



**Risk and
Insurance
Management
Society, Inc.**

L.A. RIMS NEWS

Los Angeles Chapter

The Newsletter for Risk and Insurance Management Professionals March 2002

PRESIDENT'S CORNER

Recently we held our Board of Directors meeting at Aon Risk Services. I would like to thank Aon for hosting our meeting and for their hospitality. Much appreciation goes to Tim Thalman for organizing the evening and being the perfect host.

To give you some insight into our board meeting, we discussed the success of our Education Day, upcoming programs, finances, amending our bylaws to include fiscal responsibility, ideas for expanding our educational program, the membership directory, as well as some pending legislative issues. We will be advertising for committee volunteers to assist us with our endeavors. Keep in mind that your ideas and input are important as well. If you are interested in becoming active in the L.A. Chapter, please contact any of the board members listed on the last page of the newsletter. With your help, we can respond to our membership's needs and make 2002 a success!

See you at the next meeting.

Kathy Merkovsky
President, RIMS L.A. Chapter

FRIENDS OF RIMS CORNER

THE REINSURANCE IMPACT OF THE WORLD TRADE CENTER TRAGEDY

By Andrew J. Barile, CPCU

INTRODUCTION

The largest ever catastrophe to the insurance industry will result in insured losses approaching, and possibly exceeding, \$60 billion dollars, including property damage, business interruption, workers' compensation, aviation, automobile, and life insurance losses. The purpose of these three articles is to bring some focus on the impact of this catastrophe on the reinsurance marketplace.

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In order to accurately assess that impact, we must understand how the distribution of risk within the insurance industry functions, as well as the methodology of risk transfer used within the insurance community, which shifts the financial burdens from Insurer to Reinsurer to Retrocessionaire.

BUSINESS OF REINSURANCE

The business of reinsurance is a comparatively small but integral part of the overall insurance industry. For instance, while there are some 3,000 property-casualty insurance companies operating in the United States that buy reinsurance, there are only some 30 U. S. reinsurers who "sell" reinsurance. To make matters more complicated today, reinsurers have become vertically integrated over the past ten years, meaning that reinsurers today also own or finance primary insurers.

Simply defined, reinsurance is transacted on the basis of an insurance company (the "reinsurer") agreeing to indemnify another insurance company (the "reinsured") for all or part of the insurance risks underwritten by the reinsured. In turn, the reinsurers, to spread their risk have purchased an additional layer of reinsurance, which is referred to as "retrocession" (meaning the purchase of reinsurance by a reinsurer). These transactions have made the reinsurance business truly global in scope.

Reinsurance transactions take place entirely between insurance companies, and involve comparatively little state regulatory control over the pricing, or over the reinsurance agreement language (referred to as Treaty Reinsurance Agreements and/or as Facultative Reinsurance Certificates). Thus, the insurance buying public is generally not aware of the existence of reinsurance, or of its importance in catastrophic events.

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FRIENDS OF RIMS CORNER CONTINUED

DEFINING THE INSURANCE INDUSTRY RISK ASSUMPTION DISTRIBUTION SYSTEM

To better understand the insurance industry risk assumption system, let's look at the recent catastrophic loss at New York's World Trade Center, where initial estimates of insured loss could reach \$60 billion and property damage alone could reach \$10 billion. In 1993, insurers and their reinsurers only paid \$500 million for the World Trade Center bombing, and only \$12.5 billion of insured/reinsured losses for the Northridge, California earthquake.

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MEMBERSHIP COMMITTEE

Interested in joining our membership committee? We are currently working on the membership directory. If you would like to help out, contact Becky Smith at 818.533.4383 or send her an email at becky.smith@disney.com.

GOLF TOURNAMENT COMMITTEE

You don't want to miss out on this one. How can you pass up a day in the sunshine, meeting and greeting golfers and wanna-be golfers? Join this committee to help us plan the day's events, which include pre-tournament activities, advertising, sponsorships, registration, meal planning, raffle prizes, and post-tournament events. Don't get left out of our most popular event of the year. Call Mike Carlin at 626.568.7059 or email him at michael.carlin@jacobs.com.

INTERESTED IN SPEAKING?

Do you have a topic that we need to hear about? If you are interested in speaking at a monthly luncheon, contact Stacy Stevens at 310.571.4290 or send her an email at sstevens@loweenterprises.com. Or if you are interested in assisting Stacy in any capacity, let her know as well.

