



DRONE FORECASTS

The worldwide drone market is expected to generate billions of dollars in spending, although forecasts vary widely. They include:

- An economic impact of \$82 billion by 2025, including \$13.6 billion in the first three years: Association of Unmanned Vehicle Systems International
- Current annual spending of \$6.4 billion is projected to grow to \$11.5 billion a year, nearing \$91 billion in 10 years: Teal Group Corp.

AVIATION

Drone flights present risks, rewards

Insurance market reacts to new exposures

BY DONNA MAHONEY

The first commercial drone package delivery approved by the Federal Aviation Administration has caught the attention of risk managers, brokers and insurers.

Aviation brokers and underwriters see insuring drones as an opportunity, but the latest technology also poses risks such as pilot error and product liability. Risk managers already see drones, the common term for unmanned aerial vehicles, among their top risks.

On Friday in Wise County, Virginia, the first FAA-approved drone package delivery service carried medical supplies to a remote medical clinic where volunteers provided medical care to residents in the poverty-stricken

See **DRONES** page 35

HEALTH CARE BENEFITS

TRANSGENDER BENEFITS GAIN ATTENTION OF EMPLOYERS

Inclusive offerings can help attract talent



AP PHOTO

High-profile examples of transgender issues, such as Bruce Jenner's transition to Caitlyn, may spur further adoption of transition-related benefits.

BY SHELBY LIVINGSTON

As awareness for transgender issues increases, more employers are including coverage for transition-related health care as a way to foster an inclusive workplace environment while attracting and retaining workers.

These benefits, meant for individuals transitioning to the opposite sex, may include mental health counseling, hormone replacement therapy and gender reassignment surgery. Some employers may even include coverage for facial feminization

or reducing the Adam's apple, though most procedures considered cosmetic are not offered.

Some employers who offer transgender-related benefits may provide coverage for surgical procedures of the genitalia and chest, but not hormone replacement therapy. Others may cover hormone therapy, but not surgical gender reassignment.

There is no legal requirement for employers in the private sector to cover transition-related pro-

See **TRANSGENDER** page 34

HEALTH INSURERS

Mergers concentrate health insurers

Employers wary of how costs will be affected

BY MATT DUNNING

Consolidation among the largest U.S. health insurers will increase their clout with health care providers, but whether that means lower costs for employers remains to be seen.

Aside from costs, experts say health insurer mergers likely would result in fewer options in health plan designs from which employers could choose.

Industry observers say Aetna Inc.'s proposed \$37 billion acquisition of rival Humana Inc. has added pressure on other national and regional health insurers to merge to remain competitive.

Most notably, the Aetna-Humana deal increases the likelihood of a merger between Anthem Inc. and Cigna Corp., whittling the top five U.S. health insurers — which control approximately 32% of all health insurance premiums in the U.S., according to the National Association of Insurance Commissioners — down to just three.

In another deal, St. Louis-based Centene Corp. in early July agreed to buy rival Woodlands Hills, California-based Health Net Inc. for \$6.3 billion.

"We're heading into an era of huge players in the health care industry, on both the insurers' side and on the health care providers'

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INTERNATIONAL

Panda Re Ltd., the first catastrophe bond to cover natural disaster risks in China, has been issued

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OPINIONS

Delaware legislation knocks businesses almost back to square one on the issue of the costs of M&A-related litigation

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DEALS & MOVES

Marsh & McLennan Agency L.L.C., has acquired Vézina, a Montreal-based insurance brokerage

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Q&A: RON LOCKTON

Ron Lockton was recently appointed vice chairman of insurance broker Lockton Cos. L.L.C. The son of the brokerage's founder, the late Jack Lockton, Mr. Lockton talks about his experience in the industry, the future of the insurance brokerage business and the need for thoughtful succession plans to be in place at successful companies.

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COMMENTARY

JUDY GREENWALD
SENIOR EDITOR

The shocking shooting of nine churchgoers in Charleston last month was a stark reminder of the problem of racism in the United States. Employers have an important role to play in combatting this ugly phenomenon. But a recent court case shows that companies can be slow to react when they are faced with racism in the workplace.

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As insurers exclude cyber coverage from commercial general liability policies, it's critical to watch the details when moving to a stand-alone cyber policy, says Collin Hite of law firm Hirschler Fleischer. **15**

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Madonna hacked

An Israeli man has been sentenced to prison for leaking songs from Madonna's "Rebel Heart" album before it was released. **36**

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NEWS

INTERNATIONAL

TURMOIL IN GREECE CREATES RISK MANAGEMENT CONCERNS

Firms, trading partners affected by economic drama

BY SARAH VEYSEY

While the Greek Parliament last week ratified a proposed €86 billion (\$95.94 billion) bailout of Greece under the European Stability Mechanism, risk managers need to stay on top of the situation, experts say.

Although the insurance industry is unlikely to be hurt by a Greek eurozone exit (see story, page 33), such a move and its attendant change of currency could cause difficulties over the settlement of insurance claims, among other things, experts say.

Risk managers need to view the situation in Greece in two contexts, said Julia Graham, president of the Federation of European Risk Management Associations.

First, they need to consider the immediate risks associated with having operations in Greece or a significant trading or supply chain relationship with Greek companies, she said.

Second, risk managers must consider the economic impact that Greece's troubles could have on other trading partners and the effect of a Greek exit from the eurozone and/or the European Union — dubbed Grexit, said Ms. Graham, who is also director of risk management and insurance at law firm DLA Piper International



AP PHOTO

Political and economic upheavals in Greece raise the threat of the country exiting the eurozone, which would have numerous repercussions.

L.L.P. in London.

All companies should have a "risk radar" that contains "known knowns" and a watch list of situations that could escalate, such as the conflict between Russia and Ukraine, as well as Greece's economic crisis, she said.

"These should all be reviewed frequently, and you need to look at

"what-if" scenarios," Ms. Graham said.

Risk managers should make sure they discuss these scenarios with colleagues, she said.

Situations that risk managers should be monitoring include the potential for strikes and rioting in

See GREECE page 33

MERGERS & ACQUISITIONS

Ace, XL prepare to address challenges of growth

BY JUDY GREENWALD

Ace Ltd. and XL Group P.L.C., born of the mid-1980s liability crisis, have become successful global players largely through acquisitions, though they face several challenges resulting from their latest purchases.

Ace Ltd., formed in 1985, and XL Group P.L.C., originally EXEL Ltd. when established in 1986, began as policyholder-owned facilities to offer excess liability and directors and officers liability coverage.

They also helped jumpstart the alternative Bermuda market.

Now public companies, both are growing thanks to major acquisi-

tions.

Ace earlier this month announced a \$28.3 billion deal to buy Chubb Corp. Ace's earlier purchases include Corporate Officers & Directors Assurance Ltd. in 1993; Tempest Reinsurance Co. Ltd. in 1996; and Cigna Corp.'s global property/casualty business in 1999, which gave the insurer an international platform.

XL boosted its market share most recently with the \$4.28 billion deal in May to acquire Catlin Group Ltd. Earlier purchases include property catastrophe reinsurer GCR Holdings Ltd., the holding company for Global Capital Reinsurance Ltd., in 1997; Mid-

Ocean Reinsurance Ltd. in 1998; and Winterthur International in 2001. In 1999, XL merged with NAC Re Corp.

Both also have acquired a significant presence at Lloyd's of London. With the purchase of Catlin, XL owns the market's largest syndicate, syndicate 2003 that provides more than 30 lines of coverage.

Ace and XL have been largely successful, said Jim Auden, managing director of insurance at Fitch Ratings Inc. in Chicago.

When the liability crisis ended, the companies "had very good

See ACE XL page 34

Risk Management Insights Panel



RISK MANAGEMENT

Brokers play key role in cover reviews

BY ANGELINA VILLARREAL

Brokers are a key partner when companies examine their insurance coverage.

Searching for new coverage is not something risk managers do every day. It's a time-consuming process that takes an average of four months to complete, according to the *Business Insurance* Risk Management Insights Panel.

In 22% of companies, it takes more than five months to complete a review of insurance.

Public companies have the longest process (4.8 months) since more areas of the organization often are involved, while private companies have the shortest (3.1 months), according to the *Business Insurance* panel of 530 risk managers. The survey had a 65% response rate.

The risk manager who supports the area within at organization facing the risk usually initiates the review, relying heavily on the company's broker to provide information about the coverage available and the company's needs.

Brokers are the first to be consulted in public (88%), private (84%) and nonprofit (90%) firms. Governmental entity risk managers usually consult first with an internal team (76%) and then with the broker (69%).

The evaluation process usually involves different areas within an organization: Eighty-eight percent involve risk management, 62% involve top management, 36% involve the area within the organization facing the risk, 29% include finance, 29% involve legal, 6% include procurement and 5% include compliance.

Once the risk manager evaluates the available coverage options, top management approval is needed to make a purchase in many cases. Top management approval is more likely in companies with less than \$100 million in revenue than

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ONLINE
FEATURES

VIDEO

In Focus: Telemedicine
benefits and risks

More employers are embracing telemedicine to deliver benefits, but the practice carries certain risks
www.BusinessInsurance.com/InFocus

GALLERY



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NEWS

DIRECTORS & OFFICERS LIABILITY

NEW LAW FRUSTRATES EFFORTS
TO CUT SHAREHOLDER LAWSUITS

Public companies can't force losers to pay legal fees

BY JUDY GREENWALD

Recent Delaware legislation that would prohibit a likely curb to shareholder lawsuits means business' rising litigation costs remain largely unaddressed.

Experts say there may still be ways to address costs in a manner equitable to both sides without "the sledgehammer" approach reflected in S.B. 75, which prohibits publicly traded corporations from adopting bylaws that force shareholders to pay legal fees if they do not win their lawsuits against the corporation.

S.B. 75 addresses a May 2013 ruling by the Delaware Supreme Court in *ATP Tour v. Deutscher Tennis Bund* in which the court upheld a corporate bylaw that requires plaintiff shareholders who lose derivative litigation to pay defense costs.

The legislation is not going to help reduce the high percentage of companies that get sued after they announce a merger or acquisition deal, said Rob Yellen, New York-based executive vice president of FINEX North America, a unit of Willis Group Holdings P.L.C. "Instead, it's going in the other direction," he said.

Ninety-three percent of merger and acquisition deals valued at more than \$100 million were liti-

'EXCLUSIVE FORUM' BYLAWS
COULD CONSOLIDATE LAWSUITS

The Delaware law that prohibits fee-shifting to losing shareholders includes a provision validating that Delaware corporations can adopt bylaws designating the state's courts as the exclusive forum for shareholder litigation.

Experts say this was a counterbalancing measure. It was "trying to draw some sort of balance between the plaintiffs' bar and the defense bar," said Jonathan E. Richman, a partner with law firm Proskauer Rose L.L.P. in New York. "The plaintiffs' bar is obviously happy there won't be fee shifting, and the defense bar likes having the exclusive forum bylaws, so each is getting something out of this," said Mr. Richman.

The hope is the exclusive forum measure will eliminate multijurisdictional litigation,

said Kevin LaCroix, executive vice president at RT ProExec, a division of R-T Specialty L.L.C. in Beachwood, Ohio.

Five years ago about a third of merger and acquisition deals attracted lawsuits, while now nearly all such deals do, he said. "Not every M&A transaction is worth a lawsuit," said Mr. LaCroix.

With enforcement of exclusive forum bylaws, Delaware is beginning to address the issue of excessive M&A litigation, said Aron Izower, a partner with law firm Reed Smith L.L.P. in New York.

"The Delaware judiciary seems to be taking a harder look at these suits and the value that is added by the plaintiff attorneys in relation to the fees charged by such firms," he said.

By Judy Greenwald

gated in 2014, according to a report by Boston-based Cornerstone Research Inc.

The legislation "just returns the playing field to the status quo that

existed before the fee-shifting bylaws entered the field," said Francis G.X. Pileggi, a partner at

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RISK MANAGEMENT

Construction rebound boosts surety sector

BY MATTHEW LERNER

Construction surety bond activity has returned to just shy of its 2008 peak, when the U.S. economy began to tank, and the sector has evolved with the construction industry.

U.S. construction spending reached a seasonally adjusted annual rate of \$1.036 trillion in May, up just 0.8% from April but up 8.2% compared with May 2014, according to the U.S. Census Bureau.

Construction spending peaked at \$1.167 trillion in 2006, plunged through the Great Recession and began rising again in 2012. For

SURETY PREMIUMS

Direct premiums written for surety bonds peaked in 2008, but regained ground in 2013 and 2014.

Year	Direct premiums	Loss ratio
2014*	\$5,500,323,973	15.4%
2013	\$5,255,448,285	16.3%
2012	\$5,035,544,691	21.6%
2011	\$5,172,190,133	13.4%
2010	\$5,180,125,201	13.2%
2009	\$5,190,813,055	19.5%
2008	\$5,502,077,912	12.7%

* Preliminary
Source: The Surety & Fidelity Association of America

2014, spending was \$962.06 billion, according to the Census Bureau.

With the pickup in overall con-

struction, surety bond sales also have increased, according to the Washington-based Surety & Fidelity Association of America.

Direct written premiums totaled \$5.50 billion in 2014, a 4.7% increase compared with 2013 and just \$2 million shy of the record in 2008, according to the association.

"There has been an increase in the demand for surety bonds, ... but I believe we are only getting back to where we were in 2008," said Thomas Niland, vice-president and surety practice leader at Cook Maran & Associates in Melville, New York.

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P/C INSURERS

Dodd-Frank's
impact still
evolvingSIFI designations main
concern for insurers

BY MARK A. HOFMANN

The impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act on property/casualty insurers remains murky five years after its enactment, and observers don't expect the 2010 law's effect on insurers to become clear anytime soon.

Dodd-Frank, enacted in the wake of the 2008 financial crisis, established the Federal Insurance Office, the highest-level agency tasked with insurance matters ever established within the federal government. But it also set up a new category of financial institutions —systemically important financial institutions, or SIFIs — that are subject to heightened federal regulation.

Only three insurers — American International Group Inc., Prudential Financial Inc. and MetLife Inc. — have been designated SIFIs by the Financial Stability Oversight Council, which Dodd-Frank also established.

MetLife is the only one of the three to challenge the designation. No oral arguments have been scheduled yet.

Meanwhile, some observers fear that other insurers could be caught up in the SIFI designation.

Insurer trade groups and experts give the law mixed reviews.

"I think it's a challenge to point to any one thing that Dodd-Frank achieved that actually improved insurance regulation," said Howard Mills, New York-based global insurance regulatory leader at Deloitte Services L.L.P. and a former New York state superintendent of insurance. "The fact is, Dodd-Frank has created a lot of confusion — certainly for those insurers that got sucked into the SIFI/FSOC debate. It's going to create dual regulation."

"So little has changed as a result of the new law, yet it has already had a profound impact on the way we think about insurance regulation," said Lawrence Mirel, a former District of Columbia insurance commissioner and now Washington-based vice president of government affairs with The Goldwater Taplin Group, a government relations firm providing

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More early retirees to be covered via insurance exchanges

Employers likely to act in wake of Supreme Court's health care reform ruling

BY JERRY GEISEL

Employers' move to jettison health insurance for pre-Medicare-eligible retirees is certain to accelerate in the wake of last month's U.S. Supreme Court decision upholding the legality of premium subsidies for lower-income individuals getting coverage in the state and federal exchanges.

Dropping coverage and directing retirees, in some cases with employer financial support, offers "win-win opportunities" for employers and retirees, said John Grosso, health care actuary and leader of Aon Hewitt's retiree health care task force in Norwalk, Connecticut.

For employers, the appeal is obvious: With premiums averaging more than \$12,000 per year per retiree, according to a 2014 Mercer L.L.C. survey, eliminating those plans would slash employer costs even if they contribute to health reimbursement arrangements to help pre-Medicare-eligible retirees defray some of the cost of buying coverage in a public exchange.

"I can't think of an employer for whom this approach would not make sense to consider," said Rich

Stover, a principal with Buck Consultants at Xerox in Secaucus, New Jersey. Employers would have a "more manageable amount that is not subject to health costs and trend," he said, referring to employers' HRA contributions that could use to purchase

WHO PAYS THE TAB?

While large employers are more likely to offer health insurance to pre-Medicare-eligible retirees than smaller organizations, only 26% of employers with 500 or more workers did so in 2014. Typically, individual premium costs were shared between employers and retirees.

Premiums	Employers
Cost shared	56%
Retiree pays all	34%
Employer pays all	10%

Source: Mercer L.L.C.

exchange coverage.

In some cases, retirees wouldn't even tap employers' HRA contributions to buy coverage in the exchange.

That is because under the Patient Protection and Affordable Care Act, people whose incomes are between 100% to 400% of the federal level — or \$11,700 to \$47,080

for an individual — are eligible for federal premium subsidies to buy coverage in public exchanges.

The subsidies — in the case of lower-income early retirees — might be far larger than employers' HRA contributions, increasing the likelihood that they would turn down the HRA contribution and take the government's premium subsidy to buy exchange coverage, resulting in additional employer savings. Federal rules make clear that the retirees cannot take both the HRA contribution and the ACA premium subsidy to purchase exchange coverage.

For retirees eligible for the government's premium subsidies for exchange plans, the cost savings that they could rack up could be considerable, especially if their former employer previously paid only a small percentage of the premium in the plans they offered to retirees.

While the financial advantages of directing the retirees to the public exchanges were obvious, experts say one key issue held employers back from adopting the approach: Would the Supreme Court uphold the IRS rules authorizing federal premium subsidies

in both state exchanges and in the 34 states where federal regulators set up exchanges after states officials declined to do so? Plaintiffs in the case alleged that the health care reform law limited the subsidies to those obtaining coverage in state exchanges

So the Supreme Court's June ruling upholding the IRS premium subsidy rules "removes one of the last barriers that had been holding back many employers from taking this approach," Mr. Grosso said.

"A major barrier has been taken off the table," said John Barkett, director of health policy affairs at Towers Watson Exchange Solutions in Arlington, Virginia.

Just 26% of employers still offered health insurance to early retirees as of last year, according to Mercer, and the Supreme Court's ruling looks to accelerate that trend. Still, not every employer will adopt the approach.

"An employer with high-income pre-65 retirees might be less inclined to suggest that the retirees access a public exchange because they would be less likely to be eligible for subsidies," said Amy Bergner, a managing director at PricewaterhouseCoopers L.L.P.

in Washington.

In addition, some employers may wait to see how successful insurers that offer exchange coverage are in attracting medical providers to their networks.

"Employers may want to see more exchange experience before jumping in," Mr. Barkett said.

Plan documents that may bar employers from eliminating early retiree coverage or collective bargaining agreements requiring union agreement also could limit adoption, said Judy Bauserman, a Mercer partner in Washington.

Another factor that could hold back employers is a concern that the 2016 elections could result in electing a president who backs repealing the health care reform law that spawned the exchanges and the premium subsidies.

"Employers may still have some hesitancy because of political uncertainty," Ms. Bauserman said. But with the Supreme Court "solidifying the place of exchanges in the marketplace, repeal will be more challenging."

But some observers doubt the law will be repealed. "The ACA is here to stay, even if the GOP wins the presidency," Mr. Stover said.

WELLNESS

Tailor wellness programs to individual workforces for maximum effect

BY SHELBY LIVINGSTON

LAS VEGAS — Rising health care costs are front of mind for most employers, but there are several ways to ease the burden.

Implementing a wellness program is one. But companies seeking to reduce health costs through wellness programs should tailor them to the organization's business needs, employees' health risks and the preferences of the employee base, experts say.

It's important to view wellness as "part of a strategy of profitability of the company" and not "just a good thing to do," said Charlie Estey, executive vice president of business development at Schaumburg, Illinois-based Interactive Health Inc.

"There's plenty of research to show the impact of wellness, not just on medical costs and productivity, but on the value of the company," he said during the Society for Human Resource Management Inc.'s recent conference in Las Vegas.

Wellness programs also can reduce workplace injuries, workers compensation claims, and absenteeism and presenteeism rates, while boosting productivity and attracting and retaining talent, he said.

To implement a successful wellness pro-

gram and achieve support from the company's leadership, Mr. Estey recommended determining what problem the company is trying to solve and tailoring the program to address that need. For example, he said, if many employees smoke, tools need to be in place to help them quit.

It's also important, he said, to educate employees about their role as active health consumers and how unaddressed health risks can increase out-of-pocket costs under a high-deductible health plan.

Bruce Elliot, SHRM's Alexandria, Virginia-based benefits manager, said wellness programs work best when companies build them around data from a health risk assessment. If companies are not reacting to that data, then the wellness program isn't "going to bear any fruit," he said.

Another tactic to reduce health care costs is implementing a medical self-care program, said Don Powell, president and CEO of the Farmington Hills, Michigan-based American Institute for Preventive Medicine.

Medical self-care involves teaching employees to make better decisions about when and when not to access care, he said.

"I think too much of our ways of trying to reduce health costs tend to focus on the sup-

ply side; that is, having employees pay more out of pocket (and) ... having to get permission before you can do certain things. We need to focus more on the demand side" of employees through programs such as medical self-care, he said.

What's more, while a wellness program may take two to three years to show financial benefits, the benefit of medical self-

"There's plenty of research to show the impact of wellness, not just on medical costs and productivity, but on the value of the company."

Charlie Estey, Interactive Health Inc.

care "occurs almost instantaneously" as employees change their habits of accessing care, he said.

Other experts say moving to a defined contribution type of health plan and shifting costs to a private health insurance exchange also can reduce employers' costs.

Though a private exchange won't fix health care cost trends, it will engage the

employee in the decision-making process and enable the employer to control annual increases in health care costs, said Rob Harkins, Boston-based practice leader of private exchanges at Willis North America Inc.

Employers also are looking at telemedicine to reduce medical spending. Receiving health services or education remotely via a live videoconference, not only is a cost-effective alternative to an on-site clinic, it also reduces the need for an employee to go to a more expensive urgent care clinic, said Stewart Levy, president of Princeton, New Jersey-based health care consultancy Health Promotion Solutions.

Telemedicine also increases access to care for scattered or rural employees as it alleviates transportation barriers, he said.

Twenty-two percent of employers offered telemedicine consultations to employees last year, and 37% said they expect to offer them this year, according to a 2014 Towers Watson & Co. analysis of employers with 1,000 or more employees. Interest in telemedicine is expected to keep growing, and "everything is moving in the right direction from a regulatory perspective," Mr. Levy said. "It's all about the care and the ability to provide care more efficiently."



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Property/casualty insurers post best first quarter in 30 years

■ Property/casualty insurer profit increased 31% to \$18.2 billion in the first quarter of 2015, the highest net income in 30 years, according to Insurance Services Office Inc. and the Property Casualty Insurers Association of America. Lower-than-normal catastrophe losses contributed to the increase, according to their latest financial review of the sector. Underwriting results were also a contributing factor to profitability, with gains for a third quarter in a row. Net written premium growth for first-quarter 2015 remained 3.7%, the same as the year earlier. Net investment income grew 4.6% to \$11.7 billion in the first quarter of 2015, and realized capital gains increased 59% to \$4.7 billion, resulting in net investment first-quarter gains of \$16.4 billion, the highest net investment gains since ISO began keeping quarterly records in 1986, the report said.

California classifies cheerleaders as pro teams' employees

■ Professional California cheerleaders are employees entitled to workers compensation benefits as a result of a bill signed into law by Gov. Jerry Brown. A.B. 202, introduced by Democratic Assemblywoman Lorena Gonzalez in January, states that cheerleaders affiliated with California-based professional sports teams are classified as employees. Cheerleaders for the Oakland Raiders, Cincinnati Bengals and Buffalo Bills filed separate lawsuits last year alleging they were misclassified as independent contractors and, therefore, denied protections such as workers comp. Under the law, a cheerleader is someone who "performs acrobatics, dance or gymnastics exercises on a recurring basis," and professional sports teams include baseball, basketball, football, ice hockey and soccer teams at the minor or major league level.

