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### PENSION WOES

Insolvent multiemployer pension plans are costing the Pension Benefit Guaranty Corp. increasingly more money to keep paying plan participants' retirement benefits.

About 1,400 multiemployer pension plans in 2013: **10.4 million participants**

Multiemployer pension plan deficit in 2009: **$900 million**

Multiemployer pension plan deficit in 2013: **$8.3 billion**

Source: Pension Benefit Guaranty Corp.

PENSIONS

# Multiemployer pension plans in distress

BY JERRY GEISEL

The insolvency of dozens of massively underfunded multiemployer pension plans and the loss of billions of dollars in participant benefits is looming, but whether Congress will defuse the little-publicized crisis is not clear.

The Pension Benefit Guaranty Corp. has said it expects 173 multiemployer plans will run out of assets and need money from the agency to pay participants' guaranteed benefits.

The PBGC tab for that financial assistance is nearly $10 billion, up $3 billion in just one year. It also is more than five times the $1.8 billion the PBGC has in its multiemployer insurance fund and about 100 times greater than the multiemployer plans paid the agency last year in insurance premiums.

There are about 1,400 multiemployer pension plans with about 10.4 million participants.

See **PENSIONS** page 32

MARINE

# MARINE SECTOR STRUGGLES WITH CYBER RISKS

## Navigation systems vulnerable to attack

NATTANAN726/SHUTTERSTOCK.COM

BY JUDY GREENWALD

Maritime companies face significant cyber threats as they adapt their navigational, operational and other equipment to the digital world.

While automation could lead to significant savings, adapting equipment never intended to be connected to the Internet could leave vessels vulnerable to terrorism, piracy and destruction, experts say.

The maritime industry, they say, lags more heavily regulated industry sectors, including energy and utilities, in addressing its cyber exposures.

Meanwhile, the insurance industry is slowly developing specifically targeted cyber policies for the maritime industry.

See **MARITIME** page 30

### CYBER SECURITY SPENDING ON U.S. PORTS

- Port of Long Beach: received $120 million in federal security grants from 2001-2012; $800,000 spent on cyber security improvements.
- Port of Los Angeles: received $40.6 million in federal security grants from 2007-2012; $1.65 million spent on cyber security upgrades.
- Port of Houston: received $40.4 million in federal security grants from 2007-2012; $0 spent on cyber security improvements.
- Port of Baltimore: received $6.9 million in federal security grants from 2007-2012; $0 spent on cyber security.

Source: Brookings Institution

P/C INSURERS

# Japan unit sale moves Hartford closer to core

## Sale viewed as big step in shift to new strategy

BY MARK A. HOFMANN

The Hartford Financial Services Group Inc.'s nearly $1 billion planned sale of its Japanese annuity business marks another big move in the insurer's ongoing strategy to concentrate on its core businesses.

In late April, Hartford said it reached an agreement to sell its Japanese annuity subsidiary, Hartford Life Insurance K.K., for $895 million to Orix Corp.'s Orix Life Insurance Corp. subsidiary.

The move followed Hartford's March 2012 announcement that it would divest individual life and variable annuities businesses to focus on its property/casualty, group benefits and mutual funds business. In the first quarter of this year, property/casualty operations accounted for $386 million of Hartford's $564 million in core earnings. Group benefits contributed $45 million and mutual funds $21 million.

With the sale of its Japanese annuity business, the only major piece of noncore business remaining is Hartford's U.S. annuity business, which insurance analysts say the insurer does not appear to be in a rush to sell.

"They have accomplished pretty much what they said they were going to do," said Gloria Vogel,

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# team

WORKING SHOULDER TO SHOULDER WITH TRUCKING COMPANIES

Berkshire Hathaway Specialty Insurance

5/12/14

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## SECTIONS



# NEWS

WORKERS COMPENSATION

# MOBILE APPS CONNECT WORKERS TO COMP CLAIMS PROCESS

## TPAs use technology to engage injured employees

BY STEPHANIE GOLDBERG

Third-party administrators are using mobile technology to put workers compensation claims information in the hands of injured workers to improve their engagement in the claims process and avoid potential litigation over injuries.

While TPAs are now moving to adapt to the digital habits of younger workers and newer digital tools, widespread use of their mobile apps by injured workers won't occur for several years, experts say.

Sedgwick Claims Management Services Inc., Gallagher Bassett Services Inc., CorVel Corp. and Broadspire Services Inc. have released mobile applications or mobile websites that provide injured workers access at any time to information about their claims and help them contact claims adjusters.

The goal, experts say, is to enable claims professionals to develop a rapport with workers who require additional support to get back on the job.

"As folks are now coming into the workforce, especially younger, new college grads, (using mobile technology is) how they've grown

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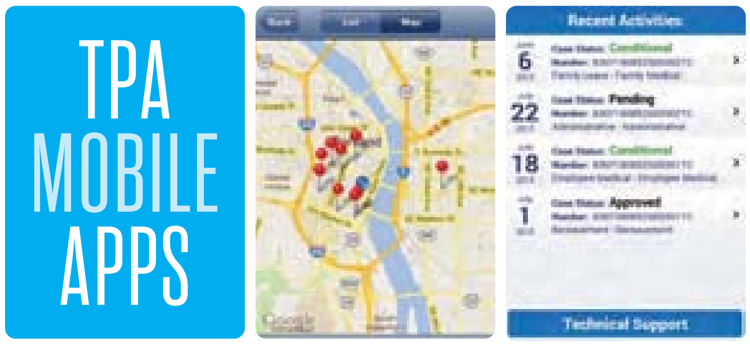



PPO Lookup    viaOne Express

**Applications offered by third-party administrators for injured workers**

**CORVEL CORP.**
**PPO LOOKUP**

- Available for Apple devices in August 2010; updated in February 2012.
- Allows users to search for network physicians by specialty and location, and view directions.

**SEDGWICK CLAIMS MANAGEMENT SERVICES INC.**
**VIAONE EXPRESS**

- Available for Apple and Android devices in summer 2013; updated in January 2014.
- Users can view the status of their claims and cases, submit questions and update claims examiners with their anticipated return-to-work dates.

**GALLAGHER BASSETT SERVICES INC.**
**IN DEVELOPMENT**

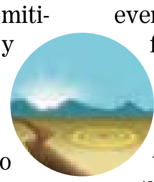
- Expected to launch late this year or early 2015.
- To allow claimants to contact adjusters, ask questions, view claim and case information, search for nearby medical providers, and learn how the workers comp process works in his or her state.

CATASTROPHES

# Seismic map updates could shake property market

BY RODD ZOLKOS

Seismic maps being revised this year to reflect greater understanding of the forces behind earthquakes provide a tool to improve disaster risk mitigation and add a valuable factor in property insurance underwriting and pricing.



At times, though, as in areas of Los Angeles, revised maps can surprise property owners, revealing previously unknown proximity to earthquake fault lines. That occurred when a preliminary California map, released early this year, showed more than 1,500 properties, including schools, hotels and homes, were built along a Hollywood fault.

The U.S. Geological Survey prepares National Seismic Hazard Maps for the lower 48 states about every six years, and the latest update is expected in September, said Sue Perry, disaster scientist in the USGS' Science Application for Risk Reduction Project in Pasadena, California.

Insurers and catastrophe risk modelers will closely examine the updated seismic maps to determine if their models need to be revised and underwriters eventually will adjust property coverage pricing by factoring in the seismic threats gleaned from the updated maps.

"The USGS Seismic Hazard Maps form the basis of the U.S. earthquake models so when these maps are updated, the catastrophe models will be revised," said Karen Clark, president and CEO of Karen Clark & Co., a risk modeling firm in Boston.

Property insurers explained why the seismic maps are critical to the insurance industry and how underwriters use them.

"The USGS seismic hazard maps are really the foun-

See **SEISMIC** page 29

WORKERS COMPENSATION

# Comp claims frequency declines

## But outlook unclear for underwriters

BY SHEENA HARRISON

ORLANDO, Fla. — The workers compensation market is "balanced," with combined ratios for private comp insurers falling 14 percentage points since 2011, but several property/casualty insurance industry issues could present workers comp concerns down the road, according to the National Council on Compensation Insurance Inc.

Boca Raton, Florida-based NCCI said private workers comp insurers' combined ratio declined to 101% in 2013, compared with 108% in 2012 and 115% in 2011. And this measure of profitability is one sign of a comp market that has become more "balanced" since the Great Recession, said NCCI President and CEO Steve Klingel.

"Industry costs remain largely contained," Mr. Klingel said during a presentation at NCCI's 2014 Annual Issues Symposium in Orlando last week. "At present, there is a reasonable expectation for some level of profit. Claim frequency continues to decline. And importantly, the system in most states … is operating effectively and efficiently. In short, the market is operating as it should."

NCCI chief actuary Kathy Antonello said private insurer workers comp premiums grew 5.4% to $37 billion in 2013, driven largely by payroll growth and comp insurers' price increases.

In addition, she said NCCI estimates there was an $11 billion reserve deficiency for private comp insurers in 2013, down from an estimated $13 billion deficiency in 2012.

Still, both NCCI officials said various factors could generate uncertainty about recent improvements in the workers comp market. They include the effect of federal health care reforms on workers comp, the potential expiration of the federal terrorism insurance backstop and continued low interest rates that limit insurers' investment income.

"As long as interest rates remain low, attention to underwriting is really important" for comp insurers, Ms. Antonello said.

It's likely the federal terrorism

See **NCCI** page 32

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# ONLINE FEATURES

## CYBER RISK SUMMIT

### Register now for May 22 Cyber Risk Summit

Registration is ongoing for *Business Insurance*'s 2014 Cyber Risk Summit in Washington.
***www.BusinessInsurance.com/ CyberRiskSummit***

## VIDEO: IN FOCUS

### In Focus: TRIA renewal

Risk management industry leaders talk about the impending sunset of the Terrorism Risk Insurance Act.
***www.BusinessInsurance.com/ InFocus***

## VIDEO: BROKER BEAT

### Inside The Buckner Co.

Terry Buckner, president and CEO of The Buckner Co., discusses issues affecting brokers in the Southwest.
***www.BusinessInsurance.com/ BrokerBeat***

## 40 UNDER 40

### Nominations now open

BUSINESS INSURANCE 2014 40 UNDER 40 BROKER AWARDS

Nominations for the 40 Under 40 Broker Awards are open for all regions until June 15. Eight brokers will be chosen from each region: Northeast; Midwest; West; Southwest; and Southeast.
***www.BusinessInsurance.com/ 40under40nominate***

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CATASTROPHES

# INSURERS INCREASE FLOOD COVER AS CONCERNS OVER NFIP RISE

## Private-market alternatives sought amid uncertainty

BY MATTHEW LERNER

Severe floods in the United States and overseas coupled with changes to the U.S. National Flood Insurance Program are stirring heightened interest in the commercial flood insurance market.

Established agents, brokers and underwriters are being joined by newcomers that see opportunities in offering flood coverage.

A key factor in the increased interest was flood-related devastation wrought by Superstorm Sandy in 2012, when many buyers found that standard property insurance does not cover flood damage.

Reforms in the subsequent Biggert-Waters Flood Insurance Act of 2012, including phasing in risk-based NFIP premiums, led to widespread sticker shock among buyers as well. Although some of the reforms were partially undone by the Homeowner Flood Insurance Affordability Act of 2014, concern about the pricing and viability of NFIP remains, leading buyers to seek private-market alternatives, experts say.

AP PHOTO

A key factor in increased interest the commercial flood insurance market was the devastation wrought by 2012's Superstorm Sandy.

"I definitely think that the instability of the National Flood Insurance Program, and the rates fluctuating up and down, has caused people to look more at the private sector," said Kasey Vaughn, vice president and managing director at wholesale broker and underwriting manager Burns & Wilcox Ltd. in Morehead City, North Carolina. "We've been having agents ask more questions about the private sector, which we never had before."

NFIP rollback affects reinsurers PAGE 31

Burns & Wilcox provides excess and surplus commercial flood coverage with limits of $7.5 million, but could expand that to about $20 million by layering insurers, Ms. Vaughn said.

"The market is being affected by the government," said Dave Finnis, executive vice president and national property practice leader at Willis North America Inc. in Atlanta. "For residential and commercial customers who had been depending on NFIP, there certainly is a heightened awareness."

For those whose rates increased due to the Biggert-Waters Act, the shock was even greater.

Buyers who purchased higher-cost flood coverage before Biggert-Waters was partially repealed

See **FLOODS** page 31

RISK MANAGEMENT

# Kugler to start second career in academia

BY RODD ZOLKOS

After a distinguished career as a risk management practitioner, Daniel H. Kugler will retire from Snap-on Inc. at the end of May and move full-time into risk management education as director of the Center for Insurance and Risk Management in the College of Business at the University of Wisconsin Oshkosh.

"I wasn't looking for a different opportunity because I love what I do and I'm at a great company to work for," said Mr. Kugler, assistant treasurer of corporate risk management at Kenosha, Wisconsin-based Snap-on, where he has worked in the risk management department for 34 years.

Dan Kugler

It was Mr. Kugler's involvement with education, by way of his being a member of the board of the Spencer Educational Foundation and the Risk Manager in Residence program, that led him to meet Scott B. Beyer, an associate professor in the Wisconsin Oshkosh College of Business, and they discussed the Risk Manager in Residence program.

"At the end of my presentation, he asked if I'd be interested in running the (university) program," Mr. Kugler, 60, said. "One thing led to another and they offered me a job right before Christmas."

"I've been a pretty lucky guy, and then this fell in my lap," Mr. Kugler said. "I've been teaching as an adjunct (professor) and teaching various programs, and this was the next step."

"The bonus is I graduated from the University of Wisconsin Oshkosh in 1976," Mr. Kugler said.

In addition to being a longtime participant in the Risk Manager in Residence program funded by the Spencer Foundation, Mr. Kugler has taught risk management, managerial economics, international economics and sustainability at Concordia University Wisconsin; served as an instructor for the International Center for Captive Insurance Education and the National Alliance for Insurance Education and Research; and taught a fundamentals of insurance course for the Risk & Insurance

See **KUGLER** page 32

# Program honors best workplaces

What do Burnham Benefits Insurance Services Inc., Assurance Agency L.L.C. and Lockton Cos. L.L.C. have in common?

Each ranked first in its category in *Business Insurance*'s 2013 Best Places to Work in Insurance Program. There's still time to register for this year's program, which recognizes insurance industry companies that have created an environment in which people thrive and enjoy their work.

Companies that will be recognized this year fall into the industry segments of benefits brokers and consultants, claims services, group life/health insurers, property/casualty insurers, retail agents/brokers, reinsurance brokers, reinsurers and wholesale brokers/managing general agents.

BUSINESS INSURANCE® 2014 BEST PLACES TO WORK

Within each category, companies are segmented by size for ranking purposes into three groups: small companies with 25 to 249 employees; medium-size companies with 250 to 999 employees; and large companies with 1,000 or more employees.

Winners will be chosen based on a two-part survey conducted by Harrisburg, Pennsylvania-based Best Companies Group. One part of the survey evaluates employees' workplace experiences and company culture; the other gathers information on the employer's benefits, policies, practices and more.

Among other things, eligible entities must have a facility in the United States; have a minimum of 25 employees working in the United States; and must have been in business a minimum of one year.

Registration runs through June 6 for the 2014 program, and the companies recognized will be announced later in the year.

To nominate a company, visit *www.bestplacestoworkins.com*.

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MID-MARKET

# HEAVY COMPETITION IN SLUGGISH SECTOR KEEPS GENERAL AVIATION RATES GROUNDED

## Battered by recession, niche industry has been slow to recover

BY JUDY GREENWALD

General aviation insurance buyers are finding lower rates in a highly competitive market that is awash in capital in an industry that is growing slowly.

A bright spot for the generally middle market-size business is “unmanned aircraft systems,” better known as drones, which are expected to be a significant growth area once U.S. Federal Aviation Administration regulations are issued. (see story, right).

General aviation encompasses the manufacture and operation of any type of aircraft that has been issued a certificate of airworthiness by the FAA, other than aircraft used for scheduled commercial air service or operated by the U.S. military, according to the Washington-based General Aviation Manufacturers Association.

There are 360,000 general aviation aircraft worldwide, 209,000 of the total in the United States, according to the association, which forecasts an annual growth rate of 0.5% through 2033 led by 3.5% growth in the business jet segment, according to the 2013 General Aviation Statistical Databook & 2014 Industry Outlook.

U.S. shipments of new aircraft increased 4.3% in 2013 to 2,256, according to the association, still well below the 2007 peak of 4,276 in the industry which has been hampered by the Great Recession, according to the databook.


### AIRCRAFTS

A variety of aircraft fall under the general aviation category.

**Types:**

- Balloons
- Dirigibles
- Fixed-wing airplanes
- Gliders
- Helicopters

**Their uses include:**

- Air ambulances
- Corporate transport of people or cargo
- Fire spotting and suppression
- Flight training
- Personal transportation
- Pipeline patrol

Source: General Aviation Manufacturers Association

Observers say the insurance market for general aviation, which has a strong safety record (see chart below), is soft to flat with some signs of stabilization.

“The market has been extraordinarily soft since at least 2007, and we’ve seen several carriers either withdraw or announced withdrawal from the market,” said Michael J. Kerwin, vice president of analytics at Frederick, Maryland-based Avemco Insurance Co., a subsidiary of HCC Insurance Holdings Inc.

“It is probably the craziest we have seen it in a long time,” said Dean Anderson, Atlanta-based aviation national practice leader for Wells Fargo Insurance Services USA Inc. “We are still in a very depressed market going into our eighth year, where prices have continued to go down because of so much capacity available in the marketplace, with about six or seven new markets that got into the aviation business over the last three, four years.”

Some general aviation insurers are trying to keep their rates stable, “but then you’ve got other markets that continue to fight to increase their portfolio and are continuing to draw the market down,” he said.

The general aviation insurance market has “lots of competition, lots of new capacity in the marketplace and it’s a buyers’ market,” said Michael P. Kriebel, New York-based U.S. general aviation head at Allianz Global Corporate & Specialty in the Americas.

Bradley A. Meinhardt, area president and managing director of aviation at Arthur J. Gallagher Risk Management Services in Las Vegas, said some underwriters are trying to get 2% or 3% increases, but “there’s so much competition that reductions are still the norm.”

Peter Schmitz, New York-based head of Aon Risk Services’ U.S. national aviation practice in New York, said overcapacity means general aviation rates continue to decline, although “we’re seeing smaller reductions than we’ve seen in the past.”

Underwriters “are coming up with innovative coverages to separate themselves from their competitors,” he said.

There are distinctions among various market segments, said Joseph Braunstein, general aviation practice leader at Marsh L.L.C. in New York.

For example, the market for corporate jets is relatively flat, while the loss experience for aircraft put out for hire has historically “been a little bit more”, and underwriters are starting to seek increases in this segment, he said.

Bill Snead, president of Wichita, Kansas-based AOPA Insurance Services, a unit of the Aircraft Owners and Pilots Association, said there are about 15 general aviation insurers, but “the bulk of the insurance that is written is by a half dozen companies and they have remained very stable.”

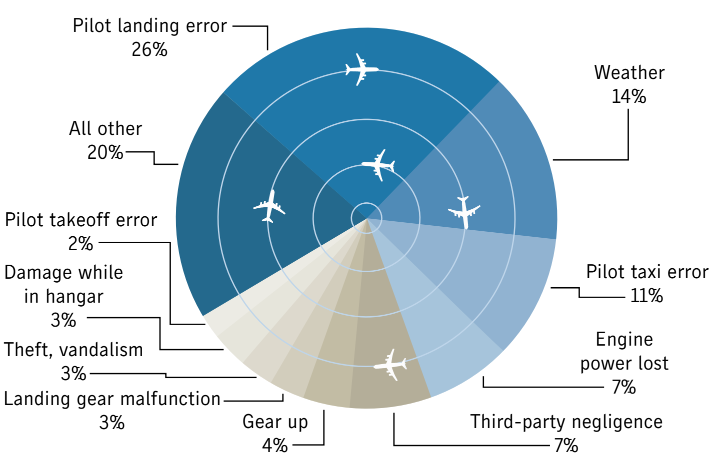
“Those underwriters that have significant new-business plans are really trying to make their managers happy,” and in many cases are trying to attract accounts from other underwriters, including adding coverage as prices go down and offering higher limits, Gallagher’s Mr. Meinhardt said.

