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RISING SEAS

Presidential executive order includes:

- Three options for flood elevation and hazard areas for federal building projects.
- Use data with latest climate science.
- Build two feet above the 100-year flood elevation for standard buildings and three feet for hospitals and other critical buildings.

CATASTROPHES

National disaster plan gets traction

Bipartisan efforts target policy, standards

BY MARK A. HOFMANN

Finally there has been the start of serious bipartisan discussion in Washington of a comprehensive national approach to preparing for and responding to natural disasters.

The property/casualty insurance industry has long stressed that disaster mitigation is central to any successful catastrophe policy.

During a recent hearing by the House of Representatives Transportation and Infrastructure Committee's Subcommittee on Economic Development, Public Buildings and Emergency Managements, subcommittee Chairman Lou Barletta, R-Pa., called for a national debate on a policy to better deal with disasters.

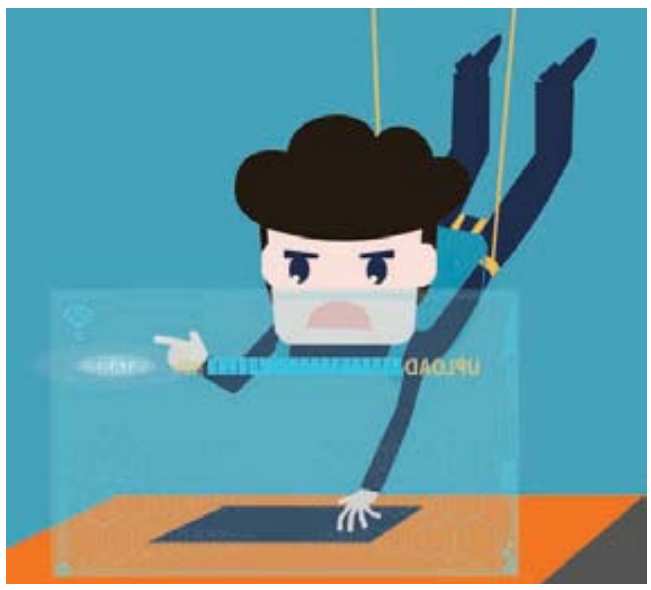
Within days, President Barack Obama issued an executive order setting a new flood risk reduction standard for federally funded projects.

See **CATASTROPHE** page 25

CYBER RISKS

ANTHEM CYBER BREACH MAY TIGHTEN UNDERWRITING

AIG unit leads coverage for health care insurer



BY JUDY GREENWALD

Underwriters are expected to intensify their scrutiny of cyber risks within health care organizations as a result of the massive data breach affecting Anthem Inc., but competition and capacity could limit premium increases.

The reaction of American International Group Inc., whose Lexington Insurance Co. is the primary cyber insurer for Indianapolis-based Anthem, is expected to set the pricing tone for the insurance market, experts say.

"If AIG makes a move to increase rates or tighten underwriting scrutiny considerably, that will, I think, have a ripple effect across the market," said Ben Beeson, Washington-based partner, global technology and privacy practice, at insurance brokerage Lockton Cos. L.L.C. "If they don't, then it will take longer

See **ANTHEM** page 25

CYBER COVERAGE

Health care organizations have greatly increased their cyber insurance.

LARGE HEALTH CARE CLIENTS*

CYBER LIMITS PURCHASED, 2014

$26.4 MILLION

% INCREASE FROM 2013

135.7%

AVERAGE OF ALL CLIENTS

CYBER LIMITS PURCHASED, 2014

$10.5 MILLION

% INCREASE FROM 2013

56.7%

*Companies with more than $1 billion in revenue

Source: Marsh Global Analytics

CAPTIVES

Panel questions, then affirms microcaptives

U.S. Senate plan would bolster 831(b)s

BY JERRY GEISEL

A proposal that could have put many "microcaptives" out of business was withdrawn before a Senate Finance Committee vote last week and replaced by one that will make 831(b) captive insurers even more financially attractive.

Those surprising actions came just a week after the IRS added 831(b) microcaptives to its Dirty Dozen list of "tax scams," saying they allow some companies and wealthy individuals to avoid paying taxes if they abuse the legitimate tax structure. The captives — an estimated 3,000 of them — derive their name from the section in the U.S. Tax Code authorizing them.

Under current law, parents of 831(b) captives can make up to $1.2 million in tax-deductible premium contributions to the captives each year, and such captives' underwriting income is exempt from federal income taxes. There is no limit on the percentage of business from a single party.

But the Finance Committee proposal, known as the "chairman's mark," would have limited to 20% net written premiums from a single policyholder in the captive.

In addition, it would have considered related family members as one policyholder, which experts

See **831(b)** page 24

Q&A MONICA J. LINDEEN

President of NAIC discusses the goals and challenges facing the organization this year

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The data breach at Anthem Inc. should provide impetus for a national cyber security strategy

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Prescription drug management: Benefit cost; generic drug spending; plan features

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PRESCRIPTION DRUG MANAGEMENT

Generic drug price increases raise comp costs; worker recovery policies extend beyond drug regimens; states adopt closed formularies; curbing pain meds can cause more problems for employers.

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* Transaction, subject to regulatory approvals, is expected to be completed in the second quarter of 2015.

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Traveling executives face risks ranging from physical discomfort to political issues and kidnapping. Franc Jeffrey, CEO of EQ Travel, discusses how global travelers can lessen business travel risks. **15**

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Workers in London looking to reduce their stress levels can dive into a giant pit filled with 80,000 plastic balls **26**

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NEWS

WORKERS COMPENSATION

UBER, LYFT MAY NEED TO SHARE MORE THAN JUST RIDES

Suits seek to put firms on the hook for comp costs

BY SHEENA HARRISON

Drivers for ride-sharing services Uber Technologies Inc. and Lyft Inc., who argue they are employees and not independent contractors, could put the tech upstarts on the hook for workers compensation costs if court challenges succeed.

Both companies already provide some auto liability insurance for the drivers.

In separate lawsuits filed in U.S. District Court in San Francisco, plaintiffs seeking to represent Uber and Lyft drivers nationwide base their allegations on California's labor law, since both Uber and Lyft reference the state's law in their driver contracts, said Shannon Liss-Riordan, a plaintiff attorney in both cases and a partner at Lichten & Liss-Riordan P.C. in Boston.

Judges in both cases have limited the potential classes to drivers in California, but Ms. Liss-Riordan said those decisions likely will be appealed.

She said Uber and Lyft have shifted costs, such as auto insurance and fuel costs, onto drivers by classifying them as contractors. By making them employees, Uber and Lyft likely would have to pay such costs, as well as provide workers comp coverage and other work-related benefits.

"They save enormously on vari-

See **RIDES** page 23

AP PHOTO

Ride-sharing services such as Uber and Lyft could be forced to provide workers comp for divers, if lawsuits filed in San Francisco succeed.

RETIREMENT BENEFITS

Retirement benefits ruling favors employers

BY MATT DUNNING

A U.S. Supreme Court ruling should provide some clarity for employers trying to manage costs of their unionized retiree health programs.

In a unanimous ruling Jan. 26, the U.S. high court said unionized employees at M&G Polymers USA L.L.C. are not automatically owed lifetime retiree medical benefits simply because the language of their collective bargaining agreement with the Apple Grove, West Virginia-based manufacturer does not explicitly limit the duration of those benefits.

The company sought in 2006 to have retirees, their spouses and dependents at the Point Pleasant Polyester Plant in Apple Grove pay part of their health insurance following expiration of a contract with the union, a move the Supreme Court said cannot be prohibited based solely on a lack of clarity in the contract.

"I think it's fair to say that most folks see this as a positive," said Kathryn Wilber, senior council for health policy at the American Benefits Council in Washington.

> "I think it's fair to say that most folks see this as a positive."
>
> Kathryn Wilber,
> American Benefits Council

By ruling in M&G Polymers' favor, the high court effectively invalidated a 30-year-old standard of judicial contract analysis used primarily in the 6th U.S. Circuit Court of Appeals that experts said heavily favored labor unions in litigation over employer-sponsored retirement benefits.

Known as the Yard-Man principle from the 6th Circuit's 1983 ruling in *International Union, United Auto, Aerospace & Agriculture Implement Workers of America v. Yard-Man Inc.*, the appeals court's previous standard generally presumed labor contracts to provide lifetime vestment of retirement benefits, absent specific language or other extrinsic evidence to the contrary.

In writing for the court, Justice Clarence Thomas said the Yard-Man presumption "violates ordinary contract principles by placing

See **RETIREES** page 25

CORRECTION

A chart in the Feb. 2, 2015, edition, "Largest D&O Insurers," contained incorrect data relating to Navigators Group Inc. During the first half of 2014, the insurer had D&O direct written premiums of $21.3 million, direct losses incurred of $4.4 million, a direct incurred loss ratio of 19.7% and a market share of 0.7%.

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ONLINE FEATURES

EVENT

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VIDEO

Wage-and-hour litigation

Wage-and-hour litigation is now a top risk for employers.
www.BusinessInsurance.com/InFocus

TOP 10 STORIES

Top 10 stories of the week

Find out what the most popular news articles and features are on *BusinessInsurance.com*.
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WHITE PAPER

Benefits Captive Strategies

Placing employee benefits into captives is a growing trend. Learn how to assess the opportunities and cover the risks in this new and updated white paper by captives expert Karin Landry.
www.BusinessInsurance.com/section/white-papers

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NEWS

MARINE

SHIPOWNERS LIABILITY COSTS INCH UP DESPITE LOW LOSSES

P&I reinsurers still paying claims from prior years

BY SARAH VEYSEY

Relatively few losses in the past year means shipowners generally will face single-digit increases for marine liability coverage provided by protection and indemnity clubs at the upcoming renewals.

General increases among the 13 clubs comprising the International Group of P&I Clubs range from zero to 6.5% with an average of just more than 3.0%, London-based insurance and reinsurance brokerage Tyser & Co. Ltd. said in an analysis.

P&I coverage renews Feb. 20, which traditionally is the date the Baltic Sea is free of ice, allowing ships to navigate its waters. The International Group of P&I Clubs said in January that it had finalized reinsurance program details for the 2015/2016 year in which individual club retentions will remain at $9 million

The group's reinsurance program has three layers that include a group captive, Bermuda-based Hydra Insurance Co. Ltd. For 2015/2016, the program has a lower pool layer from $9 million to $45 million, an upper pool layer from $45 million to $60 million — within which there is a claiming club retention of $10 million, and a top pool layer of $60 million to $80 million — within which there is a claiming club retention of 5%.

AP PHOTO

Losses related to sunken luxury cruise ship Costa Concordia, shown in Italy in 2012, continued to affect to P&I reinsurers in 2014.

The international club also said the excess point on its general excess-of-loss reinsurance would remain unchanged at $80 million.

"Further development during 2014 in the 2011/2012 policy year, which produced the first- and third-largest ever claims on the group pool," has continued to affect reinsurers, "in particular on those participating on the third layer of the program," the international club said.

The International Group said that incurred losses since the 2014 renewal grew by about $400 million, largely driven by deterioration in the losses from the 2012 Costa Concordia disaster — for which the captain was sentenced last week to 16 years in prison for manslaughter — and the 2011 Rena disaster.

But the international group said reinsurance losses for the past three policy years were limited, retentions have been increased using the group captive, a multiyear fixed placement deal and increased capacity enabled it to "achieve favorable reinsurance

See **P&I** page 23

DIRECTORS & OFFICERS LIABILITY

Marijuana, tech IPOs may lead to more D&O suits

BY JUDY GREENWALD

NEW YORK — The "exuberance of Silicon Valley" and the legalization of marijuana are two factors likely to lead to increased initial public offering litigation this year and next, said plaintiff attorney Ramzi Abadou.

The partner at law firm Kahn Swick & Foti L.L.P. in San Francisco said technology firms in the California region are a likely source of IPO activity.

"Some of the excess and exuberance and irrationality we saw in the early 2000s may be around the corner," he said.

Mr. Abadou also said he expects companies connected to the marijuana industry to add to the IPO total in the next two years, and one reason plaintiff attorneys "love" IPO litigation is because it is easier to bring than other types of securities litigation.

AP PHOTO

Mary L. Schapiro

"It feels a heck of lot like 2000, absent the multiyear deals," said Brian Wanat, New York-based CEO for the U.S. financial services group of Aon Risk Solutions, referring to the last turn in the insurance market.

"It feels like we're sitting on a bubble," which may be attributable to factors including low interest rates and oil prices. "We're sitting on something pretty massive here," he said.

Both made the comments during the Professional Liability Underwriting Society's D&O Symposium in New York earlier this month,

See **PLUS** page 24

RESEARCH & DATA

Buying spree made 2014 a record year

357 brokerage deals beat out busy 2012

BY TIMOTHY J. CUNNINGHAM AND DANIEL P. MENZER

Private equity-backed buyers expanded their ownership of insurance brokerages in 2014, contributing to a record number of announced mergers and acquisitions in the United States and Canada amid strong pricing for sellers.

The 357 deals in 2014, 11.2% more than the previous record of 321 M&As in 2012, do not include international acquisitions completed by some of the major U.S. brokers amid companies' ongoing expansion overseas.

A mad rush to get deals done to avoid a five percentage point increase in the capital gains tax, which rose to 20% on Jan. 1, 2013, propelled 2012 activity. After M&As slowed as expected in early 2013, the pace has been brisk ever since.

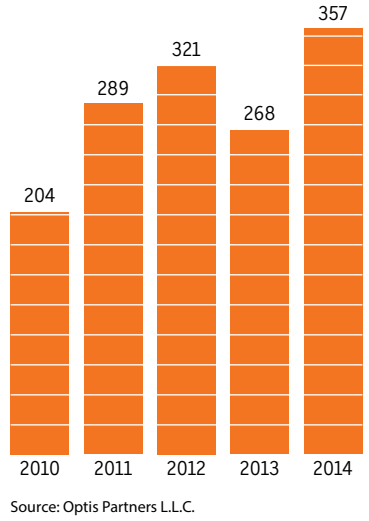
Arthur J. Gallagher & Co. and Hub International Ltd. tied for the largest number of announced deals in 2014, followed by Assured-Partners Inc., Acrisure L.L.C. and BroadStreet Partners Inc.

Eight of the 10 most active acquirers completed 10 or more deals during the year; 106 completed only one or two transactions. In all, 128 companies made

See **MERGERS** page 24

AGENT/BROKER MERGERS

Mergers and acquisitions of insurance brokerages and agents based in the United States and Canada set a record in 2014 amid strong private equity-backed and privately owned acquirers.



Source: Optis Partners L.L.C.

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Source: Internal analysis of 2013 data published by SNL Financial.

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CAPTIVES

Captive insurers provide owners with key risk management tools

BY GAVIN SOUTER

BOCA RATON, Fla. — Captive insurers can be used to develop sophisticated risk management and claims management strategies that go far beyond self-insurance and risk retention.

Captives can be the foundation of an enterprise risk management program as well as claims reduction and safety programs that lead to significant cost savings, captive experts say.

Captives are an excellent structure to test and run an ERM program, said insurance and captives consultant Michael Maglaras, principal of Michael Maglaras & Co. in Ashford, Connecticut.

One of the main advantages of having a captive involved in ERM is that most single-parent captives are fully consolidated subsidiaries of their parent companies, so any efforts that reduce claims and other risk-related expenses have a direct effect on the balance sheet of the parent, he said during the World Captive Forum in Boca Raton, Florida, earlier this month.

Captives are useful tools to determine what exposures should be insured or self-insured.

"Captives are all about analysis and understanding balance-sheet management," Mr. Maglaras said.

In addition, captive boards usually are made up of experts drawn from a diverse range of disciplines, including financial and executive leaders from the parent company, who must be included in successful ERM program management, he said. "You need a broad-based view to control enterprise risk."

Using a captive as part of an ERM program also helps create an organizational culture that focuses on risk, said Ruth Cardiello, vice president of enterprise risk management of Stamford Health System Inc. in Stamford, Connecticut.

For example, physicians and therapists working for the health care provider are conducting more home visits for patients who can't travel. With the multidisciplinary captive board, the captive and the organization could address the related exposures before being confronted with losses, she said.

"Five years ago, I would have heard about (the increased home visits) after an incident occurred," Ms. Cardiello said.

The claims management and insurance pricing functions of a captive also are vital to run an effective ERM program, Mr. Maglaras said.

Claims management is a vital part of any risk management program, and captives can be used as effective claims management tools, said Christopher Mandel, senior vice president of strategic solutions at Sedgwick Claims Management Services Inc. in Nashville, Tennessee.

