

HEALTH CARE REFORM

FIRMS FACE HARD HEALTH COVER CHOICES

Some employers may offer health insurance, despite mandate delay

BY JERRY GEISEL

Affected employers face some tough decisions on what approach they will take in the wake of the Obama administration's unexpected decision to delay a key health care reform law provision.

Administration officials this month delayed by one year to 2015 the Patient Protection and Affordable Care Act requirement that employers with 50 or more employees offer qualified coverage to at least 95% of their full-time

employees or pay a \$2,000 penalty for each full-time employee.

U.S. Treasury Department officials said the delay was necessary to give the agency more time to simplify how employers are to file health care plan enrollment information with the government.

That delay is being welcomed by employers, especially those who have not decided whether they will offer coverage to those not currently eligible; or, if they have

See **HEALTH CARE** page 42

NEW HEALTH REFORM RULES IN 2014

The U.S. Department of the Treasury's decision to delay by one year to 2015 the requirements that employers file health plan enrollment information with the government and offer coverage or pay a fine does not affect other health care reform law provisions taking effect in 2014. These provisions include:

- Opening public insurance exchanges for lower- and middle-income uninsured individuals to be able to use federal premium subsidies to buy coverage from participating insurers.
- Requiring individuals to enroll in a health care plan or pay a penalty.
- Eliminating special waivers to sponsors of mini-med plans that have allowed them to offer coverage, even though the plans imposed annual dollar limits far below what the health care reform law allowed.
- Levying a fee of \$63 per health care plan participant on insurers and self-funded employers to fund a \$25 billion health care reform law government program that partially reimburses insurers for covering high-cost individuals.

MERGERS & ACQUISITIONS

Enstar moves to be active underwriter

Bermuda insurer buys Torus to expand

BY BILL KENEALY

Acquisitions by Bermuda-based insurer Enstar Group Ltd. underscore the company's efforts to evolve its business to become a live underwriter.

Last week, Enstar said it would acquire London-based specialty insurer Torus Insurance Holdings Ltd. for \$692 million.

In early June, Enstar said it would acquire London-based Atrium Underwriting Group Ltd., a Lloyd's of London underwriter, and Arden Reinsurance Co. Ltd. from Arden Holdings Ltd. for about \$262 million.

The aggressive moves demonstrate Hamilton-based Enstar's intent to diversify beyond its roots as an acquirer and manager of insurers and reinsurers going out of business to the active underwriting business.

"In the last year, Enstar has undergone a significant transformation," Robert J. Campbell, chairman of the firm's board of directors, said last week during a meeting with securities analysts. "In addition to adding to our substantial runoff liabilities, we have announced several transactions that expand our platform into live underwriting."

While the company's core business founded in Bermuda in 1993

See **ENSTAR** page 43

RISK MANAGEMENT

Quebec train wreck raises questions about transporting oil

BY JUDY GREENWALD

The deadly derailment and explosion of a train carrying crude oil through a small Canadian town is expected to lead to increased insurer scrutiny of the rail transport of hazardous materials, but is unlikely to dramatically affect rail insurance rates outside of tighter limits for small railway companies.

Moving crude oil and other petroleum products by rail increased dramatically in recent years and is expected to continue increasing



AP PHOTO

An aerial shot of workers sifting through debris, after a train carrying crude oil derailed last week in Lac-Mégantic, Quebec. It's expected to be Canada's worst rail disaster in 150 years.

See **DERAILMENT** page 42

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AIG leads coverage for crashed Asiana Airlines jet; commercial rates continue to rise

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COMMENTARY

JOANNE WOJCIK

SENIOR EDITOR



Many boomers anticipate retirement bust

More than half of U.S. baby boomers between ages 45 and 54 have less than \$25,000 saved for retirement, according to the Employee Benefit Research Institute, and confidence in having enough savings is at a record low.

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Q&A



PETER EASTWOOD
BERKSHIRE HATHAWAY
SPECIALTY INSURANCE GROUP

In June, Berkshire Hathaway Inc. announced the launch of Berkshire Hathaway Specialty Insurance Group, a new property/casualty insurer focused on U.S. excess and surplus lines. Peter Eastwood, the group's president, discusses his vision for building the insurer.

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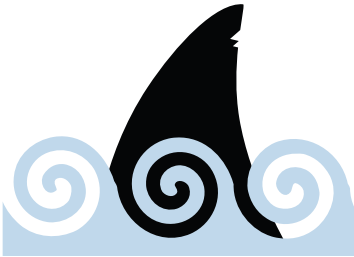
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Canopy names Posey new CEO



Paul J. Posey Jr., previously chief operating officer of Sedgwick Claims Management Services Inc.,

has been named CEO of Canopy Claims Management L.L.C. **38**

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NEWS

LIABILITY & LITIGATION

DOMA RULING RAISES BIAS RISKS

Gender stereotyping may lead to discrimination claims

BY MATT DUNNING

The Supreme Court's partial overturn of the Defense of Marriage Act could broaden employers' exposure to certain types of workplace discrimination and retaliation claims.

In its landmark June 26 decision, the nation's high court voted 5-4 to strike down Section 3 of the act, which prohibited federal recognition of state-sanctioned, same-sex marriages.

From an employment practices liability perspective, labor attorneys and compliance experts said the ruling is highly unlikely to affect employers' obligations under federal law to protect gays and lesbians from discrimination, since sexual orientation remains excluded from the list of protected employee classes under Title VII of the U.S. Civil Rights Act.

However, Title VII does protect workers from discriminatory conduct on the basis of gender, which can include sexual and malicious harassment; unfair hiring, compensation and termination practices; exclusion from company



events and programs; and denial of corporate privileges.

Additionally, a 1989 ruling by the Supreme Court in a suit brought by the U.S. Equal Employment Opportunity Commission against New York-based PricewaterhouseCoopers L.L.P. said that gender-based discrimination can include executive comments and actions based on the perception that an employee does not adhere to traditional gender standards of masculinity and femininity.

"There is a line of case law that says employees are protected from discrimination based on not only gender itself, but also sex stereo-

typing," said Laura Maehtlen, a San Francisco-based partner in Seyfarth Shaw L.L.P.'s labor and employment practice.

Federal recognition of valid same-sex marriages could lend considerable strength to future Title VII claims seeking to expand EEOC's formal stance on gender discrimination to include biased conduct against — or merely failing to prevent biased conduct against — legally married gay and lesbian employees based at least in the 13 states that currently recognize such unions, she said.

"Where the theory could come up is in a stereotyping situation where if a particular employee could prove that they were experiencing discrimination because they're not exhibiting the typical behaviors that are associated with their gender, namely who it is they've chosen to marry," Ms. Maehtlen said.

In 2011, EEOC issued a pair of decisions in favor of two former U.S. Postal Service workers — one in Connecticut and one in

See **DOMA** page 40

PROPERTY/CASUALTY INSURERS

New Iran sanctions put reinsurers on the spot

BY BILL KENEALY

Reinsurers need to revisit their internal compliance procedures due to new U.S. sanctions aimed at companies doing business with Iran.

The Iran Freedom and Counter-Proliferation Act of 2012, which President Obama signed in January and became effective July 1, strengthens existing sanctions and expressly prohibits any financial firm that does business in the U.S. from providing underwriting services or insurance or reinsurance for activities connected to Iran's energy, shipping and shipbuilding sectors.

The IFCA sanctions are meant to apply to companies no matter where they are domiciled, and the range of potential penalties for companies found to be in violation of the sanctions are broad, includ-

ing being banned from conducting business in the U.S.

Enactment of the expanded sanctions prompted New York's Department of Financial Services to send a letter to 20 non-U.S. reinsurers in June, asking if they had issued insurance to entities tied to Iran.

In a copy of the letter obtained by *Business Insurance*, the New York officials asked the reinsurers to supply a variety of information about their units and affiliates as well as procedures the companies have in place to ensure compliance with the Iran sanctions. Moreover, the letter calls into question whether the dedicated sanction exclusion clauses reinsurers have long used to ensure compliance are now sufficient.

"While we understand that insurance agreements may include sanctions clauses that limit an insurer's or reinsurer's obliga-

tion to pay claims that violate any applicable sanctions regime, we are concerned as to whether these clauses have or would ever be used," according to the letter. "Moreover, we are concerned that sanctions clauses do not protect against the risk that insuring a sanctionable transaction, whether or not a claim is ever made, may be found to violate the IFCPA."

Insurers to which the letter was sent include Swiss Re, Lloyd's of London and Hannover Re.

Given this added level of scrutiny, reinsurers need to rethink their sanction compliance efforts, said Geoffrey Etherington, a partner in the New York office of Edwards Wildman Palmer L.L.P.

"It's a good time to bring in your underwriters and refresh their

See **SANCTIONS** page 40

CORRECTION

The name of a senior managing director at Crystal & Co. was incorrect in the July 1 issue in an article titled, "Brokers Tap Social Media to Identify Prospects, Communicate with Existing Customers." His name is Mike Champion.

WORKERS COMPENSATION

Court rulings on black lung favor miners

Health care reform rules easing benefits access withstand challenges

BY ROBERTO CENICEROS

Two appeals court rulings that upheld eased eligibility for federal black lung benefits for coal miners and their surviving families are likely to increase the number of claims paid by employers.

While the recent rulings are not the first to uphold black lung eligibility changes contained in the 2010 Patient Protection and Affordable Care Act, one apparently was the first to specifically uphold the reform law's return of what is known as the 15-year presumption.

COAL FACTS

10,980

The peak number of U.S. coal mines, set in 1958. That number dropped to 977 in 2007.

1.17 billion

The peak number of coal short tons mined in the U.S., set in 2006.

81,138

The average number of employees working in the U.S. coal industry in the first quarter of 2013.

Source: U.S. Department of Labor's Mine Safety and Health Administration

The presumption is that coal miners working in the industry for 15 years who develop disabling pulmonary or respiratory impairment are presumed to have pneumoconiosis, or black lung disease, as the cause and not other factors, such as a lifelong smoking habit.

PPACA also reduced the burden of proof for dependent survivors seeking benefits.

Claimant and defense attorneys say the rulings will increase the number of claims against employers, which spiked after PPACA was signed into law. They say it also will affect the resolution of several still-pending claims.

Black lung disease was a factor in more than 8,000 deaths nationwide from 1998-2007, according to federal data (see box, page 40).

In a late June decision, the Chicago-based 7th U.S. Circuit Court of Appeals ruled unanimously that a coal miner is entitled to black lung benefits because of the change in

See **BLACK LUNG** page 40

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ONLINE
FEATURES

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NEWS

PROPERTY/CASUALTY INSURERS

INSURERS URGED TO PREPARE
FOR SOLVENCY II DESPITE DELAY

New capital regime may be implemented in stages

BY SARAH VEYSEY

While Solvency II likely will be delayed beyond its slated start date of Jan. 1, 2014, companies should continue to prepare for certain elements of the European risk-based capital rules when they do come into force, experts say.

Debate over the treatment of long-term guarantee business (see box) likely will delay a vote on Omnibus II, which would amend elements of Solvency II including its start date. That vote, which already has been the subject of delays, was scheduled for October.

And European Parliament elections will take place in May 2014, meaning that a new group of politicians may be debating Solvency II, leading to potential further delay, observers say.

But, while elements of the rules

See **SOLVENCY** page 41

INSURER GROUPS RAISE QUESTIONS
ABOUT LONG-TERM GUARANTEES

The European Insurance and Occupational Pensions Authority, Europe's insurance regulator, published a report in late June on the treatment of long-term guarantees under Solvency II.

The French and German insurance associations — the Fédération Française des Sociétés Assurances and the Gesamtverband der Deutschen Versicherungswirtschaft e.V. — are among those that have expressed concern about EIOPA's conclusions.

The FFSA and GDV said that while they welcome certain elements of the report and agree with EIOPA's assessment that adjustments to proposed Solvency II rules are necessary, they do not believe that EIOPA's proposals will address some of the challenges that life insurers will face under the rules, notably the volatility of solvency ratios.

Insurance Europe, which represents insurers and reinsurers in Europe, welcomed EIOPA's decision to carry out an impact assessment to test some of the measures related to long-term guarantees ahead of Solvency II's implementation.

"The industry remains committed to supporting efforts to correct the outstanding problems with Solvency II and to finalizing the regime as soon as possible," Insurance Europe said in a statement.

By Sarah Veysey

RISK MANAGEMENT

Global expansion adds to firms' reputational risks

BY RODD ZOLKOS

As they move into new markets by product line or geographically, companies need to be wary of the reputation risks that can accompany missteps in those efforts.

Companies must recognize that with each new market come new stakeholders, and it's essential to understand those stakeholders' expectations, according to reputation risk experts.

In addition, it's necessary to recognize the speed and global range of today's communications and understand that news of flawed products, cultural insensitivities or other reputational threats can quickly reach a large audience.

The April collapse of an apparel factory in Bangladesh and the subsequent reputational risk exposure to European and North American retailers associated with it showed an example of reputation risks companies can face as they get involved in new markets.



AP PHOTO

Hundreds of workers were killed in the April collapse of a Sava, Bangladesh, building that housed several garment factories.

Two separate Bangladesh factory safety plans announced last week by groups of European and North American retailers were driven to some extent by those reputational risks.

"From my perspective, reputational risk is not necessarily any-

thing people are talking about but it's something that needs to be tied in to your business strategy in terms of new markets, new geographies," said Gregg Anderson, a director at Crowe Horwath L.L.P.

See **REPUTATION** page 39

WORKERS COMPENSATION

Access to data
helps employers
cut comp costsInsurers can provide
detailed reports

BY SHEENA HARRISON

LAS VEGAS — Employers can help keep their workers compensation claim costs down by partnering with their insurers to receive data and services that aid in safety and claim management, an Aon Risk Solutions executive said.

Companies often don't ask for assistance from their insurers that can help them understand factors that are generating workers comp losses, said Scott Lassila, Houston-based lead consultant with the Aon P.L.C. unit.

This includes providing reports that show workers comp claim data in formats that are customized to a client's specific needs, and offering help from consultants who can troubleshoot a company's safety weaknesses, he said.

"Ask the question, 'What other services do you have? How can you help me? Can you provide training?'" Mr. Lassila said of how employers should talk with their insurers.

In particular, Mr. Lassila said companies should request data that shows a company's workers comp claim development trends, along with asking for lag reports that exhibit the time it takes for an employer to report a workplace accident to an insurer.

The latter can help employers keep costs down, Mr. Lassila said, because claims cost about 18% less on average when reported within three days of an accident.

See **ASSE** page 41

WOMEN TO WATCH
NOMINATIONS

The deadline to nominate a candidate for *Business Insurance's* 2013 Women to Watch recognition program is now July 31. To nominate women doing outstanding work in commercial insurance, risk management, employee benefits and related fields visit www.businessinsurance.com/womentowatch.



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RISK MANAGERS LOOKING CLOSELY AT INSURERS' SOLVENCY ISSUES

Work closely with brokers to stay informed about industry

BY MIKE TSIKOUDAKIS

Risk managers at middle-market companies increasingly are working to understand and assess issues surrounding insurer solvency.

According to the National Conference of Insurance Guaranty Funds, there have been approximately 550 insolvencies of property/casualty insurers since the early 1970s. And the near-collapse of New York-based insurer American International Group Inc. nearly five years ago was a wake-up call for many risk managers, experts say.

Prior to AIG's difficulties, "perhaps some risk managers were a little lackadaisical about" assessing the solvency of their insurers, said Gloria Brosius, director of risk management and insurance programs at FCC Services, a professional services firm in Greenwood Village, Colo.

"We all woke up one day to this news about AIG, and we were panic-stricken because at that point we had a lot of policies with AIG," Ms. Brosius said. "But I think that that taught us all a les-

son — that you really need to pay attention and you really need to be reviewing that information on a regular basis."

FCC Services pays particular attention to the financial strength of its insurers, she said, noting that the company and its insurance broker each have minimum rating requirements in place that insurers must meet before placing coverage.

"Our own minimum requirement is that they be rated by (A.M. Best Co. Inc.) at A- or better," Ms. Brosius said, noting that her broker, London-based Aon P.L.C., has a rating requirement of A or better.

To manage insurer counterparty risk, Ms. Brosius said she also pays particular attention to diversifying her risks among various insurers.

"We have a spreadsheet that we review on a regular basis to make sure that we don't have too much risk with any one insurance company," she said.

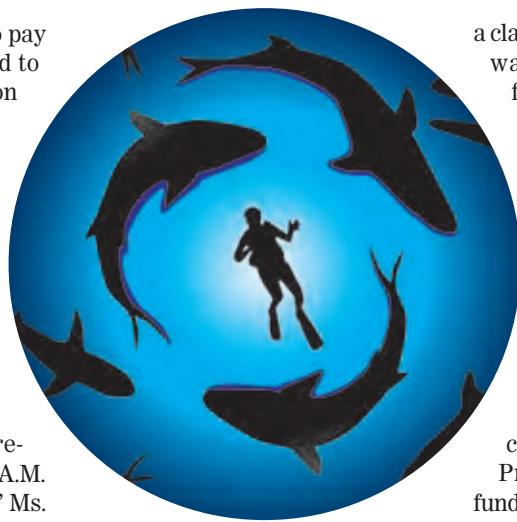
Paying attention to combined ratios and subscribing to rating agencies and insurance industry news feeds can help mid-market risk managers stay on top of their insurers, experts say (see related story).

Insurance brokers also should monitor the ratings of insurers they do business with and notify clients when ratings drop, said Linda Giffin, senior vice president of Argo Insurance Brokers Inc., a unit of Integro Ltd., in Pleasant Hill, Calif.

"We have seen carriers go from a B rating to insolvent in a matter of weeks," Ms. Giffin said. "Early warnings give clients an opportunity to replace their insurance carrier. Having open claims with an insolvent carrier becomes a management nightmare."

Rosemary Apricio, director of risk management of Discover Goodwill of Southern & Western Colorado, based in Colorado Springs, Colo., said she trusts her insurance broker to discern any potential problems with insurers.

"We mostly rely on our broker as we're going through our renewal process to make sure that we pick insurance carriers that are finan-



"We have seen carriers go from a B rating to insolvent in a matter of weeks. Early warnings give clients an opportunity to replace their insurance carrier. Having open claims with an insolvent carrier becomes a management nightmare."

Linda Giffin,
Argo Insurance Brokers Inc.

cially solvent," she said.

Brokers also have a pulse on the industry and can provide early warnings such as whether key employees leave an insurance company, said Ms. Brosius of FCC Services.

"It kind of puts you on alert that perhaps something is going on that you need to be paying attention to," she said.

Insurer solvency issues can be alarming for mid-market risk managers that have long-tail claims, said Pamela F. Ferrandino, New York-based casualty practice leader for placement with Willis North America Inc.

"When you are looking at a longer-term line of business, a liability line or workers compensation line, you can have a claim under workers comp that can last a lifetime," Ms. Ferrandino said. "If you know it takes 25 years to have

a claim emergence, you'd probably want to continue to watch the financial stability of those (insurers) over that 20-year horizon because, if you paid a premium, you anticipate having a recovery someday."

Small employers or mid-market companies may have outstanding covered claims protected under various state guaranty funds in the event of insurer insolvency, Ms. Ferrandino said.

Property/casualty guaranty funds are created by state statutes and protect claimants against insolvent insurance companies, according to the NCIGF. In total, the system has paid out more than \$27 billion since 1976.

But not all claims or companies are covered.

Corinne P. Carr, Chicago-based partner in Dentons U.S. L.L.P.'s insurance practice, said companies that don't have a dedicated risk management function may wrongly believe that the state guaranty funds will protect them.

Guaranty funds prevent delay in payment to an injured employee on a workers compensation claim, for example, but also attempt to prevent financial devastation for the actual insured, Ms. Carr said.

"These guaranty funds, in most states, also have an exception. They carve out from their protection high-net-worth insureds. The high-net-worth insured, according to their definition, (is) not really entitled to protection from the guaranty fund in their state," she said.

Such exclusions vary from state to state in terms of covered claims and net-worth amount, Ms. Carr said. Also, some states separate funds for workers comp and property/casualty claims.

For example, the Illinois Insurance Guaranty Fund's net worth exclusion is \$25 million or more. If a company's net worth was \$25 million or higher on Dec. 31 of the previous year, claims would not be covered by the program in the event of insurer insolvency.

In that case, "you're considered big enough to take the hit and absorb the loss," Ms. Carr said.

WHAT IS A COMBINED RATIO ANYWAY?

Risk managers, insurance brokers and insurance industry analysts rely on combined ratios to measure underwriting profitability as a way to assess insurer solvency.

A combined ratio is a measure of profitability used by insurance companies to determine operating performance. Generally, a ratio below 100% indicates the insurer is making an underwriting profit, while a ratio above 100% means it's paying out more money in claims than it is receiving from premiums.

The combined ratio is calculated by taking the sum of incurred losses and loss adjustment expenses divided by earned premium.

Risk managers at mid-market companies increasingly are paying attention to such ratios and information from insurance rating agencies and their insurance brokers, said Gloria Brosius, director of risk management and insurance programs at FCC Services, a professional services firm in Greenwood Village, Colo.

"Underwriting results are the biggest driver of overall profitability, and combined ratio is really a measure of underwriting performance," said Jim Auden, managing director of insurance for Fitch Ratings Inc. in Chicago.

Linda Giffin, senior vice president of Argo Insurance Brokers Inc., a unit of Integro Ltd., in Pleasant Hill, Calif., said combined ratios illustrate performance.

"Combined ratios show the total financial picture and are probably one of the better gauges over time," Ms. Giffin said.

By Mike Tsikoudakis



STRESS INDUCERS

Key factors that can lead to the distress or failure of an insurance company

- Poor liquidity management
- Underpricing and underreserving
- A high tolerance for investment risk
- Management and governance issues
- Difficulties related to rapid growth and/or expansion into noncore activities
- Sovereign-related risks

Source: Standard & Poor's Corp.



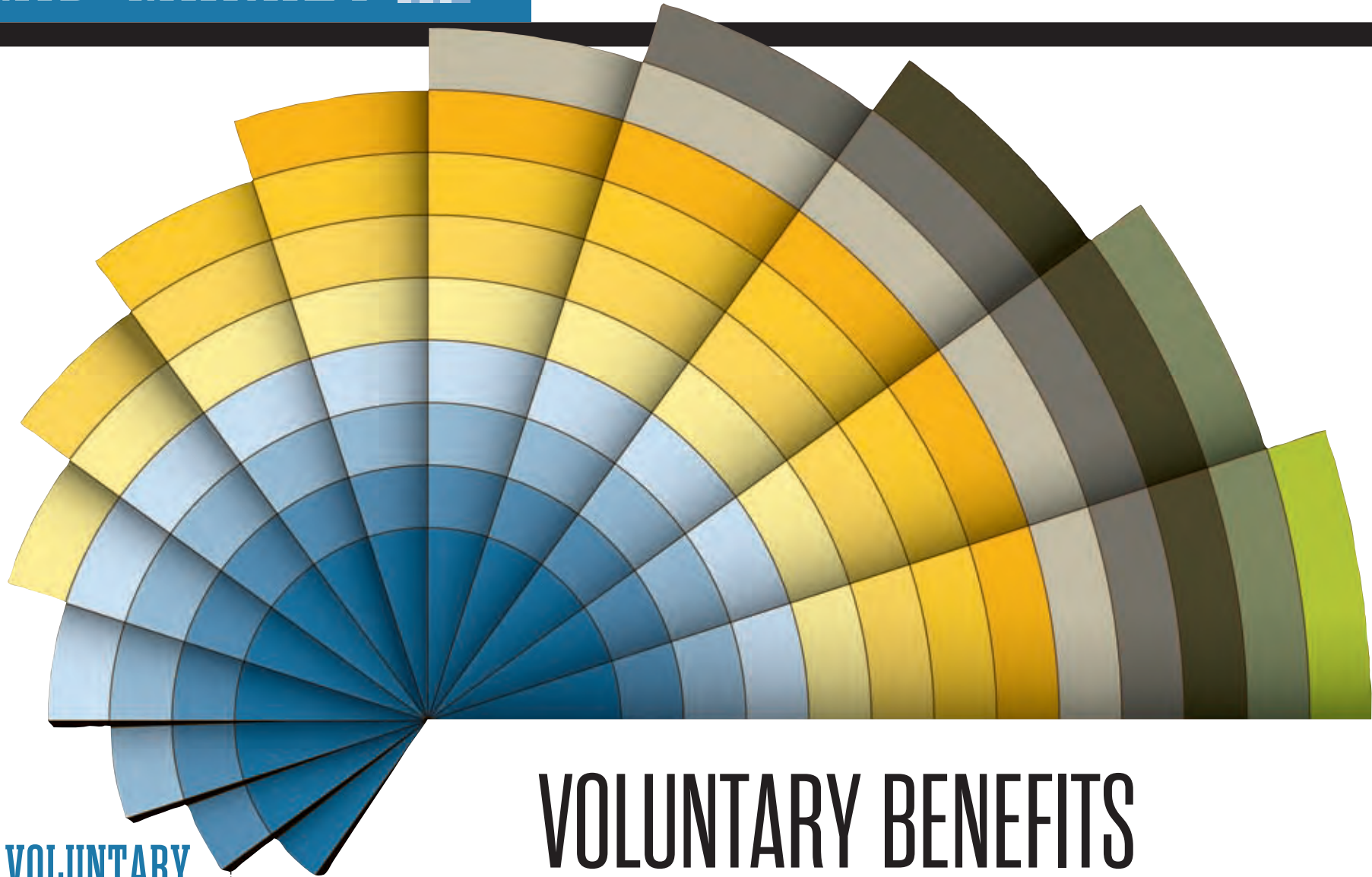
LOSSES
+
EXPENSES
÷
PREMIUMS
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COMBINED RATIO

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Helping executives at midsize firms and their brokers develop benefits solutions.