Former CMS head to lead health insurance lobby

■ Marilyn Tavenner, former head of the U.S. Centers for Medicare and Medicaid Services, will become the new president and CEO of Washington-based industry group America's Health Insurance Plans. She succeeds longtime AHIP head Karen Ignagni, who resigned earlier this year to become president and CEO of New York-based EmblemHealth. Ms. Tavenner headed CMS for more than three years, starting as acting administrator in December 2011. Prior to joining CMS, she served as Virginia's secretary of health and human services.

Cyber exposure is top risk for North American insurers

■ Cyber is the top risk faced by insurers in North America and Bermuda, according to a survey released by London think tank Centre for the Study of Financial Innovation. "Insurance Banana Skins: The CSFI Survey of Risks Facing Insurers" found that among all global insurers surveyed, regulation ranked first among risks, followed by the macroeconomy and interest rates, with cyber ranking fourth. But for North America and Bermuda insurers, cyber risks topped the list, followed by regulation and interest rates. Cyber is a new risk, having not appeared on the center's previous "Insurance Banana Skins" survey published

in 2013. "Cyber risk is the No. 1 banana skin for participants from nonlife businesses, as well as being high up the list for reinsurers and life insurers," PricewaterhouseCoopers L.L.P., which sponsored the report, wrote in the foreword. The report is based on the responses of 806 industry companies in 54 countries surveyed in March and April.

Axis sweetens offer in PartnerRe takeover battle

■ Axis Capital Holdings Ltd. and PartnerRe Ltd. have enhanced the terms of their merger proposal in the latest round in the battle for control of PartnerRe. Axis first proposed the merger in January but since April has been fending off a competing cash offer from Torino, Italy-based investment firm Exor S.p.A. Exor was last to raise the stakes at an investor presentation in New York when it offered an additional special dividend to PartnerRe shareholders to defray the cost of any potential break-up fee, as high as \$315 million, should PartnerRe choose Exor's bid over Axis'. Axis responded by raising its own proposed special dividend to \$17.50/share from an originally proposed \$11.50/share. Axis said it would also match Exor's terms for preferred shareholders provided assurances could be secured from the IRS that this would not result in an onerous tax burden. "We are very pleased to agree to enhanced terms with Axis Capital so that shareholders can realize the value of the combination," Jean-Paul Montupet, PartnerRe chairman, said in a combined statement from the Pembroke, Bermuda-based insurers.

OSHA delays enforcement of construction safety rule

■ The U.S. Occupational Safety and Health Administration is delaying the full enforcement of its confined spaces in construction standard for 60 days. "In response to requests for additional time to train and acquire the equipment necessary to comply with the new standard," the full enforcement of the confined spaces standard will be postponed from Aug. 3 to Oct. 2, OSHA said in a statement. The final rule, issued in May, is meant to protect construction workers laboring in confined spaces against hazards that include exposure to toxic substances, electrocutions, explosions and asphyxiation, similar to general industry confined spaces standard.

IRS curbs lump-sum payments in pension derisking programs

■ Employers "derisking" their pension plans no longer will be allowed to give plan participants currently receiving monthly annuity benefits the option to convert their benefits to a cash lump-sum, the Internal Revenue Service disclosed. The IRS said in a statement accompanying Notice 2015-49 that it will amend current regulations so that pension plans will not be "permitted to replace any joint and survivor, single life, or other annuity currently being paid with a lump sum payment or other accelerated form of distribution." The new restriction generally took effect July 9. However, the ban will not apply to conversions that already have occurred, as well as in certain situations, including those in which an employer prior to July 9 informed plan participants of such an offer or when an employer formally adopted such a change as part of a collective bargaining agreement that was approved prior to July 9.

Reinsurance pricing decline slows at July 1 renewals

■ Pricing declines slowed at July 1 renewals, but abundant capacity continues to hit reinsurance markets, Guy Carpenter & Co. L.L.C. said. While overall July 1 reinsurance renewal pricing decreased across most geographies and lines of business, the placing of additional limits over the past few months contributed to the stabilization of price declines, particularly for U.S. property risks, Guy Carpenter said in a statement. In the U.S. market, "catastrophe loss activity continued to be light overall, with 2015 losses to date generally coming from Northeast winter weather," the statement said. Alternative capital continued to hit reinsurance markets, especially catastrophe bonds, but investor discipline capped pricing declines, it added.

False Claims Act ruling alters whistleblower standards

■ A whistleblower does not need to play a role in the public disclosure of a wrongdoing, a federal appeals court has ruled. In an en banc ruling, the 9th U.S. Circuit Court of Appeals in San Francisco reversed the dismissals of *U.S. ex rel. Steven J. Hartpence v. Kinetic Concepts Inc.* and *U.S. ex rel. Geraldine Godecke v. Kinetic Concepts Inc.* by the U.S. District Court of the Central District of California in 2012, revising a past requirement of the 23-year-old False Claims Act in the process. The 9th Circuit stated it doesn't matter if the whistleblower plays a role in the public disclosure of the allegations or not, revoking the original requirement of the False Claims Act, decided in *Wang ex. rel. U.S. v. FMC Corp.* in 1992, also by the 9th Circuit. The current 9th Circuit judges decided the False Claims Act has only two requirements for a whistleblower to be an original source: The government must be informed of the allegations before they are filed, and the whistleblower must have direct knowledge of the allegations.

Health law research fee payments due July 31

■ The deadline for payment of a medical outcomes research fee mandated by the health care reform law and paid by self-funded employers and insurers is July 31. The Patient-Centered Outcomes Research Fee is \$2.08 per plan participant for plan years ending on or after Oct. 1, 2014, and before Oct. 1, 2015.

Proposed coverage rules finalized for prescription contraceptives

■ The Obama administration has finalized proposed rules to enable employees of nonprofit religiously affiliated organizations, such as hospitals, and closely held private corporations to obtain coverage for prescription contraceptives, even if their employers object. Under the proposal, religiously affiliated organizations would provide written notification to the U.S. Department of Health and Human Services of their objections to the coverage. For nonprofits with an insured plan, HHS would notify the insurer, which would become responsible for providing coverage. For self-funded organizations, the U.S. Department of Labor would notify their third-party health plan administrators, with the TPA then arranging the coverage. The insurers or TPAs would be responsible for paying for the coverage.

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Panda Re cat bond covers China risks

■ Panda Re Ltd., the first catastrophe bond to cover natural disaster risks in China, has been issued by state-owned reinsurer China Property and Casualty Reinsurance Co. of Beijing. The bond was modeled using the China Earthquake model from Risk Management Solutions Inc., RMS said in a statement. The bond will provide China Re with \$50 million of fully collateralized reinsurance protection against losses from earthquakes in China for three years, effective July 1. The catastrophe bond utilizes an indemnity trigger for coverage on a per-occurrence basis.

Iran to sell more oil when sanctions lifted

■ Asian refiners are set to buy more crude oil from Iran once they receive word on when sanctions will be lifted, expecting Tehran to price its oil competitively as it tries to rebuild market share in an over-supplied market. For Iran to increase oil exports though, it needs relief from measures that block its access to global funds transfers and embargoes that prevent ships carrying Iranian oil and the refineries processing it from being insured. “An increase in Iranian oil exports can only occur once sanction relief occurs, tentatively in early 2016,” Goldman Sachs analysts said in a note. Exports would also increase as floating storage of between 20 million and 40 million barrels is drawn down, the bank said.

Reuters

Nat cats cause lower insured losses

■ Insured losses from natural catastrophes totaled about \$12 billion in the first half of 2015, lower than the long-term average of \$15 billion, according to a report by Munich Reinsurance Co. The largest insured loss to hit Europe in the first half of 2015 was Windstorm Niklas, which resulted in insured losses of about \$1 billion, Munich Re said. Heavy rain and flash floods in southeastern Australia in April caused insured losses of about \$630 million, while Cyclone Marcia, a Category 5 cyclone, caused insured losses of about \$400 million when it struck Queensland, Australia, in February, the report said. The natural catastrophe that resulted in the largest loss of life in the first half of 2015 was the devastating earthquake that hit Nepal in April, when about 8,500 people died. The

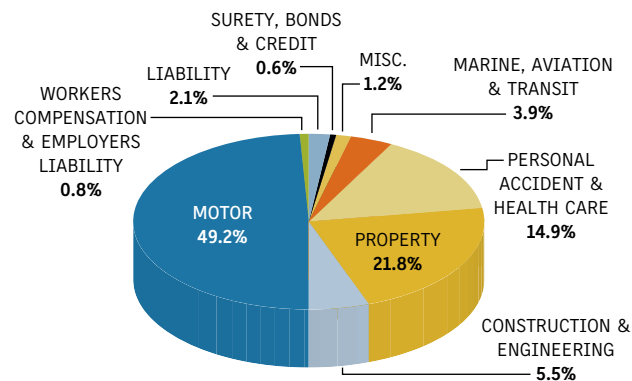
PROFILE: TURKEY

\$8.32
BILLION

Earthquakes are the biggest natural threat to Turkey, with major cities, including Istanbul, prone to substantial damage as evidenced in the Izmit quake in 1999 that cost insurers around \$900 million in damages to the nation's industrial heartland. Turkey's location in the politically volatile Middle East leaves it open to terror attacks and other unrest. Though incidents have occurred, they have had little effect on its ability to place insurance or reinsurance.

◀ 2014 P/C gross premiums

MARKET SHARE



Source: Axco Global Statistics/Industry Associations and Regulatory Bodies

COMPULSORY INSURANCE

- Bodily injury and medical expense for passengers on intercity and international transport
- Earthquake insurance on private dwellings
- Business completion guarantee for residential building contractors
- Personal accident for miners
- Professional indemnity for brokers, electronic signature certificate providers and others
- Shipowners liability for marine pollution

NONADMITTED

Unauthorized insurers cannot carry on insurance activity in Turkey under a law that requires local placement, with limited exceptions including various covers related to transportation — imports and exports and hull insurance for crafts purchased abroad — and clinical trial liability.

INTERMEDIARIES

Brokers have to be authorized by the Undersecretariat of the Treasury. Agents need a certificate of their qualifications from the Insurance Supervisory Board and must be registered in the Union of Chambers and Commodity Exchanges of Turkey. Intermediaries can place business for only the specified exemptions, but they do not have to warn buyers that their insurer is not subject to local supervision.

MARKET PRACTICE

Little business is placed directly abroad because it is illegal. When such business is discovered, fines are levied. Regulators, however, are pragmatic about foreign placement of mandatory coverage when no local channels exist, such as clinical trials liability.

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



POPULATION

77.69 million

GLOBAL P/C MARKET RANKING

23

2015 GDP CHANGE (PROJECTED)

4.5%

earthquake caused the largest economic losses — \$4.5 billion — of any natural catastrophe during the first half of 2015, but just \$140 million of that total was insured, according to the report. A series of winter storms that hit the north-eastern United States and Canada in February caused insured losses of \$1.8 billion and total economic losses of \$2.4 billion.

Greek drama may sink Munich Re transaction

■ Munich Reinsurance Co. is considering calling off its planned 90 million (\$99 million) takeover of Greece's ATE Insurance if political developments in Greece deteriorate, the company said. Greece's Piraeus Bank agreed to sell its ATE Insurance business to Ergo Insurance Group, a subsidiary of Munich Re, in November. The deal

has yet to receive the regulatory approvals required for closing. Munich Re said it hoped to close the deal swiftly, provided there was political and economic stability in the country. The group routinely includes back-out clauses in takeovers that allow the buyer to withdraw from a deal in the case of unforeseen, extreme developments, Munich Re said in a statement responding to an article due to appear in magazine WirtschaftsWoche.

Reuters

Axa seals \$4.3 billion longevity swap

■ Axa U.K. Group Pension Scheme, London, completed a £2.8 billion (\$4.3 billion) longevity swap with Reinsurance Group of America for the defined benefit section of its retirement plans. The swap

covers about half of the pension fund's liabilities, said a news release from Axa U.K. The total asset size was not immediately available. The deal covers 11,000 members. The swap will form part of the pension fund's investment portfolio, providing income in the event that members live longer than is currently expected.

Pensions & Investments

Longtime London exec to retire end of July

■ Adrian Colosso will retire as CEO of London-based brokerage Howden U.K. at the end of July. Mr. Colosso, who has worked in the insurance industry for more than 40 years, joined Howden in May 2013 and became CEO of Howden U.K. in January 2014. He previously was CEO of Heath Lambert Ltd. Howden is part of Hype-

rion Insurance Group, an employee-owned insurance and reinsurance brokerage group.

U.K. watchdog to probe RSA's Irish division

■ Britain's accounting watchdog said it would investigate the conduct of individuals who worked for RSA Insurance Ireland in the run-up to its bailout by its British parent. The Financial Reporting Council said the investigation was related to “financial irregularities” at the Irish business. It did not identify the individuals or say if they still worked at the business. The investigation will cover 2012 “and relevant prior periods as a result of the identification of issues within the claims and accounting functions announced by RSA Insurance Group P.L.C. at the end of 2013,” the FRC said in a state-

ment. RSA has blamed a handful of executives at the Irish division for accounting irregularities that led to the group overstating its profit in Ireland and required it to tap shareholders for cash to plug the financial hole. The British insurer was forced to inject £200 million (\$310 million) into its Irish unit.

Reuters

China typhoon insured losses to hit \$354 million

■ Insured losses in China from Typhoon Chan-hom are unlikely to exceed 2.2 billion yuan (\$354.2 million), according to Boston-based catastrophe modeler AIR Worldwide. The typhoon made landfall in the coastal city of Zhoushan, China, on July 11. At the time of landfall, the typhoon was a Category 2 storm, “making it one of the strongest to hit the region this year,” said Kevin Hill, a senior scientist at AIR Worldwide, in a statement. “Heavy downpours doused Shanghai and the provinces of Anhui and Fujian, flooding roads and fields,” said Mr. Hill. AIR noted that official estimates on July 15 put total economic losses at 9.1 billion yuan (\$1.47 billion). AIR said its insured loss estimates include take-up rates that vary by line of business and province. “Note, however, there is considerable uncertainty around these take-up rates,” it added.

Willis names Europe lead for investment unit

■ Brian Shea has been appointed head of Europe for Willis Capital Markets & Advisory, effective Aug. 24. Based in London, Mr. Shea joins the Willis Group Holdings P.L.C. unit from Paris-based reinsurer Scor S.E., where he was chief corporate strategy officer. He replaces Michiel Bakker, who left Willis earlier this year. “As a recognized thought leader in the European insurance industry, and with a wealth of experience identifying shareholder value, Brian will be a significant and valuable asset for WCMA clients,” Rafal Walkiewicz, co-CEO of Willis Capital Markets, said in a statement.

Capital ‘appropriate’ for U.K. insurers

■ Britain will not use new European Union Solvency II insurance rules to force the sector to top up on capital, but some companies will need a lengthy grace period to increase their safety buffers, the country’s top insurance regulator said. The new rules take effect in January. “I have heard from some

a concern that we will use Solvency II to increase levels of capitalization across the sector, or that we are seeking to load the sector with more capital now so that it is baked into the new regime once operational,” said Sam Woods, executive director of insurance supervision at the Bank of England. “Let me state very simply: There is no such plan within the Bank of England,” he told a conference. “We think that our current regime secures an appropriate

level of capitalization for the insurance sector and puts us in a good position to make the shift.”

Reuters

Tryg’s profit takes a hit as customers depart

■ Tryg A/S, the Nordic region’s second-biggest general insurer, missed second-quarter profit forecasts, with its sales falling year-on-

year for the 12th consecutive quarter. Lower premium income was mainly due to the loss of a few major corporate customers, as well as a growing preference for smaller cars that cost less to insure. Profit before tax fell 38% to 714 million Danish crowns (\$106.3 million) in April-June. Tryg’s premium income fell 3.4% year-on-year to 4.55 billion crowns (\$677.5 million). “Car insurance counts for around one-third of the top line, and with smaller cars, premium

income is lower,” Chief Executive Morten Hubbe told Reuters. Car sales in Denmark hit a record in June, but mainly due to Danes replacing medium-size cars with smaller ones. Tryg took an 84 million crown (\$12.5 million) loss on investments, compared with a gain of 259 million (\$38.6 million) in the second quarter last year. “The development in Greece has led to more turmoil on the financial markets than we hoped for,” he said.

Reuters

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NEXT GENERATION RISES AT LOCKTON

Q What can you say about Lockton's succession plan?

A Obviously we are a privately held company, so we can't get into the details of our succession plan, but ... I see it as an ever growing process, and Lockton's fortunate to have a lot of young talent in important positions. Certainly the formalization of me becoming vice chairman is one step in that process.

Q How old were you when you took your first job at Lockton, and what did you learn from that experience?

A When I was 19, I began working here at Lockton as a summer intern. It was the summer after my freshman year of college. My brother was in the mailroom, and I was a file clerk in the claims department. It was a good experience, I enjoyed it. It was really my first experience working closely with Lockton and associates. I got an upfront seat to learn about the Lockton culture. Claims is a great place to learn about the business: It's sort of where the rubber meets the road.

Q&A

Q What do you see for the future of the brokerage industry?

A A couple of points come to mind. I think we will see on the brokerage side of business certainly some continued consolidation. There is probably going to be some expansion in sources of capital available for taking risks, so it will be an interesting dynamic. I think risk managers and insurance buyers will have fewer brokerage choices but they will have a lot of options when it comes to ways to transfer risk.

This is a knowledge-based business; I think the successful broker

in the future is going to have to be smart, have a lot of resources, be a student of the business and really be able to serve their clients with all of those attributes.

Q What is the best part of what you get to do every day?

A All of the key decision makers in our company and certainly all of the shareholders have day-to-day client responsibilities. That has always been a part of what I have done whether I was president or whether I was transitioning into our holding company.

Over the last year I have been working on projects and working closely with our chairman, David Lockton (Ron's uncle), and learning about strategies and what it takes to operate a global business at same time working with clients.

I think the best part of what I do is being able to be close to the business in terms of what we do, which is focus on and service clients, and at the same time have a seat at the table where we are making important decisions about how to move the business forward.

It's a really unique thing in the brokerage world. You don't very



RON LOCKTON

LOCKTON COS. L.L.C.

Ron Lockton was recently appointed vice chairman of insurance broker Lockton Cos. L.L.C. Before that, Mr. Lockton was president of Lockton's property/casualty operations in Kansas City, Missouri, and previously worked at Aetna Inc. as a casualty underwriter. He recently spoke with *Business Insurance* Editorial Assistant Joyce Famakinwa to discuss his new role and the future of the brokerage industry. Edited excerpts follow.

often see key executives that also handle client relationships on a day to day basis.

Q Why is it important to have a succession plan now, and what advice do you have for other organizations when it comes to this?

A I don't have a crystal ball, and we are certainly not business succession experts but we do have a little bit of experience with it. In 1998 my father (Jack Lockton) was diagnosed with pancreatic cancer, and we had to move very quickly and make a lot of decisions about

succession sort of in a forced manner. The biggest thing we learned there is that it's awfully nice to take your time and that ... succession planning is really important.

Q What do you feel you bring to this role?

A As an owner of the company, I feel my appointment to vice chairman speaks volumes about our family's commitment to our business remaining a private enterprise. To have a Lockton in our succession plan at a high level makes a statement that we are ... in this for the long run.

COMINGS & GOINGS

UP CLOSE: JAMIE TRISH

NEW YORK-BASED PRESIDENT OF NORTHEAST BUSINESS INSURANCE OPERATIONS

Liberty Mutual Insurance Co.

PREVIOUS POSITION: New York-based regional vice president of Metro New York and Northeast business insurance operations for Liberty Mutual

GOALS FOR NEW POSITION: To grow business profitably within our preferred appetite in all of our Northeast markets.

CHALLENGES FACING INDUSTRY: Competition is being fueled by excess capital combined with low interest rates, making underwriting all the more critical to earnings. Second, as an industry we need to step up to attract and retain top talent.

INDUSTRY OUTLOOK: Most companies are focused on smart underwriting results through enhanced analytics. Given this, I see a stable outlook with the industry looking for low single-digit pricing to keep up with loss cost.

FIRST INDUSTRY JOB: Liberty Mutual's corporate development program, which took me through rotations in marketing, underwriting, claims and operations over a two-year period.



WHAT SURPRISED ME: I was pleasantly surprised by how dynamic the industry is.

OUTSIDE THE INDUSTRY, A DREAM JOB: Mayor of New York City.

HOBBIES: Travel, keeping fit and spending time with family and friends.

THING MOST PEOPLE DON'T KNOW ABOUT ME: I grew up in California and have worked in six states across the eastern part of the country during my career.

FAVORITE MEAL: Anything my husband makes — he is a fantastic cook!

ON A SATURDAY AFTERNOON: You will find me spending time with my twin daughters, who will be in first grade in the fall.

FAVORITE BOOK: Hilary Mantel's Thomas Cromwell trilogy.

CAN'T-MISS TELEVISION SHOW: Would rather be reading a book.

Professional Moves & Promotions

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Hyperion Insurance Group Ltd.	Oliver Corbett
JLT Specialty Insurance Services Inc.	Joe Addison
Lockton Cos. L.L.C.	Peter Caine

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Skuld	Ove Kristian Roll
Castel Underwriting Agencies Ltd.	James Nugent

REINSURANCE

Peak Reinsurance Co. Ltd.	Eckart Roth
JLT Re Ltd.	Alison Wham
BMS Intermediaries Inc.	Erin Vaccaro

OTHER

Risk Management Solutions Inc.	Sanjiv Sharma
Alvarez & Marsal Holdings L.L.C.	Arun Thakur
Mercer L.L.C.	Simon O'Regan

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TUESDAY, SEPTEMBER 1



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Richard Kerr
Founder & CEO - **MarketScout**



Using Technology and Innovation in Response to the Rapidly Evolving Landscape of Risk
Robert S. Schimek
SVP & CEO of the Americas - **AIG**



Lloyd's of London: Access, Underwriting and New Initiatives
Hank Watkins
President - **Lloyd's America, Inc.**



Synergy and Value Investing: The Spencer Capital Story
Tina Youngblood
CEO - **Spencer Re, I.I.**



How to Build Profitable MGA's and Wholesalers
John M. Wepler
Chairman & CEO - **MarshBerry**



Evolving Practices in Claims Management
David North
President & CEO - **Sedgwick**



Growth, Opportunity and Implementation
Greg Williams
CEO - **Acrisure**



An Unusual Path to the C-Suite
Michael Sillat
President & CEO - **WKFC Underwriting Managers**

WEDNESDAY, SEPTEMBER 2



Anchoring Our Growth and Innovation
Jim Roe
President - **Arlington/Roe, & Co.**



Access to Investors and Opportunity
John Kraska
President - **Dowling Hales**



Future of Insurance
Rafal Walkiewicz
Co-CEO - **Willis Capital Markets & Advisory**



Millennials in the Workforce
Steve England
President & CEO - **Global Special Risks**



Discussion Panel: Millennials
Moderator: Elizabeth B. White
President - **Peachtree Special Risk Brokers**



Catastrophe Modeling
Hemant H. Shah
Co-Founder & CEO - **Risk Management Solutions**



Cyber Risk - The New Frontier
David Kimmel
CEO - **CyberRiskPartners**

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EDITORIAL

BACK TO THE DRAWING BOARD

Recent Delaware legislation in some respects has knocked businesses almost back to square one when it comes to addressing the rising costs of litigation associated with merger and acquisition activity. S.B. 75, signed into law by Delaware Gov. Jack Markell last month, would prohibit publicly traded corporations from adopting bylaws that force shareholders to pay legal fees if they do not win their lawsuits against the corporation.

