. If you have a major loss, you've got to find somewhere for the milk. It's not environmentally acceptable to dump milk, so we have to find alternative processing options wherever possible. As a result, business continuity is a key element of our manufacturing planning. Our business continuity plans are directly linked to the business objectives and associated risks."

> 'At peak, we need to process around 80 million liters of milk a day just in New Zealand, and the problem is you just can't turn that flow off. If you have a major loss, you've got to find somewhere for the milk.'
>
> John Pearce,
> Fonterra Co-operative Group Ltd.

In addition, Fonterra has an arrangement with the farmers that if there's a force majeure event—an event beyond the control of both parties—and "we can't take the milk, then we will pay the farmers for the milk," said Mr. Pearce. "The difficulty when you couple that with the fact that milk is an environmental pollutant, you can only dump milk for a very limited period of time. Once you've exhausted that time period, you then have to dry the cows off, and that means you're losing milk for the rest of the season. So your business interruption number goes from a relatively small number to a really big number very quickly."

He said Fonterra is looking at strategies to mitigate that risk.

Mr. Pearce said Fonterra partially funds the risk through insurance. That's complicated, he said, because Fonterra's business interruption insurance is built around the loss of a single site, and Fonterra has other milk processing plants to deal with milk flow if a single site out of Fonterra's 28 manufacturing plants in New Zealand is not running.

"There are three sites whereby if they stop operating, we can't deal with the milk flow," he said. "So those sites are quite unique and they cost us a lot in terms of business interruption insurance, because we're insuring that milk for the year. For all of the other sites, there are strategies in place to change product flow, and to change what we make."

Fonterra's policy and risk team includes, from left, Harsha Rana, Katie Seddon, Alisha Kidd, John Pearce, James Wong and Leah Beaudette.

BRUCE JARVIS

Simple rule on buying cover controls insurance expenses

Fonterra businesses must get permission before purchasing

Fonterra Co-operative Group Ltd.'s philosophy of managing insurance is straightforward: None of the individual businesses within the Auckland, New Zealand-based milk processing company is allowed to buy its own insurance without approval from either the chief financial officer or John Pearce, general manager, policy and risk.

"That way we can keep control of what's going on, including control over the total insurance costs," said Mr. Pearce.

Property and business interruption in Australia and New Zealand are under one program, Chile is a separate program, and manufacturing operations in Saudi Arabia, Sri Lanka and Malaysia are all separate programs, he said.

Mr. Pearce said Fonterra has a global liability program led by Allianz S.E., adding "they have been our business partner in this area for a number of years now." ACE Ltd. has led property and business interruption since the formation of Fonterra, and "I believe we have an excellent working relationship with them," he said. American International Group Inc.'s Chartis Inc. unit also is a major business partner on several lines.

"We stuck with AIG though their troubles, and I think that has assisted the development of our relationship with Chartis," said Mr. Pearce.

He added that Fonterra has a captive insurance company, but "it has remained relatively dormant." Under New Zealand law, Fonterra recently obtained a license for the captive insurer, and "we are now looking at the present market trends and evaluating whether we should take some real risk to our captive in the future," he said.

Fonterra has a global arrangement with Marsh Inc., which is Fonterra's sole broker in all except for one market for one particular cover.

"The philosophy of our insurance has been to retain risk where it is sensible to do so and where we are comfortable to do so," he said. "For example, for property and business interruption risk, we doubled our deductible last year, and the primary reason we did that is because we're comfortable with the management of that risk, so we're taking more of the risk to our own account."

—By Mark A. Hofmann

Sound start to Pearce's career

Like so many other risk management professionals, John Pearce, general manager, policy and risk for Auckland, New Zealand-based Fonterra Co-operative Group Ltd., didn't follow a straight line from college to risk management.

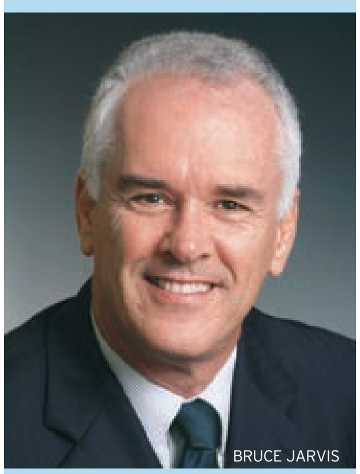
The 58-year-old Australia native studied civil engineering and psychology at the University of New South Wales. Mr. Pearce notes that a strong interest in music led him to Southampton University in the United Kingdom, where he earned a master's degree in audiology. That in turn led him to develop his own business dealing with noise control.

Noise control led to work in the health and safety field, which eventually led Mr. Pearce into risk management in the 1980s. Attending a risk management conference, Mr. Pearce was struck by the fact that attendees "were talking about insurance, insurance, insurance" while devoting very little discussion to prevention of losses, he said.

"I thought, this is madness," said Mr. Pearce. "Why so much about insurance when the focus really ought to be preventing the losses in the first place? It just seemed to me to be an area where there was an enormous gap."

Outside of work, Mr. Pearce continues to pursue his love of music as bass player and vocalist in a seven-person band called "Work in Progress." He says music "is a good stress reliever." He also has what he calls a "real passion for cars." He built a Cobra replica that is 15 years old and still running like new, he says.

Mr. Pearce and his wife Sue, an environmental scientist, have three daughters. Emma is an underwriter based in Sydney; Natalie is an investment banker based in London; and Katie is a schoolteacher in Auckland.

