

TERROR THREAT: Evolving attack strategies test risk management plans - **PAGE 4**

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JULY 2017

**SPECIAL
REPORT**

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PAGE 20

EXECUTIVE ACTION ON CYBER RISK

President Trump's recent order
should improve security protocols

PAGE 16

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INSIDE



OPINIONS

Data showing increased collision claims in states that have decriminalized marijuana has wider implications for employers. **PAGE 34**

- ▶ **LEGAL BRIEFS**
Recent court opinions **PAGE 13**
- ▶ **MARKET PULSE**
Products, deals and more **PAGE 36**
- ▶ **PEOPLE**
Insurance industry moves **PAGE 38**

SPECIAL REPORT: BROKER PROFILES & RANKINGS

Business Insurance's annual Agents & Brokers issue ranks the 10 largest insurance brokers worldwide and the top 100 brokers of U.S. business, highlights market trends and profiles the leading brokerages. **PAGE 20**

NEWS ANALYSIS

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COVERAGE, VISIT
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RISK MANAGEMENT

Terrorism risk management efforts are evolving in light of recent attacks in Europe. **PAGE 4**

WORKERS COMP

Distracted driving is adding to the cost of insurance, and employers are cracking down. **PAGE 8**

INTERNATIONAL

Azerbaijan, on the Caucasus isthmus, has a shaky economy that hampers its insurance sector. **PAGE 12**

VIEW FROM THE TOP

CONSTANTINE IORDANOU

Constantine "Dinos" Iordanou, chairman and CEO of Bermuda-based Arch Capital Group Ltd., has announced that he will retire from the commercial insurer and reinsurer in March 2018. The company also disclosed in a June SEC filing that it would book a \$38 million loss on facultative property cover for the second quarter of 2017. He talks to *Business Insurance* about market trends and the specific issues affecting Arch. **PAGE 14**



OFF BEAT

Jelly beans and sugar need to part ways? One lawsuit claims the two should not go together. **PAGE 40**



COVER STORY

President Donald Trump has issued an executive order on standardizing cyber security measures within the federal government but it's expected to have much wider influence. Private companies will likely also adopt the security protocols, which should help mitigate cyber risks for policyholders and their insurers. Congress is also working on cyber-related legislation but the outlook is unclear. **PAGE 16**

Risk managers under pressure to keep up with evolving terrorism

BY MATTHEW LERNER

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The recent string of terrorist attacks across the globe is forcing security professionals to react and adjust to new types of threats in a continuing battle to mitigate risk.

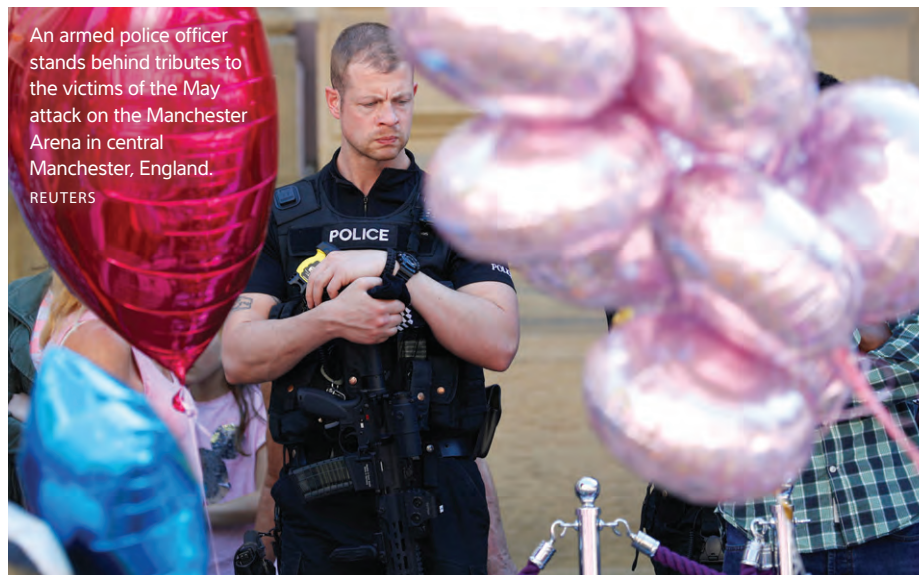
Twenty-two people were killed and more than 100 injured in an explosion outside the U.K.'s Manchester Arena May 22 as they were exiting an Ariana Grande concert. On June 3, attackers used a van and long knives to attack people on London Bridge, killing eight and injuring nearly 50 others. These and other attacks are prompting changes in the way employee and public safety are approached.

Employers must now exercise greater care in ensuring employees' safety, experts say.

"Certainly, since the Paris attacks in 2015 in Europe and then in the U.S. since the San Bernardino attacks shortly after that, what those attacks have done is really change the calculus that companies must take when it comes to duty of care," said Bill Udell, Los Angeles-based senior partner for security and political risk consultant Control Risks Group Holdings Ltd.'s business protection and resilience services across the Americas.

Duty of care refers to a person or employer's responsibility to be reasonably careful when dealing with others.

"The duty of care requires companies to be proactive and preventative in preparing their travelers before they go and a travel risk management program is how companies comply with their duty of care," said Matthew Bradley, Philadelphia-based regional security director, Americas, for both International SOS, a London-based travel advisory



An armed police officer stands behind tributes to the victims of the May attack on the Manchester Arena in central Manchester, England. REUTERS

and security firm, and Control Risks, which jointly run a travel security services business.

Employers should be educating their employees before they travel, Mr. Bradley said.

"Companies are looking for quality training on how to respond following a terrorist attack," he said. "In most cases, this means e-learning, since it is the most efficient way to reach their traveling population."

Employers also need to track their traveling employees, Mr. Bradley said.

"Traditional traveler tracking feeds itineraries into a database, but in a crisis, companies need to know exactly where travelers are," he said. "A mobile check-in through an app allows companies to see the exact location of their travelers in relation to the incident."

The recent string of attacks makes ensuring employees safety harder, observers say.

"What these attacks have done — spreading out the target set to places that were previously benign — is really throw into question what is reasonably foreseeable," Mr. Udell said. "So, if you are charged with putting programs around reasonably foreseeable risks, you had a much better chance of saying what was 'reasonably foreseeable' in mid-2015 than you do now."

Risk managers must be aware of the heightened bar, both for personnel and public safety reasons, experts say. "Risk managers' ultimate responsibility is to the safety of the personnel in their company as well as to the general public using their facilities," said Wendy Peters, executive vice president of financial solutions-terrorism and political violence for Willis Towers Watson P.L.C. in New York.

She pointed out that a shift in tactics requires a security response.

"The threat is escalating now that ISIS' main goal is to kill as many people as possible, as

opposed to striking symbolic targets," Ms. Peters said. "This scenario requires a much closer evaluation of security protocols in place."

Apart from the primary responsibility to protect the public at large, "the potential for serious litigation in the face of an attack looms large," she said.

Policyholders are moving more to protect themselves against such liabilities, experts say.

"Third-party terrorism liability coverage is not new, but something we are seeing more clients look toward," Tarique Nageer, terrorism placement advisory and property practice leader for Marsh USA Inc. in New York.

Businesses not affected directly by an incident such as a blast are also increasingly seeking coverages for indirect damages such as loss of business after a terrorist incident.

"We've seen some changes in the types of coverages clients are more inclined to look at now," Mr. Nageer said. "Loss of attraction cover and cancellation of booking cover are more visible now than they were a couple of years ago."

Even though many businesses already were taking prudent steps concerning security and safety, more may be needed.

"We work with many mass-gathering locations, and they are all very tuned into this, whether it be concert venues, malls, ballparks," said Harry Rhulen, Denver-based president of crisis-management firm KeyStone Solutions Inc. "They all know that this is an exposure and were already on this, not just as a reaction to Westminster," he said, referring to the March incident in London in which four people were killed. "But I think this has certainly heightened the understanding of what failure looks like. I think there will be an easing of purse strings" to fund added security.

MODELING CAPABILITIES ADJUST FOR NEW THREATS

Technology can play a role in helping to enhance security against and mitigate damage caused by terrorist threats as sophisticated analytical tools aim to help companies identify exposures.

"As deterministic (scenario) and risk aggregation analytics become more robust, risk managers have access to a new scale of data which serves to identify unforeseen risk concentrations within a company's property portfolio, proximity to target risks and likelihood of attack modes," said Wendy Peters, executive vice president of financial solutions-terrorism and political violence for Willis Towers Watson P.L.C. in New York.

Manchester and the recent London Bridge knife attacks validated assumptions about terrorism trends: ISIS' main goal is causing as many casualties as possible, she said.

Marsh L.L.C. offers a modeling component for terrorism risk through its Marsh Risk Consulting practice, according to Tarique Nageer, terrorism placement advisory and property practice leader for Marsh USA Inc. in New York.

"Clients can use deterministic modeling to help measure the potential impact on property" from a given peril such as a backpack bomb, he said.

Locations that may be more prone to an attack, such as public spaces, music venues and places of worship, can be rated and scored by analysts using qualitative and quantitative data, Ms. Peters said.

The area of damage can be modeled using a range of explosive devices, such as a backpack bomb or 25-ton truck bomb. Financial loss from a range of attack scenarios — explosives, active shooter or nuclear, chemical, biological and radiological — can also be modeled, she said, and casualty loss can be modeled by analyzing metrics such as foot traffic, capacity and demographic information.

"The increase in attacks may see an increase in focus on these analytics," Ms. Peters said.

Matthew Lerner



EU UNDER ATTACK

In 2015, the most recent year for which data is available, the European Union experienced significant casualties due to terrorist attacks, with 211 attacks reported in six countries.

- The total number of terrorist incidents tracked in the E.U. rose from **201 attacks** in 2014.
- The United Kingdom experienced the most terrorist attacks, with **103**, followed by France with **73** and Spain with **25**.
- France experienced by far the greater number of casualties, with **148 dead** and more than **350 injured** in terrorist attacks.

Source: European Union Terrorism Situation and Trend Report 2016



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Unstated cyber risks may hit multiple policies

BY ROB LENIHAN

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When it comes to insuring against cyber threats, insurance industry professionals say silence is not golden.

The potential dangers of silent cyber, referring to policies that don't explicitly include or exclude cyber coverage, can lead to significant losses.

Last November, the Bank of England's Prudential Regulation Authority said in a statement that it believed "the potential for a significant 'silent' cyber insurance loss is increasing with time."

"As both 'silent' cyber insurance awareness and the frequency of cyber attacks grow, so does the loss potential from 'silent' cyber exposures," the PRA said. "Casualty lines are potentially significantly exposed to silent cyber losses. This is either due to the fact that exclusions are not widely used or because some policies cannot reasonably exclude cyber losses."

The PRA called for firms exposed to silent and affirmative cyber risk to have clear strategies and articulated risk appetites on the management of the associated risks. These should be owned by the board and reviewed on a regular basis, the PRA said.

"People are expecting to be covered from the corporate side, and from the insurance side they're saying, 'Oh, no, of course, it's not covered,'" said Scott Stransky, assistant vice president and principal scientist at risk modeling firm AIR Worldwide in Boston. "This is why it's pretty scary, because risk managers and corporations think they're going to be covered. Insurers think they're not going to be on the hook. And that's why courts are going to have to end up making the decisions."

In April, AIR announced the release of its Analytics of Risk from Cyber risk modeling application, which is capable of



modeling silent cyber.

"We're hearing more and more, 'We need to model the silent cyber, we need to at least understand our silent cyber, just in case the courts rule against us,'" Mr. Stransky said.

On Oct. 21, 2016, hackers hit Manchester, New Hampshire-based domain name system provider Dyn Inc. with a series of distributed denial-of-service attacks, and internet users reported having trouble accessing websites, as companies ranging from Amazon to Zillow were affected.

Mr. Stransky said AIR's modeling determined that had Dyn gone down for a full day, the estimated economic loss would have been about \$500 million for the Fortune 1000 companies alone. He added that had Amazon Web Services, which suffered an outage earlier this year, gone down for a full day, economic losses for the Fortune 1000 companies would have been \$3 billion.

A study by JLT Re and JLT Specialty

Ltd., released in April and titled "Unlocking the Potential of the Cyber Market," said addressing the issue of silent cyber risk is crucial.

"The lack of clarity in standard (property/casualty) policies has led some companies to believe that they have adequate cover for cyber risks when they may not," the report said. "Conversely, (insurers and reinsurers) are being held back by concerns that unquantified cyber exposures are buried in traditional policies by virtue of not being excluded, raising the prospect of unexpected losses in the event of a cyber incident."

Sarah Stephens, head of cyber for JLT Specialty in London, advised insurers to do a scenario analysis on their standard forms to determine if a cyber incident could be the cause of a loss and, if so, how they would deal with it.

"It probably makes a lot of sense if you're an insurer and you're thinking, 'What do I do about silent cyber risk?'"

she said. "Probably the place to start is to align your expectations and your definitions with whatever cyber product you offer to the market."

Ms. Stephens added that "we're not going to have a good idea of the way cyber should be insured in the market as a whole anytime soon."

"The feedback I get from insurers (is) if they had a choice they would much prefer to exclude cyber as a trigger, whether it's a property or casualty policy," she said. "They prefer to take that out and push it into the stand-alone cyber market. But there are two obstacles to that: Soft market conditions make it uncompetitive to do so, and buyers tend to really not like that — and I totally understand that."

Jenny Soubra, U.S. head of cyber for Allianz Global Corporate & Specialty S.E. in San Francisco, said insurers are concerned about the potential for a catastrophic cyber event affecting multiple lines of coverage. She said the Dyn attack "did truly awaken the industry to the ways that silent cyber can impact other policies."

"We're looking at a convergence of risk," she said. "Where in the old days before these new risks and threats existed, it was very easy to put something into the proper bucket, whether it's a commercial general liability policy, a property policy, a crime policy ... These days, with more and more convergence of risk and increased use of technology, we're seeing bleed-over into these other policies."

Ms. Soubra added that she believes "we're going to see people enlightened to this issue."

"What usually drives it is when a claim occurs," she said. "Somebody has to feel the pain in order for a change to take place. And of course if there was some sort of catastrophic cyber event that impacted most forms of coverage, I think that would also drive the change much faster."

Double trouble with 'silent silent' cyber

In September 2014, hackers breached the computer systems at the National Oceanic and Atmospheric Administration, resulting in its website being taken down and satellite imagery becoming unavailable to agencies who relied upon it.

The incident highlights a phenomenon that Scott Stransky, assistant vice president and principal scientist at risk modeling firm AIR Worldwide in Boston, calls "silent silent cyber."

Silent cyber refers to any policy that doesn't include or exclude cyber coverage,

but silent silent cyber is the risk to noncyber policies that can be indirectly exacerbated by a cyber event.

A more recent example, Mr. Stransky said, occurred in April in Dallas, when a radio frequency trigger hack set off every one of the city's 156 emergency weather sirens. Roughly 4,400 calls poured into the city's already understaffed 911 call center, according to news reports, resulting in significant delays.

"I think the biggest concern is that when a real tornado comes to Dallas, people

may hear the sirens and ignore them," he said. "We may not see the consequences for several years, but if there's a tornado heading toward Dallas, it could be an issue."

While sounding the sirens themselves wouldn't be expected to lead to much loss, Mr. Stransky said drivers could have been distracted by the sudden blaring and gotten into accidents. People might have had heart attacks or panicked and started looting or behaved in some other way that could have led to insurance and economic

losses, he said.

Despite the fact that the Dallas incident was sparked by a radio frequency, Mr. Stransky said he believes it can be considered a cyber attack.

"All that means is you don't know what you don't know," Sarah Stephens, head of cyber for JLT Specialty Ltd. in London, said of silent silent cyber risks. "We couldn't imagine this scenario, and then it occurs for the first time and you realize that it's there."

Rob Lenihan

Blockchain technology breaks through

BY MATTHEW LERNER

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The use of blockchain technology is taking a small step forward in the commercial insurance industry as early efforts aim to highlight how the tool can be used to streamline the claims process and mitigate human error.

In June, American International Group Inc. said it had partnered with technology provider IBM and client Standard Chartered Bank P.L.C. in a pilot effort to create the first multinational, “smart contract” based insurance policy using blockchain.

Also last month, The Bitfury Group, a U.S. blockchain technology firm, said it formed a strategic partnership with Washington-based broker and adviser Risk Cooperative to use blockchain digital ledger technology in the broking market.

The Blockchain Insurance Industry Initiative, known as B3i, has grown to 15 members since its formation in October 2016, led by reinsurers Munich Reinsurance Co. and Swiss Re Ltd., along with insurers Aegon N.V., Allianz S.E. and Zurich Insurance Group Ltd. Other members include Assicurazioni Generali S.p.A., Hannover Re S.E., Liberty Mutual Insurance Co., Scor S.E., and XL Group Ltd., which does business as XL Catlin (see related story).

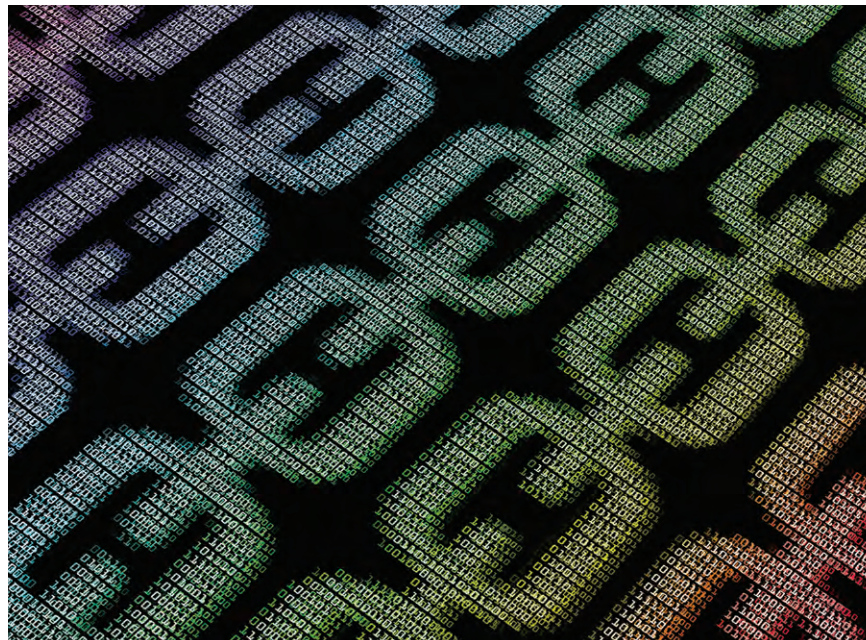
Taken together, the projects show what progress is being made with blockchain and what promise it may hold for the insurance industry.

