

ON THE ROAD: Comp claims become more complicated when workers travel - PAGE 8

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COVER STORY

The energy sector has adopted a range of technologies to streamline safety processes, and drones have taken off as a leader in the effort. From examining oil pipelines to checking out a flare stack, these eyes in the skies have made it safer for workers to find and repair problems. But it doesn't stop there; wearable safety devices are also on the rise. And all of this comes with new avenues of risk and insurance needs. **PAGE 16**

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SPECIAL REPORT: RISK MANAGEMENT TECHNOLOGY

Flood risk models grow increasingly sophisticated; insurers and financial institutions collaborate on distributed ledger technology; data collection gaps hamper coverage efforts; annual RMIS survey results. **PAGE 20**

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PERSPECTIVES

RMIS expert David A. Tweedy discusses the emergence of bundled systems offered by third-party administrators. **PAGE 27**

VIEW FROM THE TOP

MARC COHEN

Marc Cohen took on the role of CEO of Chicago-based brokerage Hub International Ltd. in January, succeeding Martin Hughes, who remains executive chairman. A longtime brokerage professional, Mr. Cohen also was named president of Hub last year. In this issue, he discusses Hub's future growth and acquisition strategy, the broker's ownership and the outlook for the insurance market. **PAGE 15**



OFF BEAT

Homeowners can sleep at night knowing their insurance covers meteors, space debris and more. **PAGE 30**



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Business Insurance
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Hurricane claims still in the pipeline

BY MATTHEW LERNER

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Hurricanes Harvey, Irma and Maria caused widespread damage across the southeastern United States and the Caribbean, and many of the resulting claims are still being processed.

While insured loss estimates for the hurricanes are in the range of \$80 billion to \$90 billion, business interruption and contingent business interruption claims in particular are still being assessed as some areas hit by the storms struggle to recover.

“We are doing work handling and reviewing claims for each of these storms,” said Derek Royster, partner with forensic accounting firm RGL Forensics L.L.P. in Charlotte, North Carolina.

“We are seeing and handling business interruption claims,” said Kent Adams, regional managing partner of the Wilson Elser Moskowitz Edelman & Dicker L.L.P. offices in Houston and Beaumont, Texas. “We’re seeing the claims, but not the litigation. That’s a good thing.”

So far, storm claims are largely being resolved outside of the courts, said Robert Fisher, a partner with Clyde & Co in Atlanta. “At this time, we are seeing fewer claims matriculating to a contentious state or to a level at which claims individuals and professionals see a need to elevate to their outside counsel,” he said.

Outside counsel sometimes become involved with the claims process before or in the absence of litigation.

“It is not uncommon for us to represent



REUTERS

President Donald Trump flew to Puerto Rico last year to visit areas of the island affected by Hurricane Maria. While insurers have paid out significant claims for property damage following last year’s hurricanes, business interruption claims are still being assessed.

an insurer in connection with coordinating boots on the ground such as adjusters and third-party experts where necessary,” Mr. Adams said.

Claims volumes are higher given the compound nature of the events.

“There’s clearly a higher volume of claims that are being submitted arising out of the successive storms,” said Mr. Fisher. “The volume is higher than in Sandy and Katrina. You’ve got more geographic area that was impacted.”

Claims and losses have many causes.

RGL Forensics is handling large claims

with substantial property damage as well as smaller losses with shorter interruption periods due to off-premises power interruption and civil authority, Mr. Royster said.

“We’re seeing more larger physical damage cases down in Puerto Rico and the Caribbean, whereas in Florida there’s a larger volume of losses with short interruption periods, whether from lost power interruption or a civil authority order,” Mr. Royster said. “So it’s a little different for each storm.”

Supply chain disruption has also become an issue.

“Then we’ve seen some contingent business interruption cases in which a supplier has been impacted as a result of one of the hurricanes, and the insured is a downstream business with contingent business interruption coverage and their business has been affected as a result of damage to the supplier,” Mr. Royster said.

“Some hydrocarbon storage facilities and chemical plants that are fed by suppliers and serviced by vendors have been down or out of commission or otherwise interrupted, and that has rippled back through the supply chain,” Mr. Adams said.

Power problems in Puerto Rico exacer-

bated a dire situation, but some parts of the island are now said to be operational and waiting for visitors to return, leading to hotel occupancy and other losses.

About 69.4% of normal peak load and 57% of customers have been restored, and all 78 municipalities are at least partly energized, according to a Jan. 3 Event Summary Report on Maria and Irma from the U.S. Department of Energy.

“For the most part, the physical damage portion has been fixed or is in the process of being fixed,” said Christian Ryan, head of the U.S. hospitality, sports and entertainment practice for Marsh L.L.C. in Dallas. “Many of our clients are fully functional, up and running,” but lack robust occupancy.

“One problem hotels in Puerto Rico are going to face is occupancy,” Mr. Ryan said. “Are people going to choose Puerto Rico for a vacation or for a conference in 2018? I think there’s a perception issue — exacerbated by the media — that the island is not ready as a whole. A number of hotels are up and running again. The issue is whether people will come.”

Occupancy and rate claims can extend beyond a year based on policy language.

“Business interruption claims are still being tallied for some hotels in Puerto Rico. Typically, policy language provides coverage for lost revenue from lack of room occupancy for in excess of a year after filing a claim, although some policies may only provide up to six months of coverage,” Mr. Ryan said. “When I look at the business interruption component of this, I think we’re going to have a long road to stabilization on room occupancy and rates.”

The extended interruption of power may lead to conflicts in some claims resolution.

In Puerto Rico, Mr. Fisher has already seen time-element issues where the extended power outage caused a tension between standard time-element and off-premises power interruption coverages, where there was a delay in accessing and beginning to assess damages and make repairs, he said.

Tourism makes up 8% of the island’s gross domestic product, which is dominated by manufacturing at 47.3%, according to Peter Sousounis, assistant vice president and director of meteorology for AIR Worldwide in Boston.

PUERTO RICO: GDP SHARE BY MAIN ECONOMIC SECTOR (2016)



47.3%	Manufacturing
19.8%	Finance, insurance and real estate
8.0%	Tourism
7.6%	Commerce
7.0%	Government
6.2%	Services
1.9%	Utilities
1.0%	Construction and mining
0.8%	Agriculture

Source: Government of Puerto Rico Department of Economic Development and Commerce

POLICY FORM LANGUAGE ATTEMPTS TO CLARIFY FLOODING COVERAGE

Policies for flood and water damage have evolved over the past several years and are written more clearly today, helping to resolve potential conflicts, experts say.

“Some of the coverage issues that arose from Katrina and Sandy have been

addressed in more recent policy forms,” said Robert Fisher, a partner with Clyde & Co in Atlanta, noting as an example the clarification of the application of policy sublimits and deductibles in the case of an event that falls within the definitions of both flood and named storm, and more

particularly where storm surge occurred.

Even with clearer and more direct policy language, however, natural catastrophes are likely to continue producing areas of disagreement.

“The policy definitions, including wind-driven water and so forth, have been

looked at, examined and in some cases revised, but you still have those disputes,” said Kent Adams, regional managing partner of the Wilson Elser Moskowitz Edelman & Dicker L.L.P. offices in Houston and Beaumont, Texas.

Matthew Lerner

Broker mergers, acquisitions hit new high

BY TIMOTHY J. CUNNINGHAM AND DANIEL P. MENZER

Announced and reported mergers and acquisitions for U.S. and Canadian insurance agents and brokers were up more than 30% during 2017 compared with 2016, finishing the year at 604 vs. 461.

Quarterly totals for 2017 each exceeded all prior totals for the respective periods, and also represented the top four quarterly totals of all time.

For the year, Caledonia, Michigan-based Acrisure L.L.C. reported the most activity with 92 closed transactions, up from 63 last year. Chicago-based Hub International Ltd. was second, completing 49 transactions (see chart).

Out of the top 10 buyers, only Lake Mary, Florida-based AssuredPartners Inc. saw a decrease in M&A count, albeit only a slight one, to 26 deals in 2017 from 28 in 2016.

Beginning with this report, we have created a new category of buyers, private equity/hybrid, to include all the private-equity backed buyers and certain active privately owned buyers with material internal or external acquisition financial support. As of Dec. 31, 2017, this change affected transactions previously reported as acquisitions by privately owned buyers from Acrisure, Atlanta-based OneDigital Health and Benefits (prior to its recent sale to New York-based New Mountain Capital L.L.C.), Tinton Falls, New Jersey-based World Insurance Associates L.L.C., Seeman Holtz Property & Casualty Group and Tampa, Florida-based Baldwin Risk Partners.

Using this new classification of buyers, the PE/hybrid buyers as a group announced 382 of the 604 transactions in 2017, or 63%, of all reported transactions, compared with 259, or 56%, in 2016. There were seven new PE/hybrid buyers in 2017, although only one — Alera — had more than two completed transactions; and two firms that had previously been consistently active — New York-based Integro Ltd. and San Rafael, California-based Protector Holdings L.L.C. — did not announce any transactions.

Privately owned brokerage acquisitions increased to 128 transactions from 105 unique buyers in 2017, up from 114 acquisitions from 87 separate buyers in 2016. These totals for 2017 represent the highest number of both transactions and unique buyers from the privately owned buyer group. Of the 128 private transactions in 2017, only 12 firms completed multiple transactions totaling 35 deals, while the remaining 93 transactions were completed by 93 separate firms.

TOP BUYERS

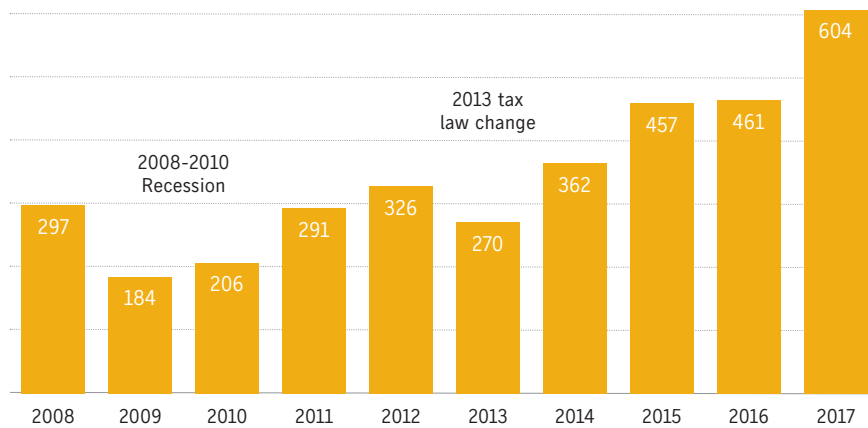
Most acquisitive buyers of insurance agencies and brokerages in the U.S. and Canada in 2017

Buyer	Company type	2016	2017
Acrisure L.L.C.	Private equity/hybrid	63	92
Hub International Ltd.	Private equity/hybrid	45	49
Alera Group	Private equity/hybrid	—	38
BroadStreet Partners Inc.	Private equity/hybrid	27	32
Arthur J. Gallagher & Co.	Publicly held	24	30

Source: Optis Partners L.L.C.

TEN YEARS OF DEALS

Insurance agency and brokerage acquisitions by year



Source: Optis Partners L.L.C.

Property/casualty brokers continued to dominate the sell-side M&A landscape, with 301 of the 2017 transactions, or 49.8% of the total. Employee benefits brokers were acquired in 174 transactions, or 28.8%, nearly a 90% increase from 2016. Agencies selling both property/casualty and employee benefits coverages saw 86 deals in 2017, while 43 “other” transactions involved managing general agents, third-party administrators and other sellers. Aside from the “other” category, each of the seller segments registered their highest number of deals of any year.

There were 23 firms reporting five or more transactions in 2016 and 2017, but the top 10 buyers in 2017 accounted for 56% of the total number of transactions, up from 52% in 2016 and only 42% in 2008, illustrating the continuing increase in concentration of buyer activity over the past 10 years.

During 2017, there were several significant transactions:

- Marsh & McLennan Agency L.L.C. acquired West Point, Georgia-based J. Smith Lanier & Co., No. 30 on the *Business Insurance* ranking in 2016, in January.
- High River, Alberta-based Western Financial Group Inc. sold to Winnipeg, Manitoba-based Wawanesa

- Mutual Insurance Co. in February.
 - Mahwah, New Jersey-based Capacity Coverage, No. 39 on the 2016 *Business Insurance* ranking, sold to San Francisco-based EPIC Insurance Brokers & Consultants in March.
 - Torrance, California-based Keenan & Associates, No. 22 on the 2016 *Business Insurance* ranking, was acquired by AssuredPartners in March.
 - Horsham, Pennsylvania-based Partners Specialty Group L.L.C., the ninth-largest wholesale firm, sold to Charlotte, North Carolina-based AmWINS Group Inc. in April.
 - Aon P.L.C. sold its human resources consulting division, Aon Hewitt, to Blackstone Group L.P. in May.
 - Wells Fargo & Co. announced the sale of its commercial insurance business, Wells Fargo Insurance Services USA Inc., to USI in June.
 - EPIC Insurance acquired New York-based Frenkel & Co., No. 48 on the 2016 *Business Insurance* ranking, from Memphis, Tennessee-based Dobbs Management Service L.L.C. in October.
- There were also several changes in private equity backers announced or closed during the year:
- Onex Corp. sold its interest in USI to New York-based Kohlberg Kravis

Roberts & Co. L.P. and Montreal-based Caisse de dépôt et placement du Québec in March.

- NFP received a new investment from New York-based HPS Investment Partners L.L.C. in February.
- Jacksonville, Florida-based Fidelity National Financial Inc. sold its interest in OneDigital to New Mountain Capital in June.
- Washington-based The Carlyle Group L.P. sold its interest in EPIC Insurance to New York-based Oak Hill Capital Partners in July.

M&A activity in the insurance brokerage sector continues to set records of activity, in part likely due to more buyers releasing information about their M&A activity than has been done in the past. However, there is no doubt that the most active buyers, investors and lenders remain very optimistic about the insurance brokerage industry, as evidenced by their buying behavior.

In addition, the U.S. economy continues to make progress, the Dow Jones and other stock indices reached all-time peaks countless times during 2017, and the insurance underwriting sector will likely hold prices relatively stable in the near-term following all the natural disasters experienced in 2017. And despite the turmoil surrounding health care in the areas of mandates, legislation, federal and state oversight, there were more sales of benefit brokers in 2017 than the two prior years combined.

Finally, there continues to be plenty of willing sellers to feed the buyer appetites, often at valuation multiples seldom, if ever, seen in the past. So until some external factor is introduced to the marketplace, the M&A activity is likely to continue, with both buyers and sellers happy with the results.



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Comp rules vary for traveling workers

BY LOUISE ESOLA

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The state where a traveling employee such a flight attendant, truck driver or salesperson is based has more to do with a potential workers compensation claim than the circumstances of an injury itself, according to experts who say employers need to know the rules of their states and make clear to employees the risks of getting injured while traveling.

"It's the way of the world now; employees are working in all parts of the country," said Paul Braun, Los Angeles-based managing director for Aon Risk Solutions. "It's challenging when there's the question of are you on the clock?"

Experts say the scenarios vary, but the key question remains when it comes to comp: Was it work-related? A car accident while staying in another city. Getting attacked in a parking lot of a hotel or restaurant. Injuring oneself in a hotel room. Or, as illustrated in a recent court case in Ohio, an Ohio-based flight attendant falling when returning to her hotel near New York's LaGuardia Airport after going out for a bite to eat with co-workers.

"We have 50 sovereign states with 50 different workers comp systems... this same scenario will be considered (work-related) in some states and some states won't see it as such," said Nikki Mehrpoo Jacobson, an attorney with Rose, Klein & Marias L.L.P. in Los Angeles and workers compensation professor at West Los Angeles College. "In some states, you have to look at (whether) your action benefits you or your employer."

Ms. Jacobson said the outcome of the Ohio case was a surprise. "A flight attendant benefits the company by staying overnight; it's for the company's convenience," she said. "She wasn't there for her own sake. She was there for the company."



BUSINESS TRAVEL AT A GLANCE

- Workers take **488 million** business trips annually in the United States
- The number of business trips each year increased by **38%** between 2009 and 2016
- An estimated **1.3 million** business trips occur each day in the United States

Source: Global Business Travel Association

But Ohio's Court of Appeals in Ohio's Second District saw it differently. A Dayton, Ohio, judge ruled in the case of *Aysha Osten v. (Ohio) Bureau of Workers Compensation* that the flight attendant for Vandavia, Ohio-based PSA Airlines Inc. was not eligible for workers compensation after her fall during her New York layover.

