

# Industry Focus

JUNE 2007

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FOR STRATEGIC DECISION MAKERS IN COMMERCIAL INSURANCE



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## COVER FOCUS

## EMERGING MARKETS & GLOBALIZATION

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### E-discovery an e-dilemma

A recent survey suggests the new rules of e-discovery may present a big problem to the insurance industry and other businesses, as few are prepared for the new requirements. **Page 22**

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**RODD ZOLKOS**  
Editor, Industry Focus  
rzolkos@businessinsurance.com

## Storm season to deal cards

As was made abundantly clear by last year's insurance industry profits, insurers, along with the inhabitants of windstorm-exposed coastal areas, caught a lot of good luck in 2006 by way of a relatively mild U.S. hurricane season.

Now, with hurricane season upon us once again, who's feeling lucky?

Evidently, many would suggest the state officials behind Florida's plan for providing coastal area homeowners property coverage are feeling fortunate.

It's a high-stakes gamble, some say, and Florida's all-in.

A lot of folks in the industry have been offering many strong opinions on Florida's decision to rely on its state-run Citizens Property Insurance Co. and its state-sponsored Florida Hurricane Catastrophe Fund to bring property insurance rate relief to homeowners in hurricane-exposed areas of the state.

Many industry folks have suggested that state lawmakers are subsidizing development in high-risk areas, increasing Florida's exposure to future storms while transferring the cost of insuring those properties to homeowners in lower risk areas. In fact, those were among the points raised in a study by Milliman Inc. that was released last month. The study was commissioned by the Property Casualty Insurers Assn. of America.

Milliman and the PCI are among those that say the state is engaging in a high-stakes gamble, one that threatens to send Florida to the bond markets seeking tens of billions of dollars to pay claims should a one-in-25-year storm strike and up to \$69 billion for a one-in-250-year event.

Such a bond issue would dwarf any previous single municipal bond offering, and could wreck Florida's credit rating in addition to burdening taxpayers for years to come. And structuring a bond issue of that size, particularly given the economic impact from a storm of that magnitude, would likely be time-consuming and challenging.

So, as if the Milliman/PCI study's take on Florida lawmakers rolling the dice on future hurricanes isn't enough, a day or two after the study was released I saw an Associated Press report about the Florida Lottery refusing to pay a \$500,000 prize to the holder of a

\$20 scratch-off ticket. Lottery officials said one of the numbers on the ticket was a misprint.

The ticket buyer said the numbers matched, according to the AP story, making the card appear to be a winner. Not so fast, said the Lottery. A scan of its bar code indicated it wasn't a winning ticket, and what appeared to be a 1 on the scratch-off actually should have been a 13.

In a statement, Florida Lottery officials said, "We are extremely proud of our record of paying every valid claim for all winning tickets the lottery has produced in its 19-year history."

Hmm. A dispute over "valid" claims.

About the same time the lottery misprint story was breaking, a press release arrived from Florida Chief Financial Officer Alex Sink announcing appointees to the Task Force on Citizens Property Insurance Claims Handling and Resolution. No one from the state lottery is on the task force. Still, the sit-

**SUCH A BOND ISSUE** could wreck Florida's credit rating in addition to burdening taxpayers for years to come.

uation gives one pause.

Everyone knows that even insurance companies that have been in the business for decades occasionally provide policy documents containing typos and misprints to their customers.

And, as the Katrina experience demonstrates, after a loss, even well-established insurers have found themselves in disputes with policyholders over policy language and exactly what's covered.

Take a look at what some insurers have experienced in Mississippi recently. Now imagine a scenario—not saying it would happen, but imagine—following a major storm in Florida in which state officials face policy disputes from hundreds or even thousands of Citizens policyholders.

Maybe Florida's gamble is even bigger than anyone's reckoned.

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# Modeler, institute study China typhoons

**BOSTON**—Risk modeling firm AIR Worldwide Corp. is collaborating with the Shanghai Typhoon Institute on research examining the atmospheric and hydrologic characteristics of typhoons making landfall in China.

Boston-based AIR will use the findings of the research to enhance its new China typhoon model by incorporating up-to-date information about the evolution of typhoons.

Meanwhile, the Shanghai Typhoon Institute indicated it expects the collaboration to advance the understanding of typhoon risks in China and provide information that will aid the country in preparing for natural disasters and working to mit-

igate their impact.

The Shanghai Typhoon Institute's mission is to improve the understanding of tropical storms, specifically in terms of the mechanisms that influence their formation, track, structural evolution and landfall location. Knowledge gained through that process will be applied to studies submitted by various governmental, administrative and operational organizations.

As part of the research, the institute will perform a detailed analysis of the major historical typhoons that have made landfall in China. The institute will examine the genesis, track, maximum observed wind speed and accumulated precipitation



Typhoon Saomai hit a temple and other structures in Cangnan, China, last August.

REUTERS

for each storm, and will perform an in-depth analysis of the environmental factors that influenced the evolution of the wind and precipitation fields.

The Shanghai Typhoon Institute of the China Meteorological Administration was founded with the approval of China's Ministry

of Science and Technology, Ministry of Finance and the Central Office of Personnel Management. Its goal is to become an internationally recognized tropical cyclone research institution within the next 10 years, as well as a base for training professionals specializing in tropical cyclone science. ■

## BY THE NUMBERS

### Top 10 emerging property/casualty insurance markets, 2005

	Premiums (U.S. dollars, millions)	Share of emerging markets
South Korea	\$24,085	14.0%
China	\$20,539	12.0%
Russia	\$16,618	9.7%
Brazil	\$13,399	7.8%
Taiwan	\$10,197	5.9%
Mexico	\$7,524	4.4%
South Africa	\$7,256	4.2%
Poland	\$5,517	3.2%
India	\$4,848	2.8%
Turkey	\$4,787	2.8%

Sources: National insurance authorities, Swiss Re Economic Research & Consulting

# Hartford program eases return of injured workers

**SIMSBURY, Conn.**—Hartford Financial Services Group Inc. has created a specialized team of clinical professionals to facilitate disabled employees' safe return to work.

Through its Simsbury, Conn.-based group disability operation, Hartford also has created a return-to-work road map that provides a step-by-step guide to creating programs to transition sick or injured employees back into the workforce.

Working with the employee's physician and employer, the return-to-work coordinators concentrate on the employee's abilities—rather than physical limitations—to identify work

opportunities and create a customized plan for a safe and sustained return to the workplace.

The coordinators focus on keeping short-term disabilities from becoming long-term issues that ultimately prove costly both for employees and their employers.

Meanwhile, the return-to-work road map, located online for Hartford's group disability and life insurance customers, offers an interactive calculator estimating potential savings to be gained from a return-to-work program, sample policies and procedures, job descriptions and training for supervisors and managers, and tools for tracking results and evaluating the program. ■



*Lloyd's of London, soon to celebrate its 319th birthday, is the world's oldest insurance marketplace and has seen a lot of change in how insurance is transacted. Wendy Baker, president of Lloyd's America Inc. in New York, offers her insights on how Lloyd's itself is changing to meet the needs of its underwriters, brokers and policyholders.*

The United States is an important market to Lloyd's. How is Lloyd's making access to the marketplace easier?

It's a big market for us. About 40% of our business is from the United States, which is over \$11 billion. We've grown dramatically in the last eight or nine years. Access does change. Distri-

bution channels change over time. Buying habits of our customers change. What we're trying to do is make access easier. We're trying to make it easier for a U.S. broker to become a Lloyd's broker so that they can access the market. Lloyd's is a quirky organization, and it's an Act of Parliament that controls a majority of the regulations within the market.

Under that Act of Parliament, you have to be a Lloyd's broker to access the market. Rather than trying to change that law, it's easier to change what it takes to become a Lloyd's broker.

So we're trying to streamline that process, make it a quicker process and have

some brokers that we're interested in and they're interested in placing in London have an easier time getting to us.

We're very interested in how to make access easier for clients around the world.

Several of the largest underwriting companies at Lloyd's have established presences in the United States and Bermuda to get closer to the business they're writing. How do you see that evolving?

Evolving is the right word. It's an evolution, not a revolution of any type. Within Lloyd's, our organizations have grown to a substantial size, and

they see access, maybe some different distribution channels, some different types of business that doesn't make it across the Atlantic, that they would like to have the ability to underwrite. We need to make sure that we provide the best platform in the world, and that is our aim. But in some cases, people will go elsewhere because they need another distribution channel that we don't offer.

We need to work harder at our end, but we also have to understand that there is an evolution and people will go to different parts of the world to get business that is just not coming there for a multitude of reasons.

How is Lloyd's harnessing technology to make the placement process easier?

A good example of that is the new office we opened in Shanghai, which is virtually paperless. We have a number of syndicates operating out of that market. They are underwriting business in Shanghai and it is sent right in, without paper, into London, where it's processed, booked, etc. within the Lloyd's building. We do have the ability to do it.

This new office is certainly an example of the fact that you can place business at Lloyd's both ways: You can do it locally, without paper locally, or you can do it in the Lloyd's building when you really need to sit down and talk with somebody about a risk that needs a lot of explanation, or there's a relationship there or an issue or problem with the risk. You have to be able to cover both sides of the spectrum. ■

## Lilly appointed to Richmond Fed board

**CHARLOTTE, N.C.**—An academic whose background includes expertise in insurance and risk management has been appointed to a board post with the Federal Reserve Bank.

Claude Lilly, dean of the University of North Carolina at Charlotte's Belk College of Business, was appointed last month to the board of the Charlotte,

N.C., branch of the Federal Reserve Bank of Richmond.

The Richmond Fed, one of 12 district reserve banks in the Federal Reserve System, serves the Carolinas, the District of Columbia, Maryland, Virginia and most of West Virginia.

Mr. Lilly joined the Belk College faculty in 1997 and was appointed dean in

2000. Before coming to UNC Charlotte, he was a professor of risk management and insurance and director of the Center for Risk Management and Insurance Research at Florida State University.

Among the areas of Mr. Lilly's expertise are insurance company operations, reinsurance, rate making, self-insurance and risk management. ■

## S&P launches standardized capital model

**NEW YORK**—Standard & Poor's Corp. has released an enhanced insurance risk-based capital model for life, annuity, property/casualty, health insurance and reinsurance companies worldwide.

