

COMP COSTS

Employer workers comp costs by year, per \$100 of payroll

Year	BLS	Academy
2009	\$2.03	\$1.30
2010	\$1.95	\$1.25
2011	\$1.88	\$1.29
2012	\$1.80	\$1.32
2013	\$1.78	\$1.37
2014	\$1.77	N/A

Sources: U.S. Bureau of Labor Statistics, National Academy of Social Insurance

WORKERS COMPENSATION

Workers seeing fewer comp benefits

Calculation of employer savings in dispute

BY SHEENA HARRISON

While recent analyses disagree on whether workers compensation claim costs are increasing for employers, researchers say injured workers' benefits are decreasing as accident rates decline and states raise the bar to receive comp benefits.

"A lot of workers who used to qualify for workers comp benefits no longer do," said John F. Burton, professor emeritus at Rutgers University in New Brunswick, New Jersey, and Cornell University in Ithaca, New York. "That means the amount of benefits being paid goes down, and the major determinant of costs for employers is the benefits that are paid to workers."

A study by Mr. Burton's consulting firm, Workers' Compensation

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DIRECTORS & OFFICERS LIABILITY

VOLKSWAGEN'S EXPOSURE TO D&O SUITS LIMITED IN U.S.

But litigation over diesel scandal underway



AP PHOTO

Volkswagen A.G. has been accused of cheating on the emissions results for millions of vehicles that they had claimed ushered in an era of clean diesel.

BY JUDY GREENWALD

Germany is likely to be the primary focus of shareholders' directors and officers liability litigation against Volkswagen A.G. over software in its diesel cars allegedly designed to curb pollution only during emissions testing.

While at least one D&O suit has been filed in the

United States in addition to dozens of proposed class actions filed on behalf of consumers, experts say the U.S. Supreme Court's 2010 ruling in *Robert Morrison et al. v. National Australia Bank Ltd.* would restrict U.S. investor litigation to those who bought VW's American depository receipt

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HEALTH CARE BENEFITS

Health care premium hikes remain muted

Widespread efforts to shift costs take effect

BY JERRY GEISEL

Employer adoption of high-deductible health plans continue to help keep the lid on premium increases, but experts question how much longer the multiyear run of modest increases will continue.

In 2015, group health plan premiums for family coverage rose 4.2% to an average \$17,545 per employee, according to a Kaiser Family Foundation survey of nearly 2,000 employers released last week.

That compares with a 3% increase for family coverage in 2014 and 3.8% in 2013.

Similarly, this year's 3.8% average increase for single coverage, which rose to \$6,251, compares with a 2.4% rise in 2014 and 4.8% in 2013.

The survey results "continue a remarkable 10-year run in moderate increases in premiums and health care costs," Kaiser Family Foundation President and CEO Drew Altman said during a briefing.

Indeed, health plan premium increases for family coverage have averaged 5% annually over the past decade, less than half the 11% average annual increase from 1999 to 2005.

A key factor limiting the increases has been employers' shifting

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Q&A: THOMAS P. RUGGIERI

CEO of Cooper Gay Swett & Crawford Ltd.'s North American operations on surplus lines

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Reinsurance rates are likely to fall at the January renewals, but the bottom may be near.

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A well-thought-out disaster plan keeps companies resilient; Superstorm Sandy spurred planning to ensure infrastructure can sustain storm damage; backers of a more effective federal catastrophe mitigation policy are optimistic.

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*Balance sheets as of 12/31/14 for the Berkshire Hathaway National Indemnity group of insurance companies.

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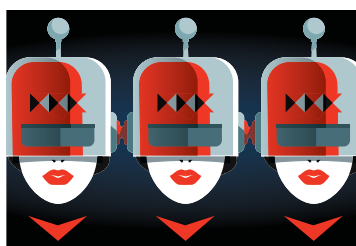
A long record of public good



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NEWS

DIRECTORS & OFFICERS LIABILITY

JUSTICE DEPARTMENT PROBES MAY LEAD TO HIGHER D&O RATES

Government to pursue corporate executives

BY JUDY GREENWALD

A U.S. Department of Justice memorandum reinforcing its policy to pursue executive wrongdoers could result in higher directors and officers liability insurance costs and drive a wedge between executives and their firms in defending such actions.

However, experts say underwriters are likely to see how the Justice Department stance plays out before making any changes.

In a Sept. 9 memo to U.S. attorneys, Deputy U.S. Attorney General Sally Quillian Yates said, “One of the most effective ways to combat corporate misconduct is by seeking accountability from the individuals who perpetrated the wrongdoing.”

Ms. Yates said six steps should be taken to investigate corporate misconduct (see box).

The Justice Department “has taken a lot of flack for not holding people accountable for a multiyear financial institution breakdown, so I think it’s partly (public relations) to make up for that,” said Phil Norton, Chicago-based president of Arthur J. Gallagher & Co.’s professional liability division.

Justice “is under political pressure and popular pressure, and so I think there will be big pressure on them” to obtain guilty pleas



In a memo sent to U.S. attorneys, Deputy U.S. Attorney General Sally Quillian Yates said corporate misconduct investigations should include six steps.

- 1 To obtain credit for their cooperation, companies must provide “all relevant facts” relating to individuals responsible for the misconduct.
- 2 Criminal and civil corporate investigations should focus on individuals from their inception.
- 3 Criminal and civil attorneys handling corporate investigations should routinely communicate with one another.
- 4 Absent extraordinary circumstances, culpable individuals should not be released from civil or criminal liability when a corporate matter is resolved.
- 5 U.S. Justice Department attorneys should not resolve matters with a corporation without a “clear plan” related to individual cases against executives.
- 6 Civil attorneys should consistently focus on individuals as well as the company, and evaluate whether to bring suit against an individual “based on considerations beyond that individual’s ability to pay.”

from individuals, said Kevin LaCroix, executive vice president at RT ProExec, a division of R-T Specialty L.L.C. in Beachwood, Ohio. “I wouldn’t want to be the

individual that’s caught up in this.” While Justice “may not be able to make any case against

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HEALTH CARE REFORM

Contraceptive coverage mandate under fire

BY MATT DUNNING

Religious nonprofits fighting the federal health care reform law’s contraceptive mandate may get their day before the U.S. Supreme Court, where they would argue that even relaxed requirements violate their right to religious freedom.

The Supreme Court could grant a hearing to one or more religious nonprofit employers challenging the coverage mandate as early as next month and potentially resolve a key question unanswered in the court’s 2014 ruling *Hobby Lobby Stores Inc. v. Sylvia Burwell et al.*: Does the Obama administration’s

accommodation for nonprofit groups violate the Religious Freedom Restoration Act?

Experts say a hearing before the high court is highly likely in light of a ruling earlier this month by a three-judge panel of the 8th U.S. Circuit Court of Appeals in St. Louis in favor of religious nonprofits challenging the accommodation’s legality, directly contradicting previous decisions by seven other appeals courts.

Ruling in two cases, the 8th Circuit upheld lower court orders temporarily barring the government from forcing religiously affiliated schools, hospital systems and other charities to offer their

employees cost-free prescription contraceptives or, under a religious charity accommodation finalized in July, pass the obligation to their health insurers or third-party health plan administrators.

The 8th Circuit’s ruling contrasts sharply with seven other appeals courts, which ruled that requiring nonprofits to notify the government or their insurers and TPAs of their objections does not violate their religious freedom rights.

Plaintiffs in the seven cases decided earlier have already petitioned the high court for a hearing.

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AGENTS & BROKERS

Web-based benefit brokers shake up model

Traditional shops react with caution

BY SHELBY LIVINGSTON

Deep-pocketed startups in the benefits business are grabbing headlines, winning customers and making old school brokers sweat, but they’re also igniting change in the way traditional brokers operate.

Since 2013, San Francisco-based human resources and benefits startup Zenefits Inc. has garnered attention for its unorthodox business model of giving away its human resources platform for free in exchange for handling its small-business customers’ benefits.

The firm, which makes money from commissions paid by insurers, now is expanding its services with a free Patient Protection and Affordable Care Act compliance tool announced Sept. 21.

Meanwhile ZenPayroll Inc., a 4-year-old payroll administrator also based in San Francisco and pegged by media outlets as Zenefits’ new competitor, on Sept. 17 rebranded as Gusto Insurance Services L.L.C. and said it will sell benefits to small businesses in California with plans to expand to other states.

It already has a leg up with “tens of thousands” of payroll customers nationwide, a company spokeswoman said.

While established benefits brokers argue these startups sacrifice “high-touch” advisory services in favor of a low-touch, high-tech experience, there’s some disagreement.

“We have only been recruiting brokers who have years to decades of experience providing health benefits and benefits counsel to small-business owners,” said Lauren Fifield, Gusto’s San Francisco-based head of health benefits operations. “I think there are some things technology can do really well ... but I think you can’t ever really use technology to replace expertise.”

On its website, Zenefits touts its eight- and 12-year “veteran” brokers alongside its “innovative technology.” It did not respond to requests for an interview.

With or without expertise, technology may be enough lure clients.

“There are efficiency trade-offs that buyers are willing to make,”

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ONLINE
FEATURES

VIDEO

Disaster preparedness key for tornado safety

Readying for the world's most powerful, unpredictable and destructive storms.
www.BusinessInsurance.com/TornadoSafety

VIDEO



In Focus: 3D printing risks

Innovative technology brings new liabilities and legal issues.
www.BusinessInsurance.com/InFocus

GALLERY

Costliest U.S. wildfires

With first-half wildfire losses topping \$1.3 billion, a look at the 10 biggest wildfires so far this year.
www.BusinessInsurance.com/Wildfires

RESEARCH

2015 directory of wholesalers



Everything you need to know about the U.S. excess and surplus lines sector, including listings for surplus lines

insurers, wholesale brokers and state surplus lines taxes.
www.BusinessInsurance.com/Whosalers

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NEWS

INTERNATIONAL

ZURICH REVIEWS BUSINESS AFTER PULLING OUT OF U.K. BUY

Future of RSA unclear as options remain limited

BY SARAH VEYSEY

Zurich Insurance Group Ltd.'s abandonment of its multibillion-dollar bid for RSA Insurance Group P.L.C. has left some doubt whether there will be another offer for RSA as Zurich works to improve its own recent poor performance.

In calling off its tentative £5.6 billion (\$8.79 billion) bid last week for RSA just one day before the deadline to make a formal offer, Zurich said it is undertaking a review of its own nonlife business.

While Zurich said it found nothing during the due diligence process that would have prevented it offering to buy RSA, Zurich also said its expected a \$275 million loss from a series of August explosions at the port of Tianjin, China, and other adverse third-quarter developments — including the need to strengthen its U.S. auto liability and U.S. construction reserves by about \$300 million — mean that its nonlife insurance segment is likely to report a \$200 million loss for the quarter.

In light of the “recent deterioration in the trading performance” of its nonlife insurance business, Zurich said in a statement, it had terminated its RSA offer and will take “the necessary action to deliver on the required performance of



AP PHOTO

Zurich said losses from explosions at the port of Tianjin, China, and other claims mean that its nonlife unit will likely report a loss for the third quarter.

the general insurance business.”

Zurich said Kristof Terry, its recently appointed CEO of general insurance, would conduct the in-depth review of nonlife operations.

For its part, RSA reiterated that Zurich's approach was unsolicited and said its insurance business performance for July and August — more detail of which will be given Nov. 5 in an interim management statement — was ahead of expectations.

“The board and management of RSA look forward to the future with confidence,” RSA said in a statement.

In addition, RSA CEO Stephen Hester said he would not be surprised if other suitors came forward.

But analysts weren't convinced that RSA, which had earlier financial problems leading to the selloff of most of its business and contracting its operations to the U.K. and Scandinavia, would get another offer.

“Zurich had a particularly strong combination of funding capacity and synergies with RSA; thus, if Zurich couldn't make it work, we

See RSA page 25

LIABILITY & LITIGATION

Supreme Court to take on risk management cases

BY MARK A. HOFMANN

The U.S. Supreme Court has agreed to hear several cases of interest to risk managers in the 2015-2016 term that begins next week. In a case involving arbitration, the court will hear oral arguments in *DirecTV Inc. v. Amy Imburgia et al.* on Oct. 6

“The issue is whether the California Court of Appeal erred by holding, in direct conflict” with the 9th U.S. Circuit Court of Appeals, “that a reference to state law in an arbitration agreement governed by the Federal Arbitration Act requires the application of a state law pre-empted by the FAA,” the Washington-based National Association of Manufacturers said in a description of the case.

The case involves a class action brought under the California Consumers Legal Remedies Act in which the state appellate court refused to compel arbitration

by applying state law. The agreement between DirecTV and customers prohibits arbitration on a classwide basis and says the entire arbitration section is void if state law nullifies such a prohibition.

The federal arbitration law requires both state and federal courts to interpret and enforce arbitration agreements according to their terms, and to resolve any doubts in favor of arbitration.

“If the class actions are allowed for disputes that would normally be settled by arbitration, that will potentially increase the costs substantially for dealing with these types of cases,” said Quentin Riegel, vice president and deputy general counsel of the Washington-based manufacturers' group.

“DirecTV is another case in the ongoing interest in the court in arbitration cases,” said Glenn Lammi,

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EXCESS & SURPLUS LINES

Merger guessing game

More deals expected in specialty lines sector

BY JUDY GREENWALD

SAN DIEGO — Merger and acquisitions continue to affect the property/casualty market in general and the excess and surplus lines market in particular, raising the question of which companies will be the next to merge.

Pricing of E&S coverage is expected to remain competitive but stable over the next year as buyers and insurers focus on covering cyber and drone risks.

The biggest topic of conversation at the National Association of Professional Surplus Lines Offices Ltd. conference earlier this month was “who's next on the acquisition scene,” said Alan J. Kaufman, Farmington, Michigan-based president and CEO of H.W. Kaufman Financial Group and Burns & Wilcox Brokerage.

People are speculating as to what it means, how it will affect the insurance industry and what company is next, he said.

“Taking that down a layer,” they are also concerned about M&As among E&S insurers, Mr. Kaufman said during the Sept. 9-11 conference in San Diego.

Scott Barraclough, executive vice president of Mount Laurel, New Jersey-based Admiral Insurance Co., said in addition to excess capital boosting M&As, “a large number of wholesalers ... are positioned to be sold. They're looking for a way to cash out.”

Discussing Ace Ltd.'s purchase of Chubb Corp., David J. Lupica, Alpharetta, Georgia-based division president of Ace Commercial Risk Services, said the companies “match up very well.” When looking “at where Ace was very strong and where Chubb was very strong ... there's not a lot of overlap” in combining them, he said.

More M&As are “inevitable,” said Mac Wesson, Dallas-based president and chief operating officer of U.S. Risk Insurance Group Inc. “Companies strive for more market share and for greater efficiencies the smaller companies cannot enjoy.”

Andy Swenson, New York-based chief operating officer of specialty products at Zurich North America, said while the E&S market is

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REINSURANCE

BUYER'S MARKET CONTINUES AS REINSURANCE RATES KEEP FALLING

Property cat sector remains competitive but pace of declines slows

BY SARAH VEYSEY AND MATTHEW LERNER

MONTE CARLO, Monaco — Rates for property catastrophe reinsurance are likely to fall at the January renewals, but there are signs that the bottom of the pricing cycle may be approaching.

While an absence of large catastrophe losses this year means rates are likely to continue declining, the double-digit pace of those declines is slowing to single digits at best, experts said during the Rendez-Vous de Septembre reinsurance meeting in Monte Carlo, Monaco, earlier this month.

At the midyear renewals, sources said, some programs were not fully placed and were repriced at higher rates.

"I think there's continued pricing pressure in the industry, muted by a strong consensus that the downward slope is beginning to flatten out. We are seeing some programs in various lines just barely clear or fall short of the required capacity," said Jay Nichols, CEO of Axis Reinsurance Co. in Zurich. "From our vantage point, we certainly see a declining slope when it comes to pricing decreases."

"Do we expect to see the level of rate reductions that we witnessed



SARAH VEYSEY

for the prior two January renewals seasons in the U.S. property catastrophe market? The answer is: No,

we don't," said James Kent, co-president of Willis Re Inc., and president of Willis Re North Amer-

The Rendez-Vous de Septembre, held in Monte Carlo each year, marks the beginning of the reinsurance renewal season.

ica, units of Willis Group Holdings P.L.C.

He said buyers are aware that the average midyear percentage declines at the midyear renewals likely would not be possible early next year since reinsurers likely will walk away from some low-priced business.

The pace of property catastrophe rate declines slowed at midyear, the first time in nearly three years, said David Flandro, global head of analytics at JLT Re in New York, a unit of London-based Jardine Lloyd Thompson P.L.C.

"We saw rates fall by 8.2% on June 1 on average," he said. "The trajectory is still negative, but the direction of negativity is less than it was before."

"If you look at the trajectory of what happened on June 1, if nothing happens between June 1 and Jan. 1, there's not much reason for Jan. 1 to be much different," Mr. Flandro said.

The midyear rate reduction

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REINSURANCE

Soft market stems flood of new capital

Investors still interested but growth rate slows as market matures

BY MATTHEW LERNER AND SARAH VEYSEY

MONTE CARLO, Monaco — Despite Aon Benfield's less optimistic guidance on the growth of insurance-linked securities, those on the sidelines of the Rendez-Vous de Septembre remain bullish on ILS growth even if it's more slowly than recent years.

The unit of Aon P.L.C. now sees alternative capital hitting \$120 billion to \$150 billion by the end of 2018 instead of the end of 2017, Paul Schultz, president and CEO of Aon Securities in Chicago, said during a media briefing at the reinsurance industry's annual summit in Monte Carlo, Monaco.

While attendees at the Sept. 13-16 gathering took to heart the slowing forecast, most retained high expectations that capital will continue to flow into the reinsurance sector.

"There's nothing we see on the horizon that would indicate the interest from investors is going to wane," said David Priebe, New York-based vice chairman of Guy Carpenter & Co. L.L.C., a unit of Marsh & McLennan Cos. Inc. "We think it will continue to grow."

Catastrophe bond issuance remains strong, and alternative capital totals about \$60 billion, or about 18% of the global property cat reinsurance capacity, said Brian Schneider, a senior director at Fitch Ratings Ltd. in Chicago.

Such capital is less and less an "alternative" way of doing business and has become more mainstream, he said.

"We shouldn't call it alternative. It's capital," Mr. Priebe said.

"Is it embedded in a rated balance sheet, or is it in a special-purpose vehicle that is more fluid, being dedicated to a certain set of exposures, that is there to support that risk? Once the need expires, it is either returned to the investor or reinvested in another risk," he said.

"Capital has always come into the system. What is new is where the capital is coming in," said Jay Nichols, CEO of Axis Reinsurance Co. in Zurich.

"Pension funds, hedge funds and private equity funds historically

See **ALTERNATIVE** page 23

REINSURERS LOOK TO CASUALTY MARKET FOR BETTER RETURNS

Rates for casualty reinsurance continue to soften, but they are less than declines in property catastrophe coverage.

Experts gathered at the Rendez-Vous de Septembre reinsurance meeting earlier this month — the traditional kickoff of the reinsurance renewal season — said intense competition in property catastrophe coverage has prompted reinsurers to move capacity to casualty lines.

Casualty rates are softening because there has been a shift of capacity out of property catastrophe business, said Martyn Street, a senior director at Fitch Ratings Ltd. in London.

The U.S. casualty market continues to soften in part because many underwriters have diversified into casualty as property catastrophe rates have fallen, said David Priebe, vice chairman of Guy Carpenter & Co. L.L.C.

But the pace of those declines, is slower than other lines in part because established players still dominate the casualty market,

he said.

"Casualty insurance prices are falling. And ceding commissions have fallen in reinsurance too and may be reaching a floor," said Greg Hendrick, CEO of reinsurance at XL Catlin Group P.L.C.

While cedents have attempted to broaden terms and conditions for property catastrophe business, there has been little change in casualty terms and conditions, said Jurgen Graber, a member of the executive board with responsibility for property/casualty business and coordinating global reinsurance at Hannover Re S.E.

It is difficult to predict what will happen to rates in casualty classes over the next year because so much depends on what happens to interest rates, said Ross Howard, executive chairman of JLT Re, the reinsurance brokerage arm of London-based Jardine Lloyd Thompson P.L.C.

It is likely that interest rates, and inflation, will go up at some point, which may prompt

casualty buyers to look at new solutions, he said. Longtail lines of reinsurance, such as casualty, are particularly affected by interest rate changes as they affect investment returns used to offset underwriting.

"Rate movements in casualty classes are very hard to predict because interest rates are such an important factor," said Mr. Howard. But "we all believe that interest rates are going to go up" at some point soon, he said.

For primary U.S. casualty business, there likely will be some rate increases, but reinsurance rates remain under pressure, said Matthias Weber, group chief underwriting officer at Swiss Re Ltd.