VOLUNTARY BENEFITS OFFER ARRAY OF ALTERNATIVES

Nontraditional products help ease higher employee cost-sharing

VOLUNTARY BENEFITS BY THE NUMBERS

\$6.03 B

Sales of voluntary benefits in the United States reached \$6.03 billion in annualized premiums for 2012, a 6.6% increase over 2011.

15

Fifteen insurers accounted for 80% of voluntary benefits sales, and 13 of the 15 increased their sales in 2012.

90%

Ninety percent of survey respondents expect voluntary benefits sales to increase in 2013, and 40% expect the economy to have a positive effect on sales.

Source: Eastbridge Consulting Group Inc.

BY KAREN PALLARITO

Alongside tried-and-true voluntary benefits such as life insurance and disability, some mid-market employers are rolling out nontraditional products — often to ease the sting of higher employee cost-sharing for major-medical coverage as well as enhance their overall benefits packages.

In particular, critical illness, cancer, accident and hospital indemnity plans have gained popularity in recent years (see chart) as employers seek to fill gaps in medical coverage. By offering these voluntary plans, employers hope to reduce the pain of employees' rising contribution to health premiums, deductibles and copayments and protect workers against unexpected and potentially expensive claims.

Benefit experts also see some midsize employers adding noninsurance programs, such as discounts on consumer goods and services.

“A lot of these programs are not necessarily new per se, but they're increasing in importance,” said Chris Hill, founder and CEO of

Spotlite, a Chicago-based company that electronically enrolls employees in voluntary benefits, and sister firm PerkSpot, a provider of corporate perks and benefit programs.

As employers shift costs to the employee, they're asking, “How can we help the employee stretch that payroll dollar?” Mr. Hill said. Medical software provider Merge Healthcare Inc. started

working with Spotlite in June 2012, about the same time the Chicago-based company eliminated one of its three health plan options.

See **VOLUNTARY** page 10

TOP VOLUNTARY BENEFITS

Top five voluntary, employee-pay-all benefits offered, by employer workforce size*

Rank	WORKFORCE SIZE			
	101-500	501-1,000	1,001-2,000	2,000+
1	Whole/universal life and AD&D ¹ , 38%**	AD&D, 48%	AD&D, 36%	Whole/universal life, 44%
2		Whole/universal life, 45%	Whole/universal life, 36%	AD&D, 39%
3	Critical illness, 36%	Hospital indemnity, 38%	Cancer, 29%	Long-term care, 34%
4	Accident, cancer and hospital indemnity, 33% each**	Long-term care, 32%	Accident, 26%	Hospital indemnity, 27%
5		Accident, 30%	Long-term care, 24%	Critical illness, 25%

*Percentages do not add up to 100% since more than one option is possible. **Tie. 1 AD&D is accidental death and dismemberment. Source: “MarketVision — The Employer Viewpoint after PPACA,” Eastbridge Consulting Group Inc.

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VOLUNTARY

Continued from page 8

Using Spotlite's voluntary benefits platform, Merge Healthcare's 750 U.S. employees can access PerkSpot corporate discounts on everything from restaurant meals to language-learning software. They also can use Spotlite to buy Allstate Corp. accident or critical illness insurance, Mr. Hill said.

"This is something that we could offer to them and give them a little bit more in the times that we're taking a little back," said Jim Nowaczok, a compensation and benefits specialist at Merge Healthcare.

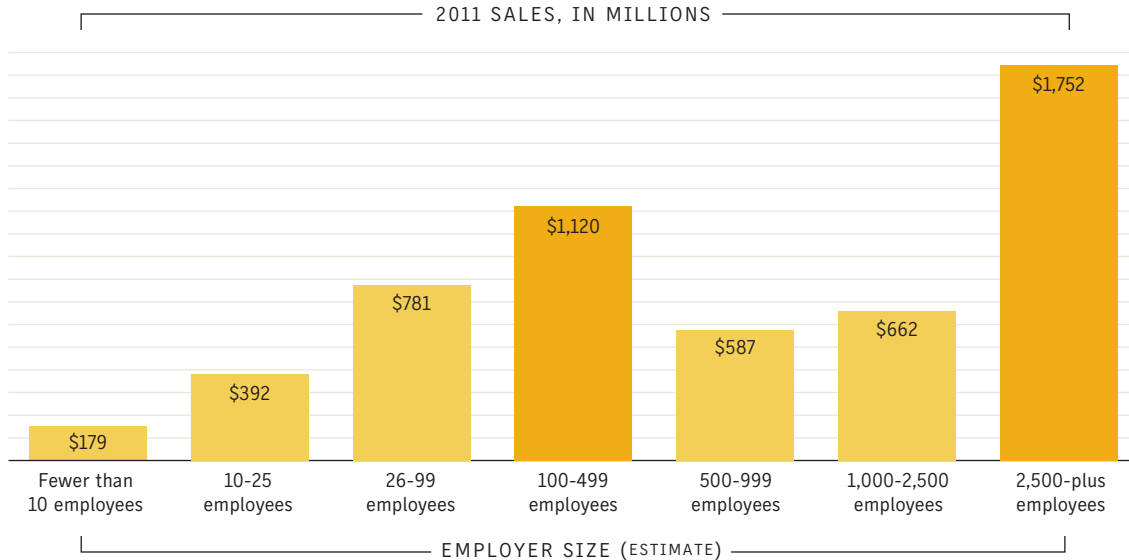
Middle-market employers' voluntary benefits have been limited to some extent by their size and choice of insurers, said Rob Shesstack, senior vice president and national practice leader of Charlotte, N.C.-based AmWINS Group Benefits, a unit of AmWINS Group Inc.

Some insurers require minimum participation to underwrite a group and may not do business with groups of fewer than 500 or 1,000 lives, he said.

"That's one of the reasons we want to be in that space — because it's underserved," said Mr. Shesstack, who leads the company's newly launched voluntary benefits practice and serves as chairman of the Palm Beach Gardens, Fla.-based Voluntary Benefits Association.

VOLUNTARY BENEFITS SPENDING

While employers with more than 2,500 employees were No. 1 in total sales of voluntary benefits in 2011, employers with 100 to 499 employees were No. 2. In addition, sales per employee were the highest among employers with 500 to 999 employees.



Source: Eastbridge Consulting Inc.

Voluntary benefit sales to employers of all sizes reached \$6.03 billion in 2012, up from \$4 billion a decade earlier, according to Eastbridge Consulting Group Inc. (see chart, page 11).

With new insurers entering the voluntary benefits space, some existing insurers are relaxing their underwriting requirements, Mr. Shesstack said. They're offering guaranteed-issue products for groups starting at 100 lives. Some are even waiving participation requirements for the first year or two "to get their foot in the door and start building up a good number of policies to help offset their

risks," he said.

Some voluntary benefits growth comes from midsize employers looking to restore a core benefit, such as dental insurance, that was eliminated, experts say. Making the benefit voluntary preserves access to the coverage at no cost to the employer (see chart, above).

On average, one in five employers of all sizes said they were thinking about switching an offering from employer-paid to employee-paid, according to a 2012 Eastbridge Consulting study.

Some employers are beefing up their benefits with products that serve the health and financial wel-

fare of their employees, from legal and long-term care coverage to automobile and homeowner policies.

Rich Reda, executive vice president at Lockton Cos. L.L.C. in Kansas City, Mo., said employees like the convenience, group discount and feeling that employers have adequately vetted the insurers.

Identity theft coverage is popular with mid-market employers as a value-added benefit, said Tom Nicol, managing partner at Excelsior, Minn.-based Excelsior Benefits L.L.C., an intermediary representing LifeLock Inc.

Education Navigation Inc. deals with another work/life challenge: helping parents of kids with autism, attention-deficit disorder, learning and emotional or behavioral issues navigate the special education arena.

"It's typically between 8% and 14% of an employer's population that are dealing with these issues," said President and CEO Debra Schafer, whose Malvern, Pa.-based company sells voluntary and employer-paid benefits to national clients, including midsize employers.

Last year, Atlanta-based Purchasing Power (see related story), a voluntary program for workers to buy products and services through payroll deduction, added educational services including online college courses, tutoring and professional certifications, said Elizabeth Halkos, the company's chief revenue officer. Vacation packages may be the next addition, she hinted.

Some employers are looking at Purchasing Power "to kind of offset what they're anticipating to be the negative effects of health care reform," Ms. Halkos said.

In a recently commissioned study on the mid-market, Lake Forest, Ill.-based Trustmark Voluntary Benefit Solutions, a Trustmark Insurance Co. division, found that the biggest underserved need is wellness. Midsize employers don't have the resources to run the kinds of wellness programs found in larger companies, said Dan Johnson, vice president of sales and marketing in the company's voluntary benefit division.

Through its HealthFitness unit, Trustmark is piloting a wellness program for mid-market employers, a reduced-rate program available to companies that offer Trustmark's voluntary benefits, Mr. Johnson said. Trustmark uses the enrollment process to explain to employees the benefits of the wellness program, which includes health risk assessments and biometric screening.

While most voluntary benefits are paid entirely by the employee, some mid-market employers are subsidizing the cost, experts say.

"We're seeing employers use this as kind of a cost-containment tool for their renewals on their health insurance plan, where they can migrate to a higher deductible yet help provide access or some contribution to a plan that will fill the gap in the event that the employee has to use that coverage," said John Stanley, senior vice president and chief marketing officer in Philadelphia for Little Rock, Ark.-based Transamerica Employee Benefits, a unit of Transamerica Life Insurance Co.

Giving instead of taking

When limestone product manufacturer Lhoist North America learned about Purchasing Power, a voluntary benefits program to buy consumer goods and services through payroll deductions, it jumped at the opportunity to offer its 1,600 U.S. employees a new benefit.

The enhancement came shortly after Lhoist tweaked its consumer-driven health plan last year. Instead of paying all employee claims — regardless of the cost — at 100% after the deductible, the medical plan will pay only up to 200% of Medicare or reasonable and customary rates for certain claims.

For some procedures, say knee replacement surgery, employees first must exhaust conservative-care measures.

Some employees saw the change in the health plan as a

"takeaway," conceded Melissa Hudson, benefits manager at the Fort Worth, Texas-based company. She thought that adding Purchasing Power would be viewed "as something positive."

Participation in the purchasing program, now in its second year, tops 19% at the company, she said. Computers, televisions and other electronics ranked as top sellers in the first quarter of 2013.

Employees pay for their purchases through payroll deductions over a 12-month period.

"They like the convenience. They like the fact that there's no credit check," Ms. Hudson said.

Elizabeth Halkos, Atlanta-based chief revenue officer at Purchasing Power, said average participation varies by employer, ranging from 10% to 20% depending on the products offered and how the program is communicated.

Ms. Hudson said she likes the program because it ties in nicely with Lhoist's monthly focus on wellness. During one month, Purchasing Power had treadmills and workout equipment on sale. It incorporated Lhoist's wellness logo and "Journey to Wellness" slogan into its advertisement posted on a website that Lhoist employees visit regularly.

With a range of workers — from plant laborers to geologists — at different wage levels, Purchasing Power isn't a good fit for everyone in the company, Ms. Hudson acknowledged. Employees with easy access to cash or good credit may not choose to participate, but it's perfect for employees living paycheck to paycheck, she said.

"You have to know your culture or your population," she said.

By Karen Pallarito

"You have to know your culture or your population."

Melissa Hudson,
Lhoist North America

ONE-STOP SHOPPING FOR VOLUNTARY BENEFITS

Questions about new developments in voluntary benefits have sparked a larger discussion about the delivery of employee benefits — now and in the future.

Peter Marcia, CEO of YouDecide.com Inc., an Atlanta-based company that designs and administers voluntary benefits plans and discount programs, described how the company is “aggregating all the benefits in one portal, so it’s one single destination for all things voluntary.”

The result, he said, is a better benefit experience for employees and simplified benefit administration for employers.

Some mid-market employers already are taking advantage of that shopping mall-like concept, where employees simply log on, peruse their options and enroll online or access available discounts.

“Midsized employers want to offer the benefits that their larger counterparts (and) competitors are offering; they’re competing for the same talent, so we see a lot of demand from midsized groups who don’t necessarily have the internal resources to do some of these things on their own,” said Chris Hill, founder and CEO of Spotlite, a Chicago-based provider of benefits distribution and enrollment, and sister company PerkSpot, an online provider of voluntary benefits and employee perks.

Rich Reda, executive vice president at Lockton Cos. L.L.C. in Kansas City, Mo., agreed that benefits aggregators provide valuable technical and administrative support, but he maintained that employees also need the human touch to explain why they might need such insurance.

YouDecide, whose clients are mostly Fortune 1000 employers, anticipates expanding services to a more mid-market clients as the Patient Protection and Affordable Care Act and health insurance exchanges alter the benefits-buying landscape.

The thinking goes that once the exchanges are in place, some employers will shift to more of a defined contribution approach, benefits expert say. But how many, and how quickly they will act, is yet to be seen.

Mr. Marcia, for one, expects many employers to provide a single benefits spending account and let employees purchase “what they want, need and love.”

Will employees continue to buy voluntary benefits through the workplace or through some sort of exchange?

“What we don’t know about the

exchanges right now is how voluntary insurance plans are going to play a role, how available they’re going to be on those exchanges (and) to what degree the insurance companies are going to provide discounted pricing (and underwriting with no or few health questions),” Mr. Reda said.

Exchanges don’t have the kind of affinity with employees that an employer does, and he said he doubts insurers “are going to be real excited” about offering voluntary insurance programs to individuals when they’re not part of a group, he said.

By Karen Pallarito

BIGGEST BENEFITS PLAYERS

Benefit brokers led all categories in reaching \$6.03 billion in voluntary benefit sales in 2012.

Category	% of total
Benefits brokers	56.0%
Career agents	20.0%
Classic brokers	13.6%
Worksite specialists	8.0%
Occasional producers	1.5%

Source: Eastbridge Consulting Group Inc.

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To learn more, contact Bob Patience, Vice President, Voluntary Benefits at 973-548-6233.

Download our annual “Study of Employee Benefits: Today and Beyond” at prudential.com/benefitsbeyond



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*Critical Illness is available to companies with more than 1,000 lives.

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Alberta flood losses could affect ratings

■ The catastrophic floods that inundated the Canadian province of Alberta in June may result in future rating actions for Canadian insurers, rating firm A.M. Best Co. Inc. said. While early estimates put the economic losses at \$4.8 billion, insured losses are likely to be significantly less due to the relative scarcity of property coverage for flooding in Canada, A.M. Best said in the report. Meanwhile, RSA Canada, the Canadian operation of London-based multiline insurer RSA P.L.C., says its net claims from flooding in Alberta could reach 75 million Canadian dollars (\$71.3 million).

Levy would support U.K. flood insurance fund

■ The U.K. government and the Association of British Insurers have signed a memorandum of understanding to create a non-profit fund to provide flood insurance for homeowners in high-risk areas. The proposal, known as Flood Re, is to be funded by a levy on insurers and will cap premiums for homeowners in areas deemed to be at high risk of floods. Those homeowner premiums will be based on Council Tax bands, the ABI said in a statement. The levy on all U.K. insurers that write homeowners coverage will be passed on to all household policyholders via an average charge of about £10.50 (\$16) per policy.

AIR Worldwide updates Japan quake model

■ Catastrophe modeling firm AIR Worldwide Corp. has updated its earthquake model for Japan to include information learned after the devastating Tohoku earthquake and tsunami of March 2011. The updated model includes fully probabilistic tsunami modeling as well as improved understanding of the seismicity of certain areas, among other things.

Insured flood losses in Germany reach \$2.60B

■ Recent floods that caused widespread damage in Central and Eastern Europe resulted in insured losses of about €2 billion (\$2.60 billion) in Germany, according to the German insurer association. In a statement, the Berlin-based Gestamtverband der Deutschen Ver-

PROFILE: BOTSWANA

\$146.5
MILLION

Botswana is a relatively small insurance market, and much of its economy is dependent on the diamond sector. The market has close links with South Africa, and nearly half of the property/casualty insurers have substantial South African connections. Property/casualty premiums increased 12.7% in 2011, the latest year for which figures are available. The two largest insurers, Botswana Insurance Co. and the local unit of Zurich Insurance Co. Ltd., have a combined 45% market share.

← 2011 P/C premiums

MARKET SHARE

Category	Market Share (%)
MOTOR	39.6%
PROPERTY	28.6%
MISCELLANEOUS	18.6%
MARINE, AVIATION & TRANSIT	2.8%
PA & HEALTH CARE WRITTEN BY NONLIFE COMPANIES	1.4%
EMPLOYERS' LIABILITY	7.2%
SURETY, BONDS & CREDIT	0.9%
LIABILITY	0.9%

Source: Axco Global Statistics/Industry Associations and Regulatory Bodies

COMPULSORY INSURANCE

- Auto third-party liability (state program)
- Workers compensation
- Professional indemnity for insurance brokers and auditors
- Fidelity guarantee for employees of insurance brokers
- Aviation liability

NONADMITTED INSURANCE

Nonadmitted insurance is not permitted in Botswana. The law provides that insurance must be placed with locally authorized insurers unless permission has been granted by regulators to purchase coverage for specific risks with foreign insurers. The exception was designed for instances when local insurers do not offer certain classes of coverage.

INTERMEDIARIES

Brokers are the dominant insurance distribution channel in Botswana, but banks are playing an increasing role. Intermediaries are not permitted to place business with nonadmitted insurers without the express permission of the regulator. Brokers involved in nonadmitted placements do not have to warn buyers that their insurer is not subject to local supervision.

MARKET PRACTICE

Certain types of risk, such as safari camps, aviation and marine hull, are insured abroad, mainly in South Africa. Large risks in the mining sectors often are led by foreign insurers with local insurers taking a small share.



POPULATION

2 million

LAND COVERED BY DESERT

85%

NUMBER OF P/C INSURERS

12

2013 GDP CHANGE (FORECAST)

5.1%

MARKET DEVELOPMENTS

UPDATED JUNE 2013

■ In February 2012, Botswana's insurance regulator, the Non-Bank Financial Institutions Authority, set supervisory levies for insurers, brokers and agents. Insurers pay \$5,750 plus 0.35% of gross written premiums; brokers pay \$1,150 plus 0.35% of gross premiums; and agents pay \$575.

■ In March 2012, the regulator published Prudential Rules for insurers and intermediaries. The rules are intended to prepare the market for the introduction of higher capital requirements, new policyholder protection legislation and improved reporting requirements. The requirements are intended to be introduced in 2013 and 2014.

■ A new insurance bill is going through the legislative process. The bill would increase minimum capital requirements to about \$600,000 for short-term business and about \$1.2 million for life insurers.

■ Botswana Insurance Holdings Ltd., which is majority-owned by a South African insurer, launched a new property/casualty subsidiary in 2012 that offers personal lines and commercial lines coverage through an Internet-based platform.

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

sicherungswirtschaft e.V., which represents insurers in Germany, said there have been 180,000 insurance claims stemming from the floods in May and June.

Chinese insurer buys Lloyd's building

■ Chinese insurer Ping An Insurance Group Co. of China Ltd. has bought the landmark London home of insurance market Lloyd's of London for £260 million (\$387 million). A German fund managed by Commerzbank Real A.G., part of Commerzbank A.G., sold the building to the Chinese company in a deal that represents a rental yield of 6.1%, broker Savills said in a statement. The identity of the buyer was not disclosed but several sources familiar with the deal named Ping An as the buyer.

Reuters

Prudential urges caution on E.U. capital rules

■ Getting new European Union solvency rules for insurers wrong could hinder the flow of capital in the region and crimp economic growth, a top U.K. insurer said. E.U. states and lawmakers are due this month to restart negotiations to finalize the long-delayed Solvency II rules to make sure insurers hold enough capital to stay stable and cover their policy commitments. Tidjane Thiam, chief executive of British insurance giant Prudential P.L.C., said it was also important to have a realistic timetable for phasing in the new rules once finalized. "Getting this wrong will have real consequences for our economy and for jobs, for growth and how we deal with an ageing population," Mr. Thiam

told the Association of British Insurers, which he chairs. He warned that getting Solvency II wrong would jeopardize the flow of capital in Europe.

Reuters

Zurich, Scor estimate catastrophe losses

■ Zurich Insurance Co. Ltd. and Scor S.E. released preliminary second-quarter catastrophe loss estimates last week. In a statement, Swiss-insurer Zurich said it expects losses of approximately \$140 million related to floods in Central and Eastern Europe, along with approximately \$138 million in combined losses for its Zurich North America and Farmers Re units from the severe tornadoes that hit the Oklahoma City area in May. Zurich said the estimates are pretax and net of

reinsurance. Paris-based reinsurer Scor said in statement that it estimates net pretax losses from recent flooding in Europe at €80 million (\$102.7 million) after retrocessions and reinstatements.

Lloyd's CEO Ward to leave at year-end

■ Lloyd's of London CEO Richard Ward will resign his post at the end of the year. Mr. Ward, who joined Lloyd's in 2006 from the International Petroleum Exchange, is the longest-tenured CEO in the institution's history, Lloyd's said in a statement. The Council of Lloyd's and the market's Franchise Board will conduct a search for a successor for Mr. Ward and they hope a successor will be named before the end of the year.

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EDITORIAL

MORE FIXES NEEDED FOR HEALTH REFORM

The Obama administration was correct this month in a key decision on the health care reform law. The administration will delay by one year to 2015 the effective date of health care reform law provisions requiring employers to report to the government health care plan enrollment information and offer qualified coverage to employees or be hit with a penalty.

A foundation of the Patient Protection and Affordable Care Act is the requirement that employers with at least 50 full-time employees offer coverage or pay a stiff financial penalty: \$2,000 for each full-time employee minus the first 30 employees.

In order for the government to enforce the shared responsibility mandate, regulators will need access to enrollment information.

Regulators have yet to figure out how employers are to report this information in a way that does not become a costly administrative nightmare for them. Hence the delay.

We hope that the delay, which we enthusiastically support, serves as more than a temporary halt to implementation of a couple of key provisions of the reform law.

The delay provides lawmakers on both sides of the aisle, as well as the Obama administration, an opportunity to try to find a common ground on changes that should be made to the law.

One item that should be at the top of lawmakers' list of things to consider is whether the definition of a full-time employee is too stringent.

Under the law, in order to avoid the \$2,000 per employee penalty, employers will have to extend coverage to full-time employees — defined as those working at least 30 hours a week. To us, and to many others, a full-time employee is one who works 40 hours a week.

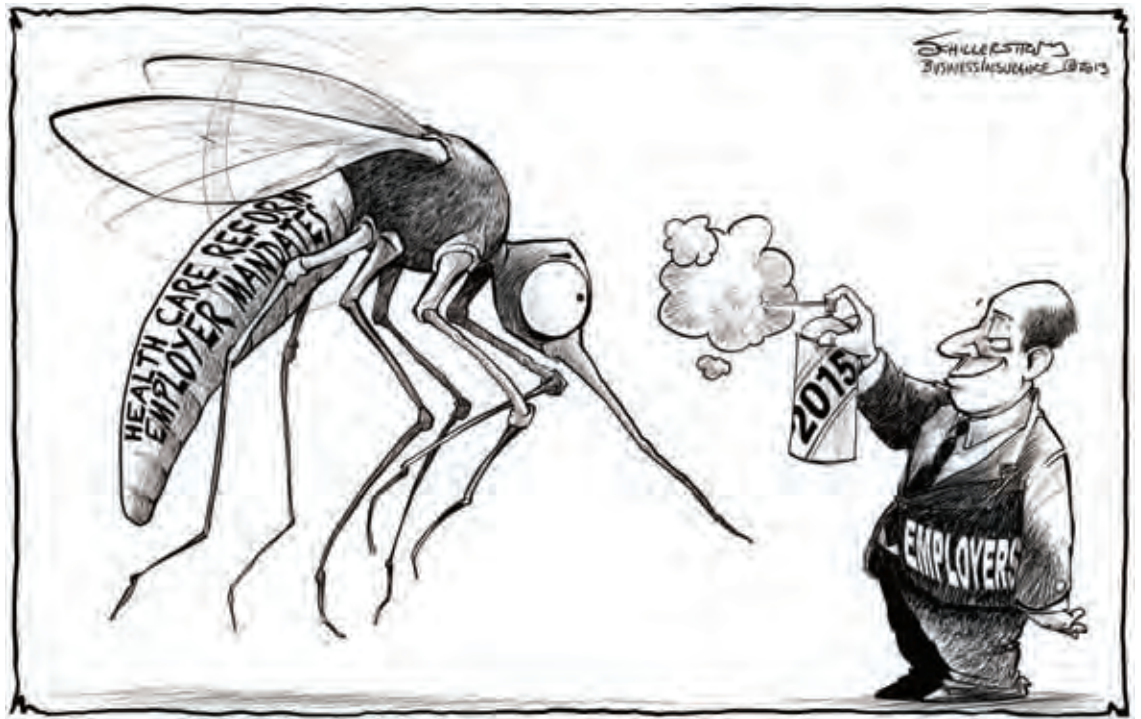
Perhaps the biggest issue is whether the states and the federal government will be able to open health insurance exchanges in 2014 and efficiently run them, as laid down in the law.

