Executive Summary
CHUBB Group of Insurance Companies
Guest Speaker: Karl Butler

The purpose of this assignment was to introduce business school students to the importance of networking within the professional world and enrich the course material with insights from experts in specific fields of project management.

The requirements include the identification of a project manager with expertise on a group's assigned topic. The topic selected for the group identified in this deliverable is risk management. These deliverable addresses: Risk management, integration management, communications management and professional/social responsibility.

Karl Butler from Chubb Insurance spoke to the class on Monday, November 8, 2010. He related Chubb Insurance to specific topics previously covered in class. The group provided Karl an outline covering critical aspects of risk management discussed throughout the PMP® Guide Book, and informed him regarding logistical information necessary for proper completion.

Karl's effectively related his position as area manager for loss control services to the topic of risk management. Specifically incorporated within the presentation, a prominent example was used to illustrate the affects of transferring and mitigating risk in the insurance industry. This example was beneficial for students, due to its relevance and the recent impact it had on the Boulder community.

Subsequently, the following Wednesday, November 11, 2010, the assigned risk management group was required to facilitate a class discussion covering specifics from Karl's discussion. These details needed to be documented and turned in no later than one week after Karl's presentation.

The risk management group facilitated a classroom presentation and discussion geared towards debriefing Karl's previous presentation and assimilating it with predetermined requirements. This facilitated discussion is complied into the following deliverable and should be used as a tool to help encompass the overall relationship between risk management and Karl Butler's position as area manager for loss control services at Chubb.

Find enclosed a presentation write-up summarizing Karl's discussion leads into a compilation of student facilitated worked. This includes but is not limited to communications management, integration management and professional/social responsibility as well as their correlation established within risk management.

<u>TOPIC OVERVIEW: RISK MANAGEMENT</u>

Karl,

Please find this outline to be helpful in terms of identifying what topics and terms have been discussed in our classroom lectures. Do not feel obligated to follow this outline; we simply want to provide you with the Project Management terminology, in turn helping you structure your presentation.

Risk Management: Involves identifying, analyzing and responding to risk. Allows for maximizing the results of positive risks and minimizing the consequences of negative risk.

Positive risk: Can be seen as an opportunity for a project where the project manger and team members can decide to exploit, share, enhance or accept the risk.

Negative risk: May be seen as a threat to the project in which the project manager and team members can decide to avoid, transfer, mitigate or accept the risk.

Reasons for managing risk: Managing risk through risk analysis can reduce project problems by as much as 90%. More importantly, it increases the chances of the success of the project and allows more information to be available during the planning stage of the project.

Risk Factors: Probability of occurrence, range of possible outcomes (it's the impact or the amount at stake), expected timing of event, anticipated frequency.

Ways to Categorize Risk:

External: Regulatory, environmental, government, market shifts
Internal: Time, cost, or scope changes; inexperience; poor planning; people; staffing; materials; equipment.
Technical: Changes in technology
Unforeseeable: Only a small portion of risks (some say about 10 percent) are actually unforeseeable.

The Risk Management Process:

- **Plan risk management**
- **Identify Risks**
- **Perform Qualitative Risk Analysis**
- **Plan Risk Responses**
- **Monitor and Control Risks**

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Driving Directions:
From the North
Traveling from the north you will be coming into Boulder on the Diagonal Highway (119), which turns into Foothills Parkway. Turn right (west) on Arapahoe Avenue. Turn left (south) on 28th Street. At the first traffic light turn right (west) on Colorado Avenue. Turn left (south) onto the campus at the first traffic light on Regent Drive. Shortly after Regent Drive curves to the right, turn right into the Koelbel building drive and parking lot 430. Follow the driveway into the public parking areas. The Leeds School of Business building is adjacent to the public parking areas.

From The South – Including Denver International Airport (DIA)
Traveling from the south (DIA) you will be coming into Boulder on Highway US 36, which turns into 28th Street. At the first traffic light in Boulder, turn left (west) on Colorado Avenue. Turn left (south) onto the campus at the first traffic light on Regent Drive. Shortly after Regent Drive curves to the right, turn right into the Koelbel building drive and parking lot 430. Follow the driveway into the public parking areas. The Leeds School of Business building is adjacent to the public parking areas.