Ms. Osten had been on a "personal errand at the time of her injury," according to the Dec. 29 ruling, which leaned on case law that found "even if one assumes that traveling employees are 'in the course of

their employment during travel, they are not entitled to coverage unless the injury also arises out of their employment. As has been indicated in various cases, personal errands do not meet this standard."

The ruling upheld a judgment by the Ohio Bureau of Workers' Compensation, which dismissed Ms. Osten's appeal that she was eligible for benefits after the bureau initially covered the costs for the injuries to her wrists and knees, according to court documents.

On Jan. 18, Ms. Osten's attorney, Gary Plunkett of Hochman & Plunkett Co. L.P.A. in Dayton, Ohio, filed a notice of appeal to the Supreme Court of Ohio. He told *Business Insurance* he hopes Ohio's highest court will address an issue affecting traveling employees who get injured while away from home and, as he sees it, on the job. "The state of Ohio has never addressed the traveling employee doctrine," Mr. Plunkett said. "Most jurisdictions have addressed this issue."

The Ohio Bureau of Workers' Compensation was aware of the appeal as of late January, said a bureau spokeswoman.

"This would have had a different outcome in another state," said Ms. Jacobson. "In California, this decision would have been for the employee."

The same could be said for Illinois, said Jennifer J.C. Kelly, a partner with Anesi, Ozmon, Rodin, Novak & Kohen Ltd. in Chicago. "Flight attendant cases are the quintessential traveling-employee case. We see a lot of them because of all the airline hubs in Chicago," Ms. Kelly said. "The rule in Illinois is if someone is considered a traveling employee, they are given broader protections for what is considered an on-the-job injury. It's from the time you leave home to the time you return."

The coming-and-going rule, which says an injury that arises during a worker's commute to and from work does not qualify for workers comp, is also more loosely interpreted in Illinois compared with other states, Ms. Kelly said.

The specific facts themselves are critical in determining whether there is comp coverage, according to Jeffrey M. Adelson, a managing partner for the Newport Beach, California-based law firm Adelson, Testan, Brundo, Novell & Jimenez. Even in California, which often rules in favor of the traveling employee, circumstances can throw a claim outside of the boundaries of workers comp, he said.

"It all comes down to arising out of employment, course of employment, and analysis," he said, adding that such cases are likely to be appealed because so much depends on "how well the facts are argued."

An injured flight attendant who had gone to dinner with his or her co-workers and is found to have discussed the next day's flight or even commute to the airport would be compensable, he added.

Often considered is the "personal convenience doctrine," he said. "Personal convenience permitted that (a worker) be required to eat," he said, adding that even that presents issues: What if the worker had been drinking with dinner? Did that contribute to an injury?

Employers can better protect themselves by establishing rules of conduct for traveling employees, said Cora Lee, Orange, California-based director of compliance for Gallagher Bassett Services Inc. Written policies could include examples of what the employer's state considers a work-related injury while traveling so employees understand how their state views injuries while traveling. "I think (employers) need to have some measures in place where it is written and it is completely understood by the employee upon hire," she said.

WORKERS ASSUME INJURY RISK FOR PERSONAL ERRANDS

The outlook for workers compensation is less murky for traveling employees under certain circumstances, according to experts who say the personal-business threshold is clearer when the worker abandons their employment while traveling.

In other words, if the person does something outside of the scope of "reasonable and foreseeable" activity, it would not fall under comp, as put by Jennifer J.C. Kelly, a partner with Anesi, Ozmon, Rodin, Novak & Kohen Ltd. in Chicago.

Sightseeing is one example often cited.

"If you go to the museum or go jogging on the beach, it's not compensable," said Jeffrey M. Adelson, a managing partner for the Newport Beach, California-based law firm Adelson, Testan, Brundo, Novell & Jimenez.

Another common scenario is the worker who drives from their hotel to visit a family member or a friend who lives close, according to legal experts.

"It has to be a reasonable and foreseeable activity and that would be the distinction," Ms. Kelly said, adding that visiting a neighboring town, for example, might not make the cut for a workers

comp claim if the worker is in a car accident.

Another scenario that can clear the outlook for a workers comp claim is the employee's pay and whether a union is involved, according to Paul Braun, Los Angeles-based managing director for Aon Risk Solutions, who said injuries while traveling could be covered in a union contract.

"If they are being paid the whole time, then they are on duty the whole time," he said. "If they are unionized, it's usually in the contract."

Louise Esola

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States see slow progress on formularies

BY JOYCE FAMAKINWA

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Drug formularies remain a crucial tool in combating the opioid epidemic in the workers compensation industry despite obstacles states face in their efforts to implement them, according to experts.

Formularies can be the opportunity for a “pause moment” that allows prescribers to take a step back and determine if an individual requires opioids, said Mark Pew, senior vice president at Prium, a division of Genex Services L.L.C., a Duluth, Georgia-based medical cost management firm.

“Unfortunately, what happened starting in the mid-1990s is that there became a Pavlovian response that if someone is in pain we have to prescribe them opioids because we want to get ahead of the pain ... and it became the status quo,” Mr. Pew said.

“What drug formularies have done is created regulatory and administrative obstacles to writing a script without any kind of consequence or thought. It’s also heightened the sensitivity and expanded the conversation in society, in workers compensation, with injured workers, with doctors and with nurses, that we need to think about pain and how we manage pain differently,” he said.

A drug formulary’s role in workers compensation reform is to set the standard for medical care and treatment in relation to medications.

“If you think about it this way, whoever our group health care provider is has a formulary in place that preliminarily says what medications you have access to without requiring additional review or authorization,” said Don Lipsy, Memphis, Tennessee-based managed care specialty products manager with Sedgwick Claims Management Services Inc.

“This is a version that each state has put together and codified, and typically isn’t static. It evolves over time either based upon guidelines or pharmacy and therapy committees or whatever mechanism each state chooses that dictates ‘here are the medications that are acceptable for treatment of injured worker conditions.’ If you need something that is not within that drug list or formulary, it requires preauthorization, depending on which state, or requires another form of heightened review,” Mr. Lipsy said.

State efforts to adopt drug formu-



laries for the workers compensation industry have met various obstacles.

In 2017, Louisiana and Pennsylvania attempted to pass formularies that ultimately did not move forward. In Louisiana, the formulary was not adopted in early June, and the state Senate did not put the issue on its calendar for consideration before the end of the legislative session.

In Pennsylvania, the House of Representatives’ Labor and Industry Committee voted on June 13 with revisions passing by 14-12, and it was referred to the Rules Committee on June 21, 2017.

“I think there has been a significant amount of misinformation about drug formularies,” said Joe Paduda, Skaneateles, New York-based president of CompPharma L.L.C.

“There has been a lack of understanding that formularies enhance patient safety and promote return-to-work and healing,” Mr. Paduda said. “Instead, some people in the industry purport that formularies are a way to prevent patients from getting the treatment they need. I think

there has also been fear on the parts of some people in the community who are injured-worker advocates that this would somehow be harmful to patients.”

Along with these concerns, prescribers and dispensers have said careful thought must be given to the process of implementing a formulary and how this effort might affect patients, Mr. Paduda said.

Patients who are currently taking medications that would require prior authorization post-drug formulary need adequate time for the process to be implemented, he said.

Other states have not given up on the possibility of implementing drug formularies despite the obstacles.

The New York State Workers Compensation Board started seeking public comments on a proposed drug formulary in December with a Feb. 26 deadline. The legislation to implement this formulary was signed into law in April 2017 and will become effective July 1 of this year.

After a previous delay, the California Division of Workers Compen-

sation announced in December that it would move forward with plans to adopt an evidence-based drug formulary for medical providers treating injured workers, which started Jan. 1.

Massachusetts and Indiana are also considering drug formularies.

In Indiana, S.B. 369, authored by state Sen. Randall Head, R-Logansport, was introduced in January and would require a drug formulary for employees who file notice of injury or occupational disease. S.B. 369 had its first reading in the Indiana Senate on Jan. 4, and was referred to the Committee on Pensions and Labor.

In Massachusetts, H.B. 4033, sponsored by Gov. Charlie Baker, would require the Department of Industrial Accidents to establish a formulary. The bill is before the House Committee on Mental Health, Substance Use and Recovery.

Texas adopted a drug formulary in 2011 and has been cited by many in the workers comp industry as a success story and a possible model for other states.

“Texas has had a formulary for a while, and it’s one that’s had some ability to educate the providers ... they saw significant reduction in the number of inappropriate medications, they saw reductions in their opioid medications ... it clearly does have a positive impact,” said Dr. Dan Hunt, Lansing, Michigan-based medical director at AF Group.

Opponents of drug formularies question whether they benefit injured workers, but Dr. Hunt noted they can have positive effects and these results can be used to measure future impact.

“It’s hard to prove, but I would argue that you could use the impact on opioids as sort of a surrogate, but that’s just one part of a formulary,” he said.



TEXAS MAKING PROGRESS

Impact of Texas drug formulary, from implementation to 2016

Total drug costs fell

15%

Costs for drugs not recommended decreased by

80%

Prescriptions for opioids on the not recommended drug list decreased

81%

and the use of other opioids decreased by

8%

Source: Texas Department of Insurance Workers Compensation Research and Evaluation Group, 2016

DRUG COSTS, OPIOID PRESCRIPTIONS FALL FOR SOME

Four states currently have drug formularies.



Texas adopted a drug formulary in 2011. The total number of prescriptions for “not recommended” drugs in the state decreased by 85% and the generic substitution rate increased to 89%.

according to a 2016 report published by the Texas Department of Insurance.



Ohio adopted a drug formulary in 2011. There was a 29% reduction in opioid prescriptions in 2014 compared with 2010, according to the

Ohio Bureau of Workers Compensation.



Washington adopted a formulary in 2004. The state’s prescription drug costs were 40% lower than the median, in comparison with 17 other states studied by the Workers

Compensation Research Institute, according to the 2014 report.



Oklahoma has adopted a closed drug formulary in 2014 via the Oklahoma Workers Compensation Commission.

Joyce Famakinwa

Comp insurers face data privacy risks

BY JOYCE FAMAKINWA

jfamakinwa@businessinsurance.com

While data breaches are not specific to the workers compensation industry, experts say the industry should be prepared.

In November, SAIF Corp., Oregon's state-chartered workers comp insurer, was the victim of a data breach when an unauthorized third party illegally gained access to a SAIF premium auditor's email account from a phishing attack. The emails contained confidential information, including the names and Social Security numbers of more than 1,000 employees from six of SAIF's 52,000 policyholders, according to an emailed statement from a SAIF spokeswoman.

"The bad guys are getting more and more sophisticated and any form of cyber security always has a human element that is dependent on people following certain steps and procedures," said Patrick Fowler, a Phoenix-based partner and cyber security and privacy practice co-chair at Snell & Wilmer L.L.P.

SAIF is not the first workers compensation organization to fall victim to a cyber security breach. Last June, the Kentucky Workers Compensation Fund endured a ransomware attack, which according to a fund spokeswoman locked files but did not cause the loss of information.

Separately, in 2015, personal information of employees who filed workers comp claims in Salt Lake County was available online for nearly three months. The information release occurred during a scheduled upgrade by a software services company retained by the county, according to a statement by the county mayor.

Companies must pay attention to the vulnerabilities that exist before a data breach occurs because of the type of personal information that can be accessed, experts say.

"Insurers have different obligations because of the information that they store and the volume of information, especially when it comes to workers comp," said Jennifer Rothstein, New York-based senior director, cyber security, at Kroll Associates Inc. "With workers comp, there is a lot of (personally identifiable information) and (protected health information) that is collected, and because you are dealing with employees of an organization, that might trigger notification obligations, credit monitoring and other remediation. Insurers have to be particularly sensitive to all that information that they store. Workers comp requires a review of medical records ... that may trigger some (Health Insurance Portability and Accountability Act) protections."

There are many risks to be aware of, experts say.

"You have to recognize that the risk involves a lot of pieces. You may have all



sorts of computer systems that communicate with physicians, hospitals and other insurers," said Alan Brill, New York-based senior managing director, cyber security and investigations, at Kroll. "You may have systems that you are using internally, you may have paper records coming in which get scanned and added to the database, so the normal processes that you go through as a person in this industry creates risks."

The key to lessening these vulnerabilities is having secure networks, using encryption appropriately and making sure employees are trained on how to keep confidential data secure. But 100% security is not guaranteed, Mr. Brill said.

"If you have data and that data is valuable,

it could get stolen," he said. "Somebody could make a mistake, a file setup could be misconfigured, somebody could click on something they shouldn't click on in a phishing email and those things are enough to start the chain of infection that could lead to the actual compromise of the data."

Companies have a number of different responsibilities in the aftermath of a data breach, experts said.

"First is reporting requirements, depending on what type of information is subject to breach and where company and information owners are located," said Michael Hindelang, Detroit-based partner, data security and privacy litigation, at Honigman Miller Schwartz & Cohn

L.L.P. "There are different notification laws in 48 states. Second is the exposure: have you been able to remedy the cause of the breach and ensure that there is no one actively in your system... and then you have the potential for regulatory inquiries."

Companies should also be prepared for potential class actions or other civil suits resulting from a breach, Mr. Hindelang said.

Class action lawsuits against companies that have experienced data breaches have been a "mixed bag," said Karla Grossenbacher, a Washington, D.C.-based partner at Seyfarth Shaw L.L.P.

"There have been some suits that have been settled for very large dollars because the plaintiffs have been able to get over some of the hurdles and actually show injury. Some of them succeed past the motion-to-dismiss stage, and then we hear about very large dollar settlements," said Ms. Grossenbacher.

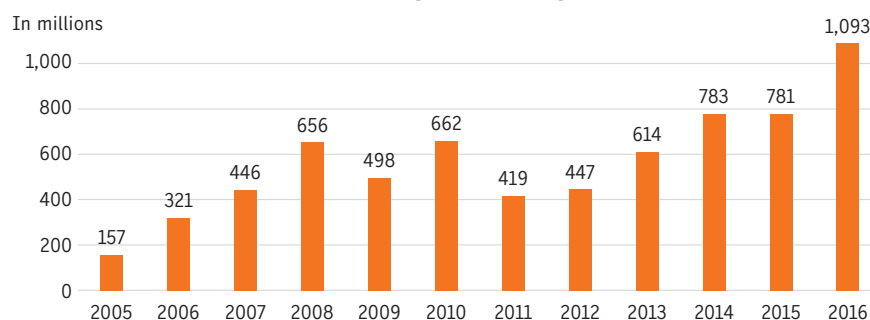
In SAIF's case, the insurer took steps to respond to the breach.

"As soon as we learned of the incident, we took immediate steps to disable the employee's business email accounts," a SAIF spokeswoman said. "We reported the incident to the FBI, the Oregon Department of Justice and the three major consumer reporting agencies. We also retained CSIIdentity to provide employees possibly impacted by this with credit monitoring service for twelve months, and notified anyone who may have been affected. We have not received reports that any information has been used to commit identity theft."

While each company's approach to addressing a breach may differ, the most important thing is to "stop the bleed," said Angela Gleason, Washington, D.C.-based senior counsel, cybersecurity, privacy, travel insurance, surety, construction and intellectual property, at the American Insurance Association.

This means "understanding what occurred and figuring how best to notify your consumers as appropriate so that they can take meaningful action," said Ms. Gleason.

DATA BREACHES IN THE U.S. (2005-2016)



Source: Identity Theft Resource Center and CyberScout L.L.C., The ITRC Data Breach Report 2016

DATA BREACH CLASS ACTIONS

The risk that a company will face class action litigation after a data breach is relatively low, according to a 2017 data breach litigation report conducted by law firm Bryan Cave L.L.P. This is because of how difficult it can be for a plaintiff to establish that a data breach injured them. Only 4% of publicly reported data breaches led to class action litigation, according to the report.

Aetna

In January, managed health care company Aetna Inc. agreed to a \$17 million settlement to a class action lawsuit after a data breach revealed the private information of as many as 12,000 people insured by the company. The data breach revealed which people were using HIV drugs.

Equifax

Consumer credit reporting agency Equifax Inc. is facing a 50-state class action lawsuit in the aftermath of a cyber security breach the company revealed last year. More than 50 plaintiffs claim that the breach allowed thieves to steal the valuable personal identification and financial information of more than 145.5 million Americans. The lawsuit was filed last November in the United States District Court for the Northern District of Georgia.

