

## 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.

If you missed the CPCU Society's Annual Meeting and Seminars in Atlanta, you missed a lot of excellent sessions, wonderful networking, good company, and good parties. Needless to say, you really should plan on attending the next one, which is scheduled for September 9–12, 2006, in Nashville.

The Risk Management Section was honored to have its own session with a panel discussion titled "How Behavior and Decisions Are Impacted by Leadership, Corporate Culture, and Ethical Guidelines." The distinguished panel members discussed several ideas from the consumer, legal, and psychological perspective. The discussion flowed from how and why we participate in corporate culture to how the consumer perceives a company's culture and how that perception ultimately affects decisions.

The Risk Management Section Committee held its meeting to plan events for the coming year. In attendance were **George J. Kolczun Jr., CPCU**, **Stanley Oetken, CPCU**, **Jerome Trupin, CPCU**, **CLU, ChFC**, **James W. Baggett Jr., CPCU**, **CIC**, **Jeffery L. Bronaugh, CPCU**, **CLU**, **ChFC**, **CIC**, **Walter G. York, CPCU**, **Jane M. Damon, CPCU**, **CPIW**, **CIC**, **Charles H. Morgan, J.D., CPCU**, **CLU**, **CSP**, **ARM**, **Colleen K. Ozanne, CPCU**, **Richard Berthelson, J.D., CPCU**, **Martin J. Frappolli, CPCU**, and yours truly. A special thank you to everyone for attending and making this meeting one of the largest and most productive ever! With many new faces and great minds, we are hoping to make the coming year a very enlightening and valuable one for all of our section members.

Now for something to test your mind and eye; I hope you enjoy it.

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# 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* has another great set of articles for you. Our chairman, **Patricia A. Hannemann, CPCU**, discusses the 2005 Annual Meeting and Seminars held in Atlanta.

A special tribute to **Kathleen A. Murphy, CPCU**, our former editor of the *Risk Management Quarterly* is included in this issue. Jim and I are proud to be following in her footsteps.

**Charles H. Morgan, J.D., CPCU, CLU, CSP, ARM**, has written an article on flooding. This is the beginning of the natural disasters in North America and flooding is of concern to many. Planning is an important step for being prepared.

**George L. Head, Ph.D., CPCU, CSP, CLU, ARM, ALCM**, our monthly contributor, has included an article on loyalty to your broker.

**Greg Hart, CRM, CHSP, ARM**, has provided an article on insurance company loss control. The article will assist in preparation prior to the inspection, handling the inspection, and closing the interview. It is sure to be of interest to all risk managers. ■

## A Special Tribute to Kathleen A. Murphy, CPCU

At the CPCU Society's Annual Meeting and Seminars in Atlanta, the Risk Management Section presented **Kathleen A. Murphy, CPCU**, with a gift for her many years of service to the Risk Management Section Committee as the editor of the *RMQ*. Unfortunately, she was unable to attend the meeting for this presentation. We thank Kathleen for her many years of service and wish her the very best in her future.

### To Kathleen A. Murphy, CPCU Presented at the 2005 CPCU Society Annual Meeting and Seminars in Atlanta

*The Risk Management Section Committee is pleased to present you with the enclosed CPCU clock. It is our way of expressing our gratitude to you for having been the Risk Management Quarterly (RMQ) editor for several years. During your tenure you demonstrated good judgment in the articles presented, and helped make the RMQ a viable product for the Risk Management Section.*

*Your efforts in establishing an editorial position and forging the relationships to make the RMQ a superior publication has enabled the editors that follow to be more effective and to build on your many accomplishments. During the years you spent as editor, you were the driving force in significantly helping the Risk Management Section become a leading interest section.*

*Although this is your last year on the Risk Management Committee, we hope you will continue to be a member of the Risk Management Section. Thank you for your many years of service.*

—The Risk Management Section Committee

# Floods: What To Do Before, During, and After Such an Emergency Strikes

by Charles H. Morgan, J.D., CPCU, CLU, CSP, ARM



**Charles H. Morgan, J.D., CPCU, CLU, CSP, ARM**, is in charge of the loss control program at the Banc of America Corporate Insurance Agency in Cranford, New Jersey. He can be reached at [charles.morgan@bankofamerica.com](mailto:charles.morgan@bankofamerica.com) or (908) 653-3177. This is a full-service corporate broker providing both property and casualty insurance, as well as employee benefits to a wide range of corporate and private clients.