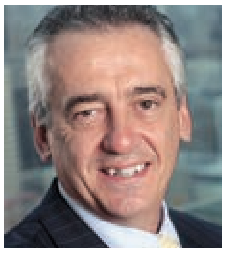


BRUCE JARVIS

Mr. Pearce


Ms. Carli


Mr. Clark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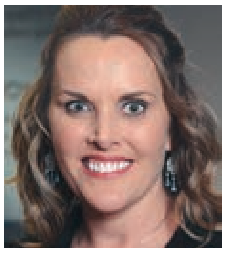
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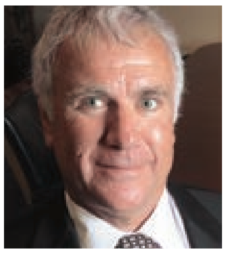
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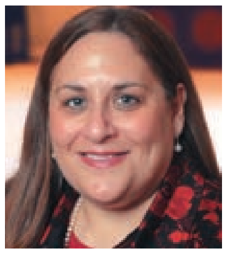
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2012 independent panel of judges

Business Insurance created the Risk Manager of the Year® award in 1977 to increase recognition of the risk management profession and to recognize outstanding performance in the practice of risk management.

The first award was presented in 1978, and the Risk Management Honor Roll® was introduced in 1981.

Honorees are selected by an independent panel of judges that includes winners from the previous year and insurance industry executives. Judges for the 2012 awards were:

FRANÇOISE CARLI, vp, insurance for Sanofi-Aventis Worldwide in Paris and a member of the 2011 Risk Management Honor Roll®.

SCOTT B. CLARK, risk and benefits manager for Miami-Dade County Public Schools and immediate past president of the New York-based Risk & Insurance Management Society Inc.

DANIEL DESJARDINS, senior director, global risk management and insurance at Bombardier Inc. in Montreal and a member of the 2011 Risk Management Honor Roll®.

LISA L. HAVENS, director of risk management and associate general counsel for Scott & White Healthcare in Temple, Texas, and the 2011 Risk Manager of the Year®.

JAMES HAYS, president and CEO of Minneapolis-based brokerage Hays Cos.

MICHAEL LUSK, vp, insurance and risk management at Archer Daniels Midland Co. in Decatur, Ill., and a member of the 2011 Risk Management Honor Roll®.

MARYANN SACKMAN, president and founder of Port Washington, N.Y.-based risk management consultant RMI Consulting Inc.

CARSTEN SCHEFFEL, president and CEO of Allianz Global Corporate & Specialty's London operation.

LAURIE SOLOMON, director of risk management at The Coca-Cola Co. in Atlanta and a member of the 2011 Risk Management Honor Roll®.

METHODOLOGY

The judges scored each nominee on a scale of 1 to 10, according to how well he or she:

- Established and implemented an effective risk management program within the organization.
- Tackled and solved one or more major problems for his or her organization.
- Innovatively applied the diverse tools of risk management and insurance.
- Creatively and effectively used risk financing/insurance to structure a risk financing and risk transfer program that served the needs of the organization.
- Established a workable intelligence system inside and outside the organization that culminated in a flow of information about events and activities that affect the organization's risk management and insurance.
- Skillfully performed the functions of management in the overall organization and within the risk management/insurance department.
- Achieved the most effective program at the optimum cost over the long term.
- Developed technical expertise in any or all of the broad categories included within risk management, leading to a better managerial grasp of the operations aspects of the job.
- Exhibited an attitude and performed activities fostering the advancement of the risk management profession.
- Developed his or her career.

UP CLOSE
COMINGS & GOINGS

SHARON CUNNINGHIS

NEW JOB TITLE: New York-based U.S. health and benefits business region leader for Mercer Health & Benefits, a unit of Mercer L.L.C.

PREVIOUS POSITION: New York-based health and benefits business global consulting segment leader for Mercer.

LOOKING FORWARD TO: Building out our strategies, including our exchange offerings (under) Mercer Health Advantage, Mercer Benefits Choice Exchange, Retiree Exchanges, wellness and total health management, our collective offerings and our government capabilities (for) Mercer Government Human Services Consulting.

GOALS FOR NEW POSITION: Health and benefits professionals should regard Mercer Health & Benefits as the best consulting and brokerage firm at which to work.

FIRST MARKET EXPERIENCE: Actuarial student at Aetna (Inc.).

COLLEGE MAJOR: Economics.

ADVICE: Always keep your sense of humor.

SOMEONE ONCE TOLD ME: Treat every customer as if they are your only customer and you are part of their family.

OUTSIDE THE INDUSTRY, A DREAM JOB: Tour guide. I love to meet and talk with people, learn about new places.

HOBBIES: Travel.

MOST PASSIONATE ABOUT: Mercer and our clients.

FAVORITE BOOK: Just read "Cruising Attitude: Tales of Crashpads, Crew Drama, and Crazy Passengers at 35,000 Feet," written by (Heather Poole), a flight attendant. I travel a lot.

CAN'T-MISS TV SHOW: The news.

ON A SATURDAY AFTERNOON: Doing something with my family.

EMAIL OR PHONE, AND WHY: I prefer meeting people in person.

Comings&Goings

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 email.

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:

Anna Gaynor
Business Insurance
150 N. Michigan Ave.
Chicago, Ill. 60601-7524

agaynor@businessinsurance.com

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- Admiral Insurance Co.
- PMA Cos.

BROKERS
- Willis North America
- Integro Ltd.
- Cooper Gay Swett & Crawford Ltd.
- Western Security Surplus Insurance Brokers Inc.

OTHER
- DLA Piper L.L.P.
- Mayer Brown L.L.P.
- First Consulting & Administration Inc.


Business Insurance
BEST places to work 2012
In this year's Best Places to Work in Insurance program, Business Insurance will recognize commercial insurance industry employers in several categories. We invite applications from top employers from the following types of companies serving risk and benefits managers:
- Retail agents/brokers
- Wholesale brokers/managing general agents
- Reinsurance brokers
- Property/casualty insurers
- Group life/health insurers
- Claims administrators
- Benefits brokers & consultants
- Reinsurers
Presented by:
Business Insurance
Registration Deadline June 8, 2012

CBT: Treat the mind with body

CONTINUED FROM PAGE 1

Study results also have documented that directly linking CBT to workplace issues can help employees return to work sooner.

