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Business Insurance

May 12, 2008

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HEDGE FUND'S RUNOFF VENTURE TURNS SOUR, SPARKS LEGAL WAR WITH BERKSHIRE UNIT / PAGE 3

BRIAN DUPERREAULT OUTLINES PLANS FOR MARSH / PAGE 3

SENATE REJECTS ATTEMPT TO EXPAND FLOOD PROGRAM TO COVER WIND / PAGE 3

In Brief

P/C rates fall in April: Survey

Property/casualty insurance rates dropped by an average of 12% in April compared with the same period last year, MarketScout reported. The electronic insurance exchange found that general liability rates experienced the greatest decline, falling 15% from the levels of April 2007. Rates for small accounts declined 14%, while rates for the largest accounts were down 11%, according to MarketScout.

Sprint faces suit over retirement plans

A lawsuit filed against Sprint Nextel Corp. alleges that the wireless provider mismanaged employee pension benefits by continuing to invest heavily in its own stock while the company's financial state crumbled. The

See **IN BRIEF** page 33

SPOTLIGHT

RIMS 2008: TRENDS

Few covered for product recalls; professional development combines

education, intangible skills; workers comp reforms need tweaks, face challenges; plan and practice to avoid workplace violence; wrap-up program requires some tough decisions.

Page 10

Jail threats color Mexican disputes

Tactics in coverage fights include arrests

By ROBERTO CENICEROS

MEXICO CITY—The recent jailing of an American International Group Inc. executive in Mexico City follows a strategy that plaintiffs apply regularly in Mexico to pressure defendants into settling civil lawsuits, attorneys said.

The case also provides an example of a new threat that directors and officers for large corporations face in Mexico, a broker said.

Mexican law allows civil litigants to level criminal allegations, such as fraud, which a prosecutor can then use to bring criminal charges against a defendant involved in a civil lawsuit.

But the strategy rarely results in the jailing of a top corporate executive. Companies usually pursue legal actions to prevent the arrest of their employees, the attorneys add.

In the AIG case, Mexico City authorities jailed Norberto Luis Ferrara Perini, the New York-based insurer's top executive for Mexico Seguros Interamericana S.A. de C.V., on April 25. He was held on fraud charges and released about five days later.

To gain his release, AIG settled an ongoing commercial policy coverage dispute with TV Azteca S.A. de C.V. over a directors and officers claim.

An AIG spokesman declined to disclose the settlement amount.

But until Mr. Ferrara's arrest, AIG had argued in civil court that its D&O policy specifically excluded coverage for TV Azteca's claim.

In return for AIG settling the civil dispute, TV Azteca withdrew its criminal allegations and advocated the release of Mr. Ferrara, who was arrested together with an outside attorney for AIG, the spokesman said.

An equivalent legal maneuver to the Mexican practice of allowing a civil litigant to pursue criminal charges does not exist in the United States, said Antonio Maldonado, managing partner at Maldonado & Markham L.L.P., a business litigation firm with offices in San Diego and Tijuana, Mexico.

But under Mexico's legal system, a prosecutor can pursue criminal charges based on accusations brought by a party in a civil suit. The party that requested such a criminal action can also withdraw it, Mr. Maldonado said.

It's a strategy parties commonly apply in Mexico to help leverage a settlement in civil cases, Mr. Maldonado said.

Attorneys representing corporations in Mexico regularly suggest to their clients that they apply the strategy to pressure adversaries into a settlement, said Antonio Salazar Escobar, a business litigation attorney at Haynes & Boone S.C. in Mexico City.

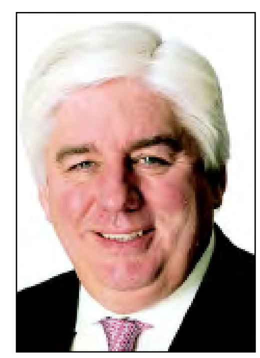
See **MEXICO** page 33

AIG seeks to rebound from $7.8 billion loss

Insurer announces plan to raise more capital

By JUDY GREENWALD

NEW YORK—Despite American International Group Inc.'s record $7.81 billion first-quarter loss, observers say it will remain a financial powerhouse.



Mr. Sullivan

AIG President and Chief Executive Officer Martin J. Sullivan's job is secure for now, but observers add that he is under considerable pressure to turn things around.

AIG last week reported that it lost $7.81 billion in 2008's first quarter compared with profits of $4.13 billion during the year-earlier period. The loss reflects a $9.11 billion pretax charge for a net unrealized market valuation loss related to AIG Financial Products Corp.'s super senior credit default swap portfolio.

AIG said it plans to raise another $12.5 billion in capital to strengthen its balance sheet. It said it plans to raise about $7.5 billion through the sale of common stock and equity units, including forward-purchase contracts and junior subordinated debt securities. It also expects to issue fixed-income securities at a later date.

In its property/casualty operations, AIG posted $12.08 billion in net premiums written—a 0.2% decline. It reported a 96.9% first-quarter combined ratio vs. 87.5% for the comparable period in 2007.

During an analyst call last week, Mr. Sullivan said the housing market remains weak and credit market

See **AIG** page 32

Maine employers fight health plan bailout

Pioneering program to get tax-based infusion

By JERRY GEISEL

AUGUSTA, Maine—Business groups have formed a coalition to fight recent tax increases designed to shore up Maine's struggling program to provide state-subsidized health insurance coverage.

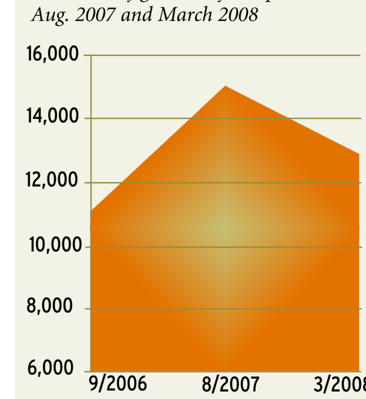
The coalition, Fed Up with Taxes, is made up of a dozen business trade groups and is leading a drive to put a proposal on the November ballot to repeal the taxes that state legislators approved last month.

The taxes are to replace a controversial assessment on health insurers that hasn't come close to providing the revenue needed to fund DirigoChoice, the state-subsidized program offered to small employers and individuals.

See **MAINE** page 31

THE UPS AND DOWNS OF ENROLLMENT IN DIRIGOCHOICE

Enrollment figures are for Sept. 2006, Aug. 2007 and March 2008



Sources: Mathematica Policy Research Inc., Dirigo Health Agency

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RISK MANAGER OF THE YEAR

See highlights from RMOY luncheon online

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Business Insurance®

REPORTING ON CORPORATE RISK AND EMPLOYEE BENEFIT MANAGEMENT NEWS

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Marsh cuts jobs, looks to sell parts of Kroll

First steps in Duperreault's plan to improve results at broker still recovering from 2004 crisis

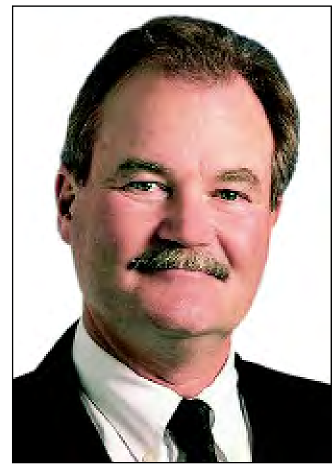
By SALLY ROBERTS

NEW YORK—Marsh & McLennan Cos. Inc.'s top executive said MMC plans to divest some of the underperforming assets of Kroll Inc. and lay off more than 450 employees in efforts to restore profitability at the company.

In a conference call with analysts last week, MMC executives alluded to the possibility of further layoffs in the future.

"I didn't take the job to be a caretaker or oversee incremental improvement and results," said Brian Duperreault, who became president and chief executive officer of MMC in January. "There's a lot of work we've got to do, but the journey's begun."

Word of the layoffs and planned divestitures came as MMC reported a first-quarter 2008 loss of $210.0 million compared with a $268.0 million profit in the first quarter of 2007. During the quarter, MMC recorded a noncash impairment charge of $425 million on Kroll's goodwill, which led to the loss. Total MMC revenues increased 8.4% to $3.05 billion (see box, page 31).



Mr. Duperreault

Analysts say MMC is moving in the right direction in cutting expenses, but they note more needs to be done to improve margins following the loss of hundreds of millions of dollars in annual contingent commissions that Marsh Inc. gave up as part of its $850 million fraud and bid-rigging settlement with New York authorities in 2005.

"Brian Duperreault has some big challenges in front of him driving revenue growth in Marsh in a soft market and also cutting expenses at the same time," said Mark Lane, a principal and research analyst with William Blair & Co. in Chicago. "I would say it's almost impossible to do in the near term."

One of his first goals, Mr. Duperreault has said, is to fix the underperforming parts of MMC, including MMC's security consulting unit Kroll. MMC paid about $1.9 billion to acquire Kroll in July 2004, just a few months before then-New York Attorney General Eliot Spitzer filed fraud and bid-rigging charges against the company.

While the plan had been to com-

See **MARSH** page 31

Runoff deals gone bad spark complex legal war

Berkshire Hathaway unit sues hedge fund

By DOUGLAS McLEOD

NEW YORK—Ten years ago, Greenwich Street Capital Partners II L.P. saw an opportunity in running off solvent U.S. insurers: The New Jersey hedge fund acquired two such insurers in partnership with runoff manager Cavell USA Inc., backed by $590 million in loss portfolio reinsurance from Berkshire Hathaway Inc.'s National Indemnity Co.

A decade later, the deals have gone sour, prompting a widening legal war over control of the two insurers.

National Indemnity now is suing GSC and Bermuda-based Enstar Group Ltd., a runoff firm that replaced Cavell, charging that they improperly tried to take over handling claims for the insurers, Seaton Insurance Co. and Stonewall Insurance Co.

The suit follows a National Indemnity complaint last month to block arbitration demands by the two insurers, which are seeking to rescind the reinsurance coverage. Seaton and Stonewall—former subsidiaries of John Hancock Financial Services and American Financial Group Inc., respectively—lost similar arbitration cases last year.

Meanwhile, Seaton and Stonewall are suing former manager Cavell, alleging fraud and charging that Cavell abdicated its claims servicing duties to National Indemnity, damaging the value of the two insurers. Cavell has filed a motion to dismiss the suit on jurisdictional grounds, and has filed its own complaint against the two insurers in a U.K. court.

As the disputes escalate, National Indemnity continues to control claim payments by Seaton and Stonewall despite the current runoff management agreement between the insurers and Enstar. Enstar also has an application pending before insurance regulators in Rhode Island—where the two insurers are domiciled—to acquire 44.4% of Seaton and Stonewall. A decision on the application is expected shortly.

> **$590M**
>
> **IN LOSS PORTFOLIO**
> reinsurance written by National Indemnity Co. backed Greenwich Street Capital Partners and Cavell USA Inc.'s acquisition of Seaton Insurance Co. and Stonewall Insurance Co., both of which were are runoff.

Lawyers for National Indemnity and GSC declined to comment on the litigation. Representatives of Enstar could not be reached.

Ken Randall, chairman and chief executive officer of Cavell parent Randall & Quilter Investment Holdings P.L.C. in London, called the charges "nonsense" and said that both he and Cavell "strenuously deny what is alleged."

Seaton, formerly known as Unigard Security Insurance Co., and Stonewall wrote insurance and reinsurance and were heavily exposed to asbestos and pollution losses; both ceased all underwriting by the 1990s.

Seaton last year reported incurred losses that will exhaust its $350 million limit with National Indemnity, while Stonewall has ceded $135.9 million under its $240 million cover, leaving it $104.1 million for future claims, according to the insurers' 2007 financial statements. Seaton's surplus dropped $14.9 million last year to $25.1 million at year-end, while Stonewall's rose slightly to $59.3 million.

The prospects for the runoff busi-

See **RUNOFF** page 30

REUTERS

A measure that would have added windstorm damage to the National Flood Insurance Program was defeated in the Senate.

Senate rejects attempt to widen flood program

Bill sought to add wind losses to federal cover

By MARK A. HOFMANN

WASHINGTON—The Senate's overwhelming rejection of an amendment to expand the National Flood Insurance Program to also cover windstorm damage likely dooms the expansion in this Congress, even though the House previously voted in favor of it, observers say.

But rejecting the expansion may have helped guarantee the NFIP's continued existence, some observers say.

President Bush's advisers have said repeatedly that they would recommend a veto if a windstorm provision was added to any bill that extends the NFIP beyond its current Sept. 30 sunset. The insurance industry is also against expanding the flood program to include wind cover, which some have said is unnecessary and potentially costly for taxpayers.

Coastal area lawmakers, notably Rep. Gene Taylor, D-Miss., pushed for the expansion, holding that the private market was not providing the wind coverage that coastal residents needed at a reasonable price. His view carried the House, but an amendment adding wind coverage to a Senate reauthorization bill failed last week on a 74-19 vote despite the efforts of Gulf Coast senators.

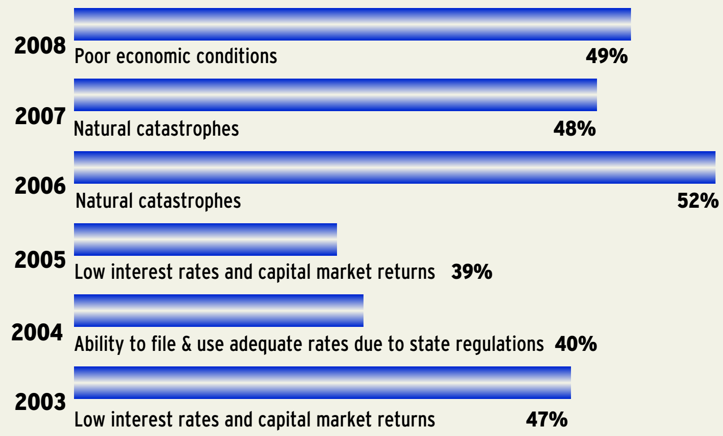
The Senate is expected to vote on the NFIP extension bill this week. The Flood Insurance Reform and Modernization Act would extend the program through 2013.

Last week's Senate vote came one day after the Government Accountability Office issued a study that outlined the difficulties the Federal Emergency Management Agency would face in implementing a combined federal flood and windstorm program such as that contained in the House flood insurance bill. GAO said adding wind coverage could expose the government to losses that "greatly exceed expectations."

See **WIND** page 30

TOP ISSUES FACING THE PRIMARY INSURANCE INDUSTRY

Top industry concerns for past six years and percentage citing concerns



Source: Munich Re CEO Roundtable Survey

Underwriting, economy top insurer concerns

Survey responses show negative outlook from industry CEOs

By JUDY GREENWALD

Insurance industry executives are looking closely at how the economy is likely to influence their business.

That was the major theme that emerged from an annual survey of industry executives who attended Munich Reinsurance America Inc.'s CEO Roundtable last week.

Pina Albo, president of Princeton, N.J.-based Munich Re America's national clients group, said one indication of this concern is that 70% of the 37 executives surveyed said maintaining underwriting discipline and price adequacy was the most critical issue facing their company, and their top concern.

While maintaining underwriting discipline has been the top concern in previous years, the 70% response contrasts with only 40% who cited this in last year's survey. This reflects that in "these very tough economic and insurance industry conditions, these are the kinds of things that will carry us through," said Ms. Albo.

Another indication of insurance executives' concern with the economy is that 49% of the respondents cited poor economic conditions as the most critical issue the primary insurance industry faces overall. This factor was "nowhere to be seen" in previous years' surveys, said Ms. Albo, and it demonstrates that these economic issues "more directly affect the insurance industry on a day-to-day basis."

Asked to indicate the three areas where their companies had a competitive advantage, 54% of respondents ranked underwriting capability first, followed by claims processing and management, which was cited by 46% of respondents. Ms. Albo said it was particularly interesting, though, that in third place was a strong reserve position, cited by 41% of respondents. "That shows up for the first time as something that gave you a competitive advantage," said Ms. Albo.

Insurers "use these strong reserve positions to basically buoy results. That's helped the industry look good," she said, although it remains to be seen how much in excess reserves will remain.

The survey also showed a tendency towards a negative outlook. While 54% of the executives said the financial outlook for 2008-2009 will be unchanged from 2007-2008, 32% said the outlook is poorer and 3% said it is significantly poorer.

That "also points to 2007 being such a very good year," said William Fellows, Munich Re Ameri-

See **SURVEY** page 32

Errors & Omissions

- A May 1 e-mail alert on the most-viewed stories in April at *www.BusinessInsurance.com* contained an error. The top story was the jailing of an American International Group Inc. executive in Mexico. The executive, Norberto Luis Ferrara Perini, was not charged and was released April 30 after withdrawal of a criminal complaint in a civil suit.
- An item in the April 30 *Business Insurance* RIMS Daily News & Conference Coverage misidentified engineering products maker Sandvik Inc. The daily editions produced at the RIMS annual conference can be seen at *www.BusinessInsurance.com/RIMS2008*.
- Due to an editing error, a sentence was omitted from an April 28 article about the insurance programs of Scott H. Beckman, vp-risk management and insurance at Advocate Health Care Network. Missing from the article was the sentence, "Yet Mr. Beckman considers Zurich Financial Services Group to be a good insurance company." Zurich was removed as Advocate's lead property insurer but remains on the program, writing a $250 million layer.

MBIA sues D&O insurers to recover costs for finite-related class action

Financial guarantee insurers say Chubb, ACE should pay for defense

By DAVE LENCKUS

NEW YORK—MBIA Inc. is suing two directors and officers insurers for refusing to cover the financial guarantee insurer's costs to fight regulatory investigations and shareholder lawsuits related to its efforts to mitigate a huge loss 10 years ago.

Armonk, N.Y.-based MBIA filed the lawsuit last week in U.S. District Court in New York against its primary D&O insurer, Federal Insurance Co., a subsidiary of Chubb Corp. of Warren, N.J., and excess insurer ACE American Insurance Co., a subsidiary of Philadelphia-based ACE USA.

Both Federal and ACE American wrote $15 million of claims-made coverage for MBIA between February 2004 and February 2005.

The coverage dispute was triggered when the Delaware Valley Group of the Allegheny Health, Education & Research Foundation, a Pittsburgh-based hospital chain, defaulted on a bond in 1998 that MBIA guaranteed. The default resulted in a loss exceeding $250 million for MBIA, according to its lawsuit.

To mitigate the loss, MBIA entered into finite risk transactions with three reinsurers.

The Securities and Exchange Commission began investigating the legitimacy of those transactions in 2001 and in November 2004 subpoenaed MBIA about the deals. The same month, the New York attorney general's office also subpoenaed MBIA about the transactions.

The SEC then broadened its investigations to examine whether MBIA's financial statements accurately reflected losses involving other policyholders.

MBIA in January 2007 paid $75 million to settle with the SEC and other authorities over the reinsurance transactions covering the

See **MBIA** page 33

Risk management education evolves

Schools adapt programs to reflect changes in global marketplace

By COLLEEN McCARTHY

NEW YORK—As enrollment grows at university risk management and insurance programs, schools are adapting their offerings to meet the needs of the rapidly changing industry, program directors say.

"The industry is changing perceptions in a hurry, and it's really fueling interest" in risk management and insurance programs, said Larry Cox, Robertson chair of insurance and professor of finance at the University of Mississippi, one of the oldest insurance and risk management programs in the United States.

Under Mr. Cox's guidance, the 60-year-old Oxford, Miss., program has grown to 130 students this year, compared with just 19 in 1995, thanks to a modernized curriculum and creative recruiting techniques.

"Sometimes, we're in the business of conversion," Mr. Cox said. Students enrolled in an introductory risk management and insurance course offered through the school of business administration often are recruited into the program, he said.

"We make it a very popular class and bring in some exciting industry professionals, as well as some recent graduates who are enjoying early success in the industry. Once students learn about risk management and see all the different opportunities available to them, they're hooked," Mr. Cox said.

Enrollment, particularly among non-U.S. students, is also on the rise at St. John's University's School of Risk Management, Insurance and Actuarial Science in New York. About 300 students are participating in graduate and undergraduate programs, and enrollment has increased steadily over the past five years, said Director Maureen Furlong-Weber. About 30% of undergraduates and 40% of graduate students are from other countries, including Bermuda, China, India and Taiwan, she said.

Enrollment of non-U.S. students is likely to grow, experts say, as new financial centers evolve in places such as Dubai, United Arab Emirates; Hong Kong; and Mumbai, India, and create insurance opportunities.

"This is a global industry, and it is creating enormous opportunities for students who are willing to take them," said Robert Hartwig, president of the New York-based Insurance Information Institute.

Schools are recognizing the need to adapt and modernize their programs to stay on top of changes in the industry and prepare students for the competitive global marketplace.

See **SCHOOLS** page 30

Experts to discuss buying process

Hines Symposium to focus on relationships

CHICAGO—The 2008 Harold H. Hines Jr. Memorial Symposium in Chicago on May 15 will feature an expert panel discussing the business relationships among risk managers, brokers and underwriters.

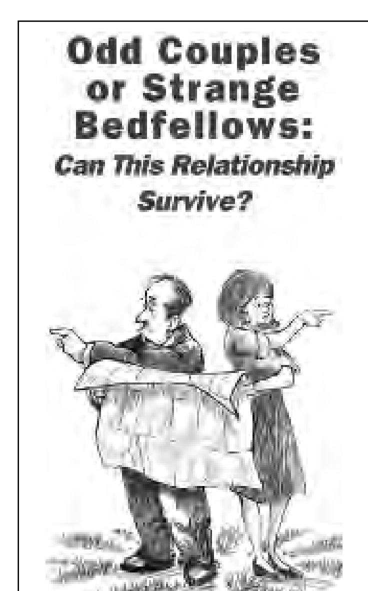
In a discussion titled "Odd Couples or Strange Bedfellows: Can This Relationship Survive?" panelists representing risk managers, brokers and insurers will explore a variety of topics relating to the insurance-buying process.

Panelists will consider questions such as where are disconnects occurring, why are they occurring, and what can be done to improve the process for buyers?

Held annually under the auspices of the Chicago chapter of the Risk & Insurance Management Society Inc., the Insurance School of Chicago and *Business Insurance*, the Hines Symposium honors the memory of the late Harold H. Hines Jr. Mr. Hines was president and chief executive officer at Rollins Burdick Hunter Co., now part of Aon Corp., and was an outspoken advocate of risk management.

Topics for the event in years past have included the role of new capital in the insurance industry and the value of enterprise risk management. The Hines Symposium traditionally attracts panels of senior

See **HINES** page 6



Hines: Experts eye state of buying process

CONTINUED FROM PAGE 4

executives and leading risk managers to discuss issues of concern to buyers, brokers and insurers.

Panelists for this year's symposium are:

- Tim Kelly, president and chief executive officer of the Houston office of Kansas City, Mo.-based brokerage Lockton Cos. L.L.C. Mr. Kelly also is the director of Lockton's National Financial Service Practice. During his more than 25-year career in insurance, he has held positions in underwriting and brokerage for leading industry companies.
- Rod Fisher, senior vp and division manager of the Central Division for Factory Mutual Insurance Co. in Park Ridge, Ill. Mr. Fisher is responsible for the Midwestern operations of Johnston, R.I.-based FM Global, which distributes its products through both broker and direct channels.
- Claudia Temple, assistant treasurer of global risk management and insurance at Kraft Foods Inc. in Northfield, Ill. Before joining Kraft, Ms. Temple held risk management positions at Borg-Warner Automotive and Brunswick Corp. She is an active member of the Chicago chapter of RIMS.

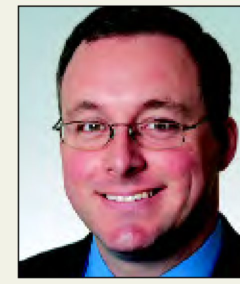
Business Insurance Editor Regis Coccia will moderate the panel discussion.

The 2008 Hines Symposium will take place from 2:30 to 4:30 p.m. on Thursday, May 15, at the Union League Club of Chicago at 68 W. Jackson Blvd. There is no cost to attend, and a cocktail reception will be held immediately following the symposium.

To register for the symposium, please send an e-mail with "2008 Hines Symposium" in the subject line along with your name, title, organization and phone number to Allison Martinat at *amartinat @businessinsurance.com*.

Commentary

So much to 'say' about Super Duper vs. Mattel



REGIS COCCIA

Editor Regis Coccia's commentary appears periodically. He can be reached at: rcoccia@businessinsurance.com

Trademark infringement litigation doesn't usually set my heart racing, but I was intrigued recently by a case pitting a mail-order publication house against the world's largest toy manufacturer that hit close to home.

Super Duper Publications, a Greenville, S.C.-based publisher of special-education materials, has been battling El Segundo, Calif.-based Mattel Inc. for the past four years over what essentially are the words "and say" and "say and" in each company's products.

A jury in the U.S. District Court for the District of South Carolina earlier this month found that seven of 15 Super Duper marks infringed on and diluted Mattel's registered trademark on its SEE N' SAY brand of pull toys. Those marks included SEE IT! SAY IT!, SAY AND SING, FISH AND SAY, FISH & SAY, SORT AND SAY and SORT & SAY. The jury found no infringement, however, in eight other marks used by Super Duper, including SAY AND DO, SAY & DO, FOLD AND SAY, FOLD & SAY, SPIN SAY AND DO and SPIN SAY & DO. But the jury did award $400,000 in damages. Super Duper is appealing the verdict, said M. Thomas Webber Jr., the publishing company's chairman and chief executive officer.

I have perspective on this case because my family happens to be customers of both Mattel and Super Duper Publications. Our youngest child is autistic, and his therapists use a variety of products sold by Super Duper to good effect. Mattel toys have provided joy and cluttered our home since our kids were babies. I have a Mattel SEE N' SAY that still works, believe it or not.

On the face of it, this case looks like David and Goliath. Mattel has existed more than 60 years and produces an array of toys under brands that are household names, including Fisher-Price and Barbie. Super Duper Publications was founded in 1986 by Mr. Webber and his wife, a speech-language pathologist, to help children with speech disorders ranging from mild to severe. Their products include books, cards and games that prompt children to speak.