Presentation Write-Up: Karl Butler

Karl Butler is a loss control risk manager for Chubb Insurance. The essence of his job entails mitigating and reducing loss. He oversees operations in five western-slope states, managing and engaging in preventive risk measures for commercial clients and individual clients. There are two parts of Chubb Insurance; there is the carry side and the agents. The carry side includes the underwriters, who write up the policy. The agents are in the market for the carriers, so they go out into the field and gather information regarding the companies they are insuring.

Chubb Insurance differentiates itself from other insurance companies by focusing their business on the niche markets. Within these niche markets, Chubb Insurance focuses on three main areas: Core commercial, personal line insurance and specialty. Karl Butler specifically works in the core commercial area where he seeks out clients in various industries such as manufacturing, oil & gas and mining. It's in Biotechnology though where they have become the largest writers for insurance. In terms of loss control, which is a subcategory for core commercial, there three primary areas of business which Chubb insures. First is property and casualty risk, where they look at certain aspects of the industry such as the workers compensation and product liability. Second, is water machinery, where they insurance for mechanical breakdowns. Third is the premium auditor, which is based on the average number of employees the firm has employed.

For the commercial side of the industry, Chubb sends in their employees to collect information for the underwriters to draft their claims. So with the property and casualty risk they use several tactics to classify the risk of the company such as building classification, designs of safety systems, and probably loss based on the building protection system. Then they also look at the general liability of the company by looking for potholes in the parking lot, the lighting outside the building and the general liability of the business by making sure the company is checking for third party insurance of the people they temporarily hire. Also the reason they look for pot holes and such in the parking lots is due to the fact that the two primary ways the insurance companies experience loss is by back strains and slip, trips and falls. Finally they also inspect the product liability by examining it and seeing how likely it will hurt someone. For example, with biotech firms they look at the likely hood of it hurting someone and the ramifications of the product.

There are two primary ways in which insurance companies can make money, through premiums and investment. To determine the premium to charge their customers, Chubb uses the combine ratio. The combine ratio employs the cost of loss plus the cost of expenses. Typically Chubb, like most other insurance companies, don’t rely heavily on premiums as a source of income as oppose to their investments. Chubb utilizes a conservative style of investing, putting nearly 97% in AA bonds or better and the other 3% in equities. Karl mentions how in today environment many insurance companies are losing money on their investments, because as the bonds begin to expire they are now forced to invest with low interest rates.

When people choose Chubb as their insurance company, they know that it is not going to be the cheapest insurance out there. In fact, in terms of their housing insurance, they specially tailor their products for home worth a million dollars or more. Those homes worth less than a million dollars, the spread widens significantly from the cheaper insurance. So in regards to the recent incident of the four mile canyon fire, many of those houses that were insured fell into the category a million dollar homes or more. This particular area of the market, home insurance, falls into the subcategory of Chubb’s personal lines.

In conclusion, Karl enlightened the class on areas that he considered most important and valuable when assessing an individual and their competence level to perform required work. He mentioned that having and utilizing superb problem solving skills is an essential characteristic that must be harnessed in order to succeed in your work. This is due to the everyday issues that arise, whether it is with a project that is being managed or with a policyholder, and how one must be able to adapt to newly arising conflicts or concerns. This is also an important characteristic that helps foresee the future beyond the current scope. Karl elaborated on the importance of thinking beyond the root cause of the problem, in an effort to gain greater knowledge on why it is occurring and future implications it may have. A rigorous military background also helped sculpt his genuine work ethic, which he deemed as a significant factor in performing quality work. The most significant take-away from Karl's presentation was to find a job that positively motivates the individual in a way that drives success, quality and determination, all synergized to achieve pre-determined goals.

