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FOR STRATEGIC DECISION MAKERS IN COMMERCIAL INSURANCE

ONLINE STRATEGIES greatest HITS

Tapping the power of the Web in a weak economy
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Multichannel attack and millennial expectations
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TECH FOCUS: Turning change into opportunity
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ONLINE STRATEGIES

Maximizing net potential

The turmoil in the financial markets is driving some agent/brokers and consumers to insurers' Web sites as they look to cope with economic pressures. Insurers' ability to capitalize on the increased traffic will depend on their degree of commitment to Web-based operations and whether they can provide the online services the marketplace seeks. **Page 10**

Pressing fast forward

Technological changes are creating a workplace reality to which the insurance industry must respond

or face losing both customers and future employees, a Microsoft Corp. executive says. To survive, insurance-related companies must embrace a multichannel approach to business, using the Web as an integral component. **Page 13**

FEATURES

Modeling, agencies

Risk models and rating agencies were the subject of a lively debate at the annual meeting of the Property Casualty Insurers Assn. of America. **Page 16**

Change for the better

Oracle's Chuck Johnston discusses how flexible IT infrastructure can help position insurance industry companies to benefit from change. **Page 18**

Outsource: Resource

Whether it's information processing, storage or help with business processes, a number of companies can provide IT help to the insurance industry **Page 19**

Exceeding expectations

In the insurance business, customer service includes introducing customers to products they might not even know they need. **Page 20**



THREE QUESTIONS

Andrew M. Appel of Aon Corp.'s Aon Re Global unit, on the likely challenges looming in this reinsurance renewal season. **Page 5**

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RODD ZOLKOS
Editor, Industry Focus

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The whole insurance world's watching

I write this not too long after what by anyone's calculation has to be considered a pretty remarkable election, particularly remarkable, I think, if you happened to be here in Chicago.

As a Chicagoan, much of what has occurred on the periphery of the campaign has been pretty interesting. For example, most everyone, it seemed, knew someone who lives near Barack Obama's Hyde Park home and could offer firsthand accounts of what it's like living around the block from a major party presidential candidate.

On Election Day, seeing people pouring into downtown Chicago for that night's gathering in Grant Park brought an immediacy to the events of the election that I hadn't previously experienced, even as someone who has been lucky enough in the past to interview candidates and cover conventions.

Throughout election night, my wife, Kathy, and I responded to text messages and calls to our cell phones from relatives and friends around the country wondering if we were in Grant Park. We weren't. Despite our proximity to history, like most Americans, we followed developments from our living room, relying on television and our laptops.

As it turned out, the trip home that evening was its own piece of the local election experience.

Crowd control concerns had led many downtown Chicago employers to encourage employees to work from home on election day or allow workers to head home early.

By the time I headed home at what would typically be the end of the evening rush, I boarded an unusually empty bus that proceeded to make spectacular time for the hour, heading away from downtown on the similarly empty northbound lanes of Lake Shore Drive. Weird.

Politics has always been something of a spectator sport in Chicago, so for most of us here, it's really kind of fun to experience our moment at the center of the political universe. Of course the novelty may wear off soon, as perhaps it already has for President-elect Obama, particularly with the scary briefings he's receiving, the economic issues and ongoing military conflicts he inherits, and various other challenges ahead.

Some of the same factors that will challenge President Obama will likely cause some sleepless nights for many leaders of the insurance industry in the months ahead. I spoke with David A. Sampson, president and chief executive officer of the Property Casualty Insurers Assn. of America, a couple of weeks back, and he certainly didn't sugarcoat the issues he sees facing the industry.

Among other things, Mr. Sampson envisions the PCI representing its members' interests in the coming debate over financial services regulatory reform in what he said "is likely to be the most anti-business political climate in the past 60 years."

What impact will President Obama ultimately have on U.S. business? Naturally, even before he's taken office, there are no

POLITICS HAS ALWAYS BEEN something of a spectator sport in Chicago. It's really kind of fun to experience our moment at the center of the political universe.

doubt partisans on either side of the political fence who'd tell you with certainty that they know the answer. But, of course, only time will tell.

Still it seems pretty clear that Mr. Obama's election has already had some business impact.

In the days after the election, there were reports of newspapers flying off the racks as people sought keepsakes of this moment in American history. The afternoon after election day, the Chicago Tribune reported it would print an extra 200,000 copies of that day's paper. That evening, as I walked to my bus stop around 7 p.m., a line of people looking for copies was still pouring through the door at Tribune Tower.

Hey, I may not know what impact Barack Obama's election will have on the insurance industry, but from my perspective as a journalism partisan, it's truly an historic event.



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Most insurers' capital levels adequate: S&P

By Rodd Zolkos

Recent catastrophes and investment losses have combined with soft pricing conditions to create a challenging environment for commercial lines insurers, but rating agency Standard & Poor's Corp. considers most insurers' capital positions to be adequate for now.

"We believe the industry is well-capitalized and has sufficient liquidity to meet its obligations," Grace Osborne, managing director and North American insurance practice leader at S&P in New York, said last month.

S&P will examine insurers' ability to hold onto their investment assets until the market regains more normal footing, Ms. Osborne said. "The big question will be

how long the market disruption continues and the insurance companies' ability to weather the storm without allowing their portfolio to become impaired because they'd have to sell into the market," she said.

The rating agency maintains a negative outlook on the commercial lines sector, and, as third-quarter earnings information becomes available, S&P will accelerate its review of companies it feels are likely to be most affected by recent events.

"It remains to be seen whether insurance companies can take steps now to either slow down the softening prices and the broadening terms and conditions that we have seen, and whether the concerns they have with their capital will cause them to reinvest



'WE BELIEVE the industry is well-capitalized and has sufficient liquidity to meet its obligations.'

GRACE OSBORNE
STANDARD & POOR'S CORP.

their underwriting discipline" and examine the capacity they're willing to offer, Ms. Osborne said.

S&P expects many to look to cede more risk. "We're anticipating that they'll be seeking more capacity from their reinsurers," she said. **IF**

NAMIC to partner in study of P/C policy systems

INDIANAPOLIS—The National Assn. of Mutual Insurance Cos. will partner with management consulting, advisory and research firm Insurance Technology Group Inc. on a comprehensive survey of the business drivers influencing property/casualty insurers' policy administration practices and processing.

The survey will shape the business context for a policy administration study Toronto-based ITG is conducting with the sponsorship of *Industry Focus* and the support of O'Brien Communications Group L.L.C.

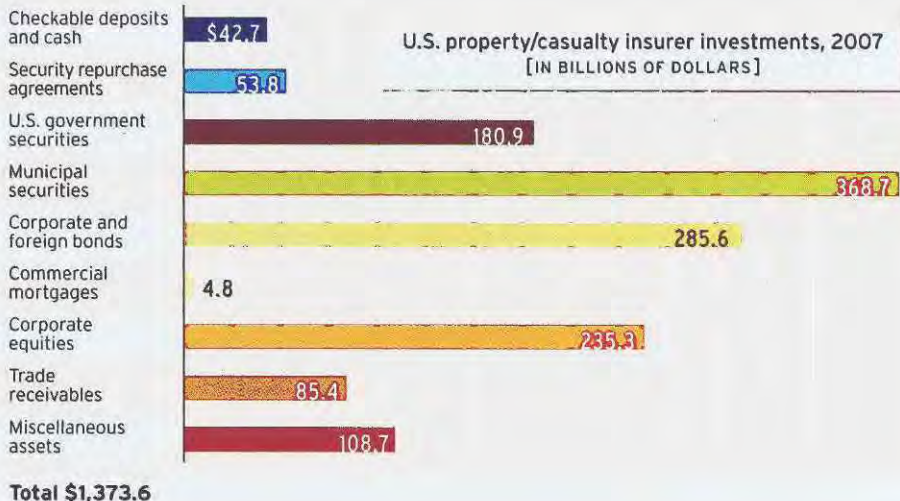
The partnership with Indianapolis-based NAMIC will include a telephone survey beginning this month of NAMIC members investigating insurers' business strategies and their experiences with policy administration practices and solutions.

The partnership will also include a webcast reporting initial results, and a survey of summary results.