Anthem

Last June, health insurer Anthem Inc. agreed to a \$115 million settlement related to a 2015 data breach that compromised close to 79 million people's personal information.

Joyce Famakinwa

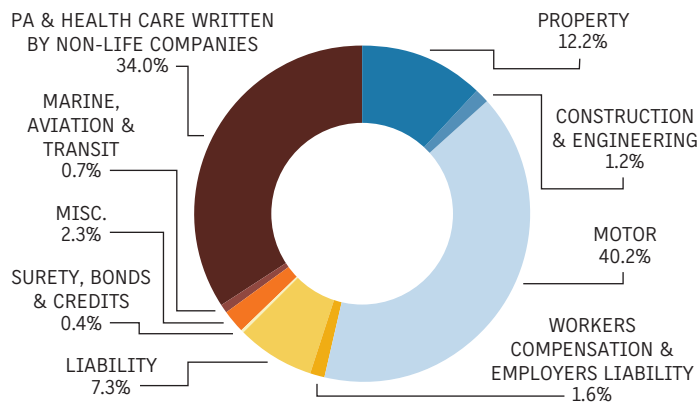
PROFILE: ISRAEL

26

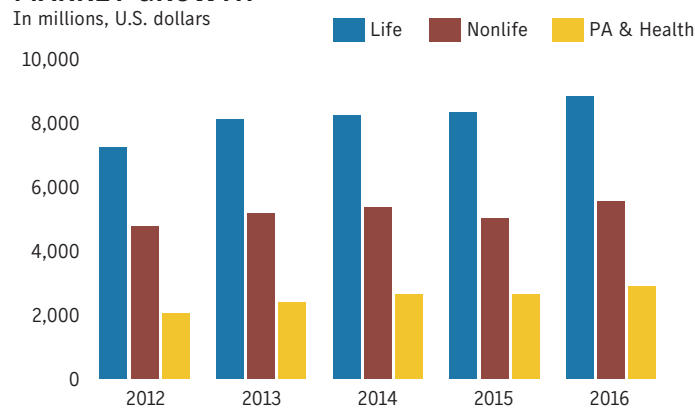
GLOBAL
P/C MARKET
RANKING

Israel has a diversified economy with a rapidly expanding high-tech sector. Other key sectors are agriculture, industry and tourism. The Israeli insurance market is sophisticated and mature, with a wide range of coverage available from local insurers as well as the international market. Israeli insurers are dependent on international reinsurance capacity because of their significant exposure to earthquake. Terrorism is a threat, and local insurers provide terrorism cover for property damage, with the government covering bodily injury and death. War coverage available through the government only covers property damage based on actual value. War insurance, combined with terrorism, is obtainable from the London market and includes business interruption cover.

MARKET SHARE



MARKET GROWTH



Source: Axco Global Statistics/Industry Associations and Regulatory Bodies

COMPULSORY INSURANCE

- Auto bodily injury
- Workers compensation
- Third-party liability for aircraft operators, yachts and pleasure craft, railway operators and gas suppliers
- Shipowners liability for marine oil pollution
- Clinical trials liability

NONADMITTED

Unauthorized insurers cannot carry on insurance activity in Israel. At the same time, there is nothing in the law indicating that insurance must be purchased from locally authorized insurers, with some exceptions. Insurers can issue policies from abroad with exceptions, if approached directly by a buyer, but it is illegal for intermediaries to place business with nonadmitted insurers.

INTERMEDIARIES

Intermediaries must be authorized to do insurance business locally, though it is understood that some intermediaries are involved in placing some accounts with nonadmitted insurers. In such cases, the intermediaries are acting on a consultancy basis rather than as legal intermediary. It is possible that nonregulated insurance consultants may be involved in placing business with nonadmitted insurers.

MARKET PRACTICE

In order to avoid being seen offering cover in Israel, nonadmitted insurers may not advertise or establish a presence in the country, and any nonadmitted policies must be arranged and signed outside Israel. However, nonadmitted insurers face the problem of not being able to subrogate. To overcome this issue, risks placed abroad are usually subject to fronting arrangements or minimal retentions.

MARKET DEVELOPMENTS

Updated December 2017

- In June 2017, the Israeli insurance supervisor – the Capital Markets, Insurance and Savings Authority, or CMISA – issued a circular reflecting the industry's desire for a longer transition period for the introduction of Solvency II in Israel. The circular provides for a transition period from June 30, 2017, to Dec. 31, 2024.
- Although elements of Solvency II have been introduced, reinsurers still need to establish deposits. In late 2017, the European Union had yet to recognize Israel as Solvency II-equivalent for the purposes of reinsurance.
- In July 2017, CMISA issued a draft regulation on the minimum capital required for insurer licensing. The purpose of the draft is to increase competition in the market by reducing capital requirements for initial licensing to levels seen in other countries.
- The Winograd governmental committee on mortality tables and the interest rates applicable to capitalized annuities related to work-related injuries under the National Insurance Institute (Capitalization) Regulations 1978 has determined that the applicable discount rate would be lowered to 2% from 3%, and that longer life expectancy has to be taken into account.
- Although the Winograd recommendations apply directly to claims paid by the National Insurance Institute, as private-sector insurance claims are linked to these, Israeli insurers have had to re-evaluate liabilities and increase claims reserves accordingly as of Oct. 1, 2017. The committee also decided that mortality tables and interest rates would be revised again on Jan. 1, 2020, and every four years thereafter.

AREA

8,355

square miles

POPULATION

8.4

million

MARKET CONCENTRATION

70.0%

market share of top five insurers

2017 GDP CHANGE (PROJECTED)

3.3%

Information provided by Axco Insurance Information Services.
www.axcoinfo.com

USI sues former Wells Fargo broker over Lockton move

■ USI Insurance Services L.L.C. sued a former Wells Fargo Insurance Services USA Inc. broker and Lockton Cos. L.L.C., charging the broker joined Lockton in violation of his noncompete agreement.

Chad Elgas, formerly with Wells Fargo, became a senior private risk adviser for USI after the Valhalla, New York-based brokerage announced plans to acquire the business in June. The transaction was completed Nov. 30.

He and seven other members of his group resigned from Wells Fargo in November and became employees of Kansas City, Missouri-based Lockton, according to *USI Insurance Services L.L.C. et al. v. Lockton Cos. L.L.C.*, Chad Elgas, which was filed Dec. 14 in U.S. District Court in Kansas City, Missouri.

According to the complaint, Mr. Elgas signed a noncompete agreement with Wells Fargo in July 2017 to not solicit any Wells Fargo client for a period of two years and prohibiting him from revealing any trade secrets. The complaint says Mr. Elgas, who is now vice president for private risk management at Lockton, has breached that agreement with Lockton's "active encouragement" and has been soliciting Wells Fargo customers in "direct violation" of his agreement.

The complaint cites two couples whose business, it says, he successfully solicited little more than a week after his resignation from Wells Fargo.

"We look forward to resolving the issues through the courts," a Lockton spokesman said.

Insurance suit over Scientology-related rehab program

■ The U.S. District Court in San Jose, California, largely ruled in favor of Western World Insurance Co. in a dispute with another insurer over whether it was obligated to provide defense costs for a Church of Scientology-affiliated drug rehabilitation operation.

The issue in *Western World Insurance Co. v. Nonprofits Insurance Alliance of California* was which insurer must provide the defense in two lawsuits filed against Los Angeles-based Narconon International, which oversees a Scientology-based treatment program at state affiliates.

The first suit was filed on behalf of Patrick Desmond, who was a patient at Narconon of Georgia and died in June 2008 after consuming alcohol provided by Narconon staff and overdosing on heroin.

The second was filed on behalf of Heather Landmeier, a patient at Narconon of Oklahoma, alleging employees provided her drugs and alcohol and allowed her to have sexual relationships with staff members. The facility made her leave in March 2008, and she overdosed on heroin and OxyContin the next day, leaving her in a vegetative state.

Both lawsuits alleged negligence.

Parsippany, New Jersey-based Western World and Santa Cruz, California-based NIAC provided overlapping insurance for Narconon International. NIAC's policy had commercial general liability, liquor liability and improper sexual conduct coverage forms. The CGL coverage form included an exclusion for bodily injury due to the "failure to render any professional service."



NIAC refused to provide a defense to Narconon, and Western World sued, seeking summary judgment on NIAC's duty to defend.

In the Desmond case, the parties disagreed as to whether Mr. Desmond's death was caused by an "occurrence." The ruling held that it was, and that NIAC was obligated to provide a defense in both cases under the professional service exclusion and, in Ms. Landmeier's case, the improper sexual conduct form.

The court ruled in favor of NIAC with respect to the liquor liability coverage form, however, because alcohol was not provided in a business setting.

Insurer must defend broker in immigrant bias suit

■ Greenwich Insurance Co., an XL Group Ltd. unit, must defend a brokerage charged with bias and harassment under its employment practices liability insurance policy, the 9th U.S. Circuit Court of Appeals in San Francisco ruled.

Employees of San Jose, California-based PHP Insurance Service Inc., who mostly spoke Vietnamese, sued the brokerage saying it had purposefully hired immigrant workers to take advantage of their lack of knowledge regarding labor and employment rights, and that they were forced to change their Vietnamese names to American names, according to the ruling in *PHP Insurance Service Inc.; PHP Group Inc.*;

Trung Tran v. Greenwich Insurance Co.

After Stamford, Connecticut-based Greenwich refused to defend PHP, the broker sued, and the U.S. District Court in San Jose granted PHP summary judgment in the case.

A three-judge panel of the 9th Circuit unanimously upheld the lower court's ruling. The plaintiffs' allegations "sufficiently triggered a duty to defend based on the policy's definition of 'discrimination,'" the appellate ruling said.

Chubb prevails in Facebook IPO D&O dispute

■ The 2nd U.S. Circuit Court of Appeals in New York ruled that a Chubb Ltd. unit is not obligated to indemnify Nasdaq under the professional services exclusion in its directors and officers liability policy in connection with Facebook's botched 2012 initial public offering.

The unanimous ruling by a three-judge panel of the 2nd Circuit Court in *Beazley Insurance Co. Inc. v. Ace American Insurance Co.*, Illinois National Insurance Co. upholds a 2016 ruling by the U.S. District Court in New York that Nasdaq retail investors were "customers" and therefore excluded under the D&O policy's professional services exclusion.

In 2015, Nasdaq agreed to pay \$26.5 million to settle a class action lawsuit in its bungling of Facebook's \$16 billion IPO. Nasdaq maintained both errors and omissions and D&O liability policies during the relevant time period.

Beazley was Nasdaq's first-layer excess E&O insurer, with a \$15 million limit of liability. Ace, the Chubb unit, was Nasdaq's primary D&O liability insurer, with a \$15 million liability limit.

After receiving notice of litigation, Beazley agreed to advance defense costs to Nasdaq under its E&O policy, according to the ruling. But Ace denied coverage under the professional services exclusion in its policy.

After Nasdaq settled the case, Beazley agreed to contribute its full \$15 million limit toward the settlement. Subsequently, there was litigation between Ace and Beazley over Ace's professional services exclusion and whether Ace must contribute to Beazley's defense costs under its D&O policy.

The 2016 ruling held that the retail investors were customers, that the underlying securities claims against Nasdaq arose out of its professional services and, thus, their claims were excluded under the D&O coverage's exclusion for professional services.

There is no dispute, said the 2nd Circuit, that the negligence claims arose out of Nasdaq's failure to properly render professional services.

DOCKET



METLIFE SHEDS 'TOO BIG TO FAIL' TAG

The U.S. Court of Appeals for the District of Columbia Circuit has granted a petition to dismiss litigation over MetLife Inc.'s "too big to fail" tag. The New York-based insurer and the Financial Stability Oversight Council in January jointly asked the D.C. Circuit to voluntarily dismiss the government's appeal. The council voted in December 2014 to designate MetLife a systemically important financial institution subject to stricter oversight, but the insurer won a court challenge against the SIFI tag in March 2016, a decision the government had been appealing.

COP'S HYPERTENSION CLAIM REJECTED

A workers compensation judge in Orlando, Florida, ruled against a police officer with post-traumatic stress disorder stemming from the Pulse Nightclub shooting who wanted to attach hypertension to his injury claim. First responder Gerry Realin filed a PTSD claim for benefits following the June 2016 shooting, but it was rejected because Florida first responders can't claim a mental injury from job-related events. Mr. Realin then filed the claim for hypertension, which emerged a month after the shooting. Mr. Realin "has not proven ... that he suffered a hypertension condition or injury on June 12, 2016, as a result of the Pulse Nightclub incident ... I make this finding in part because there was no blood pressure reading taken on June 12, 2016," the judge ruled.

LABOR LAW FIRM FACES CLASS ACTION OVER PAY

A putative class action pay discrimination lawsuit has been filed against Atlanta-based Ogletree, Deakins, Smoak, Nash & Stewart P.C. The suit, filed on behalf of Dawn Keeper in Costa Mesa, California, charges that the firm's female shareholders "face discrimination in promotions and other unequal opportunities." The suit seeks \$100 million in compensatory damages and \$100 million in punitive damages. Ogletree Deakins has denied the charges.

BUSINESS INSURANCE

U.S. INSURANCE AWARDS

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Creating Tomorrow.

MARCH 8 | SHERATON NEW YORK TIMES SQUARE HOTEL

The results are in! *Business Insurance* is thrilled to announce the **U.S. Insurance Awards Finalists**. The finalist nominations are now being judged by our premiere panel of elite industry risk managers. Winners will be announced at the live recognition event at the Sheraton New York Times Square Hotel on March 8.

Join us in celebrating the outstanding achievements of these teams at this exciting recognition event, featuring a cocktail hour, dinner and awards ceremony.



EMCEE

Linda Cohn
*ESPN
SportsCenter
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Invest in the industry's future while you support our finalists. Event proceeds will directly fund the **BI Scholarship Endowment** that we've designed to address the industry's talent crisis by opening new opportunities to provide scholarships, grants, and programming at universities without risk management degree programs, including HBCUs.

AWARD CATEGORIES:

- Risk Management Team of the Year
- Broker Team of the Year (firms with more than \$500 million in U.S. revenue)
- Broker Team of the Year (firms with less than \$500 million in U.S. revenue)
- Insurance Underwriting Team of the Year (all property/casualty)
- Insurance Underwriting Team of the Year (management liability/professional liability/cyber liability)
- Wholesale Brokerage Team of the Year
- Reinsurance Team of the Year
- TPA Team of the Year
- Managed Care Provider Team of the Year
- Legal Team of the Year
- Insurance Consulting Team of the Year
- Insurtech Initiative of the Year
- Community Outreach Project of the Year (pro bono)
- Community Outreach Project of the Year (volunteers/donations)

VIEW THE FULL FINALIST LISTING AND REGISTER:
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Marc Cohen took on the role of CEO of Chicago-based brokerage Hub International Ltd. in January, succeeding Martin Hughes, who remains executive chairman. Named president of Hub last year, Mr. Cohen is a longtime brokerage professional, having joined Kaye Insurance Associates Inc., which Hub bought in 2001, straight out of college. In 2017, Hub was again one of the most acquisitive brokerages in the United States and also reported 4% organic growth as its revenue approached \$2 billion. New York-based Mr. Cohen recently spoke with *Business Insurance* Editor Gavin Souter about Hub's future growth and acquisition strategy, the broker's ownership and the outlook for the insurance market. Edited excerpts follow.

Marc Cohen

HUB INTERNATIONAL

Q What are your plans for Hub over the next couple of years?

A It's a very exciting time within the organization. We had come to a very important recognition that our successful horizontal business model, which allows our employees to align with clients, the local communities they serve and the marketplace, has to be balanced with the importance and the need to gain efficiencies through standardization and scalability.

Q What type of efficiencies are you looking at?

A We're looking at the way we service our business, the way that we speak to our clients, the way that we deliver product to our clients. I'm a firm believer that in the future, business owners aren't going to choose their insurance broker based on insurance product. I believe that business owners are going to choose their broker based on their client experience. So we're going to use technology to help enable that. We're going to use technology to improve our service model and to improve the way we communicate with our clients.

Right now, we're busy thinking about what will the client of the future value from their insurance broker. We've surveyed thousands of business owners across the country and we asked them, "How do you want to receive insurance? What's important to you? What do you find the value in? What do you prioritize? What don't you find of value?"

