

DOCTOR SHORTAGE

While the supply of doctors in the United States is projected to increase to 785,400 by 2025, it will be short of the need for physicians.

Projected shortage with Patient Protection and Affordable Care Act

58,000	79,300	106,300	130,600
2014	2018	2022	2025

Projected shortage without the act

30,200	51,800	79,100	103,700
2014	2018	2022	2025

Source: Association of American Medical Colleges

WORKERS COMPENSATION

Doctor demand exceeds supply for routine care

Injured workers face delayed treatment

BY ROBERTO CENICEROS

Millions of additional U.S. residents seeking medical attention under the Patient Protection and Affordable Care Act are likely to delay treatment for workers compensation and disability insurance claimants by aggravating a nationwide doctor shortage.

Delayed medical treatment, which affects return-to-work outcomes and thus employer costs, now is the leading expectation about how the health care reform law will affect care for occupational and nonoccupational employee injuries and illnesses, workers comp and employee absence experts say.

The workers comp and absence consultants are not alone in their

See **DOCTORS** page 47

RISK MANAGEMENT

NAVY YARD MASSACRE EXPOSES INFORMATION GAPS

Employers hamstrung by background check rules



AP PHOTO

A makeshift memorial was built on a lamp post last week for Washington Navy Yard shooting victims.

BY JUDY GREENWALD AND RODD ZOLKOS

Last week's Washington Navy Yard shooting highlights the delicate balance employers face in protecting their employees and customers while avoiding government scrutiny for potentially violating individuals' rights.

The shooting left 13 dead, including gunman Aaron Alexis, a U.S. Navy veteran with a troubled past that did not deny him access to the

See **SHOOTING** page 48

WAYS TO SECURE THE WORKPLACE

- Choose employee background screening companies carefully; don't base decisions strictly on cost.
- Establish a level of security that's appropriate for the nature of the enterprise.
- Nurture an environment in which employees are comfortable reporting concerns about co-workers' behavior.
- Implement policies governing how human resources professionals should respond to concerns about employees' behavior.
- Review and revise policies and programs regularly.

P/C INSURERS

TRIA backers press for extension again

BY MARK A. HOFMANN

Advocates of the federal government's terrorism insurance backstop are pushing hard for an extension more than a year before the program would expire.

The program has broad support among the property/casualty insurance industry and commercial insurance buyers, including the Risk & Insurance Management Society Inc. However, the extension is far from certain because some in Congress and industry outsiders view the backstop as an unnecessary government bailout.

Three bills to extend it have been recently introduced in the U.S. House of Representatives.

The House Financial Services Committee held a hearing on the program last week in Washington and the Senate Banking, Housing and Urban Affairs Committee is expected to hold a hearing on it this week.

Most people who testified before the House panel favored extending the program. Some committee members shared that sentiment, while others only gave it conditional support.

The Obama administration has no enthusiasm for the program established by the Terrorism Risk Insurance Act of 2002 and extended twice, most recently through Dec. 31, 2014. The program also has come under fire from liberals and conservatives as an example of an

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Q&A: FRANK X. ALTIERE III

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EXCESS & SURPLUS LINES REPORT

Competition limits E&S rate hikes; Berkshire Hathaway enters market; wholesalers foresee growth; stamping offices see more premiums; tax-sharing models.

PAGE 14

A STRONG TEAM,
OPERATIONALIZING
A STRONG BALANCE SHEET.

\$103.9 billion in combined policyholders' surplus*



specialty
insurance

A Division of the Berkshire Hathaway
Group of Insurance Companies

*Balance sheets as of 6/30/2013 for the National Indemnity group of companies.
Financial information for the group may be found at www.nationalindemnity.com.

strengthen.

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MID-MARKET



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Increasing political instability and catastrophes are compelling midsize U.S. exporters to purchase export trade credit insurance. **6**

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The death of Venezuelan President Hugo Chavez earlier this year is expected to affect the political and economic outlook of the country for years to come. **10**

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NEWS

HEALTH CARE REFORM

Rules create options on retiree cover

Firms may send pre-Medicare eligible to exchanges

BY JERRY GEISEL

New health care reform law guidance opens the door for employers to jettison health plans offered to pre-Medicare-eligible retirees, while assuring many retirees they can tap federal subsidies to buy coverage in public exchanges.

The guidance, released earlier this month by the U.S. Treasury and Labor departments, says retirees covered by stand-alone health reimbursement arrangements will not be eligible for the premium subsidies that start in 2014.

“Some employers are considering making amounts available under stand-alone retiree-only HRAs to retired employees so that the employer would be able to reimburse medical expenses, including the purchase of an individual health insurance policy,” according to the guidance. But such a stand-alone HRA would be considered minimum essential coverage, thus making a retiree ineligible for the subsidy, the guidance said.

“That approach would have been appealing for employers to help retirees get coverage in a financially advantageous way,” said Amy Bergner, managing director of human resources in Washington for Pricewaterhouse-

GUIDANCE

Questions answered in health care reform law guidance on health reimbursement arrangements and employee assistance plans from the U.S. Treasury and Labor departments

- Pre-Medicare-eligible retirees covered by stand-alone HRAs will be ineligible for federal premium subsidies to buy coverage in public health insurance exchanges.
- Employer contributions to HRAs that are integrated with employee health plans can be used to satisfy health reform law minimum value or premium affordability tests, but not both.
- Unless they provide significant medical benefits, employee assistance plans are not considered “minimum essential coverage.”

Coopers L.L.P.

The word “covered,” though, is the key to the way the guidance opens new retiree health care funding arrangements that could slash employers’ health care costs and, in some cases, reduce costs for retirees as well, benefit experts say.

“Employers who want to drop retiree medical coverage but help retirees purchase exchange coverage can do so without causing lower-income retirees to lose subsidy eligibility by giving retirees the option to enroll in the HRA,”

said Rich Stover, a principal with Buck Consultants L.L.C. in Secaucus, N.J.

Under such an approach, an employer would terminate its health plan for pre-Medicare-eligible retirees. That would make lower- and middle-income retirees eligible for the Patient Protection and Affordable Care Act-authorized premium subsidies to buy coverage next year in public insurance exchanges.

Under the law, premium subsidies will be available to the uninsured with incomes between 100% and 400% of the federal poverty level. This year, for example, the maximum income would be \$45,960 for a one-person household and \$62,040 for a two-person household to qualify for a subsidy.

In situations when employers require retirees to pay a high percentage of the premium, many lower-income retirees would pay less by obtaining exchange coverage with the federal premium subsidies.

To aid retirees whose incomes are too high to qualify for a subsidy or receive only a small subsidy, employers could establish and credit HRAs with an amount they determine. Those retirees then could use HRA funds to buy non-subsidized coverage in exchanges

See **HRA** page 45

SAFETY

Building design can help mitigate trips, falls

BY SHEENA HARRISON

With slips, trips and falls remaining one of the top causes of workers compensation claims, safety experts say more emphasis must be placed on the ergonomic design of workplaces if companies hope to reduce the prevalence of such injuries.

While safety professionals have done a good job of promoting clean floors, appropriate footwear and other strategies to reduce slip and fall risks, sources say there is a need for architects and engineers to be included in safety conversa-

tions that could change the way buildings are developed.

“The safety and health professionals (and the) insurance industry, we all get it. We all talk the same language,” said Donna Heidel, Edison, N.J.-based senior industrial hygiene manager with safety consultancy Bureau Veritas S.A. “The trick is going to be to teach our design engineers to include worker health and safety issues.”

Such accidents need particular attention in nonindustrial workplaces, where employers tend to install terrazzo or marble floors

that can become dangerous for workers to walk on in certain conditions, said Wayne Maynard, product director of workers compensation, ergonomics and tribology for Liberty Mutual Group Inc. in Hopkinton, Mass.

“We have a growing ... office industry where we don’t think of those as being potentially risky areas of slips, trips and falls, but they really are,” Mr. Maynard said.

Slips, trips and falls on the same level — where workers slip and fall on the surface on which they’re

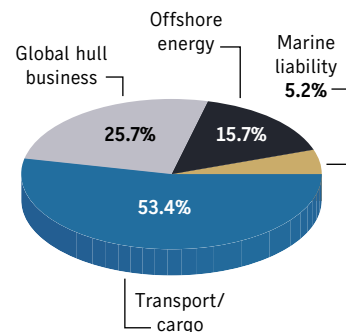
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CLARIFICATION

In an article in the Sept. 9 edition, “Railroads Grapple with Cat Risks as Oil Shipments Increase,” a portion of comments from James R. Beardsley, managing director and global rail practice leader with Marsh Inc. in Washington, about trains moving at slower speeds on smaller railroads, thereby reducing the risk of a large-scale derailment, were deleted during editing.

MARINE PREMIUMS

Global marine insurance premiums totaled \$33.05 billion in 2012.



Source: International Union of Marine Insurance

MARINE

Hull sector barely above water

Stricter underwriting, rate increases needed for profitability

BY SARAH VEYSEY

LONDON — The global hull and machinery insurance market has recorded 17 consecutive years of pure underwriting losses, and overcapacity and competition in the market are likely to continue.

To return to profitability, underwriters likely need to increase rates and turn away business, experts say.

Many marine hull and machinery underwriters have been underpricing risks, said Lars Rhodin, chairman of the International Union of Marine Insurance’s ocean hull committee and managing director of the Swedish Club, a protection and indemnity mutual

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RISK MANAGER OF THE YEAR®

Business Insurance has opened nominations for the 2014 Risk Manager of the Year® awards. Created in 1977, the awards recognize outstanding performance in the practice of risk management for a corporation, nonprofit or government entity. For details and to download a nomination form, go to www.BusinessInsurance.com/RMOY2014.

ONLINE
FEATURES

SOLUTION ARC

Avoiding pitfalls of conducting criminal background checks

How companies can properly conduct criminal background checks on workers and potential hires.

www.BusinessInsurance.com/
BackgroundChecksArc

VIDEO



Marine Insurance Market

This video highlights trends in the marine insurance industry, including cargo safety and market capacity.

www.BusinessInsurance.com/
video

GALLERY

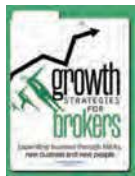
40 Under 40 Broker Leaders

West regional winners of the Business Insurance honor are highlighted in this photo gallery.

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photos

WHITE PAPER

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NEWS

REINSURANCE

ALTERNATIVE CAPITAL KEEPS REINSURANCE RATES IN CHECK

Rendez-Vous participants see fragmented markets

BY SARAH VEYSEY

MONTE CARLO, Monaco — The reinsurance market will be fragmented at Jan. 1, 2014 renewals, with rate decreases likely for lines of business attractive to third-party capital investors, such as property catastrophe, while loss-affected lines will see rates stabilize or rise.

For the first time, reinsurance experts say, rates offered by third-party capital instruments, such as insurance-linked securities, were in many cases comparable or lower than those offered by traditional reinsurers during renewals in June and July.

This had the effect of pushing down rates in property catastrophe lines, notably in Florida, and the trend likely will continue at the Jan. 1 renewals, industry executives said while gathered at the Rendez-Vous de Septembre reinsurance meeting in Monte Carlo, Monaco, this month.

In addition, rates for other lines may come under downward pressure as traditional reinsurers seek to deploy more capital in other lines of business that have not been as affected by the influence of third-party capital.

At the June renewals, rates for property catastrophe reinsurance



SARAH VEYSEY

Reinsurance industry executives gathered at the Rendez-Vous de Septembre reinsurance meeting in Monte Carlo, Monaco, this month.

fell as much as 15%, said David Priebe, vice chairman of reinsurance brokerage Guy Carpenter & Co. L.L.C. At July renewals, rates for property catastrophe business fell by as much as 30% for loss-free accounts, he said.

Although the effect of an influx of third-party capital into the industry has been less pronounced on rates for business outside the United States, a side effect of the surge in new capital has been a reduction in some rates elsewhere as reinsurers seek to deploy capacity into other lines, he said.

“Price reductions are good news for buyers, but so is a choice of products and sellers,” Mr. Priebe said.

If there are no major catastrophe losses between now and the end of the year, then “we expect continued rate decreases, but prices are still adequate,” said Martyn Street, a director at Fitch Ratings Ltd. in London.

Rates for European windstorm programs have been largely flat or softening in recent months, Mr.

See MARKET page 46

TRADITIONAL REINSURERS CHALLENGED

BY SARAH VEYSEY

MONTE CARLO, Monaco — Capacity provided by third-party capital investors is here to stay in the reinsurance industry and could have positive long-term effects for buyers.

There could be less convergence capital invested in the market if interest rates increase, leading to higher returns in other asset classes, or if there is a very large reinsurance loss event. However, it’s unlikely investors would withdraw that capital altogether, experts say.

Experts gathered at the Rendez-Vous de Septembre reinsurance meeting in Monte Carlo, Monaco, this month, said that while such capital has helped to reduce rates for traditional reinsurance and gives buyers added choice, it remains to be seen whether and how that capital will be deployed into business lines other than property catastrophe coverage.

The inflow of new capital will help to reduce the cyclical volatility formerly inherent in the market, said Dominic Christian, co-CEO of Aon Benfield, the reinsurance brokerage arm of Aon P.L.C.

The industry is undergoing

See CAPITAL page 46

PROPERTY/CASUALTY INSURERS

AIG invests heavily in science team working on new coverage products

BY SHEENA HARRISON

DALLAS — American International Group Inc. is working to devise new insurance products and services that will advance the insurer in areas such as cyber risk and workers compensation, said Robert Schimek, president and CEO of AIG’s property/casualty Americas region.

In addition to working to establish an innovative culture, AIG has invested about \$60 million per year on a “science team” that works to identify such developments across all of AIG’s coverage areas, Mr. Schimek said.

The team has helped develop a

“We are seeking ways to advance past the pack, not to catch up to the pack.”

Robert Schimek
American International Group Inc.

suite of products and services connected to AIG’s cyber liability insurance. The products include AutoShun, a proprietary device provided to AIG’s CyberEdge clients that blocks cyber attacks from Internet protocol addresses that are known to be threats.

AIG also has partnered with

Johns Hopkins University in Baltimore to identify behavioral trends in workers compensation that can be identified early in a claim’s life cycle before resulting in significant costs, Mr. Schimek said.

The insurer’s partnership with the university was inspired by AIG’s desire to differentiate itself from other major workers comp insurers that underwrite the line “far better and far more strategically than us,” he said.

“We are seeking ways to advance past the pack, not to catch up to the pack,” said Mr. Schimek, who declined to provide details of the Johns Hopkins partnership.

He made the comments during a

presentation about insurance industry innovation during the Sept. 10-11 Entrepreneurial Insurance Symposium in Dallas hosted by Dallas-based electronic insurance exchange MarketScout.

Insurers, brokers and insurance service providers should aim to position themselves as having “unique” products and services, rather than striving to be the “best” among their competitors, Mr. Schimek said. This includes investing in new products that may not be successful but can provide customer feedback and allow companies to develop better offerings

See SYMPOSIUM page 45



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DEMAND RISES FOR TRADE CREDIT COVER

More U.S. exporters picking up on coverage already popular in Europe

BY RUSS BANHAM

Increasing global political instability, weather-related catastrophes, rising unpaid invoices, and bank demands for collateral are compelling midsize U.S. exporters to purchase export trade credit insurance.

While the insurance, which protects an organization's receivables from losses caused by credit risks such as default, insolvency or bankruptcy, is commonplace in Europe, it has historically been a tough sale in the United States. This is changing, brokers and insurers say.

Approximately \$700 million in U.S. premium volume is expected this year by private insurers, excluding government credit risk programs such as the Export-Import Bank, and midsize exporters are buying much of the coverage, said Michael Kornblau, U.S. trade credit practice leader at Marsh Inc. in New York.

"Our figures indicate that premium has been growing the past 10 years and was up 7% in 2012, with all signs pointing to the same growth this year," he said.

Overall premium volume worldwide is about \$9 billion, he estimated, the majority of it produced in Europe, "although the U.S., South America and Asia are the growth markets."

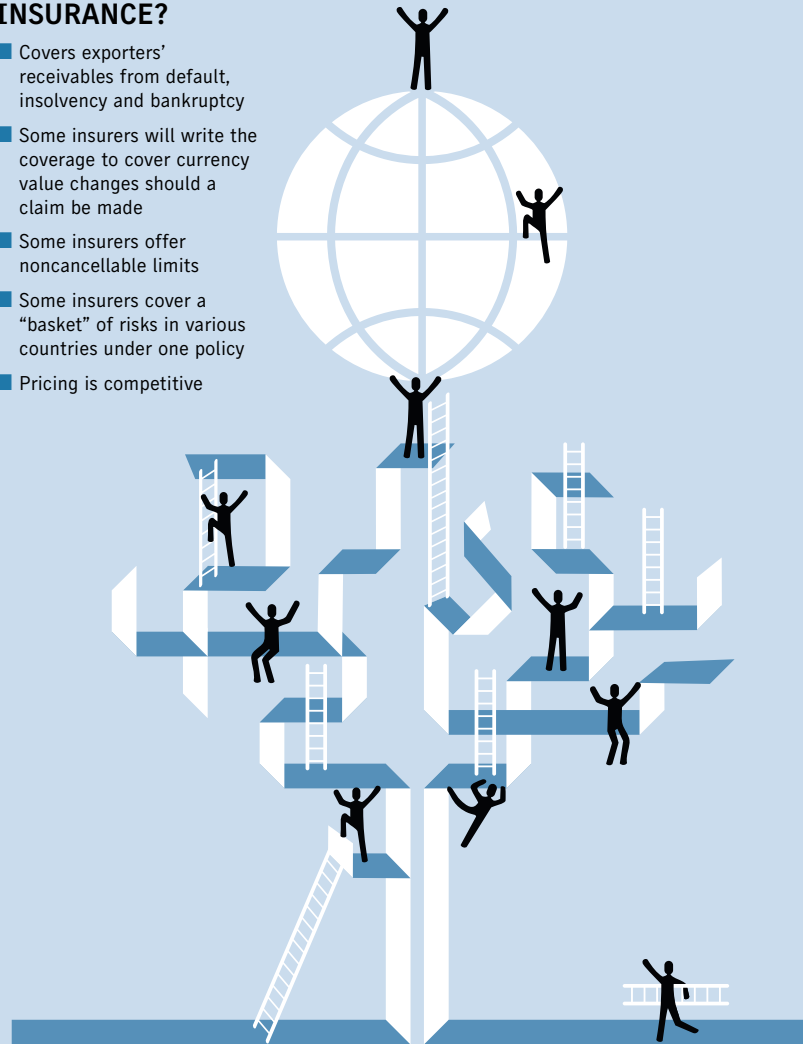
The rising U.S. appeal of the cover is due in part to the recession that began in 2007.

"All those years of economic volatility took a toll on organizations, compelling a need for financing at a time when credit was scarce or unavailable," said Frederik Mürer, political and credit risk leader of the Americas at Ace Ltd. in New York.

"With the low interest rate environment, one would think the banks would have flooded the market with easy money, but they were less than willing to lend and far more selective" in choosing clients, he said. "They insisted on some form of collateral. Trade credit insurance can serve this purpose."

WHY USE TRADE CREDIT INSURANCE?

- Covers exporters' receivables from default, insolvency and bankruptcy
- Some insurers will write the coverage to cover currency value changes should a claim be made
- Some insurers offer noncancellable limits
- Some insurers cover a "basket" of risks in various countries under one policy
- Pricing is competitive



Paul Kunzer, divisional executive of North America trade credit at American International Group Inc. in New York, agreed. "By using credit insurance, companies then add their export accounts receivables to the borrowing base of their asset-backed financing facility," he said. "In addition, banks have expanded their use of trade credit insurance to provide

capital relief for their own credit risks."

While many U.S.-based midsize exporters "were on the hunt for economies that were growing faster than the U.S. economy," when the financial crisis hit, "some of these growing markets soon experienced their own troubles, such as Greece, Italy, Spain and parts of North Africa and the Middle East," said Anne

Marie Thurber, executive vice president and managing director of political and credit risk at Zurich North America in New York.

As U.S. exporters moved into new, untried markets, Mr. Kornblau said, "events like the Arab Spring were too far away to comprehend the implications and their susceptibility to these and other events like the ongoing turmoil in Egypt. They scared the exporters, driving much greater interest in export trade credit insurance."

Trade credit insurers such as Euler Hermes North America Insurance Co., part of Allianz S.E., are experiencing significant increases in sales.

While the U.S. has less takeup of the coverage, other factors boosting interest include recent catastrophes and increasing anxiety over rising unpaid invoices.

A January study by London-based Lovetts P.L.C. found that the average value of debts handled by the commercial debt recovery law firm increased 38% in the first quarter of this year vs. the first quarter last year, prompting the firm to state that late payment has become a "fact of business life." Some debts have now passed into the unrecoverable column.

Mr. Kornblau, citing closely held information, said the export trade credit insurance market has experienced an uptick in claims and notices by policyholders of an increase in past due accounts.

Natural disasters such as Superstorm Sandy, the earthquake and tsunami in Japan, and massive flood losses in Thailand and Pakistan have caused many overseas suppliers to default on their payments or go out of business.

One final factor that is encouraging midsize U.S. exporters to buy trade credit insurance is inexpensive pricing. Mr. Kornblau estimated that prices have declined about 7% in the past year, and will continue with 5% to 10% decreases the rest of this year.

USAGE RISING
All figures converted from euros to U.S. dollars

Trade credit insurance premiums in 2012

\$8.09
BILLION

UP 3%
from 2011

Trade credit exposures insured in 2012 (an all-time high)

\$2.53
TRILLION

UP 4.4%
from 2011

Trade credit insurance claims in 2012

\$3.86
BILLION

UP 12%
from 2011

Approximate amount of global trade insured in 2012

15%

Source: Members of the International Credit Insurance & Surety Association

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EMPLOYERS FEEL BURDEN OF HEALTH CARE REFORM COSTS

New fees, coverage requirements drive moves to CDHPs

BY MATT DUNNING

A growing percentage of mid-market employers are migrating toward high-deductible, consumer-driven health plans, partly in response to added financial burdens resulting from the federal health care reform law.

About 34% of employers with between 500 and 4,999 employees offered such a plan linked to either a health savings account or health reimbursement arrangement in 2012, compared with 31% in 2011, according to data compiled by New York-based Mercer L.L.C. Among those employers, 31% offered an HRA-based consumer-driven health plan as their sole group health benefit option in 2012, while 16% of employers had converted from a traditional benefit structure to a consumer-driven plan linked to a health savings account.

“For a lot of employers in the mid-market, we’re seeing the consumer-driven plan become the centerpiece of their benefit offerings,” said Tracy Watts, a Washington-based senior partner at Mercer. “Employers all have said that they want to continue to provide benefits, but the challenge is that they can’t grow their health benefit budgets as fast as the costs are growing with the combination of the overall trend and the Affordable Care Act.”

Experts said the growing integration of consumer-driven health plans among midsize employers is likely due in large part to the onset of new fees and coverage requirements under the Patient Protection and Affordable Care Act. Next year, employers will have to pay a fee of \$63 per health plan participant — either through their group plan’s insurer or directly, if the plan is self-funded — to fund the reform law’s three-year Transitional Reinsurance Program. The per-participant fee will be reduced in the second and third years of the program, though federal regulators have yet to finalize the amounts.

Also beginning next year, health insurers will be taxed 2-2.5% of their net premium growth, with the tax rate growing to 3-4% in 2015 and years beyond. Experts said it is all but cer-



tain those costs will be passed along to plan sponsors and individual consumers.

“Mid-market employers have been struggling from an economic standpoint to manage their health care costs, and they’ve been looking for lower-cost plans that they can offer to their employee populations,” said Maureen Fay, a New York-based senior vice president at Aon Hewitt. “Health care reform has certainly accelerated that, with all the new fees that are included in the law.”

