

COSTLY MEDICINE



300%: Some doctors are charging three times more than pharmacies for the same prescriptions for injured workers.
35%: Physician-dispensed drugs account for more than one-third of total workers compensation drug costs, according to a 2013 CompPharma survey.

WORKERS COMPENSATION

States take aim at physician drug dispensing

Practice viewed as big driver of comp costs

BY STEPHANIE GOLDBERG

A renewed focus on how physician-dispensed prescription drugs affect workers compensation claims outcomes is driving legislation that would restrict the costly practice.

The workers comp industry has much at stake as more states move legislation, because an industry survey last year showed that physician dispensing of marked-up repackaged drugs was the second-biggest problem in workers comp pharmacy management.

Hawaii, Indiana, Louisiana, Maryland and Pennsylvania are among states that are moving or have recently passed bills to cap the price of repackaged medications, limit physician dispensing, or ban the practice entirely.

With some doctors charging 300% more than what retail pharmacies charge for the same

See **REPACKAGING** page 30

INTERNATIONAL

BRAZIL PROTESTS HIGHLIGHT WORLD CUP EXPOSURES

Billions in limits placed to cover tournament's risks



AP PHOTO

Protesters in Brazil object to the country spending money on hosting the World Cup soccer tournament, while poverty is still widespread in many areas of the South American nation.

BY SARAH VEYSEY

Civil unrest in Brazil that could disrupt the World Cup is among top worries of organizers and insurers as the June 12 start of the much-anticipated soccer tournament quickly approaches.

Billions of dollars of insurance in place for the prestigious tourney includes coverage for cancellation of

the sporting event, the salaries of players who suffer serious injuries, third-party liability for spectator injuries, as well as pandemics and communicable diseases.

Recent rioting by Brazilian citizens protesting the overall cost of the World Cup, among other complaints, has raised concerns about potential

See **BRAZIL** page 32

WORLD CUP HIGHLIGHTS

- The tournament runs June 12 through July 13.
- 32 national teams will play in the tournament.
- 64 matches will be played in 12 cities across Brazil.

Source: FIFA

TERRORISM

TRIA passes Senate hurdle; fate still unclear

BY MARK A. HOFMANN

A key U.S. Senate panel's unanimous approval of a bill to extend the federal terrorism insurance backstop by seven years should speed the reauthorization process in the full Senate, supporters of the legislation contend.

However, passage in the House of Representatives is uncertain and getting it done in a year of Congressional mid-term elections could make it more difficult. For insurance industry trade groups such as the Risk and Insurance Management Society, securing a long-term or permanent extension of the federal terrorism insurance program has been the top priority in 2014.

The Senate Banking, Housing and Urban Affairs Committee's 22-0 vote last week to approve the Terrorism Risk Insurance Reauthorization Act of 2014 demonstrates the importance of the program, insurance experts say. If it's not extended, the terrorism insurance backstop will expire at the end of the year.

Before last week's vote, Senate Banking Committee Chairman Tim Johnson, D-S.D., said Congress passed the original Terrorism Risk Insurance Act of 2002 responding to insurers no longer offering coverage after the Sept. 11, 2001, terrorist attacks. "Today, the private insurance industry has returned to the marketplace and is

See **TRIA** page 32



Q&A: ROBERT S. SCHIMEK

AIG executive discusses cyber coverage changes, insurer's growth strategy

PAGE 28



BENEFITS MANAGEMENT

States shore up public pension programs where funding levels have slumped

PAGE 8

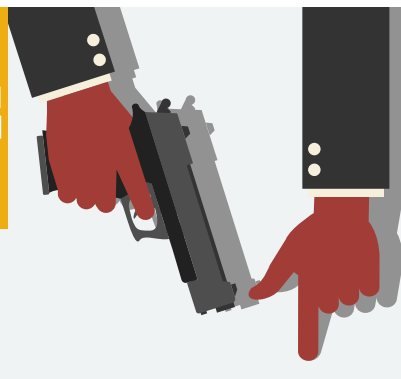


RESEARCH & DATA

U.S. property loss control consultants ranking: Largest by revenue, clients, staff size

PAGE 22

SPECIAL REPORT



PUBLIC RISK MANAGEMENT

Training to prevent workplace violence; changes in public employee presumption laws; risks from outdated systems.

PAGE 13

CATASTROPHE RISKS

PAGE 18

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CONTENTS

FEATURES

MID-MARKET



Selling mitigation to top brass

By making a compelling case, risk managers should show the C-suite how mitigation efforts can help improve their bottom line. **6**

PERSPECTIVES

New liabilities, new exposures



Local governments must shift their focus to include key risks that bring new liabilities and exposures. Joe

Caufield of OneBeacon Government Risks discusses these new public-entity risks. **24**

OFF BEAT



Time is money in watch suit

An Italian watch maker embroiled in a legal dispute with Halle Berry says she has prioritized vacation over taking a deposition **34**

SECTIONS

INTERNATIONAL **10**

OPINIONS **12**

PEOPLE **28**

MARKET PULSE **26**

PERSPECTIVES **24**

OFF BEAT **34**

NEWS

DIRECTORS & OFFICERS LIABILITY

CYBER BREACHES CREATE POTENTIAL D&O EXPOSURES

Target, Wyndham shareholder suits may start trend

BY JUDY GREENWALD

When a company gets hit by a major data breach, the business, its leaders and its board members should be prepared for directors and officers liability related litigation that is certain to follow.

Shareholder lawsuits already filed against data breach victims Minneapolis-based Target Corp. and Parsippany, New Jersey-based Wyndham Worldwide Corp. (see story, page 29) exemplify what litigation experts say is likely when a major breach occurs, an issue that has increased worries among other businesses.

The Target and Wyndham litigations have prompted “hundreds of inquiries” from organizations worried whether their own D&O coverage addresses the issue, said Kevin Kalinich, Chicago-based global practice leader of cyber risk insurance at Aon Risk Solutions.

“I do think there’s going to be more lawsuits. It’s just the beginning,” said Heidi A. Lawson, a member of law firm Mintz, Levin, Cohn, Ferris, and Glovsky & Popeo P.C. in Boston.

Robert Parisi, a senior vice president and network security and privacy practice leader at Marsh L.L.C. in New York, said the Securities and Exchange Commission made it clear in 2011 guidance that it views technology and privacy breaches as potentially material, so when an event occurs, “that’s certainly the kind of things that get plaintiff attorneys excited.”

During an SEC cyber security roundtable in March, the agency’s chairwoman, Mary Jo White, said cyber threats are “of extraordinary and long-term seriousness. They are first on the (SEC’s) division of (market) intelligence’s list of global threats, even surpassing terrorism.”

Cyber breaches are “a significant issue in terms of the liability,” said John D. Hughes, a partner at Edwards Wildman Palmer L.L.P. in Boston. Directors must make sure their companies have adequate planning and security measures. “If they haven’t, and there’s a significant loss, then the shareholders will seek to pursue that,” he said.

Ann Longmore, New York-based executive vice president of FINEX North America, a unit of Willis North America Inc., said proxy adviser Institutional Shareholders Inc.’s recommendation that Target stockholders vote against seven of 10 directors because they failed to manage cyber risks is the first time there has been an effort to unseat board members because of a cyber breach.

“This has just got to throw oil on the fire in terms of the suits against the board members,” Ms. Longmore said.

In Wyndham’s case, D&O litigation followed an enforcement action by the Federal Trade Commission, said Kevin LaCroix, an attorney and executive vice president at RT ProExec, a division of R-T Specialty L.L.C. in Beachwood, Ohio.

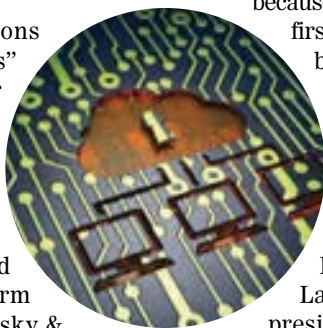
“The message there is regulators are going to be more active in the space,” which will be followed by shareholder litigation, he said.

Lawsuits are likely, though, only when a major data breach occurs.

A data breach “would have to cause enough of a loss, or potential loss, to a company to truly affect the bottom line, and that’s what you had in Target,” said Joseph P. Monteleone, a partner at Rivkin Radler L.L.P. in Hackensack, New Jersey.

As in the suits already filed, most are expected to be

See **BREACHES** page 29



WORKERS COMPENSATION

Wider use of stock options inflates comp premiums

BY SHEENA HARRISON

For years companies have paid senior executives a large portion of their total annual compensation in performance bonuses, stock grants and options for future shares.

Now many companies are adding bonuses and incentive pay such as

stock options to the compensation packages of middle managers, and in some industries lower-level employees. Although this compensation trend helps attract and retain skilled workers, it can have the unintended effect of increasing firms’ workers compensation premiums, experts say.

To provide clarity, the National



Council on Compensation Insurance Inc. is reviewing how bonuses, stock options and other types of rewards should be factored into

See **OPTIONS** page 30

RISK MANAGEMENT

U.S. firms grapple with global risks

Insurers, brokers offer online tools to help clients track exposures

BY BILL KENEALY

Crafting a global insurance program that meets local countries’ stronger enforcement of their regulations and laws has become a greater challenge for risk managers overseeing more complex risks.

As a result, insurers, brokers and some risk management groups (see story, page 29) are rolling out portals and databases to aid risk managers’ efforts to make sure contract language, claims status and tax issues comply with local nations’ rules.

“As with many things in the world, buying international insurance has become more complicated than it was in the past,” said Janice Ochenkowski, Chicago-based managing director at real estate investment management firm Jones Lang LaSalle Inc., citing shifting taxation and regulatory rules as a primary concern.

“Historically, we were able to purchase a U.S. policy with a global territory, and that was sufficient to insure all our risks. That isn’t true any longer, because many countries now require that policies be purchased locally,” she said.

Vinko Markovina, New York-based senior vice president and global practice leader of international insurance solutions at Allianz Global Corporate & Specialty, said the financial crisis prompted regulators in mature markets to more strongly enforce regulations and those in developing countries to exert more control over their insurance markets.

“In the past, much of the talk was about cost, efficiency and optimization of the program,” Mr. Markovina said. “Now, compliance has taken over the conversation as the primary concern when structuring a program.”

David Bidmead, New York-based global multinational client service leader and chair of the multinational executive committee at Marsh L.L.C., said in addition to rules on allocating premium taxes, companies need to be mindful of rules concerning money laundering — particularly when expanding abroad.

See **INTERNATIONAL** page 29

CORRECTION

On page 10 of this issue in a chart showing Portugal’s insurance market share, construction & engineering coverage comprises 0.5% of the market rather than 17.6%. The error was caught after the page was printed.

ONLINE
FEATURES

40 UNDER 40

Deadline approaching

BUSINESS INSURANCE 2014
40 UNDER 40
BROKER AWARDS
Nominations for the 40 Under 40 Broker Awards are open for all regions until June 15. www.BusinessInsurance.com/40under40nominate

VIDEO: IN FOCUS



Cyber Risk Summit

Business and industry leaders gathered in Washington to talk about escalating cyber risks. www.BusinessInsurance.com/InFocus

VIDEO: BROKER BEAT

Kevin Davis Insurance

Kevin Davis Insurance Services' president discusses issues affecting the community association sector. www.BusinessInsurance.com/BrokerBeat

WOMEN TO WATCH

2014 nominations now open



Nominate an inspiring woman in the industry who could be named among *Business*

Insurance's Women to Watch. The deadline for nominations for this annual honor is midnight July 11. www.BusinessInsurance.com/WomenToWatch

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NEWS

CAPTIVES

NEW RISKS, SOPHISTICATION
WILL DRIVE CAPTIVE GROWTH

Latin America, Far East present opportunities

BY RODD ZOLKOS

SOUTHAMPTON, Bermuda — Growth in the captive insurance market and new uses for captive insurers will be driven more by the risk financing needs and risk management sophistication of captive parents than the promotional efforts of domicile officials.

Among the risks likely to play a bigger part in captive programs in the years ahead are cyber risks, supply chain exposures and employee wage-and-hour claims, while growing risk management sophistication in areas such as Latin America and the Far East may be the source of new captives for domiciles such as Bermuda, captive experts said.

“The impetus for the new ideas, the new markets has got to come from the private sector,” said Everard T. Richards, Bermuda’s minister of finance.

Among those speaking at the annual Bermuda Captive Conference last week in Southampton, Bermuda, Mr. Richards said companies from the Far East are an area of potential growth for the domicile.

“Our penetration of that market is in its infancy,” he said.

Shelby Weldon, director of insurance licensing and authorization for the Bermuda Monetary



Cyber risks, supply chain threats and employee wage-and-hour claims are expected to play a bigger part in captive programs.

Authority, said many of Bermuda’s new captive formations are coming from Latin America, including 30% of the domicile’s 24 new captives in 2013. “I see that momentum continuing throughout 2014,” he said.

William Montanez, president of the Bermuda Captive Owners Association, said he had expected captive growth to come from those areas of the world where risk management is increasing in sophistication.

As companies come to better understand their cyber exposures, that risk is likely to find its way into more captive programs,

according to several speakers at the Bermuda conference. While few captives are now covering cyber risks, that should change in the years ahead, some speakers said.

“I think we will see more writing it (cyber risk coverage) going forward,” said Robert Geraghty, vice president and head of business development at Marsh IAS Management Services Bermuda Ltd. in Hamilton, Bermuda. “But I think we have to understand it more. I think you have to understand the risk and how it’s going to affect

See BERMUDA page 31

BENEFITS MANAGEMENT

Private
exchanges
falling short

But they aid employers with ACA compliance

BY JOANNE WOJCIK

COLORADO SPRINGS, Colo. — Benefits brokers are enhancing the scope of technology and data analytics to help ease midsize employers’ health care reform compliance burdens and better target health promotion efforts.

Many brokers catering to the middle market agree they need to “step up their game” as they meet with more finance executives in addition to benefits professionals.

Brokers are particularly interested in acquiring private health exchange technology because most of the software also can help employers meet the reporting requirements of the Patient Protection and Affordable Care Act, said Kenneth R. Olson, president of Horton Benefit Solutions, a division of the Horton Group Inc. in Orland Park, Illinois.

“Exchange systems do reporting, variable-hour tracking and other ACA compliance functions,” Mr. Olson said. Many products also offer robust decision support tools, he said, which can help employees determine which benefit plan offering best meets their individual needs.

While all of these platforms are being called exchanges, some are little more than “benefit administration systems on steroids,” said Robert J. Klonek, CEO of The Oswald Cos., a Cleveland-based insurance broker.

In fact, none of the private exchanges available to middle-market employers offer more than one health insurer’s products, brokers said during interviews at the Council of Insurance Agents & Brokers’ annual Employee Benefits Leadership Forum, held May 27-30 in Colorado Springs, Colorado.

In some instances, the exchanges may offer multiple voluntary benefits products, but never in competition, brokers said.

The primary reason only single-insurer private exchange platforms are being offered to midsize employers is that insurers do not want to risk potential adverse selection that might occur if too many of an employer’s “bad risks” enroll in one plan, while most of the “good risks” enroll in another,

See COUNCIL page 31

AGENTS & BROKERS

Perceived conflicts of interest trip U.K. brokers

BY SARAH VEYSEY

Eighty-six percent of small and midsize U.K. insurance buyers expect their brokers to get more than one bid for the coverage they need, but some intermediaries’ structure and revenue sources have resulted in “significant” conflicts of interest, according to a review by the industry’s regulator.

However, broker representatives say the issues raised by the U.K. Financial Conduct Authority were just a small part of a broader investigation and found no evidence that brokerages sell unsuitable insurance products.

The London-based FCA, which



published results of its thematic review last month, studied seven of the largest intermediaries that

serve small and midsize insurance buyers. It did not identify them.

“In some firms,” the FCA concluded, “control frameworks and management information have not developed at the same pace as business models.” Some intermediaries’ business structure and sources of revenue “created significant conflicts of interest, particularly where firms or groups fulfilled multiple roles in the distribution chain and acted as agent for both the customer and insurer in the same transaction.”

The FCA, which took over regulation of insurance brokerages

See CONFLICT page 33

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for protecting it.**



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SELLING RISK MITIGATION TO EXECUTIVES REQUIRES DATA, POLISHED PRESENTATIONS

Risk managers should show C-suite how efforts can help improve bottom line

BY BILL KENEALY

Risk mitigation investments — from flood barriers to sprinkler systems to specialized employee clothing — pose an extra cost for businesses and organizations, but risk managers can make a compelling case to spend the money through a thoughtful presentation that marshals insightful data and is backed by a coalition.

Still, they often face a tough audience when trying to convince top-level executives that spending on risk mitigation efforts helps the bottom line. Risk managers at mid-size companies may have fewer resources with which to make their case, making a strong presentation that much more essential to win the backing they need.

George Haitzsch, New York-based executive vice president and global solutions practice leader for North America with Willis Group Holdings P.L.C., said it's important to demonstrate to the C-suite that a project is financially attractive and benefits the overall corporate strategy through a precise cost/benefit analysis.

"What does securing a building in a catastrophe-prone region mean in the context of your larger corporate strategy? Tying into the overall aims of the organization is the ultimate goal," Mr. Haitzsch said.

When presenting the merits of a given mitigation effort, data and the patterns it creates are crucial to quantify the risk, Mr. Haitzsch said. Risk managers should also leverage internal backers such as human resources and the legal department, and external allies such as brokers, insurers and consultants to support the pitch.

"Quantification and assessment is really the key," Mr. Haitzsch said. "As a broker, we focus on analytics to help clients quantify risks in financial terminology that can help make sense for internal decision-making."

Brion Callori, Providence, Rhode Island-based senior vice president of engineering and research at FM Global, said risk mitigation requests that are research-based have a better chance of success than consensus-based requests.

"When risk managers come in to

EXTRA EFFORT MAKES COMPANY MORE QUAKE-SAFE

As Edward D. Jones & Co. L.P. underwent a building boom in recent years, Tod Huddleston realized the financial services firm needed to go beyond local building codes to ensure that its offices were safe from an earthquake along the New Madrid fault.

The seismic zone underlies parts of Arkansas, Illinois, Indiana, Kentucky, Mississippi, Missouri and Tennessee.

Accordingly, much effort went into ensuring the correct seismic design for each facility the company built, said Mr. Huddleston, the financial services firm's St. Louis-based facilities manager.

For example, while building codes focus on occupant safety and the integrity of structural components, much of a building's value involves non-structural components. Thus for the company's new buildings, the company chose an enhanced

design that limited damage, maintained business operations and reduced potential business interruption while also ensuring employee safety.

"For structural components, we paid about a 3% premium for enhanced design," Mr. Huddleston said. "For the nonstructural elements, the cost was nominal."

Mr. Huddleston said he was careful to frame the additional cost to seismically fortify the buildings in light of larger corporate objectives.

