Crisis as a Peril™

The always-present adrenaline in a crisis situation causes people to react far too quickly. Mistakes are always made. It is so important, in any crisis situation, to stop and take the time to truly appraise the situation. ~ Harry Rhulen, CEO Firestorm
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Continual Regeneration Keeps Us at the Top
In today’s business environment and especially with respect to the insurance business, technology has made access to information almost too easy. I say too easy because there are overwhelming numbers of ‘news’ sites and coupled with email blasts it’s rare that anyone has the time to read it all.

So we read a lot... for our subscribers so they don’t have to read as much. Myself having spent 40+ years in the insurance business, I have a good sense of what’s important and what’s just ‘news.’ As I tell people who ask about The Insurance Research Letter, if you just want the news, go elsewhere. We aim to inform and educate.

At The Insurance Research Letter we source and curate risk management-focused articles that are topical and educational. This monthly newsletter has always been a work in progress since the beginning in 1966. From typewritten international updates to today’s digital editions the focus has been on delivering good educational and actionable intelligence to risk managers, brokers, underwriters, lawyers and others.

During the last year the focus on risk management has taken center stage. Whether it’s an article on Directors’ and Officers’ insurance in Australia, a change France’s insurance regulatory practice, a close-up look at Kidnap & Ransom insurance, Crisis Management, or short snapshots of country-specific developments, The Insurance Research Letter has become a thought leader.

Starting with the next issue along with our partners at Firestorm® a new section is being inaugurated: Risk Manager Spotlight, which will feature interviews with top-flight risk managers.

In closing I would like to remind readers that The Insurance Research Letter is best read on an iPad (tablet) but also reads well on desktops and laptops. For younger readers with sharp eyes, a Smartphone works well too.

Highlights in this issue include a number of important risk management articles
Crisis as a Peril™ Part Three (Third in the Crisis as a Peril™ series)
Why do insureds buy insurance? Often, they buy because they do. In automobile insurance, it is a regulatory requirement. For homeowners, it is a condition of securing a mortgage. Often, however, in the business environment, insurance is a true risk management tool. It is part of the process used to mitigate or eliminate exposure of a financial nature. Unfortunately, the financial exposure is just a small part of the overall picture when an insured has a claim.
Learn more on page 21

Employee Dishonesty and Fidelity Claims: All About the Interview
When it comes to successfully preparing and submitting an employee dishonesty and fidelity claim, a good investigator interview technique can the difference between a confession and a time waste.
Learn more on page 22.

The Seven Phases of a Crisis: Analysis & Response
While each crisis is unique, in analyzing our three decades of experience in responding to critical situations, we have observed seven common phases. This sequential pattern provides a roadmap organizations can use to assess their preparedness and determine necessary steps for effectively and expediently responding to a large-scale event affecting their operations.
Learn more on page 24

Kidnap & Ransom: A Growing Global Threat
Most organizations doing business in Syria, Afghanistan and Iraq understand
the dangers involved with running operations and sending staff to work in such high-risk environments, where political unrest and military action are the norm. One of those risks is that employees are vulnerable to kidnappings, and it’s become a greater concern to many.

Learn more on page 26

**Concluding Insurable Values by Trending Historic Costs**
The property insurance market may change from hard to soft to hard again; however, underwriters remain steadfast regarding their need for precise and detailed values. Do you know where your property’s reported insurable values come from?

Learn more on page 27

**Smart Sourcing – A Novel Approach to Outsourcing**
When we engage with our clients in outsourcing discussions, many executives feel they need to think about outsourcing differently, but have not been able to work with a suitable model. Companies are under labor cost pressures and apply a “me too” strategy, only to find out later that replicating a competitor’s sourcing strategy may not be suitable.

Learn more on page 35

**International Risk Management Institute** has added new articles to its website which you can access at no cost. Go to page 36 to read *Duty to Defend or Pay for Defense, Named Insureds on Insurance Policies,* and a report on *RIMS 2016.*

**ISN NEWS QUIZ**
1. **Kidnap & Ransom**: Foreign nationals accounted for ___ percent of overall kidnap victims in 2015.
   a. 10%
   b. 13%
   c. 30%

2. **Insurable values**: Historic cost is defined as:
   a. The average cost from the beginning to present
   b. The original cost new of the asset in the hands of the first owner
   c. The historical cost by all owners of the similar asset

3. **Political Evacuation Insurance**: Who gives the order to evacuate?
   a. U.S. Government
   b. British Government
   c. The insurer
   d. The insured organization

4. **Employee Dishonesty and Fidelity Claims**: What is the key to successfully preparing and submitting an employee dishonesty and fidelity claim?
   a. Good supporting security video
   b. A good investigator interview technique
   c. Lining up whistleblowers

See *The Back Page* for the answers

**FREE ISN Resource Pages**
In addition to *The Insurance Research Letter/The Letter™* and the ISN Country Insurance Guides, the website includes the following resources (with more in the works):

- **Country & City Telephone Codes, Time Zones**
- **Geographic Sectors** (overview providing detailed non-insurance country-specific information about geography, people & society, government, economy, energy, communications, transportation, military and transnational issues.)
- **International Insurance Glossary**
- **International Insurance Supervisors, Regulators, Associations & Central Banks**
- **World Travel Advisories**
Michelle Colosimo, Director Black Swan Solutions
The Seven Phases of a Crisis: Analysis & Response Page 24
Michelle has over 10 years of crisis response experience responding to national and international crises including active shooter incidents, terrorist attacks, mass casualty events, natural disasters and cyber/data breaches, among others. She is a director at Black Swan Solutions where she directs all operations and provides strategic oversight while also consulting with organizations on program development and operational execution of deliverables. In addition, she oversees all aspects of product development, marketing and sales. Michelle is a regular speaker at national conferences and events for disaster management and planning. Black Swan Solutions is a leading global provider of crisis management and risk mitigation services. Their services help organizations prepare for, respond to and recover from a wide range of critical events from mass casualty situations to data breaches. Utilizing masters prepared professionals paired with state-of-the-art proprietary technology, their solutions provide timely and accurate information during a crisis while also providing emotional support to impacted individuals. Their client organizations, among the most recognized brands in the world, are prepared to rapidly communicate with stakeholders, demonstrate compassion for victims, and protect their reputation in the wake of a disaster.

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Erik Davison, CEO, DBV Solutions*Inc.
Smart Sourcing – A Novel Approach to Outsourcing Page 35
Erik is a proven leader and seasoned global management consultant with “Big 6” consulting experience (at Accenture and Andersen Consulting,) and an M.B.A. in Finance. His specialties include, but are not limited to: • Acquisition Integration; • Business Intelligence & Data Analytics; • Business Process Design; • Business Process Improvement & Re-engineering; • Business Transformation; • Change Management; • Globalization; • Management Consulting; • Mergers & Acquisitions; • Offshoring; • Risk Management & Mitigation; • Supply Chain Management. Having worked at world-class, global financial and insurance brokerage and carrier companies, Erik has extremely deep expertise in the financial, healthcare, and insurance realms, though the breadth of his experience transcends these industries. As a native European who came to the U.S. in early adulthood, he brings valuable cross-continent experience and deep understanding of the global economy, and speaks four languages.

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Jack P. Gibson, CPCU, CRIS, ARM
New IRMI Expert Commentary Available Page 36
Jack is President & CEO, International Risk Management Institute, Inc., CEO, WebCE, Inc. Since 1982 for IRMI and 2011 for WebCE, when it was acquired by IRMI, Jack has led the executive teams in determining the strategic directions of the companies along with high-level tactics. Until 2016 he also led the editorial and training and education teams at IRMI. Mr. Gibson is the coauthor of 11 reference works on insurance and risk management, all published by IRMI, including Contractual Risk Transfer, Construction Risk Management, and The Additional Insured Book. In addition to his executive role, he continues to serve as product manager for Captive.com, managing editor of IRMI Update and executive editor of The Risk Report.