Subsequent Student Write-Up

Intro

Risk management and insurance are directly correlated with one another in terms of assessing and managing risks that may or may not be foreseen. Insurance is a tool used to allocate risk, ultimately addressing the possibility of the risk occurring and in return providing the pre-determined coverage if it does occur. Chubb group of insurance companies operates in specialized niche markets, labeled as commercial property and casualty insurance, professional liability policies (directors and officers insurance and errors and omissions insurance), as well as construction and surety bonds. From a communications management position, in order for risk to be properly managed during a project, communication techniques and tools must be established at the beginning of the project and followed consistently throughout.

Communication Management

It is crucial to possess strong communication skills and to follow through in solid, ongoing relationships; in order to provide outstanding cooperation among stakeholders. In regard to Karl's presentation, communication management effectively ties into risk management on multiple platforms. "Walking into a new business environment everyday and assessing the risk, and in turn consulting with the clients in an effort to increase efficiency and reduce risk" is the driving force behind Karl's position at Chubb. This requires an immense amount of communication between Chubb (the insurer), the client/company (the policyholder), and the specialized risk engineers used to assess the risk of policyholders.

Referencing the PMP® Guide Book, the communication management process involves five processes that address communication necessities and expectations, ultimately gaining more effective communication throughout a project. It is important to note that all of the stakeholders need to be addressed and identified at the beginning of the project or policy. If they are not properly identified, changes made later can be much more costly and harder to integrate. Subsequently, Karl then determines all of the stakeholder requirements, which can be seen as premium rates and percentages in the underwriting process, as well as building code requirements, fire code requirements, etc. In turn, allowing their expectations to be determined which could be valuable in the sense that expectations can unidentified requirements. Planning communication takes place after all the stakeholders are identified, which insures everybody is included in the communication channels that have been determined.

As a specialty insurance provider, Chubb utilizes the technique of analyzing their stakeholders in an effort to control and predict risk occurrences. There are three categories of risk engineers at Chubb, which are: Property/Casualty Risk Engineers, Machinery Breakdown Risk Engineers, and Premium Auditors. These positions directly communicate with stakeholders and policyholders, assessing potential risk and consulting with preventive measures. Communication also takes place between the carrier and the agent. The carrier underwrites extensive and precise policies where as the agent attempts to fix the “best” suited client with the policy provided by Chubb. An example from Karl helps illustrate the carrier and agent communication channel, which likely takes the form of formal written. He mentioned that when dealing with property insurance, policyholders who are looking to be insured and who make less than six figures a year; require an additional analysis that pools them as “high risk candidates.” The conservative stance that Chubb holds as a specialty provider not only ensures upmost quality but outstanding communication as well.

As mentioned earlier, Chubb follows structured communication types such as formal written and formal verbal. In order to have effective and clear communications, these structured types need to be identified and kept consistent with stakeholders. Formal written communication is most effective when applied to complex problems, project management plans, project charter, memos, and communicating over long distances. Formal communication types can help reduce miscommunication during the encoding and decoding processes. Others also find that formal verbal is best utilized during speaking, speeches, and presentations. Karl also engages in nonverbal communication when performing on-site auditing, which he actively does day in and day out. This is important as the PMP® Guide Book notes, that "about 55 percent of all communication is nonverbal (i.e., based on physical mannerisms)" (PMP® Guide Book, 357).

As area manager for loss control services, Karl oversees operations in five western-slope states. In order to guarantee proper documentation, the most common form of communication used is formal written. This was demonstrated in the example of the specialized risk engineers assessing clients during walk-through audits. The risk engineers must formally document their findings, not only to provide proper analysis but also to add to historical data, which can be used in following years. Reporting performance is an important part of communication between policyholders and Chubb, where as if a firm were to lose bodies that are employed, a return premium (RP) must be determined. If the opposite were to happen, and a firm was to gain bodies, an adjusted premium (AP) would need to be calculated. These conditions must be noted but as Karl mentioned, risk may not always be re-assessed to determine a new level after modifying a policy.

