

HEALTH CARE REFORM

IRS gives employers a break

Reform law guidance reduces likelihood of unintended breaches

BY JERRY GEISEL

Long-awaited Internal Revenue Service proposed regulations favorably resolve key questions about a key health care reform law provision that imposes stiff penalties on employers that do not offer coverage of crucial importance to employers.

"Certainty is what employers clamored for. Getting these rules is very welcome news," said Paul Dennett, senior vice president-health care reform with the American Benefits Council in Washington.

"The good news is we have certainty," said Amy Bergner, managing director-health care practice with PricewaterhouseCoopers L.L.P. in Washington.

Until the release of the proposed rules, employers had anything but certainty on the Patient Protection and Affordable Care Act provision that imposes a \$2,000 per full-time employee penalty starting in 2014 on employers with at least 50 employees that do not offer coverage.

Speculation had run rampant in the employer community since President Barack Obama signed

See **PENALTY** page 29

RISK MANAGEMENT

REPUTATIONS JEOPARDIZED BY SUPPLY CHAIN DISRUPTIONS

Disasters at suppliers have knock-on effect



AP PHOTO

Several multinational companies had links with a Bangladesh garment factory that sustained a deadly fire last year.

BY MIKE TSIKOUDAKIS

Supply chain disruptions frequently result in a direct financial hit for businesses, but the damage a disruption can inflict on an organization's reputation can have much longer term consequences.

Global sourcing strategies such as just-in-time inventory, competitive wages and cheap raw materials also can pose hard-to-quantify risks from second- and third-tier suppliers that could subject businesses to Foreign Corrupt Practices Act penalties, environmental violations and regulatory actions as well as reputational damage, experts say.

A recent example is the November fire at a Bangladesh factory that killed more than 100 garment workers, many of whom reportedly were locked in the building. The factory was making clothing for Wal-Mart Stores Inc., Sears Holdings Corp. and The Walt Disney Co., among others.

"Any time there's a catastrophe of any sort, it usually involves supply chain to one degree or another," said William Montanez, director

See **SUPPLIERS** page 30

OPTING OUT

Percentage of Texas employers that are nonsubscribers to the state's workers compensation system, by employment size, during 2012.

1-4 employees	41%
5-9 employees	29%
10-49 employees	19%
50-99 employees	19%
100-499 employees	12%
More than 500 employees	17%

Source: Texas Department of Insurance Division of Workers' Compensation

WORKERS COMPENSATION

Comp system opt-out plans gain interest

By ROBERTO CENICEROS

Some large employers want to establish injured worker benefit plans that are governed by the Employee Retirement Income Security Act as an alternative to state workers compensation systems.

But insurers and organized labor oppose the idea, saying employers who favor the strategy want to lower costs by unfairly eliminating state-mandated benefits due injured workers (see story, page 29).

ERISA is not as well known among workers compensation managers as it is among their corporate counterparts overseeing employee health benefit and retirement plans, experts say.

But there is growing interest among large, nationwide employers in exiting state workers comp systems and setting up alternative injured worker benefit plans

See **OPT OUT** page 29

RISK MITIGATION

Ways to protect a company's reputation from supply chain-related risks

- ▶ Gain an in-depth understanding of a third-party supplier's local environment and regulatory standards such as labor laws and workplace practices.
- ▶ Make third-party suppliers agree to the company's management philosophies.
- ▶ Review critical third-party suppliers' business continuity plans.
- ▶ Develop supplier site incentive programs to report potential workplace problems.
- ▶ Craft a robust crisis management and response plan.

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EFFICIENT/ENHANCED/ENGAGED

Clues to the future of underwriting; sensor data shifts the nature of risk assessments; cost and time cause technology updates to stall; claims process benefits the most from innovation.

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NEWS

Welcome to the new *Business Insurance*. As you will see as you read this edition of *Business Insurance*, we have undertaken a major overhaul of the magazine, which includes a redesigned look and increased

coverage of specific areas of interest.

New features and sections include:

Risk in Focus: offering in-depth coverage of key issues in every edition.

International: news from around the world and profiles of individual markets.

Mid-Market Risk Management: covering risk management concerns of mid-market executives and their broker partners.

Mid-Market Benefits: covering employee benefits concerns of mid-market executives and their benefits advisers.

Research & Data: providing facts and figures behind trends and stories.

Our decision to increase in-depth coverage of key issues was shaped in part by research that shows 74% of our audience said they refer back to their issue of *Business Insurance* in print. By offering more extensive news and analysis, we think the magazine will be an even richer resource that readers will return to time and again.

Research also shaped another major enhancement for *Business Insurance*. In our most recent readership survey, 64% of readers said they use their digital device to obtain *Business Insurance* content, which represents an increase of 16% from our 2011 survey results.

With that in mind, we have developed a new interactive tablet edition, which captures all of the information available in the magazine. The tablet edition will be delivered via a newsstand app that runs on Apple iPads and will soon also be available on Android-based tablets.

The new tablet edition takes advantage of HTML5 technology for greater interactivity and functionality. This technology will enable us to present information and data more effectively and allow readers to derive even more insights from the publication. After downloading the app, subscribers can log in with their email address on file to sign up for unlimited online articles and email newsletters.

The redesigned magazine and the new tablet edition are two of several changes we are making at *Business Insurance*, which since 1967 has provided readers with the right content, in the right form, at the right time.

Another significant change relates to the frequency of our magazine. Beginning with today's issue, we are changing the frequency of *Business Insurance* to biweekly. This is not a decision we have taken lightly, but as the magazine has evolved over the past 20 years and the 24/7 news information cycle has taken hold, we feel that it is the right time to make the change.

With our digital capability to bring you news as it happens throughout the day on our website and via Twitter, Facebook and our LinkedIn group, the magazine has become the vehicle for in-depth analysis of why the news matters and it makes sense to bring that analysis to you in a time frame that allows you to digest it fully.

In addition, we have launched a new email news alert called "Global Focus: News that Matters from Around the World." This daily email will deliver editors' picks of the most relevant aggregated content from around the globe. The new email joins the stable of daily and weekly email newsletters that *Business Insurance* readers can use to stay on top of news developments that matter to them.

The underlying strategy behind all these changes is to enhance the information that we offer readers and to expand the ability of readers to access information from *Business Insurance*.

We would, as always, be pleased to hear from you with any thoughts or comments you may have at gsouter@businessinsurance.com.

GAVIN SOUTER
EDITOR
Business Insurance

EMPLOYMENT PRACTICES

More states forbid password demands

By JUDY GREENWALD

Legislation that forbids employers from demanding social media passwords from job applicants and employees has been enacted in five states, and more measures are expected.

However, few employers are seeking such information, experts say. Still, there may be times when it is necessary for employers to seek workers' passwords to meet their obligation to protect their employees.

Legislation prohibiting employers from asking for passwords went into effect in California and Illinois on Jan. 1, joining legislation already enacted in Maryland and Michigan, according to the Denver-based National Conference of State Legislatures.

In addition, legislation in California, Delaware, Michigan and New Jersey applies to academic institutions. In all, proposed legislation on this issue was introduced in 14 states last year, according to the NCSL.

Proposed federal legislation, the Password Protection Act of 2012, also was introduced by Sen. Richard Blumenthal, D-Conn., in May, but failed to emerge from the Senate Committee on Health, Education, Labor and Pensions.

A U.S. Equal Employment Opportunity Commission attorney suggested, though, that refraining from asking for passwords may be advisable. "In the current state of the law, ask-



PASSWORD PROTECTIONS

- States that have **approved legislation forbidding employers** to ask for social media passwords: California, Illinois, Maryland, Michigan
- States that have **approved legislation forbidding educational institutions** from asking for social media passwords: California, Delaware, Michigan, New Jersey
- States where **comparable legislation was introduced but failed** to be enacted: Massachusetts, Minnesota, New York, Ohio, Pennsylvania, South Carolina, Texas, Washington

Source: National Conference of State Legislatures

ing an applicant for a password is akin to asking an applicant whether he or she plans to have children in the future — it is not technically illegal, but it is highly discouraged as it could be used as later evidence of discrimination," said Justine S. Lisser, senior attorney-adviser with the EEOC's office of communications and legislative affairs, in a statement.

See **PASSWORD** page 30

EMERGING RISKS

Governments urged to manage risks

Complex exposures require coordinated response

By SARAH VEYSEY

Global risks are becoming ever more interconnected, and governments must engage the private sector to help them tackle the most serious threats to economies and populations, according to a panel of experts at the launch of a report on 2013's biggest global risks.

Governments should continue to appoint country risk officers and, in some cases, must act more like insurance companies in their response to disasters, said the panelists at the launch in London last week.

The WEF Global Risks 2013 report, which will be presented at the World Economic Forum meeting of global leaders Jan. 23-27 in Davos-Klosters, Switzerland, identified 50 global



TOP RISKS

The World Economic Forum's Global Risks 2013 report found that the top five risks in terms of likelihood in 2013 are:

- Severe income disparity
- Chronic fiscal imbalances
- Rising greenhouse gas emissions
- Water supply crises
- Mismanagement of population aging

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ONLINE
FEATURES

SOLUTION ARC

Employers adjust to evolution
of health care marketplace

Problems offering medical plans led to private health insurance exchanges, but will they ease the pain? www.BusinessInsurance.com/ExchangesArc

VIDEO



Specialty Risks Spotlight

Structures and liabilities of public-private partnerships are explored in this new video sponsored by Zurich. www.BusinessInsurance.com/videos

RMS 2013

Save the date for 2013 summit

The 2013 *Business Insurance* Risk Management Summit will be held March 5-6 at the Westin Grand Central in New York. www.BusinessInsurance.com/RiskSummit

WHITE PAPER

The Risks of Going Green



This *Business Insurance* white paper shows how to manage the hidden liabilities of building in an environmentally conscious manner. How do you track ever-changing laws? Who is liable? www.BusinessInsurance.com/whitepapers

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NEWS

RENEWALS

SANDY STIFFENS PROPERTY MARKET
AS INSURERS REASSESS SOME EXPOSURES

BY MARK A. HOFMANN

More than two months after it struck the Northeast, Superstorm Sandy continues to affect the commercial property/casualty insurance market.

The market had begun to flatten before the October storm — which caused as much as \$25 billion in insured damage — but that has been reversed to a certain extent. But the increases haven't been overly dramatic, observers say.

The event has led insurers to look more closely at terms and conditions, while rates have increased modestly for many accounts, observers say. Insurers also are paying more attention to flood exposures.

"The general mood before Sandy was rates were flattening even on tough (catastrophe) accounts," said David Finnis, property practice leader for Willis North America Inc. in Atlanta. "Post-Sandy, we're still able to get flat to minor increase in rate on some of the cat accounts." "Sandy didn't cause a cataclysmic sea change in rates," said Randy Schreitmueller, a vice president at Johnston, R.I.-based



AP PHOTO

Superstorm Sandy, which hit New Jersey and New York particularly hard, caused an estimated \$25 billion in insured losses.

FM Global. "It did help solidify rates, particularly for accounts that are exposed to these types of catastrophes, especially in the Northeast. But it's still a competitive world out there."

Duncan Ellis, U.S. property practice leader at Marsh Inc. in New York, divided the market into four segments. Noncatastrophe-exposed risks experienced rates ranging from down 5% to up 5%, while

accounts with moderate catastrophe exposures — with 1% to 30% of their value exposed to catastrophe zones — experienced flat to 10% rate increases, he said. Heavily catastrophe-exposed accounts had rate increases of 5% to 15%, while "loss-driven" risks with either catastrophe losses or repeated noncatastrophe losses experience renewals

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MORE RENEWALS COVERAGE

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PROPERTY/CASUALTY INSURERS

TRIA renewal tops insurance industry wish list

BY MARK A. HOFMANN

An event that won't happen until 2014 — if it happens at all — tops the property/casualty insurance industry's list of 2013 federal legislative concerns: the reauthorization of the federal government's terrorism insurance backstop.

The program, created by the Terrorism Risk Insurance Act of 2002, was reauthorized in 2005 and 2007, but is slated to expire on Dec. 31, 2014. Although that may seem an eternity in Capitol Hill time, advocates of extending the program warn that failure to act soon could affect insurance policies as early as next January.

Terrorism insurance, while at the top of the list, is joined by other issues such as the impact of tax reform and natural catastrophe policy. Agents and broker groups also are concerned about how the implementation of the Patient Protection and Affordable Care Act will affect their members (see story, page 32).

Persuading lawmakers to reauthorize the terrorism insurance program won't be easy, but "we are impressed with the unanimity of industry sentiment on extension of TRIA," said Joel Wood, senior vice president for government affairs for the Council of

Insurance Agents & Brokers in Washington.

"We already have begun making the rounds," he said. "It will be challenging, and the industry is going to have to be effective in convincing Congress that the recoupment mechanism will mean no net long-term loss to the federal government."

"We have a program set to expire that will cause disruption of the marketplace if they don't get it resolved by the end of 2013," said Jimi Grande, senior vice president in the Washington office of the National Association of Mutual Insurance Cos. "Market disruption starts a year out. As the calendar strikes 2014, contracts go beyond the end of the year."

"AIA has a long history with TRIA. It's a priority for our members," said Tom Santos, vice president for federal affairs at the American Insurance Association in Washington. "It is a priority for 2013 and the next Congress."

"Our No. 1 priority will be the reauthorization of TRIA," said Carolyn Snow, secretary and liaison for external affairs for the New York-based Risk & Insurance Management Society Inc. But Ms. Snow, who is director of risk management for Humana Inc.

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WORKERS COMPENSATION

Demand grows
for dedicated
adjusters

BY SHEENA HARRISON

Companies with large workforces or specialized return-to-work programs are asking their third-party administrators to provide dedicated claims adjusters who work exclusively on the company's workers compensation accounts.

Exclusive adjusters understand the nuances of working with a particular employer and give companies a direct contact to discuss how their claims are being handled, sources say. The trick is retaining adjusters who work exclusively on accounts so their expertise can be preserved over time.

"The better that they can work hand-in-hand and the more involved the client is, typically the better outcome that you're going to have," said Peter Keane, senior vice president and claims consultant for Marsh Risk Consulting's claims consulting practice in Morristown, N.J.

Brokers say many or most of their clients seek TPAs that will provide adjusters to work exclusively on their accounts. The request is common among companies with workers comp claim volumes of 110 to 150 open cases at a time in a given location or facility, sources say.

Employers that request dedicated adjusters want to work with people who are familiar with their risk management strategies and understand the intricacies of their accounts, said Paul Braun, managing director of casualty claims for Aon Global Risk Consulting in Los Angeles.

"The adjuster knows the context (and) who to call, so it's an efficiency," Mr. Braun said. "I really do believe it (creates) better outcomes because you know the requirements of the client."

Adjusters who work on one account often may seem like one of the client's own staff members, Mr. Keane said.

"They're going to be highly familiar with the needs and concerns of that client. They're going to be very familiar with their return-to-work programs and processes, very familiar with their claim-handling philosophy (and) familiar with the people in their locations," Mr. Keane said. "They establish relationships with them (and) become a trusted

See **DEDICATED** on page 32



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SUPERSTORM SANDY HIGHLIGHTS RISK MANAGEMENT SHORTFALLS

Many Manhattan property owners vulnerable to catastrophes

BY MATT DUNNING

One of the most glaring vulnerabilities revealed among commercial property owners in lower Manhattan after Superstorm Sandy was the widespread lack of comprehensive disaster response and business continuity planning, risk management experts say.

Nearly 35% of the commercial office space below Chambers Street was temporarily incapacitated by flooding and power outages, and as much as 20% remained offline at the end of November, according to a report by Chicago-based real estate brokerage Jones Lang LaSalle Inc.

In many cases, experts say, commercial property owners' efforts to reopen their buildings were substantially undermined by their own failure to develop and maintain business continuity contingencies. That failure was especially prevalent among midsize property owners, risk management experts say.

"A very high percentage of the owners in lower Manhattan were not properly prepared for handling the aftermath of this storm," said Gina Higgins, senior managing director of commercial insurance for New York-based Crystal & Co. "Everything from elevators, phone lines, mold remediation — they were faced with everything that could possibly become a roadblock against reopening their buildings to tenants."

By and large, business continu-



BLOOMBERG

Sandbags were stacked outside the entrance to the Goldman Sachs Group Inc. headquarters in New York after Superstorm Sandy struck the region last year.

ity planning in lower Manhattan fell short in three critical areas: alternate communications and information technology systems; tenant and employee relocation; and remediation planning.

The most critical element often missing from owners' continuity and disaster-response planning was an alternative means of communicating with tenants and employees in the event that servers and phone lines were unavailable, as was the case in many buildings after Sandy, experts say.

"A lot of people we spoke with after the storm had not planned for what would happen if their systems were down for two to three days, let alone weeks," Ms. Higgins said. "People really were

left in the dark, literally and figuratively, because owners weren't able to communicate with employees, tenants or third parties regarding what the next steps of the recovery would be.

"Without that IT and communications piece of the continuity plan to link people together, all of the other pieces of the plan fell by the wayside," she said.

Many property owners in lower Manhattan also failed to provide temporary workspace for the tenant companies displaced from their buildings and their own employees, as part of their disaster response and recovery plan, experts say.

Property owners also failed to plan for many of the logistical challenges tenants and employ-

ees would encounter as a result of the storm, particularly the extremely challenging commute in and out of Manhattan.

"That was a major issue for a lot of companies in lower Manhattan," said David Finnis, executive vice president and national property practice leader for New York-based Willis North America Inc. "You can have a great disaster recovery plan or business continuity plan, but I don't think the transportation part was contemplated by a lot of property owners or their tenants. It was a very different set of circumstances here, which we hadn't really seen before with prior storms."

Finally, most property owners had not established contractual or informal relationships with hazardous materials removal firms, mold and water damage abatement firms and other remediation specialists prior to Sandy's landfall.

Because those types of specialists are in short supply after a storm of Sandy's scope and destruction, many property owners were forced to wait several days and weeks for the next availability, experts say.

"Even if you only own one location or two in a coastal area, it's still a good idea to have a retainer contract of some kind with a remediation company," said Al Tobin, the New York-based managing principal of Aon Risk Solutions' property practice.



PROPERTY COVER TO SEE CHANGES

Property risk management experts offered their predictions for what insurance changes commercial property owners might expect in the near term from the insurance industry as a result of the October storm.

■ **AL TOBIN**, New York-based managing principal of Aon Risk Solutions' property practice: "There's going to be more flood insurance sold in 2013 than there was in 2012. I think there are going to be a lot more insureds looking at that type of coverage, whether they were affected by Sandy or not, especially now that we've had two of these storms about 13 months apart."

■ **JEFFREY ALPAUGH**, Boston-based global real estate practice leader for Marsh Inc.: "Before this event, you had modeling which would take into consideration Tier 1 windstorm events, and that region stretched from Virginia down to Florida and over to Texas. Now there's been some talk about whether those models will take into consideration the Northeast region. That all would take some time, but there is some concern that these two back-to-back storms will impact those models."

