

Editor's Note

by Jane M. Damon, CPCU, CPIW, CIC



■ **Jane M. Damon, CPCU, CPIW, CIC**, is assistant vice president/commercial account executive for Wachovia Insurance Services in Dallas, TX. Damon has more than 20 years of experience in the insurance industry. She works on large, complex accounts in the real estate, construction, and high-tech fields. She has more than nine years' experience with American Contractors Insurance Group on large construction contractors as a special account executive, where she administered the two largest privately held construction projects, at the time, under a Contractor Controlled Insurance Program (CCIP) through a captive program.

Damon is past president of the CPCU Society's Dallas Chapter, was national new designee representative, and currently serves on the national Risk Management Section Committee as co-editor of the *RMQ*.

The *RMQ* editors and authors have produced an exciting issue to start the new year! I think you will be pleased. We have a great set of articles for you to enjoy.

Our regular authors **Jerome Trupin, CPCU**, and **Michael J. Moody, ARM**, have provided articles of interest on policy forms and language, and a framework for enterprise risk management.

And our very own regular contributor, **George L. Head, Ph.D., CPCU, CSP, CLU, ARM, ALCM**, director emeritus, American Institute for CPCU, has provided an article that will surely provoke some thought and controversy.

Risk Management Section Committee member, **David J. Skolsky, CPCU**, has provided an overview of the 2006 Annual Meeting seminar "Employee

Dishonesty and Employee Theft: Coverage Choices for an Often-Overlooked Exposure." For those who may have missed the seminar, it will enlighten you and make you think a little more on the subject.

Gregory V. Serio, J.D., and **Edward W.S. Neff, CPCU, ARM**, have provided an article on emerging technology and the challenges faced today by small and growing technology companies.

Please feel free to let us know your thoughts on the articles, what you would like to see, and what you like and don't like.

If you would be interested in providing an article, please contact me at jane.damon@wachovia.com. We welcome all authors and commentaries. ■

What's In This Issue

Editor's Note	1
Greetings from Your Chairman	2
Employee Dishonesty/Employee Theft: Coverage Choices	3
Lots of "Good Luck"—But Little Good Faith	5
Insurance for Emerging Technologies Entrepreneurs: A Challenge Not To Be Ignored	8
Enterprise Risk Management's Future Is Brighter: Framework Provides Tool for Implementation by Senior Management ..	10
<i>RMQ</i> Quick Clicks	12
Sections Strategic Task Force Report Summary	13
Institute Revises the Associate in Risk Management Program	16

Greetings from Your Chairman

by Patricia A. Hannemann, CPCU



■ **Patricia A. Hannemann, CPCU**, is chairman of the CPCU Society's Risk Management Section. Her insurance career consists of more than 20 years' experience working in agencies and companies. Currently, she is working with The Insurance Society of Baltimore in promoting and teaching various insurance classes. Hannemann served as the CPCU Society's Maryland Chapter president, and chaired both the Public Relations and Good Works Committees. The Maryland Chapter's CPCU Excellence Award was presented to her for spearheading the Good Works Committee and establishing the chapter's scholarship fund in connection with the SADD organization. Serving on the CPCU Society's Chapter Awards Task Force, she helped create and judge the current Circle of Excellence Recognition Program. Hannemann received her CPCU designation in 1987, and holds bachelor's and master's degrees in music from the Manhattan School of Music, and a master's degree in business from Johns Hopkins University.

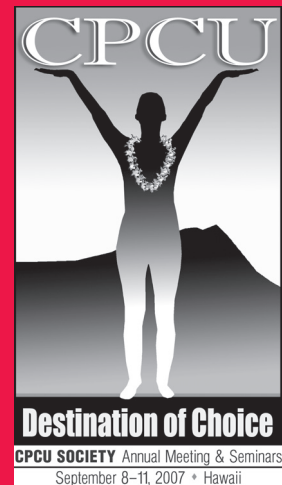
Recently, the CPCU Society's Maryland Chapter held its annual conferment dinner for new designees. As always, it was well-attended and everyone was proud to be in the room. Among our new designees for this year is the Maryland Insurance Commissioner, **R. Steven Orr, CPCU**, who gave an excellent presentation on what it means for him to be a CPCU. If there was any chance you had become complacent with having obtained the CPCU designation or how it feels to complete the exams, he brought back the importance of what it means, how it feels to be a new designee, and how many people help along your journey.

The same feeling is also evident when attending the CPCU Society's Annual Meeting and Seminars, which was held in Nashville in September 2006. The various sessions, guest speakers, special breakfast, lunches, and dinners are all interesting and exciting. The Risk Management Section developed two seminars in Nashville, one in collaboration with the IT Section titled "Predicting and Preparing for Disasters—A Case Study Approach" and the second titled "Employee Dishonesty and Employee Theft: Coverage Choices for an Often-Overlooked Exposure." Our appreciation to **Jerome Trupin, CPCU, CLU, ChFC**, and **Richard G. Berthelsen, J.D., CPCU**, for their long hours of preparation for these presentations. On another note, **Robert L. Siems, J.D., CPCU**, chairman of the IT Section, and I were honored by being asked to give a presentation on identity theft at the Personal Lines Section Breakfast.

While in Nashville, your Risk Management Section Committee met to discuss what our objectives are for the future. Among the items discussed were the RMQ, our expanding web site, identification of section member needs, local chapter outreach, and many more topics. The minutes from the meeting are available on our web site at <http://riskmanagement.cpcusociety.org> if you

would like to read them. We welcomed several new committee members in Nashville: **Salvatore (Bill) W. DiSalvo, CPCU, CIC**; **Robert N. Rosenfeld, Ph.D, CPCU**, **David J. Skolsky, CPCU**, and **James E. Brown, CPCU, AMIM, ARe**. We are excited about their desire to join us and at the vast knowledge, new ideas, and enthusiasm they bring to the committee.

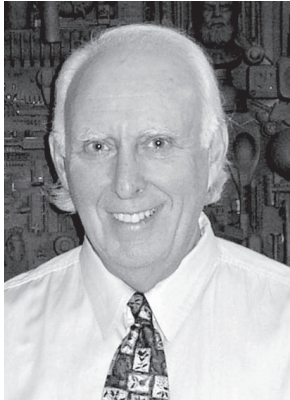
As always, we welcome your comments and ideas to help us grow and make your section more valuable to you. Remember your excitement when you finished those exams and became a new designee? Be sure to carry that excitement and attitude with you always as you go forward in your career and life. Please contact John Kelly, CPCU, or myself with any comments or suggestions. ■



**Watch upcoming
issues of RMQ
for details on the
Risk Management
Section's 2007
Annual Meeting
seminar scheduled
for September 2007!**

Employee Dishonesty/Employee Theft: Coverage Choices

by David J. Skolsky, CPCU



■ **David J. Skolsky, CPCU**, is the owner of Insurance Analysts & Consultants, based in Avondale Estates, GA. A New York native, he worked for more than 20 years as a broker/account executive with Acordia, which at the time was known as Republic Hogg Robinson, NY, and for the past 18 years as an independent property/casualty consultant in his own firm. A graduate of Alfred University with a B.A. degree, he received his CPCU designation in 1975. Skolsky taught various CPCU courses at Iona College, the former College of Insurance, and Marymount College, and was an active board member of the CPCU Society's Westchester Chapter where he served as treasurer and public relations chairman. He co-authored and presented a series of one-day seminars and workshops called "Taking Charge of Your Insurance Program," which was designed for corporate insurance buyers. Today, his consulting practice is composed of a diverse client base from public school districts, small municipalities, real estate property owners/managers, manufacturers, contractors, and textile wholesalers. Skolsky is a member of the CPCU Society's Atlanta Chapter and Westchester Chapter. He relocated to the Atlanta area in October 2001.

