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SPECIAL ISSUE: Strategic Risk Management

DATA POSTER INSIDE
Featuring exclusive research on the use of SRM by corporations and public entities

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Interest in SRM rising at all types of entities

Focus on risk management has grown, survey shows

By **RODD ZOLKOS**

A *Business Insurance* survey has found there is growing interest in strategic risk management, with 39% of organizations saying they have an SRM program in place and 9% saying they plan to implement one in the next two years.

In addition, 19% of those surveyed said they are discussing implementing an SRM program.

The survey showed a growing emphasis on risk management at organizations, with 73% of respondents saying risk management is a higher priority at their organizations today than two years ago.

It's become an even greater priority among publicly traded companies, with 79% of those responding saying risk management is a higher priority today than two years ago. Among companies with international operations in addition to those in the United States, the percentage rises to 80%.

Roughly 42% of respondents said they have an enterprise risk management program, with ERM most common at publicly traded companies, where 68% reported having a program in place compared with 30% of privately held companies and 22% of governmental entities.

Of companies without an ERM program, 9% said they expect to implement one within the next two years, and 15% indicated they are in discussions about implement-

ing ERM.

Of companies that have a strategic risk management program in place, 71% already have an ERM program and 23% are considering implementing ERM.

The *Business Insurance* survey, conducted in August by Cliffside Park, N.J.-based Signet Research Inc., is based on responses from 485 individuals involved in risk management decisions for their companies. Among those responding, 45% represented privately held companies, 33% were from publicly traded companies, 12% represented governmental entities, and 9% were from nonprofit organizations.

Given strategic risk management's integration of risk management with setting strategy, it's no surprise that a vast majority of respondents with SRM programs — 89% — said they have formal mechanisms to communicate risk to top management. Another 4% said they plan to have such mechanisms in place within the next two years, and 2% said such mechanisms are being discussed.

Most formal communications between risk management and top management — 80% — are conducted through formal meetings and written reports, with 73% of those communications taking place quarterly, 10% every six months, 15% annually, and 2% less than annually.

While risk resides in various places in different organizations, among survey respondents it most often was the responsibility of the CFO. Risk resided with the chief financial officer at 26% of respondents' organizations, with the CEO at 20% of respondents' organizations, and with a chief risk officer



at 17% of respondents' organizations.

Among public companies, risk most often was the responsibility of the CFO, at 32% of organizations. At 28% of private companies, it was the responsibility of the CEO, and at 24% of private companies it was the CFO's responsibility. Among 26% of governmental entities, risk resided with the CFO.

Of the companies surveyed, 22% said they have a chief risk officer. Twenty-four percent said a senior executive performs the CRO role, while 14% said a manager reporting to an executive performs the role.

Most organizations surveyed said they have yet to formally define their risk appetite and risk tolerance. Forty percent said they have done so, 10% said they plan to do so within the next two years, and 20% said they were discussing setting formal risk appetite and risk tolerance levels. Public companies were more likely to have done so, with 50% reporting they had formally defined their risk appetite and risk tolerance.

Similarly, only 44% of respondents said their organization has a defined risk profile, with 9% saying they planned to craft one

within the next two years, and 14% reporting the subject was under discussion. Of those that have defined an enterprise risk profile, 52% said they re-evaluate the profile as frequently as needed, 40% review it yearly, 3% review the risk profile every other year, and 5% do so every three or more years.

Companies reported using a variety of methods to assess changes in their risk profile, the most common being department risk reports, cited by 61%; risk interviews, 51%; peer or industry benchmarking, 42%; loss event databases, 37%; and risk questionnaires, 36%.

Only 26% of those responding said their organization had a formal mechanism to measure risk management's return on investment. Nine percent said they planned to create one within the next two years, and 17% said it was under discussion.

A method to gauge risk management's return on investment was more common among public companies, where 33% reported such a mechanism was in place, compared with 21% for private companies and 23% for governmental agencies.

Informed risk-taking a competitive edge

Threats and opportunities weighed

By **RODD ZOLKOS**

For companies that embrace the concept, strategic risk management provides a formal mechanism for addressing exposures that can threaten the execution of an organization's strategy, along with a tool for helping organizations exploit the opportunities that can be the flip side of risk.

See **STRATEGIC** page 24

SRM PRINCIPLES

10 guiding principles
important to strategic
risk management:

- 1 Value-driven
- 2 Reflective
- 3 Structured
- 4 Informed
- 5 Dynamic
- 6 Process-based
- 7 Condition-based
- 8 Consequential
- 9 Interdisciplinary
- 10 Scenario-driven

Source: Risk & Insurance
Management Society Inc.



Value-focused message drives buy-in

Clearly defined goals, accessible data support efforts to build the bottom line

By **MIKE TSIKOUidakis**

A strong enterprise risk management program that includes a well-rounded knowledge of an organization's risk is essential for managers to successfully communicate strategic risk management efforts to an organization's stakeholders.

Commonly defined as the process of identifying, assessing and managing the risk in the organization's business

strategy, SRM is considered a subset of enterprise risk management. SRM is a continual process embedded in the company's strategic decision-making, industry experts say.

While ERM lays the foundation for communicating risks to stakeholders and earning a seat in the boardroom, SRM is the next step in addressing specific risks and their potential rewards, said Frank Fiorille, director of risk management for Paychex Inc., based in

Rochester, N.Y.

"The ERM platform is ready now to take that additional risk on," he said. "There are foundational things there, whether it's the analytics or whether it's the day-to-day operations they're normally doing, that fit in really well for that function to then look out at the strategic risk issues."

Communicating risk initiatives and

See **MESSAGE** page 25

SPECIAL ISSUE

STRATEGIC RISK MANAGEMENT

Strategic risk management has staunch supporters among those who have begun connecting risk management with strategic planning.

Doing so has allowed organizations to get a more accurate picture of the risks posed by various strategic moves and has improved decision-making. And, in some cases, SRM has enabled organizations to tap opportunities they otherwise might have missed.

SRM has yet to gain widespread usage by organizations, but it has gained traction.

While some experts say that having an enterprise risk management program in place isn't essential to strategic risk management, there's little doubt that an ERM program is a big help.

For organizations mulling implementing strategic risk management, there are several factors that must be addressed, among them clearly defined and articulated statements of risk appetite and risk tolerance, buy-in across the organization, effective communications, and effective systems for monitoring changes in the risk landscape or emerging exposures that might threaten strategy execution.

In this issue, we'll examine not only the keys to achieving strategic risk management, but we'll also take a close look at some of the companies that have done so and the benefits they've realized.

So read on to learn more about the benefits of strategic risk management and some of the keys to putting an SRM program in place.

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Risk appetite vs. tolerance a balancing act

Communication, top-level support essential to success

By **RODD ZOLKOS**

Many consider understanding an organization's risk appetite and risk tolerance to be critical elements of a strategic risk management program, but there often are challenges to achieving that understanding.

"I like to put it in terms of risk attitude within the organization," said Mark L. Frigo, director of the Center for Strategy, Execution and Valuation and the Strategic Risk Management Lab in the Kellstadt Graduate School of Business at DePaul University in Chicago. "One of the big challenges is that organizations have a wide latitude of risk appetite within the organization. There isn't any consistency."

While Mr. Frigo said risk appetite may be articulated at an organization's highest levels, "how well is that communicated and executed throughout the organization? That's the key," he said.

"You have to find a way in your strategic risk action plan to make sure that the risk appetite is well understood and communicated and executed at every level

of the organization," Mr. Frigo said.

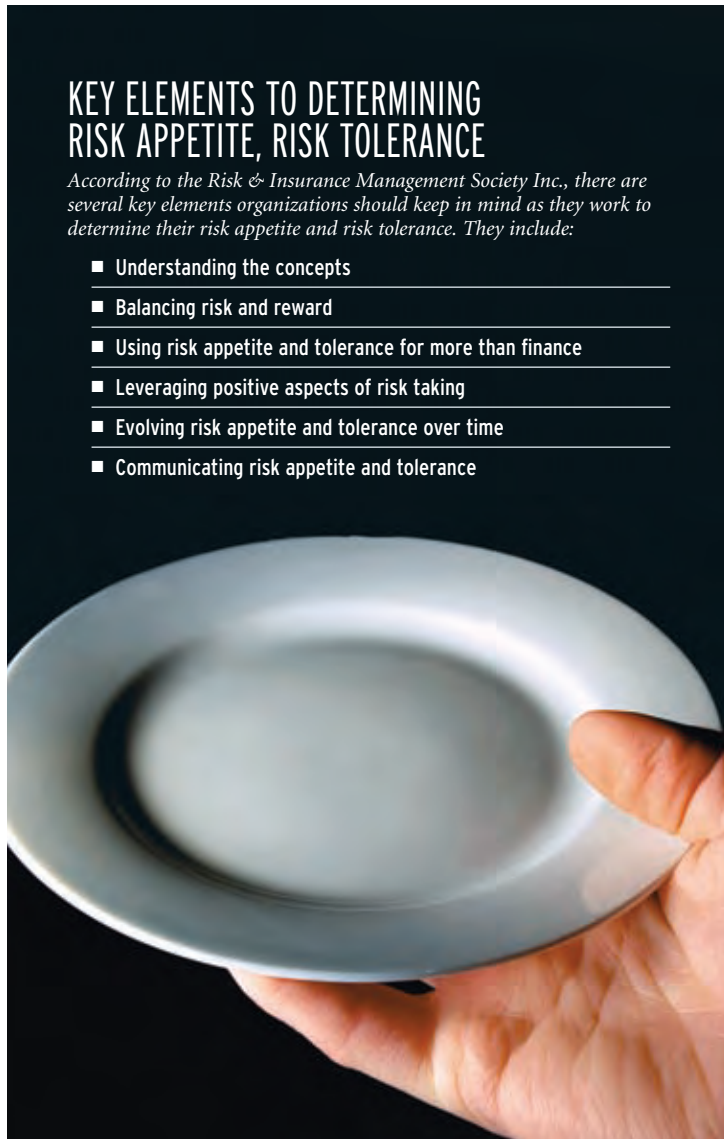
Carol Fox, director of strategic and enterprise risk practice at the New York-based Risk & Insurance Management Society Inc., said that risk appetite is the amount of exposure that an organization wishes to take on based on risk/reward trade-offs, while risk tolerance is the total amount the organization is willing to take on overall or within a business unit or specific initiative.

"I think the key obstacle that organizations have to overcome is having that conversation," Ms. Fox said. "It really gets to the point of it's the communications process."

Once risk appetite is determined, the second key element is placing that appetite in a meaningful context. Then it's essential to apply that risk appetite in making routine risk/reward trade-off decisions and monitoring the organization's adherence to that defined appetite.

Risk appetite may be expressed quantitatively, qualitatively or a combination of the two. Among methods organizations use to express risk appetite are economic capital or balance sheet measures, credit rating changes, profit and loss statements, or ranges of key indicators.

Rupak Mazumdar, senior manager, enterprise risk manage-



KEY ELEMENTS TO DETERMINING RISK APPETITE, RISK TOLERANCE

According to the Risk & Insurance Management Society Inc., there are several key elements organizations should keep in mind as they work to determine their risk appetite and risk tolerance. They include:

- Understanding the concepts
- Balancing risk and reward
- Using risk appetite and tolerance for more than finance
- Leveraging positive aspects of risk taking
- Evolving risk appetite and tolerance over time
- Communicating risk appetite and tolerance

ment, at George Weston Ltd. in Toronto, said it's essential to make sure the right people are at the table when discussing risk appetite.

"I think you have to ensure that you have all the right stakeholders," he said. "Because you're going to have people in your organization who are risk seekers, you're going to have people who are risk avoiders, you're going to have people who are risk-neutral," he said. A risk manager needs to make sure all points of view are represented in determin-

ing risk appetite, Mr. Mazumdar said.

He also stressed the importance of considering risks vs. rewards. Some organizations will say they have "zero tolerance" for certain risks, but they don't take into account potential returns and the effect of not taking risks. "If you're just looking at risk and not looking at return, it's very easy to take just a risk-focused mindset," Mr. Mazumdar said.

For organizations practicing

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Insurance deployed strategically

Larger companies often reserve cover for unexpected losses

By **RODD ZOLKOS**

While insurance often doesn't factor into organizations' strategic planning, there are times when the expertise that insurers can deliver provides particular value in pursuing company goals, industry experts say.

The largest companies are "sophisticated enough to realize that the most expensive option always is the purchase of insurance for expected losses," said Neal Colman, vice president and chief underwriting officer for major accounts at Liberty Mutual Holding Co. in Boston. "You purchase insurance for unexpected losses."

Consequently, companies typically calculate retention levels with an eye toward retaining expected losses, keeping that capital until they need to pay a loss and buying layers of coverage for unexpected losses.

"So I think the way they preserve capital is to transfer the risk on the unpredictable part of the risk and to accept it as part of the cost of doing business on the predictable side," Mr. Colman said.

Large companies typically think in terms of "what's the best use of our capital strategically for our business," said William M. Lonchar, vice president-operations manager Atlanta at FM Global. "And they can do that by transferring out that catastrophic risk on the property side."

But "at FM Global, what we say is, 'Insurance alone is not enough,'" he said.

For global property risks, a key to FM Global's relationship with customers is promoting an understanding that most losses are preventable, Mr. Lonchar said. C-suite executives, business unit leaders and local managers all "have to be strategically engaged in connecting with one another about how to drive that loss out of the business and preventing that loss," he said.

"That whole relationship side becomes paramount because they want us to help them understand what they're not doing and be good advisers to them," Mr. Lonchar said.

That relationship can have strategic value if the buyer can achieve a better understanding of exposures, such as supply chain risks, to allow the company to make better decisions, he said.

"As you're running these companies, you want to challenge your people to come up with new

See **BUYING** page 27

Captives tapped to boost strategic advantages

By **RODD ZOLKOS**

As companies look to apply risk management to their strategic planning, some are finding a place for captives in those strategic risk management efforts.

Involving captives can dovetail with several key elements of strategic risk management, some experts say, including the risk manager winning a seat at the table in the strategy-setting process; a growing trend toward viewing the captive holistically or on an enterprisewide basis; and an effort to use the captive to help the organization achieve its strategic goals.

"There's a movement to look at the captive more holistically from an enterprise risk management perspective as well as from a profit center perspective," said Steve Bauman, senior vice president and head of captive services, global corporate, at Zurich North America in New York.

"It's not only reactionary after the fact and looking at traditional risks; it's being proactive and taking a strategic perspective," Mr. Bauman said.

'There's a movement to look at the captive more holistically from an enterprise risk management perspective as well as from a profit center perspective.'

Steve Bauman, Zurich North America

"Certainly, we've seen in different segments of the marketplace companies looking at how to use their captives to support their strategic objectives," said John M. Lochner, director at Towers Watson & Co. in Weatogue, Conn.

