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**SUPREME COURT TAKES UP CASE
CENTERING ON PREVIOUS RULING
ON PUNITIVES / PAGE 3**

**LATEST U.S. CAPTIVE DOMICILE
NO STRANGER TO INSURANCE
INDUSTRY / PAGE 3**

**LARGE NEW YORK EMPLOYERS
SEEK SEPARATE BACKSTOP
FOR COMP RISKS / PAGE 3**

In Brief

**Midwest storms in May
produce \$850M in losses**

Strong storms that pounded parts of the Midwest May 22 through May 26 caused \$850 million in damage, according to the Insurance Services Office Inc. Tornadoes that ripped through the towns of Parkersburg, Iowa, and Hugo, Minn., generated \$160 million and \$420 million in insured losses, respectively, according to ISO's Property Claims Services division. The five other states affected by the storms were Colorado, Kansas, Nebraska, Oklahoma and Wyoming.

**Judge upholds Allianz
9/11 subrogation rights**

Allianz S.E. is entitled to priority over World Trade Center leaseholder Silverstein Properties Inc. in recoveries from third parties found liable for

See **IN BRIEF** page 22

SPOTLIGHT CRISIS MANAGEMENT

Risk managers use lessons learned from the past to draw up plans to deal with future crises; workplace homicides fall as more organizations impose zero-tolerance policies; hotel risk managers consider top exposures; crisis recovery expert offers tips on protecting reputations; how to prepare for regulatory probes. **Page 10**

HRH deal boosts Willis in U.S.

Middle-market, employee benefits business to grow; contingents to return temporarily

By **DOUGLAS McLEOD**

NEW YORK—Willis Group Holdings Ltd.'s \$2.1 billion buyout of rival Hilb Rogal & Hobbs Co. is a good deal for brokers and their clients, though the extent of its success will depend partly on the combined company's ability to hold on to key employees and on property/casualty market conditions, market observers say.

The Willis HRH deal will double London-based Willis' North American revenues, more than double its North American employee benefits business and greatly expand its roster of middle-market clients.

Willis and HRH offices overlap in relatively few locations, and clients should benefit from a continued emphasis on local service with an expansion of geographic reach, products and technical expertise offered by the combination, company officials and observers say.

"It's a great deal for Willis and a great deal for Hilb," said John Wicher, principal of John Wicher & Associates, a San Francisco insurance mergers and acquisitions consultant. "It gets (Willis) into businesses it would take them forever to build" while giving HRH's operations a scale the

broker would have a difficult time achieving on its own.

How successful the merger proves will depend, though, on Willis limiting defections of key producers and clients, achieving a projected \$140 million in expense reductions and weathering another year of soft property/casualty pricing, observers say.

Willis, which generated \$2.58 billion in 2007 revenues, announced last week that it will buy Glen Allen, Va.-based HRH with \$800 million in revenues, for \$2.1 billion, including \$400 million in assumed debt (see related story, page 21).

The announcement came less than a week after the three largest brokers—Marsh Inc., Aon Corp. and Willis—struck a deal with state officials allowing them to collect contingent commissions for three years on businesses they acquire, modifying a previous ban on the brokerages taking the insurer-paid incentives (*BI*, June 9).

See **WILLIS** page 21

BY THE NUMBERS



WILLIS 2007

Total revenues: **\$2.58 BILLION**
Brokerage revenues: **\$2.48 BILLION**
Profits: **\$409 MILLION**



HRH 2007

Total revenues: **\$800 MILLION**
Brokerage revenues: **\$780 MILLION**
Profits: **\$78.1 MILLION**

Source: company reports

Shareholder pressure may doom AIG chief

Subprime losses fuel calls for top-level changes

By **JUDY GREENWALD**

NEW YORK—Three years after he took the helm at American International Group Inc., Martin J. Sullivan's future at the insurer appeared to be in doubt last week.

Under pressure from high-profile shareholders, late last week AIG's board reportedly was considering holding an emergency meeting to discuss Mr. Sullivan's future as president and chief executive officer of the New York-based insurer.

The shareholders—former director Eli Broad, and fund managers

Shelby Davis of Tucson, Ariz.-based Davis Selected Advisers L.P. and Bill Miller, chairman and chief investment officer of Baltimore-based Legg Mason Capital Management—sent a letter to AIG's board that said "significant and immediate changes at both the management and board level are clearly called for," according to news reports.

AIG had no comment on the letter or the prospect of an emergency board meeting.

See **SULLIVAN** page 22



Accidents highlight crane safety issues

Update of decades-old federal rules sought

By **KRISTIN GUNDERSON HUNT**

Recent weeks have seen a rash of deadly construction crane-related accidents, underscoring the need for improvements to the federal standards that govern crane use, experts say.

In the most recent fatal accident, a piece of equipment fell from a cable attached to a crane in Dallas, striking and killing one worker last week. Days later, three construction workers were injured in a crane accident at the construction site for the new Dallas Cowboys stadium.

Other recent high-profile crane accidents have included crane collapses in March that occurred in Miami, which resulted in two

deaths, and in New York, which resulted in seven deaths. Additionally, last month a crane toppled in New York, resulting in two deaths, and one construction worker was killed in Las Vegas after getting crushed by a crane.

Although some states and cities have strict crane operating guidelines in place, crane use in most municipalities is governed by decades-old federal standards—standards that are overdue for revisions, experts say.

"The industry has changed," said Emmett Russell, director of safety and health for the International Union of Operating Engineers in

See **CRANES** page 20

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INDEX

Advertiser Index	21
Business Resources	16
End Page	23
International	17
Opinions	8
Perspectives	8
Products & Services	16
Professional MarketPlace	16
Stocks	22

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CONFERENCE EXTRA

Read more from S&P, PRIMA conferences

Business Insurance offers additional stories online from the Standard & Poor's Corp. Health Insurance 2008 conference, as well as from the Public Risk Management Assn.'s annual conference, both held earlier this month. Go to www.BusinessInsurance.com/extra for full coverage of both meetings.

BI DIRECTORIES

Crisis management directory updated

Business Insurance has updated its Directory of Crisis Management Consultants for 2008. It is now available online, where you can buy and download the full content of BI's exclusive directories. Pricing varies by listing. Review directories available for purchase at www.BusinessInsurance.com/directories.

Business Insurance®

REPORTING ON CORPORATE RISK AND EMPLOYEE BENEFIT MANAGEMENT NEWS

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High court vs. Oregon goes into third round

Lower court upheld damages in case against Philip Morris, ignoring Supreme Court directive

By MARK A. HOFMANN

WASHINGTON—The U.S. Supreme Court will decide whether a state Supreme Court can ignore its directive to apply constitutional review to punitive damages awarded to the wife of a longtime smoker.

The nation's high court last week agreed to decide whether the Oregon Supreme Court was right or wrong when it did just that and upheld \$79.5 million in punitive damages awarded in *Phillip Morris USA Inc. vs. Mayola Williams*.

It is the third time the U.S. Supreme Court is taking up the closely watched case, a move praised by advocates of limiting punitive damages.

In a suit against Phillip Morris

brought by Ms. Williams, an Oregon jury in 1999 awarded the widow of the longtime smoker \$821,000 in compensatory damages



\$79.5M

AT STAKE in the dispute between the supreme court ruling on punitive damages and the Oregon state court

and \$79.5 million in punitive damages after her attorney asked jurors to consider other people harmed by cigarette smoking in Oregon over 40 years.

But based on its 2003 ruling in *State Farm Mutual Insurance Co. vs.*

Curtis Campbell et ux., in which it said punitive damages that exceed single-digit multiples of compensatory damages are generally unacceptable, the U.S. high court in 2003 ordered the Oregon court to reconsider the \$79.5 million, which was nearly 100 times the amount awarded in compensatory damages. The Oregon Supreme

Court disagreed, and upheld the \$79.5 million in punitive damages.

Last year, the U.S. high court overruled the Oregon court and told it to apply a due process standard to punitive damages award. Instead, the Oregon court examined

whether Philip Morris sought to have jurors given an erroneous instruction under Oregon law. Finding that the tobacco company had done so, the Oregon court again upheld the award.

Philip Morris appealed, asking the U.S. Supreme Court to decide whether the Oregon court acted correctly by raising the erroneous jury instruction issue for the first time and to re-examine whether the punitive damage award passed constitutional muster.

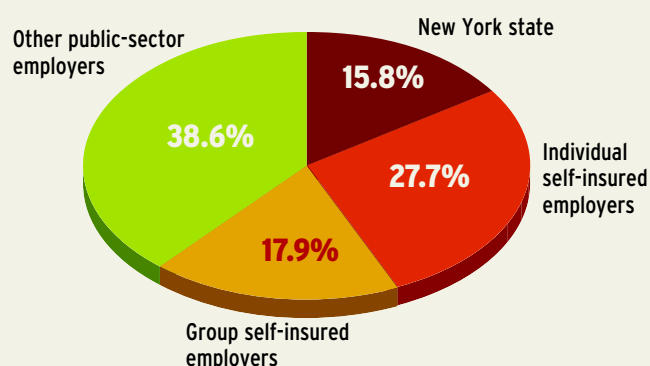
Last week, the U.S. high court declined to take up the question of excessiveness, but did agree to review the jury instruction issue.

Advocates of limits on punitive

See **PUNITIVE** page 21

NEW YORK STATE WORKERS COMPENSATION MARKET

In 2005, the self-insurance market was broken down as follows:



Source: New York Workers Compensation Board

New York mulls changes in workers comp backstop

Large self-insured employers seek separate pools

By ROBERTO CENICEROS

NEW YORK—Large self-insured employers are lobbying state lawmakers in New York to establish workers compensation guaranty pools that would create separate backstops for self-insured employers and self-insured trusts.

The move comes amid the recent failure of several self-insured trusts in the state. The trusts are typically used by smaller employers that do not have comp risks large enough to justify full self-insurance programs.

Larger employers say the trusts are more akin to commercial insurers than self-insurance and should have a separate guaranty program.

The dual program under consideration would see the creation of one pool to guarantee workers comp obligations of large, individually self-insured companies and another that would guarantee group trust liabilities, said Mary Beth Woods, director of licensing for the New York State Workers' Compensation Board.

Currently, individually self-

insured employers and financially healthy group trusts both pay assessments to the SWCB for trusts—which are privately managed—that fail to pay their obligations.

The SWCB also can pursue members of failed trusts, as they are jointly and severally liable. Currently, the SWCB is looking to pursue members of seven failed trusts it is taking over from Bermuda-based Compensation Risk Managers L.L.C. (BI, June 9).

The New York Self-Insurers Assn. is urging lawmakers considering guaranty fund protections for workers comp risks to include wording that severs its members' future responsibility for the liabilities of defunct trusts.

"We feel that self-insured employers and group self-insurance trusts are separate and distinct entities and they should be treated accordingly," said Steve Perroots, chair of the NYSIA and a senior director for claims at Marriott International Inc. in Bethesda, Md.

See **TRUSTS** page 20

Connecticut becomes newest captive domicile

State's talent pool seen as major asset in crowded field

By JERRY GEISEL

HARTFORD, Conn.—Connecticut, long considered the unofficial capital of the U.S. commercial insurance industry, is the newest domestic captive domicile.

Gov. Jodi Rell signed the captive legislation, S.B. 281, into law earlier this month following unanimous approval by the Connecticut House and Senate.

The Connecticut law, which goes into effect on Jan. 1, 2009, closely resembles captive law in Vermont, the largest U.S. domicile and the third-largest domicile in the world, with 561 captives.

The premium tax structure in the Connecticut law is identical to Vermont's. On direct written premiums, the tax is 0.38% on the first \$20 million in premiums, 0.285% on the next \$20 million, 0.19% on the next \$20 million and 0.072% on premiums exceeding \$60 million.

The minimum annual premium tax is \$7,500 and the maximum is \$200,000, regardless of how much business is funneled through a captive.

Also identical to Vermont, the minimum capital and surplus requirements are \$250,000 for single-parent captives, \$750,000 for association captives and \$1 million for risk retention groups.

Connecticut is the second state to pass captive legislation this year. In March, Michigan Gov. Jennifer Granholm signed captive domicile legislation into law with an immediate effective date.

With many major players in reinsurance and financial services already in Connecticut, some

CAPTIVE EXPANSION

Competition is heating up in the U.S. captive insurance market.

	ALABAMA
Action:	Allows captives to be licensed in state
Effective date:	April 2006
	CONNECTICUT
Action:	Allows captives to be licensed in state
Effective date:	January 2009
	DELAWARE
Action:	Cut premium taxes; allows cell captives
Effective date:	July 2005
	MICHIGAN
Action:	Allows captives to be licensed in state
Effective date:	March 2008
	MISSOURI
Action:	Allows captives to be licensed in state
Effective date:	August 2007
	MONTANA
Action:	Caps premium taxes at \$100,000
Effective date:	April 2005
	NEVADA
Action:	Caps premium taxes at \$175,000
Effective date:	June 2005
	UTAH
Action:	Eliminates captive premium taxes
Effective date:	January 2005

observers say the state could be an attractive domicile.

"As an insurance capital, our most valuable asset is the talent that resides here," said Thomas Sullivan, commissioner of the Connecticut Insurance Department in Hartford.

Having ample actuarial, accounting and insurance talent "gives us an edge over other domiciles," said Michael Maglaras, a principal with

See **CAPTIVE** page 6

Lawmakers spar over national insurance office proposal

Backers say expertise needed; opponents see backdoor federal regulation

By MARK A. HOFMANN

WASHINGTON—The issue of whether the creation of an office of insurance information in the Treasury Department would lead to federal regulation of the industry remains a fractious one.

That was evident last week during a hearing on the Insurance Information Act before the House Financial Services Committee's Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises.

The bill, introduced by the subcommittee's chairman—Rep. Paul Kanjorski, D-Pa.—calls for the creation of an OII within Treasury. The office would establish federal policy

on international insurance matters and have very limited powers to pre-empt state regulations that affect non-U.S. insurers.

"The federal government should have an in-house expert on insurance matters," said Rep. Kanjorski. He said that a former Treasury Department official said that such an office "would have been helpful" in the aftermath of the terrorist attacks of Sept. 11, 2001.

"Such an internal resource would have already had expertise in place, information available, and relationships developed to assist in the consideration of legislation like the Terrorism Risk Insurance Act," said Rep. Kanjorski.

He said he is willing to work

"with all interested parties to maximize the growing consensus on this legislation."

Not every member of his panel agreed that establishing any federal insurance office is desirable. "This is an attempt to federalize the insurance industry," said Rep. Don Manzullo, R-Ill. He said there's little indication that foreign insurers and reinsurers have difficulty doing business under the United States' state-based regulatory system.

One of the bill's co-sponsors, Rep. Ed Royce, R-Calif., didn't dispute his colleague's point regarding the potential for the office serving as a means to promote federal insurance regulation. Establishing an office of insurance information, "moves us



LANDOV

'Such an internal resource would have already had expertise in place, information available, and relationships developed to assist in the consideration of legislation like the Terrorism Risk Insurance Act.'

Rep. Kanjorski, D-Pa.

one step closer" toward allowing insurers and producers to choose an optional federal charter over state regulation, said Rep. Royce, who has backs the OFC.

Reps. Royce and Melissa Bean, D-Ill., issued a joint statement after the hearing in which Rep. Bean said, "I see this as a vital step toward

providing greater industry agility and a modern regulatory alternative to the antiquated and nonuniform system of state insurance regulation."

Rep. Bean is a co-sponsor of the OII bill and, with Rep. Royce, has introduced legislation that would create an OFC.



AP PHOTO

A 2007 fire at a Sofa Super Store in Charleston, N.C., killed nine firefighters. The causes of the fire can be traced back several years, experts say.

City learns grim lessons from furniture store fire

Litany of code violations caused tragedy

By DAVE LENCKUS

ANAHEIM, Calif.—Numerous factors that were years in the making led to the deaths of nine Charleston, S.C., firefighters just minutes after they responded to a trash fire outside a sofa store last year, and a similar tragedy could happen elsewhere, a Charleston safety official maintains.

Whether it is a lumber yard, a port or a chemical plant, "I hope you do realize that you have a Sofa Super Store" that poses such deadly

risks to firefighters, Charleston safety official Ted K. Austin warned attendees at the Public Risk Management Assn.'s annual conference, held June 1-4 in Anaheim, Calif.

The June 18, 2007, tragedy was the greatest loss of life for firefighters at a single scene since the terror-

ist attack in New York on Sept. 11, 2001. It largely can be traced to the store's numerous fire code violations, said Mr. Austin, director of Charleston's safety management division.

But an analysis of the tragedy also has showed the city how it could better protect firefighters, he said.

More than 50 state and federal agencies have investigated the fire, and the South Carolina Office of Occupational Safety and Health has cited both the Charleston Fire Department and the Sofa Super Store for willful and serious safety violations. The department was cited for failing to develop policies and for implementing inadequate policies designed to safeguard firefighters. The store was cited for a variety of fire code violations.

Mr. Austin urged risk managers to learn lessons from Charleston's loss.

The Sofa Super Store had been built piecemeal over many years beginning in 1960 with the original

See **FIRE FIGHTERS** page 18

APIW honoree acts as role model

Deloitte's Rebecca Amoroso uses success to support other women

By COLLEEN MCCARTHY

NEW YORK—As the first woman to be named national insurance industry leader of one of the country's top consulting firms, Rebecca C. Amoroso has achieved considerable success, but a big part of that success involves helping other women attain similar roles.

Ms. Amoroso, vice chairman and U.S. insurance industry group leader of Deloitte L.L.P., ascended to a top position in the industry by developing a "teamwork approach," demonstrating strong leadership skills and going the extra mile to deliver services and solutions to the organization's many clients, according to colleagues and clients.

Being a role model who is committed to the advancement of women and a passionate industry leader are key reasons Ms. Amoroso was



REBECCA C. AMOROSO

JOB: vice chairman and U.S. insurance industry group leader of Deloitte L.L.P.

EDUCATION: Lehman College, Bachelor of Arts, magna cum laude, mathematics. Fellow of the Casualty Actuarial Society.

YEAR ENTERED INDUSTRY: 1978



LISTEN to a podcast interview with APIW Insurance Woman of the Year Rebecca Amoroso.

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selected as the Insurance Woman of the Year by the Assn. of Professional Insurance Women.

"As a consultant her contributions may not be as visible, but her role in product development, product design, helping companies with

loss reserve analysis and modeling are the things that keep the industry moving forward," said Laurie Kamaiko, immediate past president and chair of the selection committee at the APIW. Ms. Kamaiko is also a partner with law firm

Edwards, Angell, Palmer & Dodge L.L.P. in New York.

Ms. Amoroso is the 32nd recipient of the annual award from the APIW, an organization devoted to

See **AMOROSO** page 6

Brokers seek soft market strategies

Weak economy, falling rates present challenge to many regional firms

By COLLEEN MCCARTHY

NEW YORK—A soft property/casualty market and a weak U.S. economy are pressuring regional insurance brokers.

As declining rates result in reduced commissions, brokers at the Standard & Poor's Corp. Insurance 2008 Conference said they are cutting expenses and restructuring to offset the lost revenue.

"It's a tough environment. We're getting hit from both sides" by soft pricing and a weak U.S. economy, Martin P. Hughes, chairman and chief executive officer of Hub International Ltd., said during a panel discussion at the conference held June 2-3 in New York.

Some brokers are experiencing

further commission losses as clients conduct annual audits that reveal

CONTINUED COVERAGE: Most health plan members lukewarm on insurers, satisfaction survey shows. Page 19.

ONLINE: More coverage of the S&P conference is available by clicking on Conference Extra at www.BusinessInsurance.com.

Hughes said.

Lower premiums paid to insurers

translate into lower commissions for brokers.

To maintain its margins, the Chicago-based middle-market brokerage is conducting a comprehensive review of its back-room services, including billing and information technology; policy procedures and support services to determine where efficiency can be improved, according to Mr. Hughes.

Hub, which *Business Insurance* ranked as the 12th-largest broker of U.S. business in 2007, is even considering moving some functions to India to reduce expenses, although "we're not quite sold on that yet," Mr. Hughes said.

Hub, which has more than 20

See **CHALLENGES** page 18

READ continued coverage of the



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Captive: Conn. becomes latest domicile

CONTINUED FROM PAGE 3

Michael Maglaras & Co. The Stamford, Conn., captive administrator is helping to organize a state captive trade group.

"There are so many insurance professionals here that there won't be much of a learning curve," said Dan Labrie, president and chief executive officer in the Cheshire, Conn., office of Housing Authority Risk Retention Group, a Vermont-based RRG.

Still, with about two dozen other states having captive statutes, Connecticut will face a stiff challenge in trying to entice corporations and

organizations to form state captives, others say.

"There is no shortage of domiciles. How will Connecticut distinguish itself from other well-established domiciles? It is a tough sell when there are so many" others, said Brady Young, president of Strategic Risk Solutions Inc., a Concord, Mass.-based captive manager and consultant.

Since 2000, a growing number of states, all eager to replicate the success of Vermont, have approved captive legislation. Some of the newer domiciles have enjoyed great success in attracting captives, with Arizona, Nevada, South Carolina

and Utah now among the 15 largest domiciles in the world.

Older domiciles have revamped their captive laws to increase their appeal. For example, Delaware overhauled its 21-year-old law in 2005 by slashing premium taxes and setting up a tax formula that would benefit small startup captives.

Since passage of those changes, Delaware has more than tripled its number of captives, with its captive roster rising to 17, up from five in 2005, with an additional captive to be licensed soon, said William White, administrator of Delaware's Captive Insurance Program in Wilmington.

Gannett freezes DB plan

By JERRY GEISEL

MCLEAN, Va.—Media giant Gannett & Co. Inc. is freezing its defined benefit pension plan and enhancing its 401(k) plan.

Effective Aug. 1, Gannett will freeze its pension plan, with participants no longer accruing benefits. At the same time, Gannett will enhance its 401(k) plan by matching employees' salary deferrals, up to the first 5% of pay, with company stock. Gannett now matches 50% of employees' salary deferrals up to the first 6% of pay, also in company stock.

McLean, Va.-based Gannett says it is moving away from its defined benefit plan to save money. "Freezing the pension plan benefit is another important step in keeping Gannett financially strong. This change will mean a considerable savings for the company even after returning significant dollars to

employees through the enhanced 401(k) plan," Gannett Chief Executive Officer Craig Dubrow wrote in a memo to employees.

The change affects nearly all of Gannett's roughly 25,000 employees in the United States, a Gannett spokeswoman said.

Gannett, which publishes 85 daily newspapers, including USA Today, and operates 23 television stations in the United States, last year reported \$1.05 billion in net income on revenues of \$4.9 billion.

Earlier this week, Gannett said it would write down its assets by between \$2.5 billion and \$3 billion to reflect the declining value of its operations in the United States and Great Britain.

In freezing its pension plan, Gannett joins a long line of large and well-known U.S. companies—including Hewlett-Packard Co., IBM Corp. and Sears Holdings Corp.—that have done the same.

Amoroso: APIW honoree acts as a role model

CONTINUED FROM PAGE 4

the advancement of professional women in insurance, and will be honored in a ceremony June 19th at the Marriot Marquis in New York.

"It's important for women to speak up and talk about their goals and ambitions. Once women express what they want, then they can ask others for help in achieving it," Ms. Amoroso said.

Ms. Amoroso, who has worked at Parsippany, N.J.-based Deloitte for the past 22 years, oversees more than 2,000 insurance practitioners and provides services to more than 50 of the top 100 U.S. insurance companies.

Prior to joining Deloitte, she worked as an actuary at American International Group Inc. and the Insurance Services Office Inc.

Deloitte is "a very dynamic environment," Ms. Amoroso said. Her current role also demands that she stay up-to-date on industry issues, something she maintains through extensive research.

"It's very important to understand what our clients are facing in order to develop solutions and that's exciting, that's cutting edge," she said.

Previously, Ms. Amoroso was the first woman to lead Deloitte's Consulting Actuarial and Insurance Solutions practice, where she used her technical background to communicate complex issues to clients, a move she says helped her achieve partner status with the organization.

"She holds a very high position in the company, but she is also very approachable. Her team has enormous respect for her," said Gail W. Soja, president, Chubb Custom Market Inc. in New York, and former client of Ms. Amoroso.

"She is exceptional at building relationships with clients, she's a true leader who really understands

the property/casualty business," said Dino Robusto, executive vp, worldwide claim officer at Chubb & Son in Warren, N.J. Mr. Robusto is currently working with Ms. Amoroso's team on a large scale predictive modeling initiative.