Most general aviation insurers have indicated they expect premiums to go up in small increments over the next year or two, but “I’m not quite as optimistic as they are,” said Ty Carter, Kansas City, Missouri-based aviation producer at Lockton Cos. L.L.C.

“There’s just an abundance of capacity and, until it goes away” through mergers or as a result of higher loss ratios, there will not be a change, he said.

### ACCIDENT REPORT

There were 1,203 U.S. general aviation accidents in 2013, the lowest number since 1938, with 216 fatal accidents, the third-lowest behind 1938 and 1939.[1] Avemco Insurance Co. data shows that general aviation claims that occurred from 1999-2011 usually were the result of pilot error.




1 Provisional General Aviation Manufacturers Association data

### INSURERS AWAIT INFLUX OF DRONES PENDING FAA RULES

Underwriters are awaiting Federal Aviation Administration regulations that will cover “unmanned aerial vehicles,” more commonly known as drones.

The rules are expected to lead to increased use of the unmanned aircraft, which will boost business in the competitive, soft general aviation market.

While some insurers provide coverage for drones, observers say the market is not expected to really take off until the regulations are finalized.

In 2012, Congress told the FAA to devise a plan by Sept. 30, 2015, for the “safe integration” of what the FAA calls “unmanned aircraft systems”.

The FAA has authorized limited use of unmanned aircraft systems for “important missions in the public interest” including firefighting disaster relief, search and rescue and law enforcement. However, operations are not authorized in airspace which exists over major urban areas, and areas where there is a high density of aircraft. The FAA has said it wants to strike the right balance between fostering growth and keeping airspace users and people on the ground safe.

The agency said it is developing regulations, policies and standards on a wide variety of unmanned aircraft systems. Later this year it plans to publish a rule for such aircraft that are less than 55 pounds, which “will likely include provisions for commercial operations,” according to the FAA’s website.

A drone’s wingspan can be as large as a Boeing 737 and smaller than a radio-controlled model airplane, according to the FAA, which estimates there will be as many as 7,500 such aircraft in use by 2018.

“We’re keeping our eyes on” this market, said Joseph Braunstein, general aviation practice leader at Marsh L.L.C. in New York “I think everyone sees a big premium potential right now.”

“The future is pretty exciting when you think about the types of missions that these types of aircraft can endure from a timing standpoint and not putting human lives at risk, including applications in energy and forestry,” said Peter Schmitz, New York-based head of Aon Risk Services’ U.S. national aviation practice. There are “hundreds of different ways they’ll be used.”

“That’s a market whose potential is going to be fantastic once the FAA and local governments figure out how they can safely allow people to monetize” such aircraft, said Michael J. Kerwin, vice president of analytics at Frederick, Maryland-based Avemco Insurance Co., a subsidiary of HCC Insurance Holdings Inc.

There also is uncertainty about rules outside the U.S., said Olivier Marre, London-based senior vice president of aerospace and aviation at Allied World Europe, a unit of Allied World Assurance Co. Holdings A.G.

“I am not sure yet that anybody has clearly identified what regulations will be applicable to drones, at least in Europe and Asia,” Mr. Marre said.

By Judy Greenwald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# EMPLOYERS BOOST 401(k) PROGRAMS

## As pensions fade, more companies increase contributions

BY JERRY GEISEL

Employers are tweaking and sweetening their 401(k) plans as increasingly the programs become the sole retirement savings vehicle offered by many companies.

Higher company matches and the introduction of automatic enrollment features have been implemented as employers seek to boost retirement savings plans while they phase out their defined benefit pension plans.

While 401(k) plans once were viewed as arrangements to supplement corporate pension plans that provided a specific monthly benefit, unpredictable costs due to fluctuating investments and interest rates prompted employers to move away from those plans to the greater cost certainty of 401(k) and other defined contribution plans.

As recently as 1998, 90% of Fortune 100 companies offered defined benefit plans to new salaried employees, according to Towers Watson & Co. By last year, though, just 30% of Fortune 100 companies still offered them (see chart below).

The Pension Benefit Guaranty Corp.'s insurance program, to which employers with defined benefit plans must pay insurance premiums, covered more than 100,000 such plans in 1985. Today, it's just 22,000 plans.

At the same time, the number of 401(k) plans has skyrocketed leaping from just over 200,000 in 1995 to more than 500,000 in 2011, according to a Labor Department report citing the most recent year definitive statistics are available.

In response, many employers have beefed up their 401(k) plans to compensate in varying degrees for the loss of retirement income employees would have received from their now-frozen or terminated defined benefit plans.

"Employers want to do what they can so that employees are saving enough," said Rob Austin, director of retirement research in the Charlotte, North Carolina, office of Aon Hewitt.

A major way employers have done that is sweetening the formula used to determine how much they will match employees' 401(k) contributions.

For example, the most popular employer match now — used in 19% of plans — is one in which employers match 100% of employees' salary deferrals, up to the first 6% of pay. By contrast, in 2001, the most common match — used in 21% of plans — was one in which employers matched 50% of salary deferrals, up to the first 6% of pay, according to Aon Hewitt data.

Total contributions that can be made in a year depend on the employer's plan design and the employee's pay (see story at right).

Some employers, especially those that have frozen their defined benefit plans, have done even more. For example, when IBM Corp. froze its defined benefit plans in 2008, it added an automatic employer contribution feature.

Under that enhancement, participants in the cash balance pension plan that IBM froze received a dollar-for-dollar 401(k) plan match on employee contributions, up to the first 6% of pay, and an automatic company contribution equal to 2% of pay.

"When companies freeze their defined benefit plans, some may feel two steps are necessary" for their remaining 401(k) plan, said Jack Abraham, a principal with PricewaterhouseCoopers L.L.P. in Chicago, referring to a sweetened company match and an automatic employer contribution.

Another design change that has taken hold is automatic enrollment — now offered by nearly 60% of employers with 401(k) plans vs. less than 20% in 2005, according to Aon Hewitt.

That approach paid off for Hendrick Automotive Group in Charlotte, North Carolina. Employee participation in the company's 401(k) plan surged to 80% when the company added an automatic enrollment feature in 2011, up from 60% before automatic enrollment was added, said Andrea Darrow, manager of retirement programs.

"We want to take care of our employees and be sure they have a nest egg to fall back on," Ms. Darrow said.

In fact, "automatic enrollment has been wildly successful" for employers, said Sandra Pappa, a Pittsburgh-based principal in Buck Consultants L.L.C.'s retirement practice.

According to Aon Hewitt research, the average participation rate of employees subject to automatic enrollment is 84.6%, compared with just 62.4% for employees who are not.

But not all design changes have been positively received.

For example, AOL Inc. reversed course earlier this year following a barrage of employee complaints about the internet provider's decision to match employees' 401(k) contributions at the end of the year instead of each pay period.

"We heard you on this topic. And as we discussed the matter over several days, with management and employees, we have decided to change the policy back to a per-pay-period matching contribution," AOL Chief Executive Tim Armstrong told employees in an email.

The motivation to reduce the frequency of matching contributions is simple: Employers can reduce their costs.

"If you have a lot of turnover, you can save money and reward those who stay with the company," said Robyn Credico, national director of defined contribution consulting at Towers Watson & Co. in Arlington, Virginia.

Just 8% of employers that match employee contributions do so only once a year, with 86% matching contributions during each pay period, according to Aon Hewitt.

## LIMITS VARY FOR WORKERS' 401(K) CONTRIBUTIONS

How much in pretax contributions employees can make to their 401(k) plans is based on federal law and the design of the plan.

Under federal law, the maximum pretax contribution employees generally can make to their 401(k) plan in 2014 is $17,500.

In addition, the total contribution by the employee and employer is capped at $52,000 this year.

Depending on certain variables, however, employees may be able to contribute more or less than $17,500.

Under a Tax Code provision Congress made permanent in 2006, employees age 50 and older can make each year additional so-called catch-up contributions. The maximum catch-up contribution is $5,500 this year.

However, highly compensated employees — those earning at least $115,000 this year — may be limited to less than the $17,500 maximum if their employer's 401(k) plan does not pass statutory nondiscrimination tests. Under those tests, the average contributions of highly compensated employees cannot exceed the rate of rank-and-file employees by statutorily set amounts.

Still, an employer can avoid the nondiscrimination testing if it adopts what is known as safe harbor 401(k) plan design.

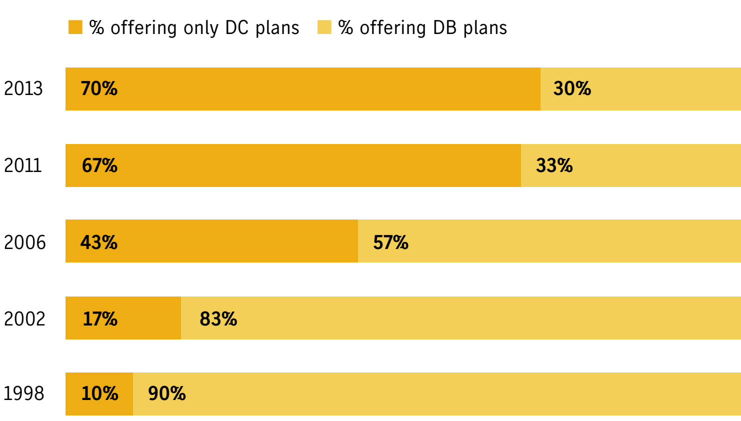
To qualify, for example, for one widely utilized safe harbor, an employer must match 100% of employees' deferrals up to the first 3% of pay and 50% of deferrals on the next 2% of pay. This option is the more popular, benefit consultants say.

To qualify for another safe harbor, an employer must automatically contribute to employees' 401(k) accounts an amount equal to 3% of pay.

By Jerry Geisel

### DEFINED CONTRIBUTION PLANS

Once often a supplement to defined benefit plans, defined contribution plans have increasingly become the only retirement plan offered by employers.*




*Fortune 100 companies

Source: Towers Watson & Co.

## DESIGN CHANGES HELP ENGAGE EMPLOYEES

Employers that have changed their 401(k) plan designs have done so in large part to increase the likelihood their employees save enough for retirement.

"With a defined benefit plan, everyone was covered and accruing a benefit. With defined contribution plans, employers have to take steps to make sure that employees are earning benefits," said Rob Austin, director of retirement research in Aon Hewitt's Charlotte, North Carolina office.

Design changes made by 400 employers participating in a 2013 Aon Hewitt study, 90% of which offer 401(k) plans covering about 10 million employees, include:

- 76% allow employees to immediately participate in 401(k) plans, up from 55% in 2003.
- 53% offer immediate eligibility for a company matching contribution to a 401(k) plan, up from 31% in 2001.
- 19% of employers match 100% of employees' 401(k) contributions up to 6% of pay, up from 4% in 2001.
- 59% of employers automatically enroll employees in the company's 401(k) plan, up from 14% in 2001.

Automatic enrollment surged following a 2006 law and subsequent Internal Revenue Service guidance that clarified that employers can automatically enroll employees in a 401(k) plan unless the employee specifically objects.

By Jerry Geisel

# INTERNATIONAL

## Windstorm Christian losses increased to $1.51B

■ Perils A.G. has updated its estimate of insured property losses from Windstorm Christian, which caused major damage across northern and western Europe in October, to €1.09 billion ($1.51 billion). The Zurich-based catastrophe insurance data company increased its loss estimate from a previously announced figure of €1.07 billion ($1.48 billion).

## Generali closes cat bond for European windstorms

■ Assicurazioni Generali S.p.A. has closed a catastrophe bond that offers the insurer protection from European windstorm losses over a three-year period. The deal is the first catastrophe bond closed by Trieste, Italy-based Generali, which has become the first Italian sponsor to enter the insurance linked securities market. The bond, which offers €190 million ($261.8 million) of reinsurance coverage, was issued by Ireland-based special purpose vehicle Lion I Re Ltd. It has an indemnity-based trigger, Generali said in a statement.

## Guernsey licenses 99 new international entities

■ There were 99 new international insurance entities licensed in Guernsey in the 12 months through March 31 of this year, bringing the total number of international insurance entities licensed on the island up to 790 from 752 entities a year previously, according to statistics published by the Guernsey Financial Services Commission. The 99 new entities were eight limited insurance companies, five protected cell companies, 73 PCC cells, three incorporated cell companies and 10 ICC cells. At the end of March, there were 243 limited insurance companies, 70 PCCs, 439 PCC cells, eight ICCs and 30 ICC cells licensed in Guernsey. About one-third of the newly licensed entities have U.K. owners, one-third have owners based in the Cayman Islands, and the rest are owned by companies in Australia, Bermuda, Ireland, Singapore, South Africa and the United States, according to Guernsey Finance.

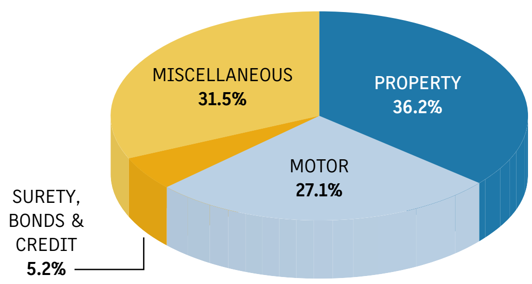
## PROFILE: EL SALVADOR

**$237.6 MILLION**

◀ **2012 P/C gross premiums**

The Salvadoran property/casualty insurance market is small, ranking No. 98 in the world. Last year the market improved, rebounding along with the nation's stagnant economy the prior year. Several new insurers came into the market, ratcheting up already stiff competition among insurers and brokers. There continues to be a competitive advantage for bank-connected insurers that can tap new business issuing bancassurance. As a result, insurers not connected to banks are using alternative distribution channels such as pharmacies and electric utility companies.

### MARKET SHARE




Source: Axco Global Statistics/Industry Associations and Regulatory Bodies


**AREA**
8,124 square miles

**POPULATION**
6.3 million

**PRESIDENT**
Mauricio Funes

**2013 GDP CHANGE**
1.4%

### MARKET DEVELOPMENTS

UPDATED MAY 2014

- Last month it was revealed that a new insurance law is under consideration by the Superintendency of the Financial System, in collaboration with the World Bank and Canadian and Chilean consultants.
- Last month minimum capital requirements for insurers and reinsurers went into effect with a deadline for compliance of June 30. Insurers selling life and nonlife polices must hold combined capital of $2.28 million.
- In December 2013, the government introduced the National Fund for Victims of Traffic Accidents, then subsequently suspended it.
- In January 2013, the Salvadoran Cargo Transport Association protested against the requirement for trucks coming into Mexico paying $18 to buy third-party liability coverage and for them to be registered with Mexican authorities.
- In August 2012, the legislative assembly voted again to postpone compulsory motor insurance and in January 2013 the issue came up again in the legislature but nothing was decided.

### COMPULSORY INSURANCE

- Workers compensation
- Errors and omissions bond for insurance agents and brokers
- Oil pollution cover for oil tankers
- Customs bonds for international truckers
- Bank cover to protect personnel and assets

### NONADMITTED

There is no blanket prohibition of nonadmitted placement of insurance. However, Salvadoran authorities discourage the placement of insurance abroad. The lone exception is workers compensation, administered under a state program, may not be placed on a nonadmitted basis. The nation's law is silent on the issue but it is understood that any policy bought outside El Salvador must be signed outside the country.

### INTERMEDIARIES

Insurance agents and brokers must be authorized by the state to do business in El Salvador. And they are only authorized to sell products sold by registered Salvadoran insurers. Intermediaries who place business with nonadmitted insurers could be subject to sanction by authorities. There's different views among brokers on the legality of nonadmitted placements when talks take place abroad.

### MARKET PRACTICE

Most placements with nonadmitted insurers are personal lines of insurance, but many large nonlife accounts such as health insurance are placed overseas. Fronting is used as a way around the Salvadoran rules regarding brokers and agents negotiating business in the country.

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

## RSA premiums down as shake-up continues

■ Britain's RSA Insurance Group P.L.C. said premiums fell in the first quarter of the year, reflecting tough trading conditions in core western European markets and the effect of a turnaround plan that has seen some businesses sold off. In a trading statement, RSA said the headline fall in underlying net written premiums was 9% from a year earlier to £1.98 billion ($3.36 billion) for the quarter. The company is in the middle of a shake-up steered by new CEO Stephen Hester, after weather-related losses and accounting irregularities at its Irish arm hit its finances, prompting the departure of several senior executives. In February, the company began a drive to raise up to £1.6 billion ($2.7 billion) in capital and tapped shareholders for around half in a rights issue that wrapped up in April. The "Action Plan" also involves disposing of noncore assets and streamlining the remaining operations. RSA has already secured the sale of operations in the Baltics and Poland and said it expects to announce more disposals during 2014. The company said it expects premiums could be up to 10% lower for the full year as a result of the disposals.

Reuters

## Willis posts first-quarter revenue boost of 4.4%

■ Willis Group Holdings P.L.C.'s revenue for the first quarter of 2014 grew 4.4% over that of a year earlier to $1.10 billion, the broker reported. Willis' first quarter net income was $246.0 million, up 12.3% over the prior-year period, the company said in its earnings statement. Commissions and fees increased 4.2% to $1.09 billion, and investment income remained flat at $4.0 million. Commissions in North America grew 3.9% to $369 million while international commissions increased 5.7% to $279 million, and global commissions were up 3.5% to $442.0 million. "We began 2014 with another quarter of solid mid-single digit revenue growth and positive contributions from each of our segments," Willis Group CEO Dominic Casserley said in the statement, adding that both Willis International and Willis North America "performed strongly."

## Outside capital hurts Bermuda reinsurers

■ Despite a strong 2013, Bermuda reinsurers face a range of challenges that could affect their performance as soon as this year, according to a report by Standard & Poor's Corp. "Barbarians At The Gates: Are Bermudian (Re) Insurers Victims Of Their Own Success?" looks at how competition, alternative capital and lower investment returns could weigh on reinsurers' performance. While 2013 was a banner year that saw the aggregate combined ratio of the 20 insurers and reinsurers participating in the annual Standard & Poor's/Deloitte Bermuda insurance survey improve to 85.6% from 91.5% in 2012, momentum may be shifting, according to S&P. The "increasingly competitive landscape will likely hurt Bermudian (re)insurers' profitability in 2014 and 2015 and could threaten some players' market positions," according to the report. Much of that competition comes from third-party capital entering the space from long-term investors such as pensions and endowments as well as more "opportunistic" sources like hedge funds. According to the report which cites a figure from Aon Benfield Group Ltd., as much as $100 million of such funding could flow into the market over the next five years.

## Strong euro dents Munich Re income

■ Munich Reinsurance Co. reported an almost 5% drop in net profit in the first quarter, as a strong euro dragged down premium income. Group gross written premiums fell 2.7% to €12.9 billion ($17.76 billion), the company said. A Munich Re spokeswoman said euro strength primarily against the U.S., Canadian and Australian dollars in the first three months had undermined reinsurance premiums, which would have risen by 4.5% if the exchange rates had remained stable. Euro strength is now expected to cut about €2 billion ($2.78 billion) off gross premiums in 2014, bringing them to about €48 billion ($66.59 billion). “Despite negative currency effects, we almost matched the outstanding result of the first quarter last year,” Chief Financial Officer Joerg Schneider said in a statement last week.

