

HIGH RISK: Bridge collapse puts focus on deteriorating infrastructure - **PAGE 4**

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COVER STORY

Alternative risk transfer methods, including insurance-linked securities, parametric insurance, and assorted bespoke coverages, are pushing further into primary retail insurance markets and closer to customers, gaining favor in the insurance industry among suppliers and buyers alike. Additionally, third-party capital continues to grow and has seen its acceptance expand as well. **PAGE 17**

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The rise of insurance-linked securities has transformed the reinsurance market; M&A in the reinsurance sector to keep rising; reinsurer rankings and data. **PAGE 20**

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The bridge collapse in Genoa, Italy, could be a warning for U.S. infrastructure. **PAGE 4**

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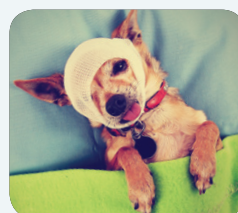
JOHN Q. DOYLE

After decades on the insurer side of the business, John Q. Doyle now heads brokerage Marsh LLC. He sees exciting times ahead for Marsh as it seeks to help its clients tackle an increasingly complex world. He discusses global challenges facing risk managers, technology's effect on the market, how Marsh is adapting and other changes at Marsh, including the proposed purchase of rival Jardine Lloyd Thompson Group PLC. **PAGE 16**



OFF BEAT

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CORRECTION The 2018 Largest Property/Casualty Wholesalers ranking published in the September issue contained incorrect information on the premium volume for Ryan Specialty Group LLC. The ranking order of the Top 10 wholesalers was not affected but the corrected ranking can be viewed at www.businessinsurance.com/section/researchandreports

Bridge collapse signals wider problems

BY JUDY GREENWALD

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The Genoa, Italy, bridge collapse in August that killed 43 could portend tragedies in the United States as well in light of its own deteriorating infrastructure and inadequate investments in maintenance and improvements.

And design professionals, including architects and engineers, could find themselves facing significant liability if they fail to take advance defensive measures, experts warn.

Many experts point to the 2017 biennial report by the Washington-based American Society of Civil Engineers, which gave U.S. infrastructure an overall D+ rating and concluded that 9.1% of the nation's bridges were structurally deficient in 2016.

They cite the 2007 bridge collapse in Minneapolis that killed 13 and the under-construction pedestrian bridge in Miami that collapsed in March, killing six, as examples of these types of incidents that have already occurred.

"It's pretty well understood that overall in the United States we just haven't spent the money in terms of maintaining existing infrastructure or increasing capacity to infrastructure in major metropolitan areas in particular," said Brian Cooper, San Francisco-based managing director of construction for Arthur J. Gallagher & Co. "We're just really way behind the curve."

Litigants will turn to design professionals if an incident occurs, say observers.

The Morandi Bridge collapse underscored the need for a much closer examination into the prevention of structure failure.

REUTERS



"Design professionals often find themselves liable whenever there's a catastrophe. When there's third-party injuries, they're often brought in, right or wrong, into those types of lawsuits," said Dan Buelow, Chicago-based managing director of Willis Towers Watson PLC's architects and engineers division.

However, "you would have to show negligence on the part of the engineer or architect," which is the legal standard applied to all professionals, said Mark Peterson, Chicago-based managing director and design professional practice leader for Aon PLC.

A structural collapse is rarely caused by one error or failing, though, said Mike Davis, Philadelphia-based lead underwriter for construction professional liability for Zurich Insurance Group Ltd.

It could be a combination of design errors, including poor workmanship, material that reacts in an unexpected way, or "the actual structure being used in a way different than originally contemplated," he said.

"Firms with good internal risk management practices and quality

assurance procedures can more effectively manage" infrastructure projects, which will help prevent or mitigate losses, said Kevin J. Collins, a Chevy Chase, Maryland-based underwriter and senior vice president with Victor O. Schinnerer & Co.

Design professionals "need to have a clear 'go, no go' procedure in place to evaluate every project," said Mr. Buelow. They must decide if their firm is in position to meet the project's needs, if they have the right clients, if there is a fair and insurable contract, and if it makes financial sense, he said.

Robin Kemper, who is president-elect of the ASCE and a senior risk engineering consultant with Zurich North America, said the society recommends that in responding to a request for proposal, a life-cycle cost analysis be included in describing the scope of work for any project over \$5 million.

"It's very important that the interchange between owner and designer and contractor is clear, and also clearly documented," said Jeff Burns, Denver-based partner with JLT Specialty USA, a unit of Jardine Lloyd Thompson Group PLC.

The contract should also clearly articulate the generally accepted standard of care for the structure, said Brett Fowler, Farmington, Connecticut-based vice president and program manager for AmWINS Group Inc.'s architects and engineers program.

"Without that reference to the standard of care, there really is no benchmark to reference. It's critical that be included in the contract," Mr. Fowler said.

Renard Barnes, general counsel for PS&S Integrated Services, a Warren, New Jersey-based architecture and engineering firm, said that when asked to look at a structure, his firm likes clients to initiate an "exhaustive review of the existing conditions."

Design professionals have "to really understand the intended and the potential future use" of the project, said Louis A. Gritz, Norwood, Massachusetts-based vice president for research and international codes and standards for FM Global.

Design professionals may need to report to the authorities if a public safety or health issue is involved and "the situation calls for it," said Nahom A. Gebre, a Chevy Chase, Maryland-based risk management attorney with Victor O. Schinnerer & Co.

In addition, design professionals should be sure "that they're not coming in as the deep pocket in assets as well as insurance, so that they remain in a claim because of the assets they have to offer," said Barbara Sable, Rockville, Maryland-based assistant vice president for RLI Corp.

Architecture and engineering firms do not need to be afraid of asking insurers questions or reporting potential claims, said David Zell, New York-based vice president of alternative markets for QBE North America, a unit of Australian insurer QBE Insurance Group Ltd. If a disgruntled owner has threatened to file suit, "it's OK to report that. We're not going to hold that against you," he said.

INFRASTRUCTURE REPORT CARD

The 2017 Report Card gives a cumulative GPA of D+ to US infrastructure. Aging infrastructure is a drag on the economy and costs American families \$3,400 a year, says the American Society of Civil Engineers.

Aviation	D	Parks & Recreation	D+
Bridges	C+	Ports	C+
Dams	D	Rail	B
Drinking Water	D	Roads	D
Energy	D+	Schools	D+
Hazardous Waste	D+	Solid Waste	C+
Inland Waterways	D	Transit	D-
Levees	D	Wastewater	D+

LIABILITY COVER ABUNDANT FOR ARCHITECTS, ENGINEERS

There is no shortage of professional liability coverage for architects and engineers in the current competitive marketplace, observers say.

"It's really a good time to be a good architectural or engineering firm from a professional liability insurance perspective because the rates are very competitive. A lot of people want their business," with some 60 insurers in the sector, said Brett Fowler, Farmington, Connecticut-based vice president and program manager for AmWINS Group Inc.'s architects and engineers program.

Terms "are fairly broad, but ... I think the carriers are not looking to go beyond what they have in the policy forms, so there isn't a lot of flexibility," said Joe Schranz, New York-based vice president of Berkshire Hathaway Specialty Insurance Inc.'s specialty risks architects and engineers' group.

Insurers are "not all that willing to use the capacity that they have," although companies can build capacity by having multiple insurers on programs, Mr. Schranz said.

However, "As you review and analyze

the different options, you do have to be mindful" of the exclusions "that may be in there," said John Sartor, president and CEO of PS&S Integrated Services, a Warren, New Jersey-based architecture and engineering firm.

Design professionals can either purchase blanket or project-specific policies.

The market is more constricted for more complex infrastructure projects, said Dan Buelow, Chicago-based managing director of Willis Towers Watson PLC's architects and engineers division.

Judy Greenwald

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Florence highlights gaps in flood risk planning

BY GLORIA GONZALEZ

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The flooding that accompanied Hurricane Florence last month is bringing renewed attention to the lack of a federal flood risk management standard as well as to the tenuous state of the National Flood Insurance Program.

State and local governments are stepping into the void by strengthening their building codes and looking for new ways to fund predisaster mitigation, but much more needs to be done at every level of government to prepare for future catastrophes, experts say.

Florence made landfall on Sept. 14 and stalled across North and South Carolina, dropping record-breaking rainfall.

"This is the latest example, unfortunately, that our communities and our infrastructure just aren't built to withstand the current levels of rainfall and flooding that continue to pose risks throughout the country," said Forbes Tompkins, officer with the flood-prepared communities initiative of the Pew Charitable Trusts in Washington. "Florence is just another

RESIDENTIAL READINESS

Florida tops the list of hurricane-prone states with the strongest residential building codes, with the damage caused by Category 5 storm Hurricane Irma last September limited due to their implementation following the devastation wreaked by Hurricane Andrew in the state in 1992, according to a March report by the Insurance Institute for Business & Home Safety.

STATE		2015 SCORE	2018 SCORE
FLORIDA		94	95
VIRGINIA		95	94
SOUTH CAROLINA		92	92
NEW JERSEY		89	90
CONNECTICUT		88	89

Source: Rating the States report, 2018 edition



REUTERS

President Donald Trump conducted a meeting on preparations for Hurricane Florence last month. Flooding from the storm renewed attention on the National Flood Insurance Program.

example that we need to have more of a concerted effort governmentwide to make sure that we're prepared for these storms."

Efforts to pass federal legislation to boost disaster recovery and mitigation efforts, including a bill to reintroduce a federal flood risk management standard, have stalled in Congress, but some experts hope the devastation wreaked by Florence will focus attention on rising U.S. flood risk.

In August 2017, President Donald Trump signed an executive order revoking the establishment of a federal flood risk management standard - developed by an executive order signed by former President Barack Obama in January 2015 to encourage federal agencies to consider current and future risk when taxpayer dollars were used to build or rebuild near floodplains. A few days after the revocation, Hurricane Harvey devastated the Houston area, quickly followed by Hurricane Irma's attack on Florida and Hurricane Maria's battering of Puerto Rico and the Caribbean.

"If not now, when is going to be the right time to develop an updated flood standard?" Mr. Tompkins said.

In November 2017, the Disaster Recovery Reform Act was introduced in the U.S. House of Representatives to, among other things, provide incentives to invest in measures that increase readiness for and resilience from a future major disaster.

The bill "has some really crucial elements related to investing before disasters, incentivizing states to adopt statewide building codes and advancing greater resilience," said Roy Wright, president and CEO of the Tampa-based Insurance Institute for Business & Home Safety and the former chief executive of the NFIP. "Clearly, making those investments before a disaster has a very rich payback. Congress will do what it will do, but these kinds of disasters tend to have a focusing quality to help us get all the way to the finish line."

The flooding seen with Hurricane Florence also brought renewed attention to the tenuous status of the NFIP, which was hours away from another expiration before it was extended to Nov. 30 — the last day of the official hurricane season.

The NFIP "can become a political football game (of) who wants to keep it a

government-sponsored program vs. who wants to move it off into the private sector," said Michael Korn, leader of Integro Insurance Brokers' property practice based in San Francisco. "I think it's going to continue to be the same way."

"We had the storms last year, and they were even larger, and that didn't really move Congress very much on the issue," said R.J. Lehmann, senior fellow for the conservative R Street Institute think tank in Washington.

Houston and Harris County, Texas, acted after Harvey dropped 52 inches of rain on the area in 2017, adopting requirements for new and substantially improved existing buildings within the 100-year and 500-year floodplains to be elevated a number of feet above the floodplain. In addition, Harris County voters on Aug. 25 approved \$2.5 billion in bonds to finance flood damage reduction projects, with 85.6% of voters casting ballots in favor of the proposition.

"You have to applaud what Harris County and Houston have done in terms of driving future construction to be higher and stronger as well as the resilience bond that they passed," Mr. Wright said.

But the rising frequency and intensity of extreme weather events require a solution, which may lead to either governments limiting or preventing future development in areas most vulnerable to flooding or people deciding that living in these areas is too risky, said Clark Schweers, BDO USA LLP's forensic insurance and recovery practice leader in Washington.

"To date, the government hasn't seemed willing to make that decision for the people and the people haven't made that determination themselves," he said.

Banning development in flood-prone areas, however, is likely not feasible, said John Heintz, a Washington-based partner with Blank Rome LLP. "That's just an incredibly tough sell," he said. "Houston didn't develop in the floodplain until the population got to the point where it became necessary and economic. People have to go somewhere."

STATES, CITIES LOOK TO BUILDING CODES TO HELP STEM WINDSTORM LOSSES

Population booms in coastal areas are increasing vulnerability to potential losses caused by windstorm activity, but building codes have been enhanced in certain states to mitigate the damage.

South Carolina, which has a population of more than 5 million and was heavily affected by Hurricane Florence, received a score of 92 in the Tampa-based Insurance Institute for Business & Home Safety's Rating the States: 2018 Report released

in March, thanks to the state's use of an updated residential building code and the amending of design wind speed maps to align the wind contour lines with physical boundaries such as streets and streams.

"There are a lot of good stories in terms of the leadership we've seen in the Carolinas, but clearly the impact of Florence has enough of a terrible bent to it that even that great work only gets you so far," said Roy Wright, Richburg, South

Carolina-based IBHS president and CEO.

North Carolina, projected to reach a population of 10.6 million by the end of 2020, received a score of 83, down one point from its 2015 score, because it is enforcing 2009 building code amendments and changed its adoption cycle of the state residential code from three years to six years, according to the IBHS report.

"At the state level, it's a little bit of a mixed bag," but cities such as Wilmington,

North Carolina, have been "trying to blaze the path forward and be a leader in the space of resilience," with a 2013 pilot project to reduce the vulnerability of the city's water and wastewater infrastructure to rising sea levels and flooding, and by developing a flood risk mitigation plan, said Forbes Tompkins, officer, flood-prepared communities initiative of the Pew Charitable Trusts in Washington.

Gloria Gonzalez



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NOT IF, BUT HOW

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Joint employer rules up for grabs

BY JUDY GREENWALD

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A proposed National Labor Relations Board ruling that would restore the previous joint-employer status standard could be a welcome relief to employers but, even if approved, may last only as long as there is a Republican administration.

Observers point out a future Democrat administration is likely to reverse the ruling.

In its 2015, 3-2 decision in *Browning-Ferris Industries of California Inc.*, a Democratic-controlled NLRB overturned the standard in place since 1984 that firms must have “immediate and direct” control over a worker to be considered a joint employer.

It held instead that a company only needs to have indirect control of a worker, and not even exercise that control, to be a joint employer.

The NLRB proposed the new rule in September, and the public has been asked to submit comments on the proposal by Nov. 13. Experts expect that while there may be some modifications, the final ruling will essentially be approved as proposed.

They point out the ruling has widespread implications, affecting franchisor-franchisee relationships, as well as all firms that use staffing agencies and other third-party vendors, including those who have employees from other companies working on site such as cafeteria and cleaning service workers.

“The previous majority of the board felt strongly that employers were treating workers as independent contractors as opposed to employees, which in many respects deprived them of benefits and had tax implications,” said Richard D. Glovsky, a partner at Locke Lord LLP in Boston who co-chairs the firm’s labor and employment practice group. “This was something of a hallmark of the Obama administration: to do what they could to enhance employee benefits and opportunities.”

The current rule “encompasses almost all employers,” and the agency “refused to provide any specific guideline as to how that standard should apply,” said Mark G. Kisicki, a partner with Ogletree Deakins Nash Smoak & Stewart P.C. in Phoenix, who represented Browning-Ferris.

But “insofar as employers were concerned, they were not thrilled because it put an added burden on them and put them in a position where they had to make a decision as to who and how workers were employed, which had implications for unemployment insurance, workers comp, the whole plethora of issues and costs that stemmed from one being treated as an employee as opposed to an independent contractor,” Mr. Glovsky said.

The proposal is welcome news for employers in establishing certainty, say observers.

“It’s a moment of clarity,” said Ron Holland, a San Francisco-based partner with McDe-



PERMANENT FIX

The Save Local Business Act, H.R. 3441:

- Changes the current standard under which two or more employers can be considered joint employers if they make a business agreement that “indirectly” or “potentially impacts their employees’ day-to-day responsibilities and working environment.”
- Amends the National Labor Relations Act and the Fair Labor Standards Act to clarify that two or more employers must have “actual, direct and immediate” control over employees to be considered joint employers.
- Passed the U.S. House of Representatives in November 2017 and awaits U.S. Senate consideration

Source: House Committee on Education and the Workforce

mott Will & Emery LLP’s employment practice. “It brings us back to a standard that’s discernable, and clear and predictable and actually gives employers and employees control over who they work for and whom the employer is.”

“It is appropriate and helpful for the board to take this important step in providing a definitive resolution to questions that have existed about joint employer status going back to the board’s 2015 decision in *Browning-Ferris Industries*,” said former NLRB Chairman Philip A. Miscimarra. Mr. Miscimarra, a Republican, now leads Morgan, Lewis & Bockius LLP’s special appeals practice in Washington. The proposal, if adopted, “will substantially benefit employees, unions and employers alike by permitting them to determine for themselves who the employer is in a variety of work settings, which I believe is one of the significant deficits that has existed since *Browning-Ferris Industries* was decided back in 2015,” he said.

The proposal “makes a lot of sense,” said former NLRB board member Howard I. Johnson III, a Republican who is now a partner with Morgan Lewis in Los Angeles. Both Mr. Miscimarra and Mr. Johnson dissented in the *Browning-Ferris* decision.

“It resolves a lot of ambiguities, takes many issues out of the courts and gives employers much clearer guidance on what their obligations are in terms of who is an employee and who isn’t,” Mr. Glovsky said.

What it means for employers on a day-to-day basis “the rule of reason is likely to be interjected in the joint employment standard,” said Steven M. Bernstein, a Tampa, Florida-based partner with Fisher & Phillips LLP and labor lawyer who represents employers. “This is an opportunity to breathe common sense into a rule that previously used concepts like indirect and direct control and potential control,” which are “very vague and hypothetical.”

But experts point out that what one administration gives, another can take away.

While the current administration is proposing an employer-friendly rule, “chances are future administrations whose members don’t share the same ideology” can “revamp the standard yet again in a nonfriendly way towards employers,” said David J. Przybylski, an Indianapolis-based partner with Barnes & Thornburg LLP’s labor and employment department.

It’s “a pingpong game,” Mr. Glovsky said.

Heidi Shierholz, senior economist and director of policy at the Washington-based Economic Policy Institute, said she is opposed to rescinding the current rule. The former chief economist at the Department of Labor during the Obama administration said many firms contract out jobs that are not in their core competencies, which “can lead to a great deal of murkiness about who is responsible for complying with labor standards.”

“When it is not clear who your employer is, workers’ rights and safety and wages and voice on the job can just sort of fall through the cracks,” and the proposed rule will encourage this, she said. “It makes it possible for an employer who actually does have control over the condition of your work to not actually be held accountable.”

LEGISLATION UNLIKELY TO PASS SENATE

A congressional bill would make “immediate and direct control” the standard in determining joint employer relationships.

But observers give H.R. 3441, the Save Local Business Act, which passed the U.S. House of Representatives on a 242-181 vote in November 2017 and is now awaiting U.S. Senate action, little chance of becoming law.