There is less rate pressure on small to mid-size casualty business than on larger casualty business, said Mike Krefta, chief underwriting officer at Hiscox Re, the reinsurance arm of Hamilton, Bermuda-based Hiscox Ltd.

By Sarah Veysey and Matthew Lerner



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Ace to offer cyber policies with \$100 million in coverage

■ Insurer Ace Ltd. plans to start offering cyber security policies providing up to \$100 million in coverage at a time when experts say it is hard for businesses to obtain such large coverage following the surge in high-profile breaches. The plan comes with services from firms that help identify cyber security vulnerabilities and respond to cyber attacks. They include BitSight Technologies, FireEye Inc.'s Mandiant services group, Navigant Consulting Inc., NetDiligence, Promontory Financial Group and Verizon Communications Inc. To apply for a policy, customers go through intensive scrutiny during underwriting, a process that includes reviews of cyber security defenses, strategies for mitigating the impact of breaches and board plans for responding to attacks, said Toby Merrill, division senior vice president for Ace Group's global cyber practice.

Reuters

Pope's 'uncontained' Philadelphia visit is heavily insured

■ W.R. Berkley Corp., Greenwich, Connecticut, and One Beacon Insurance Group of New York were lead insurers for Pope Francis' visit to the United States last week, said New York-based insurance brokerage Dewitt Stern Group Inc. Calling it "probably the biggest special event I've ever handled," LeConte Moore, managing director of the entertainment and media division at Dewitt Stern, said the visit posed special risks due to its "uncontained" nature where large numbers of people could line parade routes. The policy covered everything from an irreplaceable lectern used by President Abraham Lincoln to deliver the Gettysburg Address in 1863 to Philadelphia's famed Benjamin Franklin Parkway, where the pope said mass Saturday before an anticipated crowd of 250,000-plus, Dewitt Stern said in a statement. The policy also contained terrorism cover, which Mr. Moore said was a stand-alone policy and not linked to the federal terrorism backstop.

SEC fines advisory firm for shoddy cyber controls

■ A St. Louis-based investment advisory firm will pay \$75,000 to settle civil charges alleging it failed "entirely" to protect its clients from a July 2013 cyber attack that was later traced to China, the U.S. Securities and Exchange Commission said. R.T. Jones Capital Equities Management Inc. did not even encrypt its customers' data or install a firewall on its servers, and the hack compromised the personal details of about 100,000 people, according to the SEC. No customer has reported suffering any financial harm as a result of the attack, the SEC added. R.T. Jones is a relatively small advisory firm, with only about \$481 million in assets under management as of June, according to a filing with the SEC. The SEC's charging documents against R.T. Jones say the hack was traced to mainland China by a cyber security consulting firm. The full nature of the breach could not be determined because the hacker destroyed digital log files. The agency said the breach was discovered at the firm's third party-hosted Web server. From September 2009 through July 2013, the SEC said, the firm did not have written policies and procedures to safe-

guard customer data. After the breach was discovered, it notified affected parties and offered free credit monitoring. A brochure that R.T. Jones filed with the SEC in June promises that the firm has "physical, electronic and procedural safeguards" to protect personal information.

Reuters

Ace names executive VP for new Chubb Group

■ Ace Ltd. intends to appoint Juan C. Andrade executive vice president of the new Chubb Group and president of the international non-life insurance division, effective upon completion of Ace's acquisition of Chubb Corp., Ace announced Friday. Mr. Andrade currently serves as executive vice president, Ace Group, personal lines and chief operating officer of Ace Overseas General, the company's international property/casualty division in more than 50 countries and territories. Ace said in a statement announcing the intended appointment that in his future role, Mr. Andrade will have executive operating responsibility for the company's property/casualty insurance operations outside of the United States, Bermuda and Canada, including commercial property/casualty, traditional and specialty personal lines, and accident and health insurance. Ace said Mr. Andrade will continue with his current responsibilities, including leading Ace's global personal lines and small commercial insurance business, through the close of the transaction to ensure a smooth leadership transition and integration for those businesses.

South Carolina mail center hit with safety fines

■ The U.S. Occupational Safety and Health Administration said it has proposed \$79,900 in fines against the U.S. Postal Service in Greenville, South Carolina, for exposing employees to unsafe working conditions in a mail distribution center. OSHA issued the Greenville Postal Service one willful citation and two serious safety citations for blocking and restricting traffic flow in aisles shared by industrial trucks and pedestrians, allowing workers to operate forklifts without wearing seat belts and failing to protect workers from falls of up to 8 feet, the agency said in a statement. "Exposing employees to being hit by vehicular traffic while working in warehouses and distribution centers is never acceptable," Darlene Fossum, director of OSHA's Columbia, South Carolina, office said in a statement. "Management must ensure safety is the top priority when expanding, modifying and consolidating working environments." The U.S. Postal Service did not immediately respond to a request for comment.

Surplus lines stamping fee rate going up in 2016 in Texas

■ The Texas Stamping Office is increasing its surplus lines policy fee rate to 0.15% from 0.06%, effective on or after Jan. 1. The increase will apply to each new or renewal surplus lines policy as well as to policy date extensions, the office said in a statement. The Texas insurance commissioner's official order increasing the rate to 0.15% of the gross premium amount of surplus lines policies was made Sept. 8, according to the statement. Policies effective on or before Dec. 31, 2015, will run to expiration, can-

cellation or, in the case of multiyear policies, to the next annual anniversary date at the old rate of 0.06%, according to the statement. This includes any subsequent endorsements, audits, cancellations, reinstatements, installments and monthly or quarterly reports. Norma Essary, Austin-based executive director of the Texas Stamping Office, said the increase will support planning for a new technology reinvestment strategy, "because our entire computer system will fully depreciate in the next year-and-a-half to two years."

Marsh & McLennan names CFO to replace retiring Bischoff

■ Mark McGivney has been appointed chief financial officer of Marsh & McLennan Cos. Inc., assuming the new role on Jan. 1. He succeeds J. Michael Bischoff, who is retiring after having served as chief financial officer since September 2012. Mr. McGivney will report to Marsh & McLennan Cos. President & CEO Dan Glaser and join the company's executive committee, the company said in a statement. Mr. McGivney most recently was senior vice president of corporate finance for Marsh & McLennan.

Work-related deaths fell 16% in California last year

■ Fatal workplace accidents fell 16% in California in 2014, with Hispanic workers seeing a notable decrease in on-the-job deaths, according to the California Department of Industrial Relations. California had 334 fatal work injuries in 2014, down from 396 in 2013, the department said in a statement. Last year was the lowest number of work-related deaths in California since 2010, according to the department's data. While Hispanic workers represented 38% of all fatal workplace injuries last year, that group saw a 35% year-over-year decrease in fatal accidents in 2014, the industrial relations department said. Traffic accidents and other transportation incidents accounted for 35% of all California workplace deaths last year, remaining unchanged from 2013, according to the data. Violent acts accounted for 22% of California workplace fatalities last year, up from 20% in 2013, while slips, trips and falls accounted for 21% of work deaths in 2014, up from 16% the prior year.

Prescription drugs driving health care price increases

■ Prescription drug cost trends, driven largely by price inflation and expensive specialty drugs, are expected to reach their highest point since 2004 next year, according to a new survey. Cost trends for prescription drug coverage are projected to increase by 8.6% in 2015 and by 11.3% in 2016 for active plan and retiree plan members younger than 65, according to a survey by benefits, compensation and human resources consulting firm The Segal Group Inc. That compares with an increase of 10.7% in 2014. New York-based Segal predicts the cost trend rate for specialty and biotechnology drugs, which treat conditions such as cancer, rheumatoid arthritis and diabetes, will hit 19.4% in 2015 and 18.9% in 2016, the survey showed. Segal also predicted cost trends to increase 6.2% in 2015 and 6.8% in 2016 for health maintenance organizations, and to increase 7.8% in 2015 and remain flat in 2016 for open-access preferred provider organization/point-of-service plans.

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BUSINESS INSURANCE

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Berkshire withdraws from facilities market

■ Broker-insurer underwriting facilities will remain a part of the London insurance market despite Berkshire Hathaway Inc.'s slated withdrawal, sources say. Berkshire Hathaway informed Aon P.L.C. and Willis Group Holdings P.L.C. last January that beginning in January 2016 it would not participate in London-market facilities run by the brokerages, according to sources who did not wish to be named. "The Willis G360 facility has now been up and running since late 2013. Berkshire decided not to renew their participation in the facility," a Willis spokesman said in a statement. Sources also said Berkshire Hathaway is withdrawing capacity from facilities used by Marsh L.L.C. to place certain specialty classes of business. Both Aon and Marsh declined to comment. While Berkshire had been a major backer of such underwriting facilities, its withdrawal will not mean they cease operation, sources said.

FERMA names vice presidents

■ Three new vice presidents will join the Federation of European Risk Management Associations, the association said in a statement. They Cristina Martinez, board member of the Spanish risk management association IGREA and group chief risk officer at Sacyr, a Madrid-based construction company; Isabel Martinez Torre-Enciso, board member of the Spanish risk management association AGERS and professor of corporate finance at the University of Madrid; and Dirk Wegener, member of German risk management associations DVS and BfV and global head of corporate insurance at Frankfurt-based Deutsche Bank A.G.

'Wind-Jeannie' forecasts insured storm losses

■ Perils A.G., a Zurich-based provider of industrywide catastrophe insurance data, has launched "Wind-Jeannie," a website that provides forecasts of potential industry losses from European windstorms. The site helps insurers plan for large windstorms by providing them with the expected magnitude and geographical extent of an event loss in advance, Perils said in a statement. The software will compute expected insurance losses using gust forecast data, and the results can then be downloaded from the website. The data is for the upcoming 72 hours,

PROFILE: GIBRALTAR

\$41
MILLION

Flooding is the major natural threat to the Rock, though that comes more from burst pipes than Gibraltar's position on a peninsula off Spain. Besides the United Kingdom and Spain scrambling for control, the major hurdle for Gibraltar is the small size of its market. To broaden its scope from a cost-effective center for passporting direct and reinsurance operations, Gibraltar is positioning itself to participate in the European insurance-linked securities market.

◀ 2013 P/C gross premiums

MARKET GROWTH

Year	Non-life	Life
2010	30	2
2011	31	2
2012	31	2
2013	34	2
2014	35	2

Source: Axco Global Statistics/Industry Associations and Regulatory Bodies

COMPULSORY INSURANCE

- Third-party motor bodily injury and property damage
- Professional indemnity for investment advisers, insurance providers and intermediaries, and health care providers
- Shipowners liability for marine oil pollution

Certain professional associations, including those for lawyers and fund managers, require professional indemnity for membership.

NONADMITTED

Though unauthorized insurers cannot carry on insurance activity in Gibraltar, no law requires cover to be purchased from locally authorized insurers. This is generally interpreted to mean that insurers can issue policies from abroad if approached by a buyer or intermediary.

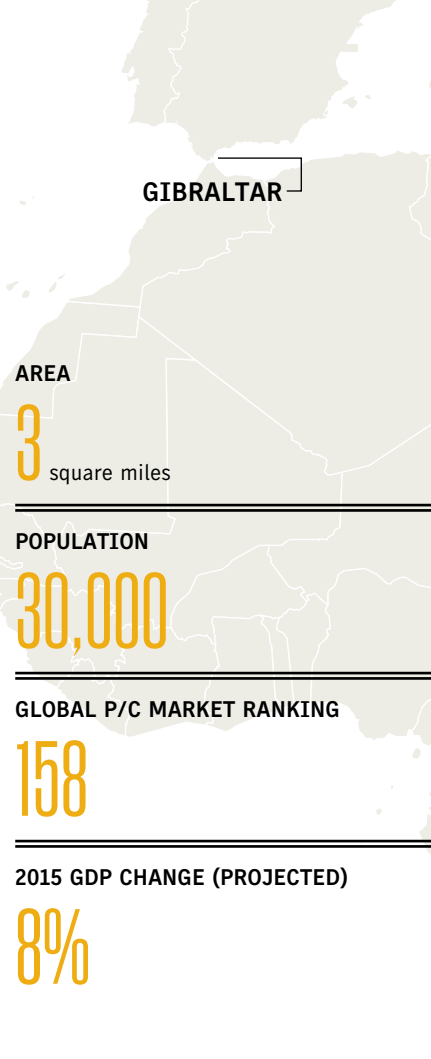
INTERMEDIARIES

Agents and brokers must be registered with the Financial Services Commission, though intermediaries can place business, except third-party motor insurance, with nonadmitted insurers. Brokers involved in nonadmitted placements do not have to warn buyers that their insurer is not subject to local supervision.

MARKET PRACTICE

Local brokers who place business outside Gibraltar generally tell clients that the coverage isn't locally regulated. Fronting can take place without legal or regulatory restrictions or the need to find local placement first.

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



GIBRALTAR

AREA
3 square miles

POPULATION
30,000

GLOBAL P/C MARKET RANKING
158

2015 GDP CHANGE (PROJECTED)
8%

MARKET DEVELOPMENTS

UPDATED MAY 2015

- The regulatory Financial Services Commission has been restructured to mirror that of the U.K. under the U.K. Financial Services and Markets Act 2000, and provide a public and independent appeals process, a financial services ombudsman and updated deposit guarantee and investment compensation rules.
- In preparation for Solvency II regulations taking effect Jan. 1, Gibraltar is considering a license fee as well as putting out guidelines on topics including capital concessions for runoff vehicles, valuing premium and reserve risk, and various capital requirements.
- Of the 62 companies licensed to carry on insurance and reinsurance business in Gibraltar, 11 have withdrawn, are in liquidation or runoff, or have had their licenses suspended. Among these, specialty auto insurer Service Insurance Co. has ceased trading, passing parts of its business to affiliate Octagon Insurance Co. Ltd.

with loss forecasts updated every 12 hours. Instead of providing a weather forecast, it provides an industry loss forecast, Edi Held, head of products at Perils, said in the statement. Access to Wind-Jeannie is available to data-providing companies and Perils database licensees via annual subscription, according to the statement.

Risk management gains influence

■ The role of risk managers is changing as they exert greater influence across their organizations, says a study by Ace European Group, the European arm of Ace Ltd. According to the study, 71% of risk managers in Europe believe their influence is greater now than it was three years ago, while 21% of that total believe their influence has risen "significantly." And 79% of respondents said that

risk managers increasingly are becoming "business partners" within their organizations and are working collaboratively with other management functions. Some 78% of respondents said they believe certification and the professionalism of standards were key to the future of risk management. The study received responses during early summer of this year from 500 risk managers across Europe.

Lloyd's insurers form cyber consortium

■ Beazley P.L.C., Aspen Insurance Holdings Ltd., and Brit Global Specialty have launched a consortium to underwrite cyber data breach coverage at Lloyd's of London for businesses domiciled outside of the United States. The consortium, to be known as the International Cyber Consortium, will offer data breach coverage to companies

from all industry types with revenues of more than \$5 billion, Beazley said in a statement. Beazley will manage the consortium and lead on claims handling, the statement said, but the shares of individual risks allocated to the members of the consortium will vary in line with underwriting appetite. The consortium will underwrite business on both a primary and an excess basis, and policy forms will be available in multiple languages. The consortium will bring an extra \$60 million of capacity to the cyber insurance market, the statement said. Beazley operates syndicates 623 and 2623 at Lloyd's; Aspen operates syndicate 4711 and Brit operates syndicate 2987.

Chile quake losses could reach \$900 million

■ Insured losses from the magnitude-8.3 earthquake that struck

Chile's central coast near the city of Illapel in mid-September will be between \$600 million and \$900 million, catastrophe modeling firm AIR Worldwide said. The September 16 earthquake was the result of convergence between the Nazca and South American tectonic plates," Mehrdad Mahdyiar, vice president and senior director of earthquake hazard research at Boston-based AIR, said in a statement. The main shock, which was followed by several strong aftershocks, triggered a tsunami that was recorded in several countries and produced waves up to 3 feet high as far away as the Hawaiian Islands, Mr. Mahdyiar said. Authorities said at least 12 people died as a result of the quake. AIR's insured loss estimates reflect insured damage to onshore property including residential, commercial and industrial, both structures and their contents, and auto, as well as direct business interruption losses, the statement said.

CEO OFFERS STRATEGIC VISION FOR SURPLUS LINES GROWTH

Q How has your tenure at Cooper Gay Swett & Crawford been so far?

A It's been great. It's been like coming home. I started my career 30 years ago as a specialist in the insurance marketplace doing new product development and placement strategies. That's what this business is about, and I've also leveraged my data and technology experience of the last 14 years with Advisen.

Q What is your strategy insofar as the excess and surplus lines market is concerned?

A Our strategy is, No. 1, to operate the business differently between wholesale and underwriting, because they are different skill sets that need to be deployed.

Within the wholesale space, our strategy is related to supporting our retailers the way they want to do business, and that means they want us to be specialized by industry and product. They want us to

Q&A

supply an efficient platform to trade with, and that platform includes content and efficient technologies. And they want us to represent them in the marketplace where their needs come first. So, our strategy is built around those three things: efficient solutions to (clients') small-account business. It's very expensive to transact small business.

On the underwriting side, it's about new product development, and new product development requires data capture and analy-

sis, and then the technological platform has to be able to perform efficiently, so you can provide fast quotes and fast service turnaround.

And then the third leg of the stool is supplying content to assist retail brokers in selling those products.

Q What are some of the other initiatives you've been taking?

A The two major things that we're working on is producer acquisition and the acquisition of businesses that fill gaps in our product and geographic suite. We will work with the capital markets in addition to our insurance company partners.

Q What do you see as the outlook for the E&S marketplace?

A The rate trend is going to continue to be soft so long as there are no catastrophes, with niche sectors that have some firming because of specific loss experience in those niche sectors.



THOMAS P. RUGGIERI

COOPER GAY SWETT & CRAWFORD LTD.

offers specialist products through its managing general agencies and has a reinsurance team. He spoke recently to *Business Insurance* Senior Editor Judy Greenwald. Edited excerpts follow.

Thomas P. Ruggieri assumed his current role as president and CEO of Cooper Gay Swett & Crawford Ltd.'s North American operations in October 2014. Mr. Ruggieri founded insurance analytics provider Advisen Ltd. in 2001. CGSC North America offers wholesale brokerage services through its Swett & Crawford unit, but also

The other trend that we're dealing with is the classic admitted markets writing more excess surplus lines risks, and some excess lines markets going direct to retailers, and so I think there's going to be a shakeout as to who are the real markets supporting the wholesale space.

It's been like coming home. I started my career 30 years ago as a specialist in the insurance marketplace doing new product development and placement strategies.

COMINGS & GOINGS

UP CLOSE: LIZ SMITH

SCHAUMBURG, ILLINOIS-BASED CO-PRESIDENT
Assurance Agency Ltd.

PREVIOUS POSITION: Schaumburg-based president employee benefits for Assurance

LOOKING FORWARD TO: Working closely with the co-president, Dan Klaras, to continue driving the vision and strategy of the organization.

GOALS FOR NEW POSITION: Helping Assurance continue its double-digit growth.

CHALLENGES FACING INDUSTRY: I believe the biggest challenge our industry faces today is convincing business owners that they can make a difference in the well-being of their employees through employee improvement programs, (such as) wellness, safety (and) financial education ... and that this will ultimately have a positive impact on their bottom line.

FIRST INDUSTRY JOB: I was in sales at Celtic Insurance Co., an individual health insurance company.

WHAT SURPRISED ME: Let's face it, our industry isn't the most appealing industry to people. Not many people say, "I want to work in insurance." What has surprised me most is how impactful our industry can be on organizations, as well as their employees.



ADVICE: Do something every day that gets you out of your comfort zone. That's the only way you're going to grow as a person.

OUTSIDE THE INDUSTRY, A DREAM JOB: I have always wanted to be a meteorologist. Strange, but I'm obsessed with the weather.

HOBBIES: Being with my two little girls, of course. But I love anything sports-related, traveling to warm-weather places, hanging with friends and, of course, enjoying a good glass of vino.

THING MOST PEOPLE DON'T KNOW ABOUT ME: I'm scared of heights, which most people will find interesting based on the fact I'm really tall.

WHEN I RETIRE: I plan to travel quite a bit and just enjoy life.

FAVORITE MEAL: I'm more of an appetizer/small plate kind of person, so I guess I would say tapas.

CAN'T-MISS TELEVISION SHOW: "Grey's Anatomy."

BEST CITY: I have to say Chicago. It's got it all!

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EDITORIAL

HEADS UP ON D&O COVERAGE

Check your directors and officers liability insurance, especially your Side A coverages. That is the probably wise advice being offered to policyholders in light of the recent memo sent by Deputy U.S. Attorney General Sally Quillian Yates in which she essentially orders U.S. attorneys general to actively pursue individuals as well as corporations for wrongdoing.

“One of the most effective ways to combat corporate misconduct is by seeking accountability from the individuals who perpetrated the wrongdoing,” says Ms. Yates in her memo.