"Our main objective is to serve our clients," he said. "In order to do that, we need to have the proper facilities."

Senior management approved the plans for an enhanced design to make the buildings more quake-resistant. "We didn't get any pushback," he said.

By Bill Kenealy

speaking with our engineers, quite often the conversation will touch on how they can establish credibility with the C-suite," he said. "Credibility starts with assessment."

To aid risk manager clients, the insurer provides benchmarking tools that present chief financial officers with data to show how their risk profile compares with other firms in the industry.

"When dealing with the C-suite, a risk manager is ultimately selling to people that like numbers," Mr. Callori said.

Risk managers also need to present their case in a way that frames the underlying risk and mitigation alternatives without overwhelming the audience, said Thomas K. Varney, Chicago-based regional manager of North America for Allianz Risk Consulting L.L.C., a unit of Allianz Global Corporate & Specialty.

"Be succinct and understand what the issues are," Mr. Varney said. "You need to put the potential impacts in perspective, so do your homework and present an array of options."

"Risk professionals will always have an informed opinion about a risk when addressing the C-suite," Mr. Haitzsch said, "but being able to back out of that informed opinion to provide a range of recommendations based on crisply presented factual analysis is the key."

Indeed, Jay Jablonski, Hartford, Connecticut-based vice president



PRESENTATION POINTS

When pitching a particular risk mitigation effort to top-level executives, experts advise risk managers to:

- Provide a thorough cost/benefit analysis.
- Frame the mitigation plan in light of the company's corporate strategy and goals.
- Use clear, simple descriptions to avoid overwhelming the audience.
- Use available benchmarking tools to compare the organization with similar businesses.
- Tap internal and external supporters to bolster the argument.

of professional loss control at The Hartford Steam Boiler Inspection & Insurance Co., said presenting a variety of mitigation options is vital, and simple efforts often present the biggest bang for the mitigation buck.

SPRINKLERS

Using Insurance Services Office sample rates per square foot, the National Fire Sprinkler Association said fire insurance rates could be more than halved by installing sprinkler systems.



Condominium

No sprinklers rate	0.273
Sprinklers rate	0.103
Reduction	62%



Hotel

No sprinklers rate	0.257
Sprinklers rate	0.088
Reduction	66%



Office building

No sprinklers rate	0.110
Sprinklers rate	0.059
Reduction	46%



Food processing plant

No sprinklers rate	0.553
Sprinklers rate	0.062
Reduction	89%



Warehouse

No sprinklers rate	0.369
Sprinklers rate	0.048
Reduction	87%

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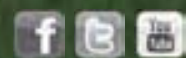


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STATES MOVE TO REVIVE PENSION PLAN FUNDING LEVELS

Public retirement systems changed to enhance finances

BY JERRY GEISEL

Alarmed by escalating costs and deteriorating funding levels, lawmakers in dozens of states have passed measures to shore up public pension programs in the past several years.

Several surveys have brought home just how much the funding levels of public pensions have slumped.

For example, plans covering just over 20 million employees and retirees — or 85% of state and local plan participants — had an average funded ratio of 73.5% in 2012, the most recent data available, according to a survey by the National Association of State Retirement Administrators and the National Council on Teacher Retirement.

By contrast, the plans were slightly more than 100% funded on average in 2001, with funding levels declining nearly every year since then, the survey found.

Benefit experts have numerous explanations for the decline in funding levels, with the most frequently cited reasons being rich benefit formulas, the inability or unwillingness of lawmakers to boost contribution levels and a growing pool of retirees collecting benefits as the baby boomer generation retires.

“In many states, there has been a failure to make contributions to the plans as recommended by plan actuaries,” said Sheldon Gamzon, a principal at PricewaterhouseCoopers L.L.P. in New York.

“In 15 of the last 22 years, state lawmakers have not put in what our actuary and board rec-

ommended,” said William A. Thielen, executive director of the Kentucky Retirement Systems in Frankfort, Kentucky.

In addition, when state lawmakers improved benefits, funding often was not increased to pay for the enhancements, said Keith Brainard, research director for the state retirement administrators in Georgetown, Texas.

Others say, before the current reform movement, that lawmakers gave into union demands to increase benefits.

“If your constituency is unionized state employees, you have an incentive to provide generous pension benefits,” said Christopher Mier, managing director of the analytical services division of Loop Capital Markets L.L.C., a Chicago-based global investment services firm.

But the growing costs of the plans have not gone unnoticed.

“It is fair to say that a majority of public retirement systems have made changes to make them more financially sustainable for the future,” said Greg Mennis, project director in Washington for The Pew Center for the States, a policy research organization.

For example, Kentucky lawmakers passed legislation last year covering the \$14 billion Kentucky Retirement Systems that bars cost-of-living adjustments for retirees unless the COLA or pension plan is fully funded.

Given the plan’s funding levels, “there will be no COLAs for the foreseeable future,” said the retirement system’s Mr. Thielen.

In addition, the law boosts the amount of state contributions going into the plan each year and

authorizes a lower-cost cash balance pension plan for future employees of the state of Kentucky.

In Kansas, legislation passed in 2012 requires employers participating in the Kansas Public Employees Retirement System in Topeka to make an additional \$500 million in contributions over the next 10 years.

At the same time, state employees will make higher contributions to their pensions. Employees who joined the plan prior to Jan. 1, 2009, this year contributed 5% of pay, up from 4%, and will contribute 6% of pay in 2015.

“It is fair to say that a majority of public retirement systems have made changes to make them more financially sustainable for the future,” said David Driscoll, a principal at Buck Consultants L.L.C. in Boston.

But not all legislative efforts aimed at improving the funding levels of public retirement plans have been successful.

In Illinois, for example, a circuit court judge last month put a 2013 pension reform law on hold until lawsuits filed by various employee organizations are decided. For example, the plan would gradually increase to age 60 from 55 the age at which teachers can retire and collect a full benefit.

Still, observers are optimistic that most states eventually will resolve their pension funding problems.

“I do believe the lion’s share of the problems will be resolved because they have to be resolved,” Loop Capital Markets’ Mr. Mier said. “It is a problem that can be confronted and dealt with,” though that will require leadership by elected officials.



FUNDING LEVELS

Wisconsin had the best funding level, defined as the ratio of assets to liabilities, and Illinois had the worst funding level for state employee pension plans as of 2012, the most recent data available.

State	Funded ratio*
Alabama	66%
Alaska	55%
Arizona	73%
Arkansas	72%
California	78%
Colorado	63%
Connecticut	50%
Delaware	91%
Florida	86%
Georgia	82%
Hawaii	59%
Idaho	85%
Illinois	41%
Indiana	67%
Iowa	79%
Kansas	60%
Kentucky	53%
Louisiana	56%
Maine	77%
Maryland	64%
Massachusetts	67%
Michigan	66%
Minnesota	76%
Mississippi	58%
Missouri	79%
Montana	65%
Nebraska	79%
Nevada	71%
New Hampshire	56%
New Jersey	61%
New Mexico	63%
New York	93%
North Carolina	95%
North Dakota	64%
Ohio	66%
Oklahoma	68%
Oregon	82%
Pennsylvania	65%
Rhode Island	63%
South Carolina	68%
South Dakota	93%
Tennessee	92%
Texas	83%
Utah	77%
Vermont	71%
Virginia	70%
Washington	97%
West Virginia	67%
Wisconsin	100%
Wyoming	80%

*Funding levels are weighted averages of state employee pension plans. Source: Loop Capital Markets L.L.C.

STATES FOLLOW TREND TOWARD HYBRID PENSION PLANS

Just as private-sector employers have moved away from traditional pension plans in favor of hybrid plans, some states have done the same.

Kansas, Kentucky, Louisiana and Nebraska have passed legislation creating cash balance plans for new state employees, though Louisiana’s effort is on hold following a legal challenge by a group of state employees.

Like their private-sector counterparts, public employers moving to cash balance plans are driven by several factors, such as trying to reduce costs and making the benefit more understandable, experts say.

In a cash balance plan, the benefit earned is equal to a percentage of current pay with interest, such as the rate on the 30-year U.S. Treasury bond, being added. Participants typically take the benefit immediately as a lump-sum when they retire, rather than a monthly annuity, a potential cost savings to the plan sponsor.

“Since benefits are frequently paid as lump

sums, the employer bears no longevity risk and the investment risk ends at the point of distribution,” said Sheldon Gamzon, a principal at PricewaterhouseCoopers L.L.P. in New York.

While cash balance plans’ benefit formulas resemble defined contribution plans, they are different in one key way: Employees are shielded from investment risk.

Among states, Nebraska took the lead in 2002 when it passed legislation enrolling employees hired on or after Jan. 1, 2003, in a cash balance plan where employees contribute 4.8% of compensation and the state contributes \$1.56 for every dollar contributed by employees. Participants get a minimum interest credit of 5%.

In 2012, Kansas passed legislation creating a cash balance plan for state employees hired on or after Jan. 1, 2015. Under the plan, employees will contribute 6% of pay, while employer contributions will range from 3% to 6% depending on employees’ years of ser-

vice. Interest credited will be at least 4%.

Last year, Kentucky approved a measure creating a cash balance plan for employees hired on or after Jan. 1, 2014. Most new workers contribute an amount equal to 5% of pay. Employers contribute an amount equal to 4% of pay, with employees’ account balances earning 4% interest annually.

But Louisiana’s 2012 attempt to create a cash balance plan was blocked last year by the state’s Supreme Court, which ruled the measure violated the state constitution by failing to win approval from at least two-thirds of state lawmakers. “We think the cash balance plan is good for the people of Louisiana because it helps get our retirement liabilities under control, protects taxpayers and provides new state employees with a portable retirement account that realizes investment earnings,” Louisiana Gov. Bobby Jindal said in a statement at the time of the June 2013 court ruling.

By Jerry Geisel

We are  insured.

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S&P questions G-SII for international insurers

■ The merits of the globally important insurer designation — G-SII — assigned to nine international insurers by the Financial Stability Board are not clear and may not outweigh its costs for both insurers and regulators, according to an analysis released by Standard & Poor's Corp. in London. The Basel, Switzerland-based FSB named nine insurers — Allianz S.E., American International Group Inc., Assicurazioni Generali S.p.A., Aviva P.L.C., Axa S.A., MetLife Inc., Ping An Insurance (Group) Co. of China Ltd., Prudential Financial Inc. and Prudential P.L.C. — as G-SIIs last July, and the board is expected to designate additional insurers as G-SIIs in November. G-SIIs would be subject to heightened regulatory oversight and more stringent capital requirements. "We recognize that large insurers are systemically important because of the role they play in the financial system," said S&P in "Insurers May Not Pose a Systemic Risk, So Do the G-SII Designation's Costs Outweigh Its Benefits?" but the rating agency questions "whether their potential failure poses a systemic risk in the same way that most large banks' would." S&P said it believes that the G-SIIs generally aren't too big to be allowed to fail because it's possible to resolve their liabilities post-failure without disrupting the financial system and without the injection of taxpayers' money.

German official calls for compulsory flood cover

■ Property owners in Germany should be required to insure against floods and other natural hazards, a senior German government official said. "We would do well to introduce an affordable insurance against natural hazards for everybody," Florian Pronold, parliamentary state secretary in Germany's Environment Ministry, told an industry conference, despite objections from the insurance industry, which sees obligatory insurance as unnecessary. Insurers paid out 1.8 billion (\$2.45 billion) on 140,000 damage claims from last year's severe flooding in southern and eastern Germany, but this was only a fraction of the total as many properties were uninsured. German insurance industry body GDV said providing better information to homeowners on the risks of damage from floods, heavy snow or landslides was better than creating a government-mandated program. "Obligatory insurance is a last resort, and I

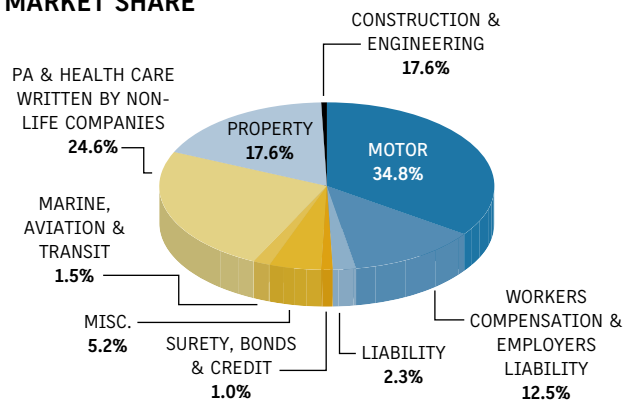
PROFILE: PORTUGAL

\$3.76
BILLION

Portugal continues to be severely affected by the financial crisis. The economy has grown marginally for the past two quarters, but few observers expect sustained growth over the next two years. As a result, few expect growth in the insurance market. Rates have fallen as insurers compete to maintain existing business. Claims managers report increased claims frequency and increased instances of fraud. Workers compensation is viewed as a major problem with falling rates and increased claims.

◀ 2012 P/C gross premiums

MARKET SHARE



Source: Axco Global Statistics/Industry Associations and Regulatory Bodies

COMPULSORY INSURANCE

Several classes of insurance are compulsory, including:

- Auto third-party liability
- Workers compensation
- Professional liability for various professions
- Liability insurance for managers of industrial parks
- Hunters' third-party liability
- Clinical trials liability

NONADMITTED

Unauthorized insurers cannot carry out insurance activity in Portugal, and it is tacitly understood that, in accordance with legislation that incorporates relevant E.U. directives, insurance must be purchased from locally authorized insurers. Insurers from European Economic Area states may provide insurance under freedom of services legislation.

INTERMEDIARIES

Brokers and agents have to be authorized to carry out insurance business. Intermediaries are not allowed to place business with nonadmitted insurers. Intermediaries operating in any E.U./E.E.A. country must be registered with their home authority and may do business in other member countries under freedom of services legislation.

MARKET PRACTICE

The diversity of insurers operating in the market and access to insurers under the freedom of services regime means that most risks can be covered without a problem. The legislation is largely complied with, although considerable use is made of fronting.

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



PORTUGAL

AREA

34,340 square miles

POPULATION

10.6 million

NUMBER OF P/C INSURERS

56

2014 GDP CHANGE (PROJECTED)

0.5%

would warn against introducing such a measure now," GDV President Alexander Erdland told the conference. The GDV represents 140 member companies, including Allianz S.E., Munich Reinsurance Co. and Talanx A.G.

Reuters

Coup won't drive car firms from Thailand

■ Thailand's second military coup in a decade will not scare off foreign car firms, who still prize its skilled labor force and network of parts suppliers, but expansion plans are on hold. The auto industry accounts for about 11% of Southeast Asia's second-largest economy, and most of the big global players use the country as a regional hub. "That will not change," said Takao Katagiri, Nissan Motor Co. Ltd.'s regional chief.

"There is a strong foundation there including the supplier network." In the short term, the turmoil that prompted the army to seize power in a bid to end seven months of sometimes violent street protests has not changed much for the big carmakers, who are likely to export around half the cars they make in Thailand this year. "What is happening now has not had a direct impact on actual livelihoods and corporate activities," Mr. Katagiri said. Scores of politicians were detained for a while after the coup and censorship imposed, but some Thais welcomed the relative calm and the return of functioning government. One Toyota executive familiar with the country agreed. "We'll take an orderly coup d'etat any time over a highly dysfunctional democracy that led to a gap in political leadership in Thailand over the past six months," he said.

Reuters

Shipping firms shy away from Iran despite deal

■ Global shipping lines are increasingly shying away from handling cargoes to Iran as restrictions on banking and insurance continue unabated, despite an interim agreement between Tehran and the West that called for limited sanctions relief. "The principle sanction against non-U.S. companies is that they can be denied access to U.S. banking, and therefore they can't trade in U.S. dollars," said Doug Maag of law firm Clyde & Co. "That is a very real and adverse result." Global shipping fees are transacted in U.S. dollars, which means dealing with Iran could make companies vulnerable to being frozen out of the U.S. financial system. Iran and Western governments reached an interim agreement in November last year over Tehran's nuclear

work in exchange for limited sanctions relief for six months — from January to July this year. Correspondence since January seen by Reuters shows that U.S. group United Against Nuclear Iran, whose board includes former heads of the CIA and British intelligence, continues to monitor European shipping companies on any deals with Iran. "The risks of doing business with Iran are still far too great to return. It is too soon," said Mark Wallace of UANI, which has targeted companies trading in Iran.

Reuters

Geneva Association makes key appointment

■ International insurance economics think tank The Geneva Association has named Anna Maria D'Hulster as secretary gen-

eral and managing director. Ms. D'Hulster will join the Geneva-based think tank Sept. 1 from swissQuant Group A.G. where she serves as chief financial officer. The Geneva Association said in a statement. "Her depth of insurance experience and knowledge combined with her management expertise will be instrumental as she leads the ongoing development of the association as the principal global representative of the insurance industry," Mike McGavick, the chairman of The Geneva Association and CEO of XL Group P.L.C., said in the statement.

Savage to leave Lloyd's, position will be divided

■ Luke Savage, Lloyd's of London's director of operations and finance for the past 10 years, will leave this summer, to take up the post of chief financial officer at Edinburgh, Scotland-based Standard Life P.L.C., Lloyd's said in a statement. His role at Lloyd's will be split into two positions, the market said: Shirine Khoury-Haq will join Lloyd's as director of operations, a new position on the Lloyd's executive team that will have responsibility for market operations, information technology and property services; and John Parry, currently head of finance at Lloyd's, will fill the new role of director of finance on an interim basis until a permanent appointment is made. Mr. Savage will begin at Standard Life on Aug. 18, the life insurer said in a statement.

Tech E&O consortium launched at Lloyd's

■ London-based Barbican Group Holdings Ltd. has set up a consortium to underwrite technology errors and omissions business at Lloyd's of London. The consortium is made up of Barbican's syndicate 1955, ANV Holdings B.V.'s syndicate 1861, Novae Group P.L.C.'s syndicate 2007 and Tokio Marine Kiln Group Ltd.'s syndicate 510. It will underwrite technology E&O business worldwide, Barbican said in a statement. The insurance will cover a range of buyers including software developers, hardware manufacturers, Internet and application service providers, data hosting and data storage companies, telecommunications systems, and system and data integration providers.

Willis buys stake in Swedish benefits firm

■ Willis Group Holdings P.L.C. has bought a controlling stake of about

75% in Stockholm-based employee benefits adviser Max Matthiessen A.B. Willis would pay \$205 million for the stake, subject to regulatory approval, the broker said in a statement. Max Matthiessen employs about 420 people across 23 locations in Sweden and reported net income of about \$17.4 million for 2013, Willis said in the statement. The companies have operated a strategic partnership since 2009. On completion, Willis would have about a 75% stake in the com-

pany, and its employees the remaining 25%, Willis said in the statement. Max Matthiessen will retain its brand and organization, according to the statement.