"Monitoring and reporting claims is where it all comes out in the wash," he said. Captives can be a vital tool to get "the right information to the right recipients at the right time."

DirecTV Inc. used claims data from the past several years and data from its Hawaii-domiciled captive, Palm Insurance Co. Inc., to help it manage claims more aggressively for its installation crews, said Chris Burgee, vice president finance/risk management at the El Segundo, California-based satellite TV provider.

While the installation workers were sources of significant risk because they climb ladders, climb on roofs and drive trucks, he said DirecTV used the claims data identified to implement changes to its safety programs, its training programs and its return-to-work strategy, Mr. Burgee said.

And having the data available helped secure management support for the changes. "We have the data so senior management buys into it" and the data provides an aggregated look at the company's claims performance, he said.

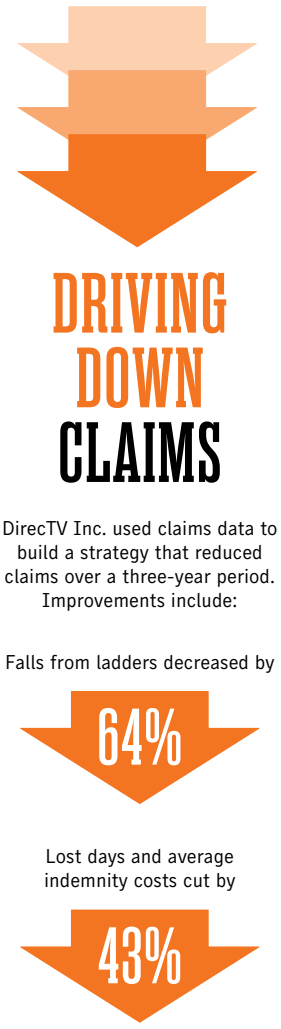
Through analysis of the data, falling from elevation was identified as DirecTV's major cost driver of claims. As a result, the company invested in additional safety equipment, developing its own when none was available, and implemented a fall protection plan for its crews, Mr. Burgee said.

The claims data also showed opportunities to improve fleet risks. DirecTV provided additional training to drivers, added GPS to its vehicles and instituted a Drivers Alert program in which trucks have a sticker on the back asking other road users to comment on the driving.

Over a three-year period, the safety changes resulted in a 43% reduction in calls on the Driver Alert phone line, he said.

The data also found delays in reporting claims and lengthy lost time due to worker injuries. As a result, the company implemented a formal return-to-work program, which resulted in a significant decrease in lost time, and used additional training on claims reporting to reach the point where 91% of claims now are reported within three days of an incident, Mr. Burgee said.

As a result of all the changes the company saw significant reductions in loss and other costs.



BIG COMPANIES AT THE LEADING EDGE OF BENEFITS CAPTIVES TREND

BY JERRY GEISEL

BOCA RATON, Fla. — Large, well-known companies say they use captive insurers to reduce the cost of benefits for employees and retirees, to better analyze what drives claims and to increase flexibility in the benefits they offer.

And while the number of captive insurers currently funding benefit risks is small at 70 to 80, Mark Cook, a senior consultant at Towers Watson & Co.'s international consulting group in London, said interest in the alternative to traditional insurance is growing.

"There is a lot going on," Mr. Cook said during the World Captive Forum earlier this month in Boca Raton, Florida.

Employers including Adidas A.G., The Coca-Cola Co. and Deutsche Post DHL said they use captives for several reasons.

Bill Fitzpatrick, London-based vice president of corporate risk benefits and insurance at Deutsche Post, which has used a captive to fund a wide range of benefits including disability, life and medical since 1996, said the approach has made it easier for the German-based package delivery company to collect and analyze health claims information.

"It is difficult to compare data by country if you use different insurers in different countries," he said. "We want claims information in 'real time' as much as possible."

"You can be more flexible in terms of plan design" by using captive funding, said Heiko Ditzel, senior insurance manager at Adidas, the German-based sporting goods manufacturer that funds several benefit risks, including medical, through its captive.

Funding via a captive ensures that Coca-Cola pays the "real cost of providing benefits" rather than a premium to a commercial insurer" that includes a profit for the insurer, said Stacy Apter, the global beverage maker's director of global benefits financing and asset management in Atlanta.

Among other things, Coca-Cola uses its captive to fund international life, disability and medical benefits. In 2013, Coca-Cola also received U.S. Labor Department authorization through an individual exemption to fund accidental death and dismemberment coverage.

Such arrangements generally are considered prohibited transactions under the Employee Retirement Income Security Act. However, employers can seek permission from the Labor Department for those transactions.

Winning Labor Department approval "is an additional hurdle for U.S. companies," said Nathan Pavlik, a Towers Watson international consultant in Chicago.

However, employers can seek individual exemptions, as Coca-Cola successfully did, from the Labor Department for those transactions.

In addition, the Labor Department recently reinstated a more rapid regulatory review process — known as ExPro — for captive benefit funding proposals.

Earlier this year, Austin, Minnesota-based meat packer Hormel Foods Corp. and Charlotte, North Carolina-based Sealed Air Corp. became the first companies to seek an ExPro exemption since 2012, when the Labor Department temporarily suspended the use of ExPro.

Captive managers say other employers are expected to quickly follow suit if the Labor Department approves the proposals by Hormel and Sealed Air, decisions that are expected sometime in March.

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Agenda at a glance:

Wednesday, March 4, 2015

8:00-9:00 am	Registration and Networking Breakfast
9:00-9:45 am	Welcome Keynote Speaker: Former Chairman of the House Intelligence Committee Mike Rogers From Terrorism to Cyber, the New – and Changing – World of Risk
9:45-10:45 am	International Risks Part I: Protecting Your Business
10:45-11:15 am	Coffee & Networking Break
11:15-12:15 pm	International Risks Part II: Protecting Your People
12:15-2:00 pm	Innovation Awards Luncheon
2:00-3:15 pm	Legal drug use poses "pot holes" for employers
3:15-3:30 pm	Networking Break
3:30-4:30 pm	Roundtable discussions • Roundtable 1: Breaking Down Silos: Improving RM, HR Communication • Roundtable 2: The Role of Risk Managers in Mergers and Acquisitions • Roundtable 3: Establishing and Implementing a Social Media Policy • Roundtable 4: Impact of Climate Change on Supply Chain Risks • Roundtable 5: Filling the Talent Gap in Risk Management
4:30-6:30 pm	Cocktail Reception

Thursday, March 5, 2015

8:30-9:30 am	Networking - Coffee & Continental Breakfast
9:30-10:30 am	Virtual Offices, Real Exposures
10:30-11:00 am	Coffee & Networking Break
11:00-12:00 pm	Deploying "Big Data" Analytics in Risk Management
12:00-1:15 pm	Networking Lunch
1:15-2:15 pm	Cyber Risks: Tapping CGL, Other Policies to Respond to Breaches
2:15-3:00 pm	Risk Managers Only Session
3:00-4:30 pm	Closing Keynote "Info-tainment" & Cocktail Reception

Keynote Speaker:
Former Chairman of the House Intelligence Committee: Mike Rogers
Topic:
From Terrorism to Cyber, The New - and Changing- World of Risk

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AIG quarterly profit falls on debt repayment

■ American International Group Inc. reported 2014 fourth-quarter net income of $655 million, a 67.2% fall compared with the same period in 2013, on an $834 million charge for debt extinguishment. Net premiums written for AIG's commercial insurance operations in the quarter fell 3.3% to $7.56 billion, while investment income slid 1.0% to $1.25 billion. The fourth-quarter combined ratio for commercial insurance improved to 96.5% from 101.7%. Net premiums written in the company's property/casualty business declined 3.2% to $4.69 billion, while net investment income in the segment fell 7.2% to $1.11 billion. The insurer's fourth-quarter property/casualty combined ratio improved to 103.4% from 108.7%. In a conference call discussing the results, AIG CEO Peter Hancock highlighted a $2.5 billion stock buyback and other positive developments while conceding challenges such as the ongoing effects of the low-interest-rate environment and a decline in property/casualty rate increases.

NAIC chooses Missouri regulator as group's president-elect

■ The National Association of Insurance Commissioners has chosen Missouri Insurance Director John M. Huff as its president-elect. He succeeds former Pennsylvania Insurance Commissioner Michael F. Consedine, who left office on Jan. 20, leaving the president-elect slot vacant until Mr. Huff's election, which came during a special plenary meeting of the regulators group. Mr. Huff was appointed director of the Missouri Department of Insurance, Financial Institutions and Professional Registration in 2009.

Monthly health care cover costs average $105 on federal exchanges

■ Individuals eligible for health care reform law premium subsidies paid, on average, just $105 a month for coverage purchased through federal health insurance exchanges, according to a report from the U.S. Department of Health and Human Services. Without those subsidies, available to uninsured individuals with incomes between 100% and 400% of the federal poverty level — $24,250 for a family of four — the average monthly premium would have been $374, according to the report, which examined plans and costs in the 37 states in which HHS operates the exchanges.

New York transit agency captive leads coverage in commuter crash

■ The Metropolitan Transit Authority's captive insurer, First Mutual Transportation Assurance Co., will provide excess coverage up to $50 million for third-party claims for injury and property damage resulting from the deadly commuter train crash in New York, an MTA spokesman confirmed. First Mutual, which is licensed and domiciled in New York, will provide coverage after a self-insured retention of $10 million, the spokesman said. Above the $50 million coverage layer, the MTA maintains $350 million in liability coverage through the commercial insurance markets, the spokesman said. The MTA also maintains an all-agency property insurance program covering MTA Metro-North Railroad, with a $25 million deductible per occurrence for damages to MTA equipment. The Feb. 3 crash killed five commuters riding in the first car of the Metro-North express train as well as the driver of an SUV that has stopped on the tracks at a crossing in Westchester County.

Willis sees fourth-quarter growth despite dip at North America unit

■ Willis Group Holdings P.L.C. CEO Dominic Casserley downplayed a fall in revenues at its North American unit as the London-based brokerage reported increased revenues overall. Willis reported that commissions and fees grew 3.1% in the fourth quarter of 2014 to $939.0 million, while revenues totaled $958.0 million, an increase of 4.2% over the same period last year. Organic commissions and fees, which exclude both the net impact of foreign currency movements and the net impact of acquisitions and disposals, grew 3.6% over the prior-year period, driven by strong growth in Willis International. On a call with analysts, Willis CEO Dominic Casserley said growth was led by the brokerage's international segment, which grew 15.9% in the fourth quarter compared with last year and showed organic growth of 9.0% for 2014 on the back of new business. The company's Willis North America Inc. segment, however, was down 2.1% for the quarter from the year-ago period and showed organic growth of 2.8% as the unit faced "headwinds" and a tough comparison with a very successful 2013 fourth quarter, Mr. Casserley said.

Hawaii adds 15 captives during 2014

■ Hawaii licensed 15 captives in 2014, down from 17 in 2013, but still the second-highest number of formations since 2005. "Hawaii continues to attract owners that want an experienced and business-friendly captive environment with a strategic location in the middle of the Pacific," Hawaii Insurance Commissioner Gordon Ito said in a statement. All 15 formations are single-parent captives. With five captives dissolving, the formations in 2014 brought Hawaii's total number of captives currently licensed to a record 194. Since Hawaii passed its captive legislation in 1986, state regulators have licensed 290 captives.

Marsh & McLennan reports higher quarterly revenue

■ Insurance and reinsurance revenue at Marsh & McLennan Cos. Inc. increased 4% in the fourth quarter of 2014 compared with the prior-year period, with international insurance business leading the growth. Revenue for all Marsh & McLennan operations rose 4.2% to $3.25 billion. However, profit fell 3% compared with the fourth quarter of 2013 to $294 million, due to extinguishing a debt of $137 million, the company said in its earnings report. The company reported no investment income compared with $11 million during the same period last year. Risk and insurance revenue, which includes commissions, fees and interest income from its Marsh L.L.C. insurance brokerage unit and Guy Carpenter & Co. L.L.C. reinsurance brokerage unit, was $1.69 billion for the fourth quarter of 2014, up 3.6% compared with the same period in 2013. In a sluggish insurance rating environment, the firm intends to improve brokerage margins during 2015 despite headwinds, Marsh & McLennan President and CEO Dan Glaser said during a call with analysts.

Arizona bill would bar medical pot from workers comp payments

■ An Arizona bill would allow workers compensation insurers and employers self-insured for workers comp to deny payment for medical marijuana. H.B. 2346, introduced in the Arizona House by a group of 12 Republican sponsors, would update Arizona's Medical Marijuana Act, which passed in 2010 and already allows government medical assistance programs and private health insurers to deny payment for medical marijuana. Proposed language would add workers comp insurers and self-insured employers to the list of entities that are not required to pay for the drug.

Rite Aid enters PBM space with EnvisionRx acquisition

■ Drugstore operator Rite Aid Corp. said it would buy pharmacy benefit manager EnvisionRx, entering the business of administering health plan benefits. Rite Aid said it would pay about $1.8 billion in cash and $200 million in stock for EnvisionRx. The deal will give Rite Aid access to more prescriptions and help source drugs at lower prices. Two analysts called it a "strategic positive" for Rite Aid, saying it would give the company broader access to specialty pharmaceuticals business. EnvisionRx, a unit of Envision Pharmaceutical Holdings L.L.C., which is owned by private equity firm TPG, manages pharmacy benefits for over 13 million individuals.

Reuters

Marsh predicts flatter commercial P/C rates

■ Intense competition among commercial property/casualty insurers is expected to continue this year, according to a report by Marsh L.L.C. With an abundance of capacity, further rate flattening is "likely" as 2015 progresses, according to Marsh's "United States Insurance Market Report 2015." The report added that "nonetheless, P/C insurers can be expected to focus on fundamentals," such as protecting their balance sheets through pricing adequacy, underwriting discipline, capital planning and preparing for catastrophes. The report noted that the property market softened in 2014, "and is set to continue doing so into 2015, barring an unforeseen change in circumstances," including significant catastrophe loss. Marsh also said business interruption losses "stemming from cyber attacks are an increasing concern for many organizations."

PCI elects former broker exec to run finance operations

■ The Property Casualty Insurers Association of America has elected Mark Wachholz as senior vice president, chief financial officer and assistant treasurer. He replaces Deborah Wensel, who is now CFO for Holland L.P., an association spokeswoman said. Based in Chicago, Mr. Wachholz joins from Gallagher Benefit Services Inc., a unit of Arthur J. Gallagher & Co., where he served as controller, PCI said in a statement. "Mark brings a wealth of insurance experience, strong management skills, and a proven track record building and leading effective finance and accounting teams," David Sampson, PCI's president and CEO, said in the statement.

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London deal activity expected to continue

The drivers that have led to a spate of mergers and acquisitions in the London insurance market appear set to continue, according to a report by Oldwick, New Jersey-based A.M. Best Co. Inc. Competitive pressures facing insurers and reinsurers are driving a need for increases in lines size and access to advanced analytics, according to the report, "Drivers Behind London Market M&A Activity Set to Continue." Brokers increasingly are using smaller panels of reinsurance, and at the same time reinsurance rates and terms and conditions are coming under pressure from alternative sources of capital, Best said. "The size of a company's balance sheet is increasingly being seen as a way to strengthen negotiating positions with the large brokers and companies may explore tie-ups to help consolidate competitive positions," it said. The appeal of operating at Lloyd's of London, including access to its licenses in countries such as Brazil and China, continues to be a lure for investment, according to Best.

Catlin profit jumps ahead of merger with XL

Catlin Group Ltd. reported pretax profit to $488 million for 2014, a 13% increase over 2013 as the Hamilton, Bermuda-based insurer and reinsurer reported improved investment income. Gross written premiums in 2014 totaled $5.97 billion, up 12% compared with 2013. The insurer and reinsurer, which manages the largest syndicate at Lloyd's of London, said more than half of its gross written premium was sourced from international offices. Investment return for 2014 was $241 million, a 79% increase over 2013, boosted by a $31 million gain on a loan made to Box Innovation Group Ltd., a personalized auto insurance service it sold in January. The 2014 combined ratio was 86.8%, a slight deterioration from 85.6% in 2013. In January, Catlin announced it will merge with Dublin-based XL Group P.L.C. The merger of XL and Catlin is expected to be completed by the middle of the year.

Swiss Re names Canada president and CEO

Swiss Re Ltd. has named Veronica Scotti as president and CEO of Swiss Re Canada, effective April 1. Currently a client executive with Swiss Re in Armonk, New York, she takes over from Sharon Ludlow, who joined Aviva Insurance Co. of Canada as president in June 2014. Ms. Scotti will be based in Toronto and will report to Swiss Re Americas President and CEO Eric Smith, Swiss Re said. She will continue to be part of the firm's Americas management team.