Mr. Webber said Super Duper has been using the word "say" since 1987, and no one ever raised an objection until 2004, when Mattel objected to Super Duper's application to register its SORT AND SAY board games. "No one in the education field has ever had a problem with our trademarks and trade names. To this day, we do not understand why Mattel has had a problem with them," Mr. Webber wrote in an e-mail response to *Business Insurance*.

"It was never our desire to engage in extremely costly litigation against the world's largest toy company. In our opinion, Mattel gave us no choice. Our entire business revolves around the SAY word. We do not believe that Mattel, or anyone else, should 'own' it and try to prevent others from using it. We certainly never thought that we had a right to exclusive use of the SAY word," Mr. Webber wrote.

A call to Mattel's attorney was not returned late last week.

This case is ironic on several levels, not the least being that both sides have essentially the same goal: Super Duper sells products that enable special-needs children to achieve age-appropriate play and speech skills, while Mattel sells toys for kids to play with. "One of the real ironies of this situation is that there is nothing inconsistent with Super Duper's therapy-based products helping autistic and other special-needs children, and the same children using or playing with the Mattel toys," Mr. Webber noted.

> **The case is ironic on several levels, not the least being that both sides have essentially the same goal.**

Mattel clearly cares about the well-being and development of children. Its foundation donates millions of dollars annually to worthy causes worldwide, and the company is well-known for donating toys to comfort children following natural disasters.

It's ironic that a toy company is disputing rights to use the word "say," because delayed speech and undeveloped play skills are common characteristics of autistic children. It's ironic that the trademark infringement case seeks to stop the sale of Super Duper products that may expand Mattel's customer base.

Instead, why don't both sides work together, to their mutual benefit and the greater good of the kids they're each trying to serve? Say, there's an idea.

Business Insurance OPINIONS

Far from 'flawed,' HSAs fill a huge gap

WHEN IT COMES to health savings accounts, it's clear that Rep. Pete Stark, D-Calif., needs an education.

Rep. Stark, who chairs the House Ways and Means Health subcommittee, last week described HSAs, and the high-deductible health insurance plans to which HSAs must be linked, as "flawed policy."

HSAs, Rep. Stark said, "make things worse, not better." The Tax Code should not be used to encourage people to buy coverage that may be woefully inadequate, he said, referring to the tax breaks allowed for contributions to and distributions from HSAs.

How HSAs, as Rep. Stark puts it, make things worse is beyond us.

Because the arrangements are so much less costly when compared with more traditional health insurance plans, employers, as well as individuals in many cases, can purchase health coverage that otherwise would be unaffordable.

In an ideal world, everyone would have coverage that paid for virtually all health care expenses.

There is no question that HSA-linked health insurance plans do not offer the same level of coverage as more traditional plans. And yes, in an ideal world, everyone would have coverage that paid for virtually all health care expenses.

As Rep. Stark should know, such plans are no longer affordable. With that reality in mind, we would much rather see people enrolled in plans that may not cover everything than to have no health insurance coverage at all.

This week, Rep. Stark will hold a hearing on HSAs and we hope that will be an opportunity for the California congressman to get an education on the important place HSAs have assumed in the health insurance marketplace.

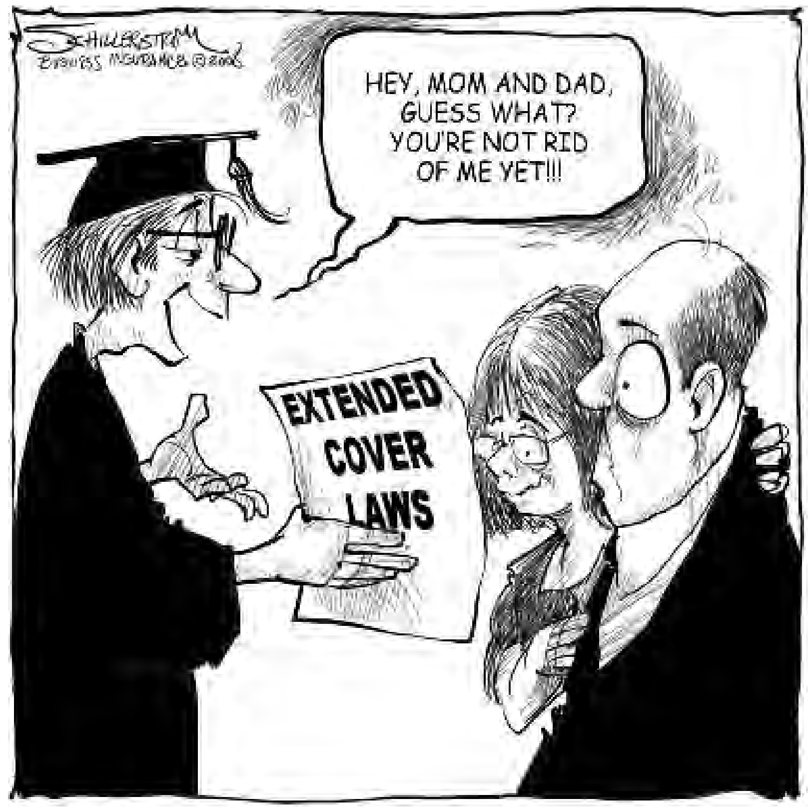
Catastrophe commission is sound public policy

SENATE BANKING, HOUSING and Urban Affairs Committee Chairman Christopher Dodd, D-Conn., deserves high praise for turning a bill designed to extend the National Flood Insurance Program into a vehicle for broader inquiry into natural catastrophe policy.

The inquiry would be conducted by a new Commission on Natural Catastrophe Risk Management and Insurance, a proposed 16-member body that would examine the risks presented by natural catastrophes throughout the country. The commission would examine matters such as the effectiveness of building codes, the private insurance market's ability to withstand natural catastrophes and the "benefits and costs of proposed federal natural catastrophe insurance programs." The commission would report back to Congress with its findings and recommendations.

If the panel's charge looks familiar, it should: The commission amendment first saw light as a stand-alone bill that passed the Banking Committee last year. The commission was a good idea then, and a better one now. The debate over reauthorizing the NFIP has been a passionate one and understandably so. Creating an independent panel to examine the entire issue of national natural catastrophe policy might wring some of the emotion out of the debate.

Although the House version of the NFIP bill does not call for the commission, we sincerely hope that the final bill that goes to the president contains it. It's a matter of sound public policy that the commission is brought into being.



BI beats list

In an effort to ensure continuing timely coverage of risk management, insurance and benefit-related news, Business Insurance has formalized a list of its reporters' assigned beats. This list is not intended to be exclusive but rather to represent core subject areas of importance to BI readers. BI welcomes ideas and tips from readers on these and other areas. Following is a list of the beats and the principal reporters for each:

Agents/brokers: Sally Roberts.

Benefits—health care and ancillary benefits: Joanne Wojcik.

Benefits—retirement savings/pensions: Jerry Geisel.

Canada—risk management and benefits: Gloria Gonzalez.

Commercial auto: Jeff Casale

Employment practices: Judy Greenwald.

Environmental risk management: Sally Roberts.

Federal regulation/ legislation—benefits: Jerry Geisel.

Federal regulation/ legislation—risk management: Mark A. Hofmann.

Health care industry operations: Gloria Gonzalez.

Industry Focus: Rodd Zolkos, Meg Fletcher.

Insurance coverage litigation: Douglas McLeod.

Insurance fraud: Douglas McLeod.

Latin American markets: Roberto Ceniceros.

Marine: Gloria Gonzalez

Property/casualty industry operations: Judy Greenwald.

Professional liability: Dave Lenckus.

Property loss control/ cat risks: Mark A. Hofmann.

Regulation of insurance: Meg Fletcher.

Reinsurance: Judy Greenwald.

Risk management profession: Dave Lenckus.

Runoffs/receiverships: Douglas McLeod.

Safety/ergonomics: Meg Fletcher.

Surplus lines/wholesalers: Roberto Ceniceros.

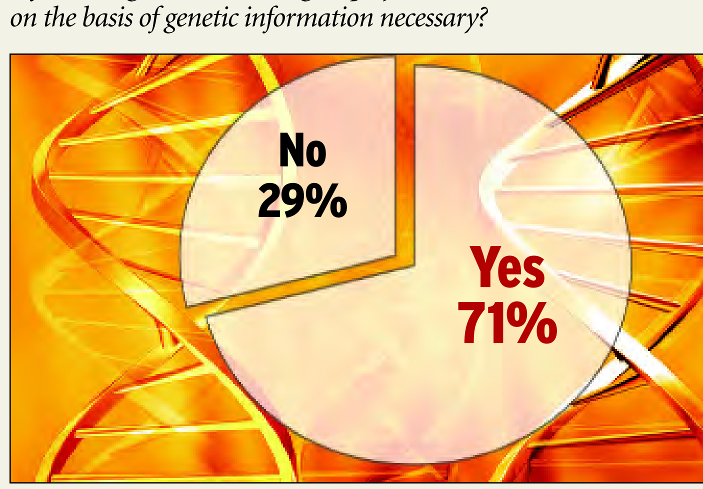
Tort reform: Mark A. Hofmann.

Work/life benefits and EAPs: Sally Roberts.

Workers compensation: Roberto Ceniceros.

Online Poll at *www.businessinsurance.com*

Is federal legislation banning employment discrimination on the basis of genetic information necessary?



NEXT WEEK'S POLL: *Which consumer-driven health care plan—health savings account-based plans or health reimbursement arrangement-based plans—does a better job of controlling costs?*

***BI* Online Poll tool sponsored by Wausau Insurance Cos.**

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Photos by Michael A. Marcotte

Martin J. Ross, VP & Publisher, *Business Insurance*; 2008 Risk Management Honor Roll® winner Jeffrey F. Driver, Chief Risk Officer, Stanford University Medical Center; 2008 Risk Manager of the Year® Scott H. Beckman, Esq., Vice-President, Risk Management & Insurance, Advocate Health Care; 2008 Risk Management Honor Roll® winner Mark A. Meyerhoff, Senior Director of Risk Management and Insurance, The Boeing Company; Regis J. Coccia, Editor, *Business Insurance*.

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On April 28 at the Omni San Diego Hotel, *Business Insurance* presented its prestigious Risk Manager of the Year® and Risk Management Honor Roll® awards. Leaders in the risk management community, including many past recipients of the industry's top awards, gathered to honor this year's winners.

Regis J. Coccia, Editor, *Business Insurance*, presents the Risk Manager of the Year® award.

The 2008 Risk Manager of the Year® and Risk Management Honor Roll® winners with Regis J. Coccia, Editor, *Business Insurance*.

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2008 Risk Manager of the Year® Scott H. Beckman, Esq., addresses the crowd.

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Few covered for product recalls

Quality control efforts redoubled; some weigh 'process change protocols'

By DAVE LENCKUS

Despite the U.S. government's monthly posting of numerous products that have been recalled for one defect or another, risk management experts say quality control overall is good and getting better—but not without some challenges.

To avoid the liability and reputation-wrecking fallout from a product recall, brand name companies that market goods or food products are redoubling their quality control efforts, risk managers and insurance experts say.

Given the significant amount of production outsourcing that is done by U.S. companies, that effort often entails not only dictating quality control processes to foreign suppliers but also verifying that the controls are in place.

"The days of trusting your supplier…are over," said William W. Harrison, the Somerset, N.J., managing director, U.S., for Aon Crisis Management, a unit of Aon Corp.

While more risk managers in the past year or two have turned to product recall insurance to help soften the financial blow of a product recall, a large majority of risk managers still do not purchase the coverage, insurance experts said.

But some new product recall coverage ideas are being floated (see story, page 12).

The U.S. Consumer Product Safety Commission's Web site every month lists numerous products that have been recalled for a variety of reasons. In some cases, the problem is the manufacturing process, such as the use of lead paint. In other cases, the products have dangerous design flaws.

Many of the products are produced in China.

But insurance experts say China is getting a bad rap on quality control.

"Everybody thinks that quality controls are not done in China. Not true," said risk management consultant John S. Ingram, a Philadelphia-based vp-global risk control services for ESIS Inc., a unit of ACE Ltd. Mr. Ingram discussed managing quality control risks during a session at the Risk & Insurance Management Society Inc.'s annual conference in San Diego.

"The problem is not geography. The problem is quality control," said Aon's Mr. Harrison in an interview during the conference. "The same problems can happen here or China" or a production site elsewhere.

Indeed, recalled products in recent months also have been produced in Southeast Asia, the Middle East, Italy and Mexico, among other locations, according to the CPSC Web site.

Quality control is a "complex issue anywhere," Mr. Ingram said. But with the right amount of control and planning, "you can make it work."

The food industry is a good example, Aon's Mr. Harrison said. Over the past five years, food companies have become more aware of the risk that suppliers pose and have placed a greater emphasis on managing, auditing and controlling suppliers and "co-packers," he said.

Company standards often exceed government regulations, he said.

See **LIABILITY** next page

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ADDITIONAL SESSION COVERAGE

Product-related coverage tested

By DAVE LENCKUS

Insurers and risk managers are testing two ideas to insure product liability and product recall risks, and both concepts borrow heavily from coverages for other types of risks.

One concept, which Northfield, Ill.-based Kraft Foods Inc. is implementing and PepsiCo Inc. of Purchase, N.Y., is considering, borrows the wrap-up insurance concept from the construction industry. It would allow a brand name company to offer all of its suppliers a single and uniform policy providing product liability, product recall and product recall liability coverage.

Under the concept, called a sponsored global insurance program, suppliers could apply for coverage that a brand name company arranges for all its suppliers with one large aggregate limit. If accepted and once they have paid for the coverage, suppliers would receive a certificate of insurance.

Aside from product liability and product recall risks, the policy would cover environmental liability, errors and omissions, crime and supply chain disruption, said Alejandro Marmorek, a Miami-based managing director with Aon Global, during a session at the Risk & Insurance Management Society Inc.'s recent conference.

The other concept borrows the "sue and labor" clause from marine and inland marine insurance policies. Under the clause, policyholders that have sustained a property loss are promised full reimbursement for the costs they incur in preventing further loss, even if those costs exceed policy limits.

Paul Buckley, the Princeton, N.J.-based vp-risk management at Tyco

See **RECALLS** page 14

Liability: Few buy coverage for product recall risks

CONTINUED FROM PREVIOUS PAGE

Indeed, a boast by companies that they meet U.S. Food and Drug Administration regulations "doesn't get them points with underwriters," Mr. Harrison said.

Despite generally high standards, "accidents happen," he said.

With food products, the immediate reaction to an accident is to ensure that the contamination that triggered a recall does not reoccur and to implement tests to detect such contamination, said attorney Richard Fama, a New York-based partner at Cozen O'Connor P.C. who represents manufacturers.

While a recurrence is unlikely, the company does not test for every potential threat "because you can't test for everything," he said. "We're always chasing the threat that happened yesterday."

Many problems are due to process changes that suppliers made without approval from the brand name company, said Katherine Cahill, global managing director for product risk services with Marsh Inc. in New York

Many industries now are trying to prevent that and are looking into implementing the kind of so-called process change protocols that automakers long ago adopted to keep apprised of and test the changes in raw materials used by suppliers, Ms. Cahill said. The process change protocols are part of the Six Sigma Protocol, a business management strategy designed to eliminate the causes of errors and defects in various business operations.

Some brand name companies also are sending their own representatives to inspect their suppliers' operations, Mr. Fama said.

For example, during a session at RIMS, Cindy Slubowski, senior insurance manager at Northfield, Ill.-based Kraft Foods Inc., noted that Kraft has sent its own inspector to monitor quality control at a chives facility in China. She said Kraft sent the inspector after the supplier informed the company that the Chinese government would shut down the facility if Kraft rejected any shipments once they reached U.S. shores.

Kraft also has sent its own inspector to monitor quality at an apple juice concentrate facility in China, she said. The objective was to prevent the concentrate from being spoiled by mold during shipping, she said.

In some cases, brand name companies are leaving nothing regarding their suppliers' quality control to chance.

At another RIMS session, Diane R. Labrador, assistant treasurer and director of risk management for Santa Clara, Calif.-based Intel Corp., stressed the importance of embedding in suppliers a corporate culture of quality "that is very robust."

Suppliers have to understand what is expected of them and that culture has to be constantly enforced, she said.

She noted that one of Intel's latest high-tech products is the size of "a fingernail on a pinky finger" and contains 400 million transistors. To maintain control over the quality of the product, Intel's suppliers are under strict orders to not vary from any of the company's exacting standards.

Intel's suppliers are instructed that "you change nothing, down to the toilet paper in the facility," Ms. Labrador said.

"It requires a lot, a lot of discipline" to maintain high quality in a high production facility, she said.

Recalls: Proposed coverages borrow from other insurance sectors

CONTINUED FROM PAGE 12

International Ltd., is looking for high excess, or catastrophe, limits from one of his general liability excess insurers to defray some of Tyco's cost if it ever were to remove a potentially problematic product from the market to prevent bodily injury and third-party property damage.

Mr. Buckley said that general liability insurers should be willing to partner with him and other companies because facilitating the removal of a product only decreases the odds of a loss, which the insurer would have to cover.

Risk managers are looking into these concepts because available insurance products are not meeting their needs.

Product liability insurance, which covers third-party losses caused by a defective product, is available under general liability insurance policies. Capacity is plentiful, said William W. Harrison, the Somerset, N.J., managing director, U.S. for Aon Crisis Management, a unit of Aon Corp. "We haven't been asked to put together a limit we couldn't get."

Only companies with high-risk products, such as pharmaceuticals, or those with poor experience cannot get the coverage, which provides policyholders with a separate aggregate limit, said Paul Carleton, a managing director with Marsh Inc. of New York.

But product liability insurance excludes coverage for the cost of recalling a product.

Capacity for product recall insurance ranges from $85 million to $200 million, depending on the risk, according to brokers.

More product makers and their suppliers are buying the coverage than previously as rates have dropped about 5% annually over the past few years, brokers said. But food companies continue to be the biggest market for the coverage, and not many of them purchase it.

Plus, because of the number of recalls in recent years, underwriting is much stiffer, said Julie Ross, vp-product recall and contamination for Marsh Ltd. in London.

Exclusions

Product recall liability covers suppliers only for the costs they face when they must cover another company's product recall costs because the supplier's component part of the product failed. Up to $100 million in limits is available, but recall liability excludes business interruption insurance for the supplier, Mr. Harrison said.

Like product recall coverage, demand for product recall liability has doubled over the past 18 months, Mr. Harrison said.

Insurance experts say buyers largely have stayed away from the two recall coverages because of their cost.

But Mr. Harrison does not agree that the coverage is expensive. "I think in most cases it's not proven popular because, more times than not, it's not understanding what the risk is to the company and the deficiencies in other policies."

From meetings with clients, he said he has found that they thought they were covered, until they were hit with a loss.

Professional development helps risk managers move forward

Continuing job-related education, broadening general financial knowledge, gaining 'soft' skills viewed as vital

By GLORIA GONZALEZ

SAN DIEGO—Continuing education is a key component of professional development, but attaining the intangible skills that allow risk managers to perform their jobs effectively is equally critical, risk managers say.

Professional development has become a top focus for the Risk & Insurance Management Society Inc., which formally launched its professional growth tool at last month's annual conference. The tool is designed to help risk managers assess their job performance and career paths (*BI*, May 5).

"It would be too incredibly dull if you did the same thing over and over and you never grow in your job or you don't learn new things about it," said Carolyn Snow, director, insurance and risk management for Louisville, Ky.-based Humana Inc. and a member of the Quality Advisory Council that developed the tool. "To me, continuing education is absolutely the foundation of good risk management."

"In the risk management industry, (continuing education is) important because you can get left behind very, very quickly," said Scott Clark, risk and benefits officer for Miami-Dade County Public Schools in Miami. "If you are someone in your organization that wants to make a difference, you have to be ahead of the curve and be more knowledgeable than the people around you."

Traditional credential-based programs are an important aspect of professional development, particularly for risk managers who are relatively new to the industry, risk managers say.

"It's a good way to get recognition of what you've accomplished," Ms. Snow said.

While the Insurance Institute of America's Associate in Risk Management and RIMS Fellow professional designations demonstrate that risk managers have a basic knowledge, they are merely the starting point of professional development, said Janice Ochenkowski, RIMS president and a managing director at Jones Lang LaSalle Inc. in Chicago. "Most of our jobs require we go way beyond that today."

Aside from designation programs, continuing education may incorporate negotiation techniques, finance and other areas, risk managers say.

"I think (the ARM) provides some very good building blocks," Mr. Clark said. "Some people have criticized whether or not it really is something you can use from your day-to-day standpoint in risk management, but I believe it creates a platform from which you can move on to other things."

Moira T. Mooney, manager, global insurance and risk services for Scholastic Inc. in New York, became a risk manager six years ago after 20 years in corporate events and facilities management. Starting with no formal risk management training or experience, continuing education is "very important" to her job and professional development.

In addition to working toward her ARM, Ms. Mooney is completing a bachelor's degree in finance. "I find finance drives a lot of your insurance decisions," she said.

Wayne Salen, director of risk management at temporary staffing firm Labor Finders International Inc. in Palm Beach Gardens, Fla., currently spends about 10% to 15% of his time on professional development issues, with a focus on his staff's professional development.

"When I was younger, I think I focused on it a lot more," said Mr. Salen, who has been a risk manager for 31 years. "Now, it's just the finer points. I don't think it ever disappears."

Ms. Ochenkowski advised risk managers to sit down with their boss and explain how a particular professional development activity, such as taking a course in negotiation techniques, will improve their job performance and benefit the organization. "The emphasis must be on how that particular skill will be reflected in the job they do," she said.

Aside from education, risk managers say those who succeed also develop intangible skills to advance their goals, such as communication, networking, persuasion skills and patience.

Identifying the "soft" skills that risk managers need was a key focus in establishing the RIMS Risk Management Professional Development Model, said Richard J. Roberts, corporate risk manager for Ensign-Bickford Industries Inc., a Simsbury, Conn., aerospace and defense company.

"The technical skills are kind of becoming a given, so how do you make yourself better to help your company out and really look at risk in a different way?" he said. "You can be the best tactician in the world, but if you can't communicate it to people you're going to be lost."

Learning to communicate effectively is a critical skill because

See DEVELOPMENT page 18

Development: Skills needed to move ahead

CONTINUED FROM PAGE 16

organizations tend to operate in silos and it is important to inform other employees about risk management department initiatives, said Gretchen Langston, director of risk management for Greenwood, Colo.-based Xanterra Parks & Resorts, which handles lodging, food and beverage services for national and state parks. Communication is "the single most important thing in managing my career."

Risk managers can learn intangible skills from a mentor. Ms. Langston said some of the most valuable lessons she learned from her mentor were patience, how to choose workplace battles and gently steering decision-makers. "It's invaluable the lessons they can teach you just from life skills that they have," she said.

To steer decision-makers in the desired direction without appearing to dictate the path, she said she learned to give them information about risk management issues and engage them in brainstorming sessions where they are led in a certain direction in a subtle manner.

"It's a tougher skill than it seems to be," Ms. Langston said. "It's certainly one that's honed over the years, but it's so important."

Networking with and learning from other risk managers, particularly through RIMS affiliations, is another way to attain the skills that help risk managers improve their performance.

"One of the things I love about being a risk manager is the networking and the willingness of risk managers to share their stories with others," said Douglas Borg, director of insurance for Duke University Hospital System's clinical risk management department in Durham, N.C. "There's something we can all learn from each other."

Communication efforts critical to advance goals

By GLORIA GONZALEZ

SAN DIEGO—Managing relationships, particularly with the boss, is a critical element of professional development for risk managers.

To advance their goals, risk managers must provide constant and thorough information on their efforts in whatever format their managers prefer, even if it requires tailoring reports for individual executives, said Gretchen Langston, director of risk management for Greenwood, Colo.-based Xanterra Parks & Resorts, which handles lodging, food and beverage services for national and state parks. "Your boss should always come first," she said.

Risk managers need to identify the people in their organizations who will be critical to their success and those who have much to gain or lose from risk management. Risk managers also should treat their colleagues well because they may eventually play a critical role in risk management efforts, she said.

"It makes people feel so good to be part of the process and they deserve to be," Ms. Langston said.

Having bad relationships can make it difficult for risk managers to do their jobs, particularly if other employees see them as obstacles to the advancement of the business, risk managers say.

"We're not there to hinder the business," said Moira T. Mooney, manager, global insurance and risk services for Scholastic Inc. in New York. "We're there to protect the business. You need to break down those barriers and become familiar with (the) goals and objectives" of other employees.

Effective risk managers find solutions to mitigate risks rather than stand in the way of good business practices, said Carolyn Snow, director, insurance and risk management for Louisville, Ky.-based Humana Inc. "You can't be looked at as an obstacle, but it's easy to fall into that trap, to find the negative," she said.

Developing personal relationships with other departments is critical for risk managers because the more comfortable co-workers are, the more likely they will call the risk manager with questions or when problems arise, Ms. Snow said.

Communicating the value of risk management is critical to professional development, particularly moving beyond monetary figures, she said. "It's easy to communicate insurance premiums," she said. "I think that's sometimes why risk managers talk about dollars and cents."

The key is to communicate risk management issues in terms that other employees can understand, risk managers say. "Don't assume everyone is an insurance expert or a geek," Ms. Mooney said.

BI drawing at RIMS selects winners

IPHONE WINNER:
Denise Carrizosa
Workers Comp Specialist
Reiter Affiliated Co.
Oxnard, Calif.