Q And what sort of things are you hearing back?

A So clients want reliability, they want speed, they want easy access, they want transparency, they want 24/7 service, but they also want the ability to talk to a professional. The best example is the banking industry. You could do 100% of your banking over the internet today. You don't even need to go into a branch, yet some people do like going into a branch. I think the same is true about insurance.

Q So you have to offer both?

A You have to offer both. We're looking at both digital and bricks and

mortar and trying to figure out how we use technology to layer over all of it.

Q Hub was again one of the most acquisitive brokers last year. Looking forward, are you going to keep the same pace?

A Absolutely. We should be successful in matching last year's closed acquisition flow. But, you know, we don't measure success by the number of deals we do. We measure success by the quality of the deals that we do. So we try to be very strategic in the acquisitions that we bring into the organization. We're looking for leadership,



we're looking for product, we're looking for producers, and we're looking for new expertise. What we're not doing is just placing dots all around North America.

Q Obviously hindsight's 20/20, but how many of the acquisitions do you look back on and say maybe that wasn't the right move?

A Very few of our acquisitions don't work out for us. When they have not, it's been mostly because we followed the location as opposed to following the leadership. We're most successful when we follow the leadership of a potential acquisition, as opposed to where that acquisition is located.

Q The valuations of some of the brokerages that are bought nowadays are very high. How do you make sure that you're getting a profitable transaction?

A A lot of due diligence goes into every acquisition. The multiples today are as high as they've ever been for potential sellers. But we look to be strategic in who we purchase. If it's strategic, we want to pay the appropriate price for its value in our organization.

But M&A is one side of the business. The other side of the business that's equally important to us is organic growth. We balance our priorities around both M&A and organic growth.

Q What sort of organic growth are you seeing?

A We finished 2017 at 4%, which is very favorable.

Q Your private equity investor, Hellman & Friedman, invested in Hub five years ago, which is often the traditional time frame for such investments. Will you be getting a new owner, or are you getting to the size where it will more likely be a public offering?

A All options are going to be on the table for us. We've had a great run with private equity ownership. We have a great relationship with our existing owners, Hellman & Friedman. They bring a lot of value to our company. We're going to probably start the process over the next 12 months to begin more serious conversations with the financial markets.

Q What about the outlook for the market?

A I think the days of the big swing — soft and hard markets — are probably behind us. There's so much capacity that's in the marketplace. What we saw in January was just a very modest, if any, increase across the board, but there were pockets — for example, automobile, personal lines, property insurance in catastrophe areas.

Q And you see that going forward?

A There's no reason to believe that there's going to be anything that's going to change that.

I'm a firm believer that in the future, business owners aren't going to choose their insurance broker based on insurance product. I believe that business owners are going to choose their broker base on their client experience.

ENERGY FIRMS TAP NEW TECHNOLOGY TO ASSESS RISKS

Eight years on from major disaster,
offshore and onshore operations
rethink approach to safety



BY GLORIA GONZALEZ
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Years after the Deepwater Horizon disaster brought risk management and safety on energy operations to public attention, energy companies of all types are using emerging technologies to assess and mitigate risks to both third parties and their personnel.

Visual intelligence technology such as drones is increasingly being used to identify and monitor the safety of energy operations, including oil pipelines and power lines, while telematics is used to compile and evaluate data to address distracted driving and fatigue risks.

The April 2010 explosion and fire on the offshore drilling rig Deepwater Horizon killed 11 workers, injured 17 others and caused a massive oil spill into the Gulf of Mexico that many experts deemed the largest environmental disaster in history. In mid-January, London-based energy major BP P.L.C. announced it was nearing the end of the Deepwater Horizon compensation process, culminating in a total payout of about \$65 billion from the disaster.

Safety improvement efforts in the energy sector have focused to some extent on technologies such as blow-out preventers — the failure of which contributed to the BP disaster.

“A lot of technology has gone into trying to not have another Deepwater Horizon,” said Thomas Wilson, a Houston-based partner in the labor and employment practice of Vinson & Elkins L.L.P. “Obviously, that’s more offshore than onshore,

but I think there are a lot of lessons learned. Both onshore and offshore are recognizing that a major failure, fire, explosion, is something they have to engineer to make sure that doesn’t happen.”

Energy companies are interested in using emerging technologies to identify and mitigate risks, experts say. For example, unmanned aerial vehicles, more commonly known as drones, are increasingly being deployed to conduct inspections of energy operations and minimize the risks to personnel, experts say.

“Energy companies are always at the cutting edge of a lot of technology,” said Julia Palmer, Houston-based partner with Holland & Knight L.L.P. who specializes in energy litigation. “But the landscape of safety, at least in the oil patch, has changed a bit as we move from so much offshore development to onshore development after Deepwater Horizon occurred.”

However, drones are being used for offshore operations such as inspecting oil rigs rather than immediately putting employees in harnesses to conduct inspections, she said. While employees perform needed repairs, routine inspections for issues such as

corrosion or post-hurricane damage can be conducted without putting personnel at risk, Ms. Palmer said.

“Drones in the oil and gas industry cross all sectors,” she said. “You have a need for drones if you’re trying to do an inspection of a flare stack. You may need a drone if you’re looking at servicing pipelines or even in the refining aspect. It’s a matter of can you get personnel there safely? Can you do a better job with a drone? When you send a drone up, you’re not putting anyone at risk and you also typically end up with pretty good footage and the opportunity and the luxury of being able to sit down afterwards and study that footage and see what’s going on. You may be able to get a drone into places where it’s just not feasible to get a person into.”

Drones are also being used to mitigate risks in other types of energy operations, such as inspections of wind turbines, Ms. Palmer said.

In January 2017, the White Plains, New York-based New York Power Authority partnered with Canadian utility Ontario Power Generation on what NYPA called the first-ever inspection by a drone of the ice boom between Lake Erie and the Niagara River to make quicker, safer, less expensive and more environmentally friendly repairs. The drones performed a task previously performed by helicopter or boat.

“Drones are really being stepped up in use right now, not only to check pipelines, but they’re now doing a number of power line

inspections,” said Steven Behrens, risk consultant, property risk engineering/global asset protection services for XL Group Ltd., which does business as XL Catlin, based in Hartford, Connecticut. “The use of a drone is far less expensive than using a helicopter. A whole lot of people were jumping on the bandwagon.” But the risks for drone usage are “probably not fully identified yet,” he said.

A 2011 Halloween nor’easter storm that plunged much of the state of Connecticut into darkness highlighted the challenges that trees present to transmission and distribution lines, he said.

“Power companies always look to maximize money they spend on this tree trimming problem, and I think they can do that and be more effective by using these drones,” Mr. Behrens said.

The use of visual technologies to identify risks goes beyond drones to include satellite technologies and indoor survey tools such as Google Glass, said Beverley Adams, head of visual intelligence strategy for Marsh & McLennan Cos. Inc. in London.

“Some are more developed than others,” she said. “The satellite piece ... is fairly well established in things like modeling. Things like drone technologies, we’re seeing quite a split in terms of uptake within different market players. Some companies invested two years ago in their own drone programs and are using

See **TECHNOLOGY** next page

FLYING HIGH

Drones are just scratching the surface of their commercial potential, with an estimated \$100 billion market opportunity between now and 2020. Growing demand from the commercial and civil government sectors is expected to drive most of that growth, but the energy industry will likely contribute to the expansion of the market for drones.

PROJECTED GROWTH 2016-2020

OFFSHORE OIL AND GAS AND REFINING

\$1.11 BILLION

UTILITIES

\$93 MILLION

PIPELINES

\$41 MILLION

MINING

\$40 MILLION

CLEAN ENERGY

\$25 MILLION

Source: Goldman Sachs Research

WEARABLES KEEP MINE WORKERS SAFE AROUND BIG MACHINERY

Proximity detection and collision avoidance systems are widely utilized in the mining sector, with wearables tracking employee locations, sounding alarms and even automatically stopping equipment if it gets too close to the miners.

“That has led to a dramatic drop in crushing fatalities in underground mines,” said Fred W. Smith IV, director of natural resources and head of U.S. mining and metals at Willis Towers Watson P.L.C. in Knoxville, Tennessee.

The next evolution is in the use of smart caps that employ electroencephalography, also referred to as EEG or brain waves, to monitor brain activity, he said. EEG is a typically noninvasive method often used to diagnose and monitor health conditions such as epilepsy and sleep disorders. But a Brisbane, Australia-based company called SmartCap Technologies Pty Ltd. is using EEG technology to monitor workforces for fatigue, meaning an employee’s ability to resist sleep, and providing alerts as they



progress on a risk scale.

“If you look at human error incidents in any industry, mining included, probably 60-70% involve fatigue,” Mr. Smith said. The smart caps go “beyond the telematics and proximity (alerts) and actually goes into more of a fusing of a biological and digital world. That’s starting to take off in mines.”

Several global mining giants such as Melbourne, Australia-based Rio Tinto Ltd. have been using such biometric evaluation devices in their operations for years.

“It’s gaining steam, but I would say it’s still early phase,” Mr. Smith said. “The proximity and collision avoidance systems are more widely used. You’d be hard

pressed to find a mine that didn’t use those. But the wearables, the biometrics, that’s something that’s a bit newer.”

However, the mining companies need to be aware of the privacy implications of collecting this information, he said.

“That’s something that the human resource departments are going to have to tread carefully on, but I haven’t really heard of any significant pushback by employees,” Mr. Smith said. “Some of these things like the proximity units are bulky and heavy, so you get pushback. But at the end of the day, if it’s potentially saving lives, you’re not going to find a whole lot of resistance. It’s just a matter of making it simple and comfortable to wear.”

But privacy will likely be a consideration as companies increasingly wade into real-time biometric screening and evaluation, raising questions about what’s being done with the data and how it’s being stored, he said.

Gloria Gonzalez

TECHNOLOGY

Continued from previous page

it for inspection purposes. Others are very much evaluating to see the feasibility of it. It's that buy or build it debate."

Companies are using the various technologies to improve risk management in the areas of safety, efficiency and general cost savings, Ms. Adams said.

"Drones in the oil and gas industry cross all sectors. You have a need for drones if you're trying to do an inspection of a flare stack ... (or) looking at servicing pipelines."

Julia Palmer,
Holland & Knight L.L.P.

"There's a whole separate piece which is 'tell me something I didn't know,'" she said. "For example, after an event like Hurricane Harvey, we were very busy deploying aircraft, satellites to quickly image what had happened and seeing early on the impact on their facilities. We don't have a good way of measuring that benefit. We just know that from a risk management standpoint they didn't know what had happened until they saw the footage."

"I think this comes back to some of the work that's going to need to be done by the industry, which is solid stats around the benefits and the improvements, because a lot of businesses are saying 'help me make the business case for doing this,'" Ms. Adams continued. "Everybody has been saying the word drones for a few years now, but the reality is that some forward-thinking businesses have been prepared to put the money upfront. Other businesses are still asking the same questions ... what are the efficiency savings, how do I prove this out?"

Eliminating risky driving

Oil and gas firms are also using telematics, which merges telecommunications and informatics via devices such as GPS, to reduce risks. For example, telematics can monitor for driving behaviors such as hard braking or deviations from planned routes, said Jessica Dekermanji, Boston-based chief underwriting officer for national insurance specialty energy with Liberty Mutual Insurance Co.

"Route planning is really important because you might be able to eliminate dangerous intersections or reduce the number of turns that are being made," she said. "If you can monitor the telematics and make sure people are following the set route, that can help to make it a safer operation."

The use of telematics has really taken hold over the past six years amid the current "distracted driving scourge," said John

Kramer, vice president and head of North American operations for telematics provider The Floop Ltd. based in Detroit.

"Many large organizations and companies with safety-sensitive associates who have access to vehicles, they have policies against using their phones while driving," he said. "Using this type of technology, they're able to detect when this is happening, provide coaching feedback when it happens and address those situations as they arise."

"It's really kind of come into vogue simply because the cost of the technology is coming down," he said of the use of telematics. "It's become something that is a little bit more palatable for businesses to apply a telematic solution for their fleets."

Fatigue is often a contributing factor to workplace accidents, so instant fatigue detection tools are also gaining traction, experts say. The tools can detect if an employee is showing signs of fatigue, such as lengthy or excessive blinking or falling asleep, and will alert both the employee and a monitor to the danger, said Mark Gaskamp, managing director for insurance brokerage Wortham L.L.C. based in Austin, Texas.

"I think we're going to continue to see that evolve," he said. "There's just so much more technology that's available."

The use of autonomous vehicles is another emerging technology that could eventually be used to mitigate employee fatigue and inattentive issues that contribute to workplace safety incidents and injuries, experts say.

"Those are innovations that are attractive for the energy sector to consider because one of the biggest costs is the human that's driving those vehicles, but the ability to get to market is probably further off," said Joel Roberson, a Washington, D.C.-based partner with Holland & Knight L.L.P. "Drones ... are here today. Autonomous vehicles are starting to show up, but they're probably a year or two away."

Insurance implications

Companies using emerging technologies are getting better terms and conditions as brokers discuss their usage and impact during conversations with underwriters, said Fred W. Smith IV, director of natural resources and head of U.S. mining and metals at Willis Towers Watson P.L.C. in Knoxville, Tennessee. For example, if a mining company can show it is doing everything possible to improve the safety of its employees, underwriters can take that into account in setting more preferential rates for buyers of workers compensation policies, he said.

"These things can all help in the insurance underwriting process to make a mining company look better compared to their peers," Mr. Smith said.

Policyholders would not necessarily receive a credit for using telematics, "but we would hope to see a better loss experience from implementing a telematics program and using them appropriately," Ms. Dekermanji of Liberty Mutual said,

REGULATIONS FOR DRONE OPERATORS LIKELY TO SEE MORE CHANGES



Energy companies interested in or already using drones in their operations should be aware of and have plans in place to comply with regulations governing the use of unmanned aircraft.

The Federal Aviation Administration issued a rule in 2016 commonly referred to as part 107 to allow for routine

civil operation of small unmanned aircraft systems weighing less than 55 pounds. The rule addresses airspace restrictions, remote pilot certification, visual observer requirements and operational limits to maintain safety and national security, but also allows individual operations to deviate from many operational restrictions if the FAA

administrator finds that the proposed operation can be safely conducted.

Several FAA restrictions governing drone use such as visual line of sight, which requires operators to keep the drones within their sight while in use, and a ban on flying drones over people not directly participating in the operation, have frustrated the full utilization of drones in energy operations, said Joel Roberson, a Washington, D.C.-based partner with Holland & Knight L.L.P. For example, a drone operator can maintain visual line of sight when inspecting fixed sites such as a generation plant relatively easily, but it would be beneficial to use drones to inspect pipelines that travel great distances without starting and stopping the drones every time they leave the line of sight, he said.

Mr. Roberson predicted that 2018 will be a big year in terms of developments in drone regulation as the FAA is engaged in an unmanned aircraft system integration pilot program in which state, local and tribal governments will

partner with private-sector entities such as drone operators or manufacturers to accelerate safe integration of drones.

The deadline for completing lead applications, which must be filed by the government entities, was Jan. 4.

The FAA will award a minimum of five pilot program designations, with at least one of the private-sector companies chosen to participate likely being in the energy sector as companies have expressed interest in using drones to conduct electric grid inspections beyond line of sight, he said.

One of the examples of potential proposals provided by FAA for the pilot program include disaster relief, meaning damage assessment, search and rescue, insurance appraisals and supply delivery. But the use of drones for post-hurricane damage surveillance is already happening, experts say. The FAA granted more than 300 authorizations for unmanned aircraft systems operations on an expedited basis following last year's devastating storms.

Gloria Gonzalez

adding that if they have a large deductible and will pay part of any claim, it is beneficial to use such technologies to reduce the likelihood or severity of claims.

But disruptive technologies, while “very exciting,” also trigger a host of legal and insurance questions, including how to price an insurance policy commensurate with the risk of the products, especially given the lack of data on crash rates and other factors, Mr. Roberson noted.

While there have been some incidents with drone failures, there have not been any major claims or losses related to drone usage in the energy sector, Ms. Palmer said. But given their increasing usage, particularly in proximity of expensive assets, risk managers should be aware of the potential for drones to do damage and plan accordingly, she said.

Obstacles ahead

With any emerging technology comes challenges, including the need to understand the data being collected via telematics and properly use it to pinpoint patterns, experts say.