Steve Zawoyski, a partner at PricewaterhouseCoopers L.L.P. in Minneapolis, said that finding a role for captives in strategic risk management efforts could begin with taking a different perspective on coverage. Often in risk management and insurance discussions, he said, "We're typically working on this the

other way. We're thinking about risks and how do we identify the risks."

Instead, organizations might want to think about how risk management and insurance strategies can complement overall business strategies. "How can we use those to help us execute our business strategy?" Mr. Zawoyski asked. "How do we use an insurance alternative to achieve our strategies?"

"I think proactively what PwC would recommend to its clients is, as an insurance professional, how do you earn a seat at the table at the beginning of setting the strategies to consider using alternatives?" he said.

A company that has used its captive in a host of creative ways to advance its strategic goals is Decatur, Ill.-based Archer Daniels Midland Co. The global agribusiness concern has used its Vermont-domiciled Agrinational Insurance Co. captive not only to retain all expected losses but also to help ADM business units achieve their various goals.

Among other things, ADM used its captive to create a crop insurance program in South

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Risk models, analysis key to strategic goal

More risk data means better strategy-based decisions

By **MIKE TSIKOUKAKIS**

Risk managers increasingly are leveraging quantitative measurements of their enterprise risks to achieve strategy-based decisions for their organizations.

As more risk data is available among risk practitioners, senior-level management at corporations look for risk information and analysis to develop their strategic goals, industry experts say.

Joseph Hayles, manager of risk management and insurance at Hilcorp Energy Co. in Houston, said the company's risk group performs internal and external risk modeling to ascertain replacement costs for a particular asset or casualty claim.

As the Houston-based energy company's senior management's strategy is numbers- and model-driven, Mr. Hayles and the risk group have shifted in the past three years from a qualitative approach to quantifying specific risks, he said.

For example, Hilcorp has numerous risks in the Gulf of Mexico through named windstorm exposures, Mr. Hayles said. "We've had to try to quantify what we think our exposure is there" by using internal and external modeling, peer benchmarking and considering contingent loss issues to contractors, he said.

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SRM allows targeted deployment of capital

Solid plan can help firms deal with bumps in road

By **RUSS BANHAM**

Even the best-articulated strategy runs into unexpected risks that impede strategic aims, but organizations that have a process to evaluate and mitigate the bumps in the road can steer clear of such obstructions or take an alternate route.

This strategic risk management process offers a continuous way for companies to assess the threats to strategy, interpret their financial impact and then determine how to allocate their capital resources — and whether they should be allocated to one project or another enterprise.

Although still in its infancy, more organizations are latching onto SRM as a guiding principle under the umbrella of enterprise risk management, which experts say is as important to capital allocation as the strategy itself.

"It's still nascent, but more companies are beginning to embrace it as a way of using risk management strategically," said Carol Fox, director of the strategy and enterprise risk practice for the New York-based Risk & Insurance Management Society Inc.

"For instance, an organization may find that one line of business is taking huge risks for very low margins, whereas another line of business is risk-averse but generating higher margins. Obviously, this should drive a discussion about capital allocation," she said.

Indeed, RIMS defines SRM as a business discipline that drives deliberation and action regarding uncertainties and untapped

opportunities affecting an organization's strategy and its execution.

Christopher "Kip" Bohn, senior actuarial consultant in the corporate ERM practice at consulting firm Towers Watson & Co., cited a hypothetical example of SRM in play:

"Say you're a pharmaceutical firm and one of your main strategic goals is to provide medicines to patients for their health care," Mr. Bohn said. "A big risk to this strategic aim would be the supply chain. With SRM, you would break down the links of the supply chain from 'cradle to grave' and then evaluate the potential risks in each link.

"For instance, you might identify that you have a sole-source supplier for a particular component," Mr. Bohn said. "You would then evaluate such risks as the supplier's financial condition, its location to determine susceptibility to natural disasters or other disruptions, and who else they're supplying if they're disrupted and (what steps to take since) you're now in a line competing for product."

Once this assessment is completed, plans are then made to mitigate the potential effect, which generally involves a reallocation of capital.

"Maybe you make a decision to stock more inventory, which requires more capital for warehousing," Mr. Bohn said. "Or maybe you negotiate a deal with the supplier that if something happens to interrupt its business, you will be first in line to receive product, for which you agree to pay extra."

This scenario is similar to the SRM process installed at Lego A.S., the Danish manufacturer of building blocks and other

See **CAPITAL** page 23

Link strategic decisions to potential exposures

By **RODD ZOLKOS**

As organizations look to link risk management to strategic decision-making, effectively identifying risks, evaluating changes and recognizing exposures the organization might face are essential to achieve that connection.

"Over the last decade or two, there's been a lot of work on developing these tools and methodologies," said Laurie Champion, managing director

at Aon Global Risk Consulting in Atlanta. "I think what's important in that space is that there is a well-designed and customized approach that works for that company ... and that they use it consistently."

Whatever approach an organization uses, it should be appropriate for the size, scale and nature of the operation, Ms. Champion said.

"There are varying degrees of

See **CHANGE** page 28



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Opinions

EDITORIAL

Next level of risk strategy

Strategic risk management offers organizations the potential to reduce the chances that events might interfere with their strategies while providing a valuable tool to tap opportunities that otherwise might be missed.

Certainly, those are attractive reasons to consider a strategic risk management program.

For many organizations, though, there's some distance yet to travel in taking even the preliminary steps that are necessary to successfully implement an SRM program, a *Business Insurance* survey suggests.

As reported on page 2, 39% of organizations responding to the *Business Insurance* survey in August reported they have an SRM program in place, with another 9% indicating they plan to implement one within the next two years.

At the same time, however, only 40% of those surveyed said they've formally defined their risk appetite and risk tolerance, with 10% planning to do so within the next two years.

While experts acknowledge it can be difficult for companies to achieve those definitions, they say that doing so and ensuring that they're understood across the organization are critical elements in strategic risk management.

Similarly, only 44% of respondents said their organization has a defined risk profile, with 9% saying they planned to craft one within the next two years. That indicates more groundwork has to be done before SRM can be implemented at many organizations.

On the positive side, perhaps, is a growing emphasis on risk management at the organizations surveyed, with nearly three-quarters of those responding indicating risk management is a higher priority for them today than it was two years ago.

Asked about the major risk challenges facing their organizations in the coming two years, 46% of respondents cited improving risk management and modeling, while 45% mentioned developing a risk culture within the organization. These are further indicators of a growing understanding of the value and importance of risk management.

As the risks facing organizations become more complex and interconnected, it would appear many could benefit considerably from moving their risk management programs to the next level and taking the steps necessary to allow those programs to deliver additional value by integrating risk management with their strategic decision-making.

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SCHILLERSTROM



COMMENTARY

Strategic risk management evolves

It's long been recognized that the flip side of risk is opportunity, but it's also been fairly common for companies to separate the management of their risks from the strategic pursuit of their opportunities.

In recent years, though, several organizations have recognized the value of integrating risk management into their strategic deliberations, embracing the newly emerged discipline of strategic risk management.

Perhaps "newly recognized" is a better way of describing SRM than "newly emerged," as some companies have no doubt used the approach for some time though under a different name. For some, it's simply "risk management." And strategic risk management certainly has different definitions for different people.

If you're looking for a standard, though, a good one might be the definition offered by the Risk & Insurance Management Society Inc., which is promoting the benefits of the SRM approach. To RIMS, strategic risk management "is a business discipline that drives deliberation and action regarding uncertainties and untapped opportunities that affect an organization's strategy and strategic execution."

From the standpoint of risk and opportunity being two sides of the same coin, SRM offers a formal approach allowing organizations to address exposures that might threaten the execution of their strategies while also helping them tap opportunities with effective risk management offering a potential competitive advantage.

Among the stories in this issue are case studies of several companies that are realizing the benefits

strategic risk management can offer.

For Denmark-based toymaker Lego A.S., strategic risk management was an integral element of recapturing a focused approach to strategy and growth. Implementing SRM in phases since 2006, the company has seen its value contribute to a tripling of company revenues since 2004.

SRM also has helped the company take advantage of opportunities, with the company's defined risk tolerances and confidence in its ability to measure and compare exposures allowing Lego to take market risks it previously might have avoided.

At Rochester, N.Y.-based Paychex Inc., SRM has been a key part of turning the approach to risk management from a defensive-minded one to one in which risk management is now used to play offense, deploying risk management skills and tools to help the company determine how to take intelligent risks.

That approach has helped Paychex develop new services for clients, increasing the company's revenue.

At South San Francisco, Calif.-based Genentech Inc., an SRM approach helps the company identify potentially correlated risks and allows it to make appropriate decisions in its efforts to limit volatility, reducing risk to an acceptable level at a favorable cost.

By any definition, those are examples of risk management helping organizations achieve their strategic aims and demonstrations of the value of strategic risk management.

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RODD ZOLKOS
SENIOR EDITOR

Perspectives

Establishing enterprise risk management processes for any entity involves common pitfalls that include the failure to link risk management to strategy setting, discussed here by Jim DeLoach and Shawn Seasongood of consulting firm Protiviti Inc. Additionally, areas of focus for insurers in particular are included.

Successful ERM built in stages

By James W. DeLoach
and Shawn Seasongood

In many ways, enterprise risk management is an enigma. Ask 20 executives to define it and you might get 20 different answers.

Companies often ask us to explain what ERM is and how it is implemented because they aren't sure. While defining ERM is a separate topic, of equal importance is taking a step back and reflecting on why ERM implementations fail.

Based on our experiences in observing and working with many companies over the years, we explore eight common reasons why ERM fails that apply to all industries, after which we provide a perspective on ERM in insurance companies.

LACK OF EXECUTIVE MANAGEMENT SUPPORT: This is the most common reason for an ERM failure. The problem is no one who matters cares. Without support from the top, most efforts to implement ERM are unfocused, severely resource-constrained, and pushed down so far into the organization that it is difficult to establish relevance.

POOR GOVERNANCE AND "TONE AT THE TOP": Effective governance and tone at the top drive the transparency, openness and commitment to continuous improvement that are needed for risk management to function effectively over time. A leadership failure will almost always undermine even the strongest risk management capabilities.

For example, if management does not consider risk explicitly when evaluating whether to enter new markets, introduce new products, or consummate a complex acquisition or investment; does not involve the board with strategic issues and policy matters in a timely manner; ignores the warning signs posted by risk management; or resists bad news or reliable indicators that the corporate strategy is not working or is obsolete, it's game over.

RECKLESS RISK TAKING: Every MBA program features case studies of companies relearning the time-honored lesson that, while competent people are an important aspect of managing risk, management's relying on them without limits, checks and balances, or independent monitoring and reporting is as ill-advised as not understanding the risks inher-

ent in what they are doing.

It is interesting that companies, and even entire industries, keep relearning this fundamental lesson. If risk management responsibility is not adequately defined or linked to the reward system, if the incentive compensation program rewards unbridled risk taking, or if there are "star performers" who are making a lot of money and no one understands how, executive management needs to take a look. The smartest people in the room can be dangerous if executive management and the board of directors don't understand what these people are doing and who oversees them.

PRACTICING ERM INSTEAD OF ERM: When management experiences difficulty in translating a risk assessment into actionable steps that can be incorporated into a business plan, the organization often practices "enterprise list management" because nothing happens when a risk assessment is completed beyond sharing the most current list of risks.

NOT INTEGRATING RISK MANAGEMENT WITH STRATEGY SETTING AND PERFORMANCE MANAGEMENT: If risk is just an afterthought to the formulation of strategy, strategic objectives may be unrealistic and risk management becomes an appendage to performance management. The consequences of this failure include a strategy the organization is unable to deliver, deteriorating competitive position, inability to adapt to a changing business environment and even loss of enterprise value that took years to build.

Potential indicators of this failure include poor alignment of risk responses with strategy and enterprise performance management, lack of connectivity of risk management to key management processes, and no efforts to anticipate risk scenarios that could derail execution of the strategy.

ACCEPTING A LACK OF TRANSPARENCY IN HIGH-RISK AREAS: Lack of information for decision-making leaves management with little insight as to what is really happening or is likely to happen. Transaction complexity and volatility can significantly affect an understanding of the full picture when making decisions. If this environment exists and management does not seek to correct the situation, that is a clear signal that risk management is set up to fail. Com-

plexity in a business model that contributes to a lack of transparency is an ominous warning sign.

IGNORING DYSFUNCTIONALITIES AND BLIND SPOTS OF THE ORGANIZATION'S CULTURE: An organization's culture can have a huge effect on its ability to prevent the occurrence of unacceptable risk events and identify new and emerging risks in a changing business environment. More importantly, firms should pay attention to the root causes of missing the warning signs that something is either wrong or isn't working that objective parties see easily from a mile away with the benefit of 20-20 hindsight. An open, transparent environment can flourish only when individuals can raise issues without fear of retribution to their compensation and careers.

NOT INVOLVING THE BOARD IN A TIMELY MANNER: Last but certainly not least, if the board has not been involved in a timely manner on issues relating to risk appetite and the risks inherent in the corporate strategy and business plan, an essential check is missing and the last line of defense for reputation management is thwarted. Key indicators of this issue include the board is engaged only in occasional ad hoc treatment of risk and risk management, management informs the board after the fact when significant risks are undertaken and the organization's risk profile is rarely, if ever, discussed at the board level.

Risks can arise from many sources in the insurance industry, including underwriting, sales distribution, investments, and policy and claims administration, to name a few. A comprehensive approach to ERM is instrumental in establishing the trust and integrity so essential to sustain the confidence of policyholders, carriers and other stakeholders in an insurance carrier and the broader insurance market. Below are three particular areas of focus for insurers:

HISTORICAL AND FUTURE ANALYSIS: Most traditional insurance risk management processes generally do not include the forward-looking emphasis required to identify and assess previously unknown or hidden risks. Forward-looking models are required by Solvency II and the proposed National Association of Insurance Commissioners' Own Risk and Solvency Assessment standards.

CHANGE YOUR RISK CULTURE: One of the overriding findings coming out of some early industry ERM adopters is the tendency to view the initiative as a mere compliance exercise. Although these organizations may argue that they are managing their risks relatively well, their check-the-box approach misses out on the value an ERM initiative can contribute through a more risk-aware culture and improved risk management processes.

INCREASED TRANSPARENCY: The level of risk-related information required by shareholders, regulators and rating agencies has been historically low. Insurers need to be prepared as shareholders, policyholders, regulators, rating agencies, key counterparties and other stakeholders demand more risk-related information to provide transparent disclosure of key risk issues and risk strategy.