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Matt Hansen, Senior Manager BDO Consulting
Employee Dishonesty and Fidelity Claims: All About the Interview Page 22
Matt is a Senior Manager in the Chicago office of BDO Consulting, with nearly 10 years of experience providing public accounting, forensic audit and advisory services. A Certified Public Accountant, Matt manages a range of engagements pertaining to litigation and dispute resolution, investigations and compliance, and forensic services.

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Erik Davison, CEO, DBV Solutions*Inc.
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Erik is a proven leader and seasoned global management consultant with “Big 6” consulting experience (at Accenture and Andersen Consulting,) and an M.B.A. in Finance. His specialties include, but are not limited to: • Acquisition Integration; • Business Intelligence & Data Analytics; • Business Process Design; • Business Process Improvement & Re-engineering; • Business Transformation; • Change Management; • Globalization; • Management Consulting; • Mergers & Acquisitions; • Offshoring; • Risk Management & Mitigation; • Supply Chain Management. Having worked at world-class, global financial and insurance brokerage and carrier companies, Erik has extremely deep expertise in the financial, healthcare, and insurance realms, though the breadth of his experience transcends these industries. As a native European who came to the U.S. in early adulthood, he brings valuable cross-continent experience and deep understanding of the global economy, and speaks four languages.

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Nigel P. Wilson

Concluding Insurable Values by Trending Historic Costs
Page 27

Nigel is a director of insurance services within the Fixed Asset Management and Insurance Solutions practice. He is experienced in developing the cost approach for insurance purposes in all industrial, commercial, and institutional occupancies, as well as cost trend development and maintenance. He has been a qualified instructor of the American Society of Appraisers' machinery and equipment valuation courses since 1990. Nigel joined American Appraisal (now Duff & Phelps) in 2000 and held various positions within the industrial valuation practice in the Milwaukee and Toronto offices. He has been in his current position since 2005. Prior to joining American Appraisal, he spent 21 years at FM Global, where he served as a manager of appraisal standards.

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Chubb’s Environmental products distribution network has grown from nine to 48 branch offices. A broadened array of products and capabilities are now available for small, mid-sized, and large domestic and multinational companies – learn more.

Hamilton opens new office in London
Hamilton Insurance Group (Hamilton), the Bermuda-based holding company for insurance and reinsurance operations that underwrite property and casualty risks on a worldwide basis, has announced the opening of new offices in London to support its growth in the Lloyd’s market. Deputy Premier of Bermuda and Finance Minister, the Honourable E.T. ‘Bob’ Richards JP, MP joined Group Chairman and CEO Brian Duperreault and Hamilton at Lloyd’s CEO Dermot O’Donohoe at a cocktail party to officially open Hamilton’s expanded presence in the Aviva Building on 1 Undershaft. In April 2015, Hamilton acquired a niche sports underwriting managing agency, renamed Hamilton Underwriting Limited, and Syndicate 3334,
in a move to establish a diversified platform at Lloyd's. Under the brand Hamilton at Lloyd's, Syndicate 3334 now writes seven classes of business: Accident and Health, Contingency, Financial Institutions, Property D&F, Professional Indemnity, Space and Treaty Insurance.

**German reinsurer acquires stake in Ecuadorian reinsurer**

German reinsurer Hannover Re S.E. has acquired a 30 percent stake in Ecuadorian reinsurer Reaseguradora Del Ecuador S.A., reported lnese.es.

**PEOPLE**

Aspen names head of international cyber risk

Aspen Insurance has announced the appointment of **Rahelia Nazir** as Head of International Cyber Risk. Rahelia will report to **Ann Haugh**, President, Aspen International Insurance and Chief Operating Officer, Aspen Insurance, and **Oliver Brew**, Executive Vice President, Global Head of Cyber Risk & Head of International Professional Indemnity. Based in London, Ms. Nazir joins Aspen Insurance from AIG Europe Ltd, where she was Professional Indemnity Manager for Europe, the Middle East and Africa, a role in which she helped drive the Cyber strategy with responsibility for product innovation in Cyber, Technology and Media lines. She was previously Cyber & Communications, Media and Technology Manager, managing and coordinating the UK portfolio of AIG Europe Ltd. She will join Aspen in the summer and has more than 16 years’ experience as an underwriter across different product lines including Cyber, Property, and Liability. She previously held senior roles at Cat Excess Limited, Brit and RSA.

**Pool Re names Geoff Riddell**

**has succeeded Tony Latham as non-executive chairman (April 8, 2016)**

Mr. Geoff Riddell brings over three decades of experience in international insurance markets to his new role. He has served most recently as Regional Chairman – Asia Pacific, Middle East and Africa for Zurich Insurance Group. Prior to this, he served as CEO and then Chairman of Zurich Global Corporate, overseeing a period of extensive growth. Mr. Riddell joined Zurich from AIG where he held a series of senior managerial roles including Country Head of AIG France, CEO of AIG Belgium and President and Managing Director Hong Kong. He was previously a director of Pool Re, from February 2005 until August 2010. Mr. Riddell has also served as Chairman of the World Economic Forum Insurance Global Advisory Council, as Member of the ABI General Insurance Council and as a member of the Lord Mayor of London’s Advisory Board. ISN
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Willis Tower in Chicago.
The building was completed in 1973 and formerly known as the Sears Tower.
Acquisitions help Willis Towers Watson grow revenues 11% during Q1
Global broker Willis Towers Watson reported 11% growth in total revenues during Q1, with revenues rising to $2.2 billion. With both the Willis and Towers Watson legacy companies reporting on a legacy basis for the final time, the results showed a challenging picture in terms of organic growth, which totaled just 1 percent during the quarter. Much of the revenue growth in the Willis legacy business was driven by its recent acquisitions of Miller Insurance Services and Gras Savoye. Three of the four legacy Willis units generated an organic decline in the quarter, with only North America producing organic growth. Net income across the merged businesses fell to $238m, compared with $251m during the first quarter of 2015. As of Q2, Willis Towers Watson will report its results on a consolidated basis.

IRMI CEO Jack Gibson Honored by American Bar Association
On Friday, May 13, 2016, the Tort Trial and Insurance Practice Section (TIPS) of the American Bar Association presented Jack P. Gibson with a Certificate of Appreciation recognizing the 20-year collaboration between International Risk Management Institute, Inc. (IRMI), and TIPS with respect to the TIPS Scholarship Program and IRMI CGL Reporter publication. Mr. Gibson is president and CEO of IRMI, and the presentation was made during the Leadership in Action Luncheon at the TIPS Spring CLE Conference in Atlanta. With the assistance of Jill Berkeley, now a partner with Chicago law firm Neal, Gerber & Eisenberg LLP, IRMI and TIPS put in place an agreement in 1995 wherein members of the TIPS Insurance Coverage Litigation Committee write summaries of the most important appellate-level insurance coverage cases that are then published in CGL Reporter. In return, IRMI contributes a portion of the revenues from the publication to the TIPS Scholarship Fund. Over the 20 years since the collaboration began, IRMI’s cumulative contributions will have exceeded $500,000 by the end of this year. IRMI recently introduced an updated version of CGL Reporter, renaming it as Insurance Case Finder to reflect the broad scope of content it contains. More than 75 highly experienced coverage attorneys from the TIPS Insurance Coverage Litigation Committee have contributed to the publication since 1995, and the database of case summaries now exceeds 7,250 cases. Learn more about the Insurance Case Finder in the IRMI website, IRMI.com.

