

## ROAD TO NOWHERE

Tennessee and South Carolina opt-out bills may not see action until 2017.

**The Tennessee Employee Injury Benefit Alternative**, or H.B. 0997 and S.B. 721: A company could elect to become a “qualified employer” exempt from state comp law. Plans would have to be equal to or better than programs under state comp law.

**South Carolina Employee Injury Benefit Plan Alternative**, or H.B. 4197: A firm could apply to be a “qualified employer” exempt from state comp law. Such plans would have to be equal to or better state comp law programs.

Source: Legislation

## WORKERS COMPENSATION

# Opt-out bills put on hold in two states

Scandal, controversy cloud legislative efforts

BY STEPHANIE GOLDBERG

Once touted as a top workers compensation issue to watch in 2016, opt-out legislation appears to be all but dead following critical media reports, an impending investigation and a sex scandal.

Introduced in 2015, the South Carolina Employee Injury Benefit Plan Alternative, or H.B. 4197, and the Tennessee Employee Injury Benefit Alternative, or H.B. 0997 and S.B. 721, would allow employers to opt out of the states’ workers comp systems and provide alternative coverage for injured employees.

The South Carolina bill, sponsored by state Rep. Bill Sandifer, R-Oconee, hasn’t been revisited this

See **OPT OUT** page 29

## RISK MANAGEMENT

# EMPLOYERS ON ALERT AS ZIKA VIRUS SPREADS

Organizations review overseas travel policies



AP PHOTO

Health workers fumigate a cemetery in Lima, Peru, to kill mosquitoes that could transmit the Zika virus.

BY SHELBY LIVINGSTON

Employers should prepare now to prevent and respond to infections among their workers from the mosquito-borne Zika virus that the World Health Organization has declared an international public emergency.

The rare WHO declaration about the virus reported in more than 30 countries in South and Central America and some Caribbean nations since the start of 2014 included a call on the global community to speed up the development of a vaccine.

As of Feb. 10, 52 travel-associated cases had been reported in

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## ZIKA VIRUS

- Aedes genus mosquitoes transmit the virus, which humans also can transmit sexually.
- Incubation period is “likely to be a few days” with mild or no symptoms.
- Symptoms include slight fever, rash, conjunctivitis, fatigue and joint pain.
- The virus is suspected of causing abnormally small heads in babies born to infected women.



Source: World Health Organization

## P/C INSURERS

# Expanded board adds pressure to break up AIG

Policyholder needs may take back seat

BY MARK A. HOFMANN

Breaking American International Group Inc. into separate property/casualty, life and mortgage insurance units might be good for shareholders, but not necessarily for risk managers.

Activist investor Carl Icahn, who’s been calling for an AIG breakup for months, scored at



Mr. Icahn

least a partial victory last week, when AIG said it would expand its board to 16 members from the current 14. AIG proposed that John Paulson, president of Paulson & Co., and Samuel Merksamer, a managing director of Icahn Capital L.P., be elected as members at its annual meeting this year.

Mr. Icahn and others view a split as necessary to increase shareholder value and get AIG off the list of systemically important financial institutions. AIG is one of three insurers — MetLife Inc. and Prudential Insurance Co. are the others — designated as SIFIs and subject to increased federal oversight.

The moves came late last week as AIG reported a fourth-quarter

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## Q&A: KRISTEN PEED

Cyber security expert for CBIZ Inc. discusses the landscape of cyber risk today

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Some of the radical health care changes proposed by politicians should give employers pause

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Endurance recruits former Chubb exec to facilitate push into large commercial accounts

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## RISK MANAGEMENT TECHNOLOGY

Risk managers turn to RMIS in efforts to respond quickly to emerging risks; new technology tools target property risks; training is a key element when upgrading information technology systems; RMIS uptake has room to grow.

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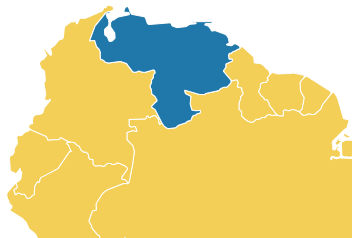
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More than a buzzword, resilience is the vision and science that will save communities

from the caprices of natural disaster, says Louis Gritz of FM Global.

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Kia gig leads to fraud rap

A man who played one of the dancing hamsters in commercials for Kia Motors Corp. has pleaded no contest to insurance fraud.

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NEWS

PRESCRIPTION DRUG MANAGEMENT

OVERDOSE PREVENTION PILLS DON'T CURE OPIOID PROBLEM

Injured workers still in danger of addiction

BY SHEENA HARRISON

Medications used to reverse opioid overdoses or limit the “high” created by opioids can help prevent narcotic-related deaths, but workers compensation experts say injured workers who obtain those medications should receive help to wean them off opioids.

“If a patient is at such high risk of overdose that the physician thinks they need Evzio or Probuphine, a better approach would be (to) eliminate the opioids,” said Phil Walls, chief clinical and compliance officer at Tampa, Florida-based pharmacy benefit manager Matrix Healthcare Services Inc., which does business as myMatrixx.

A U.S. Food and Drug Administration committee voted in favor last month of approving Probuphine, a long-acting, rod-shaped drug implant that would be used to combat opioid addiction. The implant would supply a sustained-release six-month supply of buprenorphine, an opioid that does not produce the euphoric feeling that patients experience from other opioids, such as oxycodone or hydrocodone.

Buprenorphine is often used in tablets or as a film to help patients wean off of more addictive opioids since it also blunts the “high”



OPIOID OVERDOSE DEATHS

The number of drug-poisoning deaths related to opioid painkillers has risen fairly steadily despite small declines in 2012 and 2013.

Year	Number	Deaths per 100,000
2014	18,893	5.9
2013	16,235	5.1
2012	16,007	5.1
2011	16,917	5.4
2010	16,651	5.4
2009	15,597	5.0
2008	14,800	4.8

Source: U.S. Centers for Disease Control and Prevention

feeling that users can experience with other narcotics, sources say.

Meanwhile, CVS Health Corp. announced this month that it would make naloxone, an opioid overdose reversal medicine, available at its Ohio pharmacies with-

out a prescription. CVS said in a Feb. 2 statement that naloxone is already available without a prescription in several other states, including Arkansas, California, Indiana, Minnesota, Mississippi, Montana, New Jersey, New York, North Dakota, Pennsylvania, Tennessee, Utah and Wisconsin.

Walgreen Co. also plans to dispense naloxone without a prescription in 35 states and Washington, according to a Feb. 9 statement from the Deerfield, Illinois-based pharmacy. The company said it will begin providing nasal and injection forms of naloxone in New York, Indiana and Ohio this month, and plans to roll the program out to other states by the end of 2016.

Walgreens said in its statement that it “is available and eager to work with regulators to help update rules to allow for dispensing of naloxone without a prescription” in states that currently require one.

Experts say recent actions from the FDA, CVS and Walgreens represent an effort to stem a nationwide epidemic of opioid and heroin abuse.

The U.S. Centers for Disease Control and Prevention says that 18,893 people died from opioid

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POLITICAL RISK

Volatile world no match for soft market

Political risk capacity high despite risks

BY MATTHEW LERNER

Pricing for political risk insurance is soft despite the global business environment growing more perilous and limiting insurers’ appetites for nations with active conflicts.

“Everybody admits — from what we see, hear and read — that we seem to be in a new, more risky phase for the world economy; but paradoxically, the political risk market is soft,” said Stephen Kay, New York-based U.S. political risk and structured credit practice leader of Marsh USA Inc.

Plentiful insurance capacity has spilled over from the property/casualty space into specialty cov-

POLITICAL RISK COVER

- Political risk insurance is specialty coverage for companies that do business in or have operations in foreign countries.
- The coverage addresses business losses due to governmental action, whether foreign or domestic.
- Confiscation, expropriation, deprivation, nationalization, political violence, currency inconvertibility, contract frustration and export credit losses also may be covered.

Source: International Risk Management Institute Inc.

erage, dragging down rates for political risk insurance, sources said.

“If you are seeking to lay off political risk, this is not a bad market to do it in because the pricing in this market segment has followed the general market trend downward over the past couple of years,” said Sean McGovern, chief risk officer and general counsel at Lloyd’s of London. “Competition has increased and, as all that surplus capacity is looking for deployment, it’s inevitably looked into lines of business such as political risk.”

“Geopolitical concerns remain prominent in the minds of respondents to the Global Risks Perception Survey for the second year in a row,” according to the Global Risks Report from January’s World Economic Forum in Davos, Switzerland.

“On the supply side for a number of years, main lines like property

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EMPLOYMENT PRACTICES

Pressure mounts to properly categorize workers

BY JUDY GREENWALD

Companies may acknowledge they are a joint employer of temporary workers and subcontractors to avoid running afoul of federal regulators and plaintiff litigators.

The evolving issue took another turn in late January, when Department of Labor’s wage and hour division issued guidance on situations in which more than one business is involved in work per-

formed. (see story, page 28.)

Acknowledging a joint employer relationship means the employee’s hours worked for all of the joint employers are combined and considered as one employment to calculate overtime pay, making employers potentially liable under the Fair Labor Standards Act and the Migrant and Seasonal Agricultural Worker Protection Act.

The issue is expected to particularly affect sectors including

health care child care, transportation and construction.

The guidance follows the National Labor Relations Board ruling last August in a case involving Browning-Ferris Industries of California Inc., in which the NLRB overturned a standard in place since 1984 and held that a company need have only indirect control of a worker and not even exercise

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CORRECTION

A chart accompanying “Private Equity Buyers Drive Surge in Deals as Brokerage Acquisitions Accelerate” in the Feb. 1 issue misstated the private equity investors in Alliant Insurance Services Inc. The correct private equity investors are Stone Point Capital L.L.C. and Kohlberg Kravis Roberts & Co. L.P.

ONLINE  
FEATURES

VIDEO

In Focus: Zurich launches  
U.S. apprenticeship program

The insurer invests in its future via education and job training.

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From free Kindles to lift tickets — these companies offer primo employee perks.

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NEWS

MARINE

MARINE LIABILITY INSURERS  
PRESS FOR RATE INCREASES

Shipowners push back in face of low losses

BY SARAH VEYSEY

Most shipowners are likely to see rate increases in the low single digits when they renew their protection and indemnity coverage later this month.

While shipowners have sought to reduce their costs amid challenging commercial shipping conditions, P&I clubs have tried to bolster their results by imposing higher rates, sources said.

The International Group of P&I Clubs, an organization of the world's 13 largest mutual protection and indemnity clubs, traditionally renew coverage on Feb. 20, the date when the Baltic Sea historically could be expected to be free of ice and passable.

While there have been relatively few losses over the past year, P&I clubs — like insurers in general — are less able to rely on investment income to bolster their bottom lines than the past, experts say.

Financial pressure

P&I clubs face headwinds that include pressure from members to return capital and low interest rates, said Mark Nicholson, a director of insurance ratings at Standard & Poor's Corp. in London.

The outcome of the current



While shipowners have sought to reduce their costs amid challenging commercial shipping conditions, P&I clubs have tried to bolster their results by imposing higher rates.

renewal season will test the individual clubs' competitive position, he said.

One rating agency agreed.

"As the clubs enter the 2016 renewal period, pressure from members and brokers to justify price increases is growing," A.M. Best Co. Inc. said in its sector review of the P&I market. "Announced general increases are down on 2015, varying from zero to 5%, with the majority of clubs at the lower end of this range."

"But member renewals are

See P&I page 27

P&I EXCESS OF LOSS  
REINSURANCE

International Group of P&I Clubs excess-of-loss reinsurance arrangements for 2016/2017 year, effective Feb. 20:

- Each club's retention will increase to \$10 million from \$9 million.
- The general excess-of-loss contract attachment point will remain at \$80 million.
- The group's captive, Bermuda-based Hydra Insurance Co. Ltd., will provide reinsurance of \$50 million in excess of \$30 million.
- Reinsurance will be expanded to include nuclear risks up to a limit of \$1 billion.

DIRECTORS & OFFICERS LIABILITY

Regulatory scrutiny heats up for executive risks

BY JUDY GREENWALD

NEW YORK — At least one company will be used to set an example as the U.S. Department of Justice pursues individual wrongdoers working for corporations, while the outlook for future Equal Employment Opportunity Commission activity could rest with the next administration.

These are among the regulatory developments that professional liability and directors and officers liability experts predict companies will face.

An expansion in directors and officers policies could also mean the market may be headed toward separate policies that separately indemnify corporate entities and individual directors and officers.

The concern over individual corporate wrongdoers can be traced to a September memo from Deputy

Attorney General Sally Quillian Yates that called on federal prosecutors to hold individuals more accountable and requires firms to turn over information about culpable individuals in return for credit for their assists in a probe.

Speakers at the Professional Liability Insurance Society's 2016 D&O Symposium in New York discussed the memo's implications earlier this month.

It can be anticipated the Yates memo will lead to an uptick in defense costs for firms, said R. Damien Brew, New York-based managing director at Marsh USA Inc.'s FINPRO unit. "It's a big issue, and one we will look at closely," said Mr. Brew.

Furthermore, "at some point, it seems likely" someone will be made an example of under the Yates memo



Ms. Yates

See PLUS page 27

MARINE

Underwriters  
get ready for  
crewless ships

Five-year timeframe  
for unmanned vessels

BY DONNA MAHONEY

Autonomous ships are being explored by the cargo industry, giving marine insurers about five years to determine the costs of covering a crewless ship for risks that can occur at sea.

And the lack of historical data typical of any new technology is complicating the process of underwriting the risks of unmanned ships.

"As insurers, we need to get data," said Andrew Kinsey, a former ship's captain and now a New York-based senior marine consultant at Allianz Global Corporate & Specialty S.E.

"We need a method to safely and effectively implement unmanned vessels and get the data we need," Mr. Kinsey said. He suggested a convoy scenario, where several unmanned vessels would be chaperoned by a manned vessel, "riding herd, like a sheepdog," he said.

An autonomous vessel would be best suited to replace dry-bulk carriers that operate in intercontinental trade, according to three-year research project Maritime Unmanned Navigation through Intelligence Networks, as these ships travel slowly, transporting cargo such as timber or steel in long, uninterrupted ocean voyages.

"The insurance industry has been at the forefront of most pioneering projects now covering drones, satellite launches, satellites in orbit, test flights, remotely controlled underwater vehicles and a number of other automated products," Sean Woollerson, London-based senior partner at JLT Specialty Ltd., said in an email. "But a vessel being operated remotely from onshore will bring unique challenges in the developing of a fully automated complex key component for the supply chain."

Those challenges include pirates, a fire at sea and the time involved to reach the ship if a computer malfunctions.

Alan Jervis, founder of Marine, Transportation and Energy Insurance Experts, a consultant to the worldwide insurance, risk management, shipping and transporta-

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## CAPTIVES

# Captives cut costs, add control for employee benefit risks

BY JERRY GEISEL

BOCA RATON, Fla. — Once exclusively used to fund property/casualty risks, captive insurers increasingly are being tapped by their parents to fund corporate employee benefit risks.

A key advantage is cost savings.

“When you retain benefit risks and premiums are greater than losses, you retain the profits,” said Kathleen Waslov, a senior vice president with Willis Towers Watson P.L.C. in Boston.

Those cost savings can be substantial. Funding group term insurance coverages through captives can cut costs by an average of 10% to 15%, while costs savings often are in the 15% to 25% range for long-term disability coverages, Debbie Liebeskind a senior Willis Towers Watson actuarial consultant in Parsippany, New Jersey, said during the 26th annual World Captive Forum in Boca Raton, Florida.

In addition, unlike buying coverages from a commercial insurer, the captive owner controls the design of the benefits programs funded through the captive, Ms. Waslov said.

Yet another advantage of the approach is risk diversification, with profits earned from funding benefit risks offsetting losses — when that happens — from property/casualty lines of coverage written through the captive, speakers said.

To be sure, there are costs that employers need to factor in when considering tapping their captive insurers to fund benefit risks.

For example, the U.S. Labor Department, whose permission is required for U.S. employers to utilize their captive insurers to fund cer-

tain benefit risks, such as life, LTD and accidental death and dismemberment coverages, mandates that captives use a highly rated commercial insurer to issue policies, which in turn are reinsured by the captive.

“You have to pay a fee to the fronting insurer,” Ms. Waslov said.

And, employers have to budget in the time involved for Labor Department review of their captive benefits funding applications.

For an application that qualifies for a review process known as ExPro, the entire application and approval process can take as little as 2½ months, which is substantially faster than seeking regulatory approval through an individual exemption.

But there are conditions that have to be met — including enhancement of the benefits that will be funded through the captive — to qualify for ExPro.

Even though the Labor Department has approved close to three dozen captive benefits funding applications — mostly through the ExPro process — experts say it still isn’t clear exactly by how much an employer will have to improve participants’ benefits to qualify for ExPro.

“No one can tell you what will be the right level of enhancement. That has created a lot of uncertainty,” said Ted Scallet, a principal with Groom Law Group Chtd. in Washington.

Employers and their advisers, though, plan to discuss with Labor Department regulators whether they can provide more guidance to give employers greater certainty on whether a proposed benefit enhancement would be



MICHAEL MARCOTTE

Dave Arick, assistant treasurer, global risk management, International Paper Co., and Debbie Liebeskind of Willis Towers Watson P.L.C. at the 26th annual World Captive Forum in Boca Raton, Florida.

enough for a captive benefit application to qualify for ExPro, Mr. Scallet said.

Mr. Scallet said he hopes regulators will provide such guidance within a year or so.

“I hope we will have something new to talk about by the time” of the next World Captive Forum, he said, referring to possible new ExPro guidance from federal regulators.

Outside the United States, employers have been tapping their captives to fund pension plan benefits, such as by reinsuring group annuity policies purchased from insurers.

“You have more control and central cash management,” said Stacy Apter, director of global risk and investments in Atlanta with The Coca-Cola Co., which uses two of its captives to reinsure group annuity products that are written by a commercial top-rated Europe-based insurer and purchased by Coca-Cola pension plans in several European countries and Canada.

“This is a way to manage and consolidate pension risk,” said Amy Kessler, senior vice president and head of longevity risk transfer at Prudential Retirement in Newark, New Jersey.

Still, Ms. Apter acknowledges that the approach isn’t for every employer.

“It is very complicated and technical,” Ms. Apter said.

## CATASTROPHES

# Government quake order sets standard

BY MARK A. HOFMANN

A presidential executive order aimed at making federal buildings more resilient to earthquakes could have a positive impact on the private sector as well.