At the 2006 Annual Meeting and Seminars in Nashville, the Risk Management Section presented a seminar entitled "Employee Dishonesty and Employee Theft: Coverage Choices for an Often-Overlooked Exposure."

The seminar leaders were Risk Management Section member **Jerome Trupin, CPCU, CLU, ChFC**, partner of Trupin Insurance Services, Briarcliff, NY, and **Kevin M. Mattessich, J.D.**, a partner in the Cozen O'Connor law firm in New York City. Trupin and Mattessich interacted with and led a lively discussion with the approximately 40 seminar attendees.

The seminar began with a discussion of several recent employee theft cases. The cases varied from a bookkeeper in a small insurance agency who embezzled \$190,000, a controller of two hotels who skimmed \$11.4 million from the corporation, a public school district in New York, where school employees were convicted of stealing more than \$10 million in funds from the school district's bank accounts, a clergyman stealing more than \$2 million from a parish, a company executive stealing more than \$8 million from the corporate health fund account, and others.

It was noted that employee theft loss usually doesn't involve one incident. Typically this type of loss is a series of many instances taking place over a period of time involving the same employee. When the loss is finally discovered, it involves a huge amount of money since the theft has been going on for many months or even years. All businesses are exposed to and subject to employee theft losses.

Some of the schemes and ploys used by dishonest employees involved altering invoices, prebilling clients, pocketing cash sales, diverting corporate assets, booking unfinalized sales, advancing unapproved loans, and altering credit card receipts.

It was very useful to learn of the distinctions in the language and definitions of many of the terms and provisions used in employee dishonesty and employee theft coverage. It was pointed out that there is a difference between employee theft coverage and employee dishonesty coverage.

The definition of theft means the unlawful taking of money, securities, or other property to the deprivation of the insured. The employee theft insuring agreement says, *"we will pay for loss or damage to money, securities, and other property resulting directly from theft committed by an employee, whether identified or not, acting alone or in collusion with other persons. Theft includes forgery."*

The Surety Association of America's (SAA) Employee Dishonesty Insuring Agreement reads, *"We will pay for loss of, and loss from damage to money, securities, and other property resulting from dishonest acts committed by an employee, whether identified or not, acting alone or in collusion with other persons, with the manifest intent to: a) cause the insured to sustain a loss; and b) obtain financial benefit for the employee or another person or organization that the employee wants to receive the benefit."*

The broader scope of offenses covered by dishonesty coverage over theft coverage is lessened by the manifest intent and financial benefit requirement in the dishonesty coverage provisions. Other differences between dishonesty and theft are dishonesty does not have to be a criminal act, and theft must be unlawful.

A discussion then followed on the differences between the loss sustained policy form and the discovery policy form. The loss sustained form covers a loss that takes place during the policy period and is discovered during the policy period or within one year from the policy's

Continued on page 4

Employee Dishonesty/Employee Theft: Coverage Choices

Continued from page 3



■ Jerome Trupin, CPCU, and Kevin M. Mattessich, J.D., highlighted some of the major embezzlements of the past few years from small and mid-size firms at the Risk Management Section's 2006 Annual Meeting seminar, held in Nashville, TN.

expiration date. The loss sustained form also covers a loss that took place in a previous policy year as long as the coverage was continuously in force and the loss would have been covered under the previous coverage and the current coverage. The coverage limit is the lower amount available under the current coverage or previous coverage.

The discovery policy form covers a loss that is discovered during the policy period regardless of when the loss took place and whether or not the insured had prior coverage. In order to limit the extent of prior coverage, underwriters can endorse the policy with a retroactive date, which eliminates coverage prior to the retroactive date. Insurance companies like the discovery policy form because they can limit the date before which coverage is applicable by inserting a retroactive date. Insureds like the discovery form because without a retroactive date, they would have coverage for a loss that took place years prior, before they had coverage in force.

Since employee theft losses have a tendency to stay concealed over a long period of time, the choice between the loss sustained form and the discovery

form has much greater significance on employee theft coverage.

The condition in crime insurance policies now called loss sustained during prior insurance was originally called the superseded suretyship clause in older crime insurance policies. This condition affords coverage in some cases, to apply to a loss discovered during the current policy period that took place during the period of a prior policy and would have been covered by the prior policy except that the discovery period expired. Two other conditions must be met: (1) the effective date of the current coverage must be the same date that the previous coverage was canceled or ended; and (2) the loss would have been covered by the previous policy and by the current policy, had it been effective at the time the cause of the loss took place during the prior policy period.

The loss sustained during prior insurance condition removes the potential penalty insureds would face if they changed insurance companies.

The seminar concluded with a group discussion of six coverage problems. The attendees divided into six discussion groups and for each of the coverage

problems included in the handout, each group reported on what parts, if any, of the presented claims would be covered if coverage was written on the employee theft loss sustained form or the SAA employee dishonesty discovery form. The six coverage problems as well as the full PowerPoint presentation can be found on the Risk Management Section's web site.

Judging from the participation of the seminar attendees, I think all would agree that the seminar was both informative and very interesting. ■

Lots of “Good Luck!”—But Little Good Faith

by George L. Head, Ph.D., CPCU, CSP, CLU, ARM, ALCM



■ **George L. Head, Ph.D., CPCU, CSP, CLU, ARM, ALCM**, is director emeritus at the AICPCU in Malvern, PA.

Author’s note: Lisabeth A. Groller, my friend who understands well both the human and the humane aspects of risk management and insurance, contributed significantly to the substance of this article.

Surely most of us who devote our careers to risk management and insurance very much want to believe that our profession holds to the ancient doctrine of *uberrimae fidei*, ultimate good faith. Legal scholars say this doctrine is essential to all honorable insurance transactions. Typically, the emphasis on ultimate good faith has been “upward,” based on the premise that the party nearer to the actual loss exposure, and thus presumably knowing more about it, must be totally honest in dealing with the more distant, and thus presumably less informed, party to the transaction. Thus, *uberrimae fidei* tends to place special emphasis on insureds exercising good faith toward primary insurers and primary insurers being just as fully honest with reinsurers. The reverse, while logically just as essential to good-faith dealing, has tended to be assumed—“of course” reinsurers will always be fully honest with primary insurers, as will primary insurers with policyholders.