Trade credit insurance demand up in U.K.: Marsh

■ Companies in the United Kingdom are showing increased demand for trade credit insurance,

despite a fall in the overall number of insolvencies in the country, according to Marsh Ltd. Increased concern about the vulnerability of trading partners, coupled with average rate reductions of about 20%, have sparked increased demand for trade credit insurance coverage, particularly among large U.K. companies, said Tim Fisher, leader of Marsh's U.K. trade credit practice, in a statement. According to figures from the U.K. Insolvency Service, in the

12 months ended March 31 of this year, one in every 167 active companies in the United Kingdom went into liquidation compared with one in 165 in the 12 months ending March 31, 2013. "Many organizations are more risk-averse as a result of the recession and are acutely aware that even a slight increase in bad debt and interest rates could derail their firm's recovery as the economic outlook improves," Mr. Fisher said in the statement.



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EDITORIAL

DON'T EXPECT EASY TRIA EXTENSION

The first major vote on reauthorizing the federal government's terrorism insurance backstop turned out to be easier than almost anyone predicted when the Senate Banking, Housing and Urban Affairs Committee gave its unanimous blessing to a bill that would extend the program for seven years.

But the relative ease with which the Terrorism Risk Insurance Reauthorization Act of 2014 won the approval of a key committee last week shouldn't lull extension supporters, a group that includes *Business Insurance*, into a false sense of inevitable victory. Although the bill should win approval of the full Senate, every indication is that the House Financial Services Committee will take a far different approach to reauthorization, an approach supporters of the program will no doubt find less appealing.

Three extension bills have been introduced in the House of Representatives, but an as-of-yet-unveiled measure from the House Financial Services Committee is most likely to be the House's legislative vehicle. Even though the final bill hasn't been introduced, sources say it will call for a three-year extension that would require insurers to bear a greater portion of the losses stemming from any future catastrophic terrorist attack. Given that the Senate bill's less burdensome requirement for higher insurer co-pays drew concern from insurers, the House bill is likely to be even less palatable.

The wide differences between the House and Senate approaches appear likely to stall agreement on a final extension bill, absent some sort of legislative miracle that's in very short supply in Washington these days. Key figures in the House debate — including Housing and Insurance Subcommittee Chairman Randy Neugebauer, R-Texas — repeatedly have pointed out that the program, initially created by the Terrorism Risk Insurance Act of 2002, was supposed to be temporary, designed only to give a private insurance market for terrorism coverage time to develop. Although there was, and remains, a stand-alone terrorism insurance market, it is far too small to meet widespread demand should the current program expire as slated on Dec. 31.

Winning the Banking Committee vote may have been easier than expected, but it's merely the first step of what promises to be an arduous journey toward ultimate extension of a program that's vital not only to risk managers and the insurance industry, but for the American economy.

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.

Please send your letters to:

Letters to the Editor, *Business Insurance*,
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SCHILLERSTROM



COMMENTARY

IT'S TIME FOR INSURERS TO STEP UP ON PRIVATE FLOOD COVERAGE

When a massive mudslide reshaped a hillside in western Colorado after heavy Memorial Day weekend rains, I was reminded how few of these natural catastrophes are covered by insurance.

Similar torrential rains drenched Colorado's Front Range last fall. But few of the properties that were damaged or destroyed when the St. Vrain Creek overflowed its banks were covered by insurance, since flood is not a covered peril under standard homeowners and small business owners policies.

While large businesses affected by last year's historic Colorado flooding may have been able to tap their commercial property catastrophe coverage to pay for flood damage, few homeowners and mom-and-pop businesses had coverage. According to the Rocky Mountain Insurance Information Association, only 22,000 National Flood Insurance Program policies were in force statewide at the time of the September floods, representing only 1% of the total number of households in Colorado.

Likewise, nearly one-third of small and midsize businesses that suffered financial losses in the aftermath of Superstorm Sandy in 2012 had neither NFIP nor private flood coverage, according to a report released in April by the Federal Reserve Bank of New York.

Given the increasing awareness among homeowners and small-business owners of the need for insurance to respond to such losses, entrepreneurial agents, brokers and underwriters need to seize the day.

Given that 76% of U.S. workers are living paycheck to paycheck in this post-Great Recession economy, odds are they don't have the financial wherewithal to



**JOANNE
WOJCIK**

SENIOR EDITOR

recover from natural catastrophes without the benefit of insurance.

According to a recent survey by Bankrate.com, less than 25% of us have enough money in savings to cover at least six months of emergency expenses — the amount financial planners say we should have on hand to help cushion the blow of a job loss, medical emergency or some other unexpected

event, such as having your house slide off its foundation because of a mudslide. But we can afford to squirrel away a few extra dollars from each paycheck to pay for the peace of mind that we would be covered in the event of a catastrophic loss.

Kasey Vaughn, vice president and managing director at wholesale broker and underwriting manager Burns & Wilcox Ltd. in Morehead City, North Carolina, told *Business Insurance* recently that he has never before had so many agents ask about private-sector solutions to the need for flood insurance. Gainesville, Florida-based The Flood Insurance Agency began writing private-market flood insurance in November that mirrors the terms and conditions of coverage under the NFIP. But that coverage is only available in 19 states, and not in Colorado or New York.

Don't you think it's time for the insurance industry to come up with some meaningful private-sector solutions?

SPECIAL REPORT

Public Risk

Management

States review workers comp presumption laws

PAGE 15

Legacy IT systems create exposures for public entities

PAGE 16



Guarding against workplace violence

Teach employees how to report concerns

BY JOANNE WOJCIK

A comprehensive program to prevent workplace gun violence begins with vigilance and teaches employees to know whether to run, hide or fight back. Workplace violence prevention experts recommend that employers train employees to be aware of security breaches, aberrant behavior and

other potential threats, and require that they report such incidents to a centralized repository where a cross-functional threat assessment team can review them and recommend risk mitigation measures to implement.

Employers also should have an emergency response plan in place that includes communication protocols,

See **VIOLENCE** next page

MASS SHOOTINGS

Recent mass shootings involving public entities

Year	Location	Dead	Injured
2014	Fort Hood, Texas military base	4	16
2013	Washington Navy Yard	13	8
2012	Newtown, Connecticut school	28	2
2009	Fort Hood, Texas military base	13	30
2008	Northern Illinois University	6	21
2007	Virginia Tech University	33	23

Source: Public records

VIOLENCE

Continued from previous page

provides pertinent building and facility information to local law enforcement officials, and trains employees how to protect themselves, experts say.

If an incident does occur, employers should contract with crisis behavioral health care providers to address any lasting effect on employees individually and the organization as a whole, experts advise.

"I've never encountered a situation where there hasn't been 20 different signs that something was going to happen. A lot of people knew about it, but they didn't know what to do, so they didn't take action," said Dr. Teresa Bartlett, senior vice president of medical quality at Sedgwick Claims Management Services Inc. in Troy, Michigan. "It's kind of like when you're in an airport: 'When you see something, say something.' It's got to be ingrained in the culture."

"Whether it's risk management or the security department, they can't really do anything about a situation unless we know about it," said Regan Rychetsky, director of health and human services, enterprise risk management and safe-

ty for the Texas Health and Human Services Commission in Austin, Texas.

"The indicators are always there, whether it's workplace violence, school, college, whatever. It's just whether or not we're collecting them and getting them to the right people," said Rick Shaw, CEO of Awareness Inc., a Lincoln, Nebraska, firm that conducts post-mortem assessments of incidents of workplace violence.

There were at least 60 incident reports prior to the April 16, 2007, shooting at Virginia Polytechnic Institute, but the school had no central repository to collect that data, such as a dedicated database where all of these various types of information could be stored and analyzed, he said.

"They just didn't have a way of collecting and connecting the dots," Mr. Shaw said. "What if all of the Virginia Tech incident reports were routed to a threat assessment team?"

Following a handful of workplace violence incidents several years ago, including one that resulted in a fatality, Mr. Rychetsky developed a computer-based workplace violence awareness training program that all 54,000 of the Texas commission's employees are required to take as new hires and biennially.

"Some employees didn't know how to report, so we wanted to make sure that we got that information out to employees," he said.

Reports are submitted electronically and emailed to mailboxes set up for the region, state office and director's office. They can also be printed and faxed if email is down. The reports are reviewed by incident management teams in each of the commission's 11 regions whose "only focus is to assess and manage threats of violence in the workplace," Mr. Rychetsky said.

A multidisciplinary group within the region that is familiar with Texas HHS' workplace violence policies and procedures conducts "roundtable discussions to determine whether or not we believe the threat to be credible based on the information we have, and then we determine what mitigating actions need to be taken as far as security, safety, information going out to staff," Mr. Rychetsky said. Group members include regional director, business manager, agency regional directors, risk/safety and others as needed.

Mr. Rychetsky said he is preparing to update the program, which won a national achievement award from the Public Risk Management Association in 2009, with new information on responding to an active shooter in the workplace, using the City of Houston's six-minute "Run. Hide. Fight." video (see box).

"It's quick, intense. It gets the

Domestic violence poses major threat to workplaces

The estranged husband of a female employee of the Texas Health and Human Services Commission was arrested recently in the lobby of his ex-wife's workplace after one of the commission's incident management teams assessed the situation and recommended risk mitigation steps be taken.

"We had measures in place where he was stopped in the lobby and taken to jail," recalled Regan Rychetsky, Austin, Texas-based director of health and human services, enterprise risk management and safety for the commission.

"Domestic violence is one of the primary threats in our workplace—in anyone's workplace, really," said Mr. Rychetsky, who estimates at least one-third of workplace violence stems from violent home situations.

To prevent domestic violence from spilling over into the workplace, "you have to have a cultural shift for an employee to feel comfortable enough to come forward. A lot of times, employers believe it to be a personal matter. The reality of the situation is that current or former partner knows where that person is eight to 10 hours a day, and probably knows

her co-workers and how to access the building, which makes it a workplace issue."

"If she comes forward in our workplace, we take measures to improve her safety immediately," which might mean finding an alternate work location or protected parking, Mr. Rychetsky said.

"Then we ask if they have a protective order and, if not, if they would be interested in obtaining one, and I would give them some information to help them obtain one because if they're leaving an abusive partner, that's the most dangerous time for them," he said.

"More women are killed when they leave their abusive partners than at any other time in their relationship," Mr. Rychetsky said.

Often, he said, stalking and domestic violence go hand-in-hand.

"We are constantly searching for new resources for employees who have witnessed or been in the same office where incidents have occurred," he said. "In the aftermath, we have EAP, critical incident stress management, disaster behavioral health treatment."

By Joanne Wojcik

"Domestic violence is one of the primary threats in our workplace—in anyone's workplace, really."

Regan Rychetsky,
Texas Health and Human
Services Commission

SAFETY TIPS

Keeping safe when gun violence breaks out in the workplace

RUN

- If there is an escape path, attempt to use it.
- Evacuate whether others agree to or not.
- Leave belongings behind.
- Help others escape if possible.
- Prevent others from entering the area.
- Call 911 when safe.

HIDE

- If an evacuation is not possible, find a place to hide.
- Lock and/or blockade the door.
- Silence cell phones.
- Hide behind large objects.
- Remain quiet.

FIGHT

- Attempt to incapacitate the shooter.
- Act with physical aggression.
- Improvise weapons.
- Commit to your actions.

Source: "Run. Hide. Fight." by the City of Houston

information across. It's probably the best that I've seen for such a short video," Mr. Rychetsky said.

In the "Run. Hide. Fight." video, a group of male employees who locked themselves in a copy machine room open the door and hit the shooter with a table.

In addition to regularly practicing emergency situations through simulations or drills to show employees how to evacuate or take cover if there is an active shooter in the workplace, Sedgwick's Dr. Bartlett recommends that employees be trained "to identify when somebody has a dramatic change in their personality—for example, a colleague who used to be a happy person who now doesn't talk to anybody and is very distraught. Or say someone is sitting at their desk, talking to themselves about going to their car to get a gun."

In such a situation, an employer is within its rights to refer that employee to an employee assistance program to undergo a "fitness for duty" evaluation, Dr. Bartlett said. "It's well within management's purview to tell them 'We don't want you coming back to work unless you get some care,'" she said.

she said.

"I don't think we're doing enough educating people. We all need to be vigilant, and management needs to respond immediately," said Dr. Ewa Antonowicz, clinical director at ComPsych Corp., an EAP based in Chicago.

According to Dr. Antonowicz, red flags such as extreme emotions, erratic behavior and isolation from others "all need to be taken seriously. Sometimes management is afraid of sitting down with those employees and having that one-on-one discussion. We cannot predict violence. If we could, there would be no violence in this world. Employers need to have workplace violence policies and procedures in place and make sure that management and employees are educated on those policies and procedures."

In response to lessons learned from recent incidents of workplace violence, policies to prevent and respond to such incidents "have been expanded beyond focusing on actual violence to also encompass threats, intimidations, use of physical force that endangers or causes a person to be fearful. It's now a 'reasonable person test,'" said Bob

VandePol, executive director of the EAP program at Pine Rest Christian Mental Health Services, a Grand Rapids, Michigan, behavioral health service provider, and former president of Crisis Care Network, a Wyoming, Michigan, firm that provided critical-incident response services to Virginia Tech in the wake of the 2007 shootings.

"A lot of workplace violence professionals identify four stages of a program: prevention, mitigation, response and post-incident. EAP has a place at the table in each of those," Mr. VandePol said. "They can be engaged in training on violence prevention, conflict management, stress and anger management. They can also be engaged in development of reporting procedures and policies. If there are some warning signs, they can be a resource for referral to counseling. They can also provide fitness for duty evaluations."

The EAP also can be part of a threat-assessment team, said Mr. VandePol.

"Post-incident, an EAP can be involved in consulting and building communications, fatality announcements and resilience briefing," he said.

States revisit presumption laws on police, firefighter health issues

Expansion of workers comp coverage may follow

BY STEPHANIE GOLDBERG

Recent tragedies and medical research have prompted several states to consider expanding their workers compensation presumption laws for public employees.

Presumption laws in many states have long granted workers comp benefits for firefighters, police officers and other first responders who develop heart and lung disease and who, by law, are presumed to have developed the diseases because of their work.

Sources say a push to cover mental health conditions, such as post-traumatic stress disorder, developed after the December 2012 shooting at Sandy Hook Elementary School in Newtown, Connecticut, and the July 2012 theater shooting in Aurora, Colorado.

Meanwhile, studies that have found higher cancer risks for firefighters and other first responders also back efforts to increase cancer presumptions under state workers comp laws.

While such benefits aid public safety workers, public employers are concerned that expanded presumption laws increase their workers comp costs for conditions that could have developed outside of work.

"There's greater scientific knowledge, but that doesn't mean that it's all attributable to the workplace, and municipalities are very vigorous in their opposition of expanding the costs of workers compensation," said Peter Burton, Wayne, Pennsylvania-based senior division executive for state relations at NCCI Holdings Inc.

At least seven of the 160 workers comp bills enacted in 2013 involved presumptive disability benefits for public employees, and at least three states passed mental health presumptions for first responders, according to the National Conference of State Legislatures. Other states added presumptions for certain types of cancer and infectious diseases, or extended coverage to volunteer and emergency services workers.

According to the International Association of Fire Fighters, more than 40 states have some type of presumption that protects public employees from occupational diseases, such as heart and lung disease, cancer, infectious diseases or mental health problems.

"Risk managers understand that firefighters have a challenging job

and are sometimes in dangerous conditions, but risk managers are also concerned about the high cost, or the potential cost of presumption. See **PRESUMPTION** next page

RECENT PRESUMPTION LAWS

Missouri

S.B. 1 – Expanded workers compensation benefits related to psychological stress for peace officers. Signed into law in July 2013.

Montana

H.B. 404 - Recognizes psychological stress as an occupational disease for paid police officers. Signed into law in June 2013.

Minnesota

S.B. 1234 - Modifies workers comp coverage requirements to include mental health-related injuries. Signed into law in May 2013.

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Outdated computer systems, stretched budgets make public entities prime targets for hackers

Security staff struggle to win increased funding to protect information

BY JUDY GREENWALD

DATA BREACHES

The most widely publicized data breach involving a public entity was the late-2012 attack involving the South Carolina Department of Revenue, which said about 3.6 million Social Security numbers and 387,000 credit and debit card numbers were exposed in a cyber attack. Data breaches involving public entities so far in 2014 include:

Agency	Reported	Records affected
Iowa State University	April	48,729
University of Pittsburgh Medical Center	April	27,000
Mission City Community Network, California	April	7,800
University of Massachusetts Memorial Medical Center	May	2,400
City of Crossville, Tennessee	April	2,100

Source: Identity Theft Resource Center

While the high numbers for public entities likely were due to agency reporting requirements rather than higher targeting, “everyone is vulnerable to some type of event,” according to the analysis.

Steps that public entities can take to address the issue include closely monitoring their systems, experts say (see story, page 17).

“During times of budget cut-backs, security is an afterthought,” said K. Mig Hofmann, information security officer at San Francisco State University. “People ‘really resent it when I’m asking for millions’ for cyber security. ‘It’s perceived sometimes, as selfish,’ not as reducing risk, she said.

“You can’t go a week without seeing (public entities) in the press having some kind of a cyber-breach event,” said Mark Greisiger, president of Gladwynne, Pennsylvania-based NetDiligence, which provides cyber risk man-

agement and information security services as the marketing arm of Network Standard Corp.

Public entities have extensive personal information, whether it is related to health services, prisons or the taxpayer system, and “they don’t have the most sophisticated (information technology) departments,” he said.

“The risk of having legacy systems is very high because, in many cases, the servers, the systems are not being patched; the vendor has gone away or has been acquired or is out of business, and there’s no support available for the software of the system; or the historical knowledge of the system is very minute,” said Cary Sholer, an

Cash-strapped public entities face serious problems related to legacy data systems no longer supported by their current software providers, leaving them vulnerable to hackers.

Public entities were the No. 1 target of hackers in 2013, according to a Verizon Communications Inc. analysis of U.S. data breaches.

Public entities accounted for 75% of the more than 63,000 U.S. hacker attacks in 2013, but were No. 2 at 13% of the more than 1,300 cases of confirmed losses of data, according to the Verizon analysis.

The finance industry was No. 1 in 2013 data losses due to hackers.

PRESUMPTION

Continued from previous page

tion laws,” said Scott Moss, property/casualty trust director of Citycounty Insurance Services in Salem, Oregon. “It’s a balance.”

“Our actuary required additional funding when the (Oregon) cancer presumption law passed (in 2009),” Mr. Moss said of the pool that represents 350 cities and counties in Oregon. “So we do have to charge members more than what we used to for the presumption exposure.”

Some opponents of expanded presumption laws want to more clearly define what’s meant by “unusual” or extraordinary” events when it comes to first responders, said Mark Walls, St. Louis-based workers compensation market research leader of Marsh L.L.C.’s Workers’ Compensation Center of Excellence.