Tracy Dolin-Benguigui, director and sector lead, S&P Global Ratings in New York, said she thinks a lot of insurance players are curious about blockchain and are trying to see how it can work.

“Conceivably, the way it could work is the development of smart contracts, and that could help expedite claims payments,” Ms. Dolin-Benguigui said. “If it works out the way it is intended to work, it may actually reduce risk,” by taking human error out of the equation.

Some insurance players see advantages in the new technology.

“Blockchain, particularly the aspect of a distributed ledger or registry, has the ability to enable new modes of engage-



ment between insurers and customers,” said Dante Disparte, founder and CEO of Risk Cooperative in Washington. “Not only would these engagements ride on an incredibly secure and efficient platform, in principle blockchain can also enable an entirely new level of self-service that can radically change the insurance industry.”

“In insurance, blockchain can enable transaction flow across multiple layers of counterparties from original insured, to brokers, to primary carriers, to reinsurers, all the way to capital markets, potentially redefining the standard for digital transaction processing,” Jags Rao, blockchain

workstream lead at Swiss Re in Zurich, said in an email.

Areas like payments and collections, claims processing and administration and back office functions are more likely to be affected compared with underwriting and pricing, added Mr. Rao. “Simple contract automation, intercompany settlement and claims administration are the natural starting points.”

“I’m confident that in more high volume, but high trust areas of insurance operations such as finance, invoice processing, internal and regulatory reporting and even payroll we will see established blockchain

providers in the next five years with the insurance sector leveraging them as a business process outsourcing service,” Paul Prior, managing director, global insurance services practice for FTI Consulting Inc. in Dublin, said in an email.

The technology is established and proven, most notably by the bitcoin cryptocurrency application.

“The bitcoin blockchain has been securing transactions and asset transfer for eight years without being hacked,” said Valery Vavilov, CEO of Bitfury, which has been working on a variety of blockchain applications, including a project with the government of the Republic of Georgia that has already implemented a blockchain-based system to create a secure nationwide land registry.

“Blockchain’s benefit is that it brings new efficiency and security to the Internet,” Mr. Vavilov said. “Blockchain’s main advantage is that it provides unparalleled levels of security (because) it’s a decentralized structure without a single point of failure. Blockchains generate trust in environments such as peer-to-peer financial services or the exchange of sensitive asset or data drafters.”

After initial success in its pilot application with Standard Chartered, AIG plans to investigate blockchain’s potential further, according to Carol Barton, head of multinational insurance at AIG in New York.

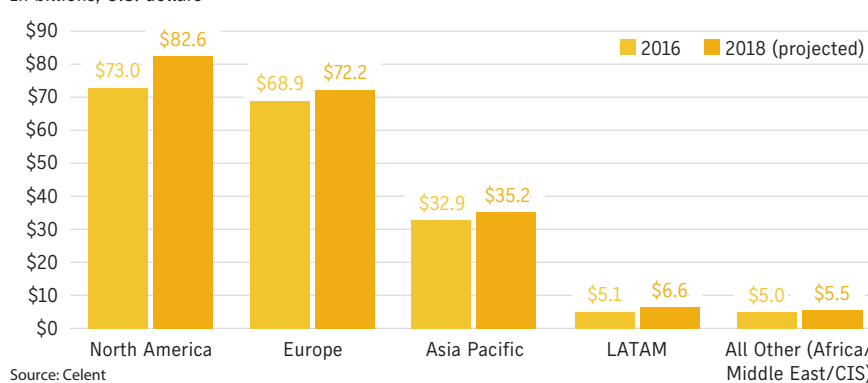
“We are looking across AIG, speaking with several clients and brokers about next steps with blockchain more broadly,” Ms. Barton said in an email. “We have to fully understand the impact of this pilot.”

The pilot application with Standard Chartered, she said, showed some of the benefits achievable through blockchain use, including immediate access to policy information, visibility into premium payment and coverage at the local and master levels and several permissioned access points to policy.

Mr. Disparte sees even further potential. “While the ‘smart’ features in this case are largely focused on AIG’s advantages with policy administration and jurisdictional issues, the opportunities to create a class of truly intelligent insurance solutions leveraging blockchain are not being fully exploited by the established players yet,” he said.

INSURANCE IT SPENDING BY REGION

In billions, U.S. dollars



CONSORTIUM TO LAUNCH TEST REINSURANCE CONTRACT ON THE OPEN MARKET

The B3i initiative is making progress establishing an industry-grade blockchain prototype for a natural catastrophe excess of loss property reinsurance contract, according to Jags Rao, blockchain workstream lead at Swiss Re Ltd. in Zurich.

“The lab-controlled prototype will be ready in summer 2017, which will then be open to market testing,” he said in an email, adding that potential users of the

NatCat Xol contract, as it is called, have expressed interest in the beta testing of the prototype. Findings to-date have confirmed significant potential in efficiency gains, as well as optimization of managing working capital, operational and foreign exchange risk,” Mr. Rao said.

A consortium approach to development is advantageous because blockchain is a shared technology platform.

“Blockchain is a mutual distributed

ledger and therefore works best among a network of peers,” Markus Tradt, information technology architect for Munich Reinsurance Co. in Munich, said in an email. “We have to do this together with others to develop the necessary standards. The cooperation also ensures that we focus on solutions that add value that ultimately benefits our clients and focus our blockchain application on that.”

Mr. Rao also sees the benefits of

collective development.

“Key hurdles such as collective standardization, systems integration, legal and regulatory framework, privacy and confidentiality need to be addressed for consistent and compatible adoption,” he said. “Therefore, collaboration amongst ecosystem players is crucial. B3i provides an ideal platform for joint experimentation in realizing business value.”

Matthew Lerner

Hitting the brakes on distracted driving

BY LOUISE ESOLA

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Risk management expert Dave Barry pulled his car over at a gas station on the outskirts of St. Louis recently to practice what he preaches: talking about the dangerous practice of distracted driving on his cellphone.

“Even with a hands-free device, it’s not enough,” said Mr. Barry, who often travels to visit clients from his home in Overland Park, Kansas, as the national director for casualty risk control with the risk control and claims advocacy practice for Willis Towers Watson P.L.C. “I am telling clients these days that if you are texting or talking, you need to be pulled over by the side of the road.”

Mr. Barry and others say that despite the onslaught of information, public awareness and even state laws banning talking or texting while driving, people — whether on the job or off — are not putting down their phones. According to the Ruckersville, Virginia-based Insurance Institute for Highway Safety, 14 states and the District of Columbia, prohibit all



drivers from using hand-held cellphones while driving, and texting behind the wheel is illegal in 47 states and the District of Columbia.

And employer policies banning distracted driving are not having much of an impact in mitigating the risk, experts say.

National studies have shed light on the scope of the problem. In 2015, 3,477 people were killed in accidents involving a distracted driver, according to the Washington-based National Highway Traffic Safety Administration.

As for accidents caused by distracted drivers, the Itasca, Illinois-based National Safety Council has long held the numbers go underreported: “There is strong evidence to support that underreporting of driver cellphone use in crashes is resulting in a substantial underestimation of the magnitude of this public safety threat,” the organization revealed in a recent white paper.

Meanwhile, Blacksburg, Virginia-based Virginia Tech Transportation Institute

studied distracted driving in-depth in 2009 and found that dialing a cellphone, talking or listening to a cellphone, and reaching for an object such as an electronic device substantially increased the risk of a crash or near crash.

“Most companies have distracted driving policies; the challenge is going further than that,” said Michael Davis, Houston-based senior vice president and risk control leader for Lockton Cos. L.L.C. “It’s a huge problem.”

And experts argue the policies can be as flimsy as the paper they are printed on.

“More training is probably one of the worst solutions for this problem,” said Mr. Davis. “It’s an easy thing to adopt (for companies) because (they) can say, ‘Hey, we sent out a memo.’”

“It isn’t just saying, ‘Hey this is bad for you.’ It’s offering alternatives,” said Tim McCarty, Gorham, Maine-based risk control manager for San Antonio-based Trident Public Risk Solutions, which works with public entities. “The important

piece is that we are not just saying, ‘Don’t do this.’ We are helping with solutions.”

For that, a small but growing number of companies are in the infant stages of enlisting technology and other services that will keep the talking and texting at bay for people who drive for a living or as part of their job requirements, experts say.

The new offerings run the gamut — from software that will shut a cellphone down when it’s in motion to in-car cameras that record a driver who makes a sudden stop or swerve — but companies are slow to adopt them. “Honestly, it will be 10 years before something like this comes out (into the mainstream),” said Mr. Davis.

The problem is technology can be pricey, he said.

With some companies recognizing the return on investment, Mr. Davis said he knows of early adopters of a new technology that tracks eye movement. “(Employers) can see where your eyes are focused on; (the camera) will send an alarm and beep, and tell you (that you) are not paying attention to the road.”

Nancy Bendickson, Bloomington, Minnesota-based senior consultant, casualty risk control, for Aon Risk Solutions, said similar technology can alert an employer in the event of an accident.

“The camera-based systems can send an alert: Joe Smith just had an event here and it was related to the cellphone,” she said. “When people know they are being monitored, and they know it is not condoned, we see the risky behavior go down.”

Chris Stites, Denver-based senior vice president for Samba Safety, a company that provides background screening and scours state-by-state driver safety records for employers, said records-monitoring and rewarding or punishing driver behavior is also on the uptick.

“What companies have a hard time doing is enforcing (their policies),” he said. “If employers have a policy and they don’t have a way to enforce it, it’s a problem.”

DISTRACTED DRIVING RISK

- Dialing a phone in the car increased the risk of a crash or near-crash event to **2.8 times** as high as nondistracted driving.
- Talking or listening to a cellphone made the risk of a crash or near-crash event **1.3 times** as high as nondistracted driving.
- Reaching for an object such as an electronic device made the risk of a crash or near-crash event **1.4 times** as high as nondistracted driving.
- Taking one’s eyes off the road for **4.6 seconds** equates to driving the length of a football field at a speed of 55 miles per hour.

Source: Virginia Tech Transportation Institute



COMPANY CULTURE A LOOPHOLE IN DISTRACTED DRIVING POLICIES

Company culture can be one of the biggest roadblocks in keeping workers who drive off their cellphones, according to experts.

Constant contact with employees over text messaging or emails, both accessible on mobile devices, is part of the challenge, said Michael Davis, Houston-based senior vice president and risk control leader for Lockton Cos. L.L.C.

“It’s a cultural problem created by the instantaneous communication,” he said. “You see an email and you think you have to respond in five minutes, (and) you don’t.”

Companies should encourage employees to set specific times of day to respond to messages and emails and to set the expectation that if a worker is on the road, he or she will not respond immediately, Mr. Davis said.

The only way to change the culture is for companies to take a “hard stance” on contacting employees who are mobile, said Nancy Bendickson, Bloomington, Minnesota-based senior consultant, casualty risk control, for Aon Risk Solutions. “We have to think of ways to eliminate the use of technology in these instances,” she said.

Louise Esola

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STOP LOSS ■ MANAGED CARE REINSURANCE

Costly air ambulances burden comp system

BY KRISTEN BECKMAN

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Concern about the prices charged by air ambulances — an issue that has been on the radar of the general health care industry for several years — is gaining increasing attention in the workers compensation sector.

In the general health care market, air ambulance companies often balance-bill patients the difference between their billed charges and the amount insurance will pay for their services. The outcry generated by patients suddenly saddled with huge medical bills has caught the attention of regulators on the state and federal levels.

On the workers comp side, patients can't be balance-billed, so disputes over charges between air ambulance companies and comp insurers often end up in court.

The Manasquan, New Jersey-based National Conference of Insurance Legislators established an air ambulance task force in March to examine how to protect consumers from excessive and often out-of-network billing. The Kansas City, Missouri-based National Association of Insurance Commissioners is studying the issue and requested detailed information about air ambulance costs from the National Council on Compensation Insurance in April.

In aggregate, air ambulance charges increased between 2011 and 2015, said Peter Burton, senior division executive for state relations at the Boca Raton, Florida-based NCCI.

Some states have implemented fee schedules regulating workers comp reimbursement rates for air ambulances. However, the Airline Deregulation Act of 1978 prevents states from regulating rates, routes or services of any air carrier. Because air ambulances are required to obtain an air carrier certificate, they have successfully argued in some litigation that their services cannot be rate-regulated.

"It's a cynical argument and doesn't



reflect reality, but they are winning because of the technical words in the statute," said Matthew Baumgartner, shareholder with law firm Graves, Dougherty, Hearon & Moody P.C. in Austin, Texas, which represents Texas Mutual Insurance Co., one of the workers comp insurers involved in air ambulance litigation in Texas. "It's really just a fallacy that the Airline Deregulation Act and its promotion of the market at the expense of state regulation applies in this context at all. In my view, that argument will not continue to prevail as these cases progress through the courts."

The emerging state vs. federal rights issue reaches back even further, to the McCarran-Ferguson Act of 1945, which gives states the authority to regulate the business of insurance unless federal law specifies otherwise.

FLIGHT PATTERNS

The average bill for air ambulance services is on the rise.

Average bill for a rotary transport

2011	2015
\$12,979	\$21,449

Average bill for a fixed-wing transport

2011	2015
\$11,229	\$15,329

Source: National Council on Compensation Insurance

"The question of which law governs air ambulance rates in the workers compensation context — state workers compensation laws or the federal ADA law — has become a friction point in recent years," the NAIC said in a statement.

Mr. Baumgartner said air ambulances have grown into a profitable cottage industry with little competition among a handful of large providers. Air ambulance providers typically don't join insurance networks or affiliate with hospitals, and lack of both negotiated rates and competition has led to exponential increases in billed charges, he said. Historically, insurers paid billed charges or a sizable percentage of them, Mr. Baumgartner said.

"The tide is shifting on that now because their billed charges are increasing so much," he said. "Air ambulances provide a critical service, but most people I think

believe there are now too many of them and they are driving costs up unnecessarily. I suspect there is a correction going on now by the big insurance companies."

Texas Insurance Commissioner Ryan Brannan said cost control is important to the state's voluntary workers comp system, and that high charges for services like air ambulances could drive employers out of the system and hurt workers.

"For us, the driving issue is really the rate or payment that the air ambulance services are providing and whether or not they have to play by the same rules as other providers," Mr. Brannan said. "If not, then our concern is that it could significantly raise costs to employers."

"If the state does not have the ability to regulate the rates paid for these services, then the costs skyrocket," he said, noting the Texas Department of Insurance has joined cases being litigated in Texas state and federal courts.

In 2015, a Texas administrative law judge heard 33 disputed cases involving air ambulance services provided by Phoenix-based PHI Air Medical and determined that proper reimbursement for air ambulance services was 149% of the Medicare reimbursement amount. PHI was seeking full reimbursement during the medical fee dispute resolution. The judge ruled in that case that the Texas Workers' Compensation Act, including reimbursement requirements, is not pre-empted by the Airline Deregulation Act and that the McCarran-Ferguson Act governs the workers comp act and rules applying to it.

U.S. Sen. John Tester, D-Montana, introduced a bill in February to allow state governments to regulate air ambulance billing and pricing practices. Although federal regulation could provide clarity, experts expect the issue to be decided in the courts.

"I suspect that high-level appellate courts, possibly even the Supreme Court, will say something about this in the coming two to four years," Mr. Baumgartner said.

Montana tackles air ambulance expenses

Montana has been one of the most active states in trying to understand and address the high cost of air ambulance services.

The Economic Affairs Interim Committee of the Montana Legislature issued a 73-question survey in 2015 to 13 air ambulance providers licensed in the state covering topics from response times to costs, and whether the companies participate in insurance networks. The

survey was conducted amid reports of state residents being forced into bankruptcy or otherwise financially crippled by air ambulance service bills.

The Montana Legislature passed several bills in response to the survey findings.

S.B. 44, signed into law April 25, outlines a process to hold patients harmless from balance billing — the practice of billing patients for charges not paid by insurance — by air ambulances and

creates a dispute resolution process for air ambulance providers and insurers to agree to fair market prices determined by an independent reviewer. Fair market prices will take into consideration whether the service was provided in a rural or urban area, what the applicable Medicare payment for the service is, and any fees incurred while operating the aircraft.

S.B. 73, signed into law April 20, updates the state's insurance code to regulate

private air ambulance service membership agreements, removes an exemption from insurance regulation of air ambulances, establishes fees and grants rule-making authority.

S.B. 292, signed into law May 4, restricts an air ambulance company's ability to submit balance billing information and details of a patient's incomplete bill payment to credit bureaus.

Kristen Beckman

Dishonest job candidates fall to integrity tests

BY GLORIA GONZALEZ

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Employers can save money on their workers compensation costs by weeding out dishonest employees or those likely to malingering during their recovery periods before even hiring them.

Independent university studies have demonstrated the value of integrity tests that screen for hostility, drug and alcohol abuse, theft and lying in the pre-employment phase. But these tests have yet to reach their full potential because of employer concerns about lawsuits, reducing their talent pools or the difficulty they have in breaking down risk management and human resources silos.

Retired psychology professor Peter Bullard of Portland State University in Oregon developed the integrity testing concept about 30 years ago after being approached by an employer experiencing trouble with employee theft.

“What he was attempting to do was weed out people whose value systems are skewed where their version of right and wrong is basically different from what an employer would expect it to be,” said Mark Walker, vice president of business development for Merchants Information Solutions Inc., a Phoenix-based provider of integrity testing services.

While reducing employee theft was the initial goal, researchers discovered such testing could have other positive benefits, including with reducing workers comp costs, because potential employees who are inclined to steal can do so in multiple ways, such as malingering or faking injuries, said Craig Nelson, senior vice president of New York-based consultancy Corporate Risk Solutions L.L.C.

A sample integrity test question could be “Have you ever pretended to have a work injury to collect workers compensation insurance?” The answers: A. Never; B. Only once; C. Only twice; D. Several times.

Workers comp consultants are big fans of integrity testing, with the cost for testing each potential employee generally falling under \$20. But while the overwhelm-



ing majority of employers like the concept, many have yet to adopt the testing, consultants say.

“If you only have \$10,000 or \$20,000 to improve your program, this is a great way,” said Joe Picone, claim consulting practice leader for Willis Towers Watson P.L.C. based in Richmond, Virginia. “If I had a company, I’d do it, but I can’t convince my clients yet to bite the bullet.”