Additionally, beginning in 2018, self-funded plan sponsors and insurers of fully insured group health plans will be assessed a 40% excise tax on the premium value of health care plans exceeding \$10,200 for individual coverage and \$27,500 for family coverage.

Though the reform law’s excise tax on “Cadillac plans” will not take effect for another four years, experts said the tax is another key factor in many mid-market employers’ decision to outright replace their existing HMO or PPO plans with a consumer-driven health plan or, at the very least, include a consumer-driven health plan option alongside their traditional benefit offerings.

According to Mercer’s 2012 National Survey of Employer-Sponsored Health Plans, the average per-active employee costs of health coverage in PPO and HMO plans last year among midsize employers were \$10,624 and \$10,421, respectively.

By comparison, mid-market employers in 2012 were charged an average \$8,263 per-employee for coverage through an HSA-eligible consumer-driven health plan and \$9,397 per employee for coverage through a consumer-driven plan linked to a health reimbursement account.

“Those excise assessments, which are based on a percent of premium as opposed to the plan member headcount, are where employers are looking to reduce their overall costs,” said Patrick Haraden, a principal at Boston-based Longfellow Benefits. “Employers are looking to offer plans with the lowest premium possible within the confines of the law.”

WAYS TO EASE TRANSITION TO CDHP IMPLEMENTATION

For most mid-market employers, the most challenging aspect of adding or switching to a consumer-driven health plan likely will be communicating the changes to plan members and their beneficiaries effectively.

To ease the transition, experts recommend:

- Begin communicating with employees as far in advance of the plan’s start date as possible.
- Clearly articulate your company’s rationale and timetable for the change, as well as — if applicable — the decision’s relationship to the health care reform law, the potential financial and health management advantages of the new plan, and the anticipated number of employees affected by the change.
- Provide medical cost comparisons outlining the difference in employees’ projected deductibles, coverage provisions and out-of-pocket expenses for common medical procedures under the proposed consumer-driven health plan and existing benefit plans.
- If the consumer-driven plan is being offered as an option alongside traditional benefit plans, tailor the communications to the employee segments most likely to take advantage and/or benefit from the consumer-driven plan structure.
- Provide ongoing health care decision support services, including online tools and research portals.



GROWTH OF CONSUMER-DRIVEN HEALTH PLANS

Percent of mid-market employers offering one of the plans

500-999 employees

Plan	2012	2011
HSA-eligible plan:	27%	20%
HRA-linked plan:	11%	8%
Either type of CDHP (HSA or HRA):	35%	26%

1,000-4,999 employees

Plan	2012	2011
HSA-eligible plan:	26%	26%
HRA-linked plan:	10%	11%
Either type of CDHP (HSA or HRA):	33%	34%

500-4,999 employees

Plan	2012	2011
HSA-eligible plan:	26%	23%
HRA-linked plan:	10%	9%
Either type of CDHP (HSA or HRA):	34%	31%

Percent of mid-market employees enrolled in one of the plans

500-999 employees

Plan	2012	2011
HSA-eligible plan:	9%	6%
HRA-linked plan:	5%	2%
Either type of CDHP (HSA or HRA):	14%	9%

1,000-4,999 employees

Plan	2012	2011
HSA-eligible plan:	8%	7%
HRA-linked plan:	5%	5%
Either type of CDHP (HSA or HRA):	12%	12%

500-4,999 employees

Plan	2012	2011
HSA-eligible plan:	8%	7%
HRA-linked plan:	5%	4%
Either type of CDHP (HSA or HRA):	13%	11%

Source: Mercer L.L.C.

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Outlook for Canadian P/C industry stable: Best

■ The outlook for the Canadian property/casualty insurance industry remains stable, according to a report by rating agency A.M. Best Co. Inc. Best said the Canadian property/casualty industry's results last year "remained solid" in underwriting and operating performance. "Overall risk-adjusted capitalization continued to be strong given the good underwriting performance, which was aided by fewer weather-related events and catastrophes during the year. The industry now has posted an underwriting profit for several consecutive years reflecting significant improvement after losses in earlier years," Best said.

E.U. makes Libor rigging punishable with fines

■ Companies found guilty of rigging market benchmarks like Libor could be fined the equivalent of 15% of their turnover under a new European Union law. The E.U. law, approved by the European Parliament and due to come into force within two years, revises market abuse rules to make the rigging of benchmarks illegal. The market abuse rules are also extended to cover electronic trading such as "high-frequency" trading, criticized by some lawmakers for creating volatility in markets.

Reuters

Ace starting reinsurance operation in Tunisia

■ Ace Ltd. has received approval from the Tunisian Ministry of Finance to establish a reinsurance operation in Tunisia in its ongoing strategy to grow its business in the Middle East and North Africa. Ace said it expects to formally open its operation in Tunisia this autumn as a branch of Ace American Insurance Co.

Scor estimates Germany hailstorm damage

■ A series of hailstorms that raked Germany in July could result in insured damages of about €1 billion (\$1.33 billion), Scor S.A. said. The French reinsurer said its costs from the storms would be approximately €50 million (\$66.5 million) after retrocession and reinstatements and before tax. The hailstorms came after June flooding in Germany that caused an estimated \$2.60 billion in insured damage. Scor said that the

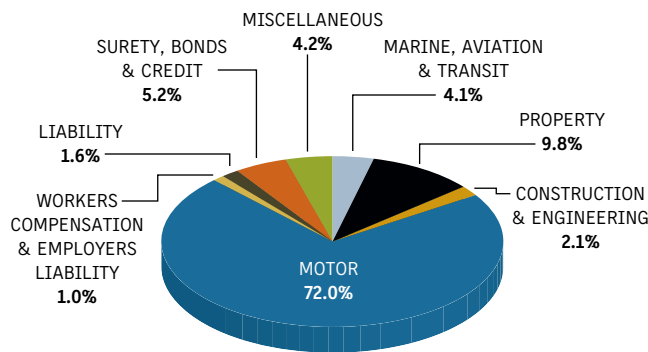
PROFILE: VENEZUELA

\$5.29
BILLION

The death of Venezuelan President Hugo Chavez earlier this year was a major event in the country's history that is expected to affect its political and economic outlook for years to come. His successor has continued his populist policies. The property/casualty market has been resilient in terms of growth over the years and has generally been profitable. The February devaluation of the bolivar will reduce the market's size in hard currency measurements and may reduce its attractiveness to foreign investors.

◀ 2011 P/C gross premiums

MARKET SHARE



Source: Axco Global Statistics/Industry Associations and Regulatory Bodies

COMPULSORY INSURANCE

Several lines of coverage are compulsory, including:

- Auto third-party liability
- Aviation third-party liability
- Passenger insurance for land transit (included in fare)
- Student personal accident
- Shipowner oil pollution liability
- Third-party liability for vessels in the Venezuelan Naval Registry

NONADMITTED

Unauthorized insurers may not conduct insurance activity in Venezuela. However, with some exceptions, there is nothing in the law indicating that insurance must be purchased from locally authorized insurers. This is generally interpreted to mean that foreign insurers may issue policies from abroad if approached by a buyer or intermediary.

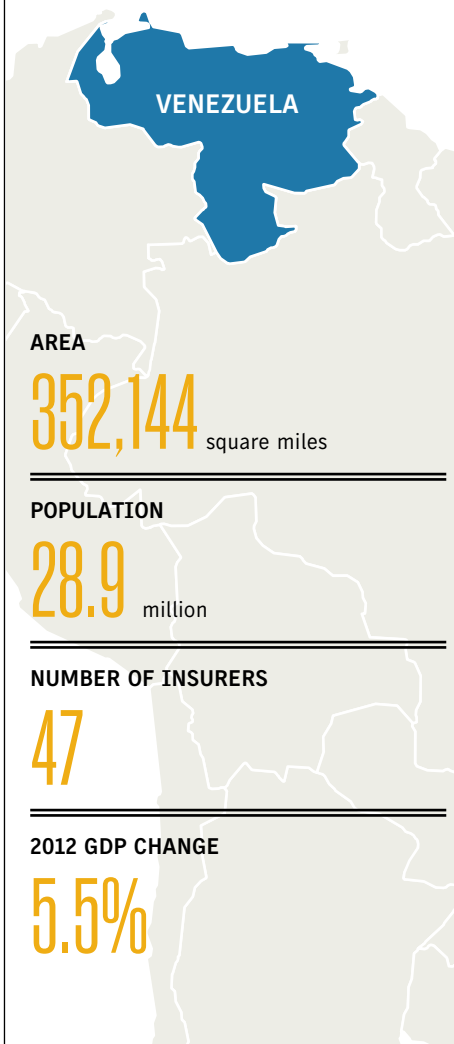
INTERMEDIARIES

Intermediaries must be authorized to transact insurance business. Again, the law is silent on the freedom of insurance intermediaries to place insurance outside the country, although there is an article in a 2010 insurance law stating that contracts of insurance placed with foreign entities that are not authorized to conduct insurance activities are not legally enforceable.

MARKET PRACTICE

Most insurers and brokers do not place business on a nonadmitted basis. Fronting is used extensively and provides an alternative where local capacity or risk appetite is limited or unavailable. Local regulators periodically warn of the dangers of insuring with unauthorized entities.

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



MARKET DEVELOPMENTS

UPDATED JULY 2013

- On Feb. 8, 2013, the bolivar was devalued by 46.5%. Experts think that further devaluations may be necessary, given the disparity between official exchange rates and market rates.
- With a lack of expansion in the economy, insurance brokers are competing largely for existing accounts. Large accounts are placed with coinsurance, and in some cases the limits available are below the actual values of risks insured.
- A 2010 law obliged insurers, prepaid medicine companies and brokers to offer health care insurance, funeral insurance and personal accident insurance to pensioners, the handicapped and the poor. Insurers have met their quotas, but there is little demand for the coverage.
- In August 2012, a major explosion and fire took place at the Amuay oil refinery, killing 42. While insured losses will be significant, coverage was largely placed overseas through the petroleum company's captive.
- Incidence of fires is expected to increase as standards of maintenance and availability of parts decline, but loss ratios for 2012 have not markedly worsened.

most significant of the storms — Andreas — cost it about €34 million (\$45.2 million). Scor said the summer hailstorms appeared to be the most expensive German hail losses in years, surpassing a 1984 Munich storm that cost the industry about €1 billion on an inflation-adjusted basis.

Flooding the biggest risk to cities worldwide

■ Flooding is the biggest risk to city dwellers around the world, according to a study by Swiss Re Ltd. The study ranks the human and economic exposure to natural catastrophes in 616 cities around the globe. It examined the risk that floods, storms, storm surges, earthquakes or tsunamis pose to urban centers. On the basis of all five perils, the Tokyo-Yokohama region of Japan is the most

exposed to loss of human life and working days, the study found. Coastal cities in Asia are particularly vulnerable to all five perils, the study found. Outside of Asia, Los Angeles is the ninth-ranked city globally and No. 1 in the United States in the number of people that could be affected by all five perils.

Track in Quebec train disaster in bad shape

■ Some of the railway track operated by the firm whose train blew up in a Quebec town, killing 47 people, is in poor condition and does not meet safety standards, federal Canadian transport inspectors said. A team from Transport Canada examined 210 of the 250 miles of track operated in Quebec by Montreal, Marine & Atlantic Railway Inc., the now-bankrupt firm whose

fuel tanker train derailed and exploded in the small town of Lac-Mégantic, Quebec, on July 6. The inspections occurred from July 20-24 and Aug. 6-7. "Several locations were found where the track ties were noted as marginal or substandard. In addition, several locations were observed to be a safety concern or in noncompliance," according to the report posted on Transport Canada's website.

Reuters

ANV, Ryan Specialty merging Lloyd's agencies

■ Dutch specialty insurer ANV Holdings B.V. and Chicago-based Ryan Specialty Group L.L.C. said they will merge their Lloyd's of London managing agency operations that will manage more than \$635 million in capacity. When the deal is finalized in the fourth quar-

ter, Netherlands-based ANV will hold 80% of ANV Syndicate Management Ltd. and Ryan Specialty will hold the remaining 20%. The combined operations will manage ANV syndicate 1861 as well as syndicates 5820 and 779, which currently are managed by Jubilee Managing Agency Ltd., Ryan Specialty's Lloyd's managing agency.

Zurich Insurance names new chief of staff

■ Zurich Insurance Group Ltd. named Isabelle Welton chief of staff, effective immediately. Ms. Welton previously worked as Zurich's chief marketing officer. She succeeds Ann Haugh who left the Swiss insurer last month. Ms. Welton will work from Zurich and oversee group communications, group human resources, group marketing and group strategy.

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EDITORIAL

HEALTH LAW GUIDANCE AIDS EARLY RETIREES

For decades, retiree health care plans have been a key part of employers' benefit programs, particularly large companies. The importance of the plans, especially for retirees too young to be eligible for Medicare, was obvious. In many cases, the retirees would have found coverage in the individual market prohibitively expensive, or difficult if not impossible to obtain, if they had pre-existing medical conditions.

That employer safety net has been unraveling for years. For example, 46% of employers with 500 or more employees offered health coverage to their pre-Medicare-eligible retirees in 1993. Last year, only 24% did so, according to a Mercer L.L.C. survey.

It is easy to understand why employers have moved away from the plans. Last year, coverage for pre-Medicare-eligible retirees cost close to a whopping \$12,000 per person, Mercer found.

Given that high and increasing cost, it is certain that employer-sponsored retiree health care plans will continue to dwindle.

Fortunately, lawmakers putting together the Patient Protection and Affordable Care Act recognized that. In writing the legislation, lawmakers made clear that just as federal premium subsidies can be used by younger lower- and middle-income uninsured individuals to buy coverage in public health insurance exchanges, the subsidies also will be available to retirees under 65 who are not enrolled in employer plans.

Surely these individuals, as lawmakers recognized, have the same need, if not even greater, for premium subsidies as the younger uninsured.

Technical guidance on the health care reform law by the Treasury and Labor departments, as we report on page 3, could ease the financial burden on pre-Medicare-eligible retirees whose incomes make them ineligible for premium subsidies but who are by no means well off.

Under the guidance, employers that eliminate health care coverage for early retirees could set up health reimbursement arrangements to provide at least some financial support for the retirees' health care expenses.

Retirees who are better off but by no means well-to-do then could use employer HRA contributions to help pay nongovernment-subsidized premiums for coverage offered in the public insurance exchanges. That approach taken by regulators strikes us as fair and balanced and increases the likelihood that all early retirees — regardless of income — do not have to shoulder the full cost of health care coverage.

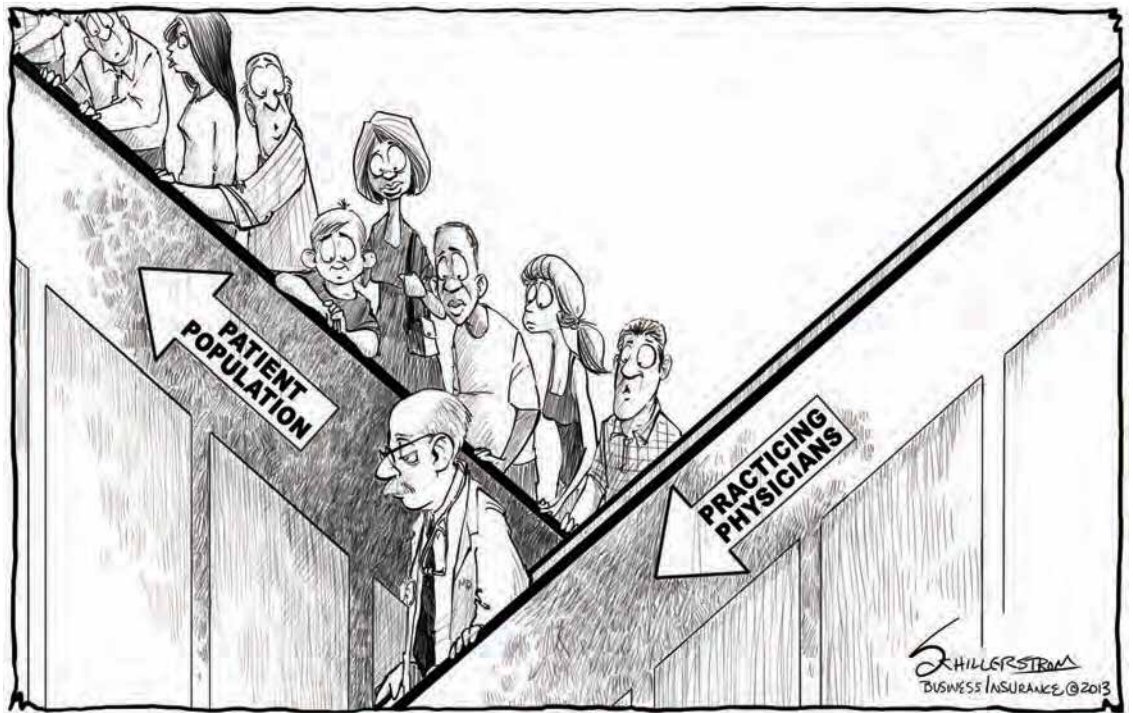
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SCHILLERSTROM



COMMENTARY

LIBERTARIAN GROUP COUNTERS ON TERRORISM BACKSTOP

The Terrorism Risk Insurance Act amounts to corporate welfare, since it relies on public funds to protect the insurance industry and commercial policyholders.

That's the message contained in a recent Cato Institute policy paper posing interesting free-market thoughts that clash with the insurance industry's arguments for renewing TRIA.

Cato is a Washington-based libertarian think tank that argues for allowing TRIA to sunset when scheduled to do so on Dec. 31, 2014. The paper, titled "The Terrorism Risk Insurance Act: Time to End the Corporate Welfare," concludes that there may have been a need for TRIA to temporarily stabilize insurance markets post-9/11. "But there is no rationale for that measure to become a permanent federal subsidy of the insurance industry," the paper says.

Several libertarians taught in the economics department where I earned an undergraduate degree in economics years ago. One of those professors lectured that moving libertarian ideals from philosophy to practice never happens, because those arguing for markets free of government interference one day will want government protection for their own economic interests the next day.

I suspect that contradiction is in play when the insurance industry lobbies for TRIA's extension. But that observation aside, Cato's position paper raises interesting counterpoints to those I hear from the commercial insurance industry and policyholders.

A Risk & Insurance Management Society Inc. report released in August, for example, argues that TRIA is a reinsurance program — not a bailout — that would



**ROBERTO
CENICERÓS**
SENIOR EDITOR

cost the government only if a certified terrorist event exceeds \$100 million in aggregate insurance losses. And insurers still would have to pay claims equaling 20% of their annual premiums for commercial lines.

But the Cato paper argues that the \$100 million trigger is a very low threshold when the value of a single building can exceed that.

I also understand policyholder concerns that underwriters already are curtailing workers compensation insurance offerings in areas where risk concentration is a factor, and failure to renew TRIA could exacerbate the problem.

In contrast, the Cato paper argues that government backing encourages risk concentration. By acting as a subsidy, TRIA may dampen policyholders' motivation to move out of high-risk areas, the argument goes.

Overall, the paper suggests that commercial insurers can handle terrorism risk without government support, perhaps better than they manage natural catastrophe losses.

I am not a libertarian. But Cato's paper raises interesting questions about the public's interest in TRIA's renewal — and it makes one undeniable point when it says that effective lobbying led to TRIA's two previous extensions.

We will see how lobbying efforts play out for a third TRIA extension.



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SPECIAL REPORT

Excess & Surplus Lines Report

Largest U.S.-based surplus lines insurers

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Surplus lines premiums and taxes by state

PAGE 22

Stamping offices report higher premium volume

PAGE 25

Largest MGAs, underwriting managers

PAGE 18

Improving economy brightens outlook for wholesalers

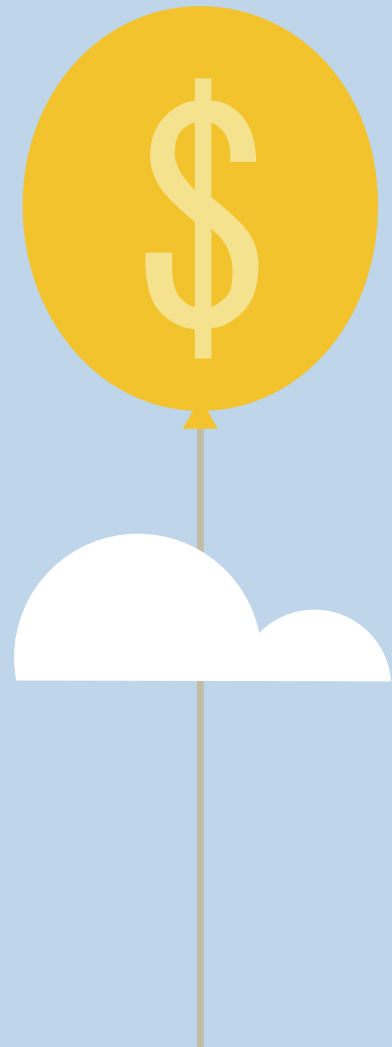
PAGE 24

NAIC, NAPSLO disagree on premium tax clearinghouse

PAGE 26

Largest property/casualty wholesalers

PAGE 20



Competition limiting rate hikes

Improving economy creates more demand for coverage

BY JUDY GREENWALD

Increasing rates in specific lines, a slowly improving economy and a boost in business rejected by the standard market is leading to increased revenue for excess and surplus lines insurers, while capacity remains plentiful.

The prospect is for continued increased demand for surplus lines coverage, observers say (see box page 19).

Meanwhile, the entry of Berkshire Hathaway Inc. has not had a significant effect on the E&S market to date, say observers (see story, page 15).

Jeremy Johnson, Boston-based president and CEO of Lex-

ington Insurance Co., a unit of American International Group Inc., said, "We continue to maintain a positive outlook as regards the excess and surplus industry," which "suffered a four-year decline in reduced premiums written beginning in 2007, but has grown steadily since 2011."

Mr. Johnson said the recent growth is a function of improving economic conditions and "a diminished appetite" in the standard market to compete in lines that are traditionally viewed as E&S.

"But there's still continued pressure on industry participants" to generate a profit, "which requires a focus on underwriting discipline and risk management," Mr. Johnson said.

Surplus lines market waits for impact as insurance heavyweight makes entrance

The excess and surplus lines market is still waiting to see the impact of Berkshire Hathaway Inc.'s entry into the market, say observers.

Omaha, Neb.-based Berkshire in June announced the operational launch of Berkshire Hathaway Specialty Insurance, which will focus mainly on U.S. excess and surplus lines business.

Ronald S. Austin, chief operating officer of Los Angeles-based wholesaler Worldwide Facilities Inc., said that while it is too early for it to have had a significant impact, Berkshire Hathaway's entry "will impact the

market the same way (as when) any other company that's heavily capitalized enters the market."

Timothy W. Turner, Chicago-based president and CEO of R-T Specialty L.L.C., a division of the Ryan Specialty Group L.L.C., said: "They're entering the market very methodically and strategically. So far, there's no significant impact."

James Drinkwater, property/casualty brokerage division president of AmWINS Group Inc. in New York, said Berkshire Hathaway has a "very talented group of underwriters. I think they're going to

approach the opportunity that they have now in a very disciplined fashion. There's certainly no rush mandate for them to write a lot of business, but I'm sure they're going to pick their positions and do it successfully."

"I don't believe that I would say it's had an impact at the moment," but "it will provide a welcome alternative to certain markets that are currently operating in the E&S sector," said Randall G. Goss, chairman and CEO of wholesaler U.S. Risk Insurance Group Inc., based in Dallas.

Enrico Leo, vice president at rating agen-

cy Moody's Investors Service Inc. in New York, said Berkshire's entrance is more likely to affect larger accounts than the many smaller, niche players that operate in the market.

