

P/C INSURERS



Mr. Fishman

Travelers gets ready for new CEO

Fishman to pass torch as illness progresses

BY MARK A. HOFMANN

Jay S. Fishman not only transformed Travelers Cos. Inc. during his more than a decade with the insurer, he also has had a major effect on the U.S. property/casualty industry in general.

Mr. Fishman, who has been CEO of Travelers since 2004 and has been diagnosed with a variant of Lou Gehrig's disease, announced earlier this month that he would step down as CEO on Dec. 1 but plans to remain executive chairman of the insurer.

Alan Schnitzer, currently CEO of Travelers' business and international insurance — the company's largest business segment — will succeed Mr. Fishman as CEO.

In a note to Travelers employees,

See **TRAVELERS** page 29

BENEFITS MANAGEMENT

RELIGIOUS EMPLOYERS WEIGH GAY MARRIAGE DILEMMA

Refusal to offer spousal benefits may create liability



AP PHOTO

Demonstrators wave the rainbow flag outside the U.S. Supreme Court in April, two months before the justices legalized same-sex marriage, upending many employers' benefits plans.

BY MATT DUNNING

Employers with religious objections to same-sex marriage face difficult decisions on whether to extend spousal benefits to married gay and lesbian couples.

The U.S. Supreme Court's recent nationwide legalization of gay marriage effectively stripped away many legal protections for employers that don't offer benefits to employees' gay spouses for religious reasons.

Still, several employers, including colleges with religious affiliations, have indicated they won't

change their benefits policies despite the high court's June 26 ruling in *James Obergefell et al. v. Richard Hodges et al.*

"I don't really see a way for private employers to not include married same-sex couples if they're providing spousal coverage," said Edna Kersting, a Chicago-based partner at law firm Wilson Elser Moskowitz Edelman & Dicker L.L.P.

As a result of the court's ruling, which overturned state laws banning same-sex marriage, employers that fully insure their group health

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WORKERS COMPENSATION

Losing track of comp injuries hurts employers

Underreporting claims increases liability risks

BY STEPHANIE GOLDBERG

Ongoing underreporting of occupational injuries opens employers to risks outside the workers compensation system in addition to obscuring the lessons that can be learned through it.

In a recent survey by the New Hampshire Division of Public Health Services, the state agency found that nearly half of workers injured on the job received treatment outside the state workers comp system.

Of those who reported they were "injured at work seriously enough to seek medical advice or treatment" in the survey of 280 respondents released in June, only 53.4% said workers comp paid for that treatment. The remaining 46.6% said group or personal health insurance, Medicare and Medicaid were among the methods used to pay for the treatment in 2012 and 2013.

Despite the relatively small sample size, the division's findings are similar to "multiple studies that have been done in California, Massachusetts and also Washington state that document the undercounting of injuries," said Deborah A.P. Hersman, president and CEO of the Itasca, Illinois-based National Safety Council.

"Nothing can be learned from

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HURRICANE KATRINA 10 YEARS LATER

New Orleans is better prepared for a major hurricane a decade after Hurricane Katrina; alternative capital willing and able to add capacity; NFIP still bailing out; litigation lingers years after losses; facts and figures on past disasters and future exposures.

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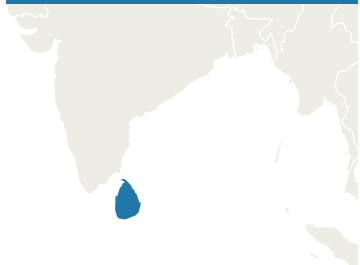
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Laborde of Marsh USA Inc. reflects on being in the city before and after the storm. **15**

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Insuring the ultimate upgrade

A proposed hypersonic plane that can travel nearly 3,000 mph could thrill travelers and hull and liability insurers alike. **30**

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NEWS

EMPLOYMENT PRACTICES

EMPLOYERS STILL GRAPPLING WITH DISABILITY LAW AFTER 25 YEARS

ADA increased employer awareness, promoted fairness

BY JUDY GREENWALD

The Americans with Disabilities Act of 1990 has given employers headaches that include litigation, but the law also has provided guidance on the fair treatment of disabled workers in its 25 years of existence.

Advocates for the disabled, however, say more needs to be done.

The ADA, which President George H.W. Bush signed into law on July 26, 1990, guarantees equal opportunity for people with disabilities in employment, public places, transportation, state and local governmental services, and communications.

The ADA's Title I applies to private employers in particular (see box, page 26).

In 2008, President George W. Bush signed into law the Americans with Disabilities Amendments Act — legislation proposed largely in response to Supreme Court rulings that advocates felt minimized the law's effectiveness (see related story, page 26).

The ADA makes identifying and accommodating the abilities of the disabled a "practical issue that we need to deal with," said Lori Golden, McLean, Virginia-based abilities strategy leader at Ernst &



President George H.W. Bush, center, signed the Americans with Disability Act in July 1990. The law has since opened many doors for the disabled.

Young L.L.P.

Before 2008, employers' mentality was "you absolutely had to treat everybody exactly the same or you would be in trouble," said defense attorney Robin E. Shea, a partner at Constangy, Brooks, Smith & Prophete L.L.P. in Winston-Salem, North Carolina.

The law made employers "much more aware of trying to work with individuals when they have unique needs, and it's made the workplace a little less lockstep and more flexible," Ms. Shea said.

Still, the ratio of disabled employ-

ment declined to 17.1% in 2014 from 17.6% in 2013, while the employed ratio for people without a disability increased to 64.6% from 64.0%, according to the Bureau of Labor Statistics.

"There are instances where it's been absolutely wonderful, because it's required employers to give people a chance they might not have otherwise," said defense attorney Kathryn Dudley Helms, office managing shareholder at Ogletree, Deakins, Nash, Smoak &

See **ADA** page 26

MERGERS & ACQUISITIONS

Cash trumps strategy in PartnerRe deal

BY MATTHEW LERNER

Exor S.p.A.'s \$6.9 billion purchase of reinsurer PartnerRe Ltd., driven by the all-cash nature of Exor's offer and support of proxy advisory firms, leaves open the question of whether PartnerRe made the right choice.

The takeover drama began in January when Axis Capital Holdings Ltd. proposed an \$11 billion cash-and-stock merger with PartnerRe.

"The thing that's been compelling about the Exor offer the whole way along is that it's cash," said Mark Dwelle, an insurance analyst at RBC Capital Markets, a unit of RBC Securities Inc. in Richmond, Virginia.

"It definitely attracted the interest of the shorter-term investors, who saw the opportunity to get some type of a gain and wouldn't have to continue to hold ongoing stock in an acquirer in order to get that total return," Mr. Dwelle said.

Also driving the deal were late July recommendations by proxy advisory firms Rockville, Maryland-based Institutional Shareholders Services Inc.

and New York-based Glass Lewis & Co. L.L.C. to vote against merging with Axis.

"After the ISS thing came out, then there was a chorus of others who agreed with them," said Cliff Gallant, a San Francisco-based analyst at Nomura Securities International Inc.

"Once you had the declarations and recommendations from the various proxy firms, that momentum was what really drove the decision," said Meyer Shields, managing director at Keefe, Bruyette & Woods Inc. in Baltimore.

But some question whether PartnerRe made the best choice.

"We generally viewed the potential merger with Axis as being favorable from a market position and size-and-scale standpoint," Brian Schneider, senior director of insurance at Fitch Ratings Inc. in Chicago, said. "It would have given Partner a bigger premium base, a bigger capital base and a more diverse portfolio of business, par-

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WORKERS COMPENSATION

California comp reforms reduce costs

BY GLORIA GONZALEZ

California's workers compensation reforms have increased benefits for injured workers while simultaneously reducing medical benefit costs.

S.B. 863, which took effect Jan. 1, 2013, increased compensation for permanent disability benefits and established an independent medical review program in which medical experts determine the necessity of treatment using evidence-based medicine, according to a July assessment by the California Department of Industrial Relations.

These and other changes led to a 3.3% reduction in 2014 medical

S.B. 863

California's workers compensation reform law and related regulations have significantly reshaped the state's program. They include:

- Increased permanent disability benefits 30%.
- Instituted a statute of limitations on liens to discourage frivolous cases, resulting in a 60% drop in filings and savings of \$690 million.
- Established an independent medical review process handled by physicians rather than judges.
- Initiated a physician fee schedule increasing payments to general practitioners, but lowering surgeons' and radiologists'.
- Reduced ambulatory surgery center fees to 80% of Medicare's outpatient fee schedule, resulting in about \$30 million in annual savings.
- Established an independent bill review program on medical service payment disputes, also reducing costs.

Sources: California Department of Industrial Relations, Workers' Compensation Insurance Rating Bureau

costs, a trend that could result in savings for employers, the Workers' Compensation Insurance Rat-

ing Bureau of California said in

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ONLINE
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NEWS

RISK MANAGEMENT

BIG TENT COLLAPSES HIGHLIGHT NEED FOR EVACUATION PLANS

Lawsuits filed after deaths at circus, outdoor festival

BY DONNA MAHONEY

Large tents that collapsed at a circus in New Hampshire and a festival in Illinois during severe storms — killing three people and injuring dozens — have resulted in litigation and renewed warnings about devising and following emergency evacuation plans at such summer events.

An aggravating factor in both cases is that severe weather warnings had already been issued but neither tent was evacuated, according to litigation and reports.

On Aug. 2, a 35-year-old man was killed when a steel tentpole collapsed under the pressure of high winds and struck him during Prairie Fest, an annual event hosted by the city of Wood Dale, Illinois.

The next day, high winds knocked down a large tent in Lancaster, New Hampshire, at a circus held by Walker Brothers International Circus, killing a 41-year-old man and his 8-year-old daughter.

Last week, Chicago attorney Louis Cairo filed suit in Cook County Circuit Court on behalf of the deceased man's wife alleging negligence by CP OPCO L.L.C., which does business as Classic Party Rentals, and Chicago Running & Special Events Management Inc., which does business



AP PHOTO

A fatal circus tent collapse in Lancaster, New Hampshire, earlier this month was blamed on high winds.

under several names including Chicago Events, according to the suit.

"The safety plan should include some emergency evacuation plan for the event, especially for adverse weather. You can't plan for everything, and some things come up, but the event promoters should have a plan in place," said Jan Mowery, Sedona, Arizona-based senior broker at Specialty Pacific Business Insurance Services Inc.

The tent collapse was "predictable and preventable," Mr. Cairo told reporters. "We will con-

sider whether or not to add the City of Wood Dale as an additional party defendant," he said in an email.

In New Hampshire, attorneys threatened similar litigation, also reportedly alleging that the circus organizer did not have the proper permits.

None of the companies could be immediately reached for comment.

According to a spokesman for the National Association of Insurance Commissioners, insurers probably underwrite each event

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BENEFITS MANAGEMENT

IRS draws road map for Cadillac tax

Repeal efforts continue despite veto threat

BY JERRY GEISEL

While the IRS has laid out its latest thinking on the health care reform law's controversial excise tax on costly health plans and who has to pay that tax, formal regulations are unlikely until well into next year.

Under the Patient Protection and Affordable Care Act, a 40% excise tax is to be imposed annually, starting in 2018, on that part of group health insurance premiums that exceed \$10,200 for single coverage and \$27,500 for family coverage.

Under what is likely its final notice on the subject until it proposes regulations, the IRS in late July provided insight into its potential approaches to the excise tax, also known as the Cadillac tax, which a 2014 Towers Watson & Co. study found is likely to hit nearly 50% of employers in 2018 and more than 80% by 2023.

Benefit experts emphasize that the IRS notice, on which employers can comment through Oct. 1, is not a road map on what the agency will mandate in those regulations.

"The IRS is saying, 'Here are some of the potential approaches.' That is a good thing, but it is not something that can be relied on," said Anu Gogna, a senior regulatory adviser at Towers Watson in Parsippany, New Jersey.

"It lays out their thinking on nuts-and-bolts issues," said Steve Wojcik, vice president of public policy at the National Business Group on Health in Washington.

Aside from the potential cost, the biggest administrative-related issue is who will pay the tax.

The ACA is clear that insurers will be liable for the tax for fully insured health plans. In turn, insurers are expected to seek reimbursement from employers and other plan sponsors.

But for self-funded health plans, the law says the tax will be paid by the "person that administers the plan benefits," a term that the law does not define, the IRS said in its July guidance.

So the federal agency has laid out two approaches to the issue.

In one approach, the third-party administrator would be responsi-

See **CADILLAC** page 26

BENEFITS MANAGEMENT

Employers who negotiate with hospitals get ahead

BY SHELBY LIVINGSTON

Few employers negotiate with hospitals and other health care providers to obtain discounts on cost of medical services, but those that do usually cut their costs and improve the quality of the care their employees receive.

The difficulty of the process and the scale needed to make the effort worthwhile deters most employers, but several large, and even some middle-market companies, have embraced direct contracting with providers.

Employers that do contract directly with providers, such as hospitals, accountable care organizations or a center of excellence, seek lower fees and better outcomes for employees. Such deals also can be informal, where an employer and provider work together to fix a problem, exchanging patient volume for



reduced fee schedules.

"It's become a hot topic, while not that many are executing on it today" because of its difficulty, said Erin Tartar, Denver-based national leader of the health management practice at Towers Watson & Co.

According to an Aon Hewitt survey released in January, 6% of companies said they contract directly with hospitals and other health care providers, 1% said they planned to do so this year and 30% said they may do so in the next three to five years. Still, 53% were not interested.

That's down from the 11% of employers that deployed some form of direct contracting with medical providers in 2013, when 28% anticipated doing so in the next three to five years, according to Aon

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EMPLOYERS CUT COSTS THROUGH BENEFITS CAPTIVES

Growing trend aided by reinstatement of fast-track approval process

BY JERRY GEISEL

BURLINGTON, Vt. — An integral part of the corporate culture of Sealed Air Corp. is to look for better ways of doing things, says Howard Edelstein, director of risk management in the packing goods manufacturer's Elmwood Park, New Jersey, office.

Using that philosophy, the company expanded its Vermont-based captive, Saddle Brook Insurance Co., Mr. Edelstein said.

The captive "has been a beneficial economical tool for the company. It works, and it works well," he said.

Indeed, the success of Saddle Brook in funding property/casualty risks "helped to influence our corporate risk appetite," Mr. Edelstein said.

It also prompted Sealed Air to shift benefits risks — in this case, life and accidental death and dismemberment coverage — to Saddle Brook, Mr. Edelstein noted, to avoid the pricing gyrations of the cyclical traditional market. Mr. Edelstein described the move to expand Saddle Brook's use last week at a session of the annual Vermont Captive Insurance Company conference in Burlington, Vermont.

Fellow panelist Peter Bandarenko, a senior consultant with Spring Consulting Group L.L.C. in Boston, which filed Sealed Air's application with the Labor Department, said captive benefits funding



"Regulators understand the needs of captive owners. They are flexible in terms of regulation."

Nancy Gray, Aon Risk Solutions

also can reduce "frictional costs," eliminating the profit factor commercial insurers build into rates when they provide coverage for an employer's benefit risks.

A chart displayed by Mr. Bandarenko showed savings of 5% to 20% that for employers funding benefits through their captives compared with buying coverage in the commercial market. "These

are the kind of cost savings clients are seeing," he said.

In addition, funding benefits through a captive broadens the captive's book of business and also gives an employer greater ability to customize benefit plans' design, he said.

Aiding Sealed Air's move were the time savings from a rapid regulatory review process known as

ExPro, reinstated recently by the U.S. Department of Labor, whose approval is needed for many types of captive benefit funding transactions.

Under ExPro, available to applicants who can show that similar transactions previously received approval, the entire process takes about two and a half months instead of the year typical in such reviews. ExPro is expected to fuel more interest in captive benefits funding, according to other experts who spoke at the VCIA meeting.

"ExPro is back and that will help" expand the use of captives to fund their parents' benefit risks, said VCIA President Richard Smith.

Meanwhile, experts see continuing growth in Vermont, the nation's largest captive domicile, which had 584 captives through July, with 14 being licensed this year, an increase from six a year earlier.

Captive experts cite such factors as veteran, but flexible, regulatory staff for the growth.

"Regulators understand the needs of captive owners. They are flexible in terms of regulation," said Nancy Gray, regional managing director-Americas with Aon Risk Solutions in Burlington.

"It is intelligent regulation, not overbearing," said Jeremy Brigham, a director with Towers Watson & Co. in Hartford, Connecticut.

VERMONT CAPTIVES

14

Vermont licensed 14 captive insurers through July, up from six the same time last year.

10:14

Seven of the newly licensed captives have a single parent, and three are risk retention groups.

4:14

The other four are an association captive, a special-purpose financial captive, a sponsored captive and an industrial insured captive.

584

The total is 584 for the state that is the largest U.S. and the world's third-largest captive domicile, according to the latest *Business Insurance* rankings.

Source: Vermont Captive Insurance Division

DISABILITY MANAGEMENT

Complex return-to-work problems solved through integrated approach

BY STEPHANIE GOLDBERG

SAN FRANCISCO — Stay-at-work and return-to-work programs have historically been associated with workers compensation, but including employees with nonoccupational injuries can help companies better manage the costs of worker absence, experts say.