The bill would essentially do the same as the rule proposed by the National Labor Relations Board in September in restoring the previous joint employment relationship standard.

If it were law rather than an agency rule, it would be more difficult to change, said Richard D. Glovsky, a Boston-based partner at Locke Lord LLP who co-chairs the firm’s labor and employment practice group.

However, administrative rule-making is “not dependent on midterm elections and politics within the Beltway,” said Steven M. Bernstein, a Tampa, Florida-based partner with Fisher & Phillips LLP and labor lawyer who represents employers.

Some observers do not in any case give the legislation much chance of becoming law.

“Generally speaking, Congress in recent years hasn’t been quick” to pass significant legislation, said David J. Przybylski, an Indianapolis-based partner with Barnes & Thornburg LLP’s labor and employment department. “It’s much easier” for an agency to promulgate a rule.”

“There’s other big-ticket items on the congressional agenda that are going to get more priority than this,” he said.

And if the Democrats control Congress after the November elections, “I don’t think there would be any chance of getting it enacted. In fact, you would see something just the opposite come out of the House and Senate,” Mr. Glovsky said.

Judy Greenwald

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Ruling spotlights utilization reviews

BY GLORIA GONZALEZ

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A California Supreme Court ruling that firmly preserved the “grand bargain” at the heart of the workers compensation system was a major source of relief for stakeholders, but it has heightened attention on the duty of care owed by utilization review companies and their physicians to injured workers, namely with respect to weaning them off of long-term prescriptions.

Such treatment issues are becoming increasingly important as California works to curb opioid addiction among injured workers through a workers comp drug formulary launched on Jan. 1, with additional drugs recently added to the list of medications that require a utilization review after the first, limited prescription.

In August, the state Supreme Court unanimously ruled in *Kirk King et al. v. CompPartners Inc. et al.* that California’s workers compensation system provided the exclusive remedy for an injured worker who filed suit after a physician reviewer working for the utilization review management company determined that the worker’s prescription for Klonopin to treat his anxiety and depression following a work injury was medically unnecessary and decertified the prescription, according to the ruling.

“Ultimately, it was a very positive thing that came down for us in the insurance industry because this could have opened up a can of worms that would have allowed everybody to go after the UR doctors and vendors,” said Lynda Meyer-Whitehead, Los Angeles-based senior vice president and risk management consultant for Lockton Cos. LLC. “Without it, I don’t know how work comp would survive.”

The decision “just confirmed that the exclusivity provisions are broad and they are going to capture conduct that might otherwise be outside the realm of the Workers Compensation Act,” said Billie Wenter, San Francisco-based of



INDEPENDENT MEDICAL REVIEWS ON THE RISE IN CALIFORNIA

- Independent medical reviews rose **4.4%** in the first half of 2018, compared with the first half of 2017.
- 92%** of determinations in the disputed cases are upheld in the review process.

Source: California Workers’ Compensation Institute, 2018

counsel for Baker & McKenzie LLP. “The utilization review company and its physicians got the benefit of the workers compensation exclusivity rule. I think it’s clear from the decision that even if those entities weren’t specifically addressed in prior case law as examples of entities that would be covered, the court was willing to extend the ruling farther.”

But by allowing utilization reviewers “almost a level of immunity for the decisions they make, they don’t have to pay quite as close attention to them,” said Eric Farber, CEO of Farber & Co. and founder of the Pacific Workers’ Compensation Law Center in Oakland, California.

The prescription drug at the heart of the case — Klonopin — has sedative, hypnot-

ic, anxiolytic, anticonvulsant and muscle relaxant properties, is usually used to treat anxiety disorders and can lead to addiction when used for long periods, according to medical experts. But the decertification of Mr. King’s Klonopin prescription did not provide for a weaning regimen nor did the physician reviewer warn Mr. King of the risks of abruptly ceasing Klonopin, according to the ruling. Mr. King immediately stopped taking the medication and suffered four seizures.

“Klonopin is addictive,” Ms. Meyer-Whitehead said. “It’s like Xanax. You can’t just stop it. You have to wean off it. The insurance company, along with the UR folks, needed to look at this a little differently and say maybe it’s not appropriate to continue in the future, but we have to figure out a way to get him off of it.”

Opioids raise the same issues and concerns with injured workers’ prescriptions being terminated and “there should be a standard protocol for cutting it off,” Mr. Farber said.

There is an appeals process if a workers compensation determination based on the drug formulary doesn’t match with what

the primary care doctor thinks is in the best interest of the patient, said Michael Krawitz, New York-based executive vice president and general counsel of York Risk Services Group, the owner of CompPartners.

“Think about it from a fairness perspective,” he said. “The doctors that are doing the medical reviews, they never see the patient. They’re not allowed to see the patient. They’re not allowed to have a full patient history. They get the limited information relevant to the particular thing that they’re reviewing. Just from a system functioning perspective and from what makes sense, it just seems right to us that the primary care doctor is responsible and should be responsible for those kinds of decisions and the system should be responsible for allowing those kinds of appeals and it does.”

While the utilization review company and its physician prevailed, the dispute is intensifying attention to their responsibilities to injured workers and the consequences for failing to do so, experts say.

“Even though claimants weren’t able to get what they wanted and pursue their claims against the physicians and the utilization review company, certainly having to participate in litigation and an appeal to the Supreme Court is costly and time-consuming so there’s some deterrent just in that alone,” Ms. Wenter said. “It seems like it should be pretty eye-opening one way or the other that if you’re going to make a recommendation about medication that you should make sure you’re considering the potential consequences of your recommendation. And I hope that at a minimum that’s what the physician and the utilization review company were able to take away from it and would exercise greater care in the future.”

“Certainly, it has raised awareness in the UR community — they won’t be so quick to pull the trigger and say no when they see certain drugs, and it will start a dialogue that needs to happen,” Ms. Meyer-Whitehead said.

CALIFORNIA BARS UNUSUAL LIST OF DRUGS FOR PAIN MANAGEMENT TREATMENT

The California Division of Workers’ Compensation’s recent changes to the drug formulary specifically list several newly named drugs as prohibited for pain management — baffling experts who say some of these drugs are unusual for treating pain anyway.

The list now prohibits a host of substances that include vitamins, minerals, body-builder supplements and other pharmaceuticals outside the usual pain-management platform of drugs.

Estrogen is one example experts cited, as the hormone-replacement pharmaceuticals have rarely, if ever, been prescribed for pain stemming from a workplace injury.

A spokesman for the division said the revised formulary is based on the American College of Occupational and Environmental Medicine Practice Guidelines, which uses an evidence-based approach in its recommendations for treating pain. Yet the guidelines already listed these substances in a 2016

version. Such drugs and supplements were not included in the original California formulary, enacted in 2018, but are now specifically prohibited.

“My speculation is that (these drugs are) becoming an issue from a medical necessity perspective and a billing and prescribing pattern perspective; (claims adjusters) needed clarity on whether these (drugs) are appropriate for these kinds of conditions,” said Joe Paduda, the Skaneateles, New York-based president of

CompPharma LLC.

“I pity the adjuster who gets a script for estrogen” to treat chronic pain, he said.

“I am sure it has to do with physician trends: that they are seeing these drugs coming through” the comp system, said Silvia Sacalis, a Tampa, Florida-based licensed pharmacist and vice president of clinical services for Healthsystems LLC. “The only way they know what to address is to see the patterns.”

Louise Esola



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First responder comp bills stall

BY LOUISE ESOLA

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Frequent attempts to expand workers compensation benefits for first responders continue to stall in the face of concerns about the ultimate costs of providing such benefits and the challenges in proving causation of the injury or illness.

Boca Raton, Florida-based National Council for Compensation Insurance tracked 814 state bills in 2018 and found that 103 of them dealt with first responders battling post-traumatic stress disorder or cancer, but only five bills passed, according to a report.

Many state bills stall because actuaries and payers have no mechanism for calculating how much such reforms could cost, experts say, adding that cancer has a long latency period, as does post-traumatic stress disorder in some instances.

“All of this creates, in the mind of an insurance carrier, how do we price this? From an actuarial standpoint, how do we set aside money for this?” said Jim Kremer, Chicago-based executive director and lead of the claims transformation practice for Ernst and Young LLP. “That’s why you have a high fail rate for these bills.”

Yet 2018 proved successful in some states.

Washington and Florida both passed bills early this year that would allow first responders with PTSD to file workers compensation claims under certain circumstances such as how long the person has served as a first responder, according to NCCI.

COMP TRENDING

	BILLS INTRODUCED
1 First responders	103
2 Court/legal concerns such as arbitration and subrogation	95
3 Reimbursement/fee schedule	91
4 Coverage issues	66
5 Compliance	64

Source: National Council on Compensation Insurance

As for firefighter presumption, Hawaii and New Hampshire revised or enacted presumption bills this year for firefighters battling certain types of cancer. New Hampshire also passed a law that calls for a commission to “study” PTSD in first responders to understand “whether such (a) disorder should be covered under workers’ compensation.”

Most of the laws went into effect immediately after signing. Florida’s PTSD law was lauded a major success after three years of proposals to improve PTSD coverage for first responders in workers comp began emerging in the state.

The trend of introducing bills will continue, despite the unknown costs and the question of



whether cancer or PTSD was caused by the first responder’s work rather than another factor, insurance industry experts say.

“I do believe that PTSD and cancer presumptions bills for first responders will continue to be introduced and discussed,” Cari Miller, Rolling Meadows, Illinois-based director and counsel for governmental affairs at Gallagher Bassett Services Inc., said in an email. “Already over 30 states have some type of cancer coverage for firefighters under workers compensation, and PTSD presumption bills will continue to gain momentum with the continued increase of mass shootings and catastrophe events.”

“You will see states loosening their comp laws,” said John Hanson, an Atlanta-based senior consultant with Willis Towers Watson PLC. “The primacy hurdle is the ability to estimate with accuracy the fiscal impact of the legislation. The vast majority of the legislation that is proposed... makes clear that the fiscal impact is difficult to ascertain.”

Few actuarial experts know the costs of such bills, which have been opposed by municipalities concerned about the potential for their costs to run in the “hundreds of millions of dollars,” according to a statement released in January 2018 by the Parsippany, New Jersey-based Municipal Excess Liability Joint Insurance Fund in its lobbying against S.B. 716, a firefighter cancer presumption bill that floundered in committee in New Jersey.

New Hampshire’s legislation tackled the financial issue, as lawmakers passed the state’s firefighter cancer presumption bill 28 years after the state’s Supreme Court ruled the previous presumptive cancer law unconstitutional. That 1990 ruling highlighted New Hampshire law that prohibits state mandates on municipalities without a funding mechanism.

The new law now includes a “surcharge” on insurance policies, with an “indeterminable” increase in costs, which Mr. Hanson said poses

costs for payers. “New Hampshire uses ‘indeterminable’ three times,” he said of the law now in effect.

Putting a dollar amount on the presumption bills is not feasible, given that “many of the occupational diseases typically included in proposals providing presumptive coverage to first responders have long latency periods,” said Bruce Spidell, a Boca Raton-based assistant actuary with NCCI who tracks the bills. “Therefore, it may take several years before claim activity associated with first responder occupational diseases emerge in the data available to NCCI.”

At least one jurisdiction has been keeping track of its own claim activity. Ohio, a workers compensation monopoly state, enacted a law concerning cancer presumption for firefighters in 2017.

The state’s actuaries have estimated the new law will cost \$8 million in claims per year, according to a spokeswoman with the Ohio Bureau of Workers’ Compensation. As of September, 80 claims were filed and 57 were accepted, according to the spokeswoman.

Meanwhile, an official with the American Insurance Association said the numbers — or lack thereof — have not swayed state lawmakers from introducing such bills, and that payers should worry that they might be paying for injuries that fall outside of workers comp.

“We have a lot of respect and admiration for police and firefighters who respond to tragic incidents,” said Steven Bennett, Washington-based associate general counsel with the American Insurance Association. “That said, we do not like there to be presumptions because the claimant should always have the burden of proof to prove injury is work-related ... claimant must show that it arose in the course and scope of employment (as) it is one of the bedrock principles” of workers compensation.

BENEFITS COULD FILL PTSD HOLE IN COMP

Moving the focus from workers compensation to enhanced benefits for first responders could be key to solving issues concerning first responders with post-traumatic stress disorder, experts say.

“We are going to see a movement away, an evolution away from basic presumption legislation to the creation of benefits programs — something other than workers comp,” said John Hanson, an Atlanta-based senior consultant with Willis Towers Watson PLC.

Legislation introduced in Arizona failed but addressed one component Mr. Hanson predicts will crop up in future legislation: counseling sessions. H.B. 2501 mandated that first responders be provided with 36 counseling sessions, an increase from the 12 sessions now provided.

Other states have already tackled the issue. Georgia and New York are two examples of states that have enhanced benefits programs for first responders with PTSD, according to Cari Miller, Rolling Meadows, Illinois-based director and counsel for governmental affairs at Gallagher Bassett Services Inc.

“These programs have both a medical coverage and a wage-replacement component,” Ms. Miller said in an email.

Louise Esola



Comp firms face challenges going mobile

BY TATIANA WALK-MORRIS

There are mobile applications for almost any financial transaction — everything from banking to renters insurance — but workers compensation insurers and third-party administrators have not joined the app bandwagon, partly due to the complexities of the state-based comp system.

Comp payers instead have opted for mobile-friendly web platforms for their injured workers to access claim and benefit information. However, injured worker usage of these tools remains relatively low despite the potential benefits because the technology is fairly new and not well marketed, experts say.

Unlike a mobile payments app, workers comp mobile platforms will likely seldom be used over the course of a worker's life, said Leah Cooper, managing director of global consumer technology at Sedgwick Claims Management Services Inc. based in Chattanooga, Tennessee.

Yet, comp insurers are turning to them to simplify the claims process for claimants, employers and insurers, but the technology remains in its early stages, said Tim Colli, senior principal of integrated casualty consulting at Willis Towers Watson PLC based in Nashville, Tennessee.

"At the end of the day, the goal is to improve caseload strategies for the claim professional, but more importantly to improve the experience of those who've suffered a claim," Mr. Colli said. "How you do that is improve communication and access to information and through a personalized experience for the user."

The mobile platforms commonly act as a portal for information such as benefit payments, medical appointments and claim notifications after filing a claim, but in the future they could simplify the collection of key comp claim information by allowing users to take pictures of accident sites or property loss and upload them, Mr. Colli said.

Sedgwick started off with viaOne Express, a claimant self-service mobile app. But in June, the company introduced mySedgwick, a mobile-friendly, web-based



platform, opting for this platform approach so it could function across different operating systems without taking up memory space on the phone, Ms. Cooper said.

"You have the look and feel of an app experience but you don't have the pain of downloading and constantly updating that app," Ms. Cooper said. "We're talking about a group of individuals who may have one ... hopefully not more than two incidents of workers compensation in their lives."

Through mySedgwick, claimants can check the status of their benefit payments, enroll in direct deposit, request reimbursement for travel related to their claim and request a call from a nurse related to their claims. The goal is to reduce the headaches with navigating comp claims, giving claimants the information they need and also easing the burden for employers' human resources departments, Ms. Cooper said.

Ms. Cooper said it took a considerable effort from a team of employees to accommodate the complexities of the myriad comp claim types and state comp regulations for the platform. Ultimately, the company had to consider what information is most commonly needed in any given

claims process and design it with easily understandable information rather than bogging claimants down with complex regulations, she said.

In the future, Sedgwick foresees implementing artificial intelligence to quickly pinpoint what information claimants are seeking, Ms. Cooper said. The company has, for example, taken into account search histories and questions submitted through the site to spot trends and determine what information they are seeking, Ms. Cooper said.

"This is a new field for us and one that we're actively researching," Ms. Cooper said. "We want to take a step past classic pattern recognition and do more than just predict preferences. We want to take into account the structure and the context of the utilization data."

For claim professionals, mySedgwick expedites the claims communication process with claimants by providing status notifications to claimants via text or email, walking them through the next steps and providing them electronic documents and releases to sign, which takes some of the status updates duties off of the employer human resources team's to-do list, Ms. Cooper said.

RISING POPULARITY

77%

of Americans own a smartphone in 2018, up from just 35% in 2011.

Source: Pew Research Center

HEALTH RECORDS, PRIVATE INFORMATION UP STAKES FOR CYBER SECURITY

When developing mobile platforms for workers compensation claims, insurers need to take basic measures to brush up on their cyber security protections and pay close attention to evolving privacy laws, experts say.

With workers comp claims, insurers have to protect not only health records but also Social Security numbers and personally identifiable information, said Michelle Leighton, vice president and senior claim consultant for Conner Strong & Buckelew based in Marlton, New

Jersey. Whether that data is transmitted through an app or a website, insurers still have to work to protect it, she said.

Insurers should consider hiring outside consultants to review their cyber security practices and conduct employee training regarding phishing messages or what information not to release, Ms. Leighton said.

Insurers need to be aware of disgruntled employees who may be distributing protected claimant information, said Tom Ketcham, chief information officer and

executive vice president of Warrenton, Virginia-based Intensity Analytics Corp.

Claimants and insurers can verify whether their insurers are taking simple measures to safeguard their data by asking for a copy of their privacy or cyber security policy or asking about their encryption practices, Mr. Ketcham said.

To improve their security measures, insurers can tap into "passive biometrics," Mr. Ketcham said. For example, "The way that you draw your finger across the screen is unique to you," he said.

In a similar fashion, Travelers Cos. Inc. chose to create My Travelers for Injured Employee's, a mobile-optimized platform rather than an actual app to make the platform accessible for users regardless of their mobile operating system, said Rich Ives, the insurer's Hartford, Connecticut-based vice president of workers compensation claims. The platform allows users to communicate with claims and medical professionals as well as see benefit payments, Mr. Ives said.

Travelers receives just over a quarter of a million claims annually, Mr. Ives said. A spokeswoman for Travelers said "tens of thousands" of comp injured workers have taken advantage of "our new digital workflow." So far, the platform has been a useful tool for claimants who want to take control over their recovery process and want to return to work, he said.

The utilization rate for insurers who offer comp platforms is usually low because the technology is fairly new and is not promoted often, Mr. Colli said. Claimants, for example, may be notified about the platform's existence via mail or text message after filing a claim. But perhaps placing signage around the workplace, ideally next to information about where workers and supervisors can report accidents, can let workers know where to find these platforms before an accident occurs, Mr. Colli said.

Ultimately, insurers see this technology as a way to engage with the injured worker and avoid litigation, said Michelle Leighton, vice president and senior claim consultant at Conner Strong & Buckelew based in Marlton, New Jersey. And while the technology isn't a replacement for a real person, it can be a resource for navigating often complex, emotional comp claims, she said.

"As a communication tool, you see some very broad reporting apps out there, but not specific to workers comp, and probably because it's so state-specific," Ms. Leighton said. "I think where you've seen it the most is helping the injured worker by being an add-on to the process versus the sole source of information."