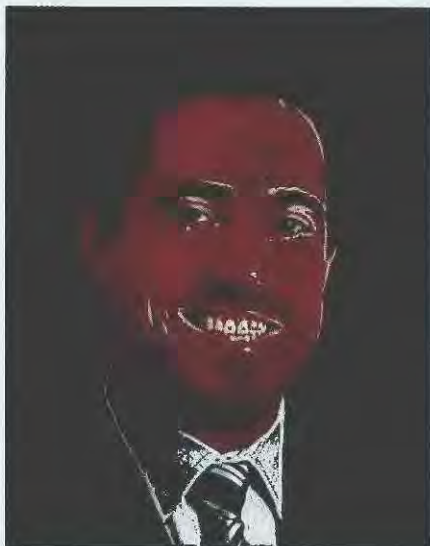
The ultimate policy administration study will be an in-depth collection of information on vendors and their solutions. The study will begin in January, with results to be published and available in the second quarter of 2009.

In a statement, Bart Anderson, NAMIC's senior vp of member services and communications, said the survey "will help NAMIC better serve its members by providing valuable information for aligning business and IT strategies." **IF**

BY THE NUMBERS



Source: Board of Governors of the Federal Reserve System



Andrew M. Appel, chief executive officer of Chicago-based Aon Corp.'s Aon Re Global unit, expects this reinsurance renewal season to be a challenging one, as ceding companies look to protect themselves not just from traditional exposures but also from heightened share price volatility. Recently, Mr. Appel shared his thoughts on factors affecting this renewal season.

How are current events shaping the reinsurance market as ceding companies approach Jan. 1 renewals?

I think there are several things going on in the industry at this point that people are trying to get their arms

around. The first is that losses from Ike and Gustav continue to go up, which is, in certain lines—particularly offshore energy—causing people to blow through a lot of their covers, so there are questions of capacity going into the next renewal season.

Then, on the asset side, I think as best as anyone can tell this is an unprecedented occasion where there is a material loss corresponding with a significant markdown in assets. So it's causing an unusual level of anxiety in the reinsurance markets between cedents and reinsurers.

So you've got an unusual situation where asset quality is degraded significantly, expected investment returns are down for the reinsurers themselves, retro costs are expected to harden, at least flatten—they could be going up. And the ability to raise additional capital is difficult.

So those five or six factors combine to create an interesting and challenging renewal season.

How are Aon Re's clients dealing with this "unusual situation" that's confronting them?

I think there's a big question for clients as to what you do in this environment. There's a lot going on, and it changes every day. So clients are asking about market security, and

I think there are three things that clients should be thinking about: diversification of their reinsurers is probably a good thing; flight to quality, even if it's more expensive—now is not the year to be nonconservative in the choice of reinsurers; I think the third is to evaluate the asset quality of the reinsurers more carefully than in prior years.

What's the impact of the current market volatility on how insurers should look at risk management?

We live in unprecedented times where negative earnings and return surprises are causing two, three times greater impact on share price. So now is not the year you want to surprise your investors with volatility because, as you can see, it's not a 5% decline in share price, it's a 20%, 30%, 40% decline in share price. So if I were the CEO of an insurance company, I would probably figure out ways to minimize the probability of losses next year. Because I'd much rather have slightly lower earnings with a lot more certainty than unusual surprises.

Insurance CEOs and ceding (reinsurance) managers are thinking about ways to minimize volatility given the current crisis in the equity markets and the likely particularly negative reaction to surprises. ■

CEO pay and bonuses flat or declining: Study

By Rodd Zolkos

The current economic decline, uncertain financial markets and the crisis in the financial services industry will likely keep pressure on insurance industry executive compensation, according to Mercer L.L.C.

The New York-based benefit and human capital consultant said its survey of chief executive officer pay practices at insurers showed that 2007 CEO pay levels were flat or slightly lower compared with 2006.

Among the 17 property/casualty and 13 life/health companies surveyed, medi-

an total compensation decreased 15% among property/ casualty companies compared with the prior year and was flat among life and health companies.

The survey found that insurance companies are paying for performance and that where there was fluctuation in compensation year-to-year changes in CEO pay were aligned with a company's performance trends.

The Mercer survey found CEO bonuses in 2007 were down 20% or more at more than 40% of the companies studied, with the median bonus paid to the 17 P/C company CEOs being 40% less than in 2006, while bonuses fell 9% for

CEOs at the life/health companies.

While shareholders seem to favor the industry's use of long-term incentives in top executive compensation, the current environment makes setting long-term goals particularly challenging, Mercer said.

The consultant noted that shareholders and the Securities and Exchange Commission are looking for a clear link between executive rewards and company performance. But, Mercer said, financial services companies are struggling with balancing shareholder pressure to pay for performance and the need to retain key talent. ■

Big I endorses Swiss Re Agency Shield Program

ALEXANDRIA, Va.—The Independent Insurance Agents & Brokers of America has endorsed the Agency Shield Program from Swiss Reinsurance Co. Ltd.'s Commercial Insurance Group for its agency errors and omissions policyholders.

The Agency Shield Program is available to Big I member agencies through state associations and is a loss control service and self-assessment program designed for insurance agencies.

According to the Alexandria, Va.-based Big I, the Agency Shield Program helps agencies reduce errors and omissions exposures, improve client service and build sustainable businesses.

The Agency Shield Program focuses on reducing agencies' E&O claims by allowing agencies to conduct comprehensive reviews of their processes, procedures and guidelines. **IF**

CPCU Society opens meeting to nonmembers

MALVERN, Pa.—Starting with its 2009 gathering in Denver, the CPCU Society will open registration to its annual meeting and seminars to nonmembers.

Previously, the event was open only to members of the Malvern, Pa.-based CPCU Society and their guests.

In announcing that the 2009 gathering, scheduled for Aug. 29 to Sept. 1, would be open to those who haven't attained the Chartered Property Casualty Underwriter designation, society leaders noted the need for the insurance industry to replenish its skilled workers as baby boomers retire.

Marvin Kelly, 2008-2009 CPCU Society president and executive director of the Texas Property and Casualty Insurance Guaranty Assn. in Austin, Texas, said in a statement that the new policy will allow previously excluded attendees to see the quality of the seminars and services that the society provides. **IF**



COURTESY OF FACTORY MUTUAL INSURANCE CO.

FM Global says a \$38 million expansion of its Rhode Island research facility includes what will be the world's largest fire-testing laboratory.

FM Global to expand research campus, increase workforce

WEST GLOCESTER, R.I.—Factory Mutual Insurance Co., which does business as FM Global, has announced a \$38 million expansion of its 1,600-acre research campus in West Glocester, R.I.

FM Global says the enhancements of the facility will ensure that it can keep pace with its clients' loss prevention needs, particularly with the growing impact of globalization and increased supply chain risks.

FM Global said the expansion will see the company increasing its workforce at the research campus by 7% over the current 108.

Research at the current research campus replicates warehouse-size fires, dust explosions and virtually every type of natural disaster, accord-

ing to FM Global. Research at the site helps FM Global customers better protect their facilities from property risks and related business disruptions.

Construction on the existing research campus began in 2001 and cost \$85 million. The expansion will add capabilities for studying the effects of such natural hazards as wind, flood and earthquakes, as well as what FM Global says will be the world's largest fire-testing laboratory. The expanded facility will also include a new 4,500 square foot multimedia center.

The insurer says the improvements will provide higher quality research and testing, enabling it to better serve businesses looking to deal with evolving exposures. **IF**



THE QUOTE

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MICHAEL McRAITH
DIRECTOR, ILLINOIS DIVISION OF INSURANCE

Groups offer global regulatory principles

By Rodd Zolkos

The Property Casualty Insurers Assn. of America joined other international trade associations last month in discussions focusing on the international financial crisis and related insurance supervision issues at the annual conference of the International Assn. of Insurance Supervisors in Budapest, Hungary.

The PCI was among the organizations submitting a statement to the IAIS' Executive Committee outlining key principles for insurance regulation.

Among the principles were that the insurance industry should share regula-

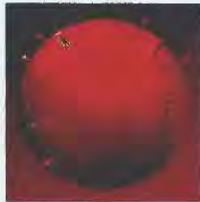
tors' objective of protecting policyholders; that international insurance companies should be regulated on a group-wide basis, with enhanced cooperation among supervisors; and that supervisory authorities should strengthen their ability to cooperate in identifying emerging problems and in using their existing powers efficiently and appropriately to safeguard policyholders and beneficiaries.

Other principles were that the industry needs to encourage the trend toward risk-sensitive regulation, that prudential requirements should reflect the level of risk and diversification, and that regulation should encourage competition.