“If you’re just collecting it and not benefiting from using that data, then it’s really not worthwhile,” Ms. Dekermanji said.

Regulation is another critical challenge for all emerging technologies.

“That is something that is going to have to be looked at closely, because regulation can either accelerate or put the brakes on new technology and how widely it’s used,” Mr. Smith said.

For autonomous vehicles, a key regulatory challenge is that the National Highway Traffic Safety Administration’s Federal Motor Vehicle Safety Standards are “all written with expectation of it being driven by a human,” Mr. Roberson said. While the U.S. House of Representatives passed legislation in September to revamp the process for companies to prove the safety of these vehicles regardless of their lack of compliance with requirements for human-driven cars, the future for the legislation and the pathway for the vehicles is unclear.

“The reason that’s important for the energy sector is because a lot of innovation is happening around autonomous vehicles, but the ability to get to market is still an open question, and I don’t think we’ll see robust investment in that space until federal regulation makes the process clearer,” he said.

But emerging technologies can also help address regulatory challenges and requirements, experts say.

For example, some technological efforts are focused on dealing with the requirements of the U.S. Occupational Safety and Health Administration’s silica rule,

“It’s almost changing the way risk managers will look at their facilities, we hope. This whole drone piece is starting a little bit of a revolution ... Now it all really does come to life.”

Beverley Adams,
Marsh & McLennan Cos. Inc.

which lowered the permissible exposure limits for workers exposed to silica dust. The requirements have already taken effect for the construction sector, while some of the requirements for the hydraulic fracturing industry will begin to kick in on June 23. However, because silica controls for fracking are still being developed, the rule will give these employers three additional years to implement engineering controls to limit exposures.

“The energy sector, (including) the fracking industry, is spending a significant amount of time trying to deal with the new OSHA silica standard,” Mr. Gaskamp said. “That’s kind of a game changer.”

And privacy issues are another consideration, more so in relation to third parties than employees, experts say. Drones used

to monitor energy operations, for example, could inadvertently record personal information from nonemployees, leading to liability concerns that risk managers should check with their brokers and insurers to examine their policies for coverage.

But some of the emerging technologies collect data about employees, so energy companies do need to consider the privacy implications. The key is to ensure employees know that the technology is being used to improve safety, experts say.

“I don’t think you want to make it about productivity,” Ms. Dekermanji said. “The focus is to make sure people are taking the best route or not using cellphones when they’re driving or not driving erratically. Making sure that they understand you’re doing it for their safety will help them adopt it.”

But these potential hurdles are generally seen as surmountable, meaning the use of these emerging technologies in the energy sector is expected to continue to expand and change the way risks are cataloged going forward, experts say.

“It’s almost changing the way risk managers will look at their facilities, we hope,” Ms. Adams said. “This whole drone piece is starting a little bit of a revolution. It’s no longer just an Excel spreadsheet. Now, it all really does come to life, and I think it’s just the beginning.”



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RISK MANAGEMENT TECHNOLOGY

Flood risk models grow more sophisticated

BY GLORIA GONZALEZ

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INSIDE

▶ DISTRIBUTED LEDGER TECHNOLOGY

Insurers and financial institutions are forging stronger links to the latest ledger systems. **PAGE 22**

▶ DATA STANDARDS STUMP INDUSTRY

The lack of standardized data collection methods hamper efforts to identify risk exposures. **PAGE 23**

▶ RMIS SURVEY DATA

The investment and use of risk management information technology continued to expand in 2017. **PAGE 24**

The havoc wreaked by Hurricane Harvey and other storms in recent years has taught valuable lessons about the changing nature of flood risk in the United States and the need to rethink old assumptions about the vulnerability of inland properties to flooding and the impact of weaker storms that instigate significant precipitation.

Evolving catastrophe risk maps and probabilistic models are factoring into this calculus — taking advantage of technological and data advances to enable risk managers and insurers to get a better handle on flood risk.

“Flood is a peril,” said John Burkholder, risk and insurance director for Tampa International Airport and chair of the Risk & Insurance Management Society Inc.’s external affairs committee. “You have to have underwriting data. Models aren’t

perfect, but they’re certainly getting much better because we have better technology and better data. As we develop those models, it should improve the underwriting and should improve the ability to take care of the risk.”

Private mapping and modeling tools are allowing risk managers to simulate flood scenarios and more strategically deploy resources to mitigate flood risk based on which facilities are most vulnerable, particularly because they can determine the



REUTERS

Interstate 45 was submerged in widespread flooding during Hurricane Harvey in Houston last August.

probability of a high loss, even in areas that Federal Emergency Management Agency maps designate as low-hazard flood zones, experts say.

“This is absolutely essential to the success of the flood insurance industry, and changes are happening fast and furiously,” said John Dickson, president of NFS Edge Insurance Agency Inc., an affiliate of Aon National Flood Services, in Kalispell, Montana.

In 2017, FM Global published its interactive Global Flood Map, which provides a global view of high- and moderate-risk flood zones and won a *Business Insurance* Innovation Award.

“The models are just now starting to catch up with the demand and are still probably a little bit behind,” said Louis Grizzo, vice president of research at FM Global’s Center for Property Risk Solutions in Norwood, Massachusetts. “The demand is driven by increased flood losses due to development into more value at risk. This is one of those areas where there is pretty sound science that says if the air temperature warms, there’s going to be more extreme precipitation.”

Advances in technology, including in digital elevation modeling that creates a digital representation of ground topography and terrain, and the availability of extensive data have enhanced the ability to evaluate individual properties for flood risk, experts say. Improved satellite technology, planes mounted with LIDAR — Light Detection and Ranging remote sensing to measure distances to Earth — and evolving GPS technology are contributing to the improved quality and quantity of data collected.

“Data accuracy is very important,” said Jayanta Guin, chief research officer at Boston-based catastrophe modeling firm AIR Worldwide, a unit of Verisk Analytics Inc. “It’s not a perfect world yet, but we are well on our way to getting closer to perfection.”

Critical information such as ground elevation can be provided at resolutions of 10 meters compared with the previous norm of 90 meters.

“More than anything, flood is a

high-resolution peril,” said Joshua Woodbury, flood specialist with Swiss Re Ltd. in Armonk, New York. “The difference between being flooded or not can be measured in meters. Resolution is important.”

Lessons from Harvey

The 2017 hurricane season demonstrated the importance of modeling not only flooding caused by storm surges during hurricanes, but inland flooding caused by major precipitation events, experts say. Harvey made landfall in Texas as a Category 4 storm and lost strength relatively quickly, but lingered as a precipitation event with catastrophic consequences.

Harvey represented a “paradigm shift in how people think of hurricanes” because “the big story with Harvey was inland flood,” said Peter Dailey, vice president for global flood model with Newark, California-based risk modeler Risk Management Solutions Inc.

In September, Boston-based catastrophe modeling firm Karen Clark & Co. estimated Harvey insured losses at \$15.4 billion, with \$12 billion caused by inland flooding. “What we’re seeing more and more, particularly with weaker or stalled storms like Harvey, there’s a lot of rainfall associated with a hurricane,” said Chief Executive Officer Karen Clark.

More precipitation events unrelated to hurricanes are causing significant losses, and risk managers would be wise to plan for and mitigate against the risk, experts say.

“That is all consistent within the backdrop of climate change,” Mr. Guin said. “From a pure science point of view, we know that as the Earth is warming, the atmosphere can hold more and more moisture. From a physics point of view, the data is showing that the biggest impacts of climate change are in precipitation and extreme temperatures.”

For example, severe storms and flooding in Louisiana in August 2016 led to more than \$2.5 billion in National Flood Insurance Program payouts, according to FEMA data.

“A lot of people mistakenly assume that flood is only an issue for communities on the coasts and next to some of the major rivers. But if you think about the 2016 rainstorms in the Baton Rouge area, that was an \$8 billion event, and it affected over 55,000 homes,” said Nancy Watkins, a San Francisco-based principal and consulting actuary for Milliman Inc., which is designing a new nationwide rating plan for NFIP policies. “Most of those people were not insured for flood. Any place in the country where it can rain a lot in a small amount of time can have a flood. This is a 50-state problem.”

TOP 10 MOST SIGNIFICANT FLOOD EVENTS BY NFIP PAYOUTS

Floods are the most common and costly natural disasters in the United States. Hurricane Katrina resulted in the biggest payout by far under the National Flood Insurance Program, but relatively weaker storms and precipitation events unrelated to hurricanes have also led to major losses for the debt-ridden program. Total paid loss figures for Hurricane Harvey are not yet available.

RANK	DATE	EVENT	AMOUNT PAID
1	August 2005	Hurricane Katrina	\$16.3 billion
2	October 2012	Superstorm Sandy	\$8.7 billion
3	September 2008	Hurricane Ike	\$2.7 billion
4	August 2016	Louisiana severe storms and flooding	\$2.5 billion
5	September 2004	Hurricane Ivan	\$1.6 billion
6	August 2011	Hurricane Irene	\$1.3 billion
7	June 2001	Tropical Storm Allison	\$1.1 billion
8	October 2016	Hurricane Matthew	\$637.7 million
9	May 1995	Louisiana flood	\$585.1 million
10	August 2012	Hurricane Isaac	\$558.8 million

Source: FEMA

PROBABILISTIC FLOOD MODELS GAIN A FOLLOWING

Flood maps provided by the Federal Emergency Management Agency had traditionally been the go-to tool for analyzing flood risk, but even the agency has acknowledged the value of and shift toward probabilistic models developed by the private sector.

In 2017, FEMA chose the U.S. inland flood and storm surge models of Boston-based catastrophe modeling firm AIR Worldwide, a unit of Verisk Analytics Inc., to assess the National Flood Insurance Program’s overall risk and potential payouts to property owners and help the NFIP evaluate actuarially sound rates and assess the effects of major flooding events in real time.

In the past, underwriting of flood risk has revolved around antiquated government resources such as FEMA’s 100- and 500-year floodplain maps, and the vulnerability of properties was generally determined based on whether they were located inside or outside these zones, experts say.

“Mother Nature doesn’t listen to us,” said Marc Treacy, Chicago-based managing director of flood insurance programs for ISO, a Jersey City, New Jersey-based unit of Verisk. “It stops where it wants to stop. It’s been a push to start thinking about flooding as a true catastrophe, where I don’t think it had been in the past. As we’ve seen more and more losses from flooding, they’re starting to think about it in a similar fashion as they do hurricanes and earthquakes because we need to start planning ahead for it.”

FEMA’s 100-year floodplain maps failed to capture 75% of flood damages from five serious floods from 1999-2009, none of which reached the threshold of a 100-year event, according to an analysis published by researchers at Rice University and Texas A&M University at Galveston in September.

“They haven’t been revisited in many years. And as populations grow and change, it affects surrounding topography, and the flood risk can be very, very different compared to when those insurance rate maps were originally adopted,” said Jeff Tennis, project team lead for property analytics for Lockton Cos. L.L.C. in Kansas City, Missouri.

“The FEMA mapping has historically been poor, and it’s not necessarily FEMA’s fault,” said John Burkholder, risk and insurance director for Tampa International Airport. “It’s the fact that FEMA’s hands are tied by Congress and they’ve lacked technology to be able to provide good data.”

Gloria Gonzalez

Insurers form technology alliances

BY MATTHEW LERNER

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Three groups of insurance and finance industry organizations are spearheading the development of distributed ledger technology products aimed at helping automate, streamline and simplify the insurance and reinsurance process.

The key components of distributed ledger technology, of which blockchain is just one type, are that it provides real-time access to a shared ledger, where transactions are permanent and the addition of data contributed by members who have certain credentials is consensus-driven, said Eric Piscini, global financial services industry digital transformation and blockchain leader for Deloitte Consulting L.L.P. in Atlanta.

While some companies are developing distributed ledger proofs of concept, other development is being conducted by industry consortia that believe collaborative development is best for a shared technology.

Before technology becomes a solution, it often requires more standardization and common terminology, “and that is best done through collaborative efforts across the industry,” said Paul Meeusen, head of distributed ledger technology at Swiss Re Ltd. in Zurich.

Swiss Re is a founding member of B3i, a consortium of insurers and reinsurers that demonstrated a fully functional beta version of its integrated blockchain solution for the insurance and reinsurance industry in September.

Another consortium, R3CEV L.L.C., founded by banks but now expanded, is building its own distributed ledger technology, Corda, which is not a blockchain, and plans to launch the first enterprise-grade version of the product in the first quarter of 2018.

“It’s not just the banks and insurance companies that are mutualizing resources,” said Charley Cooper, a director with R3 in New York. “We have opened membership for free to the global government community and financial service regulators,” and those that are working with R3 include the Bank of Canada, the Monetary Authority of Singapore and the Hong Kong Monetary Authority, he said. Reinsurance broker TigerRisk Partners L.L.C. is also working with the consortium.

“The only way we can do it is by mutualizing resources,” said Ryan Rugg, an R3 director in New York.

She added that although the consortium was formed by banks, “a lot of the pain points the banks were having — identity, reference data, managing financial agreements — are the exact same pain points the insurers were having. A lot of the proofs of concepts the banks had done were applicable to insurers.”

Indeed, some believe the collaborative efforts are as important as the technology.

“Our belief is the real trick to this is getting



organizations to work together,” said Peter Miller, president and CEO of The Institutes, the insurance industry education and research organization in Malvern, Pennsylvania. “In fact, I think it’s the only way forward.”

The Institutes sees its role as a hub for insurance industry cooperation as an advantage for distributed ledger development efforts.

“We’ve been supporting the industry and getting industry players to work together for more than 100 years,” Mr. Miller said.

The Institutes’ first distributed ledger technology product, RiskBlock, is a proof of insurance application now being used primarily in the personal lines marketplace.

Mr. Miller said that eventually the different consortia will likely work together.

“We are talking to the other consortiums,” including B3i and R3, Mr. Miller said. “I think we’re all going to have to work together, and it’s probably better if we do that sooner rather than later.”

While many identify distributed ledger technology with the cryptocurrency bitcoin, this is just one application run on one existing blockchain. Other blockchains, such as the one underpinning the cryptocurrency ethereum, were seen as not suitable for insurance industry and banking applications.

“We do not believe — certainly for complex financial markets like those in which our global banks operate — the bitcoin blockchain suffices,” R3’s Mr. Cooper said. “Our banks and we do not believe it suffices in terms of the complexity and the regulatory constraints under which regulated financial markets operate. We do not believe the bitcoin blockchain will work for financial services.”

“We did not intend or set out to build our own distributed ledger from the ground up, but unfortunately none of the existing block-

chains were fit for purpose,” Ms. Rugg said, referring R3’s Corda project.

“R3 has rightly concluded that for very reliable and highly secure business transactions, they needed to create a type of hybrid blockchain which was much more scalable and which holds data in a more protected way, and we are indeed also actively looking at Corda, which mimics the essence of blockchain technology in a hybrid version which makes it much more scalable and safe,” Mr. Meeusen said.

The collaborative development is seen as aligned with the technology’s purpose.

“I think it shows real leadership to have these companies come forward and say, ‘We are going to devote resources to this because we see it as the future of what we do,’” Mr. Reed said. “I think it’s absolutely helpful. The very nature of DLT is a shared database, in two words. So you need more parties involved to begin with.”

Sources agree that more complex and productive applications may be seen in the future, but that the technology remains in a highly incubative phase.

“Software developers speak in terms of iterations. Just because you can’t build a complex property/casualty product now doesn’t mean with the right technology that in 10 to 15 years you wouldn’t be able to handle more sophisticated things,” said Stephen D. Palley, of counsel with Anderson Kill P.C. in Washington.

“Perhaps in 10 years we’ll look back at this like we look back at the first Commodore 64 or Macintosh computers,” Mr. Meeusen said. “We are still in an early stage, where we still need these platforms to develop, just like early operating systems in personal computers.”

“But after a while, I believe some key platforms and standards will prevail and things will become much more interoperable, like the PC and Mac are now,” Mr. Meeusen said.

BLOCKCHAIN EXPERTISE IN SHORT SUPPLY

Emerging technologies and business processes often require specialized expertise, and staffing up to explore new frontiers can be a daunting task.

Some organizations using distributed ledger technology have already encountered a highly competitive, shallow labor pool.

“We need more people in the blockchain space. We are in need of more people who can code and understand and operate these new types of architectures and solutions,” said Eric Piscini, global financial services industry digital transformation and blockchain leader for Deloitte Consulting L.L.P. in Atlanta.