Insurance industry observers say the order sets a good example and could serve as the impetus for positive change. At a minimum, they say, it underscores the reality of the earthquake risk and may lead to enhanced standards to protect against other natural hazards such as wildfires.

The Feb. 2 order — “Establishing a Federal Earthquake Risk Management Standard” — noted that the federal government “recognizes that building codes and standards primarily focus on ensuring minimum acceptable levels of earthquake safety for preserving the lives of building occupants.”

But in order to achieve “true resilience” to earthquakes, those codes and standards may need to be exceeded to ensure that new and existing buildings “can continue to perform their essential functions following future earthquakes.”

The order encourages federal agencies “to consider going beyond the codes and standards set out in this order to ensure that buildings are fully earthquake resilient.”

“We are pleased the administration is focused on resilience and the need to build forward, rather than continuing to rebuild and repair buildings in the same vulnerable locations ignoring the risk of known natural hazards and hoping for the best,” said Julie Rochman, president and CEO of the Insurance Institute for Business and Home Safety in Tampa, Florida, in an email. The industry-backed group promotes effective, well-enforced building codes.

In addition to affecting new buildings or alterations to existing buildings, the order specifies that federal agencies lease only buildings that “that have been designed and constructed in accord with the appropriate earthquake-resistant design and construction standards

## CAPTIVES

# Captive owners look beyond coverage of plain vanilla risks

BY DONNA MAHONEY

BOCA RATON, Fla. — Companies that want to use their captive insurers to cover emerging risks first need to understand everything they can about those risks.

Nancy Gray, a Burlington, Vermont-based regional managing director overseeing captive operations in the Americas at Aon Risk Solutions, said companies are starting to look at their captives from a strategic standpoint and asking how they can help them take on additional risk.

However, they’ll need to determine if a particular risk can be insured within their captive, she said.

Captives are only allowed to

insure risks that abide by the laws in their captive’s domicile.

Among risks companies are considering insuring via their captives in the next decade, cyber liability is No. 1, with underwriting projected to grow to 23% globally by 2020 from 8% in 2015, according to an Aon Risk Solutions survey of 1,400 risk managers (see chart).

“Whenever there is a surge of events, then that risk jumps up to the top, such as pandemic did a year ago — and now it is cyber,” Ms. Gray said during the 26th annual World Captive Forum in Boca Raton, Florida. As events and changes occur, risk profiles change and risks should be reviewed on a regular basis, she said.

“We don’t know as much about

## EMERGING RISKS

Fastest-growing risks to be written in captives in the next five years by 1,400 public and private companies surveyed

Coverage	Underwritten in 2015	Plan to underwrite by 2020
Cyber liability/network liability	8%	23%
Employee benefits (excluding health/medical and life)	7%	18%
Credit/trade credit	7%	15%
Employment practices liability	12%	19%
Crime/fidelity	15%	22%
Environmental pollution	12%	19%
Health/medical	7%	13%
Auto liability	25%	32%
Catastrophe	15%	19%
Professional indemnity/errors and omissions liability	26%	30%

Source: Aon Risk Solutions

cyber at this time as other risks, so the size of the risk appetite of the insurance company also needs to be taken into account,” said Thomas Holzheu, New York-based chief economist for the Americas at Swiss Re America Holding Corp.

Captives should examine how a risk will affect them before underwriting it, said Linda Conrad, New York-based director of strategic business risk management at

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## Endurance targets large commercial accounts

■ Endurance Specialty Holdings Ltd. has recruited former Chubb Ltd. executive Michael Chang to lead its push into large account commercial insurance. Mr. Chang will join Endurance as CEO of global risk solutions, heading the newly formed business within Endurance Insurance, beginning Feb. 22, the Pembroke, Bermuda-based insurer and reinsurer said in a statement. Based in New York, he will be responsible “for building a platform targeting global industry vertical solutions for large-account risk management clients,” according to the statement. He was most recently executive vice president of the real estate and hospitality practice of the Chubb.

## Chipotle must pay out \$600,000 in gender discrimination suit

■ Three female Cincinnati-area former general managers at Chipotle Mexican Grill Inc. who charged the company with gender discrimination have been awarded about \$200,000 each in back pay and punitive damages by a federal jury in U.S. District Court in Cincinnati. In a complaint originally filed against the Denver-based company in March 2013. Tina M. Reynolds and Stephanie Ochoa had each charged that they were discharged and replaced by a male employee despite having received good reviews. Elizabeth A. Rogers said she was terminated following her taking time off to give birth and then asking to work part time, according to court papers. Ms. Rogers was awarded \$116,653 in back pay, Ms. Reynolds was awarded \$123,447 in back pay, Ms. Ochoa was awarded \$111,836 in back pay, and all three were awarded an additional \$85,000 in punitive damages.

## Cigna, Aetna enter outcomes-based pact with Novartis for heart drug

■ Amid growing pressure on pharmaceutical companies to prove their drugs are worth their cost, health insurers Cigna Corp. and Aetna Inc. will pay Swiss drugmaker Novartis A.G. for its newly approved heart failure medication based on how well the drug does its job. Under Cigna’s outcomes-based contract, the Bloomfield, Connecticut-based insurer will pay Basel, Switzerland-based Novartis for how well the drug Entresto performs, evaluated by the reduction in the proportion of patients hospitalized due to heart failure, Cigna said in a statement. Entresto was approved by the U.S. Food and Drug Administration in July. According to

Reuters, the drug costs about \$12.50 per day or \$4,560 per year. A spokeswoman for Cigna declined to provide further financial details on the contract, which she said was proprietary, but said Cigna “will be tracking the outcomes based on our own claims data of our customers.” But the division head of Novartis Pharmaceuticals, David Epstein, said in a Jan. 27 conference call with investors that the firm and two health insurers agreed to “a base rebate” that will “go up or go down” depending upon whether Novartis reaches its goal of reduced hospitalization. A Novartis spokesman confirmed that Aetna is one of the two health insurers referred to by Mr. Epstein on the call.

## RIMS to donate \$450,000 to Spencer Educational Foundation

■ The Risk & Insurance Management Society Inc. has pledged a donation of \$450,000 toward the risk management and insurance educational programs of the New York-based Spencer Educational Foundation Inc. Three installment payments of \$150,000 per year for the next three years will be given by RIMS, the foundation said in a statement. The donation will assist the organization with costs of their part-time master’s scholarship program for risk practitioners, their summer internship program, and expenses for hosting a risk professional as a guest lecturer.

## Doctor who overprescribed opioids gets up to life in prison

■ A California doctor convicted of murder for prescribing unnecessary painkillers has been sentenced to spend 30 years to life in California prison. A Los Angeles Superior Court jury in late October found Dr. Hsiu-Ying “Lisa” Tseng guilty of three counts of second-degree murder, 19 counts of unlawful controlled substance prescription and one count of obtaining a controlled substance by fraud, among other charges. Superior Court Judge George G. Lomeli sentenced Dr. Tseng earlier this month to 30 years to life in prison, according to a statement from the Los Angeles District Attorney’s Office. Her conviction and sentencing were based on the 2009 prescription drug overdose deaths of Vu Nguyen, 28; Steven Ogle, 24; and Joseph Rovero, 21.

## Swiss Re, Veolia partner on New Orleans resilience project

■ French water and waste group Veolia Environnement S.A. said it is in talks to install a flood prevention system in the city of New

Orleans, which was devastated by Hurricane Katrina in 2005. Veolia innovation director Laurent Auguste said a study will be carried out jointly with Swiss insurer Swiss Re Ltd. and that Veolia, which operates the main New Orleans waste water plant, plans to increase its flood protection services globally. Katrina inundated 80% of New Orleans and killed 1,572 people as water forced by the storm into inland canals overwhelmed levees and broke through floodwalls. “With Swiss Re, we are in talks to start the first joint study to help the city of New Orleans boost its resilience against flooding,” Mr. Auguste told Reuters.

Reuters

## Aon reports stable revenue in 2015 fourth quarter

■ Aon P.L.C. said revenue for the fourth quarter of 2015 was flat as the brokerage showed stability in its risk management and human resources management divisions. Aon reported \$3.29 billion in quarterly revenue vs. revenue of \$3.30 billion in the prior-year quarter. Commissions and fees for the quarter were \$3.29 billion, also relatively flat compared with \$3.31 billion in commissions and fees for the fourth quarter of 2014. In a statement, Aon said it saw profit growth in its Risk Solutions segment “driven primarily by strong organic revenue growth of 5%, (a) return on investments in data and analytics across the portfolio, and a 30 basis point favorable impact from foreign currency translation.” For full-year 2015, Aon reported \$11.68 billion in revenue, down 3.0% from 2014, and \$11.71 billion in commissions and fees for 2015, down 3.0% from the prior year.

## Forecaster sees chance El Niño will give way to La Niña

■ The El Niño weather phenomenon underway is likely to dissipate by the Northern Hemisphere’s late spring or early summer and possibly transition to La Niña conditions later this year, the National Weather Service’s Climate Prediction Center said in its monthly forecast. Typically less damaging than El Niño, La Niña is characterized by unusually cold ocean temperatures in the equatorial Pacific Ocean and tends to occur unpredictably every two to seven years. Severe La Niñas are linked to floods and droughts. With the forecast, the CPC joins others, including Australia’s weather bureau, in projecting La Niña may follow El Niño. El Niño is a warming of ocean surface temperatures in the eastern and central Pacific that occurs every few years, triggering heavy rains and floods in South America and scorching weather in Asia and East Africa.

Reuters

# Workers comp writer promoted

**B**usiness Insurance has promoted Sheena Harrison, who has covered workers compensation since joining the magazine in 2011, to senior editor.

In her new role, Ms. Harrison will continue covering workers comp along with Senior Editor Gloria Gonzalez and Associate Editor Stephanie Goldberg.

Business Insurance’s workers comp coverage includes news and

analysis about the legislative, legal and insurance market issues that affect workers compensation managers, as well as strategies to reduce comp claims and costs, promoting workplace safety and returning injured employees to their jobs.

Prior to joining Business Insurance, Ms. Harrison was a business reporter at the Toledo Blade, a daily newspaper in Toledo, Ohio.

Previously, she was a freelance writer at CNNMoney.com and other business media outlets, and was a reporter at Crain’s Detroit Business, a sister publication of Business Insurance.

She has a Bachelor of Arts in journalism from Michigan State University.

Ms. Harrison can be reached at 312-649-5249 and at [smharrison@businessinsurance.com](mailto:smharrison@businessinsurance.com).



Ms. Harrison

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## Zurich profit tumbles amid challenges

Zurich Insurance Group Ltd. attempted to mollify investors on Thursday by bringing forward the start date for incoming Chief Executive Mario Greco in the face of a profit dive. But a steeper-than-expected drop in full-year profit and an acknowledgement that Zurich was unlikely to hit one of its three financial targets knocked the insurer's shares and highlighted the task ahead for former Generali boss Mr. Greco. After warning on profits in January due to large losses from winter storms in Britain and Ireland, Zurich ended up posting a \$424 million loss for the last three months of 2015. This loss, coupled with payouts from devastating explosions at the Chinese port of Tianjin, helped push 2015 net profit down 53% to \$1.8 billion, missing the average estimate in a Reuters analyst poll for \$1.997 billion. In a \$1 billion-plus cost-cutting drive, Zurich also said around 8,000 jobs would be affected by the end of 2018. Zurich has around 55,000 employees.

Reuters

## Generali chairman named interim CEO

Assicurazioni Generali S.p.A. has named its chairman, Gabriele Galateri di Genola, interim CEO until a replacement for Mario Greco is found, the Trieste, Italy-based insurer announced. Generali said last week that its board and Mr. Greco had mutually agreed to the termination of all existing relations between Mr. Greco and the insurer with immediate effect. "We thank Mario Greco for his efforts over the past four years in transforming the group," Mr. Galateri said in a statement. "Today Generali is a global leader focused on its core insurance business and on a solid financial and capital footing."

## Marsh names cyber risk adviser

Marsh L.L.C. has appointed Sir Iain Lobban, former director of the U.K. Government Communications Headquarters, the country's security and intelligence organization, as senior adviser on cyber risk. In his newly created role, Mr. Lobban "will provide strategic advice as Marsh works with governments, regulators and clients on how best to address the growing threat of cyber risk," Marsh said in a statement. He will report

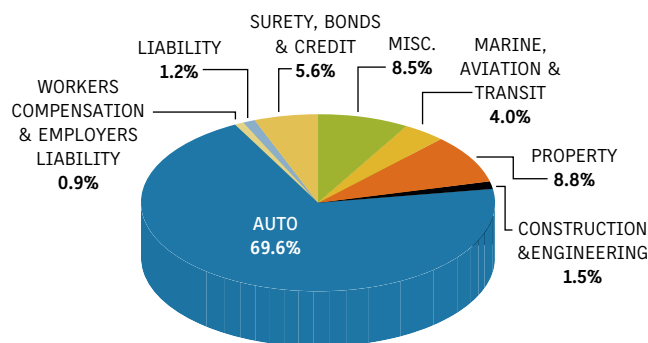
## PROFILE: VENEZUELA

**\$7.27**  
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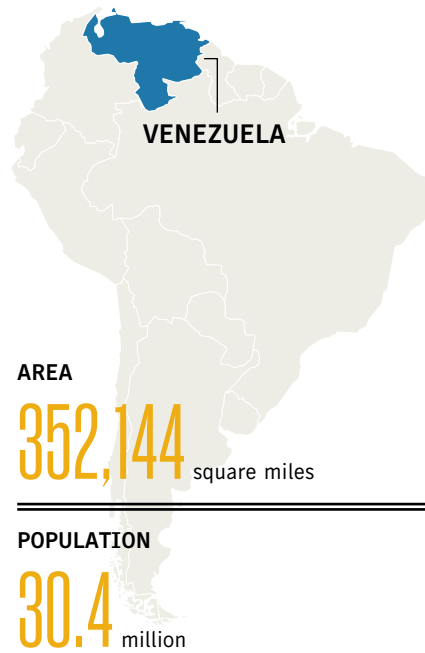
Most of Venezuela's challenges are economic, with inflation topping 100% in 2015, rapidly declining oil revenue, tight access to hard currency, a shrinking small business base pinching primary insurers and at least two exchange rates in use. Still, there is growth in local reinsurance and coinsurance. Earthquake is the main natural threat, though the country has not had a major temblor in nearly 50 years. Windstorms and flooding from Venezuela's position on South America's northern coast are common.

◀ 2013 P/C gross premiums

### MARKET SHARE



Source: Axco Global Statistics/Industry Associations and Regulatory Bodies



### GLOBAL P/C MARKET RANKING

27

### 2015 GDP CHANGE (PROJECTED)

(5.5%)

### MARKET DEVELOPMENTS

UPDATED  
OCTOBER 2015

- A strategic plan for the insurance sector developed during roundtable meetings is expected to organize the industry under the same five major objectives as the government's overall development plan for the country, known as the Plan de la Patria.
- Ruling 41 establishing an accounting code and standards for insurance premium financing companies was published in Official Gazette No. 40,675 June 4, 2015.
- The Superintendency of Insurance Activity (SAA) is asking insurers for details of property/casualty policies written in 2014 and the first half of 2015 in keeping with a law effective in July 2015 requiring all such policies to be placed with government insurers.
- Insurers' contributions to fund the SAA were 2.5% of premiums in 2015, up from 1.5% in 2013 and 0.3% before the regulator was established in 2010.

### COMPULSORY INSURANCE

- Auto third-party liability
- Aviation third-party liability
- Passenger personal accident for land transit
- Student personal accident
- Shipowners liability against marine oil pollution
- Third-party liability for vessels in the Venezuelan Naval Registry

### NONADMITTED

Unauthorized insurers cannot carry on insurance activity in Venezuela under a law that renders contracts with foreign companies invalid without local authorization. Penalties for noncompliance include fines up to \$120,000 and six years in prison.

### INTERMEDIARIES

Agents and brokers must be authorized by the SAA, and they cannot place business with nonadmitted insurers. Insurers are allowed to reinsure all or part of the risks they assume, and all local insurers are willing to front.

### MARKET PRACTICE

Buyers are not specifically barred from purchasing cover from a nonadmitted insurer, but such contracts are considered invalid. The minister of finance can, on the recommendation of the SAA, approve placements of cover not available from an authorized insurer.

Information provided by Axco Insurance Information Services.  
[www.axcoinfo.com](http://www.axcoinfo.com)

to Mark Weil, Marsh's CEO of U.K. and Ireland. Mr. Lobban was director of the Government Communications Headquarters from 2008 and 2014, after having previously served as director general of operations from 2004-2008.

## Law firm scoops up Clive O'Connell

Legal expert Clive O'Connell has joined London law firm McCarthy Denning Ltd. as head of insurance and reinsurance. "I will be focusing as I have for the last 34 years on all aspects of reinsurance, complex insurance and ILS," he said. "I am delighted to join a law firm that's redefining business law and the way in which legal services are delivered in a client focused and cost effective manner." Mr. O'Connell was previ-

ously a partner at Goldberg Segalla Global L.L.P. in London, but left the firm after he was recorded on Oct. 31 venting at rival soccer fans after a recent loss by his favorite team. He joined McCarthy Denning in December.

## Ontario firm guilty in worker's death

Concord, Ontario-based Varcon Construction Co. Ltd. has pleaded guilty to violating Ontario's workplace safety legislation and has been fined 150,000 Canadian dollars (\$107,775) after a worker was killed by moving equipment on a roadway while working on a water main installation project in April 2014, according to a statement issued by the province's Ministry of Labor. A ministry investigation determined that the operator, who

was moving a portable toilet with a front-end loader, did not use the assistance of a signaler employee despite having a restricted view and ran over and fatally injured an employee who was moving traffic cones, according to the statement. The incident violated the province's Construction Projects Regulation, the statement said. The court also imposed a 25% victim fine surcharge, which goes into a provincial government fund to assist victims of crime, on top of the fine, bringing the total to CA\$187,500 (\$134,719).

## Guernsey sees uptick in captives, insurers

The number of international insurance entities, including captive cells, licensed in Guernsey increased to 804 at the end of 2015

compared with 797 in 2014, according to statistics from the Guernsey Financial Services Commission. Of the 804 insurers licensed in Guernsey at the end of 2015, 242 were limited insurance companies; 64 were protected cell companies; 444 were PCC cells; 13 were incorporated cell companies; and 41 were ICC cells. The regulator did not break out the number of single-parent captives domiciled in Guernsey. Thirteen new limited insurers were licensed, while 13 surrendered licenses. Of the 66 insurance entities that set up in Guernsey last year, 44% were owned by parents from the United Kingdom; 24% by parents in the Cayman Islands; 8% by parents from Ireland; 7% by parents from Guernsey; 7% by parents from the United States; 3% by parents from Switzerland; and the remaining 7% were set up by companies from across the rest of the world.