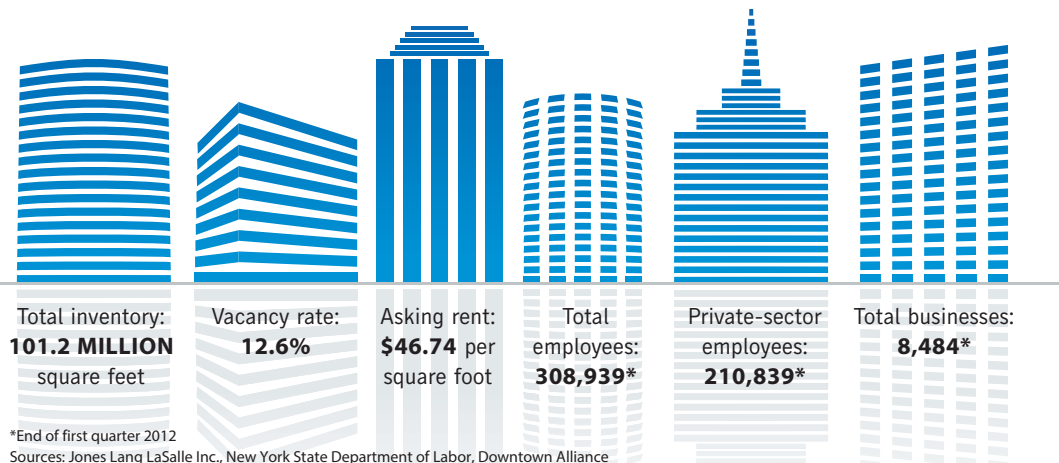
■ **DAVID FINNIS**, New York-based executive vice president and national property practice leader for Willis North America Inc.: "The main change will be the territory where a named storm deductible will apply. That's going to be expanded. Some insurers already treat storm surge from a named storm as flood, and flood limits and flood deductibles apply. You're going to start seeing a lot more consistency from underwriters in the Northeast on that."

■ **GINA HIGGINS**, New York-based senior managing director of commercial insurance for Crystal & Co.: "You'll see way higher deductibles, longer waiting periods before an insurance policy kicks in and generally lower limit offers, so it's going to be up to property owners to do some more layering to their coverage. Those companies that underwrote large chunks of property in lower Manhattan will constrict their offering tremendously."

By Matt Dunning

What's at stake

Commercial real estate statistics for lower Manhattan below Chambers Street show the extent of property exposed to the effects of Superstorm Sandy. Data is as of Nov. 30, 2012, unless otherwise noted.



CONTINUITY PLAN HELPED SILVERSTEIN GET BACK TO BUSINESS EARLIER

Disaster response protocols reduced financial losses

BY MATT DUNNING

Like a lot of buildings in lower Manhattan, Silverstein Properties Inc.'s 600,000-square-foot tower at 120 Wall St. took on significant flooding during Superstorm Sandy on Oct. 29.

But unlike a lot of its financial district neighbors that remain closed to tenants, 120 Wall St. was reopened just two weeks after the storm, thanks in large part to the business continuity plan Silverstein's risk management and information technology departments had spent most of this past summer developing.

The plan wasn't finished when Sandy struck the region in late October, but executives for the New York-based commercial property owner are convinced the work done to update the company's disaster-response and continuity protocols drastically reduced the financial losses it

"Call it serendipity or call it good planning on the part of our IT and risk management personnel. Either way, the result was that the early work that we did on the continuity plan ... served us extremely well."

Shari Natovitz,
Silverstein Properties Inc.

might have incurred under different circumstances.

"Earlier in the year, we had decided that our business continuity program needed dusting off and updating, and that it needed to be more robust," said Shari Natovitz, Silverstein's vice president of risk management. Ms. Natovitz said the first step the company took in fortifying its continuity planning was to relocate its servers off-site, away from its headquarters at 7 World Trade Center.

"Call it serendipity or call it good planning on the part of our IT and risk management personnel," she said. "Either way, the result was that the early work that we did on the continuity plan ... served us extremely well."

Jeremy Moss, Silverstein's vice president of leasing, was crucial to Silverstein's success in managing its day-to-day affairs as an employer and its responsibilities to its tenants, who were displaced from all three of its properties in lower Manhattan as a result of the

five-day-long blackout.

Tenants of 120 Wall St. remained displaced for several more days because of flooding in their building, while tenants at 7 World Trade Center and 120 Broadway were able to return to their offices when power was restored a few

days after the storm.

"Our tenants were all looking to us for answers regarding when the building would open, damage sustained during the storm, the status of their personal property, and whether or not we had temporary facilities available," Mr. Moss

said. "If you reopen your building and nobody knows about it, that's not particularly useful."

Mr. Moss said another key piece of Silverstein's relative success in navigating the storm's effects on the city at large was the command center it established as a central-

ized source of information and, in many cases, temporary workspace and housing for employees for whom commuting in and out of Manhattan had become logistically challenging.

"For any property owner that's thinking about business continuity, there has to be buy-in at the top. It takes time out of the day and resources away from the core business. It takes money and a clear message from leadership that it's a priority," Mr. Moss said. "The rewards far outweigh the costs, but the message has to be sent throughout the organization so that it gets the cooperation and support that it needs. We were fortunate to have leadership that did exactly that."

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WHAT EMPLOYERS SHOULD LOOK FOR WHEN PICKING A HEALTH INSURER

Health plan designs should embrace overall benefits strategies

BY JOANNE WOJCIK

When Jan Stropf and Jerry Friedlander formed Janjer Enterprises Inc. in 1981, they decided to offer a health benefits package that would engender loyalty among employees of the company, which owns and operates 29 Popeyes Louisiana Kitchen franchises around Washington, D.C.

Fast food companies have some of the highest employee turnover rates among employers. According to restaurant industry sources, as much as 50% of the staff at any given fast food restaurant will turn over each year.

But with a generous health benefits package offered to employees who work at least 32 hours each week, Silver Spring, Md.-based Janjer Enterprises has one of the lowest turnover rates in the industry, with employee tenure averaging nearly 15 years, according to Mike Burke, director of operations.

“We have very low turnover,” he said. “Personally, I’ve been here for 29 years. A lot of hourly employees have become store managers and district managers.”

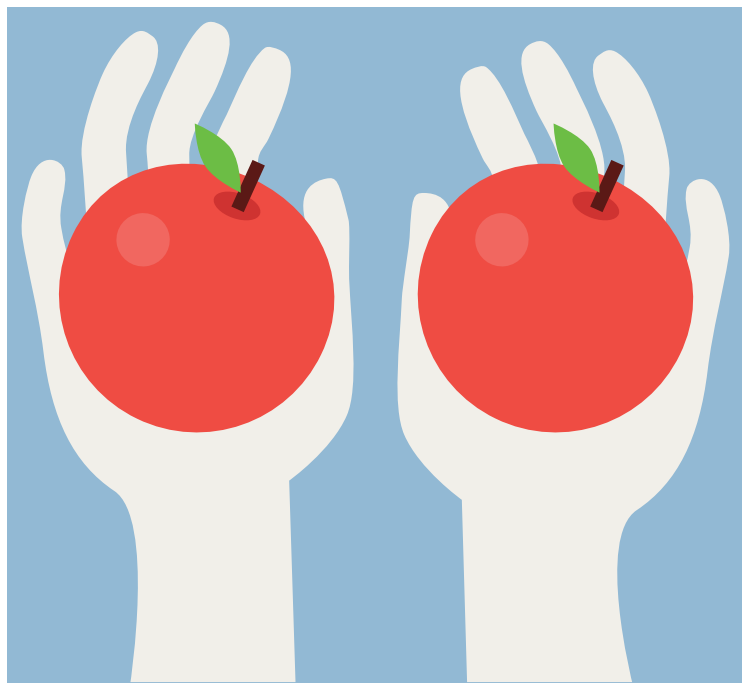
Mr. Burke attributes much of Janjer’s low employee turnover rate to the company’s paternalistic approach to benefits.

Ninety percent of the 120 Janjer employees eligible to enroll have signed up for its health plans.

“We have always offered multiple levels of plans so that employees could go in or out of network,” Mr. Burke said. Plans offered include a health maintenance organization, a preferred provider organization and a point-of-service plan, and “we’ve always contributed a higher percentage to the cost of coverage than our competitors have, over 70% of the premium,” he said.

Experts advise midsize employers to determine their benefits strategy before selecting a plan design and insurer: What objectives do they hope to achieve?

“We like to start with the strategy,” said Patrick Haraden, a principal at Longfellow Benefits in Boston. “What kind of company do you want to be? If you want to attract young kids out of school,



UNDER REVIEW

Questions for mid-market employers’ request for proposals in reviewing their health plans:

- Describe all health plan designs including coverage descriptions, copayments, deductibles and premiums.
- Describe care and utilization management services including wellness, health promotion and prevention, chronic disease management, case review, second-opinion and pharmacy benefit management*.
- Describe claims payment functions, including how often and how providers are paid (electronically or by check) and when explanation of benefits are produced and sent to plan members.
- Describe member support services, including automated enrollment; toll-free call centers and consumer engagement tools to compare provider cost/quality, estimate/budget cost of care; provide member outreach to encourage participation in behavior change and disease management programs; and formulary management*.
- How can members access customer service — via the Internet, telephone or both?
- Provide a detailed description of the medical appeals process, including typical turnaround time for decisions; confirm that appeals process complies with the health care reform law; and indicate any costs associated with the appeals process.
- Provide complete provider directories including hospitals, doctors, labs, imaging centers, retail pharmacies and any other ancillary providers. How are directories accessed — via the Internet or in print? How often are directories updated? Provide provider turnover rates.
- Explain how the plan measures cost and quality for primary care providers, specialists and facilities.
- Confirm willingness to fund and submit to an annual claims audit conducted by an independent third party.

*PERTAINS ONLY TO HEALTH PLANS THAT ALSO OFFER PHARMACY BENEFIT MANAGEMENT SERVICES.

you may want to offer different benefits than if you want to attract slightly older, more experienced workers. Do you want to be an early adopter? Or do you

want to follow what other employers are doing? That will tell us what kind of plan design to consider.”

Once a plan design has been

selected, “that may limit or expand your choice of insurer,” he said, because not all insurers operating in an employer’s region may offer the type of plan chosen.

The employer should then consider network scope and reach.

“At the end of the day, the one thing that’s going to drive the decision is the network,” said George Lane, a principal at Mercer L.L.C. in Washington. “The key is getting as many employees to use whatever network is supporting the plan you offer them.”

Jim Edholm, principal of Business Benefits Insurance, a middle-market broker in Andover, Mass., advises employers to conduct a “disruption analysis” to determine whether changing insurers will affect employees’ access to providers. This can be done by comparing the providers employees are using against other insurers’ network provider lists, he said.

More sophisticated middle-market employers also compare and contrast each health plan’s medical management capabilities to ensure that employees do not over- or underutilize care.

Tom Mangan, CEO of United Benefits Advisors L.L.C., advises employers to ask insurers whether they offer and fund wellness initiatives for plan members. “If they don’t believe that their own wellness program will bend trend (by reducing health care costs), then they won’t fund it. Conversely, if they do believe in it, they will provide funding.”

“You start by determining what’s most important to you and then work back from there. That will determine the kind of plan that you are looking for when you start to look at insurance companies,” said Laurel Pickering, president and CEO of the Northeast Business Group on Health, a New York-based employer coalition, which has developed a Health Plan Performance Purchaser Guide for its members. “Is it going to be about price, about having healthy, engaged employees, or is the most important thing that your employees to have access to the top hospitals and physicians?”

THE ABCs OF PLAN TYPES

The most popular health plan design offered by midsize U.S. employers is the preferred provider organization, offered by 47% of the employers in a survey by Indianapolis-based United Benefit Advisors L.L.C., an alliance of more than 140 independent benefit advisory firms.

The consumer-driven health plan is the second-most popular plan design, offered by 22% of the 12,000 middle-market employers included in the 2012 UBA Health Plan Survey, followed by the health maintenance organization (19%). Other plan types offered by middle-market employers include the point-of-service plan (10%), and the exclusive provider organization (2%).

Descriptions of various health plan types:

PPO A plan that provides coverage via a network of selected health care providers that are under contract to offer discounted fees for services. Plan members may seek care from providers outside of the network but would incur larger costs in the form of higher deductibles, higher coinsurance rates or nondiscounted charges.

CDHP A plan with a large deductible that usually includes either a health reimbursement arrangement or a health savings account to cover the cost of care provided within that deductible. HRAs are funded by employers, while HSAs can be financed by employees only or by a combination of contributions from employers and employees.

HMO A plan that restricts access by providing coverage only for care administered by network providers. In some cases, limited out-of-network coverage is provided, usually in cases of emergency or when no network providers are available at the time that care is needed.

POS A plan similar to a PPO that allows employees to decide at the time of service whether to use an in- or out-of-network provider, though cost of non-network providers is almost always higher.

EPO A plan similar to an HMO that covers only care provided by in-network providers, with few out-of-network benefits.

By Joanne Wojcik



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Generali may buy out PPF joint venture: Sources

■ The board of Assicurazioni Generali S.p.A will discuss buying the 49% of a joint venture with Czech Republic-based PPF Group that it does not already own, three sources with knowledge of the situation said. The proposal to buy the stake, which analysts value at around €2.5 billion (\$3.27 billion), is the first big boardroom test for Chief Executive Mario Greco, set to present the result of a review of Generali's asset portfolio on Jan. 14. The sources said the proposal envisaged Generali buying 25% of the fast-growing Eastern European joint venture from PPF, controlled by Czech magnate Peter Kellner, with an option to buy the remaining 24% next year.

Reuters

New Hong Kong reinsurer begins underwriting

■ Peak Reinsurance Co. Ltd., a Hong-Kong-based reinsurer, began underwriting late last year. Peak Re initially will focus on property and casualty treaty business throughout the Asia-Pacific region, it said. The reinsurer, which has an initial \$550 million of capacity, is rated A- by A.M. Best Co. Inc. CEO of Peak Re is Franz Josef Hahn, who has held executive roles at Swiss Re Ltd. and Munich Reinsurance Co. The company's chief underwriting officer is Eckhart Roth, formerly global risk officer at the reinsurance division of White Mountains Insurance Group Ltd. Peak Re's major shareholder is Shanghai-based investment company Fosun International Ltd., which has a 85.1% stake.

Contributions to U.K. pensions holding steady

■ Average combined employer and employee contributions into pension plans at small companies in the United Kingdom have remained static over the past two years, according to a study by the Association of Consulting Actuaries. According to the study, which surveyed 541 companies with fewer than 250 employees, average combined employer and employee contributions into defined contribution plans in 2012 were 9% for trust-based plans and 7.5% for contract-based plans. These figures are the same as those recorded in the ACA's last comparable survey, which was conducted in 2010.

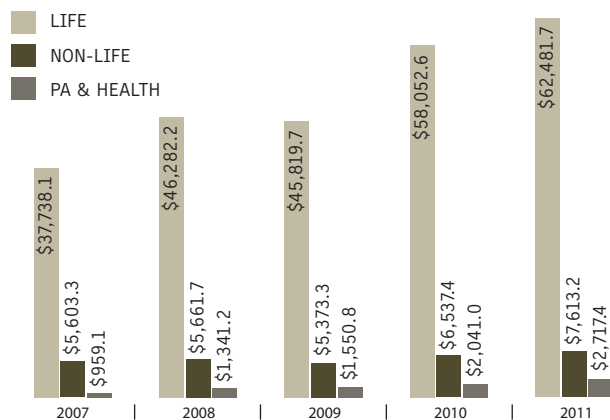
PROFILE: INDIA

\$7.6
BILLION

The insurance market in India is experiencing rapid growth. Property/casualty premiums increased 18.9% to \$7.6 billion in 2011, the latest year for which figures are available. Often viewed as a market with great potential, India imposes limits on foreign ownership stakes in insurance firms. As of March 2011, India had six state-owned property/casualty companies, one state-owned reinsurer and 15 private insurers.

◀ 2011 property/casualty premiums

MARKET GROWTH IN MILLIONS OF U.S. DOLLARS



COMPULSORY INSURANCE

- Auto third-party liability
- Third-party liability for manufacturers of hazardous materials
- Professional indemnity for direct brokers, reinsurance brokers, stock brokers and mutual fund managers
- Aviation liability
- Residential structures in Mumbai

NONADMITTED INSURANCE

Nonadmitted insurance is not permitted. With a few exceptions, Indian law requires that insurance must be purchased from locally authorized insurers. Exceptions include international marine coverage, some health care insurance, and risks located in special economic zones where the premium is paid in foreign currency.



POPULATION

1.21 Billion

AREA

1,183,364 Square Miles

ECONOMIC RANK

10 Tenth largest worldwide

FOREIGN DIRECT INVESTMENT

2.3%

As average annual percentage of GDP, 2006-2012

MARKET DEVELOPMENTS

UPDATED OCTOBER 2012

- The Indian property/casualty market saw a severe deterioration in underwriting results in 2011. Automobile business led the decline with a 93.3% loss ratio, due largely to inadequate third-party liability rates.
- In April 2011, regulators allowed auto rate increases, including 68.5% for commercial vehicles.
- In December 2011, regulators announced plans to disband the third-party insurance pool for commercial vehicles and to replace it with a declined risks pool, but full details have not yet been revealed. Loss ratios for the pool from 2008 to 2010 are expected to range from 172.3% to 194.2%.
- The Insurance Laws (Amendment) Bill 2008, which proposed raising the ceiling on foreign investment in insurers to 49% from 26%, has not been fully implemented.
- Competition for insurance business in classes other than auto remains significant. Premiums rates for property and engineering insurance rates average 18% to 20% of their 2006 levels under the disbanded tariff system.

Nexus launches Lloyd's trade credit MGA

■ Nexus Underwriting Management Ltd. has launched a Lloyd's of London managing general agency, Nexus CFIS, that primarily will focus on trade credit indemnity business. Nexus said the managing general agency is the result of the completion of its acquisition of Novae Syndicates Ltd.'s credit indemnity and financial services business, which it agreed to buy in October 2012.

Japan's Itochu invests in Lloyd's syndicate

■ Japanese general trading company Itochu Corp. has made an investment in multiline Lloyd's of London syndicate 1274, managed

by Antares Managing Agency Ltd., a unit of Bermuda-based Antares Holdings Ltd. The size of the investment was not disclosed, but a spokesman for Antares said the stake represented a "meaningful contribution" that would help Antares meet its growth targets for the syndicate. The syndicate has planned gross income of £204.9 million (\$329.3 million) for 2013, the company said.

New Zealand court rules for directors in D&O case

■ The New Zealand Court of Appeal has ruled that a company director is entitled to seek reimbursement of his or her defense costs under a directors and officers liability insurance policy even where the claims against his or her company exceed the maximum liability limits of the policy.

MARKET PRACTICE

Some Indian subsidiaries of multinational companies do not buy local coverage when they know they have coverage under their global programs. Claims, however, usually are paid as a remittance for investment purposes. Legal problems with claims may arise if coverage is not purchased from a locally admitted insurer.

TAX

Service tax on property/casualty premiums was increased on April 1, 2012, to 12.36% from 10.3%. Service tax is charged on providers of services, including insurers and reinsurers, in India. The tax is collected from the policyholder, and the insurer is responsible for paying the tax to the tax authorities. Stamp duty is also charged, but it is usually built into the premium.