DIGITAL CAMERA WINNER:
Michael D. Phillipus
Director
of Insurance and Risk Management
ATP Oil & Gas Corp. Houston

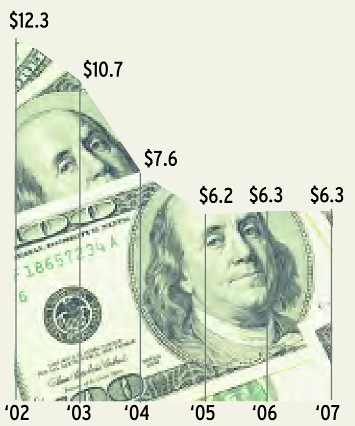
California comp reforms prove effective

Minor improvements in administration remain necessary

By ROBERTO CENICEROS

ULTIMATE LOSSES

By accident year, in billion of dollars



Source: WCIRB

SAN DIEGO—California's workers compensation reforms continue to produce positive results, although minor improvements remain necessary, said employers, insurers and state regulators who attended the Risk & Insurance Management Society Inc.'s annual conference.

Employers also must remain on guard to make sure the gains from the landmark reforms are not whittled away by new legislation, said Cathy Aguilar, workers compensation manager for the Risk Management Joint Powers Authority Fringe Benefits Consortium in San Diego.

California lawmakers have introduced 20 workers comp bills this session, said Ms. Aguilar, who also serves on California's Commission on Health and Safety and Workers' Compensation (see story, page 22).

California workers comp costs have declined steadily since a series of reforms were signed into law from 2002 through 2004. Average insurance rates, which nearly tripled from $2.30 per $100 of payroll in 1993 to $6.46 in 2003, dropped to $2.44 per $100 of payroll by the end of 2007, according to the San Francisco-based Workers' Compensation Insurance Rating Bureau of California.

The WCIRB also estimates that medical and indemnity costs were about $14 billion less in 2007 than they would have been without the reforms.

There are several indications that California's post-reform workers comp system is working more effectively than it previously did, said Tim East, who is a director of risk management for Walt Disney Co. in Burbank, Calif., but spoke as chair of the California Coalition on Workers Compensation.

Medical care that injured workers now receive must be in accordance with evidence-based, peer-reviewed treatment guidelines, Mr. East said. Reforms also allowed employers and insurers to establish medical provider networks staffed mostly with occupational medical specialists to which payers can direct injured workers.

Research by the employer- and insurer-supported California Workers Compensation Institute in Oakland shows that medical treatment delivered by occupational injury specialists is more successful than treatment from doctors lacking occupational injury expertise, Mr. East said.

There are very few complaints to state regulators from workers about their medical treatment and applications by injured workers to appeal their claims have dropped nearly 50%, Mr. East said.

'The fact that applications for adjudication of claims are reduced shows that the system is working.'

Tim East, California Coalition on Workers Compensation

"The fact that applications for adjudication of claims are reduced shows that the system is working," Mr. East said.

California's reforms continue to add to competitive pressures that insurers are feeling in the state, said Deborah L. Alleyne, senior vp for ACE USA Inc.'s risk management excess workers compensation unit in Philadelphia.

Excess insurers that a year or two ago would write only $25 million in limits excess of an employer's retention now will provide unlimited statutory coverage, Ms. Alleyne said.

Employers that previously required two excess insurers to obtain statutory limits are finding upon renewal that a single insurer will provide the coverage at a lower price, Ms. Alleyne added.

"Overall, the reforms are working well," Carrie Nevans, administrative director of California's Division of Workers' Compensation, told a RIMS conference session. Employers are saving money and more workers are returning to work earlier than before the reforms, she said.

Yet Ms. Nevans and employers agree that improvements are necessary, though they say they are mainly adjustments in administrative procedures.

One of the biggest headaches employers cite continually stems from a 2004 "bump-up/bump-down" reform that was meant to encourage return-to-work efforts. The regulation allows an employer to reduce its permanent disability benefit payment by 15% if it offers

See **CALIFORNIA** page 22

California: Workers comp reforms need some tweaks

CONTINUED FROM PAGE 20

a claimant modified work duty for at least 12 months.

Conversely, an employer must increase permanent disability benefit payments by 15% if it does not accommodate an injured worker within 60 days of the claimant's injury becoming permanent and stationary.

Employers say they are already motivated to help their injured employees return to work. Additionally, there are technical problems with the bump-up/bump-down reform, such as system inconsistencies in coordinating it with other benefits and difficulties in determining effective dates.

The bump-up/bump-down rule is not working well for employers or for injured workers, Ms. Nevans said. It is being used in conjunction only with about 20% of permanent disability awards, she told RIMS.

"So we know it's just being ignored to a large extent," Ms. Nevans said.

"There is a lot of thought on getting rid of the 15% bump-up/bump-down," Ms. Nevans said. "I don't know if that is ultimately going to happen. As you know, it is very difficult to administer the way it is currently structured, so we are looking at that as part of overall changes in legislation we might make this year."

Employers are encountering other administrative problems, such as utilization review headaches, said Diana J. Rich, workers comp program manager for the California Joint Powers Insurance Authority, a La Palma, Calif.-based insurance pool.

State law requires all employers or their claims administrators to implement a utilization review program, which grants approval for certain medical treatments recommended by doctors.

But reviewers have denied treatment when a doctor's signature is not legible, Ms. Rich said. In other cases, doctors are not clearly communicating their reasons for recommending certain treatments and then failing to return telephone calls seeking clarification.

In another scenario, reviewers approve surgeries but then require separate authorization for follow-up medications and physical therapy, rather than authorizing all related follow-up treatment and pharmaceuticals at one time.

Such issues are slowing treatment and returning employees to work by weeks at a time, Ms. Rich said.

Employers: Proposals could undo gains

SAN DIEGO—While California's workers compensation insurance system continues to deliver the improvements that employers sought from a series of reforms beginning in 2002, legislative challenges are an ongoing concern, they say.

One challenge stems from a bill before state lawmakers that would double the time that permanent disability indemnity benefits would be paid by 2011.

Despite vetoes of two previous bills, state Sen. Don Perata, D-Oakland, in February introduced S.B. 1717 to double the current 20 weeks of payment for permanent disability. It passed a Senate committee in April but also is opposed by the California Coalition on Workers' Compensation.

Such legislation could cause costs to rise just as quickly as the reforms that helped reduce them, said Tim East, a director of risk management for Walt Disney Co. in Burbank, Calif., who spoke to *Business Insurance* in his role as chair of the CCWC.

Rising permanent disability costs were among the reasons employers sought to reform California's workers comp system. Labor activists now argue that disability benefits payouts have fallen and should be increased.

Employer groups acknowledge a clear decline in permanent disability benefits, but attribute the decrease to reform factors such as applying objective medical evaluation standards and improved apportioning of disabilities to work-related factors.

While reversing the reforms is an ongoing threat, "in general I still think the reforms are working pretty well," said Mark S. Sidney, senior vp and general claims manager for national market claims at Liberty Mutual Group Inc. in Boston.

A Workers' Compensation Insurance Rating Bureau report released recently on insurers' 2007 experience shows estimated ultimate losses by accident year remained flat at $6.3 billion during 2006 and 2007. That was a slight increase from $6.2 billion in 2005, although still substantially less than $7.6 billion in 2004 and $12.3 billion in 2002 when losses peaked.

Liberty Mutual's Mr. Sidney said, however, that he has seen recent data showing that California workers comp losses are starting to trend up slightly.

Mike McDonald, vp of risk management for Quality Distribution Inc. in Tampa, Fla., which has workers comp risks in California, said his workers comp insurer also told him that losses have started to rise. He shares concerns a trend reversal is possible after seeing improvements during the past few years.

Mr. McDonald said that, while attending the Risk & Insurance Management Society Inc.'s annual conference, he interviewed workers comp defense attorneys with California expertise should their services be needed.

But loss costs currently are not a problem, Mr. East said. Keeping them in check, though, will require employers to remain engaged and monitor attempts to make legislative changes, he added.

—By Roberto Ceniceros

SESSION COVERAGE: RIMS 2008

Alternative response plan necessary for unexpected events

Relationships are key to moving ahead with Plan B

By GLORIA GONZALEZ

SAN DIEGO—Advance preparation is crucial to the proper management of a crisis, but risk managers need to be ready to adapt their response to unexpected events, risk managers say.

Calpine Corp. experienced an unexpected crisis with its insurance program when it filed for Chapter 11 bankruptcy protection in December 2005, Denise Straka, vp, corporate legal and insurance for the independent power producer in San Jose, Calif., told attendees of the Risk & Insurance Management Society Inc.'s 2008 annual conference in San Diego.

The company had an $18 billion property program and used a Hawaii-based captive established in October 2001 for property, builders risk and certain casualty exposures, she said.

The captive was quite profitable in its early years and entered into a loan-back arrangement with its parent company. When the parent filed for bankruptcy reorganization, it owed the captive about $81 million.

The captive, meanwhile, experienced significant property claims from 2002 to 2005. At the time of the Chapter 11 filing, the captive had $50 million in property claims payable by a fronting company and reinsured by the captive, which did not have enough cash to meet its outstanding liabilities, Ms. Straka said. The captive needed $35 million from its parent company, but the captive was an unsecured creditor, she said.

During the bankruptcy process, every decision has to be approved by the bankruptcy judge and other key participants such as the bankruptcy consultants, but the risk management team was facing a looming March 2006 property renewal.

"For the first few weeks, I really couldn't get anyone's attention to even talk about this problem," Ms. Straka said.

When Ms. Straka realized she would be unable to secure all the necessary approvals for the cash infusion before renewal, she began negotiations for the extension of the property program. "When you recognize the issue, you have to quickly develop an alternative and then move forward with the alternative," she said.

She was able to secure a six-week extension from the fronting company and excess insurers to extend the property program and seek the necessary approvals, but bankruptcy consultants were reluctant to release the funds necessary to stabilize the captive. Ms. Straka explained the long-term ramifications of failing to secure the captive, including the possibility of paying higher premiums for the coverage or being unable to secure any.

> **'When you recognize the issue, you have to quickly develop an alternative and then move forward with the alternative.'**
>
> Denise Straka, Calpine Corp.

In April 2006, a payment of $35 million to the captive was approved, enabling Calpine to maintain its strong relationships with underwriters, brokers and regulators and keeping the captive out of receivership or liquidation. Hawaii regulators were "very supportive" of efforts to keep the captive solvent, Ms. Straka said.

"I think relationships are critical," she said.

After securing the funding for the captive, the company created a new property program utilizing the captive, a fronting company and excess insurers. "All of the companies we did business with prior to this situation, we continue to do business with today," she said.

The company emerged from bankruptcy protection Jan. 31, 2008.

In 2003, the Duke University Hospital System experienced a different type of crisis when Jesica Santillan died after undergoing a heart-lung transplant because the organ donor had a different blood type, which the doctors failed to recognize before the operation.

The hospital immediately disclosed the error to the family as the hospital believed it would be fatal, but at that time hospital officials were unsure how the error happened, said Douglas Borg, the hospital system's director of insurance for clinical risk management in Durham, N.C.

The hospital system experienced two other major medical errors that year, but the media onslaught surrounding Ms. Santillan's case led patients who normally would not make a claim to pressure the hospital system into settlements to avoid further negative publicity, he said.

"It was nothing short of extortion," Mr. Borg said.

Regulators, meanwhile, began investigating the hospital's practices and filed a report that would eventually be used against the organization, Mr. Borg said. Under North Carolina law, a qualified medical expert must certify a corporate negligence claim against a medical provider. After finding that members of the pediatric transplant community were unwilling to testify against Duke University, the family's attorneys used the regulatory report as the medical expert.

The hospital eventually settled the lawsuit with the family for an undisclosed amount.

The organization's professional liability is handled by its Bermuda-based captive. During subsequent renewals, the risk management team personally visited all reinsurers to explain the situation and procedures the hospital had implemented to ensure it would not occur again.

"I'm pleased to say that not a single one left our program," Mr. Borg said. "I think it was a testament to the relationships we had built over the years."

The organization learned some valuable lessons during the crisis, including the importance of designating a team to manage the situation and setting clear expectations for attendance and participation in regular meetings to develop a strategy to handle the event, he said.

"I can't stress how important it is to plan ahead," Mr. Borg said. "These are things you should talk about now before you're in the situation."

Security plan should address violence

Forming an incident response team can aid crisis management plan

By KRISTIN GUNDERSON HUNT

SAN DIEGO—The potential for violence in workplaces and schools should have risk managers contemplating their organizations' security and crisis management plans, a panel of experts said at the Risk & Insurance Management Society Inc.'s recent annual conference in San Diego.

More than 2 million violent attacks on workers occur in the United States every year, costing organizations more than $36 billion annually, said panelist Randy Spivey, director of the Safe Travel Institute in Spokane, Wash.

He said companies and schools must have solid plans to deal with such violence, and then back up those plans with appropriate training for employees or students. He said training can be the difference between life and death.

"At any organization, the weakest link in dealing with a crisis is the individual," Ms. Spivey said. "There is (liability) exposure if these programs, plans and training are not in place."

Christine Hoppe, director of risk management, security and incident response for Aurora Public Schools in Aurora, Colo., said risk managers can turn to the Federal Emergency Management Agency, local police and fire departments, and industry or risk management peer groups for resources on developing a crisis plan. Such resources are free of charge, she said.

The Aurora school system implemented FEMA's National Incident Modeling System for its incident response team, a group that plans for and responds to crises. It includes staff; community members affiliated with transportation, public health and medical services; and hazardous materials organizations. The modeling system identifies a team leader and how the team should respond to situations.

If there were an event, she said the response team should be connected to each other, local responders and others affected—whether it's via electronic devices, e-mail systems, two-way radios or a standard phone system.

Ms. Hoppe said an incident response team is critical to crisis planning. These groups require regular meetings to brainstorm what-if scenarios and build plans, and help determine evacuation and lockdown plans.

In lockdowns, she said, it must be determined who has the authority to close and secure a building, how to communicate information to staff, how to report the situation to others and how to keep count of those evacuated. Lockdowns should involve staff closing and locking all internal doors, turning off lights, and closing window coverings, among other precautions, she said.

Lockdown plans also should have different response levels, Ms. Hoppe said, depending on the seriousness of a situation or how far it has escalated. In a lockdown or any serious situation, she discourages using codes to communicate something bad is happening because inevitably someone won't understand the code or know how to respond. She said to communicate in clear terms.

As for evacuation plans, they also should include authority, communication and head counts. Staff should evacuate with visitor logs, communication devices and emergency contact information in addition to their personal items. Staff then should go to a predetermined location for a head count and further direction.

Ultimately, appropriate responses to crises require more than just good planning, Ms. Hoppe said. "Practice, practice, practice," she said. "You need to make sure when something happens, staff knows what to do."

SESSION COVERAGE: RIMS 2008

Risks to a company's reputation emanate from many sources

Damaged standing takes years to repair, may be irreparable

By KRISTIN GUNDERSON HUNT

SAN DIEGO—Managing reputational risks has become increasingly significant in recent years, as organizations have become more dependent on their solid reputations to maintain or grow their market share, a panel of experts said.

Reputation accounts for a substantial portion of a company's market value, said panelist Robert Peterson, executive vp of Sedgwick Claims Management Services Inc. in Memphis, Tenn., while speaking at the Risk & Insurance Management Society Inc.'s recent conference in San Diego.

A good corporate reputation often results in the ability to recruit and retain employees, increase sales, enhance stock prices, and strengthen public and government relations, Mr. Peterson said.

A poor reputation, however, can do immense damage to a company. He said it takes an average of 3.5 years to recover from a damaged reputation—if a company recovers at all. For example, Arthur Andersen L.L.P. failed to repair its reputation after it was convicted in 2002 of obstruction of justice for shredding audit documents related to Enron Corp., he said.

"Once you lose your reputation, it's very hard to re-establish it," said Susan Shemanski, director of risk management for recruiting and staffing firm Spherion Corp. in Alpharetta, Ga.

For that reason, she said Spherion takes its reputation seriously. She said its focus on integrity, accountability, respect for people, and serving the customer has enhanced its reputation, even landing a spot on Forbes list of America's most trustworthy companies in 2007. She said a good reputation can improve an organization's place in the market: Spherion has attracted several new clients since making the Forbes list.

Ms. Shemanski said reputational risks can result from events the company controls directly or indirectly, and prevention is the best way to control those risks. To mitigate risk, a company should assess its reputation, encourage constructive evaluation of its risk profile, meet stakeholders' expectations, ensure everyone is engaged in safeguarding and enhancing the company's reputation, and make certain that crisis management plans are in place.

'This is a critical area for risk managers. It can have extra impact on your organization if you're not prepared.'

Robert Peterson,
Sedgwick Claims Management Services

Unethical practices, unhappy labor forces and environmental breaches are situations that can damage an organization's reputation. She said reputational risks also can be specific to a company or industry.

Environmental breaches are risks that Memphis, Tenn.-based International Paper Co. worries could damage its reputation considering the nature of its global paper and packaging business, said Dave Arick, assistant treasurer of global risk management for the company. He said the company's commitment to sustainability has helped to manage its reputation.

International Paper won't use wood from endangered forests and supports forestland conservation. It has donated more than 200,000 acres to conservation groups and has protected another 1.4 million acres via sales and easements, Mr. Arick said. Its efforts were rewarded by making Fortune's 2008 America's Most Admired Companies list.

He said International Paper also tries to dispel misconceptions about how the business is run and environmental myths that might influence people. It makes sure investors are provided accurate information and discusses its environmental commitment on its Web site.

"There is a lot of noise in the industry," Mr. Arick said. "It's important our stakeholders understand how we truly operate."

Panelists said risk managers cannot ignore reputational risks and they must be prepared. Sedgwick's Mr. Peterson said companies face the possibility of experiencing a crisis every four to five years.

"This is a critical area for risk managers," Mr. Peterson said. "It can have extra impact on your organization if you're not prepared."

SESSION COVERAGE: RIMS 2008

Solid plan, well-informed team speed catastrophe recovery

By ROBERTO CENICEROS

SAN DIEGO—Addressing a business interruption following a catastrophe requires two distinct yet parallel processes, speakers said.

Apart from helping manage reconstruction required to restart operations, risk managers also must document business interruption expenses and revenue losses to recover from their property insurers, speakers said at the 2008 Risk & Insurance Management Society Inc.'s annual conference.

Addressing employee safety, however, requires immediate attention.

A 2003 tornado that damaged a General Motors Corp. facility in Oklahoma City, for instance, also destroyed employee automobiles, said Polly E. James, Latin America regional risk manager and manager of business continuity for GM in Detroit. So GM found buses to move workers away from the damage, she said.

'The easier you make (the adjuster's) job, the better it is going to be for everyone.'

Robert M. Reeves, Ernst & Young L.L.P.

Within hours of the tornado strike, GM also ordered the structural steel it would need when it eventually resumed building automobiles. It acted quickly because purchasing the material generally requires significant lead time, Ms. James said.

Such moves helped GM restart assembly operations at the Oklahoma City plant within six weeks, instead of six months as initially estimated, she said.

"Anything you can order…that you know you are going to need, the earlier you can get it in the pipeline, the better," Ms. James said. Better still, planning ahead of a disaster and authorizing substantial emergency spending for the aftermath of a catastrophe speeds recovery.

Aside from damage, other priorities include reading insurance policies to match their coverage language with the specific occurrence details, establishing security for the facility, and taking inventory to determine what is and is not damaged. Insurers want to access a site immediately and obtain a damage estimate, Ms. James said.

Although an exact damage total will take time to determine, help the insurers' loss adjusters determine an approximate "order of magnitude" for the loss, said Robert M. Reeves, a partner in the fraud investigation and dispute services unit of Ernst & Young L.L.P. in Dallas.

"The easier you make (the adjuster's) job, the better it is going to be for everyone," Mr. Reeves said.

Depending on the size of a claim, insurers will assemble a team to determine their losses, said Christopher P. Gallagher, global insurance manager for Procter & Gamble Co. in Cincinnati.

Therefore, policyholders should set up their own team to compliment insurers' efforts, and respond consistently to the thousands of questions insurer teams will pose, Mr. Gallagher said.

Insurer teams might include adjusters, accountants to quantify the losses, engineers to sort out whether certain damage occurred during the catastrophe or before it, industry experts and coverage counsel.

A policyholder's team might include representatives of risk management, finance, operations personnel who understand a plant's specific needs, legal department representatives to help with coverage issues and insurance brokers, he said.

Engineers who can speak the same language as insurer representatives can help assure the insurers get the facts right, Mr. Gallagher said. Obtaining confidentiality agreements from outside experts also may be necessary to protect proprietary information, he said.

Resolving a business interruption claim can drag on for months, said Jason M. Trahan, risk advisory services for E&Y in Dallas. Therefore, a policyholder's team should be dedicated to seeing the process to its conclusion.

Employers often rotate employees among various roles to provide them with new challenges, but that can delay resolving an open business interruption claim and should be avoided, Messrs. Gallagher and Trahan agreed.

"That way you can have continuity throughout because you are getting those questions 16 months later," Mr. Trahan said. "You don't have to worry about the learning curve again."

SESSION COVERAGE: RIMS 2008

When the policy arrives, read it very carefully

Frequent changes in terms warrant scrutiny

By GLORIA GONZALEZ

SAN DIEGO—Property insurance policies evolve constantly, so risk managers need to examine their policies for exclusions that may undermine their coverage, experts say.

Risk managers encounter numerous challenges when trying to set up a solid insurance program, including shifting "dictates" from reinsurers, significantly higher premiums after catastrophic events and fewer multiyear policies, said Lance Ewing, vp-risk management at Harrah's Entertainment Inc. in Cordova, Tenn.

"In the property world, you're not always in control and you'll never be always in control," Mr. Ewing said at the recent Risk & Insurance Management Society Inc. annual conference in San Diego.

A critical task for risk managers and buyers who want a solid property program is fully reading their insurance policies, which many do not do, he said.

"You need to read your insurance policies," Mr. Ewing said. If buyers do not want to read policies, they should hire a broker to review them, he said.

At minimum, risk managers should read the exclusions page of their policies; whatever is not covered by their property policy is the company's responsibility and risk managers will have to explain to senior management why a claim was not covered, he said.

Policy applications often have questions that may be unclear or nonspecific, so buyers need to include as much information as possible and ask underwriters for clarifications to minimize misinterpretation that could lead to a coverage dispute, said Joshua Gold, a policyholder attorney with Anderson, Kill & Olick P.C. in New York.

Reviewing excess insurance policies also is important because several recent disputes have centered on language that says the insurer will pay excess of the primary layer only under certain conditions, Mr. Gold said. The excess policies may state that excess claims will not be paid if the policyholder does not receive full recovery from the primary insurer. If the policyholder settles with the primary insurer for less, the excess carriers will deny the claim.

"That argument is coming up more and more" in both property and liability coverage disputes, Mr. Gold said. "You have to check your excess language these days because it is being rewritten. And brokers that are familiar with this issue will red flag it for you and get an endorsement in your excess policies, but a lot of brokers are missing this."

For business interruption losses, the policy language should be examined to determine whether the coverage trigger is a complete cessation of operations. Many insurers take the position that if the organization is not completely shut down, the coverage will not be triggered, Mr. Gold said.

'It's a relationship business, whether it's on the broker side or on the carrier side. I'm spending a lot of time with the underwriters.'

Lance Ewing,
Harrah's Entertainment

"It makes no sense and certainly that's not the discussion you had with your underwriters," he said.

Developing strong relationships with all sectors of the insurance industry is another critical component of a solid property insurance program. Commercial insurers are responsible for a significant portion of Harrah's property program and Mr. Ewing said he wants to ensure they are committed to his program.

"We're still a handshake business," he said. "We still have to look you in the eye and trust you. It's a very hard thing. It's a relationship business, whether it's on the broker side or the carrier side. I'm spending a lot of time with the underwriters."

Buyers historically do not meet with reinsurers as often as they should, particularly in hard markets, but spending time with reinsurers is important because their mandates will determine insurance premium levels, Mr. Ewing said.

Meeting with underwriters tends to be the focus for risk managers, but they also should meet with the claims professionals of larger insurers, he said. "If they don't know who you are in the claims world, you're obviously just another number, unfortunately," he said.

Preparing for potential claims disputes ahead of time is critical, Mr. Ewing said, noting that Hurricanes Katrina and Rita led to more than $1 billion in claims for Harrah's.

"You'd better have the right resources," Mr. Ewing said. "You better be building over time. Don't wait for the claim to happen. Get your ammunition ready."

Project wrap-up insurance helps ensure comprehensive cover

Care needed in formulating programs to ensure adequate limits in place, long-tail liability exposures protected

By DAVE LENCKUS

SAN DIEGO—A deadly and destructive construction crane accident in New York demonstrates the value of wrap-up insurance programs, but several coverage factors distinguish wrap-up programs from one another, according to a panel of experts.

In putting together wrap-ups—a master general liability and workers compensation insurance program that covers all contractors working on a project and often the project owner—risk managers have to figure out the appropriate limits and examine whether terms and conditions restrict completed operations coverage, the experts said.

Developing a wrap-up program, also known as an owner- or contractor-controlled insurance program, can be challenging but is worth the effort, panelists said during a session at the Risk & Insurance Management Society Inc.'s recent annual conference.

Without it, project owners and contractors could find themselves with the same kind of complex insurance coverage and liability problems that the owner and contractors of the Manhattan building project face, said Scott R. Whiteside, a San Francisco-based executive vp at Gallagher Construction Services, a division of Arthur J. Gallagher & Co.

Six construction workers and a woman visiting New York were killed March 15 when a crane tore away from a $100 million condominium project and crashed into several buildings. While owners and contractors involved in projects valued at $100 million or more often are covered by wrap-up programs, the Manhattan construction project was not (*BI*, March 24).

As a result, the project's developer and contractors will have to sort out blame for the accident while likely defending against third-party lawsuits and claims filed by the families of those who died in the incident, Mr. Whiteside said during the session, agreeing with other insurance experts who analyzed the accident shortly after it occurred.

But in putting together a wrap-up program, owners and contractors face several tough decisions, the panelists noted.

Chief among them is the amount of liability limits that should be purchased. Panelists and session attendees shared approaches for calculating adequate coverage, including buying limits equal to either 60% of the cost of construction or $50,000 for every individual unit in the project.

NY TIMES

A March 15 crane accident in New York was not covered by a wrap-up program, which will make settling any potential claims from the incident more difficult, experts say.