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- Hawaii Insurance Division, Captive Branch

- In-Sight Integrated Services by IPMG
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- Prudential Retirement
- Ryan
- South Carolina Dept. of Insurance
- State of Vermont
- Utah Captive Insurance
- Wells Fargo Collateral Trust Services

## 5 THINGS

# Small Businesses Should Know About Workers Compensation

Insurance costs can take a bite out of doing business – a few useful insights can help you make better choices.



THERE ARE NEARLY 30 MILLION SMALL BUSINESSES IN AMERICA<sup>1</sup>, and those of you running them know that workers compensation becomes a necessity when you have employees on payroll. Making a decision about your workers compensation insurance doesn't have to be complex or add to your stress of running a business. The key is to understand some of the driving forces that affect workers compensation insurance costs so you can make an informed decision. Here are five things to keep in mind, from properly evaluating your workspace to rethinking the role you play in managing your insurance costs.

### 1 WORK ENVIRONMENTS ARE EVOLVING

The top causes of workplace injuries—including overexertion and slips, trips and falls—haven't changed over the past two decades, according to the Bureau of Labor Statistics and the National Safety Council. What's changing, however, are the ways in which your employees may incur or suffer those injuries. In today's workplace, technological advances such as mobile devices and 24/7 connectivity have increased productivity and introduced new hazards. For

example, retail outlets and restaurants shifting from bulky cash registers to slim tablets are making more efficient use of display or counter space. Business owners often adopt the use of these new devices without the ergonomically correct holders that support them, increasing the potential for neck injuries from looking down at a device for too long over the course of the work day. When work meets play in the form of on-site recreational facilities and pet-friendly practices, new potential risks are created. As workplace risks change, your preparation for avoiding them must evolve as well.

### 2 THE WORKFORCE IS CHANGING

Roughly 10,000 Baby Boomers will turn 65 today, and about 10,000 more will cross that threshold every day for the next 19 years<sup>2</sup>. In a shifting workforce, it's important to consider job responsibilities and their specific risks for workers of different ages. For example, if you're a gift shop or a bakery, you may employ a wide age group of employees who all represent different risks. Baby Boomers with lots of experience may be more at risk for certain types of injuries than Millennials or high-school applicants.

<sup>1</sup> There are 27.9 million, according to the U.S. Census Bureau. <sup>2</sup> [pewresearch.org/daily-number/baby-boomers-retire](http://pewresearch.org/daily-number/baby-boomers-retire) <sup>3</sup> [ncsl.org/research/health/cost-and-quality.aspx](http://ncsl.org/research/health/cost-and-quality.aspx)

Younger, less experienced employees are part of a multi-tasking generation. Multi-tasking distractions represent a whole new category of risk in the workplace and can also lead to accidents or injuries. Regardless of the type of business you own, it's important to consider the types of injuries that can occur at different stages of the employee

## 10,000 Baby Boomers will turn 65 every day for the next 19 years.

lifecycle. Staying mindful of the experiences and life stages of the people who work for you can help you anticipate and consider the associated risks.

**3 WORKPLACES CAN ALWAYS BE SAFER** Small businesses know a thing or two about doing more with less. When operations are small and resources tight, every person counts. Your day-to-day operations may be disrupted if even one employee is out. If you need to step in to fill a void, you're taking time away from the other hats you already wear. To protect your employees and keep your business running smoothly, it's critical to create a safer workplace. Choose to work with a top workers compensation insurance company with experienced risk control professionals. With their resources and insights, you can make more informed decisions about workplace safety and risk management that may result in fewer accidents, lessen disruptive downtime and increase the potential for a safer, medically appropriate return to work in the event of a workplace injury. A good place to start would be to ask your insurance company to help you identify potential workplace risks

and recommend possible ways to manage those risks.

**4 MEDICAL COSTS ARE RISING** Healthcare is a \$2.9 trillion industry in the United States, according to the National Conference of State Legislatures<sup>3</sup>, and that number is expected to grow, along with the aging population boom. Healthcare expenses can track back to your business in ways other than your benefits. Businesses should look for an insurance company that actively monitors open claims. How workers compensation claims are handled can make a big difference in both the outcome for the injured employee as well as the overall costs to an employer. Actions like early intervention, comprehensive medical management strategies that partner healthcare professionals with claim professionals, and preferred access to top-quality physicians and pharmacies all contribute to a better, more efficient claim experience for the injured employee. Over time, this leads to a lower future cost of insurance and can benefit your premium.

**5 YOU HAVE INFLUENCE OVER YOUR COSTS** Much like how your driving or credit history is recorded, a business' history of loss (claims) is also data that gets collected. Your workers compensation claims history is used to determine a multiplier factor called an "experience modification" (e-mod). Your experience modification rating has a direct impact on your cost of insurance because insurance companies use this multiplier when calculating your premium—the lower your experience modification rating, the lower your premium. Similar to your driver or credit history, this rating follows you to other insurance companies you choose to do business with. Being proactive and conscientious about managing your workplace risks is direct action you can take, action

## WHAT TO LOOK FOR IN THE RIGHT WORKERS COMPENSATION PROVIDER

Ask if your insurance company offers these features:



**EMPLOYEES FIRST.** Look for comprehensive medical solutions for injured employees such as a dedicated injured employee website, preferred access to top-quality physician and pharmacy networks and superior service innovations like concierge care programs.



**PROPRIETARY RISK CONTROL SERVICES.** Understand if your insurance company has exclusive risk mitigation resources to help you prevent accidents before they happen.



**FLEXIBLE PAYMENTS.** Cash flow is king, which is why you need a carrier with a variety of payment options to help you manage your funds.



**FAST AND EASY SERVICE.** Find a carrier that's quick to respond, uses in-house Claim and medical professionals and has specialized resources to address your unique claim needs.



**BOOTS ON THE GROUND.** A national carrier with local Claim professionals has resources to respond quickly and can provide local legal and environmental insights to protect your business, brand and reputation.

# CYBER RISK MANAGER SEES ATTACKS SPREADING

**Q** Are there any companies that are more at risk of a cyber attack?

**A** I feel smaller companies seem to be targeted more these days. I think they are perceived as easier targets for the hackers, because they may not have the latest technology or the resources to update their software and train their employees.

**Q** What new methods have hackers used?

**A** Social engineering is still a big threat as more of our own daily life is up for display on different social media channels. Hackers are able to consolidate the information that they learn about us from these sites to craft targeted communication that is meant to circumvent procedures. ... Also, hackers are using viruses with increasing frequency, such as CryptoLocker, which extorts a ransom from companies to regain access to their own data.

**Q** What do you recommend companies do to protect

## Q&A

**Q** What else should employers do to protect themselves from cyber attacks?

**A** Employee education is vital. Employees must understand the scams being directed at them. At a minimum, annual training should be mandatory to help employees identify different types of cyber attacks that could occur to the company system.

**Q** What kind of changes are you seeing in insurance coverage for cyber?

**A** Many now view a cyber attack as not an “if” but a “when,” so the planning for the response is more important than the purchase of insurance.

Thus, coverages such as the crisis response component of many of the insurance policies may be the most important. With some of these attacks, the most vulnerable asset of a company may be its reputation, so the manner in which it responds can be critical to its survival.

themselves from cyber attacks?

**A** One way is to hire an outside company to do penetration testing and try to hack into their systems. This will allow a company to see where they are most vulnerable and the best place to deploy assets. Companies should review their cyber coverage to see whether their insurance carrier offers these services at a discount. Often, insurance carriers have partnered with outside companies offering mitigation services to policyholders at a reduced cost.



KRISTEN PEED

CBIZ INC.

Kristen Peed is the Cleveland-based director of corporate risk management and cyber security expert for CBIZ Inc. Ms. Peed discussed the landscape of cyber risk today, as well as what to expect in the future, with *Business Insurance* Staff Reporter Donna Mahoney. Edited excerpts follow:

**Q** What challenges and opportunities do you see in 2016?

**A** From a cyber perspective, I think the C-suite and board of directors understand the risk that is a potential for their companies. ... As we are seeing more claims, there is more data to analyze and utilize in decision making. This allows risk managers to more accurately depict to senior management the threats to their company. As the cyber insurance market is growing fast, there is a great deal of premium that can be invested back into the market to help prevent and better mitigate these risks.

**Q** How does your background help you with your career?

**A** I actually started off as a broker on the agency side and worked with all types of businesses. ... When I decided to make the change to the buying side, I realized that I understood what types of risks the insurance carriers were looking for and how the broker wanted to present them. ... I feel that it is important that risk managers have their own relationships developed with the management of the insurance carriers. If they trust your reputation, it can really go a long way with getting the improbable accomplished.

## COMINGS & GOINGS

# UP CLOSE: ERIC JERMYN

PORTLAND, MAINE-BASED VICE PRESIDENT OF BUSINESS DEVELOPMENT

Employee benefits division, Cross Insurance

**PREVIOUS POSITION:** South Portland, Maine-based director of sales, Anthem Health Plans of Maine Inc.

**LOOKING FORWARD TO:** Applying more than 20 years of experience on the carrier side of the health insurance industry to lead the sales efforts of one of the premier agencies in the Northeast.

**CHALLENGES FACING INDUSTRY:** The Affordable Care Act is, without question, the biggest challenge to face this industry in decades.

**INDUSTRY OUTLOOK:** For brokers keeping their eyes facing forward, while learning from the past, the outlook is very bright. Opportunities abound if you know where to look.

**FIRST INDUSTRY JOB:** I started out in marketing and communications for Blue Cross and Blue Shield of Maine, prior to that company being purchased by Anthem.

**WHAT SURPRISED ME:** Quite frankly, I was surprised to stay at one company for 21 years. Change is good, and I'm enjoying it.



**ADVICE:** Read. Read everything you can related to the industry and related industries.

**OUTSIDE THE INDUSTRY, A DREAM JOB:** Ski instructor at Sugarloaf in Maine.

**HOBBIES:** Skiing, golf, running and exercise, learning guitar (trying), fishing, hunting, snowshoeing, umpiring Little League Baseball, reading.

**THING MOST PEOPLE DON'T KNOW ABOUT ME:** Most people don't know that

I'm a fan of the Grateful Dead. I don't fit most people's stereotypical image of a Dead fan.

**WHEN I RETIRE:** I plan to do a lot of volunteer work. I currently serve on a few boards of directors and plan to continue and expand that work in retirement. I might also play a bit more golf.

**FAVORITE MEAL:** This one is easy. Paella. I love a good paella. (It) has to be crunchy on the bottom.

**BEST CITY:** Coin flip between Nashville and Seattle. I guess I'll go with Nashville.

## Professional Moves & Promotions

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### RISK MANAGERS

QVC Inc.	Jennifer Reno
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### OTHER

Zelle International L.L.P.	Darren Thompson
Pen Underwriting Group Pty Ltd.	Jennifer Martin

*Business Insurance* would like to report on senior-level changes at commercial insurance companies and service providers. Please send news and photos of recently promoted, hired or appointed senior-level executives to: Joyce Famakinwa, *Business Insurance*, 150 N. Michigan Ave., Chicago, Ill. 60601-7524. [jfamakinwa@businessinsurance.com](mailto:jfamakinwa@businessinsurance.com).

## Integro offers E&O cover for health care institutions

Integro Ltd. has launched professional liability/errors and omissions insurance coverage for U.S. health care institutions.

The coverage is designed to protect health care institutions with self-insured professional liability programs from exposures in medical malpractice claims administration, New York-based Integro said in a statement.

The coverage is underwritten by London-based Cove Program Underwriters and features limits of up to \$5 million. It provides protection for health care entities and claim staffs against claims alleging bad faith, deceptive practices and failure/negligence in providing professional services of claims handling, adjusting and underwriting, Integro said in a statement.

"This product has been designed to address growing exposures faced by health care entities self-insuring. In a sector that continues to see merger and acquisition activity, the heightened exposure faced by those with in-house claims and underwriting functions increases," London-based Scott Simmons of Cove Program Underwriters said in the statement.

## Zurich launches mobile emergency response app

Zurich Insurance Group Ltd. has launched an environmental emergency response mobile application.

The Zurich Environmental Emergency Response, or ZEER, app helps people in industries that deal with hazardous materials respond quickly to environmental spills. The app was designed for industries including transportation and manufacturing, Zurich said in a statement.

In addition to the ability to report spills immediately from the scene, the app includes access to a 24/7 call center for environmental spill consultation, spill reports, customized internal alerts for crisis management communications, access to Zurich's emergency response coordinator and the ability to geo-locate the spill requiring emergency environmental cleanup via a mobile device, according to the statement.

"An accidental spill that results in an environmental hazard is, for most businesses, an extraordinary occurrence. Yet, every business should be prepared for such an event, and the ZEER mobile app can help customers mitigate damages and reduce potential liability associated with spills," Steve Hatch, Chicago-based chief claims officer for Zurich North America, said in the statement.

## Policy covers aftermath of workplace violence

XL Catlin has rolled out an insurance policy to help midsize companies in the U.S. respond and recover from workplace violence.

The policy covers expenses related to public relations counsel; psychiatric, medical or dental care; employee coun-

## PRODUCTS & SERVICES



### Munich Re, risk modeler target epidemics

**\*** Munich Reinsurance Co. has entered into a long-term agreement with San Francisco-based epidemic risk modeler Metabiota Inc. to develop models and property/casualty insurance solutions to respond to epidemics.

Industries such as hospitality and travel can be severely affected by epidemics involving Ebola, SARS and Middle East respiratory syndrome, which pose a threat to lives as well as national economies, Munich Re said in a statement.

Epidemics "demonstrate distinct patterns similar to natural catastrophes. And just as natural catastrophes can be insured despite the diversity and uniqueness of the events, epidemics are no exception," said Nathan Wolfe, founder and CEO of Metabiota. "We are capturing unique data on infectious diseases supporting the development of financial mechanisms to limit the economic impact of epidemics."

"Eventually, we will be in a position to model the potential financial impact an epidemic may have on a region and its economy and offer the right insurance solutions," Tobias Farny, Munich Re's chief executive in Asia-Pacific for Greater China, Korea and Southeast Asia, said in the statement.

seling; temporary security measures; and rehabilitation expenses, personal accident, legal liability and business interruption expenses, XL Catlin said in a statement.

Liability limits are available up to \$25 million.

"Our policy is specifically designed for midsize institutions and businesses, especially those involved in higher education, hospitality, manufacturing and health care facilities. These particular sectors have seen their share of violent acts," Denise Balan, New York-based Americas head for XL Catlin's crisis management insurance business, said in the statement. "Additionally, midsize businesses do not typically have easy access to crisis management resources. This policy offers both coverage for expenses and access to our risk management consultancies to help handle a crisis situation should it arise."

## Cyber security product covers midsize firms

Hartford Steam Boiler Inspection and Insurance Co. has introduced HSB Total Cyber, an insurance product that covers midsize companies for multiple types of data and cyber exposures.

HSB Total Cyber provides cyber and information security coverage including, data breach response and liability, identity theft, computer attack, cyber extortion, and network security and electronic media liability in one policy. It is designed for businesses with revenue of \$10 million to \$150 million, HSB said in a statement.

"The cyber market is the Wild West of insurance with so many different types and levels of coverage," Timothy Zeilman, HSB vice president and counsel, said in the statement. "Medium sized companies, meanwhile, are squeezed between expensive cyber policies designed for big organizations and low-cost insurance packaged for small businesses. HSB Total Cyber helps fill that gap with a single policy that includes a variety of essential coverages that a midsize company needs and can afford."

## Cyber risk management for French companies

Swiss Re Corporate Solutions Ltd. is offering CyberSolutions France; a cyber risk protection solution that allows French businesses to defend themselves against cyber attacks.

CyberSolutions France combines risk mitigation and remediation to manage cyber risks for midsize and large companies. It includes French-language cyber security training and annual IT security testing. The preventive services are provided by IBM, Swiss Re said in a statement. Additionally, CyberSolutions France provides 24/7 access to a Swiss Re data breach response team of legal, forensics and communications partners.

"We offer significant capacity to ensure that our clients are covered in case of a loss," Francois Brisson, Swiss Re Corporate Solutions' head of cyber and technology, said in the statement.

## Flood insurance available through online portal

Victor O. Schinnerer & Co. Inc. has launched an insurance product that provides primary coverage for commercial and residential properties through the National Flood Insurance Program and excess coverage through the private market.

Schinnerer Flood lets brokers quote primary and excess coverage through an online portal, view all policies in relation to flood zones, access claims data and generate reports, the Chevy Chase, Maryland-based underwriting manager said in a statement.

Primary coverage is provided through Homesite Insurance Co. Excess coverage is offered through the Lloyd's of London market, while the platform was developed by Torrent Technologies Inc., according to the statement.

## DEALS & MOVES

### Hilb acquires agency based in Massachusetts

The Hilb Group L.L.C. has acquired Hyannis, Massachusetts-based Dowling & O'Neil Insurance Agency Inc.

Terms of the acquisition were not disclosed.

Dowling & O'Neil provides general property/casualty insurance and has niches for health care and high net worth personal lines, The Hilb Group said in a statement.

Dowling & O'Neil co-owners Mark McCartin and Rob Miller will continue to lead 31 employees and operate under their current name, according to the statement.

### Burns & Wilcox expands regional offices

Burns & Wilcox Brokerage is expanding its Salt Lake City, Las Vegas, and St. Louis locations.

Burns & Wilcox has moved its Salt Lake City operation to a more than 12,000-square-foot office space, nearly double its previous size. Its transportation division has grown more than 50% in the past three years, Burns & Wilcox said in a statement.

The Las Vegas office has moved to a space of more than 6,000 square feet, nearly triple the size of its previous location. Burns & Wilcox plans to double its Las Vegas office staff in the next couple of years, according to the statement.

The St. Louis region has also expanded its office to address its growing customer base in that area and throughout the Midwest. The new space occupies more than 7,000 square feet. The expansion supports one of Burns & Wilcox's key growth initiatives: recruitment and retention of young talent.

### California broker purchases commercial aviation agency

Alliant Insurance Services Inc. has acquired Seattle-based John F. Throne & Co.