"The broader question is the entry into the excess and surplus lines by nontraditional players," said Tracy Dolin, director at Standard & Poor's Corp. in New York. E&S is an easier market to enter because it is "generally written on nonadmitted paper. You don't have as many constraints" as with admitted business, said Ms. Dolin.

By Judy Greenwald

Rates are increasing, but selectively, say observers.

While rates generally are rising, there are differences among specific lines, said Matt Nichols, president of Hunt Valley, Md.-based All Risks Ltd. and president of the Kansas City, Mo.-based National Association of Professional Surplus Lines Offices Ltd.

"The market remains very competitive in some areas, but we've clearly seen hardening in others," including employment practices liability, said Ronald S. Austin, chief operating officer of Los Angeles-based wholesaler Worldwide Facilities Inc.

Furthermore, for an account with a challenging loss history, "it's clearly going to get a rate increase," he said.

Observers noted, for instance, that under New York law, injured workers can file workers compensation and liability claims if they are injured as a result of construction falls. This has particularly affected contractors in New York City and surrounding areas.

Because of this law, New York contractors may be experiencing 30% to 40% rate increases, Christopher J. Cavallaro, managing director at Jericho, N.Y.-based wholesaler ARC Excess & Surplus L.L.C., said.

Maureen Caviston, Stamford, Conn.-based president and chief operating officer of wholesaler Partners Specialty Group L.L.C., said umbrella underwriters that previously had accepted a standard \$1 million attachment point for New York-area contractors now are seeking a \$2 million attachment point per accident for such business.

"At the same time, the economy has picked up and there's more construction in the area, so there's more business in the market looking for capacity," Ms. Caviston said.

However, Alan J. Kaufman, chairman, president and CEO of Farmington Hills, Mich.-based Burns & Wilcox Ltd., said that while rates in certain pockets of the country and in certain areas of coverage have improved somewhat, they are "still way below where they were in 2005 and 2006.



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LARGEST U.S.-BASED SURPLUS LINES INSURERS

Ranked by 2012 nonadmitted direct written premiums

Rank	Company/address	Parent	Phone/website	2012 nonadmitted direct written premiums	% change	2012 gross premiums	% change	2012 net income	Principal officer
1	Lexington Insurance Co. 100 Summer St., Boston, Mass. 02110	American International Group Inc.	617-330-1100 www.lexingtoninsurance.com	\$4,285,026,291	(6.5%)	\$5,889,985,365	(20.9%)	\$408,981,814	Jeremy Johnson, president
2	Scottsdale Insurance Co. 8877 N. Gainey Center Drive, Scottsdale, Ariz. 85258	Nationwide Mutual Insurance Co.	480-365-4000 www.scottsdaleins.com	\$1,253,440,156	15.3%	\$2,998,529,659	11.7%	(\$2,292,048)	Michael D. Miller, president/COO
3	Steadfast Insurance Co. 1400 American Lane, Schaumburg, Ill. 60196-1056	Zurich Insurance Group Ltd.	847-605-6000 www.zurichna.com	\$1,058,976,202	11.9%	\$1,260,004,197	9.5%	N/A	Nancy D. Mueller, president
4	Chartis Specialty Insurance Co. 175 Water St., 18th Floor, New York, N.Y. 10038	American International Group Inc.	212-770-7000 www.aig.com	\$809,392,168	1.4%	\$1,403,107,006	(0.8%)	\$40,108,425	Robert S. Schimek, chairman
5	Columbia Casualty Co. CNA Center, 333 S. Wabash, Chicago, Ill. 60604	CNA Financial Corp.	312-822-5000 www.cna.com	\$782,097,439	4.2%	\$783,732,399	4.3%	\$7,565,944	Thomas F. Motamed, chairman/CEO/president
6	Landmark American Insurance Co. 945 E. Paces Ferry Road, Suite 1800, Atlanta, Ga. 30326	Alleghany Corp.	404-231-2366 www.rsui.com	\$589,564,231	10.6%	\$605,042,116	11.4%	\$11,317,450	David E. Leonard, chairman/CEO
7	Nautilus Insurance Co. 7233 E. Butherus Drive, Scottsdale, Ariz. 85260	W.R. Berkley Corp.	480-951-0905 www.nautilusgroup.com	\$489,902,728	13.8%	\$701,861,949 ¹	16.3%	\$66,443,984 ¹	Thomas M. Kuzma, president/CEO
8	Westchester Surplus Lines Insurance Co. 436 Walnut St., Philadelphia, Pa. 19106	Ace Ltd.	215-640-1000 www.aceusa.com	\$454,599,457	8.9%	\$454,603,459 ¹	11.0%	\$9,073,096 ¹	John J. Lupica, chairman/president
9	Arch Specialty Insurance Co. 300 Plaza Three, Jersey City, N.J. 07311	Arch Capital Group Ltd.	201-743-4000 www.archinsurance.com	\$448,902,049 ¹	8.8%	\$456,767,823 ¹	7.7%	(\$6,817,356)	David H. McElroy, chairman/CEO
10	Illinois Union Insurance Co. 436 Walnut St., Philadelphia, Pa. 19106	Ace Ltd.	215-640-1000 www.aceusa.com	\$448,009,429 ¹	(5.2%)	\$453,202,149 ¹	(5.2%)	N/A	John J. Lupica, chairman/president

¹ 2012 company statement filed with the National Association of Insurance Commissioners

Source: BI survey. Researched by Angelina Villarreal

HIGHEST COMBINED RATIO

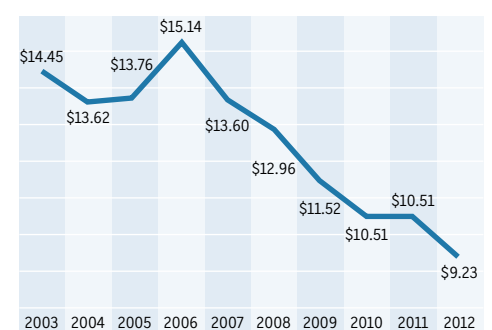
Rank	Company	2012 combined ratio
1	United National Insurance Co.	123.3%
2	Lexington Insurance Co.	121.0%
3	Chartis Specialty Insurance Co.	119.0%
4	Noetic Specialty Insurance Co.	117.0%
5	Penn Patriot Insurance Co.	116.0%

LOWEST COMBINED RATIO

Rank	Company	2012 combined ratio
1	Mount Hawley Insurance Co.	77.0%
2	American Empire Surplus Lines Insurance Co.	78.4%
3	National Fire & Marine Insurance Co.	78.8%
4	General Star Indemnity Co.	80.9%
5	Landmark American Insurance Co.	84.8%

PREMIUMS DECLINE

Nonadmitted direct written premiums of the top 10 surplus lines insurers, in billions of dollars



Source: BI survey and National Association of Insurance Commissioners data



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LARGEST MGAS/UNDERWRITING MANAGERS

Ranked by 2012 wholesale premium volume from property/casualty placements*

Rank	Company, address	Phone, website	2012 premium volume	% change	2012 gross revenue	% change	Percentage of business					Principal officer
							Surplus lines	Underwriting manager	MGA	Wholesale broker	Lloyd's of London coverholder	
1	Risk Placement Services Inc. 2 Pierce Place, 25th Floor, Itasca, Ill. 60143	630-285-4303 www.rpsins.com	\$2,130,000,000	18.3%	\$178,000,000	21.1%	60.0%	0.0%	55.0%	42.0%	3.0%	Dave McGurn, chairman
2	Burns & Wilcox 220 Kaufman Financial Center, 30833 Northwestern Highway, Farmington Hills, Mich. 48334	800-521-1918 www.burnsandwilcox.com	\$850,000,000	18.1%	\$220,000,000	18.9%	70.0%	0.0%	57.0%	33.0%	10.0%	Alan J. Kaufman, chairman president/CEO
3	AmRisc L.P. 20405 State Highway 249, Suite 430, Houston, Texas 77070	281-257-6700 www.amrisc.com	\$745,275,000	25.0%	\$103,400,000	10.0%	65.0%	35.0%	50.0%	0.0%	15.0%	Dan Peed, CEO/president
4	The Schinnerer Group 2 Wisconsin Circle, Chevy Chase, Md. 20815	301-961-9800 www.schinnerer.com	\$684,000,000	2.9%	\$86,200,000	18.2%	5.0%	95.0%	0.0%	5.0%	0.0%	Rob Byler, CEO
5	Appalachian Underwriters Inc. 800 Oak Ridge Turnpike, A-1000, Oak Ridge, Tenn. 37830	888-376-9633 www.appund.com	\$402,000,000	(2.9%)	\$39,200,000	(0.8%)	15.0%	20.0%	75.0%	5.0%	0.0%	Bob Arowood, principal president
6	Gresham & Associates L.L.C. 1 Gresham Landing, Stockbridge, Ga. 30281	770-389-1600 www.gresham-inc.com	\$344,500,000	15.0%	\$35,510,000	11.5%	50.0%	0.0%	45.0%	45.0%	10.0%	James V. Gresham, chairman
7	Markel Midwest Inc. 10 Parkway N., Deerfield, Ill. 60015	847-572-6000 www.markelcorp.com	\$285,896,581	0.0%	\$26,731,028	(21.0%)	88.0%	100.0%	0.0%	0.0%	0.0%	Susan J. Swanson, regional president
8	Program Brokerage Corp. 1065 Ave. of the Americas, New York, N.Y. 10018	866-607-8370 www.programbrokerage.com	\$278,144,802	16.1%	\$26,965,970	10.0%	21.2%	0.0%	70.0%	30.0%	0.0%	Marc Cohen, CEO
9	K&K Insurance Group Inc. 1712 Magnavox Way, Fort Wayne, Ind. 46804	260-459-5000 www.kandkinsurance.com	\$240,322,000	16.3%	\$50,208,000	11.3%	5.0%	0.0%	96.0%	4.0%	0.0%	Todd Bixler, President/CEO
10	The Sullivan Group 800 W. Sixth St., Suite 1800, Los Angeles, Calif. 90017	213-626-1000 www.gjs.com	\$180,918,149	1.4%	\$20,089,069	(6.6%)	33.0%	58.0%	8.0%	34.0%	0.0%	Gerald J. Sullivan, chairman

*Companies that derive more than 50% of their wholesale premium volume from acting as a managing general agent, underwriting manager or Lloyd's of London coverholder

Source: BI survey. Researched by Angelina Villarreal.

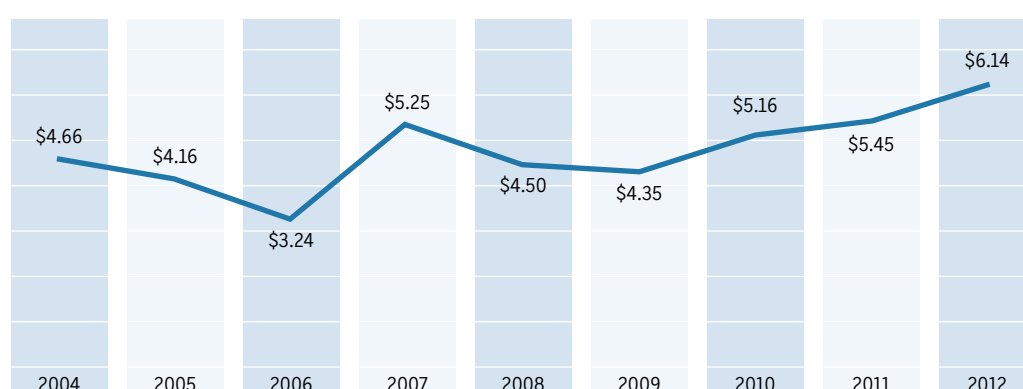
MOST COMMON CLASSES OF BUSINESS PROVIDED

Percentage of MGA/underwriting managers providing coverage

General liability	87%
Commercial property	87%
Professional liability	84%
Commercial auto	84%
Employment practices	84%
Directors and officers	84%

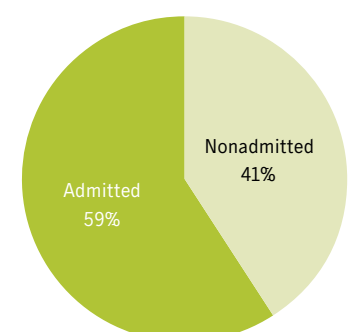
PREMIUM VOLUME

Written premiums of the top 10 MGAs/underwriting managers, in billions of dollars



ADMITTED VS. NONADMITTED

Business performed by all MGA/underwriting managers



MARKET

Continued from page 15

There are areas where rates should be higher based on experience, and they have not gone up," he said.

"The general conditions are improving for the E&S market," which has been the case for at least two years, said Randall G. Goss, chairman and CEO of Dallas-based wholesaler U.S. Risk Insurance Group Inc. "We're on an upward trajectory, albeit it's relatively mild in the sense that the kinds of improvements that I'm seeing are definitely mid- to low-single-digit improvements."

Linc Trimble, Jersey City, N.J.-based executive vice president of e-commerce at Torus Insurance Holdings Ltd., which focuses on small commercial umbrella business said: "We're still seeing strong, single-digit rate increases to go along with exposure increases, which we're very happy to see because that points to an improving economy overall."

In June, Ace Ltd. announced the establishment of a new special casualty division within Ace Westchester that will feature a wide array of primary and excess casualty products made available through wholesale and retail brokerage distribution.

In July, Ace said it was increasing its catastrophe limits from \$20 million to \$30 million across all its North American retail and wholesale broker-distributed commercial property lines of business.

"We are seeing an improving pricing environment in both property and casualty, which is one of the reasons we're putting more resources into the business right now," said Bruce Kessler, Alpharetta, Ga.-based division president of Ace Westchester, Ace USA's E&S business.

Observers say an improved economy is helping lead to improved results.

Enrico Leo, vice president at rating agency Moody's Investors Service Inc. in New York, said there has been a gradual economic recovery, which has helped top-line growth, although it has been "very steady" rather than dramatic in the E&S sector.

"The economy in the United States is still in recovery mode," and some segments are "very slowly recovering, so consequently the need for insurance has not been really accelerated," Burns & Wilcox's Mr. Kaufman said.

At the same time, many standard line companies that had been writing E&S business "have receded somewhat" because of poor experience, which has left more business to the E&S market, Mr. Kaufman said. "As a result, our policy count has greatly accelerated."

Capacity remains plentiful, observers say.

"There's still a ton of capacity out there, and with that capacity, you

still are going to have rates that are not reflective in many cases, of where they should be," Mr. Kaufman said.

There are some rate increases and in some cases more restrictive coverage, however, "there's still enough capacity to handle any risk," said Mr. Cavallaro of ARC Excess.

Generally speaking, the market "remains fairly soft," said Timothy W. Turner, Chicago-based president and CEO of R-T Specialty L.L.C., a division of the Ryan Specialty Group L.L.C.

"There's lots of capacity in most lines of business," Mr. Turner said.

Surplus lines market foresees growth

Observers say the outlook for demand for excess and surplus lines coverage is positive. Alan J. Kaufman, chairman, president and CEO of Farmington Hills, Mich.-based Burns & Wilcox Ltd., said, "If everything continues as it is now, I think we would possibly have a very good 2014 as well."

Timothy W. Turner, Chicago-based president and CEO of R-T Specialty L.L.C., a division of the Ryan Specialty Group

L.L.C., said the outlook for the market is "very strong, very bullish. Despite a soft market, the nonadmitted business in the U.S. is at a record high, and those numbers are really occurring at the bottom of a soft market."

Mr. Turner said an improving economy has helped, particularly in construction and transportation. New housing construction, for instance, is at a 10-year high.

"I think it's had a very positive effect" on the specialty market, Mr. Turner said.

Christopher J. Cavallaro, managing director at Jericho, N.Y.-based wholesaler ARC Excess & Surplus L.L.C., said time will tell, however, as to whether "there will be an intelligent approach to underwriting and brokering" or whether business will be written indiscriminately.

By Judy Greenwald

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LARGEST PROPERTY/CASUALTY INSURANCE WHOLESALERS

Ranked by 2012 wholesale premium volume from property/casualty placements*

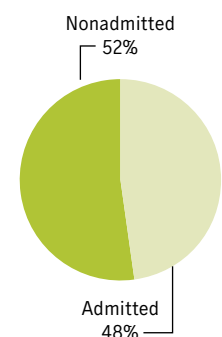
Rank	Company/address	2012 premium volume	% change	2012 gross revenue	% change	Percentage of total business					Principal officer
						Surplus lines	Underwriting manager	Wholesale broker	MGA	Lloyd's of London coverholder	
1	AmWINS Group Inc. 4725 Piedmont Row Drive Suite 600 Charlotte, N.C. 28210	\$6,665,177,194	26.4%	\$581,300,000	20.9%	66.0%	0.0%	80.0%	15.0%	5.0%	M. Steven DeCarlo, CEO
2	CRC Crump Insurance Services 1 Metroplex Drive, Suite 400 Birmingham, Ala. 35209	\$4,528,249,000	13.0%	\$611,684,000	6.9%	30.0%	3.0%	80.0%	14.0%	3.0%	Thomas J. Curtin, CEO
3	Cooper Gay Swett & Crawford 3350 Riverwood Parkway SE Suite 1100 Atlanta, Ga. 30339	\$4,300,000,000	7.5% ¹	\$347,000,000	2.9% ¹	55.0%	0.0%	75.0%	15.0%	10.0%	Toby Esser, CEO
4	Ryan Specialty Group L.L.C. 200 E. Randolph St. 20th Floor Chicago, Ill. 60601	\$2,376,531,000	70.5%	\$210,823,000	81.7%	0.0%	0.0%	77.0%	22.0%	1.0%	Patrick Ryan, chairman/CEO
5	All Risks Ltd. 10150 York Road, Fifth Floor Hunt Valley, Md. 21030	\$837,000,000	21.8%	\$77,500,000	18.3%	67.0%	5.0%	55.0%	35.0%	5.0%	Nicholas Cortezi, CEO
6	ARC Excess & Surplus L.L.C. 113 S. Service Road Jericho, N.Y. 11753	\$550,000,000	21.1%	\$45,000,000	7.1%	25.0%	5.0%	88.0%	5.0%	2.0%	Christopher J. Cavallaro, CEO
7	Westrope 1100 Walnut St., Suite 3200 Kansas City, Mo. 64106	\$528,770,600	18.4%	\$37,806,000	14.8%	56.0%	0.0%	91.0%	8.0%	1.0%	Kevin T. Westrope, president/CEO
8	Partners Specialty Group L.L.C. 100 Tournament Drive, Suite 214 Horsham, Pa. 19044	\$400,000,000	15.3%	\$30,315,000	9.8%	69.0%	0.0%	98.0%	1.0%	1.0%	Daniel P. McDonnell, chairman
8	U.S. Risk Insurance Group Inc. 8401 N. Central Expressway Suite 1000 Dallas, Texas 75225	\$400,000,000	9.3%	\$49,406,000	(5.3%)	90.0%	0.0%	69.1%	23.4%	7.5%	Randall G. Goss, chairman/CEO
10	Bliss & Glennon Inc. 435 N. Pacific Coast Hwy. Suite 200 Redondo Beach, Calif. 90277	\$229,000,000	4.7%	\$26,943,000	12.3%	90.0%	0.0%	60.0%	35.0%	5.0%	Corinne Jones, COO

* Companies deriving more than 50% of their premium volume from wholesale brokerage

¹ Restated 2011 premium volume and gross revenue

ADMITTED VS. NONADMITTED

Business performed by wholesale brokers



LARGEST WHOLESALE BROKERS

Ranked by 2012 wholesale premium volume including employee benefits and property/casualty

Rank	Company	Total premium volume
1	CRC Crump Insurance Services	\$8,996,095,000
2	AmWINS Group Inc.	\$8,675,309,999
3	Cooper Gay Swett & Crawford Ltd.	\$4,300,000,000
4	Ryan Specialty Group L.L.C.	\$2,392,795,000
5	Risk Placement Services Inc.	\$2,130,000,000
6	Burns & Wilcox Ltd.	\$850,000,000
7	All Risks Ltd.	\$837,000,000
8	AmRisc L.P.	\$745,275,000
9	The Schinnerer Group	\$684,000,000
10	U.S. Risk Insurance Group Inc.	\$595,000,000

Source: BI survey

PREMIUM VOLUME

Written premiums of the top 10 wholesale brokers, in billions of dollars



¹ Restated
Source: BI survey

MOST COMMON CLASSES OF BUSINESS PROVIDED

Percentage of wholesale brokers providing coverage

General liability	92%
Umbrella/excess	88%
Inland marine	84%
Employment practices	80%
Commercial auto	80%
Commercial property	76%
Product liability	76%
Directors and officers	76%



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It's fun to look back. And yes, these are actual photos of our corporate family – past and present. CRC and Crump came together to form the CRC Wholesale Group, which today operates eight brands. This provides our market partners the broadest, most efficient platform to find the right risks, and our retail partners more options for their insureds.



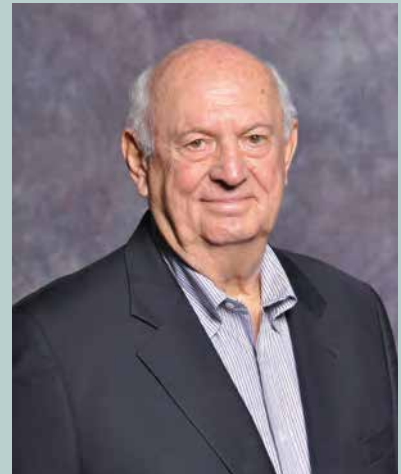
CRC | CRCICRUMP | SOUTHERN CROSS | 5STAR | HANLEIGH | NEGLEY | TAPCO | TARGET

CRC Wholesale Group honors the memory of

◀ **ORVILLE D. JONES** ▶
 1934 – 2013

Orville started his insurance career in 1961. He served as Chairman and CEO of Crump and later became a senior executive at CRC. Orville loved the E&S industry and gave back to it, serving as NAPSLO President and as an original member of the NAPSLO Education Committee.

We will all miss our dear friend, colleague, and mentor.



