

RISK & INSURANCE®

INSURERS UNEASY WITH
FOR-PROFIT COLLEGES' RISKS

page 62

Emerging Strategies for Risk

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PICKING A NEW CROP OF INNOVATORS

FOURTH ANNUAL RISK INNOVATOR™ AWARDS

page 22



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Creativity and Execution

This annual special issue showcases some of the best the risk management field has to offer.

I'm referring to the out-of-the-box, innovative risk managers. They are the ones that take bold, creative and decisive steps to improve their companies and clients.

Maintaining or accepting the status quo never suits them. It's in their DNA to make a difference, to effect change. The bigger the challenge, the better for this group. They are our 2011 Risk Innovator™ Award winners.

We at Risk & Insurance® selected 19 risk management professionals from a cross-section of industries as our risk innovators this year. Eight of them also are designated as a Responsibility Leader®, meaning their leadership has had a powerful impact on their colleagues and the communities where they live.

We profile each Risk Innovator™ to recognize their individual risk management achievements, with the hope each provides inspiration for even more innovation in the workplace.

Our innovators serve as a reminder that brainstorming new and creative ideas, and turning those ideas into unique products and services, provides the lifeblood for every business big or small.

It takes courage to be an innovator because there are always risks to manage. But innovators understand how to leverage risks in order to gain substantial rewards for their businesses and customers.

We congratulate and encourage our Risk Innovator™ winners and realize there are many more of them in the risk management profession worthy of this honor than the group whose stories fill these pages.

Paul Bomberger

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Editor-in-Chief

NEWS&NOTES

CATASTROPHES HIT INDUSTRY HARD

Big catastrophe losses drove down U.S. property/casualty insurers' net income 68 percent to \$1.38 billion, Moody's Investors Service said. The industry suffered pretax catastrophe losses of \$5.5 billion in the second quarter, compared with \$2 billion in the same period in 2010, Moody's also said.

Rates are only expected to harden "only gradually" as insurers compete fiercely for business, Moody's also said.

AIG REPAYS TREASURY \$2.15 BILLION

The U.S. Department of the Treasury said that it has received \$2.15 billion from American International Group through the sale of AIG's Nan Shan life insurance subsidiary.

The proceeds of the sale were used to pay back the U.S. taxpayers' investment in AIG through the redemption of an equal portion of Treasury's preferred equity interests in AIA Aurora LLC, a subsidiary of AIG.

RETIREMENT PLANS TO OFFER INFLATION CUSHION

Nearly half of all defined contribution retirement plan sponsors either offer or plan to offer some kind of inflation protection strategy to their participants sometime soon, a recent survey shows.

Among the sponsors currently offering such strategies, a stand-alone Treasury Inflation Protection Securities it the most widely used option (24 percent) versus combining multiple asset classes (12 percent), the U.S. Defined Contribution Investment Survey of more than 200 defined contribution plan sponsors released by Mercer found.

CHUBB UNIT SUES COMPANIES OVER 9/11

Federal Insurance Co., a unit of Chubb Corp., has filed a lawsuit against about 15 insurance companies over costs related to the defense of Deutsche Bank from claims filed after Sept. 11, 2001.

Two of Deutsche Bank's buildings in Manhattan were damaged in the aftermath of the attacks on the World Trade Center. Contractors were hired to demolish the structures.

The suit centers on the alleged "wrongful refusal" of the insurers to pay their fair share of the bank's defense against claims from various clean-up, remediation and demolition contractors seeking damages for various ailments they say were caused by breathing allegedly toxic air.

STARBUCKS SETTLES DISPUTE IN TEXAS

Starbucks has agreed to pay \$75,000 to settle a disability discrimination lawsuit brought on behalf of a Texas barista who said she was fired because she was a dwarf.

The global coffee giant agreed to settle with Elsa Sallard, who was fired in 2009 after three days of training at a Starbucks coffee shop in El Paso, Texas, the U.S. Equal Employment Opportunity Commission said.

The firm also agreed to provide

training on disability issues for all managers and supervisory employees at the firm's El Paso locations.

CHUBB RELEASES APP FOR CLASSIC CARS

A free mobile application that can help take the guesswork out of buying and selling collector cars by searching an extensive database of sales histories and online markets is now available for BlackBerry devices, Chubb Group of Insurance Companies announced.

The Classic Car Guide provides real-time data about collector vehicle values that can help both buyers and sellers make informed decisions. The app was made available earlier this year for the iPad, iPhone and Android-based phones.

Powered by Keith Martin's Sports Car Market's database of over 100,000 auction results, the application provides accurate, up-to-date sales information for domestic and foreign collector cars.

—Compiled by staff from news releases

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RISK INNOVATION

Piecing Together the ERM Puzzle

Companies large and small, in all sorts of sectors, are forging ahead with their enterprise risk management initiatives. Everyone in the company owns a piece of the puzzle.

At Auburn Hills, Mich.-based BorgWarner Inc., enterprise risk management has brought a changed focus on risk throughout the organization, from the board of directors down, said Brian Maturi, the automotive systems manufacturer's director of risk management.

"Everybody thinks they're a risk manager these days," he said. "The truth is we all have pieces of the puzzle."

BorgWarner operates six business units, producing drivetrain, ignition, emissions and cooling systems along with turbochargers and other products. Before the company began its enterprise risk management push two years ago, "we weren't truly aware of how different we are from one unit to another," Maturi said.