Terms were not disclosed.

John F. Throne is an independently owned agency that provides insurance and risk management solutions to commercial aviation companies in the United States, Alliant said in a statement.

John F. Throne's leadership, client services and business development teams will remain in Seattle.

### Brown & Brown acquires Oregon agency

Brown & Brown Inc. said its Brown & Brown of Oregon L.L.C. subsidiary has acquired substantially all assets of Lumbermens Insurance and Risk Solutions.

Terms were not disclosed.

Bend, Oregon-based Lumbermens, with annual net revenue of \$2 million, provides personal lines and commercial insurance services, Daytona Beach, Florida-based Brown & Brown said in a statement. It will operate from its current location as a Brown & Brown profit center, according to the statement.

The combined operation will report to Jessica Getman, Portland Oregon-based president of Brown & Brown of Oregon, the statement added.

EDITORIAL

## RULES CHANGING FOR EMPLOYERS

**T**hey're coming at employers from all sides — a conclusion one can't help but reach in light of the Jan. 20 guidance issued by the U.S. Department of Labor's wage and hour division on the issue of joint employment. As we report on page 3, this represents a warning to employers of more aggressive activity on the part of the Labor Department over the issue of when a business can be considered a joint employer.

The DOL says this guidance will be helpful to employers in complying with the Fair Labor Standards Act, as well as the Migrant and Seasonal Agricultural Worker Protection Act. As the DOL explains, there are two types of joint employer relationships: horizontal, where employees work for associated employers; and vertical, which typically involve a staffing agency, subcontractor, labor provider or other intermediary performer. It follows the National Labor Relations Board's August ruling on Browning-Ferris Industries of California Inc., in which the board held that a company need only have direct control of a owner — and does not even have to exercise that control — to be considered a joint employer.

Even the U.S. Equal Employment Opportunity Commission — though it has assumed a lower profile on the issue — has gotten into the act, successfully arguing in a racial harassment and retaliation lawsuit settled last year that a contractor was in effect a joint employer with a subcontractor.

While attributing a conspiracy on federal agencies' part may be giving too much credit to government efficiency, clearly these agencies are reflecting the Obama administration's concern over whether, to quote the DOL, "employees' rights and employer's obligations" are reflected in employment practices, as businesses vary their organizational and staffing models in response to economic necessity.

All this could change with the election of a new president next year. But in the meantime, many employers may simply acknowledge they are in a joint employment relationship and move on from there.

This is yet another headache for employers, and there is justifiable concern it will lead to further regulatory action against employers — and an enthusiastic plaintiffs' bar.

But, as always, it all comes down to treating workers fairly and being conscientious about seeing they are paid whatever is their due. Once that is addressed, everything else should readily fall into place.

*Business Insurance* welcomes letters to the editor. The section is intended to be a forum for readers' opinions and comments. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters.

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SCHILLERSTROM



COMMENTARY

## HEALTH CARE REFORM LAW OFFERS PLATFORM TO BUILD ON

**C**hange is always a big theme in politics, and while the status quo is not necessarily something to be preserved, some of the radical changes now being proposed by politicians should give employers pause.

The U.S. primary election season is coughing up all kinds of ideas that candidates hope will appeal to their parties' faithful but will likely evaporate or be moderated when the presidential election gets underway.

But there are certain proposals that look like they may have staying power. President Barack Obama's signature legislation, the 2010 health care reform law, has long been criticized by politicians on the right, many of whom seek to repeal it, but now it is running into trouble on the left, too. Sen. Bernie Sanders, I-Vt., appears to view the Affordable Care Act as better than nothing, but he wants to replace the reform law with an ambitious plan that would provide Medicare to all. While we await full details, the introduction of what would in effect be a single-payer system would include some sizeable tax hikes for individuals and corporations.

Regardless of where you stand on how health care should be paid for, there is something to be said for holding off on any significant changes until we see exactly how the ACA plays out. From the public policy point of view, early signs are encouraging, such as the big fall in the number of uninsured since key health care reform law provisions, such as federal premium subsidies for the lower-income uninsured, went into effect. While the out-of-pocket expenses for individuals obtaining coverage in the public exchanges can be high, especially for the cheaper plans, that is



**GAVIN SOUTER**  
EDITOR

generally in line with the cost-shifting trend taking place with employment-based health care plans.

And the law is not undermining the employment-based system that historically has covered most workers in the United States.

Employers are cutting benefits, such as moving to higher-deductible plans, to hold down costs, but most that offered coverage in the

past are maintaining coverage for their employees. That's a situation that's likely to continue in the current economy as health care coverage remains a key employee benefit that many employers need to offer to attract and retain workers.

While there are plenty of things to criticize in the health care reform law — the Cadillac tax, for example, clearly deserves lawmakers' attention — that and other issues can be handled by adjustments to the law rather than by repeal or replacement.

While I understand Sen. Sanders' goals — true universal health care coverage rather than coverage for just a large majority of people — I doubt the United States is yet ready for the hike in taxes that would be required to pay for it or the massive shock to the health care system that would be required. Radical changes are all very well, but moving them from the stump to reality can be a long process.

# Turn the idea of resilience into a mindset for change

More than a buzzword, resilience is the vision, collaboration and science that will save communities from the caprices of natural disaster. Louis Gritzko, who holds a doctorate in mechanical engineering and is head of property loss prevention research at insurer FM Global, builds a case for better resilience by busting a few myths.

**A**s witnessed last year with the earthquake in Nepal, natural disasters exact a heavy toll. In the last 10 years, disasters cost more than 700,000 lives, injured 1.4 million and made some 23 million homeless, according to the United Nations. The economic toll of those disasters has topped \$1.3 trillion. Insured losses typically are one-third of the total or less.

With natural disasters a constant threat in a developing and dynamic world, there are urgent calls to improve resilience. It's the focus of a growing number of policy discussions, initiatives and organizations.

The 2015 U.N. World Conference on Disaster Risk Reduction in Sendai, Japan, in which I was a panelist, recognized the need for "focused action" on resilience in four priority areas:

- Understanding disaster risk
- Strengthening disaster risk governance "to better manage disaster risk."
- Investing in disaster risk reduction for resilience
- Enhancing disaster preparedness for effective response and to "build back better" in "recovery, rehabilitation and reconstruction."

Despite its traditional meaning of bouncing back from adversity, resilience as discussed in Sendai and elsewhere focuses on a civic durability. Particularly in response to catastrophes, movements are springing up to create resilient communities, businesses, cities, countries and continents by addressing natural disaster, political upheaval, economic crisis and climate change.

The resilience of a community depends on the degree to which it has the necessary resources and is organized before and during times of need. At the core of civic resilience are buildings, businesses and public infrastructure planned to survive disaster and prevent losses rather than retrofitted in reaction to whatever befalls them. Forethought is aligned with experiences to reduce the effects of or even prevent catastrophes. Developing buildings and infrastructure for resilience can help save neighborhoods, jobs and economies and serve a vital role in sustaining public well-being worldwide.

My fear, however, is that resilience becomes more of a buzzword than a serious commitment and that we will fail to take the concrete steps needed to create a resilient world. How can we overcome the challenges we face in moving from

resilience the concept to resilience the way of life? Let's start by busting 10 myths:

**1: Disaster is a remote possibility.** When most people hear 100-year flood, for example, they think "not in my lifetime." The reality is a 100-year flood has a 1% chance of happening every year, and a 26% chance of happening over the course of a 30-year mortgage. We must talk about these hazards more concretely.

**2: Climate change trumps planning.** As important as climate issues are, we can be our own worst enemies by putting ourselves in harm's way. We build cities in flood zones and harden landscape through urbanization. In the long term, climate change will simply compound those mistakes and others we are making. Smarter development is the answer.

**3: It's every person for himself.** Businesses and societies are highly interconnected, with the effects of disasters rippling through supply chains and economies, affecting jobs, market share, retirement funds and much more. Although solving a problem in your own backyard is an important start, it's not enough. Businesses should consider planning and investing based on the resilience of target locations. Organizations need to thoroughly examine their business interdependencies — and work together to build their collective resilience.

**4: When nature destroys, rebuild what you lost.** That's the natural impulse, but why rebuild with the same vulnerabilities? Minimum building code requirements help you get out of a building in a disaster, but exceeding them gets you back in faster. A resilient rebuild will almost certainly look different than the design of decades ago. To be resilient, we need an integrated approach on land use policy, codes, standards and best design practices. Architects and city planners can lead the way, but citizens and businesses should raise their expectations as well.

**5: Government should own the resilience research function.** The smarter move is to give responsible industry a seat at the table, consider its points of view and let it contribute to civic resilience if they want to do the work. Often, they have research arms, funding and a better understanding of what is feasible. Good things can happen when civic interests are aligned with market demand, such as the need to keep major employers and producers in business. Ideally, every tax

dollar spent on research for resilience would be mapped to a public benefit and include a plan to make it real.

**6: Every risk reduction helps.** Well, yes, but the weakest links will jeopardize the chain. For example, if you invest in measures to protect a facility from natural hazards, yet it burns to the ground because local codes don't require fire sprinklers, you are not resilient. A 360-degree view of resilience is imperative.

**7: Engineers should run with resilience.** Although you will need lots of engineers to achieve resilience, business leaders have a big role to play. C-suites and boardrooms need to take ownership. They get paid for getting things done and should have the courage to do so for the long term, not just their own tenures. Sustained resilience needs to be an integral part of their mindset, if only to protect them from loss of market share, shareholder value, reputation and more.

**8: What's built is built.** Yes, much of the vulnerability in North America and Europe is in existing buildings and infrastructure, but it's always worthy of review. More attention needs to be focused on opportunities for modest retrofitting of buildings, especially during renovation when the investment becomes most cost-effective. Architects can help here, too.

**9: You can't predict the future.** This one's partly true, but the lowest quasi-credible assessment of risk will always carry the day. Every study and technical publication needs to be held to a high standard that includes sound science, clarifying assumptions and a credible estimate of the uncertainty so the findings are actionable.

**10: We've got all the tools in hand, we just need the money.** Many tools are in hand, but innovation in design, construction and environmental engineering, as well as new mechanisms to pay for it, will make us more resilient faster. We live in an increasingly digital world, and technologies provide new opportunities to be exploited. After Hurricane Sandy hit the East Coast hard in 2012, a multitude of flood protection solutions were developed based on renewed demand and innovative thinking. But they just scratch the surface. Although the time period after an event can change mindsets, complacency sets in quickly. Execution needs to be persistent.

By working together and taking concrete actions such as these, we can inject desperately needed substance into the continued calls for resilience. We can overcome the challenges that leave us fragile and vulnerable.

Vulnerability is a choice, and so is resilience. We should stand back, look around and commit to make the right choice in our personal, business and policy decisions. This way, we can prevent events from becoming catastrophes when possible and bounce back from them more quickly when not possible.



Louis Gritzko is vice president and manager of research with commercial and industrial property insurer FM Global. Contact him at 401-275-3000 or [research@fmglobal.com](mailto:research@fmglobal.com).

# BEYOND THE COST OF TREATMENT: THE ECONOMIC BURDEN OF PSORIASIS

*This content is sponsored by Lilly USA LLC and sponsor had sole editorial control.*

- Psoriasis presents a significant economic burden to payers and the patients they serve<sup>1</sup>
- As many as one-third of patients receiving biologic therapy for moderate-to-severe psoriasis experience dose escalation<sup>2</sup>
- Significant comorbidities associated with psoriasis may require additional healthcare resource utilization<sup>1,3</sup>
- Patients with psoriasis often incur indirect costs in the form of missed work or impaired work productivity, compounding the direct cost of treatment<sup>1</sup>
- Indirect costs related to psoriasis are often lower in patients who experience better treatment outcomes versus patients whose disease is not well controlled<sup>4</sup>

## PSORIASIS IS A COMMON AND COMPLEX DISEASE

Psoriasis is a common, chronic, multisystem inflammatory disorder.<sup>5</sup> As many as 7.5 million people in the United States are living with psoriasis and of those, 25% experience moderate-to-severe disease.<sup>6</sup> Clinical characteristics of psoriasis include disfiguring, scaling, erythematous plaques or papules that are often painful and severely pruritic; these symptoms often have a substantial psychological and emotional impact.<sup>5</sup>

Beneath the visible dermatologic manifestations of the disease, there are numerous underlying comorbidities associated with psoriasis.<sup>3,7-10</sup> These may include heart disease, obesity, metabolic syndrome, diabetes, and Crohn disease.<sup>3,7-10</sup>

In addition, other systemic inflammatory conditions including vascular inflammation and psoriatic arthritis are directly associated with psoriasis.<sup>10</sup> Because psoriasis symptoms usually present in an obvious and afflictive manner, patients often experience depression, anxiety, and sleep disturbance in association with the disease, which directly affect quality of life and utilization of healthcare resources.<sup>11</sup> One study shows that even patients with “clear” skin versus “almost clear” skin report higher quality of life.<sup>12</sup>

Psoriasis not only affects patients and the direct costs of their healthcare, but is associated with high costs for payers and indirect costs associated with diminished employee productivity.<sup>1,13,14</sup>

## UNMET PATIENT NEEDS

According to a National Psoriasis Foundation survey spanning 2003 to 2011 (N=5604), more than 50% of patients with moderate psoriasis and more than 40% of patients with severe psoriasis were dissatisfied with their current treatment.<sup>15</sup> The most commonly cited reasons for discontinuation of biologic agents were adverse effects and lack of effectiveness or skin clearance.<sup>15</sup>

Skin clearance is a quantifiable assessment of severity of disease often measured using the Psoriasis Area and Severity Index (PASI) scoring model, which allows the clinician to assess severity of disease at baseline and measure improvement in skin clearance associated with treatment. Improvement is calculated as a percent; for instance, PASI 75 is 75% skin clearance from baseline and PASI 100 is 100%, or complete skin clearance.



Figure 1. Patients with moderate-to-severe psoriasis. Images used with permission from Science Source Images. <http://www.sciencesource.com>.

Traditionally, achieving PASI 75 has defined treatment success.<sup>16</sup> However, with the evolution of understanding the pathophysiology of the disease, newer therapies are showing skin clearance improvement results of PASI  $\geq 90$ . With a better

understanding of the underlying mechanism of the disease, newer, more targeted treatment approaches could change the goal of therapy to PASI 90 or beyond.<sup>16-18</sup>

## PSORIASIS IS AN ECONOMIC BURDEN ON MANY LEVELS

From an economic standpoint, the estimated total annual costs (combined direct costs, indirect costs, and cost of comorbidities) for the United States population living with psoriasis range from \$112 billion to \$135 billion in 2013 dollars, translating to a per-patient cost ranging from \$22,683 to \$25,796 per year (2013).<sup>1</sup>

### Healthcare resource utilization is higher among patients with psoriasis<sup>1</sup>

In 2013, the direct cost of the disease alone was estimated at \$51.7 billion. This includes visits to specialists, hospitalizations, over-the-counter and prescription medications, phototherapy, medication administration costs, and lab tests. Per-patient annual direct costs of psoriasis

range from \$6,985 to \$8,536. Compared with the general population, direct healthcare costs are significantly greater for patients with psoriasis. Among patients with psoriasis, direct healthcare costs increase with the severity of disease.<sup>1</sup>

Direct healthcare costs for patients with psoriasis increase with the severity of the disease. These costs are significantly greater compared with the general population.<sup>1</sup>

	Total	Per Patient	Description
<b>Direct Costs</b>	\$51.7 billion	\$6,985 to \$8,536	Visits to specialists, hospitalizations, over-the-counter and prescription medications, phototherapy, medication administration costs, and lab tests
<b>Costs of Comorbidities</b>	\$36.4 billion	\$4,920	Medical evaluations, treatment, and laboratory tests attributed to comorbid conditions associated with psoriasis
<b>Indirect Costs</b>	\$23.9 billion	\$3,225 to \$4,787	Impaired work productivity in 2 forms: Absenteeism (loss of productivity due to missed work or unemployment) and presenteeism (diminished productivity due to work impairment on the job)

Figure 2. Annual Cost of Psoriasis (2013 Dollars).<sup>1</sup>

### Treatment changes can increase direct costs of biologic therapy

Trends in the use of biologic therapy for psoriasis have shown that changes in treatment are common. In a 2015 study of patients with moderate-to-severe psoriasis (N=4309), dose escalation in the use of biologic therapy was defined as an increase of at least 25% for an index biologic following the 12-month titration period.<sup>2</sup> One-third of patients in the study who were prescribed a biologic therapy for psoriasis experienced an escalation in treatment dose over time.<sup>2</sup>

One-third of patients on biologic therapy for psoriasis experienced an escalation in treatment dose.<sup>2</sup>

Inefficiencies in biologic therapy for psoriasis including restarting, switching, and discontinuing any given treatment are common.<sup>2</sup> Treatment restart was defined as re-initiation of the same biologic therapy after a gap that exceeds the specified time threshold for the index biologic; restarting occurred in an estimated 25.3% of cases.<sup>2</sup>

Similarly, switching was defined as starting a different biologic therapy after a treatment gap exceeding the specified time threshold for the index biologic, which occurred in ~12.5% of cases.<sup>2</sup>

Discontinuation occurred in 30.8% of cases and was defined as stopping treatment with the index biologic with no subsequent biologic therapy.<sup>2</sup>

### Significant comorbidities correspond to significant costs

In 2013, the annual cost of comorbidities associated with psoriasis was estimated to be \$36.4 billion in the United States.<sup>1</sup> This calculation includes medical evaluations, treatment, and lab monitoring for comorbid conditions associated with psoriasis (psoriatic arthritis, cardiovascular disease, depression, diabetes mellitus, hyperlipidemia, hypertension, obesity, cerebrovascular disease, and peripheral vascular disease). Broken down to a per-patient level, the estimated annual cost of healthcare for these medical comorbidities is \$4,920.<sup>1</sup>

Specifically, costs associated with psoriatic arthritis may be as much as \$3,320 more per patient compared to those with psoriasis alone.<sup>1</sup> Furthermore, one study showed that 57.8% of patients with psoriasis filled nonpsoriasis prescriptions (antidepressants, antidiabetes medications, and cardiovascular medications) vs 42.8% in the control group.<sup>19</sup>

## Indirect costs associated with psoriasis are considerable

According to 2013 data, indirect per-patient costs associated with psoriasis range from \$3,225 to \$4,787, totaling approximately \$23.9 billion in the United States each year.<sup>1</sup> These costs are directly related to diminished work productivity in 2 forms: absenteeism (loss of productivity due to missed work or unemployment) and presenteeism (diminished productivity due to work impairment on the job).<sup>1</sup> One study showed that of employed patients with psoriasis, 49% missed work due to the disease or associated treatment.<sup>20</sup> In a typical month

among those who missed work, 62% missed 5 days or fewer, 6.6% missed 6 to 10 days, and 31% missed more than 10 days.<sup>20</sup>

Work productivity, in turn, is related to the level of disease (as determined by a PASI score) and increased severity corresponds to increased work impairment.<sup>4</sup>

Indirect costs associated with psoriasis total approximately \$23.9 billion in the United States each year.<sup>1</sup>

## ECONOMIC BURDEN IS MORE THAN SKIN DEEP

The economic burden of psoriasis goes well beyond the cost of treating the skin to the cost of treating associated comorbidities, as well as the indirect costs due to diminished work productivity related to symptom severity. Not

only should skin clearance be a goal for these patients, but improvements in quality of life and work productivity are additional goals that may reduce indirect costs associated with this disease.