We'd like to see lawmakers delay exchange openings in those states where exchanges are not ready to provide coverage. We think the delay, if necessary, is a far better course of action than offering coverage to individuals and small employers in those states that clearly are not ready to take on such an ambitious and important undertaking.

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

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SCHILLERSTROM



COMMENTARY

MANY BABY BOOMERS FACE BLEAK RETIREMENT OUTLOOK

I have a friend who was forced into retirement at age 59 because of a layoff. She would like to work, and accepts temporary assignments when they are available, but she doesn't get many job offers at her age. I worry how she will support herself.

Like many workers who had access to 401(k) plans through work, some that even offered employer matching contributions, my friend didn't always participate. And when she did, she often contributed just enough to obtain that employer match.

More than half (54%) of U.S. baby boomers between ages 45 and 54 have less than \$25,000 saved for retirement, according to the Employee Benefit Research Institute. Among workers over age 55, 43% have less than \$25,000 saved.

As a result, 47.2% of the early baby boomers and 43.7% of the later boomers are "at risk" of not having sufficient retirement resources to pay for basic expenditures and uninsured health care costs, according to EBRI's Retirement Readiness Rating. It's a tool developed in 2003 to assess national retirement income prospects and updated in 2010 to incorporate retirement plan changes resulting from the Pension Protection Act of 2006, including automatic enrollment and auto escalation of contributions. It also considers financial market performance and employee behavior based on 24 million 401(k) plan participants.

Because 401(k) plans were not introduced until 1978 and did not actually take off in popularity until much later, many baby boomers had been relying on traditional defined benefit pension plans and Social Security to support them in their retirement. But today, only a fraction of companies offer defined benefit



**JOANNE
WOJCIC**

SENIOR EDITOR

plans, and many still in force have been frozen and are no longer accruing benefits. From 1980 through 2008, the proportion of private wage and salary workers participating in defined benefit pension plans fell from 38% to 20%, according to the U.S. Department of Labor. In contrast, the percentage of workers covered by defined contribution plans, such as a 401(k) plan, has been increasing steadily from 8% in 1980 to 31% in 2008.

Realizing their diminishing retirement benefits, the percentage of workers who are confident about having enough money saved for retirement is at a record low, according to EBRI. While 13% are very confident and 38% are somewhat confident, 28% are not at all confident and 21% are not too confident. One reason that retirement confidence remains low, EBRI says, is that workers are just now waking up to the realization of how much they need to save: 20% say they need to save between 20% and 29% of their income and nearly one-quarter say they need to save 30% or more.

I've heard people say they will probably have to work until they die because they cannot afford to save enough to retire while still covering their current expenses. But what if they are forced into retirement like my friend? Will the vast majority of boomers eventually end up on the dole?

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requires more than diving into
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SPECIAL REPORT

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The largest U.S. benefits specialists

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Chart of leading U.S. retail brokers

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Insurance brokers see revenues flourish in 2012

BY RODD ZOLKOS

A combination of higher insurance rates, the ongoing economic recovery and acquisitions propelled all but one of the brokers in *Business Insurance's* new ranking of the world's 10 largest brokers to increased brokerage revenue in 2012.

On a percentage basis, BB&T Insurance Holdings Inc. reported the biggest brokerage annual revenue growth, up nearly 34.1% from 2011. Five other brokers also posted double-digit percentage growth in brokerage revenue in 2012: Brown & Brown Inc., up 20.6% from 2011; Arthur J. Gallagher & Co., up 14.0%; Hub International Ltd., up 12.6%; Jardine Lloyd Thompson Group P.L.C., up 11.3%; and Lockton Cos. L.L.C., up nearly 11.3%.

See **NUMBERS** page 24

BROKER PROFILES

Profiles of the world's 10 largest brokers begin on page 29.

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- 9 Lockton
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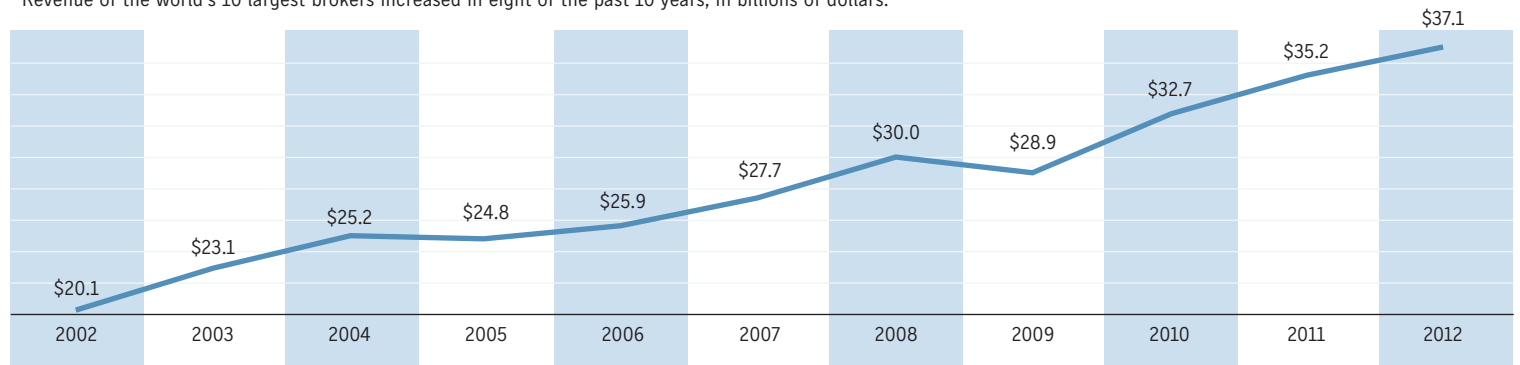
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Revenue of the world's 10 largest brokers increased in eight of the past 10 years, in billions of dollars.



WORLD'S 10 LARGEST INSURANCE BROKERS

Ranked by 2012 brokerage revenues

Rank	Company/address	Phone/website	Chief executive	2012 brokerage revenues	% change	2012 employees	2012 offices	Percentage of revenues*							
								Commercial	Wholesale	Reinsurance	Employee benefits	Personal lines	Services	Investments	Other
1	Marsh & McLennan Cos. Inc. 1166 Ave. of the Americas, New York, N.Y. 10036	212-345-6000 www.mmc.com	Daniel S. Glaser, president/CEO	\$11,924,000,000	3.5%	54,000	567	43.8%	N/M	9.1%	34.7%	N/M	12.2%	0.5%	0.3%
2	Aon P.L.C. 8 Devonshire Square, London, England EC2M 4PL	44-207-623-5500 www.aon.com	Gregory C. Case, president/CEO	\$11,476,000,000	2.2%	66,000	500	46.7%	N/M	13.1%	19.3%	N/M	20.6%	0.3%	N/M
3	Willis Group Holdings P.L.C. 51 Lime St., London, England EC3M 7DQ	44-203-124-6000 www.willis.com	Dominic Casserly, CEO	\$3,458,000,000	1.3%	17,500	400	50.8%	5.4%	24.1%	15.1%	2.1%	1.9%	0.5%	0.1%
4	Arthur J. Gallagher & Co. The Gallagher Centre, Two Pierce Place, Itasca, Ill. 60143-3141	630-773-3800 www.ajg.com	J. Patrick Gallagher Jr., chairman/president/CEO	\$2,385,000,000	14.0%	13,707	350	33.7%	17.1%	N/M	18.9%	2.5%	22.5%	5.3%	N/M
5	Wells Fargo Insurance Services USA Inc. 150 N. Michigan, Suite 3900, Chicago, Ill. 60601	312-423-2500 wfs.wellsfargo.com	Laura Schupbach, executive vice president and head of insurance	\$1,575,444,000	(3.2%)	7,041	127	40.6%	0.1%	N/M	15.3%	15.5%	17.8%	0.8%	9.9%
6	BB&T Insurance Holdings Inc. P.O. Box 31128, Raleigh, N.C. 27622	919-716-9777 www.insurance.bbt.com	H. Wade Reece, chairman/CEO	\$1,480,274,900	34.1%	6,402	117	37.5%	40.9%	N/M	10.1%	6.4%	N/M	0.6%	4.4%
7	Jardine Lloyd Thompson Group P.L.C. ¹ 6 Crutched Friars, London, England EC3N 2PH	44-207-528-4444 www.jltgroup.com	Dominic Burke, group chief executive	\$1,404,834,420	7.6%	7,580	82	45.6%	7.9%	13.8%	23.1%	1.1%	7.0%	0.8%	0.7%
8	Brown & Brown Inc. ² 220 S. Ridgewood Ave., Daytona Beach, Fla. 32114	386-252-9601 www.bbinsurance.com	J. Powell Brown, president/CEO	\$1,400,362,797	20.6%	7,257	241	53.8%	13.2%	1.1%	16.4%	5.5%	9.1%	0.1%	0.8%
9	Lockton Cos. L.L.C. ³ 444 W. 47th St., Suite 900, Kansas City, Mo. 64112-1906	816-960-9000 www.lockton.com	John L. Lumelleau, president/CEO; David M. Lockton, executive chairman	\$1,007,150,000	11.4%	4,950	62	63.1%	5.6%	3.3%	26.5%	0.5%	N/M	0.9%	N/M
10	Hub International Ltd. 300 N. LaSalle St., 17th Floor, Chicago, Ill. 60654	312-279-4882 www.hubinternational.com	Martin P. Hughes, chairman/CEO	\$988,687,335	12.6%	6,167	295	56.9%	5.4%	N/M	15.5%	21.2%	0.9%	0.1%	N/M

* Percentage of revenue may not total 100% due to rounding. N/M = Not meaningful. 1 British pound = 1.6181. 2 Pro forma to include July 1, 2013, acquisition of Beecher Carlson Holdings Inc. 3 Fiscal year ending April 30.



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CYBER RISK COVERAGE PROVIDERS

Company	Website	Cyber risk products offered	Cyber risk policy first offered
Ace USA	www.acegroup.com/us-en	Ace Privacy Protection, Ace Digital DNA, Ace DigiTech	1998
Allied World Assurance Co.	www.awac.com	Tectonic 5.0, Privacy 403v2, Privacy 101	2005
American International Group Inc.	www.aig.com/us/cyberedge	CyberEdge	1999
Arch Insurance Group Inc.	www.archinsurance.com	NetSafe	2002
Argo Pro	www.argolimited.com	information & Professional Risk Playbook (iPRP)	2012
Ascent Underwriting, trading division of Safeonline L.L.P.	www.ascentunderwriting.com	CyberPro	2013
Axis Insurance Co.	www.axiscapital.com	Axis Pro PrivaSure, Axis Pro PrivaSure Breach Response	2009
Beazley P.L.C	www.beazley.com/tmb	Beazley Breach Response, information security and privacy insurance with electronic media liability coverage	2006
CFC Underwriting Ltd.	www.cfcunderwriting.com	CPM (cyber, privacy and media risks)	2000
Chubb Corp.	www.chubb.com	CyberSecurity by Chubb	2001
CNA Financial Corp.	www.cna.com	NetProtect	2003
Crum & Forster Holdings Corp.	www.cfins.com	Crum & Forster Technology Errors and Omissions Protection Agreement, Crum & Forster Technology & Privacy Professional Liability policy	2008
Digital Risk Managers	www.drisk.com	WebNet Protection	2000
Euclid Managers L.L.C.	www.euclidmanagerskc.com	ClickStream connected services, HyperDrive technology services	2004
The Hartford Financial Services Group Inc.	www.thehartford.com	Data privacy and network security liability coverage, CyberChoice 2.09	2008
Hiscox USA	www.hiscoxusa.com	Technology, privacy and data breach protection	1999
Liberty International Underwriters	www.liu-usa.com	LIU Data Insure, LIU Tech Insure, LIU DataPro Insure	2004
Markel Insurance Co. Inc.	www.markelcorp.com	DataBreach, InfoPro	1986
The Navigators Group Inc.	www.navg.com	Professional liability, technology, media and cyber liability coverage	2010
NAS Insurance Services Inc.	www.nasinsurance.com	NetGuard Plus, e-MD, BrandGuard, TechGuard	N/A
Philadelphia Consolidated Holding Corp.	www.phly.com	Cyber security liability	2008
RSUI Group Inc.	www.rsui.com	Cyber liability	2011
The Travelers Cos. Inc.	www.travelers.com	CyberFirst, CyberFirst Essentials, Wrap+ CyberRisk, SelectOne CyberRisk, Executive Choice CyberRisk	1999
XL Insurance Co.	www.xlinsurance.com	Eclipse Pro	2008
Zurich North America	www.zurichna.com	Zurich Security and Privacy Protection	2009

TOP VULNERABILITIES

Type	% of apps experiencing
Unauthorized access	18%
Cross-site scripting	15%
Sensitive information disclosure	12%
Insecure session handling	11%
Cookie handling	9%
Improper encryption	9%
Poor logging practices	8%
Autocomplete in sensitive form fields	6%
Clear text credentials	6%

Source: "HP 2012 Cyber Risk Report," Hewlett-Packard Co.



TYPES OF ATTACKS

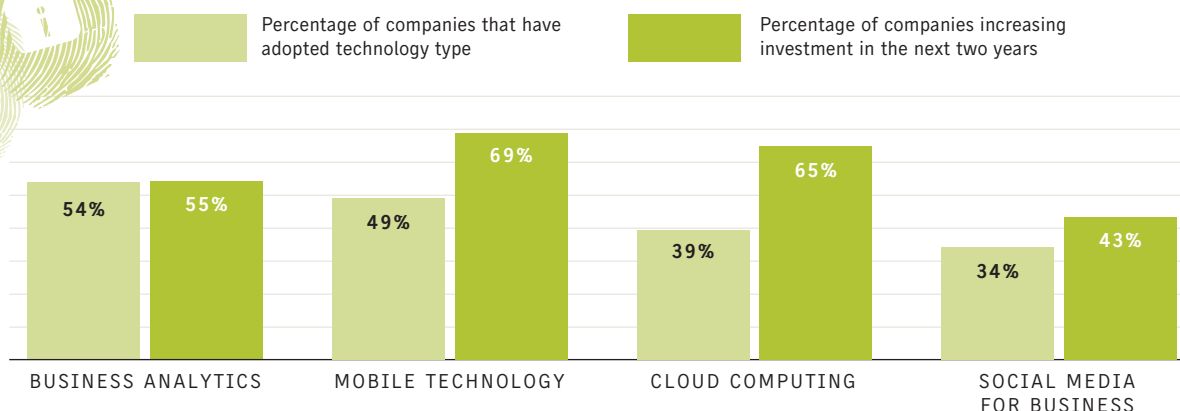
Most common types of cyber attacks companies experience

Type of attack	% of companies experiencing
Viruses, worms, trojans	100%
Malware	95%
Botnets	71%
Web-based attacks	64%
Stolen devices	46%
Malicious code	38%
Malicious insiders	38%
Phishing, social engineering	38%
Denial of service	32%

Source: "2012 Cost of Cyber Crime Study: United States," Ponemon Institute L.L.C.

INCREASING ADOPTION INCREASING RISK

Cyber risk is expected to increase as more businesses adopt mobile and cloud technology.



Source: "Fast Track to the Future: The 2012 IBM Tech Trends Report," International Business Machines Corp.



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NUMBERS

Continued from page 16

Rounding out the top 10, Marsh & McLennan Cos. Inc. said its brokerage revenue increased 3.5% in 2012 from 2011, Aon P.L.C.'s brokerage revenue rose 2.2%, and Willis Group Holdings P.L.C.'s brokerage revenue advanced 1.3% from its 2011 level.

Only Wells Fargo Insurance Services USA Inc. reported a decline in 2012 brokerage revenue, a drop of nearly 3.2% from its 2011 level. Wells Fargo officials attributed the decline to being a smaller company after selling pieces of its business in recent years.

Industry analysts attributed the brokerage revenue growth among most of the top brokers to the combination of improved economic and market conditions.

"I think the environment's better. We're getting some rate and we're getting exposure expansion, both of which are good for the broker," said Timothy J. Cunningham, managing director at Optis Partners L.L.C. in Chicago.

"Rates seem to be hardening. That seems to help everybody," said Kevin P. Donoghue, managing director at Mystic Capital Advisors Group L.L.C. in New York.

Phil Trem, vice president at Marsh Berry & Co. Inc. in Willoughby, Ohio, said improved conditions have made organic growth the norm for agents and brokers. "Organizations who historically for the last couple of years were seeing

negative organic growth ... are starting to see growth as an average," Mr. Trem said. Across the country, agents and brokers averaged 4% organic growth in 2012, he said.

Another analyst, Meyer Shields, managing director for Keefe, Bruyette & Woods Inc. in Baltimore, said most of the brokerage revenue growth is due to better economic conditions and the consequent increase in underlying insured values. The past few years, he said, have highlighted for all brokers "that economic growth is probably a bigger deal than rate changes in the insurance market."

With the economic recovery an important factor in brokers' improving fortunes, many of the largest brokers are likely to look to areas of the world where economic growth is the greatest, according to one analyst.

"Here in the States, the growth over the next five to 10 years, most people will tell you, is going to be 3% to 5%, whereas in Latin America, which is in our backyard, it's going to be 7% to 10%. Therefore, brokers have shown interest in that market," said John W. Wicher, principal at John Wicher & Associates Inc. in San Francisco.

Africa is another area where some brokers will look for growth opportunities, Mr. Wicher said.

"Both Aon and Marsh completed deals in Africa last year," he said. "The reality is certainly the largest brokers are following their global clients, and that means expansion in Latin America, in Africa."

All of the 10 largest brokers derive a significant portion of their revenue from employee

benefits business, and it's likely their emphasis on that sector will increase as employer clients look to address U.S. health care reform requirements.

The 10 largest brokers ranked by percentage of their 2012 revenue coming from employee benefits business were: Marsh with 34.7%; Lockton with 26.5%; JLT with 23.1%; Aon with 19.3%; Gallagher with 18.9%; Brown & Brown with 16.4%; Hub with 15.5%; Wells Fargo with 15.3%; Willis with 15.1%; and BB&T with 10.1%.

The U.S. health care reform landscape could prove difficult for resource-challenged smaller brokers, according to analysts, providing more acquisition opportunities for larger brokers.

"You will see smaller brokers probably forced to consider acquisition because of the uncertainty of health care reform," Mr. Shields said.

From the perspective of some of these small brokers, however, "For some organizations that are just starting to see that, it may be too late," Mr. Trem said of the window for smaller brokers to sell their operations. Of the 325 announced agent and broker acquisitions in the U.S. in 2012, 81 were benefits brokers, he said, while through May of this year, 18 of 67 announced deals involved benefits brokers.

The deals being sought by acquirers, though, are typically smaller brokers that already have distinguished themselves by offering a more consultative approach to benefits business and greater value than simply placing coverage, Mr. Trem said. Small benefits brokers that have been purely transactional may be finding buyers, but at a discounted selling price, he said.



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Timothy J. Cunningham,
Optis Partners L.L.C.



"Both Aon and Marsh completed deals in Africa last year. The reality is certainly the largest brokers are following their global clients, and that means expansion in Latin America, in Africa."

John W. Wicher,
John Wicher &
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"You will see smaller brokers probably forced to consider acquisition because of the uncertainty of health care reform."

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HEALTH CARE REFORM CONCERNS DRIVE BENEFITS BROKER ACQUISITIONS

Smaller brokers sell to larger rivals to achieve more scale, expertise

BY JOANNE WOJCIK

KEY REFORM ISSUES

Five health care reform issues that will affect benefits brokers

1 Medical loss ratios: Insurers are reducing commissions paid on small-group business to meet minimum medical loss ratio requirements set under the Patient Protection and Affordable Care Act. Under PPACA, insurers must allocate 80% of each premium dollar toward medical care, with only 20%, including broker commissions, left to cover overhead.

2 Insurance exchanges: Federal and state insurance exchanges will compete for individual and small-group business. Though PPACA provides for employers with up to 100 employees to access these exchanges, in many states the exchanges only cater to employers with 50 or fewer employees.

3 Wellness, health risk management: Because PPACA enables employers to offer incentives of up to 30% of the cost of single coverage to employees to meet certain wellness goals, they are turning to their brokers to help them administer health risk assessments and other wellness and disease management programming.

4 Reporting requirements: Employers are required to report to the U.S. Department of Health and Human Services the number of employees eligible for coverage under PPACA rules, and they are turning to their brokers for assistance.

5 Self-funding: Many midsize and larger employers are transitioning to self-funding of their employee health benefits programs, which industry experts believe will be less expensive than group coverage sold by insurers.

The second half of 2012 saw a flurry of merger and acquisition activity among benefits brokers, partly due to anticipated changes in capital gains taxes, but also due to impending health care reform compliance deadlines.

The trend was largely driven by smaller brokers selling out to larger brokers with the expertise and resources needed to help employers comply with the Patient Protection and Affordable Care Act, according to industry observers.

As a result of health care reform, there was a 19% jump in 2012 in employee benefit-only deals compared with 2011, totaling 81 and representing 25% of all deals completed last year, according to a report Willoughby, Ohio-based Marsh, Berry & Co. Inc. produced for the Washington-based Council of Insurance Agents & Brokers.

Arthur J. Gallagher & Co. led the charge, picking up 36 brokerages in 2012, 22 of which were benefits operations. AssuredPartners Inc., a new entrant to the brokerage market that was formed in 2011, jumped into the second most active position with 25 deals in 2012, many involving middle-market property/casualty and benefits firms. Hub International Ltd. made 22 acquisitions in 2012, 11 of which involved benefits operations.

Because of the threat to small-group business posed by PPACA and the overall transformation of the health care distribution market, many benefits agencies sought a sale in 2012, according to Rob Lieblein, Harrisburg, Pa.-based executive vice president at Marsh Berry.

"Eighty-one (or 25%) of the 325 deals completed in 2012 were benefits-only deals," Mr. Lieblein said. That's up from about 12% four years ago, he said.

Another "reason you saw so many last year was because of the tax changes," he said, referring to the 2012 expiration of the Bush-era tax cuts that resulted in capital gains tax rates increasing to 20% from 15% for most individuals. Agency owners worth \$10 million, for example, would pay an additional \$500,000 in federal capital gains taxes if they waited to sell in 2013.

Because of the year-end rush, the inventory of available benefits bro-

LARGEST U.S. BENEFITS SPECIALISTS*

2012 employee benefits revenue of companies that derive 50% or more of gross revenue from benefits business

Rank	Company	2012 employee benefits revenue	% change	% of 2012 revenue from benefits
1	CBIZ Benefits & Insurance Services Inc.	\$113,900,000	8.0%	60.6%
2	Paychex Insurance Agency Inc.	\$58,800,000	14.6%	53.7%
3	Associated Financial Group L.L.C.	\$35,682,080	4.6%	68.3%
4	Corporate Synergies Group L.L.C.	\$33,000,000	(10.8%)	90.4%
5	Oswald Cos.	\$30,890,000	19.7%	57.2%
6	SilverStone Group Inc.	\$25,404,000	19.9%	61.2%
7	Benefit Controls Cos.	\$22,500,000	12.2%	100.0%
8	M3 Insurance Solutions Inc.	\$21,792,712	15.9%	56.6%
9	FBMC Benefits Management	\$17,970,342	(6.8%)	100.0%
10	The Loomis Co.	\$15,835,059	(5.0%)	50.2%

* Includes commissions and fees from brokering group benefit coverage, benefit consulting and benefit plan administration

kers declined in the first half of 2013, but "now it's starting to build back up," Mr. Lieblein said.

"We'll still see a lot of mid-market benefits firms continue to consolidate with national players" to position themselves to be able to provide more consultative services to employers, he said.

"Small firms can't provide the services these employers need," Mr. Lieblein said. "What a consultant needs to know now is a night-and-day difference. They need higher levels of expertise, medical directors, actuaries, wellness coordinators. It's hard for a \$4 million or \$5 million firm to compete."

"Many firms that were solely employee benefits or had a significant benefits focus and didn't have the scale to address ACA were driven to partner with larger firms that had the resources to meet clients' needs to comply with and navigate through health care reform," said Timothy J. Cunningham, managing director of Chicago-based Optis Partners L.L.C., a financial

and management consulting firm serving the insurance distribution industry. "I think we'll see more activity in (the third and fourth quarters) as the pipeline fills up again."

Besides the need to step up expertise and services, small to middle-market firms with a majority of their business under 100 lives are consolidating in anticipation that they will lose this business to the new insurance exchanges being created under the reform law, experts say.

In fact, the prices being paid for these brokerages has been declining in reflection of that business exodus, said Ken Crerar, CEO of the Council.

"You don't know what you're buying right now," he said. "If you're under 100 lives, your valuation is going to be much lower because of ACA and how the market is changing and what levels of service you have to provide. If you're sitting in a firm focused on small group — or small-to-midsize group, even — one of the big questions is if you have the resources to provide the level of

services you need on a consulting basis to maintain that business."

"If I was a firm and was struggling with what to do because I was worrying about margins and business dynamics and could get a decent valuation out of a firm like Hub or USI with a strong benefits-bent, you'll be in a situation with more resources to provide your clients and have the ability to maintain good margins," Mr. Crerar said.

Atlanta-based broker Digital Insurance Inc. made eight of those types of acquisitions in 2012, and it is looking for brokers that focus on small business because it has the technology to administer benefits at lower cost, said President and CEO Adam Bruckman.