**Editor's note:** This article originally appeared in *RM/Insights*, the newsletter of the Risk Management/Insurance Practice Specialty, Volume 4, Number 3 by the American Society of Safety Engineers, and is reprinted here with permission.

## Introduction

In view of the widespread property damage and loss of life sustained recently due to Hurricane Katrina, the American Society of Safety Engineers (ASSE) Risk Management/Insurance Practice Specialty determined that it would be a useful service to its readership to develop a short series of "flood facts" to assist the members in the event that they are confronted with such a similar natural disaster.

## "Flood Facts"

Among the class of perils termed natural disasters, floods and flash floods kill more people in the United States than any other, and cause property damage in excess of a billion dollars annually. The State Farm Insurance Company's web site ([www.statefarm.com](http://www.statefarm.com)) indicates that 90 percent of all U.S. natural disasters involve flooding of some form. The general term "flood" means the threat from rising ground water, whereas "flash floods" are rapidly moving walls of water 10 to 20 feet high resulting from sudden storms or bursting dams.

While the good news is that information from the local emergency management office or Red Cross can readily determine whether a particular property is located in a flood plain, approximately one in four flood disasters occurs in areas with a low to moderate historical risk of flooding. Accordingly, the prudent property owner should seriously consider obtaining flood coverage from the National Flood Insurance Program, as the typical homeowners policy excludes such damage. A property owner's local insurance agent can provide information on how to access this program.

This fact sheet is more about loss control than insurance, however, and as with any peril there are prudent measures that can be adopted to reduce both the frequency and severity of flood losses. An excellent source of information on this subject

is the Federal Emergency Management Agency's *Emergency Management Guide for Business & Industry* (available from [www.fema.gov](http://www.fema.gov)). Furthermore, life safety issues such as evacuation routes, and the like, are beyond the scope of this article as the focus here is on emergency preparedness and response.

The FEMA Guide suggests three basic types of flood proofing one's building. The first is termed "permanent flood proofing," and includes the following steps:

- Filling windows, doors, or other openings with water-resistant materials such as concrete blocks or bricks. This approach assumes the structure is strong enough to withstand flood waters.
- Installing check valves to prevent water from entering where utility and sewer lines enter the facility.
- Reinforcing walls to resist water pressure. Sealing walls to prevent or reduce seepage.
- Building watertight walls around equipment or work areas within the facility that are particularly susceptible to flood damage.
- Constructing floodwalls or levees outside the facility to keep flood waters away.
- Elevating the facility on walls, columns, or compacted fill. This approach is most applicable to new construction, though many types of buildings can be elevated.

The second class of controls are termed "contingent," and include measures taken before a flood, as well as additional action when flooding occurs. These are as follows:

- Installing watertight barriers called flood shields to prevent the passage of water through doors, windows, ventilation shafts, or other openings.

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- Installing permanent watertight doors.
- Constructing movable flood walls.
- Installing permanent pumps to remove flood waters.

Finally, there are "emergency" flood-proofing measures that can be taken when flooding is imminent. These include:

- Building walls with sandbags.
- Constructing a single wall by stacking small beams or planks on top of each other.
- Providing for emergency backup pumps, generators, and battery-powered lighting.

Following a flood emergency, another FEMA Factsheet (September 1993) suggests the post-loss steps that should be taken to minimize the severity of the incident. These include:

- Pump out flooded basements gradually (about one-third of the water per day) to avoid structural damage.
- Check for gas leaks, shutting off the main valve if a leak is detected. Call the gas company from a neighbor's property.