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

In late December, the Court of Appeal overturned the first-instance decision in the case *Steigrad v. BFSL 2007 Ltd. & Others*, which found that a statutory charge in favor of claimants created under the Law Reform Act 1936 took precedence over claims payable under a liability policy. The appeal court, however, found that the statutory charge was not over the entire policy proceeds but the balance available after defense costs had been paid.

China's regulator to reject HSBC deal

■ China's insurance regulator is expected to reject HSBC Holdings P.L.C.'s sale of its \$9.4 billion stake in Ping An Insurance to Thai conglomerate Charoen Pokphand Group, media reports said. The failure of the deal would be a blow

to HSBC and an embarrassment to the various parties involved in a corporate deal that was set to be Asia's second-largest last year. The China Insurance Regulatory Commission is likely to veto the deal due to a lack of funding, reports said. Reuters said the deal was in jeopardy after state-backed China Development Bank had expressed concerns over its financing.

Reuters

IAS ups catastrophe reinsurance limits

■ Insurance Australia Group Ltd. has finalized its catastrophe reinsurance program for 2013 with increased limits of 5 billion Australian dollars (\$5.19 billion) up from AU\$4.7 billion (\$4.88 billion), the Sydney-based insurer announced.

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**Andrew M. Miller, President & CEO
Polycom, Inc.**

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EDITORIAL

IRS RULES A MODEL OF FAIRNESS

It isn't often that we praise the Internal Revenue Service. But praise is in order for the IRS for its recently proposed regulations dealing with part of the health care reform law that is of the greatest importance to employers: financial penalties that will apply if employers do not offer coverage to employees.

The challenge for the IRS was huge for a basic reason: The Patient Protection and Affordable Care Act is anything but clear, leaving it to regulators to make interpretations of the law.

In this case, the IRS was up to the challenge. Its "shared responsibility" regulations are a model of fairness.

Take the penalty of \$2,000 per full-time employee that will be imposed starting in 2014 on employers with at least 50 employees that do not offer coverage. But how is that penalty to be calculated? Does it mean, as some read the law, that if just one employee were not offered coverage that the employer would be liable for a \$2,000 penalty for every employee?

Such an interpretation would have meant, for example, that if an inadvertent error resulted in just one employee not being offered coverage, a large employer — even though it was spending tens of millions of dollars on employees' health care benefits — would have had to pay millions of dollars in fines.

That would not have been fair and reasonable, a point the IRS obviously grasped in proposing that employers have to offer coverage only to 95% of full-time employees to avoid the \$2,000-per-employee penalty.

That requirement strikes us as fair and reasonable, following the law's objective of encouraging employers to offer coverage without employers living in mortal fear of being hit with a draconian penalty for not offering coverage to one employee.

Other parts of the regulations also pass the fair and reasonable test. For example, employers that operate on a controlled group basis, in which corporate units run independently of one another, will not face the \$2,000 penalty just because another controlled group member does not offer coverage.

There are other fair and reasonable points in the regulations. That said, however, the IRS still has more health care law regulations to write. For example, regulations still are needed on how employers are to communicate the availability of public health insurance exchanges and calculate an excise tax that applies on very expensive health care plans.

We hope the model of fairness and reasonableness that is the hallmark of these regulations is followed as regulators develop the next batch of health care reform law rules.

Please send your letters to:
Letters to the Editor, Business Insurance,
150 N. Michigan Ave., Chicago, Ill. 60601-7524
Fax: 312-280-3174; email: gsouter@businessinsurance.com

SCHILLERSTROM



COMMENTARY

MAKING WORKPLACE SAFETY AN ENGAGING GAME

Gamification is gaining increasing attention as an employee management tool. It's a concept that borrows from video game mechanics and video games' ability to inspire players to strive for higher point scores, and it's gaining attention at a time when I am also hearing that employers are eager to boost employee engagement in a range of workplace initiatives, including safety programs.

Gamification proponents believe it can motivate employees to repeatedly access certain tools, such as safety-incentive program Web pages or electronic messages with periodic safety tips. And the modern-day format can measure worker participation while also being more engaging than the old-style workplace safety posters, they say.

"Safety posters are great, but they disappear in the mind's eye," said Michael Levy, president of Dallas-based Online Rewards, a company that provides businesses with loyalty and incentive program services. "You have to have something that is alive and active in order for the brain to react to it."

Using the gamification concept, an employer can create a Web page for employees depicting, for example, a graphic representation of a bucket full of cash that workers will receive at the end of a certain period. But every time a workplace accident is recorded during that time period, some of that cash draws down.

Similar to creating fantasy football leagues, an employer could create worker teams to compete against each other based on certain safety success scores. Individual and team performances could be measured, Mr. Levy said.

Or an employer can simply load points onto a Web



**ROBERTO
CENICERROS**
SENIOR EDITOR

page for each day workers complete without an accident, with the points eventually being redeemed for prizes.

It strikes me as very similar to traditional safety incentive programs where managers hand out prizes when employees go a certain amount of days without an accident, I told Mr. Levy.

Gamification can help "programitize" a safety culture, making safety more pervasive throughout an organization, he said.

"We are giving (safety programs) dimension and breathing life back into them in a manner that touches the audience more frequently," Mr. Levy said. Thus, they should produce better outcomes.

Gamification already has been successful in retail sales. Think of the customer loyalty programs that reward you for spending more or when you use the store's credit card. There are a variety of other uses when business want to incentivize behavior, such as encouraging employees to participate in wellness programs.

Because most workers are now familiar with video games and retail store loyalty programs, they are ready for gamification in the workplace, Mr. Levy said.

However, I suspect it will take time to see whether workers set down their favorite online games to check into the workplace safety website.

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RISK IN FOCUS

Technology Trends & Solutions

Present gives clues
to the future
of underwriting

PAGE 16

Cost, time cause
technology updates
to stall

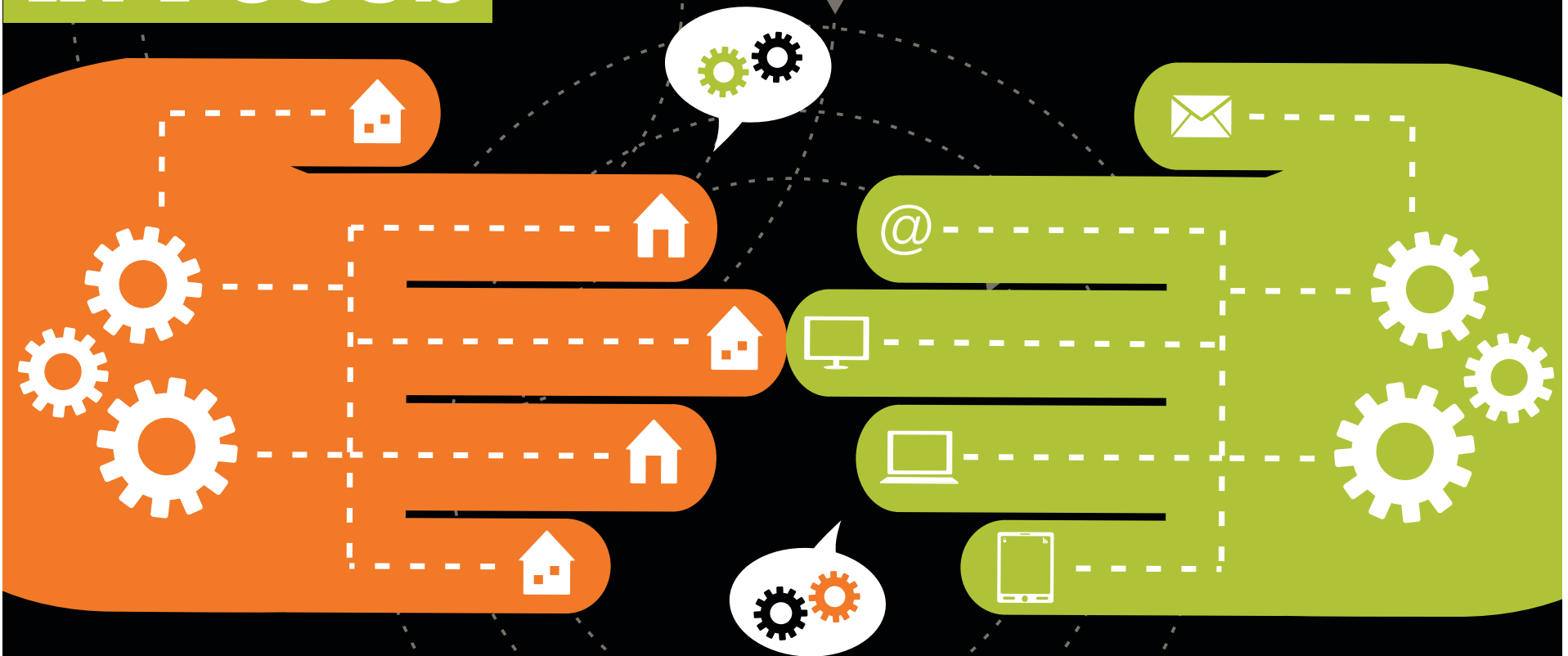
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Sensor data
shifts nature
of underwriting

PAGE 16

Claims process
benefits most
from innovation

PAGE 19



Efficient / Enhanced / Engaged

Technology improving the broker, buyer relationship

BY JUDY GREENWALD

Technology is having a significant effect on relationships between brokers and insurance buyers, making them more efficient and ultimately permitting brokers to focus less on transactions and provide more valuable help as advisers to their clients, say observers.

Of particular benefit is the current focus on mobile technologies, which has been a major driver in the business (see story, page 15).

The trend toward the use of technology is only beginning and will accelerate. But despite the greater reliance on iPhones, iPads, and other technologies in the interaction between the broker and the insurance buyer, technology will enhance insurance as a relationship-driven business, observers say (see story, page 15).

"Technology is clearly the efficiency tool for the future," said Jackie Hair, executive director of risk management for Ingram Micro Inc. in Santa Ana, Calif.

"The degree and level of accuracy that technology tools are bringing to the risk manager lends a whole greater level of credibility" to the information he or she submits and "minimizes the amount of additional work that broker has to go through," said Ms. Hair, who works with Kennesaw, Ga.-based consulting firm Riskconnect

Inc. as her technology adviser.

Being able to exchange information digitally "is adding some efficiencies to the process," said Lawrence W. Owens, senior manager of risk advisory, corporate risk management, at Kaiser Foundation Health Plan Inc. in Oakland, Calif.

"The insurance industry's been slow to adopt technology, but I see that changing" because of competition, said Wally Bryce, Tulsa, Okla.-based head of sales and business development for Arthur J. Gallagher & Co.'s property/casualty division.

"In the retail space, we're just seeing an enormous amount of activity, especially in Europe, through the online insurance services," said Victoria Davison, Marsh Ltd.'s London-based chief operating officer for the United Kingdom and Ireland.

A major factor in the drive to introduce technology is buyers' desire for self-service. Technology permits the insurance buyer to process insurance certificates "24/7," said Ryan Headley, chief technology officer for the San Carlos, Calif.-based Stratton Agency.

Instead of having to call their broker to add vehicles

Technology advantages

- Increased speed
- Increased efficiency
- Mobility
- 24/7 access to data
- Seamless work flow
- Improved accuracy of submissions
- The broker's ability to work in a more valuable advisory, rather than a transactional, capacity

to their automobile policies, "they want to be able to do that themselves," said Bob Schneider, Kansas City, Mo.-based chief financial and administrative officer for brokerage Ascension Insurance Inc.

It also permits the broker to build stronger relationships with clients, "getting ahead of their renewal process," said Denyce Curtis, Woburn, Mass.-based national director of commercial lines operations for USI Holdings Inc.

We are starting to talk about "seamless integration" rather than "swivel-chair integration," which involves, in effect, swiveling your chair to re-enter data you have received or to check it off, said Bruce Winterburn, Pulaski, Tenn.-based vice president of industry relations for Vertafore Inc., an insurance software and agent management systems provider.

Many observers also note that the use of technology reflects a generational shift. Baby boomer risk managers are starting to retire, and the incoming Generation X is "very used to technology," said Deborah Smallwood, president and CEO of Boston-based consultant firm Strategy Meets Action.

Mobile tools enable risk managers on the road

Technology drives real-time business transactions, enhanced services

Mobile technology has played a major role in redefining the relationship between insurance buyers and brokers or agents, observers say.

Mark Layden, chief operating officer of University Park, Ill.-based Applied Systems Inc., a provider of insurance agency management systems, said mobile technology is “the big topic that has kind of come out of nowhere the last couple of years,” and that it is growing at a rate that will rapidly exceed the use of stationary devices.

Emily Cummins, Washington-based director of tax and risk management for the National Rifle Association, said she recently was able to check on a policy through her secure e-portal while hunting in Mongolia.

Waiting to check out information until you get back to the office is “outdated,” said Ms. Cummins, who also is chair of the New York-based Risk & Insurance Management Society Inc.’s tech-

nology advisory council.

Meanwhile, the move toward technology overall is likely to accelerate. Jim Blaney, Philadelphia-based CEO of capital resources for Willis North America Inc., said the industry already has moved from the quarterly update meetings to monthly conference calls “to what I believe in the future will be real time,” where financial information can be updated via an app.

Five years down the road, customers are going to demand “more sophisticated insurance products that are accessible on their mobile devices,” said Julie Zimmer, Chicago-based vice president for sales and middle-market segment for broker Hub International Inc.

Brokers will be better able to “provide value-added services rather than just what I would call pushing paper from one side of the



**RISK
IN FOCUS**

desk to the other,” said Jackie Hair, executive director of risk management for Ingram Micro Inc. in Santa Ana, Calif.

By Judy Greenwald

Technology brings brokers closer to clients

Access to information helps build confidence

The development of technology may well enhance, rather than supplant, relationships between brokers and insurance buyers.

“The complex and specialty risk will always require personal expertise,” said Emily Cummins, Washington-based director of tax and risk management for the National Rifle Association.

“It will never replace in-the-flesh relationships,” which is

“It’s just another way of broadening the way people communicate.”

Deborah Smallwood,
Strategy Meets Action

“how brokers differentiate themselves in a competitive market, too,” she said.

“It’s just another way of broadening the way people communicate,” said Deborah Smallwood, Boston-based president and CEO of consultant Strategy Meets Action.

Jackie Hair, executive director of risk management for Ingram Micro Inc. in Santa Ana, Calif., said, I’ve heard stories where risk managers have not been able to provide accurate information about their own program.”

“If anything, (technology is) going to build the relationship” because the more accurate the information the risk manager will be able to provide will give the broker “a greater sense of confidence” in relaying that data to the insurer.

By Judy Greenwald

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11
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COMMERCIAL INSURERS ADDING AUTOMATED UNDERWRITING

Increased data sources, improved tech tools aid insight into risks

BY BILL KENEALY

To get a sense of the future of insurance underwriting, a look at its current state is instructive.

Today, underwriters gather data to evaluate exposures. What is changing rapidly is the amount and variety of data available for analysis and the tools used to aggregate and analyze the data.

Cliff Hope, executive vice president, chief property underwriter for U.S. property for Aspen Insurance Holdings Ltd., said the technology available to underwriters has come "light years during the last 15 years."

The improved technology enables them to consider a wider array of variables and ultimately achieve a more granular classification of risks, said Karlyn Carnahan, principal at New York-based insurance advisory firm Novarica, a unit of Novantas L.L.C. Risks once assigned to broad underwriting tiers such as preferred, standard and substandard now are grouped in finer categories more specific to individual risks.

"The shift to multivariate rating has really allowed micro-rating," she said. "It's really a rating for one."

This more exacting segregation of risk also has made the underwriting process more efficient, enabling fewer underwriters to do more work. In certain lines of

business, such as personal lines automobile coverage, underwriting is largely an automated process where the vast majority of submissions are handled without human interaction and with few exceptions that fall outside of business rules tagged for additional review.

"What we are now starting to see is fully automated underwriting for more complex lines such as workers compensation and business owners policies. Even on very complex accounts, we are seeing analytics and scoring providing valuable guidance to the underwriter."

Karlyn Carnahan,
Novarica

While fully automated underwriting is more established in volume-heavy, homogenous lines of business such as personal lines auto, it is beginning to make inroads on the commercial side, Ms. Carnahan said, adding that the increasing availability of mod-

ern underwriting systems paired with models have catalyzed this transformation.

"What we are now starting to see is fully automated underwriting for more complex lines such as workers compensation and business owners policies," she said. "Even on very complex accounts, we are seeing analytics and scoring providing valuable guidance to the underwriter."

The burgeoning use of predictive models in underwriting has coincided with a broadening array of external data streams to feed the models, said John Belizaire, founder and CEO of FirstBest Systems Inc., a Bedford, Mass.-based provider of insurance underwriting workstations and portals.

Whereas underwriters once largely depended on application and historical data to assess a given risk, modelers now can blend internal data with massive amounts of third-party data culled from sources ranging from public records to embedded sensors to satellites (see related story).

"The type of data used in the underwriting process is changing over time," Mr. Belizaire said.

Yet the move to fuse data-intensive technology into the underwriting process will take longer, said Jamie Bisker, research relationship manager of insurance at IBM Research in Columbus, Ohio. This is especially so of big data,

the data sets so large that they strain traditional database and network architectures. Mr. Bisker said big data presents great potential for insurers, but they first need to optimize the use of data within their existing underwriting mechanisms. "It's not about having a lot more data," he said. "It's about having the right data."

Looking ahead, competitive pressures may force insurers to adopt big data sooner rather than later, said Scott Busse, Chicago-based director of U.S. insurance advisory services for PricewaterhouseCoopers L.L.P.

"The tools and techniques for the big data are already out there," he said. "So the ability to look at large data sets and draw insights from them will soon be a differentiator for insurers."

Ultimately, the technology wielded by underwriters will need to leverage and reflect the broader technology ecosystem in which the insurance industry operates.

Separately and in confluence, emerging technologies such as cloud computing, mobile technologies and big data are fundamentally altering many industries and, in turn, the risks they pose to the companies that insure them.

"This is the first time in the history of the technology business that you have multiple elements of deep transformational change happening at the same time," Mr. Belizaire said.



WIRELESS SENSORS EXPAND DATA

The advent of inexpensive, wireless sensors installed in everything from buildings to bridges has the potential to fundamentally shift the nature of underwriting and insurance.

Also known as the Internet of Things, ubiquitous, networked sensors can furnish underwriters with a continuous data stream to better assess risk.

The most prominent manifestation of insurers relying on sensor data is telematics, which pairs data from mobile devices installed inside insured vehicles with sophisticated statistical analysis.

Accordingly, auto insurers can deliver products based on actual policyholder behavior, as opposed to assumptions derived from other predictive data points such as driver age or credit scores.

A 2012 report from the insurance practice at PricewaterhouseCoopers L.L.P. predicts the use of such sensor data eventually may transform the commercial insurance model, as underwriters become less concerned with assigning a price to risk and leverage sensor data to "focus on providing customized, flexible products and value-added services that involve working with the clients to proactively avoid or reduce losses and manage risks."

By Bill Kenealy

BIG DATA BIG ISSUES

The Big Data era will challenge insurers in four primary ways

VOLUME: Data sets available for analysis can now contain terabytes, or even petabytes, of information and overwhelm traditional database architectures.

VELOCITY: Information that underwriters, actuaries and claims professionals need to improve their business processes has to be available in real time.