Digital Insurance also has been partnering with other benefits brokers to provide administrative services for smaller employer groups, and is preparing to launch its own insurance exchange in several states, he said.

"I'm hearing that some of the smaller shops are looking to be acquired or are selling off their benefits books of business to concentrate on more profitable property/casualty business," said Robert Klonk, CEO of Oswald Cos., a multiline insurance broker based in Cleveland.



As a result of health care reform, there was a 19% jump in 2012 in employee benefit-only deals compared with 2011.

BENEFITS BROKERS NEED TO BE MORE CONSULTATIVE IN WAKE OF REFORM

Employers' demand for greater expertise from their employee benefits brokers in response to health care reform mandates is forcing these intermediaries to become less transaction-focused and to take a more consultative role, experts say.

And as health insurers remove broker commissions from their administrative expenses due to implementation of minimum medical loss ratios under the Patient Protection and Affordable Care Act, brokers have begun offering additional fee-based services to supplement their incomes.

Many benefits brokers that do not have the level of expertise necessary to provide these services are either partnering with other firms that do or are selling out. In fact, merger and acquisition transactions involving benefits brokers surged 19% last year, and are expected to continue to outpace historic levels, according to Rob Lieblein, Harrisburg, Pa.-based executive vice president at Marsh, Berry & Co. Inc., a mergers and acquisition advisory firm that specializes in the insurance brokerage industry.

"The market has become so much more complex. It is changing to population health management, wellness strategy, not spreadsheets and finding out where I can get the lowest rate and shift more costs to employees," Mr. Lieblein said.

"Everybody's worried about the benefits business. It's the Wild West right now," said Sam Fleet, president and CEO of AmWINS Group Inc.'s group benefits division, a wholesale provider of benefits products and services to retail insurance brokers.

He said brokers today basically fall into one of two categories: Those who have positioned themselves to provide a higher level of customer service, such as wellness programming, health savings account administration, self-funding options or human resource outsourcing; and those that have not.

The latter probably will not be in business much longer, according to Timothy J. Cunningham, managing director of Chicago-based OPTIS Partners L.L.C., a consulting firm serving the insurance distribution industry.

"The firms that sold defensively needed the resources this year, so doing a transaction in December of 2013 is too late. Clients are asking now what they need to do to get ready" for when the PPACA mandate kicks in, he said.

"What we have to do is get out there and help our clients afford to stay in the game and continue to offer benefits to their employees,"

said Robert Klonek, CEO of Oswald Cos., a multiline insurance broker in Cleveland that recently acquired a smaller benefits broker, Westlake, Ohio-based McManamon Financial Services Inc., requiring greater expertise.

"Ramp up health risk management, education, compliance services," he said. "Customers with a

lot of variable-hour employees have a lot of administrative work to do. We now have more attorneys on staff than ever before. We're doing a lot more on education of employers and employees."

"Whenever there's turmoil in a sector, people have to decide what they want to do," said Ken Crerar, CEO of the Council of Insurance

Agents & Brokers, an industry trade group based in Washington. "The benefits side tends to have a lot of smaller-size firms. So you see a lot of uptick in merging. In some cases, it's books of business being bought or individuals just moving. The business model is in total flux."

By Joanne Wojcik

"Everybody's worried about the benefits business. It's the Wild West right now."

Sam Fleet,
AmWINS Group Inc.

DECEMBER 2ND, 3:52 P.M.

A MORE PERSONAL APPROACH MAKES A BUSINESS EVEN STRONGER

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DEDICATED EXPERTISE

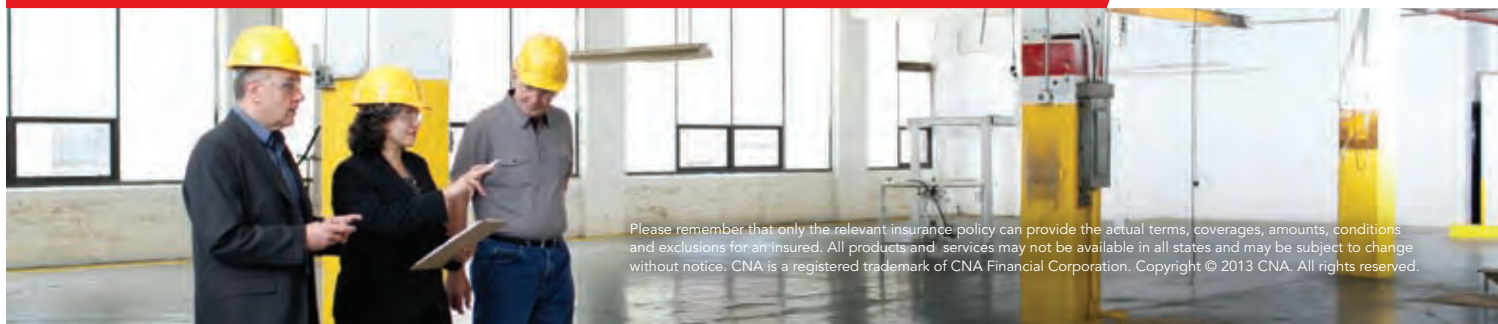
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CLEAR COMMUNICATION WITH CLIENTS KEY TO CONTROLLING BROKER E&O EXPOSURES

Best practices, documentation help keep losses, rising rates at bay

BY JUDY GREENWALD

While rates for errors and omissions coverage for insurance agents and brokers are beginning to harden, there are steps they can take to reduce their claims costs.

In the past six months, E&O rates for agents and brokers have been flat to up 5%, said Mike Smith, a principal at Franklin Lakes, N.J.-based Axis Insurance Services L.L.C. “We do have markets trying to get 10% to 12%, but they are having a hard time doing it.”

Superstorm Sandy has become a source of claims.

“I would expect the frequency of claims has increased because of Sandy,” said Jim Donovan, New York-based senior vice president in the professional liability unit at Liberty International Underwriters, a unit of Liberty Mutual Holding Co. Inc..

Fundamentally, a broker’s duties are to get proper coverage and limits as well as “explain the importance of possibly carrying” particular coverages and the “implications of what could happen if you turn it down,” Mr. Donovan said.

Ernest Weeks, Utica, N.Y.-based resident senior vice president at Utica National Insurance Co.’s agents errors and omissions program, said more than half of claims made under coverage underwritten by the company deal with failure to obtain proper coverage.

This can be for a wide variety of reasons, including missing coverage, inadequate liability limits, failure to explain coverage adequately, and suggesting to a client they do not need the coverage, when it is needed or desirable, Mr. Weeks said.

“Best practices are all about communication with the client and, in that sense, you’ve got to have clear expectations regarding claims reporting, clear expectations as to what the policy covers and does not cover,” said Phil Norton, Chicago-based president of the professional liability division at Arthur J. Gallagher & Co.

“We hear stories all the time” about other brokerages “where the communication was poor” and the client thought it had coverage when, in fact, it did not and was



AP PHOTO

Some agents and brokers say Superstorm Sandy has contributed to the number of errors and omissions claims and the slightly higher rates over the past six months.

“somehow blaming the agent or broker,” Mr. Norton said.

Mr. Donovan said brokers should

have written procedures, guidelines and checklists in place and make sure that “every employee

in the organization” is well-versed on the procedures and the reasons for them, he said. In addition, make sure that clients understand the implications of what could happen if they turn down a particular coverage, he said.

Documentation is important.

“Sadly, the broker’s clients are wrong more than half the time, but they’re just angry because something hasn’t gone right,” such as their not getting any claims recovery and wanting to blame their broker, Mr. Norton said.

“If you have documentation, you can show them, ‘We told you that this type of risk is a business risk. It’s not covered by the policy that we sold you,’ or we might say, ‘You declined earthquake coverage. We tried to tell you. You even checked the box in writing and said you don’t want earthquake coverage, and now you’ve got earthquake damage and you’re mad at us.’”

“Memory is fallible, and people have convenient memories when things get, unfortunately, ugly, so you need to document” the process when clients turn down coverage, Mr. Donovan said.

In particular, he recommends that brokers be sure to offer their

clients cyber liability coverage.

Kevin Kalinich, Chicago-based national managing director at Aon Risk Solutions, said examining the language in insurance policies is essential.

“The broker must scrutinize and review every policy and proofread it before they send it back to the insured,” he said.

“You have to be good at your process of doing policy checking,” agreed Jim Hackworth, Columbus, Ohio-based president and CEO of Assurex Global Inc., which represents 110 brokers worldwide. Mr. Hackworth is also president of Assurex’s Bermuda-based Par Ltd. captive, which is known in the United States as E&O Plus.

Mr. Donovan said if coverage is switched to a new insurer, the agent or broker needs to conduct a detailed comparison “to run down any differences” between the expiring and new policy. “Little things can sometimes fall through the cracks, and little things can become big things in terms of coverage.”

Mr. Weeks said one of Utica National’s largest claims was generated from a situation in which an agency moved a client from one insurer to another “and failed to recognize that they had a blanket limit” for their property coverage with the previous insurer but had specific, described limits with the new insurer. It resulted in the client being significantly underinsured on one property after a loss, he said.

It also is important that brokers explain policy exclusions to their clients, which “is a huge issue with respect to malpractice claims,” said Mr. Kalinich. Another issue is whether the broker or the insured takes responsibility to notify the insurer of a claim.

Getting all the required signatures on applications also is essential, Mr. Weeks said. “That sounds easy enough, but it isn’t.” Broker E&O claims can be generated from unsigned applications, he said.

Brokers should stay within their areas of expertise and turn unfamiliar coverage over to someone who has expertise, said Mr. Donovan. “You have to stick with what you know best as a broker or insurance agent.”

LEADING U.S. RETAIL BROKERS

Ranked by 2012 commercial retail brokerage revenue from U.S. offices*

Rank	Company	2012 revenue	% change
1	Aon P.L.C.	\$2,475,000,000	3.9%
2	Marsh & McLennan Cos. Inc.	\$2,363,000,000	5.1%
3	Willis Group Holdings P.L.C.	\$988,000,000	(4.0%)
4	Arthur J. Gallagher & Co.	\$771,329,000	10.4%
5	Brown & Brown Inc.	\$760,328,149	30.6%
6	Wells Fargo Insurance Services USA Inc.	\$716,329,000	(36.0%)
7	BB&T Insurance Holdings Inc.	\$585,385,700	2.6%
8	Lockton Cos. L.L.C.	\$482,485,000	9.8%
9	Hub International Ltd.	\$367,195,391	8.4%
10	Alliant Insurance Services Inc.	\$322,271,500	8.3%

* Excludes revenue from placement of employee benefits

2012 gross revenue: \$11.95 billion
Percent change: 3.4% ▲2012 brokerage revenue: \$11.92 billion
Percent change: 3.5% ▲

Though revenue growth slowed a bit at Marsh & McLennan Cos. Inc. in 2012, the company's overall performance was still "excellent" in its first calendar year under new president and CEO Daniel Glaser, analysts said.

Daniel S. Glaser,
president and CEO

The New York-based brokerage giant reported 4% organic growth in 2012 and 2% in the first quarter of 2013, slipping a percentage point each compared with the respective prior year periods yet meeting analysts' expectations.

"2012 was an excellent year of growth," said Gregory Locraft of Morgan Stanley.

Compared with the 8.9% growth rate recorded in 2011, Marsh & McLennan's gross revenues increased by a more moderate 3% last year, totaling \$11.9 billion and placing the company at No. 1 on *Business Insurance's* 2013 rankings of the world's largest insurance brokers.

Peter Zaffino, president and CEO of Marsh & McLennan's commercial insurance brokerage, Marsh Inc., said the company's success in 2012 and through the first quarter of 2013 represented "a continuation of the strategic plan that was put in place by (former President and CEO) Brian Duperreault."

"What Brian's tenure was all about was stabilizing the organization, developing an organizational strategy and executing against that, and we were able to evolve the organization very quickly," Mr. Zaffino said. "Dan has a very sound strategic outlook, tremendous execution capability and a vision for the future. I believe we're in excellent hands for the future and expect to see us continue on the track that the industry has become accustomed to seeing us on."

"It's been a seamless transition," Mr. Locraft said of the change in Marsh & McLennan's leadership. "Top-line growth has been consistent with performance in recent years, and they really haven't missed a beat as the (property/casualty) market's gotten a little better. They have a great business footprint that's positioned them to participate in the global upswing."

In its risk and insurance services segment, commercial retail brokerage revenue at Marsh Inc. grew 5% in 2012 to \$5.46 billion, including 4.7% organic growth. Reinsurance arm Guy Carpenter & Co. L.L.C. saw its brokerage revenue grow 3.7% to \$1.08 billion in 2012, including 6% organic growth.

Through the first quarter of 2013, Marsh and Guy Carpenter grew their brokerage revenue by 4.8% and 4.7%, respectively.

Top performers among individual business units for 2012 included Mercer L.L.C.'s health and benefits and investments practices, which grew annual revenue 8% and 11%,

respectively. Those units continued to set the pace for growth through the first three months of 2013, with health and benefits growing revenue 9%, and investments growing 8% versus first-quarter 2012.

Mercer President and CEO Julio Portalatin said much of the unit's recent success has been driven by new regulations under the Patient Protection and Affordable Care Act. However,

he said he expects Mercer's revenue growth to continue well beyond 2014, as employers will have ongoing decisions to make regarding new or expanded health management and wellness programs, workforce planning and benefits communication strategies long after health care reform's requirements take effect. "We expect demand to stay high," he said.

Investment analysts said the rollout of its private health insurance

exchange in January 2013 should position Mercer for sustained revenue growth in the near term.

"As employee benefits buyers become more comfortable with providing benefits for their organizations through exchanges, leading consultancies are going to see the greatest amount of growth for the next several years," said Meyer Shields, a Baltimore-based managing director of equity research for the property/casualty insurance industry at Keefe,

Bruyette & Woods Inc.

The company also continued to invest in Marsh & McLennan Agency, acquiring 10 agencies in 2012 as it pursues a broader footprint in the U.S. small and mid-market brokerage marketplace.

"Sooner or later, we're going to see small and midsize companies gaining greater access to credit and becoming able to grow faster," said Tom Mitchell, an analyst at New York-based Miller Tabak & Co. L.L.C. "That's been missing for the last five years, and once you start to see that happening, Marsh's emphasis on the agency unit ... is going to pay a very nice dividend."

By Matt Dunning

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AON P.L.C.

2012 gross revenue:	\$11.51 billion
Percent change:	2.1% ▲

2012 brokerage revenue:	\$11.48 billion
Percent change:	2.2% ▲

For Aon P.L.C., 2012 was a year defined by the consolidation of the gains resulting from major organizational changes made in recent years.



Gregory C. Case,
president and CEO

The No. 2 brokerage in *Business Insurance's* 2013 ranking of the world's largest brokers with \$11.48 billion in 2012 brokerage revenue, Aon has worked to synthesize its 2010 purchase of Hewitt Associates Inc. and its 2012 move of its corporate headquarters to London.

Meyer Shields, Baltimore-based managing director of equity research for property/casualty insurance for Keefe, Bruyette & Woods Inc., said the company also has made significant investments in technology such as its Global Risk Insight Platform, a global repository of risk and insurance placement information.

Market results may be starting to show indications that Aon's investment in technology is paying dividends, Mr. Shields said.

"We have seen some evidence

where Aon's organic growth is stronger than market conditions," he said. "If that continues to happen, it will validate the investment they have made in" the Global Risk Insight Platform.

Another area of significant investment for the company is the Aon Hewitt Corporate Health Exchange, a private marketplace the company created that brings together multiple insurers to compete in offering group health insurance plans.

"They have been spending a lot of money on building health exchanges," said Adam Klauber, Chicago-based analyst at investment banking and asset management firm William Blair & Co. L.L.C. "It's the biggest visible differentiator between Aon and the other brokerages in the next few years."

Investing in technological innovation continues to be an imperative for the company, said Stephen P. McGill, group president of Aon and chairman and CEO of Aon

Risk Solutions. Aon has been working to build an extensive data and analytics innovation center in Singapore, Mr. McGill said, adding that unlike the global risk platform, which is a product of Aon Risk Solutions, the analytics center in Singapore will work with data from all of the company's business units.

"We have made very significant investments in data, analytics and technology across the whole firm," Mr. McGill said. "It's a differentiator when clients think of Aon and a significant competitive advantage for our business in the future."

A more contentious move came in March of this year, when Aon and Berkshire Hathaway Inc. launched a facility under which Berkshire Hathaway International Insurance Ltd. will take a 7.5% share of all of Aon's retail placements in the London market where Lloyd's of London underwriters are participating.

Mr. Shields said the move is bold but does carry some risk for Aon, if it ends up alienating some in the

Lloyd's market.

"If you can bring paper with this level of security as reflected in Berkshire Hathaway's balance sheet, I think that is very attractive to clients," Mr. Shields said. "On the other hand, it could miff some of Aon's reinsurance brokerage clients that may be Lloyd's participants and feeling short-changed by it."

Mr. McGill said the reaction from clients has been positive thus far.

"We are very excited about the sidecar transaction," he said. "We are bringing AA-rated capacity in a very efficient manner."

Overall, analysts commended Aon's capital management and strategic vision.

"Ultimately, one of the strongest tools a broker has for growth is the amount of free cash they can spend, and here's where Aon comes out clearly ahead," Mr. Klauber said.

Mr. Shields agreed that Aon has positioned itself well for future growth. "In terms of making the right investments, Aon has been a leader," he said.

"The building blocks of the firm are all in place," Mr. McGill said. "We are excited about the platform we have. We are excited about the global reach that we have. Now, it's all about realizing the potential of everything that we have done for the benefit of our clients."

Mr. McGill also stressed that the company's global network of offices in 120 countries has paid dividends, as the company's client base continues to explore growth in emerging markets.

"It's no longer only the largest companies in the world that are multinational," he said. "Now even our midsized clients are multinational firms."

However, Paul Newsome, managing director and senior insurance analyst at Sandler O'Neill & Partners L.P. in Chicago, said this move into emerging markets may yield more benefits in the future than currently.

"The largest brokers have become increasingly global, which is interesting because the pricing cycle has become much more favorable in the U.S. than overseas," he said. "It could be the situation that globalization is not an asset in the near term."

By Bill Kenealy

3

WILLIS GROUP HOLDINGS P.L.C.

2012 gross revenue:	\$3.48 billion
Percent change:	1.0% ▲

2012 brokerage revenue:	\$3.46 billion
Percent change:	1.3% ▲

In more ways than one, the past 12 months could aptly be described as a transitional period for Willis Group Holdings P.L.C.



Dominic Casserley,
CEO

Since July 2012, the London-based brokerage has undergone substantial changes in its senior leadership, most notably at the chief executive level: Dominic Casserley, a former senior partner at McKinsey & Co., succeeded Joseph Plumeri as CEO of Willis in January 2013.

Additionally, the company within the past year has nominated four new members to its board of directors, as well as appointed new CEOs to its North America segment and several business units within its international and global segments.

Amid the executive-level personnel changes, analysts said Willis' financial results in 2012 were underwhelming by most standards. However, they noted the company's performance in its last two reported quarters bore some signs of improvement, particularly in the troubled North America segment.

Willis' brokerage revenue in 2012

totaled \$3.46 billion, a mere 1.3% increase from totals recorded in 2011, but still good enough to keep the company at No. 3 in *Business Insurance's* 2013 ranking of the world's largest insurance brokers.

Willis' "results have been very, very mixed, but one thing that stands out to me is the recovery on organic growth that began in the fourth quarter of last year, where it had been moderately positive but below average year after year," said Meyer Shields, a Baltimore, Md.-based managing director of equity research for property/casualty insurance at Keefe, Bruyette & Woods Inc.

Willis reported gross revenue increases of 6.3% in the fourth quarter of 2012 over the prior-year period, including 7.5% organic growth across its major operating segments. Through the first three months of 2013, gross revenues increased 3.5% over results from the first quarter of 2012, including 4.1% organic growth company-wide.

Mr. Shields said the turnaround in Willis' overall organic growth likely reflects a clearer view of the

company's operational performance, absent certain nonrecurring revenue streams such as the unsustainable spike in business within the North America segment's loan protector unit, as well as fraudulently overstated revenue disclosed last year.

"When they stopped having to compete against those unrealistic historical numbers, that it made it easier for the company to grow," Mr. Shields said.

The 1.3% gain in commercial brokerage revenue was driven largely by 6% organic growth within Willis Global, the company's reinsurance arm.

Organic growth within Willis' international brokerage rose 5% in 2012, but was offset nearly entirely by negative foreign currency translation, resulting in flat total revenue for the segment.

Willis' domestic retail segment, Willis North America Inc., saw its total revenue for 2012 decline by roughly 1% compared with the prior year, as did organic growth.

However, analysts noted that results for the North America segment appeared to be rebounding during its two most recent reporting periods, compared with its performance through much of 2011

and 2012. The segment's fourth-quarter brokerage revenue increased 4.7% over the same period in 2011, including 5% organic growth.

"Going back to 2011, we started focusing with a great deal of intensity on some basic tenets of the business and really working hard on new business and pipelines, recruiting and retentions," said Victor Krauze, chairman and former CEO of Willis North America. Todd Jones, the segment's president, was selected to succeed Mr. Krauze as CEO on July 1.

"It's a big ship and it takes a while to turn, but you're seeing the fruits of those labors come to pass," Mr. Krauze said.

In the first quarter of 2013, Willis North America grew its brokerage revenue by 4.9% compared with the prior-year period, including 4.3% organic growth, outpacing Willis' other operating segments. Analysts said the improved results were encouraging, though it remains unclear if they are indicative of a long-term correction for the segment.

"After disappointing for a while, it's been nice to see the turn in the retail segment. It's far too early to declare victory, but they have

been able to string together two quarters in a row of solid organic growth out of North America," said Gregory Locraft, a Boston-based executive research director at Morgan Stanley & Co. L.L.C.

"They're retaining producers, and they're winning more business than they're losing, and they're definitely benefiting from an improving economy in the United States and, particularly, what seems to be some improvement within the small and midsize sector," Mr. Locraft said.

While Mr. Casserley has yet to formally unveil a long-term strategy for Willis going forward — the company has said he intends to do so at its investors' day on July 25 — other senior executives said his background in management consulting has brought fresh perspective to the company's operations.

"It's a significant change for the organization," said Steven Hearn, who was named the company's deputy CEO in October. "Dominic arrives with an obvious understanding of how to do strategic work, a very team-based style, and he's very adept at partnering and collaborating with people who bring different experiences and different contributions to the debate. That's the sort of dynamic that's evolved as he's come in, and there's a sense of excitement around the place."

By Matt Dunning

2012 gross revenue: \$2.52 billion
Percent change: 18.1% ▲2012 brokerage revenue: \$2.39 billion
Percent change: 14.0% ▲

In sticking close to its traditional business formulas in 2012, Arthur J. Gallagher & Co. experienced significant growth.

Gallagher posted brokerage revenue of \$2.39 billion in 2012, a 14.0% increase from 2011, making it fourth in *Business Insurance's* annual ranking of the world's largest brokers.

"The two issues that stand out in significance are their recovery of organic growth in the past two years and the subsequent favorable impact on margins," said Meyer Shields, managing director at Keefe, Bruyette & Woods Inc. in Baltimore.

J. Patrick Gallagher Jr., chairman, president and CEO of the Itasca, Ill.-based brokerage, said 2012 was "a great year for us, a record year."

"Framing that year were a couple of things that were really, really important for us," he said. "One was the continuing integration and finalizing of that integration of the Heath acquisition in the U.K."

The company's 2011 acquisition of U.K. broker Heath Lambert Ltd. is performing as intended, Mr. Gallagher said, "giving us a retail platform in the U.K. that we can bolt other acquisitions onto."

In addition, "2012 was a banner year for acquisitions. We did over 60 acquisitions bringing in over \$230 million in additional revenue to the company," he said. "That's an acquisition every five working days, so I'm very proud of the team that was able to do that."

"It seems they're benefitting both from a better rate climate and a better economy, which is pushing out some organic growth," said Timothy J. Cunningham, managing director at Optis Partners L.L.C. in Chicago. "It also appears their sales focus is bearing fruit."

In addition to growth produced by acquisitions, Gallagher experienced solid organic growth in 2012, Mr. Gallagher said. "When you get a market that is firming slightly and not having rates drop out from under you precipitously, we can grow very nicely," he said.

"We really feel like the company was firing on all cylinders last year," he said. "That continued into the first quarter of this year."

"Rate increases only accounted for about 1% or less of our top-line growth, but nonetheless a flattening to rising economy and good, hard sales efforts brings our organic growth to about 4.6% in the brokerage space last year, which I think is very, very good, very healthy," he said.

In addition to its U.K. operations, Gallagher's international business "is growing very nicely both through acquisition and through organic recruiting," Mr. Gallagher said. In December, it completed its acquisition of 21.3% of Mexico City-based broker and risk manage-



J. Patrick Gallagher Jr., chairman/president/CEO

ment firm Grupo CP.

The company's Gallagher Bassett Services Inc. third-party administration operation had an "outstanding" year as well in 2012, Mr. Gallagher said, as did its Risk Placement Services Inc. global wholesale brokerage.

"The wholesale business had a fantastic year last year," Mr. Gallagher said. "Just a bit of change in the market and

their submission rate jumped and they started closing more deals."

Of Gallagher's 2012 acquisitions, half were in the health care space, Mr. Gallagher said, as the company positions itself to take advantage of opportunities presented by the nation's health care changes.