For example, a study published in the April issue of the American Psychological Assn.'s Journal of Occupational Health Psychology found that employees absent because of common mental health disorders, such as depression and anxiety, returned to the job an average 65 days sooner when provided "work-focused" CBT (see related story).

The study authors said CBT is based on the idea that people's thoughts and perceptions, rather than external factors, drive their attitudes and behaviors.

CBT helps injured workers change negative perceptions of supervisors and workplace conditions that hinder their motivation to return to work, experts said.

It also helps claimants address their perceptions of pain and their emotional response to it, said Dr. Bernyce Peplowski, medical director of California's San Francisco-based State Compensation Insurance Fund.

Using the approach, CBT can help reduce or even eliminate the use of opioid prescriptions or surgeries that have failed to address their chronic pain or are unlikely to address it, said Dr. Jacob Lazarovic, chief medical officer in Sunrise, Fla., at third-party administrator Broadspire Services Inc.

"The data is pretty impressive that a lot of these folks with chronic pain don't do better—and, in fact, do worse—when they are treated conventionally with opioid medications and with spinal fusions and aggressive interventions," Dr. Lazarovic said. However, injured workers "do much better when you are addressing the psychosocial aspects of their condition and using a tool like CBT."

Broadspire analyzes pharmaceutical data and other treatments to identify injured workers suffering from pain who might benefit from the therapy, Dr. Lazarovic said.

A Broadspire peer review team, including a psychologist or psychiatrist, then helps determine whether a potential candidate may benefit from CBT.

Broadspire nurses also use a pain screening questionnaire developed in Denmark when talking to potential CBT candidates, which helps triage claimants at high risk of developing "chronic pain syndromes," he said.

"In our experience, (CBT) hasn't been used enough," Dr. Lazarovic said. However, "it will be used more in the future as we very deliberately select the right patients."

Injured workers who are chosen "have significant pain complaints as part of their injuries" and are "not becoming as functionally active as they should be because of the pain complaints, and the CBT is structured to train them in some coping mechanisms," he said.

SCIF is taking a different approach.

It encourages doctors who treat claimants covered by its workers comp insurance to use a questionnaire that patients can complete in the waiting room, Dr. Peplowski said.

Depending on the answers, a patient ranks at low, medium or high risk of a prolonged absence from the job. For claimants at medium risk, the doctor may spend more time discussing certain psychological issues with them, Dr. Peplowski said.

"If you find they are high-risk, that is when you send them to a cognitive behavioral therapist who could be a psychologist, who could be social worker," she said. "There are many people providing that type of therapy."

SCIF adjusters are allowed to authorize six CBT treatments "right off the bat" if a doctor reports that a claimant is at high risk, "because we realize that time is of the essence," Dr. Peplowski said.

CBT can help patients accept their condition, whether it's an ankle sprain or diabetes. But the sooner therapy is started, the sooner it can help avoid chronic pain problems, she said.

In addition, SCIF adjusters are also instructed to contact the claimant's doctor and suggest CBT for patients who are not progressing as expected after six weeks of medical treatment.

Several risk managers and payers said they have not applied CBT to their workers comp claims, and some decline to authorize it.

"So when we call doctors and say, 'It's all right' (to recommend CBT), doctors often say to us, 'Wow, I didn't offer it because I didn't think you would be willing to pay for it,'" Dr. Peplowski said. "So there is a cultural shift that needs to happen."

When CBT is introduced to employees away from work, it often is separate from workplace problems that may be hindering an employee's return, sources said.

Dr. Andrew Brown, lead psychiatrist for the Boston Police Department, said that when reviewing disability cases as a consultant for Boston-based Liberty Mutual Group Inc., he often notices that CBT is applied without considering a worker's attitude toward their job or their separation from the job.

"What seems to be happening is their ostensible disease state or illness is seen and treated as if it is something separate and distinct from their leaving their employer," Dr. Brown said.

Depending on certain employer characteristics, anywhere from 5% to 30% of a company's nonoccupational disability claims may result primarily from behavioral issues, said Dr. Ed Crouch, national medical director for a Liberty Mutual unit providing group non-occupational disability and life insurance.

That led Liberty Mutual to contact medical providers and recommend psychotherapeutic treatment for appropriate cases.

"Because we do that, we have dramatically improved our outcomes over time," Dr. Crouch said.

Faster return-to-work times, lower costs

A recent study found that using "work-focused" cognitive behavioral therapy to help employees suffering from common mental health disorders can lower employer costs by reducing injured workers' time off the job.

The study, conducted in the Netherlands and published this month in the Journal of Occupational Health Psychology, analyzed data on 168 employees who were absent from work and received CBT from psychotherapists to address issues such as depression and anxiety.

Other studies conducted in Canada and Europe that reported similar benefits from work-focused CBT also examined relatively small groups of employees.

Still, the findings of the smaller studies are "generalizable," said Dr. Glenn Pransky, who conducts research on disability and return-to-work issues for Liberty Mutual Group Inc. in Hopkinton, Mass.

The studies "are drawing from a usual population," he said. "They don't seem to have a huge referral bias."

The April study found that employees absent due to common mental health disorders returned to the job an average 65 days earlier when provided work-focused CBT.

The employees were split into two groups. One received standard CBT without a work focus; the other received the therapy focusing on work-related problems that employees face.

For the work-focused groups, therapists used a CBT technique of consistently explaining to the employees how work offers them self-esteem and daily structure. Therapists also helped them draft a detailed plan for returning to work, focusing on how the employees would engage in specific activities.

While participants in both groups experienced mental health improvements, researchers said, those in the work-focused group returned fully to their jobs an average of 65 days sooner.