- Check the electrical system for sparks, broken or frayed wires, or burnt insulation. If any are detected, the power should be shut off at the breaker box and an electrician should be called immediately.

Other post-disaster recovery guidelines suggested by FEMA include the following:

- Listen for news reports to learn whether the community's water supply is safe to drink.
- Avoid floodwaters; water may be contaminated by oil, gasoline, or raw sewage. Water may also be electrically charged from underground or downed power lines.
- Avoid moving water. Six inches of water will reach the bottom of most passenger cars causing loss of control and possible stalling. A foot of water will float many vehicles. Two feet of rushing water can carry away most vehicles including sport utility vehicles (SUVs) and pick-ups.
- Be aware of areas where floodwaters have receded. Roads may have weakened and could collapse under the weight of a car.

- Stay away from downed power lines, and report them to the power company.
- Return home only when the authorities indicate it is safe.
- Stay out of any building if it is surrounded by floodwaters.
- Use extreme caution when entering buildings; there may be hidden damage, particularly in foundations.
- Service damaged septic tanks, cesspools, pits, and leaching systems as soon as possible. Damaged sewage systems are serious health hazards.
- Clean and disinfect everything that got wet. Mud left from the rainwater can contain sewage and chemicals.

## Additional Information

Flood insurance: consider the following facts:

- As noted above flood losses are not covered under homeowners insurance policies.
- The National Flood Insurance Program alluded to above is administered by FEMA. It makes federally-backed flood insurance available in communities that agree to adopt and enforce floodplain management ordinances to reduce future flood damage.
- Flood insurance is available in most communities through independent insurance agents.
- There is, however, a 30-day waiting period before flood insurance goes into effect. This provision is intended to preclude the last-minute procurement of such coverage based upon predictions of imminent flooding due to the approach of a major hurricane.
- Flood insurance is available whether the building is in or out of the identified flood-prone area.
- With respect to commercial properties, one of the most significant issues to consider is having adequate business interruption insurance. The coverage

described above covers only the physical property itself and makes no provision of the incidental costs that a business owner incurs in the aftermath of a flood.

## **Business Interruption Coverage**

As the needs of every business are unique, it is essential to have a meaningful dialogue with one's agent or broker when the policy is issued to assure that the limits are adequate for the exposures peculiar to the applicant's operation. Many businesses qualify for the basic Business Owner's Policy (BOP), which automatically affords business interruption and extra expense coverage for a year. While most business owners would anticipate that this is ample time for a full recovery of operations, there are certain restrictions that are inherent in this form that one must consider. With respect to payroll, for example, the basic form only provides for 60 days of coverage. Older buildings might also be subject to the additional costs of rebuilding to comply with more stringent building codes that have been enacted since the original building was erected. As most policies exclude the costs associated with enhanced code compliance, this is an issue that must be addressed at the time of policy issuance. These are but two pitfalls that a business owner may experience in the event that his or her business interruption policy is not carefully tailored to the particular features of the applicant's firm. Accordingly, it is essential that the client's agent or broker have a true understanding of all aspects of the business being covered at the time of policy issuance to assure that there are no unintended gaps following the loss.

## **Conclusion**

As noted above, floods are the most common and destructive of natural disasters in the United States, but their effects can be greatly mitigated by being aware of these various pre-loss and post-loss control techniques. Also, while the article tended to emphasize recommended loss control techniques, the insurance aspects of flood preparation should not be overlooked. In view of the inherent limits of the typical homeowners policy, the restrictions contained in the FEMA National Flood Program, and some of the pitfalls associated with business interruption insurance, it is essential that all policyholders secure the services of a professional agent or broker to assist them in this regard. This requirement is no less important for the typical homeowner than it is for the business owner whose enterprise may be wiped out by a storm such as Katrina. Finally, despite the widespread criticism that has been directed at FEMA during the course of recovery efforts, the reader is urged to review its web site listed above for the wealth of information that is contained therein. This article has merely scratched the surface of this valuable resource. ■

# Don't Miss this Risk Management Section Seminar at the 2006 Annual Meeting and Seminars!

## Employee Dishonesty and Employee Theft: Coverage Choices for an Often-Overlooked Exposure

Tuesday, September 12, 2006, 8–10 a.m.