The return-to-work process should be the same for all workers, whether they have an occupational or nonoccupational injury, said Jason Parker, president and senior disability management consultant at CentriX Disability Management Services Inc. in Vancouver, British Columbia.

Prolonged work absences are typically "caused by nonclinical factors" such as personal decisions and levels of engagement,

Mr. Parker said, adding that a person's recovery expectations are the strongest predictor of absence duration for most types of claims.

Since employees who have positive expectations return to work sooner, professionals shouldn't be asking, "Is this a work comp claim? Is this a (Family and Medical Leave Act) claim? Is this a non(occupational) claim?" Mr. Parker said. Rather, they should ask employees, "What do you think needs to happen for you to return to work successfully?" he added.

"Some of these distinctions that we make between work-related injuries or illnesses and personal injuries or illnesses are somewhat artificial," said Dr. Robert K. McLellan, chief of occupational and environmental medicine at Dartmouth-Hitchcock Medical

"Some of these distinctions that we make between work-related injuries or illnesses and personal injuries or illnesses are somewhat artificial."

Dr. Robert K. McLellan
Dartmouth-Hitchcock Medical Center

Center in Lebanon, New Hampshire.

When workers comp was created more than 100 years ago, work injuries seemed more straightforward, Dr. McLellan said: "You dropped a brick on your toe, it broke your toe. It's pretty straightforward cause and effect."

But increasingly — with the burden of chronic diseases as people are getting older and working and getting aches and pains — this distinction between what's work-related and what's life-related is getting blurrier," he said.

Mr. Parker and Dr. McLellan are among the experts who say they're in favor of integrating stay-at-work and return-to-work initiatives. The importance of implementing such programs, which address workers that have both occupational and nonoccupational injuries, was a popular topic at the Disability Management Employer Coalition's 2015 conference in San Francisco earlier this month.

Sophisticated employers tend to have inte-

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Michael Sillat
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WEDNESDAY, SEPTEMBER 2



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Integro sells itself to private equity firm

■ New York-based insurance brokerage Integro Ltd. said it has reached an agreement to be acquired by Odyssey Investment Partners L.L.C. Terms of the transaction, expected to be completed in the fourth quarter of this year, were not disclosed. Integro reported 2014 brokerage revenue of \$212.4 million, according to Business Insurance's latest Directory of Agents & Brokers. The brokerage has more than 40 offices in the U.S., Canada, the U.K., and Bermuda, Integro said in the statement. The firm's specialty practices include energy, trade and logistics, health care, entertainment, professional services, aviation, reinsurance, and benefits consulting, the statement said. Integro management will remain in place, and certain members of the management team and other employees will remain shareholders.

Allianz, Zurich receive claims from firms hit by Tianjin blasts

■ The Chinese units of European insurers Allianz S.E. and Zurich Insurance Group Ltd. said they have received claims for unspecified damages from customer companies in the northeast city of Tianjin after two huge explosions in the port. Zurich General Insurance Co. (China) Ltd. said in an email to Reuters that it received claims from companies including those operating in the property and cargo sectors. It didn't identify the companies involved. Allianz said in an emailed statement it is still assessing its potential exposure to the blasts. "We can confirm that Allianz China General Insurance has exposures in the areas of property and marine clients," Allianz said, "however we are unable to furnish any further details at the moment." Both insurers said they are now assessing potential losses.

Reuters

U.S. government appeals ruling over 2008 AIG bailout

■ The United States has filed an appeal against a U.S. judge's ruling in June that sided with former American International Group Inc. CEO Maurice R. Greenberg on a legal claim over the company's 2008 bailout. A judge in the Court of Federal Claims in Washington found that the U.S. Federal Reserve exceeded its authority in the insurer's bailout, and the government had been expected to appeal in order to preserve a robust shield against legal challenges to their responses in future financial crises. Mr. Greenberg, 90, had sought up to \$50 billion in damages

but was not awarded a penny after Judge Thomas Wheeler also found that without the government's intervention, AIG would have filed for bankruptcy. The government is appealing to the Court of Appeals for the Federal Circuit. Mr. Greenberg's Starr International Co., which was AIG's largest shareholder at the time of the bailout, has also appealed. It argued for damages and a reversal on other claims dismissed by Judge Wheeler.

Reuters

Global insurance rates continue their decline

■ Global insurance rates across most major lines of business continued to decline during the second quarter of 2015, according to Marsh L.L.C.'s latest Global Insurance Market Quarterly Briefing. Commercial insurance rates continue to decrease across the globe in most lines of business for the second quarter. The decrease, mainly due to an abundance of global capacity and a lack of large insured losses, marks the ninth consecutive quarter of rate declines, the report said. Demand for transactional risk continued to grow with an overall increase of 15% year-on-year in terms of limits. Private equity firms were the heaviest users of the niche insurance area, seeing it as a way to reduce indemnity requirements when buying. The Marsh Global Insurance Index was 0.956 in the first quarter of 2015, an improvement from 0.967 in the previous quarter.

Health care uninsured rate drops to less than 10%

■ The percentage of uninsured people in the U.S. dropped below 10% this year for the first time, according to a U.S. Centers for Disease Control and Prevention survey. The national uninsured rate decreased to 9.2% in the first three months of 2015 from 11.5% in 2014 as 7 million people gained insurance, according to the survey, conducted by the CDC's National Center for Health Statistics. The reduction is not as big as the drop from 2013 to 2014, when 8.8 million people gained coverage. The total decrease since major parts of the Affordable Care Act went into effect in 2013 is 15.8 million. Over 26,000 people were interviewed for the survey.

Modern Healthcare

California weighing closed comp formulary

■ California plans to implement a closed drug formulary for its workers comp system, officials said. David Lanier, secretary of the California

Labor and Workforce Development Agency in Oakland, has directed the Department of Industrial Relations to begin the process to establish a formulary, said Christine Baker, director of the Department of Industrial Relations, which oversees the Division of Workers' Compensation. "We are poised to move forward on a formulary and use it in the California system," Ms. Baker said of the process that is to begin this fall. and is consulting its counterparts in Texas and Washington state in its effort to reduce opioid use and overall costs. Texas' formulary allows a broader choice of drug groups and brand drugs, while Washington's formulary has more limited choices, but either approach could benefit California.

FAA commercial drone exemptions top 1,000

■ The Federal Aviation Administration has granted more than 1,000 exemption approvals for drones in its effort to safely expand their operations. The 1,008 Section 333 exemptions include grants for "new and novel approaches to inspecting power distribution towers and wiring, railroad infrastructure and bridges," the FAA said in a statement. A report published by the Arlington, Virginia-based Association for Unmanned Vehicle Systems International highlights some of the innovative ways unmanned aerial vehicles, more commonly known as drones, are being put to work, including inspecting industrial flare stacks that stand several hundred feet tall and emit 2,000-degree-Fahrenheit heat, and inspections on work being done on roofs, bridges, towers, and wind turbines without putting people at risk to do so, the report says. Railroads can also use UAVs to measure changes in track integrity and capture time-lapse data to compare changes over time, and utility inspections also are safer and faster with drones.

Court denies religious groups seeking contraceptive opt-out

■ Religious charities and schools seeking an outright exemption to the health care reform law's so-called prescription contraceptive mandate have been denied again in federal court. A three-judge panel of the 2nd U.S. Circuit Court of Appeals in Brooklyn unanimously ruled that the First Amendment to the U.S. Constitution and the federal Religious Freedom Restoration Act do not excuse religious nonprofit organizations that object to providing their employees with cost-free coverage for contraceptives — as mandated under the health care reform law — from passing the coverage obligation on to their group health insurer or third-party administrator in light of those objections.

BI adds senior editor to staff

Gloria Gonzalez has rejoined *Business Insurance* as a senior editor covering workers compensation and safety issues.

Based in Washington, Ms. Gonzalez graduated from Syracuse University with a dual degree in magazine journalism and political science.

Ms. Gonzalez worked in the news division at New York-based financial newswire BridgeNews from 1998-2001. BridgeNews folded shortly after 9/11, and Ms. Gonzalez became a freelance reporter for various New York publications. She first joined *Business Insurance* in 2004 as an associate editor and later became its New York bureau chief.

In July 2008, she left *Business Insurance* to become

the Americas editor at Fulton Publications Ltd. and, after its 2012 purchase, joined Field Gibson Media Ltd. in New York, covering financial aspects of environmental issues for the U.K.-based publications.

In May 2013, she became associate editor and then news editor for Ecosystem Marketplace, a Washington-based website owned by the nonprofit Forest Trends Association, focusing on forestry topics, including the government-managed forest carbon markets in California and the Northeast.

She replaces Bill Kenealy who left the publication in June year after relocating.

Ms. Gonzalez can be reached at 202-662-7325 and ggonzalez@businessinsurance.com.



Ms. Gonzalez

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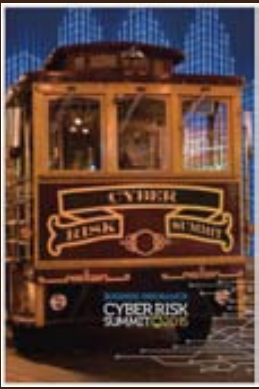


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PLATINUM SPONSOR





U.K. insurers get leeway on sudden tax changes

Insurers preparing for increased premium taxes in the United Kingdom have been given some flexibility in how they file their returns to the government, the Association of British Insurers said. The U.K. insurance premium tax will increase to 9.5% from the current 6% for coverage bought on or after Nov. 1. U.K. Chancellor of the Exchequer George Osborne had announced the tax increase in July as part of his summer budget. "Firms are already working flat out to update (information technology) systems and prepare for the change," the ABI said in a statement. "Firms had no advance warning of the increase in insurance premium tax announced in the Budget, meaning preparations for the implementation date of Nov. 1 have placed sudden pressure on IT and back-office services," David Jordorson, ABI's policy adviser on taxation, said in the statement. The association said Her Majesty's Revenue & Customs department has confirmed that companies "facing challenges providing accurate IPT returns as a result of the change in rate can discuss with HMRC the provision of estimates for initial accounting periods instead. Adjustments will be made at a later date."

Willis Re names global chairman

Paddy Jago has been appointed global chairman of Willis Group Holdings P.L.C.'s Willis Re unit, effectively immediately. The position was previously held by Peter Hearn, who left Willis Re earlier this year to join Guy Carpenter & Co. L.L.C. as CEO. In addition to his new role, Mr. Jago will remain chairman of Willis Re North America, a role to which he was appointed in 2011. He will have offices in both New York and London. James Kent and Andrew Newman have been appointed copresidents to succeed Mr. Jago in his previous role as president of Willis Re, in addition to their respective roles as president of Willis Re North America and global head of casualty. Mr. Kent will be based in New York and Mr. Newman in London.

Munich Re profit up 4.1% in quarter

Munich Reinsurance Co. reported second-quarter profit of €1.08 billion (\$1.19 billion), up 4.1% from

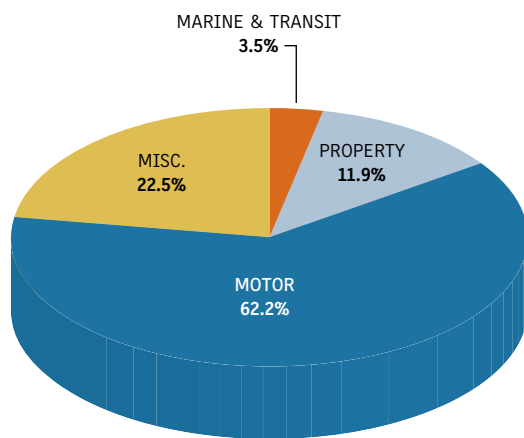
PROFILE: SRI LANKA

\$412.2 MILLION

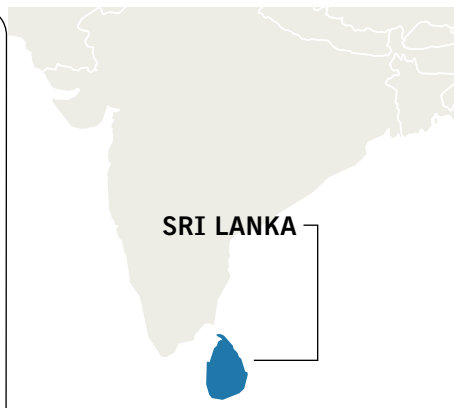
Flooding is the major natural threat to Sri Lanka, and it often results in significant losses. Earthquakes are not considered much of a danger, though a tsunami produced by a quake in the Indian Ocean devastated the island off India in 2004.

◀ 2013 P/C gross premiums

MARKET SHARE



Source: Axco Global Statistics/Industry Associations and Regulatory Bodies



SRI LANKA

AREA

25,332 square miles

POPULATION

21.4 million

GLOBAL P/C MARKET RANKING

81

2015 GDP CHANGE (PROJECTED)

7.1%

MARKET DEVELOPMENTS

UPDATED MAY 2015

- Composite insurers, those handling property/casualty and life coverage, are splitting into separate companies, a process to be completed this year.
- The Insurance Board of Sri Lanka in November 2014 updated the Regulation of Insurance Industry Act of 2000 with rules relating to corporate insurance agencies. Among them was a ban on agents receiving commission when placing insurance with their own organization or affiliates.
- Guidelines issued by the Ministry of Health in October 2014 require applicants for a permit to conduct clinical trials to also submit proof of insurance in Sri Lanka.
- The owner of Union Assurance P.L.C., John Keells Holdings P.L.C., has agreed to sell a majority stake in the P/C company to Fairfax Asia Ltd., a unit of Fairfax Financial Holdings Ltd. of Canada. The local operations of American International Group Inc. are in runoff after AIG announced in June 2014 that it intended to leave the market.

COMPULSORY INSURANCE

- Auto third-party bodily injury
- Professional liability for brokers and notaries
- Oil pollution cover for tankers entering the port of Colombo
- Shipowners liability for marine oil pollution
- Weather-based crop cover for farmers receiving a government fertilizer subsidy

NONADMITTED

Unauthorized insurers cannot carry on insurance activity in Sri Lanka, with exceptions including marine cargo, free trade zone business, and directors and officers liability coverage purchased by an insurance company, or in matters of national interest.

INTERMEDIARIES

Agents and brokers must be authorized to handle insurance business. Intermediaries can, however, place business with nonadmitted insurers for the previous exceptions. Registered brokers can place business with nonadmitted insurers. Though brokers involved in nonadmitted placements do not have to warn buyers that their insurer is not subject to local supervision, most do as a matter of prudence.

MARKET PRACTICE

Until the National Insurance Trust Fund became an obligatory reinsurer in 2008, 100% fronting was common in the Sri Lankan market. Now, the fund is offered a 30% share of all locally retained risk.

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

the same quarter in 2014, reflecting a below-average incidence of major losses and good investment results. Gross premiums written in the second quarter increased 5.2% from the year-ago period to €12.47 billion (\$13.70 billion), Munich Re said. The company's reinsurance business posted consolidated profit of €842 million, up 33.9% from the prior-year period, while the property/casualty reinsurance business' combined ratio improved to 93.3% from 101.4%. Munich Re said flooding caused by heavy rainfall in northern Chile and a fire at a South Korean warehouse were major sources of claims for the quarter. First-half 2015 profit totaled €1.87 billion (\$2.05 billion), up 9.6% from the first half of 2014; gross premiums written were €25.51 billion (\$28.02 billion), up 2.9%; and the combined ratio for

the property/casualty reinsurance business was 92.8% compared with 94.1%.

Disaster claims drop in first half: Swiss Re

Disaster claims on insurers in the first half of the year fell by nearly one-third from the same period last year to \$16.5 billion, even though the percentage of losses covered by insurance rose, according to a Swiss Re Ltd. study. Total economic losses from natural catastrophes and man-made disasters totaled \$37.4 billion in the first half, down from \$59.0 billion a year ago, and insurance covered nearly 45% of the losses, up from the average for the past 10 years of 27%. The death toll from both nat-

ural and man-made disasters more than trebled to around 18,000 in the first half of 2015 due to the Nepal earthquakes, a heat wave in India and Pakistan and the drownings of refugees in the Mediterranean, Swiss Re's study estimated. "The costliest natural catastrophes for the insurance industry resulted from severe winter weather and thunderstorms in the U.S. and Europe," it said. The earthquakes that struck Nepal in April and May killed more than 9,000 people and caused more than \$5 billion in damage, of which only around \$160 million was insured, it said. The heat wave in May and June, when temperatures reached their highest in a decade, killed more than an estimated 2,500 people in India and 1,500 in Pakistan, the company said. And in early August, the Geneva-based International Orga-

nization for Migration reported more than 2,000 migrants had died so far this year while trying to cross the Mediterranean.

