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FOR STRATEGIC DECISION MAKERS IN COMMERCIAL INSURANCE

IN FOCUS

INSURANCE
COMPANIES'
EFFORTS
IN THE
WORLD OF
PHILANTHROPY

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TURNING UP THE

PRESSURE

Soft standard
market increases
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specialty business

CURRENT CONDITIONS AND
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COMPETITION AND NEW
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TWO EFFORTS SEEK TO
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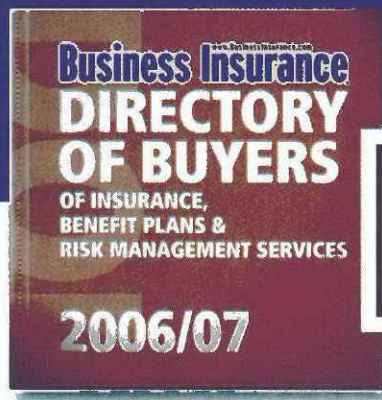
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COVER FOCUS



SPECIALTY MARKETS

Pressure to innovate

Competition from admitted insurers is forcing some specialty lines companies to respond with lower rates, relaxed terms and conditions and innovation. **Page 10**

Complications developing

Commercial insurers of physicians' professional liability exposures face increased competition from alternative markets and new underwriting challenges. **Page 14**

Two-pronged strategy

Modernizing surplus lines regulation by creating a more uniform and efficient system for handling multistate risks is a top priority this year for many industry representatives, lawmakers and some regulators. **Page 16**

FEATURES

I'll be you

A San Antonio-based specialty underwriter differentiates itself in the marketplace through a program called "Walk a Mile in Your Shoes." **Page 18**

Not your father's talent

Industry leaders tout a "generational talent management approach" in looking to attract and retain talented Generation Y workers. **Page 20**

Causes and effects

A look at some of the ways insurance industry companies are involved in philanthropic efforts and charitable endeavors. **Page 21**

Voices can carry

Speech recognition technology may be poised to augment or take the place of some companies' offshore call centers. **Page 22**



THREE QUESTIONS

Russell J. Pass, a member of Bridge Strategy Group L.L.C., discusses benefits and pitfalls of insurance industry offshoring.

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Casting an eye on Generation Y

A lot of insurance industry conferences feature CEO panels, and sooner or later at most of those sessions, the moderator asks the assembled executives what keeps them up at night.

Not surprisingly, those CEOs typically raise such issues as pricing accuracy and rising exposure to natural catastrophe loss and terrorism. But at almost every one of those panels I've attended, sooner or later someone also raises the question of where the industry's going to find its next generation of talent.

Obviously there are a number of fine insurance and risk management programs at business schools around the country, and they're producing well-schooled graduates. To hear some of the experts in workforce matters talk about it, though, the issue is as much a numbers game as a question of education.

The first of the Baby Boomers are nearing retirement and Generation X is smaller in number, leaving a potentially significant hole in the personnel pool that companies are going to have to find ways to fill. And waiting in the wings is Generation Y.

Generation Y, of course, is the appellation attached to those born between 1982 and 1993, the youngsters just beginning to take their place in the workforce. In number, according to demographers, Generation Y is nearly the match of the Baby Boom in the United States, 75 million Gen Yers vs. 80 million Boomers. According to some workforce experts, though, that's where the similarity ends.

I attended an interesting program recently that examined some of the challenges associated with bringing Gen Y into the workplace at a Finance & Insurance Workforce Summit presented by the Workforce Boards of Metropolitan Chicago.

I've reported on the session more extensively elsewhere in this issue of *Industry Focus*, but essentially the program was an examination of some of the key issues and challenges facing insurance and financial services companies as they look to attract, develop and retain the talent needed to be competitive in the years ahead.

There were a lot of important issues discussed, and panelists presented a lot of good

information. For me, though, one unmistakable takeaway was this: Someone's done a pretty good job of marketing on Generation Y's behalf.

Apparently, this group of youngsters differs so much from those that came before that it will be pretty tough to lure them to a company that doesn't offer hot and cold running Starbucks, regular MySpace breaks and a substantial iPod allowance.

Actually, I exaggerate, and it's probably exaggeration born of jealousy. I bought my own iPod, which I play at a reasonable volume, having reached a certain age at which you start looking to ensure that you can continue hearing your music at other certain ages in the future.

And I long ago had my moment of caffeine clarity regarding office coffee drinking, as I realized that regularly topping off the mug all morning meant spending the afternoon

SOMEONE'S DONE A pretty good job of marketing on Generation Y's behalf.

jumpy as a benny freak in some bad Beat-era novel.

Undoubtedly, insurance industry firms looking to recruit and retain Gen Y workers will need to make some changes in the nature of the workplace. Their tech savvy alone marks them as significantly different from their parents.

Maybe one perk employers will need to offer their young hires is writing coaches. According to some views aired at the Chicago workforce summit—both from the podium and from the audience—many new hires have serious problems putting words on a page.

While the computer competence and technical comfort level of Gen Yers entering the workplace is a plus, evidently many of those under 25s have writing issues as a result of growing up used to the informality of e-mail correspondence and text messaging.

Employers aren't LOL about that.

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Insurance Marketing Communications Association

Modest '06 cat losses break with trend

Some 349 natural catastrophes and man-made disasters claimed 31,000 lives around the world in 2006 and caused \$48 billion in economic losses, according to a new sigma study by Swiss Reinsurance Co.

The economic losses associated with the catastrophes were limited by the fact that they occurred mainly in developing countries with low property values, said Zurich, Switzerland-based Swiss Re.

Due to low insurance penetration in those developing countries, insured losses from last year's catastrophes stood at \$15.9 billion, the third-lowest insured catastrophe loss of the past 20 years after allowing for inflation, Swiss Re said.

The low 2006 loss figures were due mainly to a calm hurricane season in the United States and the lack of severely damaging events in Europe. Overall, natural catastrophes were responsible for approximately \$11.8 billion of last year's insured losses, Swiss Re said, with man-made disasters accounting for the remainder.

The most severe of those 2006 man-made disasters were an April explosion in a chemical plant in Port Arthur, Texas; a June steel plant fire in Krefeld,



A chemical plant explosion in Port Arthur, Texas, was one of the most severe man-made disasters in 2006.

Germany; and a January system breakdown at an iron works in Rio de Janeiro, Brazil, Swiss Re said.

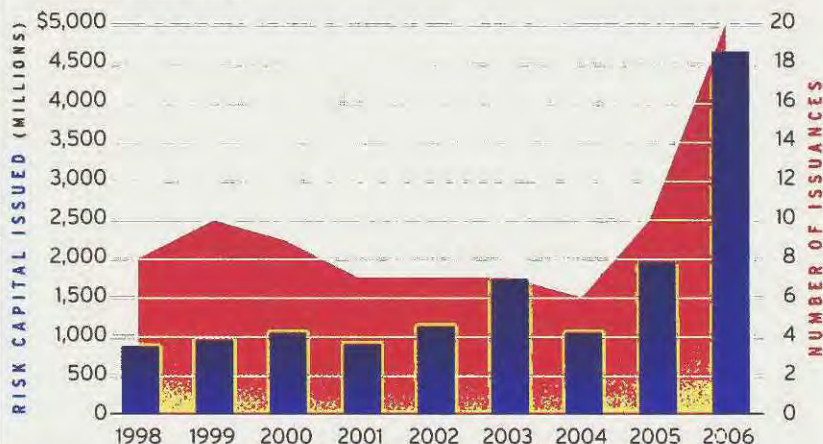
While catastrophe losses were limited in 2006, Swiss Re noted that recent decades have shown a steady trend of increased losses given weather-related catastrophes and a greater concentration of property values in catastrophe-exposed regions.

Going forward, the reinsurer said, the effects of global warming likely will increase losses and lead insurers to modify their catastrophe simulation models to bring them into line with increases in expected damage.

The sigma report, "Natural catastrophes and man-made disasters in 2006: low insured losses," is available online at www.swissre.com. **IF**

BY THE NUMBERS

The catastrophe bond market continues to grow, both in terms of the volume of risk capital issued and the number of bond issues, with 2006 the most active year in the market's history.



Source: Guy Carpenter & Co.

Willis Re opens Seattle branch, expands network

SEATTLE—Willis Re, the reinsurance intermediary of insurance broker Willis Group Holdings Ltd., has opened a new branch in Seattle.

Willis said the new office represents the company's continuing effort to drive organic business growth and expand its network.

Doug May, who was appointed executive vp, will manage the Seattle office. Prior to joining Willis, Mr. May was a managing director at Guy Carpenter & Co. L.L.C. in Seattle.

Willis said opening the Seattle office specifically improves the intermediary's position for business expansion in the Pacific Northwest and the West Coast in general. **IF**



As insurance industry companies look to cut costs and increase efficiency, like businesses in other sectors they're often looking at offshoring opportunities. But the benefits of offshoring can go beyond simple cost savings. Recently, Russell J. Pass, a member of Chicago-based management consultant Bridge Strategy Group L.L.C., discussed some of the potential benefits, possible pitfalls and general considerations associated with offshoring by insurance industry companies.

What are some of the potential benefits insurance industry companies can realize by offshoring some operations?

There are obviously the standard benefits, and cost is one that tends to be prominent and you can't dismiss it. But I think functions going offshore is a way for companies to stan-

dardize and centralize and professionalize in a way. The cost benefit is a thing that tends to be a cause of doing things that tend to have a lot of other benefits for an insurance company.

Another thing is to tap into a specialized pool of expertise. Another is to tap into highly motivated people for whom insurance is the greatest job that they ever aspired to.

If you were only looking at wage arbitrage and that's your only reason for going offshore, I think you're making a mistake.

What sort of insurance industry tasks or functions are particularly likely candidates for offshoring?

One view of this is that you take simple repetitive tasks and those are the ones you look to move offshore. But our view of this is that you have highly skilled people who are available in many countries. So our view is it tends to be...things that can be easily packaged. It's not so much about simplicity as it is about "packageability."

Companies tend to be highly sensitive to customer contact. Runoff claims is a great way to sort of dip your toe into the claims function because the risk of losing the customer is a lot lower. So finance and accounting, actuarial, (information technology), runoff claims—we've had some success.

I think if companies are going to

take full advantage of this, they need to break out of this thing that they're going to take the lowest rote functions and send them to India.

What sort of things should an insurance industry company be looking for in an offshoring partner?

I think there is every combination of offshoring and outsourcing available to companies. You can offshore without outsourcing; you can outsource without offshoring.

One of the trends has been toward outsource companies managing the onshore/offshore mix on your behalf. Insurance companies don't want to be making that decision for themselves. That's not their core competency, picking the right country.

I think one thing you should look for is what is the partner's recruiting strategy for now and the future. Another thing is do they have a reputation for keeping people on the account for a while. What you want usually is a company that will commit some of its best people to your account for the foreseeable future.