The above eight common problem areas and three areas of focus for insurers can be used by executive management and the board as a context for checking the health and viability of their organization's approach to ERM. The longer-term result of any of these failures can inhibit attempts to elevate risk management to a strategic level, leaving it driven by fragmented silos and tactically focused on process, hazard and compliance risks that are far below the radar of the strategic risks that can make or break a company's success.

Establishing an ERM framework is an evolutionary process. Its development is more successful when implemented in stages by people who understand the corporate vision and purpose for ERM.

Each stage should provide building blocks that move the organization closer to its end-state vision. While making a commitment to improve risk management capabilities and infrastructure is an investment for any organization, a strategic, phased implementation plan helps ensure that the investment achieves implementation objectives over time.

James W. DeLoach is a managing director at consultant Protiviti Inc. in Houston and a member of the Protiviti Solutions Leadership Team. He can be reached at Jim.DeLoach@protiviti.com. Shawn Seasongood is a managing director in Protiviti's financial services industry practice in New York. He can be reached at shawn.seasongood@protiviti.com.



Mr. DeLoach



Mr. Seasongood

Establishing an ERM framework is an evolutionary process.

Lego finds route to growth despite flat market

By **STUART COLLINS**

After losing its way early this decade, Lego A.S. looked to strategic risk management as part of its efforts to rebuild its bottom line.

Today, the Billund, Denmark-based toy manufacturer known for its colorful building blocks wouldn't dream of embarking on a major initiative without first conducting a strategic assessment.

Partly as a result of strategic risk management efforts that began in 2006, the 80-year-old family-controlled company has enjoyed

tremendous success. Despite a stagnant toy market overall, Lego has tripled its revenue since 2004.

The efforts grew from sales that stagnated in the late 1990s and early 2000s when the tightly held company lost its focused approach to strategy and growth and was destroying shareholder value, said Hans Læssøe, Lego's senior director of strategic risk management.

At the time, the company had no specific strategic risk function beyond the intuition of individual

managers, he said. But in 2006, Jesper Ovesen, then chief financial officer of Lego, directed Mr. Læssøe to develop a formalized strategic risk management process for the company.

The aim was to avoid the mistakes of the past and help manage the uncertainties of operating in a global marketplace.

Rather than take a big-bang approach, Mr. Læssøe introduced strategic risk management incrementally.

Although Mr. Læssøe had been

at Lego for some 25 years, he had no experience in risk management at that time. He set about reading everything on risk management that he could lay his hands on, but Mr. Læssøe said he gained the most knowledge from the experience of other companies.

In particular, he valued the exchange of knowledge with his peers at other European firms through the European Council of Strategic Risk Management, a network organized by the Conference Board Inc.

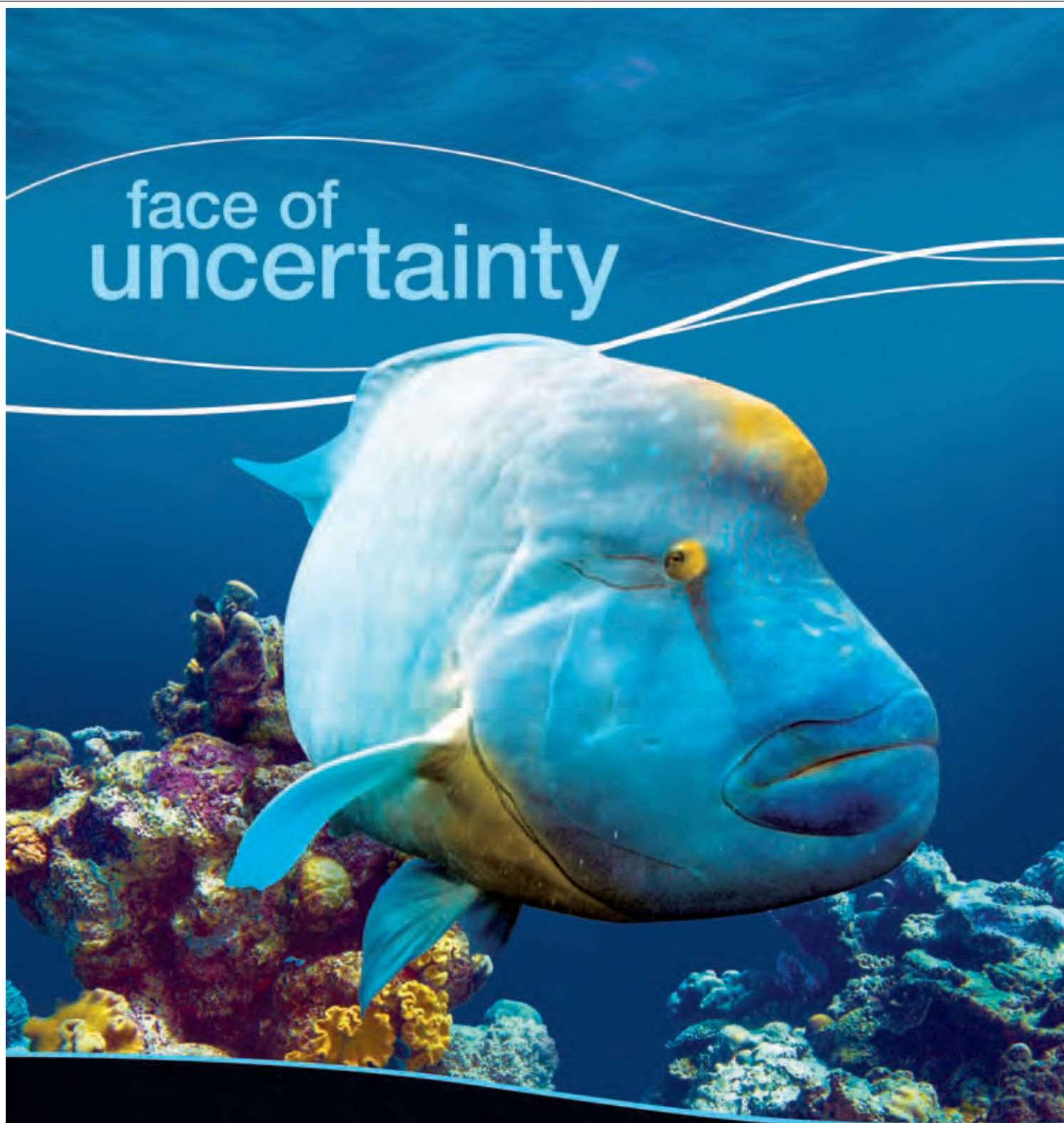
The first step was to establish a specific process to address strategic risks under the company's enterprise risk management umbrella. Lego also looked to establish centralized ERM reporting.

During this initial phase, Mr. Læssøe drew on the collective "brilliance" of some 35 specialist middle managers who contributed to a database of risks and their handling that Mr. Læssøe compiled.

Once this stage was under way, Mr. Læssøe began to look at adding proactive tools to help Lego's most senior managers in their decision-making processes.

These tools included Monte Carlo simulations to better understand volatility in financial performance and to help define risk tolerance. The next big project was the creation of what Lego calls its

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COURTESY OF LEGO A.S.

Despite a stagnant toy market overall, Lego has tripled its revenue since 2004.

active risk and opportunity planning process, a consistent and systematic way to prepare the business case for large investments and projects.

More recently, Lego devised a scenario testing process — known as preparing for uncertainty — to test the resilience of strategic decisions.

Collectively, these steps are aimed at moving risk management up the management chain, getting senior executives involved earlier in Lego's strategic planning. The tools and processes now are used for all major projects and strategic challenges.

For example, Lego applied the SRM process to its challenge of growing its business in Asia.

"Rather than just relying on gut instincts, we can expand in Asia knowing the risks and opportunities, avoiding most black swans," or major, unforeseen events, Mr. Læssøe said.

That strategic risk assessment process, Mr. Læssøe said, has enabled Lego to "dodge a few bullets." For example, the process

See **LEGO** page 12



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25%

After undergoing a strategic risk assessment, Lego was confident enough to invest and expand in the competitive U.S. toy market; it enjoyed record growth of 25% in the U.S. toy market during 2011, despite generally flat growth of the market overall.



COURTESY OF LEGO A.S.

Lego: Focus on strategic risk assessment

CONTINUED FROM PAGE 10

allowed the company to reduce the effect of higher oil prices, which affect the price of materials and logistics. It also has helped to avoid disruptions by carefully managing transitions from one outside provider to another, he said.

But the strategic risk assessment process also has helped Lego seize opportunities, Mr. Læssøe said.

“As a company, we are now more aggressive and able to make larger investments than in the past,” he said. “The strategic risk management process enables us to

focus on opportunities and take bigger chances because we have defined risk tolerances and we can measure and compare our exposures.”

For example, after undergoing a strategic risk assessment, Lego was confident enough to invest and expand in the competitive U.S. toy market; it enjoyed record growth of 25% in that market during 2011, despite generally flat growth of the market overall.

The company also was able to identify the potential for higher demand of its Ninjago toy line.

“We were able to build additional capacity and have the

audacity to plan for higher sales by using insight gained through risk management,” Mr. Læssøe said.

While he has spent the past six years shaping and implementing Lego’s strategic risk framework, he said he anticipates such work will never be complete.

“Strategic risk management is still a relatively new area, and the world we operate in is constantly changing,” he said.

Expanding SRM

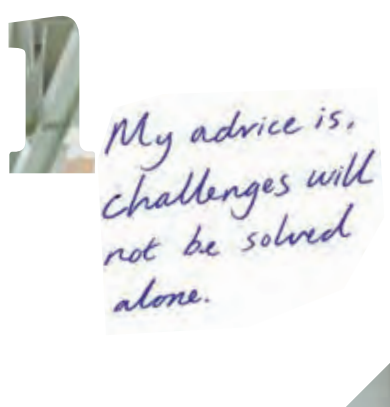
Mr. Læssøe said that next year he wants to expand the SRM process within Lego, a move that would involve more than 200 people as their departments started using SRM.

“If we are to apply it to more explicit risks in the organization, then we will need a more simplified process,” he said.

“Risk management is not just about the top layer of a group. It should be part of what you do as a company every day. You want to see a natural approach to risk management where people ask about uncertainties, rather than

‘Risk management is not just about the top layer of a group. It should be part of what you do as a company every day. You want to see a natural approach to risk management where people ask about uncertainties, rather than only focusing on sales or profit targets.’

Hans Læssøe, Lego A.S.



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Genentech correlates range of biotech risks, rewards

By **LOUISE KERTESZ**

Whatever the new labels for risk management, the basics still apply at Genentech Inc.

"If you ask 10 people to define what (strategic risk management and enterprise risk management) are, you'll get 10 different answers," said Eric Stocker, associate director of risk management at South San Francisco, Calif.-based biotechnology firm Genentech.

"People want to get all academ-

ic and philosophical and say that in SRM, risk represents opportunities, but those same types of statements were used for ERM early in its development," he said.

"I would say just call it risk management. ERM is no different from SRM: You understand the risks, you make some decisions and upside outcomes are always desired, but there's no such thing as no downside" because there's always a cost of managing risk.

For example, he said, volatility

and risk are introduced, if there is consolidation in a company.

There might be an upside of reduced costs "if nothing bad happens" as a result of the consolidation, he said. But if there's an adverse event and "you can't deliver your products, you have a downside." While it's possible to reduce volatility, that also may increase costs. "It's a trade-off and I've never seen a way to get around this," he said.

"Our job (in risk management) is to minimize the long-term cost of risk at the right level of volatili-

ty. If we do that, we're maximizing profit and value" for the company, he said. "We take a very structured approach to make sure we know what the risks are and if they are at the right level."

Although Mr. Stocker said he doesn't particularly like the word "holistic," he concedes it can be applied to Genentech's risk management approach to support decisions about appropriate inventory policies.

Companies will have emergency stock on hand to account for normal fluctuations in deliveries

by suppliers, but he said that doesn't consider a major supplier impairment, or what's considered a "nonrecurring event."

"We have some risk tolerance, but for a supply shortfall for a key product, our risk tolerance is extremely low. We sell drugs. Drugs need to be delivered, especially if no alternate is available," Mr. Stocker said.

To manage that risk, sourcing is examined from raw materials through manufacturing and distribution to the customer, and the economic effects of a major supply interruption are considered. While inventory policies may be changed and multiple suppliers identified, the cost of alternate suppliers is not always adequately offset by the reduction in risk. In those cases, it may be that mitigation through additional inventory could be the preferred method.

The goal is to reduce risk to an acceptable level at the lowest

'Our job (in risk management) is to minimize the long-term cost of risk at the right level of volatility. If we do that, we're maximizing profit and value' for the company.

Eric Stocker,
Genentech Inc.

favorable cost, he said. "In some cases, risk can be hedged with insurance, but insurance doesn't deliver our products," Mr. Stocker said. "Some companies say it's cheaper to buy insurance than change the nature of your business."

Mr. Stocker agreed that a distinction could be made between SRM and traditional risk management, which considers risks "very discretely." The approach at Genentech is that risks are correlated and do not occur in isolation. Risk management staff "go through an exercise" to aggregate risks that might begin with product liability, which can be hedged with insurance.

"But we don't worry only about being subject to penalties. You have to look at what else" that risk might trigger, he said. There could be a perfect storm that could cause the share price to drop, cause litigation against directors and officers, and extend to other products if, for example, doctors should lose confidence in the company.

"Our job is to provide the analysis and the story (of those correlated risks) to senior management," Mr. Stocker said.

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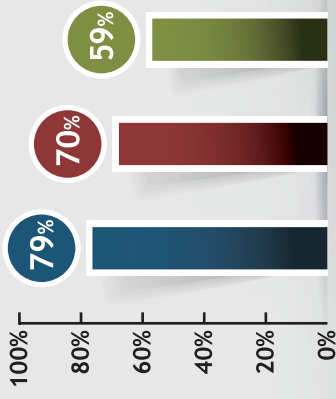
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RISK MANAGEMENT AND ENTERPRISE RISK MANAGEMENT:

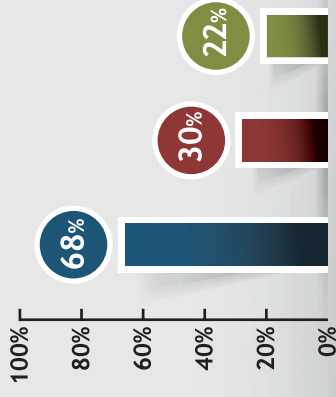
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IMPORTANCE OF RISK MANAGEMENT IS ON THE RISE ... BUT ADOPTION OF A MORE STRUCTURED APPROACH TO MANAGE RISKS IS NOT CONSISTENT ACROSS ALL ORGANIZATION TYPES.