Reuters

Hannover Re profit up despite soft market

Hannover Re S.E. reported a 19.3% increase in its net income to €252.2 million (\$277.0 million) for the second quarter of 2015 despite a softening property/casualty market. The net income result for property/casualty reinsurance for the quarter for the German reinsurer was €247 million (\$271.3 million), a 64.4% increase. The combined ratio was 95%, vs. 95.6% for the comparable quarter. For the first half of the year, the company

reported a 19.7% increase in net income to €531.9 million (\$584.2 million). Net income for its property/casualty reinsurance operations increased 20.3%, to €428.4 million (\$468.7 million), while its combined ratio was 95.4%, vs. 95% for the comparable quarter. The company is “able to raise our profit guidance for the full year from €875 million (\$961.1 million) to around €950 million (\$1.04 billion),” CEO Ulrich Wallin said during a conference call. “The first half year of 2015 also saw particularly strong earnings on the property/casualty business, on the life and health business and most notably for our investments.”

Sumitomo Life to buy Symetra

■ Japan’s Sumitomo Life Insurance Co. has agreed to buy U.S. insurer Symetra Financial Corp. for about \$3.8 billion, the latest multibillion-dollar deal in the world’s largest insurance market by acquisitive Japanese companies. Sumitomo, with 27 trillion yen (\$216.2 billion) in assets, will pay \$32 per share for Symetra, representing a 32% premium to the U.S. company’s average share price in the past month. Symetra shareholders will also receive a previously announced special dividend of \$0.50 per share in cash. Chief Executive Thomas Marra and its management team will continue to lead the business in the United States. Tokio Marine Holdings Inc. in June agreed to buy HCC Insurance Holdings Inc. for \$7.5 billion, while late last month Meiji Yasuda Life Insurance Co. agreed to buy StanCorp Financial Group Inc. for \$5 billion.

Reuters

Montpelier Re’s A rating affirmed after acquisition

■ Fitch Ratings Inc. affirmed the A insurer financial strength rating of Pembroke, Bermuda-based Montpelier Re Holdings Ltd. following its \$1.8 billion acquisition by Endurance Specialty Holdings Ltd. Fitch also withdrew its negative review of the reinsurer and its subsidiaries, the rating agency said in a statement. “The affirmation of Montpelier’s ratings reflects Fitch’s view of Endurance’s strong credit quality and reasonable integration plan for Montpelier,” Fitch said in its ratings note. “Fitch considers the combined Endurance-Montpelier as having a stronger profile than Montpelier stand-alone and in line with an ‘A’ IFS rating,” said Fitch, adding the transaction was “overall credit

positive.” Completion of the deal, which was first announced March 31, took place July 31.

Allianz confident of earnings, Pimco

■ Allianz S.E., expects to reach the top of its operating profit target

range this year, and Chief Executive Oliver Baete said asset management unit Pimco was picking up after two years of investor defections. Allianz forecast on operating earnings of €10.8 billion (\$11.84 billion) in 2015, plus or minus €400 million (\$438.7 million) depending on claims and financial market developments. The German insurer’s U.S.-based Pacific

Investment Management Co., or Pimco, unit saw a further €29.3 billion (\$32.13 billion) in third-party net outflows in the second quarter after record outflows and management turmoil last year, including the acrimonious departure of leader Bill Gross, known as the “Bond King.” Allianz will concentrate more on finding the right balance between growth and margins, Mr.

Baete said. He cited Asia and the United States as among target regions for growth but said the company would take a cautious approach on takeovers. Mr. Baete declined to comment on whether Allianz would be interested in bidding for Britain’s RSA Insurance Group P.L.C., as some analysts have suggested.

Reuters

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TELEHEALTH PIONEER TAKING PRACTICE MAINSTREAM

Q What is interest and uptake of telehealth services like right now, and how does that compare with a few years ago?

A The sheer amount of business that we at American Well have seen over the last 12 or 18 months probably compares and equates to the entire amount of business that we've done in the previous eight years ... There is a growing consensus, one that didn't exist for many, many years, that telehealth is actually a safe way of delivering health care to Americans.

Q How are you working with employers to deliver telehealth to their employees?

A American Well works with employers to design a custom experience, select appropriate providers and create communications to effectively reach their employees. We are involved in the launch and rollout of the service, with a presence at health fairs and community events, supporting user adoption through monthly emails, and delivering analytics on

Q&A

usage and (return on investment).

Q How are you able to replicate the patient experience and quality of care of an in-person doctor's visit through a videoconference?

A The Federation of State Medical Boards issued last year guidelines for the use of telehealth in medical practice, and it said two very, very important things. First of all, telehealth is a safe way to do medical care ... The second thing they did is they took the effort to

stipulate "What are the key operating principles?" They said telehealth care has to abide by the same principles as in-person care ... the patient has to know and feel comfortable that they have made an informed choice on who they are going to get care from.

Q In April, UnitedHealthcare announced it would cover telemedicine and said it would partner with American Well. What are the implications of that?

A It is a big deal because United is the No. 1 health insurer in the U.S. That brings 50 (million)-60 million more Americans into the fold of telehealth.

Q It also seems like an endorsement of telehealth.

A At this point, we are transitioning from an age where it's called endorsement to where it's called recognizing that this is just part of doing business. If you don't offer telehealth as a health insurance company, you're now perceived as behind the times.



DR. ROY SCHOENBERG

AMERICAN WELL CORP.

with *Business Insurance* Staff Reporter Shelby Livingston. Edited excerpts follow.

Dr. Roy Schoenberg is the president and CEO of telehealth provider American Well Corp. He co-founded the Boston-based company with his brother in 2006 for patients to access medical services, rather than just information, over the Internet. Today, American Well provides telehealth technology for more than 600 employers in addition to health insurers, hospitals and individuals. Dr. Schoenberg recently spoke

Q What are some of the hurdles you're dealing with when it comes to adoption?

A The No. 1 hurdle is payment. The announcement that United made, mimicking similar announcements that were made by other health insurance companies and in some cases government agencies, is kind of a landmark in itself in saying that in the future, that's going to be the case from a consumer standpoint. You only have to pay a co-pay.

Q What's the next generation of telehealth?

A Looking forward, the role of telehealth is to fundamentally change how physicians interact with their patients. Telehealth has an enormous role in making sure that that patient and his or her physician are going to be able to do much better health care, with much more frequent, lighter touch, much more appropriate kind of tailored health care. — that is necessary.

COMINGS & GOINGS

UP CLOSE: ANDREAS LOUCAIDES

LONDON-BASED CEO

International General Insurance Co. (UK) Ltd.

PREVIOUS POSITION: London-based director of underwriting for AmTrust at Lloyd's Ltd.

LOOKING FORWARD TO: (The) rating environment turning positive again.

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Excess capital. There is so much interest in the industry at the moment we could withstand a loss not previously ever experienced, and still more capital would flow in. Broker facilities underwritten on a portfolio basis play to the excess capital available forcing prices even lower.

FIRST INDUSTRY JOB: Reinsurance treaty broker at Lowndes Lambert.

ADVICE: My father always said work hard and always prepare yourself for whatever you are trying to achieve.

OUTSIDE THE INDUSTRY, A DREAM JOB: Football manager at West Ham.



HOBBIES: Golf (and) watching sports — especially my son Alex playing football and daughter Lois playing hockey and learning to play golf.

THING MOST PEOPLE DON'T KNOW

ABOUT ME: I was born in Cyprus in a tiny village called Kharcha.

WHEN I RETIRE: Good health, family, good food and wine.

FAVORITE MEAL: Very much depends on my mood and weather, so anything from Asian to Italian, plus the occasional Greek salad.

FAVORITE BOOK: "Lord of the Rings" by J.R.R. Tolkien.

BEST CITY: London.

ON A SATURDAY AFTERNOON: West Ham playing at home.

THOUGHTS ON SMARTPHONES: Good for work (and) pleasure, but not on holidays or meal times with the kids.

CAN'T-MISS TELEVISION SHOW: "Match of the Day."

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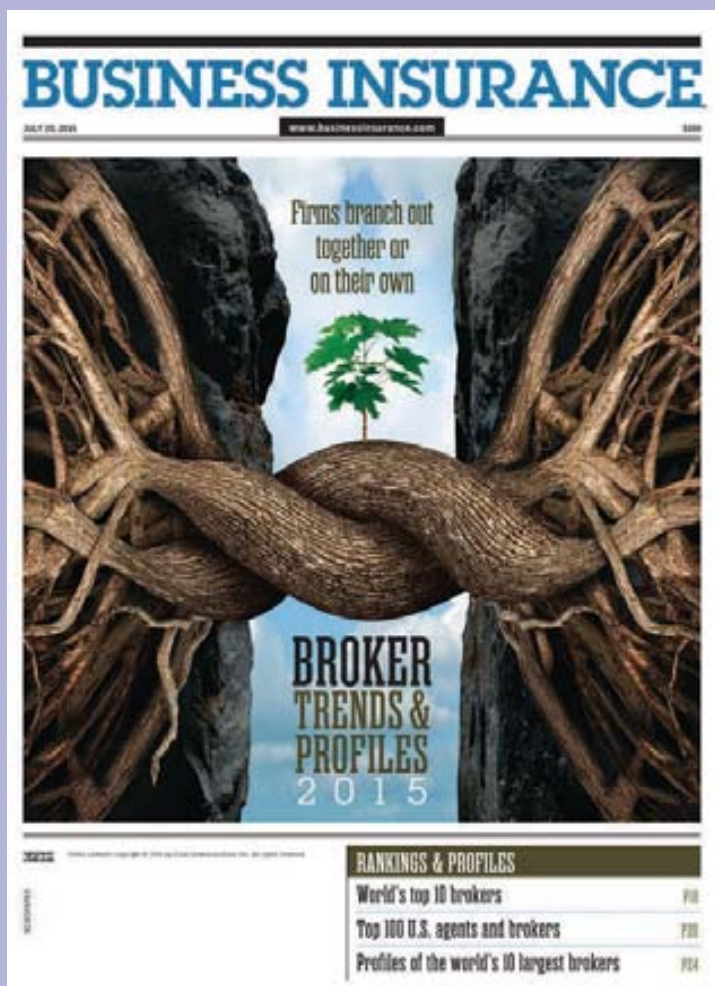
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BUSINESS INSURANCE
WHAT MATTERS MOST

EDITORIAL

DISABILITY LAW CAN BUILD ON 25 YEARS

Happy 25th birthday, Americans with Disabilities Act! The ADA, which was signed into law by President George H.W. Bush on July 26, 1990, guaranteed equal opportunity for individuals with disabilities in public accommodations, employment, transportation, state and local government services and telecommunications.

In particular, Title I, which applies to private-sector businesses, has had a positive impact overall.

This is not to say that things have always moved smoothly. Unquestionably, it has led to increased litigation against employers. The whole issue of accommodating disabled employees can also pose a dilemma.

It is not always necessarily clear, for instance, what constitutes a reasonable accommodation to an employee or applicant's disability. Under the law, employers are not required to make an accommodation should it impose an "undue hardship" on the business, but questions can remain as to when an accommodation crosses that line.

Also a challenge is the expanded list of who is considered disabled under the Americans with Disabilities Amendment Act of 2008, which has grown to include the morbidly obese.

Future challenges include dealing with the issue of pregnancy, in light of the U.S. Supreme Court's March ruling in *Peggy Young v. United Parcel Service Inc.*, in which the court held the Atlanta-based package delivery firm had acted unlawfully in refusing to accommodate a pregnant part-time workers' lifting restrictions while accommodating workers who were unable to work for other reasons.

There are also ongoing issues from the disabled worker's perspective. Advocates say that while the ADA has done a great job in helping people who become disabled keep their jobs, and in insuring current disabled workers' ability to get promotions, it remains difficult for visibly disabled applicants, such as the deaf or blind, to get hired initially. The unemployment rate for the blind, for instance, remains at around 62%.

But the law has also been highly effective in changing employers' mindset about the disabled and in providing well-intentioned employers with guidance on how to proceed.

Expanding the pool of qualified workers, disabled or not, can only help American business, beyond being the right thing to do. And the ADA has done a good job in setting American business along that path.

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

WILL LATEST FITNESS FAD WORK AS A WELLNESS TOOL?

Last week was great. My best day was 19,081 steps — almost twice the daily goal — and I completed over 90,000 for the week. I was off to a slower start this week but still hope to close in on 100,000.

If you know what I'm talking about, you probably have a fitness tracker on your wrist, too — or you know someone who does and bores you to death detailing their achievements.

The unobtrusive flexible bands, which often look like a watch without a face and link to smartphone apps, are escalating in popularity with close to 20 million sold last year and a projected annual growth rate of about 150%.

Like many people, I received mine as a gift and had no real desire to track my activity prior to receiving the device. Yet it's having a notably healthy influence on daily routine. I've made adjustments to my daily commute to incorporate more walking and am much more inclined to go out for a walk on a summer evening.

Actually, it's getting to the point of obsession, and a couple of nights ago I found myself pacing up and down the kitchen to ensure I met my daily steps goal before I went to bed.

There is a high drop-off rate, with many people giving up the devices after a few months of use, but if you take a look around the office or the train, you'll probably see several people wearing them.

The use of fitness trackers in corporate wellness programs should be obvious. With their focus on regular, easy-to-complete exercise, the devices should help users improve their fitness and lose weight as



GAVIN SOUTER
EDITOR

long as employees buy into them. And the tracking addiction they foster can go well beyond the basics of step-counting to include weight changes, sleeping patterns and other key measurements.

The net effect should be lower health care costs for employers and employees. In addition, the price of the devices is falling, with many of them retailing for under

\$100, so it should not be unthinkable for companies to pick up least some of the cost.

But therein, of course, lies the rub: Once employers get involved, privacy concerns arise. It's one thing to join wellness programs that might involve weight-loss goals or even biometric screening, but many employees are going to feel uncomfortable, regardless of privacy safeguards that are put in place, if they are asked to wear something akin to a tagged collar used to track wild animals.

That's unfortunate, because the fitness trackers can be a real boon to wellness efforts. Employers can use the data, even if it is analyzed on a collective basis, as an effective, real-time means of monitoring whether their wellness programs are achieving the desired result.

I could go on but I have to step away from my desk and log another 7,000 steps before the day is out.

Reflections on Katrina one decade later

It's been 10 years since Hurricane Katrina raked the U.S. Gulf Coast and particularly New Orleans, with damage estimates at \$96 billion to \$125 billion and the loss of more than 1,800 lives. James "Bo" Laborde, head of Marsh USA Inc.'s New Orleans office, reflects on being in the city before and after the storm, the response and lessons learned.

Surreal. That's the word I always come back to when I recall Hurricane Katrina. So many images and feelings come to mind. For many people, Katrina remains a defining event in our business and personal lives, from the enormous obstacles we overcame to the pride in being part of rebuilding a great city.

On Saturday, Aug. 27, 2005, Katrina was a sprawling hurricane roiling the Gulf of Mexico on its way to Category 5 status. We don't always evacuate the city when a storm approaches, but Katrina was different.

This time we left town, along with hundreds of thousands of others. Ironically, my wife was with her mother vacationing in Grayton Beach, Florida, watching the hurricane move toward New Orleans. I, along with our three boys and pets, left on Saturday simply to avoid the traffic. When Katrina hit New Orleans early Monday, we were glued to the news coverage. As the levees gave way and much of the city was inundated, many hoped to catch a glimpse on TV of a home or a neighborhood or a family member. Others were looking at their businesses. One client recalls sitting on a porch with his partner in the evacuation zone, insurance documents in hand, wondering: "Are we covered?"

I was able to get back into the city the following Thursday. Flood waters were widespread. The National Guard and military vehicles were everywhere. The debris was unimaginable. And there was a certain stench to the air. It's something I'll never forget.

Colleagues, clients and communication

In some ways, it seems like yesterday. In others, it's so long ago. Over time, three things stand out for me: colleagues, clients and communication.

We thought we'd be gone from home for a weekend, but it turned into about three months. We were fortunate in that our house suffered minimal damage, and we had an evacuation spot in central Louisiana, but there was no school available for our children, so we lived in Houston until the end of December. I would make forays back into the city to check on the house and to help clients.

Our Marsh family was touched directly; 11 of our New Orleans co-workers lost everything. We moved our operations to the Houston office, but colleagues were scattered everywhere except New Orleans, and it took weeks to make contact

with all of them. We sent emails, texted and tried cellphones. We found probably 80% of our colleagues pretty quickly and developed a strategy to reach out to clients.

As we reached them, we found their stories similar to our own: Some suffered no damage, others had near-total losses. After a few weeks, you just knew it was going to be a long time to get the city, people and businesses back on a normal footing. But it was striking how people worked together, going above and beyond, to make it happen.

Communication was incredibly constrained. Telephones and electricity were out for months in some cases. You have to remember that almost no one texted then. For many of us, Katrina provided the impetus to learn how to text because it was one of the few ways to communicate.

Flood waters were widespread. The National Guard and military vehicles were everywhere. The debris was unimaginable. And there was a certain stench to the air. It's something I'll never forget.

It was difficult to assess the damage in the early days. Not many people could get into the city. When we reached a client, the first line of questioning typically was: "Were you affected? Do you know the extent of the damage? Are you in town or have you evacuated? What help do you need the most right now?"

It was inspiring to see the Marsh response, to watch the catastrophic claims unit roll into the city. At the time, quite frankly, I don't think we knew the breadth of this service. Claims experts from all over the country descended on the city, ready to help in any way — from finding generators to securing advance payments from insurers, who were also here in full force.