Hyperion unveils new management structure
Specialist broking group Hyperion has announced a new management structure a year on from the completion of its merger with RK Harrison (RKH). Effective October 1, Hyperion aligns its management structure into three pillars: Howden Group, the retail broking arm; RKH Group, the specialty and reinsurance broking unit; and Dual, its managing general agent (MGA). David Howden will be Howden Group’s chief executive, with Dominic Collins as chairman. RKH Group’s chief executive will be Barnaby Rugge-Price, with Elliot Richardson as chairman. Dual’s management structure will remain unchanged, with Talbir Bains remaining as chief executive and chief underwriting officer, and Clem Booth as non-executive chairman. Hyperion’s Group executive committee will be expanded with the additions of Rugge-Price, Richardson and Jose Manuel Gonzalez (chief executive of Howden Iberoamerica).
ISN COUNTRY INSURANCE MARKET GUIDES

ISN Country Insurance Guides (ISSN #2165-0306)

ISN Country Insurance Market Guides provide global insurance market information in the form of concise reports used by agents, brokers, underwriters and risk management professionals to ensure international programs and placements are legally compliant. These digital reports are available to ISN Country Insurance Market Guide subscribers @ ISN Country Insurance Guides.
GLOBAL BRIEFS

Africa – Africa’s premium volume is just 1.4% of global volume
Lamia Ben Mahmoud, president of the African Insurance Organization, said at a conference that Africa accounts for just 1.4 percent of global insurance premium volume, reported The Nation Newspaper.

Ecuador – ACE Ecuador becomes Chubb Seguros Ecuador
Ecuador’s insurance market watchdog, Superintendencia de Compañías, Valores y Seguros de Ecuador, has approved Chubb’s new name in Ecuador as Chubb Seguros Ecuador SA. The global insurer ACE had rebranded after it merged with Chubb in January 2016. The superintendent said the company has followed all the regulatory requirements and is now able to operate in the country as Chubb Seguros Ecuador SA.

Chubb’s overseas general insurance division in Latin America includes operations in Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Panama, Peru, Puerto Rico, Central America and the Caribbean.

Egypt – Sorry Mr. Kerry: Insurance Says Egypt Getting Worse, Not Better
The U.S. Government continues to build ties with Egypt’s military government. Secretary of State John Kerry has been in Egypt discussing Libya, the Middle East peace process and more. This despite the Egyptian government’s relentless efforts to crush all dissent. One of the goals of Egypt’s government is to restructure its economy to attract foreign investment, increase economic growth and ameliorate discontent. Is it working? Is Egypt becoming more attractive to foreign companies? Not as reflected in insurance coverage. According to Clements Worldwide, foreign-based organizations are increasingly purchasing fleet, property and kidnap & ransom insurance for their Egyptian operations.

Lithuania – Non-life market growing as foreign investment grows
As one of the smaller European insurance markets the sector has been the center of considerable activity over recent quarters, as multinational firms, including those from neighboring Scandinavian and Eastern European countries, have taken advantage of opportunities to invest. The non-life market will be better performer of the two sectors, with premiums set to grow by 3.0 percent in 2016 and by 8.4 percent a year on average over the remainder of the forecast period to reach USD528mn in 2020. Read more about the Lithuanian market here.

Saudi Arabia – New compliance requirement: property valuations
Beginning on April 1, 2016, all Saudi Arabian businesses that have property policies written by locally licensed insurance companies must ensure that they are able to produce a professional insurance valuation report that does not exceed three years in age. If the total sum insured exceeds SR40 million for non-industrial properties, SR20 million for industrial properties and SR10 million for warehouses,
the replacement cost value should be substantiated by a valid insurance valuation report. Should you require any further information contact Rebecca Fuller @ rebecca.fuller@duffandphelps.com

United Kingdom – Damages for late payment gets Royal Assent
The Enterprise Act 2016 received Royal Assent on May 4, 2016, giving insurers one year to prepare for the introduction of new late payment rules. Under the legislation, which comes into force on May 4, 2017, insurers will have to pay damages if they are late in paying out on claims. Nick Young, partner at law firm DAC Beachcroft, commented: “While the industry has been aware of these proposals for some time, insurers need to act now, if they have not done so already, to update their policies and procedures and ensure that they can rely on the protections available to them.” Disputes could arise over what should be considered a reasonable time to pay a claim, the law firm warned.

United Kingdom – Flood Re now operating
The Prudential Regulatory Authority and Financial Conduct Authority have formally confirmed that authorization of Flood Re will be in effect from April 1, 2016. The national scheme to help provide better access to affordable flood insurance cover went live April 4, 2016. Over a period of time Flood Re expects up to 350,000 households to benefit from the scheme. LexisNexis Risk Solutions has added Flood Re data to its platform for home insurers and insurance brokers. The provider of data, analytics and technology, explained that the addition enables insurers to automatically identify any property that qualifies for Flood Re at the point-of-quote and understand the cost of ceding to the program. The company argued that the new service, combined with its existing flood modeling data, means insurers can make better decisions regarding the price to quote and whether to cede the policy to Flood Re.

United Kingdom – A broker’s guide to the Insurance Act 2015
This year sees extensive reforms in the insurance market as the Insurance Act 2015 comes into force from August 12, 2016. Aiming to introduce greater clarity around what information a client has to provide their insurer – and a fairer position should the client fail to provide that information – the Act will make sure all parties clearly understand what each needs to know and what will happen in the event of a claim. This guide to the Insurance Act contains information on what brokers need to be doing ahead of the
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CIAB Releases Results of Cyber Insurance Market Survey

The Council (CIAB) has completed its second semi-annual Cyber Insurance Market Watch Survey. Some of the findings include a need for more client education to increase cyber defenses and a lack of common lexicon among stakeholders. Read the 6-page Executive Summary.

KPMG International — The view from the top: CEOs see a powerful future for the CFO. Are CFOs ready for the challenge?

Today’s CFO is managing an ecosystem of expanding complexity — thinking and operating globally, leveraging financial data and analytics to achieve profitable growth, challenging and enabling business strategies, and capitalizing on a dynamic regulatory environment — all with a view to achieving competitive advantage. In addition to this comes an expectation to acquire and nurture top talent and liaise and collaborate with a large matrix of stakeholders. CFOs are looking beyond their traditional finance role to become more collaborative and insightful business partners boosting the relevance and value they contribute to the business. Download the 40-page report.

Swiss Re’s new SONAR report explores top emerging risks for the re/insurance industry and society

The report offers insights into emerging risks, those newly developing or evolving risks whose potential impact and scope are not yet sufficiently taken into account. Among these, the report also highlights a “crisis of trust” in institutions, the “legal and pricing risks of the sharing economy” and technology-related topics, such as the rise of “precision medicine” and “distributed energy generation”. Download 40-page report.

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IRMI was the first publisher of reference content covering the field of risk finance in 1983 with the publication of *Risk Financing*, a comprehensive reference resource on all aspects of traditional and alternative market approaches. IRMI also publishes the first newsletter to cover the field of captives, *Captive Insurance Company Reports*, as well as two comprehensive books on the subject of captive insurance. Learn more at [IRMI.com/Go/Captives](http://IRMI.com/Go/Captives).

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AMERICAS

The greatest service that anyone can provide in this beginning stage of a crisis is to get the insured to STOP – STOP in a crisis situation is both an acronym and a best practice.

~Harry Rhulen
Crisis as a Peril™ Part Three
By Harry Rhulen

Crisis is an unusual business. More and more, Crisis as a Peril™ represents a bigger risk to the insured than the underlying cause.

Why do insureds buy insurance? Often, they buy because they do. In automobile insurance, it is a regulatory requirement. For homeowners, it is a condition of securing a mortgage. Often, however, in the business environment, insurance is a true risk management tool. It is part of the process used to mitigate or eliminate exposure of a financial nature. Unfortunately, the financial exposure is just a small part of the overall picture when an insured has a claim.

Fire, flood, workplace violence, or active shooter, it does not matter what the peril is that causes the damage. Most incidents that give rise to claims are also the cause of crisis for the insured. Very few insureds have thought through the damage that the crisis itself will create. For example, an explosion at an insured’s plant may not have significant direct financial impact to the company. Property insurance, workers’ compensation, business interruption, etc. will take care of the financial impacts, but what are the consequences of the explosion?

Often, the insured’s response to an incident causes the crisis. Whether it is an insured peril, or a crisis arising from an unexpected situation such as a viral social media post, the way in which an insured handles the situation can determine the long-term consequences. There are certain key steps in handling any adverse situation that can dramatically improve the outcome, and reduce the probability of negative consequences further down the road.