Another thing, and this isn't unique to offshoring, is the nature of the relationship you want to have with the partner. If I have a confrontational relationship with my vendor and it's all about reviewing contractual obligations, I'm never going to get more than what the contract provides for. ■

HSB covers public entities from lost tax revenues

HARTFORD, Conn.—Hartford Steam Boiler Inspection & Insurance Co. is offering a new coverage aimed at protecting local governmental entities from the loss of tax revenue due to a fire or other insured accident that destroys residential or commercial property.

The tax interruption coverage responds when physical property damage prevents a town, school district or other municipal entity from collecting property taxes, occupancy taxes, excise taxes or other revenue.

It excludes income tax, fees and

charges.

The coverage is designed for entities that can't afford to lose a sizable taxpayer, Hartford, Conn.-based HSB said.

HSB offers the tax interruption coverage as a turnkey reinsurance program, including claims management services.

Public entity insurers can add the coverage as an enhancement to their current property forms for a portfolio of public entity business.

HSB said that approach keeps premiums lower by spreading risk and by

avoiding the administrative and handling costs that would be associated with issuing separate policies.

The period during which the policy restores lost tax revenue begins with the date of the insured loss; it ends when the damaged premises are restored or in 12 months, whichever is less, regardless of the policy's expiration date.

Coverage is triggered when the tax revenue loss exceeds a specified percentage of the insured's total tax revenue. ■

AIG launches terrorism exposure unit

NEW YORK—American International Group Inc. has formed a new specialty unit to provide access to insurance, risk management and security products and services to help companies address terrorism exposures and risks.

The new unit, AIG Homeland Security Solutions, will offer terrorism-related and security-related products and services available through AIG member companies.

Among the products and services offered will be emergency planning and threat assessments, political risk and property terrorism insurance and crisis management services.

In addition, the company said the AIG Homeland Security Solutions port-

folio was designed to be in accordance with the goals of the U.S. Department of Homeland Security's National Infrastructure Protection Plan, which emphasizes public/private collaboration in crafting a comprehensive, systematic assessment and response to risks threatening critical infrastructure and key resources.

AIG Homeland Security Solutions will be based in New York, headed by Robert Cruz, who was named the new unit's practice

RESPONSE TEAM

The AIG Homeland Security Solutions portfolio was designed to be in accordance with the goals of the U.S. Department of Homeland Security's National Infrastructure Protection Plan.

leader.

Mr. Cruz previously was assistant director, corporate security, at AIG, and also spent more than eight years as an officer in the U.S. Army.

In a statement, Mr. Cruz said the comprehensive approach offered by the new AIG unit would help companies with terrorism exposures "by reducing vulnerability, mitigating damage and creating critical financial protections against the entire range of attacks that occur." **IF**

THE QUOTE

'EVERYONE IS FALLING all over themselves to write noncatastrophe-prone property risks.'

MARK MAHER, PRESIDENT, NIF GROUP

Country expanding throughout Chicago and its neighborhoods

CHICAGO—Country Insurance & Financial Services has moved into the Chicago market, opening a new district office in downtown Chicago.

Michael Fisher, who most recently was market president for Harris Bank N.A.'s south suburban Chicago market, will manage the Chicago district office as director of new market development for Bloomington, Ill.-based Country.

Country also plans to open branch offices in Chicago's Beverly, Bridgeport and Clearing neighborhoods this year, and plans to have 20 Chicago offices with approximately 100



Mr. Fisher

employees serving the city by 2009.

The move is the first time the company has done business in Chicago in its 80-year history. In recent years, Country has been following a strategy of gradually expanding from its traditional base in small-town and suburban Illinois into other markets around the United States.

Country currently does business in 14 Midwestern and western states, and already has 80 offices in the Chicago area that serve 60 communities in the region. **IF**

Chubb online tool helps agents and brokers customize loss scenarios

WARREN, N.J.—Chubb Corp. has developed an online sales tool allowing agents and brokers to create customized professional and management liability loss scenario documents for use in educating clients and prospects about possible losses and insurance.

My Loss Scenarios is an online library containing more than 150 professional and management liability loss scenarios for private companies, nonprofit organizations, health care organizations, financial institutions and professional service firms.

Warren, N.J.-based Chubb plans to add loss scenarios to the library on a regular basis, including scenarios for public companies and other types of businesses.

Using the tool, agents and brokers can customize loss scenarios to the client's business and exposures and assemble a personalized document with the agent's or broker's contact information.

My Loss Scenarios is available to Chubb-appointed agents through @chubb, the company's secure Internet site for agents, brokers and customers. **IF**

Guy Carpenter publishes manual on ERM practices

NEW YORK—Guy Carpenter & Co. L.L.C. has published a comprehensive enterprise risk management guide, "Enterprise Risk Analysis for Property & Liability Insurance Companies."

The book is intended to provide insurance executives, risk managers, actuaries, academics and others with the latest strategies and applications in ERM, with insight from the leading specialists and practitioners in the field.

The New York-based intermediary noted that increased pressures from rating agencies, regulators, parent companies and investors are forcing insurers to implement strict ERM practices. At the same time, ERM is particularly challenging for insurers, Guy Carpenter noted, as they are also assuming their clients'

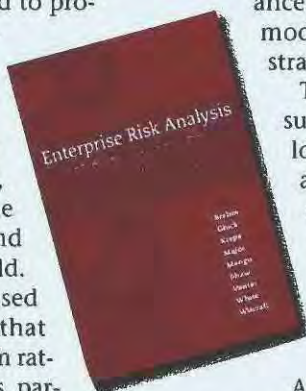
risks.

In addition to addressing ERM theory, the book focuses on practical implementation issues such as models and management frameworks, insurance hazard risks, financial risk models, operational risk and strategic risk.

The book also covers topics such as loss distribution and loss reserves models as well as emerging solutions such as timeline simulation, frameworks for modeling the insurance pricing cycle and models for reinsurance recoverables risk.

Additional information on "Enterprise Risk Analysis for Property & Liability Insurance Companies" and the book's authors can be found at <http://ermbook.guycarp.com>.

Guy Carpenter is a unit of Marsh & McLennan Cos. Inc. **IF**



Anthem BC&BS' 360° Health focuses on care coordination

NORTH HAVEN, Conn.—Anthem Blue Cross & Blue Shield of Connecticut has launched a benefits program designed to comprehensively address preventive care, health improvement and care coordination.

The health insurer said the program, 360° Health, integrates all health management programs and tools into a centralized, consumer-friendly resource that helps members navigate the health care system, use their benefits, and gain access to comprehensive and appropriate care.

A key future component will be MyHealth Record, an online personal health record owned and managed by Anthem members, expected to be available by midyear. MyHealth Record is automatically populated by

member-provided information and claims data received by WellPoint Inc., Anthem's parent company. Members can track claims online and share their health histories with doctors to help improve their quality of care.

Anthem members can gain access to the benefits of the program by phone, e-mail and a personalized Web site.

In addition to the health care information available through the 360° Health platform, Anthem members can get online access to wellness and lifestyle programs, discounts on health-related products and alternative medicine therapies, and access to Anthem associates who can provide health-related information in English or Spanish. **IF**



Ms. Mitchell

APIW honors Mitchell as Woman of the Year for industry achievement

NEW YORK—H. Elizabeth Mitchell, president of Platinum Underwriters Reinsurance Inc., has been selected as the 2007 recipient of the Assn. of Professional Insurance Women Inc.'s APIW Insurance Woman of the Year Award.

Ms. Mitchell will be honored June 14 at a cocktail reception and award ceremony at the New York Marriott Marquis.

Before her appointment to her current position in 2005, Ms. Mitchell was chief operating officer and executive vp of Platinum U.S. Before Platinum's spin-off from St. Paul Cos. Inc., she was executive vp of St. Paul Reinsurance Inc.

During her career, Ms. Mitchell has held various positions at English & American Insurance Group in both London and New York, at Tillinghast/Towers Perrin and at the Insurance Services Office Inc.

Active in various industry groups, Ms. Mitchell currently is vice chairman and a member of the executive committee of the board of the Brokers & Reinsurance Markets Assn., and is a member of the board of the Reinsurance Assn. of America. She is also a frequent speaker on industry and actuarial topics.

First presented in 1976, the APIW Insurance Woman of the Year Award recognizes an exceptional woman who has achieved prominence in the insurance industry. **IF**

New York Life Insurance Co. has appointed **Christopher O. Blunt** senior vp and chief operating officer for the company's life and annuity operations. Mr. Blunt previously was executive vp of New York Life subsidiary New York Life Investment Management. Mr. Blunt replaces Sam Goldfinger, who has been named senior adviser to Ted Mathas, vice chairman and COO of New York Life Insurance Co. Separately, New York Life named **Russell Bundschuh** executive vp and COO of New York Life International. Mr. Bundschuh joined New York Life in 2004 as first vp of corporate development.



Mr. Bundschuh

Angela Braly will succeed Larry Glasscock as president and chief executive officer of WellPoint Inc. on Mr. Glasscock's June 1 retirement. Ms. Braly currently is executive vp and general counsel of the Indianapolis-based insurer. Mr. Glasscock will continue to serve as the company's chairman.

Allan Waters has been

elected CEO of Hamilton, Bermuda-based White Mountains Insurance Group Ltd.'s reinsurance division. Mr. Waters—a director on White Mountains' board since November 2005 who previously held various management positions at the company, succeeds Tom Hutton, who will remain deputy chairman of the White Mountains Re Group

board.

Hamilton, Bermuda-based Max Re Capital Ltd. has named **Walker Rainey** as executive vp and CFO of Max Europe Holdings Ltd., the Dublin, Ireland-based holding company for Max Re Capital's European operating entities. Previously, he was senior vp and CFO of Max Europe Holdings.

Jim Sybert has been named president of Hylant Group's Tennessee office in Nashville.

Before joining Hylant, he was managing director of



Mr. Sybert

the central region loss management services division for Willis Group Holdings Ltd.

Gary A. Amelio is joining ULLICO Inc. as president, retirement services. Mr. Amelio comes to the Washington-based union-owned multiline financial services organization from the Federal Retirement Thrift Investment Board, where he was executive director.

New York-based Risk Specialists Cos. Inc., a member company of American International Group Inc., has named **David A. Jordan** COO. He will continue as a senior vp of Lexington Insurance Co.

Denver-based Van Gilder Insurance Corp. has named **John A. Casper** to the newly created position of president and COO. Before joining the broker, Mr.

Casper was president of Travelers Cos. Inc.'s south-

western region.

New York-based National Investment Managers Inc., a retirement plan administration and investment management company, has appointed **John M. Davis** as CFO. Previously, he was president of private-sector retirement plans at Nationwide Mutual Insurance Co.