The financial advantage was an average of $5,275 for employers whose employees received the work-focused CBT vs. those that did not, researchers said.

"People with depression or anxiety may take a lot of sick leave to address their problems," Suzanne Lagerveld, a researcher at the Netherlands Organization for Applied Scientific Research and lead author of the study, said in a statement.

"However, focusing on how to return to work is not a standard part of therapy," she said. "This study shows that integrating return-to-work strategies into therapy leads to less time out of work with little to no compromise in people's psychological well-being."

—By Roberto Ceniceros

Cyber: Insurance coverage not always the answer

OUNCE OF PREVENTION

In the absence of adequate insurance risk transfer, experts advise companies to employ the following risk management steps to help prevent a data breach:

- Designate a senior executive to be responsible for managing information security.
- Use firewall and encryption technology.
- Use intrusion detection and prevention systems.
- Install anti-virus software that can detect and remove all types of malicious code from systems.
- Prepare, implement and test a formal incidence response, business continuity and disaster recovery plan.

CONTINUED FROM PAGE 4

can't get coverage for the loss of customers that will no longer do business with you because they've lost trust in you."

Similarly, "there are other cyber problems that have to do with the theft of intellectual property—industrial espionage" that may not be covered, Ms. Freeman said. "It's not possible to buy coverage to cover the true asset value."

For example, "the coverage available for the damage, corruption, deletion of intellectual property that's on your system is limited to more or less the cost to replace or restore that on the computer network, but not the asset value. But if a foreign government or business partner has your information, putting it back does not restore you to the place you were before," Ms. Freeman said.

"If you're talking about trade secrets or proprietary information or sensitive intellectual property that gets released as a result of a data breach, the first-party loss may not be insurable in most cases," agreed Tim Stapleton, New York-based assistant vp and professional liability product manager at Zurich North America Commercial.

Insurance coverage is not yet available for many of these indirect losses because "it's very difficult to quantify the 'soft costs' of a data breach," he explained.

In some cases, "fines and penalties will be covered to the extent they are allowed by law," said John Mullen, head of the data security and privacy practice at the national insurance law firm of Nelson Levine de Luca & Horst L.L.C. in Blue Bell, Pa.

However, "if the Federal Trade Commission launches an investigation as a result of a breach…and they are found in violation and are committing unfair or deceptive trade practices, in the majority of these cases the FTC will mandate a comprehensive written security program. They may have to consult with a third party. That's an added cost that may not necessarily be covered by an insurance policy," Mr. Stapleton said.

In addition, "the cost to upgrade security after the fact—most insurance policies will not provide coverage for that expense," he said.

A large-scale cyber attack on critical infrastructure like utilities also is not insurable at this time, experts said.

"Some of these risks are so significant that pricing is challenging for the insurance industry," said Howard Mills, chief adviser of Deloitte L.L.P.'s insurance industry group.

Because insurance is not readily available to transfer costs associated with these cyber risks, experts recommend that companies address potential vulnerabilities before a breach occurs by adopting internationally accepted best practices for network security.

In fact, "if you don't have an enterprise security program, insurers may say you're negligent" and deny coverage if a data breach occurs, said Jody Westby, CEO of cyber risk consultant Global Cyber Risk L.L.C. in Washington.

Market Moves

Liberty Mutual buys Russian insurer KIT

ST. PETERSBURG, Russia—Boston-based Liberty Mutual Group Inc. said it has acquired St. Petersburg, Russia-based KIT Finance Insurance OJSC.

Terms of the transaction were not disclosed.

Privately held KIT Finance Insurance began operations in mid-2008 as a direct distribution insurer providing automobile and property insurance in St. Petersburg and Moscow. The company since has added commercial lines insurance and recently expanded operations into the Russian cities of Novosibirsk, Perm, Orel and Krasnoyarsk.

The company wrote nearly $50 million in gross written premiums in 2011.

"We believe KIT Finance Insurance provides an attractive platform from which to invest in the rapidly growing Russian nonlife insurance market," David H. Long, Liberty Mutual president and CEO, said in a statement. "It's a dynamic company with a driven management team, as indicated by annual growth of 27%."

The acquisition continues Liberty Mutual's overseas expansion. In 2011, 26% of the company's $31.2 billion in net written premium came from its international operations.

Swiss Re, RSA partner on mid-size accounts

ZURICH—Swiss Re Corporate Solutions has entered a partnership with London-based RSA Insurance Group P.L.C. to expand its offerings to U.S.-based multinationals, the Swiss Re Ltd. unit announced.

Under terms of the agreement, the Zurich-based company started using RSA's Global Network on April 1 to offer all-risk insurance capacity, including catastrophe perils, to U.S.-headquartered clients. Swiss Re said RSA's capability to write business in more than 150 countries will appeal to mid- and upper-middle-size U.S companies operating overseas.

"This enhancement to our existing single-carrier product extends Swiss Re Corporate Solutions' capabilities to meet the needs of clients with global locations," said a Swiss Re spokeswoman. "In this respect, the enterprise is consistent with our strategy to focus on the U.S. mid- and upper-mid-market."

Starr receives direct Singapore license

NEW YORK—C.V. Starr & Co. Inc. has received a license to operate as a direct insurer in Singapore.

The Monetary Assn. of Singapore granted the license to Starr International Insurance (Singapore) Pte. Ltd., a wholly owned subsidiary of Starr Insurance & Reinsurance Ltd., which is a subsidiary of New York-based Starr International Co. Inc.

The license will enable Starr to offer property, casualty, marine, aviation, financial lines and political risk insurance.

"We are pleased that the MAS has granted a full license, and we are confident about the opportunities in Singapore," said Ed Navarro, head of international insurance operations for Starr Cos., in a statement.

To lead the new business, Starr named insurance industry veteran Chat Tat Yoong as the principal officer of the Singapore operations.