FERMA secretary general dies at age 59

Edwin V. Meyer, the Federation of European Risk Management Associations secretary general and board member, died at the age of 59 on Feb. 7 after a brief illness, according to the German risk management association DVS, where Mr. Meyer served as a board member. Mr. Meyer was general manager risk and insurance management for Luxemburg-based steel and mining company ArcelorMittal. Mr. Meyer joined the FERMA board in 2013, FERMA said in a statement. In addition to belonging to DVS, Mr. Meyer was also a member of the Dutch risk management association NARIM and the Luxembourg risk management association ALRiM.

Highbridge oversees Towergate restructuring

David Ross has been appointed CEO of Sierra Investment Holdings Ltd., the portfolio company set up by private investment firm Highbridge Principal Strategies to invest in London-based brokerage consolidator Towergate Group P.L.C. Highbridge earlier this month announced it was leading an investor group that would acquire Towergate, which is undergoing a rescue and restructuring plan. The deal is expected to close by the end of March. Mr. Ross previously was CEO of Arthur J. Gallagher International, the London-based division of Arthur J. Gallagher & Co. He will be based in London.

Zurich profit down on turnaround efforts

Zurich Insurance Group Ltd. posted net income of $858 million for the fourth quarter of 2014, down 20% compared with the fourth quarter of 2013. The Zurich-based multiline insurer said quarterly profit had been affected by weaker business operating profit for its general insurance business, which is undergoing a turnaround program, as well as by foreign exchange movements, lower reserve releases and expenses. For the quarter, Zurich's general insurance operations posted a business operating profit of $518 million, down 29.6% from the fourth quarter of 2013, and gross written premiums of $7.96 billion, down 3.6% from the prior-year quarter. In a call with analysts, Zurich Chief Financial Officer George Quinn said that the fourth quarter also saw an uptick in attritional losses and adverse development in its U.S. crop insurance business. For the full 2014 year, Zurich posted net income of $3.90 billion for 2014, down 3.2% compared with 2013. Gross written premiums were $52.01 billion, up slightly from $52.0 billion in 2013. Zurich posted a combined ratio of 97.3% for its general insurance operations for 2014 compared with 98.0% for 2013. Mr. Quinn said the ratio was helped by a low level of natural catastrophes. Mr. Quinn

PROFILE: BRAZIL

$23.7 BILLION

◀ **2013 P/C gross premiums**

Brazil is by far the largest insurance market in Latin America. The property/casualty market was growing by an average of 14.3% a year from 2010 to 2012, then the sector reversed sharply into decline the past two years. With more than 100 insurers competing in the market, premiums have been kept in check. Foreign players continue to gain influence in the Brazilian market, notably Ace Ltd., which in 2014 acquired a big piece of Itau Unibanco Holding S.A. to become the nation's No. 1 P/C insurer.

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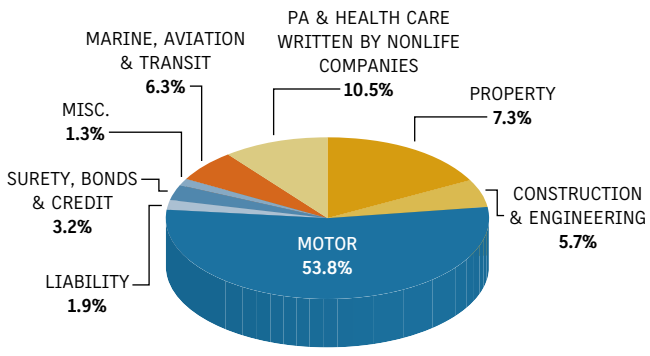

Source: Axco Global Statistics/Industry Associations and Regulatory Bodies

AREA
3.3 million square miles

POPULATION
202.8 million

GLOBAL P/C MARKET RANKING
12

2015 GDP CHANGE (PROJECTED)
1.4%

MARKET DEVELOPMENTS

UPDATED FEBRUARY 2015

- In June 2014, regulators amended rules for the sale of extended warranty coverage and established criteria for insurer reserves.
- In June 2014, regulators amended accounting standards for insurers and reinsurers.
- In April 2014, regulation was passed to set the base capital requirements for insurers and reinsurers.
- In April 2014, a statute was passed to regulate selling insurance over the Internet or by telephone. For example, the buyer must be given a printed copy of the policy.
- In April 2014, regulators passed a resolution defining insurance representatives and set the terms for these legal entities to write certain classes of business directly for insurers.

COMPULSORY INSURANCE

- Workers compensation
- Personal auto accident cover
- Civil liability for construction contractors
- Civil liability for airplane owners
- Professional indemnity for reinsurance brokers
- Shipowners liability against pollution

NONADMITTED

Nonadmitted insurance is not permitted because the national law requires that insurance must be purchased from locally licensed insurers, with some exceptions. Entities based in Brazil can buy policies abroad when there is no coverage available in the country, when a Brazilian needs temporary insurance in a foreign nation or when the coverage is subject to international treaties approved by the Brazilian Congress.

INTERMEDIARIES

Agents and brokers must be authorized to sell insurance. A broker is not legally required to execute an insurance contract. When policies are sold without brokers, the insurance company must pay a commission, at the same rate it would pay a broker, to the National School of Insurance for its educational fund.

MARKET PRACTICE

Brazilian regulators exercise strict control over the insurance market to ensure coverage is placed within the nation. Since it is a large market and more than 120 reinsurers are authorized to do business, the need to place insurance abroad is extremely limited to a few complex professional indemnity exposures.

Information provided by Axco Insurance Information Services. **www.axcoinfo.com**

said that while improvements were being made in the performance of Zurich's general insurance business, there was "still work to be done," Mr. Quinn said. In a research note, Rene Locher, senior equity analyst at MainFirst Bank A.G., said that Zurich's operating results had been below the market expectations.

U.K. court rules against Welsh asbestos bill

■ The United Kingdom's Supreme Court has ruled that the U.K. Welsh Assembly exceeded the scope of its authority when it passed a bill requiring firms and insurers to reimburse the U.K.'s National Health Service for medical services provided to patients suffering from asbestos-related illnesses. The Recovery of Medical Costs for Asbestos Diseases Bill, passed in 2013, allowed the NHS to collect reimbursement from "persons by whom or on whose behalf compensation payments are made to or in respect of victims of asbestos-related diseases," according to court records. This included employers' liability insurers that cover firms deemed responsible for asbestos exposures. The Association of British Insurers had opposed the bill in court, arguing in court filings that the bill exceeded the Welsh Assembly's legislative competence. A five-justice panel of the U.K. Supreme Court unanimously ruled that the bill was incompatible with the rights of "compensators and insurers to the peaceful enjoyment of their possessions." According to a summary of the ruling, "The new financial liabilities of compensators and insurers would arise from asbestos exposure and liability insurance policies which long pre-dated the bill."

European cedents buy less reinsurance

■ Europe's largest reinsurance cedents have benefitted from continued soft reinsurance rates across many lines of business and continued a trend of buying less reinsurance, A.M. Best Co. Inc. said in an analysis. Nonlife premiums ceded by Europe's 20 largest group buyers of reinsurance fell by 8.2% to 39.23 billion ($44.36 billion) in 2013, compared with 2012, Best said, while gross premiums written by Europe's 20 largest reinsurance buyers increased slightly in 2013 to 316 billion ($357.59 billion) from 315 billion ($356.45 billion) and the cedents' retention ratios increased 1.2 percentage points to 87.6% in 2013. Best said it "expects that when 2014 data become available, there will be a continued increase in retained premiums by Europe's largest cedents." Softer rates have been the "most significant contributor to an overall drop in reinsurance ceded by the 20 largest cedents, driven chiefly by excess capacity in the market." Lloyd's of London ceded the most premiums in 2013 by a considerable margin, the report showed, with 7.04 billion ($7.96 billion) of ceded premiums in 2013. The second-largest volume of premiums ceded was posted by Zurich Insurance Group Ltd., which ceded 4.33 billion ($4.90 billion) of premiums in 2013.

Rates continue to trend downward overseas

■ Insurance rates continue to fall for many lines of business in the Europe, Middle East and Africa region, because of abundant capacity, among other factors, according to Marsh L.L.C.'s "Europe, Middle East, and Africa Insurance Market Report 2015." For multinational insurance buyers in the EMEA region, there was a general softening of rates and sufficient capacity for most lines, and competition among insurers expanding into new territories and/or lines of business is "presenting those organizations with attractive risks and good loss histories with the opportunity to secure premium rate reductions at renewal," the report said. Across the region, there was an increase in capacity for political risk coverage during 2014 "as insurers recognized the opportunity for non-correlative classes of business with increased earnings." The captive insurance market is expected to grow in 2015, according to the report, in part because of greater certainty about how captives will be treated under Solvency II, which will come into force in 2016.

NAIC KEEPING FOCUS ON STATE REGULATION

MONICA J. LINDEEN

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Monica J. Lindeen is 2015 president of the National Association of Insurance Commissioners. She serves as Montana's commissioner of securities and insurance, a position to which she was first elected in 2008 and re-elected to a second term in 2012. She previously served in the Montana House of Representatives. Ms. Lindeen recently spoke to *Business Insurance* Senior Editor Mark A. Hofmann about the goals and challenges facing the NAIC. Edited excerpts follow.

Q&A

Q What are the major challenges facing the NAIC in the coming year?

A We're going to continue our work on principles-based reserving and also the concerns we have about life insurer-owned captive reinsurers. Managing cyber risks is also a challenge that's going to be facing all financial regulators on a number of levels. We're also going to be working with Congress and our U.S. federal regulators, along with international bodies, to ensure a stable financial system that includes a robust insurance marketplace. We're also going to continue our review of our internal governance structure.

Q What are the NAIC's priorities for improving state regulation, particularly regarding commercial insurance?

A We're always looking at ways to innovate. Cyber security is one emerging area. We have a new task force that will be taking that issue on. We also continue to be focused on some of our other priorities from 2014, including health care reform.

Q What does the NAIC see as the proper role of the Federal Insurance Office and the Financial Stability Oversight Council? Is there concern that FSOC and FIO will attempt to expand their powers at the expense of state regulation?

A Congress has repeatedly reaffirmed the primacy of the states' role in insurance regulation. The Federal Insurance Office has a limited role as an information resource and obviously to represent the federal government internationally where appropriate. FIO's not a regulator, and it has no duty to policyholders so it would be inappropriate for them to preempt state law and regulation.

The Financial Stability Oversight Council is charged with monitoring the stability of the financial system in the U.S. I don't think its role in any way negates the authority of insurance departments to regulate. We have to work in closer coordination with the Federal Reserve in regard to insurers that might be designated systemically important financial institutions. While the FSOC may designate an insurer to be systemically risky, certainly that doesn't negate our role to regulate the company as we always have.

Q Is the organization concerned about international regulators' approach to group supervision?

A We've really been working closely with them and remain committed to working with our international counterparts in developing those standards. The activities at the international bodies are nonbinding. But we also remain concerned that anything that happens at the international level could have a potential impact on our U.S. insurance sector. We're going to make sure we have strong coordination and communication, and we're going to continue to stress the importance of participating in supervisory colleges. Certainly these supervisory colleges help facilitate the exchange of information and assessments, and enable members to gain a common understanding.

Q Where can commercial insurance regulation be streamlined?

A The commercial insurers have already benefited from a lot of the operational efficiencies the NAIC has implemented. For example, there's our electronic filing system, and there are interstate insurance product regulation compacts. We have 44 states that are part of the compact, and we are going to encourage the rest of the states to adopt the compact. We really support the mission of developing uniform standards.

COMINGS & GOINGS

UP CLOSE: CHRIS MIDDLETON

LOS ANGELES-BASED NEW BUSINESS DEVELOPMENT LEADER

CNA Financial Corp.

PREVIOUS POSITION: Los Angeles-based senior business development consultant for CompWest Insurance Co.

LOOKING FORWARD TO: The growth opportunities and helping the company rebrand itself as one of the industry leaders in the insurance marketplace in Los Angeles.

GOALS FOR NEW POSITION: Increasing CNA's visibility with agents, brokers and our clients and delivering on our promise to exceed the expectations and deliver outstanding customer service.

CHALLENGES FACING INDUSTRY: The attracting of the younger generation into the insurance industry. The average age in the industry is 55 years old. When people retire, we are losing that education and knowledge. I want the younger generation to see the insurance industry as a viable career.

INDUSTRY OUTLOOK: Very positive. We have survived several years in a row without large catastrophes, with the exception of (Superstorm) Sandy. The marketplace is shaping up, and I see a softening market.

FIRST INDUSTRY JOB: A commission-only insurance agent making $1,500 a month. My mentor that brought me in kept it low so I would go out and hustle and stay hungry.

WHAT SURPRISED ME: The longevity. Nothing moves without insurance. The general population doesn't realize how insurance is entrenched in everyday life.

ADVICE: To come into it with your eyes open ... This is something you can build as a great career. It's not just a job.

OUTSIDE THE INDUSTRY, A DREAM JOB: Working with children and make sure they are given a quality education and opportunities.

HOBBIES: Spending time with my family. We travel a lot within the state of California. I enjoy golfing, reading and cooking. I have young children, so most of my time is (spent) with family.

BEST CITY: Los Angeles ... so much to do and see.

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		Property/Casualty Insurance Joint Industry Forum- Jan 15			●			
1/19	CLOSED	HEALTH CARE REFORM UPDATE	●			●	●	●
2/2	CLOSED	MANAGEMENT LIABILITY	●					●
		WORLD CAPTIVE FORUM- FEB 2-4	●	●				
		Plus D&O Symposium- Feb 4-5			●			
		CIAB Legislative Leadership Summit- Feb 9-12			●			
2/16	CLOSED	PRESCRIPTION DRUG MANAGEMENT	●					
		NAPSLO Mid Year Forum- Feb 23-26			●			
3/2	2/13	CYBER RISK: INSURANCE/LIABILITY INNOVATION AWARDS	●					
		NBGH- March 4-6 SIGNET AD STUDY			●			
		CICA International Conference- March 8-10			●			
		RISK MANAGEMENT SUMMIT	●	●				
3/16	2/27	CAPTIVES REPORT	●					●
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EDITORIAL

U.S. NEEDS TO CONSTRUCT CYBER POLICY

A massive data breach at health insurer Anthem Inc. should provide more impetus for a long-overdue development — the formulation of a national cyber security strategy. Fortunately, there are signs that the time is ripe for such a strategy. Earlier this month, the White House announced the creation of the Cyber Threat Intelligence Integration Center to help business and government deal with cyber crime. A few days later, Sen. Tom Carper, D-Del., introduced the Cyber Threat Sharing Act of 2015, S. 456, which is aimed at removing barriers in order to increase the sharing of cyber threat data between private industry and the federal government.

The data breach at Anthem involved nearly 80 million records and spurred state and federal investigations. The crime underscored that no data is safe from those criminal and, in some cases, state-sponsored actors that wish to profit monetarily or undermine commercial and national security.

Cyber crime knows no boundaries, which is why a national anti-cyber crime approach is the only one that could prove effective. Two components are particularly critical if such a strategy is able to work.

First, the private sector and the federal government must be able to share cyber risk information. That means that private concerns must be provided all reasonable liability protections as they voluntarily share information about threats and countermeasures in real time.

The second component is crafting a single national standard for reporting data breaches. Right now, myriad state laws set the standards. Given the nature of cyber crime, such a system is far from ideal.

Putting together a strategy won't be easy, and it won't be achieved quickly. Among other things, privacy concerns will have to be addressed in the context of the nature of cyber crime itself centers on the invasion of privacy. Sometimes it has seemed as if advocates of a comprehensive national cyber security strategy such as former House Intelligence Committee Chairman Mike Rogers, R-Mich., were voices in a cyber wilderness.

Those voices should have been heard much earlier. The Anthem data breach is yet more proof that working seriously toward a comprehensive national strategy cannot be put off any longer.

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SCHILLERSTROM

COMMENTARY

TIME TO START THE CONVERSATION ON DISASTER MITIGATION

MARK A. HOFMANN
SENIOR EDITOR

Talk is cheap. But sometimes, talk can prevent something very expensive from happening. That's why U.S. Rep. Lou Barletta's call for a national debate of natural disaster policy is more than welcome.

The Pennsylvania Republican chairs the House of Representatives' Transportation and Infrastructure Committee's Subcommittee on Economic Development, Public Buildings and Emergency Management. He called for opening that debate late last month as his panel listened to witnesses discuss the cost of federal disaster relief and the importance of mitigation.