Haake Cos. in Overland Park, Kan., has named **Joe**

Erickson COO and executive vp of property and casualty operations. Previously, he was a commercial insurance manager for



Mr. Erickson

Thomas McGee L.C. in Kansas City, Mo.

Milwaukee-based Assurant Health has promoted **Rajeev Bal** to COO. Mr. Bal most recently was executive vp, individual medical, at Assurant.

The Lincoln, Neb.-based UNIFI Cos. has named **John H. Jacobs** president and CEO, effective May 7. Mr. Jacobs has been chairman and CEO of UNIFI's Union Central Life unit since 2002. ■

InsurBanc launches equipment leasing program

FARMINGTON, Conn.—InsurBanc, a federally chartered savings bank serving independent insurance agents, brokers and their clients, is launching an equipment leasing plan tailored to the needs of insurance agencies and their clients.

The Agents' Express Leasing program is the product of a partnership between Farmington, Conn.-based InsurBanc and equipment financing firm De Lage

Landen Financial Services of Wayne, Pa.

Agents' Express Leasing offers terms from 12 to 60 months and is available for equipment such as computers and the software to run them; office technology such as telephones, printers, copiers, fax machines and audio/visual equipment; office furniture and accessories; and commercial automobiles.

The minimum transaction is \$5,000,

and most equipment leases are available with no money down and 100% financing. Leasing for commercial automobiles includes unlimited mileage terms.

The leasing program allows agencies to structure monthly payments to fit cash flow or seasonal business cycles.

Additional information about the program can be found at www.insurbanc.com. ■

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Business Insurance

October 5, 2006
CASUALTY COSTS FALL AS INSURERS HANG ON TO EXISTING CLIENTS/P.3
CSX LEADS REDUCES HURRICANE FORECAST
IN BRIEF
TRI-A supporters draw hope from latest Treasury report
SHOOTINGS SPUR CRISIS PLAN REVIEWS
SCHOOLS STEP UP SECURITY MEASURES AFTER SPATE OF ATTACKS
WOMEN'S WATCH

TRI-A supporters draw hope from latest Treasury report
 By Adam A. Hirschfeld
 TRI-A supporters are looking for a ray of hope in the latest Treasury report. The report, which was released last week, shows that the Treasury Department is considering a number of options to address the TRI-A problem. This is a significant development, as it shows that the Treasury is taking the TRI-A problem seriously. TRI-A supporters are hopeful that this report will lead to a resolution of the TRI-A problem.

Shootings spur crisis plan reviews
 Schools step up security measures after spate of attacks
 By Adam A. Hirschfeld
 A series of shootings in schools across the country has led to a re-evaluation of crisis plans. Schools are now taking more steps to ensure the safety of their students. This includes increasing security measures and reviewing crisis plans. The goal is to prevent future shootings and ensure the safety of all students.

WOMEN'S WATCH
 In this section, we focus on the issues that affect women in the workplace. We cover topics such as pay equity, harassment, and discrimination. We also provide information on the latest news and developments in the field of women's rights.

CSX LEADS REDUCES HURRICANE FORECAST
 By Adam A. Hirschfeld
 CSX has announced that it has reduced its hurricane forecast for the upcoming season. This is a significant development, as it shows that CSX is taking a more cautious approach to hurricane risk. This move is likely to be welcomed by other companies in the industry, as it suggests that the risk of hurricanes may be lower than previously thought.

IN BRIEF
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Business Insurance EUROPE

October 10, 2006
PANALAT AUDITOR IN PROFESSIONAL LIABILITY DISPUTE/P.3
U.K. EMPLOYERS LIABILITY RATES SET TO FALL AGAIN ON 2007/P.10
YEAR IN REVIEW
FROM FIRST FLU TO TERROR, WE RISE UP ITS VIEW OF 2006/P.11

French liability prices could soar by up to 20%
 By Adam A. Hirschfeld
 French liability prices could increase by as much as 20% in 2007, according to a new report. This is a significant increase, and it is likely to be caused by a number of factors. These include an increase in the number of claims, an increase in the cost of defense, and an increase in the cost of settlements. This report is a warning to French companies that they need to be prepared for higher liability costs in the coming year.

U.K. regulator turns up heat on brokers
 By Adam A. Hirschfeld
 The U.K. Financial Services Authority (FSA) has turned up the heat on insurance brokers. The FSA has issued a number of warnings to brokers, stating that they need to be more transparent and more accountable. The FSA has also announced that it will be taking more steps to monitor and regulate the insurance broker industry. This is a significant development, as it shows that the FSA is taking a more active role in regulating the insurance industry.

EC delays findings of industry probe
 By Adam A. Hirschfeld
 The European Commission has delayed its findings on a probe into the insurance industry. This is a significant development, as it shows that the Commission is taking more time to investigate the industry. This delay is likely to be caused by a number of factors, including the complexity of the industry and the need for more information. This delay is a warning to the insurance industry that it needs to be more transparent and more accountable.

CSX LEADS REDUCES HURRICANE FORECAST
 By Adam A. Hirschfeld
 CSX has announced that it has reduced its hurricane forecast for the upcoming season. This is a significant development, as it shows that CSX is taking a more cautious approach to hurricane risk. This move is likely to be welcomed by other companies in the industry, as it suggests that the risk of hurricanes may be lower than previously thought.

WOMEN'S WATCH
 In this section, we focus on the issues that affect women in the workplace. We cover topics such as pay equity, harassment, and discrimination. We also provide information on the latest news and developments in the field of women's rights.

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 WOMEN'S WATCH

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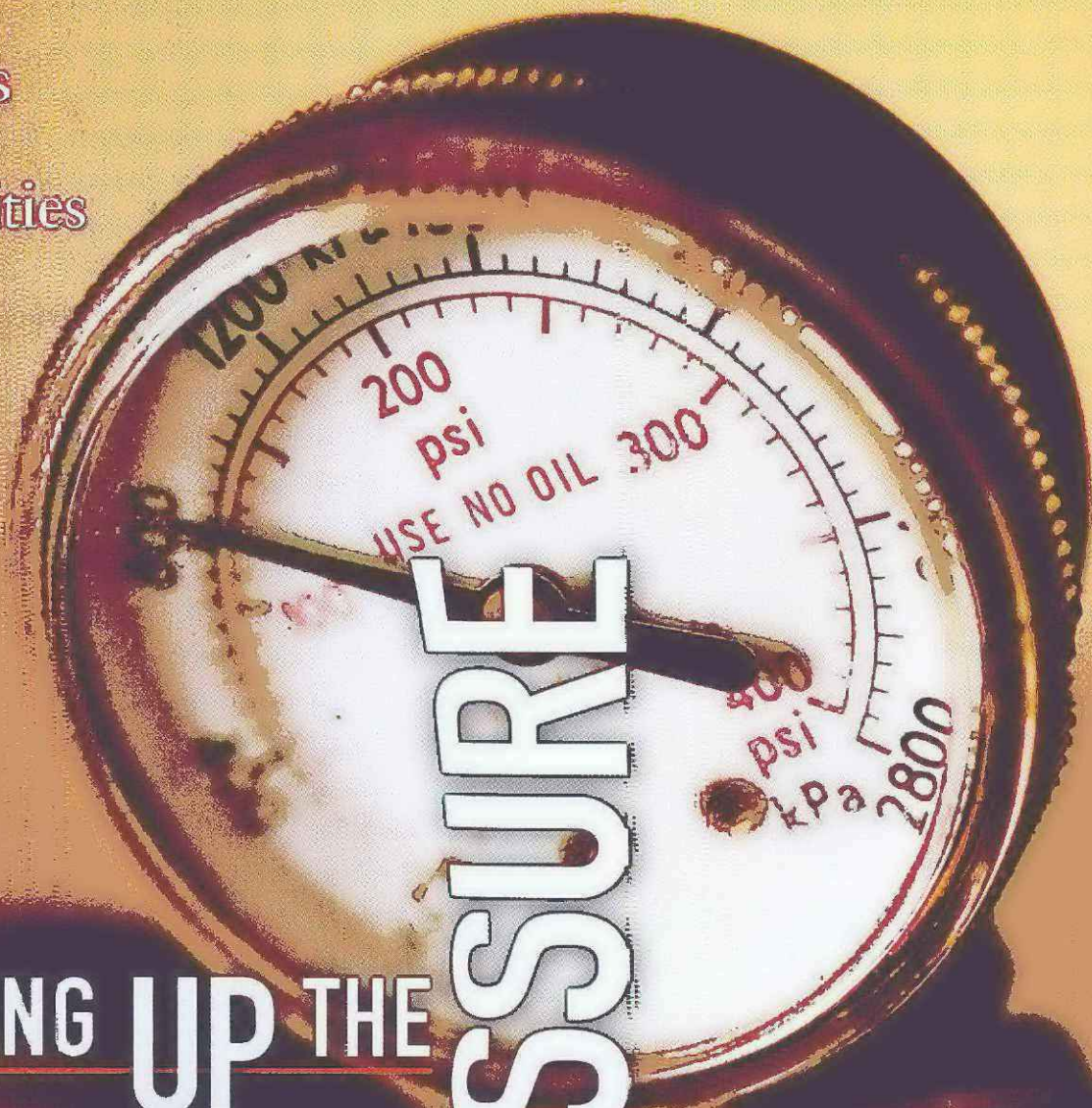
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TURNING UP THE PRESSURE

Specialty lines insurers feeling the squeeze as competition heats up

By Meg Fletcher

Specialty lines underwriters are facing leaner times because of competition from admitted insurers for property/casualty risks.

To entice buyers now, those underwriters are feeling pressured to offer lower rates and more flexible terms and conditions, including some innovative ones.

The underwriters are faced with what the Insurance Information Institute describes as "a considerably slimmer margin of underwriting profitability."

It's part of the "apparent paradox" of peaking industry profits in 2006 and stalling premium growth, which is "a clear reminder of the cyclical nature of the property/casualty business," according to the I.I.I.'s special report issued in February.

Bill Newton agrees. He is president of the Kansas City, Mo.-based National Assn. of Professional Surplus Lines Offices Ltd., which represents nonadmitted insurers and wholesalers. "Underwriting profits in 2007 will be under attack," said Mr. Newton, who also is president of Los Angeles-based Lemac & Associates Inc., a division of Risk Placement Services Inc. that is a unit of Arthur J. Gallagher & Co.

"Competition is heated and getting to the point of being very heated," said Mark Maher, president of Manhasset, N.Y.-based NIF Group, which operates primarily as a regional managing general agent and broker. "Everyone is falling all over themselves to write noncatastrophe-prone property risks," he said.

If the admitted market continues to seek a larger market share, eventually there will be "a price war," said David J. Price, executive vp and chief underwriting officer of Burns & Wilcox Ltd. in Farmington Hills, Mich.

According to sources' estimates, rates for property not exposed to wind or earthquake risks are generally down by 10% to 20%, with some large risks dropping as much as 35% compared to a year ago.