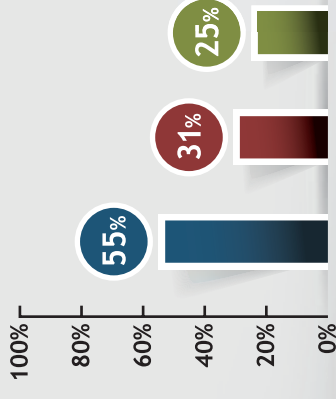
Risk management is a higher priority today than two years ago:



Has established an enterprise risk management program:



Has established a strategic risk management program:

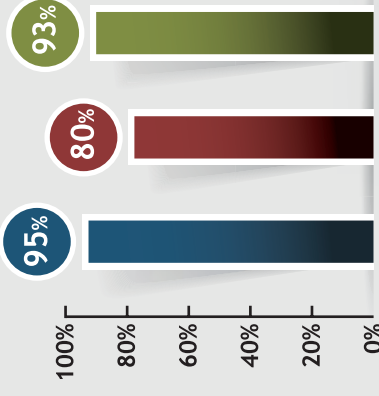


ERM IS IN PLACE AT **71%** OF ALL ORGANIZATIONS WITH A STRATEGIC RISK MANAGEMENT PROGRAM VS. **23%** OF THOSE STILL CONSIDERING IMPLEMENTATION OF STRATEGIC RISK MANAGEMENT.

Source: All data in this poster was compiled from an extensive survey conducted in July 2012 by Signet Research Inc. on behalf of Business Insurance. Signet's analysis was based on 485 responses from individuals who indicated they are involved in risk management decisions for their company.

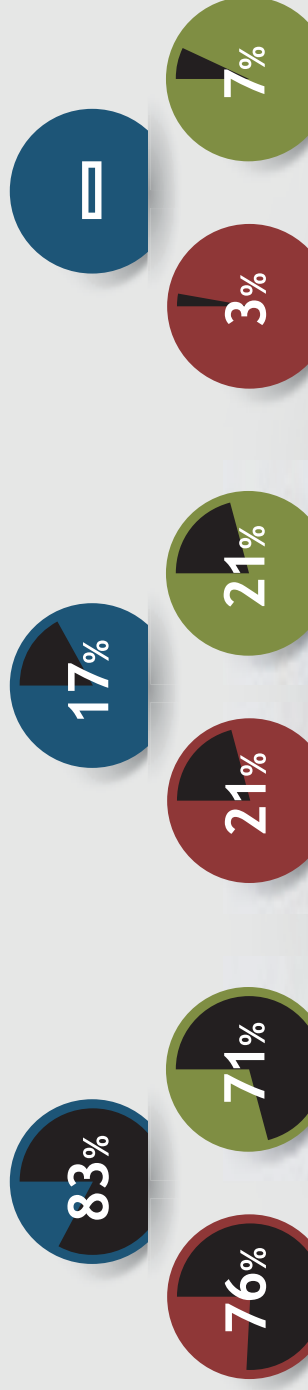
COMPANIES WITH A STRATEGIC RISK MANAGEMENT PROGRAM ARE MORE LIKELY TO HAVE FORMAL RISK COMMUNICATION PROCESSES.

Among companies with SRM, have a formal mechanism to communicate risk to top management:

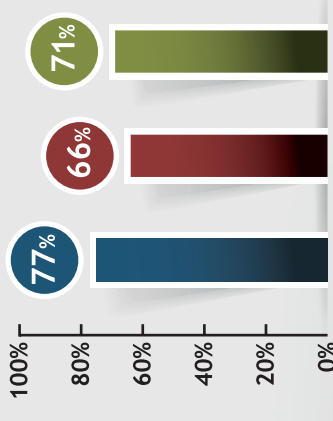


Form of risk communication with management:

Formal in-person meetings and written reports In-person meetings only Written reports only



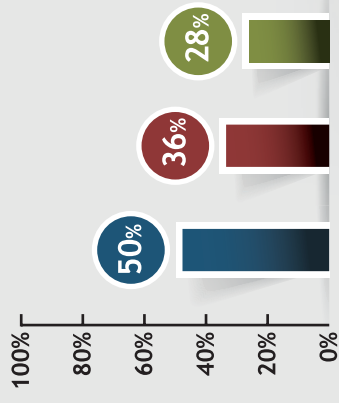
Quarterly communication with management is most common:



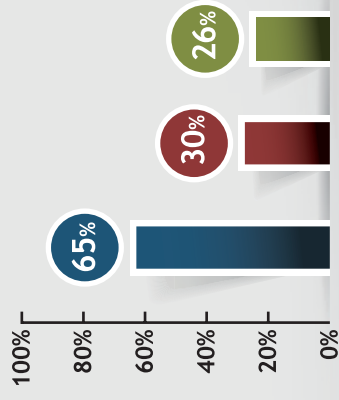
REGARDLESS OF A HIGHER IMPORTANCE PLACED ON RISK MANAGEMENT TODAY, MANY ORGANIZATIONS HAVE NOT ESTABLISHED THE APPROPRIATE RISK MEASURES

ONE OF THE CHALLENGES OF RISK MANAGEMENT IS FINDING THE 'RIGHT' PLACE WITHIN AN ORGANIZATION

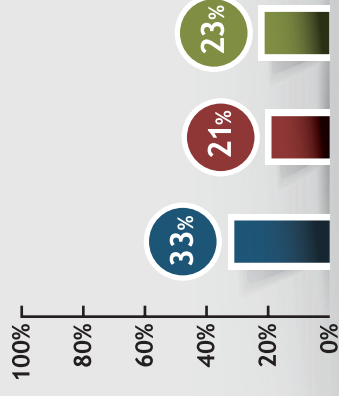
Has formally defined the company's risk appetite:



Has a risk profile:



Has a formal mechanism for measuring risk management ROI:



Who owns risk management in your organization?



WHICH RISKS ARE MONITORED BY ORGANIZATIONS?

Risks currently measured:



Multiple responses permitted

RISK MANAGEMENT STILL IS NOT EQUALLY INVOLVED IN ALL PARTS OF THE ORGANIZATION.

In which of the following areas is risk management function in the decision-making process?



Multiple responses permitted

WHAT ARE THE RISK CHALLENGES ORGANIZATIONS FACE IN THE NEXT TWO YEARS?

Main risk challenges in next two years:



Multiple responses permitted

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Paychex reaps benefits from strategic view of risk

By **LOUISE KERTESZ**

Even before the term strategic risk management was coined, Frank Fiorille said he had always taken a strategic view of risk management.

"I've been doing risk management for close to 20 years, and I thought from the beginning that we should be trying to focus on what can go right versus what can go wrong," said the director of risk management at Paychex Inc. in Rochester, N.Y.

While Mr. Fiorille said he makes "no distinction" between enterprise risk management and strategic risk management, he considers the SRM approach "the next frontier."

In recent years, Paychex has implemented a specific program focusing on "turning risk management around from defense to offense, going out and leveraging the skill sets, tools and models within the risk management team and focusing on how we can go about maybe trying to take more risk intelligently," Mr. Fiorille said. "That even covers going into new businesses, products and verticals"—or industries in which the company's risk management staff members have expertise.

Strategic mindset

Although Mr. Fiorille declined to provide details, he cited an example in place for several years. The payroll, human resources and benefits outsourcing firm's risk management team has expertise in regulatory and compliance risk within its retirement services business.

Because the team understood "the law, the regulations, the arcane workings of that business line," the team was able to come up with additional services for Paychex clients that have resulted in increased revenue for the company.

"A lot of the time, you have folks in that (risk management) group that know almost more about a product or business than the operations or business folks," Mr. Fiorille said. "If they put that (strategic) cap on, that mindset, they're going to come up with something that is good for the company."

Typically, the risk management team includes members who devise sophisticated risk models to "play defense and protect shareholder value," he said. Using a strategic approach, "what we've done is taken that (quantitative analysis) group to build models to help us on our top line," creating what he calls "territory optimization models." Those models show the best areas in which to deploy staff to increase sales, he said.

The "quant group" also has devised a cross-sale model to help salesmen sell complementary products to existing customers. While that effort is relatively

new, "I'm pretty confident it will help the company," Mr. Fiorille said.

And risk management staff did not encounter any hurdles in the company in pursuing these strategic efforts, he said.

"The lesson is you have to start in a place where people will embrace (the concept). It depends on the culture of the company and the industry you're in. If you're fortunate enough to get some

'A lot of the time, you have folks in that (risk management) group that know almost more about a product or business than the operations or business folks. If they put that (strategic) cap on, that mindset, they're going to come up with something that is good for the company.'

Frank Fiorille, Paychex Inc.

small wins, that leads to bigger and better things; and senior management will allow you the

opportunity to go out and expand" your efforts, Mr. Fiorille said.

Strategic risk management is "talked a lot about at conferences," but you don't get much information from peers, he said. "I'm guessing some are doing it, but right now it's more theory and talk and trying to figure it out."

He added that the approach "is definitely gaining momentum and evolving, and I think it's what boards (of directors) and senior management are going to ask risk management folks to start focusing on. I think it's really early, but it's the next thing."

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Captives: Holistic view

CONTINUED FROM PAGE 4

America later brought to the U.S., establishing a subsidiary of the Vermont captive in Paraguay to provide fronting for operations there, acquiring a license for the captive as an eventual reinsurer in Brazil and using the captive to write employee benefits risks.

While allowing that a widespread drought makes this a bad year to be writing U.S. crop insurance, Michael Lusk, vice president of insurance and risk management at ADM, said that the company has had other good years and it's necessary to take a multiyear approach to crop insurance. Beyond that, he said, the program has met the company's goals of assisting South American farmers to meet their commitments to deliver grain to ADM operations and strengthening the company's relationships with its customers.

On the employee benefits front, he said, "One of the things that ADM thinks is key going forward is we want to retain and attract the most attractive employees that we can." Benefits can factor into that effort, so risk management worked with human resources to find a way to use the captive to meet that goal.

"We get involved with the business units to try to find out what their needs are and try to see if there's an insurance solution to their needs," Mr. Lusk said. "Generally, most of the situations do have an insurance solution; and if it makes sense and is cost-effective,

we'll put that solution in place."

That sort of discussion is "a discussion risk managers should be having with their operating entities," Mr. Bauman said. "The captive is a great vehicle to promote that discussion."

"Once you've got the right structure in place, effectively you can use (a captive) to fund anything," said Les Boughner, executive vice president and managing director of Willis Group Holdings P.L.C.'s North American captive practice in Burlington, Vt.

He said he's working with a company that is planning to use its captive to write lines of coverage for clients. "It's a retention strategy" aimed at strengthening the clients' ties to the captive owner, he said.

Mr. Lochner agreed that while there are several reasons a captive might consider writing third-party business, among them is allowing the company to support business partners or strengthen client relationships.

For companies with more mature captives, the capital and surplus that's been built up allows them to consider innovative approaches, Mr. Bauman said. "I think the whole maturity aspect of captives has allowed them to step up to the next level and not only be more proactive but enhance their businesses," he said.

But as they move into new areas or emerging exposure, they should step wisely, Mr. Bauman said.

"As a captive moves into emerging risks, I think it's important

they not take too big a step," he said. "Even though some captives have grown to sizable assets, you don't want to put all that at risk."

A traditional insurer partner such as Zurich can help captives make some of those moves, sharing the risk and allowing the captive to assume more of the exposure as the parent becomes more comfortable with it, Mr. Bauman said. "We can provide protection to them on a gradual step-up basis," he said.

"I think you have to rely on people who you respect in the industry and people you feel have the know-how and the resources to work through some of the problems," ADM's Mr. Lusk said. "You kind of build and try to really put that structure together."

The flip side of a more mature captive with a more advanced program is that "wins" can sometimes get harder to find, Mr. Lusk said, with not every opportunity that's considered becoming one that will ultimately prove to be a valid chance to use the captive to advance aspects of business strategy.

"It depends who you are at what stage of your captive," Mr. Lusk said. "As you go on, you'll have as many losses as wins."

"You start to get involved in areas where it's more difficult to achieve the wins," he said.

Various factors can prevent a company from using its captive in certain advanced strategies, including the inability to get reinsurance support or to determine the appropriate triggers for the policy.

"It's just a natural aspect of it as you go along," Mr. Lusk said.

'I think risk appetite tends to go up and down based on external events, and a lot of it is based on human perception. You have to be careful letting human perception guide you.'

Rupak Mazumdar, George Weston Ltd.



Appetite: Success rests on solid communication

CONTINUED FROM PAGE 4

SRM, rather than anchoring risk appetite to particular categories of risk, "what a lot of organizations are doing is they're tying risk appetite to their objectives," he said.

An SRM objectives-based approach also can help with factoring seemingly nonquantifiable risks, such as reputational risk, into risk appetite determinations.

"I think that's where, if you can tie it to concrete objectives, that can help. Because if those objectives are properly defined, they're going to have goals, they're going to have metrics," Mr. Mazumdar said. "By doing that, you can get away from some of the challenges of how do we deal with some of these high-level risks that don't lend themselves easily to quantification."

Mr. Mazumdar stressed the importance of communicating risk appetite throughout the organization. "I think what often happens in risk management is there's a lot of work done in the front end but not much in the back end," he said.

It's essential that the organization's risk appetite gets "cascaded down" from the board to operations, and there needs to be some sort of measurement mechanism to coordinate the organization's performance with its risk appetite, Mr. Mazumdar said.

"You've got to find a way to

compare your target risk appetite with your actual risk appetite," he said. "You need to find a way to take a look at what your risk appetite is, checking to see whether you're actually operating within your risk appetite."

"It's a common thread no matter what method you use," Mr. Mazumdar said. "If that's not part of your plan, that's a real problem."

Additional cautions he offered include making sure any risk models used in risk appetite calculations are based on proper assumptions.

"Also, I think risk appetite tends to go up and down based on external events, and a lot of it is based on human perception," he said. "You have to be careful letting human perception guide you."

"If you're building your risk appetite based on intuition, you can get into trouble," Mr. Mazumdar said.

RIMS also notes the importance of monitoring and updating risk appetite and tolerance over time.

Steve Zawoyski, a partner at PricewaterhouseCoopers L.L.P. in Minneapolis, suggested that it might occasionally be necessary for organizations to consider the applicability of a set risk appetite within a given opportunity.

"If you have a huge reward opportunity, would you want your appetite applied to that or would you have a different equation?" he said.



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Measuring: Models, data quantify risks and rewards

CONTINUED FROM PAGE 6

Such measurements of risk help Hilcorp leverage its captive insurance company against the insurance market when placing difficult risks, he said.

"We're not going to write anything in the captive that we don't feel that we can model or really get our head around and reduce the uncertainty," Mr. Hayles said.

The Utah-domiciled captive, Navitas Insurance Co. L.L.C., was formed in 2010 and writes short-tail property risks, but the company is considering adding casualty risks, he said.

