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Business Insurance

September 28, 2009

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NEW COVER COULD HELP CHICAGO REALIZE GOAL FOR OLYMPICS / PAGE 3

ANDREY ELOKHIN OF LUKOIL IS EUROPEAN RISK MANAGER OF THE YEAR / PAGE 16

In Brief

MMC extends CEO's contract

Marsh & McLennan Cos. Inc. has reached an agreement to extend President and Chief Executive Officer Brian Duperreault's contract with the brokerage through January 2014. Mr. Duperreault, who became president of New York-based MMC on Jan. 30, 2008, was given an additional three years on his contract, as the original term of his employment agreement was to expire Jan. 29, 2011. The agreement also is intended to help MMC find a successor to Mr. Duperreault prior to the end of his term and make for an easy transition, MMC said in a statement.

Investments boost profits at Lloyd's

Pretax profits at Lloyd's of London rose 39% to £1.32 billion

See **IN BRIEF** page 26

SPOTLIGHT

GLOBAL MARKETS: EUROPEAN UNION

Risk management strategies vary widely among European companies as cultural differences influence view of risk; insurers seek greater influence as Europe plans revamp of regulatory framework; with pandemic risk on the rise, European firms adjust business continuity plans to take into account changing nature of H1N1 flu threat.

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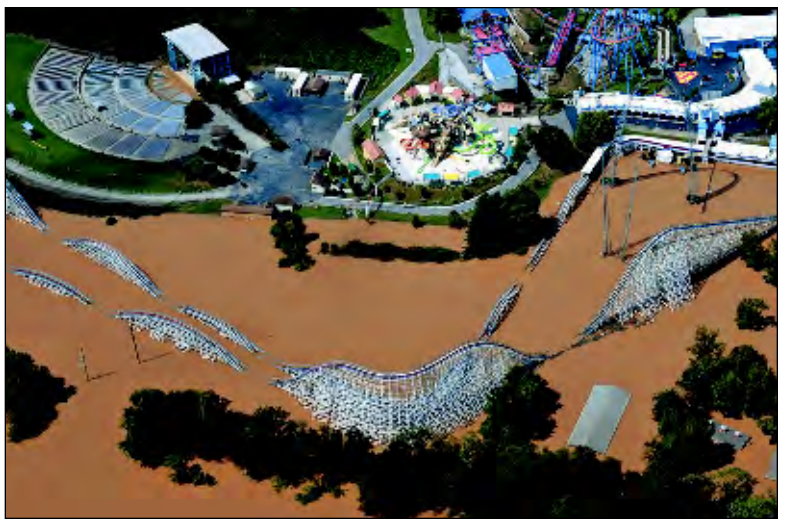

REUTERS/LANDOV

The Six Flags Over Georgia amusement part was submerged in flood waters last week. Officials expect statewide property damage from flooding to exceed $250 million, however, it is unclear how much of the loss is insured.

Losses expected to rise as Atlanta floods subside

By JOANNE WOJCIK

ATLANTA—The vast majority of homes and small businesses damaged by floods that inundated Atlanta last week likely did not have insurance, but most large commercial properties probably have at least some coverage, insurance industry experts say.

It's too early to tell the extent of insured damage because much of the affected area still was under water or inaccessible, they say.

More than 20 inches of rain in 24 hours caused massive flooding throughout northwest Georgia, leaving at least 10 dead and causing at least $250 million in damage, officials said. Although the rain subsided late in the week, it left stagnant water in numerous areas including the main thoroughfare, Interstate 20, and five bridges spanning the flooded Chattahoochee River.

The Georgia Insurance Information Service said more than 14,000

See **FLOOD** page 23

Senators reshaping health reform bill

Baucus measure lacks employer mandate, but issue unresolved

By JERRY GEISEL

WASHINGTON—The Senate Finance Committee is inching along, shaping a health care reform package the panel is likely to pass this week.

All eyes were on the Finance Committee last week as the panel slowly began its long-awaited debate and consideration of a reform measure put together by its chairman, Sen. Max Baucus, D-Mont.

Key provisions in the measure—intended to move the nation closer to universal coverage—include health insurance premium subsidies for the low-income uninsured, an individual coverage mandate, insurance industry underwriting reforms geared to the personal lines market and the creation of insurance exchanges, through which individuals and small employers could purchase policies from competing insurers.

Many business lobbyists believe that because Sen. Baucus stripped from the package such highly controversial provisions as the so-called public option—a government-run health insurance plan—and an employer mandate, his proposal could closely resemble the bill that legislators ultimately agree on.

But the shape of the Finance Committee bill is far from settled. Panel members are working their way through 564 amendments that were submitted prior to the start of

See **HEALTH** page 22

NYT PHOTOS

Sens. Charles Schumer, D-N.Y., (left) and Max Baucus, D-Mont., during health care reform talks last week.

Willis to shift domicile from Bermuda to Ireland

By COLLEEN McCARTHY

DUBLIN, Ireland—Insurance brokerage Willis Group Holdings Ltd. said it plans redomesticate from Bermuda to Ireland for "a more stable environment" where it can remain competitive.

The change, announced last week, is the latest Bermuda-domiciled insurance-related entity to exit the island in the past year for tax and other reasons. In addition, about 10 noninsurance-related companies have said they plan to leave Bermuda since President Barack Obama proposed widespread U.S. Tax Code changes that include a crackdown on so-called tax havens.

12.5%

Ireland's corporate tax rate of 12.5% is one of the lowest rates in the European Union.

"The board of directors has determined that the company's redomestication to Ireland is in the best interest of Willis and our shareholders," Joseph J. Plumeri, Willis chairman and chief executive officer, said in a statement.

Willis, the world's third-largest insurance broker, redomesticated from England to Bermuda in 2001 prior to launching an initial public offering. If Willis shareholders approve the plan, a new Irish company, Willis Group Holdings P.L.C., is expected to replace Willis Group Holdings Ltd. as the parent company.

The broker will continue to be registered with the U.S. Securities and Exchange Commission and trade its shares on the New York Stock Exchange. In addition, the company's executive offices will remain in London, Willis said.

Willis, which already has a subsidiary in Ireland, said it did not expect any material change in its financial results or day-to-day business operations, but said the move would improve its "ability to main-

See **WILLIS** page 22

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NEWSPAPER

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On the Web

EUROPEAN Risk Manager OF THE YEAR 2009

EUROPEAN RMOY

View profile of winner

Business Insurance profiles the 2009 European Risk Manager of the Year, Andrey Elokhin of OAO LUKOIL, in an online package that includes stories from this week's issue, previous European honorees and more. Go to *www.BusinessInsurance.com/EuroRMOY2009*.

***BI* VIDEO**

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Business Insurance®

REPORTING ON CORPORATE RISK AND EMPLOYEE BENEFIT MANAGEMENT NEWS

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Chicago readies capital cover for Olympics

Unique arrangement combines elements of surety coverage and contingent capital

By ROBERTO CENICEROS

Chicago's bid to host the 2016 Summer Olympic Games has spurred a creative insurance arrangement that would protect taxpayers from footing the bill for construction development while helping ensure the project is completed on time.

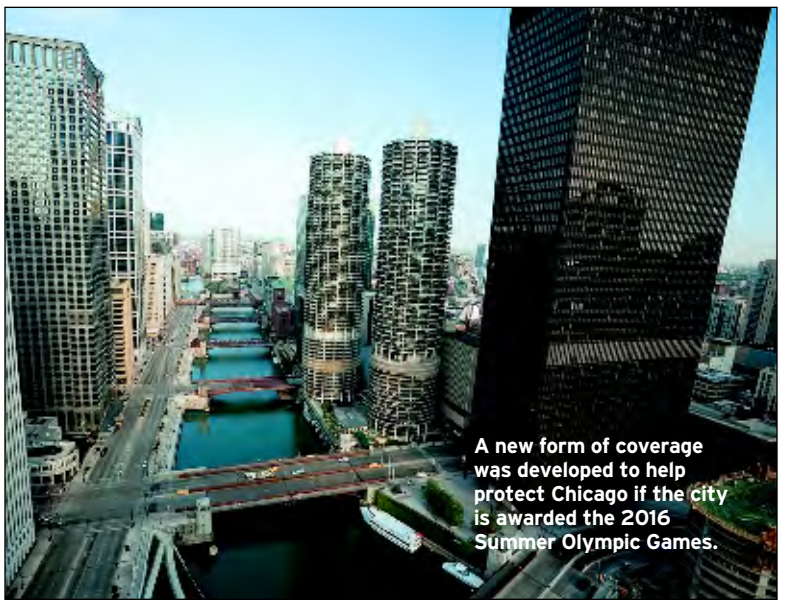
The coverage, dubbed capital replacement insurance, applies a hybrid of surety and contingent capital, said a source familiar with insurance negotiations for Chicago. The International Olympic Committee will announce the winning bid Oct. 2 in Copenhagen, Denmark.

At least three Europe-based multiline insurers would provide an infusion of up to $250 million in capital under the capital replacement insurance in the event developers of the proposed $1 billion Olympic Village lost their financing after construction commenced, the source said.

While contingent capital and surety coverages are common risk-mitigation arrangements in general, Chicago's capital replacement insurance is not an off-the-shelf product for construction projects, according to insurance sources.

Unlike a surety bond, it would guarantee not only the performance of an Olympic Village developer but also that of the lender or financial institution backing the project.

See **OLYMPICS** page 24



A new form of coverage was developed to help protect Chicago if the city is awarded the 2016 Summer Olympic Games.

NAIC approves plan to rework reinsurer collateral

By JUDY GREENWALD

NATIONAL HARBOR, Md.—The National Assn. of Insurance Commissioners is seeking congressional sponsors for legislation that would establish the federal Reinsurance Supervision Review Board and ease collateral requirements for reinsurers based outside the United States.

The NAIC's Government Relations Leadership Council approved the proposed measure, The Reinsurance Regulatory Modernization Act of 2009, at its fall meeting last week in National Harbor, Md.

Under current law, non-U.S. reinsurers must post collateral equal to 100% of their U.S. claims liabilities. Such reinsurers for years have lobbied for a relaxation of that rule for highly rated companies, arguing that the collateral requirement puts non-U.S. reinsurers at a disadvantage in the U.S. market.

The plan would establish two new classes of reinsurers in the United States—national reinsurers, for U.S.-based firms; and port of entry reinsurers, for non-U.S.-based companies—with a minimum capital and surplus requirement of $250 million to be eligible for either category.

Scott Richardson, acting chair of the NAIC's reinsurance task force, says collateral reform is necessary.

To transact business in the United States, national reinsurers would be certified through their home state; port of entry reinsurers would be certified through a single port of entry state.

Under the proposal, supervising states would assign a rating, ranging from Secure-1 down to Vulnerable-5, to determine required collateral.

National reinsurers would not have to post any collateral if they are placed in the Secure-3 tier or above. Port of entry reinsurers would have to post increasing percentages of collateral from the Secure-2 tier down. Both types of reinsurers classified as Secure-1 companies would not have to post collateral.

Reinsurers also could operate under the existing regulatory approach.

The proposal would have the U.S. president appoint 15 members to the Reinsurance Supervision Review Board, 10 from state insurance regulatory authorities. The president of the NAIC would submit nominees.

Directors of the U.S. Treasury Department, Commerce Department and Trade Representative Office would account for the remaining members.

Scott Richardson, director of the South Carolina Department of Insurance and acting chair of the NAIC's reinsurance task force, said the NAIC proposal can be viewed as an extension of the Nonadmitted and Reinsurance Reform Act, which the House of Representatives passed earlier this month. It deals with the some of the same issues, he said. "We just sort of ramped it up and took it to the next step."

Reinsurers based outside the United States welcomed the legislation.

"This is a welcome finality to a very long process," said David Matcham, chief executive of the

See **REINSURERS** page 24

Europe to establish systemic risk regulator

Critics say insurance underrepresented in financial services oversight proposal

By ADRIAN LADBURY

BRUSSELS, Belgium—Europe's top regulator last week adopted plans to overhaul the financial supervisory system through the creation of a board to oversee systemic risk and individual supervisory authorities to oversee insurance, occupational pensions, and banking and securities.

The long-awaited move drew criticism from insurer associations who repeated calls for greater representation of the insurance sector in the oversight plans.

The European Commission adopted a package of draft legislation that it said would "significantly strengthen" the supervision of the financial sector in Europe.

The purpose of the new system is to "sustainably reinforce" financial stability throughout the European Union and ensure that the same basic technical rules are "applied and enforced consistently," according to a statement by the commission.

The commission also said its plan would enable it to more easily identify at an early stage issues that present a systemic risk and enable E.U. member states to act collectively in emergency situations more effectively and resolve disagreements among supervisors.

The new legislation will create a European Systemic Risk Board, which will be designed to detect risks to the financial system and issue early warnings about systemic risks.

The legislation also sets up a European System of Financial Supervisors, composed of national supervisors and three new European Supervisory Authorities for the banking, securities and insurance and occupational pensions sectors.

The General Board of the ESRB will have 61 members and will comprise the governors of national central banks, the president and vice

See **REGS** page 24

NAIC mulls overhaul of securities credit-rating system

As major bondholders, insurers rely heavily on rating agencies

By MARK A. HOFMANN

NATIONAL HARBOR, Md.—The National Assn. of Insurance Commissioners is pushing ahead with an effort to determine whether there are better alternatives to measure the risk of fixed-income securities than conventional credit ratings.

The NAIC's rating agency working group held a daylong public hearing on the issue at last week's fall national meeting at National Harbor, Md. Regulators heard a variety of opinions, but set no timetable to issue a report on the matter.

During an interview at the meeting, Connecticut Insurance Commissioner Tom R. Sullivan, a member of the working group, said reviewing the role of credit rating agencies would be a "thoughtful and deliberate" process.

"We need to look at the whole array of options," Mr. Sullivan said. "Everything has to be on the table."

Meanwhile, the House Oversight and Government Reform Committee postponed a hearing into credit rating agency practices slated for last week after Republican members said they had insufficient time to review a witness's prepared testimony that asserted that New York-based Moody's Investors Service places profit above quality. The witness—former Moody's Managing Director Eric Kolchinsky—also asserted that the rating agency retaliates against employees who don't play along.

'We need to look at the whole array of options. Everything has to be on the table.'

Tom R. Sullivan
Connecticut Insurance Commissioner

For its part, Moody's issued a statement saying that it "takes seriously all allegations of potential impropriety." The hearing now is set for Sept. 30.

In addition, Rep. Paul Kanjorski, D-Pa., chairman of the House Financial Services Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises, last week said his panel will hold its own Sept. 30 hearing to examine reforming the regulation of credit rating agencies.

And earlier this month, the Securities and Exchange Commission proposed new rules that would require disclosure of what a credit rating covers, any material limitations on the scope of the rating, and whether "preliminary ratings" are obtained from other rating agencies—in other words, whether there was "ratings shopping," according to an SEC release. The SEC also voted to seek comment on whether to amend its rules to subject Nationally Recognized Statistical Rating Organizations to greater potential liability for their actions. There are 10 such organizations.

According to the NAIC, insurance companies hold nearly $3 trillion in rated bonds and the industry is the largest financial services industry sector to rely on credit ratings to supervise capital asset adequacy. Regulators use credit ratings to determine the risk-based capital charge for rated bonds, as well as set limits for insurer risk exposures, according to the NAIC.

While most participants at the NAIC hearing agreed that the credit rating system needs to be overhauled or replaced, there was no agreement as to how far an overhaul should go or what should

See **NAIC** page 21

AP PHOTO

U.S. contractors investigate the site of a roadside bomb in Baghdad, Iraq. A report by the U.S. Department of Defense recommends establishing a captive insurer to provide workers compensation cover for contractors.

Comp captive proposed for defense workers

Self-insurance option would make system cheaper, fairer: Report

By ROBERTO CENICEROS

WASHINGTON—Establishing a captive to self-insure claims arising from Defense Base Act-related injuries could provide the greatest savings among ideas to overhaul the DBA workers compensation system, concludes a recent U.S. Department of Defense report.

Self-insuring claims stemming from workers injured while laboring overseas for defense contractors could address complaints that claimants and Democratic lawmakers have raised, the report suggests.

The idea, however, is not without its critics.

The House Committee on Government Oversight and Reform held hearings last year on the Defense Base Act program, with some Democratic House members stating that insurers were reaping excessive underwriting profits from the government-mandated workers comp program (*BI,* May 19, 2008).

Claimants also have complained about insurers denying benefits or taking too long to pay claims.

In addition to saving taxpayer dollars, self-insuring would help assure that workers injured as a result of war receive appropriate compensation, according to the report.

The Defense Base Act, which was adopted in 1941, is administered by the Department of Labor for civilian employees working overseas under government contracts.

The report to Congress, "Acquisition Strategy for Defense Base Act Insurance," states that the system costs grew from $18 million in premiums in 2002 to more than $400 million in premiums currently because of the wars in Afghanistan and Iraq.

In the long run, self-insuring and contracting with a private-industry, third-party administrator to manage claims could save as much as $250 million annually, according to

See **DBA** page 21

Ex-AIG chief Maurice Greenberg seeks dismissal of Spitzer lawsuit

'Virtually all' of 2005 allegations dismissed, filing contends

By JUDY GREENWALD

NEW YORK—Former American International Group Inc. Chairman and Chief Executive Officer Maurice R. Greenberg is seeking to dismiss a 2005 lawsuit filed against him and former AIG Chief Financial Officer Howard I. Smith by then-New York Attorney General Eliot Spitzer.

In a memorandum filed last week in the New York Supreme Court that seeks a summary judgment dismissing the case—now led by New York Attorney General Andrew Cuomo—Mr. Greenberg said "virtually all" of the allegations made by Mr. Spitzer in his original complaint have been dismissed.

He said allegations against him involving three remaining matters, including the sham 2001 finite reinsurance deal between AIG and General Re Corp., are unfounded and

REUTERS

Former American International Group Inc. leader Maurice R. Greenberg as he arrived at federal court in New York for a June hearing.

See **GREENBERG** page 23

Lawsuits target testing for legal drugs

Company violated employees' rights, EEOC alleges

By JEFF CASALE

NASHVILLE, Tenn.—An automotive parts distributor is the target of lawsuits over its drug-testing policy, including one filed by the U.S. Equal Employment Opportunity Commission alleging that workers' rights were violated when they were tested for legally prescribed drugs.

The EEOC filed a complaint earlier this month in U.S. District Court for the Middle District of Tennessee against Rochester Hills, Mich.-based Dura Automotive Systems Inc., which tested all of its production employees for certain legally prescribed drugs in addition to illegal, controlled substances in 2007.

The EEOC contends that Dura violated "various provisions" of the Americans with Disabilities Act by testing for legally prescribed drugs without having just cause. According to the complaint on behalf of employees of Dura's Lawrenceburg, Tenn., plant, the employer "tested without reasonable suspicion that such medications were affecting the employees in performance of their jobs."

Further, the lawsuit states that Dura practiced "unlawful" employment practices, including suspending employees in excess of 30 days if they tested positive for certain legally prescribed medications. Dura also required that employees disclose medical conditions for which they had to take the drugs and required workers to forgo taking their medications as a condition of returning to work, according to the suit.

If workers failed at their job duties without the benefit of their prescribed medications, they were fired, the suit alleges.

The EEOC is seeking to end Dura Automotive's drug testing policy, which allows for the testing of legally prescribed drugs, and to collect back pay and compensatory damages as well as punitive damages.

The EEOC's lawsuit is addition to a class action lawsuit alleging dis-

See **PRESCRIPTION** page 25

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A LOT OF THINGS CAN HAPPEN IN A MAJOR STORM. WE MADE SURE THIS DIDN'T.

When our customer's frozen seafood warehouse was hit by a major storm, it sustained significant roof damage and lost power. Jeopardizing not only the inventory, but the restaurants that depend on it. So while other companies were still assessing the storm's impact, our claims experts were already arranging for repairs and securing refrigerated trucks plus fuel, to preserve the fish. Whether it's responding quickly, keeping you informed, or paying your claims in a timely fashion, we're committed to helping you protect your business before and after adversity strikes. That's our policy. For more information, contact your broker or agent or visit libertymutualgroup.com/property.

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Commentary

Reinsurance program could support FDIC

REGIS
COCCIA

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

The Federal Deposit Insurance Corp. has insured bank deposits since its formation in 1933. But with more than 100 bank failures in the past year, the FDIC is scrambling to shore up its capital.

On Sept. 29, the FDIC board of directors is scheduled to meet to vote on a resolution regarding a capital restoration plan for the insurer.

With a dwindling capital base and the risk of more bank failures looming, the FDIC needs to do something to improve its finances. But none of the options floated so far appear ideal, according to reports.

Options the FDIC is considering for raising funds include:

- Seeking assistance from the Treasury Department. This would appear to many to be an additional bailout, on the heels of nearly $1 trillion of aid that the Treasury has disbursed to financial services entities. That's not politically attractive, and it would deepen the fiscal hole that Treasury has dug for itself and for which taxpayers will be paying for generations.
- Increasing the levy on banks through a special assessment. This could accelerate failures of smaller banks, which would simply come back to bite the FDIC. More than 90 banks have been taken over in 2009 alone, which is partly why the FDIC's funds are down so much in the first place.
- Asking insured banks to pay their 2010 assessments early. This could provide cash upfront to the FDIC but, like option No. 2, could make life more difficult for already struggling banks.
- Borrowing from commercial banks. FDIC Chairman Sheila Bair said recently that she does not favor this option.

There aren't any other options on the table. What's the FDIC to do?

The FDIC operates like a mutual insurer, in which member banks pay risk-based premiums that are a percentage of funds on deposit. Under federal law, the FDIC is authorized to borrow up to $100 billion from the U.S. Treasury but must pay back any borrowings. The FDIC also may issue obligations and obtain funding from the Federal Financing Bank and borrow from insured member institutions.

A bigger question looms over the FDIC: Are its sources of capital adequate to protect depositors? The Treasury is indeed a bank of last resort, and it is literally able to print money. But the Treasury already has opened its coffers wide to bail out companies and industries that have been hurt during the global recession. Large financial institutions, such as those from which the FDIC might consider borrowing, have proven they aren't immune to failure—and therefore could also turn to deposit insurance.

Here's an approach the nation's bank insurer might consider for the long term: Develop a reinsurance program that would syndicate sources of capital among highly rated private reinsurers.

With a dwindling capital base and the risk of more bank failures looming, the FDIC needs to do something to improve its finances.

For years, reinsurers have provided contingent capital to primary insurance companies, acting similarly to investment banks. Reinsurance remains an efficient mechanism for protecting insurers' balance sheets, even though the cost of reinsurance fluctuates with market conditions.

By spreading the risk of bank failures and diversifying sources of funding, the FDIC might be able to strengthen its promise to protect depositors and boost confidence in the banking system.

It's no coincidence that one of the most frequently asked questions at the FDIC Web site is: "Are my deposits insured?" Public confidence is a major factor in economic activity, and gains in consumer sentiment usually signal recovery. The FDIC can do the nation a favor by exploring its funding options carefully and picking one that will provide the best outcome in the long term. Stability in the banking system is fundamental.

Congratulations

Andrey Elokhim

Head of Insurance, Lukoil

EUROPEAN

Risk Manager OF THE YEAR®

2009

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Business Insurance OPINIONS

NAIC's rating agency review a good move

WE BELIEVE the National Assn. of Insurance Commissioners is performing public service of a high order with its thorough review of the impact of credit rating agency reports on insurance regulation.

As we report on page 4, the NAIC held a daylong public hearing on the issue during its fall meeting outside Washington last week. Regulators heard from a broad array of witnesses, including representatives of the credit rating agencies and some pretty outspoken critics.