Have you heard the one about the school board employees stealing \$11 million? How about the printing firm bookkeeper who stole \$2.3 million? Or the hotel controller who pocketed \$14 million? The list goes on and on. This seminar will highlight some of the major embezzlements of the past few years from small and mid-size firms (see below). Attendees will be able to identify the 2006 changes in the ISO forms; and will learn the difference between employee theft and employee dishonesty forms, and between discovery and loss sustained forms. By the end of the seminar, they'll be better-equipped to cover this often-neglected exposure and identify tricky coverage gaps; and to counsel insureds, underwrite the coverage, and handle claims.

### Presenters

**Jerome Trupin, CPCU, CLU, ChFC**  
Trupin Insurance Services

**David A. Lewis, J.D., CPCU**  
GE Insurance Solutions

### Employee Dishonesty/Theft Coverage Problems\*

#### 1. Bad Credit? No Problem

Betty Jones, an auto dealer employee, submitted fraudulent applications to a lender to obtain financing for customers with poor credit histories. As a result of Betty's fraud, the dealership made sales it would not otherwise have made, and Betty earned commissions. When a number of these high-risk borrowers defaulted, the lender learned of the scheme and brought suit against the dealer to recover its losses. The dealer also sought to recover the commissions paid to Betty.

#### 2. We Provide Complete Service

ABC Management, Inc., a property management company, was retained to operate a public housing project. Fred Smith, the insured's sole shareholder, president, and managing officer, stole more than \$50,000 from a bank account maintained by ABC for tenant security deposits. He used this money to cover up his embezzlement from a tax account. ABC filed a claim with its insurer.

#### 3. As You Like It

Fancy Frocks, Inc., a clothing manufacturer, was victimized by an employee who, thinking he would receive a bonus, forged purchase orders for custom-made clothes that the insured's customers did not order. The employee, however, did not realize that the insured did not pay bonuses. After the insured discovered the fraud, it sold the specially manufactured clothes at a loss and submitted a claim.

#### 4. To Err Is Human; To Really Foul Up You Need a Computer

Due to a computer error, Ed Roberts, an employee of Creative Solutions, Inc. was grossly overpaid. When the error was discovered and Ed was required to refund the overpayment, he quit the job and could not be located.

#### 5. I Think I'm Doing a Great Job

What if Ed Roberts, in the previous example, was the controller of Creative Solutions and instead of the overpayment being due to a computer error, Ed doubled his own salary in the computer system without any authorization?

#### 6. Shoemaker's Children

An insurance agency bookkeeper embezzled \$190,000 by pocketing cash receipts and inserting her name as payee on customers' checks in more

than 100 separate incidents. The agency carried insurance with a limit of \$10,000. No one incident involved more than \$10,000.

*Is there coverage for any of these losses under an employee dishonesty coverage form, for example SAA form CR 00 01 10 90? Would your answer be different if coverage were provided under ISO employee theft form CR 00 29 05 06? In the case of number 6, how much can the agency collect from its insurer?*

We'll explore these problems and more on September 12 in Nashville. If you can't be there, but would like to submit an answer or obtain a summary of the discussion at the meeting, e-mail Jerry Trupin, CPCU, at [trupinj@cs.com](mailto:trupinj@cs.com).