Ms. Amoroso also sits on the steering committee for Deloitte's Women's Initiative, a group responsible for developing the organization's strategy for attracting, retaining and promoting women in the business. In addition to raising the number of women partners, principals and directors from 7% in 1993 to about 22% today, the initiative also has led to the development of many firmwide programs for the benefit of all employees, Ms. Amoroso said.

For example, Deloitte's Mass Career Customizations program helps guide employees' career tracks and allows individuals to "dial up" or "dial down" their responsibilities depending on their individual goals and family responsibilities, she said.

Ms. Amoroso reluctantly participated in the pilot program for Deloitte's Women's Initiative 14 years ago, and as a result, now describes it as one of the best professional experiences of her life.

"It was the first time in my life that I was in a room full of my peers. I finally understood what male bonding was," she said.

The experience highlighted the importance of networking, and Ms. Amoroso has been an advocate for helping other women ever since. Ms. Amoroso also routinely makes the case that advancing woman and creating diversity of thought in an organization "makes good business sense," she said.

"I've really grown to look at her as a mentor, and someone I have learned so much from," said Francine O'Brien, insurance senior sector manager at Deloitte, who works directly under Ms. Amoroso.

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Business Insurance OPINIONS

Contingents continue to cause controversy

FOUR YEARS AFTER Eliot Spitzer dropped a bomb on the insurance brokerage industry, the sector's compensation system is still a mess.

Contingent commissions, which were at the heart of the abusive systems set up by too many brokers, have caused controversy for more than 10 years and yet they are still prevalent in the industry.

Following settlements with various state officials, the largest brokers agreed to stop taking contingents, which at the time seemed like a long-overdue break with a fundamentally flawed system.

It wasn't too long afterwards, though, that various attempts were made by some of the larger brokers to reintroduce some form of insurer-paid incentives.

Then, earlier this month, the big three brokers—Marsh Inc., Aon Corp. and Willis Group Holdings Ltd.—were given permission to keep taking contingents for up to three years on businesses they acquire. Less than a week later, Willis declared it was buying Hilb Rogal & Hobbs Co. and, as a result, would pick up more than \$40 million a year in contingents.

Looking at the brokers' deal with state officials, on the one hand you could say that it helped level the playing field, as plenty of other brokers that the big three compete with still take contingents. But, on the other hand, you could say that the inability to take contingents on acquired business was part of the price they paid to secure the original settlement following the Spitzer investigations.

Either way, the continued payment of contingent commissions on commercial insurance placements continues to compromise the integrity of the system. Policyholders informed of the payments should not hesitate to insist on their removal from any transaction.

The payment of contingent commissions continues to compromise the integrity of the system.

AIG's subprime woes belong in larger context

IS CHANGE NEEDED at American International Group Inc.?

In recent weeks, AIG posted its largest-ever quarterly loss, shares dropped to a decade low, and last week several large shareholders demanded removal of members of the board and senior management.

AIG shocked observers with a first-quarter 2008 net loss of \$7.8 billion, most of it from unrealized losses on credit default swaps. A year earlier, AIG had net income of \$4.1 billion.

Investors and customers of AIG aren't used to seeing losses—much less a \$7.8 billion one—but some context is needed. AIG is the world's largest insurance organization, with a global footprint and more than a trillion dollars in assets. That's larger than the gross domestic product of all but a dozen countries. Take away the first-quarter loss from the AIG Financial Products unit, and the results would have been very much in line with those of other multiline insurers in a highly competitive market.

That's not to say AIG hasn't goofed. Late last year, its auditors found material weakness in controls relating to certain credit derivatives. Then, AIG appeared to understate, several times, how big its subprime writedowns would be. Lastly, AIG confused investors with plans to raise \$12.5 billion of capital while increasing its dividend. AIG ended up raising \$20 billion, though, a sign that at least some investors are bullish about AIG's shares.

That partial endorsement of current management may be justified, but AIG must do a better job of containing its subprime exposure and explaining how the problem developed in the first place.



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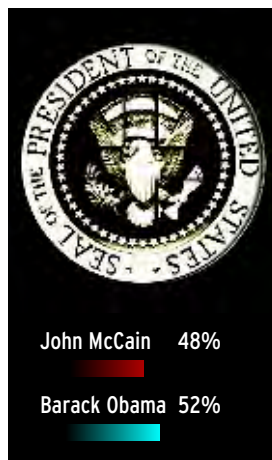
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Building ERM programs with a strategic view

As corporate entities face greater and more complex risks and expectations for corporate officials to have a better grasp of all the risks they face, enterprise risk management techniques can help, write Katherine Smith Dedrick and Mark L. Frigo. Building ERM programs that take a strategic view of risk can provide a powerful force for continuously evaluating the portfolio of risks facing an enterprise and developing ways to deal with the risks that constantly threaten an enterprise, they say.

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MANAGEMENT

SPOTLIGHT

Don't let disasters proliferate

One lesson from Katrina: 'Have a backup plan for your backup plan'

By COLLEEN MCCARTHY

ATLANTA—When a tornado struck downtown Atlanta in March, blowing out windows, triggering evacuations and causing severe wind and water damage to the Omni Hotel at the CNN Center, employees used an emergency response plan based in part on lessons learned from Hurricane Katrina to manage the crisis.

The 2005 Gulf Coast hurricane severely damaged two Omni Hotels Inc. properties in downtown New Orleans, one of which, the Omni Royal Crescent, was not fully operational again for two years. The event and its aftermath prompted Mel Bangs, risk manager for Omni Hotels in Irving, Texas, to develop an emergency response plan to guide the company and its managers at 36 U.S. properties when the next natural disaster strikes.

"This time, when disaster hit, we knew exactly what to do and who to call," Ms. Bangs said. "It really allowed us to minimize the impact."

While natural disasters cannot be prevented, risk managers who have

dealt with such crises say there are steps that organizations can take to reduce potential risks, mitigate the impact and stay focused on the goal of restoring business.

The "No. 1 priority" when the Atlanta tornado struck was the safety of more than 1,000 guests staying at the Omni, Ms. Bangs said. The hotel staff had been trained to evacuate the guests from their rooms and account for their safety.

Guests first, damage next

Since the Omni lost the use of nearly 500 rooms, hotel management immediately relocated guests to other areas of the city following the storm, a relocation made possible by a standing agreement with the nearby Westin Hotel, she said.

With guest safety under control, Ms. Bangs mobilized the response team to deal immediately with the physical damage caused by the tornado. Senior engineers were able to make an initial damage assessment and begin temporary repairs while previously arranged contracts with vendors and contractors allowed for

site cleanup to begin quickly.

"We actually had disaster recovery crews in place within a few hours after the storm hit," Ms. Bangs said.

Risk managers should work with their organizations and the surrounding communities to develop comprehensive crisis management plans that include a full assessment of the risks they would face in the event of a natural disaster, risk managers say.

Key components of a crisis management plan include ensuring the safety of employees and guests, implementing response procedures and assigning responsibilities in the event of a natural disaster, said Lance Ewing, vp, risk management for Harrah's Entertainment Inc. in Cordova, Tenn. Harrah's properties and casinos in Louisiana and Mississippi suffered more than \$1.3 billion in losses from the 2005 Gulf Coast hurricanes.

"When it comes to natural disasters, hope is not a crisis plan," Mr.

See **DISASTERS** next page

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PLAN, STAY INFORMED
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PAGE 14

Disasters: Effective communication skills essential in crisis recovery

CONTINUED FROM PREVIOUS PAGE

Ewing said. “The thing we learned the most coming out of Katrina and Rita is that you have to have a backup plan and you have to have a backup plan for your backup plan.”

Developing a solid emergency response plan prior to a natural disaster is critical for any organization faced with such a crisis, risk managers say.

The Miami-Dade County Public Schools system was unprepared when Hurricane Andrew—a Category 5 storm—struck in 1992, causing

about \$100 million in damage to the school system’s properties, said Scott Clark, risk and benefits officer. “It was risk management at its worst,” he said.

Since Hurricane Andrew, his department has created a comprehensive emergency preparedness program and a disaster recovery task force that regularly reviews procedures and conducts training drills.

“Now if there’s a hurricane warning for Miami-Dade County, everyone knows exactly what they’re supposed to do,” Mr. Clark said, adding that several smaller storms, includ-

ing Hurricane Irene in 1999 and Hurricanes Charley and Ivan in 2004, have given the risk management team an opportunity to hone its emergency-response skills.

The school district uses technology to take the program a step further, he said. In the event of another major storm, Miami-Dade schools will activate a system that enables staff to conduct initial damage assessments. Within 20 minutes of an “all clear” in further weather developments, crews onsite will be able to use an online checklist to conduct a high-level assessment and

send that information electronically “BlackBerry style” to the district’s command center, he said.

“This strategy will help us determine early on what our priorities are as well as determine which schools will reopen after a storm,” Mr. Clark said.

Bearer of bad news

Effective communication skills also are critical when responding to a natural disaster because risk managers will be required to gather and disseminate information quickly—often in the midst of chaos.

A natural disaster is going to affect every aspect of your organization, and “everyone’s looking to you for answers,” Mr. Ewing said. Risk managers need to be able to effectively communicate at all levels, “from the C-suite, to the employees and staff, and even with state and local emergency officials or relief organizations, like the Red Cross,” he said.

The ability to deliver bad news is equally important for risk managers, Mr. Ewing said. “This has to come from you. It shouldn’t come from rumors or innuendos that are occurring at the crisis level,” he said.

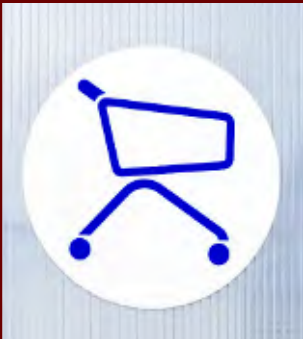
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Disaster Management Inc. 1531 S.E. Sunshine Ave., Port Saint Lucie, Fla. 34952	772-335-9750 www.disastermgt.com	\$120,000	1	83	Douglas M. Henderson, president
Resolutions Investigation & Risk Management Inc. 675 Old Country Road, Westbury, N.Y. 11590	516-280-4714 www.resolutionsirmi.com	\$20,000	5	3	Thomas E. Valery, president
Specialty Risk Management Inc. 8015 Bronco Lane, Suite 200, Lago Vista, Texas 78645	800-328-7761 www.callsrm.com	\$1,200,000	7	500	Pamela J. Ritz, president
Supportive Solutions Inc. P.O. Box 52, Murrysville, Pa. 15668	800-982-8522 www.supportive-solutions.com	N/A	350	45	Tonya Teal Slawinski, president

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Stricter company policies help lower number of homicides in workplace

Training, early intervention can keep violence from escalating

By ROBERTO CENICEROS

Workplace homicides have declined in the United States since peaking in 1994, but employer vigilance is still necessary, experts say.

Workplace homicides decreased to 516 in 2006, down 9% from 2005 and 50% lower than 1994, according to the latest data from the U.S. Bureau of Labor Statistics. Homicides are one form of workplace vio-

lence that affects approximately 2 million U.S. workers each year, according to the Occupational Health and Safety Administration. Yet workplace violence has not gone away, nor will it, experts say.

"We are always going to have people among us that are not well and react inappropriately and have

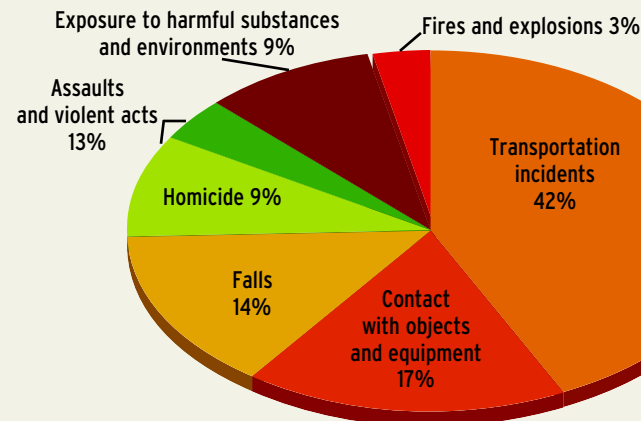
access to weapons," Ms. Sullivan said.

Employer preparation for potential violence remains important because nearly two workplace homicides still occur each day in the United States, said Enid Reiley, partner at Emerald Training Consultants, a Syracuse, N.Y.-based firm with a specialty in workplace vio-

See **VIOLENCE** next page

HOW WORKPLACE FATALITIES OCCUR

2006 workplace fatalities



Source: U.S. Department of Labor, Bureau of Labor Statistics

AVOIDANCE TECHNIQUES

To help mitigate workplace violence, risks experts say companies can:

- Implement pre-employment screening and background checks.
- Clearly communicate an antiviolence policy and disciplinary measures including termination.
- Train managers and workers about warning signs, such as threats or violent statements.
- Make it easy for employees to report potentially violent co-workers.
- When possible, physically separate customers from employees.
- Provide post-termination counseling.

Once violence occurs:

- Preserve the scene until police investigate.
- Attend to physical and psychological needs of victims.
- Assure the workplace is safe before workers return.
- Meet with witnesses and victims to help determine how to prevent future incidents and improve policies.

lence that affects approximately 2 million U.S. workers each year, according to the Occupational Health and Safety Administration.

Following high-profile workplace shootings in the 1980s and 1990s, the concept of "going postal" emerged and human resources personnel began implementing policies that trained supervisors to recognize warning signs and manage disgruntled employees, experts say.

Declining workplace homicide numbers since then reflect company adoption during the 1990s of zero-tolerance policies of employee violence, said JoAnn M. Sullivan, a senior vp and risk consulting manager for Marsh Inc. in Phoenix. "A lot of human resource people took to heart the fact that they put into their policies appropriate behavior and they got much better about being forthright that inappropriate behaviors won't be tolerated," she said.

Other factors, such as a changing workforce, also reduced homicides, added Ms. Sullivan, who has written studies on the subject for the Risk & Insurance Management Society Inc. and the American Society of Safety Engineers.

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Hotel disaster plans must consider an array of exposures

Fire seen as the topmost exposure among risk managers and underwriters in hospitality industry

By GLORIA GONZALEZ

Some of the deadliest fires in U.S. history have occurred in hotels, placing the exposure front and center in the minds of hotel risk managers and shaping their crisis management response plans, experts say.

Disease outbreaks and natural catastrophes are also major crisis exposures for hotel risk managers. Regardless of the type of crisis, the safety of guests and employees takes precedence over property exposures, risk managers say.

"I think probably the biggest exposure is that we have guests with us 24 hours a day and we have them in their most vulnerable state"

when they are asleep, said Mel Bangs, director of risk management for Irving, Texas-based Omni Hotels Corp. In an emergency, "it's a very important part of our job that we get the guests out and get them to safety."

Flee, don't fight, fire

Gretchen Langston, director of risk management for Greenwood, Colo.-based Xanterra Parks & Resorts, specifies in a crisis management white paper that a fire alarm should result in individuals evacuating the area of a fire rather than picking up a fire extinguisher and trying to battle the flames.

Risk managers, their brokers and insurers quickly cite hotel/motel

fires as being among the deadliest fires in U.S. history.

In 1980, a fire ignited by an electrical ground fault at the MGM Grand Hotel and Casino in Las Vegas killed 85 people, injured 700 others and caused at least \$30 million in damage, according to a Clark County, Nev., Fire Department report.

Six years later, three employees intentionally started a fire in the Hotel Dupont Plaza in Puerto Rico that killed 97 people and injured 140 others.

The deadliest hotel fire in U.S. history happened in 1946 in Atlanta, when 119 people died in a blaze of undetermined origin at the Winecoff Hotel, which had nei-

ther fire sprinklers nor an alarm system, according to the National Fire Protection Assn.

According to the NFPA, one of every 12 U.S. hotels reports a structure fire each year.

"The biggest fear people have is mass casualties," said Brian Ruane, executive vp, director of the real estate and hotel practice group of Willis Group Holdings Ltd. based in New York.

In January, a roof fire damaged the Monte Carlo in Las Vegas and caused a three-week shutdown of the hotel. There were no fatalities. In a U.S. Securities & Exchange Commission filing, owner MGM Mirage reported the fire insurance claim was \$85 million: \$49 million in business interruption and \$36 million in property damage.

"Fire is an underwriter's nightmare," said Thomas Dondero, assistant vp and manager of excess and surplus risk control services for Westport Insurance Corp., an Andover, N.J., arm of Swiss Reinsurance Co. "That's the one we worry about the most."

Disease outbreaks are another key concern of hotel risk managers. Legionnaires' disease, a bacterial infection, got its name in 1976 when hundreds of people attending a Philadelphia convention of the American Legion at the Bellevue Stratford Hotel were infected.

Pandemic response

When Ms. Langston joined Xanterra a few years ago, her supervisor saw a news story on avian flu and asked her to develop a plan, but the organization had no disaster, recovery, business continuity or emergency preparedness plan, she told attendees of the Risk & Insurance Management Society Inc.'s 2008 annual conference in San Diego.

"Starting with avian flu is like starting at Z when we need to start at A," Ms. Langston said. That led to Xanterra's comprehensive white paper on how to manage a crisis, she said.

Omni's pandemic plan has differ-

Continued on next page

Hotel risk managers prepare for everything

Hotel risk managers face a myriad of crisis exposures, although the nature of some risks has evolved.



AP PHOTOS
The Omni Hotel in the CNN Center sustained damage from a tornado that struck Atlanta earlier this year.

Security is a major issue that encompasses risks from theft to workplace violence to terrorism.

"You kind of have to prepare for anything," said Mel Bangs, director of risk management for Irving, Texas-based Omni Hotels Corp.

Since the Sept. 11, 2001, terrorist attacks, there has been a merging of safety/loss control and security functions to manage the evolving risk, said Thomas Dondero, assistant vp and manager of excess and surplus risk control services for Westport Insurance Corp. in Andover, N.J. "In the past, video cameras used to be used more for theft prevention," he said. "Now they are used for security of guests and employees."

Reputational risk, meanwhile, has become a major issue because terrorism, disease outbreaks or fires can damage a hotel's good name, said Brian Ruane, executive vp, director of the real estate and hotel practice group of Willis Group Holdings Ltd. in New York. "When something happens, it's front-page

news," he said. "You have to protect the brand."

Fireman's Fund Insurance Co. offers an enhancement to its property policy to provide crisis management coverage for reputational risk. The policy covers reasonable fees of public relations professionals hired to respond if the hotel owner's brand suffers negative publicity.

While the coverage is useful, having a plan to mitigate such a risk before there is a crisis may be a factor in insurance rates, said John Braschi, product director for commercial business for Fireman's Fund in Novato, Calif. For example, a hotel should know what public relations firm to use to take control of the flow of information to the media.

"Having the insurance is OK, but without the planning, it really doesn't matter," Mr. Braschi said. "We reward them for having that plan because it's so important."

—By Gloria Gonzalez



LANDOV

In January, a roof fire charred the top of the Monte Carlo in Las Vegas, which temporarily closed the hotel for three weeks. According to the hotel, there were no serious injuries.

Violence: Electronic threats grow among forms of workplace bullying

CONTINUED FROM PREVIOUS PAGE

lence prevention.

Oak Brook, Ill.-based Advocate Health Care Network has a policy against workplace violence, but also is developing a response plan for a possible shooting or hostage incident that is part of its emergency preparedness and business continuity planning, said Scott H. Beckman, Advocate's vp of risk management and insurance.

Mr. Beckman said Advocate hopes to have the plan in place by fall.

Other violence such as threats, harassment, assaults and rapes also remain a workplace problem, according to the National Institute for Occupational Safety and Health. In a 2006 survey, NIOSH said near-

ly 5% of U.S. businesses had an incident of workplace violence in the previous 12 months.

Perpetrators have included criminals, co-workers, customers and spouses. Their acts caused lingering fear among employees and reduced morale, NIOSH reported.

Employers also face financial consequences from lawsuits filed by victims and their families for workplace violence.

"The general trend of the law in this area...is to hold employers accountable," said Randy Coffey, a partner in the Kansas City, Mo., office of Fisher & Phillips L.L.P., which specializes in labor and employment law.

While workplace homicides have declined, intimidation and bullying through electronic means is increas-

ing, several experts agree.

"What we are seeing now, in the last five years, is more techno-

'The general trend of law in this area...is to hold employers accountable.'

Randy Coffey, Fisher & Phillips L.L.P.

logical kinds of nastiness and incidents of behavioral problems in the workplace," said Kenneth P. Baker, vp and violent crime consultant in Manassas, Va., for Academy Group Inc., a forensic behavioral sciences company.

The problematic behavior includes phone and text message threats, said Mr. Baker, who helps employers identify senders of and assess the danger level presented by anonymous threats.

Electronic threats are made against co-workers, supervisors and even company property, he said. The senders often are dissatisfied with certain workplace policies, job changes or facility closures, and their behavior can be a tip-off of worse actions to come.

About 85% of workplace violence perpetrators telegraph warning signs, Ms. Reiley said. They may first engage in "verbal blowing off," or make threats that are not directed at any person in particular, Ms. Reiley said. That behavior may escalate into stalking,

threats, harassing telephone calls and text messages directed at specific individuals. Finally, they act out.

Often, individuals who commit workplace violence are facing stressful, "deteriorating factors in their personal lives," such as the illness or death of a spouse, Mr. Baker said.

As part of a prevention plan, employees should be trained to alert management if a co-worker engages in abnormal behavior that includes threats of violence or the mention of weapons, experts say.

Interventions can include counseling, anger management classes or disciplinary action such as a termination handled with dignity, they add.

CONTINUED FROM PREVIOUS PAGE

heads and execute the disaster plan," she said.

Core elements of a hotel crisis management plan outline individual employees' responsibilities, including who will knock on doors to rouse sleeping guests, make announcements and contact the authorities, Ms. Bangs said.

Omni hotels practice their response plans twice a year and critique them to make necessary adjustments. "I think that's the foundation of any disaster plan," Ms. Bangs said.

Practice is important, but risk managers need to understand they will not get everything right during a crisis, Mr. Ewing said.

"You will make mistakes in a crisis," Mr. Ewing said.

ent responses depending on when and where the Centers for Disease Control and Prevention reports human-to-human transmission, Ms. Bangs said.

Natural catastrophes are another major concern, said Ms. Bangs, who dealt with the aftermath of an Atlanta tornado this year (see story, page 12).

"If you're going to run a business like ours, you have to have a disaster plan," Ms. Bangs said.

Hotel risk managers' crisis management plans may differ depending

'I think the biggest challenge in any crisis situation is whether the people in charge are going to keep their heads and execute the disaster plan.' Frequent practice and critique of disaster responses are 'the foundation of any disaster plan.'

Mel Bangs, Omni Hotels Corp.

on the disaster scenario, but the plans have certain core elements.

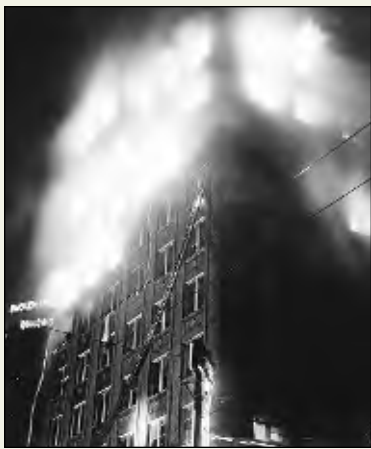
Having crisis management staff onsite at every hotel is critical to mitigating a crisis situation, risk managers say. "We have risk control managers at each of our properties and they are the lifeblood for my department," said Lance Ewing, vp-risk management at Harrah's Entertainment Inc. in Cordova, Tenn.

A central tenet of Xanterra's crisis management plan is choosing which employees will make crucial decisions ahead of a crisis and ensuring they keep that authority during the crisis.

For Ms. Langston, it was a lesson learned when she was a risk manager in Florida when Hurricanes Charley, Frances, Ivan and Jeanne slammed the state. During the aftermath, the previously identified decision-makers were cast aside and senior executives took over. "Talk about making the situation tough to manage," she said.

Xanterra's crisis management white paper clearly states that employees identified as key personnel in the crisis chain of command should be given complete authority within their designated duties. Getting senior executives to agree to that and reminding them of that agreement when an incident occurs helps ensure that the crisis management plan actually works. "It's been a tool that's been very effective for me," Ms. Langston said.

Disaster response can be tricky even if employees are designated ahead of time, Ms. Bangs said. "I think the biggest challenge in any crisis situation is whether the people in charge are going to keep their



A 1946 blaze at the Winecoff, once touted as "absolutely fireproof," remains the deadliest U.S. hotel fire.