The regulators are trying to determine whether they are overreliant on the credit rating agencies' products and, if so, what they should do differently. Regulators use the ratings to determine the risk-based capital charge for rated bonds and to set some limits on insurance company exposures. Regulators have to be able to trust the ratings they receive.

Did raters turn the other way when they saw signs of impending trouble in order to reap short-term gains?

The NAIC's review comes with renewed interest at the federal level in the workings of the credit rating agencies. At least two congressional panels will hold hearings on the matter this week, and the Securities and Exchange Commission has suggested credit rating agencies be subject to greater potential liability for their actions.

The interest at all levels is justified. Lawmakers, regulators and private citizens want to know how the major credit rating agencies—paid by the issuers of residential mortgage-backed structured securities—missed warning signs the market would crash. Did raters turn the other way when they saw signs of trouble in order to reap short-term gains? They say they didn't; others accuse them of doing just that.

The NAIC's rating agency working group has not set a deadline for its recommendations. Instead, Connecticut Insurance Commissioner Tom Sullivan said the process will be "thoughtful and deliberate." He also said "everything has to be on the table" as the commissioners pursue their task, and we believe he's absolutely right. Too much is at risk to do otherwise.

Elokhin's outlook can benefit whole industry

GOOD RISK MANAGEMENT practices benefit not only the companies that implement them, but peer organizations, insurance markets and society as a whole profit from the increased attention to exposures and mitigation efforts.

But that can work only if pioneering risk managers are willing to share.

While there are many business practices that firms deem proprietary, safely handling commercial and industrial risks should not be included in the list.

Andrey Elokhin, head of the insurance department at Russian energy firm OAO LUKOIL, has shown consistently in his long career in safety and risk management that applying risk management and sharing risk management knowledge with others benefits everyone.

His company clearly has benefited from his attention to risk management, including the financial benefit of lower insurance premiums; the insurance market has benefited as underwriters have used Mr. Elokhin's approach as an example they ask other risk managers to follow; and fellow risk managers in Russia have benefited from Mr. Elokhin's work as an educator and author of numerous books and articles on risk management and safety.

It is for these and other reasons why Mr. Elokhin has been selected as *Business Insurance*'s 2009 European Risk Manager of the Year. To read more on his approach to risk management and his career, which includes acting as a responder to the Chernobyl nuclear disaster, read our profile beginning on page 14.

WRITE

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

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THIS WEEK'S RESULTS

Q How well prepared are financial services companies to prevent another meltdown such as in 2008?

Very prepared
5%

Somewhat prepared
50%

Not at all prepared
44%

NEXT WEEK'S QUESTION

Q: Should health care reform include a fee on employers that don't offer coverage?

LETTERS

Reader disagrees with *BI* points of view

TO THE EDITOR: You put forth two opinions (editorials *BI*, Sept. 21) that are in error on both counts. First, "Tough Lessons": The problem was loans not being paid back as agreed by borrowers that should never have had their loans approved. This is directly caused by wrong-headed government rules on lenders. Had loans been paid, the resulting (financial system) collapse would not have happened. Government is the problem, not the solution. Second, "Health Care Reform," will most likely not reduce costs. Lawsuit reform is Step 1, then aggressive anti-fraud enforcement, and some change in regulation of product offerings by private insurance companies are reasonably possible. But "price controls" or a "public option" will only raise costs. Government intervention will most likely make things worse. Your tone of thinking seems to suggest more government involvement will help things, when history shows all major government programs are over budget, ineffective and heading towards insolvency. Study economics and history.

Wayne Six
Six & Geving Insurance Inc.
Colorado Springs, Colo.

PERSPECTIVES

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All articles for the Perspectives page should address the concerns of the corporate buyer of insurance; i.e., the risk management or employee benefits manager.

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Taste for risk varies across Europe

Accommodate cultural differences to mitigate exposures, experts say

By RICHARD MILLER

In Europe, cultural attitudes and practices can change dramatically just by crossing the border.

Travel from Switzerland to Italy, and a businessperson goes from a country where meetings tend to be highly structured and expected to start on time, to one where meetings can be more informal and punctuality is less important.

The same is true for managing risks across cultures.

Risk and insurance managers at global companies say attitudes about risk vary from culture to culture, from differences in risk tolerance to risk retention.

While multinational companies typically have a core risk management framework or benchmark that all their global offices and subsidiaries follow, some risk managers say they allow operations abroad some leeway to reflect local cultural differences.

"I am very aware and alive to the fact that there are some very big differences in the way that different parts of the world view risk itself and I think if you don't recognize those differences you are in big trouble," said Julia Graham, London-based chief risk officer at DLA Piper U.K. L.L.P., a major law firm with 70 offices in the United States, Europe, Asia and the Middle East.

Mr. Graham finds the "appetite, awareness and ownership" of risk vary hugely depending on the region.

In Eastern Europe, risk awareness is high, but there is less appetite and ownership of it. In Western Europe, there is more willingness to assume risk, she explained. In Asia, employees also are very aware of risks, but have a low risk tolerance.

North Americans, generally speaking, are "very keen to take on risk, very aware of it, but it is actually quite hard to get people to own it," she said.

DLA Piper has a minimum benchmark for managing risks, but Ms. Graham allows her regional team to accommodate differences where possible when it comes to regulatory,

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Global Markets: European Union

SPOTLIGHT

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ESSENTIAL ELEMENT OF ANY PANDEMIC PLAN: FLEXIBILITY
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Risk: Tactics vary across Europe

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legal, commercial and cultural demands—for example in the way in which the firm engages it clients, manages anti-fraud measures and handles operational risks, generally.

"You must address different cultural factors, and if you try and have a solution that says one size fits everybody in all aspects of your business, then my own view is that you are doomed to fail," Ms. Graham said. "This said, there are also occasions where a global solution is required to match global needs driven by internal and client needs."

Businesses also must take into account the culture of their offshore suppliers and providers, she said.

"If you offshore or outsource business services to India, Africa or Asia, for example, you need to understand the business capability and the cultural differences between the parent and the host country," Ms. Graham said, "but don't always assume that these differences have a negative effect." Some countries and suppliers—for example, India—have strong attitudes toward governance and controls, which may be stronger than the parent company's own country, she said.

Harrah's Entertainment Inc. in Las Vegas, the world's largest gaming company, also considers cultural difference in managing risks, said Lance J. Ewing, Harrah's Memphis, Tenn.-based vp-risk management.

With 80,000 employees in the Americas, Europe, Africa and Asia, Mr. Ewing said Harrah's risk management strategy has a "central risk tenet" to make sure assets are protected no matter where they are.

"Then, within those, there are certain areas of play in which we allow the locations themselves to evaluate their risk—and we make sure we prioritize those with the property," Mr. Ewing said. "So the corporate nucleus makes sure that the risk appetite at the local property…is either narrowed or expanded dependent upon that local culture."

South Africa is one location that has exposures not found elsewhere, he said. "The property general manager at that location is going to evaluate their risk tolerance slightly different depending upon their clientele, depending upon their employees, depending on their potential disasters from a risk standpoint," Mr. Ewing said.

The cultural variation includes attitudes ranging from terrorism to builders risk, he said.

"We in North America are concerned about terrorism, but if you are someone in the United Kingdom or Middle East, that is a normal course of action for you," Mr. Ewing said.

When inquiring about architectural professional liability coverage at meetings abroad, he recalled being met with blank stares. "I have been at meetings where some of them looked around the room like I was talking in a foreign language; kind of shrugged their shoulders and moved on," he said.

Travel from Switzerland to Italy, and a businessperson goes from a country where meetings tend to be highly structured and expected to start on time, to one where meetings can be more informal and punctuality is less important.

RICHARD COOKE

'The trust, especially for agents and insurers, in general, is much higher in Italy or Spain.'

Jurand Honisch, Bertelsmann A.G.

To handle these cultural differences, Mr. Ewing tries to get as much information as he can from those on the ground, including local brokers and underwriters.

"I get to make the final decision, but without their influence and resources, I would be sort of shooting in the dark, falling back to what is best for Lance here in North America vs. what is best for them in Macau."

At Bertelsmann A.G., a major media conglomerate based in Gütersloh, Germany, Jurand Honisch, senior vp-corporate risk management and insurance, said cultural differences are evident in different approaches to self-retention. Southern European operations, for example, have a higher degree of self-retention of risk compared with other parts of Europe, he said.

Differences also are apparent in relationships with local insurance brokers and underwriters. "The trust, especially for agents and insurers, in general, is much higher in Italy or Spain," Mr. Honisch said.

He told of an instance in which a printing plant in Italy had an extremely small amount of insurance based on the recommendation of the local agent. The headquarters had to overrule that and insist the plant in Italy increase its coverage to the maximum possible loss.

DLA Piper's Ms. Graham said she sees cultural differences more often on the claims side than on the buying side of insurance. "Working with local claims people from insurers and brokers can bring with it some local cultural characteristics," she said. For instance, their response to a claim will involve different perceptions and responses to risk and different styles of practice, including the way a loss is managed and negotiated, she said.

"The major point is you have to treat humans like humans—you need to be ethical and you need to have a high moral standard," said Gregor Köhler, chief executive officer and president of Pallas Versicherung A.G.—the insurance and risk management arm of pharmaceutical company Bayer A.G. in Leverkusen, Germany.

Risk managers, he agreed, cannot simply impose their views across borders. "You need to go outside into the world and appreciate these different cultures; otherwise, you will fail as a business model," Mr. Köhler said.

Ralf Oelssner, the retired risk manager at German airline Lufthansa A.G., said he believes it is an "absolute benefit" for a company to have many cultures represented within management.

"There are a number of things which are done differently in different continents, but the fact that they're done differently doesn't mean that one of them is better," Mr. Oelssner said. "I think it is always an enrichment to have a number of nationalities and, indeed, cultural origins when anybody is working together."

Insurance industry wants a larger voice in oversight

Proposed European systemic risk regulator geared toward banks

By MICHAEL BRADFORD

European risk managers and insurers say the insurance industry is woefully underrepresented in the European Commission's proposed system of supervising financial services companies.

As proposed, banks would have significant representation in a new group to mitigate systemic risk in Europe's financial services markets, but insurers and reinsurers would have only a single authority to represent their interests.

That concerns some market participants, who argue that insurers should be considered in a regulatory light separate from banks because the industries have distinct differences.

"Our concern is that we may be painted with the same brush by regulators," said Martin Albers, Zurich, Switzerland-based head of client markets in Europe for Swiss Reinsurance Co. "We are observing this very carefully" and providing input to the E.C. to make clear the distinctions in systemic risk as it relates to banks and insurers, he said.

Last week, the European Commission adopted a package of legislation to set up the European Systemic Risk Board to monitor the financial system as a whole and the European System of Financial Supervisors to have some oversight of individual financial institutions.

The Systemic Risk Board is intended as an early warning system to identify and make recommendations to deal with systemic risks, such as threats from the type of risky investments that were partly responsible for the financial crisis.

The plan for the European System of Financial Supervisors would establish a network of national financial supervisors working with new supervisory authorities from the existing Committee of European Insurance and Occupational Pensions, the Committee of European Banking Supervisors and the Committee of European Securities Regulators.

E.C. President Jose Manuel Barroso has said he expects legislative proposals to be finalized this fall and the new system to be in place in 2010.

While CEIOPS is the lone insurance market representative among those involved in the new oversight system, banks would be represented by the 27 heads of E.U. central banks as part of the Systemic Risk

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Systemic: Market wants more representation

CONTINUED FROM PREVIOUS PAGE

Board.

Insurance market participants generally favor the consistent cross-border regulatory arrangement that is the goal of the proposal.

However, they are concerned the Systemic Risk Board would be heavily weighted toward banking oversight and insufficient insurer representation could make it difficult to properly identify and help mitigate systemic risk among insurers.

"Insurance does seem to be underrepresented" in the E.C. proposal, said Günter Schlicht, chief executive of the Deutscher Versicherungs-Schutzverband e.V., the German risk management association in Bonn. "We would push for more representation."

"I think it is quite sensible that Europe, which is a single internal market, should have this type of body to coordinate macroprudential supervision," said Yoshihiro Kawai, secretary general of the International Assn. of Insurance Supervisors in Basel, Switzerland.

It also is sensible to expect that insurance supervisors would be well-represented in a body participating in cross-border regulation, Mr. Kawai said.

Alberto Corinti, deputy director of the Comité Européen des Assurances, the Brussels, Belgium-based federation of insurers and reinsurers, said the CEA supports "a stronger European authority that is able to steer the convergence of day-to-day supervisory procedures of national supervisors."

The lack of sufficient insurer representation 'frightens me to death.'

Nikolaus von Bomhard,
Munich Reinsurance Co.

"As far as the European Systemic Risk Board is concerned, we recognize that in terms of financial services, this is a step forward," Mr. Corinti said. "Where we have some concerns is with the oversight of the insurance sector."

As proposed, he said there would be insufficient insurer representation within the Systemic Risk Board, which could result in the group being unprepared to identify risks specific to insurers.

"We see the need for this step," Mr. Corinti said of the E.C. proposal, "but we are concerned that the council could make decisions considering only the banking business" and might fail to understand insurers' role with regard to risks in the system.

"Because of the lack of insurer representation, this is a concern," Mr. Corinti said.

"We continue to have problems in explaining to policymakers the differences in the banking model and the insurance model," said Swiss Re's Mr. Albers.

"The biggest difference is that we are not (providing) financing, but getting the cash first before we pay out. And second, with virtually all products, maybe with the exception of a few life and health products, you cannot have a run on an insurance company," Mr. Albers said. People are not likely to burn their houses down in great numbers or jump from windows to trigger life insurance policies, said Mr. Albers. "So you don't have this dynamic of herd behavior that can affect the insurance industry."

Such herd behavior has been "driving a lot of the distortions that have challenged the banking system," Mr. Albers said.

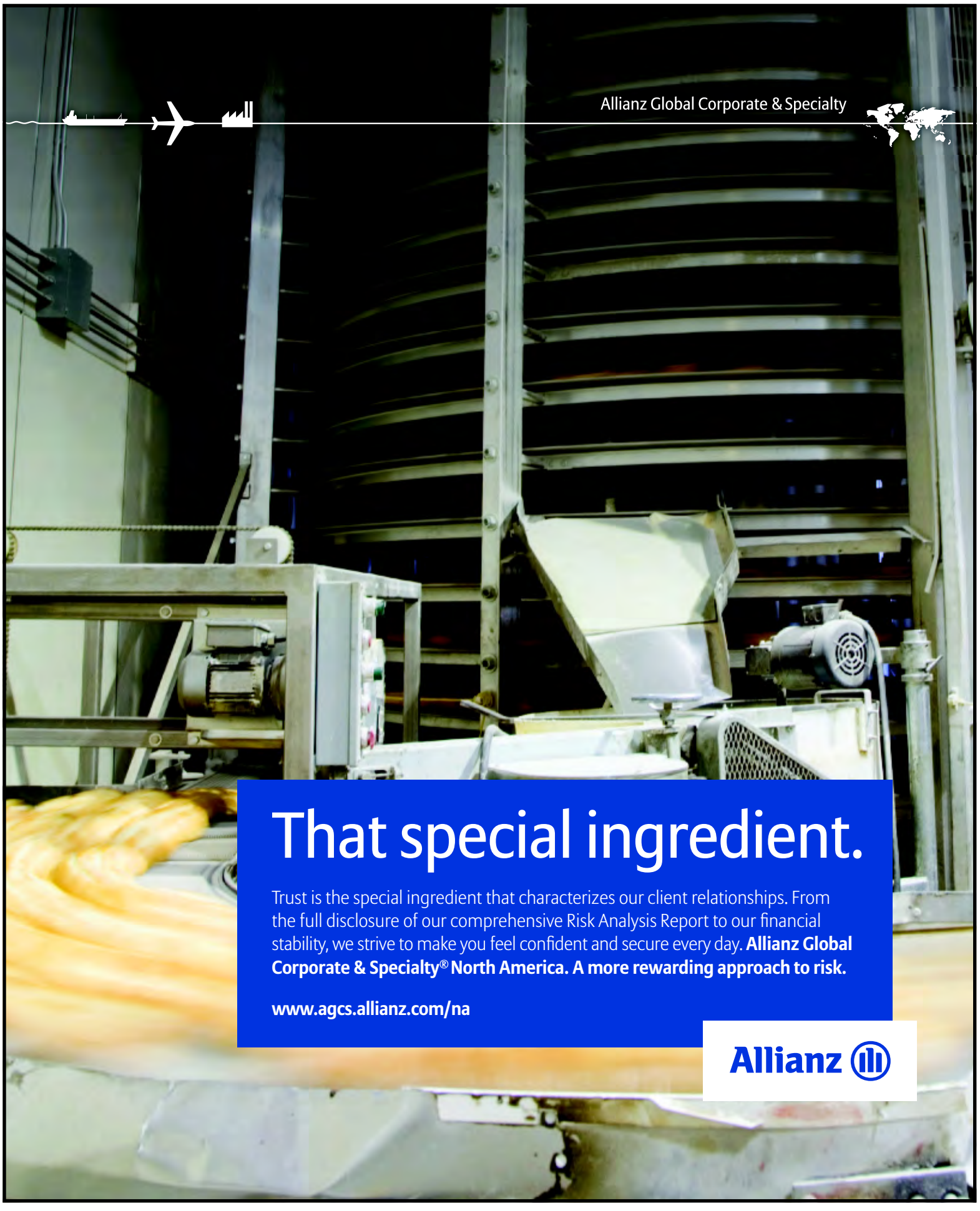
Shortly after the European Commission released its proposal, Nikolaus von Bomhard, chief executive officer of Munich Reinsurance Co., said the lack of sufficient insurer representation "frightens me to death."

Munich Re's position has not changed, a spokesman for the Munich, Germany-based reinsurer said, adding that Munich Re's position is in line with most other European insurance marketplace participants.

Mr. von Bomhard suggested a smaller steering group with more outside representation would be a better approach than the proposal for 27 central bankers and one insurer representative.

REUTERS/LANDOV

European Commission President Jose Manuel Barroso has said he expects systemic risk regulation to be finalized this fall and a new system in place in 2010.



Companies should prepare for 2nd round of H1N1

Business continuity plans important when tackling illness

By STUART COLLINS

LANDOV

A classroom in France is closed after students were found to have H1N1. The U.K. government said absenteeism rates attributable to H1N1 could rise to 27% if schools closed and employees stayed home to look after their children.

Many European risk managers expected an influenza pandemic, but the speed at which the H1N1 influenza virus has spread and its relative lack of severity have taken some by surprise.

As the first wave of the pandemic gives way to the anticipation of a second wave this fall and winter, companies should make sure their business continuity plans are robust and flexible, with a particular focus on communicating with employees, experts say.

Risk and business continuity managers have expected a pandemic and have been planning accordingly, said Julia Graham, London-based chief risk officer at international law firm DLA Piper and immediate past chairman of the U.K. Assn. of Insurance and Risk Managers. But the speed at which the situation developed has surprised many, she added.

Public-sector organizations and many companies in the United Kingdom pegged the different stages of their business continuity plans to the World Health Organization pandemic alert phases, Ms. Graham said. But in some cases, business continuity plans struggled to keep pace with the speed with which the WHO raised the alerts that stand at Level 6, the highest level, she said.

"This illustrates the need for business continuity plans to be much more flexible and agile, and emphasizes the need to have the right teams in the plans who feel empowered to adapt plans and use more appropriate responses," Ms. Graham said.

Many European companies escalate their business continuity plans based on the WHO alert levels, said Armand Hoftijzer, managing director at Aon Risk Consulting in Rotterdam, the Netherlands. But the alert levels do not reflect the severity of the pandemic, he said.

WHO declares a pandemic once the flu virus has spread throughout three continents, but it is not linked to the severity or number of deaths, said Mr. Hoftijzer, whose team at Aon started working on pandemic preparedness with major corporations three years ago.

"Once the WHO declared a pandemic, emotionally people expected a major disaster with widespread deaths. We are at the highest WHO alert, but it has not turned out to be as bad as people first feared. So from a business continuity and crisis communication perspective, escalating alerts to the highest level should suggest that something really serious is happening," Mr. Hoftijzer said.

The relatively mild effect of the pandemic also caught many risk and business continuity managers by surprise, said Ms. Graham, the AIRMIC Council member who's overseen the association's response to the H1NI virus. Companies did not consistently take the severity of a potential pandemic into account when drawing up their plans, she said.

"Many companies looked at the probability of a pandemic and the geographic spread of this, but they not did not consider the potential of a mild version of the disease. In other words, they did not always take into account the full potential impact and reflect this in their plans," Ms. Graham said.

One key lesson from the first wave of the H1N1 virus is for companies to concentrate on their own situation and not give too much weight to government planning assumptions or modeled predictions, said Lyndon Bird, technical director at the Caversham, England-based Business Continuity Institute.

Governments publish advice that public and private organizations can use in their pandemic planning before and during a pandemic. For example, during the first wave of the H1N1 virus, the U.K. government in July said absenteeism rates attributable to H1N1 could reach 12% and rise to 27% if schools closed and employees had to stay at home to look after their children.

But the assumptions proved inaccurate and raised the question of whether such predictions help business continuity planning, Mr. Bird said.

Organizations need to gather outside intelligence and information, but they should not rely on it entirely, Mr. Bird said.

"Concentrating on WHO or government planning assumptions for business continuity plans is pointless. Companies should plan around their own assumptions and focus on what needs to be done to keep the business running," Mr. Bird said. "You can have as much analysis as you like, but ultimately you have to deal with interruptions to key resources, and by and large, this is down to common sense."

Dealing with a pandemic comes down to having a good team, being flexible, and adapting to the situation, Ms. Graham said.

During the first wave of the H1N1 pandemic, her team had to revisit the law firm's absence-reporting procedures, adjust plans to reflect severity, and revisit and remind people about remote working guidelines, she said.

The need for prompt communication with staff to address their concerns was an important lesson the British Broadcasting Corp. learned from the first wave of the H1N1 virus.

"This episode gave a glimpse of the reality of what a more serious illness would mean," said Paul Greeves, head of safety at the BBC in London. If a second wave this winter were to be more severe, this would prove challenging as staff with underlying health problems or who are pregnant will want to staff away from work, he said.

But if there is second wave of the virus, the BBC is confident it is doing all it can to limit the rate of infection, because staff have been well-informed about the risks and know where to look for information, Mr. Greeves said.

See **FLU** next page

LANDOV

An assistant of the Institute of Virology at the Hanover Medical School examines cell cultures for H1N1 in Germany in July.

FLU FACTS

The U.K. National Health Service says the H1N1 influenza virus is "highly contagious" and spreads the same way as ordinary flu and colds—sneezing and coughing that puts germs in the air and on surfaces. The NHS' H1N1 flu Web site lists facts about H1N1, such as:

- The flu virus can live on a hard surface up to 24 hours and a soft surface about 20 minutes.
- The U.K. government already has 23 million Tamiflu treatments and 10.5 million Relenza treatments and has ordered additional Tamiflu doses to treat 80% of the population.
- Tamiflu reduces the duration of flu symptoms up to two days; Relenza, by about 1.5 days.
- A specific, licensed vaccine for H1N1 flu is expected about mid-October.
- Restricting travel in the United Kingdom is not planned and research shows internal travel restrictions would have little effect on the total number of people affected by the flu.
- Previous flu pandemics suggest H1N1 flu could mutate and spread this year and next.
- It is possible to catch H1N1 flu more than once, should a subsequent infection be from a mutated virus.

Source: National Health Service

Flu: Employers brace for H1N1 outbreak

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Many companies did not anticipate ethical questions that the pandemic has raised, said Mr. Hoftijzer. For example, there was a debate in the Netherlands over whether public health care workers could be forced to take antiviral drugs. The government decided that this could not be mandated, only encouraged, he said.