The litigation addresses a May 2014 ruling by the Delaware Supreme Court in *ATP Tour v. Deutscher Tennis Bund*, in which the court upheld a bylaw that requires plaintiff shareholders who lose derivative litigation to pay defense costs.

The so-called fee-shifting bylaws were intended to address the virtual certainty that merger and acquisition transactions result in litigation contesting them. According to a report by Cornerstone Research Inc., 93% of deals valued at more than \$100 million were litigated in 2014.

These statistics to the contrary, “Not every M&A transaction is worth a lawsuit,” one observer has noted. But that has not stopped plaintiff attorneys from filing the litigation, and clearly it is adding unwarranted legal costs to American businesses. As the U.S. Chamber of Commerce’s Institute for Legal Reform has pointed out, permitting these corporate bylaws would have deterred abusive M&A litigation and kept innocent shareholders from paying the costs.

But even some business advocates acknowledge that the bylaws may have gone too far and that, in addressing this issue, both sides may have been using a sledgehammer when a scalpel was more appropriate.

There are other ways to address this issue that balance everyone’s rights. They include less drastic provisions such as calling for shareholders bringing litigation to represent a certain percentage of the company’s stock, or requirements that plaintiffs own the stock for a certain period of time, possibly discouraging opportunism.

One bright spot in the Delaware litigation is a provision that certificates of incorporation and corporate bylaws may specify that “intercorporate claims” must be brought only in Delaware courts in an apparent effort to address the issue of parallel litigation filed in multiple states. This is a step in the right direction in preventing abusive litigation. For now, though, we can only wait and see how this all works out.

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

SOCIETY’S PROBLEMS CROSS INTO THE WORKPLACE

Just how far is the hatred that led to the deaths of the Charleston 9 from the American workplace? Perhaps not as far as we’d like to think. On its surface, the killing of nine churchgoers who were shot allegedly by a 21-year-old racist at a Bible study meeting last month appear to be a long distance from the corridors of corporate America.

But a recent court ruling questions that assumption. It involves flight attendant Renee Pryor, an African-American, who discovered a note in her mailbox in Dulles International Airport in 2011 that took the form of a hunting license to kill black people.

The note included a racial epithet as well as a hand-drawn image of a person hanging from a pole or a tree, according to a ruling this month by the 4th U.S. Circuit Court of Appeals in Richmond, Virginia, in *Renee Pryor v. United Air Lines Inc.*

Despite her complaints to company officials, Ms. Pryor wound up having to file complaints with the police and the airline’s employee service center, according to the ruling. United Airlines eventually investigated and said it could not identify a suspect.

Ms. Pryor received a subsequent note, and other black airline attendants received similar notes and were subjected to racist rumors and breakroom postings, according to the ruling.

The 4th Circuit ruling minced few words in its criticism of the airline in overturning a lower court ruling and reinstating Ms. Pryor’s hostile work environment claim. It “bears emphasizing that an employer’s response need not be perfect, or even embody best practices, to be considered reasonably calculated to end harassing conduct,” said the ruling.



JUDY GREENWALD
SENIOR EDITOR

But “a reasonable jury could conclude that the response United actually chose was neither prompt nor reasonably calculated. Indeed, a reasonable jury could find that United’s response was instead reluctant and reactive, intended to minimize any disruption to day-to-day operations instead of identifying a perpetrator and deterring future harassment.”

In fact, at one point the opinion goes so far as to suggest United put Ms. Pryor’s safety at risk. The threats, it states, were left in a secure mailroom at a major airport. “In an age of unparalleled attention paid to the security of air travel, a death threat left for an airline employee in a secure, restricted space should have been viewed with heightened concern,” it said.

This is not to put United Airlines in the same box with the young man who allegedly killed those nine people. But arguably, there is a continuum between what happened in Charleston, South Carolina, and the airline’s alleged indifference and apparent misplaced concern with the potential disruption to its day-to-day activities. At the very least, the incident brings home the message that the world’s turmoil does not stop at our workplaces’ doorsteps. The ugliness of the racism Ms. Pryor and others faced with those notes confirms that. And that is something businesses have a responsibility to address head-on.

Read the small print when buying cyber cover

As insurers exclude cyber coverage from commercial general liability policies, it's critical for buyers to use a keen eye for details such as sublimits and exclusions when transitioning to a stand-alone cyber policy, says Collin Hite of law firm Hirschler Fleischer.

Data breaches continue to escalate and garner national attention. While 2014 may be known as the worst year yet for data breaches, 2015 is off to a major start. The situation is getting so bad that businesses large and small are finally realizing that the question is not if they will get breached, but when. And the sheer number of high-profile breaches in the past year reminds policyholders that cyber coverage is a critical part of any insurance program.

In response to the continually growing risk of loss from cyber and privacy violations, insurers are reacting in two ways. First, most are now excluding cyber risks from more traditional insurance policies, such as commercial general liability or errors & omissions.

Second, they are racing into the market with new products aimed at providing specialized coverage for such losses. Estimates are that data breach policies are changing every six months to keep pace with the size of the risk and exposure.

CGL isn't for cyber coverage

Just as insurers reacted to CGL policies providing coverage for environmental exposures, they are now doing so with respect to cyber losses.

In 2014, the Insurance Services Office introduced several new endorsements addressing access or disclosure of confidential or personal data. These endorsements will strip most, if not all, coverage for data-related losses from CGL policies.

The losses that are excluded could cripple a business with response and rebuilding expenses related to their network infrastructure. These endorsements are already showing up in most renewals.

A true cyber policy is best

In obtaining cyber insurance for losses, it's critical that businesses understand the full scope of the coverage. Insurance to protect your property and network can include: 1) computer data restoration; 2) re-securing a company's information network; 3) theft and fraud coverage; 4) business interruption; 5) forensic investigations; 6) crisis and public relations management; and 7) extortion. Coverage attorneys note that first-party losses are usually the highest costs to a business suffering a cyber attack, so adequate coverage in this area is vital.

Organizations also need liability coverage. Of

course, most coverage in this area will provide for a defense to litigation brought by customers for their direct losses due to a breach. However, insurance may also cover: 1) Payment card industry-data security standard liability; 2) credit monitoring for customers; 3) the cost associated with notifying customers of a breach; 4) media and privacy liability; and 5) responses to regulatory investigations. Policyholders can obtain difference in conditions coverage under certain aspects of first- and third-party coverages.

Today, "cyber" can be a misnomer for the breadth of coverage available.

However, the policy forms among the insurance carriers vary tremendously, and policyholders must be vigilant to ensure they purchase the right coverage. Policyholders must look well beyond the declarations page and coverage grant when considering this type of insurance. Though those are obviously important, the devil is in the details.

"The sheer number of high-profile breaches in the past year reminds policyholders that cyber coverage is a critical part of any insurance program."



Here are some important areas to consider:

- Watch the sublimits. While many policyholders have a far better understanding of standard CGL and property coverage, it remains critical for them to truly understand the nature of a cyber policy being added into their insurance program. It is not uncommon for the most expensive and necessary aspects of coverage to have the lowest sublimits. Policyholders have to understand their risk and the costs for responding to a breach, then make sure the sublimits are appropriate for them.

- The definitions matter. Because insurers all use different forms for data breach and privacy insurance, the definitions in the policy are critical to the scope of coverage. For example, how does the policy define "computer system?" That definition may make all the difference in whether there is coverage or not. The same is true for "wrongful act" and a host of other terms that are highly specific to the insurer's forms. Remember, data breaches can take all forms of attack so you need the policy to account for them.

- Exclusions apply. No surprise, these policies also contain a litany of exclusions. A prospective buyer of cyber insurance must pay particular attention to them. Match the exclusions with the numerous definitions, and it becomes easy to see how tough it can be to have coverage at the end of the day. That does not mean such insurance is not critical — it is. But, a prospective buyer must be hypervigilant to determine what the policy offers against the risks, and negotiate like the devil for better terms.

- It's cool to be retro. A survey by cyber security firm Mandiant, a FireEye company, noted that in 2013 the average number of days a hacker is in your system before discovery is 229. Of course, many businesses continue to struggle with detecting a breach. This means you need a retroactive date of at least a year to ensure coverage for this lag. Ideally, a policyholder would want a minimum of two years, if possible.

- The value of the vendors. One of the main selling points of such insurance is that the insurers bring all the resources to the table. The insurers will have forensic information technology vendors to assist in closing the breach. They have credit monitoring and public relations experts. The goal is that one call to your insurer after a data breach will immediately marshal these resources. But, do you know these vendors, and will they do more harm than good for you? Policyholders should vet the vendors to determine whether they are best in class or negotiate on the issue.

Time spent upfront on an in-depth analysis when considering such insurance may prevent the type of fight many policyholders are facing to get the coverage they paid for from their insurer. Working closely with your broker and coverage counsel may seem tedious, but ensuring the correct coverage can prevent unwanted litigation after the fact.



Collin Hite is the practice leader of the insurance recovery team in Hirschler Fleischer's Richmond, Virginia, office. He handles insurance recovery and coverage litigation nationally, as well as providing insurance policy and program audits for policyholders. He can be reached at 804-771-9595 or chite@hf-law.com.

SPECIAL REPORT

Broker Trends & Profiles

Diversification moves aim to increase broker relevance

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Mergers gain momentum as firms chase scale

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Restructuring efforts improve efficiency, profit

PAGE 22

Mergers transform the market

Brokerage firms expand, retool to succeed in changing commercial environment

BY MARK A. HOFMANN

The commercial insurance brokerage sector saw a steady increase in mergers and acquisitions over the past year as firms continue to position themselves for growth in a soft property/casualty insurance market and extend their capabilities in growth areas, such as benefits.

There's no sign that will change anytime soon. That was evident in recent weeks when Willis Group Holdings P.L.C. and Towers Watson & Co. unveiled plans to merge in an \$18 billion deal, which will give Willis access to Towers Watson's private health insurance exchange, among other things.

"Some brokerage company is selling out to another brokerage company every day," said J. Paul Newsome, managing director at Sandler O'Neill & Partners L.P. in Chicago.

Despite the softening property/casualty insurance market and continued uncertainty over a slowly growing global economy, the world's 10 largest brokerages maintained their rankings with a collective 6.5% gain in 2014 brokerage revenue, which grew to \$41.1 billion, according to *Business Insurance's* annual survey.

Arthur J. Gallagher & Co. registered the largest increase among the top 10, with a 28.7% jump in 2014 brokerage revenue that reflects its aggressive acquisition strategy. Its 2014 purchases included the \$938 million deal for Australia's Wesfarmers Ltd.

Brown & Brown Inc., which also has grown through acquisition, reported a 15.6% increase in income, followed by Hub International Ltd. at 12.9% and Lockton Cos. L.L.C. at 10.2%.

Only one member of the world's top 10 reported a decline in brokerage revenue: Wells Fargo Insurance Services USA Inc., which has been divesting, selling 40 insurance brokerages and consulting offices to USI Insurance Services L.L.C. in 2014. Wells Fargo reported brokerage revenue dropped 3.8% in 2014, the fourth annual decline in a row. That left it just ahead of No. 9 Hub International Ltd.

Among the 10 largest brokers of U.S. business, Marsh & McLennan Cos. Inc. regained the top spot that Aon P.L.C. had held for two years, and USI Holdings Corp. took the No. 8 spot from Lockton Cos. L.L.C., both with slightly faster growth rates than those of their rivals.

Newcomers and familiar faces

A couple of brokerages among the top 100 brokers of U.S. business saw rapid growth. Acrisure L.L.C., No. 19 on the top 100 list, reported a 147.1% acquisition-driven increase in brokerage revenue, while Jardine Lloyd Thompson Group P.L.C., which has made a significant recruitment push in the U.S. over the past year, reported a 122.5% increase in U.S. revenue. Edgewood Partners Insurance Center, which jumped to No. 23 this year from No. 44 last year, was the only other top 100 U.S. broker reporting

a triple-digit increase in revenue, with 108.4%.

On the other side of the acquisition coin, No. 63 U.S. broker William Gallagher Associates Insurance Brokers Inc. is set to be acquired by Arthur J. Gallagher & Co. later this year.

M&As are on track to make 2015 a record year, said Phil Trem, vice president of mergers and acquisitions at Willoughby, Ohio-based Marsh, Berry & Co. Inc. He said 148 deals announced in the first five months of the year are the largest five-month total since MarshBerry began tracking brokerage M&As in 2005.

"We expect 375 to 400 announced deals this year," Mr. Trem said, surpassing the previous record of 325 in 2012.

"It's absolutely a seller's market," with high valuations making agency owners consider selling, Mr. Trem said. "Firms that never thought about selling are testing the waters."

Factors spurring the moves include still-low interest rates that limit profits as well as generally flat insurance rates, prompting brokers to grow by acquisition as well as expanding the coverage they offer.

Commercial property/casualty rates are flat or declining slightly, said Bobby Reagan, CEO of Atlanta-based Reagan Consulting.

"People are learning to live with the world we've got," he said. "A lot of agents are stepping up their sales focus. The firms that really are stepping out will have one or more areas of specialization where they gain competitive advantage."

BROKER PROFILES

Profiles of the world's 10 largest brokers begin on page 24.

- 1 Marsh & McLennan Cos. Inc.
- 2 Aon P.L.C.
- 3 Willis Group Holdings P.L.C.
- 4 Arthur J. Gallagher & Co.
- 5 Jardine Lloyd Thompson Group
- 6 BB&T Insurance Holdings Inc.
- 7 Brown & Brown Inc.
- 8 Wells Fargo Insurance Services
- 9 Hub International Ltd.
- 10 Lockton Cos. L.L.C.

BROKER RANKINGS

- | | |
|--------------------------|-----|
| Top 10 Worldwide Brokers | P18 |
| Top 100 U.S. Brokers | P20 |
| Top 10 Retail Brokers | P17 |
| Top 10 Private Brokers | P22 |
| Top 10 Benefits Brokers | P23 |

Mr. Reagan described brokers' 2014 results as "pretty steady." Reagan Consulting's quarterly organic growth and profitability study showed that the median industry organic growth was 6.2% in 2014, almost identical to that in 2013 and 2012.

"We've had three years of steady solid organic growth," Mr. Reagan said. For the first quarter of 2015, organic growth was 5.8% and "we're anticipating it will probably be in the mid to higher 5% range" for all of 2015, he said. "Overall, the market is strong."

The insurance brokerage market in general was a "relatively good group" in terms of performance, said Mr. Newsome. It was "not extremely better or worse than the overall market," he said.

Several brokers are looking for growth in the benefits arena, Mr. Newsome said.

That includes Willis, which cited Towers Watson's exchange as one factor in the deal it announced in recent weeks. "The hottest topic is the (private) insurance exchanges and how quickly those businesses grow," Mr. Newsome said.

"Aon is probably the one that's the most prominent," he said. "It was early in developing its own health insurance exchange."

Timothy J. Cunningham, Chicago-based managing partner at consulting firm Optis Partners L.L.C., said despite flattening rates, pockets of higher pricing remain, such as coastal property coverage and public company directors and officers liability insurance.

"We're still seeing some economic growth, which kind of offsets" lower rates, he said.

"We are starting to see some kind of economic growth again in Western Europe, which is a decent market," said Meyer Shields, managing director at Keefe Bruyette & Woods Inc. in Baltimore. That growth could compensate for the pressure on rates, particularly for the large international brokerages, he said.

The rate environment affects different brokers in different ways, said John Wicher, principal and founder of San Francisco-based John Wicher & Associates Inc.

For Marsh, Aon and Willis, the strong dollar has negatively affected their earnings. Those brokers are fee-based, so rates aren't going to affect their value proposition with their clients, he said.

"Then you move to Gallagher, Lockton, Brown & Brown — they continue to realize most of their revenue on a commission basis. The flat to declining rates have affected them," he said. For such brokers that dominate middle-market business, the biggest challenge is finding good people, said Mr. Wicher.

Mr. Wicher added that another trend affecting the brokerage landscape is banks shedding their insurance business, which means they are reducing their role in competing for middle-market business. The main exception is BB&T Insurance Holdings Inc., he said.

BROKERS EXPAND RANGE, DEPTH WITH DIVERSIFICATION EFFORTS

BY MATTHEW LERNER

Insurance brokers continue to diversify where they operate and the products they offer, organically and by acquisition, to remain relevant in a competitive marketplace.

Companies generally are seeking to add capabilities that they lack.

"I think firms look to do transactions that are strategic, that give them a certain geographic or product diversity," said Timothy J. Cunningham, managing director

at Chicago-based investment banking and consulting firm Optis Partners L.L.C.

"From a brokerage standpoint, I would say that diversification has largely occurred in two ways: geographically and through product diversification," said H. Wade Reece, chairman and CEO of Raleigh, North Carolina-based BB&T Insurance Holdings Inc.

"Of course we look at geography, and we look at how we can become

See **DIVERSIFICATION** page 23

LEADING U.S. COMMERCIAL RETAIL BROKERS

Ranked by 2014 commercial retail brokerage revenue from U.S. offices*

Rank	Company	2014 revenue	% change
1	Marsh & McLennan Cos. Inc.	\$2,677,000,000	7.8%
2	Aon P.L.C.	\$2,544,000,000	(0.0%)
3	Willis Group Holdings P.L.C.	\$1,030,000,000	(0.0%)
4	Arthur J. Gallagher & Co.	\$968,374,000	12.3%
5	Brown & Brown Inc.	\$863,158,389	22.3%
6	BB&T Insurance Holdings, Inc.	\$699,671,100	7.7%
7	Wells Fargo Insurance Services USA Inc.	\$604,800,000	(0.0%)
8	Lockton Cos. L.L.C.	\$588,049,000	9.2%
9	Hub International Ltd.	\$511,032,000	15.5%
10	Alliant Insurance Services, Inc.	\$401,887,355	14.1%

*Excludes revenue from placement of employee benefits.
Source: BI survey

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RSGUM
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A DECADE OF GROWTH*

Acquisitions and better use of resources contributed to brokerage revenue growth in 2014. Few benefited from an increase in investments and other income.



*In billions of dollars. **Restated.

WORLD'S 10 LARGEST INSURANCE BROKERS

Ranked by 2014 brokerage revenue

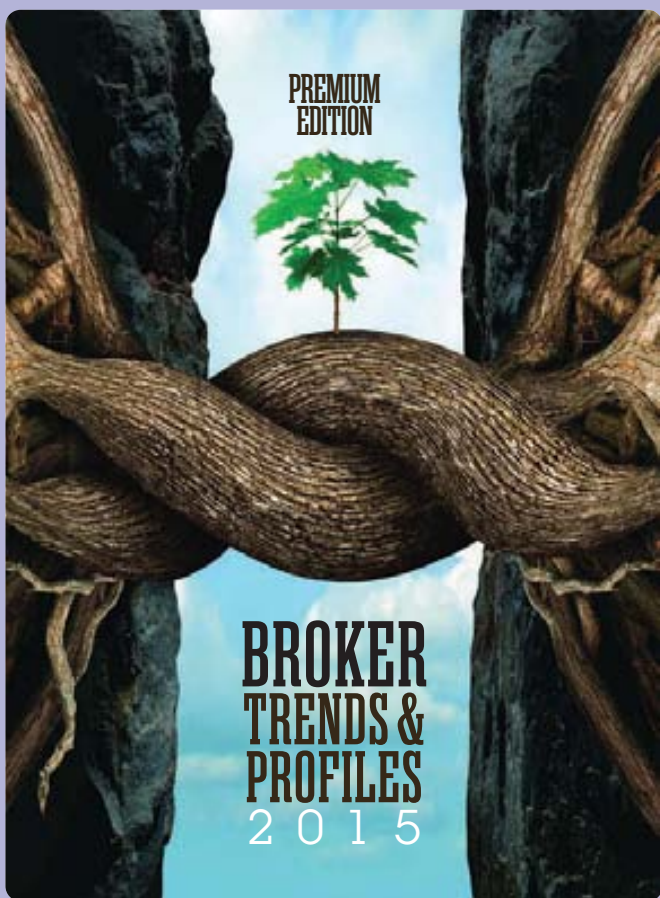
Rank	Company/address	Phone/website	Officers	2014 brokerage revenue	Percent change	Employees	Offices	Percentage of revenue*							
								Commercial	Wholesale	Reinsurance	Personal lines	Employee benefits	Services	Investments	Other
1	Marsh & McLennan Cos. Inc. 1166 Ave. of the Americas New York, NY 10036	212-345-6000 www.mmc.com	Daniel S. Glaser, president/CEO	\$12,966,000,000	5.7%	57,000	585	44.4%	0	8.9%	0	33.5%	13.2%	0.4%	(0.3%)
2	Aon P.L.C. 8 Devonshire Square London EC2M 4PL, England	44-207-623-5500 www.aon.com	Gregory C. Case, president/CEO	\$12,019,000,000	2.0%	69,000	500	43.7%	0	12.2%	0	22.2%	21.6%	0.2%	0
3	Willis Group Holdings P.L.C. 51 Lime St. London EC3M 7DQ, England	44-203-124-6000 www.willis.com	Dominic Casserley CEO	\$3,767,000,000	3.7%	18,500	400	50.6%	4.7%	22.6%	2.7%	15.2%	3.2%	0.4%	0.5%
4	Arthur J. Gallagher & Co. The Gallagher Centre 2 Pierce Place Itasca, IL 60143	630-773-3800 www.ajg.com	J. Patrick Gallagher Jr., chairman/ president/CEO	\$3,530,000,000	28.7%	20,240	550	33.4%	9.8%	0	4.2%	14.5%	14.3%	23.7%	0
5	Jardine Lloyd Thompson Group P.L.C. The St. Botolph Building 138 Houndsditch London EC3A 7AW, England	44-207-528-4444 www.jlt.com	Geoffrey Howe, chairman; Dominic Burke, group chief executive	\$1,713,992,420 ¹	6.4% ²	5,475	114	36.2%	6.8%	21.8%	2.1%	25.7%	6.8%	0.5%	0
6	BB&T Insurance Holdings Inc. 3605 Glenwood Ave. Suite 201 Raleigh, NC 27612	919-716-9777 www.insurance.bbt.com	H. Wade Reece, chairman/CEO	\$1,713,527,200	8.3%	6,168	118	39.0%	41.3%	0	5.5%	9.9%	0	0.7%	3.7%
7	Brown & Brown Inc. 220 S. Ridgewood Ave. Daytona Beach, FL 32114	386-252-9601 www.bbinsurance.com	J. Powell Brown, president/CEO	\$1,567,459,943	15.6%	7,591	235	54.8%	13.9%	0.9%	5.5%	15.7%	8.7%	0.1%	0.5%
8	Wells Fargo Insurance Services USA Inc. 150 N. Michigan Ave. Suite 3900 Chicago, IL 60601	312-423-2500 wfis.wellsfargo.com	Laura Schupbach, head of insurance	\$1,298,884,000	(3.8%)	5,419	56	39.0%	0.1%	0	13.2%	14.9%	16.5%	0.3%	16.0%
9	Hub International Ltd. 300 N. LaSalle St. 17th Floor Chicago, IL 60654	877-402-6601 www.hubinternational.com	Martin P. Hughes, chairman/CEO	\$1,295,808,000	12.9%	7,838	322	55.2%	5.6%	0	18.0%	20.3%	0.8%	0.2%	0
10	Lockton Cos. L.L.C. 444 W. 47th St. Suite 900 Kansas City, MO 64112	816-960-9000 www.lockton.com	John L. Lumelleau, president/CEO; David M. Lockton, executive chairman	\$1,230,504,000 ³	10.2% ²	5,600	65	64.1%	3.0%	3.5%	0.7%	28.0%	0	0.8%	0

*Percentage of revenue may not add up to 100% due to rounding. 1 British pound = \$1.5586. 2 2013 restated. 3 Fiscal year ending April 30.