ON FIRE

Fire is the top risk for hotel risk managers. The five deadliest hotel fires in U.S. history:

Hotel	City	Date	Deaths
Winecoff Hotel*	Atlanta	December 1946	119
Dupont Plaza	San Juan, Puerto Rico	December 1986	97
MGM Grand Hotel	Las Vegas	November 1980	85
LaSalle Hotel	Chicago	June 1946	61
Gulf Motel	Houston	September 1943	54

*Cause of the Winecoff fire remains uncertain, but arson was suspected.
Source: National Fire Protection Assn., government reports

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Questions & Answers



Jonathan Bernstein, president of consultancy at Bernstein Crisis Management Inc. in Sierra Madre, Calif., which provides crisis response, prevention, planning and training services to organizations, spoke to Business Insurance New York Bureau Chief Gloria Gonzalez about reputational risk and critical risk management initiatives to minimize the exposure.

Preparedness can minimize reputational risks

Q: What are the key components of reputational risk?

The most critical component of risk is preparedness. If you have done the right kind of vulnerability assessment up front to really know what your risks are and taken steps to ensure that you have a system in place for rapid response, then you will avoid some types of crisis altogether and minimize damage from others.

Q: In your experience, what types of events have you seen that have created the biggest reputational issues for organizations?

Probably one of the biggest is any situation where you're perceived to have covered up the truth. Certainly, Arthur Andersen and the whole death of that organization was one of the biggest examples in modern history. They went out of business in the court of public opinion. They didn't go out of business in the court of law. And it was strictly a reputation issue that wiped out an international organization. The perception was that they were trying to cover up the truth.

The other is profit-motivated shortcuts in the operational process. If in order to make more money, for example, people are sourcing product to China, to cite an example

that's painfully well-known, and you haven't done everything possible to make sure that your China sources are reliable, you end up paying the price when they prove to be unreliable, whether you're talking about toys or whether you're talking about food.



Listen to the full interview with Jonathan Bernstein at

www.BusinessInsurance.com

Q: Are there particular types of companies that are more vulnerable to reputational risk than others?

I think any company that has products or services that directly affect the health and welfare of human beings and the potential for in any way of harming them or their loved ones, people they care about, have a higher risk because there's nothing that people react more strongly to than having their health and welfare threatened.

Q: What should companies do before, during and after a crisis to minimize reputational risk?

The first thing they need to do is a vulnerability assessment before a crisis ever occurs—

essentially it's like a full-body scan for an organization—of every single division of the organization. The question needs to be asked where could we have a situation exist within these different operational areas that has the potential for turning into a reputation risk. And then all of those possibilities need to be brought to the table for a discussion of "OK, how can we mitigate any of these before they ever occur?"

Then you have to undergo training and actually should do some simulation, some actual testing of the systems to make sure that they work when you come into a real situation. And if you've done all of that in advance, you're going to really minimize risk because it doesn't matter if you're insured against it. That might cover your inventory losses or short-term losses, but insurance won't cover reputation.

Q: What is the risk manager's role in minimizing reputation risk?

Good risk managers have already done a fair amount of vulnerability assessment and preparedness and mitigation and the work that they've already done becomes a building block of the comprehensive crisis preparedness process that an organization should go through.

Regulatory investigation response plans key to staying afloat

Companywide communication strategy is essential to withstanding a possible inquiry

By ROSEANNE WHITE GEISEL

Corporations should plan their response to a regulatory investigation before one begins, experts say.

Communication is the essential element that keeps the corporate ship from running aground as a result of a regulatory investigation. To be effective and build teamwork amid an investigation, the plan should reflect the insights of people from all areas of the company.

If an investigation does happen, getting information to the proper people in the company and responding quickly to regulators can lead to a less adversarial relationship with investigators, experts say.

But knowing exactly what to do if your company receives notice of a federal or state investigation is actually phase two of a survival strategy. Phase one is staying abreast of legal and regulatory information affecting the industry so a governmental action doesn't come as a surprise.

In fact, 70.5% of in-house counsel responding to a 2007 survey by the Bellevue, Wash.-based Assn. of Corporate Counsel and Serengeti Law said for the third consecutive year that "keeping apprised of company activities that may have legal implications" is the most pressing issue.

Risk management perspective

The place to begin dealing with a possible regulatory investigation is from the risk management perspective, said Keith Krakaur, a New York-based senior partner in the white collar and government enforcement practice of Skadden, Arps, Slate, Meagher & Flom L.L.P.

A company should identify business areas that could raise regulatory eyebrows, and then plan to handle those risks and provide training, oversight and auditing to ensure the plan's effectiveness, he said.

Investigations that could be civil or criminal can be generated by a federal regulatory agency, such as

TOP TIPS

Ways companies can avoid and withstand regulatory investigations

- Stay alert to industry situations that could trigger investigations.
- Know where your company is vulnerable to regulatory scrutiny.
- Make a response plan that reflects companywide participation.
- Communicate information to the right people immediately.
- Respond quickly to regulators in a nonadversarial manner.
- Preserve relevant documents and electronic evidence.

Source: Industry experts

the Occupational Health and Safety Administration and the Securities and Exchange Commission, or a state agency. Civil investigations

also can lead to criminal investigations. The form of the investigation and how a company is notified of it depend on the regulatory agency.

For example, OSHA or a similar state agency may conduct unannounced inspections of manufacturing plants in a certain industry. On the other hand, an SEC investigation may require turning over extensive financial information.

Labor Finders International Inc. reviews its risks annually to protect the company's brand and clients' businesses, said Wayne Salen, director of risk management.

Although the Palm Beach Gardens, Fla.-based company is privately held, it places temporary workers in high-risk industrial jobs regulated by state or federal agencies. From environmental safety and health to franchise regulations, workers compensation and employment liability, the company faces many compliance issues.

"You have to look at your allocation of resources so you have the

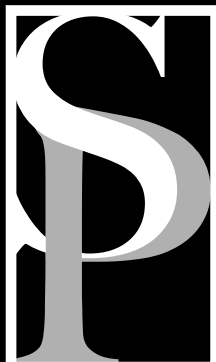
ability to move in a heartbeat," said Mr. Salen of a company's response to a regulatory investigation.

One of the biggest lessons Mr. Salen has learned "is the need to stay on top of things" internally and externally. "Be in tune with (your company's) department heads," he said. "When something does surface, talk it through to make sure you're not missing anything. If there are red flags, you have to make a decision, even if it means dropping a client. The risk manager isn't confined to dealing with claims after the fact. We have a good bead on what's going on."

Because workers comp costs greatly affect profitability of the temporary staffing company, Mr. Salen uses software to monitor workers comp activity in all 50 states daily and almost always finds essential information.

Also high among Mr. Salen's con-

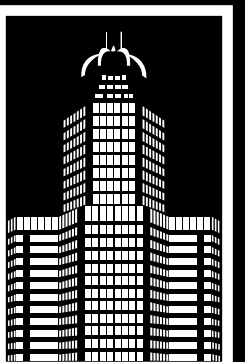
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CONTINUED FROM PREVIOUS PAGE

cerns is how OSHA treats co-employers in terms of liability, because Labor Finders' value is to be the primary employer and take the lion's share of employment responsibilities. "It's our lifeblood to ensure the delineation between the two" employers, Mr. Salen said.

To avoid getting caught off guard by a regulatory investigation, Mr. Salen suggests that companies stay aware of what competitors are doing, because "a bad player can generate legislative activity or a look-see by regulators."

Taking proper steps

If there is a formal regulatory investigation, heed the Hippocratic

Oath taken by doctors and, "First, do no harm," said David Douglass, a Washington-based partner and co-chair of the government enforcement practice at Shook, Hardy & Bacon L.L.P. "Make sure the subpoena or request for information gets to the right person."

"Preserve likely evidence," Mr. Douglass said. That means placing so-called "litigation holds" that forbid destruction of documents and directing staff to save all electronic information, he said.

Once the directive to preserve evidence has been disseminated, it is time to analyze the facts, begin an internal investigation and contact the investigating agency, Mr. Douglass said.

Labor Finders' Mr. Salen agrees.

Approach investigators with the attitude, "We can accomplish this without going to battle," he said.

'Investigations don't go away, and they generally get worse rather than better.'

David Douglass,
Shook, Hardy & Bacon L.L.P.

"The (company's) general counsel should be brought into the loop as quickly as possible," Skadden

Arps' Mr. Krakaur said. "You probably need to bring in outside counsel, depending upon the nature of the problem. You need someone who knows how to manage government relationships."

The advantage of outside counsel is to "investigate within the protection of the attorney-client relationship so the company can properly assess what the exposure is. Counsel must interview relevant employees to find out what happened, analyze the facts and see what laws, if any, have been broken," Mr. Krakaur said.

Careful documentation of company activities is important, so officials can show regulators the steps being taken to avoid noncompliance, he said.

"You have to keep your lines of analysis clear" during the investigation, Mr. Douglass said. Officers' and executives' self-interest must be separate from corporate interests, he said. "The obligation is to shareholders," he said.

Stakeholder communications

While publicly traded companies "face a host of restrictions in communicating with their external audiences," it's important to reach out to all stakeholders, Mr. Douglass said. "The company must develop a plan for communicating information appropriately and accurately."

"Investigations don't go away, and they generally get worse rather than better," Mr. Douglass said.



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Products & Services

Integro launches model to assess excess programs

NEW YORK—Integro Insurance Brokers has introduced XS Plus, an analytical model to establish more precise values for layers of excess liability coverage.

The model, the latest tool in the IntegroMetrics product line, uses company-specific data and actuarial simulations to help users quantify the value and evaluate the efficiency of an excess liability program.

XS Plus, or Program Limit and Underlying Structure, can be applied to any coverage that requires multiple excess layers, such as liability, which includes directors and officers and errors and omissions; health care; property; aviation; and marine. XS Plus can be

purchased as stand-alone coverage or as part of a broader program.

For more information, contact Jonathan Zaffino, managing principal and casualty practice leader, at 212-295-5345 or via e-mail at jonathan.zaffino@integrogroupp.com.

FM Global opens access to engineering guidelines

JOHNSTON, R.I.—Factory Mutual Insurance Co., which does business as FM Global, is making its property loss prevention engineering guidelines available for free through its Web site, .

According to the company, the data, based on scientific research and its nearly 170 years of loss prevention experience, provides large-scale businesses, facility and risk managers, architects, consultants and contractors a tool to help prevent property damage and maintain business continuity due to threats from fire, weather, and electrical or mechanical failure.

Topics include: boilers and heating equipment, construction, electrical, extinguishing equipment,

hazards, human factors, pressure vessels, mechanical, sprinklers, storage, system instrumentation and control, water supply and welding.

FM Global said its decision to make the data available for free reflects the interdependence and globalization of business.

For more information or to sign up for the free data sheets, go to www.fmglobaldatasheets.com.

Zurich offers coverage for product withdrawals

SCHAUMBURG, Ill.—Zurich Financial Services Group's North America Commercial division has enhanced its commercial general liability policies to cover expenses related to product withdrawals.

The coverage protects manufacturers and distributors in voluntary or government-mandated withdrawal of products.

The enhancement provides repayment of expenses directly related to the costs of withdrawing a defective product that could cause bodily harm or injury, including

withdrawal notification; materials and production of withdrawal announcements; transportation, shipping and packaging; warehouse or storage space; and proper disposal.

Limits are \$5 million and exclude aircraft, auto, chemical, and pharmaceutical manufacturers and distributors.

For more information, contact Bruce Spencer, executive vp at Zurich Specialties' Casualty Group, at 866-860-7292.

NAS covers network security

ENCINO, Calif.—NAS Insurance Services Inc. has introduced NetGuard Plus to protect organizations against a range of network-related exposures.

The coverage includes network security liability insurance, which protects against allegations of breach of privacy, identity theft, libel, slander and defamation.

In addition, the policy provides government investigation defense cost insurance for investigations into privacy violations, including regulatory fines and penalties.

The policy also provides first-party coverage for data recovery and customer notification costs for privacy breach and rogue employee claims, with limits up to \$5 million.

The minimum self-insured retention is \$2,500 and the minimum premium is \$1,250.

For more information, contact

Sandra Casas, underwriter, at 818-808-4476 or scasas@nasinsurance.com.

Hartford enhances LTD offering for physicians

SIMSBURY, Conn.—Hartford Financial Services Group Inc. has enhanced its group long-term disability insurance for physicians by adding two benefits to help protect their earnings should they suffer a progressive disability.

The coverage is available to medical practices with at least three professionals and offers benefits of up to \$15,000 per month.

The Progressive Illness benefit protects physicians and other employees within a medical practice if their income decreases due to a progressive, debilitating illness or condition, such as arthritis.

The Accidental Dismemberment and Loss of Sight benefit provides coverage in the event of an accidental loss of sight or limb, even if the policyholder is able to continue working in his or her chosen specialty. If the policyholder dies while a claim is pending, any remaining benefit is paid to a survivor.

In addition, Hartford's group coverage is convertible to a disability policy that doctors can take with them if they leave a practice.

For more information on the coverage provided by Hartford Life and Accident Insurance Co., a subsidiary of Hartford, contact Patricia Pfeifer, physician segment program manager, group disability, group life, at patricia.pfeifer1@hartfordlife.com.

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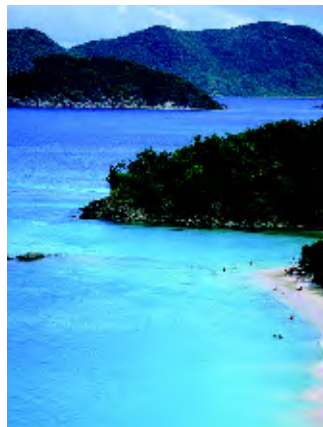
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Fireman's Fund unveils 'green' auto coverage

NOVATO, Calif.—Fireman's Fund Insurance Co. has introduced vehicle replacement coverage for commercial fleets that insures the full replacement cost of new vehicles should there be a total loss during the first three years of ownership.

Additionally, the coverage offers a "green" endorsement that enables policyholders to upgrade to a hybrid model or its equivalent.

Under the policy, commercial vehicles will be replaced with the most current make and model available, including similar equipment and options.

Both coverage enhancements apply without a deductible and include rental reimbursement up to \$3,500 in the event of a total loss.

For more information, contact Bob Steele, product director, commercial business, at robert.steele@ffic.com.

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International NEWS

Russian risk managers oppose unified standard

More education on risk management necessary

By RICHARD MILLER

MOSCOW—Russians are wary of a unified standard for risk management, preferring best practice guidelines or recommendations, according to risk experts in the country.

"Senior risk managers, if they need something, it is general guidance based on best practice experience," said Nadezhda Nosova, managing partner at Korna Risk Management in Moscow, and vp of the Russian Risk Management Society.

At a lower corporate level, however, "specific standards or detailed guidance could be a great help," Ms. Nosova added.

Still, due to the limited experience with risk management practices in Russia, there needs to be more education before companies can even appreciate best practices, she said.

Risk management standards were a topic of a panel discussion at last month's RusRisk conference in Moscow.

"We are learning, and thus one of RusRisk's main goals is education and to popularize risk management," said Ms. Nosova, who is also a member of the board of directors of the Federation of European Risk Management Assns. in Brussels, Belgium.

FERMA has raised concerns about the international standard being developed by the Geneva, Switzerland-based International Organization for Standardization, known as ISO 31000.

While the association sees the development of a standard as a chance to expand risk management guidelines, it is worried that a strict standard would reduce risk management to a check list. It also does not want the standard to lead to a risk management certification process.

On the panel discussion at the RusRisk conference, there were a number of participants who strongly opposed a strict standard.

Alexander Ruchkin, divisional director of risk management at

Willis CIS in Moscow, part of London-based Willis Group Holdings Ltd., said he opposed any obligatory standard. Russia should consider the development or adoption of a corporate governance code, similar to the code in the United Kingdom. The code would serve as general requirements to companies listed on the Russian stock exchange, he said.

Russian companies are looking for guidance in the risk management arena, noted Dmitri Dzhafarov, chief executive officer of Industrial Risk, a



Moscow hosted the RusRisk conference last month.

Moscow-based risk engineering firm. Industry may be best served with minimum standards, he said, although a European solution may not be an ideal match, considering the degree of Russian rules and regulations.

From an outsider's perspective, Gert Cruywagen, group risk manager at Sappi Ltd., a paper manufacturer in Braamfontein, South Africa, said that what needs to be standardized is the language of risk management, if not the practice.

"Terminology needs a standard because you need to understand each other. But it needs to be as wide as possible so that you can accommodate the various industries," he said.

Lassi Väisänen, chief risk officer at TeliaSonera Corp., a Helsinki-based telecommunications company and chairman of the Finnish Risk Management Assn., said that risk management cannot be standardized, since "it is a process."

European cat pool in the works

World Bank intends to increase insurance penetration

By RICHARD MILLER

SOFIA, Bulgaria—The World Bank is in the early stages of developing a regional catastrophe pool for South-eastern and Central Europe to give small to midsize businesses and homeowners access to private insurance for earthquakes and floods.

The objective is to increase catastrophe insurance penetration in countries that have recently joined or are expected to join the European Union where the insurance industry is still nascent, said Eugene Gurenko, lead insurance and risk management specialist at the World Bank, based in Washington.

"It is really about how to drive primary insurance penetration through market means without government subsidies or government distortion of the market," said Mr. Gurenko.

If all goes as planned, the pool—formally referred to as the Catastrophe Risk Insurance Facility—could be established by the end of this year and operational by early 2009.

The World Bank needs at least three countries to participate, Mr. Gurenko said. Albania, a potential candidate for E.U. accession, has already signed up. The World Bank plans to start discussions with Croatia, a candidate for accession to the European Union, in a few months.

Mr. Gurenko outlined the concept to government officials and insurance industry representatives at a World Bank event held in Borovets, Bulgaria late last month. Bulgaria joined the European Union in 2007. In response to the proposal, there has been both support and skepticism, with some doubts coming from the country's risk management association.

"In general, it is not going to solve any local problem because reinsurance capacity is not the most important thing that is missing," said Stoian Lilov, chief executive officer of the Bulgarian Risk Management Assn. in Sofia, who attended the meeting.

"We find it hard to understand the proposed solution, which basically is the creation of a regional reinsurance company," said Mr. Lilov, who also serves as risk and insurance manager at Bulgarian Telecommunications Co.

"The market certainly sees no need for one more such company, as the difficulties lie not in placing the risk, but in working out the scheme on a national level, obtain-

ing consensus from all parties concerned, and acting boldly in the interest of the communities against narrow-minded political thinking," he added.

Bulgaria has been considering options for a natural catastrophe insurance program. One option, modeled after a proposed program in neighboring Romania, would make it compulsory for homeowners—although not businesses—to buy catastrophe coverage.

The World Bank's regional pool concept is designed to get around the political hurdles of approving a compulsory insurance program, experts note. In Romania, where the World Bank has worked since 2000 to help develop the catastrophe program, the law to establish the program has still not passed Parliament—and may not until elections are over later this year.

It is politically difficult to make insurance compulsory in any country, said Mr. Gurenko. Even if it is made compulsory, a small country may not offer enough diversity of risk to make the program workable, he explained.

"We (at the World Bank) said, 'Look, instead of struggling to do that, why don't we think of a regional method approach, whereby we create the regional pool which countries join. The pool then will effectively offer catastrophe reinsurance coverage to primary insurance companies participating in the program,'" he said.

For small to midsize companies, the coverage will include material damages to business premises,



LANDOV

Bulgaria is considering options for a natural catastrophe insurance program. In 2006, Bulgaria suffered losses after the Danube River floods.

equipment, and business interruption. For homeowners, the pool will provide cover for material damage caused by earthquakes and floods.

The pool would decide the pricing and underwriting guidelines for the products, Mr. Gurenko said. Primary insurers in the local markets would sell the policies and the risks would be transferred to the pool, which would then, in turn, transfer about 90% of the risk to the reinsurance market. Over time, as the pool builds up reserves, it can offer better terms to participating companies, he added.

The World Bank believes insurance penetration rates could be raised in the pool countries to about 20% in the next five years, as opposed to 2% to 3% of houses being insured today, Mr. Gurenko said.

CCRIF members renew policies

KINGSTON, Jamaica—All 16 members of the Caribbean Catastrophe Risk Insurance Facility have renewed their 2008 policies June 1, according to the facility.

Participating in the CCRIF allows the Caribbean countries to pool their risks into a single, larger and more diversified portfolio (*BI*, March 5, 2007). The facility was established by the World Bank after the area suffered consecutive devastating hurricane seasons in 2004 and 2005.

The facility also noted in a statement that it has secured \$132.5 million in reinsurance coverage for participants' hurricane and earthquake risks.

Participating governments are Anguilla, Antigua and Barbuda, Bahamas, Barbados, Belize, Bermuda, Cayman Islands, Dominica, Grenada, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago, and Turks and Caicos Islands.

—By Jeff Casale

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Commentary

Political reality stops potentially great show

One of the nice things about Washington is that it's hard to go through a single day without running into something that's perversely amusing, infuriating, maddening or some combination of the three.

It's one of the most entertaining places on the planet, with a mix of high drama, low comedy and high jinks among the standard fare. Some of it's intentional, but the unintentional stuff is generally more amusing, such as when it turns out that a staunch congressional defender of family values apparently values families so much that he has more than one.

But sometimes the intentional stuff can be quite amusing as well. A few weeks ago, some House Republicans came up with a sure-fire way to amuse—and perhaps instruct—the American people via the hearing room.

House Minority Leader John Boehner, R-Ohio, and Rep. Lamar Smith, R-Texas, the House Judiciary Committee's ranking member, sent a letter to Judiciary Committee Chairman John Conyers, D-Mich. Noting that famed plaintiffs' lawyer William Lerach of the now-defunct law firm Milberg Weiss L.L.P. was slated to begin his federal prison sentence for criminal conspiracy on May 19, the congressmen asked Rep. Conyers to schedule a hearing by that date to uncover whether the types of conduct in which Mr. Lerach engaged were indeed "industry practice" as Mr. Lerach told a reporter from the Wall Street Journal.

It was easy to recognize that this request had more than a whiff of politics about it. After all, plaintiff lawyers as a group comprise one of the deepest of deep pockets for Democratic candidates in search of campaign contributions. There is nothing any more wrong about that than there is about the business community traditionally contributing heavily to Republican candidates.

Reps. Boehner and Smith didn't attempt to hide their hand, writing that if the "crimes committed by Mr. Lerach and his colleagues are an 'industry practice' as Mr. Lerach himself has confessed, then the United States Congress is sitting idle while criminal behavior in the trial lawyer industry threatens American jobs and feeds like a parasite on the prosperity of working families. The American people deserve answers."

That's strong language, which—as expected—drew no



MARK A. HOFMANN

Senior Editor Mark A. Hofmann can be reached at: mhofmann@businessinsurance.com

formal response.

The odds of a Democratic-controlled Judiciary Committee holding a hearing into the practices of members of the plaintiff's bar are roughly the same as me being named starting quarterback for the Philadelphia Eagles, i.e., none.

And that's a shame. Imagine the spectacle of high-flying class action wizards subjected to the same line of questioning as oil company executives. Except this

For a few hours, the hearing would be among the greatest shows on earth.

would be even more spectacular than the oil inquiry simply because of the characters involved.

The combination of career politicians and canny lawyers would guarantee that rhetoric of the very highest order would be the order of the day. Fulmination and righteous indignation would fill the hearing room. We're talking a potential for Academy Award-worthy material here.

For a few hours, the hearing would be among the greatest shows on earth. If the right question were indeed asked—"Is engaging in illegal practices indeed an industry practice?"—the hearing could be quite educational as well. I'm sure some witnesses might demand immunity before appearing.

But the odds are we'll never get to hear answers to those kinds of questions. There's too much opportunity for political and personal embarrassment, even in a city not known for its sense of shame.

Disappointing as it may be, this is one political circus that's not coming to town.

PRIMA: City learns grim lesson from fire

CONTINUED FROM PAGE 4

17,000 square foot concrete-block structure that the store used as its main showroom. After buying the property from a grocery chain in the 1990s, the store added 7,000 square foot metal structures to the east and west ends of the main structure.

It later added a 15,000 square foot warehouse in the back of the property, and the concrete passageway between the buildings was eventually enclosed and became a break room where employees smoked. Investigators found that the fire ignited in some trash in that area, but no employee admitted smoking that day, Mr. Austin said.

Loading docks constructed of treated wood also had been added in that area.

Much of the construction work was completed without obtaining proper permits, Mr. Austin noted.

Complicating the fire scene, near the break room, the facility had stored 30 gallons of inflammable material used in onsite paint spray and upholstery treatment operations, Mr. Austin said.

Within three minutes of the fire being reported, Charleston firefighters were at the scene. As they began battling the fire near the loading dock area, they saw that the fire had

moved inside the structure.