Reuters

## France to ban import of pigs, byproducts

■ France will ban imports of live pigs, pork-based byproducts and pig sperm from the United States, Canada, Mexico and Japan to protect against a virus that has killed millions of piglets in North America and Asia, a farm ministry official said. The ban, which does not include pork meat for human consumption, aims to ward off Porcine Epidemic Diarrhea Virus (PEDv), which has killed around 7 million young pigs since first identified in the United States almost a year ago. The disease has reduced hog supplies in the United States and sent retail pork prices to record highs.

Reuters

## Scor profit up 21.6% in first quarter

■ Scor S.E. posted net income of €135 million ($187.3 million) for the first quarter of 2014, up 21.6% from the comparable period in 2013, the Paris-based reinsurer said. The company posted gross written premiums of €2.67 billion ($3.70 billion) for the first quarter of 2014, up 11.7% from the first quarter of 2013, Scor said in a statement. Net investment income totaled €133 million ($184.5 million) in the first quarter of 2014, up 18.8% from the first quarter of 2013. SCOR said that its property/casualty operation, SCOR Global P&C, recorded a combined ratio of 88.9% for the first quarter of 2014, compared with 90.4% for the first quarter of 2013. The company said the combined ratio was helped in part by the low level of natural catastrophe losses in the first quarter of the year.

## Marsh exec to chair BIBA advisory board

■ The British Insurance Brokers' Association has appointed Julie Page as chairman of its newly created international and wholesale brokers' advisory board, set to meet every quarter. Ms. Page, who is CEO of the U.K. consumer and commercial practice at London-based Marsh Ltd. takes the position effective immediately, BIBA said in a statement. Ms. Page also will take a seat on BIBA's main board “to ensure that matters affecting the association's members operating in the Lloyd's of London and London market are properly represented,” BIBA said.

## Novae hires Reekan Patel as chief risk officer

■ Lloyd's of London insurer Novae Group P.L.C. has named Reeken Patel as chief risk officer. Currently a partner in the general insurance practice of PricewaterhouseCoopers L.L.P. in London, Mr. Patel will assume the CRO role at Novae in July, subject to regulatory approval. He succeeds Ian Hilder, who is embarking on a trip to sail around the world. “I have worked in the past with the senior management at Novae and have been extremely impressed with the quality of both the management and the business,” Mr. Patel said in a statement. “I am excited to be joining the team at such an interesting time and look forward to helping them build on the significant progress that they have made,” he said.

EDITORIAL

# MARITIME CYBER RISKS SURFACE

The commercial insurance industry is facing a significant challenge — one that many are confident it will meet — as maritime companies move toward adapting their navigational, operational and other equipment to the Internet. As noted on page 1, these companies face significant cyber threats as they make the transition.

And while such automation could create significant savings, hooking up to the digital equipment poses significant risks by leaving shipping and other maritime firms vulnerable to hackers, who can wreak considerable damage.

In the marine world alone, the problems this can engender include dangerous disruptions in communications, piracy and even the destruction of ships.

All this is part of the more general trend that has been dubbed the "Internet of Things," a phrase experts predict we'll hear a lot more.

Generally speaking, though, traditional marine insurance does not cover the possible bodily injury and property damage that can happen when computer network connections go awry, whether through maliciousness or by accident.

As experts say, the emphasis on cyber coverage to date has tended to focus on issues of privacy and the disclosure of personally identifiable information.

But, thankfully, the insurance industry is starting to see the need for coverage that compensates for the bodily injury and property damage that cyber risks can cause.

One promising sign of this is American International Group Inc.'s introduction of its CyberEdge PC policy, which is meant to augment customers' existing commercial lines program and covers both property damage and bodily injury exposures on an excess and difference-in-conditions basis. Other coverage offered generally is manuscripted.

More such insurance products that address marine risks, as well as those in other industries, are expected as awareness of the cyber-related risks inherent in the "Internet of Things" grows.

Meanwhile, we await the coverage that the insurance industry's creative and fertile minds develop to meet this latest challenge.

*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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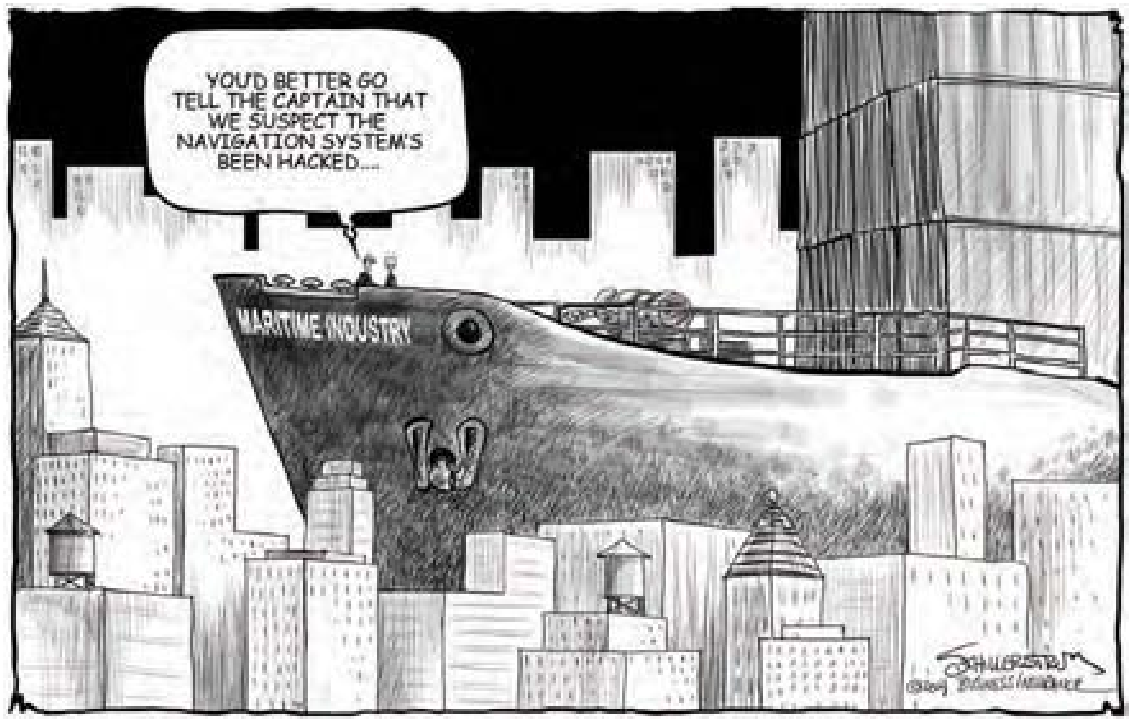
SCHILLERSTROM




COMMENTARY

# INSURER CAPITAL RULES BILL NEEDS COMMON-SENSE CONGRESS

MARK A. HOFFMAN
SENIOR EDITOR

Common sense is a commodity that's always in short supply. That is particularly true in Washington, where a chance to do something attention-getting trumps a chance to do something truly worthwhile is happening with depressing frequency.

Anyone who has the stomach to watch C-Span's live coverage of Congress for more than a couple minutes is almost guaranteed to witness an example of this.

Fortunately, there are occasional exceptions to this sorry state of affairs.

Take the recent introduction of the Insurance Capital Standards Clarification Act of 2014. The bill is simple yet addresses a potentially significant problem — the possibility that insurers will be subject to federal regulations tailored for banks rather than underwriters.

Insurers have been concerned about having to meet requirements designed for banks ever since the financial crisis of 2008 erupted, bringing calls for greater federal regulation of all sorts of financial institutions in its wake. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, insurers deemed to be present systemic risks to the financial system as a whole could be subject to heightened regulation by the Federal Reserve.

The Fed, however, was not established to act as an insurance regulator. No one, including Fed officials, has taken to the streets demanding that the Fed take over insurance regulation, even for a limited number of companies.

To their credit, lawmakers repeatedly said they did not think that bank-centric regulations should be imposed on insurers. But the law left open the possibility insurers would have to meet standards that really didn't address their business. That's particularly true of property/casualty insurers, which have little in common with banks.

The business of insurance simply isn't the business of banking, and vice versa.

The bipartisan clarification bill says that the Fed would be required to accept statutory accounting principles as favored by insurers rather than requiring insurers to convert to generally accepted accounting principles when insurers prepare financial statements required of nonbank financial institution. This is what insurers, which already are subject to state regulation, want made clear.

It's simply common sense to treat insurers differently than banks. The catch will be getting even a common-sense bill enacted while the congressional calendar continues to shrink as the November elections — and an awful lot of recesses — loom.

Moving quickly to pass the clarification legislation won't be flashy or attention-grabbing, which probably befits a bill that deals with both insurance and accounting standards.

But doing so would be an exercise in common sense. Given how rarely that seems to come along on Capitol Hill these days, lawmakers ought to grab that opportunity as quickly as they can.

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# RIMS2014

CONFERENCE WRAP-UP

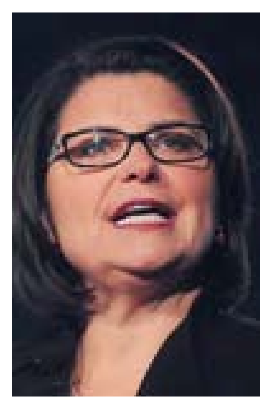
# RIMS' LEADERS FOCUS ON LEGISLATION, EXPANSION

## TRIA renewal heads list of concerns for risk management group in 2014


MICHAEL MARCOTTE

"To ensure that the profession of risk management continues to grow and thrive, it's important that we present a vital view of the future."

Carolyn Snow,
RIMS president



TRIA's potential expiration "has a global impact."

Mary Roth,
executive director, RIMS

BY RODD ZOLKOS

Among the Risk & Insurance Management Society Inc.'s various undertakings this year, its legislative efforts no doubt will be among the most significant.

"RIMS continues to be the voice of our members on legislative initiatives," RIMS President Carolyn Snow said during this year's RIMS "Annual Conference & Exhibition" in Denver last month.

Ms. Snow, director of risk management for Louisville, Kentucky-based Humana Inc., added that RIMS members' involvement in contributing their own voices in that process is essential to meeting the organization's legislative goals.

Among the most important of those goals is winning renewal of the federal terrorism insurance backstop. The law, first passed under Terrorism Risk Insurance Act in 2002, is set to expire at the end of the year.

TRIA's potential expiration "has a global impact," said Mary Roth, RIMS' executive director, who said any company with operations in the United States could be affected if the federal terrorism backstop is allowed to expire.

As important as TRIA renewal is to RIMS and its members, "Our work on the legislative front is not limited to TRIA," Ms. Roth said. She said RIMS will travel to Capitol Hill to advocate on behalf of various risk management issues during its "2014 Legislative Summit" June 9-10.

"Legislative initiatives are just one of many things that impact the future of RIMS," Ms. Snow said. Concern over keeping the organization up to date with changes in the risk management industry and the broader environment in the years ahead prompted her to organize a RIMS 2020 task force focused on addressing those changes, she said.

"To ensure that the profession of risk management continues to grow and thrive, it's important that we present a vital view of the future," Ms. Snow said.

This year's annual RIMS conference drew attendees from a record 66 countries, and Ms. Snow said that international presence was in line with another of her goals for her tenure as the society's president: expanding the organization's global reach.

"To meet the needs of such a diverse membership, we're now holding various conferences around the world," Ms. Snow said. "Extending the society's influence around the world benefits every single one of us."

Ms. Snow said another goal of her RIMS presidency is to enhance the society's delivery of information and resources to its members.

Ms. Roth cited several ways in which the organization is achieving that, including white papers, the society's partnering with J.D. Power & Associates on an upcoming commercial insurer and broker satisfaction study and RIMS' online risk management library.

In addition, "RIMS is completely revamping our largest resource: our website," Ms. Roth said.

The society's 2015 annual gathering will take place April 26-29, 2015, in New Orleans.

MICHAEL MARCOTTE

Jones Lang LaSalle Inc.'s Janice Ochenkowski and Guy Carpenter & Co. L.L.C.'s Emil Metropoulos suggested strategies for risk managers to analyze and prepare for the potential of the terrorism insurance backstop expiring.

# Prepare now for potential expiration of terror backstop

## Private coverage likely would be costly, hard to get

BY RODD ZOLKOS

Uncertainty over renewal of the federal terrorism insurance backstop presents considerable risk management challenges but also opportunities for risk managers who prepare appropriately.

Risk managers must prepare their organizations for the possibility that the backstop, which was originally created by the Terrorism Risk Insurance Act in 2002, could expire on Dec. 31, a panel of experts said.

"At the moment, navigating through TRIA is a bit like walking a tightrope," said Janice Ochenkowski, managing director of global risk management at Jones Lang LaSalle Inc. in Chicago. But, she said, "A professional risk manager can do it."

Ms. Ochenkowski, made her comments as part of a panel examining issues surrounding TRIA renewal titled "TRIA: If a Tree Falls in the Woods ..." at the Risk & Insurance Management Society Inc.'s Annual Conference & Exhibition last month in Denver.

Ms. Ochenkowski, who also is vice chairman of the RIMS external affairs committee, said that TRIA isn't an insurance policy. Rather, it is a backstop for eligible insurers in the event of a terrorist event. If TRIA is allowed to expire, those insurers could face unlimited liability for terrorism-related losses and likely would look to reduce their exposure by writing fewer policies and lowering limits, she said.

Another panelist, Emil Metropoulos, senior vice president at Guy Carpenter & Co. L.L.C. in New York, said that with U.S. property/casualty insurance and reinsurance capital estimated at $700 billion and the largest modeled terrorism loss scenario being a nuclear detonation in midtown Manhattan that could result in $941 billion in losses, the industry is not adequately capitalized to handle such an event without a federal backstop.

Consequently, if TRIA is not renewed, those companies able to find coverage for terrorism losses might find it prohibitively expensive, Ms. Ochenkowski said. Meanwhile, risk managers with high-risk operations or offices in major urban areas may have difficulty obtaining adequate coverage, she said.

Given the uncertainty and the potential consequences if TRIA isn't renewed, Ms. Ochenkowski said risk managers should ensure that relevant stakeholders in their organizations understand the potential effects of TRIA not being renewed.

"If you can't get the face-to-face meetings, next I'd suggest writing an email," she said, advising risk managers to make the message specific to each group of stakeholders and limit it to a high-level presentation hitting highlights of the effect of TRIA's potential nonrenewal.

"For a risk manager, this is a phenomenal opportunity for you to be a thought leader in your organization," Ms. Ochenkowski said.

She also advised risk managers to build higher costs into 2015 budgets.

"In addition to keeping your organization advised make sure you are keeping up to date on the situation," Ms. Ochenkowski said. Risk managers should work with their brokers to create a plan and to price options, she said, then present that plan to their organizations and allow plenty of time for discussion.

Mr. Metropoulos suggested that risk managers align their insurance programs with insurers that will continue to support terrorism programs if TRIA expires. "You can bind standalone terrorism products to lock in coverage prior to a TRIA sunset," he said.

Risk managers also can consider techniques like a "standalone capacity reservation approach" in which the standalone terrorism capacity initially takes an excess position in the firm's terrorism coverage program with an option to "flip" to the primary position if TRIA is not extended, Mr. Metropoulos said.

Other strategies involve the use of captives, he said, including retaining risk in the captive — subject to sufficient capital — or reinsuring the captive's exposure in the standalone terrorism market.

"You will have to manage risk in 2015 with or without TRIA," said Ms. Ochenkowski, and a risk manager should be ready either way.

Richard Rabs, chairman of RIMS external affairs committee, moderated the panel discussion.

## RIMS RECOGNIZES RISK MANAGERS' CAREER ACHIEVEMENTS

Several risk management professionals were honored for their career achievements during the Risk & Insurance Management Society Inc.'s annual meeting in Denver.

Mark DeLillo, director of risk management for homebuilding and land development company Taylor Morrison Inc., received RIMS' highest honor, the Harry and Dorothy Goodell Award, which honors professionals who have furthered the goals of RIMS and risk management throughout their careers.

During a speech, Mr. DeLillo thanked his family, executives of Scottsdale, Arizona-based Taylor Morrison and his risk management peers for helping him to be successful during his career of more than 30 years — including a mentor who encouraged him to get involved in RIMS.

Mr. DeLillo appealed to young risk management professionals to also get involved in RIMS and to help guide the next generation of risk managers.

"You have the opportunity to participate in a society that encourages professional development, that instantly creates a support network of fellow practitioners. And if you're lucky like me, you can make some great friends, too," Mr. DeLillo said.

Hal D. Larson, vice president and risk manager of Muscatine, Iowa-based agriculture company Kent Corp., received the Ron Judd Heart of RIMS Award, which honors risk management excellence among RIMS chapters. Mr. Larson is active in the Greater Quad Cities chapter in Iowa.

Scott B. Clark, risk and benefits officer of Miami-Dade County Public Schools, received the Richard W. Bland Memorial Award, which honors a RIMS member's commitment to legislation or regulation that benefits the risk management arena.

Mark DeLillo of Taylor Morrison Inc. received RIMS' highest honor, the Harry and Dorothy Goodell Award.

Melissa Swanson, risk management analyst for California Polytechnic State University in San Luis Obispo, received the Cristy Award, which recognizes individuals who earned the highest marks on three exams required to earn an associate of risk management designation.

Lucille "Lucky" Gallagher and Charles "Chuck" Magazine also were inducted into the RIMS Risk Management Hall of Fame.

Ms. Gallagher, a retired risk management consultant, spent 35 years in risk management and served as RIMS president from 1994 to 1995. She was named *Business Insurance*'s Risk Manager of the Year® in 1994.

Mr. Magazine spent more than 40 years in risk management and insurance, working most recently as the risk manager for the city of Boynton Beach, Fla., before his death last year. He was an active member of RIMS and received the RIMS Richard W. Bland Award in 2008.

By Sheena Harrison

# ORGANIZATIONS STRUGGLE WITH EVOLVING CYBER THREATS

## Target data breach changes perception of risk for all organizations

BY BILL KENEALY

The cyber attack on Target Corp. last December showed the scale of the problem organizations face in guarding data, and attacks since then have shown how difficult it can be to find a solution.

Criminals are becoming even more sophisticated in the way they attack company networks and organizations need to devise response plans prior to an incident, cyber security experts said.

The search for answers on how to address the rising number of cyber attacks was a recurring subject during the Risk & Insurance Management Society Inc.'s annual meeting in Denver last month.

Mario Vitale, New York-based CEO of Aspen Insurance Holdings Ltd., said while insurers have been crafting cyber products for years, Target's recent problems have made the issue top-of-mind for risk managers and corporate boards.

"You are seeing losses every day from cyber risk, but Target was a watershed event," Mr. Vitale said in an interview. "Retailers that previously didn't buy coverage are now buying it, and many that were already buying it and are now opting for bigger limits."

Christopher J. Giovino, Wilton, Connecticut-based director of Aon Risk Solutions, said the brokerage has charted an increase in cyber extortion, where a company's data is compromised and held for ransom by hackers.

"Cyber loss knows no bounds and doesn't respect your business size," Mr. Giovino said.

If the data breach at Target reinforced the potential scale of damages, the discovery of the Heartbleed vulnerability reinforced how difficult cyber attacks can be to detect, said security expert Jason Healey, director of the Cyber Statecraft Initiative for Washington-based think tank The Atlantic Council.

Speaking during a briefing, Mr. Healey said even the most conscientious risk managers and chief information security officers were caught flat-footed by the Heartbleed bug, which defeated a popular encryption method used to secure Web communications.

"Heartbleed showed that we were all critically vulnerable to something that we hadn't even heard about," Mr. Healey said. "Attackers will always have the high ground because we have to defend everywhere all the time and they only have to get it right once."

