

DRUGS OFF LIMITS

The Texas Division of Workers' Compensation's closed formulary list of N-drugs that require preauthorization by insurers and self-insured employers includes at least five branded medications that, according to the National Council on Compensation Insurance, are among the 20 most-prescribed drugs for workers comp claimants nationwide. The Texas N-drugs and types are:

- OxyContin (opioid)
- Lidoderm (topical analgesic)
- Opana (opioid)
- Flector (NSAID)
- Soma (muscle relaxant)

WORKERS COMPENSATION

Texas leads drive to cut addictive meds

Other states investigate use of closed formulary

BY ROBERTO CENICEROS

The success in Texas of mandating a closed formulary that has sharply reduced prescribing drugs considered inappropriate to treat workers compensation claimants is attracting the attention of other states.

The strategy applies to about 150 prescription drugs, dubbed "N-drugs" in Texas, that are not recommended for injured workers in workers comp cases. They include more than 25 brands of opioid pain relievers, several muscle relaxants, antidepressants and cannabinoids, according to the Texas Department of Insurance Division of Workers' Compensation.

Preauthorization by insurers or

See **FORMULARY** page 47

HEALTH CARE REFORM

PRIVATE HEALTH EXCHANGES GAIN TRACTION WITH EMPLOYERS

Walgreen, others ditch old benefits model



BY JERRY GEISEL

For decades, the way employers offered health insurance coverage to their employees and retirees changed little. Now more and more companies are moving to a new health benefits delivery model using private health insurance exchanges.

Under the old model, employers, often with the assistance of consultants, brokers and agents, decided the insurers from which they would purchase coverage, the number and types of health plans they would offer employees, and how much they would contribute toward the cost of the coverage.

In addition, employers were deeply involved in plan administration, arranging and holding open enrollments for employees to choose one of the plans offered.

By contrast, with private insurance exchanges, employees and retirees select from a variety of health care plans and designs, with the employer's role largely limited to deciding how much of the premium it will pay.

While the move to private exchanges is not entirely new, there

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LIABILITY & LITIGATION

SEC changes may result in D&O rate hikes

Defendants can be required to admit guilt

BY JUDY GREENWALD

A U.S. Securities and Exchange Commission policy requiring defendants to admit wrongdoing could lead to higher defense costs, as well as higher directors and officers liability insurance rates.

But experts also say the SEC is likely to apply its policy only in the most egregious cases, and buyers and insurers will have to wait to see what complications it creates for the market.

In June, SEC Chair Mary Jo White announced the new policy under which certain defendants will be required to admit wrongdoing to settle cases. Previously, the SEC allowed defendants to neither admit nor deny wrongdoing in settlements.

In the policy's first application in August, hedge fund adviser Philip A. Falcone, founder of New York-based Harbinger Capital Partners L.L.C., admitted wrongdoing in an \$18 million settlement of accusations he secretly favored certain customer redemption requests at the expense of other investors, and improperly managed bonds issued by a Canadian manufacturing company.

In September, New York-based JPMorgan Chase & Co. admitted wrongdoing in a \$200 million settlement with the SEC over charges

See **WRONGDOING** page 50

PUBLIC VS. PRIVATE HEALTH INSURANCE EXCHANGES

Sponsorship

- States and the federal government offer public exchanges.
- Various organizations, especially employee benefits consultants, run private exchanges.

Availability

- Public exchanges available to most U.S. residents starting Jan. 1, 2014, and firms with 50 or fewer employees.
- Private exchanges available for employers and, in some cases, individuals.

Subsidies

- In public exchanges, federal premium subsidies are for applicants with incomes up to \$11,490 for an individual and \$23,550 for a family of four.
- In private exchanges, firms typically provide a fixed contribution for a health plan the employee selects.

Retirees

- Public exchanges are not available to Medicare-eligible retirees, but retirees under age 65 can get coverage via the exchanges.
- Many private exchanges offer coverage to Medicare-eligible retirees.