The silos that exist between risk management and human resources departments serve as a major barrier, with HR officials questioning why risk managers are wandering onto their terrain, observers say.

“The biggest roadblock for the risk manager is human resources,” Mr. Nelson said.

Another barrier to widespread adoption is a fear of dramatically reducing the potential talent pool — a particular challenge for industries such as health care, which often have trouble finding qualified applicants, or in high-turnover sectors such as quick-service restaurants and retail, experts say.

“They have trouble filling positions, and when you add other things like drug testing and background screening, they start getting down to 40 to 50% rejection,” said Keith Rosenblum, national accounts senior strategist for workers compensation risk control at Lockton Cos. L.L.C. in Kansas City, Missouri. “My response to that is, ‘Look, you’re eliminating the

bottom feeders.’ These are the people that create disruption in your service.”

Employers also question the legality of such testing and express concerns that employees rejected due to the test results will sue, but the service providers have taken steps to alleviate those fears. At Merchants’ request, Gavin Appleby, an Atlanta-based shareholder with Littler Mendelson P.C., examined the company’s IntegrityFirst test and wrote a legal opinion letter in October 2016 to potential clients affirming that the test was compliant with all applicable state and federal laws.

The University of Arizona works with Merchants to ensure its test does not unfairly screen out potential employees based on protected classes such as race, sex, religion or age.

“The biggest concern I hear from people is the legality of this, and yet every day in our job interviews we’re asking questions that are far more risky than anything asked in these tests,” said Stephen Gilliland, executive director of the Center for Management Innovations in Healthcare at the University of Arizona’s Eller College of Management in Tucson. “I have much more faith in using a consistent test like this to weed out people than having managers ask whatever question pops into their mind, which could completely cross the line.”

The U.S. Equal Employment Opportu-

TEST OF CHARACTER

Integrity testing played a significant role in reducing the workers compensation costs of Irvine, California-based elder care firm Silverado, validated by the University of Arizona.

- ✗ Non-test takers filed workers comp claims at a higher rate than screened employees: **11.3%** compared with **4.1%**
- ✗ The incidence of workers comp claims greater than \$5,000 was **2.2% among non-test takers** compared with **0.6% in the screened population**
- ✗ The incidence of workers comp claims greater than \$20,000 was **1.2% among non-test takers** compared with **0.1% in the screened population**

nity Commission in November 2013 also issued an informal discussion letter that clarified that integrity tests do not violate the Americans with Disabilities Act so long as they are limited to asking applicants about their current drug use rather than past usage or rehabilitation.

“It’s extremely rare that anybody even challenges this result,” Mr. Nelson said. “Why is that? Because it’s all self-admitting.”

Employers are often incredulous that potential employees answer these questions honestly, but 25% of job applicants admit to behaviors most employers consider high-risk. The willingness to be truthful can be directly tied to the concept of cognitive dissonance, with these potential employees so engaged in such behavior that they rationalize or justify it, or develop an entitlement mentality.

“I am just blown away by this,” Mr. Rosenblum said. “The reason is that they feel like everybody takes drugs in the workplace, everybody steals product from their employer. It’s accepted. They actually believe that, therefore, they don’t feel it’s going to jeopardize their getting a job.”

Merchants does not often change its integrity tests, but has recently done so to keep up with evolving state laws on medical marijuana use, including changing certain questions on recreational marijuana usage to focus on workplace behavior, Mr. Walker said.

“That’s one of the most admitted-to questions on our survey,” he said.

EMPLOYER SEES WORKERS COMP COSTS FALL AFTER VETTING APPLICANTS

Frank Russo, senior vice president of risk and legal affairs and privacy officer for Irvine, California-based elder care firm Silverado, is always on the lookout for creative ways to mitigate risk.

So he was intrigued when he read the “staggering” results featured in a university study about integrity testing.

He began exploring how the concept could be applied to prevent injuries within his company’s 4,500-strong workforce. More than 15,000 potential employees

have been tested since the program was implemented 3½ years ago, with 24% deemed “not qualified.”

These types of results are often “a tough pill to swallow” for employers considering integrity testing because they are reluctant to narrow the potential employee pool and add another layer to the hiring process, Mr. Russo said.

One of Silverado’s biggest initial challenges, he said, was that some potential employees with “great” resumes and refer-

als did not pass the integrity test and were not hired. This led to accusations by some company managers that the test was wrong and required about six months of education about how the testing works and its benefits.

“I always tell people if I’m hiring for somebody in my department and they came referred to me and they have the best resume and I really like them and they don’t pass the integrity test, I’m completely grateful for the integrity test

because obviously the integrity test caught something I didn’t,” he said.

Silverado had the University of Arizona run an independent survey that showed non-test takers hired in the two years prior to implementing integrity testing filed workers compensation claims at a higher rate and had more expensive claims than those screened in the two years after the testing began. “Those are pretty strong numbers,” Mr. Russo said.

Gloria Gonzalez

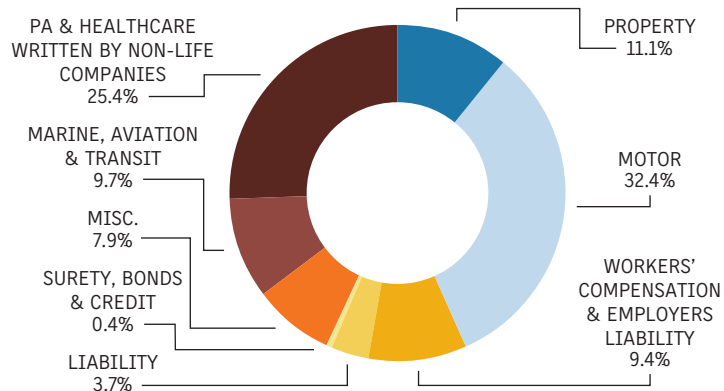
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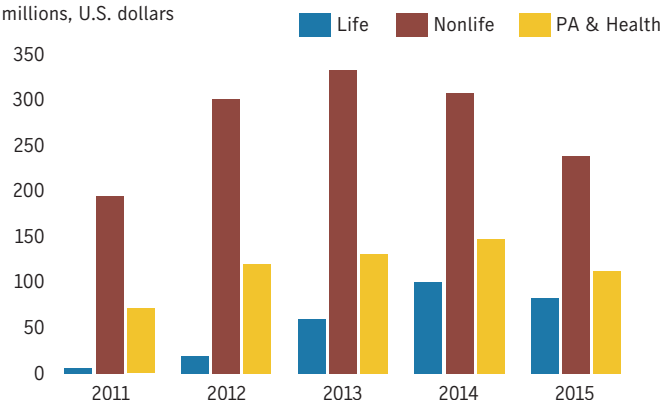
Azerbaijan occupies the southeastern part of the Caucasus isthmus, a seismically active area that makes the country prone to earthquakes. A state of the former Soviet Union, Azerbaijan declared itself an independent republic in 1991. Insurance penetration is low throughout the sparsely populated country. It has considerable oil and gas resources, but the economy's exposure to global energy markets makes it vulnerable to price fluctuations, especially oil. After two currency devaluations in 2015, several major banks failed, affecting many insurance market participants. The capital position of many insurers has been a concern for the Financial Market Supervisory Authority, which is monitoring the situation closely. It is hoped that the introduction of compulsory medical insurance will give the market a boost.

MARKET SHARE



MARKET GROWTH

In millions, U.S. dollars



Source: Axco Global Statistics/Industry Associations and Regulatory Bodies

COMPULSORY INSURANCE

Several lines of insurance are compulsory, including:

- Motor third-party liability
- Real property damage
- Professional indemnity insurance for insurance brokers
- Shipowners' liability for marine oil pollution
- Personal accident insurance of passengers
- Insurance against HIV/Aids infection for medical and laboratory staff

NONADMITTED

Non-admitted insurance is not permitted in Azerbaijan because the law provides that insurance must be purchased from local authorized insurers with some exceptions. There are no requirements for admitted reinsurance, but prospective international reinsurers, as well as reinsurance brokers, must be registered by the supervisory authority.

INTERMEDIARIES

Brokers control a limited amount of domestic business, with most business handled directly by insurers through in-house sales and marketing teams or via agents and banks.

MARKET PRACTICE

There are tariffs for the various compulsory classes of insurance, but insurers are free to set their own rates for all other classes. There are no restrictions on foreign ownership of insurance companies. Azerbaijan is in an earthquake region, and earthquake is the only major peril to be considered, although few local insurers track accumulations or purchase catastrophe cover.

MARKET DEVELOPMENTS

Updated May 2017

- The Financial Market Supervisory Authority was created by Presidential Decree No. 760 on Feb. 3, 2016, and serves as the unified regulator of the insurance and securities markets, investment funds, credit organizations, including banks, and payment systems. The 0.3% supervisory levy on gross written insurance premiums has been retained, payable to FIMSA, but is understood to be under review.
- In December 2015, the Central Bank of Azerbaijan moved to a floating exchange rate of the local currency, the manat, struggling to protect its value as falling oil prices caused devaluation.
- A direct claims settlement procedure for compulsory motor third-party liability claims was introduced in February 2016, and mandatory electronic policy issuance was effective Nov. 1, 2016.
- Several insurers, mainly small companies and all nonlife, including Chartis Azerbaijan, part of American International Group Inc., exited the market in 2015 and 2016, largely due to the impact of tough economic conditions including currency devaluations and bank failures.
- The phased removal of the cap on foreign capital participation in the local insurance market concluded Jan. 1, 2017, but investor interest in the insurance markets of the former Soviet region has been declining in the past five years.

AREA

33,436

square miles

POPULATION

9.9

million

MARKET CONCENTRATION

61.9%

market share of top five insurers

2016 GDP CHANGE (PROJECTED)

-3%

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

Policy exclusion shields 3M from 3M's crime losses

■ Insurers including an American international Group Inc. unit are not obligated to indemnify 3M Corp. for lost earnings caused by its investment advisers' "Ponzi scheme" theft under an exclusion in its crime policy, a federal appeals court said.

Maplewood, Minnesota-based 3M began investing its employee retirement plan assets in New York-based WG Trading Company L.P. in 1999, according to the ruling by the 8th U.S. Circuit Court of Appeals in St. Louis in *3M Co. v. National Union Fire Insurance Company of Pittsburgh, Pa.*

It structured the investment as a limited partnership interest in WG Trading, led by Stephen Walsh and Paul Greenwood, who eventually pleaded guilty to fraudulently diverting hundreds of millions of dollars from WG Trading. Their assets were seized by the U.S. District Court in New York and placed into receivership. The receiver distributed the assets among the defrauded claimants, including 3M.

3M's employee benefit plans are insured under a "blanket" crime policy that includes an "employee dishonesty" provision. The policy also includes, however, an endorsement that says the insured property must be owned or held by the insured.

3M filed suit against primary insurer National Union Fire Insurance Company of Pittsburgh, Pennsylvania, a unit of AIG, and excess insurers seeking coverage for lost profits under the crime policy. The U.S. District Court in Minneapolis rejected 3M's ownership claim in a September 2015 ruling, saying the company's limited partnership in WG Trading did not confer ownership over lost earnings.

On appeal, a three-judge panel unanimously upheld the lower court's ruling.

'Mark of the beast' jury award affirmed on appeal

■ A federal appeals court has affirmed a \$586,861 jury award to a mining worker who felt forced to retire when he refused to use a biometric hand scanner for religious reasons — saying it related to the biblical "mark of the beast" — in a case filed on his behalf by the EEOC.

In the ruling in *U.S. Equal Employment Opportunity Commission v. Consol Energy Inc.*, the 4th U.S. Circuit Court of Appeals in Richmond, Virginia, refused Canonsburg, Pennsylvania-based Consol's motions seeking judgment as matter of law, a new trial and amendment of

the lower court's findings regarding lost wages in the case.

The appeals court also affirmed the refusal by the U.S. District Court in Clarksburg, West Virginia, to grant the EEOC's motion for the miner, Beverly R. Butcher Jr., to be awarded punitive damages in the widely publicized case.

Mr. Butcher had worked for Consol for 37 years when the company began requiring workers to use the hand scanners to track employee time and attendance, according to the ruling. The situation culminated in Mr. Butcher's retirement.

"It is not Consol's place as an employer, nor ours as a court, to question the correctness or even the plausibility of Butcher's religious understandings," said the ruling.



Teacher hurt in student fight limited to comp benefits

■ A high school teacher injured while breaking up a fight may not sue the school district where he worked for negligence because workers compensation was his exclusive remedy, a federal court ruled.

John Ekblad a physical science teacher at Central Senior High School in St. Paul, Minnesota, intervened in a fight between two students and was injured in December 2015. Mr. Ekblad received comp benefits and the school district has paid and continues to pay his medical bills, according to court documents in *John Ekblad vs. Independent School District.*

In March 2016, Mr. Ekblad sued the school district, alleging negligence and negligent supervision because the district failed to protect him despite being aware of safety concerns at the school. The district asked the court for summary judgment, saying Mr. Ekblad's negligence claims are pre-empted by the state's Workers' Compensation Act. The court agreed.

The court said Mr. Ekblad failed to establish that any of three exceptions to Minnesota's workers comp exclusive remedy provision applied.

Mr. Ekblad further argued that his unsafe workplace violated his rights to substantive due process under the Fourteenth Amendment. To prove such a claim, the claimant must demonstrate that the defendants' actions were severe, inspired by malice or sadism that is shocking to the contemporary conscience, and not simply a careless act.

"The circumstances presented, while certainly unfortunate, do not meet this standard," the ruling said.

The case was dismissed with prejudice.

Whistleblower's retaliation claim reinstated

■ A federal appeals court reinstated a retaliation claim filed by a worker who was terminated after he complained to a state agency about being asked to fudge product quality test results.

Douglas James Sellner was a lab quality technician at a Springfield, Minnesota, facility operated by Long Grove, Illinois-based MAT Holdings Inc., according to the ruling by the 8th U.S. Circuit Court of Appeals in St. Louis in *Douglas James Sellner v. MAT Holdings Inc.; Midwest Air Technologies Inc.; MAT Industries L.L.C.; Sanborn Manufacturing Co.*

In March 2012, the facility's general manager, Alan D. Stark, told Mr. Sellner to present data on a pump that was set to be added to Sears Roebuck & Co.'s product line. The pump had serious problems with oil leakage during testing, according to the ruling.

After a lab manager said Mr. Sellner's data could not be used in a report to the Chicago-based retailer, Mr. Stark allegedly told Mr. Sellner that he would be "on the street" if he didn't produce a report showing no major issues and encouraged him to "get creative with (his) documentation."

The next day, Mr. Sellner filed a report with the Minnesota Department of Labor and Industry. He was terminated in April 2012 after an investigation by MAT's director of human resources into his workplace behavior.

Mr. Sellner filed suit against MAT for wrongful termination under the Minnesota Whistleblower Act, and the U.S. District Court in Minneapolis granted MAT summary judgment dismissing the claim.

On appeal, a unanimous three-judge panel of the 8th Circuit reinstated the charge. "Stark's comment provides a specific link between Sellner's protected conduct and his termination," the ruling said, in remanding the case for further proceedings.

DOCKET



WRONGFUL DEATH LAWSUIT AGAINST NHL DISMISSED

A federal judge in Chicago dismissed a wrongful death lawsuit against the National Hockey League filed by the parents of Derek Boogaard, who died in 2011 at the age of 28 of an accidental overdose of Percocet, which he was prescribed for hockey-related injuries. Mr. Boogaard played on NHL teams for six years. U.S. District Judge Gary Feinerman dismissed the lawsuit, finding that Mr. Boogaard's parents failed to respond on the merits of the NHL's argument that the league did not proximately cause Mr. Boogaard's injuries, and failed to prove negligence.

SUPREME COURT TIGHTENS RULES ON FORUM SHOPPING

The U.S. Supreme Court tightened rules on where injury lawsuits may be filed, handing a victory to corporations by undercutting the ability of plaintiffs to bring claims in friendly courts in a case involving Texas-based BNSF Railway Co. The justices, in an 8-1 decision, threw out a lower court decision in Montana allowing out-of-state residents to sue there over injuries that occurred anywhere in BNSF's nationwide network. State courts cannot hear claims against companies when they are not based in the state or the alleged injuries did not occur in the state, the high court justices ruled.

Reuters

PFIZER DEFEATS APPEALS OVER ZOLOFT BIRTH DEFECTS

Pfizer Inc. defeated an effort to revive more than 300 lawsuits alleging that its antidepressant Zoloft causes cardiac birth defects in children when taken by women during early pregnancy. A panel of the 3rd U.S. Circuit Court of Appeals in Philadelphia upheld the April 2016 dismissal of the cases by a lower court judge, who said the plaintiffs had not shown a plausible scientific link between Zoloft and the birth defects.

Reuters

Constantine Iordanou

ARCH CAPITAL GROUP LTD.



Constantine “Dinos” Iordanou is chairman and CEO of commercial insurer and reinsurer Arch Capital Group Ltd., in Pembroke, Bermuda. Mr. Iordanou plans to retire in March 2018, and the company promoted Marc Grandisson to president and chief operating officer on Jan. 1, 2016. Arch disclosed in a June 6 U.S. Securities and Exchange Commission filing that it would book a \$38 million loss on facultative property cover for the second quarter of 2017. Mr. Iordanou recently spoke with *Business Insurance* Reporter Matthew Lerner about markets, trends and issues that are affecting Arch. Edited excerpts follow.

Q Is 2017 better or worse than last year? Different?

A I would say some things are better, some things are worse. There are lines of business that are starting to have significant issues with profitability. Those lines of business are seeing price increases. Commercial auto is an example of that, and there are other pockets — I think construction risks in certain jurisdictions, especially in the New York City area because of the Scaffold Law and labor law. These are difficult lines, and they’re seeing reduced appetite from underwriters and pricing increases. On the other side, there are other lines such as excess liability and property, which are seeing continued price declines. Overall, I would characterize 2017 markets as slightly worse than 2016 on the basis that we’re not keeping up with loss trends.

Q When you look at midyear reinsurance renewals, what do you see?

A In reinsurance, there is still softening on the excess of loss contracts, which are seeing very low single-digit pricing. We don’t see further softening on the proportional treaties. Ceding commissions have stabilized at a high rate, so the reinsurers are subsidizing the primary insurers through the ceding commission, but we haven’t seen further erosion on the ceding commissions. Having said that, even the proportional business will suffer by what’s happening to the underlying pricing of the primary contracts because, even though in proportionality we haven’t lost ground, if the subject business has not kept up with trend and it has lost a few points of rate, reinsurance will suffer from that, too.