Organizations joining the Des

Plaines, Ill.-based PCI in promoting the principles included the Assn. of British Insurers, the Assn. of Bermuda Insurers & Reinsurers, the American Council of Life Insurers, the Assn. of Mutual Insurers & Insurance Cooperatives in Europe, the Assn. for Savings & Investment South Africa, and the European Insurance & Reinsurance Federation.

Others were the Canadian Life & Health Insurance Assn., the Dublin International Insurance & Management Assn., the General Insurance Assn. of Japan, the General Insurance Assn. of Korea, the Insurance Council of Australia, the Korea Life Insurance Assn., the Reinsurance Assn. of America and the South African Insurance Assn. ■



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Ms. Reynolds

New York-based American International Group Inc. has named **Paula Rosput Reynolds** vice chairman and chief restructuring officer. Ms. Reynolds previously was chairman, president and chief executive officer of Safeco Corp. AIG also named **David L. Herzog** executive vp and chief financial officer. Mr. Herzog, who previously was AIG's senior vp and controller, replaces Steven J. Bensinger, who left. Mr. Bensinger had been vice chairman-financial services and acting CFO since May. Separately, AIG named **Rick Gibbons**, an AIG executive vp, president of AIU Marine & Energy, to replace David Hawksby, who resigned.

ACE USA, the Philadelphia-based division of ACE Ltd., has made several executive appointments. **David Brosnan**, who most recently was president of the ACE casualty risk division, was named CEO of ACE Canada. **Karen Barkley**, who has held several roles with ACE Canada since joining the company in 1992, was named chief operations officer of ACE Canada and president of ACE Canada's property/casualty business. **Chris Maleno**, previously president of ACE USA regional operations, was named pres-

ident of ACE casualty risk. **Joseph Clabby**, previously president of ACE USA West, succeeds Mr. Maleno as president of ACE USA regional operations.

Ruud Bosman was named vice chairman of Johnston, R.I.-based Factory Mutual Insurance Co., which does business as FM Global. Mr. Bosman previously was executive vp.

Frank Costa has been appointed president of Berkley Offshore Underwriting Managers L.L.C., a new unit created by Greenwich, Conn.-based W.R. Berkley Corp. Mr. Costa, who will be based in New York, previously was president of AIG Oil Rig. Also, **John R. Benedetto** was named president of new W.R. Berkley unit Berkley Professional Liability L.L.C. Mr. Benedetto previously was president of the national accounts division at AIG Executive Liability. Meanwhile, at AIG, **Dorian Grey** was named president of AIG Oil Rig, replacing Mr. Costa.

New York Life International L.L.C., the international unit of New York Life Insurance Co., has named **Gary Bennett** executive vp and Greater China CEO. Mr. Bennett previously had been CEO and managing director for Max New York Life Insurance Ltd., New York Life's joint venture with Max India Ltd. in India. **Rajesh Sud** has been named to replace Mr. Bennett in the Max New York Life posts. In addition, **Rajit Mehta** was named chief operating officer of Max New York Life. Mr. Sud

previously was Max New York Life's deputy managing director and Mr. Mehta was deputy COO.

Munich Re America HealthCare has promoted **Richard Phillips** to chief underwriting officer. Mr. Phillips previously was underwriting manager for first-dollar medical business. Princeton, N.J.-based Munich Re America HealthCare is a division of Munich America Reinsurance Inc., which is part of the Munich Re Group.

Clare Collins-Newton has been named chief information officer of Mercer L.L.C. in Norwood, Mass. Ms. Collins-Newton most recently was vp of information technical management at Affiliated Computer Services Inc.



Mr. Assadi

Mehran Assadi has been named the next president and CEO of National Life Group. Mr. Assadi, currently president of Montpelier, Vt.-based NLGroup's life and annuity division, will succeed Thomas MacLeay, who is retiring Dec. 31 as president and CEO but will remain as chairman.

John C.R. Hele, CFO of ING Group, will become CFO of Hamilton, Bermuda-based Arch Capital Group Ltd. effective April 1,

2009. Mr. Hele will replace John Vallaro, who will move from his role as CFO to a position as senior adviser to the company.

Hartford Financial Services Group Inc. has named **Robert Paiano** senior vp and enterprise chief risk officer. Mr. Paiano previously was CRO of the Hartford, Conn.-based insurer's property/casualty operations.

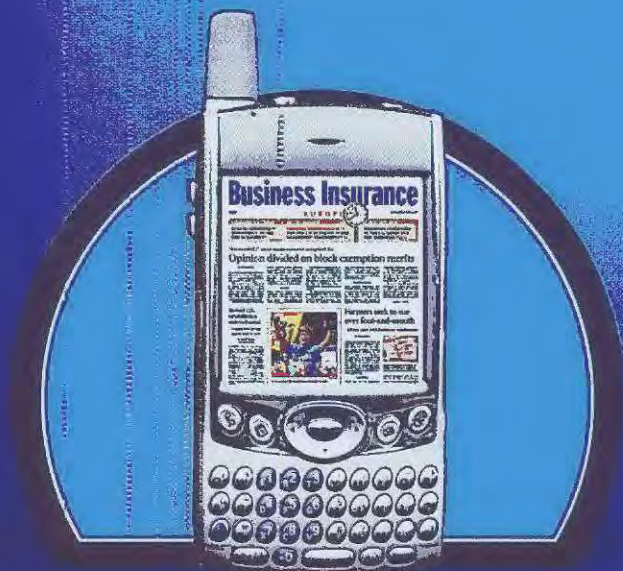
Palmdale, Calif.-based National E&S Insurance Brokers Inc. has named **John McGovern** president. Mr. McGovern, who will be based in Middletown, N.J., previously was managing director of American Risk Management Resources Network L.L.C.

Michael Dinkins has been hired as executive vp and CFO by Briarcliff Manor, N.Y.-based USI Holdings Corp. Mr. Dinkins previously was CFO of Glen Allen, Va.-based Hilb Rogal & Hobbs Co., which recently was acquired by Willis Group Holdings Ltd. Mr. Dinkins succeeds Edward J. Bowler, who had been interim CFO and will resume his duties as senior vp of corporate development.

Capitol Insurance Cos. of Middleton, Wis. has named **Richard W. Allen III** president of its surety and fidelity operations. Mr. Allen had been senior vp of surety and fidelity underwriting.

London-based Aon Ltd. has appointed **Pauline Colvin** to the newly created post of CRO. Ms. Colvin previously was CRO at Skandia Group. IF

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EUROPE™

Multichannel approach key to capitalizing on emerging opportunities

By Meg Fletcher

The turmoil in the financial markets is driving some agent/brokers and consumers to insurers' Web sites in search of ways to cope with the economic pressures. Those agent/brokers and consumers are seeking information about coverage options—especially for vehicles—and want to find better pricing or broader coverage to help stretch their insurance dollars, experts say.

Whether insurers will be able to take advantage of the increased traffic depends on their degree of commitment to Web-based operations and whether they will grow their Web-based capabilities, services and operations.

Economic pressures may make some less committed insurers risk-averse to funding Web-related enhancements. Those insurers are more concerned about holding the line on costs

ONLINE STRATEGIES greatest HITS

rather than seizing a business opportunity, experts say.

Other insurers may expand their Web-based advertising and services to woo consumers as well as help agent/brokers. Those insurers are more concerned about being perceived as innovative and approachable. They also want to position themselves to reduce the costs of underwriting and servicing online customers' policies, experts say.

"The financial services industry will be under a microscope because of the credit stimulus package and people looking for culpability," said William Rice, president of the Simsbury, Conn.-based Web Marketing Assn.

Coping with fear of recession is a particularly sensitive area for insurers, which are one part of the financial services industry that caused the problems—although technically most insurance-specific operations are in better financial shape than other financial services operations that were more directly connected to mortgage-backed securities.

From an insurer's perspective, the financial turmoil has no effect unless the company's solvency is threatened, which is not the situation at this time, said Richard Look, vp of marketing communications for West Chester, Pa.-based Inventure Inc., which does business as Venture Insurance Programs. He also is president of the Insurance Marketing Communications Assn. in Gig Harbor, Wash.

The outcome of reinsurance treaty renewals in January 2009 may be a major factor in determining insurers' decisions about allocating money for marketing, Mr. Look said. "With stock prices down and shareholders looking for returns, chances are that reinsurers will raise their rates," he said. If ceding insurers pay higher prices for reinsurance, they will have to address their own pricing.