Whatever approach a risk manager takes, coverage costs can be held down by purchasing a lower amount of limits for contractors' completed operations, which is a smaller risk than their general liability exposure, Mr. Whiteside said.

"Plenty of markets are willing to take that approach," he said.

When purchasing completed operations coverage, however, risk managers should check that the program's various primary and excess policies provide the same 10-year tail coverage, said Mr. Whiteside and Amy B. Briggs, a partner with law firm Manatt, Phelps & Phillips L.L.P. in San Francisco.

Recently, Mr. Whiteside said, he discovered a six-year tail in an excess wrap-up layer that an underwriter was offering a client in California.

"Think of the potential downside if that coverage gap had been missed," Ms. Briggs said.

Risk managers also have to ensure that policies for the various layers contain consistent language on when tail coverage is triggered, Ms. Briggs said. For example, triggers include substantial completion of the project, the close of escrow for the project and the date the project is put to its intended use.

Equally important is that the trigger should be consistent with the jurisdiction's legal definition of a trigger for purposes of calculating the statute of limitations for filing a claim against a contractor, Mr. Whiteside said.

Improperly worded warranty and callback endorsements in completed operations coverage also could cause problems years after the project has been completed, Ms. Briggs said. The policy should provide premises coverage so the contractor is protected if its warranty work damages the facility, she said.

In addition, the policy should cover warranty work performed by a contractor other than the original in anticipation of some original contractors on the project going out of business.

Ms. Briggs and Mr. Whiteside also noted that wrap-up underwriters within the past year have been excluding crane operators more often.

However, crane operators can get coverage on their own, and other contractors working on a project still would be covered if they are pulled into a claim involving the crane operator, Mr. Whiteside said.

Market Moves

WellPoint acquires data analytics company

COLUMBIA, Md.—Indianapolis-based managed health care provider WellPoint Inc. has acquired Resolution Health Inc., a data analytics-driven personal health care guidance company in Columbia, Md.

The acquisition, terms of which were not disclosed, is intended to help WellPoint identify opportunities to close gaps between evidence-based recommended care and care that members actually receive.

AmWINS acquires MGU, leases space

CHARLOTTE, N.C.—AmWINS Group Inc., a wholesale insurance broker based in Charlotte, N.C., has acquired Beacon Risk Strategies, a Seattle-based managing general underwriter that focuses on medical excess loss insurance. Terms of the transaction were not disclosed.

"Beacon's stop-loss capabilities represent a new product offering for our company and will strongly complement our existing capabilities," said Steven DeCarlo, AmWINS' chief executive officer in a statement.

AmWINS provides property/casualty, group life and health and program administration services through retail agents. Beacon provides customized products and services to protect companies and their health plans from unexpected catastrophic claims.

Separately, AmWINS said it will expand a regional office, leasing 13,312 square feet of office space at Raritan Plaza III in Edison, N.J.

Insurance wholesaler expands offices

MONROE, La.—Burns & Wilcox, a Farmington Hills, Mich.-based insurance wholesaler and subsidiary of H.W. Kaufman Financial Group Inc., has opened a new office in Monroe, La.

It is located at 1867 Avenue of America, Suite C, Monroe, La. 71201. The office can be reached by phone at 318-807-6028. The company has 37 offices in 24 states.

Zurich opens M&A office in London

LONDON—Zurich Global Corporate mergers and acquisitions unit, a division of Zurich Financial Services Group, has expanded its operation by opening an office in London.

Last July, Zurich Global Corporate established an M&A unit in New York to analyze the needs of and offer customized solutions for customers going through a merger, acquisition or divesture.

IT firm buys provider of health-related services

IRVINE, Calif.—Affiliated Computer Services Inc. has acquired CompIQ Corp., an Irvine, Calif.-based provider of medical bill review and cost-containment services for the workers compensation, group health and liability insurance industries.

The transaction—a $22 million purchase plus contingent payments based on future financial performance—will be funded with a combination of cash on hand and a loan from the Dallas-based information technology services firm's existing credit facility.

Insurance-focused law firm sets up shop in Chicago

CHICAGO—Seven former lawyers at Locke Lord Bissell & Liddell L.L.P have formed a Chicago-based law firm to represent major insurers in the United States, London and Bermuda.

Hinkhouse Williams Walsh L.L.P.'s trial practice will focus on complex insurance coverage, insurance bad faith and punitive damage actions, advertising injury and intellectual property, reinsurance disputes and product liability.

Joe Hinkhouse, managing partner at Hinkhouse Williams Walsh and former chair of the insurance practice group at Locke Lord, commented on forming the new firm, "We are confident that our new platform will allow us to continue delivering outstanding legal services to our clients without the cost demands, conflicts and inefficiencies of a large firm."

The new firm is located at the Aon Center at 200 E. Randolph St., 24th floor, Chicago, Ill. 60601. Phone: 312-268-5760.

TO SUBMIT ITEMS

BI's new Market Moves column reports on activities by insurance industry companies and related entities. Please send Market Moves news to: Kristin Hunt, *Business Insurance*, 360 N. Michigan Ave., Chicago, Ill. 60601-3806; *khunt@businessinsurance.com.*

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HELP WANTED

Claim Professional

COPIC Companies, a large Professional Liability Insurance Company located in Denver, Colorado is seeking an experienced claim professional to perform investigation, evaluation and resolution of assigned claim files. We desire candidates who have a minimum of 10 years of P.C. claims experience and 5 plus years in Medical Mal-Practice claims. College education with knowledge of medical terminology or other college level medical training is desired. We also desire candidates with designation of CPCU, AIC, RIM or similar insurance or medical related designation. Candidates must be proficient with Microsoft Office Products. Please e-mail or fax cover letter, resume and salary requirements to: **Lreynolds@copic.com** or (720) 858-6005, Attn: LaNee Reynolds. Cover letter must include salary requirements.

BUSINESS RESOURCES

SPECIALTY RISKS

International NEWS

Review of U.K. safety law sought

Consultants faulted for overzealous implementation of workplace rules

By TONY DOWDING

LONDON—U.K. employers can be overcautious in their interpretation of workplace health and safety law, according to report from a House of Commons Select Committee, a multiparty body that reviews the performance of government departments.

The committee also said that the problem was exacerbated by overzealous health and safety consultants, and it called for the introduction of a system of accreditation of consultants and advisers.

In its report, "The Role of the Health and Safety Commission and the Health and Safety Executive in Regulating Workplace Health and Safety," published April 21, the committee said that the original legislative framework that governs workplace health and safety was reasonable, but that the problem was a lack of legal clarity.

"We are concerned that the test of 'reasonable practicability' introduces a lack of clarity that can increase the burden on employers in meeting their health and safety obligations," the report stated. "We recommend that the Law Commission reviews the test of 'reasonable practicability' and how it applies to the Health and Safety at Work Act 1974."

The act requires that employers "ensure, so far as is reasonably practicable, the health, safety and welfare at work of all (its) employees."

"We are particularly glad to note that the committee agrees with us about the overcautious approach that some employers can take towards the interpretation of their health and safety obligations," said Nina Wrightson, chairman of the London-based British Safety Council. "We share the concern that 'overzealous' consultants contribute to this problem and welcome the call for this to be addressed."

"We have seen this in the public sector," said Paul Hopkin, chairman of the London-based International Institute of Risk & Safety Management, and a former government inspector of factories with the Heath and Safety Executive. "Sometimes, blaming Health and Safety is a convenient way for public sector organizations to avoid getting involved in an activity they would rather not. But I think the private sector is not overzealous in its interpretation of HSE provisions. Private companies, businesses, take a much more pragmatic approach."

A study by a House of Commons Select Committee reports that some U.K. employers are overcautious in their interpretation of health and safety laws.

A spokesman for Wigston, England-based Institution of Occupational Safety and Health said: "IOSH believes this lack of clarity about competent advice is causing real damage to businesses, that wastes time and money. The public's understanding of the real importance of health and safety is constantly tainted by negative media stories about crazy decisions made in the name of health and safety. You wouldn't put your finances in the hands of an unqualified accountant, so why put your most valuable resource at risk?"

However, Mr. Hopkin, who is also technical director at the Assn. of Insurance and Risk Managers, said: "Two important organizations already exist: IOSH, which now has chartered status, and also the IIRSM that recognizes qualifications and experience and gives practitioners letters after their names. So there already are two professional bodies," he said.

"If a consultant does not have 'designatory' letters after their name, businesses should be cautious about hiring them. Look for more evidence that the consultant has the necessary experience. I would not advocate a register of government approved health and safety consultants with two high-profile bodies like IOSH and IIRSM already in place," he said.

Mr. Hopkin did agree with another issue raised by the report, namely that the HSE is inadequately funded. U.K. businesses are likely to have an HSE inspection just once every 14½ years. "As chairman of IIRSM, I believe that the HSE is under-resourced and has to focus on inspection priorities that are not as comprehensive as the health and safety profession would like," he said.

Ken White, London-based director of Aon Global Risk Control, a unit of Chicago-based Aon Corp., agreed. "Health and safety inspectors are fire fighting and only seeing companies after an incident," he said. "On the other hand, companies are often spending too much money on compliance where it is unnecessary."

AIRMIC to benchmark U.K. insurance coverage

Survey to track risk manager buying habits

By TONY DOWDING

LONDON—The Assn. of Insurance & Risk Managers is launching a benchmarking service for insurance buyers in the United Kingdom.

According to the London-based association, the survey will be the first in the United Kingdom to collect data directly from risk managers. The AIRMIC Benchmark Survey will track buying trends for all major coverage lines across a wide range of commercial insurance and include benchmarking charts, AIRMIC said.

The survey is ongoing and the results will be produced annually by Advisen Europe, the London-based subsidiary of New York-based Advisen Ltd. "By combining this data with updated information about the size and sectors of operation, Advisen will deliver a highly tailored peer group comparison," said Mason Power, managing director of Advisen Europe.

Transparency can only be accomplished if greater information is shared by participants in the industry, said Thomas Ruggieri, chairman and chief executive of Advisen Ltd. "AIRMIC has made an important step in that direction," an approach he said he would like to see flourish throughout Europe.

Participants will receive the results for free, while others will pay for the publication. AIRMIC said risk managers who are not members are welcome to participate in or use the results of the survey in making more informed decisions about their insurance programs.

The move follows the success of a similar U.S. survey produced by Advisen for the New York-based Risk & Insurance Management Society Inc. for the past six years.

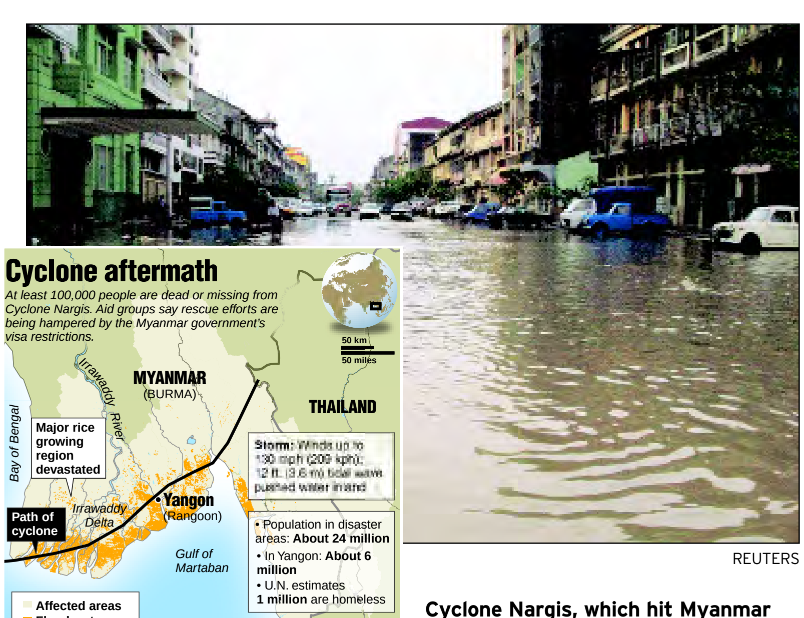
"AIRMIC members and partners have been overwhelmingly supportive, and a number of AIRMIC members have given a positive response to the initiative," AIRMIC Chief Executive John Hurrell said in a statement.

Clive Clarke, insurance manager at London-based Schroders P.L.C., said he expects the benchmarking survey will serve as a "reality check."

"It will provide valuable information about how other companies in my sector—and also those from other sectors of similar size to mine—approach the transfer of risk," Mr. Clarke said.

Julian Cowburn, group insurance manager at London-based Old Mutual P.L.C., also praised the effort.

"When you place a global insurance program, you do not really know how you compare it with your peer group. Taking part in a robust benchmarking exercise will help identify how my program compares to 'best in class': for example, rates, retentions and coverage limits. There may be good reasons for any variations, but benchmarking will flag up those parts of my program that merit further investigation," he said.



REUTERS

NEWSCOM

Cyclone Nargis, which hit Myanmar earlier this month, caused widespread flooding in the capital, Yangon.

Deadly cyclone losses uninsured

Tens of thousands killed as storm devastates large areas of Myanmar

By MARK A. HOFMANN

YANGON, Myanmar—Cyclone Nargis, which ravaged Myanmar earlier this month, is unlikely to have a significant impact on the international insurance market, according to modeling firm Risk Management Solutions.

The cyclone may have killed more than 60,000 people, according authorities in Myanmar, formerly known as Burma. Some unofficial estimates said at least 100,000 people are dead or missing.

"This event is a massive humanitarian disaster," said Domenico del Re, a senior model manager in the London office of RMS, in a statement issued last week assessing the cyclone's impact.

"However, it is a catastrophe that the international insurance industry has escaped," he said.

"AIR will not be issuing an insured loss estimate," said Boston-based catastrophe modeler AIR Worldwide Corp. in a statement late last week. "While Nargis has no significant insurance implications, it is certainly a humanitarian disaster."

The insurance industry in Myanmar is small with no international insurance brokers operating in the country and nonlife insurance premiums consisted of barely $5 million in 2004, according to Mr. del Re.

But he added, "disasters such as these should be taken as a wake up call to the global insurance industry, as companies extend their portfolios outside areas where the understanding of risks and their quantification is well-established."

"Given the isolation of the country, international investment in Myanmar is also very limited," he said.

Wind: Attempt to widen flood program rejected

CONTINUED FROM PAGE 3

The White House also weighed in the day before the Senate vote, endorsing the Senate bill over the House measure. In a statement of policy, the Office of Management and Budget said, "if the final bill presented to the president includes provisions to expand the NFIP to include coverage for windstorm damage, his senior advisers will recommend that he veto the bill."

Insurance groups welcomed the vote.

FLOOD INSURANCE REFORM AND MODERNIZATION ACT

Key provisions of S.2284. as amended in the Senate.

- Extends the program through Sept. 30, 2013.
- Creates a new Commission on Natural Catastrophe Risk Management and Insurance.
- Does not expand the NFIP to include windstorm coverage.

Source: Library of Congress, Thomas.gov.

"Private insurers remain able to cover homeowners and businesses in the path of potential storms through the private market," American Insurance Assn. President Marc Racicot said in a statement. "Adding wind coverage to the federal flood insurance program is not needed, given that there is adequate wind coverage capacity in every state through either the traditional private market, or state residual markets backed by private insurers."

"I think it sends a strong message. It was a resounding defeat," said Ben McKay, senior vp in the Property Casualty Insurers Assn. of America's Washington office. "I think it sends the message when you have such a resounding defeat coupled with the administration's comments that they would veto the bill, it makes it clear that it is not viable."

Additionally, industry experts say rejecting the expansion to add wind cover helped secure the NFIP's continuation.

"The overwhelming defeat of the amendment significantly boosts the chances of final passage," said Justin Roth, senior federal affairs director for the National Assn. of Mutual Insurance Cos. in Washington. "With a presidential veto looming, and opposition by Chairman Dodd and Ranking Member Shelby, the inclusion of the wind amendment would have spelled doom for the legislation," he said, referring to Senate Banking Committee Chairman Chris Dodd, D-Conn., and top minority member Sen. Richard Shelby, R-Ala.

"By adding wind coverage to the NFIP, the program would increase its exposure at a time when the program is already $18 billion in debt. Exposing the program to new coverages and liabilities would have put the future of the program in serious question," Mr. Roth said.

A compromise bill is unlikely this year but it is not out of the question, observers say.

"This vote broke along the coastal/noncoastal fault line," said Joel Wood, senior vp at the Council of Insurance Agents & Brokers in Washington. "The earlier House vote was due to the active intervention of Speaker Nancy Pelosi on behalf of Gene Taylor. That was an anomaly. This vote was more typical of where true sentiments exist."

"I find it a stretch of the imagination to envision it being included" in any compromise this year, Mr. Wood said. "I don't see where that would happen. Opponents of adding wind must be alert. If we have another significant storm with conflicts over wind and flood, I could envision this sort of proposal hanging around Congress for a long time. I could see this getting some traction after this president's term."

Although insurance groups disagreed with adding wind coverage, they welcomed Sen. Dodd's inclusion in the Senate NFIP bill that calls for a commission to study the natural catastrophe insurance market, which was from an earlier bill.

"We've been supportive of Sen. Dodd's efforts," said Mr. McKay. "We think it's the right approach, because we've tried to come up with solutions, and none seems to gain the broad support that's needed. So perhaps a commission could navigate this process and come up with a solution that could get broad enough support that it could gain passage. Frankly, I don't think we've identified all the issues yet and I think a commission will provide that opportunity."

"There are still some underlying coastal issues where Congress has found itself in a log jam," Mr. Wood said. "I think a commission format might provide a more favorable platform to consider market-based pre-emptive federal approaches that could relieve some of the coastal pricing anguish."

Runoff: Deals spark complex legal war

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ness must have looked brighter in the 1990s, when GSC, a hedge fund affiliate of GSC Capital Corp. of Florham Park, N.J., decided to invest. In 1996, GSC formed an affiliate, Dukes Place Holdings L.P., to acquire runoff insurers, and teamed with Cavell to manage the acquired companies.

Dukes Place bought Seaton in 1998 and Stonewall in 2000.

By 2006, though, relations among the parties were breaking down: Dukes Place terminated its contracts with Cavell and hired Enstar as runoff manager, and National Indemnity filed arbitration demands against the two insurers.

The Berkshire unit asked arbitrators to affirm its right to manage the insurers' claims, while Seaton and Stonewall sought to rescind the National Indemnity treaties and take over claims servicing themselves.

While details of the arbitrations are confidential, the two insurers have contended in financial and court filings that aggressive policy buy-backs and reinsurance commutations would have reduced their liabilities and improved their financial condition. National Indemnity has failed to take these steps, and has impeded Enstar from doing so, in order to hold on to the two insurers' premiums for as long as possible, Seaton and Stonewall have alleged.

Last September, separate arbitration panels ruled against the insurers, denying their recision demands and affirming National Indemnity's role as claims servicer.

Seaton and Stonewall, though, filed new arbitration demands this year, again seeking recision. National Indemnity responded last month with a suit seeking to enjoin new arbitration and arguing that the issues have already been resolved.

Within days, the Berkshire unit also filed a suit in U.S. District Court in New York charging GSC, Dukes Place, Enstar and several affiliated entities with plotting to end National Indemnity's role with Seaton and Stonewall so that the two insurers can be sold.

The complaint notes that National Indemnity's contracts allow it to take over claims servicing if ownership of the insurers changes. In 2005—before the arbitration rulings and while Cavell was still runoff manager—GSC started negotiations to sell the two insurers to a processor company of Enstar. GSC and Enstar realized that the National Indemnity contracts would prevent Enstar from assuming control of claims after the sale, though, and the two companies then launched efforts to coerce National Indemnity to give up its contractual rights, the lawsuit alleges.

Those efforts included making false allegations to Rhode Island regulators and arbitration panels that National Indemnity was mishandling claims, the complaint charges.

GSC and Enstar have not yet responded to the Berkshire unit's suit, which seeks damages for alleged breaches of contract and fiduciary duty.

Meanwhile, after the arbitration rulings last year, Seaton and Stonewall filed a fraud lawsuit in New York federal court against Cavell and Mr. Randall.

The suit charges that Cavell secretly entered a "collaboration agreement" with National Indemnity, ceding all claims management authority to the reinsurer and undermining the two insurers' interests in quick resolution of their liabilities.

The suit seeks the return of $27 million in management fees paid to Cavell, along with unspecified damages for the alleged reduction of the two insurers' value and $75 million in punitive damages.

Cavell, meanwhile, is suing the two insurers in the United Kingdom for breaching an agreement that terminated Cavell's management contracts with Dukes Place, Mr. Randall said.

Under that agreement, Seaton and Stonewall released Cavell from claims related to the runoff except those based on fraud. The charges in the insurers' suit do not amount to fraud, though, and the suit thus violates the terms of Cavell's agreement, Mr. Randall said.

Schools: Risk management courses evolve

CONTINUED FROM PAGE 4

Five years ago, the department of risk management and insurance at Georgia State University in Atlanta rebuilt its program by changing the curriculum, hiring new faculty, boosting research funding and attracting new students. Undergraduate enrollment has grown 60% in the last five years, and 125 students will graduate this month. The curriculum changes reflect a broader view of risk management and focus on economics, finance, and quantitative methods, said Richard Phillips, chair of the risk management and insurance department.

One major change was adding a graduate program in mathematical risk management that focuses on quantitative methods used by banks, insurers and corporations to manage financial risks. Currently, about 130 students are enrolled in the graduate program, and graduates are being placed with consulting firms, investment firms and other areas of risk modeling, said Robert Klein, associate professor and director of the center for risk management and insurance research at Georgia State. "We feel it's very consistent with the changes in the industry," he said.

Enterprise risk management also is being woven into the curricula of college-level risk management programs.

St. John's now offers a masters of science in risk management with a strong focus on ERM. "It has become one of our most popular programs," said Ellen Thrower, executive director of the school of risk management for St. John's.

The school will continue to expand its ERM coursework and has received a $35,000 grant from New York-based PricewaterhouseCoopers International Ltd. to further develop the curriculum, Ms. Thrower said.

Curriculum changes are also under way at Olivet, Mich.-based Olivet College, where 125 students are enrolled in the insurance program, an increase of around 50% since 2001.

Olivet has adapted the coursework to include ERM as well as changing business practices in risk financing and insurance. Classes also feature weekly speakers from the insurance, financial planning and risk management professions, said Mike Hubbel, director-insurance program.

Job placement is also strong, and universities are ramping up their efforts to secure good jobs for their graduates.

"We have had nearly 100% placement for the last three years," Mr. Cox said. Ole Miss also has set up an online resume system for employers searching for new hires that has "generated hundreds of calls," he said.

This growth in graduates will help alleviate the industry's historic talent crunch, observers say.

"The boost comes just in time as the baby boomer generation of insurance professionals begins to retire in large numbers over the next several years," Mr. Hartwig said.

Meanwhile, the demand for talent has prompted development of a risk management program at Utica College, which will begin offering a four-year program in risk management and insurance this fall. About 30 students have enrolled in the program at the Utica, N.Y., institution.

Executives from six insurance industry companies in Upstate New York, including Rochester, N.Y.-based Excellus BlueCross BlueShield, aggressively lobbied school officials to persuade them to recognize the value of an insurance program at the school as well as the potential recruiting relationship it would provide.

The program, which also has some corporate financial support, will focus on quantitative aspects of risk and portfolio valuation, derivatives for risk management, corporate best practices, standard and alternate risk transfer methods, risk retention, financial planning and insurance operations, said Pamela Hurley, assistant professor of risk management and insurance. "We think it has very practical applications," she said.

Maine: Tax hike for health care opposed

CONTINUED FROM PAGE 1

The coalition will need to obtain the signatures of just more than 55,000 registered Maine voters by July 17 to put the question on the ballot.

The taxes include a first-ever Maine tax on soft drinks, a doubling of existing levies on beer and wine, and a 1.8% tax on health care claims paid by insurers and third-party claims administrators. The taxes are so unpopular that coalition members say they are optimistic they will get the signatures needed to get the repeal initiative on the ballot.

"It is a significant undertaking, but we believe we have a fighting chance. This isn't about health care. It is about new taxes. This is about a nonpartisan group that is fed up with taxes," said Newell Auger, director of the coalition and head of the Maine Beverage Assn. in Portland.

State officials say the new taxes will produce roughly double the revenue as the previous assessment on insurers, while the amount collected will be more predictable. The previous assessment had been linked to savings achieved by insurers, with the thinking that providers would shift less uncompensated health care costs to insured patients as more people had coverage.

The assessments were "contentious and very costly to calculate," said Trish Riley, director of Maine Gov. John Baldacci's Office of Health Policy and Finance.

Objections have been raised, and "we have tried to meet them," Ms. Riley said.

The battle comes nearly five years after Maine legislators passed what then was considered a pioneering approach to drastically reduce the state's then-190,000 uninsured. But the program's achievements have been modest at best and critics have blasted it.

"It has been a colossal, expensive failure" with the program providing coverage to only a small percentage of the previously uninsured, said Tarren Bragdon, chief executive officer of the Maine Heritage Policy Center in Portland.

While once hailed as a model, now "no state is looking to replicate this failed example," Mr. Bragdon said.

> **'The program has made only a small dent in reducing the number of uninsured.'**
>
> Randy Abbott,
> Watson Wyatt Worldwide

"It is costing $50 million a year to provide coverage to a very small number of people," said Chris Hall, senior vp for the Portland Regional Chamber. "The costs clearly are outweighing the benefits."

Just less than 13,000 people now have coverage through DirigoChoice, about 1% of the state's population and a fraction of initial state enrollment predictions.

"The program has made only a small dent in reducing the number of uninsured," said Randy Abbott, a senior consultant with Watson Wyatt Worldwide in Wellesley Hills, Mass.

Ms. Riley acknowledged that DirigoChoice, which began issuing policies in January 2005 and with coverage currently offered by managed care provider Harvard Pilgrim Health Care, is "a work in progress." But he also said it has enabled about 28,000 Maine residents to obtain health insurance coverage since its inception.

