



### RISK MANAGEMENT

## Sequester cuts threaten flood prediction tools

Stream gauge network under more pressure

BY RODD ZOLKOS

The federal budget sequester threatens U.S. waterway stream gauges that are part of a network of instruments that measure streamflow and generate data considered vital to forecasting floods and providing information used in disaster preparation and flood zone maps.

The stream gauge shutdowns resulting from the federal budget-cutting measure come on top of other cuts in recent years due to the inability of cash-strapped state and local governments to provide their share of funding for portions of the network.

"The network has got about 8,000 stream gauges in it," said J. Michael Norris, program coordinator of the

See **SEQUESTER** page 32

### HEALTH CARE REFORM

## PROPOSED IRS RULES CLARIFY USE OF WELLNESS INCENTIVES

Employers await other health reform guidelines



OSTILL/SHUTTERSTOCK.COM

BY JERRY GEISEL

Newly proposed Internal Revenue Service regulations provide employers long-sought guidance on key health reform law issues related to corporate wellness and early retiree health plans.

However, employers still await agency guidance on several other important provisions of the Patient Protection and Affordable Care Act that President Barack Obama signed into law in 2010.

Wellness rules proposed last week involve the relationship between a health plan premium affordability test, slated to go into effect in 2014, and premium discounts employers offer employees as an incentive to participate in wellness programs.

Under that test, coverage is considered affordable as long as the premium paid by an employee for individual coverage does not exceed 9.5% of wages or household income. Premium contributions exceeding that threshold are considered "unaffordable," subjecting the employer to a \$3,000 penalty.

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### IRS GUIDANCE

Proposed IRS health care reform law rules end employer uncertainty on key issues that include:

- Health insurance premium discounts employers give to employees participating in most wellness programs cannot be included when calculating whether their health care plans pass an affordability test.
- Premium discounts for participation in tobacco-cessation programs can be factored in when running the affordability test.
- Lower- and middle-income retirees younger than 65 who are offered but do not enroll in their former employers' retiree health plans would be eligible for federal premium subsidies to buy coverage in public insurance exchanges.

Employers still await guidance on other areas that include:

- Whether lower- and middle-income early retirees would lose eligibility for federal premium subsidies to buy coverage in public insurance exchanges if their former employers offer stand-alone health reimbursement arrangements.
- How to report information to public insurance exchanges when their employees apply for coverage through an exchange.
- What kind of information to provide employees about public insurance exchanges.

### WORKERS COMPENSATION

## Workers comp opt-out efforts gain traction

Oklahoma joins Texas in passing legislation

BY SHEENA HARRISON

Oklahoma's plan to let employers opt out of the state's workers compensation system is likely to face legal challenges, but it also could be a model for other states to restructure their workers comp programs.

After being approved by the Oklahoma Legislature late last month, the bill is expected to be signed into law by Oklahoma Gov. Mary Fallin.

It would allow employers to opt out of the state system by establishing an alternative plan that pays benefits similar to workers comp, regardless of whether an employee, employer or third party causes an occupational injury.

The bill also would establish an administrative dispute resolution system, which backers said is expected to be more efficient and less costly than Oklahoma's current court-based system.

Oklahoma would be only the second state after Texas to allow employers to leave the traditional state workers comp insurance system.

But other states could follow suit, said Bill Minick, president of Dallas-based PartnerSource, a consultant on alternative workers comp plans and a unit of Arthur J. Gallagher Risk Management Services Inc.

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Country profile of Tunisia; Hiscox sets up separate London insurance division

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Extended coverage from this year's conference, including sector changes, awards, pricing, social media and more

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**EMERGING TRENDS IN RISK MANAGEMENT**

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# NEWS

## PROPERTY/CASUALTY INSURERS

# Berkshire making big insurance play

### Buffett firm lures four AIG execs for E&S market push

BY BILL KENEALY AND MARK A. HOFMANN

Berkshire Hathaway Inc.'s hiring of top executives from American International Group Inc. shows the Omaha, Neb.-based insurer intends to make a concerted push into the excess and surplus lines market.

Peter Eastwood, president and CEO of AIG property/casualty for the Americas; David J. Bresnahan, president of Lexington Insurance Co.; David Fields, head of global casualty for AIG; and Sanjay Godhwani, president of AIG's property/casualty group for Latin America and the Caribbean, left in late April to join Berkshire.

Last week, AIG named Robert Schimek to succeed Mr. Eastwood, and Alexander Baugh to replace Mr. Fields.

In a televised interview Thursday with Bloomberg Television, Berkshire Hathaway Chairman and CEO Warren Buffett said the former AIG executives will help Berkshire enter the commercial lines market "full bore" to complement its existing personal lines and reinsurance business.

"They are very, very good insurance people, and we would like to get into the commercial insurance business very big time," Mr. Buffett said in the interview. "I think we have the group to do it."

Nonetheless, Mr. Buffett bristled at the suggestion that Berkshire had "poached" the four executives.

"They came to us," Mr. Buffett said. However, AIG CEO Robert Benmosche disputed that Friday in

a Bloomberg interview.

Kevin Kelley, CEO of Ironshore Inc. in Boston and formerly president and CEO of Lexington Insurance, said in an interview with *Business Insurance* that the former AIG executives will enable Berkshire to increase its footprint in the E&S marketplace on a low cost, low risk basis.

"They're not afraid to acquire, but in this particular case, they



BLOOMBERG

Warren Buffett says the former AIG executives will help his Berkshire Hathaway enter the commercial lines market "full bore."

chose to hire and do a startup," Mr. Kelley said of Berkshire. "Ask anybody who has done that before, it's not easy."

He spoke highly of Ajit Jain, president of Berkshire's reinsurance group, who many market experts think helped land the former AIG execs.

"I think Ajit has again pulled a very smart move," Mr. Kelley said. "It's not the first time that Berkshire's been in the E&S world. They're in other insurance businesses, and some of those businesses report to Ajit and some do not."

Other market participants generally welcomed Berkshire's move.

"There's no doubt that this new facility will make its mark in the E&S sector," said Timothy W. Turner, Chicago-based president and CEO of R-T Specialty L.L.C., a division of Ryan Specialty Group L.L.C. "This is a very talented and established team, and generally speaking, new innovative capacity is always welcome by the insureds, especially from specialty experts like this group."

Likewise, Kevin Westrope, president and CEO of Kansas City, Mo.-based insurance wholesaler Westrope, respects the new team. "There's certainly ample capacity in the marketplace, but there's always room for good capacity," Mr. Westrope said. "They certainly picked some real pros and high-profile guys whom we think a lot of and who are well-respected in the marketplace."

Nonetheless, Jett Abramson, Redondo Beach, Calif.-based senior vice president and director of complex casualty at Bliss & Glennon Inc., said Berkshire's expansion would take time.

"When you hire people that high up, you are really starting off with strategy," Mr. Abramson said. "So I would imagine that for the next six to 12 months, they are going to be figuring out where they want to make their entry into the E&S marketplace."

Mr. Abramson added that he expects Berkshire to gain market

See AIG page 32

## REINSURANCE

# Hedge funds invest heavily in reinsurance market

BY JONATHAN KENT

The flood of money flowing into the reinsurance industry shows no sign of subsiding, and some experts see it as a threat to the traditional reinsurer model, as fresh capital smooths the peaks of pricing cycles.

The influx of third-party investment capital has been evident in Bermuda, where some hedge funds have started their own reinsurance companies, established joint ventures with reinsurers or invested in sidecars, catastrophe bonds or collateralized reinsurance products.

Whether the fund managers' motivations are to juice their investment returns through short-tail risk exposures or establish new platforms for more tax-efficient asset management, the result has been a steady flow of capital into the reinsurance market.

Many reinsurers have embraced third-party capital as a tool allowing them the flexibility to rapidly raise capacity as needed, without straining their own reserves or overextending their catastrophe risk exposures.

According to Willis Re's April 1 market report, an estimated \$35 billion of alternative capital cur-

rently is in the Bermuda reinsurance market, and an increasing volume is expected to keep flowing into the market.

The suppressing effect on pricing should be welcomed by reinsurance buyers. However, John Charman, the founder and former CEO of insurer and reinsurer Axis Capital Holdings Ltd., thinks the glut of third-party capital has led to weakened underwriting standards over the past five years because "too much capital is being deployed by too many underwriting businesses."

See HEDGE page 33

## RISK MANAGEMENT

# U.K. law eases worker liability standard

BY SARAH VEYSEY

Under a recently approved U.K. law, employees will have to prove employer negligence to win a workplace injury claim in the United Kingdom, and employers will have more options when dealing with underperforming workers.

The U.K. Parliament late last month gave final approval to the Enterprise and Regulatory Reform Act, which also received the formality known as "royal assent."

Most of the law likely will be enacted this year, experts say.

Clause 62 of the new law removes the current "strict liability" standard that makes employers automatically liable for many workplace injuries, regardless of fault, under the current Health and Safety at Work Act, London-based law firm Pinsent Masons L.L.P. said in a briefing note.

Under the new law, employees will have to prove negligence on the part of their employer to pursue a claim, the law firm said.

The House of Lords, the upper chamber of the U.K. Parliament, previously rejected Clause 62's removal of that civil liability. But the U.K. Parliament's elected chamber, the House of Commons, reinstated the clause, and the House of Lords approved the bill April 22 on a 170-112 vote.

"This reform is not about reducing the number of claims made, but about establishing the important principle that employers should always have the opportunity to defend themselves against a compensation claim, when they have done nothing wrong and have taken all reasonable precautions to protect their employees," said James Younger, parliamentary undersecretary of state at the Department for Business, Innovation and Skills.

"The changes mean that it will only be possible to claim compensation for accidents which would currently constitute a breach of health and safety regulations, where it can be proved by the claimant that the employer has been negligent at common law," London-based law firm CMS Cameron McKenna L.L.P. said in a statement.

The London-based Association of Personal Injury Lawyers called the changes "grossly unfair."

Karl Tonks, president of the

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ONLINE  
FEATURES

## SOLUTION ARC

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for natural disaster

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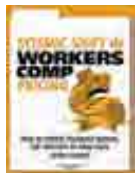
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## NEWS

## MARINE INSURANCE

ROUGH SEAS IN  
MARINE MARKET SECTOR

Recent disasters highlight risks for shipowners, insurers

BY DOUGLAS MCLEOD

Catastrophes such as last year's Superstorm Sandy present one of the greatest risks facing marine cargo owners and their insurers.

Sandy's estimated \$2.5 billion to \$3 billion cost to the global marine hull, liability and cargo markets wiped out U.S. marine premiums for 2012, according to the International Union of Marine Insurance. A significant but still undetermined portion was for cargo, including automobile, coffee/cocoa industry and fine arts losses, Hamburg, Germany-based IUMI said in March.

Cargo owners also are concerned about increasing general average claims, said Paul Friel, managing director and Eastern zone cargo leader at Marsh Inc. in New York.

Generally, cargo owners must assume a share of the cost of rescuing a vessel in danger, including jettisoned cargo and salvage. Salvage costs are "exponentially higher" than in past years, Mr. Friel said.

Additionally, two major marine losses since late 2011 have highlighted risks for shipowners and marine liability underwriters.

Protection and indemnity insurers have seen wreck removal costs skyrocket — not just for large ships such as the *Costa Concordia*, which ran aground off the coast of Italy in January 2012 — but also for smaller cargo vessels.

The generally increasing size of



AP PHOTO

The October 2011 wreck off New Zealand of the *MV Rena*, a relatively small container ship, generated an estimated \$300 million in removal costs because of engineering challenges and its location.

ships, more sophisticated salvage technology and more active environmental oversight have contributed to the rising tide of costs.

"All sorts of things are moving this in the wrong direction from the shipowner's perspective," said Ben Abraham, executive director and head of global P&I for Willis Group Holdings P.L.C. in London.

*Costa Concordia's* refloating and removal is expected to cost P&I insurers more than \$560 million, while liability claims from passengers and family of the 32 people killed in the wreck are estimated at \$100 million or more, depending on whether suits filed in the United States are transferred to Euro-

pean courts, several marine sources said.

With a hull loss of more than \$500 million, the total cost of the wreck will surpass \$1 billion. That loss closely followed the October 2011 wreck off New Zealand of the *MV Rena*, a relatively small container ship that has nevertheless generated an estimated \$300 million in removal costs because of engineering challenges and its location.

"The market has been extremely taken aback by the cost of the *Costa Concordia* removal as well as the *Rena*," said John Weber, vice president and North American

See **MARINE** page 30

## HEALTH INSURANCE

## Case study: Asheville uses value coverage approach

BY CHARLOTTE HUFF

Sixteen years ago, Asheville, N.C., took on the challenge of trying to reduce the city's escalating health care costs.

At the same time, North Carolina pharmacists were yearning to fill their days with more than counting pills, said Barry Bunting, then a pharmacy manager at Mission Hospital in Asheville.

Leaders of this picturesque mountain community were fed up with the ineffectiveness of the city's self-funded health plan.

"My motivation was largely frustration, because nothing else worked," said John Miall, then the city's director of risk management. "I thought, 'Maybe it's the time to do something really out of the box.'"

So in 1997, the North Carolina Association of Pharmacists and several other pharmacist groups, in conjunction with the City of Asheville, began researching whether specially trained community pharmacists interacting one-on-one with chronically ill city employees could improve the quality of care and decrease health

care costs. Pharmacists have an in-depth knowledge of prescription drugs, the diseases and conditions they treat, and how they can be used most effectively by patients.

The result was the Asheville Project, a disease-management approach considered one of the first examples of what today is known nationwide as value-based insurance design.

Since enrolling its first 47 diabetic participants in 1997, the project has inspired numerous spinoff ini-

See **ASHEVILLE** page 30

## BENEFITS MANAGEMENT

Engagement key  
to wellness,  
health care

BY MATT DUNNING

PHILADELPHIA — Increasing employees' engagement in their health care and wellness management was a key topic of discussion at WorldatWork's 2013 Total Rewards Conference in Philadelphia last week.

Multiple sessions during the three-day conference — which drew about 1,600 human resource managers, service providers and consultants — highlighted the financial value of effectively motivating employees to take more responsibility for their own health management.

Michael Vittoria, vice president of corporate benefits services for the Portland, Maine-based MaineHealth hospital system, said during a presentation that a comparative analysis of hospitals' medical claims costs from 2007 to 2011 revealed that employees not engaged in corporate wellness initiatives generated \$1,200 per month more in claims than those who participated regularly in the programs.

To address what he called the "engagement gap" in health care costs, many employers, including MaineHealth, are applying principles of behavioral economics to encourage employees to make more informed decisions regarding the health care coverage and services they use.

"Our strategy wasn't about shifting costs to employees," Mr. Vittoria said.

In 2012, the hospital system implemented tiered health care coverage limiting employees who don't participate in MaineHealth's wellness program to a high-deductible health plan. Employees who complete certain wellness initiatives have access to plans featuring more comprehensive coverage and lower cost-sharing levels.

Mr. Vittoria said using techniques designed to enhance the quality of employees' decisions, such as eliminating words and phrases that might connote the base superiority of one particular plan over another, MaineHealth was able to migrate 22% of its HMO enrollees to its newer consumer-driven health plan in the first year.

"Employee engagement should be a win-win situation, because engaged employers are healthier, and healthier employees provide

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# COMMERCIAL LINES INSURERS TURN TO WEB FOR PLACEMENT

Companies take example from personal lines auto business

BY BILL KENEALY

While the online sale of insurance has been entrenched in personal lines auto business for many years in the U.S., a variety of market and technological factors have limited online placement for commercial lines.

This is beginning to change as maturing technologies and new business initiatives from brokers and insurers make online placement a more viable option for small and medium-size commercial clients.

Kevin Kerridge, New York-based director of small business insurance at Hiscox Inc., said the insurer in 2010 launched an online platform offering small-business policies in the United States, after success doing so in the U.K.

“We realized that there was an opportunity between the online agents and the big players that have brokerage distribution aimed solely at the middle market to come in and launch a small-business service driven through the Web,” he said.

Mr. Kerridge said Hiscox offers general liability, business owner policies, and errors and omissions coverage through its online portal.

Although the site is integrated with its licensed agents and prominently displays a toll-free number should users want to communicate with a live agent, about 50% complete the process from quote to issuance without leaving the site, he said.

A slightly smaller percentage will at some time during the process contact the agent via phone, while a distinct minority will just call the agent without completing any part of the process online.

“Small businesses buy books from Amazon and book travel from Expedia. They bank online,” Mr. Kerridge said. “More are starting to turn to the Web to look for their insurance needs.”

From the viewpoint of a smaller business, many of the products are more akin to personal lines than traditional commercial lines, he said. Given that, Hiscox last year signed a partnership distribution deal with personal lines insurer Geico. Now, an online Geico cus-



“Quite a bit of small and midsized commercial business will be eventually done online. What’s preventing this from happening on a large scale is that the products are not standardized.”

Anand Rao, PricewaterhouseCoopers L.L.P.

tomers interested in obtaining commercial lines coverage can click on a link that redirects them directly to the Hiscox small-business portal, Mr. Kerridge said.

Hiscox also is interested in extending the technology to brokers.

“We are looking to do a pilot program this year with brokers,” he said. “The brokers still add lots of value if you are a bigger company

or a smaller company with complex needs.”

Insurance agencies such as Plantation, Fla.-based Setnor Byer Insurance & Risk also are looking to sell business policies online. The agency just released an online quote tool that offers users instant quotes for property and liability, professional liability, business auto policies and other coverage.

The tool required a complete redesign of Setnor Byer’s website, Anita Byer, the agency’s president, said. Giving users a simple interface was essential, because the company’s market research and its experience indicated that the simpler the site, the more likely a completed transaction would occur.

But commercial insurance is inherently complex, she said.

“Our product is very complex and, in order to do an appropriate job online, it should be a complex process,” she said. “So, the complexity of the product runs counter to the ability to get it online.”