Among the steps she tells U.S. attorneys general to take is requiring companies to provide “all relevant facts” about the individuals involved in corporate misconduct before they can get credit for their cooperation.

Bluntly put, corporations may be put in the untenable position of hanging their executives out to dry to save themselves.

No one knows for sure to what extent this may be a public relations move intended to soften some of the harsh criticism levied against the federal government for its failure to successfully convict higher-ranking executives in connection with the credit crisis of several years ago.

As a result, it is possible everything will quiet down after the U.S. Justice Department obtains guilty pleas from a few token unfortunate individuals set up to be examples for everyone else.

But in the meantime, this could create significant problems. More investigations means higher costs. And it may lead many executives to conclude their interests and those of their corporations are not necessarily perfectly aligned, leading them to hire their own counsel, which of course will also boost defense costs.

Further complicating the situation is that it is more difficult to prove wrongdoing against individuals than it is against corporations.

For now, insurers are expected to take a wait-and-see attitude to see how this all shakes out. And even if all this should have an effect on costs, the continuing soft market could ameliorate its impact.

Nevertheless, it is hard to see a bright side to the entire situation. All policyholders can do for now is to be sure they have all the coverage they may need in place — and hope that it isn’t long before this latest government initiative inevitably runs its course.

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SCHILLERSTROM



COMMENTARY

ETHICAL LAPSES PRESS HOME NEED FOR RISK MANAGEMENT

A quick and easy way to set expectations for ethical corporate behavior by managers is to ask how they would feel if their decisions and actions were reported on the front page of *The New York Times*. Executives at Volkswagen A.G. are getting a stark lesson in what happens if employees don’t ask themselves that question.

As readers of *The Gray Lady* and hundreds of other newspapers around the world are learning, the German car manufacturer appears to have had some serious ethical lapses with regards to emissions controls. The story is still unwinding, but the company faces allegations that it rigged computers on some diesel cars to detect when they were being tested and alter the running of the engines to lower emissions for the duration of the test — an ingenious but morally questionable strategy that wiped billions off the company’s market value and cost the CEO his job last week.

The now-former CEO, Martin Winterkorn, accepted responsibility for the scandal but said that he had personally not done anything that was wrong.

Some people at the company, however, appear to have done some very wrong things that contravene the company’s own code of conduct, in addition to more enforceable regulatory standards and laws.

In its code of conduct, VW asserts: “We bear responsibility for continuous improvement of the environmental tolerability of our products.” The code also states ominously: “Inappropriate behavior by just one employee can cause serious damage to the organization.”

The rest of the document details all the usual stated aims of global organizations of wanting to be the



GAVIN SOUTER
 EDITOR

No. 1 in their market while acting ethically and in the interests of all stakeholders, and that “every superior has responsibility for his or her employees.”

Mr. Winterkorn can check that last box, but clearly work needs to be done on some of the other elements.

VW is just the latest example of a company that has failed to adopt an effective risk management strategy

to address ethical behavior. The problem large global corporations with hundreds of thousands of employees face is: How do you create a corporate structure that maximizes profits without contravening accepted ethical standards? Implementing an enterprise or strategic risk management program should be the first step.

Any corporate risk management program that hopes to set an ethical compass for all employees must take an enterprisewide approach that instills the corporate ethical philosophy across all operations. Stating goals in an employee handbook is not enough. Compliance, transparency, accountability and communication have to be more than just buzzwords, and crafting a practical risk management program that covers all those issues is an invaluable tool.

Armed with the right approach, risk managers can go a long way to ensure that their bosses think all their corporate news is fit to print.

Can insurance initiatives help the environment?

Insurance-driven infrastructure and safety improvements for the good of the public have a long track record. Kathy Baughman McLeod, director of climate risk and resilience for The Nature Conservancy, makes the case for insurers to increase municipal resilience while strengthening the health of the environment.

When we think about insurance, we think about covering our financial losses when a disaster or accident occurs. We are willing to pay a premium to protect ourselves.

But, over the years insurance hasn't protected us just financially; it also has protected us physically by reducing underlying risks and helping solve big societal challenges.

Take urban fire, for example. In the late 19th and early 20th centuries, fire was a major risk in urban life, with some of the world's most iconic cities consumed by it: Chicago in 1871, Boston in 1872, San Francisco as a result of a major earthquake in 1906, and Tokyo in 1923, another product of a major earthquake.

During this time, insurance companies were finding themselves too often on the losing end of the deal. So, the industry began to demand that cities upgrade their infrastructure — adding fire alarms, escapes and hydrants and enacting building codes to make structures more resistant — to qualify for coverage. Early fire stations, dating to the Great Fire of London in 1666, were owned by property insurance companies.

It was in the best interest of the insurers and the cities to reduce fire risk to people and property. The result: safer cities, innovative infrastructure and fewer expensive disasters.

Buckling up

Another example is automobile safety. We know that simply wearing your seat belt can reduce the chance of death in a car accident by more than 50%. And from the 1970s — when seat belts became standard in cars manufactured in the U.S. — to today, insurance companies have advanced their use, which has risen to 87% from the 14% recorded in 1983.

Geico, for one, makes this offer: "If you and your passengers always wear seat belts, you could receive a discount of up to 15% off the medical payments or personal injury protection portion of your premium."

By providing an incentive for smart consumer behavior, the insurance industry has helped reduce premium and payout costs and lower the risk of fatal accidents. We know that seat belts reduce serious crash-related injuries and deaths by about half. At current usage rates, seat belts save an estimated 9,500 lives in the United States each year.

This century's mega risk

One of the most significant challenges today is climate change, which is posing new and unprecedented threats on a global scale. Much like the urban fires of the 19th and 20th centuries, devastating storms, floods, droughts and rising seas attributed to climate change are affecting communities that have never seen this kind of weather intensity and destruction before — and few are prepared.

The insurance industry can play a key role in helping minimize this devastation while helping devise solutions to climate risks and protect people and property.

The positive impacts could be enormous. The role healthy natural systems play in reducing climate-related disaster risks is gaining traction, and this area presents a huge opportunity to not only protect people and reduce costs, but also to save and restore nature.

Can nature reduce our climate premium?

At The Nature Conservancy, we explore all the ways nature benefits people and wildlife. We have more than 600 scientists all over the world studying how nature works, how to protect and restore it, and the benefits it brings to people.

We are increasingly exploring the role natural systems such as coral and oyster reefs, marshes and mangroves play in protecting communities from storms and floods. And we are measuring their ability to reduce risk and assessing their cost effectiveness.

For example, our scientists have determined that a healthy coral reef can absorb 97% of a wave's energy before it hits the shore, placing the reef's potential protective services on par with typically more expensive and less flexible man-made infrastructure, such as breakwaters and seawalls. In New York, oysters and marshes are great tools and are being restored and expanded as a leading post-Superstorm Sandy strategy to build resilience.

In many cases, we are finding that the best risk reduction solution is a blend of natural and man-made infrastructure. The conservancy is working with engineering companies to explore the optimal infrastructure mix in places such as the Gulf of Mexico and the Caribbean.

And the insurance industry is paying attention. Companies including Swiss Re Ltd., a global rein-

urance industry leader in understanding climate risk, and Risk Management Solutions Inc., one of the largest catastrophe risk modelers in the market, are beginning to account for nature's protective services in their risk modeling.

By giving nature a value in risk assessments, they are seeing potential opportunities to reduce losses and increase the resilience of communities in the face of climate change and growing disaster risks.

And as was the case with fire and auto safety, this opportunity will not only pay economic dividends but also make us safer and promote innovative solutions for society.

Natural infrastructure solutions

Alex Kaplan, Swiss Re's vice president of global partnerships, pointed to a recent study by the reinsurer that found Barbados loses the equivalent of 4% of its gross domestic product each year in hurricane disaster costs. But the study also found that for every \$1 spent on protecting and restoring mangroves and coral reefs, \$20 in future hurricane losses are saved. And remaining costs become far more manageable through risk transfer.

Mr. Kaplan said the potential for natural infrastructure in places such as Barbados is "about allowing economic progress to continue."

In addition to emerging innovations in risk modeling, the reinsurance industry is playing a key role in United Nations policy discussions for disaster risk reduction and climate change on how insurance can help address climate risk, reduce the cost of impacts to people and livelihoods, and increase a community's resilience.

This past June, United Nations Secretary-General Ban Ki-Moon invited the Global Insurance Forum — a group of the industry's senior leaders — to convene at the U.N. headquarters in New York City to explore climate risk and sustainable development.

This was the first time the industry convened under the U.N. roof on these issues — a significant affirmation of the role insurance can play. And I represented the conservancy at the table, attesting to the role nature can play in our solutions.

We are still in early days of this opportunity, but the answers we seek could be game changers for people and nature. What if you could save money on insurance premiums because you live near a thriving wetland or reef? And what if insurance companies protected wetlands, reefs, mangroves and other natural infrastructure by writing cover for them to help ensure those systems continue to protect us?

As the world prepares for more expensive climate-related disasters, the insurance industry can be a leader in not only reducing our climate costs but also making us safer and more resilient — while protecting nature, too.

Nature's premium is worth it.



Kathy Baughman McLeod is director of Climate Risk & Resilience at The Nature Conservancy. She can be reached at kbmcleod@tnc.org and 703-841-8791.

SPECIAL REPORT

Infrastructure

Resiliency

Cities across the U.S. are developing plans for a direct hit

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Backers of a federal disaster plan hope Congress will move

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Research and data on infrastructure resiliency

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Preparing for the worst

Planning for the biggest disasters allows for flexible responses to all events

BY DONNA MAHONEY

When disasters or other incidents disrupt the workplace, emergency preparedness experts say companies that have a well-thought-out advance plan are the ones that will be the most resilient.

“When you look across industries, those companies that understand the risk and know the hazards that they are going to confront and have plans for high-probability, low-impact scenarios, and have a communication plan for their employees and customers ... those are the companies that are far more resilient than those companies who wing it,” said Rob Glenn, the Federal Emergency Management Agency’s Washington-based private-sector division director.

Laurie J. Holien, deputy director of Oregon’s emergency management office in Salem, advises businesses to prepare for incidents of epic proportion.

In Oregon, the state’s largest threat is an earthquake along the Cascadia subduction zone followed by a tsunami, which geologists predict has a 37% chance of occurring within the next 50 years.

“It is the high-water mark of all of the potential worst days we can have here in Oregon,” Ms. Holien said. “Don’t develop a plan for what’s easy; develop a plan for things that are really hard.”

Risk managers and other executives overseeing organizational risk should have a critical role in business emergency and continuity planning, said former Risk & Insurance Management Society Inc. President John Phelps.

“Risk management should not just be at the table, but should be one of the authors of the plan and be on the team for implementation,” said Mr. Phelps, director of business risk solutions at Blue Cross & Blue Shield of Florida Inc. in Jacksonville.

Organizations should have four other key elements in place, said Randy Nornes, Chicago-based executive vice president at Aon Risk Solutions.

The first element is visibility, having the technology to see what’s actually going on in a supply chain: Companies that use multiple systems that don’t connect suppliers may not have visibility. “If you can’t see it, it’s pretty hard to manage it,” Mr. Nornes said.

The second element is flexibility, or having a system that can adjust when a disruption occurs. “An example of that is when the ports had the (labor) issues on the West Coast (last year). A lot of people moved ... goods by air. There was an additional cost, but it was a quick work around,” Mr. Nornes said.

Collaboration to get everyone to work together and



AP PHOTO

Flood-strewn debris fills a room at Charity Hospital in New Orleans a little more than a month after Hurricane Katrina hit. The storm showed the entire country how necessary risk management is to development of disaster plans.

“In the past, we thought in two or three days in post-event the cavalry would come, but in Katrina we learned that may not be the case. Now, all of our facilities are designed to run for seven days without any outside support, from generators to water.”

Scott Landry, LCMC Health

share information with clearly defined responsible parties to handle various aspects of a business disruption is the third element, one where a risk manager can add tremendous value, he said.

The final element is control, or monitoring events. “If any one of these is not in place, then you are leaving a lot to chance,” Mr. Nornes said.

Scott Landry, New Orleans-based senior vice president of facilities at LCMC Health, said Hurricane Katrina and massive flooding that inundated much of New Orleans in 2005 taught many risk management lessons.

“The coordination that takes place between us and the city and the state is much more deliberate and more frequent to ensure we are all in step with each other,” Mr. Landry said. “Take the Ebola scare just last year as an example: The city called our leaders into city hall, and we all discussed our plan and understood what our capabilities were. There is a lot more collaboration between us now than pre-Katrina, and each year we get better.”

Mr. Phelps said coordination plays a significant role in resiliency, such as during a flood in the South Florida office in the past several years.

“The local and central corporate response teams worked together to move employees so they could continue to work using resources that had been put in place previously, like the ability to work from home and using vacant space in one of our other buildings. From an emergency response standpoint, it was a very successful event,” he said.

Backup generators to power data centers and phone systems, for example, also are essential, experts said.

Know in advance which police, fire and other emergency personnel would respond if there is a disaster, FEMA’s Mr. Glenn advised. Email or text employees to tell them whether to come to work or specifics of where to go, and social media can help alert employees if the

LOSSES FROM SUPERSTORM SANDY LED VERIZON TO EXPECT THE UNEXPECTED

When Superstorm Sandy hit in October 2012, seawater poured into tunnels and buildings' lower floors in Lower Manhattan, damaging electrical systems across New York and disrupting business operations.

One of the few buildings in Lower Manhattan that remained operational was Goldman Sachs at 200 West St., across the street from the Verizon building at 140 West St. Goldman Sachs had a makeshift flood wall and sand-

bags blocking all of its entrances, said David G. Cammarata, Verizon Communications Inc.'s assistant treasurer of risk management and insurance.

"It was one of the only buildings that continued to run after Sandy," he said. "We had a pretty big loss down in Lower Manhattan. One of the things that we have done since to make the company's buildings more robust was to build a flood wall." Based in New York, Verizon

subsequently spent several million dollars building its own portable flood wall that could be assembled around its building in several days if another large storm tracks toward the city.

Flood waters also entered the Verizon building's lower levels, damaging equipment. Verizon has since moved the equipment higher to prevent that from happening again.

Fuel tanks that Sandy crushed are now in special structures still

in the basement, but are reinforced to withstand the water pressure. "One of them is like a submarine" that protects the fuel tanks from being crushed again, Mr. Cammarata said.

Verizon also replaced damaged copper wire cable with fiber optic material and, in some cases, improved its wireless access, he said.

"When you have a loss, you're not going to go back to the same technology; you would go with a

better technology," he said.

Mr. Cammarata said the big lesson from Sandy is to be prepared for anything.

"I don't think anyone ever anticipated seeing that kind of storm creating that type of flooding in Lower Manhattan. You sometimes have to plan for the unexpected, think about what things could potentially happen and if it does happen, are you prepared for it?"

By Donna Mahoney

phones are tied up, he said.

"Now we operate a hospital where everything that is critical is not on the first floor," Mr. Landry said. "In the past, we thought we didn't need 100% air conditioning in the entire building. We learned in Katrina that it is necessary to keep our staff fresh and ready to take care of patients.

"In the past, we thought in two or three days in post-event the cavalry would come, but in Katrina we learned that may not be the case. Now, all of our facilities are designed to run for seven days without any outside support, from generators to water," he said.

Risk managers in high-hazard and severe weather-prone locations often test their resiliency plans.

"Over the years, we've had a hazardous material event, multimillion-dollar floods, fires and more hurricanes and tropical storms than I can count," Mr. Phelps said of his 26 years at the Blues affiliate. Despite the disruptions, the health insurer was able to "successfully maintain those critical services through an emergency response program, several resources we have in place and business continuity plans."

For a business continuity plan to be successful, it does not need to address every contingency.

"One of the biggest strengths is the concept of minimizing the plan and maximizing the team, from an emergency response standpoint," he said. "Have a high-level plan and strategies used to address any emergency, and have available multiple resources to address whatever the event throws at you."

That includes a team whose members each understand their role in maintaining critical functions, making decisions, communicating information and acting to maximize the resources that are in place.

"Very specific detailed plans for tornadoes or whatever will not fit the mold of an individual emergency, whereas if you have an emergency response structure that has been exercised several times with experienced people and solid resources behind it, then every time there's an emergency it can be addressed effectively and efficiently," Mr. Phelps said.

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TAKING THE INITIATIVE ON DISASTER MANAGEMENT

Superstorm Sandy spurred city efforts in planning for catastrophes

BY GLORIA GONZALEZ

U.S. cities from Hoboken, New Jersey, to Los Angeles are taking steps to ensure that their infrastructure can sustain direct hits from major hurricanes and floods.

"It's interesting to me how the awareness of these issues is changing so quickly," said Shelley Poticha, director of urban solutions at the Washington-based Natural Resources Defense Council.

Before Superstorm Sandy brought severe flooding to much of the Northeast, "cities were just not that interested in getting ready for a disaster or addressing the impacts of climate change," Ms. Poticha said. "Now, there's so many more cities clamoring for ways they can get ahead."

Cities trying to enhance their infrastructure resiliency have taken different approaches.

For example, Philadelphia charges stormwater fees based on the amount of impervious surface, such as parking lots, sidewalks, driveways and buildings, on a parcel of land. Parcels with more impervious surface produce more stormwater runoff and are charged higher rates.

Los Angeles is considering a similar fee system to back an overhaul of its stormwater infrastructure that now leaves some neighborhoods with significant flooding during major rainstorms, Ms. Poticha said. The city is exploring building natural infrastructure to capture water on-site or underground while also addressing the city's parkland shortage.

"Frankly, in Los Angeles, it does not rain very often, so these (water detention) sites can be used to play ball but occasionally will be flooded with water," she said.

Hoboken, New Jersey, Mayor Dawn Zimmer, made it her personal mission to improve the city's resiliency follow a series of major storms since 2011.

"It's getting more severe and we have to address it," she said.

The nation's capital has received kudos for its "green" infrastructure efforts. Forty-three percent of the District of Columbia's land is impervious, meaning a 1.2-inch rainstorm produces about 525 million gallons of runoff, according to a presentation by the District of

MAYOR OF HOBOKEN TAKES RESILIENCE PERSONALLY

For Mayor Dawn Zimmer, the challenge of ensuring the resiliency of Hoboken, New Jersey's, infrastructure is personal.

When Superstorm Sandy battered the U.S. Northeast in October 2012, it flooded nearly 80% of the city, and left more than 90% without power. But that storm and Hurricane Irene in August 2011 only strengthened Ms. Zimmer's resolve to implement a comprehensive resiliency and readiness plan to guard against future storms and flooding disasters.

"The impetus for me personally was experiencing flooding in my neighborhood," Ms. Zimmer said. "After Sandy, there was even more of a focus. We just absolutely have to address it. I feel it's the most important challenge facing our city."

The city is prone to flooding due to its location on the Hudson River, low topography, high level of organization and undersized combined sewer system, according to a report by the La Jolla, California-based Re.invest Initiative.

The initiative chose Hoboken in 2013 to receive a detailed technical assistance package, valued at \$500,000, outlining a comprehensive engineering, legal and financial strategy to rebuild the city's infrastructure. That complemented the city's efforts through the U.S. Department of Housing and Urban Development's Rebuild by Design program, which



AP PHOTO

Superstorm Sandy flooded nearly 80% of Hoboken, New Jersey, which is built along the Hudson River, in 2011.

awarded Hoboken a \$230 million flood prevention grant in 2014.

The city has already begun executing several elements of its Resist, Delay, Store, Discharge strategy, including starting construction this summer on the Southwest Resiliency Park at an estimated cost of \$4.7 million and for which the Hoboken City Council is seeking a low-interest loan from the New Jersey Environmental Infrastructure Trust. The city also received an \$11.5 million low-interest loan in August 2014 to expand flood pumping capacity.

The Re.invest Initiative helped city officials decide which elements of its resiliency plan were not feasible, Ms. Zimmer said.

rules.

"It's part of the puzzle for resiliency in D.C.," said Bill Updike, chief of green building and climate branch at the department's urban sustainability administration.

Washington-based The Westchester Corp. sold the first 11,013 credits in the program last year for \$25,000 from a project that installed rain gardens on its properties. The unidentified buyer

awarded Hoboken a \$230 million flood prevention grant in 2014. The city has already begun executing several elements of its Resist, Delay, Store, Discharge strategy, including starting construction this summer on the Southwest Resiliency Park at an estimated cost of \$4.7 million and for which the Hoboken City Council is seeking a low-interest loan from the New Jersey Environmental Infrastructure Trust. The city also received an \$11.5 million low-interest loan in August 2014 to expand flood pumping capacity. The Re.invest Initiative helped city officials decide which elements of its resiliency plan were not feasible, Ms. Zimmer said. The Northwest Resiliency Park, a separate project, initially was to include a stormwater detention facility, an underground parking garage and surface park. But the initiative's analysis helped officials realize that an underground parking garage would be too expensive. The revised plan still includes a detention facility to hold at least 1 million gallons of water and the surface park, but now calls for an above-ground parking garage, which would still address the city's parking shortage.