First responders are trained to react to stressful circumstances they might encounter as part of their duties and it might be inappropriate to presume that they would suffer from post traumatic stress, he said.

That was a concern for some legislators in Connecticut, where a bill that would have provided mental health coverage to first responders failed in the wake of the Sandy Hook shooting.

What blurs the lines further is that public safety workers in some states have occupational disease protection outside the workers comp system, said Ann Gergen, managing director of the Association of Government Risk Pools.

For example, Pennsylvania provides “physical and psychological first aid” to police officers and other personnel involved in shootings, according to the International Association of Chiefs of Police in Alexandria, Virginia.



A 2013 study by the National Institute for Occupational Safety and Health found that firefighters have increased rates of cancer.

Connecticut lawmakers now are considering a similar bill that would “expand workers compensation coverage to individuals suffering from post-traumatic stress disorder as a direct result of witnessing the death or maiming of another human being” due to intentional acts of violence, according to the Connecticut General Assembly website.

Just as Sandy Hook increased mental health awareness and led states to consider new legislation, a 2013 study by the National Institute for Occupational Safety and

Health found that firefighters have increased rates of cancer. That data has led to an influx of proposed cancer presumptions, said Jim Brinkley, Washington-based director of occupational health and safety at the International Association of Fire Fighters.

“There’s a lot more knowledge of how these unsafe work conditions that various people operate in can cause cancer over an extended period of time,” the NCCI’s Mr. Burton said.

Experts said opponents argue that the evidence is inconclusive about work-related

BENEFITS PUSH FOR INFECTIOUS DISEASES

A push for benefits related to infectious diseases could be the next trend in workers compensation presumption legislation.

The International Association of Fire Fighters wants firefighters to receive coverage for infectious diseases, such as methicillin-resistant *Staphylococcus aureus*, said Jim Brinkley, Washington-based director of occupational health and safety for the association.

MRSA “is an emerging disease that we’re seeing a higher incidence of within our population, (as well as) hepatitis A, B and C,” Mr. Brinkley said.

While more than 35 states include heart disease in firefighter presumption laws, only about 25 states include infectious diseases, according to the firefighters association.

By Stephanie Goldberg

cancer, citing a 2009 study by the Washington-based National League of Cities that, after examining about 70 other studies from 1995-2008, concluded firefighters don’t have a higher risk of cancer.

Evidence that links – or doesn’t link – certain occupational diseases to firefighters, police officers and emergency services workers is no match for politics when it comes to workers compensation, Mr. Burton said. In the end, presumptive disability laws often depend on the political climate of each state, he said.

information security professional at Seattle-based consultant Farallon Risk Group L.L.C.

As a result, “you have the combination of unpatched, unsupported systems with no internal insight or knowledge.” If there were a breach or attack, “it would take a very long time to get it back on-line,” Mr. Sholer said.

John Coletti, New York-based underwriting manager of cyber liability at XL Group P.L.C., said even when there is support, it’s comparable to playing Whac-A-Mole as software providers try to keep ahead of hackers.

Public entities, “some of the largest IT owners in the country, are always going to struggle with legacy issues associated with their database infrastructure, so it’s obviously a challenge as technology changes,” said Joe Blasi, Houston-based executive vice president at broker McGriff, Seibels & Williams Inc. “How do you remain current? How do you finance that?” he asked. Antiquated systems highlight “the need for some sort of risk management, some

sort of risk transfer solution.”

Microsoft Corp.’s withdrawal of support for its Windows XP program in April, for instance “is just one example of the challenges of utilizing an early-model IT system,” he said.

Following complaints, Microsoft relented and offered an XP patch, but some experts still recommend that users would be best served by switching to Windows 7.

Public entities’ vulnerability varies, said Philip Bell, executive director at Clemmons, North Carolina-based County Reinsurance Ltd. “My own take is that the larger entities,” including state governments, “probably have the greatest risk because their data capacities are so large and their data needs are so large.”

“It’s not a top-priority problem at the moment” among public entities, said Mr. Blasi. “I don’t believe elected officials and the top administrators within governmental entities are directing their administrations to pursue solutions as aggressively as perhaps they should be.”

Data protection efforts require risk management approach

Public entities must take a proactive stance in addressing their data systems’ vulnerabilities to hacker attacks.

“It’s Risk Management 101. You have to try to quantify and qualify your actual exposure, financial or otherwise, and obviously that means you’ve got to engage the (information technology) folks within the organization to think like a risk manager,” said Joe Blasi, Houston-based executive vice president at broker McGriff, Seibels & Williams Inc.

“Once you’ve got your arms around what the actual exposure is,” solutions can include insurance or self-insurance, he said, adding that it also is important for all departments and agencies to collaborate on the issue.

Even if public entities do not have the resources to defend the entire system, they should focus on the biggest risks, said Daniel Howell, San Fran-

cisco-based executive vice president and managing director of Alliant Insurance Services Inc.’s public entity group.

Of particular concern is health care-related information. “Public entities have more of that than they think they do,” Mr. Howell said.

Public entities also should consider the controls third-party providers have in place, said Anne Corona, San Francisco-based managing director of Aon Risk Solutions’ financial services group.

“Pick someone and tell them they are now in charge of all data privacy issues,” said John F. Mullen, a partner at law firm Lewis Brisbois Bisgaard & Smith L.L.P. in Philadelphia. Otherwise, “everyone assumes someone else is doing it.”

Also, the person in charge of data privacy issues should have “some clout” and decision-making authority, he said.

By Judy Greenwald

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SPECIAL REPORT

Catastrophe Risks

Businesses follow homes into areas with high fire risks

PAGE 19

Building beyond code saves firms money over the long haul

PAGE 20

Storms test resilience of Northeast

Businesses face up to risks previously associated with Southern states

BY RODD ZOLKOS

TOP 10

The 10 costliest U.S. catastrophes in 2013 dollars

Rank	Date	Event	Cost at occurrence	Cost in 2013 dollars
1	August 2005	Hurricane Katrina	\$41.1 billion	\$47.6 billion
2	September 2001	World Trade Center/ Pentagon terrorist attacks	\$18.8 billion	\$23.9 billion
3	August 1992	Hurricane Andrew	\$15.5 billion	\$23.4 billion
4	October 2012	Superstorm Sandy	\$18.8 billion	\$19.0 billion
5	January 1994	Northridge earthquake	\$12.5 billion	\$18.0 billion
6	September 2008	Hurricane Ike	\$12.5 billion	\$13.4 billion
7	October 2005	Hurricane Wilma	\$10.3 billion	\$11.9 billion
8	August 2004	Hurricane Charley	\$7.5 billion	\$8.9 billion
9	September 2004	Hurricane Ivan	\$7.1 billion	\$8.5 billion
10	April 2011	Flooding, hail, wind	\$7.3 billion	\$7.5 billion

Source: Property Claim Services division of Verisk Analytics Inc.

"We have clients who have two or three sub-basements. All of them were underwater post-Sandy and suffered extensive damage."

Al Tobin, Aon Risk Solutions

Many businesses in the hurricane-prone U.S. Southeast or earthquake-prone West Coast have factored resilience to natural catastrophes into their businesses for years, but it took Hurricane Irene in 2011 and Superstorm Sandy in 2012 to open eyes to the need to withstand a disaster in the Northeast.

"The combination of Irene and Sandy has really reinvigorated the focus in the Northeast on resiliency," said Brion Callori, senior vice president of engineering at FM Global in Johnston, Rhode Island.

In the lower Manhattan area of New York and other coastal areas that experienced storm surge and flooding from Sandy, a common problem was damage to systems frequently placed in basements, such as heating and air conditioning, communications and data systems, and the backup generators and fuel supplies on which many businesses hoped to rely when power was lost.

"Traditionally, utilities are placed in the basement," said Edward Haas, managing consultant at Marsh Risk Consulting in New York. "Building owners are now challenged with the choice of how to protect flooded basements in the future."

"They can choose to elevate the utilities, which is what is typically done in Florida," Mr. Haas said. "They can harden buildings. We've seen some conversions of loading docks into utility space. Some companies have gone full-tilt with flood walls."

"None of these are easy choices," said Mr. Haas. "It's always difficult to give up rentable, leasable space."

"Florida has very stringent windstorm codes, which we do not have in the Northeast," said Joe Stavish, senior vice president and director of property risk control engineering at Willis North America Inc. in New York. "Of course that's changing."

"We have clients who have two or three sub-basements," said Al Tobin, managing principal at Aon Risk Solutions' national property practice in New York. "All of them were underwater post-Sandy and suffered extensive damage."

Since Sandy, "a lot of significant investment was made, some of it with insurance money, some of it with a significant amount of the insured's money," Mr. Tobin said.

Some clients had fuel tanks in their basements, Mr. Tobin said. In some cases, "the oil tanks were half full and floating around." Those that ruptured caused an environmental issue that made cleanup even more difficult. Today, some building owners have braced the tanks, while others have entered into contracts to fill the tanks prior to a forecast storm to keep them from floating.

Wind is another factor Northeast companies should consider in their resilience plans, even if Sandy's winds didn't exceed buildings' designed tolerance levels.

"The message with wind is don't fall asleep," FM Global's Mr. Callori said. "A lot of our clients have been looking at their roofing throughout the Northeast."

"Most commercial buildings typically have something on the roof," said Gregory Lanshe, assistant vice president and director of risk engineering for North American prop-

erty at Zurich Insurance Group Ltd. in Schaumburg, Illinois. High winds can not only push an HVAC system off a roof, but also damage the roof and allow water to enter the building.

Companies' resilience responses differ by building and the nature of the business, said Mr. Lanshe. "If they have a very robust structure, their planning and response might be different than someone with a weaker structure." Likewise, a hospital's approach to resilience might differ from a distribution center's, he said.

Mr. Stavish said power outages following Sandy, flooding that knocked out generators, or ingress and egress issues that prevented the refueling of generators showed that "without power, you can't operate." He said he's seeing some companies entering into contractual arrangements with fuel suppliers to help address the issue, while others are increasing on-site fuel reserves.

Many are also entering into advance contracts with catastrophe recovery companies to ensure they'll be served quickly after an

event, Mr. Stavish said.

Sandy showed many Northeast businesses the importance of including business continuity planning in catastrophe resilience efforts.

"Physical defenses only do so much," Mr. Haas said. "The most important thing is to avoid disruption to your business operations through good contingency planning."

"A lot of organizations ended up spending a lot of time on the planning process as well," said Tracy Knippenburg Gillis, global reputational risk and crisis management leader for Marsh Risk Consulting in New York. "A lot of organizations didn't have physical damage (after Sandy), but either their employees did or they were having trouble getting (to work) and they were without power."

Sandy also demonstrated to many in the Northeast the need to think beyond their own walls when dealing with catastrophe resilience, and the fact that a regional approach is needed in some cases.

"A core challenge is that many of the things that have to be done have to be done outside of any one organization because of the interdependency issue," said Stephen E. Flynn, professor of political science and founding director of the Center for Resilience Studies at Northeastern University in Boston.

For example, many businesses' ability to remain in operation depends on the survival of their facilities as well as the ability of local transportation systems to get people to and from work, he said.

Putting together core processes that straddle public/private lines "is something we're in the very early phase of figuring out how to do," Mr. Flynn said.

Already there's a recognition of the need for more robust capacity in areas such as transportation, communications and energy, along with an understanding that those capabilities can't be achieved by any one entity, he said.

"Something that has to be nurtured here is a conversation across the public entities who are responsible for disaster recovery and disaster planning and the large employers," Mr. Flynn said.

PROTECT VITAL DATA INFRASTRUCTURE

Major disruptions caused by Superstorm Sandy led many businesses in the Northeast to reconsider how they build resilience into the data processing and communications portions of their operations.

When Sandy hit, many companies assumed their computer operations would be unaffected because they'd arranged for "hot site" backup facilities, said Joe Stavish, senior vice president and director of property risk control engineering at Willis North America Inc. in New York. A hot site is a duplicate of the main computer system located at an off-site facility to which operations can be transferred in the event of a disaster.

"The philosophy was (backup facilities) shouldn't be in the same building or even across the street, but 20 or 30 miles away should be OK," Mr. Stavish said. But because Sandy was a regional catastrophe with power and communications disruptions affecting a much wider area, many backup hot sites have been moved hundreds of miles away, he said.

"Vital digital infrastructure — computer-based systems — are different than what we normally think about with bridges," said David Woods, a professor of integrated systems engineering at Ohio State University in Columbus, Ohio. "We need to think about the fact that so many of our activities are dependent on digital services."

Mr. Woods was involved in a recent case study examining the computer resilience of a financial sector company where "everything is digitally based," he said.

The company tested its resilience by taking down data centers in off hours to see if it could restore service. "The problem was they looked at one data center at a time. So (Hurricane Irene) led them to think about 'We can have multiple data centers affected by one event,'" he said.

"They discovered that a variety of their plans wouldn't work if they were confronted by a large-scale event that affected more than one data center," Mr. Woods said.

Sandy's disruption of power and communications also prompted many companies to rethink plans to rely on cellphone communications and employees' ability to work online from home when offices were inaccessible. "Now all the companies are looking at multiple redundancies for Internet communications," said Mr. Stavish.

For continuity, "we have a lot of conversations with people about whether they wanted to purchase satellite phones or whether they wanted to purchase individual power packs for certain executives," said Tracy Knippenburg Gillis, reputational risk and crisis management leader for Marsh Risk Consulting in New York.

By Rodd Zolkos

Building development puts more firms in path of catastrophic wildfires

BY DOUGLAS McLEOD

Wildfire is a growing risk for property owners in many states as development pushes into rural areas and as climate change worsens the hot, dry conditions that lead to major conflagrations.

While insured losses from wildfire are still dwarfed by losses from other types of catastrophes, such as hurricanes, they have grown costlier in recent years and are occurring in states where they haven't historically been a problem, such as Colorado, according to the Property Claims Services Division of Verisk Analytics in Jersey City, New Jersey.

Businesses are increasingly following residential development into outlying areas of the "urban/rural interface," increasing commercial exposure.

And tinderbox conditions may only get worse: Drought and rising temperatures caused by climate change — and tree deaths caused by resulting insect infestations — are likely to lead to vastly larger burned areas in the western U.S. in coming years, according to the National Climate Assessment released by the White House in May.

"I think the risk is higher than it's ever been, and I think that will continue," said Craig Garlock, a senior consultant with Aon Global Risk Consulting in Los Angeles.

Businesses can take steps in building and maintaining properties to minimize fire damage and should have contingency plans in place to minimize business interruption losses, risk management experts say.

While several of the largest recorded wildfires have occurred in Alaska — including a series of fires in 2004 that burned 1.3 million acres — most of the costliest fires have been in California. Of 23 wildfires labeled catastrophes by PCS since 1950, 16 were in California and produced about \$6 billion of a total \$8 billion in losses, said Joseph Louwagie, a PCS assistant vice president. Colorado has had three catastrophic wildfires, all since 2004, while Arizona, Florida, New Mexico and Texas have each recorded one since 1950, he said.

Apart from the 1991 Oakland Hills fire in California — which burned 2,900 structures and killed 25 people — the three most damaging California wildfires have occurred since 2003.

Those fires, in San Diego and San Bernardino counties, burned over 562,000 acres, destroyed 5,473 structures and caused 23 deaths, according to the state Department of Forestry and Fire Protection.

The three California fires and the three in Colorado since 2004 produced \$4.38 billion in insured losses, most of them residential, according to PCS (see chart).

California has suffered disastrous wildfires for decades, but the threat has increased there and elsewhere as growing populations have pushed development up wooded hillsides and out into riskier rural areas, experts say.

In Los Angeles, the trend accelerated in the 1940s as people moved out of the flat LA basin into the surrounding hills and beyond, Mr. Garlock said.

WILDFIRE CATASTROPHES

Insured losses from six California and Colorado wildfires, 2003-2013, in millions of dollars

State	Commercial lines	Vehicle	Personal lines
California	\$144.0	\$66.0	\$3,125.0
Colorado	\$49.5	\$10.5	\$985.0

Source: Property Claims Services, a division of Verisk Analytics

"We love nature, so we are living in the path of wildfires," said Leslie Chapman-Henderson, president and CEO of the Federal Alliance for Safe Homes Inc., a disaster safety group in Tallahassee, Florida.

Businesses have followed. Typically, these have included hotels and resorts, restaurants and golf courses, said Paul Hering, CEO of Barney & Barney, a unit of Marsh & McLennan Agency L.L.C. in San Diego.

FM Global, though, has an increasing number of industrial policyholders in areas that are exposed to wildfire risk, said Ronnie Gibson, vice president and chief engineer with the Johnston, Rhode Island-based insurer.

"It's only relatively recently that we've been putting our plants and factories in those areas," Mr. Gibson said. While European manufacturers have long placed high-value plants in fire-prone rural areas, the size and dollar value of facilities in the U.S. is smaller "because we are only beginning to build plants in harm's way," he said.

Property owners in wildfire-exposed areas are

generally aware of the risk, experts say, and are — or should be — taking steps to mitigate fire damage and to limit business interruption costs (see story, below).

A company planning to build, for example, would be better off avoiding hilly sites: A fire on a 30-degree upward slope can produce flames twice as high and travel several times faster than a fire on flat ground, according to FM Global.

Because drifting embers can travel up to a mile from a wildfire, building roofs should be made of nonflammable material and designed to avoid changes in profile that create corners where inflammable debris can collect, experts say.

Likewise, building designs should avoid skylights, vents and louvers where sparks could enter. In existing buildings with these features, openings should be covered with mesh, experts advise.

Shrubs and trees that could become torches in a fire should be kept well away from buildings. Vegetation should be cleared 100 feet around important structures on level sites and 200 feet downslope on hillsides, FM Global recommends.

Perhaps the most important step is to protect a property's water supply, Mr. Gibson said. Water tanks should be metal, and pumps should be diesel-powered; if a fire knocks out power to a site and shuts down electrically powered water pumps, "all that money is wasted," he said.

Property owners need to act together on mitigation steps, added Steve Quarles, senior scientist with the Insurance Institute for Business & Home Safety in Tampa, Florida. If some owners don't take the necessary steps, their buildings could become ignition sources for neighboring structures in a wildfire.

"We all need to be on the same page," he said.

This month's federal National Climate Assessment suggests wildfire risk isn't going away. Burned area in Colorado's southern Rockies is likely to increase two to five times by 2070 depending on ongoing levels of greenhouse gas emissions, a study cited in the report predicts. And burned area in northern California could double by the end of the century under a high emissions scenario, the assessment said.

PLAN FOR DISRUPTIONS FROM WILDFIRE EVACUATIONS

As with any other catastrophe exposure, wildfire risk calls for contingency planning — but they can disrupt a company's business even when there is no physical damage to property.