According to New York-based S&P, the globally consistent framework it developed for analyzing insurance company capital includes regional risk factors that were developed to reflect unique features of local insurance markets.

The rating agency said that from its initial request for comment in November 2006 until the comment period's end in February, it received more than

200 responses from market participants around the world. That feedback played an important role in the development of the enhanced model, S&P said.

One major change in the new model's framework is an expression of capital adequacy for each rating level, the rating agency said, and redundancy or deficiency that can be quantified against the target capital amount. The model uses confidence levels for each rating category, based on observed five-year default rates.

Also, for the first time, S&P will provide an explicit diversification credit in the capital model across sectors and

between product type and risk type, as well as for investment risks.

S&P began implementation of the new model in late May, and both the enhanced model and the current model will be used in parallel until the end of the year, with S&P making adjustments in the enhancement if necessary. Early next year, S&P expects the enhanced model to become the sole tool used for assessing capital adequacy in the ratings process.

Information on the new capital model, its changes and a user's guide can be found online at [www.standardandpoors.com](http://www.standardandpoors.com). ■



### THE QUOTE

**'MICROFINANCE HAS PROVEN** to be a successful tool to help people out of poverty. Microinsurance is an important tool to complement microfinance.'

**DIRK REINHARD, VICE CHAIR**  
MUNICH RE FOUNDATION

## Navigators launches specialty business program division

**NEW YORK**—Navigators Management Co., the principal underwriting agency subsidiary of the New York-based Navigators Group Inc., has established a specialty program division.

The new division will focus on developing portfolios of business in a variety of specialty industry niches produced through program administrators. Among the products underwritten by the specialty program division will be property, general liability and commercial auto.

Rick Cullen has joined Navigators as president of the new division and will be based in the company's Schaumburg, Ill., office. Mr. Cullen has spent more than 15 years working in the development, implementation and management of specialty programs and products.

The Navigators Group is an international insurance holding company with insurance company operations, underwriting management companies and operations at Lloyd's of London. ■

## Willis Re executive recognized for professional development

**PHILADELPHIA**—The Insurance Education Institute and the Reinsurance Assn. of America have awarded the Lifetime Achievement Award to William H. Panning, executive vp and managing director at Willis Re Inc.

Frank Nutter, RAA president, and Larry Forrester, IEI president, presented the award during the RAA's annual Current Issues Forum last month in Philadelphia.

The award was created to recognize insurance professionals who have championed education and professional development and whose organizations have supported both the IEI and the RAA.

Mr. Panning has been educating business professionals since 1974, and the IEI and RAA noted that for the last three decades, he has been a "passionate and tireless researcher, author and educator, continually working to improve the insurance industry's understanding of enterprise risk management."

The IEI created the Lifetime Achievement Award in 2003 to recognize those who contribute to establishing and endorsing insurance education to younger generations.

The Insurance Education Institute's mission is to improve the understanding of insurance and risk management and their role in society. ■

**Robert Bentley** has joined Newark, Calif.-based Risk Management Solutions Inc. as the company's first chief operating officer. Mr. Bentley previously was global COO at Guy Carpenter.

**Gary T. Huffman** has been named president and chief executive officer of Lincoln, Neb.-based Union Central Life Insurance Co. Mr. Huffman previously was president and COO. **John Jacobs**, who previously held the CEO post, has been named president and CEO of the UNIFI Mutual Holding Co., and will continue to serve as Union Central's chairman.

**Charlie Fry** has been appointed global COO of Guy Carpenter & Co. L.L.C. Mr. Fry, who comes to Guy Carpenter from Travelex, where he was director of business development and operations, will be based in London.

Armonk, N.Y.-based Hiscox USA has named **Eric Pruss** COO. Mr. Pruss joins

Hiscox from Chubb Corp., where he spent over nine years in corporate development and marketing including as senior vp of strategic marketing for Chubb's personal insurance products.



Mr. Huffman

**John P. Drzik** has been named president and CEO of New York-based Oliver Wyman, a Marsh & McLennan Cos. Inc. unit combining three previously separate consulting units: Mercer Oliver Wyman, Mercer Management Consulting and Mercer Delta Organizational Consulting. Mr. Drzik previously served as president of Mercer Specialty Consulting.

**Joseph G. Shores** has been named president of Select Specialty Manager L.L.C., a new Chicago-based underwriting unit of Greenwich, Conn.-based W.R. Berkley Corp. The new unit will offer casualty products for the excess and surplus lines market. Mr. Shores has spent more than 19 years in the insurance

industry, including work in specialty, professional liability and excess coverages.

**Samuel L. Jones** has rejoined ABD Insurance & Financial Services Inc. as president and CEO. Mr. Jones, who left the Redwood City, Calif.-based broker in 2005 to pursue other interests, was formerly president of the company's property/casualty division. He succeeds **Dan R. Francis**, who resigned as president and CEO after parent Greater Bay Bancorp announced last month it would be acquired by Wells Fargo & Co. Mr. Francis had been named president and CEO of the Redwood City, Calif.-based brokerage in 2005.

**David P. Bolger**, executive vp, chief financial officer and chief administrative officer of Chicago-based Aon Corp. is leaving the company. Mr. Bolger, who joined Aon in January 2003, is to remain with the insurance brokerage for a time after a successor is

appointed to ensure an orderly transition.

American International Group Inc. unit American Life Insurance Co. has named **Joyce A. Phillips** president and COO, effective July 9. Ms. Phillips joins ALICO from Citigroup, where she has been head of international retail banking since 2005.

Blue Care Network of Michigan has appointed **Laurie Westfall** COO of Blue Care Network, the Southfield, Mich.-based HMO subsidiary of Blue Cross Blue Shield of Michigan. Previously, she was COO and local integrity officer for Care Choices.



Ms. Westfall

MassMutual International L.L.C., a wholly owned subsidiary of Massachusetts Mutual Life Insurance Co., has named **Ricardo Calderon**, most recently vp and associate general counsel in MassMutual's corporate law division, as senior managing director and COO. ■

## Swiss Re to continue E&O coverage for Big I

**OVERLAND PARK, Kan.**—Swiss Re's Commercial Insurance and the Independent Insurance Agents of America have entered into a five-year agreement under which Swiss Re will remain the endorsed errors and omissions insurer of the Big I.

Under the agreement, Swiss Re's Commercial Insurance will continue to offer coverage terms and loss control credits that are exclusive to members of IIABA.

Policies are underwritten by Overland Park, Kan.-based Westport Insurance Corp., a Swiss Re unit, and are backed by Swiss Re's financial strength and rating.

Swiss Re and the Big I had earlier announced the launch of a program providing nonadmitted E&O coverage for IIABA members.

The nonadmitted product is designed for agencies with unique operations and special needs requiring customized

coverage. Policies issued under the nonadmitted program are underwritten by the same team at Swiss Re that handles the admitted Big I program.

Coverage in the nonadmitted program is written by Swiss Re unit Specialty Insurance Corp., with policies written on a claims-made basis.

Limits of up to \$5 million per claim with a \$10 million aggregate are available, with deductibles starting as low as \$5,000. ■



# SMALL BUSINESSES BIG BENEFITS

By Meg Fletcher

Providing insurance for the working poor in developing countries is expanding rapidly, although the market faces social and economic challenges.

Most often, policyholders are women such as an Indonesian seamstress who took out a loan to buy three sewing machines to start a business to make batik dresses to sell to locals and the occasional tourist.

Policyholders also include men, such as a Brazilian who wanted to buy cattle to haul a cart over rocky terrain so he could transport cargo from one town to another.

These two entrepreneurs are examples of the 75 million working

poor who have obtained loans and greater economic security with the help of "microinsurance." That term encompasses a variety of special insurance products that are tailored to protect policyholders' jobs, lives, health and sometimes property from a variety of risks including sickness, accident, death and weather-related catastrophes.

Most of the global working poor (see box, page 10) make the equivalent of \$2 a day or less, often as part of the informal economy and outside the reach of their countries' safety nets, if such nets exist, observers say.

The concept of microinsurance, which New York-based American International Group Inc. pioneered 10 years ago in Uganda, is now attracting other major insurers and reinsurers. They see an emerging market opportunity in meeting the needs of the working poor now, and if entrepreneurs increase their earnings and holdings, in the future, too.

### 'WIN-WIN-WIN'

Reaping profits and market share, however, require sensitivity and flexibility to gauge the emerging consumers' wants and needs, observers say.

"It can be a win-win-win—for insurers, intermediaries and customers—but there has to be a significant effort in making sure products are designed for the market," said Michael J. McCord, president of MicroInsurance Centre L.L.C., an Appleton, Wis.-based consultant and research firm. It recently published a report on "The Landscape of Microinsurance in the World's 100 Poorest Countries."

Some reinsurers and insurers agree wholeheartedly.

"Munich Re sees significant growth potential in this field of business" in coming years, Stefan Mosel, the reinsurer's executive manager for its Southern Latin America unit, said in an e-mail. "Even with low sums insured, thousands of clients add up to an important accumulation and produce the need for reinsurance protection."

The German-based reinsurer is writing microinsurance business in Columbia and is interested in the potential for covering property in Latin America.

The Munich Re Foundation also has

played an important independent role by cosponsoring annual conferences, including one in Cape Town, South Africa, last year and one planned for Mumbai, India, in November. The foundation also copublished a book last year, "Protecting the poor: A microinsurance compendium," with the International Labour Office in Geneva, Switzerland.

In addition, American International Underwriters Ltd., a unit of AIG, now sells microinsurance products to 2.25 million individuals in 12 countries, "with an expectation that this will exceed 10 million by year-end 2008," Len Battifarano, an AIU senior vp, said in an e-mail. Over the past 18 months, AIU embarked on a worldwide expansion and is exploring new opportunities in the Middle East, and in Asia and Latin America "where the demand is particularly high," he said.

AIG also gave a \$1.5 million grant in April to the Washington-based Foundation for International Community Assistance Inc., a major microfinance organization. The grant supports developing products, institutional risk management programs and training financial educators.