Other firefighters then entered through the front doors of the main showroom, which was nearly free of smoke except near a rear door that opened into the break room. Firefighters opened the door but then could not close it, which allowed smoke to fill the showroom.

The scene quickly deteriorated into frustration and confusion, Mr. Austin said.

Several factors delayed firefighters' efforts to extinguish the fire. They discovered that the city recently had moved—without notice—a fire hydrant that firefighters thought was nearby. There were other hydrants farther down the road, but reaching them delayed the firefighters' efforts, and the added distance diminished water pressure.

Exacerbating that problem was the lack of a sprinkler system at the facility, a violation of the city's fire code that had not been detected because of a change in the municipal code that eliminated sprinkler inspections, Mr. Austin said.

Meanwhile, visibility in the store had dropped to nearly zero because of the smoke, and not all firefighters had air tanks, since department policy did not mandate their use. Controlling the fire became more difficult because of the facility's lack of fire walls and because fire doors did not function.

The scene grew increasingly chaotic, as some firefighters had to break away from the blaze to search for a trapped employee who had called 911 for help and other firefighters became disoriented in the smoke and lost contact with their hoses after tripping over furniture trying to escape. Their only way out was through the front door; the fire exits had been padlocked near closing time on orders from the store's owner to prevent break-ins during the night, Mr. Austin said.

Fire inspectors never saw that dangerous condition during their morning inspections, he said.

An independent report the city commissioned on the fire also noted that inspections were irregular and that firefighters were not trained to recognize code violations during pre-fire planning visits.

All the firefighters were in radio contact, but the department at that time had a single-channel system. In addition, department policy was to communicate in so-called 10 codes

MANAGING INCIDENTS

The independent commission's report recommendations for the Charleston Fire Department:

- A clearly identified incident commander, performing a standard set of functions.
- Establishment of a fixed command post in a location that allows the incident commander to view the overall incident scene.
- Delegation of authority and responsibility to subordinate officers with predefined roles within a standard structure.
- Determination of an overall strategy for the incident, based on an appropriate (evaluation).
- The application of accepted risk management principles at the start of the incident and continually thereafter, at all levels.
- Translation of the strategy into an incident action plan and specific tactical assignments.
- Management and allocation of resources to accomplish the tactical assignments.
- Assignment of one or more designated safety officers, functioning within the command structure.
- Maintenance of control over the incident communications process.
- Continual systematic accountability for the location, function, and status of all firefighters and all other persons operating within hazardous areas at the incident scene.

The full report is available at www.charlestoncity.info.

rather than in plain language, Mr. Austin said. As a result, communicating with firefighters and understanding their transmissions was extremely difficult, he said.

Another problem was that the incident commander became involved in fighting the fire rather than directing efforts from a command center and did not hear much, if any, of the communication, Mr. Austin noted.

A flashover, or the near simultaneous ignition of all combustible material at the site, occurred around a half hour after firefighters arrived and consumed the structure. By then, the nine firefighters who had become lost in the facility had died, investigations determined. Firefighters, though, rescued the trapped employee.

1,100 attend conference

ANAHEIM, Calif.—More than 1,100 risk management and benefits officials for public entities attended the Public Risk Management Assn.'s annual conference, held in Anaheim, Calif., June 1-4.

Dozens of risk and benefits professionals conducted 81 educational sessions, with topics including police and fire risks, enterprise risk management, fraud prevention and detection, benefits liability accounting and wellness programs.

PRIMA's next annual conference is scheduled for May 31-June 3, 2009, at the Hilton Anatole hotel in Dallas.

—By Dave Lenckus

Challenges: Regional brokers pressured

CONTINUED FROM PAGE 4

offices in California, also is considering consolidating certain service functions.

Because brokers operate in a competitive industry, today's challenge is to improve client services while managing costs, said Mike Sicard, chairman, president and CEO of USI Holdings Corp. in Briarcliff Manor, N.Y.

USI, ranked by *BI* as the 9th-largest broker of U.S. business in 2007, also is examining ways to reduce overhead, implement new

technology and manage talent.

"We can't control the revenue, but we can control the expenses," said Mr. Sicard, another panelist.

A diverse business portfolio is providing some insulation from the soft market. For Hub, 22% of its revenue comes from North American personal lines business while 30% is generated from commercial business in the Canadian market, Mr. Hughes said.

"The Canadian market is much more stable right now and we will continue to look for opportunities there," Mr. Hughes said.

Historically, market consolidation has been a key growth opportunity for large brokers. However, "We don't necessarily view mergers and acquisitions as a way to alleviate the economic slump," Mr. Hughes said.

Hub has completed more than 175 acquisitions in the past nine years, growing brokerage revenue from \$38 million in 1999 to some \$700 million today.

"M&As help to expand our offerings, but we still have to focus on managing the business organically," Mr. Hughes said.

Health insurance sector behind in member satisfaction: Survey

By GLORIA GONZALEZ

NEW YORK—CIGNA Corp. plan members are more satisfied with their insurer's performance than members of other national health plans, but health insurers generally performed poorly on customer service issues compared with other industries, according to a recent survey.

The Philadelphia-based insurer achieved a score of 732 out of a possible 1,000 on a survey measuring satisfaction levels of members of national health plans. The survey was conducted by J.D. Power & Associates.

CIGNA achieved the highest ranking due to stability in its membership base and a higher percentage of large employer clients. Those members tend to be more satisfied with their plans, the survey said.

Humana Inc. achieved the next highest score at 729, while Well-Point Inc. scored a 722. UnitedHealth Group Inc. unit UnitedHealthcare and Aetna Inc. both achieved scores of 713, according to the survey.

"Even the best plans have a lot of work to do," Jim Dougherty, health care practice leader for J.D. Power in Eden Prairie, Minn., told attendees of the S&P Health Insurance 2008 conference earlier this month.

Aetna tied for the lowest score among national plans mainly due to an influx of new members, he said. "One of the side effects of gaining new business is that you will have some dissatisfied members for a while," Mr. Dougherty said.

UnitedHealth's low satisfaction level was driven by lingering integration problems related to its 2005 acquisition of PacifiCare Health Systems Inc., he said.

The health insurance sector achieved an average score of 729, well below the high scores of 781 achieved by the auto insurance and hospital sectors, which ranked highest among the 14 industries surveyed.

J.D. Power discovered a high level of "ignorance" in the health insurance industry about satisfaction, Mr. Dougherty said. Satisfaction is important for health plans because members who are satisfied

with their plans are more likely to renew or recommend their plans, he said.

For example, 62% of members expressing high satisfaction with their plans said they would definitely renew their plans and 41% said they would definitely recommend the plans. Meanwhile, 54% of members expressing moderate satisfaction said they would definitely renew and 35% said they would definitely recommend the plan. In contrast, 50% of members that expressed low satisfaction with their health plans said they would definitely renew while only 30% said they would definitely

recommend it to others.

The survey showed that 55% of health plan members do not fully understand how their plan works. Members who received communica-



tions from their plans on a monthly basis demonstrated the highest satisfaction score of 760 while those who received one communication per year or none at all demonstrated the lowest satisfaction score of 682.

"Customers tell me (communication) is what's most important," Mr. Dougherty said. Health plans "are just not delivering it."

The type of communication health plans engage in with their members plays a key role in satisfaction levels, he said. Health plans that placed reminder calls for testing or preventive services achieved a high satisfaction rating of 787 while those that sent reminder e-mails scored a 774.

"You can tailor the information to improve satisfaction," he said.

J.D. Power surveyed more than 37,000 plan members in various

plans, with members in preferred provider organizations constituting the largest segment at more than 19,000 members. More than 24,000 members received coverage through an employer or union-sponsored plan and the rest were received coverage from the individual market, from a spouse's plan or from other sources.

The survey measured satisfaction with health plan performance on a variety of factors, including coverage levels, provider choice and information and communication.

More survey results are available at www.jdpower.com.



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A Business Insurance Spotlight Report

Publishing: July 21, 2008

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S&P meetings draw over 500

NEW YORK—About 450 people attended Standard & Poor's 24th annual Insurance 2008 conference, Operating Within a Global Economy in New York June 1-3.

About 60 people attended the S&P Health Insurance 2008 conference, Retailing to the Health Care Consumer in New York on June 4.

Dates have not been finalized for next year's event. For more information, visit www.standardandpoors.com.

—By Gloria Gonzalez

Cranes: Rash of deadly accidents underscores need for improvements

CONTINUED FROM PAGE 1

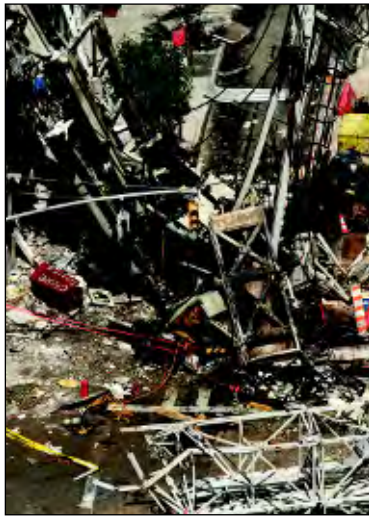
Washington. "Cranes have gotten more sophisticated. The standards have to reflect the progress that has been made."

Mr. Russell said even though updated standards won't eliminate crane accidents, they will improve safety and reduce fatalities and injuries.

That's important for an inherently dangerous business such as crane operation, said Marty O'Brien, president of Pittsburgh-based Allied Insurance Brokers, which provides crane insurance and risk management services.

"Any time you have a piece of equipment like that involved in a claim, you have the potential for very serious damages," he said.

Operating cranes, especially tower cranes like those in the recent slew of fatal accidents, takes great skill, experts say. Such cranes are mounted atop tall structures and operators cannot see the loads they are lifting. They rely on other workers' signals and communication to



Several crane collapses over the past few months have some pushing for stricter operating rules.

execute lifts. And errors can be deadly.

Despite the recent wave of accidents, however, crane-related fatalities nationwide have fallen by 25% in the last decade, from 97 deaths in 1997 to 72 deaths in 2006, according to the Bureau of Labor Statistics, which is the most recent data available.

Joel Dandrea, executive vp and CEO of Specialized Carriers & Rigging Assn. in Fairfax, Va., said crane accidents are relatively uncommon, considering the number of cranes operating every day. Approximately 3,000 tower cranes make more than 100,000 lifts a day throughout the United States, he said, noting that his organization surveyed its more than 1,300 members and other industry leaders to derive those statistics.

When tower crane accidents do happen, though, they are typically severe, which is why they garner so much attention, he said.

Need for standards

Industry experts say quality crane operation standards are critical to reducing accidents.

Currently, 15 states and six cities have specific licensing requirements for crane operators (see box), and they mandate that crane operators be certified.

Most jurisdictions, however, consider crane operations a federal matter, overseen by the Occupational Safety and Health Administration, said Bruce Whitten, secretary and treasurer of Fred's Crane Service Inc. in Orlando, Fla., and chairman of the Florida Crane Owners' Council Inc.

The OSHA crane operation standards—implemented in 1971—are broad in scope, Mr. Whitten said, requiring a "competent person" to inspect equipment, recommending load capacities and operating speeds, and highlighting special

hazard warnings. They do not, however, require crane operators to be certified.

Some in the industry have been pushing for stricter standards—the Cranes and Derricks Negotiated Rulemaking Advisory Committee, approved modified standards in 2004—but the older regulations remain in place.

The modified standards are more detailed, Mr. Russell said. He served on the advisory committee, which consisted of industry experts and government officials, that recommended the changes. They specify, for example, who on a construction site is responsible for certain duties tied to crane operations; they address the oversight of crane assembly and disassembly; and they require crane operator certification. Mr. Russell said the proposed standards are a "one-stop shop" for crane safety guidelines.

"There is no comparison between the amount of information and guidance that is given in the new standards (vs.) the old standards," he said. "The industry has changed. The standards have to reflect the progress that has been made."

A spokeswoman for OSHA said the changes must go through a rigorous approval process, and they are currently being reviewed by the Department of Labor. She said updating the current standards is a top priority, and she expects the changes to be finalized by year's end.

SC&RA's Mr. Dandrea said OSHA has indicated before that the updated standards would be finalized within a particular time frame, but they never were. He said he understands the regulatory process is long and cumbersome, "but the delay is unacceptable."

Craig Steele, president and chief executive officer of Schuck & Sons Construction Co. Inc. in Glendale, Ariz., said most accidents result

from ignored standards rather than faulty standards.

For example, New York's lead crane inspector was arrested earlier this month for accepting bribes from crane companies. Neither of the recent New York accidents, however, has been tied to that scandal.

But despite the problem of rules being ignored, Mr. Steele, who also served on the advisory committee to revise the OSHA standards, said he thinks the revisions would result in fewer accidents.

Local changes

Mr. Whitten said the recent spate of accidents might compel even more cities and states to implement stricter standards out of concerns that the OSHA rules won't be implemented soon.

"States are realizing something has to be done now," Mr. Whitten said. If they don't act, "it looks like to the rest of the world that we're a cowboy industry."

The crane accidents in March prompted Dallas building inspectors to visit construction sites that operate cranes. Inspectors wanted to ensure OSHA standards were being observed, said Raul Martinez, assistant director of building inspections in Dallas. He said the city plans to continue such inspections every six months. Officials haven't issued any policies or legislation to regulate crane activity.

Dallas' two recent accidents occurred after the inspections took place, though. Mr. Martinez declined to comment on last week's incidents.

The recent string of accidents also prompted emergency inspections in the District of Columbia, said a spokesman from the Department of Consumer and Regulatory Affairs. The district already has strict licensure requirements in place for crane operators, but the spokesman said the city wanted to calm residents'

STATES THAT LICENSE CRANE OPERATORS

California*	New Mexico*
Connecticut	New York
Hawaii*	Oregon
Massachusetts	Rhode Island
Minnesota*	Utah*
Montana*	Washington*
Nevada*	West Virginia*
New Jersey*	

CITIES THAT LICENSE CRANE OPERATORS

Chicago	New York City
Los Angeles	Omaha*
New Orleans*	Washington

*Require or recognize NCCCO certification
Source: National Commission for the Certification of Crane Operators

fears.

Miami-Dade County is trying to pass legislation that Mr. Whitten said would create the toughest crane operation standards in the nation, which would require that cranes meet the same stringent standards as permanent buildings, such as withstanding higher wind speeds.

Several industry organizations, including the Florida Crane Owners' Council, successfully got a temporary injunction placed on the legislation because they felt much of the language would lead to more problems than solutions.

Mr. Dandrea said reactive measures by state and local legislatures are no surprise and aren't unwarranted. However, a uniform national standard and requiring certification for crane operators is the better approach, he said.

"No one is looking for losses," Mr. Dandrea said. "No one is looking for adverse actions or equipment failures. It costs injuries, lives, dollars—and certainly no one wants that."

Trusts: New York mulls changes in workers compensation backstop

CONTINUED FROM PAGE 3

"We will handle our defaults, if there are any, and they should handle theirs," Mr. Perroots said. "But a group trust is just another form of insurance in our opinion and we will not support legislation that puts us both in the same boat."

The legislation is being developed through negotiations involving labor, business, regulators and lawmakers.

How to pay benefits owed by the defunct trusts has a pressing problem.

Under an agreement earlier this month, the SWCB will take over management of CRM claims. Regulators say CRM repeatedly failed to pay injured worker benefits in a timely fashion, failed to set adequate reserves and submitted false information.

Although CRM will surrender its third-party administration license in New York, it has not admitted any wrongdoing.

In addition to the seven trusts managed by CRM, the SWCB said it took over three other trusts in 2006 because they could not meet new regulatory standards. Outstanding

'Somehow some other people have had failures and our members should not be penalized.'

Richard Flaherty, First Cardinal L.L.C.

liabilities for the three trusts combined amount to tens of millions of dollars, an SWCB spokesman said.

Additionally, 2006 data showed about 20 trusts in New York were underfunded, or fell below the 90% level the SWCB prefers. While about half have improved their financial standing since then, the SWCB is concerned that two may have to be closed, Ms. Woods said.

Currently, 62 trusts operate across New York.

To help pay for failed trust liabilities, individually self-insured employers and financially sound group trusts have seen annual SWCB assessments climb from \$8 million to \$67 million over three years, said Ken Pokalsky, senior director of government affairs for the Business Council of New York State Inc. The Albany-based business group is participating in drafting the legislation aiming to fix the trust system.

The legislation's drafters also are considering providing the SWCB with greater authority to regulate trust managers, Ms. Woods said. State law gives the SWCB greater authority over trusts than it does over trust managers, she said.

The legislation could also allow the SWBC to obtain bond funding to immediately address a cash flow crisis, Ms. Woods said. That would ease some of the assessment burden on self-insured companies while giving the SWBC time to secure

money from members of failed trusts.

But attracting bond holders may require large self-insured employers to participate in that arrangement with the trusts, a move that would limit the autonomy self-insured employers might gain from group trusts, Ms. Woods said.

Yet creating separate guarantee funds is still possible, she said.

Meanwhile, 13 trusts managed by Latham, N.Y.-based First Cardinal L.L.C. are awaiting a court decision on arguments that the state does not have the authority to pass the liabilities of failed trusts on to them.

Assessments for the 13 trusts jumped from about \$140,000 a year ago to \$12 million, said Richard E. Honen, a partner at Phillips Lytle L.L.P. in Albany, which represents First Cardinal.

First Cardinal's group trusts have built up reserves by charging members market rates, said Richard Flaherty, president and chief executive officer for First Cardinal. It is unfair

to make groups pay for trusts that may have charged their participants below-market rates.

"Somehow some other people have had failures and our members should not be penalized," Mr. Flaherty said.

ADVERTISER	
INDEX	
Issue of June 16	
ADVERTISER	PAGE #
Ace Insurance Group	5
AIG Corporate	24
Allianz Global Corp	11
American Institute for CPCU	6
Aon Corporation	2
Brownard Programs	16
Business Insurance	15, 19
Liberty International Underwriters	7
Old Republic Risk Management	13
Siesko Partners, LLC	14

Willis: Buyout expected to be positive for both brokers and clients

CONTINUED FROM PAGE 1

HRH, the ninth largest broker based on *Business Insurance's* 2007 ranking, collected between \$40 million and \$50 million in contingent commissions last year, and those commissions will be phased out over three years, according to Joe Plumeri, Willis' chairman and chief executive officer.

The deal is expected to close in the fourth quarter and would keep Willis in the No. 3 spot behind Aon.

It is also the largest buyout of one broker by another in several years, a period that has seen private equity firms emerge as major buyers. Last year's biggest takeovers included private equity buyouts of Hub International Ltd. for \$1.9 billion and USI Holdings Corp. for \$1.4 billion.

While Willis drew 30% of its total revenues from North America last year, that total increases to 45% for the combined companies on a pro-forma basis, according to Willis.

Employee benefits business, which Willis had been trying to expand before the deal, would double in North America and account for 13% of the combined compa-

nies' pro-forma revenues, up from 10% for Willis alone.

And, while Willis has handled more large risk management clients than HRH—with fees accounting for 35% of its 2007 revenues, compared with 15% for HRH—the deal will bring a big boost to Willis' middle-market client base.

Emphasizing the difference in the brokers' clients, Chuck Hamilton, an analyst with FTN Midwest Securities Corp. in Nashville, Tenn., noted that the average commission per client at Willis runs between \$30,000 and \$40,000 while average commission per client at HRH is about \$12,500, similar to that at competitor Brown & Brown Inc.

Willis will also be gaining HRH's wholesale operations, three years after its 2005 divestiture of Stewart Smith Group Inc. in the wake of the state investigations of brokerage industry compensation. HRH's wholesale business includes surplus lines broker Bliss & Glennon Inc.

\$40-50m

Range HRH collected in contingent commissions in 2007. Willis will phase out these commissions over the next three years.

and managing general agency operations that produced 9%, or about \$72 million, of its 2007 revenues.

The operations of the two brokers are complementary in several ways, the companies and market observers agree.

Of a combined 210 North American offices, Willis and HRH overlap in only 24 locations and have competed for relatively little of the same business, Mr. Plumeri said in conference call last week.

One insurer—which Mr. Plumeri did not name—is the largest market for both brokers, but the insurers used by Willis and HRH diverge after that, meaning that the acquisition “broadens our marketing capability,” he added.

Stock analysts and market observers generally agreed that the two brokers are a good fit, though the deal is still subject to the same potential pitfalls confronting any brokerage merger, they say.

One of these is retaining key producers at HRH who may prefer working at a smaller firm.

“Inevitably you are going to lose some good people in that process, and inevitably you are going to lose some business,” said Mark Dwelle, a senior vp and analyst with Ferris, Baker Watts Inc. in Richmond, Va. “Exactly how bad the hurts are, there’s really no way to tell” until the deal goes forward, he said.

Mr. Hamilton agreed there is a “significant” risk of producer defections, but that it remains to be seen how HRH employees weigh their options elsewhere against what they might gain in new opportunities at Willis HRH.

Mr. Wicher noted that similarities in the brokers' corporate cultures—including an emphasis on local service—could limit any losses. “I just

don't see a clash of cultures or a lot of reason to expect a lot of fallout,” he said.

In the conference call, Mr. Plumeri said Willis is working on a retention plan for HRH employees and said he would be “very surprised” at any significant loss of business.

Rating agencies and analysts have also expressed concerns about how property/casualty market conditions may affect the deal's success.

Even with the expansion of its employee benefit business, commercial P/C business still accounted for 71% of the combined companies' 2007 revenues, and a prolonged soft market could make it tougher for Willis to manage its acquisition-related debt, rating agencies and analysts say.

Moody's Investors Service, for example, said it expects to downgrade Willis' debt ratings one notch

in part because the risks of a “sizable leveraged transaction...are elevated by the general price softening in the property and casualty insurance market and the weak economy.”

On the other hand, if the market begins to tighten in 2009, as some expect, the deal's timing could prove excellent, observers note.

If the deal closes as scheduled by the end of the year and Willis takes six to nine months to integrate the operations, it would be ready to run at full speed by the end of 2009 as the market bottoms out, Mr. Dwelle said.

“It times out fairly well,” he said. “If they had done it a year ago, it may have been worse, and a year from now may have proven too late.”

“Willis could end up looking very smart if rates begin to tighten in mid-2009 or 2010,” Mr. Wicher agreed.

Willis HRH merger may boost other brokerage deals

NEW YORK—Brokerage industry mergers may accelerate in the wake of Willis Group Holdings Ltd.'s buyout of Hilb Rogal & Hobbs Co., but they are likely to be smaller deals, market observers predict.

Willis last week announced it will acquire HRH for \$2.1 billion in one of the largest brokerage mergers in recent years.

The deal will remove a major buyer of rival brokers from the market: HRH has grown rapidly by acquisition but the Willis HRH combination will be out of the acquisition business for now, said Willis Chief Executive Officer Joseph Plumeri.

“This is a massive combination...that will keep us busy for quite some time,” Mr. Plumeri said in a conference call last week.

Nevertheless, other brokerage industry aggregators, such as Arthur J. Gallagher & Co., Brown & Brown Inc. and BB&T Insurance Services Inc. will continue to make “bite-sized deals,” said John Wicher, principal of merger consultant John Wicher & Associates in San Francisco.

Midsized regional brokers that have competed with HRH are

likely to feel more pressure with HRH's addition of the geographic reach and product range that Willis will bring, suggested David Fox, managing director with consultant Greenwich Associates in Stamford, Conn.

“They would be the candidates” for buyouts, Mr. Fox said.

Bigger deals are less likely for a variety of reasons, observers said. Some of the top-tier brokers that could handle such a deal are preoccupied with other issues: Aon Corp., for example, is in the midst of an internal restructuring announced last year, noted Chuck Hamilton, an analyst with FTN Midwest Securities Corp. in Nashville, Tenn.

Large brokers that are potential acquisition targets also present problems, Mr. Wicher added. Brown & Brown, for instance, has a unique sales culture that might be difficult for a larger rival to absorb, he said.

Ultimately, the largest deals are likely to be buyouts of the big public brokers by even bigger financial services companies, Mr. Wicher said.

—By Douglas McLeod



‘This is a massive combination...that will keep us busy for quite some time.’

Joseph Plumeri, Willis Group Holdings Ltd.

Brokerage deal's leverage draws concerns on debt

NEW YORK—The \$2.1 billion deal in which Willis Group Holdings Ltd. would acquire middle-market brokerage Hilb Rogal & Hobbs Co. consists of a 50/50 combination of cash and Willis stock.

London-based Willis is financing the deal with \$2.25 billion of borrowing, and plans to buy back the roughly \$850 million in stock it will issue to HRH shareholders over the next 12 to 18 months.