Integration Management

As an insurance company, Chubb operates under pure risk management. Every client Chubb Group insures incorporates taking on more risk and Chubb believes that managing a successful risk management program is a complex task with financial, physical and human issues to take into consideration. Chubb will develop a comprehensive program identifying "potential loss sources, prevention and control measures." While this may seem simple in concept, achieving and managing a successful, cost-effective risk management program everyday in all areas is a challenge. Loss control programs incorporate both physical and human aspects of risk management. They should address all aspects of the company regarding workplace safety, property conservation, general liability and fleet safety issues. "An effective loss control program offers much more than regulatory compliance. The impact on all aspects of a business is significant." Integration of an effective loss control program can lead to greater efficiency and productivity, enhanced management practices, improved employee morale, reduced insurance expenses, reduced downtime, reduced staff turnover, and lower absenteeism.

Chubb Group of Insurance Companies first step within integration management process is to develop a project charter according to "PMP Exam Prep." With the project charter, Chubb can thoroughly evaluate potential clients/customers in regards to risk management. Chubb treats each client as a project of there own, and establishes the client's needs in insurance weather that be core commercial, personal, or specialty. The project charter provides a brief description of the client's wants and needs, options, who will be assigned to evaluate the client, what experts may be needed to evaluate, stakeholders, project requirements, and high-level project risks.

Following the project charter, Chubb develops a project management plan for that project/client including the scope of the project, scheduling, costs, quality, human resources, communications, risks, and procurement. The project management plan identifies requirements by law and regulations/requirements of Chubb, such as having flame retardant walls in the warehouse. Chubb provides clients with the options to improve systems in place to lower the premiums such as changing the wood roof of a million dollar home. Ultimately Chubb works to obtain final requirements that is needed to insure a client is spending enough time in risk management to comprehensively identify all potential risks and determining if they should insure the client.

Chubb Group thoroughly plans before they act. Risk management efforts should be appropriate to the size and complexity of each project/client. For Chubb, insuring $70 million in contact lenses that is located next to a mattress factory (one burns to the ground per year) was not worth the risk. There is a need to categorize risks into external, internal, technical, and unforeseeable risks in order to identify where risks lay. Performing a qualitative risk analysis will identify the probability of each risk occurring and the impact of each risk occurring perhaps using a probability and impact matrix. The probability of the mattress factory burning to the ground located next to the contact lenses is high. The impact would significant to Chubb and would not be worth the risk of insuring the contact lens warehouse. Performing a quantitative risk analysis will determine which risk events warrants a response and determining the overall project risk. Chubb will recommend lowering the racks in the warehouse by two feet from the ceiling in order to lower the risk

Social/Professional Responsibility

The section on Social/Professional Responsibility began with a brief overview of Chubb's focus on niche markets. Karl said the homes in the 4 Mile Canyon area tend to be worth $1,000,000+ in order to be considered for insurance. However, Chubb does insure homes worth less than $1,000,000 but their prices are no longer competitive (15% more expensive than competitors for $1million+ homes vs. 60-70% more expensive than competitors for homes worth less than $1million). The reason why Chubb is so successful in these specific niche markets is due to their unique insurance experience for their customers. This relationship begins with the creation of tailored risk management solutions and doesn't end until there is a quick and equitable settlement of claims.

Chubb takes its responsibilities seriously by incorporating their company culture at all levels of the organization, and have actively participated in creating building codes, automobile safety standards and other life and property-saving initiatives. Chubb's 5 Guiding Principles of Business (integrity, prudence, financial strength, expertise and unparalleled service) have driven them since its creation in 1882.

Hedon Chubb, Original Partner, is no stranger to hard work. He was quoted saying, " ...while an insurance policy is a legal contract that expresses our minimum responsibility, there are many occasions when equity demands that we recognize a moral obligation beyond the strictly legal terms — and this is always a consideration in our settlements." Here he is implying that Chubb strives to go above and beyond to ensure utmost quality in the insurance services provided. When the Great San Francisco Earthquake and Fire (1906) occurred, Hendon and Percy Chubb traveled by railroad from New York to California to quickly pay claims to their insured victims.

After the September 11 terrorist attacks on the World Trade Center and Pentagon, Chubb announced it would not seek to apply war exclusions on claims despite the fact that the President and Secretary of State characterized it as an "act of war." They were the first property and causality company t o ever announce such a decision. Their actions influenced the entire insurance industry by how they would respond to the attacks. A member of the House Financial Services Committee from Pennsylvania remarked that Chubb's quick action was "one of the most patriotic commercial activities undertaken during the entire tragedy."