If they raise prices and capacity is reduced, he predicted that a lot of insurers will increase their spending on interactive-related media. "A lot of companies held off last four years because their marketing dollars have been squeezed," Mr. Look said.

The U.S. financial services industry—including banks, credit card companies, brokerages and insurers—is second only to retail in Internet advertising spending," said Lisa Phillips, senior analyst at eMarketer.

U.S. insurance companies' online ad spending accounted for about 28% of the financial services total in 2006, or \$720 million, eMarketer said.

She projected that insurers' online ad spending would grow to \$1.38 billion this year.

AUTO INSURERS NO. 1 IN INTERNET ADS

According to research by TNS Media Intelligence, the four insurers spending the most last year for advertising in all types of media were GEICO, \$541 million; Allstate Corp., \$351.8 million; Progressive Casualty Insurance Co., \$310.7 million; and State Farm Mutual Automobile Insurance Co, \$295.6 million.

TNS reported those four companies spent \$1.28 billion for auto insurance advertising in 2007, with network television taking 31.4% of the total; cable TV, 28.7%; local TV, 13.6%; radio, 11.7%; Internet, 6.9%; and other, 7.7%.

Spending the most on Internet advertising were auto insurers Progressive, which spent 13% of its advertising budget on Internet ads; and State Farm which spent 11% of its ad budget on Internet ads.

That advertising seems to be paying off in terms of generating customer demand, according to several studies of Internet usage by insurers.

2 MILLION AUTO POLICIES SOLD ONLINE

Before purchasing insurance, 55% of U.S. Internet users in the United States and select Western European countries explored an insurer's Web site and used price comparison tools, according to the 2008 World Insurance Report from Paris-based consultant Capgemini and the European Financial Management & Marketing Assn. The data is based on surveys and interviews with more than 11,000 insurance customers, 350 distributors and more than 50 insurance executives in the United States and six European nations.

"The Internet is a critical channel for the auto insurance industry," eMarketer reported in March. Between 2004 and 2007, U.S. consumers requested more than 100 million auto insurance rate quotes, according to comScore Inc., a marketing research company. Nearly one-third—32 million—occurred in 2007 alone, which was up 15% over 2006.

More importantly, the number of auto insurance policies purchased over the Internet reached 2 million in 2007, 37% more than 2006, according to eMarketer.

"Consumers are demanding the freedom to choose their method for interacting with their auto insurer—whether online, by phone or in person, said Kevin Levitt, vp at comScore. "The rapid growth of the Internet demonstrates the importance of a multichannel approach that includes the ability to request quotes, purchase policies and service accounts online."

The Internet also helps meet the needs of managing general agents and program administrators in the hospitality and entertainment industries, the IMCA's Mr. Look said.

Among his dozen clients in those fields, those planning to market a product using interactive services are still moving forward. "We've yet to see anyone contact us and say let's hold back," Mr. Look said.

His services include search optimization, which increases the frequency with which a client's Web site will turn up in results of consumer searches. He also offers customized agency sales tools that an MGA can provide an agent on specific insurance product lines as well as online kits a client can give his agent. He also has been involved with automating an insurance rating service for beauty salons, so getting a price quote requires very little agent participation.

Separate from sales, insurers can do more to increase their use of online services, several sources said.

"Technology is a strength and weakness for the insurance industry," said Paul Springman, executive vp at Richmond, Va.-based specialty insurer Markel Corp. during a recent panel discussion hosted in Chicago by the Katie School of Insurance and Financial Services at Illinois State University. "Companies have invested millions of dollars in it for serv-

ices that can deliver a better priced product. The trick is differentiating yourself from your competitors," Mr. Springman said.

Some insurers are expanding their use of technology to better serve customers, including recent innovations such as issuing policies electronically.

"The industry has a bad rap about technology," said panelist John Lupica, president and CEO of Philadelphia-based ACE USA. Contract certainty is an issue for many of our customers because not having the policy in hand represents "a control deficiency," he said. Mr. Lupica said he wants to be able to issue a customer's policy electronically so that the policyholder will have a copy of the policy on the day of the policy's inception.

Earlier this year, the U.S. commercial property/casualty operations of American International Group Inc. began offering electronic issuance of executive liability policies. It recently expanded its AIG eDelivery system to also include issuance of excess casualty policies and endorsements, according to a statement from New York-based AIG.

EFFICIENT, FRIENDLY TO THE ENVIRONMENT

The system makes policy documents available to brokers online the next business day after issuance. The system brings efficiency to brokers and allows them to easily share policy documents electronically with clients, according to AIG.

"It is also indicative of our companywide commitment to environmental responsibility," said Tim McAuliffe, president of AIG Excess Casualty. "The new system has the potential to save approximately five tons of paper annually and to reduce yearly (carbon dioxide) emissions by approximately 15,500 pounds," according to the statement.

In addition, insurers can gain a marketing advantage by being technologically proficient, said panelist Daniel H. Kugler, assistant treasurer-corporate risk management for toolmaker Snap-on Inc. in Kenosha, Wis. Snap-on operates in a paperless environment, scanning documents and filing them electronically. Yet when insurance companies come in to do an audit or look at the company's claims experience, they want to see paper documentation, he said.

If an insurer is unwilling to respond flexibly to policyholder's paperless environment, some risk managers may change insurers, Mr. Kugler said.

"In this economic climate, agent/brokers will be under a lot of pressure to bring value" to a transaction, the WMA's Mr. Rice said.

In the current economy, "a lot of leisure industries are hit really hard," Mr. Look said.

For example, marinas and public golf courses are struggling and some golf courses tied to residential developments are especially hit hard due to foreclosures, he said. Mr. Look said inquiries are coming in from agents and brokers and "I'm sure their clients are screaming at them" to get them a better deal on insurance.

In terms of auto insurance, the growth of Internet sales is taking market share from traditional agents, according to a May analysis of a related comScore study that was published

by the Indianapolis-based National Assn. of Mutual Insurance Cos. The traditional agent channel saw a 3 percentage point decrease in market share in 2007, to 53% of total policies purchased.

"Purchasing with a local agent has historically been the dominant method by which people purchased auto insurance," Mr. Levitt said. "While it still remains the primary method, these latest findings show us that the landscape is beginning to change, with more and more consumers turning from traditional offline channels to the Internet."

"The study also found that even consumers who bought a policy through an agent still relied on the Internet to obtain information about auto insurance," the comScore report said.

In contrast, both agents and consumers win with a Web site developed by John Hancock Life Insurance Co. that was developed to enhance its sale of annuities, Mr. Rice said. The site, www.jhannuities.com, won the Web Marketing Assn.'s 2008 award for best investment Web site.

The site used a simple design enhanced by interactive tutorials and embedded videos, Mr. Rice said. The site contained specific information of interest to prospective clients, current clients and agent/brokers who sell the annuities. It contains customer service features that keep the agent involved, such as one that notifies both the insurer and agent when a customer updated his address, he said.

TOOLS PROMOTE DECISIONMAKING

When financial conditions become tight, consumers try to save what they can when life, health and car policies come up for renewal, sources said.

Consumers also should care about using their discretionary funds and making wise financial choices about a variety of benefits, including their employers' health care offerings and Social Security, said Ric Ritter, vp marketing for institutional business at MetLife Inc. "Unfortunately, people typically spend more time planning a vacation than they do choosing benefits," Mr. Ritter said.

The insurer developed several free, online tools to help employees simplify their benefit choices at work, select life insurance and make decisions about choosing when to take Social Security benefits. The insurer provides the information online at www.metlife.com as a community service and does not target visitors to the site for follow-up sales calls, Mr. Ritter said.

One of the biggest challenges of online insurance sales for both consumers and insurers is underwriting.

Swedish insurer Trygg-Hansa Forsakrings AB Publikt won the 2008 Webby award in the insurance category for creating a series of "friendly and nonthreatening" underwriting questions, said David-Michel Davies, executive director of the award program sponsored by the New York-based International Academy of Digital Arts and Sciences. Using "a very simple and comfortable interaction" that simulated a summer jaunt, the consumer describes his possessions sufficiently so the insurer can quote appropriate coverages. ■

Jeff Casale contributed to this article.



ONLINE STRATEGIES changing CHANNELS

Meet expectations with tech tools

By Meg Fletcher

Technological changes are creating a workplace reality to which the insurance industry must respond or face losing both customers and future employees, a Microsoft Corp. executive says.