As part of the process, Maturi and BorgWarner managers identified the company's top 25 risks, determined who was responsible for them and what gaps might exist in managing them.

Many miles away, in St. Paul, Minn., David Seibert, risk manager for the 25-

branch Affinity Plus Federal Credit Union, has spent the past 18 months developing risk matrices for the union's board of directors.

It is the first time the board of the 330-employee institution has been able to look at risk holistically.

"It's innovative just for a credit union to have an enterprise risk management program," Seibert said, noting that the Affinity Plus enterprise risk management program was the only one of its kind among credit unions in the state. To read the rest of this article, please visit us at Riskandinsurance.com.

Risk Innovator™: The winners

This year's crop of Risk Innovator™ winners are featured in a special report in this issue, and their profiles also can be viewed on our website. After sharpening the selection process and implementing changes, 19 winners rose to the top of the class in 2011.

Each was chosen for his or her blend of creativity, execution, and their ability to generate results for their employers and clients.

Selected from different industry sectors, each winner made an impact on those around them and the industry at large. We profile them on our website as each offers ideas and processes from which we can all learn.

To read the rest of this article, please visit us at Riskandinsurance.com.

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Adjusting the Premium to the Risk

In Latin America, current methods that insurers use to measure the risk of domestic transport makes it almost impossible to know the real risk.

The singer Shakira is no longer the most flexible, powerful, and desirable innovation to come out of Colombia: rather the nod goes to AsisCarga, the first risk simulator based on marine insurance programs in Latin America that can support the companies that are investing and using land transportation in the continent.

Jose A. Ricuarte, a manager with Vertice Seguros in Bogota, Colombia, designed the simulator to measure the risk prior to delivery, and to adjust the premium based on the level of risk.

Although Latin America is one of the fastest growing regions in the world, owners, underwriters, and brokers in the region acknowledge that the current methods that insurers use to measure the risk of domestic transport makes it impossible to know the real risks.

In response, Ricuarte developed AsisCarga, using his own model. "We have a lot of experience with the Latin America roads, but we also have a mathematical risk model that we run each time that a truck starts a trip. We define the risk level of each shipment based on statistical information," Ricuarte said. "The model is fed every day, depending on the status of the roads. We are talking not only in terms of security. Remember that for the last year, the catastrophic risk like floods, landslides, in general the risks of nature caused millions in losses. The cargo risks transport in Latin America are so dynamic, change all the time."

"The major brokers who operate in the region focus on the big picture, but I don't think they have the time to focus on new things," said Claudia Vargas, vice president at Chubb Colombia. "Jose Antonio saw what was happening on the ground, what the shippers needed, and developed this answer himself. He has worked with freight forwarders and truck companies who needed something like this."

There are almost a quarter of a million freight forwarders in Colombia, Ecuador, and Peru, according to sources in the region. "We track the risk factors," Ricuarte said. "We use six initially to measure the level of risk. The first is the customer or the owner of the goods, because not all companies/corporations have the same way to manage the cargo risks. Some merchandise is more exposed than others, even carrying the same goods

by the same route. That varies with the owner, and we always try to identify them to use special strategies."

"This has been a hugely helpful program," said one manager at a freight forwarder. "It was very difficult to understand the risk of land transport. This program allows me to compile all the risks and better know how to mitigate them. I have shown the program to colleagues in places like China and in Southeast Asia because I think they face the same kinds of problems."

Setting political correctness aside, Ricuarte's starting points were the unique challenges faced by regional freight operators, including the poor condition of some roads, traffic congestion, the absence of any meaningful tracking system, the difficulty in checking references or safety records for drivers, high rates of theft in some areas, and a lack of standardized security or operating procedures.

Ricuarte's innovation was to address those conditions as risks that could be quantified or at least evaluated, and that unique risk management processing could be brought to bear.

"Jose Antonio's idea was to

have a marine open policy with all the solutions available at the same time," Vargas said. "This did not seem possible with so many freight forwarders, and commodity categories."

Bringing the rigor of risk management to the market was the true innovation, said Juan C. Salcedo, marine director at Liberty Colombia. "In effect he has created a new channel. We can guess and write business on unknown risks, just based on our experience, or we can use this process and write to a risk we understand." Owners and underwriters say that absolute losses have declined, as the measurement and tracking bring perils into focus. The claims process also has been simplified because there is a data trail.

Insurance companies say they like the application for underwriting in particular.

"The process is very fast because of the large data base," Salcedo said. "It has also made our negotiations with the client very easy. The client gets a rapid response with a quote. Before we would have to study and consider each quote. Then the client would argue. Now we say here are the statistics for that commodity on that route, so this



JOSE A. RICUARTE, MANAGER, VERTICE SEGUROS

is the premium. We have done more business with our same clients, and we have brought in new clients."

The biggest prize may be yet to come: with the flowering of free-trade agreements around the region, it is expected that there will be both an increase in freight traffic, but also an increase in companies from the U.S. and Europe wanting to invest in the region.

That investment can't happen unless freight companies, and their brokers and insurance firms can measure the cargo transportation risk. If global coverage stops at the wharf, development does, too.

There is also a great deal of local pride in the fact that this approach was developed using the knowledge of regional operators and input from brokers and underwriters already in the market.

—By Gregory DL Morris



A HEAVY truck negotiates a dangerous turn. It's often just as difficult for brokers and underwriters in parts of Latin America to calculate the real risks of transporting goods across dangerous terrain.