Tatiana Walk-Morris

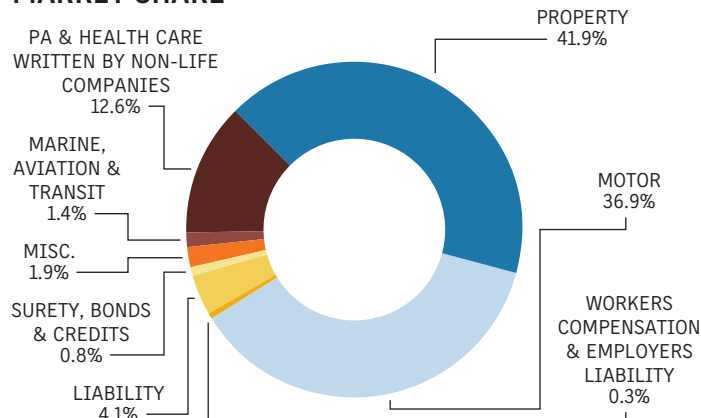
PROFILE: SWEDEN

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GLOBAL
P/C MARKET
RANKING

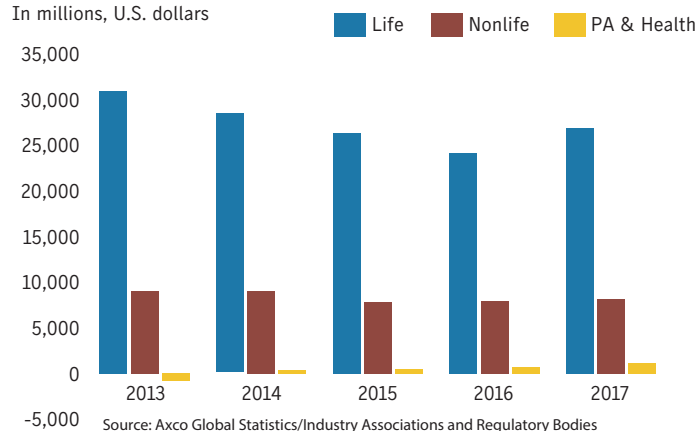
Sweden is one of the world's 25 largest economies and has one of the highest per-capita incomes. Swedish industry and commerce are concentrated in the private sector, which has benefited from the country's natural resources. The industrial sector is well developed and internationally successful. The local property/casualty insurance market is sophisticated and includes many major international insurers, though penetration is lower than in neighboring countries. This difference can be partly explained by the role of Sweden's welfare system in covering a substantial part of the costs of medical care and personal injury. The state wishes to increase the role of private insurers in covering these costs, which would lead to higher premiums and increased penetration over the long term. A particular feature of the Swedish market is the use of captive insurers; over 130 captives have been set up by Swedish enterprises.

MARKET SHARE



MARKET GROWTH

In millions, U.S. dollars



COMPULSORY INSURANCE

- Auto third-party liability
- Liability for nuclear installations
- Workers compensation (state program complemented by collective agreed insurance written by specialist insurer)
- Shipowners liability for marine oil pollution
- Professional indemnity insurance for lawyers, accountants, insurance intermediaries, real estate agents and the medical profession

NONADMITTED

Unauthorized insurers cannot carry out insurance activity in Sweden. At the same time, there is nothing in the law indicating that insurance must be purchased from locally authorized insurers, with some exceptions. The law is generally interpreted to mean that insurers can issue policies from abroad with exceptions if approached by a buyer and/or an intermediary. Insurers from European Economic Area states may provide insurance under freedom to provide services.

INTERMEDIARIES

Intermediaries must be authorized to do insurance business. They are allowed to place business with nonadmitted insurers, and those involved in nonadmitted placements do not have to be registered with the insurance supervisor. Where local risks are placed as part of a multinational insurance program, brokers involved in nonadmitted placements do not have to warn buyers that their insurer is not subject to local supervision.

MARKET PRACTICE

Apart from some compulsory insurances that should be placed with approved insurers, there are no restrictions on where Swedish residents or corporations may obtain insurance, and they are free to buy cover outside the country if they wish.

MARKET DEVELOPMENTS

Updated July 2018

- Property/casualty insurance premium in Sweden has been growing steadily over the past 10 years. The increase, however, has been unevenly distributed between insurance classes: while some have seen premium income double, premium for commercial lines has instead fallen by about 4%. The market in 2018 continues to be characterized as soft, with competition keen but rates tending not to reduce. Loss ratios remain satisfactory.
- The government has been considering the taxation of property/casualty contingency reserves since 2014. In March 2018, the Ministry of Finance presented new tax rules for the corporate sector, including a proposal to reduce the tax rate to 20.6% financed by the taxation of the reserves. It is proposed the new provisions would enter into force on Jan. 1, 2021.
- EU Directive 2016/97/ EU (Insurance Distribution Directive-IDD) was to have been implemented in Sweden during summer 2018 with the intention of becoming effective on Oct. 1, 2018, in line with the directive's revised requirements.
- Insurers and other financial services companies in Sweden do not pay any value-added tax, but the Swedish government has been considering the taxation of the financial sector as a whole. A special commission proposed the introduction of a new financial activities tax on banking and financial services, securities trading and insurance, possibly based on the payroll for such companies, but in 2017 the plans were scrapped.
- On April 7, 2017, a hijacked truck was driven into people on a Stockholm pedestrian street in a terrorist attack that killed five people and seriously injured 14 others. Depending on how compensation is paid, the total insurance bill is unlikely to total more than \$12.4 million, according to market observers.

AREA

158,433

square miles

POPULATION

10

million

MARKET CONCENTRATION

83.1%

market share of top five insurers

2018 GDP CHANGE (PROJECTED)

2.1%

LEGAL BRIEFS



Diocese wins appeal over abuse cover

■ The 2nd U.S. Circuit Court of Appeals in New York upheld a lower court ruling in favor of the Hartford Roman Catholic Diocese in a coverage dispute with a Fireman's Fund Insurance Co. unit related to abuse by priests, in which the diocese was awarded nearly \$1 million.

According to the ruling in *Hartford Roman Catholic Diocesan Corp. v. Interstate Fire & Casualty Co.*, Fireman's Fund unit Interstate, based in Chicago, appealed a judgment by the U.S. District Court in New Haven, Connecticut, that held Interstate breached its contractual duty to indemnify the diocese for four claims. The court awarded the archdiocese \$945,265 plus interest.

The archdiocese had a self-insured retention. The first excess layer was placed with Lloyd's of London underwriters and other insurers, the second layer was placed with Interstate, which followed form to Lloyd's.

Among the issues discussed in the ruling were whether an assault and battery policy exclusion applied. The archdiocese argued "that the exclusion applies only to a person 'acting within the scope of his duties,' and that the assailant priests were not acting within the scope of their duties when they committed assault."

"We agree with the archdiocese on the reading of the contract and therefore need not consider ambiguity," said the 2nd Circuit ruling.

AIG not liable for defective laminate

■ A federal appeals court has upheld a lower court ruling that an American International Group Inc. unit is not liable under its property coverage for financial losses stemming from its policyholder's defective material.

Evansville, Indiana-based Berry Plastics Corp. produced a foil laminate product for Auburn, Maine-based Packgen, a small firm that manufactures specialized containers for bulk quantities of industrial chemicals, manufacturing byproducts and other material, according to a ruling by the 7th U.S. Circuit Court of Appeals in Chicago in *Berry Plastics Corp., n/k/a Berry Global Inc. v. Illinois National Insurance Co.*

Over two years, Packgen worked with one of its customers to develop a new type of intermediate bulk container that could be used to store and ship a chemical catalyst the customer produced for use in refining crude oil into other petroleum products. Packgen engaged Berry to manufacture a laminated product for this container, according to the ruling.

But a large roll of foil laminate Berry had delivered was defective, leading to several fires, and no market for the containers developed. Packgen sued Berry over the issue, and a jury awarded Packgen the full \$7.2 million it had sought in damages.

Berry then sought coverage from AIG unit Chicago-based Illinois Indemnity under its property coverage for all but the first \$1 million of the award, which Berry's primary insurer, Federal Insurance Co., a Chubb Inc. unit, agreed to pay.

Berry argued it was entitled to coverage because it had "been held liable for its customer's lost profits because of the property damage its defective component caused," said the ruling.

Illinois National's position was the \$6.2 million for which Berry was seeking indemnification "represented Packgen's lost profits."

The U.S. District Court in Evansville, Indiana, ruled in Illinois National's favor, which a three-judge appeals court panel upheld after an extensive analysis.



Towing firm wins dispute over truck

■ The 6th U.S. Circuit Court of Appeals in Cincinnati ruled in *Acuity Insurance Co. et al. v. McDonald's Towing and Rescue Inc.* that the towing company is not liable for a concrete pump truck that was totaled while it was being towed under an exception to the federal motor carrier regulation.

A driver for Chesterton, Indiana-based Masterlink Concrete Pumping LLC was driving on I-94 in Michigan when his pump truck malfunctioned and he pulled it over onto the shoulder. Because of darkness and the truck's size, it was left to be towed the next day. During the tow by Kalamazoo, Michigan-based McDonald's, the pump truck detached, rolled over into the median and was totaled.

Masterlink and its insurer, Sheboygan, Wisconsin-based Acuity Insurance, sued

McDonald's in U.S. District Court in Grand Rapids, Michigan., seeking a \$341,661 judgment in the matter.

They claimed the tow truck company was liable under the 1906 Carmack Amendment, which holds a motor carrier liable for damages to goods it transports interstate.

The District Court ruled against the plaintiffs and was unanimously affirmed by the 6th Circuit. Both courts pointed to an exception to the Carmack Amendment for "the emergency towing of an accidentally wrecked or disabled motor vehicle." Acuity and Masterlink claimed there was no emergency "because the tow truck was left unattended on the shoulder of the road overnight," said the appellate ruling.

"The plaintiffs view the definition of 'emergency' too rigidly," said the ruling. "The defendant did not leave the truck overnight due to a lack of urgency ... the tow was postponed until morning because the truck was larger than expected and it was dark outside and difficult to see ... (T)he crucial point is one emphasized by the district court, which is the truck had to be moved — towing it was not optional."

Munich Re loses accident dispute

■ The 3rd U.S. Circuit Court of Appeals in Philadelphia upheld a lower court ruling against a Munich Reinsurance Co. unit in connection with an injury caused by a delivery driver.

A driver for Denver-based Prestige Delivery Services Inc. injured a man while delivering goods for Framingham, Massachusetts-based Staples Inc., according to the ruling in *United Financial Casualty Co. v. The Princeton Excess and Surplus Lines Insurance Co.*

The man sued the driver, Prestige and Prestige's client, Staples. Mayfield Village, Ohio-based United Financial, the driver's insurer, provided a defense for all three defendants in the lawsuit, which was settled.

United then sued Prestige insurer Princeton, a Princeton, New Jersey-based unit of Munich Re, in U.S. District Court in Philadelphia, disputing which policy was primary and who should bear the costs for the direct liability claims. The District Court ruled Princeton was primary and solely responsible for the costs of defending the claims. The 3rd Circuit agreed.

"The United policy contains a definition that explicitly limits responsibility for the insured ... to injuries that arise out of (the driver's) direct conduct," its ruling said. "With regard to the direct liability claims against Staples, we note that Princeton's policy states that its coverage will be considered 'primary' for any liability assumed under an 'insured contract.'"

DOCKET



NHL PLAYER'S TRAUMA SUITS DISMISSED

U.S. District Judge Susan Nelson in St. Paul, Minnesota, dismissed a retired NHL player's lawsuits against Chubb Ltd. and two teams because the court lacks jurisdiction. Mike Peluso, "enforcer" for the New Jersey Devils and St. Louis Blues in the 1990s, sued the teams and Chubb, which wrote his workers compensation policy, over head trauma and brain disease. A resident of Minnesota, he sued in the state's court because he had lived there throughout his career. Judge Nelson noted in her ruling that Mr. Peluso never played a hockey game in Minnesota.

INJURED WORKER LOSES OPIOID DOSE DISPUTE

The Tennessee Supreme Court ruled a worker with chronic pain from a shoulder injury and on high doses of opioids does not need another physician panel to address the findings of his doctor and a utilization review board saying he should be weaned to lower doses. Documents in *C.K. Smith Jr. v. Goodall Buildings Inc.* showed Mr. Smith's doctor voiced concerns over the dose, while Goodall, the employer, requested the utilization review that concluded the dose's risks outweighed the benefits. Mr. Smith requested a new physician panel, which a trial court granted. The high court reversed.

WIDOW PREVAILS IN ASBESTOS DISPUTE

The Connecticut Supreme Court ruled a shipbuilder can't litigate a claim filed by the widow of a shipyard worker who died of lung cancer following asbestos exposure because a U.S. judge already ruled the man's injury was compensable under the Longshore and Harbor Workers' Compensation Act. The court affirmed the Connecticut Compensation Review Board's decision in *Katherine Filosi, executor (Estate of Donald L. Filosi) v. Electric Boat Corp.*, saying it "properly determined that the defendant is collaterally estopped from re-litigating the issue of causation."



John Q. Doyle was named CEO of Marsh LLC last year. He joined the brokerage as president in 2016 after a 30-year career at American International Group Inc. Over the past several months, New York-based Mr. Doyle has overseen some organizational changes at Marsh, and more changes are in the offing as the brokerage prepares to absorb London-based rival Jardine Lloyd Thompson Group PLC, which parent Marsh & McLennan Cos. Inc. agreed to acquire last month for \$5.6 billion. *Business Insurance* Editor Gavin Souter recently spoke with Mr. Doyle about global challenges facing risk managers, the effect of technology on the insurance market and how Marsh is adapting in a rapidly evolving world. Edited excerpts follow.

John Q. Doyle

MARSH

Q How do you see global changes, whether it be tariffs or Brexit, affecting risk managers?

A Our clients are operating in a world with a tremendous amount of uncertainty. Whether it's Brexit or some of the ongoing trade disputes that are happening amongst many nations, they're faced with navigating that uncertainty.

It's not just trade and some of the political uncertainty that they're facing; there's also rapid development of technology creating risks and opportunities for our clients. It's an exciting time for us at Marsh and for our industry because risk continues to grow. New risks are emerging all the time, and the challenge and opportunity for us is to help them navigate them.

If you're a U.K.-based multinational that places insurance with a London insurer, we're sorting those things out. If it's cyber risk from the new digital economy, we're investing heavily in that. In the case of political risk, we're helping our clients navigate those issues as well. There's a great purpose to our industry.

Q Do you think the market is responding to cyber risk concerns?

A The market continues to evolve, for sure. The risk is absolutely on top of mind for our clients around the world and on the mind of the risk manager straight to the board room. So we need to be prepared to help those clients manage this evolving risk and navigate the continuously changing insurance market. We're working very closely with insurers to expand the type of coverage — not just the capacity but really think through the types of events that will happen so that the product is appropriately responsive.

It's a challenge for the insurance market, for sure. They're concerned about systemic events and how they might aggregate, and we're also investing heavily in analytics and in modeling. We're working with our sister company, Guy Carpenter, to help develop tools that will make reinsurers more supportive of the product so that we can, again, help our clients manage the risk over time.

Q How is insurtech developing, and how is Marsh getting involved?

A There's growing investment in insurtech that's focused on the commercial insurance market. Some of these tools and capabilities will enable us to create greater client value over time, so whether it's efficiency or better client experience or around wearables to mitigate risk, it is a very exciting time.

Our industry hasn't changed a lot over the course of my career, and I think it's going to change more over the next three to five years than it has in the first 30 years of my career. So I think it's incredibly exciting to be at a firm like Marsh that's got great scale, got great talent, got great data where we can build tools, we can partner with firms or even buy capabilities to create greater client value than ever.



Q How will it change distribution?

A Certainly insurtech has disrupted the mass-market, personal-lines insurance industry in most countries. We think that human-driven insights are going to be quite critical to our commercial clients, so I think there will be tools that really enable our business.

At the same time, we have some interesting companies right now that have digital businesses. Dovetail (an online quote provider for agents) is an example, parts of Victor, our MGA operations, are truly digital solutions. We're excited about the possibilities of bringing some scale benefits downmarket into the smaller commercial marketplace and deploy technology to gain some exposure to that segment of the market.

Q There have been some changes at Marsh over the past year or so. What effect has that had on the company?

A I became CEO of Marsh a little more than a year ago, and it's really a great privilege to lead a firm that's had such great history. The firm's been performing well, and we're well-positioned. We have terrific talent inside the company, and so the changes I've been leading are around trying to simplify what we do. We're a big company. We operate in 130 countries. We advise clients from small businesses to the largest multinationals around a wide variety of risks. It's easy to get lost in that complexity, so I've been focusing on simplifying how we operate.

We made some organizational changes, trying to be a bit more consistent around how we're organized. Organize a bit more around the three client segments that we serve — the large risk management clients, the middle market and the small commercial and consumer clients. I want us to move with greater pace than we have historically. A big part of that is pushing decision-making closer to our client and empowering our colleagues around the world.

Historically, we built our brand and our business around the large multinational and served those clients quite well over a long period of time. We've increasingly invested in the middle market all over the world. We see a terrific opportunity both in the middle market and in small commercial in different ways, but an opportunity to bring scale benefits to that client segment.

Q What will the JLT acquisition bring to Marsh?

A We're excited about this opportunity, and we think the addition of JLT offers our clients a truly compelling value proposition. Together we will have the broadest and deepest talent in the market. JLT will make us even stronger in areas such as aerospace, energy and construction and in markets like Asia, Australia, Latin America and the U.K. Their business is highly complementary to Marsh, and, like us, they care about putting clients' interest first.

It's an exciting time for us at Marsh and for our industry because risk continues to grow. New risks are emerging all the time, and the challenge and opportunity for us is to help them navigate them.



EMERGENCY

INSURANCE ALTERNATIVES FOR A RAINY DAY

Primary policyholders offered more choice with robust insurer capital levels supporting innovative coverage for tough exposures

BY MATTHEW LERNER

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Alternative risk transfer methods, including insurance-linked securities, parametric insurance and assorted bespoke coverages, are pushing further into primary retail insurance markets and closer to customers, gaining favor in the insurance industry among suppliers and buyers alike.

Driven by a deluge of alternative capital bearing down on the insurance sector and helped along by policyholders looking for options and armed with better information, alternatives besides conventional insurance are taking hold.

COVER STORY



"The capital is coming into the insurance marketplace and is looking to back some of these products," said Duncan Ellis, U.S. property practice leader for Marsh LLC in New York.

Alternative capital, which some also call third-party capital or nontraditional capital, continues to grow and has seen its acceptance expand as well.

"It all works," Michael Gruetzmacher, Aon PLC's managing director of the brokerage's alternative risk solutions team in Chicago, said of capital from different sources such as insurance, reinsurance and capital markets. "At the end of the day, capital is capital."

"There is no doubt that alternative capital will become an ever-increasing part of the insurance business," said Gary Marchitello, New York-based head of property broking for Willis Towers Watson PLC.

Parametric insurance, one type of alternative risk transfer, is coverage that can be linked to a specific data point, measurement or index.

For example, a policyholder could buy property insurance that is triggered if wind speed in a certain area exceeds an agreed threshold and claims are paid without the

need to review damage.

"Parametrics are good because you can tie them to anything which can be indexed and measured," Mr. Ellis said.

