

MANAGING RISK



THE ADDIS GROUP

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Reputation: The Sum of All Risks

When Bear Stearns collapsed in March, financial pundits gave a bewildering array of explanations for the \$30 billion demise of what had once been the fifth-largest investment bank in the country. But underlying all the factors was the simple truth that despite the company's reassurances, investors lost confidence in the bank's ability to repay its loans. In other words, the giant financial institution collapsed because it failed to manage its reputation.



No surprise then that a 2006 report by the respected Economist Intelligence Unit noted that "protecting a firm's reputation is the most important and difficult task facing senior risk managers." In a survey, 84 percent of senior risk managers felt that risks to their company's reputation had increased significantly over the previous five years due to the development of global media and communication channels, increased scrutiny from regulators and reduced customer loyalty. Reputational risk now ranks as a greater concern than regulatory risk, human capital risk, IT network risk, and market risk and credit risk, the survey found. That's because reputation risk is the risk of risks — it can arise when any other risk is not controlled, causing customers, investors and analysts to downgrade their view of the company and its products or services.

Risk managers who try to manage this threat primarily through insurance would probably soon find themselves looking for a

REPUTATION—continued on Page 3

This Just In

IT professionals say smart phones are more likely to cause security breaches than laptops, according to a survey by Credant Technologies. As cell phones get "smarter," they appeal to more knowledge workers, who like their portability. However, that portability also makes a smart phone easier to lose than a laptop. If your employees use PDAs for work, caution them to use their password-protection features to protect valuable data.

Companies can reap significant benefits by identifying and effectively treating depressed workers, according to a recent study published in the *Journal of the American Medical Association*. The study, funded by the National Institute of Mental Health, found that such programs yield advantages in hiring, training, productivity and salary costs that far outweigh the cost of outreach and treatment. The researchers estimated the cost of the program at \$100 to \$400 per worker, while the productivity boost from more hours worked yielded \$1,800 per employee.

Also in this Issue

- Driving the Road to Safety
- Who's Who at Addis

Driving the Road to Safety

A 2003 study by the National Highway and Transport Safety Administration found that the average car crash costs an employer \$16,500. When a worker has an on-the-job crash that results in an injury, it costs the employer an average of \$74,000. Costs can exceed \$500,000 when a fatality occurs. And unfortunately, occupational vehicle accidents account for one of every four worker fatalities nationwide, according to the National Bureau of Labor Statistics.

Every company is exposed to the dangers of unsafe driving – even if only in the commuter trips its employees make. However, numerous strategies and programs can significantly improve driver safety for all your employees, from the harried delivery driver to the casual commuter. According to recent survey, driver safety programs provide a return on investment of at least 3 to 1.

One of the most widely used programs is run by an alliance of OSHA (the U.S. Occupational Safety and Health Administration), the NHTSA (National Highway Traffic Safety Administration) and NETS, the Network of Employers for Traffic Safety. The program's participants include transport giants such as UPS and Amerifleet, as well as GM and Anheuser-Busch. "Our affiliations with NETS is invaluable. At UPS, we put nearly 87,000 drivers on the road every day. NETS helps us to stay current on important traffic safety

issues," says Charles Halfen, corporate fleet safety manager, UPS.

The NETS Ten Step Program

- 1 Senior Management Commitment and Employee Involvement** – The involvement of top-level managers and employee representatives underscores the importance of traffic safety.
- 2 Written Policies and Procedures** – A clear and enforceable set of traffic safety policies is the cornerstone of the education effort. They should be disseminated widely and encouraged with incentives.
- 3 Driver Agreements** – Adherence contracts should be signed by all employees who drive for work purposes, whether in company cars or their own vehicles.
- 4 Motor Vehicle Record (MVR) Checks** – Companies must screen out poor drivers before they cause accidents. Check driving records prior to assigning driving du-

ties and periodically thereafter.

- 5 Crash Reporting and Investigation** – All crashes – even minor ones – must be reported. Establish guidelines of how to behave in the aftermath of a crash and thoroughly investigate the cause of each accident with the goal of eliminating future occurrences.
- 6 Vehicle Selection, Maintenance and Inspection** – Make the passive and active safety features of vehicles key criteria when purchasing company vehicles. Whenever possible, choose best in class vehicles. Schedule regular maintenance and safety checks. If private vehicles are used for company business, encourage employees to adopt the same policies.
- 7 Disciplinary Action System** – The company should have a clear policy to punish and deter dangerous drivers by assigning

DRIVING—continued on Page 3



new line of work. Some policies reimburse companies for crisis management costs, while others help them deal with frequent causes of reputation failure such as product liability and recall insurance and errors and omissions coverage. Examples include AIG's Crisis Containment policy, which offers reimbursement of fees and costs of expert consultants responding to one of 17 specified crises. Others include Brand Protection Insurance from Swiss Re. Many product liability and recall policies also include endorsements for crisis management costs. However, no insurance policy can restore a corporation's stock to its pre-loss levels.

The best approach to minimize reputation risk exposures is to analyze the potential risk and identify actions to manage that risk — which may or may not include buying insurance coverages. The input of others will be invaluable in this task.

For example, the company's legal department or legal counsel — how do they see

risk? What risk factors does the company include in public disclosures? What are other potential sources of reputational risk?

The company's insurance broker can provide possible solutions to some of the specific risks identified.