Q Does that go forward to July?

A I think so. I don’t see any change in the environment yet. So I don’t expect July to be any different than January or April 1, which are the big dates in reinsurance.

Q Is what the industry calls alternative capital still truly alternative, or has it become more mainstream? How is it affecting markets?

A Well, it depends. Alternative capital is just the terminology, right? Anything that can enter and exit our business quickly, to me, is true alternative. We had it when we had Flatiron Re, which we operated for only three years. After the three years, we chose to shut it down and liquidate it. I think that term probably has validity when you get to the (insurance-linked securities) market, where basically you can start up something with alternative capital and shut it down and distribute that capital in a short period of time.



When you get to a long-tail type of business with claims open for five, 10 or 15 years, it’s the wrong terminology. It’s capital that is not alternative anymore. It is real capital committed to the business and not easily extracted. You must wait many, many, many years to be able to extract it. It’s a question of what type of business is being committed to underwrite and what is the duration of liabilities of those lines of business. If it’s a long tail, I will assure you it becomes permanent capital.

And I think it has an effect. The business is overcapitalized on its own, and when you add on top of that the additional capacity, it helps make the problem worse. In essence, you’ve got an oversupply of capacity, which affects pricing. It’s the old economic equation 101, supply and demand. So too much supply, steady demand, prices go down.

Q What about mergers and acquisitions? Will they continue? And is this good for the industry?

A Mergers and acquisitions will continue to happen. They happen in every part of the cycle, and I find it to be positive. Larger organizations can become more cost-effective and more sophisticated if they’re run well. That’s a big if, though.

In a business where individual underwriting decisions count, the larger you become, the more difficult it is to control the quality of the underwriting decision. On the other hand, the larger you are, the more you can invest in technology and efficiencies and analytics that make you a better company. So you’ve got to have a balance between the two.

Q Where does Arch stand on M&A?

A We see ourselves as a company that if we find the opportunity to make a strategic acquisition, we will. On the other hand, if somebody believes that strategically Arch improves their operations, we will always listen to that opportunity also. My wife says the house is never for sale, but I say at the right price, every house is for sale.

Q Can you provide any detail on the recent filing about the \$38 million facultative loss?

A It just happened that we got several claims in the same quarter. In this line, usually, we get one of those claims a quarter, sometimes every two quarters. So from a materiality point of view, it was material. The builders risk contracts were written in 2015, 2016 and 2017, but if you write a builders risk policy in 2015, you don’t get off risk until the project gets completed, and if you have a loss in 2017, that’s the current accident year and you’ve got to report. With all claim activity, we always try to see if there are lessons to be learned and do we have to change some of our underwriting. With these losses, nothing looks unusual to us. They were good risks; if they were presented to us again, we would probably underwrite them again. Sometimes you get losses.

Overall, I would characterize 2017 markets as slightly worse than 2016 on the basis that we're not keeping up with loss trends.



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CYBER SECURITY FRAMEWORK MARCHES FORWARD

Orders from the top trickle down

BY JUDY GREENWALD

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The cyber security executive order issued by President Donald Trump in May is targeted at government agencies, but it is expected to have a much wider influence, which will benefit both policyholders and insurers.

Private companies seeking government contracts will likely be held to the same standards as the agencies they deal with, which will lead to the wider adoption of the cyber security framework proposed by the National Institute of Standards and Technology, say experts.

And the increased compliance with NIST will make the framework even more influential in businesses in all sectors of the economy.

The order requires agency heads to be guided by Gaithersburg, Maryland-based NIST's Framework for Improving Critical Infrastructure Cybersecurity, issued in February 2014.

Meanwhile, although experts are keeping an eye on several proposed cyber security bills in Congress, a uniform data breach notification law is not expected.

"It's an absolutely great first step, but it's just that. It's a first step," said Dan Burke, San Francisco-based vice president and cyber product head at Hiscox USA. "I think that companies will be looking forward to partnering with government agencies."

"They've tried to be pretty thoughtful about their approach to cyber security," said Michael R. Overly, a partner with Foley & Lardner L.L.P. in Los Angeles, who added that the Trump administration had reached out to insurance industry and large-firm executives for their

input before issuing the executive order.

"Let's face it: The federal government has a lot of our data, and we've been spending time recently talking to all the federal agencies about how jointly we can protect that data," said Doug Johnson, senior vice president for payments and cyber security policy at the Washington-based American Bankers Association.

"Overall, we see the advent of the executive order as being positive for companies and also being positive for the federal government's ability to enhance cyber security themselves," he said.

Observers say the executive order may encourage more firms to follow the NIST guidelines in their cyber security efforts.

Following up on its February 2014 guidance, NIST issued a draft update in January of this year that provided new details on cyber supply chain risks. In line with President Trump's executive order, in May it also issued an implementation guidance for federal agencies.

"Speaking the same language regarding cyber security is very important,"

said Mr. Johnson. A high degree of acceptance of the NIST framework is "a very valuable tool" for community banks as well as for larger financial institutions.

The executive order will lead federal government vendors and contractors to adopt the NIST framework, "which is a good thing, certainly," said Mr. Burke.

"It's also a good thing for companies to apply their own risk management against that framework, and see where they stand now and where they need to make their improvements," he said.

"Let's face it: The federal government has a lot of our data, and we've been spending time recently talking to all the federal agencies about how jointly we can protect that data. Overall, we see the advent of the executive order as being positive."

Doug Johnson,
American Bankers Association

"The NIST cyber framework is quickly becoming the de facto standard by which cyber security is going to be measured, at least on the minimum level, and we've already seen that bleed into the private sector," said Michael Born,

See EXECUTIVE next page

KEY CYBER SECURITY BILLS*

Experts say significant legislation concerning the issue of cyber security they are keeping an eye on includes:

- **H.R. 584, Cyber Preparedness Act of 2017.** Requires the Department of Homeland Security to coordinate with the National Cybersecurity and Communications Integration Center to provide state, local and regional centers with its expertise on its cyber security resources. Passed House, in Senate committee.
- **S. 278, Support for Rapid Innovation Act of 2017.** Amends the Homeland Security Act of 2002 to direct the undersecretary for science and technology and the Department of Homeland Security to support the research, development, testing, evaluation and transition of cyber security technologies. Now in committee. H.R. 239, a House version with the same name, has been passed in the House.
- **H.R. 1224, NIST Cybersecurity, Framework, Assessment, and Auditing Act of 2017.** Among its provisions, requires the Gaithersburg, Maryland-based National Institute of Standards and Technology to chair and establish a public-private working group to coordinate the development of metrics and tools to measure the effectiveness of the cyber security framework for federal agencies protecting their information and information systems, and for private entities voluntarily analyzing their individual corporate risks. Referred to committee.
- **S. 770, Main Street Cybersecurity Act of 2017.** Amends the National Institute of Standards and Technology Act to require NIST to consider small businesses when it facilitates and supports the development of voluntary consensus-based industry-led guidelines and procedures to cost-effectively reduce cyber risks to the critical infrastructure. A similar House bill, H.R. 2105, NIST Small Business Cybersecurity Act of 2017, is in committee.

*As of late June

Source: www.congress.gov

PRESIDENT'S EXECUTIVE ORDER SETS THE TONE FOR CYBER STANDARDS

The cyber security executive order issued by President Donald Trump in May, "Strengthening the Cybersecurity of Federal Networks and Critical Infrastructure," calls for reports from various agencies on their cyber security risk management efforts.

"It is the executive branch's policy to promote an open, interoperable, reliable and secure internet that fosters efficiency, innovation, communication and economic prosperity, while respecting privacy and guarding against disruption, fraud and theft," says the order.

The order says the president will hold agency heads accountable for managing cyber security risk, and requires federal agencies to engage with critical infrastructure entities on the issue of cyber security.

It also calls for an examination of the sufficiency of existing federal policies and practices "to promote appropriate market transparency of cyber security



REUTERS

Homeland Security Secretary John Kelly, right, attends a meeting with cyber security experts with President Donald Trump in the Roosevelt Room of the White House on Jan. 31.

risk management practices by critical infrastructure entities."

The executive order calls for an assessment of a "prolonged power outage

associated with a significant cyber incident," and the United States' readiness "to manage the consequences of such an incident."

Experts say that in contrast to the Trump administration's initiatives in other areas, the executive order builds on, rather than departs from, Obama administration policies.

President Barack Obama issued a cyber security executive order in 2013 that, among other provisions, required federal agencies to produce unclassified reports of threats to U.S. companies, with the reports to be shared with targeted entities in a timely manner.

"Cyber security, in general, transcends any kind of political affiliation," said Eric Cernak, Hartford, Connecticut-based cyber risk and privacy practice leader at Munich Reinsurance America Inc. "Every administration recognizes" its importance.

Judy Greenwald

EXECUTIVE

Continued from previous page

Kansas City, Missouri-based vice president and account executive of the global technology and privacy practice at Lockton Cos. L.L.C.

It requires federal agencies to comply with the NIST framework, “but many private companies are complying voluntarily, and many IT service vendors are basing their assessments on the NIST framework, and many insurance underwriters are using that to assess the exposure associated with cyber insurance applicants,” he said.

In addition, “There is some emphasis in the order on items that would require cooperation between the public and the private sector that is specifically associated with the critical infrastructure,” which includes utilities, banks and health care firms, Mr. Born said (see box).

The executive order parallels information offered by the Small Business Administration on cyber security, which also points to the NIST guidelines, said Anthony Dagostino, global head of cyber for Willis Towers Watson P.L.C. in New York. “This is going to put more pres-

sure on companies to allow those types of frameworks,” he said.

“There’ll be a trickle-down effect” said Mr. Dagostino. “Whoever is doing work on behalf of these federal agencies, I think, can expect to see them held to the same standard this order outlined, so the impact now is on having the right risk management approach,” he said. “There’s going to be more urgency and scrutiny for

them to have better risk management.”

“I will refer my clients to it” because it is adaptable, said Timothy J. Toohey, a partner with law firm Greenberg Glusker Fields Claman & Machtinger L.L.P. in Los Angeles. “You don’t have to take this one giant indigestible series of standards.”

There are parallels between what the agencies are being asked to do and what senior executives are likely to be called

upon to do to improve their information security measures, Mr. Overly said.

“A key part of the order is also the encouragement of transparency by critical infrastructure entities about their own vulnerability” and that they should be “more candid in exposing their cyber security risk management practices, said Matthew McCabe, Marsh USA Inc.’s critical infrastructure cyber leader in



CRITICAL INFRASTRUCTURE

President Donald Trump’s cyber security executive order says the executive branch should use its authority to support the owners and operators of the nation’s critical infrastructure. There are 16 critical infrastructure sectors, according to the U.S. Department of Homeland Security:

- Chemical
- Commercial facilities
- Communications
- Critical manufacturing
- Dams
- Defense industrial base
- Emergency services
- Energy
- Financial services
- Food and agriculture
- Government facilities
- Health care and public health
- Information technology
- Nuclear reactors, materials and waste
- Transportation systems
- Water and wastewater systems

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“That’s something that many public-traded companies are going to have to grapple with as we have these large events,” he said.

In terms of cyber insurance, it will result in federal contractors, as well as small businesses, buying more insurance, Mr. Dagostino said. “This will help drive the (insurance) market, directly or indirectly,” he said.

“It’s going to make better insureds for the insurance community. It will lead to a more holistic approach to managing cyber risk,” better security defense around cyber risk, and better processes and strategies and the use of people resources, which is an area where many companies “fall short,” Mr. Burke said.

“One of the things that has always been a challenge associated with the cyber

insurance market are the metrics,” said Mr. Johnson. “Nothing will drive an actuary more batty than trying to develop loss models around cyber security risks.”

This has led the market’s high end to be forced to self-insure their cyber risks, he said.

“It remains to be seen” whether NIST will play a role in addressing this issue, he said.



ATTEMPTS AT DATA BREACH REPORTING STANDARD STALL

Cyber security is a favorite topic for members of Congress these days, say observers.

“There is no lack of cyber security bills,” said Michael Born, Kansas City, Missouri-based vice president and account executive of the global technology and privacy practice at Lockton Cos. L.L.C. “It seems like everybody has an idea” on how to approach the issue.

Observers point to several pieces of legislation as potentially significant (see box, page 17). But experts say they have pretty much given up hope of a uniform federal data breach reporting standard.

“Nobody is trying currently trying to make a uniform data breach notification requirement,” said Mr. Born. There are 48 states with their own statutes, and some other federal regulations that require notification, but no uniform statute.

While there have been attempts to achieve one, “none of them has gotten very far,” he said. “It almost seems as though they’ve given up.”

“Whenever you try to get a uniform standard for the entire country, you run into roadblocks” and the question as to whether it pre-empts federal law, he said.

Furthermore, legislators now prefer to focus on cyber security, he said. “At this point they feel like they have bigger fish to fry.”

Meanwhile, observers say a concept being discussed in Washington, although there was not yet a formal bill as of mid-June, is enabling malware victims to turn the tables on their hackers and hacking them in turn.

The problem with such an approach, though, is the risk this could potentially affect innocent parties, such as in a case where an internet service provider that distributes malicious traffic is shut down, said Doug Johnson, senior vice president for payments and cyber security policy at the Washington-based American Bankers Association.

“That’s just one example, but it kind of crystallizes what the debate will be around,” he said.

Judy Greenwald



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BROKER PROFILES & RANKINGS

Brokers brace against market forces

BY GAVIN SOUTER

gsouter@businessinsurance.com

INSIDE

▶ WORLD'S 10 LARGEST BROKERS

Who are the world's largest insurance brokers? Any new faces this year? Turn the page to find out. **PAGE 22**

▶ 100 LARGEST U.S. BROKERS

Business Insurance's 2017 propriety survey of the 100 largest insurance brokers of U.S. business. **PAGE 24**

▶ TOP 10 BROKER PROFILES

Learn more about the world's Top 10 brokers and how they view their successes and challenges. **PAGE 28**

Commercial insurance brokers continue to face strong headwinds in 2017 as they strive to grow in the soft market and a still-sluggish economy.

With organic growth rates in the low single digits and fluctuating foreign exchange values, most of the largest brokers saw only moderate revenue increases or decreases last year. However, some of the acquisitive firms among the 10 largest insurance brokers saw stronger growth, with private equity-owned Hub International Ltd. showing the biggest percentage increase at 12.1%.

Divestitures also affected the ranking with Wells Fargo Insurance Services USA Inc. dropping out of *Business Insurance's* 2017 listing of the world's 10 largest insurance brokers and being replaced by USI Insurance Services L.L.C.

Bank-owned Wells Fargo Insurance sold its crop insurance business, Rural Com-

munity Insurance Agency Inc., to Zurich Insurance Group Ltd. last year, and Wells Fargo is rumored to be seeking to sell its insurance brokerage business as well. The bank said in a statement that "we are considering strategic options for our insurance business."

Just outside the Top 10, however, growth

rates often hit double digits as several brokers — particularly those with private equity backing — continued aggressive, acquisition-fueled expansion strategies.

That consolidation continued this year with some notable names in the upper third of the 100 largest brokers of U.S. business being bought by rivals.

In March, Lake Mary, Florida-based AssuredPartners Inc. announced it was buying Keenan & Associates in Torrance, California. Last year, Keenan ranked 22nd with \$170.9 million in 2015 U.S. brokerage revenue.

In January, Marsh & McLennan Agency L.L.C., the middle-market agency division of Marsh L.L.C., announced it would acquire J. Smith Lanier & Co. The West Point, Georgia-based brokerage was ranked 30th last year with \$132.9 million in 2015 U.S. brokerage revenue.

The market's net capacity has grown, "so we haven't had challenges meeting our clients' demands. It's just a matter of us staying on top of those market changes and taking advantage of opportunities for our clients."

Glenn Spencer,
Lockton Cos. L.L.C.

And consolidation is likely to continue, said Mike Sicard, chairman and CEO of USI.

"There are 36,000 agents and brokers across the U.S., and on average about 400 have traded or been acquired each year for the past several years. So, while the space is consolidating, it would take a very long time — if you do the math, there's a 100-year supply," he said.

Outside of acquisitions, the outlook for growth among brokers is "OK but not great," because their growth rates are tied quite closely to the rates in the commercial insurance market, said Paul Newsome, managing director at Sandler O'Neill & Partners L.P.

Looking forward, the soft market is expected to continue, but a possible increase in general economic activity may aid brokerage growth.

"It has continued to be a soft market ... but you have to look at specific lines of business and specific geographies, and you can get very different stories. In general, there's continued softness on the pricing side but a bit of a lift on the exposure side," said Michael J. O'Connor, Chicago-based CEO of Aon Risk Solutions.

But if promised political changes come through, brokers could see increased business. In particular, President Donald Trump's plan to significantly increase infrastructure spending would be a boon to the insurance sector, said J. Patrick Gallagher Jr., chairman, president and CEO of

Arthur J. Gallagher & Co.

"If he gets it legislatively approved, that will be fantastic for brokers because that's going to create construction projects all across the country," he said.

Consolidation among insurers has been another feature of the past several years, but so far it has not caused problems for brokers or their clients because it has not led to a reduction in capacity, brokerage executives say.

"There is and has been a highly fragmented environment with a large number

of high-quality insurers for any given risk, so we have not seen consolidation have a dramatic change on the property/casualty market," Mr. Sicard said.

The market's net capacity has grown, "so we haven't had challenges meeting our clients' demands. It's just a matter of us staying on top of those market changes and taking advantage of opportunities for our clients," said Glenn Spencer, president and CEO of Kansas City, Missouri-based Lockton Cos. L.L.C.'s global operation.

And the increased size of insurers can

be beneficial to policyholders, said Mr. O'Connor of Aon Risk Solutions.

"We see that as a positive, as nobody has actually taken capital off the table ... they want to maintain or increase line sizes," he said. In addition, with increased capacity, insurers are more likely to cover previously uninsured risks such as some cyber exposure or reputational risks, Mr. O'Connor said.