\*Examples 1 through 4 are derived from cases discussed in: "Fidelity Claims: The Year In Review" written by Lisa Block and Adam P. Friedman for the Northeast Surety and Fidelity Claims Conference, September 18-19, 2003. Some of the names and facts have been changed. Number 5 is hypothetical although there are numerous similar cases. Number 6 is based on *American Commerce Insurance Brokers v Minnesota Mutual Fire & Casualty Co.* Minn.Ct.App. NoC9-94-499. ■

**Register today for the 2006 Annual Meeting and Seminars at [www.cpcusociety.org](http://www.cpcusociety.org)!**

# Preparing for the Insurance Company Loss Control Survey

by Greg Hart, CRM, CHSP, ARM, ALCM

■ **Greg Hart, CRM, CHSP, ARM, ALCM,** joined RCM&D—Health Providers Insurance Agency in 2003 after serving as a loss control consultant for several major commercial insurance companies over the past 17 years. Hart's specialty is healthcare safety and risk management with emphasis on workers compensation and property loss control. He also has experience in automobile loss control and professional/general liability loss control for the healthcare industry. Hart has earned professional designations as a Certified Risk Manager, Associate in Risk Management (ARM), Associate in Loss Control Management (ALCM), and Certified Healthcare Safety Professional (CHSP).

Hart's responsibilities include providing risk control services to the clients of the Health Providers/RCM&D office in Richmond, VA, as well as to SISCO and RCM&D clients located in Virginia, Maryland, and neighboring states. His consulting services include assessing and prioritizing the exposures that affect the finances and business operations of an organization, developing business plans to address the exposures, and assisting with the implementation of the plans to control the exposures. He employs various safety and risk management tools and programs to assist clients in this process.

Prior to joining RCM&D, Hart worked for The EBI Companies, The St. Paul Companies, USF&G Co., and Lumbermen's Underwriting Alliance. His most recent employment was in the Healthcare Business Group for Royal & SunAlliance.

**D**epending on how often you market or change your commercial insurance, you are either comfortable in handling the inevitable loss control assessment survey from a new insurance carrier or completely confounded by it. The comfort comes from knowing what to expect from the insurance company risk assessment and preparing for and meeting the expectations of the insurer. Preparation, patience, and courtesy can go a long way toward making the visit not only pleasant but profitable. Good preparation and communication with members of your staff in planning for this visit can make a huge difference in the way the loss control consultant views your company and ultimately how the underwriter prices your risk.

Having worked as an insurance company loss control consultant for 16 years and the past two and one-half years for RCM&D setting up these risk assessments and accompanying the loss control consultant on the assessments, I have seen how a little bit of additional preparation and planning for the visit can spell success for the entire assessment. I have also witnessed how the lack of preparation dooms the survey. Invariably it is the company that most needs to impress the loss control consultant that "drops the ball" through poor preparation, rudeness, or impatience and does not get the insurance quote it so desperately needs.

## Tips to Prepare for the Insurance Company Risk Assessment

Show them how important the assessment is.

I recommend having your most senior administrative executive (owner, CEO, president) schedule to meet with the consultant before and after the walk-through portion of the assessment. This creates an immediate impression that you

are aware of how important the visit is and that you value the consultant's time. Too often the consultant is greeted by a maintenance/facilities superintendent or a supervisor, and given the 10-cent tour. It is a pleasant surprise when the consultant is greeted by a senior executive and treated like a valued customer during the visit. In addition to putting the consultant in good spirits, this gesture shows the consultant that the insurance-buying process and risk control are taken seriously at the top echelons of the organization. This is a great first impression that really sets the tone for the rest of the visit.

Meeting the consultant again before he or she leaves to discuss his or her findings is also a great final impression that shows you value what he or she has seen, and want to hear his or her opinions and recommendations. Often having the senior executive available to explain a situation can allow the consultant to drop a recommendation that he or she would have insisted upon otherwise.

If the senior executive has the time to accompany the consultant on the walk-through survey, it makes an even better impression.

## Be Prepared for the Visit

When the appointment for the loss control assessment is scheduled, ask for a list of all the documents, records, and policies/procedures that the consultant will want to review and all the individuals that should be available to speak with the consultant. It always impressed me when the senior executive would hand me a file with every document I had mentioned in our pre-survey phone call before I even asked for the documents.