Source: BI survey

TO DO BUSINESS WITH TOP-LEVEL BROKERS

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KNOW WHO
THEY ARE



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The Premium Edition of the 2015 Directory of Agents and Brokers

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- Percentage of brokerage revenue from U.S.-based and non-U.S. clients
- Brokerage retail and reinsurance revenues
- Employee benefits revenues
- Service revenues
- And more

What matters most to you can be found in **The Premium Edition of the 2015 Directory of Agents and Brokers.**

Free sample content available.

100 LARGEST BROKERS OF U.S. BUSINESS*

Ranked by 2014 brokerage revenue generated by U.S.-based clients

2015 rank	2014 rank	Company	2014 U.S. brokerage revenue	Percent change
1	2	Marsh & McLennan Cos. Inc. ¹	\$5,834,700,000	5.7%
2	1	Aon P.L.C.	\$5,811,186,500	4.5%
3	3	Arthur J. Gallagher & Co. ¹	\$2,400,400,000	13.7%
4	4	Willis Group Holdings P.L.C. ¹	\$1,732,820,000	3.7%**
5	5	BB&T Insurance Holdings Inc. ¹	\$1,713,527,200	8.3%
6	6	Brown & Brown Inc. ¹	\$1,567,459,943	15.6%
7	7	Wells Fargo Insurance Services USA Inc.	\$1,298,884,000	(3.8%)
8	9	USI Holdings Corp. ¹	\$912,890,811	16.7%
9	8	Lockton Cos. L.L.C. ²	\$910,572,960	10.2%
10	10	Hub International Ltd. ¹	\$907,065,600	18.0%
11	11	National Financial Partners Corp. ¹	\$795,986,566	7.3%
12	12	Alliant Insurance Services Inc. ¹	\$618,929,905	13.2%
13	13	AssuredPartners Inc. ¹	\$449,110,764	29.9%
14	NR	Towers Watson & Co.	\$444,640,300	19.1%
15	14	Jardine Lloyd Thompson Group P.L.C. ^{1,3}	\$354,796,431	122.5%**
16	19	BroadStreet Partners Inc. ¹	\$246,355,000	63.0%
17	15	Leavitt Group ¹	\$222,453,000	9.8%
18	16	CBIZ Benefits & Insurance Services Inc. ¹	\$206,100,000	7.1%
19	42	Acisire L.L.C. ¹	\$191,273,467	147.1%
20	25	Integro USA Inc. ¹	\$169,901,600	51.6%
21	18	Hays Group Inc., dba Hays Companies	\$166,900,000	8.0%
22	17	Keenan & Associates	\$162,890,000	3.7%
23	44	Edgewood Partners Insurance Center, dba EPIC ¹	\$151,724,409	108.4%
24	21	Crystal & Company ³	\$149,400,000	3.2%
25	20	Meadowbrook Insurance Group Inc.	\$141,314,105	(6.2%)
26	23	Paychex Insurance Agency Inc. ⁴	\$137,400,000	11.1%
27	27	Insurance Office of America Inc. ¹	\$128,868,289	16.0%
28	24	J. Smith Lanier & Co. ¹	\$125,012,569	2.9%
29	22	Wortham Insurance & Risk Management ¹	\$124,604,845	0.2%
30	28	The IMA Financial Group Inc. ¹	\$124,260,669	12.7%
31	26	Holmes Murphy & Associates Inc. ¹	\$122,034,875	9.4%
32	30	Higginbotham ¹	\$121,722,000	12.7%
33	29	Regions Insurance Group Inc. ¹	\$118,480,401	8.5%
34	33	BancorpSouth Insurance Services Inc. ¹	\$113,374,165	16.4%
35	37	Cottingham & Butler Inc.	\$110,204,000	22.8%
36	31	Hylant Group Inc. ¹	\$108,555,954	1.1%
37	41	Cross Financial Corp., dba Cross Insurance ¹	\$106,079,000	34.4%
38	34	PayneWest Insurance Inc. ¹	\$98,751,693	5.0%
39	52	Risk Strategies Co. Inc. ¹	\$97,756,644	67.5%
40	35	Heffernan Group ¹	\$97,380,380	5.9%
41	36	Mesirow Insurance Services Inc. ^{1,5}	\$96,215,620	5.2%
42	NR	Digital Insurance Inc. ¹	\$94,574,982	36.4%
43	43	Capacity Group of Cos. ¹	\$93,364,781	22.2%
44	38	R K Harrison Group Ltd. ^{5,7}	\$90,860,667	5.1%
45	40	Ascension Insurance Inc. ¹	\$85,602,000	5.3%
46	45	Insurica Insurance Management Network ¹	\$80,740,330	15.5%
47	NR	Insurors Group L.L.C. ¹	\$76,911,296	20.0%
48	56	Associated Financial Group L.L.C. ¹	\$75,433,260	45.2%
49	48	Assurance Agency Ltd.	\$75,375,172	13.1%
50	50	MHBT Inc. ⁸	\$73,900,000	17.8%

2015 rank	2014 rank	Company	2014 U.S. brokerage revenue	Percent change
51	49	Eastern Insurance Group L.L.C. ¹	\$66,618,246	5.1%
52	47	First Niagara Risk Management Inc.	\$65,488,287	(2.0%)
53	46	Frenkel & Co. Inc. ¹	\$65,411,971	(6.4%)
54	51	Oswald Cos. ¹	\$64,647,000	8.9%
55	55	Marshall & Sterling Enterprises Inc. ¹	\$59,654,924	9.0%
56	53	Huntington Insurance Inc.	\$58,668,390	2.2%
57	54	Lawley Service Inc. ¹	\$57,603,139	5.0%
58	NR	Houchens Insurance Group ⁹	\$57,580,030	34.0%
59	58	Horton Group Inc. ¹	\$54,419,745	10.6%
60	60	Propel Insurance ¹	\$53,757,000	16.3%
61	59	Bowen, Miclette & Britt Inc.	\$51,842,315	9.5%
62	57	SterlingRisk Inc., dba Sterling & Sterling Inc. ¹	\$50,457,000	0.7%
63	65	William Gallagher Associates Insurance Brokers Inc.	\$48,314,164	14.7%
64	66	TrueNorth Cos. L.L.C.	\$48,092,000	14.2%
65	62	Frost Insurance Agency Inc.	\$46,787,156	3.3%
66	64	M3 Insurance Solutions Inc.	\$46,391,599	8.0%**
67	68	The Graham Co.	\$45,249,262	8.6%
68	73	LMC Insurance & Risk Management Inc. ¹	\$45,195,906	14.7%
69	NR	Poms & Associates Insurance Brokers Inc.	\$44,766,850	1.7%
70	63	The Mahoney Group	\$44,560,393	1.2%
71	71	James A. Scott & Son Inc., dba Scott Insurance	\$44,147,000	8.0%
72	70	Riggs, Counselman, Michaels & Downes Inc.	\$44,110,857	7.4%
73	75	Moreton & Co.	\$43,858,000	13.7%
74	72	M&T Insurance Agency Inc.	\$42,930,000	6.3%
75	77	Parker, Smith & Feek Inc.	\$42,600,000	13.8%
76	69	Starkweather & Shepley Insurance Brokerage Inc. ¹	\$42,553,000	2.8%
77	74	Towne Insurance Agency Inc. ¹	\$41,926,473	8.7%
78	76	Old Insurance Group Inc., dba Old National Insurance	\$40,834,489	7.7%
79	78	Corporate Synergies Group L.L.C.	\$38,980,000	4.9%
80	NR	ABD Insurance & Financial Services Inc.	\$36,900,000	29.5%
81	87	Bolton & Co. ¹	\$36,321,250	21.3%
82	79	Robertson Ryan & Associates Inc.	\$35,829,852	3.5%
83	80	Bouchard Insurance Inc., dba Roger Bouchard Insurance Inc.	\$34,716,879	4.0%
84	83	Charles L. Crane Agency Co.	\$33,954,164	2.9%
85	84	Gowrie Group ¹	\$33,165,000	2.2%
86	85	Cook Maran & Associates Inc. ^{1,10}	\$33,052,000	6.6%
87	81	The Loomis Co.	\$31,948,000	(3.9%)
88	89	Cobbs Allen	\$31,898,636	8.3%
89	86	James G Parker Insurance Associates ¹	\$31,859,000	4.8%
90	90	J.W. Terrill Inc. ⁸	\$31,500,000	8.6%
91	92	SullivanCurtisMonroe Insurance Services L.L.C.	\$30,682,000	8.4%
92	82	Lovitt & Touche Inc.	\$30,652,141	(7.6%)
93	NR	Armfield, Harrison & Thomas Inc., dba AHT Insurance	\$29,915,198	29.7%
94	94	Haylor, Freyer & Coon Inc. ^{1,11}	\$29,751,078	6.0%
95	91	Tolman & Wiker Insurance Services L.L.C.	\$28,676,959	0.8%
96	96	Underwriters Safety & Claims Inc., dba The Underwriters Group	\$28,461,510	3.3%
97	95	Tompkins Insurance Agencies Inc.	\$28,264,000	2.6%
98	99	Ansay & Associates L.L.C.	\$27,551,902	13.3%
99	97	MJ Insurance Inc. ^{3,11}	\$26,845,151	7.8%
100	NR	PSA Financial Services Inc. ^{1,5}	\$26,643,598	12.9%

NR Not ranked in 2014. *Companies that derive more than 49% of their gross revenue from personal lines benefits are not ranked. **2013 restated. 1 Reported U.S. acquisitions in 2014. 2 Fiscal year ending April 30. 3 British pound = \$1.5586. 4 Fiscal year ending May 31. 5 Fiscal year ending March 31. 6 Fiscal year ending June 30. 7 British pound = \$1.5205. 8 Acquired by Marsh & McLennan Agency L.L.C. in 2015. 9 Fiscal year ending Sept 30. 10 Fiscal year ending Feb 28. 11 Fiscal year ending Aug. 31.

Source: BI survey

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Broker M&A deals set record pace in first half

BY TIMOTHY J. CUNNINGHAM
AND DANIEL P. MENZER

Private equity-backed buyers again dominated mergers and acquisitions of insurance agents and brokers during the record-setting first half of 2015.

There were 224 announced transactions in the U.S. and Canada during the first six months of the year, 29% more than the same period last year and 22% higher than the previous six-month record period in the second half of last year.

With 110 transactions, private equity-backed buyers accounted for 49% of the total and represented eight of the 10 most active first-half buyers.

Privately owned buyers were a distant No. 2 with 61 deals.

There were 99 unique buyers in 2015, an increase of more than

20 over the same period in 2014 and 2013, with 11 announcing five or more deals vs. eight during the first half of 2014 and 2013.

Private equity-backed firms Acrisure L.L.C., AssuredPartners Inc. and Hub International Ltd. led the first-half buyer list, each with 17 deals. Arthur J. Gallagher & Co. was next with 15. BroadStreet Partners Inc. and Confie Seguros Insurance Services each had 11 transactions.

Overall, agent and broker M&As have grown steadily since the trough in mid-2013, when quarterly transactions totaled 50 to 60. But over the past eight quarters, four have had more than 90 transactions. And the past three quarters have had more than 100 deals apiece.

For the 12-month period ended in June, there were 407 deals announced, a 14% rise over 2014.

Each of the buyer groups, except those that are publicly owned, increased their M&A activity during the first half of this year. Private equity-backed firms announced 42 more trans-

actions this year than last year, a 59% increase. The private equity-backed group represented more than 80% of the total year-

FIRST-HALF BUYING

Private equity-backed firms were far and away the top buyers of insurance agents and brokers during the first half of the year.

Buyer type	Deals made
Private equity	110
Privately owned	61
Publicly held	26
Bank-owned	11
All others	16
Total	224

Source: Optis Partners L.L.C.

MOST ACTIVE BUYERS

The most active acquirers of insurance agents and brokers, 2012 through mid-2015

Buyer	2012-2015		First-half 2015
	PUBLICLY HELD	PRIVATE EQUITY-BACKED	
Arthur J. Gallagher & Co.	98	15	
Hub International Ltd.	94	17	
AssuredPartners Inc.	81	17	
BroadStreet Partners Inc.	61	11	
Confie Seguros Insurance Services	56	11	
Acrisure L.L.C.	50	17	
Brown & Brown Inc.	34	6	
USI Holdings Corp.	33	3	
Digital Insurance Inc.	27	0	
National Financial Partners Corp.	25	7	

Source: Optis Partners L.L.C.

over-year growth in announced deals.

Privately owned agencies also continued their record-setting pace, besting their previous high of 60 acquisitions last year at this time with 61 announced through the first half of this year. But publicly held brokers saw a decline to 26 during the first half of 2015 from 28 transactions in the first half of 2014, primarily due to reduced activity by Marsh & McLennan Agency L.L.C.

Agents and brokers specializing in property/casualty coverage continue to be the primary acquisition targets, with nearly 60% of all deals this year involving them vs. 40% to 45% during 2012-2014.

The 224 reported deals this year do not include international acquisitions or recapitalizations by private equity-backed firms. The late June merger of Willis Group Holdings P.L.C. and Towers Watson & Co. also is excluded, since Willis is based in London.

There also were several changes among private equity players. Most notably, Stone Point Capital L.L.C. took a stake in Alliant Insurance Services Inc., supplanting rival investment firm Kohlberg Kravis Roberts & Co. L.P. as the largest institutional investor in Alliant; and ABRY Partners invested in The Hilb Group L.L.C., a deal in which BHMS Investments L.P. exited the business.

Additionally, several of this year's top 100 brokers of U.S. business were sold this year. They include No. 50 MHBT Inc. and No. 90 J.W. Terrill Inc., which Marsh & McLennan Agency purchased; and No. 86 Cook Maran & Associates Inc., which Prime Risk Partners Inc. bought.

Looking to the balance of 2015 and beyond, there will likely be a slowdown in activity and pricing aggressiveness as the overall market returns to some degree of normality, but not yet.

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

Corporate revamps cut expenses in a soft market

BY DOUGLAS McLEOD

Mergers and insurance pricing cycles are facts of life in the brokerage industry as is corporate restructuring.

Most publicly held brokers and many private ones have launched restructuring programs in recent years. While some have been driven by acquisition integration, many others aim to expand profit margins by cutting expenses and improving efficiency in a soft property/casualty market, experts say.

As commission-based revenues follow insurance prices downward, brokers try to improve their profit by cutting expenses.

Whatever the motives, restructuring is a constant in the industry.

Which brokers are doing it at any given time "depends on what time of day you look," Gretchen Roetzer, a director at Fitch Ratings Inc. in Chicago, said jokingly.

Global brokers typically have followed major acquisitions with restructuring. In 2010, for example, Aon P.L.C. reported three such concurrent programs: two covering its respective 2008 and 2010 acquisitions of Benfield Group Ltd. and Hewitt Associates Inc., and a nonmerger-related streamlining process begun in 2007 that elimi-

nated 4,700 jobs and closed or consolidated several offices.

By the time the Hewitt integration wound down in 2013, Aon Hewitt had eliminated 2,960 jobs at a cost of \$266 million and consolidated real estate holdings at a cost of another \$163 million, according to Aon's financial statements. Aon realized \$565 million in savings in 2012 and 2013 from the restructuring, the company reported.

"There's a lot of room, especially for the big brokers, to increase their efficiency because of the number of acquisitions they do over time," Ms. Roetzer said.

"M&A does drive a lot of these," though the activity is concentrated among the most acquisitive firms, said John L. Ward, principal of insurance private equity firm Cincinnati Partners L.L.C. in Loveland, Ohio.

Controlling costs and improving efficiency drive many other restructuring programs.

For example, Willis Group Holdings P.L.C. last year launched a three-year "operational improvement program" to cut costs and improve client services. The program will send 3,500 support jobs to lower-cost near-shore and off-shore centers, cutting the number of workers in higher-cost locations

LARGEST PRIVATELY OWNED BROKERS

Rank	Company	2014 broker revenue	Percent change
1	Hub International Ltd.	\$1,295,808,000	12.9%
2	Lockton Cos. L.L.C.	\$1,230,504,000	10.2% ¹
3	USI Holdings Corp.	\$912,890,811	16.7%
4	National Financial Partners Corp.	\$820,604,707	8.4%
5	Alliant Insurance Services Inc.	\$620,170,245	13.3%
6	AssuredPartners Inc.	\$465,882,535	31.5%
7	BroadStreet Partners Inc.	\$246,355,000	63.0%
8	Leavitt Group	\$222,453,000	9.8%
9	Integro USA Inc.	\$212,377,000	51.6%
10	Acrisure L.L.C.	\$191,273,467	147.1%

Companies that derive more than 49% of revenue from personal lines are not ranked.
1 2013 restated

Source: BI survey

to 60% from 80%; reduce headcount in support positions; consolidate offices and cut square footage of floor space per employee; and simplify information technology systems, Willis reported.

The program does not cover Willis' recently announced merger with Towers Watson & Co., which the companies said would produce \$100 million to \$125 million in savings from elimination of duplicate corporate costs and increased efficiencies.

Meanwhile, Arthur J. Gallagher & Co. moved a number of back-

office functions several years ago to a third-party provider in India at lower cost. And Jardine Lloyd Thompson Group P.L.C. last year completed a two-year "business transformation program" to cut costs and improve efficiency; the program has produced £16 million (\$25 million) in annual savings for one-time costs of £17 million (\$26.5 million), according to JLT, which reported £1.1 billion (\$1.7 billion) in 2014 revenue.

Some forms of cost-cutting produce only marginal changes in the bottom line, experts say.

For middle-market brokers, producer commissions are a major expense, but firms are reluctant to reduce them because producers are key to the brokers' success, Mr. Ward said.

And while information technology and back-office functions are savings targets, "in the big picture, they aren't going to move the needle in any significant way," he said.

Still, with the soft market making it difficult for brokers to expand top-line revenue, cutting costs and improving efficiency do help.

"It's a way for them to deal with market conditions," Ms. Roetzer said.

Consolidating administrative and back-office functions — and even insurance placement functions, as in the case of placement hubs operated by Marsh L.L.C., Aon and Willis — also allow local brokers to concentrate on client service, said John Wicher, principal at consultant John Wicher & Associates Inc. in San Francisco.

A decade ago, brokers often told acquisition targets that they wouldn't interfere with the acquired companies' ongoing operations. Now, brokers want to integrate acquired companies into their technology and other platforms for efficiency's sake, he said.

"You aren't going to hear them say anymore, 'We aren't going to change you,'" Mr. Wicher said. "That's just not the reality."

DIVERSIFICATION

Continued from page 17

a significant player in each of our regions,” said Dave Eslick, chairman and CEO of Marsh & McLennan Agency L.L.C., a Marsh L.C.C. unit with a middle market focus.

“We are definitely seeing continued interest in terms of geographic expansion,” said Julie Herman, associate director of insurance rating at Standard & Poor’s Corp. in New York. “The growing brokers will want to diversify and build out their platform throughout the U.S.”

Brokers also are seeking expansion through international plays.

“An example of geographic expansion would be what Gallagher’s done in non-U.S. markets,” Mr. Reece said of Arthur J. Gallagher & Co. Gallagher’s \$940 million April 2014 purchase of Wesfarmers Ltd.’s insurance brokerage operations is one such international move.

Mr. Cunningham segmented brokers into three categories: mature publicly traded brokers, mature private equity-backed entities, and emerging private equity-backed firms.

Larger, mature brokerages, he said, have the option of conducting smaller “tuck-in” acquisitions, folding a smaller target into an existing office or operation.

Emerging firms have yet to develop the structure into which they can fold smaller deals and are more focused on assembling a network, he said.

“We are buying businesses around the world,” said J. Patrick Gallagher Jr., Gallagher’s chairman, president and CEO in Itasca, Illinois. “We look for thriving businesses with similar operating cultures that expand our geographic footprint, and that offer products and services that expand or complement our existing offerings.”

“On the product side, everyone is trying to diversify” to remain competitive, Ms. Herman said.

BB&T also sees value in product diversification

“A good example there is our interest in diversifying with Crump Life. From a product set, it gives us a broader offering, and the dynamics that drive the life market are not the same as what drives the property/casualty market, so it gives us some diversification within our own income statement,” Mr. Reece said of Crump Group Inc., which BB&T bought in 2012.

Some brokers are looking to more to specialty coverage. “Brokers are acquiring specialty distributors, including managing general agents,” Ms. Herman said.

“Specialty is a trend that some of the insurance companies are following because of the rate cycle and profit pressures,” she said. “To some extent, brokers follow the trends of insurers.”

How they diversify depends on their starting point, she said.

National Financial Partners Corp., for example, has a substantial presence in benefits, wealth management, and life and retirement, Ms. Herman said, but it is light on typical property/casualty brokerage, “so their big diversification play is into property/casualty.” An example includes National Financial Partners’ purchase earlier this year of property/casualty insurance agencies Weber’s Insurance Service Inc. and Weber’s Assurance Group L.L.C.

“Most other brokers have the opposite needs. They are heavy on commercial property/casualty and they want to diversify beyond that,” she said. “Employee benefits

is the big one.”

“Employee benefits is a critically important area for us,” said Marsh & McLennan Agency’s Mr. Eslick.

Technology firms that provide employee benefits services, such as Web-based enrollment platforms and human resources support systems, are also becoming acquisition targets due to rising enrollments in private insurance exchanges, Ms. Herman said.

Large brokers also are actively courting the middle market.

“If you look at the middle market, it’s really one of the biggest markets in the U.S.,” said Mr. Eslick. “There are approximately 13,000 brokers in the middle market.”

LARGEST BENEFITS BROKERS

Ranked by 2014 global benefits revenue

Rank	Company	2014 Employee benefits revenue	% change	% of 2014 revenue
1	Marsh & McLennan Companies Inc.	\$4,350,000,000	2.6%	33.5%
2	Aon P.L.C.	\$2,677,000,000	10.8%	22.2%
3	Arthur J. Gallagher & Co.	\$672,250,000	18.9%	14.5%
4	Willis Group Holdings P.L.C.	\$579,000,000	8.8%	15.2%
5	National Financial Partners Corp.	\$506,627,107	11.1%	43.1%
6	Jardine Lloyd Thompson Group P.L.C.	\$431,213,800	2.2%	26.7%
7	USI Holdings Corp.	\$384,310,184	10.0%	41.5%
8	Lockton Cos. L.L.C.	\$347,404,000	14.8%	28.0%
9	Gras Savoye S.A.	\$295,452,300	5.6%	37.9%
10	Hub International Ltd.	\$263,376,000	27.4%	20.3%

Source: BI survey

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1

MARSH & MCLENNAN COS. INC.

2014 gross revenue: \$12.97 billion
Percent change: 5.6% ▲

2014 brokerage revenue: \$12.97 billion
Percent change: 5.7% ▲

Marsh & McLennan Cos. Inc. remained atop the *Business Insurance* 2015 ranking of the world's largest insurance brokers, growing its brokerage revenue 5.7% in 2014 to nearly \$13 billion.



Daniel Glaser, president and CEO of Marsh & McLennan Cos. Inc.

Despite competition and softer prices in the reinsurance sector and property/casualty in general, as well as foreign exchange rates that limited gains, Marsh & McLennan posted strong results through the first quarter of 2015 with net income of \$482 million, an 8.8% rise over the same period last year.