The Patient Protection and Affordable Care Act "is so complicated and the compliance issues alone are so complex that the smaller brokers simply can't compete," Mr. Gallagher said. "That's why we

were able to do 30 transactions with some great firms last year."

John W. Wicher, principal at John Wicher & Associates Inc. in San Francisco, said, "They continue to be very acquisitive, particularly in the benefits space."

"What we're trying to do to differentiate ourselves is to be very focused on areas where we can provide a real benefit to the client that is greater than insurance," Mr. Gallagher said. "Our differentiator on the brokerage side is the

fact that we think in about 24 areas. We bring way more value than just an insurance quote and a policy to the table, when we're sitting there talking to these folks about bigger issues.


"So I think the story is one of continuing to stick to our knitting. We're very niche focused," he said. "I think that niche focus works to our advantage."

It remains to be seen if Gallagher will acquire Short Hills, N.J.-based Bollinger Inc. In June, *Business Insurance* reported that the firms were in advanced talks on what would be Gallagher's largest acquisition. When asked about the deal, Mr. Gallagher had no comment.

By Rodd Zolkos




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WELLS FARGO INSURANCE SERVICES USA INC.

2012 gross revenue: \$1.76 billion
Percent change: 4.8% ▼2012 brokerage revenue: \$1.58 billion
Percent change: 3.2% ▼

Though Wells Fargo Insurance Services USA Inc. represents only about 2% of revenue for its parent company, analysts say the commercial insurance brokerage is crucial to an overall diversification strategy for San Francisco-based banking firm Wells Fargo & Co.



Laura Schupbach,
executive vice
president

"This is one of the businesses (Wells Fargo & Co. likes), because it does diversify some of their revenue line items," said Chris Mutascio, Baltimore-based managing director with Keefe, Bruyette & Woods Inc. "I would not be surprised if indeed you see some acquisitions over time."

Chicago-based Wells Fargo Insurance Services reported brokerage revenue decreased 3.2% last year to \$1.58 billion, remaining the world's fifth-largest brokerage in *Business Insurance's* 2013 rankings.

Laura Schupbach, executive vice president and head of Wells Fargo's insurance unit, said revenue fell a bit after the brokerage sold pieces of its business over the past couple of years. Irving, Texas-based

HealthSmart Holdings Inc. closed last month on the acquisition of Wells Fargo's disability management unit, and HealthSmart bought Wells Fargo's workers compensation third-party administration business in 2011.

Those divestitures follow Wells Fargo's 2011 sale of

San Francisco-based American E&S Insurance Brokers Inc. to R-T Specialty L.L.C., a unit of Chicago-based Ryan Specialty Group L.L.C.

Ms. Schupbach said the sales are part of a strategy to focus on organic insurance brokerage growth by cross-selling services to clients in other Wells Fargo units.

The brokerage also has worked to expand its risk management expertise for insurance clients, such as establishing a health and productivity national practice early this year and by investing in increased international risk management talent and technology.

"What we've been trying to do is really add world-class resources so that our sales and service teams have access to a really strong sta-

ble of national resources expertise," Ms. Schupbach said.

Kevin Kenny, executive vice president and head of Wells Fargo's insurance brokerage, said Wells Fargo is looking to aid clients dealing with risk volatility in the aftermath of the Great Recession and catastrophes such as Superstorm Sandy.

"With the expertise that we can draw upon again from our commercial and our corporate banking partners, we're asked to bring a different perspective that wraps finance, treasury and risk management into one conversation," Mr. Kenny said. "So, we're getting well past insurance now, and we find risk managers engaging us (about the) total cost of risk."

Marty Mosby, managing director with New York-based investment firm Guggenheim Securities L.L.C., said the strategy is part of a push to make the company a one-stop shop for clients across its units. "What they're really trying ... to do is make sure that they can provide a convenient, efficient platform that can give commercial and retail customers all the different

products that they need to have."

KBW's Mr. Mutascio said the brokerage business has helped bolster Wells Fargo & Co.'s overall financial performance as the banking sector copes with lackluster interest rates.

"They really need short-term rates to rise to help their margins," Mr. Mutascio said of the finance sector. "So these banks have been



"We're getting well past insurance now, and we find risk managers engaging us (about the) total cost of risk."

Kevin Kenny, Wells Fargo Insurance Services USA Inc.

developing, improving, expanding, buying ... fee-income line items that would help diversify away

from net interest income."

Though Wells Fargo has exited parts of the brokerage business that don't align with its strategy, Mr. Mutascio said he believes it could look at acquiring insurance-related businesses if it finds companies that would make a good fit.

"I would look for them to perhaps add some pieces of the puzzle or some scale over time if the price is right," he said.

Guggenheim's Mr. Mosby said Wells Fargo also could look to partner with other firms on parts of its brokerage business that don't fit with its core competencies.

"It's a business that they would be continuing to develop and evolve in the best way to serve their customers," he said.

Ms. Schupbach said Wells Fargo has not made any acquisitions for at least 18 months and said the brokerage is not actively looking for deals. However, she said the broker could consider a purchase if it found a business with complementary strategies, talent and products.

In the meantime, Mr. Kenny said Wells Fargo will continue to push for controlled growth among its insurance clients. "We're very confident, but very disciplined in the way we're approaching the business," he said.

By Sheena Harrison

6

BB&T INSURANCE SERVICES INC.

2012 gross revenue: \$1.56 billion
Percent change: 33.6% ▲2012 brokerage revenue: \$1.48 billion
Percent change: 34.1% ▲

Last year's \$570 million acquisition of Rose-land, N.J.-based Crump Group Inc., which effectively doubled BB&T Insurance Services Inc.'s wholesale revenues, helped this Southern bank-owned insurance broker leap two notches in



H. Wade Reece,
Chairman and CEO

Business Insurance's annual rankings of the world's largest insurance brokers.

BB&T's Winston-Salem, N.C.-based bank parent said at the time that it expected the transaction to add about \$300 million in revenue. But the combined brokerage revenues surged 34.1% in 2012 to \$1.48 billion from \$1.10 billion in 2011. At the same time, wholesale revenues grew 108% to \$637.8 million in 2012 from \$307.3 million in 2011.

BB&T's gross revenue also grew by 33.6% in 2012 to \$1.56 billion from \$1.17 billion in 2011.

As a result of this growth spurt, Raleigh, N.C.-based BB&T holds the No. 6 spot in the 2013 ranking, surpassing both London-based Jardine Lloyd Thompson Group P.L.C. and Daytona Beach, Fla.-based Brown & Brown Inc.

Marty Mosby, Hernando, Miss.-

based managing director at Guggenheim Securities L.L.C., who has been following BB&T for years, said "the beauty of that acquisition is that it expands their distribution channel and adds a new product to the mix."

BB&T "focuses a lot on the regional agents, making sure they have a network, selling mostly (property/casualty) with other products mixed in. With Crump they picked up the wholesale business, a network of over 100 agencies that they can distribute product through, and they get life insurance, a product they can offer to their customers across the spectrum," Mr. Mosby said.

"This was an interesting, strategic acquisition that fit into the puzzle to help the insurance business expand while also adding to revenues. They're not just adding a revenue stream, but adding a product and a distribution channel," he said.

Because it took nearly a year to finalize the blockbuster Crump purchase, BB&T didn't make any other broker acquisitions during 2012, an anomaly for a firm that

historically had grown by gobbling up other insurance producers.

"We wanted to fully concentrate on the Crump integration and maximize the efficiencies we could get out of the acquisition," said BB&T Chairman and CEO H. Wade Reece.

Though BB&T closed one office post-acquisition, the firm now has 6,402 employees in 117 offices across the United States, a 40% increase in head count from 2011.

John Howard, president and CEO of the Crump Group, became the head of BB&T's wholesale division, CRC Insurance Services Inc.

Crump Life, AmRisc L.P. and American Coastal Insurance Co. all report to Mr. Howard, CEO of wholesale/specialty.

Meanwhile, all of BB&T's retail operations report to David Pruett, that group's new CEO and vice chairman of BB&T. Mr. Pruett formerly was chief administrative officer and vice chairman. Karyn Hohmann, formerly senior vice president and senior administrative manager, was promoted to chief administrative officer.

Industry observers expect BB&T's sabbatical from growth by acquisition will be short-lived.

"Their ability to grow within all their business segments is a little bit finite. Maybe there is something within the Crump wholesale world that has some nice potential for them, maybe double-digit vs. single-digit growth," said Timothy J. Cunningham, managing director at Chicago-based Optis Partners L.L.C., a financial and management consulting firm serving the insurance distribution industry. "I would not be surprised to see them back in the acquisition game given a more certain future with some stabilization in the economy and a better property/casualty insurance climate."

Mr. Reece said his firm is now poised for organic growth in all lines, but especially in wholesale life insurance. Crump Life was the largest wholesale life insurance brokerage in the country, he said.

"The life product is just so different from our heavy concentration in commercial property/casualty," Mr. Reece said. "Different dynamics drive these products. Crump is uniquely positioned in that they do a lot of work with individual life producers, but they also have a huge institutional channel. They outsource their life insurance pro-

grams to Crump, which manages those for them. Our life insurance as a percent of total revenue is now 13% versus 1% pre-Crump."

Last year, 4.7% of BB&T brokerage revenues came from organic growth versus 0.8% in 2011.

As a result of the 2012 acquisition of Crump as well as the 2011 acquisition of Irvine, Calif.-based Precept Group Inc., which provides health risk management and third-party administration services to self-funded midsize and large employers, BB&T now has "a very diverse yet complementary group of insurance distributors," said Mr. Reece. "We are concentrating on each and every segment and want to grow each one based on their own business plan and what makes sense for that particular segment."

Indeed, employee benefits revenue also grew nearly 24% last year to \$156.7 million.

In addition to growing its self-insured employee benefits business in the midsize and large employer markets, Mr. Reece said BB&T also is reaching downmarket, developing a private insurance exchange that will sell insured products to smaller employer groups with as few as 50 employees and serve as an alternative to the government exchanges being set up under the Patient Protection and Affordable Care Act.

By Joanne Wojcik

2012 gross revenue: \$1.43 billion
Percent change: 7.3% ▲

2012 brokerage revenue: \$1.40 billion
Percent change: 7.6% ▲

A focus on embedding specialties into all its business around the world is the strategy that helped Jardine Lloyd Thompson Group P.L.C. grow its revenue last year, said Group Chief Executive Dominic Burke.

And that focus will continue to drive the company, he said.

JLT's brokerage revenue increased 7.6% to \$1.40 billion in 2012, making it No. 7 in *Business Insurance's* 2013 ranking of the world's largest brokers.

Mr. Burke said the brokerage has made significant progress in markets it considers to be areas of potential growth, including Asia, Australia, Canada and Latin America. And it will continue to "build out" in areas where it sees growth in gross domestic product, he said.

The insurance market remains soft, Mr. Burke said. "There are pockets of firming, but they are not very robust when challenged."

During 2012, 850 staff joined the company, Mr. Burke said, increasing the company's head count by 12.8%. Of those, 500 were "organic additions" and 350 staff joined through acquisitions.

JLT continues "to look at acquisitions and to be acquisitive," said Mr. Burke. In May this year, he said, JLT bought two health care and third-party companies: PT GESA Assistance and PT Global Asisten-si Manajemen Indonesia.

"We look at a number of companies in quite a lot of depth, but if they are not going to add to the quality of our earnings and our people then we will not do it," Mr. Burke said.

"It is not about size; it is about growing and enhancing the quality of our earnings, and that makes the process of acquisitions more complex because we have high hurdle rates," Mr. Burke said. "We are not deal junkies."

JLT has not made any major acquisitions so far in 2013, he said.

He noted that the company raised \$250 million through a private placement in January. "That's to give us power, together with our own funds, to enable us to be acquisitive — but we are in no hurry to spend it," he said.

"JLT's balance sheet is now able to sustain more debt" than it was during the tenure of previous CEOs, said Eamonn Flanagan, an analyst at Shore Capital Stockbrokers Ltd. in Liverpool, England.

During 2012, JLT launched Project Insight, a technology platform that enables colleagues to share client information and enhance client relationships, said Mr. Burke. "It is also to enable us to share with clients knowledge related to their particular risks, their particular specialties."

JLT will not, unlike some of its competitors, charge for the service, he said. "It is not something we will monetize; it is to benefit the client," he said.

Growth in employee benefits business will continue to be a priority for JLT, said Mr. Burke.

In December, the company completed its acquisition of Alexander Forbes Consultants & Actuaries Ltd. The process of integration of that business continues, he said.

"We are delighted with the response from clients," he said.

JLT also will continue to grow its reinsurance operations, Mr. Burke said, with the intent of being "more than just transactional" and helping cedents with risk management.

Mr. Burke said the brokerage recently recruited several treaty reinsurance brokers in China.

The "unique selling point" of JLT is that it carves out niches in specialty areas "and does it as well, or better" than the three largest brokers, said Shore Capital's Mr. Flanagan.

He gave Mr. Burke credit for repositioning JLT as a wholesale broker after previous management tried to steer the company away from that strategy.

Mr. Burke said JLT would not consider entering into primary market sidecar deals such as the Aon P.L.C. and Berkshire

Hathaway Inc. arrangement under which 7.5% of Aon's Lloyd's of London placements will be underwritten by Berkshire Hathaway.

"We struggle to understand how (such deals) are in the interest of clients," particularly at a time when there is excess capacity, said Mr. Burke.

"We, as a firm, are concerned that this is a free ride on Lloyd's — on its intellectual capital and brand — and adds very little to the market," he said.

The nature of such deals is a concern if it signals "a move to commoditization" of insurance, Mr. Burke said, and endangers the value of specialty placements in particular.

"Lloyd's and the London market are vitally important to JLT's future, as we are a specialty-focused business" that currently represents 24% of all direct insurance premium placed into the Lloyd's market, said Mr. Burke.

"We'd naturally be concerned if Lloyd's remains vulnerable to large swaths of its premium being deprived to it through the proliferation of sidecars," he said.

Later this summer, JLT's headquarters and London-based business will move to The St. Botolph Building, one of the largest completed developments in the City of London.

By Sarah Veysey



Dominic Burke, group chief executive

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2012 gross revenue:	\$1.41 billion
Percent change:	20.7% ▲

2012 brokerage revenue:	\$1.40 billion
Percent change:	20.6% ▲

Known for numerous, smaller acquisitions in recent years, Brown & Brown Inc. firmly entered the large-account space with this year's acquisition of rival Beecher Carlson Holdings Inc.



J. Powell Brown,
president and CEO

The Daytona Beach, Fla.-based broker in May announced the \$336.5 million purchase of Atlanta-based Beecher Carlson, which was the 27th-largest broker of U.S. business in the 2012 *Business Insurance* ranking. The acquisition is the largest in Brown & Brown's 74-year history.

Analyst Meyer Shields, managing director at Keefe, Bruyette & Woods Inc. in Baltimore, said the Beecher & Carlson acquisition is "a little out of character. Historically, Brown & Brown did many small acquisitions."

They have previously, however, "done a couple of large ones which have worked out well," Mr. Shields said in noting Brown & Brown's January 2012 acquisition of San Diego-based Arrowhead General Insurance Agency Inc., a national insurance program manager with

\$106.1 million in 2011 revenue. "That, I think, has proven that they're capable of handling the integration."

Kenneth Billingsley, Washington-based senior vice president at Compass Point Research & Trading L.L.C., said the Arrow-

head and Beecher Carlson acquisitions show that Brown & Brown President and CEO J. Powell Brown is "putting his stamp on the company."

While small and medium-size companies previously were Brown & Brown's "bread and butter," Mr. Billingsley said, "this is an opportunity for the brokerage to market against large competitors."

However, "I would not expect Brown & Brown to change its operating structure" to focus on large-account business and compete with Aon P.L.C. and Marsh & McLennan Cos. Inc., he said.

Despite posting the second-highest growth rate in 2012 among the world's 10 largest brokers, Brown & Brown fell to No. 8 in the 2013 *Business Insurance* ranking due in

large part to a 34.1% surge by BB&T Insurance Holdings Inc.

Brown & Brown's top executive is unfazed by the challenges involved in the acquisition of Beecher Carlson, which had nearly \$104 million in 2012 revenue from U.S.-based clients, and said the brokerages are compatible.

"They're very similar in the way they're a very sales-driven culture," said Mr. Brown. "They put their clients first; they recruit and retain very high-quality people, and they've developed very strong relationships with their risk-bearing partners; and all of those are very similar to the way we operate."

Mr. Brown said, "Arrowhead has made us better in certain parts in the program space, but we were already a big program writer."

"Some people think we don't write large accounts, and actually we write a lot of middle-market and upper middle-market" business. Beecher Carlson "will be a great addition to our retail division," Mr. Brown said.

He said the Arrowhead acquisition allowed Brown & Brown to

start "growing our business organically again." As a result, organic growth is "continuing to operate our business in an efficient manner," he said.

In other developments, Zurich Insurance Co. Ltd. last October year transferred its book of automobile aftermarket business to Arrowhead with about 170 Zurich employees from sales, underwriting, operations and customer service switching their employment to Arrowhead.

"That's going very well," said Mr. Brown. "We're very excited about the new teammates that are joining our team as a result of that, and the growth opportunities for us as an organization."

For now, Mr. Brown, who describes the brokerage as a "very decentralized, entrepreneurial business," said, "we're really pleased with our internal growth last year and moving into 2013."

Mr. Brown said the company is seeking to invest in all of its businesses.

"It is a function more of finding the right people that fit culturally, rather than saying we want to

invest in a particular geographic region," Mr. Brown said.

The brokerage "is a proxy for the middle-market economy, and so our clients seem to have a cautiously optimistic view of the future," Mr. Brown said. "That means they're slow to add new people even as their sales are expanding, and they're cautious about making major capital expenditures until it's absolutely necessary."

Mr. Shields said he is "still reasonably optimistic" about the company's prospects. "When we see a combination of generally rising insurance rates and what seems to be a slowly recovering economy, both of those should translate into more demand, for instance, and that's Brown & Brown's business."

While insurance rates have risen somewhat, "We think that there will be a moderation of rate pressure over time" due to the market's \$580 billion in surplus, Mr. Brown said.

Meanwhile, the brokerage's goal is to reach \$2 billion in annual revenue.

"That's our next intermediate goal and, when we get there, we'll have another goal that will be stated publicly, and we're excited about that," Mr. Brown said, without elaborating.

By Judy Greenwald

2012 gross revenue:	\$1.02 billion
Percent change:	11.2% ▲

2012 brokerage revenue:	\$1.01 billion
Percent change:	11.4% ▲

There is reason to celebrate at Lockton Cos. L.L.C.

The Kansas City, Mo.-based broker recently exceeded a significant milestone, tallying more than \$1 billion in annual revenue for 2012.

The privately owned property/casualty and employee benefits broker exceeded the \$1 billion mark for the first time by logging an unexpected \$100 million in additional revenue for 2012, the company said.

It produced \$1.01 billion in brokerage revenue during 2012, up from \$904.4 million the prior year, placing it ninth in *Business Insurance*'s 2013 broker rankings.

Lockton is known for being a well-run company that is producer focused with an entrepreneurial environment, said Timothy J. Cunningham, managing director of Chicago-based investment banking and consulting firm Optis Partners L.L.C.

That allows Lockton to attract talented producers who have large broker expertise, but don't want to be hindered by a large-broker environment, Mr. Cunningham



David Lockton,
chairman

said.

Lockton also has an advantage as a privately owned broker, Mr. Cunningham said. The company is not beholden to quarterly reports or a private equity firm. That allows Lockton greater freedom to invest in its

people and infrastructure, he said.

That shows in Lockton's revenue growth.

"We are feeling very good about it," said David Lockton, chairman of Lockton. "There is pretty much all good news at Lockton right now."

The growth was all organic and flowed from U.S. and global operations, Lockton said.

"Growing at 11% organically in an environment where economic turmoil continues to buffet our clients and the markets is a significant achievement," said John Lumelleau, president and CEO of Lockton. "While we are proud of the \$1 billion milestone, we are even more proud about how we have realized it, taking a consistent approach to solving (client) business problems where we do business around the world."

Serving U.S. clients generated 74% of Lockton's 2012 brokerage revenue, with the remainder from non-U.S. clients, as the company's global reach gradually expands. For instance, Lockton last year opened offices in Australia and in the United Arab Emirates.

Lockton now has offices in 19 states and operates in other countries such as Brazil, China, Mexico, the United Kingdom and Vietnam.

While international expansion has helped add new business, the company's success and growth is rooted in retaining customers by listening and responding to their needs, the broker said.

"We have always believed that our growth is first driven by the retention levels we are able to achieve, with industry-leading levels in excess of 95%," Mr. Lumelleau said. "It gives us an excellent jumping-off point (for growth) at the beginning of every year."

While Lockton's strategy remains focused on organic expansion, it will be opportunistic should the right acquisition opportunities emerge, its leaders said.

But growth also has meant that finding employees capable of meeting Lockton's standards and selection process is now the company's biggest challenge, its leaders said.

"We developed a tremendous track record for attracting great people and, as we get larger, that



"Growing at 11% organically in an environment where economic turmoil continues to buffet our clients and the markets is a significant achievement."

John Lumelleau,
Lockton Cos. L.L.C.

becomes more difficult," Mr. Lockton said. "It's not an easy job and we have to make sure we stay the course and that we are very rigorous in our recruiting and selection process."

Lockton reported 4,950 brokerage employees in 2012, up from 4,450 in 2011.

Clients, meanwhile, are demanding greater analytic sophistication from the broker, Mr. Lockton said. That trend over the past several years also has required Lockton to continually innovate.

For example, some years ago, Lockton developed a tool called InfoLock to help clients analyze and mitigate employee benefit claims costs, Mr. Lumelleau said.

InfoLock's capability has now been extended to provide "deep-dive" analysis into workers compensation claims cost drivers.

"So we have transcended the employee benefits segment of our business with analytics, bringing it into our property/casualty retail business with Infoclock and workers compensation," Mr. Lumelleau said. It's the "same approach: analyze claims, benchmark performance and adjust risk control approaches to drive down total cost of risk."

Overall, Lockton attributes its success to such services that help clients improve their businesses, Mr. Lumelleau said.

"It's all about helping clients make better, more well-informed decisions," Mr. Lumelleau added.

By Roberto Cenicerros

10

HUB INTERNATIONAL LTD.

2012 gross revenue: \$989.8 million
Percent change: 12.5% ▲

2012 brokerage revenue: \$988.7 million
Percent change: 12.6% ▲

Hub International Ltd. continued its streak of organic growth in its U.S. insurance brokerage operations in 2012 and is well-positioned for recapitalization or to go public again.

Hub's brokerage revenue increased 12.6% in 2012 to \$988.7 million, making the Chicago-based brokerage No. 10 in the 2013 *Business Insurance* ranking of the world's largest brokers.

Hub has a "very strong" top management team that is "highly respected," said John Wicher, principal at John Wicher & Associates Inc. in San Francisco. "Their footprint is clearly in the middle market here" in the United States. "They do a good job with that."

In 2012, Hub completed 29 mergers and acquisitions, a trend that is expected to continue, said Kevin P. Donoghue, managing director at Mystic Capital Advisors Group L.L.C. in New York.

"They're probably the most acquisitive out there," Mr. Donoghue said.

Hub grew organically in 2011 in its U.S. operations for the first time in several years and "that trend has continued and, in fact, has accelerated," said Martin P. Hughes, chairman and CEO of Hub.



Martin P. Hughes,
chairman and CEO

Hub's 2012 organic growth was 3.3%, and 4.8% in the first quarter this year.

While U.S. organic growth improved, such growth in Canada, which represents 35% of the brokerage's revenue, flattened in 2012 even though the Canadian operations were "fabulous performers" from 2008-2010, Mr. Hughes said.

Some \$117 million in 2012 revenue came through acquisitions, Mr. Hughes said.

Mr. Wicher described Hub's acquisition style as "selective but very aggressive."

Hub's purchase of São Paulo-based Harmonia Corretora de Seguros Ltda. in December 2011 expanded brokerage's operations into Latin America.

"I think the deal they completed in Brazil was important," Mr. Wicher said. "It gives them a platform for growth in Latin America. Clearly, they want to grow internationally."

While Hub made no acquisitions outside of North America in 2012, "our expectation is we will do more in 2013 in Latin America," Mr. Hughes said.

The brokerage is focusing on employee benefits and wellness programs, which are fundamental to its strategy, Mr. Hughes said.

To that end, Hub in January acquired Intercare Insurance Solutions Inc., a San Diego-based employee benefits brokerage.

In the past, employee benefits brokers interacted with human

resource managers, Mr. Hughes said.

"Today, CEOs want to talk about health care, they want to talk about wellness initiatives, and they want to know that you've got the capability to implement wellness initiatives," he said.

"Intercare is a 100% employee benefits brokerage who has focused on wellness initiatives. They have the call center and they have the historical data to demonstrate to people what they can expect if they buy into the holistic approach," Mr. Hughes said.

Also bolstering its employee benefits efforts, Hub in April hired Ronald Agypt as Chicago-based chief sales officer of employee benefits, with responsibility for leading the brokerage's overall employee benefits strategy.

In the new post, Mr. Agypt reports directly to Mr. Hughes and will focus on voluntary benefits and ancillary insurance products.

"He is reporting directly to me because we feel this is a huge opportunity for us," Mr. Hughes said. "It has the ability to significantly transcend any losses that we might take because of health care legislation."