VARIETY: Big data comes in both structured and unstructured forms and a bewildering variety of mediums including text, sensor data, audio and even video.

VERACITY: The size, variety and number of sources of big data will put a huge premium on data quality and data hygiene for insurers.

Data management helps brokers deliver better service

**RISK
IN FOCUS**

BY BILL KENEALY

The potential of technology to alter long-standing business models is becoming apparent as large insurance brokers leverage data they handle in the placement process and, as a result, redefine the nature of their relationships with clients and insurers.

As the intermediary between clients and insurers, brokers historically have had substantially more data than even the largest insurers, said Claude Yoder, Hartford, Conn.-based head of global analytics for Marsh Inc.

What has changed in recent years is the ability and willingness of brokers to avail themselves of better data aggregation and analytic tools. Unlike primary insurers, which may have legacy technology systems that complicate their efforts to employ emerging analytic technologies, the smaller technology footprint of insurance intermediaries means that they may be able to leverage data sooner rather than later, Mr. Yoder said.

"People now realize better decisions are possible if people can harvest the data and then harness the power of it through analytics," he said.

Alastair Swift, London-based CEO for global placement at Willis Group Holdings P.L.C., said its WillPlace online placement tool captures data in the placement workflow before feeding it into algorithms that help match client risks and insurers.

"As far as we are concerned, data and analytics are the cornerstone of our client proposition," Mr. Swift said.

Much of the impetus for creating a datacentric placement mechanism was at the behest of clients, Mr. Swift said, noting that analytics provide an audit trail that clients can show their boards and financial departments when explaining why they chose to place business with one insurer over another.

"Previously, you had to trust that the broker made the right choice," Mr. Swift said.

Julie Zimmer, Chicago-based vice president of sales and middle-market practice leader at Hub International Ltd., said the increased use of data and analytics by intermediaries in many ways reflects insurers' evolution from broadly defined underwriting tiers to more granular, customized policies.

"Because insurance companies are getting so much more forensic with their data, brokers now have to be more proactive about targeting risks that they want to write," she said. "Before, it was more relationship driven, and it always will be to a certain extent, but now we are getting more strategic about distribution," she said.

Stephen Cross, Dublin-based CEO of Aon Global Risk Consulting, also sees the influx of

data fundamentally altering the nature of how brokers conduct business, shifting the role from a transactional one to one predicated on offering strategic advice.

"The data is helping us evolve," Mr. Cross said. "The old way was based on gut feel and intuition. The new way is to complement our market knowledge and experience with real-time facts."

H. David Wood, Phoenix-based executive vice president and head of insurance operations at Wells Fargo Insurance Services USA Inc., said synthesizing data sci-

ence with the traditional skill set of brokers is becoming imperative.

"What we now need to do is to take the strong part of that business and marry it with technology. It will be magic if we get it right," Mr. Wood said.

Mr. Cross said he foresees the historic, linear relationship of brokers as intermediaries between clients and insurers giving way to a tripartite relationship, where there is more direct connectivity between clients and the market.

"There's a new breed of broker," he said. "The carriers are becoming far more scientific, and so are we."

Likewise, Mr. Swift predicts a greater need for brokers-as-analysts rather than straight-transactional brokers as intermediaries shift toward a more consultative model.

"The very nature of broking will start to change for certain sizes of business," he said. "You are going to have to have people that understand data and how it drives cycles."

Given the wider use of analytics inside and outside the insurance

industry, those that downplay the speed and nature of this change do so at their own peril, Mr. Cross said.

"It's a profound shift, but we have a view that this is something that our clients desire," he said.

Ms. Zimmer agreed that the biggest risk surrounding the use of data by brokers is ignoring it.

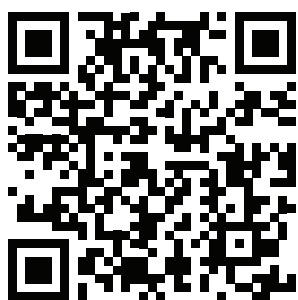
"This is one of those things where you don't need to be an early adopter, but you can't have blinders on about the world changing," she said.

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INSURERS WITH RESOURCES GAIN EDGE WITH BIG INVESTMENTS IN TECHNOLOGY

High cost of system upgrades deters some companies

BY SHEENA HARRISON

Insurance buyers are seeing faster quotes and improved customer service as insurers push to upgrade their policy administration and billing systems. However, the cost and time involved with switching to new systems has left some insurers reluctant to bring their technology up to speed.

There has been a push in recent years for property/casualty insurers to invest in new policy and billing systems to update technology that often is decades old, experts say.

Each year, about 5% to 10% of all domestic insurers look at upgrading their systems, though not all of them decide to invest in the technology, said Donald Light, San Francisco-based director of the Americas property/casualty practice for Celent L.L.C., which is part of New York-based Marsh & McLennan Cos. Inc.'s Oliver Wyman unit. That level of interest has increased during the past several years, he said.

Customer service is a driving factor for insurers to look at upgrades, said Gino DiGregorio, partner in the insurance practice for North America for Dublin-based Accenture P.L.C. For instance, quotes for commercial insurance lines can be turned around days faster compared with policy systems that were developed 20 years ago.

"We think the best-of-breed carriers are (quoting) instantly or within 24 hours," Mr. DiGregorio said. "So if you apply for a workers (compensation) policy, they'll issue it the next day. So it's a pretty dramatic change."

Additionally, older policy and billing technology

often requires information technology personnel to rewrite software programming codes to allow insurers to make underwriting or coverage changes, said Chad Hersh, a partner in the insurance practice at New York-based research and advisory services firm Novarica (see story below).

That process can be labor- and time-intensive, and often hinders insurers from making policy changes that could make them more competitive, Mr. Hersh said.

"If you're in specialty lines, this stuff is absolutely critical, because you've got to be able to come up with new products that couldn't possibly have been foreseen by the older systems," he said.

By updating the programming process and speeding turnaround times, insurers can become more efficient and ultimately offer savings to customers, experts say.

"As a policyholder, most typically the biggest benefit is in improved service levels," Mr. Hersh said. "So more accurate quotes, more accurate renewal quotes, less paperwork. In many cases, a lot of things can be done online or done automatically."

Mountain States Insurance Group Inc. of Albuquerque, N.M., hopes its new \$6 million system will allow the company to better serve its customers. The company writes workers compensation, commercial auto, inland marine and other commercial lines, and has 6,300 enforced policies.

Mountain States President and CEO William Davis said the company had been using a policy administration and billing system that was nearly 40 years old. Changes to the system usually required Mountain States' IT professionals to rewrite the system's programming code.

"If we wanted to do any kind of new product rate

changes (or) new forms, IT became a backlog and was an impediment to us doing those things," Mr. Davis said. "We were very slow and reluctant to make changes to make our products more competitive."

Last summer, Mountain States decided to install Accenture's Duck Creek commercial policy software suite, and the first part of the upgrade is expected to be complete by March. Along with making the company more efficient, Mr. Davis said the upgrade will allow Mountain States to provide electronic billing and email policy documents to customers — both of which previously were done by mail.

Not all insurers are willing to make the investment to improve their technology, Celent's Mr. Light said. For commercial insurers, the process of upgrading can cost at least \$2 million to \$3 million and can reach up to \$10 million or more, he said. Meanwhile, initial rollout time can stretch as long as 12 to 18 months, depending on how many lines of business an insurer writes and the number of states in which it works.

Additionally, insurers should be prepared to work with their technology vendor for years after installation as the system needs periodic updates, Mr. Light said.

"It's not just you buy a bright new shiny system and everybody's happy," he said. "It really is a 10- (to) 15-year relationship."

The time and cost are worth it for companies that want to make sure they're competitive in a changing insurance market, experts said.

"The cost of us not upgrading is far greater than any cost we'll spend on implementing a new system," Mountain States' Mr. Davis said.

"If you're in specialty lines, this stuff is absolutely critical, because you've got to be able to come up with new products that couldn't possibly have been foreseen by the older systems."

Chad Hersh, Novarica

'CONFIGURABLE' THE CUTTING EDGE

Insurance technology experts say "configurable" policy administration and billing systems are the latest trend in industry technology, helping speed programming updates for such systems.

Older systems are typically known as "customizable" systems, which require programmers to rewrite the system's core programming code in order to make simple policy changes and other system updates. Newer systems often are "configurable," meaning that policy or billing changes can be made to the system without altering the system's central programming.

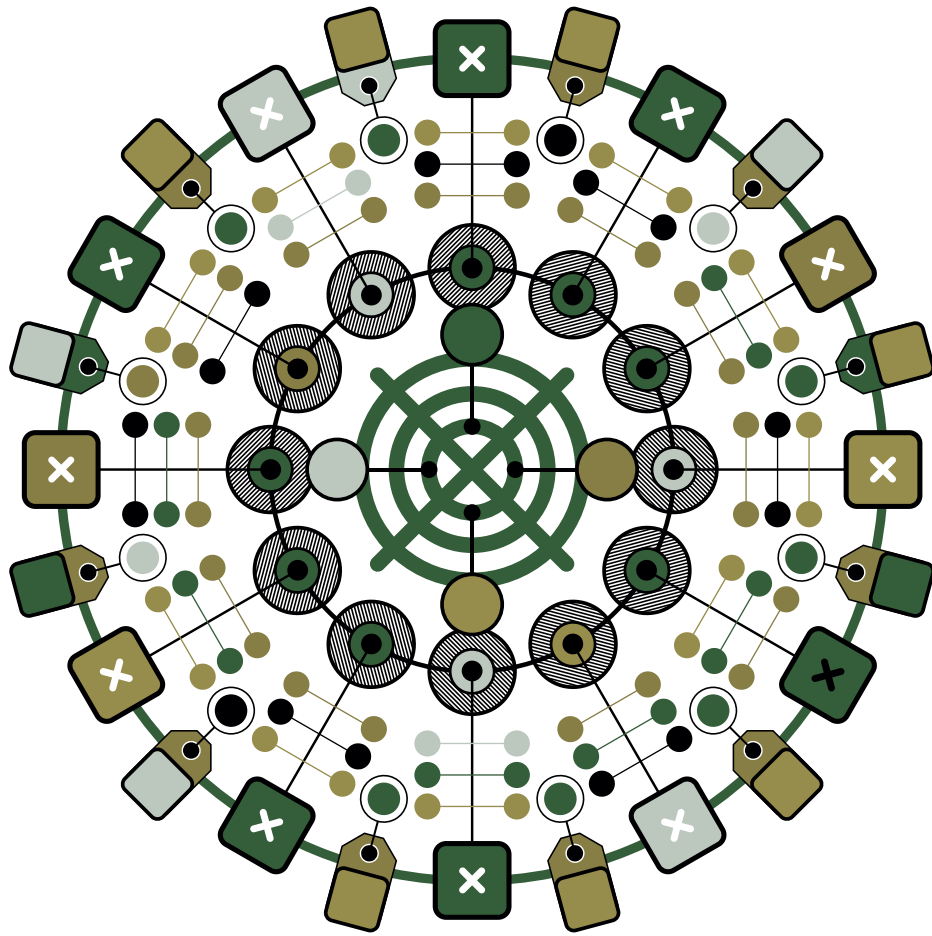
"If you think about ... Microsoft Office, you can heavily customize the way

those programs look, feel and work, but you don't actually touch the code of the systems," said Chad Hersh, a partner in the insurance practice at New York-based research and advisory services firm Novarica.

Configurable systems allow information technology professionals to make faster changes to insurance technology systems, and can sometimes allow non-IT personnel to make simple updates without help from IT professionals.

"It's just faster, easier, cheaper to go the configuration route rather than the customization route," said Donald Light, San Francisco-based director of the Americas property/casualty practice for Celent L.L.C.

By Sheena Harrison



Claims process benefits from technological innovations

But prolonged soft market has kept many companies from upgrading

BY BILL KENEALY

Traditionally a labor-intensive manual process, no operational aspect of the insurance industry benefits more from technological innovation than the claims process.

Presently, insurance companies and brokers can leverage advances in claims-processing systems and ancillary mobile and analytic technologies to fundamentally remake the way they receive, process, investigate and pay claims (see related story).

However, this bounty of technology options has not automatically triggered a stampede to revamp claims operations for their own sake, said Karen Pauli-Bradshaw, Boston-based research director for the insurance practice at CEB Tower Group. Rather, the prolonged soft market and flagging investment income renewed the industry's focus on expense control.

With claims being a primary customer interface, however, evolving standards of customer service may have convinced many companies to upgrade.

"Claims executives resisted technology harder than any group I had seen. But once modern core claims systems went in, they started to see the improvement in their organizations," Ms. Pauli-Bradshaw said.

The configurable nature of modern claims systems give claims organizations the flexibility to fashion a system to adhere to their unique claims practices and business rules, Ms. Pauli-Bradshaw said. With readily adaptable systems in place, claims departments find that they can "move the needle" on metrics surrounding financials and customer service, she said.

Moving to a modern claims-processing and

management system is often the precursor to even larger changes, after the system is augmented with predictive models and advanced analytics. Claims departments can use the models on the front end of the claims process to optimize workflows and adjuster assignments and on the back end to detect fraud and flag claims for subrogation.

In 2011, Chicago-based CNA Financial Corp. implemented a fraud-detection framework developed by Cary, N.C.-based SAS Institute Inc., said Tim Wolfe, Phoenix-based assistant vice president for CNA's special investigations unit.

Mr. Wolfe said the addition of the predictive models and link analysis tools has helped his team home in on fraudulent social networks. For example, seemingly disparate cases of workers compensation fraud may share a common doctor or lawyer, a linkage that may escape even the most diligent adjusters, he said.

Thus far, the models have produced an 18% "hit rate" of suspicious claims across CNA's four lines of business, with the hit rate for the workers comp line at 30%, Mr. Wolfe said.

While all these claims will not turn out to be fraudulent, the models go a long way toward separating the wheat from the chaff, he said. "These are not claims referred to by an adjuster," he said. "If it wasn't for the model, we would not be reviewing these claims."

The upshot, Mr. Wolfe said, is a sea change in how a special investigative unit operates, as well as the types of people within it. While special investigative units traditionally were staffed largely by experts with investigative and law enforcement backgrounds, Mr. Wolfe said workers with mathematics and quantitative analysis expertise now are in demand.

"We are looking for people with an entirely different background than what we typically look for," he said, noting the insurer has hired nurses and people familiar with diagnostic and billing codes to spot fraud in medical cases. "We want people who bring different skills to the table because of the complexity of the cases," he said.

Stuart Rose, global insurance marketing manager at SAS, a business analytics and technology provider, said detecting linkages at many of the supplemental medical-services firms such as pharmacy, physical therapy and transportation providers is also a rich vein for fraud modelers to tap.

Joe Friscia, Boston-based president of the Americas at fraud modeling provider BAE Systems Detica said insurers are profiting from advances in the speed with which analytic models are computed because faster computer hardware and improved data architectures mean that complex predictive models can run in near-real time.

Accordingly, insurers now have the ability to move the use of analytics further up in the claims process, even as soon as first notice of a loss, he said.

Another boon to the analytics marketplace was the defense buildup of the past decade as the government spent money on cutting-edge link analysis tools to identify terrorist networks. Variations of these tools now are available in the commercial market, Mr. Friscia said, noting that his firm is owned by defense contracting giant BAE.

Using these tools, insurance claims investigators can analyze complex claims to identify deviations from standard practice and elucidate connections between parties.

"The data tells a story," Mr. Friscia said.

London broker adds tailored claims system

Tyser project aims to transform business

The prospect of providing a differentiated level of customer service through technology was a motivating factor for a recently completed overhaul of the claims-processing and management systems at London-based insurance and reinsurance broker Tyser & Co. Ltd., said Edward Slade, the company's chief information officer.

Rather than selecting an off-the-shelf solution, Tyser opted to create a bespoke claims system from existing best-of-breed document management and workflow component technologies, Mr. Slade said.

"We didn't set out to build our own, but we couldn't find anything out there that met our requirements," he said. "Claims in the Lloyd's of London market are quite complex, and we wanted a common system."

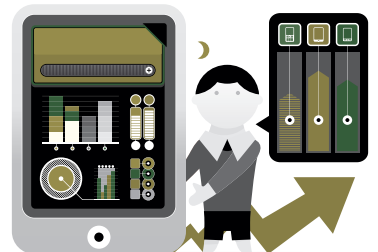
The increasing viability of cloud-based components also accelerated the development, he said.

"We are fairly comfortable with the cloud. For us, for a number of years now, cloud computing has been at the forefront of how we operate," he said.

Because the project was an attempt at business transformation, the ultimate business users of the system were intimately involved in the new system's development, Mr. Slade said.

"One thing that made a massive difference is that our claims people really wanted this to happen," he said. "We had their engagement and buy-in."

By Bill Kenealy



"One thing that made a massive difference is that our claims people really wanted this to happen."

Edward Slade, Tyser & Co. Ltd.

IRONSHORE CEO DISCUSSES SURPLUS LINES

Q What's your assessment of the commercial property/casualty market and where do you see it going in 2013? Do you think the firming in pricing is likely to continue in 2013?

A I think market opportunity is good, if you have the right focus in terms of product, if you know your distribution so that you can broadly see the business in those product areas, and if you have innovation skills that allow you to help clients deal with the change they're seeing. The opportunity will not be the same for every company, and all boats will not rise in this market. I think the firming in pricing is likely to continue.

In September, we saw prices — for the first time since I joined the company — increase across the board. I see that trend continuing through 2013.

Q What's the outlook for the surplus lines market in 2013?

A I think the market will continue to grow in 2013. The reason it will continue to grow — and I'm bullish about the market, the surplus lines market in particular —

Q&A

is because I do think the appetite will shrink in the U.S. admitted market because of their quest for return on equity in a low-interest-rate environment. Also, I think Superstorm Sandy has shown that markets want to avoid volatility in 2013 because of what it does to returns.

Q Where does Ironshore see growth opportunities?

A Our business is pretty well diversified. Twenty-five percent of our business is property, 20% of our business is what we call short-tail lines — and that's

pretty much emanating out of our Lloyd's business — and the rest is casualty. I see opportunity in all the lines we're involved in in 2013. In September, we recorded rate increases across our entire portfolio, and I expect to see that continuing through 2013. Our products are very highly focused and specialized. We're not in the commodity product game. We're not in workers compensation; we're not in the commercial automobile business.

Q In the area of public policy, are you concerned about the possibility that the federal terrorism insurance backstop won't be extended?

A We write our terrorism portfolio through our Lloyd's platform. Whether or not the federal backstop isn't renewed really doesn't impact us. We think there's enough uncertainty in the market regarding that, that it actually might create opportunity for us.

We are looking to expand our writings in the U.S. terrorism market and have taken a few steps to do that.



KEVIN H. KELLEY
CEO OF IRONSHORE INC.

Kevin H. Kelley is CEO of Ironshore Inc. Before joining Ironshore in 2008, Mr. Kelley served as chairman and CEO of American International Group Inc.'s Lexington Insurance Co. unit. He recently spoke with Senior Editor Mark A. Hofmann about the state of the property/casualty insurance market and the outlook for the surplus lines segment of the market. Edited excerpts follow.

Obviously, Sandy is a major loss. Depending on how you count it or project it, it's either the second- or third-largest insured loss that the industry has faced. I think, on balance, the industry has faced it quite well.