Also, Allianz A.G. of Germany has been selling microinsurance products in India since 2003 and now has about 250,000 clients. Following the devastating 2004 tsunami, Allianz also began a pilot program to sell life and nonlife products in Indonesia, where it now has more than 20,000 clients, said Michael Anthony, a member of Allianz's Sustainable Strategy Team.

"Emerging markets imply an enormous economic potential," because 86% of the world's more than six billion people live there, according to the 2006 Cape Town conference report. "In 2003, they accounted for a mere 10% of worldwide nonlife premiums and only 11% of life premiums."

The numbers are impressive, but so is the challenge of understanding emerging consumers' needs and how to address them successfully.

"It is very important to understand that microinsurance requires a different mindset" to craft a successful distribution strategy, appropriate products

and efficient processes, Mr. Mosel said.

Microinsurance is delivered through a variety of channels. The most typical is a partner-agent model that links an insurer with community-based or non-governmental organizations, such as FINCA or the Cooperative for Assistance and Relief Everywhere Inc., that act as intermediaries by operating a microfinance unit, such as a village bank, that deals directly with the consumer. In Latin America, though, agents are more involved in delivering products, some insurers said.

### FOLLOWING YUNUS

Many microinsurance programs start by providing mandatory credit life insurance for microloans, which have gained prominence since Bangladeshi banker Muhammad Yunus won the Nobel Prize last year for microlending.

The Indonesian seamstress who sought the sewing machine loan had microinsurance through Allianz to guarantee her loan of €87 for a five-month period at a one-time cost of €43. If she died during the loan period, her credit life insurance would pay off the loan and pay her heirs twice the loan amount, Mr. Anthony said.

While most microinsurance generally tends to grow out of credit, in South Africa it has grown out of funeral insurance that is purchased by an estimated 7% to 15% of the population.

As microinsurance programs develop, they usually expand coverages and develop appropriate local products.

Depending on the country, AIU offers a variety of coverages, including personal asset protection, and accident and health coverage that includes a variety of hospital-related coverages, accidental death and disability as well as repatriation of remains and burial, Mr. Battifarano said. "We also provide cattle insurance as well as cover for two-wheeled vehicles and farm tractors."

Allianz said in a statement that its microinsurance operation in India covers accident, household, fire, cattle, motor insurance and some life-related coverages. Microinsurance policies range from about 5,000 to 50,000 rupees.

Meanwhile, consumers elsewhere want different coverages. For example,

parents in Ecuador want protection that covers their schoolchildren's expenses, observers say.

Developing efficient processes for marketing microinsurance and handling claims also can be challenging.

Marketers often must start by having to explain the benefits of insurance.

In some cases, "the market doesn't understand insurance, or has a negative attitude toward it," said Mr. McCord, a microinsurance expert whose previous work included the AIG and FINCA programs. In some countries, potential consumers are wary of insurance because they had been victimized by state-mandated auto insurance companies that did not pay injured pedestrians' third-party claims, he said.

All microinsurers emphasize the need to write policies in simple and clear language and to educate potential consumers about insurance. For example, AIU provides training and education on financial literacy. "We believe that this education is as important as the coverage we provide," Mr. Battifarano said.

Although AIG does not relax its underwriting standards, "we do provide for easier claims procedures," he said.

### MARKETING STRATEGIES

Particularly in a small village, for example, the first time someone with microinsurance coverage dies, Allianz considers it "extremely important" to have a claims-paying ceremony, which typically includes presentation of a check to the heirs, Mr. Anthony said.

Other marketing strategies include enrollment campaigns, testimonials, and raffles and lotteries.

For the concept to grow and develop, a book of microinsurance business "has to be economically viable," Dirk Reinhard, vice chair of the Munich Re Foundation, said in an e-mail. "Do not listen to your heart, listen to your calculator," he said quoting an epigram from Aris Alip of the CARD Mutual Benefit Assn. in the Philippines.

For example, AIG uses its standard underwriting criteria and does strictly for-profit business, Mr. Battifarano said.

Microinsurance programs need to provide sustainable contributions, not handouts, said Ned Cloonan, vp of cor-

porate and international affairs with AIG in New York. Intermediaries and customers value the company for its "experience, core competencies and market-based discipline," he said.

AIG's requirement that microinsurers generate an underwriting profit "is more stringent" than some other insurers, said Scott Graham, a FINCA senior manager. While FINCA's mission is more general—to improve the quality of life and standard of living for the poor—Mr. Graham said he supports AIG's profit-making approach as "the most transparent way to work."

Allianz considers microinsurance "a strategic investment" because it anticipates that economic development in many emerging countries will convert today's customer for microinsurance to tomorrow's customer for more mainstream coverage such as auto and property, Mr. Anthony said.

### MICROCLIMATE

Some 78 million policyholders are paying premiums to 246 insurers for 357 microinsurance products that are sold in the world's 100 poorest countries. Policyholders and income by purchasing insurance—and excluding social security-type coverage—according to the April report, "The Landscape of Microinsurance in the World's 100 Poorest Countries." Eleven experts gathered the data and reported that:

- In India, more than 30 million people are paying premiums for more than 130 products, demonstrating the effect of regulations mandating that foreign insurers write some coverage for the rural poor.
- In North Africa and the Middle East, there is "a noticeable lack of microinsurance."
- Health coverage is popular in West and Central Africa. Although the number of programs is high, the membership of each is generally small and their growth potential is limited.
- Only 2% of the people covered by microinsurance have products delivered through retail intermediaries, such as brokers, although that is beginning to change.
- Microinsurers are optimistic about the future. They predict 100% growth in five years.

Source: Microinsurance Focus Resource Centre L.L.C. in Appleton, Wis.

The Brazilian man who sought the loan for his business is such an example. He repaid the money he borrowed to buy cattle to haul his wares and then returned to borrow again—to buy a truck—and expand his business.

### SPURRED BY REGULATION

In two countries, microinsurance is encouraged through regulation, Mr. McCord said. India requires that some nondomestic insurers cover a small percentage of rural risks according to a formula that varies depending upon how long the insurer has been doing business in the country. South Africa has a more general requirement that some insurers write a demonstrable percentage of "down market" risks, he said.

Some insurers say participating in microinsurance goes beyond economics. Startup microinsurance programs have relatively high administrative costs, which is why some insurers begin such programs as a charitable activity of their corporate social responsibility unit, Mr. Anthony said. Allianz's Indonesian project began as a social responsibility project, but has transitioned to being run by a local affiliate.

"AIG is focused on this market because we believe in supporting the underserved much as we have done since C.V. Starr founded (American Asiatic Underwriters) in Shanghai in 1919," Mr. Battifarano said.

Mr. Cloonan said he is impressed that local cultural norms support repayment of more than 95% of all loans. In addition, helping women to earn more has a "multiplier effect" because they use extra income to improve their children's health and education, which enhances society.

"Microfinance has proven to be a successful tool to help people out of poverty," Mr. Reinhard said. "Microinsurance is an important tool to complement microfinance," he said.

The third annual Microinsurance Conference will be held Nov. 13-15 in Mumbai, India. It is cohosted by the Munich Re Foundation and the Consultative Group on Assist the Poor Working Group on Microinsurance. For details, go online to [www.microinsuranceconference2007.org](http://www.microinsuranceconference2007.org). ■

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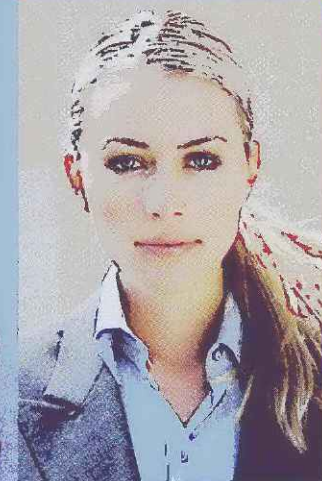
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# WOMEN TO WATCH



## A Spotlight Report

Issue: July 30 | Ad Close July 18

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By Meg Fletcher

**I**nsurers are converging on the Middle East because of the rising value of crude oil and natural gas buried under the desert sands that is fueling an emerging insurance market.

At \$65-plus per barrel, profits from oil revenues have raised per capita income for the 100 million people living there and funded many infrastructure improvements, experts say. The export-related wealth also is increasing demand for goods and services, including insurance.

It remains to be seen, though, which insurance providers will benefit most. A broad range of factors, including religious and regulatory ones, will impact the market and determine which companies will succeed.

# A SPIRITUAL PATH INTO AN EMERGING MARKET

A key consideration is the potential \$4 billion market in the Middle East for takaful, a type of mutual insurance that adheres to Islamic principles, and for retakaful, its reinsurance equivalent, observers say.

"The Gulf states are transforming and diversifying their economies facilitated by unprecedented income from energy exports," according to a 2006 analysis by Lloyd's of London.

According to the U.S. Department of Energy, the entire Middle East has about two-thirds of the world's known oil reserves and about 40% of known natural gas supplies.