"Ethical issues (such as asking people to come into work and risking infection) are not commonly encountered by risk managers," Mr. Hoftijzer said. "Some companies did not anticipate this, but they have learned that they should address these questions in the early stages of planning, and not in the middle of their crisis response."

The first wave also highlighted differences in business continuity planning for a pandemic, which can affect an organization globally, and a terrorist attack or a hurricane, which tend to be more localized, he said.

Companies need a strategic plan for the entire organization to deal with a pandemic, but the first wave of the H1N1 virus showed local planning also is important because government responses differed widely, Mr. Hoftijzer said.

With severe acute respiratory syndrome still fresh in their minds, Asian countries were more in favor of containment, showing a willingness to close schools and restrict access, Mr. Bird said. In contrast, mainland Europe's approach to SARS was much more cautious, he said.

"Because of the public health issues associated with a pandemic, the local aspect becomes that much more important," Mr. Hoftijzer said. "Even companies that felt that they were well-prepared will want to look at this aspect again and take into account the differences between countries."

REUTERS

Androulla Vassiliou, commissioner in charge of health for the European Commission, speaks at a news conference at the organization's headquarters in Brussels, Belgium, on Sept. 11.

Committee report praises, criticizes outbreak plans

The House of Lords Science and Technology Committee commended the U.K. government's pandemic planning efforts to combat the H1N1 influenza virus, but its summer report also highlighted failings exposed by the early stages of the outbreak.

In its report, "Pandemic Influenza: Follow-up," the Science and Technology Committee praised U.K. government agencies for stockpiling enough antiviral drugs to treat 50% of the population, and the government's decision to enter into advance purchase agreements to acquire enough doses of pandemic-specific vaccine "sufficient for everybody in the U.K. when it becomes available."

But the report also cited failings in responding to the H1N1 outbreak.

In particular, the committee criticized the government's failure to conduct tests earlier. While it lauded the plan to run a systemwide test in September "to push the system hard" and examine how various health and emergency services providers interact in practice, it said the testing should have been done sooner.

"We are disappointed that the assessment and testing processes and other activities connected with U.K. pandemic preparedness were not sufficiently well-advanced so as to mitigate this need more significantly," the committee said in its report.

The committee also criticized delays in launching England's National Pandemic Flu Service, a flu help line that distributes antiviral drugs. The service is up and running, but the report sought reassurance that it will be able to meet anticipated demand and be fully operational this fall—in time to meet the expected challenges of a subsequent wave of influenza.

—By Stuart Collins

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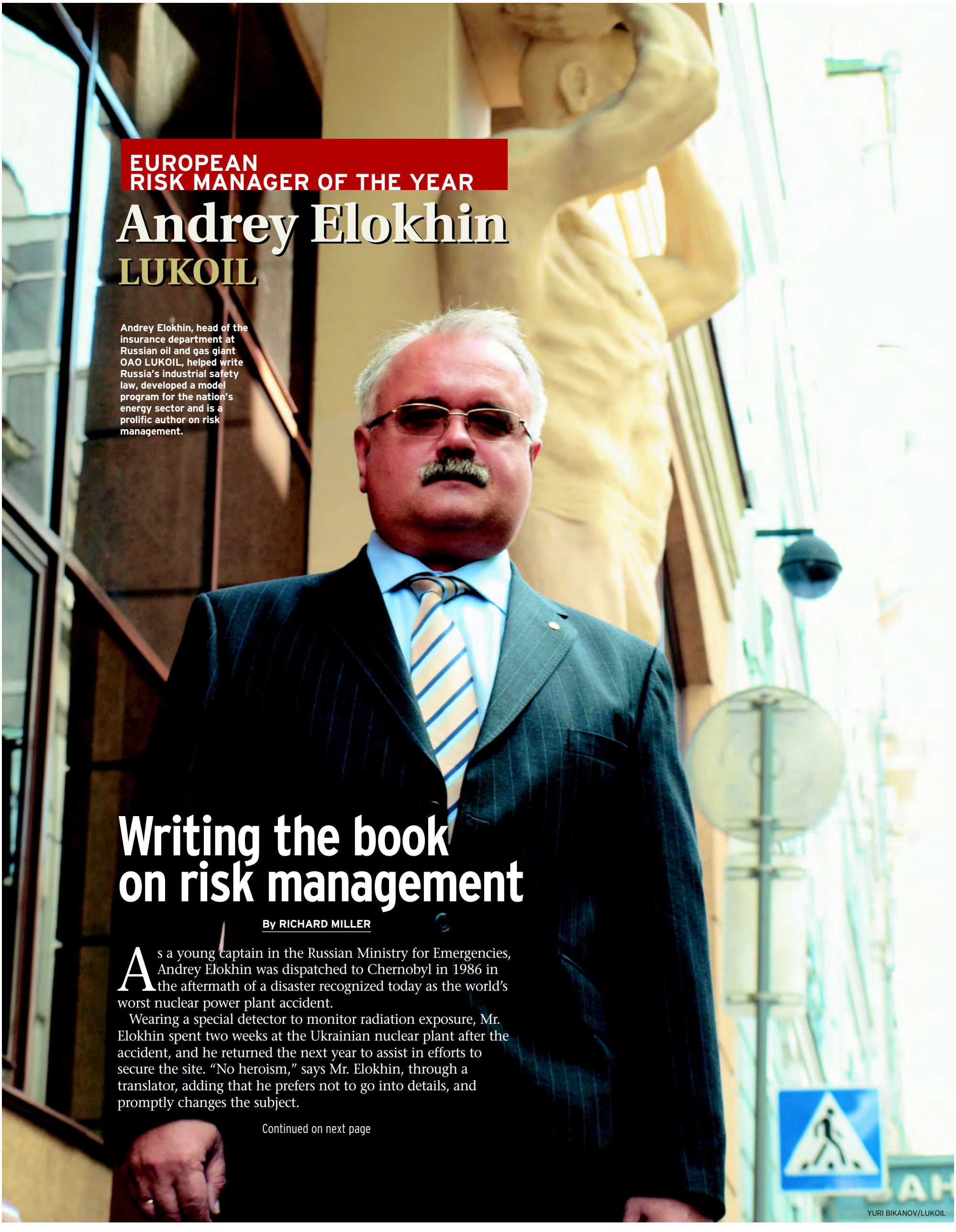

EUROPEAN
RISK MANAGER OF THE YEAR

Andrey Elokhin
LUKOIL

Andrey Elokhin, head of the insurance department at Russian oil and gas giant OAO LUKOIL, helped write Russia's industrial safety law, developed a model program for the nation's energy sector and is a prolific author on risk management.

Writing the book on risk management

By RICHARD MILLER

As a young captain in the Russian Ministry for Emergencies, Andrey Elokhin was dispatched to Chernobyl in 1986 in the aftermath of a disaster recognized today as the world's worst nuclear power plant accident.

Wearing a special detector to monitor radiation exposure, Mr. Elokhin spent two weeks at the Ukrainian nuclear plant after the accident, and he returned the next year to assist in efforts to secure the site. "No heroism," says Mr. Elokhin, through a translator, adding that he prefers not to go into details, and promptly changes the subject.

Continued on next page

YURI BIKANOV/LUKOIL

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He more eagerly reminisces about the perks he received with his old ministry identification card that, during tough times in the Soviet Union, enabled him to get special food products and buy vodka on state holidays.

But as a responder to one of the worst industrial catastrophes, it may be no coincidence that Mr. Elokhin has become one of Russia's foremost experts in industrial risks and safety.

In a country where operational risk management is given lower priority than managing financial and strategic risks, Mr. Elokhin is committed to developing a risk management culture in Russia, from government to private industry.

"Such a risk management culture is an essential element for creating a civil society," he says.

In recognition of his work in the broader risk management community and as head of the insurance department at Moscow-based OAO LUKOIL, the largest private oil company in Russia, Mr. Elokhin was selected by a panel of experts as *Business Insurance*'s European Risk Manager of the Year 2009.

In Russia, Mr. Elokhin is known for having, quite literally, written the book on industrial risk management.

Sitting in his Moscow office, Mr. Elokhin spreads out on a table a half-dozen books he's authored and co-authored. Among the titles: "Insurance of High Risk Industries: Some Engineering Aspects," and "Analysis and Management of Risk: Theory and Practice," which he says sold out in 2000 and required a second edition a couple of years later.

From his 15 years at the Scientific and Research Institute of the Russian Ministry for Emergencies, Mr. Elokhin also has hundreds of scientific papers and reports to his credit. In fact, he also helped write the country's industrial safety law in the mid-1990s, and continues to serve as a government adviser in the fields of industrial risk analysis and management, loss prevention and safety.

In 1997, Mr. Elokhin decided to switch from the public sector to the private sector, joining LUKOIL as chief of risk analysis at LUKOIL Insurance Group (see story, page 16).

"What I was doing (in the government sector) is I was creating modeling and theories of different events, but I was interested in how it would work in reality," he explained.

After LUKOIL's insurance group was sold to Russian insurance and banking magnate Danil Khachaturov in 2003, Mr. Elokhin became head of the insurance department. And, as a risk and insurance manager, he has developed a program that has become a model for Russia's energy sector.

Of all the books Mr. Elokhin displays, he appears to derive particular satisfaction from two large spiral-bound binders that he did not pen directly: They are LUKOIL's latest risk engineering surveys from Suregrove Ltd., a Tadworth, England-based risk management and engineering consulting firm.

Under Mr. Elokhin's initiative, LUKOIL became the first energy company in the Russian market to produce detailed risk engineering and safety reports. The biannual reports track the progress of completing Suregrove's recommendations.

'LUKOIL basically has set the standard in terms of how the market sees the profile of the risk.'
Petr Sudoplatov, Willis CIS

"LUKOIL basically has set the standard in terms of how the market sees the profile of the risk," said Petr Sudoplatov, divisional director of industrial property and energy at Willis CIS in Moscow, part of Willis Group Holdings Ltd., one of LUKOIL's brokers. "Lots of other risk managers from other oil companies are coming to LUKOIL and asking, 'What is the process?' or 'How do you address these issues?'"

Page after page in Suregrove's report highlight recommendations the consultant has made for LUKOIL's refineries, petrochemical plants and other facilities, from installing firefighting equipment and automatic sprinkling systems to enhanced training programs.

Mr. Elokhin flips through the binders to show how many recommendations have written in bold type underneath, "Status: Closed."

"These reports are welcomed and recognized by the market," said Mr. Elokhin, and they have improved safety, reduced risk as well as contributed to steadily lower premium rates for LUKOIL.

"I asked our colleagues at ConocoPhillips (a Houston-based minority shareholder of LUKOIL) what percentage of their recommendations are implemented, and they believe 70% to 75% is a very good result. At LUKOIL, 88% of all recommendations have been implemented or are in the process of being implemented," he adds.

Asked about his risk management philosophy and strategy, Mr. Elokhin begins by citing the Old Testament, which he says quotes perhaps humankind's first risk manager.

In Deuteronomy 22:8, Moses instructs the builders of a new house to put a "battlement" or parapet on the roof, "that thou bring not blood upon thine house, if any man fall from thence."

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"When we talk about risk man-

See **ELOKHIN** next page

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CONTINUED FROM PREVIOUS PAGE

He more eagerly reminisces about the perks he received with his old ministry identification card that, during tough times in the Soviet Union, enabled him to get special food products and buy vodka on state holidays.

But as a responder to one of the worst industrial catastrophes, it may be no coincidence that Mr. Elokhin has become one of Russia's foremost experts in industrial risks and safety.

In a country where operational risk management is given lower priority than managing financial and strategic risks, Mr. Elokhin is committed to developing a risk management culture in Russia, from government to private industry.

"Such a risk management culture is an essential element for creating a civil society," he says.

In recognition of his work in the broader risk management community and as head of the insurance department at Moscow-based OAO LUKOIL, the largest private oil company in Russia, Mr. Elokhin was selected by a panel of experts as *Business Insurance*'s European Risk Manager of the Year 2009.

In Russia, Mr. Elokhin is known for having, quite literally, written the book on industrial risk management.

Sitting in his Moscow office, Mr. Elokhin spreads out on a table a half-dozen books he's authored and co-authored. Among the titles: "Insurance of High Risk Industries: Some Engineering Aspects," and "Analysis and Management of Risk: Theory and Practice," which he says sold out in 2000 and required a second edition a couple of years later.

From his 15 years at the Scientific and Research Institute of the Russian Ministry for Emergencies, Mr. Elokhin also has hundreds of scientific papers and reports to his credit. In fact, he also helped write the country's industrial safety law in the mid-1990s, and continues to serve as a government adviser in the fields of industrial risk analysis and management, loss prevention and safety.

In 1997, Mr. Elokhin decided to switch from the public sector to the private sector, joining LUKOIL as chief of risk analysis at LUKOIL Insurance Group (see story, page 16).

"What I was doing (in the government sector) is I was creating modeling and theories of different events, but I was interested in how it would work in reality," he explained.

After LUKOIL's insurance group was sold to Russian insurance and banking magnate Danil Khachaturov in 2003, Mr. Elokhin became head of the insurance department. And, as a risk and insurance manager, he has developed a program that has become a model for Russia's energy sector.

Of all the books Mr. Elokhin displays, he appears to derive particular satisfaction from two large spiral-bound binders that he did not pen directly: They are LUKOIL's latest risk engineering surveys from Suregrove Ltd., a Tadworth, England-based risk management and engineering consulting firm.

Under Mr. Elokhin's initiative, LUKOIL became the first energy company in the Russian market to produce detailed risk engineering and safety reports. The biannual reports track the progress of completing Suregrove's recommendations.

'LUKOIL basically has set the standard in terms of how the market sees the profile of the risk.'

Petr Sudoplatov, Willis CIS

"LUKOIL basically has set the standard in terms of how the market sees the profile of the risk," said Petr Sudoplatov, divisional director of industrial property and energy at Willis CIS in Moscow, part of Willis Group Holdings Ltd., one of LUKOIL's brokers. "Lots of other risk managers from other oil companies are coming to LUKOIL and asking, 'What is the process?' or 'How do you address these issues?'"

Page after page in Suregrove's report highlight recommendations the consultant has made for LUKOIL's refineries, petrochemical plants and other facilities, from installing firefighting equipment and automatic sprinkling systems to enhanced training programs.

Mr. Elokhin flips through the binders to show how many recommendations have written in bold type underneath, "Status: Closed."

"These reports are welcomed and recognized by the market," said Mr. Elokhin, and they have improved safety, reduced risk as well as contributed to steadily lower premium rates for LUKOIL.

"I asked our colleagues at ConocoPhillips (a Houston-based minority shareholder of LUKOIL) what percentage of their recommendations are implemented, and they believe 70% to 75% is a very good result. At LUKOIL, 88% of all recommendations have been implemented or are in the process of being implemented," he adds.

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"When we talk about risk man-

See **ELOKHIN** next page

LUKOIL approach sets the standard for rest of market

Insurers ask other energy companies to mimic rival

By RICHARD MILLER

In Russia's immense oil and gas sector, competitors keep an eye on Andrey Elokhin—they need to.

As head of the insurance department at Moscow-based oil giant OAO LUKOIL, Mr. Elokhin has set the benchmark in Russia for developing a state-of-the-art risk and insurance management system, and it is one that others are being expected to follow.

Mr. Elokhin is quite willing to share his knowledge with colleagues through speaking engagements, as he did earlier this month at a seminar for energy risk and insurance managers in Moscow, sponsored by the Russian Risk Management Society.

But it's not uncommon that Mr. Elokhin gets a phone call from competitors directly.

And it's no wonder companies are calling. Underwriters are starting to expect them to follow LUKOIL's lead.

In 2003, Mr. Elokhin initiated the practice of using outside risk engineering firms—Industrial Risk Ltd. in Moscow and Suregrove Ltd. in Tadworth, England—to produce detailed survey reports, which make specific safety recommendations. He then ensures that the recommendations are carried out at each facility, refinery and plant.

In Suregrove's latest 2009 report, Mr. Elokhin pointed out a paragraph that reads, "The active involvement of LUKOIL's corporate insurance department over the course of the last six years in implementing the recommendations is considered to be having a positive effect in motivating the management of the plants to take action."

While it is common for companies to use surveys to market their risks to underwriters, LUKOIL was the first company that showed "the evolution of its risk; not just a snapshot, but what is happening to risk and how it is being addressed over time," said Petr Sudoplatov, divisional director of industrial property and energy at Willis CIS in Moscow, part Willis Group Holdings Ltd., LUKOIL's main reinsurance broker.

"When we come with other oil companies to the market and talk to (underwriters), they tell us, do it as LUKOIL does it," Mr. Sudoplatov said, adding: "I would say that LUKOIL represents the best profile for the insurance market, which should be held up as an example."

MIKHAIL DURASOV

Head of the insurance department at OAO LUKOIL Andrey Elokhin, and president of RusRisk, the Russian risk management association, Victor Vereshchagin outside LUKOIL's headquarters in Moscow.

Tim Bibbs, risk engineering consultant at Suregrove, has worked with Mr. Elokhin for many years. He says he deserves a lot of credit for the way he's managed to pushed through Suregrove's safety recommendations.

"Risk management is something new in Russia and it is very poorly understood," said Mr. Bibbs. "Lots of people call themselves risk managers and just organize the insurance for a company.

"But Mr. Elokhin takes it much more seriously and has been involved in risk management before anyone ever heard of it in Russia. He's trying to implement these things and we've seen a lot of success within LUKOIL."

Reinsurers who work with Mr. Elokhin have similar praise. "Professor Elokhin is a brilliant, forward-thinking risk manager who acts as a keen promoter of transparent integrated risk management approaches," said Loredana Mazzoleni Neglén, director, energy and power, in the industrial risk insurer unit at Zurich, Switzerland-based Swiss Reinsurance Co.

"He has coped with a variety of industry challenges during the year, which he overcame with his profound expertise and authority deeply rooted in the insurance market and in the oil and gas sector," she wrote in an e-mail.

LUKOIL is Russia's largest independent oil and gas company, with annual revenues last year of more than $107 billion and net income of more than $9.1 billion. It's a fully integrated global energy company, carrying out exploration and production of oil and gas, turning it into petroleum products, and selling it at LUKOIL gas stations across Europe and under the Getty and LUKOIL brands in the United States.

The basis for Mr. Elokhin and his team to manage the risks of such a mammoth operation is spelled out in a corporate document that outlines LUKOIL's risk and insurance strategy and policies, explains Mr. Elokhin. Insurance is used to protect fully against the risk exposures of the business and its main assets,

Continued on next page

Elokhin: Writing the book on risk management for Russian firms

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agement, the first thing we understand about it is that it is making decisions based on certain calculations," said Mr. Elokhin. "So the philosophy is that our assessments and risk management is based on the detailed and exact calculation of the risk."

As an academically trained mathematician with a doctorate in technical science, Mr. Elokhin values statistical data and models as he evaluates the insurance needs of LUKOIL and roughly 60 of its subsidiaries.

Risks not only are identified, they are calculated in their volume and exposure, he said.

And when he is dissatisfied with an accepted risk model, such as one well-known methodology that analyzed the explosion risk posed by petroleum vapors, Mr. Elokhin and his team simply came up with a better one on their own, he said.

But beyond handling the risks of LUKOIL's refineries and petroleum plants, Mr. Elokhin keeps his eye on the big picture.

Operational risk management still is very much an emerging discipline in Russia. Now more than ever, financial risk management is given a much higher priority at companies, followed by strategic risk management.

REUTERS

A guard opens the gate at the entrance of the state radiation ecology reserve in the exclusion zone around the Chernobyl nuclear reactor. Andrey Elokhin was a responder to the 1986 disaster.

"Insurance and risk management are facing difficult times," said Nadia Nosova, managing partner at Korna Risk Management in Moscow and a member of the Russian Risk Management Society who represents the organization on the board of the Federation of European Risk Management Assns. in Brussels.

In today's economic conditions, some insurance and risk managers are among those losing their jobs, she said.

Mr. Elokhin, through his work as a vp and founding member of the six-year-old RusRisk, tries to raise awareness of risk management at all levels, including in helping craft a letter from the society to Russian President Dmitry Medvedev in an effort to improve risk management at state-run companies (see related story, page 18).

He wants to see risk management improve on all levels of society, from businesses and industry to local and national government. "The more society is active on managing risks and emergencies, the faster the civil potential of the nation will grow," he said.

Unfortunately, it sometimes takes an industrial tragedy to get the attention of government and business.

In August, a deadly explosion at Russia's largest hydroelectric power station killed 75 and led to a huge property loss. The disaster, Mr. Elokhin believes, finally may get people's attention about the need for risk management.

In that case, the estimated cost for reconstruction of the Siberian plant, which is operated by state-owned RusHydro, is $1.3 billion and the time frame is five years, according to Mr. Sudoplatov of Willis. The damage was only partially insured with a loss limit of $200 million, he said.

"We believe this is a huge loss which will definitely impact the pricing in the international market and in the international market for Russian risks. That means that we can talk a lot about the financial risks, strategic risks, but operational risks can be even more severe sometimes than others," Mr. Sudoplatov said.

"This kind of accident may give a wake-up call for the development of risk management initiatives," added Mr. Elokhin.

Ms. Nosova points to some positive developments. Some companies, she said, are recognizing the importance of risk management, and are starting to focus on technical measures, alternative risk transfer and multilayer coverage.

"We are all still learning our lessons after the financial crises but, no doubt, the true value of risk management is not going to vanish especially when this profession is represented by people as Mr. Elokhin," she said.

CONTINUED FROM PREVIOUS PAGE

as well as for its more than 150,000 employees worldwide.

The LUKOIL insurance team, which is part of the company's treasury department, handles all the insurance buying for the parent company's principal operations, which are in four countries: Russia, Ukraine, Bulgaria and Romania. In addition, they handle the insurance needs of numerous subsidiaries.

Under the program, the insurance team analyzes the potential catastrophic risks across the operations, from refineries and power generation plants to marine vessels and offshore production facilities. They also examine and insure the risks that Russian law mandates, such as liability coverage for the operators of any hazardous equipment. The law, however, identifies the lowest limits of liability required.

"From our point of view, (the required amount) is absolutely insufficient, and that is why we buy an excess liability cover which is identified by our surveyor," Mr. Elokhin said.

For instance, for its refinery and petrochemical plants, LUKOIL has a $700 million liability property damage limit for each and every loss—one of the highest property damage limits in the Russian market. Aircraft fuel liability cover has a limit of around $500 million, he said.

LUKOIL also buys obligatory coverage, such as directors and officers liability, because LUKOIL is listed on the London Stock Exchange. The policy limit is $50 million.

In the past, LUKOIL handled its insurance needs through its own captive, LUKOIL Insurance Group, which Mr. Elokhin first joined in 1997.

But after LUKOIL partnered with ConocoPhillips, an international energy corporation with its headquarters in Houston, LUKOIL deemed its insurance captive was not a relevant asset for the integrated company and sold it to Russian insurance and banking magnate Danil Khachaturov in 2003.

Mr. Khachaturov, who also owns the personal lines insurance giant Rosgosstrakh, renamed the new acquisition Kapital Insurance Group. Based in Moscow, Kapital is one of the leading commercial insurance underwriters in the Russian market.

With LUKOIL required by Russian law to buy its primary insurance cover from a domestic carrier, it put out a tender for its one master policy. The winner: Kapital.

Other big insurers participated in the tender, but Kapital had the advantage of knowing very well the profile of LUKOIL, as well as having branch offices in all of the regions where LUKOIL operates.

LUKOIL's major risks demanding a high level of indemnity limits are then reinsured in international markets. The programs are led by several highly rated carriers, including Munich Reinsurance Co., Swiss Re, Zurich Financial Services, ACE Ltd. and Arch Insurance Group Inc.