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# SPECIAL REPORT

## Risk Management

## Technology

**New technology tools on tap for property risks**

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**Training crucial when upgrading IT systems**

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**Survey shows room to grow for RMIS**

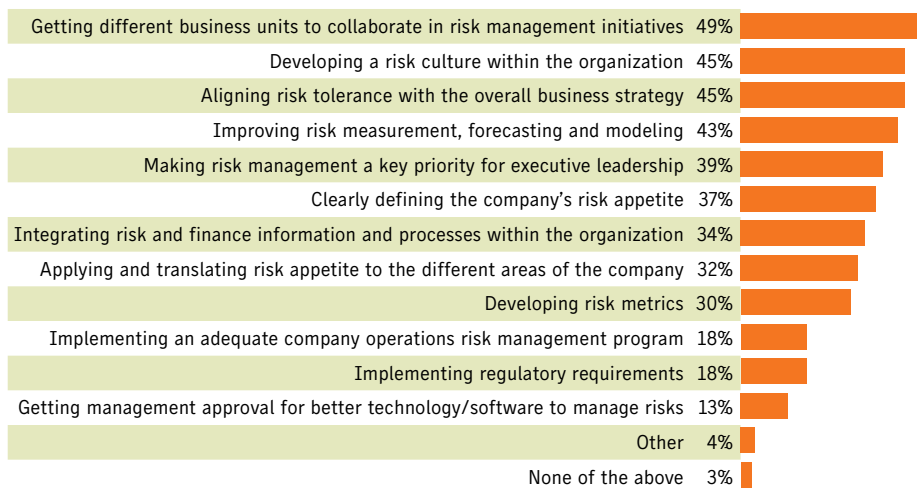
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**RMIS data and trends from survey findings**

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### NEW CHALLENGES

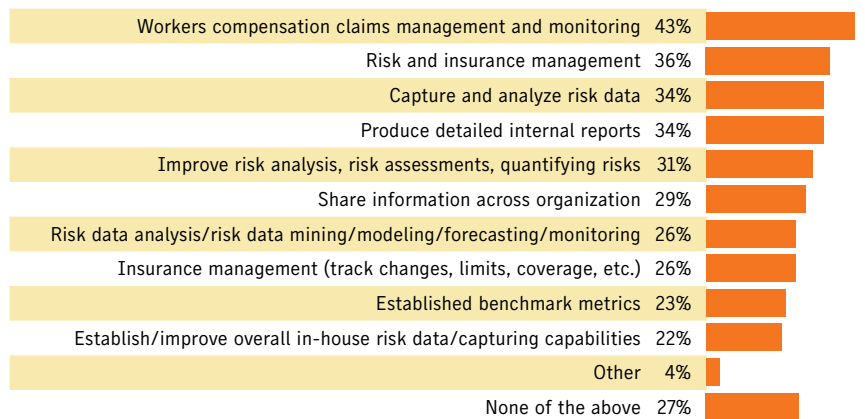
Top five risk management challenges facing company in the next 12-24 months



Source: BI survey

### NEW CAPABILITIES

What activities or tasks are you able to do today using risk management technology that you were not able to do in the past when this technology was not available?



Source: BI survey

# Preparing for the inevitable

Risk managers turning to RMIS to aid rapid response to emerging liabilities

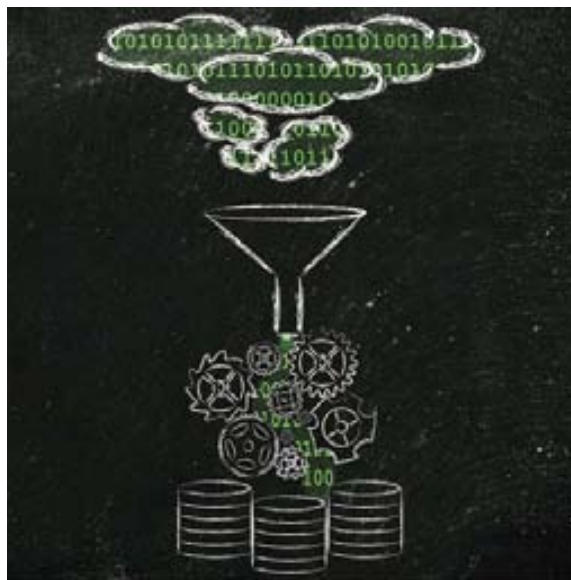
BY MARK A. HOFMANN

**D**ifficulty in forecasting rapidly changing risks, notably cyber liability and reputation risk, are driving risk managers to seek more from their risk management information systems. RMIS once focused on basic tasks such as claims and insurance policy management. Observers say today's risk managers want to increase their predictive analytic capabilities, but also worry about the accuracy of such forecasts.

"There are basically two schools of thought within the risk management community," said John Phelps, director of business risk solutions at Blue Cross and Blue Shield of Florida in Jacksonville and a past president of the Risk & Insurance Management Society Inc.

One consists of traditional risk managers who are looking for claims management capabilities, policy management and archiving abilities, he said. The other school of thought involves risk managers who focus primarily on enterprise risk management and are not involved in risk financing, he said.

"Predictive analytics is by far the hottest topic" in RMIS today, said Paul Marushka, president of Chicago-based Marsh ClearSight L.L.C., previously CS Stars L.L.C. until it was rebranded last year. "The research we've seen is that 66% of the risk managers say they do not have the analytics they need to manage their risk effectively, and 86% say their ability to forecast risks will become more difficult in the next three years."



Mr. Marushka said risks continue to evolve and are getting harder to identify, citing cyber risk as an example. "It takes over 80 weeks for shareholder value to recover after a reputational crisis," Mr. Marushka said. "The ability of risk managers to model that out so they can give a perspective holistically across their organizations is a top priority."

"We see an acceleration, with risk managers talking about uninsurable risks," said Bob Morrell, CEO of Ken-

nesaw, Georgia-based Riskconnect Inc.

"The nature of risk management is evolving dramatically, from a relatively steady state to more of a rapid-response environment," said Stephen Rhee, Chicago-based CEO of Ventiv Technology Inc. He said that risk managers must be prepared to deal with developments that can arise at any moment.

"Cyber risk is different than just about any other class of risk facing a business today, in that there is somebody actively trying to do harm to your organization every day," he said. "For every organization, it's not a matter of if, but when, in terms of when it will face a cyber attack."

Mr. Rhee said an RMIS system is "critical to help risk managers prepare for and deal with this inevitability."

According to Mr. Rhee, the effective quantification of risk exposures, both tangible and intangible, is probably the most difficult component of cyber risk assessment. "Use of a RMIS system in the quantification helps standardize both definition and values of all classes of exposed assets," he said.

According to Ventiv, other risks that could require a rapid response include weather impact, product failure and brand reputation.

"We've tailored offerings that are specific around cyber risks, but also handle the broadest impact of what those risks entail," said Riskconnect's Mr. Morrell.

"When you look at what RMIS has done, it's been a matter of let's help the risk management department make better decisions," Mr. Morrell said. "That's impor-

## RMIS EVOLVING INTO HOLISTIC RISKS RESPONSE TOOL

Look for a cascade of changes in the world of risk management information systems in the not-too-distant future.

In fact, RMIS — which has already evolved from systems designed to handle the nuts and bolts of insurance policy management to creating a framework for enterprise risk management — may be able to tap other systems to provide a more holistic risk assessment. Risk professionals can expect

to see their enterprise SaaS — software as a service — “deliver the same collaborative, integrated experience that they’ve become accustomed to within most consumer Web systems,” said Aaron Shapiro, New York-based executive vice president of Chicago-based Origami Risk L.L.C.

Risk managers will work within their RMIS environments without having to log into multiple providers’ systems, he said. They also will be

able to work with multiple internal systems run by different departments, he said,

“Regardless of the disparate systems used in these other departments and other organizations, they will be able to conduct most of their activity directly through their one RMIS desktop and expect the system to synchronize data and push workflows out to constituents,” Mr. Shapiro said.

“There’s going to be convergence of several technologies:

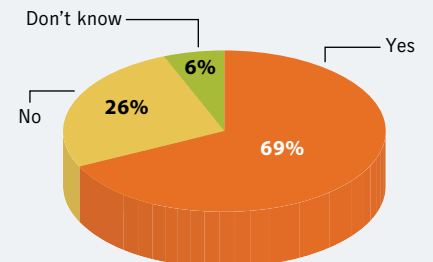
RMIS, environmental and safety systems, and government risk and compliance systems,” said Paul Marushka, president of Marsh ClearSight L.L.C. in Chicago.

ERM will encompass all three technologies and “become one umbrella and one platform,” Mr. Marushka said. “I think there’s significant overlap already, but the convergence is probably five years away.”

By Mark A. Hofmann

## RISK MANAGEMENT A GROWING CONCERN

When asked, 69% of respondents felt that risk management was a higher priority for their companies today than it was two years ago.



Source: BI survey

tant, but there’s a lot more to risk management than that. The complexity of the uninsurable side of risk just keeps increasing. If you use a spreadsheet to manage it, it just falls apart.”

Rather than subscribing to one benchmark model or one built-in predictive model, risk managers “are coming to the same conclusion that insurance underwriters have subscribed to for many years: overlaying multiple data points drives better results,” said Aaron Shapiro, New York-based executive vice president of Chicago-based Origami Risk L.L.C.

He said that on its own, each of these analytics is somewhere between a compass and a GPS.

RMIS “won’t tell you to ... settle your claim for exactly \$20,000,” he said, but “they will give you something better than, ‘Head northwest,’” Mr. Shapiro said.

“Our clients are now looking to subscribe to multiple sources and overlay the analytics and their own private data” such as claims, policies, exposures and the like, he said.

“They can expect to see RMIS offer more and more flexible tools to automatically combine these data sets. The result will be more informed decisions and the ability to drive the best results via rules-based automation,” Mr. Shapiro said.

“What do I see the rising risk professionals doing? They’re using apps for everything” on their smartphones, said Darius Delon, chair of the RIMS Canada Council and associate vice president of risk management at Mount Royal University in Calgary, Alberta.

“The integration of a worthwhile app that’s on your phone that allows your common staff members that have the app to actually record the incident” would be a welcome addition to RMIS, he said. For a university, an incident could range from water damage to property to a campus commotion, he said. “We have some stuff that’s cloud-based, but you have to log into the system ... you’re already away from the incident. It would have to be so simple that everybody could do it.”

“If you don’t capture the incident, you don’t manage the claim” that arises from it, Mr. Delon said.



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MTG-2972 (1/16)

# BROKERS, MODELERS OFFER HIGH-TECH TOOLBOX TO TACKLE PROPERTY RISK ASSESSMENTS

Risk managers can access array of recently launched technology services

BY MATTHEW LERNER

Technology will continue to be a major force in the property insurance space as several new tools make their way to the market.

At the recent Property/Casualty Insurance Joint Industry Forum in New York, a panel of industry executives said 2015 may be remembered as the first year that technology issues dominated the insurance industry discourse.

“Relative to what I’ve seen in the past, my view is the pace of change is unprecedented,” said Hemant Shah, co-founder and CEO of Risk Management Solutions Inc., San Francisco.

Technology seems poised to make a big splash in 2016 as well.

One new tool at Aon Risk Solutions is the company’s Property Laser program, which Aon introduced at the end of last year with the aim of improving clients’ risk profiles and lowering their costs of risk.

“Property Laser looks at all aspects of a property program, from values and brokerage to engineering and claims processes,” said Anne Parkin, a director with Aon Risk Solutions’ property risk consulting practice in Detroit.

The analysis, which focuses primarily on property valuations as well as primary and secondary characteristics for natural catastrophe modeling, produces a report showing where property program improvements are needed in an easy-to-read format, she said.

Willis Towers Watson P.L.C. Global Peril Diagnostic, introduced in April 2015, gives clients a global view of exposures across their entire portfolio by peril, said Ben Fidlow, the broker’s global head of core analytics in New York.

The five perils Willis’ offering evaluates are earthquakes, tropical cyclones, river floods, tsunamis and storm surge.

“The holistic view of exposures is a powerful one” and “very visual,” said Mr. Fidlow.

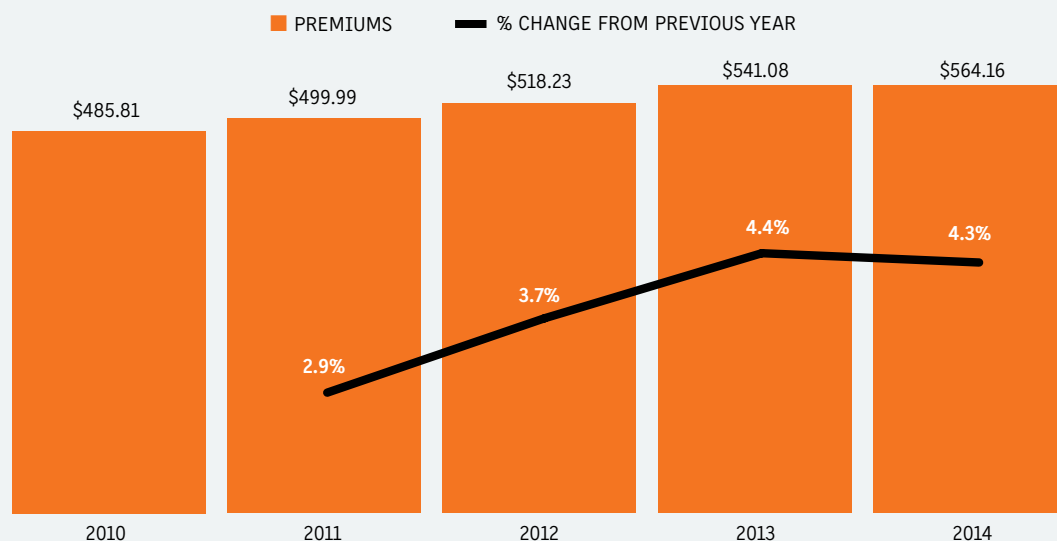
The diagnostic also produces an overall perils score to allow benchmarking to obtain a better picture of the overall risk. It also “benchmarks multiperil risk against the industry,” said Mr. Fidlow.

At AIR Worldwide, risk managers can use its Touchstone sys-



## P/C PREMIUMS

U.S. property/casualty earned premiums, in millions, grew 16.1% in 2014 from 2010.



Source: National Association of Insurance Commissioners

tem “to access a global suite of catastrophe risk models,” said Andy Kao, San Francisco-based director of catastrophe risk engineering services at the catastrophe modeler.

Clients also can take advantage of site-specific engineering consulting and outsourced modeling services to help quantify their exposure to future losses and eval-

uate the cost-effectiveness of insurance limits and deductibles, Mr. Kao said.

Looking forward, AIR is developing a supply chain model to assist companies in better quantifying the catastrophe risk to their full supply chain networks, as well as a cyber risk model, said Mr. Kao.

Risk Management Solutions Inc. later this year plans to roll out

RMS One, its suite of open, real-time exposure and risk management applications, said Shaheen Razzaq, RMS’ director of product marketing in London.

“The most common request is for more advanced analytics for decision-makers,” said Mr. Razzaq. “They want to have a deeper understanding of the drivers of their risk and they see heavier use

of catastrophe models as a way to do this.”

One area of increasing interest in portfolio management is imagery, as greater use of satellites and drones is melded with social media to maximize the input of real-time information, said David Pedersen, senior vice president of business development at CoreLogic Inc. in Indianapolis.

“The imagery is becoming more granular,” said Mr. Pedersen, thereby generating more accurate data.

Solid waste company ADS Waste Holdings Inc. is among businesses that have embraced risk management technology.

“We actually have a very extensive statement of values for our

“Relative to what I’ve seen in the past, my view is the pace of change is unprecedented.”

Hemant Shah,  
Risk Management Solutions Inc.

property, having operations in 18 states,” said Marti Dickman, vice president of risk management at ADS Waste in Ponte Vedra, Florida.

“We have quite a bit of property information to gather, including information on real property as well as personal property, but also the yellow iron and other heavy equipment we use, and a lot of processing equipment as well as material recovery facilities,” said Ms. Dickman.

ADS moved to Origami Risk L.L.C.’s risk management information system just over a year ago. “And that system is pretty robust,” said Ms. Dickman. “It allows us to administer, collect, track and organize our data to be able to use it to create a statement of values.”

“Because the RMIS system is also used internally for claims, we can very quickly and easily get snapshots of claims that are tied to each location,” said Ms. Dickman.

“Because of the significant growth in our company, we knew that to have integrity in our information, to have efficiencies in our processes and be able to do effective and quality analytics, that we need a tool that allowed us to do this,” she said.

## TRAINING FOR USERS KEY WHEN UPGRADING RISK MANAGEMENT TECHNOLOGY

BY DONNA MAHONEY

Risk managers use various methods to measure and track their companies' risks, and training on new systems can sometimes be frustrating.

Brent Roeder, director of safety sales at Fastenal Co., a Winona, Wisconsin-based fastener distributor with \$3.87 billion in 2015 sales, selected a cloud-based software to replace the Excel spreadsheets his team used to identify and measure risk since some of the company's warehouses had poor or no Internet reception.

He chose Atlanta-based Inspect-All Software L.L.C., which offers a platform that allows Fastenal to import its spreadsheets into an app, also from InspectAll, and access and edit them from a smartphone.

While Mr. Roeder is satisfied with the on-site training that he and his staff received, "there is absolutely a learning curve." The software provider also connects remotely "to make sure our new people are able to use the basic platform with ease," he said.