Parametric insurance is "not necessarily a new product but has become one of the recent 'hot topics' people are talking about," said Susan Hiteshew, a member of the Risk & Insurance Management Society Inc.'s board of directors and senior director of insurance for the Americas with Marriot International Inc.

"The parametric solutions have been around for quite some time, but because of the recent hurricanes last fall, I think that brought a lot of visibility to the solutions and a lot more people looking at the solutions from a number of different angles," Ms. Hiteshew said.

"What I see as the future of insurance and where I'm spending a lot of time with clients is talking about the event-driven or parametric space," Mr. Gruetzmacher said. "Why I think it's valuable is because it's a different way to think about how you deploy insurance capital to solve problems that have historically been unsolvable with insurance."

"I think there are some interesting uses

for this type of product," said Jennifer Hills, director of the office of risk management services for the King County Department of Executive Services in Washington state. "Not only for damage to our property, but maybe some business interruption, some emergency response expenses, or even disruption of tax revenues."

In September, the island of St. Maarten purchased parametric insurance coverage for tropical cyclones, earthquakes and excess rainfall through the Cayman Islands-based CCRIF, formerly the Caribbean Catastrophe Risk Insurance Facility SPC, which includes 19 Caribbean countries and one Central American country.

Although specific details of St. Maarten's coverage are proprietary, CCRIF policies begin June 1 each year for a period of 12 months and are renewed each year, according to a statement from the organization. Coverage is triggered when modeled losses from tropical cyclones, earthquakes and excess rainfall exceed an agreed level.

"What I see as the future of insurance ... (is) the event-driven or parametric space ... it's a different way to think about how you deploy insurance capital to solve problems that have historically been unsolvable."

Michael Gruetzmacher, Aon PLC

CCRIF members can purchase a maximum coverage of \$100 million for each peril.

The expansion of parametric coverage has been shepherded at least partially with improved data and analytics, sources said.

The alternative risk transfer markets "have raised the profile of certain data, allowing both sides the ability to better

understand the risks they are dealing with," said Oliver J. Horbelt, head of capital partners, reinsurance division, at Munich Reinsurance America Inc. in New York.

"I think improved data does make it easier for a public entity to purchase parametric coverage," Ms. Hills said.

"We definitely have earthquake risks and do purchase earthquake insurance, but I think we could supplement that with parametric cover," Ms. Hills said.

Parametric coverage is also attractive because it eliminates protracted and complex claims processing and can pay out in less than a month, according to sources.

"People are looking for more certainty and a shorter claims process," Mr. Ellis said.

"One of the values of parametric insurance is that you get your claim payment quickly and you know exactly what you're getting," because it is agreed to in advance, Ms. Hiteshew said. "From an accounting standpoint and the time value of money, it's very much a part of the value proposition of the solution."

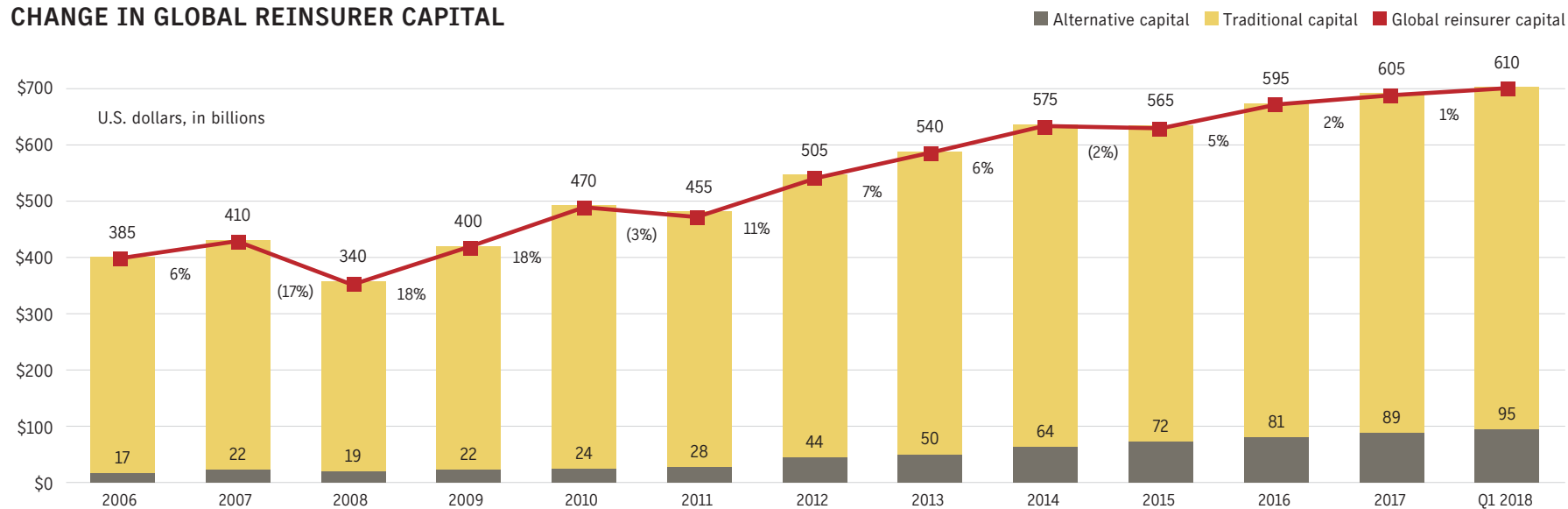
"When a country's policy is triggered by a hazard event, the facility makes a payout to the government within 14 days," according to documentation from the CCRIF.

Alternative risk transfer can also be used to approach novel challenges or emerging risks.

At Allianz Global Corporate & Specialty SE, "ART functions as an incubator of new ideas solving complex, often tailored issues for our clients" said Karsten Berlage, New York-based managing director for the company's alternative risk transfer unit.

"Cyber is obviously a hot topic," said Jenise Klein, New York-based managing director for Allianz Global Corporate & Specialty's alternative risk transfer unit. "The question is out there as to whether cyber has a place in the capital markets as appetite expands beyond traditional property catastrophe, and it will be interesting to see how that develops, especially as data modeling and technology continue to advance."

CHANGE IN GLOBAL REINSURER CAPITAL



Source: Company financial statements, Aon Benfield Analytics, Aon Securities Inc.

ALTERNATIVE CAPITAL PROVIDERS SURVIVED GRUELING TEST DURING NATURAL DISASTERS OF 2017

Insurance-linked securities are a growing part of the alternative risk transfer universe as primary policyholders set up structures to access the market, which also benefited from a strong showing after the 2017 catastrophe season, observers say.

"2017 helped demonstrate to both existing and potential capital market clients that alternative capital is sustainable even when faced with significant catastrophe events," said Jenise Klein, New York-based managing director for Allianz Global Corporate & Specialty SE's alternative risk transfer unit, adding that investors had not fled the market. "I think everybody saw it as a positive test of the system."

"2017 was the year that provided the proof of concept for the insurance-linked security as a structure," said Michael Gruetzmacher, Aon PLC's managing director of the brokerage's alternative risk solutions team in Chicago. "It demonstrated that capital markets are here to stay and that they can withstand losses, and the whole system works as designed."

Insurance-linked securities, which can be structured on an indemnity basis — where they respond to specific losses — or a parametric basis — where they are triggered by an index-linked event — have seen expansion in participants and geographically.

"Public entities have had a fluctuating presence, but we expect that to grow as concerns about resilience and sustainability assume a more public profile," said Oliver J. Horbelt, head of capital partners, reinsurance division, for Munich Reinsurance America Inc.

in New York. "The recent cat bond undertakings of the World Bank on behalf of several member countries is an indication of this trend. Other public entities have issued cat bonds or purchased parametric insurance covers."

The FloodSmart Re \$500 million Series 2018-1 Notes on behalf of the Federal Emergency Management Agency's National Flood Insurance Program secured \$500 million in flood reinsurance cover for three years. This was the agency's first use of a catastrophe bond and only its third reinsurance placement to date.

Jennifer Hills, director of the office of risk management services for the King County Department of Executive Services in Washington state, said that after hearing a presentation on the parametric insurance purchased by New York's Metropolitan Transit Authority in the wake of Superstorm Sandy — the MetroCat Re Ltd. Series 2013-1, which offers \$200 million for three years against storm surge — she became more interested in such structures. "I saw that other public entities were purchasing parametric coverage and became interested," she said.

The market is also expanding to new regions. The first half of 2018 featured French reinsurer Scor SE's Atlas Capital UK 2018 as the first deal to be domiciled in the U.K. and take advantage of the new London insurance-linked securities regulatory regime; and Singapore this year introduced a program to offset much of the upfront costs associated with issuing insurance-linked securities.

Matthew Lerner

CLASSIFIED

IN THE HIGH COURT OF JUSTICE
BUSINESS AND PROPERTY COURTS OF ENGLAND AND WALES
COMPANIES COURT (Chd)

CR-2018-006267

IN THE MATTER OF
ROYAL & SUN ALLIANCE INSURANCE PLC
AND

IN THE MATTER OF
RSA LUXEMBOURG S.A.
AND

IN THE MATTER OF
THE FINANCIAL SERVICES AND MARKETS ACT 2000

NOTICE IS HEREBY GIVEN that on 3 August 2018, Royal & Sun Alliance Insurance plc (RSAI) and RSA Luxembourg S.A. (RSAL) made an application (the **Application**) to the High Court of Justice (the **Court**) pursuant to section 107(1) of the Financial Services and Markets Act 2000 (FSMA) for an order under section 111 of FSMA sanctioning an insurance business transfer scheme (the **Scheme**) and making ancillary provisions in connection with the Scheme pursuant to section 112 of FSMA.

The Scheme provides for the transfer to RSAL, a wholly and directly owned subsidiary of RSAI, of:

- (a) the whole of the general insurance and reinsurance business carried on by the Netherlands, Belgian, German, French and Spanish branches of RSAI (with the exception of certain reinsurance business, which is excluded from the Scheme); and
- (b) that part of all or any insurance policies (other than any policies which evidence a contract of reinsurance) written or assumed by the UK establishment of RSAI in respect of risks located in EEA States other than the UK, together with related reserves and reinsurance assets and certain claims administration arrangements.

Copies of a report on the terms of the Scheme prepared pursuant to section 109 of FSMA (the **Independent Expert Report**), a statement setting out the terms of the Scheme and a summary of the Independent Expert Report are available free of charge to download at <http://www.rsagroup.com/brexit> or by writing to RSA UK & International, 20 Fenchurch Street, London, EC3M 3AU clearly marked on the front with the reference "RSA BREXIT" or by email to RSABrexit@equiniti.com referencing "RSA BREXIT" or by calling the RSA Brexit contact centre on +44 121 415 0953. The helpline will be open Monday to Friday from 08:00 to 18:00, UK time. Calls may be recorded. Supporting documents and any further news about the Scheme will be posted on the webpage so you may wish to check for updates.

The Application is directed to be heard before a judge on 29 November 2018 at The Rolls Building, Fetter Lane, London, EC4A 3DF, United Kingdom. If approved by the Court, it is proposed that the transfer will take effect immediately after midnight (GMT) on 1 January 2019.

Any person who believes that he or she would be adversely affected by the carrying out of the Scheme is entitled to make written representations to the Court and/or have their concerns heard in person (or by a legal representative) at the hearing of the Application on 29 November 2018. Any such person may also raise their concerns with RSAI in writing or over the telephone and RSAI will make a record of these concerns and communicate them to the Prudential Regulation Authority, the Financial Conduct Authority, the Independent Expert and the Court.

Any person who intends to make representations (whether by telephone or in writing) or to appear at Court is requested (but not obliged) to provide details of their representations or notice of their intention to appear at Court and details of their concerns as soon as possible and ideally no later than 16 November 2018 using the contact details set out above.

Dated: 1 October 2018

Reynolds Porter Chamberlain LLP
Tower Bridge House, St Katharine's Way, London E1W 1AA, United Kingdom
Ref: ROY25.23/AP02/MG02
Solicitors for the Applicants

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Insurers, brokers reorganize around demand for ART

Insurers and brokers are increasingly putting more resources behind their push into the world of alternative risk transfer, with some establishing dedicated units or seeking acquisitions, sources said.

"I would say over the last five years there has been more motivation from the insurers to set up special teams to focus on growth and innovation and, as part of that, alternative risk solutions," said Michael Gruetzmacher, Aon PLC's managing director of its alternative risk solutions team in Chicago.

In April 2017, managing general agent Victor, through its Victor O. Schinnerer & Co. subsidiary, created Alternus, providing Marsh LLC's U.S.-domiciled property clients with direct access to a facility backed by alternative capital, in this case provided by Nephila Holdings

Ltd., said Duncan Ellis, U.S. property practice leader for Marsh in New York.

In September, Lockton Cos. LLC launched Lockton Capital Markets in New York in partnership with Antarctica Capital LLC, a New York-based private equity firm, to focus on alternative capital, according to the Kansas City, Missouri-based brokerage. The unit, among other things, provides alternative capital options for discontinued books of business.

"This is a natural expansion of brokers managing risks for clients," said Timothy J. Cunningham, managing director of Optis Partners L.L.C., a Chicago-based investment banking and financial consulting firm.

Munich Reinsurance Co. has a capital partners business unit dedicated to alternative risk transfer and

capital-driven reinsurance markets, according to Oliver J. Horbelt, head of capital partners, reinsurance division, for Munich Reinsurance America Inc. in New York.

"Since the unit was established in 2015, we have seen increased demand for ART solutions across all client segments, insurance companies, corporate clients and public entities," he said.

On Aug. 31, Markel Corp. entered a definitive agreement to acquire all outstanding shares of insurance-linked securities manager Nephila, which manages more than \$12 billion of assets.

"The purchase, which will be funded by Markel using cash on hand, will afford Markel a dominant position in the insurance-linked securities market,"

A.M. Best Co. Inc. said in a note.

"Nephila will complement Markel's existing businesses, and along with Markel CATCo Investment Management Ltd. (Markel CATCo) will further solidify Markel's lead position as one of the largest alternative capital managers," S&P Global Ratings Inc. said in a note. "We believe that despite some overlap with Markel CATCo, the combined presence gives Markel good ability to harness the opportunities pertaining to alternative capital."

"Capital has an intent and a design to get closer to the front end of the business," said Gary Marchitello, New York-based head of property broking for Willis Towers Watson PLC. "The Nephila-Markel deal is a huge manifestation of that."

Matthew Lerner



REINSURANCE

Stable, plentiful capital reboots sector

BY GAVIN SOUTER

gsouter@businessinsurance.com

INSIDE

▶ ILS CHECKS PEAKS, VALLEYS

Insurance-linked securities are expected to moderate rates even in the face of large cat losses. **PAGE 21**

▶ M&A ACTIVITY SET TO CONTINUE

The reinsurance sector remains strong for mergers and acquisitions, experts in the field say. **PAGE 22**

▶ REINSURANCE RANKINGS

The world's largest reinsurers, property/casualty reinsurance groups and brokers are ranked. **PAGE 23**

MONTE CARLO, Monaco — One year after the devastating 2017 hurricane season, reinsurers and brokers acknowledge that the rise of insurance-linked security facilities over the past decade has transformed the market.

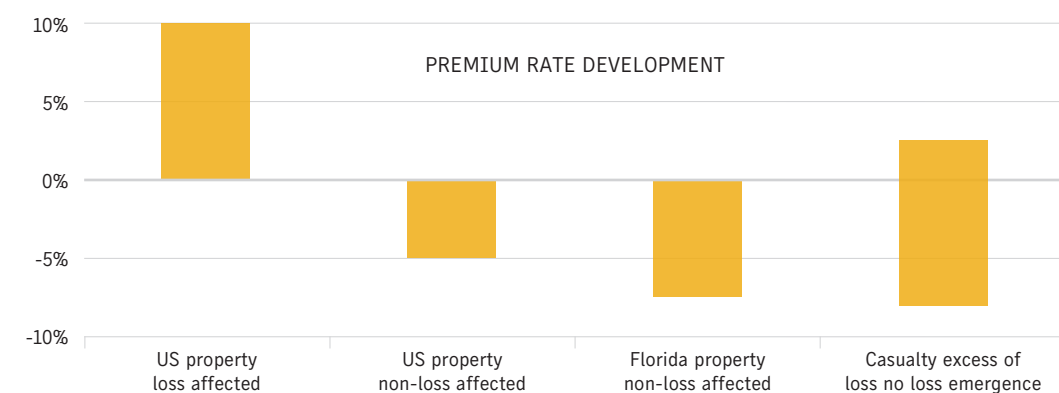
The more than \$140 billion in losses from hurricanes Harvey, Irma and Maria and other catastrophes did not result in widespread sharp increases in reinsurance rates, and ILS investors, which suffered significant losses for the first time since the alternative market has matured, did not shy away and instead increased their investments in the market.

The various ILS products, which include collateralized reinsurance, catastrophe bonds, sidecars and industry loss warranties, ensure there is plentiful capacity for catastrophe risks and provide reinsurers with additional retrocessional capacity to support their business.

Meeting at the Rendez-Vous de Septembre in Monte Carlo, Monaco, last month — the first of the major reinsurance meetings that take place in the late summer and fall — several market participants said alternative capital has helped create a stable market with less severe

MID-YEAR REINSURANCE RENEWALS 2018

June/July 2018



Source: Fitch Ratings Inc. review of company and broker reports

peaks and troughs that could lead to improved coverage for cedents.

"ILS has become an enabler of ways to think about matching risk to capital, and participants in the insurance industry are now very open to the idea of using other people's capital to finance risk they assume," said Mark Hvidsten, deputy chairman of Willis Re in New York.

And investors in ILS products are becoming more comfortable with the structures and are exploring other types of exposures that can be covered, he said. Investors are more willing to cover liability exposures and unmodeled risks, such as auto liability exposures, he said.

Alternative capital providers paid reinsurance claims after the 2017 hurricanes, and the sector is now "an important part of the business and will continue to be an important part of the business going forward," said Paul Schultz, Chicago-based CEO of Aon Securities, a unit of Aon PLC.

While much of the ILS market involves private placements and losses are not disclosed, several sources at the Rendez-Vous said they believe ILS facilities paid out something north of \$10 billion in losses last year.

Despite the losses, investors in collateralized reinsurance vehicles — trust accounts created using funds from third-party capital where the funds and profits are released back to the investors if there are no losses — quickly reinvested in the market after the 2017 storms, Mr. Schultz said.

And in the 12 months ending June 30, 2018, catastrophe bond issuance hit \$9.7 billion, which was down from the \$11.3 billion in prior 12 months, but still a healthy rate of issuance, Mr. Schultz said.

"Investors more concentrated in hurricane bonds may have experienced a slight loss (from the 2017 storms), but nothing that's difficult to rebound from," he said.

With traditional reinsurers and abundant alternative capital, the reinsurance sector has sufficient stable capacity, said David Priebe, vice chairman of Guy Carpenter & Co. LLC in New York.

"There's ample capacity — both dedicated capital and flexible capital — and that capital continues to grow," he said.

In 2018, there is approximately \$447 billion in capital dedicated to the reinsurance sector, which is a 4% increase over 2017, and about \$96 billion of the 2018 capital comes from alternative capital vehicles, Mr. Priebe said.