For organizations attempting to measure risk to facilitate strategic goal setting, the actuarial community has a lot to offer, said Christopher Bohn, senior consultant and actuary at Towers Watson & Co. in Chicago.

"I really think that the techniques that actuaries have used to measure and price those risks are something that organizations should be using to expand their view of their strategic risk management," he said.

While there are risks that are difficult to insure, such as supply chain exposures, "you can use the same techniques of breaking down the problem and building up a model to figure out what is the actual exposure," Mr. Bohn said.

"Risk models really need to be probabilistic," said Douglas Hubbard, president of Hubbard Decision Research in Glen Ellyn, Ill. "We need to assess individual probabilities or we're not even speaking the language of risk."

Models that assess risk using high-, medium- and low-risk assessments don't necessarily add up when assessing risk across the organization, Mr. Hubbard said.

"They're meaningless on figuring out the risk for the whole enterprise," he said. "If you're not measuring risk like an actuary, you don't really know that your risk went down by 25% last year because of the mitigation efforts you made."

When measuring risks of an organization, risk appetite and tolerances play a large role in connecting risk to strategic goal-setting, and they need to be explicitly addressed, industry experts say.

Carol Fox, director of strategic and enterprise risk practice for the Risk & Insurance Management Society Inc. in New York, said a company's strategic goals are very much tied to the risk appetite and tolerances of the organization.

"As organizations look at strategic risk management, often what they're measuring are those deviations that the risk might result from and the deviation from expected outcomes and strategy," she said.

"Monitoring those deviations—not only just the beginning of what the end would be, but monitoring as the execution occurs—might be a way that I've seen organizations use in order to measure how well they're doing against that strategy in managing, con-



'As organizations look at strategic risk management, often what they're measuring are those deviations that the risk might result from and the deviation from expected outcomes and strategy.'

Carol Fox, Risk & Insurance Management Society Inc.

trolling or exploiting those risks."

When assigning a price or value to risks, risk managers often look at the volatility of the risk against the objective, Ms. Fox said, noting that some risks cannot be mea-

sured. "It's enough to say, 'Is this impactful enough to our strategy to either derail it or ... do we even want to care about it?'" she said.

Senior management increasingly is looking for data that is action-

able as they develop their company's growth strategy, said New York-based Claude Yoder, head of global analytics for Marsh Inc.

The total cost of risk, a measurement long used by companies

that calculates the costs of managing risks and incurred losses, can be viewed strategically if it's expanded in terms of volatility around the cost of the risks, Mr. Yoder said.

While assigning absolute values to costs such as insurance premiums may be appropriate, the values of retained losses, which can be a significant piece for large corporations, have inherent uncertainty, Mr. Yoder said.

"Understanding the nature of that uncertainty is something we spend a lot of time with ... so we can derive the optimal program structure that considers that uncertainty against the company's own appetite for bearing risk," he said.



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Perspectives

What can we do today to get a jump on preparing for uncertainty? While executives in a PricewaterhouseCoopers L.L.P. survey say they have a good handle on internal risks, concern is growing about risks generated outside the company, says Steve Zawoyski, a risk assurance partner with PwC in Minneapolis. The key to understanding risk lies in understanding uncertainty and in choosing the right risk mitigation tools for the right level of uncertainty, he says of concrete tips offered to professional risk managers.

Tips for dealing with emerging risk

By Steve Zawoyski

In an increasingly risky world, does your organization have a seat at the strategy table for professional risk managers? Is insurance a viable risk transfer strategy for dealing with uncertainty? What can we do today to get a jump on preparing for uncertainty? All are good questions, and this article will try to shed some light from PricewaterhouseCooper L.L.P.'s cross-industry research and experience.

The first part of this article describes executives' perceptions of risks today. They agree that there is a good handle on managing internal risk, as in those risks generated within the corporation. But there are concerns over risks from outside the business. External and emerging risks can be unsettling because they are often unfamiliar and, in many cases, direct control over external risk is shared with trading partners and investors. Such risk also can be many layers removed but still directly effect your organization. This is, essen-

tially, a whole new ballgame.

The next part of the article focuses on how risk professionals can help their peer executives think through these new risks and challenges. The key to understanding risk lies in understanding uncertainty in its many varieties, and then in choosing the right risk mitigation tools for the right level of uncertainty.

Lastly, this article gives concrete strategies and tools to get a jump on emerging risk before it gets the jump on you. There are no guarantees, but this is a quick guide with input from leading risk management organizations.

According to our PwC survey, more than 50% of companies said they were doing a poor job of managing external risks. One out of three executives we interviewed thought his or her organization did a "very poor" or "neither poor nor well" job of managing financial market risk.

That's not too surprising. Many contemporary risk management approaches do a poor job of dealing with external risk precisely because they did such a good job when focusing on risks arising from inside the company.

We often tend to focus on what we know and what we control. The initial focus of enterprise risk management is internal risk, as in risk within accounting, finance, supply chain and operations systems. These are man-made systems, refined through a precise application of controls, metrics and information management. Through analysis as well as trial and error, organizations have also refined their ability to manage the risks they generate. The systems are well-defined and produce reliable data from which we can draw trends, use refined predictive modeling techniques, and seek to optimize value. They are also stable, and that is a huge advantage in managing risk.

External risks are a much different animal. There are too many external variables that dynamically connect, reconnect and change, especially in a global operation. Globalization means giving up direct control over parts of the operation. This introduces uncertainty, and uncertainty increases risk. Our underlying assumptions about strategy and risk have to evolve as our focus shifts from internal to external factors.

We can no longer assume the economy will operate at or near equilibrium. Sudden, discontinuous change dispels the notion of stability. As small changes in one variable cause disproportionate effects on a global basis, we see unpredictable nonlinear effects. We are just beginning to understand these dynamics. Risk and insurance executives, knowledgeable in uncertainty and in the importance of risk in context, can play a crucial role in identifying and mitigating emerging external risks.

The second part of this article focuses on how risk and insurance professionals can help develop new ideas, approaches and methods. Progress in developing effective risk responses must be grounded in a good understanding of uncertainty because that is the heart of

strategy and risk management.

There are many shades of uncertainty, and they exist in a continuum. At one extreme, there is no uncertainty; things are completely "determined." There is only one correct answer. An example is optimization theory and linear programming. The problem may be complex, but it is well-bounded and constrained. The variables are "well-behaved," and there is no randomness.

The next level gets more complicated because there is more than one possible outcome. But we have good historical data and a relatively stable environment. Even though chance or randomness will intervene, we can set the odds or probabilities with a degree of confidence. This is the "moderately stochastic" or moderately random level.

However, in the next level of uncertainty, randomness or "dumb luck" comes even more into play. This uncertainty is called "severely stochastic." It means several events can take place, and we cannot assign a probability because we lack quantitative data. We can, however, learn more about these risks through scenario building and simulations, but not enough to set odds or probabilities. That brings us to the last level of uncertainty — indeterminacy.

Indeterminate risk is not on our risk radar. There are no data, no patterns, no anecdotes and no war stories. There are no obvious triggers or warning signs; indeterminate means a complete and total blindside. An indeterminate risk is not obvious until after we have the catastrophic failure.

How can we deal with indeterminacy? First, become more aware. Always look for it. Do not always assume stability. What we know "for sure" today may be turned upside down tomorrow. Second, indeterminacy means the possibility of great risk and great reward. In business, as in poker, it's not the hand you draw that counts; it's how you play it. The next section looks at some practical tools to help play the hand that business deals you.

Two tools come to mind when dealing with indeterminate risk: hedging and real options.

Insurance is, after all, a hedge or a way of transferring or offsetting risk. That has grown into an extraordinarily sophisticated sci-

ence and can make enormous contributions to mitigating high levels of uncertainty in corporate strategy.

Likewise, real options theory is useful in framing critical dates to either exercise or "pass" on strategies that are time-dependent. We also have other tools such as agent-based modeling, behavioral economics and network theory to help understand uncertainty.

PwC asked some of the best risk managers in the business for tips on how they deal with emerging, external risks. Here are the top five taken from our August 2010 Risk in Review report:

REVERSE STRESS TESTING: Stop worrying about probabilities and just assume the threat will take place. Now work backward and identify your vulnerabilities for a given threat level.

MANAGE CRISES AS IF THEY OCCUR EVERY DAY: Unexpected risks will take place. Build buffers and slack into your system so it can rebound quickly.

ENABLE COMPANYWIDE RESPONSE TO EMERGING THREATS: PwC's Dean Simone, the firm's risk assurance services leader, recently explained that while most organizations are well aware of risk in the eurozone, responding effectively to the possibility of a eurozone breakup might require companies to employ an integrated cash-pooling system to know where their money is throughout Europe on a day-to-day basis. Responding to actual risk events often requires organizationwide integration of financial and information technology systems.

INTEGRATE RISK MANAGEMENT WITH STRATEGIC PLANNING: Strategic risks are often embedded within a company's strategic initiatives. Risk professionals bring diversity and insight. They will often stop potential risks that, once recognized, can be isolated and mitigated.

DON'T FOCUS EXCLUSIVELY ON THE DOWNSIDE OF RISK: Levels of uncertainty are common to risk and reward. Develop the capabilities to recognize and respond to an uncertain environment that spawns risks and rewards.

Insurance professionals can bring a new way of thinking to strategy because they understand risk and uncertainty. The need is there and it makes sense to fully use this corporate asset.

Steve Zawoyski is a risk assurance partner with PricewaterhouseCoopers L.L.P. in Minneapolis. He can be reached at stephen.v.zawoyski@us.pwc.com.



Mr. Zawoyski





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Capital: Strategic risk management deploys resources to back opportunities

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Lego brand toys. Since implementing SRM, the company has gained a greater appreciation for the risks affecting its sales objectives and manufacturing processes.

"We have always known that the toy industry is volatile, but it was not until we began analyzing the (sales) data from a risk management perspective that we obtained insight into how uncertain it really is," said Hans Læssøe, senior director, strategic risk management at the Billund, Denmark-based Lego.

The firm learned through an SRM analysis that its sales goals faced more market uncertainty than previously thought, a condition that would likely continue. This guided a bold decision to invest in new products.

"We defined our corporate risk tolerance and measured our actual exposure vis a vis this tolerance," Mr. Læssøe said.

"It demonstrated that we did not, by far, utilize the degrees of freedom that were provided by the board of directors and, hence, we could allow ourselves to 'drive faster.' This led to greater daring, making bigger and more novel product launches, outpacing what our competitors were doing," Mr. Læssøe said.

The end result? "We are growing faster than we otherwise would have," he said.

Lego further learned through the SRM process that its decision to outsource manufacturing of its products in 2005 and 2006 was not working as planned. It decided to "re-insource," as Mr. Læssøe put it. "This was carefully risk managed and executed to the extent where we still were able to deliver more products to the market than planned and, hence, fulfill market demands, which were bigger than expected."

Munich-based Allianz S.E. is another SRM adherent.

SRM not only makes the company's risk profile more transparent, it tests whether this risk profile is consistent with its strategy, said Thomas C. Wilson, chief risk officer at Allianz Group, which provides products and solutions in insurance, asset management and banking.

"Strategy is making sure the organization is moving in the right direction," Mr. Wilson said. "SRM is the process by which we check our risk appetite and ensure that the delegated authorities (within the organization) are adhering to policies and guidelines, that the risks we take or do not want are consistent with this direction," he said. "And we do this by putting risk management into the strategic planning process."

As an example of SRM in the context of capital allocation, Mr. Wilson cited a major strategic risk: the European sovereign debt crisis.

"In our SRM planning process, we discussed possible remediation steps that we could take such as generally reducing our exposures and concentrating the residual in local balance sheets, selectively reducing our exposure to financial institutions and banks and changing our life products and pricing. All of these actions have a profound impact on how capital is allocated," Mr. Wilson said.

At a time when many organizations are hoarding cash because of

the uncertain global economy, SRM could boost a company's confidence to strategically tap its capital.

"Companies are holding onto a lot of cash these days, and a large part of that has to do with strategic risks," said Carlos Alvarenga, global head of operations, risk and finance, in the Washington office of consultant Accenture P.L.C.

He chalked up many companies' tight-fisted posture to three

'Companies are holding onto a lot of cash these days, and a large part of that has to do with strategic risks.'

Carlos Alvarenga, Accenture P.L.C.

reasons: shorter-term strategic timelines because of the difficulty positing a longer-term strategy; a reluctance to deploy capital in physical assets, such as factories and inventory, because of the less certain financial benefits of manu-

facturing in emerging markets such as China; and the inability of certain industries to transfer strategic risk.

"If you cannot predict what your industry will look like in four months, you're very hesitant about deploying capital," Mr. Alvarenga said. "Consequently, more organizations are finding value in SRM as a formal, structured process to move capital forward. SRM allows them to put a stake in the ground and feel more confident about allocating capital with respect to making a strategic decision."

"While one cannot be 100% sure the decision is right, it is at least better than doing nothing," he said.

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Strategic: Recasting risk as growth opportunity

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While some organizations might integrate strategic risk management into a broader enterprise risk management program, SRM is “a laser focus,” said Carol Fox, director of strategic and enterprise risk practice at the New York-based Risk & Insurance Management Society Inc. That program concentrates on strategy planning and execution “in a very focused and disciplined way.”

“It really is to physically focus on planning and strategic execution,” Ms. Fox said.

Seeing a number of different definitions of strategic risk management and a lack of consistency in discussions of what it entailed, RIMS provided its own formal definition of SRM in 2011. According to RIMS’ definition, strategic risk management “is a business discipline that drives deliberation and action regarding uncertainties and untapped opportunities that affect an organization’s strategy and strategic execution.”

Used effectively, strategic risk management can identify situations in which risk can be a competitive advantage instead of strictly a threat to a strategic plan.

“As you go down that maturity, ultimately the goal is you want to include risk in your decision-making process, improving the way you make decisions and the speed at which you can make deci-

sions,” said Steve Zawoyski, a partner at PricewaterhouseCoopers L.L.P. in Minneapolis.

In assessing their organizations’ risks, some risk managers might tend to think, “If I start off with just hazards, I can move on to opportunities three years from now,” Mr. Zawoyski said. “Well, my caution is, if you only talk to people about hazards, all they think about is hazards.”

Strategic risk management can be integrated into a wider enterprise risk management program, Ms. Fox said. “We would argue that all organizations should have an enterprise risk management umbrella,” she said. But, acknowledging that many organizations for whatever reason are likely not to move toward ERM, Ms. Fox said those organizations can still embrace SRM, “in this case specifically focusing risk management practices in a strategic way.”