For reinsurance broking, LUKOIL uses Willis to handle reinsurance for all its refineries and gas processing plants, marine vessels, as well as for placing D&O liability cover in the London market. Marsh & McLennan Cos. Inc.'s Moscow office handles LUKOIL's gas stations in Central Europe, while cargo is brokered by Belgibo N.V. in Antwerp, Belgium, according to Mr. Elokhin.

On Mr. Elokhin's watch, LUKOIL has benefited from steadily lower insurance costs. His comprehensive approach to risk management may have something to do with it, but he freely admits he's benefited from a softening insurance market, good brokers and a smart decision to lock in a three-year contract in 2004 when the market was starting to harden.

Now he is back to buying on a one-year cycle and is trying to decide whether to continue that practice or revert to another long-term contract. "It is a crisis now and it's hard to predict how the market will do," he said.

Another of Mr. Elokhin's decisions that benefited LUKOIL was persuading underwriters to change the average clause in its contracts. The average clause is a standard clause in London and continental European markets stating that if property values are inaccurate, then the insured may not get full indemnity under the policy, according to Mr. Sudoplatov of Willis.

> **'Our philosophy is stating exactly that we need to bring the production facilities back to the state which they were in right before the incident. So the question we posed was, can we eliminate this clause, and the answer was, "Yes you can."'**
>
> Andrey Elokhin, LUKOIL

For example, in the case of equipment that is older than 15 years, a company could get only 80% of its value after a loss, he explained.

"Our philosophy is stating exactly that we need to bring the production facilities back to the state which they were in right before the incident," Mr. Elokhin said. "So the question we posed was, can we eliminate this clause, and the answer was, 'Yes you can.'"

To do that, LUKOIL in 2004 hired Milwaukee-based American Appraisal Associates Inc. to re-value all of the company's assets every two years. "This gives us the certainty that if a loss happens we will get the full indemnity," Mr. Elokhin said.

While Mr. Elokhin takes a global view of risk, he is skeptical about enterprise risk management trends.

"Risk management can have a very wide definition," he explained. "Each country has its own culture, its own philosophy…If you compare enterprise risk management in the United States and in Russia, they may probably be very different, and which one is better? That is a big question."

Russian risk management community values Elokhin's contribution to education

Beyond his work inside of one Russia's leading energy companies, Andrey Elokhin is highly esteemed for his work in the Russian risk management community.

A vp of the Moscow-based Russian Risk Management Society, Mr. Elokhin has been an active member of the group since the founding of the association nearly seven years ago.

Mr. Elokhin has played a lead role in the development of training seminars for Russian risk managers and is a frequent speaker at the seminars.

MIKHAIL DURASOV

Andrey Elokhin serves as an adviser to doctoral students at the Russian State University of Oil and Gas.

Aside from being dedicated to educating fellow risk managers, he also is working with the next generation by serving as an adviser to doctoral students at the Russian State University of Oil and Gas.

"His contributions to RusRisk activities are significant, as in by sharing his work experience as well as his involvement in academic projects," said Nadia Nosova, managing partner at Korna Risk Management in Moscow and a fellow RusRisk board member. "He's got an ability to welcome into the risk management discussion people of different backgrounds and professions."

At RusRisk, which has more than 60 members, Mr. Elokhin serves as a mediator between the risk and insurance management community and the insurance market, fostering a closer dialogue among managers, insurers and brokers.

When language barriers present a problem, Mr. Elokhin—who speaks and reads English but prefers to use a translator in complex discussions—has been active in ensuring important risk management documents are available in Russia.

Mr. Elokhin translated United Nation's APELL documents, which stands for Awareness and Preparedness for Emergencies at Local Level.

APELL is a program developed by the United Nations Environment Program in cooperation with governments and industry, with the purpose of minimizing the occurrence and effects of technological accidents and environmental emergencies.

Additionally, Mr. Elokhin is preparing for RusRisk a three-volume set on risk management terminology, an update on the status of risk and insurance management in Russia, and a "Who's Who" of professional and market players.

"Mr. Elokhin was the driving force behind the creation of a Russian risk management 'language' and common principles," said Victor Vereshchagin, president of RusRisk. "He created a network of experts in Russia to translate the leading risk and insurance management literature into Russian, a huge achievement and foundation stone for the development of a more professional risk and insurance management community in Russia."

Mr. Vereshchagin said it's a boost for risk management in Russia that Mr. Elokhin has been named *Business Insurance*'s European Risk Manager of the Year for 2009.

As a vp for RusRisk, Mr. Elokhin's "award will also be an award for the Russian Risk Management Society," Mr. Vereshchagin said.

—By Richard Miller

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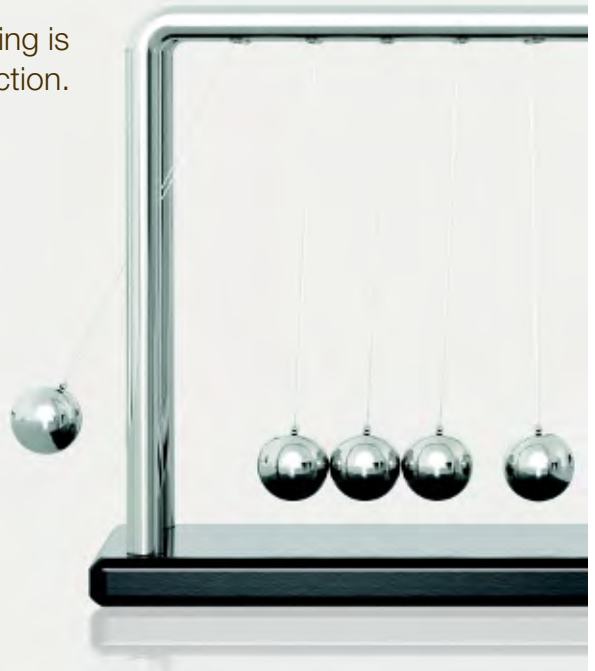

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Risk managers offer helping hand to the Kremlin

RusRisk proposes effective ways for state to manage exposures

By RICHARD MILLER

In an initiative to bolster the level of risk management, Russia's risk management association is starting at the Kremlin itself.

The Russian Risk Management Society last month sent a proposal to the administration of Russian President Dmitry Medvedev, offering its expertise to the state to help find ways to manage risks more effectively.

MIKHAIL DURASOV

A recent explosion led Andrey Elokhin to query how Russia's government can investigate an accident at a firm under its control.

"Currently, the level of risk management at state-owned companies and state-owned bodies, from our understanding, is at a low level," said RusRisk President Victor Vereshchagin. "The main goal of the letter is to offer the knowledge and experience which the risk management society has at the moment."

The offer fits well with the goals of Andrey Elokhin, a RusRisk vp and head of the insurance department at oil producer OAO LUKOIL, who has championed improved risk management and industrial safety in Russia for the vast majority of his career.

When it comes to governmental authorities in charge of industrial risk and safety at Russia's state-owned companies, Mr. Elokhin sees a conflict.

An explosion last month at Russia's largest hydroelectric power plant operated by state-owned JSC RusHydro, which killed 75 people and caused property losses estimated at $1.3 billion, led Mr. Elokhin to question how the government can investigate an accident at a company under its control.

"RusRisk is an independent institution, while the state bodies and ministries which conduct control and oversight are all interlinked," said Mr. Elokhin, who helped compose the letter to President Medvedev.

The Kremlin in the heart of Moscow is the seat of government in Russia. The Russian Risk Management Society last month wrote to Russian President Dmitry Medvedev offering its expertise to help manage risks more effectively.

"I realize it is part of their obligation (to monitor risk management at state companies), but maybe it is worth involving more widely the independent institutions, which can also take part in advising on their risk management activities," Mr. Elokhin said.

While the letter was prepared before the accident, Mr. Vereshchagin said the offer is more relevant than ever given recent events. He said the Medvedev administration may be receptive, because the president spoke of the importance of risk management in society in his address to Parliament earlier this year.

Asked if RusRisk has gotten a response yet, Mr. Vereshchagin replied, "We are waiting."

PANEL OF JUDGES

Following is a list of the judges who chose the 2009 European Risk Manager of the Year:

PAUL TAYLOR is director of risk assurance at Morgan Crucible Co. P.L.C. and the first winner of the *Business Insurance* European Risk Manager of the Year award, when he was director of group risk management and insurance at Pully, Switzerland-based packaging company Tetra Laval International S.A. Mr. Taylor also is also a former vp and current director of the Federation of European Risk Management Assns.

THIERRY VAN SANTEN is director general and chief executive officer of Allianz Global Corporate & Specialty (France). Mr. Van Santen was *Business Insurance* European Risk Manager of the Year in 2008 while executive vp of business risk management at French food company Groupe DANONE. He also is a former FERMA president and founding member of the Assn. pour le Management des Risques et des Assurances de l'Enterprise, serving as AMRAE's president from 1992 to 1998.

STEFAN SIGULLA is CEO of insurance at Siemens Financial Services GmbH and president of the German insurance buyers association, Deutscher Versicherungs-Schutzverband e.V. Mr. Sigulla was elected to *Business Insurance*'s European Risk Management Honor Roll in 2008 and is a director of FERMA.

JULIA GRAHAM is chief risk officer of DLA Piper U.K. L.L.P. and former chairman of U.K. Assn. of Insurance and Risk Managers. Ms. Graham was elected to the *BI* European Risk Management Honor Roll in 2008.

EUROPEAN Risk Manager OF THE YEAR 2009

MARIE GEMMA DEQUAE retired recently as group risk and insurance manager at N.V. Bekaert S.A., a Kortrijk, Belgium-based metals group, and as president of FERMA, a post she had held since 2005. She also is a past president of the Belgian Risk Management Assn.

ALAN FLEMING is the former risk manager of brewer Guinness P.L.C. and a former chairman and executive director of AIRMIC. He also was insurance director of the Guernsey Financial Services Commission and managing director in the strategic account management unit at Aon Ltd. in London.

RALF OELSSNER recently retired as risk manager of German airline Lufthansa A.G., for which he is a nonexecutive director of the group captive insurance operation Delvag. Mr. Oelssner was chairman of Germany's DVS for nine years before handing over the reins to Stefan Sigulla in 2008. He was awarded the Lifetime Achievement award at the first *BI* European Risk Manager of the Year award at the 2007 FERMA Forum.

PIERRE SONIGO is the former group and environmental risk manager at Pechiney Groupe and director of risk and insurance at Paris manufacturer Saint-Gobain, and current general secretary of FERMA.

EDUARDO ROMERO VILLAFRANCA is the first vp of the Asociación Española de Gerencia de Riesgos y Seguros, the Spanish association of risk and insurance management, and was AGERS' chairman from 1999 to 2003. He previously was corporate risk manager of Spain's Dragados Group and subsequently KRBC Construction. Mr. Romero is a former FERMA board member and chaired its 2001 Forum in Barcelona, Spain.

Career has focused on managing various risks

Born in the U.S.S.R. in 1957, Andrey Elokhin—alternatively spelled Yelokhin—grew up in St. Petersburg, Russia, and the Ukraine.

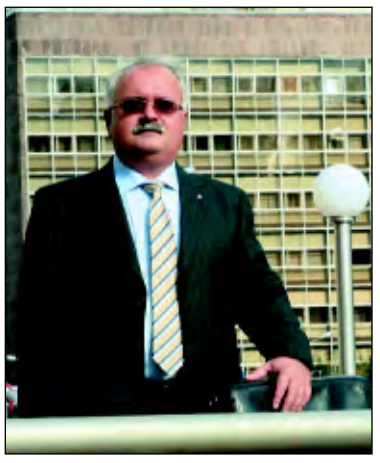
He graduated in 1980 from Moscow State University with a degree in digital mathematics and cybernetics and in 1994 earned a doctorate in technical science.

Following 15 years at the Scientific and Research Institute of the Russian Ministry for Emergencies, he left the public sector to become chief of risk analysis at LUKOIL Insurance Group, OAO LUKOIL's captive insurer.

The captive was sold in 2003 and Mr. Elokhin became head of insurance at parent company OAO LUKOIL.

Mr. Elokhin, who has been on the board of directors of Moscow-based Industrial Risk Ltd. since 2000, has been its chairman since 2006.

He is a co-author of the mid-1990s Russian Law About Industrial Safety of Dangerous Industrial Objects and is an adviser of Russian government institutes in the fields of risk analysis and management, loss prevention and safety promotion. He also is a member of the Scientific Advisory Council for the Russian Ministry for Emergencies



MIKHAIL DURASOV

Mr. Elokhin

Mr. Elokhin is a vp of the Russian Risk Management Society and a member of the Presidium and Scientific Board of the Russian Society for Risk Analysis.

He is an author and co-author of a number of risk and insurance books, and author of hundreds of articles and reports.

The Russian Ministry for Emergencies honored him in 2000 for his achievements in science and engineering.

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2008 : No. 251
IN THE MATTER OF HARRINGTON INTERNATIONAL INSURANCE LTD.
IN THE MATTER OF SECTION 99 OF THE COMPANIES ACT 1981
IN THE MATTER OF A SCHEME OF ARRANGEMENT

NOTICE OF COMPLETION OF SCHEME OF ARRANGEMENT

NOTICE IS HEREBY GIVEN that the Scheme of Arrangement between Harrington International Insurance Ltd. ("the Company") and its Creditors which became effective on March 20, 2009 (the "Scheme") has been completed in accordance with its terms as at September 8, 2009. All Scheme Liabilities have been finally determined and all Payable Scheme Claims have been paid in full in accordance with the terms of the Scheme and no further payments shall be made by the Company in respect of Scheme Claims.

Roger Wheatley
Harrington International Insurance Ltd
September 17, 2009

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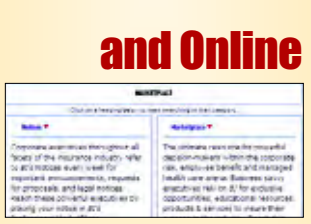
In Print . . .

and Online



Contact Monique Murray at 212-210-0129 for details

LEGAL NOTICE

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT
Claim No. 10521 of 2009
IN THE MATTERS OF
MINSTER INSURANCE COMPANY LIMITED
MALVERN INSURANCE COMPANY LIMITED
THE CONTINGENCY INSURANCE COMPANY LIMITED
PROGRESS INSURANCE COMPANY LIMITED
GAN ASSURANCES IARD
QBE INSURANCE COMPANY (EUROPE) LIMITED
and IN THE MATTER OF THE COMPANIES ACT 2006

NOTICE IS HEREBY GIVEN that the Scheme Companies have applied to the High Court of Justice in England and Wales, Chancery Division, Companies Court, at the Royal Courts of Justice, Strand, London WC2R 2LL for an Order to convene meetings of Creditors of the Scheme Companies in relation to the Scheme Business (the "**Scheme Meeting**"). This application has been adjourned to be heard at some point between 4 and 6 November 2009.

The purpose of the Scheme Meetings will be to consider and, if thought fit, to approve (with or without modification) solvent schemes of arrangement to be proposed by the Scheme Companies in relation to the Scheme Business pursuant to Part 26 of the Companies Act 2006 (the "**Solvent Schemes**").

The creditors under the proposed Solvent Schemes ("**Scheme Creditors**") will be insurance, reinsurance and reinsurance creditors of the Scheme Companies in respect of:

in the case of Minster Insurance Company Limited all insurance and reinsurance business other than certain specifically excluded business details of which are available from the website or Scheme Manager as set out below;

in the case of Malvern Insurance Company Limited and Contingency Insurance Company Limited all insurance and reinsurance business;

in the case of Progress Insurance Company Limited all reinsurance business;

in the case of GAN Assurances IARD all insurance and reinsurance business written by it through the UK under Stamp 328538 - 100% GAN 66 from 1982 to 1994 and Stamp 328549 - 3% GAN 16 and 97% Malvern from 1982 to 1985; and

in the case of QBE (Europe) Limited all insurance and reinsurance business written on behalf of QBE Insurance Company (UK) Limited (formerly Iron Trades Mutual Insurance Company Limited and Iron Trades Insurance Company Limited and transferred to it pursuant to Part VII of the Financial Services and Markets Act 2000) jointly with Minster and The Reliance Fire and Accident Insurance Corporation Limited by Robt. Bradford & Company Limited on Robt. Bradford & Company (Agencies) Limited.

Further information is available at www.qbeuksolutions.co.uk or by contacting the Scheme Manager in the manner set out below.

DATED 18 September 2009

Scheme Manager

Minster Management Services Limited, 18 Mansell Street, London E1 8AA, United Kingdom

Contact: Hilary Young or Rosalie Pyott
Tel: +44 (0) 20 7709 5654
Fax: +44 (0) 20 7709 5740
Email: minsterscheme@minsterms.co.uk

UP Comings & Goings CLOSE

FIONA DENTON

NEW JOB TITLE: London-based director of the marine division and head of the war and terrorism team at brokerage Tyser & Co. Ltd.

PREVIOUS POSITION: Executive director of the property division of Lockton Cos. International Ltd.

GOALS FOR NEW POSITION: I plan to expand Tyser's portfolio of war and terrorism business through dedicated client service and innovation to meet their specific needs.

INDUSTRY OUTLOOK AND CHALLENGES: The market is currently at the bottom of a soft cycle with plenty of capacity available and a very low loss ratio. The war and terrorism market has evolved rapidly and there is more competition than there was five years ago, but thanks to its excellent team and solid reputation, Tyser is well-placed to cement its position as a broker of choice in this specialist area.

CAREER HIGHLIGHT: Looking back, it was when I was promoted from trainee broker to senior broker, which signaled the first step on my career ladder.

HOW I GOT HERE: I have always focused on working hard, perseverance, caring about the business, and building a good rapport with clients.

ADVICE: Our insurance market is full of challenges, which change over time. So, my advice is to make sure you can move with them...that's continued success (in) our market.

GROWING UP: When I was young, I always wanted to be a bus conductor so that I could travel.

HOBBIES: Whenever and wherever I can, I try to fit in scuba diving, skiing, reading, music and travel.

Comings & Goings ONLINE

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

TO SUBMIT ITEMS

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

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

POSTING THIS WEEK

BROKERS
- Integro Insurance Brokers
- Colemont Brokerage Group Inc.

INSURERS
- Torus Insurance Holdings Ltd.
- R.B. Jones

New York broker transparency rule 'close to finished': NYSID official

Pay disclosure rule unlikely to see extra significant changes

By ZACK PHILLIPS

NEW YORK—The New York State Insurance Department's most recent draft of an agent and broker pay disclosure rule is unlikely to see additional significant changes, a department official said Tuesday.

Speaking in Manhattan at a symposium sponsored by the Insurance Brokers' Assn. of the State of New York, NYSID special counsel Matthew J. Gaul said the department thinks the newest version of the proposed agent and broker pay disclosure regulation is "close to finished."

The Producer Compensation Transparency Regulation would require insurance agents and brokers in New York to notify buyers of their right to request information on the compensation the producers receive from insurers in connection with insurance placements. Mr. Gaul said the department has heard complaints from insurance purchasers, brokers and other industry representatives.

"No one is particularly happy with the rule," he said. "I take that to mean we probably ended up about where we should be....We tried to reach a compromise."

Risk management groups say producers should disclose compensation information automatically without insurance purchasers having to ask for it. Mr. Gaul said agents and brokers would have to build significant new infrastructure and make significant operational changes to comply with a rule mandating disclosure in all cases.

He also said the new regulation would be a challenge for the department to police.

"It will be very difficult for the department to make one-by-one efforts to enforce this," he said. "I think a lot of it is going to have to rely on consumer complaint. I think there will be a fair amount of looking at the bigger players and their clients' efforts, and perhaps some spot-checking of smaller agency brokers."

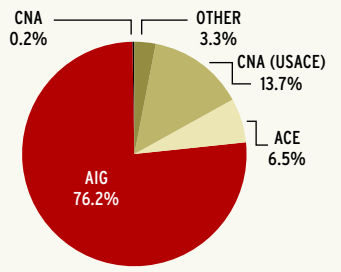
The New York State Governor's Office of Regulatory Reform is reviewing the regulation. After the office issues a memorandum on its review and the governor's office approves it, the regulation will be published in the state register.

After a 45-day comment period, the department either will make minor changes and publish the final rule or submit a new draft of the regulation to GORR, Mr. Gaul said.

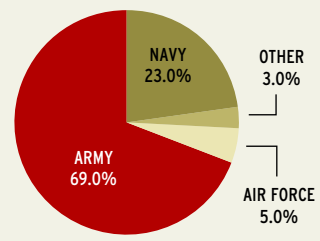
Mr. Gaul said the office could act soon.

DEFENSE BASE ACT PREMIUM BREAKDOWN

Distribution of DBA premiums by carrier



Distribution of DBA premiums by defense component



Note: CNA (USACE) represents premiums from the U.S. Army Corps of Engineers single-provider program, whereas CNA represents premiums from the open-market program.

DBA: Captive proposed for defense workers comp

CONTINUED FROM PAGE 4

the report.

But that would require a major legislative effort and could take too long to implement. So a short-term solution would be to improve the system, the report says. Examples of short-term improvements including developing an assigned risk pool and a claims-experience database that could help insurers provide improved pricing.

Meanwhile, the Pentagon will continue to work with the Department of Labor to determine the best way to proceed with a government self-insurance program, the report states.

Thirty-two insurers provide Defense Base Act insurance. American International Group Inc. provides 76% of the coverage; CNA Financial Corp. provides about 14%; and ACE Group of Cos., 7%, according to the report.

ACE declined to comment. A representative for Chartis Inc., the property/casualty insurance division of AIG, could not be reached.

"We are currently in the process of carefully reviewing and digesting the (Department of Defense) report," a CNA spokeswoman said in an e-mail.

The American Insurance Assn. also declined to comment and a spokeswoman said the AIA was reviewing the report.

"I think improving the current system is the way to go," said Herbert Chestnut, an attorney at Herbert Chestnut & Associates in Marietta, Ga.

A system revamp likely would lead to confusion that would cause more problems than exist under the current system, said Mr. Chestnut, who represents workers comp claimants and blogs about the Defense Base Act.

"I know claimants and claimants' attorneys really are angry in these (Defense Base Act) cases, but we do have a system in place that works," he said. "It may take some time to work, but it does work. If we scrap the system and go with something totally different... then we are going to have more problems than we have now."

The report states that while self-insuring would minimize government overhead costs, reduce broker compensation, and improve the correlation of costs to losses, contractors under a self-insurance system would have no incentive to implement effective risk-control measures because the Defense Department would pay the bills.

Under the system, contractors purchase insurance and the Defense Department later reimburses them.

NAIC: Group eyes rating system changes

CONTINUED FROM PAGE 4

replace the system.

For example, Birny Birnbaum, executive director of the Center for Economic Justice, an Austin, Texas-based consumer advocacy group, told commissioners that "it's clear the rating agencies didn't know what they were doing" when rating subprime mortgage-backed securities between 2004 and 2007. He asked commissioners why anyone should believe the agencies know what they're doing now, and suggested that the NAIC use its Securities Valuation Office as a means of evaluating structured securities.

But SVO Managing Director Chris Evangel said expanding the SVO faces several impediments, most notably cost. He also noted that the SVO has no direct relationship with issuers of the securities; instead, it depends on insurers to provide such information.

David P. Marks, executive vp and chief investment officer of Madison, Wis.-based CUNA Mutual Group, which provides insurance and services to credit unions, said insurers could establish their own independent, nonprofit rating agency. He noted, however, that antitrust issues would have to be addressed before such an entity came into being.

Several witnesses said most of the major rating agencies have an inherent conflict of interest because they are paid by the issuers of structured securities to rate the instruments. But Keith Buckley, group managing director and head of the insurance group at Chicago-based Fitch Ratings, said perceived conflicts of interest did not cause the economic crisis. "We're very proud of our long-term performance," but he added that credit rating agencies did not foresee the precipitous decline of the housing market.

He said the credit rating system "is by no means broken."