Because the fires tend to cover large areas — tens or hundreds of thousands of acres — they can lead to large-scale evacuations and make travel difficult or impossible.

The 2007 Witch Creek fire in San Diego County, which burned nearly 200,000 acres and was one of the most destructive in California history, led to the evacuation of 800,000 people, said Paul Hering, CEO of Barney & Barney, a unit of Marsh & McLennan Agency L.L.C. in San Diego.

"That affected our businesses in a big way," he said, closing companies in evacua-

tion zones and putting employees out of touch with their workplaces. One client, Mr. Hering said, had to shut down for 48 hours because of the evacuations, and the 48-hour deductible in its business interruption policy meant it had no coverage for the losses.

Businesses should map out what they will do in case of a wildfire, including how they will stay in contact with evacuated employees and whether they can work remotely. Tabletop exercises in which senior management participates in responding to a hypothetical wildfire are a valuable planning tool, said Craig Garlock, a senior consultant with Aon Global Risk Consulting in Los Angeles. They help executives think through what would be required to keep employees safe and the business going, he said.

If a company's property is actually damaged or destroyed in a fire, it helps to have pre-established contacts with contractors and suppliers for rebuilding and with a real estate broker to find alternative space if needed, Mr. Hering said.

Companies may also line up risk assessment and claims help in advance, contracting for services, such as Aon Rapid Response, that provide loss mitigation advice and help in quantifying and preparing property and business interruption claims, said Peter Jagger, managing director with Aon Global Risk in Dallas.

"Having an effective business continuity plan is something we try to discuss with all of our clients," Mr. Hering said.

By Douglas McLeod

GOING ABOVE AND BEYOND CODE WITH FORTIFIED BUILDING STANDARDS

Modest extra construction costs make structures more resilient

BY BILL KENEALY

Building codes are only a starting point when putting up a new commercial structure that's intended to withstand an earthquake or other natural catastrophe.

Going beyond the local building code is the only way to bridge the gap between the minimum acceptable standard and erecting a structure that is sufficiently tough when disaster strikes, experts say.

"The construction industry has developed better building practices over the years and it is possible to build beyond the building code," said Don Neff, Orange County, California-based president and CEO of engineering risk management consulting firm La Jolla Pacific Ltd. "So when you think about it, building to code is just one step above breaking the law."

Joe Stavish, senior vice president and director of property risk control engineering at Willis North America Inc. in New York, said building codes are designed solely to protect the life and safety of people within in a building, while building owners and risk managers have a wider range of concerns.

"The building code will help limit structural damage, but will not address all property damage," Mr. Stavish said. Since building codes don't address issues such as business interruption, risk managers and the insurance industry need to take a more holistic view that includes being able to get into and out of a property as well as environmental concerns.

H. Kit Miyamoto, Davis, California-based CEO and president of structural engineering firm Miyamoto International, said the 2011 earthquakes in Christchurch, New Zealand, demonstrated the merits and limits of building codes. While the codes helped mitigate loss of life, thousands of buildings were lost, and business interruption losses were extensive.

"Less than 200 people died, so the buildings largely met the intention of the code," Mr. Miyamoto said.

To help educate businesses about modern engineering stan-



NATIONWIDE

A new Nationwide Mutual Insurance Co. call center in San Antonio was built to the higher Fortified standard, setting an example for the local business community.

dards and the inherent limitations of building codes, the Insurance Institute for Business & Home Safety created a "code plus" construction program, Fortified for Safer Business (see box).

"Our point of view is that model building codes provide a baseline

level for occupant safety and public welfare," said Chuck Miccolis, Tampa, Florida-based senior engineering manager of commercial lines at the institute, which has a membership consisting of insurers, reinsurers, agents and brokers. "However, they don't always

provide businesses with sufficient property protection."

Mr. Miccolis said one benefit of the program has been to show that while building to a higher standard often is more expensive, it is not prohibitively so. For example, he said two large buildings built recently to the Fortified for Safer Business standard added about 1% to the cost.

"The cost to build to higher standards will be relative to the shape, size and location of the structure, but it can be relatively inexpensive," he said.

Mr. Miyamoto said improvements begin at the design stage.

"There are high-tech dampers and isolation equipment you can use, but most mitigation is relatively straightforward, such as using ceiling braces," he said. "So, it doesn't have to be expensive technology, but you do need engineers in the field to assess the risk."

Mark Pizzi, Columbus, Ohio-based president and chief operating officer of Nationwide Mutual Insurance Co., said justifying the expense of building beyond code was easy when the insurer built new call centers in San Antonio, Texas, and Columbus to the Forti-

fied standard.

The higher construction costs were offset by the reduced risk of its business being interrupted, and building to a more resilient standard helped underscore the insurer's mission and culture, he said.

"The numbers absolutely make sense," Mr. Pizzi said. "If we had shut an office down instead of spending 1% or 2% more during construction, we would look stupid. You get that money back just from business continuity, but it goes beyond just the traditional return on investment."

By setting a standard and putting "our money where our mouth is, we can speak much more forcefully about resilience to the business community," Mr. Pizzi said. "It's hard as an insurance company to say that we need to build stronger homes and businesses and then not do it ourselves with our own buildings."

Mr. Miyamoto agreed that for risk managers to mitigate risk properly, the insurance and engineering disciplines need to work together.

"You need a combination of risk transfer and risk reduction," he said. "Insurance is a very important part of your overall solution."

FORTIFIED BUILDING

How to build to the Fortified for Safer Business standard to allow structures to better withstand catastrophes and disasters

- 1 Applicant contacts the Insurance Institute for Business & Home Safety with project specifics.
- 2 The institute assists in identifying natural risks to be addressed according to Fortified guidelines.
- 3 A project design professional, such as a licensed engineer or architect, reviews the Fortified design guide to confirm design and material requirements for risks common in the region of the construction.
- 4 The project design professional completes the self-assessment checklists to verify readiness to meet Fortified requirements and submits them online for review by the Fortified program administrator.
- 5 Architectural and structural plans and specifications are submitted to the institute for review to ensure proper design is achieved for critical features.
- 6 Certified Fortified professionals monitor the progress of the project through design and construction to ensure compliance with Fortified standards.
- 7 A Fortified designation is issued after final approval by the institute.

Source: Institute for Business & Home Safety

Seeing risk management like an engineer

The skill sets of risk management and engineering have more in common than one might think.

David Bonowitz, San Francisco-based structural engineer at the Earthquake Engineering Research Institute, said both disciplines have a keen understanding of probabilities and statistics.

"The future of engineering is about risk management," he said. "Engineers need to ask, 'What do we really want to get out of this building?' and that's

a risk management decision."

Indeed, the construction industry is moving from a focus on building to meet code into an era of resilience-based design, Mr. Bonowitz said.

"The concept of resilience is showing continuity of function in the face of disruptive risk," said Stephen E. Flynn, professor of political science and founding director of the Center for Resilience Studies at Northeastern University in Boston.

By Bill Kenealy

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LARGEST PROPERTY LOSS CONTROL CONSULTANTS

Ranked by 2013 gross revenue from unbundled property loss control consulting

Rank	Company	Headquarters	Website	2013 unbundled property loss control consulting revenue	% change from 2012	% revenue from unbundled services	Total property loss control consulting staff	Unbundled clients	Officers
1	ABS Group of Cos. Inc. ¹	Houston	www.absconsulting.com	\$310,000,000	18.4% ²	100.0%	2,100	2,250	David Weinstein, president/CEO
2	Arup	San Francisco	www.arup.com	\$70,000,000	8.3%	100.0%	350	850	Andy Thompson, associate principal
3	Global Risk Consultants Corp.	Clark, New Jersey	www.globalriskconsultants.com	\$69,900,000	4.9%	100.0%	401	1,250	James Marsh, CEO
4	Aon Global Risk Consulting	Chicago	www.aon.com	\$67,800,000	1.2%	82.0%	528	1,811	Neil Harrison, group managing director
5	Marsh Risk Consulting	New York	www.marshriskconsulting.com , www.marsh.com	\$52,000,000	1.0%	40.0%	330	1,205	Michael Cormier, managing director/CEO of Marsh Risk Solutions
6	XL Global Asset Protection Services L.L.C.	Hartford, Connecticut	www.xlgaps.com	\$28,000,000	(6.7%)	70.0%	164	220	Timothy Heinze, head
7	Axa Matrix Risk Consultants	Miamisburg, Ohio	www.axa-matrixrc.com	\$21,160,314	(4.2%)	70.0%	192	208	Armand Fernandez, CEO
8	EFI Global Inc.	Humble, Texas	www.efiglobal.com	\$10,500,000	(27.6%)	100.0%	275	85	Ron G. Holt, president/CEO
9	Regional Reporting Inc.	New York	www.regionalreporting.com	\$9,000,000	0.0%	100.0%	250	300	Martin Myers, chairman
10	Paragon Risk Engineering	Allenwood, New Jersey	www.paragonconsults.com	\$8,300,000	16.9%	100.0%	45	85	Robert McMullen, president

Source: BI survey

¹ Listed previously as ABSG Consulting Inc. ² Percent change based on 2012 BI estimate.

Researched by Angelina Villarreal

LARGEST BY CLIENTS

Ranked by number of unbundled property loss control clients in 2013

Rank	Company	Clients
1	ABS Group of Cos. Inc. ¹	2,250
2	Aon Global Risk Consulting	1,811
3	Global Risk Consultants Corp.	1,250
4	Marsh Risk Consulting	1,205
5	Arup	850
6	Regional Reporting Inc.	300
7	XL Global Asset Protection Services L.L.C.	220
8	Axa Matrix Risk Consultants	208
9	Risk Consultants Inc.	122
10	EFI Global Inc.	85

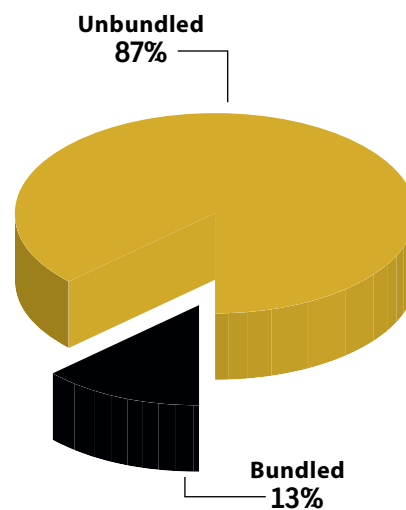
¹ Listed previously as ABSG Consulting Inc.

LARGEST BY STAFF SIZE

Ranked by 2013 staff assigned to property loss control

Rank	Company	Staff
1	ABS Group of Cos. Inc. ¹	2,100
2	Aon Global Risk Consulting	528
3	Global Risk Consultants Corp.	401
4	Arup	350
5	Marsh Risk Consulting	330
6	EFI Global Inc.	275
7	Regional Reporting Inc.	250
8	Zurich Services Corp.	199
9	Axa Matrix Risk Consultants	192
10	XL Global Asset Protection Services L.L.C.	164

¹ Listed previously as ABSG Consulting Inc.



BUNDLED VS. UNBUNDLED

Percentage of 2013 revenue from bundled and unbundled clients among participating property loss control consultants

LARGEST 100% UNBUNDLED PROPERTY LOSS CONSULTANTS

Ranked by 2013 gross revenue

Rank	Company	Revenue
1	ABS Group of Cos. Inc. ¹	\$310,000,000
2	Arup	\$70,000,000
3	Global Risk Consultants Corp.	\$69,900,000
4	EFI Global Inc.	\$10,500,000
5	Regional Reporting Inc.	\$9,000,000
6	Paragon Risk Engineering	\$8,300,000
7	AEGIS Insurance Services Inc.	\$3,229,990
8	Risk Logic Inc.	\$1,900,000
9	Haines Fire & Risk Consulting Corp.	\$1,200,000
10	Allrisk Engineering Inc.	\$900,000

¹ Listed previously as ABSG Consulting Inc.

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New risks emerge for public entities



As the U.S. economy begins to bounce back, and communities across the country start to consider new emerging issues, local governments must shift their focus to include key risks that potentially bring new liabilities and exposures. Joe Caufield, chief underwriting officer with OneBeacon Government Risks, discusses these new public-entity risks.

2014 is on track to be a year of major legislative change — especially when it comes to public entity liability. The past few years have been dictated by a sluggish economy, with governments focusing on budget reduction and deferred maintenance and operations. However, as the economy begins to recover, and citizens focus on (and approve) new laws, the public sector must contend with an entirely new set of key issues — namely, guns, drugs, police, money and oil.

New legislation in all of these categories is bringing the issues front and center into our communities. Concealed carry licensing, drug legalization, police activity, economic initiatives and energy resource development each affect government decisions and open the entity to new liability issues.

Guns



Concealed carry or carrying a handgun or other weapon in public in a concealed manner is authorized by license in the majority of states on a so-called “shall issue” basis. “Shall issue” means that the local government agency has no discretion, other than the criteria defined in the concealed carry licensing law, in awarding licenses. A number of well-publicized shooting deaths have placed a spotlight on this issue, resulting in increased citizen awareness and concern over the use of concealed carry licensing.

Communities face increased exposure to potential losses for alleged wrongful acts by public officials and law enforcement should communities elect to restrict concealed carry rights at parks, schools or courthouses at the local level, in conflict with state law. Some local government officials may lack the authority to change concealed carry laws and regulations defined by a state legislature. If they do not have that authority, advocates for or against individual gun rights will be quick to contest local restrictions.

One of the best ways local government officials can handle this issue is by seeking advice and detailed

guidance from their respective state attorney general.

Drugs



In 2013, Colorado became the first state to enact a law to legalize the regulated sale of recreational marijuana. It has been reported that the state anticipates millions of dollars of new tax revenues as a result. The law is controversial for many reasons, but especially because, although it may be legal in the state, marijuana still resides on the federal government’s controlled substances list. However, numerous initiatives are being advanced in other states addressing liberalization of recreational marijuana.

Because state legislation is at odds with the federal government’s controlled substances list, local governments may be challenged to make policy decisions in zoning, law enforcement or public park usage, all topics of local government responsibility, without much precedence or guidance.

Again, a strict reliance upon direction from the state attorney general’s office is recommended, along with full utilization of local government legal resources. Local officials must not attempt to fill a regulatory void or reform state regulations through newly enacted zoning or local ordinance tailored for the legal marijuana industry unless they have specific authorization.

Police



In Radley Balko’s recently released book, “Rise of the Warrior Cop: The Militarization of America’s Police Forces,” the author highlights an emerging trend in our local community police force: increasing paramilitary capabilities.

While local police departments have long included Specialized Weapons and Tactics, or SWAT, units and participated in joint operations with other law enforcement agencies for specific purposes such as drug enforcement, militarization capabilities have increased in recent years.

Many factors have contributed to this trend, including grant money provided by the U.S. Department of Homeland Security and U.S. Department of Defense surplus property dispositions, as well as the numerous law enforcement personnel with military backgrounds entering the field. Additionally, the justifiable interest of local forces in procuring the best available equipment and gear to protect the public has led to some local police adding weapons, vehicles and tactics that are unusual for community policing. An example includes the use of explosives in kinetic breaching instead of the more traditional manual battering ram.

The fact is that a local police department traditionally is not a military or paramilitary organization. The trend of leaning toward such capabilities can lead to allegations of excessive force and increase claims against law enforcement organizations. Public entities should rely on a clear definition of a local law enforcement agency’s primary public safety role and not seek to emulate law enforcement response capabilities more appropriate of other local, state or federal agencies. All added capabilities that may fall outside the local government’s core community policing mission should be very carefully evaluated.

Money



Another emerging area of exposure for local government is an expanded entrepreneurial role for officials. The major professional associations for local government officials — the International City/County Management Association, the National Association of Counties and the National League of Cities — each promote and encourage community economic development initiatives by their members. Examples of encouraged initiatives include infrastructure such as roads or utilities, special tax-favored economic zones, joint ventures with professional sports teams and direct financial incentives.

While public officials are general-

ly very skilled at leading their community and various governmental functions, they may not always be entrepreneurs. This can pose a problem as more community leaders begin to undertake economic development in so-called “proprietary” activities outside of mandatory local government responsibilities. Importantly, this trend can become a real liability exposure to local government, as those public leaders may not enjoy the same legal immunities in their economic development roles as they do as strictly public officials.

Public entities and local officials can help control the downside liability issues by enlisting the help of private-sector expertise. Enlisting direct investment by the private sector or seeking a partnership will help governments transfer risk to these other partners.

Oil



Domestic energy resource development is likely by far the most complex emerging exposure for local governments due to its wide-ranging impact on both the environment and economy and the already complex state and federal environmental and energy regulatory structure.

Resource development, such as using hydraulic fracturing technology, raises concerns for the environment in certain communities, particularly regarding groundwater pollution, toxic waste disposal and seismic activity. It also increases demand for public services such as roads and schools while at the same time offering potentially increased local tax revenue. Primarily a regional exposure in the Bakken, Marcellus, and Barnett shale oil and gas fields in North Dakota, the northeastern U.S. and Texas, respectively, the geography and communities affected by such endeavors continue to expand.

Local community leaders must protect the interests of their citizens by preventing negative impact to the community environment while still managing and encouraging economic growth. Energy development projects, especially

those that occur rapidly, directly affect the traditional responsibilities of local government officials in public safety, education and roads. At the same time, increased tax revenues must be allocated to the best advantage of both short-term and capital projects that benefit the community.

In areas that are considering such resource development, local government officials are best advised to partner with environmental regulatory agencies. In this way, they can seek specialized expert advice and avoid becoming deputy environmental agencies or otherwise exceeding local government authority.

As the economy begins to bounce back and communities across the country start to consider new emerging issues, local governments must shift their focus to include these key issues that potentially bring new liability and exposure. A common thread to reducing potential loss arising from these emerging exposures is the reliance on a collaborative approach by state officials, outside specialist and experts, and the utilization of all available legal resources. Concealed carry licensing, drug legalization, police activity, economic initiatives, and energy resource development each require unique knowledge to fully comprehend and implement effectively and safely, often more knowledge than any one local official may have. By relying on the experts, along with already established risk management and safety programs, local governments can more successfully address the leading emerging trend categories affecting public entity liability — guns, drugs, police, money and oil.

Joe Caufield is chief underwriting officer at OneBeacon Government Risks, a member of OneBeacon Insurance Group. Based in San Antonio, he has 37 years of insurance industry experience, 27 dedicated to underwriting management of public entity insurance products and services. He can be reached at jcaufield@onebeacongov.com.

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Ironshore expands U.S. accident disability cover

Ironshore Inc. said its Pembroke Lloyd's syndicate 4000 will offer accident disability coverage in the U.S. for groups and individuals.

The London-based Pembroke unit will offer limits up to \$10 million per person employed by a nonsports entity and up to \$5 million per person working in the professional sports industry, the Hamilton, Bermuda-based insurer said.