"That allows us to say to clients, 'What are your needs and what's the most cost-effective structure to meet your goals,' and then tailor the solutions,"

he said. "Five years ago, the market would say, 'Here's the suit I make; I hope it fits.'"

"Reinsurers have often gone through spells when they are price-driven, but I think everybody is now aware that they need to be client-centric ... it's a pivotal change in the way to think about the business," said Mr. Hvidsten of Willis Re.

Capital markets, which previously participated in insurance and reinsurance by holding equity investments in traditional insurers and reinsurers, are now able to get more directly involved in the business through investments in alternative capital vehicles, he said.

Increased use of sidecars and collateralized reinsurance vehicles also allow reinsurers to move toward more "capital-light" structures, which provide higher returns for equity investors, Mr. Hvidsten said.

"ILS has become an enabler of ways to think about matching risk to capital, and participants in the insurance industry are now very open to the idea of using other people's capital to finance risk they assume."

Mark Hvidsten,
Willis Re

Going forward, the ILS sector will be an established part of the global reinsurance market, said Chin Liu, a Boston-based managing director at Amundi Pioneer Asset Management, which invests in insurance-linked securities.

"It's no longer a niche alternative asset class," he said.

ILS investors and investors in other forms of alternative capital were not deterred by the 2017 losses, in part because they understand the risks involved but also because other asset classes produced good returns last year and "that motivated them even further to look for diversification," Mr. Liu said.

ILS products could potentially take a larger share of the reinsurance market, said John Modin, a New York-based managing director at Citigroup Inc.

ILS makes up about a quarter of the capital supporting the reinsurance market, he said. "There is still room to grow ... I don't think it will ever be a half, but a quarter to a third is where it may end up," Mr. Modin said.

ILS capacity looks to steady renewal rates

MONTE CARLO, Monaco — Insurance-linked securities act as a check on reinsurance rate increases, holding back sharp rate hikes that historically have followed major catastrophes and reducing the profit potential of traditional reinsurers, observers say.

Unlike the renewal seasons that followed flood and earthquake losses in 2011, hurricane Katrina, Rita and Wilma in 2005, the Sept. 11, 2001, terrorist attacks and Hurricane Andrew in 1992, rate increases in 2018 were limited (see chart), and Jan. 1, 2019, renewals could see reductions or at best only marginal increases, they say.

Last month's Hurricane Florence, where insured losses are expected to be less than \$10 billion, is not expected to significantly affect pricing, and barring major catastrophe losses over the next few months, ceding insurers should expect stable renewals, they say.

The growth of ILS capacity over the past 10 years has changed the reinsurance industry, said Graham Coutts, a director at Fitch Ratings Ltd. in London.

"The returns that you can receive now from the reinsurance business are fundamentally lower than they might have been 10 years ago, but we do think the returns in the market are still viable, so there's a new normal of lower returns, but we expect those lower returns will have lower volatility as well," he said.

Property catastrophe reinsurance rates remain about 30% lower than five years ago, despite rate increases in 2018, Mr. Coutts said.

The ILS market allows traditional reinsurers to better manage their own balance sheets by transferring some of the risk to capital markets, he said.

Torsten Jeworrek, member of the board of management at Munich Reinsurance Co., said that price reductions halted after last year's hurricane losses, but overall increases were moderate.

"What we cannot expect ... is global price changes in all lines of business or all territories as a consequence of regional catastrophes," he said.

Looking forward, the next renewal will likely be flat on average across all reinsurance lines globally, Mr. Jeworrek said.

Despite the price increases in 2018, reinsurance pricing remains competitive compared with previous pricing cycles, said Ulrich Wallin, CEO of Hannover Re SE.

There has been increased demand for reinsurance in 2018 with large reinsurers showing "healthy top-line growth," Mr. Wallin said.

"We expect that 2019 will be a rather stable renewal because there are sufficient concerns in the market regarding the run-off of the 2017 cat losses, there were a number of relatively large risk losses in the market," he said.

The moderate increases in 2018 marked an "inflection point" for the reinsurance market, said Edouard Schmid, group chief underwriting officer at Swiss Re Ltd. in Zurich.

However, property/casualty reinsurance underwriting margins need to increase 5% to 6% for the industry to return to historic profitability levels, he said.

While reinsurers are seeking moderate rate increases, market competition will likely lead to year-end renewals where rates fall by up to 5%, said Steve Hearn, CEO of Ed Broking Group Ltd. in London. "But it will depend on product and geography," he said.

Gavin Souter

Consolidation surge expected to continue

BY MARK A. HOFMANN
AND GAVIN SOUTER

Overcapacity, disappointing rates and the desire of cedents to be offered a broad array of products and services almost certainly guarantees that the ongoing wave of mergers and acquisitions in the reinsurance industry will continue.

That was a common refrain at the Rendez-Vous de Septembre in Monte Carlo, Monaco, in September, and it's one shared by industry market analysts. Last year's record hurricane season didn't have a great impact on rates despite the hits taken by some reinsurance underwriters, and this year's storms to date, including Hurricane Florence in September, are unlikely to move the needle significantly, observers say.

"You are going to see continued consolidation. Consolidations will pick up, but we will have to get through the wind season," said Elyse Greenspan, director of equity research for property/casualty insurance at Wells Fargo Securities LLC in New York. "Florence will not be a significant event."

Right now, buyers aren't willing to take on all the cat risks this hurricane season, she said. "But when you get to the end of cat season and the results of the Jan. 1 renewals become known is when activity will pick up," she said, noting that expectations are rates will be down at Jan. 1. In addition, there is an oversupply of capital out there, she said.

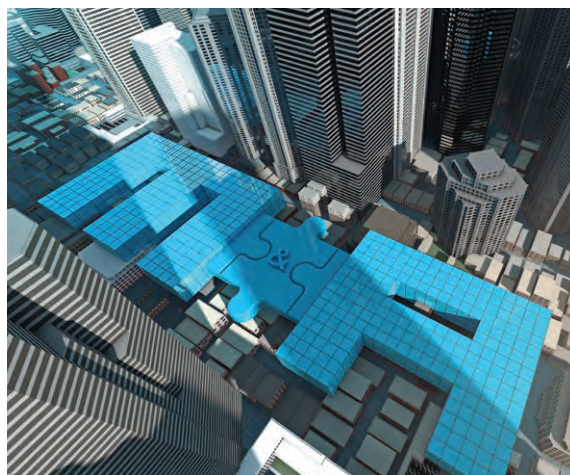
"As compressed margins persist, economies of scale, and therefore size of balance sheet, as well as breadth of offering ... continue to be an important competitive advantage," said Emmanuel Clarke, CEO of PartnerRe Ltd. in Bermuda, at the Rendez-Vous.

Large insurers are looking to work with reinsurers that offer all the capabilities they need, he said.

"We believe that the reinsurance market will consolidate to a large handful of large, relevant reinsurers who will be core to their clients, combined with a number of smaller either niche or commoditized players," Mr. Clarke said.

"I believe that the merger and acquisition activity will continue this year and into next year. People are seeking economies of scale and seeking growth," said Ulrich Wallin, CEO of Hannover Re SE in Hanover, Germany.

However, the reinsurer is not currently planning to make any acquisitions, he said. "Of course, we are always



looking for opportunities for what you might call bolt-on acquisitions, but they would not be transforming," Mr. Wallin said.

"In the property-catastrophe business, pricing has been in decline for the past couple of years due to influx of alternative capital and excess capacity," said Hardeep Manku, Toronto-based director at S&P Global Ratings Inc. He said there has been a "commoditization" of the product, adding that while the sector got rate increases after the 2017 catastrophe losses, that momentum is fading.

Changing cedent expectations are playing a role in the consolidation of the sector as well, Mr. Manku said.

"Their needs vary, but they're not looking just for capacity providers," he said. Instead, cedents are looking for risk partners, someone they can strike up a relationship with, and for reinsurers that provide risk and capital management solutions. The larger cedents have trended to a centralized model of buying reinsurance with preference for dealing with fewer reinsurers that have stronger balance sheets, good product expertise and broad product offerings, said Mr. Manku, adding that there is "no letup in these trends."

Reinsurers operating in the Bermuda market may be more likely to be involved in mergers and acquisition following the 2018 U.S. tax overhaul, Brian Schneider, senior director at Fitch Ratings Inc. in Chicago, said at the Rendez-Vous. The reforms curtailed Bermuda reinsurers' ability to avoid tax on investments related to U.S. reinsurance business.

"It continues to be an advantage to be in Bermuda but certainly much less so than it has in the past," Mr. Schneider said.

The remaining reinsurers may "decide to go out and gain some scale and be part of a larger organization," he said.

The significant amount of capital in the reinsurance sector controlled by investors interested in the sector makes more acquisitions likely, said Steve Hearn, group CEO of Ed Broking Group Ltd. in London.

Ed has had several approaches from private equity firms interested in buying the brokerage, he said. Ed is owned by New York-based Lightyear Capital LLC, which bought predecessor firm Cooper Gay Swett & Crawford Ltd. in 2012.

The brokerage will likely be sold "when the time is right," and the acquirer will be an investor "that understands the sector and backs us for our next phase of growth," Mr. Hearn said, noting that Ed has added 170 staff since it rebranded in 2016.

The reinsurance brokerage sector will also be affected by the proposed acquisition of Jardine Lloyd Thompson Group PLC by Marsh & McLennan Cos. Inc., which was announced last month. When the transaction is completed, which is expected to be early next year, Marsh & McLennan's Guy Carpenter & Co. LLC reinsurance brokerage unit will once again be the world's largest, a spot it lost after what is now Aon PLC acquired Benfield Group Ltd. a decade ago.

"It's not necessarily reinsurers that are being the buyers," said Scott Mangan, an associate director in the property/casualty ratings division of A.M. Best Co. Inc. in Oldwick, New Jersey, adding that third-party capital providers are in the market. "You're seeing other companies that aren't necessarily in the reinsurance space."

"We could see valuations of 1.2 to 1.8 times book. As long as the price is right, there will always be buyers and sellers," he said.

The median is somewhere close to 1.5 times price-to-book value based on deals over last few years, but it varies, said Mr. Manku. "The valuations move around due to a number of factors."

Small reinsurers may find it harder to remain independent, although there will still be a place for some of them, according to observers.

"There is a role, but definition of smaller reinsurers is changing," said Best's Mr. Mangan. Smaller reinsurers will have to take advantage of value-added services like customer service and being able to create financial solutions, he said.

"We've seen that the definition of what constitutes small keeps getting larger," said Mark Dwelle, director of insurance equity research at RBC Capital Markets LLC in Richmond, Virginia. He said that after Hurricane Andrew in 1992, \$250 million was considered small, but now \$2 billion in capitalization is. "My sense is we'll continue to see a steady drip for the next couple of years, particularly if pricing remains soft."

Looking ahead, Best's Mr. Mangan sees the trend toward consolidation continuing, even though "there are certainly fewer targets out there than there were several years ago."

For the next one or two years, he expects "more of the same, but M&A often happens in spurts. As long as the market conditions persist as they are, which is very challenging, I think it will continue at a pace similar to what it has in the previous two or so years."

M&A HEATS UP

Major insurer and reinsurer deals announced over the past 24 months

DEAL ANNOUNCED	DEAL CLOSED	ACQUIRER	ACQUIREE	PRICE
October 2016	March 2017	Sompo Holdings Inc.	Endurance Specialty Holdings Ltd.	\$6.3 billion
October 2016	April 2017	PartnerRe Ltd.	Aurigen Capital Ltd.	\$290 million
November 2016	February 2017	Argo Group US Inc.	Ariel Re Holdings Ltd.	\$240 million
December 2016	May 2017	Liberty Mutual Group Inc.	Ironshore Inc.	\$2.94 billion
December 2016	July 2017	Fairfax Financial Holdings Ltd.	Allied World Assurance Co. Holdings AG	\$4.9 billion
May 2017	September 2017	Intact Financial Corp.	OneBeacon Insurance Group Ltd.	\$1.7 billion
July 2017	October 2017	Axis Capital Holdings Ltd.	Novae Group PLC	\$600 million
February 2018	May 2018	Enstar Group Ltd.	KaylaRe Ltd.	\$400 million
January 2018	July 2018	American International Group Inc.	Validus Holdings Ltd.	\$5.56 billion
March 2018	September 2018	Axa SA	XL Group Ltd.	\$15.35 billion
August 2018	Ongoing	Markel Corp.	Nephila Holdings Ltd.	Undisclosed

Source: S&P Global Market Intelligence, company reports

WORLD'S LARGEST REINSURERS

Ranked by unaffiliated gross premiums written in 2017, in millions of dollars¹

Rank	Company	REINSURANCE PREMIUMS WRITTEN				RATIOS		
		LIFE AND PROPERTY/CASUALTY		PROPERTY/CASUALTY ONLY		Loss	Expense	Combined
		Gross	Net	Gross	Net			
1	Munich Reinsurance Co.	\$37,821	\$36,378	\$21,377	\$20,330	80.5%	33.5%	114.0%
2	Swiss Re Ltd.	\$34,775	\$32,316	\$20,371	\$19,631	82.3%	33.1%	115.4%
3	Berkshire Hathaway Inc.	\$22,740	\$22,740	\$17,815	\$17,815	N/A	N/A	116.4%
4	Hannover Re SE ²	\$21,314	\$18,727	\$12,832	\$10,973	71.3%	27.8%	99.1%
5	Scor SE	\$17,718	\$16,130	\$7,218	\$6,468	71.0%	32.7%	103.7%
6	Lloyd's of London ³	\$14,250	\$10,726	\$14,250	\$10,726	83.8%	33.3%	117.2%
7	Reinsurance Group of America Inc.	\$10,704	\$9,841	N/A	N/A	N/A	N/A	N/A
8	China Reinsurance (Group) Corp.	\$10,435	\$9,974	\$3,628	\$3,509	62.6%	41.3%	103.9%
9	Great West Lifeco	\$7,924	\$7,823	N/A	N/A	N/A	N/A	N/A
10	Korean Reinsurance Co.	\$6,775	\$4,720	\$5,958	\$3,988	77.7%	18.7%	96.4%

¹ All non-USD currencies converted to USD using foreign exchange rate at company's fiscal year-end; ² Net premium written data not reported, net premium earned substituted; ³ Lloyd's premiums are reinsurance only. Premiums for certain groups within the rankings also may include Lloyd's syndicate premiums when applicable; N/A = Not available
Source: A.M. Best Co. Inc.

TOP 10 GLOBAL PROPERTY/CASUALTY REINSURANCE GROUPS

Ranked by unaffiliated gross premiums written in 2017, in millions of dollars¹

Rank	Company	REINSURANCE PREMIUMS WRITTEN		RATIOS		
		PROPERTY/CASUALTY ONLY		Loss	Expense	Combined
		Gross	Net			
1	Munich Reinsurance Co.	\$21,377	\$20,330	80.5%	33.5%	114.0%
2	Swiss Re Ltd.	\$20,371	\$19,631	82.3%	33.1%	115.4%
3	Berkshire Hathaway Inc.	\$17,815	\$17,815	N/A	N/A	116.4%
4	Lloyd's of London ³	\$14,250	\$10,726	83.8%	33.3%	117.2%
5	Hannover Re SE ²	\$12,832	\$10,973	71.3%	27.8%	99.1%
6	Scor SE	\$7,218	\$6,468	71.0%	32.7%	103.7%
7	Everest Re Group Ltd.	\$5,115	\$4,614	76.6%	26.5%	103.1%
8	XL Group PLC	\$4,682	\$3,984	79.9%	31.5%	111.3%
9	Transatlantic Holdings Inc.	\$4,211	\$3,810	73.1%	33.8%	106.9%
10	PartnerRe Ltd.	\$4,189	\$3,776	69.8%	29.5%	99.3%

¹ All non-USD currencies converted to USD using foreign exchange rate at company's fiscal year-end; ² Net premium written data not reported, net premium earned substituted; ³ Lloyd's premiums are reinsurance only. Premiums for certain groups within the rankings also may include Lloyd's syndicate premiums when applicable; N/A = Not available
Source: A.M. Best Co. Inc.

WORLD'S LARGEST REINSURANCE BROKERS

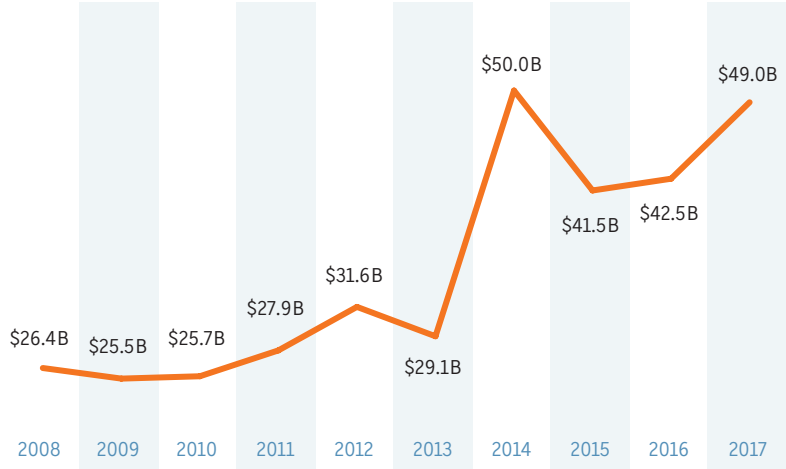
Ranked by 2017 gross revenue from reinsurance brokerage and related services*

Rank	Company	2017 gross revenue	2016 gross revenue	% increase (decrease)	2017 employees	Officers
1	Aon Benfield Group Ltd.	\$1,417,000,000	\$1,356,000,000	4.5%	2,950	Eric Andersen, co-president-Aon PLC; Andy Marcel, CEO-reinsurance solutions
2	Guy Carpenter & Co. LLC.	\$1,188,637,000	\$1,141,828,000	4.1%	2,337	Peter Hearn, president/CEO
3	Willis Re	\$853,417,500	\$787,470,000	8.4%	1,829	James Kent, CEO
4	JLT Reinsurance ¹	\$383,141,280	\$321,815,369	19.1%	N/A	Michael Reynolds, global CEO
5	UIB Holdings (UK) Ltd. ¹	\$64,312,121	\$54,144,125	18.8%	480	Bassem Kabban, chairman/group CEO

*Includes all reinsurance revenue reported through holding and/or subsidiary companies; ¹ British pound. 2017 = \$1.3529; 2016 = \$1.2337
N/A = Not available
Source: B/I survey

10-YEAR TREND OF U.S. REINSURANCE

Net premiums written for U.S. reinsurers increased 15% from last year compared with 2% previously. Net premiums written for major U.S. property/casualty reinsurers, 2008-2017, in billions of dollars.



Source: Reinsurance Association of America



M&A deals surging, tech providing efficiencies for a sector in change

The insurance brokerage sector continues to evolve as demands from commercial insurance buyers develop and investors continue to be attracted to the brokerage sector.

As key advisers to buyers of all sizes, brokers remain a vital part of the insurance purchasing process. Yet they are seeing significant changes to their business as mergers and acquisitions in the sector continue apace, and technological developments look set to create significant efficiencies for brokers and their clients.