Jerome Fons, principal of Fons Risk Solutions, a New York-based firm that provides advisory services in measuring and pricing credit risk, disagreed. He said it is "doubtful" the major credit rating agencies will ever regain the public's trust. "An honest rater will make many people angry," he said.

Market Moves

BWD moves Florida office

ST. PETERSBURG, Fla.—Brokerage BWD Group L.L.C. has moved its St. Petersburg, Fla., office.

Jericho, N.Y.-based BWD Group first started operations in Florida in April and moved into new offices to support its growing production, company officials said.

The new office is at 10101 9th St. North, Suite 264, St. Petersburg, Fla. 33716.

The phone number is 516-719-7870.

The brokerage also has offices in New York and Philadelphia.

Swett & Crawford expands transportation team

MINNEAPOLIS—Swett & Crawford Group Inc. has formed a Midwest transportation team.

The team has transportation specialists in Chicago, Detroit, Minneapolis and Little Rock, Ark., the wholesaler said in a statement.

Doug Falls, sales leader and manager of Swett & Crawford's Minneapolis office, will lead the team.

The new team, which Swett & Crawford said is intended to increase its market share in the Midwest, is a part of the firm's national transportation practice group, the statement said.

McNeary acquires HSLI Agency Inc.

BATON ROUGE, La.—Charlotte, N.C.-based insurance services firm McNeary Inc. said it has acquired the hospital and property/casualty business of HSLI Agency Inc.

Baton Rouge, La.-based HSLI is owned by trusts of the Louisiana Hospital Assn. Under the deal, McNeary acquired HSLI's property/casualty business and renewal rights for Louisiana association hospitals.

McNeary provides employee benefits and property/casualty products to hospitals and state association hospital members in Alabama, Florida, Georgia, Louisiana, North Carolina and other areas of the Southeast, the company said in a statement.

The agreement allows HSLI to focus on its core business, including medical malpractice, workers compensation and liability insurance, the statement said.

Kiln Group opens aviation office in Paris

PARIS—Kiln Group Ltd. has opened an office in Paris to underwrite aviation hull and liability coverage.

Philippe Daouphars, Kiln's regional aviation manager, is managing the Paris office, according to a statement. He previously was based in Liège, Belgium, with Kiln unit Belmarine Marine Insurers S.A.

Belmarine, which Kiln acquired in 2006 to make its entry into Europe, now will be known as Kiln. Olivier Terlinden will continue in the Liège office as managing director.

The new office is at 66 Rue de la Chausée d'Antin, 75009, Paris, France. The phone number is 33-1 40-82-97-00.

Kiln is a London-based unit of Tokio Marine Group. Kiln's operating company, R.J. Kiln & Co. Ltd.

Willis to switch to new management platform

NEW YORK—London-based Willis Group Holdings Inc. has signed a commitment to use the agency management platform of systems vendor Applied Systems Inc. to manage all client transactions in North America, the broker said.

Willis' acquisition of Hilb Rogal & Hobbs Co. expanded the presence of the broker—now called Willis HRH—from 70 locations to 200 locations in North America.

In integrating that acquisition, Willis will unite all offices on Applied Systems' Epic platform. Many Willis HRH employees use systems made by University Park, Ill.-based Applied Systems and uniting them on Epic will produce cost savings and improve client services, officials said in a statement.

TO SUBMIT ITEMS

BI's Market Moves column reports on activities by insurance industry companies and related entities. Please send news of Market Moves to Zack Phillips, 711 Third Ave., New York, N.Y. 10017 or e-mail *zphillips@businessinsurance.com.*

Health: Senators work on reshaping health care reform proposal

CONTINUED FROM PAGE 1

consideration of the Baucus measure.

"The outcome truly is not clear for this committee and, for that matter, Congress as well," said Gretchen Young, vp-health policy with the ERISA Industry Committee in Washington.

And the fate of an amendment of special interest to business—an employer coverage mandate—was put off until the measure reaches the Senate floor.

Under that amendment—proposed by Sen. John Kerry, D-Mass.—employers with 26 or more employees would have to offer health care coverage, pay at least 60% of the premiums for individual and family coverage, and abide by certain other requirements. Those that fail to do so would be assessed an annual fine of $750 for each full-time employee not covered and $375 for each part-time employee not covered. The amendment mirrors a provision in the reform bill earlier approved by the Senate Health, Education, Labor and Pensions Committee.

After outlining his amendment and defending it as one of "shared responsibility," a reference to another provision in the Baucus plan that imposes fines on individuals not enrolled in a health care plan, Sen. Kerry withdrew the amendment. He indicated, though, that he will bring it up again when the measure is considered by the full Senate.

Business lobbyists aren't sure what prompted Sen. Kerry to withdraw the amendment, though some speculate that he did so when he realized he lacked the votes needed to pass it.

Regardless, lobbyists know the issue is not yet settled.

"The can has been kicked down the road. Perhaps we will have this out on the Senate floor. Either way, this is a bad amendment. Instead of fixing some of this bill's faults, it makes the bill worse," said James Gelfand, senior health care policy manager at the U.S. Chamber of Commerce in Washington. The Chamber strongly opposes requiring employers to offer coverage.

Meanwhile, benefit experts say other changes made by Sen. Baucus—most notably one involving an excise tax imposed on very costly health insurance plans—don't go far enough.

Under the original proposal, a 35% excise tax would be imposed on employer-provided coverage in which premiums exceed $8,000 a year for individual coverage and $21,000 for family coverage. This would include premiums for medical, dental and vision care; employer contributions to health reimbursement arrangements and health savings accounts; and employee contributions to flexible spending accounts. The threshold amounts would be adjusted annually to match increases in the Consumer Price Index for urban areas.

The tax would be paid by insurers and, in the case of self-funded plans, by third-party claims administrators. Almost certainly, insurers and TPAs would try to recover the taxes they would pay through higher charges on employers.

Under the revised Baucus package, the excise tax is modified in several ways. First, the tax would be increased to 40%. In addition, the $8,000 and $21,000 thresholds would be increased by $750 for individual coverage and $2,000 for family coverage for retirees covered in employer plans who are age 55 and older.

The increases in the threshold amounts also would apply to employees working in certain "high-risk" professions, including law enforcement, construction, mining, firefighting and members of rescue squads and ambulance crews.

In addition, the threshold amounts would rise in tandem with annual increases in the Consumer Price Index for urban areas, plus one percentage point.

While few health plans carry premiums of that amount, with medical inflation far outstripping the general inflation rate, some fear the thresholds may apply to many more plans in 2013 when the tax is slated to kick in.

While the proposed changes will shield more employers from the tax—typically those with unionized workforces—experts say the tax is inherently unfair.

"Sure, some employers will get relief. But the proposal still does not solve the problem. If you are an employer with a much older workforce, for example, this change is not going to help you," said Chantel Sheaks, a principal with Buck Consultants L.L.C. in Washington.

"Because of a variable out of your control—the age of your workforce—one employer could be hit with the tax, while others would not," Ms. Young said.

"Changes in indexing and adjustments for retirees and high-risk industries will help mitigate but not eliminate the issues," added Michael Thompson, a principal with PricewaterhouseCoopers L.L.P. in New York.

Other changes proposed by Sen. Baucus include lifting a limit on annual contributions to health care FSAs from his initial proposed $2,000 to $2,500 and creating a $5 billion fund to partially reimburse employers on health care costs for retirees age 55 through 64. These changes were welcomed, though it isn't known whether the full committee will accept those proposals.

WORK IN PROGRESS

How Sen. Baucus wants to change his health care reform proposal

PROVISION	ORIGINAL PROPOSAL	AS MODIFIED
Flexible spending accounts	$2,000 annual cap	$2,500 annual cap
Excise tax on costly health plans	35% tax on premiums exceeding $8,000 for individual coverage and $21,000 for family coverage	40% excise tax, with higher cost thresholds for plans covering early retirees and plans covering employees in "high-risk" professions
Federal retiree health care subsidies	No provision	$5 billion fund to partially reimburse employers offering health coverage to early retirees

Willis: Broker plans to redomesticate from Bermuda to Ireland

CONTINUED FROM PAGE 1

tain a competitive worldwide effective corporate tax rate."

Although Bermuda is known for low taxes, Ireland, with a corporate tax rate of 12.5% has one of the lowest corporate tax rates in the European Union, observers say. That compares with a rate of 35% in the United States and 28% in the United Kingdom. Bermuda has no direct corporate tax, but companies are required to pay payroll taxes, import duties and tariffs.

Perks in Ireland

Willis also said redomesticating will allow it to take advantage of Ireland's established commercial relationships; trade agreements; and tax treaties with members of the European Union, the United States and other countries where the broker does business.

Unlike Ireland, Bermuda does not have a tax treaty with the United States; some observers say the absence of such a treaty may be driving the redomestication trend in part.

"Availing themselves to a network of tax treaties seems to be an important part of their reasoning," said Richard Irvine, a partner with PricewaterhouseCoopers in Bermuda. "There are a number of potential legislative changes that would favor companies that were domiciled in countries that had tax treaties with the U.S. in place."

Benefits of a tax treaty range from reduced withholding rates on payments made by U.S. customers to provisions dealing with revenue earned by a unit in the treaty country, Mr. Irvine said. But a treaty also offers "clarity and definition" with respect to tax treatment, he said.

Amid the backdrop of the uncertainty concerning Bermuda, some observers say such clarity is appealing.

A tax treaty network has been important in other redomestications. In the past year, Bermuda-based insurers ACE Ltd. and Flagstone Reinsurance Holdings Ltd. redomesticated to Switzerland, which also has a tax treaty with the United States. ACE, which maintains executive offices in Bermuda, cited the tax treaty network as a primary reason for its move.

On the defensive

Some observers viewed Willis' redomestication as a defensive move related to possible changes in U.S. tax laws.

"There is so much uncertainty, but the mere threat of the U.S. changing its tax treatment of Bermuda-based companies could be enough for some companies to make management decisions," said Laline Carvalho, an analyst with Standard & Poor's Corp. in New York.

Although much of President Obama's proposed tax reforms target large, U.S.-based multinationals shifting profits offshore, the proposal includes tightening restrictions for offshore companies doing business in the United States, said Robert P. Hartwig, president of the New York-based Insurance Information Institute.

In addition, "numerous other reforms," related largely to bills introduced in prior sessions of Congress, could make their way into a tax overhaul, PwC's Mr. Irvine said. The proposals range from taxing non-U.S.-domiciled companies on their worldwide income to modifying rules that determine corporate residency, "which could result in higher taxes for companies located offshore but that keep executive offices and key management the United States," he said.

Willis' U.S.-based subsidiary, Willis HRH, has a large U.S. presence and maintains executive offices in New York. The broker's 2008 acquisition of Richmond, Va.-based Hilb Rogal & Hobbs Co. doubled its North American revenues, according to a 10-K filing with the SEC.

Despite its sophisticated regulatory framework, Bermuda also has been fighting reputational damage of being placed on a "gray list" of jurisdictions that have yet to fully implement internationally agreed tax standards by the Organization for Economic Cooperation and Development (*BI*, April 12). In June, Bermuda ascended to the OECD's "white list," indicating its commitment to the standard. However, "the branding has created quite a distraction for the island," said S&P's Ms. Carvalho.

"We really view this as (Willis) taking an early step to avoid any uncertainties down the road," said Tracy Dolin, an analyst with S&P in New York.

S&P and Moody's Investors Service said Willis' redomestication is neutral from a ratings perspective.

While the effect of Willis' exit still is unclear, "it can't be good news for Bermuda" and "it's certainly possible that other companies may follow suit," Mr. Hartwig said.

However, Bradley L. Kading, president of the Assn. of Bermuda Insurers and Reinsurers, said the move would not have a significant negative effect on Bermuda since Willis' holding company "was really just a domicile of convenience."

Bermuda Finance Minister Paula Cox did not respond to a request for comment.

The redomestication is subject to approval by the Supreme Court of Bermuda and Willis shareholders, who will be asked to vote on the redomestication in three or four months, according to the statement.

MOVING OUT

Other notable recent Bermuda departures:

ACE LTD.
July 2008

Redomesticates holding company from the Cayman Islands to Zurich, Switzerland, and moves corporate headquarters from Bermuda to Switzerland.

FLAGSTONE REINSURANCE HOLDINGS LTD.
August 2008

Merges operating units in Bermuda and Switzerland into one Martigny, Switzerland-based company. Bermuda operation now operates as branch of Flagstone Reassurance Suisse S.A.

Flood: Losses expected to rise as Atlanta flood waters subside

CONTINUED FROM PAGE 1

homeowners had filed property damage claims by the end of last week and another 2,000 claims had been filed for water damage to vehicles.

The Insurance Services Office Inc.'s Property Claims Services assigned a catastrophe number to the event, which means insured damage is expected to exceed $25 million. However, it did not release an estimate of insured flood losses.

As of Friday, even total damage estimates—including insured and uninsured losses—ranged from $250 million to $1 billion.

After touring the affected area, Georgia Insurance Commissioner John W. Oxendine said flooding across northern Georgia caused an estimated $250 million in losses. Meanwhile, Atlanta Mayor Shirley Franklin pegged losses at more than $1 billion.

While a standard homeowners policy covers damage from a variety of perils, it doesn't cover flooding, which must be covered under a separate policy purchased through the National Flood Insurance Program. An NFIP policy covers up to $250,000 in damage to the contents of a home or business and up to $500,000 for the building itself.

Most homeowners and small-business owners in the affected areas did not buy such coverage, authorities and industry spokesmen said. Some speculated it was because most of the affected areas were outside designated flood plains, where coverage is more likely to be purchased.

The NFIP did not return calls or e-mails inquiring about the number of policies in force in the affected area.

Large commercial insureds are more likely to have flood coverage through their all-risk property policies, depending on how close they are to designated flood plains, insurance industry spokesmen said.

"Much of the commercial flood damage will be covered because flood coverage is offered on virtually every property program," said Mike White, managing director at Atlanta-based Beecher Carlson. "But deductibles are high if the location is in a high-hazard flood plain."

For example, the deductible may be in excess of the maximum available limits from the NFIP, regardless of whether the government insurance is purchased, Mr. White said.

In other cases, "a $25 million all-hazard property policy might have a $5 million sublimit for high-hazard flood," he said.

David Passman, national property claims director at Willis HRH in New York, estimated that "95% of the damaged properties do not have flood insurance. Some all-risk programs for larger insureds probably do include some flood coverage, but for smaller risks, the only coverage available was probably through the National Flood Insurance Program."

He added that as of Friday, "we've had about 10 losses reported, the largest a wire manufacturer with $30 million to $40 million in damage."

"We have several commercial claims reported already," said Joe Dotoli, chairman of Naperville, Ill.-based VeriClaim Inc. "Some are pretty severe."

"It's no hurricane, but it's still a significant event," Mr. Dotoli said. "But we really won't get the full sense of things until next week because there are still a lot of areas that are inaccessible."

None of the commercial insurers contacted would release the number or dollar value of claims filed in connection with the Atlanta flood, saying it was too early to determine the extent of losses that will be covered.

NYT PARTNERS

A driver makes an assessment of the flooding on Interstate 285 in Cobb County, Ga., last Tuesday. It is too early to tell how much insured damage was caused by the floods that inundated the Atlanta area last week, experts said.

Greenberg: Ex-AIG chief seeks dismissal of lawsuit

CONTINUED FROM PAGE 4

"miniscule relative to AIG's size."

Four former Gen RE executives and one from AIG were convicted in connection with the finite reinsurance deal.

One of the other matters described in the heavily redacted 102-page memorandum involves charges that AIG had improperly used an offshore vehicle, Barbados-based CAPCO Reinsurance Co. Ltd., as a shell corporation to take on auto warranty losses the insurer had generated in the mid-1990s as way to get them off its books.

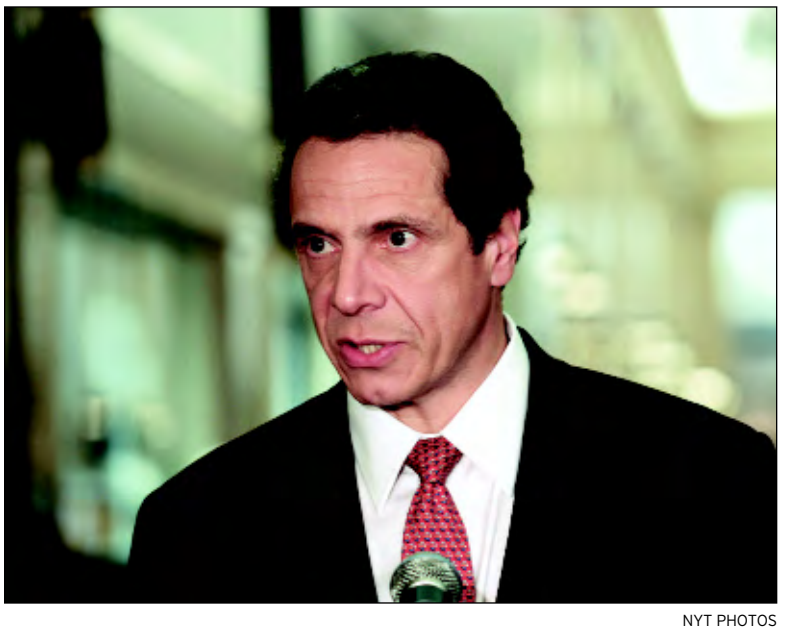
Complex arrangement

The third situation involves charges that AIG used a complex arrangement to convert underwriting losses in its Brazilian life insurance business to investment losses in 1999 and 2000.

"In the course of extensive discovery conducted in its case, no witness has testified that Greenberg sought for AIG to enter into improper transactions or that Greenberg had knowledge that any of these transactions were improper," the memo states.

"At all times Greenberg—who, during relevant periods, ran an enormous global company that operated in 130 countries—relied on legal counsel, on internal accounting experts, on external auditors, on actuaries and on AIG's counterparties to structure and account for the millions of transactions entered into each year in an appropriate manner."

The memo states that Mr. Spitzer's "dogged pursuit of a handful of immaterial transactions from a decade ago, in the face of a record that is bereft of any admissible evidence Greenberg was aware of or wrongfully benefited from any improprieties, has been and remains an enormous waste of resources that could have been better employed investigating other matters, including the total collapse of AIG that came about under the new management installed at Spitzer's insistence after Greenberg left."



NYT PHOTOS

New York Attorney General Andrew Cuomo reportedly was seeking a summary judgment in a 2005 case against former AIG leader Maurice R. Greenberg.

The memo also states that Mr. Spitzer had threatened AIG's board of directors with a corporate criminal indictment unless Mr. Greenberg was removed. It says he was planning to run for New York governor at the time and "has since admitted that this high-profile pursuit of Greenberg achieved its intended objective of enhancing his reputation as he pursued higher office."

Mr. Spitzer resigned as governor last year after a sex scandal.

An AIG spokesman had no comment. Representatives of Messrs. Spitzer and Cuomo could not be reached.

Mr. Cuomo's office reportedly was expected to file its own summary judgment brief late last week.

Regs: Plan would tackle systemic risk

CONTINUED FROM PAGE 3

president of the European Central Bank, one member of the European Commission and the chairmen of the three European supervisory bodies that represent the banking and securities, occupational pensions and insurance sectors.

This means the only representative of the insurance sector on the board will be Thomas Steffen, head of the Frankfurt, Germany-based Committee for European Insurance and Occupational Pensions Supervisors.

Representation an issue

Leading national and pan-European insurance associations welcomed the decision by the European Union to attempt to improve supervision of the financial sector. But the United Kingdom's Assn. of British Insurers and Germany's insurer trade association, Gesamtverband Der Deutschen Versicherungswirtschaft, said they were concerned that the insurance industry will be underrepresented by the Systemic Risk Board and dominated by the banking sector.

The ABI welcomed changes to financial supervision but is "concerned that the macroprudential body, the ESRB, is dominated by bankers and does not have enough insurance expertise," said Stephen Haddrill, London-based director general of the ABI.

Jörg von Fürstenwerth, chairman of the managing board of the GDV, also said that, overall, the association judged the EU's plan to be a "positive" one.

However, Mr. Fürstenwerth also said that the GDV has reservations about the dominance of bankers in the management structure and that the insurance sector is "underrepresented" in the oversight organization.

Other observers also have criticized the composition of the Systemic Risk Board (see story, page 10).

LANDOV

The city of Vancouver faced unexpected costs associated with the construction of the Olympic Village for the 2010 Winter Games, which has fueled concerns about similar financial burdens for Chicago.

Olympics: Chicago readies unique cover to back its bid to host the 2016 Games

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Construction sureties typically apply only to developers and not lenders, although financial guarantees have been put in place to back lenders in other types of industries or to back financial instruments such as government revenue bonds.

Capital replacement insurance "wraps around the developer and the capital structure the developer brings," explained the source familiar with the insurance arrangements. Also like a surety arrangement, insurers would underwrite and sign off on the developer and the developers' capital sources, essentially prequalifying their financial agreements, creditworthiness, financial strength and ability to complete the development, the source said.

Observers say that would be unusual.

"I've not seen anything like that in the (construction) surety world," said Frank Robertson, a Summit, N.J.-based consultant affiliated with Milliman Inc.

Coverage would trigger under a wide array of possibilities, say for example, either the developer or the bank financing the developer enter bankruptcy or simply back out of the deal, the source said.

Critics have raised concerns that the host-city contract that Chicago Mayor Richard M. Daley entered into with the IOC would leave Chicago on the hook for an unlimited financial guarantee backing the games. Criticism of the Chicago agreement followed the global credit market collapse, which caused a developer to lose its financing while building facilities for the 2010 Winter Games in Vancouver, British Columbia. The City of Vancouver then had to take over projects.

Covering the risk

Former Aon Corp. founder and Executive Chairman Patrick Ryan has led Chicago's Olympics bid. Aon has provided assistance evaluating insurance arrangements on a pro bono basis but, through a spokesman, the brokerage declined to comment on the insurance aspects of the bid.

Other major insurance brokers experienced in large construction projects declined to comment on capital replacement insurance.

Published reports say Mr. Ryan has obtained a letter of commitment from German reinsurance giant Munich Reinsurance Co. A spokeswoman for Munich Re said the company would not comment. Other Europe-based companies with large risk appetites include Swiss Reinsurance Co. and Zurich Financial Services Ltd., whose North American operations are based in Schaumburg, Ill., a Chicago suburb.

"As one of the largest employers in the region, Zurich in North America is proud to actively support Chicago's bid for the 2016 Olympic and Paralympics Games. We hope to continue our relationship with the Chicago Olympics Committee after the bid decision is made," Zurich said in a statement. It would not confirm whether it agreed to provide coverage.

Swiss Re would not confirm last week whether it had agreed to write the coverage.

Despite the estimated billion-dollar cost of the Olympic Village, $250 million in capital replacement insurance limits was deemed appropriate because the project would be built in different phases using public and private funds, the source said. The entire project cost, therefore, would not be at risk at any one time, the source said.

In return for their participation, insurers would collect higher-than-typical premiums and possibly an equity stake in the Olympic Village project.

Insurers typically receive about 1% to 2% of the contract price for surety bonds they provide for construction projects, said Robert Duke, director of underwriting for Surety & Fidelity Assn. of America in Washington.

Under the capital replacement insurance, however, the insurers would receive up to 5% of the $250 million in limits, said the source familiar with the arrangements.

Should the coverage be triggered, insurers also would receive an equity stake in the Olympic Village—which would include lakefront property and athlete quarters that later could be sold as condominiums and apartments.

"Its hard to do something in the securities world completely on a conceptual basis," the source said. The capital replacement insurance concept, borrowing from surety models, made it easier for insurers to commit, the source said.

Capital replacement insurance is not typically necessary in other types of construction projects where a date for completion is open-ended, the source said, adding that the new form of coverage is likely to be attractive for future Olympic Games or other sports projects.