SURPLUS LINES PREMIUMS AND TAXES BY STATE

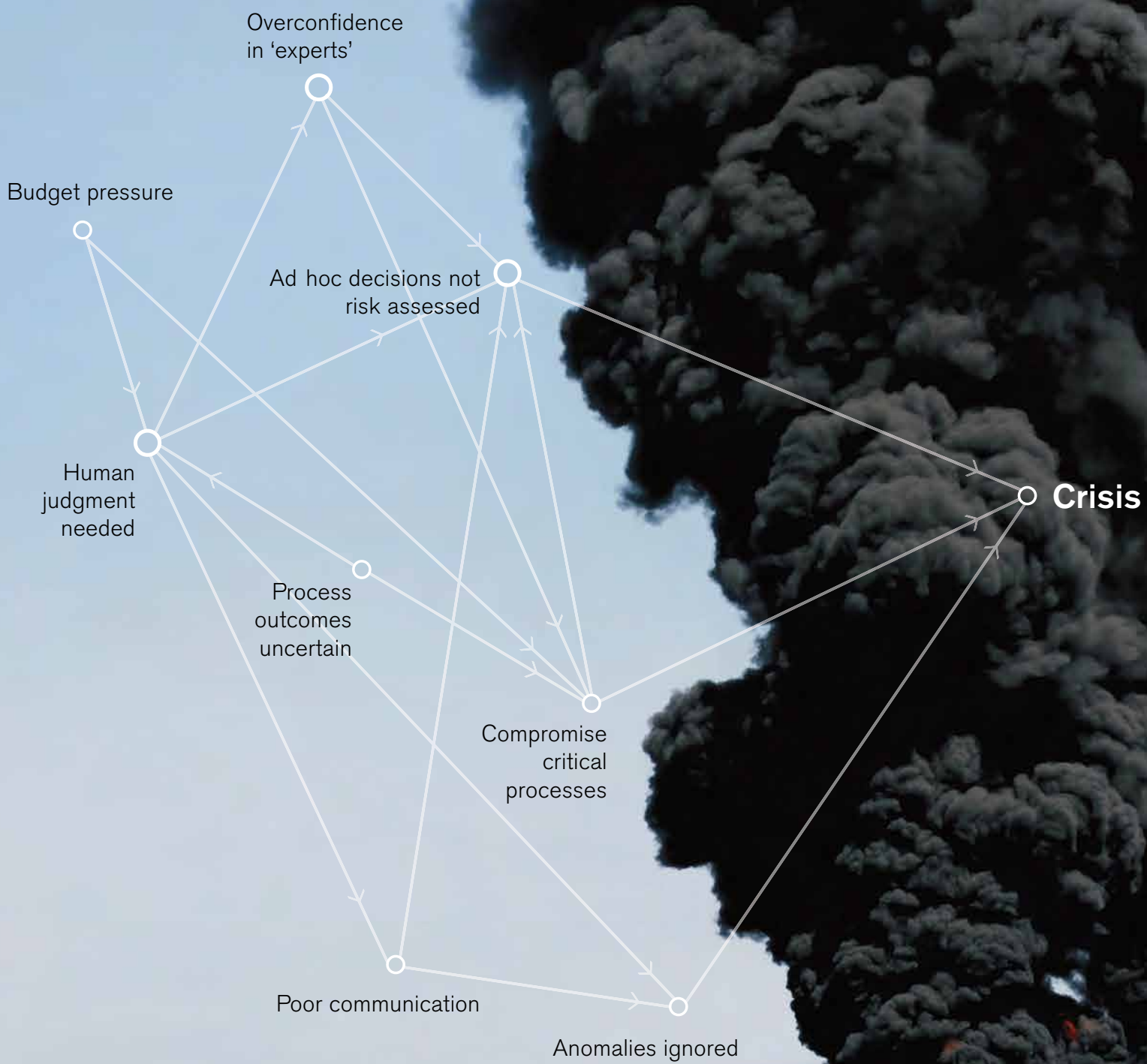
State	Gross surplus lines premiums written				Surplus lines taxes collected			
	2012	2011	2010	% increase (decrease) 2012-2011	2012	2011	2010	2012 tax rate
Alabama	\$452,059,666	\$477,707,650	\$413,137,083	(5.4%)	\$29,123,580	\$28,662,459	\$24,788,225	6.0%
Alaska	\$107,510,889	\$118,723,951	\$110,355,905	(9.4%)	\$2,343,505	\$2,639,285	\$2,529,131	2.7%
Arizona	\$339,756,101	\$364,782,188	\$345,276,334	(6.9%)	\$10,029,419	\$11,413,752	\$10,934,169	3.0%
Arkansas	\$193,610,300	\$184,099,000	\$190,640,000	5.2%	\$7,744,412	\$7,363,961	\$7,625,600	4.0%
California	\$5,057,111,503	\$4,998,686,446	\$4,281,088,592	1.2%	\$138,525,150	\$133,493,424	\$113,567,663	3.0%
Colorado	\$465,484,113	\$455,822,138	\$460,076,335	2.1%	\$14,131,399	\$13,370,310	\$13,802,290	3.0%
Connecticut	\$453,831,433	\$320,182,481	\$320,182,481	41.7%	\$17,210,878	\$12,130,109	\$11,218,747	4.0%
Delaware	\$51,903,248	\$47,087,633	\$61,452,694	10.2%	\$1,030,067	\$941,753	\$1,225,058	2.0%
District of Columbia	\$171,494,450	\$213,460,100	\$161,903,220	(19.7%)	\$3,429,889	\$4,269,202	\$3,238,064	2.0%
Florida	\$4,204,711,182	\$3,730,727,071	\$3,838,254,010	12.7%	\$173,643,016	\$165,398,982	\$175,425,869	5.0%
Georgia	\$802,510,250	\$775,730,100	\$725,432,250	3.5%	\$32,100,410	\$31,029,204	\$29,017,289	4.0%
Hawaii	\$184,565,593	\$204,416,094	\$220,623,558 ¹	(9.7%)	\$8,723,746	\$9,549,602	\$10,375,697	4.7%
Idaho	\$60,246,298	\$61,251,476	\$64,188,352	(1.6%)	\$906,322	\$915,065	\$997,120	1.5%
Illinois	\$1,075,395,669	\$1,004,600,363	\$1,026,856,572	7.0%	\$1,075,395,669	\$35,164,581	\$33,384,215	3.5%
Indiana	\$391,383,958	\$368,310,377	\$366,517,160	6.3%	\$9,784,599	\$9,207,759	\$9,162,929	2.5%
Iowa	\$210,264,780	\$166,367,311	\$150,313,739	26.4%	\$2,102,648	\$1,663,673	\$1,503,137	1.0%
Kansas	\$169,474,779	\$160,113,057	\$151,191,030	5.8%	\$10,065,927	\$9,562,627	\$9,071,462	6.0%
Kentucky	\$142,979,569	\$154,065,744	\$158,095,118	(7.2%)	\$4,362,669	\$4,695,297	\$4,405,860	3.0%
Louisiana	\$1,277,157,084	\$1,255,578,355	\$1,279,435,677	1.7%	\$64,005,545	\$62,609,510	\$63,971,459	5.0%
Maine	\$70,104,055	\$62,228,516	\$63,103,816 ²	12.7%	\$1,944,071	\$1,733,452	\$1,763,459 ³	3.0%
Maryland	\$387,140,439	\$360,852,597	\$331,192,177	7.3%	\$11,112,245	\$10,825,578	\$9,935,765	3.0%
Massachusetts	\$659,292,665	\$633,781,165	\$622,576,217	4.0%	\$24,563,942	\$23,326,882	\$23,303,366	4.0%
Michigan	\$548,844,851	\$544,422,366	\$567,374,219	0.8%	\$13,750,924	\$13,549,829	\$14,052,263	2.5%
Minnesota	\$356,373,798	\$281,473,171	\$292,335,179	26.6%	\$10,691,214	\$8,444,195	\$9,155,983	3.0%
Mississippi	\$307,153,378	\$326,092,318	\$351,940,243	(5.8%)	\$12,051,485	\$13,042,592	\$14,078,306	4.0%
Missouri	\$540,789,302	\$468,567,116	\$440,728,528	15.4%	\$25,986,374	\$22,878,945	\$21,840,343	5.0%
Montana	\$70,132,977	\$60,180,432	\$64,773,666	16.5%	\$1,913,282	\$1,643,543	\$2,089,596	2.8%
Nebraska	\$132,457,543	\$115,635,238	\$108,028,287	14.5%	\$4,042,079	\$3,608,810	\$3,357,161	3.0%
Nevada	\$232,018,886	\$200,073,340	\$207,197,193	16.0%	\$8,123,072	\$7,002,605	\$7,251,518	3.5%
New Hampshire	\$75,448,127	\$63,185,952	\$57,256,980	19.4%	\$2,394,630	\$1,899,798	\$1,521,790	3.0%
New Jersey	\$1,250,000,000 ³	\$1,096,107,216	\$1,126,682,343	14.0%	\$60,000,000 ³	\$52,716,610	\$50,072,658	5.0%
New Mexico	\$9,908,482 ²	\$8,926,561	\$7,892,091	11.0%	\$2,975,5172	\$2,972,548	\$2,628,069	3.0%
New York	\$2,625,552,790 ⁴	\$2,883,087,795 ⁴	\$3,086,813,224	(8.9%)	\$79,754,316	\$88,771,420	\$72,555,433	3.6%
North Carolina	\$575,752,710	\$480,208,218	\$501,925,648	19.9%	\$28,806,582	\$24,009,588	\$25,137,190	5.0%
North Dakota	\$84,321,385	\$58,747,972	\$55,897,871	43.5%	\$1,571,680	\$1,045,251	\$978,922	1.8%
Ohio	\$648,654,915	\$563,806,553	\$527,341,315	15.0%	\$32,317,822	\$29,989,447	\$26,123,193	5.0%
Oklahoma	\$282,513,307	\$244,566,108	\$226,153,557	15.5%	\$24,195,701	\$18,915,136	\$19,307,008	6.0%
Oregon	\$226,250,427	\$233,825,874	\$234,676,582	(3.2%)	\$5,202,310	\$4,772,703	\$4,772,881	2.3% ⁵
Pennsylvania	\$956,707,803 ⁶	\$870,444,911	\$832,833,859 ²	9.9%	\$28,350,000 ⁶	\$25,980,000	\$25,689,664 ²	3.0%
Rhode Island	\$21,326,804	\$22,215,421 ²	\$27,769,277	(4.0%)	\$851,152	\$888,617 ²	\$952,090	4.0%
South Carolina	\$463,378,708	\$480,427,307	\$496,714,019	(3.5%)	\$18,535,148	\$19,217,092	\$19,868,593	6.0% ⁷
South Dakota	\$41,665,130	\$40,561,937	\$40,240,429	2.7%	\$1,041,628	\$1,014,048	\$1,006,011	2.5%
Tennessee	\$510,078,956	\$419,425,973	\$335,254,306	21.6%	\$18,525,318	\$10,792,610	\$12,046,883	5.0%
Texas	\$4,339,279,902	\$4,220,187,772	\$4,342,933,747	2.8%	\$197,250,076	\$159,161,015	\$160,957,958	4.9%
Utah	\$170,342,201	\$162,395,834	\$148,683,769	4.9%	\$6,898,573	\$5,206,191	\$6,020,354	4.3%
Vermont	\$49,752,697	\$52,539,000	\$45,116,000	(5.3%)	\$10,426,603	\$1,037,000	\$938,084	3.0%
Virginia	\$605,420,616	\$525,538,320	\$516,683,782 ^{1,2}	15.2%	\$13,624,275	\$11,974,967	\$12,226,523 ^{1,2}	2.3%
Washington	\$708,573,827	\$592,322,031	\$530,160,391	19.6%	\$14,171,472	\$11,846,437	\$10,603,222	2.0%
West Virginia	\$82,294,726	\$103,837,169	\$115,632,628	(20.7%)	\$3,558,826	\$4,484,768	\$4,484,831	4.6%
Wisconsin	\$268,162,001	\$226,720,192	\$261,013,953	18.3%	\$8,044,860	\$6,817,157	\$7,816,339	3.0%
Wyoming	\$60,185,086	\$63,747,982	\$66,255,335	(5.6%)	\$1,805,553	\$1,833,389	\$1,816,729	3.0%
Total	\$28,329,160,284	\$28,622,540,676	\$29,324,955,726	0.0	\$2,187,814,063	\$1,134,592,161	\$1,060,916,523	

1 Net surplus premiums written. 2 BI estimate. 3 New Jersey Division of Insurance estimate. 4 Adjusted to remove late-filed premiums. 5 Tax rate changed to include 2.3% on all premiums with 0.3% designated for the State Fire Marshal's office. 6 Pennsylvania Insurance Department estimate. 7 Rate comprised of 4% state brokers premium tax and 2% municipal broker premium tax; state retains only the state portion

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WHOLESALEERS EXPECT MORE GROWTH OPPORTUNITIES DESPITE CROWDED FIELD OF COMPETITORS

Fragmented market leaves room for brokers of different sizes

BY JUDY GREENWALD

Property/casualty insurance wholesalers are beginning to enjoy the benefits of an improving economy, while investor interest in the business segment continues, observers say.

The business remains highly competitive, say observers, who describe the market as highly fragmented, with growth opportunities for everyone.

Meanwhile, many expect continued consolidation in the sector (see related story, below).

Jeremy Johnson, president and CEO of Boston-based Lexington Insurance Co., a unit of American International Group Inc., said, "We've certainly seen some pretty significant consolidation over

the last decades as many regional wholesalers have moved to a national model" and several have introduced needed international capabilities.

"I would continue to see a focus on specialty, and the development of expertise in areas of risk that requires a high level of specialty, and I would expect the whole market to continue to see growth over the coming years, as the need for both capacity and expertise continues," Mr. Johnson said.

Julie Herman, associate director for rating agency Standard & Poor's Corp. in New York, said market conditions for wholesalers are improving as a result of higher rates and a movement from standard to excess and surplus lines of business. "It's very case-

specific," she said. But "the general trend in terms of impact on wholesalers is favorable right now," said Ms. Herman.

"It's clearly competitive among the wholesaler community," said Ronald S. Austin, chief operating officer of Los Angeles-based wholesaler Worldwide Facilities Inc.

"Even in light of the fact there's been consolidation in the brokerage community, it still is an extraordinarily competitive field between brokers," said Linc Trimble, Jersey City, N.J.-based executive vice president for e-commerce at Torus Insurance Holdings Ltd., which focuses on small commercial umbrella business.

Matt Nichols, president of Hunt Valley, Md.-based All Risks Ltd.



and president of the Kansas City, Mo.-based National Association of Professional Surplus Lines Offices Inc., said while there is certainly competition going on, "because of the increase in business flowing to the wholesale marketplace, there's more business available, so I think there is opportunity for anybody who's doing their job particularly well to grow their business right now."

At All Risks, for instance, rev-

enues will increase about 25% to 30% this year, Mr. Nichols said. "It's been a solid year," with all 27 of its units showing growth, he said. "The wholesale market continues to attract great talent. I think we continue to do a fairly effective job within our world of training people and keeping them within our industry," he said.

"It's certainly a time when a wholesaler has the opportunity to prosper, because there's an awful lot of business coming in our direction," he said.

"There's very limited market share even among the higher-end players because it's such a fragmented market," with many local and regional wholesalers having "long-standing relationships and expertise that they bring to the table," said Ms. Herman.

"There's still plenty of competition," said Maureen Caviston, Stamford, Conn.-based president and chief operating officer of wholesaler Partners Specialty Group L.L.C. Smaller wholesalers "can certainly have a good business if they operate more reasonably locally," even if they cannot present themselves as having 50 state licenses "and everything that goes with that," she said.

Randall G. Goss, chairman and CEO of Dallas-based wholesaler U.S. Risk Insurance Group Inc., said that with consolidation, "there will actually be opportunities for some of the smaller brokers to compete for some of that business."

"Even though the major brokers may be very, very strong and may be controlling certain sectors of the market, I think there's robust competition for business in the medium- to small-market area," he said.

Christopher J. Cavallaro, managing director at Jericho, N.Y.-based wholesaler ARC Excess & Surplus L.L.C., said, "It's competitive, but our business is all about service, all about access to market and all about added value. If you add value, you'll be fine. If you don't add value, then, candidly, you won't be fine."

With rates increasing, new business starting up "and the economy teetering on the side of improvement," there is "clearly opportunity for people to participate," said Mr. Nichols.

Consolidation expected to continue

Deals involving wholesalers in the excess and surplus lines market are expected to continue, say observers.

Examples include the \$570 million acquisition of Roseland, N.J.-based Crump Group Inc. by Winston Salem, N.C.-based BB&T Insurance Services Inc. in 2012, which resulted in the April merger of Crump Insurance Services Inc. into CRC Insurance Services Inc.

More consolidation is expected, say observers. James Drinkwater, property/casualty brokerage division president of AmWINS Group Inc. in New York, said consolidation will continue. "Obviously, retail clients view scale as an important factor when considering the wholesale distribution channel," he said.

"I do think it's becoming increasingly apparent that size can make a difference, in that not only do you just get critical mass, but the resources that you're able to bring to your customers," said Ronald S. Austin, chief operating officer of wholesaler Los Angeles-based Worldwide Facilities Inc.

Alan J. Kaufman, chairman, president and CEO of Farmington Hills, Mich.-based Burns & Wilcox Ltd., said there will be further consolidation in the market "because of the financial strength that's needed to compete and to continue to reinvest in the company."

Mr. Kaufman said, "If you do not have scale, it's going to be difficult to continue to do business, and the insurance companies understandably have concerns about their cost of operations, and they are mindful" of the number of distributors with whom they can do business.

Timothy W. Turner, Chicago-based president and CEO of R-T Specialty L.L.C., a division of Ryan Specialty Group L.L.C., said there will continue to be

more consolidation with "larger, more sophisticated platforms."

Private equity also may continue to be a factor in the market. Last year, there was a definitive agreement by Charlotte, N.C.-based AmWINS Group Inc. for a \$1.3 billion recapitalization with New York-based private equity firm New Mountain Capital L.L.C., which acquired a 70% interest in the wholesale brokerage. AmWINS already was ranked as the No. 1 wholesale brokerage by *Business Insurance*, and retains that position with \$6.67 billion in 2012 premium volume.

Mr. Drinkwater said he anticipates continued interest by private equity firms in the wholesale market. "Private equity companies obviously like this space on both the wholesale side and the retail side," he said.

"Private equity appears to continue to be interested in our space," said Mr. Austin. "It says good things about the business," he added.

Standard & Poor's Corp. director Polina Chernyak said, "Private equity is very much interested" in wholesalers because of the margins the business can generate.

Deals will continue in the insurer, wholesale and retail side of the business, said Matt Nichols, president of Hunt Valley, Md.-based All Risks Ltd. and president of the Kansas city, Mo.-based National Association of Professional Surplus Lines Offices Inc.

"We all expect that to continue. There's an awful lot of deals being looked at here, although it has to be 'wait and see' as to whether they will be ultimately consummated," he said. "We'll continue to see some of the larger independents out there combine with other entities," Mr. Nicholas said, adding that his firm will continue to remain independent.

By Judy Greenwald

"Private equity appears to continue to be interested in our space. It says good things about the business."

Alan J. Kaufman,
Burns & Wilcox Ltd.

Stamping offices report higher premium volume, but increase may be temporary

BY LOUISE ESOLA

The latest round of data from the 14 U.S. surplus lines stamping offices looks as if it shows signs of a hardening market, but industry leaders say it is too soon to tell and that high-volume individual filings could be the cause of temporary, high increases in premiums.

“Here we are seeing some increases 20%-plus in some states, but filings not so much,” said Phil Ballinger, executive director of the Austin, Texas-based Surplus Lines Stamping Office of Texas, which compiles data collected from all 14 U.S. stamping offices. “There are small increases, but not enough. This is not the indication of a true hard market.”

Twice a year, the 14 stamping offices collect and examine surplus lines filings to ensure compliance with state laws and regulations. They also ensure that surplus lines taxes and stamping fees are properly calculated and collected. The data can show whether the admitted market is hardening, pushing more policies into the surplus lines, or conversely.

Overall, premiums processed by the U.S. stamping offices through June 2013 totaled \$11.4 billion, an increase of 21.2% compared with the first half of 2012. Filings also increased, though slightly: 4.1% to approximately 1.6 million.

Experts say one trend that could explain the increase in premiums but not in filings is a relatively new regulation under the Dodd-Frank Wall Street Reform and Consumer Protection Act. As part of the Non-admitted and Reinsurance Reform Act, companies with multistate offices are required to pay premium tax in the states where they are headquartered — a factor that caused increases in many larger states in 2012 and likewise in 2013.

But there’s more behind the numbers, Mr. Ballinger said. Figures from New York state — 85.4% increase in premiums and 5.1% increase in filings so far this year — have skewed the data slightly because that region is a free trade zone, where policies that in other states would go to the admitted insurance market tend to hit the surplus lines sector, he said.

One example, he said, are construction policies.

“Take New York out, and you have a 15% increase in premium (for the remaining 13 stamping offices), and that’s more meaningful,” he said.

Dan Maher, New York-based executive director of the Excess Line Association of New York, said New York’s figures also are the result of the higher-amount, multiyear filings that tend to occur there. For example, he said, excess and surplus premiums can be substantially affected by large projects such as the rebuilding of the World Trade Center in New York City. Such projects are

booked and filed in the year written, not in annual premium installments, according to Mr. Maher. Additionally, premiums and return premiums filed more than a year late have caused significant fluctuations, particularly in 2011 and 2012.

Construction in particular always has been a tight market, and rebuilding after Superstorm Sandy has contributed to the increase in New York, Mr. Maher said. Additionally, New York is seeing a hardening market in its coastal areas, mostly due to recent

hurricane models, he said. “The new models are changing how much capacity a carrier would put in a coastal area,” he said.

Mr. Ballinger said states such as Florida and Texas likely would always see increases in premiums filed due to the catastrophe risk. Florida’s increase in 2013 — up 10.2% to \$2.6 billion from \$2.4 billion in 2012 — is mild compared with Texas, which saw a 23.8% increase to \$2.4 billion from \$1.9 billion, he said.

“These are clearly related to” catastrophes, Mr. Ballinger said.

“In Florida, what goes admitted in many states goes to the surplus lines.”

Another state that saw a massive increase in premiums filed is Idaho, whose financials shot up 63.5% to \$39.9 million in 2013 from \$24.4 million in 2012.

However, Wendy Tippetts, Boise, Idaho-based manager of the Surplus Line Association of Idaho Inc., said that despite the drastic increase, filings are relatively flat with a small jump of 3.4%.

Mr. Ballinger added that Idaho’s numbers are low relative to figures

from higher-volume offices such as that in Texas, Florida and California, where premiums filed almost always hit the billions. “Some of the big increases are coming from the tiny states,” he said.

Similar to Idaho, small offices such as those in Pennsylvania, Oregon and Minnesota saw premium increases ranging between 19.9% and 26.7%.

Not all states are registering increases, however. Washington saw the largest decrease, with a 9.9% decrease to \$303.5 million in 2013.

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NAIC PUSHES AHEAD WITH TAX-SHARING MODEL WHILE NAPSLO READY TO ABANDON SLIMPACT

Few states join national surplus lines clearinghouses

BY ROSEANNE WHITE GEISEL

The establishment of a single national clearinghouse to collect surplus lines premium taxes and allocate them among the states has not garnered a groundswell of support. But backers of one of the two models remain committed to the concept.

The National Association of Professional Surplus Lines Offices Ltd. wants to abandon the effort and let the policyholder's home state collect and retain all surplus lines premium taxes.

On the other side, however, the National Association of Insurance Commissioners' Surplus Lines Task Force stands behind a national clearinghouse as the most accurate and fair way to handle premium taxes.

"We disagree with home state wholeheartedly," said Merle Scheiber, South Dakota's insurance director and chairman of Non-Admitted Insurance Multi-State Association Inc., the nonprofit organization formed under the Nonadmitted Insurance Multi-State Agreement.

NIMA, based in Tallahassee, Fla., uses the Florida Department of Insurance's Surplus Lines Clearinghouse to collect and distribute surplus lines premium taxes. NIMA members are Florida, Louisiana, South Dakota, Utah, Wyoming and Puerto Rico. The NIMA agreement does not require a minimum number of members for operation.

To increase its roster, NIMA is offering an associate membership, a 12-month trial under which non-NIMA states can use the clearinghouse services for free to determine their benefit to them. Those members will report policy information and receive quarterly reports on the amount of taxable premium that could have been allocated to their state, but will not receive their portion of the tax revenue.

However, Brady Kelley, executive director of NAPSLO, said, "We see no need for any national clearinghouse or tax-sharing function."

Initially, NAPSLO was among many industry representatives collaborating on the development of the Surplus Lines Insurance Multi-State Compliance Compact to collect and distribute premium taxes.

The nine SLIMPACT members are Alabama, Indiana, Kansas, Kentucky, New Mexico, North Dakota, Rhode Island, Tennessee and Vermont. The compact requires 10 members to begin operation.

The impetus for SLIMPACT and NIMA was the Nonadmitted and Reinsurance Reform Act, part of the Dodd-Frank Wall Street Reform and Consumer Protection Act passed in 2010.

NRRA's purpose is to bring nationwide uniformity and efficiency to surplus lines insurance regulation and taxation. The NRRA provides for a uniform standard of home state taxation of surplus lines premium, and made it optional for states to allocate premiums to other states where risks covered under the policy are located.