Approach to Mitigation
Once the concept of crisis as a peril is accepted by a risk manager, the approach to mitigating this exposure is no different than any other. First, one must understand what the exposure is, who is affected by it, and what communications are required. Then, appropriate plans can be drafted to ensure the best probable outcomes. All of this is easy to say, now in peace time, when there is no crisis. The problem is a crisis is not business as usual, it is “business as unusual”. The human mind does not respond to crisis in a predictable fashion. This is why having a crisis response strategy can dramatically affect both the frequency and severity of an insurance program.

When an event occurs – one which threatens the lives, property, reputation or safety of families, friends or businesses, certain brain chemicals are released which change the behavior of the average individual. Planning for these changes now – when there is no crisis – can dramatically improve the outcome. So how can an insurer, broker or risk manager provide assistance to an insured in crisis?

Assistance to the Insured in Crisis
When something dramatic occurs, whether a traditional exposure such as fire or flood, or something else like a brand and reputation exposure, what the insured does in the first minutes, hours and days will dramatically affect the financial, emotional and reputational outcomes. The greatest service that anyone can provide in this beginning stage of a crisis is to get the insured to STOP – STOP in a crisis situation is both an acronym and a best practice.

As a best practice, it is important for anyone in a crisis situation to slow the flow of events down to a manageable level. The always-present adrenaline in a crisis situation causes people to react far too quickly. Mistakes are always made. It is so important, in any crisis situation, to stop and take the time to truly appraise the situation.

As an acronym, STOP, stands for Stabilize, Trigger, Opine, Prevent

Stabilize. A big part of the stabilization function is the very act of stopping. Once the escalation and flow of events is halted, even for a short period of time, the brain has time to reflect on all of the issues, people and communications which need to be addressed. It also allows one to start to see what a priority of a crisis event might be, and how a reasonable plan might come together to achieve the best outcome.

Trigger. Every crisis is “is business as unusual”. Therefore, expecting business as usual individuals – utilizing the same tools and resources – to manage the situation to the best outcome without a plan is irrational. Crisis situations require appropriate resources to be triggered. These resources often include crisis managers who have actually managed a crisis; Lawyers who have actually been involved in similar situations; Insurance companies, brokers, claims people and others who understand not just the financial impacts of the situation, but the holistic outcome, over the long-term, to the insured.

Opine. In a crisis an insured is always faced with a myriad of choices. Some of these choices are easy to interpret. Others are not. Often, the insured must make the choice between two bad options. It is often difficult for the insured to do so since they may be in a fragile physical and emotional state. They need trusted advisors – advisors who have been involved in many crisis situations – to opine on what the best overall strategy is, how the decisions fit into the crisis strategy and what the consequences of this might be.

Prevent. It is so important in a crisis situation that the trusted advisors prevent an insured from making many of the classic mistakes. These mistakes, often made in the first hours of a crisis, cannot be corrected and will affect the frequency and severity of claims, the consequences of the behaviors, and the long-term brand and reputation of the organization. Almost ubiquitously, those involved in the crisis feel the need to explain. An entire book could be written and
title “When you’re explaining your losing”. There is no way to explain why one of your workers is dead or why the racial term used by one of your employees was not a reflection of your organization. There will be time, in the future, to manage any situation pursuant to a well-thought-out plan.

“When you’re explaining your losing” is just one of many classic crisis mistakes which are made by organizations. Very often, senior leadership feels the need to speak publicly, or worse to interact with the press, without a complete, well-thought out, thorough plan. Invariably these situations have a suboptimal result. Another very significant problem in crisis is the failure to look at all of the vulnerabilities and exposures that the situation creates. As a result, there are often forgotten or ignored constituents who are essential to the continuing operation of the business. These situations can result in consequences which are not correctable. For example, if an organization involved in an allegation of racial misconduct fails to recognize that communication with legislators in their district is required, there is a backlash that threatens the existence of the organization, long after it is thought that the issue has been resolved.

**Crisis STOP™**

*Crisis STOP™* is an essential tool for all insurers, brokers and risk managers to use in order to control the pace of a crisis situation. The insured will always feel a sense of urgency that is different from the outside advisor. It is essential that the crisis advisor “pull back on the reins” as hard as possible. This slowing of the process will meet with strong resistance in many situations, but could be the thing that results in a far better outcome for the insured.

Crisis is an unusual business. More and more. Crisis as a Peril™ represents a bigger risk to the insured than the underlying cause. In fact, sometimes, there is no underlying cause. Yes, a crisis must evolve from something, but often it is not a major or cataclysmic event. In today’s technologically advanced world, a misplaced word, an unintended gesture, or almost anything else can result in a situation that makes its way around the world in seconds and causes a flow of consequences which could not have been envisioned. For the risk manager, this represents a difficult situation. If you can’t envision the cause, how can you mitigate or limit the exposure? The answer is simple: Prepare for crisis.

**Recognize Crisis as a Peril™.**

**EMPLOYEE DISHONESTY AND FIDELITY CLAIMS: ALL ABOUT THE INTERVIEW**

By Matt Hanson, BDO Consulting

When it comes to successfully preparing and submitting an employee dishonesty and fidelity claim, a good investigator interview technique can the difference between a confession and a time waste.

Between identifying the right people to investigate the matter, appropriately gathering evidence and thoroughly documenting the claim for the adjuster, preparing an employee dishonesty and fidelity claim is a difficult and delicate undertaking. An infrequent occurrence for most organizations, these types of claims address acts of intentional deception, making it challenging for organizations to gain a full understanding of the loss and properly document it.

Gathering evidence through interviewing subjects and witnesses is arguably the most important element of preparing the claim. While other initial processes come into play, the information obtained from interviewees is critical to determining the scope of the investigation, building a case against the suspect and validating the Proof of Loss.

**Why interviewing is crucial**

Though much of the evidence supporting the Proof of Loss is ultimately demonstrated through documentation of financial and accounting records, explaining their relevance to the insured loss requires some degree of interpretation — and often, a precise explanation of what happened and how the malfeasance was uncovered. Thus, risk managers must interview witnesses and suspects to substantiate this analysis and explanation.

Typically, risk managers should first interview someone other than the subject, such as a whistleblower or a colleague. Early interviews should focus on understanding the scope and nature of the employee dishonesty. With effective interviews, parties responsible for handling the claim can use the information learned to identify and interview a suspect. Even in cases where the suspect is known at the onset, initial interviews with witnesses help establish a background understanding of the matter and validate (or appropriately call into question) the underlying complaint or allegation. A proper interview will help those investigating the matter determine what evidence to collect and how to validate it for the claim process. Most importantly, an interview can lead to a confession — the most compelling piece of the puzzle when it comes to establishing a complete set of facts for the claim and ultimately gaining insurance recovery.

The interview process can be broken down into three stages: setting up the interview, conducting the interview and eliciting a confession.

**Setting up the interview**

When setting up the interview, three key factors come into play:

- *The interviewer should be objective — in fact and perception — as a witness will be more forthcoming with someone trusted to exercise good judgment and to respect confidentiality. If the interviewer is believed to side with or favor certain parties, it is unlikely they will elicit helpful responses from witnesses. The interviewer must also be familiar with company policy and employee rights, and experienced in conducting investigations.*
While it is important to know what questions to ask, inter-conducting the interview questions and then hones in on more specific inquiries. This technique is effective for several reasons. First, it gives the interviewer control. When the interviewer asks general questions (i.e. “Describe your day-to-day responsibilities”), the subject’s responses are typically broad, enabling the interviewer to ask follow-ups and focus the conversation to pertinent areas. Second, it shifts the focus of the interview to the subject, whose responses should drive most of the dialogue. If employed at the beginning of the interview, the technique reduces the subject’s reticence and establishes a rhythm — revealing higher quality information to the investigator and strengthening the case.