CHAPTER CLIPS

JOINT SOUTHERN CALIFORNIA CHAPTERS MEETING

A joint meeting between the L.A., San Diego, Inland Empire, and Orange Chapters is being planned for September. We will keep you posted on the date, time, and location. Each chapter will provide a speaker for the program. If you are interested in participating as a speaker or as a member of the planning committee, send an email to Kathy Merkovsky at kmerkovsky@portla.org.

EDUCATION

Are you a member that recently received your ARM? If so, contact Leo Costantino at 213.922.4620 or costantino1@mta.net to get the recognition you deserve. If you are thinking about getting your ARM but your employer is unable to compensate you for the courses, our Chapter may be able to help you as well. Contact Leo with any questions you may have.

PREPAREDNESS AT WHAT PRICE?

Our February program was dedicated to our Friends of RIMS who lost employees in the NY WTC disaster. We had a great turnout. For those of you who were not there, you missed a great program.

Ellis Stanley, CEM, General Manager for the Emergency Preparedness Department of the City of Los Angeles, is considered by many nationwide, to be one of the finest experts in emergency preparedness. Ellis started off the program speaking on the City of L.A.'s preparedness in tragedies such as September 11 event. Coincidentally, the day before the tragedy on September 10, 2001, the City's Emergency Preparedness Department was busy putting on a two-day Bio-terrorist training for the City departmental staff, the second day of training was to have been September 11th. Michael Amado, an American Red Cross International Delegate, a member of the NTSB Aviation Initial Response Team, has been assigned to over 28 federally declared disasters nationwide and shared his experience and footage of the New York experience. Firefighter and lead paramedic Stacy Gerlich, of the LAFD's Disaster Preparedness Unit is Senior instructor for the LAFD's Emergency Response Team program and part of the LAFD Critical Incident Stress Team. Stacy shared her WTC experience and she also showed footage of Ground Zero as well. The program climaxed with a

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presentation from Randall Ely of the Downtown Center Business Improvement District on the impact of disasters in the downtown area and how the private sector responded to the 9/11 crises. If you would like to contact any of the presenters or would like additional information on the City's Emergency Preparedness Department and upcoming training or handouts that may be available, you may contact Ellis Stanley's office at 213.978.0540. Stay tuned as this is just the beginning of great programs we have planned for the year 2002.

LEGISLATIVE UPDATES

ASSEMBLY BILL 747 on Workers Compensation

The California Legislature passed AB 749, which increases workers' compensation benefits in the state. It is likely that Governor Davis will sign the bill.

A few of the increases in benefits for employees include:

- Increases the maximum weekly temporary disability and permanent disability benefits from \$490 to \$602 for injuries occurring after 1/1/03; \$728 for 1/1/04; and \$840 for 1/1/05.

A few of the reforms for employers include:

- Allows self-insured employers access to the same medical information to which insurers are allowed (currently, employers don't have access to medical information);
- Eliminates the treating physician presumption of correctness, except when an employee has pre-designated a personal physician.

The Workers' Compensation Insurance Rating Bureau estimates the bill will cost the state's employers an extra \$3.5 billion a year.

TERRORISM COVERAGE

Congressional lawmakers are requiring hard economic data that businesses are suffering as a result of lack of terrorism coverage. The RIMS (National) Government Affairs Department recently met with Congressional staff on this issue. They would like to hear from companies that are experiencing economic hardship as a result of a lack of available or affordable terrorism insurance. If you would like to offer information, please contact Joanne Waldman at 212.655.6046 or jwaldman@rims.org

TIPS OF THE MONTH

Keep listeners on high alert by ending your presentation within 60 seconds of saying "In conclusion..." or "To summarize..."

Convince Procrastinators to act by focusing on the price of not acting now. Example: "Lets talk about what would happen if you leave this until the last minute

*Exerpted from Communication Briefings
March 2002*

2002 CALENDAR OF EVENTS

March 20, 2002

Chapter Luncheon
The New Otani Hotel

"Navigating the Choppy Waters of Renewals"
Speaker: Mark Hudson

Marsh, Inc.

May 15, 2002

Chapter Luncheon
The New Otani Hotel

"Terrorism Coverage Finding it"
Speaker: Lori Yanklevits - Attorney,
Howrey, Simon, Arnold & White, LLP

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