White paper addresses 100-year hurricane

Karen Clark & Co. issued a white paper designed to give insurers new, more precise information about loss potential in the event of a major hurricane.

"The 100 Year Hurricane" from the Boston-based catastrophe modeler introduces a new metric, the 100-year characteristic event, which can be used to complement probable maximum loss figures currently used by insurers.

The paper defines the 100-year hurricane as a Category 5 storm and postulates its formation and landfall in Texas, the Gulf of Mexico and Florida. A Category 5 hurricane has peak sustained winds in excess of 155 mph.

The white paper says three Category 5 storms have struck the U.S. coast since 1900 with peak wind speeds estimated between 165 mph and 180 mph.

Such a storm is then "floated" along the U.S. coastline, Ms. Clark said in an interview, and damages are estimated every 10 miles, thus displaying any disparities in damages based on population concentrations and other variables at individual landfall points.

"So, it's the 100-year hurricane, and then we float that along the coast to show a company 'What would your losses be if that 100-year hurricane happened?'" said Ms. Clark. This would allow each insurer to see any concentration of exposures and potential market share of any modeled losses at an individual landfall point, she said.

Lockton launches cover for horse racetracks

Lockton Cos. L.L.C. has entered into a three-year exclusive agreement with the National Thoroughbred Racing Association to lower racetracks' total cost of risk while offering discounts to tracks accredited by the association's Safety and Integrity Alliance.

The partnership will offer racetracks a range of risk management solutions through Lockton's gaming, entertainment and sports practice, the Kansas City, Missouri-based broker said in a statement.

Lockton will offer coverage including property/casualty, workers compensation, promotion and events, jockey accident, group medical, dental, vision, life, accidental death and dismemberment, and voluntary benefits products to racetracks and racinos, according to the statement.

Policy analysis, loss control and safety,



Heritage to cover Fla. commercial residential

Heritage Insurance Holdings Inc. has launched an insurance program for commercial residential properties in Florida.

The line will be written by the Clearwater, Florida-based unit Heritage Property & Casualty Insurance Co., the company said in a statement.

The program will offer commercial coverage for condominium associations, homeowner associations, continuing care retirement communities and apartment complexes, Heritage said.

"We believe there is an excellent opportunity to grow this business, and it will diversify our robust suite of product offerings," Bruce Lucas, chairman and CEO of Heritage, said in a statement.

The commercial division is led by Randy Jones, commercial president of Heritage, and Arlene Luis, executive vice president of Heritage, and was launched earlier in 2014, according to the statement.

"In talking with our agent partners, we found there is a very limited market for these properties," he said. "Because of their size and overall complexity, many of these properties may not qualify under the typical eligibility guidelines established by other companies. We heard their concerns and responded enthusiastically to help fill a void in this market segment."

and claims advocacy services are also available, Lockton said in the statement.

"This deal allows us reward the tracks that do the right thing by implementing best practices in areas that impact equine safety and operational integrity," Mike Ziegler, executive director the NTRA Safety and Integrity Alliance, said in the statement.

The NTRA Safety and Integrity Alliance establishes standards and practices to promote safety in horse racing.

Patriot, Scottsdale partner on workers comp

Patriot Underwriters Inc. said it has partnered with Scottsdale Insurance Co. to serve as a workers compensation program administrator with defined underwriting and claims responsibility.

The program focuses on select classes

of risk and will be available across the U.S., Fort Lauderdale, Florida-based Patriot said in a statement.

"We are extremely pleased that Scottsdale has chosen Patriot as a partner in this program that exclusively writes workers compensation insurance," John Rearer, president of Patriot, said in the statement. "Patriot's unique claims-handling model and expertise in workers compensation insurance adds value to our current and future program arrangements with Scottsdale."

Patriot underwrites and administers traditional and alternative market workers comp coverage for insurers, segregated cell captives and reinsurers.

FirstComp policy targets small companies in Hawaii

FirstComp has launched a small-business owner policy in Hawaii, FirstComp EssentialBOP.

The policy will be available for FirstComp-appointed independent agents writing business in Hawaii, the Omaha, Nebraska-based broker said in a statement.

The product covers the risks that small businesses face and can be customized to meet the needs of each policyholder, according to the statement by the Market Corp. unit.

"To improve the purchasing experience, a customer can now bundle small-business owner and workers compensation policies," Trent Cooksley, director of strategy and marketing at FirstComp, said in the statement. "Streamlining the process and contacts into a single quote, invoice and underwriting contact can significantly reduce the delivery time."

The coverage also is available in Arkansas, California, Michigan, Nebraska, North Carolina, Pennsylvania, Tennessee, Utah and Vermont.

Beecher Carlson launches private equity/M&A team

Beecher Carlson Insurance Services L.L.C. has established a national private equity/mergers and acquisitions team.

Based in New York, the practice will specialize in preclosing insurance, employee benefits, aggregated insurance platforms, transactional risk solutions for large and midsize private equity firms, infrastructure funds, alternative asset managers and corporate clients, Beecher Carlson said in a statement.

The team will be led by Kevin Maloy and Damian Smith, with John Green joining the team, the Atlanta-based brokerage, a unit of Brown & Brown Inc., said in a statement.

Mr. Maloy joins Beecher Carlson from Crystal & Company, where he led its mergers and acquisitions group.

Mr. Smith was previously head of the national property placement team on behalf of the mergers and acquisitions group at Crystal.

Mr. Green also joins from Crystal, where he was in the national mergers and acquisitions group, supporting the due diligence and post-close procurement efforts.

DEALS & MOVES

RMIS firm Origami expands with key hire in Europe

Origami Risk has established operations in Europe, which the risk management information systems provider said will be led by its new director of European operations, Christina Gipon.

She will be based in Rotterdam, Netherlands, and work with European multinational businesses that are elevating their risk management practices and need more risk information technology capabilities, Chicago-based Origami Risk said in a statement.

"As businesses across Europe sharpen their focus on risk management, many recognize they need greater flexibility and better performance from their RMIS," Ms. Gipon said in the statement. "Origami Risk offers a RMIS solution that delivers on both counts, and I'm sure it will be received enthusiastically by the risk management community here."

Previously, she was responsible for product innovation and marketing at NARIS, a RMIS provider in the Netherlands, and managed its insurance client portfolio.

Marsh & McLennan Agency buys North Carolina agency

Marsh & McLennan Agency L.L.C., a subsidiary of insurance broker Marsh L.L.C., has acquired Senn Dunn Insurance.

Terms of the sale were not disclosed.

Headquartered in Greensboro, North Carolina, Senn Dunn Insurance was founded in 1927 and generates approximately \$30 million in annual revenue, Marsh & McLennan Agency said in a statement.

Senn Dunn provides a full range of brokerage and consulting services in personal and commercial lines, including property/casualty insurance and employee benefits. The firm has 155 full-time employees; is licensed in 34 states; and has specific expertise in the financial services, construction, education, environmental and social services industries, according to the statement.

Senn Dunn Insurance will continue to operate under its current name and retain its current staff, executive team and offices.

United Insurance drops bid for Sunshine State Insurance

St. Petersburg, Florida-based United Insurance Holdings Corp. said it is terminating its bid to acquire 100% of Sunshine State Insurance Co., based in Jacksonville, Florida.

"While we are disappointed not to be able to move forward with this acquisition, we are confident that this decision is in the best interest of our shareholders," John Forney, president and CEO of United, said in the statement.

A March 11 consent order issued by the Florida Office of Insurance Regulation said Sunshine had to "raise capital to bring its surplus level to \$15 million or present an executed agreement for the acquisition or recapitalization of the company accompanied by a good faith deposit."

United had sent a letter of intent to acquire Sunshine on May 15.

With Sunshine's future thrown into question, the Florida Office of Insurance Regulation "is exploring options to ensure a smooth transition for policyholders," a spokesman said.

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AIG EXEC SEES GROWTH IN CYBER, KEY SECTORS

Q What are some of the key growth areas for AIG in the U.S.?

A In general, right now we see the energy and transportation sectors being quite strong, and we're continuing to see expansion in construction as the economy continues to improve. So our construction casualty business in particular has really poised itself to grow in the areas of infrastructure, which would include both social and civil infrastructure, health care, technology, manufacturing, communications, utilities and power. Those sorts of areas are the places where we're ramping up to grow from a construction perspective.

From an energy construction perspective, we see opportunities including power generation, solar and wind renewable energy, as an example, and oil and gas including the liquefied natural gas export and import facilities and pipelines, and of course petrochemical facilities.

Q How do you think recent cyber breaches have affected the demand for cyber insurance?

PREVIOUS POSITION: Richmond-based director with Ernst & Young L.L.C.

LOOKING FORWARD TO: The job has a great deal of potential to inspire people and build best-in-class relationships. I am looking forward to working with a team that is considered the best in the industry.

GOALS FOR NEW POSITION: There are a lot of tenured, seasoned employees here in Richmond, and we want to ignite that. We want to give that all to our clients. That's pretty exciting.

CHALLENGES FACING INDUSTRY: The umbrella of risk has evolved and grown. What was considered the management of an insurance program has turned into a boardroom conversation. The industry is evolving, just as risk is evolving. The challenge is staying ahead of the boardroom discussions.

WHAT I WOULD CHANGE: We need to be bigger than just looking at insurance renewals. We are in that moment of change.

Q&A

A Clearly, we'd say that more and more businesses realize that the potential severity of cyber risk — especially as the threats extend beyond data and reputation into the possible effects on critical infrastructure — are expanding. So we've responded with a product, which provides coverage for our customers in the event that a cyber attack or data breach leads to property damage, bodily injury or financial loss. The coverage is available across industries, including for critical infrastructure companies.

Q Is that something you've seen demand for? Have people been asking for that coverage?

A Yes, and we're not really aware of any other insurer who is providing coverage like that. Just as a general backdrop, the volume and the financial effects of cyber breaches have continued to increase significantly, with frequency and the severity both increasing. So we think there's a rapidly growing awareness in the C-suite and at the board level about addressing cyber threats.

So from our perspective, this idea of physical loss or financial loss is an emerging element of cyber. When we first developed coverage for cyber, we probably did it more from the AIG view of what makes sense to provide in terms of coverage. Over the past couple of years, we've been trying to put ourselves much more into the shoes of the insured and asking, "What is it that you're looking for?"

Q AIG has become a much more streamlined organization. How has that affected your division and your ability to provide services?



ROBERT S. SCHIMEK

AMERICAN INTERNATIONAL GROUP INC.

American International Group Inc. executive Robert S. Schimek is president and CEO of the Americas for AIG's property/casualty insurance business. He took that role last year when AIG restructured its leadership following the departure of several senior executives to Berkshire Hathaway Inc. Previously, Mr. Schimek worked in London, where he headed the insurer's Europe, Middle East and Africa business, and prior to that he was chief financial officer for property/

casualty. Recently, he spoke with *Business Insurance* Editor Gavin Souter about the outlook for AIG and its recently introduced expanded cyber risk coverage. Edited excerpts follow.

A We've invested a lot of time, money and resources into information systems and into our operations. What we've been really trying to do there is to develop a more efficient back office that really does a couple of things. One, it's more cost-effective ... and we've invested a

lot in letting the customer be at the center of what it is that we are trying to develop.

To the extent that we can develop our processes and services in a way that feels better from the customer experience perspective, the opportunities for us, quite frankly, are significantly improved.

COMINGS & GOINGS

UP CLOSE: JENNI LEE CROCKER

HEAD OF RICHMOND, VIRGINIA, OFFICE
Marsh L.L.C.



FIRST INDUSTRY JOB: At Ernst & Young. (This is) a mid-career jump for me.

WHAT SURPRISED ME: How similar the discussions were between an insurance broker and an accountant. You are still having a business discussion. These are just discussions on doing right by the business.

OUTSIDE THE INDUSTRY, A DREAM JOB: If I had the ability, I would have been an interior designer.

HOBBIES: I'm an avid reader, and I love tennis. I love vegetarian cooking.

CAN'T-MISS TELEVISION SHOW: I'm a sports fan. I like college football and college basketball.

FAVORITE BOOK: Anything by Jane Austen. I love all of her books and all the BBC productions of her novels.

THOUGHTS ON SMARTPHONES: I've had an iPhone attached to my hand since they came out. I don't know life without it.

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Swiss Re Ltd. Corporate Solutions	Jeff Summerville
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OTHER

Crawford & Company	Vanessa Kent
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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.

INTERNATIONAL

Continued from page 3

“In recent years, anti-money laundering regulations have gathered strength and momentum,” Mr. Bidmead said. “So when you think about the complexity of the international landscape, there are traps for young players.”

So how should risk managers of companies eyeing international expansion avoid pitfalls when constructing an international insurance program?

“It’s not necessarily the business size that dictates the insurance needs; it’s the level of international activity,” said Alexis Studley, Boston-based underwriting manager of specialty lines and global casualty commercial markets at Liberty Mutual Holding Co. Inc. “A small-business owner that sources many of its materials from overseas could have greater level of exposure than a Fortune 500 company with just a few executives that travel overseas.”

Patrick Walker, Denver-based risk manager for mining firm Rio

Tinto P.L.C., said risk managers can get help from an experienced global broker and, if necessary, a fronting partner as well as local legal and tax experts.

“In the end, a risk manager has to know these issues personally and understand at least the basics in every venue in which the company works,” Mr. Walker said. “I would feel very uncomfortable simply outsourcing compliance to third parties.”

Large insurers are investing heavily in developing online portals that give country-specific information for their multinational clients, Mr. Markovina said.

“Over the last two to three years, there’s been a huge demand from the market in providing program information and things such as claims status,” he said.

Petra Riga, Zurich-based head of international program sales and distribution for Zurich Insurance Group Ltd., said the insurer is set to release version 2.0 of its risk management portal in August.

The portal fuses real-time data, market intelligence and analytics to help risk managers keep on top of their programs and claims. One module, the Multinational Insurance Application, features a database of nonadmitted insurance and premium-tax regulations in about 180 countries and territories for 41 lines of business.

“Risk managers are really keen on reviewing the complete claims history of a program from a global overview right down to a specific claim’s detail,” Ms. Riga said.

“It’s about bringing all the parties together,” said Andrew Zoller, Chicago-based associate vice pres-

Airmic database covers top 30 countries

Global insurance programs’ regulatory compliance has long been a preoccupation of risk managers in the United Kingdom, said Paul Hopkin, technical director of London-based Airmic Ltd., prompting the U.K. risk management association to launch a database of insurance regulations around the world.

The database, developed with London-based information company Axco Insurance Information Services Ltd., launched last week and is available to Airmic members.

It already covers regulations in 30 countries that represent 93% of the world’s property/casualty insurance premium volume. The remaining countries will be added over time.

Mr. Hopkin said making sure insurance programs comply with various countries’ regulations has consistently been near the top of U.K. risk managers’ concerns. An Airmic study last month again showed the issue is one that “keeps risk managers awake at night,” he said.

Helen Pope, deputy chair of Airmic and head of insurable risk at London-based Tesco P.L.C., said the database is a “potential game-changer.”

“Compliance for global insurance programs will probably never be easy, but the new database will provide risk managers with access to a single, authoritative source they can consult whenever they want,” said Ms. Pope, who is chair-elect of Airmic.

Airmic CEO John Hurrell said the database has

taken several years to develop and will be formally launched later this month at Airmic’s annual conference in Birmingham, England.

While some insurers and brokerages have developed their own tools, the association said it believes the size of the task of compliance is best handled on a marketwide basis.

While insurers have long understood the importance of compliance, their efforts have been focused largely on ensuring their own compliance with local rules and that they hold the proper licenses, Mr. Hopkin said. For insurance buyers, two additional levels of compliance are needed: that terms of their specific insurance programs and that claims process meet local rules.

The database, known as Insight Risk Manager, has been tailored for insurance buyers, he said.

The database was developed as part of a cross-market project chaired by Airmic and involving insurers, brokers and trade associations. Aon P.L.C., Arthur J Gallagher & Co., Jardine Lloyd Thompson Group P.L.C., Lockton Cos. L.L.C., Marsh L.L.C. and Willis Group Holdings P.L.C. supported the effort.

The Brussels-based Federation of European Risk Management Associations and the New York-based Risk & Insurance Management Society Inc. have been kept up to date on developments, Airmic said.

By Sarah Veysey



HEAR INTERVIEW

Access *Business Insurance's* interactive digital edition to hear Associate Editor Bill Kenealy talk with Andrew Zoller of Zurich North America about ways risk managers can better handle their international insurance programs.

BREACHES

Continued from page 3

shareholder derivative litigation filed on the company’s behalf, rather than securities class actions brought by shareholders in response to stock drops.

Dan Bailey, a member of Bailey Cavaliere L.L.C. in Columbus, Ohio, said the plaintiff bar would prefer to file securities class actions “because those typically are going to be worth a lot more, the man-

agement exposure of the defendants is typically much greater and so the settlements in those cases are typically far greater than the derivative lawsuits.”

So far, though, stock prices apparently have not been significantly affected by the data breach disclosures.

“The securities marketplace seems to take the disclosure of a data breach in stride,” said Aon’s Mr. LaCroix.

That may change, though.

The Target breach has “put companies on notice of what could happen if appropriate cyber security measures are not in place,” which increases potential future stock market reaction due to the heightened disclosure requirements, said Kimberly M. Melvin, a partner at Wiley Rein L.L.P. in Washington.

While D&O-related cyber risks are not explicitly excluded in D&O claims, D&O insurers may begin to take them into account in the future, possibly in the form of higher retentions, sublimits, or exclusions, Mr. Bailey said.

Mr. Kalinich said companies also should be sure there is continuing coverage if they have claims-made policies.

In addition, Ryan O’Hare, Chicago-based assistant vice president

ident and director of international programs for Midwest middle markets at Zurich North America. “Now with tools that enable you to have access to real-time data, there is a tighter partnership between brokers, risk managers and insurers.”

Stephen Truono, Stamford, Connecticut-based vice president of global risk management and insurance for Starwood Hotels & Resorts Worldwide Inc., said getting timely claim information still can be a challenge, but the technology investments have paid off.

“Insurers are now doing a better job with providing you with claim information globally,” Mr. Truono said. “In the last few years, we’ve seen an aggressive move to mobile technology and a paperless office by insurers. It continues to get better, and that’s the good news.”

SHAREHOLDER LAWSUITS SEEK DAMAGES, REFORMS

At least six directors and officers liability lawsuits have been filed due to major data breaches at Target Corp. and Wyndham Worldwide Corp., all of which are shareholder derivative lawsuits filed by shareholders on the companies’ behalf.

They seek damages and that Target and Wyndham be directed to reform their activities and improve their corporate governance and internal procedures.

The lawsuits are:

Dennis Palkon, derivatively on behalf of Wyndham Worldwide Corp. v. Stephen P. Holmes et al. and Wyndham Worldwide Corp., which was filed in February in Newark, New Jersey, federal court. Mr. Holmes is chairman and CEO of Wyndham Worldwide.