Prior to NRRA, many associations were seeking a national approach to surplus lines tax sharing,

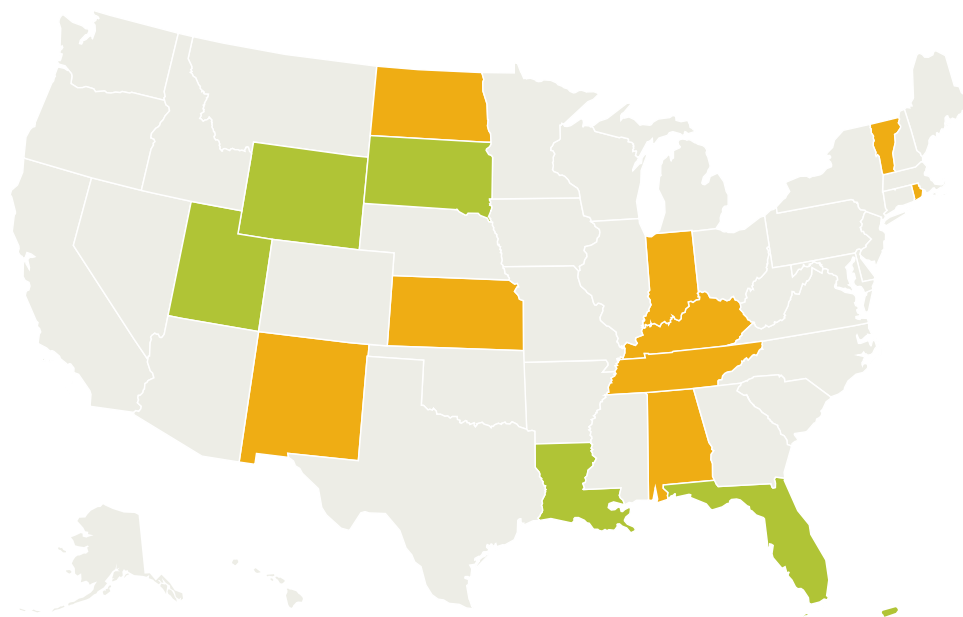
"We disagree with home state wholeheartedly."

Merle Scheiber,
Non-Admitted
Insurance
Multi-State
Association Inc.

"We see no need for any national clearinghouse or tax-sharing function."

Brady Kelley,
National Association of
Professional Surplus
Lines Offices Ltd.

CONTRASTING MODELS



■ Nonadmitted Insurance Multi-State Agreement members: Florida, Louisiana, South Dakota, Utah, Wyoming, Puerto Rico

■ Surplus Lines Insurance Multi-State Compliance Compact signers: Alabama, Indiana, Kansas, Kentucky, New Mexico, North Dakota, Rhode Island, Tennessee, Vermont

Mr. Kelley said. Many industry insiders believed "that a national solution seemed to make sense," he said, thinking that "a national scheme would never work unless a tax-sharing solution was a part of that."

But NAPSLO's perspective has changed. In an August letter to insurance commissioners signed by Mr. Kelley and Keri Kish, NAPSLO's director of government relations, NAPSLO said its analysis of a Florida Office of Insurance Regulations December 2011 report suggests that "the costs of building and administering the tax-sharing clearinghouse far exceeded any apparent benefit of tax sharing to the states." That perspective has been upheld by data since published by NIMA, the letter indicates.

"Net taxes are very small, and it still takes time and effort and a filing fee to support the process of tax sharing," Mr. Kelley said.

NIMA in July announced that from July 1, 2012, to July 1, 2013, more than \$531 million in multi-state surplus lines premium, in which one of the NIMA members was the home state, were reported to the clearinghouse. Of that, \$281 million was directly allocated to the six participating members of NIMA. "The clearinghouse collected more than \$24.9 million in total taxes on this reported premium," according to a statement.

Tiffany Maruniak, product and business development manager for the Florida Surplus Lines Office and clearinghouse manager, said that 70%

of the taxes was allocated to NIMA states.

Ms. Maruniak said that more than \$100 million in premiums was reported to the clearinghouse between June 30 and Sept. 3, and states billed more than \$5 million in premium taxes during that time.

Home state taxation is supported by 46 states that generate 80% of surplus lines premium, NAPSLO's Mr. Kelley said. That approach "seems to be working very well," he said.

In the approximately five months since NIMA introduced the associate membership option, Mr. Scheiber said one state has confirmed its intent to take that option, though it has not yet been publicly announced. Two or three other states have expressed a strong interest, and many others have expressed some interest, he said.

California and other states already have licensed the premium-reporting software that the clearinghouse uses, so it would be very easy for them to become members, he said.

Mr. Scheiber said he hopes that one year from now, NIMA will have 10 members, the minimum required to keep the compact going.

NAPSLO's Mr. Kelley said the organization wants to focus on uniformity of filing dates and filing forms, and uniform implementation of insurer eligibility standards.

"If we had known then what we know now, we never would have worked toward a tax-sharing solution," Mr. Kelley said.



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Global programs must match expectations

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Reputational risks require consistent management

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FACTORY COLLAPSE OPENS EYES

Retailers takes steps to reduce supply chain, reputation risks after Bangladesh tragedy

BY RODD ZOLKOS

In the months since the collapse of the Rana Plaza factory building in Bangladesh, groups of apparel retailers in Europe and North America who sold products manufactured in the facility took somewhat different approaches in pacts intended to improve safety in Bangladeshi factories, though both plans can prove beneficial, supply chain experts say.

A flaw in both plans, however, is their focus solely on Bangladesh rather than including some of the other low-wage countries from which those companies source products, according to some of those same experts.

The April factory collapse killed 1,129 and led to reports of similar poor conditions at other Bangladeshi factories, prompting the retailers' response. The results were the Accord on Fire and Building Safety in Bangladesh, which had drawn a mostly European group of 85 companies as signatories as of late August, and the Alliance for Bangladesh Worker Safety, to which 17 North American retailers signed on.

The U.S. retailers' reluctance to join the European pact stemmed from the European accord's dispute resolution provision, which provides that disputes between parties under the agreement would be presented to a steering committee and that decisions of the steering committee could be appealed to a binding arbitration process, with arbitration awards enforceable in the signatory's domicile.

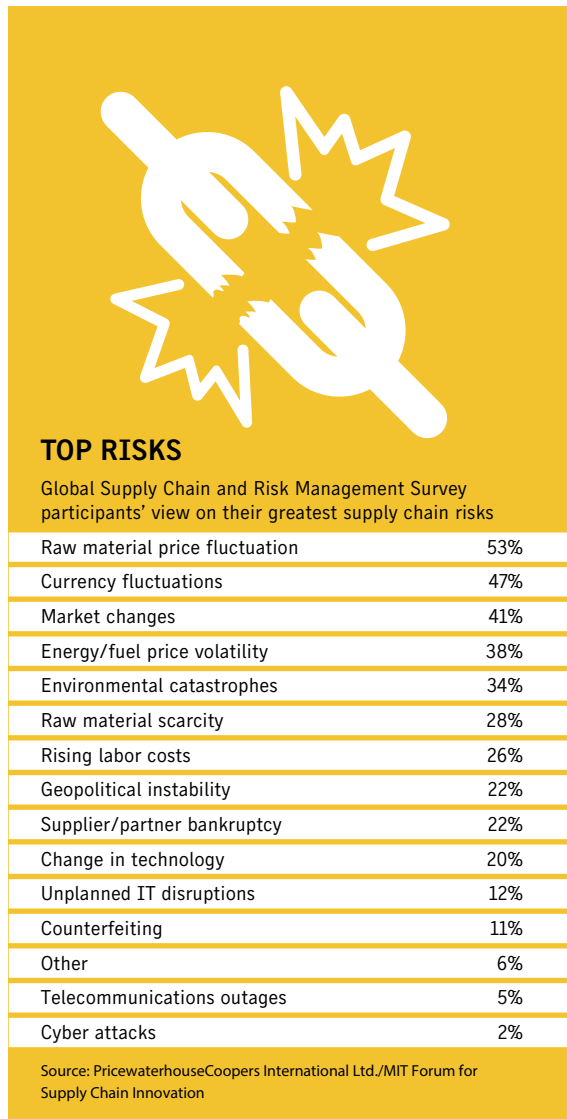
"That is what the American retailers didn't like," said Andy Shanahan, director at Aon Fire Protection Engineering Corp. in Boston.

"I would say that the European strategy is strong and if the American one is followed up with, that should be beneficial," Mr. Shanahan said.

Gary S. Lynch, managing director and global leader of risk intelligence and supply chain resiliency at Marsh Inc.'s risk consulting practice in New York, said the European accord's approach is very much in keeping with the E.U. approach to other risk-related regulation, citing Solvency II and the Basel bank supervision accords as examples.

"It always seems that when we have these challenges ... certainly the European approach tends to be more governance-oriented where there is a governance structure set up," Mr. Lynch said. "It seems to be a common denominator of any kind of (European) risk regulation."

The possibility of stronger market consequences than their North American counterparts might face also



drove the details of the European plan, according to David J. Closs, John H. McConnell Chaired Professor of Supply Chain Management in the Department of Supply Chain Management of the Eli Broad School of Business and the Eli Broad Graduate School of Management at Michigan State University in East Lansing, Mich.

"The Europeans have a much stronger commitment to sustainability, and that's been true for several years," with one aspect of those sustainability discussions centering around social responsibility, Mr. Closs said. "In

the U.S., there isn't that strong a market push," he said. "That being said, (in the U.S.) you have a much stronger legal system push," leading many U.S. retailers to balk at the legally binding nature of the European pact.

Aside from the legally binding aspect of the European plan, both pacts are fairly similar, providing for inspections of Bangladeshi factories and mechanisms for making necessary improvements, experts say.

While he thinks the European and North American retailers' approaches to Bangladesh factory safety could be successful, Aon's Mr. Shanahan said, "I would say that if there are any problems, it's that they are focused on Bangladesh while there are other countries that have concerns."

"There's a focus on Bangladesh while there could be and should be a focus on other low-cost countries," said Andrew Hersh, a director at Aon Global Risk Consulting in New York. "The reason there's a focus on Bangladesh is retailers are concerned about their reputations."

Reputation risk clearly was a factor on both sides of the Atlantic in addressing poor conditions at Bangladeshi suppliers' facilities, various experts said, and the catastrophe in Bangladesh heightened the issue of reputation risks in supply chains for many companies.

"What we're seeing within our client base of retailers globally is a trend toward increasing visibility and controls within their supply chains, especially with suppliers in low-cost countries," Mr. Hersh said. A best-in-class retailer is considering the cost of risk as they evaluate suppliers in low-cost countries and "really looking at the top-line impact of reputational issues that can be caused by the lack of visibility into the operations of their low-cost suppliers," he said.

"Clearly, they've seen the reputational fallout," said Tom Teixeira, partner in Willis Group Holdings P.L.C.'s Willis Group Solutions consulting unit in London. "There's a need to manage reputational issues as well as the sustainability issues."

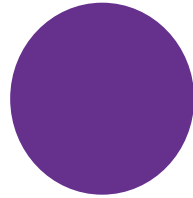
Addressing those reputation and sustainability issues along the entire supply chain can be difficult, Mr. Teixeira said, but more companies are trying to do so. "The supply chain can go down to six tiers, and that can be a real challenge to understand what's going on, particularly beyond Tier 2," he said.

"At Tier 6, you might have a manufacturer of a dye that's used in the manufacture of a shirt or belt," Mr. Teixeira said. If that dye manufacturer is operating in an area

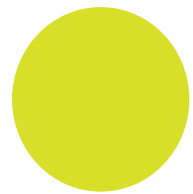
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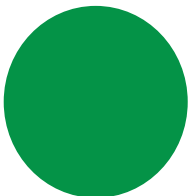
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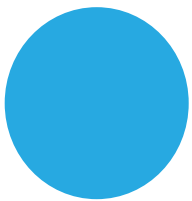
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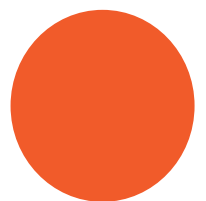
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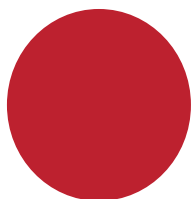
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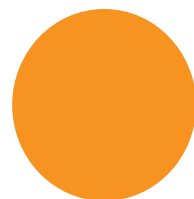
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Companies need to monitor, map entire supply chain to mitigate risks

BY RODD ZOLKOS

While it can be difficult, companies should assess the risks along the length of the supply chain and map the chain to effectively

manage supply chain risks, experts say.

The more analysis companies do of their supply chain exposures through risk management or procurement, the better, said Linda

Conrad, director of strategic business risk for Zurich Global Corporate at Zurich Insurance Group Ltd. in New York. "To do it right, risk management should have a big role to play in this," she said.

Tom Teixeira, partner in Willis Group Holdings P.L.C.'s Willis Group Solutions consulting unit in London, said recent events have forced many companies to recognize the need to achieve greater

supply chain transparency. "I'm seeing a lot of effort, a lot of investment, a lot of structures being set up to really get to know the supply chain," he said.

"The first line of attack that they're using is the regional offices," Mr. Teixeira said. And many companies are using software and mapping applications to determine where suppliers are, the perils they face, and to recognize supply chain interdependencies, he said.

Industrywide groups also have helped address supply chain exposures in some industries like high tech, though it's "no substitute for doing your own supplier risk assessment, your own supplier mapping," Ms. Conrad said.

Gary S. Lynch, managing director and global leader of risk intelligence and supply chain resiliency at Marsh Inc.'s risk consulting practice in New York, said in some cases companies can work with nongovernmental organizations to help them understand risks associated with some suppliers along their supply chain.

It's also essential to understand the cost of risk associated with supply chain decisions, and risk management has to help in translating that cost of risk in the actual dollars so it can be factored into the decision-making, Mr. Lynch said.

"What we're seeing is a growing awareness of that risk and a growing movement to address that risk," said Andrew Hersh, a director at Aon Global Risk Consulting in New York. "But I think there's a way to go for the tangible cost of risk to be included in the decision measurements that the C-suites of companies receive."

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SUPPLY

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of serious water pollution or water scarcity, it could cause reputational problems for the company whose products use that dye, he said.

"I have heard some people say, 'I look at the labels now and if it's made in Bangladesh I won't buy it,'" said Linda Conrad, director of strategic business risk for Zurich Global Corporate, a unit of Zurich Insurance Group Ltd. in New York. "I think the bigger issue is the reputation side of it."

"I met with the risk manager of a very large company who didn't know that their products were made in that factory," Ms. Conrad said, emphasizing the need for companies to achieve visibility further along the supply chain.

When such risks aren't properly managed, "they get completely out of hand and into society's hands," Ms. Conrad said. "When that happens, all bets are off," she said.

Multinational programs must match specific needs

Test various scenarios to weigh exposures, claim handling as well as compliance and tax issues

BY ROSEANNE WHITE GEISEL

An effective way to test a multinational insurance program is running through different risk scenarios and seeing whether the ensuing regulatory, tax and financial ramifications are in keeping with the corporate policyholder's objectives.

The "overarching theme" in designing any multinational program is "when you have a claim, it does what you expect," said Alban Laloum, Marsh Inc.'s multinational client services leader in New York.

Policy terms and conditions must be customized for the buyer's needs, but the program structure usually consists of a master policy that provides difference-in-conditions and difference-in-limits coverage over locally issued policies, customized for both the customer's business and the nations in which risks are covered, said Michael Fergusson, president, Ace USA's multinational client group in New York. Specialty coverage now generally follows a similar structure, he said.

"Years ago, an 80-20 rule applied, meaning that 80% of the risk was left in the master program," said Bill Skapof, head of international programs for Zurich North America in Philadelphia. "Today, it's

exactly the opposite."

Rick Jensen, managing director at Willis North America Inc. in New York, said 85% to 90% of countries require that companies doing business within their borders pur-

chase local coverage for most lines.

Clyde Ebanks, chief operating officer of Aon Global Client Network in Chicago, offered a caveat: "One of the traps any client can get

caught in" is focusing on whether admitted coverage is required without examining all the options and their impact, he said.

Brokers and insurers say regulatory enforcement has increased worldwide. While compliance is important, it should be viewed as part of the process of achieving risk management goals, not the goal itself. That is why it is important to run through different coverage scenarios that take into account compliance, exposures, claims payment and tax issues.

Vinko Markovina, New York-based global practice leader for international insurance solutions at Allianz Global Corporate & Specialty, said scenario testing is crucial, because "whatever we decide has to make sense due to value and exposure. It has to make sense to the local authorities."

For example, if the insured value in a country is low, but premium allocation is high, it should be explainable to regulators in terms of exposure level or they will think the purpose is tax evasion. Amid

SPECIALTY RISKS COVERED MORE FREQUENTLY THROUGH GLOBAL INSURANCE PROGRAMS

Specialty lines are a growing factor in multinational insurance programs.

"The frontier of coverage more and more is nonphysical damage types of coverage," said Randy Schreitmueller, vice president of global services and market relationships at FM Global in Providence, R.I. "Property insurance in the past focused on owned facilities of the client. It didn't respond to contingent exposures."

Now, Mr. Schreitmueller said, companies are using more levels of suppliers and their insurance must reflect that. For example, FM now lets policyholders choose at the time of a claim whether to base contingent losses on gross earnings or gross profits.

Another specialty area gaining more emphasis is coverage related to computer networks, he said.

Directors and officers liability, a line commonly purchased for U.S. risks, is gaining increasing use abroad.

Allianz Global Corporate & Specialty expects to write 1,000 local D&O policies this year, up from 333 in 2011, said Vinko Markovina, New York-based global practice leader for international insurance solutions.

Other specialty lines commanding more attention include: business travel accident, marine cargo, and terrorism and political risk, said Michael Fergusson, president of Ace USA's multinational client group in New York. The reasons for that growth are as varied as the lines, ranging from natural disasters in the case of supply chain coverage, to an increased emphasis on regulation and corporate governance for D&O.

By Roseanne White Geisel

See **MULTINATIONAL** next page

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Buyer-broker-insurer communication essential

The importance of discussion among the buyer, broker and insurer when global programs are constructed cannot be overstated.

"The tripartite relationship is important because premium allocation information comes from the client and broker," said Vinko Markovina, New York-based global practice leader for Allianz Global Corporate & Specialty.

"An insurance program should provide flexibility for growth," so a broker must know where the client is headed, said Tim Higgins, executive vice president of international at Lockton Cos. L.L.C. in Kansas City, Mo.

Mark DeMartine, president of global markets at American International Group Inc.'s property/casualty unit, said buyers must consider each country in which they do business and examine their products, physical presence, contractual obligations, the local subsidiary's importance to the entire organization, directors and officers

exposures as well as regulatory and tax considerations.

"Get an overall view to make a credible management decision," he said.

"What we see many times is the risk manager taking a stair-step approach over multiple years to identify risk and get coverage," said Michael Furgueson, president of Ace Ltd.'s multinational client group. It can be a process to determine "what actions to take over time to get closer to the end goal."

Communication is particularly essential if an insurance program is centralized. Such clients "want to know their insurance spend to the dollar and cents everywhere," said Alban Laloum, Marsh Inc.'s multinational client services leader in New York. "Decentralized companies want to give their subsidiaries a framework or guidelines."

Centralization, said Lance Becker, area president of Arthur J. Gallagher Risk Management Services in New York, requires "corporate buy-in at the very top level" to push the

culture down to subsidiaries. While many companies that let their subsidiaries purchase insurance locally realize it is more cost-effective to buy coverage in a master policy when possible, "there can be lots of resistance locally," he said.

Communication is the key to making centralized control work.

"We always start with an introduction of the local broker and the local CareFusion representative," typically the financial representative," said Roxsann Wilson, risk manager for medical device manufacturer CareFusion Corp. in San Diego.

That dialogue includes keeping the broker informed about the types of policies that the company purchases centrally, and keeping CareFusion representatives up to date in terms of insurance premium allocation.

The support for centralization comes from "showing the benefits, showing that it lessens their workload, lessens the cost and the coverage is as robust as it needs to be." Ms. Wilson said.

By Roseanne White Geisel

MULTINATIONAL

Continued from previous page

stricter financial governance rules, those decisions also must make sense to the business' subsidiaries, which may want to know how premium was allocated.

With the complexities of multinational coverage, using analytics to identify and measure risk "helps determine what we need and why we need it," Marsh's Mr. Laloum said.

To illustrate the challenge, Willis' Mr. Jensen said a Fortune 100 company with serious risk exposures could have a \$100 million liability loss in any jurisdiction. But if it is operating in 75 countries, it's not buying \$100 million in coverage in each. It may buy \$10 million in liability coverage, leaving the rest to an excess policy. But excess insurers that are not locally admitted may have to pay a claim in the parent's home country, which raises tax issues.

"Many companies have put together good insurance programs, but haven't thought about claims reporting and ensured that that process gets well communicated" throughout the organization, said Bruce Wineberg, Philadelphia-based manager of

U.S. and Canada at Aon Global Client Network.

Make sure claims notification clauses specifically tie the time limit to when the risk management department in the policyholder's home country hears about the claim, Ace's Mr. Furgueson, said, "Clients are looking for greater transparency" in the

"Many companies have put together good insurance programs, but haven't thought about claims reporting and ensured that that process gets well communicated" throughout the organization.

Bruce Wineberg,
Aon Global Client Network

claims process.

Alfred Bergbauer, head of multinational casualty for X.L. Group P.L.C. in New York, said: "You have to distinguish between underwriting and transacting, and executing," as multinational programs require customized service throughout the policy period. "The

service execution requires the ability to deliver across many countries at the same time to fulfill client needs."

The claims process aside, keeping multinational programs efficient and holding down frictional costs, which include broker fees, claims services, administration costs, taxes and reinsurance fees, also can be challenging.

"The core of the insurance industry's history is cross-border, multinational risk, said Kevin Strong, director of global programs and network services for X.L. Group in New York. Each nation's regulatory structure and the rigidity of some developing local markets can prevent multinational companies from operating as efficiently as possible, Mr. Strong said.

"The cost of some of these programs can run \$1 million plus," said Marsh's Mr. Laloum, "and that is just the administration." A way to reduce frictional costs is to negotiate fronting fees, which typically run 5% to 10% of the policy, he said.

Policyholders have to remember that the point of risk transfer is to protect the overall organization, said Aon's Mr. Ebanks. "There does need to be some level of practical assessment," such as "do I need to localize my entire liability tower for one issue."

Multinational expansion puts reputations at risk

Broad base of risk management difficult to achieve

BY MATT DUNNING

Effective reputation risk management on a global scale requires a consistent, collaborative effort that encompasses the entire breadth of a company's executive and operational leadership.

Unfortunately, reputation risk experts say, that level of collaboration often is difficult for even highly sophisticated multinational firms to achieve, given the geographic, cultural and often industrial diversity of their global footprint.

"Multinational spreads are really where the greatest amount of reputational risk exists, because there are so many opportunities for weak links in terms of your reputation management," said Leslie Gaines-Ross, chief reputation strategist at New York-based public relations and brand consulting firm Weber Shandwick. "No one person within a company has the level of insight that's needed to really foresee many of these risks, and that's why you need a collaborative culture within your organization."

While companies have improved their overall awareness of potential threats to their corporate brand and reputation, the extent to which they've been able to minimize their exposure to those risks remains debatable at best, experts say.

In London-based Aon P.L.C.'s 2013 Global Risk Management Survey, released in April, educational and nonprofit groups ranked reputational damage as the single biggest risk facing their organizations. Similarly, food processing and distribution companies, hotels, hospitality companies, banks, pharmaceutical and biotechnology companies, real estate firms and retailers cited damage to their firms' reputation or brand as either their second- or third-most pressing risk.

But despite the heightened awareness, the percentage of firms worldwide that lost income as a result of damage to their reputation ballooned to 40% in 2013 from just 8% in 2011. The percentage of companies that said they were confident in their readiness to respond to reputation risks fell during the same two-year stretch, to 57% in 2013 from 61% in 2011, according to Aon's survey.