Indeed, during a panel discussion, experts said hackers continually change tactics to extract information and money from companies.

Steve Visser, Denver-based managing director of disputes and investigations for Navigant Consulting Inc., said criminals have put new spins on timeworn tricks.

"While phishing type attacks have been going on for a while, what we are seeing more lately is perpetrators using stolen credentials to get into payroll systems or benefits management websites in order to divert payrolls," he said.

While cyber risks vary according to organization and type of data managed, Katherine Keefe, Philadelphia-based head of breach response services for Beazley Group P.L.C., said companies in the health care industry hold data particularly desired by thieves.

The recent push to convert to electronic health records has provided a target-rich environment for hackers looking to obtain Social Security numbers to file fraudulent tax returns. "The vulnerabilities of this industry are well-known by data thieves," Ms. Keefe said.

Panelist Theodore J. Kobus III, New York-based partner at Baker & Hostetler L.L.P., recommended companies take a measured response. For example, a company that immediately calls in law enforcement officials before conducting a thorough internal forensic examination of the breach may find its computers seized by law enforcement officials.

Accordingly, he suggested organizations craft a simple, relatively short incident-response plan that can be easily digested and used to deal with a cyber attack before informing authorities.

BUSINESS INSURANCE conducted an online survey with corporate risk managers in February of 2014 to gain insights in how companies use risk management technology today. A total of 257 corporate risk and commercial insurance decision-makers participated.

# RISK MANAGEMENT TECHNOLOGY IS HELPING COMPANIES QUANTIFY AND MONITOR RISKS

Participants included 72 public companies, 87 private firms, 45 nonprofit organizations and 53 governmental entities. There were 156 U.S.-only organizations and 101 with domestic and international operations. Results below are based on total sample (n=257) unless noted.

## Which are the most important risk management challenges your company is facing in 2014-2015?[1]

| | |
|---|---|
| Aligning risk tolerance with the overall business strategy | 43% |
| Developing a risk culture within the organization | 42% |
| Getting the different business units to collaborate in risk management initiatives | 40% |
| Making risk management a key priority for the executive leadership | 39% |
| Developing risk metrics | 33% |
| Clearly defining the company's risk appetite | 30% |
| Improving risk measurement, forecasting and modeling | 30% |
| Management approval for better technology/software to manage risks | 30% |

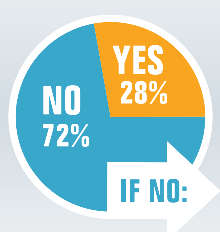
## How would you describe the current use of technology in risk management at your company?

| | |
|---|---|
| **HEAVY:** applications used in all risk management areas/tasks | 22% |
| **MODERATE:** applications used in several risk management areas/tasks | 38% |
| **LIGHT:** applications used in 1-2 risk management areas/tasks | 32% |
| **NOT A USER** of technology for risk management | 8% |

## How would you describe the type of software/systems currently used for risk management at your company?

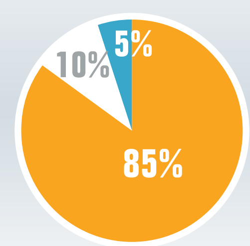
| | |
|---|---|
| **SOPHISTICATED** and customized to company needs | 22% |
| **CUSTOMIZED** to fit most needs, but not very sophisticated | 28% |
| **NOT CUSTOMIZED,** company uses available software/solutions | 30% |
| **SPREADSHEETS,** simple methods used | 20% |

## Is your company using data-oriented risk management systems?




| | |
|---|---|
| **NO,** but plan to adopt systems in 12-24 months | 10% |
| **NO,** but in discussion | 15% |
| **NO** plans to adopt | 47% |

## Is the data-oriented risk management system equipped with data security and governance?

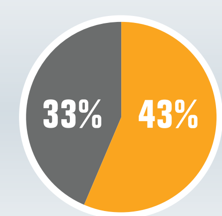



BASE: Use data-oriented risk management systems (n=67)

## Does your company have risk modeling capabilities?

| | |
|---|---|
| YES | 76% |
| NO | 24% |

IF YES:




BASE: Use data-oriented risk management systems (n=67)

## Do you use Big Data in your risk modeling efforts?*

**YES** use Big Data 36% | **NO** 64%

*Caution: small sample. BASE: Has risk modeling capabilities (n=51)

## Which technology solutions is your company currently using?

Using technology solutions 43%

Not using technology solutions 57%

| | |
|---|---|
| SAP | 20% |
| Other | 16% |
| IBM | 12% |
| Wolters Kluwer | 3% |
| Agiliance | 2% |
| BWise | 1% |
| Clear risk | 1% |
| Metric Stream | 1% |
| Paisley | 1% |

## Which risk management information systems is your company currently using?

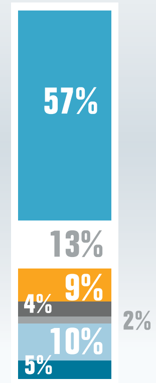
Using risk management systems 51%

Not using risk management systems 49%

| | % |
|---|---|
| Aon eSolutions | 12 |
| CSC's Riskmaster | 6 |
| C. S. Stars | 10 |
| Origami Risk | 6 |
| Riskonnect RMIS | 7 |
| Risk Sciences Group's Dmitri Suite | 4 |
| Other | 13 |

## What is the investment in technology/software for risk management excluding HR?

- Less than $100,000
- $100,000 to $249,999
- $250,000 to $499,999
- $500,000 to $749,000
- $750,000 to $999,999
- $1,000,000 up to $2M
- More than $2M




## Compared with 2011, investment in technology (not including HR) has . . .

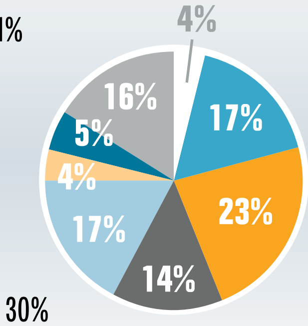
46% increased

4% decreased

50% stayed the same

## In the last 2 years, how much has the investment in technology for risk management increased?*

- Less than 1%
- 1%-5%
- 6%-10%
- 11%-15%
- 16%-20%
- 21%-25%
- 26%-30%
- More than 30%




*Caution: small sample. BASE: Experienced an increase in technology investment (n=118)

## Which types of risk management applications/solutions are you currently using? Would like to use?[1]

| | Currently using (n=110) | Would like to use (n=147) |
|---|---|---|
| Data repository | 52% | 24% |
| Risk reporting/dashboards | 47% | 33% |
| Monitoring and tracking risks | 40% | 37% |
| Risk assessment | 28% | 42% |
| Quantifying risks | 26% | 48% |
| Conducting risk and other business analyses | 22% | 47% |
| Relating risks and processes | 20% | 41% |
| Forecasting risks | 19% | 49% |
| Setting strategic goals and objectives | 14% | 46% |

## Which activities/tasks that you were not able to perform before are you now able to do using the company's risk management software/technology?

| | |
|---|---|
| Improve risk analysis, risk assessments, quantifying risks | 25% |
| Workers Comp. claims management/monitoring | 23% |
| Risk data analysis/risk data mining/modeling/forecasting/monitoring | 20% |
| Capture and analyze risk data | 19% |
| Produce detailed internal reports | 17% |
| Risk and insurance management | 13% |
| Establish/improve overall in-house risk data/capturing capabilities | 10% |
| Share information across organization | 7% |
| Establish benchmarks and metrics | 6% |
| Insurance management (track changes, limits, coverage, etc.) | 5% |

[1] Multiple responses



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# RIMS2014

# ADVANCED PLANNING SAVES COMPANIES FROM DISASTER

BY MATT DUNNING

Risk managers can greatly reduce the financial and operational consequences of catastrophic events by implementing comprehensive, well-tested disaster preparedness and response plans.

The potential business impact of large-scale disasters extends far beyond physical property damage. Whether natural or man-made, a catastrophic event can expose companies to liability stemming from life safety failures, drastically impair their ability to grow or even maintain market share, and permanently damage their brand and reputation, experts said during the Risk & Insurance Management Society Inc.'s annual meeting in Denver last month.

Additionally, large-scale disasters often have short- and long-term effects on companies' employees that can result in reduced productivity and key personnel losses if left unaddressed.

"Most companies have to respond to a disaster at some point, and what you do in preparation for those disasters is critical to your company's outcome," said Steven Sachs, executive vice president at New York-based Willis North America Inc. "When a disaster does occur, your management team will remember what you do much longer than they will the 10% or 15% you might save them on insurance costs in a given year."

Experts said comprehensive disaster planning begins with companies' identification of the events and scenarios that are most likely to affect them, based on companies' individual business models.

PHOTO BY MICHAEL MARCOTTE

Panel members (from left) D.J. Corrigan, vice president and senior executive general adjuster at Cunningham Lindsey, John R. Cadarette Jr., managing director at Claro Group L.L.C. and Steven Sachs, executive vice president at Willis North America Inc., discussed disaster response strategies.

That process should be informed both by internal engineering reports and loss histories, as well as analyses of physical, operational and financial exposures provided by brokers, insurers and other external service providers.

Beyond their company's own physical footprint, risk managers should assess the extent to which a catastrophic event may affect primary and secondary suppliers and recipients, including distributors, clients and customers.

Another important but often ignored element of a comprehensive disaster plan is a pre-established network of relationships with local authorities and service providers, including independent adjusters, forensic accountants, remediation companies, general and specialty construction contractors, and transportation companies.

Risk managers also should ensure that their company's disaster plan contemplates contingencies for long-term employee and tenant displacement, as well as provides access to critical resources and supplies that are likely to become scarce in the event of a large-scale disaster, such as generators, medical supplies, food and water.

"If you wait until the day of — or the day after — an event, you're already too late," said Joseph Bermudez, a Denver-based shareholder at Wilson Elser Moskowitz Edelman & Dicker L.L.P.

Experts also said emergency communication channels between key internal crisis response personnel and employees at large, as well as external stakeholders such as clients, customers, insurance brokers and underwriters are critical to effectively mitigate operational and financial losses during and after a catastrophic event.

Comprehensive disaster planning should outline contingencies to address employees' needs in the aftermath of an event, said Jay Kirschbaum, St. Louis-based national human capital practice leader at Willis North America.

Companies must consider whether they will need to provide employees and their families with alternative access to their health care benefits, particularly in cases where provider networks have been compromised. Ideally, Mr. Kirschbaum said, employers will have negotiated emergency out-of-network allowances or reimbursements with health insurers ahead of time.

Risk managers, human resource professionals and benefit administrators should also work together to address intermediate and long-term leave issues, including the potential applicability of employees' benefits under the Family and Medical Leave Act.

Additionally, companies should identify in advance employees enlisted in the military who are likely to be called away during and after a disaster — including reservists and National Guard members — and be aware of those workers' reinstatement rights, Mr. Kirschbaum said.

Companies should provide on-site trauma counseling and other social services in the aftermath of a disaster, and consider providing temporary housing for displaced employees and their families.

"I know a lot of risk managers are going to say that this is all great information, but it's still very hard to carve out the time to actually sit down and do this," said John Cadarette Jr., managing director of the Chicago-based consultant Claro Group L.L.C. "Trust me, if you do this sort of detailed planning in advance, it will save you a lot of aggravation later down the line."

## BEST OF SHOW 2014

The Risk & Insurance Management Society Inc.'s selections for exhibitor Best of Show for the 2014 conference and exhibition were judged on presentation of product, creative use of space, and overall design and layout.


Aspen Insurance (small category)


Arch Insurance Group (medium category)


Broadspire (large category)

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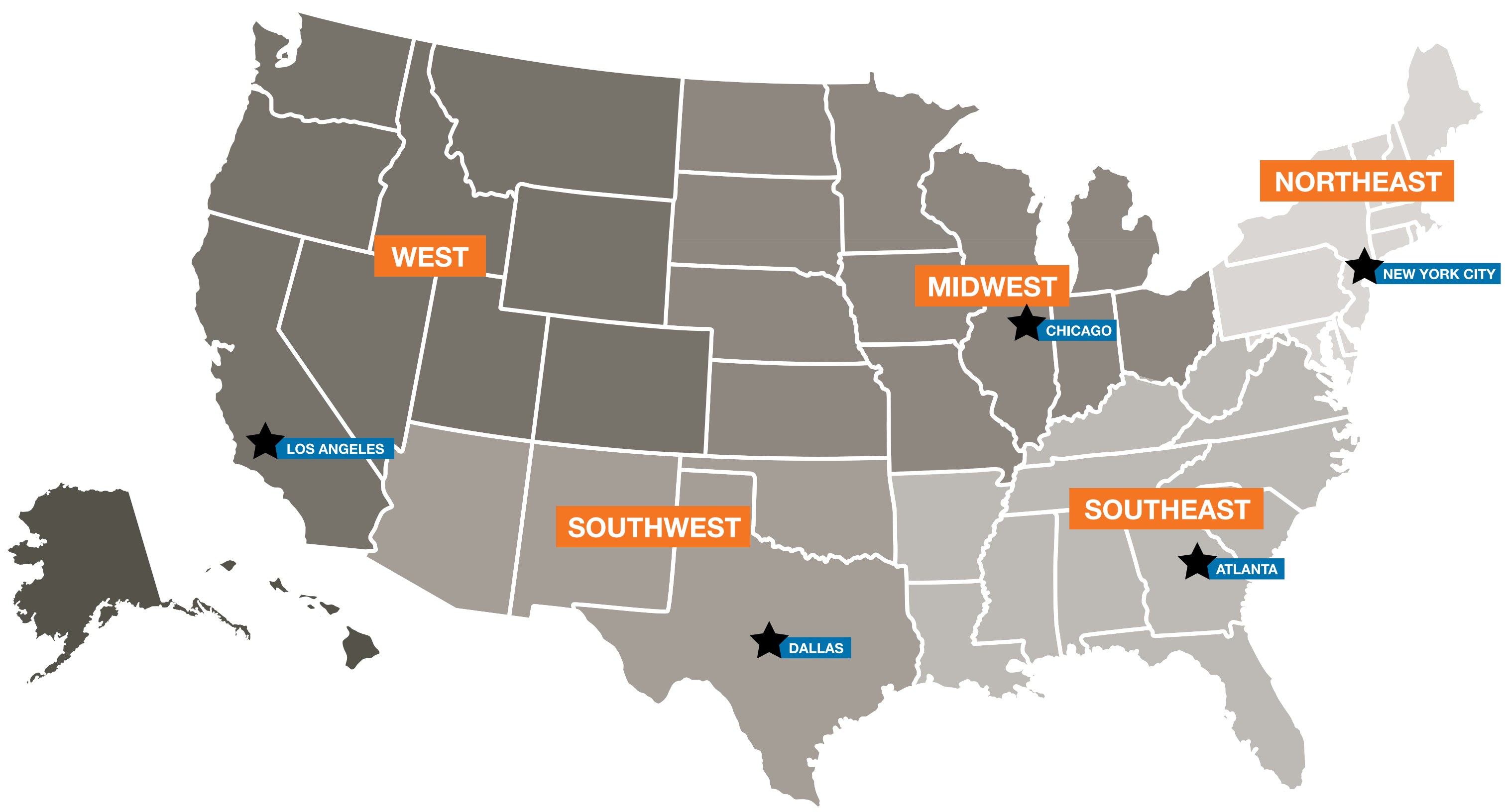


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# FIRES, FLOODS TEST COLORADO'S RESILIENCE

BY JOANNE WOJCIK

Public-private partnerships helped many businesses, homeowners and public entities rebuild after catastrophic floods and wildfires ravaged much of the Front Range of Colorado in 2012 and 2013, but it will take years to recover from these unprecedented losses, according to those involved in the recovery efforts.

Although 200 building permits were issued and 78 homes were finished by the one-year anniversary of the 2012 Waldo Canyon fire, recovery and rebuilding efforts were stymied when a second, more destructive fire erupted in the Black Forest area north of Colorado Springs on June 11, 2013, said Robert Cutter, president of Colorado Springs Together, a public-private partnership formed to help homeowners and businesses affected by the wildfires.

The organization provided one-stop personal services to fire victims in a shuttered Blockbuster video store as well as virtually via a website as well as social media sites such as Facebook and Twitter, he said during the recent Risk & Insurance Management Society Inc. conference in Denver.

A third disaster, the September 2013 floods, occurred in areas outside of designated flood plains, and most homes and businesses that were damaged or destroyed were not covered by insurance, said Julie Van Domelen, the former mayor of Lyons, Colorado, which was nearly destroyed when the St. Vrain River overflowed its banks.

Fortunately, the town had $7 million in property coverage from the Colorado Intergovernmental Risk-Sharing Association that was formed in 1982 to provide property/casualty insurance to public entities, she said. The flood affected more than 20 pool members and resulting in nearly $20 million in damage.

The September 2013 floods were the worst natural disaster in Colorado history, causing $3 billion in damage to public and private property and infrastructure, said Kerri Nelson, deputy chief recovery officer for the state of Colorado.

Varying interpretations of "replacement cost value" in homeowners' insurance policies delayed resolution of many of the claims stemming from the 2012 and 2013 wildfires, said John Putnam, general manager of Putnam Assurance & Risk Services, who served as the insurance consultant to Colorado Springs Together.

In many cases, the homes were insured only at market value, which was significantly less than their replacement cost. In other cases, foundations crumbled when the 2,500-degree flames melted the rebar used to reinforce the concrete, a cost not normally considered in calculating insured replacement cost values.

As a result of the fires, the Colorado enacted the Colorado Homeowners Insurance Reform Act of 2013 that, among other things, requires insurers to provide policyholders a specific disclosure, at least annually, regarding policy limits, replacement value, and the importance of preparing an inventory of the contents of the home.

# FIRES, FLOODS TEST COLORADO'S RESILIENCE

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Benefit Plan Design Trends

Contraception rules, excise tax on high-price plans still in flux

PAGE 24

More employers expected to migrate employees to high-deductible plans

PAGE 25

# Employers assess health plan options

## Reform law penalties influence how companies design benefits packages

BY JERRY GEISEL

Employers have several strategies to choose from as they prepare for potentially game-changing requirements of the health care reform law that kick in next year.

Even barebones health plans likely will comply with some requirements, and regulatory changes have eased at least temporarily the chances that an employer would be penalized for not complying with the law.

But penalties remain possible next year for employers with at least 100 workers that fail to offer health insurance to full-time employees that meets minimum essential coverage and minimum value requirements of the Patient Protection and Affordable Care Act, which defines full-time as employees working 30 hours or more a week.

Under February guidance, the Treasury Department eased the rules for 2015. While employers with at least 100 workers still face a $2,000 per employee penalty for failing to offer health insurance to full-time employees, in 2015 they only have to offer coverage to 70% of full-time workers. In addition, when computing penalties for not offering coverage, up to 80 workers can be excluded.

The guidance delays until 2016 stricter thresholds of offering health insurance to 95% of full-time employees, while, also starting in 2016 and continuing in succeeding years, employers not offering coverage will only be able to exclude the first 30 employees in calculating the penalty they must pay.

In addition, the newest guidance delays the coverage mandate entirely until 2016 for employers with 50-99 full-time employees.

The temporary easing of the percentage coverage test is especially important to employers with a significant number of employees working 30 to 35 hours a week that they consider part-time and do not offer health insurance.

"Generally, in planning for 2015, everything has been issued that employers need to know," said Steve Wojcik, vice president of public policy at the National Business Group on Health in Washington.

Beyond 2015, several key issues have yet to be resolved (see story, page 24).

The changes already made give employers more time to consider their coverage design options.

The delay has "pushed back employer thinking on the issue," said Sharon Cohen, a principal at Buck Consultants L.L.C. in Washington.