In this special supplement on the brokerage sector, we take a look at the changing demands of brokerage clients, in particular those trying to navigate the increasingly difficult benefits landscape.

In addition, we talk with the incoming chairman of the Council of Insurance Agents and Brokers, Martin Hughes, about his outlook for the brokerage sector as a whole, consolidation, challenges facing brokerages and legislative priorities for the insurance industry (page S5).

Finally, we take a deep dive into the facts and figures derived from our annual survey of agents and brokers — the first results of which were published in July — and provide additional rankings looking at benefits specialists, brokers on the bubble of the Largest 100 Brokers of U.S. business and the most productive brokers in our rankings.

The results present a picture of a sector still thriving in a market in the midst of immense change.

Gavin Souter, editor

TOP 25 BENEFITS BROKERS BY GROWTH

Ranked by rate of growth in 2017 employee benefits revenue*

Rank	Company	2017 employee benefits revenues	% increase	% of total revenue
1	Acrisure LLC	\$289,741,191	124.1%	28.2%
2	The Hilb Group	\$40,945,320	109.9%	36.0%
3	Acentria Insurance	\$1,854,000	60.0%	6.5%
4	Edgewood Partners Insurance Center, dba EPIC Insurance Brokers & Consultants	\$112,312,801	55.3%	29.1%
5	USI Insurance Services LLC	\$608,575,985	53.7%	37.2%
6	ABM Insurance & Benefit Services Inc.	\$1,500,000	50.0%	50.0%
7	Shepherd Insurance LLC	\$8,004,315	40.3%	18.6%
8	Baldwin Risk Partners LLC	\$15,774,924	40.1%	27.6%
9	First Person Inc.	\$7,500,000	35.4%	61.5%
10	Insgroup Inc.	\$3,200,000	33.3%	13.1%
11	Hub International Ltd.	\$500,869,000	31.7%	26.8%
12	Prime Risk Partners Inc.	\$16,104,820	25.9%	14.9%
13	Digital Insurance Inc., dba OneDigital Health and Benefits	\$181,420,872	25.0%	95.9%
14	Armfield, Harrison & Thomas Inc., dba AHT Insurance	\$17,700,949	22.3%	44.8%
15	LMC Insurance & Risk Management Inc.	\$15,651,402	21.9%	28.1%
16	BroadStreet Partners Inc.	\$60,300,000	21.8%	12.6%
17	The Partners Group Ltd.	\$19,649,585	21.5%	63.5%
18	Cleary Insurance Inc.	\$1,200,000	20.0%	20.0%
19	Alliant Insurance Services Inc.	\$314,200,000	19.2%	28.0%
20	HNI Corp.	\$2,963,650	18.8%	9.8%
21	Leavitt Group	\$67,301,000	18.8%	28.5%
22	Foa & Son Corp.	\$1,900,000	18.8%	7.9%
23	Aon PLC	\$3,270,000,000	18.4%	32.8%
24	Wallace Welch & Willingham Inc.	\$6,988,186	17.7%	39.0%
25	Oswald Cos.	\$46,030,000	17.3%	55.0%

*To be ranked, brokers must have generated \$500,000 or more in employee benefits revenue in 2017. Companies deriving more than 49% of their gross revenues in personal lines are not ranked.

Source: BI survey

BENEFITS SPECIALISTS

Brokers specializing in employee benefits, ordered by percentage of business*

Company	City	2017 employee benefits revenue	% increase (decrease)	% total
FBMC Benefits Management Inc.	Tallahassee, Florida	\$20,756,349	5.6%	100.0%
Digital Insurance Inc., dba OneDigital Health and Benefits	Atlanta	\$181,420,872	25.0%	95.9%
Corporate Synergies Group LLC	Mount Laurel, New Jersey	\$40,871,000	(2.5%)	90.1%
LHD Benefit Advisors LLC	Indianapolis	\$7,671,090	4.8%	71.2%
Associated Benefits and Risk Consulting	Minnetonka, Minnesota	\$58,555,450	2.4%	70.6%
The Partners Group Ltd.	Portland, Oregon	\$19,649,585	21.5%	63.5%
First Person Inc.	Indianapolis	\$7,500,000	35.4%	61.5%
PSA Insurance & Financial Services Inc.	Hunt Valley, Maryland	\$18,881,118	4.8%	60.5%
CBIZ Benefits & Insurance Services Inc.	Kansas City, Missouri	\$138,000,000	2.4%	59.5%
NFP Corp.	New York	\$603,878,874	10.6%	56.4%
Oswald Cos.	Cleveland	\$46,030,000	17.3%	55.0%
Hays Group Inc., dba Hays Companies	Minneapolis	\$107,300,000	5.5%	54.3%

*Companies with 51% or more of brokerage revenue from employee benefits

Source: BI survey

Brokers work to find creative solutions to health care benefits coverage, costs

BY JERRY GEISEL

Employers, often with the aid of their insurance brokers and benefit consultants, are continuing to add new programs and redesign their health care plans to keep cost increases at relatively modest levels.

Those cost control approaches vary widely. They include giving employees financial incentives to take better care of their health, setting up programs for employees to call medical professionals for advice rather than going to hospital emergency rooms, and setting up worksite medical clinics, making it easier and faster for employees to get care.

Other approaches include setting up programs in which employees can buy extra coverage, thereby reducing employees' exposure to big medical bills if they are enrolled in high-deductible health care plans, as well as the continuing move to self-insurance — even by small firms.

The reason for the wide range of health care cost control strategies is simple, experts say. When it comes to cost control, “There is no one silver bullet,” said Paul Rogers, senior vice president in the Boston office of Brown & Brown Inc.

To be sure, group health care plan costs are continuing to rise, but those annual increases, which have been running in the 5% to 6% range for many employers, says National Business Group on Health President Brian Marcotte in Washington, are much lower compared with earlier years. For example, surveys by benefit consultant Mercer LLC found double-digit annual health care plan cost increases in the early 2000s, peaking at 14.7% in 2002.

A variety of approaches have played roles in easing cost increases. One of the best known: employers moving to high-deductible health care plans — known as consumer-driven health plans — linked to health savings accounts or health reimbursement arrangements. Last year, nearly 60% of employers with 500 or more employees offered CDHPs linked to HSAs, up from just 14% in 2009, according to Mercer.

But shifting costs to employees by adding CDHPs, which some experts say may have hit its peak, at least for now, is just one of many approaches employers are taking to control costs.

Another cost savings approach employers are implementing are telemedicine programs. In such arrangements, employees pay a small fee to call medical professionals when a health care problem pops up. The cost savings are racked up because calling a medical professional is far less expensive than going to a hospital emergency room, which may have been employees' only alternative at times such as at night or on weekends, when their doctor's offices typically are closed.

“You make a phone call and can avoid going to the hospital,” said Tim Cunningham, a partner with Optis Partners LLC, an investment banking and financial consulting firm in Chicago.

“Telemedicine is something that can bring down costs,” added Todd Granger, Northeast region, brokerage and advisory leader for health and benefits for Willis Towers Watson PLC in Boston.



And there are other health care plan design approaches being implemented that can help financially protect employees when their employers move to high-deductible plans.

One of those designs is known as a critical illness program, in which employees can purchase additional coverage for certain costly medical expenses, like cancer treatments. Critical illness plans give employees cash payments for medical expenses that they would have had to pay because the expenses fell under their health care plan's deductible.

Critical illness plans are “a way for employees to offset risk” when their employers move to high-deductible plans, said Bill Ziebell, CEO of Gallagher Benefit Services Inc. in Rolling Meadows, Illinois.

“These plans are becoming very popular,” with more employers adding them, said Jim Winkler, senior vice president and chief innovation officer with Aon PLC in Norwalk, Connecticut.

Yet another design employers are adopting: adding health plan premium surcharges when employees' spouses are eligible for health care plan coverage from their own employers.

A recent NBGH survey found that one-third of employers will impose such surcharges next year, with an average surcharge of \$1,200.

“There is a greater employer focus” on spousal coverage, said John Connell, regional president-employee benefits West, with EPIC Insurance Brokers & Consultants in Concord, California.

Meanwhile, another trend — health care brokers buying up smaller brokerages — continues unabated.

The key drivers of that trend are basic: the interest of brokers adding talented staffers to their ranks, as well as — through acquisitions — moving into parts of the

country where they currently do not have offices.

“We are always looking for top talent as well as to expand our geography,” said Gallagher's Mr. Ziebell.

In the case of health care brokers looking to sell their companies, one driver is a recognition that the business has become much more complicated, boosting their costs, said Robert Reiff, president of Lockton Benefit Group in Kansas City, Missouri.

On another health care front — the Affordable Care Act — experts say it is unlikely, at least in the remaining weeks of the current congressional session, that federal lawmakers will make additional changes.

“I don't see big changes in the foreseeable future,” said Brown & Brown's Mr. Rogers.

The last major change approved by lawmakers was the passage of legislation in late 2017 to end, effective in 2019, ACA financial penalties on individuals who don't enroll in a health care plan.

To date, though, there has not been broad congressional interest in repealing ACA-set penalties on employers who don't offer health care plans.

Lawmakers, though, have twice delayed a health care reform law provision — widely known as the Cadillac tax — that imposes a 40% federal excise tax on health care plans whose costs exceed certain amounts.

That provision was supposed to have gone into effect in 2018, but lawmakers in 2015 delayed the tax until 2020. Earlier this year, Congress pushed the tax back to 2022.

“The tax keeps getting kicked down the road,” Lockton's Mr. Reiff noted.

Whether the tax eventually will be repealed is a big unknown, experts say. What is known is that more ACA-related changes are a certainty.

“There will be changes, but no one knows what those changes will be,” said EPIC's Mr. Connell.

MOST PRODUCTIVE: AGENTS AND BROKERS

Intermediaries ranked by 2017 brokerage revenue per employee*

Rank	Company	Brokerage revenue per employee			Brokerage revenue			Employees		
		2017	2016	% increase (decrease)	2017	2016	% increase (decrease)	2017	2016	% increase (decrease)
1	Alliant Insurance Services Inc.	\$372,176	\$348,260	6.9%	\$1,123,600,000	\$966,769,832	16.2%	3,019	2,776	8.8%
2	Jardine Lloyd Thompson Group PLC ¹	\$320,575	\$283,954	12.9%	\$1,865,107,940	\$1,550,390,790	20.3%	5,818	5,460	6.6%
3	Graham Co.	\$313,581	\$309,527**	1.3%	\$54,876,624	\$52,310,032**	4.9%	175	169	3.6%
4	M&T Insurance Agency Inc.	\$287,210	\$306,575	(6.3%)	\$41,071,000	\$44,760,000	(8.2%)	143	146	(2.1%)
5	BB&T Insurance Holdings Inc.	\$286,307	\$267,948**	6.9%**	\$1,918,256,000	\$1,876,708,000**	2.2%**	6,700	7,004	(4.3%)
6	Edgewood Partners Insurance Center, dba EPIC Insurance Brokers & Consultants	\$281,418	\$257,244	9.4%	\$386,387,036	\$258,273,000	49.6%	1,373	1,004	36.8%
7	Foa & Son Corp.	\$281,176	\$260,938	7.8%	\$23,900,000	\$20,875,000	14.5%	85	80	6.3%
8	Woodruff-Sawyer & Co.	\$279,869	\$275,173	1.7%	\$127,900,000	\$119,150,000	7.3%	457	433	5.5%
9	Heffernan Group	\$273,461	\$250,003	9.4%	\$116,220,858	\$105,001,120	10.7%	425	420	1.2%
10	Hays Group Inc., dba Hays Companies	\$271,056	\$259,597	4.4%	\$197,600,000	\$193,400,000	2.2%	729	745	(2.1%)
11	Integro Group Holdings LP	\$259,346	\$256,891**	1.0%	\$273,869,000	\$261,258,000**	4.8%	1,056	1,017**	3.8%
12	Corporate Synergies Group LLC	\$259,332	\$238,700	8.6%	\$45,383,157	\$46,785,264	(3.0%)	175	196	(10.7%)
13	NFP Corp.	\$256,867	\$285,176	(9.9%)	\$1,071,135,681	\$969,599,000	10.5%	4,170	3,400	22.6%
14	Bolton & Co.	\$254,762	\$265,223	(3.9%)	\$46,621,522	\$45,353,147	2.8%	183	171	7.0%
15	ABD Insurance & Financial Services Inc.	\$253,381	\$237,463	6.7%	\$64,358,668	\$52,241,938	23.2%	254	220	15.5%
16	Gowrie Group	\$252,814	\$249,428	1.4%	\$42,978,390	\$41,405,000	3.8%	170	166	2.4%
17	Swingle, Collins & Associates	\$251,058	\$278,366	(9.8%)	\$20,837,831	\$20,042,357	4.0%	83	72	15.3%
18	The Mahoney Group	\$247,123	\$238,522	3.6%	\$43,246,458	\$41,979,934	3.0%	175	176	(0.6%)
19	Risk Strategies Co. Inc.	\$245,066	\$228,703	7.2%	\$257,809,945	\$198,285,654	30.0%	1,052	867	21.3%
20	Hugh Wood Inc.	\$241,703	\$237,274	1.9%	\$17,886,000	\$17,321,000	3.3%	74	73	1.4%
21	Paychex Insurance Agency Inc.	\$241,302	\$223,060	8.2%	\$226,100,000	\$207,000,000	9.2%	937	928	1.0%
22	Wortham Insurance & Risk Management	\$238,818	\$242,194	(1.4%)	\$130,156,000	\$127,394,000	2.2%	545	526	3.6%
23	M3 Insurance Solutions Inc.	\$238,594	\$234,351	1.8%	\$60,078,051	\$54,228,830	10.8%	252	231	9.1%
24	Parker, Smith & Feek Inc.	\$238,258	\$232,112	2.6%	\$55,514,000	\$49,904,000	11.2%	233	215	8.4%
25	Moreton & Co.	\$237,234	\$246,185	(3.6%)	\$48,633,000	\$46,529,000	4.5%	205	189	8.5%
26	Rose & Kiernan Inc.	\$236,947	\$216,735	9.3%	\$46,915,500	\$44,430,705	5.6%	198	205	(3.4%)
27	Starkweather & Shepley Insurance Brokerage Inc.	\$236,901	\$232,826	1.8%	\$55,197,960	\$49,592,000	11.3%	233	213	9.4%
28	Christensen Group Inc.	\$236,066	\$218,406	8.1%	\$32,104,951	\$29,703,273	8.1%	136	136	0%
29	Sterling & Sterling LLC, dba SterlingRisk	\$235,793	\$228,693	3.1%	\$53,053,500	\$51,456,000	3.1%	225	225	0%
30	The IMA Financial Group Inc.	\$235,103	\$222,016	5.9%	\$157,989,230	\$146,308,389	8.0%	672	659	2.0%

*Companies with more than 50 employees assigned to brokerage. Brokerages that derive more than 49% of their revenue from personal lines of business are not ranked; **Restated; ¹British pound = \$1.3529

Source: BI survey



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THE SEA TO THE CLOUD

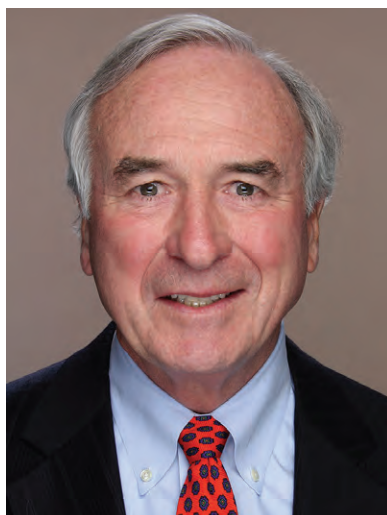
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Martin Hughes is executive chairman of Hub International Ltd. He will become chairman of the Council of Insurance Agents & Brokers during the group's Insurance Leadership Forum in October. He recently spoke with Mark A. Hofmann, a *Business Insurance* correspondent, about the insurance marketplace, the evolving role of brokers and the Council's agenda.

Martin Hughes

HUB INTERNATIONAL

Q How would you describe the current property/casualty insurance market from a broker's perspective?

A Right now I'd say it's a very stable market. It's the kind of market I think that most brokers actually prefer because rates are very modestly going up, but our clients are doing well so business is up, and it's a welcome relief from the years of a soft market that we've gone through.

Q How has the current market affected the role of brokers, or are your clients looking for new services from their brokers?

A I don't think the market has affected the role of brokers, but I do think that the role of a broker is evolving, is changing, and a client's expectations of their broker are changing fairly dramatically. People are much more interested now in having subject matter experts made available to them, people who really understand the discipline around their business, and they expect you to have those subject matter experts available. And they also expect you to be able to provide information, have access to technology and be able to talk to them about their exposures in ways that just didn't exist in the past.

Q That leads to another question: Where do you see growth opportunities for the broker system?

A When the Affordable Care Act was passed, I really thought that's going to be the end of our employee benefits business, it's going to kill it. And then when it passed and many of us believed that these private exchanges were going to explode and that those people who had the wherewithal and were in a position to make the investment in those private exchanges were going to really benefit, we were all wrong. That really never materialized; corporate America never, ever embraced the private exchange concept as we all thought they would. But, having said that, we made substantial investments in our employee benefits business because we did believe that that's where it's headed. We never regretted making those investments because our fastest growing business, in fact, is our employee benefits business.

Q Are there any other growth areas for brokers?

A One of the things that happened in the brokerage business over the years is many brokers walked away from the personal lines business, they had back in the '90s and the early 2000s. Many of the big brokers walked away from personal lines and small commercial because they didn't think they could make any money at it. We believed that there was opportunity to make money there if you were capable of being efficient while still being able to provide world-class coverage to your clients. That opportunity has mushroomed and technology's making all the difference in the world in that arena.

Q What can be done to encourage young people to consider a career as an insurance broker?

A I don't know a whole lot of people who have come into the industry because it was their dream. It certainly wasn't mine. I came into it by accident, and a lot of the people I know came into it by accident. But I've always been a believer in finding ways to attract the young people into the business and training them the minute I became the owner of that brokerage to make sure that we began to invest in young people and we started to train people.

And I think the Council today has embraced that mission and they do a fabulous job of getting that word out — financially supporting the opportunity that it presents and helping us identify and train young people. So it's always been a challenge, it's going to continue to be a challenge, but I think the Council has really provided a tremendous relationship in this arena and helped those young people into the business.

Q What Washington issues are of concern to brokers?

A The Terrorism Risk Insurance Act has been on the map for some time. We needed to be concerned about it, and I know (Council Senior Vice President) Joel Wood and his team are already beginning to engage policymakers in the administration and on Capitol Hill to talk about it. One subject that never seems to go away is single-payer health care. To me, employer sponsored health care plans is kind at the backbone of American industry and if anything disrupted that, it could create an incredible amount of havoc in both the insurance brokerage business as well as in the health care business. So, that's something we pay very close attention to.

We are a microcosm of American business because our antennae touch almost every industry in the country, and I would like to see our leadership begin to embrace the concept of civil discourse. We need to be able to have civil discourse in this country, we need to be able to disagree with each other and have a healthy debate without despising each other.



Q What impact is insurtech having on brokerage sector?