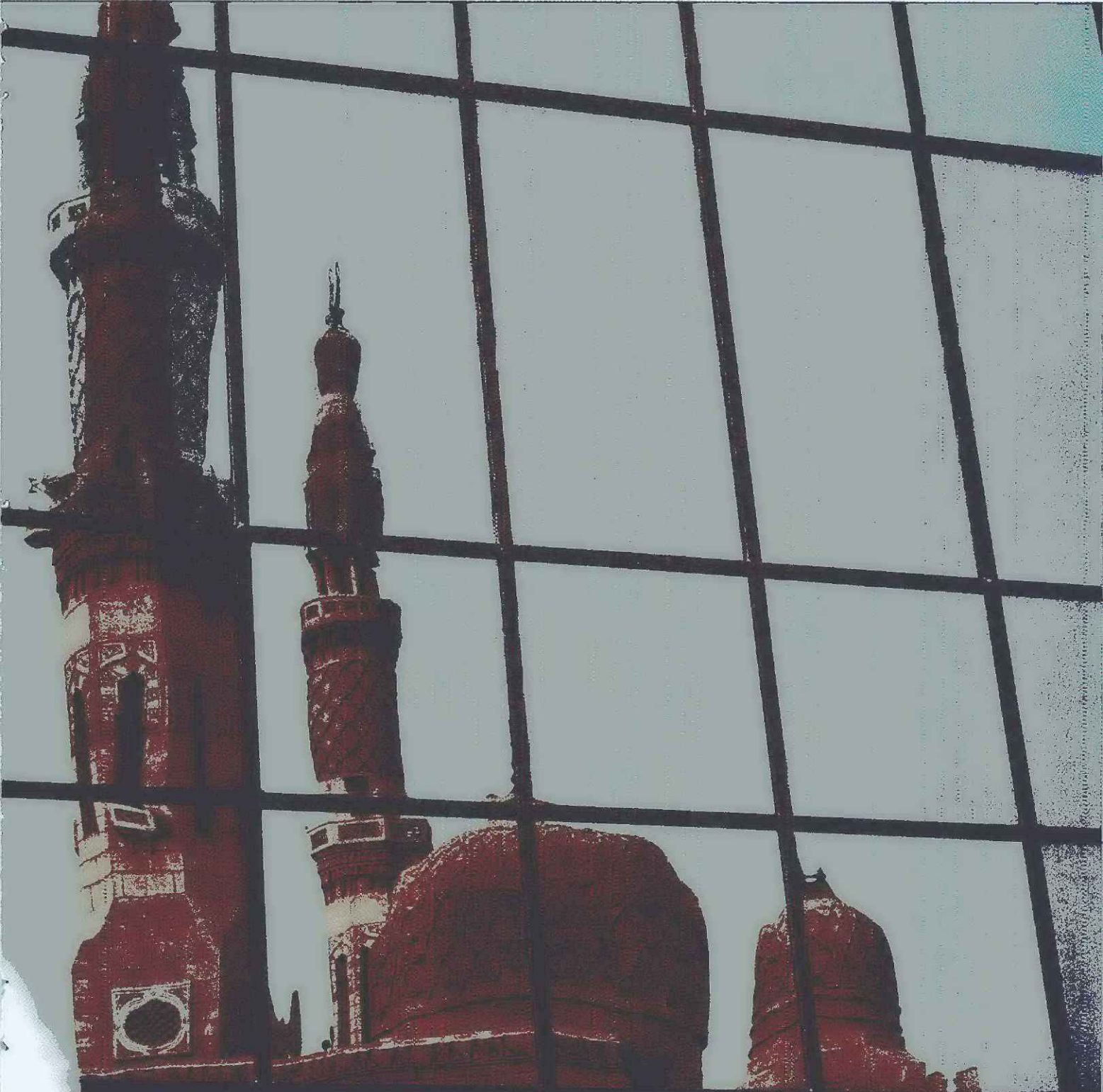
While insurers' geographic

description of the Middle East varies, most focus on the nations belonging to the Gulf Cooperation Council, which includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. Many also include Iran.

"Over time, if the world average insurance premium of \$550 per capita is achieved and applied to the Gulf states, the GCC insurance market has a potential size of \$20 billion" vs. its current \$4.6 billion, said Jelena Bjelanovic, a London-based credit analyst with Standard & Poor's Corp.

High oil prices have fueled infrastructure developments such as highways and hospitals. The non-





life insurance market is "strong" with premiums growing about 10% to 15% on average since 2004, she said in an April research report.

Even so, personal lines insurance coverage, particularly in life insurance, "remains low," she said.

A major driver in the future of personal lines will be an "exponential" increase in demand for health services, said Hugues de Roquette-Buisson, managing director for the Middle East and Africa for Allianz A.G.'s French subsidiary, Assurances Générales de France.

For example, lower mortality rates among infants and the elderly are increasing the size of the population and its average age. Citizens also have some unique health risk factors because of "usually high" rates of Type 2 diabetes and obesity, according to a McKinsey & Co. report.

Overall, regional health care spending is expected to rise to \$60 billion in 2025, or about five times the current level, they predicted.

Also, the governments are expected to begin using public funds to reimburse nationals for the private health care they receive locally. Under a typical system, governments now provide free public care, and some reimbursement for care received abroad, but patients must pay for private treatment themselves, McKinsey researchers said.

## EVOLVING INDUSTRY

Takaful "has now evolved into a rapidly growing industry," according to preliminary analysis of the topic by the International Assn. of Insurance Supervisors and the Islamic Financial Services Board, two groups of regulators.

The first takaful company was established in 1979, and there are more than 250 globally, said Timour Boudkeev, a vp with Moody's Investors Service in London. Total takaful premiums exceed \$2 billion in 2005 and are expected to reach \$7.4 billion by 2015, he said in a report last August.

"The GCC takaful market is currently growing at about 40% per year," which is impressive compared with the average 2005 premium growth of 2.5% in world markets, Ms. Bjelanovic said in the research report.

"Islam is not against the concept of insurance itself but against some of the means and methods that are currently used in conventional insurance," the regulators said in their report.

To be acceptable to Islamic law, called the Shariah, any form of insurance should avoid the element of "riba" (interest), "maisir" (gambling) and "gharar" (uncertainty), although elements of uncertainty may be forgivable depending on the circumstances, they said.

Conventional insurance conflicts with Islamic law because it is thought to have a large element of "gharar" because the payoff from an insurance policy is dependent on occurrence of uncertain events in the future, and the amount of compensation has no predictable relationship with insurance premium, Mr. Boudkeev said.

In addition, many conventional insurers' investment strategies are not acceptable because some earned interest is forbidden; so many bonds and other sources of funding are not acceptable.

Also, equity investments can only be made in Shariah-compliant companies that exclude alcohol sales, pork-related products and conventional financial services, observers said.

"The origin of takaful—which means 'solidarity'—can be traced to several practices from ancient Arab tribal custom and the companions of the Prophet Muhammad," the regulators said. "For example, under the custom of 'al-aqilah,' it is mutually agreed among the tribes that if a person is killed unintentionally by a person of a different tribe," the accused's paternal relatives will take the responsibility to make a mutual contribution for the purpose of paying the blood money to the victim's relatives, they said.

Takaful offers general or nonlife protection as well as family coverage, which includes medical, health, education, accident and long-term care. There are some products, such as whole life and defined benefit pensions, that takaful does not offer because they are not Shariah-compliant, the regulators said.

Under current takaful requirements, each company has a Shariah board to determine compliance with Islamic law in addition to a typical board of directors.

In many arrangements, a takaful company manages two separate funds, one for policyholders and one for shareholders. Participants pay a fixed fee and may pay a performance-based fee, or both.

Policyholders own any surplus and are liable for any deficit. If a deficiency occurs, the takaful operator is expected to provide an interest-free loan to the fund to cover it. The fund assets are invested in Shariah-compliant instruments.

"The differences between takaful and conventional insurance clearly have regulatory implications," and "regulatory regimes developed for conventional insurance cannot necessarily be applied uncritically," the regulators said. They urged taking an integrated view of the takaful industry that includes analysis of corporate governance; financial and prudential regulation; transparency, reporting and market conduct; and the supervisory review process.

## POTENTIAL FOR CONFLICT

Among concerns the regulators cited were potential conflicts of interest if members of a takaful company's Shariah board are significant shareholders or participants in managing the takaful operator or its competitors.

"The main challenge for takaful still remains: to increase awareness of the benefits—social as well as individual—of insurance among retail customers," Ms. Bjelanovic said. Among key elements that will determine whether it will be a success are product innovation and quality of service. "The challenge for takaful operations in developing family takaful will be to structure the products in such a way as to meet any religious and cultural obligations and still offer comprehensive cover," she said.

In addition, the average combined ratios of takaful companies in 2004 and 2005 have been higher than conventional peers in the region, she said. Takaful operators "are currently suffering from a lack of economies of scale and an inability to more effectively diversify their risks," she said. Over time, though, Ms. Bjelanovic expects growth and competition will help remedy those problems. ■

# Barriers to business

By Meg Fletcher

Some Middle Eastern countries have trade barriers against U.S. insurance services, although U.S. trade officials say some of the barriers are legal.

This year, they identified several Middle Eastern countries with "significant" barriers that "restrict, prevent or impede" the ability of U.S. insurers and reinsurers to export services, according to the 2007 National Trade Estimate Report on Foreign Trade Barriers.

The report, however, generally did not distinguish between barriers to U.S. exports that are acceptable because they are consistent with existing international trade agreements and those that it considers inappropriate and "actionable" under U.S. trade law and through the World Trade Organization.

An exception is the Arab League Boycott of Israel on U.S. trade and investments in the Middle East and North Africa. "The United States continues to oppose the boycott and U.S. government officials have urged Arab League members to end its enforcement," the report said.

"While it remains a serious barrier for U.S. firms attempting to export from Israel to some countries in the region, the Arab boycott of Israel has virtually no effect on U.S. trade and investment in many other countries in the region," the report said. The Arab League consists of the Palestinian Authority and 22 countries.

The report is based on information compiled by the U.S. Department of Commerce and other federal departments and agencies. It also includes

information submitted by U.S. embassies abroad and members of private sector trade advisory committees.

The report lists the following states as having foreign trade barriers:

■ **Egypt:** The Egyptian market remains small and underdeveloped due to many factors, including excessive premium taxes. The market remains dominated by the four state-owned insurance companies that controlled over 75% of the nonlife insurance market and 56.2% of the life insurance market in 2004.

The Ministry of Investment commissioned an international consortium to restructure its four state-owned insurance companies, opening the way for their privatization, overseen by a consortium consisting of Paris-based BNP-Paribas, Egypt's Commercial International Bank and the U.S.-based consulting firms Milliman Inc. and Ernst & Young L.L.P. Senior insurance officials predicted that all four will be privatized, with the first occurring by mid-2007.

Foreign firms may own up to 100% of Egyptian private insurance firms, although the market remains closed to foreign intermediaries. There are 11 private sector insurance companies, three of which are joint ventures with U.S. firms.

The state-owned Egyptian Reinsurance Co. is the only registered reinsurer. Direct insurers were previously required to make compulsory cessions to Egypt Re, although that requirement has been progressively replaced by voluntary cessions. Since Egypt is a member of the African Union, direct insurers are also required to cede 5% of their reinsurance business to Africa Reinsurance Corp.

■ **Saudi Arabia:** The Saudi Arabian

government has implemented a series of laws in recent years mandating certain types of insurance coverage, including auto.

New mandatory health insurance requires employers to pay for insurance coverage for foreign workers and dependent family members. It will be enforced through a requirement that foreign workers show proof of medical insurance to receive or renew national identification cards.