### DESIGN REQUIREMENTS

Major health care reform law requirements on the design of employer health plans include:

- The premium employers require employees to pay for single coverage cannot exceed 9.5% of an employee's wages or pay a $2,000 penalty.
- Employers generally cannot require new employees to wait more than 90 days before being eligible for coverage.
- Employers cannot impose annual or lifetime dollar limits on essential benefits.
- Employees' adult children must be allowed to continue to be covered by a parent's plan until age 26.
- Employees' out-of-pocket costs are limited, which is $6,350 for single coverage and $12,700 for family coverage this year.

But some employers already have taken action.

For example, Cumberland Gulf Group last year said employees working as few as 32 hours a week would be eligible for group coverage in its self-insured plans, down from the prior 40-hour requirement.

Other employers, though, reduced hours of employees they considered part-time and did not offer coverage to avoid the looming health care reform law $2,000 per employee penalty.

For example, the University of Akron in Ohio, facing millions of dollars in additional costs, while its overall budget had a deficit of $30 million, last year reduced the maximum hours for about 400 part-time employees from 32 hours a week to less than 30.

Other employers are willing to offer coverage to more employees, but are looking for less costly designs.

Some benefit experts say employers, especially those in the low-margin retail and hospitality industries, are actively considering new, very low-cost plans to employees, who previously, because they considered them part-time, were not eligible for coverage.

Such plans have been dubbed "skinny" or "barebones," so named because they might cover only preventive services and a fixed number of medical provider office visits.

As such, they would comply with the health care reform law's most basic coverage requirement and not be liable for the law's $2,000 per employee penalty for not offering minimum essential coverage, which the PPACA defines very broadly and loosely.

"Basically, just about any employer plan would pass muster," said Amy Bergner, managing director of human resource solutions at PricewaterhouseCoopers L.L.P. in Washington.

While such plans could fail the PPACA test of offering a minimum value plan, a $3,000 penalty would be triggered only if affected employees also were eligible for federal premium subsidies and used them to buy coverage in a public health insurance exchange.

"A lot has to happen before the $3,000 penalty is triggered," said Ed Fensholt, senior vice president and director of compliance services at Lockton Benefit Group in Kansas City, Missouri.

Employers offering barebones plans also could pay the entire premium to reduce the likelihood that employees would seek coverage in public exchanges.

"The goal is to avoid penalties," Mr. Fensholt added.

While there is employer interest in such an approach, consultants say there also is caution.

"Most large employers are somewhat skeptical," said PwC's Ms. Bergner. One reason for that skepticism: Regulators at some point could conclude that the plans do not offer minimum essential coverage, exposing employers to the $2,000 per employee penalty.

"There is enough risk that many employers are deciding that this is not the right path for them," Ms. Bergner said.

It also is possible that lawmakers could change the definition of a full-time worker.

Last month, for example, the U.S. House passed, with 18 Democrats signing on, a measure sponsored by Rep. Todd Young, R-Ind., that would define full-time employees as those working an average of 40 hours per week.

Some Washington observers believe the bill, or a compromise version, could win support in the U.S. Senate.

"This is an issue that has bipartisan appeal. I would not rule it out," said Gretchen Young, senior vice president of health policy for the ERISA Industry Committee in Washington.

SPECIAL REPORT

# Employers wait for resolution of reform law issues

BY JERRY GEISEL

While federal regulators have issued thousands of pages of rules to help employers comply with the Patient Protection and Affordable Care Act, several key issues have yet to be resolved.

At least one issue — whether private employers with religious objections to the use of birth control must cover prescription contraceptives — should be resolved soon.

The U.S. Supreme Court is expected to rule before its current term ends in June on suits filed by Conestoga Wood Specialties Corp., based in East Earl, Pennsylvania, and Oklahoma City-based Hobby Lobby Stores Inc., that argue the requirement violates their First Amendment right to freedom of religious expression and the Religious Freedom Restoration Act.

The outcome of the litigation is crucial to dozens, if not hundreds, of other private-sector employers that also object to providing prescription contraceptive coverage.

On the regulatory front, the timetable is less certain.

For example, under the law, a 40% excise tax is to be imposed in 2018 on health plan premiums — or premium equivalents in the case of self-funded plans — that exceed $10,200 for single coverage and $27,500 for family coverage.

Insurers for employers with fully insured plans and plan administrators for employers with self-funded plans would pay the tax, though experts expect insurers and TPAs would try to recover that money through higher premiums and assessments.

In addition, no guidance has been issued defining the types of health coverage to which the excise tax would apply.

"All the dots have not been connected. In terms of plan design, it is hard for employers to plan for the future without that guidance," said Sharon Cohen, a principal at Buck Consultants L.L.C. in Washington.

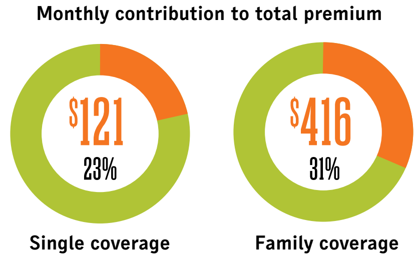
Guidance also is lacking on a PPACA requirement that employers with at least 200 employees automatically enroll individuals who don't select coverage. However, regulators said the automatic enrollment requirement will not go into effect until rules are published.

Experts say such guidance currently is a low regulatory priority.

## EMPLOYEES' SHARE

For employers that offered a preferred provider organization health plan in 2013, the average employee share was less than one-third of the total premium.

**Monthly contribution to total premium**




Source: Mercer L.L.C.

# EXCHANGES ADD TO DESIGN OPTIONS

### Defined contribution approach to health care caps employer spending

BY JERRY GEISEL

The rapid development of private health insurance exchanges over the past two years have helped implant the defined contribution approach in how employers offer coverage to their employees.

The new approach is an alternative to the model used for decades where employers paid a certain percentage of group health care plan premiums, typically 60% to 80% but were largely unshielded from big cost increases in years when group health care premiums soared.

With the advent of private health insurance exchanges, which Accenture P.L.C. projects will have 40 million people enrolled as of 2018 (see chart), many employers have paired offering employees the ability to choose plans provided through exchanges with another approach: paying a specific amount toward employees' health care premiums with workers paying the rest.

"There is no question that private exchanges are a viable way to introduce a defined contribution approach" to health insurance coverage, said Randy Abbott, a senior consultant at Towers Watson & Co. in Boston.

In addition, the employer premium often will be adjusted depending on the employee's choice of single or family coverage, while some employers tie their contribution to employee income.

"In the private exchange environment, each employee is allocated a set amount of money to spend on the benefit plans that suit their individual and family needs," said Steve Heckert, vice president of human resources in Clearwater, Florida, for GFI Software, which offers employees a choice of six plans through the Bright Choices exchange.

That last feature has a special relevance to a health care reform law provision that imposes a penalty on employers if the premium employees have to pay for single coverage exceeds 9.5% of their wages.

"The employer wants to make sure that employees won't bump against the 9.5% threshold," said Sherri Bockhorst, a principal and national practice leader at Buck Consultants L.L.C.'s health exchange solutions division in St. Louis.

Through the defined contribution approach, employers can budget spending on health care programs and be reasonably certain that budget will not be exceeded.

"It comes down to meeting certain budget targets for their health care benefits programs," said Eric Grossman, a senior partner and exchange business leader with Mercer L.L.C. in Norwalk, Connecticut.

"Employers want their costs to be more predictable," said Jim Winkler, Aon Hewitt's chief innovation officer for health and benefits in Norwalk, Connecticut.

Such an approach also gives employers some flexibility, Mr. Grossman said. For example, employers may vary their premium contribution by employees' income and behavior, such as whether or not they smoke.

The employer's approach also can provide a greater incentive for employees to choose a less costly health plan. For example, some employers design their programs so employees who do choose a less costly plan can apply the difference to pay for uncovered expenses, such as deductibles.

There are some signs that the defined contribution approach, coupled with exchanges, are helping to hold down cost increases. For example, an Aon Hewitt analysis found that health premiums for the three original employers in its exchange rose by an average of 5.1% in 2014 compared with 2013.

That 5.1% increase is somewhat less than average cost increases of 6% to 7% that Aon Hewitt and others earlier had projected for the large employer market.

Still, as plan costs rises, employers are likely to increase how much they pay toward employees' coverage, consultants say.

Retiree health coverage, though, is another matter.

Among employers that still offer such coverage, many have permanently set how much they will contribute toward retirees' health coverage.

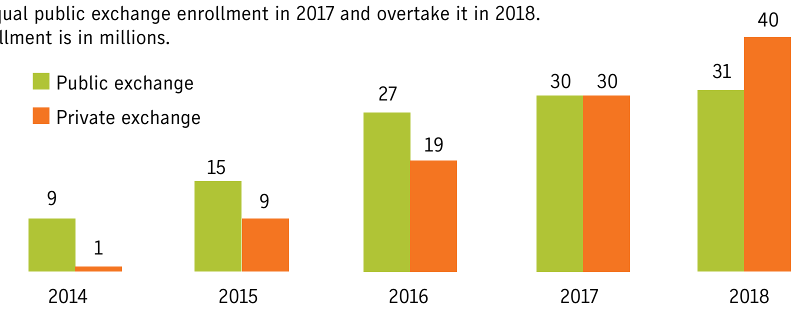
"Many employers have put in a cap" on retiree health coverage, said Aon Hewitt's Mr. Winkler.

"The cap is a way of controlling the liabilities," said Michael Thompson, a principal at PricewaterhouseCoopers L.L.P. in New York.

When the cap is hit, private health insurance exchanges give retirees more options to which to apply the company's contribution, Mr. Winkler said.

## EXCHANGE ENROLLMENT

Private health insurance exchange enrollment, excluding post-65 retirees, is projected to equal public exchange enrollment in 2017 and overtake it in 2018. Enrollment is in millions.




Source: Accenture P.L.C.

# HMOs, PPOs REPLACED BY HIGH-DEDUCTIBLE PLANS

## More companies consider moving to single offering for health care benefits

BY JOANNE WOJCIK

When J.C. Penney Co. replaced its preferred provider organization health plan with a high-deductible health plan for all benefits-eligible employees in 2010, it was one of the few large employers to make what is known as a "full replacement" of its health plan.

But the Plano, Texas-based retailer soon could have lots of company, as more than half of employers may make HDHPs their sole health plan offering by 2018, replacing health maintenance organization plans and preferred provider organization plans.

While the rising cost of health benefits has driven this movement, the health care reform law's excise tax on high-cost health coverage in 2018 is accelerating the migration to full-replacement HDHPs, benefits consultants say.

Separate surveys conclude that high-deductible plans will be the only offering by one-quarter to one-half of employers in the coming years (see box, right).

The larger the employer, the more likely they are to consider going full-replacement, Mercer L.L.C. found, with 29% of employers with at least 20,000 employees saying that a high-deductible plan will be their only health insurance option offered to some employees in the next three years.

"For Fortune 500 companies, that number grows to 33%," said Sander Domaszewicz, a senior consultant and leader of Mercer's U.S. consumerism practice based in Irvine, California. "Among Fortune's 100 Best Places To Work, it was 30%."

This compares with just 12% of employers with 500 to 999 employees; 18% of employers with 1,000 to 4,999 employees; 21% of employers with 5,000 to 9,999 employees; and 17% of employers with 10,000 to 19,999 employees, according to the Mercer survey.

Implementation of full-replacement plans varies by region (see story below).

"Cost has always been a driving force" behind the introduction of HDHPs, Mr. Domaszewicz said. "Companies want to provide the best health benefits they can for everybody, but they have limited ability to pay for it. They are looking at their options to figure out how to make their money go as far as possible, and this seems like an option that can help."

While the cost of a high-deductible plan "might cost the same the first year," he said, "the increases seem to be lower year after year with consumer-directed plans because people are more careful with how they use care."

Indeed, "since J.C. Penney's move to a full-replacement consumer driven health plan strategy in 2010 — in concert with other strategic health and wellness initiatives — we have successfully changed from a steeply increasing to a decreasing full-time medical cost trend," said Matthew Harmon, human resource benefits delivery and retirement director at the retailer.

"Every employer strives for a healthy, engaged and productive workforce, but must recognize negative health realities such as diabetes and obesity. With monumental change in health care and related legislation, our strategy as a company is to continuously evolve," Mr. Harmon said.

Due to the Patient Protection and Affordable Care Act's imposition of a 40% excise tax in 2018 on insurers that provide fully insured plans and plan adminstrators for self-insured plans that cost more than $10,200 for individual coverage and $27,500 for family coverage, many employers are considering full-replacement high-deductible plans as part of a multiyear strategy to avoid hitting those limits, Mr. Domaszewicz said.


### FUTURE PLANS

- The "2014 Employer Survey on Purchasing Value in Health Care" that the Washington-based National Business Group on Health and Towers Watson & Co. released in March estimated that the portion of companies offering only high-deductible plans jumped to 17.8% this year from 15.4% last year.
- According to New York-based PricewaterhouseCoopers L.L.P.'s annual "Health and Well-being Touchstone Survey," 17% of employers have implemented a total-replacement HDHP and a further 44% are considering the move.
- Chicago-based Aon Hewitt's "2013 Health Care Survey" came to a similar conclusion, finding that 44% of employers are considering full-replacement HDHP in the next three to five years, while 10% currently offer an HDHP as their sole benefits option.
- Mercer L.L.C.'s "National Survey of Employer-Sponsored Health Plans 2013" identified a similar trend, with nearly one-fourth of large employers saying a high-deductible plan will be their only health insurance option by 2016.

And thanks to the success of early adopters such as J.C. Penney, "I would say it has become an easier path for employers to take," he said. "As it becomes more mainstream, employers have gotten more willing to consider going to only consumer-directed plans" with high deductibles.

"Compared to every other risk in our lives, we're overinsured for medical coverage," said Michael Thompson, a principal in PwC's human resource services practice in New York. "Most of us carry significant deductibles on our auto and homeowners insurance. I predict that over time, we're going to see people right-sizing deductibles on their medical insurance, in part because of the Cadillac tax" on high-cost health coverage.

"No matter how much (employers) want to offer a richer plan … they're more likely to hit the excise tax," Mr. Thompson said. "Even if an employer chooses to fill in part of that deductible with contributions to either (health reimbursement arrangement or health savings account), the plan itself is better positioned to adjust when they hit that threshold because they can always reduce how much they put into the account."

Maureen Fay, senior vice president at Aon Hewitt's health and benefits consulting practice in Norwalk, Connecticut, said because health care continues to be one of the fastest-growing expenses for employers, benefit managers are feeling pressure from their executives to "manage that spend."

"Whereas historically employers might have been offering (preferred provider organization and exclusive provider organization health plans), they're having to modify those plans every single year," she said. "So we're seeing them be more aggressive moving to HDHPs, but then also try to engage employees."

"HDHPs are driving positive changes, making employees more conscientious health care consumers," Ms. Fay said.

### MIDWEST LEADS WAY IN HIGH-DEDUCTIBLE TREND

While the movement toward full-replacement high-deductible health plans is accelerating nationally, it is moving faster in some regions of the country, said Andrea Kinkade, president of Maumee, Ohio-based Kaminsky & Associates Inc., a partner firm of United Benefits Advisors L.L.C.

"The perception of HDHPs varies dramatically across the country," she said. "Here in the Midwest, we were among the first to introduce them and then go full-replacement."

Ms. Kinkade said it may have been easier for employers in the Midwest to do so because their employees already had experience with greater cost-sharing by being enrolled in health plans that had deductibles and coinsurance requirements, unlike health maintenance organization plans that typically require plan members to make only nominal copayments that were more prevalent outside the Midwest.

"We didn't have as big of an HMO presence, so people were more receptive to them," she said.

By Joanne Wojcik

# MARKET PULSE

## AIG cyber protection covers physical damages

American International Group Inc. said it is offering an enhanced cyber insurance policy that covers physical damages caused by cyber attacks.

The New York-based insurer said the new product, CyberEdge PC, aims to augment a customer's existing commercial lines insurance program and will cover both property damage and bodily injury exposures on an excess and difference in conditions basis.

The policy offers broad coverage limits and terms typically not available in stand-alone cyber data breach policies and can help address gaps in property, casualty, energy, aerospace, marine, environmental, health care and financial lines policies where cyber-related exposures may be excluded or coverage too limited, AIG said in a statement.

"Cyber risk goes well beyond data privacy concerns covered by stand-alone cyber insurance offerings prevalent in the market," Tracie Grella, global head of professional liability for AIG, said in the statement. "The physical risk of a cyber attack or cyber event to property and people is very real, and it can now be specifically and unambiguously addressed with expanded cyber insurance coverage that dovetails with existing insurance."

## Hiscox expands terror risk capacity to $200M in U.S.

Hiscox Ltd. has increased its capacity to $200 million for U.S.-domiciled terrorism risks.

The added capacity is one of the largest limits available in the U.S. and addresses the increasing demand for standalone terrorism coverage due to the upcoming expiration of the U.S. government terrorism insurance backstop offered by the Terrorism Risk Insurance Program Reauthorization Act, the Hamilton, Bermuda-based insurer announced in a statement.

The Hiscox terrorism policy does not require U.S. government certification of a terrorist attack and has no minimum loss requirements, and the capacity stands independent of TRIPRA, the insurer said.

Hiscox customers can add nuclear, chemical, biological and radiological coverage to the policy with limits of up to $25 million and terrorism liability coverage with limits up to $50 million, according to the statement.

## Crystal & Company offers predictive modeling tool

Crystal & Company has launched an analytical tool intended to help clients focus their loss control efforts.

The predictive modeling tool allows risk managers to predict which individual claims have a higher likelihood of exceeding a particular dollar threshold, the New York-based brokerage said in a statement.

The product can forecast which claims will be excessive so they can be reviewed, managed and closed effectively, according to the statement.

"Our new workers' compensation analytics tool helps risk managers focus on identifying exactly when, where and how claims are occurring," Jamie Crystal, executive vice president of Crystal & Company, said in the statement. "This information empowers our clients to direct their loss control efforts where they're most needed."

# PRODUCTS & SERVICES

## Burns & Wilcox covers hospitality cancellations

Burns & Wilcox Brokerage has launched a cancellation of booking insurance policy for the hospitality industry.

The policy offers options for higher coverage limits and does not require a physical loss or damage to be triggered, the Farmington Hills, Michigan-based wholesale broker said in a statement.

The policy covers the interruption and income losses that happen when reservations are cancelled or policyholders are unable to accept bookings, according to the statement, and is activated in situations including violent or criminal activity and the outbreak of a contagious disease, the broker said.

"The COBI solution from Burns & Wilcox Brokerage addresses a serious gap in the coverage available for the hospitality industry," Evan Bull, executive vice president and head of the Burns & Wilcox Brokerage national property practice, said in the statement. "Previously, most hospitality clients were forced to rely on the limited ($500,000 to $1 million) provisions for cancellation of bookings that were included in their property insurance program, while the global insurance property market was restricted to $1 million."

The policy is available in the continental U.S. and provides $1 million per occurrence/$2.5 million aggregate annually, or $2.5 million per occurrence/$5 million aggregate annually. The minimum deductible is $25,000 per occurrence.

## QBE launches suite of D&O coverages

QBE North America, a unit of Sydney-based QBE Insurance Group Ltd., launched three products for public and private commercial companies, financial institutions and nonprofit organizations.

The three products are the QBE excess liability insurance policy; the Executive, a Side A excess/difference in conditions policy; and The Solution for Public Company D&O, a primary public directors and officers liability policy, the New York-based insurer said in a statement.

The excess policy offers increased coverage for an existing policy program, and it follows the underlying policy's terms, conditions and limitations, according to the statement.

The executive policy gives specialized excess coverage for situations where the organization cannot indemnify, or fails to indemnify, a director or officer and the underlying insurance fails to respond, according to the statement.