Ask specifically what operations or areas they need to see and any particular questions they may want to ask.

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# Preparing for the Insurance Company Loss Control Survey

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Ask consultants how to estimate the time they will require to complete the assessment so you can arrange to have the schedules of your employees free to accommodate the visit.

Speak with the employees who are to meet the consultant so they know when they should be available and understand the importance of the visit (and behave in such a manner).

Don't give the consultant the impression that you are squeezing him or her into your busy schedule or it can make the consultant feel unimportant and unwanted. It is important to plan the flow of the visit so that all the company employees that should meet with the consultant are prepared for the visit and have the time to meet without appearing to be rushed or rushing the pace of the assessment.

## Avoid the Negatives

Almost every organization has a few employees with some disagreeable personality traits. They may be superior in the technical aspects of their jobs and viewed as indispensable assets to the organization, but they are not "people" oriented. It is usually best to keep these people as far as possible from the consultant during the survey. There may be disgruntled employees or those in the midst of personal problems who can affect the mood of the survey if they must interact with the consultant. If it is unavoidable that someone fitting one of these descriptions must meet with the consultant, make sure he or she doesn't meet the consultant alone but is accompanied by someone who can moderate the conversation. It is often best to counsel the "negative" employee prior to the meeting to encourage him or her to be as helpful and pleasant as possible during the meeting.



## Take Control of the Inspection

I recommend that you do not let the consultant wander around aimlessly looking for hazards to address and employees to question. If they don't have some direction or control, some consultants will lose focus and revert into "inspectors" looking only for the negatives.

Show the pride you have in what your company does by leading the walk-through and explaining what you do at each step in the process. Tell the consultant about the history of the company and how it has grown and evolved over the years. Let some of your pride and enthusiasm rub off on the consultant, and get him or her thinking how your company fills your customers' needs so he or she can see it as more than a building full of people and equipment. A word of caution on this approach—do not try to prevent the consultant from stopping the tour to take a closer look at something or to ask a question. The consultant should never get the feeling that he or she is being manhandled or manipulated during the visit or he or she may suspect you are trying to hide something.

## Handling the Closing Interview

The closing interview is perhaps even more important than the first impression, as it is the final memory of your company the consultant leaves with as he or she exits the building. You want to make this as positive as possible.

The person(s) who has accompanied the consultant through the walk-through should stay for the closing interview and be joined by the senior executive and all the other employees involved in specific meetings with the consultant throughout the visit. Again, this shows you value what the consultant has to say, and it helps clear up any misunderstandings or miscommunications by having all the people who have conversed with the consultant together for the closing interview. It also doesn't look like the "handoff" of the consultant from one person to another. Lastly, this approach ensures better continuity when discussing recommendations.

If there are recommendations made that can be corrected immediately, it is best to correct them in the presence of the consultant so he or she knows you are serious about safety and loss control.

During the closing, solicit opinions for your continued improvement, and verify that all areas have been seen and all questions answered. Always offer to have the consultant call or e-mail with any additional questions that the consultant or the underwriter may come up with after the survey.

As a final item, thank the consultant for coming and taking the time to conduct a thorough assessment of your company.

## Which Recommendations Are Important?

In cases where multiple recommendations are made, some are usually easy and relatively inexpensive to correct, while others can be fairly difficult or expensive to address. Are all recommendations of equal importance to the consultant? Does the consultant or the underwriter expect you to comply with all of the recommendations?

It is difficult to answer either of these questions without doing some digging. Insurance companies will expect you to comply with any recommendation that is based on either an existing code or a standard. If the recommendation is based on an OSHA standard, it is important, and the insurance company will expect compliance. Likewise, if the recommendation is based on a building code or an NFPA code that is recognized by the insurance industry and is universally known, then it will expect compliance in this case.