Overall, the development of connected experiences is "changing the game in insurance," said Bill Hartnett, U.S. insur-

ance solutions director for Microsoft.

Contributing to that is the decline in the cost of the components of information technology, which have become "essentially free"—or at least significantly less expensive—since the first computers were built 40 or 50 years ago, he said.

For example, processing is relatively inexpensive because the cost per transistor declined to \$.0000001 in 2004 from \$1 in 1968, he said.

Storage is nearly free because the cost per gigabyte declined to 40 cents in 2006 from \$78 in 1997, Mr. Hartnett said.

"The Y2K problem should have been a wake-up call" that it is time for innovation. It occurred because the developers thought by the year 2000 the technology would have been replaced, he said in a presentation at the 2008 eInsurance Symposium at Cityplace Conference Center in Dallas.

"By 2050, for \$1,000 you'll be able to buy the equivalent of all the human brains on the planet in processing power," Mr. Hartnett said. "That's a staggering thing to think about."

MEETING NICHE NEEDS

Previously, expensive technology meant innovation was limited because it was costly to implement, he said, so companies directed their goods to the greatest number of people.

Development of the Internet has rev-

adopted innovations and use "experience as a brand differentiator," Mr. Hartnett said. Those include Amazon.com Inc., Starbucks Corp. and Harley-Davidson Inc.

For example, Amazon "is probably the prime example of this long-tail marketplace," Mr. Hartnett said. That company would not exist if it weren't for the Web and related IT expenses being relatively inexpensive.

Amazon has "set the expectations of the consumer. They've also set the expectation for the people that work for you," he said.

"It's really a dramatic difference in the way they've used technology to kind of change that experience and use experience as a differentiator," Mr. Hartnett said.

Amazon began as an online bookstore that grew to become the world's largest online retailer of consumer goods by putting market share ahead of profits, according to Hoover's Inc.

afraid of him.' You can substitute...insurance agent for accountant," Mr. Hartnett said.

"That's a very powerful statement of how powerful experience can be. It's a differentiator," Mr. Hartnett said. He again quoted the Harley-Davidson CFO: "Our philosophy is we don't really advertise much because when the significant portion of your customers have your logo tattooed some place on their body...you don't really need to advertise very much. They're a loyal, loyal audience."

CUSTOMIZING COVERAGE

"Where is the business model eruption like Amazon in insurance? There kind of isn't one," Mr. Hartnett said.

For example, the standard homeowner's policy, which was designed in the 1950s, shows its age by automatically including some coverage for silverware and coin or stamp collections. Relatively few people today have those items, so they "would probably be pretty annoyed that they're paying money for that"—if they took the time to look at the policy.

"So why can't we just pull that coverage out and customize it" to create some really flexible forms that let people include what they want, even if there is no break in price. Using technology, you ought to be able to do this pretty easily in the insurance business," Mr. Hartnett said.

Other technological innovations that are available allow high-quality video conferencing and provide automatic written transcripts of discussions as well as gesture-based controls of video screens, like those that newscasters use in manipulating U.S. maps to demonstrate election results.

Some insurers are considering software that allows the gesture-based controls for handling claims settlement and underwriting documents, Mr. Hartnett said. It allows them to move photographs and other documents around and then put them all back into a file. It makes it "a lot more streamlined, a lot more efficient," he said.

In addition to technological and marketing innovations, globalization, constant communication and trans-



'BY 2050, for \$1,000 you'll be able to buy the equivalent of all the human brains on the planet in processing power. That's a staggering thing to think about.'

BILL HARTNETT
MICROSOFT CORP.

olutionized that situation, Mr. Hartnett said. With IT relatively inexpensive, it is possible to meet the needs of any niche, which creates "a long-tail marketplace," as described by Chris Anderson in his book, "The Long Tail: Why the Future of Business is Selling Less of More."

"If we start to think of it in a different way, we can come up with some very different answers for how we innovate in this market," Mr. Hartnett said.

The idea is to transform how an insurer's employees—who sell policies and settle claims—think about their company and how those who do business with the insurer think about it, he said.

Insurance-related companies should position themselves to follow in the footsteps of companies that have

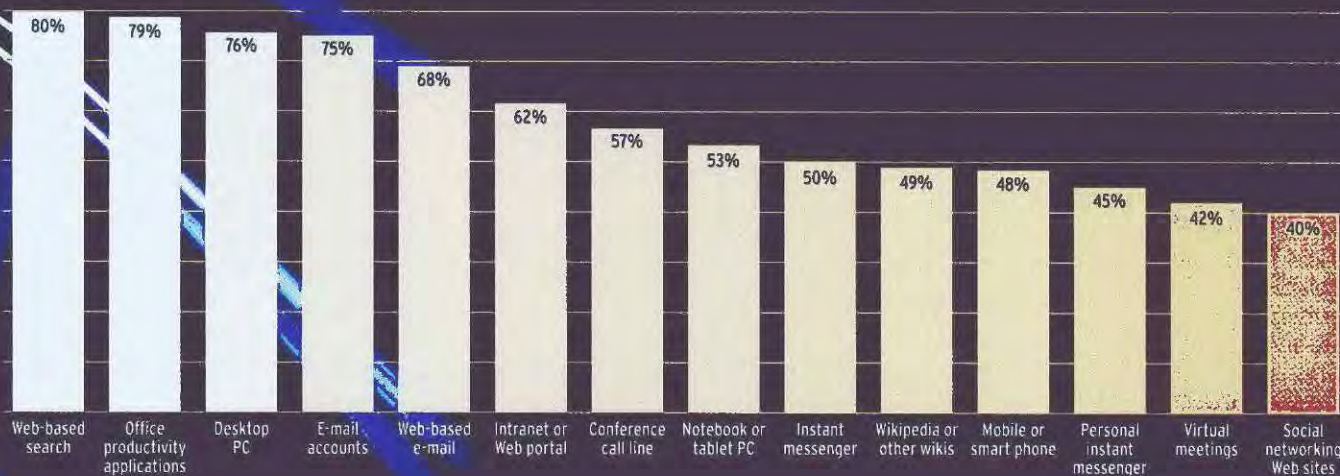
One of his favorite Amazon services is free shipping of most items for a \$75 annual fee.

Although most people think of coffee when you say "Starbucks," its real innovation is establishing a pleasant "sanctuary" apart from the home or office. People go to Starbucks and hang out all day "because of that experience," Mr. Hartnett said.

"My favorite, though, is Harley-Davidson if you want to see the power of experience," he said.

According to Mr. Hartnett, Harley-Davidson's chief financial officer described the key to the company's success this way: "What we sell...to a 40-year-old accountant (is the experience) of riding through town in leathers on his (motorcycle) and having people be

GREATER EXPECTATIONS Millennials' technology expectations of workplaces



Source: Microsoft Corp.

parency are other issues affecting insurance-related organizations, he said.

An immediate concern for the insurance industry is the change in the workforce that will come with the retirement of the baby boomers and the recruitment of new workers to fill their jobs, he said.

He cited figures from the Washington-based Employment Policy Foundation that found that "the number of available jobs could outnumber workers by 4.3 million when the baby boomers start retiring." The gap would then widen "to a staggering 35 million workers by 2031," according to the foundation.

TALENT COMPETITION

In the "incredible competition" for new talent, the insurance industry is handicapped by some negative perceptions about the industry's lack of technological innovations and poor public image, he said.

The insurance industry also must consider job applicants' desire for a high-tech workplace, according to the results of a Microsoft-commissioned May study of so-called "millennials" in North America, those individuals

between the ages of 18 and 27.

According to those results, "there are some really high expectations of things that a lot of us don't provide right now," he said.

Millennials expect everyone to be able to search within a company and be able to find information that's relevant to settling a claim or underwriting a policy, the report said. They expect to have a desktop computer, company e-mail and also want access to personal e-mail at work. They also want a company intranet or Web portal, but they also expect access to social networking sites (see chart).

"I don't know of any insurance company that offers all that stuff," Mr. Hartnett said.

The study also found that 91% of the respondents said that having more access to innovative technologies would make them "more likely" to consider a potential job.

One way for an employer to attract employees is to allow them to put up their own Web sites, Mr. Hartnett said. The tools exist to let them do that yet keep it secure and protect sensitive information.

That exemplifies taking a long-tail

approach to abundant technology. "It's no longer, 'I have to go to the IT department, get them to commission a site for me (and) make sure it meets all these policies.'"