Insurers are required to be locally registered publicly owned firms and to operate on a cooperative or mutual basis. In 2005, a royal decree allowed foreign insurers to operate through direct branches, which are not subject to the requirements of public ownership and cooperative form, for a transitional period of three years pending issuance of regulations.

Saudi Arabia committed during its WTO accession to permit insurance branching. To date, though, it has not issued regulations implementing their insurance branching commitment.

■ **Qatar:** The government amended its law in 2004 to allow foreign investment in its insurance sector with approval by decree from the cabinet ministers. Foreign insurance companies are subject to the same laws that apply to foreign firms in all other sectors.

■ **United Arab Emirates:** About half of the current 47 insurance companies in the UAE are foreign-owned.

The UAE government banned additional foreign insurance companies from opening after 1989 due to a perception that the market was saturated.

UAE officials announced in 2004 that it would open its insurance sector to new foreign insurers and the UAE submitted a proposal in 2005 to the WTO to allow new foreign insurers to open a branch—not a subsidiary—in the country. Any new foreign insurers will be required to meet high international rating criteria and to offer new products.

In 2006, new amendments required that established insurers, or those which shall be incorporated, must be a public company. At least 75% of the capital in such companies must be owned by the UAE nationals and the other 25% may be owned by a foreigner. ■

# Cost savings only the beginning of offshoring advantages

By Rodd Zolkos

**A**s insurance industry companies look to maintain profitability in the face of softening market conditions in many lines, one concept they frequently are looking toward is offshoring certain business functions.

The benefits of offshoring can go beyond cost savings, however, according to many experts. Outsourcing certain functions to offshore locations can free up company resources to pursue core activities, or expand the resources available to companies so they can expand their book of business.

And, done properly, offshoring can also produce improvements in service and quality and allow companies to tap specialized workforce expertise in certain countries.

Dan Epstein, chief executive officer with ReSource Pro L.L.C., a New York-based remote staffing firm with a facility in Qingdao, China, serving managing general agents and retail agents, noted that his clients typically face issues that lead them to consider outsourcing some functions.

They often struggle to find skilled staff for processing tasks, Mr. Epstein said, and many often find that as they try to simply keep up in a competitive business environment, many have little time to focus on innovation. Meanwhile, in a soft market, many agencies are feeling pressures on their margins.

"The fact that it's 30% to 50% cheaper to use a full-time member of staff with us in China...they can basically write new business at a considerable cost advantage," Mr. Epstein said.

He cited the recent experience of one client that had a new market opportunity but lacked the staff to work with the new business. Meanwhile, existing staff was already working considerable overtime to keep up with the agency's existing business, negatively affecting

staff morale.

Working with ReSource Pro, the agency was able to bring on 26 people in the staffing firm's China operation in addition to its staff of 23 in the United States. "Now you could imagine what those 26 people would have cost" in the United States, Mr. Epstein said.

Another potential benefit of offshoring is increased productivity, Mr. Epstein said. "It's very powerful," he said. "We're doing quite complicated tasks."

Despite the cost savings companies can realize by offshoring, that shouldn't be their sole consideration, said Russell J. Pass, a member of Chicago-based

Ultimately, companies need to keep in mind that the wage benefits in an offshore environment won't last forever.

## WAGE BENEFITS FLEETING

"If wage arbitrage is your only reason for going offshore, you're probably making a mistake," Mr. Pass said. "Eventually, it's going to go away, and probably sooner than we think, given wage inflation and currency appreciation in many of our trading partners."

"Going offshore is really about tapping into the specialized expertise of other countries and the competitive advantages of their workforces," the

**'THE BENEFITS OF LEARNING** to do the job better are obviously not limited to cost alone. They encompass service and quality as well.

**RUSSELL J. PASS**  
BRIDGE STRATEGY GROUP L.L.C.

management consultant Bridge Strategy Group L.L.C.

"There's no denying that cost remains prominent, but cost savings result from more than just wage arbitrage. They also result from a commitment to continuous improvement," Mr. Pass said. "That's something of which these highly motivated offshore workforces are very capable. The benefits of learning to do the job better are obviously not limited to cost alone. They encompass service and quality as well."

There are other potential benefits.

"Where we've worked, offshoring has also been a reason to standardize and centralize functions that had previously been decentralized, largely for historical reasons," Mr. Pass said. "Standardization done intelligently brought significant benefits and would never have happened without the spur of moving the work offshore."

consultant said.

Mr. Epstein noted that the approximately 200 employees at his company's China facility—who provide outsourced services to agency clients such as data entry, underwriting assistance, policy handling and report management—all are college graduates.

He said ReSource Pro hires only about 5% of those who apply and looks for applicants with strong English language skills as well as those who will fit into a team culture and demonstrate a strong work ethic.

Mr. Epstein noted that his company is considered an attractive employment option in Qingdao, and that the company has a 90% employee retention rate.

"The employee comes first, the client comes second," Mr. Epstein said. "Customer service is critical for us, but it starts with good employee morale and training."

## LOCAL KNOWLEDGE

According to Russel J. Pass, a member of Chicago-based management consultant Bridge Strategy Group L.L.C., while there are many factors to consider in selecting an offshore location and each company's priorities are unique, there are a few factors that are almost always relevant:

**WORKFORCE QUALITY AND SKILLS:** Companies today consider language skills when selecting a location, but typically assume they will need to train for industry or function-specific skills. As countries build specialized competencies, it will become possible to seek out locations that offer a critical mass of ready-made expertise specific to a company's needs. IT development and maintenance are moving to India not just because labor is cheap, but also because India has become a world-class center of information technology expertise.

**WAGE RATES AND TRENDS:** It is important to evaluate not only prevailing wage levels and inflation rates, something few companies neglect to do, but also longer-term influencers of labor supply, such as population trends and public and private investments in the university system.

**AVAILABILITY:** Where availability is critical, companies will need to evaluate a location's power and telecommunications infrastructure, the potential for geographic (e.g., earthquake) or weather-related disruptions, and the potential for political instability at any level of government. Locations prone to strikes or other labor actions also present availability risks.

**PROXIMITY:** Where semifrequent face-to-face meetings or overlapping onshore and offshore work schedules are necessary, proximity can be critical. This has given rise to the term "nearshoring." The reverse is also true, where nonoverlapping onshore and offshore shifts enable a company to accomplish more in a 24-hour period than it could hope to in just a single location.

**GOVERNMENT POLICY:** Labor laws, tax incentives and even monetary policy can have a significant impact on the costs and benefits associated with a particular offshore location.

And, while a common view is that functions to be offshored are limited to such tasks as call centers, skilled workforces in many areas provide opportuni-

ties for more complex tasks.

In a recent report titled "Getting more out of offshoring the finance function," McKinsey & Co. Partners Michael Bloch and Shankar Narayanan and Associate Principal Ishaan Seth said, "The quality of offshore providers of finance and accounting services has never been higher."

More sophisticated vendors offer companies an opportunity to not only cut costs but to increase productivity and improve control and risk management, the McKinsey consultants wrote. "Yet very few companies have come close to capturing the full potential of offshoring finance operations."

Bridge Strategies' Mr. Pass also sees potential for offshoring more complex tasks.

"A common misconception is that offshoring is for simple, repetitive tasks that people onshore have little interest in doing. The reality is that offshore workers, given the right training and hands-on experience, are every bit as capable as individuals here in the U.S.," Mr. Pass said.

### VARIED OPPORTUNITIES

In terms of types of tasks best suited to offshoring, "The best candidates are those that can be easily decoupled from the work that will remain onshore and don't complicate customer relationships," Mr. Pass said. "This includes IT and back-office tasks such as finance, accounting, and parts of HR, but we've also had a good deal of success with front-line functions."

There are other areas that insurance industry companies might do well to consider, he said.

"Premium accounting and a number of actuarial services, though complicated, work well because they can be easily packaged into work units for someone offshore to perform," Mr. Pass said. "Even something as potentially sensitive as claims, at least those that don't require much in the way of negotiation, can work. Companies uncomfortable offshoring a front-line function like claims can dip their toes in by starting with runoff claims, where we've had success."

For all the potential benefits in off-

shoring some operations, companies must actively manage the process.

In a February white paper titled "Insurance Outsourcing: Managing the Risk Paradigm," Alan Hanson, a partner in the Global Financial Services practice of Technology Partners International Inc. in New York, noted that insurers face reputational risks should their outsourcing initiatives fail, and so must rigorously manage outsourcing initiatives and related exposures.

But ReSource Pro's Mr. Epstein said transparency and client reporting is one of the areas his company emphasizes in its business relationships. "One of the things I think we're very good at is transparency reporting," he said. "The team leaders are trained to communicate to the client and there's typically communication on a daily basis."

The company provides productivity reports to clients on a daily and monthly basis, including analysis of how actual productivity compares to the client's initial estimates.

"They don't have that sort of transparency with their own staff," Mr. Epstein said. "So, in a sense, even though they're outsourcing work, they're really gaining control. And someone's accountable."

As insurance industry companies seek offshoring partners, "The first thing to understand is that it is possible to offshore without outsourcing, and vice-versa," Mr. Pass said. "Companies that are comfortable outsourcing are increasingly getting out of the business of deciding where the work is going to be performed. Whether or not they are offshoring is less and less visible to them."

"Offshoring services is really an HR play, and what you want in an offshoring partner is a company that will be able to sustain itself even as the war for offshore talent intensifies, one that can explain how its recruiting and retention strategies will enable it to maintain a competitive advantage over time," he said.

"You also want what you would want from any outsourcing provider—a good reputation, a commitment to more than just fulfilling minimal contractual obligations, and a willingness to be flexible as needs change." ■

# Shifting markets demand cutting-edge ideas

By Meg Fletcher

**LAKE BUENA VISTA, Fla.**—To prepare for market changes during the next several years, insurers need to assess future demands and make intelligent decisions about information technology, an expert said.

The most technically innovative insurers already are starting to invest in product quality and “product lifecycle management” and to better analyze and target customers, said Kimberly Harris-Ferrante, a research vp at Gartner Inc., a Stamford, Conn.-based research and consulting firm.