A I think making us stretch our minds and making us make investments that maybe we would not have been willing to make had we not seen this threat.

Q What are the biggest challenges facing the brokerage sector?

A There's a massive amount of consolidation taking place. And that is allowing brokers to make the investments that I suggested earlier need to be made and broadening their sphere of influence. I think the challenge for many brokers is they aren't going to be able to make the investments and they aren't going to be able to compete.

The role of a broker is evolving ... and a client's expectations of their broker are changing fairly dramatically. People are much more interested now in having subject matter experts.

BEYOND THE TOP 100 BROKERS

TARGET INDUSTRIES

Industries targeted by brokers to watch

Industry	Percent
Construction	76%
Real estate	76%
Nonprofit organizations	68%
Food and beverage	60%
Health care	60%
Financial services	56%
Public sector/government	48%
Retail	44%
Consumer durables	40%
Energy	40%

TARGET CLIENTS

Target clients by revenue among the brokers to watch

Revenue	Percent
Up to \$10 million revenue	40%
More than \$10 million up to \$50 million	76%
More than \$50 million up to \$100 million	84%
More than \$100 million up to \$500 million	56%
More than \$500 million up to \$1 billion	8%

BROKERS TO WATCH

Ranked by 2017 brokerage revenue generated by U.S.-based clients

Rank	Company	2017 brokerage revenue	% increase (decrease)
101	Kapnick Insurance Group	\$28,243,200	0.8%
102	Underwriters Safety & Claims Inc., dba The Underwriters Group	\$27,832,860	0.0%
103	Murray Securus	\$27,540,000	0.7%
104	The Daniel & Henry Co.	\$26,751,000	1.4%
105	The Buckner Co. Inc.	\$25,433,587	5.6%
106	Insgroup Inc.	\$24,400,000	6.6%
107	Lipscomb & Pitts Insurance LLC	\$23,800,282	2.0%
108	Ross & Yerger Insurance Inc.	\$23,306,096	12.4%
109	Swingle, Collins & Associates	\$20,837,831	4.0%
110	FBMC Benefits Management Inc.	\$20,756,349	5.6%
111	Foa & Son Corp.	\$20,315,000	13.6%
112	Pritchard & Jerden Inc.	\$19,916,340	6.5%
113	York International Agency LLC	\$18,211,511	2.0%
114	Wallace Welch & Willingham Inc.	\$17,927,068	11.5%
115	Hugh Wood Inc.	\$17,886,000	3.3%
116	Lassiter Ware Inc.	\$16,525,265	5.5%
117	Otterstedt Insurance Agency	\$15,592,842	4.4%
118	First Person Inc.	\$12,200,000	18.4%
119	LHD Benefit Advisors LLC	\$10,771,000	10.8%
120	Alper Services LLC	\$9,660,420	0.8%

Source: BI Survey

BUSINESS INSURANCE

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NOVEMBER 2018 ISSUE

THIS MUST-HAVE ISSUE IS FILLED WITH VALUABLE CONTENT:

- **Innovation Award Winner Profiles**
 - AIG Multinational suite of risk management tools — **AIG**
 - Workers' Compensation Automation — **Liberty Mutual**
 - Smart Benchmarking — **Gallagher Basset**
 - Marsh CrimeBlock/US Marsh CrimeBlock (US version) — **Marsh**
 - Analytic-Powered Medicare Set Aside — **Carebridge International Inc.**
 - Security Incident Response — **Hiscox Special Risk**
 - PathogenRx — **Marsh/Metabiota/MunichRe**
 - Targeted Training Solutions — **The Institutes**
 - The FM Global Cyber Risk Assessment — **FM Global**
 - Marsh's Blockchain-based Proof of Insurance — **Marsh**



- **Special Report: Cyber Risk**
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LARGEST MULTILINE WHOLESALERS*

Ranked by 2017 total premium volume including property/casualty and employee benefits

Rank	Company	2017 premium volume	% increase (decrease)	2017 gross revenue	% increase (decrease)	Wholesale staff
1	AmWINS Group Inc.	\$15,348,152,342	6.6%	\$1,005,000,000	12.9%	4,510
2	CRC Insurance Services Inc.	\$14,962,018,303	7.1%	\$968,697,585	7.6%	2,400 ¹
3	Ryan Specialty Group LLC	\$5,726,000,000	11.6%	\$511,752,000	13.3%	1,055
4	All Risks Ltd.	\$1,725,000,000	12.5%	\$166,000,000	9.2%	859
5	Worldwide Facilities LLC ²	\$1,282,990,030	97.6%	\$113,451,289	99.6%	571
6	Brown & Riding Insurance Services Inc.	\$748,069,040	14.1%	\$59,876,981	14.3%	187
7	U.S. Risk Insurance Group LLC	\$728,000,000	13.8%	\$62,798,000	19.1%**	N/A
8	JenCap Holdings LLC	\$719,450,000	16.9%	\$67,750,000	32.2%	400
9	ARC Excess & Surplus LLC	\$702,000,000	11.1%	\$63,000,000	3.3%	196
10	Program Brokerage Corp.	\$377,500,000	0.8%	\$29,500,000	(3.0%)	100

N/A = Not available; *Companies deriving more than 50% of their premium volume from wholesale brokerages; **Restated;

¹From company website; ²Acquired Tennant Risk Services (April 2018), Sullivan Group (May 2018), and RIC Insurance General Agency Inc. (June 2018). Reported pro forma results of these acquisitions.

Source: *BI* survey

FASTEST GROWING BROKERS IN 2017

Ranked by rate of growth in 2017 U.S. brokerage revenue*

Rank	Company	2017 revenue	% increase	Rank	Company	2017 revenue	% increase
1	Reliance Partners Inc.	\$5,400,000	71.4%	16	Cobbs Allen	\$31,914,380	23.1%
2	Acrisure LLC	\$1,016,035,956	58.9%	17	Schaefer Enterprises Inc.	\$3,771,669	20.6%
3	USI Insurance Services LLC	\$1,635,038,677	58.7%	18	Cleary Insurance Inc.	\$6,000,000	20.0%
4	Baldwin Risk Partners LLC	\$57,178,553	56.9%	18	ABM Insurance & Benefit Services Inc.	\$3,000,000	20.0%
5	Edgewood Partners Insurance Center, dba EPIC Insurance Brokers & Consultants	\$374,409,038	52.6%	20	The Partners Group Ltd.	\$30,955,575	18.7%
6	Shepherd Insurance LLC	\$43,118,200	51.6%	21	First Person Inc.	\$12,200,000	18.4%
7	Jardine Lloyd Thompson Group PLC ¹	\$361,830,940	45.9%	22	Alliant Insurance Services Inc.	\$1,123,600,000	16.2%
8	Acentria Insurance	\$28,404,078	41.3%	23	Frank H. Furman Inc.	\$5,267,834	15.8%
9	The Hilb Group	\$113,737,021	34.1%	24	Cottingham & Butler Inc.	\$168,218,000	14.8%
10	Risk Strategies Co. Inc.	\$257,809,945	30.0%	25	Oswald Cos.	\$82,833,300	14.5%
11	Digital Insurance Inc., dba OneDigital Health and Benefits	\$189,241,355	27.9%	26	Foa & Son Corp.	\$20,315,000	13.6%
12	Insurance Marketing Agencies Inc.	\$9,300,000	25.7%	27	Hub International Ltd.	\$1,459,359,720	13.5%
13	Prime Risk Partners Inc.	\$108,300,357	25.2%	28	New Century Insurance Services Inc.	\$7,380,000	13.1%
14	AssuredPartners Inc.	\$1,019,446,480	24.2%	29	BroadStreet Partners Inc.	\$478,400,000	13.0%
15	ABD Insurance & Financial Services Inc.	\$64,358,668	23.2%	29	Boston Insurance Brokerage LLC	\$3,480,400	13.0%

*Companies with less than \$1,000,000 in brokerage revenue and/or deriving more than 49% of their brokerage revenue in personal lines are not ranked. ¹British pound = \$1.3529

Source: *BI* survey

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LARGEST U.S. COMMERCIAL RETAIL BROKERS

Ranked by 2017 commercial retail brokerage revenue from U.S. offices

Rank	Company	2017 commercial retail revenue*	% increase (decrease)	% of U.S. brokerage revenue
1	Marsh & McLennan Cos. Inc.	\$3,322,000,000	9.2%	48.3%
2	Aon PLC	\$1,845,000,000	(28.2%)	41.8%
3	Arthur J. Gallagher & Co.	\$1,239,295,000	13.3%	39.6%
4	Brown & Brown Inc.	\$1,038,533,531	4.0%	55.9%
5	Willis Towers Watson PLC	\$970,000,000	1.4%	25.4%
6	USI Insurance Services LLC	\$863,294,160	72.5%	52.8%
7	Alliant Insurance Services Inc.	\$797,000,000	14.8%	70.9%
8	Hub International Ltd.	\$757,050,000	2.3%	51.9%
9	Lockton Cos. LLC	\$692,260,000	4.0%	59.8%
10	Acrisure LLC	\$589,953,784	46.6%	58.1%
11	BB&T Insurance Holdings Inc.	\$551,179,000	0.2%	28.7%
12	AssuredPartners Inc.	\$465,001,447	8.5%	45.6%
13	BroadStreet Partners Inc.	\$340,900,000	10.8%	71.3%
14	Edgewood Partners Insurance Center, dba EPIC Insurance Brokers & Consultants	\$254,601,816	39.8%	68.0%
15	Risk Strategies Co. Inc.	\$160,306,772	34.2%	62.2%
16	Insurance Office of America Inc.	\$135,629,937	7.3%	69.2%
17	Leavitt Group	\$134,994,000	(1.9%)	57.2%
18	Integro Group Holdings LP	\$111,229,000	3.8%	54.2%
19	Higginbotham	\$98,525,000	14.2%	57.1%
20	Wortham Insurance & Risk Management	\$97,079,000	0.7%	75.0%
21	Paychex Insurance Agency Inc.	\$94,400,000	16.0%	41.8%
22	Woodruff-Sawyer & Co.	\$93,830,000	7.0%	73.4%
23	Jardine Lloyd Thompson Group PLC ¹	\$92,808,940	101.7%	25.6%
24	AmeriTrust Group Inc.	\$91,937,432	(4.8%)	61.4%
25	The IMA Financial Group Inc.	\$87,014,751	(12.6%)	55.1%
26	Hays Group Inc., dba Hays Companies	\$84,200,000	(2.1%)	42.6%
27	BXS Insurance Inc.	\$82,710,221	4.4%	70.6%
28	Hylant Group Inc.	\$76,222,015	5.4%	60.1%
29	PayneWest Insurance Inc.	\$74,702,619	10.4%	63.1%
30	Cross Financial Corp., dba Cross Insurance	\$74,000,000	3.8%	47.1%
31	Insurica Inc.	\$71,125,802	12.6%	73.4%
32	Regions Insurance Group Inc.	\$67,927,000	(3.4%)	49.6%
33	Assurance Agency Ltd.	\$67,773,719	9.9%	64.6%
34	Holmes Murphy & Associates Inc.	\$66,201,000	5.8%	37.6%
35	Cottingham & Butler Inc.	\$65,652,000	19.7%	39.0%
36	Insurors Group LLC	\$64,779,000	4.0%	76.3%
37	Heffernan Group	\$63,255,037	5.4%	54.4%
38	Prime Risk Partners Inc.	\$58,248,439	23.8%	53.8%
39	The Hilb Group	\$58,005,820	6.9%	51.0%
40	Propel Insurance	\$57,350,000	9.6%	74.4%
41	CBIZ Benefits & Insurance Services Inc.	\$47,100,000	5.1%	20.3%
42	Graham Co.	\$46,163,475	3.5%	84.1%
43	Sterling & Sterling LLC, dba SterlingRisk	\$41,951,000	4.6%	79.1%
44	Marshall & Sterling Enterprises Inc.	\$41,939,760	2.0%	58.7%
45	Parker, Smith & Feek Inc.	\$40,893,000	11.4%	73.7%
46	Houchens Insurance Group Inc.	\$40,583,901	6.2%	66.9%
47	Relation Insurance Inc.	\$40,085,000	15.7%	41.4%
48	TrueNorth Cos. LLC	\$38,640,000	(5.8%)	58.3%
49	Fisher Brown Bottrell Insurance Inc.	\$38,167,543	3.8%	100%
50	Horton Group Inc.	\$36,430,107	7.4%	50.3%

*Excludes revenue placement of employee benefits; ¹British pound = \$1.3529Source: *BI* survey

TARGETS OF THE TOP 15

TARGET INDUSTRIES

Industries targeted by the top 15 brokers of U.S. business

Industry	Number of brokers	Percent
Construction	15	100%
Health care	15	100%
Nonprofit organizations	15	100%
Public sector/government	15	100%
Real estate	15	100%
Energy	14	93.3%
Marine	14	93.3%
Financial services	13	86.7%
Aviation	12	80.0%
Higher education	12	80.0%
Food and beverage	11	73.3%
Automotive	10	66.7%
Retail	10	66.7%
Transportation/logistic	10	66.7%
Entertainment	9	60.0%
Private equity/investment capital	9	60.0%
Technology	9	60.0%
Consumer durables	8	53.3%
Agribusiness	7	46.7%
Biotechnology	7	46.7%

TARGET CLIENTS

Target clients by revenue among top 15 brokers of U.S. business

Revenue	Number of brokers	Percent
Up to \$10 million revenue	4	26.7%
More than \$10 million up to \$50 million	9	60.0%
More than \$50 million up to \$100 million	11	73.3%
More than \$100 million up to \$500 million	12	80.0%
More than \$500 million up to \$1 billion	7	46.7%
More than \$1 billion up to \$3 billion	4	26.7%
More than \$3 billion up to \$5 billion	2	13.3%
More than \$5 billion up to \$10 billion	2	13.3%
More than \$10 billion up to \$20 billion	3	20.0%
More than \$20 billion	2	13.3%

Source: *BI* Survey

COMMENTARY

Ceiling keeps rising for reinsurance

There's a lot of money floating around the reinsurance industry, and that should be good news for risk managers. In addition to the usual benefit of excess capital pushing rates lower throughout the market, buyers may also benefit from what appears to be a shift in the way reinsurers view their business.

As we report in our special section on reinsurance, beginning on page 20, reinsurers bore the losses of the 2017 hurricane season without seeing a significant fall in capacity — if anything, total reinsurance capital has edged higher than this time last year — which in turn capped attempts to increase rates at subsequent renewals. Estimates vary, but there's roughly \$500 billion in capital in the global reinsurance sector, and about 20% of that is from insurance-linked securities.



Gavin Souter
EDITOR

The rise of the insurance-linked securities sector, which passed its first major test with the 2017 losses, is what's driving so much of the change in the reinsurance sector. With increasingly sophisticated catastrophe models, reinsurers can assess their exposures more accurately and partner with capital providers from outside the industry, such as pension funds and other institutional investors, to offer plentiful capital to ceding insurers and ultimately their primary policyholders.

There's more to reinsurance than just property catastrophe coverage, of course, but the new investors appear to be developing an appetite for other insurance risks, including some casualty exposures.

As a result, reinsurers are looking for new risks to satisfy traditional and nontraditional capital providers to the industry.

At the Rendez-Vous de Septembre in Monte Carlo, Monaco, last month — the first and swankiest of the major reinsurance renewal meetings — reinsurers were eager to discuss how insurers and policyholders can make use of their capital.

As has been the case for a couple of years, one of the main areas of focus was the so-called protection gap, where most global catastrophe losses are uninsured. This can be a tough problem to solve, as reinsurers and insurers need the cooperation of governments to offer meaningful solutions.

Cyber reinsurance was also frequently discussed, but that market continues to be difficult to develop as underwriters struggle to quantify the risks. Perhaps more hopeful for risk managers is the interest that insurers, reinsurers and brokers are showing in developing coverages that provide different options for buyers.

As we report in our cover story, insurance products such as parametric coverage — which uses index-based triggers rather than conventional indemnity triggers, similar to some insurance-linked securities structures — are being offered to primary buyers.

While the price of the products will need to be attractive, such structures can offer risk managers alternative coverage options and access to new pools of capital that will enhance their risk transfer options.

Reinsurers have long been the backstop of the insurance sector, but if they get out in front of coverage trends while they are flush with capital, many could benefit.

SCHILLERSTROM



VIEW FROM WASHINGTON

Parties team in opioid war

Score a major victory for bipartisanship.

In a near-unanimous vote, the U.S. Senate adopted broad legislation to address the opioids epidemic in America.

The Opioid Crisis Response Act of 2018 would approve \$7.9 billion in spending by federal agencies to treat and prevent opioid addiction by, among other things, combating the crisis through data collection and grant programs and increased education and training on best prescribing practices and improved resources for health care providers to assess, diagnose, prevent, treat and manage acute or chronic pain, as well as to detect the early warning signs of opioid use disorders.

Several of the provisions are relevant for the workers compensation sector. The bill would streamline federal requirements for, and provide technical assistance and grants to, state prescription drug monitoring programs so states can improve their programs and doctors can know if patients have a history of substance use, implement other evidence-based prevention strategies and share data with other states.

State PDMP's have proven effective. New York's drug monitoring program, I-STOP, has been in effect since 2013 and helped reduce "doctor-shopping" by 90%. New York is sharing with and receiving prescription drug monitoring data from 25 states and the District of Columbia.

The Senate bill would also clarify the U.S. Food and Drug Administration's authority to require drug manufacturers to package certain drugs, including opioids, for a set treatment duration such as three- or seven-day supplies sealed in plastic. And it would require the secretary of health and human services, in consultation with the attorney general, to submit a report to Congress on federal and state laws regulating the length, quantity or

dosage of opioid prescriptions.

The passage of this bill is big news. The Senate rarely agrees to anything by the 99-1 vote in favor of this bill. It's a strong response to the prescription opioid crisis that has killed more than 200,000 people in the United States from 1999 to 2016, according to the U.S. Centers for Disease Control and Prevention.



Gloria Gonzalez
DEPUTY EDITOR

The U.S. House of Representatives passed a similar bill in June on a 396-14 vote, so all that is left is for the legislative chambers to reconcile their bills, which shouldn't be too much of a challenge given the strength of the bipartisan support, and send it to President Donald Trump. Drug addiction is a deeply personal issue for the president, who has spoken of friends who have struggled with addiction, so he likely will be eager to sign it, as long as nothing objectionable or unrelated is tacked on to the bill. Organizations such as the National Association of County and City Health Officials have been critical of the pace of action by the Trump administration in tackling the opioids epidemic but voiced strong support for this legislation and will likely be cheered by his signature on this bill.

Is the bill perfect? No, of course not, according to experts who say a more comprehensive approach with additional funding is needed to fight the epidemic. But it's a good start.

Great things happen when people work together, even in Washington, D.C.

Are we headed for another Oklahoma land rush?

The U.S. insurance market is at a key juncture in its development as recent regulatory initiatives pave the way for a significant uptick in restructuring activity. Restructuring and runoff transactions in 2017 followed the upward trend of 2016 deal activity, and early signs indicate that the strong market is poised to continue through 2018. This reflects the increasing recognition by owners of discontinued insurance business of the benefits of proactive management of legacy liabilities and back books.