Karl is also not a stranger to work. He worked for many years on nuclear submarines while enlisted in the Navy. While on duty, he worked between 70-120 hour work weeks and uses this disciplined approach every day while providing insurance coverage for customers. He is one of countless examples of individuals within Chubb's employment community that foster good ethics and morals. With a top down approach to management, it is no surprise that Chubb Insurance employees are all on the same page, no matter what their job description entails.

Karl also discussed the 4 Mile Canyon Fire in pretty significant depth. He mentioned there were between 12-15 homes insured by Chubb directly in the path of the fires. To ensure utmost quality and service, Chubb subcontracted with Wildlife Defense Services, a professional fire department for hire, to sit on the lost they provided insurance for. They managed to save all but 3 homes, which unfortunately burned before the Wildlife Defense Teams could get to the fire. Not only is Chubb doing everything possible to save the homes from the fire, they are allowing the regular fire department teams to work on saving other homes. Chubb helped increase the chances for a greater number of homes to be saved during the 4 Mile Canyon Fire. Chubb as a company is fulfilling their responsibilities not only to their customers and the community, but also to their shareholders and employees. By providing such a personal insurance coverage, they are increasing their customer base and capturing up market share.

A.M. Best, a rating agency designated as a Nationally Recognized Statistical Rating Organization by the United States Securities and Exchange Commission, gave Chubb the highest rating (A++) for its claims-paying abilities. Standard & Poor's and Moody's have also rated Chubb very high. The ability to quickly pay claims puts money back in the hands of customers and in the long run, helps increase economic activity. For example, owners of a home that burned down during the 4 Mile Canyon Fire insured by Chubb Insurance would quickly receive payment for their losses. They would then seek to purchase a new home or build a new home. Either way, hundreds of thousands of dollars are put back into the economy faster with Chubb than with any other insurance provider. It also gives its customers the comfort that their insurance company will always be there for them.

Chubb Insurance is also involved in many volunteering and philanthropic activities as well. Chubb's Matching Gift Program, which includes matching employee donations dollar-for-dollar to most tax-exempt charitable organizations (minimum $50 donation; maximum $25,000 donation). After the tragedies of 9/11, the Indian Ocean Tsunami and Hurricane Katrina, Chubb matched 2-for-1 employee contributions to relief organizations. In addition to the Chubb Matching Gift Program, they also donated another $1,000,000 to 9/11 relief foundations and $500,000 each to Tsunami and Hurricane Katrina relief efforts. They have extensive involvement with the American Cancer Society, the Make-a-Wish Foundation and countless Children's Museums across the United States. Chubb Insurance is clearly holding up their end of the bargain and are a beneficial addition to the communities in which they provide insurance coverage.

Risk Management

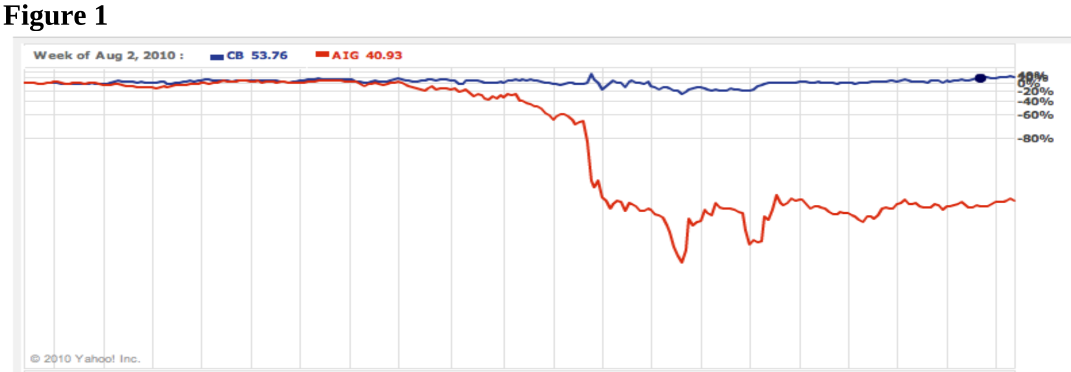
It is essential in risk management to identify, analyzes and respond to risk. Identifying the different risk factors makes the company aware of what can go wrong with the project. It is imperative to involve all stakeholders in this process so the company can obtain as much information as possible. Identifying risks is an iterative process that should begin as soon as a project is started. With insurance companies estimating the probability of occurrence, range of possible outcomes, expected timing in the project life cycle, and anticipating the frequency of the event happening is crucial for any project. Using SWOT analysis allows the company to identify the strengths and weaknesses of the project. There are two types of risk faced by a company, business risk and pure risk. Chubb insurance falls into the category of pure risk since they insure the risk of loss- fire, theft, and injury. It is important though that companies like Chubb insurance are constantly documenting the risks they identify.