No matter how much time is spent on interview preparation, surprises can arise, such as an unanticipated response or the introduction of a new sub-topic. For example, in the hypothetical exchange between an interviewer and an employee suspected of accepting kickbacks from vendors, the employee could mention that he is told to make it a “rush job” when awarding contracts. In this case, the interviewer has a choice: ask about the standard policies or pursue a new line of questioning around the topic of “rush jobs.” Even though the interviewer’s first inclination might be to explore the new thread, following the funnel technique, he should first ask about the standard policies and then direct questioning towards exceptions. Appropriate reaction to a subject’s response is important to the success of the interview. Frequently re-directing the conversation to new topics poses a risk of impeding the flow of discussion, misunderstanding responses or impairing the investigation as a whole.

Often undervalued, allowing for long silences and maintaining strong eye contact are key interview techniques. Silence is uncomfortable, and many people respond to that discomfort by answering unasked questions or revealing additional information. Nodding and providing verbal cues shows that the interviewer understands and is interested, providing further encouragement for the interviewee to continue providing information. Similarly, consistent eye contact may make some interview subjects uncomfortable because it is more difficult to evade answers or lie. Both techniques have the effect of inducing noticeable body language.

Eliciting a confession
When trying to elicit a confession, the investigator should consider which strategy is best for the situation at hand: direct questioning, indirect questioning or open-ended questioning. Often, an experienced interviewer can elicit a confession from a guilty party by using the right strategy.

Direct questioning can be critical to the claim investigation. It typically makes a guilty interview subject noticeably uncomfortable. Many guilty respondents fail to directly answer the question of whether they did it and instead reply with a question of their own. The answer also locks the subject into a statement, and in some cases can quickly give the interviewer new information.

Indirect questioning can give the suspect an opportunity to admit guilt without necessarily knowing it. This technique includes downplaying the magnitude of the alleged acts or providing the suspect a rationale for the crime or dishonest acts. An interviewer may offer up a readymade excuse: “You’re the only employee working 60 hours a week, and you don’t receive overtime. You took what you felt you deserved.” Often, a guilty person will accept the offered excuse or rationale and admit to the acts.

Open-ended questioning allows the suspect to explain the allegation or investigative theory. For example, if the investigator is interviewing an accounts payable clerk accused of stealing money, they may ask, “The Accounting Department was able to figure this out, but I don’t understand your thinking. Did you do it because you needed the money or was there another reason?” Guilty parties will often explain their rationale — while indirectly admitting their guilt in the process.

Summary
An employee dishonesty and fidelity claim will almost certainly require the company to interview witnesses and suspects. With the appropriate interview setup and the right...
techniques employed, companies can identify the guilty party, and quantify and document the Proof of Loss.

The Seven Phases of a Crisis: Analysis & Response
By Michelle Colosimo

While each crisis is unique, in analyzing our three decades of experience in responding to critical situations, we have observed seven common phases. This sequential pattern provides a roadmap organizations can use to assess their preparedness and determine necessary steps for effectively and expeditiously responding to a large-scale event affecting their operations.

Here is a high level overview that delineates each phase of a crisis with an emphasis on responding to the needs of human assets, such as employees, families and visitors within an organization.

Phase 1: Crisis
Initially, the most critical areas to focus on include:
• Evacuating the facility
• Accounting for people
• Helping leadership form a response
• Coordinating first responders
• Setting up a communication system for answering the high volume of employee/family/general inquiries that follow an incident

The key need during this phase is safety.
Timetable for establishing these components: Immediate

Phase 2: Aftermath
This phase requires:
• Assessing damage to the site
• Determining impact on the workforce
• Setting up a family assistance center
• Conducting hospital visits to injured persons (if necessary)
• Returning personal effects
• Providing ongoing communication to employees on pay, benefits, etc.

Responding to ongoing media requests will also be important, as will providing psychological first aid to affected individuals and families. The key needs during this phase are ensuring medical care and emotional support to all impacted parties.
Timetable for establishing these components: The first week

Phase 3: Recovery
The Recovery phase includes:
• Conducting an ongoing investigation into the incident and potential causes

• Planning for employees to return to work
• Determining the return to work status of employees, which may range from reporting immediately to ongoing leave due to medical or mental health issues resulting from the incident (it’s also possible that some employees may choose not to return to work)

The key need during this phase is providing timely and accurate information for employees to re-engage and make decisions regarding their status.
Timetable for establishing these components: The first week through re-entry

Phase 4: Re-engagement
The Re-engagement phase involves:
• Determining and implementing new safety measures
• Educating employees on these new measures, as well as listening to and addressing their concerns
• Re-engaging management and employees through frequent communication and visits by leadership
• Providing site visits for employees prior to the worksite reopening to improve their comfort level with returning to work
• Ongoing communication regarding changes to the facility and any safety enhancements, if applicable

The key requirement is establishing a safe workplace and providing support and information through the re-engagement process.
Timetable for establishing these components: Variable

Phase 5: Re-entry
The Re-entry phase includes:
• Resuming operations
• Ensuring a secure work environment
• Leadership communicating regularly with staff
• Providing emotional support to employees
• Acknowledging milestones with memorial services, etc.

The key need during this phase is ensuring safety and providing emotional support and ongoing information.
Timetable for establishing these components: Variable

Phase 6: Stabilization
The Stabilization phase involves:
• Adapting to a new normal
• Providing ongoing information about changes resulting from the incident
• Testing safety measures
• Marking the anniversary event of the crisis with services or memorial events
• Acknowledging staff commitments by celebrating
THE SEVEN PHASES OF A CRISIS: ANALYSIS & RESPONSE

Stabilization
Time Frame: Variable
Company Focus: Adjusting to new normal
Primary Employee Need: Safety, support and memorial
Intervention: Communicate and test new safety measures, provide support when needed, mark anniversary, acknowledge commitment

Preparation
Time Frame: First week to re-entry
Company Focus: Investigation, return to work planning
Primary Employee Need: Information and support
Intervention: Provide information on benefits, pay, return to work status, workplace changes, etc.

Re-engagement
Time Frame: Variable
Company Focus: Re-build employee engagement
Primary Employee Need: Safety, support and acknowledgment
Intervention: Communicate safety measures, provide support and education, acknowledge employee commitment and production milestones

Re-entry
Time Frame: Variable
Company Focus: Resuming operations and production
Primary Employee Need: Safety, support and acknowledgment
Intervention: Secure work environment, provide support, acknowledge employee commitment and production milestones

Crisis
Time Frame: Immediate
Company Focus: Evacuation and account for staff
Primary Employee Need: Safety
Intervention: Emergency Response

Aftermath
Time Frame: First Week
Company Focus: Access impact of workforce and preliminary damage assessment
Primary Employee Need: Medical and emotional care, comfort
Intervention: Provide information, medical treatment, community support and counseling

Recovery
Time Frame: First week to re-entry
Company Focus: Investigation, return to work planning
Primary Employee Need: Information and support
Intervention: Provide information on benefits, pay, return to work status, workplace changes, etc.
successes and appreciation for their dedication and hard work.

The key need during this phase is ensuring safety, providing support and memorializing the event and people affected.

Phase 7: Preparation

The Preparation phase includes analyzing the response effort and determining the key components that would improve future crisis response plans. While this phase is presented last to provide context for preparedness planning, it really is the first phase to consider. In summary, the key pieces of a response plan that organizations need to assess for any crisis include:

- A remote command center with appropriate technology where key roles can mobilize in the event the facility is inaccessible;
- A solid accounting for people process that allows employees to report their status and the organization to push critical messages out to staff;
- A pre-established 800# for receiving phone call inquiries, preferably staffed with experienced crisis response professionals with human services backgrounds;
- A process and plan for establishing a family assistance center to allow affected families to visit, meet with counselors and medical examiners, and have a safe gathering place to receive information and updates regarding the incident;
- A dissemination process for providing accurate and timely information with affected families;
- A process for retrieving and returning personal effects;
- Redundancy (at least three deep) for key roles;
- A plan for continuing pay, benefits, etc. should a facility be inoperable for a period of time; and
- A designated PR or media person who is responsible for reporting accurate and factual information to the media, as well as making statements on behalf of the organization.