"Marsh has performed well. They've had solid performance, solid margins, solid organic growth," said Julie Herman, associate director of insurance rating at Standard & Poor's Corp. in New York. "They certainly have had their share of headwinds, but overall they have performed well."

Despite a reinsurance market buffeted by an ongoing influx of third-party capital and new players, reinsurance brokerage unit Guy Carpenter & Co. L.L.C. "withstood the pressure in the reinsurance division fairly well," Ms. Her-

man said. "Guy Carpenter was positive organic in the first quarter of 2015, even though there are a lot of headwinds in the reinsurance market. That's because of successful new business captured to offset the declines in pricing, and also offsetting revenues they're getting from consultative

services and transactional services related to the alternative capital deals," Ms. Herman said.

A strengthening U.S. dollar has been another obstacle for international brokers with overseas businesses. The company will have to contend with foreign exchange and pension liabilities in 2015.

"While we continue to think Marsh & McLennan is the best operator in the space, we believe foreign exchange and pension liabilities will continue to present headwinds in 2015," said Sean Dargan, vice president with Macquarie Securities Group, part of Macquarie Capital (USA) Inc. in New York, in a research note.

The company is facing increased pension costs for retirees and estimated the impact to be some \$0.15/share on a fourth quarter

earnings call, according to Mr. Dargan.

At the core of the firm's success is its ability to grow, said Marsh & McLennan President and CEO Daniel Glaser.

"We're a global growth company," Mr. Glaser said. "We've been at it for 140 years, but we are absolutely a global growth company."

Despite 2014 being a "pretty tough market," the broker reported 5% organic growth. "That was our strongest growth in the last three years," Mr. Glaser said.

"2014 was also a record year for new business," he said. "That kind of business proves you can be competitive in the marketplace."

New revenue on existing accounts together with new accounts, which Mr. Glaser described as "new new" business, topped \$1 billion in 2014.

Further, Marsh & McLennan has made a series of moves during the past year to try to ensure continued growth and continuity for the firm moving forward.

In the first week of May, Peter Zaffino, president and CEO of Marsh L.L.C., was named chairman of its risk and insurance services segment, which includes brokers Marsh and Guy Carpenter.

"It's a big, fundamental change because it's essentially saying we have skills at both Marsh and Guy Carpenter that meet the needs of clients, and sometimes those skills would be better operating in a consolidated way," Mr. Glaser said of the appointment, referring to structural changes in leadership and reporting, and skills consolidation through closer cooperation between units and improved access to resources.



"We feel we now have a blueprint and foundation for a high-quality national middle-market agency."

Peter Zaffino, Marsh L.L.C.

Attracting and retaining high-caliber employees also is a priority.

"We think in the consultancy and insurance space that talent management becomes more and more important," Mr. Glaser said. "I would say that the quality and number of candidates for open positions we have has never been higher."

Another key asset for the company is its own data, Mr. Zaffino said.

"Marsh has a vast data library with more than 70 million claim records, representing losses in dozens of countries across more than 20 industries," he said. "Our investments in capturing that data are really beginning to help our clients make strategic decisions with greater confidence."

The firm is also investing in its private health care exchange, Mercer L.L.C.'s Mercer Marketplace.

"We view it as a tremendous opportunity for the company," said Mr. Glaser, adding that Marsh & McLennan itself provides insurance to its employees and retirees through the private exchange.

In February, Mercer, Marsh & McLennan's benefits consulting unit, invested \$75 million in a 9.9% stake in Benefitfocus Inc., a Charleston, South Carolina-based benefits technology provider.

Broker division Marsh also continues to build out its Marsh & McLennan Agency L.L.C. unit to serve the middle market.

"We feel we now have a blueprint and foundation for a high-quality national middle-market agency," Mr. Zaffino said.

Mr. Glaser sees Marsh & McLennan as a rare species.

"There are not many companies in the world with \$13 billion in revenue that don't manufacture anything," Mr. Glaser said.

By Matthew Lerner

2

AON P.L.C.

2014 gross revenue: \$12.05 billion
Percent change: 2.0% ▲

2014 brokerage revenue: \$12.02 billion
Percent change: 2.0% ▲

An increased emphasis on benefits-related offerings is paying off for Aon P.L.C.

The London-based broker reported 2014 brokerage revenue of \$12.02 billion, a 2.0% increase over a year earlier, making Aon No. 2 in *Business Insurance's* 2015 ranking of the world's largest insurance brokers.

Aon's commercial retail brokerage revenue dropped 2.5% to \$5.26 billion while its employee benefits revenue grew 10.8% to \$2.68 billion. Services revenue grew 5.6% to \$2.61 billion, but reinsurance revenue dropped 2.1% to \$1.47 billion.

Analysts agree that its private health insurance exchanges — Aon Active Health Exchange and Aon Retiree Health Exchange — are a plus for Aon, although there's no consensus about how much they added to the bottom line last year.



Gregory C. Case, president and CEO

Meyer Shields, managing director at Keefe, Bruyette & Woods Inc. in Baltimore, said the performance of the private exchange is Aon's biggest strength.

"As that business becomes more profitable, I think that's an area where Aon's doing very, very well and people are enthusiastic about it," Mr. Shields said.

"Our private health exchange solutions have become increasingly attractive options for companies because they leverage competition to bend the cost curve for companies, while delivering more choice, affordable care and a great experience to their employees," Aon President and CEO Gregory C. Case said in an email. "We continue to make great strides with our full spectrum of benefit strategies and funding choices in the health care space," he said. "In 2014, our

private health exchange market for active employees and retirees increased by over 60% to more than 1.2 million employees, retirees and their eligible dependents across more than 100 companies across 19 industries."

For Aon, the exchanges have "been a great source of positive publicity," said J. Paul Newsome, managing director at Sandler O'Neill & Partners L.P. in Chicago. "The stock has definitely gone up when they've announced big additions to the exchange, and they have had significant enrollment in the exchange. That said, we don't know the profitability" of the exchanges.

Mr. Newsome said Aon and other brokerages face an issue of "the general sort of mediocre growth" that's "not bad but not good, either," particularly with softening commercial insurance rates.

He also said Aon's 2012 decision to redomicile its headquarters to

London from Chicago resulted in a "fairly dramatic decline in its tax rate, and one of the questions people have generally is how sustainable is that low tax rate."

"The plus side is you actually haven't seen a lot of problems," Mr. Newsome said. "They have been able to eke out some incremental profit margin improvements. You've had relatively few surprises, and that has a value in and of itself. They deserve a decent amount of credit for consistency in results."

"We're sticking to our knitting, with an intense focus on our clients," said Mike J. O'Connor, Chicago-based CEO of Aon Risk Solutions. This involves two dimensions. One is, "How do we continue to bring industry and product expertise to our clients? Our strategy has been to continue to invest in data and analytics," he said.

The other dimension is "we see opportunity in issues around the

world, such as health and benefits around the globe," Mr. O'Connor said. "Our health and benefits practice is relevant to all of our clients and our future clients regardless of social system, how do we make sure we're bringing the best of Aon to our clients."

"Our objective is to spend time with our clients and understand what they are trying to get done," he said.

Mr. Case said Aon continues to invest in innovative technology that "reinforces our position as a strategic adviser and helps us deliver differentiated solutions to clients."

He cited as an example Aon Inpoint, a global database of risk and placement information that provides insight into more than \$119 billion of global premiums.

Mr. Case added that Aon is making similar investments at its Aon Benfield Group Ltd. reinsurance brokerage unit and "we're excited to launch ReView, a reinsurer dashboard and strategic consulting platform that helps reinsurers be more effective markets for ceding-company clients."

By Mark A. Hofmann

2014 gross revenue:	\$3.80 billion
Percent change:	4.0% ▲

2014 brokerage revenue:	\$3.77 billion
Percent change:	3.7% ▲

Willis Group Holdings P.L.C. made uneven progress on its multiyear plan to stabilize revenue growth and profitability through last year and this year, but a blockbuster merger this summer has improved the London-based broker's future prospects.



Dominic Casserley,
CEO

On June 30, Willis and New York-based Towers Watson & Co. unveiled plans to combine the companies in an \$18 billion deal that is expected to close at the end of this year. A combined Willis Towers Watson will employ roughly 39,000 people in 120 countries and is expected to generate more than \$8.2 billion in revenue.

Analysts said the merger will have a transformative effect on Willis' ability to compete with its much larger rivals, nearly doubling its size and adding a market-leading employee benefits consulting business, talent management and financial services to its property/casualty and reinsurance broking and consulting segments.

"This merger makes Willis closer in kind to the two leading companies in the industry," said Bruce Ballentine, vice president and senior credit officer at Moody's Investors Services Inc. in New York. "Willis was already a strong player at No. 3 in global brokerage, and now they're likely going to be a considerably stronger No. 3."

Willis grew its brokerage revenue 3.7% in 2014 to \$3.77 billion, maintaining its No. 3 spot in *Business Insurance's* annual ranking of the world's largest commercial insurance brokers as No. 4 Arthur J. Gallagher & Co. posted double-digit growth to nip at Willis' heels.

Through the 18 months leading up to the merger's announcement, analysts said Willis' financial performance was generally underwhelming, and views of the company's near-term outlook ranged from neutral to negative.

"On an absolute value basis, Willis has been one of the poorer performers in the insurance brokerage industry," said J. Paul Newsome, managing director at Sandler O'Neill & Partners L.P. in Chicago.

Willis' 2014 net income slipped 0.08% to \$362 million in 2014, while expenses grew 5.4% to \$3.16 billion, due in part to restructuring costs associated with the three-year operational improvement program it implemented last year.

"Up until this merger announcement, we had a negative outlook on Willis' ratings," Mr. Ballentine said, noting concerns about the amount of debt Willis carries and the added debt the company will likely have to take on to complete its proposed \$598.1 million acquisition of the rest of Puteaux, France-based broker Gras Savoye & Cie.

"We brought the outlook back to stable with the announcement of the merger, largely because Towers Watson is coming in with a low amount of debt, and we think the combined organization will have much stronger earning power relative to combined debt," Mr. Ballentine said.

Willis executives said they were generally pleased with the compa-

ny's 2014 results, citing positive organic growth in all four of its operating segments and early signs that the restructuring program is performing as intended.

Since April 2014, Willis has spent \$67 million in nonrecurring restructuring costs tied to the program and has shed \$21 million in operating expenses, reducing its organic expense growth rate to 4.6% at the end of last year vs. 7.6% in 2013, the company reported.

"Overall, I think we feel that 2014

was a very good year, and we're excited about 2015," said Willis CEO Dominic Casserley. "With the additions of (London-based broker) Miller Insurance Services L.L.P., Gras Savoye and the ongoing impact of the operational improvement program gathering pace over time." However, he added, "the merger with Towers Watson is a game changer."

Mr. Casserley said one particularly attractive aspect of the merger is the opportunity to accelerate

revenue growth through OneExchange, Towers Watson's private health insurance exchange, previously available only to national and multinational employers.

One of the most critical future tasks will be maintaining workforce productivity and engagement during integrations and internal restructuring planned through the next several years.

"We're very mindful that changes have a way of occupying people's attention, and historically we've dealt with that with very active and robust communication plans," said Todd Jones, CEO of Willis North America Inc.

By Matt Dunning



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4

ARTHUR J. GALLAGHER & CO.

2014 gross revenue: \$4.63 billion
Percent change: 45.5% ▲

2014 brokerage revenue: \$3.53 billion
Percent change: 28.7% ▲



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

Even for a brokerage known for its strategy of growth by acquisition, 2014 was a banner year for Arthur J. Gallagher & Co.

Before the year was halfway through, the Itasca, Illinois-based broker announced a series of international acquisitions that established it as a global player — Toronto-based Noraxis Capital Corp., Perth, Australia-based Wesfarmers Ltd. and London-based Oval Group of Cos. It acquired three more Australian brokerages before year-end while also acquiring U.S. producers.

The series of international acquisitions “really made Gallagher more of an international broker with a focus on English-speaking countries,” said Meyer Shields, managing director at Keefe, Bruyette & Woods Inc. in Baltimore.

“I couldn’t be happier,” said Chairman, President and CEO J. Patrick Gallagher Jr. “2014 was a seminal year for Gallagher, compa-

rable to when we took Gallagher public in 1984.”

And “we have a pipeline of acquisitions as long as it has ever been, and now we have a global pipeline,” said Mr. Gallagher, who noted Gallagher has closed more than 500 acquisitions since 1986 and that “no two are alike.”

The pipeline continued to flow this year, with Gallagher announcing in June that it had acquired Boston-based William Gallagher Associates Insurance Brokers Inc., which is No. 63 on this year’s ranking of the top 100 brokers of U.S. business.

Gallagher reported 2014 brokerage revenue of \$3.53 billion, a 28.7% increase over 2013 and a reflection of its acquisitions’ performance. That allowed Gallagher to maintain its place as No. 4 in *Business Insurance’s* annual ranking of the world’s largest brokerages.

“We change a lot every year, but what we’re trying to do stays the same,” Mr. Gallagher said. “We focus on organic growth, we take

care of our customers, and we’re aggressive about going out and telling people how we can help them.”

“Because so much of their growth is through acquisition, they do an excellent job integrating their acquisitions post-close,” said Timothy J. Cunningham, managing director with investment banking and consulting firm Optis Partners L.L.C. in Chicago.

“Because so much of their growth is through acquisition, they do an excellent job integrating their acquisitions post-close.”

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

Mr. Gallagher said the broker works very hard on “what we know is a unique culture. We’re incredibly team-based.” He said that 99% of Gallagher’s due diligence in considering acquisitions is spent on culture.

“I don’t see any obstacles to growth,” he said. “We toil in business that has about \$5 trillion in total premium” including all lines of insurance.

“The biggest challenge to growth is making sure we pick the spots we want to play in,” Mr. Gallagher said. That includes careful recruitment of the right people and careful execution of the right mergers and acquisitions, he said.

Opportunities for organic growth are also increasing, Mr. Gallagher said.

“Wherever you are in the world there are new things coming and

going — the world’s getting riskier by the day,” he said noting that when he entered the business directors and officers liability was a new coverage.

Today, risk managers face new concerns, including data management and cyber security.

He added that enterprise risk management continues to be an area in which clients want help.

One area in which Gallagher has

been particularly active is employee benefits, and Mr. Gallagher said the Patient Protection and Affordable Care Act has created opportunities.

“I think it was terrible public policy. It’s not a good law for America, but it’s a great thing for Gallagher,” he said of the federal health care reform law.

“The small benefits brokers are dead; they just haven’t laid down yet,” Mr. Gallagher added.

He said small benefits brokers have great value and bring great value to Gallagher, “but they need our expertise,” such as the 27 people in Gallagher’s compliance department, 20 of whom are lawyers.

Unlike its three larger rivals, Gallagher does not have its own private health insurance exchange. It does, however, work with Liazon Corp.’s Bright Choices Exchange.

But not everything positive about Gallagher’s performance is measured in dollars and cents, Mr. Gallagher said.

He noted that this year was the fourth year in a row that the brokerage was named one of the world’s most ethical companies by New York-based think tank Ethisphere Institute.

“That is a huge deal for me,” Mr. Gallagher said.

By Mark A. Hofmann

5

JARDINE LLOYD THOMPSON GROUP P.L.C.

2014 gross revenue: \$1.72 billion
Percent change: 6.3% ▲

2014 brokerage revenue: \$1.71 billion
Percent change: 6.4% ▲



Dominic Burke, group CEO

Jardine Lloyd Thompson Group P.L.C.’s 2014 re-entry into the U.S. retail market likely will prove to be a seminal moment in the company’s history.

The London-based insurance, reinsurance and employee benefits brokerage merged two of its divisions — JLT Specialty Ltd. and Lloyd & Partners Ltd. — last August.

JLT said the move, which followed its late-2013 acquisition of Towers Watson & Co.’s reinsurance business, signaled an expansion of the broker’s U.S. activities across its specialty areas, including energy, construction, financial lines, credit, political and security risk, and aerospace business.

If the U.S. expansion is successful, it will be “transformational for the group,” said Eamonn Flanagan, head of the Liverpool, England, office of investment banking consultant Shore Capital Group Ltd.

JLT’s Dominic Burke said that one of the first things he did when he became CEO in 2006 was to

divest the broker’s U.S. retail business because he believed it did not have the “financial clout” at that time to compete with larger U.S. retail brokerages and that having a U.S. retail arm seemed “confusing” for a company with a “wholesale heritage.”

But as JLT grew over the years, he said it also became clear that clients — whatever their size — were becoming more global and needed global brokerages to service their needs. “So, perhaps there was an inevitability that we would return” to the U.S. retail market, Mr. Burke said.

The opportunity to do so followed the acquisition of Towers Watson Re, now rebranded into JLT Re, Mr. Burke said.

When it acquired Towers Watson Re, JLT said in a statement that the deal would give its reinsurance brokerage operation combined revenues of about \$266 million. For the year ended June 2013, Towers Watson Re posted revenue of about \$166 million.

The acquisition also meant that JLT now had office space, information technology systems, staff and other functions in the United States, which meant it would not have to grow its specialty retail operations from scratch, he said.

In the meantime, the brokerage has been able to attract talented brokers and managers, Mr. Burke said. They include JLT Specialty

“We’ve arrived on the shores of the United States. We’ve burnt our boats, and we are not going back.”

Dominic Burke, Jardine Lloyd Thompson Group P.L.C.

Insurance Services Inc. CEO Michael Rice and President and Deputy CEO Pat Donnelly, both of whom joined from Aon P.L.C.; and Jim Pierce, chairman of JLT’s U.S. specialty business, who joined from Marsh L.L.C.

“We are going to build a business that is specialized and very focused on what it wants to be, aligned with our global specialisms,” Mr. Burke said.

He said he’s been “truly delight-

ed” by clients’ reactions to the move and is confident that, over time, JLT can build a “great business” in the United States.

“We’ve arrived on the shores of the United States. We’ve burnt our boats, and we are not going back,” Mr. Burke said.

But expanding to the U.S. is “a big move and not without its risks,” said Shore Capital’s Mr.

Insurance rankings.

In addition, Mr. Flanagan said, JLT now is in competition with some U.S. brokers it used to service via its wholesale capabilities.

While the loss of that wholesale business could put about \$50 million of revenue at risk, “the potential and the opportunities far outweigh those risks,” he said.

Not only is the U.S. expansion taking place when U.S. gross domestic product is once again growing, the Towers Watson Re acquisition, which Mr. Flanagan described as “a fantastic deal in its own right,” gave JLT a physical U.S. presence when Mr. Burke decided to “push the button” to return to the market.

Its U.S. operations now employ more than 100 people and continue to recruit talented people, Mr. Burke said.

Overall, JLT now is a more balanced company, with about 20% of its revenue derived from reinsurance and 26% from employee benefits operations, he said.

This counterbalance helps JLT face headwinds such as insurance overcapacity and foreign exchange rate challenges, he said.

“Our strategy is clear. We want to be a specialist powerhouse,” Mr. Burke said.

By Sarah Veysey

2014 gross revenue: \$1.79 billion
Percent change: 7.3% ▲

2014 brokerage revenue: \$1.71 billion
Percent change: 8.3% ▲

Broker BB&T Insurance Holdings Inc. posted strong organic growth to boost its 2014 revenue while taking advantage of acquisitions made in previous years.

The unit of bank BB&T Corp. reported brokerage revenue of \$1.71 billion in 2014, an 8.3% increase, making it the No. 6 broker in the 2015 *Business Insurance* ranking of the world's largest brokers.

Its commercial retail brokerage revenue grew 7.7% to \$699.7 million, its wholesale revenue rose 8.7% to \$739.7 million, and its employee benefits revenue jumped 15.8% to \$176.5 million last year, while personal line revenue slipped 1.9% to \$97.7 million.

"They are a very strong, cohesive business unit," said Timothy J. Cunningham, managing director at Chicago-based investment banking and consulting firm Optis Partners L.L.C. "BB&T's insurance operation is a key contributor of noninterest income to the bank."

The insurance operations had 2014 organic growth of 7.5%, up from 4.7% in 2013, said H. Wade Reece, BB&T Insurance's chairman and CEO.

"We had a great year in 2014," Mr. Reece said. "It was our best year by a substantial margin, so we were very pleased with it."

Mr. Reece cited past acquisitions, such as its 2012 acquisition of Crump Group Inc. for \$570 million and the 2011 acquisition of Irvine, California-based employee benefits firm Precept Group Inc., as key to the firm's success last year.

"We had a lot of things that we invested in in previous years. A lot of it came together in 2014 and created a nice year," Mr. Reece said. "A lot of investments we made, like Crump and in employee benefits — those efforts are maturing."

"I think they have done a wonderful job in integrating and capitalizing on cross-selling" to customers of the parent bank, Mr. Cunningham said. "Cross-selling is in their DNA, and they know how to do it."

BB&T sees more acquisitions in the future.

"We'd like to see acquisition activity pick up, and we think it's a fairly good time to do that," Mr. Reece said. "Hopefully, there is a good stream of potential acquisition."

"We're definitely looking to expand both geographically and through some specific industry expertise" such as cyber, financial lines and commercial property, he added.

Mr. Reece acknowledged that "multiples are high" to purchase brokerage business, but noted that "interest is high" as well.

BB&T's insurance operations continue to benefit from the activ-



H. Wade Reece,
chairman and CEO

ities of the parent.

"As a potential acquirer, they want to try to follow the bank footprint with their traditional middle-market retail," Mr. Cunningham said.

"From a retail perspective, as BB&T has continued to grow the geo-

graphic footprint of the banking network, it brings some new opportunities to us," said David Pruett, CEO of the compa-

ny's retail division and vice chairman of BB&T Insurance Holdings. "Anytime we can be where the bank is, it increases our chances of success and profitability."

Yet even as revenue and organic growth flourished, the brokerage faced soft insurance prices last year.

"We've certainly seen significant softness in property, particularly in larger accounts and especially in catastrophe-exposed property accounts," said John Howard,

Roseland, New Jersey-based CEO of BB&T's wholesale division and vice chairman of BB&T Insurance.

"What we're experiencing in the retail group is that the market in 2014 softened significantly from a pricing standpoint, particularly in property risk and even more so in large property risk and things that tend to be catastrophe-prone," Mr. Pruett said.

"I would say casualty seems to be somewhat stable, but signifi-

cant softness in overall pricing is the thing we're having to work through," he said.

Mr. Reece said recruiting remains an industrywide challenge.

"It's an effort to constantly attract the best sales people to the organization," he said.

"We can teach people the technical side, but finding people that fit from a production standpoint is always one of our greatest challenges," he said.

"It's just a tough industry to recruit into. People don't realize what a great industry it is for a career," he added.

By Matthew Lerner



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7

BROWN & BROWN INC.

2014 gross revenue:	\$1.58 billion
Percent change:	15.6% ▲

2014 brokerage revenue:	\$1.57 billion
Percent change:	15.6% ▲



J. Powell Brown, president and CEO

Increased competition is making it more difficult for Brown & Brown Inc. to grow its business through acquisitions, but the brokerage continues to benefit from the deals it has already made.

Acquisitions are “crucial to their long-term growth outlook, but the market’s not the right market for it now. There’s a lot of competition from other brokers and private equity,” said Joshua Shanker, New York-based analyst at Deutsche Bank Securities Inc.

However, Brown & Brown has “demonstrated that they can grow the organization without making many mistakes, given the number of acquisitions they’ve done,” said John Wicher, principal at John Wicher & Associates Inc. in San Francisco. “There’s a real opportunity for things to happen. They’ve demonstrated a consistent ability to attract good sellers.”