Reinsurers: NAIC backs legislation to alter collateral requirements

CONTINUED FROM PAGE 3

London-based International Underwriting Assn. The legislation "contains a number of important concepts that recognize the need for change."

He said he would argue, however, that U.K.-based reinsurers should not have to post more collateral than similarly rated U.S.-based reinsurers, or have to apply for port of entry reinsurance status and undergo a second regulatory process. "It still doesn't create full equivalency, really," Mr. Matcham said.

"We hope that the NAIC will move swiftly in gathering sponsors to push the reform agenda forward," Sean McGovern, Lloyd's of London's general counsel, said in a statement.

"We're encouraged by the NAIC's movement towards a federally sanctioned approach to reinsurance regulation, and certainly look forward to working with them on this," said Frank Nutter, president of the Washington-based Reinsurance Assn. of America.

Nick Kapatos, chair of the Risk & Insurance Management Society Inc.'s external affairs committee, said the committee will respond to the proposal when it meets Oct. 23. "RIMS understands and appreciates the NAIC's interest and efforts to craft policy on reinsurance," Mr. Kapatos said. "Generally, as commercial insurance purchasers, we support measures which increase capacity and facilitate affordability. However, we understand there may be some lingering constitutional concerns with the NAIC proposal."

NAMIC members prefer that full, 100% collateral be required. 'It is simply a matter of security.'

Bill Boyd,
National Assn. of Mutual Insurance Cos.

He cited the provision of the president appointing 10 directors from state insurance regulatory authorities to the new board. Many observers hold that this presents some constitutional issues, said Mr. Kapatos, who is senior vp and enterprise risk manager for Sterling Bank in Houston.

However, Mr. Richardson said he feels the bill addresses that issue; while the NAIC would suggest board members, the president could nominate whomever he wants.

Others stressed the issue of collateral.

Bill Boyd, financial regulation manager for the Indianapolis-based National Assn. of Mutual Insurance Cos., said he welcomes streamlining the licensure of reinsurers. "The problematic part" is that it reduces the amount of collateral required by non-U.S. reinsurers to below 100%. NAMIC members prefer that full, 100% collateral be required, he said. "It is simply a matter of security."

Will Rijksen, vp of public affairs for the Washington-based American Insurance Assn., said current reinsurer collateral rules "are helpful toward solvency, whereas this proposed bill would put those solvency standards at greater risk."

"It would reduce collateral levels too much, too quickly," Cliston Brown, Washington-based director of federal public affairs for the Property Casualty Insurance Assn. of America, said in a statement about the PCI's opposition to the bill.

Prescription: Lawsuits target testing workers for legal medications

CONTINUED FROM PAGE 4

crimination by Dura Automotive that was filed by individuals who claimed they were suspended or lost their jobs as a result of the company's drug testing policy.

Robert Boston of Nashville's Waller Lansden Dortch & Davis L.L.P., who is representing Dura, did not return a call seeking comment.

Leslie E. Silverman, a Washington-based partner for Proskauer Rose L.L.P.'s labor and employment department practice and former vice chair of the EEOC until September 2008, but who has no involvement in the case, said Dura allegedly has violated multiple EEOC guidelines and cannot see how, if the allegations are proven, the court would rule against the EEOC.

Ms. Silverman said a drug test is lawful if it screens for illegal drugs, but said such a test for legally prescribed drugs is regarded as a medical exam under ADA guidelines. She said there are specific requirements that an employer must meet to conduct a medical exam; specifically, it must be job-related and consistent with "business necessity."

"What makes this case unusual is the employer is looking for both illegal and legally prescribed drugs," Ms. Silverman said. "Under EEOC guidelines, employers are allowed to test, but (the guidelines) exclude the use of prescription medications."

Ms. Silverman also noted that, based on the EEOC's complaint, Dura screened all employees and didn't limit it to those who affect public safety—a person driving a forklift, for example.

Todd Bromberg, Washington-based attorney for Wiley Rein L.L.P.'s employment practice, agreed. He said the alleged testing by Dura for legally prescribed drugs is uncommon and "improper." While some employers may conduct such a drug screening if it is allowed by state law, he noted the practice is not common. Tennessee does not have such a law.

"The question is: Did the employer have good reason to test for legally prescribed drugs," Mr. Bromberg said. "Obviously, illegal drugs and alcohol pose a threat in the workplace, and it's possible that some people can abuse legal drugs if they take too much or the combination of drugs causes (a problem). However, it's not an absolute that legal drugs pose a threat in the workplace."

Both attorneys agree that most employers would have a hard time proving that testing all employees at a plant for legal prescription drugs was necessary.

"The ADA allows employers to test employees for controlled substances, but testing for legally prescribed medications and forcing employees to disclose their medical reasons for taking them clearly exceeds what the ADA allows an employer to do," Katharine W. Kores, director of the EEOC Memphis, Tenn., district office, said in a statement.

"The situation at Dura Automotive was aggravated by the company's humiliating those who tested positive by conducting its tests in a manner that immediately made their identities known to its entire workforce," she said.

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News In Brief

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($2.14 billion) in the first half of 2009, due largely to improving investment conditions and a relatively low level of catastrophe claims. Investment returns in the first half more than doubled to £708 million ($1.15 billion), Lloyd's reported. The boost stemmed largely from increased returns on its conservative investments, as well as a recovery in the value of corporate debt securities, Lloyd's said. Gross written premiums for the first half of 2009 rose 35% to £13.46 billion ($21.9 billion). The figure, adjusted for variations in currency exchange rates, reflects a "genuine increase of about 9%" due largely to "rate increases in catastrophe-related classes and new business brought into the market by new and established syndicates," Finance Director Luke Savage said. Incurred claims totaled £4.46 billion ($7.24 billion) in the first half of 2009, up 31% from the prior-year period, while the market's combined ratio rose slightly to 91.6% from 89.0%.

SCIF chief executive resigns effective Oct. 23

California's State Compensation Insurance Fund President and Chief Executive Officer Janet Frank has resigned for personal reasons, a spokesman for the San Francisco-based insurer said. Ms. Frank wants to spend time with her mother, who is ill, the spokeswoman said. Her resignation is effective Oct. 23. SCIF's board has a meeting scheduled for Oct. 19 and will announce an interim leader after that, the spokeswoman said.

Hawaii appoints captive regulator

The Hawaii Department of Commerce and Consumer Affairs has named George W. Sumner III captive administrator and deputy insurance commissioner for the Hawaii Insurance Division. Mr. Sumner, who previously was a vp at the Bank of Hawaii and leader of the bank's captive insurance team, starts his new post Oct. 1. He replaces Craig M. Watanabe, who left Hawaii's insurance division earlier this year to join insurer DTRIC Insurance Co. Ltd.

Allianz delists from non-German exchanges

Allianz S.E. is delisting from the New York Stock Exchange and four European exchanges to focus on the German marketplace that it said offers the greatest liquidity. The Munich-based insurer said it voluntarily will delist its American depositary shares from the NYSE and is delisting from exchanges in London; Milan, Italy; Paris; and Zurich, Switzerland. Allianz will focus on trading on the Frankfurt Stock Exchange's Xetra electronic trading platform, the insurer said in a statement. Allianz shares on non-German exchanges accounted on average for less than 5% of the total trading of the insurer's shares in recent years, despite the fact that around 70% of Allianz shares are held outside of Germany, the statement said.

Texas hailstorm damage put at more than $150M

A hailstorm that pounded the east side of El Paso, Texas, last week caused more than $150 million in insured damage, according to the Insurance Council of Texas. The fast-moving storm struck late in the afternoon of Sept. 16, packing baseball-size hail that damaged an estimated 10,000 homes and 20,000 automobiles in El Paso, the Austin, Texas-based council said in an analysis last week.

Microsoft gets OK for benefits in captive

The Labor Department has given Redmond, Wash.-based software giant Microsoft Corp. tentative authorization to fund employee benefit risks through the Vermont branch of its Bermuda-based captive insurance company. Microsoft wants to use the Vermont branch of Orcas Ltd., its 11-year-old property and liability captive, to reinsure long-term disability policies written by Prudential Insurance Co. of America covering about 55,000 U.S. employees, according to the application filed by the Somerset, N.J., office of Aon Consulting.

Flagstone, Marlborough establish syndicate

Flagstone Reinsurance Holdings Ltd. last week said that it has joined with Lloyd's underwriter Marlborough Underwriting Agency Ltd. to create a worldwide property division. The division, which initially will write on behalf of Marlborough's existing Syndicate 1861, will be supported by the new mixed-capital Syndicate 1969 by 2010, Hamilton, Bermuda-based Flagstone Re said in a statement. The mixed capital will provide much of the capacity and utilize managing agency services and systems provided by Flagstone and Marlborough.

Bermuda, Fla. regulators enter cooperation pact

Bermuda has signed an agreement of cooperation with Florida's state insurance department to establish a formal basis for consultation on matters of common importance. The Bermuda Monetary Authority said the agreement with the Florida Office of Insurance Regulation is the latest such agreement to enable the domicile to formally cooperate with its regulatory counterparts overseas. Under the agreement, the regulators would assist each other on supervisory matters involving companies of common interest within their respective markets. The agreement, which takes immediate effect, also covers procedures for investigating firms or individuals in either domicile, the statement notes. Bermuda has a similar cooperation agreement with the New York State Insurance Department.

Federal common law of nuisance can be applied to coal-burning utilities

Appeals court ruling opens door to 'almost limitless' emitter suits

By JOANNE WOJCIK

NEW YORK—The 2nd U.S. Circuit Court of Appeals in New York has ruled that five of the largest U.S. coal-burning electric utilities can be sued under the federal common law of "nuisance" for their alleged contribution to global warming.

A two-judge panel of the 2nd Circuit held that a lower court erred in dismissing the complaints on political question grounds, that all of the plaintiffs have standing to bring their claims and that the federal nuisance common law governs their claims.

Last week's decision, which overturned and remanded a judgment by the U.S. District Court for the Southern District of New York in *State of Connecticut et al. vs. American Electric Power Co. et al.*, effectively paves the way for other lawsuits against utilities alleging nuisance from carbon dioxide emissions, environmental attorneys say.

"This decision potentially enables every state and municipality in the country to bring nuisance suits against an almost limitless range of (carbon dioxide) emitters," John Nevius, a partner in the insurance recovery group of Anderson Kill & Olick P.C. in New York, said in a statement. He was not involved in the suit.

Eight states—California, Connecticut, Iowa, New Jersey, New York, Rhode Island, Vermont and Wisconsin—and New York city filed the suit in 2004 against American Electric Power Co. Inc., American Electric Power Service Corp., Southern Co., the Tennessee Valley Authority, Xcel Energy Inc. and Cinergy Corp. seeking "abatement of defendants' ongoing contributions to a public nuisance" under federal common law, or in the alternative, under state law.

READ documents from this case and other public documents at **www.BusinessInsurance.com**

The suit, which has been returned to the district court for trial, seeks damages to compensate for a range of injuries the states and city expect to occur during the next 10 to 100 years if global warming is not abated. That includes increased illnesses and deaths caused by intensified and prolonged heat waves; increased smog, with a concomitant increase in residents' respiratory problems; significant beach erosion; accelerated sea-level rise and the subsequent inundation of coastal land and damage to coastal infrastructure; salinization of marshes and water supplies; lowered Great Lakes water levels, and impaired shipping, recreational use and hydropower generation; more droughts and floods, resulting in property damage; increased wildfires, particularly in California; and the widespread disruption of ecosystems, which would seriously harm hardwood forests and reduce biodiversity.

"This ruling restoring our legal action breathes new life into our fight against greenhouse gas polluters and changes the legal landscape to impose responsibility where it belongs," Connecticut Attorney General Richard Blumenthal, who personally argued the case, said in a statement.

Lawyers for the power companies are reviewing the decision and have not decided their next course of action, a spokesman for Columbus, Ohio-based AEP said.

"It is our view that litigation is not the best way to address climate concerns. It is a public policy issue," the spokesman said.

He added that AEP supports the American Clean Energy and Security Act of 2009 pending in Congress that would address such issues.

Employers weighing suspending 401(k) matching contributions

Survey: 47% automatically enroll workers in DC plans

By JERRY GEISEL

More than one in 10 employers have suspended their matching contributions to their 401(k) plans, and more are considering doing the same, according to a survey released last week.

The Watson Wyatt Worldwide survey found that 11% of employers have suspended their 401(k) matching contributions and 17% are considering doing the same, as employers try to find new ways to conserve cash due to the economic crunch.

The suspensions for nearly all the companies are likely to be temporary, however. "Clients tell us that they plan to restore the match within a year," said Robyn Credico, Watson Wyatt's national director of defined contribution plan consulting in Arlington, Va.

11%

OF U.S. EMPLOYERS have suspended their 401(k) matching contributions and 17% are considering doing the same.

The survey found that 47% of employers now use automatic enrollment for their defined contribution plans. Automatic enrollment is geared toward employees who don't decide whether to participate in their company's defined contribution plan.

Under automatic enrollment, employees are enrolled unless they actively opt out. Once enrolled, few employees later opt out. "It is a way of boosting participation and employee savings," Ms. Credico said.

Of employers with automatic enrollment, 23% apply the feature to all employees, while 77% apply it to all new employees.

While automatic enrollment has grown rapidly in recent years, it is unlikely to become a universal feature in defined contribution plans, Ms. Credico said.

That is because employers that match employees' contributions will see their costs rise as more employees participate in the plans.

The survey was conducted from mid-March to mid-April. Results are based on the responses of 149 companies, each with more than 1,000 employees.

A summary of the survey, "Managing Defined Contribution Plans in the Current Environment," is available at *www.watsonwyatt.com*.

Business Insurance END PAGE

Contributing: Jeff Casale, Mark A. Hofmann, Sally Roberts

Fresh-brewed coffee getting harder to get

It's been dubbed the $200,000 cup of coffee by some media outlets, but officials at a St. Louis college say they didn't order it.

A coffee maker in a photo lab at St. Louis Community College at Forest Park, Mo., caused quite the problem when the water line it was hooked up to ruptured in July.

It spilled about 10,000 gallons of water that affected four floors of the building and damaged ceilings, walls, computers and files, according to news reports.

The college's board of trustees was expected to approve a $143,494 cleanup contract with a disaster relief company, according to a report last week by the St. Louis Post-Dispatch. The remaining costs are expected to be covered by the college's insurance company.

According to reports, the college has a deductible of $25,000.

"Our property insurance is through the Midwestern Higher Education Compact master property program," Claudia Perry, manager of community relations and marketing at the college, said in an e-mail. She said the program is underwritten by Lexington Insurance Co. and administered by Marsh Inc.

According to one news report, the college said it would prohibit any coffee makers in offices without automatic shut-off valves.

Actor Will Ferrell (center) and a host of other celebrities ultimately back a public health plan option in a spoof public service announcement.

Tongue-in-cheek ad pitches reform

Funnyman Will Ferrell and other Hollywood celebrities want you to join in the fight to protect insurance company profits.

At least that's what they say in a spoof public service announcement that satirizes the need for health care reform in the United States.

"People are saying a lot of mean things about health insurance companies and their executives and it's got to stop," actor Thomas Lennon says in the black-and-white montage.

"These great businessmen are American heroes," actress Linda Cardellini says.

"So then why is Obama trying to reform health care when insurance companies are doing just fine making billions of dollars in profit?" Mr. Ferrell asks.

"Insurance companies need our support because they keep our selfish priorities in check when we can't," Ms. Cardellini replies. The 2.5 minute video ends with a call for a public health insurance option.

This is not the first time that comedy video Web site Funny or Die Inc. has enlisted Hollywood to get across a political message.

"Prop 8: The Musical" starring Jack Black, Neil Patrick Harris, Margaret Cho and others, last year satirized efforts to ban gay marriage in California.

Thunderbird takes the field at St. John's

St. John's University, one of the nation's premier insurance and risk management educational institutions, has athletic teams like most universities.

St. John's teams, known as the Red Storm, now have something they've been missing for nearly a decade: a mascot in the form of the Red Storm Thunderbird.

The school used to have a mascot called Chief Blackjack. According to the university, St. John's teams first were known as the Johnnies, but became known as the Redmen in the 1920s after the football team took the field dressed in all-red uniforms.

In a release about the advent of the Red Storm Thunderbird, the school noted that some time later a group of students pilfered a cigar store Indian—for which they later paid—to serve as Chief Blackjack. The mascot stuck, but the school changed the name of its teams to the Red Storm in 1994.

"Although the nickname 'Redmen' was instituted because the athletes at St. John's wore red, and did not have an original basis in Native American culture, it did evolve into a nickname that referenced Native American symbology," said the school in its release. "St. John's wanted to make a change that would stay true to its tradition, but also be distinctive and unique. Thus, the new nickname Red Storm was born."

Now the Red Storm has its own symbology, odd though it may be that a school known for risk management fields teams whose name can give rise to visions of natural disasters of considerable magnitude. Faced with a school mascot whose name conjures up stormy weather in two ways, St. John's opponents may have reason to feel that they're taking the field at their own peril.

ST. JOHN'S UNIVERSITY

Olympus Flag & Banner, which has designed many mascot costumes including Ronald MacDonald, devised the Red Storm Thunderbird.

Failure to pay health premiums leaves airline stuck at the gate

It was one of those weeks for Pace Airlines Inc.—one that employees, and most likely its chief executive officer, would like to forget.

The Winston-Salem, N.C.-based charter airline, formerly Hooters Air, was grounded last week after the arrest of CEO William Charles Rodgers for failure to pay health insurance premiums for Pace Airlines' employees, which the U.S. Equal Employment Opportunity Commission then followed with a lawsuit alleging discrimination.

The suit, filed Sept. 23, came just one day after Mr. Rodgers was arrested by insurance investigators and charged with one count of willful failure to pay group health insurance premiums. The suit was brought on behalf of Chau Nguyen, an Asian-American flight attendant fired three years ago after complaining that white workers were the only ones being promoted.

The EEOC filed the suit under Title VII of the Civil Rights Act of 1964, which bars employers from retaliating against someone who complains of discrimination.

Meanwhile, Mr. Rodgers was jailed and released on bond. According to news reports, Pace owed about $446,000 in back insurance premiums to Blue Cross and Blue Shield of North Carolina for nearly 340 workers.

Pace Airlines chartered flights for clients such as the National Hockey League's Carolina Hurricanes; rock 'n' roll star Bruce Springsteen, who turned 60 last week; and several collegiate teams.

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Business Insurance®

guide to

global programs

The latest developments in global programs in a fast-changing economic and regulatory environment

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Despite the global financial crisis, there is one undeniable fact about business that even the recent economic turbulence will not change. Globalization. In an evolving business environment, it may well be globalization with different purposes and leading toward different ends, reflecting the fundamental shift in power from advanced economies to emerging-market economies. While the drive toward globalization may occasionally suffer temporary setbacks, ultimately it will prevail under different circumstances in a changed world.

But as globalization keeps changing its colors, it will continue to break down national borders in pursuit of new business opportunities, and it will redefine risk management as we know it. Companies with operations overseas need to take just as global a view of risk as they do of their growth opportunities.

In addition to the typical property and liability risks that companies face abroad, they also face often complex compliance and insurance regulations. These may vary greatly from one country to the next. Failure to comply with local insurance regulations may have serious consequences, even causing insurance policies to be declared null and void by local authorities in some rare cases.

The solution is a holistic, centrally managed, international insurance program that anticipates and satisfies varying insurance and compliance needs in each country where you do business. Such a program will include features that address coverage gaps that might occur in programs created from individual policies purchased in each country. It should be a program that can seamlessly incorporate risk transfer tools such as captives. And finally, it must deliver the knowledge and experience of a multinational team that can make it work.

I believe you will find the following discussion to be an excellent review of the challenges, issues and benefits associated with international insurance programs. I invite you to read it and consider how such an approach can provide your company with the risk management and compliance assurances that you need, whether you are multinational now or plan to be at some time in the future.

Mario P. Vitale
CEO, Zurich Global Corporate, member of the Group Management Board

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"Where insurance companies… promise the named benefits, particularly provision of global cover, they must ensure they can deliver on the promise. If they have not researched, whether, for example, their nonadmitted D&O cover promised for the customer's subsidiary in France, Switzerland or Japan is valid and locally enforceable, it is hard to stick to that promise."

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Global assets require protection

It really was no surprise to many in the insurance buying community that the most popular session by far at the recent annual meeting of the German insurance buyers' association—the Deutscher Versicherungs Schutzverband e.V.—was on global programs.

Global programs have been a hot topic over the past few years among insurance buyers in Europe, the United States and elsewhere.

The topic was consistently raised as a major subject of discussion during the many national round-table debates that we hosted in Europe over the past three years, and it featured heavily in the recent round of discussions we held as part of our annual survey of Europe's leading risk and insurance buyers—the *Business Insurance* Euro 100.

Adrian Ladbury, international editor of *Business Insurance*, can be contacted at *aladbury@businessinsurance.com.*

The reason for this ongoing debate is simple: Rapid globalization of the world economy in recent times means that many more companies than previously have interests overseas that need protection.

Global programs deliver on the three C's that all professional insurance buyers focus on: coverage, control and cost. The programs can offer more consistent coverage, greater control over risk and losses, and lower costs, as this report makes clear.

At the same time, however, global programs can raise questions about three less welcome C's: complexity, compliance and credibility. The programs themselves can be complex, compliance across multiple jurisdictions can be a challenge, and the credibility of the local and international coverages needs to be seriously considered.

According to experts, the root cause of these potential and actual problems is that national regulatory, legal and fiscal rules and systems are not designed to cope with the global economy.

Thus, just as the banking regulatory system proved inadequate to cope with the explosion of global banking, so the national systems designed to manage insurance risk transfer have failed to keep pace.

The impact on insurance buyers can be very frustrating.

Many risk and insurance managers have tried to keep pace with the expansion of their companies and have adopted global insurance buying techniques and taken advantage of core tools such as captives. All too often, however, legal, fiscal and compliance issues are unclear, experts say.

As a result, attempts to achieve consistency, certainty and clarity through a global program are often undermined by national regulatory and fiscal systems that are inconsistent, uncertain and ambiguous when it comes to insurance coverage. That is information that insurance buyers do not want to deliver to their boards.

The good news is that the environment for global programs is improving, and at least the issues are being aired publicly and vigorously.

The very fact that global programs are being discussed in this way and concrete action has been taken to tackle what can be significant barriers to trade should lead to improvements for insurance buyers all over the world.

Thanks to all those who have helped us continue this important debate through this publication - not least our sponsor Zurich, the author Stuart Collins and all those individuals who gave him their valuable time. I look forward to furthering the debate during the FERMA conference and beyond and, as ever, please send me your thoughts.

Adrian Ladbury

Uniform cover, service drive global programs

Global insurance programs, also known as international insurance programs, are not a new concept, but they have evolved considerably over the past 50 years to meet the increasingly sophisticated and varying demands of the corporations that buy them.

In the 1950s and 1960s, U.S. and European companies increasingly looked beyond their often saturated national markets for revenue and profit growth overseas. And keen to service their largest clients, some national insurers in the United States and Europe began to follow their clients overseas or seek partnerships with insurers in foreign countries.

From this global expansion, the concept of global insurance programs was born, brokers and insurers say.

As large corporations expanded internationally, they wanted the comfort of insurance that matched the standards of coverage they were used to in their home markets, said Randy Schreitmueller, vp of global services at Johnston, R.I.-based Factory Mutual Insurance Co, which does business as FM Global. "Global insurance programs have evolved considerably since the early days, but the principal driver is the same—the desire to have the consistency of coverage and service that a risk manager is used to having at home," he said.

From forays into new markets by pioneering companies after World War II, many more companies in the 1970s, 1980s and 1990s began to open sales offices—and later manufacturing and production plants—in overseas territories. Today, a wide variety of corporations have some presence in foreign markets.