Accordingly, she said online sales tend to work best where a standardized product, such as special event coverage, is focused on a very targeted audience.

Anand Rao, Boston-based partner at U.S. insurance advisory services at PricewaterhouseCoopers L.L.P., said the migration of some commercial lines products to online placement was inevitable.

“Quite a bit of small and midsized commercial business will be eventually done online,” Mr. Rao said.

“What’s preventing this from happening on a large scale is that the products are not standardized.”

Nonetheless, Mr. Rao said he expects standardization to increase as the market matures. Burgeoning online insurance exchanges and ongoing brokerage consolidation will accelerate the move toward more modular or “mass customized” products, he said.

Moreover, Mr. Rao said ongoing advances in technology will fuel interest in online placement of commercial policies. For example, he said improved analytics will give insurers greater comfort in underwriting policies in an expedited fashion.

Tim Attia, Toronto-based senior vice president of sales and marketing at Bolt Solutions Inc., a builder of online portals for commercial insurers, said he sees increased interest in his company’s offering, which integrates a portal, call center software, agency management software and analytics through a software-as-a-service delivery method.

The company, opened in 2000 as technology provider SeaPass Solutions Inc., eventually opened its own insurance agency, Business Owners Liability Team, to sell commercial policies online using its own technology.

In April, it changed its name to Bolt Solutions Inc. to reflect its new strategy of selling its technology platform to independent agents, brokers and wholesalers interested in selling commercial policies online.

“We realized that the platform would be valuable to people in the value chain. We started selling it about a year ago,” Mr. Attia said.

“We see it as a better way for small businesses to buy insurance online.”



## TECHNOLOGY CAN EQUAL TRANSPARENCY

Greg Hekin says technology can go a long way to make the process of buying commercial insurance more equitable and transparent for all involved.

Mr. Hekin, CEO and founder of Bedminster, N.J.-based The iXchange L.L.C., said he thought of the idea of an electronic, Web-based quoting platform that utilizes auction technology while working as director of risk management for Wall Street investor Carl Icahn.

Mr. Hekin, who has a degree in risk management and insurance and formerly worked for brokers Marsh Inc. and Aon P.L.C., said as he watched the role of technology in the procurement of services from other industries, he became convinced of its need in insurance.

After executing a separation agreement with Mr. Icahn, Mr. Hekin set up iXchange to expose the proprietary auction processes he had developed to a wider audience. The process — which involves brokers and underwriters interacting in auctions, reverse auctions and Dutch auctions on a secure website — leads to a more transparent bidding process, Mr. Hekin said.

Still, he said, the process retains every aspect of traditional insurance buying, from coverage to terms to service.

“We brought brokers the ability to use technology in the insurance-buying process,” he said. “I don’t use the term auction much anymore. We offer different types of technology to bring transparency and results.”

Mr. Hekin said the service is targeted to where it makes the most sense: where the product is standardized and the insurer, broker and buyer all can benefit.

“We don’t disintermediate or replace brokers,” he said. “Transparency, fairness and results should be important in any procurement process.”

By Bill Kenealy

### DIRECT WRITTEN COMMERCIAL PREMIUMS

Direct written commercial premiums, or those that include online purchases, have grown from 0.7% of all U.S. commercial premiums written in 2006 to 0.9% in 2011, the latest data available.

Year	Direct written commercial premiums	Percentage change
2006	\$261.6 billion	0.7%
2007	\$261.4 billion	0.8%
2008	\$245.0 Billion	0.8%
2009	\$230.8 billion	0.9%
2010	\$228.0 billion	0.9%
2011	\$239.4 billion	0.9%

Source: Independent Insurance Agents & Brokers of America Inc.

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# FEW EMPLOYERS OFFER WORKERS LONG-TERM CARE COVERAGE

Health care reform issues, exit of key insurers stifle market

BY JOANNE WOJCIK

Concerns over the cost of complying with federal health care reform have dissuaded many employers — especially those in the price-sensitive middle-market — from offering long-term care insurance to their employees.

In fact, many middle-market employers already began shying away from offering this coverage after insurers began exiting the group market en masse, leaving only multilife policies available to offer via worksite marketing.

Many advocates had hoped a little-known part of the Patient Protection and Affordable Care Act — the CLASS Act that would have created a federally administered long-term care program — would spark greater interest in the coverage.

Though 80 million baby boomers started turning 65 in 2011, only about 3% of U.S. residents older than 18 have long-term care insurance, according to the Los Angeles-based Association for Long-Term Care Insurance. Moreover, about 70% of people over 65 will need some form of long-term care, according to the Centers for Medicare and Medicaid Services.

However, when the Obama administration stripped the CLASS Act from PPACA after determining it was not financially feasible, interest among most

employers in offering long-term care coverage waned, overshadowed by concerns about complying with other provisions of the landmark health care reforms, experts said.

Midsize employers today “are so consumed with health care reform, they’re basically putting additional benefits on hold. Long-term care is something that is discussed, but of course, their main concern is what’s forthcoming in the next few months,” said Cheryl Gunter, director of sales at Digital Insurance in Atlanta.

“They are even more reluctant because Genworth (Financial Inc.) has the only true group product left on the market, but their primary focus is on larger employers,” Ms. Gunter added. “So the smaller and midsize employers are forced into multilife products. They aren’t bad products, but the downfall is the lack of guaranteed issue.”

In an email, a Genworth spokesman said the insurer continues to offer group long-term care insurance products to employers with more than 500 employees on a voluntary basis and to employers with more than 150 employees, if the cost is paid by the employer.

“Long-term care had been one of our most active practices over the past 10 years until the spate of carrier withdrawals,” said Frank Fimmano, senior vice president of the

elective benefits practice at Aon Hewitt in Morristown, N.J. But today, “the state of the market has the potential for delivering more disappointment than good.”

Because guaranteed issue no longer is available, the underwriting process and need for more communications means “the enrollment is not done as easily as with group programs,” he said. There’s also less product customization, which can take even more explaining, he added.

“Group plans were chocolate, vanilla or strawberry. Now you can get all 59 flavors,” Mr. Fimmano said.

“Many of our employers have taken a step back on long-term care strategy as the dust settles on health care reform,” said Brad Cillian, director of supplemental benefit programs at IMA Inc. in Denver. “They are more focused on this new portfolio of supplemental health products — gap products — which resonate more with younger and middle-aged employee populations.”

But long-term care insurance historically has had much lower participation rates than other voluntary insurance products, such as long-term disability, accident coverage and dental insurance. Genworth estimates that when offered on an employee-pay-all basis, enrollment rates range from 4% to 10%, with older workers more like-

ly to purchase it than younger workers.

Long-term care insurance is much more expensive than other voluntary benefit products, making it less attractive when an employee must pay the entire cost.

A basic policy that will pay up to \$162,000 for the long-term care needs of a 60-year-old working couple will cost \$1,816 per year, according to the American Association for Long-Term Care Insurance (see chart). This compares with \$500 annually for a dental plan.

Unfortunately, “if we can’t get the agreed-upon participation requirements set by carriers, that affects underwriting,” IMA’s Mr. Cillian said.

Though insurers offering multilife products via the worksite use less rigorous underwriting standards than when selling to individuals, “there are still employees who won’t qualify because they have early stage multiple sclerosis” or some other debilitating condition, said Jerry Manning, principal at J. Manning & Associates, a Chicago-based broker specializing in long-term care insurance.

Participation rates also may affect multilife product pricing, with most insurers giving discounts ranging from 5% to 15% off what they might pay buying the coverage in the individual market if a certain enrollment threshold is reached, he said.



## INSURANCE PERK FOR EXECUTIVES

Though true group long-term care insurance policies are rare in the middle market, sales of executive plans are picking up, experts say.

Several leading insurers reported a 30% to 55% increase in submitted long-term care applications during the first two months of 2013 compared with the same period last year, according to the American Association for Long-Term Care Insurance.

Partly driving sales is the use of the insurance as a “golden parachute” or “executive perk,” said Brian Tyrrell, managing director at Mesirov Financial in Chicago.

Robert Garner, executive vice president at CBIZ Life Insurance Solutions Inc. in Cumberland, Md., said he has seen more long-term care coverage offered to executives as “a perk, a negotiated benefit or to attract or retain a new employee.”

Under current federal nondiscrimination rules that apply to employee health benefit plans, “companies can segregate and carve out just the executives by job title, salary or tenure and pay 100% of the cost of a long-term care policy for those employees and their spouses,” said Phyllis Shelton, president of LTC Consultants in Hendersonville, Tenn., and author of the “Worksite Long-Term Care Insurance Toolbox.”

In addition to employers being able to take a tax deduction for this expense, “the benefits are tax-free to those employees,” Ms. Shelton said.

Moreover, all employees enrolled in high-deductible health plans with health savings accounts can reimburse themselves for a portion of long-term care insurance premiums from their HSAs, Ms. Shelton said.

By Joanne Wojcik



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## Brit acquires rights to Maiden unit's renewals

■ Brit Insurance has acquired the renewal rights and underwriting platform of Maiden Holdings Ltd.'s excess and specialty unit. Terms of the deal were not disclosed, but Amsterdam-based Brit's global specialty unit assumed a temporary 100% quota share reinsurance of Maiden Specialty, Hamilton, Bermuda-based Maiden's specialty unit, and assumed all liabilities for the business on May 1. Brit will renew the business through its U.S. service company, Chicago-based Brit Global Specialty U.S.A. Brit Global Specialty ultimately will write the renewals of the assumed business into Brit's multiline Lloyd's of London syndicate 2987. All Maiden Specialty staff transferred to Brit effective May 1.

## Generali unit targets medium, large companies

■ Assicurazioni Generali S.p.A. has established a global corporate and commercial business unit aimed at medium and large companies. The Trieste, Italy-based insurer said the unit has been set up to "integrate and develop the property and casualty and insurance services for medium and large companies at the international level." The unit initially will focus on European countries where Generali already is active. The company intends in the near future to expand its focus to include the rest of Europe, Asia Pacific and Latin America.

## AXA to buy 50% of Chinese insurer Tian Ping

■ Major European insurer Axa S.A. has agreed to pay €485 million (\$633 million) to buy 50% of Chinese insurer Tian Ping, betting that the country's fast-growing ranks of car owners will help turbo-charge its auto insurance market. Axa, which last month sold a portfolio of old life insurance policies in the United States for \$1.1 billion, has been expanding into emerging markets as developed markets remain sluggish in the wake of the global financial crisis.

Reuters

## Retailers to compensate Bangladesh victims

■ Two Western retailers have promised to compensate families of garment workers killed while making their clothes in a

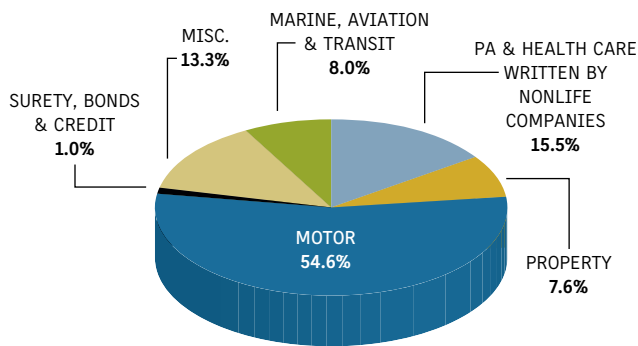
## PROFILE: TUNISIA

**\$591**  
MILLION

Despite being the smallest country in North Africa, Tunisia has a well-developed insurance industry. While the financial sector felt the effects of the Arab Spring uprisings sparked by 2010 protests in Tunisia, its property/casualty market grew 3.9% in 2011, the latest year for which figures are available. The property/casualty market is dominated by the largely state-owned Socete Tunisienne d'Assurances et de Reassurances. The five largest insurers combined have a market share of 60.6%.

◀ 2011 P/C PREMIUMS

### MARKET SHARE



Source: Axco Global Statistics/Industry Associations and Regulatory Bodies

### COMPULSORY INSURANCE

Several classes of insurance are compulsory, including:

- Auto third-party liability
- Fire for industrial, commercial and hotel risks
- Marine cargo imports over \$2,100
- Professional liability for various groups
- Pollution liability for oil and gas companies

### NONADMITTED INSURANCE

Insurance must be purchased from locally authorized insurers with the exception of coverage for marine exports and marine imports valued at over \$2,100. There are no restrictions on fronting in Tunisia and it is accepted practice to keep a retention of only 5% with the remainder being reinsured. In 2010, Tunisia's insurance supervisor suggested a market retention of 30% of risks. However, such a rule was not imposed.

### FOREIGN OWNERSHIP

In 2008, insurance regulations were modified to replace the previous ban on foreign shareholdings of 50% or more. The regulator's approval is now required for any share purchase giving effective control or any acquisition taking a shareholding beyond specified percentage thresholds: 10%, 20%, 33%, 50% or 67%. The minimum capital requirement for multiline insurers is \$7 million.

### MARKET PENETRATION

Tunisian market insurance premiums as a percentage of gross domestic product total 1.9%. Per capita insurance expenditure is \$79 a year.



TUNISIA

### POPULATION

**10.7** million

### AREA

**63,379** square miles

### P/C MARKET WORLD RANKING

**69**

### 2013 GDP GROWTH (PROJECTED)

**3.8%**

## MARKET DEVELOPMENTS

UPDATED MARCH 2013

■ Property owners in Tunisia suffered considerable damage during the Arab Spring uprising in late 2010 and 2011. Economic losses are estimated at \$2.5 billion, but the events were treated as "riot and public disturbance," which will limit insurance recoveries to about \$160 million.

■ After the Arab Spring uprisings, regulators told insurers to limit their dividend payments and increase their technical reserves to ensure that they can pay losses. About 90% of the losses are expected to be borne by reinsurers.

■ In May 2012, Tunis Re, the market's sole indigenous reinsurer, increased its capital by 66% to \$52 million.

■ The newest insurer to enter the market is Zitouna Takaful, which offers insurance that follows Islamic financial practices. New legislation regulating takaful insurance is being prepared. Several financial groups have expressed an interest in establishing takaful insurers.

■ Economic growth has been slow since the Arab Spring uprisings. Insurance market development is expected to remain sluggish until commercial and industrial activity is restored to previous levels.

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

Bangladesh factory building that collapsed last week in the country's worst industrial accident. The pledge from Britain's Primark Stores Ltd. and Canada's Loblaw Cos. Ltd. came after the owner of the collapsed Rana Plaza was brought before a court. At least 385 people were killed in the disaster, the latest to raise questions about worker safety and low wages in the poor country that relies on garments for 80% of its exports.

Reuters

## Dreamliner operators estimate grounding costs

■ ANA Holdings and Japan Airlines Co. Ltd., which together operate nearly half the world's fleet of Boeing Co. Dreamliners, estimate the jet's three-month grounding

will shave a combined \$110 million of operating profit, an expense they may ask the American aircraft maker to shoulder. ANA, which owns 17 Dreamliners, estimates the revenue loss at 12.5 billion yen (\$127.5 million), with the subsequent operating profit loss at about 6.5 billion yen (\$66.3 million). The 787 squeeze on its earnings may have been enough to push the Dreamliner launch customer into a 3.6 billion yen (\$36.7 million) loss, Kiyoshi Tonomoto, a vice president at the airline, said at a briefing in Tokyo.

Reuters

## Barclays Libor court case delayed until 2014

■ The first U.K. court case linked to a complaint over the alleged rigging of Libor interest rates has

been delayed until next year to allow Barclays P.L.C. the chance to hear if an appeals court dismisses part of the case. Guardian Care Homes, a residential care home operator based in Wolverhampton, England, is suing Barclays for up to £70 million (\$108.3 million) in a claim that it was mis-sold interest rate hedging products that were based on Libor. The trial is seen as a test case for small British firms who believe they were mis-sold such swaps and raises the prospect of other companies linking future claims to interest rate rigging by banks. Barclays has appealed a decision by Julian Flaux, the judge in the case at London's High Court, which allowed Guardian Care Homes to include claims relating to Libor manipulation in its case against the bank.

Reuters

## Hiscox establishes London market insurance division

■ Hiscox Ltd. has established a separate London market insurance division. Hamilton, Bermuda-based Hiscox said Paul Lawrence has been named chief underwriting officer of the division. He also has been named joint active underwriter of Hiscox's multiline Lloyd's of London syndicate 33. Hiscox's London market reinsurance division will continue to be headed by Russell Merrett, also joint active underwriter of syndicate 33, Hiscox said in a statement. In addition, Mr. Lawrence will join the board of Hiscox Syndicates Ltd. The separation of insurance and reinsurance lines will allow Mr. Lawrence to oversee the growth of the company's business in property/casualty, marine and energy, aviation, space and specialty insurance.

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EDITORIAL

## TERROR RISK SHOULD BE A PRIORITY

**D**omestic terrorism is like a multiheaded hydra for risk managers. Unlike what is often the case with international terrorism, the sources of threats presented by domestic terrorism are numerous and diverse. They could range from white supremacist groups on the right to animal rights and environmentalist groups on the left. Perpetrators can be well-organized groups or deranged individuals.

According to a January report by the Congressional Research Service, domestic terrorism has been responsible for orchestrating more than two dozen incidents since 9/11, and watchdog groups say there appears to have been growth in anti-government extremist activity in recent years.

As a terrorism expert said at the recent 2013 annual conference of the Risk & Insurance Management Society Inc., the public's attention is much like a rubber band. Initially, it may be stretched by events such as the April Boston Marathon bombings, but it eventually goes back to its normal, oblivious state.

As they well know, risk managers don't have that luxury. It's something they have to continually worry about. An analysis of the potential risks faced by their facilities and operations from domestic and international terrorism, and plans to address them, will go a long way to help risk managers be prepared to mitigate these risks.