Bank of America, which sold its insurance operations to Glen Allen, Va.-based HRH last year, is providing a \$1 billion credit facility and a \$1.25 billion bridge loan to finance the

transaction.

Concern about the increase in debt caused Standard & Poor's Corp. last week to drop Willis' counterparty credit rating to BBB-, S&P's lowest investment grade rating, from BBB. Moody's Investors Service and Fitch Ratings placed Willis' ratings under review.

Willis “is much more highly leveraged than most of its peers,” and debt servicing costs could become an issue if the soft market is more prolonged and severe than expected, said Chuck Hamilton, an analyst with FTN Midwest Securities Corp. in Nashville, Tenn.

—By Douglas McLeod

Punitive: Award to be reviewed again

CONTINUED FROM PAGE 3

damages, nonetheless, hailed the move.

“This is much more important than just a punitive damages case,” said Quentin Riegel, vp-litigation for the National Assn. of Manufacturers in Washington. “The issue is whether a state court can disobey the U.S. Supreme Court's order remanding the case and decide the case on state law grounds.”

“Not only did the Oregon court initially make a ruling that was unconstitutional, but then it made a ruling that ignored the decision by the Supreme Court,” Mr. Riegel said. “Virtually any issue that can be resolved under state law that may have some federal question involved could be subject to the same procedure.”

“This is really great news,” said Robin Conrad, executive vp of the Washington-based National Chamber Litigation Center Inc., which handles litigation for the U.S.

Chamber of Commerce. The court has sent a message to the lower courts that they can't thumb their noses at U.S. Supreme Court decisions.”

“The issue of refusing to follow the court's mandate is a big issue,” Ms. Conrad said. “It looked like the Oregon Supreme Court reached out to grab any reason not to follow what the Supreme Court said—and that was flagrant.”

The attorney who argued Ms. Williams case before the high court disagreed.

“It's not a big deal,” said Robert S. Peck, president of the Center for Constitutional Litigation P.C. in Washington. “I think that the case is going to have very little to say about punitive damages. Clearly what the court is interested in is whether Oregon was ignoring them or doing what courts are supposed to do—that is making sure they've considered the due process rights of not just one party, but of all parties,” he said.

“Philip Morris labeled it defiance of the U.S. Supreme Court. We suggested (Oregon Supreme Court justices) were only doing what they were supposed to do,” Mr. Peck said.

Glenn Lammi, chief counsel of the legal studies division at the Washington Legal Foundation, predicted the justices would back Philip Morris.

“It's rare for the Supreme Court to take up a case that they'd previously ruled,” Mr. Lammi said. “The Oregon Supreme Court had basically done an end run around the Supreme Court. I can't imagine the court would take it to reverse itself and set aside two decades of precedent. Basically they're going to tell the Oregon Supreme Court, ‘We meant it the first time. We mean it this time.’”

Phillip Morris USA Inc. vs. Mayola Williams, U.S. Supreme Court No. 07-1216.

News
In Brief

CONTINUED FROM PAGE 1

damages from the Sept. 11, 2001, terrorist attacks, a federal judge has ruled. U.S. District Judge Harold Baer last week rejected Silverstein’s claim that it should be made whole from any recoveries in pending litigation against airlines, security companies and others before Allianz recovers on subrogation claims. Allianz wrote \$433 million of the WTC’s \$3.55 billion property limit and settled claims with Silverstein last year. The policy governing Allianz’s coverage provides for subrogation and “gives priority of recovery to Allianz,” the judge ruled. Silverstein says it will appeal.

Insurers team on records with Google, Microsoft

Google Inc. and Blue Cross Blue Shield of Massachusetts said they will partner to allow plan members to create online personal health

records using Google’s health record feature, Google Health. Meanwhile, earlier last week, Microsoft Corp. said it would work with health insurer Kaiser Permanente to link their separate personal health record platforms in the hope of increasing their functionality and accessibility.

Travelers COO MacLean adds president title

Brian MacLean, chief operating officer and executive vp of Travelers Cos. Inc., has been promoted to president. Mr. MacLean, who joined Travelers in 1998, has served as the company’s COO and executive vp since May 2005. Mr. MacLean will retain his role as COO and will continue his responsibility of overseeing the company’s business units.

Horton to become CEO of Beazley

Lloyd’s of London insurer Beazley Group P.L.C. will appoint Andrew Horton, the insurer’s group finance director, to succeed Andrew Beazley as chief executive officer in September. Mr. Beazley will remain with the company he co-founded with Executive Director Nicholas

Furlonge in 1992 and will take on the role of deputy chairman. In August 2007, the company announced that Mr. Beazley was to undergo medical treatment and would, therefore, have a reduced day-to-day involvement in the business. Beazley’s board has begun its search for a new group finance director. The company also announced that Executive Director Johnny Rowell will be leaving the company.

XL Re unit in Brazil gets admitted status

XL Capital Ltd. has been approved as an admitted reinsurer in Brazil. XL Re Latin America will have offices in Rio de Janeiro and Sao Paulo. XL said in a statement that XL Re is still awaiting regulatory approval to operate a local reinsurer in the Brazilian market. Local reinsurers maintain a registered office in Brazil and have preferential access to 60% of Brazil’s property/casualty reinsurance business for three years. That will decrease to 40% in the following three years, with the potential of a future law entirely eliminating the preferential treatment. Admitted reinsurers are located abroad but maintain a representative office in Brazil.

Express Scripts to buy workers comp PBM

Express Scripts Inc. has agreed to buy the workers compensation pharmacy benefit management business of Medical Services Co. for an undisclosed amount. Jacksonville, Fla.-based MSC is currently owned by private equity firm Monitor Clipper Partners L.L.C. Its pharmacy services division serves workers comp insurers, third-party administrators and self-insured companies with more than 500,000 beneficiaries.

Noted

Stephen W. Lilienthal, chairman and chief executive officer of CNA Financial Corp., has been named the **City of Hope’s** Spirit of Life Award honoree for 2008. The City of Hope is a research and treatment facility for cancer and other life-threatening diseases....Marsh & McLennan Cos. Inc. said that Jules B. Kroll, founder of **Kroll Inc.**, will retire from MMC in July. In a statement, Mr. Kroll said that he would be moving on to pursue other “personal and professional interests.” He added that his plans would include “increased involvement in higher education.”

Sullivan: AIG chief comes under fire, future unclear

CONTINUED FROM PAGE 1

AIG stock closed at \$34.18 on Friday, significantly down from a 52-week high of \$72.91.

Meanwhile, the Securities and Exchange Commission and the U.S. Justice Department reportedly are investigating whether AIG intentionally overstated the value of subprime mortgage-linked contracts.

Observers say investors’ patience likely wore thin after AIG’s first-quarter 2008 \$7.81 billion loss, which followed its fourth-quarter 2007 \$5.29 billion loss, as the insurer tried to put its subprime mortgage woes behind it.

Observers say they would not be surprised to see Mr. Sullivan forced to leave the company, at least in part because of the stature of the investors who wrote the letter.

John L. Ward, chief executive officer of Cincinnati-based Cincinnati Partners L.L.C., said, “I think that the letter written by the shareholders will wield a lot of influence because not only are those individuals significant shareholders, but they’re well respected, and they don’t have a reputation for saber rattling, and so when they do speak up, their opinion carries a lot of clout.”

“Investors have clearly lost confidence in Sullivan and rightly so,” said Myron Picoult, an independent insurance consultant. The investors who are complaining “are not fly-by-nights. These are respected money managers.”

While Mr. Sullivan inherited many of the problems that have hit AIG, he has not dealt with them quickly enough to satisfy investors, Mr. Ward said. “While he didn’t

create the problems at AIG, he has run out of time to address them,” said Mr. Ward.

“There is a significant loss of investor confidence at this point, and it’s difficult to envision restoring any of that confidence without changes at management for sure, and possibly at the board level as well,” he said.

‘While he didn’t create the problems at AIG, he has run out of time to address them.’

John L. Ward, Cincinnati Partners L.L.C.

While Mr. Sullivan “inherited a slew of problems,” it has been three years since he has taken over and “management needs to accept responsibility” for the lack of confidence in its balance sheet, said John Wicher, principal at John Wicher & Associates in San Francisco.

Cathy Seifert, an equity analyst with New York-based Standard & Poor’s Corp., said, “There are broad-ranging issues in the company that need to be addressed, and I’m not entirely sure that the current management team has the skill set necessary to navigate this firm through its latest crisis.”

Mr. Sullivan has a “stellar track record,” but has spent his entire career in the insurance industry and “AIG needs a skill set that extends beyond the insurance arena.” The company “needs to look at their business mix, and articulate to

investors how they intend to proceed through what is becoming a crisis,” in light of AIG’s “outsized exposure to the mortgage market,” said Ms. Seifert.

Stewart Johnson, a portfolio manager with Philo Smith & Co., a Stamford, Conn.-based boutique investment bank that specializes in insurance, which does not own AIG stock, said he does not believe that Mr. Sullivan should be pushed out. “Regardless of who is at the helm, I think the problems that are unfolding today would have happened.”

John Gwynn, managing director at Morgan Keegan & Co. Inc., a Memphis, Tenn.-based financial services firm, said that even removing Mr. Sullivan and making some board level changes is unlikely to be an “immediate fix.”

AIG’s “balance sheet remains under attack by the credit market meltdown,” and its basic business is under stress by other factors as well, including the soft property/casualty market, he said.

A spokesman for former chairman and CEO Maurice R. Greenberg, who has been engaged in a legal battle with his former company, referred to a May 11 letter sent by Mr. Greenberg to the board, in which he said “AIG is in crisis,” but had no direct comment on the recent development.

Observers also raised the issue of who would replace Mr. Sullivan if he is ousted, though most see little chance of a return by Mr. Greenberg, who was ousted himself from the top job at AIG in 2005.

Mr. Greenberg has stated that he would not return as an officer or director of the company. Observers say his return is highly unlikely, at

least in part because of his own legal issues, including a “Wells” notice by the SEC last month, indicating he may face civil charges related to the \$500 million loss portfolio transfer he initiated with General Re Corp. in 2000 as AIG’s chairman and chief executive.

“I don’t see any scenario involving Greenberg,” said Mr. Ward. The position “would be a desirable challenge for any number of ambitious, talented executives,” he said. “There’s a lot of talented financial services executives out there. It doesn’t necessarily have to be someone coming from the insurance industry.”

Meanwhile, in their investigation into AIG, regulators are reportedly focusing on a Dec. 5 investor presentation. A slide presented at that meeting said, “AIG has identified its exposure to the U.S. residential housing market,” and the “U.S. residential housing exposures are manageable given AIG’s size, financial strength and diversified global businesses.”

Subsequently, AIG’s 2007 net income reflected an \$11.47 billion pretax charge for a net unrealized market valuation loss related to its AIG Financial Products Corp. unit’s super senior credit default swap portfolio, while its first-quarter results reflected a similar \$9.11 billion pretax charge.

AIG issued a statement last week that said, “As is the case throughout AIG, our colleagues at AIGFP have been rigorously focused on transparency and accuracy in all its disclosures. The goal is clear: make sure the numbers are right, whether it’s good news or bad news.”

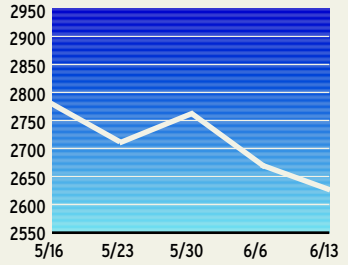
The Justice Department and the SEC had no comment.

Stock Index

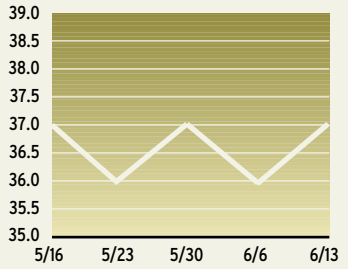
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Up-to-the-minute data for all 82 companies that comprise the BI Stock Index can be found at www.IndustryFocus.com.

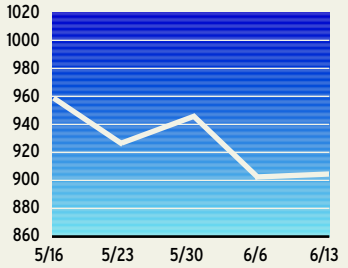
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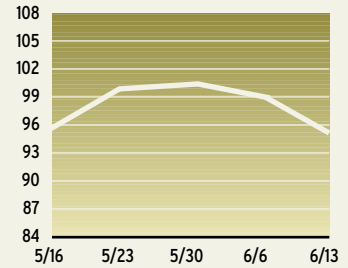
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BI INSURER/REINSURERS INDEX



BI MANAGED CARE ORGANIZATIONS INDEX



Percentage change of BI Stock Index vs. key indicators

BI STOCK INDEX	2640.40	▼ -0.54%
DOW JONES	12307.35	▲ 0.80%
S&P 500	1360.03	▼ -0.05%

LARGEST GAINS

Hilb, Rogal & Hobbs	42.44%
MBIA Inc.	7.90%
Navigators Group Inc.	5.56%
MetLife Inc.	4.91%
Arthur J. Gallagher	4.84%

LARGEST LOSSES

United Fire & Casualty	-11.93%
Ambac Financial Group	-10.64%
SCOR S.A.	-8.00%
UnitedHealth Group Inc.	-6.93%
XL Capital Corp.	-5.35%

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

Contributing: Jeff Casale, Meg Fletcher, Kristin Gunderson Hunt, Mark A. Hofmann

Ex-regulator Deborah Senn pens, performs solo play

Two-term Washington Insurance Commissioner Deborah Senn wrote and starred earlier this month in "Until the Last Dog Dies," her one-woman play about the influence that money has in politics.

Her solo play, which was produced and directed by local theater professionals, ran four nights in Seattle's small Capitol Hill Arts Center. It drew enough favorable reaction that talks are under way about holding additional performances, she said.

Ms. Senn, an attorney and international insurance consultant, served as insurance commissioner from 1993-2001, and she drew her material from her own career as an outspoken consumer advocate for the uninsured and domestic abuse victims. In addition, she has served as

legal counsel on utility matters to Washington State legislative committees.

"One of the things I'm good at is taking complex topics—like insurance or utility regulation—and explaining them," said Ms. Senn, who briefly was a theater major as an undergraduate at the University of Illinois at Champaign-Urbana. She then obtained her law degree at Loyola University in Chicago before moving west.

One such complicated topic explored in her play is Ms. Senn's unsuccessful bid for the Democratic primary nomination for state attorney general in 2004. She was ahead of Mark Sidran in the Democratic primary when a "Voters Education Committee" ran some negative television ads that attacked her tenure as insurance commissioner.

Those ads sparked a complex court case that wasn't resolved until earlier this month. Essentially, the ads were deemed illegal because they lacked state-mandated information about funding sources.

The U.S. Chamber of Commerce contributed \$1.5 million to the committee that ran the ads, according to a legal brief by the Washington State Public Disclosure Commission. The case ended when the U.S. Supreme Court refused to review it on June 2. A U.S. chamber spokesman declined to comment last week.

"For me, that legal proceeding and \$1.50 will get me on the bus," she said.



Business Insurance END PAGE



Vijay Singh is one of the golfers expected to compete in the Travelers Championship tournament.

Travelers' assistance: pro golfers get a lift

The Travelers Championship golf tournament is willing to go the extra mile to get top-tier golfers there.

The tourney, sponsored by Hartford, Conn.-based Travelers Cos. Inc., starts June 16, just one day after the final round of the U.S. Open in San Diego. In an effort to make sure that golfers make their tee times in Connecticut, tournament organizers chartered a Boeing 757 for them.

"It's a way of showing the players how we're thinking of them," said Nathan Grube, tournament director. "We didn't do it to get one or two specific players, we just did it to show them that we care about them and their families and

that this makes it a little easier for them to travel."

The flight is free for players and their families, Mr. Grube said, adding that the Travelers tournament will offer this option through the 2010 season. Last year, the first year the charter service was offered, about 70 players used the service, and this year 50 players are flying.

The chartered jet is paid for by the tournament.

The Travelers Championship is held at the TPC River Highlands course in Cromwell, Conn. This year's tournament will feature players including Zach Johnson, Vijay Singh and Stuart Appleby. The winner takes home \$1.08 million.



A lawsuit claims that Chili's and other restaurants have misled patrons about the nutritional content of their menu items.

Lawsuit says diners burned by restaurants' calorie claims

Chain restaurants with calorie-counting menus may begin weighing whether it's worth posting fat and calorie content of menu items after being named in a lawsuit in early June.

A Seattle woman has filed a lawsuit, claiming several major restaurant chains are deceiving consumers by posting inaccurate calorie counts on their diet menus.

More and more restaurants are posting fat and calorie content next to menu items to help health-conscious customers make eating decisions.

Anne Paskett, who filed the lawsuit, has been enrolled in the weight-loss program Weight Watchers for several years and has often been frustrated by the results, said David Breskin, the attorney representing her.

According to Mr. Breskin, she claims that several restaurants falsely advertise low-fat meals, a discovery she made after not losing weight while enrolled in Weight Watchers and from seeing a news report investigating the issue.

Dallas-based Brinker International, parent company of Chili's, Romano's Macaroni Grill and On the Border Mexican Grill and Cantina, was named in the lawsuit.

Mr. Breskin said the primary reason for filing the lawsuit was to spur restaurants to correct their menus to accurately reflect the calorie and fat content of their meals.

He said no specific amount of monetary damages was requested in the lawsuit.

"We're hoping to raise awareness," Mr. Breskin said. "People should get what they pay for."



California Superfund site owner knows what's next to cleanliness

Nobody can accuse Ted Arman of lacking a vision.

The octogenarian entrepreneur has owned Iron Mountain Mine in Shasta County, Calif., since 1976. During much of that time, he's been battling the Environmental Protection Agency, which declared the copper mine a Superfund site 10 years after Mr. Arman bought it. In fact, the property is considered as one of the worst-polluted in the country and is the subject of ongoing environmental cleanup efforts.

Mr. Arman unveiled some new plans for the property in an interview last week with the Redding Record Searchlight, a newspaper in Redding, Calif.

In addition to reopening the mine and extracting minerals from toxic sludge buried on the mountain, Mr. Arman wants to put a 200-foot tall marble statue of Jesus Christ atop the mountain, as well as a 100-foot crucifix that would be illuminated at night.

"I hope to make the property a

Garden of Eden," he told the paper.

An EPA official told the paper that the agency would have no problem with Mr. Arman erecting the statue provided that it didn't hamper the cleanup efforts. But he added that Mr. Arman has not presented the agency with plans for any of the projects.

So, for the time being, it looks like Mr. Arman's potential Garden of Eden will remain just another Superfund site.



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EMERGING MARKETS & GLOBALIZATION

New markets rising

The growing economic power of emerging market countries and businesses' rush to tap new opportunities are two of the factors driving the insurance industry's interest in emerging markets. **Page 10**

A green revolution

Climate change offers the insurance industry "green market" opportunities, as well as incentive for many companies' own environmental initiatives. **Page 13**

Sound as a dollar?

The dollar's weakness and the U.S. economic downturn are prompting various responses from insurance industry companies inside and outside the U.S. **Page 16**

FEATURES

Strategy sessions

Strategies for managing the product life cycle from ACORD/LOMA; staying lean, mean and profitable in a soft market from the AAMGA **Page 18**

Conflict avoidance

A pair of ethics policies aimed at maintaining the integrity of the insurance regulatory process are drawing both praise and criticism. **Page 20**

Straight-through express

Skywire Software's Lindsay Fassett and Jason McDonald discuss the need to take straight-through processing to the next level. **Page 22**

Super marketers

Insurance industry companies take different routes to connect with buyers, but all focus on driving home their brand's message. **Page 23**

THREE QUESTIONS

Kathryn Emmerson of InsuranceNoodle discusses online insurance distribution and InsuranceNoodle's future. **Page 5**

DEPARTMENTS

First Word	2
Gatherings	18
In Focus	23
Industry News	4
Last Word	24
On the Move	8
Tech Focus	22

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Travel terms and conditions

I started writing this column during my last trip of the North American insurance industry's spring conference season.

Which means, of course, that I started this column as the summer vacation travel season was about to begin.

In the commercial insurance industry, like many industries I suppose, a certain amount of travel is a fact of life.

It seems to me that if one had the luxury of taking an underwriting approach to air travel this summer, it might be a market from which one might walk away. There's just too much uncertainty, and the market is becoming increasingly unfavorable in both price and conditions.

I know fuel costs have gone up dramatically, but I've been quoted some pretty wild prices on flights lately. And conditions? Well, they seem to be changing week to week. Reduced schedules and frequent cancellations have become the norm. Meanwhile, in-flight service has become more, um, minimal.

One of the first places airlines cut costs was by eliminating the in-flight snacks served to economy customers, which on most flights was OK by me. But, on a four-hour flight to the West Coast, with the additional terminal waiting time and the inevitable delay between pushing back from the gate and the actual "wheels up" time assigned the flight by air traffic control, one can find oneself a mite peckish.

(In using the word "peckish," I should note that either definition is probably appropriate—a little hungry or easily annoyed.)

I found myself in that circumstance on a recent flight, listening to a couple of flight attendants joke about the cost of snacks "available for purchase" on the aircraft, a cost that evidently was to be going up the following day with the start of June. And I understood the rationale for the routine announcement that the airline would accept credit cards for snack purchases—who carries that much cash?

Eying the exorbitantly priced sandwich I'd purchased in the terminal pre-flight, one flight attendant inquired about its cost. I told her—neglecting to add that I couldn't

locate the truffles one might have expected at the price.

A more recent revenue raiser for the airlines is the bag charge, beginning with United Airlines announcing it would charge for passengers second checked bag, with other airlines quickly following suit. More recently, American Airlines announced that it would charge economy passengers without elite status in its frequent flyer program for their first checked bag.

This way madness lies, I think. Already airport security lines are slowed by infrequent travelers who still don't have the hang of the 3-1-1 rule for carried on liquids, gels and aerosols: three ounce containers in one, one-quart plastic bag per passenger. And the pace of boarding can't be helped by more passengers carrying on baggage to avoid the checking charge.

Adding to the likelihood of a challenging summer travel season were announcements

ON A FOUR-HOUR FLIGHT to the West Coast, one can find oneself a mite peckish.

earlier this month of job and service cuts at United and Continental Airlines. Fewer flights and reduced numbers of airline personnel don't bode well either in terms of fares or service in the months ahead.

Still, I suppose many in the insurance industry might note that changing risk profiles can provide new business opportunities, and that may well be the case here.

The apparent volatility of air fares would seem to call for some sort of hedging mechanism. I wonder if it would be possible to create a viable airline ticket futures market.

Meanwhile, I think another way to defray some of the new costs of air travel could be by operating a clandestine deli out of my carry-on. How many three-ounce containers of mustard and mayo do you think I can fit in a one-quart plastic bag?



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WSI launches LiveCat Forecast service

ANDOVER, Mass.—Weather information specialist WSI Corp. has developed a new forecasting tool for predicting the path and intensity of hurricanes and tropical storms.

The company says its WSI LiveCat Forecast service, developed in collaboration with Guy Carpenter & Co. L.L.C., can provide accurate predictions of a storm's path and intensity up to 10 days out.

The service is designed to allow insurance professionals, energy traders and utility executives to better identify exposure areas, more effectively mitigate risks, develop more precise recovery plans and establish more advantageous market positions than they might be able to by relying solely on information from the National Hurricane Center, according to WSI.

Andover, Mass.-based WSI said LiveCat Forecast uses state-of-the-art meteorological models to predict the direction, intensity and duration of a named hurricane—as well as the probability of U.S. landfall—beyond the standard five-day forecast period



WSI's LiveCat hurricane forecasting tool promises more accurate tracking of storms such as 2005's Hurricane Wilma.

GETTY IMAGES

offered by the NHC.

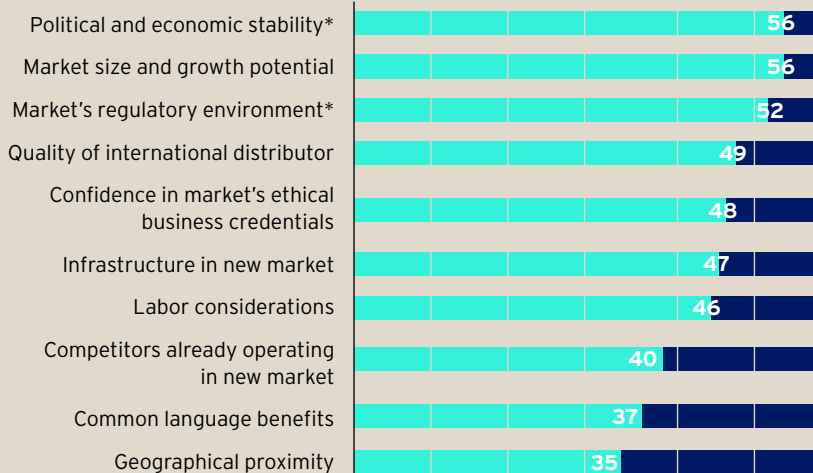
The new service issues track and intensity forecasts for each named tropical storm or hurricane twice daily up to 10 days out, landfall probability forecasts dependent on storm-specific track uncertainty rather than histori-

cal error statistics and weather forecasting skill WSI said is comparable to or better than that of the National Hurricane Center.