“Strategic risk management is an element and a necessary foundation for ERM,” said Mark L. Frigo, director of the Center for Strategy, Execution, and Valuation and the Strategic Risk Management Lab in the Kellstadt Graduate School of Business of DePaul University in Chicago. “It is often a missing element in existing ERM programs. And for organizations starting to develop ERM, it is a necessary foundation for building an effective and sustainable ERM program that creates as well as

51% 45%

Asked how risks can be better integrated into their organization’s strategic planning goals, 51% of C-suite survey respondents said by adopting a formal strategic risk management process, while 45% said by involving risk management in the early stages of strategic planning.



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Mr. Frigo said SRM requires thinking differently about risk and uncertainty. “There are a number of obstacles for developing SRM that need to be overcome,” he said. “One obstacle is overcoming the status quo way of thinking about risk management in the organization.”

“The thing that needs to be clear from the outset is you’re really partnering with those who have responsibility for strategy,” Ms.

Fox said. “There are certain organizations where it might be seen as, ‘We don’t want to talk about risk because that’s the downside.’”

For strategic risk management efforts to succeed, the risk manager should be seen as a resource by those responsible for setting strategy, she said. “Helping them understand what’s in it for them is probably the best approach,” she said.

The interest in SRM at many organizations is driven by a real-

ization that their ERM efforts were missing many strategic risks and a sense that much of their risk assessment wasn’t “at the level needed to address risks that threaten organizations’ survival,” said Rupak Mazumdar, senior manager, enterprise risk management at George Weston Ltd. in Toronto.

At some organizations, “It’s so difficult to put their hands around

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(strategic risks) in terms of these things happening that they omit them in their risk maps," Mr. Mazumdar said.

Also, some think enterprise risk management is too focused on operations, Mr. Mazumdar said. "I think there are some in the ERM community who would say if you would have done it properly, you would have captured the strategic risks. There are others who say no," he said. "I think it's a debate that's still occurring in the risk management community."

DePaul's Mr. Frigo said that ERM can take in a number of risks, some of which, while potentially harmful, don't threaten the organization's overall health or ability to meet its business objectives.

However, recent events such as the 2008 financial market collapse and subsequent credit crisis offer examples of strategic risks that can threaten an organization's survival.

"These more significant risk exposures have given rise to a focus on strategic risks and strategic risk management," he said.

Speaking to organizations' growing awareness of the need to address strategic risk, Marsh Inc.'s 2012 Excellence in Risk Management survey showed that 64% of C-suite and risk manager respondents listed a strategic view of risk and risk management's role as one of the top three abilities required to lead risk management.

Asked how risks can be better integrated into their organization's strategic planning goals, 51% of C-suite survey respondents said by adopting a formal strategic risk management process, while 45% said by involving risk management in the early stages of strategic planning.

"The good news is that many organizations are seizing the opportunities and integrate risk management deeply into their strategic planning," said Brian Elowe, managing director in Marsh's global risk management division in Boston, during a June 20 webinar discussing strategic risk management.

But other organizations have yet to do so, he said.

George Weston's Mr. Mazumdar said he's still making up his mind about the need for a distinct SRM discipline in addition to ERM.

"I can see the pros and cons of both," he said.

At present, George Weston is dealing with its strategic risks through its enterprise risk management process by making sure the ERM process is closely tied to the company's strategic planning process.

"They're done in parallel," Mr. Mazumdar said.

"It's all in the execution," he said. "Both ways can fall flat if you don't do it right."

Message: Strategic risk management efforts hinge on strong ERM program

CONTINUED FROM PAGE 3

demonstrating value of ERM and SRM to stakeholders remains challenging, industry experts say. But, according to Mr. Fiorille, once the value proposition of ERM is endorsed, C-suite executives see the value of having the risk function at the table.

"In my experience, they like it. They see the value and they see what it can do for the business," Mr. Fiorille said, noting that risk managers with established ERM programs are well-equipped to take on SRM initiatives.

As buy-in comes from the top, senior-level management needs to understand their risk exposures, said Joe Calandro, managing director in PricewaterhouseCoopers L.L.P.'s U.S. insurance advisory division in New York. Gathering information to assign values to various exposures across the organization requires significant time and expertise.

"If you have good exposure data and you understand your gross and net exposures, you can screen a lot of those ambiguous threats away and anchor your analysis to what's going to hit your balance sheet," Mr. Calandro said. "A chairman of the board and chief executives are going to really want to understand that and be able to manage it and take it in context. So there's going to be questions."

Organizations that can harness exposure data from across the organization to demonstrate to senior management internal and external risks have the advantage going forward with respect to their internal and external risk environment are going to have the advantage going forward, he said.

Most firms report quarterly to a risk committee that monitors select risks issues. "It starts with that," Mr. Calandro said.

Hans Læssøe, senior director of strategic risk management for toy manufacturer LEGO Group in Billund, Denmark, said that specifically and knowledgeably addressing risk issues with senior management is crucial when communicating SRM efforts.

"My key point of making the case for SRM is 'the language of business,'" Mr. Læssøe said. "When you explicitly address and prioritize risks and opportunities and know your exposure vs. the risk appetite, you will often find that you can take bigger chances and be more bold than you expect. That is the base for faster growth and higher profits, based on a limited effort," he said.

Laurie Champion, managing director and practice leader for enterprise risk management at Aon Global Risk Consulting in Atlanta, said it is important to explain how SRM and the corporate strategy are linked to help people understand how the process will work.

"What we're talking about here is making risk an integrated part of the strategy process," Ms.

Champion said. For some clients, "we'll talk about the risk component of the strategic planning process; they put it in those types of words," she said. "That becomes more accessible to people because it doesn't sound like something different; it sounds like we're mak-

'If you have good exposure data and you understand your gross and net exposures, you can screen a lot of those ambiguous threats away and anchor your analysis to what's going to hit your balance sheet.'

Joe Calandro,
PricewaterhouseCoopers L.L.P.

ing our strategic planning process better."

Another important consideration is dealing with the reporting and communication around risk, Ms. Champion said.

To the extent an organization can use familiar and existing formats for reports about risk, the easier it is for people to see SRM as

a natural extension of the business, she said.

"Those key elements make this much more accessible to people," Ms. Champion said. "It's easier to see why we're doing what we're doing and why there's value in it."

At Paychex, Mr. Fiorille's first reaction was to build risk models that were germane to the risk function, which didn't generate much internal interest.

"The way to get the resource investment and buy-in was to build something for people to understand," Mr. Fiorille said. "We built a model that was more for the operations and sales guys, and it worked very well. That basically set the tone and led the way for us to then build traditional risk models."

Communicating SRM efforts to stakeholders helps them understand the risks that could impede the company's vision, said Corey Gooch, Chicago-based senior ERM consultant at Towers Watson & Co.

"It is very important to communicate to the stakeholders in a common language with metrics they understand," Mr. Gooch said. "The use of a more analytical approach, even if it is soft analytics, to put numbers around the risk's size compared to risk appetite" helps stakeholder understanding. "Then, measure the expected return on investment from the mitigation strategies in place for a common metric important to management."



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Perspectives

In the same way that commercial insurers apply predictive analysis to manage their underwriting portfolios, self-insured entities also can benefit from using this approach. Tony F. Bloemer and Robert J. Meyer of Milliman Inc. and Roger Burkhardt of EagleEye Analytics Inc. explain what predictive analytics can do and how to apply it to reduce business costs and improve strategic planning.

Predictive analytics can lower self-insureds' costs

By **Tony F. Bloemer,**
Roger Burkhardt and
Robert J. Meyer



Mr. Bloemer



Mr. Burkhardt



Mr. Meyer

Company Y manufactures industrial-grade construction material across 27 operating units in 11 states. Given the company's size, and its loss-control and claims management programs, senior management decided eight years ago that the company would be better served by self-insuring its exposure to workers compensation claims rather than purchasing insurance.

Despite the best efforts of the company's risk manager, there is a dispute with business units every year over internal cost allocations. Furthermore, the cost of the self-insurance program has gone up nearly every year, driven by the adverse development of a handful of very large losses that have raised doubts about the effectiveness of the risk management department and the overall value of self insurance.

Instead of reviewing claim activity on a unit-by-unit basis, what if Company Y could look across the entity to identify more meaningful segments of its self-insurance program in a statistically credible and consistent manner, leading to reduced overall program costs and a more unbiased formula to allocate these costs to its 27 operating units? This is now possible thanks to predictive analytics, an approach that has gained popularity among commercial insurers and is equally applicable to self-insured entities.

Commercial insurers already apply predictive analytics in pricing their products and managing their overall underwriting portfolio. They are discovering innovative processes and techniques that help them identify segments of their business that have been consistently overpriced or underpriced. By taking a page from insurers' best practices, self-insured entities can benefit from predictive analytics and improve the financial health of their self-

insurance programs.

Today's predictive analytics applies sophisticated quantitative models to exposure and claims data to quickly identify not-otherwise-discoverable relationships in insurance claims data. These hidden relationships can form the basis of improved strategic planning going forward.

Risk managers often focus their efforts on safety studies as a basic form of predictive modeling. Safety studies are useful for internal benchmarking, showing divisions, locations or other segments within an organization that tend to generate higher or lower claim costs. However, modern predictive analytics takes the process a step forward by mining data on a more multidimensional level, yielding results that can point to improved operating results.

There can be any number of variables at play in a self-insured program, and sorting through them requires powerful software that can deliver nuanced results not just in terms of claims already incurred, but also indicating similar situations that are waiting to happen. Today's technologies can focus on those characteristics of a claim that mark it as potentially costly, giving risk managers the ability to identify factors driving bad outcomes months—or even years—earlier than was previously possible.

In the case of claims that could escalate, the best action might be to move quickly on a settlement; in the case of those that have not yet occurred, the best action might be to mitigate conditions that cause the costliest claims. Once an entity uses these methods to analyze its risks, it is much easier to precisely apply scarce resources to claims or operating units with the greatest potential for mitigating losses.

The more fact-based an organization's allocations are, the better equipped the organization is to reduce future costs. Predictive analytics makes it possible for Company Y to improve allocations among its operating units by

replacing a process that is less than rigorous—perhaps even arbitrary—with one that's more scientific, consistent and unbiased.

The goal is to reduce losses; and the more objective the allocation, the better the chance that Company Y's 27 operating unit heads will buy into it. When they buy into the allocation formula, they buy into the risk manager's safety initiatives and claim-handling philosophy—and that will increase loss prevention.

Today's predictive analytics technology provides the ability to manipulate very large data sets rapidly. One technique, machine learning, allows the data to speak for itself by searching for combinations of variables that have consistently produced similar results. These models can be used to focus an organization's policies and procedures to achieve key corporate objectives.

Commercial insurers that pioneered predictive analytics have adopted management processes that make use of the technology in underwriting, pricing, claims handling and marketing. These processes are already proving effective in improving profitability and reducing insurers' claim costs.

Self-insured entities can take advantage of this same technology, not only to improve their allocation systems, claims handling and mitigation efforts, but also to maximize their employee hiring, retention and training policies. Imagine the excitement and buy-in an operating unit head would have if it were shown mathematically that all workers with more than five years' experience who took a three-week training course had 72% better claims experience than workers who did not.

Typically, predictive analytics software looks for combinations of data elements that are highly predictive of a future outcome; for example, is a given claim likely to blow up into a \$2 million loss? The machine-learning approach sifts through the data with speed and accuracy that a human cannot match. Because it is capable of

processing nonlinear multivariate interactions of data, the machine-learning software can recognize data elements that interact with each other and find patterns in the data that earlier methods were unable to detect.

In the past, it would have been difficult for even large companies to access these capabilities. Today, though, advances in cloud-based computing, data management and processing prowess have made the path to powerful analytics both possible and affordable. Because of these advances, an organization does not have to invest heavily in servers, building space and technical support personnel. All of this means that predictive analytics is within reach for many organizations that might not have believed it affordable.

Into the future

All risk managers would love to have an early warning system to identify potentially problematic claims before they turn into gigantic losses. They also would like to improve their internal cost allocations to drive better results across their organization and reduce the frequency of internal disputes. To this end, predictive analytics holds much promise for self-insured entities.

Commercial insurers have made substantial investments in the technology, and self-insured entities would do well to learn from their experience in both the use of current technology and the implementation of a proven management process for claims handling. The barriers to entry into adopting predictive analytics have been lowered by the introduction of machine-learning techniques, cloud computing and the ability to outsource the necessary support services. A new frontier is opening for self-insured entities to vastly improve their claims-handling efficiency, allocations and organizational profitability.

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Buying: Large companies reserve coverage for unexpected losses

CONTINUED FROM PAGE 4

ideas, new technologies," Mr. Lonchar said. "So you also want to be able to reach out and get guidance about some of the hazards that those new ideas or technologies might bring."

The insurer can help provide that guidance, he said.

Mr. Colman said that loss-prevention services provided by insurers have great strategic value to clients. Even if a loss is predictable, it could mean a balance sheet hit, he said, so anything mitigating that loss aids the bottom line.

John J. Marren, director of global risk and insurance management at CSL Behring L.L.C. in King of Prussia, Pa., and its Parkville, Australia-based parent, CSL Ltd., said that his company's policy is not to give credit for insurance as a risk control or mitigation measure when assessing exposures through its risk management process.

And, Mr. Marren said, his own philosophy is that insurance shouldn't be considered in making business decisions.

"Sometimes people will ask me what is our insurance position in trying to make decisions about moving in a certain direction with the company. And most of the time, I'll tell them, 'Make the decision without considering whether we have insurance or not,'" he said.

"Insurance shouldn't be the reason for making a decision."

But, he said, insurers with which the producer of plasma protein biotherapies works do note its risk management process and "implicitly, we use our knowledge gained from the process in making our decisions about buying insurance."

Buying strategy

Such comprehensive risk assessment and monitoring frameworks can be valuable tools in crafting insurance buying strategy, said Laurie Champion, managing director at Aon Global Risk Consulting in Atlanta.

"Understanding risk better and understanding your tolerance for risk makes you better enabled in working on the insurance side, understanding retentions better,"

'In terms of all business risks, maybe insurance counts for 10%. Where it will have a direct impact is maybe on property.'

Jack Bodden, Marsh Inc.

Ms. Champion said. "Even in terms of pricing, that can be very helpful."

Steve Zawoyski, a partner at PricewaterhouseCoopers L.L.P. in Minneapolis, said that strategic and hazard risks differ.

"At PwC, we believe risk management is everybody's job. Insurance is a piece of that," he said.

But "the strategic risks we're looking at tend not to be things you can insure or transfer to others."

Jack Bodden, managing director of global risk management at Marsh Inc. in Philadelphia, said that insurance doesn't factor into most business risks.

"In terms of all business risks,

maybe insurance counts for 10%. Where it will have a direct impact is maybe on property," he said.