There is also the Terrorism Risk Insurance Act, the federal backstop that was extended through 2014 by the Terrorism Risk Insurance Program Reauthorization Act of 2007. Congress should move to pass the bill now before it that would further extend the act, and thereby the federal terrorism insurance backstop to help insurers cover losses from major terrorist attacks.

It appears that most risk managers are taking advantage of terrorism coverage. According to an analysis by Marsh Inc. released last week, 62% of firms that the insurance brokerage surveyed purchased property terrorism coverage in 2012, which was about the same percentage that had purchased the coverage in 2010 and 2011.

Nobody knows where or when the next terrorist attack will occur. But a good risk management plan, combined with Congress extending TRIA, can at least leave risk managers as well-prepared as they can hope to be.

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

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SCHILLERSTROM



COMMENTARY

## GOOD RISK MANAGEMENT CAN'T CATCH A BREAK

**A**s underwriters become increasingly reliant on catastrophe modeling, it is becoming harder for risk managers who deploy good property loss control to differentiate their risks from those who do not.

In fact, two risk managers speaking during the recent Risk & Insurance Management Society Inc. conference in Los Angeles became downright angry while addressing the application of Risk Management Solutions Version 11 model for U.S. windstorms, which virtually doubled their organizations' property catastrophe exposures overnight.

"It's confusing to me as a risk manager how I can have a big property in Orlando that one day the model says is going to react like this to hurricanes, and the next day it's going to react totally differently because the winds don't decay at the same speed they thought they decayed," said Steve Wilder, Burbank, Calif.-based vice president, risk management for The Walt Disney Co. "The models tend to be very generic, so unless you have a lot of information specific to your risks, the models are going to assume either average or worst-case (scenario), so they're not really going to be representative of the risk, and it's going to be really hard for those companies that manage risk proactively and efficiently to differentiate themselves from those that don't."

Mr. Wilder shared an encounter with a Bermuda underwriter after Hurricane Katrina who said she no longer could participate in Disney's property program "because the models told them that the losses would be devastating. I asked her, 'Have you ever been to Disney World?' She said no. 'Do you have any engineers that you could send there?'" Her answer was



**JOANNE  
WOJCIC**

SENIOR EDITOR

"No," he said. After that meeting, Mr. Wilder hired RMS, a computer modeling firm based in Menlo Park, Calif., to build a custom model for Disney, which "helped greatly," he said.

While at RIMS this year, Mr. Wilder met with several property insurers that gave him widely varied estimates of Disney's property catastrophe exposures based on their computer models.

"These numbers are just all over the map," he said. "I think it's incumbent on us as risk managers to try to differentiate our risks whenever we can. But in the modeling world, it becomes harder and harder to do."

Scott Clark, risk and benefits officer for Miami-Dade County Public Schools, related a similar experience.

"On an \$8 billion schedule, my (probable maximum loss) for a 250-year storm went from \$800 million to \$1.8 billion," he said. "The risk didn't change. In fact, it's continued to improve."

Mr. Clark hired an independent engineering firm to evaluate the school district's property risks, which came to \$750 million. When he presented this estimate to RMS, he was told that the engineering firm had used incorrect International Organization for Standardization codes. But even after the correct codes were inserted, "it went back to an \$800 million PML for a 250-year storm," he said.

"Question everything," Mr. Clark said.

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# RIMS 2013

LOS ANGELES

## GLOBAL APPROACH WITH LOCAL FOCUS



MICHAEL MARCOTTE

Nearly 9,000 people attended the Risk & Insurance Management Society Inc.'s Annual Conference & Exhibition, held April 21-24 at the Los Angeles Convention Center. This special section includes major issues and events that occurred during the 2013 meeting. Next year's RIMS conference will be held April 27-30, 2014, at the Colorado Convention Center in Denver.

### Risk management sector undergoing fundamental changes

BY RODD ZOLKOS

As the risk management profession changes, the Risk & Insurance Management Society Inc. continues to grow and evolve to better serve its members' professional needs, the society's leaders said during its Annual Conference & Exhibition held in April at the Los Angeles Convention Center.

The leaders of RIMS said that as risk management advances as a discipline, it brings added value to organizations and new opportunities to its practitioners, and the society is constantly looking for ways to help members tap those opportunities.

Speaking during the 2013 conference's opening session on April 22, Mary Roth, executive director of RIMS, said among

the significant developments for the society is the continued extension of its global reach, including the new formation of local chapters RIMS Australasia and RIMS Peru. They are No. 81 and No. 82, respectively, of the organization's local chapters.

In her remarks, Ms. Roth said RIMS now has more than 11,000 members around the world. "As membership continues to grow globally, we are better positioned to address risks that transcend national boundaries," she said.

Ms. Roth also cited such efforts as the society's annual enterprise risk management conference, its strategic risk management implementation guide and its legislative activities promoting initiatives such as extension of the federal terrorism reinsurance backstop and the National Flood

Insurance Program. They are examples of the various ways the organization helps members do their jobs better and advance their careers. From a political perspective, RIMS political action committee, Risk Pac, continues to grow, she said.

In his remarks, RIMS President John Phelps, director of business risk solutions for Jacksonville, Fla.-based Blue Cross and Blue Shield of Florida Inc., outlined the growth of risk management from an insurance-buying focus to the enterprise risk management and strategic risk management approaches taken by an increasing number of organizations today.

“At each stage, we’ve become more and more involved in the critical decisions that ensure our companies’ success,” Mr. Phelps said.

And as more organizations embrace risk management, there are more and more opportunities for risk managers, he said.

RIMS can help risk practitioners take advantage of those opportunities, Mr. Phelps said. “My career in risk management has been a journey of learning and discovery guided from the very beginning by RIMS,” he said.

“Today the risk management profession is strong, diverse, full of opportunity,” he said. “Some risk professionals will continue to focus on insurance — the root of our profession. Others will focus on enterprise risk management and strategic risk management.”

And some will move into other areas of their organization such as finance or marketing, Mr. Phelps said, while others will use risk management “as a springboard to the C-Suite.”

As both a risk manager and a RIMS leader, he has a special interest in the next generation of risk professionals, an interest he asked other RIMS members to share.

“To ensure that risk management continues to thrive, it is essential for us to present a vibrant vision of the future,” he said.

In bringing the next generation into the profession, however, “some important questions remain,” Mr. Phelps said. “How will we pass the collective knowledge and wisdom of my generation?”

“A big part of the answer lies in RIMS,” the society’s president said. Mr. Phelps challenged young risk professionals to involve themselves in local RIMS chapter leadership and national RIMS committees. “We need your energy and your insights,” he said.

The RIMS president also challenged his generation of risk professionals to embrace and assist those new to the profession.

“I believe that veteran risk practitioners like myself have a special responsibility to guide our

younger colleagues and to create an environment in which they want to become involved,” he said.

Speaking later during the conference, Mr. Phelps said risk managers are facing an unprecedented pace of change, in what he described as an era of “hypersonic chaos.”

Mr. Phelps said a combination of factors, including rapid technological change, regulatory pressure and economic upheaval have fundamentally altered the world in which risk managers operate.

“During the course of my career,

what I do has changed radically,” he said. “Uncertainty is faster than ever,” he said.

In addition to the speed that challenges present themselves, risk managers find themselves under increased scrutiny from regulators, ratings agencies and corporate boards.

“There is no more getting it roughly right,” Mr. Phelps said. “You have to get it right.”

*Associate Editor Bill Kenealy contributed to this report.*



RIMS Executive Director Mary Roth announced new chapters in Peru and Australasia during the society’s annual conference.



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# RIMS 2013

## Risk professionals honored at RIMS

Goodell, Hall of Fame awards presented

BY JUDY GREENWALD

The Risk & Insurance Management Society Inc. presented its Harry and Dorothy Goodell Award to Daniel W. Houston, executive director, enterprise risk management and learning for The McCart Group, at its annual conference in April at the Los Angeles Convention Center.

RIMS also inducted two new members into its Risk Management Hall of Fame: David C. Sterling and Robert Spencer.

The Goodell award, named in honor of the first RIMS president, is given annually to the individual who has advanced the goals of the society and the risk management discipline through outstanding service and achievement.

"Thank you all for making risk management the greatest profession in the world," Mr. Houston, who has more than 40 years of risk management experience, said while accepting the award during a luncheon ceremony. Duluth, Ga.-based McCart Group is an insurance and risk management consulting firm.

"After today, I feel like I've been awarded the Super Bowl award," he said.

Mr. Houston was described during the presentation as a visionary who teaches and enhances risk

management. His background includes authoring hundreds of articles on risk management, insurance and contractual risk transfer; speaking at dozens of events; and appearing on radio and television shows.

A video played at the luncheon quoting various people who have dealt with Mr. Houston described him as a great friend and colleague who was knowledgeable, humorous and dependable, someone willing to bring people together and a man who can answer any questions put to him.

Hall of Fame inductee Mr. Sterling joined The Hartford Financial Services Group Inc. in 1964 after serving in the army. He retired from the insurer as assistant vice president and senior risk manager after 42 years. He managed the insurer's worldwide risk programs and exposures to accidental loss.

He purchased and implemented one of the first employment practices liability insurance programs in the insurance industry and one of the first cyber risk liability, property and crime insurance programs.

He also implemented one of the industry's first blended multiyear programs for a financial institution, and rolled the program over several times to achieve signifi-



MICHAEL MARCOTTE

Daniel W. Houston, center, accepts the Goodell Award from RIMS Executive Director Mary Roth and RIMS President John Phelps.

cant savings.

His award was accepted by Robert J. Nighan, vice president-risk management for The Travelers Cos. Inc.

Mr. Spencer, who died in 1979, held numerous risk management positions, including vice president of insurance, during his 17-year career with Atlanta-based Fuqua Industries Inc. He is credited with setting standards on how captives deal with both domestic and international risk markets.

Mr. Spencer served the Atlanta chapter of RIMS in all officer positions, including president in 1973. He was vice president of the national RIMS organization from 1974-1977 and its president from 1977-1978.

The Spencer Foundation, which funds the education of risk management and insurance students, was founded in his memory.

His award was accepted by his widow, Charlotte, and daughter, Libby Spencer.

RIMS also recognized the following people during the awards luncheon:

■ Janet Kerr, vice president of risk management at Boston Properties Inc., a Boston-based real estate investment firm, received the Richard W. Bland Memorial Award. The award recognizes someone with a commitment to legislation or regulation.

■ Scott B. Clark, risk & benefits officer of the Miami-Dade County Public Schools and former RIMS

president, and Karin McDonald, Toronto-based director of risk and insurance for Hydro One Networks Inc., were each awarded the Ron Judd Heart of RIMS' Award. The honor is given in the honor of Mr. Judd, who was executive director of RIMS for 22 years, to individuals nominated by their local chapters for outstanding performance in advancing risk management.

■ Ed C. Mitchell, director of risk management for Wilmington, Calif.-based Metropolitan Stevedore Co., received the Cristy Award. It honors the individual who earned the highest grades on three exams required to earn the associate of risk management designation.



MICHAEL MARCOTTE

Scott B. Clark, risk & benefits officer of the Miami-Dade County Public Schools, center, was a recipient of the Ron Judd Heart of RIMS' Award. Mary Roth, RIMS executive director, and John Phelps, RIMS president, presented the award.



MICHAEL MARCOTTE

Left to right, Mary Roth, RIMS executive director; Stephen J. Grabek, president of American International Group Inc.'s U.S./Canada field operations; Robert Spencer's daughter, Libby Spencer, and his widow, Charlotte Spencer; and John Phelps, RIMS president.

# BOSTON BOMBINGS PUT FOCUS ON DOMESTIC THREATS

Captives can play significant role for companies seeking to cover terrorism risks

BY JUDY GREENWALD

Not enough attention is being paid to the threat of domestic terrorism, as demonstrated by the recent Boston Marathon bombings, according to an expert who spoke about terrorism risks during the Risk & Insurance Management Society Inc.'s 2013 conference at the Los Angeles Convention Center.

Paul R. Chabot, president and CEO of Rancho Cucamonga, Calif.-based Chabot Strategies L.L.C. said unlike the case with international terrorism, the sources of threats presented by domestic terrorism are numerous and diverse, but they have not received the same degree of attention.

He referred to a January 2013 report by the Congressional Research Service, "The Domestic Terrorist Threat: Background and issues for Congress." The report states, "Domestic terrorists have been responsible for orchestrating

"We know the al-Qaida networks, the ones listed by the state department. But there's been so much emphasis on it there's times we take our eye off the ball" with respect to domestic threats.

Paul R. Chabot,  
Chabot Strategies L.L.C.

more than two dozen incidents since 9/11, and there appears to be growth in anti-government extremist activity as measured by watchdog groups in the last several years."

Domestic terrorists are charged under an array of statutes, including arson and conspiracy, which makes it difficult to get a clear picture of the amount of domestic terrorism, Mr. Chabot said.

"We know the al-Qaida networks, the ones listed by the state department. But there's been so much emphasis on it there's times we take our eye off the ball" with respect to domestic threats, he said.

These groups can range from white supremacists to animal rights and environmental activists. And many rely on the concept of leaderless resistance, Mr. Chabot said.

He also warned that people's attention is much like a rubber band; while it initially may be stretched, it eventually goes back to its previous shape.

Also speaking during the session

was Ward Ching, Pleasanton, Calif.-based vice president, risk management operations, for Safeway Inc., who said while the company's facilities would not be a particular target, "We do see ourselves exposed in terms of the supply chain in terms of food," as well as being affected as part of the community. He referred to the

January shooting of former Congresswoman Gabrielle Giffords, which occurred outside a Safeway supermarket in Tucson, Ariz.

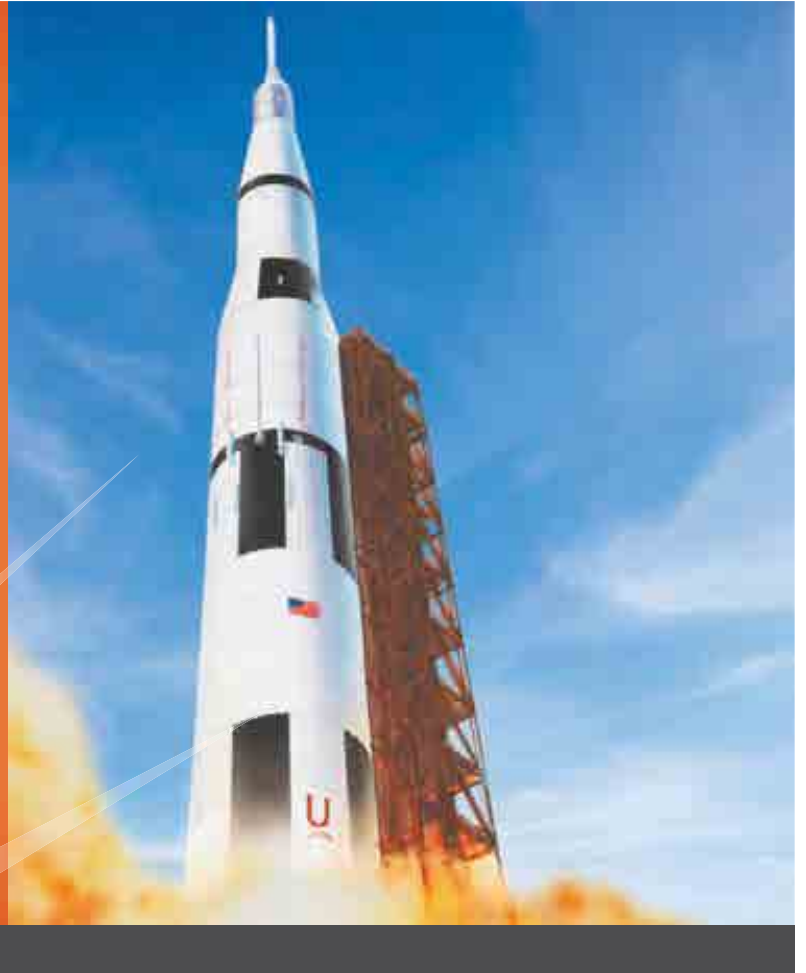
He said Safeway, which is self-insured and self-administered, has two captives in Bermuda and Hawaii, with the captive in Hawaii formed to take advantage of the Terrorism Risk Insurance Act.

Also speaking at the session was Alison Quinlivan, Newport Beach, Calif.-based managing director for Aon Risk Solutions, an Aon Corp. unit. She said TRIA — the federal government's terrorism insurance backstop — fixes the insurer deductible at 20% of direct-earned premium, and the federal share of compensation at 85% of insured

losses that exceed insurer deductibles.

She recommended that firms that have formed captives to provide terrorism coverage handle other risks, too. You "need a mix of risks that takes the volatility out of the program," she said. "Everything usually doesn't go bad at once, so that helps even out the balance."

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# RIMS2013



MICHAEL MARCOTTE

Former RIMS presidents (from left) Steve Wilder, Ellen Vinck, Roger Andrews, Nancy Chambers and Scott Clark discuss issues ranging from broker/insurer relationships to property/casualty computer modeling during a roundtable discussion during the RIMS annual conference in April.

## Broker, insurer relationships bear directly on pricing

Former RIMS presidents make wide-ranging remarks, from cyber risks to disaster modeling

BY JOANNE WOJCIK

Long-term relationships with trusted and reliable insurance partners can be more valuable to securing an organization's risks than shopping for insurance coverage more frequently to save a few bucks, a panel of seasoned risk managers said.

"We don't buy commodities. We buy relationships and promises that happen to be words on a piece of paper," said Scott Clark, risk and benefits officer at Miami-Dade County Public Schools, one of five former presidents of the Risk & Insurance Management Society Inc. who spoke during a roundtable discussion during the 2013 RIMS conference in Los Angeles.

"For me, relationships lead and price follows," said Roger Andrews, director of risk management at E.D. Bullard Co. in Provo, Utah.

"If you build the right kind of relationships, you can squeeze the pricing to a certain extent," Mr. Andrews said.