Crisis can take many forms, from violent workplace incidents to natural disasters to active shooters, and may even include cyber-attacks or product recalls. Each disaster is unique, and we can never completely prepare for every possible situation. However, by preparing for the Seven Phases of a Crisis, your organization can establish a roadmap for preparedness, response and recovery.

Black Swan Solutions is a leading global provider of crisis management and risk mitigation services helping organizations prepare for, respond to and recover from a wide range of critical events. For over 30 years, we have responded to high profile situations by providing timely and accurate information and emotional support to impacted individuals. For more information, visit www.blackswanrisksolutions.com. Email: mcolosimo@blackswanrisksolutions.com

KIDNAP & RANSOM: A GROWING GLOBAL THREAT
By Scott Lockman

Most organizations doing business in Syria, Afghanistan and Iraq understand the dangers involved with running operations and sending staff to work in such high-risk environments, where political unrest and military action are the norm. One of those risks is that employees are vulnerable to kidnappings, and it’s become a greater concern to many.

But kidnappings can occur anywhere in the world. Besides the Middle East countries most in the news, areas such as Honduras, El Salvador, Mexico and many others throughout Asia, Africa and South America all have companies that have experienced work-related kidnappings in recent years.

Kidnappings can be characterized by their sectarian and political natures as much as financial gain. While foreign kidnappings typically get all the press, both foreigners and national staff are at risk in these types of attacks. According to NYA International’s Crisis Prevention and Response Report, foreign nationals only accounted for 13 percent of overall kidnap victims in 2015. Often being less protected, it is likely that throughout 2016 domestic nationals will continue to face a higher threat of kidnapping.

That’s something that multinational companies are keeping an eye on. In fact, in the most recent Clements Worldwide Risk Index, nearly 20 percent of respondents listed kidnapping as their greatest concern, and another 24.5 percent listed it as very important.

For those sending employees to some of these high-risk environments, organizations need to consider the business cost to the organization as well. Ransom could run hundreds of thousands of dollars or even more. In most parts of the world, kidnap is still a low risk event. But the costs associated with one can be catastrophic.

What’s increasingly more likely in some countries are express kidnappings, where the employee is picked up by what they believe to be a taxi and then forcefully taken to multiple ATMs at gunpoint to withdraw funds. Anyone whose career involves international travel should be aware of express kidnapping while taking steps to protect themselves from the dangers of the crime. Of course, employers need to put in place plans to minimize risk as well.

Both of these types of kidnap are covered by sound Kidnap and Ransom (K&R) insurance coverage. Many corporations have the misconception that K&R is merely about funding a ransom payment. It is much more than that. K&R insurance is a full policy that provides tools and services for dealing with the situation before, during, and after something happens.

K&R policies also provide access to crisis response specialists to help deal with the event in a comprehensive manner. These specialists, usually former military or FBI
professionals, not only manage a kidnapping situation, usually on-site. They can also provide employees with training and advice on developing an educational program to enhance personal safety.

Evacuation Protection
The average cost of evacuating an employee from a country that is experiencing political upheaval can be as much as $50,000. Too many companies don't think about such emergencies when sending employees into possible volatile situations until.

Multinational organizations and their staff members can often be vulnerable to the unknown; perils such as unforeseen political action, terrorist activity or a military event that can interrupt work. That's the reason a policy similar to K&R, Political Evacuation Insurance, is vital to any company that does business outside the US.

For example, when Gaddafi was ousted from power in the wake of the fall of Tripoli to the rebel forces in 2011, Libya became a country where companies doing business instantaneously became worried about their expat staff. More recently, ISIS movements into Northern Iraq have put companies there on high alert, and many are considering evacuating their workers. When a country is in the height of a crisis, and every multinational is looking for evacuation options, the costs of moving large numbers of employees can be astronomical.

Political Evacuation Insurance can cover all types of events in which an entire staff needs to be evacuated. Like K&R, coverage comes with access to experts with a military background and the knowledge to assist employees when other companies are struggling to react. In addition, it need not be ordered evacuation by the U.S. State Department or British government in order for coverage to be in effect. The insured organization in partnership with the response team can make the evacuation decision.

While these policies may be titled Political Evacuation policies, their applicability could be broader based on how the policy is written. Pandemics like Ebola or natural disasters like the earthquake in Nepal may be other reasons that a multinational company may want to remove staff from a situation.

The fact is that the globalization of the economy makes any number of potential threats a risk factor for which a good risk manager should create contingencies. Capacity at carriers for both traditional K&R policies as well as Political Evacuation policies is strong, making policies affordable to businesses of all sizes. Brokers experienced in international operations in high-risk markets are active in tailoring solutions for the needs of particular organizations.

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CONCLUDING INSURABLE VALUES BY TRENDING HISTORIC COSTS
By Nigel P. Wilson
The property insurance market may change from hard to soft to hard again; however, underwriters remain steadfast regarding their need for precise and detailed values. Do you know where your property’s reported insurable values come from?

Trending historic asset records is one of the most common methods used by companies to arrive at insurable values. The starting point in this process is the historic cost of an asset, usually the initial capitalized cost in a facility’s fixed asset accounting system. Some accounting systems have a built-in capability to calculate the current insurable value of an asset.

Trending the historic cost of an asset will indicate the current insurable value of that asset. If applied consistently to all assets in a plant, it should yield a realistic indication of the present insurable value of that facility.

The variety of cost trends available can be confusing. Consultation with your insurance advisors will help you to determine the trend that is most appropriate for your insurable property.

Historic cost defined
Historic cost is defined as the original cost new of the asset in the hands of the first owner. This cost should include freight, tax and installation - all costs originally incurred to make the facility operational, whether funded by the insured or through government incentives. The total insurable value should also account for indirect costs e.g., design and engineering fees, licenses, permits, training of skilled plant personnel, etc.

The historic cost is then trended by an appropriate cost trend. Sources for the most commonly used cost trends include:
- FM Global: Industrial Cost Trends
- US Department of Labor: Bureau of Labor Statistics
- Engineering News-Record: 20-City Average Building Cost Index
- Handy-Whitman Index of Public Utility Construction Costs

12 pitfalls to avoid when using asset records
If a company’s asset records are well maintained and contain true historic costs, and appropriate cost trends are applied with full knowledge of the following limitations, asset records can be used as a valid tool to use in calculating current insurable values.
1. Begin by identifying the insurable property. Do not

Please see Americas on Page 35
EUROPE & RUSSIA

PHOTO
BUCHAREST ROMANIA - OCTOBER 25 2015: North Side of Herastrau Lake
ROMANIA
Note: Selected articles from FIAR – The International-Reinsurance Forum spring event dedicated to the insurance, reinsurance and private pensions markets. FIAR gathered representatives of all major European insurance and reinsurance companies in Brasov, Romania on May 15-19, 2016.

70% of the Global Natural Catastrophe Losses in the Last Decade were Uninsured
In the last 10 years, the global natural catastrophe losses totaled USD 1.7 trillion, out of which 70 percent were uninsured, Kurt Karl, Chief Economist, Swiss Re, declared during the Nat Cat & Reinsurance Conference at FIAR 2016.

According to Mr. Karl, between 2005 and 2015, the uninsured economic losses caused by natural catastrophes totaled USD 1.2 trillion, while insured losses totaled USD 523 billion.

“The global natural catastrophe property protection gap has risen steadily over the last 10 years”, he said.

Swiss Re’s Chief Economist indicated that the highest protection gap is reported for earthquakes, amounting to 90 percent: “Average uninsured portions have been around 55 percent for windstorms, 86 percent for floods, and 90 percent for earthquakes”, he explained.

“In the emerging markets, 80-98 percent of the losses are uninsured”, Mr. Karl pointed out.

Solvency II is the Most Important Change in Insurance Regulation in 30 years
“Many insurers haven’t changed their way of work. Four years ago, many believed that we must distance ourselves from Solvency II and return to Solvency I, because the industry survived the financial crisis. Of course, they said that because the numbers related to the solvency margin don’t say anything about their capital. Many insurers were broke, but they didn’t know it because they had a solvency margin of 200 percent. Thus, we will need a very long transition period to Solvency II”, Prof. Karel Van Hulle said during FIAR 2016. [Watch video interview with Professor Van Hulle.]