The public company directors and officers policy consists of a nine-page primary policy, simple claim reporting requirements, insuring clauses with only six exclusions, two of which disappear after the first year of coverage, and no-hassle defense and settlement obligations, the insurer said.

## Allied World launches liability covers in Canada

Allied World Assurance Co. Holdings A.G. has launched its ForceField management liability products in Canada.

The coverage offers five components for private companies and nonprofit organizations including directors and officers liability, employment practices liability, fiduciary liability, crime coverage, and kidnap and ransom/extortion coverage, the Zug, Switzerland-based insurer said in a statement.

Buyers can choose the entire package or only the coverage they need, with the option of sharing or separating limits among the types of coverage, according to the statement.

"We are committed to building a robust product offering in Canada," and rolling out the ForceField suite "is the first step in our commitment to the market," Bobby Bowden, executive vice president and chief marketing officer for Allied World, said in the statement.

## Aon unit upgrades RMIS offering

Aon eSolutions, the risk management software unit of Aon P.L.C., has released an upgrade to its risk management information system.

The upgrades to RiskConsole UX include a more powerful version of the RiskConsole Intelligent Mapping reporting and visualization tool. The mapping module now gives users access to a library of map content and enables them to publish and share secure map services for private and proprietary maps.

In addition, the company said it made over 100 other upgrades to RiskConsole UX to improve its self-service capabilities, overall functionality and appearance. For example, the company said the business intelligence tool within MyConsole, the user-customized dashboard screens in RiskConsole UX, is now fully integrated.

# DEALS & MOVES

## Hub acquires two agencies, book of broker business

Chicago-based middle-market insurance broker Hub International Ltd. has announced three acquisitions by its subsidiaries in New Mexico, Massachusetts and Canada. Terms of the deals were not disclosed.

Hub International Insurance Services acquired shares of Carlsbad Insurance Agency Inc., a Carlsbad, New Mexico-based brokerage firm that sells property/casualty, employee benefits, personal insurance and risk management products and services. Carlsbad also has expertise in serving the energy industry.

The Carlsbad operations will give Hub's New Mexico operations a new office location, and Carlsbad President Angela Johnston will join that office.

Meanwhile, Hub International New England L.L.C. acquired the assets of E. J. Wells Insurance Agency Inc., a Westford, Massachusetts-based brokerage firm.

E.J. Wells President Paul J. Coffey will join Hub New England as executive vice president, reporting to Charles J. Brophy, CEO of Hub New England. Founded in 1990, E.J. Wells sells property/casualty, employee benefits and personal insurance throughout New England and has construction industry expertise.

Finally, Hub International HKMB Ltd. acquired a book of commercial lines business from St. Andrews Insurance Brokers Ltd., a Vaughan, Ontario, insurance brokerage.

## XL sells life business in runoff for $570 million to GreyCastle

XL Insurance (Bermuda) Ltd has entered into a definitive agreement to sell its wholly owned XL Life Reinsurance (SAC) Ltd. subsidiary to GreyCastle Holdings Ltd. for $570 million in cash, XL Group P.L.C. said.

Upon completion of the transaction, XL Life Reinsurance will reinsure the majority of XL's life reinsurance business via 100% quota share reinsurance, XL said.

"This transaction covers a substantial portion of XL's life reinsurance reserves," XL said in a statement. XL announced the runoff of its life reinsurance business in 2009.

XL said that as of March 31, it had total U.S. Generally Accepted Accounting Principles policy benefit reserves of about $4.8 billion relating to its life operations. Upon completion of the transaction, XL will retain about $438 million of reserves related to disability, accident and health policies and U.S. term assurance in its life operations segment, and will record a reinsurance recoverable from XLLR of $4.4 billion.

XL said the transaction is expected to be completed by the end of June, subject to regulatory approval.

## Investment in Tri-Partners expected to boost claims services

Capacity Coverage Co. of New Jersey Inc., Fleming & Hall Administrators Inc. and RCA Insurance Group announced that an affiliate of Capacity Coverage has made a strategic investment in Tri-Partners Field Claims Services L.L.C.

Capacity Coverage has partnered with Fleming & Hall and RCA, through the investment, to continue Tri-Partners' growth into a national field claims service operation, the companies said in a statement.

Tri-Partners offers investigative and adjustment services to specialty insurers in the United States and concentrates on commercial property, general liability, transportation and construction lines of business.

# CLASSIFIEDS

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## PUBLIC NOTICES

### REQUEST FOR PROPOSAL

**THE PORT AUTHORITY OF NY & NJ**

**REQUEST FOR PROPOSALS**
**FOR THE PERFORMANCE OF EXPERT PROFESSIONAL ACTUARIAL SERVICES FOR THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY INSURANCE PROGRAMS ON AN "AS-NEEDED" BASIS DURING 2014 THROUGH 2017**

The Port Authority of New York and New Jersey (Authority) is seeking to identify firms interested in responding to a Request for Proposals (RFP) for the Performance of Expert Professional Actuarial Services for the Authority Insurance Programs on an "As-Needed" basis.

RFP #37760 may be obtained online at http://www.panynj.gov/business-opportunities/bid-proposal-advertisements.html?tabnum=6. Addenda to the RFP, if any, will be posted at this site. Monitor the advertisement on the web site to ensure your awareness of any changes.

If you have any technical problems accessing the documents online, email us at askforbids@panynj.gov or call us at (201) 395-3405 for assistance. Your email should include the RFP number, your firm name, email address, contact person, mailing address, and phone number.

It is currently anticipated that proposals shall be due by 2:00 PM on May 28, 2014 or as otherwise indicated in the document. Proposals must have the RFP Number and full legal firm name clearly indicated on the outside package. Send Proposal(s) to: The Port Authority of NY & NJ, Attn: RFP Custodian, Procurement Department, 2 Montgomery Street, 3rd Floor, Jersey City, NJ 07302.

### REQUEST FOR PROPOSAL

DELAWARE RIVER PORT AUTHORITY of Pennsylvania & New Jersey

The Delaware River Port Authority (DRPA) is requesting a Technical Proposal and a Price Proposal for Loss Control & Safety Services Consultant for the Authority's capital construction projects. Interested parties can find the Request for Proposal documents by going to the DRPA web site www.drpa.org, clicking on the "Working with DRPA" link, and then clicking on "Bids and Contracts."



### ANTI-FRAUD NOTICE

**Amalgamated Life Insurance Company is committed to preventing fraud in regard to the insurance coverage it issues. Therefore, Amalgamated Life, as required by the New York State Department of Financial Services makes the following statement:**

Any person who knowingly and with intent to defraud any insurance company or other person, files an application for insurance or statement of claim containing any materially false information, or conceals for the purpose of misleading, information concerning any fact material there-to, commits a fraudulent insurance act, which is a crime and shall also be subject to a civil penalty not to exceed five thousand dollars and the stated value of the claim for each such violation.

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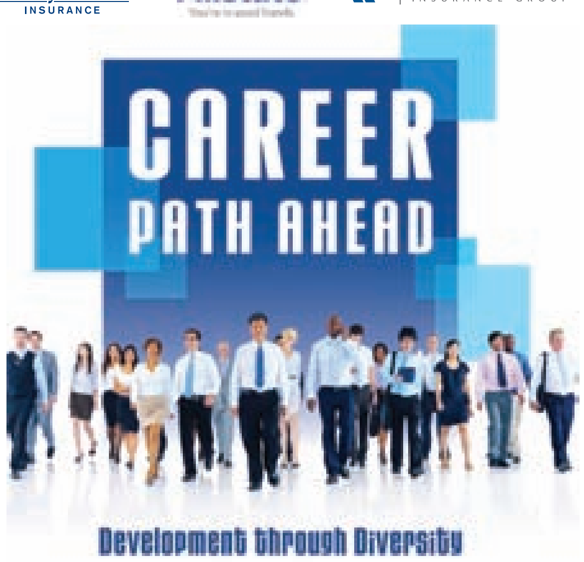
**TIME:** 10 AM – 3 PM
**VENUE:** St. John's School of Risk Management, Insurance & Actuarial Science at 101 Murray Street, New York, NY in Downtown Manhattan

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## MEDIA PARTNER

# MUNICH RE EXEC ADDRESSES MARKET, CAREER OPPORTUNITIES

PINA ALBO

MUNICH REINSURANCE AMERICA INC.

Pina Albo is Princeton, New Jersey, president of the reinsurance division of Munich Reinsurance America Inc. As head of the division, her responsibilities include developing and achieving the division's strategic and business plans and enhancing Munich Re's relationships and market presence. In October, Ms. Albo will join the Munich Re Board of Management with responsibility for Europe and Latin America. She recently spoke with *Business Insurance* Senior Editor Mark A. Hofmann about the state of the reinsurance industry and how it can ramp up its recruiting efforts. Edited excerpts follow.

Q&A

**Q What are the top two or three challenges facing reinsurers in the current marketplace?**

A The short-term challenge is the state of the marketplace. To summarize it, there's a large amount of capital chasing fewer opportunities. There are a number of reasons for that, the first one being that many insurers' balance sheets are much stronger than they were before the financial crisis. That allows them to keep more risk net, with less being ceded into the reinsurance marketplace. Additionally, new entrants, in the form of nontraditional capital, have come and are coming in. The fact that we had rather benign natural catastrophe activity in 2013 has also put some pressure on pricing.

All this is to say it's quite a competitive market out there. What's important for reinsurers in that context is to stick to their knitting, stick to their underwriting discipline.

**Q Do you expect nontraditional capital from sources such as hedge funds to continue flowing into the reinsurance sector?**

A Certainly, as long as returns on other investments are expected to stay low, and they are for at least the short-term. I think we will continue to see this kind of capital in our marketplace. At the end of the day, they are looking to make investments that are more attractive than the alternatives and also, in the case of insurance, to achieve uncorrelated yield opportunities. The question becomes, at what point are the returns too low for the risks taken by these alternative capital investors?

The other factor that might change the dynamic here is that these markets have yet to see a large natural catastrophe that has reached their layers — they're usually playing quite high in the towers ... It remains to be seen how investors will react to a large nat cat event and whether they still think the investment return they're getting justifies the risk.

**Q Is there any particular advice you'd give someone considering a career in reinsurance?**

A I would advise them to be open-minded about the industry. It's not considered the sexiest career around. I started out in one of these so-called sexy careers — I started out as a lawyer — and I moved into the reinsurance space and never looked back because the career is very dynamic, it's very exciting and it's also multifaceted. Some of the risks we cover — whether it's a large construction project or rebuilding a community, to some of the more innovative products we're working on such as covering the entire life of satellites — are areas that are expanding, that are challenging, interesting and also worthwhile for our society.

If you look at some of the attributes young people look for in a career, it comes down to three. They want to solve problems; they want to help people in times of need; and they want to do analysis. Well, the reinsurance industry is the place for that. If you take into account the dynamic of an aging workforce ... that there are more opportunities to advance quickly and take on more responsibility at a young age.

**Q What can the reinsurance industry do better to recruit women?**

A The industry is more and more focused on the topic of diversity as a business imperative — not just something that's nice to have, or a nice word to use. Women are part of this diversity equation. A number of companies are setting up networking and development opportunities for women. At the same time, I think there's a large focus on the retention and recruitment of women in the context of diversity within the industry. It's a talent pool you cannot leave untapped.

## COMINGS & GOINGS

# UP CLOSE: MARK VITTORIA

**PRINCETON, NEW JERSEY-BASED SENIOR UNDERWRITER**

Protx Risk Management L.L.C.

**PREVIOUS POSITION:** Berkeley Heights, New Jersey-based underwriter at American International Group Inc.

**LOOKING FORWARD TO:** Building Protx into a market leader in the niche class of professional liability.

**GOALS FOR NEW POSITION:** To be successful. Protx is a startup. Right now we are trying to grow the business.

**CHALLENGES FACING INDUSTRY:** The increase in compliance costs; it's hurting the bottom line of the smaller institutions. Another challenge is the fallout of (Federal Deposit Insurance Corp.) lawsuits and how they pan out and affect banks and insurance companies. Community banks are being treated as the larger institutions.

**INDUSTRY OUTLOOK:** We at Protx think there will be continuance of mergers and acquisitions activity due to the compliance burden on smaller institutions.

**WHAT I WOULD CHANGE:** I don't have a cure-all. I would like to see a delineation of community banks and larger banks; they are much different.

**FIRST INDUSTRY JOB:** Underwriting analyst for AIG.

**WHAT SURPRISED ME:** How relationship-oriented community banks are and how larger companies treat them as commodities.

**MYSELF IN 10 YEARS:** I am hoping that we make Protx a powerhouse in the industry.

**ADVICE:** Don't be afraid to take a chance. For me, it was going from a larger company to a smaller company.

**OUTSIDE THE INDUSTRY, A DREAM JOB:** I play a lot of instruments, so something in the music business.

**CAN'T-MISS TELEVISION SHOW:** "NCIS" or "Walking Dead."

**FAVORITE MEAL:** Lasagna.

**BEST CITY:** Being a Yankee fan, it kills me to say Boston.

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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: Kate Shepherd, *Business Insurance*, 150 N. Michigan Ave., Chicago, Ill. 60601-7524. ***kshepherd@businessinsurance.com***.

# APPS

Continued from page 3

up," said John Jakovcic, Atlanta-based vice president of technology at Broadspire's medical management and risk sciences group. "If you're not giving them what they're used to … you're behind the times."

Mr. Jakovcic said Broadspire's mobile site, My Claim, like its My Claim website, gives injured employees a "real-time view" of claim payment information.

Sedgwick rolled out its viaOne app last summer on Apple and Android devices. The app allows injured workers to check the status of their claims, view payment history, submit questions, and receive alerts via emails, text messages or automated phone calls, said Jarrod Magan, Memphis, Tennessee-based vice president of client technology services at Sedgwick.

"For that segment of the claimant population that feels disconnected from the process, they can actually now, at any time of day, see what's going on with their claim," Mr. Magan said. "The thought is then that they'll be less likely to go out and seek attorney representation."

Simultaneously, personal injury attorneys are developing similar technology for workers comp claimants, said intellectual property lawyer Aaron Tantleff, a partner at Foley & Lardner L.L.P. in Chicago. The mobile apps attorneys are using to connect with injured workers could have the opposite effect of the apps TPAs are developing.

**HEAR INTERVIEW**

Access *Business Insurance*'s interactive digital edition to hear Associate Editor Stephanie Goldberg talk with Joseph Paduda, principal at Health Strategy Associates, about mobile applications created by third-party administrators for injured workers.

"The idea there is that someone could say, 'I'm going to document my own workplace injury in this app, hit submit and get a free consult" from a lawyer on possibly suing, Mr. Tantleff said.

One workers compensation consultant was encouraged that TPAs are developing mobile apps, but said that the quality of communication with injured workers is more important than the mode of that communication.

"The engagement issue is much more about how the employer and the insurance company communicate with the injured worker … in terms of the words they use and the tone they use and how proactive they are, rather than the vehicle they use to communicate with," said Joseph Paduda, principal of Madison, Connecticut-based Health Strategy Associates.

While Gallagher Bassett's information management website, MyGBClaim.com, is accessible to claimants on mobile devices, it's not formatted for a smaller screen, said Gary T. Anderberg, New Hope, Pennsylvania-based senior vice president of claim analytics. The TPA is developing an app for injured workers and claim adjusters to give users timely responses and more human interaction.

"We have no intentions of replacing adjusters with machines," Mr. Anderberg said.

He said it's important to keep the claimant experience consistent across all communication platforms so an injured worker with access to only to a telephone gets the same service as those with smartphones.

Mobile TPA apps have potential to reach a large segment of the population. A January report by the Pew Research Center showed that 90% of U.S. adults have a cellphone, 58% have a smartphone and 42% have a tablet. However, Mr. Paduda said blue-collar workers are less likely to have smartphones and more likely to get injured on the job.

Still, Mr. Paduda said he's glad to see the "slow-growing, static, difficult-to-change (workers comp) industry" adopting the latest technology to help claims adjusters and employers do their jobs.

"There are applications out there that allow supervisors to do incident reports on smartphones, which makes a lot of sense," Mr. Paduda said. "You can take a picture of the broken arm, you can take a picture of the machine, and you're good to go. … If you're going to invest time and energy into electronic communications to help workers comp, that's where it makes a lot of sense."

Reducing lag time is the basis for CorVel Corp.'s Claim Intake app, which allows users to report workplace injuries from any location, said Heather Burnham, vice president of marketing at the Irvine, California, company.

App development in various areas of the workers comp claims process provide tools that at times makes the process a bit easier, said Joe Picone, an Glen Allen, Va.-based claim consulting practice leader at Willis North America Inc.

"There still isn't widespread use," Mr. Picone said. "That will change in the next five to 10 years."

What's more, such apps in the workers comp industry could raise privacy concerns, said Eric Proser, Atlanta-based partner and workers compensation head at law firm Constangy, Brooks & Smith L.L.P.

"There are risks every time you use the Internet to transmit any health information," Mr. Proser said.

# SEISMIC

Continued from page 3

dation on which a lot of building codes and emergency managers build on," said Lou Gritzo, vice president of research at FM Global's Center for Property Risk Solutions in Norwood, Massachusetts.

FM Global uses the seismic maps as "the authoritative source" for ground motion information as well as soil maps and structural analysis in devising its own earthquake risk maps used in underwriting and discussions with customers about risk mitigation strategies, Mr. Gritzo said. If FM Global revises its risk maps, "our underwriting would be revised accordingly," he said.

The effect of revised U.S. seismic maps on insurance pricing and underwriting will come after insurers evaluate the changes, said Martin Allemann, head of catastrophe underwriting and pricing for general insurance at Zurich Insurance Group Ltd. in Zurich.

"I'm sure that once the USGS revision gets implemented into RMS' and AIR's (catastrophe risk) models it will ultimately filter into pricing," said Alexandra Glickman, area vice chairman and real estate and hospitality practice leader at Arthur J. Gallagher Risk Management Services Inc. in Glendale, California.

Ms. Clark said it probably will take two years after the seismic maps are finalized before risk modelers will incorporate any model revisions based on the earthquake risks identified by the maps.

The fresh seismic hazard maps later this year are the product of an extensive process that seeks to gather the latest knowledge on seismic conditions through various workshops and discussions around the country.

"Any documentable evidence is thoroughly considered in the process of putting these maps together," said Chris Cramer, research associate professor at the Center for Earthquake Research and Information at the University of Memphis in Memphis, Tennessee. "The results are reviewed by a broad spectrum of peers."

"They consider a range of information, for example, results from field studies, computer simulations and methods to extrapolate from the data we have to an estimation of what the future holds," Ms. Perry of the USGS said. "They look at ground shaking and earthquake recurrence rates, fault rupture characteristics, discoveries of new faults and more. The considerations always include experience from recent large earthquakes around the world."

The process is helped by the EarthScope USArray, which includes hundreds of seismic sensors across the United States intended to improve understanding of the Earth's structure and how strains and stresses are distributed across regions, Mr. Cramer said.

Among other things, that sensor array is improving knowledge of the New Madrid Seismic Zone in the central part of the country, he said.

While the area around New Madrid, Missouri, was sparsely populated when a series of serious earthquakes shook what's now known as the New Madrid Seismic Zone in late 1811 and early 1812, a repeat of the 7.7 magnitude quake that struck in February 1812 would cause more than $100 billion in damages today, according to modeler AIR Worldwide.

While some think that small earthquakes experienced in the region today are merely aftershocks of the 1811-1812 seismic events, a study released earlier this year by two USGS researchers concluded that recent activity in the New Madrid zone is the result of processes that continue to build stress in the region that will eventually be released in a large earthquake.

The updated USGS maps also are expected to reflect improved knowledge of the Pacific Northwest's Cascadia Subduction Zone, reflecting recognition of its potential to produce very serious earthquakes, FM Global's Mr. Gritzo said.