Mr. Tat Yoong has 20 years' insurance industry experience, including serving as a general manager with Zurich Financial Services Ltd. in Singapore.

"Tat Yoong's experience running branches for multinational insurance companies as well as his excellent relationships will serve us well as we expand our operation," Mr. Navarro said in the statement.

QBE unit acquires Brit's U.K. operations

LONDON—QBE European Operations P.L.C., the London-based business unit of Sydney-based QBE Insurance Group Ltd., has acquired the U.K. regional operations of Amsterdam-based Brit Insurance Holdings B.V., the companies said.

Under the agreement, QBE will acquire the renewal rights for the business underwritten by Brit Insurance Ltd. It also will acquire the operation's 130-member staff spread across eight locations in the U.K.

Brit Insurance Ltd. CEO Ray Cox and QBE's Head of U.K. National Elliot Miller will jointly lead the integration of the Brit and QBE regional operations and locations.

QBE CEO Steven Burns said the combined operations will have meaningful scale and enhance the company's market position. The transaction is part of Brit's ongoing reorganization launched after the company was acquired by Amsterdam-based Achilles Netherlands Holdings B.V. in 2011.

P/C: Property rates rising

CONTINUED FROM PAGE 3

Another line where rates are expected to rise is workers compensation. In its report, Marsh said the rates will rise as the frequency and severity of claims continues to grow. Likewise, Willis projects that workers comp rates will increase 2.5% to 7.5% this year.

"About 90% of insureds are experiencing rate increases on renewals," the Willis report states. "This continues to be most prevalent in California and the Northeast."

The brokers differ on rates for property risks that are not exposed to catastrophes.

Marsh said rates typically rose up to 10% in the first quarter this year, while Willis said it expects such rates to remain flat.

"In the U.S., the property market continues to be in a state of transition with insureds more likely to experience rate increases than those renewing with flat or modest rate decreases," Mr. Klisura said. "We believe that this trend will continue in the short term, with the average rate of increase continuing to rise month over month."

The brokers agree that the U.S. insurance markets remain well-capitalized. Willis said it expects the abundant capacity and lingering weak economy to temper upward pressure on rates.

Reputation: Coverage expanding

CONTINUED FROM PAGE 1

said Susan F. Friedman, New York-based senior vp at Marsh Inc.'s FINPRO practice.

Even with such coverage, a solid crisis plan is essential when an adverse event occurs, experts say (see related story).

Munich Reinsurance Co. offers reputational risk coverage for financial losses and the U.S. insurance unit of Zurich Financial Services Group Inc. recently received form approval for a product that may offer such coverage, sources said.

Zurich declined to comment.

Munich Re began offering reputational risk insurance for financial losses as a bespoke product last year and finalized stand-alone coverage this year, said Benedikt Schermutzki, Munich-based head of new risk solutions in Munich Re's special enterprise risks unit.

Munich Re offers named-peril and all-risks options for the coverage with limits up to €50 million ($65.5 million). It may offer more based on the client and the risk appetite, Mr. Schermutzki said.

Named perils, which can be customized to a client's reputational risks, include product recalls, data breaches and loss of a key person, among others.

The named-perils coverage is triggered when a covered risk event causes "turnover" to drop at least 10%. A survey is conducted among target clients to relate the event to their potential behavior. The survey results determine the payout, he said.

Turnover, which refers to revenue, is used because "we think it's a relatively objective measure. If there is a significant issue, turnover will react," Mr. Schermutzki said.

What actually is covered is a gross profit margin that is a preagreed percentage of the turnover. "This is assumed to be the profit for purposes of indemnification under this cover," he said.

The all-risks policy is triggered by a deterioration of media coverage, which is determined by a third-party media analysis firm. Under this coverage, the target client survey also is conducted.

"If there is then, for instance, after three months a drop in turnover, this would be indemnified," Mr. Schermutzki said.

Pricing for the reputational risk coverage is roughly 1% to 2.5% on line and the all-risks option is slightly more expensive, he said.

While such a policy has not yet been sold, Mr. Schermutzki said there is high interest among the food and beverage, clothing and fashion, sports, toys, fragrances and chain restaurant industries. "In this shape and form, we only just now started to market it," he said.

In an offering it rolled out in May 2011, Lloyd's syndicate R.J. Kiln & Co. Ltd. launched reputation insurance coverage of financial losses as part of its enterprise disruption insurance, offering capacity up to $25 million, said Tom Hoad, London-based underwriter in the enterprise risk division for Kiln.

Risk factors such as large product recalls, loss of consumer data, harming consumer safety, waterborne or food-related illnesses, and adverse events affecting celebrity spokesmen "could actually lead to a loss of profit or revenue at the corporate level because of the change of consumer perception of the brand," Mr. Hoad said.

"The Kiln underwriting product is the structure that links the peril to some form of media communication," Mr. Hoad said. "We will pay the loss of profit attributable to the publication of the negative fact about the company."

Kiln underwrites the program similar to the loss of income stemming from a business interruption, he said.

"Where companies show that there is an incident that we have predetermined in our underwriting criteria that gets into the press…it's the very publication of that incident that then itself loses them profit or revenue" and triggers the coverage, Mr. Hoad said.

Others in the insurance industry have examined the idea.

Rob Yellen, chief underwriting officer of executive liability for Chartis Inc. in New York, said that while Chartis does not provide coverage for financial loss of the value of brand or the company's reputation, it did consider it. The difficulty in determining a dollar value for brand damage was an impediment.

"We looked very heavily at providing that coverage and the fundamental challenge is that there is no formula that will easily give a specific number when you're done. It's an exceptionally difficult thing to calculate," Mr. Yellen said.

"We're going to continue to look at the exposure and how insurance can provide insurance solutions. Our biggest challenge will be balancing what people are willing to pay with an exposure we can take on," he said.