Outside of market trends, some brokers have come under fire recently from

See **BROKERS** page 26



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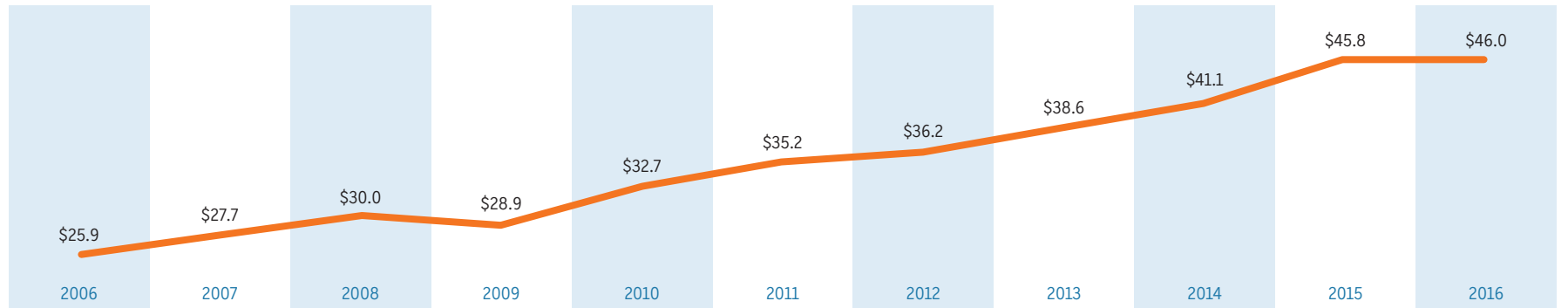
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SPECIAL REPORT

A DECADE OF GROWTH*

The world's 10 largest insurance brokers posted only a modest 0.4% growth in 2016. This is the smallest percentage growth since 2009, when there was a decrease of 3.7%. The group's dollar gain was \$191 million from 2015.

*In billions of dollars



Source: BI survey

WORLD'S 10 LARGEST INSURANCE BROKERS

Ranked by 2016 brokerage revenue

2017 rank	2016 rank	Company/address	Phone/website	Officers	2016 brokerage revenue	% increase (decrease)	Employees	Offices	PERCENTAGE OF REVENUE*							
									Commercial	Wholesale	Reinsurance	Personal lines	Employee benefits	Services	Investments	Other
1	1	Marsh & McLennan Cos. Inc. 1166 Avenue of the Americas New York, NY 10036	212-345-5000 www.mmc.com	Daniel S. Glaser, president/CEO	\$13,229,000,000	2.5%	60,000	669	45.2%	0%	8.6%	0%	32.7%	13.5%	0.2%	(0.3%)
2	2	Aon P.L.C. 122 Leadenhall St. London EC3V 4AN, England	44-207-623-5500 www.aon.com	Gregory C. Case, president/CEO	\$11,605,000,000	(0.5%)	69,000	540	42.3%	0%	11.8%	0%	23.7%	22.0%	0.2%	0%
3	3	Willis Towers Watson P.L.C. 51 Lime St. London EC3M 7DQ, England	44-203-124-6000 www.willistowerswatson.com	John Haley, CEO; Roger Millay, CFO	\$7,778,000,000	(4.3%)	41,500	500	26.3%	4.4%	10.0%	0.8%	49.6%	7.5%	0%	1.4%
4	4	Arthur J. Gallagher & Co. 2850 W. Golf Road Rolling Meadows, IL 60008	630-773-3800 www.ajg.com	J. Patrick Gallagher Jr., chairman/ president/CEO	\$4,186,100,000	4.9%	24,790	600	32.7%	9.9%	0%	3.4%	16.0%	12.8%	25.2%	0%
5	6	BB&T Insurance Holdings Inc. 389 Interpace Parkway Fourth Floor Parsippany, NJ 07054	862-286-3500 www.insurance.bbt.com	John Howard, chairman/CEO	\$1,809,175,000	7.9%	7,004	109	29.2%	48.5%	0.1%	7.9%	10.3%	0%	0.4%	3.6%
6	7	Brown & Brown Inc. 220 S. Ridgewood Ave. Daytona Beach, FL 32114	386-252-9601 www.bbinsurance.com	J. Powell Brown, president/CEO	\$1,762,787,105	6.4%	8,297	237	56.5%	11.8%	0%	6.9%	15.7%	8.8%	0.1%	0.1%
7	8	Hub International Ltd. 300 N. LaSalle St., 17th Floor Chicago, IL 60654	877-402-6601 www.hubinternational.com	Martin P. Hughes, chairman/CEO	\$1,648,795,000	12.1%	8,730	399	56.0%	4.5%	0%	15.6%	23.1%	0.7%	0.1%	0%
8	5	Jardine Lloyd Thompson Group P.L.C. The St. Botolph Building 138 Houndsditch London EC3A 7AW, England	44-207-528-4444 www.jlt.com	Geoffrey Howe, chairman; Dominic Burke, group chief executive	\$1,550,390,790 ¹	(8.7%)	5,460	115	38.4%	7.7%	19.9%	1.7%	23.8%	7.9%	0.5%	0%
9	9	Lockton Cos. L.L.C. ² 444 W. 47th St., Suite 900 Kansas City, MO 64112	816-960-9000 www.lockton.com	Glenn Spencer, president/CEO; David M. Lockton, executive chairman	\$1,425,251,000	7.3%	6,500	89	62.5%	3.6%	2.5%	1.1%	29.7%	0%	0.6%	0%
10	11	USI Insurance Services L.L.C. 200 Summit Lake Drive Valhalla, NY 10595	914-749-8500 www.usi.com	Michael J. Sicard, chairman/ president/CEO	\$1,030,124,263	0.2%	4,353	140	47.7%	0%	0%	7.1%	43.4%	0%	0.1%	1.7%

*Percentage of revenue may not add up to 100% due to rounding; ¹British pound = \$1.2337; ²Fiscal year ends April 30

Source: BI Survey

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SPECIAL REPORT

100 LARGEST BROKERS OF U.S. BUSINESS*

Ranked by 2016 brokerage revenue generated by U.S.-based clients

2017 rank	2016 rank	Company	2016 U.S. brokerage revenue	% increase (decrease)	2017 rank	2016 rank	Company	2016 U.S. brokerage revenue	% increase (decrease)
1	1	Marsh & McLennan Cos. Inc. ¹	\$6,614,500,000	4.5%	52	55	Marshall & Sterling Enterprises Inc. ¹	\$70,591,449	10.6%
2	2	Aon P.L.C. ¹	\$6,065,933,500	0.2%	53	59	Horton Group Inc. ¹	\$65,408,104	9.7%
3	3	Willis Towers Watson P.L.C.	\$3,733,440,000	(6.2%)	54	57	Lawley Service Inc. ¹	\$65,162,058	5.2%
4	4	Arthur J. Gallagher & Co. ¹	\$2,888,409,000	6.5%	55	63	TrueNorth Cos. L.L.C. ¹	\$63,777,000	20.9%**
5	5	BB&T Insurance Holdings Inc. ¹	\$1,809,175,000	7.9%	56	60	Houchens Insurance Group ¹⁶	\$62,774,780	7.8%
6	6	Brown & Brown Inc. ¹	\$1,762,787,105	6.4%	57	58	Huntington Insurance Inc.	\$59,290,110	(1.4%)
7	8	Hub International Ltd. ¹	\$1,286,060,100	12.1%	58	54	Key Insurance & Benefits Services Inc. ⁷	\$59,139,783	(9.4%)
8	10	Lockton Cos. L.L.C. ²	\$1,054,685,740	5.8%	59	68	Towne Insurance Agency L.L.C.	\$54,228,923	14.6%
9	9	USI Insurance Services L.L.C. ¹	\$1,030,124,263	0.2%	60	66	M3 Insurance Solutions Inc.	\$54,228,830	8.4%
10	7	Wells Fargo Insurance Services USA Inc.	\$980,800,000	(25.5%)	61	76	ABD Insurance & Financial Services Inc.	\$52,241,938	21.8%
11	12	Alliant Insurance Services Inc. ¹	\$966,769,832	17.0%	62	64	William A. Graham Co., dba The Graham Co.	\$52,137,792	2.6%
12	11	NFP Corp.	\$930,815,040	6.8%**	63	61	Sterling & Sterling L.L.C., dba SterlingRisk	\$51,456,000	(2.3%)
13	13	AssuredPartners Inc. ¹	\$820,926,226	47.7%	64	67	James A. Scott & Son Inc., dba Scott Insurance	\$51,103,000	2.9%
14	14	Acrisure L.L.C. ¹	\$639,312,851	55.7%	65	62	Bowen, Milette & Britt Inc.	\$50,611,066	(3.7%)
15	15	BroadStreet Partners Inc.	\$423,200,000	25.7%	66	69	LMC Insurance & Risk Management Inc. ¹	\$50,269,372	6.4%
16	16	Jardine Lloyd Thompson Group P.L.C. ^{1,3}	\$248,062,526	(5.1%)	67	73	Parker, Smith & Feek Inc.	\$49,904,000	11.1%
17	20	Edgewood Partners Insurance Center, dba EPIC Insurance Brokers & Consultants ¹	\$245,359,350	25.5%	68	72	Starkweather & Shepley Insurance Brokerage Inc.	\$49,592,000	9.6%
18	19	Leavitt Group ¹	\$225,272,000	4.3%	69	65	Frost Insurance Agency Inc.	\$48,477,224	(3.4%)
19	18	CBIZ Benefits & Insurance Services Inc. ¹	\$222,700,000	1.0%	70	70	Poms & Associates Insurance Brokers Inc.	\$47,215,000	2.3%
20	17	Integro Group Holdings L.P. ¹	\$221,052,800	(0.2%)	71	71	Riggs, Counselman, Michaels & Downes Inc.	\$46,833,209	3.0%
21	23	Paychex Insurance Agency Inc. ⁴	\$207,000,000	21.7%	72	75	Moreton & Co.	\$46,529,000	7.4%
22	27	Risk Strategies Co. Inc. ¹	\$198,285,654	39.2%	73	78	Bolton & Co.	\$45,353,147	8.2%
23	21	Hays Group Inc., dba Hays Companies	\$193,400,000	5.5%	74	79	M&T Insurance Agency Inc.	\$44,760,000	14.2%
24	25	Insurance Office of America Inc. ¹	\$177,353,744	23.7%	75	74	The Mahoney Group	\$41,979,934	(3.5%)
25	24	Crystal & Company	\$163,102,500	3.9%	76	82	Gowrie Group ¹	\$40,990,950	13.9%
26	28	Holmes Murphy & Associates Inc. ¹	\$159,141,215	15.8%	77	81	Bouchard Insurance Inc., dba Roger Bouchard Insurance Inc.	\$40,331,910	10.6%
27	31	Higginbotham ¹	\$155,052,063	17.5%	78	NR	Professional Insurance Associates Inc.	\$40,000,000	N/A
28	26	Meadowbrook Insurance Group Inc.	\$153,680,869	7.9%	79	80	Robertson Ryan & Associates Inc.	\$38,698,598	5.0%
29	36	Digital Insurance Inc., dba OneDigital Health and Benefits ¹	\$147,907,507	27.0%	80	87	Lovitt & Touche Inc. ¹	\$36,921,430	14.2%
30	35	Cottingham & Butler Inc. ¹	\$146,503,000	16.5%	81	105	Baldwin Risk Partners ¹	\$36,453,898	49.7%
31	29	The IMA Financial Group Inc.	\$146,308,389	9.7%	82	85	Armfield, Harrison & Thomas Inc., dba AHT Insurance	\$36,389,118	8.1%
32	33	Cross Financial Corp., dba Cross Insurance ¹	\$144,000,000	12.3%	83	84	James G. Parker Insurance Associates ⁴	\$35,800,000	3.5%
33	32	Regions Insurance Group Inc.	\$141,823,035	8.4%	84	83	Charles L. Crane Agency Co.	\$35,088,000	0.2%
34	44	RKH Specialty ^{5,6}	\$136,241,499	42.6%	85	98	PacWest Alliance Insurance Services Inc.	\$34,517,760	27.0%
35	34	Wortham Insurance & Risk Management ¹	\$126,757,030	0%	86	93	Ansay & Associates L.L.C. ¹	\$34,488,898	16.9%
36	38	Hylant Group Inc.	\$120,554,989	7.7%	87	86	The Loomis Co.	\$33,418,000	3.3%
37	42	Woodruff-Sawyer & Co. ¹	\$119,150,000	13.3%**	88	90	Tolman & Wiker Insurance Services L.L.C.	\$33,141,582	7.3%
38	37	BancorpSouth Insurance Services Inc. ¹	\$113,798,569	(0.7%)*	89	88	SullivanCurtisMonroe Insurance Services L.L.C.	\$32,940,000	2.6%
39	43	PayneWest Insurance Inc.	\$109,144,450	10.9%	90	97	R&R Insurance Services Inc. ¹	\$31,600,000	12.1%
40	40	Heffernan Group ¹	\$105,001,120	(2.5%)	91	NR	Sterling Seacrest Partners Inc. ¹	\$31,555,000	N/A
41	45	Assurance Agency Ltd.	\$99,568,112	13.1%	92	NR	People's United Insurance Agency Inc.	\$31,431,000	7.6%
42	47	Ascension Insurance Inc. ¹	\$89,027,000	7.6%	93	89	Haylor, Freyer & Coon Inc. ⁸	\$30,816,432	(0.9%)
43	46	Insurica Inc. ¹	\$86,782,717	1.4%	94	96	MJ Insurance Inc. ⁸	\$29,901,423	3.3%
44	50	Prime Risk Partners Inc. ¹	\$86,507,000	13.0%	95	92	PSA Financial Services Inc. ^{1,2}	\$29,667,702	0.4%
45	NR	The Hilb Group	\$84,799,495	N/A	96	94	Tompkins Insurance Agencies Inc.	\$29,295,000	1.8%**
46	48	Insurors Group L.L.C.	\$81,600,000	4.9%	97	95	Rich & Cartmill Inc.	\$29,197,164	(0.4%)
47	49	Associated Benefits and Risk Consulting	\$80,993,794	4.9%	98	100	Shepherd Insurance L.L.C. ¹	\$28,447,325	7.8%
48	51	Frenkel Benefits L.L.C., dba Frenkel & Co.	\$76,472,000	5.4%	99	101	Kapnick Insurance Group	\$28,032,000	7.3%
49	52	Eastern Insurance Group L.L.C. ¹	\$74,779,865	6.2%	100	91	Underwriters Safety & Claims Inc., dba The Underwriters Group	\$27,835,830	(7.6%)
50	53	Oswald Cos. ¹	\$72,369,000	9.9%					
51	56	Propel Insurance	\$70,844,000	14.1%					

*Companies that derive more than 49% of their gross revenue from personal lines are not ranked; **2015 restated; NR = Not ranked in 2016; N/A = Not available

¹Reported U.S. acquisitions in 2016; ²Fiscal year ending April 30; ³British pound = \$1.2337; ⁴Fiscal year ending May 31; ⁵British pound = \$1.3015; ⁶Fiscal year ending Sept. 30; ⁷Formerly First Niagara Risk Management Inc.; ⁸Fiscal year ending Aug. 31

Source: B/I survey



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Business Insurance
Employee Benefits
Auto
Home

Continued from page 21

LEADING U.S. COMMERCIAL RETAIL BROKERS

Ranked by 2016 commercial retail brokerage revenue from U.S. offices*

Rank	Company	2016 revenue	% increase (decrease)
1	Marsh & McLennan Cos. Inc.	\$3,043,000,000	6.3%
2	Aon P.L.C.	\$2,571,000,000	(0.6%)
3	Arthur J. Gallagher & Co.	\$1,094,054,000	11.0%
4	Brown & Brown Inc.	\$998,671,764	5.2%
5	Willis Towers Watson P.L.C.	\$957,000,000	(6.1%) ¹
6	Hub International Ltd.	\$739,854,000	16.3%
7	Alliant Insurance Services Inc.	\$694,168,814	25.2%
8	Lockton Cos. L.L.C.	\$665,880,000	4.8%
9	BB&T Insurance Holdings Inc.	\$549,838,000	(14.3%)
10	USI Insurance Services L.L.C.	\$500,527,551	10.1%

*Excludes revenue from placement of employee benefits; ¹2015 restated
Source: BI survey

LARGEST BENEFITS BROKERS

Ranked by 2016 global benefits revenue

Rank	Company	2016 employee benefits revenue	% increase (decrease)	% of 2016 revenue
1	Marsh & McLennan Cos. Inc.	\$4,323,000,000	0.2%	32.7%
2	Willis Towers Watson P.L.C.	\$3,908,000,000	(1.1%)*	49.6%
3	Aon P.L.C.	\$2,762,000,000	4.0%	23.7%
4	Arthur J. Gallagher & Co.	\$893,547,000	11.3%	16.0%
5	NFP Corp.	\$546,000,000	3.0%	56.3%
6	USI Insurance Services L.L.C.	\$455,160,360	3.2%	43.4%
7	Lockton Cos. L.L.C.	\$425,840,000	11.7%	29.7%
8	Hub International Ltd.	\$380,364,000	16.7%	23.1%
9	Jardine Lloyd Thompson Group P.L.C. ¹	\$370,480,110	(12.9%)	23.8%
10	Brown & Brown Inc.	\$277,499,821	6.7%	15.7%

¹2015 restated; ¹British pound = \$1.2337
Source: BI survey

LARGEST PRIVATELY OWNED BROKERS*

Rank	Company	2016 broker revenue	% increase (decrease)
1	Hub International Ltd.	\$1,648,795,000	12.1%
2	Lockton Cos. L.L.C.	\$1,425,251,000	7.3%
3	USI Insurance Services L.L.C.	\$1,030,124,263	0.2%
4	NFP Corp.	\$969,599,000	6.8%
5	Alliant Insurance Services Inc.	\$966,769,832	16.7%
6	AssuredPartners Inc.	\$841,112,936	47.5%
7	Acrisure L.L.C.	\$639,312,851	55.7%
8	BroadStreet Partners Inc.	\$423,200,000	25.7%
9	Integro Group Holdings L.P.	\$276,316,000	(0.2%)
10	Edgewood Partners Insurance Center, dba EPIC Insurance Brokers & Consultants	\$258,273,000	31.8%

*Companies that derive more than 49% of revenue from personal lines are not ranked.
Source: BI survey

a high-profile insurer executive. In his annual letter to shareholders, Chubb Ltd. Chairman and CEO Evan G. Greenberg slammed the “abusive behavior” of some brokers. He said brokers, particularly in the London market, charge excessive commissions and force underwriters to “succumb to the lowest common denominator” and warned that brokers could be “disintermediated.”