Trying to minimize the effect of disasters before they occur would seem to be obvious. After all, every major disaster and all too many smaller ones result in considerable outlays of taxpayer money. Such common-sense strategies as drafting and enforcing effective building codes or, better yet, not building or rebuilding in areas that have suffered repeated catastrophes such as floods or hurricanes should be no-brainers, right?

The truth is a bit more complicated. Human nature itself helps increase the costs of natural catastrophes.

For example, more than 30 years ago, the federal government actually encouraged development on hurricane-exposed barrier islands through various subsidies. It was kind of Robin Hood in reverse: The subsidies came out of the pockets of taxpayers across the country — including some taxpayers who no doubt had never seen an ocean other than in the movies or on TV — and indirectly lined the pockets of people who could afford to build on beachfront property. Ultimately, Congress passed and President Ronald Reagan signed into law the Coastal Barrier Resources Act in 1982.

The philosophy behind the act is simple: You can build what you want, but don't expect any taxpayer subsidies. But of course, who wouldn't take a subsidy, either direct or indirect, if it's there for the taking?

And even classic disaster aid can become a subsidy. If the government encourages building in areas likely to suffer repeated catastrophes through below-market cost flood insurance, people will build there. Efforts to reform the National Flood Insurance Program by putting it on an actuarially sound basis have run into political storms. As a result, the NFIP continues to fall deeper into debt.

Federal disaster outlays aren't cheap. As Francis X. McCarthy, an analyst at the Congressional Research Service, said in testimony submitted to the subcommittee, there have been 15 events that generated more than $500 million in aid since 1996.

This can't go on forever as government deficits mount. Careful scrutiny of subsidies, strategies to encourage mitigation and situations under which the private insurance market can replace public funds all need to be part of the debate Rep. Barletta wants.

It's a debate that won't be settled easily or quickly, which is all the more reason it should be joined without delay.

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Global travelers face a world of risk

Traveling executives face many risks, ranging from fatigue to political issues, war exposures and kidnapping. Franc Jeffrey, CEO of EQ Travel, discusses what global travelers should watch out for and ways to lessen business travel risks.

It's easy to think of corporate travel as the epitome of elegance and luxury. But for the true corporate road warrior, business travel is stressful, exhausting and potentially dangerous.

It's not uncommon for a traveling executive to hit the ground running while crossing eight time zones and then be expected to nail down a multimillion-dollar business deal.

A study by the Global Business Travel Association predicts a 7.2% rise in business travel spending this year to $288.8 billion. And according to the association, a significant portion of that spending will be allocated to sending workers outside of their home countries, where global travel can be risky business.

The potential dangers of traveling to unstable or high-risk destinations are obvious: everything from terrorism, to political upheaval, to the unlikely event of your plane falling out of the sky.

But the key to safe travel is not to focus so much on the cataclysmic events which are highly unlikely to occur, but more on the risks most likely to happen in the course of a business trip — some as simple and seemingly innocuous as travel fatigue — because anyone who tells you they just flew 18 hours from New York City to India and walked off the plane feeling fresh and relaxed is lying.

That is just the time in the air. When companies create an itinerary for a corporate junket, they mistakenly think that travel time is all about departures and arrivals, never taking into consideration the hours consumed getting to and from the airports and travel to the hotels, among other things. What executive wants to walk into a business meeting on just a few hours' sleep, let alone get behind the wheel if a car is needed?

This all leads to a major risk: driving without a clear head in foreign countries, where the rules are already stacked against you because very often you are on the wrong side of the road, the traffic signs are in foreign languages and driver safety is not a high priority.

A study in February 2014 by the Transportation Research Institute at the University of Michigan looked at global driving fatalities with up-to-date World Health Organization data. The report stated that around the world, the most deadly countries to drive in are: Namibia, with 45 fatalities per 100,000 individuals; Thailand, 44; Iran, 38; Sudan, 36; and Swaziland, 36. The safest countries to put your employees in a car are: Switzerland, with only five fatalities per 100,000 residents; and the Netherlands, Antigua, Tonga and Israel, all with four fatalities per 100,000. The world average is 18 fatalities from a car accident per 100,000 individuals. The U.S. is just under that figure at 14, compared with Australia at seven and the United Kingdom at five.

This is critically important information because legislation exists in some countries saying that if an employee kills someone in an accident, the employer is held responsible, especially if corporate responsibility acts have not been followed. It's also important for business travelers to have a clear understanding of the sometimes-volatile locations where they are traveling.

Risks are different for different types of industries. There are certain industries that need to send employees to work in the world's "hot zones," such as the oil and gas industry. According to a USA Today report in 2013, three Americans were among 38 workers killed in the siege of an Algerian gas plant when Islamic terrorists used hostages as human shields after their attempted mass kidnapping for ransom went awry. Seven U.S. citizens survived the attack. And as the world goes more and more mobile, cellphone towers are sprouting up like redwoods. Many of them are popping up in deserts, underdeveloped nations and war zones, making the telecommunications industry extremely vulnerable. In today's mobile world, even Somalian pirates need cell service.

What executive wants to walk into a business meeting on just a few hours' sleep, let alone get behind the wheel if a car is needed?

When traveling to the world's hot spots, it is important to use common sense. For instance, when you land at an airport stay in the airport until a designated driver approaches you. And companies should make sure they hire proper security, people who know the layout of the region and the political climate. Also, there are apps that can be downloaded to computers and smartphones that give continual updates to any potentially dangerous situations that might arise.

Kidnapping is always a risk when traveling to unstable nations. In some countries it's simply a way to fatten a bank account, and in others it's all about making a political or religious statement. No matter the reason, it is a global epidemic and one that should be addressed before any corporate travel is undertaken.

Corporate travelers also need to realize that a flight on a major airline to get into a somewhat unstable country isn't the problem, it's traveling within the country when there is usually just two options to get 350 miles inland. The quickest option is to take a local small airline which could reach their destination in about 20 minutes. However, these smaller airlines may not comply with the strict safety and service precautions applicable to Western airlines. The alternative is a seven-hour car ride, which will likely take you through a number of security checkpoints manned by people with automatic weapons. Not easy decisions to make.

Fortunately, the recent boom in technology has helped executives travel more safely, as they can now receive electronic alerts regarding risks such as natural catastrophes, labor strikes and changes in flight schedules. And we have not even discussed the one hardcore disruption guaranteed to happen every year in many parts of the world — severe winter weather.

Between Jan. 3 and Jan. 6, 2014, at the height of the polar vortex, U.S. airlines were forced to cancel more than 16,000 flights, or about 17% of flights scheduled, leaving travelers stuck, some for multiple days. And other parts of the world don't fare much better. Less than an inch of snow caused over 300 delayed flights in a single day at Heathrow Airport back in January 2013.

The cost of finding solutions to these situations often can be crippling and costly to a business, both in terms of valuable staff time wasted and the difficulty in finding the time or the resources to source viable, inexpensive travel alternatives.

A large number of companies will enlist a travel management company to monitor global weather conditions so employers can respond quickly when they are alerted to major disruptions in travel, ensuring their employees make it to their destination or can be evacuated as quickly and safely as possible.

Executives should not be afraid to undertake worldwide trips to benefit their businesses. There's a huge chasm between fear and awareness, and that awareness comes through pretrip education, in knowing what the potentials dangers are in advance when traveling and how to deal with them should they arise. The key is in the steps you take to minimize your company's travel risks. Here are a few important tips:

- Know as much about the region as possible before arriving there.
- Make sure your employees use common sense about how to travel safely inland from an airport, what to do at an airport and how to dress so they don't attract unwanted attention.
- Take advantage of latest technology to potentially monitor volatile situations at the tip of your fingers.
- In known dangerous countries, protect your top managers, and those most vulnerable, with kidnap and ransom insurance.

Franc Jeffrey, CEO of EQ Travel, with offices in the United Kingdom and Boston, has over 25 years experience in global corporate travel. He can be reached at *fjeffrey@eqtravel.com* and 617-535-7524.

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BUSINESS INSURANCE

SPECIAL REPORT

Prescription Drug Management

Generic drugs get pricey

Workers comp pharmacy costs climb despite tight controls

BY SHEENA HARRISON

Higher generic drug prices are showing up in workers compensation claims and payers can have a tough time slowing those increases. Certain generic medications used in comp claims — such as antibiotics, antidepressants and opioid painkillers — saw price increases ranging from 8.5% to nearly 2,050% in 2014 vs. 2013, according to testimony at a U.S. Senate subcommittee hearing last fall on spiking generic drug prices.

Pharmacy benefit managers, third-party administrators and other workers comp service providers say they've noticed the higher prices.

"The fourth quarter (of 2014) was probably the first quarter that we saw that generic values were creeping up," said Carol Valentic, Sunrise, Florida-based vice president of cost containment for TPA Broadspire Services Inc.

She said Broadspire's average generic prescription cost increased 19% last year compared with 2013.

PRICING CHANGES

Changes in pricing for select generic drugs used in workers compensation claims

Name	Type	Retail price per day 2012	Retail price per day 2013	% increase
Doxycycline hyclate (100 mg capsule)	Antibiotic	34.7 cents	$7.46	2,047.7%
Digoxin (0.125 mg tablet)	Cardiac treatment	19.6 cents	40 cents	103.4%
Oxycodone/acetaminophen (10 mg/325 mg tablet)	Opioid painkiller	$2.52	$3.92	56%
Lorazepam (0.5 mg tablet)	Anxiety treatment	22.9 cents	30.8 cents	34.8%
Hydrocodone/acetaminophen (10 mg/650 mg tablet)	Opioid painkiller	$1.03	$1.12	8.5%

Source: U.S. Senate hearing testimony, November 2014

St. Louis-based PBM Express Scripts Inc. has seen prices increase for drugs such as pain medications, muscle relaxants, anti-inflammatory drugs and prescriptions for heart disease and high blood pressure, said Jennifer Kaburick, vice president of workers compensation product management and strategic initiatives.

Strategies to limit the effect of higher prices include monitoring drug utilization to ensure injured workers use generic medications for appropriate time periods and dosages, and switching patients to medications that are cheaper and have similar medical outcomes.

"With drug cost increases, utilization ... is always more important than looking at the actual individual drug cost," said Jamie Harer, Orange, California-based product manager for pharmacy at Sedgwick Claims Management Services Inc.

Sources say increasing generic drug prices may be here to stay unless federal lawmakers take action.

"I think that the generics are still going to be on the less expensive side than the (brand name drugs), but I don't think we're going to see some of the big discounts that we've seen in the past," Ms. Valentic said.

Workers comp experts point to consolidation among pharmaceutical companies as a top contributor to spiking prices. Pharmaceutical company closures or mergers have allowed remaining players to boost prices for medications that previously were made by several companies.

"Some of the smaller companies that were just producing generics are getting bought up or going out of business," Ms. Valentic said.

The U.S. Senate Subcommittee on Primary Health and Aging held a hearing in November to discuss increasing generic prescription pricing. In a letter to the subcommittee, U.S. Rep. Elijah E. Cummings, D-Maryland noted that digoxin — a heart medication sometimes used in workers comp claims — increased from 11 cents a tablet in 2012 to $1.10 a tablet in June 2014.

"Why did this happen?" Rep. Cummings asked in the letter. "In 2012, there were three manufacturers, but one stopped producing. After this occurred, Lannett increased its price by more than 1,000%," he said referring to Philadelphia-based Lannett Co. Inc.

"Manufacturers of generic drugs that legally obtain a market monopoly are free to unilaterally raise the prices of their products," Drs. Jonathan D. Alpern, William M. Stauffer and Aaron S. Kesselheim said in a perspective published in November in the New England Journal of Medicine. "The Federal Trade Commission will not intervene without evidence of a conspiracy among competitors or other anticompetitive actions that sustain the increased price."

Rita Wilson, CEO of Delray Beach, Fla.-based Medicare secondary payer compliance firm Tower MSA Partners L.L.C., said increasing generic prices have caused some concern for pricing Medicare set-aside accounts.

The Medicare Secondary Payer Act requires self-insured employers and insurers to be the primary payers for workers comp and liability claims involving current and prospective Medicare beneficiaries 65 and older. The U.S. Centers for Medicare and Medicaid Services advises workers comp payers to establish Medicare set-aside accounts to pay for future medical costs for a beneficiary's injury.

Costs included in a Medicare set-aside typically include an allowance for medications the injured workers is expected to use in the future. Ms. Wilson said such costs usually are based on the lowest priced generic drug, but rising generic costs have shifted which drugs are usually included.

In the case of digoxin, Ms. Wilson said a generic version manufactured by Cary, N.C.-based pharmaceutical company Covis Pharmaceuticals Inc. has jumped to $1.19 a tablet in the last year. But Lanoxin, the name-brand version of digoxin which is also made by Covis, costs 76 cents per pill.

While Tower previously may have included Covis' generic tablet in Medicare set-aside pricing, Ms. Wilson said the company has switched to using another generic digoxin version that has stayed at 17 cents a tablet. Tower is watching for signs that other generics that could shift from being the lowest-cost alternative to being among higher priced medications in certain categories.

"If you're a physician who's... saying that a generic can be dispensed, you could be paying more for the generic than the brand, so I thought that was interesting and ironic," Ms. Wilson said of the potential for pharmacies to fill the more expensive generic.

Broadspire's Ms. Valentic said that prescription drug formularies, which typically favor generic drugs over name-brand versions to save costs, may need to start implementing drug manufacturer information in order to account for certain generic prices that are climbing significantly higher.

For now, experts recommend considering whether injured workers can be treated with medications that have similar therapeutic effects and cheaper costs.

Ms. Wilson added that if the lowest priced generic is still costly with a known, yet much less expensive therapeutic equivalent, pharmacists will make contact with the treating physician to discuss switching to the cheaper treatment.

"While it's true that the price for some generics have increased, on the whole, generic medications continue to deliver significant cost savings by providing cost-effective alternatives to brand name medications," Express Scripts' Ms. Kaburick said in a statement to *Business Insurance*.

Avoiding drugs, therapy slows workers' return to work

Focus on curbing drug use can blind employers to other problems

BY STEPHANIE GOLDBERG

Keeping injured workers on track with treatment regimens can go a long way to reducing return-to-work times and cutting workers compensation costs, but its not always easy to achieve. Nonadherance of medication and other therapies is an increasing problem in sector that often focuses on overutilzation of drugs, experts say.

Nonadherence occurs when patients don't take medications or participate in therapies as prescribed. It can be monitored for group health coverage by taking vital signs, such as blood pressure or blood glucose levels, but can be difficult to measure for workers comp coverage, since most therapies prescribed are to treat pain, sources said.

"In the pain arena," there's the potential for overutilization and underutilization, "which doesn't get publicized a lot but it does happen, particularly in people who are fearful of addiction or don't like the side effects," said Steven Passik, Indianapolis-based vice president of clinical research and advocacy at medication monitoring service Millennium Health L.L.C.

Medication nonadherence in the United States costs up to $290 billion annually, according to the U.S. Centers for Disease Control and Prevention.

While opioid overutilization is a big concern for the industry, "oftentimes a bigger problem is the underutilization of medication," said Leanne Bronold, Mobile, Alabama-based clinical writer and case management product manager Genex Services L.L.C.

"But nonadherence is rarely something that our clients bring to us and say, 'Help us manage this,'" said Jennifer Kaburick, St. Louis-based vice president of workers compensation product management and strategic initiatives at Express Scripts Inc.

When injured workers stop taking their pain medicine, it also can signal that they're recovering and the drugs are no longer needed, she said.

However, it's important that injured workers properly manage their pain so they can avoid being "noncompliant with other recommended treatments," such as physical therapy and exercise that often are part of treating work-related injuries, Ms. Kaburick said.

In the short term, a claim may be less expensive if the injured worker isn't filling his or her prescriptions, Ms. Bronold said. "But if they quit taking the anti-inflammatory and they're pushing themselves at therapy, the next thing you know, they're having a tough time ... and they're going to slide back as far as improving their conditioning and getting back to their normal activities."

RX

NONADHERENCE

While it's difficult to measure nonadherence in workers compensation, participants in group health plans who do not adhere to prescribed medications and therapies cost the United States billions of dollars a year. The costs include:

- Medication nonadherence costs $100 billion to $289 billion annually.
- Nonadherence causes 30% to 50% of treatment failures and 125,000 deaths a year.
- 20% to 30% of prescriptions are never filled.
- Medication is not continued as prescribed in about 50% of cases.

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

Sources said pharmacy benefit managers and nurse case managers can work with claims adjusters and employers to identify and correct problems with adherence.