“All products, all practices, all approaches must change. We are living historical moments, we are witnessing the most important changes of the industry in the last 30 years. The crisis in the capital market helped us immensely, because the market risk was not included in the calculus of the solvency margin. Today we can say that with Solvency II, for the first time in the history of Europe, the role of insurance rises”, Prof. Hulle added.

“The insurance companies sell too many products which we don’t need and only a few we do need. People’s perception of insurance is that you buy a product although you don’t really need it. The industry, the insurers must explain the importance and the relevance of the product, why should one buy that product. Also today we can’t speak of a single product that gives absolute protection... because no one could sell such a product”, he explained.

“Not all risks have the same importance and not all of them should be insured. Life would be impossible if everyone should protect themselves of all risks. But the insurance industry helps authorities in facing major challenges which they must face, such as longevity, health, poverty, unemployment, natural catastrophes etc. Insurance industry can be the industry of the future and it will continue to resist only if it adapts and offers appropriate solutions”, Prof. Hulle concluded.

We Must Understand Millennials and Adapt to Their Needs
Technology has an impact on the global insurance market and on the relationship between insurers and their clients. Thus, the tendency is that of digitalization, especially as far as Millennials are concerned, Ted Gregory, Operations Manager, Property Claim Services (PCS) explained.

“Insurance is a promise, it is a contract between insurer and the insured. We must be there for our clients when they need us, knowing today’s technologies and what the Millennials expect from us. We must understand this generation and we must adapt to its needs”, Mr. Gregory explained during the Insurance Market Trends Conference at FIAR 2016.

He also pointed out that the way companies do business change as a result of the technological development, migrating from traditional to digital.

“We must adapt to the services that young Millennials need”, Mr. Gregory added, who showed that in America was launched a new company - LEMONADE, “the world’s first peer to peer insurance carrier” - which offers a simplified insurance program, a simplified insurance policy and better prices for Millennials. ISN
AUSTRALIA

Update from Australia: Manage your overseas risk exposures

JMD Ross has an active international desk servicing client requirements for outwards business from Australia and inwards business to Australia. With outwards business, JMD Ross helps clients design and place their risk and insurance program on a worldwide basis using the services of our well-established international broker partnerships. JMD Ross provides worldwide reach to companies that wish to understand, evaluate and manage their global exposures. Clients have access to high-quality cross-border insurance solutions with a strong service component. Some global considerations:

• **Admitted/non-admitted insurance**: Admitted coverage is policies issued in a particular country by insurers licensed to write coverage in that country. Non-admitted coverage is insurance placed with companies that are not licensed within a particular region. Most countries restrict use of non-admitted insurance.

• **Compulsory insurances**: Lines of coverage required by law to be insured. For example, in Australia, workers’ compensation and motor vehicle third party personal injury insurances.

  **Cyber insurance – sound advice** Cameron Oxley, a partner in the Australian law firm Minter Ellison, has said of cyber risk: “Probably the greatest gift an insurance broker can give their clients at the moment is to put them through an underwriting process. "Whether they buy insurance or not, that very process is going to get them insurance ready and therefore cyber ready to know where the gaps are.” Minter Ellison has prepared a report, *Perspectives on cyber risk*, following a survey of C-suite and senior executives. [Click here](#) for the full report. It found executives perceived they had a satisfactory understanding of and capability to prevent and deal with cyber attacks. Unfortunately, that was not always reflected in practical measures organisations were adopting to mitigate cyber risk and increase their cyber resilience.

JMD Ross can assist you with overseas risk programs and cyber insurance. For more information, contact:

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ISN
Solution to the ISN News Quiz (page 5)
1.b; 2.c; 3.d; 4b

How to add a website shortcut
iphone instructions
android instructions

Quotes
“Over a ten-year period commencing on January 1, 2008, and ending on December 31, 2017, the S&P 500 will outperform a portfolio of funds of hedge funds, when performance is measured on a basis net of fees, costs and expenses.”
~ Warren Buffett, Chairman, Berkshire Hathaway. Mr. Buffett (predictor) and Protégé Partners (Challenger) have bet $1,000,000 that the S&P 500 will outperform a portfolio of hedge funds. Check out Long Bets – The Arena for Accountable Long Predictions – Click here to visit the website

“If history repeats itself, and the unexpected always happens, how incapable must Man be of learning from experience.”
~ George Bernard Shaw

History is ever-present in global affairs and conflicts in every region. Events don’t just happen without reason. They’re rooted in larger narratives of identities, imperatives and constraints that determine tomorrow’s outcomes.
The United States and India should maintain military strength in the Far East, but they should also make “a real effort to avoid alienating China.” Americans “must stop our hand-wringing about China.” Rather than adopting an adversarial tone on disputed matters, we should talk like a “coach.”
~ Anja Manuel, a co-founder of a consultancy formed by Condoleezza Rice, Stephen Hadley and Robert Gates and author of a new book This Brave New World.

Video
Berkshire Hathaway Annual Meeting – 2016 Annual Meeting (7+ hours of streaming). Click here to watch.

Learn
Harvard Business School (HSB) article – Why Employees Are Afraid to Speak – read
What would you think if you overheard an employee confiding in another, “If I tell the director...what customers are saying, my career will be shot”? We actually heard this, verbatim, in the course of our research on communication in a leading high-technology corporation. Our study suggests that this type of self-censorship is common, from the rank and file right up through senior management.
HSB video (10:53) – To Innovate, You Have to Manage the Past, Present, and Future – watch
Vijay Govindarajan, professor at the Tuck School of Business at Dartmouth College, explains how to create a new business while optimizing an already existing one. For more, read The Three-Box Solution: A Strategy for Leading Innovation, ISN
PUNITIVE DAMAGES

By Keith Purvis*

In a liability claim the amount awarded as financial compensation for property damage or bodily injury is called compensatory damages in a civil court. In the United States claimants can be awarded an amount on top of this for what the court considers to be particularly reprehensible or irresponsible actions by the defendant. This amount is called punitive damages, or exemplary damages to draw attention to its deterrent function.

The class of insurance most exposed to the risk of punitive damages is product liability, U.S. courts generally regarding bodily injury as being more serious than property damage. The amount of punitive damages depends to a large extent on the defendant’s behavior. On receiving a subpoena accompanied by a demand for information, the defendant should respond promptly and provide all the evidence required. Failure to do so may well be construed in court as an attempt to cover up. The correction of evidence already submitted, even if the errors were unintended, is even more serious.

From a European perspective punitive damages is a notorious feature of the U.S. legal system, avaricious lawyers making emotional appeals to jurors. The practice undoubtedly blurs the distinction between civil law, that determines compensation, and penal law, which punishes.

In practice, however, punitive damages are awarded in a relatively small percentage of cases, the average amount being less than what is popularly imagined. Furthermore, extravagant verdicts in lower state courts may be thrown out on appeal to the United States Supreme Court. This is illustrated by the case BMW versus Gore [1996], in which the Alabama Supreme Court was instructed to reconsider its award of $2,000,000 punitive damages for compensatory damages of $4,000. For the U.S. Supreme Court this was an unacceptably high ratio of fifty to one, four to one being closer to the desired norm. German liability insurers of companies operating in the United States usually exclude punitive damages.

Using the fear of punishment to discourage antisocial behavior is deeply ingrained in American culture. However, the same puritanical ethic that made punitive damages an element of civil law also relentlessly punishes corporate corruption, and it is thanks to this impulse that compliance is now an integral part of good governance, not only in America but also worldwide, including Germany. Although the payment of extremely high punitive damages to individual claimants is occasionally bizarre, is it in principle really so anomalous that those who act in total disregard for their victims should provide more than mere indemnification?

* Keith Purvis for Versicherungswirtschaft Nr. 5, 2016 (PIA Member publication)
Global Briefs, continued from Page 16

Implementation on August 12, 2016. Download the 15-page guide [here](https://www.aviva.com/) courtesy of Aviva and [Insurance Hound](https://www.insurancehound.com/).