The rate estimates for general casualty business are more varied and range from flat to down as much as 25% for primary and umbrella coverage for a six-figure account, sources say.

'COMPETITION IS HEATED and getting to the point of being very heated. Everyone is falling all over themselves to write noncatastrophe-prone property risks.'

MARK MAHER
NIF GROUP

The market for directors and officers coverage is "a battleground" with rates for private companies down 30% to 40%, Mr. Price said.

'WAIT-AND-SEE MODE'

Meanwhile, rates for catastrophe-prone property are flat to down 10%, sources say, in part because of increased capacity.

There is now enough capacity to fill the upper layers of placements in excess of \$100 million, Mr. Newton said. Last year, larger placements typically had

holes in some layers, he said.

In the medical malpractice market, "there is increased pressure on the soft market and the question is whether interest rates are going to fuel cash flow underwriting we saw in the past," said Craig R. Rowland, vp for large groups, facilities and new products at Fort Wayne, Ind.-based Medical Protective Co., a professional liability insurer. He also questioned whether reinsurers will enter the fray and competitively price their coverage, too.

The market for workers compensation coverage is now "sensible," said Patrick Sheehy, London-based director with BMS Intermediaries Ltd., which

specializes in reinsurance. The market hit turbulence following the 1999 collapse of Unicover Occupational Accident Pool due to reinsurance losses related to carveouts. While the market has since regained balance, that may change because "there is an increasing appetite" among other insurers lured by profits in writing workers comp coverage, he said.

"There is a lot of capital in the market that is not being used," Mr. Sheehy said. He predicted that the excess capital will encourage consolidation among

companies and prompt companies to expand into new lines of business.

Outside of cat-prone areas, "the rest of the country is very, very soft across every line of business," Mr. Price said. In part, that is due to the standard market redeploying capital from cat-prone areas, he said.

"We haven't seen a redeployment of Florida's reinsurance capital yet, but we do anticipate that," Mr. Maher said.

"It's got to find a home somewhere," said Robert E. White Jr., president of the First Professionals Insurance Co. in Jacksonville, Fla.

Although surplus lines insurers are not subject to rate regulation, they are in a wait-and-see mode as a result of recent developments in

Florida, Mr. Price said.

Those changes include Florida Gov. Charlie

there could be "a pricing battle" in the noncat portion of the marketplace. If that develops, he said he hopes regulators and rating agencies watch pricing levels and require adequate reserving.

Some sources question how long all segments of the marketplace will maintain underwriting discipline during the softening cycle, which is a chronic problem for the industry.

"So far, there is a desire to maintain underwriting discipline," Mr. Newton said. "I don't know how long it will last."

"The E&S market has many carriers who believe that it's foolish to change your underwriting stance, because the risk doesn't change," Mr. Price said.

"The incumbent markets have the discipline...but it generally fades away," Mr. Maher said. "It's a vicious cycle."

To survive the cyclical softening, the specialty lines market should draw on one of its greatest strengths—the abili-

admitted market, most sources agree.

One lure is being able to avoid the surplus lines tax, which typically is 3% to 4% of the gross written premium, Mr. Maher said.

More sophisticated buyers, however, are less concerned with cost and more concerned with protecting their risk and obtaining the services of a professional agent, Mr. Price said.

RELAXED REQUIREMENTS

There are several possible reasons that buyers move, including coverage, availability and pricing, Mr. Sheehy said. For most lines, he said, buyers will seek coverage first from the admitted markets because they have guaranty fund coverage.

Mr. Newton, however, said he considers guaranty fund coverage "pretty worthless" for large buyers because the funds cap recoveries and follow strict claims-filing deadlines that are too short to be useful. He said the admitted market's greater attraction is that a buyer can purchase all coverages—including general liability, workers compensation and auto—from one insurer.

The softening market also has affected terms and conditions, sources say. When there is a shortage of insurance, insurers and reinsurers seek information from buyers, Mr. Sheehy said.

"The more I know, the better your terms will be," Mr. Price said.

When markets change, sellers tend to soften that requirement, Mr. Sheehy said.

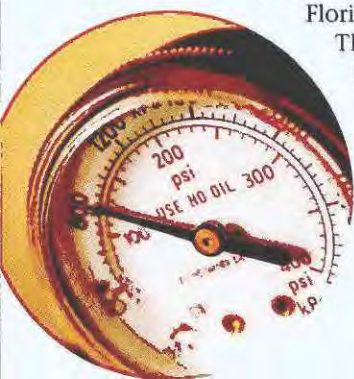
"On catastrophe business, you are definitely getting detailed questions, but on other risks, the information requirements are less than they were a year ago," Mr. Maher said.

Other terms and conditions are being relaxed, too, Mr. Newton said. For example, it is now possible to find policies with defense costs outside, rather than inside, the limits of policies. Such terms likely increase the value of the coverage to the policyholder.

Also, it is now possible to obtain coverage for the risk of ground subsidence, which is typically excluded in most policies, he said. ■

'THE E&S MARKET has many carriers who believe that it's foolish to change your underwriting stance, because the risk doesn't change.'

DAVID J. PRICE
BURNS & WILCOX LTD.



Crist signing legislation in February to add up to \$17 billion in state-backed reinsurance capacity to the Florida Hurricane Catastrophe Fund and Citizens Property Insurance Co.

Before that, the surplus lines market "probably wrote as much business as we could get our hands on in Florida," Mr. Price said. "I see it disappearing" as a result of the legislation.

STAYING DISCIPLINED

Mr. Sheehy, though, is less certain about those predictions. The catastrophe market "is very finely balanced" between those who will want to deploy capital previously allocated to Florida and those that are still wary because of the hits they took in recent years, he said.

Regardless, additional capacity is expected from two new operations in Bermuda, Mr. Maher said, though he did not provide details.

"I hope the standard market doesn't overreact," Mr. Price said. For example,

ty to craft innovative solutions that buyers can't get from admitted insurers, sources say.

"You'll see the E&S market become more entrepreneurial," by finding new ways to write risks and new risks to write, Mr. Price said. For example, there is now coverage available that addresses the risks associated with using artificial skin in surgical procedures, he said.

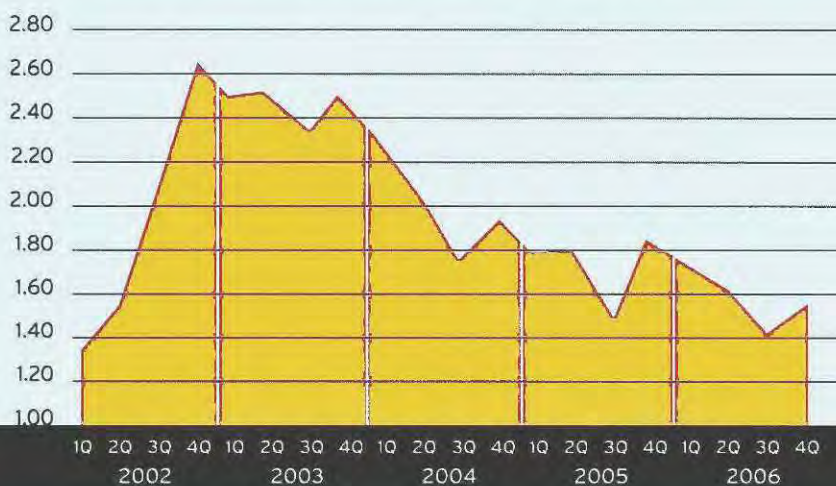
Eugenie H. Shea, the Houston-based president of the medical professional liability underwriting unit of Catlin Underwriting Agency U.S. Inc., said Catlin is underwriting coverage for home health care services, although it excludes coverage for sexual misconduct or theft.

The surplus lines market can compete by being more creative, Mr. Maher said. For example, it could give a buyer better terms or funding options for financing a self-insured retention.

At this stage of the cycle, it is usually price-sensitive buyers who return to the

DOWNWARD D&O SPIRAL

Quarterly index of renewal pricing, 2002 through 2006. Base year: 2001



Source: Aon Financial Services Group

D&O market competition driving down prices

By Meg Fletcher

CHICAGO—Competition among insurers is expected to drive premiums for directors and officers liability coverage lower and improve coverage terms through the first quarter of this year, a new report says.

"On an annual basis, prices dropped nearly 9% in 2006," said Mike Rice, a coauthor of Aon Financial Services Group's "Quarterly D&O Pricing Index," for last year's fourth quarter. Mr. Rice is Aon's Denver-based national practice leader for the group, which is a division of Aon Risk Services Inc.

"The cost of D&O insurance is now 40% lower than its historic high," he said. According to the index, which tracks premium changes relative to the base year of 2001, the peak index value for \$1 million in coverage limits occurred during the fourth quarter of

2002. That value was 2.62 times the 2001 base price.

Looking at a complete year, the highest total annual index value occurred in 2003 (see chart).

CLAIMS SEVERITY GROWS

The latest data show a fourth-quarter 2006 uptick in that value—to 1.57 from 1.41 in the third quarter—but that is primarily due to the "relatively higher number of large and more complex risks that renew at year-end," Mr. Rice said.

Pricing for large risks is less flexible because of negative experience, he said.

"While the frequency of securities class action claims has improved in the last 18 months, the severity of D&O claims, particularly for Fortune 100 companies, continues to grow dramatically," Mr. Rice said.

For the 15 securities class actions

cases involving Fortune 100 companies that settled in 2006, the average settlement was about \$578 million. This compares to a five-year average of \$338 million, the Aon report said.

In addition, companies generally are still facing scrutiny because of stock option timing claims.

"More than 200 companies have acknowledged problems in option-granting practices or are undergoing government investigations of option-granting practices. To date, there have been 144 derivatives claims," the report said.

The options granting issue "is a continuing cloud, but not a serious problem," Mr. Rice said.

"We continue to believe that many of these claims will be subject to a range of D&O insurer defenses. We also think that many would-be cases will not go forward due to statutes of limitation," the Aon report said.

STATUTE WILL LIMIT LOSSES

A three-year statute of limitations applies to breaches of fiduciary duty under Delaware law, which applies to the majority of companies because they are incorporated in that state, said Steve Shappell, the Denver-based managing director for Aon Financial Services Group's legal and claim practice.

"The statute of limitations begins to run at the time that the cause of action accrues, which is generally when there has been a harmful act by a defendant. This is true even if the plaintiff is unaware of the cause of the action or the harm," he said in an e-mail.

"The severity of derivative claims has typically been far lower than securities class action claims. We believe that these claims will hit primary D&O insurers to the greatest degree...mainly through reimbursement of defense costs," the report said.