In addition to having a relationship with his broker, Mr. Andrews said he meets annually with the underwriters of his company's insured risks "so they are up to speed on the history (of the company and its risks). Those relationships are invaluable."

Nancy Chambers, director of risk management and insurance at Bentall Kennedy (Canada) L.P. in Toronto, said, "We recently went through (a request for proposals) for broker services. We looked at the fees, yes that was important, but we also looked at the value add of services, how well do they know our account, who are they putting on our account to manage it for us, what is their claims-paying philosophy.

"But one of the biggest things for us was how well did they know our company so they can put it in the best light when they market it to the insurance community," she said.

Steve Wilder, vice president of risk management at The Walt Disney Co. in Burbank, Calif., said establishing good relationships with underwriters often leads to insurance contract longevity, adding that most of Dis-

ney's insurance contracts have three-year terms.

"The RFP process is very expensive for everyone involved. We need to be respectful of that," he said. "If you foster relationships, price will follow."

In some cases, having an established relationship with an insurer can help overcome issues arising from difficult claims, said Ellen Vinck, director of risk management and benefits at San Diego-based BAE Systems Ship Repair Inc.

She said when she asked her insurer for a specific surveyor to be used in resolving a claim at one of BAE's shipyards, "they said, 'No problem. We're here for you.' Then after that, we talked about kids and grandchildren."

Besides emphasizing the importance of longtime relationships with insurers, brokers and other intermediaries, the five former RIMS presidents also addressed questions pertaining to such current risk management issues as cyber risks, the use of computer modeling to assess property catastrophe risks and enterprise risk management.

Mark Walls, St. Louis, Mo.-based senior vice president and workers compensation market research leader at Marsh Inc., moderated the panel discussion.



MICHAEL MARCOTTE

# SOCIAL MEDIA SEEN AS RISK MANAGEMENT ISSUE

Written policy needed to help employees understand potential exposures

BY BILL KENEALY

Risk managers need to take an assertive role to mitigate risks associated with using social media in the workplace, experts said during the Risk & Insurance Management Society Inc.'s Annual Conference & Exhibition in April.

During a panel discussion, Karen Bachman, director of risk management and privacy at Shire Pharmaceuticals Inc., told the risk managers in attendance that if their companies do not have comprehensive policies governing the use of social media, it is incumbent upon them to lead the move to create one.

"It's your responsibility to ask about this and, if necessary, make some noise," Ms. Bachman said.

Ms. Bachman said companies should take special caution when crafting a written social media pol-

may indemnify companies against instances of libel and slander, companies would be well served to review their policies to be certain.

On a separate panel, Tanya Karn, Los Angeles-based vice president of risk management at Fox Entertainment Group Inc., said the broadcasting company

helped pioneer the use of social media to promote viewer interaction with its movies and television programs, but remains vigilant about its use and subjects employees to rigorous training about the proper use of social media.

Nonetheless, risk managers need to accept that the risks presented

by social media are not going to recede. "The horse is out of the barn," Ms. Karn said.

Panelist Lincoln Bandlow, a Los Angeles-based partner at law firm Lathrop & Gage L.L.P., marveled that companies will often let junior employees with scant information about libel and slander laws

assume control of the corporate social media accounts.

Companies new to the area should view the move into social media like entering a new line of business. "A media company like Fox wouldn't enter, say, the day-care business without first learning a lot about it," he said.



icy. In the case of the Lexington, Mass.-based drugmaker, a task force was assembled to write the policy and included representatives of the information technology, legal, risk management and other departments.

"It was like rewriting the Bible," Ms. Bachman said. "It took nine months."

Moreover, once a policy is established, risk managers need to ensure that its tenets are understood by employees throughout the organization. "A lack of training is a big issue," she said.

Fellow panelist Max Perkins, underwriter of specialty lines at Beazley P.L.C., agreed that employers and employees alike need to realize that social media posts and text messages are indelible.

"Everything is discoverable," Mr. Perkins said.

Joann Lytle, a partner in Philadelphia at law firm McCarter & English L.L.P., said while traditional general liability coverage

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# RISK IN FOCUS

## Emerging Trends in Risk Management

Success rests  
on supply chain  
depth, strength

PAGE 22

Employment liability,  
talent retention risks  
start to grow

PAGE 22

# BIGGER BRAINS, STRONGER CHAINS

Mitigate risks of growing a business  
with solid strategy, data and workforce

BY MIKE TSIKOUDAKIS

**A**s companies restructure processes to ramp up production of existing products and introduce new ones as the economy improves, innovation is essential to address unexpected risks. Expansion of products and services can stress supply chains, which can lead to a host of risks.

Good quality data and analysis of an organization's supply chain and key suppliers is critical in providing innovative solutions in an improving economy, said Tom Teixeira, London-based partner in the global solutions consulting group for Willis Group Holdings P.L.C.

"If a company as a result of demand, as a result of the changing economy wants to produce a new product, clearly they need to get the parts from somewhere," Mr. Teixeira said.

Software and databases can provide suppliers' addresses, geocoordinates of the manufacturing site and part numbers.

"That really is going to facilitate and improve the quality of the risk assess-

ment within the supply chain, particularly around natural catastrophe events," Mr. Teixeira said.

Once an organization discerns exact locations of critical suppliers, the data can be mapped to reflect potential property and nonproperty damage and focus on which suppliers can jeopardize the supply chain, he said.

Detailed supplier information also can help secure adequate insurance coverage for organizations, said Eric Jones, Dallas-based assistant vice president at FM Global's business risk consulting group.

"More capacity can be made available" for risks that are better "identified and understood because there's more confidence on the underwriting side," he said.

Mr. Jones said software tools can help track and monitor supply chain risks, and then help tie that to profitability so organizations can make informed

Continued on next page

Continued from previous page

decisions, he said.

“There is an improvement in the tools that are in place, but again, the trick is you’ve got to have the data to populate them,” Mr. Jones said.

Successful innovation requires aligning risks with a business’ growth and value goals, said Gary S. Lynch, managing director and global leader of risk intelligence and supply chain resiliency solutions at Marsh Inc’s risk consulting practice in New York.

“I can manage risk all I want, but if I don’t have a business and I don’t have growth and I don’t have value, I have no risks to manage,” Mr. Lynch said. “Therefore, a conversation that I have to have has to be really in the context of growth and value.”

C-suite executives and board members are asking risk managers to demonstrate how the organization is handling risks, he said.

But the first thing they ask is, “How do you tie this into what’s most important to use from how we create value or how we grow the business?” Mr. Lynch said. “We’re seeing more of that pressure from the board ... asking, independent from what vehicles you’re using — risk mitigation, hedging, transfer, ‘How are you dealing with this risk, how are we protecting brand and how are we protecting revenue stream?’”

Richard J. Coyle, executive director of the Emerging Markets Institute at the Samuel Curtis Johnson Graduate School of Management at Cornell University in Ithaca, N.Y., said some organizations are using radio frequency identification chips in manufacturing.

Radio frequency identification device technology can monitor supply chain assets throughout various tiers and suppliers.

In recent years, Wal-Mart has used RFID chips to track and manage assets along its supply chain, said Mr. Coyle, who formerly was senior director for international corporate affairs at Bentonville, Ark.-based Wal-Mart Stores Inc.

Typically, RFID chips work best with shorter supply chains, Mr. Coyle said, noting such efforts to handle supply chain risks can be costly.

“As you go down the stream in the manufacturing process, you get to less and less sophisticated suppliers and the idea of using RFID chips, which in essence produces 100% accountability, may or may not be in their interest,” Mr. Coyle said. “The real key is to make it work with larger supply chains that have multiple players.”

On a separate front, companies taking advantage of an improving economy to introduce products face several risks.

A primary risk is the competition for innovation and ideas, said Anand Rao, partner in the insurance advisory practice at PricewaterhouseCoopers L.L.P. in Boston.

A major risk is that a company

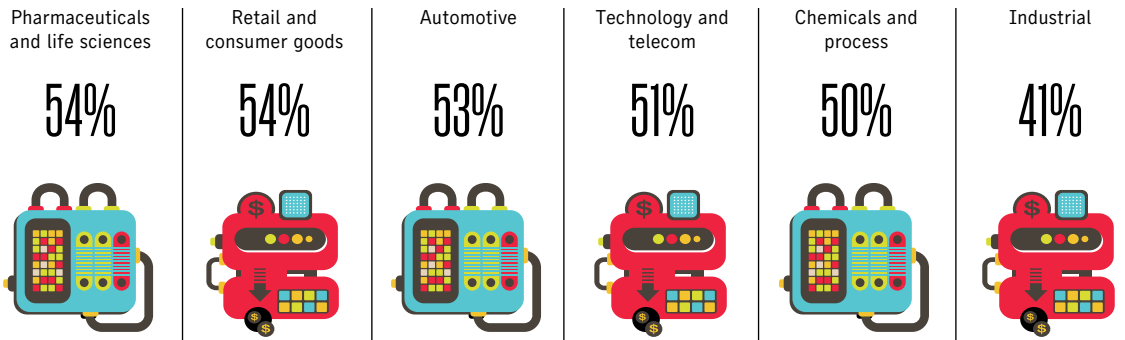
advances an idea it thinks is innovative only to bring it to market and see half a dozen other companies with the same idea, he said.

“To manage that risk, it’s the execution of that idea and how fast you go about executing that idea,” Mr. Rao said, noting that companies need to be aware that if the innovative product is successful, they’ll need sufficient human and financial resources to grow production if they wish to capitalize on that success.

*Senior Editor Rodd Zolkos contributed to this story.*

**EMBRACING TECHNOLOGY**

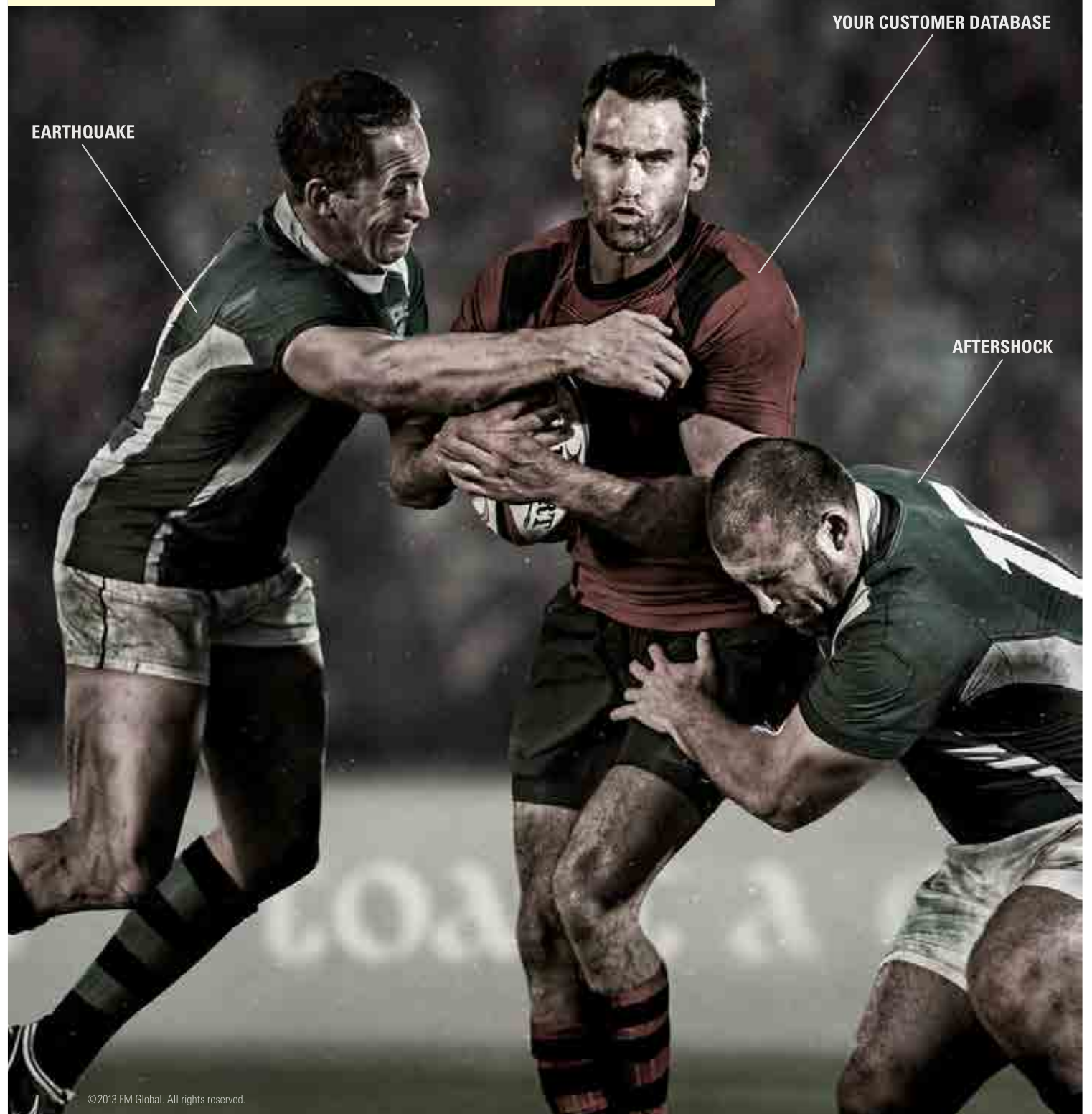
Some industries are embracing supply chain technology and innovation more than others. Industries that rate automation as being significant or critical this year are:



Source: PricewaterhouseCoopers L.L.P., “Global Supply Chain Survey 2013.”

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# Recovering economy creates employment-related risks

Disengagement, increased stress for employees can result in liability, workers comp issues

BY MIKE TSIKOUDAKIS

Whether employers decide to expand their staff or maintain current employee levels, risks abound in an improving economy.

Talent risk is a growing issue for organizations and human resource leaders worldwide, said Bhushan Sethi, New York-based financial services people and change practice leader for Deloitte Consulting L.L.P.

"One of the biggest risks that we see right now is the disengagement of employees," said Mr. Sethi, who focuses on financial services companies such as banks, asset managers and insurers.

In the past, the bonuses were healthy across some corporate functions, "but that game has changed in terms of salary and bonus and stock value," he said.

The financial services industry is still cutting staff, further driving disengagement, Mr. Sethi said.

"The biggest risk in organizations right now in my sector is the loss of productivity because people are disengaged because of fear and angst," Mr. Sethi said.

But many companies are focused on engagement and trying to redefine the "employee value proposition," said Elise Freedman, director of talent management at Towers Watson & Co. in Arlington, Va.

"Engagement levels are dropping. Employees have quit but stayed," Ms. Freedman said. "They're doing what they need to

do, but they've been overworked. Bonuses and merit increases haven't been" what they once were.

Increased stress at work causes employees frustration, "especially from your high potentials and top talent," Ms. Freedman said. "The risk is as things continue to turn around, they will start to consider other options."

Ken Oehler, New York-based global engagement practice leader at Aon Hewitt, said companies need to get the basics right, which includes pay and benefits.

"Things that attract employees are different than the things that retain employees," Mr. Oehler said. "More and more, we're seeing things like work-life balance are becoming a top attraction."

Issues affecting employee retention include the chance for advancement, senior leadership making the right decisions and employee stress, particularly in the weak economy as companies downsized and tried to do more with less, he said.

"These things, if it reaches a toxic level, will drive people to leave," Mr. Oehler said. This affects costs associated with employees leaving the company and affects the employees who stay.

Increased stress also can trigger employment liability issues under the Americans with Disability Act, said Angella H. Myers managing partner at Myers Law Group L.L.P. in Dallas.

Employees may request ADA leave "because employees under increased stress from work ... may have increased depression, anxiety, panic attacks; and if overworked, their personal relationships may suffer," Ms. Myers said.

As the economy improves, some organizations are hesitant to hire until they see evidence of permanent growth.

While a company with too few employees may be concerned about meeting production demands, what they should focus on is quality control and injury risks, Ms. Myers said.

Additionally, some employees may be tempted to work off the clock to meet deadlines, which can violate the Fair Labor Standards Act, she said.

"Sometimes, we see an increase in that where you're working faster, you're working harder or you're working longer," Ms. Myers said. "I think you would expect to see, depending on the industry, perhaps an increase in workers compensation claims."

As for risks associated with a mobile workforce, Aon Hewitt's Mr. Oehler said, "There's no one-size-fits-all (answer) here."

"Some of it's an organizational philosophy. Some of it's trying to meet the needs of demographic groups," he said.

"There's some very big risks for some jobs if you allow the talent to work from home," Ms. Myers said.

From an employment law perspective, how employees work



## KEEPING TALENT

Employee disengagement is a top talent risk organizations and human resource leaders face in an improving economy. Actions to promote sustainable engagement among U.S. workers include:

- Take action to better develop future leaders.
- Deal with employee stress, workload and work/life balance.
- Clarify goals and objectives.
- Improve management and supervision.
- Enhance the organization's image.

Source: Towers Watson & Co., "2013 Talent Management and Rewards Study."

from home, clock in or out and the requirement to maintain such records, may violate the FLSA, as well as raise workers compensation concerns, she said.

To address some of these issues, some employers are developing strategic talent acquisition frameworks, experts say.

"A lot of our clients are looking at their culture now in a different way given the economic situation and the turmoil in the financial services" industry, Deloitte's Mr.

Sethi said. "These types of topics are now back on the agenda and on the table."

"The No. 1 thing (employers) need to look at is that they actually have consciously developed their talent strategy and their employment brand so that they can figure out where they're trying to go, what do they want to be, and that they're making sure that their processes all support and align that," Towers Watson's Ms. Freedman said.

# Increased demand for products puts pressure on supply chains

BY MIKE TSIKOUDAKIS

An improving economy can strain an organization's supply chain as it tries to meet increasing demands.

Risk managers and other executives who oversee supply chains must focus on a host of risks when trying to maintain adequate capacity from companies supplying products and materials.