Some events rooted in the 2005 hurricanes—events only recently coming to light—cast some doubt on this assumption. Perhaps some primary insurers and reinsurers need to pay greater attention in exercising ultimate good faith “downward,” toward their policyholders and primary insurers. To illustrate, the following scenario, while somewhat fictionalized, draws on “Housing Boom’s Dark Side,” an article by M.P. McQueen that began on page B-1 of the August 26, 2006, issue of *The Wall Street Journal*. This illustration, using the facts presented by *The Wall Street Journal*, demonstrates why a growing percentage of our policyholders believe that insurance companies use “standard practices” to deceive their insureds; and how this deception has become more rampant during the increased catastrophes that have befallen us during recent years.

Lots of Luck!

It had to be luck that Jane Evans’ house survived Hurricane Katrina. She had moved in just the previous month from Chincoteague, Virginia, to Biloxi, Mississippi, and was very pleased to be the first single woman owner of an historical Queen Anne home built in 1894. But Jane didn’t take her luck for granted now that Hurricane Rita had her eye on the Gulf Coast once more. As a long-time seacoast resident, Jane had the pre-storm drill down pat: pulling up the first-floor rugs; using plywood to board up all the windows and doors; she even moved all her furniture into the attic and secured it there. Jane had endured three major hurricanes in her time and it was her preparation that had enabled her to survive. Even now, two days before Rita was due to hit, she called her insurance agent to be sure everything was in order. Her new agent, who worked for the same insurance company that had covered her home in Chincoteague, assured her that “everything looks just fine” and wished her “lots of good luck” in dealing with the coming storm.

But Rita hit with a fury far greater than Jane had anticipated. The high winds tore the plywood from her first-floor windows and ravaged the downstairs of her new home with both water and sand. Her furniture stayed dry and safe upstairs, but the downstairs windows were all blown out, and the sand had blasted its way into the walls.

Jane was devastated; but her neighbors’ had fared much worse. Carol and Mack Peterson, whose house was as old and classic as Jane’s, had lost most of their roof and half of the upstairs. “Of course we’re covered,” they assured Jane. “There’s no way you can own houses like we do without proper insurance.”

“I’m insured with Ambassador General,” Jane offered. “I had what they called extended replacement cost coverage in Chincoteague. Of course, that house was less than 20 years old.” Jane went on, “I’ve increased the amount of my insurance a lot. I’m sure this damage is covered because it was all due to the wind.”

“We have guaranteed replacement cost coverage with AIG,” Mack told her. “Better check again with your insurance agent down here in Biloxi.”

“But I just called him two days ago,” Jane said. “He assured me everything looked good.”

“I think I remember reading in the *Journal* recently that Ambassador General and State Farm are two of several insurers that have been quietly cutting back their coverages,” Mack informed her. “Wind damage was cut back, especially on new and renewal policies in hurricane areas.”

“This can’t be.” Jane still didn’t really believe what she was hearing.

But Mack continued, “And there’s some difference between *guaranteed replacement cost* homeowners and your *extended replacement cost* homeowners. I don’t

Continued on page 6

Lots of “Good Luck!”—But Little Good Faith

Continued from page 5

recall the exact difference; I think the *Journal* said very few policyholders really do understand it.”

“All I need to understand,” Jane said, “is that the damage to my house is covered.”

Worried now and much less confident about her coverage, Jane set out to get to the bottom of all these insurance matters. She found her cell phone and her insurance policy and dialed her agent. The agent’s recorded greeting was expected. Jane left her information, then pulled out her policy to read. Most of what she found was not language her mind was used to deciphering. As she looked through the pages of her policy, a slip of paper headed “Changes to Your Policy” came to her attention. After reading it, Jane finally realized that the wind damage to her Biloxi home was indeed not covered. Jane dropped the policy onto the floor, lay down on her bed, and cried—just cried, for the first time in years.

But Not Much Good Faith

Due to the disruption from back-to-back hurricanes, Jane’s insurance agent did not return her call until two days later. By then, Jane had her windows re-boarded and was trying to contract with professionals to deal with the damage to her house. Her Ambassador General agent knew that Jane was extremely upset, even to the point of thinking about bringing a lawsuit, but everything the agent told her on the phone two days before the storm was true. Her policy, much to her surprise and regret, was legally complete and enforceable.

Jane protested, “But you dropped my wind coverage without telling me!”

“We sent out notices with our renewals,” the agent said. “I’m sure you got one. It was on a special slip of paper in with your policy.”

“Yes, I only noticed it two days ago,” Jane still wanted to believe that it wasn’t true. “All it said was ‘Changes to Your Policy.’ I never imagined it would mean dropping wind coverage. This is the Gulf Coast—you get more hurricanes here than most of the East Coast!” This didn’t make sense.

“Partly that is why we dropped the coverage, Jane. It would have been too expensive for anyone to keep.”

“But my neighbors had their whole roof and half their house blown down,” Jane explained. “Their house is covered! Maybe I should switch to AIG and get a guaranteed replacement cost policy.”

The agent paused to look over his office copy of Jane’s policy. “AIG is an insurance firm that services policyholders with special situations. You may qualify but you will pay much more Jane, and if Rita is the last big hurricane you see for 20 years, well, it’s up to you to decide if it’s worth it.”

Jane realized predicting nature would not be easy. “But at least I should have been told my options. If I had known that I had no wind coverage and that my house is not insured for its full replacement cost, perhaps knowing about insurance like AIG’s would really have helped me.”

“When I went over the insurance policy on your new house, you very definitely requested the same extended replacement cost coverage that you had carried on you Chincoteague house.”

“But I didn’t know owning an older home would make such a difference!” Jane contested. “And your insurance paid for all the damage I had in Chincoteague from Hugo—which was much worse than this.”

“I did suggest the other policy,” the agent defended himself. “Plus you do have higher limits and flood insurance that did add to your coverage.”

“But not enough to cover this loss,” Jane shot back angrily. “Instead of telling me last week that my insurance looked ‘just fine,’ maybe you could have taken just a moment to tell me why my extended replacement cost insurance isn’t really appropriate for my historic house. Or just maybe asking me if I realized that I had *none* of the wind coverage that I had in Chincoteague? What good is having any kind of insurance if everything is no longer covered? How could you and your company do this to me?”

“I’m sorry, Jane” the agent offered. “Perhaps we should talk another time or you should call another company,” was all the agent could find to say. He sensed that it was too late to explain anything now.

Jane hung up the phone. She did not know what she was going to do.

Restoring Faith

Stepping back from this angry and mutually frustrating exchange between Jane and her agent, it would be easy to say that it is too late for much if any ultimate good faith in this case. It would also be easy to blame everything on Jane’s agent, to say that he lacked the technical knowledge and interpersonal skills to work effectively with a client who was as intelligent and knowledgeable as Jane. (She already knew the difference between wind-driven water and flood water, so the agent would not have needed to explain why flood insurance would not have applied to her losses from Rita.)