U.S. MID-MARKET

Experts advise firms to have one set of benefit rules regardless of domestic couples' gender

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Insurers need to improve policy language, claims payments and innovation, European risk managers say

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Q&A: ANTHONY J. KUCZINSKI

Anthony J. Kuczinski, Princeton, N.J.-based president and CEO of Munich Reinsurance America Inc., discusses the challenges of recruiting talent to the property/casualty insurance and reinsurance industries, and how making the industry a more attractive career option for college students has become a top priority for insurers and reinsurers.

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SPECIAL REPORT



MID-MARKET RISKS & REGIONAL BROKER LEADERS

Pricing drives decisions of mid-market insurance buyers; brokers advise their midsize clients about health care reform; ranking of largest U.S. regional brokers.

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NEWS

RISK MANAGEMENT

RISK MANAGERS CALL FOR MORE INNOVATION FROM INSURERS

European buyers want new coverages, faster payouts

BY GAVIN SOUTER

MAASTRICHT, Netherlands — While insurers generally meet the traditional needs of their policyholders, several areas that need improvement include updating policy wordings, more innovative products and a greater willingness to pay claims, according to a group of European risk managers.

Product developments fail to address many new risks that policyholders face, and difficulty collecting claims payments in particular causes problems for risk managers and their companies, they said.

Responding to the criticisms, leading executives at insurers and brokers acknowledged that they need to innovate more and that paying claims is an integral part of their services. However, several executives said commercial claims often are inherently complex and disputes are inevitable.

Although insurers frequently talk about innovation, "their innovation hasn't taken a quantum leap to where the risks that the customers are facing are at," said Chris McGloin, vice president of risk management and insurance at Invensys P.L.C. in London. "They are trying to refine existing products and solutions."

For example, few insurers offer policies that adequately cover supply chain risks. Those that do often price the coverage too conservatively for it to be attractive, he said during a risk manager panel at the FERMA Risk Management Forum 2013, which the Federation of European Risk Management Associations held last week in Maastricht, Netherlands.

Mike McGavick, CEO of XL Group P.L.C., agreed that the insurance industry has a poor record of innovation.

"It's poor for a very simple reason: We look backwards," he said during an insurer executive panel.

Insurers need to make better use



Julia Graham took over last week as president of FERMA.

Europeans start to buy cyber liability coverage

BY SARAH VEYSEV

MAASTRICHT, Netherlands — There is increasing demand for cyber coverage from European insurance buyers and the market, while lagging the United States, is developing fast, experts say.

"This is a very important subject on the risk manager's agenda at this point in time," said Julia Graham, director of risk management and insur-

ance at law firm DLA Piper L.L.P. in London and the newly elected president of the Federation of European Risk Management Associations.

"This issue is at the top of risk managers' minds in Europe," said Tracie Grella, global head of professional liability and cyber risk at American International Group Inc. in New York.

of research and data analytics to develop relevant products, he said, including cyber risk products that address the needs of large policyholders rather than just midsize buyers.

Supply chain risks in particular require better use of "big data" by insurers, said Peter Hancock, CEO of AIG Property Casualty, a unit of American International Group Inc. Existing data does not generate

sufficient information to underwrite the risks, so insurers should collaborate with buyers to generate new data sets to help calculate the exposure, he said.

But it's not just emerging products that need to be reviewed, risk managers said.

While insurers and brokers generally serve the needs of their

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See **FERMA** page 48

WORKERS COMPENSATION

SMART Act interim rules spark criticism

Settlement of comp, liability claims slowed

BY SHEENA HARRISON

As the Centers for Medicare and Medicaid Services prepares rules on Medicare Secondary Payer compliance, sources say CMS isn't working quickly enough to implement changes to ease workers compensation and liability claim settlements.

Observers say they're still hopeful that CMS will take the needs of insurers and self-insured employers into account during a 60-day comment period that ends Nov. 19 for the Strengthening Medicare and Repaying Taxpayers Act.

"We're concerned because it doesn't seem that what's been published is actually what was in the spirit of the SMART Act, and we certainly feel that we're going to have some input that we're going to want to provide," said Michele Adams, chairwoman of the Medicare Advocacy Recovery Coalition in Washington. She also is director of claims management and business strategies for risk management services at Walt Disney World Resort in Orlando, Fla.