Those leading insurers also are working on improving “multichannel integration,” so that all of a customer’s personal and service information is shared among an insurer’s different communication “channels”—including the Internet, agent office, call center and mail—regardless of where the information first enters an insurer’s IT system.

“Today there is a lot of business change,” Ms. Harris-Ferrante said during her presentation, “Insurance Technologies: Enabling Innovation,” last month at the Assn. of Cooperative Operations Research & Development and the Life Office Management Assn. Insurance Systems Forum in Lake Buena Vista, Fla.

“In the past 12 to 24 months, we (have gotten) a number of calls from companies that are interested in innovation,” she said.

Although the insurance industry is “a slow-moving and traditional industry,” there are many reasons insurers must improve, said Ms. Harris-Ferrante. Insurers must innovate to earn profit in commoditized product lines, differentiate themselves in the market and to retain agents and improve their loyalty and satisfaction. Insurers also must improve

value for stakeholders, processes to promote customer satisfaction and product offerings.

Cutting-edge insurers are offering “innovative” products like wedding insurance—which covers “change of heart” by either the prospective bride or groom, she said. In addition, insurers are targeting women for auto insurance products, or parents of teenaged drivers, who are willing to pay for in-car global positioning system technology to track their children’s whereabouts.

The drivers behind product development “are shifting,” she said. Beginning in 2005, insurers generally focused on speeding up operations by adopting strategies that include reducing time-to-market, extending the life of legacy systems, shifting control of the transactions to business users and reducing product development costs.

Now, however, most insurers are focusing on quality as their goal for 2008 and beyond, according to Gartner Research.

Insurers’ emerging strategies are geared to creating niche products for specific types of customers. The focus will be on understanding the impact of new products on existing products and on improving integration with setting rates and other processes, she said.

Insurers also care about improving accuracy in pricing by better matching risk to price, improving awareness of product profitability and improving their ability to automatically generate reports and filings, Ms. Harris-Ferrante said.

There also will be a shift in focus to managing the lifecycle of a product, which goes beyond product configuration, Ms. Harris-Ferrante said. It includes marketing the product, analyzing the reactions of customers and producers as well as analyzing pricing and product

profitability.

In addition, insurers will seek to integrate customer information from all channels of communication, she said. To do it effectively, multichannel integration requires establishing a common platform for all channels to access information, streamlining data exchange through the use of standards and supporting collaboration across all channels.

Insurers may face several problems if they don’t track and manage cross-channel interactions, Ms. Harris-Ferrante said. For example, customers may become dissatisfied with being asked several times for the same information and go elsewhere to buy coverage. In addition, the information may be inconsistently reported on bills and claims and customers may face an unjustified rate increase, she said.

Integrating multichannel interactions effectively also requires applying business logic and rules to validate data, to trigger events such as a claims payment, to support decisions and to orchestrate business processes, she said. In addition, it is necessary to centralize content, documents and information and provide “a single customer view,” she said in her presentation.

It is also important to remember to structure the IT systems so there is “proper security and authentication” and a limited access to the transaction, she said.



More than 2,300 attendees gathered at the Walt Disney World Dolphin in Lake Buena Vista, Fla., last month for the 2007 ACORD/LOMA Insurance Systems Forum.

## KEYS TO MARKET SUCCESS

Areas on which insurers need to focus to prepare for future demands.

- Ensure the company’s culture allows and encourages innovation.
- Deploy business process management technologies to improve and automate core processes.
- Align product development, marketing and sales.
- Use claims as a way to differentiate and ensure customer retention.
- Expand product development activities to support product life cycle management.
- Put customers first by improving claims handling and customer service, creating niche products to better meet their needs and improving channel interaction through multichannel integration.

Source: Gartner Inc.



**'THE PRIMARY FOCUS** is operational efficiency, with growing concentration of sales and customer service effectiveness.'

**KIMBERLY HARRIS-FERRANTE**  
GARTNER INC.

It remains to be seen, however, whether such innovations in products and services become a reality for most insurers, Ms. Harris-Ferrante said.

According to poll of a Gartner Symposium audience last fall, the biggest challenge insurers face in modernizing their technological infrastructure is "the inability to change corporate culture within their organization," she said. Some 58% of respondents cited that reason for the lack of modernization at their companies, while 18% cited lack of funding; 15%, insufficient business to prompt identification of new needs; and 9%, lack of pressure to buy new technologies.

Insurers must overcome the hurdle of corporate culture and other challenging market drivers if they want to survive and grow, she said.

All lines of insurance are facing changing market demands, shifting consumer requirements and more regulations, she said.

And all types of insurers have to comply with regulations such as the Sarbanes-Oxley Act and Solvency II. They also are interested in expanding into emerging markets at the same time they are trying to gauge the impact of stock market fluctuations and continued merger and acquisition activity.

In addition, specific market drivers for the property/casualty insurers include an increasing concern for managing the risk of catastrophic events, increased use of the Internet, commoditization, scrutiny of broker practices and more in-vehicle computer systems.

At the same time, life and annuities/pension insurers face shifting consumer demographics, pension reform and compensation disclosure requirements.

Despite those market drivers, insurers have more to do with little or no increase

in resources, she said. As a result, there is a demand "for process automation, operational efficiency, customer retention, sales effectiveness and product innovation."

That means "reinventing the insurance business process, not just buying new technology," Ms. Harris-Ferrante said.

For marketing and pre-sales, that means faster time to market for new products, improved product quality, accurate customer segmentation based on aggregated data and improved cross-selling, she said.

For rating and quoting of coverages, that means rating accuracy and consistency, real-time quote generation and improved price-to-risk assessments.

For servicing, that means self-service; reduced losses and improvements in several areas, including claims processing, claims data and analysis, billing and collections; and customer satisfaction.

Insurers are getting ready for the future with the projects that they are engaged in today.

"The primary focus is operational efficiency, with growing concentration of sales and customer service effectiveness," Ms. Harris-Ferrante said.

Gartner found that the top priorities of insurers in 2007 are:

- Modernizing or replacing core policy and claims administration systems.
- Investing in IT infrastructure transformation.
- Strengthening distribution and service channels and building out direct insurance models.
- Improving speed-to-market for new insurance products, mostly through process automation.
- Assessing business intelligence and information demands of business.
- Improving claims through the use of business process management. IF

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# From the top

## Industry leaders share their views at RIMS panel

By Rodd Zolkos

**NEW ORLEANS**—A group of top insurance industry executives shared their views on everything from catastrophe modeling to optional federal regulation of insurance during a Leadership Panel Luncheon last month at the annual conference of the Risk & Insurance Management Society Inc. in New Orleans.

Asked whether there is “real science” to catastrophe models and insurers’ underwriting following Hurricane Katrina, Evan Greenberg, president and chief executive officer of Hamilton, Bermuda-based ACE Ltd., said, “There is a science and there is a framework.” That fact shouldn’t give insurance buyers excessive comfort, however, he cautioned.

“It’s a crude science and it’s an evolving science,” Mr. Greenberg said. “And those models probably are as good as the next cat season.”

While noting that there is an “evolution” in risk modeling and insurers’ use of such tools in their underwriting, Shivan S. Subramaniam, chairman and CEO of Johnston, R.I.-based FM Global, told the audience that what the models provide is a tool for helping insurers manage their aggregations of risk.

“The thing to remember is that models don’t predict disaster,” he said. “What they do do is predict what aggregations should be given a certain set of circumstances.”

On the subject of supplemental commissions and other forms of incentive-based compensation of brokers by insurers, panelists’ views were mixed.

Brian M. Storms, chairman and CEO of New York-based brokerage Marsh Inc., said the subject is one that should go beyond headlines and sound bites. “This is an industry issue, this isn’t a broker issue,” he said.

Mr. Storms noted that, like others, Marsh is making a “significant invest-

ment” in the industry, through its investment in technology to facilitate transacting business between insurer and insurance buyer, for example. “That cost has to be shared,” he said.

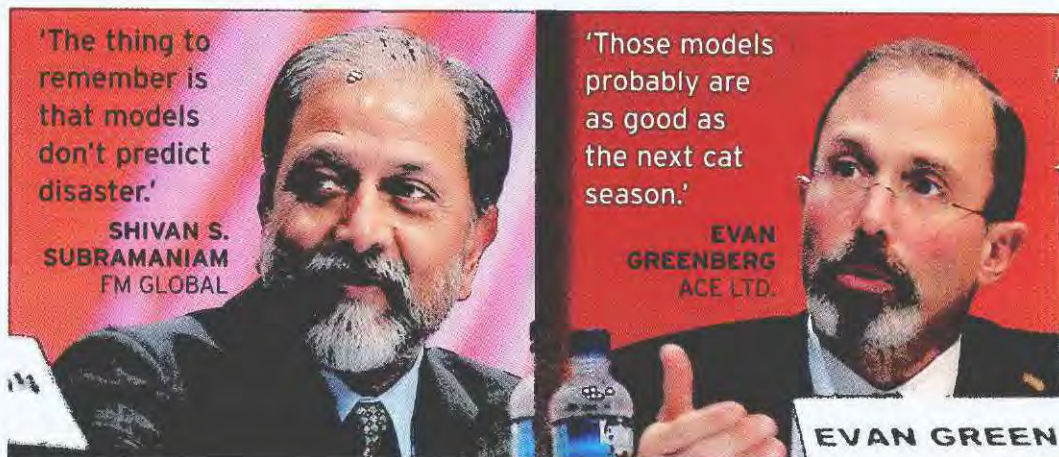
“Marsh is going to take it’s time with this issue,” Mr. Storms said, adding that the broker wants to understand how its clients and the overall industry feels about it, and that Marsh “absolutely” believes in transparency.

Gregory C. Case, president and CEO of Chicago-based Aon Corp., said until his company understands what the def-

“And from our perspective, that doesn’t make sense when you talk about value to price,” he said.

J. Patrick Gallagher Jr., chairman, president and CEO of Itasca, Ill.-based Arthur J. Gallagher & Co., emphasized the benefit of “transparency” in the broker-client relationship, though Mr. Greenberg argued that “Transparency does not eliminate conflict.”

“Who does the broker work for,” Mr. Greenberg asked. “If it’s an agent of the company, I have no problem with contingent forms of payment. If it’s a bro-



inition of “supplemental” is, it can’t make a decision on whether to accept the method of broker payment offered by some insurers. But he stressed the need to make buyers aware of the value brokers provide, and the importance of talking about “value to price.”

