Expert Commentary

RIMS 2006—A Quiet Calm in Paradise

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The 2006 RIMS Conference in Honolulu was quiet and sedate, especially compared to last year's Spitzer-fest. Because of the location, attendance was down (though RIMS never told us by how much). The exhibit hall was the quietest I've seen in the 26 years I've attended.

by Jack P. Gibson
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With a prevailing calm in the insurance marketplace, and few crises brewing, risk managers seem to have little to worry about, and it showed.

Industry Practices

The "Leadership Panel Luncheon" on Tuesday focused on most of the important issues facing the industry, and some interesting points were made. Chief executives from Aon, ACE INA, Integro, Arthur J. Gallagher, Marsh, and AIG fielded questions from risk managers. Representing the risk management community on the panel was Ellen Vinck, RIMS president and vice president of Risk Management & Benefits for BAE Ship Systems Repair. Some of the most interesting commentary revolved around the industry practices attacked in 2004 by Eliott Spitzer.

The industry leaders expressed a belief that their organizations are past the issues raised by Mr. Spitzer and are moving forward. For example, Marsh CEO Brian Storms indicated that surveys of their clients and prospects reveal that they recognize that the problems Mr. Spitzer discovered were from the actions of a few people rather than a systemic problem, that Marsh has aggressively dealt with the problems, and that Marsh remains a firm with which they can do business.

All of the leaders also professed a renewed emphasis on ethics and integrity in their organizations. Pat Gallagher probably summed it up in the most refreshing manner with his blunt statement that his employees know that, "If you do something in our organization that violates our integrity, I will kill you." He got a good laugh from the audience, but I was glad to hear the passion with which he said that.

The panel seemed to lament the two-tiered distribution system that seems to be forming with larger brokers who do not accept contingency commissions and smaller ones who do. Of course, their concern is that this results in an uneven playing field. Unfortunately, there were no representatives of the contingent commission accepting distribution system to discuss their perspective on this. Even the insurers on the panel have discontinued their contingent commission programs.

While the CEOs would obviously like to move forward, leaving these problems behind, Ellen Vinck wouldn't let them. She asked the audience for a show of hands with respect to any who felt the issues are no longer a concern. Only a few people in the audience (perhaps 1,800 people) raised their hands, whereas the vast majority did so when asked if they are still concerned about these issues. She also asked why risk management accounts aren't seeing a reduction in their premiums from the insurers that no longer are paying contingent commissions to their brokers. No one answered her question.

Transurance

There weren't many announcements of new and innovative solutions at the Conference. However, one that I found interesting was Arch's introduction of Property Transurance. Recall the iceberg analogy used to discuss the indirect or consequential expenses that accompany any direct loss. The amount of loss covered by insurance is compared to the tip of the iceberg, and the many consequential losses that accompany it are hidden below the surface. Transurance is an innovative new product designed to cover these consequential losses.

The underwriting, rating, and coverage terms are tied in with the policyholder's regular property insurance program, with the premium and the loss recovery a percentage of that policy's premium. When a loss occurs, the policyholder submits a proof of loss to its property insurer and works with the insurer to settle the claim. Proof of a claim payment from the property insurer will trigger payment of the specified percentage of additional funds from the Transurance policy, and these funds may be spent in any manner deemed appropriate by the insured. A policy limit of up to $20 million is available from Arch, and the policy can wrap around any other property insurer's program (i.e., there is no requirement that the normal property insurance be purchased from Arch).

This is a truly innovative insurance idea, and it will be interesting to see if it catches on in the risk management community.

Summary

Partly due to the location and partly due to the nature of the times, this was a sedate RIMS conference. But the risk managers who attended are obviously serious about their craft and were seeking to improve their skills, especially with respect to newly developing areas, such as exposure to pandemics (the session on this topic was very well attended, and the presentations showed that corporate America is seriously working on solutions to this risk). I suspect that, barring additional missteps coming to light in the near future, the Spitzer issues will slowly fade away, and it will be interesting to see if this is the case next year.