The final stage involves the drafting of contingency plans to deal with specific situations. A PR firm that specializes in crisis management can help your firm create contingency plans to deal with various scenarios. Priya Cherian Huskins, a senior vice president at Woodruff Sawyer, cites the hotel industry as an example of preparedness. In a well-run hotel, every on-duty manager can access a binder with response guidelines for adverse events. "In the midst of a crisis - that's the worst time to plan what you're going to say," Huskins notes.

For more information on protecting your firm's reputation, please contact your Account Manager at The Addis Group. ■

Reputation Worthiness

Lynn Brewer, founder and CEO of The Integrity Institute, Inc., a for-profit research company that predicts and indexes structural integrity of organizations, was Enron's risk manager in energy operations and one of the whistleblowers who brought attention to the company's illegal dealings. She defines reputation as: "A fragile asset that is broad and far-reaching and includes image, goodwill and brand equity. If ruined can devastate the financial health and welfare of an organization.

"'Reputation worthiness' should be measured and the risk managed at the same level as we seek to maintain our credit worthiness." ■

DRIVING—continued from Page 2

points after a moving violation or preventable crash. The system should adopt a progressive discipline approach if a driver begins to develop a pattern of incidents. Define the number of violations an employee/driver can have before losing the privilege of driving for work.

- 8 **Reward/Incentive Program** – Safe driving contributes directly to your bottom line. Recognize it with prizes, awards and incentives.
- 9 **Driver Training/Communication** – Teach and remind drivers continuously about the importance of safety. Courses should cover such issues as securing materials for transport, using seat belts, limiting use of cell phones, the danger of alcohol and drug-impaired driving, driving while fatigued, aggressive driving, driving while under stress and the increased dangers facing young drivers.
- 10 **Regulatory Compliance** – Ensure compliance with highway safety regulations and clearly establish which, if any, local, state, and/or federal regulations govern your vehicles and/or drivers. For more information on driver safety programs, please contact Jim Sheridan, Director of Risk Management of The Addis Group (jsheridan@theaddisgroup.com). ■

GINA Adds to Employers' Compliance Burdens

GINA will make it an "unlawful employment practice" to take discriminatory employment actions against an individual because of genetic information. The Act specifically prohibits failing to hire or discharging an employee on the basis of genetic information. It also prohibits any employer or related entity from requesting, requiring or purchasing an employee's genetic information, unless they are using it (1) to comply with certification requirements of family and medical leave laws; (2) for monitoring the biological effects of toxic substances in the workplace; or (3) for DNA analysis for law enforcement purposes or for purposes of human remains identification, when the employer is a forensic lab.

The law also allows employers to request genetic information for health services, such as under a wellness program, when the employee provides prior written authorization. In all in-

stances, the employer must treat genetic information as confidential and maintain it in separate medical files.

Employees who believe an employer has used genetic information to discriminate against them may file a claim with the Equal Employment Opportunity Commission (EEOC). If the EEOC finds evidence of discrimination, it might file a lawsuit on behalf of the plaintiff in federal court or give the plaintiff a "right to sue" notice. If the employee prevails, possible damages include compensatory damages, back and front pay, and equitable relief.

For information on how GINA will affect your company's human resource administration, or for information on protecting employees' confidential genetic and health information, please contact Bob Enderlein, Manager of The Addis Group's Employee Benefits Practice (benderlein@theaddisgroup.com). ■

Who's New at Addis



Eric Hebe

Eric serves as a vice president in The Addis Group's Captive Division. Eric focuses on account management and business development for Churchill Casualty, Ltd. and MAC Casualty Ltd. Both are heterogeneous, member-owned group captives.

Prior to joining The Addis Group, Eric spent five years with Zurich Insurance Company as a marketing manager and an underwriter. Eric also held underwriting positions with ACE and CIGNA. He graduated with honors from Drexel University, with a B.S. in business administration-marketing and finance.

Eric lives in West Chester, Penn. with his wife, Julie, and daughter Katie. He enjoys bicycling, outdoor activities and travel.



Jaclyn Zukowski

Jaclyn serves as a technical assistant in the Captive Division. Her responsibilities include supporting the account managers and assistant account managers and handling the

day-to-day needs of the Addis Group's captive clients.

Jaclyn has a bachelor of arts degree in business administration from Arcadia University. While at Arcadia, she was a member of the women's tennis team. She also had the opportunity to study in Dominica and travel to England, Scotland and Italy.

Prior to the Addis Group, Jaclyn worked through college at American Independent Insurance Company in claims support and total loss. Most recently she interned at United States Liability Group in their professional lines department.

Jaclyn resides in Delaware County, Penn. She enjoys traveling, reading, tennis and spending time with family and friends.



Jamie Pierson

Jamie serves as the front desk receptionist/administrative coordinator. Jamie is originally from Pittsburgh, where she worked for the Community College of Allegheny County as a human resources assistant for four years. She moved to West Chester after graduating in May 2008 from Indiana University of Pennsylvania with her bachelor's degree in general

management.

Jamie spends most of her time with her bulldog, Chase. She also enjoys Phillies games, the beach, reading and just hanging out with her friends. What she misses most about Pittsburgh is her family, especially her niece and nephew.



Samantha Ciccimaro

Samantha serves as an assistant account manager in the Captive Division. Her responsibilities include supporting the account manager and handling the day-to-day needs of The Addis Group's captive clients.

Samantha has a bachelor's degree in mathematics from LaSalle University. While at LaSalle, Sam was actively involved with the music program and played the trumpet in the jazz and pep bands.

Prior to working for The Addis Group, Sam worked in various facets of insurance including sales, claims and benefits administration.

Sam lives in Wyndmoor, Penn., where she enjoys reading, watching movies and spending time with family and friends. ■



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