Still, the program's basic premise hasn't come close to being realized: that the savings resulting from moving the state closer to universal coverage would be sufficient to fund an expansion of coverage, state observers said.

In part, observers blame the low enrollment in DirigoChoice on the fact that it hasn't, in many cases, made health care coverage more affordable.

"Coverage is still expensive," said Dave Spellman, president of Pratt Financial Group Inc., an insurance agency in Westbrook, Maine. In fact, small employers in some cases may pay more for coverage through Dirigo compared with the traditional market, he said.

That can occur, for example, because Dirigo requires employers to pay 60% of the premium. How much Dirigo pays of the remaining premium depends on an employee's income. If an employer had paid only 50% of premiums, its cost could increase by obtaining coverage through Dirigo, Mr. Spellman said.

Others say state demographics have a lot to do with the continuing high number of people without health insurance. "This is a state with a lot of small employers with many low-wage employees who can't even afford subsidized health insurance coverage," Mr. Abbott said.

States attempt to cut number of uninsured

As Maine fights off a challenge that could undermine its program to provide health insurance coverage to small employers and individuals, other states are trying different approaches to expand coverage.

For example, earlier this month, Florida lawmakers approved legislation that will allow insurers to offer lower-cost health care plans to employers with 50 or fewer employees. The plans will be provided through a new state agency and will be exempt from the dozens of state-mandated benefits policies now must cover.

Insurers and others support the legislation, saying the mandate exemption will make coverage more affordable, allowing more small employers to purchase policies, which should reduce the number of uninsured.

"We are excited about the possibilities," said Jim Bracher, executive vp with the Florida Assn. of Health Plans in Tallahassee, Fla.

"Small employers need this kind of help," said Jeff Angello, area vp for Gallagher Benefit Services Inc. in Boca Raton, Fla.

Others applaud the unusual approach—the exemption of benefit mandates in policies offered to small employers. "If we are to reduce the number of uninsured, we have to start thinking outside the box," said Allen Douglas, Florida legislative affairs director for the National Federation of Independent Business in Tallahassee.

Some observers, though, worry that the exclusion of mandated benefits could result in situations where buyers may not be aware that policies won't cover some expected expenses.

"The intent is good, but buyer beware," said John Erb, a health care consultant with Deloitte Consulting in Miami.

In Connecticut, state lawmakers are taking another approach. A measure that received final approval last week would open up the health insurance program covering state employees to Connecticut municipalities, nonprofit organizations and employers in the state with less than 50 employees.

The theory behind the legislation is that by joining the state program, cities, nonprofit groups and small employers will be part of a much bigger purchasing entity and would pay lower rates than they would compared with buying coverage on their own.

But state officials said expanding the program could increase costs for the state because insurers writing coverage could seek to increase rates to reflect that expansion.

"These additional costs to the state are not budgeted anywhere and additional resources would have to be budgeted if the bill passes," State Budget Director Robert Genuario wrote in a letter to state lawmakers, before the House approved the measure last month on a 102-43 vote.

Republican Gov. M. Jodi Rell hasn't said whether she will sign the measure.

—By Jerry Geisel

Marsh: Broker cuts jobs, looks to sell parts of Kroll

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bine Kroll with other MMC operations, that integration never occurred and certain Kroll operations have been underperforming ever since, Mr. Duperreault said during last week's analyst call.

Despite some shareholders clamoring for MMC to spin off Kroll, Mr. Duperreault made it clear he intends to retain certain parts of the unit.

Earlier this month, Mr. Duperreault rebuffed an inquiry from London-based buyout firm B.C. Partners Ltd. to begin negotiations for the buyout of Kroll, a person familiar with the deal confirmed.

Last week, Mr. Duperreault said MMC plans to keep most of Kroll's litigation support and data recovery, background screening, and risk mitigation and response units, which reported $220 million in first-quarter revenues—a 14% rise over the same period in 2007.

Mr. Duperreault said he will, however, divest Kroll's Factual Data Corp., which provides services to mortgage lenders, and Kroll's government services business, which were deemed not to be a strategic fit for MMC.

In the first quarter, MMC separated Kroll's corporate advisory and restructuring unit into a separate operating unit within MMC's risk consulting and technology segment.

That reorganization triggered MMC to record a noncash goodwill impairment charge of $425 million. The write-down reflects a reduction of Kroll's value on MMC's balance sheet and specifically relates to the underperforming operations that MMC plans to divest as well as its corporate advisory and restructuring unit, Mr. Duperreault noted.

Analysts say MMC is taking the right approach with Kroll.

"A lot of Kroll doesn't really make sense within the Marsh umbrella," said Meyer Shields, an analyst with Stifel, Nicolaus & Co. Inc. in Baltimore. "Not every service that can be termed 'consulting' is necessarily going to be synergistic or consistent with the products they want to offer. That on top of the fact that some of those services are doing pretty poorly" are reasons a divestiture would make sense.

Mr. Lane said MMC's plan to keep some Kroll assets and divest others is "the right approach, because I do believe there's a lot of synergy between certain (Kroll) consulting services and the brokerage business."

At the same time Mr. Duperreault said MMC would divest certain Kroll assets, he said he also is taking steps to address the underperformance at MMC's reinsurance brokerage unit Guy Carpenter & Co. L.L.C., which posted a 6.5% drop in first-quarter revenues to $273.0 million.

Executives blamed the decline on the soft pricing environment, higher retentions and a drop in new business.

In an effort to maintain profitability within the unit, MMC said it will lay off more than 300 Guy Carpenter employees—representing more than 10% of its workforce. MMC expects the workforce reduction to cost $30 million and save the company $40 million annually.

"Guy Carpenter has more of a U.S. emphasis, and that lack of diversity is hurting them disproportionately," Mr. Lane said. "They need to reduce their head count in order to right-size the business.… It's really their only option. There's nothing strategically they can do right now to accelerate revenue growth. The market challenge is too great."

In addition to the layoffs at Guy Carpenter, MMC executives said that 150 positions within Marsh were eliminated in the first quarter and they expect more layoffs in the future.

"No, we do not feel comfortable yet with our levels," Mr. Duperreault said when asked by an analyst whether the 150 layoffs within Marsh were adequate. "There's more work to be done. Our margins are not near where they need to be, not even close," he said.

Mr. Lane, for one, agrees that the company needs to "cut deeper."

"The real question is, is there room for another formal and major restructuring? Because in my view, that's the only way they're going to be able to get their margins up in a reasonable time," he said. "Whether morale can survive that remains to be seen, but that's what's necessary."

Cliff Gallant, an analyst with Keefe, Bruyette & Woods Inc. in New York, said he's hearing that "morale is pretty good right now" at Marsh. "People are feeling good that the leadership knows what they're doing."

While layoffs are always difficult for an organization, "I think people want to work at a place where they feel like they're with a winning team and ultimately you need good management to get you there," Mr. Gallant said.

MMC UNIT REVENUES

Marsh & McLennan Cos. Inc.'s first-quarter 2008 revenues by business unit:

Business unit	Revenues	% change from 1Q 07
Marsh Inc.	$1.23 billion	▲ 7.4%
Mercer L.L.C.	$925 million	▲ 15.6%
Oliver Wyman Group	$370 million	▲ 12.5%
Guy Carpenter & Co. L.L.C.	$273 million	▼ 6.5%
Kroll Inc.	$220 million	▲ 14.0%
Corporate Advisory and Restructuring	$39 million	▼ 7.1%
Risk Capital Holdings	$6 million	▼ 87.8%

AIG: Insurer seeks to rebound after reporting record quarterly loss

CONTINUED FROM PAGE 1

disruption persisted in the first quarter, which negatively affected results.

"Excluding these external market issues, the underlying fundamentals" of AIG's business remain strong, Mr. Sullivan said.

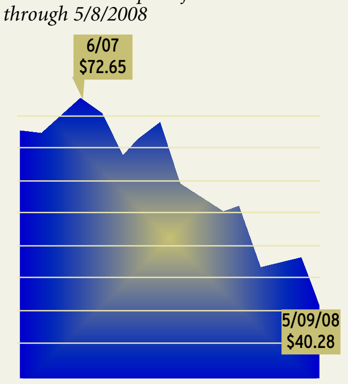
AIG is not expected to have difficulty raising the capital and will remain strong, observers say.

"Some other large, financial institutions with losses related to (the) subprime (situation) have successfully raised capital, so it appears that there is a market," said Rodney Clark, managing director at rating agency Standard & Poor's Corp. in New York.

S&P lowered AIG's senior debt rating to AA- from AA, but made no change to its AA+ financial strength ratings, although all ratings remain on credit watch with negative implications.

AIG'S STOCK DROPS

Decline in stock price from 3/1/2007 through 5/8/2008



"I'll expect they'll raise the capital and we'll go from there," said Mark Rouck, a senior director at Fitch Ratings in Chicago, which also downgraded AIG's debt ratings to AA- from AA.

In addition, New York-based Moody's Investors Service has placed some of AIG's ratings on review for possible downgrade, but affirmed the Aa2 financial strength rating for its commercial insurance group subsidiaries.

John L. Ward, CEO of Cincinnati-based Cincinnatus Partners L.L.C., an insurance advisory firm said, "It's important to note that AIG is not raising this capital because they have to. They are raising this capital in order to maintain historical rating agency and regulatory capital ratios" and to restore its ratings. "It's important to distinguish that objective and the capital raising from any other, more serious, need," he said.

During the analyst call, company officials stressed the capital will be used to fortify the insurer's balance sheet. "This was not driven by the rating agencies. We went to the agencies and told them of our plans to raise capital," said AIG Chief Financial Officer Steven J. Bensinger.

The first-quarter loss on top of a fourth-quarter 2007 loss of $5.29 billion is "a sign that they have a lot of work to do," Mr. Ward said. Even so, "they're a large, global, strong franchise with in excess of $100 billion of market capital" and have the ability to absorb the losses announced so far, he said.

"They're still a financial powerhouse, for sure," said Joyce Sharaf, assistant vp and managing senior financial at Oldwick, N.J.-based A.M. Best Co. Inc., which has had AIG's rating under review since February.

'The overall results at AIG are not the stellar results we always associated with the company, if anything, they are at risk of slipping into mediocrity.'

Cliff Gallant,
Keefe, Bruyette & Woods Inc.

Whether this will affect AIG's insurance operations is unclear.

"I don't know that their insurance operations are going to be materially affected by what's going on in terms of their normal operations," she said. Although affected by price and competitive pressures, AIG's commercial operations have "an excellent franchise," she said.

"There is still no other company like this in terms of its size, its reach and its international franchise," said Cliff Gallant, an analyst with Keefe, Bruyette & Woods Inc. in New York.

However, AIG's loss is not in line with its previous results.

"The overall results suddenly at AIG are not the stellar results we always associated with the company and, if anything, they are at risk of slipping into mediocrity, so AIG will be fine. It'll survive. The question is can it regain its cache as being the blue chip leader?" Mr. Gallant said.

Meanwhile, observers say Mr. Sullivan is expected to retain his position, at least for now.

"I think the board has been patient for a good reason," said Mr. Gallant. Many of the issues now confronting the company "are not in businesses that he grew or developed. In fact, he did try to pare back the subprime real estate exposure back in 2005.

"But that said, he seemed to have thought three months ago that the company had excess capital," but now AIG needs to raise additional capital. "I think for now he enjoys the confidence of the board, but at some point you expect that patience will be tried," Mr. Gallant said.

"I think he's under pressure and he needs to perform and expectations are very high and he's going to have to work very hard to turn this around," Mr. Ward said.

Furthermore, observers say that as a large financial institution, AIG's subprime problems are unique and do not reflect comparable problems among other property/casualty insurers.

The unit that has generated the most market-to-market losses, AIG Financial Products, is "really a financial products company," said Fitch's Mr. Rouck. "You don't find a lot of insurance organizations that were participating in that business.

"It's a little bit different than your run-of-the mill commercial property/casualty, life or retirement services-type business," Mr. Rouck said. Losses reported by other P/C insurers in this area have not been as significant. "It's a matter of magnitude."

Separately last week, AIG named Mr. Bensinger vice chairman, financial services, effective immediately. The company said a search is under way for his successor as CFO.

Survey: Reveals concerns

CONTINUED FROM PAGE 4

ca's vp, marketing.

A total of 43% of respondents said they expect the softening market to continue through 2010, while another 14% said they anticipate it will extend beyond 2010. Last year, most thought the soft market would be over by 2009, said Ms. Albo.

Asked to identify the major factors enabling the soft market, 65% cited excessive capital and 59% named aggressive competition fueled by new capacity.

A total of 41% cited the weak resolve of senior management to achieve adequate returns as a reason for the continuing soft market. This contrasts with the 80% who cited this as a factor in 2005, which indicates "they have more faith" that they can manage their capital properly, said Ms. Albo.

Ms. Albo also noted that while the economy is not officially in a recession, a total of 60% of those surveyed said that it is and another 14% said it will be in the next six months.

Copies of the survey are available at Munich Re America's Web site at *www.munichreamerica.com*.

Starr Foundation alleges AIG concealed derivatives losses

NEW YORK—The running battle between Maurice R. Greenberg and American International Group Inc. opened on yet another front last week as the Starr Foundation, which Mr. Greenberg heads, sued AIG for allegedly concealing billions of dollars of losses last year in its portfolio of credit default swaps.

Starr Foundation, a charitable entity that holds 15.5 million AIG shares, charges in a complaint filed in New York State Supreme Court that the insurer's disclosures earlier this year of unrealized losses in 2007—including an $11.5 billion charge announced in February—led to a drop in AIG's stock price that cost the foundation $300 million.

Last Thursday, a day after the Starr Foundation filed its suit, AIG reported an additional $9.1 billion write down on its credit default swap portfolio for the first quarter, contributing to a $7.81 billion net loss. The insurer also announced plans to raise $12.5 billion in new capital (see related story).

The Starr Foundation's fraud action follows a lawsuit that AIG filed in the same court in March against Mr. Greenberg, AIG's former chief executive officer, and several other former AIG officials, alleging that they misappropriated $20 billion in AIG stock held by Starr International Co., which operated deferred compensation plans for AIG employees.

An AIG spokesman said that the Starr Foundation's suit is "without merit."

The Starr Foundation was created in 1955 by Cornelius Vander Starr and has made hundreds of millions of dollars in grants to educational, health care and cultural causes, funded mostly with sales of AIG stock. Mr. Greenberg is the foundation's chairman, and its directors include several former AIG executives who are also officials of SICO.

$300M

The amount of damages the Starr Foundation is seeking in a lawsuit against American International Group Inc., representing what it claims are losses on its holdings of 15.5 million shares of AIG stock.

In its complaint, the foundation charges that AIG, CEO Martin J. Sullivan and Steven J. Bensinger, its chief financial officer, misled investors in the second half of 2007 about AIG's exposure to the subprime mortgage crisis and to the risk of losses in its credit default swap portfolio. Those swaps provide credit protection on tranches of collateralized debt obligations, many of which are secured by pools of residential mortgage loans.

In an August 2007 conference call with stock analysts, for example, AIG officials downplayed risks in the portfolio, calling them "remote" and "managed effectively," the lawsuit notes.

By last December, AIG had reported a roughly $1.5 billion drop in the value of the portfolio, but Mr. Sullivan told investors he was confident in the "reasonableness of (AIG's) valuation methods," the suit says.

It was not until early February 2008 that AIG disclosed that the portfolio's value actually declined by almost $6 billion through the end of November 2007, and that it used accounting adjustments to reduce the reported decline to $1.5 billion, the suit alleges.

The scope of the losses grew later in February when AIG reported its 2007 financial results and took an $11.5 billion pre-tax charge for valuation losses in the default swap portfolio. AIG also acknowledged that the accounting adjustments it had used earlier to reduce the losses were improper, and its auditor, PricewaterhouseCoopers L.L.P., noted a "material weakness" in AIG's process in 2007 for valuing the default swaps, the suit alleges.

AIG's stock price was buffeted over the first three months of the year by the disclosures and concerns about further losses, reaching an all-time intraday low of $38.50 per share on March 17, the Starr Foundation says. Following last week's announcement of the first-quarter loss, AIG's stock plummeted from the previous day's close of $44.15 to less than $41 per share.

The foundation's lawsuit seeks at least $300 million in damages, representing what it claims are its losses on its holdings in AIG stock.

—By Douglas McLeod

ADVERTISER INDEX

Issue of May 12

News In Brief

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suit, filed May 1 in U.S. District Court in Kansas, is seeking class-action status on the basis that all current employees and retirees that participate in the plans were affected by Sprint's tumbling stock values and that the company's board breached its financial responsibility in violation of the Employee Retirement Income Security Act. According to the complaint, as early as May 2007, Overland Park, Kan.-based Sprint knew its own stock was an "imprudent" investment option, yet it continued to invest plan assets heavily in company stock.

Georgia HSA tax break signed into law

Small employers purchasing high-deductible health insurance plans linked to health savings accounts and insurers offering those plans will receive tax breaks under legislation signed into law last week by Georgia Gov. Sonny Perdue. Under the measure, an employer with 50 or fewer employees that offers a high-deductible health insurance plan linked to an HSA will receive a $250-a-year tax credit for each employee enrolled in the plan. To qualify for the tax credit, employers will have to spend at least $250 per employee annually on the coverage. The legislation also exempts insurers from paying premium taxes on HSA-linked plans.

Gallagher team to join Alliant

A team of six property/casualty health care senior brokers has left Arthur J. Gallagher & Co. Inc. for Alliant Insurance Services Inc., the Newport Beach, Calif.-based broker said last week. Philip E. Reischman, who was area president of Gallagher Healthcare in Houston, will now share a leadership role at Alliant Healthcare Solutions in Houston as an executive vp with the unit's current co-leaders, Executive Vps Freddie Nutt and Janet Hale, Alliant said. Joining the firm with Mr. Reischman are former Gallagher Healthcare senior vps: Hal E. Kinsey in St. Louis; James M. Fasone in Denver; Stephen L. Farr in Nashville; Joanne L. Taylor in Washington; and Valarie J. Allen in Houston. All will maintain senior vp titles at Alliant.

Validus forms unit to target Latin America

Validus Holdings Ltd. has formed a Miami-based unit to target the Latin American and Caribbean markets. Validus Reaseguros Inc. will act as an approved Lloyd's of London coverholder for syndicate 1183. The syndicate is managed by Talbot Underwriting Ltd., which Validus acquired last year. Validus Reaseguros will be headed by J. Andrew Downey as chief executive officer. Mr. Downey previously was senior vp and underwriting manager for the Latin American and Caribbean division of Transatlantic Reinsurance Co., a unit of Transatlantic Holdings Inc.

Willis establishes captive unit in Malta

Willis Group Holdings Ltd. has opened a captive management office in Malta. The London-based insurance broker said its expansion into Malta is due to growing captive insurance and third-party underwriter opportunities, as Malta's financial industry grows. The captive manager will operate as Willis Management (Malta) Ltd. Mark Bromell, managing director, will lead the Mediterranean captive manager. The unit's first client is Biffa Ltd., a British waste management firm.

Aon Re buys Peruvian broker

Aon Re Global has purchased Lima, Peru-based reinsurance intermediary Cosegur Re, the Chicago-based unit of Aon Corp. said last week. Terms of the deal, which closed May 2, were not disclosed. Cosegur Re founders Jose Antonio Cadarso and Juan Diego Cadarso will join the Aon Re Peru office in Lima as chief executive officer and chief operating officer, respectively.

Noted

John F. Rathgeber has been elected chair of the Reinsurance Assn. of America's board of directors. Mr. Rathgeber has been president and chief operating office of Arch Reinsurance Co. since 2001....**Ronald D. Brown**, president and chief executive officer of Atlanta Life Financial Group, died from complications after surgery, the company announced last week. He was 55 and had served as the Atlanta-based company's top executive since 2004.

Mexico: Criminal charges used as lawsuit strategy

CONTINUED FROM PAGE 1

"In fact, I know of many (foreign) companies that don't come here to Mexico just because of that reason," Mr. Salazar said.

While the case is unusual, it is not the first time an insurer in Mexico has faced criminal fraud charges and arrest warrants related to a civil dispute over its policy terms.

In its 2006 annual report, Dutch financial services company ING Group N.V. said its Mexican insurance unit, Seguros ING S.A. de C.V., was locked in a legal battle over the amount of insurance proceeds it owed to fertilizer producer Grupo Fertinal S.A. over damage to its mines in Baja California, Mexico, caused by Hurricane Juliette in 2001.

Fertinal sought full policy limits of $300 million and during the civil proceedings, the policyholder made criminal complaints that alleged fraud against some of Seguros' employees. ING declined to discuss what happened to its employees.

In May 2007, a Mexico City appeals court awarded $94 million plus interest to Fertinal, according to ING.

In AIG's case, its executive was jailed while the insurer was in the midst of a civil court battle for refusing to provide a D&O policy payout for a class action securities lawsuit.

The securities suit was related to fraud charges filed in 2005 by the the U.S. Securities & Exchange Commission against TV Azteca and three of its directors and officers, documents show.

TV Azteca shares are traded on the New York Stock Exchange.

The SEC's complaint alleged that the defendants "engaged in an elaborate scheme to conceal" transactions in which TV Azteca Chairman Ricardo Salinas Pliego gained $109 million.

The SEC also alleged that TV Azteca filed false financial reports that concealed Mr. Salinas' involvement in the transactions. A U.S. law firm, acting consistently with its Sarbanes-Oxley Act obligations, resigned from representing TV Azteca when the company resisted the firm's advice to report certain transactions, SEC documents state.

In September 2006, the SEC announced a settlement with the defendants, who did not admit or deny the fraud allegations.

Defendants in the case agreed to pay more than $8.5 million in disgorgement and penalties. They also agreed not to serve as officers or directors of a U.S. public company for five years.

Sources say the AIG D&O policy at issue excluded indemnity for lawsuits stemming from the payment of fines and disgorgement. They also said AIG knew about TV Azteca's troubles at the time the insurer sold it the D&O policy. Therefore, AIG specifically excluded coverage for lawsuits related to the actions detailed by the SEC.

Grupo Salinas, the parent of TV Azteca, did not return telephone calls seeking comment.

While making criminal allegations against an adversary in a civil dispute is common in Mexico, corporate attorneys often fight them by filing a so-called amparo action, the attorneys say.

Such an action prevents a criminal arrest and is similar to a habeas corpus motion in the United States, the attorneys added.

AIG declined to comment on the litigation or whether its attorneys filed an amparo action in Mexico. But the insurer's spokesman said it was the first time anyone can remember an AIG executive being jailed in Mexico over a claims dispute.

"We're relieved that the matter has been settled," the spokesman said.

But with Mexico experiencing rapid economic development, more of its companies are being listed on Mexican and U.S. stock exchanges, said Fernando Morales, director for property/casualty insurance at Willis Group Holdings Ltd. in Mexico City.

There has been a concurrent increase in litigation over D&O issues in the country where litigation was previously infrequent, Mr. Morales said. Additionally, the ING and AIG events show that criminal actions against directors and officers are also a new threat in Mexico.

In countries other than the United States, criminal charges often precede civil complaints in cases of wrongdoing among directors and officers, said Ann Longmore, executive vp and D&O product leader for Willis in New York. In some instances, local insurers' D&O policies include payment for bail, she added.

MBIA: Policyholder sues to recover litigation costs

CONTINUED FROM PAGE 4

AHERF loss. An independent consultant that MBIA was required to retain determined in July 2007 that the insurer had not violated accounting or SEC rules related to the other losses the SEC had investigated.

Meanwhile, MBIA has faced several securities class action and derivative lawsuits over how it accounted for the losses that the regulators investigated and for entering into the finite risk transactions.

MBIA considered settling the securities claims, but it said that Federal and ACE refused to give it their consent.

The plaintiffs, whose claims were dismissed by a trial court, are appealing.

The derivative action cases have been dismissed, but MBIA must pay its own defense costs.

According to court papers, MBIA's defense costs exceed $17.5 million.

Federal has recognized $8.9 million of defense costs and has covered $6.4 million, which reflects MBIA's $2.5 million deductible, according to court papers.

ACE American has refused to cover any of MBIA defense costs, arguing that it has no obligation to respond until Federal had paid out its full policy limits.

MBIA says the ACE American policy obligates the excess insurer to respond once the policyholder's defense costs exceed Federal's limits, regardless of whether the primary insurer has responded.

Representatives for both Federal and ACE American declined to comment.

Stock Index

[5/5-5/9]

Up-to-the-minute data for all 82 companies that comprise the BI Stock Index can be found at www.IndustryFocus.com.

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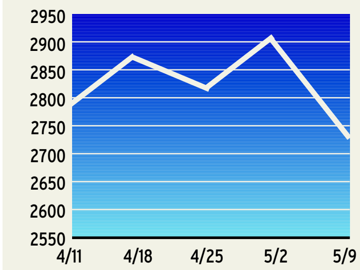

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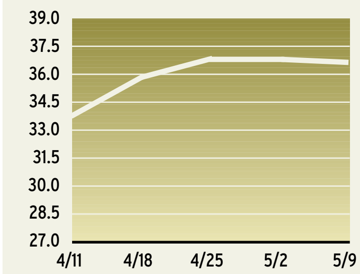

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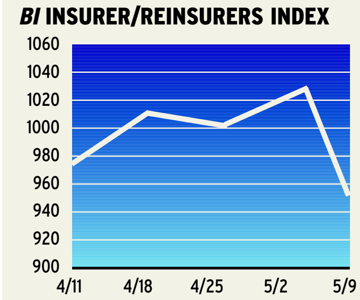
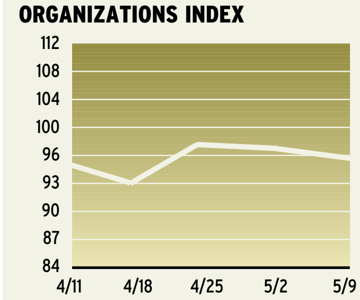


BI MANAGED CARE ORGANIZATIONS INDEX



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DOW JONES	
12745.88	-2.39%
S&P 500	
1388.28	-1.81%

LARGEST GAINS

Tower Group Inc.	14.12%
Argo Group International	4.67%
WellPoint Inc.	2.73%
Gainsco Inc.	2.71%
Odyssey Re Holdings Corp.	2.10%

LARGEST LOSSES

Ambac Financial Group	-18.59%
AIG	-17.86%
MBIA Inc.	-17.43%
Citigroup Inc.	-10.46%
Hartford Financial Services	-9.37%

Source: Financial Content Inc. http://financialcontent.com

Business Insurance END PAGE

Contributing: Jeff Casale, Mark A. Hofmann

REUTERS

Ohio Attorney General Marc Dann, who ran his own Spitzer-like investigation of brokers and insurers, admitted having an extramarital affair.