United States – U.S. rates fall 3.7% in Q1

U.S. commercial property/casualty rates decreased by an average of 3.7 percent in Q1 of 2016, the largest decrease in over a year, according to the Council of Insurance Agents & Brokers (CIAB). The fall in rates was in line with a softening trend evident since Q1 of 2015, the CIAB said in its Commercial P/C Market Index Survey. Large accounts decreased at 4.6 percent, followed by medium-sized accounts at 4.4 percent and small accounts at an average 2.1 percent reduction. The decline in rates was consistent across most lines, with the exception of commercial motor, which increased 3.6 percent in Q1. Directors and officers and employment practices liability lines also saw a very slight uptick in rates of 0.2 percent and 0.7 percent respectively.

ISN

International Employment Issues – Baker & McKenzie

“Going Global”: An Overview of International Employment Issues

Employee Benefits Reference Manual – Swiss Life


Listing of Social Security Programs Around the World – U.S. Social Security Administration

Social Security Programs throughout the world

National Labor Law Profiles – International Labor Organization (ILO)

The National Labour Law Profiles that you will find on this site intend to provide a rapid overview of the labour law in a number of ILO member States. Their purpose is to facilitate a general understanding of how the labour law works in each country, and to provide the reader with easy access to information on a number of topics. However, the profiles do not intend to give a comprehensive description of the labour law in any country. Where appropriate, a bibliography and a list of links is given, directing the reader towards more in-depth information. (Note: This project is not updated anymore and kept for historical analysis of comparative labour law only. Nonetheless it has value.) Go to website.

Social Security in other Countries – U.S. Social Security Administration

An ever-increasing number of social security agencies and organizations around the world are publicizing their programs on the World Wide Web. We have listed some of these Web sites below and will be adding to the list as we learn of new sites. Go to website. ISN
include the value of land or site development costs as these investments are not insurable property.

2. Consider site improvements. Landscaping, paved roads, parking lots and retaining walls, to name a few, should be included if covered by the insurance policy.

3. Trended asset values will ultimately diverge from the current insurable value. This is due to the trend factor being generic to an industry and not specific to the subject facility. The rate of inflation and technological advances will affect the time period over which assets can be reliably trended.

4. Trending asset costs for more than seven years leads to distorted values. This is not because of the trends themselves, but due to errors/omissions of asset retirement/ acquisition recording that tend to creep into even the best-maintained property records systems.

5. There are three values that cannot be used. Trending the following values will not yield the current insurable value of an asset:
   - Used or secondary market costs
   - Costs allocated for purchase price accounting purposes
   - Internal transfer costs

6. To add or not to add? The cost of renovations to buildings or machinery rebuilds should not be added to the asset’s historic cost and subsequently trended, unless the particular asset’s capabilities are improved. Since deciding what and what not to add can be thorny, it is best to consult with your insurance advisors.

7. Don’t exclude expensed assets or those whose “book value” has reached zero. These items should remain on the list of insurable assets until physically removed or specifically excluded from insurance coverage.

8. Consider foreign-sourced assets. If a high proportion of the assets are sourced from foreign countries, the applicable trends should reflect the rate of inflation in the source country with an allowance for variations in exchange rates.

9. Look at assets transferred to and from other divisions. These should be accounted for by utilizing their historic cost and date of acquisition or full replacement cost new at the time of transfer.

10. Detailed insurance underwriting analysis such as maximum foreseeable loss calculations will require that insurable values be allocated to their respective buildings, information that is rarely captured in a company’s books.

11. Add in other property. Property owned by other individuals/companies for whom the insured is responsible should be added to the value concluded by trending fixed asset records.

12. Determine what to do about offsite assets. Offsite assets are common in these days of outsourcing; care should be taken to ensure that their insurable value is dealt with appropriately.

Email: Nigel.wilson@duffandphelps.com

Next month read Duff & Phelps’ article that discusses Insurance Appraisals of Transportation Systems and Hubs

SMART SOURCING – A NOVEL APPROACH TO OUTSOURCING
By Erik K. Davison

When we engage with our clients in outsourcing discussions, many executives feel they need to think about outsourcing differently, but have not been able to work with a suitable model. Companies are under labor cost pressures and apply a “me too” strategy, only to find out later that replicating a competitor’s sourcing strategy may not be suitable.

What can a firm do when contemplating an outsourcing strategy? Should you care about your competitor’s sourcing footprint? Both questions should not be taken lightly and require significant experience in designing, building and executing a strategy. When we discuss these issues with our clients we identify the proper courses of action through a series of strategic discussions with the management team.

During these strategic discussions a company should identify:

1. All activities, processes, and competencies, as well as an inventory of skill sets
2. Which processes and competencies are core and non-core
3. A feasible sourcing mix, on-shore versus off-shore
4. Build versus buy

During the identification of all competencies, companies at this time should not determine whether these competencies are core or non-core or should be completed on-shore, near-shore or offshore. A firm simply needs to identify all work that is completed as part of the offerings provided by the company. Furthermore, it helps to capture a solid inventory of skill sets that are prevalent in the company, alongside with inventorying all competencies to identify any shortcomings.

Once a company has a full inventory of all competencies and associated skill sets, executives can now determine whether these competencies and processes are core to the business or non-core. By definition, a core competency provides a company a competitive advantage; it is not a sourcing decision, but rather provides the ability for distinction in
the market place. This exercise can take several iterations, as it involves active dialogue between the key executives, and it is important to secure buy-in and agreement by all.

The next step addresses the fundamental question of where these competencies should be located. An insurance broker may believe that certificates issuance and policy checking have significant client service and E&O implications, and this broker should identify where those skills should be housed. That broker could, for example, separate the certificates by complexity and learn that 80 percent are pure transactional, leading them to leverage cheaper labor off-shore, while the complex 20 percent are completed on-shore. This mix, what we refer to as Smart Sourcing, to determine what competencies should be completed in what geography, can be a powerful sourcing strategy throughout an organization.

Finally, companies should engage in discussions to determine if it is cost-competitive to build these off-shore capabilities themselves or partner with an experienced provider of those services. In our experience, building off-shore capabilities can provide significant benefits, but requires deep domain expertise in getting started. Local regulations and taxation laws are complex and confusing, and many times, a company is better off leveraging an outsourcing partner to complement their sourcing strategy.

In closing, we want to point out that outsourcing is not merely “punting” on services and transactions that have not worked as well in an organization. It takes a lot of preparation to derive at the best solution for a company’s sourcing blueprint, and mistakes can be costly in terms of missed opportunities and loss of clients. Partnering with a firm that has years of experience in helping companies achieve their ROI on an outsourcing initiative proves to be a very viable alternative. Email: EDavison@DBVSolutions.com, or call (312) 967-5886.

NEW IRMI EXPERT COMMENTARY AVAILABLE

By Jack Gibson, CPCU, CRIS, ARM, President, International Risk Management Institute, Inc.

International Risk Management Institute has added the following new articles to its website, IRMI.com, which are accessible at no cost:

**DUTY TO DEFEND OR PAY FOR DEFENSE?**

By Lyndon Bittle (bio)

General liability policies commonly give the insurer the right and duty to defend the insured against claims that are potentially covered by the policy. Many lawyers, risk managers, and adjusters take these rules for granted and assume they apply to all commercial general liability (CGL) policies. Read why there are important differences between a duty to defend and a duty to pay defense costs.
Failure to address your International Business capabilities can lead to...

- Missed opportunities
- Loss of Business
- Increased exposure to E&O

Gambonini Consulting:

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- Provides global network facilities

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You cannot control where your prospects and clients will do business today, tomorrow or the day after... you can only decide to be prepared to take care of them...

–Paul Hering, PCPCU, Managing Director, Chief Executive Officer, Barney & Barney
Bookmark ISN @ IRLetter.com

If you can read just one journal about insurance and risk management, read The Insurance Research Letter."

Patrick G. Ryan,
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