“It’s one of the biggest challenges I have,” Mr. Piscini said. “Every morning I wake up saying, ‘Where can I find the next team member — anywhere in the world — to bring onto my team?’”

Those with the necessary skills may find themselves in high demand and a strong bargaining position.

“I think there’s probably a shortage of people who understand it, but there’s a lot of money right now being poured into distributed ledger companies, and I think it’s probably a good time to be a programmer who understands distributed ledger technology,” said Chip Reed, marine risk consultant for Willis Towers Watson P.L.C. in Radnor, Pennsylvania, who works with distributed ledger applications in the marine sector.

“It’s no secret that blockchain expertise is in huge demand right now. Firms are fighting to hire the best talent, and candidates are able to be incredibly picky about the role they ultimately choose,” said Simon Clarke, global head of talent in London for R3 R3CEV L.L.C., a digital ledger technology consortium formed by financial institutions in 2015.

Matthew Lerner

Risk managers hampered in risk analysis by insurers' inconsistent data formats

BY JUDY GREENWALD

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The lack of standardization in claims and exposure data restricts risk managers' ability to efficiently analyze their losses and risks, experts say.

Insurers tend to use their own data formats, leaving policyholders, their third-party administrators or risk management information systems consultants to "scrub" the data to present an aggregate picture, which can be expensive, time consuming and incomplete.

"I think it's a problem right now, especially when you're having to use multiple carriers' risk management systems," said Kristen Peed, director of risk management for Cleveland-based CBIZ Inc.

"It kind of boils down to, they don't use the same kind of nomenclature, so it's not easily compared from one carrier to the next, so if I switch (insurers) it may be harder to understand how that would translate from year to year," said Ms. Peed, who recently joined the board of the New York-based Risk & Insurance Management Society Inc.

"If you have multiple carriers and you're trying to import that information, many fields are the same, but there may be missing fields for some, there may be extra fields for others, so there's just no way you're going to have a standardized data coming from all sources," said Randy Nornes, Chicago-based executive vice president with Aon Risk Solutions.

Stephen Rhee, Chicago-based chief digital officer for Arthur J. Gallagher & Co., said there has been progress made in analyzing data on relatively uncomplicated claims, such as slips and falls, by submitting information on an online form, rather than relying on a handwritten description.

The issue, though, becomes more complicated with more complex coverages, observers say. "I'm thinking of cyber insurance, in particular," where there are no standard forms, Ms. Peed said. When



claims data is not truly aggregated, she said, "it's really hard to assess what the exposure might be."

Carol Castelloni, vice president of standards at the Pearl River, New York-based Association of Cooperative Operations Research & Development, said cyber, which was once part of other coverages, but has now become a broader stand-alone coverage, "creates the need of continually enhancing and changing how we code the information, both on the policy side and the claims side."

"We're having active conversations with members to look at how we structure some of that unstructured information," she said.

The issue is not necessarily just among insurers, but can exist even within different insurance departments, "so they even struggle internally," said Janet Dell, CEO of Marsh ClearSight L.L.C., a risk management information systems firm, in Chicago.

TPAs are a factor as well. Chris Knight, Atlanta-based analytics practice leader for Beecher Carlson Holdings Inc., the large-account unit of brokerage Brown

& Brown Inc., said, "A client may work with a third-party administrator and they manage their data and have their own data systems and metrics," but there may be inconsistencies in the data metrics when a brokerage firm looks at clients' data from multiple TPAs.

Robert Petrie, president and CEO of Chicago-based Origami Risk L.L.C., a risk management information systems firm, said, "I've been in the risk management world for 25 years, and if you'd asked me 25 years ago whether we'd still be processing data from multiple insurers and TPAs" with the same technology, "I would have thought that was just a ridiculous proposition."

Ms. Dell said the problem arose because "there's been a lot of merger and acquisition activity in the industry and everyone has their own formats that they wanted to use." While some organizations have tried to develop an industry standard, there have been "various degrees of adoption because of the time and money involved," she said.

For a legacy insurer, "your systems were

built typically for the rating model that you filed" to capture data around that because it helped determine pricing, Mr. Nornes said.

The problem is particularly acute for midsize and small firms, experts say.

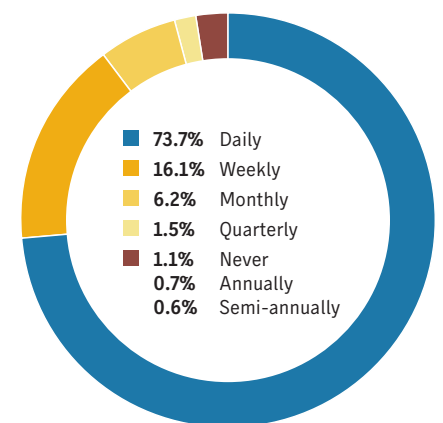
Larger firms will use TPAs "because they're retaining a lot of the risk themselves," which means there is more flexibility on the data fields captured, Mr. Nornes said.

However, for midmarket and smaller companies that largely rely on insurers to manage claims, and where insurers take a lot more risk, "you really don't have any flexibility in what information is captured or shared," Mr. Nornes said.

Patrick J. O'Neill, president of Redhand Advisors L.L.C., an Atlanta-based information technology consulting firm, said some clients can rely on a RMIS vendor "to do a lot of that aggregation for them, but I would think for a significant portion of the marketplace that's cost-prohibitive to them, and the main reason is there's no standard out there around the TPA."

Mr. O'Neill said, "Smaller companies change insurance all the time. They're price buyers, so the more you change, the more data points you have, which obviously drives the cost of aggregating your data."

FREQUENCY OF RMIS USE



Source: 2018 RMIS Report

INDUSTRY URGED TO STANDARDIZE INFORMATION GATHERING

The insurance industry should collaborate more on data standardization, experts say.

"The industry's needs to figure out how to standardize the data," said Patrick J. O'Neill, president of Redhand Advisors L.L.C., an Atlanta-based information technology consulting firm.

One possibility is to have a consortium that would aggregate the data so clients could get ready access to the data in a standard format, Mr. O'Neill

said. "That would make life easier."

"One of the things that we've done here is we have our own risk management information system, and we can have feeds from other carriers' systems into our own," said Kristen Peed, director of risk management for Cleveland-based CBIZ Inc. and board member of the Risk & Insurance Management Society Inc.

"It involves a lot of setup up front" because of different nomenclature, she said. This approach also calls

for significant resources, both "from a money standpoint and also from a time standpoint," she said.

Ms. Peed said she would welcome third-party administrators and insurers getting together to create a standardized system. "In the end, I think it would really help the carriers" understand risk underwriting better because there would be one common language for them to interpret, Ms. Peed said.

"Ideally, there should be more

conversations on consistency" industrywide, said Chris Knight, Atlanta-based analytics practice leader for Beecher Carlson Holdings Inc., the large-account unit of Brown & Brown Inc.

Also, "There should be drop-down and predetermined options, as well as general accountability on the data quality," Mr. Knight said. "That combination would go a long way in combating any missing data or ambiguity in the data."

Judy Greenwald

Risk management technology survey

BY ANDY TOH

atoh@businessinsurance.com

Usage and investments in risk management information systems continued to expand in 2017, according to an annual *Business Insurance* survey of risk managers and insurance buyers. The online survey was conducted from Dec. 5, 2017, to Jan. 2, 2018, with 239 risk managers responding. The base used is the total answering each question.

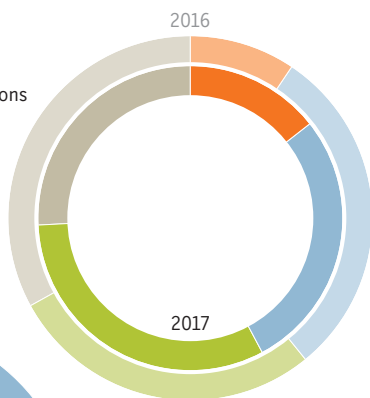
Source: BI Survey



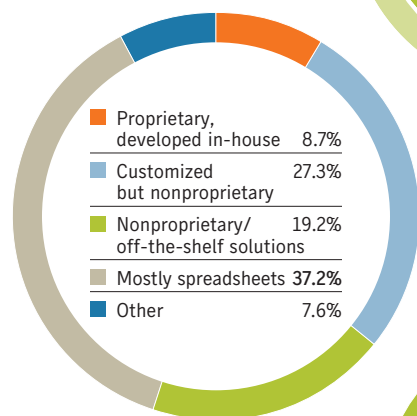
RMIS USAGE

A higher percentage of respondents surveyed this year said their organizations are users of RMIS technology.

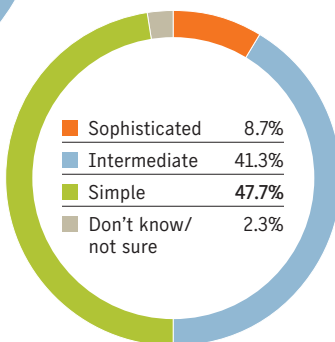
	2016	2017
Heavy user	9.7%	14.5%
Moderate	29.7%	27.9%
Light	27.7%	32.0%
Not a user	32.9%	25.6%



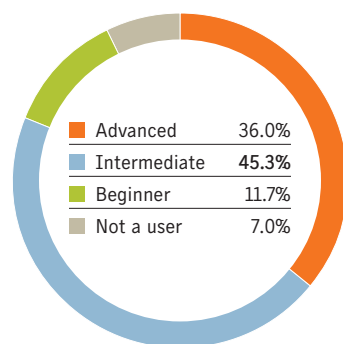
But 37.2% of respondents are still using mostly spreadsheets, while 36% are using either proprietary or customized solutions for their needs.



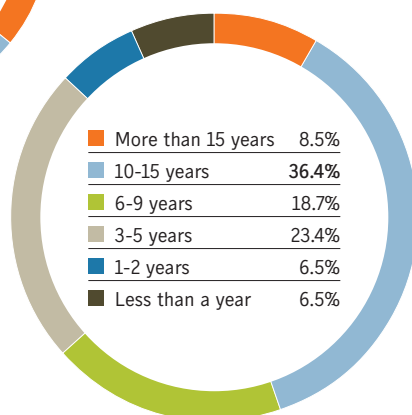
Half of the respondents described their organization's RMIS system as intermediate or sophisticated.



Of those whose companies are using RMIS technology, 81.3% described themselves as intermediate or advanced users.



The average time companies have been using RMIS technology is 8.7 years.



TOP RMIS FUNCTIONALITIES

Incident reporting and claims management	85.1%
Renewals/data collection	40.4%
Premium allocation and calculation	17.5%
Policy management	14.0%
Enterprise risk management	14.0%
Risk financing	14.0%
Asset management	13.2%
Insurer ratings	1.8%
Other	11.4%
Don't know/not sure	4.4%

Of respondents not using RMIS, reasons for not using:

There is no budget for it	59.1%
Current needs do not justify expenses	43.2%
Don't know enough about it to adopt/invest in it	36.4%
Don't know what they are missing	31.8%
Don't know what capabilities it can offer to justify it	29.5%
Don't have the resources to implement	22.7%
Nothing viable/cost-effective in the market to support needs	15.9%
Don't have the IT infrastructure/personnel to support it	11.4%
Don't have time to implement	11.4%
No training/expertise to use the technology	6.8%
There are no users in the organization to use it	2.3%
Other	11.4%

No RMIS provider dominates the market based on the 73.2% of net users of RMIS who responded to this year's survey.

Provider	Percent using
Origami Risk L.L.C.	15.0%
Liberty Mutual Insurance Co.'s RiskTrac	11.0%
Proprietary system developed in-house	8.7%
Marsh L.L.C.'s ClearSight	7.9%
Riskconnect Inc.	7.9%
Computer Sciences Corp.'s Riskmaster	7.9%
Ventiv Technology Inc.'s RiskConsole	7.9%
Crawford Risk Sciences Group Inc.'s Dimitri	2.4%
Other	24.4%
None of the above	26.8%

TOP 5 THINGS MOST LIKED ABOUT RMIS TECHNOLOGY

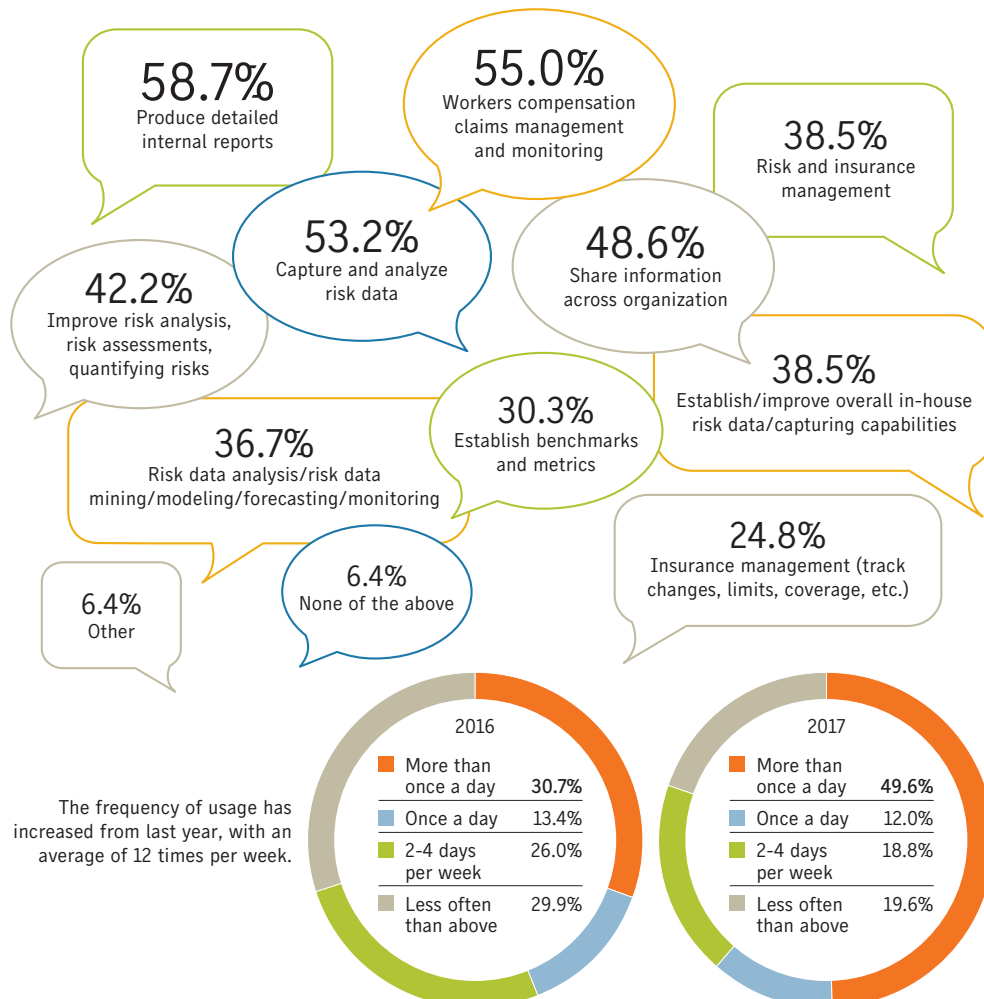
Accessible online/web-based	54.5%
Simple to use/user-friendly	51.8%
Low cost/cost-effective	48.2%
Single point of reference for tracking, repository and data extraction	48.2%
Customizable for special/specific needs	40.9%
Adaptable/flexible for growing/future needs	29.1%
Reliable/timely	27.3%
Report writing	24.5%
Widely used/recognized in the market	17.3%
Customer support	13.6%
Training programs	2.7%
Other	6.4%
Don't know	6.4%

TOP 5 THINGS MOST DISLIKED ABOUT RMIS TECHNOLOGY

Lack of sophistication	35.5%
Analytics or forecasting abilities	30.0%
Outdated	28.2%
Not customizable/flexible	27.3%
Lack of easy reporting functions and features	27.3%
Customer support	20.9%
Lack of training	19.1%
Complex/difficult to use	17.3%
Cost	14.5%
Processing speed	8.2%
Lack of easy access	6.4%
Other	15.5%
Don't know	16.4%

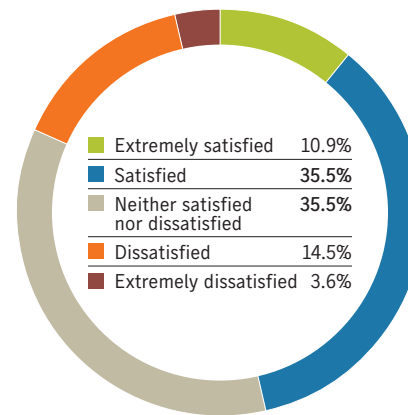
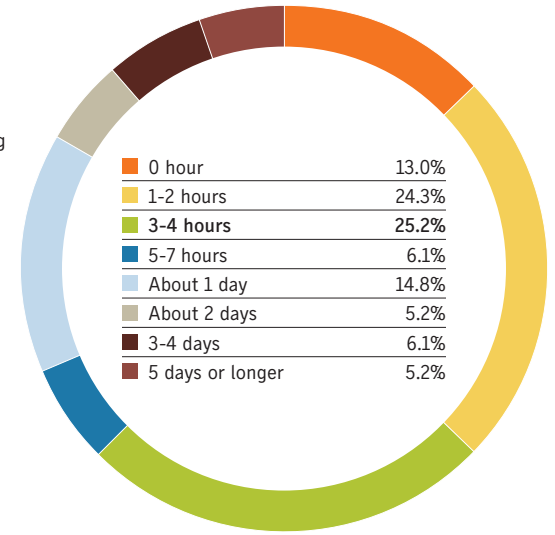
ACTIVITIES AND TASKS

Activities or tasks able to do today using RMIS technology software/platform that previously were unable to perform:



TRAINING

On average, respondents spent 7.84 hours training on RMIS.