If the surveyor states that a recommendation is based on a code or standard, I suggest that you ask that he or she provides the reference for the code or standard. Sometimes, recommendations are not based on codes or standards, but may be the result of an

underwriting directive. Therefore, by asking the inspector which category of recommendations are being put forth, you will gain a better understanding of why the recommendation is being made, and will be better suited to prioritize compliance of multiple recommendations.

Don't fuss and fight over every recommendation, especially the "easy jobs" that can be corrected quickly or immediately with little or no expense. Getting these types of recommendations addressed immediately or within 30 days of the survey shows your cooperation and commitment to reducing your overall risk. It also makes it easier for you to take a stand on the impractical recommendation that you have investigated and decided not to comply with. For recommendations such as this, I recommend you not tell the consultant to his or her face that you have no intention of complying with the recommendation. The consultant's pride is at stake and this could seriously damage the relationship.

Always ask for time to study the feasibility and cost-effectiveness of the recommendation before determining if you can or will comply. You can then state your case for not complying with the recommendation after having weighed the options and costs. This allows the insurance company to revisit the options if you are unable to comply with a particular recommendation.

## Helpful Tips for Self-Inspections

- It helps to do a self-inspection several days before the planned visit by the insurance company consultant. You can usually identify and address several hazards that would have been seen by the consultant during the survey.
- It is also a good idea to do some housekeeping prior to the survey. If housekeeping is done at shift changes during the day, then timing the survey just after a cleanup can be advantageous.

- Make sure everyone is wearing the appropriate personal protective equipment that is required for the exposure. Also, make sure the consultant and anyone accompanying the consultant on the walk-through has and wears the appropriate personal protective equipment for the areas they enter.
- Check lighting conditions to make sure no lights are out or flickering, and that there are no shadows or darkened areas.
- Extension cords should only be used on a temporary basis, and should be in good condition with no worn insulation or tape.
- Cords, chains, and hoses should not be used in a way that poses tripping or entanglement hazards.
- Equipment should have manufacturers' guards in place.
- All chemicals should be in appropriate containers and labeled correctly.
- Have hazard communication manuals and safety manuals in plain view, clean, and up to date.
- Also, make sure you have inspection certificates and records for boilers, automatic fire protection equipment, and fire extinguishers up to date and available for review.
- My final recommendation is to smile. A smile still goes a long way toward showing a cooperative effort.

Your continuing effort is essential to accident prevention, regulatory compliance, and control of risks in your workplace. Our assistance may be used as adjunct in certain areas of that effort, but we assume and have no responsibility to you or others for the control or correction of conditions or practices existing at your premises. Further, we do not warrant that the completion of any recommendation in this document will assure that the premises or operations are safe or healthful, or are in compliance with any law, regulation, code, or standard. ■

# Loyalty to a Former Broker?

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.

**I**t was odd, yet perhaps inevitable, how long-standing Chef's Bakeries, Inc., which has made and marketed breads and pastries sold in supermarkets throughout the southwest, changed its veteran insurance broker right after Chef's was acquired by the slightly larger, but much newer and more progressive, Baker's Bread Company.

It certainly is not surprising for the insurance broker of an acquiring company to take on the brokerage functions for an acquired company. However, many in the insurance community of the city where Chef's had been headquartered assumed that Harold, who had been risk manager at Chef's for some time and who now became risk manager for the Chef's Division of Baker's after the acquisition, would strive to keep the veteran broker Vince meaningfully involved in at least the Chef's portion of the now-expanded Baker's insurance account. Instead, Baker's vice president-finance sent Vince a letter (with a shown copy to Harold) within a week after acquiring Chef's to explain that Baker's insurance broker would be assuming responsibility for all the insurance needs of the Chef's division as soon as practicable.