“It is absolutely incumbent on us to make you understand the value we provide,” Mr. Case told the risk managers gathered at the conference.

With some brokers having rejected contingent commissions, others continuing to accept them and now some accepting supplemental commissions from insurers and others not, Mr. Case said the broker compensation system has gone from a one-tiered system to a two-tiered system now, and is potentially going to a three-tiered system.

ker, I don’t think there should be (contingent commissions) unless it’s between the broker and the client and the client is paying the contingent.”

John Amore, CEO general insurance for Zurich Financial Services, said he thinks there is a need for flexibility and more than one type of compensation system “if you’re going to deal across different customer segments and different size brokers and agents.”

Regarding the debate over an optional federal charter for insurance in the United States, Martin J. Sullivan, president and CEO of New York-based American International Group Inc., noted that when his company goes to other markets around the world, it meets with a single regulator, unlike in the United States where it currently

# Lawmaker says frustrations no cause for law's repeal

By Mark A. Hofmann

faces different regulators in each state.

"We need one regulator in the United States," Mr. Sullivan said, adding after a brief pause, "But I do love all my regulators."

Zurich's Mr. Amore said his company supports an optional federal charter, but for it to become law it needs the support of insurance consumers like those that make up RIMS membership.

Aon's Mr. Case suggested that the issue had something in common with the debate over a federal terrorism reinsurance backstop.

"This fits into the same bucket for me as TRIA," he said. "This will get politicized as an insurance issue as TRIA is politicized as an insurance issue. This is not an insurance issue. This is a client issue."

Asked about enterprise risk manage-

**'It is absolutely incumbent on us to make you understand the value we provide.'**

**GREGORY C. CASE**  
AON CORP.

MICHAEL MARCOTTE

ment, and whether it represents the next "silver bullet" in the insurance and risk management arena, Marsh's Mr. Storms said, "No, not a silver bullet, yes, a defining issue going forward."

But Mr. Case said that while ERM is much discussed, that discussion still needs to be translated into action.

"The conversations we're having are much more of a value-oriented, opportunity-oriented conversation," Mr. Case said. "But you've got to do it in a way that there's action."

Mr. Amore said he was struck by how many client conversations at this year's RIMS were on broader aspects of risk.

"We're thinking at Zurich this is where we can help our clients in a better way with insights into risk-based capital," he said. ■

**WASHINGTON**—Legislation to amend the McCarran-Ferguson Act is not on the "fast track," according to a key lawmaker.

"You get frustrated" with events such as the aftermath of Hurricane Katrina, said Rep. Earl Pomeroy, D-N.D., during a wide-ranging "town hall meeting" at the Independent Insurance Agents & Brokers of America's national legislative conference and convention in Washington in late April.

But lawmakers' frustration with the way some insurers handled claims after the 2005 hurricane doesn't mean that the whole insurance regulatory structure should be changed, said Rep. Pomeroy, who served as president of the National Assn. of Insurance Commissioners when he was North Dakota's chief insurance regulator before being elected to Congress.

Bills have been introduced in both the House and Senate to repeal the McCarran-Ferguson Act's grant to insurers of limited exemption from federal antitrust laws. But "I don't see anything at all on a fast track regarding McCarran-Ferguson, nor should there be," Rep. Pomeroy said.

New Hampshire Insurance Commissioner Roger Sevigny shared Rep. Pomeroy's sentiments. Maybe the McCarran-Ferguson Act should be looked at, he said, but doing so because of claims-handling practices is totally the wrong reason.

The president of the IIABA also defended the act.

Insurance agents want "more markets, more companies and more choices for out clients," said Alex Soto, president of the IIABA and president of Miami-based In-Source Inc. Without aggregated historical loss data that McCarran-Ferguson allows insurers to gather, regional and even "super-regional" insurance would be "uncomfortable" underwriting some risks in certain areas, he said.

During an earlier address to the conference, Mr. Soto said that the act serves a legitimate purpose by allowing insurers to share data. "Large insurance companies do not need McCarran-Ferguson as much" as their small-

er competitors, which depend on aggregated data to compete. He also predicted that repeal of the limited antitrust exemption could lead to a growth in agents' errors and omissions exposures as insurers would not be able to use common policy forms.

But J. Robert Hunter, director-insurance for the Washington-based Consumer Federation of America, called for McCarran-Ferguson's repeal, saying that it allows creation of cartels. "The idea that small companies can't get data is bunk," he said.

Mr. Hunter, a longtime industry critic who has been particularly criti-



Rep. Pomeroy

cal of the insurance industry's response to Hurricane Katrina, said claims-handling problems are "endemic" to the industry. "When making record profits," insurers should

stand by coverage promises, he said.

But Tom Van Berkel, chairman and chief executive officer of Main Street America Group, a Jacksonville, Fla.-based insurer, said that until last year's results, insurers for a decade had registered a relatively low return on equity compared to other industries.

"Agents need markets," said Robert Rusbuldt, CEO of the Alexandria, Va.-based IIABA, to Mr. Van Berkel. Mr. Rusbuldt asked the executive what conditions needed to be met to create markets in disaster-prone areas.

First off, the regulatory environment must be such that capital will come into the market, said Mr. Van Berkel. Rates should be deregulated, he said and added that stringent new building codes should be enforced when structures are built and incentives should be offered to make existing buildings more storm-resistant, he said.

Rep. Pomeroy said Congress will examine national catastrophe policy.

"We want development to unfold in an economically rational way," he said.

Congress will also move ahead with efforts to extend the federal terrorism insurance backstop, said Rep. Pomeroy. ■

# Few prepared to comply with 'e-discovery' rules

By Rodd Zolkos

In May's *Industry Focus*, Senior Editor Meg Fletcher wrote an interesting piece about the impending impact of new federal "e-discovery" rules on insurance industry companies.

The Federal Rules of Civil Procedure, amended in December, require parties to federal court civil cases to meet early in the process to discuss issues related to preserving and producing e-mails and other electronically stored information relevant to the case.

For insurance industry companies, as for other businesses, complying with the requirements means a significant evaluation of existing data management policies, with an eye toward ensuring that stored data is available and searchable, and, possibly more significantly, making certain that data management policies are in place and being complied with across the organization.

Obviously, for insurance industry companies, the issue is multipronged. The industry collects and saves considerable information, engages in extensive communication—more and more of it by e-mail—among insurers and reinsurers, clients and intermediaries—and is a frequent target of litigation, a challenging trifecta in the face of the new e-discovery rules.

A recent survey, though, suggests the new rules may present an even bigger issue to insurance industry and other businesses, as few were prepared for the new requirements. There is, it seems, a lot of work to be done in many companies to come into compliance with the new requirements.

The survey, conducted earlier this year by Toronto-based Fortiva Inc., showed that 94% of those responsible for their companies' e-mail policy felt their companies were not fully prepared to meet the new requirements.

More disturbing, perhaps, was that three months after the rules took effect, only 38% of respondents said they were familiar with the changes.

The survey, conducted in late February, found that nearly half of respondents had no e-mail retention policy, an essential element of compliance with the new requirements. What's more surprising, only 8.4% of those responding said their company had a litigation hold requirement in place for electronically stored information potentially relevant to litigation.

Of the companies surveyed, 10% indicated they had made changes in company policy to meet the new FRCP requirements, with 20% saying they were in the planning stage and 36% of respondents saying they weren't sure whether changes were planned.

The Fortiva survey also found that 56.7% of respondents said the responsibility for company e-mail policy is in the information technology department, while 6.8% said the responsibility resides in their organization's legal department.

In addition, 25.4% said their company had responded to an e-discovery request at least once in the past year, while 24% said they didn't know or weren't sure.

Regarding e-mail retention policies, 45.6% of those responding to the survey said their organization does not have an official e-mail retention policy, with users keeping e-mail as long as they like. And only 25.5% of those responding said that guidance from company legal counsel shapes their organization's e-mail retention policy.

Fortiva provides on-demand e-mail archiving solutions for regulatory compliance, legal discovery and mailbox management. Results of the survey, conducted among users of Fortiva's Policy Builder tool, were based on 118 respondents with responsibility for developing, managing and/or implementing e-mail policies within their organizations. ■

Only 38% of those responding to the survey said they were familiar with the changes.

## Guidewire expands European operations

**PARIS**—Guidewire Software has expanded its international operations with the opening of a Paris office.

San Mateo, Calif.-based Guidewire's European presence already includes a London office and the company plans additional expansion in continental Europe.

Guidewire provides technology solutions to insurance companies designed to help them better manage claims handling, underwriting, policy administration and billing processes. The companies' products are used by insurance companies of all sizes and across all lines of business in the United States, and are being implemented by companies in Australia, Canada, New Zealand, Russia and the United Kingdom.

The company sees its presence increasing in continental Europe. To support the expansion, Guidewire has launched a French-language version of its Web site at [www.guidewire.com](http://www.guidewire.com).

## Database Solutions updates agent software

**TORONTO**—Database Solutions Ltd. has released version 4.0 of its Group Insurance Module for its Agent Intelligence on-demand customer relationship management software.

New features included in Agent Intelligence v4.0 are intended to increase agents' efficiency in tracking clients' group insurance products. The new version of the group insurance module was developed based on input from clients regarding the features they wanted to see added to Database Solutions' Agent Intelligence product.

Database Solution's Agent Intelligence technology is proprietary browser-based software designed to provide back-end administration of insurance policies, financial transactions, client tracking and client marketing/selling strategies for insurance companies and insurance brokerage operations.

**From cavemen to butterflies** To rehabbing rabbits, insurance industry advertisers take a variety of routes as they look to connect with buyers, establish brand identity and set themselves apart from the competition. Some approaches are comical and some are serious, but all focus on driving home the message behind the commercials. Here's a look at a number of different approaches industry companies are taking to get their message to the marketplace



**"CAVEMAN"**

**GEICO**

**CREATIVE:**  
MARTIN AGENCY,  
RICHMOND, VA.

**LAUNCHED:** 2004

**WHY IT WORKS:** As part of a multiple story line approach GEICO uses to reach the broad demographic to which it advertises, "essentially anyone who drives a car," according to Ted Ward, the insurer's vp of marketing, the Caveman campaign's theme of "So easy a caveman could do it!" provides a constant reminder of the ease of using GEICO.com in a humorous and memorable fashion. "Almost all our advertising, now ever, is tied together with the same call to action that we've been using for nearly 14 years: '15 minutes could save you 15% or more on your car insurance,'" Mr. Ward said.