I remember one client with about eight hotels downtown. One of our claims experts from upstate New York was sleeping in one of the rooms and adjusting the claim. And we were able to get a seven-figure dollar amount to them very quickly.

About 10 of my own clients were affected, with the claims interesting from a pure insurance perspective. Was it wind, wind-driven rain, flood?

How would the deductibles apply? How would business interruption coverage work?

There were a lot of unknowns. But the bigger picture in which we were operating brings me back to that word: surreal. There was a real question as to whether the city would be able to come back to how it had been. You sensed desperation from some clients. They didn't know what the future was going to bring, not just for their individual claims but also for their enterprises.

But once recovery got started, the momentum built.

Rebuilding

A big lesson from Katrina is that you can never overprepare. The investments you make now will pay off. Whether it's preparing employees, planning for business continuity or understanding how your coverage will respond — those are things that need a lot of thought before a disaster.

Hardly a day goes by now that we are not working with an issue for a client that involves one of the big questions post-Katrina: "What if it happens again? Do we have coverage for a big storm?" Thankfully, most clients had sufficient insurance coverage in Katrina or were able to access FEMA funding for uncovered losses. Many homeowners were not as fortunate and abandoning the city, and their flooded home, was their only choice.

A particular concern here in New Orleans, of course, is flood protection. One of the dominant issues after Katrina was whether the damage was caused by a natural disaster or was manmade due to the levee construction. Without digging into that, let me just say the current state of flood protection is much better than it was before Katrina. And we are educating underwriters about that, giving them a comfort level with writing business here. Even more important, it's giving people who are thinking about doing business here the confidence to do so.

It's hard sometimes to remember, but New Orleans was truly on its last legs after Katrina. But it didn't take long for the community to develop a commitment to rebuild. People from all over the world descended on the city to help. There were so many volunteer groups, from community service organizations to high school and college students. The rebuilding is still going on, but a lot has happened.

One thing that stands out to me even more than getting businesses back up is that there has been a renaissance of young people. The city is now a hotbed for entrepreneurship and community outreach. We've had an exciting onslaught of new people moving in. There are many challenges left, but from an infrastructure, housing and business standpoint, New Orleans is thriving.

New Orleans is a vibrant community with a bright future. We're a better protected city. We're probably more accepting of outsiders than before. It's an exciting place to be a part of right now.



James "Bo" Laborde joined Marsh USA Inc.'s New Orleans office in 1994 and was a client executive when Hurricane Katrina hit in 2005. In 2014, he was named head of office. He can be reached at 504-571-2221 or james.f.laborde@marsh.com.

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A 1.8 mile-long surge barrier on Lake Borgne, completed in 2013, aims to stop water from surging up the Mississippi River Gulf Outlet Canal and into New Orleans' Inner Harbor Navigation Canal.

Schooled by Katrina?

New Orleans better prepared 10 years after storm, but other areas still vulnerable

BY DOUGLAS McLEOD

New Orleans is far better prepared for a major hurricane 10 years after Hurricane Katrina devastated much of the city, but the same is not necessarily true for other cities along the Gulf and East Coasts.

Many companies have taken steps to harden their properties against wind and flood risks; and modeling of wind, storm surge and flood vulnerabilities has improved markedly in the past decade.

But experts say property owners and public entities still can be blindsided by the fallout from such storms, as demonstrated by the destruction wrought by Superstorm Sandy in New York and New Jersey in 2012.

"Did we learn the lessons so harshly dealt to us in New Orleans? Absolutely not," said Chris Johnson, executive vice president at FM Global in Johnston, Rhode Island. While the Crescent City and certain other "pockets" along the coasts are better prepared, "until we have been dealt the blow, we can't conceive it could happen to us."

Communities that haven't been through a major hurricane can suffer from a not-in-my-backyard complacency, said Duncan Ellis, national property practice leader at Marsh L.L.C. in New York.

"If a big storm comes in, there's still going

to be a big loss," said Rick Miller, Aon Risk Solutions' national property practice leader in Boston. Tougher building codes and storm-hardened buildings may help, but "I don't think we'll really know until they're tested."

No hurricane that has hit the United States since Katrina has been even close to its strength and impact to test changes made during the past decade.

But New Orleans and other areas have responded. Since Katrina, the U.S. Army Corps of Engineers led a nearly \$15 billion federal effort to rebuild miles of levees around New Orleans.

A 1.8 mile-long surge barrier on Lake Borgne, which was completed in 2013, aims to stop water from surging up the Mississippi River Gulf Outlet Canal and into New Orleans' Inner Harbor Navigation Canal, as it did during Katrina, bursting levees and flooding St. Bernard Parish and the city's lower 9th Ward.

Drainage canals on the north side of the city, where wind- and tide-driven water from Lake Pontchartrain inundated the Lakeview and Gentilly neighborhoods, are being closed against incoming surges with new pumping stations to handle outgoing drainage water. Permanent storm surge barriers and pumping stations on the three drainage canals are under construction,

replacing temporary barriers put in place after Katrina.

The levee and surge systems are designed to protect against a 100-year event, and experts say New Orleans would fare much better today than it did a decade ago.

"The same storm is not going to cause the same damage we saw in 2005," said Jayanta Guin, executive vice president at Boston-based modeler AIR Worldwide.

Along with the danger of storm surge, Katrina raised awareness of other risks, including contingent business interruption that followed the massive disruption of transportation and other systems; and demand surge, or increased repair costs from shortages of materials and labor after a disaster, brokers and insurers say.

But for private and public property owners in many coastal areas, the risks won't be heeded until a catastrophe hits home, experts say.

It took 1992's Hurricane Andrew to start changing disaster planning in Florida, said David L. Marcus, area chairman at Arthur J. Gallagher & Co.'s public sector practice in Boca Raton, Florida. Since Andrew, building codes have been tightened, and property owners have taken steps such as installing impact-resistant glass, building parapet walls around roofs on new construction, and removing air conditioning and other equip-

ment from rooftops, Mr. Marcus said.

Seven years after Katrina, meanwhile, New York and New Jersey were largely unprepared for the massive storm surge and flooding brought by Sandy. In lower Manhattan, where the surge was a record 9.5 feet, water poured into subway, railroad and traffic tunnels and submerged basements of downtown buildings, moving from building to building through utility tunnels.

Federal and state authorities are still pursuing infrastructure improvement ideas that range from raised stone revetments and bulkheads and tide gates at creeks and inlets to man-made offshore barrier islands to slow incoming water.

Building owners have taken their own steps, moving valuable property and equipment out of basements and having mobile emergency flood barriers ready.

Mobile barriers, metal-framed flood-resistant panels that can be put up around a building in a matter of hours, are "100 times more effective than sandbags," said FM Global's Mr. Johnson. "Were it not for Katrina, those products would not have been thought of. Were it not for Sandy, they would never have been deployed."

The interlocking metal-framed marine plywood panels that can stand up to about 8 feet high are easier to store and erect than sandbag walls and, according to Mr. Johnson, are

HISTORIC STORM HELPED IMPROVE, PROMOTE CATASTROPHE MODELS

Catastrophe models have become more accurate and more widely used since Hurricane Katrina struck the Gulf Coast a decade ago.

Before Katrina, modeling was largely a portfolio tool for insurers and reinsurers, said Rick Miller, national property practice leader at Aon Risk Solutions in Boston. Now, underwriters model individual accounts for rate setting and other purposes, and brokers provide the service for their clients.

"Modeling on a per-risk basis has definitely become a must-have in the last few years," and was not common before Katrina, said Duncan Ellis, New York-based national property practice leader at Marsh LLC.

The quality of exposure data used in models, sometimes not very good before Katrina, has improved, experts say.

For example, casino barges moored on the Mississippi Gulf coast, badly damaged in Katrina's storm surge, often were wrongly classified as normal buildings, said Jayanta Guin, executive vice president at Boston-based catastrophe modeler AIR Worldwide. Now, modelers have better data on the construction characteristics, occupancy, height and other aspects of individual buildings, he said.

FM Global, with a portfolio of complex industrial risks, uses a

more effective.

Katrina and Sandy also changed insurance programs. Many policyholders have increased flood insurance limits after suffering losses that weren't covered by previous insurance, experts say.

"There's probably a better conversation (now) on what is an appropriate amount of capacity," Mr. Johnson said.

Flood limits of up to \$500 million are available from traditional markets, brokers say, and buyers unable to find adequate capacity can turn to alternative risk transfer methods. A captive insurer for New York's Metropolitan Transportation Authority, for instance, is covered for storm surge risks by a three-year, \$200 million cat bond placed in 2013.

More than ever, risk managers need to read and understand the terms of policies that are expected to respond to hurricane losses, brokers and insurers stress.

Uninsured flood losses have "highlighted for many that being crystal clear on the definitions of what is and is not covered is important," Mr. Johnson said.

Still, hard experience too often is the best teacher, experts say.

"I don't know why people who are on Water Street would not think their building could get flooded," Mr. Marcus said of a lower Manhattan street flooded by Sandy. "Sometimes, people have to wake up and not wait until they're slapped in the face to do something."

proprietary model that includes site-specific engineering data, said Chris Johnson, executive vice president. "We have some very large and unusual properties," he said. "They don't lend themselves to homogeneous modeling."

Modeling alone is not enough, said Iwan Stalder, head of global catastrophe management at Zurich Insurance Group Ltd. in Zurich. "There is a need to adjust, to calibrate" the information to suit model users' specific needs.

The unexpected severity of flooding in New Orleans also made it clear the industry needed to devel-

op "more robust" models for storm surge risk, Mr. Guin said. Models since Katrina have accounted in more detail for factors such as the action of wind on the ocean's surface and coastal topography, he said.

Katrina also improved the industry's understanding of demand surge, the escalation in rebuilding costs caused by a shortage of materials and labor. While demand surge was evident after Hurricane Andrew in 1992, data was sparse until after the 2004 and 2005 hurricane seasons that included Katrina, Mr. Guin said.

Demand surge estimates have since been incorporated into models, Zurich's Mr. Stalder said.

Meanwhile, Katrina's "massive disruption in arterial traffic" focused modelers' attention on business interruption and contingent business interruption exposures, said Tom Larsen, chief product architect at CoreLogic Egecat in Oakland, California. While business interruption models were "OK at the time" of Katrina, they have become more sophisticated and incorporated more data about individual insured locations since then, he said.

Overall, models are now aiding hurricane preparedness and response in ways not typical before Katrina, experts say.

Zurich uses them to update its exposure by coastal sector as hurricane season approaches, Mr. Stalder said. As a storm nears landfall, the insurer overlays its projected track with model data on client properties in its path to help advise clients on mitigation steps and to direct its claims team.

After a storm, models also help project losses before actual claims start to flow in, he said.

By Douglas McLeod


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New capital sources ready to surge in next time disaster strikes market

Katrina losses act as alternative market catalyst

BY MATTHEW LERNER

The alternative capital market has evolved significantly in the 10 years since Hurricane Katrina, leading to structural changes and increased velocity in the ways capital enters the insurance and reinsurance markets.

In the wake of Hurricane Katrina and sharply higher property/casualty rates, much capital flowed into the sector through startup insurers and reinsurers, many known as the Class of 2005.

“The way the capital used to flow into the market was by new startup reinsurers,” said Cory Anger, global head of insurance-linked securities structuring at GC Securities in New York.

Today, the infrastructure supporting alternative capital movement is far more sophisticated, allowing it to be deployed more rapidly.

“The way that capital is flowing now is really accelerated,” said Ms. Anger.

“Money can come in very, very quickly,” said Brad Adderley, a Bermuda-based partner in the corporate department of the Appleby law firm. “For an ILS fund to accept another \$1 billion in funds, it’s just like turning on a tap. It’s not like forming a new company. Previously, you formed a new company.”

“Companies may have a \$200 million sidecar now but have parties

CLASS OF 2005

Name at formation	Today's ownership
Amlin Bermuda Ltd.	Amlin P.L.C. unit
Ariel Reinsurance Ltd.	Acquired by Brazil's BTG Pactual S.A. in February
Arrow Capital Reinsurance Ltd.	Acquired by BTG Pactual S.A. in February
Flagstone Reinsurance Holdings S.A.	Acquired by Validus Holding Ltd. in November 2012
Harbor Point Re Ltd.	Merged with Max Capital Group Ltd. in March 2010 to form Alterra Capital Holdings Ltd.; Markel Corp. acquired the group in March 2013.
Hiscox Insurance Co. (Bermuda) Ltd.	Hiscox P.L.C. unit
Lancashire Insurance Co. Ltd.	Lancashire Holdings Ltd. unit
New Castle Reinsurance Co. Ltd.	Subsidiary of runoff specialist Enstar Group Ltd., which bought New Castle in December 2010.
Validus Reinsurance Ltd.	Validus Holding Ltd. unit

Source: Fitch Ratings Inc., company reports

they are working with that could ramp that up to a very large amount if there's a market need,” said Bill Dubinsky, head of ILS at Willis Capital Markets & Advisory in New York.

Sidecars, which typically are quota share reinsurance arrangements, cover risks such as U.S. wind, convective storm or European wind.

“They can bolt on to the existing networks they’ve built with the

intermediaries to deploy such capital,” said Ms. Anger. “There are a number of folks that have already set themselves up with managers that only have a toe in the water, but they are set up in a way with relationships with managers and intermediaries that they can flow in money extremely quickly.”

That has reduced the need to form new companies to float catastrophe bonds and other ILS instruments.

“The industry has the ability to get access to capital very quickly, and this will mitigate how many traditional reinsurers would actually be founded post-event,” said Ms. Anger.

“In a way, it’s a very different market right now,” said Mr. Dubinsky.

“In the 1990s, there were different startups in Bermuda; but after 2006, when people saw that sidecars could do a very good job in filling the gap in capital needs after an event, that potential to do startups has probably declined,” he said.

“Today, if there was a major loss, a fund would just receive more money. You don’t have to form a new company,” said Mr. Adderley. “It’s just easier and quicker. You don’t have to form an underwriting team or find a CEO.”

Another way to deploy such capital is to form a new sidecar, which is easier and quicker than forming an entirely new reinsurer, he said.

Investors already are assembled, simply waiting for an opportunity from a large loss event to deploy funds, because the investment can off greater returns than other investment vehicles and is not correlated to the stock market.

“We’re certainly aware of as a firm many investors which, should that type of event happen, are willing to increase their allocations from their current level today or will be ready to come back into the

market,” said Paul Schultz, CEO of Aon Securities in Chicago.

“Now, sidecars have become more strategic in the sense that people are establishing these relationships for potential market-moving events,” said Mr. Dubinsky.

“We will likely see some investors exit the asset class, but we would also expect new investors to come in as we are aware of a number of investors who are sitting on the sidelines in anticipation of a rate-hardening event,” Judy Klugman, New York-based head of ILS distribution and sales at Swiss Re Ltd., said in an email.

Katrina’s more than \$40 billion in insured losses catalyzed the market.

“I actually do think it was a point in the development of the market which was an accelerant and a positive factor for the inflow of capital because there was just a greater opportunity and need for capital in the marketplace than in prior years,” said Mr. Schultz.

“It definitely created opportunities for new capital to come in,” said Mr. Adderley. “We saw new capital raised and we saw additional bolt-on capital come in.”

“It is accurate to say that a great deal of capital entered the market post-Katrina. As capacity was highly constrained and rates were hardening, many new investors identified the opportunity in the sector, and the market grew dramatically,” said Ms. Klugman.

“Coming out of Katrina, that’s where we saw the first flood of opportunistic sidecars supporting reinsurers, and I think from the perspective of both the reinsurers and the investors, that was a real success,” said Mr. Dubinsky.

Year to date catastrophe bonds outstanding is \$23.2 billion compared with \$5.09 billion outstanding in 2005.

Federal flood insurance program still recovering from inundation of claims

BY MARK A. HOFMANN

Hurricane Katrina flooded the National Flood Insurance Program with debt, a situation that has yet to be resolved 10 years later.

Perhaps Katrina’s greatest impact was exposing that the federal flood insurance program fails to charge adequate rates for flood coverage. That has resulted in congressional attempts to revamp the program, but the record of reform has been spotty at best.

The program’s ongoing financial problems — it is currently about \$23 billion in debt — also has led to calls inside and outside of Congress to find a greater role for private insurers and reinsurers in providing flood insurance.

In July, for example, bipartisan legis-



lation, the Flood Insurance Market Parity and Modernization Act of 2015, was introduced in the House of Representatives and the Senate to encourage development of a private flood insurance market for homeowners by giving

states greater flexibility in licensing private flood insurers.

The Biggert-Waters Flood Insurance Reform Act of 2012 also advocated a greater role for private flood insurers as it extended the program through 2017.

The bills were designed to put the program on a sounder financial footing.

“What Katrina really did for the flood program is it put it underwater financially, and it hasn’t really been able to recover,” said Don Griffin, a vice president at the Property Casualty Insurers Association of America in Chicago.

“I think Katrina had a dramatic impact on the NFIP,” said Jimi Grande, senior vice president at the National

NFIP COMMERCIAL COVERAGE

Although the National Flood Insurance Program is generally thought of in terms of flood coverage for homeowners, the program also provides two types of commercial coverage: building and contents; and contents only.