Ohio A.G. vows to stay despite revelations

Ohio Attorney General Marc Dann and former New York Attorney General Eliot Spitzer have more in common than challenging insurance brokers' business practices.

Nearly two months after Mr. Spitzer resigned as New York's governor after he was linked to a high-dollar prostitution ring, Mr. Dann is the subject of an investigation of alleged sexual harassment claims by two female employees in his office. As the investigation unfolded, Mr. Dann admitted that he had an extramarital affair with an employee.

Last week, political leaders that included Ohio Gov. Ted Strickland called for Mr. Dann's resignation. However, Mr. Dann told his staff in a letter that he intends to remain the state's attorney general.

"I am in the office, have rolled up my sleeves and am working on behalf of the people of State of Ohio," Mr. Dann said in the letter. "I know that this is difficult, and I am truly sorry to have put all of you in this position. But our work is too important to do anything but our jobs today."

Mr. Dann, who took office in January 2007, made waves last September when he sued Marsh & McLennan Cos. Inc., ACE Ltd., American International Group Inc., Chubb Corp., Hartford Financial Services Group Inc. and nearly 30 of the companies' subsidiaries, accusing them of conspiring to engage in price-fixing and anti-competitive business practices.

In that suit, which is still pending, Mr. Dann repeated several allegations that outlined Mr. Spitzer's case against Marsh.

Memorabilia sale riles 'Joe Cool'

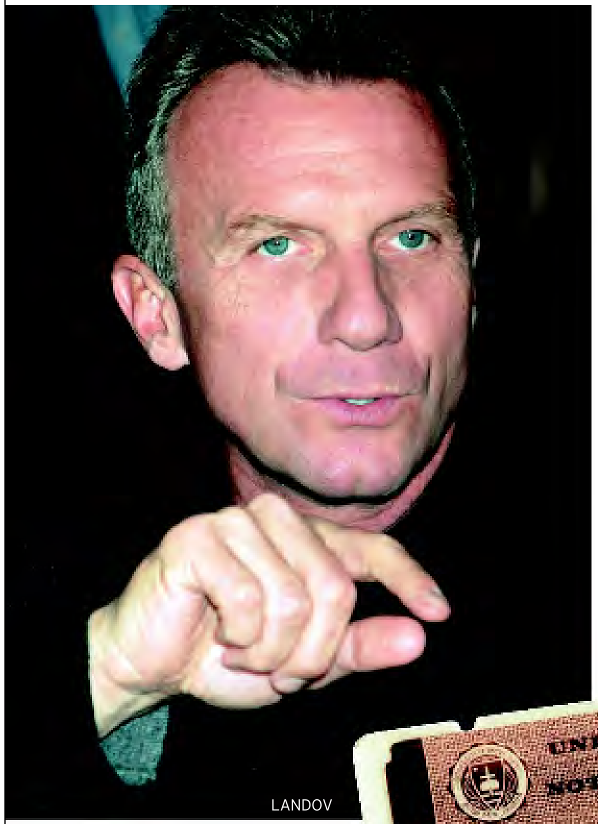
Former San Francisco 49ers quarterback Joe Montana is better known for his passing skills than for writing love letters.

Last week, Mr. Montana filed a lawsuit against ex-wife Kim Moses and a Texas memorabilia firm after learning that Ms. Moses sold love mementos she received from the Pro Football Hall of Famer during his college days.

Mr. Montana filed the suit in U.S. District Court for the Northern District of California claiming that Ms. Moses sold the items without his consent. He further contends that by selling the items—which include his University of Notre Dame student I.D., a Ziggy card with a letter penned in it, the couple's marriage license and a letter to her parents—was "highly offensive."

According to the complaint, selling the items violated Mr. Montana's copyright and privacy rights. Mr. Montana, who finished his career with the Kansas City Chiefs, is seeking a jury award in excess of $75,000.

Dallas-based Heritage Auctions Inc. also is a defendant in the suit. Mr. Montana learned that Ms. Moses was selling the property at an auction in April and demanded that she return it to him. He later found out that the items were already sold.



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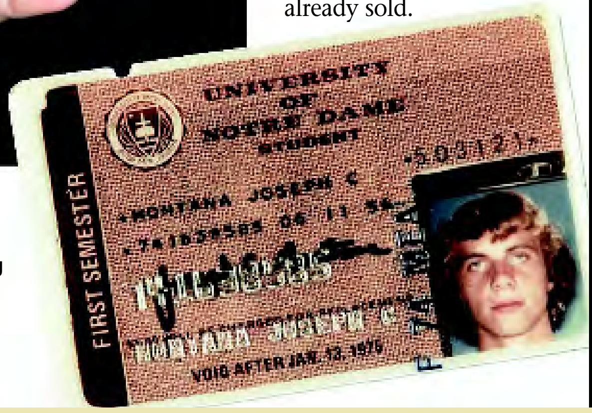

Pro Football Hall of Famer Joe Montana, a master of come-from-behind victories during his NFL career, during a 2006 appearance (above) and during his Notre Dame days (right).

AP

Ex-D.C. Administrative Law Judge Roy Pearson leaves court during a June 2007 hearing stemming from a dry cleaner losing his suit pants.

'Pants judge' sues city for stripping him of job

The District of Columbia's so-called "pants judge" has struck again.

Former Administrative Law Judge Roy Pearson made global headlines last year as he pursued a $54 million lawsuit against a local dry cleaner for allegedly losing a pair of his suit pants and committing what the judge alleged was a violation of consumer protection laws by posting a "Satisfaction Guaranteed" sign at the business.

But Judge Judith Bartnoff found Judge Pearson's arguments less than satisfactory and dismissed the case last June. Later, the city's commission on selection and tenure of administrative law judges voted not to reappoint Judge Pearson to the bench.

Perhaps true to form, Judge Pearson has retaliated with a suit seeking his job back and at least $1 million in damages. He claims he lost his job because he exposed corruption within the city's office of administrative hearings and is, therefore, protected as a whistleblower. According to the Associated Press, the former judge holds that the city "used the fact that he was being 'vilified in the media' to cut him out of his job."

After telling the Washington Post that the suit is without merit and the city intends to "vigorously defend" itself, D.C. interim Attorney General Peter Nickles said Mr. Pearson "needs to stop filing lawsuits."

Faced with that sort of official attitude, the pants judge may find that pressing his suit won't iron out his employment problems.

Costco rings up sales as latest place to buy commercial cover

While stocking up on vats of peanut butter, reams of printing paper or mountains of toilet paper, Costco members also can purchase something else: business insurance.

Issaquah, Wash.-based Costco Wholesale Corp. has teamed with Seattle-based Safeco Corp. to offer business insurance effective this month, according to Costco's Web site.

Costco members will receive a discount of up to 10% on business insurance, which includes property, liability, workers compensation and commercial auto coverage through Safeco, or one of its subsidiaries.

The exclusive program currently is available only in Michigan, New Mexico and Texas. According to Costco's site, more states are to be added soon.

The business coverage joins health and dental insurance that Costco already offers to small businesses through state-specific insurers in California, Hawaii, Nevada, Oregon and Washington state.

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RODD ZOLKOS
Editor, Industry Focus
rzolkos@businessinsurance.com

Taking comfort in separation

I've known for years about the New Madrid fault, but before last month it was never something I really worried about.

That changed a little while after I woke up April 18 to the news that there'd been a not inconsequential earthquake in southern Illinois earlier that morning.

To those of you on the West Coast or in other seismically active areas, a 5.2 quake a couple of hundred miles away probably would barely draw any notice. But, here in Chicago, it got a lot of attention. The local news covered the story extensively for several days, and it generated some speculation about what the experience would be in Chicago if the major quake some expect from the New Madrid fault zone strikes one day.

We live in a 100-year-old brick building, which I suspect was very unlikely to have been built with an eye toward being earthquake-proof.

It's primarily an Arts and Crafts style building, with maybe a touch of Prairie Style. We've been told the architect was a student or an associate of Frank Lloyd Wright, which may or may not be true, but would be consistent with the building's design.

There's a large expanse of tiled roof across the front of the building, with the Prairie feel probably most pronounced in the eaves running across the front and extending over the third floor balconies at each side. A recent incident involving one of those eaves, specifically a snapped joist on the west side, got me thinking about design vs. environment.

Besides sheltering the third floor balcony, the damaged eave extends over our driveway a bit, causing us no small amount of worry about the liability considerations of roof tiles falling from the sagging eave onto passersby below.

While studying the eave from the ground with a roofer, I thought about the wisdom of such a design in Chicago's climate. I suggested that despite the esthetic appeal of those broad eaves, 100 Chicago winters and the weight of the snow they've supported is bound to take a toll.

"We see it all the time," the roofer said.

Well, we got the eave fixed, by all indications the roofers did an excellent job and now it should be good for another 100 Chicago winters, at which point I figure it will be somebody else's problem.

But what about earthquakes?

I know we're a long way from the Wabash Valley Seismic Zone where the April 18 quake hit, and even farther from the New Madrid. But....

At our distance from the epicenter, the quake's impact on our household was minimal. When we heard the news on the radio, my wife, Kathy, and I remembered waking for some reason a little after 4:30 that morning, but that was about it.

And I suspect that, being the canine senior citizen he is, our dog, Algren, rode out the quake in his bed in the living room, not getting up beforehand to pace or position himself in a door frame or check the flashlight batteries or whatever it is animals are supposed to do to demonstrate an awareness of an impending seismic event.

OUR DOG, Algren, rode out the quake in his bed in the living room, not getting up beforehand to pace or position himself in a door frame or check the flashlight batteries.

But, between our damaged eave and the quake, I've been thinking about the wisdom of property owners in catastrophe-exposed areas building for the exposure, with design and construction appropriate for the local environment.

While our Illinois quake offered a reminder of the possibility of seismic events in the Midwest, I can't imagine we'll really move to earthquake-proof our building. Instead, we'll probably take comfort in the several hundred miles that separate us from New Madrid. But, before another winter hits, I wonder if we should take a closer look at those eaves.

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Zurich launches spills cleanup service


AP

Chemicals escape after a train derailment in Painesville, Ohio last year. Zurich Environmental will offer services to help respond to hazardous spills .

SCHAUMBURG, Ill.—Through its Zurich Environmental unit, Zurich Financial Services Group has launched an online service to assist North American customers with cleaning up spills of hazardous materials, fuel or other regulated materials.

Offered free to Zurich Environmental customers, Zurich's Spill Reporting Online System will assist in dispatching cleanup contractors, reducing costs associated with environmental releases, expediting regulatory reporting and mitigating potential liability, the insurer said.

Zurich is offering the service in collaboration with environmental spill management specialist Spill Center Inc.

Founded in 1990, Hudson, Mass.-based Spill Center specializes in helping transportation companies control costs and limit liabilities from accidental releases of hazardous materials, diesel fuel and other materials.

Spill Center provides expertise in environmental and safety regulatory compliance; emergency spill response management; and claims resolution, negotiation and settlement. The company has a database of more than 3,000 contractors across North America to help customers identify appropriate local resources for different types of spills.

Zurich and Spill Center will monitor the scope of work and cleanup and check the accuracy of cleanup contractors' invoices.

Users of the system also receive electronic copies of paperwork related to a spill, including an open release report, contractor retention documents, regulatory paperwork, invoices and a closing report.

Zurich's North American operations, based in Schaumburg, Ill., are part of the Swiss-based Zurich Financial Services Group. IF

BY THE NUMBERS

Top 10 bank holding companies in insurance income for 2007, and their rankings for 2006.

Rank 2007	Rank 2006	Bank holding company	Total insurance income (in millions)
1	1	Citigroup Inc.	$3,534.0
2	2	Wells Fargo & Co.	1,530.0
3	4	HSBC North America Holdings Inc.	866.6
4	5	BB&T Corp.	853.8
5	7	Bank of America Corp.	630.5
6	6	JPMorgan Chase & Co.	425.0
7	8	Wachovia Corp.	282.0
8	9	National City Corp.	133.6
9	11	Regions Financial Corp.	103.2
10	13	Commerce Bancorp Inc.	84.6

Source: Michael White Associates, American Bankers Insurance Assn.

Skywire Software releases ISO-based rating system

FRISCO, Texas—Skywire Software has released Rating Xpress, a preloaded Insurance Services Office Inc. content application including loss costs and rating rules.

Rating Xpress will be available to ISO subscribers using Skywire's Insbridge rating, rules and underwriting system. Insbridge is a Web-based system that allows users to accurately create, deploy and manage rates and rules.

Frisco, Texas-based Skywire said the ability to get access to ISO content through Insbridge will help insurers reduce time associated with maintaining rates, enhance speed to market and improve rating accuracy, quality and compliance. IF

Founded by the New Jersey League of Community Bankers, the Cranford, N.J.-based Bankers Cooperative Group Inc. is an insurance management organization serving New Jersey financial institutions, financial services support companies and their employees. Originally focused on marketing group benefits, BCG's role has expanded to include benefits administration and communications, as well as providing such property/casualty coverages as directors and officers liability, fidelity bond, employment practices liability and other related P/C programs through its specialty lines brokerage facility. Recently, Richard P. Siderko, BCG's president and chief executive officer, discussed the role of an organization like BCG and what it can offer its clients.

What sort of advantages do you see BCG offering your members vs. their trying to secure coverages individually?

We're a self-contained brokerage facility for the New Jersey League of Community Bankers. We specialize in providing employee benefits for banks that belong to the league and in addition to providing insurance to banks, we also provide insurance to associate members.

The advantage of getting benefits through the league and BCG is that we can provide the levels of benefits and pricing that they cannot normally secure on their own, particularly for the smaller employers. Long story short, when you put all these employers together…we can leverage the law of large numbers in getting better pricing and better benefits for everyone that's insured.

Another thing that we're involved with, we have a specialty lines brokerage facility. We do this for about 30 banks right now, about half of our membership.

As you see in our name, Bankers Cooperative Group, "cooperative" is the operative word there. We return patronage dividends to our shareholders based on our performance. You add up all of the dividends and reduced rates over the past few months, it adds up to about $2.3 million that we've been able to give back to our member base.

Does involvement with an organization like BCG help members deal with such issues as changing markets, or other issues that might confront their businesses?

Sure. We're an extension of the HR department or their risk department on the P/C side because many small employers don't have someone to wear that hat. So in many cases we're serving as a consultant, listening to their problems, what are their goals, and how can we solve that for them.

We put together, for example, a benefits communications package that provides a portfolio of what they offer that they can give to employees to remind them of what they have, or that they can give to prospective employees they're looking to hire to show them the benefits they offer. Anyone who does medical with us, we provide that at no charge.

Our goal is to try to assist the banks in communicating (about their benefits). We're in the process now of developing an interactive employee benefits site so that anyone who is enrolled in the program can go on the site and find out what their benefits are. We hope that will be up this summer.

Is member input a factor in shaping your product offerings?

Absolutely and that comes through the league. The league has around 25 committees. One of the key committees in the league is the human resources committee, and that's always a big bellwether, hearing what comes out of their meetings, what's on their minds.

We're in constant touch, not only through the HR committee, but on a daily basis with all of our clients, always listening to what they want. We're always trying not only to wait for them to ask to be able to answer their questions, but hopefully to be there with what they need before they ask the question. IF

XL assembles team to develop new products

HAMILTON, Bermuda—XL Insurance, the global insurance operation of Hamilton, Bermuda-based XL Capital Ltd., has formed a global product development team that the company says will better position it to address customers' risk management needs.

XL said the team will work with XL Insurance business units, customers and brokers to identify, develop and implement new products. The team also will evaluate existing products to identify opportunities for product enhancements.

Nigel Mortimer has been named senior vp and director of product development for XL Insurance. He is based in Bermuda.

In addition, William Burrows, based in Hartford, Conn., was named vp of new product development-North America; and Laurence Flynn, based in London, was named vp of new product development-U.K. and Ireland. XL said it would add an individual in Europe to fill out the product development team.

XL Insurance is the global brand name used by member insurers of the XL Capital Ltd. group of companies. IF

Swiss Re plans consulting unit in China

BEIJING—Swiss Reinsurance Co. is establishing a consulting company in China to provide comprehensive third-party administrator and related services to hospitals, insurers, policyholders and employers.

The new Swiss Re subsidiary, Beijing Prestige Health Consulting Services Co. Ltd., will operate independently of the Zurich-based reinsurer. Prestige Health will open for business later this year under the leadership of CheeKok Poh, who is transferring from Swiss Re's Beijing branch where he led the medical insurance team to become chief executive officer of the new unit.

Swiss Re said Prestige Health aims to help China's medical insurance industry achieve its growth potential and aid local insurers in meeting the challenge of writing the business profitably.

Prestige Health will offer Chinese medical insurers business process outsourcing, providing enhanced services to policyholders and an effective risk management platform for insurers, Swiss Re said. In doing so, Swiss Re said Prestige Health will aim to deliver both cost savings and expertise, allowing insurers to focus their resources on product development, marketing and distribution.

Prestige Health expects to employ more than 50 people in China in the first year after its launch. Employees will be primarily specialists with medical, information technology and risk management backgrounds. Ultimately, the company expects to open additional branches and services centers across China. IF

THE QUOTE

'WHEN YOU REPRESENT the surplus lines industry, the refrain: "I get no respect" resonates with you.'

DICK BOUHAN
NATIONAL ASSN. OF SURPLUS LINES OFFICES

Lighthouse expands elder care cover

DALLAS—Lighthouse Underwriters has enhanced its coverage for facilities caring for the elderly with a new ElderCare Plus program for assisted living facilities, independent living facilities and continuing care retirement communities that provide home health and adult day care.

Lighthouse Underwriters, is a subsidiary of Dallas-based managing general agency and surplus lines wholesaler U.S. Risk Insurance Group Inc.

For ElderCare Plus, Lighthouse is partnering with insurer AIX NOVA.

Among the highlights of the program are professional liability coverage extended to staff and volunteers, defense outside of limits, sexual and physical abuse coverage up to $1 million, coverage for medical directors and administrators, and coverage for violations of resident rights. IF

Liberty International enhances professional liability coverage

NEW YORK—Liberty International Underwriters, a division of Liberty Mutual Group, has expanded its insurance agents and brokers professional liability coverage through a partnership with Business Risk Partners.

The coverage is provided on an admitted basis in most states and offers a broad definition of professional services, including claims handling, risk management, expert witness and coverage for Web-based content. LIU and BRP offer $10 million capacity for primary or excess placements with a 48-hour turn around on submissions.

LIU and BRP are targeting a wide range of insurance agents and brokers with the program, including agents for life/health, property/casualty, wholesale, consultants and managing general agents/program administrators.

Additional highlights of the coverage include punitive damages coverage where allowed by law, limited insolvency exclusion, expanded definition of professional service to include Internet-based transactions, personal injury coverage and no mold or pollution exclusions.

With U.S. operations based in New York, Liberty International Underwriters is part of Liberty International, a business unit of Liberty Mutual Group. LIU provides specialty commercial lines of insurance worldwide, including casualty, specialty casualty, marine energy, engineering and reinsurance, distributed exclusively through the independent broker network. IF

Insurers turning to customer management

LONDON—Heightened competition and more informed customers will lead insurers worldwide to look beyond their core competency of risk management to focus on customer management, according to a new report from London-based Datamonitor P.L.C.

While insurers will need to understand every customer, a benefit of that customer focus will be insurers' ability to identify their most profitable customers and expand their business with them, while minimizing the resources they spend on their least profitable customers, according to the online database and industry sector analyst.

> Insurers' customer relationship management software licenses and software-as-service subscriptions will grow worldwide to **$440 million** by **2012** from $284 million in 2007.

An increased focus on customer relationship management will reduce insurers' customer acquisition costs and decrease customer "churn," thus improving insurers' profitability, Datamonitor said. It also will allow insurers to enhance their return from their marketing efforts.

Datamonitor projected that insurers' customer relationship management software licenses and software-as-service subscriptions will grow worldwide to $440 million by 2012 from $284 million in 2007. Property/casualty insurers have and will continue to outspend life insurers in that area, Datamonitor said, though the split between the two is fairly even.

The fastest growth in insurers' CRM software licenses and software-as-service subscriptions will be in Central and Eastern Europe, with growth in more mature markets in North America and Western Europe expanding at rates lower than that of the overall worldwide market, according to Datamonitor.

Datamonitor noted, however, that CRM is not a panacea for insurers and must be approached as part of an overall business strategy with an understanding that technology simply enables that strategy. IF

Kristian P. Moor has been named president and chief executive officer of AIG Property Casualty Group, the newly renamed Domestic General Insurance operations of New York-based American International Group Inc. **Kevin H. Kelley**, chairman and CEO of AIG's Lexington Insurance Co., was named executive vp of AIG Property Casualty Group and president of AIG Domestic Personal Lines, in addition to his existing positions at Lexington. **John Q. Doyle**, president and CEO of AIG Executive Liability and AIG's American Home Assurance Co, was appointed executive vp of AIG Property Casualty Group and president of the new AIG Commercial Insurance Group.


Mr. Buysse

AIG also made several appointments within the AIG Commercial Insurance Group, including naming **Michael W. Smith** president of AIG Executive Liability. Mr. Smith formerly was president of AIG Financial Lines claims. **Louis P. Iglesias** was named chairman and CEO of AIG Risk Management Group. Mr. Iglesias has held various senior-level positions within AIG Risk Management, including executive vp and chief operating officer. **Russell Johnston**, who has been division president of national accounts and president of Domestic Risk Management at AIG, was named president of AIG Risk Management. **Douglas M. Worman**, who has been Domestic Brokerage Group zonal executive for the greater New York region, was appointed president of the newly named AIG Excess Casualty and AIG Warranty. **John O'Brien**, COO and executive vp of AIG Environmental, has been named president of AIG Environmental. And **Susan M. Clarke** has been named executive vp and COO of AIG Domestic Accident & Health. Ms. Clarke most recently was senior vp of specialty markets for the accident and health division of American International Underwriters and AI Life.

Philadelphia-based BMS Intermediaries Inc. has named **James T. Buysse** CEO. Before joining BMS, he owned reinsurance intermediary Buysse & Associates Inc.

Schaumburg, Ill.-based Zurich North America Commercial has named **Vincent C. Tizzio** president of a new business unit focusing on serving commercial insurance buyers falling between the traditional small-commercial and middle-market business segments. Mr. Tizzio most recently was president of AIG Small Business. Zurich North America Commercial is part of the Switzerland-based Zurich Financial Services Group.


Mr. Meyer

New York-based AXA Equitable Life Insurance Co. has appointed **Brian F. Birmingham** vp and chief marketing officer for corporate markets, an AXA Equitable unit that provides retirement plan strategies and solutions to Fortune 1000 companies and their employees. Mr. Birmingham joins AXA Equitable from Genworth Financial, where he was vp, institutional market strategy for the company's Institutional Retirement Income Group.


Mr. Birmingham

Hamilton, Bermuda-based XL Insurance, the global insurance unit of XL Capital Ltd., has named **John Glancy** chief underwriting officer. Mr. Glancy previously was COO of XL Insurance's global professional operations unit. XL Insurance also named **Bernard R. Horovitz** chief underwriting officer of its global professional lines of business. Mr. Horovitz has been XL Insurance's chief actuary-professional.

Dr. Chris Meyer has joined the health risk management practice of broker IMA Inc. as medical director, based out of the Overland Park, Kan., office.

New York Life International L.L.C., the international operation of New York Life Insurance Co., has named **Anthony Mak** president and CEO of its Hong Kong-based subsidiary, New York Life Insurance Worldwide Ltd. Mr. Mak, who was senior vp and chief marketing officer at New York Life Insurance Worldwide, has been interim CEO since January.

London-based Willis Group Holdings Ltd. has named **Dominic Wheatley** chief marketing officer and **Martin Best** compliance officer and COO of its international captive practice. Mr. Wheatley had been managing director of Willis' Guernsey operations. Mr. Best had been compliance director and operations director of Willis Management Guernsey.

Joseph J. Annotti has been named president and CEO of the Oak Brook, Ill.-based National Fraternal Congress of America. Mr. Annotti joins the NFCA from the Property Casualty Insurers Assn. of America, where he was senior vp of public affairs. The NFCA represents 74 not-for-profit fraternal benefit societies operating in 50 states, the District of Columbia and Canada.

Rockville, Md.-based pharmacy benefits management company HealthExtras Inc. has named **Hai Tran** chief financial officer. Mr. Tran, who most recently was vp and treasurer of Hanger Orthopedic Group Inc., will succeed Michael P. Donovan on July 1. Mr. Donovan will remain with the company to help with Mr. Tran's transition and assist with business development. IF

STRAIGHT

Streamlined processing promotes profitability

By Meg Fletcher

The wide range of companies that have implemented their own versions of straight-through processing to better serve their individual customers may get new help from standards setting organizations.

Straight-through processing allows a customer or agent to purchase insurance electronically without any party having to re-key a customer's address and other personal information. Others have generalized the concept to refer to the streamlined processing of data that reduces or eliminates the need for human intervention.

Standard-setting organizations share the goal of encouraging a uniform approach in processes and operations to enhance efficiency in the purchase or management of annuities and other life/health products as well as property/casualty and reinsurance coverages.

For example, the Assn. for Insured Retirement Solutions is asking annuity sellers to support and adopt 24 sets of standards to simplify and improve the electronic annuity purchasing process, including one for e-signatures.