But some risk managers still rely on spreadsheets.

Gloria Brosius, the first corporate risk manager of agricultural distributor Pinnacle Agriculture Holdings L.L.C. in Denver and a board director of the Risk & Insurance Management Society Inc., said the company, which has been highly acquisitive and has dozens of U.S. locations, has not reached the point where it needs a risk management information system, so she relies on her broker, Aon P.L.C., for the insurance and uses Excel to track the company's risks.

In her previous job at FCC Services Inc. in Denver, which handles the risk management and captive insurer for Farm Credit, she used the CS Stars L.L.C. RMIS platform and received individualized training to deal with the company's unique exposures.

"We had our own captive insurance company, which made it more complicated," she said.

On-site training "was very hands-on, and we were their only focus. Overall, the training I received was very good, but every company does things differently, so you need to be able to take the generalized training and work hard to apply it to your own job to make it work for you," Ms. Brosius said.

Jeff Tennis, Lockton Cos. L.L.C.'s Kansas City, Missouri-based project manager of property analytics, participated in testing a new software by Ann Arbor, Michigan-based insurance analytics firm EigenRisk. They chose EigenRisk's EigenPrism platform because it gave clients more "exposure awareness" with its visual mapping of the client's locations.

"The training and tutorials that the technology provider put together flattened the learning

curve," he said. "You just need to drag the information from Excel into Prism and you can start to quickly pull reports and be up to speed in a few hours," he said.

However, Leslie Lamb, San Francisco-based director of global risk and resiliency management at networking technology company Cisco Systems Inc., said she would like to find a system that is more suitable for a tech company.

"I wish the systems could be better tailored to what companies really need," Ms. Lamb said. She said tech companies don't have a lot of claims, "but a retailer would

need the details that these systems provide because they have a ton of claims."

She also found the training experience to be somewhat frustrating. "Setting these systems up if you are not claims people can be very difficult," she said.

One former risk manager was frustrated enough that he developed his own software tool.

"Ten years ago, it seemed like every industry had Web-based software tools, but it seemed like the insurance and risk industry didn't," said Craig Rowe, CEO and founder of ClearRisk Inc., St.

John's, Newfoundland. As a former RIMS board member, "I could see that I wasn't the only one dealing with this issue, so I went ahead and started ClearRisk."

For the past seven years, his company has provided webinars and one-on-one training sessions that include live training.

"Internet streaming and software tools are so good now that it is easy to train people in any way that they prefer," he said.

Risk management software training that requires certification can be more challenging but also more rewarding.

Catastrophe modeler AIR Worldwide holds training sessions in locations around the world that includes the certified catastrophe modeler program.

Part of what brings people to the training is they receive an accreditation that comes with completing the training and passing the exams, said Joe Cleveland, the company's Boston-based education and training manager.

"CCM is a certification that you are fluent in AIR software and have a working knowledge of catastrophe models and methodology," he said.



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# Risk managers missing out on Big Data opportunities

BY ANDY TOH

The market may still not be ready for all the sophisticated functionalities that technology companies have to offer risk managers, a *Business Insurance* survey concludes.

According to *Business Insurance*'s Risk Management Insights Panel, which comprises risk managers in industries that include construction, transportation, real estate and health care, 97% are the final decision-makers or actively participate in their organization's insurance purchases.

The online survey, which drew 184 responses, found that 65% of respondents are light to moderate users of risk management information systems. Twenty-eight percent say they do not use RMIS at their company at all (see Research & Data, page 25).

Risk management professionals also are not jumping on the big data bandwagon, as only 5% of survey respondents said they currently use big data in their modeling efforts.

About one-fifth of the total still rely on spreadsheets.

Amid cyber breaches, geopolitical prob-

## BIG DEARTH

When asked if they use Big Data in their risk modeling efforts, only 5% of the respondents said their companies are using the technology for modeling

Yes	5%
No, but we are planning to use Big Data in risk modeling in the next 12-24 months	5%
No, but it is in discussion	19%
No	71%

Source: BI survey

lems around the world and financial market turmoil, 69% do feel that risk management today is a higher priority in their organization than it was two years ago.

The top five risks about which their organizations are most concerned are operational, regulatory, legal, data/cyber and reputational risks, according to the survey.

For the 72% of risk managers that do have RMIS, managing and monitoring workers compensation claims is the top thing that today's technology allows that was not available in the past.

Managing risk and insurance, producing detailed internal reports, capturing and ana-

lyzing risk data and improving risk analysis round out the top five uses of RMIS by today's risk managers. That is nearly the same as *Business Insurance*'s previous risk manager survey in 2014.

But when it comes to challenges the risk managers expect to face in the next 12 to 24 months, collecting and analyzing data is not the biggest issue.

Members of the Risk Management Insights Panel say their three biggest concerns in the next two years are getting business units to collaborate on risk management initiatives, developing a risk culture within the organization and aligning their tolerance of risk with the company's overall business strategy.

Improving risk measurement, forecasting and modeling is No. 4 among their future concerns, while No. 5 is making risk management a key priority for executive leadership.

As far as RMIS and other technology, risk managers' top desire is that it be able to forecast risks, followed by relating risks and processes, conducting risk and other business analysis, quantifying risks and risk assessments.

That means risk technology companies may want to increase the sophistication and functionality of their offerings, but also put equal emphasis on making their systems easier to use, considering the time lag in risk management's adoption of new technology.

That could help with companies' generally flat spending on new tech tools.

Sixty-five percent of the respondents said there has been no increase in technology investment in the past year. Still, the 33% that did increase technology spending in the past year said it increased by 10% to more than 50%.

The average spending on new technology in the past year was \$129,000, but 70% said their company spent less than \$100,000 on risk management software.

No one RMIS provider dominates the market.

One-third of the risk managers said they did not receive any training when new technology was adopted, but the survey was of senior executives with an average age of 53.2, who may not use the technology every day.

The Jan. 12-27 survey has a 95% confidence level.

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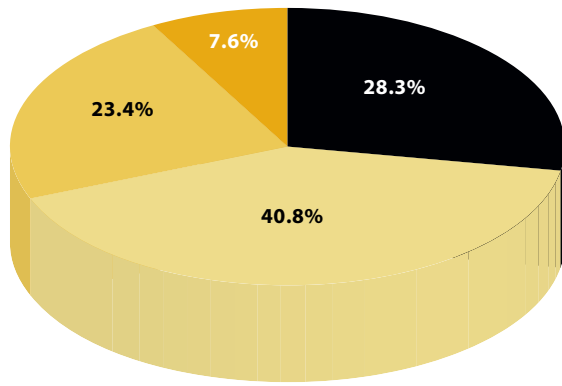
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### RMIS USAGE

How would you describe the current use of risk management information systems at your company?

- Not a user
- Light
- Moderate
- Heavy

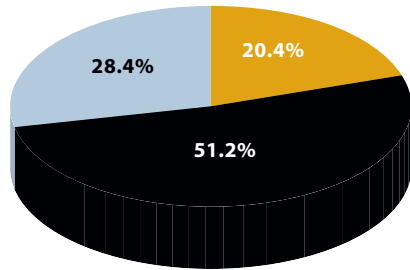


**W**hen it comes to technology and the latest tools, risk managers generally are light to moderate users of risk management information systems, and only a small percentage use big data in their modeling efforts. Those are the conclusions of the latest survey done by *Business Insurance* of its Risk Management Insights Panel of risk management professionals. On this page are these and other results of the online survey, taken Jan. 12-27, that drew 184 responses.

### CHANGE IN TECHNOLOGY

Is your company considering changing its risk management technology software/platform in the next 12-24 months?

- Yes
- No
- Don't know



### SYSTEMS USED

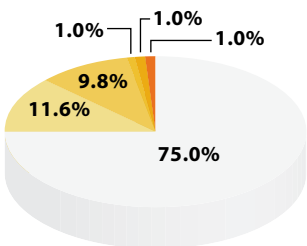
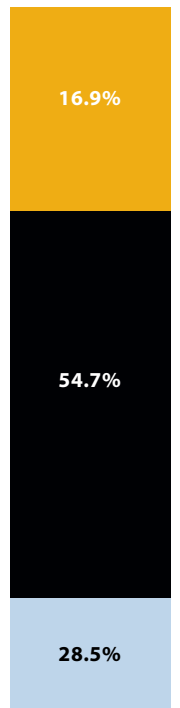
Of the 72% of risk management information system users, no one provider dominated the market.

RMIS provider	% of total
Marsh L.L.C.'s ClearSight	10.8%
Origami Risk L.L.C.	10.0%
Riskconnect Inc.	7.7%
Computer Sciences Corp.'s Riskmaster	6.9%
Ventiv Technology Inc.'s RiskConsole	6.2%
Crawford Risk Sciences Group Inc.'s Dimitri	4.6%
Liberty Mutual Insurance Co.'s RiskTrac	2.3%
Other	18.5%
None of the above	40.8%

### OTHER TECHNOLOGY

Other than the risk management information systems currently used, do you prefer to use other technology platforms/apps/software solutions in your risk management efforts?

- Yes
- No
- Don't know



### APPS USED

Number of apps currently on mobile devices used for risk management purposes

Number of apps

ZERO

1

2

3

4

5 OR MORE



### TOP USES

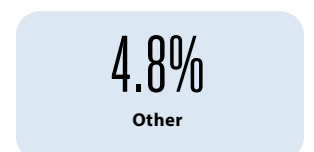
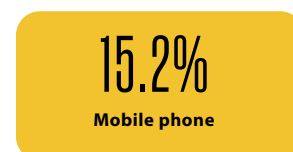
Describe the type of risk management information systems currently used at your company.

System sophistication	% of total
Sophisticated	16.3%
Customized	25.6%
Off-the-shelf	14.7%
Simple	20.2%
Mostly spreadsheets	19.4%
Other	3.9%

System type	% of total
Proprietary/customized	45.7%
Nonproprietary/off-the-shelf	31.0%
Mostly spreadsheets/other	23.3%

### ACCESS POINTS

How do you access the software/platforms used for risk management? (Check all that apply.)



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## REQUEST FOR PROPOSAL

To all persons or entities located in the State of New York interested in the affairs of LINCOLN GENERAL INSURANCE COMPANY  
**Notice is Hereby Given:**

Shirin Emami, Acting Superintendent of Financial Services of the State of New York, has been appointed by an order ("Order") of the Supreme Court of the State of New York, New York County ("Court"), filed on January 26, 2016, as the ancillary receiver ("Ancillary Receiver") of Lincoln General Insurance Company ("Lincoln General") and, as such, has been vested with all other rights and obligations granted to and imposed upon her pursuant to Article 74 of the New York Insurance Law ("Insurance Law"). The Ancillary Receiver has, pursuant to Insurance Law Article 74, appointed Scott D. Fischer, Special Deputy Superintendent ("Special Deputy"), as her agent to carry out her duties as Ancillary Receiver. The Special Deputy carries out her duties through the New York Liquidation Bureau, 110 William Street, New York, New York 10038. The Order further provides as follows:

I. The Ancillary Receiver is authorized to pay claims against Lincoln General, or its policyholders, that are covered by the New York Property/Casualty Insurance Security Fund (the "P/C Fund") or the New York Public Motor Vehicle Liability Security Fund (the "PMV Fund") and, together with the P/C Fund, the "Security Funds").

II. The injunctions and restrictions set forth in paragraphs 6(a), 8(d), 9, 19, and 20 of the order of liquidation of Lincoln General, certified by the Commonwealth Court of Pennsylvania on November 5, 2015, shall apply to any and all of Lincoln General's business that is conducted, and to any and all of Lincoln General's assets, books, records, files, credit cards and other property that are located, in the State of New York.

III. All persons are permanently enjoined and restrained from commencing or prosecuting any actions, lawsuits or proceedings against Lincoln General, and all persons are permanently enjoined and restrained from commencing or prosecuting any actions, lawsuits or proceedings against the Superintendent as Ancillary Receiver or as administrator of the Security Funds ("Administrator"), the New York Liquidation Bureau, and their employees, attorneys or agents, with respect to this proceeding or in the discharge of their duties under Insurance Law Articles 74 and 76.

IV. All parties to actions, lawsuits and special or other proceedings within the jurisdiction of the courts of the State of New York in which Lincoln General, its policyholders, or its insureds are obligated to defend a party or to provide a defense of any matter against an insured pursuant to an insurance policy, bond, contract or otherwise, are enjoined and restrained from obtaining any judgment or proceeding with any discovery, court proceedings or other litigation tasks or procedures, including, but not limited to, conferences, trials, applications for judgment or proceedings on settlement or judgment, for a period of 180 days from the date of entry of the Order.

V. All persons who have first party policyholder loss claims against Lincoln General in the State of New York are enjoined and restrained from presenting and filing claims with the Ancillary Receiver for a period of 90 days from the date of entry of the Order.

VI. The bar date of July 6, 2016 established in the Lincoln General liquidation proceeding in the Commonwealth of Pennsylvania shall apply to this ancillary receivership proceeding, and shall also apply to all claims under Lincoln General policies against the Security Funds.

VII. Immunity is extended to the Superintendent in her capacities as Ancillary Receiver of Lincoln General and as Administrator of the Security Funds, her successors in office, the New York Liquidation Bureau and their agents and employees, for any cause of action of any nature against them, individually or jointly, for any act or omission when acting in good faith, in accordance with the orders of this Court, or in the performance of their duties pursuant to Insurance Law Article 74.

VIII. Lincoln General's license to do business in the State of New York is hereby revoked.

IX. All communications relating to Lincoln General and to the ancillary receivership proceeding thereof should be addressed to: New York Liquidation Bureau, 110 William Street, New York, New York 10038. Attn: General Counsel, SHIRIN EMAMI, Acting Superintendent of Financial Services of the State of New York as Ancillary Receiver of Lincoln General Insurance Company; SCOTT D. FISCHER, Special Deputy Superintendent and Agent for the Acting Superintendent as Ancillary Receiver of Lincoln General Insurance Company.

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# WHAT MATTERS MOST



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## UNMANNED

Continued from page 4

tion industries based in Toronto, points out that a ship is different than other vehicles that may operate autonomously. For one, a cargo ship will be isolated on the ocean. “One of the duties of the crew is to ensure the cargo is inspected, that it doesn’t leak or break through and cause a fire,” Mr. Jervis said. Shipping services provider Clarkson P.L.C. puts the number of cargo ships operating now at 9,600. Though none are unmanned, crewless smaller vessels are expected to be in use in three to five years, with larger merchant ships, those carrying oil and heavier cargo, arriving in 10 to 15 years, according to the Royal Institute of Naval Architects, a London-based professional organization whose members work in the design, construction, maintenance and operation of marine vessels and structures.

Europe is prime territory for

their use, facing issues such as increased cargo volume and environmental requirements and a decline in the number of sailors. So the Europe Commission funded the three-year MUNIN research project to investigate the possibilities of unmanned ships.

MUNIN, completed in August 2015, used 10 years of global manned ship data to compare risks of manned ships to those of unmanned ships and projected that an unmanned ship would have one-tenth of the risk of a manned ship in foundering and collision, in which human error often plays a role. The analysis also predicted a savings of \$7 million over a 25-year period per ship in fuel use and crew supplies and salaries.

“This is less about pros and cons of a crew and more about how insurers can analyze risk,” Tom Hoad, London-based head of innovation at Tokio Marine Kiln Group Ltd., said in an email.

“Undoubtedly one of the benefits is that better informatics means that insurers might be in a better

## UNMANNED SHIP TECHNOLOGY

With autonomous ships expected to arrive within three to five years, a couple of concepts have emerged, according to Maritime Unmanned Navigation through Intelligence in Networks, a three-year research project funded by the European Commission.

**Remote ship.** Tasks are performed via remote control by a human on shore using satellite technology.

**Automatic ship.** Advanced systems on the ship make all the operational decisions without human input.

**The autonomous ship would combine both concepts.**

It would include sensor systems to detect problems such as unexpected objects, rogue waves or a pending collision. In encountering such, the ship’s controls would try to adjust for the situation. If it couldn’t, it would send a request for help or start a fail-to-safe procedure in an attempt to recover computer control.

Another module would monitor for traffic and environmental conditions, using multiple sensors to determine an appropriate response to conditions. A deep-sea navigation system would keep the ship on course. A separate engine monitoring and control system would detect mechanical issues.

A shore control center operated by trained maritime navigation professionals would supervise the ships via satellite to ensure successful voyages.

Even with all this, a human captain still would steer the ship out to sea, departing on a separate boat to allow the ship to continue on its own.

position to calculate risk,” Mr. Hoad said of the advanced modeling tools risk managers use to determine risk. “Perhaps one of the downsides, though, is the question of what new risk emerges from not having a crew.”

To Mr. Jervis, liability and a credible backup plan if something goes wrong at sea would be paramount to cover the millions of dollars of cargo generally on ships. “There wouldn’t be anyone there if there was a breakdown of the computer systems,” Mr. Jervis said. “You could have a train break down in the city of Chicago and a crew could come in minutes, but the Atlantic can be a one-week voyage and the Pacific two to three weeks.”

When it comes to drone technology in any line of transportation, there is no “one-size-fits-all” approach. “Insurers have to look at every risk on a case-by-case basis and decide what the individual threats are,” Mr. Hoad said.

Typically insurers calculate risk by comparing the known volatility of a similar class to the new one, he said. For example, light aircraft gave the industry more data about unmanned aerial vehicles.

But vessels have unique risks, such as pirates. Although the Royal Institute of Naval Architects considers pirates to be “virtually a nonissue for fully unmanned ships,” it cites the lack of crew to take hostage and the ease of creating control systems that cannot be operated by nonauthorized personnel. “Pirates would need an ocean-going tug to steal the ship or cargo,” the organization said in a January statement.

With 23 years in the Merchant Marines, including 13 as captain of five vessels, Mr. Kinsey disputes that, saying an unmanned vessel at sea would be at higher risk of piracy.

Speaking from experience with pirates, he said: “I believe that a human presence on board with active piracy measures in place is an effective deterrent to a pirate boarding.”

## PLUS

Continued from page 4

and “there will be some type of example made for directors and officers,” Mr. Brew said.

Also speaking at the session was Daniel Stein, New York-based chief of the criminal division of the U.S. attorney’s office for the Southern District of New York, who said the New York office’s investigations have always focused on the individual, and the Yates memo may have been directed at other U.S. attorneys’ offices around the country.

Stephanie Avakian, Washington-based deputy director of enforcement for the U.S. Securities and Exchange Commission, said the Yates memo “has not really changed anything for us. We’ve always focused on individual liability and will continue to do so.”