But blaming everything on the agent would also be too simplistic here. All three of the main players—the insurer, the agent, and the policyholder—were somewhat at fault in this situation. All three fell short of what they should have done to act in ultimate good faith. To rebuild *ubermae fidei*, all three should change their ways.

The Insurer:

- Should have given every policyholder better, unmistakable, written notice that it was no longer covering wind damage in hurricane zones, going far beyond the slip of paper inserted in the new policy or in the premium bill, perhaps even going so far as to telephone each insured it covered for any property damage anywhere in a hurricane vulnerable area.
- Should campaign through public advertising for policyholders to ask more questions regarding their coverage, emphasizing the need for adequate insurance.
- Should have explained in writing to its sales force and its insureds the key difference between (1) traditional guaranteed replacement cost insurance (which promises to rebuild brick for brick and stained-glass window for stained-glass window, regardless of cost or technological changes in building construction) and (2) extended replacement cost insurance (which I understand increases the amount of normal actual cash value property coverage by up to 20 percent if covered damage results from such extraordinary events as hurricanes).
- Should have better trained its agents and other marketing personnel in dealing appropriately with potential or present policyholders who, like Jane Evans, are better informed or more assertive than most customers.

The Agent:

- Should have been more explicit about the kind of coverage Jane Evans' Biloxi home needed, even if that meant suggesting a different and specialty insurer. (Although the agent tried to accommodate his insured's request, his failure to educate her on why her choice was a poor one cost her having her home properly insured. Most insureds who have had previous claims covered, as Jane did, automatically assume that the insurance they have is

good and that the same coverage will follow them even if their exposures change. Simply paying for more insurance did not improve Jane's situation in Biloxi.)

- Should have taken more time with Jane on the phone when she called him two days before the storm. (When potential disasters are imminent, agents are key to helping insureds prepare for heavy losses. Two days before the storm is short notice but, if Jane had known she had no wind coverage, she would have rushed to install stronger wind barricades around her home.
- Should explain the especially difficult or most crucial language of insurance policies in words insureds understand in order for them to make better decisions regarding the coverages they do—or do not—have.

And, Lastly, Jane Evans Herself:

- Should have been more aware of the differences in character—more than simply the differences in value—between her Chincoteague and Biloxi homes, as well as the differences in the perils that threatened these homes. (It is the ultimate responsibility of the insured to be, or to get help in becoming, insurance-savvy.)
- Should have tried to develop a better working relationship with her agent. (Although Jane believed she knew enough about insurance, recognizing that the agent would be better able to provide more professional advice could have prevented this miscarriage. Policyholders need to ask questions about their insurance and allow the agents to explain.)
- Should have known her new exposures and update her agent regularly in order to change the amount and scope of her coverages when necessary.

- Should have looked beyond just her insurance premium bills and actually read her policy. If the language were beyond her comprehension, she should have asked her agent to explain it. (To paraphrase the core message in M.P. McQueen's article cited earlier: Know your exposures and your coverages.)

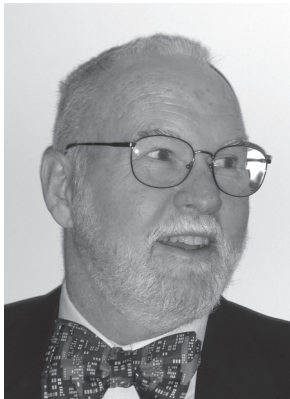
The doctrine of *uberrimae fidei* embodies an ideal standard for insurance and other business dealings, an ideal world in which all parties to a transaction are highly literate, informed, and ethical. If, as many believe, the levels of literacy, general knowledge, and ethical conduct are gradually declining in today's America, insurers and risk management professionals who expect others to follow this doctrine should themselves live by it. Very simply, it's the Golden Rule again. ■

Insurance for Emerging Technologies Entrepreneurs: A Challenge Not To Be Ignored

by Gregory V. Serio, J.D. and Edward W.S. Neff, CPCU, ARM



■ **Gregory V. Serio, J.D.,** former superintendent of insurance for the state of New York, is managing director of Park Strategies, LLC in Albany and New York City.



■ **Edward W.S. Neff, CPCU, ARM,** is president of The Compass Company, Inc., a Capital Region-based risk management and insurance consulting firm.

Abstract

Emerging technology businesses face many challenges as they grow through the development stages into successful operations. Adequate and appropriate risk management policies and coverages are often among the significant but overlooked challenges that can contribute to their failure rate. The risk management and insurance communities, companies, and brokers alike should be working with these developing businesses in their earliest incubator stages to understand their unique risks, and develop programs and new coverage forms that will address their needs not only in their earliest days but also as they develop into mature businesses. Home-based businesses face the same challenges, as was reported last year in a little noticed Independent Insurance Agents and Brokers of New York report.

The Independent Insurance Agents and Brokers of New York released to little notice last year a report raising a critical issue for many home-based businesses: the (in)adequacy of insurance coverages for the business operations within residences. This study, which showed that many home-based businesses are exposed to potential financial peril because of inappropriate or insufficient coverages for business-related activities, should direct our attention to another unspoken and potentially critical problem: the (in)adequacy of insurance coverages for New York's emerging technologies businesses.

Just as home-based enterprises, comprising a healthy portion of the state's small business community, provide structural strength to the backbone of the state's economy, the new technologies sectors—bio, nano, and other emerging areas—represent the most positive business development trends that our region has seen in generations. The Sematech initiative that has become the cornerstone of the Capital District's nanotechnology boom, the recent

announcement of AMD's decision to build a chip-fabrication facility in Saratoga County, and the seemingly unstoppable forces behind the Tech Valley movement have all contributed to the strong foundation upon which upstate New York's economy will rest for the foreseeable future.

Key to the progress of this economic expansion, of course, will be the proliferation of smaller companies either spawned to support the larger developments or to start mapping the next generation of technological breakthroughs. Small business in the Capital Region, including a new crop of home-based businesses, will take on a decidedly high-tech flair.

While the grander initiatives like Sematech and AMD most likely have adequate and tailored insurance programs, the many smaller technology and software companies that are cultivated from this tremendous economic wave may well not be sufficiently covered. Failing to adequately cover them (in types of or breadth of coverages) for the eventualities that come to confront all businesses, large and small, will have profound effects beyond the four walls of those enterprises, and will directly impact the regional economy and its ability to sustain the technology-based business boom it is now enjoying.

(Among those "eventualities" are shortcomings in the operational security and continuity of the Internet, and other information pathways that have become critical for many emerging businesses and crucial for small businesses in particular. The Business Roundtable recently released a report, "Essential Steps to Strengthen America's Cyber Terrorism Preparedness," which highlighted many deficiencies in the protective mechanisms that would prevent or mitigate the effects of some cyber interruption. While it did not even address the gaps in the financial safety net for high-tech and emerging

market companies, i.e. insurance, the report did concentrate on the need for fixing the operational defects in our preparedness strategy.)