According to the report, millennials' perception of the insurance industry is not a good one, he said.

"They think it's an old industry populated by old people," Mr. Hartnett said, and more than half said they thought it was "not innovative."

"That's sad, and you all ought to be ambassadors to try and change it," Mr. Hartnett said. "I think we have a real crisis in the business trying to attract these people." So insurers face not only a technological challenge but also a human resources problem.

To attract these new workers, the insurance industry also needs to change its "apprenticeship model" of having new hires train to be an underwriter or claims representative by spending three or four years shadowing an experienced employee before allowing them to work on their own.

"These people probably won't be around in three or four years. They see life...and work as a series of jobs," he said. ■

For-profit rating agencies, models examined at PCI

By Meg Fletcher

SCOTTSDALE, Ariz.—Illinois Insurance Director Michael McRaith discussed the role rating agencies have played in the current economic crisis with restraint, but his disapproval of rating agencies' "stealth regulation" was apparent.

He predicted that the current system of for-profit rating agencies would be replaced by nonprofit entities that are more independent of the insurers they rate and freer of other marketplace pressures.

"I want to see an independent, non-profit rating agency only for the insurance industry," Mr. McRaith said at the Property Casualty Insurers Assn. of America's annual meeting in Scottsdale, Ariz.

He also said the call to establish such an entity would be made in the coming months.

Mr. McRaith made the call as he and four other panelists—representing two rating agencies, an insurer and an actuarial firm—discussed *The Impact of Risk Models and Rating Agencies* as part of a PCI panel during last month's meeting.

The insurance industry has relied on modeling analytics to "to help it function efficiently," said panel moderator Regis Coccia, editor of *Business Insurance*.

Financial models attempt to take reality and represent it through a series of mathematical or statistical equations so analysts can study the effects of risks, said Roosevelt Mosley Jr., principal and consulting actuary with Pinnacle Actuarial Resources Inc. in Bloomington, Ill. Predictive models also can be used, for example, to estimate future claims or pricing.

Rating agencies analyze an insurer's capital and reserve adequacy, among other things. Their staffs want to see how well an insurer uses the data to move into new products or change prices, said Damien Magarelli, New York-based director of financial services ratings for

North American insurance at Standard & Poor's Corp.

For insurers that underwrite property catastrophe risks, their rating agencies and regulators review the outcomes of catastrophe models to assess insurers' financial condition, said Messrs. Magarelli and McRaith.

A rating agency wants to know if the information is credible, said Anthony Diodato, group vp with A.M. Best Co. Inc. in Oldwick, N.J.

Use of models "provides a guide to us," said Steven D. Monahan, president and chief operating officer of Auto Club Insurance Assn. in Dearborn, Mich.

Models "don't give us the end-all, be-all answer," because they cannot totally reflect any reality, Mr. Mosley said. It is important to overlay the findings with "some real-life business judgment," he said.

"One of the things to always keep in mind is that (the data resulting from) models doesn't translate into ratings," Mr. Magarelli said. Insurers need to have robust models and executives who understand the results, he said.

An insurer's business team may seek a rating agency's approval for using a model and basing business decisions on its results, but the team doesn't have to follow the modeled results blindly, Mr. Diodato said. If the business team believes it needs to take a different direction and can validate its actions based on prior experience, "that's good," he said.

"There is no quick or easy way...to validate a model," Mr. Diodato said.

It is important to remember that "a model is only as good as the assumptions on which it is based," Mr. McRaith said. "Some regulators are not interested in the models" and care

more about insurers' essential financial data, like capital adequacy.

Regulators also need to revisit rules that limit insurer investments as well as lending arrangements involving securities, if they are going to be allowed to occur at all, Mr. McRaith said.

Much of securities-related lending is done at the holding company level and an insurance unit might not expect to be part of it, the rating agency representatives said.

In light of the current economic crisis, "clearly, some did not understand the nature of the risk," Mr. Monahan said. There also was a lack of communication and transparency about the nature of the risk—mortgages given to consumers with little or no assessment of their ability to pay for them, which contributed to the problems, he said.

Such lack of communication was apparent when a major property/casualty insurer, which he declined to name, had its stock value drop precipitously in a single day and its executives could not explain to employees why it happened, Mr. Monahan said.

Financial market woes are "on everybody's mind," Mr. Monahan said. Many insurers have responded by sending out bulletins trying to allay policyholders' concerns.

"What role should rating agencies play?" is the key question being asked, Mr. Coccia said.

A.M. Best's mission is to be "an independent voice" to help prevent and detect insolvencies by evaluating insurers' financial decisions that could affect their claims-paying ability, Mr. Diodato said.

While rating agencies may have seen that as their traditional mission, major changes are needed in the structure of the rating-agency system, Mr. McRaith said, adding that he was speaking "respectfully" in light of the fact that two fellow panelists represented rating agencies.

"As a regulator, we don't need any form of secondary or stealth regulation,



'ONE OF THE THINGS to always keep in mind is that (the data resulting from) models don't translate into ratings.'

DAMIEN MAGARELLI, STANDARD & POOR'S CORP.



From left, Damien Magarelli, Regis Coccia, Anthony Diodato, Steven D. Monahan.

which is effectively what rating agencies are now," Mr. McRaith said.

Currently, rating agencies operations are dictating to the marketplace, he said. It should not be possible for a rating agency's downgrade of an insurer to force the insurer into receivership, Mr. McRaith said. He said that reportedly happened in Illinois before he was appointed director, although he declined to identify the insurer.

"There is no place for a for-profit rating agency," he said.

Mr. McRaith said he wanted to see an independent, nonprofit rating agency only for the insurance industry that is "free and clear" of influence from the industry or regulators. He said such an independent rating agency should not rely on fees or dues paid by the insurers being rated, as rating agencies currently do.

"Expect a proposal for an independent nonprofit rating agency within the next few months," Mr. McRaith said.

Responding to the issue of rating agency independence, Best's Mr. Diodato emphasized the importance of "the strong segregation" between Best's rating and fee-charging operations. He said he didn't know how much the rating agency charges an insurer, because such knowledge could jeopardize his independence.

"There is a need for what we do," Mr.

Diodato said.

Given that Best's North American rating operation has 50 or so analysts, Mr. Diodato also questioned whether regulators would have sufficient knowledgeable staff to create an alternative system.

S&P's Mr. Magarelli also said there was a division between the fee and the analytic side of S&P's operations.

For an insurer executive such as Mr. Monahan, a rating agency review "is a mirror, an inspection of your expectations. (It is) a big deal" to be downgraded, he said.

Yet, a rating agency has a responsibility to report any trends that may affect the ability of an insurer to pay claims, Mr. Diodato said.

The speed with which markets responded to recent negative news about some insurers caught many unaware, and Mr. Coccia questioned whether regulators and rating agencies are responding quickly enough to changing market conditions.

Mr. McRaith said regulators have been "very involved and engaged" and are looking for ways to enhance regulation. "We have to view this as an opportunity," he said.

Rating agencies try to operate in a practical manner but face particular challenges. Critics will complain that they respond too quickly or slowly, rating agency spokesmen said.

"We don't rate stock prices," Mr. Magarelli said. A rating agency looks at stock prices but only to the extent that it "complements our core analytics," he said. But a rating agency must pay attention to stock prices if they have a fundamental effect on an insurer's ability to pay claims.

In addition, "we don't rate to market rumor," but will investigate reported developments, he said. "Our ratings are there for the long-term."

Mr. Monahan urged rating agencies to speak with insurer executives to get a better understanding of any situation.

In response to an audience question, panelists advised a spokesman for a small insurer that plans to start financial risk modeling this year. The spokesman, who did not identify his company, said the firm is being driven to undertake financial modeling by "rating agencies looking at it."

Implementing a financial risk modeling process is "a huge expense" for a smaller company, especially to obtain competent personnel, the insurer spokesman said.

"It can be expensive," Mr. Mosley said. He recommended that the insurer start with limited, focused analyses to produce targets that can be achieved. "It is a very real concern," especially for smaller companies, he said.

"There is no one-size-fits-all model," Mr. Diodato said. In fact, if an insurer does not think it needs to use such a financial risk model, that decision will not disproportionately affect the company's rating, he said.

The issue is how an insurer manages its capital. If a company is adequately capitalized and run prudently, "we don't ask you to put money into (the) process," Mr. Diodato said. But if a company has a predictive model but doesn't use it for capital allocation, then it won't help its rating, he said.