The criticism may be a feature of the soft market and was unlikely to have much effect in the short term, said Mr. Newsome of Sandler O’Neill.

“It’s not an issue in the short term, but it is an issue in the long term as our world is changing and, looking across all businesses, people want to lower costs in general,” he said.

Market forces do influence compensation, said Meyer Shields, managing director at Keefe, Bruyette & Woods Inc. in Baltimore.

“If companies end up being unprofitable because the rates they’ve accepted are too low, that’s not the broker’s fault. I’m sympathetic to the concern, but I don’t think there’s anything to complain about in terms of what the brokers are doing,” he said.

“The role of the broker is no longer as a simple risk transfer intermediary. Now we have an entire value chain that we build as a broker.”

John Haley, Willis Towers Watson P.L.C.

“While broker remuneration models vary across regions, it’s important to remember the market has evolved and insurance transactions have changed,” Willis Towers Watson P.L.C. CEO John Haley said in an emailed statement. “The role of the broker is no longer as a simple risk transfer intermediary. Now, we have an entire value chain that we build as a broker and the risk transfer does not happen until the very end. Across risk assessment, analytics and global resources, the way we bring risks to the marketplace is very different today and when brokers achieve the best value for a client, we think it’s mutually beneficial.”

Some London brokers are also coming under regulatory scrutiny. In April, Jardine Lloyd Thompson Group P.L.C., UIB Group, Marsh Ltd., Aon P.L.C. and Willis Ltd., the U.K. brokerage subsidiary of Willis Towers Watson P.L.C., all acknowledged that they are being investigated by the U.K.’s Financial Conduct Authority for allegedly sharing competitively sensitive information within the aviation and insurance sectors.

None of the brokers would comment beyond statements they made at the time. An FCA spokeswoman said the authority does not comment on ongoing investigations.

Gloria Gonzalez, Judy Greenwald, Rob Lenihan, Matthew Lerner and Sarah Veysey contributed to this report.

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1 Marsh & McLennan Cos. Inc.

2016 brokerage revenue: **\$13.23 billion**

Percentage increase (decrease): **2.5%**



Peter Zaffino

Marsh & McLennan Cos. Inc. grew through a combination of organic growth and acquisitions in 2016 amid a tough pricing environment that is not expected to end anytime soon.

New York-based Marsh & McLennan's 2016 brokerage revenue increased 2.5% to \$13.23 billion, keeping it atop the *Business Insurance* broker rankings.

Last year marked the company's sixth consecutive year of underlying organic growth greater than 3%, which Peter Zaffino, CEO of Marsh L.L.C. and chairman of the risk and insurance services segment of Marsh & McLennan, attributed to the broker's ability to acquire new clients, geographic distribution, middle-market expansion strategy and investments made in previous years paying off in 2016.

The company has reported strong organic revenue growth in its brokerage division, and its reinsurance unit has also fared well despite pricing headwinds, said

Elyse Greenspan, equity research analyst and director with Wells Fargo Securities in New York.

"Externally, things could be better, but there's not a whole lot to complain about internally," said Meyer Shields, managing director at Keefe, Bruyette & Woods Inc. in Baltimore.

"The two issues that are most important are insurance pricing and general economic growth. In that context, we're still seeing steady progress," Mr. Shields said.

Rate decreases have become more orderly, meaning reductions have moderated in the low- to mid-single-digit range, Mr. Zaffino said.

"Do we expect to continue to see rate decreases? We do," he said. "We think that's the environment we're going to be in for the next couple of years."

Marsh & McLennan units made 15 acquisitions in 2016, spending about \$901 million on the deals, according to stock market filings.

Seven of the deals added to its middle-market unit Marsh & McLennan Agency L.L.C., two involved Marsh and six related to its consulting units.

Marsh & McLennan Agency also announced in January that it had acquired J. Smith Lanier & Co., a West Point, Georgia-based brokerage that reported \$132.9 million in U.S. brokerage revenue in 2015.

Including J. Smith Lanier, Marsh & McLennan Agency made four acquisitions in the first quarter of 2017, for about \$509 million, according to stock market filings.

The firm "has been pretty disciplined in how it uses its capital, really balancing acquisitions against share repurchase," Ms. Greenspan said.

The expansion of the middle-market business has been a consistent theme at the company for almost 10 years, with more than 50 acquisitions in the sector since 2009.

"They've made investments in the middle market that are starting to pan out," said Julie Herman, director at S&P Global Ratings in New York.

Ms. Herman said there is plentiful opportunity for additional acquisitions with more than 30,000 brokers in the United States.

However, Paul Newsome, managing director at Sandler O'Neill

& Partners L.P. in Chicago, said this expansion is "a little of a negative in the sense that there's a lot of private equity demand for mid- and small-size brokerage operations, and companies like Marsh are competing with them. I think it's harder and harder to make really good acquisitions in that world."

Several top insurance brokers, including Marsh Ltd., are being investigated by the U.K.'s Financial Conduct Authority for allegedly sharing competitively sensitive information within the aviation insurance and reinsurance sectors.

Marsh & McLennan President and CEO Daniel Glaser declined further comment beyond statements made during the company's quarterly earnings call in April, when he said the agency indicated it had reasonable grounds for its investigation and pledged the company's full and complete cooperation.

Analysts view the investigation as a concern, but also say the aviation insurance market is unique and a certain amount of regulatory scrutiny is generally expected.

Gloria Gonzalez

2 Aon P.L.C.

2016 brokerage revenue: **\$11.61 billion**

Percentage increase (decrease): **(0.5%)**



Michael J. O'Connor

Aon P.L.C. has seen significant changes over the past few months after unwinding a large portion of the benefits business it acquired seven years ago with the purchase of Hewitt Associates Inc.

The sale of its benefits outsourcing business to Blackstone Group L.P. for \$4.8 billion will allow Aon to focus on its core business of providing broking and consulting services, its senior management says.

The deal slimmed Aon down, with staff numbers reduced by about 20,000, and is expected to save Aon \$400 million in annual costs, but the firm also added to its business over the past year through several smaller strategic acquisitions, including a purchase in the burgeoning cyber risk management sector.

Aon reported brokerage revenue of \$11.61 billion in 2016, a slight decrease from the prior year as it maintained its No. 2 ranking on *Business Insurance's* list of the world's largest insurance brokers.

The decrease was largely due to foreign exchange fluctuations, and organic growth on a consistent currency basis was 4%, said Michael J. O'Connor, CEO of Aon Risk Solutions, its large account broker-age unit.

"If you look at the macroeconomic and geopolitical picture around the world, there's been a lot of things going on in the past year, and that created opportunities for us in certain geographies and certain product areas ... and then there were also places where there were some real headwinds, so I think we look at it as a solid year," Mr. O'Connor said.

Aon reported similar organic growth rates in the first quarter of 2017, with much of the growth driven by its health solutions unit.

Going forward, the sale of the outsourcing unit will allow Aon to "double down on risk, retirement and health," Mr. O'Connor said.

The deal with Blackstone was surprising, given how big a part of the Hewitt business it accounted for, but it's too early to tell how it will affect Aon, said Paul Newsome, managing director, at Sandler O'Neill & Partners L.P. in Chicago.

"When the dust settles, you hope you have something that is faster-growing and has higher margins, but we don't know to what extent that will be true and we'll have to see how that develops over the next couple of quarters," he said.

Aon will likely use most of the money it raised through the sale to repurchase shares, Mr. Newsome said.

The reduction in overall revenue may also affect Aon's financial performance, according to analysts at Credit Suisse Securities (USA) L.L.C., which issued a research note on the outsourcing sale last month.

"For a mature industry defined by slow but stable growth and recurring revenues, size should also factor into valuation as well and one observation is that Aon's revenue base has not been this small since 2010," the note said.

While the deal will shrink Aon's overall business, the firm made eight smaller acquisitions in 2016. Several of the deals involved health-related businesses, but on the risk management side, in October Aon bought Stroz Friedberg Inc., a New York-based firm spe-

cializing in cyber incident response and cyber security.

"We had industry-leading capabilities on cyber risk, but the reality was that there were still many unmet needs for our clients in terms of getting our hands around this topic," Mr. O'Connor said.

In addition, to the purchase, Aon made some key hires in the cyber area, he said, including former FBI cyber security expert James C. Trainor as senior vice president, and Jason Hogg, a former private equity executive who specialized in cyber security investments, as head of its cyber solutions unit.

Like several other large brokers with London market operations, Aon is being investigated by the U.K.'s Financial Conduct Authority for allegedly sharing competitively sensitive information within the aviation insurance sector.

Mr. O'Connor declined to elaborate on comments made when the investigation was disclosed in April, when the firm said it is working with the FCA and that the aviation broking sector under investigation represented less than \$100 million of its global revenue.

Gavin Souter

3 Willis Towers Watson P.L.C.

2016 brokerage revenue: **\$7.78 billion**
Percent increase (decrease): **(4.3%)**



John Haley

Eighteen months after one the largest mergers in the insurance broking and consulting sector, Willis Towers Watson P.L.C. is looking to switch from integrating two distinct businesses to growing as a unified company.

The \$18 billion deal, which brought together London-based brokerage Willis Group Holdings P.L.C. and New York-based consulting firm Towers Watson & Co., was completed in January 2016. Since then, much of the management team's efforts have focused on combining the businesses.

The process included some key leadership changes and the exit of several high-profile former Willis executives, including former Willis CEO Dominic Casserley, who had been deputy CEO of Willis Towers Watson after the merger. He left at the end of 2016, and in April private equity firm Warburg Pincus L.L.C. named him as a senior adviser in its financial services group.

Willis Towers Watson CEO

John Haley, who previously headed Towers Watson, said that 2016 was “essentially a year of building.”

“We did the merger and we put in place a lot of things that I think are going to position us well for 2017-2018 and beyond,” he said. “The first year of a merger, there's always a little difficulty, but we feel like it's put us in a very good position for starting 2017 now.”

Willis Towers Watson reported \$7.78 billion in brokerage revenue in 2016, a 4.3% decrease from the prior year, yet it remains No. 3 in *Business Insurance's* 2017 ranking of the world's largest insurance brokers. The firm attributed the fall largely to foreign exchange fluctuations. On a constant currency basis, it reported 2% organic growth.

Paul Newsome, managing director at Sandler O'Neil & Partners L.P. in Chicago, said last year was a time of transition for the broker as it worked through the merger.

“They struggled with organic growth, revenue growth through the course of the year,” Mr. Newsome said. “It was not a horrible year for them; they did well in terms of meeting their adjusted margin targets and certainly seemed to put through an

enormous effort in trying to restructure the combined business.”

But it is still too early to assess whether the merger has been a success from a financial viewpoint, Mr. Newsome said.

“I don't think the merger will result in any serious financial harm,” he said. “But I think it remains to be seen if it's a really successful merger that added value from a shareholder perspective.”

Bruce Ballentine, lead analyst at Moody's Investors Service Inc. in New York, said the brokerage made progress in merging the two organizations last year. “It's a big effort for anybody to merge two roughly equal-sized firms,” Mr. Ballentine said. “They have a diversified global presence, and they are one of the big players in insurance brokerage and related advisory services, so we think they'll get through the merger in good shape.”

Both Mr. Newsome and Mr. Ballentine said 2017 started well for Willis Towers Watson as it reported first-quarter revenue of \$2.32 billion, a 3.8% increase from the year-earlier period. Net income in the first quarter of 2017 rose 43.7% to \$352 million from \$245 million a year ago.

“The company has a good market presence as the third-largest global broker, and metrics are gradually improving as the company works through its various restructuring programs,” Mr. Ballentine said.

The leadership team is well-placed to grow the brokerage business, Mr. Haley said.

“I love the leadership team that we have in place now,” he said. “We took Todd Jones, who had been one of the co-heads of North America. We put him in charge of corporate risk and broking. Todd is sort of a broker's broker. In the short time he's been in charge, he's made an enormous difference in that operation, and it's one of the reasons why we entered 2017 excited about where we're headed.”

Like several other large brokers with London market operations, Willis Towers Watson is being investigated by the U.K.'s Financial Conduct Authority for allegedly sharing competitively sensitive information within the aviation insurance sector. Mr. Haley noted this was an ongoing investigation and said the brokerage is fully cooperating with the FSA.

Rob Lenihan

4 Arthur J. Gallagher & Co.

2016 brokerage revenue: **\$4.19 billion**
Percent increase (decrease): **4.9%**



J. Patrick Gallagher Jr.

After spending the previous couple of years digesting some large international acquisitions, in 2016 — and so far in 2017 — Arthur J. Gallagher & Co. concentrated on its long-established strategy of buying numerous smaller agents and brokers and folding them into the larger organization.

Despite the high levels of competition for broker acquisitions, Gallagher continues to profitably bolt on smaller rivals and grow its business in a sluggish insurance market, analysts say.

In addition, the brokerage is investing in technology to help grow and streamline its business, its most senior executive says.

“They are largely done integrating the large international acquisitions and are now doing lots and lots of bolt-on acquisitions,” said Paul Newsome, managing director at Sandler O'Neill & Partners L.P. in Chicago.

The international acquisitions in

Australia, Canada, New Zealand and the United Kingdom in 2013 and 2014 expanded Gallagher's global footprint, but concentrating on acquiring many smaller brokers is more in line with its traditional strategy, said Mark A. Dwelle, an analyst at RBC Capital Markets L.L.C. in Richmond, Virginia.

Those “bolt-on” acquisitions now include smaller brokers in the international markets Gallagher has expanded into, said J. Patrick Gallagher Jr., chairman, president and CEO of the brokerage.

“We are building a pipeline of acquisition opportunities and have closed some acquisitions in Australia, New Zealand, the United Kingdom and Canada and, of course, in the United States,” he said.

Gallagher completed 37 acquisitions in 2016, representing about \$138 million in total revenue, as well as 12 deals in the first quarter of 2017, representing about \$62.5 million in revenue, Mr. Gallagher said. Most of the deals were for brokerages that have less than \$10 million in annual revenue, he said.

It's largest acquisition in 2016 was San Francisco-based Altman

& Cronin Benefit Consultants L.L.C., for which it paid \$40.5 million plus future earnout payments, according to stock market filings.

Competition to buy brokers remains high, so “98% of our due diligence is on culture; we don't do a deal to do a deal,” he said.

“We have a unique culture that emanates from being a family business — and we are buying family businesses — and that culture is one of teamwork, which allows us to naturally make sure that the best expertise that we have is at the point of the customer,” Mr. Gallagher said.

Despite the competition for M&As, Gallagher has largely been successful in finding profitable deals, said Mr. Dwelle of RBC Capital. “They take a long-term approach, and the deals are usually accretive to them once they get the synergies.”

But further increases in M&A prices could threaten that, said Mr. Newsome of Sandler O'Neill. “If prices continue to rise, they will not be able to complete acquisitions that are economically favorable,” he said.

Gallagher's brokerage revenue grew 4.9% to \$4.19 billion in 2016, and it remains No. 4 on *Business Insurance's* 2017 ranking of the world's largest brokers. Gross revenue increased 3.7% to \$5.59 billion.

In addition to investing in acquisitions, Gallagher is continuing to invest in technology, Mr. Gallagher said.

The brokerage has a cyber liability policy for small-to-medium accounts that binds 100 quotes a day based on a few underwriting questions and has no human involvement, and it plans to roll out the technology for many of its other smaller programs, he said.

“That doesn't mean that a complex account that spends \$2 million on their insurance is going to go online and click, click, click and be done. But the things that we do together are going to be more digitally based,” he said.

Meanwhile, Gallagher moved its headquarters earlier this year and is now back in the Rolling Meadows, Illinois, building it left 27 years ago, though it has been completely refurbished and updated.

Gavin Souter

5 BB&T Insurance Holdings Inc.

2016 brokerage revenue: **\$1.81 billion**
Percent increase: **7.9%**



John Howard

While integrating a big wholesale insurance operation was the main task for management at BB&T Insurance Holdings Inc. in 2017, future expansion will likely focus on its retail operations.

The insurance unit of BB&T Corp. continues to be an earnings driver for the bank, and the brokerage will likely benefit from its parent's recent expansion efforts, its executives say.

Organic growth last year, however, remained limited as the soft insurance market continued.

The \$500 million purchase of wholesaler Swett & Crawford was the main growth driver for BB&T insurance last year, said John Howard, chairman and CEO of the brokerage.

"For our overall company, the biggest driver of growth was the wholesale business, and it was driven by the April 1, 2016, acquisition of Swett & Crawford, which brought about \$2 billion of premi-

um volume," Mr. Howard said.

The integration of the business is largely complete, and BB&T retained nearly all the Swett & Crawford producers, he said.

"We've done our management, brand and agency combinations, and the remaining synergies will occur as office leases come up for expiration," Mr. Howard said.

With the addition of Swett & Crawford, BB&T Insurance reported brokerage revenue of \$1.81 billion in 2016, a 7.9% increase over 2015. BB&T Insurance is the world's fifth-largest broker in *Business Insurance's* 2017 ranking.

BB&T Insurance can now focus on new business after digesting Swett & Crawford, said Brian Klock, managing director for Keefe, Bruyette & Woods Inc. in Boston.

"It seems the focus is now again about getting out there and generating revenue," he said. "It looks like they are setting up for a good 2017."

During the parent bank's first-quarter earnings call, Christopher L. Henson, BB&T's president, said the insurance unit would

be an earnings driver.

"Certainly, one of the drivers next quarter will be insurance ... first quarter is always seasonally strong, but second quarter is actually our best quarter of the year. So, we see the possibility to be up in the 5% to 6% kind of range second quarter."

Mr. Henson added that the insurance brokerage unit's new business is offsetting soft markets.

"We're very happy with the trends we're seeing. While pricing is still down in the 3% to 4% range, our core organic growth is up 1%. So, we're really outpacing the pricing through underlying new business growth," he said on the earnings call.

"There was pretty decent growth in their fee income business, up 10% year over year. It was a good strong quarter, a little higher than we thought their insurance income would be," Mr. Klock said.

"It provides a good source of relatively stable fee income, and it's somewhat unique in the large banking space," said Rian Pressman, director of global financial institutions ratings for Standard & Poor's Financial Services L.L.C. in New York.

Mr. Howard sees growth coming from both new business and further acquisitions.

"I do expect to continue to grow organically and to continue to grow through acquisitions," he said. "We remain focused on driving profitable organic growth while we continue to consider acquisitions that expand our capabilities and our footprint."