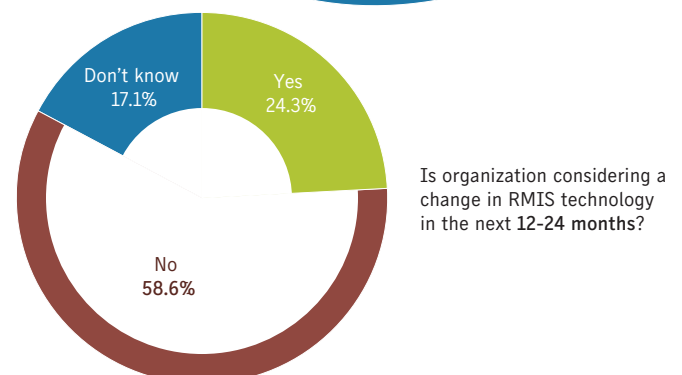
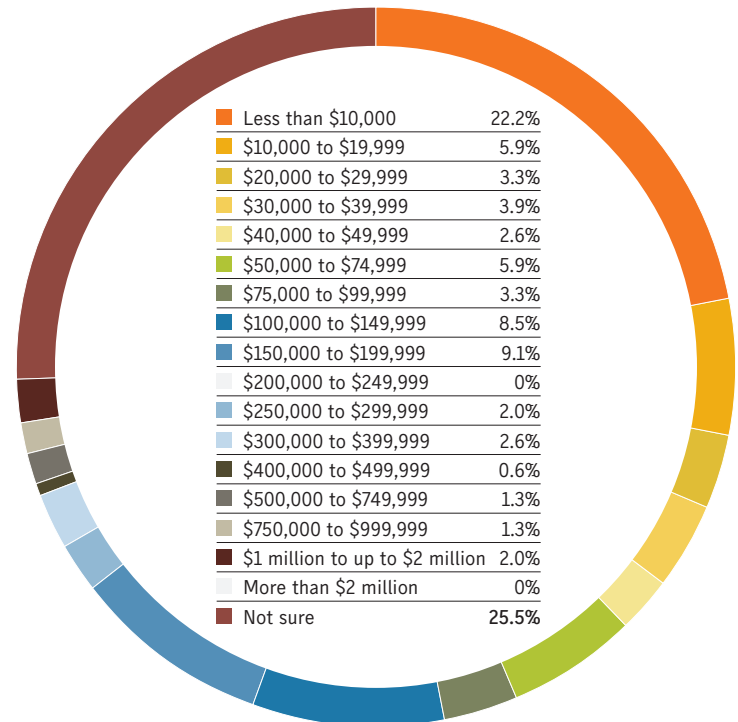


LEVEL OF SATISFACTION

Satisfaction with current RMIS technology at organization.

TECHNOLOGY INVESTMENTS

Organizations' average investment in technology/software for risk management, excluding human resources, increased to \$141,561 from \$113,417 last year.



COMMENTARY

Biometrics create new world of risk

Using biometric data to add higher levels of security to everything from personal devices to border control is a technological innovation that appears to be taking off fast. And futurists and others hold that we've hardly begun to see all the ways in which biometrics will change our lives.

Already, accessing your smartphone by simply placing your thumb on the home button has proved to be a quick and convenient development that numerous people have embraced over the past few years.

Many others have used facial recognition technology that comes with newer operating systems to unlock their laptops.

At the airport, having an eye scan to clear passport control can feel invasive — or just plain creepy — but at least you know there are security reasons behind the protocol.

And in the workplace, as we report on page 4, more and more companies are using biometric technology, particularly for timekeeping.

Such systems, when they work well, are quick, convenient and eliminate abuses.

But like pretty much any technological development introduced, the initial reaction of “isn't that neat?” soon gives way to “how do you keep the information secure?”

And there are many security concerns. Just like credit card information,

biometric information can be compromised — and if a hacker “cracks” your fingerprint, you can hardly just submit your mother’s maiden name to obtain a new one.

Workers have already gone to court over issues such as lack of consent, alleging that employers did not conform with regulatory requirements when they started requiring biometric information. You can be sure that even more lawsuits will follow if their employers allow employee biometric information to be compromised.

As a result, employers using employee biometric data should take steps to control their liability exposures. The first step is to comply with regulatory disclosure requirements, which vary by state, and they should also anticipate there will be more regulations by states that have not yet introduced them.

Next, companies should invest in the best security systems they can find to guard the data. While many entities, such as health care organizations and financial institutions, are often painfully aware that they are the guardians of some of their employees’ and customers’ most private information, others may not view themselves as prime hacking targets and invest less heavily in security. But if they use or hold biometric data, they can't skimp on the technology needed to guard that data.

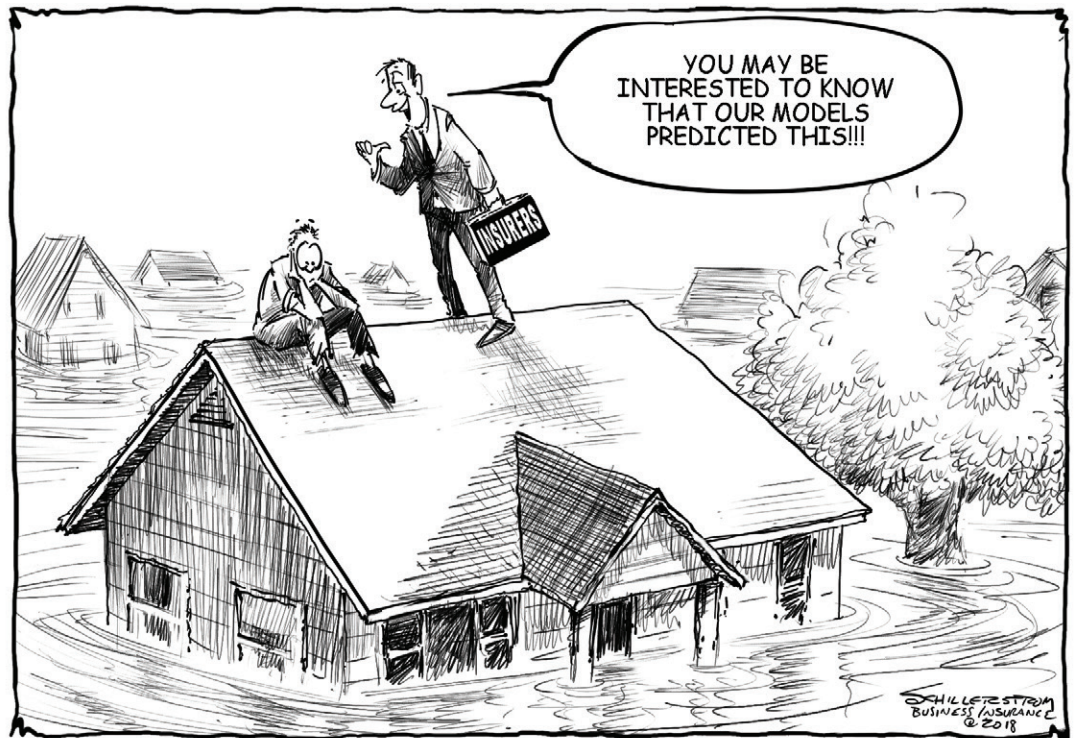
Finally, they should work with their brokers and insurers to put in place some form of financial protection if their systems are compromised. Insurance coverage against liabilities involving biometrics could fall between employment practices liability coverage for consent issues and cyber coverage for breaches.

But it doesn't take an expert on predicting the future to foresee that policyholders and insurers are unlikely to see eye to eye in biometric coverage disputes.



Gavin Souter
EDITOR

SCHILLERSTROM



VIEW FROM WASHINGTON

And the winner isn't: NFIP

The results are in, and everybody's a loser.

No, I'm not talking about the Oscar nominations, although I'm thrilled that some of my 2017 favorites such as “Lady Bird” and “The Shape of Water” received Best Picture nominations and acting recognition for the wonderful performances by the women in both films.

I'm talking about the theatrics in Washington, where a dispute over government funding and immigration led to a three-day shutdown of the federal government in January.

When legislators couldn't reach an agreement, the situation quickly deteriorated into a weekend of name-calling captured live on CSpan. I would say all the mud-slinging was beneath the dignity members of Congress should possess, but I fear that ship has long sailed.

Neither major party acquitted itself particularly well in these negotiations. The only positive was the long-term reauthorization of the Children's Health Insurance Program, which helps provide much-needed health care to nearly 9 million children and has significantly lowered the uninsured rate among low-income children in the United States. The program was passed on a bipartisan basis in 1997. Providing health care to children should always be a nonpartisan issue. The extension to fiscal year 2023 ensures CHIP won't be held hostage in the next rounds of congressional negotiations, which seem destined to become even more hostile and volatile.

But the future remains uncertain for critical risk management priorities, including a long-term reauthorization and reform of the debt-ridden National Insurance Flood Program. The NFIP officially lapsed alongside the government shutdown. Although it was retroactively reauthorized in the resolution to reopen the government, it's likely that risk managers and other stakeholders could find themselves in the exact same frustrating position in the coming weeks,

trying to prepare for the disruption of another lapse.

These lapses have severe consequences, namely that the NFIP must stop selling and renewing policies, although it could still pay valid claims with available funds. The private sector's interest in insuring flood risk has grown significantly since the last time the NFIP lapsed in 2011, and private players can step into the void to some extent, although their ability to do so is limited by lending requirements.



Gloria Gonzalez
DEPUTY EDITOR

It was just shy of a year ago when a key U.S. House of Representatives subcommittee began holding hearings on potential NFIP reforms, with subcommittee Chairman Sean Duffy, R-Wis., calling a timely reauthorization of the NFIP “our top priority.” There was bipartisan consensus on the need for major fixes, and healthy and respectful disagreements on what a long-term solution could look like. Now I suspect that the larger, uglier disputes federal legislators are currently engaged in will prevent them from moving forward on any major issue, including reauthorizing the NFIP on a long-term basis and giving the insurance and housing markets some confidence.

But allowing the program to stumble through uncertainty is dangerous. The 2017 hurricanes highlighted once again the program's precarious position and the need for long-term investments in disaster planning and mitigation. Yet lawmakers keep kicking the proverbial can down the road.

This shutdown was relatively short and painless, but what about the next time? We all lose when Congress can't or won't do its job.

The rise of the bundled systems



David A. Tweedy is director of RMIS Consulting at Bickmore Risk Services, a risk management consulting firm. Based in Providence, Rhode Island, for the past 35 years, he has conducted regular comprehensive reviews of risk management information systems. The latest report was released last month and is available at www.rmisreport.com. The RMIS Report is a guide to understanding the market and the vendors and does not endorse or attempt to rank the vendors. Mr. Tweedy can be reached at dtweedy@bickmore.com and 401-965-3402.

Perhaps the biggest surprise finding of the 2018 RMIS Report that my partner Pat O'Neill of Redhand Advisors and I recently released was the degree to which third-party administrator systems have closed the gap on their unbundled or independent counterparts. To be sure, the unbundled vendors had plenty of new technology and functions to showcase, but the biggest movement since my last comprehensive functional review in 2015 was with the third-party administrators' usage of their RMIS.

Why is this happening? After all, bundled providers have traditionally provided their systems as part of their overall offering of services. Most are cost-center oriented.

Here are some of the reasons:

1. The system constantly touches the client

TPA systems are in constant touch with their clients. Clients depend on them for checking claim status, printing status reports and monitoring dashboards, among other things. According to the report, more than two-thirds of users have a bundled RMIS that they use every day.

2. Technology as a prime differentiator

In the past, TPAs were compared solely on how well claims services were provided, pricing differences, office locations, expertise in certain lines of business and so forth. Their rudimentary systems only provided basic claims management information.

But over the past several years, TPAs are going beyond their core claims management function and are now providing other information: data analytics, managed care, environmental health and safety, exposure management, enterprise risk management and even self-administration in certain situations. In short, they're becoming more like an unbundled provider.

For instance, Gallagher Bassett Services Inc. is taking things to a new level. Its Luminos RMIS, which is a privately labeled Origami Risk L.L.C. system, can provide an unbundled system approach for some of its clients. It is essentially a hybrid RMIS that spans both the bundled and unbundled sectors. One key industry analyst called that "industry disrupting" in a positive way.

CorVel Corp. took a different, but equally interesting, approach. It has a proprietary system called Care MC but approached its design from the managed care rather than the claims perspective. The system goes beyond claims manage-

ment, providing medical cost containment, strategic outcomes and predictive modeling. In short, they went deep into claims and medical management functionality.

Other TPAs featured in the report have also all increased their functionality and improved their technical appearance over the past three years. The improvements have been industrywide. This trend will continue.

3. Improved revenue stream

TPAs are starting to realize that, instead of being just a cost center, they can become a profit center as well, because their systems and reports are providing a true value-added component to their client base. An unbundled RMIS can help clients lower their cost of risk. Data from our latest report show that 50% of user respondents have achieved significant return on investment on their RMIS investment. TPAs can claim this power by using more powerful systems that encompass more than the basic

"In short, we are very excited about what we're seeing in the bundled sector. TPAs and insurers are seeing the opportunity of providing more services and value add to their client base."

claims management function. Reducing total cost of risk is a major objective of most risk managers. For this, TPAs can charge a commensurate fee for that value. I believe that we will see this occur more and more during the coming years.

4. Archaic infrastructure forces improvement

Effective competition requires appropriate technology investments. We have seen many of the insurers and TPAs finally get away from older legacy-based systems over the past few years and invest in better platforms and applications, including mobile technology. That is a primary reason for the narrowing of the gap. The unbundled market must continually look to new technology to keep ahead of the competition, but that seems to be the case now with the TPAs and insurers. I know of insurers and TPAs that are planning major investments in their basic claims and RMIS systems in the coming year to

keep pace or exceed their competition.

5. More options available

The "build vs. buy" option is much better now than it was years ago. With improved available tools from Microsoft Corp., Oracle Corp. and others, building a system is still an attractive option for many bundled providers. Broadspire Services Inc., CCMCI, Helmsman Management Services L.L.C., and ESIS Inc. all did this. But the other feasible option is to leverage and private-label an existing unbundled RMIS. York Risk Services Group Inc. and Gallagher Bassett chose this route. Either way, the pure web products that result from either option look much better, are easier to learn and use, and produce far better results than their predecessor systems.

6. Information is power

This is probably a redundant point, but I wanted to make it because it is so important. Today, TPAs and insurers alike are competing against each other to provide the most robust combination of claims administration, loss control, managed care and data analytics. They are probing into the unbundled system provider realm of functions including integrated risk, environmental health and safety, exposure analysis and policy management.

Within the next five years, I predict that TPAs and insurers alike will be offering new information-oriented services to their client bases and leveraging their RMIS to do so.

The RMIS marketplace may be mature, but it is constantly evolving. The unbundled vendors seek their own areas of dominance with areas of focus. The competition is solid and bodes well for the ultimate buyer, but the bundled sector is in transition.