One aspect of an improving economy that can create risk management issues related to supply chains is increasing mergers and

acquisitions. M&As often create risk management concerns, said Jill Dalton, partner in charge of Dempsey Partners L.L.C.'s New York office.

"That can definitely affect supply chains, especially if the M&A activity affects one industry or one type of product," she said, noting that such deals can affect negotiations with suppliers, product quality, transportation costs and contracts.

While M&As can shrink an organization's supplier pool, such deals also can increase the acquiring company's exposures, said Eric

Jones, Dallas-based assistant vice president at FM Global's business risk consulting group.

"It's tough enough for them to figure out their own supply chain and the risks that are within that," he said. "When they acquire a new company ... they don't always have a good handle on what risks they just purchased, particularly in the supply chain," Mr. Jones said.

An improving economy also adds pressure to provide more products, said Richard J. Coyle, executive director of the Emerging Mar-

kets Institute at the Samuel Curtis Johnson Graduate School of Management at Cornell University in Ithaca, N.Y.

Increased demand for a product could result in suppliers substituting components, said Mr. Coyle, also former senior director for international corporate affairs at Bentonville, Ark.-based Wal-Mart Stores Inc.

"Anytime you have more pressure in the system to produce more products, you have risks of corners being cut in order to meet the schedule," he said.

Such risks are not new, but are accentuated in an improving economy.

"What's different is the increased interdependency," said Gary S. Lynch, managing director and global leader of risk intelligence and supply chain resiliency solutions at Marsh Inc.'s risk consulting practice in New York.

Such interdependencies are complex and some may seek out emerging markets that could provide similar goods for a lower cost, but also

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lower quality, Mr. Lynch said.

That leads to the issue of “velocity,” he said. “If the ramp-up occurs quickly, then we have the issue of how to qualify these alternate suppliers and these alternate business partners.”

With the Japanese earthquake and tsunami, floods in Thailand and Superstorm Sandy, vetting potential suppliers is critical, experts say.

“With demand going up there’s a need to increase capacity, but there’s also a degree of nervousness around the information in terms of suppliers that could be added to the supply chain,” said Tom Teixeira, London-based partner in the global solutions consulting group for Willis Group Holdings P.L.C.

Organizations want to know where their suppliers are really manufacturing parts and what catastrophe risks they could face, so “we’re now beginning to see companies dual source a considerable part of their supply chain,” Mr. Teixeira said.

In the past, dual sourcing was kept to a minimum due to overhead and administrative issues, Mr. Teixeira said. While dual sourcing may seem expensive, “there’s no doubt it could increase the overall capacity and also create quite a level of resilience should one of the initial primary key suppliers stop producing.”

A growing economy also raises reputational risks, he said.

“There’s a growing concern too about making sure that whatever’s done in the supply chain in terms of the supply chain design aligns with a corporate sustainability or corporate social responsibility strategy,” Mr. Teixeira said.

A supplier’s carbon footprint, geopolitical risk levels and other environmental considerations can affect an organization’s reputation since many state their “green” strategy in their annual statement.

“Getting that right in the supply chain is quite challenging,” Mr. Teixeira said.

Despite a potential budding of economic improvement, risk management departments aren’t seeing additional resources, FM Global’s Mr. Jones said.

“I’m just really surprised at the turnover that we’ve seen within the risk management function in the last 18 months or so,” he said. “Those pressures haven’t gone away and, if anything, it’s actually kind of increased.”

In the current uncertain economy, organizations have kept a tight lid on investment, said Randy Nornes, Chicago-based executive vice president of Aon Risk Solutions’ crisis management group.

“The problem is it doesn’t leave

you much room for error,” Mr. Nornes said, noting that many companies have cut resources that could have modeled such risks.

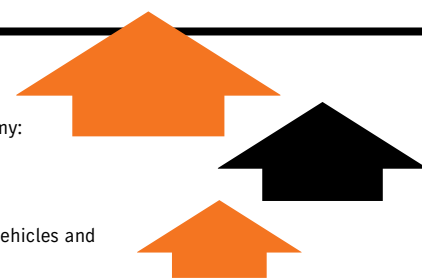
“I think for now that’s probably the biggest risk — that people aren’t convinced there’s an economic recovery happening, so they’re playing it conservatively,” he said.

*Senior Editor Rodd Zolkos contributed to this story.*

### SUPPLY CHAIN RISKS

Tips for organizations to address supply chain risks during an improving economy:

- Increase visits to critical suppliers.
- Conduct comprehensive supply chain audits.
- Explore risk transfer options beyond traditional insurance, such as hedging vehicles and captive insurance.
- Explore dual-sourcing strategies for critical suppliers.
- Understand geographic locations of single- and sole-source suppliers.
- Facilitate proper communications between the risk management and procurement departments to accurately understand supply chain risks and demands.

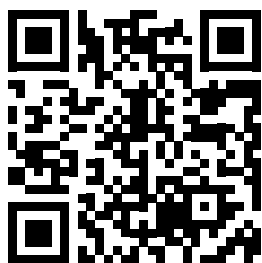


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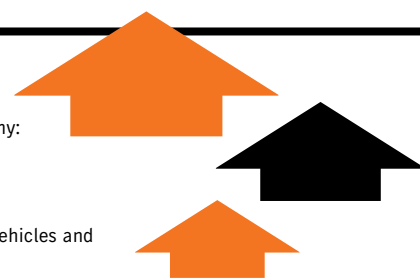
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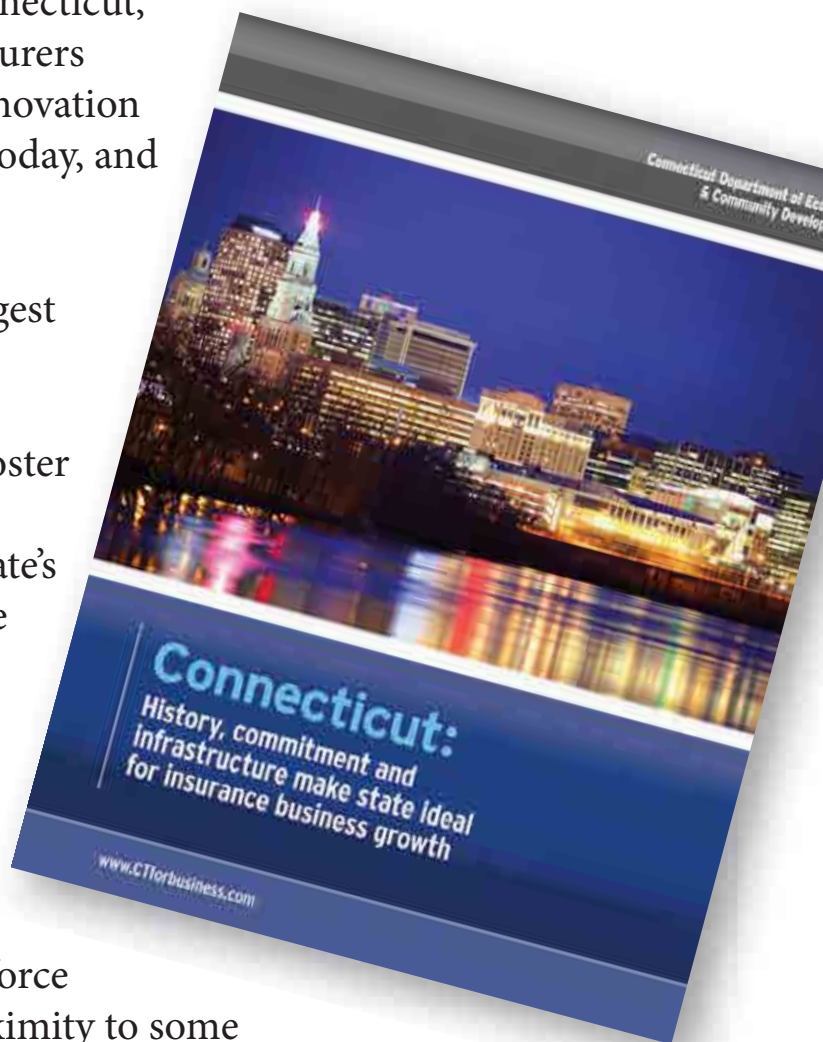


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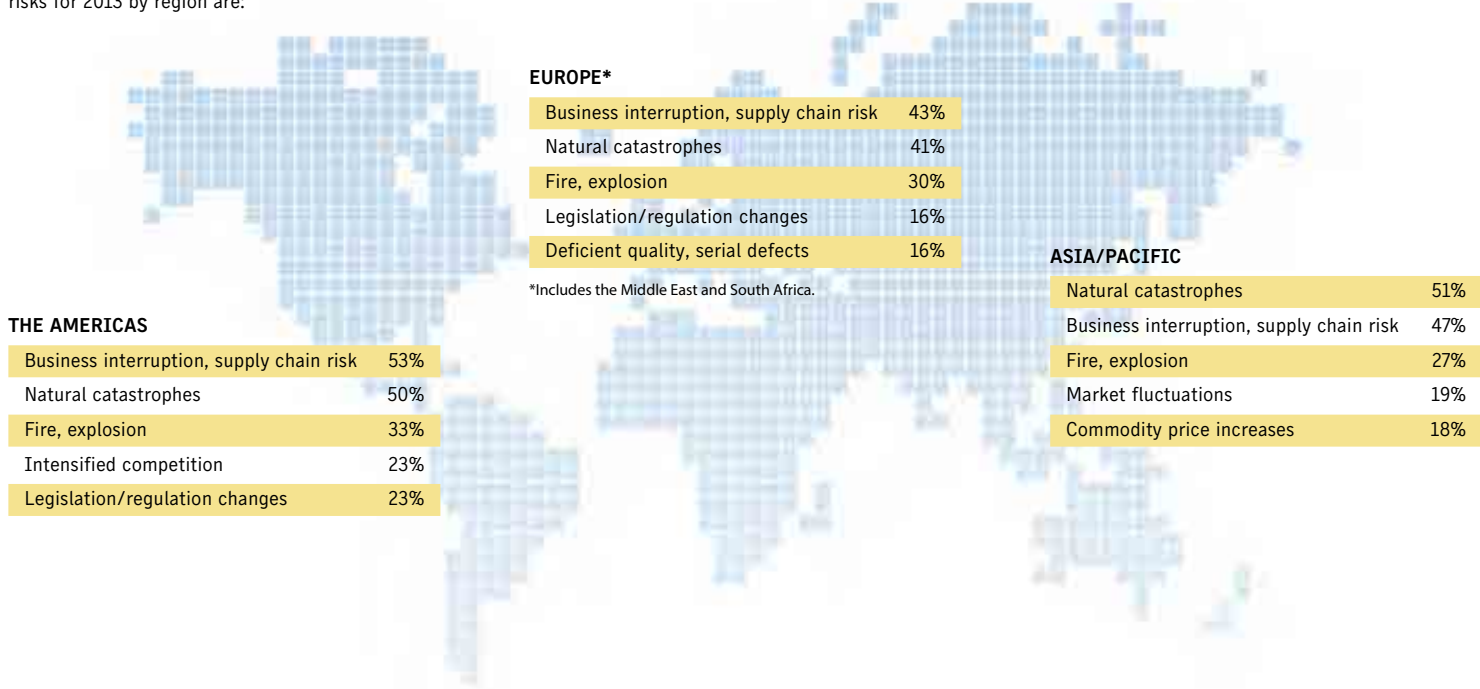
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### BUSINESS RISKS BY REGION

Business interruption/supply chain disruptions, natural catastrophes and fires/explosions are the top three risks for the Americas, Europe\* and Asia/Pacific. The top five business risks for 2013 by region are:



Source: Allianz S.E., "Allianz Risk Pulse," late 2012 survey of 500 corporate insurance experts in 28 nations.

### TRIGGERS OF GLOBAL SUPPLY CHAIN DISRUPTIONS

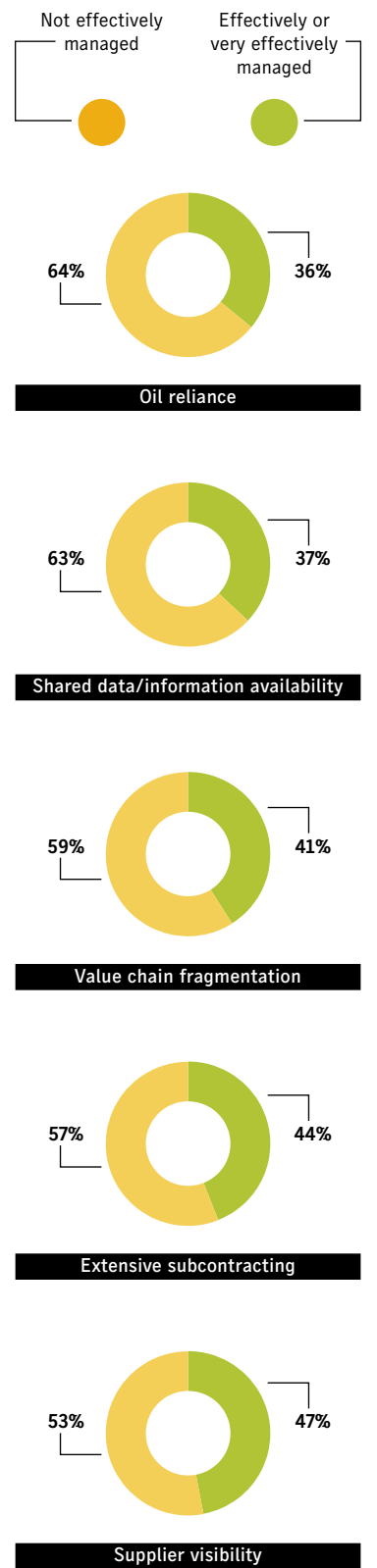
A series of environmental, geopolitical, economic and technological events can trigger a global supply chain disruption.

Risk type	Event	Likelihood to provoke significant and systemic effects on supply chain or transport networks	How manageable is this risk?
Environmental	Natural disasters	59%	Uncontrollable
Geopolitical	Conflict, political unrest	46%	Influenceable
Economic	Sudden demand shocks	44%	Influenceable
Geopolitical	Export/import restrictions	33%	Controllable
Geopolitical	Terrorism	32%	Influenceable
Environmental	Extreme weather	30%	Uncontrollable
Economic	Extreme commodity price volatility	30%	Influenceable
Technological	Information and communications disruptions	30%	Controllable
Economic	Border delays	26%	Influenceable
Economic	Currency fluctuations	26%	Influenceable
Economic	Global energy shortages	19%	Influenceable
Economic	Ownership/investment restrictions	17%	Controllable
Economic	Labor shortage	17%	Influenceable
Geopolitical	Corruption	17%	Influenceable
Geopolitical	Illicit trade, organized crime	15%	Influenceable
Environmental	Pandemic	11%	Influenceable
Geopolitical	Maritime piracy	9%	Influenceable
Technological	Transport infrastructure failures	6%	Controllable
Geopolitical	Nuclear/biological/chemical weapons	6%	Influenceable

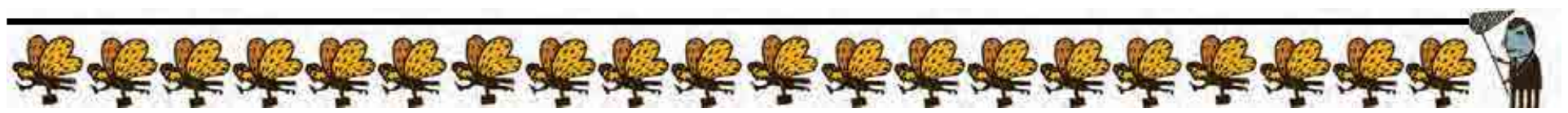
Source: World Economic Forum, "Supply Chain and Transportation Risk Survey," 2011 evaluation of published studies: online survey; mobility, academic and industry executives; and government experts.

### WEAK LINKS

The five least effectively managed supply chain components\*:



\*Percent of respondents surveyed  
Source: World Economic Forum, "Supply Chain and Transportation Risk Survey," 2011 evaluation of published studies: online survey; mobility, academic and industry executives; and government experts.



### TOP TALENT-RELATED RISKS

Human resources risks have consistently ranked among the top four challenges that almost all organizations face, and they are No. 3 in 2013. The top five talent-related risks are:

- 1 Shortage of personnel with needed skills
- 2 Lack of organizational focus on managing talent
- 3 Lack of development in talent management processes
- 4 Increased global competition for talented workers
- 5 Laws or regulations hindering an organization's ability to attract talent

Source: Ernst & Young L.L.P., "Turn Risks and Opportunities into Results 2013," panel of 75 sector commentators and survey of 700 organizations in 15 nations.

### ATTRACTING TALENT

Thirty-one percent of organizations say they have moderate or great difficulty attracting employees overall, and 25% have problems retaining workers. Those difficulties are greater for certain types of talent, such as:

TYPES OF EMPLOYEES	PROBLEMS ATTRACTING	PROBLEMS RETAINING
Critical-skill workers	72%	56%
High-potential employees	60%	55%
Top-performing employees	59%	50%
Diverse populations	43%	31%
Recent university graduates	18%	20%

Source: Towers Watson & Co., "2012-2013 Global Talent Management and Rewards Study," survey of 1,605 employers in North America; Latin America; Europe, the Middle East and Africa; and Asia/Pacific.



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# EMPLOYERS CAN MITIGATE GROWING EPL EXPOSURES

**Q** What do you see as the key areas of exposure from employment practices liability on the part of employers?

**A** Retaliation is a very easy claim to allege and a hard claim to disprove, and summary judgment is very difficult to obtain if you're an employer; hence, the reason why the plaintiff's bar views retaliation claims as one of their favorites.

Workplace harassment, especially sexual harassment claims, have always been the grist for significant employment practices liability insurance-related claims, and that continues to this day.