- Commercial insurance covers building and contents property insurance with limits of up to \$500,000; contents-only coverage has limits up to \$500,000
- Commercial building coverage includes the insured building and foundation, electrical and plumbing systems, heating and cooling equipment, water heaters and debris removal.
- Contents coverage includes personal belongings, such as clothing, furniture and electronic equipment; curtains; portable and window air conditioners and washers and dryers.
- NFIP policies do not cover damage caused by moisture, mildew, or mold that could have been avoided by the property owner. It also does not cover items such as currency, precious metals and valuable papers such as stock certificates.

Source: National Flood Insurance Program

See NFIP page 20

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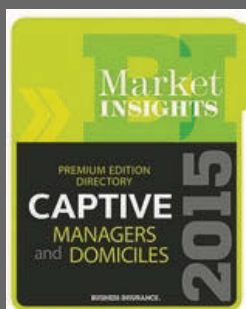


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FLOOD LOSSES TRIGGER INSURANCE CHANGES

Litigation from Katrina, Sandy has lasting effect

BY DOUGLAS McLEOD

Liability and insurance disputes from Hurricane Katrina, mostly resolved a decade after the storm, were far more numerous and involved different coverage issues than suits that followed Superstorm Sandy, legal experts say.

Katrina, which ravaged the U.S. Gulf Coast in 2005, triggered several hundred thousand legal claims against defendants ranging from insurers and local governmental entities to the U.S. Army Corps of Engineers.

Coverage cases often focused on flood and other policy exclusions, lawyers said.

By contrast, Sandy, which hit the East Coast in 2012, has produced fewer court cases, many of which focused on the scope of flood coverage and the application of flood and named windstorm deductibles, experts say.

"There are not the same big coverage issues (in part) because the events were somewhat different," said Wylan M. Ackerman, a partner at law firm Robinson & Cole L.L.P. in Hartford, Connecticut.

However, disputes from Katrina — which produced \$41.1 billion in insured losses, the largest insured loss in history, according to the New York-based Insurance Information Institute Inc. — are not entirely in the rear-view mirror.

As recently as July, the 5th U.S. Circuit Court of Appeals ruled that St. Paul Surplus Lines Insurance Co. must pay \$22.6 million in Katrina-related pollution cleanup damages and interest to a Louisiana oil and gas company.

In addition, the state of Mississippi sued in April, accusing State Farm Fire & Casualty Co. of avoiding Katrina windstorm claims, and passing them on to a state assistance program by mischaracterizing them as flood losses. State Farm, which has denied the allegations, succeeded in May in having the suit moved to federal court in Jackson, Mississippi, where it is pending.

The majority of Katrina liability and coverage disputes, though, are history. Federal courts in 2013 dismissed a series of massive class actions seeking billions of dollars of damages from the Corps of Engineers for faulty construction of New Orleans' levee system and for improper maintenance of the

Mississippi River-Gulf Outlet Canal, which funneled Katrina's storm surge into the city. The courts ruled that the Corps is immune from liability under federal law.

Coverage litigation often involved whether damage was caused by wind or by flooding, and in what sequence, said Jeffrey S. Weinstein, a partner at Mound Cotton Wollan & Greengrass L.L.P. in New York. Determinations often were made more difficult since there was little left of some buildings above their foundation slabs, he said.

Many policyholders had flood exclusions in their property poli-



AP PHOTO

Superstorm Sandy produced fewer court cases than Hurricane Katrina, and they took different paths.

cies and did not have separate flood coverage, leaving them uninsured, said Finley T. Harckham, a shareholder at Anderson Kill P.C. in New York.

Other disputes focused on anti-concurrent causation clauses, which generally provide that if a loss is caused by both a covered peril and an excluded one, none of the loss will be covered.

For policyholders with flood exclusions, the anti-concurrent causation clauses resulted in even those portions of a loss attributed to covered windstorm damage typically were ruled unrecoverable, lawyers say.

Liability and coverage disputes over Sandy generally have taken a different path, lawyers said.

For example, while more than 800 Sandy damage suits have been consolidated in New York federal court and more are pending in New Jersey, relatively few involve anti-concurrent causation clauses.

Because of Katrina, more policies now include anti-concurrent causation language, but few buyers have wanted to relitigate issues settled in Katrina cases, lawyers say.

"There's really much less fighting about anti-concurrent causation language," said Jay Levin, counsel at Reed Smith L.L.P. in Philadelphia.

Since Katrina, more policyholders have bought separate flood coverage, and Sandy disputes have often centered on application of flood sublimits and the higher deductibles attached to named windstorm coverage, experts say.

A New Jersey state court, for example, rejected the argument of Wakefern Food Corp., a Keasbey, New Jersey, supermarket buying cooperative, that Sandy had been downgraded to a "post-tropical cyclone" when it hit New Jersey and that its named storm deductible should not apply. The court ruled instead last year that Sandy was still a hurricane when some losses occurred and this created a "substantial nexus" with Wakefern's total losses, according to a blog post by Charles R. Mathis IV, a lawyer at Merlin Law Group P.A. in Red Bank, New Jersey.

And in July, the National Railroad Passenger Corp., better known as Amtrak, settled litigation with several primary property insurers after a federal judge ruled that the \$125 million flood sublimit of its \$675 million property program applied to storm surge losses. Amtrak had argued that seawater damage from the surge caused by Sandy was separate from flood losses.

Insurers treat storm surge coverage differently, with some including it in windstorm policies and others in flood policies, said Duncan Ellis, national property practice leader at Marsh L.L.C. in New York.

Policyholders also need to be aware of how percentage deductibles in named-storm coverage operate — whether, for instance, they represent the percentage of total insured value at the time of loss or of the value of property damaged, he said.

Litigation on these issues is "very fact-specific and very concentrated on the wording and structure of the policy," Mr. Weinstein said.

NFIP

Continued from page 18

Association of Mutual Insurance Cos. in Washington. "It laid bare all of the program's flaws and made the program into a poster child of bad government policy and ineffective bureaucracy. It's a case where good politics turns into bad policy."

"Katrina exposed the NFIP's failure to charge for catastrophe events and that, unlike an insurance company that plans for the extreme infrequent event, the NFIP has been operating on cash-flow basis," said Frank Nutter, president of the Reinsurance Association of America in Washington.

"It does provide an opportunity for Congress and the administration to evaluate risk transfer into the reinsurance sector of the catastrophe exposure that the program is obviously subject to," he said.

"The impact was massive," a spokeswoman for the Federal Emergency Management Agency, of which the NFIP is a part, said in an email. "The NFIP eventually borrowed more than \$17 billion from the U.S. Treasury to pay claims. Additional borrowing in 2005 after Katrina to pay claims from hurricanes Rita and Wilma and other events has left the program with \$23 billion debt to the Treasury. Thus far, we have paid back \$1 billion."

"FEMA is currently working with Congress to overhaul and reform the National Flood Insurance Program to make sure that it puts survivors first," the spokeswoman said. "When it comes to implementing that reform, everything is on the table, including re-examining how we partner with private insurance companies. It is worth noting that there have never been any prohibitions on private insurers entering the flood market — it has been encouraged."

The federal program began in 1968 "because private insurers were not interested in the flood market because of the near-impossibility of calculating risk, especially on a national scale," the FEMA spokeswoman said.

Now, however, "it is a peril that can be underwritten," said Brad Kading, president of the Associ-

"So much of what we saw in Katrina was related to flood and the questions surrounding the causation of flood damage."

Jim Whittle, American Insurance Association

ation of Bermuda Insurers and Reinsurers. He said catastrophe models provide underwriters with improved data and help them categorize risk exposures.

"There is certainly interest in private-sector risk bearing in both the insurance side and reinsurance side," he said, estimating that about \$10 billion in capacity is available in private reinsurance to cover floods.

FEMA is considering the use of private reinsurance as one of several policy options to bolster the program.

The sheer volume of Katrina-related claims and the financial challenges it created for the program raised questions about NFIP's ability to perform its function, said Jim Whittle, assistant general counsel and chief claims counsel to the American Insurance Association in Washington. The problems led to questions: Is the program encouraging the purchase of flood insurance? And how is it meeting the goal of reducing relief payments for flood damage?

"So much of what we saw in Katrina was related to flood and the questions surrounding the causation of flood damage," Mr. Whittle said. "There was a lot of litigation after Katrina, and a lot of that surrounded the fact that you had a lot of flood damage, and a lot of people weren't adequately insured for flood damage, which is too often the case."

PCI's Mr. Griffin also noted that Katrina brought a spotlight on what damages had been caused by wind and what had been caused by water. At one point, former Rep. Gene Taylor, D-Miss., introduced legislation that would have required the NFIP to offer wind as well as flood coverage, but it was rejected.

Katrina and 2012's Superstorm Sandy "exposed how inadequate the rates were in many cases. There were subsidies built into the program that they couldn't sustain," he said.

The stage is set for another congressional battle over the future of the NFIP when it comes up for reauthorization in 2017.

"On one side, you'll have those who use logic, reason and fiscal responsibility; and on the other side, you're going to have politicians who want to give more free things to more people," NAMIC's Mr. Grande said.

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WHAT MATTERS MOST

U.S. EAST COAST: CITIES/TOWNS MOST LIKELY TO BE AFFECTED BY A TROPICAL STORM OR HURRICANE

Rank	City	State	Hurricane frequency*	Mandatory evacuation	Transportation provided during evacuation	Storm surge planning zone maps**	Last hit by severe storm
1	Cape Hatteras	North Carolina	1.36 years	Yes	No	Yes	2014 Hurricane Arthur
2	Morehead City	North Carolina	1.54 years	FEMA guidelines	Only for special-needs residents	Yes	2014 Hurricane Arthur
3	Wilmington	North Carolina	1.74 years	FEMA guidelines	No	Yes	2015 Tropical Storm Ana
4	Boca Raton	Florida	1.93 years	Yes	Emergency evacuation bus pickup sites	Yes	2006 Tropical Storm Ernesto
5	Miami	Florida	1.99 years	Yes	Emergency evacuation bus pickup sites	Yes	2010 Tropical Storm Bonnie
6	Hollywood	Florida	2.01 years	Yes	For preregistered special needs residents	Yes	2010 Tropical Storm Bonnie
6	Boynton Beach	Florida	2.01 years	Yes	No	Yes	2006 Tropical Storm Ernesto
6	Tarpon Springs	Florida	2.01 years	Yes	Yes	Yes	2013 Tropical Storm Andrea
6	Savannah	Georgia	2.01 years	Yes	No	Yes	2013 Tropical Storm Andrea
10	Palm Beach	Florida	2.04 years	Yes	No	Yes	2008 Tropical Storm Fay
10	Myrtle Beach	South Carolina	2.04 years	Yes	No	Yes	2015 Tropical Storm Ana
12	Tampa	Florida	2.07 years	Yes	Yes	Yes	2013 Tropical Storm Andrea
13	Lake Worth	Florida	2.13 years	Yes	No	Yes	2008 Tropical Storm Fay
13	Saint Augustine	Florida	2.13 years	Yes	No	Yes	2013 Tropical Storm Andrea
15	Deerfield Beach	Florida	2.17 years	Yes	Yes	Yes	2010 Tropical Storm Bonnie
15	Jupiter	Florida	2.17 years	Yes	No	Yes	2008 Tropical Storm Fay
17	Sarasota	Florida	2.20 years	Yes	No	Yes	2007 Tropical Storm Barry
18	Fort Lauderdale	Florida	2.23 years	Yes	For preregistered special-needs residents	Yes	2010 Tropical Storm Bonnie
18	Beaufort	South Carolina	2.23 years	Yes in coastal areas	No	Yes	2013 Tropical Storm Andrea
20	New Orleans	Louisiana	2.27 years	Yes	No	Yes	2012 Hurricane Isaac
20	Delray Beach	Florida	2.27 years	Yes	No	Yes	2006 Tropical Storm Ernesto
20	Homosassa	Florida	2.27 years	Yes	For preregistered residents	Yes	2013 Tropical Storm Andrea

* Frequency of hurricane or tropical storm based on tracking charts since 1871.

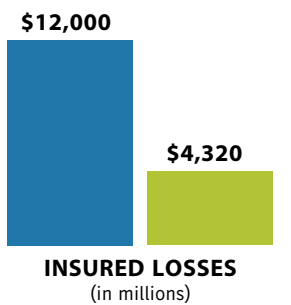
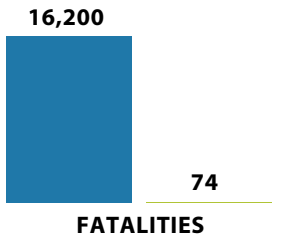
** The experimental Potential Storm Surge Flooding Maps are based on the forecast track, intensity and size of a tropical storm or hurricane. Maps concisely depict the risk associated with a storm surge hazard from a tropical cyclone. Revised every year, prepared before the hurricane season begins and updated as a tropical storm or hurricane is likely to hit an area.

Source: State and municipal websites, public announcements, HurricaneCity database.

NATURAL CATASTROPHES: WORLDWIDE VS. NORTH AMERICA

First half of 2015

■ Worldwide
■ United States and Canada



Source: Munich Reinsurance Co., NatCatSERVICE and Property Claim Services

U.S. NATURAL DISASTER LOSSES: 2005-2014

In billions as of January 2015

Type of incident	Number of events	Fatalities	Estimated overall losses	Estimated insured losses	10-year average insured losses
Severe thunderstorm ¹	802	1,606	\$180	\$120	\$12.00
Winter events ²	122	760	\$25	\$15	\$1.50
Flood ³	183	292	\$30	\$5.50	\$0.55
Earthquake and geophysical	31	5	\$1.50	\$0.40	\$0.04
Tropical cyclone ⁴	38	1,786	\$320	\$170	\$17.00
Wildfire, heat and drought	291	542	\$65	\$25	\$2.50
Total	1467	4,991	\$621.50	\$335.90	\$33.59

¹ Includes hail, lightning and tornado.

² Includes winter storm, winter damage, cold wave and blizzards.

³ Includes river flood and flash flood. Excludes flood damage losses caused by tropical cyclone and hurricane.

⁴ Includes flooding caused by hurricane and tropical cyclone. Includes loss information from National Flood Insurance Program.

Source: Munich Reinsurance Co., NatCatSERVICE

COSTLIEST U.S. EAST COAST NATURAL CATASTROPHIC EVENTS

In millions

Rank	Date	Event	Most affected area	Dollars when occurred	In 2014 dollars
1	August 2005	Hurricane Katrina	Louisiana, Mississippi	\$41,100	\$48,383
2	August 1992	Hurricane Andrew	Florida, Louisiana, Alabama, Georgia	\$15,500	\$23,785
3	October 2012	Superstorm Sandy	New Jersey, New York	\$18,750	\$19,307
4	September 2008	Hurricane Ike	Texas, Mississippi	\$12,500	\$13,639
5	October 2005	Hurricane Wilma	Florida	\$10,300	\$12,125
6	August 2004	Hurricane Charley	Florida	\$7,475	\$9,083
7	September 2004	Hurricane Ivan	Florida, Louisiana, Texas	\$7,110	\$8,639

Source: Verisk's Property Claim Services

NORTH AMERICAN NATURAL CATASTROPHES IN FIRST HALF OF 2015

In millions

Date	Region	Event	Fatalities	Overall losses	Insured losses
Feb. 16-25	United States, Canada	Winter storms	39	\$2,400	\$1,800
April 7-10	United States	Severe storms	3	\$1,400	\$990
April 18-21	United States	Severe storms	0	\$1,100	\$780
May 23-28	United States	Severe storms	32	\$1,300	\$750
Total			74	\$6,200	\$4,320

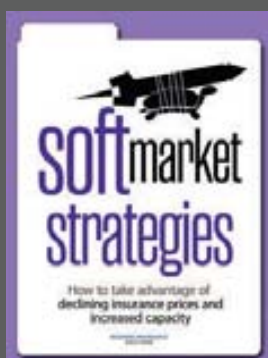
Source: Munich Reinsurance Co., NatCatSERVICE and Property Claim Services

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For speaking opportunities:

Joanne Wojcik, Programming Director
jwojcik@businessinsurance.com

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Kimberly Jackson, Director of Event Sales
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Advertiser group launches 'patent troll' coverage

The Association of National Advertisers said it has launched an insurance program for defense against patent assertion entities, or "patent trolls," for ANA members.

Patent assertion entities — firms that launch patent claims against companies by claiming ownership over common advertising practices — have been on the rise. "Accordingly, marketers could be faced with a demand to pay large fees to a PAE that has not provided any direct services or technology to the marketer's advertising campaign, or, in many cases, contributed to any innovation," ANA said in a statement.

Coverage benefits for the program include funds for patent infringement defense and litigation expenses. Limits of the insurance are \$500,000 per claim per year and \$1 million for a combination of all claims per year, according to the statement. Scottsdale, Arizona-based Scottsdale Insurance Co. will underwrite the coverage.