WSI LiveCat Forecast is available either online or as a geographic information system shapefile format. **IF**

BY THE NUMBERS

Priorities in determining foreign investment. Percentage of businesses globally.



*excluding mainland China
Source: Grant Thornton International Business Report 2008

U.S. Risk Underwriters releases MedTour Pro

DALLAS—U.S. Risk Underwriters, a subsidiary of managing general agency and surplus lines wholesaler U.S. Risk Insurance Group Inc., has launched a professional liability product for the medical tourism industry.

MedTour Pro is designed for medical tourism professionals who arrange for clients to obtain medical services outside the United States. The policy offers coverage for damages caused by actual or alleged negligent acts and errors or omissions by the insured in the course of arranging medical tourism services.

Dallas-based U.S. Risk Underwriters said it plans to follow with additional products intended to cover various risks associated with the growing medical tourism industry. **IF**

THREE QUESTIONS



Since its formation in 2000 as a Web-enabled wholesaler of commercial property/casualty insurance products, Chicago-based InsuranceNoodle Inc. has seen changes in its product mix and insurer relationships as well as a change in ownership. As the company's own technology has developed along with that of its insurance company partners, InsuranceNoodle has expanded its extensible markup language quoting capabilities with many insurers, dramatically speeding the delivery of quotes to insurance agents. In June 2007, Willis Group Holdings purchased InsuranceNoodle. Last month, Don Urbanciz, who led the building of InsuranceNoodle's patented online insurance distribution platform and the management team that sold the company to Willis last year, retired as chief execu-

tive officer of Willis Small Commercial. Recently, Kathryn Emmerson, CEO of InsuranceNoodle, discussed the company's development, the Willis acquisition and InsuranceNoodle's future.

There's been a lot of progress with Web-enabled distribution of insurance products since InsuranceNoodle started. What do you see as some of the highlights in the company's development?

We've made a lot of progress. We continue to work with a lot of our carrier partners to expand the XML connection. In a nutshell, where we're going with it is we're pushing into the small- and middle-market space. We've talked to all of our carriers about it and they're responding pretty well.

When we started in the middle market, we worked with carriers the way they were able to work—their technology. Over the eight years, we started with really no electronic connections and today we're utilizing XML with a number of our carriers.

The other thing we've done over the last four years is really expanded our product offerings, some of which are very electronic and some of which aren't very electronic, but the idea of having very broad product offerings on a single platform is very important. We've expanded into the surplus lines area. We formed Noodle Special-

ty Brokers to distribute surplus lines products.

Are you seeing any increase in competition for Web-enabled distribution of insurance products in the commercial space?

Not as much. There are a couple of other online aggregators that we've been in the space with for a number of years, but we don't see too many more coming in.

It takes a lot of work to build it. We did it over a period of time and we were very fortunate that we had a very supportive venture capital partner. We continue to improve it all the time. That was one of the attractions about being acquired by Willis. They see this as a very important market space and they see the need for continuing to expand it and improve it.

Going forward then, do you see continued expansion of InsuranceNoodle being part of Willis' overall strategy to bring increased efficiency to reaching certain segments of the commercial insurance market?

We will continue to expand the product offerings and the capabilities of the system and (continue) pushing into the small and middle markets.

It is very efficient. It's an important part of the overall strategy for Willis. **IF**

FM Global releases engineering data online

JOHNSTON, R.I.—Factory Mutual Insurance Co., which does business as FM Global, is making thousands of pages of previously exclusive loss prevention engineering guidelines available at no cost through its Web site.

It's the first time FM Global has released such information, and the insurer said the decision stems from a changing global risk environment. Given the increased interdependence of businesses as a result of technology and globalization, making the intellec-

tual property widely available is a logical step in helping businesses reduce risk and prevent losses, the Johnston, R.I.-based insurer said.

The Property Loss Prevention Data Sheets provide businesses, facility and risk managers—and the architects, consultants and contractors working for them—a tool to help prevent property damage and maintain business continuity in the face of exposure to fire, weather conditions and failure of electrical or mechanical equipment, FM

Global said.

The engineering guidelines contain risk prevention information on topics such as building construction, fire prevention, industrial equipment maintenance and natural disaster preparedness.

Users downloading the content receive automatic notification by e-mail when data sheets are updated.

FM Global's property loss prevention engineering guidelines can be found online at www.fmglobaldatasheets.com. **IF**

Zurich rolls out withdrawals cover for product defects

SCHAUMBURG, Ill.—The North America Commercial division of Zurich Financial Services Group has introduced product withdrawal expense insurance to manufacturers and distributors for both voluntary and government-mandated product withdrawals.

The coverage is offered as an endorsement to Zurich's commercial general liability policies. It provides reimbursement for expenses that companies incur when responding to known or suspected product defects that could cause bodily harm or physical injury.

Among costs included under the product withdrawal expense coverage are withdrawal notification; costs of materials and production of withdraw-

al announcements, postage or facsimile expenses; overtime for regular non-salaried employees; and costs of transportation and accommodations.

Also covered are expenses related to independent contractors and temporary employees; computer time; transportation, shipping or packaging; warehouse or storage space; and proper product disposal.

The product withdrawal expense coverage is part of Zurich's portfolio of special casualty coverages.

The insurer, which has its North American operations based in Schaumburg, Ill., said the coverage is available through approved Zurich Special Casualty wholesalers. **IF**



Zurich has launched product recall coverage for manufacturers. Last year, toymakers faced massive recalls due to lead exposure risks.



THE QUOTE

'WHAT WE'RE SEEING a higher level of now is more emerging market to emerging market' investment.

DANIEL W. RIORDAN
ZURICH NORTH AMERICA COMMERCIAL

Ward Group assembling benchmarking program

CINCINNATI—Consulting firm Ward Group is compiling what it says will be a comprehensive benchmarking program for insurance company finance operations.

Cincinnati-based Ward Group said the benchmarking program is being conducted to analyze expenses and staffing levels for components of companies' finance function, as well as related areas such as investments, billing and collections and internal and external audits.

The program will provide company comparisons by operating profile to analyze size, ownership structure and other factors that affect company results.

Ward Group said participating insurers are a diverse group, reflecting companies of various sizes and lines of business.

Companies interested in participating in the benchmarking program should enroll with Ward Group by July 31. For more information, call 513-791-0303 or visit www.wardinc.com. **IF**

PlanSource acquires Enwisen benefits suite

LOUISVILLE, Colo.—PlanSource, a provider of human resources, benefits and insurance management solutions for small and midsize businesses, has acquired Enwisen Inc.'s communications solution suite for benefits brokers.

PlanSource said it will combine its benefits administration tools with the broker communications and employee decision support tools in the Enwisen suite into a single product suite called PS BrokerSource.

While saying it had no short-term plans to modify the product suite, PlanSource said long-term it plans to expand and enhance its educational content and user experience.

Louisville, Colo.-based PlanSource said the acquisition of the Enwisen communications solution suite moves it forward in its strategy to integrate the entire spectrum of benefits management activities, including insurance purchasing, implementation, employee self-service, employee education, premium administration and data management.

Novato, Calif.-based Enwisen said selling the benefits broker communication suite provides capital and allows it to focus on the on-demand workforce communications market.

Terms of the transaction were not disclosed. **IF**

Industry leaders inducted into hall of fame

NEW YORK—The International Insurance Society Inc. has added three insurance industry leaders to the Insurance Hall of Fame.

Patrick G. Ryan, founder and executive chairman of Chicago-based Aon Corp.; Dominic D'Alessandro, president and chief executive officer of Toronto-based Manulife Financial Corp.; and the late G.S. Diwan, renowned as India's foremost teacher of actuarial science, will be honored during the gala dinner at the 44th annual IIS seminar in Taipei, Taiwan, in July.



Mr. D'Alessandro



Mr. Ryan

In 2004, Mr. D'Alessandro managed the largest cross-border transaction in Canadian history in overseeing his company's merger with John Hancock Financial Services Inc.

Mr. Diwan, who died in 1987, taught mathematics and actuarial science at Elphinstone College and Sydenham College in Mumbai, India. He also served as a consultant in various insur-

In 1964, Mr. Ryan started an insurance agency that would ultimately become worldwide insurance broker, reinsurance intermediary and consultant Aon Corp.

ance-related areas.

Members of the Insurance Hall of Fame are selected by the IIS members in a secret independently audited ballot. The 119 honorees currently in the hall of fame represent more than 20 countries.

The Insurance Hall of Fame is sponsored by the New York-based IIS, a non-profit association of insurance executives with nearly 1,000 members representing 90 countries. **IF**

Errors & Omissions

In the May issue of IF, the "Straight Through" article contained an incorrect figure for the percentage of Hartford Financial Services Group Inc.'s transactions done on a "touchless" basis. The correct figure is 35%.



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Hamilton, Bermuda-based Arch Capital Group Ltd. has promoted **Mark Lyons** to chairman and chief executive officer of Arch Insurance Group. Mr. Lyons, who will assume the post July 2, succeeds Ralph Jones, who is retiring at the end of his five-year term on July 1. Mr. Lyons, who will be based in New York, has been president and chief operating officer of Arch Capital subsidiary Arch Insurance Group since June 2006.

Markel Corp. has named **Paul W. Springman** president and COO, replacing **Anthony F. Markel**, who was named vice chairman. Mr. Springman had been executive vp of the Richmond, Va.-based company since 2002.

Schaumburg, Ill.-based Zurich North America Commercial has named **Daniel W. Riordan** president of its newly created Surety, Credit and Political Risk group. Mr. Riordan joined Zurich in 1997 to establish and manage its political risk and trade credit business.

Lloyd's of London has appointed **LoriAnn Lowery** president of Lloyd's North America. Ms. Lowery, who is based in New York, most recently was managing director and national practice leader for risk management and financial products at Wells Fargo Insurance Services Inc.

London-based Arch Insurance Co. (Europe) Ltd.

has named **James Weatherstone** president and CEO. Mr. Weatherstone, who had previously been chief underwriting officer, replaces **Robert Van Gieson**, who was appointed chairman.

Charlotte, N.C.-based wholesale broker AmWINS Group Inc. has named **James Drinkwater** president of its AmWINS brokerage division. Mr. Drinkwater previously was the division's COO. He succeeds Mark Smith, who will continue to work with the company in a consulting capacity.

Peter G. McPartland has been named president and CEO of Golden Eagle Insurance Co., a San Diego-based unit of Liberty Mutual Group Inc. Mr. McPartland had been COO of QBE Regional Insurance. He replaces Frank Kotarba, who retired.

Michael E. Shunney has been named president of the U.S. division of Boston-based Sun Life Financial Distributors Inc., the wholesale operation for Toronto-based Sun Life Financial Inc.'s U.S. annuity business. Prior to his new position, Mr. Shunney was senior vp and general manager, group insurance in Sun Life's employee benefits group.

London-based Willis

Group Holdings Ltd. has appointed **Keith Anderson** chief financial officer of its Global Specialties division. Mr. Anderson previously worked for Aon Corp., where he was CFO of the U.K. specialty and retail divisions. He replaces **Martin Whaley**, who is transferring to Willis' Milan office as the CFO for Continental Europe.

New York-based Mercer L.L.C. has made several appointments in its investment businesses. **Phil de Cristo** was named to the newly created position of president and group executive of Mercer's investment management businesses. **Rich Nuzum**, who had been head of Mercer's investment consulting business for the Americas, will replace Mr. de Cristo as president and head of Mercer's investment management business. **Andrew Kirton** has been named president and global head of investment counseling

for Mercer, replacing **Tim Gardener** who has taken on the new role of global chief investment strategist. Mr. Kirton previously was Mercer's head of investment con-

sulting in Europe. **Ken Crotty**, formerly global COO for investment management, will assume that role for Mercer's investment businesses. Mercer is a subsidiary of Marsh & McLen-



Mr. Parry

nan Cos. Inc.

National Life Insurance Co. has appointed **Edward J. Parry III** executive vp and CFO. Mr. Parry has been interim CFO of Montpelier, Vt.-based National Life Group since November.

Hamilton, Bermuda-based Montpelier Re Holdings Ltd. has made several executive appoints. The company named **Christopher L. Harris** CEO effective July 1. Mr. Harris, who has been the company's president since January, succeeds **Anthony Taylor**, who will become executive chairman. **Michael S. Paquette** was named CFO and executive vp effective May 1. Mr. Paquette, who had been the reinsurer's group controller, replaces Kernan V. Oberting, who is leaving to establish an investment advisory company. Montpelier Re also named **David Sinnott** chief underwriting officer and **Timothy Aman** as chief risk officer, both effective July 1. Mr. Sinnott has been the company's chief reinsurance officer, while Mr. Aman has been senior vp and risk management officer.

Chuck Green has joined Shelton, Conn.-based LifeCare Inc. as chief marketing officer. Mr. Green most recently was principal of his own marketing communications consulting business, serving clients targeting the health care market. **IF**



Mr. Shunney



Mr. Drinkwater

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E M E R G I N G M A R K E T S

RISING

Emerging markets: Risk and opportunity

By Rodd Zolkos

Emerging markets offer rich opportunities for many businesses, though with those opportunities come risks that require not only insurance but often specific expertise from the insurance industry to manage them effectively.

The demand for those coverages, obviously, offers considerable potential for insurance industry businesses as well, which is why many are looking far from home for new opportunities.

Exposures in many emerging markets, and the lesser-developed countries in which they're doing business, range from political instability and economic volatility to, in some locations, the threat of violence.

The natural disaster exposures confronting many emerging-market and lesser-developed countries raise other issues, a point driven home dramatically by last month's Wenchuan Earthquake in China and the devastating cyclone that hit Myanmar, as well as the 2004 Indian Ocean tsunami.

"Each country is different and placing an international risk is like visiting a foreign country, and if you haven't been there before you have to learn a lot about it," said Lloyd Yavener, vp of marketing, underwriting and claims at Clements International, a Washington-based company providing insurance solutions to organizations and individuals operating outside their home country. "Unfortunately, one size doesn't fit all."

Given the nature of his unit's business, Daniel W. Riordan, president of the surety, credit and political risk group for Zurich North America Commercial in Washington, said emerging markets are a natural place for his company to do business. "The emerging markets have always been a focus because they are where the risks are for our customers," he said.

"Certainly whenever you're expanding into new markets, there are some issues," Mr. Riordan said. Looking to cover a business investment, an underwriter needs to focus on factors such as the local regulatory environment, the business platform, knowledge of the market and forming business relationships. "That all takes a lot of effort," Mr. Riordan said.

But, he noted, "many of the emerging markets are growing at a very fast rate," with local economic growth rates of 5%, 7% or even 10% a year not uncommon in many of those countries.

"Certainly with the U.S. economy not growing at those rates, we do see the opportunity to achieve these growth rates in some of the emerging markets," Mr. Riordan said. "All of that trade and investment often leads companies to come to us for trade credit insurance and political risk insurance."

As such economies grow, Mr. Riordan said Zurich often is involved in cross-border transactions based in emerging-market countries. Sometimes the companies they work with are subsidiaries of North American or European companies, but very often they're indigenous.

Among the risks for which Mr. Riordan's Zurich group offers coverage are expropriation and nationalization of business, currency inconvertibility

and "political violence" coverage for damage to facilities that make companies unable use the facility or repay debt.

"Many of these companies still see the great opportunity (in emerging markets), but they want to try to mitigate the risk through these covers," Mr. Riordan said.

In the lines of business his group offers, historical risk data often is in short supply, Mr. Riordan said. "In all of these areas, there's not a wealth of data," he said "There's not a historical data set that you would find in typical property/casualty lines."

To overcome that lack of data, it's essential to work closely with insureds, have a good understanding of the investment and have a solid knowledge of factors such as local political issues, country attributes, details of the local economy and past treatment of foreign investment, Mr. Riordan said.

'IT'S A FORTUNATE THING that many of these countries have now been upgraded to investment grade. However, it's unfortunate that many of these countries are prone to natural disasters.'

NIKHIL DA VICTORIA LOBO
SWISS RE FINANCIAL SERVICES

"There is significant information in these areas if you know who to talk to and you know where to look and you have experience in these markets," Mr. Riordan said.

The issue of natural catastrophes is one for which historical data often varies.

Speaking from Beijing in late May following the devastating earthquake, Imelda Powers, a principal with Towers Perrin in Philadelphia and a senior vp in the company's reinsurance business, said she thinks it is possible to underwrite earthquake risk in China. "I think for insurance companies it is possible to underwrite an earthquake risk because to underwrite a risk you need two major components and they are available in China," she said.

The first component is information on the "seismicity" of a region—how often earthquakes occur and their size. "China has kept records of earthquakes

for a long history," Ms. Powers said. That information provides a basis for modeling earthquake exposures in the country.

"The second factor is the vulnerability of the structures," information that also is available in China, she said.

"In fact, all three modeling firms...have all rolled out their first-generation models of Chinese earthquake (risks) before the Wenchuan Earthquake," Ms. Powers said. "Granted, they are in their infancy, but I think things can be done."

However, such information is not available for some natural catastrophe risks elsewhere, she noted. "If you want to look at tsunami, those data do not exist. Or for volcano in the Philippines," Ms. Powers said. "So underwriting those exposures would be difficult."

Nikhil da Victoria Lobo, a client manager in public sector business development at Swiss Re Financial Services in

New York, works with a Swiss Re team that focuses on finding ways to keep some of those natural catastrophe risks from setting back emerging-market countries' economic development.

A sizable loss from a natural catastrophe can have a huge impact on the country's gross domestic product, he said. To address that risk, his team works with governments to set up facilities to provide emergency liquidity that governments can use as a financial backstop following a catastrophe.

Mr. da Victoria Lobo's particular focus is Latin America, and he noted that many countries in that region are enjoying stronger finances. "It's a fortunate thing that many of these countries have now been upgraded to investment grade," he said. "However, it's unfortunate that many of these countries are prone to natural disasters."

What Swiss Re offers those countries and others around the world is a

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EMERGING MARKETS & GLOBALIZATION

"bridge solution" that would provide time to accumulate better exposure data, allow the countries continued economic growth and, with those, increased insurance penetration, Mr. da Victoria Lobo said.

Increased insurance penetration in a market typically brings with it societal benefits by way of better practices such as building codes, disaster recovery capabilities and early warning systems, said Howard Mills, director and chief adviser, insurance industry group, Deloitte Services L.P., New York.

"Anything that can happen globally that can increase insureds has got to be our goal," Mr. Mills said. Pointing to the example of Underwriters Laboratories Inc.'s safety certification program as a case of better practices resulting from growing insurance markets, Mr. Mills said, "This industry, that's the tradition, that's the history. It does drive good practices going forward."

Towers Perrin's Ms. Powers said she sees that happening in China as a result of last month's earthquake. "I think they will increase the public's awareness of how to save lives," she said.

Ms. Powers said she also expects building code revisions in China. "Of course, that process won't be any good unless they increase the accountability of the public officials who inspect those buildings," she said.

Ms. Powers said she thinks the Wenchuan quake will lead to increased penetration of residential earthquake insurance in China, and that owners of commercial structures will do more to improve their buildings' earthquake readiness.

Noting that many businesses in China are state-owned and many are conglomerates that have operations in several businesses potentially exposed to loss through an event like an earthquake, Ms. Powers said there is a need for many Chinese companies to take an enterprise risk management approach. "So a lot of risk management issues will surface," she said.

Meanwhile, it's important for insurers doing business in emerging-market countries to recognize that changing conditions can affect risk profiles.

Zurich's Mr. Riordan said he sees

changing dynamics in foreign investments, with emerging market-based companies beginning to invest in other emerging markets, such as Chinese companies investing in Latin America or Brazilian companies investing in Africa. Much of that investment is driven by demand for commodities and growth in those countries' economies.

"What we're seeing a higher level of now is more emerging market to emerging market" investment, he said.

"Many of the companies that we're now looking at in India and China and elsewhere might not have the longest track record," Mr. Riordan said, so it's even more important for insurers to meet with those companies and learn all they can about them.

Risk profiles also change with changes in the standard of living in emerging-market countries. "In particular, the casualty risk changes," said Clements International's Mr. Yavener.

And an increasing trend toward multiple layers of outsourcing—where a business outsources some functions to a company in an emerging market country that, in turn, outsources part of the process to a vendor in another emerging-market country—brings additional complexity, he said. "Every time politi-

cal changes occur within these economies, that immediately changes the profile of the risk," Mr. Yavener said.

Local differences, such as the litigation climate, can have a significant impact on clients' insurance needs in foreign markets, he said. "One company might have two or three different locations and have very different needs relative to their casualty risks," Mr. Yavener said.

With the complexities of the exposures and their changing nature in emerging-market or lesser-developed countries, it's critical for a broker based in the United States or another developed country to have someone on the ground in the overseas location or to partner with someone who does, Mr. Yavener said.

Among other things, U.S. brokers helping clients address overseas exposures open themselves up to professional liability exposures if they don't do all they can to understand the risks their clients face.

"The E&O exposure for an agent here in the United States takes on a whole different realm when you get out of the box and the environment is changing from month to month," Mr. Yavener said. **IF**

China's Wenchuan Earthquake will likely lead to increased penetration of residential earthquake insurance in the country.

REUTERS





It's easier being green

Insurers adopt measures to cope with climate change

By Meg Fletcher

Many insurers and reinsurers are adopting ecologically friendly practices to cope with climate change risks.

Internally, they are establishing integrated response teams or units, attempting to reduce their carbon footprint through operational changes and sponsoring and participating in informational programs.

Externally, they are developing products and services for commercial and personal lines clients that encourage them to build and operate eco-friendly buildings and offices or replacement

facilities after a loss. Other insurance products reduce risks for contractors and alternative energy suppliers.

At one end of the spectrum, auto insurers encourage car owners to drive less and accept paperless billing. At the other end, global reinsurers offer large companies sophisticated risk management options including catastrophe and weather bonds as well as carbon emissions trading.

Insurers' actions are in response to concerns raised by the scientific community and the general public. Yet it remains to be seen how the industry will ultimately respond to a U.S. regulatory proposal requiring that each insur-

er answer questions about its climate change risks (see story, page 15).

The issue of climate change is dynamic and "one of the biggest issues that the industry is facing going forward," said Stephen Packard, director in Deloitte Consulting L.L.P.'s insurance strategy and operations practice in Hartford, Conn.

WHAT CAN BE DONE

In its April report, the Pew Center on Global Climate Change, wrote: "In 2007, the Intergovernmental Panel on Climate Change affirmed that warming of the climate system is unequivocal, with effects such as increasing land

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and ocean temperatures, rising global average sea level, and reduced snow and ice already being observed. These changes—which are linked directly to human activities producing greenhouse gases—are already causing changes in ecosystems, water supply and availability and patterns of extreme events with (in many but not all cases) consequent damages to human health, buildings, livelihoods and infrastructure.”

“The question is no longer, ‘Is there human-caused climate change?’ but ‘What can be done to react and adapt to it?’” the report said.

ADDRESSING CHANGE

Among large global companies, Swiss Reinsurance Co. has addressed climate change for nearly 20 years, said Mark Way, the Armonk, N.Y.-based director of sustainable development in the Americas.

Swiss Re’s position as a reinsurer of global risks helped it realize that climate change was occurring and something the insurance industry needed to address, he said.

He said Swiss Re’s strategy focuses on four priorities: understanding the risk, developing products and services for mitigation and adaptation, engaging in dialogue and advocacy and addressing its own carbon footprint.

Internally, among Swiss Re’s responses were its commitment to becoming carbon-neutral, meaning that it reduced or offset its contribution of greenhouse gases through energy conservation, use of eco-friendly products, recycling and buying carbon credits. The company achieved that goal at the end of 2007, ahead of schedule, Mr. Way said.

The growth in eco-friendly practices and products is “much greater” in Europe than in the United States, said David J. Price, executive vp and chief underwriting officer for Burns & Wilcox Ltd. in Farmington Hills, Mich.