The Swett & Crawford deal left BB&T Insurance with a business split 53% in favor of wholesale, so the next acquisition would likely be in the retail brokerage sector, he said. "On balance now we are tilted a little toward wholesale," Mr. Howard said. "I would like to see retail acquisitions that would help us adjust that balance so that it tilts back toward retail."

In the past few years, BB&T has acquired banks in southeast Florida, Texas, Kentucky, New Jersey and Pennsylvania, "all of which creates opportunity for us from an insurance brokerage standpoint," Mr. Howard said. "I would like to find attractive acquisition opportunities that position us to serve those markets."

Matthew Lerner

6 Brown & Brown Inc.

2016 brokerage revenue: **\$1.76 billion**
Percentage increase (decrease): **6.4%**

Brown & Brown Inc. continues to grow via small acquisitions and organic growth as it braces for changes in the political environment, such as the possible replacement of Obamacare and pending tax reform from of a new presidential administration.

"The components of our growth over the past year was a combination of organic growth, driven by new business and expansion of the relationship with our customers, as well as acquisitions over the past 12 months," said Andy Watts, the Daytona Beach, Florida-based company's executive vice president, chief financial officer and treasurer.

The firm reported \$1.76 billion in total brokerage revenue for 2016, a 6.4% increase over 2015 figures, making it No. 6 in *Business Insurance's* 2017 ranking of the world's largest brokers.

For 2016, Brown & Brown also reported a 3% increase in organic revenue, with strong performance in each of the four segments of

business: Its retail operations grew total revenue by 5.4%, with organic revenue growing 1.9%; the national programs segment reported total revenue growth of 4.6% and organic revenue growth of 4.2%; the wholesale brokerage segment grew total revenue by 12% and had the strongest organic growth of the four segments with 4.3%, despite downward premium pricing pressure in the coastal property market; and the services segment grew total revenue by 7.6% and organic revenue by 3.8%.

The first quarter of 2017 continued that upward trend, reporting 3.5% organic growth, according to company figures.

Elyse Greenspan, New York-based director at Wells Fargo Securities L.L.C., said it's clear acquisitions and investing in the company are a focus for the company.

"They have been investing on the technological side ... They are choosing to invest in the company," she said.

Mr. Watts said his firm is "looking to invest in all four of our divisions — investing in teammates, technology — to help further our

business, or acquiring organizations that would give us new capabilities, geographic expansion or deepen relationships with carrier partners."

Also, Mr. Watts reported eight small acquisitions in 2016; the new business added \$58 million in aggregated annual revenue, according to the firm's annual report.

Political changes could affect Brown & Brown further into 2017, especially on the benefits brokerage side of its business, he said.

"One of the areas that may be potentially impacted is the repeal and replace of Obamacare," he said. "If there is modification, we will wait and see. Changes create uncertainty and opportunity."

Ms. Greenspan said corporate tax reform — another key focus in President Donald Trump's campaign besides health care — could further affect the broker, which only does business in the United States.

"If tax rates go down, they benefit," she said. "(Their) stock did well after the election (as they are a) primary beneficiary of U.S. corporate tax reform."

Louise Esola

Brown & Brown "is looking to invest in all four of our divisions — investing in teammates, technology — to help further our business, or acquiring organizations that would give us new capabilities, geographic expansion or deepen relationships with carrier partners."

Andy Watts, Brown & Brown

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7 Hub International Ltd.

2016 brokerage revenue: **\$1.65 billion**

Percent increase (decrease): **12.1%**



Martin P. Hughes

Hub International Ltd. reported another year of double-digit revenue growth in 2016 as the private equity-backed brokerage bought dozens of smaller rivals across North America.

That acquisition-fueled growth is expected to continue as it targets large and small acquisitions and seeks growth opportunities in several specialty areas.

The Chicago-based brokerage, which is the largest privately held brokerage, made 44 acquisitions in 2016 — one more than its 2015 tally. The purchases helped drive its brokerage revenue up 12.1% to \$1.65 billion making it the world's seventh-largest commercial insurance brokerage in *Business Insurance's* 2017 ranking.

Hub tends to acquire “small to medium-size multiline insurance brokers and ancillary business. That has been their sweet spot,” said John Wicher, San Francisco-based principal at John Wicher & Associates Inc.

But the brokerage is also willing to consider large deals, said Martin P. Hughes, Hub's chairman and CEO.

“We have always been an opportunistic company, and we had done both very large deals and small deals. We think about what makes most sense for the organization. It has to fit us strategically, culturally and financially. If it passes those three criteria, then we are willing to do a deal of any size,” he said.

The brokerage sector has seen a surge in merger-and-acquisition activity over the past several years, which has driven up prices for brokerage firms. However, the deals can still be profitable for the buyers, Mr. Hughes said.

“At the end of the day, people are going to measure the arbitrage between what's being paid and what we or public brokers are able to recognize ... As long as arbitrage exists, I would say they are definitely sustainable; if the arbitrage begins to shrink, they are not,” he said.

While M&A has driven much of Hub's growth, organic growth is important, too, he said. Hub recorded 2.5% organic growth in 2016, which is light for the brokerage, Mr. Hughes said.

“Typically if you would look at the results over the last seven years or so, Hub has always been near or at the top of the organic growth field. We think it's important to do both of those well, and we do both of those well. For the first quarter of 2017 our organic growth was 5.5%,” said Mr. Hughes.

“They probably perform anywhere from slightly above average to above average in relation to their peers ... They are a very acquisitive company. I know, for example they will talk about how their compound annual growth rate going back 10 or 15 years has been double-digit, like around 15% and that their profit has grown by the same metric,” said Tim Cunningham, Chicago-based managing director of Optis Partners L.L.C.

Moving forward, Hub is concentrating on several specialty areas, including entertainment, marine, construction and transportation.

“We have a listed a handful of specialty areas where we really want to do well, entertainment being one,” Mr. Hughes said. “We recently brought a brokerage firm, Global Marine Insurance Agency, that does marine, yachts, and we see

that as a fabulous growth opportunity for us. We see construction as another specialty arena. Transportation ... we will be doing that via a combination of strategic mergers and acquisitions of program companies in those arenas, as well bundling our own business.”

“As big as they are, it's fairly easy to expand specialties,” said Mr. Cunningham.

Mr. Hughes said Hub's employee benefits business, which grew to \$380.3 million in revenue in 2016 from \$326.0 million in 2015, is where it is seeing more growth. “We have seen more growth from a percentage standpoint in our employee benefits business than any of our other businesses,” he said.

In September, Hub named Marc Cohen president and Lawrence Lineker executive vice president of the broker. Both report directly to Mr. Hughes. “The key hire that we had to make when we rolled out that process is we had to replace Marc in Hub Northeast, where he was president. We hired a guy named Jim Collins who has replaced Marc. Everything else we have done has been internal,” he said.

Joyce Famakinwa

8 Jardine Lloyd Thompson Group P.L.C.

2016 brokerage revenue: **\$1.55 billion**

Percent increase (decrease): **(8.7%)**



Dominic Burke

London-based Jardine Lloyd Thompson Group P.L.C. saw brokerage revenue in its home currency rise, but reported in U.S. dollars the broker experienced a dip.

But against that challenging market backdrop, JLT continued to expand its specialty operations in the United States.

JLT's brokerage revenue was \$1.55 billion for 2016, down from \$1.70 billion in 2015. This caused JLT to slide into the No. 8 position in *Business Insurance's* 2017 ranking of the top insurance brokers worldwide, down from No. 5 last year.

Even so, last year “was an important year, and I am pleased with the outcome of the business,” said Dominic Burke, CEO of JLT.

“As we entered into 2016, we faced the two major challenges of continuing to build our U.S. specialty business and the corrective action in our U.K. employee benefits business,” he said. “These were the two big dynamics for 2016. And we are pleased that the market had

confidence in us.”

“Less than four years ago, we were not on the ground in the United States. Now across our operations, we have 650 colleagues on the ground and 20-plus offices,” he said.

“We are very excited about the quality of people we are able to attract and the traction we are getting” in the United States, Mr. Burke said.

JLT continued to build out its U.S. specialty business, which posted revenue of \$56 million in 2016, and that business is on track to deliver a profit in 2019, said Mr. Burke.

In late January, it bought a majority stake in U.S. construction and surety brokerage Construction Risk Partners L.L.C. This is an “outstanding” business, and the acquisition is progressing well, he said.

Last year JLT shed 300 jobs in its U.K. employee benefits arm as part of a planned restructuring aimed at saving £14 million (\$17.9 million) by 2017. That restructuring was prompted by the U.K. government's Retail Distribution Review, which reduced the commissions that could be earned on pensions.

During 2016, JLT sold the majority stake in its niche Thistle U.K.

business, which catered largely to small to medium-size enterprises, to PIB Group Ltd.

“We need to be in areas where we can add value, so in 2016 we disposed of our U.K. Thistle operations,” Mr. Burke said. “Part of the rationale for this is that where transactions are commoditized, it is difficult to add value.”

There were some headwinds for insurance brokerages in 2016, he noted. For example, “commodity prices and reinsurance and insurance rates were challenges” during 2016, “and it is no secret that remains challenging for 2017.”

“In March, we said that we thought there might be a leveling off in rate declines, but that was a false dawn, and there continue to be rate reductions for July renewals,” Mr. Burke said.

Mr. Burke said he is not overly concerned about continued insurer consolidation. While it is disruptive, “there is no shortage of capacity,” and as insurers consolidate, more capital fills the void, he said.

The concern about consolidation, and other trends such as insurtech and disintermediation in some areas, is the risk of losing expertise

from the insurance industry, said Mr. Burke.

“Innovation can only come through expertise,” he said.

JLT is one of the brokerages that is cooperating with the U.K. regulator, the Financial Conduct Authority, as it looks into competition in the aviation insurance sector.

“I am unable to comment on the ongoing, industrywide investigation,” Mr. Burke said.

“My personal view is that the aviation market has always been, and continues to be, one of the most competitive marketplaces in which we trade — and that is healthy and helps our clients,” Mr. Burke said.

For the coming year, Mr. Burke said that emerging markets will continue to be a focus for growth.

“I do aspire for JLT to be the world's leading global specialty broker,” he said.

Eamonn Flanagan, research analyst at Shore Capital Group in Liverpool, England, said that JLT continued to see momentum in 2016 and that its specialty operations withstood turmoil in the global energy and marine markets to deliver a profit.

Sarah Veysey

9 Lockton Cos. L.L.C.

2016 brokerage revenue: **\$1.43 billion**
Percent increase (decrease): **7.3%**



David M. Lockton

Lockton Cos. L.L.C.'s position as one of the largest privately held brokers allows it to take the long view without worrying about short-term results, its executive chairman says.

Brokerages that are either publicly held or owned by private equity firms as investments are by definition "very interested in near-term financial returns," said David M. Lockton, executive chairman of the Kansas City, Missouri-based brokerage. "The Lockton family is interested in the next quarter of a century, not the next quarter."

"The reality is that they have a business model which is different and effective for them," said John Wicher, principal of John Wicher & Associates in San Francisco.

"They historically have not required the same sort of earnings that other brokers require, and they've been prepared to invest in people," Mr. Wicher said. And because they have not grown through acquisitions, the company

has not required access to the capital markets, he added.

Lockton reported \$1.43 billion in 2016 brokerage revenue, up 7.3% from a year earlier, and retained its No. 9 position in *Business Insurance's* 2017 ranking of the world's largest commercial insurance brokers. Gross revenue increased 7.2%, to \$1.43 billion.

During the past year, the broker was "able to expand geographically and vertically through some of our areas of expertise," said Mr. Lockton. The company opened in eight new U.S. locations — Sacramento, California; Miami, Tampa and Naples, Florida; Portland, Oregon; Greenville, South Carolina; Seattle; and Detroit — and internationally in Aguascalientes, Mexico, and Casablanca, Morocco.

It has also been increasing its presence in manufacturing, food processing and distribution, design and construction, health care and real estate.

"More clients are looking for in-depth knowledge of their industries. That's been something we've been successful in delivering," Mr. Lockton said.

"The property/casualty market is

obviously soft, and we're planning for it to be that way for the balance of the year. And although it's challenging, we've managed to continue to grow and be resilient," said Glenn Spencer, president and CEO of Lockton's global operations.

One promising area of growth is in the cyber arena, said Mr. Lockton. "There's a higher level of advice that (clients are) looking for on risk analysis, exposure, quantifying the risk — and more and more companies are buying insurance," he said.

Mr. Lockton said the brokerage has a client retention rate of about 96%. "That's an important measurement of our success for us," he said.

Company executives are also proud that in December, Lockton was named the highest-performing insurance broker in Costa Mesa, California-based J.D. Power & Associates' 2016 customer satisfaction survey of the large commercial sector.

Lockton has seen some major changes in its top echelon of executives within the past year. Mr. Spencer assumed his current position with John L. Lumelleau's

retirement, effective May 1.

Filling Mr. Spencer's former spot as U.S. president and CEO, also effective May 1, is Kansas City, Missouri-based Peter Clune, who was previously executive vice president of operations.

In addition, Alistair Rivers will begin in August as London-based global head of transportation, while Miami-based Hiram Marrero was named executive vice president of operations. Both had previously been executives with Willis Towers Watson P.L.C.

"We hired about 1,000 associates globally last year, so we're inviting in people all the time," said Mr. Spencer.

"Our biggest challenge is not as much finding business as it is finding great people," Mr. Lockton said.

Lockton did not make any major acquisitions this past year. "We're open to acquisitions, but it will never be our predominant source of growth," Mr. Lockton said.

If a potential acquisition allows Lockton to enter a new specialty, or if "there's a good culture match, we'll entertain that," he said.

Judy Greenwald

10 USI Insurance Services L.L.C.

2016 brokerage revenue: **\$1.03 billion**
Percentage increase (decrease): **0.2%**



Mike Sicard

USI Insurance Services L.L.C. changed hands again in 2017, but its new ownership may keep hold of the broker for longer than a traditional private equity owner.

The deal should allow Valhalla, New York-based USI to focus on the long term and continue to grow the brokerage, experts say.

The \$4.3 billion transaction announced in March is the third time USI has been bought by private equity investors in the past 12 years. In 2007, GS Capital, a unit of Goldman, Sachs & Co. took the brokerage private in a \$1.4 billion deal and in 2012 it sold it to Onex Corp. for \$2.3 billion.

The most recent transaction was a little different, however: Kohlberg Kravis Roberts & Co. L.P. partnered with Montreal-based pension fund Caisse de dépôt et placement du Québec to buy USI, but KKR used money directly from its balance sheet rather than an investment fund.

"It's not a typical KKR invest-

ment because it's direct from the balance sheet. There is no fund with a time horizon and no investors who want their money back. So it's not your typical private equity structure," said Julie Herman, a director for S&P Global Ratings in New York.

Private equity funds have flooded into the insurance brokerage sector over the past several years. The firms typically buy a brokerage, grow its revenues — often via acquisitions — and then sell it on to another investment group a few years later.

The latest deal, though, could bring advantages to USI, said Ms. Herman.

"I think the structure is very much set up to be a longer-term investment than a traditional private equity investor or the traditional ownership structure of USI past," Ms. Herman said. "Having the potential longer-term investors gives USI more flexibility."

Mike Sicard, chairman and CEO of USI, said the deal was designed to "keep USI private for the long-term future. That creates for USI a long-term view to invest and innovate."

The new ownership structure not only distinguishes USI from its private-equity owned peers, but is a novel venture for KKR, he said.

USI reported brokerage revenue of \$1.03 billion up slightly from 2015. The brokerage moved into 10th place in *Business Insurance's* ranking of the world's largest brokers for 2017, ahead of Wells Fargo Insurance Services USA Inc., whose revenues slipped. Bank-owned Wells Fargo Insurance is rumored to be for sale. USI bought 40 of Wells Fargo Insurance's offices in 2014.

As USI seeks to grow further, it will continue to integrate its acquired operations, Mr. Sicard said.

"The unit functions as a whole as opposed to a collection of stand-alone entities," he said.

"Some by design make acquisitions and leave the acquired entities very much alone. USI, on the other hand, brings acquired entities into the USI system. We think that paves the way for good organic growth over time," said Bruce Balentine, vice president and senior credit officer at Moody's Investors Service Inc. in New York.

"Having the potential longer-term investors gives USI more flexibility."

Julie Herman, S&P

"They have a much more integrated operating model relative to a lot of their peers, especially since Sicard took over," Ms. Herman said.

"I have a favorable view of USI and Mike Sicard ... They have made a lot of strides from where they were several years ago," she said noting that the brokerage has improved its organic growth rate.

The brokerage has invested heavily in employee benefits over the past several years and its future growth may be helped by uncertainty over health care reform efforts, Mr. Sicard said.

"Nobody can credibly say what the world is going to look like in five, six, seven, eight years from now, but what you can do is keep clients ahead of the curve, so we've invested heavily to do just that," he added.

Matthew Lerner

COMMENTARY

Driver's education for legal pot users?

A recent study showing a correlation between marijuana use and traffic accidents may be seen by many as confirming the obvious, but wider implications and how employers should react are not so clear.

Last month, the Highway Loss Data Institute issued an analysis of collision claims data for states that have legalized recreational marijuana and a control group of states that have not, including the data from the marijuana states before they legalized pot. The study showed that claims frequency in Colorado, Oregon and Washington — the states that first legalized recreational marijuana

— saw a 3% higher rate of collision claims than the control states. Marijuana advocates immediately questioned the findings, but perhaps the most surprising thing about the study is that it showed only a 3% difference. But a difference of that magnitude is still significant and raises the wider issue of how employers should respond to the potential for increased marijuana use by workers — whether they are



Gavin Souter
EDITOR

feeling the effects behind the wheel or in the workplace.

Given the change in public acceptance of marijuana use over the past several years, it would be difficult to try and address the problem by seeking to roll back legalization. Trying to cut marijuana-related accidents by banning weed would at this point be as futile as trying to eradicate drunk driving by bringing back Prohibition.

But the issue can't be ignored. Employers are reportedly finding it harder and harder to fill positions when a pre-employment drug test is required, and Quest Diagnostics reported in May that the rate of positive drug tests among workers was 4.2% last year, a relative increase of 5% over the 4% rate in 2015, and that the rates of positive testing for marijuana in states that legalized pot were, as you would expect, significantly higher than other states.

There's no easy answer for employers trying to react to the increase in marijuana use. Policies mandating drug- and alcohol-free workplaces should be enforced, but such policies get more complicated in states that have laws protecting employees' off-duty conduct.