"We have gone deeper than just a concept," Ms. Zimmer said. The Re.invest Initiative has "helped us determine what's possible."

By Gloria Gonzalez

would have had to pay a compliance fee of \$3.57 per gallon, but the credits sold for just \$2.27 each.

"They saved money and we get the benefit of something we voluntarily installed," said Ann Benefield, the property company's general manager. The stormwater credit program "should be a source of income for us for a long period of time."

The program allows the private

sector to get involved in the resiliency challenge, which is important considering limited public dollars and the still-undetermined total price, Mr. Updike said.

"We have to figure out how to drive private capital into green infrastructure," he said. "Planning for the future and finding the capital are probably the two biggest challenges. We don't have the issue of denial that they do in other parts of the country."

For many cities, the challenge in retrofitting or revamping their infrastructure to make it sustainable and resilient is the absence of financial, legal and engineering expertise, said Shalini Vajjhala, founder and CEO of La Jolla, California-based re:focus partners L.L.C., the lead organization in the Re.invest Initiative.

The initiative, backed by a Rockefeller Foundation-funded coalition, conducted a competition in 2013 to identify cities that want large-scale, comprehensive solutions to build resilient infrastructure, she said. Re.invest helped eight U.S. cities — El Paso, Texas; Hoboken, New Jersey; Honolulu; Miami Beach, Florida; Milwaukee; New Orleans; and Norfolk and Virginia Beach, Virginia — overcome that "predevelopment hurdle" by doing much of the preliminary work, including a detailed technical assistance package, for them, Ms. Vajjhala said.

Each package described existing conditions and challenges faced; the state of their infrastructure; and potential improvements, implementation strategies and funding options.

The packages were all designed with an eye toward making the financing of these infrastructure projects more attractive to major investors such as large pension funds, insurers or universities with significant endowments — generally most interested in investment opportunities in the \$100 million or more range — to allow cities to access new sources of capital, the participants said.

Investors are under pressure from regulators and constituents to move away from the oil and gas sector into investments considered more socially responsible, and the building of resilient infrastructure in these cities could fit the bill, said John Nelson, managing partner of Wall Street Without Walls.

The common denominator among the Re.invest cities was a willingness to move away from the siloed approach typical of infrastructure development to one that incorporated financial, legal and engineering considerations, he said.

"I hope more municipalities understand the importance of a comprehensive and integrated approach," Mr. Nelson said.

Congress takes look at catastrophe mitigation

Proponents hopeful for bipartisan support

BY MARK A. HOFMANN

Backers of a more effective federal catastrophe mitigation policy hope Congress is finally ready to move on the issue.

They have reason for some optimism.

At least half a dozen measures dealing with mitigation issues have been introduced in the current Congress, ranging from building codes to establishing an inter-agency council to recommend the best means to plan and prepare for extreme weather.

Some proposals enjoy the support of broad coalitions of unlikely allies. Insurer, free-market, professional, community and environmental organizations, for example, have joined to push for building code reform. Examples of catastrophe mitigation efforts that extend beyond the insurance industry include resilience-promoting organizations the SmarterSafer Coalition and Build Strong America, both based in Washington.

And Congress may be listening, supporters say.

“Property loss mitigation, fortunately, has become a more prominent and bipartisan issue on Capitol Hill,” said Julie Rochman, president of the Tampa, Florida-based Insurance Institute for Business & Home Safety, which belongs to SmarterSafer and Build Strong America.

“I think everybody is tired of seeing communities devastated, in some cases repeatedly, by Mother Nature in ways that we know are going to keep happening,” Ms. Rochman said. “The types of events we see are predictable and known, and they’re not going to stop. So whether you come at these issues from a climate change perspective or from a fiscal control perspective, the answer is the same — preparation and prevention.”

“I think the fact that you’re seeing more of these bills is that Congress is recognizing the need for resiliency,” said Josh Saks, legislative director at the nonprofit National Wildlife Federation in Washington, which also belongs to SmarterSafer.

“They are recognizing the need because the need is increasing: There are more disasters,” Mr. Saks said. “Congressmen are dealing with losses in their districts more regularly. While these are great steps, what the country really needs is a comprehensive approach to disaster policy.”

“We’ve been trying to press forward the notion that the way the country handles disaster spending

policy is deeply broken,” said Phil Anderson, executive director of Build Strong America. “The country does not do enough before the storm to mitigate the cost.”

See **LEGISLATION** next page



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Julie Rochman,
Insurance Institute for
Business & Home Safety

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LEGISLATION

Continued from previous page

Both Build Strong and Insurance Institute support the Safe Building Code Incentive Act of 2015 — H.R. 1748, which was introduced in the House of Representatives in April. The measure would amend the Robert T. Stafford Disaster Relief and Emergency Assistance Act to

enhance existing mitigation programs by encouraging states to voluntarily adopt and enforce nationally recognized model building codes for residential and commercial structures to qualify for 4% more funding of post-disaster grants.

“I think the main benefit of the Safe Building Code act is awareness of the lack of statewide building codes in this country,” Ms. Rochman said. “People are always

surprised to find out that there are actually states in the United States of America in the 21st century that do not have a minimum construction code and/or don’t enforce one. That’s just pitiful.”

Supporters of legislation that promotes resilience freely admit that the current Capitol Hill atmosphere isn’t conducive to swift movement, but do say Congress could be more receptive than the recent past.

“The outlook is certainly improving, because more members of Congress are now aware of exactly how backward our current disaster aid planning is, and they’re aware that we need a national mitigation investment strategy,” said Jimi Grande, a senior vice president in the Washington office of the National Association of Mutual Insurance Cos., a member of SmarterSafer and Build Strong America.

“But, of course, Congress being aware of a problem and being able to solve it are two very different things,” he said.

“If you look overall at the prospect of any legislation moving in this Congress, you can’t count on too much,” said Steve Ellis, Washington-based vice president of Taxpayers for Common Sense, which also belongs to SmarterSafer. “But I think things like this that reflect common sense and have bipartisan support should be the most likely to move. All of these are well-intentioned pieces of legislation trying to help individuals and communities become more resilient in the face of disaster.”



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RESILIENCE LEGISLATION

Congress could act on several pieces of legislation designed to enhance resilience in the face of natural catastrophes while reducing federal outlays of disaster relief. Significant bills include:

The Safe Building Code Incentive Act of 2015 — H.R. 1748, which would provide additional disaster assistance to states that adopt and enforce strong building codes. Under the bipartisan bill, states that enact strong building codes would qualify for an additional 4% in hazard mitigation grants.

The Preparedness and Risk Management for Extreme Weather Patterns Assuring Resilience and Effectiveness Act — H.R. 3190, which would establish the Interagency Council on Extreme Weather Resilience, Preparedness and Risk Management to set governmentwide goals and priorities for extreme weather resilience, preparedness and risk management.

The Disaster Savings and Resilient Construction Act of 2015 — H.R. 3397, which would provide tax credits to homeowners and contractors utilizing modern building science in new or renovated construction.

Source: Library of Congress

ROADS TO RESILIENCE: 5 PRINCIPLES

1

RISK RADAR

Anticipate problems before they develop.

2

RESOURCES AND ASSETS

Provide well-diversified, flexible tools to respond to opportunities as well as adverse or changing circumstances.

3

RELATIONSHIPS AND NETWORKS

Enable risk information to flow freely throughout the organization to directors to prevent risk blindness.

4

RAPID RESPONSE

Ensure that an incident does not escalate into a crisis or disaster and that people and processes are in place to quickly restore normalcy.

5

REVIEW AND ADAPT

Learn from adverse events and make necessary changes.

Source: Airmic Ltd.

10 MOST RESILIENT COUNTRIES/REGIONS

Countries and regions that have the best business resilience to supply chain disruptions. The composite rank is based on economic, risk quality and supply chain factors, each of which also is ranked for 130 countries and regions.

Composite rank	Country/region	Economic rank	Risk quality rank	Supply chain rank
1	Norway	2	9	13
2	Switzerland	3	100	1
3	Netherlands	14	5	3
4	Ireland	11	1	25
5	Luxembourg	1	84	10
6	Germany	12	12	5
7	Qatar	4	15	24
8	Canada	15	2	16
9	Finland	9	35	4
10	U.S. (region 3*)	17	3	19

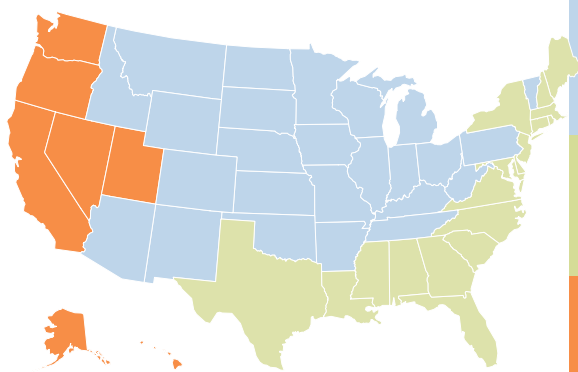


*U.S. region 3 includes: Arizona, Arkansas, Colorado, District of Columbia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Ohio, Oklahoma, Pennsylvania, South Dakota, Tennessee, Vermont, Virgin Islands, West Virginia, Wisconsin, Wyoming

Source: 2015 FM Global Resilience Index

U.S. RESILIENCE BY REGION*

U.S. region 3, which includes more than half of states and territories has the greatest resilience to supply chain disruption.



Composite rank	Region	Economic rank	Risk quality rank	Supply chain rank
10	U.S. region 3	17	3	19
16	U.S. region 1	17	8	19
21	U.S. region 2	17	36	19

*Ranking against 130 nations and territories in 2015

U.S. region 1: dominant natural hazard = wind; Alabama, Connecticut, Delaware, Florida, Georgia, Louisiana, Maine, Maryland, Massachusetts, Mississippi, New Hampshire, New Jersey, New York, North Carolina, Rhode Island, South Carolina, Texas, Virginia

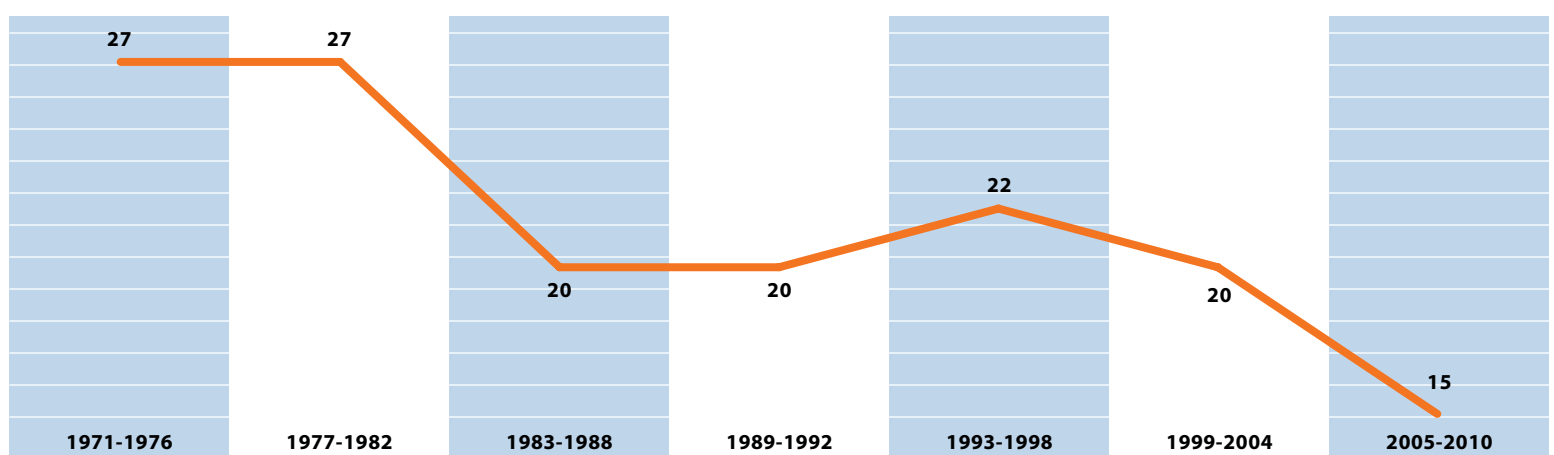
U.S. region 2: dominant natural hazard = earthquake; Alaska, California, Hawaii, Nevada, Oregon, Puerto Rico, Utah, Washington

U.S. region 3: dominant natural hazard = miscellaneous; Arizona, Arkansas, Colorado, District of Columbia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Ohio, Oklahoma, Pennsylvania, South Dakota, Tennessee, Vermont, Virgin Islands, West Virginia, Wisconsin, Wyoming

Source: 2015 FM Global Resilience Index

S&P 500 LIFESPAN

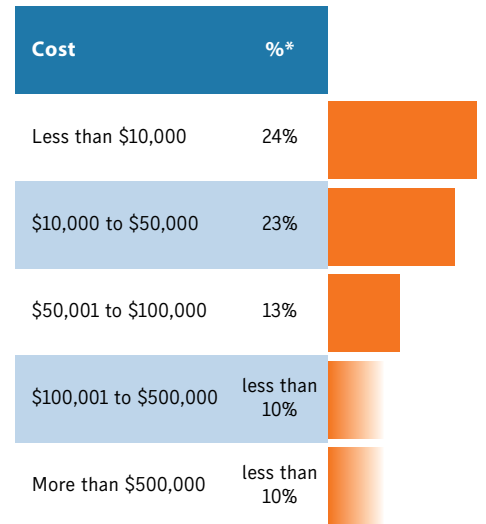
The average lifespan of a company listed in the S&P 500 index of leading U.S. companies has decreased by more than 50 years in the past century, from 67 years in the 1920s to just 15 years today.



Source: The Conference Board Inc.

COST OF DOWNTIME

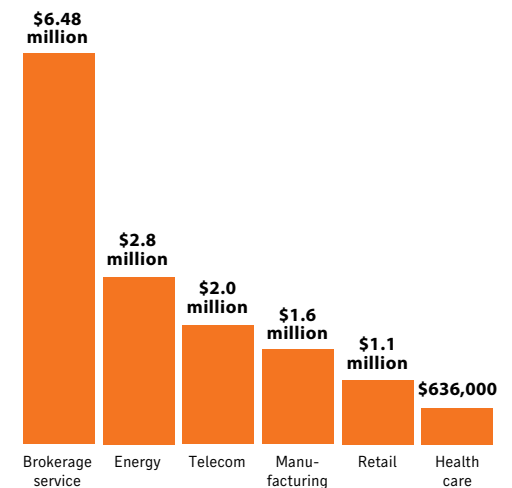
Costs associated with cyber breaches that shut down business information technology systems. Such failures which typically last one to two hours, can result in revenue loss, diminished reputation, overtime cost, and lost productivity and data.



*Most organization surveyed did not calculate downtime costs
Source: Accenture P.L.C.

DOWNTIME COST BY INDUSTRY

Most businesses lose \$84,000 to \$108,000 for every hour their information technology system is down, but those listed below suffer the highest per-hour losses.



Source: Network Computing, the Meta Group Inc. and Contingency Planning Research Inc.

Managing diabetes in real time

Mercer L.L.C. has partnered with Mountain View, California-based technology company Livongo Health to provide employers and their workers with tools to manage diabetes.

Mercer will offer Livongo's cloud-based diabetes management platform to its employer clients, the firm said in a statement. A Mercer spokesman declined to provide the cost of the program.

The diabetes management program includes a connected glucose meter that transmits data and messaging in real time, a smart analytics platform that provides predictive and personalized insight, and virtual coaching from certified diabetes educators, Mercer said in the statement.

The program encourages frequent blood glucose checks, provides outreach from diabetes educators, and automatically orders supplies and tracks blood glucose readings, Mercer said in the statement.

Inland flood model shows U.S. probabilities

CoreLogic Inc., an Irvine, California-based residential property information, analytics and data-enabled services provider, has expanded its natural catastrophe risk management solution with the addition of a probabilistic flood model.

The CoreLogic U.S. Inland Flood Model aims to provide insurers with a tool to underwrite the risk associated with flash floods, CoreLogic said in a statement.

The comprehensive probabilistic flood model analyzes the potential damage and financial impact of property from floods in the U.S. It measures severity and frequency of floods, and its loss calculation provides property, contents and business interruption analysis. The model also includes historical flood event footprints from the last 50 years, according to the statement.

CoreLogic has also updated some of its other models. The Italy Earthquake Model now includes an updated seismic source model that aims to provide an accurate view of seismic hazard in Italy. The North Atlantic Hurricane Risk Model update includes a high-resolution storm surge model and enhanced hazard risk assessment. The U.S. Offshore Energy Model includes a wave model and financial model that aims to provide an improved estimate of potential damage to physical assets in U.S. territorial waters within the Gulf of Mexico, according to the statement.

Coverage protects life sciences companies

Marsh L.L.C. said that it has joined with Munich Reinsurance Co. to launch NDBI Pharma IQ, a nondamage business interruption insurance solution for life sciences companies.

NDBI Pharma IQ is insurance for interruptions caused by the U.S. Food and Drug Administration regulation enforce-



Chubb offers arbitration in Side A cover

***** In an effort to encourage policyholders to purchase both their primary and Side A directors and officers liability policies through the insurer, Chubb Corp. is adding an endorsement to its Side A coverage offering arbitration.

Tony Galban, Warren, New Jersey-based senior vice president and D&O global product manager for Chubb, said D&O insurance is typically purchased in towers, with the lower portion's coverage applicable to directors and officers and in some cases the entity. On top of that is Side A coverage, which covers directors and officers for nonindemnifiable losses.

Mr. Galban said there has been a tendency in the industry to have the primary and Side A coverages written by two different insurers, with the Side A insurer acting as "second opinion" on coverage matters and claims handling.

Mr. Galban said under Chubb's "independent coverage review" endorsement, if Chubb is the primary insurer and also writes Side A, the customer, if necessary, "has the right to a second opinion from a mutually-agreed upon arbiter, and we will adjust the claim in accordance" with the arbiter's opinion.

The endorsement, which is offered at no extra cost, eradicates the argument against using the same insurer "and gives the customer a right of appeal," he said.

ment. The insurance combines risk transfer and consulting services to assist life sciences companies. It covers costs not covered by typical business interruption insurance, costs that are not the result of physical damage, Marsh said in a statement.

Life sciences companies that have to suspend their manufacturing and distribution due to a current good manufacturing practice violation are offered up to \$10 million in aggregate nondamage business interruption and extra expense coverage for up to 10 manufacturing locations, including third-party-owned locations, according to the statement.

"A regulatory action that ultimately leads to an enforced suspension of manufacturing and distribution can cost life sciences company millions of dollars in

remediation, reputational damage, and lost income," said Doug Carey, Marsh's U.S. Life Sciences Practice leader said in the statement. "With NDBA Pharma IQ, these companies now have a cost-effective way to better assess and measure these risks and lessen the financial impact of a regulatory action so they can more quickly return to normal operations."

Cyber security group launches new risk model

Two cyber security risk providers are collaborating with AIR Worldwide, a Boston-based catastrophe risk modeling software provider, to create an up-to-date cyber risk model for insurers.

Risk Based Security Inc., a Richmond, Virginia-based company that provides information security solutions, and BitSight Technologies Inc., a Cambridge, Massachusetts-based organization that analyzes and rates the security level of company data, will work with AIR to build the AIR Cyber Risk Model to assist the insurance industry in mitigating cyber attacks, AIR said in a statement.

In addition to probabilistic loss estimation, the AIR Cyber Risk Model will offer a set of deterministic scenarios designed to help companies understand their aggregated risk from large-scale cyber attacks, the statement said.

"As more and more companies purchase cyber insurance, insurers are becoming increasingly concerned with aggregation risk," Ira Scharf, general manager of worldwide cyber insurance at BitSight, said in the statement. "We're collaborating with AIR to help them more accurately account for cyber risk in the entire supply chain, such as security vulnerabilities on hosting companies, cloud providers, and other third-party suppliers."

"The pace of data breach activity shows no sign of slowing, despite the unprecedented focus on protecting systems and data from attack," Inga Goddijn, executive vice president of Risk Based Security, said in the statement.

Humana offers coverage through private exchange

Health insurer Humana Inc.'s full suite of group health benefits products and services are now available through Orlando, Florida-based PlanSource Benefits Administration Inc.'s private health insurance exchange platform.

PlanSource clients can use the company's customizable "benefits engagement system" to offer employees Humana's health care coverage plans, wellness programs and services and voluntary benefits including accident, critical illness and hospital indemnity coverage.

"The PlanSource platform gives Humana an ideal way to distribute our products. It simplifies the consumer shopping and enrollment experience and gives employers tools to efficiently manage and administer employee benefits," Beth Bierbower, president of Humana's employer group segment, said in a statement.