Randy Nornes, executive vp with Aon Risk Solutions in Chicago, said reputational risk coverage dealing with financial loss is in an "exploratory" phase with relatively small limits available, though some large European reinsurers are working to make that number bigger.

"There's been some interest in it. I would say it's more of a middle-market play," Mr. Nornes said, noting that the coverage may suit smaller retail or manufacturing companies that deal with a single product.

Insurance no substitute for risk mitigation efforts

As companies and organizations ponder risk transfer solutions to indemnify lost revenue and profit stemming from reputational and brand damage, experts say effective crisis management remains an essential part of mitigating such risks.

Insurance that covers the loss of revenue and profit attributed to a change in consumer perception of an organization's brand because of a crisis is an element of reputational risk coverage, said Randy Nornes, executive vp with Aon Risk Solutions in Chicago.

"The reality is if you've damaged a brand and someone paid you for the financial loss, you still have a damaged brand and there's not enough insurance in the world to make you whole again because your business is basically damaged now," Mr. Nornes said.

Many insurers offer reputational risk policies that include services from crisis management and public relations firms at a prenegotiated rate to assist the company or organization in the event of a crisis.

"Insurance is a poor substitute for having a current crisis communication plan, having a scenario tested and having insurance cover the costs of reaching out and communicating with your stakeholders," said Rob Yellen, chief underwriting officer of executive liability for Chartis Inc. in New York. "Time after time, we've seen those fundamental elements make a difference when managing brand and reputation risk."

Proper crisis communication can mitigate the overall financial impact of an adverse event, said Simon Barker, a senior reputational risk and crisis management consultant with Marsh Risk Consulting in San Francisco.

"It's not just the underlying event that matters; it's the response to that event that is typically the variable that needs to be controlled and has the biggest impact," he said.

—By Mike Tsikoudakis

Solution: Online resources aid risk management

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and measuring risks across the organization. (Risk Management)

OBESITY AND WORKERS COMPENSATION: STRATEGIES TO IMPROVE CLAIMS OUTCOMES

With obesity often complicating workers comp claims by adding to costs and lost-work time, what can comp professionals do to improve outcomes for obese injured workers? (Workers Comp)

WAGE-AND-HOUR LITIGATION: STRATEGIES FOR MANAGING THIS GROWING RISK

With wage-and-hour lawsuits a major and growing problem for employers, what can companies do to limit their exposure to such litigation and its related costs? (Specialty Risks)

A WORLD OF RISK: MANAGING FOREIGN BRIBERY AND CORRUPTION EXPOSURES

As more mid-market firms look to foreign markets for expansion opportunities, understanding the risks associated with anti-bribery and corruption laws will be vital to their success. (Mid-Market Executive)

EMERGING MARKET STRATEGIES: EXPANDING INTO BRAZIL AND CHINA

How brokers and insurers can navigate the opportunities and challenges of entering and operating in these rapidly developing markets. (Brokers & Insurers)

ALTERNATIVE FINANCING STRATEGIES FOR HEALTH CARE BENEFITS

With health care plan costs far outpacing inflation, employers are looking for new ways to fund their health care benefit programs. (Benefits Management)

WHAT BENEFITS MANAGERS NEED TO KNOW ABOUT HEALTH CARE REFORM

The landmark health care reform law created significant compliance requirements as well as benefits design and strategy issues. (Benefits Management)

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Pensions: Roadblock

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On the other hand, an emerging complication—in an "output" approach—could endanger chances of an agreement on the interest rate relief legislation. Under that approach that has been suggested by several House committee staffers and still is in the discussion stage, limits would be set on how much an employer's plan contributions could increase in a year.

Pension plan groups prefer that lawmakers accept the Senate version, which would change the interest rate methodology and ease employers' burden.

The Senate version "is a more straightforward way of addressing the contribution issue," said Eric Keener, an Aon Hewitt partner in Norwalk, Conn.

Under the Senate bill, as under current law, employers would continue to value plan liabilities based on interest rates on top-rated corporate bonds for three different segments, averaged over 24 months. Segments refer to when benefits are paid to participants.

Under this methodology, interest rates that value plan liabilities are based on the maturity date of the corporate bonds. For example, interest rates on pension liabilities to be paid within the next five years would be based on corporate bonds maturing within five years.

The actual interest rate for each segment in 2012 would have to be within 10% of the average of those segment rates for the preceding 25-year period. In succeeding years, this 10% corridor would increase and top out at 30% in 2016.

If the methodology were in force today, the interest rate used to value benefits paid over the next five years would increase roughly three percentage points, with smaller, though still significant, percentage increases for benefits paid out beyond five years, experts say.

For example, the current required interest rate of nearly 2% to value benefit payments within the next five years would rise to just more than 5% under the Senate bill.

Benefit lobbyists say they hope that congressional wrangling on which approach to use is not likely to result in the pension provisions being dropped permanently.

FSOC: Systemic risk rule fails to allay concerns

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"I think people are still kind of waiting for further clarification about the qualitative measures," such as determining interconnectedness, that will be considered when determining the risk an institution presents, said Howard Mills, director and chief adviser of Deloitte Services L.P.'s insurance industry group in New York and a former New York insurance superintendent.

"I think the industry is still kind of where it was before," Mr. Mills said. While the expectation is that FSOC is "unlikely to give the insurance industry a pass," the list of affected insurers will probably be "very short," he said.

But if the criteria change, other insurers could be added to the list. "What happens in the future with mergers and acquisitions and insurers get bigger? We still don't know," Mr. Mills said.

"There's always going to be concerns when you're talking about a federal agency or group having the authority to impose itself on a private company," said Jim Grande, senior vp in the National Assn. of Mutual Insurance Cos.' Washington office. "We would have preferred that FSOC exclude property/casualty companies from being able to be systemically significant."