Q Any thoughts on the effect of Superstorm Sandy?

A Obviously, Sandy is a major loss. Depending on how you count it or project it, it's either the second- or third-largest insured loss that the industry has faced. I

think, on balance, the industry has faced it quite well. It's provided clients with liquidity without the insurers having to raise capital. I think the industry has performed as one would hope it would. It's been the first responder for policyholders.

COMINGS & GOINGS

UP CLOSE: KRISTINA WINTERFELDT

BROOKFIELD, WIS.-BASED AREA PRESIDENT FOR ARTHUR J. GALLAGHER & CO.

PREVIOUS POSITION: Itasca, Ill.-based captive director for Artex Risk Solutions Inc., a wholly owned subsidiary of Arthur J. Gallagher & Co.

GOALS FOR NEW POSITION: To support my team in growing our business both organically and through acquisitions, strengthening our brand and taking care of our customers.

INDUSTRY OUTLOOK: The competitive environment for workers compensation insurance that Wisconsin employers have enjoyed is changing. It will provide opportunity to other carriers to compete in this market and challenges to employers who are already facing concerns regarding health care.

BEST THING ABOUT A BAD ECONOMY: Those who survive have the opportunity to emerge stronger than when it began.

FIRST EXPERIENCE IN JOB MARKET: Was chasing down an interview at Arthur J. Gallagher, the one major brokerage firm in the insurance industry that wasn't



focused on hiring college graduates outside their intern program. My persistence paid off.

ADVICE: Happiness is a choice, not a circumstance.

OUTSIDE THE INDUSTRY, A DREAM JOB: Something that involves food, isn't on nights or weekends and maintains the social aspect central to a meal. If someone wanted to pay me to cook for them while teaching them about the food, its origin and the

techniques to prepare a particular dish and then share it with them, I would be up for the task.

HOBBIES: Seeking out new experiences. I love to learn about new things and share them with others.

FAVORITE MEAL: While cooking is my passion, my favorite meal is one prepared alongside a foodie friend, in their kitchen or mine, preferably with a glass of wine and some taste testing along the way.

EMAIL OR PHONE, AND WHY: Definitely the phone because it gives you the opportunity to learn more than you originally intended.

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Aon Risk Solutions	Karen Cangemi
HW Wood Ltd.	Stuart Rouse
Marsh Inc.	David Carlson

REINSURANCE

Cooper Gay & Co. Ltd.	David Yip
Holborn Corp.	Simon Hudson

BENEFITS CONSULTANTS

Aon Hewitt	Garry Spinks
Mercer L.L.C.	Pam Jeffords

INSURERS

Mitsui Sumitomo Insurance Underwriting at Lloyd's Ltd.	Neil Marking
Mitsui Sumitomo Insurance Underwriting at Lloyd's Ltd.	Jonathan Wye
Sparta Insurance Co.	Mario Chiappetti
W.R. Berkley Corp.	Kenneth J. Berger

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National Interstate adds coverage option for fuel distributors

National Interstate Insurance Co. has added a new traditional coverage option.

The program, effective Jan. 1, will complement its captive fuel distribution business to include a traditional insurance program, the specialty property/casualty insurance subsidiary of National Interstate Corp. announced in a statement. The coverage will offer residential propane and fuel dealers auto liability, general liability, auto physical damage, workers compensation, property and excess umbrella coverages. Crime and inland marine coverages are available on request.

"This new traditional program gives us an excellent opportunity to expand our current captive business in this market segment," said Jim Parks, vice president of National Interstate Insurance, in a statement. "We are also looking forward to partnering with retail fuel distribution producers in delivering a best-in-class insurance and risk management program."

For more information, contact Jerald Hess, product manager, at 800-929-1500, ext. 1120, or gerald.hess@natl.com.

Willis Energy facility covers decommissioning of oil, gas platforms

Willis Energy has introduced an insurance facility covering the process of decommissioning offshore oil and gas platforms.

Its new offshore dismantling and removal insurance facility focuses on risks specific to these projects, including contractual liability exposures as well as seepage, pollution and contamination risks, said the division of Willis Group



JLT launches multiline executive, corporate coverage

London-based insurance brokerage Jardine Lloyd Thompson Group P.L.C. has created a multiline, multiyear coverage combining executive and corporate liabilities for companies in the United Kingdom.

The executive defense insurance product has a two-year policy period and combines coverage for employment practices liability, directors and officers liability and pension trustee liability, JLT said in a statement.

The coverage will be underwritten by AIG Europe Ltd., a unit of American International Group Inc.

In the statement, JLT said it developed the coverage partly in response to a 2012 survey by London-based Airmic that revealed that the majority of respondents had taken on additional responsibilities in their jobs without additional resources.

Holdings P.L.C. in a statement.

"Dismantling and removing large offshore platforms, particularly those located in inhospitable environments, is a seri-

ous operational and logistical challenge," said Chris Dear, managing director of Willis Energy, in the statement. "But increasingly, legislation compels companies to do this. As a result, energy companies face a number of significant risks, including seepage and pollution and complex contractual liabilities."

The policy can cover the removal of one platform, as well as all structures and related property in a field, including sub-sea equipment and pipelines. Coverage will be subject to a minimum per-occurrence deductible ranging between \$500,000 and \$750,000, and premiums will be based on individual projects.

For more information, contact David Hallows, executive director at Willis Energy, at david.hallows@willis.com.

Eagle Ocean Agencies launches P&I facility for U.S. brownwater

Eagle Ocean Agencies Inc. has launched a fixed premium protection and indemnity facility for the U.S. brownwater sector.

Eagle Ocean America, the facility's trading name, is meant to provide primary insurance coverage for U.S. domestic operators who normally purchase liability insurance from fixed-premium commercial underwriters instead of mutual P&I clubs, the company announced in a statement.

The program offers coverage for vessel operators against third-party liabilities during commercial operations, including responsibility for death, injury or illness of crew or passengers, cargo loss or damage, and pollution.

The facility is supported by Torus Insurance (U.K.) Ltd.

For details, contact Joe Hughes, chairman and CEO, Eagle Ocean Agencies Inc., at joehughes@eagleoceanmarine.com.

DEALS & MOVES

BMS opens Sydney office, expands wholesale team

BMS Group Ltd. has opened its first Asia-Pacific office in Sydney, the London-based broker announced.

Glenn Kerr, formerly of Aon Benfield, will head the office, joining the BMS wholesale team led by Chief Executive Nick Cook.

Mr. Kerr will be responsible for leading the continued growth of BMS' wholesale and facultative business in the Asia-Pacific region, according to BMS. Previously, he was a facultative broker at Aon Benfield.

"The opening of our Sydney office demonstrates BMS' commitment to expanding the global wholesale division and further enhances our product offering to our clients," said Mr. Cook in a statement. "Strategically, Asia-Pacific is fundamental to our growth plan, and, under Glenn's leadership, we look forward to building our platform in the region."

Arthur J. Gallagher acquires mid-market benefits brokerages

Itasca, Ill.-based Arthur J. Gallagher & Co. has acquired a pair of mid-market brokerages to bolster its employee benefits operations.

Gallagher said it has acquired Atlanta-based Argus Benefits and Indianapolis-based Gardner & White Corp. Terms of the deals were not disclosed.

According to Gallagher, Gardner & White will maintain its regional offices in Indianapolis, Dublin, Ohio, and St. Paul, Minn., under the direction of William Ziebell, executive vice president of Gallagher's employee benefit consulting and brokerage operations for the North Central region. Argus Benefits will maintain its offices in Atlanta and Jacksonville, Fla., under the direction of David Ziegler, Gallagher's executive vice president of employee benefit consulting and brokerage operations in the Eastern region.

Global Aerospace opens in Cologne, hires consultant to head branch

Global Aerospace is opening an office in Cologne, Germany, to develop business throughout northern and eastern Europe.

Joerg Jakobs will head the office, joining Global Aerospace from Kairos Consulting GmbH, a specialist aviation insurance and reinsurance intermediary he founded in 2003, the London-based aviation insurer said in a statement.

"Our German branch complements and strengthens our network in Europe, and I am delighted that it will be led by someone of Joerg's caliber and professional standing," said Nick Brown, Global Aerospace group chief executive, in the statement.

USI expands in Phoenix with brokerage acquisition

USI Insurance Services is acquiring Wick Pilcher Insurance Inc., an independent insurance agency based in Phoenix. Terms of the deal were not disclosed.

Formed in 1992, Wick Pilcher Insurance provides comprehensive employee benefits, commercial and personal insurance programs to middle-market firms.

Wick Pilcher will be combined with the existing USI office in Phoenix. Based in Briarcliff Manor, N.Y., USI operates approximately 100 U.S. offices.

Cloud computing speeding up software innovation

TECHNOLOGY

HOW DOES IT WORK?



BILL KENEALY

Technology trends such as cloud computing and "appification" are changing the frequency and speed of developing software and, in turn, the way technology providers deliver those features to insurers and risk managers.

Kathy Burns, Chicago-based CEO of Aon eSolutions, which provides cloud-based and on-premises software to risk managers, said her firm's embrace of the cloud has accelerated the process of innovation. Instead of needing to push updates to separate clients that may be running separate versions of the on-premises software, cloud-based applications allow automatic changes, Ms. Burns said.

"We provide cloud-based solutions to risk managers and it enables us to do more for them more quickly," she said. "If we create a great report or piece of analytics or a new module for a



client, I can then make it accessible to our broader client base."

Brian Vannoni, San Francisco-based director of product marketing for Guidewire Software Inc., said the firm wanted a hybrid model blending the best attributes of on-premise and cloud-based software. In October, it launched Guidewire Live, a series of hosted applications intended to augment the functionality of the Foster City, Calif.-based company's underwriting, policy administration, billing

and claims systems.

The advent of the cloud and app-driven development has freed business units to adopt new technology without taking the time to involve the information technology department, Mr. Vannoni said. "Previously, the cycle time for technology-based innovation was so long that it stifled business innovation," he said.

Ms. Burns said the advance of technology will help risk managers shift their focus from the tactical concerns around data aggregation to broader, strategic goals.

"Historically, risk managers have thought more about technology to help them with the efficiency of their processes," she said. "Now that the process-oriented tools are more firmly in place, they want to spend more time evaluating and understanding data that they can use to drive down their total cost of risk. It's becoming more about what you can do with data."

Marsh acquires two Midwest companies

Marsh & McLennan Agency L.L.C., a subsidiary of Marsh Inc., has acquired two Midwest companies.

The Troy, Mich.-based employee group benefits consulting and brokerage firm McGraw Wentworth Inc. offers brokerage and benefits consulting services to midsize companies in a broad range of industries including manufacturing, automotive supply and financial services, as well as nonprofits, public schools and local municipalities. The company recorded approximately \$15 million in annual revenue in 2012, according to a statement released by Marsh.

Terms of the sale were not disclosed.

"With this transaction, we will be able to offer greater resources and a broader platform to serve the needs of our clients throughout the region and country," Bill Jeatran, Minneapolis-based CEO of Marsh & McLennan Agency's upper Midwest region, said in the brokerage's statement.

McGraw Wentworth's 72 employees will continue to work from the company's office in Troy, and will report to Marsh & McLennan Agency's offices in Minneapolis.

The announcement came a few days after Marsh & McLennan announced it had acquired Liscomb Hood Mason Co., an insurance agency in Duluth, Minn.

While financial terms of the transaction were not disclosed, the statement reported Liscomb Hood Mason's employees and leadership, including its President Larry Sumbs, will join Marsh & McLennan and operate as part of its upper Midwest region based in Minneapolis.

Arch revamps Canadian units

Arch Capital Group Ltd. has grouped its Canada operations under a new operating subsidiary, Arch Insurance Canada Ltd.

Since 2005, Arch Canada was a branch of Arch Insurance Co., a U.S.-based affiliate. Now the insurer's headquarters are based in Toronto with two branches in Montreal and Vancouver, while Arch Title, a division of Arch Canada, has offices in Calgary.

Zurich transfers Eagle Star portfolio

As part of its strategy to exit its noncore businesses, Zurich Insurance Co. Ltd. will transfer the portfolio of its U.K.-based subsidiary

Eagle Star Insurance to RiverStone Insurance (UK) Ltd.

Structured as a reinsurance agreement, the deal transfers Eagle Star's general insurance portfolio, which predominantly contains U.S. asbestos, pollution and health risks written from the mid-1940s to the mid-1980s, from Zurich to RiverStone.

The transaction, which is subject to regulatory review and court approval, will transfer \$273 million in undiscounted gross liabilities and is expected to release \$340 mil-

lion of capital within two years, Zurich said in a statement.

The deal is part of Zurich's wider effort to free up and redeploy \$1.5 billion of capital by 2015, Zurich said in a statement.

Segal incorporates fiduciary practice

The Segal Group Inc. has incorporated its fiduciary liability insurance practice as Segal Select Insur-

ance Services Inc., the consulting firm said.

Brian Smith has been named chief operating officer of the insurance brokerage subsidiary, Segal said in a statement.

Previously, Mr. Smith was senior vice president and national fiduciary insurance practice leader.

"Over the past 10 years, the practice has grown well beyond its original mission: assisting joint labor-management benefit plan boards of trustees to obtain fidu-

ciary insurance and fidelity bond coverage under the statutory provisions of the Employee Retirement Income Security Act," said Mr. Smith in a statement.

"We have added expertise in providing employment practices liability insurance and cyber liability coverage, and we have expanded our client base to provide insurance risk consulting services to public sector plans," he said.

Segal Select Insurance Services is headquartered in the Segal Group's New York office.



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Mr. Gehrt



Mr. Crosner

BY MICHAEL S. GEHRT AND SHAUN H. CROSNER

Most applicants for insurance believe they can satisfy their disclosure obligations to their insurer simply by truthfully and accurately answering the questions posed to them on insurance applications.

When it comes to marine insurance, however, disclosure requirements are a bit more complex. The little-known doctrine of *uberrimae fidei* obligates an applicant for marine insurance to disclose all known facts material to the insurer's calculation of the insured risk — even if such information is not requested on the application for coverage. Because a marine insurer can rely on this doctrine to contest coverage or attempt to void a policy after a loss, it is important for insureds to understand the doctrine and its impact on their disclosure requirements.

History, purpose of the doctrine

Uberrimae fidei, which translates to “utmost good faith,” is a vestigial doctrine of insurance law created centuries ago. Historically, all insurance policies were subject to the doctrine of *uberrimae fidei*, meaning that both parties were held to the highest standard of good faith in the transaction. At the time, this strict doctrine was an economic necessity in insurance transactions because insurers often had no reasonable means of obtaining information about the risks they were insuring. For example, when underwriters in London were insuring ships sailing in faraway seas, they had no choice but to rely on their insureds for information regarding the potential risks those ships might face. In other words, the doctrine's heightened disclosure requirements existed to ensure that the insurer was able to fairly evaluate the risks being insured.

Although the doctrine of *uberrimae fidei* has been displaced in most insurance contracts, it enjoys continuing vitality in the world of marine insurance. Traditionally, the phrase “marine insurance” referred to coverage for loss or damage to a ship and its cargo between the point of origin and its final destination. Today, however, such policies also insure against a variety of nonmarine risks — including, for example, risks associated with civil commotions, labor unrest and the land transportation.

Applying the *uberrimae fidei* doctrine to this wide array of risks is contrary to the original purpose of the doctrine and ignores the realities of the modern insur-

ance landscape. After all, the doctrine developed in an age without the ubiquity of telephones, email, digital photography, air travel, and — perhaps most importantly — the Internet. Today's marine insurers are much better equipped than their predecessors (and, for that matter, their insureds) to stay informed and obtain information regarding the risks they insure. And, of course, nothing is stopping today's marine insurers from posing targeted questions on an application to elicit the information they seek. The notion that marine insurers must rely on their insureds to tell them what is happening on the far side of the world has been outdated for years.

Although many may legitimately view the doctrine as an antiquated notion for these reasons, *uberrimae fidei* is still the law in several jurisdictions. Consequently, when applying for or renewing coverage on a marine risk, companies must keep the doctrine in mind and take reasonable steps to ensure compliance with the doctrine's disclosure requirements.

In the months and weeks before a new marine insurance policy is issued, a company should take stock of information within its knowledge that could potentially merit disclosure. Although a company cannot fairly be said to possess knowledge of all information known to its employees, they should take reasonable and appropriate measures to gather all such information germane to the risk being insured. For instance, depending on the size of the company, it may be appropriate for risk managers and others responsible for purchasing coverage to identify and communicate directly with those employees most likely to have knowledge of material information.

Because it is not always easy to say whether a particular fact is “material” to the risk being insured, companies can and should rely on their brokers to assist them in determining whether to disclose information during the application process. But, if there is any doubt, it is generally best to err on the side of disclosing all potentially material facts to an insurer. Although a company might be concerned that disclosing too much information during the application process will result in increased premiums or a coverage refusal, failure to disclose material facts may give an insurer a basis to contest coverage in the event of a subsequent loss. Therefore, companies should strive to comply with the doctrine of *uberrimae fidei* and must act with utmost good faith and fair dealing when purchasing coverage for a marine risk.

While most insurance applicants satisfy their disclosure obligations by accurately answering insurers' questions, disclosure requirements are more complex when it comes to marine insurance, say Michael S. Gehrt and Shaun H. Crosner of law firm Dickstein Shapiro L.L.P. A little-known doctrine requires those who are seeking marine insurance to disclose all risk-related facts related to the coverage to step around insurers trying to void the policy after a loss occurs, they say.

After a loss, a marine insurer may attempt to rely on perceived nondisclosures during the application process to contest coverage and have the policy declared void. When faced with such a scenario, the insured should take several steps to protect its rights and improve its chances of defeating the marine insurer's attempt to void coverage.

Responding to voiding of coverage

First and foremost, an insured must evaluate whether it should even be held to the heightened standard of *uberrimae fidei*. Although many modern marine insurance policies cover marine and nonmarine risks, the history and purpose of the doctrine of *uberrimae fidei* make clear that it should only apply to the marine elements of an insurance policy. For this reason, a number of courts have refused to apply the doctrine's disclosure requirements to facts



bearing on nonmarine risks. Consequently, if a particular fact is material only to an insurer's decision to cover a nonmarine risk, the scope of the insured's disclosure obligations are arguably framed solely by the questions posed on the application for coverage.

However, even if *uberrimae fidei* does apply, it is important for insureds to understand relevant limitations on the doctrine. Setting aside the insured's ordinary obligation to provide truthful and thorough responses to questions posed on a policy application, the doctrine of *uberrimae fidei* only requires disclosure of material facts within the insured's knowledge prior to the policy's issuance. Although certain facts may seem material with the benefit of hindsight, an insurer attempting to void a policy bears the burden of establishing materiality as of the time of the insured's disclosure obligation. Along those same lines, because an insured can be charged with disclosing material facts only within

its knowledge prior to the policy's issuance, facts learned after the policy is issued are of no relevance to the analysis.

Furthermore, insureds should examine the insurer's course of conduct after learning the fact or facts purportedly giving rise to the right to rescind. Generally, after an insurer discovers a legitimate basis to void a policy, it must promptly notify its insured of its intent to void the policy. If an insurer fails to do so and continues to act as if the policy is still in force, it may have effectively ratified coverage and waived any right to rescind the policy. For this reason, several courts have found the right to rescind has been waived when an insurer accepts additional premiums after learning of a purported nondisclosure or takes other actions inconsistent with an alleged desire to treat the policy as void.