## Harold's Dilemma

This letter went on to explain that Baker's vice president-finance had decided to

replace Vince as the vice president realizing that, unlike Baker's, Chef's had had no insurance coverage, not even any risk assessment or loss control measures, in place for dealing with any of the emerging corporate governance liability exposures like those arising from the Sarbanes-Oxley Act and similar federal legislation enacted over the past decade. All Vince had ever done for Chef's in the corporate governance area was to keep renewing Chef's D&O policy for the same \$1,000,000 per-occurrence limit that it had first purchased 20 years ago. The letter said that any broker who apparently was not aware of the many new and skyrocketing liability exposures for firms in the baking business, or had ignored these exposures in trying to meet Chef's insurance needs was himself too great a hazard for Baker's to have involved in any way with its risk management program.

In reading this letter, Harold realized that the vice president might well think the same about Harold, who suddenly felt less secure in his job as risk manager for the Chef's Division of Baker's. After all, the vice president-finance might ask, "Harold, why didn't you ask Vince—or ask somebody—to help you better safeguard Chef's and its directors against potential corporate and personal liability growing out of corporate governance matters? Why not, Harold?"

The vice president-finance might have asked Harold this, but he had not asked yet. Harold wanted to support Vince because Vince had served Chef's for many years, and he had been Harold's mentor on the management style and internal workings of Chef's operations ever since Harold's first day working for Chef's. Furthermore, Vince probably was the most knowledgeable person alive on the full range of operating hazards within Chef's production operations. To force Vince out now would make Chef's a significantly more dangerous place, both for its employees and the consumers of its (now Baker's) products. (Harold was at a loss to explain why Vince had missed the Sarbanes-Oxley and related matters—but so had Harold.)

But, on the other hand, if Harold supports Vince in discussions with Baker's vice president, Harold may endanger his own job—and much more importantly—may block an opportunity to significantly improve the caliber of risk management practiced within at least the Chef's division of Baker's. And better risk management with the Chef's division should, ultimately, make the division more profitable, thus increasing the income and wealth of all of Baker's stockholders—the group to which Harold decided he owed his greatest, ultimate loyalty.

## Harold's Response

Over the next few days, Harold pondered how best to fulfill this loyalty—without unjustly harming his family, Vince, or the consumers of Chef's division products. Harold decided to telephone the vice president-finance of Baker's to ask for a personal meeting at which Harold planned to request:

1. Keeping Vince as a safety consultant to the Chef's division, but no longer its insurance broker.
2. Requiring both Vince and Harold to study risk management at a local university, at Baker's expense, to improve their professional expertise and to earn a degree within a reasonable time that will enhance their value to Baker's.
3. Requiring both Vince and Harold to submit quarterly reports to the vice president-finance on their progress managing the loss exposures of the Chef's division.
4. Requesting the vice president to critique, or otherwise comment substantively on, each of these reports personally to Harold and Vince.

What do you think of Harold's plan? What, if anything, did Harold—or I, George Head—forget to consider in developing or resolving this situation? ■

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*Retired FDNY Battalion Commander Richard Picciotto will speak at the CPCU Society's Annual Meeting on September 10, one day before the fifth anniversary of 9/11.*



*Photo courtesy of Nashville CVB and Heavenly Perspectives.*

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American Institute for CPCU/Insurance Institute of America (moderator)

**Andrew Castaldi**  
Swiss Reinsurance Group

**W. Paul Taliaferro, CPCU, CPA**  
Farmers Alliance Companies

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**Risk Management Quarterly Co-Editor**  
James W. Baggett Jr., CPCU, CIC  
Gray & Company, Inc.  
e-Mail: [jbaggett@grayinsco.com](mailto:jbaggett@grayinsco.com)

**Risk Management Quarterly Co-Editor**  
Jane M. Damon, CPCU, CPIW, CIC  
Wachovia Insurance Services  
e-Mail: [jane.damon@wachovia.com](mailto:jane.damon@wachovia.com)

**Risk Management Section Chairman**  
Patricia A. Hannemann, CPCU  
e-Mail: [david-patricia@verizon.net](mailto:david-patricia@verizon.net)

**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](http://www.cpcusociety.org)

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