Europeans are more sensitive to green issues since they have paid higher energy costs for decades and their governments have responded by

encouraging mass transit, smaller cars, bans on coal as well as promoting alternative energy sources such as wind farms, said Mr. Price, who is a native of the United Kingdom.

Among U.S. companies, New York-based American International Group Inc. has been seen as a leader in responding to climate change by adopting a public policy in 2006 and establishing the Office of Environment and Climate Change within its Corporate Affairs department to serve as AIG’s focal point on the issue.

Elsewhere, Travelers Insurance Co. in Hartford, Conn., established a high-profile Climate Change Committee “to increase the company’s participation in the global response by identifying emerging risks and opportunities and facilitating effective strategies across the enterprise,” a company spokeswoman said.

Other internal initiatives focus on reducing greenhouse gas emissions, including ecologically sensitive buildings such as Fireman’s Fund Insurance Co.’s five-story backroom processing center in Dallas and XL Capital Ltd.’s building in Exton, Pa. Both buildings were designed to qualify for silver certification by the U.S. Green Building Council for meeting the design and construction standards of the Leadership in Energy and Environmental Design program. Such buildings require managing energy, water and other services in an environmentally efficient manner.

Many companies are offering a variety of products and services in their external response to the climate change issue.

“We have always seen climate change as a risk and an opportunity,” Swiss Re’s Mr. Way said.

On the risk reduction front, some auto insurers have encouraged car owners to drive less.

Initiatives such as pay as you drive insurance programs offered by some U.K. insurers “are a great example of

the way in which insurers can develop products which encourage greener behavior at the same time as reducing levels of risk and, therefore, insurance costs,” a Lloyd’s of London spokeswoman said in an e-mail.

Meanwhile, Travelers hopes to encourage drivers to buy hybrid cars by offering a discount up to 10% for insuring such cars.

At Progressive Insurance Co. in Mayfield Village, Ohio, customers who accept bills and policy documents electronically are offered a discount and the insurer has planted trees in national forests to honor the paper-saving customers, said Christine Johnson, customer experience manager.

Insurers, including AIG, Fireman’s Fund and Travelers also provide coverage that encourages some policyholders to build or operate eco-friendly buildings and offices and to replace them with green facilities after a loss.

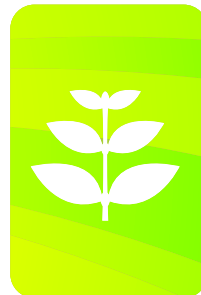
Novato, Calif.-based Fireman’s Fund offers three “green” endorsements to its commercial property policy, said Steve Bushnell, product director for commercial business. A 5% premium discount and broader coverage are available for buildings that are LEED-certified.

TYPES OF COVERAGE

About 800 commercial policyholders have purchased the second endorsement that, after a complete loss, would allow them to rebuild a certified building, Mr. Bushnell said. That costs slightly more than a standard policy, but the policyholder benefits by owning and operating a certified building. A third endorsement covers services of a special engineer to review a green rebuilding project.

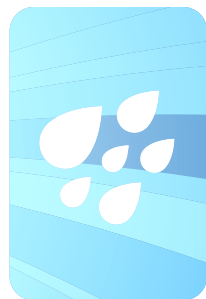
Burns & Wilcox has been writing coverage for ethanol plants for three to four years, Mr. Price said. It also offers coverage for green-related risks of homeowners, commercial building owners, alternative energy providers, recycling centers, and contractors installing and servicing devices such as solar panels.

Coverage varies and includes general liability and umbrella coverage for con-



tractors. It also includes general liability and environmental pollution liability for recycling centers, including bodily injury, property damage, onsite and offsite cleanup as well as contingent transportation—the bodily injury, property damage or cleanup costs that can occur while a common carrier transports the insured's waste products.

Professional liability insurance for architects, engineers and other professionals covers those who are involved with green building projects, Mr. Price said. Previously, a professional liability policy excluded pollution risks and containment cleanup, but that was eliminated during the past year, he said.



Although Burns & Wilcox has placed hundreds of green-related policies, financially the market “is not much of a factor now,” Mr. Price said. He expects it

to grow, however, as demand increases and underwriters learn how to better identify and price risks.

For large companies, global reinsurers offer sophisticated risk management options that include catastrophe and weather bonds as well as trading carbon credits.

In much the same way that insurers responded to perils of fire and auto safety, they are developing innovative solutions to cope with the challenge of climate change.

Mr. Price said he enjoys the challenge of analyzing new types of risks and determining exposures, such as for wind turbines used to generate electricity. For example, he said, “there have been some problems with the blades, which crack and fly off.”

The biggest problem is the actual generator atop a vertical pole to which the blades are attached. Each generator costs hundred of thousands of dollars and is difficult to service because they are located high in the air, he said. Investors may want extended warranty coverage, but Mr. Price said he is not aware of a market for it. **IF**

Industry critical of NAIC's climate risk reporting rules

By Meg Fletcher

While many insurers and reinsurers voluntarily are adopting eco-friendly practices, some are criticizing a U.S. regulators' proposal to require each company to answer new mandatory questions as part of its annual statement about how the company handles climate-related risks.

Companies are currently reviewing an updated draft of a proposed Climate Risk Disclosure Proposal that a National Assn. of Insurance Commissioners' subgroup crafted during the NAIC's recent quarterly meeting in San Francisco, which ended June 4.

The previous draft was opposed by many companies because it would have required top executives to attest to the truth of the information in their company's answers to the climate-risk questions and to file that information in its publicly accessible annual statement.

Wisconsin Insurance Commissioner Sean Dilweg, the chair of the NAIC's Climate Change and Global Warming Task Force, said in a late May interview that he has listened to industry concerns and planned to steer toward “the middle ground” in an updated proposal. He said he supported changing the reporting process from interrogatories to questions in the insurer's Management Discussion and Analysis section of its annual statement, although the NAIC drafting group is expected to make the final decision.

A so-called MD&A approach would give an insurer greater freedom to speculate about uncertainties, in part because a company's top executives are not required to attest to the information, Mr. Dilweg said.

Such freedom is appropriate because “a lot of climate change modeling is in its infancy,” he said. There can be 100 reasons why a company decides how to handle its business in a hurricane-prone area such as Florida, he said.

The June draft shows some easing in the regulators' requests. For example, the number of questions has been

reduced to nine from 20 and the implementation schedule has been pushed back to 2009—instead of 2008—for companies with more than \$100 million in premium. The draft does not specify the vehicle for presenting the information, however.

“I haven't drawn a line...I'm wide open on what vehicle should be used,” Mr. Dilweg said in the May interview.

Representatives of several consumer groups and investors supported the regulators' tougher February proposal to increase transparency. They include the Investor Network on Climate Risk, a group of 19 state officials and investor group representatives.

Representatives of major insurer trade groups still oppose the reporting proposal, saying that some answers would require revealing proprietary information and could be used against the companies in lawsuits that allege mismanagement by executives.



Mr. Dilweg

The regulators may be pursuing “worthy goals, but that's not the regulation of the business of insurance,” said Rey Becker, vp commercial lines for the Prop-

erty Casualty Insurers Assn. of America in Des Plaines, Ill. Compared with the previous draft, the latest one is “better, but still bad,” he said.

The substance of the latest questions “was as bad as anything we've seen so far,” said David Snyder, vp and assistant general counsel with the American Insurance Assn.

The NAIC emphasized its concern about climate change by also adopting a white paper on the topic at the June meeting. “State insurance regulators are aggressively moving forward to influence greater industry attention and action relative to climate change-related risk,” NAIC President Sandy Praeger said in a statement. She is also the Kansas insurance commissioner.

For more information on the updated draft and white paper, visit the NAIC's Web site at www.naic.org. Regulators ask that comments be submitted by June 30 to Pam Simpson at psimpson@naic.org. **IF**

Economic strategies

Insurance industry contends with declining dollar, subprime crisis

By Meg Fletcher

The U.S. insurance industry is using a variety of strategies to withstand the global impacts of the declining U.S. dollar and subprime credit crunch, observers say.

Some insurers are hedging currency risks, boosting balance sheets in stock buybacks and looking for foreign buyers.

Brokers and agents, though, say they are more concerned about the soft market and controlling expenses.

Yet, there are few glimpses of a silver lining during these cloudy times.

The current economic climate increases the demand for catastrophe bonds. Also, sources say higher travel costs may mean fewer accidents and related claims costs, as long as inflation remains at bay.

Also, the soft market for some insurance products may end sooner rather than later due to "asset losses, cuts in earnings and more expensive borrowing," said Robert Klein, an economist and director of the Center for Risk Management and Insurance Research at Georgia State University in Atlanta.

One cause of the U.S. dollar's loss of value against foreign currencies is the country's trade deficit for goods and services, experts say.

The deficit "has swelled dramatically over the last decade," Adolfo Laurenti, senior economist of Mesirow Financial Holdings Inc. said last November. "Since 1998, domestic imports—buoyed by sustained internal demand—have far outstripped exports. The result is a rise in the trade deficit as a share of GDP from 2% to 6%," he said.

According to the U.S. Census Bureau, the 2007 deficit was \$711.6 billion or 5.1% of GDP, which was \$46.9 billion

less than the 2006 deficit of \$758.5 billion or 5.7% of GDP.

Subprime mortgage woes have compounded the economic picture. During the first quarter of this year, life/health and property/casualty insurers reported "meaningful" losses on fixed-income securities investments, but most insurers will absorb the losses without hurting their financial-strength ratings, according to a report by Moody's Investors Service in New York.

Life insurers had more significant losses because their investment portfolios typically contain more lower-grade, longer-duration bonds, according to Moody's.

A.M. Best Co. Inc. also reviewed life insurer filings and concluded, "We don't expect any significant impact on their income or the capital," said Rosemarie Mirabella, manager of life/health research and emerging issues for the Oldwick, N.J.-based rating agency.

"Most companies' asset portfolios are sufficiently diversified and liquid so that they won't be hurt too much and can afford to hold on to assets that have declined in terms of the market valuation," Mr. Klein said. But insurers that had larger concentrations of high-risk securities or were highly leveraged "will be suffering more pain and this could have a bigger impact on their operations."

ERM STRATEGY

Most large insurers use hedging as an important enterprise risk management strategy to overcome the negative impacts of the U.S. dollar's decline, sources say.

U.S. life/health insurers with significant foreign operations—often in Asia—are hedging their foreign currency risk, so there probably is not a major

effect on their investment results, Ms. Mirabella said.

The fact that a life/health insurer facing currency risk did not hedge it would be factored into its analytical review by the rating agency, Ms. Mirabella said.

"Dealing with currency fluctuations is nothing new to multinational insurers," said Robert P. Hartwig, president and chief economist of the New York-based Insurance Information Institute. But having the dollar fall to record lows, "probably stretches those hedging strategies beyond what was anticipated years ago," he said.

In addition to hedging premium transactions, some non-U.S. insurers may keep some of their profit in dollars and wait for the exchange rate to improve to pay U.S. claims, buy reinsurance or grow their U.S. business through acquisitions or organically. However, a company's ability to do that depends upon the accounting and tax rules of its domicile, Mr. Hartwig said.

For Lloyd's of London, "exchange rate fluctuations naturally have an impact on the market, but the effect is lessened when premiums, brokerage and claims are all paid in dollars," a spokeswoman said in an e-mail response. "Furthermore, spot and average exchange rates for the dollar have remained stable over the last two years."

As the value of the dollar has declined in recent years, one problem U.S. companies face is the plight of employees paid in U.S. dollars but stationed in a high-cost city such as London where \$2 is about equal to £1.

"It's getting to be a big problem" for all types of companies that risk losing their employees if they don't provide additional compensation, Ms. Mirabella said.

Depending upon the country, some insurers may change the employee's compensation agreement to pay in the local currency or a mix of local and U.S. currency, Mr. Hartwig said.

Most brokerage firms would consider paying additional U.S. dollars to offset the valuation differential, said Ken Crerar, president of the Washington-based Council of Insurance



Agent & Brokers.

"We are well into a soft market and companies are trying to manage capital," said Bradley Kading, president and executive director of the Assn. of Bermuda Insurers and Reinsurers in Washington.

"Clearly a lot of stock buybacks are taking place," Mr. Kading said.

For example, the board of Northbrook, Ill.-based Allstate Corp. approved a \$2 billion share repurchase program in February while New York-based MetLife Inc.'s board approved a \$1 billion repurchase in April. Both came on the heels of prior repurchase programs, according to company statements.

Last year, publicly traded P/C companies repurchased \$22 billion in shares, which equated to about 4% of insurers' policyholder surplus, Mr. Hartwig said. They did that primarily to increase their earnings per share and make themselves more attractive to investors, he said.

In this economic climate, insurers feel the impact on their bottom lines because their expense ratios rise even if premiums fall or are just flat, Mr. Hartwig said.

STEALS AND DEALS

The devaluation of the U.S. dollar "is making it much cheaper to buy a devalued company," said analyst Adam Klauber, managing director of Fox-Pitt Kelton Cochran Caronia Waller L.L.C. in Chicago.

"Depending upon the currency, you can buy (U.S.-based businesses) for a 50% discount compared with two years ago," he said. "It's a big discount."

Recent acquisitions by European-based companies include Munich Reinsurance Co.'s purchase of Cincinnati-based specialty insurer Midland Co. for \$1.3 billion in April. Midland reported premium income of \$967 million in 2007, according to a Munich statement.

Also, Spanish insurer Mapfre S.A. agreed late last year to purchase the Commerce Group Inc. in Webster, Mass., the state's largest automobile insurer, for a reported \$2.2 billion.

Many P/C insurers should be attrac-

tive acquisition targets because of their accumulated capital and adequate reserves, but few deals are being done, Mr. Hartwig said. Merger and acquisition activity in general is down more than 50% this year compared with last year because of the volatile credit markets, he said. "The cost of borrowing has risen and some of the markets have seized up," Mr. Hartwig said.

Other negative influences include P/C insurers' depressed share prices and a continuing soft market, he said.

Also, there are many developing markets where foreign investors may be able to get better returns than in the United States, several observers said.

A deterrent to buying U.S. life insurers is that would-be investors are not convinced that life insurers have accounted for all their unprofitable investments, said John Marra, a New York-based partner in PricewaterhouseCoopers' Transaction Services Group.

He said several European clients have been attracted to U.S. companies because their valuation is relatively cheap, but have walked away because of other issues, including a lack of diversity in product lines.

Meanwhile, private equity investors "are circling" but not closing as many deals as in the past, Mr. Marra said. Money is tight and fewer targets remain, he said.

Among CIAB's brokers and agents, consolidation is ongoing, but the dollar's drop in value likely has softened valuations, Mr. Crerar said. Even so, buyers who are looking for good relationships rather than just a book of business will pay top dollar only for high-quality operations, he said.

Deteriorating economic conditions and soft insurance rates "will all put incremental pressure on the industry," Moody's reported.

For CIAB agent and broker members, "the impact of the dollar's decline on business has been nominal relative to the soft market," Mr. Crerar said.

Yet the sophisticated managers of today are "in a huge, expensive reduction—or at least an expense evaluation—mode," he said. For example, "there is probably less travel," due to increased costs, but "this is a relation-

ship business" so a broker will see a client when the matter is important, Mr. Crerar said.

OTHER DEVELOPMENTS

■ The devaluation of the U.S. dollar is creating tension between U.S. companies that have outsourced functions such as call centers to India, using dollar-denominated contracts, according to a report by the global law firm of Morrison & Foerster L.L.P.

The U.S. dollar's approximate 11% decline against the Indian rupee in 2007 has been a key issue for Indian service providers, it said. "For service providers carrying significant currency risk, and especially for those providers with a large portion of their revenue derived from deals with U.S. entities, the declining dollar cuts directly into their bottom line," the report said. The weaker dollar may lead to more efforts to cut costs and midterm renegotiation of contracts, Morrison & Foerster predicted.

■ The credit crunch "has actually improved" the market for catastrophe bonds, a Swiss Re Group spokeswoman said. Investors are more willing to take the risk of cat bonds, rather than the risk of other investments affected by depressed conditions of the current marketplace.

■ The weak dollar also may help reduce claims costs from auto accidents.

The devalued dollar is one of the reasons that U.S. gas prices have increased, Mr. Klauber said. People are responding to those higher gas prices by driving less and, therefore, are expected to have fewer accidents. "We are seeing an inkling of lower loss costs and lower frequency of accidents," he said.

Industry observers say they are watching for inflationary pressures that could worsen the U.S. economy. That could cause the severity of some P/C claims to increase, Mr. Klauber said.

Still, the insurance industry "is probably less vulnerable to recessions because insurance tends to be viewed as more of a necessity and not as discretionary as other expenditures that firms and households make," Mr. Klein said. ■

New product success hinges on more than IT

By Rodd Zolkos

LAS VEGAS—Many in the insurance industry are involving information technology in developing new products, an approach that often is worthwhile but sometimes is misguided, according to one insurance industry technology researcher.

"There's a lot going on in the market around new products," said Kimberly Harris-Ferrante, research vp at Gartner Research in Wake Forest, N.C. "This is good. Some of this needs to happen."

"But, unfortunately, some of the strategy around this is a little misled," she said.

Speaking last month at the ACORD LOMA Insurance Systems Forum in Las Vegas, Ms. Harris-Ferrante noted that IT alone cannot drive market differentiation and product profitability.

Even with the help of IT systems, most insurers' product development efforts demonstrate a lack of innovation, she said. In addition, most insurers lack customer insight or product performance metrics to support their product development strategies, so, rather than developing innovative new products, they're simply developing the same old products faster.

Ms. Harris-Ferrante said in annual studies conducted by Gartner, product development moves higher among insurance companies' priorities each year. It's now a top 10 priority for both property/casualty and life/health companies, she said. Life companies generally place more emphasis on efficiency in their new product development, while P/C companies are emphasizing product innovation.

Across the board in the insurance industry, companies want to bring products to market more quickly, Ms. Harris-Ferrante said. "They don't talk

about response to competitors that much," she said. "Well, the reality is, if your competitor brings a new product to market, you've got to reply."

Among problems many insurers face in developing products is that the process is slow, it depends too much on IT, regulatory requirements are cumbersome, current processes don't support innovation or the company has a "siloed approach" to business, the Gartner researcher said.

Among P/C companies, 72% of those surveyed said the single biggest obstacle to developing new products was legacy IT systems, while 48% of life/health companies held that view. At the same time, 52% of P/C companies cited the lack of alignment of the company's business and IT functions as an obstacle to product development, with 44% of life/health companies saying such a lack of alignment

was a problem they faced.

Ms. Harris-Ferrante said there is some comfort to be taken from the fact that so many insurers cited business/technology alignment as an issue. "It's like self-help," she said, noting that recognizing the problem is the first step to overcoming it.

Of the product development projects her company has seen over the past three years, 90% have been focused on speed-to-market, she said.

Now, though, there is an increased focus on providing products that match customer needs as well as offering niche products, improving pricing and understanding the risk associated with those new products, factors Ms. Harris-Ferrante associated with product quality.

Most "insightful" companies are focused today on quality rather than speed, and it's in that focus that consideration of product life cycles comes into play, she said. Applying a product

life-cycle approach means looking at a product from its conceptualization through its ultimate retirement and developing a strategy to manage the product, Ms. Harris-Ferrante said.

"If you or your organization are not talking about product life-cycle management, you should see a red flag going up," she said.

The No. 1 challenge facing many companies looking to implement product life-cycle management, though, is that they don't know their customers, Ms. Harris-Ferrante said.

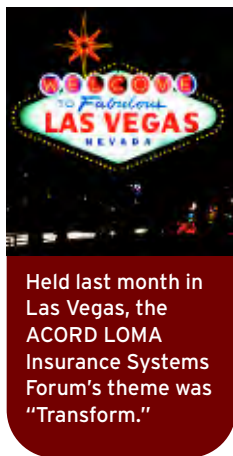
Most insurers know the agents and brokers distributing their products better than they know their actual customers, she said. But companies taking a successful product life-cycle management approach will put an emphasis on using customer information in developing products as well as in their marketing, sales and service efforts. Customers expect an "intimate, personalized touch," Ms. Harris-Ferrante said.

Among the ways companies can develop that customer information is through mining their own internal data for trend information, gathering and analyzing competitive information from internal sources and agents, conducting market assessments, discussing customer requirements with agents and producers, or by asking customers directly through methods such as focus groups, Ms. Harris-Ferrante said.

"It seems elementary, but this is a critical success factor," she said.

Ms. Harris-Ferrante reminded the audience that while they play a role in the process, product configurator software products on the market are only a first step toward product life-cycle management. These tools help users design a product based on a variety of options, while taking into account certain design requirements. "Don't forget, product configurators are only one piece of the puzzle, a very important piece, but only a piece," she said.

Companies also need to develop cultures that encourage innovation; align business and IT; craft a product life-cycle management strategy; empower product managers with tools, technology and data; and build methodology libraries, Ms. Harris-Ferrante said. ■



Soft market success

AAMGA fosters lean, mean philosophy to maintain profitability

By Rodd Zolkos

PHOENIX—As its members address today's market conditions, the American Assn. of Managing General Agents also wants to prepare the sector for challenges to come.

Speaking about current market conditions during this year's annual AAMGA conference in Phoenix, Thomas K. Albrecht, the group's past president and president of Southern Insurance Underwriters in Montgomery, Ala., noted that the current soft market is "not the first one that we've ever been through, but it does impact us in terms of some business moves into the standard markets."

In response to the market conditions, MGAs should look to "get in front of brokers more," Mr. Albrecht said, and seek new niche market opportunities.

"If you continue to service...there's a lot of business that stays with you," he said.

The current soft market doesn't really differ from previous soft markets, according to Euclid Black, president of Black/White Associates Inc. in Henderson, Nev., and AAMGA president. There is a difference, however, in the information technology tools at MGAs disposal, Mr. Black said.

Those tools improve the flow of information and allow MGAs to do business more efficiently, he said, and agencies that don't push the use of those tools will have problems coping with the cycle.

A soft market also offers opportunities, Mr. Black said. "In a hard market it is very difficult to create new products. The market is what it is. It's now a time of experimentation, creativity," he said.

Curtis Anderson, president, national binding/brokerage at Risk Placement Services Inc. in Scottsdale, Ariz., and the AAMGA's president-elect, agreed that aside from the technology available, this soft market is fairly typical and MGAs know how to deal with it.

"We are a very entrepreneurial, very lean, mean machine, and all of our members know when to tighten their belts and they're still making money," he said.

Regarding merger and acquisition activity in the MGA segment, the association leaders pointed to the aging of the baby boom generation as one significant driver of the trend.

"There's a great cluster of us that are baby boomerish," Mr. Black said, and are now at the point of trying to transfer the business to the next generation or looking for a merger opportunity.

"Some of them are because lots of us are baby boomers and are trying to figure out how to get our money out," said Mr. Anderson. "Some might have family they can pass it down to and some might not."

For some, mergers might be a way to remain competitive, Mr. Anderson said.

"Smaller operations might have difficulty trying to keep up from an IT standpoint," he said. "There's a lot of pressure now to automate," and some smaller MGAs might find it easier to respond to that pressure through a merger rather than trying to make that investment on their own.

In some cases, after their earnings during the hard market, some companies have "come off a high and it might be time to take some chips off the table," Mr. Black said.

And in other cases, acquisitions might be a more direct result of market conditions, suggested Mr. Albrecht.

Some publicly traded companies that had seen significant growth recently are seeing that growth slow, so "to placate



Mr. Albrecht



Mr. Anderson



Mr. Black



Mr. Heinze

their shareholders" they're looking at premium growth through acquisitions, Mr. Albrecht said.

As is the case elsewhere in the insurance industry, MGAs are facing a potential talent drain as baby boomers retire. The AAMGA is taking a variety of steps to address the issue.

"A big concern with that is recruitment in our segment of the marketplace," said Mr. Albrecht, a particular issue in a segment of the insurance industry where many companies are family owned.

"Because of the family aspect, I don't think we've done a good job with that over the years, because people would come up through the family," he said.

The association is promoting the development of young professionals through its AAMGA University education program, by working with university insurance programs and through its internship programs, Mr. Albrecht noted.

Mr. Black noted that the association's Under 40 organization "has grown immensely" over the past five years, and said the group is encouraging member companies to send younger

employees to meetings.

Bernd G. Heinze, the AAMGA's executive director, said the group is working closely with Lloyd's of London and the London market, including making internships available with U.S. MGAs for Lloyd's interns.

Through its AAMGA University, the MGAs' group will offer a week-long educational session at Cambridge University in England, he said.