"There is definitely more aware-

ness of the risks, but the sad thing is you still see a lot of the same things happening today that you saw 10 years ago, and oftentimes the companies in question aren't any more prepared for it than they were then," said Randy Nornes, a Chicago-based executive vice president at Aon Risk Solutions.

REPUTATIONAL DAMAGE CAN BE COSTLY

Even as companies have become more sophisticated in quantifying their financial losses resulting from an injury to their reputation, most insurers have not extended their reputation protection coverages to include lost revenue or profits.

Aon P.L.C. and Oxford Metrics's 2012 study of 10 global companies' financial results following reputational disasters in the prior fiscal year found that nine out of 10 shed a combined \$77.9 billion in shareholder value (see chart, page 33).

Still, among the seven reputation risk insurance policies available from major insurers, only two offer coverage for reimbursement of direct top- or bottom-line losses.

German reinsurer Munich Reinsurance Co.'s stand-alone policy offers up to \$65 million in indemnification for lost profits, based on the actual drop in profits and the results of a consumer survey that will determine what percentage share of that drop is attributable to the covered reputation risk event.

The coverage can be triggered by an occurrence of a named risk event or by a significant increase in negative media coverage of the organization, depending on the option purchased. The policy also would be triggered by a significant drop in revenue under both coverage options.

The specific risk events covered under the policy, and the length of time used to measure the drop in profits after a covered event, are negotiable.

By Matt Dunning

One critical shortfall experts noted in companies' approach to protecting their reputation at the multinational level is the lack of a formalized structure by which reputation management strategies are developed and implemented.

"The idea is to really break down reputation risk into elements that actually mean something to the organization," Mr. Nornes said. "It starts with a mapping process of all of your company's stakeholders. From there, you begin to drill down all of the likely scenarios that could impact customers, investors, employees or regulators."

To the extent that such a structure has been developed, experts say companies also often make the mistake of limiting their risk manager's role in the process of reputation management to post-incident analysis and troubleshooting.

"In general, the risk function is usually brought to the reputation management table after a specific company event or some kind of episodic industry event," said John Patterson, a New York-based senior adviser at the Reputa-

SHARE PRICE IMPACT

Share price reaction measured by an Oxford Metrica model resulting from major 2011 reputational risk events, from date of event through March 2012, in millions of dollars

Date	Company	Event	Loss
Jan. 3	Renault S.A.	Industrial espionage	\$6,266
March 11	Tokyo Electric Power Co.	Japanese earthquake	\$37,368
Apr. 16	Sony Corp.	Computer hacking	\$10,679
Jul. 29	Qantas Airways Ltd.	Industrial dispute	\$795
Aug. 11	Dexia N.V./S.A.	Exposure to Greek debt	\$3,990
Sept. 15	UBS A.G.	Rogue trader	\$6,294
Sept. 27	Diamond Foods Inc.	Accounting irregularities	\$1,406
Oct. 10	BlackBerry Ltd.	Service disruption	\$6,095
Oct. 14	Olympus Corp.	Accounting irregularities	\$5,062

Source: Aon P.L.C./Oxford Metrica



conditions at more than 500 factories (see story, page 28).

"Target manages its brand and reputation maniacally in the U.S., but they're only just this year beginning to put together a global reputation management team," Mr. Patterson said, though he added that Target made the decision to develop its global reputation protection strategy prior to the factory collapse.

A spokeswoman for Target declined to comment on the company's reputation risk management strategy.

"They're a fresh example of a large company that's had very a good reputation management strategy at home for years but are realizing that they have very little reputation capital to fall back on outside of the U.S.," Mr. Patterson said. "The governance and the leadership that companies like Target, in the light of something like Bangladesh, are coming into in question. As a result, that industry now has to think about reputation risks, and not just reputation management from a growth and marketing perspective."

tation Institute.

Experts said it is also critical for senior corporate leaders to recognize that even if their company's primary business operations are entirely domestic, viral damage to their company's brand or reputa-

tion can result from disasters and scandals that occur within their supply chain. The deadly collapse of an apparel factory in Bangladesh this year — and the weeks' worth of unfavorable press that came with it — eventually

motivated Minneapolis-based Target Corp. and several other U.S.-based retailers and clothing brands to form the Alliance for Bangladesh Worker Safety, which to date has pledged up to \$142 million to improve safety and working

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REDUCING RISKS POSED BY AN AGING WORKFORCE

Q How are aging workers affecting the workers comp claims you see?

A Traditionally, when you looked at reports on the aging workforce, you found two things: Claims severity is greater for aging workers, but the frequency of claims filed by them is lower. Nine times out of 10, what the reports show is absolutely true — severity is higher for older workers.

But I would say risk managers need to study their particular organizations and see if it holds true for them that frequency is less of an issue for aging workers. If companies don't have a lot of turnover and baby boomer workers are holding on to their jobs in their company, they may also see a frequency issue. Some industries may have both a frequency and severity issue with an aging workforce. We see it in stewardship reports when we aggregate the data at the end of the year for clients. We study the aging workforce for them so they can see it. When you have data showing frequency may also be an issue

Q&A

among your aging workers, then you can ask what can be done to prevent claims from recurring and what can be done to address the severity of open claims.

Q What measures can employers take to mitigate older worker claims issues?

A Risk managers need to understand the company's demographics and the risk management concerns accompanying an aging workforce. As you get older, you are losing strength, range of motion, speed of movement, bal-

ance, vision, hearing and so forth. So listen carefully to your workforce and what they are saying to you about it and what they need. Then you are going to have to make accommodations.

For example, if you have maintenance workers preparing for winter by moving bags of salt, you may need to buy 40-pound bags of salt rather than 100-pound bags because they have lost some strength. Maybe you also need to rotate jobs so that someone driving at night can drive during daylight hours. Wellness programs can also help keep aging workers healthy.

Q Wellness programs have been used mostly to reduce group health claims and non-occupational illnesses. Are you seeing them used more often to help address workers comp-related injuries?

A I am. It's coming up more and more because people understand wellness. They know that if you combine wellness with workers comp claims treatment, you will boost employees' morale and



FRANK X. ALTIERE III
PMA MANAGEMENT CORP.

Frank X. Altieri III is president of PMA Management Corp., a Blue Bell, Pa.-based third-party administrator and unit of PMA Cos. He assumed his position in 1999. Mr. Altieri recently spoke with *Business Insurance* Senior Editor Roberto Cenicerros about a PMA survey that showed aging employees are the most pressing concern among risk managers whose workers compensation claims are managed by the TPA. Edited excerpts follow.

their health, address their medical costs, increase productivity and reduce their injury severity. Our risk control consultants are seeing risk managers refer employees who experience a work injury to the wellness program coordinator to help them. Wellness programs can help, for example, if you have an employee who is overweight. There are two issues involved. One is health care, because we know they are going to be more expensive from a health care cost standpoint; and there are studies

that say if an injured worker is obese, they experience more claims and more lost days than healthy-weight workers.

So it makes sense for human resources, or the wellness program coordinator, and the risk manager to work together and understand there is a work comp claims issue and a health issue in such cases. If you have an enterprise risk management and safety improvement culture — if you truly have that — wellness will be part of that.

COMINGS & GOINGS

UP CLOSE: JENNIFER NORTHENOR

ATLANTA-BASED VICE PRESIDENT OF PRODUCT IMPLEMENTATION
Crawford & Co.

PREVIOUS POSITION: Atlanta-based global head of middle-market segments for Zurich Insurance Group Ltd.

LOOKING FORWARD TO: Taking my various previous experiences on the insurer and broker sides and applying it to new business.

GOALS FOR NEW POSITION: We want to launch new differentiating and compelling products that capitalize on the various strengths of Crawford's business and open up new markets.

CHALLENGES FACING INDUSTRY: The ability to leverage the most out of constantly evolving technology. Big opportunities are available for technologies, uses and applications across the whole risk spectrum such as risk engineering, mitigation, telematics, underwriting, and claims reporting and adjusting.

INDUSTRY OUTLOOK: I think there will be continued rate increases and disciplined underwriting.



WHAT I WOULD CHANGE: I would do a full analysis and review of Obamacare and the its full effect on the economy. I would want to see whether this was the right solution and whether we could make the necessary changes to the plan.

FIRST INDUSTRY JOB: Marketing assistant with Sedgwick James Inc. of Georgia, which was acquired by Marsh Inc.

WHAT SURPRISED ME: That I would make so many true friends in the business, located all around the world.

IF I KNEW THEN WHAT I KNOW NOW: I wouldn't have worried so much. Some of the things we worry about are not in our control.

ADVICE: Do not stay in your comfort zone. Push yourself to grow with education, certifications, new jobs and new relationships.

OUTSIDE THE INDUSTRY, A DREAM JOB: Working at a children's charity.

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- **Hasib Bangloria**, executive vice president at Ballator Insurance Group in Orlando, Fla.
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- **Sandy Carter**, vice president in Beecher Carlson Holdings Inc.'s national property practice in Atlanta.
- **Amy L. Dapot**, managing director and mid-Atlantic property practice leader at Marsh Inc. in Washington.
- **Kathleen C. Lynch**, managing director in Aon Risk Solutions' Aon Global Account Network in Charlotte, N.C.
- **Michael L. Owens**, senior vice president of Willis of Louisiana Inc. in New Orleans, a unit of Willis Group Holdings P.L.C.
- **Bryan D. Raisor**, managing director of the Lexington, Ky., office of Neace Lukens, an Assured Partners Inc. unit.
- **Travis Turner**, director of account management at Corporate Synergies Group L.L.C. in Washington.

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About the Awards: The results are announced online, and the compilation of all 40 of the award winners will be in the October 7, 2013, issue of *Business Insurance*. Honorees are selected from nominations submitted by readers of *Business Insurance*. Brokers must be age 40 or younger on October 1, 2013.

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Hiscox adds cyber cover to technology portfolio

Hiscox Ltd. has added a cyber crime protection endorsement to its technology privacy cyber portfolio.

The coverage option provides additional protection against exposures related to cyber crime connected to business bank accounts, the insurer said in a statement.

Small and midsize businesses have become more vulnerable to cyber crime as they make more transactions online, according to the statement.

"Technology is increasingly being used to attack or threaten businesses, but many companies are unaware of the new and growing exposures related to cyber crime that they may face," Jim Whetstone, professions practice leader at Hiscox USA, said in the statement.

"Most businesses would not be able to withstand an attack that emptied their bank account, but without proper coverage, getting reimbursed is not guaranteed," Matt Donovan, technology underwriting leader at Hiscox USA, said in the statement.

Integro offers supplemental retirement plan program

New York-based insurance brokerage and risk management consulting firm Integro Ltd. is offering a supplemental executive retirement plan to its small and middle-market business clients.

Integro's new program, which is a type of nonqualified deferred compensation plan, involves using life insurance for retirement planning that can be withdrawn tax-free in addition to providing death benefits.

"Life insurance is a critical element in protecting human capital and succession planning, and this capability enables us to also address clients' estate planning issues," Marc Kunney, Integro USA president, said in a statement.

Integro's new supplemental retirement plan program is an institutional product and will not have surrender charges, said Paul Schimmel, an expert in wealth transfer and accumulation strategies who will consult in Integro's San Francisco office.

Integro specializes in serving organizations with complex risks, operating from offices in the United States, Canada, Bermuda and London.

FSU researchers develop new tornado model

Researchers at Florida State University say they have developed a new statistical model that will help gauge the risk of tornadoes.

The model, outlined in an article published in the American Meteorological Society journal *Weather, Climate, and Society*, offers a way to correct historical data to account for the fact that there were fewer confirmed reports of tornadoes in previous decades, the authors said.

The growth of storm chasers logging tornado sightings, greater public aware-

PRODUCTS & SERVICES

Euler Hermes adds specialized political risk team

* The world's largest trade credit insurer, Euler Hermes S.A., announced it will expand its U.S. and Canadian services by adding a specialized political risk insurance team in New York.

The team will offer insurance to large and multinational North American businesses that will protect foreign assets against the risks of confiscation, expropriation and nationalization, and will strengthen the company's medium-term structured trade credit and political risks solutions, the insurer said in a statement.

The political risk insurance will launch in the U.S. on a state-by-state basis in the next few months after licensing approvals from local U.S. insurance regulators, according to the statement.

"By mitigating the political risk on foreign assets, we can help our large clients take advantage of attractive investment and financing opportunities in emerging markets," Jochen Duemler, CEO and head of Euler Hermes' Americas region, said in the statement. "Political risk coverage broadens the scope of solutions already offered by Euler Hermes to North American multinational corporations, financial institutions, investors and project contractors."

ness of twisters, and advances in reporting technology including mobile Internet and GPS navigating systems, also may have contributed to the increase in reports in the past 15 to 20 years relative to the historic record, Florida State geography professor James B. Elsner said.

"Most estimates of tornado risk are probably too low because they are based on the reported number of tornadoes," Mr. Elsner said in a statement. "Our research can help better quantify the actual risk of a tornado. This will help with building codes and emergency awareness."

With the new research, "the science of tornadoes can move forward to address questions related to whether cities enhance or inhibit tornadoes," he said.

The model corrects assumptions about tornado reporting in urban and rural areas. While it is likely tornadoes are not occurring with greater frequency, there is some evidence to suggest that tornadoes are, in fact, getting stronger, the researchers said.

Nakama Re cat bond covers earthquake risk

Aon Benfield Securities, the investment banking division of global reinsurance intermediary and capital adviser Aon Benfield, said it has completed the offering of \$300 million of principal at-risk variable-rate notes for Nakama Re Ltd.

The offering provides Tokio-based Zenkyoren Ltd. — Japan's National Mutual Insurance Federation of Agricultural Cooperatives — with collateralized catastrophe protection for Japan earthquake risk.

Nakama Re was structured to provide indemnity coverage and marks the first time Zenkyoren has sponsored a catastrophe bond directly, according to Aon Benfield.

The notes were issued by Nakama Re, an exempted company in Bermuda that was established for the deal. Boston-based AIR Worldwide Corp. provided risk modeling and analysis for this transaction.

The notes were priced at 2.75% above money market return and have a maturity of three years.

"The offering by Nakama Re Ltd. was very well-received by investors, demonstrating the importance of diversifying perils to the market, as well as the continuing development of non-U.S. indemnity structures in the catastrophe bond market," Aon Benfield Securities CEO Paul Schultz said in the statement.

Tech firms collaborate to offer claims service

Insurance technology providers Guidewire Software Inc. and Mitchell International Inc. have announced a strategic alliance to integrate their technologies to optimize claims management services.

The companies have been working for a year to tightly integrate their respective technologies, they said in a joint statement. Foster City, Calif.-based Guidewire produces core claims management systems, while San Diego-based Mitchell makes software used to assess automotive physical damage, bodily injury and workers compensation claims, the companies said in the statement.

"Guidewire and Mitchell see an opportunity to advance the state of the art in claims management, to the clear benefit of both our insurer customers and their policyholders," Guidewire CEO Marcus Ryu said in a statement. "Our development teams are collaborating to optimize the user experience and leverage the data exchange between our respective products."

A unified system will streamline the claims workflow for more accurate, consistent and cost-effective claims management, the companies said.

"Our mutual customers have expressed their wish for deeper integrations between our products, and this relationship is the beginning of our commitment to them," Mitchell president and CEO Alex Sun said in the statement.

DEALS & MOVES

Zurich North America building new headquarters

Zurich North America plans to move into a new headquarters by fall 2016.

In a statement, Zurich North America said it has signed a letter of intent with Motorola Solutions Inc. to purchase land for a new North American headquarters in Schaumburg, Ill., where the unit of Zurich Insurance Group Ltd. currently is located.

"Our decision to remain in Schaumburg for Zurich's North American headquarters reflects our commitment to providing the best possible working environment for our employees as well as our long relationship with the community and our recognition of the new site's impressive potential," Zurich North America Commercial CEO Mike Foley said in the statement.

Schaumburg "has been home to our U.S. headquarters for more than 100 years," he said.

Zurich employs approximately 2,500 people in the Chicago suburb and also has an office in downtown Chicago.

The company also announced recently that it is relocating its Chicago office to a greener, more collaborative work environment.

Bermuda's Catalina Holdings buys Alea Group Holdings

Hamilton, Bermuda-based runoff consolidator Catalina Holdings (Bermuda) Ltd. has signed an agreement to acquire Alea Group Holdings (Bermuda) Ltd. from FIN Acquisition Ltd., a subsidiary of investment funds managed by affiliates of Fortress Investment Group L.L.C.

Terms of the deal were not disclosed.

As of June 30, Alea had total assets of \$540 million, gross reserves of \$270 million and a net asset value of \$103 million, Catalina said in a statement.

Alea, a property/casualty reinsurer, went into runoff in 2005 and Fortress acquired it in 2007.

Catalina already acquired Alea's U.K. operations, Alea Holdings U.K., in 2009.

Wholesaler S.H. Smith merging into Chicago's R-T Specialty

Hartford, Conn.-based S.H. Smith & Co. Inc. will merge into R-T Specialty L.L.C., a unit of Ryan Specialty Group L.L.C., the Chicago-based company said.

Terms of the deal were not disclosed.

In a statement, Ryan Specialty said that S.H. Smith is licensed in 50 states and works through a network of more than 2,000 independent retail agents.

The company, formed in 1982 by President Scott Smith, has more than 90 team members and manages its business across four segments: professional and management liability, commercial property/casualty, in-house underwriting, and program business, according to Ryan Specialty.

Mr. Smith's "existing operations and experience will become a basis for expanding (R-T Specialty's) presence in the Northeast, as well as our binding authority capabilities," Patrick G. Ryan, chairman and CEO of Ryan Specialty Group, said a statement.

"Combining our specialty services with (R-T Specialty's) strong, national distribution model is a win-win for clients everywhere," Mr. Smith said in the statement. "We are excited about the opportunity to join our team with the fastest growing wholesale brokerage in the country."

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Surplus Lines Market Report 2013

NAPSLO helps wholesalers adapt and respond to evolving marketplace and regulatory landscape

The National Association of Professional Surplus Lines Offices (NAPSLO) is a membership organization of insurance brokers, agents, underwriters and associates

NAPSLO

who are committed to the surplus lines industry and the wholesale distribution system. With headquarters in Kansas City, Mo., NAPSLO has more than 700 member firms from 1,500 offices. Its membership is made up of approximately 62% wholesale brokers and 21% companies/underwriters; the remaining members are associates. Founded in 1975, NAPSLO provides a variety of valuable services to its members.

What challenges and opportunities does the excess and surplus lines market face in the coming year?

Challenges for our industry include adapting to the devastating effects of catastrophes like Superstorm Sandy in 2012 and generating stable investment returns in a recovering economy. Recent analysis, including A.M. Best Co.'s upcoming 2013 Special Report on U.S. Surplus Lines, will show that the health of the surplus lines market is stable with no financially impaired surplus lines companies in the last nine years.

Another challenge for the surplus lines industry and those working in the sector is to adapt to the pace of change. The marketplace is constantly evolving, and E&S professionals also have to evolve to continually provide the best, most innovative solutions. Fortunately, that commitment to innovation also creates opportunity. With projections of continued growth for the surplus lines market in the coming year, our

opportunity is to showcase our value in solving complex insurance problems.

What benefit does a wholesaler provide to the retail market?

Wholesalers are technical experts that work in a very unique segment of the insurance industry and offer retail agents access to stable market capacity in the nonadmitted market. Retail agents – and their customers – look to wholesalers to be specialists for complex risks where retail agents might not have expertise. That results in cost-effective solutions for clients that are not “one size fits all,” but instead are skillfully tailored to meet specific needs for nonstandard risks.

Wholesale brokers also streamline the process for retail agents. The relationship between wholesalers and retailers is important because, in order to maintain ongoing client relationships, retail agents must be able to meet their customers' needs quickly and knowledgeably. The customer wants assurance that the agent can provide a solution and trusts that it will be handled with integrity. That's where wholesalers add value to the equation. They routinely deal in business that is

With the highest level of integrity and professionalism, NAPSLO members offer expertise, specialization and access in niche markets, and are dedicated to providing innovative and cost-effective insurance solutions that don't fit in the standard market.

What is NAPSLO's focus for the future?

NAPSLO remains focused on providing outstanding member networking opportunities, career development and education, and regulatory and legislative advocacy. The association will welcome a record number of attendees to its 2013 annual convention and continually works to increase the value and relevance of its networking events, and to expand its professional development offerings.

NAPSLO's legislative advocacy will continue to focus on the Nonadmitted and Reinsurance Reform Act (NRRRA). The NRRRA created a national framework for uniformity and efficiency in surplus lines regulation and taxation. Key reforms intended by the NRRRA are: fixing the regulation and taxation of surplus lines transactions in one state, the “home state” of the insured;



insured; one state regulates and taxes the transaction, producing tremendous efficiencies. NAPSLO's work continues to advocate for the complete and uniform implementation of all reforms intended by the NRRRA, including home state taxation, where surplus lines taxes are calculated at the home state's tax rate on 100% of the premium and retained 100% by the home state.

What other federal legislative issues are on the horizon for the industry?

NARAB II

The U.S. House passed legislation earlier this month for the National Association of Registered Agents and Brokers, more commonly known as NARAB II. The Senate previously introduced the same bill, but has not yet voted. NARAB II will establish a national clearinghouse as a one-stop licensing system for agents and brokers operating outside of their home state. Agents and brokers will apply for membership to the association, agreeing to strict standards and ethical requirements. NARAB II will be governed by a nonprofit board of state insurance commissioners and industry representatives with a goal of applying licensing, continuing education and non-resident insurance producer standards on a multistate basis while preserving the laws of individual states.

NAPSLO and its members have put significant effort into advancing this legislation because we believe it will greatly increase the efficiency and compliance in the licensing process for members licensed in multiple states. It supports a more competitive insurance

With projections of continued growth for the surplus lines market in the coming year, our opportunity is to showcase our value in solving complex insurance problems

complex and nuanced, and they efficiently discern not only what needs to be covered in a policy but also what is of highest importance to the client. The wholesaler is not just an aggregator, but is an innovator and a solutions-oriented problem solver.

What key attributes differentiate a NAPSLO member in the surplus lines marketplace?

Integrity and professionalism form the foundation cornerstones of both the association and its membership and represent the core values clients can expect from a NAPSLO member firm. NAPSLO members, who must meet specific criteria and adhere to a detailed code of ethics, are guided by the association's founding promise to conduct business in utmost good faith.

establishing national uniform eligibility standards for U.S.-based insurers writing surplus lines insurance; prohibiting a state from preventing a licensed surplus lines broker from procuring insurance from non-U.S.-based insurers included on the NAIC Quarterly Listing of Alien Insurers; and establishing a nationwide definition of an exempt commercial purchaser for whom a broker can access the surplus lines market.

In the three years since its passage, the NRRRA's establishment of home state regulation and taxation is greatly improving and streamlining the compliance process for our industry. Rather than requirements for brokers and carriers to make multiple filings, and broker requirements to pay taxes in multiple states for one transaction, surplus lines transactions are now governed by the home states of the



Kevin Westrope is president and chief executive officer of Westrope, based in Kansas City,

Mo., and also serves as the 2013-2014 president of the National Association of Professional Surplus Lines Offices.

market and improves state insurance regulation to the benefit of consumers.

National Flood Insurance Program (NFIP)

Last April, NAPSLO's team met with a number of members of Congress regarding the NFIP and the potential for NAPSLO members to provide private flood coverage options in accordance with the Biggert-Waters Flood Insurance Reform Act. The surplus lines industry plays an important role in offering flood coverage, both in placing primary and

excess policies, and it is important for insureds, banks and banking regulators to understand nonadmitted carriers are not prohibited from providing flood coverage on a primary or excess basis. In fact, the nonadmitted market can provide broader coverage for flood insurance beyond the offerings of the current federalized program. NAPSLO will continue its advocacy on this to ensure NAPSLO members are able to provide coverage as allowed by law.