"It is fair to say that many more companies have gone overseas as they try to keep their costs down or find new markets. The proportion of clients that now have a global imprint has grown exponentially," said Tim Higgins, executive vp at Kansas City, Mo.-based brokerage Lockton Cos. L.L.C.

The trend of globalization sees companies looking to expand into markets well beyond those traditionally considered in the 1950s through the 1980s, said Claude F. Gallello, practice leader for the global network at Willis HRH International in New York. "When I started working in this industry in the 1970s, I had to really know about the insurance markets in some 15 countries. Now, I am expected to know about more than 100," he said.

Previously, U.S. policyholders were concerned only with operations in Europe, Puerto Rico, Brazil, Argentina, Australia and, to a lesser degree, Japan. In the early 1970s, countries such as Singapore and South Korea were not even on the radar, and Russia and China were considered to be in the "enemy camp," Mr. Gallello said.

U.K. companies also have expanded internationally over the past two decades, first elsewhere in Europe and now into India and Asia, said Martin Bailey of Lockton Cos. L.L.C. in London.

"The biggest driver behind the development of global programs has been globalization, which started in the 1960s but really took off in the 1980s, and this posed the question of how an insurer could service a client and offer contemporary coverage," said Mr. Schreitmueller.

According to Mr. Gallello, the first insurers to really follow their customers overseas were New York-based American International Group Inc. and Wayne, N.J.-based American Foreign Insurance Assn., a network of international underwriting agencies established by U.S. insurers in 1918. But other players since have followed suit.

The large players in the global-program market emerged from their strong domestic bases and followed their clients overseas by opening their own offices or through acquisition of foreign insurers, said Andreas Berger, chief executive of Allianz Global Corporate and Specialty in the United Kingdom.

Global insurance programs first were developed in the United States and the United Kingdom, followed closely by continental Europe, and now Asian and Latin American companies are starting to buy their insurance centrally through a global program, said Tony Cabot, Zurich, Switzerland-based director of global programs for XL Insurance, a unit of XL Capital Ltd.

A typical global program covers 20 to 25 countries, but at times they can cover more than 100, he said.

Developments in risk management also have shaped the way corporations buy insurance for their overseas exposures, said Herman Nieuwenhuizen, head of international program business development for Zurich Global Corporate in Philadelphia.

Industries with sophisticated levels of risk management, such as energy, mining and manufacturing companies, are the natural clients for global insurance programs, but the key driver is the need for uniformity of coverage and service, rather than an industry sector, he added.

U.S. companies that traditionally have had centralized and well-resourced risk management functions wanted uniform coverage, especially in Europe, he said. "U.S. companies have clearly led the trend and are more likely to look at the whole risk and insurance function rather than just buying a commodity."

"Global programs and sophisticated risk management go hand in hand" he added.

Global programs also have evolved alongside captives, said Mr. Gallello. As captives were used to cover a company's international risks, they required insurers to underwrite and service that business overseas, he said.

While the economics of globalization has been the biggest factor driving the development of global insurance programs in the past, corporate governance is increasingly shaping the way corporations buy their international insurance coverage today, said Mr. Schreitmueller. Considered optional just 10 years ago, concerns over local tax requirements and insurance regulations mean compliance is taken much more seriously, he added.

Programs aim for centralized control

Global insurance programs are not simple off-the-shelf products. Their structures vary considerably to reflect clients' corporate culture and specific needs, but they also are influenced by important considerations such as compliance, cost and service, experts say.

It is difficult to define a typical global insurance program because structures vary greatly depending on the client. But there are some key characteristics, such as the ability to control a company's risks and insurance programs centrally—perhaps the most important driver behind a global program, experts say.

Typically, a U.S. company would have a separate domestic and international master policy, especially for liability lines, says Willis HRH international's Claude F. Gallello.

Richard Ager, partner at Jardine Lloyd Thompson Ltd. in London, says a simple definition of a global program is a "centralized risk-transfer purchasing agreement that has a worldwide provision of cover."

Zurich, Switzerland-based ACE Ltd. defines its multinational business as any policy with a requirement for the insured to cover risk in addition to the home domicile, said Clive Hassett, director of operations for major risks and affinity business at ACE Europe in London. "That implies wider coverage, but it would not really be a global policy. A global program would need to insure a number of overseas risks and be linked by a coherent master policy," he said.

Smaller clients with fewer overseas offices are more likely to buy an off-the-shelf global product, but major clients buy bespoke global insurance programs, Mr. Hassett said.

Global programs come in all shapes and sizes, but typically there is a central insurance policy, known as a master policy, and potentially several local policies written in overseas territories. The master policy can cover international risks on a nonadmitted basis or include difference-in-conditions and difference-in-limits clauses to plug any gaps in the coverage provided by local policies.

Property coverage under a global program will tend to be an on all-risk rather than a named-peril basis, says Zurich Global Corporate's Herman Nieuwenhuizen.

"Typically for property and casualty, there would be a master policy issued in the domicile of the (client's) parent company alongside local polices. The master policy would include DIC/DIL clauses to indemnify the parent company for any gaps in coverage," said Mr. Hassett.

The master policy is the broadest cover with the highest limits in an international program, said John Latter, head of Zurich Global Corporate's Multinational Insurance Proposition. "It is a sleep-well-at-night cover for risk managers and would typically include a difference-in-conditions and differences-in-limits cover."

It may not be possible or commercially viable for a local policy to meet the limits or levels of coverage required by a parent company, according to Mr. Latter, but these limitations can be addressed by the master policy, he added.

The structure of a global program—in particular, the balance of local programs to nonadmitted cover under a master policy and DIC/DIL—will depend on a number of factors, including compliance with local insurance regulations, cost considerations or a client's service requirements, brokers and insurers say.

A company may opt for nonadmitted coverage under a master policy where allowed by local insurance regulations. Or, it may choose to issue local policies where nonadmitted cover is not permitted under local insurance law for compulsory nonadmitted cover—such as workers compensation or auto—or where it needs a high degree of local claims servicing.

Increasingly, directors and officers insurance coverage is purchased on a global-program basis, says AIG U.K. Ltd.'s Philippe Gouraud.

There is no perfect solution as each of these approaches has its own pros and cons (see chart, page 6). But the issue of compliance has, in recent years, become a particularly relevant driver in the choice of program structure (see story, page 13).

The structure of a global program will depend on the buyer, said Chris Tabbitt, a partner with JLT. "The client may want to give local subsidiaries as much autonomy as possible as this gives a sense of ownership and helps ensure compliance. And a group master policy above the local policies will raise that cover to a group standard."

Local policies on their own usually comply with local laws, but often they don't offer uniformity of coverage, and do not provide buyers with the purchasing power that comes with buying a large amount of coverage from one provider, said Claude F. Gallello, practice leader for the global network at Willis HRH International in New York.

Differing approaches to global programs

LOCALLY ADMITTED

Program in which foreign subsidiaries of a multinational company act autonomously in buying insurance. There is no corporate risk management philosophy guiding insurance buying.

Pros
- Legal
- Premiums are tax-deductible
- Policies are in local language

Cons
- Loss of purchasing power
- Lack of uniformity in coverage
- Possible coverage gaps, insufficient insurance, duplication
- Difficult to monitor local insurer's solvency

NONADMITTED

Program consists of a single policy that covers all foreign subsidiaries of a multinational corporation.

Pros
- Bulk buying power
- Broad, flexible coverage
- Single currency
- Uniform protection worldwide

Cons
- Illegal in many countries
- Restricted tax deductibility, premium tax issues
- Investigation, defense of claims more difficult
- Loss settlement could be taxable

DIFFERENCE IN CONDITIONS

Minimal admitted cover bought by foreign operations, supported by nonadmitted DIC policy in the home territory.

Pros
- DIC covers local-policy deficiencies
- Local premiums deductible on taxes
- Local management can choose their insurer(s)

Cons
- Does not fully utilize bulk buying power
- Lack of uniformity in coverage
- Duplication of coverage
- Possible tax problems for claims paid under DIC policy

CONTROLLED MASTER

Single insurer provides master policy in parent company's home territory that acts as an excess/DIC policy over locally issued policy. Where legal, local policy mirrors the master policy. If illegal, local policy issued to follow local laws, regulations. Master policy acts in excess/DIC capacity. Local coverage now meets corporate risk management standards.

Pros
- Bulk buying power
- Local/central policy control
- Enhances local management in controlling losses
- Premium allocation for calculating tax can be done centrally and is more compliant
- Eliminates coverage gaps
- Legal in local territories

Cons
- Possible tax liability on claims paid under excess/DIC policies
- Needs local management compliance

GLOBAL

Combines overseas, home territory cover with one insurer.

Pros
- Premiums reflect size, experience
- More efficient loss control
- Foundation of other risk-financing options

Cons
- Limited number of underwriters
- Unsuitable for large U.S. casualty risks

Source: Willis HRH

Without a master policy, there likely will be duplication and gaps in coverage at a local level compared with insurance purchased in the home territory. It also is very difficult to manage issues concerning local insurer solvency without a global approach, he added.

A nonadmitted policy that covers international risks has buying power but is illegal in many countries that do not permit non-admitted insurance, Mr. Gallello explained.

Issuing local policies also comes at a price, according to ACE's Mr. Hassett. Insurers charge a minimum per-policy and per-country premium, and this can be an issue for smaller organizations, he said. Assets to be insured need to be of a "reasonable size," otherwise it may be cheaper to buy coverage in the country where the client is based.

Price is important, but it may not necessarily be the main driver behind the structure of a global program because sophisticated buyers make decisions based on several of factors, such as service or network coverage, said Mr. Gallello.

Multinational companies tend not to buy one global insurance program for all lines, or even for all regions, brokers and insurers say.

Typically, a U.S. company would have a separate domestic and international master policy, especially for liability lines, said Mr. Gallello. True global property programs have become a "viable option," and the hard insurance market of the 1980s encouraged U.S. companies to combine their national and international property programs to secure a "more flexible approach" from insurers, he said.

Global programs usually are bought on a line-by-line basis because that makes it easier for risk managers to manage exposures, said Mr. Hasset. But smaller organizations in the United Kingdom buy global packages of multiline coverage, he added.

Limits for global programs vary widely, according to ACE's Mr. Hassett, and can be as high as $1 billion or more for property. But there usually will be per-event sublimits for certain risks, such as terrorism or denial of access, he added.

Property coverage under a global insurance program will tend to be on an all-risk rather than a named-peril basis, said Herman Nieuwenhuizen, head of international program business development for Zurich Global Corporate in Philadelphia. There are a few exclusions, he said, such as war and nuclear for property insurance and nonaccidental contamination for liability. Though, additional coverage for the excluded risks can be purchased in some territories, he added.

Traditionally, global programs covered standard property/casualty lines, such as general liability and workers compensation, but insurers have been working on programs that include other lines.

ACE now writes directors and officers liability, auto, marine transit, personal accident and environmental lines on a global program basis, said Mr. Hassett.

Factory Mutual Insurance Co., which does business as FM Global, does not provide casualty coverage, but it can incorporate contingency and cyber coverages into global property insurance programs, said Randy Schreitmueller, the company's vp of global services in Johnston, R.I.

D&O coverage is increasingly purchased on a global-program basis, said Philippe Gouraud, senior vp and head of major accounts practice at AIG U.K. Ltd. in London. And AIG has sold a handful of global trade credit programs since the start of the financial crisis, he added.

John Latter at Zurich said it has developed capabilities in D&O liability in recent years and now can cover 140 countries with compliant solutions. ■

Cost-conscious buyers tap broker resources more selectively

Brokers play an important role in designing global programs and servicing the needs of multinational companies on the ground, but the role is changing as clients look to drive out inefficiencies, brokers and buyers say.

Brokers help clients build their risk profile, structure insurance coverage and service programs when they are in place, said Tim Higgins, executive vp at Kansas City, Mo.-based brokerage Lockton Cos. L.L.C. "As a broker, we need to understand how much control a company wants in the risk management process, and we need to understand the company's risk tolerance as some company's are large enough to absorb big retentions."

Brokers often are used as an extension of a company's risk management department, said Claude F. Gallello, practice leader for the global network at Willis HRH International in New York. "Risk management departments in the United States did not have the infrastructure to gather all their exposure data from around the world, so they turned to their brokers to provide local service and advice."

> "Some clients will still pay for local broker service because the local subsidiary may need 'hand-holding,' but clients are challenging the way global programs have been done. They do not want the local relationships and are happy to have this managed at the center."
>
> CHRIS TABBITT,
> JARDINE LLOYD THOMPSON LTD.

Data validation, including obtaining accurate information on property values, is difficult and time-consuming for risk managers to achieve, so they turn to their brokers for assistance, said Paul Hopkin, technical director at the London-based Assn. of Insurance and Risk Managers.

In addition, brokers often can offer global resources. Marsh Inc. has its own operations in more than 100 countries, according to Martin Rayfield, an executive director in the risk management practice of Marsh U.K. in London. Clients see "real value" in the service they are provided at a local level, he added.

Historically, brokers have carried out much of the local servicing for their clients, but this is changing, buyers and brokers say. In addition to providing global insurance programs, insurers also provide local service for risk managers and, like brokers, large insurers operate international networks made up of their own offices and affiliates.

Putting global programs together is at the heart of brokers' expertise, said Mr. Hopkin. "But the trend on the day-to-day business of administration is moving towards the insurers. For example, premium allocation is now done more and more by the risk manager and the insurer."

The fees of the big broker networks are being resisted by risk managers, so buyers now look more to insurers to provide local service, said Mr. Hopkin.

In addition, risk managers are concentrating more on trying to administer global programs more efficiently. Ten years ago, the standard model would be for clients to use broker networks to service the programs, but this can lead to duplication of activity between brokers and local insurers on activities such as premium collection, said Chris Tabbitt, London-based partner with Jardine Lloyd Thompson Ltd., an independent broker and member of EOS RISQ, a European broker network.

"Some clients will still pay for local broker service because the local subsidiary may need 'hand-holding,' but clients are challenging the way global programs have been done. They do not want the local relationships and are happy to have this managed at the center. This is a challenge for the broker based in London to understand what is needed and if we can do it compliantly."

Using a broker to coordinate centrally, rather than use their entire network, is highly cost-effective for a client with a centralized risk function, said Mr. Tabbitt. "The majority of savvy clients want to pick and choose who they work with locally."

Clients will want the best people working for them on the ground, and can use a specific broker or insurer to service them locally, using a broker to coordinate centrally, he added.

Companies with sophisticated, well-resourced brokers still use a broker for their global programs, but "we see a trend where insureds use their brokers more selectively for certain parts of their global programs. They may split the activities of the broker and keep some in-house," said Clive Hassett, London-based director of operations for major risks and affinity business at ACE Europe.

When it comes to premium collection and policy issuance, only one service provider is needed, said Marsh's Mr. Rayfield. But sophisticated global companies require advice on local regulations, local practices and markets, and want consistent and professional service, he said. ■

coverage

Captives develop alongside global programs to provide greater control of programs and costs

Global programs and captives have evolved side by side in helping multinational companies with their international risk financing.

Global programs are a great way to maximize the benefits of a captive insurer, allowing a company to retain more risk at lower layers and encourage good risk management in local subsidiaries, experts say. But using a captive in a global program also brings challenges, they add.

"Captives are hugely important, and are pretty much a ubiquitous feature of all major programs," said Clive Hassett, London-based director of operations for major risks and affinity business at ACE Europe. "Depending on the company's risk management strategy, they will be used to a greater or lesser degree. They are particularly good for high-volume and predictable business like motor and workers compensation, and are usually used to fund losses and minimize the cost of insurance."

There is a close link between global programs and captives, said Philippe Gouraud, senior vp and head of the major accounts practice at AIG UK Ltd. in London. "AIG's first captive insurance program was over 60 years ago, and captives and global programs tend to go hand-in-hand. A captive is the most efficient tool for a company to manage its retentions.

"The motivation for companies in opting for a global insurance program are consistency of cover, control and cost, but companies also want to manage their retentions and, to do this, they have to establish a pipeline to move funds—premiums and claims—in and out of the captive," Mr. Gouraud said.

A company can channel risk premium to a captive and access the reinsurance market, but this procedure has its challenges, he said. Expertise is needed to orchestrate a global program and a captive, and there can be a misalignment of interests between captives and their panels of reinsurers, he added.

There are complexities involved in using captives in global programs, said Ken Read, technical director at Aon Global Risk Consulting in London. "If a company has a licensed direct-writing captive, it will be able to underwrite anywhere in the European Union, but it is often a cleaner route to use a fronting carrier. However, they will require the captive to post collateral."

Insurers run the risk that a captive can fail, said Mr. Hassett of ACE, so insurers require letters of credit, which can be expensive and difficult to obtain from banks. And insurers have started asking for letters of credit from more than one bank, he added.

But the industry has been working on trust fund mechanisms that enable captives to ring-fence assets that can be accessed by fronting insurers if reinsurers or captives are not able to respond in the event of a claim. "This is a much more effective way for a captive to collateralize risk," he said.

Many jurisdictions require fronting for captives, which is time consuming and costly, said Lars G. Østebø, head of captive and corporate insurance at Stavanger, Norway-based Statoil Hydro ASA. "We are not able to use our captive for direct underwriting in some locations even though it is very large and well-capitalized.

"Some countries accept direct underwriting by the captives, but many others do not. For example, we can underwrite directly in the European Union, but Statoil Hydro is an oil and gas company and operates in many parts of the world where our captive is not able to write direct business," he said.

Most multinational companies centralize buying, putting the risk manager in the driver's seat

Globalization has forced multinational companies to consider how they can best protect their revenues, assets and employees worldwide. But most large companies centralize buying insurance, experts say.

Companies with international exposures really have only two choices, one of which is buying their international insurance centrally, experts say.

The primary alternative to a global program is having local subsidiaries purchase their own insurance. This would require companies to apply strict management controls and rely more on control and audit functions, said Paul Hopkin, technical director at the London-based Assn. of Insurance and Risk Managers. "The main alternative to a global program is to force more responsibility back to local subsidiaries through accounts and audit, but head office control of divisions is limited," he said.

Most large multinational companies centralize insurance buying and do not leave it entirely in the hands of local subsidiaries, said Martin Rayfield, senior client executive at Marsh Ltd. in London. For many years, most companies have taken a centralized approach to functions such as finance, legal, human resources and insurance, he said. So it follows that they would apply standards to their insurance buying across all units or consider a truly global insurance arrangement, he added.

A global program reflects the structure and philosophy of the client company, said Andreas Berger, chief executive of Allianz Global Corporate & Specialty A.G. in London. Some multinational corporations operate as centralized conglomerates while others use a franchise model.

A company's risk management culture is an important factor, Mr. Berger said.

"Some companies will have a small risk management function at their center together with local risk management counterparts, while other firms may have a central risk management department that provides services to the local, decentralized units," Mr. Berger said.

Changes in corporate governance also have added emphasis to controlling risk, he said. For example, German law requires corporations to show they have proper risk management and control systems in place worldwide.

Most clients try to align their risk financing program with their risk management strategy, said Chris Tabbitt, London-based partner with Jardine Lloyd Thompson Ltd. "If the risk management strategy is centralized, then this will shape the program," he said.

The key benefit of a global program for a risk manager is control, said Tony Cabot, Zurich, Switzerland-based director of global programs for XL Insurance. "Companies will want to know that all their subsidiaries are adequately covered for their activities. A global insurance program allows a company to set a standard, communicate with subsidiaries, and leverage on the insurance price, coverage and service," Mr. Cabot said.

Global programs enhance control

Global programs can provide numerous benefits for insurance buyers, including significant cost savings, greater control of the risk management process, and enhanced support from insurance service providers, experts say.

Buying insurance through a global program can result in greatly reduced purchasing costs compared with buying cover locally, said Chris Tabbitt, London-based partner with Jardine Lloyd Thompson Ltd.

"When we have carried out a global review...it throws up some surprises. Some local subsidiaries are buying additional cover, or duplicating cover, and there are also surprises on the number of local brokers and insurers used. So there are savings to be made on risk transfer premiums and brokerage fees."

"A risk manager can get a much better price if they buy for an entire portfolio rather than an individual local policy."

PAUL HOPKIN,
ASSN. OF INSURANCE AND RISK MANAGERS

"A global program is the most effective way to buy insurance," said Paul Hopkin, technical director at the London-based Assn. of Insurance and Risk Managers. "A risk manager can get a much better price if they buy for an entire portfolio rather than an individual local policy."

The top of a risk manager's list of priorities is balance sheet protection, said Mr. Hopkin, and a company will not want to leave local subsidiaries to buy coverage for their principal assets. In addition, a global program will help avoid duplication of coverage and service, and by buying coverages collectively there are savings to be made by aggregating limits across lines of business, he added.

There are economies of scale in terms of fees paid to brokers with a global program, said Lars G. Østebø, head of captive and corporate insurance at Stavanger, Norway-based StatoilHydro ASA. "We get better premiums and we avoid multiple broker fees. With just one broker, we can service the whole global program, and so we do not need lots of brokers. This can generate substantial savings."

Global programs give clients a platform to drive through risk management and a consistent approach to risk transfer across a company, said Mr. Tabbitt. And when coupled with a captive, a global program can help drive out volatility of insurance pricing, he added.

A captive combined with a global program also allows a company to benefit from risk diversification. Bringing together lines of coverage can reduce aggregate exposures and deductible of local subsidiaries can be funded centrally, said Richard Ager, a partner with JLT.

"A global program can make a captive work harder and help reduce some of the downside," he said. "The local business has a local deductible but, ordinarily, a captive would not be able to take a slice of a local policy, but it can in a global program."

Buying a global program also gives companies access to capacity for large catastrophe losses, said Mr. Ager. "To get large catastrophe limits in each country would be expensive, so buying one tower is where the biggest cost savings come from."

A risk manager also can push through loss-control measures and incentives through a retention layer in the captive, said Mr. Hopkin. "Using the captive, a risk manager can pay regard to loss prevention by recognizing good loss control and penalizing poor loss histories, something insurers will not always do."

A global program helps a company's enterprise risk management department decide when it is best to use insurance, said Mr. Østebø. "The greater control that a global program provides means that we better understand our insurances and that we know when it is better to transfer the risk and when it is better to retain it."

By working alongside insurers to develop a global program, a company's insurance will better reflect its needs, said Mr. Østebø. "A global program allows us to build our own insurance expertise and develop our own tailor-made insurance. If we bought our insurance locally, it tends to be more off the shelf, but a global program improves year after year and you have a product that fits your business.

And the "transfer of competency" between insurers and risk mangers means that a global program also can be a useful tool to improve a company's own insurance expertise, Mr. Østebø said.

Cost savings can be significant depending on the company's activities, but the biggest benefits are the control a global program gives to the risk manager and the consistency of cover, said Tony Cabot, Zurich, Switzerland-based director of global programs for XL Insurance, a unit of Bermuda-based XL Capital Ltd.

"Many countries will not offer all-risk cover, but a global property program will give all-risk cover wherever you are. And with liability lines, a global program will close gaps in local limits with the master policy."

It is a difficult task for a risk manager to monitor all the coverage bought across an organization, said Mr. Hopkin. "It is far too hard for a one-person insurance department to get a handle on all the insurances, but this can be done through differences-in-conditions and differences-in-limits (clauses)."

Global programs are particularly suitable for smaller insurance-buying departments because they give comfort and a safety net for a lone risk manager, he added.

"A risk manager centrally will not be able to understand all the risks and liabilities—and potential cost to the balance sheet—that a company faces. But he will have to show the chief executive that there is protection in place. So global programs are essential if a risk manager can't get a handle on local exposures and coverages, because they will need DIC/DIL and aggregate covers to make sure that the business does not (become insolvent)."

