

BUYERS REPORT

News & Trends For Risk Managers & CFOs

Well-Prepared RMs Won't Lose Sleep Over Nightmare Scenarios

Sound loss control can counter threats from hurricanes, terrorism, market instability

BY CAROLINE MCDONALD

RISK MANAGERS, whose job it is to prepare for nightmare scenarios and the unexpected, face a host of emerging threats this year—from monster hurricanes to terrorist attacks—to go along with their daily challenge to control more mundane losses and secure affordable insurance coverage in good markets

and bad, industry experts warn.

“Risk management needs to be nimble enough to handle whatever comes at it,” said Janice Ochenkowski, director of global risk management for Jones Lang LaSalle in Chicago, a commercial real estate company.

Indeed, a well-run risk management department has “policies and procedures

in place that can be adapted to a particular situation,” noted Ms. Ochenkowski, who is also treasurer of the New York-based Risk and Insurance Management Society.

Ms. Ochenkowski said that although the list of potential hazards is seemingly endless, “the greatest risk of all is doing predictions, because it seems like those things you manage to identify you figure out a way to manage, and then the unexpected always turns up.”

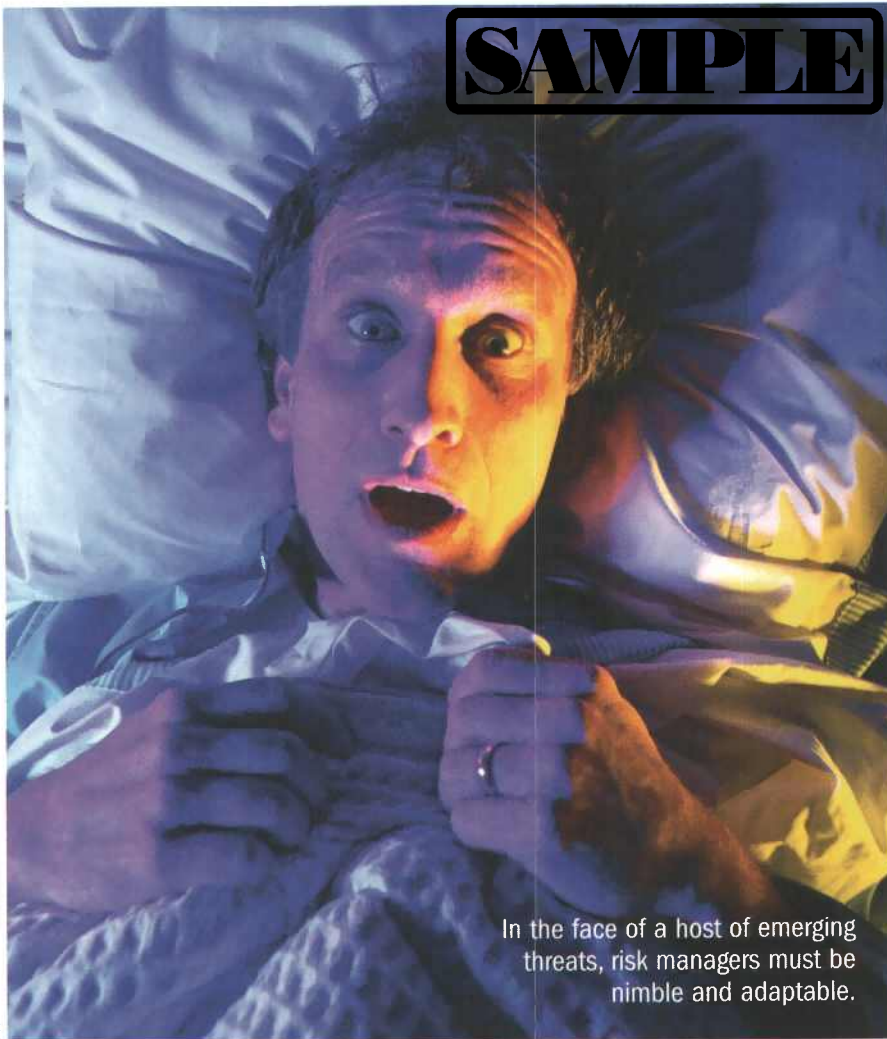
To deal with the unexpected, she said policies and procedures need to be adopted and support resources explored, such as those offered by RIMS itself, via www.RIMS.org.

Beyond the more headline-grabbing risks such as natural disasters, the concern at the top of her list, she said, is the insurance market’s chronic instability—“not having predictable pricing and not knowing whether coverage limits and terms that are necessary will be available on the property side.”

She cited perennial questions going into renewals such as: “Are we going to be able to get what we had last year? Will the limits we need be available? Will the prices be commercially reasonable?”

Equally worrisome, she added, are legislative challenges. Leading the agenda is the ultimate fate of the Terrorism Risk Insurance Act, extended last month for only two years, even though the exposure “needs a long-term solution.” She cited

SAMPLE



In the face of a host of emerging threats, risk managers must be nimble and adaptable.