Mr. Stein said his office will continue to focus on securities violations. In addition, the U.S. attorney’s office in New York is increasingly seeing cases involving cyber crime, where companies are being victimized through phishing and hacking attacks.

“We’re seeing a real explosion in that area,” including cases involving companies that respond to forged email accounts, where they are instructed to send funds to a vendor’s allegedly changed bank account, Mr. Stein said.

Ms. Avakian said in addition to the issues cited by Mr. Stein, financial fraud “continues to be a very important focus for us.”

Regarding employment liability issues, the EEOC has placed “a lot of focus on employment issues” under the Obama administration, said Eric J. Marler, Itasca, Illinois-based assistant vice president for management liability claims at The Hanover Insurance Group Inc., during

**“There’s been so much about disparate compensation between men and women, you wonder if that’s going to be very apparent” as an issue in 2017.**

Maura D. Verrone,  
Berkshire Hathaway Specialty Insurance Co.

another session on private and nonprofit D&O coverage.

“It’s going to be really interesting in the next election cycle to see if that mandate continues, or if there’s some pullback,” he said.

Maura D. Verrone, Atlanta-based vice president at Berkshire Hathaway Specialty Insurance Co., pointed to an EEOC proposal that the agency start collecting pay data from employers with more than 100 workers.

“There’s been so much about disparate compensation between men and women, you wonder if that’s going to be very apparent” as an issue in 2017, she said.

Speakers at the conference also suggested the insurance market may be headed for separate policies for directors and officers and corporate entities.

There is a trend toward expansion of coverage under D&O policies, including providing corporate entity coverage, said Kevin LaCroix, executive vice president of RT ProExec, a division of R-T Specialty L.L.C.

While expansion is good, policyholders should be sure to understand this means there may not be adequate coverage for individuals when a crisis hits, Mr. LaCroix said during a session on coverage issues.

As the push toward corporate coverage continues, there is a chance, if the pressure continues to build, “that you’ll see a split” in the purchasing of the coverage, and “it will be more and more logical to create a new D&O tower” for corporate entities, said Tony Galban, Warren, New Jersey-based senior vice president and global D&O product manager for Chubb Specialty, a unit of Chubb Ltd., during a session on D&O innovation.

There were about 1,100 attendees at this year’s PLUS D&O symposium. Next year’s event is scheduled for Feb. 8 and 9, in New York.

increasingly driven by analysis of individual loss records and risk exposure, rather than general increases, and more clubs are using deductibles to control exposure and improve underwriting results,” Oldwick, New Jersey-based Best said.

And while “most clubs have enjoyed a trouble-free year with strong technical underwriting results, there has been no joy from investment income,” Aon P.L.C. said in its review of the P&I year.

Indeed, S&P’s Mr. Nicholson said, P&I clubs’ lower investment returns may be “here to stay.”

While P&I clubs historically have used investment income to “subsidize weak underwriting results,” this strategy “has been challenged by changing regulation and an investment environment characterized by low interest rates and volatile equity markets,” Best said. “Over the past five years, most clubs have sought to achieve break-even underwriting results by pushing through rate increases, introducing minimum deductibles and increasing deductible levels.”

But shipowners that have not suffered losses over the past year likely will press their P&I clubs not increase their rates at renewal.

### Call for rate reductions

The increases being asked for by clubs represent “another potential rise in expenses at a time when cost-cutting is vital” for P&I club members, London-based brokerage Tysers & Co. Ltd. said in an analysis.

Although the average increase being sought by clubs was about 2%, shipowners with good loss records can expect reduced rates, brokerage Willis Towers Watson P.L.C. said in an analysis in December. “In the continuing challenging shipping market, we expect shipowning members to be pressing for the lowest renewal proposals in the 2016 renewals.”

Despite weak investment gains, the P&I market currently has a surplus, and nine of the 13 International Group member clubs posted improved underwriting results in 2015, said Ben Abraham, who leads Willis’ P&I division in London.

This likely means that ship operators will call for rate reductions, he said.

“Claims remain volatile and investment markets fragile, but a relative slowdown in the number of major claims has allowed the International Group market to make its first overall surplus since 2010,” Willis said in its report about 2015.

# JOINT

Continued from page 3

that control to be considered a joint employer.

The guidance was no surprise because “this is the general direction” in which the issue was heading as a result of the NLRB’s decision, said Adeola Adele, New York-based executive vice president and employment practices liability insurance product leader at Willis Towers Watson P.L.C. It is “in line with the administration’s view that employees’ rights are not being appropriately protected by employers.”

For the typical employer, though, “it’s a big change,” said Tom Hams, Chicago-based managing director and national employment practices liability insurance practice leader at Aon Risk Solutions.

Many employers following the 2008 financial crisis “attempted to push down work to smaller organizations that pay less benefits” to reduce their expenses, he said.

Experts say while the guidance does not necessarily reflect a new policy, it does put employers on notice of the Labor Department’s determination to pursue this issue.

“It’s been a big issue with this DOL” under David Weil, the department’s wage and hour administrator, said Salvador D. Simao, a partner at Ford & Harrison L.L.P. in Berkley Heights, New Jersey.

## FEDS TRY TO CLARIFY JOINT EMPLOYER STATUS

The Department of Labor’s wage and hour division and the National Labor Relations Board have weighed in on the issue of joint employment and employers’ potential liability under federal law.

The Labor Department’s Jan. 20 guidance, “Joint Employment under the Fair Labor Standards Act and Migrant and Seasonal Agricultural Worker Protection Act,” says that joint employment can be either “horizontal” or “vertical.”

Horizontal employment “should be considered when an employee is employed by two (or more) technically separate but related or overlapping employers,” such as separate restaurants that share economic ties, says the guidance.

Vertical joint employment situations happen when the “employee of the intermediary employer is also employed by another employer,” which would include staffing agencies, for instance.

Determining whether an employee has more than one employer is important in determining employer rights and obligations under the Fair Labor Standards Act and the agricultural worker act, says the guidance.

Meanwhile, the National Labor Relations Board last year held in *Browning-Ferris of California Inc.* that a company need have only indirect control of a worker and does not need to exercise that control to be considered a joint employer.

The Equal Employment Opportunity Commission has also made rulings on the issue.

For instance, in *EEOC v. Skanska USA Building Inc.*, which later was settled in January 2015 for \$95,000, the agency successfully argued before the 6th U.S. Circuit Court of Appeals in Cincinnati that the joint employer concept could be applied to New York-based Skanska in a case involving a subcontractor.

By Judy Greenwald

The guidance is “very consistent with the expansive view that the NLRB is taking regarding joint

employment in the franchise area,” among other federal agencies, said Rochelle Spandorf, a

partner at Davis Wright Tremaine L.L.P. in Los Angeles.

“It’s fair to say the department has been very aggressive and has taken a much broader view of the employment relationship than the courts traditionally have,” said Paul DeCamp, a principal at Jackson Lewis P.C. in Reston, Virginia, who held Mr. Weil’s post during the Bush administration in 2006 and 2007.

The Labor Department’s guidance “is not the actual law,” although it will significantly influence how the courts interpret the law, said Jessica Lindo, Pembroke, Bermuda-based vice president of professional lines at Allied World Assurance Co., which offers wage-and-hour coverage.

### Who is responsible?

The biggest problem for employers is that if a joint employment relationship is determined, “employers can be held responsible for mistakes made” by other companies, such as a staffing agency failing to pay overtime, said Todd H. Lebowitz, a partner at Baker Hostetler in Cleveland.

More companies will be sued for other firms’ mistakes, “and that’s scary for companies,” said Mr. Lebowitz.

“A lot of this type of litigation is really ‘gotcha’ litigation, where you don’t even know there was a problem,” Mr. Simao said.

Experts recommend employers closely study contracts with their

franchisees, professional employer organizations and subcontractors.

“They’re deep pockets, and you just have to go out of your way to distance yourself from the franchisee,” said Peter Taffae, managing director at Los Angeles-based Executive Perils Insurance Services.

Companies that want to avoid being labeled a joint employer “should stay out of all direct arrangements between the company you hire and that company’s employees” said Ms. Spandorf.

Stephen Dwyer, general counsel of the Alexandria, Virginia-based American Staffing Association, said the group’s members have considered themselves to be joint employers in typical staffing arrangements “for decades,” so the guidance’s impact “should be minimal.”

But many other employers are not necessarily prepared to be considered joint employers. They’re likely to respond to the Labor Department guidance by accepting their joint employer status or simply bringing independent workers in-house, said Mr. Hams.

“Given the direction the law is going, a lot of companies may just be throwing up their hands” and deciding to proceed as if they were joint employers, agreed Ms. Adele.

“What you don’t want to do is put your head in the sand and pretend the issue is not out there. That’s not a winning strategy,” said Mr. DeCamp.

# OPIOIDS

Continued from page 3

painkiller overdoses in 2014.

An opioid action plan announced by the FDA this month recommended increasing the availability and use of naloxone, using medications such as buprenorphine to help wean addicted patients off opioids and promoting responsible prescribing of opioids by physicians.

“There’s still great effort and a long way to go to wean people off the use of long-term opioids,” said Dr. Jacob Lazarovic, chief medical officer at third-party administrator Broadspire Services Inc. in Sunrise, Florida.

Such efforts recognize “that this is a multidimensional issue and that it is our civic duty to stop the overdose deaths in whatever manner possible,” Mark Pew, senior vice president at Duluth, Georgia-based medical management company PRIUM, said in an email.

Sources say they don’t expect to see an uptick in payments for naloxone under workers comp claims. That’s because employers and insurers typically are required to pay for an injured worker’s medications only if they have a prescription from a treating physician.

However, they believe it’s likely that Probuphine will appear in

workers comp claims, just as other forms of buprenorphine have been used by injured workers in the past.

Dr. Lazarovic said Probuphine could help reduce or prevent opioid addiction among workers comp patients.

“I think buprenorphine is an important tool in helping people get off opioids,” Dr. Lazarovic said.

But while sources say medical interventions are needed to prevent deaths from opioid addiction, they’re also worried that those medications could create an atmosphere for patients to continue using opioids.

“I feel like the effort now in medicine is more to treat the addiction problem than to prevent it,” said Dr. Teresa Bartlett, senior vice president of medical quality at Sedgwick Claims Management Services Inc. in Troy, Michigan.

“My biggest fear ... is that naloxone will be considered a ‘mulligan,’” Mr. Pew said. “In other words, if you have an antidote, does that mean your behavior doesn’t matter any longer because there’s always a way to reverse the effects of your addiction?”

Sources say they’re concerned that naloxone and Probuphine could be misused by patients. Mr. Walls of myMatrixx said other opioids, such as oxycontin, were touted for having a low abuse potential when they entered the market, and they are commonly abused

today.

“Even though Probuphine should be difficult to abuse, I doubt if it’s impossible to abuse,” he said.

Mr. Walls also said that naloxone places patients into immediate opioid withdrawal after it’s administered. That means patients who overdose on opioids must still receive emergency treatment, even if they use naloxone to prevent an overdose death.

Dr. Bartlett noted that while buprenorphine blunts the euphoric “high” that opioid users can experience, it does not stop a person’s craving for that “high.”

“This could lead to actually more potential for overdose because they may take more and more of the drug to try to attain the high,” she said.

Sources agree that Probuphine and naloxone could be useful in preventing opioid-related deaths. But they advise workers comp claim payers to search for ways to get injured workers off opioids if those patients need to keep precautionary medications on hand.

“Rather than trying to come up with something that’s going to stop the overdose, change the drug,” Mr. Walls said.

Express Scripts said that workers comp “payers should determine whether (patients are) responding well to opioid therapy or if they need additional monitoring” when weighing whether a claimant needs intervention.

# QUAKES

Continued from page 6

that apply to the type of lease at issue.”

The order goes on to say the building codes must comply with earthquake-resistant design provision of the International Building Code or other specified codes.

The order came the same day the White House held a half-day earthquake resilience summit that stressed a “whole community approach” as a means to improve resilience to earthquakes and other natural exposures by involving scientists, engineers, public officials and private entities.

Other insurance industry observers welcomed the White House actions.

“I applaud the Obama administration for doing this. It’s long overdue,” said Howard Mills, global insurance regulatory leader at consulting firm Deloitte L.L.P. in New York.

“Just look at the takeup rate of earthquake insurance in California — it hovers between 13% and 14%. It’s incredibly low,” he said. “The more insurance that is taken up, the less of a burden on the public sector it will be when the need to rebuild arises.”

“The executive order requiring that federal buildings be built

stronger to better withstand earthquakes is a small but welcome step,” Jimi Grande, vice president in the Washington office of the National Association of Mutual Insurance Companies, said in an email. “More significant is that we continue to see acknowledgement that mitigation provides a far better solution for natural disasters than the current ‘wait, hope, rebuild’ federal policy.”

Ms. Rochman of the IBHS noted that the “new earthquake risk management standard is consistent with what the administration did last year by implementing a new flood hazard mitigation standard,” she said in her email. “We hope the administration continues on this positive path by developing similar standards for wind-related hazards and wildfire.”

An insurance trade group official stressed the private sector’s role in catastrophe planning.

“PCI supports efforts to prepare by the private sector,” Don Griffin, a vice president at the Chicago-based Property Casualty Insurers Association of America, said in an email. “The insurance industry supports strong building codes because we see firsthand the personal and financial impact that inadequate standards and code enforcement can have on a family, community or state.”

# ZIKA

Continued from page 1

the United States, according to the Centers for Disease Control and Prevention. Health officials also confirmed that a person in Dallas was infected through sexual transmission.

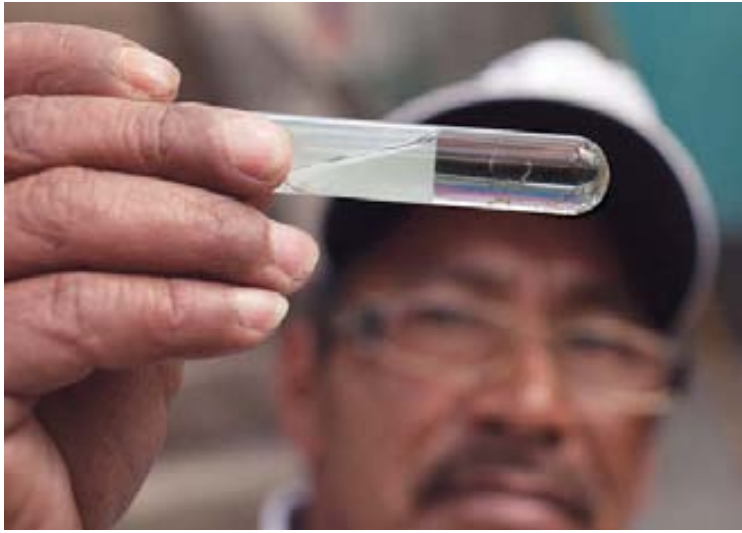
The suspected-but-not-yet-proven link between the infection and microcephaly, or unusually small heads, in the babies of pregnant women who contract the virus, as well as increased reports of Guillain-Barré syndrome and other neurological conditions in Zika-stricken areas, prompted the WHO warning.

Employers such as Kimberly-Clark Corp., Marriott International Inc. and Cisco Systems Inc. with workers in Zika-affected areas said they are monitoring the disease and keeping employees in those areas informed.

In the meantime, risk management experts say employers should take steps to lessen the impact of an outbreak.

“The first thing employers have to do is they themselves have to become educated on the disease. They have to really learn what the ramifications are, where their liability may develop by some of their actions if not taking the appropriate action,” said Dr. Lawrence Levy, Dallas-based national medical director at Lockton Benefit Group.

If a link between microcephaly and Zika virus is proven, he said, “You are going to have some real limitations on sending your people to certain areas of the country



AP PHOTO

A health ministry worker in Guatemala City holds up mosquito larvae found while fumigating. The Zika virus often is transmitted via mosquitoes.

under certain circumstances, especially your female population.”

Educating employees on how to protect themselves is key, he said.

“The big piece for companies really is No. 1, that awareness piece — really looking at and reviewing current company policies on health issues but also on company travel,” and adapting them to reflect the Zika virus, said Renata Elias, Dallas-based vice president of Marsh Risk Consulting’s reputational risk and crisis management practice. “Do employees who are at that point where they’re either considering having children, or are already pregnant, need to go (or) can they work remotely and not go?”

Employers should be “looking at how they’re going to communicate to employees, giving employees the tools and the option to be able to make decisions,” she said.

According to a Feb. 5 State

Department survey of its 3,500-member company Overseas Security Advisory Council, 38% of U.S. multinationals, universities and nonprofits were allowing female employees to defer travel to or leave areas hit by the virus and about 20% gave male employees a similar option, Reuters reported.

San Jose, California-based technology company Cisco Systems, which has about 1,900 workers in Latin America, has convened a meeting of its pandemic planning response team to discuss the best way to approach the Zika virus, said a company spokeswoman who is on the response team. Cisco has distributed preventative and travel information to its employees from health authorities and allows any employee who feels at risk to defer business travel, she said.

“We always try to take a calm and measured approach,” the

spokeswoman said.

In addition to issuing travel advisories and other information on the virus to employees, Kimberly-Clark, the maker of brands such as Kleenex and Huggies, increased pest control at its facilities throughout affected regions, a company spokesman said.

And hotel chain Marriott International said in a statement that it has fogged outdoor areas, cleared standing water and educated employees on the virus.

In addition, United Airlines Inc., American Airlines Group Inc. and Delta Air Lines Inc. offered to reassign employees who asked to avoid affected areas, Reuters reported.

The WHO stopped short of placing travel restrictions on regions affected by the Zika virus, and employers should refrain from doing so, experts say.

“Until the various public health guidance changes, an employer is not acting negligently to ask employees to go to these countries,” said Howard Mavity, an Atlanta-based partner at law firm Fisher & Phillips L.L.P. and founder and co-chair of the firm’s workplace safety and catastrophe management practice group.

But if an employer does restrict business travel to affected countries, all employees should be restricted — not just pregnant women, he said.

“The law tends to err ... on the side of the employee to use their own judgment,” Mr. Mavity said.

If an employee does travel to a Zika-affected country, employers need to keep that employee from being discriminated against after returning to work, said Dean

Rocco, Los Angeles-based partner at Wilson Elser Moskowitz Edelman & Dicker L.L.P.