By the same token, an insured must be careful not to take any actions that could be misconstrued as a tacit acknowledgement of the insurer's right to rescind a policy. For instance, because an insurer must return premiums paid for the policy in order to formally void or rescind the policy, an insurer may offer a return of premiums at some point after learning of a purported nondisclosure. Insureds are under no obligation to accept an insurer's offer to return premiums and should not do so. Indeed, in some jurisdictions, accepting a return of policy premiums — even under protest — can significantly jeopardize an insured's ability to pursue coverage.

Finally, throughout the course of a dispute with its insurer, an insured should be mindful of timing-related limitations on the right to initiate litigation or arbitration. Some policies will include contractual limitations provisions that dictate the timeframe in which an insured must initiate litigation against its insurer. In other cases, this timeframe will be set by statute or regulation. Because jurisdictions have different rules regarding how contractual and statutory limitations periods are to be applied, insureds must make sure to navigate these rules with care so that they preserve their right to pursue coverage.

Michael S. Gehrt and Shaun H. Crosner are Los Angeles-based attorneys in Dickstein Shapiro L.L.P.'s insurance coverage practice, focusing their practices on the representation of insureds in disputes with their insurers. Mr. Gehrt can be reached at gehrtm@dicksteinshapiro.com. Mr. Crosner can be reached at crosners@dicksteinshapiro.com.

CASUALTY INSURANCE RATES CONTINUE TO RISE FOR HAZARDOUS EXPOSURES

Biggest increases pushed through on workers compensation risks

BY MIKE TSIKOUDAKIS

Primary and excess casualty buyers saw price hikes this insurance renewal season, with the largest increases for workers compensation coverage.

New York-based Marsh Inc. said more than half of its U.S. clients experienced rate increases for general liability and workers compensation coverage in the fourth quarter of 2012. Buyers of general liability insurance saw typical rate changes of up to 10%, according to the report.

Still, buyers with low to moderate hazard risks and favorable loss histories saw flat renewals of their casualty coverage and, in some cases, rate reductions.

“We were 100% flat across the board — general liability, auto liability — the whole kit and caboodle,” said Christopher Johnson, director of risk management at Northwestern University in Evanston, Ill.

Remaining with the same casualty underwriters for many years,

Mr. Johnson said the university’s insurers fully understand its risks and work to mitigate them.

“Because our loss history has been pretty favorable across all lines, they are not looking to fine-tune our coverage,” Mr. Johnson said.

“Casualty is unlike other lines of insurance; it’s more industry-driven and hazard-class driven.”

Tony DeFelice,
Aon Risk Solutions

Compared with last year, casualty insurance rates are up 5% to 10% on average, experts say.

“Casualty is unlike other lines of insurance; it’s more industry-driven and hazard-class driven,” said Tony DeFelice, New York-based national casualty practice managing director at Aon Risk

Solutions.

“The more high-hazardous classes are under more pressure than others,” Mr. DeFelice said. Such industries include energy, chemicals, life sciences and railroads, all of which have seen double-digit rate increases, he said.

There’s also been pressure in the past year on attachment points for umbrella coverage, forcing large-fleet commercial auto buyers to either buy a buffer or assume a higher self-insured retention, Mr. DeFelice said.

Workers compensation has seen the most drastic increases, with average pricing rising 5% to 10% depending on the industry, loss experience and state mix, said Kevin Brogan, head of national product practices and special risk for Wells Fargo Insurance Services USA Inc. in Chicago.

Buyers with poor loss histories and large guaranteed-cost work comp programs are seeing increases of 25% to 40%, Mr. Brogan said. “It happens weekly,” he said.

Average increases of 5% on general liability and commercial auto liability coverage may be due to losses in the workers comp lines, experts say.

With workers comp underwriters facing unprofitable combined ratios between 115% and 125%, “they try to spread some of their increases on other lines of business to balance it,” Mr. Brogan said. “I think that’s a lot of what’s going on with the GL and the auto” markets.

Key factors that are trending the comp rates are that severity has spiked for several years, stricter state regulations, and underwriters are trying to adjust for the inflationary effects of medical costs, experts say.

“Underwriters are absolutely focused in terms of correcting that book of business,” Aon’s Mr. DeFelice said. “The combined ratio speaks for itself that they need to correct that book.”

While capacity continues to be readily available, underwriters are starting to firm on terms

and conditions.

“Most carriers are somewhat reticent to offer multiyear deals to customers now,” said Brian Winters, executive vice president of casualty for Zurich Global Corporate in North America in New York. “Any term or condition that affects rate, per se, is probably looked at fairly stringently.”

To ensure successful renewals, buyers need to keep an eye on losses, Mr. Winters said.

“The frequency of the losses is an area that they need to drive down to be able to control their overall cost” by partnering with risk engineering and other kinds of safety services, he said. “If they do that, rates, particularly on workers comp, will stay modest.”

If there are losses, “the best way to have good results with carriers is to put together partnerships with your broker, with your insurance company or with a carrier you’re thinking about going with to reduce losses and identify where they’re coming from,” WFIS’ Mr. Brogan said.

PROPERTY: Sandy stiffens market as insurers reassess risks

Continued from page 4

of flat to up 15%, he said.

“The change we’re seeing is anything that was affected by Sandy with a large loss — those accounts are being adjusted upward. And, more importantly on those types of accounts, they’re really taking a look at the terms and conditions,” said Mr. Finnis. “A lot of the insurers found themselves with very large limits and very low deductibles for Sandy.”

“Pre-Sandy, everybody was warning us of a lot of pressure on the reinsurers and insurers to move rates downward,” he said. “That pressure is going to be off of them.”

“There’s been rate pressure all year; we saw it kind of plateauing, getting down to the lower single digits before Sandy,” said Alfred Tobin, New York-based managing principal at Aon Risk Solutions’ property practice. “Now, today’s guidance is there is general pressure on rates, more pressure on those with Sandy claims.”

He said customers are learning the interpretation of their deductibles, and insurers are underwriting Northeast wind much more diligently.

Hurricane Alley buyers see favorable renewal rates

Even in Hurricane Alley, risk managers were able to negotiate favorable property renewals during the year Jan. 1 renewal period.

“I just got done with it,” said Wayne Salen, director of risk management for Labor Finders International Inc. in Palm Beach Gardens, Fla.

Mr. Salen noted that the company had “a significant added increase in value because of some structural changes we made.” But Superstorm Sandy didn’t have an impact on Labor Finders International’s renewal, he said.

“Our property package with our headquarters went up slightly less than 5%,” he said. “Property, from what I can see, is still pretty stable.”

Mr. Salen called terms and

conditions “pretty solid.”

He added that “anything less than 5% when you’re in Hurricane Alley is pretty good.”

Carolyn Snow, director of insurance and risk management at Louisville, Ky.-based Humana Inc., said that she had negotiated the company’s primary property coverage early and “the renewal was easy.”

She noted that Humana had changed markets last year “and got some coverage enhancements, which continued into the renewal.”

Humana made several acquisitions, increasing its values by about 10%, but had only a “minor rate increase,” she said.

But after Superstorm Sandy hit, the difference-in-conditions market “really dried up — no

pun intended,” said Ms. Snow.

The company has a “sizeable” exposure in Florida and increasing exposures along the East Coast, she noted.

“We were able to keep the same existing DIC coverage, but renewals went down to the wire and the cost was higher,” she said.

Ms. Snow said Humana was “fortunate” that its commercial automobile, workers comp and excess coverages were “all done early, and the terms were so favorable that we can absorb the additional property costs”

She added, “we were happy to have ours wrapped up for Jan. 1 and would not want to be in the market during the first quarter.”

By Mark A. Hofmann

“Rates are less of an issue — it’s more terms and conditions impacting wind and flood,” said Alexandra Glickman, area vice chairman of Arthur J. Gallagher

Risk Management Services Inc. in Glendale, Calif.

“There’s a tremendous amount of capacity — Lloyd’s of London for 2013 is nearly £25 billion

(\$40.18 billion),” she said.

Capacity is still “ample,” but underwriters are starting to become a little stingy on flood capacity, said Marsh’s Mr. Ellis.

Sandy “put the microscope on flood issues,” such as whether Tier 1 should be extended north, and thus subject to higher deductibles.

“Some carriers who were putting up massive limits got thumped, and I think that particularly in commercial real estate there will be greater emphasis on shared and layered primaries,” said Ms. Glickman.

There’s no major deviation by class of business industrywide, said Neil Zonfrelli, senior vice president and product manager-property at Liberty Mutual Insurance Co. in Boston. “Obviously, the Northeast, given Sandy, is being hit a little bit harder. People are really looking at terms and conditions.”

The property line is still in need of rate increases, but there have been no big jumps, said Mike Halvey, head of middle markets for Zurich in North America in Schaumburg, Ill. As a result of recent storms — Sandy in 2012 and Hurricane Irene in 2011 — the Northeast will come under increased rate pressure. The rest of the country is expected to remain consistent with 2012 rate gains, but “I wouldn’t envision any big spikes.”

PRIMARY D&O INSURANCE PRICES INCREASE, ABUNDANT CAPACITY REMAINS FOR EXCESS LAYERS

BY JUDY GREENWALD

Directors and officers liability rates are gradually hardening, with overall rate hikes of about 5% to 15% depending on the account, say many observers.

Driving these increases are higher loss frequency, if not necessarily severity, in the primary and first excess layers. But ample capacity remains in the higher excess layers, which is dampening the increase in rate hikes overall.

“Rate increases are now the norm,” said Ann Longmore, New York-based executive vice president of FINEX North America, a unit of Willis North America Inc.

Kevin LaCroix, Beachwood, Ohio-based attorney and executive vice president of RT ProExec, a division of R-T Specialty L.L.C., said that among private companies, “the best-case scenario is a flat renewal, and most are seeing an increase of some kind.” In public companies, it depends on the industry, he said.

Brian Wanat, New York-based national practice leader of Aon Risk Solutions’ financial services group, said insurers’ approaches differ. Some insurers may be applying 10% rather than 5% hikes,

Buyers should expect rates to firm more in 2013

The directors and officers liability market will see last year’s trends continuing this year, say observers.

“So far, it seems like more the same of what we saw in 2012,” said Maria Treglia, senior vice president at Woodbury, N.Y.-based Program Brokerage Corp., a unit of HUB International Ltd. “Rates continue to go up, with a good amount of excess capacity.”

Trevor Howard, senior vice president of U.S. management liability for Liberty International Underwriters in New York, said, “I see the market continuing to firm, driven by some of the same economic factors” affecting the market overall, as well as factors specific to the D&O marketplace.

Brian Wanat, New York-based

national practice leader of Aon Risk Solutions’ financial services group, said that it will be “sort of slow but steady, the same type of story, at least for the next couple of quarters. We continue to see some flattening, some hardening, on a primary basis as the marketplace customers and carriers get used to the current environment.”

“We continue to see excess capacity to be pretty much abundant and aggressive, but you may start to see a bit more pushback on excess,” where if the primary is getting a 5% rate hike, the excess insurer may demand a 5% increase, too, instead of agreeing to a decrease or a flat rate, Mr. Wanat said.

By Judy Greenwald

but losing 20% of their customers, he said. There is a “trade-off between rate and retention,” he

said. “If you’re not losing any business, that certainly would signify you’re probably not pushing rate

as far as you could or should.”

Peter Taffae, a D&O insurance expert at Los Angeles-based wholesale brokerage Executive Perils Inc., said the longer-established D&O insurers in particular are “more willing to lose a piece of business if they can’t get the price than the newer” insurers. “That’s probably because the legacy markets are so big that they can afford to lose a little bit of business, while the newer markets are still small, and they can’t afford it.”

Additionally, he said, “There are still people out there doing some very crazy things,” including reducing rates, “that don’t make sense. It’s turmoil right now. There’s very little consistency.”

Observers said that, in many cases, D&O insurers are introducing separate retentions for “merger objection” lawsuits, which is litigation filed after the announcement of a merger or acquisition deal. A study by Boston-based Cornerstone Research issued in March said 91% of deals valued at over \$100 million sparked an M&A lawsuit.

These retentions “are becoming fairly standard in the marketplace these days,” said Trevor Howard, senior vice president of U.S. management liability for Liberty

International Underwriters in New York. Otherwise, “there hasn’t been much change” in terms and conditions, he said. Capacity remains abundant in the excess layers. There is a “glut of capacity” there, said Mr. Howard.

It is not a supply issue, agreed Brenda Shelly, New York-based D&O practice leader for Marsh Inc.’s FINPRO unit. “There’s still an excess of a billion-and-a-half (dollars) worth of capacity out there,” she said.

“But, we are in a low-interest-rate environment,” with fewer public companies than there were 10 years ago, Ms. Shelly said. Furthermore, “you have an aggressive plaintiffs bar out there; you have a big pipeline of cases awaiting resolution, and the insurers have had at least 10 years of declining rates,” she said. “It’s not a hard market; it’s just a transitioning market.”

Meanwhile, “There are some difficult risks out there,” said Mr. Wanat, including high-profile social media, technology and private equity firms. “Anybody that’s sort of been through the wringer when it comes to bad press or maybe a public offering that hasn’t gone all that well — you’ll find that the capacity contracts.”

Catastrophe-exposed reinsurance accounts see rate hikes, other risks remain stable

BY BILL KENEALY

Aside from catastrophe-exposed properties, plentiful capacity and muted demand have resulted in rates moving in a narrow range for companies renewing their reinsurance at the start of the year.

There also have been few changes in terms and conditions, experts say.

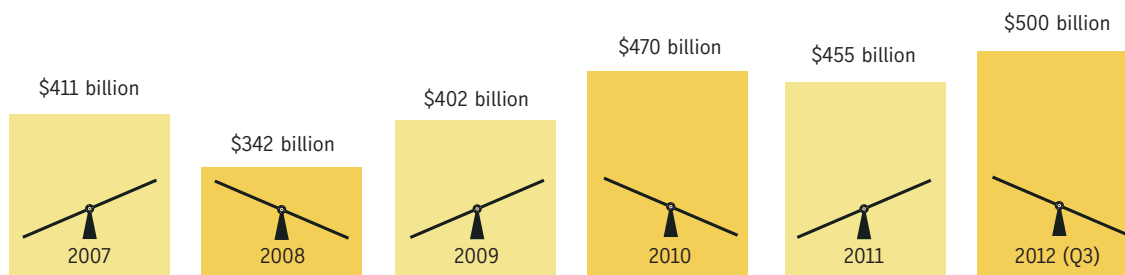
David Flandro, New York-based global head of business intelligence for Guy Carpenter & Co. L.L.C., said higher reinsurance rates have been limited to property/casualty accounts directly affected by catastrophe losses last year, especially those in the path of Superstorm Sandy.

“By and large, the vast majority of non-loss-affected rate movements around the world were between” a drop of 5% and an increase of 5%, Mr. Flandro said. “It was a really straightforward year for rates.”

The mitigating factor keeping a lid on rates is the record amount of capacity in the sector, according to Aon Benfield’s latest report,

CAPITAL AVAILABLE

Reinsurers’ worldwide capital has seesawed in recent years.



Source: Aon Benfield Analytics

“Reinsurance Market Outlook, January 2013.”

“There’s a significant amount of capacity in the market now,” said William Donnell, New York-based president of U.S. property/casualty for Swiss Re Ltd. “You can’t ignore supply/demand dynamics.”

Bryon Ehrhart, Chicago-based chairman of Aon Benfield Analytics and Aon Benfield Securities, noted that aggregate reinsurer capital grew by more than 10% in 2012 (see chart), limiting individual reinsurers’ ability to pass on higher rates.

“The growth of supply is signifi-

cant. We are now at a half-trillion dollars of capital,” Mr. Ehrhart said. “Meanwhile, the growth in demand was essentially flat to down, so we expect to find a very competitive market for reinsurance in 2013.”

This lack of growth is largely attributable to the economic malaise in the developed market, said James Vickers, London-based Chairman of Willis Re International.

“The real underlying issue is that there is little growth in Western mature markets,” Mr. Vickers said. “Another big conun-

drum for reinsurers is what to do with their capital” given persistent low interest rates.

Meanwhile, prior-year reserve releases that have buoyed reinsurers’ balance sheets in recent years are ebbing, Mr. Flandro said. “Net aggregate reserve releases should persist in the very near term, but likely not in the quantity they have in the last six years,” he said.

“The impact of low interest rates has been that reinsurers have placed a larger emphasis on the need for underwriting profit” in selecting the risks to underwrite, Mr. Donnell said.

Mr. Vickers said a stronger focus on underwriting is needed given the recent spate of catastrophe losses that exceeded modeled estimates as well as risks that have not been modeled.

James Few, CEO of Aspen Re, a unit of Hamilton, Bermuda-based Aspen Insurance Holdings Ltd., said the reinsurance industry is improving the way it utilizes catastrophe modeling.

“The industry is adjusting to lessons learned following the 2010-2012 cat events, notably in relation to new insured values in catastrophe-exposed regions of the world, modeling and data calibration around earthquake and flood, and increasing concerns about our ever-changing climate patterns,” Mr. Few said during an analyst call earlier this month.

Elsewhere, Mr. Vickers sees a new commitment to product development from reinsurers in the wake of shifting demands for primary insurers, which are seeking more bundled coverage. “Ceding companies are becoming much more sophisticated in the way they buy reinsurance,” he said.

PENALTY: IRS gives employers a break

Continued from page 1

the health care reform legislation in March 2010 on how the penalty was to be calculated. One widely circulated interpretation was that the penalty would apply to an employer even if only one of its full-time employees — those working an average of at least 30 hours a week — was not offered coverage.

The IRS did little to curb those fears. In May 2011, the IRS said it “contemplated” in forthcoming regulations that employers would have to offer coverage to “substantially all” of their full-time employees to avoid the \$2,000 penalty.

But it wasn't until late last month in the proposed regulations that the IRS defined what it meant by “substantially all” full-time employees. To avoid the \$2,000 per employee penalty, coverage has to be offered to 95% of an employer's full-time employees and their dependents up to age 26, the IRS said in the proposed regulations.

With that new standard, employers do not have to worry

about being hit with penalties which, for large organizations, could be millions of dollars if, for example, a single employee was not offered coverage because of an inadvertent error.

In fact, as a matter of plan design, employers can exclude up to 5% of full-time employees from their health care plans and still be exempt from the \$2,000 penalty, under the IRS-proposed rules.

Through the 95% standard, for example, employers won't have to laboriously track employees' hours for fear that a part-time employee, who is not eligible for coverage, could trigger the penalty if the individual for several months worked at least 30 hours a week and was not offered health coverage.

“You don't have to worry so much about tracking hours for a subset of part-timers,” said Rich Stover, a principal with Buck Consultants L.L.C. in Secaucus, N.J.

Numerous other issues also were resolved. For example, employers that operate on a controlled-group basis, in which cor-

porate units run independently of one another, will not face the \$2,000 penalty just because another controlled group member does not offer coverage.

“That could have been a big exposure for employers” that operate as a controlled group, said J.D. Piro, a senior vice president with Aon Hewitt in Norwalk, Conn.