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other legislative priorities, such as asbestos and tort reform, which "impact the stability of the insurance marketplace."

Last but not least, she said, are natural disasters—including not only windstorms and earthquakes but more exotic exposures such as avian flu. Here, she said, risk managers need to have a plan and infrastructure in place as well as knowledge of available resources.

"You have to stay plugged into your industry—that's where RIMS is tremendous," she said, recommending that risk managers tap into RIMS' online e-groups, a "phenomenal tool" because participants "share so willingly" with one another. Once a risk manager posts a question to colleagues around the world on the e-group, the "answers start coming in," she explained.

The biggest threats this year will be weather and oil—both demanding loss control, according to Martin Grace, professor of risk management and insurance at the Robinson College of Business in Atlanta, and associate director of the Center of Risk Management and Insurance Research.

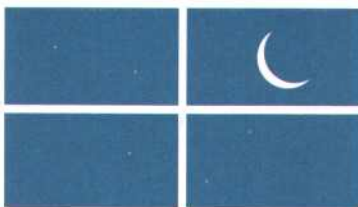
Oil price fluctuations, he said, affect every industry. Although trucking and transportation are the most likely to be hurt, "little shocks float throughout the economy." To some extent the cost of oil "has to do with how things go in the Middle East, and that's not predictable," he added.

Also of concern is the fluctuating cost of insurance, including uncertainty about directors and officers liability threatening a risk manager's top management. D&O, he said, is subject to the rise and fall of the stock market, as "a drop in the market generally means an increase in lawsuits."

WEATHER RULES

He advised risk managers who haven't looked at their exposures on weather and financial risks, and perhaps their correlation, to do so now. "A catastrophic hurricane could restrict the stock market and returns could fall in anticipation of how the government might behave," he said. After Hurricane Katrina, he noted, the market dropped but has since recovered. "When bad events happen, other bad events also may happen," he added.

CHECKLIST



What's Keeping You Up At Night?

Among the top threats facing risk managers in the coming year:

- ▶ **NATURAL DISASTERS**, especially hurricanes, with many of the most severe storms in history hitting over the past two years.
- ▶ **MORE EXOTIC EXPOSURES**, such as avian flu.
- ▶ **MAN-MADE DISASTERS**, including terrorist attacks and environmental exposures.
- ▶ **LEGISLATIVE CHALLENGES**, including finding a long-term solution for terrorism and asbestos exposures.
- ▶ **SOARING HEALTH CARE COSTS** for workers' comp and employee benefits.
- ▶ **INEVITABLE INSURANCE** market fluctuations.

Robert Cartwright Jr., loss prevention manager with Bridgestone Firestone in Exton, Pa., and a member of the RIMS External Affairs committee, said his focus for 2006 is liability issues and changing workers' compensation laws.

His company is self-insured for liability and workers' comp, with a retention of about \$5 million, making loss prevention a priority. "We're looking to identify some of the near-miss situations to prevent the losses from occurring," he said. "We're looking to reduce the number of incidents and the number of accidents, because there is a difference." This ongoing process, which was stepped-up in 1994, involves educating 1,500 employees, or "teammates," in his jurisdiction—12 districts in 13 states.

Loss prevention managers are focused on identifying incidents that previously went unreported, which often lead to claims and sometimes lawsuits, he said. To combat this, he and other members of the loss prevention team make field visits to find out what is behind particular incidents and accident trends.

Small compliance changes, he said, can

save the company thousands of dollars. Most injuries are strains, sprains, eye injuries or flash burns, he explained, adding that one district with a high number of injuries has become the most aggressive in combating them, and has the most comprehensive program.

The efforts have paid off. From the previous year, he said, eye injuries in the Northeast region were reduced by 35 percent, and "we're looking to increase that number again," he said.

Don L. Schmidt, CEO of Preparedness LLC in Sharon, Mass., said he believes the top issue for risk managers in the coming year is hurricane preparedness, regardless of where they are located. He said "2006 is expected to be an above-average season once again. While it may not be a record-setter like 2005, risk managers with properties along the Gulf Coast or Atlantic Coast need to assess their exposure to hurricanes." This is also the case for companies with a critical—single or sole source—supplier located along the coast.

Risk managers, he said, need to assess all facilities to identify damage potential and take necessary steps to mitigate exposures where possible, he said.

"Look at roof coverings, protection of exterior openings and critical infrastructure," he said. "Organize personnel, define tasks and identify resource needs in advance of a storm, so action can be completed before evacuation is required."

Also important is a well-thought-out business continuity plan to maintain critical functions in a storm's aftermath. The risk assessment should quantify potential property damage, business interruption and contingent business interruption loss potential. "This will enable risk managers to buy adequate limits or understand potential retained risk," Mr. Schmidt said.

Of additional concern in 2006, he said, is property protection. Because the market may be in a "softer part of the cycle," it's a good idea to "invest money saved on insurance premiums into the protection of your facilities," he noted, suggesting that risk managers should look into upgrading fire protection systems and mitigating flood, earthquake or windstorm exposures. ■