Sick, injured and disabled employees seem to be a special concern to the Equal Employment Opportunity Commission and, therefore, claims brought under the Americans with Disabilities Act and especially the newly amended law, which broadens the coverage and reduces the defenses under that act, remain a key area of concern.

**Q** What steps can employers take now to protect themselves against these exposures?

## Q&A

**A** The first would be to have in place systems and protocols and practices to prevent retaliation upon the filing of an EEOC charge or an employment-related lawsuit by an employee. That goes a long way toward creating better defenses to retaliation claims or eliminating them altogether.

Second, because the ADA is an area of increasing concern, policies and practices designed to enable an employer to receive, consider and implement, where necessary, reasonable accommodation requests by individuals with dis-

abilities is certainly an area that makes sense from a corporate compliance standpoint.

The same would be true for workplace harassment situations and how an employer responds, investigates and implements discipline, where and when appropriate, upon receipt of a sexual harassment claim.

Finally, simply (use) a dose of workplace due process: Have systems, policies and practices in place where employees feel that they can share their grievances with an employer, that someone will listen.

**Q** What more should employers know about the EEOC's enforcement priorities in 2013?

**A** The EEOC has recently adopted a strategic enforcement program that will guide implementation of its priorities over the next four years.

The EEOC lists six national enforcement priorities. The first is barriers in recruitment and hiring. Second, the EEOC has pledged to protect immigrant, migrant and other vulnerable workers. Third



**GERALD A. MAATMAN JR.**  
SEYFARTH SHAW L.L.P.

Retaliation accounts for about one-third of workplace discrimination claims today, says Gerald A. Maatman Jr., a partner with law firm Seyfarth Shaw L.L.P. in Chicago. In a recent interview with *Business Insurance* Senior Editor Judy Greenwald, Mr. Maatman said despite that liability exposure, there are steps that employers and risk managers can take to protect themselves. Edited excerpts follow.

would be what EEOC calls emerging or developing issues, where the EEOC is looking at transforming laws and creating broader coverage. Fourth is the EEOC's pledge to enforce equal pay laws. Fifth is what the EEOC calls preserving access to the legal system, and that is preventing retaliation. And sixth is prevention of workplace harassment.

**Q** Why are wage-and-hour lawsuits so prevalent these days?

**A** Today, of every 10 lawsuits filed by employers, eight to nine

are wage-and-hour cases. The reason why is because there's been a migration of plaintiff's employment lawyers from discrimination-related litigation to wage-and-hour litigation, because the bar to entry is so low, and because it's a strict liability statute; and the media has paid quite a bit of attention to wage-and-hour issues. Couple that with state legislatures, which in the last decade have passed many worker-friendly statutes and created additional causes of action on the wage-and-hour front, and you have somewhat of a perfect storm.

## COMINGS & GOINGS

# UP CLOSE: TIM GRAHAM

ORLAND PARK, ILL.-BASED BRANCH PRESIDENT OF PROPERTY AND CASUALTY  
The Horton Group

**PREVIOUS POSITION:** Westmont, Ill.-based senior vice president at Hub International Ltd.

**CHALLENGES FACING INDUSTRY:** In particular, managing the escalating cost of workers compensation and the ramifications from the (Patient Protection and Affordable Care Act). There is a tremendous need from companies to help them navigate these issues.

**WHAT I WOULD CHANGE:** The perception of the industry by many as reactive and lacking innovation.

**FIRST INDUSTRY JOB:** I was hired as sales executive at the former Mack & Parker. My intent was to go to law school, but I figured I would try selling insurance for a few years because I liked the president of the firm. That was 20 years ago.

**IF I KNEW THEN WHAT I KNOW NOW:** I would have had a much more favorable perception of the industry coming out of college.



**ADVICE:** Don't let the people or circumstances you can't control distract you. Focus on where you can make an impact regardless of your job or position.

**OUTSIDE THE INDUSTRY, A DREAM JOB:** Own a winery.

**HOBBIES:** Skiing, wakeboarding and keeping up with my children's activities.

**THING MOST PEOPLE DON'T KNOW ABOUT ME:** I'm not great at it, but I really

like to cook.

**WHEN I RETIRE:** Relax, travel and enjoy my family.

**CAN'T-MISS TELEVISION SHOW:** "Diners, Drive-Ins and Dives"

**FAVORITE BOOK:** Most recently, "Killing Lincoln: The Shocking Assassination that Changed America Forever" by Bill O'Reilly

**BEST CITY:** San Francisco

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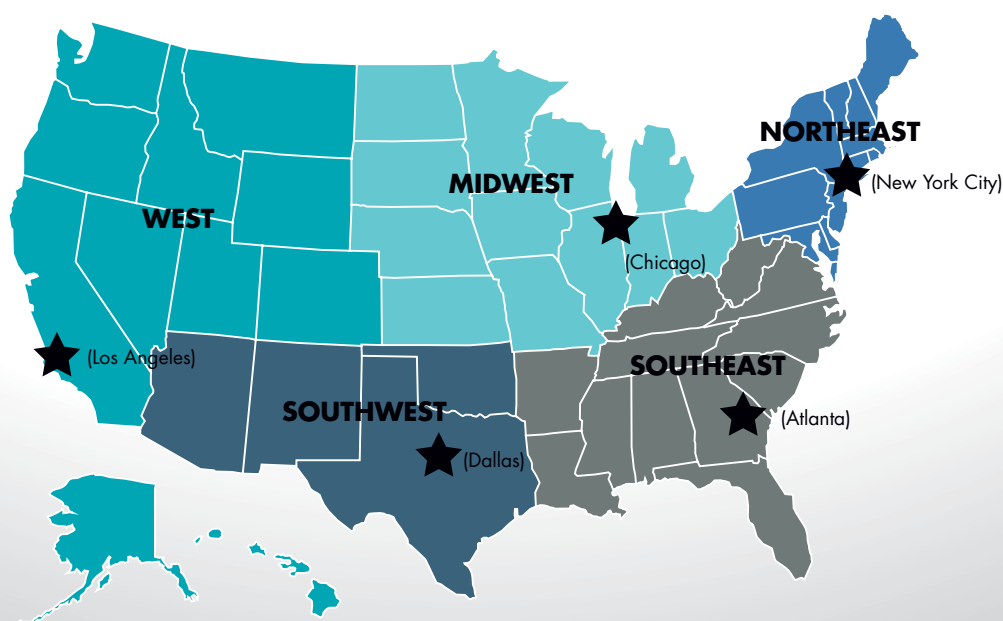
*Business Insurance* would like to report on senior-level changes at commercial insurance companies and service providers. Please send news and photos of recently promoted, hired or appointed senior-level executives to: Anna Gaynor, *Business Insurance*, 150 N. Michigan Ave., Chicago, Ill. 60601-7524.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

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to download a FortyUnder40 Nomination Form today!**

## Ironshore covers crises, potential reputation risks

Ironshore Inc. announced a service intended to provide companies with coverage for crisis situations that pose potential public-image risks.

The product, Ironshore CrisisShield, will be provided through the Hamilton, Bermuda-based insurer's U.S. professional and management liability unit, IronPro, and is available by endorsement to IronPro insureds. Ironshore said it has partnered with former White House special counsel Lanny J. Davis, and Mercedes Colwin, a managing partner for law firm Gordon Rees L.L.P., to deliver CrisisShield.

According to Ironshore, the service provides policyholders with coverage for expenses relating to "the development of response strategies that will potentially mitigate adverse reputation consequences of certain specified risk events."

## Crum & Forster offers fleet loss safety tool

Crum & Forster Insurance Co. has partnered with risk management firm DriveCam Inc. to offer loss control and safety management tools for commercial auto fleets.

DriveCam provides data and video analytics intended to reduce costs and fuel consumption, by identifying potential behavioral improvements for drivers in real time, the San Diego-based organization said in a statement.

Crum & Forster policyholders will have access to a Web-based portal that integrates DriveCam's tools and coaching, which include a fuel management solution application and in-cab video.

Costs are based on an organization's needs. For more information, contact Trevor Schmidt, sales manager at DriveCam, at [tschmidt@drivecam.com](mailto:tschmidt@drivecam.com).

## PRODUCTS & SERVICES

### Towers Watson releases terrorism predictive model

\* Towers Watson & Co. has released a predictive model that assesses risks from terrorism and political violence, the New York-based brokerage and consulting firm said.

Sunstone was unveiled recently during the 2013 Risk & Insurance Management Society Inc.'s conference and exhibition in Los Angeles.

In a statement, Towers Watson said the model can predict "a broad range of attack types," and weigh the threat of attacks based on a company's locations and risk appetite. The technology also can predict the potential cost severity of workers compensation and life insurance claims related to terrorism or political violence.

Sunstone will be available to Towers Watson clients or can be licensed to customers.

### Hartford adds to absence tracking tools

The Hartford Financial Services Inc. has expanded its absence management

suite to include new reporting and tracking tools.

The reporting tool provides company-wide absence summaries, details on specific absences, and integrated reports with filtering options.

Meanwhile, the management feature collects records associated with an employee's request for accommodation under the Americans with Disabilities Act Amendments Act of 2008.

Additions to the program also include Absence Insights, a digital resource providing absence research, and three webinars scheduled throughout May.

The suite is available to employer clients.

For more information, contact Eric Brandt, senior vice president of Hartford's group benefits claims at [Eric.Brandt@thehartford.com](mailto:Eric.Brandt@thehartford.com).

### OneBeacon, TechAssure partner on education

TechAssure Association Inc., a technology insurance brokerage association, has partnered with OneBeacon Technology Insurance to offer educational resources to its members.

Called TechAssure University, the program offers training services through private classes, webinars and seminars.

Topics range from basic commercial insurance and risk management to more specialized areas such as cyber liability and directors and officers liability, TechAssure said in a statement.

As a lead sponsor of the program, OneBeacon Technology Insurance, a unit of OneBeacon Insurance Group Ltd., will provide content for the program.

For more information, contact Julie K. Davis, executive director at TechAssure Association Inc., at 512-377-9594 or [julie-davis@techassure.com](mailto:julie-davis@techassure.com).

## DEALS & MOVES

### Connecticut starting small business health insurance exchange

The directors of Connecticut's public health insurance exchange are moving ahead with plans to launch the state's Small Business Health Options Program marketplace in October, despite the federal government's proposed delay of the program's full rollout until 2015.

Access Health CT — the quasi-public agency commissioned in 2011 by the Connecticut Legislature to run the state's insurance exchange — announced that it has selected New York-based HealthPass and Chicago-based Bswift Inc. to provide technology and administrative support for the state's small business health insurance exchange.

Through the exchange's defined contribution model, firms with 50 or fewer full-time workers can provide their employees with access to a range of health benefit plans from multiple insurers.

### Major insurers join Towers Watson health insurance exchange

Several major health insurers will provide coverage in a private health insurance exchange that Towers Watson & Co. is launching for employee coverage.

The insurers include Aetna Inc., Anthem Blue Cross and Blue Shield, Blue Cross and Blue Shield of Georgia, Empire Blue Cross Blue Shield, Kaiser Permanente and UnitedHealthcare Inc.

Through the exchange, employers can decide how much they want to contribute toward health insurance, with employees using the premium contributions to purchase coverage through the exchange.

For example, an employer could design its program so that if the exchange plan selected by an employee costs less than the employer's premium contribution, the difference could be transferred to a flexible spending account or health savings account to pay for uncovered expenses, such as those that fall under a plan deductible.

Additional health insurers are expected to join the Towers Watson exchange for active employees, with the first policies to be available for coverage starting Jan. 1, 2014.

### S.S. Nesbitt merges group unit with Northwestern Benefits

S.S. Nesbitt & Co. Inc., an independent insurance agency, is merging its group benefits team with Northwestern Benefits of Alabama, an employee benefits consulting firm.

Operating under the S.S. Nesbitt name, Northwestern Benefits will relocate to S.S. Nesbitt's Birmingham, Ala., office, S.S. Nesbitt said in a statement.

S.S. Nesbitt, a unit of EBSCO Industries Inc., offers employer-sponsored group benefits, personal insurance, and individual life and financial planning.

Northwestern Benefits provides services such as medical cost control and analysis, benefit technology and online enrollment, benefit administration, benchmarking and other analytical services to manage benefits and costs.

"With the Affordable Care Act, a lot of companies are re-evaluating how to spend their employee benefit dollars," Scott Smith, S.S. Nesbitt executive vice president, director of employee benefits, said.

Northwestern Benefits' clients will continue working with their same service teams, but will have additional access to S.S. Nesbitt's services.

## Expert advice on RMIS systems

BY BILL KENEALY

### TECHNOLOGY

#### HOW DOES IT WORK?



BILL KENEALY

Risk managers looking to assess their options when it comes to risk management information systems can tap the advice of an expert who has evaluated more than 20 systems.

David A. Tweedy, senior consultant and director of RMIS solutions at Sacramento, Calif.-based Bickmore & Associates Inc., methodically assesses bundled and unbundled RMIS offerings in "2013 RMIS Review," which New York-based Advisen Ltd. published in April.

Mr. Tweedy notes that from its inception as a mainframe technology, the RMIS marketplace has evolved to reflect advances in areas such as mobile computing, predictive analytics and cloud computing.

"Today, the industry has evolved in an amazing fashion," Mr. Tweedy said in the analysis,

which also ranks RMIS providers.

"The technology has moved from mainframe/timeshare systems to private and public cloud-run systems with amazingly configurable solutions in the claims, risk exposure and analytical functional areas."

As RMIS have evolved from claims administration systems to broader risk management tools, the importance of analytics based on solid data has risen.

"Mobile devices such as iPhones, iPads or other smart devices can be data-gathering instruments," according to the Tweedy report.

"RMIS are leveraging data analytics and predictive modeling techniques to harvest treasures from vast amounts of data to provide key strategic and tactical information to risk management

decision-makers."

For bundled RMIS offerings, which the report defines as "systems that remain with the vendor if the client leaves," the report said those provided by third-party administrators tend to be "more functional than the insurer-based systems."

As for unbundled offerings, Mr. Tweedy said the back-end infrastructure of public cloud providers is noteworthy, and cited two providers in particular: Origami Risk L.L.C. and Riskconnect Inc.

"Not only do the founders of these recent vendors come from founding roles in the two largest RMIS providers (CS Stars and Aon Risk Console), they have aggressively built their two organizations into formidable competition," he wrote.



Mr. Tweedy

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## PUBLIC NOTICES

### REQUEST FOR PROPOSALS

#### NEW YORK CITY HOUSING AUTHORITY PUBLIC NOTICE INVITATION FOR BID PUBLIC OFFICIALS/EMPLOYMENT PRACTICES LIABILITY INSURANCE

The New York City Housing Authority ("NYCHA") requests Proposals from qualified **INSURANCE CARRIERS** for Public Officials/Employment Practices Liability Insurance Coverage. Carriers must be licensed in N.Y. State with "A.M. Best" rating of at least "A- VIII". Coverage is to become effective August 1, 2013.

Proposals must be in the format included in the Invitation for Bid package containing instructions, specifications and detailed submission requirements. Packets may be obtained by calling NYCHA's Liability Insurance Broker: **Towers Watson, One Stamford Plaza, 263 Tresser Boulevard, Stamford, CT 06901-3226 at (203) 363-1907**. In order to be eligible, completed bid proposals must be received by 3:00 P.M. EST on May 30, 2013.

All inquiries for additional information regarding the Invitation for Bid are to be directed to **Lawrence Racioppo, Vice President, at the aforementioned address, telephone or e-mail at: Larry.Racioppo@towerswatson.com**.

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Michael R. Bloomberg,  
Mayor,  
City of New York



John B. Rhea,  
Chairman,  
NYCHA

#### NEW YORK CITY HOUSING AUTHORITY PUBLIC NOTICE INVITATION FOR BID PRIMARY/EXCESS GENERAL AUTOMOBILE, NON-OWNED & HIRED AUTOMOBILE, EMPLOYEE BENEFITS (CLAIMS MADE) LIABILITY INSURANCE

The New York City Housing Authority ("NYCHA") requests Proposals from qualified **INSURANCE CARRIERS** for Primary/Excess General, Automobile, Non-Owned & Hired Automobile, and Employee Benefits (Claims Made) Liability Insurance Coverage. Carriers must be licensed in N.Y. State with "A.M. Best" rating of at least "A- VIII". Coverage is to become effective August 1, 2013.

Proposals must be in the format included in the Invitation for Bid package containing instructions, specifications and detailed submission requirements. Packets may be obtained by calling NYCHA's Liability Insurance Broker: **Towers Watson, One Stamford Plaza, 263 Tresser Boulevard, Stamford, CT 06901-3226 at (203) 351-5171**. In order to be eligible, completed bid proposals must be received by 3:00 P.M. EST on May 30, 2013.

All inquiries for additional information regarding the Invitation for Bid are to be directed to **Paul Perry, Senior Vice President, at the aforementioned address, telephone or e-mail at: Paul.Perry@towerswatson.com**.