"About half of what our association does is very educationally focused," said Mr. Anderson. "We've got a lot of bright young people coming into the industry that are going to make us even stronger." **IF**

Ethical dilemma

NAIC, IIPRC conduct policies raise questions

By Meg Fletcher

The National Assn. of Insurance Commissioners and the Interstate Insurance Product Regulation Commission have barred gifts from insurance industry lobbyists, policies that have been both praised and criticized.

The goal of the separate NAIC conflict of interest policy and IIPRC code of ethics is similar: ensure the integrity of the insurance regulatory organizations' deliberations by avoiding any real or perceived conflicts of interest and misuse of confidential information for personal gain.

Both adopted the policies in March.

■ The NAIC, which comprises the top insurance regulators from U.S. states and jurisdictions, was established 137 years ago to coordinate regulation of multistate insurers. The new policy expands its existing 2005 policy for Executive Committee members to all members.

■ The IIPRC, which comprises 31 NAIC members, has been streamlining the approval process for some life/health coverages since it became operational two years ago. It adopted its first policy that applies to members, employees and consultants.

Reacting to the policies, Neil Alldredge, vp of state regulators affairs for the Indianapolis-based National Assn. of Mutual Insurance Cos., said, "We believe that regulators should be held to the highest ethical standards."

"We see them (the codes) as an additional set of rules we have to follow when communicating with regulators, something we are well-accustomed to," said a spokesman for the Washington-based American Council of Life Insurers. Yet, having a new code "may mean fewer opportunities for substantive exchanges (with regulators). That simply means we'll have to work even harder to ensure we make our points clearly and succinctly."

Birny Birnbaum, a longtime NAIC-subsidized consumer liaison, said con-

sumer groups "appreciate the NAIC for taking the issue seriously and making improvements, but more needs to be done," particularly to halt "the revolving door" of regulators resigning and quickly becoming industry lobbyists.

Mr. Birnbaum, also executive director of the Center for Economic Justice in Austin, Texas, criticized the NAIC's lack of openness in developing its revised conflict of interest policy. It was developed mainly behind closed doors and regulators failed to formally record the open session vote tally, including identities of 12 regulators who voted against it.

The NAIC—which anticipates \$68.3 million in 2008 revenues mainly from insurance industry fees—helped establish the IIPRC to develop standards and streamline the approval process for some insurers' life, annuity, disability and long-term insurance. IIPRC has a 2008 budget of \$1.4 million.

According to IIPRC meeting minutes, that organization developed its policy more openly than did the NAIC and recorded its votes.

While the goals of the codes are similar, there are significant differences that affect how insurance lobbyists approach regulators and some staff members. New rules also affect the availability of IIPRC employees to work for insurance-related companies after leaving the IIPRC.

WINE AND DINE

The NAIC's policy now applies to all regulator members, rather than just Executive Committee members covered by its previous policy, according to NAIC General Counsel Kay Noonan. NAIC staff is covered by a separate conflict of interest policy in its employee handbook, which the NAIC considers confidential, she said.

The new NAIC policy also outlaws the previously popular tradition of lobbyists wining and dining individual regulators—most of whom are appointed by governors—during an NAIC-sponsored

meeting. The policy also restricts the ability of elected commissioners to host most fundraising events "immediately prior to, during or immediately after NAIC-sponsored meetings" in the metropolitan area where such a meeting is held.

"I think it's a good idea to have an ethics policy, especially since several commissioners want to use these (NAIC) meetings as a fundraiser," said Brian Patrick Kennedy, president of the National Conference of Insurance Legislators. "I think it does go far enough," said Rep. Kennedy, D-Hopkinton, R.I.

The new IIPRC policy—covering regulator members, staff and consultants—contains unique provisions that outlaw employee nepotism and imposes a one-year waiting period before a former employee can lobby the commission or its employees on behalf of a regulated entity.

Both policies supplement but don't supersede a member's duties under any other state ethics rules that may apply to them. If more than one code applies, a member is expected to follow the strictest one.

The codes differ in other ways including the scope of activities covered, the definitions of covered family members, gifts and penalties.

The NAIC policy applies to members and their immediate family, who are defined as a member's spouse, parents, siblings, children "or someone in the member's immediate household."

The NAIC policy prohibits gifts, which it defines as items worth more than \$50, free meals or other entertainment paid for by "a regulated entity, its trade group or other entities or individuals acting as agents or representatives of a regulated entity" during an NAIC-sponsored meeting.

The code prohibits political activities including a member "engaging in direct solicitation or receipt of funds from regulated entities, their trade group or other entities or individuals acting as agents or representatives of a regulated entity immediately prior to, during or immediately after NAIC-sponsored meetings in the metropolitan area of the meeting's host city." The only exception is activities that benefit nonprofit, charitable organizations.

Yet, the NAIC code acknowledges that it may be “impossible or impracticable to eliminate all conflicts,” provided that members supply written disclosure of conflicts or apparent conflicts to the NAIC’s secretary/treasurer and general counsel and to the chair of the subgroup discussing the matter creating the problem.

When conflicts exist, members are expected to refrain from voting or trying to influence deliberations.

The code requires all NAIC members to sign an acknowledgement statement when they join the organization. It also requires Executive Committee members to sign such a statement annually.

NAIC Vp Roger Sevigny, the New Hampshire insurance commissioner, chaired the session where regulators voted to approve the policy. He took the unusual step of calling for opponents to raise their hands—rather than a roll call vote—and the minutes reflect only that the motion was approved.

Yet, 12 regulators voted against the measure, including Vermont Commissioner Paulette Thabault and Connecticut Commissioner Thomas R. Sullivan, who said they opposed the measure because it is weaker than their respective states’ ethics laws. Also opposing it was Oklahoma Commissioner Kim Holland, who said it “overreached.”

VOTING METHOD

After the meeting, Mr. Sevigny said he supported the concept of accountability, but allowed the voting procedure on the advice of legal counsel.

Such a voting method is “clearly inadequate” because it does not allow for transparency or accountability, Mr. Birnbaum said. “It’s ironic that adoption of a policy intended to improve the public’s confidence in and the transparency of the NAIC is done” in such a way, he said.

In addition, the policy did not address the revolving door between regulators and industry, he said.

Thirteen consumer representatives expressed their concerns in a letter sent to NAIC leaders last fall. “Unfortunately, the movement of commissioners who hold senior positions at the NAIC into jobs in or on behalf of the industry they regulate is the norm and not the excep-

tion,” the letter said. “The vast majority” of NAIC presidents have taken such jobs—typically immediately after serving as NAIC president, the letter said, opening “the NAIC and its work products to criticism and disparagement.”

Recent examples have included former NAIC Presidents Alessandro Iuppa, who left after his term ended in 2006 to join Zurich Financial Services Group, and Ernst Csiszar, who left mid-term in 2004 to head the Property Casualty Insurers Assn. of America.

The IIPRC’s code of ethics applies to members, officers, the executive director, employees as well as the commission’s consultants and contractors. The code may also require disclosure of immediate family members’ financial interests if there is the potential for conflict.

The code prohibits gifts, defined as anything of monetary value including meals, drinks, entertainment, travel, services and loans given to an individ-

ual and not to all attendees at a gathering. But it allows industry lobbyists to provide “infrequent gifts” not exceeding \$25 in value or fees that are waived at an event attended by at least 25 people.

Among provisions applying to IIPRC employees, there is “whistle-blower” protection for employees reporting suspected misconduct by another. It also allows employees or members to benefit from pensions provided by regulated entities, though that must be disclosed.

Penalties for violating the code may include censure by the IIPRC’s Management Committee as well as possible referral to state authorities.

Only Virginia opposed the IIPRC policy. The Virginia representative for Commissioner Alfred W. Gross “voted no because he thought the code should be made clearer and more specific as it relates to employees of the IIPRC,” according to a spokesman for the state’s Bureau of Insurance. **IF**



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Straight-through processing makes inroads into P/C world

By Lindsay Fassett
and Jason McDonald

A few years ago, the concept of straight-through processing seemed as likely as world peace.

Many dreamed about it, but few dared to hope. Actuaries and underwriters fretted over handing over critical decisions to automated systems. How could machines be trusted to evaluate and analyze the risks involved? No insurer in its right mind would hand

doing business.

With trust established, a few insurers are taking smart underwriting to the next level. Some have begun implementing automatic rating, quoting, binding and issuance for small commercial lines, which inevitably involves more variables and more complex decision making.

As automatic underwriting and straight-through processing move up the value chain, insurers need to ask themselves: Is my data capture system asking the

consider technology that provides an underwriting workbench and rules, integrated with a single rating engine.

Let's examine the basic workflow for most commercial lines:

GATHER DATA: Agents enter the applicant's information into a data capture system.

EARLY QUALIFICATION: Based on responses to specific questions, the system moves the application forward or kicks it out.

RATE: The system sends the application data to a rating engine for accurate quoting.

QUOTE: The quote is submitted to an underwriter for review, or sent to an agent who accepts, re-rates or rejects it.

ISSUE: An underwriter or policy administration system issues the policy, goes back to the agent for more information or rejects the application.

A number of pieces of technology can accelerate this process:

DATA CAPTURE: Software that speeds the application process and reduces the time required for agents to receive a quote. Ideally, this should integrate with the agency's own management system, easing the data entry burden on agents, making insurers that offer data capture more attractive.

BUSINESS RULES ENGINE: This defines the underwriting rules and exceptions, automatically routing the application based on responses to questions.

RATING ENGINE: A rating

engine not only enables quick quoting, it improves rating accuracy.

TASK AUTOMATION SYSTEM:

When an application falls outside known limits, this technology automatically routes it to the correct departments, automates the assignment of specific tasks and controls the workflow between underwriters and producers.

UNDERWRITER'S DESKTOP:

This gives underwriters a workbench to view open applications and highlights tasks needing attention.

There are numerous benefits to implementing a smart underwriting workflow for commercial lines. It allows insurers to track applications for accuracy and completeness. It also provides an electronic audit trail, reducing human error and creating an archive to evaluate performance.

But the greatest benefit will be the competitive advantage an insurer gains from its ability to rapidly and accurately respond to quote requests, making it easier for agents to do business with the insurer. Faster issuance and binding means more business written more quickly, generating more revenue. And the accuracy of rating and risk evaluation means improved ratios across commercial lines.

Smart underwriting has fueled the growth of many a personal lines insurer. It's time to take the concept to the next level. Commercial lines companies should start thinking about their technology, examining how it is structured for increasingly complex decision-making. Those who don't may find that utopia has passed them by. **IF**



Lindsay Fassett and Jason McDonald are product managers at Frisco, Texas-based Skywire Software.

over the reins to something as fickle as technology.

Today, straight-through processing has not only come to pass, it's become the standard for personal lines. Insurers have implemented "smart underwriting" technologies that will approve an application, deny it, or pass it on to an underwriter for further review, based on the answers to specific questions. The technology behind these decisions has been battle-tested and proven, to the point where some insurers are ready to embrace a new way of

right questions? Does my rating engine contain the rules needed to automatically approve or deny coverage based on the responses to those questions? What technology do I need in order to bring smart underwriting to the next level?

To begin with, insurers must focus on the workflow of new business. With personal lines, the number of exceptions tends to be low; few applications are ever reviewed by an underwriter.

With commercial lines, this ratio naturally will be higher. To deal with more exceptions, insurers should

Whether it's a giant red umbrella or a film on personal responsibility, insurance industry companies take various routes to connect with buyers, establish brand identity and set themselves apart from the competition. Here are several approaches to getting the message to the marketplace.

IN FOCUS

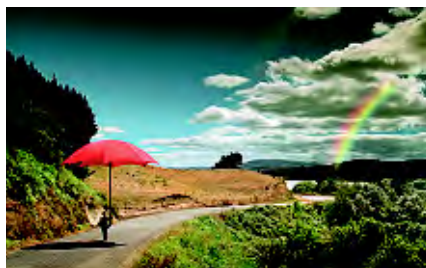
AFLAC

"DUCK"

CREATIVE: KAPLAN THALER GROUP, NEW YORK

LAUNCHED: DECEMBER 1999

WHY IT WORKS: Aflac's duck has been doing its slow-burn while communicating the supplemental insurer's message for nearly a decade, yet continued updating keeps the campaign fresh and successfully driving home the message that direct payments to the policyholder allow AFLAC policyholders to use the money where it's needed most. A recent spot, "Feathers" sees the duck as a NASCAR driver. Another ad, "Nursery," is part of a new business-to-business campaign communicating the value of Aflac's product as an employee attraction/retention tool.



TRAVELERS COS. INC.

"DELIVERY"

CREATIVE: FALLON WORLDWIDE, MINNEAPOLIS

LAUNCHED: MARCH 2008

WHY IT WORKS: With Travelers regaining sole ownership of its iconic umbrella logo from Citigroup Inc. last year, it was just a matter of time until the umbrella made its way back into the insurer's ads in a big way. A very big way. With a bowler-hatted man using a giant red umbrella to come to the rescue in a variety of ways, "Delivery" reintroduces the Travelers umbrella in a memorable, iconic way, generates awareness of the Travelers brand and helps create a positive association with the insurer that Travelers hopes will lead to brand preference for the coverages it offers.

GEICO CORP.

"TESTIMONIALS"

CREATIVE: MARTIN AGENCY, RICHMOND, VA.

LAUNCHED: NOVEMBER 2007

WHY IT WORKS: Known for its multiple storyline advertising relying on everything from a gecko to cavemen to reach various demographic groups and communicate different aspects of its brand message, GEICO looks to "celebrities" including Charo, the Pips and even Mrs. Butterworth to support the testimonials of real-life GEICO customers as they discuss their claims experiences. While bringing the humor that's the hallmark of many of GEICO's advertising efforts, "Testimonials" communicates GEICO's message of quality claims service.



LIBERTY MUTUAL GROUP INC.

"RESPONSIBILITY PROJECT"

CREATIVE: HILL, HOLLIDAY, CONNORS, COSMOPULOS INC., BOSTON

LAUNCHED: FEBRUARY 2008

stemmed from a desire to achieve customer mindshare without having to out-spend competitors' advertising budgets and get the Liberty brand "on the map." The viral power of the Web offers an opportunity to create relationships with potential customers even before they become actual prospects.

WHY IT WORKS: Involving a Web site, short-subject films centered around a personal responsibility theme posted on the site and a partnership with NBC Universal to co-produce two made-for-TV movies to air next year, Liberty Mutual's "Responsibility Project"



ALLSTATE CORP.

"COLLEGE FOOTBALL"

CREATIVE: DEDICATED INTERNAL TEAM; LEO BURNETT WORLDWIDE, CHICAGO, AGENCY OF RECORD

LAUNCHED: 2004

WHY IT WORKS: Since its first involvement with college football sponsoring the Bowl Championship Series poll, Allstate has expanded the relationship. Good Hands Field Goal Nets display the Allstate logo behind goalposts at 65 college football stadiums, while the insurer now sponsors the annual BCS Bowl Selection Show and the Allstate Sugar Bowl in New Orleans. Allstate's college football program promotes business growth and brand awareness and provides a nimble forum for corporate giving to the colleges involved as well as local communities.



London-based **MATTHEW ANDREWS** (top) and New York-based **PETER REED** are partners in the global insurance practice of executive search firm CTPartners.

Moving HQ packs risks, rewards

Decisions about where to locate global and regional headquarters are of paramount importance to insurers. They can have a tremendous impact in creating new marketplace opportunities, boosting profit margins, improving access to capital, and reducing tax and regulatory concerns.

A number of locations are emerging as promising alternatives to London, New York and Bermuda, the traditional hubs for the global insurance community. More and more companies have relocated their headquarters (or a regional or business-line insurance operation), or are considering such a move.

The trend is particularly apparent among property/casualty insurance and reinsurance companies. Yet for all the potential advantages of the right relocation, an insurer's move to an emerging location raises talent issues that must be addressed.

Emerging locales for insurance firms include Zurich, Switzerland; Singapore; Dublin, Ireland; Luxembourg; and Dubai, United Arab Emirates. As industry insiders recognize, the most alluring alternatives for insurers combine business-friendly tax and regulatory environments, lower operating costs and access to desirable markets, in addition to political and cultural stability.

From a talent perspective, such locations must house an adequate pool of skilled and experienced professionals, offer access to a pipeline of young, highly educated talent and be appealing to global executives.

The list of insurers that have approved relocations or announced plans to consider a move is sizeable. Of course, a location's attractiveness is relative, ebbing and flowing with its business environment, regulations and available talent pool—and with changes in those conditions in competing locales.

A look at Bermuda's popularity is instructive. For years, Bermuda reigned as the alternate location of choice for insurers looking to move beyond New York or London.

Yet Bermuda's appeal now appears to be waning, due primarily to infrastructure, regulatory and talent management challenges, as well as the emergence of attractive alternatives such as Dubai. Bermuda's infrastructure has limitations such as the availability of

school spots, and restrictions on property and car ownership for expatriates.

Work permit complexities also have created a challenge for companies seeking expatriate talent. Bermuda's workforce is well-educated, yet limited given the island's growing business population. Consequently, some insurers will likely see Bermuda as too crowded to support additional relocations.

All emerging locations present challenges. Only some emerging "hot spots" offer sufficient talent, infrastructure and other advantages to remain robust over time.

Dublin's low tax rates have made it popular with insurers, and the talent pool has been supported by the technological and financial savvy of the region's graduates. But signs indicate that insurers are approaching capacity in terms of available talent, which might lead to a relocation slowdown.

Zurich offers financial and political stability, a light regulatory environment outside

AN INSURER'S MOVE to an emerging location raises talent issues that must be addressed to enable the company to achieve its overall objectives.

the European Union, lifestyle advantages, efficient transportation and a deep pool of talent. Singapore, Hong Kong and Dubai are likewise attractive, with educated workforces, business-friendly climates and proximity to fast-growing markets.

Each situation is different, of course. In Dubai's case, the government has committed large amounts of capital to developing the Dubai Financial Centre. Disadvantages, however, include a relatively small pool of local talent and regional political concerns.

Identifying the needed "best" talent in these emerging regions is challenging. But by emphasizing cost control while supporting growth and expansion, a creative search partner will help insurers recruit and develop both qualified residents and expatriates. It's a big world out there.

For insurers, that's good news if they plan their talent acquisition strategies accordingly. **■**

An aerial photograph of a city, likely New York City, taken at sunset. The Hudson River flows through the center, with several bridges crossing it. The city skyline is visible in the background, with many buildings illuminated by the warm, orange light of the setting sun. The overall tone is warm and dramatic.

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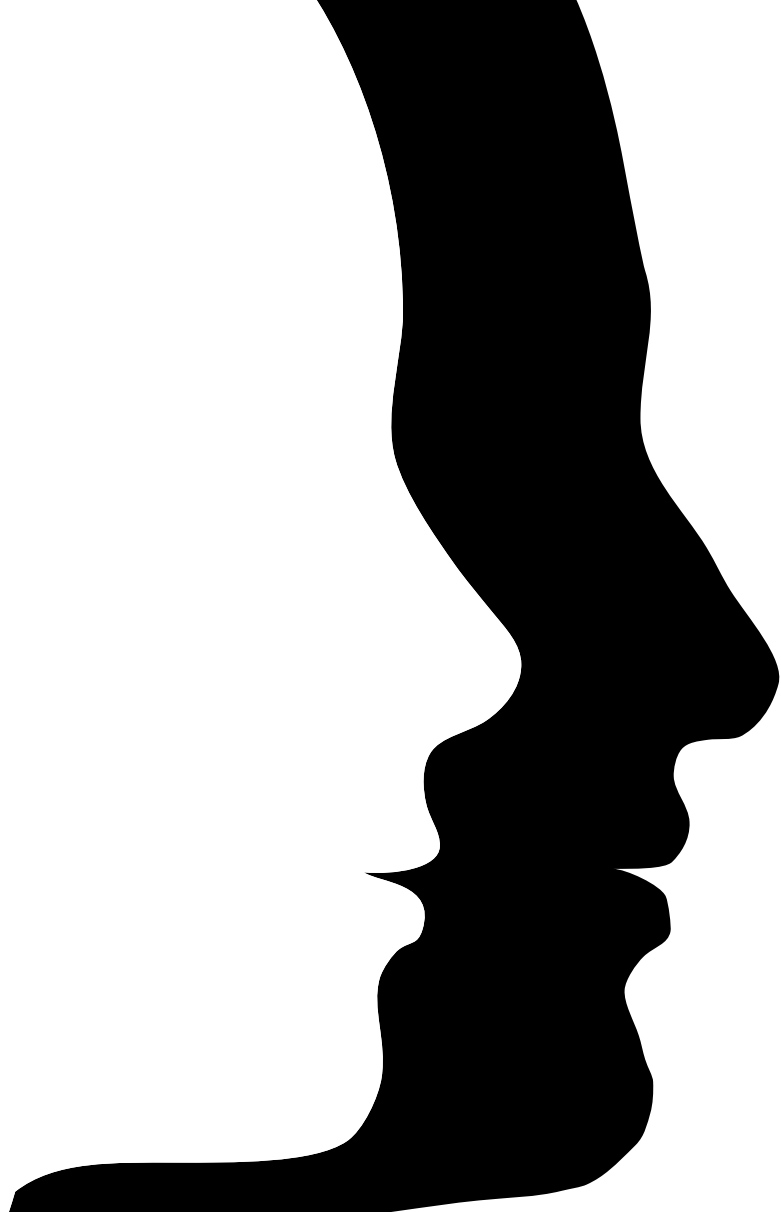
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PAGE 22

Changing markets, new issues **PAGE 10**

Insurance industry seeing green **PAGE 13**

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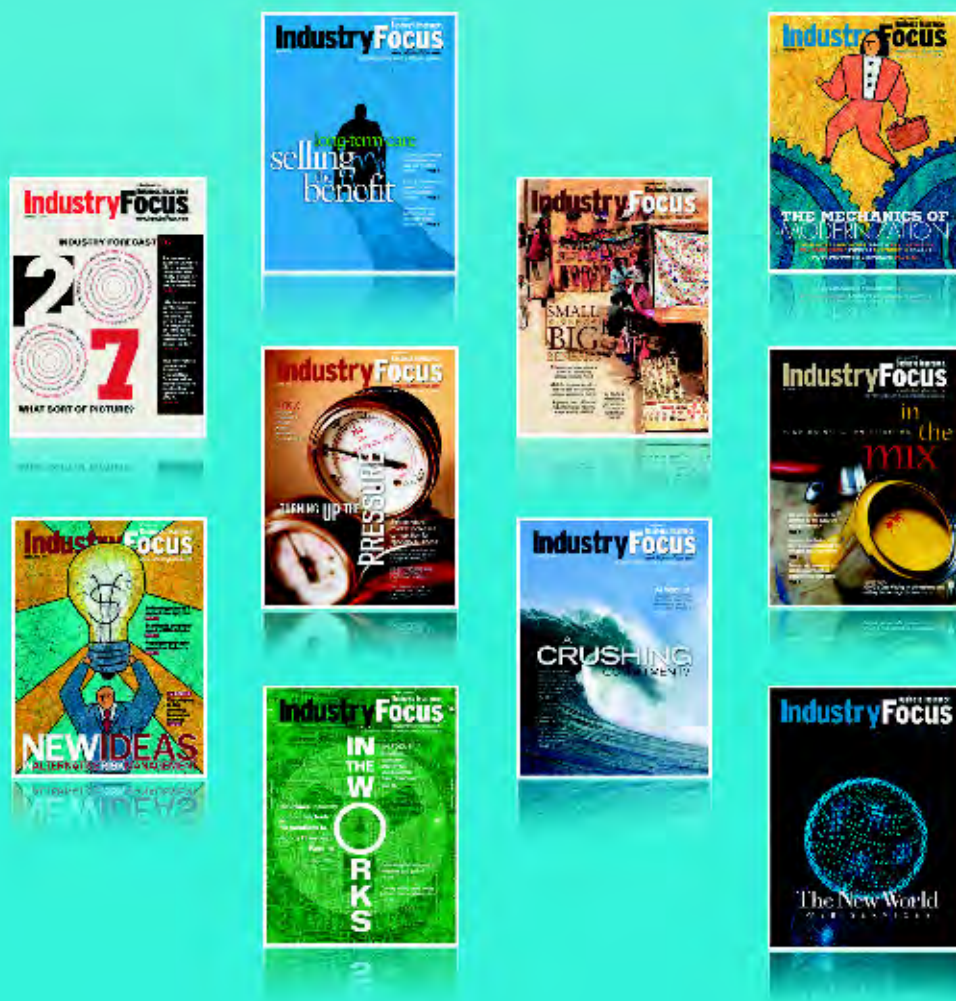
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Jun 16	Emerging Markets & Globalization	Published
Jul 28	Special Insert – Industry Focus Guide	Jun 30
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