"Patent trolls have been a growing issue for the advertising industry in recent years, costing advertisers and agencies millions of dollars in fees in order to avoid paying even more to defend themselves in court," said Bob Liodice, president and CEO of the ANA.

Underwriter, law firm launch risk hotline

ANV Global Services Inc., the managing general underwriter segment of global specialty insurance group ANV, has teamed with law firm Genova Burns L.L.C. to offer a risk management hotline for ANV employment practices liability insurance policyholders in the U.S.

The employment practices liability insurance hotline will provide ANV policyholders with confidential consultation from Genova Burns attorneys on workplace legal issues, Jersey City, New Jersey-based ANV said in a statement. The hotline can help counsel on topics like employee relations, employee behavioral issues, the family and medical leave act, reporting/investigating allegations of harassment/discrimination, employment law, wage/hour law, and effective discharge/discipline, according to the statement.

A need to be proactive about risk management led to the creation of the hotline, Peter McKeegan, director U.S. financial lines for ANV, said in the statement.

"By aiming to respond to our clients within 24 hours of their call, we hope to assist them right at the point they need advice", Mr. McKeegan said.

Verisk gives hazard scores for commercial properties

Verisk Analytics Inc.'s Verisk Insurance Solutions unit said that it will provide properties a relative hazard score on all field surveys performed by the company.

Comparing a commercial property against similar properties will help insur-



Comp available for domestic employees

* Privilege Underwriters Reciprocal Exchange is offering workers compensation insurance for the domestic employees of high-net-worth individuals in Florida.

Domestic worker policies cover people who care for children, prepare meals, clean homes, maintain gardens and provide transportation, among other things, the White Plains, New York-based property/casualty mutual insurer for high-net-worth individuals said in a statement.

The coverage "provides often-overlooked protection for trusted and valued domestic employees," the insurer said in the statement.

PURE's risk management services professionals will also advise clients on mitigating loss and improving worker safety, according to the statement.

"The hard working individuals who provide loyal and valuable service for our membership can now benefit from the protection afforded by workers compensation insurance," PURE President and CEO Ross Buchmueller said in the statement.

The coverage is available only in Florida, but Privilege Underwriters has filed applications to expand the offering in other states, according to the statement.

ers identify the need for loss control measures and help them make informed decisions, Verisk Insurance Solutions said in a statement.

Verisk's field analysts perform on-site property underwriting surveys that include the hazard score, or relative hazard percentile, which uses an engineering formula to evaluate a building's construction, occupancy, fire protection and exposures. The property features and conditions are scored in relation to state and national averages for similar buildings in Verisk's commercial property database of buildings, ProMetrix, according to the statement.

"The property condition and associated risks are obviously important, but knowing how that property's risk characteristics compare with those of its peers provides a powerful insight," said Peter de Freitas, assistant vice president for ProMetrix. "Verisk's Relative Hazard Percentile stratifies properties and gives

our customers an objective risk score for individual risk selection and loss control prioritization."

Relative hazard percentile is expressed on a scale of 1 to 100. Higher scores mean that the building has fewer deficiencies and is ranked better than properties with the same occupancy, size and level of fire protection, Verisk said in a statement.

Additionally, the construction class, the occupancy, private fire protection capabilities and seismic activity are characteristics that factor into the relative hazard percentile.

"This additional insight allows underwriters to quickly identify which properties have higher or lower risk," said Mr. de Freitas. "And that helps them make more informed underwriting, tiering and coverage selection decisions."

Coverage fills gaps in hurricane policies

Fort Lauderdale, Florida-based managing general agency New Paradigm Underwriters L.L.C. has introduced Hurricane PM to protect property and businesses from financial losses caused by hurricanes.

For Hurricane PM, New Paradigm and weather measurement provider Scotts Valley, California-based Weatherflow Inc. use data from Weatherflow's network of wind monitoring stations, which register the maximum wind speed during a storm. Data is collected and certified by catastrophe risk modeler Risk Management Solutions Inc., according to a New Paradigm statement.

Hurricane PM provides coverage for losses less than typical insurance deductibles, lost profits, business interruptions and losses from items that are not usually included in policies such as outdoor structures and landscaping, according to the statement.

Coverage starts at \$100,000, according to Evan Glassman, president and CEO of New Paradigm Underwriters.

"There's a tremendous disconnect between the true economic needs of recovery for property owners, public entities and businesses versus the protection typically provided to them under traditional insurance policies," Mr. Glassman said in a statement.

Policy for investment pros addresses regulatory risks

Zurich American Insurance Co. has enhanced its liability policy, Zurich Asset Management Select form for investment advisers, mutual fund and hedge fund managers.

The form was revised to respond to a rise in regulatory risk from new investigative approaches used by the U.S. Securities and Exchanges Commission, Zurich said in a statement.

The liability policy includes coverage for derivative demand investigation costs, which is usually available only through endorsement. It also includes inquiry costs coverage, nonparty witness coverage and pre-insolvency hearing costs coverage, according to the statement.

DEALS & MOVES

NFP acquires broker specializing in sports

New York-based NFP Corp. has acquired Plainview, New York-based brokerage BWD Group L.L.C.

Details of the transaction were not disclosed.

The purchase will expand its national property/casualty lines and its Northeast employee benefits resources, NFP said in a statement.

BWD Group provides property/casualty, employee benefits brokerage and consulting services using proprietary programs. It specializes in the sports, entertainment and publishing industries, providing services to sports leagues and teams, the companies said.

BWD's principals will join NFP's leadership team as managing directors, the statement said.

When asked about BWD's name moving forward, an NFP spokesman said the companies would be "working together through a brand transition with the recognition of the importance of the BWD brand in the sports and entertainment area."

Union-focused agency makes East Coast buy

Chicago-based insurance agency Union Insurance Group has acquired Rockville, Maryland-based agency The McLaughlin Co.

Terms of the deal were not disclosed.

The agreement with Union Insurance, which specializes in property/casualty and professional liability coverage for labor organizations, will "provide McLaughlin clients continuing access to business insurance and risk management services," Union Insurance said in a statement.

McLaughlin will remain in its Rockville, Maryland, location and operate under the Union Insurance name, said Christopher DeCaigny, the president of Union Insurance.

All Risks purchases tower construction specialist

Hunt Valley, Maryland-based wholesale broker All Risks Ltd. has acquired Austin, Texas-based Tower Program Insurance Services Inc.

Terms of the transaction were not disclosed.

Tower Program has a national program for the tower construction industry, which All Risks said in a statement is an "underserved and difficult-to-place class of business." The coverage includes customized workers compensation, general liability, auto and installation floater inland marine coverage.

The minimum premium is \$50,000, All Risks said in a statement. Tower Program founders Scott Hermes-meyer and Patrick Shea have joined the national specialty programs unit of All Risks as directors of the national tower construction program.

XL acquiring specialty outdoor entertainment insurer

XL Group P.L.C.'s X.L. America Inc. subsidiary has entered into a definitive agreement to acquire Allied International Holdings Inc., XL said.

Terms of the transaction were not released, an XL spokeswoman said. T.H.E. Insurance had around \$70 million in gross written premiums last year, XL Catlin said in a statement.

ADA

Continued from page 3

Stewart P.C. in Columbia, South Carolina. It “can force an employer to take a more open look” at a disabled employee.

“The bad part of any protective law is there are a few employees who will abuse it,” who “can cause a lot of headaches,” she said.

It can also be a challenge to deal with employees seeking unreasonable accommodations, such as a supervisor who wants to work from home, Ms. Helms said.

One issue presenting new challenges for employers is pregnancy, in light of the U.S. Supreme Court’s March ruling in *Peggy Young v. United Parcel Service Inc.* The court held that the Atlanta-based package delivery company acted unlawfully in refusing to accom-

modate a part-time worker’s lifting restriction while it did accommodate other workers’ limitations.

It is understood that there must be accommodation for a pregnant woman with gestational diabetes, Ms. Helms said. “But what about someone who has a normal, healthy pregnancy, with no disease-related issues, and she has a lifting restriction, which is very common?”

Ms. Shea said, however, the biggest ADA challenge “is just determining whether someone can be accommodated given their medical condition, and what types of accommodation would be appropriate, and what to do if the employee’s physician recommends something that doesn’t seem to fit the work environment.”

“Sometimes, the doctors are too lenient; sometimes, the doctor will release the worker back to work without restrictions,” but everyone knows the job will be difficult for the employee, she said. But, “accommodation seems to be the way of the workplace now, and I think it’s going to be that way” with its expansion into conditions including pregnancy.

Furthermore, with the ADA Amendments Act of 2008, “we have a very, very broad inclusion of various medical conditions that are considered disabilities” and the trend “will just keep going in that direction,” with technology making it easier to make accommodations such as the use of voices for visually-impaired computer users, Ms. Shea said.

A study last September by the Morgantown, West Virginia-based Job Accommodation Network, which is part of the Department of Labor’s Office of Disability Employment Policy, concluded that 57% of accommodations cost nothing while the rest typically cost \$500.

While “accommodating a disability is not always a straightforward issue,” Ernst & Young tries “to look at them as plans or as adjustments, rather than as a kind of legal obligation,” Ms. Golden said.

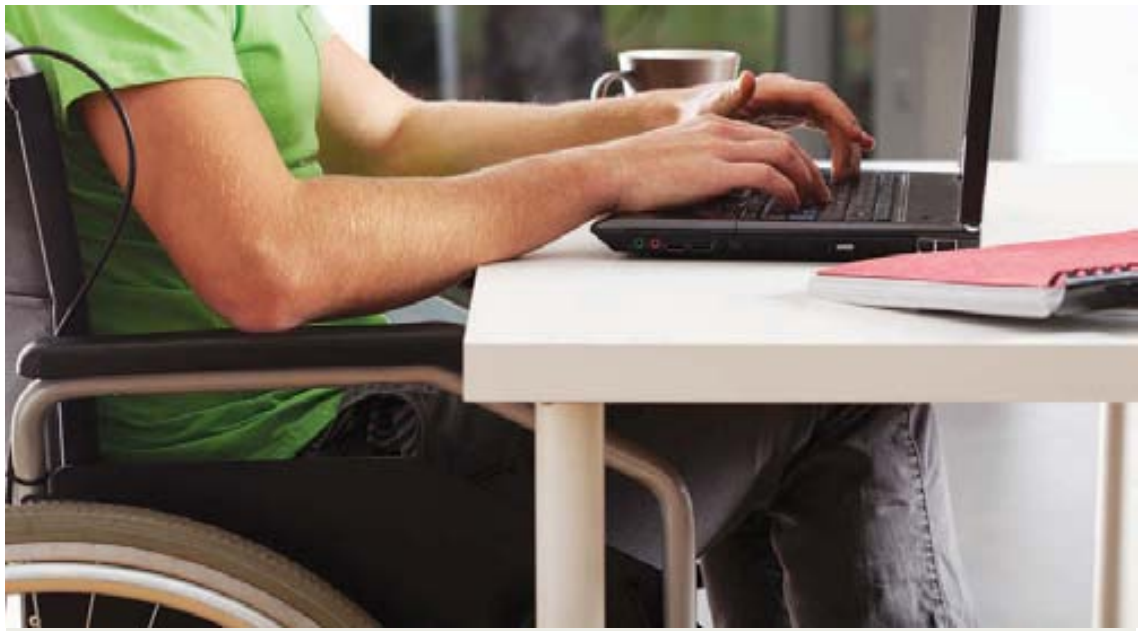
From the employee or applicant’s perspective, the law has failed to adequately encourage employers

TITLE I

Facts about Title I of the Americans with Disabilities Act of 1990, which applies to private employers:

- It prohibits employers from discriminating against qualified individuals with disabilities in job application procedures, hiring, firing, advancement, compensation, training, and other terms, conditions and privileges of employment.
- A qualified employee or applicant with a disability can perform the essential functions of the job in question with or without reasonable accommodation.
- An employer is required to make a reasonable accommodation for an employee’s or applicant’s disability only if it would not impose an “undue hardship” on the business’ operation.
- An employer must provide a reasonable accommodation only if the disabled individual seeks it and is not required to lower quality or production standards to make an accommodation.
- Federal tax incentives encourage employers to hire the disabled.
- The ADA’s Title II applies to state and local governmental agencies, while Title III bars disability discrimination by private entities that provide public accommodations, such as retailers and restaurants.

Source: U.S. Equal Employment Opportunity Commission



ADA AMENDMENTS ACT BRINGS BACK SUBSTANCE, EFFECT OF ORIGINAL ADA

While the Americans with Disabilities Act has celebrated its 25th anniversary, in some respects it is only 6 years old, the age of the Americans with Disabilities Amendments Act of 2008.

That is because the original law was largely undermined by three U.S. Supreme Court decisions, some observers say.

Two 1999 rulings, *Vaughn L. Murphy v. United Parcel Service Inc.* and *Karen L. Sutton and Kimberley Hinton v. United Airlines Inc.*, held that plaintiffs with disabilities that can be mitigated with corrective lenses or medication cannot sue for alleged discrimination under the ADA.

This was followed by the January 2002 ruling in *Toyota Motor Manufacturing Kentucky Inc. v. Ella Willis*, in which the Supreme Court ruled that a worker’s inability to perform a certain job activity does not necessarily mean the worker is disabled and entitled to ADA protection.

In response, Congress passed the ADA Amendments Act of 2008, which took effect in January 2009, to expand the definition of disability under the ADA.

While the Supreme Court rulings left a gap in ADA, the Amendments Act resulted in “a resurgence of ADA effectiveness,” said Chai R. Feldblum, commissioner of the U.S. Equal Employment Opportunity Commission.

Before the 2008 law, “the courts were finding that virtually nobody had a disability, so ADA claims were just getting thrown out right and left,” said Robin F. Shea, a partner at law firm Constangy, Brooks, Smith & Prophete L.L.P. in Winston-Salem, North Carolina.

But with the 2008 law, most of the time, companies “just admit there’s a disability and move straight on to the reasonable accommodation process,” Ms. Shea said.

By Judy Greenwald

to hire the disabled, observers say.

Chai R. Feldblum, commissioner at the Equal Employment Opportunity Commission, which enforces Title I, said the ADA works best in helping the disabled stay on the job and getting them promoted if they already are working.

But it has been less successful in helping the disabled get hired, “because it has always been hard to prove that not being hired was from discrimination,” Ms. Feldblum said.

“Getting jobs is still challenging,” said Linda Batiste, principal consultant at the Job Accommodation Network.

“Once you’re an employee, it’s easier to keep your job, at least in our experience,” because employers are willing to make accommodations, she said.

“At least among blind people, the rate of unemployment is pretty much what it was before the ADA,” at around 62%, said a spokesman for the Washington-

based National Federation for the Blind, who said “the real problem is attitudinal.”

Employers have followed a “very carefully balanced, crafted approach” to complying with the ADA, but results have been disappointing in terms of integrating the disabled into the workplace because of stigma that is still attached, said Curt Decker, executive director of Washington-based advocacy group National Disability Rights Network.

CADILLAC

Continued from page 4

ble for paying the tax, with employers reimbursing the TPA.

A potential problem, though, is where an employer uses multiple plan administrators, which the IRS said is a common practice.

The IRS said it wants comments “on whether the person that administers the plan benefits would often be unclear because, for example, multiple parties, such as a pharmacy benefit administrator and a medical claims benefit administrator perform the relevant functions with respect to a benefit package for which a single cost of applicable coverage” would have

to be provided to the government.

In addition, there are real-world problems with the approach. Since employer reimbursements to their TPAs would be added to the taxable income of the TPAs, the TPAs almost certainly would seek more money from employers to offset that new tax liability.

“It is a tax on a tax,” said Gretchen Young, senior vice president of health policy at the ERISA Industry Committee in Washington.

Under a second potential approach, the corporate executive with “ultimate authority” involving claims administration and arrangements with service providers would be responsible to pay the tax. The IRS, though, clearly has concerns about that

approach.

In its request for comments, the IRS is seeking input on whether the corporate executive administering health care plans “would be easy to identify” or “whether multiple parties have ultimate authority or responsibility” for health plans.

Other issues addressed in the IRS notice are less complicated, however.

For example, the IRS said it is considering that payment of the excise tax be made using IRS Form 720, which employers already use to pay a health research fee mandated by the law.

In addition, the IRS said it is developing tables for employers to adjust the excise health care plan cost triggers based on the age and

gender of employers’ workforces.

Far from certain, though, is the future of the excise tax. While congressional moves to amend or repeal the health care reform law have been largely Republican-driven, there is bipartisan support to repeal the excise tax.

For example, U.S. Rep. Joe Courtney, D-Conn., introduced a repeal bill that is backed by 135 House Republicans and Democrats.

“There is a strong chance of passage. There is growing repeal momentum as more members of Congress come to realize the widespread negative impact of the excise tax,” said the NBGH’s Mr. Wojcik.

“Repeal of the tax is the only practical answer. It is so complicated that it makes other provisions,”

such as the employer mandate to offer coverage, “look like child’s play,” said Andy Anderson, a partner at Morgan Lewis & Bockius L.L.P. in Chicago.

But even if Congress votes to repeal the excise tax, President Barack Obama almost certainly would veto the measure.