CMS published its interim final rule in late September to implement the SMART Act, which President Barack Obama signed into law in January. CMS requires insurers and self-insured employers to reimburse it for medical treatment it paid on behalf of workers comp and liability claimants, and the law is intended to simplify the process.

The law includes establishing a website to allow insurers and

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INNOVATION AWARDS

Business Insurance is seeking nominations for its 2014 Innovation Awards, recognizing innovation and leadership in products, services and technology designed for risk managers. Entries must be completed by Dec. 16, 2013, using the official submission form, which can be downloaded at www.BusinessInsurance.com/Innovation2014.

CORRECTIONS

■ In the article "Multinational Programs Must Match Specific Needs" in the Sept. 23 issue, the name of Bruce Wineman, manager of U.S. and Canada at the Aon Global Client Network, was misspelled. He works in New York.

■ Worldwide Facilities Inc., an independent brokerage and managing general agency, was omitted from the chart of the largest property/casualty wholesalers on page 20 of the Sept. 23 edition. Worldwide Facilities should have been ranked No. 8 among the largest wholesalers with \$414 million in 2012 premium volume.

ONLINE
FEATURES

SOLUTION ARC

How to better manage
workers comp drug costs

How employers can better manage the pharmaceutical portion of their workers compensation programs.
www.BusinessInsurance.com/PharmacyArc

VIDEO



IN FOCUS: TRIA extension

The newest video highlights the debate about extending TRIA.
www.BusinessInsurance.com/video

AWARD

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Nominations are now open for *Business Insurance's* 2014 awards for excellence in risk management.
www.BusinessInsurance.com/RMOY2014

WHITE PAPER

How to fight retaliation claims



Retaliation claims by employees are a growing problem. This white paper discusses successful defense strategies

and outlines ways to stop retaliation from happening in the first place.

www.BusinessInsurance.com/RetaliationWhitePaper

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NEWS

HEALTH CARE BENEFITS

REDUCE RISKY BEHAVIOR
TO TRIM COST OF HEALTH CARE

Cohesive wellness programs focus on healthy habits

BY MATT DUNNING

WASHINGTON — Designing workplace wellness programs to address employees' risky health behavior could be the most effective way to truly reduce health care costs, experts say.

"The key here is risk prevention," said Stephen Hartley, director of health and wellness analytics at OptumHealth, a division of Minnetonka, Minn.-based United-Health Group Inc.

A pair of studies OptumHealth conducted last year found that annual health care costs for employees deemed "at risk" in six of nine health risk categories — including stress, lack of physical activity, high cholesterol, high blood pressure, high body weight and use of anti-anxiety/depression medications — were significantly higher than costs generated by low-risk employees.

Employees were deemed at risk if they reported moderate to high levels of any one risky behavior. The studies tracked the two-year migration of more than 3,300 companies' employees from low-, moderate- and high-risk thresholds and compared those changes with employers' overall health care costs during the same period.

The results showed that year-over-year health care cost increas-

es were the lowest for employees who maintained an overall low-risk rating throughout the study period, and were second-lowest for employees who migrated from the high-risk to low-risk category. Conversely, year-over-year medical cost increases were the greatest among employees whose risk rating went from low- to high-risk during the two-year span.

"If you're going to focus on risk change, the opportunity obviously lies in moving people from high-

risk to low-risk, and there's an even greater opportunity in the short run in keeping your low-risk employees in the low-risk category," Mr. Hartley said during a session at the National Business Group on Health's annual conference in Washington.

The studies' findings "definitely underscore the need for a focus on risk prevention in a wellness program," he said.

See NBGH page 49



"If you're going to focus on risk change, the opportunity obviously lies in moving people from high-risk to low-risk."