Also, the Assn. for Cooperative Operations Research and Development plans to encourage implementation of some of its existing standards by

THROUGH

helping create new actual and virtual communities of participants, such as groups of insurers or agents. ACORD has standards that apply to life/health, property/casualty and reinsurance companies.

But as with any voluntary standards, companies will need to review them for their suitability and assess their cost and benefits before deciding whether to adopt them.

In the overall insurance industry, "there has been a steady march to straight-through processing," said Larry Illion, Chicago-based senior vp of business insurance for CNA Corp.'s small business unit. "Margins are thin and the only way to be profitable is to create the most efficient processes possible."

Among companies that sell annuities, "straight-through processing has become such a hot topic," said Mike Hicks, the Windsor, Conn.-based vp-U.S. wealth management unit for the Hartford Financial Services Group Inc.

STP is occurring predominantly in the sale of annuities where the concept is seen in "the electronic submission, processing and fulfillment of annuity new business applications," he said.

The concern about efficient processing began in the early 1990s when annuities became a mainstream product and insurers and distributors were struggling with a huge volume of paperwork, he said.

To deal with the increase in paperwork, insurers and broker/dealers improved their computer systems and processing, he said, by making it more streamlined and efficient.

Now, "aging Baby Boomers are creating more of a demand for annuity products," Mr. Hicks said.

The Reston, Va.-based Assn. for Insured Retirement Solutions—which still uses the acronym NAVA from its former identity as the National Assn. for Variable Annuities—reported in a March statement that "total premium flow, or total sales, for 2007 was $182.2 billion, a 15.8% increase from the prior year's 12-month sales of $157.4 billion."

Special challenges remain, though, because annuities are complex and highly regulated by state and federal agencies, sources said. For example, annuity investments must be verified as suitable for a customer's financial situation. Consequently, it takes more time to sell the annuity products compared with other investment options.

The goal of making processing simple, flexible and effective is to level the playing field so annuities are as easy to purchase as other financial options, Mr. Hicks said. It should be "easy, compliant and cost effective for all parties," he said.

Hartford Financial Services has made progress in streamlining electronic processing. In 2007, it processed 39,000 new applications and 33,000 transactions involving subsequent payments for a combined total of 72,000 "touchless" transactions. Those transactions represented $5 billion in premium and were 75% of the company's business last year, he said.

Hartford is working with broker-dealers to implement the NAVA standards, perhaps as early as January 2009, he said.

"There are 24 sets of STP standards addressing a number of key areas, including suitability, electronic forms, privacy and records management," according to a NAVA statement. The standards provide guidelines for achieving those goals without endorsing a specific technology.

The key is allowing a customer to provide an electronic signature rather than the "wet" signatures that have been required previously, Mr. Hicks said.

Among property/casualty risks, "it's a more challenging proposition to do STP in commercial lines than personal lines," such as homeowners or personal auto risks, Mr. Illion said. Commercial risks are characterized by more coverage options and there is more variety among risks, which often require individual underwriting, he said.

Years ago, agents embraced the idea of entering a client's information and submitting it to various insurers so they could obtain the most competitive quote. Progress in processing came in the form of single entry multiple carrier interface, known as SEMCI.

Now, STP is "a logical progression, but it is not a slam dunk," Mr. Illion said.

The biggest advance among insurers recently is their adaptation of predictive modeling technology to create a set of rules that would emulate the underwriting process, he said. That requires considering many factors, including an insurer's risk appetite and pricing as well as eligibility criteria for the risk.

STP processing is an important initiative in the company's small business unit, which includes small risks nationwide with up to $20 million in total property values and slightly larger risks with values from $20 million to $50 million.

NO HUMAN INTERVENTION

Nearly 100% of all smaller risks are handled through an STP process without human intervention after an agent enters the information about the risk and gets the quotation from the insurer about the cost of coverage, he said. In slightly more than 60% of such cases, policies are actually issued without human intervention after the submission.

The company also is very aggressive about wanting to expand STP processing into the unit's slightly larger risks, where 20% of all policies are currently issued using the system, he said. CNA now plans to get that figure to 80%, although "we are definitely pushing the envelope," Mr. Illion said.

That is because the complexities of underwriting some property/casualty risks require human intervention, sources said.

Renewing small commercial risks is challenging because of the pricing issues involved, he said. Among the factors that must be considered for each risk are loss activity, changes in the risk and the insurer's experience in that class of risk, he said.

Adopting STP for renewals is "a major breakthrough" that CNA planned to implement by the end of last month, Mr. Illion said.

Large property/casualty reinsurers and ceding insurers also have adapted straight-through processing concepts to quickly assess the impact of a large claim on their reinsurance contracts, said Scott Schenker, a New York-based senior managing director with SMART Business Advisory & Consulting L.L.C.

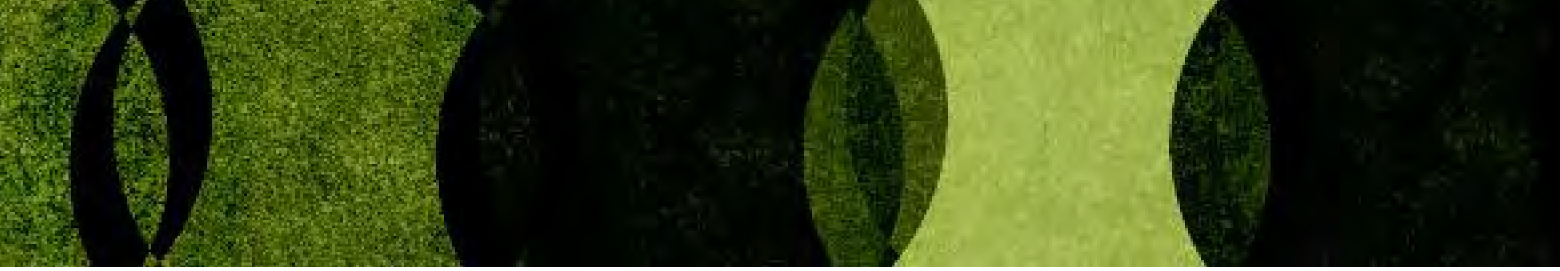
For example, a "cutting edge" STP approach allows companies to quickly calculate the impact of a large claim on reinsurers' reserves and aggregate coverage levels, like $25 million excess of $25 million, Mr. Schenker said.

Quick calculations of risk exposure help reinsurers and brokers better gauge reinsurers' outstanding losses and help them determine their risk appetite going forward. The information also helps a ceding insurer with a so-called "cash call provision" in its reinsurance contract to know as early as possible when it can ask a reinsurer to give it a portion of the money needed to pay a claim, he said.

Chicago-based InsuranceNoodle, a Web-based platform for the distribution of property/casualty coverages for small U.S. commercial risks, modified a more limited version of the STP concept to its operations as an aggregator for insurance agents seeking coverage from about 16 insurers.

"We've lowered the cost of distributing commercial insurance," through our interaction with 2,500 active independent agencies and enabled some smaller agencies to offer a broader range of products, said Kathryn Emmerson, chief executive officer of InsuranceNoodle, which is owned by Willis Group Holdings Ltd.

Typically, an agent enters the potential client company's zip code and description of operations, which triggers a grid that displays the products



available and the insurers offering them. The agent chooses the products he or she wants quoted, prepares an online application and submits it electronically. However, an InsuranceNoodle sales agent then reviews the application and proposed insurer options to ensure that the selections "all make sense" with the individual insurer's risk profile, Ms. Emmerson said.

That human intervention "allows us to vet and verify the risk," said Andrew Wood, executive vp. It is appropriate because "our model is not to throw out indications of potential premium but to provide bindable quotes."

COMMERCIAL RISKS

A typical risk is a business with less than $20 million in annual revenue per location that seeks property and liability coverages including workers compensation and commercial auto. InsuranceNoodle executives plan to expand its customer base by adding products that will appeal to larger middle-market risks, such as those with $300,000 to $500,000 in gross written premium for all lines.

InsuranceNoodle also offers personal lines coverages, including personal auto and homeowners' protection, which lend themselves more to a straight-through processing approach, Mr. Wood said. Such products are only 4% to 5% of the $40 million in total premium volume they expect in 2008, they said.

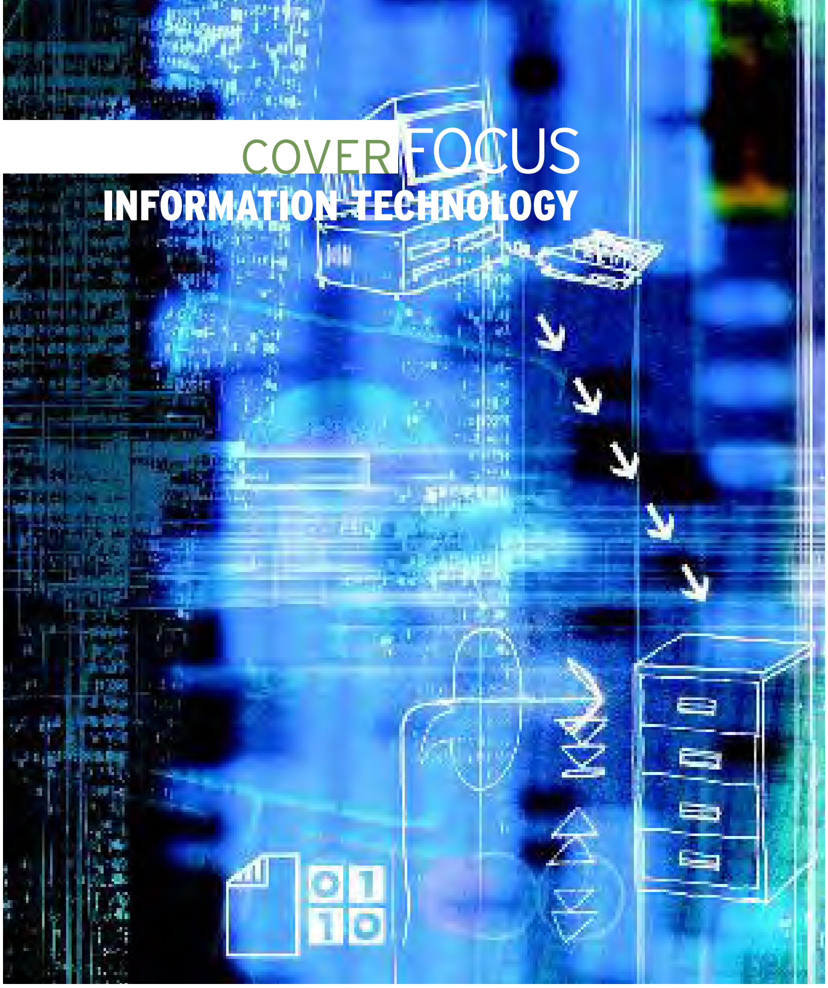
Adaptability to the needs of insurers and agents, including a few who lack electronic capabilities, is the key to success for the company, which was formed in 2000, Ms. Emmerson said.

Agents and insurers are among the interested parties who are expected to benefit from ACORD's plan to create new actual and virtual communities of industry participants.

"We will be building those communities so people can interact with their peers," said Lloyd Chumbley, ACORD's assistant vp-standards in Colorado Springs, Colo.

Pearl River, N.Y.-based ACORD expects to announce plans this month to make its existing communication capabilities, which include on-demand video and blogs, more broadly available to industry participants starting in October, said Rick Gilman, vp-communication and industry/government affairs.

The project, which was inspired by the popularity of social networks, will provide a forum for industry participants to discuss topics of interest and may indirectly encourage the adoption of ACORD standards, ACORD sources said. IF



Making the most out of data warehousing

By Meg Fletcher

Insurers and reinsurers that want to make the most efficient and effective use of their data often find themselves trying to optimize their data warehouse operations, experts say.

Achieving the goal of quicker access to more thorough analytical data is not without challenges, however.

"Insurers across the world are trying to cope with a flood of external data while getting a better handle on their own internal customer, product, process and risk data," said Ashley Evans, an analyst with Boston-based Celent L.L.C. She co-wrote a 2007 report based on comments from 46 chief information or technology officers from the United States and Europe.

U.S. insurers are "very focused on data mastery, specifically around report BI (business intelligence) and data warehouse" issues, according to the report.

"The idea is simple: create a single repository of data—separate from the operational systems of the enterprise—strictly to support decision making, reporting and analysis," Waltham, Mass.-based consultant Winter Corp. said in a white paper, "Health Care Data Warehousing in the Government."

"Keeping but one high quality copy of all the data—cleansed, standardized and integrated in the single repository or data warehouse—both eliminates costs and helps to synchronize the data," according to the paper.

"This data is consistent across the enterprise and across time with respect to format, semantics, units of measure, etc." In addition, data is accurate, easily located and clearly documented so it is accessible through various tools and standardized applications.

Winter Corp. called such a data warehouse "a powerful tool for reporting, analysis, modeling, predicting and decision making."

"Insurance companies have known inherently that there is value in the data they hold," said Craig Bedell, global insurance director for COGNOS Inc., an IBM company with its North American headquarters in Burlington, Mass.

"I think we are all better if we have better data," said Larry Illion, a Chicago-based senior vp in business insurance for CNA Corp.'s small business unit. It encourages accurate underwriting, processing efficiency and customer loyalty, increasing retentions, he said.

"We are getting better and better at storing and using information through data warehousing," he said. Dividing a warehouse into smaller "mini-warehouses" can allow for more flexible manipulation of data, he said.

OTHER CHALLENGES

While many companies have had success with data warehouses, there are challenges. One of the most significant is security, Mr. Illion said. "We get a lot of complaints because we frequently change passwords," he said.

Another is the "vastness of the data," and the lack of uniformity within it, he said. While he admires efforts to standardize data by the Assn. for Cooperative Operations Research and Development, more work is needed, he said.

Mr. Bedell said he finds "dirty data," data that is incomplete or incorrect, a challenge. He recommends that a business intelligence system be able to process any clean and readable data regardless of the type of system it comes from. Such a "system-agnostic" approach allows for more flexibility.

Another challenge insurers and reinsurers face is deciding how far back they should reach into their legacy systems to retrieve data, Mr. Bedell said. For example, historical data about slip and falls in grocery stores can provide important insights into claim patterns if the cost of retrieving it does not exceed its value.

Tracking operational and performance benchmarks, such as written premium, and communicating that information is another challenge, said Bill Dochterman, vp of Hartford, Conn.-based Insurity, a unit of ChoicePoint Asset Co. L.L.C. Combining a reporting function with a data warehouse can help property/casualty insurers achieve that goal, he said. IF

TWO WAREHOUSES THAT WORK

TWO CASE STUDIES offer a glimpse at the dividends paid by successful data warehousing initiatives at a property/casualty insurer, Nationwide Mutual Insurance Co., and a life reinsurer, the U.K. Life branch of Munich Re Group. Greater productivity and better decision making are some of the rewards.

CASE STUDY 1: NATIONWIDE

Nationwide Mutual Insurance Co. in Columbus, Ohio, is a large diversified insurance and financial services company with 16 million policies in force. It is ranked 104 on the Fortune 500 list.

Nationwide won a 2007 award for its data management system from technology publication "DM Review," and a 2006 award from the Technology Managers Forum, according to a statement by Teradata Corp., a Dayton, Ohio-based company specializing in enterprise data warehousing whose clients include Nationwide.

According to Teradata, Nationwide recently adopted a massive data management infrastructure system featuring a centralized data warehouse for financial intelligence consolidating data from more than 200 sources, integrating ledgers, charts and 300,000 spreadsheets once in use across the units. The initiative, named FOCUS—Faster, Online, Customer-driven, User-friendly, Streamlined—"redefined the role and operating model of Nationwide's core finance functions, processes and systems."

"Nationwide's one-of-a-kind Master Data Management system not only extracts data from operational systems into the data warehouse, but also propagates MDM data back out of the operational systems to ensure the integrity and consistency of data throughout the enterprise," Teradata said.

In Teradata's case study, Tobianna Zappe, Nationwide's data warehouse manager, called the finance data warehouse "a vital component in a broader data integration infrastructure" knitting analytic and operational systems. The move positions Nationwide as "one of the vanguard organizations" extending enterprise data integration technology to form the basis of an "information ecosystem" the statement said.

As a result of the FOCUS initiative, Nationwide:

- Saved nearly $1 million in the first year by improving processes and eliminating legacy processes.
- Improved operational performance by allowing the company's finance department to address significant business issues instead of micromanaging smaller projects
- Increased productivity because the FOCUS core development team could operate with only 10 members while other departments with siloed information needed about 80 persons to perform comparable work. IF

CASE STUDY 2: UK LIFE BRANCH OF MUNICH RE

The UK Life Branch of Munich Re, a member of the Munich Re Group, realized that its fragmented and unwieldy legacy information reporting systems created "serious performance issues for the organization," Tony Dumycz, the insurer's business intelligence manager, said in an online client statement by COGNOS Inc., a unit of IBM based in Burlington, Mass.

For example, managers had to wait too long for reports. "During the end of the year valuation, the finance team would make over 500 report requests each day. But, given the volume of the data to be interrogated, some of the larger reports would take 10 minutes each to run. This resulted in a real strain on the system, with some members of the finance team waiting up to a day for business critical information, slowing the decision-making process," the statement said.

In addition, disparate reporting systems made it difficult to get understandable data about customers, regions, claims categories or the business as a whole.

The UK Life Branch installed "IBM Cognos 8 BI" for all the insurer's business, including its marketing, finance and operations departments.

That resulted in "substantial time savings" because business users could get reports on a self-serve basis with "almost immediate access" to information. "Reports that used to take up to a day, or in some cases not be available at all, can now be accessed by our finance team in just a few minutes," Mr. Dumycz said.

"For the first time, all decision makers can quickly compare and contrast performance across different marketing initiatives, customers or regions," Mr. Dumycz said. "The robust analysis solutions allow us to spot trends, and identify where the business is weaker or stronger, or where the risk is higher and lower."

"The analysis technology has helped Munich Re UK Life Branch to limit its exposure to risk by helping it better understand the potential liability of customers," the statement said. It links "with the huge volume of data relating to each customer that is held within Munich Re's policy data warehouse system, allowing the branch to analyze it and produce a complete picture of exposure to risk within that company," the statement said.

This analytical ability also allows the insurer to be more competitive. "Not only are we better able to avoid taking on unnecessary high risk, we can also better understand when risk is low, and fine tune our prices accordingly. This ensures that we can offer the most attractive deal," Mr. Dumycz said.

The insurer "also started to share performance reports with its own customers," increasing transparency of the insurer/reinsurer partnership, better demonstrating the quality of service being offered and highlighting potential problems before issues developed.

Munich Re UK Group plans to expand its use of the system to additional companies and additional lines of business, the statement said. IF

On to the next level

While many have taken first steps toward ERM, IT obstacles may clutter the path forward

By Rodd Zolkos

For a variety of reasons, insurers and reinsurers seem eager to embrace enterprise risk management.

While many have taken the first step on the path to ERM, the steps that follow likely will be more challenging, with the path obstructed by a variety of obstacles, many of them tied to information technology.

"ERM building blocks are in place and now it's time to move to the next level," said Chris Karow, partner in the Insurance Advisory Services practice of Ernst & Young L.L.P. in New York. "But moving to the next level is going to be a greater challenge than what's been done."

E&Y recently conducted its 2008 Insurance Risk Leadership Survey, questioning the chief risk officers of 50 U.S. property/casualty and life/health insurance companies with regard to the current state of enterprise risk management at their companies and ERM's future.

Among other things, the survey showed that a majority of those companies currently rely on informal processes for evaluating risk vs. reward decisions, but 60% of those surveyed expect to formalize those processes within three years.

The survey also found that while 28% currently use economic capital—the capital a company determines it requires to absorb risks at a certain level of confidence—as a key performance measure, 90% expect to do so within three to five years.

While CROs expressed a strong desire to take an aggregate approach to risk at their organizations, many said that desire is currently ahead of the modeling and data that is needed to make risk aggregation an effective element of their companies' business decision-making.

"Economic capital is really becoming an industry mainstay," Mr. Karow said. "That's a huge kind of change in the way the industry thinks about risk."

"On the other hand, there's a whole bunch of challenges in trying to bring these processes online," he said.

Among insurance industry CROs surveyed by E&Y, "Data availability is the greatest challenge today and is projected to be the greatest challenge in the future," Mr. Karow said. "That is on the backbone of the IT organization."

"The ability to see that data across the company is limited because we have different systems across the company," he said, often with inconsistencies among the elements of data they're collecting.

Those silos have traditionally presented obstacles to companies' IT efficiency, but now they're also presenting obstacles to effective risk identification and aggregation, Mr. Karow said.

"For companies that have grown by acquisition that have a lot of legacy systems, it can be difficult to collect good enterprisewide data," said Chris M. Suchar, executive vp at DFA Capital Management Inc. in Purchase, N.Y., a company that provides dynamic financial analysis software companies can use as part of their efforts to implement ERM.

"The insurance industry's been collecting data for a very long time, perhaps as long as any industry has, but it's probably taken the industry much longer to extract the value from their data," Mr. Suchar said.

EXTRACTING VALUE

The first step in insurers extracting the value of that data has been demonstrated by companies such as Progressive Casualty Insurance Co., he said, by implementing data mining and predictive modeling used in pricing its policies. "ERM is probably going to be the second wave of that," Mr. Suchar said.

Mr. Karow said insurance companies can learn a lesson from the banking industry's recent experience with the subprime mortgage credit crisis.

In that case, he said, the companies best able to weather the crisis are those that have successfully aggregated their risks and make decisions based on such an aggregated approach, viewing risks across the organization and with an eye toward how they might interact with one another. Meanwhile, banks that took a "silo" view toward risk assessment "got killed," he said.

The turmoil in the capital markets has been one factor driving insurers' interest in ERM. Rating agency pressure is another, starting when Standard & Poor's Corp. began including insurers' ERM programs as a formal element in their rating process.

S&P "raised the bar" each year for the past three or four years by first making insurers' ERM a formal element of the rating agency's review process, then by ratcheting up their expectations of insurers' ERM efforts, Mr. Suchar said. "That's been very good for the evolution of ERM as a discipline."

Jim Pogorzelski, executive vp in the ReMetrics division of intermediary Benfield Group Ltd. in Philadelphia, agreed that rating agencies such as S&P and A.M. Best Co. Inc. have been "a primary influence" in insurers' interest in ERM. "Obviously companies live and die by their financial ratings," he said.

Other factors include actuarial pressures, and pressure from companies' boards and senior management.

"If you look at boards and senior management of companies, they're pushing ERM for a variety of reasons," Mr. Pogorzelski said. Those reasons, he said, can range from simple curiosity ("Are we missing something?") to a desire for better management of the company. And external governance requirements such as those imposed by the Sarbanes-Oxley Act are also driving insurers' interest in ERM.

ERM TECHNOLOGY

Technology comes into play in the ERM process once again with the various models insurers can use to examine risks. "For an insurance company to understand its risk profile, there is a need for good modeling technology," Mr. Suchar said.

In discussing her company's offerings, Lisa Cash, also an executive vp at DFA, said, "The simplest way to describe it, it's a very sophisticated 'what if' analytical tool."

"In order to maximize the profitability of your business, you need this big, comprehensive what-if tool," she said. "And that's where the technology really comes into play."

Benfield's Mr. Pogorzelski noted that many sophisticated IT tools exist to help insurers with various aspects of ERM, such as catastrophe modeling programs, mapping software and exposure intelligence tools. Benfield offers several such tools, including ReMetrica, a dynamic financial analysis tool; Exposure View, which provides insurers a graphic view of their catastrophe risks and accumulations; and Dynamic Portfolio Optimization, which helps insurers arrive at an ideal risk/reward ratio.

"You could not cross the line into ERM without these sorts of sophisticated technological tools," he said.

Mr. Karow said risk modeling is seen as another top challenge among the CROs surveyed by E&Y, and one growing in importance in the future. "As more computing power comes online, there's a desire for more sophistication in modeling and management," Mr. Karow said.

Again, to get the most out of those models, data quality is paramount.

"Data quality is a consistent challenge," Mr. Karow said. "The infrastructure that was built for insurance companies was built in silos," often with inconsistency among data elements throughout the organization.

The data silo issue will be a challenge for insurers as they move toward ERM, risk aggregation and an economic capital approach to decision-making, Mr. Karow said.

"That's going to be a difficult one to really conquer because we're not going to rebuild an entire IT infrastructure," he said. But companies are starting to create more data commonality, and once that's achieved they can create enterprisewide data warehouses. "The problem is, as you build them, you start to recognize the data quality issues," Mr. Karow said.

Despite the challenges, companies continue to work toward the benefits of ERM programs.

"In terms of aggregate measures of risk and economic capital, organizations are baking this into a lot of decisions they are making," Mr. Karow said. For example, in the CRO survey, 100% of those polled said they would use economic capital in their companies' pricing in the future. "We're seeing the same things in terms of performance management," he said. "We're very much moving to that economic capital-based framework."

Those moves mean moving companies from a historical cost accounting approach to a fair value-based model, Mr. Karow said. "The accounting model is moving to a fair value-based, the risk model is moving towards a fair value-based, the performance model is moving to a fair value-based or economic capital-based," he said. "In doing that, much of the IT infrastructure will have to change in terms of data capture."

A MAJOR JUMP

Making those IT changes could ultimately create a lower cost and more efficient IT infrastructure at insurance companies, Mr. Karow said, "but getting from here to there is kind of a major jump."

Some large European insurance companies already have done so because they've moved to International Financial Reporting Standards, which apply a fair value accounting approach. "They're spending hundreds of millions of dollars to realign their infrastructure and get to that point in terms of data capture," Mr. Karow said.

There's potentially another side to the coin of IT's involvement in the ERM process, Mr. Karow said. The E&Y survey found inconsistency across the industry about the role of the CRO and the fact that many risks were monitored by an alternate source in the company, such as IT risk by the chief technology officer.