The heavily-redacted suit alleges thieves got sensitive personal and financial data from more than 619,000 cus-

tomers in three separate incidents, which Wyndham failed to disclose in a timely basis.

The suit argues the defendants’ “failures to implement appropriate internal controls at (Wyndham) designed to protect and prevent repetitive data breaches have severely damaged” the company, and that a Federal Trade Commission action “poses the risk of tens of millions of dollars in further damages to the company.”

The suit against Wyndham’s directors and officers alleges breach of fiduciary duty, waste of corporate assets and unjust enrichment.

Four shareholder derivative actions against Target and its directors and officers have been consolidated and are being heard in federal district court in Minneapolis.

Three suits were filed in January and a fourth was filed in February. The cases were consolidated in April. Three of the

lawsuits were filed by individuals, and the fourth was filed by the Police Retirement System of St. Louis.

A related shareholder derivative action, filed in February, is pending in state court in Minneapolis.

The consolidated litigation alleges the breach of the company’s information security systems may have affected about 110 million Target customers, and that Target customers who have been victims of identity theft and their banks have incurred millions of dollars due to fraud and the cost of card replacements.

The litigation, which asserts breach of fiduciary duty, unjust enrichment and corporate waste, alleges that Target executives and directors “consciously failed to act in the face of numerous warnings about the risk of potential security breaches at Target stores.”

By Judy Greenwald

at Aon P.L.C., said it is important to have severability language in D&O coverage to establish that

knowledge of material false statements in the insurance application by one covered individual will not

be imputed to other directors or officers also covered under the policy.

ADVERTISER INDEX	
Issue of June 9	
ADVERTISER	PAGE #
ACE Group	9
Berkshire Hathaway	2
Business Insurance	35
Chubb	7
Engle & Martin & Associates	17
FM Global	36
Global Risk Consultants	23
Katie School of Insurance and Financial Services	25
Liberty Mutual	5
Old Republic Companies	21
OneBeacon Insurance Group	15
Sentry Insurance	11

REPACKAGING

Continued from page 1

medications, the argument against repackaging historically has been about cost, experts say. And the same workers comp industry survey last year showed that prescriptions doctors dispensed directly to injured workers totaled slightly more than a third of total workers comp drug costs.

Additional factors such as claimant safety and disability duration have become top considerations in the push against drug repackaging, said Brian Allen, vice president of government affairs at Westerville, Ohio-based Progressive Medical Inc. and Tampa, Fla.-based PMSI Inc., two pharmacy benefit managers that merged in October.

“A wave is kind of sweeping right now because we broke the logjam in Florida,” when the state passed drug repackaging legislation in 2013, Mr. Allen said. “When Florida tipped, it gave other states a little bit of courage to push forward and see if they could come to an agreement” as well regarding physician-dispensed drugs.

More than 15 states have addressed the cost associated with physician-dispensed repackaged drugs in the past few years. Earlier this year, Indiana passed Senate Bill 294, which limits doctor dispensing and drug repackaging. In Hawaii, Senate Bill 2365 would limit the reimbursement payments of repackaged, relabeled and compound prescription drugs. The bill has been sent to Hawaii Gov. Neil Abercrombie for signing.

States like California and Arizona that previously capped the price of repackaged drugs are now starting to take a look at “the practice of physician dispensing altogether in workers comp and trying

to do something to rein that back a little bit,” Mr. Allen said.

States that don't have a big problem with physician-dispensed repackaged drugs, which is an issue that's specific to workers comp, shouldn't ignore the issue, said Bruce Wood, workers compensation director at the American Insurance Association in Washington.

The percentage of physician-dispensed prescriptions was higher in California, Florida, Illinois and Maryland than in most states for claims with injuries occurring from Oct. 1, 2010, to Sept. 30, 2011, the most recent data available, according to a 2013 study by the Workers Compensation Research Institute. Florida and Illinois have passed legislation aimed at reducing the cost of physician-dispensed prescriptions since the data was collected, while Maryland is in the process of moving a bill.

“Almost any state has some measure of this,” Mr. Wood said. “If a state is not going to get ahead of the curve on this, more adverse results will soon come to it as the practice spreads.”

Studies that show the effect of drug repackaging on comp claims are guiding some of the recent discussion, experts say.

For instance, the 2013 “Prescription Drug Management in Workers’ Compensation” survey by CompPharma L.L.C. showed that physician dispensing accounted for more than 35% of drug costs in 2012. While CompPharma survey respondents said opioid use was the biggest problem they face in workers comp pharmacy management, physician dispensing of marked-up repackaged drugs was a close second.

Claimants who use repackaged drugs typically are out of work longer and have more medical expenses, said Jeffrey Austin White, director of medical man-

Simple tacks can decrease drug dispensing by physicians

Some pharmacy benefit managers and third-party administrators are hoping to reduce the effects of physician drug dispensing outside of the legislative arena.

Candy Raphan, director of medical management services at Broadspire Services Inc. in Sunrise, Florida, said the TPA recently “took a very common-sense approach” by communicating directly with seven of the highest dispensing providers in Georgia.

Ms. Raphan said Broadspire sent letters to the physicians informing them that injured workers have a way to get medications through pharmacy benefit managers, and that it's safer for injured workers to fill prescriptions at a pharmacy where there are multiple safety checks at the point of dispensing.

The company saw a 47% decrease in physician dispensing nine months after sending the letters.

“Communication is really important,” Ms. Raphan said.

“I really do believe that physicians want to do the right thing ... and I do believe also that sometimes they just really are not as aware as they could or should be of what actually is happening.”

Express Scripts Inc. is using its Physician-Dispensed Medication Solution, started in February, to minimize costs by processing bills for physician-dispensed medications in accordance with state rules and guidelines, in addition to increasing safety by educating injured workers, said St. Louis-based Jennifer Kaburick, vice president of workers compensation product management and strategic initiatives at the pharmacy benefit manager.

“Historically people have the thought that, in workers comp, since there's no cost to the injured worker, that they really don't have any financial incentive to be concerned about the cost of medication,” Ms. Kaburick said.

By Stephanie Goldberg

agement practices and strategy corporate claims at Accident Fund Holdings Inc. in Lansing, Michigan.

Mr. White co-authored “The Effect of Physician Dispensed Medication on Workers’ Compensation Claim Outcomes in the State of Illinois,” a study released in May, on the effect of physician-dispensed medications on workers comp claim outcomes in Illinois. Injured workers are less likely to

fill prescriptions they don't need if they go to a pharmacy, Mr. White said. He added that data shows injured workers receive three times the amount of drugs when prescriptions are dispensed by doctors instead of pharmacies.

Doctors aren't the only source of repackaged drugs, sources say. There has been a recent influx of nurse practitioners and physician assistants writing opioid prescrip-

tions for injured workers, according to the “2014 Drug Trend Report” by Progressive Medical and PMSI.

Claims for prescriptions written by nurse practitioners have an 8% higher long-term pharmacy cost than those written by other medical professionals, the study said.

Additionally, if a physician isn't familiar with a claimant's other health issues, they might suggest medications that could cause adverse reactions, or injured workers might be reluctant to tell treating physicians about health issues out of fear that it will jeopardize their claims, Mr. Allen said.

“If we put injured workers into better-managed environments, they're going to do better and ... the cost will take care of itself,” Mr. Allen said.

Experts disagree with most arguments that proponents offer in favor of physician dispensing, such as that the practice helps claimants adhere to prescription treatments. However, the practice can be beneficial when certain drugs, such as intravenous medications or sedatives, are prescribed, said Candy Raphan, director medical management services at third-party administrator Broadspire Services Inc. in Sunrise, Florida.

Still, physician repackaging and dispensing has few, if any, benefits when it comes to narcotics or over-the-counter medications, such as Prilosec, a heartburn treatment that often gets marked up, Ms. Raphan said.

“Not all doctor dispensing is abusive or egregious, but there's enough of it that we have to take a hard look at it and find out where the line is,” said Progressive Medical's Mr. Allen, adding that if it's really difficult for an injured worker to make it to the pharmacy, it might make sense for physicians to dispense the initial fill.

OPTIONS

Continued from page 3

workers comp premium calculations as more employers offer such compensation to their workers. Premium is generally determined by worker job classifications, employee wages and a company's experience modification factor.

NCCI helps 38 states set their workers comp rates. The Boca Raton, Florida-based rating and review agency expects to make recommendations by the end of this year if its underwriting committee determines that states should change how bonus pay factors into workers comp premiums, said Peter Burton, Wayne, Pennsylvania-based senior division executive for state relations at NCCI.

“I have heard that it is a rather rude awakening when they find out that they're going to be charged for workers comp premium based on either those bonuses

or stock options,” said Charles Darrigrand, St. Louis-based area senior vice president and managing director of the casualty practice group at broker Arthur J. Gallagher & Co.

As more companies provide such reward pay to nonexecutive employees, experts recommend employers talk with their workers comp insurers ahead of granting bonuses in order to budget for or possibly prevent higher-than-expected premium bills.

The issue of how bonus pay affects workers comp premiums affects companies of all sizes. It is particularly difficult for mid-market employers that buy guaranteed-cost workers comp policies, which are more susceptible to premium fluctuations, or that don't calculate employee bonuses as increased payroll for workers comp, experts say.

Workers comp insurers can issue audit bills at the end of a policy term charging additional premium based on a higher payroll amount.

Sources say factoring payments such as bonuses, stock grants and stock options into workers comp premiums stems in part from such payments being common for senior executive compensation.

“If you're the CEO and you made \$5 million last year and you're headquartered and work in the state of New York, New York's going to say only \$100,000 of that goes into the work comp model for payroll purposes,” said Stephen Hackenburg, chief broking officer with Aon Risk Solutions' national casualty practice in New York.

However, while executive officers have limits on how much salary can be calculated in workers comp premiums, compensation for nonexecutive employees can increase significantly because of bonus pay, driving up comp costs.

“In the technology industry out in California, for example, giving stock options to those employees is the norm,” said Mark Walls, St. Louis-based senior vice president and workers compensation market research leader at Marsh L.L.C.

“That's how you attract and retain workers in that industry is stock options, because that stock is worth a tremendous amount of money.”

NCCI began reviewing how bonus pay can be factored into workers comp premium when it revived its underwriting committee in 2012.

“We're looking to see if things need to be updated, deleted modified, explained better ... as to what constitutes payroll for the purposes of premium calculations in workers comp,” Mr. Burton said. “An endeavor like this, which is very broad in scope, has not really been accomplished for many years.”

Meanwhile, employers are “frustrated that (paying bonuses) didn't really change their workers compensation risk profile,” Aon's Mr. Hackenburg said of companies hit with unexpected work comp premium increases. “It just was a tool to help them motivate people, so they often try to find a way around that, and sometimes they are suc-

cessful and sometimes they're not.”

Experts say companies that receive large premium audit bills after paying bonuses or giving stocks to workers often have a difficult time trying to challenge such bills with their workers comp insurers.

Companies should discuss any future employee bonuses with their workers comp insurer to see whether such payments can be made without causing a spike in comp premiums, said Pam Ferrandino, executive vice president and casualty practice leader for Willis North America Inc. in New York.

“If you know that most likely you're going to pay larger-than-average bonuses to your employees during the course of that year, I would suggest that you talk to the carrier ahead of time,” Ms. Ferrandino said. “Because why would you be paying a risk premium to the carrier when there's really not additional risk to them” in terms of potential injuries?

BERMUDA

Continued from page 4

your company.”

“We’ve got about a dozen companies writing cyber right now,” said Peter Mullen, CEO of captive and insurance management at Aon Global Risk Consulting in Pembroke, Bermuda. “Lots of people are talking about it. But we still haven’t really seen captives step up and do something innovative and different.”

Cyber risk remains difficult to quantify, Mr. Mullen said. “Those that are writing cyber in captives are following what the market is doing” thus far, rather than using their captives to fill gaps in the cyber coverages available in the traditional market.

Mr. Geraghty said he expects to see companies initially using their captives to fund the deductibles in their traditional market cyber policies, then eventually place more cyber risk in the captive as they better understand the exposure.

“Cyber liability is big. That’s something you have to think about in your captive,” said Jeffrey Driver, chief risk officer of Stanford University Medical Center and executive vice president of Stanford University Medical Indemnity & Trust Insurance Co. in Palo Alto, California.

That said, “We intentionally keep cyber out of our captive,” Mr. Driver said, adding that Stanford avoids placing any exposure considered “too wild and uncertain” in

its captive program. But, he said, “There will come a time when it makes sense to put this in your captive and we will probably go there.”

Carolyn Snow, president of the Risk & Insurance Management Society Inc. and director of risk management for Louisville, Kentucky-based Humana Inc., also



“If I were going to do cyber (in a captive) I would personally take it very slowly.”

Carolyn Snow,
Humana Inc.

wondered whether there would be more organizations placing cyber risks in captives.

“If I were going to do cyber (in a captive), I would personally take it very slowly,” she said.

Mr. Geraghty said supply chain

exposures are another area in which captives are becoming involved.

“I think supply chain is a risk that has evolved over time,” he said. “What we see is the evolution of nondamage business interruption. What we’re seeing with captives is, slowly, they’re starting to look at that market.”

Another growing area is coverage for employee wage-and-hour claims, he said. Those claims are excluded from traditional market employment-practices liability policies, he said, though stand-alone coverage is available.

“They can use the captive to pre-fund and insure themselves, or they can look to the market, or they can do a mixture of both,” Mr. Geraghty said. “It’s all about making sure you’re covered for the risk.”

With the debate continuing over renewal of the U.S. Terrorism Risk Insurance Act, “formation of new captives to access TRIA has probably stalled,” Mr. Mullen said. “We expect to see an uptick” if TRIA is renewed, he said, although the industry doesn’t see “many captives formed outside of the United States just to write terrorism.”

This year’s Bermuda Captive Conference drew more than 800 attendees June 2-4 to Bermuda’s Fairmont Southampton Resort. Next year’s Bermuda Captive Conference will be held June 8-10, 2015, at the Fairmont Southampton Resort. For information on the 2015 conference, go to www.bermudacaptive.bm.

also biometric screenings, a 12-question lifestyle questionnaire, clinical markers obtained from a vision exam, and publicly available consumer data such as credit scores and Google searches.

DataSmart Solutions President Paul Bogumill said the predictive modeling program, which has a high degree of accuracy, is the product of nearly 20 years of evaluating such diverse information in

“We find commonalities, put pieces together to identify the people who are likely to generate the \$100,000 claims.”

Paul Bogumill,
DataSmart Solutions

collaboration with the Montana Association of Healthcare Purchasers, a coalition of state and university system employers.

“We find commonalities, put pieces together to identify the people who are likely to generate the \$100,000 claims,” Mr. Bogumill said.

To identify best-in-class wellness providers, Hub International Ltd. recently licensed an analytically driven wellness provider “match-making service” developed by the

Chicago-based Wellness Research Institute, said Ron Agypt, Hub’s Chicago-based chief sales officer of employee benefits.

The Wellness Navigator, which operates somewhat like the online dating service eHarmony, uses an employer’s answers to a series of questions to search through a database of 160 providers to identify those that best meet the employer’s needs, Mr. Agypt said. The database also includes provider reviews to help guide employers in making their selections, and can perform an automated request-for-proposal process.

Aside from pursuing better technology, benefits brokers also are honing their linguistic skills to better explain complex benefits issues to finance executives of companies, said Michael Turpin, New York-based executive vice president of USI Insurance Services Inc. This is because most chief financial officers view PPACA noncompliance as one of their company’s biggest financial risks, he said.

“When their per capita spend on health care starts to eat into their per capita profit, the C-suite suddenly appears, and they stay in the meeting for more than five minutes,” he said. “Perhaps one day, (human resources) managers will actually get rewarded for achieving sustained low-digit trends” in health plan cost increases.

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COUNCIL

Continued from page 4

said Michael Mascolo, insurance practice leader for Northeast region employee benefits at Wells Fargo Insurance Services USA Inc. in Madison, New Jersey.

“Carriers are being cautious with this, especially if they have provider networks with prominent providers that treat complex, high-cost medical conditions. If there’s no risk adjustment for that, those networks are going to attract a disproportionate number of expensive medical cases, and underwriters are concerned they’ll be selected against in a way that would disadvantage them,” Mr. Mascolo said.

In addition to private exchange platforms, predictive modeling capabilities that help identify potentially high-cost medical claimants are being offered by benefits brokers to more midsize employers.

For example, DataSmart Solutions L.L.C. of Helena, Montana, recently began working with the Leavitt Group of Cedar City, Utah, to help its employer clients predict which employees and dependents are most likely to become high-cost claimants by analyzing not only historical claims data, but

BRAZIL

Continued from page 1

disruption or cancellation of the soccer games to be held in 12 cities over a month, insurance industry sources said.

Event cancellation and contingency policies likely would include coverage for riots and civil commotion, the sources said.

Completing massive infrastructure projects to host the games is another major concern, and at least one stadium is unlikely to be completed in time for this week's kick-off, sources said. Construction reportedly continued at a feverish pace last week.

However, the sources said venue readiness is a risk that would be excluded from contingency insurance which covers event cancellation.

Zurich-based Federation Internationale de Football Association, the local organizing committee, television companies, sponsors and advertisers are among those that have purchased cancellation or abandonment insurance.

The July 13 final is expected to be watched by a live TV audience of about 1 billion, which would make it one of the top 5 most-watched events in television history.

Among insurers covering the global soccer spectacle are Munich Reinsurance Co., which has financial exposure to the complete cancellation of the event of about \$400 million, and Swiss Re Corporate Solutions, a unit of Swiss Re Ltd., which has exposure to the cancellation of the

event in the hundreds of millions of dollars.

Many Lloyd's of London companies also have underwritten World Cup-related insurance, sources say.

Insurance for global sporting events typically is arranged up to six years in advance, often as soon as a host city or country is announced.

Andrew Duxbury, underwriting manager at Munich Re in London, said while the threat of terrorism at the Brazil World Cup may not be perceived to be as great as it was at the 2012 London Olympic Games or the 2014 Winter Olympic Games in Sochi, Russia, underwriters still factored it into its rating and coverage decisions.

While Brazil is not as prone to earthquakes or hurricanes as Sydney and Beijing, which recently hosted Olympic Games, storms and flooding could affect individual matches, Mr. Duxbury said.

Other key risks considered by event organizers and underwriters include pandemics, but the threat has lessened as the start date approaches, said Sonja Kaufmann, Zurich-based senior contingency underwriter at Swiss Re Corporate Solutions.

While Brazil may represent a better catastrophe risk for underwriters than other recent World Cup host nations, such as Japan, the threat of riots is greater than other recent host nations, said Elizabeth Seeger, personal accident and contingency line underwriter at Hiscox Ltd. in London.