Hub reverted to private ownership in 2007 after it was purchased by Apax Partners L.L.P. and Morgan Stanley Principal Investments Inc., the brokerage's current owners.

There has, however, been speculation within the insurance brokerage industry that New York-based Marsh & McLennan Cos. Inc. had an interest in acquiring Hub.

While Mr. Wicher said he had no knowledge of Marsh's interest in the brokerage, given Hub's footprint and middle-market business, "an acquisition of Hub ... would be very complementary for Marsh."

Hub did not respond to a request for comment on the industry speculation.

"One issue with Hub, of course, is that their investor group has been there for five years," Mr. Wicher said, noting that he expects some type of event — either a recapitalization or an initial public offering — within the next year.

"I'd think that billion-dollar revenue has got to be in their sights" for Hub to go public in the near future, Mr. Donoghue said.

But if conditions don't come around, Hub could flip to another private equity fund, he said.

"We're closely looking at what's going on in the marketplace; we're closely looking at that opportunity or alternatives all the time," Mr. Hughes said in referring to a potential IPO. "But we haven't started the process yet."

By Mike Tsikoudakis
and Rodd Zolkos

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NEW BERKSHIRE UNIT CHIEF LOOKS TO BUILD OUT INSURER

Q What attracted you to the opportunity to head Berkshire Hathaway's new Specialty Insurance Group?

A The appeal for me is multifaceted. It's an opportunity to build an insurance business within an organization like Berkshire Hathaway that knows and values the insurance business, has a very positive reputation within the business community and has a large balance sheet that allows us to take risks.

Berkshire Hathaway also offers us the benefits of a big company, such as the balance sheet, with the feeling of a small-company environment that focuses its time and energy on external, value-added activity.

From my perspective, that allows us to serve our customers, business partners, brokers and employees quite well. Also, very important to me, I have an opportunity to build this business with a group of people that I have a tremendous amount of respect for and I think very highly of. Honestly, I couldn't ask for more in an opportunity.

Q&A

Q Beyond underwriting capacity, what immediate value do you think the Specialty Insurance Group adds to the excess and surplus lines marketplace?

A This is a risk-taking business, and I believe that customers want to do business with insurance companies that understand risk and have the ability and willingness to take risks. Our group brings financially stable capacity, which I think will translate into us being a long-term market participant that's able to perform pre- and post-event from an underwriting

and claims perspective.

Second, customers are looking for insurer partners that have a broad risk appetite across many lines of business, so a holistic view of their risk can be taken into consideration.

Finally, we're building an organization with a relatively flat management structure with people who recognize the value of customer relationships and are empowered to make decisions. This approach will lead to a culture of responsiveness, which will strengthen the partnership between us, our broker partners and our customers.

Q How have Berkshire Hathaway Specialty Insurance Group's separate business segments been received in the marketplace so far?

A We're up and running in property/casualty, professional and executive lines, and each of those business segments has been received favorably in the marketplace by brokers and customers, and by people in the industry ... In terms of staging of our business, the property and casualty busi-



PETER EASTWOOD

BERKSHIRE HATHAWAY
SPECIALTY INSURANCE GROUP

In June, Berkshire Hathaway Inc. announced the launch of Berkshire Hathaway Specialty Insurance Group, a new property/casualty insurer focused on U.S. excess and surplus lines. Peter Eastwood, the group's president, recently spoke with *Business Insurance* Associate Editor Matt Dunning. Edited excerpts follow.

nesses were the initial businesses to enter the marketplace, followed by our professional and executive lines business, which we launched with the hiring of Dan Fortin.

In terms of writings, the property/casualty business ... has written the preponderance of the business, although we've written some executive lines business as well.

Q While the specialty unit's focus is primarily on U.S. E&S lines, are you contemplating overseas opportunities?

A We are, but our initial focus is in the U.S., and disproportion-

ately so in the excess and surplus lines space. Having said that, in a relatively short period of time we'll be introducing admitted paper products, specifically in the executive lines space, as well as in the programs space. Once we're comfortable that the business is established in the United States, we'll turn our attention to building the business outside the U.S. ... The nice thing for us is that we've already been presented with opportunities to do business outside the U.S. That's a demonstration of customers and brokers feeling that there's a need that we could fulfill outside the country.

COMINGS & GOINGS

UP CLOSE: TODD JONES

NEW YORK-BASED CEO
Willis North America Inc.



PREVIOUS POSITION: New York-based president of Willis North America Inc.

LOOKING FORWARD TO: Leading Willis' largest business segment. Willis North America is an important part of (Willis Group Holdings P.L.C.). We represent 40% of the business. I am very excited to be at the helm.

GOALS FOR NEW POSITION: I would like to build on the momentum of our recent performance to continue to support and invest in our most important asset, and that's people.

INDUSTRY OUTLOOK: There will always be pressure on pricing. We are also seeing nontraditional sources of capacity entering the marketplace, which all translates into interesting options for insurance buyers. We also expect to see the increase in data usage in the industry.

WHAT I WOULD CHANGE: The perception that insurance has in the overall business environment. I continue to worry about the perception ... It's viewed as being not as interesting or as sexy as investment banking. I tend to disagree.

FIRST INDUSTRY JOB: I was a management trainee at Johnson & Higgins Inc.

WHAT SURPRISED ME: I didn't realize that insurance brokerage was an industry before I got here.

ADVICE: You work your entire career to build a personal brand and a reputation. In our business, it could be gone in an instant if you don't understand the importance of integrity and always striving to do the right thing.

OUTSIDE THE INDUSTRY, A DREAM JOB: I always fancied myself the center field man for the Atlanta Braves.

HOBBIES: My kids.

THING MOST PEOPLE DON'T KNOW ABOUT ME: My father was a career naval officer and he piloted the helicopter that plucked the Apollo 11 astronauts out of the Pacific. His name was Donald S. Jones.

ON A SATURDAY AFTERNOON: Spending time doing anything with my wife and our three amazing kids.

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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.

PUBLIC NOTICES

LEGAL NOTICE

**IN THE HIGH COURT OF JUSTICE
(CHANCERY DIVISION)
COMPANIES COURT NO 4356 OF 2013**
In the Matter of
**GUILDHALL INSURANCE COMPANY LIMITED and
UNIONAMERICA INSURANCE COMPANY LIMITED**
and
In the Matter of
THE FINANCIAL SERVICES AND MARKETS ACT 2000
NOTICE

NOTICE IS HEREBY GIVEN that on 20 June 2013 Guildhall Insurance Company Limited ("Guildhall") applied to the High Court of Justice for:

1. an Order under Part VII of the Financial Services and Markets Act 2000 (the "Act") sanctioning a scheme (the "Scheme") providing for the transfer to Unionamerica Insurance Company Limited ("Ua") of the entire business of Guildhall; and
2. an Order making ancillary provision in connection with the implementation of the Scheme under Section 112 of the Act. The proposed transfer will result in the entire business formerly carried on by Guildhall being carried on by Ua. The proposed transfer will secure the continuation of or against Ua of any legal proceedings by or against Guildhall that relate to rights and obligations in respect of the transferred business. All claims being dealt with before the transfer by Guildhall in relation to such business will follow the transfer to be dealt with by Ua. All such claims arising after the transfer will be dealt with by Ua.

The application is directed to be heard before the Companies Court Judge at 7 Rolls Buildings, Royal Courts of Justice, Fetter Lane, London, EC4A 1NL on 24 October 2013 and any person (including staff employed in the performance of Guildhall's business or Ua's business) who alleges that he or she would be adversely affected by the carrying out of the Scheme is entitled to object in writing or may appear at the time of that hearing in person or by Counsel. Any person who intends to make written objections or so to appear and any policyholder or reinsured of Guildhall or Ua who objects to the Scheme but does not intend to object in writing or so to appear, is requested to give not less than two clear days' prior notice in writing of such intention or objection, and the reasons therefor, to the solicitors named below.

Copies of a report on the terms of the Scheme prepared pursuant to Section 109 of the Act (the "Independent Expert's Report") and a statement setting out the terms of the Scheme and containing a summary of the Independent Expert's Report will be provided free of charge by the solicitors named below. These documents may also be accessed at the following web address: www.guildhall-unionamerica-transfer.co.uk.

DATED this 15th day of July 2013

Hogan Lovells International LLP
Atlantic House
Holborn Viaduct
London EC1A 2FG
Tel: +44(0) 20 7296 2000
Fax: +44(0) 20 7296 2001
Ref: C4/NC/TJG

Solicitors for Guildhall and Ua

LEGAL NOTICE

**To all persons or entities interested in the affairs of
AMERICAN MANUFACTURERS MUTUAL INSURANCE COMPANY**
Supreme Court of the State of New York, County of New York, Index No.: 400533/13
Notice is Hereby Given:

I. Benjamin M. Lawsky, Superintendent of Financial Services of the State of New York, has been appointed by an order ("Order"), of the Supreme Court of the State of New York, New York County ("Court"), filed June 19, 2013, as the ancillary receiver ("Ancillary Receiver") of American Manufacturers Mutual Insurance Company ("American Manufacturers") and, as such, has been: (i) authorized and directed to immediately take possession of American Manufacturers' property and recover such other assets of American Manufacturers that are located in the State of New York; (ii) vested with all powers and authority expressed or implied under New York Insurance Law ("Insurance Law") Article 74, in addition to the powers and authority set forth in the Order; and (iii) authorized to pay such claims against American Manufacturers, or its policyholders, that are covered by the New York Security Funds. The Ancillary Receiver has, pursuant to Insurance Law Article 74, appointed Michael J. Casey, Acting Special Deputy Superintendent ("Acting Special Deputy") as his agent to carry out his duties as Ancillary Receiver. The Acting Special Deputy carries out his duties through the New York Liquidation Bureau, 110 William Street, New York, New York 10038.

II. The Ancillary Receiver may deal with the property and business of American Manufacturers in its name or in the name of the Ancillary Receiver.

III. The officers, directors, shareholders, trustees, depositories, policyholders, agents, servants, attorneys, managers and employees of American Manufacturers and all other related persons are permanently enjoined and restrained from: (i) transacting American Manufacturers' business, except as authorized by the Ancillary Receiver; (ii) wasting or disposing of the property or assets of American Manufacturers that are located in the State of New York; (iii) interfering with the Ancillary Receiver in the possession, control or management of American Manufacturers' property or in the discharge of his duties.

IV. All persons are permanently enjoined and restrained from commencing any actions, lawsuits or proceedings against American Manufacturers, and all persons are permanently enjoined and restrained from commencing any actions, lawsuits or proceedings against the Superintendent as Ancillary Receiver or the New York Liquidation Bureau, its employees, attorneys or agents, with respect to this proceeding or in the discharge of their duties under Insurance Law Article 74.

V. All persons are permanently enjoined and restrained from obtaining preferences, judgments, attachments or other liens, or making any levy against American Manufacturers' property located in the State of New York or any part thereof.

VI. The parties to Julio Recciado, et al. v. BBR Contracting Corp., pending before the Honorable Joan M. Kenney, in Supreme Court, New York County, under index number 600653/06, are enjoined and restrained from proceeding with any court proceedings or other litigation related tasks or procedures, including but not limited to, conferences, trials, applications for judgment or proceedings on settlement or judgment, for a period of 90 days from the date of Entry of the Order.

VII. All parties to actions, lawsuits and special or other proceedings other than Julio Recciado, et al. v. BBR Contracting Corp., pending before the Honorable Joan M. Kenney, in Supreme Court, New York County, under index number 600653/06, in which American Manufacturers, its policyholders or insureds, are obligated to defend a party or to provide a defense of any matter against an insured pursuant to an insurance policy, bond, contract or otherwise, are enjoined and restrained from proceeding with any discovery, court proceedings or other litigation tasks or procedures, including, but not limited to, conferences, trials, applications for judgment or proceedings on settlement or judgment, for a period of 180 days from the date of entry of the Order.

VIII. All persons or entities having property located in the State of New York and/or information belonging or related to American Manufacturers, including, but not limited to, insurance policies, underwriting data, claims files (electronic or paper) and/or software programs owned by, belonging to or relating to American Manufacturers shall preserve such property and/or information and, immediately upon the Ancillary Receiver's request and direction assign, transfer, turn over and deliver such property and/or information to the Ancillary Receiver.

IX. Any bar date for the submission of claims that is established in the domiciliary liquidation proceeding shall also be effective in the ancillary receivership proceeding upon notice, as this Court shall, at the time of establishment of the bar date, determine to be proper and sufficient.

X. Immunity is extended to the Superintendent in his capacity as Ancillary Receiver of American Manufacturers and his successors in office and their agents and employees for any cause of action of any nature against them, individually or jointly, for any act or omission when acting in good faith, in accordance with the orders of this Court, or in the performance of their duties pursuant to Article 74.

XI. American Manufacturers' license to do business in the State of New York is hereby revoked.

XII. The Ancillary Receiver may at any time make further application to the Court for such further and different relief as he sees fit.

XIII. All communications relating to American Manufacturers and to the Ancillary Receivership Proceeding thereof should be addressed to: **New York Liquidation Bureau, 110 William Street, New York, New York 10038, Attention: Jeanne Pannullo-Anderson, JPannullo@nylib.org.**

MICHAEL J. CASEY
Acting Special Deputy Superintendent and Agent for the Superintendent as Ancillary Receiver of American Manufacturers Mutual Insurance Company

BENJAMIN M. LAWSKY
Superintendent of Financial Services of the State of New York as Ancillary Receiver of American Manufacturers Mutual Insurance Company

LEGAL NOTICE

To all persons or entities interested in the affairs of LUMBERMENS MUTUAL CASUALTY COMPANY
Supreme Court of the State of New York, County of New York, Index No.: 400534/13
Notice is Hereby Given:

I. Benjamin M. Lawsky, Superintendent of Financial Services of the State of New York, has been appointed by an order ("Order"), of the Supreme Court of the State of New York, New York County ("Court"), filed June 19, 2013, as the ancillary receiver ("Ancillary Receiver") of Lumbermens Mutual Casualty Company ("Lumbermens") and, as such, has been: (i) authorized and directed to immediately take possession of Lumbermens' property and recover such other assets of Lumbermens that are located in the State of New York; (ii) vested with all powers and authority expressed or implied under New York Insurance Law ("Insurance Law") Article 74, in addition to the powers and authority set forth in the Order; and (iii) authorized to pay such claims against Lumbermens, or its policyholders, that are covered by the New York Security Funds. The Ancillary Receiver has, pursuant to Insurance Law Article 74, appointed Michael J. Casey, Acting Special Deputy Superintendent ("Acting Special Deputy") as his agent to carry out his duties as Ancillary Receiver. The Acting Special Deputy carries out his duties through the New York Liquidation Bureau, 110 William Street, New York, New York 10038.

II. The Ancillary Receiver may deal with the property and business of Lumbermens in its name or in the name of the Ancillary Receiver.

III. The officers, directors, shareholders, trustees, depositories, policyholders, agents, servants, attorneys, managers and employees of Lumbermens and all other related persons are permanently enjoined and restrained from: (i) transacting Lumbermens' business, except as authorized by the Ancillary Receiver; (ii) wasting or disposing of the property or assets of Lumbermens that are located in the State of New York; (iii) interfering with the Ancillary Receiver in the possession, control or management of Lumbermens' property or in the discharge of his duties.

IV. All persons are permanently enjoined and restrained from commencing any actions, lawsuits or proceedings against Lumbermens, and all persons are permanently enjoined and restrained from commencing any actions, lawsuits or proceedings against the Superintendent as Ancillary Receiver or the New York Liquidation Bureau, its employees, attorneys or agents, with respect to this proceeding or in the discharge of their duties under Insurance Law Article 74.

V. All persons are permanently enjoined and restrained from obtaining preferences, judgments, attachments or other liens, or making any levy against Lumbermens' property located in the State of New York or any part thereof.

VI. The parties to Mt. McKinley Ins. Co., et al. v. Corning, Incorporated, et al., pending before the Honorable Eileen Bransten, in Supreme Court, New York County, under index number 602454/02, are enjoined and restrained from proceeding with any court proceedings or other litigation related tasks or procedures, including but not limited to, conferences, trials, applications for judgment or proceedings on settlement or judgment, for a period of 60 days from the date of Entry of the Order.

VII. The parties to the action titled, Kenneth Halvorsen v. Bayrent Construction Corp. et al., pending in Supreme Court, Suffolk County, under index number 08721/02, two additional third-party actions brought under index numbers, 23-0125 and 2737, and the fourth-party action brought under index number 2070232; are enjoined and restrained from proceeding with any court proceedings or other litigation related tasks or procedures, including but not limited to, conferences, trials, applications for judgment or proceedings on settlement or judgment, for a period of 60 days from the date of Entry of the Order.

VIII. All parties to actions, lawsuits and special or other proceedings other than Mt. McKinley Ins. Co., et al. v. Corning, Incorporated, et al., pending before the Honorable Eileen Bransten, in Supreme Court, New York County, under index number 602454/02 and the action titled, Kenneth Halvorsen v. Bayrent Construction Corp. et al., pending in Supreme Court, Suffolk County, under index number 08721/02, two additional third-party actions brought under index numbers, 23-0125 and 2737, and the fourth-party action brought under index number 2070232, in which Lumbermens, its policyholders or insureds, are obligated to defend a party or to provide a defense of any matter against an insured pursuant to an insurance policy, bond, contract or otherwise, are enjoined and restrained from proceeding with any discovery, court proceedings or other litigation tasks or procedures, including, but not limited to, conferences, trials, applications for judgment or proceedings on settlement or judgment, for a period of 180 days from the date of entry of the Order.

IX. All persons or entities having property located in the State of New York and/or information belonging or related to Lumbermens, including, but not limited to, insurance policies, underwriting data, claims files (electronic or paper) and/or software programs owned by, belonging to or relating to Lumbermens shall preserve such property and/or information and, immediately upon the Ancillary Receiver's request and direction assign, transfer, turn over and deliver such property and/or information to the Ancillary Receiver.

X. Any bar date for the submission of claims that is established in the domiciliary liquidation proceeding shall also be effective in the ancillary receivership proceeding upon notice, as this Court shall, at the time of establishment of the bar date, determine to be proper and sufficient.

XI. Immunity is extended to the Superintendent in his capacity as Ancillary Receiver of Lumbermens and his successors in office and their agents and employees for any cause of action of any nature against them, individually or jointly, for any act or omission when acting in good faith, in accordance with the orders of this Court, or in the performance of their duties pursuant to Article 74.

XII. Lumbermens' license to do business in the State of New York is hereby revoked.

XIII. The Ancillary Receiver may at any time make further application to the Court for such further and different relief as he sees fit.

XIV. All communications relating to Lumbermens and to the Ancillary Receivership Proceeding thereof should be addressed to: **New York Liquidation Bureau, 110 William Street, New York, New York 10038, Attention: Jeanne Pannullo-Anderson, JPannullo@nylib.org.**

MICHAEL J. CASEY
Acting Special Deputy Superintendent and Agent for the Superintendent as Ancillary Receiver of Lumbermens Mutual Insurance Company

BENJAMIN M. LAWSKY
Superintendent of Financial Services of the State of New York as Ancillary Receiver of Lumbermens Mutual Insurance Company

REQUEST FOR PROPOSALS

THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY REQUEST FOR PROPOSALS FOR PERFORMANCE OF EXPERT PROFESSIONAL INSURANCE SERVICES ON AN AS-NEEDED BASIS DURING 2013 AND 2014

The Port Authority of New York and New Jersey is seeking to identify firms interested in responding to a Request for Proposals (RFP) for the Performance of Expert Professional Insurance Services on an as-needed basis during 2013 and 2014.

RFP #34081 may be obtained online at <http://www.panynj.gov/business-opportunities/bid-proposal-advertisements.html?tabnum=6>. Addenda to the RFP, if any, will be posted at this site. Monitor the advertisement on the web site to ensure your awareness of any changes.

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

It is currently anticipated that proposals shall be due by **2:00 PM on July 29, 2013** or as otherwise indicated in the document. Proposals must have the RFP Number and full legal firm name clearly indicated on the outside package. **Send Proposal(s) to:** The Port Authority of NY & NJ, Attn: RFP Custodian, Procurement Department, 2 Montgomery Street, 3rd Floor, Jersey City, NJ 07302.

LEGAL NOTICE

UNITED STATES BANKRUPTCY COURT • SOUTHERN DISTRICT OF NEW YORK
**IN RE PETITION OF DAN YORAM SCHWARZMANN, AS ADMINISTRATOR OF
FOLKSAM INTERNATIONAL INSURANCE COMPANY (UK) LIMITED**
CASE NO. 02-B-14070 (SCC)

NOTICE OF HEARING OF MOTION SEEKING ENTRY OF PERMANENT INJUNCTION ORDER

Notice is hereby given that on or about May 8, 2013, the proposed scheme of arrangement (the "Scheme of Arrangement") between Folksam International Insurance Company (UK) Limited (the "Company") and its Scheme Creditors (as defined in the Scheme of Arrangement) was made available to all known creditors of the Company, a Proxy and Voting Form was mailed to all known Scheme Creditors as was a notice informing them that pursuant to an order of the High Court of Justice of England and Wales in London, England (the "High Court"), meetings were scheduled to be held in London on June 20, 2013, at which time a vote of the Scheme Creditors would be taken on resolutions approving the Scheme of Arrangement. At such meetings, the Scheme of Arrangement was approved by the Scheme Creditors. Thus, an order by the High Court sanctioning the Scheme of Arrangement will be sought, and if obtained, the Scheme of Arrangement is thereafter expected to become effective.

PLEASE TAKE FURTHER NOTICE that pursuant to an order of the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") dated June 24, 2013, a hearing will be held on August 6, 2013 at 10:00 a.m., or as soon thereafter as counsel can be heard, before the Honorable Shelley C. Chapman, United States Bankruptcy Judge, in Room 621 of the Bankruptcy Court, Alexander Hamilton Custom House, One Bowling Green, New York, New York 10004, to consider the Petitioner's motion (the "Motion") for entry of a permanent injunction and order pursuant to 11 U.S.C. § 304 (the "Proposed Order"):

1. Granting the Motion;
2. Providing that the Scheme of Arrangement shall be given full force and effect in the United States and be binding on and enforceable against all Scheme Creditors in the United States;
3. Permanently enjoining all persons and entities from taking any action in contravention of, or inconsistent with, the Scheme of Arrangement;
4. Permanently enjoining all persons and entities from: (a) seizing, repossessing, transferring, relinquishing or disposing of any property of the Company in the United States, or the proceeds thereof, to any person or entity other than the Scheme Administrators; (b) commencing or continuing any action or legal proceeding in connection with any claim arising out of a contract of insurance, reinsurance or retrocession entered into with the Company (including, without limitation, arbitration or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever), including by way of counterclaim, against the Company or any property in the United States that is involved in the foreign proceeding, or any proceeds thereof, or seeking discovery of any nature against the Company; (c) enforcing any judicial, quasi-judicial, administrative or regulatory judgment, assessment or order, or arbitration award against the Company and commencing or continuing any act or action or legal proceeding in connection with any claim (including, without limitation, arbitration or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) or any counterclaim to create, perfect or enforce any lien, attachment, garnishment, setoff or other claim against the Company or its property or any proceeds thereof, including, without limitation, rights under reinsurance or retrocession contracts; (d) drawing down any letter of credit established by, on behalf of or at the request of, the Company, in excess of amounts expressly authorized by the terms of the contract or other agreement pursuant to which such letter of credit has been established; (e) withdrawing from, setting off against, or otherwise applying property that is the subject of any trust or escrow agreement or similar arrangement in which the Company has an interest in excess of amounts expressly authorized by the terms of the contract and any related trust or other agreement pursuant to which such letter of credit, trust, escrow, or similar arrangement has been established;
5. Requiring all persons and entities in possession, custody or control of property of the Company in the United States, or the proceeds thereof, to turn over and account for such property or its proceeds to the Scheme Administrators;
6. Requiring all persons and entities that are beneficiaries of letters of credit established by, on behalf of or at the request of, the Company or parties to any trust, escrow or similar arrangement in which the Company has an interest, will be required to: (a) provide notice to the Scheme Administrators of any drawdown on any letter of credit established by, on behalf of or at the request of, the Company, or any withdrawal from, setoff against, or other application of property that is the subject of any trust or escrow agreement or similar arrangement in which the Company has an interest, together with information sufficient to permit the Scheme Administrators to assess the propriety of such drawdown, withdrawal, setoff or other application, including, without limitation, the date and amount of such drawdown, withdrawal, setoff or other application and a copy of any contract, related trust or other agreement pursuant to which any such drawdown, withdrawal, setoff, or other application was made, and provide such notice and other information contemporaneously therewith; and (b) turn over and account to the Scheme Administrators for all funds resulting from such drawdown, withdrawal, setoff, or other application in excess of amounts expressly authorized by the terms of the contract, any related trust or other agreement pursuant to which such letter of credit, trust, escrow or similar arrangement has been established;
7. Permanently enjoining all persons and entities from commencing or continuing any action or other legal proceeding (including, without limitation, arbitration, or any other judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) against the Company, the Administrator, or their respective directors, officers or agents, employees, representatives, financial advisors or attorneys (the "Pre-Scheme Parties"), or any of them, with respect to any claim or cause of action, in law or in equity, arising out of or relating to any action taken or omitted to be taken as of the effective date of the Scheme of Arrangement by any of the Pre-Scheme Parties in connection with the Company's administration, the section 304 proceeding, or in preparing, disseminating, applying for or implementing the Scheme of Arrangement or the Proposed Order; and
8. Permanently enjoining all persons and entities from commencing or continuing any action or other legal proceeding (including, without limitation, arbitration, or any other judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) against the Company, the Scheme Administrators, the Administrator, the members of the Creditors' Committee, or their respective directors, officers, agents, employees, representatives, financial advisors or attorneys (the "Scheme Parties"), or any of them, with respect to any claim or cause of action, in law or in equity, arising out of or relating to the construction or interpretation of the Scheme of Arrangement or any action taken or omitted to be taken by any of the Scheme Parties in connection with the Company's administration or the administration of the Scheme of Arrangement.