"We set up programs with our clients, and they tell us what types of things they want to be informed about," said Dr. Robert Hall, Westerville, Ohio-based medical director at PBM Helios.

Common payer concerns include not filling prescriptions at all, getting refills too soon, changes in prescriptions that affect morphine equivalence and going to multiple prescribers or pharmacies, Dr. Hall said.

PBMs can also help identify possible drug interactions, which might cause side effects and make injured workers less likely to take their medications, Dr. Hall said.

Sources said in-person or telephonic case management also promotes medication adherence among injured workers.

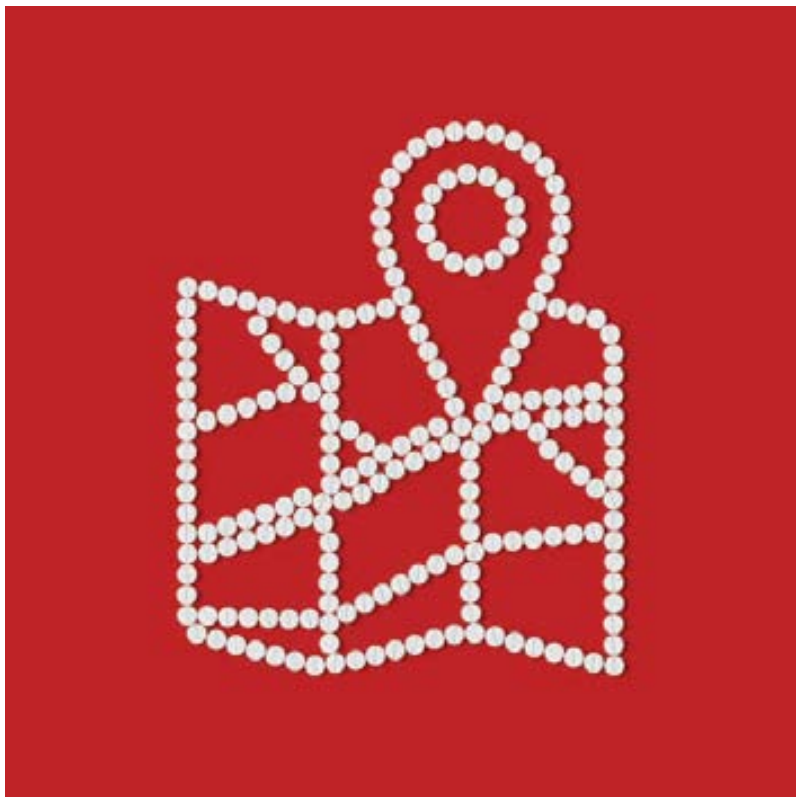
Nurse case managers learn a lot through building relationships with injured workers, said Tammy Bradly, Birmingham, Alabama-based vice president of clinical product development at Coventry Workers' Comp Services.

For example, Ms. Bradly said, an injured worker might not be "compliant with (physical therapy) because they don't have transportation, or they lost their child care and they have no one to watch their children ... There are a lot of things that go on in a person's life that may not always be evident on the surface, but if a nurse uses her coaching skills, it sometimes helps her to uncover those things."

For cost reasons, case management usually is reserved for catastrophic claims or claims where an adjuster has identified some type of nonadherence within a treatment plan, Ms. Bronold said.

Injured workers might be more likely to take medications or participate in active therapy as prescribed if they understand how it will help them recover and return to work, sources said.

SPECIAL REPORT



More states look to closed formularies to combat workers comp costs

Practice creates hurdles for expensive prescriptions

BY STEPHANIE GOLDBERG

Workers compensation systems in Arkansas, California and Tennessee are working to implement closed formularies for prescription drugs in part to combat overutilization of costly opioids.

Closed formularies, which have reduced workers comp medical costs in Ohio, Texas and Washington, allow only a limited list of covered medications for workers comp claims.

Formularies help change prescribing patterns by making it more difficult — by requiring proof that non-formulary drugs are medically necessary before they can be prescribed to injured workers — for physicians to prescribe some opioid painkillers, benzodiazepine psychoactive drugs, soma muscle relaxants and other medications that sources say are often used inappropriately in workers comp.

States are looking to formularies "for more control at the prescribing level to help reduce the use of opioids in our work comp system," said Brian Allen, Westerville, Ohio-based vice president of government affairs at pharmacy benefit manager Helios.

Certain formulary designs also can limit the use of compounded drugs.

Texas' closed formulary went into effect in September 2011 for new injuries and in September 2013 for all injuries.

The number of new claims with nonformulary drugs that required preauthorization decreased 67% in 2011 compared with 2010, according to the Texas Department of Insurance.

Monopolistic workers comp states Washington and Ohio implemented formularies in 2004 and 2011, respectively. Both also have credited their formularies for significant declines in opioid prescriptions.

In Oklahoma, the Workers' Compensation Commission last year established a formulary under "emergency rules." It applies only to workers injured on and after Feb. 1, 2014, and is set to expire in September. Sources say the state is still figuring out how to integrate legacy claims.

California has talked about implementing a formulary for several years, said Alex Swedlow, president of the Oakland, California-based California Workers' Compensation Institute.

The institute's October 2014 study found that adopting a mandatory formulary like Texas or Washington could reduce California's workers comp pharmacy costs by $124 million to $420 million a year.

The Texas formulary, which is more inclusive, would exclude 17% of prescriptions and 29% of payments, while the Washington formulary would exclude 39% of prescriptions and 70% of payments, according to the study.

In 23 states studied by the Workers Compensation Research Institute, nonformulary drugs accounted for 10% to 17% of all prescriptions and 18% to 37% of total prescription costs.

The June 2014 study included Arkansas, California, Louisiana, Michigan, North Carolina and Tennessee, which sources said are interested in implementing formularies.

There's little payers can do to direct care in many states, said Joe Paduda, principal of Madison, Connecticut-based Health Strategy Associates.

"If the doctor prescribes it, they have to provide it," Mr. Paduda said.

By listing powerful drugs, such as OxyContin and Actiq, as "N drugs," which are generally not recommended and require preauthorization, the burden shifts from the payers to the state to deny injured workers a particular drug under a closed formulary, Mr. Allen said.

Lower risk opioids, such as Vicodin and codeine, are considered "Y drugs" on Texas' formulary and don't require preauthorization.

PBMs' formularies should be used in conjunction with state-based formularies for maximum savings and safety, sources said.

State based formularies are general, whereas a PBM's formulary is likely to be more injury-specific, Mr. Allen said.

"Where you have all these different PBMs each trying to compete for business … it creates an opportunity for some innovation in the marketplace," Mr. Allen said.

Despite the potential risk reduction and cost savings, formularies take a long time — Texas took more than two years from the time the idea was first presented — to implement because of the many stakeholders in the workers comp system, sources said.

"If the medical association is not on board … it could increase utilization reviews, it could increase (independent medical examinations), there could be increased friction costs," said Mark Pew, senior vice president of product development at Prium, a Duluth, Georgia-based medical management company.

Mr. Pew noted that if the medical association is not on board, it could increase utilization reviews, independent medical exams and friction costs.

There are a lot of stakeholders in California who are comfortable with implementing a formulary, Mr. Pew added, "but the medical association is still not on board quite yet."

Mr. Swedlow said one concern is that a formulary could be "disruptive," though workers compensation represents no more than 5% of the California health care economy.

"Whether it's group health, Medicare or Medi-Cal, physicians are well acquainted with formularies and how they work and it doesn't seem to be a disruptive force in those delivery systems," he said.

Though Texas has already created a model for other states to follow, sources said it could be awhile before formularies pop up in other states.

TEXAS-STYLE

A Texas-like closed drug formulary, in which drugs not included in the formulary require preauthorization, could decrease prescription costs in 23 states. In states where the workers comp industry is pushing closed formularies, the potential savings include:

State	% nonformulary drug	% cost decline
Arkansas	24%	19%
California	18%	14%
Louisiana	22%	19%
Michigan	24%	19%
North Carolina	23%	18%
Tennessee	22%	18%

Source: Workers Compensation Research Institute study of 138,000 claims from October 2010 through September 2011.

Compounded drugs also controlled

Certain formulary designs could cut prescriptions of costly compounded drugs.

Compounds, which usually are customized for patients, include topical creams and gels, injections, oral liquids, anesthetics, anticonvulsants, analgesic painkillers and muscle relaxants.

Texas' closed drug formulary requires preauthorization to prove medical necessity only when compounded medications contain "N drugs," such as OxyContin. However, compounds made up entirely of "Y drugs" are treated as approved medications and don't require preauthorization.

"We saw an immediate decrease in 'N drug' compounds in Texas" when its closed formulary went into effect in 2011, said Brian Allen, Westerville, Ohio-based vice president of government affairs at pharmacy benefit manager Helios. "It was like a cliff – they just fell off. But what we have since seen is a commensurate spike in compounds that are all 'Y drugs.' "

In Texas, 'Y drug' compounds are subject to retrospective review, which means "they're getting through the system and sometimes getting paid for before the retrospective review happens," Mr. Allen said.

Oklahoma took a different approach when the Workers' Compensation Commission established a formulary for workers injured on and after Feb. 1, 2014.

Oklahoma's formulary, which is to expire in September, treats all compounds as 'N drugs, 'Mr. Allen said.

"That should have an impact because it empowers everyone to take a second look … and have a conversation about the efficacy and the cost of the medication," he added. "So if (formularies) treat compounds like 'N drugs,' then it can have an impact. But if they do what Texas did and only allow for retrospective review, it won't be very effective."

By Stephanie Goldberg

RESTRICTING PAIN MEDS FOR INJURED WORKERS CAN RESULT IN UNINTENDED MEDICAL COSTS

Alternative therapies often overlooked or underutilized by insurers and payers

BY SHEENA HARRISON

While concerns about opioid use and dependence have raised alarms in workers compensation claims, medical experts say insurers and payers also should be wary of not providing enough treatment to injured workers suffering chronic pain.

And while the dangers of opioids are well-documented, experts say the workers comp industry could do more to provide alternative treatments, such as physical therapy.

"It's a major expense for the insurance companies, utilizing the emergency room as a chronic pain center," said Dr. Steven Feinberg, chief medical officer at Feinberg Medical Group in Palo Alto, California, and an adjunct clinical professor in the anesthesia/pain management department at the Stanford University School of Medicine.

"We're probably not doing enough of the nonpharmacological alternatives," said Dr. Gary Franklin, a neurologist and medical director of the Washington State Department of Labor and Industries, the state's monopoly workers comp insurer.

Sources say workers comp insurers and payers need to evaluate injured workers case by case to determine appropriate treatments to help claimants manage their pain, including occupational, physical and cognitive behavioral therapy.

"The way we should be approaching this is literally individually by every injured worker and looking at what's the best thing to help them get better," Dr. Feinberg said.

The Federation of State Medical Boards revised its policy on using opioids to treat chronic pain in 2013. Though most of the policy addresses the risks of using opioids and medical practices that can prevent addiction, it also says "undertreatment of pain is recognized as a serious public health problem that compromises patients' functional status and quality of life."

Lisa Robin, the federation's Washington-based chief advocacy officer, said that while the organization recognizes the dangers of opioids — including potential addiction or overdose deaths — the group also wanted to acknowledge that deciding whether to treat patients in acute pain with opioids should be done individually.

"The patient has to be carefully evaluated," Ms. Robin said. That includes "a thorough evaluation not only of their physical being, but of any sort of history of substance use as well as their home situation, their family, their support (system) and also (if they have) any other conditions."

Dr. Franklin said there is no amount of opioid treatment that he believes is completely safe for injured workers with chronic pain.

"The evidence of efficacy is very low, but the evidence on potential risk is very high," Dr. Franklin said.

Still, he says the workers comp industry historically has not been willing to pay for alternative therapies to avoid narcotics. That includes physical therapy or occupational therapy to improve physical function, and cognitive behavioral therapy to help patients cope psychologically with their pain.

"I think insurance companies and others really have not done a very good job of covering services that might actually help instead of opioids," said Dr. Franklin, who said the Washington state agency has developed a program to provide more physical therapy and cognitive behavioral therapy to workers comp patients.

Dr. Feinberg agrees that some have been driven to opioids because of a lack of alternative treatments available under their comp coverage.

Some doctors say some insurers "won't approve psychological care. They won't approve what's called functional restoration programs, meaning a combination of psychological and pain management. They won't approve physical therapy. So there's nothing left but to drug the patient, so to speak," Dr. Feinberg said.

While Dr. Feinberg said opioids are "dangerous drugs," he also said fears about the drugs have prompted states such as California to approve legislation that allows workers comp insurers to abruptly stop opioid treatment for patients who did not appear at risk of addiction.

And abruptly cutting injured workers off from opioids, rather than weaning them slowly, can result in withdrawal symptoms and encourage claimants to seek costly treatment in emergency rooms, sources say.

Dr. Feinberg cites a California workers comp case in which he was asked to weigh a comp insurer's decision to end opioid treatment for an older injured worker who had been taking a "moderate" level of opioids for an extended time. The worker's son told Dr. Feinberg in a face-to-face meeting that cutting off the medication left his father more disabled than when he was taking the drugs.

"He described to me how his dad had gone from doing light chores on the farm and being relatively happy to basically being in bed 24/7, off his medicines; and to me, that's not a good outcome," Dr. Feinberg said.

Dr. Dwight Robertson, Glendale, California-based national medical director at Employers Holdings Inc., said the workers comp insurer uses a multidisciplinary approach to wean workers comp patients off opioids and provide alternative treatments, including physical therapy. The insurer also conducts peer-to-peer consultations between its medical experts and treating physicians to help them create less risky treatment plans.

"When you consider the fact that there are (nonsteroidal anti-inflammatory medications), aspirin, Tylenol — other medications for pain besides opioids — those are probably not used as much as they should be," he said.

Austin, Texas-based workers comp insurer Texas Mutual Insurance Co. also emphasizes using alternatives to opioid medication, such as inpatient or outpatient rehabilitation programs for patients and psychological support systems, said Dr. Nicholas Tsourmas, the insurer's medical director, in a statement to *Business Insurance*.

While some patients who are cut off from opioids may experience side effects such as abdominal pain and diarrhea, Dr. Tsourmas said the potentially fatal risks of opioid treatment outweigh the risks of withdrawal.

"Presently, no one dies of opioid withdrawal," he said in a statement. "They do develop an illness which sometimes requires medical attention for support, but opioid withdrawal is not life-threatening. High-dose opioids used injudiciously are life threatening."

Experts recommend using questionnaires that also are available online to measure whether a patient might be at risk of opioid dependence, as well as contracts that require injured workers to give informed consent to long-term narcotic prescriptions and warn them of the potential risks.

QUESTIONS TO ASK

Several questionnaires are available online that can help treating physicians monitor whether patients are at risk of opioid dependence or addiction. Questions from one survey include:

Source: New York State Office of Alcoholism and Substance Abuse Services

ACTIVITY COACHING OFFERS PAIN MANAGEMENT ALTERNATIVE

The Washington State Department of Labor and Industries is expanding a program to help injured workers manage chronic pain without opioids.

Dr. Gary Franklin, medical director for the state agency, said activity coaching is a program that runs up to 10 weeks and aims to help injured workers become more self-sufficient in managing their pain.

The department, which is Washington state's monopoly workers comp insurer, piloted activity coaching 18 months ago and is now expanding it statewide.

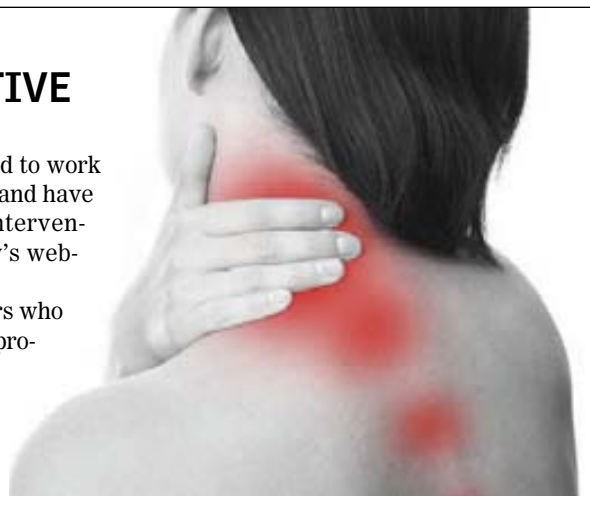
Patients meet with an activity coach for an hour each week, which can happen by phone, to assess the worker's pain, physical function and any psychological barriers for returning to work, such as overestimating the seriousness of their injury.

Based on their needs, injured workers are referred to resources to help them manage or improve their conditions, such as occupational and physical therapists.