"There is no requirement to have a model," Mr. Magarelli said. "The industry is in different stages of development" and this is a learning and testing period.

Operating without a model "is not an automatic negative," he said. "We want see how a company reflects its own risk profile." ■

Take advantage of change with agile IT infrastructure

By Chuck Johnston

In many ways, insurance is the business of predicting change and helping customers minimize the negative impact of that change. The insurers I talk to every day have found that extremely difficult recently.

In today's tumultuous marketplace, insurers are looking for safe harbor and reassurance themselves. While some insurance executives are pulling back and preparing to ride out a down market, many recognize there is opportunity in change. They are positioning for a near-term market shift toward more conservative investments and the inevitable market rebound, as well as for the next big opportunity.

This repositioning requires insurance executives to examine everything from channel disposition to business process economics to technology enablement. Insurers are looking to drive down costs and maintain margin as investment returns decline. They tell me they see even greater need to focus on speed to market for new products that better suit the current economy. They also are looking for ways to broaden distribution channels as the more conservative insurance industry captures a greater share of the wealth and retirement business.

MERGERS AND ACQUISITIONS

As a few troubled large insurers make drastic maneuvers to survive, midsize and international players see opportunity through mergers and acquisitions for scale and new markets that were not on the radar screen a few quarters past.

These radical shifts are forcing insurers to take a hard look at their business processes and associated enabling technologies. Many legacy systems will not meet the needs of this rapidly changing market.

Change is an inevitable part of doing business.

IT infrastructures are becoming the key issue as insurers consider system consolidation, improved integration between business applications and legacy system modernization as critical elements of business transformation—and, ultimately, of profitable growth.



Charles "Chuck" Johnston is vp of strategy and alliances for Oracle Insurance, a unit of Redwood Shores, Calif.-based software company Oracle Corp.

Legacy business systems are too old and too heavily modified at the source code level to enable rapid introduction of new product initiatives and support the level of business agility now required. At the same time, they represent significant investments and provide some ongoing value, so are not easily abandoned.

To move their business forward, insurers require a long-term IT modernization and consolidation strategy. This strategy must include a focus on simplification and integration of the infrastructure, information access and distribution/transaction processing layers. The resulting infrastructure is agile, cost-efficient and open, providing application flexibility to support shifting business priorities.

By adopting a flexible and open architecture, insurance companies will be better positioned to meet ever-changing market and customer needs, despite the disruptions that may occur. As opportunity for consolidation arises, the open infrastructure approach is indispensable in facilitat-

ing rapid and seamless onboarding of acquisitions—critical to sustaining value and customer loyalty.

Where should you start the transformation to get the greatest impact? The answer depends on your company and its circumstances.

However, when seeking faster speed to market, greater agility and operational efficiency, many insurers are taking aim at core systems—policy administration, rating and underwriting and claims—seeking open solutions that integrate easily with existing legacy systems while delivering new value.

These solutions must provide best-of-breed functionality, facilitate streamlined deployment in existing architectures and reduce time to market by leveraging preloaded industry content.

SINGLE-SYSTEM CAPABILITIES

Rule-based capabilities available today deliver new levels of agility and simplicity, enabling insurers to define new-product and business transactions with no programming. Insurers also can support multiple product lines on a single system and manage business and regulatory requirements at the product, product line and company level.

Companies also can improve the entire policy life cycle for customers and streamline transactions by implementing straight-through processing. By enabling process automation based on configurable business rules, insurers eliminate the need for manual data entry, gaining significant process efficiencies. Agents and customers also win through faster service fulfillment.

In the end, as the industry continues to evolve in difficult times, customers can still be the big winners. With an open IT infrastructure at the core, companies can be agile in meeting customers' needs by bringing new products to market quickly and providing great service. Companies that strategically leverage open IT solutions will be poised to capitalize on new opportunities and overcome challenges in today's market. ■

As they look for the information technology power they need to do business effectively, many insurance industry companies often find it most efficient to look to outside partners rather than setting up systems in-house. Whether it's information processing, document storage or help with various business processes, a number of companies have positioned themselves to provide IT outsourcing to the insurance industry. Here's a look at a few key players.

Accenture

HEADQUARTERS: New York

WEB SITE: www.accenture.com

RELEVANT DATA: Accenture has a global network of more than 50 delivery centers that provide various outsourcing services.

WHAT THEY OFFER: Through its insurance industry group, Accenture provides a range of insurance-specific and cross-business outsourcing services, including IT infrastructure outsourcing, application outsourcing and business process outsourcing.

Affiliated Computer Services Inc.

HEADQUARTERS: Dallas

WEB SITE: www.acs-inc.com

RELEVANT DATA: ACS has more than 65,000 employees supporting client operations in nearly 100 countries.

WHAT THEY OFFER: Customized IT outsourcing solutions from ACS range from large-scale mainframe processing centers to desktop computers. In the business process outsourcing area, ACS leverages proprietary workflow systems and process re-engineering with its own staffing, delivery and compensation models.

Computer Sciences Corp.

HEADQUARTERS: Falls Church, Va.

WEB SITE: www.csc.com

RELEVANT DATA: CSC has more than 5,000 full-time employees dedicated to delivering outsourcing services to nearly 150 insurance companies.

WHAT THEY OFFER: CSC business process and IT outsourcing provides a broad range of services for insurance companies ranging from IT outsourcing and full back-office operations to customer support and the ability to provide services via the Web to agents. Insurers can select all services, operating as a virtual insurer, or strategically pick and choose based on core competencies and business objectives.

IBM Global Services

HEADQUARTERS: Armonk, N.Y.

WEB SITE: www.ibm.com

RELEVANT DATA: More than 190,000 professionals in approximately 160 countries; IBM Global Services revenue totaled \$54.14 billion in 2007.

WHAT THEY OFFER: Data center outsourcing services offer client companies the ability to choose a tailored outsourcing solution to meet their needs to provide cost-effective, flexible service options that help clients meet changing business demands, sustain growth and protect existing technology investments. The managed application servers component of IBM Data Center Outsourcing Services offers a solution to businesses requiring a broader selection of platforms, services and technical expertise than they possess in-house.

Unisys Corp.

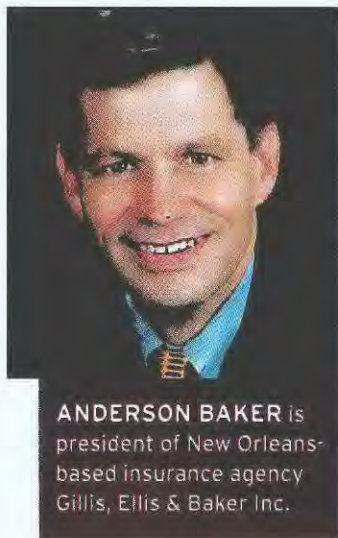
HEADQUARTERS: Blue Bell, Pa.

WEB SITE: www.unisys.com

RELEVANT DATA: Unisys has 37,000 employees serving clients in 100 countries and more than 400 insurance companies around the world.

WHAT THEY OFFER: Through its global insurance outsourcing centers, Unisys provides supporting IT infrastructure and manages business-process workflow, migrating operations to handle multicurrency capabilities, changing regulatory requirements and other market factors.





ANDERSON BAKER is president of New Orleans-based insurance agency Gillis, Ellis & Baker Inc.

Win big with service regardless of market

What does customer service mean to you? For some, it means talking to a live person while reserving a plane ticket. For others, it's being able to return an item after losing the receipt. For most, it's simply hearing, "Have a good day."

For the insurance business, it means insurers and agencies provide a level of service that exceeds expectations, and one that includes products that customers might not even know they need.

During my 25 years as an insurance agent and now as an owner of a 40-person agency in New Orleans, I've seen a steady decrease in the level of loss control and risk management services provided by the insurers we deal with. Their insureds and our clients are often left on their own to figure out how to prevent losses or reduce loss severity.

It's time to change that.

For smaller insureds, those paying less than \$250,000 per year, insurers used to routinely provide a menu of services such as building inspections, job site safety reviews and vehicle safety programs. Now these services are reserved for much larger accounts.

Smaller insureds typically don't employ risk safety officers, let alone full-time risk managers. The loss control services provided by insurers added value to the insurance transaction. Agencies were able to coordinate the delivery of these services to the insured without incurring any expense.