"Despite ominous predictions, we continue to believe that options timing claims will not derail the continuing trend of lower prices and broader coverage terms," Mr. Rice said. ■

Where to draw the line

New exposures, increased competition, rising loss severity complicate the physicians' liability market

By Meg Fletcher

CHICAGO—Commercial insurers of physicians' professional liability exposures are facing increased competition from alternative markets as well as new underwriting challenges created by the physicians themselves, experts say.

The new challenges stem from physicians' increased use of assistants in medical offices and physicians' greater willingness to provide medical services—such as botox treatments—in non-traditional settings that include spas and health clubs, according to panelists at a Professional Liability Underwriting Society symposium last month in Chicago.

In addition, panelists discussing medical professional liability coverage said they expect many problems, especially if millions of previously uninsured people enter the U.S. health system with high expectations for care.

"It's a very interesting and dynamic time," said Craig R. Rowland, vp-large group, facility and new products for Medical Protective Co. in Fort Wayne, Ind.

The overall loss picture for physicians medical malpractice insurance coverage hasn't changed much in the past 15 years, according to National Practitioner Data Bank statistics presented by Hal Kinsey, the St. Louis-based division senior vp and managing director of national health care practice at Gallagher Healthcare Insurance Services, a unit of Arthur J. Gallagher Risk Management Services Inc.

Essentially, the frequency of claims against doctors is declining, although the severity of losses—especially those costing \$500,000 or more—is increasing, said Mr. Kinsey, the panel

moderator.

Physicians have reacted by seeking greater control of their insurance coverage, which includes turning to alternative markets such as risk retention groups or captives, he said. Specifically, 32 of 58 new RRGs formed from January 2005 to September 2006 were related to health care insurance: 17 for physicians, eight for hospitals and affiliates and seven for nursing homes, according to statistics Mr. Kinsey cited from the Pasadena, Calif.-based Risk Retention Reporter.

In addition, "as an (excess and surplus) market, we see a lot of impact from captives and risk retention groups," said Eugenie H. Shea, the

Houston-based president of the medical professional liability underwriting unit of Catlin Underwriting Agency U.S. Inc.

"The competition is still quite fierce," she said. A lot of medical professionals tapping the excess and surplus market are more interested in what those alternative entities can offer than in being insured by an A-rated company with a solid financial base, she said.

Helping fuel that competition is an increased interest on the part of admitted insurers to write noncatastrophe risks, panelists said.

One "very positive development" among some RRGs and captives is their crafting of loss control programs for individual medical specialties, Mr. Rowland said. "This change has focused (doctors) on risk management and patient safety."

ALTERNATIVE AWARENESS

Now that the admitted market is willing to be competitive, alternative entities are "struggling for relevance" and are faced with a concentration of risk that can make them more financially "volatile," he said.

Robert E. White Jr., president of First Professionals Insurance Co. in Jacksonville, Fla., said he is concerned that alternative entities attract the best physicians. "Those are the people we don't want to lose," because the physicians who are left in the standard market generally have average or worse loss experience, he said.

Health care professionals should be aware that a good alternative entity typically costs more upfront to establish than might be expected and may take longer to pay out dividends to owner-policyholders with a good loss experience, Mr. White said.



Some panelists noted that although the commercial insurance market is generally better capitalized than alternative risk market options, capitalization levels are not as important as they once were. That is because when medical malpractice coverage was hard to find, many hospitals liberalized bylaws requirements that insurers be A-rated by a major rating agency. Some are reversing that now, panelists said.

From a reinsurers' perspective, though, most alternative entities have been set up "quite well," with responsible rates and appropriate startup contributions, said Nick Gralton, London-based managing director of Guy Carpenter & Co. Ltd., a Marsh & McLennan Cos. affiliate. He also heads Guy Carpenter's U.S. wholesale casualty specialty unit.

"We'll see more (alternative entities) survive for the long haul," Mr. White said, "so, if you can't beat 'em, join 'em." His company is unbundling its services so that the alternative entities can purchase only those that they need.

The softening market for noncatastrophe risks may cause some physicians to leave a RRG or captive and return to the admitted market, panelists said. In that case, most underwriters on the panel said they would consider writing coverage for "prior acts"—like those that may have occurred while the physician was a member of an alternative risk vehicle—but only after examining the situation carefully.

UNDERWRITING CHALLENGES

Underwriters agree that they are facing new challenges in writing physicians professional liability insurance because of physicians' increased use of physician assistants and nurse practitioners in their medical offices.

Among the factors driving the use of "physician extenders" are aging physicians, a desire for efficiency and reimbursement caps that encourage doctors to see more patients to maintain their income level, panelists say.

A key issue in such situations is the

SHOWING SYMPTOMS

Complications develop for physicians' liability

- Increased use of "physician extenders"
- Providing medical services in non-traditional settings
- Increasing loss severity
- Rise of alternative market competition
- Increased interest from admitted markets
- High patient expectations

quality of oversight that the physician provides to assistants who see patients on the doctor's behalf, panelists said. The oversight process can be difficult to determine from an underwriting submission, they agreed.

When writing coverage for a physician, the underwriter may have to take information about oversight "on blind faith" but should follow up with an on-site audit, Mr. White said. "In many cases, you see a lack of supervision when the claims come in."

In the current liability climate, patients file claims because they have very high expectations about the quality of care they expect to receive, panelists agreed. "The expectation is that you get great care. Period," Ms. Shea said.

That situation will be exacerbated to the extent that governmental entities are successful in making health care more available to previously uninsured people, some panelists said.

"I think one of the big issues is...our courts are trying to hold physicians accountable for what they could have done" rather what they did do was reasonably prudent, Mr. Rowland said.

Physicians can find themselves in difficult situations, Mr. White said. Consider the case of a woman patient who is supposed to take one pill daily but decides to save money by taking her medicine only every other day. When she dies, her heirs may question the doctor's care and file a claim, he said.

DRAWING THE LINE

From a reinsurer's perspective, "there

are a lot of problems brewing," Mr. Gralton said. That is especially true if plaintiffs' attorneys educate the formerly uninsured about expectations for care, he said.

Underwriters also are facing new challenges because of physicians' increased willingness to provide medical services in nontraditional settings such as spas, health clubs and stores.

A number of physicians are willing to provide services such as botox injections at spas and other nonclinical settings, said Mr. Gralton, who added he expects to see "some very significant claims coming out of them."

"I was at a Sam's Club the other day, and there were nurses there doing cholesterol checks," Mr. Rowland said. "It occurred to me that as long as (the test results) were all OK, that's fine. But if one of them is not OK, what's the follow-up care that Sam's Club is committing to?"

Mr. White warned that in a litigious state such as Florida, "If they haven't set it up right to protect themselves, they will be (named) in the (lawsuit)."

He said medical services delivered in nontraditional settings raise other questions, including: Does a major drug-store chain need a professional liability corporation-type policy because of the in-store tests? Does the pharmacy chain have to insist on certain protocols? Are they in the practice of medicine now?

"Florida requires tattoo parlors to have medical directors," Mr. White said. "We want to be customer friendly to our agents and to the doctors...but we have to draw the line somewhere about where the practice of medicine ends."

In such a case, "we see that as the risk of the entity. It's a business risk that the entity faces," he said.

"I think that is a question that all of us have to ask ourselves: Where that line ends. It's becoming so blurry today that it takes an extreme example like a tattoo parlor to see it," Mr. White said.

"The people who do well are the people who have the clearest vision of where that line actually lies," he said. ■

'WE'LL SEE MORE (alternative entities) survive for the long haul. So, if you can't beat 'em, join 'em.'

ROBERT E. WHITE JR., FIRST PROFESSIONALS INSURANCE CO.

Two-pronged approach aims to streamline surplus lines regulation

By Meg Fletcher

Modernizing surplus lines regulation by creating a more uniform and efficient system for handling multistate risks is a top priority this year for many industry representatives, lawmakers and some regulators.

Supporters are following a two-pronged strategy by generally supporting two related, but independent, proposals, before both Congress and the National Assn. of Insurance Commissioners.

It remains to be seen, however, whether those proposals garner enough support to streamline the operation of the surplus lines industry. Those proposals include the development of the first-ever national allocation formula for surplus lines tax payments.

In Congress, similar versions of the "Nonadmitted and Reinsurance Reform Act of 2007" have been introduced on a bipartisan basis in each chamber (H.R. 1065 and S.B. 929).

The bills give an insured's home state sole authority to regulate the licensing of brokers soliciting or handling the insured's account. They also give the insured's home state authority to collect premium taxes, which are due only to the home state, although states can establish procedures to allocate those premium taxes among themselves.

PROPOSED INTERSTATE COMPACT

Before the NAIC, the industry presented its draft of a proposed interstate compact—The Surplus Lines Multi-State Compliance Compact—that also emphasizes the authority of the insured's home state. It also would establish: one set of compliance requirements for all multistate surplus lines risks, a clearinghouse for information and a tax allocation mechanism.

Passage of either measure "would greatly improve marketplace efficiency

TWO ROUTES, ONE DESTINATION

Key provisions of surplus lines reform proposals



FEDERAL

- Gives an insured's home state sole authority to regulate the licensing of brokers soliciting or handling the insured's account
- Insured's home state has authority to collect premium taxes
- Premium taxes due only to an insured's home state, though states can establish methods to allocate taxes among multiple states



MULTISTATE COMPACT

- One set of compliance requirements for all multistate surplus lines risks
- Single information clearinghouse eliminating separate filing requirements with individual states
- Tax allocation mechanism based on one set of uniform tax allocation formulas

by making it crystal clear that only the insured's home state can regulate any single, multistate excess and surplus transaction," said Daniel F. Maher, executive director of the Manhattan-based Excess Line Assn. of New York.

"ELANY supports the concepts contained in both the compact and H.R. 1065, but believes H.R. 1065 needs to be amended in several respects to maximize the value it brings to the market and to restore eligibility standards with consumer protection in mind," ELANY's Mr. Maher said in a statement.

The House bill's uniform eligibility requirements for surplus lines insurers "would eviscerate the current financial

strength requirements and thorough analysis many states require as a prerequisite for insurer eligibility," Mr. Maher said. "These provisions of H.R. 1065 will ultimately lead to greater insurer insolvencies, increased broker liability and overall damage to the reputation of the E&S marketplace."

However, the National Assn. of Professional Surplus Lines Offices Ltd. "supports the bill as written and would like to see it enacted," said Richard Bouhan, executive director of the Kansas City, Mo.-based group representing nonadmitted insurers and wholesalers.

Mr. Bouhan said he is aware that "some states and stamping offices have

expressed concerns about the establishment of uniform eligibility requirements that they see as eliminating states' flexibility and discretion in determining a surplus lines company's eligibility. I expect those concerns to be discussed in the coming debate."

In terms of eligibility, the primary requirements for a surplus lines insurer are that it have \$15 million in capital and that U.S.-based companies be licensed in one state. A company not based in the United States must meet capital and other requirements that the NAIC's International Insurance Department imposes before placing the insurer on its approved list.