TPAs are investing significant dollars into improving their system offerings, and we are likely to see more changes announced soon. The same is true for insurers, which are also seeking to improve their systems.

In short, we are very excited about what we're seeing in the bundled sector. TPAs and insurers are seeing the opportunity of providing more services and value add to their client base. It looks like the unbundled vendors need to now worry about more competitors. That is a good thing for the buyers.

Increased competition is always a good thing. After all, as the great Walt Disney once said:

"I have been up against tough competition all my life. I wouldn't know how to get along without it."

Silent cyber added to Willis Re risk model

■ Willis Re, the reinsurance unit of Willis Towers Watson P.L.C., has added silent cyber to its cyber risk portfolio modeling tool PRISM-Re.

The model now incorporates the likelihood of a loss resulting from silent cyber and overlays this against client-specific noncyber limits profiles and loss severity curves to generate a full loss distribution for silent cyber loss potential in isolation, or in conjunction with affirmative cyber loss, the reinsurance brokerage said in a statement.

PRISM-Re was first launched by Willis Re in February 2015.

“Our model can now generate a full probabilistic frequency and severity loss distribution for silent cyber loss potential in isolation, or in conjunction with affirmative cyber and allows insurers to monitor changes in cyber exposure composition at different probability levels,” Jess Fung, head of cyber modeling for Willis Re, said in the statement.

Chubb adds real estate unit for UK and Ireland

■ Chubb Ltd. has launched a real estate industry practice for the U.K. and Ireland in response to segment growth and feedback from brokers, the insurer said.

The real estate practice will be the responsibility of Karen Strong, head of industry practices and leader of the technology, life science, entertainment and clean technology businesses.

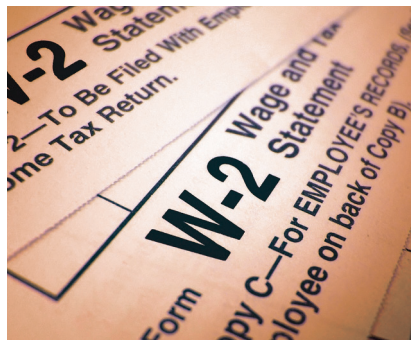
The unit’s underwriting team will be led by Daniel Atkinson, who assumes the newly created role of underwriting manager, real estate practice, effective immediately.

Beazley expands breach response program

■ Beazley P.L.C. is offering up to 100 hours of post-breach consultation and remediation services to its Beazley Breach Response coverage for small and midsize policyholders in the United States.

The expanded service, which is available by endorsement and being offered in conjunction with its Lodestone Security L.L.C. subsidiary, is designed to ensure policyholders who have experienced unauthorized access to, or use of, their systems are able to resume operations at optimal levels of security to prevent a breach’s recurrence, London-based Beazley said in a statement.

The service includes an assessment of external and internal vulnerabilities and recommendations for improvement across networks, application servers and



Beazley offers response service for W-2 breaches

■ Beazley P.L.C. has launched a rapid response service for data breaches related to the W-2 tax form.

Beazley Breach Response Services, the company’s in-house response team, will work with other service providers to begin the notification process to employees — within hours in some cases — in the event of a W-2-related breach, London-based Beazley said in a statement.

Legal counsel can be assigned, a call center set up, and employee notification and assistance plans put in place, including credit monitoring, in one business day, according to the statement.

“Rapid response is critical in these situations,” Katherine Keefe, head of BBR Services, said in the statement. “In 2016, the IRS reported more than a million fraudulent tax returns with \$7.97 billion claimed in fraudulent refunds — and W-2s are a rich source of information for those fake returns.”

databases and for putting the right people and processes in place. It also includes consultation services to help improve or implement incident response plans and other critical policies and procedures.

Starr to partner with telemedicine firm

■ Insurer Starr Cos. will partner with telemedicine firm Emerge Diagnostics L.L.C. to help clients offer diagnoses for injured federally contracted employees.

Carlsbad, California-based Emerge

Diagnostics provides injured workers with online access to doctors and apparatus that helps gauge muscle spasms.

The partnership will affect only Starr’s defense clients working with the U.S. government.

“Our partnership with Emerge Diagnostics provides us with cutting-edge technology to help reduce lost time from work, improve patient care, provide better quality of life for employees and help insureds with ADA and EEOC compliance,” Kevin McCracken, vice president of New York-based Starr, said in a statement.

JLT Re unveils analytics software

■ JLT Re, the reinsurance division of London-based Jardine Lloyd Thompson Group P.L.C., is launching an enterprise content management software system product.

Analytics Software for the Evaluation of Risk, or ANSER, offers a customized interface that will subsequently support a suite of new analytical and strategic advisory tools, JLT Re said in a statement.

JLT used software developer Ultimate Risk Solutions L.L.C. to help develop the suite of analytics tools, according to the statement.

“ANSER is the ECM tool suite which can be completely tailored to individual clients’ needs,” Mike Reynolds, global CEO for JLT Re, said in the statement.

Berkley combines professional liability units

■ W.R. Berkley Corp. is combining two of its professional liability units into a single operating unit.

The Greenwich, Connecticut-based insurer said Berkley Select and Monitor Liability Managers, both based in Chicago, will now trade under the Berkley Select name.

Berkley Select operates as an underwriting manager specializing in professional liability products, including lawyers, accountants and miscellaneous errors and omissions, exclusively on a surplus lines basis.

Monitor Liability offers professional liability insurance, including accountants professional, private directors and officers, employment practices, lawyers professional and fiduciary liability to individuals, businesses, professional services firms and organizations nationwide on both an admitted and surplus lines basis, Berkley said in a statement.

Joseph G. Stores, who joined Berkley Select as president at its 2007 launch and has been president of Monitor Liability since 2013, will continue as president of the new unit.

DEALS & MOVES

AIG to buy Validus for \$5.56 billion

American International Group Inc. is acquiring Validus Holdings Ltd. for \$5.56 billion in cash. The deal is expected to close in the middle of 2018.

Through its subsidiaries, Bermuda-based Validus encompasses property/catastrophe reinsurance, crop insurance and a Lloyd’s of London syndicate.

The deal gives AIG a reinsurance underwriting operation, presence at Lloyd’s, additional specialty lines experience and third-party capital expertise, “which introduces new possibilities to AIG as a risk originator,” AIG President and CEO Brian Duperreault said on a conference call.

Gallagher acquires water utility broker

Arthur J. Gallagher & Co. acquired Houston-based AquaSurance L.L.C., a brokerage serving Texas water utilities.

Terms of the deal were not disclosed.

AquaSurance will relocate to Gallagher’s Houston Galleria office under the direction of Bret VanderVoort, head of Gallagher’s South Central retail property/casualty brokerage operations, Gallagher said in a statement.

Ryan Specialty buys New York wholesaler

Ryan Specialty Group L.L.C. acquired wholesale insurance brokerage Kerwick & Curran Inc.

Terms of the deal were not disclosed.

Kerwick & Curran, with offices in Tarrytown and Melville, New York, focuses on real estate, high-hazard manufacturing, industrial, retail and construction risks, Chicago-based Ryan Specialty said in a statement. It will become part of R-T Specialty L.L.C., Ryan Specialty’s wholesale brokerage unit.

JLT Specialty USA selects Chicago as HQ

JLT Specialty USA has named Chicago as its U.S. headquarters.

The unit of London-based Jardine Lloyd Thompson Group P.L.C. launched in the United States in 2014 with Denver as its main hub but did not have an official U.S. headquarters.

The office at 225 W. Wacker Drive, Chicago, currently houses 60 staff, and six of its 17 practice groups are in the city, JLT Specialty USA CEO Michael Rice said at a press conference.



“Anyone coming into our business struggles to capture what we do in just a few words. For me, it’s this: ‘We help people.’ That’s an awesome opportunity to make a difference.”

UP CLOSE

Ian V. Muress

NEW JOB TITLE: London-based CEO of international operations for Sedgwick Claims Management Services Inc.

PREVIOUS POSITION: Atlanta-based CEO of international operations at Crawford & Co.

GOALS FOR NEW POSITION: After approval, I will help facilitate the Cunningham Lindsey acquisition and accelerate Sedgwick’s integration plan to create a world-class organization. I am looking forward to working with a great group of people and driving a winning culture.

ON LEADERSHIP: It’s all about the people — relationships matter. While I am very competitive, it is important to consider all perspectives and empathize with others. Integrity is essential.

CHALLENGES FACING THE INDUSTRY: Technology, continuous innovation, and the “war on talent” — we are part of an amazing profession with boundless opportunities for career progression with global potential.

CRYSTAL BALL: The future is all about change. What do we want to be famous for? Where do we want to play? What role do we want to play for our customers? How are we going to win? Those are tough questions to address.

FIRST EXPERIENCE IN THE INDUSTRY JOB MARKET: My father was a claims adjuster. My earliest memory is sitting in his car in front of a burning cinema before he stepped in to take control. I was 8 years old at the time.

ADVICE: Anyone coming into our business struggles to capture what we do in just a few words. For me, it’s this: “We help people.” That’s an awesome opportunity to make a difference.

OUTSIDE THE INDUSTRY, A DREAM JOB: A professional soccer player — a striker for my English home team, Newcastle United. My hero was their star, No. 9, Alan Shearer.

PETS: I have two border collies — hence, I do a lot of hiking!

WHAT MOST PEOPLE DON’T KNOW ABOUT ME: I was one of the first on the scene into Lockerbie on Dec. 21, 1988, and I stayed for several months leading the ground damage claims and recovery from PanAm’s insurers. A traumatic experience that I will never forget.

RETIREMENT: I can’t think about that — I just finished nine months of garden leave!

FAVORITE MEAL: Italian, any pasta dish.

BOOK: “Blink: The Power of Thinking Without Thinking,” by Malcolm Gladwell

MUSIC: “Hotel California,” by the Eagles. “You can check out, but you can never leave ...”

TV SHOW: Sports

BEST CITY: London

ON A SATURDAY AFTERNOON: Walking the dogs blows the cobwebs away, and I can talk them through what’s on my mind!

COPING WITH MONDAYS: I make a list and prioritize the vital few, then I take one step at a time.



Alliant Insurance Services Inc. named **Joe Cafferelli**, formerly a managing director with Aon P.L.C., as executive vice president. Mr. Cafferelli will work in Alliant’s

Americas unit, which focuses on midsize businesses, Newport Beach, California-based Alliant said. He is based in Phoenix.



Ironshore Inc. named **Steve Horton** CEO of its Iron-Starr Excess Agency Ltd. unit and **Susan Pateras**

as chief operating officer of Ironshore Bermuda. Mr. Horton will continue to lead Iron-Excess, and Ms. Pateras will remain head of Iron-Starr’s health care practice, Ironshore said. Both are based in Hamilton, Bermuda.



TigerRisk Partners L.L.C., Stamford, Connecticut, named **Marc Beckers** partner and head of Europe, Middle East and Africa, marking the brokerage’s entry

into that market. Mr. Beckers was most recently head of Aon Benfield ReSolutions Europe, Middle East and Africa, TigerRisk said. He will work from TigerRisk’s London office.



AmWINS Group Inc., Charlotte, North Carolina, announced that **Scott Purviance**, currently chief operating officer, will succeed M. Steven DeCarlo as

its CEO effective May 1. Mr. DeCarlo will become executive chairman and remain chairman of AmWINS’ board of directors, the wholesale brokerage said. Mr. Purviance was AmWINS’ chief financial officer from 2001-2016.



Lockton Cos. L.L.C. named **Nate Mundy** senior vice president and chief operating officer of its U.S. Pacific operations. Based in Los Angeles, Mr. Mundy was

most recently vice president of Kansas City, Missouri-based Lockton’s Pacific operations in the U.S. He succeeds Gary Petrosino, who is retiring.

SEE MORE ONLINE

Visit www.businessinsurance.com/ComingsandGoings for a full list of this month’s personnel moves and promotions. Check our website daily for additional postings and sign up for the weekly email. *Business Insurance* would like to report on senior-level changes at commercial insurance companies and service providers. Please send news and photos of recently promoted, hired or appointed senior-level executives to editorial@businessinsurance.com.



Pizza delivery deal falls flat with drivers

A former Denver-area pizza delivery driver is suing a string of western U.S. Domino's Pizza franchises, claiming the company doesn't cover the full cost to deliver its pies.

Kaylee Wilson brought the federal lawsuit against her former employer, DFL Pizza, which owns 22 Domino's pizza shops in Colorado, Oklahoma and Wyoming, the Denver Post reported.

Factoring in the cost to buy, fuel, insure, maintain and repair a car, the company fails to cover the true cost incurred by its drivers delivering pizza, claims the lawsuit filed in U.S. District Court in Denver.

The suit claims Domino's delivery drivers are subsidizing the company because the costs of using their own cars for work means they get less than the federal minimum wage of \$7.50 an hour, let alone the Colorado minimum wage of \$10.20, as of Jan. 1, as reported by the Post.

Too much info can limit life insurance

A consumer watchdog group is warning that testing kits claiming to identify one's genetic heritage could eventually affect the ability to obtain life insurance, according to a CBS report in January.

The tests, which can determine heritage, feature containers to collect saliva to mail to a lab.

One test option is to discover the diseases one might be susceptible to, said Jamie Court, president of Consumer Watchdog, adding that this seemingly harmless inquiry could have life insurance ramifications. "Most people don't think that if they get a genetic test it could ever come back to bite them, but it can," Mr. Court said. "The real danger is that you may find out you have a marker for a real serious illness. If you apply for life insurance, they do have a right to get all your medical records."



SKY RAINING FIRE? TAKE COVER UNDER YOUR HOMEOWNERS INSURANCE POLICY



The Insurance Alliance of Michigan has set the record straight for homeowners in Michigan: If a meteor crashes into your house, your homeowners insurance will likely cover the damage.

The group released a statement following an incident where dashcams and security video caught a fireball streaking over Michigan on Jan. 16. The U.S. Geological Survey, which labeled it a meteorite impact, indicated it measured magnitude 2.0 on the agency's instruments and hit about 5 miles west-northwest of New Haven, Michigan, according to the statement.

"Meteors may not be a risk that people in Michigan generally think about," Pete Kuhnmuensch, executive director of the IAM, said in the statement. "But fortunately, homeowners insurance policies would cover damage resulting from a meteor or its pieces."

The group confirmed that falling objects, including satellites, asteroids, meteors and space debris, are covered under standard homeowners and business insurance policies. There is coverage for the damage the falling object causes to the structure of the home or business, as well as to property or belongings damaged within the building.

China slams 'fake' love insurance

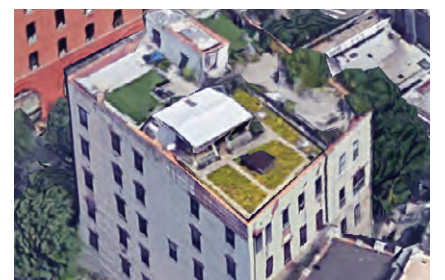
Trying to stay up late to watch a sports event? Worried about how long a celebrity's fling will last?



In China there are insurance policies that cover such concerns of internet- and celebrity-crazed youth, and a watchdog group isn't impressed.

"These 'love insurances' involving celebrities are not insurance products as they do not meet the requirements listed in China's Insurance Law," the China Insurance Regulatory Commission wrote on its website, the South China Morning Post reported last month.

Another policy that's getting a thumbs down is one that caters to sports fans. In 2014, the popular "night owl insurance," valid for 30 days during the FIFA World Cup in Brazil, offered coverage for medical and emergency expenses for soccer fans who might push themselves to the limit during late-night matches, the paper reported.



Manhattanite sues to keep rural haven

If he can't make it to the rural countryside he'll bring it here: a rustic cabin featuring a porch swing, surrounded by a lush, green mini-meadow, all perched atop New York real estate developer David Puchkoff's West Village loft, six stories up.

Never mind the city sounds of horns honking and people hollering, the real wrench is this: An anonymous neighbor complained, and city regulators subsequently accused Mr. Puchkoff of not having permission to build the rooftop oasis, fining him \$1,200.

And so the cabin owner is suing the City of New York, according to an article in the New York Post.

"I haven't done any other work in there except to water my garden, so who am I annoying?" Mr. Puchkoff told The Post, adding that he filed permits for the rooftop terrace in 2003.

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- Engineering an Effective Workers Compensation Program
- Advances in Telehealth and Its Applications for Workers' Comp Case Management
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