He also said the Federal Insurance Office's role in the process should be better defined. FIO can recommend to the FSOC that an insurer be designated as systemically significant, he said. "What we don't know is if FIO is bound by all of the same criteria and rules FSOC is."

> **'Certainly, a few insurers will be captured under the rule.'**
>
> Ben McKay, Property Casualty Insurers Assn. of America

"Certainly, a few insurers will be captured under the rule," said Ben McKay, a senior vp in the Washington office of the Property Casualty Insurers Assn. of America. He said the issue remains whether designation is a "scarlet letter" or a sign of an implicit federal backstop for the institution.

Mr. McKay also questioned how the U.S. process will relate to an international process to determine systemic significance that is supposed to be issued later this year by the Financial Stability Board of the Group of 20 nations.

"We're concerned that the two rules are parallel," he said. "There's a lot of concern about what it means to be on each and what it would mean if you're on one and not the other." Mr. McKay said PCI would prefer that the United States "push its regulations out to the world."

"I think it will be a wait-and-see" situation, said J. Stephen Zielezienski, senior vp and general counsel of the American Insurance Assn. in Washington. "There were a couple adjustments to the metrics. We're pretty comfortable—if in Stage 1 you apply those metrics to regulated property/casualty insurers, you're not likely to get any that trigger those plus-one metrics."

But he also noted that the FSOC declined to eliminate its residual authority to subject some companies to review even if they do not meet the metrics set out in the first stage of the process.

"We'll have to see how it plays out," he said.

RICO: Ruling could affect workers comp decisions

CONTINUED FROM PAGE 3

employers' ability to defend themselves against disputed claims, because doctors could fear being named in RICO suits.

"If you allow the suits in the other states, you're going to find it very difficult as a defense attorney to get a physician willing to give a second medical opinion," said Mr. Juge, a director at law firm Juge, Napolitano, Guilbeau, Ruli, Frieman & Whiteley L.L.C.

Janet Lanyon, an attorney for Cassens and Crawford, said her clients later this month plan to seek an en banc rehearing of the *Brown* ruling. Cassens, Crawford and Dr. Margules deny the workers' claims, said Ms. Lanyon, a shareholder with Troy, Mich.-based Dean & Fulkerson P.C.

Brown vs. Cassens has been in the courts for years. The 6th Circuit initially affirmed a federal judge's 2005 dismissal of the plaintiffs' RICO claims. But the U.S. Supreme Court vacated the 6th Circuit's ruling in 2008 and remanded the case, citing precedent in a separate RICO lawsuit.

The 6th Circuit allowed the workers' RICO claims to move forward in a subsequent 2008 decision, but the U.S. District Court for the Eastern District of Michigan dismissed it again in 2010 citing the state's exclusive remedy provisions concerning workers comp.

"I believe that the case presents novel issues of law," Ms. Lanyon said. "So I think anytime a court is presented with something where there isn't a lot of precedent, the possibility of having differing views is greater."

RICO lawsuits in workers comp could open the door for more litigation and delay injured workers receiving benefits, said Larry Holt, executive director of the National Council of Self-Insurers in New Providence, N.J. The organization filed a joint amicus brief in *Brown* with the AIA and the U.S. Chamber of Commerce.

"Employees who say they're injured at work will be able to prosecute RICO actions in state and federal courts, as well as workers compensation actions," Mr. Holt said.

While there have been a handful of RICO-related workers comp lawsuits in other federal courts, the AIA's Mr. Wood said those cases were resolved without a decision on whether RICO law can trump the exclusive remedy of state workers comp laws.

With the 6th Circuit set to determine legal precedent in *Brown* and *Jackson*, Mr. Wood said industry observers will watch the cases closely.

"It's a significant challenge, because it's undermining state law," he said.

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of Financial Regulation. The agency formerly was known as the Department of Banking, Insurance, Securities and Health Care Administration. The department is home to Vermont's Captive Insurance Division.

Enrollment in HSAs surges: Fidelity

Enrollment in health savings accounts is surging as more employers are moving to consumer-driven health care plans, according to Fidelity Investments. Fidelity said the number of HSAs it administered in 2011 jumped to 119,000, up 61% compared with 74,000 in 2010, its greatest annual increase.

N.Y. to establish state insurance exchange

New York Gov. Andrew Cuomo has signed an executive order to establish a state health insurance exchange. Under the Patient Protection and Affordable Care Act, states are required to establish their own comparative, market-style health insurance exchanges by October 2013 or be rolled into a federally managed exchange.

Mass. health costs continue to fall

Costs continue to decline for the program that is the lynchpin of Massachusetts' pioneering 2006 health care reform law. That program, Commonwealth Care, is available to uninsured adult state residents with incomes up to 300% of the federal poverty level. Commonwealth Care has 173,000 enrollees. For the next fiscal year, which begins July 1, state officials said the projected monthly cost per enrollee will be $384, down from a projected $407 per month in fiscal 2012 and actual costs of $427 per month per enrollee for fiscal 2011.

FIREFIGHTER'S OTHER FIGHTS SPUR PROBE

A Los Angeles firefighter who was discovered moonlighting as a mixed martial arts star while on workers compensation disability leave now faces what may well be his most vexing opponent: the L.A. District Attorney's Office.

Raphael Davis, who prosecutors said received $30,000 in workers comp disability payments between December 2008 and May 2011, was arrested April 10 at his Lomita, Calif., home on four felony counts of insurance fraud. He faces up to five years in prison if convicted.

While not copping to committing fraud, Mr. Davis, 35, posted news of his workouts and matches on Twitter. For example, he announced on March 7 that he had just completed a 2.5-mile run in 16 minutes, 44 seconds.