The new and emerging technologies businesses need protections unlike any other components of the small-business sector. And, these new entrepreneurs need to focus as much on protecting the businesses they create as on growing them. The efforts to protect and develop these fledgling businesses, however, are made difficult given that current, off-the-shelf policy offerings don't fit their needs. Economic advances in emerging technologies will be short-lived if the insurance professionals serving these new businesses do not challenge the status quo in terms of the coverages that are typically furnished to the small businesses that do and will populate the sector. As the Independent Agents' study indicated, agents and brokers need to educate insureds and prospective clients as to how available coverages fit or do not fit the operating realities of their businesses. The question is: are existing coverages suitable (or affordable, for that matter) for the businesses seeking coverage?

The forces behind the tech sector boom in the Capital Region will need to instigate this discussion. While they share, together with insurers, agents, and public policy makers, the duty to make sure that our new economic base is properly protected, it is the visionary element of the Tech Valley concept that can best articulate the needs of this marketplace. The growing economic force of the business entities that are deciding to call this area home can best persuade insurance agents and brokers (who may have their own errors and omission exposure for mismatching coverages to risks) to seek appropriate coverages more aggressively and compel insurers to provide such coverages.

Some within the insurance community will see this as a challenge they are not willing to take on. Inserting new and perhaps unknown risks into an insurance industry that has become increasingly risk averse—asbestos liabilities, for example, have mushroomed far beyond the known science at the time that the applicable liability policies were written—will of itself be a difficult task. For many insurers, it may well be more advantageous to ride the far slower path of letting legal interpretations of traditional policy language, shoehorned into these new business contexts, determine the breadth of coverage. This track may well be preferable to venturing out with new policy coverage concepts and language that have no interpretive track records.

The traditional insurance carriers may pass on the opportunity to play a role in the maturation of this branch of the economy. If so, then the emerging technology sectors and the businesses within them, from the incubated to the established, will have to take matters into their own hands. The same entrepreneurial spirit that has fueled the rejuvenation of this segment of upstate New York's economy will be necessary for the creation of a whole new insurance sector, catering to the emerging technology fields, merging the dynamism of venture capital with the security of insurance capital, and delivering for these companies coverages that work for them in terms of quality, breadth, and affordability. But this will not be your father's insurance sector, as they say, for it will be built upon contemporary notions of alternative risk financing and risk pooling, underscored by an attentiveness to risk management and loss control that does not exist in many traditional insurance relationships.

As with every other step of the way for the tech-sector entrepreneur, this won't be easy. Arcane laws will have to be revisited, and the flexibility in assembling coverages currently enjoyed

by only the largest corporate entities will have to be offered to all the members of the new economy as well. Just as our technology-sector leaders could not play the role of bystander when it came time to figure a way to reinvigorate the local economy—creating the opportunities for their enterprises as well—they certainly cannot be mere observers as it relates to the changes will have to be made to allow for enhancements in insurance coverages for the market and their own insurance programs. Like their non-technology home-business colleagues in our economy, they have as much a duty to educate themselves to the insurance program they choose or have chosen for them as any agent or broker, and they need to know, in detail, how these coverages either protect *or do not protect* their enterprises.

When more than half of the home-based businesses in the Independent Agents' study are found to be without business coverage, and fully two-thirds of those studied lack adequate coverage, the challenge of properly covering the most vulnerable elements of our economy is already daunting. But when one considers that our present and future economies are similarly situated, the task does not simply become exponentially more difficult; rather, it takes on the proportion of a mission for everyone concerned or connected to this economy to make the moves necessary to marshal the resources, tear down the blockades, and do what has to be done to make these businesses more secure because, after all, they will one day make us all more secure. ■

Enterprise Risk Management's Future Is Brighter

Framework Provides Tool for Implementation by Senior Management

by Michael J. Moody, ARM

■ **Michael J. Moody, ARM**, is the managing director of Strategic Risk Financing, Inc. (SuRF), an independent consulting firm that was established to actively promote the concept of enterprise risk management by providing current, objective information about the concept, the structures being used, and the players involved.

Editor's note: This article originally appeared in the February 2005 issue of *Rough Notes* and is reprinted here with permission.

Author's note: In the August 2006 issue of the *RMQ*, we discussed the basics of enterprise risk management. The article that follows—originally published in the February 2005 issue of *Rough Notes* and reprinted herein with permission—provides a brief overview of the COSO Enterprise Risk Management—Integrated Framework, which has gone a long way toward standardizing the ERM process. While some still may have specific issues with various parts of the Framework, for the most part it is the “best in class” approach to ERM today. Following the reprinted article, we provide comments for the reader's consideration.

Over the past few years, the concept of enterprise risk management (ERM) has suffered from the lack of a common lexicon and structure. About three years ago, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) retained PricewaterhouseCoopers (PwC) to research ERM practices and create a framework that would encompass key principles of ERM. In mid-2003, PwC completed a draft of “Enterprise Risk Management—Integrated Framework.” The draft was made available, and public comments were requested up to October 14, 2003. PwC completed the revisions to the draft document based on the public comments, and issued the Framework in final form on September 29, 2004.

With many companies now attempting to develop and implement enterprise risk management programs, the revised Framework has come at a good time. It provides boards and senior management an organized approach to risk management that takes a holistic view of the corporation. Many believe it is the enterprise view that allows a company to formally link risk management, corporate governance, and entity performance. John J. Flaherty, COSO chairman, states, “Successfully managing risk drives better business performance and facilitates achievement of strategic, operations, reporting, and compliance objectives.”

Basic Structure

For the most part, the revised Framework retains the basic concepts and structure of the draft document. For example, the definition of enterprise risk management remains the same:

Enterprise risk management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity and manage risk to be

within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

While the definition includes a number of elements, several merit particular notice. One of the most important aspects of the definition has to do with the “process” aspects. According to Miles Everson, a PwC partner, ERM is intended to be a continuous process, rather than “a periodic risk assessment.” To assist in this process, the Framework, in Exhibit B—Summary of Key Principles, provides a document that lists many of the key principles. Everson notes, however, that because this does not include all of the principles, it should not be considered as a checklist. He says companies should ask themselves, “How are we applying the principles, and could we do it better?” If the document is used as part of an ongoing process, he says, “It will raise the bar on how effective companies are at managing risks.”

■ ***It should be pointed out that ERM is not strictly a serial process, where one component builds upon the next. Rather, it is a multidirectional, interactive process where any component can and does influence another.***

Eight Components

The ERM process, according to the Framework, consists of eight interrelated components. The components are derived from the way management runs the enterprise and are integrated with the overall management process. The components are internal environment, objective setting, event identification, risk assessment, risk response, control activities, information and communication, and monitoring.