“We are continuing to actively look for acquisition candidates that fit culturally with Brown &

Brown,” said brokerage President and CEO J. Powell Brown. “There seems to be a lot of competition in the space today, but we absolutely continue to look for people who would fit culturally, that we could consummate a transaction with.”

Despite the challenges, Brown & Brown increased its brokerage revenues 15.6% to \$1.57 billion in 2014, making it No. 7 in the 2015 *Business Insurance* ranking of the world’s largest brokers.

And it’s still benefiting from past acquisitions, which Mr. Brown said achieved \$160 million in annualized revenue last year, the largest since its founding in 1939.

The largest purchase in 2014 was the \$602.5 million acquisition of Wright Insurance Group L.L.C. of Uniondale, New York, and Mr. Brown said all divisions will continue to seek acquisitions.

In June, for instance, Denver-based Brown & Brown of Colorado Inc. said it had acquired the assets of Englewood, Colorado-based Fit-

ness Insurance L.L.C., which provides insurance for the health club and fitness industry.

Brown & Brown “prides itself on being a meritocracy, where individuals, many of whom come from outside the industry, have proven sales skill,” said Mr. Wicher. “They start with the principle of, ‘Bring me talent and motivations, and we’ll teach you the business,’

good people,” he said.

While the brokerage is slowly withdrawing from the reinsurance brokerage space, which demands scale to succeed, a new area for the company is a practice that will provide independent third-party guidance on private health insurance exchanges, Mr. Brown said, pointing to Pacific Resources Benefits Advisors L.L.C., a wholly owned

“We have roughly 7,800 people, and as we grow our business organically, or try to meet and exceed all the needs of our customers, we have got to hire more good people.”

J. Powell Brown, Brown & Brown Inc.

and as a result, they are very hard-driving.”

“Our biggest, our greatest asset and our greatest challenge is the same thing: It’s people,” Mr. Brown said.

“We have roughly 7,800 people, and as we grow our business organically, or try to meet and exceed all the needs of our customers, we have got to hire more

Brown & Brown subsidiary.

“With some firms investing significantly in their own (private health insurance) exchanges, that has created an opportunity for us as an independent third party to advise on the benefits or the challenges” of the large private exchanges, he said.

“We’re very pleased with our relationship with our carrier part-

ners, and although we do lots of different things with many of them ... we’re not doing something dramatically different this year than we were last year. But we think working relationships have just gotten even better,” Mr. Brown said.

Among challenges Brown & Brown faces are a New York jury awarding Starr Indemnity & Liability Co. \$1.6 million in fees and reimbursements and \$2.8 million in punitive damages in litigation the insurer filed against a Brown & Brown claims management unit related to nonstandard automobile insurance claims. Starr’s initial complaint alleged that the unit deemed certain expenses to be allocated loss adjustment expenses, which Starr contended did not qualify as such, based on how that term was described in their claims service agreement.

Mr. Brown declined comment on the litigation, and the broker has not indicated whether it will appeal, according to the court website.

Among other developments at the brokerage, Brown & Brown’s board approved a \$200 million share purchase program last July, all but \$25 million of which has been repurchased, Mr. Brown said.

By Judy Greenwald

8

WELLS FARGO INSURANCE SERVICES USA INC.

2014 gross revenue:	\$1.55 billion
Percent change:	3.8% ▲

2014 brokerage revenue:	\$1.30 billion
Percent change:	3.8% ▼



Laura Schupbach, executive vice president and head of Wells Fargo Insurance Services

Wells Fargo Insurance Services USA Inc. saw its brokerage revenue decline last year despite higher gross revenue, as it focused on organic growth and cross-selling insurance to its parent company’s banking customers while also divesting portions of its business.

Chicago-based Wells Fargo Insurance represents about 2% of Wells Fargo & Co.’s total revenue, but the unit plays a central role in the bank’s push to be a “coast-to-coast, full financial services provider focused on what the customer needs,” said Marty Mosby, Memphis, Tennessee-based equity analyst at Vining Sparks IBG L.P.

Wells Fargo averages “six (financial) products per customer right now, and they want to drive toward 10 or more,” Mr. Mosby said, adding that the bank has “been one of the better banks at being able to ... cross-sell more

products and be a broader provider of financial services.”

The brokerage unit increased its gross revenue by 3.8% in 2014 to \$1.55 billion, and saw organic growth in the “mid-single digits,” said Laura Schupbach, its San Francisco-based executive vice president and head.

Yet even with a 3.8% decline in brokerage revenue to \$1.30 billion in 2014, Wells Fargo Insurance — the only member of the world’s top 10 to post a year-over-year decline — retained its No. 8 position in the 2015 *Business Insurance* ranking of the world’s largest brokers.

As in the past, Wells Fargo Insurance’s “biggest strategy” for growth continues to be “introducing existing Wells Fargo (banking) clients to our insurance capabilities,” Ms. Schupbach said.

To do that, the broker in recent months hired about 50 executives in its individual and small-busi-

ness segment and its middle-market brokerage and consulting business.

They include business development officers to be “liaisons between the insurance business and some of our core banking businesses,” Ms. Schupbach said.

Wells Fargo also has lured talent from top competitors such as Aon P.L.C., Marsh L.L.C. and USI Insurance Services L.L.C. for senior management positions. In March, Wells Fargo hired former Aon executive Kristine Meuse as national head of cross-sell. In April, it hired David Karr, formerly with Marsh, as its casualty practice leader.

We’ve been investing “across the board” in “leadership and client-facing people (and) technical resources,” Ms. Schupbach said.

In the past year, Wells Fargo Insurance has continued to reposition its business segments and divest “nonstrategic pieces” of the portfolio, Ms. Schupbach said.

The broker is adjusting its business model, shifting small business clients to its personal and

small-business insurance segment and is “moving upmarket” to larger clients in its brokerage and consulting side, Ms. Schupbach said.

“Our segmentation approach will allow us to help that small employer grow as we provide many of the financial services that they need to kind of round out their business,” said Tim Prichard, The Woodlands, Texas-based head of employee benefits with Wells Fargo Insurance. That approach is “different than many of our competitors out there, (who) have been exiting the small and individual space.”

Ms. Schupbach said the broker also is organizing around industry segments, such as health care, “where we think we have a real specialty and an expertise.”

In addition to introducing banking clients to insurance products, Wells Fargo Insurance is working to sell more insurance to its current customers, such as benefits consulting, she said.

Challenges in 2014 that limited its brokerage revenue were due to

declining commodities prices, which led to a decrease in revenue in the firm’s crop insurance underwriting business, and a “large portfolio of runoff consumer business,” Ms. Schupbach said.

Mr. Mosby said the decline also could result from a shift in how much insurance Wells Fargo underwrites.

“Some of the riskier pieces of business I wouldn’t be surprised that they were pushing out to third parties,” he said.

Divestments include the 2014 sale to USI of 40 smaller regional brokerage locations and its 2013 exit of the wholesale brokerage industry with its sale of American E&S Insurance Brokers to R-T Specialty L.L.C., which is part of Chicago-based Ryan Specialty Group L.L.C.

Though Wells Fargo Insurance is not actively looking for acquisitions, they are not out of the question “if we see something that fits with our strategy,” Ms. Schupbach said.

“We have leaders in place that are there from a technology and a cutting-edge mindset to be able to adapt to changing customer needs, which is coming,” Mr. Prichard said.

By Shelby Livingston

9

HUB INTERNATIONAL LTD.

2014 gross revenue: \$1.30 billion
Percent change: 12.8% ▲2014 brokerage revenue: \$1.30 billion
Percent change: 12.9% ▲

Hub International Ltd., one of the more acquisitive brokers, plans to continue adding companies to its fold.

One of the few privately held brokers among the world's largest, Hub made 31 acquisitions last year and has already made 20 this year.

"You have to put them in the same group of acquirers ... who do 20-plus deals a year," said John Wicher, principal at John Wicher & Associates Inc. in San Francisco, referring to Arthur J. Gallagher & Co., USI Insurance Services L.L.C. and Brown & Brown Inc.

What sets Hub apart are its regional platforms and its "principle of enabling acquirees through resources, market access and training," Mr. Wicher said. "There's a greater autonomy post-transaction ... (Sellers) feel they're still empowered to make local decisions relative to their local market and their clients."

Hub, No. 9 in *Business Insur-*



Martin P. Hughes,
chairman and CEO

ance's 2015 ranking of the world's largest brokers, boosted its 2014 brokerage revenue to \$1.30 billion, a 12.9% jump due in part to strong organic growth and \$170 million in annualized mergers and acquisitions revenue.

"We had terrific top-line growth, we had margin expansion, and we had a fabulous year from an M&A perspective," said Hub Chairman and CEO Martin P. Hughes. "It was a terrific year for us, one of the best we've ever had in the history of the company," which was founded in 1998.

The current plan is to continue expanding in Southeastern states such as Florida, said Mr. Hughes and Scott Goodreau, Hub's Chicago-based chief sales officer.

But with acquisitions becoming more expensive, "the multiples that we have to pay today are higher than the multiples we had to pay two or three years ago," Mr. Hughes said. "It hasn't affected our

bottom line in any negative way. What it has done is the cash outlay we have to put out to make acquisitions is certainly more ... From an economic standpoint, we believe the value proposition is the same or better. It's just costing more to make those acquisitions."

Higher prices for M&As have "impacted everybody that's doing

In November, Hub sold Harmonia Corretora de Seguros Ltda., the São Paulo, Brazil-based insurance brokerage it acquired in 2011 "at current market price valuation measures," a Hub spokeswoman said.

"It was actually a fine operation, and it was one that performed to every level that we expected it to,"

"We had terrific top-line growth, we had margin expansion, and we had a fabulous year from an M&A perspective. It was a terrific year for us, one of the best we've ever had in the history of the company."

Martin P. Hughes, Hub International Ltd.

acquisitions," said Bobby Reagan, CEO at Reagan Consulting Inc. in Atlanta. "If you don't respond to the marketplace, you're not going to be able to compete for quality acquisitions."

Hub, however, has done some divesting.

Mr. Hughes said. But with cultural and language differences, it "took a very disproportionate amount of our management time ... and it made more sense for us to just focus on North America."

Looking to the future, Mr. Goodreau said Hub considers

employee benefits and specialty practices and services to be "huge growth areas," adding that it's investing in technology and marketing to enhance the "digital experience" for its clients.

Angela Williams, who joined Hub as chief marketing officer in March, "comes to us with a lot of experience around digital marketing and customer insight, so that was an important hire for us," Mr. Goodreau said.

Hub reverted to a privately held firm when it was acquired in 2007 by private equity firms Apax Partners L.L.P. and Morgan Stanley Principal Investments Inc. The brokerage recapitalized after being bought for \$4.4 billion by San Francisco-based private equity firm Hellman & Friedman L.L.C. in October 2013.

Mr. Hughes said another recapitalization is "nowhere in sight."

Hub has the ability to "continue growing and to achieve good results for their ownership without going into the public marketplace," Mr. Reagan said. "That may be something they choose to do down the road, but it's not something they're being forced to do today."

By Stephanie Goldberg

10

LOCKTON COS. L.L.C.

2014 gross revenue: \$1.24 billion
Percent change: 10.2% ▲2014 brokerage revenue: \$1.23 billion
Percent change: 10.2% ▲

While other brokers focus on acquisitions, Lockton Cos. L.L.C. keeps its eye on organic growth and the talent that makes organic growth happen.

Lockton's successful organic growth has been achieved "to a significant degree by attracting top-notch talent," said Timothy J. Cunningham, managing director of Chicago-based investment banking and consulting firm Optis Partners L.L.C.

"Organic growth creates opportunities for our associates. Acquisitions generally create opportunity for redundancy," said David Lockton, chairman of Kansas City, Missouri-based Lockton.

"We believe we are the most desirable place to build a career in the brokerage industry, and it all begins with the underlying premise that we are in the business to serve others," said John L. Lumelleau, Lockton's president and CEO.

"One of the things we're doing is really ramping up our college recruitment and international pro-



David Lockton,
chairman

grams and our associate development programs," seeking to "continue to be the best place that a person could choose to go to work," Mr. Lockton said.

Lockton's efforts resulted in a 10.2% increase in its 2014 brokerage revenue, which rose to \$1.23 billion in 2014, making it No. 10 in *Business Insurance's* 2015 ranking of the world's largest commercial insurance brokers.

Lockton's commercial retail brokerage business from U.S. offices grew 9.2%, to \$588.1 million while its non-U.S. office revenue grew 11.5% to \$206.7 million.

Employee benefits revenue increased 14.8% to \$347.4 million. The company includes retirement services revenue in its employment benefits data.

"We're pleased that our international and our U.S. operations grew at about the same pace," Mr. Lockton said.

"We had a great year in employee benefits, and we had a great year in retirement services, which is an area that we believe we have

a lot of upside potential, and we added over 300 great new associates to bring our total number to 5,600-plus," Mr. Lockton added.

"Every year, throughout our history, we've brought on more new business than we did the year before," Mr. Lockton said.

"We don't think there's any lack of opportunity. There's plenty of market share left. The biggest challenge is to maintain and improve the quality of our associates and to provide the same level of services our customers have become accustomed to," he said.

Being private helps, said Mr. Lockton.

"We believe that private ownership is the most sustainable form of ownership for a professional services business," Mr. Lockton said.

"Customers would not allow their accounting firm or their lawyers to file a public offering

because they believe that the shareholders would be their first loyalty, and we want to make sure

our customers are our first priority," said Mr. Lockton, who added that the firm has no plans to go public.

Expanding the insurance brokerage's international capabilities is on the agenda for this year, Mr. Lumelleau said.

"Last year, we added one office in Glasgow, but our geographic footprint will continue to grow this year," Mr. Lumelleau said. "Where we find great people, we will add great operations."

"I would also say, though, that the changes we see to the business are not only geographical, but are also critical areas of professional expansion," Mr. Lumelleau said.

Lockton's retirement business, for instance, grew 20% last year over 2013, "and we expect to triple



"The changes we see to the business are not only geographical, but are also critical areas of professional expansion."

John L. Lumelleau,
president and CEO,
Lockton Cos. L.L.C.

that in the next few years," Mr. Lumelleau said.

"As more and more people take responsibility for their own financial futures, it's a need and an opportunity for Lockton to assist them, so we see a tremendous opportunity" for growth in that business," he said.

Mr. Lumelleau said he also sees an opportunity to expand Lockton's global energy practice, including in the United States, United Kingdom, the Middle East and Asia.

Lockton also has taken steps to plan for the future. During the summer, it announced that Ron Lockton, 48, who is the son of late company founder Jack Lockton and the nephew of David Lockton, has been named vice chairman and that he will take on broader global leadership responsibilities.

"He and I have been working together to assure a smooth succession plan, and he will be taking on additional responsibilities going forward around the globe," said David Lockton, who has not yet set a specific retirement date.

Ron Lockton previously headed the broker's Kansas City property/casualty operation, according to a company statement.

By Judy Greenwald

ISO reporting tool to aid surety bond placements

Verisk Analytics Inc.'s Insurance Services Office Inc. unit and The Surety & Fidelity Association of America said ISO has launched a Web-based reporting tool that will help make managing transactional data easier for surety and fidelity bond insurers.

The tool uses an online platform that will allow SFAA members to review and correct data, prepare submission files, and keep track of their submission history, according to an ISO statement.

This will also provide bond insurers with access to changes to statistical plan requirements, updated reporting-level eligibility, and the ability to share their files and submission progress with others in their organization, according to the statement.

"For SFAA members, the biggest benefit is the centralization of all essential functions related to the testing and submission of SFAA data," said Ed O'Donnell, statistical manager at the association. "Members will be able to test, edit, and submit the data through the same Web interface."

"Our collaboration with the SFAA will provide bond carriers with a new workflow solution that has the potential not only to improve reporting and overall data quality but also help reduce costs associated with legacy reporting applications," said Joseph Izzo, senior vice president, data assets and analytics at ISO.

Insurer launches risk management portal

Philadelphia Insurance Cos. and the Nonprofit Risk Management Center have teamed up to launch the PHLI Risk Management Portal.

Hosted by the Leesburg, Virginia-based Nonprofit Risk Management Center, the portal, which is also available to for-profit policyholders, offers access to three cloud applications, Bala Cynwyd, Pennsylvania-based Philadelphia insurance said in a statement.

The cloud applications include assessments that self-evaluate risks such as contracts, harm to clients, employment practices, special events and other issues. The risk management plan focuses on financial management and allows users to upload a plan. My Risk Management Policies allow users to create policies with template options.

The PHLI Risk Management Portal is free for Philadelphia Insurance policyholders, according to the statement.

"Nonprofit organizations have unique risks, and the new Risk Management Portal is specifically designed to help identify and create risk management practices around those exposures," said Mark Konchan, vice president of risk management services at Philadelphia.

Cyber policy covers health care providers

London-based specialty lines managing general agency CFC Underwriting Ltd. has launched a new policy for U.S. health

Excess cyber liability product introduced

* AmWINS Group Inc. has launched an excess facility to meet the demand for cyber liability insurance in the North American market.

The product provides additional large capacity with attachment points as low as \$5 million. No classes or industries are excluded, AmWINS said in a statement.

The facility is an alternative to the traditional practice of brokers approaching insurers and putting together quota share placements, the wholesaler said. "You could almost call this a prepackaged quota share," David Lewison, AmWINS' financial services national practice leader, said in an emailed statement.

"With an estimated 48-hour turnaround, AmWINS is able to handle what was once an inefficient process by syndicating the risk before the rush of an individual account placement," James Drinkwater, president of AmWINS Brokerage, said in the company statement. "This... product enables us to provide up to \$100 million of excess cyber liability on a follow form basis."

There are currently eight undisclosed Lloyd's of London syndicates participating.

"With some domestic insurers exiting the product line, as well as revising their appetite away from retailers and large-revenue companies, we recognize the need for increased cyber liability insurance capacity," Mr. Drinkwater said in the statement.

care providers.

The policy, designed for hospitals, doctors and frontline health care providers, is "the first in a suite of cyber policies that CFC is creating for specific industry sectors," the company said in a statement.

Limits are available up to \$10 million, according to a CFC spokeswoman.

The features of the policy include coverage for corrective action plans under the Health Insurance Portability and Accountability Act, coverage for injuries as a result of a cyber attack and coverage of costs to improve risk management controls after a breach. There are no retroactive dates on the policy, according to the CFC statement.

"Health care companies have arguably become the largest target of hackers due to the vast amounts of highly sensitive data that they work with and store," said Vicky Paxton, CFC's cyber practice leader. "To make matters more complicated, there is rigorous legislation surrounding the protection of this patient data, opening companies up to regulatory fines and investigations if they suffer a breach. All of this means that health care companies have a unique risk profile that most standard cyber policies fail to cater to. With CFC's experience in both health care and cyber, we thought it was a great opportunity to develop a policy for these companies that is truly fit for purpose."

PRODUCTS & SERVICES



Marsh & McLennan unveils P&I client support

Marsh & McLennan Cos. Inc. has launched the Protection and Indemnity Client Service unit targeting P&I associations and insurers and the challenges they face.

These challenges include adapting to the changes of the financial market while maintaining competitive premiums, new legislation and "the need to demonstrate good corporate governance and best practice, including from a reinsurance perspective" due to regulatory pressure, Simon Smith, chairman of the new PICS unit and managing director at Guy Carpenter & Co. Ltd., said in an emailed statement.

The unit will combine the resources of Marsh & McLennan's four operating units — Guy Carpenter, Marsh L.L.C., Mercer L.L.C. and Oliver Wyman Group — Marsh & McLennan said in a statement.

PICS will involve Guy Carpenter's international P&I team, Marsh's marine liability team, Marsh's global marine practice, the Mercer network P&I specialist team and the global offices of Oliver Wyman, according to the statement.

"By bringing together the full resources of MMC, we are able to tackle the wide range of challenges our clients face in today's ever more complex P&I environment," Mr. Smith said in the statement.

DEALS & MOVES

Marsh & McLennan Agency acquires Canadian broker

Marsh & McLennan Agency L.L.C., a White Plains, New York-based subsidiary of Marsh L.L.C., has acquired Vézina, a Montreal-based insurance brokerage.

Terms of the transaction were not disclosed, according to a statement from Marsh & McLennan Agency.

The acquisition includes the property/casualty brokerage division Vézina Assurances Inc. and group benefits division Vézina & Associes Inc., the statement said.

The acquisition of Vézina, which serves midsize clients in Quebec, marks Marsh & McLennan Agency's entry into the Canadian market, the statement said. Its 80 employees will join Marsh & McLennan Agency. Vézina will continue to be led by co-CEOs Pierre and Patrice Vézina, the statement said.

Emdeon buys Altegra for \$910 million

Emdeon Inc., the Nashville, Tennessee-based revenue-cycle management, data network and analytics provider, is acquiring Altegra Health Inc., Miami Lakes, Florida, a provider of data analytics and customer engagement software and services for health insurance companies and other risk-bearing organizations.

Emdeon will use debt and equity financing in the acquisition, valued at \$910 million, and "anticipates paying the purchase price from a combination of available cash and proceeds from new debt and equity offerings," the companies said in a statement.

The deal is subject to antitrust review but is expected to close in the third quarter this year, the companies said. Both Emdeon and Altegra are privately held.

Modern Healthcare

VeriClaim acquires U.K. adjuster Certo

Specialist loss adjuster VRS VeriClaim Inc., a wholly owned subsidiary of Sedgwick Claims Management Services Inc., has acquired Leeds, England-based specialist property and liability loss adjusting company Certo.

Terms of the deal were not disclosed.

VeriClaim's acquisition of Certo will develop its third-party administration and commercial loss adjusting capability in the United Kingdom, the company said in a statement. VeriClaim is based in Naperville, Illinois, and VRS VeriClaim U.K. Ltd. is based in London.

Broker grows with acquisition in Texas

Valhalla, New York-based broker USI Insurance Services L.L.C. announced the acquisition of El Paso-Texas based broker Alexander & Associates Insurance Services L.L.C.

Terms of the transaction were not disclosed.

Employees of Alexander & Associates Insurance Services L.L.C. will join USI's El Paso, Texas, office, USI said in a statement.


PUBLIC NOTICES

LADY LIBERTY HOSTS THE BIGGEST CELEBRATION OF WOMEN IN RISK MANAGEMENT

Nominations are now open for the
10th anniversary of Women To Watch
presented by *Business Insurance*.

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who are doing outstanding work in
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Julie Ford
jford@businessinsurance.com
312.649.5441

LEGAL NOTICE

IN THE HIGH COURT OF JUSTICE (CHANCERY DIVISION)
COMPANIES COURT No. 4486 of 2015

IN THE MATTER OF
EXCESS INSURANCE COMPANY LIMITED
HARTFORD FIRE INSURANCE COMPANY, UK BRANCH
AVIVA INSURANCE LIMITED
HARTFORD FINANCIAL PRODUCTS
INTERNATIONAL LIMITED
AND
IN THE MATTER OF
THE FINANCIAL SERVICES AND MARKETS ACT 2000
NOTICE

NOTICE IS HEREBY GIVEN that on 30 June 2015 Excess Insurance Company Limited ("Excess"), Hartford Fire Insurance Company, UK branch ("Hart Re") and Aviva Insurance Limited ("AIL") (Excess, Hart Re and AIL, together, the "Transferors") and Hartford Financial Products International Limited ("HFPI") or the "Transferee") made an application (the "Application") to the High Court of Justice (the "Court") pursuant to section 107(1) of the Financial Services and Markets Act 2000 ("FSMA") for an Order:

(1) under section 111 of FSMA sanctioning an insurance business transfer scheme for the transfer of certain general insurance business of the Transferors, as outlined below to HFPI (the "Scheme"); and
(2) making ancillary provisions in connection with the Scheme pursuant to section 112 of FSMA.