"I think that organizations, particularly the larger ones, have come to the conclusion that insurance is only going to meet a particular need for a particular risk."

But the value of tapping loss-control services available in relationships with the right insurers, for example, can be significant, FM Global's Mr. Lonchar said.

"If you're doing (loss control) right upfront, you're not going to get knocked down," he said. "Theoretically, you'll never need the

insurance policy."

That value is reflected in the long-term relationships between many large account clients and their insurers, Liberty Mutual's Mr. Colman said.

"In the large-account space, it's very sticky," he said. "I think both parties, once they get comfortable with the relationship, will extend themselves to keep it going."

"I think to a large company, the insurance relationship almost starts to approach that of the banking relationship," Mr. Colman said. "They just don't move or switch those overnight."

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Change: Link strategic decisions to risks

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approaches," said Jack Bodden, managing director of global risk management at Marsh Inc. in Philadelphia. All companies probably recognize regulatory requirements that they assess potential risks, Mr. Bodden said, though "some are trying to go it alone" with a C-suite team trying to identify exposures facing the company.

Such an approach is "certainly an important first step if you haven't done anything up to that point," Mr. Bodden said. The downside of such an approach is that "bias tends to enter into the equation," he said. Often, a couple of dominant personalities can drive the group discussion.

A next step, he said, is to involve a consultant to help organizations "at least make sure they're asking the right questions."

Steve Zawoyski, a partner at PricewaterhouseCoopers L.L.P. in Minneapolis, said organizations often fall into one of two camps in assessing their changing risk profiles: In one, risk assessment is a discrete process; in the other, risk management is embedded into the ongoing business process.

In the latter approach, "We use risk to help manage our business instead of being in business to manage risk," he said.

The challenge, Mr. Zawoyski said, is that "outside of risk management professionals, risk is not an inherent or intuitive thing to think about." So it's necessary to tie risk management to the strategy-setting process and establish a dialogue. That process must be flexible and can be streamlined by discussing changing risks during regular management meetings, he said.

The PwC consultant said that creating risk profiles with broad categories such as "compliance" rather than narrower categories such as "Foreign Corrupt Practices Act" allows risk profiles to be more flexible.

While CSL Behring L.L.C. and its parent, CSL Ltd., don't have a formal strategic risk management process, the producer of plasma protein biotherapies has a regular process to evaluate changing risks facing the entire organization.

"From the perspective of monitoring changes in existing risks ... we have a whole risk management process," said John J. Marren, director of global risk and insurance management at CSL Behring and its parent in King of Prussia, Pa. That process includes quarterly risk meetings for all the company's reporting entities where existing risks are examined and any internal or external changes that may have altered the overall risk

profile are identified.

Ten such entities report to Mr. Marren's department and ultimately to a corporate risk committee. Even if a risk discussed in one of those quarterly meetings might not rise to the level of what would typically be considered reportable to the corporate committee, he said if there have been significant changes "and it's important enough to note, it will be noted."

Mr. Marren agreed it is important to establish a common risk language.

"That's something that we absolutely needed to do very early on in modernizing the process or harmonizing the process five years ago," Mr. Marren said. "Did we get it perfect the first time? No."

CSL made a broad list of risks rather than developing an exhaustive list that would lead to various entities essentially using different language to describe the same risks. "We have a short list of risk types that we've identified," Mr. Marren said. "Recently, we looked at that list again to see if all of those risks were still current," finding some that needed to be revised.

"A common lexicon is definitely a must," Mr. Marren said. "Otherwise, people are looking at maybe the same things in different ways and that doesn't lend itself to painting the clearest risk profile."

Ms. Champion said the importance of considering risk aggregation as part of the risk monitoring process. "When we look at risk aggregation, we probably want to think of three subcomponents of that," she said.

The first is how different risks are related to one another and fall into "risk families," she said. The second is the "follow-on effect," or the implications of certain risks over time. The third, which she said "often gets forgotten," is looking at "risks which are cross-functional in nature." And those can't be understood without looking across the organization. "A really good example of that is supply chain risk," she said.

Organizations typically deploy various models and technology in their risk monitoring efforts.

"Today there are many different tools to choose from," Ms. Champion said. "In many cases, the tools do have to be customized and there is a significant investment here."

Many companies begin by using standard business tools such as Microsoft Excel and, as their risk-monitoring efforts advance, ultimately invest in a software tool, she said. Tools such as Aon's Risk Maturity Index also can be useful in risk monitoring efforts, Ms. Champion said.

At Marsh, "We employ various models that tie into quarterly or biannual financial data. We've done a lot on the modeling side to make that as real-time as possible," Mr. Bodden said.

At CSL currently, "we are using a host of applications starting with Excel," Mr. Marren said. But the company has selected a provider, Bwise Holding B.V. and its U.S. operation, Bwise Inc., to deliver what Mr. Marren said will be a state-of-the-art system combining all the applications CSL currently uses in its risk monitoring efforts into a single solution. "We'll probably be implementing that in the first quarter of next year," he said.

From a strategic risk management perspective, ultimately it's essential to look at the right risks, said James W. DeLoach, managing director at consultant Protiviti Inc. in Houston.

"The disconnect we see time and again is that organizations do not align their competitive intelligence functions with the vital signs underlying their strategy," Mr. DeLoach said. The question should be, "What are the vital signs that we need to monitor in the environment?"

There are a number of good frameworks to monitor risks, he said. "While a suitable framework has its role, it's not a panacea," he said. It's essential, too, that an organization's culture support the need to collect the appropriate information and act on that risk information when needed.

Mr. Bodden said that Marsh is increasingly focusing on helping companies prepare for "the unknown unknown."

"What we're talking more and more about is placing greater emphasis on business continuity planning" because it's difficult to predict the risks that will actually occur, Mr. Bodden said.

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IN THE MATTER OF THE REHABILITATION OF FRONTIER INSURANCE COMPANY
Supreme Court of the State of New York, County of Albany Index No. 000097/2006

NOTICE

By order of the Supreme Court of the State of New York, County of New York (the "Court"), entered October 15, 2001 ("Rehabilitation Order"), Frontier Insurance Company ("Frontier") was placed into rehabilitation and the then-Superintendent of Insurance of the State of New York and his successors in office ("Superintendent") were appointed rehabilitator of Frontier ("Rehabilitator"). The Superintendent of Financial Services of the State of New York has now succeeded the Superintendent of Insurance as Rehabilitator of Frontier. The Rehabilitator hereby gives notice that he has applied to the Court by order to show cause ("Order to Show Cause") for an order: (1) converting this rehabilitation proceeding to a liquidation proceeding; (2) appointing the Superintendent and his successors in office as liquidator of Frontier ("Liquidator"); (3) vesting title to all of Frontier's property, contracts and rights of action with the Liquidator; (4) continuing and granting the injunctions provided for in the Rehabilitation Order and in Insurance Law Section 7419, including permanently enjoining and restraining all persons from: (a) the transaction of Frontier's business; (b) the waste or disposition of its property; (c) interfering with the Superintendent as Liquidator in the possession, control or management of Frontier's property or in the discharge of his duties; (d) commencing or prosecuting any actions, lawsuits, or proceedings against Frontier or the Superintendent as Liquidator; and (e) obtaining preferences, judgments, attachments or other liens or making any levy against Frontier's property or any part thereof; (5) granting injunctions, in addition to the aforementioned injunctions previously granted in the Rehabilitation Order, permanently enjoining and restraining all parties from commencing or prosecuting any actions or proceedings, or efforts to collect on debts or judgments, against Frontier, the Liquidator or the New York Liquidation Bureau, their present or former employees or attorneys, with respect to this proceeding or the discharge of their duties under Insurance Law Article 74; (6) granting injunctions enjoining and restraining all parties to actions, lawsuits and special or other proceedings in which Frontier is obligated to defend a party pursuant to an insurance policy, bond, contract or otherwise, from proceeding with applications for judgment or proceedings on settlement or judgment and the making of all liens, levies or other efforts to execute or collect on debts or judgments, for a period of 90 days from the entry of the order of liquidation; (7) granting injunctions enjoining and restraining all persons who have first-party or New York Comprehensive Automobile Insurance Reparations Act (No Fault) policyholder loss claims against Frontier, from presenting and filing claims with the Liquidator for a period of 90 days from the entry of the order of liquidation; (8) vesting all rights in Frontier's contracts and agreements, including all leases, tax agreements, insurance policies and employment contracts, however described, with the Liquidator, unless the Liquidator expressly terminates such contracts or agreements, in which case all liability under such contracts or agreements shall cease and be fixed as of the date of termination; (9) requiring that any bank, savings and loan association, other financial institution or any other entity or person, which has on deposit or in its possession, custody or control any of Frontier's funds, accounts or assets shall immediately, upon the Liquidator's request and direction: (a) turn over custody and control of such funds, accounts or assets to the Liquidator; (b) transfer title of such funds, accounts or assets to the Liquidator; (c) change the name of such accounts to the name of the Liquidator; (d) transfer funds from such bank, savings and loan association or other financial institution to a bank, savings and loan association or other financial institution designated by the Liquidator; or (e) take any other action necessary for the proper conduct of the liquidation proceeding; (10) requiring that all persons or entities having property and/or information, including, but not limited to, insurance policies, claims files (electronic or paper), software programs and/or bank records owned by, belonging to or relating to Frontier shall preserve such property and/or information and immediately, upon the Liquidator's request and direction, assign, transfer, turn over and deliver such property and/or information to the Liquidator; (11) authorizing, permitting and allowing the Liquidator to sell, assign or transfer any and all stocks, bonds or other securities, and any real or other property of Frontier at market price or at the best price obtainable at private sale, at such times and upon such terms and conditions as, in his discretion, he deems is in the best interest of the creditors of Frontier, and to take such steps as may be necessary to effect and carry out such sales, transfers and assignments; (12) authorizing the Liquidator to pay administrative costs, expenses and other obligations of Frontier out of the assets of Frontier; and (13) granting such other and further relief as the Court may deem just and proper.

The Order to Show Cause provides that pending the hearing and determination of the Rehabilitator's application: (1) the interim procedure order and the injunctions provided for in the Rehabilitation Order shall remain in effect; and (2) the payment of all claims other than workers' compensation claims shall be stayed.

A hearing is scheduled on the Order to Show Cause on the 28th day of September, 2012 ("Return Date") at 9:30 o'clock in the a.m., at Albany County Courthouse, located at 16 Eagle Street in the County and City of Albany, and State of New York. If you wish to object to the petition, you must serve your objections and all supporting documentation ("Answering Papers") upon the Superintendent so as to be received by the Superintendent at least seven business days prior to the Return Date, and by submitting copies of the Answering Papers, with affidavits of service on the Superintendent, to the Court at the Albany County Courthouse, located at 16 Eagle Street in the County and City of Albany, and State of New York, seven days before the Return Date. Service of Answering Papers on the Superintendent shall be made by hand delivery, overnight mail or first class mail at the following addresses:

**Superintendent of Financial Services of the State of New York, c/o Attorney General Eric T. Schneiderman
Office of the Attorney General, The Capitol, Albany, NY 12224, Attn: Assistant Attorney General Edward M. Scher
-William Costigan, Esq., Dornbush Schaeffer Strongin & Venaglia, LLP, 747 Third Avenue, New York, NY 10017**

This Notice, the Order to Show Cause and the papers upon which the Order to Show Cause has been granted is posted on the Internet web page maintained by the New York Liquidation Bureau at <http://www.nylib.org>.

Requests for further information should be directed to Frontier Insurance Company in Rehabilitation at (845) 807-5250.
Dated: New York, New York, August 13, 2012 Benjamin M. Lawsky, Superintendent of Financial Services
of the State of New York as Rehabilitator of Frontier Insurance Company

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inBrief

MarketScout, Moody's report on P/C rates

Commercial property/casualty insurance rates rose an average of 5% in August, MarketScout reported. It said commercial property rates increased the most at 7%. General liability and workers compensation followed with rate hikes of 6% each. No lines of coverage experienced rate declines. Meanwhile, Moody's Investors Service Inc. said the outlook for the U.S. commercial property/casualty insurance industry remains stable. Moody's said improved premium rate levels should help support profitability in the U.S. commercial property/casualty insurance sector for the next 12 to 18 months. That will be bolstered by likely further reserve releases across most lines.

AIG announces sale of AIA Group shares

American International Group Inc. said it has begun a sale in Hong Kong of up to \$2 billion worth of ordinary shares of its former Asian operation AIA Group Ltd. "AIG expects to use the net proceeds from the placing of AIA ordinary shares for general corporate purposes, which may include share repurchases or other capital management," AIG said in a statement. "Immediately following the sale, AIA Aurora L.L.C., a wholly owned subsidiary of AIG, expects to transfer all of its remaining interest in AIA to its parent, AIG." AIG also said its board authorized the repurchase of up to \$5 billion in AIG common stock from the U.S. Treasury Department.

Global reinsurance sector making financial gains

The global reinsurance sector continues to regain its financial footing, according to A.M. Best Co., which said the reinsurance sector stood fast on pricing. "In the wake of 2011, the reinsurance industry's focus predictably returned to opportunities for improved pricing and capacity allocation," the report said. "It's no wonder that with investment yields at an all-time low, underwriting profitability is critical to organic growth in earnings and capital." Best found

some discrepancies by region, noting that the European reinsurers with significant life operations fared better than Bermuda-based reinsurers.

More employers restoring 401(k) plan matches

More employers are restoring their 401(k) plan matches, with the percentage of employers matching employees' salary deferrals nearing pre-recession levels, according to a survey. Last year, 73% of employers surveyed by Charles Schwab Corp. provided a 401(k) plan matching contribution, up from 68% in 2010 and 67% in 2009, the peak of the Great Recession, but below the 75% that matched deferrals in 2007 when the economy was still booming.

Funding levels improve for large pension plans

Funding levels of large corporate pension plans improved in August as strong equity market returns and slightly higher interest rates aided plans' funded status, Mercer L.L.C. said. The average funding level of pension plans sponsored by companies in the S&P 1500 rose to 72% in August, up from the record low of 70% in July. In addition, the aggregate deficit of the plans fell to \$631 billion in August compared with \$689 billion in July. Even with the improvement, however, plan underfunding has grown dramatically since last year.

\$6.43B in cat bonds issued last year

Catastrophe bond issuance during the year that ended June 30 totaled \$6.43 billion, according to a report by Aon P.L.C.'s Aon Benfield Securities unit. That represented a 46.7% increase from the amount issued during the same period a year ago and was second only to the \$8.15 billion issued in the year that ended June 30, 2007. Aon Benfield said 30 transactions, including two deals in the life and health sector, closed during the period, compared with 24 transactions during the prior-year period.