Brian Murphy, head of specialty property product underwriting at Zurich North America in Schaumburg, Illinois, said: "Obviously, the maps are updated periodically, which would show either reduced or increased probabilities of earthquakes in various areas of the world.

"Based on that awareness, that might encompass changes in guidelines in areas that maybe weren't a concern before," Mr. Murphy said. "Longer term, it would be incorporated into the predictive models that companies use that would be incorporated into pricing further down the line."

## HOLLYWOOD DEVELOPMENTS CLOSE TO FAULT ZONE

In California, preliminary maps released by the California Geological Survey in January show major developments planned in the Los Angeles areas of Hollywood and West Hollywood close to a newly mapped fault zone.

These maps haven't had any effect on Los Angeles-area earthquake insurance pricing, said Alexandra Glickman, area vice chairman and real estate and hospitality practice leader at Arthur J. Gallagher Risk Management Services Inc. in Glendale, California.

"Overall the earthquake (coverage) capacity and pricing is very competitive and we're seeing a lot more capacity at a lot lower pricing," she said.

The Hollywood fault runs beneath more than 1,500 already developed properties, including schools, hotels and homes, according to a Los Angeles Times analysis of the preliminary maps, which are expected to be finalized this summer.

The maps identify areas of potential surface fault rupture, said Tim McCrink, supervising engineering geologist at the California Geological Survey in Sacramento. "In the case of fault rupture, right now the only mitigation is to stay off the fault trace," he said.

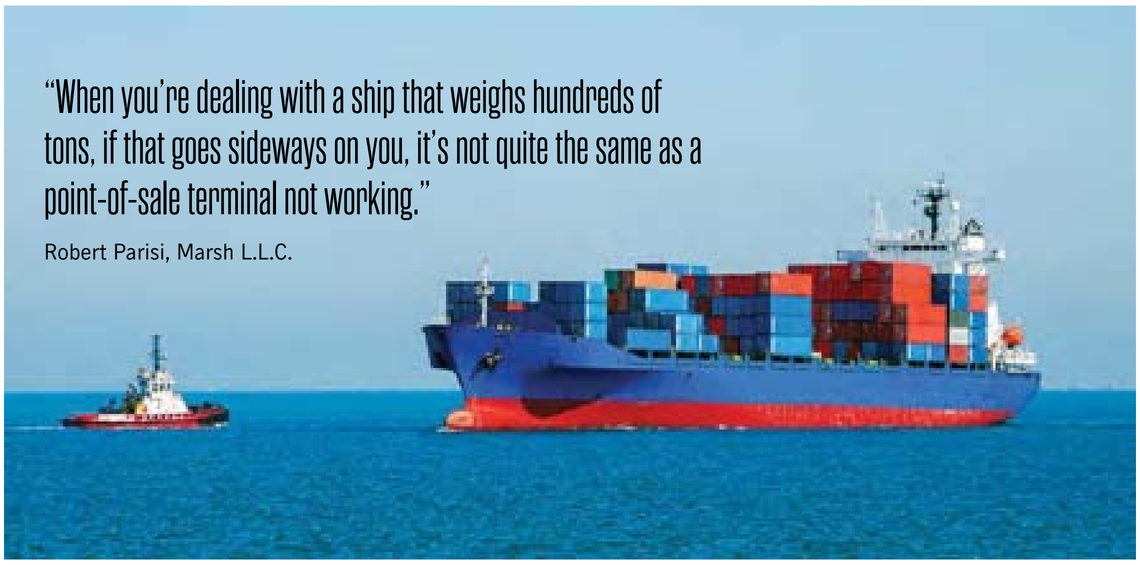
"When we heard about those proposed developments, we realized that the city did not have any of our fault maps. They had their own, which were unfortunately out of date," Mr. McCrink said. "The developers are going ahead with their fault investigations now to see if they have to reconfigure those structures."

"The building codes are really good and the shaking side is understood," he said. "But the building codes don't cover ground failure. If you've got a San Andreas fault that you know moves 20 to 30 feet every time it ruptures, you don't want to build on that."

California's Alquist-Priolo Earthquake Fault Zoning Act — passed after the 1971 Sylmar earthquake along the San Fernando fault — requires fault mapping and generally prohibits construction directly above active faults, said Luke Zamperini, chief inspector of the Los Angeles Department of Building and Safety.

"Once (the maps) become official, then any development that's going on inside this zone will have to have an earthquake fault and rupture study completed before getting permission to build," he said.

By Rodd Zolkos




# MARITIME

Continued from page 1

"Cyber-related vulnerabilities are a growing portion of the total risk exposure facing the marine transportation system," the U.S. Coast Guard said in a March memorandum. Cyber threats "continue to grow and represent one of the most serious national security challenges we must confront."

In October, for example, Tokyo-based cloud security firm Trend Micro Inc. said it discovered flaws in ships' mandated automated identification systems, installed in an estimated 400,000 vessels, that can let attackers hijack communications of vessels and even create fake vessels.

In another well-publicized incident, researchers at Texas A&M University last year "fooled" an $80 million yacht off the coast of Italy as to its location by manipulating its GPS.

These incidents, experts say, are part of the expanding trend of advanced connectivity of devices and computer systems that can transmit data on their own via the Internet dubbed the "Internet of Things." This trend comes with consequences such as increased risk of cyber crime.

While the maritime industry faces some of the same cyber risks as other industries, "when you're dealing with a ship that weighs hundreds of tons, if that goes sideways on you, it's not quite the same as a point-of-sale terminal not working," said Robert Parisi, a senior vice president and network security and privacy practice leader at Marsh L.L.C. in New York.

The cyber threats extend to ports, too.

"Basic cyber security hygiene measures are not being practiced" at these facilities, the Washington-based Brookings Institution said in a July 2013 report.

For instance, in the March memo from the U.S. Coast Guard, Commander Joseph Kramek wrote that of all the ports reviewed, only one had conducted a cybersecurity vulnerability assessment, and not a single one had developed a cyber incident response plan.

"Cyber risks are a real threat, especially in the marine and offshore energy markets," and these risks are growing, said Markus Wähler, Munich-based marine consultant at Munich Reinsurance Co.

However, marine cyber risks are "just kind of coming into the forefront now," said Cmdr. Emil A. Muccin, an assistant professor at the U.S. Merchant Marine Academy in Kings Point, New York.

The issue is "slowly building a head of steam and certainly will be given very serious attention as we progress, I suspect," said Steven Jones, maritime director at the London-based Security Association for the Maritime Industry,

Mark Schloesser, an Amsterdam-based security researcher at data security firm Rapid7 L.L.C., said automatic identification system protocols and other marine technology was developed pre-Internet, without "any sort of malicious or security perspective in mind."

"Once you start looking at it, you immediately find vulnerabilities," Mr. Schloesser said.

"The issue is, to what extent is security built into these systems when they were developed, or was it bolted on as time went along?" The question is, "How secure are they?" said Alan Brill, senior managing director at Kroll Inc. in Secaucus, New Jersey.

The maritime industry's "risk implications … are only now beginning to be understood," said Ben Beeson, Washington-based vice president of cyber security and privacy at Lockton Cos. L.L.C.

Cyber risks no longer are just about privacy and personal information, Mr. Beeson said. "We're now moving into an area which is more about physical damage and bodily injury arising from cyber triggers."

## Insurers develop cyber cover for maritime industry

The insurance industry is developing coverage for potential bodily injury and property damage claims created by maritime industry cyber risks.

Right now, most marine insurance policies "are silent on the issue of cyber risk," said Sean Dalton, New York-based executive vice president and head of the marine division at Zurich Insurance Group Ltd.

The insurance industry "is not evolving as quickly as the threat is," said Dena Magyar, Charlotte, North Carolina-based national practice leader at Wells Fargo Insurance Services USA Inc.'s professional risk group.

"What we're seeing is the desire to bring bodily injury and property damage into the cyber polices in some way, shape or form," said Adam Cottini, New York-based senior vice president at Arthur J. Gallagher & Co.

The focus is on devising coverage that is broader than business interruption, or network security and privacy coverage in the cyber area, said Anne Corona, San Francisco-based managing director of Aon Risk Solutions' financial services group.

She said this is the concept behind enhanced cyber insurance that covers physical damage caused by cyber attacks that was recently introduced by American International Group Inc.

Meanwhile, coverage can be manuscripted if the underwriter can be given enough information to understand the risk, quantify it and the controls in place to manage it, Ms. Magyar said.

By Judy Greenwald

# HARTFORD

Continued from page 1

### HARTFORD'S DIVESTITURE

Since announcing a strategy focusing on property/casualty, group benefits and mutual funds operations in 2012, The Hartford Financial Services Group Inc. has sold much of its noncore businesses. Major transactions include:

| Date | Business | Buyer | Price |
|---|---|---|---|
| April 28, 2014 | Hartford Life Insurance K.K. | Orix Life Insurance Co. | $895 million* |
| Dec. 12, 2013 | Hartford Life International Ltd. | Columbia Insurance Co. | $285 million |
| Sept. 27, 2012 | Individual life business | Prudential Financial Inc. | $615 million |
| Sept. 4, 2012 | Retirement plan business | Massachusetts Mutual Life Insurance Co. | $400 million |

*Subject to regulatory approval
Source: The Hartford Financial Services Group Inc.

senior vice president at Philadelphia-based Drexel Hamilton L.L.C.'s New York office. "There's really only one remaining piece left, and that's the U.S. variable annuity business, and they've been trying to wind that down."

Selling the Japanese business "is a significant accomplishment in our efforts to transform The Hartford and create value for shareholders … that materially reduces the Hartford's risk profile by permanently eliminating the company's Japan variable annuity risk," Hartford Chairman, President and CEO Liam E. McGee said in a statement.

In a conference call, Mr. McGee said the company's focus on its strategy has been "unrelenting" and he was proud of the progress.

In October 2009, Hartford hired Mr. McGee from Bank of America, where he was president of Charlotte, North Carolina-based Bank of America's consumer and small-business bank operations. His tall task was to turn around Hartford.

Hartford reported a $2.75 billion loss for 2008 and a $1.22 billion loss for the first half of 2009. To improve its capital, Hartford received $3.4 billion in federal Troubled Asset Relief Program funds, a $2.5 billion capital infusion from Munich-based Allianz S.E., and raised $900 million in an August 2009 equity offering.

In early 2012, hedge fund manager John Paulson, Hartford's largest stockholder, began pushing the insurer to split up operations to increase shareholder value. In March of that year, Mr. McGee announced Hartford's strategy to concentrate on the three core property/casualty, group benefits and mutual funds businesses. Hartford put its U.S. variable annuity business into runoff in March 2012.

Hartford Life Insurance K.K. wrote annuity contracts from 2000 through 2009, when Hartford placed its Japan annuity business into runoff. At the end of last year, Japan account values were $23 billion for 375,000 contracts, according to Hartford.

Industry analysts commended Hartford for its progress in refocusing the 200-year-old company.

"I think I would echo their own evaluation … to be frank," said John Nadel, managing director at Birmingham, Alabama-based Sterne Agee Group Inc.'s New York office. "Wall Street's response to it (the sale of Hartford's Japanese annuity business) is the price, including the freed-up capital in the U.S., is in line with expectations, but I don't think it focuses enough attention on how significant the sale of that business is to reducing the volatility of Hartford's results."

Selling the Japanese variable annuity business is "very significant to their strategy," said Vincent DeAugustino, an analyst at Keefe, Bruyette & Woods Inc. in Baltimore.

"I would expect them to work up to a more complex U.S. variable annuity sale," he said. "It's just going to take more time to find a buyer."

Ms. Vogel said Hartford's U.S. variable annuity business is "much less risky than the Japanese piece," which presented both interest rate and foreign exchange risks.

"Maybe half of the variable annuity risk was in the Japanese book, so now that will be gone," said Martha Butler, senior director at Fitch Ratings Inc. in Chicago.

"Certainly, if a buyer came along for U.S. variable annuities, they would sell it if they were offered the right price," Ms. Butler said. "The business is in runoff, and they want to manage it for profit."

Indeed, annuities and other obligations in Hartford's so-called Talcott resolution runoff contributed $175 million to 2014 first-quarter earnings.

"Hartford has definitely benefited a lot from sheer luck; the markets were working in their favor," Mr. DeAugustino said.

"The timing has been pretty good," and Hartford has taken advantage of opportunities, he said. "They're doing everything they said they would do."

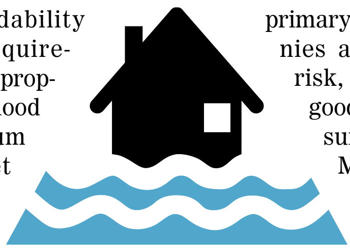
# Reinsurers re-evaluate private market after rollback of NFIP reforms

## Primary insurers exhibit caution about assuming risk

BY MARK A. HOFMANN

The rollback of reforms to the debt-ridden National Flood Insurance Program may make reinsurers reconsider seeking a broader private-market role.

Earlier this year, President Barack Obama signed into law a measure rolling back many reforms to the National Flood Insurance Program contained in the Biggert-Waters Flood Insurance Reform Act of 2012.



The Homeowner Flood Insurance Affordability Act repealed requirements that certain properties have their flood insurance premium adjusted or set under the NFIP to accurately reflect that property's current risk of flood. It holds to 18% the maximum rate at which insurance premiums may be increased each year and requires the NFIP to impose an annual surcharge on all newly issued or renewed flood insurance to help subsidize other NFIP policies.

Private reinsurers have spoken in favor of at least partially privatizing the NFIP, which is about $24 billion in debt. But the reform rollback may hamper enthusiasm for doing so, at least for the time being.

"I'm concerned that this undermines the ability of the NFIP to fund reinsurance risk transfer," said Frank Nutter, president of the Washington-based Reinsurance Association of America.

"The whole move toward risk-based rates was generating some interest among some primary insurance companies about writing the risk, and that's usually good news for the reinsurance companies," Mr. Nutter said. "But my sense is that the primary companies are probably re-evaluating that. They can't compete against government-subsidized rates."

"Anything that causes the slowdown of getting rates to a risk-based level is going to make it more difficult for risk to be transferred in an economical way to the private market, whether it's insurance or reinsurance," said James Hole, managing director of global business development at JLT Towers Re in Philadelphia.

But some experts say the rollback could have been worse had Congress approved a measure that passed the Senate rather than the House bill that ultimately became law.

"I think the impact is that it does provide certainty. In that sense the House bill that was signed into law was a better approach than the Senate bill, which delayed things," said Brad Kading, president of the Association of Bermuda Insurers and Reinsurers. "At least there's certainty."

"The way the latest bill took shape could have been worse," said Sam Friedman, insurance research leader at Deloitte Services L.P.'s Deloitte Center for Financial Services. "Had the Senate version passed, the attempt to transition to risk-based rates would have been put off for upward of four years. The House version slowed the transition and scaled it back a little, but at least it left the way open for risk-based rates over the course of time."

# FLOODS

Continued from page 4

"understood the pain that is out there when NFIP was not available to them, so there is definitely a heightened awareness," Mr. Finnis said.

The state of flux has attracted at least one new player as Gainesville, Florida-based The Flood Insurance Agency began writing private-market flood insurance in November.

The insurance, which mirrors the terms and conditions of coverage under the NFIP, is written by the Lloyd's of London market, although the Florida agency would not disclose which syndicates, citing competitive reasons.

The agency already sells commercial flood coverage in 19 states and "soon" plans to expand to 30 states, including New York, CEO Evan Hecht said.

Mr. Hecht said he expected Biggert-Waters would roil the market.

"I could read what the chaos was going to be before it happened," Mr. Hecht said. That prompted him to travel to London to build a private commercial flood program.

"It took six months to put the London program together," he said.

The coverage launched late last year, and the response has been strong, Mr. Hecht said.

"Since then, our phone has never stopped ringing," he said. The policy was originally aimed at buyers who lost their subsidies under Biggert-Waters. Even though those subsidies were restored by the Homeowner Flood Insurance Affordability Act, interest remains high in the agency's flood coverage, Mr. Hecht said.

> Buyers who purchased higher-cost flood coverage before Biggert-Waters was partially repealed "understood the pain that is out there when NFIP was not available to them, so there is definitely a heightened awareness."
>
> Dave Finnis,
> Willis North America Inc.

The agency has signed 750 independent agents to market the commercial flood coverage and plans to expand even more.

"We want to make the product available nationwide," said Mr. Hecht, who said it is aimed at middle-market customers and offers a maximum insured value of $5 million.

At the other end of the spectrum, insurer FM Global writes flood insurance as part of its all-risk property coverage with a flood sublimit up to $250 million, said Gary Love, Johnston, Rhode Island-based vice president and staff operations underwriting manager. FM Global does not write stand-alone commercial flood cover, Mr. Love said.

Similarly, most commercial property insurance programs include flood coverage as part of the master program, said Willis' Mr. Finnis. Limits can reach as high as $500 million for high-hazard floods for the largest programs, he said.

Aon P.L.C. has beefed up its commercial flood offerings in response to the changing marketplace.

"Beginning at the end of last year, we became much more robust," said Al Tobin, managing principal for Aon Risk Solutions' property practice in New York. The broker now provides an option for buyers at renewal to purchase additional flood cover based on existing coverage.

"If you have a $5 million flood zone A sublimit," a zone considered at high-risk of flooding, "generally speaking that client, if it desires, can get a quote for an additional $5 million," Mr. Tobin said.

# PENSIONS

Continued from page 1

"The problem is very significant. A hole is being dug with no easy way of getting out," said Jack Abraham, a principal at PricewaterhouseCoopers L.L.P. in Chicago.

"The path we're on will destroy the retirement security of families across the country," Rep. John Kline, R-Minn., chairman of the House Education and Workforce Committee, said during an event earlier this month sponsored by Bloomberg Government.

Still, some federal officials are optimistic a legislative solution can be achieved.

"A set of compromises can be fashioned to enable the system not just to survive, but to grow," said PBGC Director Joshua Gotbaum who also spoke during the event.

"We are making progress," Rep. Kline said.

Others believe lawmakers will act, but they also warn it will be difficult to craft a fix.

"Most members of Congress are not aware of the issue. We are going to have to work hard to educate members" said Rep. Phil Roe, R-Tenn.

Despite the PBGC's warning last year about 173 plans, "the majority of plans are in good shape," Vince Sandusky, CEO of the Sheet Metal and Air Conditioning Contractors National Association in Chantilly, Virginia, said in an interview

Still, just one multiemployer plan — the giant Central States, Southeast and Southwest Areas Pension Fund in Chicago — has $17 billion in unfunded benefits, Thomas Nyhan, the plan's executive director and general counsel, told a congressional committee last year.

The Central States plan, which covers employers in a variety of industries, especially trucking, "has reached a point where it requires legislative action to avoid insolvency," he said.

Even without the failure of the Central States plan, the PBGC's insurance program could run out of money in 10 to 15 years because of the cost of providing financial assistance to insolvent plans, according to a 2013 Government Accountability Office report.

If the PBGC insurance fund goes broke, "many retirees will see their benefits reduced to an extremely small fraction of their original value," the GAO said in the report.

The reasons for the severity of the problem include a 1980 law that requires employers that leave underfunded multiemployer plans to pay a share of the plans' promised but unfunded benefits.

The withdrawal liability fear is why the Central States plan "has not been able to attract many new employers to replace the ones that failed," Mr. Nyhan said in his congressional testimony.

"Theoretically, withdrawal liability sounded like a great idea, but it has never worked," Randy DeFrehn, executive director of the Washington-based National Coordinating Committee for Multiemployer Plans, which represents about 400 plans, said in an interview.

The risk to employers of joining underfunded multiemployer pension plans is so great, "no one wants to come in," Earl Pomeroy, senior counsel at Alston & Bird L.L.P. in Washington and a former Democratic senator from North Dakota, said during the conference.