The Scheme will result in the following business being carried on by HFPI:

(a) the general insurance business carried on by Excess and Hart Re; and

(b) the business assumed by AIL from London & Edinburgh Insurance Company Limited (formerly London & Edinburgh General Insurance Company Limited) ("L&E") (now part of ALL), being:

(i) business written by L&E in pooling arrangements through the following underwriting agents:
(A) B. D. Cooke and Partners between 1948 and 1968;
(B) H.S. Weavers (Underwriting) Agencies Limited between 1972 and 1976;
(C) Tower Underwriting Management (also known as "Old Tower") between 1967 and 1972;
(D) Highlands Underwriting Agents (also known as "Tower X") between 1973 and 1978; and
(E) Westminster Marine Insurance Managers between 1960 and 1977; and

(ii) business written by L&E in the London market in its own name before 1 January 1992, which generally relates to direct US and reinsurance business written from the 1940's to the 1970's, together, (the "L&E Business").

Copies of the Scheme, a report on the terms of the Scheme prepared pursuant to section 109 of FSMA (the "Independent Expert's Report") and a statement setting out the terms of the Scheme and a summary of the Independent Expert's Report are available free of charge at www.downlandliability.com. Supporting documents and any further news about the Scheme will be posted on this website so you may wish to check for updates. You can also request free copies of any of these documents by writing to or telephoning Downlands Liability Management Limited ("DLM") using the details set out below.

The Application will be heard on 13 October 2015 by a Judge of the Chancery Division of the High Court at The Rolls Building, Fetter Lane, London, EC4A 3TN, United Kingdom. If approved by the Court, it is currently proposed that the Scheme will take effect on 15 October 2015.

Any person who believes that he or she would be adversely affected by the carrying out of the Scheme is entitled to either make written representations or be heard (either in person or by a legal representative) at the hearing of the Application on 13 October 2015. Any person who intends to appear at the Court or make representations in writing is requested to notify his or her objections as soon as possible and ideally at least two business days before the hearing of the Application on 13 October 2015 to the solicitors named below or to DLM using the details set out below.

If the Scheme is sanctioned by the Court, it will result in the transfer to HFPI of all the contracts, property, assets and liabilities relating to the general insurance business of Excess and Hart Re and relating to the L&E Business (as defined above); notwithstanding that a person would otherwise be entitled to terminate, modify, acquire or claim an interest or right or to treat an interest or right as terminated or modified in respect thereof. Any such right will only be enforceable to the extent the Order of the Court makes provision to that effect.

Dated: 20 July 2015

Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London
EC4Y 1HS
United Kingdom

Ref: 138865-0034/GHFS/NAG/LEH

Solicitors for the Transferors and the Transferee

Downlands Liability Management Limited

DLM House

Downlands Business Park

Lyons Way

Worthing

West Sussex

BN14 9RX

United Kingdom

Ref: Roland Jackson

Email: HartfordPartVII@downlandliability.com

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DELAWARE

Continued from page 4

Eckert, Seamans, Cherin & Mellott L.L.C. in Wilmington, Delaware.

Observers say the legislature approved the measure, despite the state's business-friendly reputation, because of general agreement that permitting the fee-shifting bylaws went too far in favoring businesses.

Corporations are not required to pay all legal fees if they lose, noted Donna Ferrara, Chicago-based senior vice president and managing director at Arthur J. Gallagher & Co. "It's one-sided," she said.

Some observers say the issue calls for a more measured approach. "Both sides are using sledgehammers when scalpels are needed," said Ed Batts, a partner with DLA Piper in East Palo Alto, California.

Kevin LaCroix, executive vice president at RT ProExec, a division of R-T Specialty L.L.C. in Beachwood, Ohio, said other proposed litigation reform bylaws have included so-called minimum-stake-to-sue bylaws, which require, for example, that shareholders filing litigation represent a specified percentage of the company's outstanding shares, typically 1%-3%.

Others have proposed bylaws requiring that a shareholder must own a stock for a certain period of time before he or she can sue or capping losing shareholders' responsibility for litigation costs at, say, \$200,000.

Though the ATP Tour is not publicly held, it is estimated that in light of the ruling about 30 publicly held Delaware firms subsequently adopted comparable bylaws, along with an unknown

number of privately held companies, observers say.

They believe many more held off in anticipation of the Delaware legislation, signed into law by Gov. Jack Markell in June. A majority of publicly held firms are domiciled in Delaware.

Observers say the measure clearly reinstates the so-called "American rule," under which each side pays its own legal costs. But there is some question among experts regarding whether the legislation prohibits fee shifting in federal securities litigation.

The legislation also provides that certificates of incorporation and corporate bylaws may specify that "intracorporate claims" must be brought only in Delaware courts, in an apparent effort to address the issue of parallel litigation filed in multiple states (see story, page 4). Some observers believe this provision is intended to balance the impact of the law prohibiting fee shifting.

Lisa A. Rickard, president of the Washington-based U.S. Chamber of Commerce's Institute for Legal Reform, which had opposed the legislation, said in a statement that she was disappointed Delaware "chose not to enact measures to deter abusive merger-and-acquisition lawsuits while prohibiting an important and useful tool for combating these unjustified lawsuits."

Referring to the intracorporate claims provisions, however, the statement adds that Delaware has also "effectively authorized consolidation of much of merger-and-acquisition litigation in its own courts, and promised the business community that its system will not tolerate lawsuit abuse and actively weed out frivolous shareholder cases. The business world will be watching carefully to see if that promise holds true."

Some experts believe the legislation will encourage firms to move from Delaware and new ones to incorporate elsewhere, but others say this is unlikely because of the state's concentration of judicial expertise.

As of early February 2015, about 50 bylaws allowing fee shifting have been adopted without shareholder vote, according to the Rockville, Maryland-based Institutional Shareholder Services.

Many observers believe corporations will choose to remain in Delaware despite the legislation. Delaware has a "well-developed body of case law and excellent judges with experience," said Claudia H. Allen, a partner with Katten Muchin Rosenman L.L.P. in Chicago. "You have to question whether a corporation would incorporate in other states based on a single factor."

However, others believe S.B. 75 may make other states more attractive to firms. "Basically, this opens the door to companies looking at other states a lot more seriously on whether to incorporate" there, said Keith P. Bishop, a partner with Allen, Matkins, Leck, Gamble, Mallory & Natsis L.L.P. in Irvine, California.

Oklahoma adopted a provision mandating fee shifting in derivative lawsuits in 2014. "I think a lot of other states are looking" at comparable legislation, said Ms. Allen. Observers say to their knowledge, Oklahoma is the only state to have approved such legislation.

Companies that have adopted protective measures include the Chinese mobile commerce firm Alibaba Group Holding Ltd., whose Cayman Islands certificate of incorporation states shareholders are obligated to reimburse the company's "reasonable" attorneys' fees if it does not obtain a judgment based on merit.

Zurich North America in Owings Mills, Maryland.

"We're seeing a lot of states push this model as a way to fill the infrastructure investment gap and, as a response to that, we at Zurich have been working on a bond form specifically tailored for public-private partnerships," said Mr. Bond.

The new bond form features a liquidity component which allows advance payment to allow a project to continue during claims in addition to the more traditional performance and payment bond, and has been used to bind five public/private partnership projects in Canada, Mr. Bond said.

Zurich has also developed a surety bond form which allows for expedited dispute resolution among partners.

Ironically, amid the abundance of capacity lies a shortage of new talent in the surety space.

"There is a tremendous demand out there for surety experts, but the supply is just not there," said Marsh's Mr. Brach.

WALL STREET REFORM LAW YET TO EFFECT D&O MARKET

The Dodd-Frank Wall Street Reform and Consumer Protection Act has had little effect on the directors and officers liability market so far, but future rulemaking could change that.

Many thought Dodd-Frank was going to result in more claims against financial institutions, but "somewhat surprisingly, it's been a relatively benign claims environment for financial institutions over the past few years" and has not affected the market "in the way we might have expected," said Will Fahey, New York-based senior vice president with Zurich North America's management liability group.

Dodd-Frank has "had no effect on (D&O) rates whatsoever," said Brian Wanat, New York-based CEO of the U.S. financial services group at Aon Risk Solutions. "There are limited questions these days about Dodd-Frank or (the Sarbanes Oxley Act), so there's no real, substantive, tangible effects on the D&O industry."

"There's just more questions for the insurers to ask to make sure there's compliance on various issues," said Dan A. Bailey, a member of law firm Bailey Cavalieri L.L.C. in Columbus, Ohio.

"In terms of claims and payments by insurers, I can't say that it has had a material impact on the industry," Mr. Bailey said.

However, some observers say there could be changes due to rulemaking, including "clawback" rules the U.S. Securities and Exchange Commission proposed earlier this month that were called for by Dodd-Frank.

The proposed clawback rules would direct national securities exchanges and associations to establish listing standards mandating that companies adopt policies requiring executive officers to repay incentive-based compensation they were erroneously rewarded.

The SEC said in a statement that the proposal completes all executive compensation rules required by the law.

DODD-FRANK

Continued from page 4

services to the insurance industry.

Mr. Mirel said Dodd-Frank has raised numerous questions that have yet to be answered. They include setting enhanced standards for SIFIs and how those standards will affect non-SIFIs; how insurance holding company standards set by the Federal Reserve Board will affect state-enforced prudential standards for operating entities; and how international capital standards, such as Solvency II, will affect U.S.-based cross-border insurers.

"It is amazing that after five years, none of these basic questions has been answered," Mr. Mirel said.

Dodd-Frank has "matured to the point" where its implementation has been raising questions that have led to legislative proposals, said Laura Foggan, a partner specializing in insurance issues at Washington law firm Wiley Rein L.L.P.

Significant questions remain "about what kind of regulatory authority is going to be exercised and how it will be exercised by the federal government," Ms. Foggan said.

Legislation to deal with how capital standards should be applied to insurers and what information should be shared with the FIO has been introduced, she said.

Dodd-Frank recognized property/casualty insurance was

"already comprehensively and effectively regulated" by the states, said David Snyder, a vice president in the Washington office of the Property Casualty Insurers Association of America.

"Congress is appropriately reviewing the developments since then that all the players" — both federal agencies that have been given limited roles and the states — "are acting consistently with that basic judgment," he said. Property/casualty insurers globally are "confronted with an unprecedented avalanche of regulatory proposals," he said.

"It's a mixed story," said Leigh Ann Pusey, president and CEO of the American Insurance Association in Washington.

Like Mr. Snyder, she noted that Dodd-Frank did not "really challenge" the primacy of state of insurance regulation. "It may have layered it, but it really didn't undermine the primacy of state regulation," she said.

Still, she said, "we remain concerned about the transparency of the SIFI designation process." Establishing an "off-ramp" to allow entities deemed SIFIs to shed that designation is "absolutely critical," she said.

She praised the law's creation of FIO, however: "Having expertise at the federal level is absolutely critical. We continue to believe creation of FIO is a positive."

"Unquestionably, we believe that FIO has been a good thing," said Joel Wood, senior vice president at the Council of Insurance Agents and Brokers in Washington.

CONSTRUCTION

Continued from page 4

As in much of the property/casualty market, pricing is advantageous for buyers amid ample capacity.

"Pricing for construction bonds is slightly softer," said Harry C. Rosenberg, chairman of surety brokerage Rosenberg & Parker Inc. in King of Prussia, Pennsylvania.

"It's a soft marketplace and there's plenty of capacity," said Drew Brach, surety practice leader at Marsh USA Inc. in Grand Rapids, Michigan.

Construction bonds are priced at a rate per \$1,000 value of the bond, said Mr. Niland.

Surety bonds, which assure completion of construction projects should a contractor default, can be placed with up to \$10 billion in limits, Mr. Brach said.

"Utilization rates, though increasing, are still fairly low

overall," said Curt Grove, senior underwriting officer at Liberty Mutual Surety in Kansas City, Missouri. There is "plenty of surety capacity in all segments of the market."

Numbers don't tell the whole story, however, as construction projects grow larger and more often are public-private partnerships, dubbed P3s by the industry.

"Public private partnerships continue to grow as a popular way to bridge the financing void primarily for large infrastructure projects," Mr. Grove said.

Thirty-four states and Puerto Rico have enacted legislation enabling such partnerships, according to the Federal Highway Administration.

Such multiyear, more complex projects require specialized bonds, Mr. Rosenberg said.

Zurich North America has developed a construction bond form for public-private partnership construction projects, said Michael Bond, head of surety at

GREECE

Continued from page 3

Greece and the ability of staff to enter, exit and travel safely there, she said.

In the wake of the temporary suspension of the Greek banking system this month, cash is still hard to come by, so any staff traveling to Greece must be adequately prepared, Ms. Graham said.

But while there are challenging times ahead for Greece, there also likely will be opportunities for overseas companies to enter into deals with Greek companies privatized in the bailout, for example, she said.

Risk managers should take part in any due diligence discussions, she said.

Risk managers of multinational companies with subsidiaries in Greece should review their insurance coverages, Marsh L.L.C. said in an advisory to clients.

While coverage would likely remain in place if Greece were to leave the European Union, questions might arise over the currency in which any claims might be paid if Greece were to stop using the euro, the note said.

The Lloyd's Market Association, which represents underwriters at Lloyd's of London, late last month reissued a model contract continuity clause designed to "enhance certainty that an insurance contract will continue in the event of a country's eurozone exit."

"If a eurozone exit occurs and a new currency is issued, before a claim payment has been made, both the insurer and the broker will need to confirm the currency of payment and to confirm the party to whom remittance is to be made," said London-based law firm CMS Cameron McKenna L.L.P. in a briefing note.

If, for example, claims money has been transferred to an intermediary when a euro exit occurs, lawyers will need to determine whether this constitutes payment to the insured, it said.

"Direct settlements to insureds, accompanied by appropriate releases, may seem a more attractive risk management option in these scenarios," CMS said.

If Greece were to start using another currency, there could be a period of time where two currencies were in operation, said Rob Powell, a managing director in the global claims practice at Marsh in London.

In that case, risk managers might seek an endorsement to their policy to keep the euro as the coverage currency until renewal, he said.

Most policies would value a claim at the date of loss, he said, which could create problems if there is a change of currency.

Some global insurance policies may value claims at the date of the loss, some at the date of settlement and some may be silent, Mr. Powell said.

In the latter case, any claim likely would be hotly debated, he said.

Insurers well-positioned to cope with fallout from Greece

The current economic volatility in Greece is unlikely to have a major effect on international insurance companies, ratings agencies say.

While the possibility of Greece exiting the eurozone would "hit market confidence in the region," insurers and reinsurers operating in Europe "are well-positioned to withstand a continued period of volatility," A.M. Best Co. Inc. said in a briefing

note. The small size of the Greek domestic insurance market is unlikely to cause a "contagion effect" in other eurozone countries, the note said.

Insurers and reinsurers have reduced their exposure to Greek sovereign debt in recent years, the report said.

"European insurers have significantly reduced their direct exposure to Greece since 2010," Standard & Poor's Corp., which

does not rate any domestic Greek insurance companies, said in a report.

"There has also been a general trend for insurers in the core eurozone countries to reduce exposures in the periphery in recent years, reducing the investment risks that could result from a country leaving the eurozone," it said.

"Market volatility is potentially the greatest area of risk to

rated insurers from developments in Greece," said Mark Button, a credit analyst at S&P in London. "Many insurers based in core eurozone countries have, in recent years, sought to more closely match their local liabilities with domestic assets and have, therefore, reduced potential investment risks associated with a country leaving the eurozone," he said.

By Sarah Veysey

REACHING HIGHER: MAKING AN IMPACT HELPING FUTURE INDUSTRY LEADERS

Risk management and insurance is about being prepared for the future. For our industry, being prepared for the future necessitates that we engage, educate and train the next generation of talent. For more than 35 years, the Spencer Educational Foundation, as the premier Foundation funding the education of tomorrow's risk management and insurance leaders, has been doing precisely that. More than \$5.6 million in scholarships and \$3.25 million in grants has been awarded over the past 36 years. Our Gala Dinner provides the funding for general scholarships, internship and other grants and program administration.

2015 GALA DINNER – SEPTEMBER 17

The Spencer Educational Foundation's 7th Annual Gala Dinner in New York will honor Dean M. Klisura, Managing Director, Global Industry Specialties & Placement Leader, Marsh and Chris Maleno, Senior Vice President, ACE Group & Division President, ACE USA.



DEAN M. KLISURA

Managing Director, Global Industry Specialties & Placement Leader, Marsh

THE GALA DINNER WILL BE HELD ON SEPTEMBER 17 AT THE WALDORF ASTORIA NEW YORK.

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CHRIS MALENO

Senior Vice President, ACE Group
Division President, ACE USA



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ACE XL

Continued from page 3

results and made money and retained that capital, and that allowed them to take advantage of other opportunities down the road," Mr. Auden said.

"They came in without a lot of legacy issues in terms of culture and with fresh management and I think, as a result, they were able to be more nimble" than other insurers, said John Wicher, principal at John A. Wicher & Associates Inc. in San Francisco. "With the appropriate safeguards in place, they have not been afraid to be aggressive and to reach out for growth."

Still, they have stumbled along the way.

XL acquired legacy liability exposures with NAC Re and Winterthur that led to more than \$1 billion in charges and reserve increases in 2004 and 2005.

Ace managed its exposure to past-year liability losses from Cigna's property/casualty busi-

ness through a then-innovative reinsurance deal with Berkshire Hathaway Inc. The deal involved Cigna establishing a separately capitalized runoff entity, which purchased reinsurance from Berkshire.

But it ran into trouble when it was one of several insurers caught up in bid-rigging allega-

"Even though they stand true to their own vision and they're disciplined, they're still receptive to the risk manager's needs."

Carolyn Snow, Humana Inc.

tions by then-New York Attorney General Eliot Spitzer, the resolution of which cost Ace more than \$80 million in various states.

In addition to having strong management teams, "each of these companies has demonstrated an ability to maintain a

very clear vision in terms of maintaining strong (returns on equity), only doing deals that make sense," said Robert Hartwig, president of the New York-based Insurance Information Institute Inc.

"Even though they stand true to their own vision and they're disciplined, they're still receptive to the risk manager's needs," said Carolyn Snow, director of risk management at Louisville, Kentucky-based health care provider Humana Inc.

Both are "pretty good at paying attention to their customer, making sure the customer does get their claims paid on a timely and accurate basis as needed," said William M. Zachry, vice president of risk management at grocery store chain Safeway Inc. in Pleasanton, California.

Ace and XL have "developed the insight and expertise to write high-exposure, primary business," said Warren Mula, CEO of Aon Risk Solutions' retail broking unit in Chicago.

"When you consider how many carriers are in existence today

that truly write primary global property and casualty business, there's not all that many," he said, saying there are about five to six such insurers.

Integrating Chubb and Catlin will be a challenge, but "I think they'll come out fine," said Safeway's Mr. Zachry.

Ace and XL face the complexity of managing operations and risk worldwide, with different regulatory regimes, capital demands and competitive environments, said Alan Murray, senior vice president at Moody's Investors Service in New York.

"It's easier to be entrepreneurial when you're smaller. When you become bigger, it's more difficult to stay entrepreneurial" and continue to have success, said Rob Yellen, New York-based executive vice president of Finex North America, a unit of Willis Group Holdings P.L.C.

"Are they going to be able to continue? I think they will," said Mr. Yellen. While it does not mean there will not be bumps in the road "they're on the right track."

INSIGHTS

Continued from page 3

larger companies; 43% of smaller companies require top management approval vs. 17% of larger companies, according to the panel.

In general, the chief financial officer is the final decision-maker in approving the purchase of insurance (41%). However, in larger companies with \$5 billion or more in revenue and governmental entities, the final decision equally relies on the head of risk management and the CFO (33% each).

Regardless the type of organization, the broker is the most influential external participant across the different stages of the insurance purchase process. In many companies, the broker is perceived as more influential than top management when it comes to insurance decisions, according to the risk manager panel.

The Business Insurance Risk Management Insights Panel is a proprietary advisory board providing a fresh perspective about what matters most to risk management executives.

TRANSGENDER

Continued from page 1

cedures, and few do so, but high-profile examples, such as Bruce Jenner's transition to Caitlyn, and a federal push for equal transgender rights may spur further adoption, experts say.

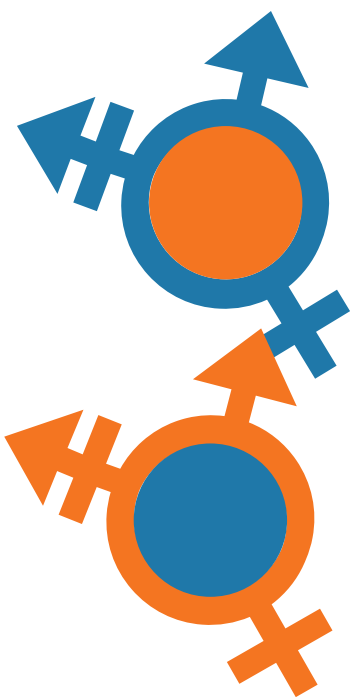
A Mercer L.L.C. 2014 survey found that 8% of employers with 500 or more employees provided coverage for gender reassignment surgery in 2014, up from 5% in 2013. And 23% of employers with 10,000 or more employees offered coverage, flat from the previous year, according to the survey.

Because of a lack of comprehensive data, it's difficult to pinpoint how many individuals in the United States identify as transgender. One regularly cited 2011 study by researchers at the University of California Los Angeles School of Law's Williams Institute estimates 700,000 individuals are transgender, not all of whom seek gender reassignment.

A National Business Group on Health 2013 survey of large members, who NBGH said are typically at the forefront of benefits offerings, found that 60% planned to offer non-surgical transgender-related benefits in 2014, compared with 26% offering those benefits in 2007. Fifty percent of employers planned to offer transgender-related surgical benefits in 2014, up from 5% in 2007, according to the survey.

More insurers, such as Aetna Inc. and Cigna Corp., are offering coverage for transgender-related procedures as well.

In the public sector, transgender health coverage is now widely available. The Office of Personnel Management on June 23 pro-



TRANSGENDER REASSIGNMENT BENEFITS

Percent of respondents that offered coverage, by year

Nonsurgical gender reassignment benefits

Year	Percent
2007	26%
2010	32%
2013	51%
2014*	60%

Surgical gender reassignment benefits

Year	Percent
2007	5%
2010	14%
2013	39%
2014*	50%

*Percent of respondents that planned to offer gender reassignment benefits in 2014, at the time of the survey. Source: 2013 National Business Group on Health survey

hibited Federal Employee Benefit Plan providers from excluding transition-related care in their federal employee health plans, citing an "evolving professional consensus that treatment may be medically necessary" for individuals diagnosed with gender dysphoria, that is distress caused by differences in a person's genetic sex and gender identity.

That decision comes on the heels of the federal government's May 2014 decision to lift its ban on covering sex reassignment surgery under Medicare.

"The federal employee health insurance programs set a tone and standard that will undoubtedly impact workers outside of the federal government," a spokeswoman for the Human Rights Campaign said in an email.

"Although this will not reach every private insurance provider, requiring those that participate in the federal program to provide complete, inclusive coverage will definitely change the way the insurance companies do business nationwide," the spokeswoman for the Washington-based lesbian, bisexual, gay and transgender rights advocacy group said.

Dr. Michael Cryer, Houston-based medical director for Aon Hewitt, said he's seen more interest among employers in offering transgender health benefits this year than in the past, though adoption among his clients is still minimal.