Terrorism Risk Insurance Act

Reauthorization (TRIA)

TRIA is up for reauthorization on Dec. 31, 2014, and is becoming a focus of debate on the Hill this congressional session. In general, we believe private-market solutions should be exhausted before government-sponsored programs or residual markets are considered, and governments should not provide coverage options the private or open market is able to address.

However, we believe the existing program has been successful primarily because it's a tool for insurers to better

manage the risk of terrorism events and provides some certainty to the industry in offering private capital and solutions to policyholders.

We support a thoughtful and thorough review of TRIA with the goal of maintaining or increasing opportunities for capacity and solutions in the private market. We also believe it's important for Congress to take action sooner rather than later since insurers are already issuing policies with coverage periods beyond the 2014 reauthorization date.

Executive Insights: Specialty Risks

Views on demand, market issues and tort costs

Q: In what areas or lines of business are you seeing the strongest demand for specialty insurance solutions? And what might be the next area of demand for specialty solutions?

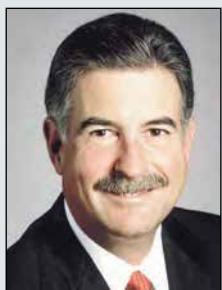


W. Todd Evans
Executive Vice President
Engle Martin &
Associates, Inc.

We are seeing an increased demand for both property and general liability coverage in the contractors, builders risk and inland marine markets. As

construction begins to pick up with the uptick in the economy, it affects a number of other industries such as manufacturing, transportation and a large number of labor trades.

As we become more dependent on technology, there are large risks, both financial and reputational, associated with the information that is exposed. These cyber exposures, including identity theft and data breaches, are creating a major need for specialty insurance products for those engaged in the collection, management, and protection of huge amounts of personal data.



Mac Wesson
President & Chief
Operating Officer
U.S. Risk Insurance
Group Inc.

With the overall commercial P&C market continuing to show signs

of firming, we believe the demand for specialty insurance products will strengthen in many industry sectors. We have a significant presence

in the health care, energy, entertainment, staffing and financial institution sectors, and we think they will continue to grow. But we also see emerging and growing demand for solutions to cyber-related exposures, catastrophe-exposed property risks and alternative energy production.

In addition to cyber-related exposures, we believe the growing dependence on international suppliers and distributors on the part of many commercial insureds gives rise to a need for more comprehensive global insurance protection. While that exists today, it tends to be more fragmented than it should be. We also believe insurance coverage designed to protect the environment will strengthen as the world becomes less tolerant of events that endanger our planet.

Q: What issue do you expect will have the greatest impact on the specialty lines insurance marketplace in the next 12 to 18 months?

W. Todd Evans, Engle Martin & Associates Inc.:

There are a number of issues that could impact the specialty lines insurance marketplace over the next 12 to 18 months. First, the direction of the global economy can have a large impact on demand for specialty insurance products. Many major global economies are still in states of crisis. As these economies improve or get worse, that can impact capacity and demand for insurance products. Second, the extent of catastrophic events over the next 12 to 18 months will no doubt impact the specialty lines insurance marketplace. Third, the ever-increasing regulatory environment of various insurance marketplaces will affect how specialty products are developed, delivered and priced. The increased regulation can stifle creativity in the marketplace, leading to more homogenous insurance products. Finally, we continue to see increased capacity from non-traditional markets.

For example, the Chinese insurance market is now participating more in quota shares on large property accounts.

Mac Wesson, U.S. Risk Insurance Group Inc.:

As businesses become more creative and diverse in the products and services they provide for an ever-changing world, the exposures to loss that accompany that diversity are often unique and require specialized treatment. Specialty insurance solutions are will be developed in the future to keep pace. We believe this trend will fuel growth in the specialty lines insurance marketplace for the next 12 to 18 months and beyond.

Q: Tort costs in dollar terms have remained relatively stable since the mid-2000s, after rising steadily for decades. Do you expect that stability to continue?

W. Todd Evans, Engle Martin & Associates Inc.:

Tort costs are likely to increase because insurance carriers have been aggressive in managing expenses of litigation in recent years, which has offset some of the overall cost. However, now the carriers have driven expenses down as far as they can, so we would expect overall tort costs to increase.

Mac Wesson, U.S. Risk Insurance Group Inc.:

In a word, yes. In the health care sector, particularly, tort reform has made a significant impact on keeping tort costs in check. As the political and regulatory winds of change come and go as they always do, certain elements of our society may become plaintiffs' targets, but overall tort costs look to remain fairly stable in the near and long term.

Engle Martin & Associates, Inc.

www.englemartin.com



Whether the scene is a parking lot, an apartment building or a hotel, a premises negligent security claim can never be taken lightly. "Property owners or insurance carriers who face premises negligent security claims should be prepared to complete a thorough investigation when an incident occurs," explains Bill O'Connell, National Casualty Manager at Engle Martin & Associates Inc., a leading national independent loss adjusting and claims management provider based in Atlanta.

According to 25-year claims veteran O'Connell, the most common premises negligent security cases are filed against malls, hotels, motels, apartment/condominium complexes, schools and casinos, but there are many venues where this type of claim can arise. Engle Martin's staff of liability adjusters, who cover 46 states, are experienced claim professionals trained to identify the key elements of a quality, thorough premises negligent investigation.

"Our expertise coupled with years of working with defense attorneys, allows us to deliver the information necessary to resolve the matter at hand, whether it be via the right settlement or defense," said O'Connell. "And that only comes through experience and extensive professional training. When these claims get litigated, judges and juries are looking to determine what danger could 'reasonably' have been foreseen and, thus, avoided," he added. "But in many cases, this is a vague standard and potential claim payers need to rely on experienced adjusters and investigators to help them mount a strong defense."



"Engle Martin's focus is getting adjusters on location quickly."

Bill O'Connell
National Casualty Manager
Engle Martin & Associates, Inc.

"Engle Martin's focus - and what we believe to be our main differentiator in the industry - is getting our adjusters on location quickly," says O'Connell. "We work diligently to uncover any and every possible detail that can be used to properly evaluate each claim and make the right decision as quickly as possible." Engle Martin's process is to ensure that clients have a reliable partner and quick reporting mechanism in place.

"We have a strong recurring client base," O'Connell said. "Times change and people come and go, but the vast majority of our client relationships are long-term because they recognize the value of our approach. That speaks volumes about our people, track record and history."

AT A GLANCE:

Engle Martin & Associates, Inc. is a leading national independent loss adjusting and claims management provider. Privately held and owner operated, the firm delivers a comprehensive line of service offerings including commercial property, casualty, inland marine/cargo, heavy equipment and large loss adjusting, as well as TPA/claims management and subrogation services.

Engle Martin's team of insurance professionals has an unparalleled understanding of the complexities of risk and the innate ability to effectively control and manage the claims process through technical expertise, timely communication, and comprehensive loss reporting.

For more information, please visit our website at www.englemartin.com or contact W. Todd Evans, Executive Vice President, at 800.818.5619 or tevans@englemartin.com.



"My daddy helps people when they fall down stairs."

Zoe | Daughter of
Age 8 | **John Stachura,**
Senior Casualty Adjuster



ENGLE MARTIN &
ASSOCIATES, INC.
Adjusters & Claims Administrators

As a Senior Casualty Adjuster, John Stachura has managed losses involving premises liability, construction defects, products liability, and liquor liability. With over twenty years of claims adjusting experience, John not only has an advanced technical skillset, but also recognizes the sensitive nature that can surround a casualty claim.

Engle Martin's national casualty team manages claims for a variety of insurers that write risks in business sectors such as multi-family housing, construction, entertainment, retail, hospitality, and commercial buildings.

For more information about Engle Martin casualty adjusting services, please call 800.818.5619 or email marketing@englemartin.com.

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Risk selection is the key to profitable underwriting, and a key factor in Klein Insurance Services' success. You can't begin to offer a quote until you've thoroughly underwritten the risk, in partnership with your producer. At KIS, we have classified hotels into three tiers, and write only tier 1 and 2 hotels. These hotels have a small footprint that minimizes the trip and fall exposure. Most of these hotels are located in upscale urban neighborhoods, which makes them preferred property risks. Tier 1 hotels qualify for our best rates.



"KIS has become the "go to" market for brokers that specialize in hotels"

Scott Klein
President

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- Full service
- Hands on management and property owner involved in daily operations
- Trip advisor rating 4 stars or higher

Tier 2 criteria:

- 25 years or newer
- Business travel and airport hotels
- Franchised limited service and select service hotels
- More third party management
- Trip advisor rating 3-4 stars

What differentiates or distinguishes a program from institutionalized underwriting starts with our producer relationship. Our producers enjoy a close working relationship with their

clients and understand the coverage needed by hotels. KIS provides the underwriting expertise, and together we work toward a successful placement. Included is our level of service that far exceeds that of standard carriers, who more often merely generate a quote from an application. At KIS, we underwrite the risk first to determine a competitive premium that our producer can sell.

The institutionalized approach of "one rating schedule fits all" practiced by major carriers, has unintentionally co-mingled the exceptionally good risk with the exceptionally bad risk. This has resulted in tier 2 risks getting tier 1 rates that aren't warranted. Our underwriting expertise enables us to price the superior accounts at the best available rates, while achieving stable underwriting results for our carriers, and market stability to our brokers. This is why KIS has become the "go to" market for brokers that specialize in hotels.

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U.S. Risk Insurance Group, Inc.

www.usrisk.com



AT A GLANCE:

WHO WE ARE:

U. S. Risk Insurance Group, Inc. (www.usrisk.com) is a specialty lines underwriting manager and wholesale broker headquartered in Dallas Texas. Operating 16 domestic and international branches, a broad range of products and services are offered through its affiliate companies which include; U.S. Risk Underwriters, U.S. Risk Brokers, U.S. Risk Financial Services, Unisource Program Administrators, Advocate Reinsurance Partners, LLC, Oxford Insurance Brokers, Ltd. (UK), James Hampden International Insurance Brokers Ltd. (UK), and Abraxas Insurance A.G. (Zurich).

WHAT WE DO:

U.S. Risk's diverse capabilities allow us to serve a broad clientele. We have the ability to offer the following services:

- Specialty Underwriting Programs
- Wholesale Brokerage
- MGA Binding Authorities
- Accredited Lloyd's Broker
- Reinsurance Intermediary

CONTACT:

For more information about U.S. Risk please contact:

Randall Goss or Mac Wesson
Toll Free: (800) 232-5830
www.usrisk.com



as for financial institutions and a broad array of miscellaneous professional liability and commercial property and casualty risks.

U.S. Risk also has a significant international presence due to its two London based brokerage operations, Oxford Insurance Brokers, Ltd. and James Hampden International Insurance Brokers, Ltd. In addition, U.S. Risk has an ownership interest in a relatively new but highly successful reinsurance intermediary, Advocate Reinsurance Partners, LLC.

"Our goals for the future are clear and executable...grow, innovate and prosper," according to President and COO, Mac Wesson, "and that's what we intend to do."

U.S. Risk Focuses on Growth

The leadership at U.S. Risk Insurance Group, Inc. sees a wealth of opportunity on the horizon. After several years of challenging market conditions and significant consolidation in the wholesale insurance distribution segment, U.S. Risk remains strong, independent and focused on growth.

"Our strategy for growth has endured the test of time. We continue to seek out and retain the highest caliber of talent available to be a part of our team. We strive to do business with producing agents and carrier partners that share our vision of excellence. We never take for granted a single opportunity to deliver on our promise to be the best," said Chairman and CEO Randall Goss.

U.S. Risk offers a balanced approach to products and services within the wholesale insurance space. Domestically, roughly half of its premium volume is derived from its transactional brokerage division, U.S. Risk Brokers, Inc., while the other half is from its specialty programs and MGA contract binding division, U.S. Risk Underwriters, Inc. U.S. Risk Brokers, Inc. currently represents 125 carriers offering solutions in all lines of business, including property, casualty, transportation, professional liability and workers compensation. U.S. Risk Underwriters, Inc. offers specialty underwriting programs for lawyers, architects & engineers, healthcare, social services, staffing / PEO's, entertainment, valet parking operators and energy risks, as well

Specialty Underwriting

Wholesale Brokerage

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Diversity and expertise allow U.S. Risk to serve a broad clientele. From niche programs that cover international entertainment venues to brokerage markets for off-shore oil rigs, U.S. Risk's capabilities are as diverse as the company itself. **Count on U.S. Risk.**

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- Fast quotes and competitive terms
- Difficult coverage expertise
- International coverage expertise

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SYMPOSIUM

Continued from page 4

down the road.

Such differentiation will be necessary for insurers to cover and mitigate risks for customers, including software and aerospace firms, as the United States transforms into a “knowledge economy,” Mr. Schimek said.

“I’d say probably none of us is in a place where we’re ready to be able to handle the changing needs and, quite frankly, the opportunities that will exist coming out of where the United States will be by 2050,” Mr. Schimek said of the industry.

Malcolm Randles, London-based underwriter of enterprise risks for R.J. Kiln & Co. Ltd., a Lloyd’s of London syndicate, addressed the growth of cyber risks in a separate presentation.

In his speech, Mr. Randles said companies are creating “dossiers” of consumers that track their spending habits and identifying information. While such information can be targeted by hackers, he said a growing threat is the accidental loss of consumer data through human error or negligence.

That includes instances in which company employees have lost computers with sensitive data while falling asleep on public transit, or a case in which an insurer sold filing cabinets without removing thousands of medical records, he said.

“Forensically, this has become a huge part of what is driving the need for data insurance,” Mr. Randles said.

General liability insurers are not willing to cover costs for cyber risks and lawsuits that result from data breaches, Mr. Randles said.

He cited a case in which St.

Louis-based grocery chain Schnuck Markets Inc. had a data breach, resulting in 2.4 million credit and debit card records being compromised between December 2012 and March of this year.

Liberty Mutual Insurance Co. sued Schnuck in U.S. District Court in St. Louis in August to prevent its excess commercial general liability policy from being used to cover eight class-action lawsuits that have been filed against Schnuck by customers. That suit is still pending.

“General liability carriers ... are not prepared to pay the first-party costs” that result from data breaches, Mr. Randles said.

In another conference session, Florida State University President Eric J. Barron provided details on the Tallahassee, Fla.-based school’s initiative to further establish itself as a leader in risk management studies.

The university launched “The Risk Initiative” campaign last year after its business college received a \$5 million gift from the National Alliance for Insurance Education & Research and William T. Hold, president and co-founder of the alliance.

The campaign will be used as part of an overall initiative to create a more entrepreneurial culture at Florida State, Mr. Barron said. That will include investing in the development of new modeling, prediction and simulation technologies that can be used across various industries, including law and medicine.

“Each one of these fields has an element of risk for which we have the capability to do a better job of forecasting,” Mr. Barron said.

About 400 people attended this year’s Entrepreneurial Insurance Symposium. Next year’s conference is set to be held Sept. 9-10 in Dallas.

HRA

Continued from page 3

or to cover other health care expenses.

“This guidance allows employers to take such an approach,” Mr. Stover said.

Implementing such a retiree health care plan design would be complex. Employers would have to establish and communicate the approach so retirees could determine whether they would qualify for a federal premium subsidy based on their income.

“This would require a significant employer effort,” said Derek Guyton, a partner with Mercer L.L.C. in Chicago.

Also, some employers might be reluctant to set up and contribute to higher-income retirees’ HRAs, said Gretchen Young, senior vice president of health care policy for the ERISA Industry Committee in Washington.

Other employers might wait to make any changes until they know the premiums insurers will charge



HEAR INTERVIEW

Access *Business Insurance*’s interactive digital edition to hear Buck Consultants L.L.C. principal Rich Stover discuss how recent health care reform law regulatory guidance could ease the way for employers to jettison increasingly unaffordable health care plans offered to pre-Medicare eligible retirees.

for coverage offered in the exchanges, Mr. Guyton said.

The regulatory guidance also makes clear that employee assistance plans will not be considered minimum essential coverage. This benefits certain employees, such as part-time workers who are automatically covered in EAPs, but are not eligible for their employers’ health plans.

Had EAPs been considered to provide minimum essential coverage, participants would have lost eligibility for premium subsidies to purchase exchange coverage.

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MARKET

Continued from page 4

Street said. The recent flooding in areas of Central Europe likely will result in “some adjustments to pricing,” though it remains to be seen how big those increases will be, he said.

Pricing outcomes at the Jan. 1 renewals likely will “remain fragmented,” Mr. Street said.

The market for treaty property/casualty reinsurance remains fragmented around the world, with factors such as losses

and third-party capital affecting rate increase or decreases, said Victor Peignet, CEO of Paris-based Scor Global P&C.

He said that overall for Scor’s portfolio, the Jan. 1 renewals will be flat.

It is, however, difficult to talk about the market in general, said Denis Kessler, CEO of Scor S.E., because it is so fragmented.

Rates for U.S. property catastrophe business fell at the midyear renewals, said Ulrich Wallin, CEO of Hannover Re S.E., though he noted that, in his company’s view, those rates still were “commensurate with the risks.”

“The markets are quite different in different areas,” Mr. Wallin said.

Floods in Canada and areas of Central Europe likely will have a stabilizing effect on rates there, he said, but the continued low-interest-rate environment and its effect on reinsurers’ investment returns likely will, among other factors, contribute to a disciplined — and overall stable — market at the Jan. 1 renewals.

The absence of major losses in the aviation market likely means rates for that sector will remain flat or fall slightly, said Jurgen Graber, a member of Hannover Re’s executive board.

While there have been no major marine losses in 2013, the continued aftereffects of the \$1 billion loss of the Costa Concordia cruise liner that sank last January and Superstorm Sandy last October likely means marine reinsurance rates will continue to harden, in particular for excess-of-loss coverage, Mr. Graber said.

For Japanese business, the tsunami in 2011, coupled with floods in Thailand and earthquakes in New Zealand, mean that rates remain stable, said André Arrago, a member of the executive board of Hannover Re.

Overall, rates at the Jan. 1 renewals likely will be flat, said Matthias Weber, group chief underwriting officer of Swiss Re Ltd.

Swiss Re thinks that demand for natural catastrophe coverage will continue to increase and that — although rates will decrease in the short term partly because of the influence of third-party capital — overall rates for those covers likely will stabilize in 2014, he said.

Rates for U.S. liability coverage likely will start to harden, partly because of economic conditions and a slowdown in companies’ reserve releases, he said.

Rates for other lines of business likely will remain stable, he said.

Rates probably will fall for those areas of the reinsurance market where alternative capital participates, such as catastrophe and retrocession business, said John Berger, CEO of Third Point Reinsurance Ltd. It remains to be seen whether that capital diversifies into other areas of business, he said.

It is possible that traditional reinsurers will redeploy capital into other lines of business, thereby increasing competition in those segments and putting downward pressure on rates, said Torsten Jeworrek, a board member of Munich Reinsurance Co.



SARAH VEYSEY

“The growth of convergence capital has been steady and sustained and we expect that to continue.”

David Priebe, Guy Carpenter & Co. L.L.C

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CAPITAL

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a gradual but fundamental transformation with the influx of non-traditional capacity, said Tony Ursano, CEO of Willis Capital Markets & Advisory in New York.

“The asset class has been legitimized,” he said, and more capital is likely to flow into the industry. Willis predicts that by 2020, \$150 billion in capital could be allocated to the reinsurance class, especially as new products are developed, he said.

“We are now in a post-convergence market,” said Bryon Ehrhart, chairman of Aon Benfield Analytics.

Rather than being a competitive threat to reinsurers, that capital will become part of traditional reinsurers’ business models, he predicted, as they sponsor catastrophe bonds and sidecars and start to explore ways to include casualty risks in such mechanisms.

“The growth of convergence capital has been steady and sustained and we expect that to continue,” said David Priebe, a vice chairman at reinsurance broker Guy Carpenter & Co. L.L.C.

The growth in the catastrophe bond area has been particularly significant and Guy Carpenter forecasts that cat bond issuance will exceed \$7 billion — a record level — this year.

“When the ducks are quacking, feed the ducks,” said Willis’ Mr. Ursano, who noted that there is high demand for catastrophe bonds currently.

While some of this capital may leave the market when returns elsewhere increase, investors have gained confidence in reinsur-

ance as an asset class, and investment from pension funds and others is sustainable, Mr. Priebe said. “That is good news for reinsurance buyers,” he said.

Besides the effect such capital has had on pushing down rates offered by traditional reinsurers, the new capacity gives reinsurance buyers added choice, Mr. Priebe said.

He said, however, that the coverage offered by convergence capital is not identical to traditional treaty reinsurance products, so buyers need to take advice from their brokers.

Currently, convergence capital largely is concentrated on a single peril — U.S. property catastrophe risk — and it will be interesting to see where nontraditional capital providers “go next,” said Matthew Paskin, executive director of group underwriting at Hamilton, Bermuda-based Catlin Group Ltd.

Nontraditional reinsurance capital providers likely will align themselves with companies with traditional reinsurance expertise to offer different types of coverage, Mr. Paskin said.

Capital has to be deployed, which likely will necessitate the design of products in business lines other than property catastrophe, said Daniel W. Gerber, a partner at law firm Goldberg Segalla L.L.P. in New York.

Additionally, there is a great deal of research and development taking place to find lines of business aside from property catastrophe that might be suited for investment by nontraditional capital providers, Willis’ Mr. Ursano said.

There is interest in classes such as auto reinsurance, directors and officers liability, and workers compensation coverage, among others.

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DOCTORS

Continued from page 1

expectation that the law will aggravate an already existing doctor shortage.

"We have a shortage right now and it is only going to grow more and more significant," said Christiane A. Mitchell, director of federal affairs in Washington for the Association of American Medical Colleges.

The shortage is driven by baby boomers rapidly needing more medical care, including greater attention from specialists such as orthopedic doctors, she said.

Simultaneously, one in three doctors practicing is 60 or older. They are reaching retirement age without an adequate pipeline of new doctors to replace them, Ms. Mitchell said. Under the health care reform law, more people will have access to health care, many seeking treatment for illnesses previously untreated.

The Congressional Budget Office estimated in a March 2012 report the health care reform law will increase the number of nonelderly people with health insurance by about 30 million in 2016 and beyond.

Meanwhile, the association expects the United States will experience a shortage of 91,000 doctors by 2020, split evenly between specialist and primary care physicians.

"What having a shortage means is that people will have to wait longer for an appointment or people may have to travel farther for an appointment," Ms. Mitchell said.

Yet workers comp and employee absence professionals have for years advocated the importance of getting injured or ill employees attention early to reduce claims durations and time away from work.

"A primary concern (for employers) is going to be timely access to care, particularly when you are talking about workers comp or short-term disability on the (nonoccupational) side," said Pat Purdy, Simsbury, Conn.-based vice president of core benefits solutions for Pacific Resources Benefits Advisors L.L.C.

She expects slight delays in each step of the medical care process, such as in getting an initial doctor appointment followed by delays in subsequent care.

"There might be slight delays in all parts of the process, but if you have slight delays in every part of

the process, are you increasing the average absence or the average duration of that disability?" Ms. Purdy asked rhetorically.

There are also potential costs for injured employees, said Bruce Hockman, executive vice president and workers comp practice leader in Philadelphia for Towers Watson & Co.

"We need to get (injured workers) diagnosed quickly and treated quickly and returned to work as quickly as possible or the cost of the system will grow more than anybody cares for it to," Mr. Hockman said.

There may be other implications as well. For instance, companies providing employers and insurers with medical provider networks may find fewer physicians with which to contract.

Although the health care reform law's effect remains somewhat speculative, "monoline" provider network companies specializing in workers comp could be particularly susceptible to a doctor shortage, a network provider expert who asked not to be identified said.

Already, employment recruiters report that it is more challenging for physician groups with which network companies contract to find new doctors to hire, Ms. Mitchell said.

hurt, Rep. Mike Grimm, R-N.Y. said. He's a sponsor of one of the extension bills.