In addition, the regulations make clear that while employers have to offer coverage to employees' dependent children up to age 26, employers do not have to pay for coverage. Under the regulations, a health care reform law “affordability” penalty of \$3,000 for each affected employee only applies if the premium paid by the employee exceeds 9.5% of W-2 wages.

“Employers have free rein to charge what they want for family coverage,” PwC's Ms. Bergner said.

In addition, employers that do not offer dependent coverage would have until 2015 to add the coverage.

Left unresolved, though, is

WAITING FOR ANSWERS

Employers still are awaiting guidance from the Internal Revenue Service on several other issues concerning the nation's 2010 health care reform law. Those issues include:

- How employers are to comply with a Patient Protection and Affordable Care Act requirement that they notify employees by March 1 about the availability of public health insurance exchanges. Employers need guidance on the wording of the notices, as well as how health insurance exchange information would be communicated to employees, whether it be electronically or in print. However, benefit experts expect an announcement soon from federal regulators delaying the notification requirement.
- How employers comply with a requirement that employers with at least 200 employees automatically enroll new employees in one of their health care plans. Under the law, employers are required to notify employees about automatic enrollment and to give them an opportunity to opt out of a plan in which they were automatically enrolled. However, regulators have said that automatic enrollment rules will not be published until 2014.
- A health care reform law provision that imposes a 40% excise tax on premium costs that exceed \$10,200 for single coverage and \$27,500 for family coverage. Insurers will pay the tax on plans they insure, while third-party administrators will pay the tax for self-funded plans. Insurers and TPAs are expected to recover the taxes they paid from employer plans. Regulators, though, have time to develop rules on the excise tax provision because it does not go into effect until 2018.

By Jerry Geisel

whether dependents would have a right to obtain federal subsidies to purchase coverage in public health insurance exchanges, if the premium charged by employers

for family coverage exceeded the 9.5% affordability test.

“That is still an open issue for the IRS,” said Mr. Dennett of the American Benefits Council.

OPT OUT: Employer interest in leaving state comp systems rises

Continued from page 1

to reduce costs.

Texas is the only state that allows employers, known as non-subscribers, to opt out of its workers comp system.

Large employers, such as Costco Wholesale Corp., have opted out of the Texas system and set up alternative injured worker plans governed by ERISA for their employees in Texas and would like to do the same elsewhere.

“Costco in general feels like the opt-out process can be a really good thing for both injured workers and employers,” said Katrina Zitnik, director of workers comp at Issaquah, Wash.-based Costco.

ERISA sets minimum standards for most voluntarily established employee pension and group health plans to protect plan participants, according to the U.S. Labor Department, which enforces ERISA.

For instance, ERISA requires employers to provide workers with information on their plans' benefit offerings, lays out employer fiduciary responsibilities, and requires establishing grievance and appeals processes.

Employers that would like to make greater use of ERISA-governed benefit plans as an alternative to state workers comp systems say the federal law ensures that injured employees are taken care of in a fair manner.

ERISA provides a “safety net” for injured workers by ensuring their needs are met, Ms. Zitnik said.

For employers, ERISA preempts state regulation, allowing them to design worker injury

ERISA compliance may not ensure appropriate care

Employee Retirement Income Security Act compliance would ensure appropriate care for injured workers if employers could opt out of more state workers compensation systems and establish alternative benefit plans, proponents say.

But that has not always happened in Texas, the only state that allows employers to opt out of its workers comp system, said Richard Levy, legal director in Austin, Texas, for the Texas AFL-CIO.

The opt-out option is “a rigged system set up to serve the financial interests of the employer,” regardless of whether the employer has implemented an ERISA-governed plan, he said.

Private employers who opt out of Texas' workers comp system are not required to establish an alternate benefit plan.

But according to ERISA law, most plans outside of state workers comp systems are subject to ERISA rules, said Bill Minick,

president of PartnerSource, a Dallas-based division of Arthur J. Gallagher Risk Management Services Inc.

“An injury benefit plan outside the workers comp system is by definition an ERISA plan,” Mr. Minick said.

But employers can use ERISA to limit injured workers' access to courts and provide benefits inferior to those offered under the state workers comp system, Mr. Levy said.

Trey Gillespie, senior workers comp director in Austin for the Property Casualty Insurers Association of America, agrees.

“In order for injured workers to get any benefits after an accident, they have to sign a mandatory arbitration agreement,” he said. “And the benefits that are usually found in the ERISA programs are traumatic reductions with regard to medical benefits and especially for permanent disability benefits in the event of an on-the-job injury.”

By Roberto Cenicerros

plans free from unpredictable state regulations, sources say.

In Texas, for example, employers can include rules for resolving disputes and direct employees to care provided by “outcome-based” doctors in their ERISA-based alternative plans.

“A lot of it has to do with the

control they have over the medical piece that makes it so attractive” for employers in Texas, said Kim Corcoran, Richardson, Texas-based vice president of operations responsible for non-subscriber services provided by Sedgwick Claims Management Services Inc.

The opt-out option is “a rigged system set up to serve the financial interests of the employer,” regardless of whether the employer has implemented an ERISA-governed plan.

Richard Levy,
legal director
in Austin, Texas,
Texas AFL-CIO

The Sedgwick-funded analysis completed by Philadelphia-based communications firm New Street Group found that nonsubscribers in Texas reported that their work-related injury costs were 20% to 90% lower than if they participated in the state's workers comp system.

Interest in opting out of workers comp systems in other states has grown recently. Last year, the Oklahoma Senate voted in favor of a bill that would have allowed employers to opt of the state's workers comp system by creating an alternative benefits package.

Oklahoma's House of Representatives voted down the measure, but a similar bill is expected to be introduced this year with businesses across the country watching the outcome to determine whether to introduce similar legislation in other states, sources said.

Some employers and their supporters have contributed financially to the Oklahoma Injury Benefit Coalition, an organization pushing for the legislation, because they see passage of legislation in Oklahoma as providing a potential platform to expand the idea to other states, said Becky Robinson, assistant vice president of risk management at Hobby Lobby Stores Inc. in Oklahoma City.

The issue “has national attention” because large employers see the potential “for tremendously reducing their liabilities for on-the-job injuries,” said Trey Gillespie, senior workers comp director in Austin, Texas, for the Property Casualty Insurers Association of America, which opposed the Oklahoma measure.

Establishing an ERISA-governed plan is not required for employers opting out of Texas' work comp system, but doing so is a “standard best practice” among Texas' nonsubscribers, concluded a recent report, “Workers' Compensation Opt-Out: Can Privatization Work?”

SUPPLIERS: Reputations jeopardized

Continued from page 1

of risk management for Ace Hardware Corp. in Oak Brook, Ill. “We have a business continuity process in place ... that could respond in the case of a crisis. We include reputational (damage) as one of those crisis situations.”

In 2011, Wal-Mart audited more than 9,000 factories and the factory in Bangladesh was not authorized to produce merchandise for the Bentonville, Ark.-based retailer due to safety standards. However, a supplier reportedly continued to subcontract work with the Bangladesh factory.

“If a supplier or an agent chooses to subcontract without informing us, then that is a problem,” Rajan Kamalanathan, Wal-Mart’s vice president of ethical sourcing, told Reuters. “We can put all kinds of controls in place, but if they don’t tell us where they’re putting our order, then that is a problem.”

Wal-Mart, Disney and Sears did not respond to *Business Insurance’s* requests for comment.

Once a negative opinion is formed about a company, it can be difficult to change, said Linda Locke, a principal at Reputare Consulting L.L.C. in St. Louis.

Workplace issues have been part of the public dialogue for Wal-Mart, “so this factory fire reinforces an existing perception for many,” she said.

“The companies that build trust go beyond legal requirements and take an ethical approach to managing their entire supply chain,” Ms. Locke said, noting that monitoring social media channels to understand public perception should be part of a company’s enterprise risk management efforts.

“I do believe it’s a very difficult problem to solve,” said Gary S. Lynch, managing director and global leader of risk intelligence and supply chain resiliency solutions at Marsh Risk Consulting in New York. “Without being able to

really measure reputational damage, somebody can’t put it into a formula” in making supply chain decisions.

An organization’s “ability to have some level of sustainability to come out from and manage the press — and also do what’s right for the community — that seems to be the difference for those that survive,” he said.

David Closs, the John H. McConnell chaired professor of business administration in the Department of Marketing and Supply Chain Management at Michigan State University in East Lansing, Mich., said supply chain risks causing reputational harm are “a significant risk.”

“Most firms usually can go up one level or down one level in terms of their supply chain,” Mr. Closs said. Even companies with strong controls rarely track more than two tiers in their supply chain, he said.

“Particularly if you’re dealing with commodities, that’s usually outside that range. Firms don’t really know (who) their supplier’s suppliers are,” Mr. Closs said.

Agreements with direct suppliers requiring them to inform an organization of major changes down the supply chain is one step to mitigate reputational risks, said Randy Nornes, executive vice president at Aon Risk Solutions in Chicago.

Information gathering an investment worth making

In-depth information about an organization’s supply chain can help avoid reputation-damaging disruptions and help insurers underwriting supply chain coverage.

While such data can be costly for companies to gather and interpret, it may be a cost worth considering, experts say.

Jeffrey Beauman, FM Global’s Johnston, R.I.-based vice president and manager of all-risk underwriting, said U.S. building codes are an integral part of physical hazard analysis. “When you move into other parts of the world, that same level of building code is not as well developed,” he said.

“If you’re going to do business with a third party in other parts of the world, you need to change your assumptions about what fundamental property loss prevention systems might be in place,” Mr. Beauman said. “From an underwriting perspective, we approach managing that transfer of risk from the level of information that is available.”

Companies operating abroad also understand risks related to nondamage business interruption, such as political unrest, environmental violations and poor working conditions, among others, experts say.

“You now have to look at a number of risks,” said Tom Teixeira, London-based partner in the global solutions consulting group for Willis Group Holdings P.L.C. “In many cases, it’s those

that are related to nondamage business interruption that could lead to the reputational impact.”

Companies need the right degree of visibility and a supply chain that operates ethically with the right quality, health and safety standards, he said.

“Creating that framework of visibility can be done, but it is expensive,” Mr. Teixeira said. “It is a cost these companies now really need to consider absorbing.”

“With this data more available now, it falls very much in line with what underwriters need. The better the quality data you could provide to the underwriter, ultimately the lower the price,” he said.

With the proper underwriting data, Allianz S.E. offers a bespoke business interruption and contingent business interruption policy that includes nondamage perils such as political unrest and labor strikes, the Munich-based insurer said in a November report.

Allianz requires a buyer to provide “information about its suppliers’ and customers’ sites and transport routes at a minimum” to underwrite the cover, according to the report.

With greater understanding of a company’s global exposures, “you’re always going to be in a better position to better underwrite a risk,” said Tom Varney, Chicago-based head of risk consulting for Allianz Global Corporate & Specialty.

By Mike Tsikoudakis

PASSWORD

Continued from page 3

Meanwhile, more state legislation is expected, say many observers.

Martha J. Zackin, of counsel at law firm Mintz Levin Cohn Ferris Glovsky & Popeo P.C. in Boston, said, “More states will follow simply because some states have done it, so I think other states think they now have to do it.”

Christopher Ezold, of the Ezold Law Firm P.C. in Bala Cynwyd, Pa., said, “There’s the practical political reality that people feel these questions are a massive invasion of privacy, and so you’re going to find political responding to that because that’s sort of a softball” issue. They can take the position they are protecting their constituents’ privacy, he said.

“It’s a pretty low-risk piece of legislation to try to get behind,” said Peter J. Gillespie, of counsel at law firm Fisher & Phillips L.L.P. in Chicago.

“I think also you’re going to find that asking for passwords can trip so many other legal liabilities for employers that passing these rules isn’t going to have any opposition,” Mr. Ezold said.

“I think we’ve seen a dramatically reduced instance of asking for these passwords in the past several months” since it has become a well-publicized issue, Mr. Ezold said. In particular, large employers with institutionalized processes “are not going to be doing that.”

Others agree that relatively few employers demand such information.

Susan W. Kline, a partner with law firm Faegre Baker Daniels L.L.P. in Indianapolis, said her clients “are staying away from that completely.” There is “too much potential for getting, and being influenced by, information that really is not relevant to a hiring decision,” she said.

Steven J. Fishman, a member of law firm Bodman P.L.C. in Detroit, said asking for social media passwords is not “as prevalent as the introduction of legislation would indicate,” but there are times when employers need to gain access to social media to investigate reports of harassment.

Typically, though, an employer will achieve access voluntarily through an employee or cooperating witness, Mr. Fishman said.

WEF: Governments urged to manage risks

Continued from page 3

risks facing companies and governments.

The report is the result of a survey of 1,234 respondents from business, academia, nongovernmental organizations, international organizations and the public sector, among other bodies, and was developed with contributions from Marsh & McLennan Cos. Inc., Swiss Re Ltd., Zurich Insurance Co. Ltd., the Oxford Martin School of the University of Oxford, the National University of Singapore and the University of Pennsylvania’s Wharton Center for Risk Management.

One of the biggest challenges facing companies and countries is the interconnected nature of risks, the panelists said.

“Risks don’t stop at your factory door,” said Axel P. Lehmann, chief risk officer at Zurich. “And risks don’t stop at national borders,” he said.

Countries need to strengthen their risk management approaches, he added.

Governments need to invest more in risk management and adopt a multidisciplinary approach to addressing risks, said John Drzik, CEO of Oliver Wyman Group, part of Marsh.

If all countries had country risk managers, they would be more able to cooperate to tackle risks internationally, he added.

Among the biggest threats posed by interconnected risks is the rising incidence and severity of severe weather events coupled with a huge increase in people liv-

ing and working in coastal areas that are prone to such events, the panelists said.

This increases the vulnerability of economies to severe weather events and multiplies economic and insured losses, said David Cole, chief risk officer at Swiss Re Ltd.

Governments and businesses should work together to improve the infrastructure of those regions, Mr. Cole said.

Two big risks — an environmental storm and an economic storm — are “on a collision course,” according to Mr. Drzik.

Governments increasingly are shouldering a lot of the economic relief efforts after natural disasters, he said, and this, in turn, creates an expectation from the public that governments will provide

a backstop when environmental catastrophes occur, he said.

Governments, however, face fiscal constraints and, therefore, have less capacity to respond to such events, he said.

To address this issue, Mr. Drzik said, governments should behave more like insurance companies and build insurance-type capacity into their funds.

Governments also should look to transfer some of that risk to the insurance industry or capital markets or to create a disaster-risk financing solution supported by insurance or capital market tools, he said.

Other ways to address these risks include offering counter-incentives to dissuade people from moving to coastal areas, Mr. Drzik said.

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LEGAL NOTICE

IN THE MATTER OF THE LIQUIDATION OF MIDLAND PROPERTY AND CASUALTY INSURANCE COMPANY
 Supreme Court County of New York Index No.: 41782/1990
NOTICE

Pursuant to an order of the Supreme Court of the State of New York, County of New York ("Court"), entered June 1, 1990 ("Liquidation Order"), the then-Superintendent of Insurance of the State of New York, and his successors in office, were appointed as liquidator ("Liquidator") of Midland Property and Casualty Insurance Company ("MIDPAC") and, as such, has been directed to take possession of MIDPAC's property, liquidate its business and affairs, and dissolve its corporate charter pursuant to Article 74 of the New York Insurance Law ("Insurance Law"). The Superintendent of Financial Services of the State of New York has now succeeded the Superintendent of Insurance as Liquidator of MIDPAC. The Liquidator has, pursuant to Insurance Law Article 74, appointed an Acting Special Deputy Superintendent ("Acting Special Deputy") and Assistant Special Deputy Superintendents ("Assistant Special Deputies"), as his agents to liquidate the business of MIDPAC. The Acting Special Deputy and Assistant Special Deputies carry out his duties through the New York Liquidation Bureau, 110 William Street, New York, New York 10038. The Liquidator has submitted to the Court a verified petition ("Verified Petition") seeking an order: (i) approving the Liquidator's Report on the Status and Request to Close ("Closing Report") MIDPAC's liquidation proceeding ("Liquidation Proceeding") and the financial transactions delineated therein; (ii) authorizing the continued payment of administrative costs and expenses, including such costs and expenses pertaining to the closing of the Liquidation Proceeding; (iii) authorizing the continued distribution of MIDPAC's assets, to the extent assets are available after payment of administrative costs and expenses, to Midland Insurance Company in Liquidation ("Midland"), as the parent company of MIDPAC; (iv) terminating and closing the Liquidation Proceeding; (v) authorizing the Liquidator, without further application to this Court, to continue to receive and disburse assets to Midland, as the parent company of MIDPAC, after the termination of the Liquidation Proceeding and to pay all administrative costs and expenses incurred in connection with any such distributions; (vi) releasing and discharging the Liquidator, his predecessors and successors in office, and their agents, attorneys and employees, from any and all liability arising from their acts and omissions in connection with the Liquidation Proceeding; (vii) authorizing and directing the Liquidator, in his discretion, to destroy or otherwise dispose of any and all of the books, files, records and other property of MIDPAC without further order of this Court; and (viii) providing for such other and further relief as this Court may deem just and proper.

A hearing is scheduled on the Verified Petition on the 6th day of March, 2013, at 9:30 a.m., before the Court at the Court-house, IAS Part 2, 711 Thomas Street, in the County, City, and State of New York. If you wish to object to the Verified Petition, you must serve a written statement setting forth your objections and all supporting documentation upon the Liquidator and on the Clerk of the Court with an affidavit of service on the Liquidator, at least seven days prior to the hearing. Service on the Liquidator shall be made by first class mail at the following address:

Superintendent of Financial Services of the State of New York as Liquidator of Midland Property and Casualty Insurance Company, 110 William Street, New York, New York 10038, Attention: John Pearson Kelly, General Counsel
 The Verified Petition and Closing Report are available for inspection at the above address. In the event of any discrepancy between this notice and the documents submitted to Court, the documents control.
 Requests for further information should be directed to the New York Liquidation Bureau, Creditor and Ancillary Operations Division, at (212) 341-6665.
 Dated: January 2, 2013
 Superintendent of Financial Services of the State of New York as
 Liquidator of Midland Property and Casualty Insurance Company

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AIG opts out of lawsuits against government

American International Group Inc.'s board of directors decided against joining lawsuits filed against the federal government by Starr International Co. Inc. contesting certain aspects of the government's rescue of AIG in 2008. Former AIG CEO Maurice R. Greenberg, who now heads Starr, alleged that the terms of the government's rescue of AIG were unfair to shareholders and loans to AIG carried an unfairly high interest rate.

Liberty Mutual consolidates units

Liberty Mutual Insurance Co. will consolidate eight regional commercial lines under its corporate brand name and retire the regional brand names this year, it said. The eight brands assuming the Liberty Mutual name are America First Insurance Co., Colorado Casualty Insurance Co., Golden Eagle Insurance Corp., Indiana Insurance Co., Liberty Northwest, Montgomery Insurance, The Ohio Casualty Insurance Co. and Peerless Insurance Co.

Obama signs Medicare Secondary Payer Act

H.R. 1845, a bill that aims to simplify compliance with the

Medicare Secondary Payer Act, has been signed into law by President Obama. Supporters say it will make it easier to reimburse the Centers for Medicare and Medicaid Services.