Deciding what to do with the risk is the next key step after identifying the risk. This involves analyzing the risks involved and determining which ones to address. Chubb insurance sends their employees out into the field to assess the risk of the individual companies. They do this by looking at the different components of the company and then categorizing the risks so that they can determine the probability of the risk occurrence. For example, when Chubb inspects a company they look at the structure of the building and determine how enduring the structure is to fire. Then with their assessment Chubb classifies the building into one of the six categories of ISO class. Another example is when Chubb evaluates the sprinkler system of the building, by categorizing it into a sprinkle or non-sprinkler classification. However, if the sprinkler system doesn't comply with the needs of the building, Chubb will classify the system as non-sprinkler even if they have one implemented. This is done because the current, ineffective sprinkler system would not make much of an impact on reducing or containing the fire. This brings in another issue of cost. Is the company willing to redesign their current system to avoid higher premium? Also the company should compare this risk to the overall risk and decide its impact on the company.

After thoroughly identifying and analyzing the risk, it is important to decide what to do with the prevalent risk. Responding to risk involves determining what to do with a threat or an opportunity. When facing a threat, the company can choose to avoid, transfer, mitigate or accept the risk and with an opportunity the company could choose to exploit, share, enhance or accept the risk. Insurance companies act as a transfer of risk for their clients, since they are passing on the threat of risk to the company. The insurance company itself looks for ways to mitigate the risk. In terms of fire protection, Chubb responds to the risk by passing it on to a third outside party, the firefighter. However, Chubb is still left with some of the risk that is left behind from the third party such as timing. The fire fighters did not arrive on the scene of four mile until an hour and thirty minutes after it started. By the time they got there, three houses had already burned down. So the time gap between the start and arrive is a risk that Chubb choose to accept. The fire fighters, on the other hand, knew the factors involved in fueling a fire. So as soon as they reached the homes up in four mile they took preventative measures to protect those homes.

Chubb, as a risk adverse company, surpass their competitor by investing in safe bonds. Risky investments hit risk tolerant companies like AIG Inc. hard and caused them the take on government bailouts. Chubb Financial Services, use to be a branch of Chubb Insurance and was involved in more risk tolerant investments. The current CEO of Chubb Insurance, John Finnegan, when first stepping into his new role, eliminated this branch of the business since he didn't understand the role of that business area. This decision ended up saving the company money in the long run with the recent crisis. Here the threshold for John Finnegan, did not know the prospects and benefits of this particular area of business.

Figure 1



(Yahoo Finance)

Karl mentioned that the insurance industry is a cyclical market, so it tends to move with the market. However, examining the graph above, Chubb (blue line) appears to experience little volatility with steady growth. While AIG Inc. (red) on the other hand, crashed with the market and ended up relying on government bailout to help them out of their mess. Here, Chubb outperforms the industry during the crash and appears to reflect the behaviors of a pro-cyclical company relative to the market.

Conclusion

Real life risk management in compliance with PMP principals outlines the importance of continually implementing risk management as an iterative process throughout the life of a project. Incorporating these principals into our own lives allows us to better assess situations and developing solutions that will help better the potential outcomes. Karl’s role with Chubb Group Insurances effectively demonstrates how to successively mange risk. The applications of risk management used by Chubb, allows the company to continue to excel in the industry and create a competitive advantage.

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