DEALS & MOVES

USI moves into North Carolina with benefits consultant buy

Valhalla, New York-based USI Insurance Services L.L.C. has acquired the employee benefits business of Benefit Controls of the Carolinas Inc.

Terms of the deal were not disclosed.

Benefit Controls of the Carolinas designs and manages employee benefits and wellness products and provides human resources consulting, according to the statement.

Benefit Controls employees will remain in the company's current Charlotte, North Carolina, location.

"This acquisition further strengthens our footprint in the Southeast and we plan to invest heavily and build around Scott's leadership," James W. Dunn, regional CEO for the USI Southeast region, said in the statement.

Wholesale broker acquires stake in specialty trucking agency

Dallas-based wholesale broker U.S. Risk Insurance Group Inc. has acquired ownership interest in Strategic Program Managers, which does business as Strategic Insurance Underwriters.

Terms of the transaction were not disclosed.

Strategic Program Managers is a Sarasota, Florida-based specialist trucking managing general agent and broker that underwrites, markets and administers commercial transportation insurance programs through independent retail brokers, U.S. Risk said in a statement.

London insurer invests in New York underwriter

London-based Brit Ltd. has made a strategic investment in New York-based Ambridge Partners L.L.C., a managing general underwriter of transactional insurance, Ambridge Partners announced.

A spokesman for Brit declined to comment on the size of the investment, which is subject to regulatory approval.

The specialty insurer and reinsurer has been a trading partner of Ambridge since 2008, the two parties noted in statements.

"Ambridge will retain its independence, continuing to underwrite as a managing general underwriter on behalf of its existing broad consortium of Lloyd's of London syndicates and international insurers," Brit said in its statement.

Swiss Re unit to buy pension consolidator

Swiss Re Ltd. said its Admin Re unit will buy Guardian Holdings Europe Ltd., the holding company for Guardian Financial Services, from London-based private equity firm Cinven for £1.6 billion (\$2.49 billion). The deal, subject to regulatory approval, is expected to close in early 2016, Swiss Re said in a statement.

Admin Re and London-based Guardian both buy and consolidate blocks of in-force life and pension insurance business, Swiss Re said.

As part of the deal, Admin Re will add 900,000 annuity, life insurance and pension policies in the United Kingdom and Ireland.

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BENEFITS

Continued from page 3

said Noel Obourn, a Hartford, Connecticut-based principal and director of emerging markets at Buck Consultants at Xerox. In addition, she said, small businesses have been underserved by traditional brokers.

“Were they to scale up (to reach midsize and larger firms), I definitely think they would land themselves in the competitive space of traditional brokers and consultants, as well as traditional payroll and benefits administration giants,” Ms. Obourn said of Zenefits and Gusto.

Zenefits is already stealing small-employer clients from bigger brokers.

Brokers for Hub International Ltd., Digital Benefit Advisors and Wells Fargo Insurance Services

USA Inc. all said they’ve lost customers to Zenefits. At the same time, many of the departed clients have since returned unsatisfied, some brokers said.

Nevertheless, “It’s a threat to all of us,” said David Martin, Madison, Wisconsin-based managing principal at Digital Benefit Advisors. It’s “very much of a disruption to what our model is built off of, which is the advisory services (as the primary business offering) and the technology, second,” he said.

“There’s a lot of private equity money that’s coming into the employee benefits space, and a lot of it is being earmarked for technology,” said Tim Prichard, Houston-based executive vice president and head of national employee benefits practice at Wells Fargo. “Companies that have unique ideas and a lot of capital are drawing attention of not only clients but also investors as well.”

Mike Barone, San Diego-based

president of employee benefits at Hub, said Hub and Zenefits have swapped clients, but he’s not losing sleep over it.

“Most brokerage organizations have renewal rates in the 90% plus range. That’s certainly true for Hub and is true for most brokers, but ... Zenefits has been somewhat successful on smaller organizations,” Mr. Barone said.

Zenefits has experienced growing pains, however. It’s currently battling a lawsuit brought in June by payroll giant ADP L.L.C. accusing Zenefits of defamation. The dispute began after ADP blocked Zenefits’ access to its payroll data, claiming Zenefits was accessing the information without permission. Zenefits then criticized ADP publicly.

The startup was also banned in Utah last year for violating state rebate laws, but the ban has since been lifted.

Perhaps more important than

the threat of losing customers is the move toward advanced technology that Zenefits, Gusto and several other benefits and human resource software companies are spurring.

“From an industry perspective, this is an evolutionary step in that we’re going to be making heavy usage of technology to streamline processes that have historically been paper-based, labor-intensive, inefficient and costly,” Mr. Barone said.

Brokers acting as “product-centric intermediaries” must become more “service-oriented” if they want to stay in business, said Jim O’Connor, Manasquan, New Jersey-based president of employee benefits at CBIZ Inc.

And most brokers are doing just that, he said. They’re building their own technology or partnering with the countless software companies such as Liazon Corp., bswift L.L.C. and Maxwell Health

that have entered the insurance space selling products ranging from wellness programs to private exchange software.

To Randy Abbott, Boston-based senior consultant at Towers Watson & Co., it’s not so much the startups that are threatening existing brokers, but the changing mindset coming with a younger, consumer-minded generation of buyers.

“People want to do things just like they do on Amazon,” he said, and Zenefits and other new benefits brokers are just alternative solutions.

Though it’s “way too early to sound the death knell for brokers,” Mr. Abbott said, “traditional brokers (will) adopt some of the new technologies to meet the needs of their customers, and I think we’ll increasingly find that some that relied extensively on the technology will find the need to provide more personalized decision support.”

CONTRACEPTIVES

Continued from page 3

Though the Obama administration has not yet indicated whether it will appeal the latest rulings or seek a review by the full 8th Circuit, legal experts say this could be the ideal opportunity to get the case before the court.

“Now that we have the 8th Circuit ruling in contradiction of the other circuits ... I think it does set up a conflict that would be ripe for the Supreme Court to decide,” said Susan Nash, a Chicago-based partner at McDermott Will & Emery L.L.P.

“I think this makes for a good test, particularly when you look at the grounds on which the 8th Circuit panel made its decisions,” said James Napoli, a Washington-based partner at Seyfarth Shaw L.L.P.

Typically, legal experts said, entities seeking the religious freedom law’s protection from a law or regulation must demonstrate that their right to exercise their faith has been substantially burdened, a threshold previous appeals courts said religious nonprofits failed to meet.

However, in its 29-page ruling in favor of Heartland Christian College and CNS International Ministries Inc. on Sept. 17, the 8th Circuit panel held that the plaintiffs’ assertions that the government’s nonprofit accommodation is, in and of itself, sufficient proof of that burden under the religious freedom law.

“The question here is not whether CNS and (Heartland Christian College) have correctly interpreted the law, but whether they have a sincere religious belief that their participation in the accommodation process makes them morally and spiritually complicit in providing abortifacient coverage,” Judge Roger Wollman wrote for the panel. “That they themselves do not have to arrange or pay for objectionable contraceptive coverage is not determinative of whether the required or forbidden

act is or is not religiously offensive.”

The 8th Circuit also ruled that the government has other ways to achieve the objective of broadening women’s access to contraceptive prescriptions and other health care services, concurring with the plaintiffs that “the government could provide subsidies, reimbursements, tax credits or tax deductions to employees, or that the government could pay for the distribution of contraceptives at community health centers, public clinics and hospitals with income-based support.”

CONTRACEPTIVE LITIGATION

Challenges to the legality of the federal government’s accommodation for religious nonprofit groups.*

Permanent/preliminary injunctions granted

(not including those pending appeal)

District courts: 6

Appeals courts: 2

Permanent/preliminary injunctions denied

District courts: 1

Appeals courts: 9

Cases dismissed

Cases voluntarily dismissed: 3

Cases dismissed on procedural grounds: 9

Petitions awaiting U.S. Supreme Court review: 7

*As of Sept. 23

Source: Becket Fund for Religious Liberty

“On the minimal record thus far developed, the government has not shown that these alternatives are infeasible,” Judge Wollman wrote.

“The reason I think this case is ripe for review by the Supreme Court is that you have all of these other courts that are getting ready to go through a merit determination on this issue, so the question of whether a substantial burden is simply a matter of assertion or one where there’s some proof required is going to be a key issue in all of the underlying

cases,” Mr. Napoli said. “It’s going to be very interesting.”

Experts said a ruling against the government in any of the cases, which effectively would exempt religious nonprofits entirely from the coverage requirement, also could mean such an exemption could be extended to include closely held for-profit companies with religious objections to the requirement.

“The 8th Circuit’s holdings are a bit surprising because many saw *Hobby Lobby* as the case that provided an acceptable blueprint of how to deal with employers who objected to the ACA’s contraception mandate,” said Steven Friedman, a shareholder and co-chair of Littler Mendelson P.C.’s employee benefits practice group in New York.

If the Supreme Court upholds the 8th Circuit’s ruling, “it will be much more difficult for those who are employed at organizations/companies that object to contraception to get access to coverage,” he said. “An affirmation by the Supreme Court may also result in more challenges to the ACA, as those who do not want to comply with ACA requirements may be encouraged if they see that others have succeeded.”

Judge Wollman noted that while the Supreme Court held in *Hobby Lobby* that the accommodation process was less burdensome to religious employers than requiring them to directly fund contraceptive methods that violate their faith, the court did not rule as to whether it complies with the religious freedom law.

“That was the piece that was sort of missing from the Supreme Court’s decision in *Hobby Lobby*,” said Sharon Cohen, a Washington-based principal at Buck Consultants at Xerox. “They indirectly nodded at the government’s accommodation, but they never specifically addressed whether it would violate religious freedom laws, so there’s a good chance that they’ll circle back and address that issue directly. How that will play out, I’m not exactly sure.”

EXECUTIVES

Continued from page 3

individuals,” the mere fact they are investigating corporate executives “is going to complicate the lives of many people,” said Brian T. Kelly a partner at Nixon Peabody L.L.P. in Boston.

“I think they will make some examples of people,” but “I’m not sure ... we’re going to see a whole wave of CEOs and (chief financial officers) being turned in by their own companies,” said Brenda Shelly, New York-based D&O product leader at Marsh L.L.C.’s FINPRO practice.

“If they’re going after individuals in a way they’ve now promised,” accused executives are more likely to get their own attorneys rather than sharing a lawyer with their company, making it more difficult to settle cases and leading to higher defense costs, Mr. Norton said.

“Defendants don’t tend to cooperate in the same way when they risk jail time,” said Rob Yellen, New York-based executive vice president of FINEX North America, a unit of Willis Group Holdings P.L.C.

“It could lead to higher defense costs with individuals opting to take cases to trial due to the reputation and financial risks they may face,” said Steve Boughal, New York-based vice president and chief operating officer of Hartford Financial Products, a unit of The Hartford Financial Services Group Inc.

“Most policies will not cover an investigation of the entity, but they will cover an investigation of a corporate officer or director, so there’ll be more covered claims,” said Joseph

P. Monteleone, a partner at Rivkin Radler L.L.P. in Hackensack, New Jersey.

Dan A. Bailey, a member of Bailey Cavaliere L.L.C. in Columbus, Ohio, said much will depend on how Justice proceeds.

“If the proceedings by the DOJ are criminal in nature, that won’t create an indemnity obligation,” Mr. Bailey said.

If Justice seeks fines and penalties, “many D&O policies exclude those for coverage. But if the DOJ also seeks the recovery of damages on behalf of injured stockholders or the public, that could create some indemnity obligations,” he said.

“So, the bottom line is, if in fact there’s going to be a lot more proceedings by the DOJ against executives, that’s sobering news to the D&O market,” Mr. Bailey said.

Experts advise firms to carefully review their coverage.

“It’s important for insureds, agents and brokers to review some of the key coverage components that may be applicable to a DOJ investigation,” including the definition of a claim, Mr. Boughal said.

“I would worry about limits adequacy,” said Robbyn Reichman, New York-based co-leader of Aon Risk Solutions’ legal and claims practice group.

Another consideration are criminal and fraudulent conduct exclusions, experts say.

“You wouldn’t want to have an exclusion triggered simply because of a conviction at the trial court level,” said Mr. LaCroix. He advised companies to make sure such exclusions apply only after a final, nonappealable adjudication.

Experts say companies should also be sure there is adequate Side A coverage for individual directors.

RATES

Continued from page 6

slowdown, Florida wind rates being already at the very lowest they can be, a slowdown in nontraditional capital entering the market from sources such as pension funds, and the fact that more mergers and acquisitions likely will remove some capacity from the marketplace, will combine to stabilize prices.

“We may be starting to reach an inflection point,” Mr. Flandro said.

Slower price increases look to continue “and eventually will stabilize in 2016” if there are no large catastrophe losses, said Matthias Weber, group chief underwriting officer at Swiss Re Ltd.

He said this stabilization would be caused in part by the new capital slowdown and diminishing reserves that reinsurers can release to bolster results.

Denis Kessler, chairman and CEO of Paris-based Scor S.E., described the current market dynamic as a “soft landing of the soft market.”

The world’s largest reinsurers are “of a consensus” that rates cannot fall much further “without cutting (reinsurers’) throats,” said Victor Peignet, CEO of Scor Global P&C in Paris.

“In a softer market, like we’re in now, there may be fewer times we’re going to be able to get the price we want for the risk that we like, and therefore we’ll have to take a pass (on underwriting the business), and we’re willing to shrink the market,” said Tony Kuczinski, president and CEO of Munich Reinsurance America Inc.

“We are seeing a floor start to emerge, much like in the late 1990s,” said Greg Hendrick, CEO of reinsurance at XL Catlin Group P.L.C., “driven by the realization that (in many cases) the price is not commensurate with the risk in short-tail lines.”

Midyear rate declines were less than previous renewals, said Ulrich Wallin, CEO of Hannover Re S.E.

In some cases, he said, programs could not be finished at midyear — particularly in Florida where demand increased for commercial reinsurance coverage.

While it’s still “a buyer’s market,” Mr. Wallin said that there’s not much room for property catastrophe rates to fall further for the Jan. 1 renewals and that Hannover Re also expects the market to stabilize during 2016.

While some buyers and their brokers have sought to broaden terms and conditions, such as multiyear deals or including terrorism coverage, reinsurers have been treating such requests on a client-by-client basis, Mr. Hendrick said.

Inga Beale, CEO of Lloyd’s of London, said broader terms and conditions is a challenge for the market and Lloyd’s is closely monitoring the situation to ensure that underwriters do not run into trouble.

ALTERNATIVE

Continued from page 6

participated in the insurance industry through the ownership of insurance or reinsurance stocks,” Mr. Nichols said. “So, they were in the business all along, but they just came in through a more traditional way.”

“What we are seeing today is a shift in the way that capital enters the system,” he said.

“I like the word converged,” said Brad Adderley, a Bermuda-based corporate partner at offshore law firm Appleby. “It’s all being converged now. I think of it as part of

the same pool.

“Whatever colloquialism you use, basically, it’s all capital, and I don’t think people think of it as alternative anymore” Mr. Adderley said. “It is looked at as being one melting pot now; it’s just a question of where does the business get written.”

“The fundamental shift is that reinsurance — not just reinsurance stocks — is now an asset class. This is new and creates a host of new dynamics that are more consistent with being an asset class versus the historical classification,” Mr. Nichols said.

“Third-party capital is still coming in; it’s just the rate of entry is starting to slow a bit and that

shouldn’t surprise anyone,” said David Flandro, global head of analytics at JLT Re. “There’s still capital coming in — more than is going out — but it’s just moderating a bit.

“Third party capital can still grow; it’s just not going to grow as much as a proportion of the whole in the next couple of years than it has over the last three years,” he said.

“I think we all agree that the upper number (of the Aon Benfield forecast) will be hit. I don’t think there’s a doubt in anyone’s mind. The question is: When?” Mr. Adderley said.

Growth, however, may take longer than even the revised

guidance.

“I’m not trying to suggest the segment has reached its maturity, but to see it doubling in three years when most market observers would accept that the main ILS focus is property/catastrophe, and where demand is relatively flat, unless there’s going to be huge penetration into an already competitive primary market as well the international treaty markets, which I’m not sure for the latter we’ll see at current pricing levels, I’d be surprised if the capital were to more than double during this period,” said James Kent, co-president of Willis Re Inc., and president of Willis Re North America.

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SCOTUS

Continued from page 4

chief counsel of the legal studies division at the Washington Legal Foundation, which filed a brief supporting DirecTV. He said there's been a "concerted effort by state courts to ignore decisions" that uphold the pre-emptive power of the federal arbitration law.

DirecTV presents an "opportunity for the Supreme Court to state authoritatively that the Federal Arbitration Act has pre-emptive effective over state courts' desire to get rid of arbitration," Mr. Lammi said.

In an amicus brief filed supporting Ms. Imburgia, Washington-based consumer group Public Citizen argued that the California court ruled correctly.

"The FAA does not pre-empt the field of arbitration regulation, and its application is not universal," Public Citizen said in its brief. "States may have and enforce laws — even laws that resolve arbitration issues the opposite way from the FAA — regulating arbitrations that fall outside the FAA's scope."

The high court also has accepted several cases involving aspects of class actions.

"I really see that the court is on the front lines of the class action wars," said Robin S. Conrad, a partner in the Washington office of international law firm Dentons and a former executive vice president of the U.S. Chamber Litigation Center, the public policy law firm of the U.S. Chamber of Commerce. "These cases have been in the pipeline for a long time."

Ms. Conrad said the class action situation is analogous to that after the Supreme Court ruled in its 2003 decision in *State Farm Mutual Automobile Insurance Co. v. Curtis Campbell et al.* that a punitive damage award 145 times the underlying compensatory damage award was excessive and unconstitutional.

"There was a slew of post-*State Farm* cases," she said. "The plaintiffs bar tried to poke holes any way they could to get punitive damages. We're seeing the same thing on the class action front."

In one class action case, *Campbell-Ewald Co. v. Jose Gomez*, the court will examine whether offering complete relief to a plaintiff renders the plaintiff's claim moot and, if offered before a class is certified, if it also renders the class claim moot. The case involves alleged violations of the Telephone Consumer Protection Act.

In another case, *Spokeo Inc. v. Thomas Robins*, Mr. Robins alleged that social media site Spokeo violated the Fair Credit Reporting Act by publishing inaccurate information about him and failing to provide third parties with notices as required by the law.

Mr. Robins sought to file a class action seeking \$1,000 per member, but since he didn't allege any real harm, a U.S. District Court in Los Angeles dismissed the claims.

HEALTH

Continued from page 1

more costs to employees in the form of higher deductibles, benefit experts say.

For example, this year's average deductible of \$1,318 for employees with single coverage is up more than 40% since 2010, according to the Kaiser survey.

Similarly, 24% of employees now are covered by high-deductible plans linked to health savings accounts or health reimbursement arrangements, triple the 8% covered in 2009 by the health plans often known as consumer-driven health plans.

"There has been aggressive adoption of CDHPs across the board," said Tim Nimmer, chief health care actuary at Aon Hewitt in Denver.

"Employees, through the higher deductibles, at first are shocked by what things cost, but, over time, employees learn how to better use health care services to mitigate their out-of-pocket costs," said Michael Thompson, a principal at PricewaterhouseCoopers L.L.P. in New York.

Employers also have been adding telemedicine programs in which employees can talk on the phone to medical professionals, rather than seeking care through more expensive office visits or trips to hospital emergency rooms, Mr. Thompson said.

Another factor holding down cost increases has been employer adoption of wellness programs,

PLAN TYPE

Group health plan premiums for family coverage vary depending on plan design, which includes preferred provider organizations, health maintenance organizations, point of service plans and consumer-driven health plans. The average premium for family coverage in 2015 was:

PPO	\$18,469
HMO	\$17,248
POS	\$16,913
CDHP	\$15,970

Source: Kaiser Family Foundation

such as health risk assessments and biometric screenings to spot health problems before they become expensive-to-treat medical problems.

For example, 81% of employers with at least 200 employees offer wellness programs to help workers stop smoking, lose weight or make other lifestyle changes, according to the Kaiser survey.

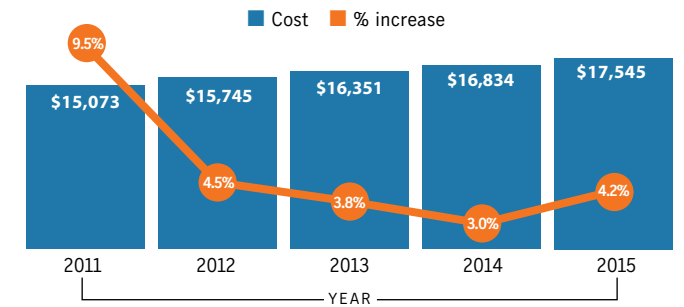
In the School District of Palm Beach County, health plan costs are expected to rise only about 2% this year due in large part to its comprehensive wellness program, said Dianne Howard, the district's director of risk management and benefits in West Palm Beach, Florida.