Stephen Hartley, OptumHealth

PROPERTY/CASUALTY INSURERS

Alternative capital draws closer scrutiny

BY BILL KENEALY

GATINEAU, Quebec — The ultimate impact of the influx of alternative capital into the insurance industry is unclear, but Canadian observers are sure about this much: Investors need to understand the type and magnitude of risks they are taking on.

Julie Dickson, superintendent of the Office of the Superintendent of Financial Institutions Canada, said her office was taking a close look at the effect of catastrophe bonds and insurance-linked securities on the stability of insurance and reinsurance markets.

"When a flood of money goes into an industry, there can be an impact that we as regulators may find not to be helpful."

Julie Dickson, Office of the Superintendent of Financial Institutions Canada

"When a flood of money goes into an industry, there can be an impact that we as regulators may find not to be helpful," Ms. Dickson said. "It can lead to the underpric-

ing of risk."

Noting that low interest rates have caused many institutional investors to consider catastrophe bonds in their search for higher-yielding investments, Ms. Dickson cautioned that investors need a thorough understanding of the underlying risks covered by the bonds.

"Insurance can be a dangerous business for those who do not understand it," she said.

Ms. Dickson made her comments during a keynote address at the National Insurance Conference of

See NICC page 49

P/C INSURERS

Surplus lines
market grows
with economy

Specialty insurers boost
cyber, energy offerings

BY BILL KENEALY

SAN DIEGO — Excess and surplus lines insurers are enjoying a respite in a turbulent marketplace as a growing economy and rising demand for their services balance the market's increased competitiveness.

Several E&S insurer executives say this year's market is showing increased price stability.

One stabilizing factor has been the retreat of standard lines insurers from writing business normally written by E&S insurers in the wake of large catastrophe losses, said Alan J. Kaufman, chairman, president and CEO of Farmington Hills, Mich.-based Burns & Wilcox Ltd.

"There's more business for specialty lines insurers as the big standard lines insurers pull back from the market," Mr. Kaufman said. "This is business they probably shouldn't have written in the first place."

Mario Vitale, New York-based CEO of Aspen Insurance Holdings Ltd. and president of Aspen U.S. Insurance, agreed that E&S insurers have prospered as standard lines insurers have retreated.

"We've seen discipline return to the market," Mr. Vitale said during an interview at the National Association of Professional Surplus Lines Offices Ltd.'s annual conference in San Diego last week. "This has allowed the specialty writers like us to use the tools and training that our people have to manage these risks more effectively, efficiently and creatively."

Mr. Vitale also said macroeconomic conditions are becoming more conducive to growth. "Although insurers like to complain, there's pretty good balance in the market; and the economy, though not stellar, is improving," he said. "We've also seen modest but continued rate increases in this space, as well as the tightening of terms and conditions, which has ultimately led to a pretty good market."

Mark Bernacki, London-based head of the property group for Beazley P.L.C., said another factor helping E&S insurers is greater competition in the reinsurance marketplace.

See NAPSLO page 49



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KEEPING WORKERS COMP DRUG COSTS ON TARGET

Employers advised to conduct regular prescription usage reviews, negotiate lower prices

BY SHEENA HARRISON

While it can be tricky for employers of all sizes to control pharmaceutical costs for workers compensation claims, experts say mid-market employers should be especially diligent about tracking their drug costs to help reduce unnecessary spending.

Sources have differing opinions on whether smaller employers pay higher costs than their larger counterparts for workers comp prescriptions. While pharmacy benefit managers have negotiated deals with drug manufacturers to provide drug discounts for all employers, some experts say that mid-market firms pay higher costs for having lower volumes of prescription claims than jumbo employers.

Mid-market firms also tend to outsource their medical and pharmacy claims management, whereas large employers have in-house risk management staff or claims adjusters who can review pharmaceutical spending, sources say.

The difference in claims supervision, along with potential for higher up-front costs, means mid-market firms should ask service providers to prove that they're providing effective pharmacy management, said Mark Pew, senior vice president of product development for Duluth, Ga.-based Prium.

"If you've got more resources, you can ... have more of an effect and make sure (service providers are) doing the right thing, whereas mid-market to smaller companies may not have those resources," Mr. Pew said. "So they're really completely reliant on their vendors."