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### LEGAL NOTICE

#### IN THE SUPREME COURT OF BERMUDA IN THE MATTER OF THE LEHMAN RE LTD., IN LIQUIDATION NOTICE OF SCHEME EFFECTIVE DATE AND BAR DATE

TAKE NOTICE that the Scheme of Arrangement between Lehman Re Ltd. (in liquidation) with its Scheme Creditors, became effective on Wednesday 1 May 2013. Accordingly, by the terms of the Scheme, the Bar Date for filing claims is by 5:00 pm (Bermuda time) on **Friday 14 June 2013**. Claim Forms and further information can be obtained from the Scheme website - <http://www.pwc.com/lehmanrecheme08> - or by emailing the joint provisional liquidators at [lehmanrecheme@fm.pwc.com](mailto:lehmanrecheme@fm.pwc.com)

### LEGAL NOTICE

#### UNITED STATES BANKRUPTCY COURT SOUTHERN DISTRICT OF NEW YORK IN RE PETITION OF DAN YORAM SCHWARZMANN AND MARK CHARLES BATTEN, AS PROVISIONAL LIQUIDATORS OF INDEPENDENT INSURANCE COMPANY LIMITED, DEBTOR IN A FOREIGN PROCEEDING CASE NO. 02-13899 (SMB)

**NOTICE IS HEREBY GIVEN** that on April 26, 2013, the BANKRUPTCY COURT ENTERED AN ORDER (THE "ORDER") CONTINUING THE PRELIMINARY INJUNCTION ORDER PURSUANT TO 11 U.S.C. §304 ORIGINALLY ENTERED IN THIS CASE ON JULY 31, 2003. THE ORDER SHALL REMAIN IN EFFECT PENDING A HEARING SCHEDULED TO BE HELD ON OCTOBER 31, 2013 AT 10:00 A.M. (THE "RETURN DATE") BEFORE THE HONORABLE STUART M. BERNSTEIN, UNITED STATES BANKRUPTCY JUDGE, IN THE UNITED STATES BANKRUPTCY COURT LOCATED AT ONE BOWLING GREEN, NEW YORK, NEW YORK. ALL PAPERS SUBMITTED FOR THE PURPOSE OF OPPOSING THE CONTINUATION OF THE ORDER AFTER THE RETURN DATE SHALL BE FILED WITH THE COURT, WITH A COPY TO THE CHAMBERS OF THE HONORABLE STUART M. BERNSTEIN AND SERVED ON COUNSEL FOR THE PETITIONERS LISTED BELOW, SO AS TO BE RECEIVED AT LEAST FOURTEEN (14) DAYS PRIOR TO THE RETURN DATE. ANY PERSON WISHING TO OBTAIN A COPY OF THE ORDER SHOULD CONTACT COUNSEL TO THE PETITIONERS.

**CHADBOURNE & PARKE LLP**  
ATTORNEYS FOR THE PETITIONERS  
30 ROCKEFELLER PLAZA  
NEW YORK, NEW YORK 10112  
(212) 408-6100  
ATTN: HOWARD SEIFE, ESQ.  
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- Jay Nichols - CEO, Axis Reinsurance, Bermuda
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### LEGAL NOTICE

#### NOTICE OF MEETINGS OF SCHEME CREDITORS IN THE HIGH COURT OF JUSTICE CHANCERY DIVISION COMPANIES COURT IN THE MATTER OF FOLKSAM INTERNATIONAL INSURANCE COMPANY (UK) LIMITED (IN ADMINISTRATION) and IN THE MATTER OF THE COMPANIES ACT 2006

NOTICE IS HEREBY GIVEN that by an Order dated 25 April 2013 the High Court of Justice in England and Wales has directed that three separate meetings of Scheme Creditors (the "Scheme Meetings") of Folksam International Insurance Company (UK) Limited (in Administration) (the "Company") are to be held on 20 June 2013 at Hilton London Tower Bridge, 5 West London Place, London, SE1 2BY commencing at 2pm. All Scheme Creditors are requested to attend at such place and time either in person or by proxy. Please allow adequate time for registration prior to the Scheme Meetings.

The purpose of the Scheme Meetings will be to consider and, if thought fit, to approve (with or without modifications) a scheme of arrangement proposed between the Company and the Scheme Creditors pursuant to Sections 895 to 901 of the Companies Act 2006 (the "Scheme").

Capitalised terms in this Notice shall have the meaning given to them in the Scheme.

There will be one Scheme Meeting for each of the three classes of Scheme Creditors and the Scheme will only become effective if approved by all three classes of Scheme Creditors. The Scheme Meetings will be held contemporaneously but separate votes will be taken in respect of each class of creditors. The three classes of Scheme Creditors are:

- Scheme Creditors (other than Equitax) in relation to their EU Claims, namely the EU Policyholders;
- Scheme Creditors (other than Equitax) in respect of all their other claims, comprising Ordinary Claims and Insurance Claims except EU Claims; and
- Equitax in respect of all its Claims.

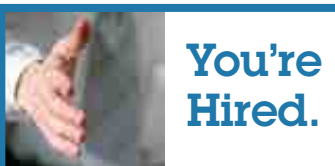
A short statement explaining the effect of the Scheme, together with Proxy and Voting Forms for use at the Scheme Meetings, is being sent to all known Scheme Creditors, policyholders, brokers and intermediaries of the Company. Copies of the proposed Scheme, Explanatory Statement and Proxy and Voting Forms may be downloaded from the Company's website, [www.folksam.co.uk](http://www.folksam.co.uk) and are also available on request by email to [folksam.uk@compse-group.com](mailto:folksam.uk@compse-group.com) or by post addressed to Folksam International Insurance Company (UK) Limited (in Administration), c/o Compse Services (UK) Limited, 4th Floor, St Clare House, 30-33 Mark Lane, London EC3N 1DD.

Scheme Creditors may vote in person at the Scheme Meetings or they may appoint another person, whether a Scheme Creditor or not (including the Chairman as their proxy to attend and vote in their place).

Proxy and Voting Forms should be returned electronically by email to [folksam.uk@compse-group.com](mailto:folksam.uk@compse-group.com) or by post or personal delivery to Folksam International Insurance Company (UK) Limited (in Administration), c/o Compse Services (UK) Limited, 4th Floor, St Clare House, 30-33 Mark Lane, London EC3N 1DD so as to be received by the Company at any time before, or at the start of, the relevant Scheme Meeting. It would be greatly appreciated if you could return Proxy and Voting Forms not less than five business days before the relevant Scheme Meeting.

By its Order, the Court has appointed Dan Yoram Schwarzmann or failing him Douglas Nigel Rackham, both of PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT to act as Chairman of the Scheme Meetings and has directed the Chairman to report the result of the Scheme Meetings to the Court.

In the event that the Scheme Creditors vote in favour of the Scheme, it will be subject to the subsequent approval of the Court.  
Dated this 6 May 2013



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# ASHEVILLE

Continued from page 4

tatives and imitators, although not all subsequent efforts have matched Asheville's return on investment, which reached as high as \$4 in savings on medical services for every \$1 spent on the program, Mr. Miall said.

But the grass-roots initiative incorporated a strategic element that continues to be central to value-based insurance design today. The goal was to align a patient's out-of-pocket costs with a treatment's health benefits.

As employers have adopted value-based insurance design, medications have been the primary target. By 2012, 24% of U.S. employers were offering some type of reduced medication copayment for enrollees with a related chronic disease condition, according to a 2012 survey of 424 U.S. employers by the Pharmacy Benefit Management Institute L.P., a Plano, Texas-based research organization.

Moving forward, though, the value-based insurance design model holds the promise to more effectively achieve medical savings and improve care, if it's applied to a broader array of medical care decisions, said Dr. Mark Fendrick, who directs the University of Michigan's Center for Value-based Insurance Design. Along with steering employees toward high-value care, benefits managers can structure out-of-pocket costs to also discourage treatments of dubi-

## STARTING YOUR OWN ASHEVILLE-STYLE PROGRAM

**A**sheville, N.C., leaders devoted more than two years to develop a chronic disease-management approach for city employees with diabetes.

To launch a similar program in a year, Ben Bluml, senior vice president of research and innovation at the American Pharmacists Association Foundation, suggests employers incorporate several things. They include:

**Rethinking health coverage:** Decide which medication and other medical care copayments will be waived or sharply reduced, depending upon the chronic health conditions targeted.

**Building a counseling network:** Engage for-profit disease-management firms to collaborate some state pharmacy associations.

**Incorporating accountability:** In exchange for free or reduced treatment costs, employees should be required to keep up with counseling sessions.

**Standardizing data collection:** Figure out which clinical and financial data should be tracked, and keep that consistent.

By Charlotte Huff

ous benefit, he said.

"With the combination of carrots and sticks, we can make value-based insurance design programs improve health and reduce costs compared to traditional nonclinically nuanced design," Dr. Fendrick said. "It's not just about drugs; it's about the entire continuum of care."

### Incorporating accountability

The Asheville initiative relied on the efforts of the city employee participants, as well as the pharmacists.

Participants were required to attend educational classes and counseling sessions with pharmacists about managing diabetes.

Because Mr. Miall insisted all copays for diabetic medications and related supplies be waived, participants also had to hold up their end of the bargain. To qualify, participants were required to sign a contract agreeing to the counseling sessions.

Data from the Asheville Project's first five years showed that, despite higher prescription costs, overall medical costs decreased due to fewer emergency room visits and other nondrug costs, according to findings published in 2003 in the *Journal of the American Pharmaceutical Association*. Compared with the year prior to the program's start, total medical costs per patient decreased by anywhere

from \$1,622 to \$3,356 annually during the first five years.

The results in Asheville have been repeated elsewhere. For example, American Health Care, a Rocklin, Calif.-based disease management company, also has studied the model with diabetic employees. For every \$1 spent there, including program costs, \$4.89 was saved in medical costs over a three-year period, according to results published in 2011 in the journal *American Health Drug Benefits*.

These studies "were very important to demonstrate that it isn't just something in the water in Asheville," said Mr. Bunting, who directed the Asheville Project during its first decade, from 1997-2007.

### Clinical innovation potential

As federal officials and some physician groups such as the American Board of Internal Medicine delve into the relative clinical effectiveness of various treatments, employers can start casting their nets more widely to better capture savings from value-based insurance design, Dr. Fendrick said.

For example, Dr. Fendrick pointed to the "Choosing Wisely" campaign overseen by the American Board of Internal Medicine Foundation. By early 2013, the 17 physician groups involved in the campaign had flagged more than 130 tests or procedures with limited to potentially harmful effects, such as ordering an imaging scan for someone with back pain for less than six weeks.

# WORLD

Continued from page 4

better services," Mr. Vittoria said.

Another method gaining in popularity among employers is incorporating games and contests, mobile apps and social media into their corporate wellness programs.

During a presentation, researchers from New York-based Buck Consultants Inc. said that 62% of employers have implemented a "gamification" strategy to promote more active engagement in health management initiatives.

Presenters also urged employers to rethink their wellness and health management communication strategies to boost employee engagement.

"If no one's reading it, it's not communication. It's just noise," said Harry Gottlieb, founder of Chicago-based Jellyvision Lab Inc. To the extent possible, employers should tailor the context and language of health and wellness educational materials to their employees' communication needs and preferences.

"One of the most important things you can do for your employees is communicate the information in plain English," Mr. Gottlieb said. "We need to remember that most employees aren't experts in health care or benefits."

WorldatWork's 2014 Total Rewards Conference will be held May 19-21, at the Gaylord Texan Resort and Convention Center in Dallas.

# MARINE

Continued from page 4

hull and liability leader, at Zurich North America in New York.

Rising government concern about the ecological effect of wrecks is one factor driving up costs. It may have been cheaper to cut up the Costa Concordia on-site rather than refloating it, but Italian authorities and others involved concluded that the environmental risk was too great, according to a Lloyd's of London report in March.

"I don't think there's anywhere in the world that you could have a marine casualty that (threatens) environmental damage where local authorities will not insist on substantial measures to prevent it," Mr. Weber said.

Governments also may make demands that add to costs. For example, New Zealand authorities insisted for the Rena that the daily rate salvage contract in use not be terminated without their approval, a requirement that added about \$10 million to removal costs, according to the Lloyd's report that cited the ship's P&I insurer, The Swedish Club.

Increasingly, sophisticated salvage technology also contributes to higher costs. Salvors can reach fuel bunkers and cargo in deeper

and deeper water and, where a wreck is reachable, government authorities more often are demanding that it be done, according to the Lloyd's report.

The increasing size of vessels also is an issue.

While the Rena's 1,300 containers took months to extract—the angle of a capsized ship making recovery difficult and time-consuming—the largest container ships now can carry the equivalent of 12,000 to 16,000 20-foot containers and present a much greater potential risk. The cruise industry has 51 ships that, like the Costa Concordia, weigh more than 100,000 gross tons; in 2007, only 40 ships of that size were in service or on order, according to the Lloyd's report.

These factors have led underwriters to review their peak liability exposures, said Martin McCluney, managing director of the marine practice at Marsh Inc. in New York.

The expense of removing the Costa Concordia wreck played a large role in the sharp tightening of terms in the February reinsurance renewals for 13 members of the London-based International Group of P&I Clubs, sources agreed.

Reinsurance rates increased 40% overall, with passenger vessels seeing a 125% increase and dry cargo vessels, such as container ships, seeing a 39% increase, according to a Willis summary of the placement.

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# REFORM

Continued from page 1

Until now, it wasn't clear whether premium discounts for wellness program participation would be included or excluded when running the affordability test. In the proposed regulations, premium discounts would be excluded in running the affordability test, with the exception of tobacco-cessation programs.

For example, if an employer charged employees a monthly premium of \$100 for single coverage if they participated in a wellness program and \$120 if they did not, employers would use the \$120 premium in the affordability test.

However, in the case of premium discounts for participating in tobacco-cessation programs, employers would be allowed to use the lower premium paid by employees participating in the program or nonsmokers in running the affordability test.

Employee benefits experts are baffled about why all corporate wellness programs were not given the same treatment by the IRS as tobacco-cessation programs.

"I'm at a loss to explain the different treatment," said J.D. Piro, a senior vice president with Aon Hewitt in Norwalk, Conn.

"It is very disappointing news for employers with wellness programs," said Rich Stover, a princi-

pal with Buck Consultants L.L.C. in Secaucus, N.J.

On the other hand, the proposed rules make clear that lower- and middle-income retirees younger than 65 who are eligible for health care coverage from their former employers — but do not actually enroll in the plans — will be eligible for federal premium subsidies in 2014 to purchase policies through public exchanges.

The subsidies will be available to pre-Medicare eligible retirees with adjusted gross incomes up to 400% of the federal poverty level. For a family of four, that would be \$94,200 in 2013.

It isn't known how many retirees will be eligible for the subsidies or how many will be better off with exchange coverage or plans from their former employers, but benefit experts welcome regulators giving retirees the ability to decide.

"Retirees will have the flexibility to choose, and that is a good thing," said Anne Waidmann, a director with PricewaterhouseCoopers L.L.P. in Washington.

"This gives retirees another coverage option," said Steve Wojcik, vice president-public policy with the National Business Group on Health in Washington.

The proposed IRS rules, though, don't address whether one popular way employers help retirees pay for health care expenses — crediting a stand-alone health reimbursement arrangement with a specific amount of money — would

eliminate retirees' eligibility for federal premium subsidies to buy coverage through exchanges.

While retirees would lose eligibility for federal premium subsidies under the proposed rules if they enrolled in a health plan offered by their former employers, experts say that there isn't a formal enrollment process with HRAs. Instead, the HRAs are made available to retirees.

"This is an issue that will need more clarification," said Paul Dennett, senior vice president of health policy at the American Benefits Council in Washington.

Other regulatory guidance also is needed.

For example, Tracy Watts, U.S. health care leader in Washington for Mercer L.L.C., said no guidance has been provided on how employers are expected to interact with public insurance exchanges.

Such interaction will occur, for example, if an employee applies for subsidized health coverage offered through an exchange. Exchanges would have to verify, among other things, that the employee meets coverage eligibility criteria, such as working for a company whose health care plan fails the reform law's affordability test or for a company that does not offer a health care plan.

In addition, guidance has yet to be issued on the information statement employers have to provide to employees on the availability of public insurance exchanges.

# OKLAHOMA

Continued from page 1

"Industry players that embrace it will be part of the future, and carriers and industry players that continue to reject it and hunker down will find themselves on the wrong side of public policy over time," Mr. Minick said of opt-out provisions for workers comp.

However, legal challenges of S.B. 1062 are likely and could determine whether workers comp opt-out provisions gain steam outside of Oklahoma, said Trey Gillespie, senior workers comp director in Austin, Texas, at the Property Casualty Insurers Association of America, which opposed the Oklahoma measure.

"Some states may wait and see exactly what the Oklahoma Supreme Court does with regards to the Oklahoma opt-out system and then decide how to proceed from there," Mr. Gillespie said.

Bruce Wood, Washington-based associate general counsel and director of workers compensation, said the American Insurance Association supports Oklahoma's new administrative dispute resolution process. But he said that provision is overshadowed by the bill's opt-out option, which he also expects will face legal challenges.

Legislators elsewhere "might want to tread carefully to see how all of this unfolds in Oklahoma

before heading down a path of expensive litigation and constitutional challenges," Mr. Wood said.

S.B. 1062 is expected to reduce Oklahoma workers comp system costs by \$125 million annually, or 12.5%, according to an April NCCI Holdings Inc. report. The savings would come from decreased permanent and temporary total disability benefits and shortened benefit durations, the Boca Raton, Fla.-based ratings and research agency said.

While Roy Wood, St. Louis-based state relations executive, said NCCI can't quantify the immediate effect of Oklahoma's changes, NCCI's report said long-term savings could reach \$48 million.

Mr. Minick said the opt-out system could save employers up to 50% on comp claim costs in Oklahoma.

"I'm confident that for most employers with a significant frequency of claims, the alternative coverage will generate savings through more efficient claims administration ... more direct communication between employers and employees, and more employee accountability," Mr. Minick said.

Oklahoma City-based retailer Hobby Lobby Stores Inc. was one of several employers that backed the Oklahoma legislation. An administrative dispute resolution system in Oklahoma would allow the retailer to have the same control over comp claims that it has under

Texas' nonsubscription system, said Becky Robinson, assistant vice president of risk management.

"By expediting the referral process, you have better medical outcomes and a higher satisfaction rate among your employees," Ms. Robinson said.

PCI's Mr. Gillespie said employers that leave Oklahoma's state workers comp system could create a challenging comp market for companies that buy traditional coverage. He also questioned whether employers would establish stricter qualifications for injured workers to obtain benefits under alternative plans.