Many insurers are taking steps to improve their operational efficiency, focus on new business, and discontinue or divest businesses that have underperformed and/or are no longer a strategic fit.

Among the insurance companies that have recently restructured are MetLife Inc., American International Group Inc., Axa SA and Hartford Financial Services Group Inc. In PwC's 2018 Survey of the Global Insurance Runoff Market, more than two-thirds of companies in the United States said they thought it was likely or highly likely they would be involved in restructuring activity in the next two years.

An IBT as a restructuring tool

A key driver of this desire for change is the fact that many insurance groups have multiple portfolios of discontinued business that they developed over many years and in many formats. These portfolios can be resource-draining and possibly problematic to the modern insurance organization. Accordingly, moving discontinued or capital-absorbing product lines to another business' balance sheet can provide an important strategic advantage.

There are many jurisdictions throughout the world that have a restructuring tool to achieve this type of transfer. The most familiar is the Part VII Transfer in the U.K., a court-sanctioned novation of policies from one insurer to another that insurers use to rationalize portfolio and corporate restructurings and assist in the closure of discontinued businesses. Generically, this mechanism is referred to as an insurance business transfer.

An IBT involves the substitution of one counterparty for another within the same contract. The IBT's primary value is the potential to conclusively relieve the transferor of its policy obligations and vest these in the transferee. As a restructuring tool, the IBT can benefit insurers because it allows them to adapt themselves to changing business envi-

ronments through group reorganization that can streamline the corporate structure, provide operational costs savings and efficiencies, enable exit from problematic lines of business, bring finality to the runoff businesses and encourage more efficient capital management and improved capital and solvency metrics by releasing excess capital tied up in underperforming insurance portfolios.

Since the U.K. Part VII legislation was enacted in 2000, hundreds of successful transfers have been completed, none of which have subsequently encountered financial difficulties. Similar laws also are prevalent and used throughout continental Europe. However, the U.S. has been slow to adopt an IBT type of restructuring tool. For many years, reinsurance in the form of loss portfolio transfers has

An IBT, involves the substitution of one counterparty for another within the same contract. Its primary value is the potential to conclusively relieve the transferor of its policy obligations.

been the preferred option. While loss portfolio transfers provide economic benefits to the transferring company, they do not provide legal finality. Assumption reinsurance statutes also are available in some states and provide for a traditional novation. However, many insurance companies view these statutes as cumbersome, time-consuming and expensive. In some cases, management may choose to sell companies in runoff, but frequently this is not an effective solution because the runoff may be embedded in a much larger portfolio of active business with no effective means of segregating the blocks of business.

An evolving regulatory landscape

In August 2015, Rhode Island became the first U.S. jurisdiction to pass legislation to provide for insurance business transfers. This legislation closely resembles the U.K. Part VII Transfer, although its application is limited to property/casualty commercial runoff liabilities. Unfortunately, this legislation has suffered

interpretational issues that have limited its use.

Another wave of legislative developments has involved division statutes. These statutes allow a domestic company to divide into two or more insurers. While this is not actually a transfer of a block of business, these statutes can pave the way for future sale or IBT transfers. Connecticut, Pennsylvania and Arizona have division statutes. Iowa, Illinois and Georgia considered similar legislation, but the governors of each ultimately vetoed it. Similar legislation is pending in Michigan.

Oklahoma IBT legislation

On May 7, 2018, Oklahoma Gov. Mary Fallin signed S.B. 1101 into law. S.B. 1101, called "The Oklahoma Insurance Business Transfer Law," allows companies to move blocks of insurance business from one company from any jurisdiction to another company that must be an Oklahoma insurance company. The legislation is closely modeled on the U.K. Part VII Transfer legislation. Like the Part VII Transfer, the Oklahoma legislation applies to all lines of business, live and runoff.

The Oklahoma IBT approval process requires review and approval from the transferring company's domiciliary regulator and the Oklahoma insurance commissioner, as well as review and approval by the court. Like the Part VII, the Oklahoma IBT law also requires the report of an independent expert who focuses on policyholder security. In a recent presentation at the NAIC Summer 2018 Meeting in Boston, Oklahoma Insurance Commissioner John Doak said "we have looked at what worked in the U.K. with the Part VII and we have designed a policy and legislation that is a sound framework for protection of policyholders in these types of business transfers."

The Oklahoma IBT law has multiple safeguards to protect policyholders:

- Notice to all policyholders
- Regulatory and judicial approval
- Report of independent expert to evaluate impact on policyholders
- 60-day comment period
- Opportunity to be heard at court hearing

The broader application of the Oklahoma IBT has appeal to a much larger market that is challenged to find effective options for restructuring their business. The court-sanctioned novation process



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set forth in the Oklahoma IBT provides companies with an effective means to transfer all or part of a portfolio to another company achieving complete finality for the transferring company while also adequately protecting the rights of policyholders through a robust regulatory and judicial review process. A significant finding from U.S. respondents to the PwC Global Insurance Runoff Survey was reflected by some 41% citing they anticipate using an insurance business transfer as an exit mechanism in the next three years.

In some ways, the Oklahoma IBT is similar to a sale of a business. However, rather than selling a legal entity, it is the sale of a block of business. The Form A review process has worked well for the industry for many years and the more robust review in the IBT review process should give comfort to regulators that this process will work equally as well.

The U.K. experience shows that the insurance business transfer concept is a successful business model for the transfer of all lines of insurance business. Going forward, U.S. insurers can consider an insurance business transfer as a strategic tool to allow insurance groups, captive insurance companies and others to restructure or to exit certain lines, or portfolios of runoff business to unleash capital for better emerging opportunities, as well as to free management attention and oversight to more core activities.

Willis launches cargo undercover policy

■ Willis Towers Watson PLC has launched a cargo undercover policy that includes geopolitical exposures that previously would have been covered separately.

The policy provides cover for a variety of geopolitical exposures including political violence, terrorism, rebellion, territorial wars and looting, whether politically motivated or otherwise, the broker said in a statement.

Cargo undercover is aimed at minimizing potential gaps in coverage and the likelihood of claims disputes, as well as removing the need to establish motivation for a claim, the statement added.

Hylant offers captive option for middle market

■ Hylant Group Inc. launched a group captive insurance option for middle-market businesses.

Member firms can insure automobile liability and physical damage, general liability including products and completed operations, and workers compensation and employers liability through the Tennessee-domiciled Haven Re group captive, the Toledo, Ohio-based brokerage said in a statement.

UK underwriter extends billing cover for US care

■ CFC Underwriting Ltd., a London-based managing general agent, introduced medical billings coverage for U.S. health care providers.

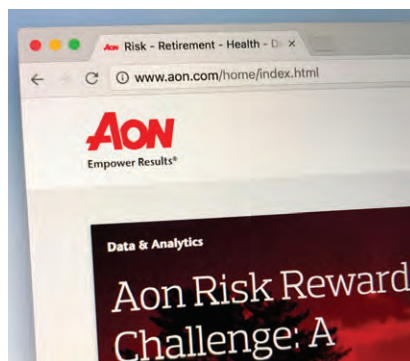
The policy covers the defense costs of actual or alleged billings fraud and expenses arising from an independent audit on billing practices following an allegation of fraud, the company said in a statement. The coverage, which has up to \$5 million in limits, also offers reimbursement for fines and penalties arising out of medical regulatory violations, including Health Insurance Portability and Accountability Act-related fines and penalties.

CFC said the coverage's cyber and privacy insuring clause addresses specific cyber exposures faced by health care companies, and offers a separate section for extortion to address ransomware.

Sompo introduces professional lines platform

■ Sompo International Holdings Ltd. launched SomPro, a global financial and professional lines platform.

The platform delivers underwriting, risk management and claims services by sharing the expertise across Sompo's specialty



Aon unveils specialty practice

■ Aon PLC's reinsurance solutions business has launched a public-private enterprise specialty practice.

The London-based practice will focus on terrorism and natural hazard risk, working with Aon's credit and guarantee and government practice in the U.S. and other units such as Aon Securities and Impact Forecasting, and will build on Aon's "models of government de-risking through commercial plan structures," the brokerage said in a statement.

"The (insurance and reinsurance) industry has record levels of capital at a time when public entities need increased protection against the risks they face," Nick Frankland, U.K. CEO of Aon's reinsurance solutions business, said in the statement.

"In particular, there is great potential to make the most of this capital through parametric triggers," he said.

teams, the Pembroke, Bermuda-based insurer and reinsurer said in a statement. More than 30 financial and professional lines insurance and related reinsurance products will be offered.

SomPro has capacity of \$50 million per product for most lines, Sompo said on its website.

FM Global offers cyber risk assessment tool

■ FM Global introduced a cyber risk assessment tool for policyholders to help policyholders measure overall cyber security resilience.

FM Global Cyber Risk Assessment is a

secure online portal where policyholders answer questions to help them evaluate their organization's governance, insider threat management, information technology security and response capabilities, an FM Global spokeswoman said in a statement.

Beginning in 2019, the tool will also assess industry control systems and the policyholder's ability to defend against malicious attacks on building systems, process control and equipment due to their increased network connectivity, FM Global said in a statement.

Hiscox offers coverage for US commercial flood

■ Hiscox Ltd. launched FloodPlus Commercial, a policy that covers U.S. commercial flood risks.

The policy is designed to provide small to medium-sized businesses with a flood insurance policy that offers wider coverage and higher limits than cover currently available under the federal National Flood Insurance Program, Hamilton, Bermuda-based Hiscox said in a statement. It offers limits of \$2.5 million compared with the NFIP's \$1 million and includes cover for business interruption, according to the statement.

Comp program extended to cannabis industry

■ Atlas General Insurance Services LLC launched a workers compensation program for the cannabis industry in California.

Affiliated with Accredited Surety and Casualty Co., the program covers workers comp risks involved in all aspects of the cannabis industry, including growers, extractors, analytical labs, medicine manufacturers, food and beverage products manufacturing, packaging, warehousing and distribution, transportation and dispensaries, according to a statement by San Diego-based Atlas.

Origami launches claims support app

■ Origami Risk LLC introduced Origami Compliance, a claims-support program that provides adjusters with automated access to forms, rates, rules and regulations intended to streamline their adjudication process.

The program is delivered through a web application programming interface that facilitates a reliable and secure connection with any claims management system, the Chicago-based risk management and insurance software technology firm said in a statement.

DEALS & MOVES

Marsh & McLennan acquiring JLT

Marsh & McLennan Cos. Inc. is buying British insurance and reinsurance broker Jardine Lloyd Thompson Group PLC for £4.3 billion (\$5.6 billion).

Marsh & McLennan will acquire all issued and to-be-issued share capital of London-based JLT for £19.15 (\$25.17) per share in cash, representing a 33.7% premium from JLT's closing share price of £14.32 on Sept. 17, the brokerage said in a statement.

The transaction is expected to close in spring of 2019. JLT CEO Dominic Burke will join Marsh & McLennan as vice chairman.

Markel set to buy ILS manager Nephila

Markel Corp. has entered into a definitive agreement to acquire all outstanding shares of insurance-linked securities manager Nephila Holdings Ltd. Terms of the deal were not disclosed.

Nashville, Tennessee-based Nephila manages more than \$12 billion of assets for over 300 investors, Richmond, Virginia-based Markel said in a statement. The transaction is expected to close in the 2018 fourth quarter.

Apollo takes Aspen private in \$2.6 billion deal

Funds affiliated with alternative investment manager Apollo Global Management LLC will take Bermuda-based Aspen Insurance Holdings Ltd. private in an all-cash transaction valued at \$2.6 billion.

Apollo Funds will pay \$42.75 per share, representing a 6.6% premium to Aspen stock's closing price on Aug. 27, the companies said in a statement. The deal is expected to close in the first half of 2019.

Former Hub execs team with private equity firm

Private equity firm Huron Capital Partners LLC and two former Hub International Ltd. executives have formed High Street Partners, which will focus on insurance agency acquisitions.

High Street also acquired Traverse City, Michigan-based Peterson McGregor and Associates LLC, which provides commercial insurance and employee benefits services, Detroit-based Huron said in a statement. Terms of that deal were not disclosed.



“Technology will continue to play a big role in shaping the future of insurance ... It is important, though, that underwriters don’t lose sight of the relationship aspect of underwriting with the implementation of new technology.”

UP CLOSE

Ann Marie Snyder

NEW JOB TITLE: Philadelphia-based assistant vice president and senior underwriter, excess construction, Axa XL, a division of Axa SA.

PREVIOUS POSITION: Philadelphia-based assistant vice president and senior underwriter, professional/pollution construction, XL Catlin

OUTLOOK FOR THE INDUSTRY: Technology will continue to play a big role in shaping the future of insurance. Companies that use technology to help come up with innovative solutions for their insureds will be better positioned to keep up with their insureds’ needs. It is important, though, that underwriters don’t lose sight of the relationship aspect of underwriting with the implementation of new technology.

GOALS FOR YOUR NEW POSITION: My goal for my new position is to continue to grow the Southeast region, with a strong focus on expanding broker relationships and winning target accounts.

CHALLENGES FACING THE INDUSTRY IN YOUR AREA: There is currently a shortage of skilled workers in the construction industry. Coupled with inexperienced workers and an aging workforce, this can drive up costs and losses for the companies.

FIRST EXPERIENCE IN THE FIELD: My first job in the industry was as an underwriter at AIG Environmental.

ADVICE FOR A NEWCOMER TO THE INDUSTRY: While your technical skills and knowledge of the industry are important, newcomers should work on their soft skills, too, such as networking and communicating face to face.

DREAM JOB OUTSIDE THE INDUSTRY: I love throwing parties, so I think I would be an event planner if I didn’t work in insurance.

LOOKING FORWARD TO IN YOUR NEW JOB: I am looking forward to getting back to the South and expanding upon the relationships I already have.

COLLEGE MAJOR: Economics and geography

FAVORITE MEAL: I would like to say something fancy, but I love crabs and my mom’s macaroni and cheese.

FAVORITE BOOK: “Brain on Fire: My Month of Madness,” by Susannah Cahalan

HOBBIES: Cooking, brewing beer and biking

FAVORITE TV SHOW: “Criminal Minds”

ON A SATURDAY AFTERNOON: We have two kids under 2, so we spend most Saturdays doing laundry and playing with our boys. In the summer, we like to go to the pool or beach.

ON THE MOVE



Aon PLC named former Guy Carpenter & Co. LLC Bermuda CEO **Peter Stubbings** as CEO of its Global ReSpecialty operation, effective Jan. 1. He will succeed **Bob Bissett**, who will become Aon’s U.K. growth leader. Both executives are based in London.



Karen Reutter was named head of construction for Zurich North America. She replaces Scott Rasor, who retired this year. Previously, she worked for Willis Towers Watson PLC as head of construction broking for North America.



She is based in Schaumburg, Illinois.



Michael Costonis was named chief operations officer of CNA Financial Corp., succeeding J. Merten, who will retire at the end of 2018. Mr. Costonis previously was global insurance industry leader at Accenture PLC. He is based in Chicago.

insurance industry leader at Accenture PLC. He is based in Chicago.



Ekhosuehi Iyahan was named secretary general of the Insurance Development Forum. She previously held senior positions at the African Risk Capacity and the Caribbean

Catastrophe Risk Insurance Facility risk pools. She is based in Johannesburg.



Helen O’Sullivan has been named CEO of Axis Specialty Europe SE and Axis Re SE, units of Axis Capital Holdings Ltd. She previously was deputy global tax director of Axis Capital. Based

in Dublin, she succeeds Tim Hennessy, who was named chief financial officer of Axis Insurance’s international division.



Lloyd’s of London Chief Commercial Officer **Vincent Vandendael** will join Everest Insurance, the specialty insurance unit of Everest Re Group Ltd., as CEO of international

insurance early next year, Lloyd’s announced. He is based in London.

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Skip lunch, feed employee burnout

Employees who don't take lunch breaks run the risk of burnout, according to one expert chiming in on a study that revealed half of workers skip the midday break.

The study also found that the average lunch break lasts 39 minutes, down from 43 minutes in 2014, according to a researcher with Menlo Park, California-based OfficeTeam, a staffing agency.

CBS News sought commentary from Ravi Kudesia, a professor of human resources management at Temple University.

Americans "wear our busyness as a badge of honor, and we kind of also like to be seen as the person working right by their computer," she told CBS, adding that the downside is overworked employees. The upside? More productive workers.

"On the negative side, it leads to burnout, so there's this double-edge sword," Ms. Kudesia said.

No candy within 25 feet of office

Tempting treats on the breakroom table at work, perhaps on a Friday or during a holiday, used to be a gesture of goodwill. But now it's akin to "secondhand smoke," according to a Wall Street Journal story.

Chronicling the woes of the health-conscious workers and their crumbling willpower in the face of desktop candy bowls and doughnuts for everyone, supervisors in some offices are starting to ban sweets in the office — at least those in plain sight.

Offices that don't ban the sweets have seen the silent battlefield. On the other side are people who delight in some midafternoon chocolate.



UNDERDOG PET INSURANCE GAINS PUP-ULARITY



Compared with other personal lines, pet insurance is the "runt of the litter," the Wall Street Journal reported.

But all that could be changing, as pet health insurance, meant to cover accidents and illnesses, grows in popularity.

Last year's gross annual premiums were 23% higher than the previous year, when the total was \$837 million, according to the newspaper, citing figures from the North American Pet Health Insurance Association.

The tally of insured pets has also increased, to 1.83 million last year, roughly 16% more than the previous year. That accounts for only 1% of dogs and cats, but insurers expect growth to continue, according to the Journal.

"Twelve million puppies and kittens come into the world every year," Rob Jackson, CEO of the pet insurer Healthy Paws, told the Wall Street Journal. "There's still great room to grow."



Police take steps to recover slippers

A pair of ruby slippers used while filming "The Wizard of Oz" have found their way home after a call to the film prop's insurer led to a crack in the 13-year-old case.

The famous shoes were stolen from The Judy Garland Museum in Grand Rapids, Minnesota, in 2005 and were recovered in a sting operation after a man approached the shoes' insurer and said he could help get them back, the FBI told an Associated Press reporter last month.

The slippers, on loan to the museum in the late actress' hometown, were swiped by someone who broke into a small display case. The shoes were insured for \$1 million, according to The Associated Press.

There were no leads until 2017, when a man approached the unnamed insurer to say he could help get them back. The slippers were recovered in July during a sting operation in Minneapolis. No one has been arrested.



Claimant bounced from night club gig

One might say he's another sort of bouncer: from prison guard to workers compensation recipient to night club security to possible inmate.

A New York prison guard who was out on an alleged workers compensation injury was arrested on felony fraud charges after he was caught working as a bouncer at a night club, the Times Union reported.

An investigation by the state's inspector general found that Benjamin Essenter, a corrections officer at Cocksackie Correctional Facility in New York who reported being injured in 2016, was working at Footsy Magoo's where he was "paid off the books," the newspaper reported.

Mr. Essenter had not been back to work as a prison guard at the time of his arrest, according to the report.

The former guard is facing charges of grand larceny, insurance fraud and fraudulent practices — all felonies, the newspaper reported.



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