It should be pointed out that ERM is not strictly a serial process, where one component builds upon the next. Rather, it is a multidirectional, interactive process where any component can and does influence another.

To help companies better understand the various aspects of the ERM process and its specific components, COSO has also provided an *Application Techniques Manual* under separate cover. This manual offers specific illustrations of how effective ERM concepts and principles can be successfully applied in a competitive business environment. The manual also affords significant insight into ERM foundations, and presents illustrations of how the Framework can be implemented. It should be pointed out, however, that despite the value of the illustrations, they are neither intended to be, nor are they, a complete resource for all of the ERM components. Rather, the manual has been written as a cross-section of applications, some designed for large, complex organizations and others more appropriate for smaller entities.

According to PwC's Everson, the manual is written from a "how to apply the principles approach, rather than a theoretical guidance document." While the illustrations and examples used are beneficial, they should not be considered as the only way to effect ERM; "they should not even be considered as the preferred method or represented as a best practice approach." Everson goes on to say, "You can find many different ways to apply the principles; these are just a few illustrations of some of the available techniques." He reminds readers, "The manual does not purport to be the complete composite of techniques."

Just the Beginning

While COSO and PwC have completed their work on the Framework, Everson notes it is really only the beginning. He says that industry-specific approaches will follow, and they are likely to be generated from one of three perspectives:

- Individual company modifications. The Framework will be modified for specific applications by individual organizations as they work through the ERM process.
- Funding sources and/or rating agencies modifications. Everson observes that soon you "will start to see more influence from various funding sources and rating agencies around a common understanding of risk for a particular industry segment; not just what the risk is, but determining how a company actually manages risks and how it thinks about risks." The Framework will offer a consistent platform from which companies can build their industry-specific modifications.
- Operating sector organizations' modifications. Industry groups and associations will also be a catalyst for change. Everson points out that several industry groups, most notably "energy and financial services, already have steering committees in place to use the Framework for the development of industry-specific guidance." These industry-specific approaches will become available to company representatives through their associations.

In all three cases, the COSO Framework will serve as a common base of knowledge to which industry-specific modifications can be applied. This process is necessary to make the information more tactical, according to Everson.

Value Creation

A key concept of the ERM approach is value creation, or the ability to use ERM equally for risk and opportunity. For the most part, the Framework tracks with this value creation approach. However, one aspect has caused some confusion regarding this issue, until people have realized the totality of the ERM process. Everson indicates that there have been comments regarding the specific definition of risk as used in the

Framework. As noted in the Framework's Glossary (Appendix F), "risk" is defined as "the possibility that an event will occur and adversely affect the achievement of objectives."

In essence, "The definition of risk is the potential for an adverse effect," says Everson. He says some people think this means "it is all about downside risks only, and that is not the case at all." He goes on, "When you properly deploy ERM, what happens is you identify all events (both positive and negative) that can affect the performance of an entity." Obviously, some of those risks could have a positive impact or present opportunities for the company. "To the extent they do, you put those risks back through the entirety of the strategic planning process and objective-setting process," Everson says. In this way, he notes, "the positive risks actually come back through the process as a new objective; then you can address the risks that are associated with it." As a result, it can readily be seen that value creation is integral to the ERM process.

Conclusion

The finalization of the COSO Enterprise Risk Management Framework provides interested parties a roadmap for successful ERM development. The Framework offers a scalable platform for the deployment of ERM. The companion *Application Techniques Manual* provides excellent illustrations and examples of specific approaches for ERM development. Together, these two documents will greatly assist any organization that needs guidance in ERM implementation. Both the Framework and the manual will serve as keystones to future growth as companies begin to see the competitive value of ERM. With a common language and structure, one would expect to see significant interest in ERM implementation. ■

Continued on page 12

Enterprise Risk Management's Future Is Brighter

Continued from page 11

Author's Insight

There are several important issues that should be pointed out regarding the information in this article. The article was written as a result of an interview with a PwC consultant who was one of the people responsible for drafting the Framework. Among the issues that he highlighted is the fact that ERM is a continuous process, rather than a project-type process. Additionally, it was also noted that ERM's eight components are "derived from the way management runs the enterprise." Further, the Framework integrates these eight components with the overall management process.

Additionally, PwC notes that the Framework is just the beginning, since individual sector organizations will provide industry-specific modifications. This is already happening with banks and insurance companies, and more recently with energy companies.

Additional industry-specific enhancements can be expected as other industry groups and associations begin to review the ERM requirements for their sectors.

PwC also points out the importance of funding sources and rating agencies. Since banks are committed to ERM, it has been speculated that they will soon begin requiring a similar commitment to ERM for their commercial borrowers. Many experts feel this will begin happening within the next 12 months, as banks get more comfortable with the concept.

The past nine months, however, have seen a significant change, since most of the major rating agencies have followed S&P's lead and are incorporating specific ERM criteria into their rating metrics. Currently, these requirements are primarily directed at insurance

companies, but the rating agencies indicate that this will soon be extended to other industry segments in the near future.

Perhaps the most important point of the article is the value creation section. This really is the whole story of ERM: "the ability to use ERM equally for risk and opportunity." This requires a major shift in how we in corporate risk management view our work. Historically we have only dealt with a "loss or no loss" view of risk management that is closely tied to insurance. ERM on the other hand, with its holistic view, is quite different since value creation is an integral part of the risk management process.

The \$64,000 question then becomes "where does that leave corporate risk management?!"

RMQ Quick Clicks

Ten Easy Steps to Success (Or How to Find Publications on the CPCU Society Web Site)

by Salvatore W. DiSalvo, CPCU

Did you know that you can get the current and back issues of the *Risk Management Quarterly* newsletter from our web site? And that other Society publications are but a few mouse clicks away? Here are 10 easy steps to find what you're looking for:

1. Go to: <http://www.cpcusociety.org>
2. Log in with your ID and password (The log-in instructions are right below the log-in entry blanks.)
3. Click on "Sections" in the upper, dark blue banner.
4. Choose "Risk Management Section" from the list on the right side of the page.
5. From the light blue navigation panel on the left, choose "Section Newsletter."
6. From the center column, you can choose any of several issues of RMQ.
7. Alternatively, scroll lower in the center column and click "Online Library."
8. Scroll to "Section Newsletters."
9. Scroll to the edition you want.
10. Happy trails!



Sections Strategic Task Force Report Summary

by Kathleen J. Robison, CPCU, CPIW, ARM, AU

At the CPCU Society's 2005 Annual Meeting and Seminars, the Board of Governors created a Sections Strategic Task Force. The task force developed a strategic vision for sections, and presented it to the board at the CPCU Society's 2006 Annual Meeting and Seminars in Nashville in September. The Board of Governors accepted the report and referred it to the Executive Committee to develop detailed recommendations for consideration by the board at the April 2007 Leadership Summit meeting. This article summarizes the report and recommendations.