In fact, Mr. Karow noted, "Many risks are multiplied by the IT risk." For example, a company's business process risk can be multiplied exponentially by IT system issues. "Somebody being able to integrate these risks and understand how they interact with one another is absolutely critical," he said.

Clearly, hard work remains ahead at many insurance companies as they try to move from a first embrace of ERM to the next level.

"I think the awareness now is pretty consistent across the industry, the awareness that they have to do something, that the status quo is no longer satisfactory," said DFA's Mr. Suchar. Inconsistency remains, however, in arriving at an understanding of the specifics of what they need to do.

"The majority of companies are still working on version 1.0 of an ERM process," he said. "And there's a lack of clarity on how they should proceed." IF

Hands off

Minimizing human error the aim of straight-through processing

By Keith Toney and Dorrie Pighetti

How can an underwriter tell if a piece of business is a good risk?

Traditionally, underwriters gathered available information about the business and then decided whether to accept it and how to price it, based on the limited information available to them, coupled with their individual underwriting experience and judgment. But humans are inconsistent. And it's expensive to have underwriters examine every local printer and flower shop that submits an application.

Automated underwriting is crucial for effectively evaluating high-volume, low-touch commercial policies that command small to midsize premiums. The ultimate goal is straight-through processing—agents or company staff will enter the appropriate applicant information and from there, all processes will be automated, including quoting, rating, underwriting and issuance.

The commercial lines industry is not there yet, but there's progress every month, and some segments of the market are almost in STP mode, similar to the personal lines industry.

To help carriers get there, vendors are developing sophisticated data-gathering and analytical systems that can be integrated with an insurer's underwriting system. The two key ingredients for success in the automated underwriting process are more comprehensive data and a proven analytic methodology.

By applying the analytic methodology to the data, insurers can produce a number that becomes part of underwriting scoring. Data analytics have been used for years in personal lines to help insurers make "accept/reject" decisions on risks; they are now being used to determine tier placement for pricing. Eventually, analytics will be used for small to midsize commercial risks and to determine tier grading for underwriting pricing, much as it is in personal lines.

RISK INSIGHT

In addition to using loss-history data from an insurer's internal data store or provided via the application and verified by the current carrier, insurers can tap valuable external data sources that provide additional insight on a risk.

A small business' risk characteristics are often similar to the owner's risk profile, making the owner's personal credit rating a key piece of data. Just as there is solid evidence that people who pay their bills on time are typically better drivers and file fewer claims, there is a correlation between the owner's personal credit rating and the risk characteristics of the small business he or she owns.

Additionally, the business' commercial "tradeline" should be included in the mix. This includes a business credit report/credit score and information about the firm's revolving accounts, bank accounts and bill-payment history.

Dun & Bradstreet has long provided a type of data similar to tradeline information. However, while D&B data is valuable, that value is different, as the data is largely self-reported. Two major credit bureaus, Experian and Equifax—both known for personal credit scores—now also provide small-business credit scores that can be used in the underwriting process.

Other valuable external information includes motor vehicle records and vehicle identification numbers. There is also "firmographic" data, analogous to demographic data for individuals.

Firmographic data includes the num-

THE ULTIMATE GOAL is straight-through processing—agents or company staff will enter the appropriate applicant information and from there, all processes will be automated, including quoting, rating, underwriting and issuance.

ber of employees, sales volume, Standard Industrial Classification and other characteristics of the business. Claims records are coming soon, with the release of the commercial lines version of the Comprehensive Loss Underwriting Exchange. Not only will commercial CLUE dramatically streamline the process of obtaining client loss runs, but it will also enable insurers to associate claim experience to location. This will mean that underwriters will be able to supplement client-specific risk characteristics with location risk characteristics.

Once you have a wealth of data on a potential insured, what do you do with it? Answering that question is more complex than it seems. While intuition and skill are valuable, the human brain can't process the volume of data and correlate all the variables. But a computer can.

Predictive modeling looks to uncover patterns in the data. You have to compare homogeneous risks—the old apples-to-apples, oranges-to-oranges idea. In personal lines, where this technique has been used successfully for years, all risk profiles are the same. So it's relatively simple to analyze and compare different variables along one dimension.

COMMERCIAL COMPLEXITY

Commercial lines policies, even for the smallest businesses, are much more complex. Different types of business have very different risks; a small factory is a completely different risk than a retail store or a plumbing contractor. And businesses have variability in each attribute that impacts the risk level. The number of locations, motor vehicles and business lines, as well as the amount of interaction with the public, are just a few examples.

For instance, an establishment might be an excellent risk for fire but a poor one for workers compensation. Because of the difficulty of getting homogeneous data, the industry has been slower to adopt predictive modeling in commercial lines, but that is beginning to change.

Advanced statistical analysis can provide scores on the loss cost, business maturity and risk. Logistic and linear regression and discriminant analysis are used to find correlations among a complex, multidimensional set of data. Newer techniques, including cluster detection, can also be used for specific applications.

Keith Toney of ChoicePoint and Dorrie Pighetti of ChoicePoint's Insurity unit.

By combining data and advanced mathematics, systems can provide underwriting scores and, ultimately, information to support tier placement, as in personal lines. The more data that is available and the more intensive the analysis, the greater the accuracy of the predictive modeling.

Delivering complete data in usable form, immediately—whether to a fully automated system or the underwriter's desktop—is essential.

Many policy administration/underwriting systems let underwriters order external information through a system-to-system data call, instead of the underwriter making a phone call or sending an e-mail. But that is not as efficient as it may sound. Carriers often maintain data pipelines to eight to 10 different data providers, requiring multiple data calls. This makes the process less efficient and slower because the data comes in at different times—sometimes immediately, sometimes over several days—so it is not correlated.

Now vendors are streamlining this process so the underwriter only has to submit one order and can receive information in just seconds about the business and the proprietor, from many different sources, in one result message, delivered via the Internet to the desktop.

The data infrastructure is already in place but it is not 100% complete, as not all primary sources are participating yet. The technology isn't the main challenge; it is a business-process problem.

While legacy systems often can be programmed to accept external data, it can be a struggle. The process goes much more smoothly with a current Web-enabled policy administration system incorporating service-oriented architecture.

Furthermore, the policy administration system is the logical place for coordinating the collection and maintenance of *all* client information gathered over time. As the data-collection hub, the policy administration system assures comprehensive collection and storage for easy access and updating. When a policy comes up for renewal, the previous underwriting information can be compared with any new data collected.

The commercial lines underwriting revolution has begun. It is an incremental, gradual one—but a revolution nevertheless. Insurers in front of the wave stand to profit mightily. IF

Keith Toney is vp of analytics at Alpharetta, Ga.-based ChoicePoint. Dorrie Pighetti is vp and chief insurance officer with ChoicePoint's Hartford, Conn.-based Insurity unit.

NAPSLO'S DICK BOUHAN

Born in Junction City, Kan. Married Marie Elena Magnine in 1977. Father of three, ages 27, 25 and 16.

BOUHAN'S BEST BETS

SPORTS TEAMS

1. Liberty (Mo.) High School Lady Jays soccer team on which his daughter plays
2. Kansas City Royals
3. Johns Hopkins University men's lacrosse team (NCAA champs past two of three years)
4. Chicago Bears

MUSIC

The former college DJ likes all types, but especially Frank Sinatra

MOVIES

"High Noon," "Chinatown," original "Manchurian Candidate," "Eddie and the Cruisers" and "The Good Shepherd"

MAGAZINES

The Economist, Newsweek and Mad

FOOD

1. Barbecue ribs
2. Kansas City barbecue*
3. Hot Dog (Chicago style)

*Best KC area ribs and barbecue eatery The Wabash, Excelsior Springs, Mo.

NAPSLO leader melds knowledge with humor

By Meg Fletcher

With law licenses in five states, three advanced degrees and one well-developed sense of humor, Dick Bouhan has been a major force in moving the excess and surplus lines industry from its "cowboy" days to the insurance business mainstream.

Mr. Bouhan, 64, has spent more than 20 years as executive director and general counsel of the National Assn. of Professional Surplus Lines Offices Ltd. Along the way, he says he's found that networking, advocacy and education are the pillars of building a successful professional organization.

But often it's his sense of humor that people notice first.

"Dick is blessed with exceptional brilliance," and "an extraordinary sense of humor," said lobbyist Maria B. Berthoud, a senior vp with B&D Consulting in Washington who's spent 15 years working with the insurance industry in Washington and became NAPSLO's Capitol Hill representative in 2005. "He always finds a way to inject humor into even the driest of topics."

"NAPSLO is very lucky to have Dick," said Mary Ellen Rozzell, president of NAPSLO's board of directors. "He knows the history of our business, the players and the politicians."

During the past two decades, Mr. Bouhan's mission has been to help NAPSLO's surplus lines and wholesaler members become recognized as an essential part of the U.S. insurance system.

The excess lines industry provides coverage for hard-to-place risks that the standard market won't write. Although each excess lines insurer is licensed in at least one state, regulators and legislators historically have been wary of such insurers, which can operate free of rate/form restrictions and without property/casualty guaranty fund coverage, except in New Jersey.

So it's understandable that Mr. Bouhan's favorite comedian is the late Rodney Dangerfield. "When you represent the surplus lines industry, the refrain: 'I get no respect' resonates with you," Mr. Bouhan quipped.

The surplus lines and wholesale insurance industry has grown in size and importance over the past two decades, with premiums of $38 billion in 2006. At the same time, the E&S market's solvency record "is as good, if not better, than the overall industry," NAPSLO said of an A.M. Best Co. Inc. analysis.

ESSENTIAL FUNCTIONS

Mr. Bouhan says there are three essential functions of any a good professional organization. The first is networking and NAPSLO provides many opportunities with the help of eight "fantastic" full-time staff members, its Washington lobbyist and one part-time education coordinator.

NAPSLO's membership—500 brokers; 200 insurers/underwriting managers; and 200 associate members including reinsurers, non-U.S. brokers and insurers, service providers and vendors—is up slightly because of new brokerages.

"This is still a very entrepreneurial business," Mr. Bouhan said.

The second key function is advocacy, said the attorney, who is licensed in five states. Recently, NAPSLO established a legislative advocacy award named for and given to Mr. Bouhan.

His most pressing current legislative concern is the Nonadmitted and Reinsurance Reform Act of 2007, which passed the House and is pending in the Senate. The bill "will direct and empower the states to establish a uniform and more efficient regulatory process," he said. It would help end decades of confusion over the tax obligations of surplus lines brokers in multistate transactions by allowing only the home state of the insured to collect premium taxes.

Following the Bush Administration's proposal in March to reform the U.S. financial regulatory system, Mr. Bouhan said there was a more important priority: “Congress should enact the NRRA, now, before it discusses other changes in the current regulatory structure,” he said in a statement.

NAPSLO members are optimistic S.B. 929 will pass, he said.

The third key organization initiative is providing innovative education opportunities and programs.

NAPSLO offers beginner and advanced sessions of E&S School in seminars about industry practices and issues for members’ employees. It also educates members about technology changes and supports speakers and programs.

In addition, NAPSLO discusses technological changes with standard-setting groups and vendors to have its members’ interests considered when new products and rules are developed.

Bringing capable newcomers into the surplus lines industry also is a priority. The organization coordinates with the Derek Hughes/NAPSLO Educational Foundation in college outreach programs. NAPSLO provides internships and online job postings. The foundation provides scholarships.

The importance of education also resonates with Mr. Bouhan, who devours nonfiction history books and biographies in his spare time.

He majored in psychology at Johns Hopkins University in Baltimore before earning three advanced degrees. He holds a master’s degree in governmental administration from the Wharton School at University of Pennsylvania, where he was a Samuel S. Fels Fellow and Scholar. In Chicago, he obtained his law degree during night school at Loyola University and a master’s in law with a specialty in taxation from DePaul University.

Mr. Bouhan joined NAPSLO in 1981 as its director of government and industry affairs and counsel before being promoted to head the organization in 1987. Prior to NAPSLO, he was an associate counsel for the former National Assn. of Independent Insurers and an assistant director of the legislative service division of the former Blue Shield Assn.

“While Dick…is a man of many words,” he is naturally humble, Ms. Rozzell said.

Recently, she said in citing an example, NAPSLO received an invitation to a Lloyd’s of London dinner in New York. Ms. Rozzell suggested Mr. Bouhan attend, but he demurred, saying the dinner was for the “power elite” and that she, as NAPSLO’s president, should attend.

“I responded: ‘NAPSLO presidents come and go, but you are the power behind NAPSLO,’” Ms. Rozzell said.

KEEPING SHARP

In the past two decades, surplus lines providers/wholesalers have seen their image transformed from entrepreneurial “cowboys,” ready to seize and price any new and unusual risk, to an established part of the insurance industry, Mr. Bouhan said. Yet sellers of surplus lines coverage must be careful not to lose the “edge” that drives innovation, he said.

Mr. Bouhan likes to hone his edge.

“Dick has an encyclopedic knowledge in many areas from esoteric insurance statutes to where to get the best barbecue,” Ms. Berthoud said. “I think he is a true legend in the insurance industry.”

“Dick is an absolutely extraordinary individual whose signature talents have made NAPSLO a major player in nontraditional insurance markets,” said Jon Harkavy, vp and general counsel for Washington-based Risk Services L.L.C., a captive and risk retention group manager. “This transformation was aided in no small part by risk retention groups, which have replaced surplus lines at the bottom of the food chain.”

His efforts have made NAPSLO “the premier association to contact on any surplus lines matter,” said Ms. Rozzell, president of Continental/Marmorstein & Malone, a wholesale broker/managing general agent in Paramus, N.J.

When asked about his longevity as NAPSLO’s leader, Mr. Bouhan responded with typical drollery: “My first day of work, was a (paid) holiday—Labor Day 1981—and that is probably why I decided to stay.” IF

Major information technology investments can be a key factor in a company's success in the insurance industry, but for many in the business, various personal technology devices are critical to getting the job done. Again this year, we've asked individuals across the industry to tell us about their most essential Tools of the Trade. Thanks to everyone who responded to tell us about your favorite tech tools. Here's a look at some of the items you mentioned.

TOOL: iPhone
MANUFACTURER: Apple Inc.
WHAT IT DOES: Mobile phone combined with widescreen iPod and advanced Internet device. Features rich HTML e-mail and Apple's Safari Web browser. Built-in Google and Yahoo search capability. Multitasking capability allows phoning while surfing the Web over a WiFi connection.
WHY IT'S ESSENTIAL: "Because the Edge network is available everywhere I travel, my iPhone has become indispensable for its browsing capabilities alone, not to mention the phone, e-mail and texting features. Through the Safari browser that comes installed, I've been able to check my work e-mails and even do some job-related functions while commuting or traveling offsite in areas where I can't use a computer."
—Katherine Downing, Business Insurance

TOOL: Palm Treo 700p Smartphone
MANUFACTURER: Palm Inc.
WHAT IT DOES: Combines phone with wireless e-mail and messaging, built-in Web browser and media capabilities with organizer, QWERTY keyboard and ability to read and edit Microsoft Word files, create and edit Excel spreadsheets and view PDF files.
WHY IT'S ESSENTIAL: "Allows me to stay current on e-mails and calendar, as well as access company contacts."—Dustin Thellacker, Harden & Associates Inc.

TOOL: MOTOKRZR Phone
MANUFACTURER: Motorola Inc.
WHAT IT DOES: Slim form factor phone with worldwide quad-band functionality, EDGE technology for high-speed Web browsing and downloads. Enhanced predictive text facilitates texting, advanced voice functionality includes voice commands, voice recognition, and voice memo.
WHY IT'S ESSENTIAL: "I can keep in contact with my clients instantaneously. As a reinsurance intermediary, we provide first and foremost a service. Efficient service to our clients is paramount."—Andrew Pyle, Cypress Creek Intermediaries Inc.

TOOL: BlackBerry Pearl 8100 Smartphone
MANUFACTURER: Research in Motion Ltd.
WHAT IT DOES: Phone, e-mail and text messaging, instant messaging, Web browser, GPS, WiFi capability, camera and video recording in a small smartphone package. Light sensing screen adjusts automatically to viewing conditions.
WHY IT'S ESSENTIAL: "So much business is now performed via e-mail that the BlackBerry allows me to keep in touch with my clients."
—Ron Sulisz, Strategic Risk Solutions (Cayman) Ltd.

TOOL: Qtek 9100 Pocket PC Phone
MANUFACTURER: HTC Corp.
WHAT IT DOES: Pocket PC runs Windows Mobile 5.0 Phone Edition with complete set of Microsoft phone-related applications including Word Mobile, Excel Mobile, PowerPoint Mobile and Internet Explorer. Integrated WiFi, slide-out keyboard.
WHY IT'S ESSENTIAL: "Combines PC and phone in one pocket sized device—enables me to keep in contact with e-mails, open docs and access Internet via GPRS or wireless whenever I am traveling. Great for air travel and waiting around at airports."—Merise Wheatley, Health Lambert Insurance Management (Guernsey) Ltd.

Understanding 'enterprise' vital to industry survival

By Gregory A. Maciag

Enterprise is a word that's become ubiquitous over the past few years, especially in the area of technology. But what does it really mean in today's world? That's something I was thinking about while working on my latest book.

I noticed that the "enterprise edition" of a software product costs more than the regular version. And I expect Starbucks to begin offering enterprise-size lattes any day now.

But is that all "enterprise" means: Large? Complex? Pricey? Exclusive?

Enterprise isn't just a buzzword. It's the concept that, more than any other, expresses how contemporary business works and how tomorrow's business practices diverge from yesterday's.

Once we all share the same understanding of what enterprise really means, the need for standards throughout its activities becomes clear to everyone. For the insurance industry, getting enterprise is vital for survival.

EVOLVING ECOSYSTEM

So what is enterprise in today's world?

Enterprise truly means the chain of organizations involved in a value stream—not just the company that may employ us. It's the entire family, or ecosystem, of organizations that collaborate to serve a customer need.

This constellation of partners may vary radically across product and service lines. Depending on which value chain you examine, you may see an entirely different constitution of the enterprise. The ecosystem may also change over time, with partners changing depending on their ability or eagerness to service the enterprise.

An enterprise, then, is a superorganization, an organization of organizations operating through cooperation, coordination and communication.

In the insurance industry, we deal with information. The shipping costs of information are nearly zero. The delivery time for information is nearly instantaneous. You would then think that it would be easier to construct an insurance enterprise and vary its membership than it is to do so in the manufacturing domain.

Gregory A. Maciag is president and chief executive officer of ACORD, the Pearl River, N.Y.-based Assn. for Cooperative Operations Research and Development, a global nonprofit insurance association facilitating the development and use of standards for the insurance, reinsurance and related financial services industries.

TAP INTO ENTERPRISE

Taking advantage of the "undertapped" potential of enterprise involves a three-phase process.

- **PHASE 1: INTERNAL**
  Get your own house in order.
- **PHASE 2: STABLE RELATIONSHIPS**
  Tackle your stable business relationships, remove waste, improve turnaround and expand service options.
- **PHASE 3: BUSINESS OPPORTUNITIES**
  Now you can open up the business to flexible partnering.

Ironically, the weightlessness of information causes its own problems and we tend not to pay enough attention to the context in which information flows.

So we pass bad information. We misinterpret information. We send information at the speed of light—but at the wrong time in a business process.

Worst of all, because information is abstract, we find it harder to notice, measure and evaluate the impact of our poor information practices. The problem is all the more serious when you consider that information is not only the substance of our products and services but also the means by which we coordinate, cooperate and communicate—the tools that keep the enterprise together.

TRUE BUSINESS COMPATIBILITY

So what's the solution? Standards.

Standards are the expression of a shared enterprise view of how our industry works. They lend industry DNA to local processes and ensure compatibility with other members of the value chain.

This isn't just a technical nicety—a matter of formats and protocols. It's true business activity compatibility: the ability to cooperate, coordinate and communicate as an enterprise. They are an essential part of an enterprise vision and for creating a successful value chain.

But just adopting standards won't make you and your partners a true enterprise. Standards aren't infectious. You can't inject them into a collection of activities and expect a sudden realignment of member organizations' efforts. That would be great, but it's not going to happen.

It takes some work and implementation to take advantage of this "undertapped potential" (see box).

Enterprise is just one concept we reconsider in this new world of ours.

Visit my blog at *www.acordceo.org* to see what else I've been thinking about and, please, share your views with me. IF

JOSEPH F. BERMUDEZ is a member of the Cozen O'Connor P.C. law firm in Denver, and leads the firm's food contamination coverage practice area.

Food-borne ills pose sky-high peril

For North Americans, the year of eating dangerously continues. The food industry has been pummeled by contamination claims and recalls stemming from illnesses and deaths nationwide.

The risks associated with getting safe food to our tables are increasing. What's more, we've recently discovered that the acute health effects from food contamination could have long-lasting, widespread and costly health consequences.

For the food industry, the risks involved with contamination and recalls are potentially devastating. Topps Meat Co., in business for nearly 70 years, closed its doors after being forced to issue the fifth-largest beef recall in U.S. food history. For consumers, food contamination can be a deadly risk. According to the Centers for Disease Control and Prevention, 76 million cases of food-borne illness occur each year resulting in 325,000 hospitalizations and 5,000 deaths.

This year alone, we've seen a dramatic increase in food contamination risks. In January, an undercover video resulted in the largest beef recall in U.S. food history. Last month, we learned our water supply is contaminated with pharmaceuticals—the scope of this contamination is unknown.

Global warming has also raised the stakes. Several outbreaks of ciguatera poisoning have been confirmed in consumers of fish harvested in the northern Gulf of Mexico. Ciguatera is common in fish living in tropical regions, but is rare in the northern Gulf.

As increased ethanol production raises corn prices, ranchers have switched to cheaper cattle feed, believed to have changed cows' intestinal flora, increasing E. coli production. Likewise, weather changes may be taking a toll. Flooding in the Midwest is thought to cause stress to cattle in swamped feedlots, increasing their E. coli count.

The factors behind the food industry's recent catastrophic period join a long list of potential risks. Globalization, the centralization and monopolization of production and distribution, increased appetites for processed foods, a desire for more raw and organic foods, and the evolution of deadly food pathogens are creating a perfect storm for the escalation and proliferation of food contamination claims.

Yet the most significant and possibly catastrophic risk discovered earlier this year received little notice. Many know that food contamination can cause a short bout of food poisoning. But, as the Associated Press reported in January, there is a "dirty little secret of food poisoning."

The cheeseburger you enjoyed last night or the snapper you thought was a healthy choice may cause you a lifetime of health-related concerns. Scientists are studying whether certain food pathogens are capable of causing long-term and even crippling health consequences 10, 20 or more years after the initial attack.

Scientists don't know how many of the millions of annual contamination victims suffer latent, long-term effects, and they're investigating what other illnesses may be associated with food-borne contamination.

The potentially long-lasting effects of food poisoning could prove financially catastrophic. Chronic illnesses linked to asbestos, lead paint and environmental claims resulted in hundreds of millions in medical monitoring claims. Whether in defense or indemnity, the sums involved with medical monitoring claims for even a small percentage of the 76 million annual food-borne illnesses are mind-boggling.

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Food contamination risks are on the rise. Analysis of the specific, unique risks involved with each food industry policyholder is critical. Ingredient source, supplier history, processing plant location, foreign health and safety regulations, supply chain positioning and customer base are among the factors to be assessed from an underwriting and a risk management perspective. If the theories about increased food-borne illness risks are remotely accurate, the costs for insurers could be astronomical. IF

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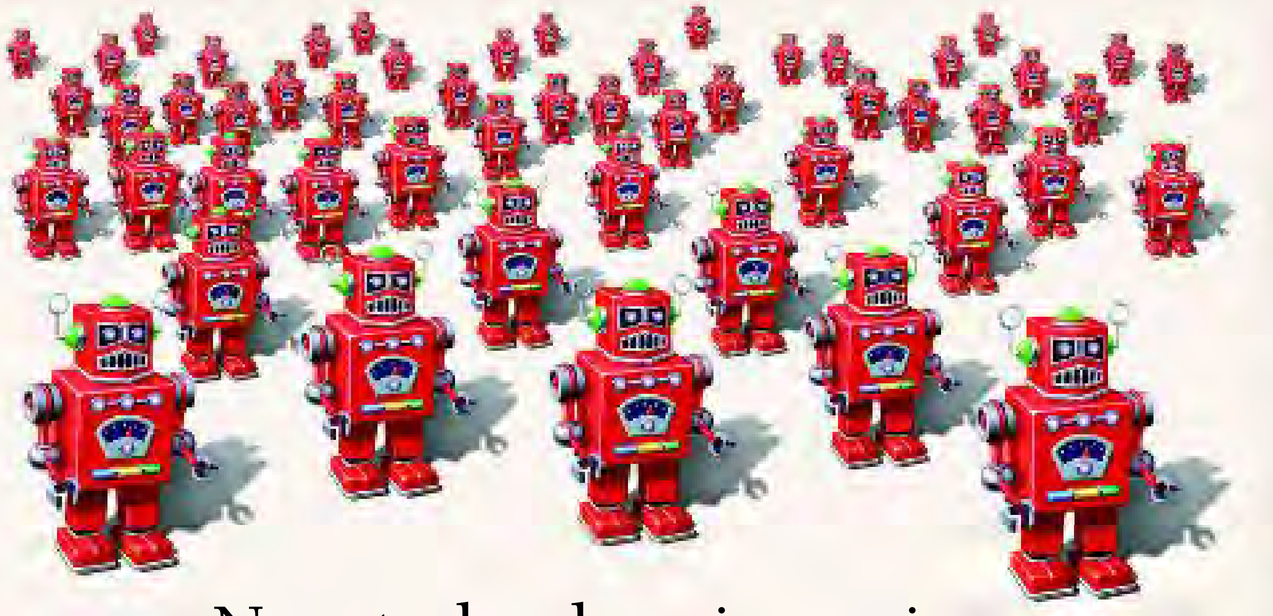

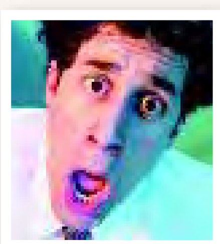

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