“Overcoming a presidential veto would be a challenge, but not impossible,” Ms. Young said.

In pressing lawmakers not to override the veto, observers say the administration would argue that wiping out the excise tax would take away a revenue source used to help fund federal premium subsidies to the lower-income uninsured who are obtaining coverage through public health insurance exchanges.

DIRECT

Continued from page 4

Hewitt.

“You almost need the perfect storm” to do it, said Brian Marcotte, president and CEO of the Washington-based National Business Group on Health. Companies need to have enough employees concentrated in a particular market to build such provider relationships and have the internal resources to “ensure that they are driving efficiency and the consumer experience and outcomes in the right way,” he said.

Employers with fewer than 1,500 to 2,000 employees may not have enough clout in the local market, said Chris Miles, Lincolnshire-Illinois-based senior vice president of U.S. health and benefits at Aon Hewitt.

It is “time-consuming and complex” work, which employers traditionally outsourced to their health insurer as part of network management development, she said.

Giant companies such as Intel Corp. and Boeing Inc have succeeded in contracting directly with health systems, which has stirred interest elsewhere, experts say.

In late July, Boeing, which its website says employs more than 160,000 people, reached agreements with Roper St. Francis Health Alliance in North Charleston, South Carolina, and Mercy Hospital in St. Louis, the hospitals said in statement. Boeing already has direct contracts with several health systems in the Puget Sound area.

Both new contracts offer Boeing employees lower paycheck contributions and reduced costs for primary care visits and generic prescriptions, according to the statements.

Boeing could not be reached for comment.

But the goal in the past several years has been to enable direct contracting in the middle market, said Michael Booth, president of Westmont, Illinois-based Axion RMS Ltd.

Serigraph Inc. has made it work with only 540 employees at its West Bend, Wisconsin, headquarters.

The graphics firm contracts with a dozen providers, such as orthopedic hospitals and MRI centers, and chooses them based on quality, low infection rates and price, said John Torinus, Serigraph’s chairman and former CEO who also is the author of “The Company that Solved Health Care.”

For example, West Milwaukee, Wisconsin-based Smart Choice MRI charges \$600 for an MRI, but discounts the price to \$525 for Serigraph, Mr. Torinus said. Using financial incentives, Serigraph steers its employees who need MRIs to Smart Choice instead of a larger health system that charges nearly \$3,000 for an MRI, he said.

Serigraph and its employees reap the savings. Mr. Torinus said he reaches out to providers, but many also approach him for deals, which he said is in reaction to private-sector employers taking their business to high-value providers.

Sources say it could also be a reaction to health insurer consolidation, changes in reimbursement for medical services under the health care reform law and the focus on value-



CALIFORNIA

Continued from page 3

April. The insurance commissioner the next month also approved the bureau’s recommended pure premium rate averaging \$2.46 per \$100 of payroll for July – 10.2% less than the January advisory rate.

“Overall, I think (S.B. 863 is) pretty much on track to do what was intended,” said Steve Suchil, the American Insurance Association’s assistant vice president for state affairs in Sacramento, California. “Employer costs are under control.”

California’s lien process had been a particular source of consternation for employers and insurers, but the new law has alleviated pressure by implementing a statute of limitations on filing liens based on the date of service.

“Liens are unique to California and it really got out of hand,” said Edward Canavan, vice president of the workers compensation practice and compliance at Sedgwick Claims Management Services Inc. in Riverside, California.

Lien filings dropped by 60% from more than 1.2 million liens in just 2012 to over 440,000 in 2013 and 2014 combined, resulting in medical cost savings estimated at \$690 million, according to the bureau’s assessment.

State law allowed claims for payment for services or benefits provided to or on behalf of injured workers to be filed as a lien against an employee’s benefits claim. But the process was often abused by providers filing liens for excessive amounts or selling old receivables to third parties, which would then file liens to force a settlement from insurers or employers.

An ambulatory surgery center fee schedule also part of the reform package has generated

about \$30 million in savings annually, while a physician fee schedule was also implemented in 2014, according to the assessment.

“There’s less litigation over the bills” because medical providers know what they will be paid, said Christine Baker, director of the Department of Industrial Relations, which oversees the Division of Workers’ Compensation, in Oakland, California.

The new independent medical review process is a contributing factor, according to government reports and stakeholders. About 180,000 independent medical review applications were filed last year, but 87% of the cases upheld a utilization review denial or modifica-

“We are successfully stopping inappropriate opioid medications before they start, and we were never able to do that before.”

Edward Canavan,
Sedgwick Claims Management Services Inc.

tion of treatment, often involving opioids.

“It’s a sore point” for claimants who could previously get their way in front of a judge, said Michael Sullivan with Los Angeles-based Michael Sullivan & Associates L.L.P., which focuses on workers comp defense. “It’s a big plus for employers.”

“This (independent medical review) program is helping to curtail some of the abuses,” Ms. Baker said.

However, the independent medical review process is the subject of litigation on which the California 1st District Court of Appeal is to

based health care.

The change in relationship between employers and providers is one shift in direct contracting that several experts are seeing.

Many hospital systems are establishing their own plan networks and reaching out to area employers offering lower service fees in exchange for higher patient volume, Axion RMS’ Mr. Booth said.

Midsized employers can also pool together to get the attention of the local hospital system, he said. For example, five 500-employee companies can join to “look as a 2,500-employee entity,” making the hospital more willing to negotiate, he said.

The direct contract landscape also includes outside firms that negotiate deals on behalf of employers.

One such company, Employer Direct Healthcare, negotiates bundled rates on more than 300 different surgeries for self-insured companies with 2,000 or more employees, said Clint Hampton, the Austin, Texas-based company’s CEO.

Employers pay a monthly fee per employee for Employer Direct’s SurgeryPlus supplementary surgical benefit, and Employer Direct will negotiate rates in its own nationwide network of surgeons using Medicare rates as a benchmark.

The employees’ out-of-pocket costs and deductibles are waived, and the employer sees the rate prior to the procedure, so it’s “completely transparent and completely predictable,” he said.

Mr. Hampton claims that his firm can save employers 30% to 50% per procedure.

“If more employers had the critical mass to go direct, I think they would,” Mr. Marcotte of NBGH said. They would try to see if they could “improve the experience and the delivery and the outcomes in the market by working directly with the provider community.”

hear oral arguments in September. The challenge argues that allowing an anonymous physician to make a decision that contradicts a treating physician without judicial review and the ability to cross-examine the anonymous reviewer are denials of due process.

However, the ability to deny such claims could reduce lifetime medical costs and ease the set-aside burden on self-insured employers, Mr. Canavan said.

“We are successfully stopping inappropriate opioid medications before they start, and we were never able to do that before,” he said.

The savings achieved by lower medical costs have been partly offset by a 30% increase in permanent disability benefits, with average indemnity costs per claim about 8% higher in 2014 than in 2013 primarily because of the law, according to the bureau.

However, additional cost savings are likely as the parties become more familiar with the independent medical review process and liens rules, and fee schedules for interpreters and home health care are implemented, stakeholders said.

A key aspect of the reformed liens process — a \$150 filing fee — has yet to be executed because of a November 2013 preliminary injunction issued by the Central District Court in Los Angeles that stopped collection of the fees and prevented liens from being dismissed based on a failure to pay. However, the 9th U.S. Circuit Court of Appeals vacated the preliminary injunction in June, with fee implementation likely to eliminate additional liens from the system once its implementation is finalized.

“Now, if it’s not a valid lien, it’s not worth paying \$150 to file it,” said Destie Overpeck, the workers comp bureau’s administrative director.

MERGER

Continued from page 3

ticularly as it would add the insurance business, which would help them from a competitive and volatility standpoint.”

In downgrading PartnerRe’s financial-strength rating to A from A+, A.M. Best Co. Inc. had similar concerns “regarding PartnerRe’s concentration in reinsurance and lack of a diversified product platform, in particular, the ability to provide both primary and reinsurance solutions.”

The merger with Axis “would have begun to address these issues and, with that transaction terminated, these concerns are brought back to the forefront,” Best said in its downgrade statement.

During an earlier investor presentation, Exor Chairman and CEO John Elkann said that “we want to be focused on reinsurance.”

“They strategically completely believe the thesis that you’re a better reinsurer if you are not also a primary insurer,” Mr. Shields said of Exor. “Therefore, you are not alienating any potential cedents by competing with them.”

Exor stated that it intends to make few changes at PartnerRe other than appointing an internal CEO.

“Exor believes the promotion of an internal candidate to CEO is the best avenue for PartnerRe’s future success,” Exor said in its investor presentation. The “incumbent management team will be empowered to operate the business with autonomy.”

“Based on what they told me, they have no plans to change anything other than appointing an internal CEO,” Mr. Shields said.

But Exor also said former PartnerRe CEOs Costas Miranthis and Patrick Thiele are not in the running to head the company, Mr. Shields said.

Observers also noted the unique nature of the deal given the previous connections among Exor and Axis with PartnerRe.

Turin, Italy-based Exor was among original investors when PartnerRe formed in 1993. Albert Benchimol, president and CEO of Pembroke, Bermuda-based Axis, was executive vice president and chief financial officer of Pembroke, Bermuda-based PartnerRe Ltd. from 2000 to Dec. 31, 2010.

“I do think this deal had some fairly unique features to it,” given the prior management relationships, Mr. Dwelle said.

“The level of insight and comfort that Axis, in the person of Albert Benchimol, has about PartnerRe, they don’t have anywhere else,” said Mr. Shields.

Indeed, Axis may be pressed to find another partner like PartnerRe.

“I don’t think there is any other property that’s close to being as obvious a fit with Axis as PartnerRe was or is,” Mr. Shields said.

DMEC

Continued from page 6

grated return-to-work programs, but it's more common to see companies with "formalized return-to-work/stay-at-work programs for workers comp," said Terri L. Rhodes, CEO of DMEC in San Francisco.

Concerned about overstepping privacy boundaries, some human resources professionals think they can't talk to an employee about nonoccupational disability, Ms. Rhodes said. "There's still this mindset" that workers "should be disabled for a certain period of time" before they return to work. "That doesn't happen in workers comp, where it's like, 'Let's see what you can do.'"

While workers with occupational injuries are required to accept light-duty work, only a small number of employers hold workers

with nonoccupational injuries to the same standard, said Denise Fleury, Orange, California-based senior vice president of disability and absence management for Sedgwick Claims Management Services Inc.

"A broken leg is a broken leg. It shouldn't matter where the disability originates from or what bucket is going to be paying it."

Terri L. Rhodes,
Disability Management
Employer Coalition

In addition, on the workers comp side, there's more pressure to get employees back to work as soon as possible to prevent a recordable injury, Ms. Fleury said.

What some employers don't realize is that "costs can mount pretty

sizably" in the case of either an occupational or nonoccupational injury, said Boston-based Christopher Kroger, vice president of national accounts for Liberty Mutual Benefits, a unit of Liberty Mutual Insurance Co. that provides group disability, group life and absence management products and services.

"It's unfortunate that more employers don't apply the same resources" to returning employees with nonoccupational injuries to work, Mr. Kroger said. "We do have employers that use the same processes (on both sides), and they do see shorter durations" of absence and better outcomes.

"A broken leg is a broken leg," Ms. Rhodes said, echoing a point Mr. Parker made during his keynote speech. "It shouldn't matter where the disability originates from or what bucket is going to be paying it. (Return-to-work) should be embedded in (a company's) culture."

TENTS

Continued from page 4

based on the location, safety procedures employed, type of crowd expected, parking, whether alcohol is served and proximity to a police station, among other factors.

Tent rental companies such as Chicago-based AAA Rental System say their insurance is provided by the Moline, Illinois-based American Rental Association, which provides risk management professionals who help clients and provide training materials, such as an emergency tent evacuation procedure in emergencies that include severe weather, according to a spokesman.

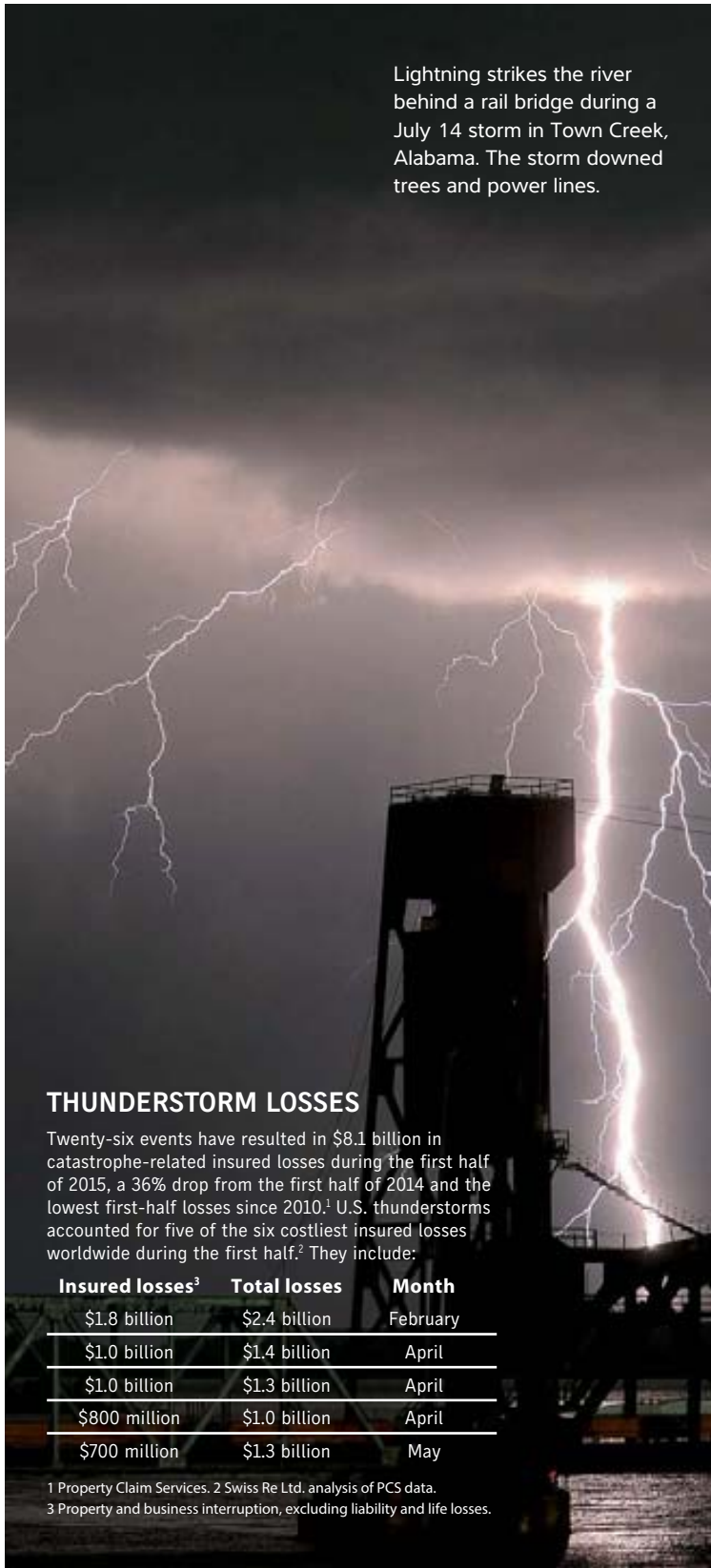
Ms. Mowery said most small events have property/casualty insurance that has a \$1 million limit per occurrence and \$1 million in excess aggregate coverage per event.

"For a large-scale event, they will have a \$5 million to \$10 million excess policy that covers if something really bad happens. If they don't have it, they usually go bankrupt," she said.

Ms. Mowery is the insurance broker for the Wasteland Weekend event, a Mad Max re-enactment in the California desert with about 5,000 attendees, and the Las Vegas Halloween parade that attracts 10,000 to 20,000 people a year. Syndicates at Lloyd's of London have insured the events. Both have excess coverage, she said.

"Most cities will require excess coverage for more than 1,000 people in a weather-related area," Ms. Mowery said. "Both (tent) events should have had excess policies."

"You can have the best plan in the world, but if you don't have someone there to implement the plan, it doesn't do anyone any good," she said.



Lightning strikes the river behind a rail bridge during a July 14 storm in Town Creek, Alabama. The storm downed trees and power lines.

THUNDERSTORM LOSSES

Twenty-six events have resulted in \$8.1 billion in catastrophe-related insured losses during the first half of 2015, a 36% drop from the first half of 2014 and the lowest first-half losses since 2010.¹ U.S. thunderstorms accounted for five of the six costliest insured losses worldwide during the first half.² They include:

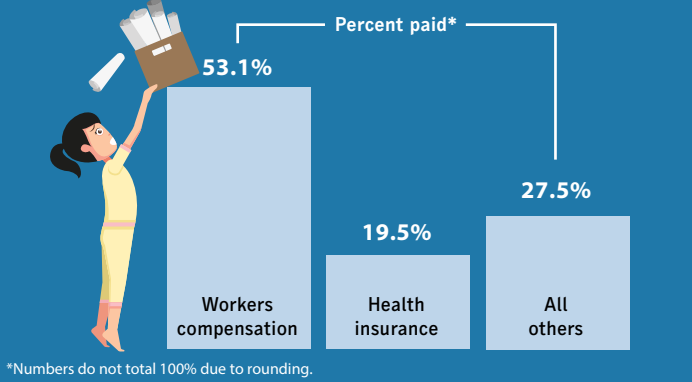
Insured losses ³	Total losses	Month
\$1.8 billion	\$2.4 billion	February
\$1.0 billion	\$1.4 billion	April
\$1.0 billion	\$1.3 billion	April
\$800 million	\$1.0 billion	April
\$700 million	\$1.3 billion	May

¹ Property Claim Services. ² Swiss Re Ltd. analysis of PCS data. ³ Property and business interruption, excluding liability and life losses.