Increasing pharmacy costs are a concern for many employers, according to reports released this year by pharmacy benefit managers.

Narcotic costs averaged \$127.53 per workers comp prescription in 2012, up 15 cents from 2011, according to a report released in April by St. Louis-based Express Scripts Inc. That study was based on more than 300,000 work comp claims paid by Express Scripts clients nationwide.

Meanwhile, Westerville, Ohio-based Progressive Medical Inc. said in April that it saw prescription drug inflation of 5.5% in 2012. That was based on nearly 200,000 workers comp claims made by its clients.

Both reports said that reduced utilization of opioid painkillers last year helped to keep some workers comp prescription costs in check.

Mid-market firms tend to receive similar prescription pricing to larger companies, even though they have smaller volumes, said Artemis Emslie, president of Tampa, Fla.-based work comp pharmacy benefit manager MyMatrixx L.L.C. and Jim Andrews, executive vice president of pharmacy services for Atlanta-based pharmacy benefit manager Healthcare Solutions Inc.

"Pricing has gotten as competitive as it



PHARMACEUTICAL MANAGEMENT

Tips to manage workers compensation claimants' prescription drug usage

- Hold quarterly to semiannual reviews with pharmacy benefit managers to discuss workers compensation drug trends and strategies.
- Work to devise a customized formulary that includes medications tailored for specific industries.
- Have pharmacy benefit managers flag claims that could show problematic prescriptions, such as those with multiple or high-dosage opioids.
- Claimants with high-dosage prescriptions should be evaluated regularly to see whether such medications are helping to improve their condition.

can, so it really comes to the negotiation of those contracts more so than the size," said Ms. Emslie, who said mid-market firms have seen the most competitive pricing within the past five to 10 years.

Jamie Harer, Orange, Calif.-based product manager for pharmacy at Sedgwick Claims Management Services Inc., agreed that company size does not factor largely into work comp drug costs. She said aspects such as a

company's industry and region, or whether its employers are unionized, have a greater influence on the pharmacy costs that an employer pays.

However, Keith Rosenblum, senior risk consultant with Lockton Cos. L.L.C. in Kansas City, Mo., said mid-market firms see higher prescription costs for having fewer claims. In addition to lower volume, he said they don't have internal staff who manage claims and bargain for better deals on prescriptions.

"They don't know that pharmacy can be negotiated," Mr. Rosenblum said.

Prium's Mr. Pew said mid-market firms tend to gravitate toward using insurers, third-party administrators and pharmacy benefit management firms that provide bundled services for work comp claims, such as independent medical reviews or claims adjustment. That's because mid-market companies have fewer internal staff who can perform claim management functions, he said, leaving employers to rely on companies that bundle such services.

While a bundled approach can be a time-saver for mid-market employers, such consolidation can make it difficult to break out pharmacy costs for workers comp claims and evaluate which costs can be reduced, experts say.

"I have never ever seen any of the carriers or TPAs get down to quoting what the costs of their prescription drugs are," Lockton's Mr. Rosenblum said. "It's usually quoted as an average wholesale price minus 'x' discount plus a fill fee."

The key to preventing rising workers comp pharmacy costs, experts say, is holding insurers and service providers accountable for tracking drug spending and identifying areas for improvement.

Prium's Mr. Pew and Lockton's Mr. Rosenblum said employers should ask for regular reports from pharmacy vendors, insurers and TPAs that show details of a company's workers comp prescription spending.

"It's really incumbent upon them to ask the hard questions," Mr. Pew said. "Show me the data. Show me our penetration rate, which means how many of the scripts we're paying for are going through the PBM, and

therefore are getting pharmacist oversight and the PBM discount."

Joseph Paduda, principal of Madison, Conn.-based consulting firm Health Strategy Associates L.L.C., said employers should confirm that their workers comp insurer or TPA is working with a pharmacy benefit manager to manage workers comp prescriptions in the first place.