David Medvidofsky, CPCU, CIC, chaired the task force. Members of the task force were **Tony L. Cabot, CPCU; Matthew J. Chrupcala, CPCU; John L. Crandall, CPCU; Clint Gillespie, CPCU; Michael J. Highum, CPCU; Kelli M. Kukulka, CPCU; W. Thomas Mellor, CPCU, CLU, ChFC; Kathleen J. Robison, CPCU, CPIW; Eli E. Shupe Jr., CPCU; Nancy S. Vavra, CPCU; and Barry R. Midwood, CPCU**, as CPCU Society liaison.

The task force began its assessment by focusing on issues of strategy and purpose. It developed a series of strategic questions designed to answer "who, what, and why," before addressing the question of "how?"

After task force consensus on the questions, feedback was shared with designated section liaisons. The task force also met with key stakeholders at the mid-year meeting to share findings, to test attributions, and to obtain additional input.

The task force took a qualitative approach relying on member input and interviews to develop findings. Prior survey data were reviewed.

Prior to creating the strategy, the sections' current mission and vision statement were reviewed. The task force recommended the following changes.

Special Note: One of the recommendations is to re-brand the sections into interest groups. Therefore, the reader will note the reference to interest groups rather than sections.

Proposed Mission

The CPCU Society aligns its members within interest groups consistent with the major disciplines of the property and casualty insurance industry. Serving the industry and other stakeholders in an ethical and professional manner, interest groups add value by increasing interest in attaining the CPCU designation and by helping make CPCU the most recognized, valued, and highly respected designation in the property and casualty industry through consistent and valuable technical content.

Proposed Vision

Interest groups offer targeted educational content that make CPCU the most widely recognized, valued, and highly respected professional designation/brand in the property and casualty industry. Instead of being focused toward a value-add for a narrow target, interest groups are at the forefront for name recognition and desirability of the CPCU designation by reaching a broad audience. Although segmented by discipline, interest groups target their consistent and high-quality technical content to anyone in the industry seeking focused information.

Interest group affiliation is provided automatically to CPCU Society members. This enables consistent and ongoing technical content to reach CPCUs affording continuing education and reminding them of the value of CPCU Society membership.

Ultimately, the reach of interest groups extends beyond just CPCU Society members. All industry professionals are, therefore, exposed to CPCU through the work of its interest groups. Exposure to the high-quality, technical content of the volunteer interest groups:

1. draws industry professionals to interest groups through exposure to their work; which
2. increases interest in CPCU and other Institute programs as a course of study; which
3. increases Institute participants and program designees; which
4. increases CPCU Society and chapter membership

Special Note: The above is a recommended long-range vision for sections. Included in the recommendations are specific steps to position sections for the proposed mission. The task force believed strongly that attaining the mission would be a staged process. The sections' offerings must first be of consistently high value on par with other offerings before extending sections' reach beyond Society members.

Proposed Strategy

The strategy is to position sections as a provider of readily available, high-quality, technical content to stakeholders. The level of content and delivery will vary based on the audience:

- **For prospective CPCU candidates**, sections offer technical information such as symposia and expertise within the disciplines of the industry.
- **For current CPCUs** the newsletter and web site are of high value and encourage CPCUs not presently part of the CPCU Society to see the benefits of joining. Retention of current CPCU Society members increases by providing consistent, high-quality, technical content within member disciplines. CPCU Society members are connected to others within a functional discipline offering networking and resource advantages not available through other industry designations or associations.

Continued on page 14

Sections Strategic Task Force Report Summary

Continued from page 13

As the technical content is consistently on par with competitor offerings, “associate memberships” are offered to non-CPCUs working in the industry and to industry providers (e.g., vendors). This provides a new revenue stream for the CPCU Society and further increases name recognition of CPCU. Candidate interest in the Institute’s programs increases as well through the exposure sections create.

Accomplishing this vision requires strategic actions that are presented as a series of strategic initiatives that align with four key perspectives:

- organizational structure
- leadership development
- membership
- value-added services

These strategic initiatives are summarized with a proposed template for reporting on results.

Organizational Structure (OS)

OS1—Re-Brand Sections as Society Interest Groups

Rationale: The term “sections” does not concisely describe their purpose. Other associations with similar structures such as PMI, ABA, etc. use “interest group” terminology. As the vision for sections evolves, re-branding them as interest groups signals something “new and improved.” Further, the phrase “sections” carries connotations of silos where “interests” applies whether one works in a discipline or just has “interest” in learning more.

OS2—Create Interest Group Resource and Governance Committee

Rationale: As the interest groups are exposed to a wider audience, the demand for consistent, high-quality content will increase. CPCU Society staff provides excellent support. Interest groups

can enhance CPCU Society capacity by forming a rotating four-member committee overseeing standards of content (see Recommendation VA1) and providing a resource for backup, training, and consultative advice. This committee would consist of:

- a former section chairman
- a former section web liaison
- a former section newsletter editor
- an additional member with experience in one of the above tasks

OS3—Assess Current Interest Groups and Align Them with Major Industry Functions

Rationale: The industry has evolved since the creation of sections. For example, many companies no longer have “underwriting” departments—they have moved staff functions to product teams and field functions to production positions. Project management is integrated into most positions but has no discrete focus. As membership is opened, there needs to be a clear alignment between technical interests and the content focus of interest groups.

OS4—Open Interest Group Membership to all Society Members

Rationale: Open membership will expose all CPCU Society members to the work performed by interest groups. Providing newsletter and web site access will consistently remind CPCU Society members of the value they receive by belonging to the Society. This recommendation also supports the CPCU Society’s goal of visibility. Continuing education is provided while leveraging one of CPCU’s key differentiators: the ability to connect its members at both the interdisciplinary level (chapters) and the intradisciplinary level (interest groups).

Leadership Development (LD)

LD1—Formalize Standard Interest Group Leader Training and Orientation for the Chairman, Newsletter Editor, and Web Liaison. This training will include an operations manual and continuously updated list of best practices.

Rationale: As membership is opened, interest group offerings will have wider exposure. Content value will become more important. Formalized training and reference materials need to be provided as tools to support the key interest group roles.

LD2—Create a Developmental Scorecard for Interest Group Volunteers and CPCU Society Members

Rationale: As budget and time demands increase, employers and employees will need to understand and demonstrate the value of their commitment. A development scorecard will show employers what their investment provides. It will also enable employees to easily articulate the value they receive. The present CPD qualifier may be promoted or modified to meet this need.

Membership (M)

M1—Create Value Statements and Other Communications Tools to Promote Interest Groups

Rationale: As the sections are re-branded and membership is opened up to all CPCU Society members, value statements and a communications strategy must be created. These efforts must crisply articulate the value of interest group membership, and describe how the value of CPCU Society membership has increased. This highlights the differentiation that interest groups provide CPCU Society members through focused technical content that CPCU Society members will continuously receive.