Insureds' need for these services is no less today than 20 years ago. The scarcity of offerings by the companies gives agencies a tremendous opportunity to fill this void and establish a stronger agency-insured bond.

The level of service an agency delivers should not be determined by the competition. So few agencies offer these services that a forward-thinking agency can create a new playing field. The pioneers in this area can change the rules of the game. Insureds will begin to expect more from the relationship. Agencies that just sell insurance will not be able to compete in this arena. This will become even more the case as agency commissions are reduced.

The real fun for the first mover in any business is often being able to define the market and create demand. There are many loss control and risk management services that agen-

cies can provide to their clients, including defensive driver training, contract analysis, building valuation and CPR training.

Agencies can provide services that the insurers either never did provide or no longer make available. This allows agencies with loss control and risk management services to enjoy a different relationship with their clients. They are no longer mere peddlers of insurance.

It's important that agencies provide these services directly and not outsource them. Otherwise, the insured will see the agency as simply a commissioned sales agent for yet another product. Also, third-party providers typically don't take a long-term view, and won't work to integrate their programs with overall risk management strategies.

Insureds are often surprised to receive this level of service, but soon grow to expect it. While it's not necessarily a barrier to exiting a relationship, it certainly changes the equation as the insured evaluates other agencies.

AGENCIES CAN PROVIDE services that the insurers either never did provide or no longer make available. They are no longer mere peddlers of insurance.

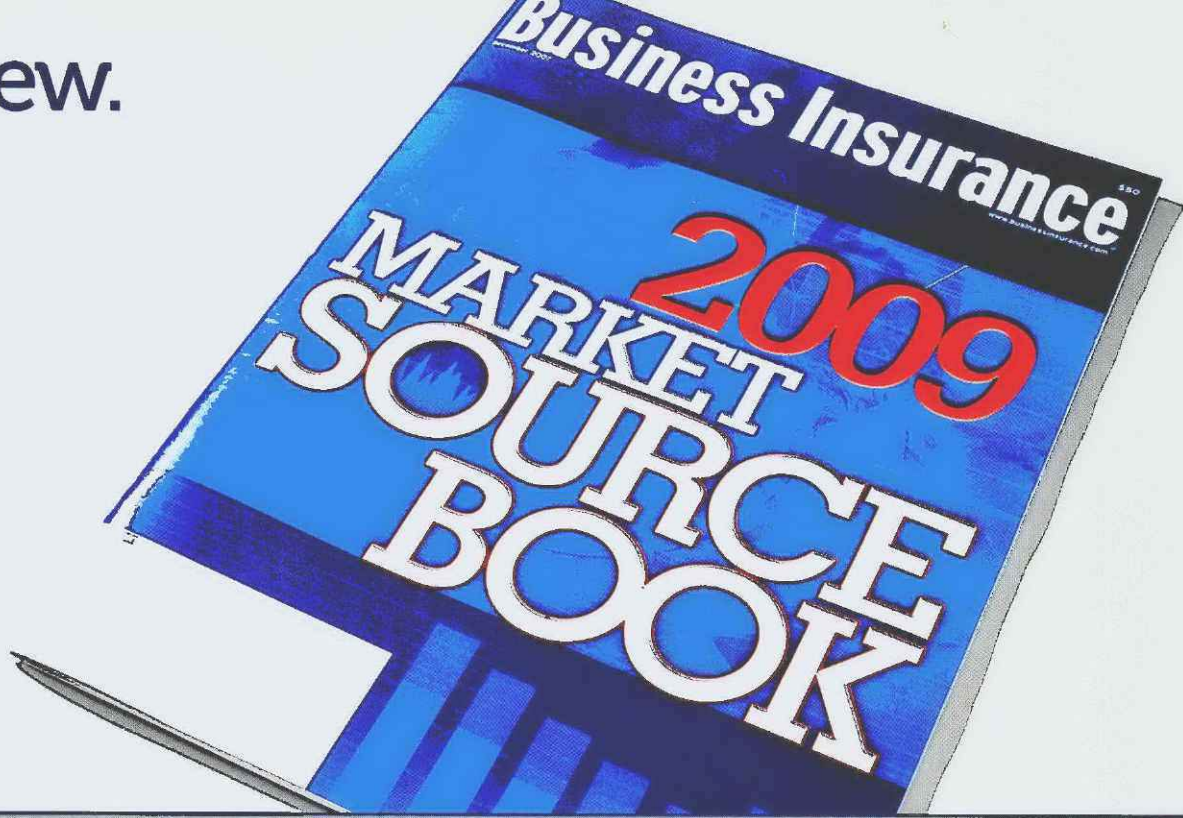
Our agency dedicates nearly 5% of revenues to these services, demonstrating to our clients that we believe in the services' value as part of their risk management programs.

Agencies can prosper offering these services, regardless of which way the market is moving. As rates go down, risk management strategy becomes a value the agency can offer to retain an account. In such a market, the agent might even be able to charge for the services to offset the loss of revenue associated with lower rates.

When premiums rise, the agency can absorb the costs associated with delivering risk management services. The insured will usually see the value of the combination of the higher premium and the services, justifying the relationship with the agency at a higher premium.

Our larger, regional peers already provide these services. Smaller agencies who are the first movers in their areas will be rewarded. ■

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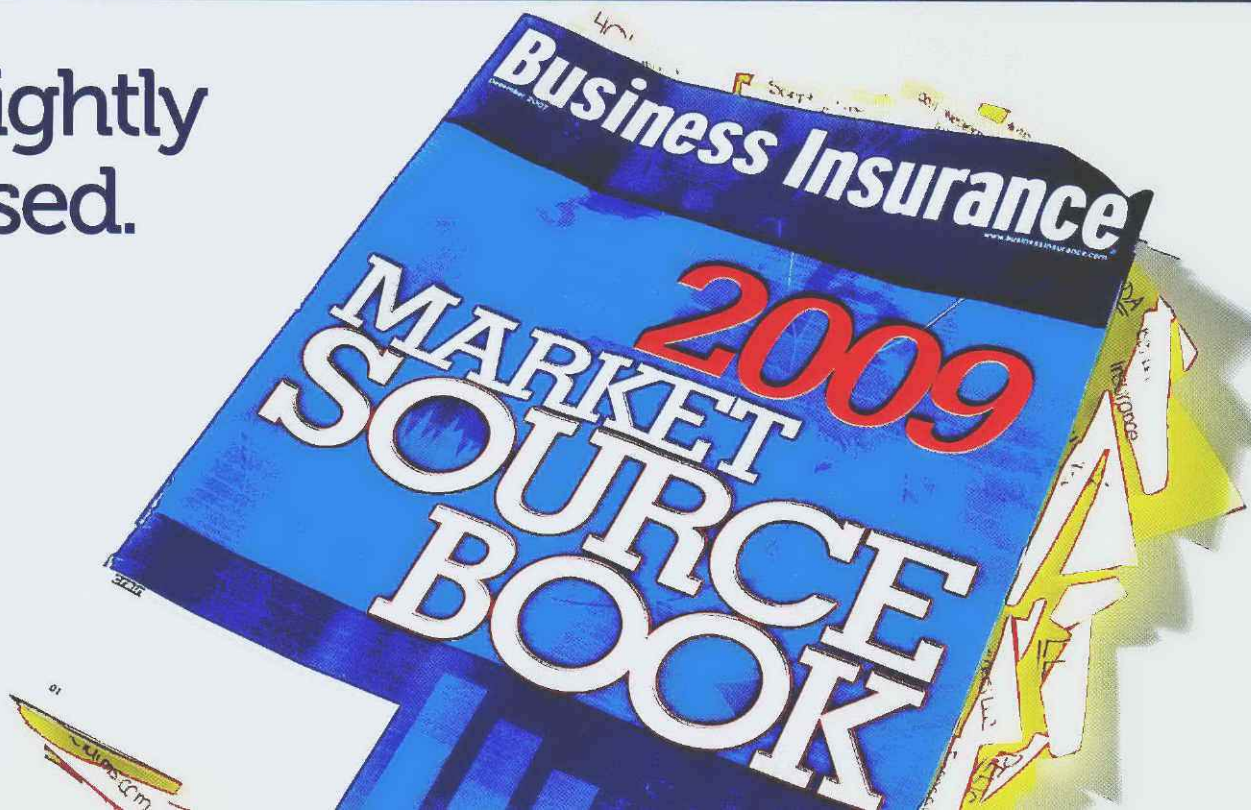
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