AP PHOTO

WORKPLACE INJURIES

A study by the New Hampshire Division of Public Health Services found that of 280 injured at work seriously enough to seek medical advice or treatment, nearly half said workers compensation did not pay for their treatment.



UNDER

Continued from page 1

an injury that isn't reported," a spokeswoman for the Occupational Safety and Health Administration said in an email.

OSHA tightened its injury and illness reporting requirements Jan. 1, ordering companies to report all work hospitalizations, amputations and eye losses within 24 hours.

The revised rule could "help us get better data on some of this information rather than it being estimates," Ms. Hersman said.

Previous studies have found that "undercounting appears to be worse in organizations that use injury data to evaluate the performance of those responsible for maintaining the injury data," she said. "So there's oftentimes a downward pressure within organizations to limit the number of reports, and we've seen organizations try to skirt this in a number of different ways," such as limiting the kind of medical treatment workers get.

One way third-party administrator Broadspire Services Inc. can detect possible underreporting is by looking at a company's data, said Joel Raedeke, Chicago-based vice president of consultative analytics.

A high percentage of severe indemnity claims and a low percentage of medical-only claims can mean less severe injuries aren't being filed under workers comp, he said. But the pattern also can lead to a false positive depending on the nature of the business, as injured employees might be off the job longer if light-duty positions aren't available to them.

Underreporting can also occur at certain locations without being a centralized problem. By flagging this, risk managers can make sure companies "establish the right kind of culture at the local level," he said.

In addressing the financial implications, the New Hampshire survey said underreporting workers comp injuries can result in "a substantial financial burden falling on private and government insurers, as well as on individual families paying for treatment costs out of pocket."

"The more injuries an employer has to claim, the higher their (workers comp) premiums. So there may be less of an incentive to make sure everybody reports an injury," said study author Karla R. Armenti, Concord, New Hampshire-based principal investigator at the state's Division of Public Health Services.

Though claims can cause workers comp premiums to increase and require employers to pay medical and indemnity benefits, employers still reach into their pockets when workers are treated under a group health plan, said James R. Thornton, director of environmental health and safety at Newport News, Virginia-based Huntington Ingalls Industries Inc., a shipbuilding company with more than 39,000 employees globally.

"It's kind of a left pocket-right pocket (situation)," Mr. Thornton said. "In either scenario, the employer is going to incur costs."

However, "from a liability standpoint, if an employee does sustain an injury on the job and files it as a workers comp claim ... the employer avoids the possibility of third-party lawsuits, which in this day are much more expensive," he said.

In addition to the protection offered by workers comp exclusive remedy provisions, most employers want workers who are hurt or witness on-the-job injuries to alert their supervisors so they can intervene and prevent future accidents, Mr. Thornton said. When workers do not report an accident or work through their pain, that can worsen the injury, he said.

Educating workers about their benefits is important, since temporary and part-time workers might not know they're covered under workers comp, Ms. Armenti said.

There are "checks and balances" in place, she added, noting that some private insurers will send a letter asking whether an event was work-related.

Employers should regularly communicate the reporting process and "make sure suspected or actual workplace injuries are evaluated and treated," Mr. Thornton said. "If you complete that cycle ... you constantly reinforce to others the behavior you expect."

RELIGIOUS

Continued from page 1

care plans must offer married same-sex couples the same coverage as opposite-sex couples.

Employers that self-insure their health plans can still elect not to cover employees' same-sex spouses even if they cover married opposite-sex couples, since those plans are not governed by state laws.

However, experts said doing so could result in workplace bias lawsuits, particularly in light of the U.S. Equal Employment Opportunity Commission's recent announcement that it will pursue employment discrimination claims based on sexual orientation, even though Title VII of the U.S. Civil Rights Act does not expressly prohibit it.

"In most cases, I think it would run afoul of the EEOC's position that discrimination against gay and lesbian employees is forbidden as sex discrimination, because if you're covering the wife of a male employee, then you need to cover the wife of a female employee," Ms. Kersting said.

Despite the legal difficulties created by the recent changes, several Christian colleges — including Wheaton College, Baylor University, Union University and Cedarville University — have indicated that they intend to continue to exclude married same-sex couples from their health benefit plans.

"Wheaton College believes that it continues to have the legal authority to enforce biblically based conduct standards for its employees," a spokeswoman for the Wheaton, Illinois-based school said in an email to *Business Insurance*. "By virtue of their employment by the college, all faculty members, administrators and staff must accept the obligations of membership in the college community by committing annually to Wheaton's statement of faith and community covenant."

Last week, Jackson, Tennessee-based Union University announced that it has left the Council for Christian Colleges due to the organization's "failure to respond appropriately" after two other member institutions — Eastern Mennonite University and Goshen College — recently extended benefits to married same-sex couples.

"The reason we are passionate about this is because what we are talking about is not a secondary or tertiary theological issue — marriage is at the heart of the Gospel," Union University President Samuel Oliver said in an open letter to the CCCU. "To deny the Bible's concept of marriage is to deny the authority of Scripture."

One possible legal refuge for some religiously-inclined employers that wish to continue providing spousal benefits only to opposite-sex couples could be the Supreme Court's June 2014 ruling in *Hobby Lobby Stores Inc. v. Sylvia Burwell*, in which closely held companies with religious objections to the health care reform rule requiring employers to offer contraception coverage were exempted from the rule under the Religious Freedom Restoration Act.



HEAR INTERVIEW
Visit *Business Insurance's* multimedia Web page to hear
Todd Solomon, partner with law firm McDermott, Will & Emery L.L.P., discuss how the ruling will affect employers with religious objections to same-sex marriage with *Business Insurance* Associate Editor Matt Dunning.

However, experts said the *Hobby Lobby* ruling only applies to family-owned, for-profit businesses. Several dozen religious non-profit organizations have petitioned the Supreme Court for a similar exemption, but will not be granted a hearing until at least October.

Moreover, experts said it is



AP PHOTO

Many for-profit employers with stated, deeply-held religious beliefs have remained silent on whether they will amend their benefits programs, including large employers such as Tyson Foods Inc.

unclear if federal courts would extend the coverage exemption under RFRA to include spousal benefits for married gay and lesbian couples, given the inherently discriminatory nature of such a request.

"I think (the *Hobby Lobby* ruling) was written narrowly enough that it doesn't apply in this situation," said Todd Solomon, a Chicago-based partner at McDermott Will & Emery L.L.P. "That said, it seems pretty likely that there are employers out there that are going to try it."

Since the *Obergefell* ruling, a handful of Christian-affiliated colleges have announced that they will extend spousal health care benefits to legally married same-sex couples.

In a July 6 letter to campus employees, Hope College President John Knapp said that the Holland, Michigan-based school's administration "recognized early on that the Supreme Court was likely to issue a decision that would present new challenges for our college."

"Spouses are eligible for benefits, so long as their marriage is legally recognized by the state of Michigan," Mr. Knapp said. "This policy remains in place, meaning that a same-sex spouse of a Hope

employee will now be eligible for benefits. After much prayer and consultation with our board of trustees, legal experts and others in Christian higher education, we determined that this continued policy serves the best interests of our college and campus community."

"We'd actually been in the process of revising our campus discrimination and hiring policies for a couple of years, and the decision to make that change included offering spousal coverage under our health plan," said Jodi Beyeler at Goshen College, a Mennonite college in Goshen, Indiana. "Even if the Supreme Court's ruling had gone the other way, we'd still have made the change."

Meanwhile, the vast majority of religiously affiliated colleges, universities and charities in the U.S. have yet to formally decide whether they will observe the Supreme Court's ruling. Similarly, many for-profit employers with stated, deeply held religious beliefs have remained silent on whether they will amend their benefits programs, including large employers such as Hobby Lobby Stores Inc., Tyson Foods Inc. and Interstate Batteries Inc.

All three companies declined to comment for this story.

PERTINENT RULINGS

■ The U.S. Supreme Court in June ruled 5-4 in *James Obergefell et al. v. Richard Hodges et al.* that state laws prohibiting same-sex couples from marrying violated their 14th Amendment rights. This has created a challenge for religious-affiliated employers that fully insure their group health care plans to provide spousal benefits to opposite- and same-sex couples.

■ In June 2014, the U.S. Supreme Court ruled in *Hobby Lobby Stores Inc. v. Sylvia Burwell* that closely held companies with religious objections to the health care reform rule requiring employers to offer contraception coverage were exempted from the rule under the Religious Freedom Restoration Act. Recent appellate court rulings have denied similar exemptions for nonprofit organizations.

■ The U.S. Equal Employment Opportunity Commission recently announced that it will pursue employment discrimination claims based on sexual orientation, though Title VII of the Civil Rights Act of 1964 does not expressly prohibit it. This will put pressure on self-insured employers who cover opposite-sex spouses to also cover same-sex spouses, experts say.

TRAVELERS

Continued from page 1

Mr. Fishman said he has been dealing with a neuromuscular condition for some time.

"Given the progression of the symptoms I have been experiencing since informing all of you of my illness, it appears likely that I am dealing with a variant of amyotrophic lateral sclerosis, or ALS," he wrote. "While this is a progressive disease, anyone who has seen me can tell you that I am more than able to play an active role in Travelers' future."

Mr. Fishman served as CEO of the Travelers insurance operations during the time the insurer was part of Citigroup Inc., before joining The St. Paul Cos. Inc.,

where he was appointed CEO in 2001. In that role, he executed the 2004 merger of Travelers Property Casualty Corp. and St. Paul, with the resulting company known as Travelers.

Travelers declined requests for interviews with Messrs. Fishman and Schnitzer.

Howard Mills, currently global insurance regulatory leader at Deloitte L.L.P. in New York, knew Mr. Fishman when Mr. Mills was New York's superintendent of insurance.

"He will definitely have a long-lasting impact," said Mr. Mills, who said he wishes Mr. Fishman "the very best."

"He's built a massive company that's a market leader, very well-managed and a very strong company," Mr. Mills said. "The merger that he engineered is probably

the No. 1 thing that stands out and obviously had a very big impact on the market and will for the foreseeable future."

Robert Hartwig, president of the New York-based Insurance Information Institute Inc., of which Travelers is a member, said in an email that Mr. Fishman's story is one of "consistent profitability, growth and stability — a rare combination in a volatile industry."

He credited Mr. Fishman with successfully managing a turnaround of St. Paul in the "difficult post-Sept. 11 environment." He followed that with the 2004 acquisition of Travelers.

"The company subsequently remained a standout performer during the global financial crisis. The company's strength and stability under Jay's leadership led to Travelers being named in 2009 to

join the Dow Jones Industrial Average, replacing" Citibank Inc., Mr. Hartwig said.

Travelers remains the only insurer among the 30 companies that comprise the Dow Jones Industrial Average, Mr. Hartwig said.

Mr. Fishman "leaves the company in his capacity as CEO in excellent shape and in the very capable hands of his successor, Alan Schnitzer. The company remains poised to take advantage of future opportunities for growth, both domestically and internationally," Mr. Hartwig said.

"They've done an awful lot of work building bench strength," said Meyer Shields, managing director at Keefe Bruyette & Woods Inc. in Baltimore.

Regarding the market as a whole, Mr. Shields said Mr. Fish-

man did a "phenomenal job of advancing the utilization of analytics in pricing small commercial business, which has helped moderate the overall small-commercial pricing cycle."

Leigh Ann Pusey, president and CEO of the Washington-based American Insurance Association, of which Mr. Fishman served as chairman in 2004 and 2011, said Mr. Fishman understood the "public policy imperative."

Mr. Fishman "is comfortable walking the halls here in Washington as well as state capitals," Ms. Pusey said. "He has an ability translate difficult technical insurance issues, which makes him such an asset for the industry. Whether it was 9/11 or the financial crisis or the issues in between, he was providing critical industry leadership."



AP PHOTO

Virginia's governor was shocked to learn the state was not insured after an unmanned rocket exploded last October.

10, 9, 8, 7 ... Wait! Is it insured?

After the Wallops Island spaceport in Virginia finishes repairs from October's unmanned rocket that exploded, they expect to launch another — only this one will be insured.

Officials say an aerospace company that uses the state-owned launch pad will help pay for repairs from the rocket explosion and will also insure the launch pad. Orbital, NASA and the Virginia Commercial Space Flight Authority said they would evenly divide the repair costs.

After the explosion, state officials were shocked to learn they were stuck with paying the bill for the repair costs to the launch pad, estimated at about \$15 million. "You don't just launch a rocket and have no insurance," Gov. Terry McAuliffe said. "I find that almost unfathomable."

Sports car scam burns rich kid

A Swiss 20-year-old is getting a crash course in insurance fraud after allegedly setting fire to a car he wanted to upgrade.

The catch is the intolerably lame vehicle was a roughly \$250,000 Ferrari 458 Italia from his father that the young man had grown tired of, according to European media reports.

The well-kept son of a Zurich businessman had allegedly been disappointed to learn from a Ferrari dealership last year that his clunker was not worth enough to trade in for a newer model.

That didn't stop the enterprising youth from recruiting three accomplices to take the car across the border to Germany, where it was torched in an attempt to collect an insurance settlement. Security cameras and phone records foiled the caper, and all four culprits faced a German court this month.

The 20-year-old reportedly was sentenced to 22 months of probation and a fine of \$33,000, while the rest of the nascent crime syndicate received probations between 14 and 16 months each, according to reports.

But the worse punishment may be that daddy now knows his son didn't appreciate the Ferrari.

GRAFFITI ARTIST DRAWS LINE AT KATY PERRY DRESS



AP PHOTO

Designer Jeremy Scott (left) and Katy Perry at the Metropolitan Museum of Art's annual Met Gala.

Joseph Tierney, a street artist who goes by the name Rime, is roaring mad at Italian fashion firm Moschino and designer Jeremy Scott. The artist sued the company and Scott for copyright infringement and misappropriation after they allegedly used his graffiti art on their expensive outfits, one of which was worn by singer Katy Perry at a high-profile event in New York City.

Ms. Perry, the singer behind hits such as Roar, Firework and I Kissed a Girl, was not named as a defendant. But the superstar is discussed in the lawsuit because she was allegedly paid to wear the dress to the Metropolitan Museum of Art's annual Met Gala, a prominent fundraising event. The singer was widely photographed in the dress and made several "worst-dressed" lists in a publicity stunt that Rime believes damaged his street cred, according to the lawsuit.

The lawsuit, filed on Aug. 5 in California district court, accused Moschino and Mr. Scott of copying an image called "Vandal Eyes" Rime drew on the side of a Detroit building on the company's apparel and displaying and selling outfits with the copyrighted artwork without Rime's permission.

Rime is seeking damages and costs, including lawyers' fees and expenses, but he also wants the offending outfits recalled and destroyed.

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.

Startup flies high with medical pot

It didn't take long for two of America's fastest growing new industries — medical marijuana and drones — to hook up.

Trees Delivery, a San Francisco startup with ambitions of delivering boxes of designer pot via drone is waiting to hear whether FAA rules will allow commercial use of the high-flying unmanned vehicles, according to *Mashable.com*.



The website notes that marijuana is "extremely lightweight," which makes it perfectly suited for drone delivery.

"We see drones as an amazing tool for delivery. A drone will never be late," Trees Delivery CEO Marshall Hayner told *Mashable*.

The Trees website notes that Cannabis and drones equal "amazing". The site also notes a disclaimer that drone deliveries might not be available in all areas.

Not shockingly, Mr. Hayner told the website, that the company is "the most fun thing I've ever worked on in my life."



A combination of rocket and jet power will cause a "near vertical ascent," similar to the Space Shuttle.

Hypersonic plane the ultimate ride

A hypersonic plane that may travel nearly 3,000 mph could thrill travelers and hull and liability insurers alike.

A patent has been approved for the Airbus-designed plane that would fly at over four times the speed of sound, reports said.

Airbus describes the plane as an "ultra-rapid air vehicle and related method of aerial locomotion." The new plane would be more than twice as fast as the now-retired Concorde, of which only 14 were ever used by business. VIPs used the Concorde to quickly travel from one continent to another.

The Blagnac, France-based aircraft manufacturer believes business travelers would use the new plane, as it has the potential to fly from New York to London in an hour.

The plane's combination of rocket and jet power will cause a "near vertical ascent," similar to the Space Shuttle.

One of the complaints for the Concorde was how loud the turbojet engines were, which was why it wasn't allowed to fly over land. But Airbus says the new plane is designed to limit and reduce the sonic booms when it reaches supersonic speed.

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