"We attribute the lower trend to all our various programs, from our outcomes-based wellness program to our diabetes interventions with a plan that has lower copays for those members who follow the recommended guidelines in treatment protocol," Ms. Howard said.

Still, experts question how long

PREMIUM INCREASES

While edging up and still higher than the rate of inflation, increases in group health plan premiums for family coverage continue to be moderate.



the run of modest annual premium increases can continue and cite expensive prescription drugs as a key issue.

A survey earlier this year by prescription benefits manager Express Scripts Inc. found that 500,000 U.S. patients had medication costs in excess of \$50,000 in 2014, a 63% jump from 2013, as doctors prescribed expensive specialty drugs for diseases such as cancer and hepatitis.

"Higher deductibles and copayments do not put even a dent in specialty drug costs," said Dave Ratcliffe, a principal at Buck Consultants at Xerox in Washington.

In addition, some employers say they are seeing a rash of high-cost claims.

"Our actuaries are projecting an 11% increase for our self-insured medical plans. This is being driven by an ongoing trend of more high claims under the plan. This trend started in the fall of 2013 and has continued," said Bonnie Sawdey, vice president of human resources at Crawford & Co. in

Atlanta.

"There isn't a single cause of our high claims. We've had a variety of diagnoses associated with these claims. There have been several instances of cancer, a premature baby, organ transplant and a serious accident," Ms. Sawdey said.

In addition, some experts say CDHPs may cause employees to delay getting treatment.

With higher cost sharing, "there is a risk of employees deferring care," Buck Consultants' Mr. Ratcliffe said. That could mean lower plan costs in the short run, but much higher costs if untreated medical problems become serious and costly to treat, he said.

Others, though, say employees in HDHPs are seeking preventive services.

"This year, 76% of employees participating in our high-deductible health plans have had a preventive care visit," up from 36% in 2013, before Crawford moved its employees to CDHPs, Ms. Sawdey said.

COMP

Continued from page 1

Resources, released earlier this month, showed that workers comp costs accounted for \$1.77 per \$100 of private-sector employer payroll in 2014, down from \$1.78 in 2013.

That study, based on U.S. Bureau of Labor Statistics data, showed that employer comp costs have been declining steadily from \$2.47 in 2005 to reach their lowest point since 1986.

Meanwhile, an August report by the National Academy of Social Insurance showed that employers paid \$1.37 per \$100 of payroll in 2013, up from \$1.32 in 2012. That report, based on the academy's internal data and including Mr. Burton as a researcher, showed that employer comp costs have increased steadily from \$1.25 per \$100 of payroll in 2010, but are still lower than a peak of \$1.74 in 2003 and 2004.

Experts say it's not entirely clear why the reports reach different conclusions on employer costs, but attribute the difference in part to how data is calculated by the academy and the bureau.

BLS estimates the average costs of wages, salaries and overall

HEAR INTERVIEW
Visit *Business Insurance's* multimedia Web page to hear Marjorie Baldwin, an economics professor at Arizona State University in Tempe, discuss a National Academy of Social Insurance report on what's driving the cost of workers comp with *Business Insurance* Associate Editor Sheena Harrison.

worker benefits, including workers comp, while the academy specifically measures aggregate workers comp costs nationwide, said Marjorie Baldwin, an economics professor at Arizona State University in Tempe, and one of the authors of the academy's report.

Jeff Eddinger, senior division executive at the National Council on Compensation Insurance Inc. in Boca Raton, Florida, said rising employer costs in the academy report seem to track with increased hiring among employers that tend to have higher worker injury rates.

"We were in a period of high unemployment, and now we're in a period of recovery," he said.

"Some of the sectors that are recovering, like construction and manufacturing, have higher costs associated with them."

Although the academy's report shows overall comp costs have increased for employers, it also said comp benefits paid to workers decreased to 98 cents per \$100 of payroll in 2013, from \$1 in 2012 and a relatively steady decline from a peak of \$1.65 in 1991 and 1992.

Ishita Sengupta, Washington-based director of workers compensation and co-author of the academy's report, said employer costs may be increasing despite declining benefits because insurers may have increased workers comp rates for employers with a higher frequency of claims, which would increase their premiums.

Those premiums are a lagging indicator, since it takes time for lower comp claim frequency to be factored into future workers comp pricing, Ms. Sengupta said.

Ms. Baldwin said declining worker injury rates have contributed to falling workers comp benefits.

Nonfatal worker injuries fell to 3.3 cases per 100 full-time equivalent employees in 2013, down from 3.4 cases in 2012, according to the most recent BLS data.

"Workplaces are becoming

safer — both the incidence and severity of workplace injuries have been declining," Ms. Baldwin said.

Ms. Baldwin also said employer costs may be on the rise, despite falling benefit payments, because they're paying higher premiums to cover more new post-recession hires.

"Employer costs increase more rapidly at first, reflecting the increases in premiums paid to cover additional workers," Ms. Baldwin said. "Benefits increase more slowly with increasing coverage, because benefits commence when an injury occurs and sometimes extend into subsequent years."

Both Ms. Sengupta and Mr. Burton say declining payments make sense because several states have made it more difficult in recent years for injured workers to qualify for workers comp benefits or have reduced the amount of those benefits.

For instance, states such as Tennessee in 2013 and Kansas in 2011 increased standards to prove that a worker's injury occurred in the course and scope of their employment.

"Claimant rules have become very stringent, and so it's difficult for a claim to be paid," Ms. Sengupta said.



AP PHOTO

A Volkswagen Passat CC is tested for its exhaust emissions Sept. 24 at a Ministry of Transport testing station in London.

VW

Continued from page 1

shares.

ADRs are certificates issued by a U.S. bank representing a share of a foreign stock it holds in trust but is traded on a U.S. exchange. ADRs reportedly account for only a small portion of VW's total shares.

San Diego-based plaintiff law firm Robbins Geller Rudman & Dowd L.L.P. filed suit Friday on behalf of some VW ADR shareholders in Alexandria, Virginia, federal court. *City of St. Clair Police & Fire Retirement System v. Volkswagen A.G. et al.* alleges violations of the Securities Exchange Act of 1934, charging defendants with making "numerous false and misleading statements and omissions to investors regarding the company's operations and its business and financial results and outlook."

Some 11 million VW and Audi diesel cars



AP PHOTO

Matthias Mueller, pictured, has replaced VW CEO Martin Winterkorn, who resigned.

are affected. VW, which U.S. officials have said could face up to \$18 billion in fines, set aside €6.5 billion (\$7.35 billion) for "neces-

sary service measures and other efforts to win back the trust of our customers," according to a statement.

Meanwhile, the automaker that touted the cars as being green with great gas mileage faces numerous inquiries sparked by the U.S. Environmental Protection Agency's Sept. 18 announcement that VW used a "defeat device" to evade U.S. Clean Air Act standards. There was speculation VW may need a bailout from the German government to survive.

The crisis sparked the resignation of CEO Martin Winterkorn, who was replaced Friday by Porsche A.G. executive Matthias Mueller.

For ADR litigation filed in the U.S., the Supreme Court's decision *Morrison* will govern such suits. In that case, Melbourne, Australia-based National Australia Bank bought Jacksonville, Florida-based HomeSide Lending Inc. in February 1998. It then wrote down HomeSide's assets by \$2.2 billion in 2001, sparking shareholder suits against both

companies and their executives.

The Supreme Court held unanimously that antifraud provisions of the U.S. securities law "reach the use of manipulative or deceptive device or contrivance only in connection with the purchase or sale of as a security listed on an American stock exchange, and the purchase or sale of any other security in the United States."

While the ruling disallows suits by those who purchased shares outside the United States, those who bought ADR shares in the U.S. "have all the rights that any shareholder has to pursue claims" against VW, said Kevin LaCroix, executive vice president of RT ProExec, a division of R-T Specialty L.L.C. in Beachwood, Ohio.

Because ADR shares typically are only a small percentage of total shares, "the actual amount of recovery is going to be much smaller than it would have been" before *Morrison*. "It's a more manageable risk in light of the *Morrison* decision," said Todd G. Cosenza, a partner at Willkie Farr & Gallagher L.L.P. in New York.

Unlike the United States, Mr. LaCroix said, Germany has dual board structure, with a management board of senior managers and a supervisory board that includes representatives of unions, pension funds and other stakeholders. The expectation is the supervisory board would sue the management board, he said.

Thomas O. Gorman, a partner at Dorsey & Whitney L.L.P. in Washington, said senior VW officials likely would be covered under VW's D&O insurance.

D&O policies typically pay legal fees and portions of settlements once retentions are met, Mr. Gorman said. "They may also cover some regulatory investigations, depending on the type of coverage they have."

Mr. LaCroix said that under typical D&O wording, any policy exclusion based on conduct would take effect after a final adjudication. "Even then, if there were to be an individual admission by the company or by former or present employees ... that would not preclude coverage of others."

NAPSLO

Continued from page 4

growing at a faster rate than the overall commercial sector, "that pace is slowing," which he said is a "function of the competition and the efficiency that we are continuing to generate."

"There's an awful lot of appetite for business still from underwriters, although I suspect that we may be seeing a marketplace where traditional insurers are now seeing reserves eroded to the point where they're going to need to start putting additional reserves in place," said Darren Warkcup, London-based insurance specialist of facilities at JLT Re, the reinsurance brokerage

arm of Jardine Lloyd Thompson P.L.C.

Soft markets, however, offer "great opportunity for product development to cover new risks," which "tend to be more complicated," said Thomas P. Ruggieri, New York-based president and CEO of Cooper Gay Swett & Crawford Ltd.

Among newer coverages getting greater attention are those for drone and cyber risks.

"Underwriting companies are trying to get their heads around what they want to do with drones, and in reality trying to figure out what is the future of drones" as a commercial use, Mr. Barraclough said. "Is this a little bit of a fad, or is it here to stay?"

As for cyber coverage, Mr. Lupica, who specializes in firms of 500

and fewer employees with less than \$25 million in revenue, said Ace attaches cyber coverage to its businessowner policies.

"We're recognizing a small business does not need the same cyber coverage" as a large business and it is preferable "to sell them what they need at a more favorable price," he said.

"People are looking at new ways to distribute" products, said Marcel Ricciardelli, Philadelphia-based senior vice president of environmental and engineering at Allied World Insurance Co. "How do we get more efficient?"

During the conference attended by more than 4,000 people, Gilbert C. Hine, president of San Antonio, Texas-based McClelland & Hine Inc., was elected president for the 2015-2016 term.

RSA

Continued from page 4

doubt that other Western insurers can either," Deutsche Bank A.G. analysts said in an investor note. "That leaves only the Japanese or Chinese insurers, who could be interested in building their global scale, but who wouldn't derive any synergies."

"It remains to be seen whether the recent focus on RSA flushes out other corporate interest," said Eamonn Flanagan, head of the Liverpool, England, office of Shore Capital Group Ltd. "While we would not rule this out, we suspect it may take some time."

RSA's share price "has fallen significantly, and we believe it repre-

sents significant value," Andy Hughes, an analyst at Macquarie Group Ltd., said in a note.

For its part, Zurich said it remains committed to its target of a 12% to 14% return on equity.

"While the RSA deal had some merit, we welcome Zurich's capital discipline," Sami Taipalus, an analyst at Berenberg Bank in London, said in a note to investors.

He said Zurich's nonlife review likely would focus on global commercial property, and U.S. property in particular.

"Likely post-review actions include an increase in the large-loss budget (Zurich has previously hinted at this), reunderwriting of certain areas, changes to reinsurance purchasing and, possibly, some further moderate reserve increases," he said.



Did Ashley Madison cheat cheaters?

While many of the exposed cheaters of extramarital-fling website Ashley Madison are sobbing over their lost anonymity, some are just annoyed the women they were Internet-flirting with didn't actually exist.

A Maryland man is suing Toronto-based Avid Life Media Inc., the parent company of Ashley Madison, and Avid Dating Life Inc. for reportedly populating the online cheating service with thousands of fake women, according to a class action lawsuit filed Sept. 11 in Maryland District Court.

Christopher Russell, who says he joined Ashley Madison after separating from his wife, spent \$100 in credits to chat with real females on the site, only to find his chat partners were mostly "fembots with fake profiles," the lawsuit states.

These fembots were revealed after the personal information of Ashley Madison users was leaked by hackers in August, according to the lawsuit. The lawsuit claims that Ashley Madison hired employees to generate thousands of bogus female profiles and more than 70,000 female bots to send male users messages.

Ashley Madison had marketed its site as having 5.5 million legitimate female profiles, the lawsuit alleged, when in fact hackers say 90% to 95% of female profiles are fake, according to media reports.

"Defendants' fraudulent and deceitful acts were designed to willfully and knowingly mislead customers into signing the customer agreement, joining the website and spending money," the lawsuit states.

Friend eases pal's comp check burden

With friends like this, who needs enemies? A Hempstead, New York, man was arrested this month for stealing his pal's \$12,000 workers compensation settlement check.

Rafael Castillo, 46, was asked by a male friend to cash the check, but deposited it into his personal account and did not reimburse the victim, according to a news release published by the Nassau County Police Department.

Mr. Castillo was arrested Sept. 15 at his residence by the department's Crimes Against Property Squad and charged with grand larceny in the third degree.

TAKING SELFIES NOW MORE DEADLY THAN SHARK ATTACKS



LZF/SHUTTERSTOCK.COM

As more people take photos of themselves with their smart phones, the number of selfie-related injuries is increasing.

News that will have travel insurers revisiting their underwriting loss triangles: travelers are more likely to die from taking selfies than from shark attacks. A recent survey found that more people have died so far this year while taking selfies than as a result of shark attacks, according to the Daily Mirror.

While 12 people have died while taking selfies — several in falls and others by being hit by vehicles — only eight people have died as a result of shark attacks.

The selfie epidemic is proving so dangerous that selfie sticks have been banned in all Walt Disney Co. resorts, the London newspaper reported.

And earlier this year, Waterton Canyon recreation area in Denver was closed to the public after too many visitors were trying to take selfies with bears.

Maybe risk managers need to add selfie risk management to the list of advice they give to corporate travelers.

Business Insurance isn't all business all the time, and we know you're not either. So visit www.businessinsurance.com for more Off Beat stories and monthly photo galleries featuring the best of the weirdest news about insurance, fraud, liability issues and related topics that make people and companies do funny, silly and strange things.

Walk of shame follows high-heeled moment

A California beauty queen has pleaded guilty to workers compensation fraud after she was found strutting her stuff in pageants while receiving comp benefits for an injured foot.

Shawna Lynn Palmer, 22, worked as a clerk for San Bernardino, California-based supermarket chain Stater Bros. Markets, and reported



fracturing her toe at work in March 2014, according to a statement from the California Department of Insurance. Ms. Palmer claimed the accident left her unable to work, since

she could not place any weight or wear a shoe on the injured foot, and she collected workers comp payments for her injury.

However, videos posted to YouTube showed Ms. Palmer competing in the 2014 Miss Toyota Long Beach Grand Prix pageant while she was on leave. The footage showed Ms. Palmer "wearing high heels and walking without any signs of discomfort," the insurance department said earlier this month.

Ms. Palmer pleaded guilty to one misdemeanor count of workers comp fraud, the insurance department said in its statement. She was sentenced to 36 months of probation and 50 hours of community service, and was ordered to pay \$6,000 in fines and restitution.



U.S. spies trouble with Waldorf

America's simmering cyber feud with China has spilled over into the Obama administration's sleeping arrangements during this month's 70th United Nation General Assembly in New York.

For decades, U.S. presidents have stayed at the storied and luxurious Waldorf-Astoria hotel in midtown Manhattan, but security concerns are forcing a change of venue, according to media reports.

The hotel was sold last year for a reported \$1.95 billion to Beijing-based Anbang Insurance Group Inc., a firm with numerous connections to Chinese officials.

The New York Times noted the State Department and administration were vague about the change, but security concerns were implied.

The Anbang Group plans a "major renovation" of the property, further raising the specter of possible security concerns, reports said.

President Obama reportedly will stay at the New York Palace Hotel.



BI | EVENTS

2015

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Contacts:

For speaking opportunities:

Joanne Wojcik, Programming Director
jwojcik@businessinsurance.com

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Brokers find opportunities despite market challenges

Brokers, like many others in the insurance industry, are looking for opportunities amid ongoing soft property/casualty pricing and industry consolidation.

As we report in this annual supplement to *Business Insurance*, insurance brokers have found major opportunity in the health care consulting business. That is due in large part to ongoing changes as a result of the U.S. health care reform law that have left clients often confused and uncertain about their duties and responsibilities.

Brokers also have found opportunity in cyber coverage amid major data breaches in recent years. An uptick in activity also has pointed brokers to construction as an area in which to place their capacity.

This special supplement also looks at the strategies deployed to boost brokerage revenues at the U.S. broker that posted the greatest percentage gain in revenue per employee last year.

Rankings of the fastest growing, most productive, largest benefits brokers, brokers to watch in the coming years and more, drawn from the annual *Business Insurance* ranking, also are part of this issue.

While brokers face several issues as they attempt to improve profitability despite a series of headwinds, one major challenge the industry still faces is attracting and keeping talented workers and planning for when the baby boomers actually retire and turn the reins over to the next generation.

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Move to benefits a natural evolution

BY MATTHEW LERNER

Insurance brokers have diversified their revenue and leveraged existing clients and infrastructure by moving into employee benefits, thanks in large part to the nation's health care reform law.

Having an employee benefits practice allows a brokerage to offer more diverse services to clients, said Sandra Usleman, senior vice president and chief sales officer of USI Insurance Services L.L.C. in Valhalla, New York.

"Through a single point of contact, one firm can provide both employee benefits and the property and casualty for the client," Ms. Usleman said. "The process for employee benefits and property and casualty are very similar.

And a downturn in one area can be offset by growth in another, she said.

"It's a basic diversification play," said Julie Herman, associate director of insurance rating at Standard & Poor's Corp. in New York. "Brokers want to expand into related areas and employee benefits is the most natural way to expand outside tradi-

tional property/casualty."

"It's a similar type of service. Essentially it's insurance distribution providing consultative and administrative services and expertise in insurance offerings," she said.

BB&T Insurance Holdings Inc. saw employee benefits as an opportunity to diversify in the 1990s, said David Pruett, vice chairman and president of the brokerage's retail division. "We had all these relationships with buyers of insurance, so it was a natural fit as in many cases it's the same buyer."

The 2010 passage of the Affordable Care Act has benefitted many brokers with benefits consulting and services.

"Administration of ACA compliance is a very complex thing," said Timothy J. Cunningham, managing director at Chicago-based investment banking and consulting firm Optis Partners L.L.C. "It has clearly put the broker in much more of a consultative role than ever before."

The law was a "tipping point" that meant that brokers had to provide consultative services, said Jim Blaney, CEO of the human capital

practice at Willis Group Holdings P.L.C. in Philadelphia.

The Affordable Care Act "absolutely" increased the demand for broker services, Ms. Herman said of the complex law. "Now that there is a little more clarity, it's shedding light on opportunities," such as health insurance exchanges and selling new services to existing clients.

"The ACA presented brokers with a big opportunity to help clients sort through a maze of complexity," Mr. Blaney said. "Employers are interested in a whole lot more than our ability to negotiate rate" for group health insurance and other benefits.

To meet the growing benefits demand, USI added 72 employee benefits producers in the past year, including 44 from its acquisition of 40 Wells Fargo Insurance Services USA Inc.'s brokerage offices in May 2014 and 10 more when USI acquired seven offices in November from Willis.

The company has also added expertise and technology.

"We have compliance attorneys, wellness directors, underwriters, medical directors, pharmacy consultants and benefits resource centers," said Ms. Usleman. "We have invested in technology where many smaller and middle-market firms have not or have had to outsource. Having those capabilities in-house is an advantage to both our clients, consultants and client support teams."

"Last year was a double-digit growth year for us in employee benefits, about 14%," said Mr. Pruett of BB&T.

And the opportunity for future growth is promising as, unlike the property/casualty market, rates for employee benefits products and services look set to remain high.

"If we just look at the economics, you've got what has been a perpetually hard market in employee benefits, specifically health care" said Mr. Blaney "Just the economics related and connected to employee benefits make it an attractive play."

BROKER MERGERS TO CONTINUE

Consolidation in the broker sector will continue, driven at least in part by the growing complexity of providing employee benefits coverage.

"Scale is needed to compete," said Timothy J. Cunningham, managing director at Chicago-based investment banking and consulting firm Optis Partners L.L.C. "There are a lot of these small and medium-sized firms that know if they didn't join up with someone bigger, they weren't going to survive."

The segment is "very fragmented, and there are a lot of small, private companies, which really can't compete and can't deal with the technology and regulatory aspects," said Julie Herman, associate director of insurance rating at Standard & Poor's Corp. in New York.