PLEASE TAKE FURTHER NOTICE that any and all objections and responses to the Motion shall be made in writing, shall conform to the Bankruptcy Rules and the Local Bankruptcy Rules for the Southern District of New York, shall set forth the name of the objecting party, the basis for the objection and the specific grounds therefore, and shall be filed with the Bankruptcy Court, One Bowling Green, New York, New York 10004, with a copy to the Chambers of the Honorable Shelley C. Chapman, United States Bankruptcy Judge, and served so as to be received by counsel to the Petitioner at the address set forth below (Attn: Francisco Vazquez, Esq.) on or before July 30, 2013 at 5:00 p.m. New York time.

A copy of the Scheme of Arrangement is available at <https://www.folksam.co.uk/> or upon written request to the undersigned counsel:

Chadbourne & Parke LLP • Attorneys for the Petitioner • 30 Rockefeller Plaza
New York, New York 10112 • (212) 408-5100 • Attn: Howard Seife, Esq. and Francisco Vazquez, Esq.

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contact Monique Murray
at 212-210-0129 for details

FERMA opens door to individuals, companies

The Federation of European Risk Management Associations has changed its bylaws to admit individual and corporate members who have an interest in risk management.

Previously, membership in the Brussels-based association was limited to national risk management groups in Europe.

To join FERMA, individual members must manage or oversee risk or insurance for their employer, while corporate members must have insurable interests in Europe and employ a risk or insurance manager, FERMA said.

“We know that individuals and companies who have an interest in managing risks in Europe would like to follow our activities more closely,” Pierre Sonigo, FERMA secretary general, said in a statement. “How many there will be, we do not yet know, but we expect to have applications from the United States, the Middle East and other parts of the world, including the small number of European countries which do not currently have a FERMA member association.”

QBE launches aviation grounding liability cover

QBE Insurance Group Ltd. has launched aviation grounding liability coverage.

The product offers up to \$125 million in coverage in addition to QBE’s original policy limit for grounding liability, the Sydney-based insurer said in a statement. It can be added to an underlying policy at any time, Graham Daldry, QBE’s portfolio manager for aerospace, said in the statement.

QBE’s aviation team developed the coverage in response to the aerospace industry’s concerns about the limited cover available for grounding liability, according to the statement. Grounding occurs when authorities remove a type of aircraft from service for safety reasons.

“Listening to the concerns expressed by a number of clients in past months, we are pleased to have responded rapidly and developed a cover that addresses their needs,” Paul Letherbarrow, the director of aviation at QBE, said in the statement.

AIR Worldwide model gauges flu pandemics

Catastrophe risk modeling firm AIR Worldwide Corp. has released its first model for pandemic flu.

The model, which includes more than 18,000 simulated events, estimates excess morbidity, mortality and insurance losses caused by pandemic influenza. Built on Boston-based AIR’s existing mortality modeling capabilities, the new model captures disease transmission dynamics along with short- and long-range population movements, the company said.

“Pandemics are low-frequency events with a potentially high level of severity and impact to insurers and reinsurers in the areas of life, health and disability,” Nita Madhav, senior scientist, said in a statement. “This is the first AIR model to



Ace to remove basis of contracts clauses in U.K.

* Ace Ltd. will remove the basis of contracts clauses for its U.K. insurance policy wordings, the insurer announced.

Ace’s decision comes after a full review with feedback from Airmic Ltd. — the U.K. risk management association — and from Ace’s clients, according to a statement from the insurer.

Basis clauses were designed to guarantee that all information provided to insurers was factually correct, but Ace clients are becoming increasingly concerned that incorrect information could invalidate parts of the policies, the insurer said in the statement.

The policy change will not apply to marine policies because they operate under the Marine Insurance Act of 1906’s Utmost Good Faith principle, the insurer said in the statement.

Ace said that it believes removing the basis clause will help relieve client concerns and provide clients with more transparent service.

“Ace invests a great deal of time in working with brokers to understand clients’ individual needs, and we have seen a steady rise in requests for the removal of basis clauses, which we have been happy to accommodate,” David Robinson, the regional president for the U.K. and Ireland at Ace, said in the statement.

“The next logical step was to stop applying basis of contract clauses for any new or renewing policies going forward. This is an important initiative for us and one that is a direct result of feedback from our customers,” Mr. Robinson said in the statement.

estimate losses due to infectious disease risk, and we’re confident that the pandemic flu model will provide clients with a more robust understanding of the risk and advanced capabilities for managing it.”

The effort also taps scientific research to model ignition parameters, pathogen characteristics and seasonality, while accounting for common mitigation efforts deployed during a pandemic, such as vaccines, antiviral medications and travel restrictions, the company said.

“Insurers striving to manage pandemic risk need to know that a modern-day

pandemic on par with the Spanish flu of 1918 could occur,” Ms. Madhav said. “Probabilistic modeling accounts for medical advancements and other societal changes and enables a more complete understanding and management of pandemic risk than relying on the historical record alone.”

Ultraswayed launches benefits compliance tool

Ultraswayed L.L.C., a Bentonville, Ark.-based benefits communications and consulting services company, has launched an end-to-end benefits compliance solution, UltraCompliant.

The service is a response to the increase in compliance-related responsibilities of public, private, governmental and nonprofit entities because of the health care reform law, the company said in a statement.

UltraCompliant was designed to help clients easily comply with benefits regulations, Julie Horner, Ultraswayed founder and CEO, said in the statement.

“By developing, printing, mailing and tracking the delivery of benefits compliance communications, we’ve streamlined the process to make sure we provide a hassle-free, end-to-end solution,” Ms. Horner said.

The service will use an automated setup process. Notices will be customized once clients provide their plan documents. The distribution will occur three times a year and will include the new notice of exchange required under the Patient Protection and Affordable Care Act.

“This automated approach will appeal to companies who want more than a legal-sounding document but don’t want to pay the high price for a custom summary plan description,” Ms. Horner said.

Crawford launches specialty claims service

Crawford & Co., an Atlanta-based provider of claims management services, has established a global claims service offering for the specialty insurance market.

Known as Crawford Specialty Markets, the service is focused on serving Lloyd’s of London and the international claims adjusting market and will address complex claims in the energy, marine, aviation and mining sectors, Crawford said in a statement.

“Specialty Markets was created for several strategic reasons and, most importantly, to better serve the needs of clients who require highly technical claim handling including the Lloyd’s of London market and other global entities,” said Crawford President and CEO Jeffrey T. Bowman in the statement.

The group is managed in Europe, the Middle East, Africa and Asia-Pacific by specialty markets CEO John Jenner; and in the Americas by John Sharoun, newly appointed CEO of specialty markets, Americas.

Mr. Sharoun formerly was president and CEO of Crawford & Co. (Canada) Inc.

DEALS & MOVES

Canopy Claims Management expands footprint, names CEO

Paul J. Posey Jr., previously chief operating officer of Sedgwick Claims Management Services Inc., has been named CEO of Canopy Claims Management L.L.C.

Mr. Posey is the first CEO of Canopy Claims Management, which was formed in 2012 to assist policyholders dealing with property insurance claims in the face of “an increasing incidence of particularly cataclysmic events,” Mr. Posey said.

The company provides property claims management services to customers ranging from individual homeowners to commercial property owners facing complex property claims, representing policyholders exclusively.

“We are seeing that corporate risk managers often are having to do a lot more with a lot less,” Mr. Posey said. “So we feel that having these resources available just in time, when needed, will be a great asset for those risk managers.”

Canopy Claims Management grew rapidly after Superstorm Sandy, Mr. Posey said, and now, with a combination of its employed workforce and a network of contract employees, the company is in a position to assist customers across the country, including working with clients in Oklahoma and the Midwest that sustained losses due to recent tornadoes and flooding.

In addition to its Orlando, Fla., headquarters, Canopy Claims Management has two offices in New York and another in New Jersey. Ultimately, the company will have an extensive office presence across the country, Mr. Posey said.

Tysers acquires majority stake in specialist construction broker

Tyser & Co. Ltd. has acquired a majority stake in London-based specialist construction broker MLW & Associates Ltd.

London-based Tysers made the acquisition through holding company Hawkes Bay Holdings Ltd. MLW & Associates provides specialist U.S. construction liability insurance in the Lloyd’s market and other London, European and Bermudian insurance markets.

Mark Watson, managing director of MLW & Associates, and his colleagues will join Tysers immediately, according to the statement.

“This acquisition provides fresh impetus to our expansion into quality niche business lines within the London market, which we are striving to build,” Chris Elliott, Tysers CEO, said in the statement.

Guy Carpenter acquires disability reinsurance consultant

Guy Carpenter & Co. L.L.C., the reinsurance brokerage unit of Marsh & McLennan Cos. Inc., said it has purchased South Portland, Maine-based Smith Group, a disability reinsurance risk manager and consultant.

Terms of the deal were not disclosed, and Smith Group operations will remain in South Portland.

“As our life, accident and health insurance clients continue to seek ways to grow profitably, the addition of Smith’s comprehensive offering of reinsurance products and services encompassing all aspects of long-term disability insurance business enhances our ability to deliver highly differentiated solutions to meet these clients’ unique needs,” Andrew Marcell, CEO of Guy Carpenter’s U.S. operations, said in a statement.

REPUTATION

Continued from page 4

in Chicago. "It's not just looking at the return on investment."

When moving into a new market, stakeholders who could affect the company's reputation could include customers, employees or regulators.

"When you move to a new geography, you need to understand the expectations of those different parties," said Nir Kossovsky, CEO and director of Steel City Re L.L.C., a Pittsburgh-based broker/adviser specializing in corporate reputation measurement and risk transfer.

For example, he said, a food producer moving into European markets must consider that many Europeans are sensitive to genetically modified foods.

"Then there are the implicit social expectations," Mr. Kossovsky said, such as religious, cultural or historical issues. "There's still a lot of places in the world German companies can't do certain things because of certain memories of what happened in the Second World War."

Companies moving into new product lines must address similar considerations. "It's pretty much the same mix," Mr. Kossovsky said. In the case of entering new

BANGLADESH FACTORY SAFETY

U.S. and European retailers approved plans to improve garment worker safety in Bangladesh, a move that also should help bolster the retailers' brand reputations.

17: Retailers and apparel companies that have signed the safety pacts

\$42 MILLION: Money pledged by retailers to pay for the safety efforts

500: Number of Bangladeshi garment factories that will be inspected

4 MILLION: Number of people working in Bangladesh's apparel sector

Source: Reuters

markets by product line or geography, companies must understand the expectations of stakeholders and prepare to meet them or respond if those expectations are not met, he said.

"When a company is now engaged with these new stakeholders, either by product or geography, it has to make sure that at the highest level of the company there's an understanding of what the risks might be," Mr. Kossovsky said.

As they consider stakeholders in new geographic markets, companies also must consider the expectations of stakeholders in their

home market, said Larry Walsh, vice chairman at the Alexandria, Va.-based Hawthorn Group L.C. U.S. and Western European companies can run into issues at home even though they comply with local rules, regulations and wage rates in foreign markets, he said.

"Because the rules and regulations (in foreign markets) are very different — very often more lax than U.S. laws or Western European laws — companies can live up to that and still get in trouble," he said. "Their reputational issues, things that they do elsewhere, are going to be judged by the standards of their home country."

With today's instantaneous global communications, "I think that's really the reputational risk, that you can't manufacture in Bangladesh, distribute in Bulgaria and bring the money back to Cleveland and not expect that anybody back in Cleveland or the U.S. is going to know what's going on in Bangladesh or Bulgaria," Mr. Walsh said.

The Foreign Corrupt Practices Act poses another potential reputational exposure for companies moving into new geographical markets, Mr. Anderson said. While behavior such as gifts to local officials may be considered "business as usual" in the new markets, it could subject companies to legal and regulatory scruti-

ny in the U.S., along with the potential for reputational damage.

Mr. Anderson said that as companies expand into new markets, techniques like enterprise risk management can be used to assess potential financial exposures of those ventures and the potential effect of various activities on companies' reputations.

While the speed at which information can travel through social media can enhance reputation risk, social media can be a valuable tool in managing reputation risks, said Shannon M. Wilkinson, CEO of Reputation Communications in New York. Social media audits can provide important information before a company enters a market, she said.

"Social media provides a barometer into all those kinds of things," she said. "It can be done quickly. It can be done cheaply."

Such social media research can provide information on perceptions of products, companies or marketing campaigns, as well as an opportunity to learn from competitors' experiences, Ms. Wilkinson said.

"They can go to Twitter and they can see what their peer group's doing," she said. "It's a very good way of observing best and worst practices."

It also can provide information on whether signing a particular

celebrity spokesperson might be a big reputation risk mistake.

"He might be a face for a different kind of product, but not in this area," Ms. Wilkinson said. "All of this is researchable and it's not so much about making a judgment; it's about determining what is the most appropriate affiliation for your company or your product launch."

ADVERTISER

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BUSINESS INSURANCE

Black lung cases rising again

Early-stage pneumoconiosis, commonly called black lung disease, can be asymptomatic, but advanced cases often lead to disability and premature death, according to the National Institute for Occupational Safety and Health.

From 1998 through 2007, coal workers' pneumoconiosis played a role, among other health factors, in 8,111 deaths, according to NIOSH statistics. In about 40% of those cases,

black lung initiated a string of health events leading directly to the death.

In 1998, there were 1,103 coal worker deaths to which pneumoconiosis contributed, according to NIOSH. That number dropped annually to 525 in 2007. But NIOSH also has reported that the number of black lung cases has begun to increase again, particularly among younger miners in the Appalachia region.

By Roberto Cenicerros

not does not violate Fifth Amendment rights.

The ruling is significant because other appeals courts overseeing states where coal mining is prevalent have ruled similarly, said Abigail P. van Alstyne, a partner at Quinn, Connor, Weaver, Davies & Rouco L.L.P. in Birmingham, Ala.

The ruling in *U.S. Steel* said the Philadelphia-based 3rd U.S. Circuit Court of Appeals and the Richmond, Va.-based 4th U.S. Circuit Court of Appeals also have ruled in favor of claimants in similar cases.

However, the Cincinnati-based 6th Circuit "concluded (somewhat summarily) that surviving spouses still must prove that the miner died of pneumoconiosis," the 11th Circuit's ruling said.

U.S. Steel is now weighing whether to seek a rehearing before an en banc panel of the 11th Circuit, said Mr. Clement, who represents U.S. Steel.

The 1972 Black Lung Benefits Act instituted the 15-year presumption for coal miners. In 1978, Congress changed the law so that survivors did not have to file a new claim or revalidate an existing one to receive survivor benefits.

But in 1981, Congress removed the 15-year presumption and required survivors to file new claims and prove the miner died from pneumoconiosis.

Aside from overriding the 1981 changes, the 2010 health care reform law's reinstatement of black lung benefit rights also applied them retroactively to claims filed after Jan. 1, 2005, and still pending on or after March 23, 2010.

Neither of the recent appeals courts' decisions was surprising because the health care reform law intended to make the awarding of benefits easier, said Michelle C. Landers, executive vice president and general counsel for Kentucky Employers' Mutual Insurance in Lexington.

"Those amendments were out there to add another (potential) for the courts to award benefits and that is what happened," Ms. Landers said.

disabling pulmonary condition, even if I had filed a claim before and it had been rejected, (I would) think very seriously about going back and filing another claim," Mr. Dunham said.

On the same day as the 7th Circuit ruling, the Atlanta-based 11th U.S. Circuit Court of Appeals upheld the constitutionality of a change in PPACA that eliminated the need for surviving dependents to prove that a miner died due to pneumoconiosis to continue receiving black lung benefits.

In *U.S. Steel Mining Co. L.L.C. v. Director, OWCP et al.*, the company argued that the reform law's retroactive easing of black lung benefit requirements violated the Fifth Amendment of the U.S. Constitution.

However, the 11th Circuit ruled unanimously that Congress made a rational, legislative choice to improve survivors' opportunity to obtain benefits and that retroactive application does

BLACK LUNG

Continued from page 3

the health care reform law.

The ruling *Consolidation Coal Co. v. Director, Office of Workers' Compensation Programs, United States Department of Labor*, which upheld the 15-year presumption, involved a coal miner and smoker whose claims previously were denied.

"The problem we will have (now) is that more claims will be decided in favor of miners where the condition on which they base entitlement may well not have been caused by exposure to dust in the mines," said Neil Richard Clement, a partner at Richardson-Clement P.C. in Birmingham, Ala.

The ruling could lead to more claims, agreed Darrell Dunham, a black lung litigation expert at Darrell Dunham & Associates in Carbondale, Ill.

"If I were a coal miner that had a



HEAR INTERVIEW

Access the *Business Insurance* tablet edition to hear Michelle Landers of Kentucky Employers' Mutual Insurance discuss legal provisions in the health care reform law pertaining to workers comp benefits and black lung disease.

DOMA

Continued from page 3

Louisiana — who claimed they had been consistently harassed on the basis of their romantic partners' gender. Experts said, though, that both cases were decided by EEOC staff and not the full panel of commissioners, meaning they do not set a precedent for future cases.

To date, federal agencies including the U.S. Departments of Justice and Labor, the Internal Revenue Service and EEOC have yet to issue new guidance on the application of private-sector employers' compliance obligations, under a range of laws governing employment practices and benefit plans as a result of the DOMA ruling.

"Obviously, it's too soon to say for sure what exactly employers need to do and when they need to do it," said Steve Wojcik, vice president of public policy at the Washington-based National Business Group on Health.

A significant hurdle for regulators drafting that guidance, attorneys said, will be the remaining provisions under Section 2 of DOMA, which permit states to ignore each other's marriage and employment nondiscrimination laws.

To date, 13 states have legalized same-sex marriage, and 21 states have passed some form of non-discrimination law protecting gay and lesbian workers from sexual-orientation bias (see box).

For multistate employers, particularly those with high volumes of employees living and working in states with opposing nondiscrimination statutes, the uneven legal protections for gay and lesbian workers could amount to an administrative quagmire for human resource managers.

"The practical question for employers becomes one of whether they're really going to say they will have one set of employment and HR policies in certain states, and another set for the remaining states," said Shanti Atkins, the San Francisco-based

STATE LAWS

States that have passed laws to prohibit workplace discrimination based on sexual orientation or that permit same-sex marriages:

NONDISCRIMINATION LAWS

California	(1992, 2003)*
Colorado	(2007)
Connecticut	(1991, 2011)*
Delaware	(2009, 2013)*
District of Columbia	(1977, 2006)*
Hawaii	(2011)
Illinois	(2006)
Iowa	(2007)
Maryland	(2001)
Massachusetts	(1989, 2012)*
Maine	(2005)
Minnesota	(1993)
New Hampshire	(1998)
New Jersey	(1992, 2007)*
New Mexico	(2003)
New York	(2003)
Nevada	(1999, 2011)*
Oregon	(2008)
Rhode Island	(1995, 2001)*
Vermont	(1991, 2007)*
Washington	(2006)
Wisconsin	(1982)

SAME-SEX MARRIAGE

California	(2013)
Connecticut	(2008)
Delaware	(2013)
District of Columbia	(2010)
Iowa	(2009)
Maine	(2012)
Maryland	(2013)
Massachusetts	(2004)
Minnesota	(2013)**
New Hampshire	(2010)
New York	(2011)
Rhode Island	(2013)**
Vermont	(2009)
Washington	(2012)

*Date first enacted, re-enacted.

**Effective Aug. 1, 2013.

Source: Human Rights Campaign.

president and chief strategy officer at compliance consultant Navex Global Inc. "From both a practical and a corporate culture perspective, that's a no-win situation."

SANCTIONS

Continued from page 3

training about sanctions," Mr. Etherington said. "You may also want to put in place procedures that kick transactions that involve Iran or Iranian nationals over to somebody in compliance for additional review."

Documentation is key for reinsurers. "Having a policy is not enough," Mr. Etherington said. "You have to establish that it has been implemented and complied with."

Mike Zolandz, Washington-based partner in the public policy and regulation practice for law firm Dentons U.S. L.L.P., said many reinsurers began working on the sanctions-related issues

before the new U.S. law took effect.

"There has been substantial compliance efforts under way for some time now to try to improve underwriting transparency, manage internal workflows and get better access to information earlier to meet the obligations of the new law," Mr. Zolandz said.

Another consequence of the new law and New York's questions are rekindling debate about the shifting role of state and federal insurance regulators, with some reinsurance industry executives suggesting that New York state officials encroached on the purview of the U.S. Department of the Treasury's Office of Foreign Assets Control, which monitors sanctions and advises reinsurers to use dedicated sanction exclusion clauses in the guidance it provides on its website.

IRAN SANCTIONS

Major sanctions imposed by the U.S. government on Iran for its support of international terrorism

1987: Presidential executive order imposes an import embargo on Iranian-origin goods and services.

1995: Executive order bars U.S. involvement with petroleum development in Iran.

1997: Executive order prohibits virtually all trade and investment activities with Iran by all "U.S. persons," wherever located.

2008: Office of Foreign Assets Control revokes U.S. depository institutions' authorization for "U-turn" transfers involving Iran.

2010: OFAC revokes authorization to import into the U.S. or deal in certain foods and carpets originating in Iran.

2013: Iran Freedom and Counter-Proliferation Act bars providing underwriting services, insurance, reinsurance for Iran's energy, shipping and shipbuilding sectors.

Source: U.S. Treasury Department's Office of Foreign Assets Control



New York Superintendent of Financial Services Benjamin Lawsky can argue that because the sanctions could theoretically hamper a reinsurer's ability to pay an insurer and thereby harm poli-

cyholders, the extra scrutiny is justified, Mr. Etherington said.

"There has been a lot of angst among the reinsurers that got letters, but I don't think that's it's completely outside the pale for the

superintendent, even though he's not a federal regulator, to do this," Mr. Etherington said. "He does have a legitimate basis for asking for information due to the concern that reinsurers ... may find themselves subject to sanctions."

"It's a continuation of New York's Department of Financial Services being a very vigilant regulator," said Howard Mills, New York-based director and chief adviser of the insurance industry group at Deloitte L.L.P. and former superintendent of the New York State Insurance Department. Prudential regulation may be an area of inquiry for the new Federal Insurance Office, he said.

"This might be something that FIO would look at," Mr. Mills said. "This is evolving and we don't know how it will wind up yet."

SOLVENCY

Continued from page 4

need to be finalized, companies still can prepare for areas of the rules that likely will not change, such as the Pillar II requirements on risk management and governance, industry sources say.

And there is scope for Solvency II to be implemented in stages, they said.

In a speech to insurers last week, Andrew Bailey, CEO of the Prudential Regulation Authority, the U.K. insurance regulator, said he hopes there might be agreement on the rules by the end of the year. But he described the official implementation date of Jan. 1, 2014, as “unrealistic.”

He said the PRA was working toward a Dec. 31, 2015, implementation deadline and noted that “during that period, we are allowing firms to put to use the significant investment in Solvency II internal models to meet the current regulatory requirements” under the PRA’s individual capital adequacy standards, which are known as ICAS Plus.

Mr. Bailey added that the PRA likely would continue to make early adjustments to its regulatory regime to incorporate elements of Solvency II such as the Own Risk and Solvency Assessment, or ORSA, into the ICAS Plus rules. “This will mean that U.K. insurers

are better prepared for the introduction of Solvency II,” he told delegates at the Association of British Insurers’ biennial conference

Experts say 2016 is a realistic start date for Solvency II. But regulators may move to introduce some parts of the rules on a transitional basis, they say.

The big concern about the timing of Solvency II is the fact that there are European Parliament elections next year, and that “could mean there’s almost bound to be a further delay to the process,” said Rob Jones, a managing director at Standard & Poor’s Corp. in London.

He said the industry’s response on the issue of long-term guarantee assessments means that “the baton has passed back to the politicians.”

He said he would expect the insurance industry to keep the pressure on regulators to remove areas of volatility under the proposed rules and maintain the momentum toward introduction of Solvency II.

The European Insurance and Occupational Pensions Authority has asked that national regulators report on their progress toward implementing Solvency II in 2015, said Nick Dexter, actuarial life executive adviser at KPMG L.L.P. in London.

“It is clear that EIOPA wants to keep the momentum up,” he said, adding that this means some national regulators will wish to report on progress earlier than that in order to get a sense of how

prepared companies are for the upcoming rules.

Companies should “walk the talk” on Solvency II, Mr. Dexter said.

Good for business

Many have argued that Solvency II should be good for business, and the fact that its full implementation may be delayed should not stop them from incorporating elements such as the Pillar II risk management requirements into their business models, he said.

Companies are aware that Solvency II will happen even if it is delayed and that they should be ready, said Marc Beckers, head of analytics for Aon Benfield in the Europe, Middle East and Africa region. “Whether it is 2016, 2017 — it will come,” he said.

The need to understand risks as envisioned by the Pillar II demands is the most important element of the proposed rules and one for which companies must be prepared, he noted.