As of late last month, congressional committees had not scheduled meetings to discuss the respective bills, which had 48 co-sponsors in the House and one in the Senate.

The House passed last year's version of the bill unanimously, but it died without a sponsor in the Senate.

Such reform is "long overdue," said U.S. Rep. Dennis Moore, D-Kan., a cosponsor of the House bill. Currently, "disparate and sometimes directly conflicting state laws in the surplus lines market create unnecessary inefficiencies and make it difficult, if not impossible in some cases, for producers and others to comply with their legal duties," he said in a statement.

"The problem is incredibly serious," said Bill Newton, president of both NAPSLO and Los Angeles-based Lemac & Associates Inc., a division of Risk Placement Services Inc., which is a unit of Arthur J. Gallagher & Co. In the past decade, business and the economy have changed so that it is common for policyholders to have exposures in multiple states, he said.

The situation is "an administrative nightmare" in that it adds cost, time and expense to the transaction, Mr. Newton said. Also, "it is not just a broker issue," because once brokers make payments to states affected by a transaction, some states go to insurers and ask them to reconcile what the brokers did, he said.

Mark Maher, president of Manhasset, N.Y.-based NIF Group, said small brokers face a particularly bad situation, which puts them in a noncompetitive

position because they don't have the capacity to break out the tax allocations for complex, multistate risks.

"The concept is good. It creates efficiencies and gives all states the proper tax allocation," said NIF's Mr. Maher, whose company is primarily a regional managing general agent and broker. Implementing a workable solution "gives the smaller brokers a level playing field," he said.

But, he said he would not support any effort to eliminate the review process that is used to determine whether an insurer's operation meets surplus lines eligibility requirements.

"Most insurers would like it if it were easier," said Patrick Sheehy, a London-based director at BMS Intermediaries Ltd.

"Simplifying and streamlining the

■ One set of compliance requirements for all multistate surplus lines risks by which all compacting states jointly regulate the transaction.

■ A clearinghouse through which all multistate surplus lines risks would be filed and recorded, eliminating separate filing with individual states.

■ A mechanism through which each compacting state would receive its share of taxes for the portion of the risk located in the state as determined by one set of uniform tax allocation formulas.

The NAIC's Surplus Lines Task Force will begin reviewing the proposal during an upcoming conference call, said task force chair James Donelon, the Louisiana insurance commissioner.

He said he supports the concept of reform and sees the proposed federal and state reforms as "complementary."

'WE LOOK AT THIS as a large, collective effort to modernize surplus lines regulation without diminishing consumer protections.'

DANIEL F. MAHER
EXCESS LINE ASSN. OF NEW YORK

insurance market will bring savings to consumers and companies doing business across state lines," said U.S. Rep. Ginny Brown-Waite, R-Fla., a House bill co-sponsor.

MODERNIZATION AND PROTECTION

The industry also supports its draft of the proposed interstate compact that it presented to the NAIC during a March meeting in New York. More than 60 industry representatives, as well as some regulators and legislators, presented its draft to the NAIC's Producer Licensing Working Group.

"We look at this as a large, collective effort to modernize surplus lines regulation without diminishing consumer protections," said ELANY's Mr. Maher, who coordinated the group.

The proposed structure is similar to a compact now used for life and disability products, although it is not intended to review proposed policy languages for approval. Each state legislature would have to vote to join the compact.

The surplus lines compact proposal would establish:

Both the federal bills and the NAIC proposal have the common goal of making surplus lines regulation, especially tax allocation, "more uniform and efficient," Mr. Donelon said.

"Either H.R. 1065 or the compact could be enacted and operate independently of each other," although the federal bill calls for such a device as the compact to deliver its goals, ELANY's Mr. Maher said.

The inclusion of the compact concept in last year's version of the House bill "gave the idea of a compact great credibility," Mr. Bouhan said.

Having proposals pending in Congress and the NAIC is an unusual strategy, observers say.

ELANY's Mr. Maher said supporters decided to move ahead with the NAIC proposal because "there was no guarantee that the federal law will pass."

In addition, the success of the Interstate Insurance Product Regulation Commission's compact, which deals with disability and life-related coverages, has educated many regulators and state legislators about the concept. ■



Face time

Human connection separates one company from the crowd

By Doug Grant

Success in the highly specialized market of excess and surplus lines insurance requires more than sound underwriting judgment. One way to be successful involves a company's ability to differentiate itself within the marketplace—an opportunity created from the “human connection” that results from quality face-to-face time.

Accordingly, San Antonio-based Argonaut Group Inc., a national underwriter of specialty insurance, developed a program called “Walk a Mile in Your Shoes.” The program was designed as a vehicle to smooth the path toward financial growth for Argonaut and its key wholesale agents and brokers.

“Walk a Mile in Your Shoes” is in the pilot phase at Colony Group, an operating entity within Argonaut's excess and surplus lines segment, with offices in Richmond, Va.; Scottsdale, Ariz.; and Denver. Colony focuses on difficult risks that the standard insurance market is unable to underwrite, for any price, due to the unique risk characteristics of

the insured, which may be caused by physical perils, nature of the business or the insured's loss experience.

Many insurance experts agree: This industry is all about relationships. For excess and surplus lines carriers, it's especially true. Relationships with wholesale agents and brokers are vital for continued financial growth. According to a release from Bain & Co., “strong customer initiatives are the most important prerequisite for solid revenue growth and total returns.” Boston-based Bain, a global business consulting firm, was commenting about its comprehensive study of property and casualty insurance providers.

BRAINSTORMING

Responding to this reality, Argonaut Group executives met in San Antonio to explore innovative ideas for improving customer focus. Initially, the executives

considered sending underwriters to key customers with the goal of identifying their needs more clearly.

Ultimately, Argonaut Group's Marketing Round Table, a group comprising marketing and sales staff from various segments of the company, spun this idea 180 degrees and “Walk a Mile in Your Shoes” was conceived. Colony Group was chosen to run the pilot program inviting wholesale agents to visit Colony as part of the vehicle for creating a superior customer experience. The visits primarily would focus on forging better relationships between wholesale agents and their Colony counterparts with whom they place business on a regular basis.

One of Colony's largest wholesale customers is Hunt Valley, Md.-based All Risks Ltd. As a wholesale agent representing thousands of retail agents across the United States, one of All Risks' roles is providing access to excess and surplus lines for retail agents whose clients' insurance needs cannot be met in the standard insurance market.

All Risks partners with various surplus lines carriers to gain access to as many markets as possible and better serve its customers, the retail agents.

“We need to have markets, or we don't have business. Understanding each carrier better helps us write more business and build better partnerships,” said Sharon Denzler, corporate trainer at All Risks.

The “Walk a Mile in Your Shoes” program enables wholesale customers, such as All Risks, an invaluable opportunity to better understand Colony's underwriting appetite and learn more about what Colony is looking for from wholesale agents and brokers. Ultimately, wholesale agents need access to lots of different markets in order to write more business,

and only surplus carriers can satisfy certain client needs. Understanding Colony's business increases All Risks' ability to place business compatible with Colony's risk appetite while building a better partnership for the future.



DOUG GRANT is senior vp of marketing at Richmond, Va.-based Colony Group, an operating unit of Argonaut Group Inc.'s excess and surplus lines segment.

All Risks was the first customer presented an opportunity to walk a mile in Colony's shoes. The "mile" stretched over a two-day period, offering four new agents and brokers from All Risks a chance to experience many aspects of Colony's day-to-day operations at its Richmond headquarters.

On the first day, the trainees were invited to Argonaut Group's quarterly communication meeting. At this meeting, they were introduced to Mark E. Watson III, Argonaut's president and chief executive officer, and were shown Colony's business activities and results.

Later in the day, the trainees were introduced to their Colony counterparts, giving them an opportunity to place a face with a name for individuals they will exchange e-mails and telephone calls with on a daily basis. Meeting the Colony underwriters and learning about their unique preferences in how business is submitted facilitates future business transactions and was met with enthusiasm on both sides.

The Colony underwriters reviewed practical issues involving Colony's operations manuals, documentation standards and strategies to best navigate Colony's information system used by these agents to conduct Colony business. "When placing future business, these agents will have the ability to choose from four or five different carriers depending on the market," said Ms. Denzler, "and they will choose—all other things being equal—the carrier they have developed the best business relationship with."

GOING ONE BETTER

Last November, a second key customer—Naperville, Ill.-based Benchmark Management Group Inc.—participated in a more comprehensive version of this program. Benchmark's "mile" spanned a four-week period and involved just one recently hired wholesale agent. The first week consisted of a general rotation through key Colony departments, including an introduction to the nuances of its 11 unique underwriting divisions.

The final three weeks were spent in the contract department. This department oversees underwriting performed

at the wholesale agency on behalf of Colony. Colony grants limited underwriting authority to agencies that have underwriting capability. Such agencies have the ability to receive submissions from retail agents, rate, and quote and bind coverage on behalf of Colony.

While in this department, the agent conducted agency audits, reviewed new submissions, corresponded with wholesale agencies, reviewed renewal business for continued acceptability and participated in premium audits. Most importantly, however, the agent developed trust and confidence in her Colony counterparts.

Historically, when asked about customer service, "nearly eight in 10 senior financial service industry executives believed their companies offered a superior customer experience. Yet just 6% of their customers agreed," said Ingo Wagner, head of Bain's financial services practice.

"That tells me that Colony has an

opportunity to greatly improve our customer experience," said Dale Pilkington, president of Colony Group. "Today, Colony is 10 times the size it was 10 years ago and 'Walk a Mile in Your Shoes' is just one avenue for us to continue that trend."

EVERYONE WINS

The advantages of the "Walk a Mile" program come from both business entities that participate. Wholesale agents develop trust and confidence in Colony through better relationships with their underwriting counterparts. Colony differentiates itself from other E&S carriers and increases the probability of receiving appropriate submissions from their key wholesale agents and brokers.

"A program like 'Walk a Mile in Your Shoes' is an opportunity to forge new relationships, deepen our partnerships with clients and achieve mutual success," said Mr. Pilkington. ■

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Thinking outside the cubicle

Courting young talent will require employers to redefine today's workplace

By Rodd Zolkos

CHICAGO—Finding, retaining and developing talented employees is one of the most significant challenges facing many insurance and financial services companies in the years ahead, with generational issues adding complications for companies to address.

Speaking last month at the Finance & Insurance Workforce summit presented by the Workforce Boards of Metropolitan Chicago, Andrew Liakopoulos, senior manager in the human capital group of Deloitte Consulting L.L.P., suggested that companies must take a "generational talent management approach" in looking to attract and retain talent.

Such an approach is particularly necessary as companies look to deal with issues associated with workers in Generation Y, the under-25s entering the workforce.

Mr. Liakopoulos said a talent management approach involves considering an integrated set of resources, processes and values designed to attract and retain the talent needed to drive business priorities.