Most clients who offer transition-related health coverage believe it will give them an advantage when hiring employees, he said.

"If they feel like they are in a marketplace where the other employers like themselves" offer transgender health benefits, "then they tend to offer it," he said.

For employers that don't offer transition-related coverage, "it's not specifically the procedure or the content of the benefit" influencing the decision, but the prospect that it could increase health care costs, he said.

But experts say the cost to an employer is negligible compared with more common procedures, such as heart bypass surgery, partly because transgender incidence rates are very low.

According to the NBGH survey, some employers report costs ranging from \$14,000 to \$500,000 yearly for the employee population, depending on the procedures. Others reported costs of gender reassignment benefits at 0.1-0.5% of total health care costs, NBGH said. The average employer responding to the survey had 35,000 employees, an NBGH spokesman said.

"Many people are taking \$100,000 dollar drugs now, so in comparison" the cost for offering transgender health benefits is "very small," said Shari Davidson, Washington-based vice president with NBGH. Cost does not generally factor into the decision to offer the benefit even though some costs are ongoing, she said.

Instead, those decisions are commonly rooted in science, and insurers and employers will cover treatments that are "medically necessary or no longer experimental," Ms. Davidson said.

Today, the American Medical Association, American Psychological Association and other professional organizations say transition-related procedures are appropriate treatments for gender dys-

phoria. A psychiatrist will decide whether it is medically necessary for an individual to receive such treatment, according to Dr. Cryer.

For TD Bank N.A., offering transgender health benefits "was part of our business case in having an inclusive environment," said Cyndi DiCastelnuovo, Mount Laurel, New Jersey-based vice president of diversity and inclusion.

"When employees feel their needs are met, and in this case from a benefits perspective, they perform at a higher level," she said.

TD Bank covers hormone therapy, 80% of transgender reassignment surgery expenses and general mental health services pre- and post-surgery, Ms. DiCastelnuovo said. The company does not cover cosmetic surgery.

Ms. DiCastelnuovo said offering such benefits has helped attract and retain workers and create a "total value package for our LGBT employees."

For a private employer, especially those under a self-insured health plan, the risks involved in declining to offer transgender health coverage are small, but more attention on the issue has "increased potential for discrimination claims," said Todd Solomon, a Chicago-based partner with law firm McDermott Will & Emery.

And the number of employers offering transgender health coverage is expected to keep growing.

"With or without (the Office of Personnel Management decision), a lot of private companies are looking to cover this. In fact, we've seen tremendous growth," said Brenna Shebel, Washington-based vice president of NBGH. "We will see more of our members covering both non-surgical and surgical gender reassignment benefits."

HEALTH

Continued from page 1

side,” said Mike Thompson, a New York-based principal and health care practice leader at PricewaterhouseCoopers LLP.

“The ability of the insurers to represent more significant market share may lead to more competitive financial arrangements over time, and to the extent that those are done on behalf of employers, I think they’d find value in that,” Mr. Thompson said. “I think the devil ultimately will be in the details as to how the consolidation occurs and the degree to which insurers leverage that increase in scale to the benefit of clients as opposed to limiting competition amongst themselves.”

Cost management

In a July Aon Hewitt survey of 100 employers, 21% said they believe the efficiencies of a more consolidated health insurance marketplace will ultimately result in better cost management.

“Assuming that insurers’ increased scale are able to negotiate better prices with providers, the real question is going to be how much of that translates through underwriting into the prices that they pass along to employers versus how much of it falls to the bottom line,” said Tucker Sharp, global chief broking officer of health at Aon Hewitt in Som-

erset, New Jersey. “I think it’s going to be a mix of both.”

Also difficult to predict, experts said, is the effect further consolidation among health insurers would likely have on the range of health plan options available to employers, particularly at the national and large regional levels.

Forty-six percent of employers in the Aon Hewitt survey said they believe they will have fewer plan options as health insurers consolidate.

“There’s a fear out there among employers that there could ultimately be something of a monopoly created by this kind of significant consolidation that could force out the smaller regional and nonprofit health insurers,” said Chuck Smithers, interim CEO of the National Business Coalition on Health in Washington.

“I don’t know that it’s altogether well-founded, because there are going to be markets where the big companies won’t pursue, primarily employer groups of 500 lives or



HEAR INTERVIEW
Visit *Business Insurance's* multimedia Web page to hear Tim Prichard of Wells Fargo Insurance Services USA Inc. discuss consolidation of health insurers and how it will affect employers' benefits options with *Business Insurance* Associate Editor Matt Dunning.

CONSOLIDATION SET TO CHANGE THE DYNAMICS OF HEALTH INSURANCE EXCHANGES

Major health insurer consolidation could reshuffle the private health insurance exchange marketplace, potentially to the benefit of employers.

Continued consolidation of national and larger regional insurers, many of which have launched or are developing proprietary private exchange platforms, would greatly strengthen insurers’ ability to negotiate terms of participating in benefits brokers’ and consultants’ private insurance exchanges, if not compete outright with them, experts say.

Brokers’ and consultants’ “exchange models are predicated on multiple insurers compet-

ing first to even be in the exchange, and then competing on the various coverage options they offer,” said Tim Prichard, executive vice president and national employee benefits practice leader at Wells Fargo Insurance Services Inc. in The Woodlands, Texas. “With consolidation, you now have a situation where the national insurers can now offer fewer plan options in the exchanges, and they’re in a much stronger position to market directly to employers with their own exchange products.”

To continue offering a range of coverage options, experts said brokers and consultants likely would invite smaller,

local health insurers to participate in their exchanges, particularly in pursuit of midsize accounts.

“If the merger activity continues, I think we’ll start to see exchange providers move toward more local solutions,” said Tucker Sharp, global chief broking officer of health at Aon Hewitt in Los Angeles. “We’ve actually already started to see it, especially when you start looking at the middle-market employer segment. Local plans will play a bigger role in filling out exchange offerings in geographies where there might not be as much choice among the national players.”

By Matt Dunning

fewer,” Mr. Smithers said.

Experts said significantly reducing the number of plan options could accelerate employers’ migration to self-funding, which already stood at 61% of covered workers in 2014, according to the Kaiser Family Foundation. That would be especially true if insurers taper the provider networks they offer through fully insured plans to further reduce their costs.

“I think you’re going to see some impacts on plan funding and design strategies, likely with a greater shift to self-funding,” said

Tim Prichard, executive vice president and national employee benefits practice leader at Wells Fargo Insurance Services USA Inc. in The Woodlands, Texas. “Employer access to providers might also be impacted negatively. I think insurers are going to move deeper into tiered provider networks that offer a narrower set of choices.”

Experts also expressed concern about how health insurer consolidation would affect the industry’s ability to deliver innovative solutions such as data analytics, web-based consumer tools and

telemedicine to employers, particularly in the near term as health insurers focus on integration.

“As consolidation moves forward, the incentives to innovate do tend to dry up,” Mr. Smithers said.

“The problem is the companies are pulling in all of the various positive and negative components of a competitor, and it takes them a long time to figure out what direction they want to take with them, and what happens there is that a lot of good ideas that might have been on the drawing board tend to evaporate,” he said.

DRONES

Continued from page 1

area of Appalachia.

“Access is a challenge. Some of the people live on top of mountains with no access to medical care. I don’t believe people are as aware that we have issues like this in the U.S. They see it in other countries, but it is here as well,” said Rose Mooney, Baltimore, Maryland-based executive director of Mid-Atlantic Aviation Partnership at Virginia Tech, which co-sponsored the delivery with NASA via the drone that was covered by an undisclosed insurer.

“This is opening up a whole new area in the United States,” Ms. Mooney said. “There are a lot of safety and logistical issues that our research at FAA-designated test sites is addressing.”

While the FAA recently issued rules for the personal operation of drones, it may be another year or so before it issues rules for commercial drone operators. It has, however, already granted more than 700 exemptions to commercial operators.

“These exemptions are granted on a case-by-case basis because there’s currently a prohibition on commercial unmanned aerial systems use in the U.S.,” said a spokesman for the Association of Unmanned Vehicle Systems International based in Arlington, Virginia.

Insurance buyers’ interest has soared.

“We have seen a 100-fold increase in commercial insurance requests in just over 90 days. We are handling 150 submissions for insurance a week,” said Terry Miller, presi-

dent of Conifer, Colorado-based Transport Risk Management Inc.

The aviation brokerage provides manufacturer, owner and operator coverage for nearly every type of commercial drone, from those that patrol power lines and agricultural fields to those that survey damage after a catastrophe.

“We see media looking into it, film news coverage, we are seeing energy and infrastructure looking into drone insurance, real estate companies,” said Patton Kline, Marsh USA Inc.’s New York-based senior vice president of aviation and space. “There is a huge spectrum of companies and industries looking into it because it is more cost-effective to operate (unmanned aerial vehicles) than typical aircraft, and they’re looking for insurance at the same time.”

Drones are on risk managers’ radar as well.

In an April survey by the Risk & Insurance Management Society Inc., risk managers ranked drones as being among their three top emerging casualty risks, along with cyber security and product recalls.

As far as insurance offered to cover commercial drones, Mr. Miller said the coverage includes up to \$100 million in third-party liability limits and up to \$10 million in hull physical damage limits. With about 2,700 commercial drones insured, there have been about 30 hull physical damage claims, but no liability claims yet, he said.

“The insurance policy is a helicopter policy, more or less, but since it does not have an airworthiness certificate, we re-define it as a UAV. We look at aircraft type, aircraft use and the pilot to see if it will be an insurable risk,” Mr. Miller said. “One of the

DRONE EXEMPTIONS

The Federal Aviation Administration has granted more than 700 exemptions to allow the use of drones, the vast majority for the film industry.

Category	Number	% of total*
Photo/film	321	45.2%
Utilities/energy/infrastructure	179	25.2%
Real estate	175	24.6%
Agriculture	130	18.3%
Construction	104	14.6%
Education	52	7.3%
Emergency services	39	5.5%
Government contracting	28	3.9%
Conservation	24	3.4%
Manufacturer	23	3.2%
Insurance	15	2.1%
Scientific studies	13	1.8%
Other	13	1.8%

*Some exemptions counted in more than one category. Source: Center for the Study of the Drone at Bard College

largest causes of crashes has been pilot error,” he said.

Marsh’s Mr. Kline agrees.

“From a liability standpoint, pilot error will remain a risk,” Mr. Kline said. “Underwriters typically have a list of pilot require-

ments. It’s a little bit like typical aviation insurance for pilots; the underwriters want to see something similar for drone pilots.”

“We think there will be a fair amount of product liability associated with drone use, and we are working with our clients to avoid that risk,” he said. “A lot of people are focused on the operations, but we are also focused on the product’s liability, and we see that as something that should be a concern in the industry.”

Should a faulty component cause a drone accident, “it’s very easy to go after the operator. But if they don’t have deep pockets and if the deep pockets are with the manufacturer, then that is something that should be a concern to people in the business,” Mr. Kline said.

However, the unmanned vehicle association argues that drones “could actually reduce liability concerns by making traditionally dangerous tasks, such as bridge, power line and cell tower inspections, safer and more efficient,” the spokesman said.

“If a drone is operated properly, it takes out a significant exposure factor,” said Peter Schmitz, New York-based CEO of Aon Risk Solutions’ global aviation specialty practice.

As the number of drone users increases, so do the incidents of drones being flown into restricted areas, such as over fires or airports, that could put pilots of standard aircraft at risk.

From an insurance industry standpoint, Mr. Schmitz feels drones are a good thing “as long as it’s not something that gets tarnished by the enthusiastic amateur. That’s the issue the FAA is struggling with right now.”

Contributing: Joyce Famakinwa, Shelby Livingston, Donna Mahoney, Dave Roknic, Sarah Veysey



An Israeli man has been jailed for leaking songs from Madonna's "Rebel Heart."

AP PHOTO

Star-struck hacker heads for jail

An Israeli man has been sentenced to 14 months in jail for hacking and leaking songs from Madonna's "Rebel Heart" album before it was released, according to media reports.

Adi Lederman, a former contestant on Israel's version of "American Idol," reportedly stole the demo versions of the Material Girl's unfinished album in December by hacking into private cloud and email accounts of her associates, reports said. He then sold those demos to two buyers for \$300 each, according to Reuters.

Mr. Lederman, 39, was first arrested in Tel Aviv, Israel, in January and indicted in February on charges of computer trespass, prohibited secret monitoring, copyright infringement and others. After accepting a plea bargain at Tel Aviv's Magistrate's Court, he confessed to computer trespassing and infringement of privacy and property rights and was fined 15,000 shekels, or about \$14,000, in addition to his jail time, according to Reuters.

His lawyer argued that Mr. Lederman was "not someone with a criminal mentality, but rather, a very fired-up and impassioned collector who went too far," Reuters said.

Comp premiums spike soccer team

A Major Arena Soccer League team in New York has announced that after four seasons it can no longer afford to play in the league because workers compensation premiums for the players are no longer affordable, reported the Rochester Democrat and Chronicle.

Last fall, the New York State Insurance Fund informed Salvatore "Soccer Sam" Fantauzzo, team president, CEO and founder of the Rochester Lancers, that their \$20,000-per-year policy was increasing, and the new rate, according to Mr. Fantauzzo, would be \$200,000. Last week, they learned their new rate would be \$277,000. In a letter to the league, Mr. Fantauzzo said the system was "broken," as disability payments had been paid to players who in some cases were still actively competing and the state neither informed the team of those claims nor fought the awards. "We lose money ... every year."



BOSTON MAKES BID FOR OLYMPIC RECORD IN INSURANCE COVER



AP PHOTO

The TD Garden stands ready, willing and able to host the 2024 Olympic basketball finals if Boston wins its bid.

How much the insurance, city officials told proponents of Boston's bid for the 2024 Olympic Games. Boston 2024 officials last month presented the latest version of a \$4.6 billion plan to bid for the Olympics, which includes \$128 million for insurance premiums, the Boston Herald reported.

"What we're looking at is making these the most insured games ever. It's a top priority here that we don't expose the public to needing to make any expenditures because of these obligations," the newspaper quoted Meghan Burke, a member of law firm Mintz, Levin, Cohn, Ferris, Glovsky & Popeo P.C.

Boston 2024 officials said the plan includes purchasing \$2 billion in surety and performance bond coverage, \$475 million in event cancellation insurance, and \$50 million to \$100 million in coverage for unmade sponsor payments.

Boston 2024 plans to approach 10 to 25 insurance brokers in upcoming months to procure all the necessary insurance, Ms. Burke said.

Business Insurance isn't all business all the time, and we know you're not either. So visit www.businessinsurance.com for more Off Beat stories and monthly photo galleries featuring the best of the weirdest news about insurance, fraud, liability issues and related topics that make people and companies do funny, silly and strange things.

Great and powerful fan seeks slippers

Dorothy's ruby slippers from *The Wizard of Oz* are among the most iconic pieces of film memorabilia.



And an anonymous superfan has offered a \$1 million reward for credible information leading to the return of one of the surviving pairs worn by Judy Garland in the 1939 film, which were stolen from a Minnesota museum in 2005.

The shoes — one of about six or seven pairs made for the film, according to *Time* magazine — were insured for \$1 million and are probably now worth between \$2 million and \$3 million, according to a director at the museum.

The reward was offered by an anonymous fan who wished only to be known as a huge fan of the *Wizard of Oz* who lives in Arizona.

Now it just remains to be seen whether the slippers will be returned — after all, there is no place like home.



AP PHOTO

Giants end Jason Pierre-Paul had his index finger amputated after a fireworks accident.

Fireworks mishap may sack career

NFL player's fireworks injury covered by league. The injury didn't happen on the field, but a New York Giants defensive end who had his index finger amputated after a Fourth of July weekend fireworks accident will have his medical bills covered by his NFL insurance, even though he hasn't signed a new contract.

NJ.com reports that the NFL Players Association confirmed that Giants end Jason Pierre-Paul is covered because he played in at least one game last season, and the season's policy is in effect until Aug. 31. And because he is considered an NFL "veteran" after three years in the league, he would be entitled thereafter to five years of continuing veterans medical coverage through Aug. 31, 2020.

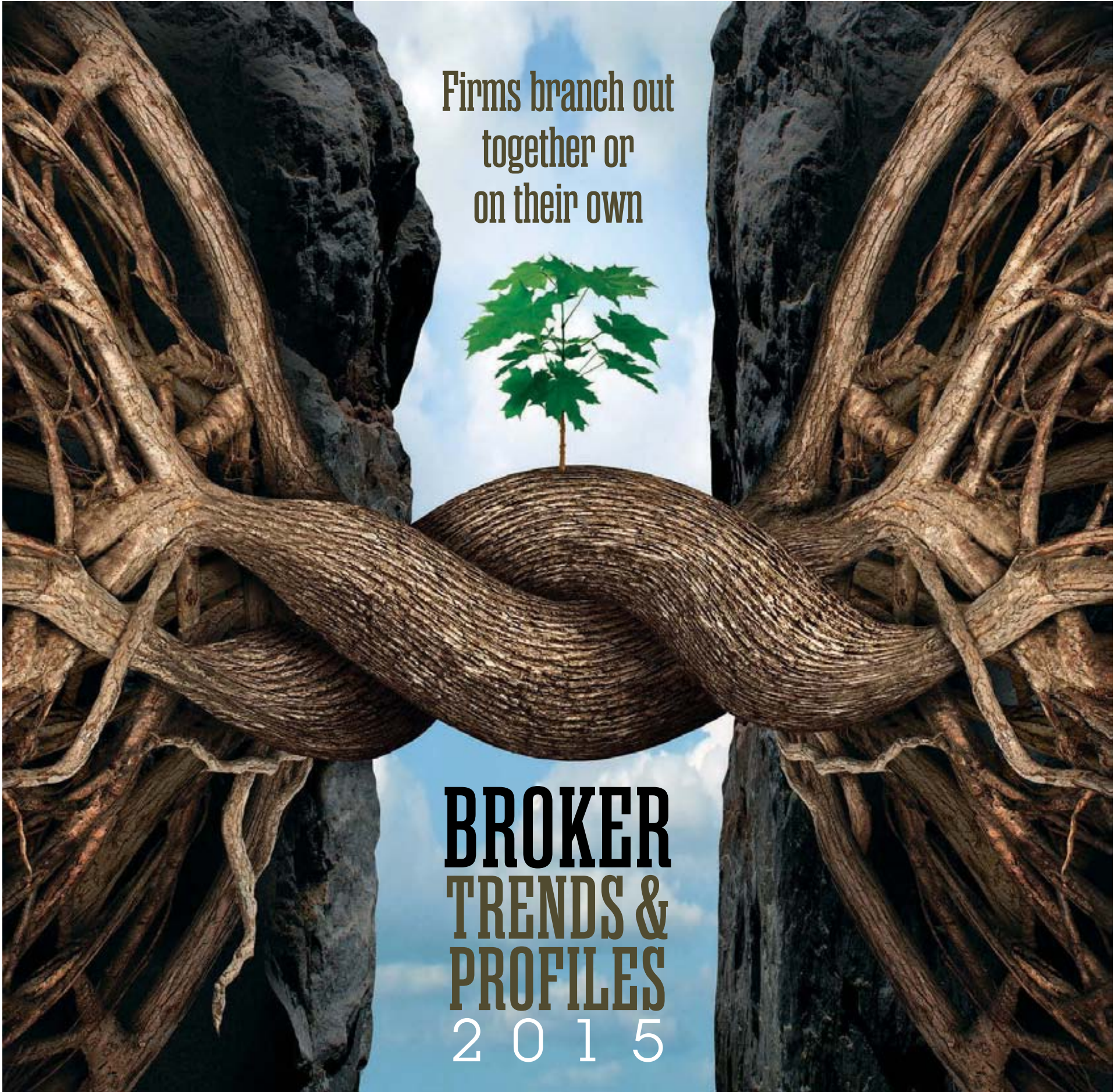
Mr. Pierre-Paul's missing digits may become the least of his problems. His Giants franchise tag requires him to accept a one-year, \$14.8 million deal or sit out the season, SI.com reports.

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If you've got
the traits...

we've got
the tools.

CYBER RISK SUMMIT 2015

September 27-28, 2015
JW Marriott, San Francisco



Put up your defenses before you're breached. And if you're hacked, how do you recover? The answers are here at this can't-miss event for risk managers and CISOs only.

AGENDA AT A GLANCE:

DAY 1

5:00 p.m.-7:30 p.m. **Technology Solutions Expo**
Meet cyber risk solution vendors to learn about products and services to address your cyber risk exposures.

DAY 2

8:00 – 8:30 a.m. **Networking Breakfast**

8:30 – 8:40 a.m. **Welcome Remarks**



8:40 - 9:15 a.m. **Morning Keynote: Malcolm Palmore, FBI San Francisco Asst. Special Agent in Charge of Cyber**



9:20 – 9:55 a.m. **Keynote 2: The State of ICS Cyber Security: What is Happening and What Needs to be Done**
Speaker: Joe Weiss, Managing Partner, Applied Control Solutions L.L.C.

9:55 – 10:15 a.m. **Networking Break**

10:15 – 11:05 a.m. **You're Not a Retailer, but**

You're Still a Target (pun intended)

This session will explore new and emerging cyber threats such as attacks on critical infrastructure that could interrupt operations and supply chains.

11:05 a.m.-11:55 p.m. **Quantifying the Impact of a Cyber Incident**

12:00 - 12:50 p.m. **Networking Luncheon**

DAY 2 (cont.)

12:55 - 1:40 p.m. **Legislative and Regulatory Landscape**

1:45 - 2:35 p.m. **A Buyer's Guide to Cyber Insurance**

2:40 - 3:10 p.m. **Case Study: Southwest Airlines**

3:10 - 3:30 p.m. **Networking Break**

3:30 - 4:20 **Cyber Risk Mitigation: Sometimes Insurance Isn't Enough**

Explore risk mitigation strategies designed to reduce this exposure when cyber risk coverage is either unavailable or inadequate.

4:25 - 5:10 **Cyber Improv: Audience Participation Encouraged**

In an interactive session, the audience will lead various professionals through a data incident.

5:15 - 5:50 p.m. **Closing Keynote: Jeff Moss, former hacker known as the Dark Tangent, and founder of DEF CON and Black Hat Hackers conventions**

5:50 - 5:55 p.m. **Closing Remarks**

6:00 - 7:30 p.m. **Closing Cocktail Reception**



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WE'D LIKE TO THANK OUR CLIENTS FOR WRITING THIS REALLY GREAT HEADLINE.

FM Global Ranked Highest for Property Claims Handling

According to Advisen, Risk Managers Rate FM Global No.1 for Claims Satisfaction

At its core, an insurance policy is fundamentally a promise to pay claims. To understand how well insurance companies are executing on that promise, Advisen surveyed 544 risk managers and brokers in January 2015 to identify the carriers and third party adjusters (TPAs) that provide the

For the most part, brokers have a similar view. When asked to rate the importance of the same criteria for their clients, they also viewed "equitable settlements" as the most important criterion for a property claims handler/department, followed closely by "good communication."

To understand who provides the highest quality property claims services, respondents were asked to identify the top three insurers or TPAs for property claims handling. A weighted average percentage of respondents were calculated, with the results then converted to a claims satisfaction index, with the highest placed respondent of 100. FM C

Companies can talk about themselves as much as they'd like, but in the end, it's what their clients say that truly matters. Risk managers just spoke loud and clear by rating FM Global highest for property claims satisfaction by a margin of more than two to one. It's a level of service you should expect, and one we'll continually challenge ourselves to deliver.

See the results of the latest Advisen survey at fmglobal.com

WHEN YOU'RE RESILIENT, YOU'RE IN BUSINESS.®