The program is recommended for injured workers who have not returned to work four weeks after being injured and have not improved despite early interventions, according to the agency's website.

"We found among the workers who participated and did the whole program for five to 10 weeks, there were huge improvements" in their condition, Dr. Franklin said.

By Sheena Harrison



PRESCRIPTION DRUG MANAGEMENT BY THE NUMBERS

99% of health benefits packages in the United States include pharmacy benefits

21% of the employer total annual health benefits cost is used to pay for pharmacy benefits

67% of employer prescription drug plans utilize only copays

57% of employer plans require employees to pay more when they elect brand-name drugs over available generics

37% of employer plans provide a 90-day supply at a cost of two times (30-day supply) retail copays

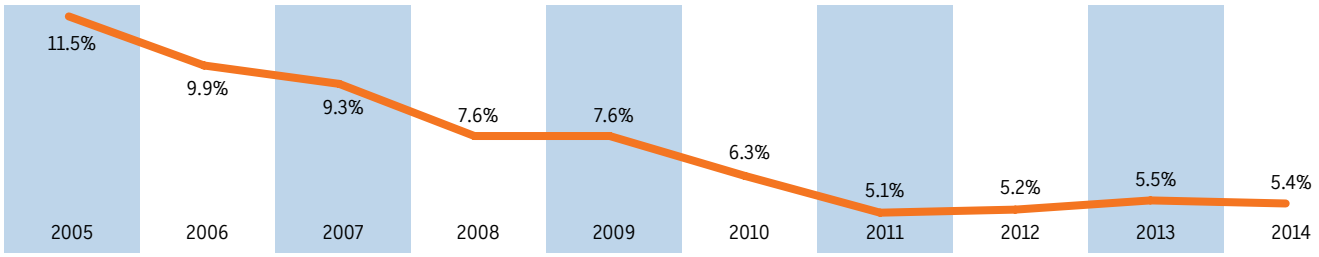
20% of the total employer pharmacy benefit cost in 2014 was for specialty drugs

61% of companies use pharmacy benefit managers to manage pharmacy benefits costs

Sources: Kaiser Family Foundation/Health Research & Educational Trust; IMS Institute for Healthcare Informatics; United Benefit Advisors L.L.C.; Prime Therapeutics L.L.C.; Buck Consultants at Xerox.

PRESCRIPTION DRUG BENEFIT COST

The change in cost for prescription drug benefits offered through primary medical plans has been relatively stable for the past four years, partly due to the use of pharmacy benefit managers and other strategies to manage costs.*

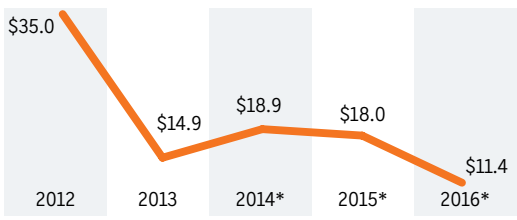


*For employers with 500+ employees

Source: Mercer L.L.C.

GENERIC DRUG SPENDING

Spending on generic drugs is expected to decrease as fewer enter the market.

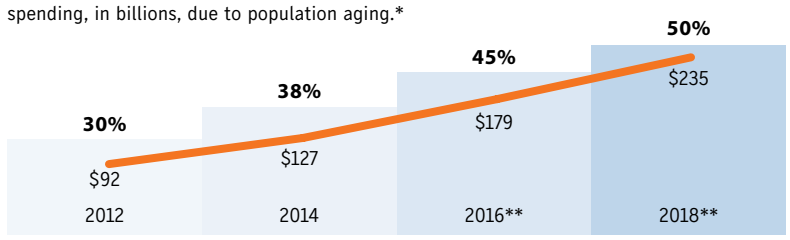


*Estimate

Source: CVS Health Corp.

SPECIALTY DRUG SPENDING

The specialty drug market is growing in absolute dollars and percent of total drug spending, in billions, due to population aging.*



*Pharmaceutical companies are investing in the development of specialty drugs as usage continues to increase, **Estimate

Source: CVS Health Corp.

PRESCRIPTION DRUG COST-SHARING

The distribution of employees across different cost-sharing formulas varies by plan type. The average cost for prescription drug benefits in 2014 is split 80% employer/20% employee across plans.

	Cost-Sharing Formulas					
Plan	Four or more tiers	Three tiers	Two tiers	Payment is the same regardless of drug type	No cost sharing after deductible is met	Other
HMO*	20%	56%	18%	5%	2%	0%
PPO	20%	68%	8%	3%	1%	0%
POS	19%	48%	20%	4%	11%	0%
HDHP/SO*	18%	43%	6%	17%	15%	1%
All plans	20%	60%	10%	5%	4%	1%

*The cost-sharing distribution for these plans is statistically different from the "all plans" distribution.

Source: Kaiser Family Foundation/Health Research & Educational Trust

MOST COMMON EMPLOYER-SPONSORED PHARMACY PLAN FEATURES

Plan Design Feature	2011	2012	2013
Cost-sharing			
Three or more tiers[1]	84%	90%	92%
Copayments (vs. coinsurance)	66%	70%	67%
Deductible	22%	15%	14%
Drug coverage			
Prior authorization[2]	76%	86%	86%
Step therapy[3]	56%	65%	67%
Pharmacy network			
Mandatory mail[4]	18%	23%	24%
Retail 90[5]	60%	49%	55%
Preferred or limited retail network	N/A*	30%	29%

*Not asked.

1 Medications are classified in tiers. Employee cost increases in each tier; generic drugs are usually in the first tier and require the lowest copay. 2 Authorization required before dispensing medication. 3 A less expensive drug must be tried before moving up a step to a more expensive drug. 4 Prescriptions must be ordered by mail rather than using retail pharmacies. 5 Doctors must provide 90-day prescriptions for medications that require prolonged use.

Source: Pharmacy Benefit Management Institute L.P.

2014 PHARMACY BENEFIT MANAGEMENT PROGRAMS BY EMPLOYER SIZE

	% using	
Program	Small to medium employers[1] (n=187)	Large employers[2] (n=166)
Refill-too-soon/supply limits	83.4%	87.3%
Quantity limits	81.3%	86.7%
Prior authorization	70.6%	91.0%
Step therapy[3]	61.0%	78.3%
Fraud, waste and abuse prevention	39.6%	61.4%
Retrospective drug utilization review[4]	23.0%	42.2%
Pill-splitting	20.3%	20.5%
Reference-based pricing[5]	11.8%	12.7%

1 Fewer than 5,000 lives covered. 2 5,000 or more lives covered. 3 A less expensive drug must be tried before moving up a step to a more expensive drug. 4 Ongoing and periodic examination of claims data to identify patterns of fraud, abuse, gross overuse or medically unnecessary care. Implements corrective action when needed. 5 Limits certain benefits for specified procedures to a specific dollar amount.

Source: Pharmacy Benefit Management Institute L.P.

PHARMACY BENEFIT MANAGEMENT FINANCIAL INCENTIVES

Incentive	Small to medium employers[1] (n=187)	Large employers[2] (n=166)
None	57%	49%
Reward tied to participation in health risk assessments	24%	33%
Reduced copayment for specific drug classes/ health conditions	20%	19%
Incentives to motivate behavioral change	19%	23%
Reduced copayment tied to participation in care management	8%	15%

1 Less than 5,000 lives covered.
2 5,000 or more lives covered.

Source: Pharmacy Benefit Management Institute L.P.

MARKET PULSE

QBE North America begins transactional cover

QBE North America, a unit of Sydney-based QBE Insurance Group Ltd., has created a transactional liability practice to protect directors, officers and companies against financial losses from a merger or acquisition.

The practice will underwrite representations and warranties insurance and tax liability insurance on a primary and an excess basis, New York-based QBE North America said in a statement. Both products offer limits of up to $50 million, a spokeswoman for the insurer said.

Representations and warranties insurance covers losses derived from inaccurate representations and warranties made during a transaction, while tax liability insurance helps to ensure the validity of tax opinions and protects against losses from contingent tax risks.

Dennis Kearns, New York-based QBE senior vice president and underwriting counsel, will lead the practice, according to the statement.

Analytics tool for property risks

Analytics provider Verisk Insurance Solutions has launched the Risk Engineering Utility tool, which allows underwriters to calculate and model the reduction of loss cost for commercial property.

The tool, part of Verisk's ProMetrix suite of data and analytics services, allows underwriters to identify up to three deficiencies of a building and recalculate the savings associated with remediating those risks, the unit of Jersey City, New Jersey-based Verisk Analytics Inc. said in a statement.

According to Verisk's website, the tool also recalculates an improved sprinkler grade if an improvement is made to an automatic sprinkler system, and models the value of adding a sprinkler system to a property in terms of loss avoided.

Additionally, all conditional terms and proposals can be documented with the tool, Verisk said on its website.

The tool "enables you to make an economic case for the improvement to an insured or agent, providing a valuable service and an improved price," Peter de Freitas, assistant vice president of ProMetrix, said in the statement

Transactional risk cover from Ace

Ace Ltd. has launched three transactional risk insurance products extending protection to buyers and sellers involved in mergers and acquisitions or other transactions.

The policies for representations and warranties, tax indemnity and contingent liability insurance have no specific limits, Ace said in a statement.

The representations and warranties policy provides coverage for financial losses derived from unintentional or unknown breaches of a seller's representations and warranties made in an agreement, Ace said in the statement.

PRODUCTS & SERVICES

Aon Affinity launches D&O for nonprofits

Affinity Insurance Services Inc., the consumer, association and program business of Aon P.L.C., has launched directors and officers liability insurance that extends coverage to several types of nonprofit organizations.

The D&O program offers limits of up to $10 million with a minimum premium of $1,500, and is written through New York-based Arch Insurance Co., said a spokeswoman for Hatboro, Pennsylvania-based Affinity Insurance Services, which does business as Aon Affinity.

The program targets nonprofit education organizations, health care services, private clubs and aging services organizations, Aon Affinity said in a statement.

The D&O coverage includes employment practices liability, third-party liability, defense costs paid outside the policy limits, breach of contract defense costs coverage and automatic renewals for qualifying accounts, Aon Affinity said. Additionally, customers can add fiduciary liability and crime insurance to the coverage.

Aon Affinity also said the program's definition of who is insured includes past, present and future directors, officers, trustees, employees, committee members and volunteers.

"We understand the major and unique risks these organizations face," Jason Tharpe, vice president for Aon Affinity, said in the statement. "Many nonprofits have dozens of options for directors and officers liability coverage — something that schools, health care services, clubs and aging services operations simply don't enjoy because of their risk profile."

The tax indemnity policy offers protection against known tax exposures from the tax treatment of past transactions or investments.

Finally, the contingent liability insurance covers known exposures arising after a transaction closes, such as successor liability or litigation.

Meanwhile, Ace appointed New York-based Edward Markovich as vice president of transactional risk, the insurer said. Mr. Markovich was previously a director in PricewaterhouseCoopers L.L.P's tax practice, according to an Ace spokeswoman.

Coverage for midsize finishing contractors

Atlas General Insurance Services L.L.C. has launched a contractors general liability and exterior insulation and finish systems program geared toward the middle market.

The EIFS product offers limits of $1 million per occurrence, $2 million aggregate and $2 million for products and completed operations, with a minimum premium of $5,000, a spokeswoman for San Diego-based Atlas said.

"Because this program starts at a $5,000 minimum premium, it acts as the bridge between the artisan contractors programs out there and the larger contractors programs that start at higher minimum premiums, while still offering the same forms and coverage as the larger programs," the spokeswoman said.

The program is available to general and EIFS contractors, roofers and specialty trades such as drywall and plumbing, Atlas said in the statement.

Northcourt expands nuclear coverage

Managing general agent Northcourt Ltd. has launched a nuclear liability insurance facility.

Sliema, Malta-based Northcourt, which has long offered nuclear property damage and business interruption coverage, will write nuclear third-party liability insurance with initial limits up to $100 million, the Lloyd's of London MGA said in a statement.

The facility places insurance globally through a panel of Lloyd's syndicates led by Tokio Marine Kiln Group Ltd. and managed by Guy Carpenter & Co. L.L.C., Northcourt said.

"Northcourt's nuclear liability binder is a timely response to growing demand for higher nuclear liability limits," Northcourt CEO Alan Rickett said in the statement. "This is particularly the case given the amendments to the international nuclear conventions, which mean that nuclear liability limits will increase substantially for most nuclear sites in Europe and around the world."

XL offers excess cover for restaurants

XL Group P.L.C. and insurance program administrator ProHost USA Inc. have launched umbrella excess insurance for fine dining and casual restaurants. The program offers excess limits of up to $5 million, with additional limits available on a risk-by-risk basis, Dublin-based XL said in a statement.

Based in Minneapolis, ProHost provides restaurants with insurance packages written through XL, including primary coverage,the statement said.

DEALS & MOVES

Willis sells Scottish unit to Clark Thomson

Clark Thomson Insurance Brokers Ltd. will acquire Willis Group Holdings P.L.C.'s commercial business unit in Scotland, Willis and Clark Thomson announced.

Willis declined through a spokesman to disclose the financial terms of the deal.

Perth, Scotland-based Clark Thomson will join Willis Commercial Network as part of the transaction.

Willis' Scottish commercial business unit focuses on small and midsize enterprises. The purchase of the unit is expected to be completed in April, subject to the satisfaction of certain conditions in the asset purchase agreement, Willis said in a statement.

London-based consultant buys Texas risk management firm

Charles Taylor Risk Consulting, a unit of London-based Charles Taylor P.L.C., said it has acquired Richardson, Texas-based Cardinal Risk Management Alternatives Inc.

A spokeswoman for Dallas-based Charles Taylor Risk Consulting said the terms of the deal are private.

The combined risk management services business will operate under the Charles Taylor Risk Consulting name, the spokeswoman said. All Cardinal employees are now Charles Taylor employees, and Cardinal President Robert Duty is now a senior risk consultant in the new business, she said.

Captive manager USA Risk sold to Spencer Capital

Spencer Capital Holdings Ltd. said it has agreed to acquire captive manager USA Risk Group.

Financial terms of the transaction were not disclosed. A Spencer Capital spokesman declined to provide further details.

Barre, Vermont-based USA Risk was founded in 1981, currently serves 20 captive domiciles and has $9 billion in assets under management, Spencer Capital said in a statement.

New York-based Spencer Capital Holdings, which owns San Juan, Puerto Rico-based Spencer Re, is affiliated with Spencer Capital Management. Under the agreement, USA Risk Chairman H. Lincoln Miller Jr. will join the board of directors of Spencer Capital, while Gary Osborne, currently president of USA Risk, will join the board of directors of Spencer Re. After the transaction closes, which is expected during the first quarter of this year, USA Risk Group will continue to operate under its own name, the statement said.

Enstar unit buys insurer in $218 million deal

Enstar Group Ltd.'s indirect, wholly owned Sussex Holdings Inc. subsidiary has acquired Companion Property & Casualty Insurance Co., a property/casualty, specialty and workers compensation insurer, for $218 million.

Columbia, South Carolina-based Companion was part of BlueCross BlueShield of South Carolina, Enstar said in a statement. Companion reported $1.12 billion in assets and $877.2 million in liabilities as of Sept. 30.

CLASSIFIEDS

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PUBLIC NOTICES

REQUEST FOR PROPOSAL

NEW YORK CITY HOUSING AUTHORITY

SMD THIRD-PARTY CLAIMS ADMINISTRATION FOR WORKERS' COMPENSATION AND MEDICAL MANAGEMENT SERVICES

- Request for Proposals - PIN# 61988 - Due 3-6-15 AT 2:00 P.M.

New York City Housing Authority's (NYCHA), is issuing this RFP to invite qualified workers' compensation third-party claims administration and medical case managers to submit proposals to provide third party claims administration for workers' compensation and medical management services.

NYCHA is seeking a Consultant that can provide the Services to NYCHA in order to analyze and manage the risks and workplace liabilities of NYCHA. NYCHA has a strong commitment to decreasing the overall frequency of losses, severity of claims and lost workdays and is actively involved in implementing a comprehensive safety program. The Consultant must provide the information needed to enable NYCHA to effectively perform its risk control analysis and implement its risk control program in conjunction with NYCHA's current risk control consultant.

Proposers may submit via e-mail written questions to NYCHA's Coordinator, Sarah Barish at sarah.barish@nycha.nyc.gov , by no later than 2:00 p.m. on February 20, 2015. All responses to questions will be posted on the NYCHA's online system iSupplier.