Insurance industry executives strongly defended the program.

"It's the elusive nature of terrorism that underscores the continuing need for the (public/private) partnership," said Eric Smith, Armonk, N.Y.-based president and CEO of Swiss Re Americas. "TRIA has proven effective in balancing the challenges of terrorism risk, national security and economic stability."

"Buyers across the country want this coverage," said Peter Beshar, executive vice president and general counsel of Marsh & McLennan Cos. Inc. He recommended that the program be expanded to cover new exposures such as cyber risks.

A third industry supporter, Janice Abraham, president and CEO of Chevy Chase, Md.-based United Educators Insurance, a risk retention group, said the issue is not an urban or rural one, with school campuses or major public events potential terrorist targets. Indeed, after the Boston Marathon bombings killed three people in April, supporters used the tragedy as a touchstone to urge extension of the terrorism backstop.

But Steve Ellis, vice president of Washington-based Taxpayers for Common Sense, opposed extending the terrorism backstop.

"A dozen years after the tragic events of 9/11, the terrorism marketplace has settled to the extent that it is past time for the government to step aside and let the private sector handle the portfolio," he said, arguing that any further extension should be temporary.

The House committee hearing came days after the libertarian Cato Institute issued a report calling the terrorism backstop "corporate welfare" and urged that it not be extended beyond next year.

The Chicago-based Property Casualty Insurers Association of America countered days later with a poll showing most U.S. residents support the backstop.

In a statement after the committee hearing, PCI Senior Vice President Nat Wienecke said, "Having a federal terrorism insurance plan in place prior to another catastrophic terrorism event is critical to protecting America's economic resiliency."

Other insurer groups weighed in defending the program.

American Insurance Association President and CEO Leigh Ann Pusey said the Washington-based AIA "will be working in the months ahead to achieve broad bipartisan support for reauthorization of this vital program."

She said the "program requires insurers to meet significant deductibles and includes a mandatory recoupment provision for any federal dollars expended on losses up to \$27.5 billion. In addition, insurers are required to absorb 15 cents of every additional dollar of insured losses beyond their individual deductibles up to the program's \$100 billion cap."

"For over a decade, the risk-sharing mechanism created by TRIA has ensured our national and economic security at virtually no cost to the taxpayers," said Jimi Grande, senior vice president in the Washington office of the National Association of Mutual Insurance Cos.

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TRIA

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intended temporary program that has outlived its usefulness. It was enacted the year after the Sept. 11, 2001, terrorist attacks to help the insurance industry shoulder major losses again from terrorism-related disasters.

Significantly, the chairman of the House Financial Services Committee also expressed concerns about the program during last week's hearing.

"Has the 11 years (after enactment of TRIA) allowed the insurance industry to successfully model and to provide products for terrorism coverage without taxpayer support, or has TRIA prevented it?" Rep. Jeb Hensarling, R-Texas, said.

"It would probably come as no surprise to anyone that if we posit that private insurance companies are incapable of modeling this risk, how can we be convinced that the federal government is any better, as our National Flood Insurance Program is under water, pun intended."

Citing the national debt, Social Security and Medicare, "the government has not done a particularly good job," Rep. Hensarling said. "That, ladies and gentlemen, represents a man-made disaster. And it will certainly color my opinion on this matter. I have an open mind. It is not an empty mind. It remains a skeptical mind."

Without the backstop, many workers compensation insurers, which are required by law to cover terrorism exposures, would be

FALLS

Continued from page 3

standing — accounted for 134,580 injuries involving days away from work in 2011, according to the latest data from the U.S. Bureau of Labor Statistics. Such accidents also resulted in 108 worker deaths in 2012 and 111 deaths in 2011, the data showed.

Slips and falls are a prominent cause of concern for employers, said Jennifer Bell, Morgantown, W.Va.-based research epidemiologist with the National Institute for Occupational Safety and Health, a division of the U.S. Centers for Disease Control and Prevention. “The fact that businesses often reach out to us and ask for help with their slip and fall problems is an indicator that companies in a variety of industries are interested in ways to reduce this type of injury,” said Ms. Bell, who noted that slips and falls were the leading cause of lost-time injuries in the finance and insurance sector in 2011.

Meanwhile, the cost of such incidents is significant, according to data from Liberty Mutual. Falls on the same level represented \$8.61 billion in workers comp costs in 2010, the insurer said in its 2012 Workplace Safety Index.

The number of same-level falls increased by 42.3% from 1998 to 2010, the largest increase of any accident type during that time, according to Liberty Mutual. Bodily reaction accidents — which include injuries caused by slipping or tripping without falling — saw the second largest increase of 17.6% during that period.

Liberty’s Mr. Maynard said employers have implemented effective safety measures to deal with workplace slips and falls. That includes placing floor mats to help workers track moisture off their shoes when entering a foyer with smooth floors, or cleaning spilled liquids.

Those precautions have prevented many accidents, Mr. Maynard said. However, he said he strongly believes fall prevention will remain at a plateau until employers work

with design professionals to create buildings that are ergonomically friendly and equipped with safer walking surfaces.

“I think we’re getting better, but I would like to see this become more prevalent and more common in the architect community that they look to slip and fall prevention,” said Mr. Maynard, who noted that such design considerations were used for a new Liberty Mutual office building that recently was constructed in Boston.

While designers typically follow building codes and industry standards for slip-resistant flooring, such protocols don’t necessarily account for everyday wear and tear of floors, or how such surfaces are affected by liquids, debris or contaminants, said Keith Vidal, president of St. Louis-based safety consulting firm Vidal Engineering L.C.

He and other experts note that marble and other smooth flooring materials qualify as being slip-resistant when dry.

“People love to throw in floors that are beautiful,” Mr. Vidal said. “But they’re ... hard, smooth floors

that, once they get wet, pose a serious threat of people falling on them.”

Additionally, floor mats intended to mitigate risks after a building has been designed can sometimes develop curled edges or bumps that trip people, Mr. Vidal said.

Ergonomic building design is a key component of reducing slips and falls in the future, Mr. Vidal said. “Our priorities are essentially to design out the problem, if we can design it out,” he said.

NIOSH launched a Prevention Through Design initiative a few years ago to address ways that architects and engineers can get involved to create safer workplaces. Bureau Veritas’ Ms. Heidel, who previously worked at NIOSH and helped develop the prevention initiative, said the agency has worked to create greater understanding between safety and design professionals.

That includes a push to train engineering and architecture students early in their college educations about safety and ergonomic considerations, Ms. Heidel said.

Experts say employers can take several steps to reduce slips and falls outside of changing their building designs. NIOSH’s Ms. Bell recommends that companies review their workers comp claims and injury records to look for workplace slip and fall trends that can be targeted for intervention.

Mr. Maynard and Mr. Vidal note that flooring treatments and coatings can increase the abrasiveness of marble and other smooth flooring materials, making them more slip-resistant. And they note that companies can look to buy high-quality mats that remove water and dirt from shoes without creating walking hazards.

The cost of replacing floors that create slipping hazards can be significant for companies, experts note. Still, they say such strategies could be worth the money saved in workers comp liabilities.

“To replace a floor, especially in entrance ways where these problems typically occur ... can be relatively inexpensive compared to the expense of going through litigation,” Mr. Vidal said.

SHOOTING

Continued from page 1

Navy property.

Mr. Alexis, a temporary employee of a defense contractor with a high-level security clearance, reportedly had shown signs of possible mental illness but apparently did not receive psychiatric treatment. He had been arrested in Fort Worth, Texas, in September 2010 on a misdemeanor gun charge and in Seattle in 2004 for malicious mischief, but was not convicted on either charge. And he had a poor disciplinary record in the Navy, but received an honorable discharge in 2011.

Experts say employers often face the dilemma of weighing the possible danger of hiring employees with mental health or legal problems against the risk of running afoul of anti-discrimination laws and the U.S. Equal Employment Opportunity Commission’s criminal background check policy. The EEOC would permit employers to reject applicants only in certain cases when there has been a conviction.

“There is a balancing act with regard to that need to know and policy restrictions and consumers’ rights,” said Judy Gootkind, chairman of the Morrisville, N.C.-based National Association of Professional Background Screeners.

“Arrest records have restrictions,” said Ms. Gootkind, who also is vice president of finance and administration at employment screening specialist Creative Services Inc. in Mansfield, Mass. “We really can only report when there is a conviction. That’s a key, and I think in this case, some of (Mr. Alexis’) situations did not result in a conviction, so they may not have been deemed reportable.”

In addition, health-related and mental health-related information “is always to be kept confidential,” said Tracy Knippenburg Gillis, global reputational risk and crisis management practice leader at Marsh Risk Consulting in New York. “So it does create a natural restriction ... of how much information is shared and with whom.”

Despite the restrictions, many expect



AP PHOTO

Military personnel entering the Washington Navy Yard have their identification checked after last week’s mass shooting.

employers to be “sort of minders of the gate,” which is a “pretty steep burden,” said Michael W. Fox, a shareholder with Ogletree, Deakins, Nash, Smoak & Stewart P.C. in Austin, Texas.

Mr. Alexis had worked for The Experts Inc., a Florida subcontractor to a unit of Palo Alto, Calif.-based Hewlett-Packard Co. that was hired to refresh computer equipment used on the Navy Marine Corps intranet.

HP said in a statement that it is “cooperating fully with law enforcement.”

The Experts said Mr. Alexis had been employed about six months by the firm, during which a service performed two background checks and twice confirmed his government clearance with the U.S. Department of Defense. The latest checks in June “revealed no issues other than one minor traffic violation,” the Fort Lauderdale, Fla.-based company said in the statement.

“The consumer reporting agency (that performed the background check) may have done exactly what they should have done ... and it may have been a case of the reporting agency being constrained by certain restric-

tions,” Ms. Gootkind said.

“Companies need to do thorough background checks for people that they hire, particularly for contractors,” said W. Barry Nixon, executive director of the National Institute for the Prevention of Workplace Violence Inc. in Lake Forest, Calif. “That’s often a hole for many companies: They screen their employees, but they don’t screen their contractors’ (employees).”

Rick Shaw, CEO of Awareness Inc., a Lincoln, Neb.-based provider of threat assessment, management and prevention solutions, said, “Certainly, background checks are huge.” But that information too often is “siloes” among different groups collecting individuals’ background information, leading to failures to make connections that might have revealed risks to employers or government agencies.

There is no doubt the Navy Yard shootings will prompt lawsuits, legal experts say.

“Victims and families of victims will be looking to see whether his employer was negligent in hiring and allowing him access to the Navy Yard,” said Martha J. Zackin, a

partner with Bello Black & Welsh L.L.P. in Boston.

But the issue of federal government immunity from liability might arise.

Employers of Mr. Alexis could be found liable if it is determined his actions were foreseeable, said David Shlansky, managing partner at the Shlansky Law Group L.L.C. in Waltham, Mass.

But Robin E. Shea, a partner with Constangy, Brooks & Smith L.L.P. in Winston-Salem, N.C., said, “I’m not sure, from our current state of the law, anything could have been done” to prevent the incident or to keep him from working at the Navy Yard.

“This may very well turn out to be just an unfortunate turn of events where this could not have been prevented by any of the means we have now,” said Richard B. Cohen, a partner at Fox Rothschild L.L.P. in New York.

Given the EEOC’s criminal background check policy, employers “don’t really have an option” to not hire employees with gun-related issues if there is no conviction, said Diana Hoover, a partner with law firm Hoover Kernell L.L.P. in Houston.

When employers deal with an employee they think might be mentally unstable, it “raises the specter of a potential disability discrimination problem,” said Jonathan T. Hyman, a partner with Kohrman Jackson & Krantz P.L.L. in Cleveland. But as more workplace shootings occur, a “sliding scale” moves toward providing employers with justification to act when they perceive a threat, he said.

Thomas Servodidio, a partner with Duane Morris L.L.P. in Philadelphia, said one option for employers is to conduct a thorough investigation under the Fair Credit Reporting Act, although it requires the individual’s consent.

Ms. Gillis said that each employer needs to decide the appropriate level of security balanced with making employees comfortable in reporting concerns about a co-worker’s behavior, and what a human resources professional should do with the information.

“It’s important that you’re constantly reviewing, revising, revisiting your processes,” Ms. Gillis said. “It’s easy to become complacent.”

Commercial lines insurance pricing up 6% in 2nd quarter

Commercial lines insurance prices continued their trend of steady increases during the second quarter of 2013, according to Towers Watson & Co., increasing by 6% over prices during the same period in 2012. The largest price increases during the second quarter were in workers compensation and employment practices liability lines, with no line of business having an overall price increase of less than 4%.

\$2 billion in economic damages estimated from Colo. floods: Egecat

This month's Colorado floods are likely to produce more than \$2 billion in economic damages, according to risk modeling firm Egecat Inc. Of those costs, around \$900 million will be for residential property and living expenses, with the remainder represented by losses to commercial and government properties. Egecat noted that the floods have caused significant damage not only to residential and commercial properties but also to roads and bridges, and that closed roads and associated detours will add to business and employment costs.

JLT buys Towers Watson's reinsurance brokerage business

Jardine Lloyd Thompson Group P.L.C. will acquire the reinsurance brokerage business of Towers Watson & Co. for a cash consideration

of \$250 million, the companies said. In a joint statement, the brokers said that when the deal, which is subject to regulatory approval and which is expected to close by the end of the year, is completed, Towers Watson's reinsurance brokerage business will be merged with JLT's reinsurance business, JLT Reinsurance Brokers Ltd. The combined business, called JLT Towers Re for a transitional period, will operate in the international reinsurance market with combined revenue of \$266 million and 700 people in 35 locations in 17 countries.

AIG cuts reinsurance ties with rival Berkshire Hathaway

American International Group Inc. has decided to stop signing new reinsurance contracts with Warren Buffett's Berkshire Hathaway Inc. due to competitive reasons, Bloomberg News reported, citing an unidentified person familiar with the decision. AIG stopped entering new deals with Berkshire units, including National Indemnity Co. and General Re, about two months ago, but existing contracts will not be affected, Bloomberg said, citing the person. The decision comes after Berkshire hired away senior AIG executives and Mr. Buffett said he planned to expand his company's commercial insurance operations that compete with AIG.

Reuters

Pension plan funding levels dipped in August: Milliman

Funding levels of pension plans sponsored by large publicly held U.S. employers slipped in

August as rising interest rates, which decreased the value of plan liabilities, did not quite offset a drop in plan assets due to investment losses, Milliman Inc. said. Defined benefit plans offered by the 100 U.S. employers with the largest pension programs were an average of 89.4% funded as of Aug. 31, down from 89.9% at the end of July.

California comp rating bureau proposes 6.9% rate increase

The Workers' Compensation Insurance Rating Bureau of California announced that it will propose a 6.9% advisory pure premium rate increase for Jan. 1, 2014. The WCIRB's filing will reflect rates averaging \$2.70 per \$100 of payroll, up from the \$2.53 per \$100 of payroll that has been the industry average for filed pure premiums rates as of July 1.

FDA requires new label warnings for opioid pain relievers

The U.S. Food and Drug Administration is requiring new product label warnings for long-acting opioid pain relievers to combat prescription narcotic misuse, addiction and overdose deaths. The requirements are intended to educate prescribers and patients, and will apply to narcotic pain relievers such as OxyContin, a prescription drug often cited in studies as a significant driver of workers compensation costs. The updated language will say the drugs are for managing pain severe enough to require around-the-clock, long-term opioid treatment when alternative treatments are inadequate.

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IUMI

Continued from page 3

based in Gothenburg, Sweden.

The hull and machinery market is not simply in a soft market, it is in "a prolonged coma," said Andrea Cupido, head of marine hull for Italy and Continental Europe at Swiss Re Corporate Solutions, a unit of Swiss Re Ltd., in Genoa, Italy.

"We need underwriting discipline, to get back to basics," Mr. Cupido said.

"Most hull underwriters would testify that underwriting discipline is required and is being exercised, but the figures tell us a different story," said Mr. Rhodin. "Do we know the risk, and can it be adequately priced?"

Tom Bolt, director of performance management at Lloyd's of London, told delegates at last week's IUMI conference in London that many business plans for marine hull needed to be "more realistic" and that many underwriters are failing to adequately price risks.

Even headline-grabbing losses, such as the sinking of the Costa Concordia cruise ship and Superstorm Sandy, have not resulted in rate increases large enough to return the sector to profitability, said Just-Arne Storvik, founder and senior partner of London-based ReCap Solutions.

Piracy dogs West Africa coast

LONDON — While the threat of piracy from the Gulf of Aden has diminished in recent months, the growing piracy risk in West African waters the past two years brings new and challenging exposures for shipowners and the marine insurance market.

Executives at the International Union of Marine Insurance's annual conference in London said last week said that while the location has shifted, piracy remains a major risk.

"Now the threat has shifted to West Africa, there are new concerns and exposures to analyze," said Dennis Marvin, chairman of IUMI's cargo committee and a vice president at American International Group Inc.

"As an intelligence puzzle, West African piracy is a hard one to crack, especially when compared to its Somali equivalent," said Jim Mainstone, head of intelligence at Oxford, England-based Gray Page Ltd.

Currently, much of the pricing of marine hull risks is "unsophisticated and not exposure-based," Mr.

"If you want to properly understand the threat, forget about Somalia and analyze West Africa from first principles," Mr. Page said. Piracy in West African waters is akin to organized crime, and the pirates that board a vessel "are the tip of the iceberg."

Unlike most pirates in the Gulf of Aden, West African pirates typically are backed by a sophisticated network of organized crime, Mr. Page said. They often have access to detailed information about cargo being shipped and access to illegal storage facilities and the contacts via whom they can sell goods on the black market.

"It's a near-perfect crime," he said. "It is quick, it raises a lot of money very quickly, no one really gets hurt and no one is going to do, or is doing, very much about it."

The "big winners" are the criminal gangs, he said, "and there is only one loser, which is the cargo interests."

By Sarah Veysey

Storvik said.

Hull underwriters may be behind the curve in assessing and pricing

risks, he said.

For example, exposures associated with ever-larger vessels may not be well understood, he said, and the market also may be underestimating the long-term cost of regulation, among other factors.

The market needs to become more transparent and share information on losses — and even on near-misses — to correctly price such risks, he said.

Underwriters need better access to data and improved calibration of models, noted Lloyd's Mr. Bolt.

"Statistics are the key to the future. They are the most precious asset we have," said Mr. Rhodin.

"We all know that prices are inadequate. We're a laughing-stock. Brokers laugh at us, shipowners take advantage of us," said Peter Townsend, a director and head of London marine at Swiss Re Corporate Solutions in London. "We all know it, but we perpetuate it."

He argued that "a weak market is not good for anyone," including shipowners, since underwriters do not differentiate sufficiently between good and bad risks."

Underwriters need to properly use the tools available to them and share claims data to create better models, said Tord Nilsson, senior manager for underwriting and special risks at the Swedish Club.

"We need to be disciplined enough to turn away business if the price is not acceptable," he said.



HELGA ESTEB/SHUTTERSTOCK.COM

A recent court ruling says Stan Lee Media can't relitigate comic ownership issues.

Comic book author gets no legal relief

Like many of the superhero characters he created, Stan Lee doesn't give up easily.

Since emerging from bankruptcy a decade ago, Stan Lee Media Inc., the company founded by the legendary comic book author, has been battling in courts across the country to recoup the rights to its coveted comic franchises, which it transferred to Marvel Enterprises Inc. in a 1998 agreement.

In its latest round, a Colorado judge has ruled that SLM does not have legal standing to relitigate the issue of its ownership of the comic copyrights.

Moreover, the Colorado judge found that SLM can't stake a claim for copyright infringement because that would require "ownership of a valid copyright," which it does not have.

Despite this latest quashing by the courts, that burning question still remains: Is this really the end of the epic battle over ownership of valuable comic franchises? Or will Stan Lee Media's copyright suit rise again?

Law student sues his law school

Most students who are unhappy with their schools can do little but grin and bear it, but that's not necessarily the case with law students, and at least one such student has taken advantage of that.

Jackson Millikan, a student at Thomas Jefferson School of Law in San Diego, has filed his own lawsuit against the school over a dispute about retaking a class in which he received a D grade.

Mr. Millikan contends in his lawsuit, filed in U.S. District Court in San Diego, that when he heard nothing more of the demand he retake the course over the summer, he tried to take other courses, only to find he was automatically enrolled in the course and could not take other classes he desired. When he dropped the class, he was re-enrolled and his account was frozen so he could not continue the registration process or access his transcripts.

There is a lot more in the 24-page complaint, however, which requests damages — as well as attorney's fees.

At the very least, even if his case doesn't proceed, perhaps Mr. Millikan feels better just getting all his grievances off his chest.

INSURANCE CHARITY COVERS BIG BIRD'S LITERACY PROGRAM



FEATUREFLASH/SHUTTERSTOCK.COM

An insurance industry charitable foundation is supporting childhood literacy.

Soon the Cookie Monster will have more money for cookies under a new partnership with the Insurance Industry Charitable Foundation. The IICF's National Grant Committee is pledging \$750,000 to Sesame Workshop over a three-year period to launch an early literacy program for underserved children.

The partnership will develop a program that provides parents, caregivers and facilitators with tools to nurture development of young children's essential literacy skills, targeting low-income communities within IICF's four regional U.S. divisions.

Beginning this fall, the program will consist of a multimedia campaign including Sesame Street video segments, fun educational materials that can be downloaded from the Internet, and a dedicated section on the Sesamestreet.org website and mobile site.

"Sesame Street is always looking to establish a strong language foundation in the early childhood period, as we know this is critical for the success of our children in the future," said H. Melvin Ming, president and CEO of Sesame Workshop, in a statement issued last March.

Specifics of the program will be unveiled at an event Oct. 11 at the New York City Library, where Sesame Street characters will be in attendance.

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Bar owner wants 'rescue' from stiff fine

A Connecticut bar owner is finding herself in legal peril after her establishment received a makeover courtesy of the Spike TV show "Bar Rescue."

The owner, Elizabeth Mitchell-Cipriano, was sued by the town of Stonington, Conn., over the changes made to her biker bar, the Handlebar Café. The lawsuit was filed after Ms. Mitchell-Cipriano failed to remove a mural and set of giant handlebars installed at the bar in May by the crew of "Bar Rescue," a reality show that chronicles the transformation of struggling drinking establishments.

Although Ms. Mitchell-Cipriano and other thinking people regard the alterations as merely aesthetic, the town's planning and zoning commission contends that she failed to get the proper permits for the bar's rehabilitation.

Ms. Mitchell-Cipriano, who faces fines of at least \$100 a day if she is found to have willfully violated zoning regulations, told a local newspaper that the show's crew left her with the impression that the proper permits had been obtained.

"I feel there's other things the town could be spending money on instead of a harmless set of handlebars on the roof," she told *The Day*. "It's not offensive to anyone. If I put a potted plant out front, will I need a permit for that, too?"



Cash reward for comp fraud tips

A temporary staffing firm says it will pay up to \$10,000 in reward money to employees reporting co-workers they suspect of committing workers compensation fraud.

AtWork Group, a Knoxville, Tenn.-based staffing company franchisor, says it is putting up 3-foot-by-4-foot reward posters in its branch locations announcing the offer.

The company hopes the reward money and posters will serve as a psychological deterrent to an "alarming trend" of workers comp fraud, said Jason Leverant, AtWork Group's chief operating officer.

But the reward offer comes with terms and conditions that must be met. For instance, the amount of reward paid out will depend on the successful prosecution of a perpetrator and the monetary amount of their fraud.

Employees who want to remain anonymous when reporting fraud, rather than publicly helping with a prosecution, would receive less money, Mr. Leverant said.

With the company's insurance costs increasing, deterring fraud is a way to promote savings, Mr. Leverant said in a telephone interview.

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