Benefits pioneer Theresa Stuchiner dies

Theresa Stuchiner, a pioneer in the employee benefits consulting field, died last week at age 91. She was the first woman partner at benefit consultant Kwasha Lipton in Fort Lee, N.J., as well as one of the first women to be named a partner at any major benefit consulting firm.

Noted

The **Risk & Insurance Management Society Inc.** has named John Phelps, director of business risk solutions for Blue Cross and Blue Shield of Florida Inc., as the society's 2013 president. Other RIMS officers for 2013 include Daniel H. Kugler, assistant treasurer, risk management at Snap-on Inc., vice president; Nowell R. Seaman, manager, risk management and insurance services at the University of Saskatchewan, treasurer; and Carolyn M. Snow, director, risk management at Humana Inc., corporate secretary. ... **American International Group Inc.** President and CEO Robert H. Benmosche has been named the 2013 Insurance Hall of Fame honoree by the International Insurance Society.

DEDICATED: Demand grows

Continued from page 4

adviser for those people."

Michael Bell, executive vice president of U.S. sales for Itasca, Ill.-based TPA Gallagher Bassett Services Inc., said clients often ask the firm for exclusive adjusters to ensure they have a manageable caseload and can devote undivided attention to their account.

Companies with a large caseload may not see much of a difference in price if they consolidate their cases with a group of exclusive adjusters, Mr. Bell said. Companies that have caseloads of 125 open claims or fewer might pay 10% to 20% more for using exclusive adjusters rather than using adjusters who work with multiple accounts, he said.

That additional cost can be recouped by exclusive adjusters' ability to focus on that client's workers comp claims and improve claim outcomes, Mr. Bell said.

"If you're able to achieve a 5% better outcome on (claim costs), it far outweighs the additional fee that they would have paid on the front end," he said.

Mary Proietti, risk manager of Lake Forest, Ill.-based manufacturer Packaging Corp. of America, said the company is looking to set up an exclusive adjuster arrangement with Gallagher Bassett, the company's TPA.

PCA, which is self-insured, has about 10,000 employees at more than 100 locations nationwide. The company currently works with about 14 adjusters at Gallagher Bassett who also work on other accounts. Ms. Proietti said PCA could benefit from having a couple of adjusters who work solely on

the company's behalf.

"We'd be much more efficient," Ms. Proietti said. "We'd have more control over our service, and the reserving and the file reviews, and all of that wouldn't be so cumbersome. So just in general, there would be a much better outcome, and I believe the costs would reflect that."

About 70% of Sedgwick Claims Management Services Inc.'s clients use exclusive adjusters for workers comp and liability claims, said Kathryn Tazic, the company's senior vice president of client services in Chicago. The TPA says the exclusive arrangement can help bolster clients' risk management programs by giving them increased access to their adjusters.

"We really believe that the more involved that a customer can be in their claim program, the better that the program's ultimate outcomes will be," Ms. Tazic said.

While experts agree there are benefits to working with dedicated claims adjusters, they say companies run the risk of losing adjusters' expertise if they ever leave their TPA employer.

"The only downside is if they leave or are promoted," said Mike Kenitz, Midwest regional practice leader for strategic outcomes practices at Willis North America Inc. in Pittsburgh. "And then you're looking at totally replacing the position."

Experts say companies can help minimize turnover risk by working with more than one dedicated adjuster. They also recommend that employers help adjuster retention by letting them know they are valued team members.

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LEGISLATION: TRIA renewal tops industry wish list

Continued from page 4

in Louisville, Ky., also said RIMS is concerned about the possible revival of efforts to subject certain reinsurance transactions to additional taxes. Rep. Richard Neal, D-Mass., introduced legislation to tax the transactions in previous congresses, although the bills never reached the House floor.

"We continue to oppose the Neal bill ... because we're concerned about market availability and rates if that bill were to pass," Ms. Snow said. She said RIMS is concerned the Neal bill language could be tacked on to another bill.

Mr. Grande said that, along with renewal of the terrorism insurance program, tax reform is one of the top two issues for NAMIC. This is true whether lawmakers "undertake massive rewriting of the tax code or simply just look for new revenue sources," he said.

"Tax reform is of keen interest to us," said Frank Nutter, president of the Reinsurance Association of America in Washington. "The new reinsurers that have been formed

P/C groups eye health care reform implementation

Implementation of the Patient Protection and Affordable Care Act continues to be of concern for property/casualty producer groups as the new Congress begins business.

For example, the medical loss ratio provision of the health care reform law remains an issue for the Independent Insurance Agents and Brokers of America, said Charles Symington, senior vice president for government affairs for the Alexandria, Va.-based producer group.

Under the health care reform law, health insurers must spend at least 85 cents of every premium dollar collected on health care in the large-group market and 80 cents in the individual and small-group markets. Agent and broker groups have tried to have their members' commissions excluded from this requirement.

"Our membership is continuing to be very concerned about the MLR impact on our small-business owners as well their customers," said Mr. Symington. "We will continue to support legislation

have largely gone offshore, and I think part of that is the U.S. tax system is not a carrot but a deterrent to formation in the U.S."

Superstorm Sandy could affect congressional consideration of natural catastrophe response, said the AIA's Mr. Santos.

to exclude agent compensation from the (MLR)."

"We are very focused on other components of the Affordable Care Act as they are implemented, most notably exchange creation and the proper oversight of the navigator programs," he said.

The navigator programs are created by the Affordable Care Act in an effort to educate consumers on the various options they would have in the new health care marketplace. Concerns have been raised about the proper oversight of the navigators to protect consumers.

"Employee benefit issues continue to be dominant with us, especially as we are now in the whirlwind of PPACA implementation," said Joel Wood, senior vice president for government affairs for the Council of Insurance Agents & Brokers in Washington. "We are engaged in trying to influence the hundreds of regulations to preserve and enhance the employer-provided group health insurance marketplace."

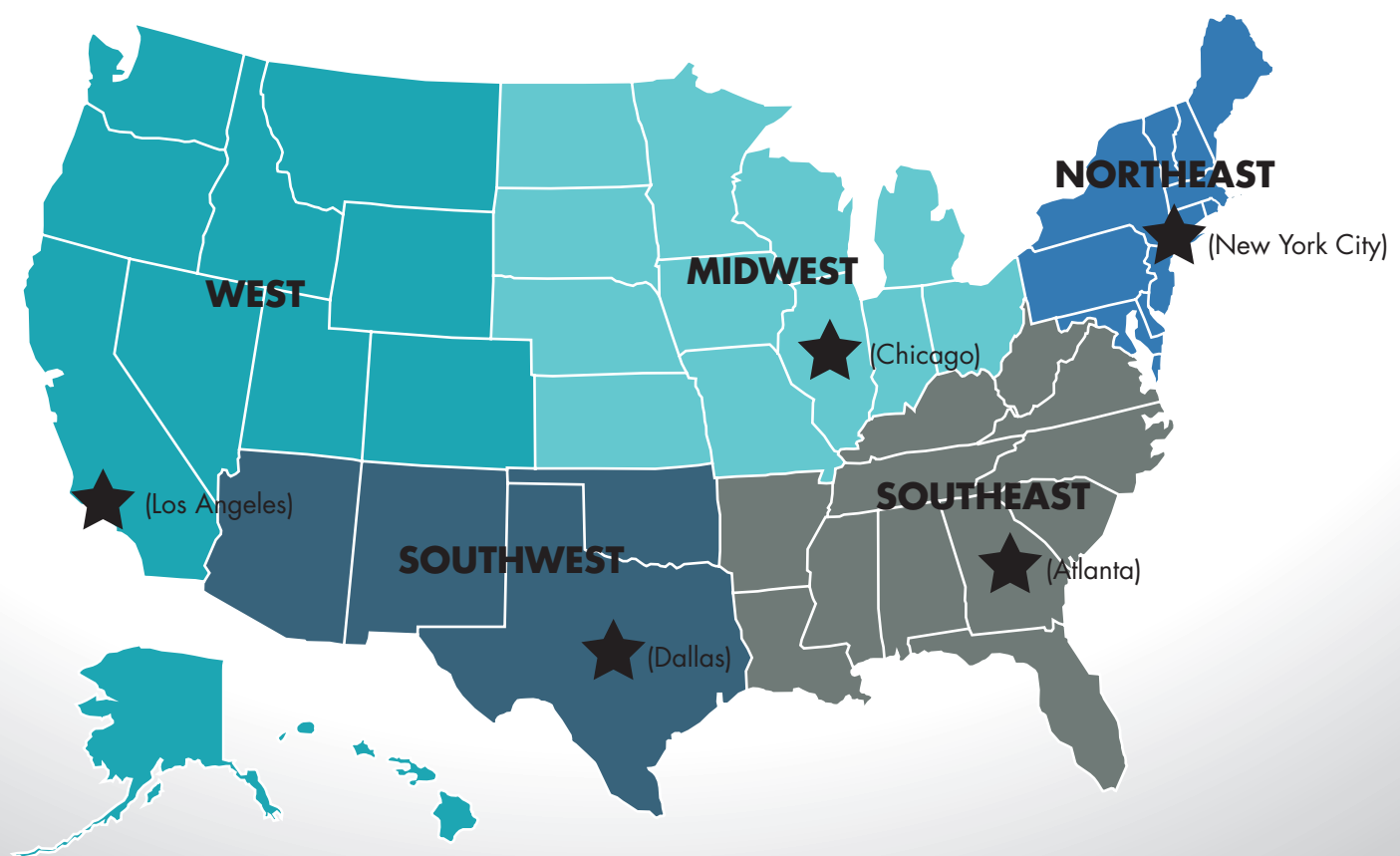
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After a thorough review by a panel of senior editors at Business Insurance, who will consider various criteria, including recent professional achievements, influence on the marketplace and contributions to their community, eight (8) Brokers will be identified in each region, and the results will be announced on-line prior to the event date for each region – and a compilation of all 40 of the award winners will be in the Oct. 7, 2013 issue of Business Insurance. Honorees are selected from nominations submitted by readers of Business Insurance, and they must be age 40 or under at the time of their nomination. A series of regional receptions will be held in celebration of the achievements of the broker leaders.



AP PHOTO

Mr. Hawking filmed a commercial for Gocompare.com

Genius hawks for U.K. company

An insurance pricing comparison service in the United Kingdom harnessed the mind of science genius Stephen Hawking to bend time and space for one of its commercials.

In the commercial for Newport, Wales-based Gocompare.com Ltd., Mr. Hawking reveals that he has solved the mystery of how to generate a “super massive black hole.” When asked what he’d do with such knowledge, Mr. Hawking opens a black hole that sucks in the fictitious tenor, Gio Compario, who sings the annoying Gocompare.com song.

This isn’t Mr. Hawking’s first time on television. In recent years, the 70-year-old physicist has appeared on television shows such as “Star Trek: The Next Generation,” “The Simpsons” and “Red Dwarf.”

“I confess I am a fan of the Gocompare adverts,” Mr. Hawking said in a news report. “I am also an opera fan, so I was delighted to be given the opportunity to help save the nation and silence Gio.”

Buried bike haunts fraudster

A Michigan man was sentenced to six months in jail for burying his motorcycle and reporting it stolen to collect insurance money.

Chad E. Dejongh of Beaver Township in Bay County, Mich., in 2009 reported his Rocker C Harley-Davidson motorcycle stolen after he left the bike in his yard with a “for sale” sign on it.

The bike reportedly was insured by Cincinnati-based American Family Home Insurance Co., which paid him more than \$20,000 in claims for the stolen bike.

In the midst of a divorce with his wife in 2011, Laurie Dejongh contacted authorities and alleged that Mr. Dejongh buried the bike on a relative’s property.

A Bay County judge on Monday sentenced Mr. Dejongh to six months in jail and ordered him to pay nearly \$23,000 in restitution to the insurer and \$2,500 to the Bay County sheriff’s department, according to reports.



RADIO STATION GETS BAD RECEPTION WITH EX-GOV’S WIFE



AP PHOTO

Former Illinois Gov. Rod Blagojevich and his wife Patti.

Former Illinois Gov. Rod Blagojevich may be locked away in a federal prison cell serving a 14-year sentence, but he is still making news — or at least his image is. His wife, Patti Blagojevich, recently sued a radio station for using the ex-governor’s photo on Chicago-area billboards as well as on trains and buses. The advertisements reportedly showed Mr. Blagojevich next to the words “He Never Listens to FM News 101.1.”

Ms. Blagojevich evidently didn’t like the station’s attempts to profit from her husband’s notoriety. The ex-governor, who once launched his own media campaign to proclaim his innocence, was found guilty in 2011 in connection with corruption charges related to the selling of a Senate seat vacated by then President-elect Barack Obama.

Now Mr. Blagojevich’s spouse is seeking \$30,000 in damages, claiming the radio station used the advertising to attract listeners and increase its revenues, although reports say the advertising campaign flopped.

Reports also say the radio station’s ads drew listener complaints for being insensitive and telephone calls from an attorney representing the Blagojevich family. That led to the station eventually placing a smiley face over his billboard image.

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How to undermine a case in 140 characters or less

Filing a lawsuit claiming pain and suffering as a result of an auto accident while also proclaiming on Twitter what a great time you had partying in New Orleans is probably not a good move, a Georgia woman has learned — to her apparent regret.

According to a report in a legal newspaper, Omiesha Daniels had sought \$1.1 million from a June 2011 auto accident in which a truck operated by Atlanta Refrigeration Service Co. Inc. slammed into a car in which she was passenger. Ms. Daniels suffered a broken arm and a forehead laceration, and claimed the accident inhibited her ability to do her job as a hair stylist.

However, while the litigation was pending, Ms. Daniels, 22, wrote Twitter posts that talked about her “epic weekend” in New Orleans and showed pictures of herself with friends at a beach for spring break.

A Gwinnett County State Court jury in Lawrenceville, Ga., returned a verdict of \$237,000 against Atlanta-based Atlanta Refrigeration Service. The verdict was apportioned down to \$142,000 because the jury found the company 60% liable and the car’s driver liable for the remaining 40%.

Ms. Daniels’ attorney, Michael L. Goldberg, of Fried Rogers Goldberg L.L.C. in Atlanta, said the Twitter posts gave the jury the impression Ms. Daniels was not really injured. “There was nothing she posted that was different from what she said she could do, but with the jury we had, there was some concern that if they gave this girl a large reward, she was going to go out and party later,” Mr. Goldberg said.

The award covers Ms. Daniels’ \$58,000 in medical expenses, but does not include punitive damages.



Beyonce’s advice notwithstanding, a New York man probably wishes he hadn’t “put a ring on it” when he filed a burglary report with his insurer more than five years ago.

Nathan Daniel Cooperman was arrested on charges of insurance fraud after investigators discovered that the \$50,000 engagement ring he reported missing in 2007 never actually was stolen, according to the North Carolina Department of Insurance.

Mr. Cooperman allegedly filed the false claim with Travelers Cos. Inc. after an August 2007 burglary of his former home in Durham, N.C., and was awarded \$49,200, state insurance officials said in a statement.

According to the release, Mr. Cooperman’s ex-fiancee had the ring the whole time, and reported the false claim to the insurance department.

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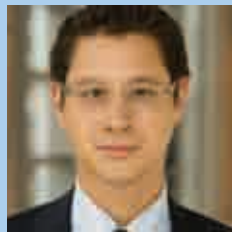
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Cloud computing offers opportunities for efficiency and cost savings but can introduce a host of risks in areas such as information security, reputation, business interruption, jurisdictional issues and regulation and compliance. This session will focus on the nature of the exposures associated with cloud computing services and how to address the risks looking at such mitigation areas as risk management, contractual issues and insurance coverage options.

REPUTATIONAL RISK

Reputational damage can have a dramatic impact on a company's value, perhaps even threatening its survival, while social media and web-based communications have increased the risks while dramatically reducing the time to respond to reputational threats. This session will examine some of the sources of reputational risk as well as strategies for managing them and best practices for dealing with reputation threatening events when they occur.

MERGERS & ACQUISITIONS

When companies unite the benefits are always highlighted but the risks are often understated, especially in international acquisitions. This session will examine what risk managers need to consider when their company buys or merges with another entity including: inherited liabilities, insurance program restructuring and merging different risk management cultures.

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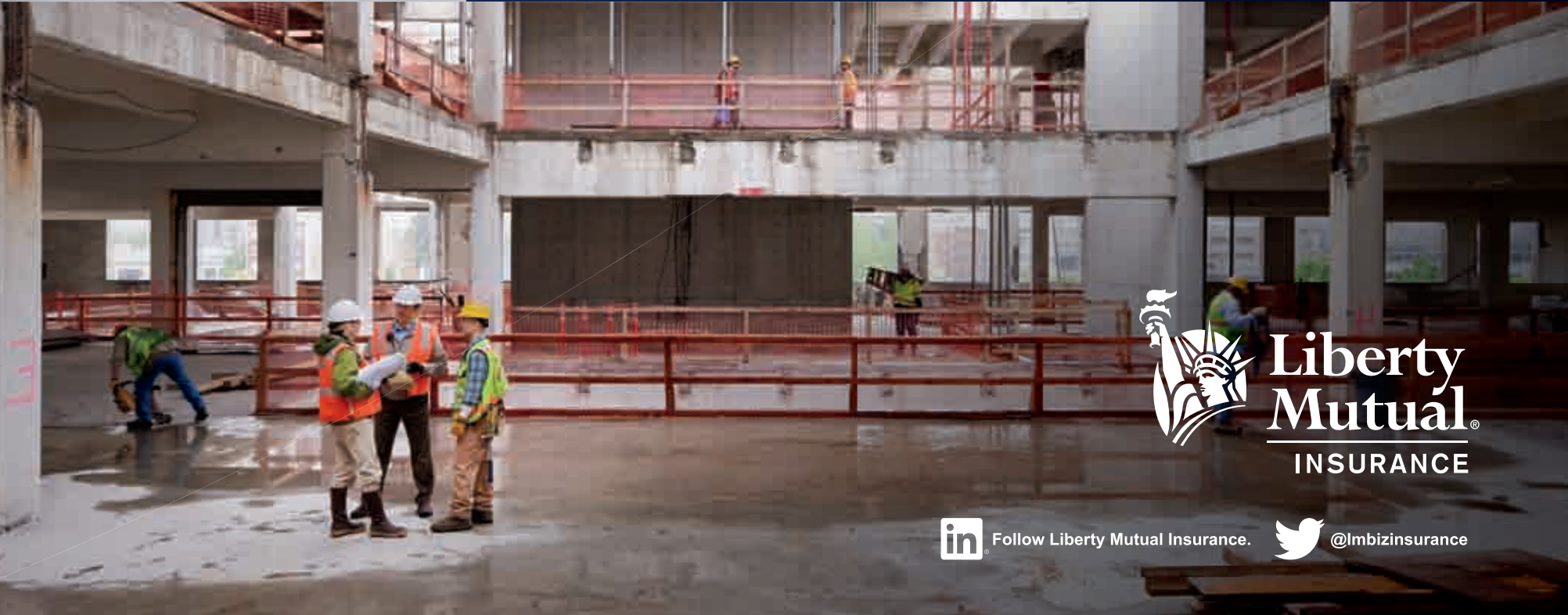


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