Interested firms are invited to obtain a copy on NYCHA`s website. To conduct a search for the RFP number; vendors are instructed to open the "Doing Business with NYCHA", using the link: http://www.nyc.gov/nychabusiness. Once on that page, please scroll down to mid page, on the left hand column, select "Selling to NYCHA", click into "Getting Started: Register or Log-in" link. If you have supplied goods or services to NYCHA in the past and you have your log-in credentials, click "Returning iSupplier Users" and "Log-In Here" If you do not have your log-in credentials, select "Request a Log-In ID." Upon access, select "Sourcing Supplier" then "Sourcing Homepage", reference applicable RFP number per solicitation.

Each Proposer is required to submit one signed original and ten copies of its Proposal package. The original must be clearly labeled. If there are any differences between the original and any of the copies, the material in the original will prevail.

Bill De Blasio, Mayor, New York City
Shola Olatoye, Chair, NYCHA

AP PHOTO

A helicopter works to right the Hoegh Osaka cargo ship last month off England's Isle of Wight.

SENSITIVITY TO ENVIRONMENT COMPLICATES SALVAGE OF TODAY'S MASSIVE SHIPS

The deliberate grounding and refloating of a cargo ship off the coast of England underlines the increasing complexity and cost of marine salvage operations.

Refloating the Hoegh Osaka, which was carrying 1,400 luxury automobiles when it developed a severe list in January just outside the port of Southampton, England, followed several large marine losses in recent years, such as the grounding of the Costa Concordia cruise ship and the sinking of the MV Rena.

The events have highlighted the delicate nature of salvage operations, the extensive costs involved and the need for highly skilled salvors, experts say.

The Hoegh Osaka developed the list shortly after leaving port, and its pilot deliberately grounded the ship near the Isle of Wight to avoid greater damage. The ship was towed back into port at Southampton in late January.

The situation exemplifies the increasing complexity of salvage operations and why costs are rising, said Andrew Kinsey, a former ship's captain and now senior risk consultant of marine at Allianz Global Corporate & Specialty in New York.

Although the ship was saved, steps had to be taken to ensure it emitted no pollution and it did not run aground somewhere else, he said.

Large salvage operations such as the Costa Concordia off the coast of Italy in 2012 "really focused the mind," said Sam Kendall-Marsden, syndicate director at the Standard P&I Club in London, the lead club on the protection and indemnity coverage for the ship.

The highly complex salvage was carried out under great scrutiny from Italian authorities keen to avoid pollution, he said.

In the wake of that and other large salvage and wreck removal operations, the International Group of P&I Clubs, the world's 13 largest P&I clubs, produced an internal report.

The report, Mr. Kendall-Marsen said, found key factors influencing the complexity and cost of salvage operations primarily were local authorities' level of involvement, the location of the event, contractual considerations and bunker removal requirements, or the removal of fuel powering ships.

"No one should be surprised to see a high level of involvement" by local authorities if a ship runs aground or sinks, he said.

Another challenge facing salvage crews is finding someplace to move the stricken vessels, Mr. Kinsey said, which Mr. Kendall-Marsden said was an issue for the Costa Concordia.

In addition, removing and finding a suitable place to store containers from a stricken vessel also is a key concern.

"Megaships," some of which can hold up to 19,000 20-foot-unit equivalent containers, also may have difficulty finding a port large enough to accommodate them, Mr. Kinsey said.

By Sarah Veysey

P&I

Continued from page 4

renewal terms."

While rates for many lines of reinsurance are soft because of abundant capacity, the P&I clubs' loss history and fewer reinsurers underwriting P&I risks have meant the international group and its members have taken fairly high retentions to reduce the cost of reinsurance and support shipowners by using capital more efficiently, said Bjornar Andresen, senior vice president and chief underwriting officer at Gard P&I (Bermuda) Ltd.

Three major trends are affecting all P&I clubs, said one underwriting source who asked not to be named.

They include the difficult economic environment, including competition and reduced investment returns that are affecting shipowners, he said. Because P&I clubs are mutual, they do not want to drastically increase insurance costs. Thirdly, the cost of large claims has increased, he said in citing the Costa Concordia disaster — the largest maritime insurance loss ever at an estimated $2 billion.

"This is where the break afforded by the reinsurance comes in," said Gard's Mr. Andresen. "We can support shipowners for their total bill."

"We are very aware of the pressure that shipowners are under, but we are very keen to take a firm line to make sure that our members pay a premium that is commensurate to their claims record and the risk they present to the club," said Jeremy Grose, CEO of Charles Taylor & Co., which manages The Standard Club.

Most P&I clubs have had fewer but more expensive claims, which need to be factored into their premiums, said Mr. Andresen.

For the 2015/2016 year, Gard is asking members for a 2.5% general increase.

Another factor that is affecting P&I clubs is the increase in shipowner liability imposed by many nations to remove wrecks and clean up any pollution, he said.

RIDES

Continued from page 3

ous labor costs and the drivers are losing out by the companies misusing this independent contractor label," Ms. Liss-Riordan said. "As employees, the drivers would be entitled to the various benefits of the wage laws as well as protection for unemployment if they lose their jobs or workers comp if they get injured in their jobs."

If Uber and Lyft drivers are deemed employees, the companies would need to evaluate providing workers comp cover, said Lori Lovgren, Boca Raton, Florida-based state relations executive at the National Council on Compensation Insurance Inc.

"It would be an additional cost that these ride-sharing companies would bear," she said.

Court transcripts are sealed, but, according to wire service reports, in a January hearing in the Lyft case, U.S. District Judge Vince Chhabria said rulings in other California cases typically have found that "people who do the kinds of things that Lyft drivers do here are employees."

"I don't find that a very persuasive argument," U.S. District Judge Edward Chen reportedly said in a separate January hearing in the Uber case, in which the company argues it is a software platform, not an employer.

Final rulings have not yet been made in either suit, both of which have been pending since 2013 and both of which the companies have sought to dismiss.

Ms. Liss-Riordan said it's unclear how many drivers work for Uber and Lyft, but the total is likely to be "quite large."

More than 162,000 drivers completed four or more trips with Uber in December, according to an Uber driver survey posted online.

In a statement to *Business Insurance*, Lyft declined comment on the lawsuits. However, it said Lyft provides $1 million in commercial liability cover "that acts as primary to a driver's personal policy from the time a driver has accepted a ride request until the ride has ended."

Lyft also provides comprehensive and collision auto coverage, $1 million in uninsured/underinsured motorist coverage for bodily injury of drivers and passengers, and $50,000 in contingent liability coverage for periods when a driver is working but has not yet accepted a ride request, according to the statement. The coverage is in addition to personal or commercial auto insurance the drivers purchase.

Representatives and attorneys for Uber did not respond to requests for comment. Uber's website said, as of last July, the company provides $1 million in primary liability coverage per incident while a driver is transporting passengers, $1 million in uninsured/underinsured motorist bodily injury coverage, and $50,000 in comprehensive and collision insurance and contingent coverage for property damage and injuries occurring between trips if a driver's personal policy declines payment.

Neither disclosed the source of the insurance coverage.

The insurance industry is watching the cases closely.

For example, NCCI, the workers comp ratemaking agency for 35 states and the District of Columbia, identified ride-sharing services as one of the top emerging comp issues for 2015.

"There is a perceived gap in insurance coverage between when a commercial and a driver's personal auto policy are expected to cover unplanned accidents," NCCI said in a presentation to Colorado workers comp professionals that was posted online in October.

"There doesn't seem to be any significant determination, either by a court yet or the legislatures ... as to what are the requirements are going to be for these companies," said NCCI's Ms. Lovgren.

"A lot of drivers are experiencing these issues where they get into accidents and they get injured and they find themselves in a fight over who's going to pay what," Ms. Liss-Riordan said. "If they were declared employees and were entitled to workers comp benefits, this wouldn't be a problem."

A majority of states are working to regulate insurance issues surrounding ride sharing services, according to the Property Casualty Insurers Association of America. California enacted a bill in August requiring "transportation network companies" to provide at least $200,000 in primary coverage for drivers.

Bob Passmore, Chicago-based senior director of personal lines policy at PCI, said the group and state legislators have been largely focused on issues of auto liability coverage for ride-sharing drivers and services.

"They need to have the right tools for the job, so to speak," Mr. Passmore said. "They need to have insurance that ... specifically intends to cover transportation network services and that's going to be the first in line as the primary coverage."

RIDE-SHARING FIRMS

UBER TECHNOLOGIES INC.

Base: San Francisco
Operates in: 54 countries, 260+ cities worldwide
Funding: $4.9 billion*
Launched: 2009

LYFT INC.

Base: San Francisco
Operates in: 60 U.S. cities
Funding: $332.5 million*
Launched: 2012

*Media reports

Source: Company reports

MERGERS

Continued from page 4

acquisitions in 2014 vs. 114 in 2013 and 131 in 2012.

Led by Hub, AssuredPartners and Acrisure, six private-equity buyers completed more than 10 deals. The private equity-based acquirers closed 44% of deals last year, up from 34% in 2012 and 21% in 2008. Since 2012, 14 of the top 25 acquirers have been brokers backed by private equity funds, furthering their dominant position in the marketplace.

The only buyer category showing less activity in 2014 was the bank-owned group, where only 13 announced deals marked the lowest number since 2008.

The other categories — publicly traded, privately owned and all other types of buyers — registered increases compared with 2013.

Privately owned brokers set a record in 2014 with 113 announced transactions by 75 separate acquirers, only two short of the 2012 high mark of 77. Digital Insurance Inc. led the privately held group with seven deals.

Deals closed by public brokers increased from 34 in 2013 to 56 in 2014, a 64% increase but off the 2012 high of 72.

Gallagher led the pack among publicly held brokers followed by Marsh & McLennan Agency L.L.C. and Brown & Brown Inc. Over the past seven years, Gallagher and Marsh & McLennan Agency significantly increased their share of the publicly held broker deals, while Brown & Brown had the largest decline in its number and share of deals.

Stand-alone property/casualty brokers continue to be the most sought-after sellers, representing 40% to 45% of total annual transactions. Benefits-only brokers and brokers offering property/casualty and benefits account for another 20% to 25%, with the balance of the deals generally made up of managing general agents, wholesalers and miscellaneous distribution channels.

Despite the U.S. health care reform law, the percentage of benefits-only or property/casualty/benefit agencies being sold has not changed to any significant degree in recent years.

Among the largest purchases made in 2014 were Marsh & McLennan Agency's purchase of San Diego-based Barney & Barney L.L.C. and Greensboro, North Carolina-based Senn Dunn Insurance. In addition, Gallagher acquired Toronto-based Noraxis Corp.

Looking ahead, the economy has been trending favorable, premiums remain relatively stable albeit with some recent apparent softness, and the near-term outlook is generally for more of the same.

There is very strong demand on the buy-side from the private equity-backed and publicly held brokers to attract high-quality sellers. Given the current finite inventory, seller's market pricing prevails with multiples at historically high levels.

That said, the natural marketplace forces eventually will shift buyer and seller behavior. Until we reach that point of equilibrium, barring unforeseen economic and/or insurance calamities, we would anticipate this active M&A market to continue. A large number of aging agency principals need to capitalize their value, but only a few are adequately prepared for any type of internal succession.

Timothy J. Cunningham and Daniel P. Menzer are principals at Optis Partners L.L.C., a Chicago-based investment banking and financial consulting firm that serves the insurance distribution sector. Mr. Cunningham can be reached at 312-235-0081 or cunningham@optisins.com and Mr. Menzer can be reached at 630-520-0490 or menzer@optisins.com.

MOST ACTIVE ACQUIRERS

The most active acquirers of insurance agents and brokers, 2011-2014

Company (ownership type)	2011-2014	2014
Hub International Ltd. (private equity-backed)	109	31
Arthur J. Gallagher & Co. (publicly held)	104	31
AssuredPartners Inc. (private equity-backed)	69	26
BroadStreet Partners Inc. (private equity-backed)	60	15
Confie Seguros Insurance Services (private equity-backed)	53	13
Brown & Brown Inc. (publicly held)	45	7
USI holdings Corp. (private equity-backed)	38	11
Digital Insurance Inc. (privately held)	37	7
Acrisure L.L.C. (private equity-backed)	33	22
Marsh & McLennan Agency L.L.C. (publicly held)	29	8

Source: Optis Partners L.L.C.

ACTIVE BUYERS BY CATEGORY

Private equity-backed acquirers have led all other categories in purchasing insurance agents and brokers since 2011.

Type	2011-2014 total	2014
Private equity-owned	467	158
Privately held	392	113
Publicly held	214	56
Bank-owned	101	13
All other	61	17

Source: Optis Partners L.L.C.

831(b)

Continued from page 1

say would have put 831(b) captives out of reach for many, if not all, family-owned companies.

When the legislation emerged from the Senate Finance Committee last week — approved on a bipartisan voice vote — the proposal had changed: the 20% premium limit from a single policyholder was removed, while the maximum tax-deductible premium limit was nearly doubled to $2.2 million, with that increase boosted annually in line with rises in the cost of living.

With the higher contribution limit, "831(b) captives would become even more attractive," said Aidan Kelly, senior vice president and chief operations and compliance officer in the global captive practice in Atlanta with Willis Group Holdings P.L.C.

"Our legislation updates a key threshold for small insurance companies," Sen. Charles Grassley, R-Iowa, who championed the proposal, said in a statement following the Senate panel vote.

Sen. Joe Donnelly, D-Ind., said in the Grassley statement: "Small mutual insurance companies are important to Indiana's economy, and this common sense bill would make a much-needed update to the law."

Still, "the proposal in its current form will be strongly resisted by the IRS," said Robert Myers Jr., a partner with Morris, Manning & Martin L.L.P. in Washington.

It isn't clear what led to the rapid demise of the earlier proposal, but sources say several committee members, including Sen. Grassley, are longtime supporters of 831(b) captives.

"Members of Congress want to protect the interests of constituents," said Delaware Captive Insurance Director Steve Kinion in Wilmington.

However, "the IRS hates 831(b) captives. They talked to (Senate Finance) committee staffers to get the provision in the bill," said a source, who asked not to be identified.

But when senators who support 831(b) captives saw the legislative language, they got it removed and replaced with the current proposal, which has been discussed in prior congressional sessions, the source said.

The earlier withdrawn proposal "would have severely damaged interest in new formations and caused many existing companies to reconsider their positions," said Art Koritzinsky, a managing director at Marsh Captive Solutions in Norwalk, Connecticut.

The proposal, as it was sent to the Senate committee, "would severely handicap the 831(b) captive insurance industry," said Tom Jones, a partner with McDermott, Will & Emery L.L.P. in Chicago.

"This would have been very damaging to the captive insurance industry. The approach was too broad," said David Snowball, captive insurance director of the Utah Insurance Department in Salt Lake City.

Still, the proposal is far from becoming law. A vote by the full Senate on the legislation has not yet been scheduled, while the House of Representatives also has not considered the bill.

"We will have to wait and see after the House weighs to see if the provision stays," said Bruce Wright, a partner at Sutherland Asbill & Brennan L.L.P. in New York.

"The IRS will fight the proposal as written, but I think the IRS will propose restrictions, which if adopted, the administration then would support the legislation," said Charles Lavelle, a partner at law firm Bingham Greenebaum Doll L.L.P. in Louisville, Kentucky. "But if the new proposal is overly restrictive, the captive industry would lobby lawmakers to lessen those restrictions."

PLUS

Continued from page 4

where the topics also included cyber risk, derivative litigation and emerging international exposures.

Mary L. Schapiro, former chairman of the U.S. Securities and Exchange Commission, said the potential fallout from cyber-related losses is devastating, and that boards of directors need to spend much more time on this issue.

Ms. Schapiro, who served as SEC chairman from 2009-2012, said during a keynote address that boards need to encourage company employees to develop expertise in this area and report directly to the board, but this should not alleviate boards' own responsibilities to be up to speed on this issue.

Ms. Schapiro also said there is pressure on Capitol Hill to codify the SEC's guidance on companies' disclosure of cyber threats, which was issued in 2011.

Delaware decision

When discussing legal decisions affecting the boardroom, speakers cited a recent Delaware ruling that firms domiciled in the state, which accounts for more than half of publicly held companies nationwide, may include a requirement in their bylaws that derivative litigation be filed in a particular jurisdiction.

"It's certainly more efficient" than having lawsuits filed in multiple forums, said Francis G.X. Pileggi, a partner at Eckert, Seamans, Cherin & Mellott L.L.C. in Wilmington, Delaware.

"Boards need to develop a self-critical mindset" as to how they use third-party advisers, whether they are law firms or an investment banker, said Christopher D. Moore, global head of litigation and legal policy at GE Capital in Norwalk, Connecticut. They "need to be a little less deferential" to management and "a little more independent" in obtaining advice, he said.