**"LUCK"**

**TRAVELERS COS. INC.**

**CREATIVE:** FALLON  
WORLDWIDE,  
MINNEAPOLIS

**LAUNCHED:** APRIL 30



**WHY IT WORKS:** One of two new television spots that started airing this spring—the other being "Risk"—"Luck" shows "how the right insurance is far superior to the silly superstition of a lucky rabbit's foot," according to Shane Boyd, vp, corporate communications, at Travelers. With Travelers having recently regained its iconic umbrella logo from Citigroup, the spots use humor to continue to push Travelers' theme of the need to keep insurance in "synch" as risks change. In "Luck," the benefits of proper insurance also extend to rabbits reunited with the feet no longer needed as lucky charms.



**"THE STRENGTH TO BE THERE"**

**AMERICAN INTERNATIONAL GROUP INC.**

**CREATIVE:** BBDO,  
NEW YORK

**LAUNCHED:** DEC. 2006

**WHY IT WORKS:** AIG's "Butterflies" commercial, which first aired in December, along with spots that followed in May as part of the campaign, depict children with heightened concerns about financial affairs, concerns that are eased by a parent telling them they're with the AIG companies. Martin J. Sullivan, AIG chairman and chief executive officer, explained the strategy at the company's shareholders meeting in May. "To date, much of our advertising has been intended simply to increase our name recognition in the marketplace," he said. "Now, we're structuring messages to give customers a better idea of the things we do."

**"LIFE CHANGES"**

**TRUSTED CHOICE**

**CREATIVE:** IN-HOUSE  
BY THE INDEPENDENT  
INSURANCE AGENTS &  
BROKERS OF AMERICA

**LAUNCHED:** JANUARY



**WHY IT WORKS:** Produced in-house with assistance from video production vendor Carden Communications, which shot and edited the spot, the commercial uses scenes of life events to make the point that insurance needs change as life changes. "We were trying to communicate that when life changes, you need to contact your insurance agent and work with someone you can trust," said Susan Nester, broadcast media director at the IAABA who produced and directed the ad, which received a Gold Award in the insurance category at the annual Aurora Awards for excellence in the film and video industries.



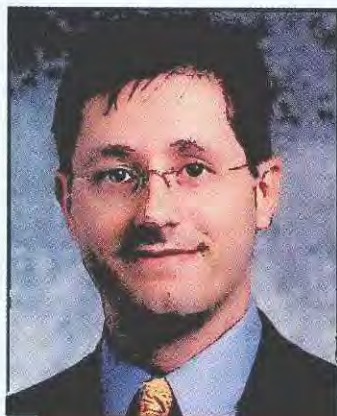
**"TROPHIES"**

**HARTFORD FINANCIAL SERVICES GROUP INC.**

**CREATIVE:** CAMPBELL  
MITHUN, MINNEAPOLIS

**LAUNCHED:** 2005,  
REPEATED IN 2006  
AND 2007

**WHY IT WORKS:** Hartford's corporate partnership with the National Collegiate Athletic Assn. and its advertisements during the NCAA men's basketball tournament fit the company's effort to support financial professionals and their Baby Boomer customers approaching retirement age. "Trophies" features legendary college basketball coach John Wooden talking about trust and the Hartford stag appearing as a symbol of respect and trust. Presenting an image of Hartford as a trustworthy leader in the mutual fund business, the spot also suggests that the company's "team" is there for consumers.



**JIM McCALLION** is vp of advisor systems at Uniondale, N.Y.-based OnlineBenefits Inc., an A.D.A.M. company. In this capacity he manages AgencyWare, a practice management system for benefits brokers.

## The right tech tools for the job

**A**s a benefits team working within a property/casualty insurer, have you ever felt technologically like you've been given a hammer to tighten a bolt? You're not alone. Most benefits brokers use generic customer relationship management computer systems or systems specifically designed for P/C applications. Those systems are not well suited to their needs.

The reasons are obvious. As a broker who sells group health and other benefits programs, your products and processes are significantly different from those of your P/C counterparts. Quoting and presenting plan options is arduous and time consuming, the number of claims per client is higher, you often provide services directly to employees and commissions are uniquely complex.

Until recently, there was not much choice. CRM technology for benefits firms was immature compared with P/C systems and provided limited value. But this has changed over the past few years. Technology tools for the benefits broker have specialized and matured to the point where they now can generate real productivity gains.

Because of this, brokers are now rapidly adopting this new breed of "practice management technology." These tools leverage the traditional concept of a client database and then add true workflow solutions unique to a benefits practice. Their ultimate value is increasing productivity while improving quality of work and reducing costs per client.

Since the vendors who develop these systems specialize in supporting brokers dealing with benefits, they understand your business and can fine-tune training and best practices for you.

Naturally, benefits teams within P/C firms have been the slowest to adopt a true benefits practice management system. The main objection is the insistence that the entire firm utilize a single platform. While this would be ideal, the reality is that there exists no real single solution for all lines of business. The single platform is invariably a P/C-centric system with limited (if any) functionality dedicated to the peculiarities of benefits.

A variation of this line of thinking is to limit your search to solutions that integrate with the current platform. Experience shows us that

most of these cross-vendor integrations have complexities and limitations that make the solution little more than marketing hype.

Instead of an unrealistic mandate for a single platform, a more reasonable approach is to evaluate the advantages and disadvantages of going with an independent system for your benefits practice. Compare the savings and productivity gains made possible by a system that addresses the quoting, service, renewal and commission processes unique to benefits against the additional cost of maintaining some data in two systems.

Of course, no one likes the idea of having two systems, especially the IT department. With two systems, there are possible redundancies, the need to master and integrate multiple platforms, and added costs. Despite these, remember that most P/C systems can track very little on your benefits business. You need to identify what the minimum data entry would be to keep your P/C database complete. Then determine how long per

**OF COURSE, no one likes the idea of having two systems, especially the IT department.**

client this would actually take (for instance, once a year on renewal). Weigh this against the advantages gained by using a benefits-centric solution. Is it worth it?

You'll also need to ask yourself: "What are my competitors doing?" Independent benefits firms are not held back by a limiting internal system. They are utilizing available technology to become more productive, provide higher levels of service and reduce per client costs. Another consideration is that if margins per client decrease, having specialized automation will better position your business to remain profitable and still deliver the level of service expected by your clients.

Do not accept using the wrong tools for the job. Go out and evaluate the new practice management systems for benefits brokers. Examine how these products can help propel your business forward. Assess the additional overhead they may create, but balance this with their advantages. Most importantly, make sure you have the right game plan to keep your practice competitive as technology moves forward.

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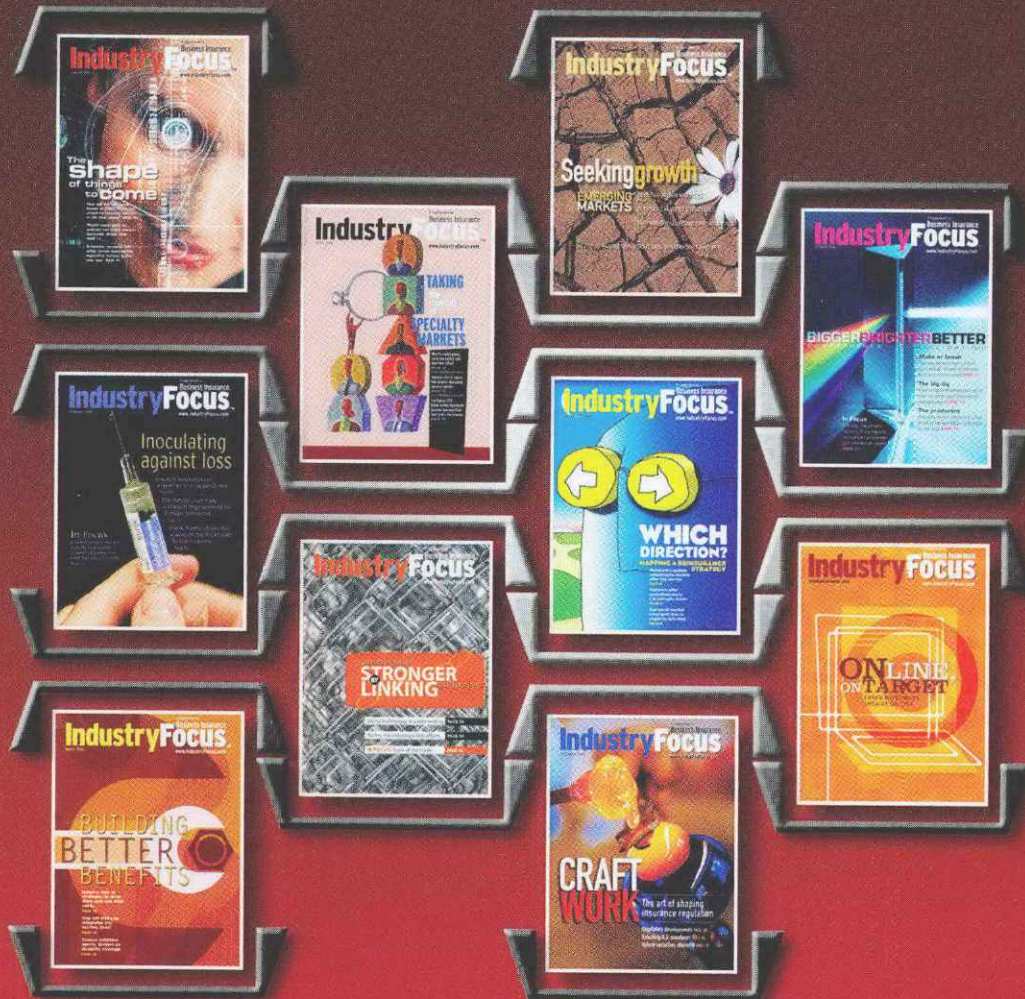
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