M2—Establish Affiliations between Interest Groups and Other Industry Organizations (e.g., PLRB, The “Big I,” and RIMS)

Rationale: To promote the technical expertise of CPCU Society interest groups and to support the goal of making CPCU the most widely recognized and highly respected designation, affiliations should be formed with other associations and/or designation programs. By presenting at their conferences and contributing to their newsletters, the CPCU Society increases their reach to potential designees committed to continuous learning.

M3—Refresh the Interest Group Newsletters

Rationale: As the reach of newsletters increases (first to all CPCU Society members and longer term as a revenue-generating product) they must be refreshed. This will support the re-branding efforts. A task force should be formed to finalize recommendations—potential areas of review include electronic versus hard copy delivery (or option for both), the colors, logo, and layout, and the possibility of providing one comprehensive quarterly interest group newsletter with space for each interest group’s contribution (versus publishing 14 separate newsletters).

M4—Designate Liaison(s) to Promote Interest Group Benefits to Chapters, Major Employers, and the Insurance Services Community

Rationale: The value of interest groups may be promoted by expanding the Connections concept. A discussion of the value of the interest groups must be added to the present agenda. Designating special liaisons will expand capacity to extend outreach to chapters and industry service providers.

M5—Strengthen Connection between CPCU Society and Accredited Risk Management and Insurance Degree Programs

Rationale: Students pursuing degree

programs in risk management and insurance are future prospects for the Institutes’ programs. Increasing awareness helps capture interested students. Recommendations to strengthen this connection include offering interest group membership to any approved university, offering a pool of guest lecturers, and providing a student forum for web site and newsletter submissions.

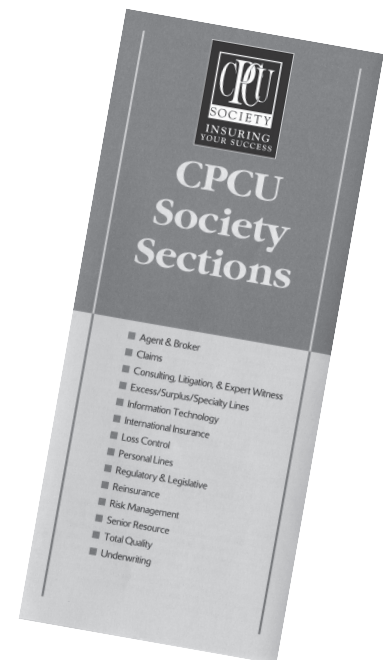
Value-Added Services (VA)

VA1—Develop Consistent Format and Content Standards for Core Interest Group Offerings

Rationale: As membership increases to all CPCU Society members, interest groups have an opportunity to promote their value to a wider audience. Longer term the strategy is to broaden interest group reach outside of the CPCU Society. This strategy requires content that compares favorably with alternative offerings. Specific content targets and standards assure the CPCU Society member regularly receive high-quality content. Support and governance for this recommendation is contemplated under recommendation OS3 above.

VA2—Expand Delivery Methods of Technical Content

Rationale: Time and expense dictate member participation. Present delivery methods of the newsletter and the CPCU Society’s Annual Meeting and Seminars for technical content should be expanded by the interest groups to include webinars, more symposia, and chapter-ready presentations through a pool of local speakers. The possibility of on-demand or ability to purchase video of the CPCU Society’s Annual Meeting and Seminars must be considered to meet the needs of our growing international presence and those who cannot attend CPCU Society’s Annual Meeting and Seminars.



VA3—Encourage Interest Groups to Convert Highest-Rated CPCU Society Annual Meeting Technical Seminars into Symposia

Rationale: A great deal of work goes in to producing quality technical sessions that are presented at the CPCU Society’s Annual Meeting and Seminars. In their efforts to re-brand themselves and increase awareness of their offerings, interest groups have an opportunity to convert these programs into tested and finalized symposia. Not only does this effort support the strategic goal of industry outreach, but it offers an additional revenue source to the CPCU Society.

VA4—Conduct SWOT Analysis for Each Interest Group; Implement Findings

Rationale: As the interest group expectations change and the prospective members increase to all CPCU Society members, each interest group needs to assure that their offerings align with member needs. Action plans should be developed based on the findings and reported back through the interest group governors. ■

Institute Revises the Associate in Risk Management Program

With the recent publication of *Risk Financing*, the Insurance Institute of America has completed a two-year long project to update the ARM program. According to **Richard G. Berthelsen, J.D., CPCU**, ARM program director, "We built upon the program's already strong fundamentals when we updated each chapter. More than one dozen renowned practitioners and professors devoted their considerable expertise to help revise the material. The revision was necessary to address significant concerns that were not emphasized in the existing textbooks, concerns such as terrorism, corporate governance, and cyber risks.

ARM consists of three courses:

- ARM 54—Risk Assessment
- ARM 55—Risk Control
- ARM 56—Risk Financing

ARM 54 was refocused from the "Essentials of Risk Management" to risk assessment. According to Berthelsen, "We felt that risk management could be thought of in two phases—risk assessment and risk treatment. The two approaches to risk treatment—risk control and risk financing—were already the focus of ARM 55 and ARM 56, so it seemed natural to shift the emphasis of ARM 54.

Specifically, ARM 54 now has expanded treatment of liability loss exposures, insurance as a risk financing technique,

management liability, and corporate governance.

ARM 55 was extensively updated and expanded in this revision to address the evolving old risks and the emerging new risks for which today's risk management professionals have become responsible. The selection and implementation of risk management control techniques must often be specific to a specific risk. As risks change, so must the techniques used to control them. Consequently, several new chapters have been added, such as those discussing intellectual property and claim management. Many additional concerns were also addressed such as catastrophe modeling, mold, and workplace violence.

The fourth edition of the ARM 56 text is a refinement of the third edition text. The Institutes kept much of the existing structure of the text, but some of the content was consolidated. Consequently, the text went from 16 chapters to 13 chapters. That is despite adding a new chapter on noninsurance contractual transfer of risk. The new text is available now for exams administered beginning in January 2007.

The Institutes has developed SMART materials for each of these revised courses to assist students in learning the content and passing the national exam. For more information, go to www.aicpcu.org. ■

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Risk Management Quarterly Co-Editor

James W. Baggett Jr., CPCU, CIC
Gray & Company, Inc.
E-mail: jbaggett5@cox.net

Risk Management Quarterly Co-Editor

Jane M. Damon, CPCU, CPIW, CIC
Wachovia Insurance Services
E-mail: jane.damon@wachovia.com

Risk Management Section Chairman

Patricia A. Hannemann, CPCU
E-mail: pah@hoco150.com

Sections Manager

John Kelly, CPCU, ARM
CPCU Society

Managing Editor

Michele A. Ianetti, AIT
CPCU Society

Production Editor/Design

Joan Satchell
CPCU Society

CPCU Society
720 Providence Road
Malvern, PA 19355
(800) 932-CPCU
www.cpcusociety.org

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www.cpcusociety.org

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