But recent large settlements of derivative lawsuits are not necessarily a trend, said Jay B. Kasner, a partner at Skadden, Arps, Slate, Meagher & Flom L.L.P. in New York.

"I think everything needs to be taken on a case-by-case basis," he said.

"The regulatory environment is definitely changing" in the Asia region, said Singapore-based Arati Varma, underwriting officer for Southeast Asia, India and the Middle East for Chubb Specialty Insurance, a unit of Chubb Corp.

Not only are domestic regulators "becoming a lot more vigilant," but there is also greater enforcement activity occurring across industry segments, Ms. Varma said.

Kevin LaCroix, an attorney and executive vice president at RT ProExec, a unit of R-T Specialty in Beachwood, Ohio, said among reasons an international perspective is important is "clients know that they do business in a global economy" and their counterparts around the world "are dealing with many of the same issues and coming up with different solutions than we are."

During another keynote address, Peter J. Eastwood, president of Berkshire Hathaway Specialty Insurance in Boston, which is part of Berkshire Hathaway Inc., said he would like to see the operation launch its platform in the United Kingdom and Continental Europe this year and "build it in a fairly robust way."

ANTHEM

Continued from page 1

for that to happen."

Anthem CEO Joseph R. Swedish said in his Feb. 4 announcement that the "very sophisticated external cyber attack" involved the theft of names, birth dates, medical identification and Social Security numbers, street and email addresses, employment information and certain income data. The attack affected about 80 million customers and employees.

There is a question as to whether Anthem "did what they needed to do" in encrypting the personally identifiable data, said Scott L. Vernick, a partner at law firm Fox Rothschild L.L.P. in Philadelphia. According to media reports, Anthem encrypted its data when it was in transit but not sitting on its servers, which is where the attack occurred, and U.S. investigators suspect state-sponsored Chinese hackers are linked to the hack.

Despite federal laws such as the Health Insurance Portability and Accountability Act of 1996 and the Health Information Technology for Economic and Clinical Health Act and numerous state laws relating to data breach notification requirements, experts say the health care industry has lagged in spending on technology.

The health care sector "has not been as aggressive as other industries," including banking and airlines, that "have had more at their disposal to invest in the technical infrastructure," said Katherine Keefe, Philadelphia-based global head of Beazley P.L.C.'s breach response team.

However, Anthem experienced "a very sophisticated attack and in the best of times it's very difficult for companies to stay ahead of the curve," said Charles A. Cowan, London-based counsel at Drinker Biddle & Reath L.L.P.

Fallout from the devastating cyber attack in the health care industry was swift.

Several lawsuits naming Anthem, the nation's second-biggest health insurer, as a defendant and seeking class certification already have been filed. Among them is *Susan Morris et al. v. Anthem Inc. et al.*, a suit filed in Santa Ana, California, federal court accusing the health insurer of unfair business practices, breach of covenant of good faith and fair dealing, and other charges. Ms. Morris' attorney, Aashish Y. Desai of Costa Mesa, California-based Desai Law firm P.C., said he expects the litigation to be consolidated in one jurisdiction, which is usual in comparable national litigation.

In addition, the National Association of Insurance Commissioners called for a multistate examination of Anthem and its affiliates, and several state attorneys general and regulators started investigations into the breach.

There also is the question of whether self-insured employers working with Anthem may have to assume some costs resulting from the breach, experts say.

Self-insured employers working with Anthem, which sells Blue Cross Blue Shield health care plans, should examine the policy language of their business associates' contracts to determine whether they are obligated to provide notice of the breach to their employees, said Danielle Vanderzanden, a shareholder at Ogletree, Deakins, Nash, Smoak & Stewart P.C. in Boston.

If the contracts includes the obligation, the employers should either provide the notice "or work with Anthem" to amend the provision, she said.

Robert J. Dubraski, president and CEO of health insurance broker Dubraski & Associates Insurance Services L.L.C. in San Diego, said underwriters in general will scrutinize cyber risks more closely, but he also hopes health care companies will now take this risk more seriously.

"We have always felt like (cyber) was one of the most underinsured risks in health care today," Mr. Dubraski said.

As Anthem's primary cyber insurer, AIG's Lexington Insurance unit provides $10 million in coverage above a $10 million self-retention, insurance market sources say.

Several excess insurers also are on the risk; Anthem's estimated total cyber coverage of $150 million to $200 million is expected to be exhausted as a result of the breach, sources say.

Barring no more major cyber breaches in the health care industry, some experts do not anticipate higher cyber insurance rates for the sector. "Cyber insurers understand that there's a risk of a large event in their space. It's built into their pricing, and they understand that when they take the risk," said Thomas Reagan, New York-based cyber practice leader at Marsh L.L.C. Concerns they may have are "somewhat offset by their desire to sell more cyber insurance."

Although there are no indications that the stolen Anthem data has been sold, experts say the data would be far more valuable on the black market than credit-card information because it cannot be canceled or changed.

The Anthem data can fetch as much as $20 per record in the black market vs. $1 for credit-card data, said Craig Musgrave, senior vice president and chief information officer at Napa, California-based medical malpractice insurer The Doctors Co.

LARGEST HEALTH RECORDS HACKS

Largest reported data breaches of protected health information.

Anthem Inc.
Date: Feb. 4, 2015
People affected: 80 million

Science Applications International Corp.
Date: Sept. 13, 2011
People affected: 4.9 million

Community Health Systems Professional Services Corp.
Date: April 10-June 24, 2014
People affected: 4.5 million

Advocate Health & Hospitals Corp.
Date: July 15, 2013
People affected: 4.0 million

Xerox State Healthcare L.L.C.
Date: May 9, 2014
People affected: 2.0 million

IBM Corp.
Date: Jan. 21, 2011
People affected: 1.9 million

Source: U.S. Health and Human Services' Office for Civil Rights

CATASTROPHE

Continued from page 1

Superstorm Sandy "has brought more states into the discussion," said Tom Glassic, vice president in the Property Casualty Insurers Association of America's Washington office. "The fact that the White House and a leading Republican are talking about the same space shows there's interest on both sides of the aisle."

Frank Nutter, president of the Washington-based Reinsurance Association of America, said getting disaster policy to become a Washington priority has long been a challenge.

But with the Republican subcommittee chair's call during a late January hearing and the Democratic president's stance, "it does feel as though perhaps there is some bipartisan interest in doing more to promote resilience and preparedness of communities in advance rather than disaster assistance after major events," Mr. Nutter said.

"I'm pleased that they're all coming together," said R. David Paulison, a former administrator of the Federal Emergency Management Agency and a senior adviser to the Washington-based BuildStrong coalition, which promotes enhanced building codes.

Mr. Paulison, also a senior partner at Washington-based consulting firm Global Emergency Solutions L.L.C., who appeared on behalf of the coalition before Rep. Barletta's panel, said he thought it was coincidence that Rep. Barletta's and President Obama's actions "happened to be back to back."

"We are spending a lot of money on disasters, and nobody really knows how much we're really spending" on post-disaster relief involving numerous federal agencies, he said.

"We know what to do, we know how to do it, but it just hasn't been done," said Mr. Paulison, who said BuildStrong backs setting up a blue-ribbon panel to examine the issue. "We see the same damage over and over and over. It's got to stop somewhere."

PCI will host the National Flood Conference, which brings together stakeholders and partners in the National Flood Insurance Program, in May in Washington.

"We would like to see strong state building codes, and even consideration in the flood program of state building code requirements," said Don Griffin, a vice president in PCI's Chicago headquarters. "The code business is not just related to fire safety and wind — flood ought to be part of that, too."

Ray Lehmann, a senior fellow at the Washington-based R Street Institute, a free market-oriented public policy group, said "we're hopeful" that the private and public sector actions will lead to movement on comprehensive disaster policy.

> "We know what to do, we know how to do it, but it just hasn't been done."
>
> R. David Paulison, BuildStrong

The institute also is a member of SmarterSafer.org, a coalition of environmental, insurer, free market and other groups that support mitigation efforts and oppose government subsidies of construction in environmentally sensitive and unsafe areas.

Mr. Lehmann said that the executive order has drawn resistance from some Republican senators. Sen. David Vitter, R-La., for example, questioned the executive order's legality.

"We don't believe there is anything remarkable in the executive order, but it's something that could be contentious," he said.

"I think this conversation is happening, and I think it's a good one to have," said Tom Santos, a vice president at the Washington-based American Insurance Association. "It needs to happen" if the nation is to better prepare for disasters due to floods and high winds, Mr. Santos said. Record snowfall in parts of the nation this year also is focusing people's attention on the issue, he said.

BuildStrong Executive Director Phil Anderson said the group is encouraged that Rep. Barletta's panel is taking on the issue.

"Only by studying and evaluating where the federal taxpayers' dollars are being wasted currently can you come up with at least a fraction of that money to be put on budget to fund these critical prevention measures, like the Safe Building Code Incentive Act," Mr. Anderson said in reference to a bill introduced in the last Congress to provide financial incentives for states that enforce effective building codes.

RETIREES

Continued from page 3

a thumb on the scale in favor of vested retiree benefits in all collective-bargaining agreements."

"*Yard-Man's* assessment of likely behavior in collective bargaining is too speculative and too far removed from the context of any particular contract to be useful in discerning the parties' intention," Justice Thomas wrote.

"I think there was a sigh of relief that the Supreme Court vacated the 6th Circuit's ruling," said John Grosso, senior vice president of Aon Hewitt's health and benefits consulting practice in Norwalk, Connecticut. "Certainly, plan sponsors are happy that *Yard-Man* isn't the law of the land."

How beneficial the Supreme Court's ruling in M&G Polymers proves to be for employers remains to be seen, as the litigants must now return to the 6th Circuit for a new ruling on the legality of M&G's cost-sharing methods.

Uniform set of rules

Most immediately, experts said, the ruling should at least result in greater uniformity across the federal appeals courts in analyzing collective bargaining language on employee benefits, reducing litigants filing suit in favorable jurisdictions.

"Before, you had unions rushing to file their cases in the 6th Circuit and employers trying to file declaratory judgment cases in other circuits first," said Wilber H. Boies, a partner at McDermott Will & Emery L.L.P. in Chicago. "We now are going to have one set of rules for the whole country, and we'll no longer have all of the forum shopping that was going on."

On a longer timeline, experts said, the ruling could strengthen employers' positions in negotiating collective bargaining and/or settlement agreements with labor unions over the promised duration and level of retiree benefits.

"I think it will level the playing field a bit," said Nancy Ross, a partner at Mayer Brown L.L.P. in Chicago. Employers may be less likely to settle such cases when they are sued, she said. "Conversely, I think it might increase the incentive for the unions and the plaintiffs' counsel to settle the cases."

"Hopefully, employers and labor unions have learned from the public exposure of this case that what they really need to do is just be clear in their collective bargaining agreements about what the duration of the promised benefit actually is," said John Woodrum, a shareholder at Ogletree, Deakins, Nash, Smoak & Stewart P.C. in Washington.

"Of course, both sides have known forever that if you're clear in the contract, these kinds of disputes probably won't come up to start with," he said.

OFF BEAT ;-)

Contributing: Sheena Harrison, Bill Kenealy, Shelby Livingston, Sarah Veysey

COURTESY OF PEARLFISHER

Worker wellness in the pits

Workplace wellness has become a top priority for many companies and employees, and workers in London looking for ways to reduce their stress levels can rediscover a little glimpse of childhood by diving into a giant pit filled with 80,000 plastic balls.

Creative agency Pearlfisher set up the adult ball pit – which can hold up to 30 adults — at its art gallery in west London until the middle of February to enable grown-ups to "recharge."

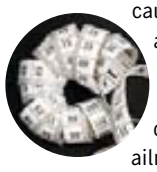
Pearlfisher also is doing its bit for corporate social responsibility: For every visitor to the ball pit, it will donate £1 ($1.51) to the charity Right to Play, according to the company's website.

It seems that U.K. workers are making the most of the chance to re-connect with their inner child — all the tickets to the ball pit have been taken.

Breast reduction not covered by comp

An Australian woman who reportedly claimed a work injury caused her to gain weight can't receive workers compensation to pay for a related $20,000 breast reduction surgery.

The woman works for the Australian Taxation Office and said she suffers neck and shoulder pain caused by computer-related tasks, according to media reports.



She reportedly received workers comp for the neck and shoulder conditions and claimed that her ailments caused her weight to increase. In turn, the woman reportedly claimed that her weight fluctuations also caused her breast size to balloon from a DD cup to a EE or F cup, and she sought to have Comcare — a public workers comp fund — pay for a breast reduction.

Australia's Administrative Appeals Tribunal denied the claim, saying that the woman's overrunning cups would be better remedied by weight loss than surgery.

"No doubt that there are numerous possible ways to lose weight, and the costs of a dietician, exercise program, or enrollment in an organization such as Jenny Craig or Weight Watchers would be considerably less costly than the approximately $20,000 cost," the decision reads, according to a quote in the Sydney Morning Herald newspaper.

TIGER WOODS SLAPPED WITH SLIP-AND-FALL LAWSUIT

AP PHOTO

Tiger Woods' company disputes a negligence claim by a former security guard at the golfer's house who was injured while patrolling the property.

Golf star Tiger Woods is no stranger to legal battles, including landmark rulings on the use of his image and his rumored $100 million divorce settlement. And now the sports star has another case to worry about — an allegation of negligence resulting in injury to a former employee, according to news reports.

John Davis, a retired police officer who worked as a security guard at Mr. Woods' house in Jupiter Island, Florida, has filed a suit against Mr. Woods' company, which owns the mansion, for compensation for injuries sustained in an accident in 2010.

Mr. Davis slipped while patrolling Mr. Woods' property on Dec. 23 of that year and sustained injuries to his knee that have already required one surgery and will require further surgery this year.

Mr. Davis claims that a badly oriented sprinkler made a marble walkway so slippery that an accident was bound to happen.

Mr. Woods' team counters, however, that Mr. Davis should have foreseen that the walkway was slippery and was responsible for his fall, reports said.

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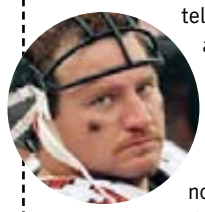
Ex-NFL player defends workers comp award

A former football star is taking to the airwaves and flexing his muscles to prove he didn't commit insurance fraud.

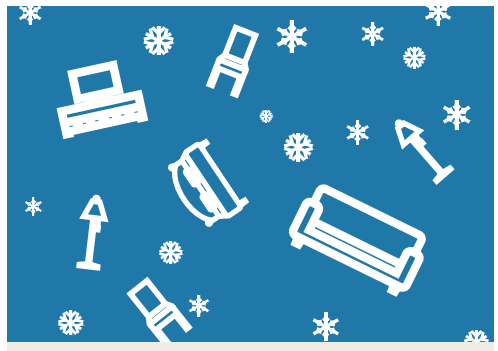
Former NFL defensive lineman Brad Culpepper stripped down to his undershirt during a televised interview this week in an attempt to convey the extent of his injuries to ABC News reporter Brian Ross. "Is that normal?" Mr. Culpepper asked, displaying a grotesquely torn bicep to the notoriously skeptical Mr. Ross.



In 2011 Mr. Culpepper, now a Florida personal injury attorney, received a $175,000 workers compensation disability settlement from Fairmont Superior Insurance Co. in California. In September 2014, Fairmont filed suit against Mr. Culpepper, questioning his 89% disability rating based on the fact that he continues to participate in martial arts and starred as a 2013 cast member on the reality TV show Survivor alongside his wife.

In the interview, a feisty Mr. Culpepper noted that the black belt he recently was rewarded was only honorary and that he made it through his stint on Survivor with the help of pain medication and a medical procedure that helped his ailing back.

Mr. Culpepper's wife, Monica, said she regretted convincing him to appear on the show.



It's snowing sofas after blizzard

For about 3,000 people, the Midwest's Super Bowl Sunday blizzard also comes with a full refund on the price of their furniture.

Customers who purchased furniture and mattresses at Art Van Furniture Inc. stores in Illinois, Indiana and Ohio during the retailer's "Let It Snow" promotion last month are eligible for a full refund — including purchase price, tax and delivery fees — since more than 3 inches of snow fell at Chicago's O'Hare International Airport on Super Sunday. A reported 19.3 inches fell.

Warren, Michigan-based Art Van, which took out an insurance policy for its promotion from Lloyd's of London, is now preparing to return $2.4 million to customers, according to media reports.

A spokeswoman for the retailer told the Chicago Tribune that the company will wait for "official certification on snow totals" before confirming customer refunds, which will likely be processed in March.

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