Global programs give clients a platform to drive through risk management, says Chris Tabbitt of Jardine Lloyd Thompson.

"Big risk management departments are less common than they were 20 years ago, even for sophisticated buyers. So, without in-house insurance coordinators, companies tend to outsource the claims functions and rely on their insurers and brokers more and more," Mr. Hopkin said.

It all comes down to control and continuity of coverage and service, said Ryan Brown, director of insurance and enterprise risk management at St. Louis-based energy firm Peabody Energy Corp. "We have a risk tolerance and we want to manage our risk transfer centrally, and we will also look to optimize our insurance through the use of our captive," Mr. Brown said.

There are five main considerations when buying a global program, according to Mr. Brown. First, the risk tolerance of the group is likely to be higher than that of the subsidiary, and through risk financing the group can take a large deductible. Second, a global program will give continuity of cover through the primary and excess layers. Third, there are tax implications when buying insurance, but these are easier to manage centrally. Fourth, with a global approach it is easier to keep track as to what coverage is required and whether non-admitted coverage is permissible. Fifth, the evaluation of insurers' credit worthiness can be done centrally whereas local subsidiaries lack the resources.

Global programs are essential if a risk manager can't get a handle on local exposures and coverages, according to AIRMIC'S Paul Hopkin.

Global programs give risk managers comfort that there is a comparable level of insurance provision globally, said Mr. Østebø. "We have a specialized central corporate function for insurance in Norway, but we do not have this level of expertise in our local subsidiaries. If insurance purchasing were left to the subsidiaries, it would not be driven by a group view, so the global insurance program gives us consistency of coverage and service."

Global programs also can help risk managers with compliance issues and serve as a support tool to answer reporting and legal requirements, said Klaus Przybyla, Munich Germany-based head of specialty liability at Allianz Global Corporate and Specialty. Increasingly, insurance departments report to the chief financial officer, where in the past they were isolated or linked to the legal department, he said. "Establishing a global insurance program is the safest way of being compliant. It can make sure that a company's risks are adequately and properly covered locally, that premium taxes are paid locally, etc."

A global program is a "one-stop shop" for risk managers, said John Latter, head of Zurich Global Corporate Multinational Insurance Proposition in London. "It provides a range of products and services in one place and can help avoid gaps in coverage and give peace of mind."

Multinational companies increasingly require more information to make risk management decisions, said Ian McNeil, head of customer management for risk engineering at Zurich Global Corporate in London.

Global programs give risk managers comfort that they have a comparable level of coverage globally, says StatoilHydro's Lars G. Østebø.

Traditionally, risk engineering was just part of the underwriting process, and clients did not get to see the insurer's survey results. But insurers can conduct site visits and provide risk engineering reports for clients separate to the underwriting, he said.

A global program can give a risk manager a "line of sight" on the organization's risks, said Randy Schreitmueller, vp of global services at Johnston, R.I.-based Factory Mutual Insurance Co, which does business as FM Global. FM Global will inspect all major facilities, provide consistent risk reports, and recommend physical improvements, he added.

"With a global program, a risk manager can look at a risk and evaluate it to the same standard—using a standard risk protocol—wherever that risk is based. The global program can help benchmark risk."

Local laws pose obstacle for global programs

As companies continue to expand internationally, global insurance programs have proven to be an attractive and economical way to arrange coverage. But the challenge of building a program that is compliant with local tax and insurance requirements threatens to undo some of the benefits, experts say.

Every country has its own regulatory requirements, such as what coverages are compulsory, and where and from whom insurance can be purchased. And each country has its own tax requirements, whether they are insurance premium taxes or levies for national insurance pools.

The biggest challenge when constructing a global insurance program is compliance with local tax and insurance requirements, said Lars G. Østebø, head of captive and corporate insurance at Stavanger, Norway-based StatoilHydro ASA. "Different jurisdictions have different requirements and to be compliant is very important. But regulations are sometimes very unclear, and even with the support of a broker, we are sometimes unable to get firm advice on how to be compliant. Some regulators are not clear, other than requiring a local policy, but local carriers do not always give the same limits and protection we require."

Even mature markets can be a challenge, with state-by-state insurance requirements in the United States, and individual member state rules in the European Union, although companies in the European Union can reduce the burden of compliance under freedom-of-service agreements across the region.

Martin Strnad, Head Legal Global Corporate at Zurich Insurance Company Ltd., said: "What matters, is to know exactly what kind of insurance cover is provided to what jurisdiction in what scenario. It's important to then understand the legal and tax ramifications for such cover. There must be a very good understanding between the insurer and the customer about what services and claims rights are required where and to what extent. This requires a much more intense discussion between the customer, broker and the insurer when structuring a global program and it's a challenge at times to get everyone to buy into that."

Building a global insurance program can be particularly difficult for companies with operations in countries such as Brazil, Russia, India and China, where compliance challenges are most acute, said Praveen Sharma, London-based leader of the insurance regulation and tax consulting practice at Marsh Inc.

Risk managers are frustrated by the lack of clarity on local tax and insurance regulation, he said. "Companies' business models have evolved to be international, but the regulatory and tax structures have not. There is a need for them to modernize and reflect the needs of multinational business," he said.

Awareness of compliance issues among buyers and insurers has grown in recent years, in part due to tougher corporate governance rules, said Chris James, London-based chief executive of tax adviser Fiscal Reps Ltd. Under Section 404 of the Sarbanes-Oxley Act of 2002, a company's senior accountant is personally liable for accurate tax reporting. A similar rule recently was proposed in the United Kingdom by H.M. Revenue & Customs, he noted.

Tax and regulatory authorities, particularly those in Europe, have increased their scrutiny and are clamping down on noncompliance, Mr. James said.

The financial crisis also is likely to lead to an even greater focus on regulatory compliance and potentially more protectionist insurance markets, said Randy Schreitmueller, vp of global services at Johnston, R.I.-based Factory Mutual Insurance Co., which does business as FM Global. Regulators also are expected to cooperate with each other more, he added.

"Noncompliance is more likely to be detected. And if it comes to the attention of one regulator, then it is likely to be brought to the attention of others."

The main problem multinational companies come up against is where countries strictly prohibit nonadmitted insurance, and require risks located in their territory to be covered by locally licensed insurers, according to Mr. Sharma. In these cases, companies with very large global exposures sometimes find it difficult to buy local cover that satisfies their requirements for policy wording or limits of cover, he said.

Every country has its own set of insurance regulations, said John Latter, head of Zurich Global Corporate multinational insurance proposition in London. "Many countries do not permit nonadmitted insurance in many, most or, in some cases, all lines of business, and these include some major markets like Japan, Argentina, Switzerland, Brazil, China, the United States, the Netherlands, Italy and Germany.

"If nonadmitted is not permitted, then difference-in-conditions and difference-in-limits coverage generally will be viewed as nonadmitted and therefore not allowed. To comply with local laws, companies should place as much coverage as possible locally and with significant limits which are adequate to cover exposures there," Mr. Latter said.

Even where nonadmitted insurance is permitted, some companies issue local policies because they prefer to have their claims settled locally. Claims settled under DIC/DIL coverage will be paid to a parent company and, if funds are then transferred to the local subsidiary, they likely would be subject to higher corporation taxes and currency exchange rate risks, experts say.

Local policies are sometimes more appropriate than nonadmitted cover, even when such cover is allowed under local insurance laws, said Ryan Brown, director of insurance and enterprise risk management at St. Louis-based energy company Peabody Energy Corp.

Peabody Energy ran a cost analysis for its directors and officers liability coverage and found that locally placed policies were more expensive than a traditional master policy program. But the company opted for local policies, even where nonadmitted cover was allowed, because it was more "comfortable" with that

approach in terms of making claims.

With a greater focus on compliance, and concerns that DIC/DIL cover is illegal and that it makes tax compliance more difficult, more local policies are being issued, insurers say.

"We are seeing requests for more policies to be issued locally as customers become more aware of the legal frameworks in with they operate, and local authorities are now paying more attention to what's going on by asking to see if the proper paperwork is in place. We find that our clients are getting more requests from fiscal authorities to prove they meet tax and insurance obligations," said Tom White, director of customer and distribution management at Zurich Global Corporate in London.

DIC/DIL claims are rare, said Clive Hassett, director of operations for major risks and affinity business at ACE Europe in London, because the local limits usually are enough, but risk managers like to "sleep easy."

There is a move away from DIC/DIL cover and toward issuing full limits in all territories for property programs, even though this is more expensive in terms of premiums and taxes, Mr. Hassett said. But liability programs are more of an issue. "There needs to be a realistic assessment of what limits are needed and can be afforded centrally and locally, and then the program will need to be built around that. It is likely it will still need a DIC/DIL under the master policy."

Many risk managers, however, favor global insurance programs that have a minimal number of local polices, and rely on the master policy and DIC/DIL cover because this is cost effective and gives them consistency of coverage, experts say. In cases when nonadmitted insurance is not permitted, cover often is written under the master policy in the home territory, because it is considered a contract between two parties that falls outside the jurisdiction of the local regulators, they say.

But more and more risk managers are concerned about compliance, said Ken Read, London-based technical director at Aon Global Risk Consulting.

There is an inherent "tension" in global programs, explained Mr. Read, between compliance and commercial considerations, such as insurer financial strength.

Global programs work well when a global insurer has licensed operations where the client has risks, but this is not always the case, especially in smaller countries. Clients also run into problems where nonadmitted insurance is not permitted, but a suitable insurer—with the required rating and ability to offer capacity or scope of cover—is not available, he said. Even if a suitable insurer is available on a local basis, there is a cost associated with increasing local limits to the required group level, he added.

"It is possible to reach a position of full compliance, but a company may have to compromise on security or cost, and that is where the tension comes from," said Mr. Read.

If regulatory compliance is achieved, tax compliance should follow, said Mr. Read. There are no global guidelines for insurance taxes, but buyers should aim to use a method of premium allocation that is "robust and defendable," said Mr. Read.

Aon has developed a premium allocation tool based on constantly updated databases from independent providers on tax and regulatory requirements that can be adapted to individual clients' needs. It provides consistency of allocation and puts all of the parties involved in a "robust position if faced by the regulatory authorities."

Adapting global programs to local regulations and laws can dilute some of the cost savings, say insurers, buyers and brokers.

The cost savings of a global program are "eroded" the more local policies are issued because they add to the administration and premium costs, said Paul Hopkin, technical director at the London-based Assn. of Insurance and Risk Managers.

StatoilHydro relies on its master policy to be compliant, and only issues local policies when they are required, said Mr. Østebø. But in recent years, the company has had to issue more and more local policies in order to be compliant with local insurance rules, he added.

For now, buyers must find a "delicate balance" between compliance, cost and commercial factors such as local insurer financial strength, capacity and coverage, said Mr. Sharma. And they must be aware of the risks when they compromise one of these "three Cs," he added.

Mr. Sharma believes an agreement could be reached with local regulators. Marsh proposes a framework that would be "a suitable starting point to address the needs of local regulators, insurance markets, tax authorities and multinational companies," Mr. Sharma said. The proposal would see local regulators approve excess and global DIC/DIL policies that are underwritten by "credible" global insurers, and that sit above local policies. ■

"It is possible to reach a position of full compliance, but a company may have to compromise on security or cost, and that is where the tension comes from. There is not a magic wand that can make those tensions disappear. The problem has always been there but now it is being recognized."

KEN READ, AON GLOBAL RISK CONSULTING

Compliance issues can complicate process of building a global program

Providing a global insurance program that complies with local regulations is a major challenge for insurance buyers, which can be complicated by the various approaches used by insurers and brokers to ensure compliance, several observers say.

Local insurance requirements are open to interpretation, said Ryan Brown, director of insurance and enterprise risk management at St. Louis-based energy company Peabody Energy Corp. And different insurers take different views, he added.

Also, brokers, who advise clients on compliance, often offer differing interpretations of local regulations, he said. "We use the three big brokers and it is not uncommon to get three different answers to the same question. And this is troublesome."

Some insurers are more vigilant about tax and regulatory compliance than others, said Claude F. Gallello, practice leader for the global network at Willis HRH International in New York. "There is an underlying lack of knowledge of local laws and regulations (among insurers), especially in lines like directors and officers and environmental liability," he said.

The insurance industry recognizes that there is an issue but there is no consistent solution, said John Latter, head of Zurich Global Corporate Multinational Insurance Proposition.

"We are comfortable that we are on the right path to full compliance, but others take a different view. Customers and brokers get frustrated by this and solving it is a huge challenge. The market needs to better coordinate its thinking," Mr. Latter said.

Three years ago, Zurich launched its Multinational Insurance Proposition, its solution to the problem of producing a compliant global insurance program, and invested in a system that integrated a compliance database with its underwriting tools.

When structuring a global insurance program, Zurich considers where clients' risks are located and charts "green" areas, where it can legally issue local paper or write nonadmitted coverage, and "red" areas where it does not have the ability to issue policies locally and where nonadmitted cover is not permitted by local insurance laws.

The insurer then structures global programs to offer coverage that complies with local laws. The programs can use difference-in-condition and difference-in-limits policies or financial interest coverage, which is issued in the home territory and will pay the parent company for losses at a local subsidiary. The MIP solution now covers some 170 countries.

XL Insurance launched its compliance-focused global insurance program, XL World Plus, in 2006. Much like Zurich, XL has integrated a database of insurance and tax requirements in some 157 countries into its underwriting tools. XL also offers financial interest coverage, and this approach has been "validated" by internal and external attorneys, said Tony Cabot, Zurich, Switzerland-based director of global programs for XL Insurance, a unit of Bermuda-based XL Capital Ltd.

"The approach of financial interest cover will be taken up by more insurers and we already see signs of insurers moving in this direction," he said.

But not all insurers believe compliance can be achieved through a combination of databases and financial interest coverage.

Compliance is not "black and white," said Philippe Gouraud, senior vp and head of the major accounts practice at AIG UK Ltd. in London.

"Our approach to structuring a global insurance program is to listen to what the client wants. There may be circumstances when there is only one way it can be done when the regulations are clear. But it may be that it is not clear or that the regulations give alternatives and there will need to be a decision made. The test will be about reasonableness (of the decision)," he said.

AIG will not write nonadmitted insurance where it is not permitted, Mr. Gouraud said. "We tell our clients that. We will not jeopardize our license anywhere in the world—it is our most prized asset."

Factory Mutual Insurance Co. uses a master program wrapped around local policies, said Randy Schreitmueller, vp of global services at the Johnston, R.I.-based insurer, which does business as FM Global. "This has been the approach of FM Global for 30 years and has always been compliant," he said.

FM Global will not write nonadmitted insurance when it is not permitted, and does not offer financial interest cover. "We prefer to replicate cover in a (local policy that mirrors the master policy), and limit the cover given in the master policy."

The debate on compliance has gotten a little "out of hand," said Clive Hassett, director of operations for major risks and affinity business at ACE Europe in London. "The compliance issue is overdone. A global network consists of legally compliant insurers in local markets. For us, it is de facto; if we write a global policy, it will be compliant in terms of tax and insurance requirements. It should not be a competitive issue."

RSA Insurance Group P.L.C. issues local policies in every country in which it operates, even where there are freedom-of-service agreements or where nonadmitted policies are allowed, said David Broome, London-based director of the insurer's global network. And RSA will not issue DIC/DIL coverage under the master policy if nonadmitted insurance is not permitted, as this would be in breach of its internal code, he added.

"We treat compliance as important, but our approach differs from (some other) insurers," said Mr. Broome. "We have made a conscious decision, and we are 100% compliant."

RSA considered whether to offer financial interest coverage, but decided not to do so because of a "balance of legal compliance and commercial reasons."

Even risk managers' approaches to compliance varies hugely, said Paul Hopkin, technical director at the London-based Assn. of Insurance and Risk Managers. Among the risk managers that accept that complete compliance is impossible, some still work toward achieving it, while others just say it has not been a problem in the past and do little about it, he said.

International insurers

Insurer networks as of Sept. 1, 2009

INSURER	OWNED	NON-AFFILIATED	TOTAL
ACE	60	100	160
Allianz	75	75	150
AXA	35	75	110
Chartis	94	82	176
Chubb	27	100	127
CNA	14	94	108
FM Global	35	80	115
Liberty	24	112	136
Travelers	3	100	103
XL	20	80	100
Zurich	51	138	189

Source: Willis HRH

Global networks can help improve service levels

To service the needs of multinational companies, some insurers and brokers have established large global networks, but maintaining a consistent and quality service is a major challenge, several experts say.

The networks have been built by establishing subsidiaries, making acquisitions and by forging partnerships with local companies. The degree to which they rely on their subsidiaries differs between companies; some insurers and brokers rely almost entirely on partnerships with other insurers and brokers while others prefer to own or have ownership stakes in the local companies they rely on.

But communicating with multiple parties across the many regions in which they operate—coordinating movements of funds, claims handling and general administration—are far from simple tasks, brokers and insurers say.

There still is much work to be done on improving service levels to meet risk managers' expectations, said Regis B. Menke, vp of global markets at Atlanta-based Crawford & Co., which provides claims management services. Insurers are doing a much better job of policy issuance and moving premium than previously, but claims handling has lagged behind, he said.

Historically, insurers have been poor at getting the basics of global program administration and service right, said Chris Tabbitt, London-based partner with brokerage Jardine Lloyd Thompson Ltd. "This is not always the insurer's fault. The broker has an important role in getting the routine stuff working well, and for that you need a good degree of coordination."

In an effort to improve service levels, many global insurers and brokers have established specialty units to manage global programs and have invested in technology platforms.

Clients increasingly want timely information, said Philippe Gouraud, senior vp and head of major accounts practice at AIG UK Ltd. in London. New York-based American International Group Inc. has developed a single system across its network and is developing a client view that will give customers access to information on policies, losses and premium flows, he said.

AIG also established a single unit, global client service division, to oversee the program functions across the world, he added. "We recognize that a global unit provides a consistent approach and focus for multinational companies. Service has improved and will continue to do so."

Factory Mutual Insurance Co., which does business as FM Global, also has developed a global technology platform where insurance and engineering data is available to its employees, and increasingly to clients through its "My Risk" platform. "We have been working on improving service delivery—policy issuance, invoices, etc.—for some time, and we raise the bar a little each year," said Randy Schreitmueller, vp of global services at the Johnston, R.I.-based insurer.

An insurer's ownership of its network is an important factor in service, said Claude F. Gallello, practice leader for the global network at Willis HRH International in New York.

"Clients need to understand that, if a carrier does not have ownership, it will need to use an affiliate, and this can be problematic. A carrier will not have its own subsidiaries everywhere, but clients will want to see ownership in key countries," said Mr. Gallello.

Clients don't necessarily want their insurer in all countries, but they want it to be in the countries where they are based, said David Broome, director of the global network at RSA Insurance Group P.L.C.

RSA can underwrite in 135 countries, but it only has a presence in 29. The rest are covered by network partners. RSA controls and owns the network, but insurers like Germany-based HDI-Gerling A.G., Sompo Japan Insurance Inc., LIG Insurance Co. Ltd. in South Korea, and Pohjola Group in Finland, have joined the network. RSA and the network partners use the network to issue local policies for their global clients.

In the past, insurers relied on contacts for placing insurance locally, but in the 1990s several networks emerged that were built on a "sound legal basis," said Mr. Broome. RSA's network has its own service standards and business cooperation agreements to speed up the movement of money and claims, said Mr. Broome.

RSA issues a performance guarantee for its clients that have policies issued via its network, said Mr. Broome. "This transfers the risk of dealing with a local partner to RSA's A-rated paper, so there no reason for clients to worry about the rating of their insurance partner."

Outlook bright for global programs: Experts

If the insurance industry can overcome the challenges inherent in global insurance programs, the programs are likely to play an ever more central role in multinational companies' risk and insurance strategies, experts say.

For as long as multinational companies favor a centralized approach to insurance, global programs are likely to remain the preferred option for risk managers, said Martin Rayfield, an executive director in the risk management practice of Marsh U.K. in London.

The global insurance program concept still faces significant barriers, such as achieving regulatory and tax compliance and dealing with counterparty risk, but if insurers can remedy these concerns, global insurance programs are likely to become more important as multinational companies grow and retain more risk, he said.

In the short term, any hardening in the corporate insurance market is likely to be met by higher levels of retention, and such retained levels rarely come back into the market, Mr. Rayfield said. In the longer term, as companies expand overseas, their portfolio of risk becomes more diversified, and is, therefore, better suited for management by a captive insurance company, he said.

As use of captives expands, global insurance programs will become more important because they provide the means by which a multinational company can manage risk through its captive, Mr. Rayfield said.

For insurers, a trend toward higher retentions would mean they will need a better network of offices and improved ways of managing policy documentation and moving funds, he added. "Only a few insurers can operate on a truly global scale, and they will look to increase their market share. This trend will play to the strengths of the larger insurer and broker networks," he said.

Growing concerns over counterparty risk also could play to the strengths of larger insurers, some insurers say. Since the financial crisis began, risk managers have focused more on insurer financial strength, but they also want to diversify their programs, insurers say.

Buyers of global programs are reducing the amount of capacity they have from individual insurers and are looking to spread their exposure across more insurers, said Tony Cabot, Zurich, Switzerland-based director of global programs for XL Insurance.

But some insurers argue too many insurers on a global program can create too much complexity. "The reality is that the more a program is syndicated, the more parties there are that will have to deal with a claim," said Philippe Gouraud, senior vp and head of major accounts practice at AIG UK Ltd. in London. "Once a program is piecemeal, it will need to be pieced back together when there is a claim. Fewer participants means fewer problems with claims and documentation. Clarity and simplicity means it is more likely to work."

In the past, it may have been acceptable to include insurers that did not meet certain rating requirements, said Andreas Berger, chief executive of Allianz Global Corporate and Specialty in the United Kingdom. But risk managers are becoming much more selective of which insurer they have on their programs, he said.

Risk managers and brokers also look at the strength of co-insurers to make sure they can step in should the lead insurer get into trouble, he said. "There can be no weak players," he added.

Service is more of an issue than coverage when it comes to counterparty exposures, said Chris Tabbitt, London-based partner with Jardine Lloyd Thompson Ltd. Brokers can find insurers willing to replace an insurer in terms of capacity, but they may not be able to offer the same level of service, he said. Buyers are looking to have a greater number of secure insurers that can offer good service on a program, he added.

And insurers are showing signs that they are more willing to agree to drop down in a program, should one of the lead insurers be unable to meet financial strength rating requirements, said Ryan Brown, director of insurance and enterprise risk management at St. Louis-based energy company Peabody Energy Corp.

Global programs also are likely to become a more relevant solution for smaller companies as they increasingly become more international, said Mr. Cabot. XL has seen an uptick in middle-market companies buying international insurance programs for five to 10 countries, he said. "It has become much easier for a company to become multinational, and many mid-sized companies already have manufacturing operations overseas," he added.

"A big part of the future will be smaller and mid-sized companies buying global insurance programs. But these programs will need to be smaller and able to be purchased quickly. Insurers will need to adapt their distribution models, and will have to make better use of the Internet. And as these companies mature, carriers will need to adapt their programs to meet clients' changing need," Mr. Cabot said.

Growth in global programs in Europe and the United States is most likely to come from the middle market, but the global program concept has yet to be embraced fully by large companies in Asia, said Herman Nieuwenhuizen, head of international program business development for Zurich Global Corporate in Philadelphia.

Developments in enterprise risk management also are likely to reinforce the concept of global insurance programs, said Randy Schreitmueller, vp of global services at Johnston, R.I.-based Factory Mutual Insurance Co., which does business as FM Global. The trend toward ERM means companies increasingly will look to insurers and brokers for support.

One of the biggest challenges for the insurance industry will be to harness technological advancements to deliver better service, said Mr. Cabot. Insurers can do a lot more with technology, he said, to deliver "real-time communication" across a global network.

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