"If a plan can't attract new employers to replace those who leave, it is a death spiral," PwC's Mr. Abraham said in an interview.

Other reasons for the plans' funding problems include federal rules that bar contributions after a multiemployer plan reaches certain funding levels, effectively blocking surpluses that could be drawn upon in later years, observers say.

In addition, federal deregulation of certain industries, such as trucking, meant more competition and more failures of existing companies. At the Central States plan, more than 600 companies in the plan have gone into bankruptcy, with just four of the 50 largest employers that contributed in 1980 still in the plan today, Mr. Nyhan said.

With fewer employer participants, contributions needed to pay benefits of plan participants, including those who worked for failed companies, have doubled over the past 10 years. Even so, 2012 benefit payouts were more than four times as great as revenue from employer contributions and withdrawal liability payments, Mr. Nyhan said.

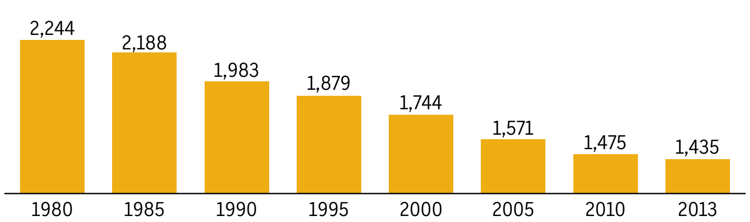
What action Congress will take is not yet clear.

A commission organized by the National Coordinating Committee on Multiemployer Plans recommended earlier that plans projected to go insolvent should have the authority to partially suspend participants' benefits, an idea that has some support.

"Without adjustments, plans will be drained of every penny to pay for current retirees, while active employees" not yet receiving benefits could end up with nothing, Mr. Sandusky said.

## STEADY DECLINE

The number of multiemployer pension plans has plunged since 1980, while the deficit in the Pension Benefit Guaranty Corp.'s insurance program for the plans has soared from $900 million in 2009 to $8.3 billion in 2013.




Source: PBGC

## JOINING MULTIEMPLOYER PLAN SAVES RESOURCES

Multiemployer pension plans are maintained under collective bargaining agreements between employers and unions and typically cover employees in the same or similar industries.

The plans, governed by a board of trustees who represent employees and management, have advantages for both sides.

For employers, joining a multiemployer plan means the organization doesn't have to devote resources to set up and administer its own pension plan.

For employees, the plans offer benefit portability. If an employee leaves an employer and joins another employer contributing to the plan, the employee retains all service credits.

There is one big disadvantage, though, for employers that leave an underfunded plan: A 1980 law requires them to pay a share of the plan's promised but unfunded benefits, a potential financial bite that has deterred employers from joining underfunded plans, experts say.

Plan demographics have changed dramatically as employers have left the plans, with their employees continuing as participants. In 1980, more than 75% of plan participants were active employees, according to the Pension Benefit Guaranty Corp.

In 2011, the most recent data available, just 38% of participants were employees, with the rest being either retirees collecting benefits or former employees who were vested but not eligible to receive benefits.

By Jerry Geisel

# NCCI

Continued from page 3

insurance backstop will be replaced or extended before the end of this year, insurance and reinsurance experts said during a panel discussion. But they differed on whether the backstop should remain unchanged and what responsibility insurers and employers should have.

The backstop, established by the Terrorism Risk Insurance Act of 2002, was renewed in 2005 and in 2007 under the Terrorism Risk Insurance Program Reauthorization Act. The latest version is due to expire Dec. 31.

Steve Ellis, vice president of Washington-based nonprofit Taxpayers for Common Sense, said TRIA should be allowed to expire, which would place responsibility on insurers and employers to help reduce their own terrorism exposures.

"Price helps encourage certain behaviors, and we want to make sure that we're encouraging people to try to mitigate their terrorism risk as much as possible," Mr. Ellis said.

While it's likely TRIA will continue in some form, it's also probable that property/casualty insurers and employers will be required to assume a larger portion of terror losses under a new backstop, said Andrew Winyard, nonmarine casualty reinsurance underwriter and executive director at Atrium Underwriters Ltd. in London.

That's particularly true in workers comp, which prohibits insurers from excluding nuclear, biological, chemical or radiological attacks from policy terms, said Mr. Winyard, who favors renewing or extending TRIA.

Max Koonce, senior director of risk management for Bentonville, Arkansas-based Wal-Mart Stores Inc., said employers hope that TRIA or a comparable program will be available in 2015 because the backstop has helped add predictability to workers comp pricing.

In a separate presentation, Insurance Information Institute Inc. President Robert Hartwig said employment gains are expected to come from the oil, gas and energy sector, as well as the health care industry, as more medical workers will be needed to deal with increased patient loads under federal health care reforms.

Those increases will provide workers comp insurers with underwriting challenges, as well as an opportunity to grow their written premiums by covering such employees, Mr. Hartwig said.

"We are potentially on the cusp of a period of sustained, more robust growth in jobs in the United States," Mr. Hartwig said. "That translates directly into an acceleration in the pace of workers comp payroll exposures."

# KUGLER

Continued from page 4

Management Society Inc.

Mr. Kugler, who will retire from Snap-on on May 30, said he's learned best practices from all risk management programs with which he's been involved, "and I hope that I'll be able to incorporate those at Oshkosh."

"Dan has been a fixture at academic institutions for as long as I can remember," said Zachary S. Finn, clinical professor and director of the Davey Risk Management & Insurance Program in the Butler University College of Business in Indianapolis.

Mr. Finn, who was risk manager at J.M. Smucker Co. and worked in other risk management capacities before moving to Butler, recalled Mr. Kugler as a Risk Manager in Residence while Mr. Finn was a student at Indiana State University.

"He was really a motivator for me to get into the risk management industry," Mr. Finn said.

Mr. Kugler, who joined Snap-on in 1979 as a risk analyst, has seen his risk management efforts lead to recognition such as his selection as *Business Insurance*'s 2002 Risk Manager of the Year® and in 2012 as the first individual honoree in the Katie School of Insurance and Financial Services of Illinois State University's Midwestern Insurance Innovation and Leadership Awards & Hall of Fame.

With Mr. Kugler's departure from Snap-on, Irene Sudac, vice president of financial services and a five-year Snap-on veteran, will take over the risk manager role.

With approximately 70 students, the current risk management and insurance program at Wisconsin Oshkosh is a "robust minor" that is comparable in content to many similar majors, Mr. Beyer said. The university could ultimately seek approval from the University of Wisconsin Board of Regents to offer the program as a major, he said.

As director of the center, Mr. Kugler will teach part-time and engage industry partners, other businesses and industry groups, Mr. Beyer said.

"It's a big task he's getting involved in," he said. "When we were interviewing for the position, we had people come in and say, 'I've always wanted to settle into a teaching position.' I said, 'Hey, there's some heavy lifting here. This isn't a retirement job.'"

In Mr. Kugler, the university has found "the kind of energy and enthusiasm you need and that's why we're glad to have Dan come in," Mr. Beyer said.

IN BRIEF

## Commercial insurance rates up 2% in April: MarketScout

Commercial property/casualty insurance rates increased an average of 2% in April from the same time last year, MarketScout reported. Commercial automobile, employment practices liability and workers compensation registered the largest increases at 3% each, according to the Dallas-based electronic insurance exchange. Business interruption, crime, fiduciary, inland marine and surety lines each experienced 1% increases. Among industry classes, transportation accounts reported the highest rate of increase at 4% while public entities reported the lowest at 1%. "The April composite commercial rate remained in positive territory at plus 2%, but we may see rate reductions by year-end if the current trend continues," MarketScout CEO Richard Kerr said in a statement.

## Best lowers ratings of Tower Group units to C++

A.M. Best Co. Inc. has lowered the financial strength ratings of subsidiaries of troubled insurer Tower Group International Ltd. to C++, or "marginal," from B, or "fair." The downgrades of the pooled and reinsured members of the Tower US Pool and CastlePoint Reinsurance Co. Ltd. (Bermuda) are based on parent company Tower Group's most recent 10-K filing with the U.S. Securities and Exchange Commission, which disclosed "an additional $63 million of prior-year reserve development, further reductions in GAAP shareholders' equity as well as ongoing declines in statutory policyholders' surplus and risk-adjusted capitalization," the Oldwick, N.J.-based rating agency said in a statement. Tower's finances, late reporting and pending merger with ACP Re Ltd. also figure in the downgrade, according to Best. All ratings are under review with developing implications, Best said.

## Pension funding levels slip further in April: Mercer

The funded status of pension plans sponsored by large companies continued to fall in April, according to a Mercer L.L.C. survey. On average, pension plans sponsored by companies in the S&P 1500 were 84% funded as April 30, down from 85% in March and 87% in February. While equity market investments in April were positive, those gains, Mercer noted, were offset by lower interest rates, which boosted the value of plan liabilities. "Long-term interest rates continue to decline in 2014, taking away about half the improvements we saw in 2013," Jim Ritchie, a principal in Mercer's Baltimore office said in a statement. In all, the plans had an aggregate funding deficit of $360 billion at the end of April, up from a $332 billion shortfall at the end of March and a $276 billion deficit at the end of February.

## Marsh & McLennan reports quarterly revenue up 4.2%

Marsh & McLennan Cos. Inc.'s revenue rose 4.2% to $3.26 billion in the first quarter, the broker said. Net income increased 7.3% to $443 million in the quarter. Revenue for the risk and insurance services business rose 4.0% over the first quarter of 2013 to $1.84 billion. Within that sector, revenue for Marsh L.L.C. increased 4.3% to $1.45 billion while that of Guy Carpenter & Co. L.L.C. increased 1.6% to $381 million, along with fiduciary interest income of $6 million. Marsh's international operations produced underlying, or organic, revenue growth of 4%, reflecting gains of 11% in Latin America; 9% in Asia Pacific; and 2% in Europe, the Middle East and Africa, according to a Marsh & McLennan statement. For the U.S./Canada division, underlying revenue increased 2%. Total revenue for its consulting sector, which includes Mercer L.L.C. and Oliver Wyman Group, rose 5.1% to $1.43 billion. Revenue for Mercer rose 1.9% to $1.06 billion. Oliver Wyman Group's revenue jumped 15.6% to $371 million.

## AIG's first-quarter profit drops 27.2% on higher losses

American International Group Inc. reported $1.6 billion in net income for the first quarter of 2014, a 27.2% drop from the same period a year earlier. AIG's property/casualty operations' net written premiums for the initial quarter of 2014 dropped 1.3% from those of a year earlier, declining to $8.33 billion. The property/casualty operations posted a $97 million underwriting loss in the quarter vs. a $232 million profit in the same quarter of 2013, while the operations' total pretax income decreased 25.6% year-over-year to $1.16 billion. The insurer's first-quarter combined ratio deteriorated to 101.2% from 97.3% in the prior-year period. Catastrophe losses for the quarter were $262 million, compared with $41 million in the first quarter of 2013. "Including related premium adjustments, net adverse development was $162 million, compared with net favorable development of $52 million for the first quarter of 2013," AIG said in a statement. "This adverse development was partially offset by a reserve discount benefit of $105 million in the first quarter of 2014 related to the previously disclosed changes in U.S. pooling arrangements."

## Feds react to oil train derailment with additional regulations

The U.S. Department of Transportation has issued new rules for railroad carriers transporting crude oil, after another in a series of hazardous derailments of trains hauling oil tankers. Coming a week after a CSX train derailed in Lynchburg, Virginia, and spilled crude oil into the James River, the rules require trains carrying 1 million gallons or more of crude oil to notify local emergency responders of the approaching shipment. "By this Order, DOT is requiring that each railroad carrier provide the State Emergency Response Commission (SERC) for each state in which it operates trains transporting 1,000,000 gallons or more of Bakken crude oil, notification regarding the expected movement of such trains through the counties in the state," according to the order. The order did not force railroads and shipping companies to stop using an aging class of tanker cars known as DOT-111. Instead, the transportation department's Federal Railroad Administration and Pipeline and Hazardous Materials Safety Administration issued a joint safety advisory "strongly urging" the industry to upgrade to newer tanker cars.

## First Vermont captive head Edward Meehan dies

Edward Meehan, Vermont's first captive insurance director, died May 4 at his home in North Fort Myers, Florida, after a prolonged illness. He was 73. Mr. Meehan came to Vermont from the Massachusetts Division of Insurance and guided the domicile's captive activities during the early stages of its in the 1980s before leaving state government in 1991. "Ed was one of the first people who worked to make Vermont the gold standard of domiciles," Vermont Gov. Peter Shumlin said in a statement. "His legacy of dedication and professionalism continues to provide valued contributions to Vermont's economic prosperity and will be felt for generations to come."

## HSA enrollment jumped in 2013: Fidelity

Enrollment in health savings accounts continues to surge as more employers are moving to consumer-driven health care plans, according to Fidelity Investments. The number of HSAs Fidelity administered in 2013 jumped to 269,000, up nearly 48% compared with 182,000 in 2012 and a 126% increase over 2011, when Fidelity administered 119,000 HSAs, the company said. "Fidelity continues to drive adoption of its health savings account business as companies and their employees realize their potential advantages both today and over the long haul," Will Applegate, a Fidelity vice president in Boston, said in the statement. Numerous surveys have found that the cost of high-deductible consumer-driven health care plans linked to HSAs are less costly compared with other health care plans.

## Average value of cargo thefts up 38.2%: FreightWatch

The average loss in cargo thefts increased more than one-third during this year's first quarter vs. the comparable period a year ago, indicating criminals' "persistence and increasing sophistication," FreightWatch international (USA) Inc. said in its latest report. The average loss per incident during the quarter was $207,982, a 38.2% increase from 2013's first quarter, although the number of full-truckload cargo thefts decreased 4% to 206, Austin, Texas-based FreightWatch said in its report. The food and drinks category again was the product type most often stolen during the first quarter, accounting for 44 thefts or 21% of all incidents, according to the report. Next were home/garden products, which accounted for 31 thefts or 15% of the total, and electronics thefts, which accounted for 27 thefts or 13% of the total. California again was the top spot among states, accounting for 56 thefts or 27% of the total; followed by Florida, with 42 thefts or 20% of the total; Georgia, 23 thefts or 11.2% of the total; and Texas, with 23 thefts or 10.7% of the total. The report found that the theft of trailers and containers accounted for 176 incidents, or 85% of all thefts.

## El Niño chances exceed 65% this summer

Chances have increased over the past month that the much-feared El Niño weather phenomenon, which can wreak havoc on global crops, will strike this year, the National Weather Service's Climate Prediction Center said in its May report. Neutral conditions will prevail through the spring, but the forecaster raised the likelihood of the weather pattern developing over the summer to more than 65%. In April, it said it saw a 50% chance of the weather pattern developing by the summer.

Reuters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# OFF BEAT ;-)

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## Sunbathers can grin and bare it

Germans have a stereotyped reputation among other Europeans for loving both rules and getting naked, and now lawmakers in Munich have ensured that anyone who wants to bare all in the city can do so with impunity.

A recent change in the law in Bavaria, of which Munich is the capital, means that Munich residents and visitors alike may sunbathe naked — but only within six specially designated "urban naked zones."

When nude sunbathing laws in Bavaria expired in the fall, lawmakers decided to make clear where in the city sun-worshippers can strip off without risking arrest.

The six areas are in parkland and will offer privacy to sunbathers but will not be fenced off, according to reports.

Munich is home to insurance giant Allianz S.E. and the world's largest reinsurer, Munich Reinsurance Co., and is the third-largest city in Germany.

Germany's first nudist beach was set up in 1920.

## Judge rules logic in Matrix sequels lawsuit

Some may say better late than never, but that didn't work out for Thomas Althouse, who filed suit in California federal court in 2013 alleging copyright infringement against Warner Brothers for its 2003 "The Matrix Reloaded" and "The Matrix Revolutions films."

What took so long?

Althouse claimed that he did not actually see the films until 2010, at which point he wondered and researched on whether they infringed on his 1993 script "The Immortals."

Just another three years and it was time to sue. Mr. Althouse's script is about a CIA agent made immortal by a drug, who then finds himself in the year 2235, where Adolph Hitler and some Nazis (also immortal) have been reanimated from cryopreservation and want to oppress, destroy, etc.

All of which caused District Judge R. Gary Klausner to find "The basic premises of 'The Matrix' trilogy and 'The Immortals' are so different that it would be unreasonable to find their plots substantially similar," in his April ruling in U.S. District Court in the Central District of California.

## DRUGSTORE'S TWEET DRAWS STAR'S IRE AND LEGAL FIRE

AP PHOTO

Katherine Heigl sued Duane Reade Inc. over a Twitter posting.

A drugstore chain may need to up its social media game after running afoul of "Knocked Up" actress Katherine Heigl. Ms. Heigl sued Duane Reade Inc., a subsidiary of the Deerfield, Ill.-based Walgreen Co., after the store posted a candid shot of the actress shopping there on its Twitter account in March. The $6 million suit claims the tweet, which links to a paparazzi photo of the actress carrying two plastic Duane Reade bags on the street in New York City and carried the caption "Even @KatieHeigl can't resist shopping #NYC's favorite drugstore," represents an unauthorized commercial use of Ms. Heigl's image.

"The actress Katherine Heigl, who has starred in the television series 'Grey's Anatomy' and in films including '27 Dresses' and 'The Ugly Truth,' was recently photographed without her consent by paparazzi in New York City leaving a Duane Reade pharmacy," according to the lawsuit. "Duane Reade then misused and misappropriated the photograph for its own commercial advertising, distributing the photo with Duane Reade's own promotional slogans on its Twitter and Facebook accounts, all without Ms. Heigl's knowledge or approval."

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## Franco's 'Ham on Rye' possibly not kosher

James Franco's film adaptation of poet Charles Bukowski's semi-autobiographical novel, "Ham on Rye," isn't kosher, says the man who claims he holds the movie's film rights.

Cyril Humphris says he had agreed to let Mr. Franco adapt the book by Mr. Bukowski (left), who died in 1994, but those rights terminated in 2010, according to the complaint that was filed in a U.S. District Court in Los Angeles last month in *Cyril Humphris v. James Franco et al.*

According to the complaint, the movie has been completed, and Mr. Franco and his production company were trying to secure its distribution as of December 2013.

The complaint states, "The film borrows the novel's themes of childhood loneliness; adolescent self-consciousness; the failures, hypocrisy and cruelty of adults, and, in an unflinching depiction, the crude interest teenage boys take in sex."

It states the movie "incorporates entire scenes including substantial dialog from the novel."

The lawsuit charges Mr. Franco and his film company with copyright infringement and seeks unspecified damages. The lawsuit was first reported in the Hollywood Reporter.

## It's not as eloquent as Shakespeare

Et tu, exclusions? It takes Northampton, England-based specialty insurer Staysure Ltd. about twice the number of words to outline the terms of its travel insurance policy as it took William Shakespeare to retell the story of Julius Caesar's assassination, according to an analysis by the London-based consumer group Fairer Finance L.L.P.

As part of its campaign for greater transparency in the consumer banking and insurance industries, Fairer Finance counted the total number of words contained in several U.K.-based banks' and insurance companies' terms and conditions documents and compared them with the word counts of literature's greatest works.

Staysure's travelers' coverage document was the longest among insurance policies analyzed at 37,931 words, nearly twice as many as the 20,929 words in Shakespeare's "Julius Caesar." The longest personal auto insurance policy belonged to Endsleigh Insurance Services Ltd. at 37,674 words, which is about 7,700 more words than it took George Orwell to satirize the reign of Joseph Stalin in his 1945 novel "Animal Farm." Lloyd's of London turned in the longest homeowner's policy at 26,052 words, about the same number in Shakespeare's "Romeo and Juliet."