Large and sometimes-violent protests have occurred in Brazil in recent months, in part because of World Cup-related costs.

Coverage for terrorism,



WORLD CUP COSTS

■ Six new stadiums were built, and six additional stadiums were renovated at an estimated cost of \$3.6 billion.

■ The Brazilian government pledged about \$1.3 billion for improvements to infrastructure to be used during the tournament.

■ The Brazilian government is spending about \$900 million on tournament security.

Source: FIFA

BRAZIL PRESSES TO COMPLETE INFRASTRUCTURE PROJECTS FOR WORLD CUP

Workers rushed last week to complete huge infrastructure projects to be ready for the June 12 start of the World Cup in Brazil.

The late rush to wrap up work at stadiums, airports, rail lines, roads and phone networks reportedly continued at a frenzied pace.

For example, the Itaquerao stadium in São Paulo, which will be used for several matches during the monthlong tournament, including the opening game between Brazil and Croatia, reportedly still was unfinished.

One insurance broker, who asked not to be named, said a lack of readiness in any of the 12 stadiums across Brazil to be used during the tournament may cause insurance difficulties for event organizers.

A lack of readiness of venues or infrastructure is excluded from event cancellation coverage, said Sonja Kaufmann, senior contingency underwriter at Swiss Re Corporate Solutions, a unit of Swiss Re Ltd., in Zurich.

So interested parties such as the event organizers have purchased other insurance that may include surety coverage,



AP PHOTO

Portugal's Cristiano Ronaldo will be one of the biggest stars of international soccer playing at FIFA World Cup in Brazil.

for example, to protect them if a match is postponed, said a London-based underwriter who asked not to be named.

According to another underwriter, since construction delays would not be covered by contingency insurance, event organizers would protect themselves against such a risk using other insurance or by self-insuring or having well-thought-out plans to move an event elsewhere.

The Fédération Internationale de Football Association earlier this year announced a

“comprehensive recovery plan which includes solving the financial challenges involved” to ensure that the Arena da Baixada in the city of Curitiba will be ready to host matches during the tournament.

The venue had been in danger of being removed as a match host because work on its stadium was behind schedule.

FIFA said the plan included financial guarantees from the city and state of Curitiba as well as local team Clube Atlético Paranaense.

By Sarah Veysey

riots and civil commotion typically is included in contingency insurance, but such threats were considered a much smaller risk when the coverage was underwritten several years ago, said Chris Rackliffe, a contingency underwriter at Beazley Group P.L.C. in London.

After the cancellation risk, the likely No. 2 risk connected with a World Cup is player injuries, said Richard Tolley, sports and events practice leader for Europe, Middle

East and Africa for Marsh Ltd. in Birmingham, England.

They are “the elite of the elite,” he said, and are highly paid by their clubs. Their future potential earnings are at risk should they be seriously injured during a tournament, he said.

Earlier this year, FIFA extended insurance, first arranged in 2010 after Bayern Munich star winger Arjen Robben was injured during a friendly match in the Nether-

lands and was unable to play in the 2010 World Cup.

The coverage, which is unusual for a sporting event, would compensate clubs for part of a player's salary should the player be injured during the tournament and be unable to play for their regular team, Mr. Tolley said.

It includes an annual payout of up to \$9.7 million per player, depending on that player's contract with his club, sources said.

TRIA

Continued from page 1

able to serve this vital market because of TRIA, not in spite of it,” he said.

The Senate bill calls for two major changes to the terrorism insurance program.

Under current law, should a terrorist attack occur, insurers would pay 20% of the prior year's direct earned premium for covered commercial lines as a deductible. Then the federal government would cover 85% of each insurer's losses up to \$100 billion, leaving individual insurers to cover the remaining 15%.

The Senate measure would increase insurers' copay after the deductible to 20% from 15%, with the government covering 80% of each insurer's additional losses. The deductible increase would be

phased in incrementally over five years.

The legislation now goes to the full Senate. The timing of a Senate vote is unknown and up to Senate leadership to decide.

In the House, three bills have been introduced that would reauthorize the program for various lengths of time and with different program changes, but none has come to a committee vote.

Rep. Randy Neugebauer, R-Texas, chairman of the House Financial Services Committee's Housing and Insurance Subcommittee, is expected to introduce a TRIA reauthorization bill soon. Sources say the bill, which could be unveiled as early as this week, indicate that it would extend the program for just three years and require insurers to bear a larger portion of any future losses.

Experts say the Senate panel's action could influence the House.

“It was a demonstration of the

strong bipartisan support behind reauthorizing this program,” said Leigh Ann Pusey, president and CEO of the American Insurance Association in Washington.

She said the vote could lead to “swift action on the Senate floor” and puts pressure on the House “to keep a good legislative pace.”

“I think 22-0 is a vote you don't see in Washington these days anymore,” said Jimi Grande, senior vice president in the Washington office of the National Association of Mutual Insurers. “That projects out to 80 to 90 votes in the Senate, which should help encourage the House to move as close to the Senate version as they possibly can.”

Robert Freeman, government relations principal at Cozen O'Connor in Washington, said it was “kind of surprising that it was a unanimous vote. There seemed to be some dissent and concern expressed, but overall it was smooth, and the vote shows that

the actual support was there.” Now, he says he wouldn't be surprised by “a strong vote in the Senate floor.”

The unanimous Senate committee backing “would seem to be a mandate certainly as to the importance of keeping the reauthorization of the TRIA program on the front burner, and to lessen the economic uncertainty in the marketplace,” said John P. Dearie Jr., a partner at Edwards Wildman Palmer L.L.P.'s New York office. “But there's still a battle that's going to come from the House.”

Senate drafters of the bill “clearly were aware that the House wants to cut back the possibility that the federal government would ever have to pay anything, so they made a gesture” to address House leadership concerns by increasing the financial burden on insurers, said Lawrence Mirel, a partner in the Washington office of Nelson Levine de Luca & Hamilton L.L.C.

That the House Financial Services Committee is considering a program extension at all recognizes Democrats' and insurers' contention the program is necessary, Mr. Mirel said. “That tells me there is a possibility of actually having a bill to extend TRIA, because now much of it is just arguing about the numbers.”

“There's still a lot to do in the process, unfortunately,” said Wendy Peters, senior vice president in Willis North America Inc.'s terrorism insurance practice in Radnor, Pennsylvania.

While she says she is cautiously optimistic about the House renewing TRIA, this is the first time the program has come up for reauthorization in an election year, and “that could color the debate.”

“I think there will be more concessions as to the scope of the coverage and duration of the backstop, and we may still come down to the wire,” Mr. Dearie said.

Fed hires insurance veteran to oversee AIG, Prudential

■ The U.S. Federal Reserve has hired a former state insurance commissioner to help it oversee nonbank financial firms that a council of regulators identified for tougher scrutiny last year. Thomas Sullivan, who led the Connecticut Insurance Department from 2007 through 2010 and later worked at PricewaterhouseCoopers L.L.P., told Reuters he starts as a senior adviser on June 9. A Fed spokeswoman confirmed the hire but did not provide further detail. The Fed received authority to regulate insurers Prudential Financial Inc. and American International Group Inc. in 2013 after a group of regulators known as the Financial Stability Oversight Council decided those firms were so big their failure would destabilize financial markets. During the 2007-2009 financial crisis, the U.S. government stepped in to stabilize AIG with a taxpayer-funded bailout that eventually topped \$180 billion.

Reuters

Aspen, Endurance rhetoric rises in hostile takeover saga

■ The war of words between Aspen Insurance Holdings Ltd. and Endurance Specialty Holdings Ltd. intensified after Endurance went public with a higher offer in its hostile pursuit of Aspen that Aspen had previously rejected in private. Endurance also said it would take its offer directly to Aspen's shareholders and call a special meeting of shareholders under Bermuda law, where the companies are domiciled. Endurance's \$2 bump to \$49.50 per share was "a backwards step," Aspen Chairman Glyn Jones said in a statement. "In addition to grossly undervaluing Aspen, the proposal represents a strategic mismatch and, based on our conversations with major clients and brokers, would result in significantly greater dis-synergies than Endurance claims," Mr. Jones said in the statement. Endurance fired back: "The shrill rhetoric of Aspen's deeply entrenched board merely underscores the need to give Aspen shareholders the voice they deserve," an Endurance spokesperson said in a statement. The Endurance statement said that with less than 1.4% company ownership, Aspen's board and management are not "aligned" with shareholders. "What Aspen's board and manage-

ment have failed to achieve for 10 years, we are prepared to deliver today," Endurance said.

Veteran risk manager Henry Good dies at age 70

■ Veteran risk management and insurance professional Henry Good died of a heart attack in his home in Chandler, Arizona, last week at the age of 70. He began his career in Philadelphia at specialty chemical manufacturer Rohm & Haas Co. in 1970 and served in several positions in the company's financial department before being appointed director of insurance in 1988, where he designed, implemented and maintained a global insurance program that covered manufacturing and sales operations in 50 countries. In 2004, he left to work as a risk management consultant at Redwood City, California-based ABD Insurance & Financial Inc., which was subsequently acquired by Wells Fargo Insurance Services USA Inc. Mr. Good formed strategic risk management consultancy Global SIRC L.L.C. in 2011 and served as its principal.

P/C insurance rates up 3% in May: MarketScout

■ Commercial property/casualty insurance rates rose an average of 3% in May compared with those of the same month a year earlier, Dallas-based electronic insurance exchange MarketScout reported. Transportation accounts saw the greatest rate increase at an average of 4%, while public entities reported the smallest at 1%. Among business classes, commercial automobile, commercial property, general liability and workers compensation all experienced average increases of 3%, while business interruption, crime, fiduciary and surety saw 1% increases, MarketScout said.

Retailers, restaurants need emergency plans for shootings

■ Incidents involving "active shooters" — individuals who are actively engaged in killing people in confined and populated areas — are increasing, and retailers and restaurants must develop plans to be prepared for these events, says Marsh L.L.C. in a briefing. Between 2000

and 2012, there were 110 shooter events in the United States, and frequency is increasing, according to the Advanced Law Enforcement Rapid Response Training Center at Texas State University in San Marcos. Incidents occurred most frequently at businesses, which accounted for 40% of the total. "Organizations' emergency plans should include procedures for reporting and reacting to an active shooter event," says the report. "Such plans should provide clear guidance on what employees should and should not do in an emergency situation." These plans should address communications, sheltering in place vs. evacuation, working with law enforcement and identifying threats. The briefing also recommends retailers and restaurants understand insurance coverages and take action to prepare for claims after a shooting.

Colorado State analysts see mild hurricane season

■ The Tropical Meteorology Project at Colorado State University continued to predict a below-average Atlantic hurricane season in a new analysis forecasting 10 named storms to form during the 2014 hurricane season, compared with an average 12 during the 1981-2010 period. Four of those will grow to hurricane strength, as opposed to an average of 6.5, and only one of those will become a major hurricane packing winds of at least 111 mph, compared with an average of two during the 1981-2010 period, the analysis said. The CSU team also said there is a 40% chance of a major hurricane making landfall somewhere on the U.S. coast this season, compared with an average for the last century of 52%.

Interest rates key to pricing of workers comp rates: NCCI

■ Interest rates play a notable role in the workers compensation insurance underwriting cycle, with interest rate increases driving soft comp markets and interest rate declines creating a hard market environment, said the National Council on Compensation Insurance Inc. While the commercial insurance industry has a "prevailing notion" that soft comp markets are caused by excess capacity, market fluctuations are driven largely by "unrealized gains in insurers' stock portfolios," Boca Raton, Florida-based NCCI said.

CONFLICT

Continued from page 4

from the Financial Services Authority in April 2013, said it focused on smaller business customers that often rely on intermediaries for advice.

"Small businesses are experts in their particular field, but are often not experienced in buying insurance," Clive Adamson, the London-based FCA's director of supervision, said in a statement. "That is why they need to be able to trust their insurance intermediary to act in their best interests. If there are conflicts that are not identified or properly managed, that trust is put at risk."

The FCA said its review found that:

■ The risk of conflict of interest

increases when intermediaries acted as the agent for the customer and the insurer;

■ Some brokers' and agents' internal controls lagged changes in the size and complexity of their business;

■ Some intermediaries relied mainly on disclosure to address conflicts of interest, which at times was very generic and unlikely to enhance buyers' understanding; and

■ Conflicts of interest were not always effectively mitigated for add-on services, such as legal expenses; premium financing; or in cases where a third party pays for the insurance.

The FCA also surveyed 1,000 small insurance buyers, finding that 86% expected their intermediary to search for more than one quote, but that was not necessarily the case at some brokerages.

"Much of the thematic review points to an inability to prove that intermediaries are in control of the conflicts that might arise," London law firm Norton Rose Fulbright L.L.P. said in a briefing note.

"The FCA has had conflicts of interest on its radar for some time now, and this review signals its disapproval of some old-school industry practices, like purporting to act as a client's agent while only taking the risk to one insurer," Charley Taggart, a partner at London law firm Reynolds Porter Chamberlain L.L.P., said in a statement.

The FCA review "will alarm brokers, particularly those channeling business through managing general agency structures," said Charles Portsmouth, a director at accountant consulting firm Moore Stephens L.L.P. in London. Previous reviews, including mobile tele-

phone insurance, resulted in the FCA imposing fines "relatively swiftly" on companies falling foul of the its rules, he said.

The London-based British Insurance Brokers' Association, which said it will continue to work with the regulator, said the review looked at just seven brokerages of about 3,500 operating in the United Kingdom.

The "results need to be viewed in that context," it said.

"Industry guidance already exists, and we are keen to help members provide further clarity to customers along with the systems and controls and management information required by the regulator," said BIBA CEO Steve White in a statement.

The FCA said it expects all insurance intermediaries to make necessary changes to comply with its rules.

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Halle Berry filed a \$2 million lawsuit against ToyWatch S.p.A.

Star wasting time on watch suit

Time is money, as they say, but according to an Italian watch maker embroiled in a legal dispute with Hollywood star Halle Berry, the actress has prioritized work and vacation over taking a deposition in a \$2 million lawsuit.

Ms. Berry in October filed suit in U.S. District Court in Los Angeles against Milan-based ToyWatch S.p.A. claiming that the company invaded her privacy and infringed her copyright, among other things, when it used her image on watches.

ToyWatch counters that since the watches are made and distributed in Italy, U.S. privacy and trademark laws are not applicable.

According to gossip website TMZ, Ms. Berry originally said she would make time to take a deposition in May but then pulled out, citing work commitments.

The star now has said she cannot spare the time this month either because of vacation plans, according to ToyWatch.

The watch maker now says she is cutting it close: The court case is set to start in July.

The countdown is now on to see what Ms. Berry's next move will be. Maybe someone needs to buy her a new timepiece?

Thieves sentenced to yabba dabba doo time

Three teenagers in Sacramento, California, got a lucky break after they were caught with stolen property.

The teen thieves stole comic book store owner Dave Downey's classic Flintstones car from the front of his store in December 2013, according to CBS Sacramento.

Instead of pressing charges against the thieves when the car was recovered, Mr. Downey offered them a job opportunity.

The teens took Mr. Downey's generous offer to stand outside his store, World's Best Comics, dressed as the Flintstones on the store's busiest day of the year, Free Comic Book Day on May 3.

"The legal system and the messiness of it, that's not always necessary. And I think this was one of those times when it just wasn't necessary," Mr. Downey said.



NEW YORKER GOES FOR GOLD IN DOG BITE SUIT



ANew York man with a wounded finger, conspiratorial bent and apparently boundless optimism has sued the City of New York and dozens of alleged co-conspirators for \$2 undecillion — that's 2 followed by 36 zeros — after being bitten by a dog on a city bus. Lawsuit enthusiast Anton Purisima filed the suit in U.S. District Court in Manhattan in April. The 22-page hand-written complaint alleges Mr. Purisima suffered personal injury, discrimination, retaliation, harassment, fraud, attempted murder and variety of other slights at the hands of a vast cabal of conspirators.

In addition to the city, the suit names the New York City Transit Authority, a "Latina dog owner," St. Luke's Hospital, Hoboken University Medical Center and an airport Au Bon Pain store as defendants.

"Defendant Au Bon Pain is responsible as an employer of its individual employees in the alleged store," the lawsuit states. "The acts of these alleged Au Bon Pain employees were and are in conspiracy with acts to defraud plaintiff Anton Purisima by knowingly over-charging plaintiff of his coffee every time plaintiff buys his alleged coffee in that alleged Au Bon Pain store at LaGuardia Airport in New York."

While legal theorists are split regarding the merits of Mr. Purisima's lawsuit, a science blog estimates that the money that Mr. Purisima is asking for exceeds the economic value of all goods and services produced by humanity since we first evolved by orders of magnitude.

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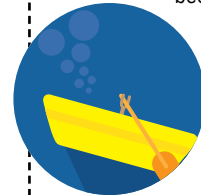
Canoe Man to pay from pension funds

AU.K. man nicknamed "Canoe man" after he faked his death in a canoe accident in 2002 in an effort to defraud insurance companies has been ordered to pay £40,000 (\$67,332) from two pensions by a British court.

According to reports, though John Darwin had been ordered to repay the nearly £680,000 (\$1.1 million) he's scammed from insurers by faking his death in the North Sea, so far he has repaid only £121 (\$204). The pension funds from which Mr. Darwin — who is currently unemployed — was ordered to make payment were apparently earned during his time working as a teacher and a prison officer, reports said.

In 2008, Mr. Darwin was sentenced to prison for the insurance fraud and ordered to repay the funds. Following his "disappearance," Mr. Darwin had reportedly been hiding out with his then-wife before walking into a London police station in December 2007 and claiming amnesia.

His ex-wife, who reports said was also jailed and has been repaying funds under a separate order, apparently expressed surprise at Mr. Darwin's 2007 "reappearance" until being confronted with a picture of the two of them together taken after her then-husband's supposed death.



Insurance swindler in crosshairs

Prosecutors in Philadelphia say they have caught an alleged mob associate with a taste for insurance fraud and a curious collection of taxidermy.

District Attorney R. Seth Williams said that auto repair shop owner Ronald Galati, Sr. led an insurance fraud ring of 40 members

including his wife, son, a city official, a police officer and two insurance adjusters. During the past four years, insurance companies issued payments totaling over \$2,311,288 in connection to fraudulent claims submitted from Mr. Galati's shop, American Collision, prosecutors said.

"When crafting bogus accident claims, Galati favored deer hits, vandalism and vehicular damages from trajectory objects because each could be categorized as a non-fault accident for which the insured would not be held liable," prosecutors said in a statement. "Cooperating conspirators from American Collision stated that Galati could often be heard repeating his favorite mantra: 'I live my life to cheat insurance companies — my high every day is to cheat insurance companies.'"

To lend credibility to his deer collision claims, Galati stored deer blood, hair and carcasses in the back of his shop, multiple witnesses told a Grand Jury.



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