Known in MMA circles as "Noodle," Mr. Davis began competing in 2006, taking part in such martial arts competitions as the Cage of Fire, the Strength and Honor Championship and the Bellator Fighting Championship. His most recent competition was on March 24 in Geneva, according to the MMA discussion forum, Sherdog.com. His record was 12-2.

Mr. Davis also competed against other firefighters and law enforcement officials in events staged by a fighting club known as Badge-Fights. Mr. Davis won his bout with Los Angeles police officer Phillip Miller in a 2009 Palms Springs competition designed to raise money for charity, according to local news reports.

CONTRIBUTING: Matt Dunning, Mark A. Hofmann, Joanne Wojcik

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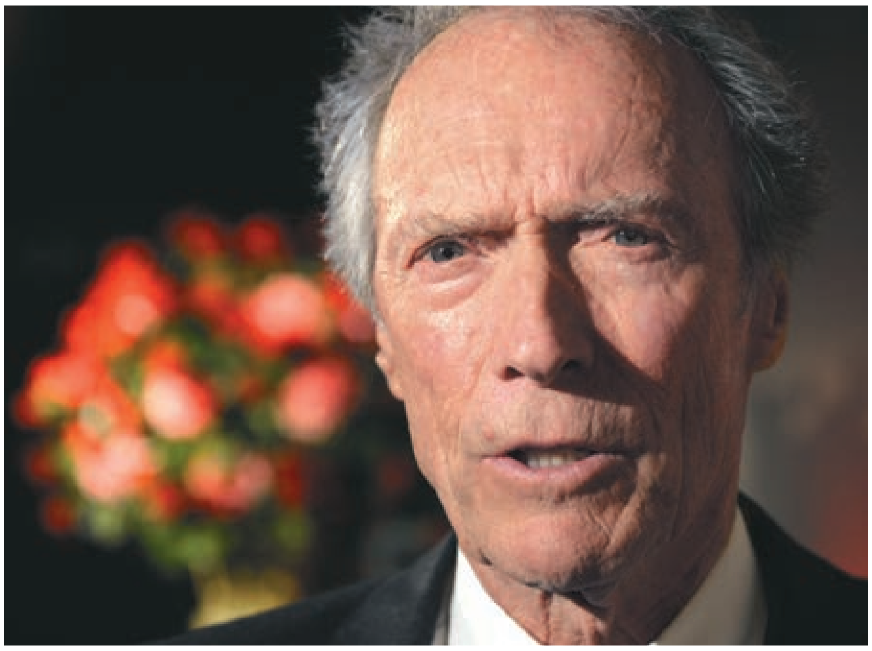

AP PHOTO

Clint Eastwood is suing a furniture seller and related website over a line of furniture pieces bearing his name.

Eastwood sues for a few dollars more

After a career of mowing down punks and desperadoes, Clint Eastwood has fixed his steely glare on a new enemy: Evofurniture L.L.C.

According to a report, Mr. Eastwood is suing the East Rutherford, N.J.-based furniture seller—and a related website, Harrington Park N.J.-based InMod.com—in Los Angeles County court over a line of furniture pieces bearing the actor's name.

According to the reports, InMod.com and Evofurniture had been marketing entertainment centers, ottomans and chairs using specific references to some of Mr. Eastwood's most memorable films, including "Dirty Harry" and "The Good, the Bad and the Ugly." The pieces apparently have been removed from the Evofurniture and InMod websites.

Mr. Eastwood is seeking a permanent injunction against the companies, as well as unspecified damages, according to the report.

It is not the first time a furniture company has been taken to court for trying to appropriate a legendary leading man's name for its products. In February, Arcadia, Wis.-based Ashley Furniture Industries Inc. agreed to pay Marlon Brando's estate $356,000 for using the late actor's name to sell a line of sofas and sectionals.

MO'NIQUE STARTS WAR OF WORDS WITH LANDLORDS

Actress Mo'Nique is suing her former landlords in Fulton County, Ga., demanding that she should be let out of her $22,000 monthly lease because the house she recently rented smells like dog feces, has an overflowing septic tank and a broken security gate.

According to news reports, Mo'Nique, who is best known for her award-winning role as a mentally disturbed, abusive mother in the film "Precious," filed her suit in response to litigation initiated by her landlord, which asserts that the actress owes $370,000 in unpaid rent and other charges for reneging on her two-year rental agreement.

For her part, Mo'Nique claims she was given a 60-day grace period as part of a verbal agreement she reached with her landlords when she signed her contract in March.

After an email exchange between Mo'Nique and her landlords was leaked to the press, Mo'Nique also asked the court to seal the case to protect her privacy rights.

In the emails, Mo'Nique's husband, Sidney Hicks, accused the landlords of being alcoholics and hiring illegal workers. In response, the landlords suggest Mr. Hicks' marijuana use may have altered his sense of smell.

Calls to Mo'Nique's lawyer were not returned. Her landlords could not be reached for comment.

Mo'Nique

FAMILY PUTS STOCK IN OLD CERTIFICATE

Here's another case of one man's trash being another man's treasure. Maybe.

It seems that in 2008, Tony Marohn bought an old oil company stock certificate at an estate sale. According to published reports, Mr. Marohn found out that the company that issued the stock—Palmer Union Oil Co.—had a tie to The Coca-Cola Co.

Mr. Marohn died in 2010, but not before contacting Coca-Cola and saying that the certificate for 1,625 shares of Palmer Union entitled him to 1.8 million shares of Coca-Cola stock, which is worth about $130 million.

His family is pursuing a lawsuit against Coca-Cola to seek the stock, but it should come as little surprise that Coca-Cola views things differently, holding that a stock certificate from a defunct oil company does not translate into company stock.

The case is being heard in the Chancery Court of Delaware, which often is called upon to settle difficult corporate cases.

It will be up to that court to decide whether Mr. Marohn accidentally stumbled across the equities equivalent of a winning Powerball ticket, or whether he simply ended up with an old piece of paper.

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