"Very large employers in Oklahoma are likely to choose the opt-out option, and in so doing will potentially be taking their ... positive experience ratings and lower loss costs with them," which could raise costs for those left in the system, he said.

Mike Seney, senior vice president of policy analysis and strategic planning for the State Chamber of Oklahoma, said the bill requires employers to provide benefits that are equal to or greater than state workers comp benefits. If employers fail to do so, employees could seek recourse from a new Oklahoma workers comp commission that the law would establish.

Several provisions of the legislation would not take effect until Feb. 1, 2014, and Mr. Seney said it could take some time for employers to structure alternative plans.

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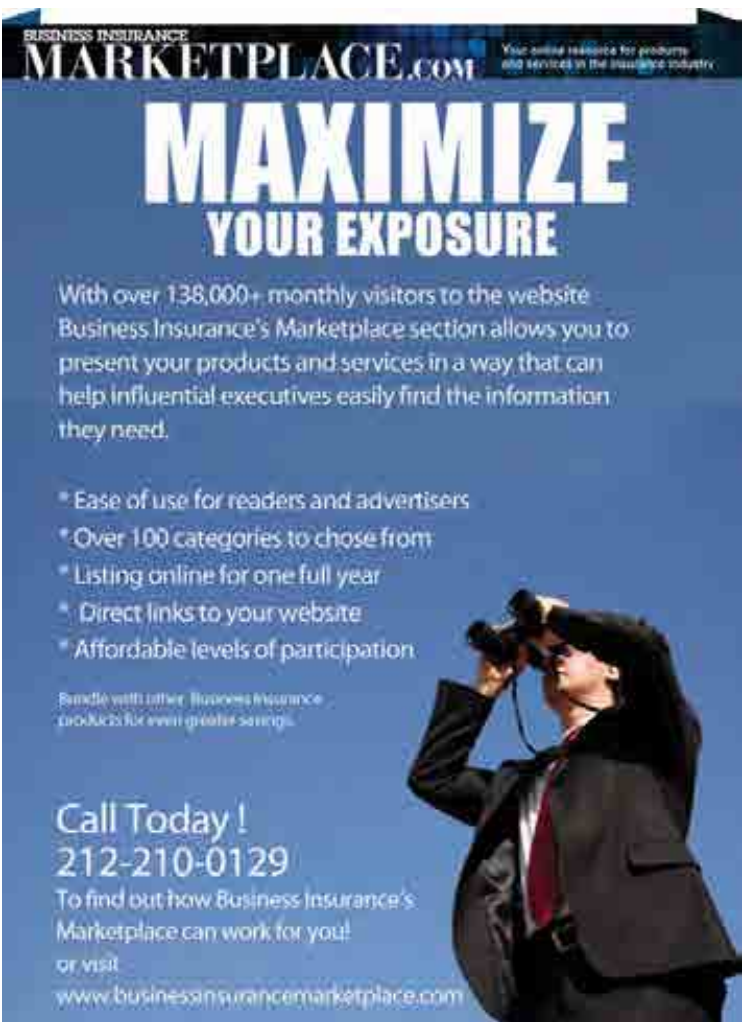
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# AIG

Continued from page 3

share gradually after entering the market.

“Even if they did start writing business immediately, I would not expect it to have a dramatic impact,” he said. “Berkshire is usually a pretty disciplined underwriting company; they are not going to burn their way into the market.”

However, he said Berkshire’s expansion may eventually provide competition to the rare and complex risks currently dominated by AIG.

“Berkshire has a massive balance sheet that allows them to take risks others cannot,” Mr. Abramson said.

“There may be some old 15- to 20-year Lexington renewals that now come under fire because there is now a competitor willing to take the same risks.”

Mr. Kelley said the new competition could lead to mergers and acquisitions in the marketplace.

## HEAR MORE

Access Business Insurance’s tablet edition to hear Jett Abramson of Bliss & Glennon talk about Berkshire’s E&S expansion.

# SEQUESTER

Continued from page 1

National Streamflow Information Program with the U.S. Geological Survey in Pembroke, N.H.

The streamflow program is funded primarily through the USGS and other federal agencies, Mr. Norris said. “Then it has about 850 funding partners that are for the most part state and local agencies,” Mr. Norris said.

He estimated that 115 to 125 stream gauges will be shut down as a result of the sequester; and the USGS estimated that up to 375 might be at risk in the coming months due to the federal budget cuts.

It’s uncertain what might happen to some of the stream gauges operated as part of the Cooperative Water Program of the USGS, Mr. Norris said.

“Those funds have to be matched by one of those 850 partners we have out there,” he said, though state and local government partners relying on the data might pick up the difference in some cases.

In recent years, however, many of the stream gauges supported by state and local partners have been shut down because those entities could not afford to fund them, Mr. Norris said.

“We’ve lost a substantial number of stream gauges,” he said. “It’s not like we’re now starting sequestration with a complete stream gauge system. It’s been whittled away.”

“Frankly, stream gauges are something that we try to keep from having cuts like that,” Mr. Norris said, adding that every time one is shut down “you have holes in your data.”

“We can always restart those stream gauges, but there will always be that hole,” he said.

Mr. Norris said the National Weather Service uses the stream gauge network to create flood models and make sure its models and forecasts are accurate, as well as determine when to give flood warnings.

“We work very closely with the weather service when it comes to flood and, frankly, droughts as well,” he said.

The Federal Emergency Management Agency also uses the data in creating its flood zone maps, Mr. Norris said. In addition, first responders use stream gauge data to determine the accessibility of areas during floods, while civil engineers use it to build flood control systems to appropriate scale.

“I think the loss of the data” from the U.S. Geological Survey “would be detrimental,” said Lonnie Hoffer, disaster recovery chief for the North Dakota Department of

Emergency services. “We use all the data we can and cross-reference it, so to lose that would not be good in our opinion.”

“None of the major gauges that we generally look at are on the list to be shut down,” said a spokesman for the Vermont Department of Emergency Management and Homeland Security. “That’s a good thing.”

But Greg Hanson, a hydrologist with the National Weather Service in Burlington, Vt., said shutting down some of the stream gauges will have an effect.

“These are important river gauges,” Mr. Hanson said. “(The NWS has) a network of 120 offices just like mine, and virtually all of them have gauges that could be cut in their rivers.”

Mr. Hanson said the weather service uses information from the gauges on a day-to-day basis to give information to boaters or power companies, as well as provide forecasts of flood events or low water levels in the event of droughts.

“The gauges are our eyes on the ground to tell us what’s going on, basically,” he said.

And flood events can be very different in different areas of the country, Mr. Hanson said, making the precise information provided by the stream gauge network even more important.

“It really depends on the part of the country you’re in,” he said. “For us, a flood event can come and go in 24 hours. You get out West and you look at the Red River and Grand Forks, and (if) that thing goes into flood, it can go on for weeks. The gauges are equally important in either area.”

Wendy Pearson, a hydrologist in the National Weather Service’s central division headquarters in Kansas City, Mo., said the USGS is notifying weather service offices as it’s determined which gauges will be shut down.

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## IRS sets maximum levels for 2014 HSA contributions

■ The maximum contribution that can be made to an HSA in 2014 will be \$3,300 for employees with single coverage, up from \$3,250 this year, and \$6,550 for family coverage, up from \$6,450. The maximum out-of-pocket employee expense, including deductibles, will rise next year to \$6,350 for single coverage, up from \$6,250; and \$12,700 for family coverage, up from \$12,500.

## Ex-Van Gilder CEO pleads guilty to securities fraud

■ Former Van Gilder Insurance Corp. CEO Michael Van Gilder has pleaded guilty in federal court to one count of securities fraud in the insider-trading case filed against him last year. He is scheduled to be sentenced Aug. 14.

## AIG reports \$2.2B in first-quarter profits

■ American International Group Inc. reported first-quarter profits of \$2.2 billion, a 31.2% drop from the same period in 2012, which included investment income from units

that have since been sold or liquidated. AIG's property/casualty operations' net written premiums for the initial quarter of 2013 fell 4.3% to \$8.44 billion. Underwriting income, however, increased to \$231 million from a \$180 million loss during the same quarter of 2012. The insurer's first-quarter combined ratio improved to 97.3% from 102.1%.

## Terror cover takeup holds steady: Marsh

■ Takeup rates and premiums for U.S. terrorism insurance are holding nearly steady, according to a Marsh Inc. survey. According to the analysis, 62% of firms bought property terrorism cover in 2012 compared with 64% in 2011.

## Cancer biggest cause of LTD claims in 2012

■ Cancer was the largest cause of long-term disability claims last year for Unum Group, while maternity leave represented the largest percentage of short-term disability filings for the disability insurer. Unum said cancer was the reason for 16% of its long-term claims last year, while back disorders represented 15.1%.

## U.K. LAW

Continued from page 3

association, said the law will make it more difficult for employees to bring workplace injury claims and may stop some from even filing them. The association expects the cases that do proceed under the new law will take more time and be more complex, leading to higher costs for businesses.

Among the changes, the law will grant legal protections to whistleblowers only if they show that their actions are in the public interest.

Elizabeth Slattery, a partner and head of the employment team at Hogan Lovells International L.L.P. in London, said that move closed a loophole in the current Public Interest Disclosure Act, which enabled employees to argue that they should be protected as whistleblowers even when their disclosures had no obvious public interest, such as alleging that their employment contract had been breached.

"However, the fact that there is no definition of what is meant by 'public interest' is likely to lead to litigation to clarify the point, at least in the short term," she said.

In addition, the bill will make employers liable for any detrimental treatment that a whistle-blower receives from colleagues unless the employer takes active steps to prevent this, Simon Rice-Birchall, a partner at Eversheds L.L.P. in

London, said in a statement.

"It is vitally important, therefore, that employers have a policy in place to protect genuine whistleblowers and communicate this to the workforce," he said.

Other changes in the bill are aimed at reducing unfair dismissal claims that are brought to a tribunal, Ms. Slattery said.

Starting in 2014, all claims will have to be referred to the Advisory, Conciliation and Arbitration Service for a one month conciliation period before bringing them to an employment tribunal, she said.

In addition, the law will make it easier for employers to have settlement discussions with employees in cases where, for example, a worker's performance has not been up to the standard expected. Employees could not refer to such discussions in a subsequent unfair dismissal claim, Ms. Slattery said.

Other changes that will be brought in once the bill is enacted include giving tribunals the power to order employers that are found to have breached employees' rights to pay a penalty of between £100 and £5,000 (\$155 and \$7,738) on top of any award made to the employee.

That additional penalty would be payable to the government and would apply when there are "aggravating features."

Though the bill does not define those features, Mr. Rice-Birchall said they may include negligence or malice. He added that it is unlikely that such penalties would be commonplace.

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## HEDGE

Continued from page 3

"Third-party capital coming into the reinsurance industry is having a substantial and material impact on the industry's traditional pricing cycles," said Mr. Charman, who intends to re-enter the industry later this year by starting a reinsurer or acquiring one.

"The distorting influx of large amounts of nonaligned, short-term, mostly leveraged capital, with ease of entry, being deployed at the first sign of a more attractive pricing environment is smoothing out the pricing peaks, which reinsurers have traditionally relied on to achieve a healthy return on equity over the long term," he said.

He thinks most of the fund managers investing in the market know very little about the underlying products they are reinsuring or market cycles.

"They are generally not interested in staying invested in the market in the long term," Mr. Charman said. "History has shown that this is not a healthy approach to our business."

David Flandro, global head of business intelligence at Guy Carpenter & Co. L.L.C., said: "The new capital ... has certainly helped to increase the amount of capacity available in certain areas of the market. The effect is unevenly spread, but it is significant and,

## Cat bond demand rising

**R**obust investor demand will trigger the creation of more new catastrophe bonds and special-purpose vehicles throughout this year, SNL Financial L.C. said in a report last week.

Charlottesville, Va.-based SNL Financial said nine new entities registered in Bermuda and the Cayman Islands during the first quarter of 2013.

Notable first-quarter deals this year included Caelus Re 2013 Ltd., which provides \$270 million of capacity to sponsor Nationwide Mutual Insurance Co. for U.S. hurricane and earthquake exposures; and Tar Heel Re Ltd., a \$500 mil-

lion cat bond on behalf of the North Carolina Joint Underwriting Association and the North Carolina Insurance Underwriting Association for hurricane risks.

"Even after an active 2012, the appetite for special-purpose insurance vehicles does not appear to be sated, judging by the slew of new formations thus far in 2013," SNL said. "The annualized first-quarter number would exceed the 2011 level, when 29 entities were registered between the two islands, but it would fall short of 2012, when more than 40 were registered."

By Bill Kenealy

on balance, exerting a moderating influence on pricing."

Brad Adderley, a partner with Bermuda-based offshore law firm Appleby Global Group Services Ltd., who has worked in the group's insurance team for the past 15 years, sees strong interest from fund managers in the reinsurance market. He expects the trend of alternative capital flowing into Bermuda to continue, at least in the short term.

"In the longer term, I think a lot will depend on what happens with equity returns," Mr. Adderley said.

"These fund managers go to where the returns are best; and if something better turns up, that's where they will go. However, there's no reason why some hedge funds will not stay in this business, if it turns out to be profitable for them."

Some big hedge funds, including Daniel Loeb's Third Point L.L.C. and Steven Cohen's SAC Capital Advisors L.P., set up their own reinsurance companies in Bermuda last year. Reinsurer SAC Re has an arms-length contract with the hedge fund to manage their investment assets.



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## Fraud 'king' faces comp charges

**H**eavy hangs the head that wears the crown. A Cook County, Ill., prison guard who touted himself as the "duty injury king" was suspended last month for reportedly faking his way to more than \$150,000 in workers compensation claims.

The Cook County Sheriff's Department is seeking criminal fraud charges against the guard, who was not named.

The guard was suspended without pay in March after surveillance footage reportedly contradicted a workers compensation claim for a back injury he submitted in November 2012.

The guard allegedly claimed that he slipped on a puddle of water outside a gated entryway.

However, surveillance video of the gate showed him approaching the gate, shuffling his feet and then walking through it unharmed, reports say.

## Coffee gets McDonald's in hot water again

**A** McDonald's Corp. franchise is in the hot seat after an Australian woman alleges she was scalded by the restaurant chain's coffee.

Jessica Sussan Wishart of Adelaide, Australia, has sued a McDonald's operator in Adelaide District Court, alleging that she received second-degree burns after spilling McDonald's coffee in April 2009, according to The Daily Telegraph.

She alleges that she dropped the cup of coffee because it was too hot, and that the drink burned her thigh, groin and buttocks.

Ms. Wishart "has permanent scarring and had difficulty walking ... she no longer drinks coffee or goes into McDonald's stores," the newspaper reported in citing the complaint.

The lawsuit is the latest of several claims that have been made against McDonald's entities over the years after customers accused the restaurant of serving too-hot java.

Perhaps the most famous case was that of Stella Liebeck, who was awarded \$2.7 million in punitive damages by a New Mexico jury after she said McDonald's coffee caused third-degree burns to her lap. According to reports at the time, the company did lower the temperature of coffee that it served.

## CRUISE COMPANY BUYS COVERAGE FOR MONSTER-SIZED RISK



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**T**he scientific community may regard the Loch Ness Monster as a modern-day myth, but a Scottish cruise company isn't taking any chances. Jacobite Cruises Ltd. reportedly has purchased a policy with \$1.5 million in limits to protect itself should the mythical monster said to inhabit Loch Ness in the Scottish highlands harm one of its three vessels.

The owner of the cruise line operating out of Inverness, Scotland, told the Daily Mail that she doesn't know the odds of Loch Ness monster-related damage occurring, but wondered "how silly would we look if it did (occur) and we weren't covered for it?"

Towergate Moray Firth Ltd. placed the insurance for the cruise company, the London newspaper reported.

Purchase of the policy comes at the 80th anniversary of 1933 sighting of "Nessie" by a hotel manager. Some allege the supposed sightings since then have been a ploy to attract tourism to the Scottish highlands.

The alleged sightings vary considerably in their description of the creature, according to reports that also say the "monster" could in fact be giant sturgeon or even logs.

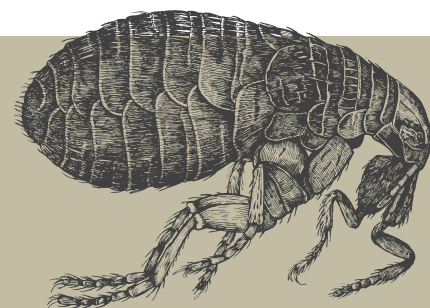
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## YouTube helps catch disability fraud to tune of \$21 million

**S**mile, you're on disability fraud camera. Officials at the Utah Attorney General's Office and federal Office of Inspector General for the Social Security Administration said in a statement this month that surveillance footage and YouTube videos collected by their joint investigative task force helped the SSA deny 157 fraudulent disability claims, saving more than \$21.4 million in federal tax dollars.

The more egregious examples of disability fakery highlighted in the agencies' statement included a 40-year-old man caught on YouTube donning a home-made robot costume and dancing to Steppenwolf's "Magic Carpet Ride," after collecting nearly 18 years worth of disability benefits for depression, anxiety, asthma, obesity and sore muscles.

"The partnership between the Attorney General's Office and Social Security Administration has been a huge benefit for taxpayers," Utah Attorney General John Swallow said in the statement. "For every dollar spent to investigate fraud, we recover \$10 for taxpayers."



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## Flea-bitten police officer wins big payout

**A** tiny flea bite resulted in a big payout for a British police officer, who reportedly received nearly \$12,200 in compensation for the workplace injury.

The officer received £8,000 (\$12,184) after his West Midlands station was infested with fleas and he was bitten by one of the bugs, according to British newspaper reports.

The West Midlands police department reportedly has paid £900,000 (\$1.4 million) settling officer injury claims since 2010.

Other claims that have received compensation from the department include an employee who fell from a bike and a worker who suffered from hearing a loud noise, according to reports.



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