"I do think regional and locals are not equipped to handle the complex needs of clients today, and they're looking for solutions," said Jim Blaney, Philadelphia-based CEO of the human capital practice at Willis Group Holdings P.L.C. "Therefore, I do think we'll continue to see consolidation."

By Matthew Lerner

BENEFITS SPECIALISTS

Brokers specializing in employee benefits, ranked by percentage of business*

Company	City/state	2014 employee benefits revenue	% increase (decrease)	% Total
Benefit Controls Cos.	Charlotte, North Carolina	\$19,600,000	5.9%	100%
FBMC Benefits Management Inc.	Tallahassee, Florida	\$19,237,442	5.9%	100%
NationalHR	Marlton, New Jersey	\$1,675,000	15.5%	100%
Corporate Synergies Group L.L.C.	Mount Laurel, New Jersey	\$38,980,000	4.9%	97.5%
Digital Insurance Inc.	Atlanta	\$91,904,982	37.4%	97.2%
LHD Benefit Advisors L.L.C.	Indianapolis, Indiana	\$6,437,449	28.3%	97.1%
Cowan Benefits Inc.	Brentwood, Tennessee	\$12,519,392	5.8%	92.9%
Associated Financial Group L.L.C.	Minnetonka, Minnesota	\$49,257,728	31.5%	64.8%
The Plexus Groupe L.L.C.	Deer Park, Illinois	\$12,283,834	2.9%	64.7%
CBIZ Benefits & Insurance Services Inc.	Kansas City, Missouri	\$130,600,000	5.3%	57.7%
M3 Insurance Solutions Inc.	Madison, Wisconsin	\$26,053,008	8.0%	56.1%
Oswald Cos.	Cleveland	\$36,400,000	6.6%	55.1%
The Insurance Exchange Inc.	Rockville, Maryland	\$4,535,294	2.9%	53.4%

* Companies with 51% or more of brokerage revenue from employee benefits

Source: BI survey

TOP 25 BENEFITS BROKERS BY GROWTH

Ranked by rate of growth in 2014 employee benefits revenue*

Rank	Company/address	Phone/website	2014 employee benefits revenue	Percent increase (decrease)	Percent of total revenue	Officers
1	Edgewood Partners Insurance Center (EPIC) 135 Main St., 21st Floor San Francisco, CA 94105 ¹	415-356-3900 www.edgewoodins.com	\$39,035,622	132.5%	25.3%	John Hahn, CEO
2	BroadStreet Partners Inc. 580 N. Fourth St., Suite 450 Columbus, OH 43215 ¹	614-993-3011 www.broadstreetcorp.com	\$24,635,500	130.2%	10.0%	Richard L. Miley, president/CEO
3	Risk Strategies Co. Inc. 160 Federal St., Second Floor Boston, MA 02110 ¹	617-330-5700 www.risk-strategies.com	\$20,699,840	79.0%	21.2%	Michael B. Christian, CEO
4	AssuredPartners Inc. 200 Colonial Center Parkway Lake Mary, FL 32746 ¹	407-804-5222 www.assuredptr.com	\$104,039,220	71.8%	22.3%	Jim Henderson, CEO
5	Cross Financial Corp. 491 Main St. Bangor, ME 04401 ¹	207-947-7345; 800-999-7345 www.crossagency.com	\$20,447,000	52.4%	19.3%	Royce M. Cross, CEO
6	Meecker Sharkey Associates L.L.C. 21 Commerce Drive, Suite 302 Cranford, NJ 07016 ¹	908-272-3330 www.meeckersharkey.com	\$1,381,000	50.8%	24.8%	Thomas J. Sharkey Jr., president
7	Acrisure L.L.C. 5664 Prairie Creek Drive SE Caledonia, MI 49316 ¹	800-748-0351 www.acrisure.com	\$28,134,910	44.0%	14.3%	Gregory L. Williams, CEO
8	Digital Insurance Inc. 400 Galleria Parkway, Suite 300 Atlanta, GA 30339 ¹	770-250-2900 www.digitalinsurance.com	\$91,904,982	37.4%	97.2%	Adam Bruckman, president/CEO
9	PSA Financial Services Inc. 11311 McCormick Road, Suite 500 Hunt Valley, MD 21031 ¹	410-821-7766 www.psafinancial.com	\$13,647,460 ²	33.5%	46.9%	Trevor C. Lewis Jr., managing director/CEO
10	ABD Insurance & Financial Services Inc. 3 Waters Park Drive, Suite 100 San Mateo, CA 94403	650-488-8565 www.theabdteam.com	\$18,800,000	33.3%	50.9%	Brian Hetherington, CEO
11	Associated Financial Group L.L.C. 12600 Whitewater Drive, Suite 100 Minnetonka, MN 55343	952-945-0200 www.associatedfinancialgroup.com	\$49,257,728	31.5%	64.8%	Dean Hildebrandt, CEO
12	LHD Benefit Advisors L.L.C. 250 W. 96th St., Suite 350 Indianapolis, IN 46260 ¹	317-705-1600 lhdbenefits.com	\$6,437,449	28.3%	97.1%	Jeff Hadden, partner/president
13	Hub International Ltd. 300 N. LaSalle St., 17th Floor Chicago, IL 60654 ¹	800-432-2558 www.hubinternational.com	\$263,376,000	27.4%	20.3%	Martin P. Hughes, chairman/CEO
14	R&R Insurance Services Inc. 1581 E. Racine Ave. Waukesha, WI 53186	262-574-7000 www.myknowledgebroker.com	\$2,800,000	27.3%	13.0%	Ken Riesch, president
15	Ansay & Associates L.L.C. 101 E Grand Ave., Suite 11 Port Washington, WI 53074	262-377-6063 www.ansay.com	\$6,650,802	27.1%	24.1%	Michael Ansay, chairman/CEO
16	Insurica Insurance Management Network 5100 N. Classen Blvd., Suite 300 Oklahoma City, OK 73118 ¹	405-523-2100 www.insurica.com	\$9,435,069	25.3%	11.5%	Michael F. Ross, president/CEO
17	Alper Services L.L.C. 60 W. Superior St. Chicago, IL 60654	312-642-1000 www.alperservices.com	\$1,223,000	22.1%	15.3%	Howard C. Alper, chairman/CEO
18	Cottingham & Butler Inc. 800 Main St., P.O. Box 28 Dubuque, IA 52001	563-583-7301 www.cottinghambutler.com	\$20,443,000	20.5%	18.4%	John Butler, executive chairman
19	York International Agency L.L.C. 500 Mamaroneck Ave. Harrison, NY 10528	914-376-2200 www.yorkintl.com	\$2,540,848	19.6%	16.1%	Robert J. Kestenbaum, CEO
20	Arthur J. Gallagher & Co. The Gallagher Centre, 2 Pierce Place Itasca, IL 60143 ¹	630-773-3800 www.ajg.com	\$672,250,000	18.9%	14.5%	J. Patrick Gallagher Jr., chairman/president/CEO
21	Bolton & Co. 3475 E. Foothill Blvd., Suite 100 Pasadena, CA 91107 ¹	626-799-7000 www.boltonco.com	\$13,191,100	18.3%	36.1%	Ron Wanglin, chairman
22	Towers Watson & Co. 901 N. Glebe Road Arlington, VA 22203	703- 258-8000 www.towerswatson.com	\$95,227,885	17.8%	19.5%	John Haley, chairman/CEO; Gene Wickes, managing director-benefits; Carl Hess, managing director-Americas
23	Assurance Agency Ltd. 1750 E. Golf Road Schaumburg, IL 60173	847-797-5700 www.assuranceagency.com	\$20,872,240	17.4%	27.5%	Anthony D. Chimino, CEO
24	Armfield, Harrison & Thomas Inc. 20 S. King St. Leesburg, VA 20175	703-777-2341 www.ahtins.com	\$11,871,908	17.0%	39.5%	David L. Schaefer, president/CEO
25	Regions Insurance Group Inc. 6000 Poplar Ave., Suite 300 Memphis, TN 38119 ¹	901-684-3333 www.regionsinsurance.com	\$28,603,000	16.8%	22.4%	Curren Coco, executive vice president/CEO

*To be ranked, brokers must have generated \$500,000 or more in employee revenue in 2014. Companies deriving more than 49% of their gross revenue from personal lines business are not ranked.

¹ Reported U.S. acquisitions in 2014. ² Fiscal year ending March 31.

Source: *BI* survey

Productive specialty broker grooms leaders in-house

BY DONNA MAHONEY



Mr. Kestenbaum



Mr. Krantz

Investments in technology, training and the right staff are how self-proclaimed boutique brokerage York International Agency L.L.C. excels in productivity.

York International started in 1985 through the merger of two Westchester, New York-based insurance agencies, Paul Krantz & Co. and Great Bay Brokerage.

CEO Robert Kestenbaum and Chairman James Krantz have built the Harrison, New York-based broker to become the most productive insurance agent/broker in the 2015 *Business Insurance* total ranking.

With 42 employees in 2014 and \$15.1 million in revenue, York's \$359,413 in revenue per employee made the brokerage No. 1 in productivity among brokers participating in the annual *Business Insurance* survey (see chart, page 5).

Over the past decade, York has grown from two shareholders to 11.

"We have a proven track record of allowing quality employees the opportunity to grow and become shareholders," said Michael Bodack, York's president and benefits practice leader. "We believe that has a very positive, infectious effect on the entire organization, one of the byproducts that can't help but bring greater productivity.

"For any level of position we are hiring for ... we are constantly challenging ourselves to make sure we are getting the right person," Mr. Bodack said of the extensive interview process York uses to hire top-notch talent.

"We know our culture, and we know what works well for us, and we have built a testing model based on successful team members that work here now, and we compare that to the candidate pool and vet them technically for the role they

are going to be in before hiring anyone," said Stephen DeMatteo, York's executive vice president and commercial lines practice leader.

Internal training efforts include York University, where employees are empowered to continue their education in the insurance business. York also assists employees financially to pursue industry certifications, such as the Chartered Property Casualty Underwriter designation offered by the Society of Chartered Property and Casualty Underwriters.

"We are very committed to the CPCU education program and consider it the master's degree of our industry," said Justin Moundas,

"We are very committed to the CPCU education program and consider it the master's degree of our industry."

Justin Moundas, York International Agency L.L.C.

York's executive vice president and personal lines practice leader. "We believe it to be a tremendous bolt-on to the significant on-the-job training we provide all employees."

York's professional staff already has a sizable percentage of younger members while it also is working on its third class of college graduate trainees, hoping the new recruits choose the insurance business for their career.

"We're a small organization of about 40 people, but we have two or three people that we have put through that program each year," Mr. Bodack said.

York balances its youthful employees with its core group of seasoned brokers; one-third of the staff has large-organization experi-

ence, which enhances their expertise in risk management that they apply to the boutique nature of their business, Mr. Bodack said.

The brokerage has invested in its technology infrastructure and moved to a cloud-based agency system to make it easier and faster to conduct business, which officials said helps employees work more efficiently and spend more time with clients.

"We are constantly striving to do things better and not waiting until something is broken to look for improvement, whether it is how best to leverage technology or the workflows in how team members interact with each other and clients," Mr. Moundas said.

"We also believe that the way we approach new-client prospecting contributes to our productivity as well," Mr. DeMatteo said. "While our broking team averages 20 years of experience with a wide array of industries served in our commercial (property/casualty) business, there is no doubt that our success focusing on a handful of industry verticals absolutely contributes to our success," said Mr. DeMatteo.

The broker specializes in commercial property/casualty insurance, group and individual benefits coverage and other risk management services, according to York's website.

"I think we pretty well know our identity and how to excel at it, and that really allows us to be focused on new business opportunities," Mr. Bodack said.

Looking forward, York plans to remain independent and to continue to grow organically.

"We never take our eye off the ball of the attraction of new clients and the retention of existing customers; senior management's time is not spent looking at acquisition of other agencies, our growth is 100% organic," Mr. Bodack said.

YORK INTERNATIONAL AGENCY L.L.C.
Harrison, New York

2014 Brokerage revenue
\$15.1 MILLION

Employees
42

Revenue per employee
\$359,413

RESEARCH & DATA

MOST PRODUCTIVE: ALL AGENTS AND BROKERS

Intermediaries ranked by 2014 brokerage revenue per employee*

Rank	Company	Brokerage revenue per employee			Brokerage revenue			Employees		
		2014	2013	Percent change	2014	2013	Percent change	2014	2013	Percent change
1	York International Agency L.L.C.	\$359,413	\$331,853	8.3%	\$15,095,356	\$13,605,984	11.0%	42	41	2.4%
2	Thompson Flanagan & Co. L.L.C.	\$344,424	\$301,875	14.1%	\$11,366,000	\$9,660,000	17.7%	33	32	3.1%
3	GFI Insurance Brokerage Inc.	\$340,000	\$300,000	13.3%	\$8,500,000	\$6,000,000	41.2%	25	20	25.0%
4	Crystal & Company	\$332,000	\$332,874	(0.3%)	\$149,400,000 ¹	\$144,800,000 ¹	3.2%	450	435	3.5%
5	Benefit Controls Cos.	\$326,667	\$336,364	(2.9%)	\$19,600,000	\$18,500,000	6.0%	60	55	9.1%
6	Axion RMS Ltd.	\$326,575	\$356,517	(8.4%)	\$12,736,428	\$12,121,563	5.1%	39	34	14.7%
7	Jardine Lloyd Thompson Group P.L.C.	\$313,058	\$311,891	0.4%	\$1,713,992,420 ²	\$974,600,000 ^{3,4}	75.9%	5,475	5,165	6.0%
8	PentaRisk Holdings L.L.C.	\$297,143	\$296,667	0.2%	\$10,400,000	\$8,900,000	16.9%	35	30	16.7%
9	Alliant Insurance Services Inc.	\$292,395	\$325,307	(10.1%)	\$620,170,245	\$547,491,500	13.3%	2,121	1,683	26.0%
10	Towers Watson & Co.	\$288,951	\$354,501	(18.5%)	\$488,615,714	\$397,041,402	23.1%	1,691	1,120	51.0%
11	LHD Benefit Advisors L.L.C.	\$287,957	\$260,431	10.6%	\$6,623,004	\$5,208,621	27.2%	23	20	18.0%
12	Mesirow Insurance Services Inc.	\$279,697	\$269,729	3.7%	\$96,215,620 ⁵	\$91,438,107 ⁶	5.2%	344	339	1.5%
13	The Graham Co.	\$279,316	\$275,918	1.2%	\$45,249,262	\$41,663,624	8.6%	162	151	7.3%
14	Frenkel & Co. Inc.	\$278,349	\$264,995	5.0%	\$69,587,203	\$68,898,589	1.0%	250	260	(3.9%)
15	BB&T Insurance Holdings Inc.	\$277,809	\$247,025	12.5%	\$1,713,527,200	\$1,582,443,400	8.3%	6,168	6,406	(3.7%)
16	Bazzi & Partners S.p.A.	\$274,642	\$323,390	(15.1%)	\$6,316,756 ⁶	\$5,400,000 ⁷	(15.1%)	23	23	0.0%
17	Capacity Group of Cos.	\$257,203	\$291,620	(11.8%)	\$93,364,781	\$76,404,462	22.2%	363	262	38.6%
18	M&T Insurance Agency Inc.	\$255,536	\$241,916	5.6%	\$42,930,000	\$40,400,000	6.3%	168	167	0.6%
19	Poms & Associates Insurance Brokers Inc.	\$254,719	\$385,975	(34.0%)	\$47,123,000	\$46,317,000	1.7%	185	120	54.2%
20	NFP Corp.	\$253,195	\$271,271	(6.7%)	\$820,604,707	\$757,117,149	8.4%	3,241	2,791	16.1%
21	Integro USA Inc.	\$249,855	\$224,171	11.5%	\$212,377,000	\$140,107,000	51.6%	850	625	36.0%
22	Risk Strategies Co. Inc.	\$246,860	\$237,244	4.1%	\$97,756,644	\$58,362,000	67.5%	396	246	61.0%
23	R K Harrison Group Ltd.	\$242,388	\$262,738	(7.8%)	\$177,185,480	\$113,221,039	(3.7%)	731	700	4.4%
24	William Gallagher Associates Insurance Brokers Inc.	\$241,788	\$216,059	11.9%	\$49,808,417	\$43,427,945	14.7%	206	201	2.5%
25	The Plexus Groupe L.L.C.	\$241,417	\$236,354	2.1%	\$18,830,500	\$18,435,637	2.1%	78	78	0.0%
26	Wells Fargo Insurance Services USA Inc.	\$239,691	\$237,304	1.0%	\$1,298,884,000	\$1,350,022,000	(3.8%)	5,419	5,689	(4.8%)
27	Keenan & Associates	\$239,544	\$232,781	2.9%	\$162,890,000	\$157,127,000	3.7%	680	675	0.7%
28	Wortham Insurance & Risk Management	\$236,732	\$240,262	(1.5%)	\$125,231,000	\$124,936,000	0.2%	529	520	1.7%
29	Bolton & Co.	\$234,331	\$226,915	3.3%	\$36,321,250	\$29,952,789	21.3%	155	132	17.4%
30	Heffernan Group	\$231,858	\$226,526	2.4%	\$97,380,380	\$91,969,491	5.9%	420	406	3.5%

*Companies that derive more than 49% of their gross revenue from personal lines business are not ranked. 1 Fiscal year ending June 30. 2 British pound = \$1.5586. 3 2013 restated. 4 British pound = \$1.6564. 5 Fiscal year ending March 31. 6 Euro = \$1.2197. 7 Euro = \$1.3755.

Source: BI survey

Fastest growing broker lets acquired firms be themselves

BY DONNA MAHONEY



Mr. Williams



Mr. Norris



Mr. Jablonowski

Changes in company ownership can upset the apple cart in many businesses, but Acrisure L.L.C. makes its acquisitions as seamless as possible.

That strategy, say officials of the Caledonia, Michigan-based company, is the secret to Acrisure being the fastest growing broker in *Business Insurance's* survey.

With \$191.3 million in 2014 revenue, Acrisure posted a 147.1% increase over its 2013 numbers to be the fastest-growing broker of U.S. business, according to the annual survey.

CEO and co-founder Greg Williams started Acrisure in 2005, which private equity firm Genstar Capital L.L.C. purchased in early 2013. Since then, the retail brokerage has completed more than 75 acquisitions — all of which have been done with as little disruption to the acquired company as possible.

“We walk in, and we say, ‘Here are the things we can do to help you grow your business while not changing who you are or your relationship with your employees,’” Mr. Williams said. “These people all care about their businesses and they all care about their people, and that’s why we’ve been able to achieve this kind of growth. This is a different operating model than everyone else.

“We’re not looking to brand Acrisure; we don’t change producer compensation in the transactions that we do,” Mr. Williams said.

Brook Smith, president of Louisville, Kentucky-based surety bond broker Smith Manus and Acrisure agency partner, describes Acrisure’s methodology as “serious simplicity.”

“You feel like a partner when you join Acrisure. It’s not just a conversation across a table; it’s real. I’ve

seen it amongst the group, and I’ve seen it in other Acrisure partners that are excited about what each and every one of us is doing. There’s a camaraderie; there is a sense of team, and that’s something that Greg and the other management has created. That’s the type of thing you see in other successful businesses in other industries, whether it’s Southwest Airlines or Chik-fil-A.”

Ricky L. Norris, executive vice president and co-founder of Acrisure, works on the sales and operations side of the business as well as integrating agency partners. Last year, the broker said its organic growth was 7.3% and so far this year it’s running at 5.5%, he said.

Mr. Williams and Mr. Norris met while attending their daughters’ sporting events.

“When I co-founded the company with Greg back in 2005, the two of us had a simple promise: it was to find great people running great agencies that were profitable that wanted to be part of something bigger, and that model hasn’t changed. We’ve run with that for 10 years,” Mr. Norris said.

Acrisure’s acquisitions keep their name, culture, compensation plan and way of doing business, Mr. Norris said. Acrisure focuses on helping the companies grow.

“It’s not top down or bottom up. We meet them in the middle,” he said.

Chief Operating Officer Stan Jablonowski, who’s been in the industry over 30 years, said the past year he’s spent at Acrisure is “probably one of the coolest things I have ever done.”

“If you look at our success and the new agency partners that are joining us, you’ll find people are really excited about being a part of this; it’s very infectious,” Mr. Jablonowski said. “Having lived through a lot of acquisitions and integrations, I

look at our model that is focused on not changing anything when bringing someone on board. It’s really all about how our partners create what they do on a day-to-day basis and sharing best practices with all of our agency partners.”

When looking for additions, the broker looks for partners who are specialized with extensive experience.

“We bring our clients subject matter expertise and the ability to solve problems for our clients,” Mr. Jablonowski said. “The excitement of being focused on the client’s need instead of changing the dynamics of our partners really excites me. I thought I’d never find it again, but I’m real excited about what we’re building.”

In September, Acrisure partnered with The Signature Group L.L.C. and B&B Coverage L.L.C. while the two companies were merging.