Clara Hughes, a senior director at Fitch Ratings Ltd. in London, said Fitch believes there is unlikely to be full implementation of Solvency II before 2016.

“We are pretty sure there will be some partial implementation,” she said. For example, the ORSA requirement is likely to be implemented by national regulators such as the United Kingdom’s PRA, she said.

ASSE

Continued from page 4

All insurers and brokers have strengths and weaknesses in relation to industry knowledge, Mr. Lassila said, and companies should seek to do business with those that have a strong understanding of their firm’s business environment and operations.

Mr. Lassila was one of several experts addressing safety professionals last month during the American Society of Safety Engineers’ Safety 2013 conference in Las Vegas.

In another conference session, a Liberty Mutual Group Inc. executive said slips, trips and falls are one of the leading causes of workplace injuries, and that safety professionals can work to prevent such accidents.

Falls on the same level — where workers slip and fall on the surface on which they’re standing — represented \$8.61 billion in 2010 workers comp costs, or 16.9% of the total workers comp cost burden, said Wayne Maynard, Hopkinton, Mass.-based manager of technical services and product development for Liberty Mutual’s loss control advisory services unit. The data is based on Liberty Mutual’s 2012 Workplace Safety Index.

Bodily reaction injuries — which include injuries caused by slipping or tripping without falling — rep-

resented \$5.78 billion of comp costs in 2010, or 11.4% of the overall burden, according to Liberty Mutual data. Falls to a lower level represented \$5.12 billion, or 10% of comp costs in 2010.

Such costs are rising, according to Liberty Mutual data. Falls on the same level increased 42.3% from 1998 to 2010, while bodily reaction injuries increased 17.6% during that time period, said Mr. Maynard, who attributed the increase in part to an aging workforce.

“What we’re trying to do is get people thinking up front about the design process to minimize these risks and exposures.”

Wayne Maynard,
Liberty Mutual Group Inc.



Mr. Maynard said safety professionals can help mitigate such injuries by pushing for ergonomic designs in their workplaces. That includes adding slip-resistant flooring, eliminating raised surfaces that could cause tripping, installing handrails on stairs, and training employees to immediately clean up spills that could create slippery floors.

“What we’re trying to do is get people thinking up front about the design process to minimize these risks and exposures,” Mr. Maynard said.

Another presenter at ASSE’s conference said wellness will play a crucial role in reducing workers comp exposure for employers.

Employers should perform job skill analyses that identify the necessary functions of every job, conduct post-job-offer skill testing to see if employees need accommodations to perform identified job skills and conduct employee interventions for health risks such as smoking and obesity, said Matthew Condon, CEO of Overland Park, Kan.-based Arc Physical Therapy.

Wellness should be viewed as a preventive measure that can reduce workers comp costs, rather than as a reactive effort once employees are already experiencing work-related injuries and illnesses, Mr. Condon said.

“Wellness is an integral part of how you hire on board new employees,” he said. “Wellness is an integral part of what medical providers you partner with and why. Wellness is a major part of what comprehensive and preventive support you provide” to employees.

About 4,300 people attended ASSE’s 2013 conference in Las Vegas. Next year’s conference is set for June 8-11, 2014, in Orlando, Fla.

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DERAILMENT

Continued from page 1

along with the U.S. crude oil production boom.

Aside from at least two dozen confirmed dead as of Friday, more than 30 buildings in Lac-Mégantic were destroyed and about 1,000 people were forced to evacuate, after the train cars derailed and subsequently some of the cars exploded. A criminal investigation was underway last week, as the search for some two dozen missing people continued. The disaster was Canada's worst railway catastrophe in about 150 years, according to news reports.

Dublin-based XL Group P.L.C. is the lead insurer for the Hermon, Maine-based rail company Montreal, Maine & Atlantic Railway Corp., sources said. "We are on the scene working closely with the company and authorities and our thoughts and prayers are with the community of Lac-Mégantic," XL officials said in a statement last week.

Edward Burkhardt, chairman of the Montreal, Maine & Atlantic, and president and CEO of its parent company, Rosemont, Ill.-based Rail World Inc., reportedly said the train engineer, who was suspended without pay, may have been at fault for not applying all 11 hand brakes on the train.

The train was carrying crude oil from North Dakota to a refinery in Saint John, New Brunswick.

Anthony Swift, an attorney with the Washington-based Natural Resources Defense Council, said the reason for the increased use of rail to transport oil is that the Bakken oil deposits of North Dakota and southern Alberta are not traditionally served by pipelines.

Experts also say transporting crude oil via rail could increase further if President Barack Obama decides against the proposed Keystone XL project, a 1,179-mile crude oil pipeline that would run from Hardisty, Alberta, to Steele City, Neb.

Meanwhile, lawsuits are expected in the aftermath of the rail disaster. Jonathan Dryer, a partner with law firm Wilson, Elser, Moskowitz & Dicker L.L.P. in Philadelphia, said in addition to the railway, possible defendants include Miami-based World Fuel Inc., whose oil the train reportedly was carrying. A World Fuel spokesman could not be reached.

Manufacturers of the tankers involved in the explosion also could be defendants, Mr. Dryer said. While tankers made since 2011 have been built to higher industry specifications, U.S. regulators have not adopted those standards. "They're negotiating retrofits for the older cars, but that has not been made mandatory yet," he said.

Keith Stewart, climate and energy campaign coordinator for Toronto-based Greenpeace Canada, said one concern is that about 70% of the tanker fleet are older DOT-111 tank cars that rupture easily when there is a derailment. Older tankers "shouldn't be allowed to carry petroleum products," he said.

But James Beardsley, Washington-based managing director and global rail practice leader for Marsh Inc., said the railway cars being used have been accepted and certified under existing rules by the Federal Railroad Administration.

"I think the ongoing risk assessment of hazardous materials will be heightened following what happened," but there will be no significant change in the insurance market, said Daniel Bancroft, New York-based senior vice president and transportation practice leader for Willis North America Inc. "The expertise that exists in the railroad underwriting community is such that I don't see them changing their direction."

Many rail underwriters, often with 20 to 25 years of experience, have worked with the same companies their entire careers. "That continuity and that knowledge and those relationships, I think, are going to weigh more heavily than a single catastrophic event," Mr. Bancroft said.

While there will be some pressure on rates, particularly on railway companies involved with the Quebec rail disaster, it will not substantially affect pricing "in a dramatic way," Mr. Beardsley said.

However, Stefan Schmitt, Munich-based corporate insurance partner and head of section North America liability at Munich Re Risk Solutions, said, "It will be a very large loss for the industry for the smaller" railway firms whose coverage limits "will presumably be less."

Mr. Schmitt said the larger railroads "are experienced in that field, analyze what kind of (hazardous materials) is on the tracks and they have considered this."

PPACA

Continued from page 1

decided, the generosity of the coverage they will provide.

"This is a rare opportunity where an employer can make a smart and thoughtful decision," said John McGowan, a partner with the law firm Baker & Hostetler L.L.P. in Cleveland.

Some employers, especially those that already have told affected employees that they will expand coverage, are less likely to reverse course and hold off that expansion for another year.

"If you already have figured out your strategy, you probably will implement it," said J.D. Piro, a senior vice president with Aon Hewitt in Norwalk, Conn.

For example, Cumberland Gulf Group in June announced that, effective Oct. 1, employees working as few as 32 hours a week will be eligible for group coverage, down from the current 40-hour-a-week requirement.

Employees working 30 or 31 hours a week will be given the option of working 32 hours to become eligible for coverage in the company's self-insured plans. For employees who work less than 30 hours, the company will assist them in finding coverage through public insurance exchanges.

Through that expansion of coverage, which will affect about 1,500 employees, Cumberland Gulf, a \$15 billion Framingham, Mass.-based company that owns convenience stores and the Gulf Oil brand, will be shielded from the health care reform law's \$2,000 per-employee penalty, which is triggered when coverage is not offered to full-time employees — those working at least 30 hours per week.

That expansion of coverage will remain on track, said John McMahon, Cumberland Gulf's senior vice president and chief of human resources.

"We are going to continue on the path we have laid out. Our strategy is to create a great place to work and to be an employer of choice," Mr. McMahon said, adding that the company is getting very positive feedback from current and prospective employees.

Other employers who also have announced plans to expand coverage eligibility, though, may find themselves between a "rock and a hard place," said Ed Fensholt, senior vice president and director of compliance services for Lockton Benefit Group in Kansas City, Mo.

Those employers "will have to weigh the cost savings by pulling the plug for a year with the confusion and damage to employee rela-

tions that would occur," Mr. Fensholt said.

Employers that do not offer coverage to all eligible employees and have not made final decisions on whether they will expand coverage also face issues.

For example, if they wait until 2015 to offer coverage, they could be at a disadvantage if their competitors decide to extend coverage next year, said Steve Wojcik, vice president of public policy at the National Business Group on Health in Washington.

There are other issues for employers not currently offering coverage to consider. By not offering coverage, their lower- and middle-income employees will be eligible for premium subsidies to purchase policies from insurers offering coverage in public insurance exchanges.

Then, in 2015, when the coverage mandate kicks in, the employer could offer a plan that is just rich enough to pass the law's minimum value test, denying employees the government subsidies for exchange coverage they received in 2014.

"Then, you have an employee relations issue," Mr. Fensholt said.

That issue will be less likely to develop, experts say, if the employees received employer coverage beginning in 2014 and never enrolled in exchanges.

"Some employees will be disappointed. It could be an awkward situation," said Frank McArdle, an independent benefits consultant in Bethesda, Md.

Still, there are plenty of employers not providing coverage who will decide against offering coverage in 2014.

Employers "may not want to move forward until the dust settles. Some are wondering if the regulations and requirements will actually change during this interim period," said Michael Thompson, a principal with PricewaterhouseCoopers L.L.P. in New York.

In addition, by waiting, employers will have a better sense of whether Congress will act in the coming months to change the employer mandate, experts say.

For example, prior to the Treasury Department delay, bills were introduced that would change the definition of a full-time employee to those working 40 hours a week — compared with the law's 30-hour threshold — while other measures would exempt more small employers from the requirement to either offer coverage or pay the \$2,000 per-employee fine.

While it is difficult to imagine Congress reaching a bipartisan consensus, "anything is possible," said Rich Stover, a principal with Buck Consultants L.L.C. in Secaucus, N.J.

Employers "may not want to move forward until the dust settles. Some are wondering if the regulations and requirements will actually change during this interim period."

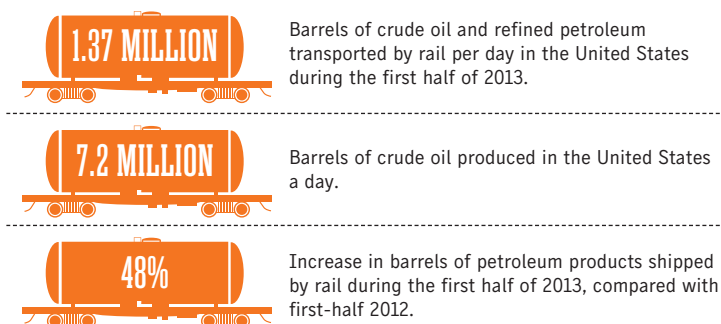
Michael Thompson, PricewaterhouseCoopers L.L.P.

HEALTH REFORM DELAYS & AMENDMENTS

The Department of the Treasury's decision to delay to 2015 health care reform law provisions requiring employers to submit plan enrollment information and impose a stiff fine on most employers that do not offer coverage, is the latest in a series of changes made by Congress and regulators since the reform legislation was passed in 2010. Other changes and delays include:

YEAR	CHANGE
2010	Regulators offer waivers to sponsors of mini-med plans, exempting them until 2014 from health care reform rules that first restrict and then eliminate annual dollar limits of essential benefits.
2010	The Internal Revenue Service delays by one year until 2012 the requirement for larger employers to report the cost of health coverage on employees' W-2 wage and income statements issued in 2013.
2011	The Department of Health and Human Services indefinitely postpones establishing a voluntary federal long-term care program.
2011	Congress repeals a provision in which lower- and middle-income employees would have been entitled to employer-paid vouchers to purchase insurance through public exchanges if premiums charged by their employers for coverage exceeded a certain percentage of their income.
2011	Congress repeals a provision requiring employers doing more than \$600 of business with a corporate vendor to furnish Form 1099 statements.
2012	Regulators postpone until at least 2014 a requirement that employers with at least 200 employees automatically enroll new employees in one of their health care plans, while giving the employees an opportunity to opt out of a plan in which they were automatically enrolled.
2013	Regulators delay by several months a requirement that employees of nonprofit affiliates of religious organizations be eligible for prescription contraceptive coverage with no employee cost-sharing. The requirement now will apply for employer plan years starting on or after Jan. 1, 2014.

TRANSPORTING OIL BY RAIL



Source: U.S. Energy Information Administration analysis of Association of American Railroads; other data.

AIIG leads Asiana Airlines' insurance program

■ American International Group Inc. led the hull and liability coverage for the Asiana Airlines aircraft that crashed on landing at San Francisco International Airport on July 6, sources say. Sources in London said Willis Group Holdings P.L.C. placed the airline's hull and liability insurance coverage. The South Korean financial services regulator, the Financial Supervisory Service, said in a statement that the aircraft carried liability insurance of up to about \$2.2 billion, liability coverage for its crew of about \$3 million and hull coverage of about \$130 million. It said that 10 South Korean insurers shared about 4% of the coverage and that the rest was underwritten in the international markets.

AIIG names Latin America chief as replacement for Godhwani

■ American International Group Inc. has named Miami-based Jim Dwane as the new president and CEO of its property/casualty office in Latin America and the Caribbean. He is filling the job previously held by Sanjay Godhwani, an AIG spokesperson confirmed. Mr. Godhwani resigned from AIG in April to join rival insurer Berkshire Hathaway Specialty Insurance. Previously, Mr. Dwane was regional president of AIG property/casualty in the U.S. Southeast.

Commercial insurance pricing continues to rise at renewals

■ Commercial property/casualty insurance price increases are continuing at midyear, though the pace of those price increases has peaked, according to the most recent six-month survey of property/casualty buyers by Barclays Capital Inc. The survey of 75 risk managers for Barclays' midyear 2013 survey found that prices for property/casualty lines were expected to increase 2% at midyear renewals, which is down slightly from the 3% anticipated increase in Barclays' survey six months ago. The survey saw 73% of respondents reporting overall rate increases, down from 83% at the start of the year. Eight percent of respondents reported seeing

price decreases, compared with none of those surveyed six months ago.

Pension plan funding levels highest since 2008: Mercer

■ The funded status of pension plans sponsored by large employers improved in June, climbing on rising interest rates to its highest point in more than 4 1/2 years, according to a Mercer L.L.C. analysis. On average, pension plans sponsored by companies in the S&P 1500 were 88% funded as of June 30, up from 86% at the end of May and 74% at the end of 2012. Meanwhile, Milliman Inc. said improving interest rates continued in June to drive pension plan funding deficits downward among large publicly traded employers. While plan assets for the 100 largest U.S.-based defined benefit plans fell \$25 billion last month, pension liabilities decreased \$72 billion, resulting in a net decline of \$47 billion in pension funding gaps.

Reinsurance rates decrease, reinsurers' 2012 income increased

■ Despite the \$30 billion marketwide loss from Superstorm Sandy last year, the entrance of fresh capital market capacity has helped to produce rate decreases at the July 1 reinsurance renewals, according to a report by Willis Re. Losses from U.S. tornadoes and European floods in the second quarter of 2013 likely will have only a limited effect on the global reinsurance market, according to the report. Meanwhile, a group of 27 reinsurers and reinsurance groups tracked by the Reinsurance Association of America reported net income of \$8.32 billion last year, up 14.1% from \$7.29 billion in the previous year. The RAA found that the group generated \$31.65 billion in net written premiums in 2012, an increase of 13.4% over that of a year earlier.

Defined contribution plan participation at all-time high

■ Aided by employer adoption of automatic enrollment features, employee participation in defined contribution plans — mainly 401(k) plans — is at an all-time high, according to a survey. In 2012, a record 78% of employees par-

ticipated in their employers' defined contribution plans, up from 75% in 2011 and 68% in 2010, according to the Aon Hewitt survey of 141 defined contribution plans.

Noncatastrophe-exposed commercial pricing to fall: Willis

■ Prices for noncatastrophe-exposed commercial insurance accounts will fall 5% to 10% in the second half of 2013, Willis North America Inc. said. In a statement, Willis North America said it released a special summer update to its annual publication on prices in the commercial insurance market that was published in April, after data from recent insurance renewals indicated "softening conditions" for property insurance pricing.

AIA backs Fed decision to delay applying Basel III rules to insurers

■ The American Insurance Association commended the Federal Reserve Board's decision to delay applying Basel III capital standards to insurance companies. Set to be implemented in 2019, the Basel III accord, agreed by the Basel Committee on Banking Supervision, defines capital adequacy, liquidity and leverage ratios standards for banks on a global basis. In a statement, the AIA said the bank-centric rules do not make sense for the insurance industry.

Noted

■ Prominent insurance attorney Sol Kroll died in June at age 94. Mr. Kroll, who was an insurance attorney for 71 years, worked closely with Lloyd's of London and was the first U.S. general counsel to the Institute of London Underwriters ... **National Council on Compensation Insurance Inc.** appointed Katherine Antonello as its chief actuary to succeed Dennis Mealy, who is retiring. Ms. Antonello will lead NCCI's actuarial and economic services division, responsible for rate/loss cost filings, legislative analyses, insurance industry results analysis, residual market reserving and other services. ... **Harvey Ryland**, former president and CEO of the Insurance Institute for Business & Home Safety, died earlier this month. Mr. Ryland was 74.

ENSTAR

Continued from page 1

provides predictable earnings and cash flow, a lack of live underwriting may have hindered Enstar's competitiveness for runoff acquisitions, Enstar CEO Dominic Silvester said during the meeting.

Eamonn Flanagan, Liverpool, England-based director at asset management firm Shore Capital group Ltd., said it makes sense for Enstar to diversify into the active underwriting environment.

"There is a skill set in managing runoffs that can be easily exported into the live market," he said.

Mr. Silvester said the structure of the Lloyd's market would help Enstar as it transitions to live underwriting. Atrium Underwriting Agency manages underwriting of syndicate 609, which underwrites

accident and health, aviation, marine, space, professional liability, energy, war and terrorism coverages. In April, Torus assumed management of Lloyd's syndicate 1301, which underwrites accident and health, aviation, bloodstock, construction, marine, property direct and facultative, specie and war and terrorism coverage.

"Atrium is a high-quality Lloyd's operation," Mr. Silvester said during the meeting. "Atrium's corporate capital vehicle provides only 25% of the underwriting capacity, with the balance provided by traditional Lloyd's names."

Likewise, Mr. Silvester expressed confidence in Torus, despite its uneven underwriting results since it launched in 2008.

"Poor results and underperforming areas masked substantial, well-structured and profitable business in the Torus Group," he said, noting that Enstar hopes to

"re-engineer" Torus and that Dermot O'Donohoe has been appointed CEO of Torus, replacing Clive Tobin, who is retiring.

Yet, A.M. Best Europe last week placed under review with negative implications the financial-strength ratings of Torus Group.

"While the acquisition, once completed, will improve Torus' financial flexibility and likely lead to expense savings, uncertainty exists surrounding the group's prospective operating performance, capital position and business strategy under its new ownership," A.M. Best Europe said in a statement.

One way Enstar is looking to reduce the risk of adding live underwriting is through a partnership with Greenwich, Conn.-based private equity firm Stone Point Capital L.L.C., which has a long record of working with insurers and reinsurers, Mr. Silvester said. "To complement our skills, we

have teamed up with StonePoint Capital. They have 40% investment in both Atrium and Torus."

Enstar and StonePoint's purchase of Torus acquired the interests of private equity firms First Reserve and Corsair Capital.

Do the recent acquisitions indicate there will be more deals among insurers/reinsurers?

Gloria Vogel, senior vice president at Drexel Hamilton L.L.C. in New York, said a better barometer has been the recent uptick of insurer stock market share prices.

"I don't know if this will or will not be the start of a trend in more M&A, given that Torus is a very specialized firm," Ms. Vogel said. "However, I will note that as valuations of (property/casualty) insurers and reinsurers have approached or exceeded book values, the difference between buyer and seller expectations has become smaller."

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Sticky situation over waxing

A woman is suing her employer for discrimination and wrongful termination, claiming she was fired for refusing to receive a Brazilian-style wax treatment from a co-worker.

The Pennsylvania resident was hired as a “wax specialist” at a newly opened spa, court records show. During a training class, an instructor informed students that they would be required to perform Brazilian wax treatments on one another.

A “Brazilian” involves the removal of pubic hair using a heated, adhesive wax.

After declining to participate in the exercise, the plaintiff, Jennifer Finley, claims she was immediately fired. Her lawsuit states she refused to comply “because it was humiliating, painful, embarrassing, and discriminatory.”

The employer does not require male employees to perform Brazilian waxes on co-workers nor are they required to receive Brazilian waxes from co-workers, according to the lawsuit.

Ms. Finley seeks back pay and compensatory and punitive damages, among other awards.

Warhol Foundation wins insurer suit

Considering Andy Warhol’s famous declaration of his love for “boring things,” perhaps a protracted legal battle over defense costs is a more fitting tribute to the late artist than is at first apparent.

The Andy Warhol Foundation for the Visual Arts recently announced victory in a civil suit against the Philadelphia Indemnity Insurance Co. in which the New York-based foundation had been pursuing reimbursement for legal fees it incurred defending itself against a pair of antitrust complaints brought against it in 2007.

Although both plaintiffs in the lawsuits against the foundation later admitted in court that they had no factual basis for their cases prior to filing them with the court, Philadelphia Indemnity — the foundation’s insurer at the time — refused to pay out the foundation’s insurance claim for legal expense reimbursement.

In a statement, the foundation said it had reached a settlement agreement with Philadelphia Indemnity, in which the insurer has paid back “the lion’s share” of the foundation’s defense costs from the 2007 lawsuits.

ARTIST PAINTS PICTURE OF COPYRIGHT ABUSE BY ‘AVATAR’ DIRECTOR



S_BUKLEY/SHUTTERSTOCK.COM

Director James Cameron is being sued over images in his movie ‘Avatar.’

A British artist known for creating psychedelic classic rock album covers is suing director James Cameron, saying his far-out paintings inspired the landscapes in the movie “Avatar.” Roger Dean sued Mr. Cameron, Twentieth Century Fox Film Corp. and other related entities late last month in U.S. District Court in White Plains, N.Y. His claims include copyright infringement, breach of implied contract and unfair competition, according to court filings, and he is seeking at least \$50 million in damages.

Mr. Dean, who designed album covers for groups such as Yes and Asia, says in his complaint that Mr. Cameron copied “floating mountains,” “stone arches” and the “Tree of Life” that are featured on Avatar’s planet Pandora. Similar images can be found in more than 20 of Mr. Dean’s most well-known paintings, he claims. He also contends that he has been developing a movie based on his artwork, called “Floating Islands,” and that a proposal about the movie was presented during the 2005 Cannes Film Festival.

Mr. Cameron’s “Signature Landforms” are accordingly copied from (Mr. Dean’s) works along with textures, patterns and many other distinctive elements and features of (Mr. Dean’s) works,” the complaint reads. “As a result, the overall look and feel of the planet Pandora substantially resembles a Roger Dean world in that Pandora’s most striking, stand-out and memorable features are those created by (Mr. Dean.)”

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Producer does not like that Will.i.am

A musician is looking for help from Dr. Seuss to help make his case in a lawsuit resulting from his use of the phrase “I am.”

Producer Pharrell Williams quoted the lyrics from the song “Sam I am; I am Sam; I am Sam; Sam I am” in a countersuit filed in a federal court in New York to block a lawsuit from rapper Will.i.am of the group Black Eyed Peas.

Will.i.am said that Mr. Williams’ recently launched YouTube channel, “I Am Other” violated his trademark on the phrase “I am.” Mr. Williams contends in his that suit that Will.i.am’s use of the phrase is literal in a Seussian sense while his use is open-ended, leaving the interpretation to the mind of the reader.

In an interview in *Rolling Stone*, Mr. Williams said he tried resolve the suit amicably before it reached court. But with dueling lawsuits filed, it now appears there is no way to put the legal cat back in the hat.



Mr. Williams



Will.i.am

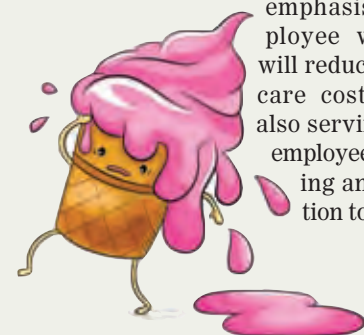
Dairy Queen serves wellness initiatives

Their minds might be on Dilly Bars, but employees at Dairy Queen’s corporate headquarters in Edina, Minn., are being encouraged to give some thought to their bodies as well.

According to reports, the wellness initiatives being rolled out at Dairy Queen see some employees now walking on treadmills while working on their computers, as the company is encouraging workers at the corporate headquarters to spend at least a portion of their days doing something other than sitting at their desks.

News accounts say the Berkshire Hathaway Inc. subsidiary also is taking such steps as adding showers and locker rooms for employees who work out at lunch or bike to work, and is renovating a space in its offices to serve as a fitness and wellness area.

Dairy Queen reportedly hopes the emphasis on employee wellness will reduce health care costs while also serving as an employee recruiting and retention tool.



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