Perhaps the only long-term solution is education efforts that make employees more aware of how drug use can impair judgment and motor skills, combined with strict enforcement of disciplinary procedures when drug use is found to have caused an accident. Just accepting higher accident rates is clearly not an option.

SCHILLERSTROM



VIEW FROM WASHINGTON

Insurers silent on climate

President Donald Trump withdrew from the Paris climate agreement last month — a decision I suspect the United States will quickly come to regret.

The Paris agreement reaffirmed a goal of limiting the global temperature increase below 2 degrees Celsius and committed countries to develop plans to reduce greenhouse gas emissions and regularly report on their progress. The United States, under former President Barack Obama, was one of 195 countries signing on to the agreement. But President Trump's decision to withdraw will allow countries such as China and India to further shape a global agreement that will dramatically impact the United States regardless of its lack of participation.

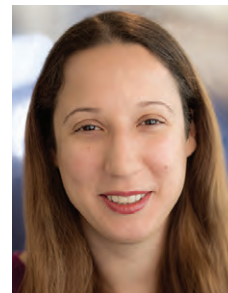
The backlash to the president's decision in much of the business community and at the state and local levels was swift and unmistakable. But there was a critical voice that was missing: the U.S. insurance sector.

Perhaps it is a fear of offending customers who reject either the very idea of climate change or the fact that human behavior is a significant contributor to global warming that has kept domestic insurers, and even the trade associations that normally speak for them on political issues, mostly on the sidelines. But that silence works against them because they are abdicating an opportunity to play a constructive role in addressing a serious threat to their own profitability, as the natural catastrophes that they are financially responsible for will only get worse without timely intervention.

Their European reinsurance counterparts are not nearly as skittish, with officials from Munich Reinsurance America Inc. and Swiss Re Ltd. denouncing the president's decision to withdraw. They should be commended for their willingness to publicly oppose an action they know will keep the United States

from being a critical player in addressing what their own research tells them is a real threat to human life and property.

Insurers are going to have to deal with the climate issue some way or the other. California Insurance Commissioner Dave Jones launched the Climate Risk Carbon Initiative in January 2016 to require insurers with \$100 million in annual premiums doing business in California to disclose investments in fossil fuels and asked all insurers operating in the state



Gloria Gonzalez
DEPUTY EDITOR

to divest investments in thermal coal. He recently vowed to continue this initiative despite a threat of legal action by Republican officials in 13 states, predominantly those with major oil, gas and coal interests. As Mr. Jones stated in his response, there is overwhelming scientific evidence that climate change is real and should not be ignored.

The 2004 disaster movie "The Day After Tomorrow" depicted the consequences of failing to heed warnings on climate change, including devastating catastrophes in areas of the United States where they are least expected. While the movie significantly exaggerates the time frame of these events for dramatic purposes, two key elements ring true: that human behavior is contributing to a changing climate and that those in power who can act to prevent catastrophic climate change often ignore the scientific warnings until it's too late.

President Trump has failed to heed these warnings. It's time for others to step up.



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Lockton pairs with PR firm on cyber incident response

■ Lockton Cos. L.L.C. has entered an agreement with St. Louis-based public relations firm FleishmanHillard Inc. to help clients with crisis management, preparedness planning and crisis communications during and after a cyber attack.

The agreement with FleishmanHillard gives clients access to a global team of specialists who work with companies to prepare for cyber attacks, educate employees, handle regulatory and legislative bodies and more, Lockton said in a statement.

“Every situation is unique when it comes to cyber attacks,” Michael Born, cyber team leader in Lockton’s Kansas City, Missouri, office, said in the statement. “Well-prepared breach responses are essential to managing the cyber incident.”

CNA centralizes affinity programs

■ CNA Financial Corp. has created a centralized affinity programs unit.

The unit, which will operate within CNA Specialty, includes underwriting services for accountants, architects and engineers, community associations, dentists, law firm and legal services, nurses, real estate and wholesalers, the insurer said in a statement.

It will be led by John Brand, senior vice president of specialty underwriting. He is based in Princeton, New Jersey.

Law firm serves up data breach notification app

■ Reed Smith L.L.P. has introduced a free app that can tell firms whether data breach notification to state regulators is required after an incident.

Breach RespondeRS prompts companies to answer basic fact questions and immediately provides a response regarding the likelihood of notification being required, the Pittsburgh-based law firm said in a statement. The app can also be used as a preincident assessment tool to identify risks under different scenarios.

“Potential data security breaches range from technical glitches to potential catastrophes,” said Mark Melodia, New York-based founder of Reed Smith’s information technology, privacy and data security practice and co-chair of the firm’s IP, tech and data group. “Breach RespondeRS simplifies the application of the patchwork of state laws to let companies focus in on the real work of protecting data and preventing further harm.”



Chubb increases terrorism limits

■ Chubb Ltd. has increased capacity for terrorism, political violence and war risks to \$150 million from \$100 million.

It also increased its European Union limits to €150 million from €100 million (\$168 million from \$112 million).

The move was “in response to evolving threats and increased demand from multinational clients,” Chubb said in a statement, adding that it “has increased its terrorism and political violence capacity per account by 300% in the last two years.”

The new limits are aimed at large, multinational businesses with growing global exposures, according to the statement.

“The increase in capacity demonstrates our commitment to responding to growing client demand for certainty and comprehensive cover across the full range of perils,” Piers Gregory, terrorism and political violence underwriting manager for overseas general insurance, said in the statement.

Contractors pollution cover for smaller businesses

■ XL Group Ltd., which does business as XL Catlin, has launched a new contractors pollution liability express program in the United States and Canada for small to midsize construction firms.

The product is designed to streamline the underwriting process for firms with projected revenues of \$50 million or less, the insurer said in a statement.

The policy will be available either on a claims-made or occurrence basis for a

one-year term, with liability limits up to \$5 million, along with a full set of standard endorsement enhancements such as \$1 million in legal expense coverage and \$250,000 in disaster response expense coverage, according to the statement.

“Standard coverage is afforded for legionella, mold, asbestos and lead-based paint exposures at the job site,” Cathy Cleary, XL Catlin’s executive environmental underwriter, said in the statement.

Ironshore expands M&A, tax consortia capacity

■ Ironshore Inc. on Wednesday said it is increasing its mergers and acquisitions consortium capacity to £100 million (\$130.4 million) from its previous limit of £78.5 million (\$102.3 million), effective immediately.

Ironshore’s M&A and tax insurance unit also announced a new tax consortium with initial capacity of £40 million (\$52.1 million). Both consortia will be able to write in combination with Ironshore’s Bermudian platform for global risks in order to further increase total available capacity, the insurer said in a statement.

Ironshore said this will allow the company to provide total M&A capacity of up to £150 million (\$195.6 million) and total tax insurance capacity of up to £65 million (\$84.7 million) on any one risk.

Ironshore’s M&A consortium underwrites warranty and indemnity coverage for non-U.S. complex commercial risks. The tax consortium covers tax liability exposure for domestic and cross-border risks. It was formed to provide higher limits in response to greater market utilization of tax liability insurance for transactional protection, Ironshore said.

XL Catlin enhances global property cover capacity

■ XL Group Ltd., which does business as XL Catlin, on has extended its global property insurance capacity by 25% to \$500 million, available on a quota share or layered basis.

XL Catlin offers capacity up to \$1 billion for clients who purchase 100% of their property insurance through XL Catlin’s Platinum Property program, the insurer said in a statement.

“In the U.S. and Canada, increasing property values, more investment activity in industrial and commercial property, and added concern about natural catastrophe exposures are prompting our clients to seek more insurance protection,” Michele Sansone, president of XL Catlin’s North America property business, said in the statement. “Our new limit allows us to readily address our clients’ requests for higher limits.”

DEALS & MOVES

New US wholesale firm attracts investors

Private equity firm B.P. Marsh & Partners P.L.C. is investing \$6 million in XPT Group L.L.C., a recently formed specialty firm.

The London-based investment firm will take a 35% stake in XPT through its B.P. Marsh (North America) Ltd. subsidiary.

New York-based XPT is in active discussions with several parties over potential minority or majority investments into established entities in the U.S. wholesale insurance arena, B.P. Marsh said Monday in a statement.

The management team at XPT includes Tom Ruggieri, former head of Cooper Gay Swett & Crawford Ltd.’s North American operations and Mark Smith, former president and CEO of Stewart Smith.

ProAssurance expands New England presence

Eastern Alliance Insurance Group, a wholly owned subsidiary of ProAssurance Corp., will purchase the renewal rights to Great Falls Insurance Co.’s book of workers compensation business. Terms of the deal were not disclosed.

Auburn, Maine-based Great Falls wrote \$13.3 million of direct written premium in 2016, Eastern said in a statement. Focused on Maine and New Hampshire, it will serve as the foundation for Eastern’s New England region, according to the statement.

Specialty Program Group buys transportation insurer

Summit, New Jersey-based Specialty Program Group, a holding company for specialty insurance underwriting facilities, has acquired the assets of Paul Hanson Partners and its PHP International affiliate. Terms of the deal were not disclosed.

Napa, California-based PHP is a national program administrator that specializes in the transportation industry.

Kaufman Group acquires premium auditing firm

H.W. Kaufman Financial Group has acquired insurance premium audit services firm Chlystek & White Services Inc. Terms of the deal were not disclosed.

Farmington Hills, Michigan-based Kaufman said Chlystek, which is based in Grand Rapids, Michigan, will become part of Fort Collins, Colorado-based Afirm, a Kaufman premium audits, loss control and risk services unit. Chlystek’s 158 employees will be retained by Afirm.

Cyber Summit 2017



REGISTRATION IS OPEN

The 2017 **Business Insurance & CLM Cyber Summit** brings together dynamic industry thought leaders who will lead interactive sessions on the most recent developments in cyber risk management and coverage. In addition to educational sessions, attendees will have the opportunity to meet with vendors at the **Cyber Solutions Expo** and connect with other attendees during networking breaks.

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You should have a vision of where you want to go, but you also should be able to inspire people with that vision.

UP CLOSE

Alice Underwood

NEW JOB TITLE: New York-based global head of risk consulting and software business at Willis Towers Watson P.L.C.

PREVIOUS POSITION: New York-based head of the North America analytics team for Willis Re

GOALS FOR NEW POSITION: Really looking forward to helping finish what we started with the merger as far as realizing the benefits of bringing together Willis (Group Holdings P.L.C.) and Towers Watson (& Co.).

ON LEADERSHIP: You should have a vision of where you want to go, but you also should be able to inspire people with that vision. They should be able to see where you want to go and believe in how we are going to get there. I think it's important that leaders care about their people as well as the business mission at hand.

CHALLENGES FACING INDUSTRY: It's an interesting time right now. There is a lot of disruption and innovation going on. Technology has made the flow of capital faster, and that has led some to say, "Is there too much capital? Is that causing pressure on insurance pricing?" I think, as is often the case, something that brings change comes with both problems and advantages. I think the companies who are learning to take advantage of the new technology and to use it effectively are finding ways to provide new services and get to their clients more easily, less expensively, and analyze their risk more effectively.

FIRST INDUSTRY JOB: Zurich-based pricing actuary at Zurich Re.

ADVICE: Keep an open mind. Look broadly at the opportunities.

OUTSIDE THE INDUSTRY, A DREAM JOB: I guess I should go with my job that I don't get paid for: I write historical fiction with a writing partner. We don't make any significant amount of money by doing this, but we did just finish our sixth novel. It will be released later this year.

HOBBIES: Greek mythology, scuba diving, and I'm a science fiction geek.

PETS: I have two cats that are the bosses of the household. My husband jokes that we are the servants of these cats.

THING MOST PEOPLE DON'T KNOW ABOUT ME: In high school, I was an aerobics instructor. This was in the day of big permed hair and leg warmers.

PET PEEVES: I'm a grammar nitpicker.

FAVORITE BOOK: "The Moon Is a Harsh Mistress" by Robert A. Heinlein

CAN'T-MISS TELEVISION SHOW: "The Expanse"

BEST CITY: New York



Bryan J. Salvatore has been named executive vice president and president of specialty for Worcester, Massachusetts-based Hanover Insurance Group Inc. He succeeds

Andrew Robinson, who left last year to pursue other opportunities, a Hanover spokeswoman said. Mr. Salvatore was previously president of specialty products for Zurich North America. He will be based in New York.



Everest Re Group Ltd., in Hamilton, Bermuda, named **Jeff Englebrecht** to the newly created role of vice president of energy casualty for Everest Insurance, working

on national account relationships. Mr. Englebrecht joins Everest after a "brief separation" from American International Group Inc., an Everest Re spokesman said. He was most recently executive vice president, excess casualty, energy and construction leader at AIG. He will be based in Liberty Corner, New Jersey.



Drinker Biddle & Reath L.L.P. named **John Finston** a partner. Previously, Mr. Finston was chief deputy commissioner and general counsel for the California Department

of Insurance. He is based in San Francisco.



Ironshore International Ltd., a unit of Ironshore Inc., named **William Lewis** managing director of Ironshore Australia Pty Ltd., replacing Katherine Simmonds. An

attorney, Mr. Lewis specializes in private equity transactions, tax structuring and insurance. Previously, he was head of mergers and acquisitions for Ironshore Asia-Pacific. He is based in Sydney.



Amy Larson was sworn in as the 2017-2018 Public Risk Management Association president at the organization's annual membership luncheon in Phoenix.

Ms. Larson, who is risk and litigation manager for the City of Bloomington, Minnesota, takes the role after serving on PRIMA's board of directors since 2012, PRIMA said in a statement. She will lead the group until June 2018.

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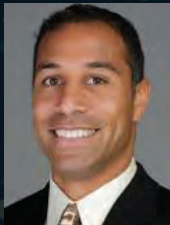
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Show's over for Cody Gunfighters

For one of Wyoming's most popular gunfighter demonstrations, not having insurance was a showstopper.

Following a mishap last year when three spectators were accidentally shot with live lead-ball rounds from a gun chamber that was supposed to be empty, the Cody City Council voted to let the nightly show continue per a list of safety conditions, the Cody Enterprise reported in June — liability insurance being one of them.

Tom Moore, Cody Gunfighters' secretary/treasurer, told a reporter that they tried to acquire liability coverage for their performances but no company would insure them.

"We can't get insurance, so no gunfight," Mr. Moore told the newspaper. "We're all very disappointed."

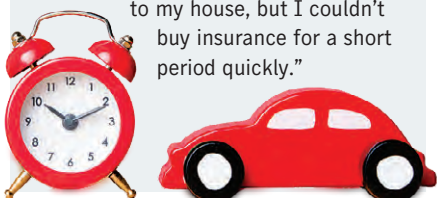
According to the Powell Tribune newspaper, police in July 2016 reported that three tourists — two men and a 3-year-old child — were hit and suffered relatively minor injuries.

Pay-as-you-go car coverage

Borrowing a friend's car in the United Kingdom is a bit easier with an insurance product that allows consumers to buy an auto policy with terms as short as an hour.

London-based Cuvva could disrupt the traditional insurance industry with its track record of success: With prices starting at £7.80 (\$9.99) per hour, it has sold more than a million hours of car insurance, according to an article on theguardian.com.

Founder Freddy Macnamara told a reporter that he came up with the idea for Cuvva in 2013 while chatting about lending his car to a friend: "I could order an Uber or a Deliveroo to my house, but I couldn't buy insurance for a short period quickly."



WOMAN SUES JELLY BEAN MAKER OVER SUGAR IN CANDY



Bake shop name stirs up trouble

The Pillsbury Doughboy didn't go soft when a New Mexico bakery donned its signature name.

Minneapolis-based General Mills Inc., which owns the Pillsbury brand, buried Albuquerque, New Mexico's formerly named Doughboy's Bake Shoppe in so much legal paperwork that the mom-and-pop shop, which opened in January, took down \$10,000 worth of signage without a fight, the New York Post reported.

Two weeks after it opened, owners Claudia and Mike Milladge reportedly received a cease-and-desist letter from General Mills over the "doughboy" trademark — it was just the beginning, they told reporters.

Because of legal cost, the bakery couldn't afford to fight it, the owners said. Instead, they applied for a trademark but were ultimately denied, according to reports. This left them with only one other option: change the name.



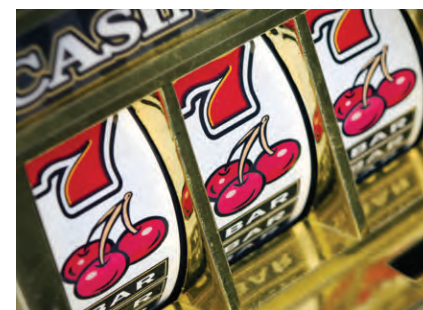
Jelly beans contain sugar; read the label, says Fairfield, California-based Jelly Belly in response to a class action lawsuit filed earlier this year by a San Bernardino, California, woman.

Jessica Gomez filed her suit against the jelly bean company in U.S. District Court in Los Angeles claiming that the company attempted to mask how much sugar was in its Sport Beans Energizing Jelly Beans by labeling sugar as "evaporated cane juice" on the list of ingredients, Forbes magazine reported.

Jelly Belly's Sports Beans are advertised as an exercise supplement containing carbohydrates, electrolytes and vitamins. Ms. Gomez claims they also contain more sugar than she thought, according to the magazine.

"This is nonsense," the company said in a motion to dismiss, according to the magazine.

"No reasonable consumer could have been deceived by Sport Beans' labeling — Gomez could not have seen 'evaporated cane juice' without also seeing the product's sugar content on its Nutrition Facts panel. And she has pleaded no facts to suggest that athletes, who consume this product to sustain intense exercise, would want to avoid sugar rather than affirmatively seek it."



Swapping \$43M for steak a nonstarter

It was supposed to be the largest jackpot awarded in U.S. history, according to media reports. Instead, Katrina Bookman was told of a computer error and offered a steak dinner on the house at Resorts World Casino in Queens, New York, and a modest cash prize of \$2.25 instead of a life-changing \$43 million.

One year after the ordeal, she's suing. Her lawsuit, filed in June, claims that the casino was "negligent" and failed to maintain its lottery equipment. The suit also claims that Ms. Bookman suffered "mental anguish" after the incident and that she sustained a "significant" monetary setback because she "lost the chance and/or opportunity to win" on the offending slot machine, say the reports.

Her lawyer told reporters he plans to seek at least \$43 million in damages.

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