Costa Rican quake losses less than \$100M: Eqecat

The magnitude-7.6 earthquake that occurred in northwestern Costa Rica last week should result in less than \$100 million in insured damage, according to catastrophe modeler Eqecat Inc. It said that the earthquake was felt widely throughout Costa Rica for about 15



4.5%

A preliminary assessment by the Workers' Compensation Insurance Rating Bureau of California found the plan would reduce costs by 4.5%, or \$850 million, in 2013.

Calif. comp reforms may require premium hike

While workers compensation reforms adopted by California's Legislature will reduce costs, a double-digit pure-premium rate hike still may be needed next year, according to preliminary information released last week.

S.B. 863, which was on California Gov. Jerry Brown's desk last week following legislative approval Aug. 31, would boost workers comp benefits and reduce employer costs.

It calls for implementing an independent review process for medical treatment and billing disputes, home health care fee schedules, providing interpreters and other related services, and fees for filing liens.

Supporters argued that the lien fees would reduce the number of

liens filed for medical payments and related services. The legislation also would eliminate impairment ratings for sleep dysfunction, sexual dysfunction or psychiatric disorders caused by compensable injuries.

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But following an increase in permanent disability benefits in 2014, "the combined impact of all the currently quantifiable S.B. 863 provisions would reduce system costs by 1.4%, or \$270 million annually," the rating bureau said in a statement.

The savings would equate to

about a 3% reduction in the advisory pure-premium rate increase averaging 12.6% that the bureau submitted in August to California Insurance Commissioner Dave Jones.

If approved, the rate increase would go into effect Jan. 1, 2013.

But in a review last week, the rating bureau's actuarial committee and its claims group found continued deterioration in insurers' loss experience on existing claims.

That would add about 2% to the 12.6% pure-premium rate, but those numbers are subject to change as the bureau continues to study the bill, a bureau spokeswoman said.

— By Roberto Cenicerros

seconds. The quake also led the Pacific Tsunami Warning Center to issue a preliminary tsunami warning for the localized region of Nicaragua, Panama and Costa Rica. Eqecat said that due mainly to the earthquake's depth of about 25 miles, insured losses are expected to be "minimal," not exceeding \$100 million.

Flood-risk awareness remains low: Swiss Re

No other natural catastrophe affects as many people as flooding, but awareness of flood risks and their effect remains relatively low,

according to a report by Swiss Re Ltd. The report says insured flood losses have increased significantly in recent decades, amounting to \$15 billion in 2011. The report says population growth, higher concentrations of assets in exposed areas and climate change are among the factors contributing to the increased cost of flooding.

Hartford appoints commercial markets exec

Hartford Financial Services Group Inc. has appointed Matthew Kirk as senior vice president of sales and distribution for its commercial

markets division. Mr. Kirk reports to Doug Elliot, commercial markets president. He succeeds Mike Concannon, who now leads its group benefits segment. Prior to this appointment, Mr. Kirk was senior vice president and director of government affairs. Jay Rosenblum is succeeding him in that position. Previously, Mr. Rosenblum was vice president of federal affairs. Both are based in Hartford, Conn. Filling Mr. Rosenblum's position is Laura Haines, who most recently served as assistant vice president for government affairs. She is based in Washington.

Webinar: Are Your Insurance Operations Hurt by Bad Data?

Learn about the challenges (and benefits!) of capturing better customer, risk and claim data

With soft rates, fraud risks, and rising claims, insurance companies thrive only if they have the most accurate and up-to-date information on customers, policies, risks and claims. In this free webinar, sponsored by Kofax, learn about the challenges insurers face when capturing data, and learn how to streamline the flow of business critical information throughout the organization. Hear expert advice from **Nathaniel Rowe**, research analyst at Aberdeen Group, and **Jeff Ballard**, Insurance Industry Executive for Kofax, on how to maximize your company's bottom line.

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Christian Louboutin says ruling protects his shoes' signature style.

RULING SPEAKS TO DESIGNERS' CREATIVE SOLES

If the old saying about lawsuits is true — that justice most often is served when both sides walk away feeling as though they lost — what does it mean when both sides think they've won?

Such was the case last week when a federal appeals court ruled in favor of French fashion designer Christian Louboutin and his assertion of trademark rights to adding bright red soles to women's shoes.

Last year, Mr. Louboutin accused rival design label Yves St. Laurent S.A.S. of illegally appropriating his shoes' signature design element by releasing its own line of red-bottom high-heels. In a complaint filed in April 2011 in New York federal court, Mr. Louboutin asked for preliminary and permanent injunctions barring Yves St. Laurent from selling its red-sole shoes.

A judge in August 2011 denied the request for a preliminary injunction, saying fashion designers cannot assert legal ownership over the use of a color. That prompted an appeal from 49-year-old designer to the 2nd U.S. Circuit Court of Appeals in Manhattan.

Last week, a three-judge panel of the 2nd Circuit overturned the lower court's decision, ruling that the red soles are distinctive enough as a design element to qualify for trademark protection. However, that protection extends only to instances when the red sole is used in contrast to the body of the shoe, leaving open the opportunity for other designers to make all-red shoes, the ruling said.

According to a Reuters report, attorneys for Mr. Louboutin and Yves St. Laurent both characterized the appeals court's ruling as a win for their respective clients.

"YSL can continue to make monochromatic shoes in a wide variety of colors, including red," YSL attorney David Bernstein said.

Mr. Louboutin's attorney, Harley Lewin, said the ruling gives the designer legal ground "to protect a life's work" that is "embodied in the red sole found on his women's luxury shoes."

CONTRIBUTING: Roberto Cenicerros, Matt Dunning, Judy Greenwald

End Page



Borussia Dortmund manager Jurgen Klopp's glasses were crushed during a victory celebration.

AP PHOTO

Crushed spectacles spawn copycat claims

A German soccer coach's small misfortune has created a big problem for insurance companies, according to a Yahoo Sports report.

During the post-game celebration after Borussia Dortmund's February 2011 victory over longtime rivals Bayern Munich, Dortmund manager Jurgen Klopp's glasses were knocked off of his face and crushed, the website reported.

The incident was of little consequence to Mr. Klopp, even though he sustained a bruise on his nose and the glasses themselves were on the expensive side, Yahoo said.

Like Curt Schilling's bloody sock after the 2004 World Series, Mr. Klopp's broken spectacles became so synonymous with Dortmund's victory against Munich and the success that followed — Dortmund went on to win the next two league championships — that they were enshrined in the team's museum.

However, the brunt of the pain appears to have been borne by German insurers. In the 18 months since the victory in Munich, insurers in Germany have been beset by a steady stream of would-be scammers hoping to capitalize on Mr. Klopp's bad luck, according to Yahoo Sports.

Ironically, the fraudsters tend to betray their intentions in the photos they submit to support their claims for reimbursement of the cost of their glasses, insurers noted at a recent industry conference in Berlin. In most cases, the phony claims include photos of Mr. Klopp's smashed spectacles pulled right from the Dortmund museum website.

"It's amazing how inventive people are when they need new glasses," Mr. Klopp told a German news website. "For me, the broken glasses in Munich were not an issue. The victory at Bayern has compensated for everything."

PINCHING PENNIES FOR PROFIT?

Allegations that clothing retailer Forever 21 shortchanges customers returning merchandise by one penny could cost the popular company much more.

A Florida attorney is suing Los Angeles-based Forever 21 after she paid \$14.46 for a pair of black shorts, but received only \$14.45 back when she returned them, according to news reports. The attorney, Carolyn Kellman, also alleges she later returned an \$11.57 skirt to Forever 21, but received a penny less in return.

Some shoppers might not have noticed the penny difference when returning merchandise.

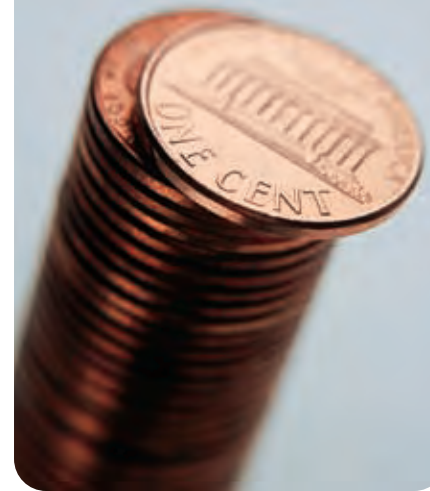
But Ms. Kellman, who was once featured in the Miami Herald as a fashionista, is seeking class-action status for her lawsuit accusing the retailer of operating a penny-skimming scheme.

Her lawsuit also alleges breach of contract, unjust enrichment and deceptive practices.

According to the news reports, there is a \$15,000 threshold for filing civil lawsuits in the Florida jurisdiction where the suit was filed.

That means the plaintiff will need to find enough other people claiming they were similarly taken for a total of 1.5 million pennies over the past five years.

The reports also say that lawsuits with similar allegations are not rare.



NAKED TRUTH PREVAILS IN MODEL'S FALSE-ARREST SUIT

A nude model can now afford to buy some new clothes, thanks to a \$15,000 award she has won from New York City in a false arrest lawsuit settlement.

According to an article in the New York Post, model Zoe West was arrested after an Aug. 30, 2011 full body painting exhibition in Manhattan.

Artist Andy Golub had painted nearly all of her body, when she took off her G-string for the final strokes, and police moved in and hauled her off to the Midtown South police precinct.

Although the 22-year-old said she was



"gawked at" by police for 15 minutes before she was allowed to dress, and patted down by a female police officer, she was released after two hours with no

charges filed.

Civil rights lawyer Rob Kuby contends that "public nudity is legal in New York City as long as it's done for purposes of a performance, exhibition or show."

Ms. West says she has no hard feelings about the experience. Her exposure has "put me on the map in a positive way," she said. Ms. West is now preparing to move to New York from her home in upstate Kingston, N.Y.

But her lawyer was less forgiving.

"Given the police idiocy, one wonders where the boobs really are," Mr. Kuby said.

2012

Business Insurance's WOMEN TO WATCH LEADERSHIP WORKSHOP AND AWARDS LUNCHEON



DECEMBER 4, 2012, NEW YORK CITY

KEYNOTE SPEAKER:



Photo: Deborah Feingold

Suzy Welch,

The best-selling author, popular television commentator, and noted business journalist will be the keynote speaker at the Leadership workshop.

CONFIRMED SPEAKERS:

Beth Bierbower, President, Employer Group Segment, Humana

Helene Fisher, Commercial Head Underwriting Quality, Chartis

Kathleen Savio, Chief Administrative Officer, Zurich North America

Carol Murphy, Managing Director, Aon Risk Services

Seraina Maag, CEO, of XL North America

Bonnie Boone, Senior VP and Health Care Practice Leader, Alliant Healthcare Solutions

Trevor Gandy, Chief Diversity Officer, Chubb Corp.

FULL DAY AGENDA

7:30 - 11:30 a.m.	Leadership Workshop Registration Open
7:30 - 8:15 a.m.	Networking Welcome Breakfast & Registration
8:15 - 8:30 a.m.	Welcome Address
8:30 - 9:30 a.m.	Session 1: A Juggling Act: Achieving Effective Work Life Balance
9:30 - 10:00 a.m.	Keynote Speaker: Suzy Welch, author, "10-10-10"
10:00 - 10:30 a.m.	Coffee Break and Book Signing
10:30 - 11:15 a.m.	Session 2: Show Me the Money: Bridging the Wage Gap
11:30 - 12:00 p.m.	Registration for Awards Luncheon Open [for people only attending the luncheon]
11:15 - 12:30 p.m.	Session 3: Using Sponsorship to Break into the Executive Suite
12:30 - 2:55 p.m.	Women to Watch Awards Luncheon
1:00 p.m.	Luncheon Keynote: <i>Tweet this: How Social Media can Make or Break Your Reputation</i>
3:00 p.m.	Final Comments & Program Closes

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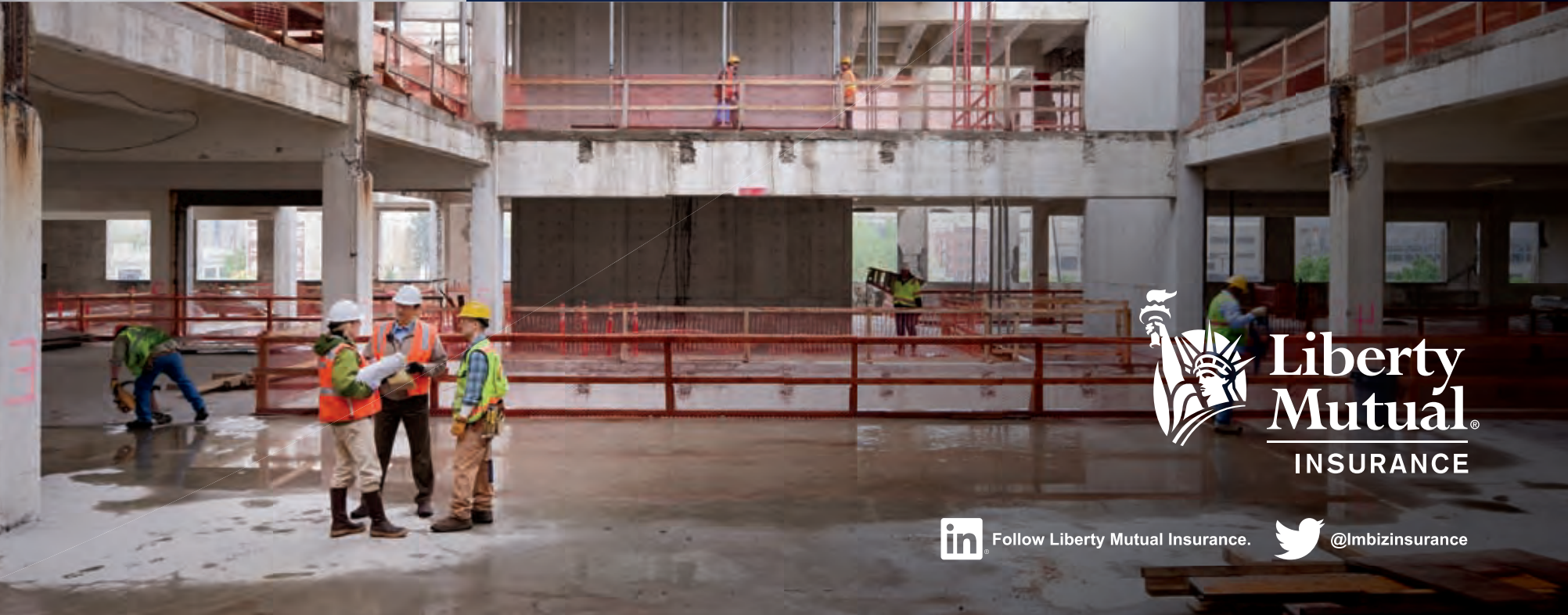


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