Lew Bernstein, managing principal of merged The Signature B&B Cos., based in Garden City, New York, praised Acrisure for its patience during the complicated transaction. He said he was surprised that Acrisure wanted them to keep their names, but Mr. Williams said he knew both names had good brand exposure.

“They’ve allowed us to remain pretty much independent and continue business as usual. A real testimony to them is when they come in, you don’t have to change your name. There are no press releases. It’s the simplicity that is really their greatest strength. Their team really presents a compelling story; their integrity is beyond reproach,” Mr. Bernstein said.

“We’re soon to be \$400 million ... in revenue, but I view us as a \$400 million startup. We’re only in 23 states and there are 27 states we’re not even in,” Mr. Williams said of the acquisitive broker’s future plans.

ACRISURE L.L.C.
Caledonia, Michigan

2014 Brokerage revenue
\$191.3 MILLION

Revenue increase over 2013
147.1%

NOT ALL RISKS ARE BLACK AND WHITE.



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FASTEST GROWING IN 2014

Ranked by rate of growth in 2014 brokerage revenue

Rank	Company	2014 revenue	Percent increase (decrease)
1	Acrisure L.L.C. ¹	\$191,273,467	147.1%
2	Jardine Lloyd Thompson Group P.L.C. ^{1,2}	\$354,796,431	122.5%**
3	Edgewood Partners Insurance Center, dba EPIC ¹	\$151,724,409	108.4%
4	Risk Strategies Co. Inc. ¹	\$97,756,644	67.5%
5	BroadStreet Partners Inc. ¹	\$246,355,000	63.0%
6	Integro USA Inc. ¹	\$169,901,600	51.6%
7	Associated Financial Group L.L.C. ¹	\$75,433,260	45.2%
8	Digital Insurance Inc. ¹	\$94,574,982	36.4%
9	Cross Financial Corp., dba Cross Insurance ¹	\$106,079,000	34.4%
10	Houchens Insurance Group ³	\$57,580,030	34.0%
11	AssuredPartners Inc. ¹	\$449,110,764	29.9%
12	AHT Insurance dba Armfield, Harrison & Thomas Inc.	\$29,915,198	29.7%
13	ABD Insurance & Financial Services Inc.	\$36,900,000	29.5%
14	Cottingham & Butler Inc.	\$110,204,000	22.8%
15	Capacity Group of Cos. ¹	\$93,364,781	22.2%
16	Bolton & Co. ¹	\$36,321,250	21.3%
17	Insurors Group L.L.C. ¹	\$76,911,296	20.0%
18	Towers Watson & Co.	\$444,640,300	19.1%
19	Hub International Ltd. ¹	\$907,065,600	18.0%
20	MHBT Inc. ⁴	\$73,900,000	17.8%
21	USI Holdings Corp. ¹	\$912,890,811	16.7%
22	BancorpSouth Insurance Services Inc. ¹	\$113,374,165	16.4%
23	Propel Insurance ¹	\$53,757,000	16.3%
24	Insurance Office of America Inc. ¹	\$128,868,289	16.0%
25	Brown & Brown Inc. ¹	\$1,567,459,943	15.6%

*Companies that derive more than 49% of their gross revenue from personal lines business are not ranked. **2013 restated. 1 Reported U.S. acquisitions in 2014. 2 British pound = \$1.5586. 3 Fiscal year ending Sept. 30. 4 Acquired in 2015 by Marsh & McLennan Agency L.L.C.

Source: BI survey

BEYOND THE TOP 100 BROKERS

TARGET INDUSTRIES

Industries targeted by the brokers to watch

Construction	70%	Up to \$10 million	45%
Real estate	65%	\$10 million to \$50 million	75%
Health care	60%	\$50 million to \$100 million	65%
Nonprofit organizations	55%	\$100 million to \$500 million	40%
Financial services	50%	\$500 million to \$1 billion	5%
Food/beverage	50%	\$1 billion to \$3 billion	0%
Public sector/government	50%	\$3 billion to \$5 billion	5%
Transportation/logistics	50%	More than \$5 billion	0%

TARGET CLIENTS

Target clients by revenue among the brokers to watch

BROKERS TO WATCH

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

Rank	Company	2014 brokerage revenue	Percent increase (decrease)
101	Rich & Cartmill Inc.	\$25,972,084	10.0%
102	Murray Securus	\$25,557,000	4.8%
103	The Daniel & Henry Co.	\$24,530,000	6.5%
104	HNI Corp.	\$24,421,378	10.3%
105	Kapnick Insurance Group	\$23,736,000	7.8%
106	Lipscomb & Pitts Insurance L.L.C.	\$22,771,296	5.0%
107	The Partners Group Ltd.	\$21,643,000	15.4%
108	R&R Insurance Services Inc.	\$21,500,000	10.3%
109	HDH Group Inc.	\$21,000,000	5.0%
110	Moody Insurance Agency Inc.	\$20,190,489	15.1%
111	Benefit Controls Cos.	\$19,600,000	6.0%
112	Shepherd Insurance L.L.C.	\$19,565,500	15.4%
113	Ross & Yerger Insurance Inc.	\$19,419,315	3.6%
114	FBMC Benefits Management Inc.	\$19,237,442	5.9%
115	The Plexus Groupe L.L.C.	\$18,642,195	2.1%
116	The Buckner Co.	\$18,530,768	12.3%
117	BIN Insurance Holdings L.L.C., dba insureon	\$17,693,511	49.4%
118	NBT-Mang Insurance Agency, dba NBT Insurance Agency L.L.C.	\$17,049,000	(5.0%)
119	York International Agency L.L.C.	\$15,095,356	11.0%
120	Johnson & Bryan	\$14,809,389	6.8%

Source: BI survey

Smaller brokers can exploit niche specialties for growth

BY DOUGLAS McLEOD

Business is changing incrementally for several of the 15 largest brokers of U.S. business as client needs shift and as brokers seek new sources of growth, industry experts say.

Health care consulting, construction and cyber risk have become fast-expanding parts of broker portfolios.

And while complex multinational risks continue to be the province mainly of the very largest brokers, some are working to take on larger clients while others are aiming at smaller ones, sources report.

Middle-market brokers “are really focused on expanding their niches” in given client industries, said Timothy J. Cunningham, principal with consultant Optis Partners L.L.C. in Chicago. “When you get to the really complicated business, it’s having the team and the resources to understand that business,” including the local office network to track complex supply chain risks, he said.

The top 15 brokers comprise a wide range, with Marsh & McLennan Cos. Inc. and Aon P.L.C. reporting more than \$12 billion in 2014 brokerage revenues while 11 of the 15 reported revenues of less than \$2 billion.

Business mix also varies widely: Marsh, Aon and Willis Group Holdings P.L.C., for example, draw the largest part of their revenue from retail insurance brokerage, while BB&T Insurance Services Inc. draws a sizable percentage from wholesale broking, National Financial Partners Corp. from employee benefits and Towers Watson & Co. from consulting services and personal lines, according to surveys conducted by *Business Insurance*.

Most of the top brokers target a wide range of client industries, and growth opportunities can shift with developments in particular industries.

Health care has been a growing target for many brokers in the wake of the Patient Protection and Affordable Care Act, experts agree.

Because of the “confusion and uncertainty” surrounding the health care reform law’s implementation, “firms see that as an opportunity to expand consulting revenue,” Mr. Cunningham said.

The ACA “will continue to be a hot issue for

the next three to four years,” agreed Glenn Spencer, chief operating officer of Lockton Cos. L.L.C. in Kansas City, Missouri. Mr. Spencer added that skyrocketing prescription drug costs and health care industry consolidation are prompting cost-control efforts, including re-examination of provider networks.

Historically, middle market brokers haven’t been eager to enter unfamiliar lines of business, said Gretchen Roetzer, a director at Fitch Ratings Inc. in Chicago. “They kind of stay in their comfort zone and do it well,” she said.

Still, brokers want to grow, and acquiring a rival company or a team of specialist brokers may be all it takes to move into new areas, she observed.

All of the 15 surveyed brokers service health care, construction and financial services industry clients. Fourteen of the 15 handle aviation, marine, nonprofit and real estate clients, while 13 out of 15 service energy, retail and transportation/ logistics risks.

At the other end of the spectrum, only nine of the top 15 brokers handle complex and difficult pharmaceutical/chemical and telecommunications risks, and only seven service clothing/textile companies, according to *Business Insurance’s* survey.

The size of targeted clients also varies widely. The sweet spot for 11 out of 15 brokers in the survey comprises clients with between \$10 million and \$50 million in annual revenues. Seven of the top 15 target smaller clients with less than \$10 million in revenues, while only five target larger corporations with revenues between \$500 million and \$20 billion. Marsh, Aon and Willis are alone in handling the smaller universe of giant companies with more than \$25 billion in revenues.

Client size targets are not static, though. Lockton, for example, is focusing on larger and more complex Fortune 1000 clients, building its advisory services and data analytics capabilities, according to Mr. Spencer. Insurance placement skills are “table stakes” in winning larger clients, while strong data analytics allow more sophisticated benchmarking, claims analysis, financial modeling, and retention and probable maximum loss studies, he said.

Marsh and Aon have recently enjoyed an advantage in using huge data resources to negotiate with insurers, but other brokers — including Arthur J. Gallagher & Co. Inc. and Brown & Brown Inc. — could be increasingly strong competitors in the data arena, Fitch’s Ms. Roetzer said.

Marsh, meanwhile, is increasingly looking at the vaster universe of small and midsize clients for growth. Marsh & McLennan Agency L.L.C., formed in 2008, targets middle-market business and has grown to produce about \$850 million of Marsh & McLennan Cos.’ annual revenues, according to a spokeswoman for Marsh USA Inc. In August, Marsh USA announced the acquisition of Columbia, South Carolina-based Dovetail Insurance Corp., developer of a technology platform that will allow the broker to act as an intermediary between independent agents and insurers. The targets are small and “micro” companies — such as contractors and restaurants — whose agents will be able to get quotes from multiple insurers by filing a single application on the Dovetail platform, said Michael Cormier, managing director with Marsh L.L.C. in New York.

After moving into middle market accounts with Marsh & McLennan Agency, “what we’re doing (with Dovetail) is extending that even further,” Mr. Cormier said.



TARGETS OF THE TOP 15

TARGET CLIENTS

Among the top 15 brokers of U.S. business, Marsh & McLennan Cos. Inc., Aon P.L.C. and Willis Group Holding P.L.C. targeted all sizes of industries in 2014.

Revenue	Number of brokers	Percent
Up to \$10 million	7	46.7%
\$10 million to \$50 million	11	73.3%
\$50 million to \$100 million	9	60.0%
\$100 million to \$500 million	8	53.3%
\$500 million to \$1 billion	5	33.3%
\$1 billion to \$3 billion	5	33.3%
\$3 billion to \$5 billion	5	33.3%
\$5 billion to \$10 billion	5	33.3%
\$10 billion to \$20 billion	5	33.3%
More than \$25 billion	3	20.0%

Source: BI Survey

TARGET INDUSTRIES

Industries targeted by the top 15 brokers of U.S. business in 2014

Rank	Industry	Number	%
1	Construction	15	100%
1	Financial services	15	100%
1	Health care	15	100%
4	Aviation	14	93.3%
4	Marine	14	93.3%
4	Nonprofit organizations	14	93.3%
4	Real estate	14	93.3%
8	Energy	13	86.7%
8	Retail	13	86.7%
8	Transportation/logistics	13	86.7%
11	Agribusiness	12	80.0%
11	Automotive	12	80.0%
11	Entertainment	12	80.0%
11	Higher education	12	80.0%
11	Mining	12	80.0%
11	Public sector/government	12	80.0%

Source: BI Survey

LARGEST U.S. COMMERCIAL RETAIL BROKERS

Rank	Company	2014 commercial retail revenue*	Percent change	Percent of U.S. brokerage revenue
1	Marsh & McLennan Cos. Inc.	\$2,677,000,000	7.8%	44.4%
2	Aon P.L.C.	\$2,544,000,000	0	43.7%
3	Willis Group Holdings P.L.C.	\$1,030,000,000	0	50.6%
4	Arthur J. Gallagher & Co.	\$968,374,000	12.3%	33.4%
5	Brown & Brown Inc.	\$863,158,389	22.3%	54.8%
6	BB&T Insurance Holdings Inc.	\$699,671,100	7.7%	39.0%
7	Wells Fargo Insurance Services USA Inc.	\$604,800,000	0	39.0%
8	Lockton Cos. L.L.C.	\$588,049,000	9.2%	64.1%
9	Hub International Ltd.	\$511,032,000	15.5%	55.2%
10	Alliant Insurance Services Inc.	\$401,887,355	14.1%	64.7%
11	USI Holdings Corp.	\$400,303,402	27.2%	43.2%
12	AssuredPartners Inc.	\$269,808,832	22.6%	59.9%
13	Integro USA Inc.	\$191,255,000	55.7%	89.4%
14	BroadStreet Partners Inc.	\$167,521,400	63.3%	67.7%
15	Leavitt Group Enterprise	\$145,760,000	13.6%	63.0%
16	Acrisure L.L.C.	\$136,744,256	176.6%	69.4%
17	Edgewood Partners Insurance Center, dba EPIC	\$110,586,000	96.6%	71.6%
18	Crystal & Company	\$108,950,000	2.6%	72.9%
19	Insurance Office of America Inc.	\$96,883,959	14.3%	74.2%
20	Wortham Insurance & Risk Management	\$95,125,000	(0.1%)	75.2%
21	Meadowbrook Insurance Group Inc.	\$90,209,967	(0.2%)	63.7%
22	NFP Corp.	\$84,409,502	80.0%	7.2%
23	J. Smith Lanier & Co.	\$82,750,979	5.7%	66.1%
24	Hays Group Inc., dba Hays Companies	\$82,000,000	2.2%	48.7%
25	BancorpSouth Insurance Services Inc.	\$76,342,696	29.7%	67.2%
26	The IMA Financial Group Inc.	\$73,108,242	16.1%	57.0%
27	Hylant Group Inc.	\$68,611,020	0.2%	61.4%
28	Regions Insurance Group Inc.	\$66,898,000	12.9%	52.5%
29	Higginbotham	\$66,808,000	24.3%	54.9%
30	Risk Strategies Co. Inc.	\$63,405,583	62.8%	64.8%
31	Cross Financial Corp., dba Cross Insurance	\$60,844,000	32.9%	57.4%
32	PayneWest Insurance Inc.	\$60,429,860	4.8%	61.1%
33	Insurica Insurance Management Network	\$59,657,244	15.4%	72.9%
34	Mesirov Insurance Services Inc.	\$57,790,158	3.8%	57.1%
35	Insurors Group L.L.C.	\$56,973,006	27.3%	72.7%
36	Heffernan Group	\$56,413,580	4.3%	57.7%
37	Assurance Agency Ltd.	\$52,126,387	9.9%	68.8%
38	Holmes Murphy & Associates Inc.	\$49,020,345	7.6%	40.1%
39	The Capacity Group of Cos.	\$43,903,761	22.3%	46.6%
40	Cottingham & Butler Inc.	\$43,134,000	16.6%	38.9%
41	MHBT Inc.	\$41,900,000	19.0%	56.6%
42	Frenkel & Co. Inc.	\$41,712,198	1.7%	59.7%
43	SterlingRisk Inc., dba Sterling & Sterling Inc.	\$41,370,000	1.5%	78.1%
44	The Graham Co.	\$40,954,091	8.3%	87.5%
45	Poms & Associates Insurance Brokers Inc.	\$38,500,000	2.5%	80.9%
45	Propel Insurance	\$38,500,000	19.9%	70.5%
47	First Niagara Risk Management Inc.	\$37,432,597	(2.1%)	56.9%
48	CBIZ Benefits & Insurance Services Inc.	\$37,100,000	20.5%	16.4%
49	Bowen, Miclette & Britt Insurance Agency L.L.C.	\$36,502,858	8.9%	69.6%
50	William Gallagher Associates Insurance Brokers Inc.	\$35,577,272	21.0%	71.0%

*Excludes revenue from placement of employee benefits

Source: BI Survey



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Recruiting fresh talent a key to industry's future

Incoming association leader sees growth in employee benefits sector

BY MARK A. HOFMANN



"The public is just beginning to wake up to how huge. Everybody has an exposure. We're recommending to all of our clients that they at least get a quote on cyber" insurance coverage.

Bill Henry,
Council of Insurance
Agents & Brokers

Perhaps the biggest challenge facing the brokerage community is hiring and retaining talented workers, said Bill Henry, who will assume the chairmanship of the Council of Insurance Agents & Brokers in October.

But growing the council's membership, as well as legislative and cyber security issues, also command the attention of Mr. Henry, chairman and CEO of Dallas-based MHB T Inc., which became a Marsh & McLennan Agency L.L.C. company in June.

Mr. Henry, whose insurance industry career began in 1972, will assume the chairmanship of the Washington-based council from Steve Brockmeyer, who is president and CEO of Pasadena, California-based Bolton & Co.

As incoming council chairman, Mr. Henry said one of his chief interests is attracting new firms to the organization.

"We've added some staff and think we've been concentrating on some middle-market firms that we see with a lot of growth potential and that fit our profile," he said.

Legislatively, the council supports efforts to repeal the so-called Cadillac tax that is to be imposed on high-cost employee benefit plans as part of the Patient Protection and Affordable Care Act.

Under the law, a 40% excise tax is to be imposed in 2018 on that part of health plan premiums that exceed \$10,200 for single coverage and \$27,500 for family coverage. There is some bipartisan sentiment in Congress to repeal the tax.

Trying to repeal the tax "is going to be the main thing," said Mr. Henry. "From what I understand, nearly 30% of all plans would be hit

by the tax as soon as it becomes effective, and as much as 80% within 10 years."

The council also will focus on cyber security, he said.

Cyber is a "huge issue," Mr. Henry said. "The public is just beginning to wake up to how huge. Everybody has an exposure. We're recommending to all of our clients that they at least get a quote on cyber" insurance coverage.

Looking to the foreseeable future, the biggest growth area for council members is in the employee benefits area, he said.

"Two years ago, most people in my position were scared to death about what ACA would mean for the brokerage area," said Mr. Henry. "Since that time, we've been growing over 20% annually. What we're seeing is our customers are in desperate need for expertise and information. In addition to that, for years there were a lot of one-man and two-man benefit shops that could just get a spreadsheet and get quotes. Now if you're in the employee benefit area, you have to bring analytics, big data, wellness, compliance and access to private exchanges that the smaller shops don't have.

"A lot of council members are larger, more sophisticated shops that have these tools they can bring to bear," he said.

But "the demographics in our industry are terrible," he said. "We've got a lot of the baby boomers in our industry who will be retiring in the next three to five years and so we're having to grow our own and train people internally. The carriers are paying so much that now it's difficult to hire from them, and we're all having to compete for the more experienced employees. Winning that talent bat-

tle is one of the key things we're faced with."

Mr. Henry said MHB T spends time at colleges looking for talent, where the human resources director and others try to explain "what an exciting industry the brokerage industry is, and the opportunities that will open with the retirement of the baby boomer generation."

'Anything but boring'

The emphasis on recruiting talent plays into what Mr. Henry regards as a key issue facing brokerages — succession planning.

"Executive management teams retire," he said. "I think our industry may be the worst I've ever seen in explaining to young people what opportunities there are and how vital the insurance industry is. Every day I get up and I have the opportunity to deal with a contractor one day. The next day, it might be a supermarket chain. The next day, it might be a hospital. It's anything but boring.

"That's one of the biggest initiatives for our company for the next five years, recruiting and training," he said.

Mr. Henry noted that the council has launched the Council Leadership Academy in response to members' needs for a talent acquisition strategy, developing a leadership pipeline and attracting and retaining millennials. The academy's programs operate on the theory that adults learn best by doing.

"The goal of these programs is to have a qualitative impact on staff performance, whether you're looking to improve the leadership skills of your young producers, senior-level managers or those climbing the C-suite ladder," according to the council's website.

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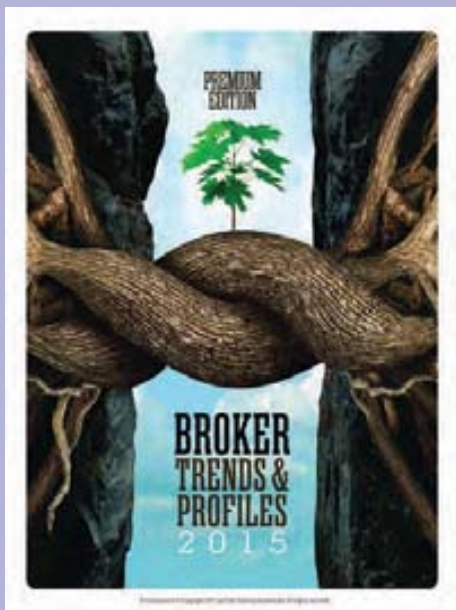
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