With that in mind, companies need to consider, "How do you engage Gen Y in your talent strategies going forward," he said.

Among generational issues confronting insurance industry businesses and others is the fact that Baby Boomers soon will begin retiring.

"In two years, the first of the Baby Boomers will start retiring," Mr. Liakopoulos said. Meanwhile, there is an insufficient number of young professionals in the workplace, as Generation X—the generation between the Baby Boomers and Gen Y—is smaller in

numbers than either the Baby Boomers or Gen Y.

"We are increasingly concerned with our own vulnerability as, over the next 10 years, we stand to lose half of our senior leaders due to retirement," said another speaker, Leana Flowers, executive vp and director of retail and human

resource strategies at Chicago-based ShoreBank Corp.

"It's going to be similar to the way it was in the dot-com era, when there just weren't enough people to take all the positions," Mr. Liakopoulos said. "And simply throwing money at the problem won't work."

Companies looking to lure Gen Y workers to fill those talent gaps will face some particular challenges, however. Among them are negative publicity and perception associated with financial services firms in many Gen Y workers' minds, including a perception that some financial services sectors aren't excit-

ing or leading edge, and highly publicized corporate scandals that run counter to a sense of social responsibility that is a strong characteristic of Generation Y, the Deloitte consultant said.

In addition, after many Gen Y children watched their Baby Boomer parents work long hours only to be downsized, many lack the same sense of employer loyalty typically displayed by workers in their parents' generation.

The key for employers looking to attract and retain Gen Y workers is to recognize the needs that characterize the generation, Mr. Liakopoulos said, such as a desire for career development and multiple experiences, a sense of

purpose in their work, open social networks embracing honest communications, work/life flexibility and a tech-savvy work environment.

"Gen Y, when they enter the workforce, they don't want to be shown their cubicle and be told, 'Alright, you're going to be in this position for the next five to 10 years,'" Mr. Liakopoulos said.

"You really have to think of this generation as having grown up with the computer," he said. "This generation likes to do everything on the Internet." And, Mr. Liakopoulos advised employers, "They want to work for an organization that—when they have major life changes—that organization will adapt to those changes."

Another speaker at the summit, Joseph Carbone, president and chief executive officer of WorkPlace Inc. in Bridgeport, Conn., said there already are signs that some companies are recognizing those generational differences.

"You're no longer sitting in a cubicle, you're working as part of a team, you are interacting with people. There are TV programs, there's music, there are Starbucks everywhere," Mr. Carbone said. "Companies are already beginning to transition into the new culture to be attractive to the workforce and it's nothing compared to what you're going to see in a few years. Nothing."

Generation Y workers are often less motivated by money and more by the

'YOU'RE NO LONGER sitting in a cubicle, you're working as part of a team, you are interacting with people.'

JOSEPH CARBONE
WORKPLACE INC.

conditions of the company and the workplace, Mr. Carbone said, along with the opportunity to shape their professional experiences and their free time.

Companies' efforts to attract the incoming workforce will be "a case study for marketing that economists are going to look at for the next 20 years," he said. "Those that get it right are going to win it." ■



Issues related to attracting, developing and retaining skilled employees were the focus of a Finance & Insurance Workforce Summit held last month by the Workforce Boards of Metropolitan Chicago.

Whether through foundations, corporate giving programs, employee contribution matches or other methods, many insurance industry companies are significant participants in the world of philanthropy and support a range of charitable endeavors. Here's a look at some industry firms' philanthropic undertakings and some of the activities they support. Source: The Foundation Center

PURDUE NEWS SERVICE/DAVID UMBERGER



Anthem Blue Cross & Blue Shield Foundation entered into a \$1 million alliance with Purdue University's Regenstrief Center for Healthcare Engineering.

COMPANY WEB SITE:
www.mmc.com

PURPOSE AND ACTIVITIES: Marsh & McLennan makes charitable contributions to nonprofit organizations on a case-by-case basis. Support is given on a national basis.

FIELDS OF INTEREST: General charitable giving.

LIMITATIONS: Giving on a national basis, with emphasis on New York. No support for organizations that are political, religious, fraternal tax-supported or supported by the United Way. No grants to individuals.

culture, education, employee matching gifts, employee-related scholarships, health, medical research awards, public broadcasting.

LIMITATIONS: Among the limitations, the foundation does not support private foundations; religious, fraternal, athletic, political, social or veterans' organizations; or make grants to individuals except medical research awards.

Allianz Life Insurance Co. of North America Corporate Giving Program

SPONSORING COMPANY: Allianz Life Insurance Co. of North America; Minneapolis

COMPANY WEB SITE:
www.allianzlife.com

PURPOSE AND ACTIVITIES: Allianz makes charitable contributions to nonprofit organizations involved in education, animals, health and human services, and religion.

FIELDS OF INTEREST: Education, general charitable giving, health care, human services, religion, youth development.

LIMITATIONS: No support for political organizations.

FIELDS OF INTEREST: Education, federated giving programs, health care, human services.

LIMITATIONS: Giving on a national basis.

FM Global Foundation

SPONSORING COMPANY: Factory Mutual Insurance Co.; Johnston, R.I.

COMPANY WEB SITE:
www.fmglobal.com

PURPOSE AND ACTIVITIES: The foundation supports health associations and organizations involved in arts and culture, education, wildlife and human services.

FIELDS OF INTEREST: Animals/wildlife, arts, Canada, education, federated giving programs, health care, health organizations, secondary and higher education, human services.

LIMITATIONS: Applications not accepted, giving on a national basis, no grants to individuals.

Marsh & McLennan Cos. Inc. Corporate Giving Program

SPONSORING COMPANY: Marsh & McLennan Cos. Inc.; New York

MetLife Foundation

SPONSORING COMPANY: Metropolitan Life Insurance Co.; New York

COMPANY WEB SITE:
www.metlife.com

PURPOSE AND ACTIVITIES: The foundation primarily supports organizations involved with education, health, human services, and arts and culture including public broadcasting.

FIELDS OF INTEREST: Civic affairs,

The Zurich U.S. Foundation

SPONSORING COMPANY: Zurich American Insurance Co./Zurich Financial Services; Schaumburg, Ill.

COMPANY WEB SITE:
www.zurichna.com

PURPOSE AND ACTIVITIES: The foundation supports organizations involved with education, health, children and youth services, and human services.

FIELDS OF INTEREST: Children and youth services, education, federated giving programs, health care, human services.

LIMITATIONS: Given primarily in areas of company operations. No support of arts, political or strictly sectarian organizations. No grants for benefit events or advertising.



MetLife Foundation provides grants to cultural organizations to support sustained in-school arts education programs.

Science fact: Voice systems next step in customer contact

By Rodd Zolkos

Even as offshoring call center activities continue to gain popularity among many financial services industry companies, there are signs that some companies are beginning to move to the next step in cost savings.

London-based market analyst Datamonitor P.L.C. took note recently of signs that speech recognition technology may be poised to take the place of some companies' offshore call centers.

Noting that it predicted three years ago that voice recognition technology would compete with offshore customer service agents, Datamonitor last month cited London-based bank Lloyds TSB as an example of such a move.

The bank recently announced plans to close its contact center in Mumbai, India—primarily used to handle overflow calls from U.K. customer service agents—as use of a voice-recognition self-service phone system has eliminated the need for the offshored customer service capacity.

In support of its belief that voice recognition systems will offer competition to offshored call centers, Datamonitor says an offshored call center in a location such as India saves Western businesses about 25% to 35% per transaction, but calls serviced through an automated speech recognition system cost far less—just 15% to 25% of the cost of an offshored customer service call.

Datamonitor analysts note that while globalization and cost pressures will continue to fuel interest in offshoring for many companies, the use of speech recognition technology will grow as well and in some cases compete with offshoring as an option.

Companies will look for “the optimal blend of automation and agents for customer care,” Daniel Hong, lead analyst of

voice business research at Datamonitor, said in a statement.

“It is important to note that increased reliance on speech will not supplant the need for offshore contact centers for a lot of companies, rather the technology will serve as an adjunct to offshore operations as these companies look to improve customer interaction in a cost-effective manner,” Mr. Hong said.

Indeed, the likely outcome for many companies will be a blend of offshored call center and self-service voice recognition capabilities, according to Datamonitor.

Another Datamonitor analyst, Peter Ryan, senior analyst of contact center outsourcing research, noted in a statement that while Western companies see a variety of benefits in placing some customer service functions offshore, “It is also apparent that many firms that feel offshoring is a one-stop shop are rethinking their strategy, and are incorporating near-shore/onshore capabilities in addition to self-service.”

While speech recognition was once seen as a “futuristic technology that would never leave the realm of science fiction,” Datamonitor

said technological and commercial achievements in speech recognition along with increased central processing unit performance and reduced information technology hardware costs have helped make speech recognition technology a commercially viable option for a variety of businesses.

And voice recognition technology is becoming more available in the marketplace. By some accounts, the market for voice recognition technology exceeded \$1 billion for the first time last year. Meanwhile, according to San Francisco-based Opus Research, the market for call center-type voice technology was approximately \$600 million in 2006 and will be twice that by 2009. **IF**

SOUND EFFECTS

Offshored call center in a location such as India saves Western businesses about 25% to 35% per transaction, but calls serviced through an automated speech recognition system cost far less—just 15% to 25% of the cost of an offshored customer service call.

AMS releases enhanced software for producers

BOTHELL, Wash.—AMS Services Inc. has released AMS Producer Plus, a stand-alone software product designed to assist insurance producers in the sales and retention of commercial accounts.

AMS Producer Plus is based on the Microsoft SQL Server and the .NET 2.0 framework, providing enhanced scalability and faster agent response time. The software product also contains security enhancements, improved client search capabilities and more flexible form-editing functions.

Agents can use AMS Producer Plus to review a client's business operations, analyze coverage and underwriting needs, and prepare a coverage proposal.

The system provides agents information on more than 650 different types of business using industry profiles, risk exposure questionnaires, Insurance Services Office Inc. general liability classifications and coverage checklists.