“In the case of Ebola, people were going to Africa for family reasons or whatever the case might be, and there might have been a stigma attached to them when they came into the workplace,” Mr. Rocco said. “An employer would need to be careful that someone doesn’t get ostracized,” which could violate anti-discrimination laws, he said. Previous CDC guidelines advise employers to monitor employees returning from regions with a virus for symptoms, Mr. Rocco said.

There’s “tension” in the law, however, because the Americans with Disabilities Act prevents requiring medical testing without a business justification, so “if any employer is faced with that set of circumstances, they should be working with their employment law counsel to make sure that they are navigating those waters correctly,” he said.



HEAR  
INTERVIEW

Visit *Business Insurance’s* multimedia Web page to hear Dr. Lawrence Levy, Dallas-based national medical director at Lockton Benefit Group, discuss the ramifications of the Zika virus with *Business Insurance* Staff Reporter Shelby Livingston.

# OPT OUT

Continued from page 1

year, but sources said eventual amendments are anticipated.

Likewise, the Tennessee bills are at a standstill barely one month into the state’s legislative season.

S.B. 721 hasn’t been formally withdrawn, but Republican Sen. Mark Green’s office said not to expect movement until 2017.

Meanwhile, H.B. 997 was taken off notice by its sponsor, Rep. Jeremy Durham, R-Franklin, who is taking an approved leave of absence in the wake of reported allegations that he sent inappropriate text messages to three women and had an affair with another state representative.

The holdup in Tennessee and South Carolina is a sign that, “if (opt-out legislation) isn’t dead, it’s perhaps slowly dying on the vine,” said Albert B. Randall Jr., Baltimore-based principal at law firm Franklin & Prokopik P.C.

It’s unlikely that such legislation will pop up in other states before there’s movement in Tennessee or South Carolina, Mr. Randall said. Even then, it would be a hard sell outside “more conservative,

employer- or business-friendly climates,” he said.

Recent reports critical of opt out, including a widely circulated report by National Public Radio and investigative journalism organization ProPublica Inc., may have contributed to the opt-out legislation slowdown by shaping legislative and public opinion, sources said.

“It certainly has resulted in some folks taking pause and asking questions,” said Ronald Jackson, southeast region vice president of the American Insurance Association in Atlanta.

The NPR and ProPublica report late last year posed concerns such as shifting costs and limiting medical coverage for injured workers. It also led to the National Conference of Insurance Legislators November decision to investigate the costs and benefits of opt-out approaches and “weigh in as needed on calls for federal intervention.”

Paul Penna, the Manasquan, New Jersey-based organization’s executive director, said the topic will be discussed further at a Feb. 27 meeting.

“I wouldn’t be overly surprised if people wanted to wait to see what NCOIL does” before moving for-

ward with opt-out legislation, Mr. Randall said.

The Association for Responsible Alternatives to Workers’ Compensation welcomes NCOIL’s investigation and media reports, according to a spokesman for the national group of employers seeking to opt out of traditional workers comp systems. “We think some of the criticism that one sees in the media misses the mark, (but) other stories raise legitimate questions that deserve answers,” he said.

Opt-out bills in Tennessee and South Carolina are based on Texas’ 100-year-old nonsubscription system and the Oklahoma Employee Injury Benefit Act that went into effect in 2014. About 60 Oklahoma employers, many of which are also nonsubscribers in Texas, have opted out of the state’s workers comp system to date.

Backers such as Jerry Murphy, Dallas-based executive vice president at AmWINS Brokerage of Texas, a unit of AmWINS Group Inc., say an opt-out plan allows for better care for injured workers than traditional workers comp by keeping employers engaged in the process and facilitating open communication with employees.

While using an alternative benefit plan can lead to savings, “at the

end of the day, (opt-out is) not about economics,” Mr. Murphy said. “It’s (about) knowing that, as a small business owner, I’m not going to pay for something that I felt was not an on-the-job injury.”

## Tennessee delay ‘a win’

But it shouldn’t be assumed that an opt-out system would work in other states just because it’s an option in Oklahoma and Texas, said Jack Spann, owner and general counsel at Spann Insurance Inc. in Nashville, Tennessee.

Mr. Spann said the apparent standstill regarding opt-out legislation in Tennessee is “a win for the business community” because it gives employers a chance to benefit from workers comp reforms that took effect in 2014, which stiffened requirements for work-related injuries to be compensable and moved the state from a court-based adjudication system to an administrative process, among other things.

“There’s no need to try and fix something that’s working,” Mr. Spann said. “Insurance carriers are anxious to write workers comp in Tennessee. I remember a number of years ago where our only market to write workers comp was

the assigned risk pool.”

The AIA’s Mr. Jackson said it’s unlikely that opt-out legislation is entirely dead, noting there was talk of similar legislation being introduced in Georgia this year, but the bill sponsor has decided not to move forward so far.

A spokesman for the Association for Responsible Alternatives to Workers’ Compensation agreed the delays are temporary. “We absolutely expect to continue (pushing opt out) in both Tennessee and South Carolina,” he said. “I think we’ll see interest in other states develop.”

However, many argue that even workers comp benefit levels in some states are insufficient and “should be increased — not eliminated,” Mr. Randall said.

Sources said that, to really gain traction in other states, opt-out plans need to increase benefit levels and extend the duration of benefits, among other things.

“Then again, once you start (doing that), it stops looking like an opt-out program and starts looking more like a replacement workers compensation scheme,” Mr. Randall said. At that point, “states would be more likely just to try to revamp and otherwise reform their existing comp laws.”

# POLITICAL

Continued from page 3

and casualty have been soft, so insurance companies and new investment capital have been flocking to specialty insurance products where the returns have historically been higher,” said Mr. Kay. “There has been an expansion of capacity into this tiny specialist market, all chasing business.”

Capacity for a single-project risk rose 5% to \$2.23 billion in 2015, Arthur J. Gallagher & Co. said last July in an analysis of the London political risk insurance market.

The rise in capacity has had the opposite effect on rates.

“Rates are the softest I’ve ever seen in almost 19 years of doing this,” said Curtis Ingram, vice president of Aon Risk Solutions’ political risk practice in San Francisco. “In speaking to other old timers, this is the lowest they’ve ever seen.”

“When you speak to underwriters, they feel they’ve bottomed out,” he said.

“For insureds, certainly this is the time to buy. It’s never been so cheap, and the new markets and capacity lead to broader terms and conditions,” Mr. Ingram said.

“We’ve seen steady growth of our political risk book here at XL, and there are a lot of new corporate clients and bank clients buying the product,” said Stuart Barrowcliff, New York-based vice president and senior underwriter of political risk and trade credit at XL Catlin, the marketing name of XL Group P.L.C.

“There are brand-new customers coming into it,” he said.

## IRAN OFFERS OPPORTUNITIES, BUT RISKS ARE HIGH

Some in the insurance sector see opportunity in the Middle East due to international sanctions against Iran being eased.

“Lloyd’s recognizes that the Middle East presents opportunities both now and in the longer term,” Lloyd’s of London Chairman John Nelson said during the January World Economic Forum in Davos, Switzerland, of Lloyd’s setting up a platform in Dubai. “Following the change to the sanctions regime, there could be long-term opportunities in the region in the future as Iran integrates into the global economy.”

However, insurers still see Iran as a challenging business environment.

“Sanctions were not lifted in full, and substantial restrictions remain in place externally and internally in terms of considering business with Iran,” said Stuart Barrowcliff, New York-based vice president and senior underwriter of political risk and trade credit at

XL Catlin, the marketing name of XL Group P.L.C.

“Some sanctions have been loosened, but most sanctions remain in effect, and appetite in the political risk insurance market is still limited,” said David H. Anderson, Washington-based senior vice president and director of global business development of credit and political risk at Zurich North America’s credit and political risk unit.

Brokers see similar challenges.

“U.S. and E.U. sanctions relief is largely provided in the form of suspended rather than terminated sanctions. These suspended sanctions could quickly ‘snap back’ if Iran does not continue to meet its obligations,” said Stephen Kay, New York-based U.S. political risk and structured credit practice leader of Marsh USA Inc. “Political and credit risk insurers are therefore more likely to gradually tip-toe back to covering Iran, rather than to rush back in.”

By Matthew Lerner

“We are seeing more demand for it, particularly coming from the banks and the asset managers,” said Mr. McGovern. “They are looking to lay off risk for their own capital and solvency purposes.”

“There definitely has been increased interest. Zurich’s political risk product area was up 8%

by premium volume in 2015 compared with 2014,” said David H. Anderson, Washington-based senior vice president and director of global business development for credit and political risk at Zurich North America’s credit and political risk unit.

However, written coverage increased only “modestly” in

2015 as clients faced the cost of a discretionary purchase, said Aon’s Mr. Ingram. “I think the pulling-of-the-trigger decisions will be increasing this year.”

While the rate environment is favorable, countries with active conflicts or those producing claims are likely to attract little risk appetite.

“If you’ve got a country that suddenly experiences some major democratic revolution or some other major uncertainty, be it war or invasion, clearly the risk profile of that country changes completely almost overnight,” Lloyd’s Mr. McGovern said.

“Therefore, underwriters’ appetite for exposures to that country and their expectations around the margin they would expect to get for taking risks in that country change dramatically.”

“Underwriters may have a very different disposition toward that country in light of events that lead to some claims,” he said.

“Things can get risky and volatile very, very quickly without a whole lot of warning,” said XL Catlin’s Mr. Barrowcliff.

“If you look at Ukraine, Libya, Yemen — three countries where there are active claims coming in today — it will be difficult to find cover in the market for countries like that,” Zurich’s Mr. Anderson said.

“Customers shouldn’t wait until the proverbial ‘house is on fire’ to ask for coverage,” he said. “We do see that from time to time, and they’re not going to find a lot of appetite for countries where there’s an active conflict going on or default has already begun.”

# EMERGING

Continued from page 6

Zurich North America’s global corporate unit, and start looking at how a risk will affect them beforehand.

Zurich regularly works with an emerging risk group to identify risks, she said.

“We look at external resources including reports, and then we ask what risks could affect us and our customers” over the short-term and long-term, Ms. Conrad said. “Wouldn’t you like insight out 10 years for your captive so you can have time to turn ship? It would be great to have insight out 10 years on emerging risks that could impact your captive when you’re in a company board meeting.”

One of the biggest challenges captive owners struggle with is correctly quantifying a risk, Ms. Conrad said.

Citing business interruption as an example, insurers need to know how the potential disruption would affect a client’s business and how long it would take the business to recover to accurately assess that risk, Ms. Conrad said.

“We have seen cases where it cost four to 10 times what businesses estimated an interruption would cost to recover from,” she said.

It also is important to consider how existing risks may affect the new risk, she said, citing how cyber risk affects nanotechnology as an example.

“We can also use this information as a key tool in how to find opportunities,” Ms. Conrad said.

“When you look at risks together, how does that change your view of them?” she asked. When the risk of wearables such as the Fitbit is looked at in combination with the risk of genetic predisposition to a particular disease using a Fitbit can improve a person’s health.

# AIG

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2015 loss of \$1.84 billion due to poor property/casualty results and \$2.20 billion in net income for the year, down 70.8% from 2014 (see related story).

During an earnings call Friday, AIG President and CEO Peter Hancock said he was “pleased we have reached a solution” that avoids a “distracting” proxy fight.

While splitting up the insurer might enhance shareholder value, policyholders may not benefit.

“Breaking up AIG from a risk management standpoint would not necessarily be a good thing because I believe the strength of having the full spectrum of risk solutions under one umbrella is a positive,” said a risk manager who asked not to be named. “However, I do believe the challenge that AIG does have is that the organizations that fall under the AIG umbrella are very siloed.”

“AIG is losing talented people at an alarming rate, and they (the company) appear to be completely

consumed with self-preservation versus underwriting and serving their clients,” said a broker who asked not to be named. “Until there is a clear game plan, including leadership that isn’t constantly looking over its shoulder for fear of being axed, its customers will suffer.”

Market analysts say the new board members could well move AIG closer to a split.

The move “largely eliminates the possibility of a messy proxy battle by the shareholder activists this year, adds additional incentives for management to improve its financial returns and moves AIG further towards making major structural changes that might include a split-up of the company,” Paul Newsome, managing director at Sandler O’Neill+Partners L.P. in Chicago, said in an investor note.

Adding the activists’ directors “to the board should add some urgency to AIG’s various initiatives and will keep alive the possibility of a more comprehensive breakup of the company at some point,” said Mark Dwelle, an insurance analyst at RBC Capital Markets Inc. in Richmond, Virginia.

## AIG REPORTS BIG LOSS

Losses in its commercial property/casualty insurance results helped push American International Group Inc. to a net loss of \$1.84 billion in the fourth quarter of 2015 from a net gain of \$655 million a year earlier, the New York-based insurer said last week.

“Commercial insurance reported a pretax operating loss of \$2.1 billion compared to pretax operating income of \$1.2 billion in the prior-year quarter, primarily driven by the previously announced \$3.0 billion charge for adverse prior-year loss reserve development in property/casualty

and lower net investment income in property/casualty and institutional markets,” AIG said in a statement.

Net written commercial premiums declined 1.9%, to \$4.60 billion, for the quarter.

Catastrophe-related losses also jumped to \$213 million in the fourth quarter from \$35 million during the 2014 period.

For the entire year, AIG reported net income of \$2.20 billion, down 70.8% from 2014.

Net written commercial premiums dropped 2.8%, to \$20.44 million, and the combined ratio deteriorated to 115.0% from 100.2%.

By Mark A. Hofmann

“Letting the activists behind the curtain will allow them to engage with the full board — and a full set of nonpublic financials — to both challenge management’s plan, as well as explore other strategic alternatives — like more

aggressively selling assets and pursuing an explicit plan to de-SIFI,” Josh Stirling, a senior analyst at Sanford C. Bernstein & Co. L.L.C. in New York, said in an investor note.

AIG already is streamlining. Last



KIA MOTORS AMERICA

Kia Motors' car commercial

## Dancing hamster turns fraudster

A man who played one of the dancing hamsters in commercials for Kia Motors Corp. has pleaded no contest to insurance fraud and false statements, the Los Angeles County District Attorney's Office said.

A Los Angeles County Superior Court judge last month sentenced 29-year-old hip hop dancer Leroy Barnes to 90 days of electronic monitoring, ordered him to perform 400 hours of community service, and pay more than \$24,000 in restitution, the Los Angeles County District Attorney's Office said in a statement. He had received workers compensation and disability benefits after being struck by a piece of ceiling that fell on him during a sound check for a different job in June 2010, according to the California Department of Insurance.

Though Mr. Barnes said he wasn't working while collecting benefits between September 2010 and September 2011, he played a dancing hamster in commercials for South Korean carmaker Kia during that time.

## McD's customer asks 'Where's the cheese?'

A California man is definitely not loving McDonald's Corp. these days. Chris Howe of Riverside, California, filed a lawsuit against the Oak Brook, Illinois-based fast food chain last month the U.S. District Court in Riverside challenging the company's claim that its mozzarella sticks are made with 100% real cheese.



Mr. Howe said the sticks are actually partly composed of starch — used as “a cheap substitute and filler” to save on the costs of using real mozzarella cheese — in violation of federal standards for identifying mozzarella cheese.

The claim was adamantly denied by a McDonald's spokesperson who said the sticks are made using 100% low-moisture, part-skim mozzarella cheese.

The lawsuit, which accuses McDonald's of violating California's unfair competition, false advertising and consumers legal remedies laws, seeks a cease-and-desist order to prevent the fast-food giant from selling the mozzarella cheese sticks.

It also asks for damages for the consumers who were allegedly deceived into buying the mozzarella stick wannabes.

## FESTIVAL VISITORS GET COLD RECEPTION IN PARKING LOT



AP PHOTO

Emergency teams cut through a frozen Lake Geneva in an effort to retrieve vehicles that had been parked on the ice, which cracked under their weight.

A number of festival-goers reportedly were left out in the cold when their cars fell into Wisconsin's Lake Geneva during a winter festival. Up to 15 cars plunged into Lake Geneva on Feb. 6 after the Lake's thin ice cracked, according to media reports. WTMJ-TV in Milwaukee reported that Winterfest attendees parked on the lake because parking spots were limited on dry ground for the 21st annual festival.

While reports said a few of the submerged vehicles were able to be saved from the lake and driven home, a towing company operator told WTMJ that “none of these cars are salvageable.”

No festival attendees were hurt by the sinking cars, according to reports. However, one couple told WTMJ that the accident put their 33rd wedding anniversary celebration on ice.

“Worst anniversary ever!” Bryan Niermeyer told WTMJ.

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## Man seeks justice in port-a-potty case

Ducking into a plastic portable toilet is already considered an option of last resort, but an Erving, Massachusetts, man is still trying to get his due from his absolute worst-case-scenario toilet visit.



Daniel Hammock was inside a portable restroom at a Deerfield, Massachusetts, fruit farm in November 2013 when it was pushed over by a gust of wind, according to *The Recorder* newspaper in Greenfield, Massachusetts.

*Daniel Hammock v. Clarkdale Fruit Farms Inc. and Bostley Sanitary Services Inc.* was filed Dec. 28 in Greenfield District Court in Western Massachusetts, alleging negligence, carelessness, and breach of duty in maintenance of port-a-potties, causing the plaintiff to be trapped inside when a port-a-potty tipped and fell over and dumping human waste onto the plaintiff, as well as seeking damages in the amount of \$24,999.99.

Ben Clark, owner of Clarkdale Fruit Farm, claims the incident was an “act of God” with no intentional malice, and said he and his wife helped the unfortunate Mr. Hammock clean up afterwards.

The portable toilet rental company, Colrain, Massachusetts-based Bostley Sanitary Services, which was scheduled to pick up the unit the next day, is said by Mr. Clark to be negotiating a settlement with Mr. Hammock through its insurer.



## Honda owners smell a rat

A class action lawsuit filed last month against Honda Motor Co. alleges the carmaker's soy-covered electrical wiring is irresistible to vermin — and that Honda knew it.

Courthouse News Service first reported the federal suit for breach of warranty filed on behalf of car owners from Arizona, Texas and Wyoming. All three named plaintiffs reported various off-warranty expenses caused by critters including squirrels, rabbits and mice chewing up their wiring's insulation. Honda reportedly uses the wire because it is cheaper and more environmentally friendly than plastic wire.

The suit covers model years 2012-2015. After paying for his second round of repairs, lead plaintiff Daniel Dobbs of Wyoming said Honda mechanics wrapped his wires with a specialized tape it sells to prevent the surreptitious snacking, proving to him that Honda is aware of the problem.



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