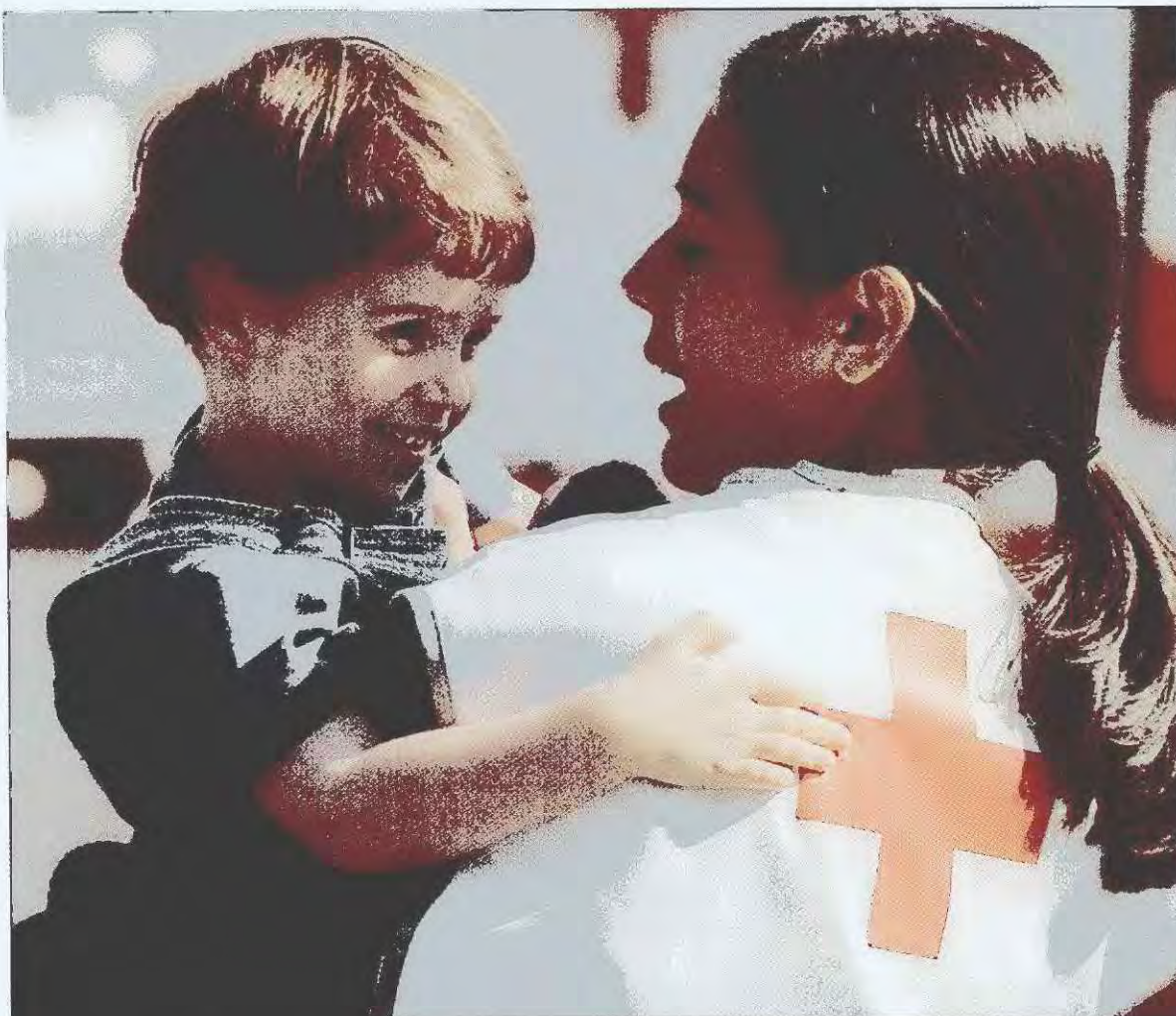
Bothell, Wash.-based AMS Services is a unit of Vertafore Inc.

Duck Creek to expand into SC tech corridor

COLUMBIA, S.C.—Duck Creek Technologies Inc. has committed to establish facilities in the University of South Carolina's Innovista “innovation district,” an area in Columbia, S.C., intended to draw both public- and private-sector researchers to combine high-tech business with medium-density housing and recreational opportunities.

South Carolina economic development officials are hopeful that adding Bolivar, Mo.-based Duck Creek to a mix of companies in Columbia, which already includes Fiserv Inc. and Computer Sciences Corp., could help spur the city to becoming a major center of insurance technology firms.

Duck Creek plans to have at least 200 employees at the Columbia site. The company currently has facilities in Bolivar and Farmington, Conn., and recently added European operations.



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BRIAN S. COHEN is president of Clear Technology Inc. in Westminster, Colo.

Cutting edge = Competitive edge

‘We need this technology—it will save us lots of money, reduce costs and give us a leg up on our competitors!” Executives hear this cry from any number of people in their organization.

It’s hard not to be swayed by such a demand, given the hype in the business press, high-powered software company marketing and a very competitive insurance market. And we fear receiving a forwarded e-mail from our boss or board member with a news release announcing a competitor is going to use a new type of software to dramatically improve its business.

Remember customer relationship management? It was all the rage. The software industry persuaded businesspeople that their company absolutely had to have CRM. Big cost savings were promised along with higher sales. Yet they never materialized because businesspeople didn’t define the parameters of success—the software company did.

Except in small and specialized markets, insurance by its nature is a commoditized product. Companies that come out with new pricing or new underwriting programs typically find that their advantage lasts just a short while. It’s also a transaction-intensive business. Much information has to be collected and processed at the time of the sale and when a claim is filed. Finally, it’s a cyclical business that goes through periods of extreme pressures on pricing.

All of these factors mean that technology can be the key to competitive advantage.

Most companies today have improved the way they conduct their business with software and hardware. All the low-hanging fruit has been picked. There’s still “fruit” left, but it’s trickier to collect.

As companies look for new areas to improve, how do you go about finding the right software? Start by asking what you need the technology to do. Any technology purchase has to do two things: lower your cost of doing business and increase your productivity.

In today’s business environment, a leading company needs to be at the front of the curve in operating at lower costs and obtaining higher employee productivity. The two combine for a recognized competitive advantage in the marketplace.

You have to become proactive to find technologies that let your business move to the forefront. Too many executives wait for their chief information officer to show them something or simply react to a technology they stumble across that looks intriguing. You need to identify where your business needs to improve to gain an advantage. If you weren’t constrained by the existing infrastructure, internal rules and processes, how would you reorganize how you operate your business?

Once you’ve figured out areas of your business you want to improve, quantify the desired cost reduction and productivity improvement. Set your metrics first. This is another way of saying that you need to set the agenda, allowing you to evaluate the software on your terms—not someone else’s.

Once you’ve defined your agenda, you can go out and find software companies that can help you reach your business goal. Let your CIO work with you to refine your vision, but don’t turn over the project to him or her.

ANY TECHNOLOGY PURCHASE has to do two things: lower your cost of doing business and increase your productivity.

You need to keep control.

And you have to make sure the software does what you want it to do. Most software for insurance companies involves custom components. Software companies might start with a core product or functionality, but the unique nature of each company’s legacy systems and configurations typically require that the software be tailored to the specific company.

An upfront, detailed listing of specific requirements is critical. Don’t let the urge to start the project or external pressures shorten this process.

The only insurance companies that will prosper in the future are those that have the lowest operating costs and highest levels of employee productivity. The nature of the insurance industry mandates that the cycle of efficiency continue to accelerate, and holding onto old practices will put you and your organization at a competitive disadvantage.



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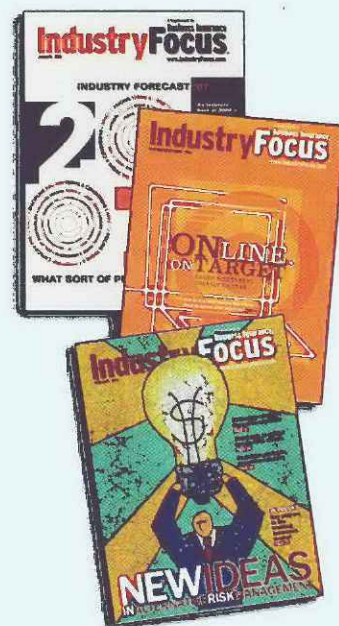
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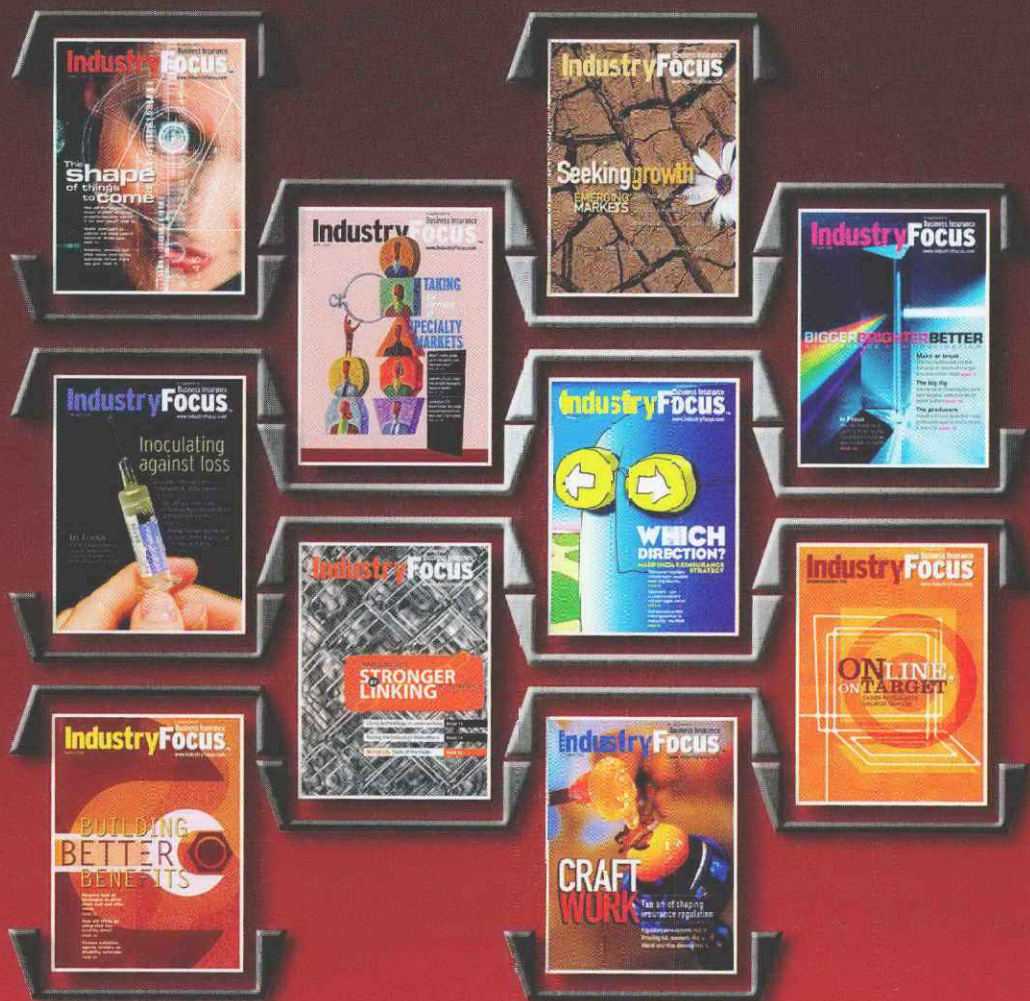
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