If so, Mr. Paduda said supervisors and managers should be aware of how to report workers comp claims as soon as possible to the manager so that all comp-related prescriptions can be channeled through the negotiated cost structure and drug utilization tracking.

"The PBM will make sure that the drugs that they're being prescribed are appropriate ... for the worker's condition, and they'll monitor it to make sure there's not early use of opioids or other potentially problematic drugs," Mr. Paduda said.

Dr. Teresa Bartlett, Troy, Mich.-based medical director for Sedgwick, said it can be helpful for employers to work with pharmacy benefit managers to create a customized workers comp prescription formulary that provides medications relevant to an employer's industry.

For instance, a transportation-related company might ban heavy narcotics that would be dangerous for drivers, but a health care firm might provide specific antibiotics for employees that deal with hazards such as needle-stick injuries.

Companies can ask pharmacy benefit managers to set up warning systems to provide medical intervention for prescriptions that are dangerous for workers and generate high costs, Dr. Bartlett said. For example, a worker who receives large doses of opioid prescriptions could be flagged to receive assistance.

Ms. Emslie and Mr. Pew said companies might consider unbundling their workers comp claims services, including pharmacy management, in order to negotiate the best deals on such services.

Pharmacy "programs can be tricky to measure your results and how your program is performing in the different program aspects," Ms. Emslie said.

WORKERS COMP PRESCRIPTION COSTS



Workers compensation drug costs **increased 2.9%** in 2012.



Utilization of workers comp prescriptions **decreased 0.3%**.



The cost per prescription **increased 3.2%**.



Anti-depressant and dermatological drugs posted the greatest **increases at 11.6% and 10.1%**, respectively.



The cost of narcotic painkillers **decreased 2.6%**.

Source: Express Scripts Inc. "Workers' Compensation Drug Trends Report"

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EMPLOYERS COULD FACE LITIGATION FOR EXCLUDING BENEFITS TO OPPOSITE-SEX DOMESTIC PARTNERS

Experts advise firms to have one set of benefit rules regardless of domestic couples' gender

BY MATT DUNNING

Though none of the recent regulatory updates regarding legally married same-sex couples applies to domestic partnerships or civil unions, the rule changes could substantially affect mid-market employers' decisions to cover such arrangements under their benefits plans.

As a result of the U.S. Supreme Court's partial strike down of the Defense of Marriage Act in June, the Obama administration has extended eligibility to married same-sex couples for rights and benefits guaranteed under the U.S. Tax Code, the Employee Retirement Income Security Act, and the Family and Medical Leave Act.

But those rule changes apply only to couples that have been legally wed in a state, territory or foreign country that permits same-sex marriage, meaning employers will remain at liberty to decide for themselves whether to offer health care coverage and other benefits to their employees' domestic partners.

More than 52% of midsize employers — defined as companies with 500 to 4,999 full-time employees — polled in August by the International Foundation of Employee Benefit Plans said they cover domestic partnerships and civil unions under their employee benefit plans. After the Supreme Court's ruling, 75.4% of those employers said they intend to continue to offer benefits to domestic partners and civil unions at least for now.

"We are seeing a lot of midsize employers, especially in states that permit same-sex marriage, saying that they are planning to eventually do away with coverage for domestic partners, just not for this coming plan year," said James Harmon, president of the employee benefits division at Cleveland-based Dawson Consulting Group, a subsidiary of AssuredPartners Inc.

A crucial factor in many mid-market employers' decisions about whether they will continue offering benefits to same-sex domestic partners likely will be the extent to which they also intend to cover opposite-sex domestic partners. Fifty-seven percent of mid-market employers polled in the recent survey said they do not cover opposite-sex domestic partners, and only one in five of those employers said they were considering doing so as a result of the Supreme

EMPLOYER OPTIONS FOR DOMESTIC PARTNERS

- Despite the government's extension of rights to legally married same-sex couples under federal tax, pension and medical leave laws, employers retain the option to offer benefits to employees' domestic partners.
- Employers that offer domestic partner coverage but continue to exclude opposite-sex domestic partners could face discrimination charges.
- Multistate employers could face civil actions if they restrict domestic partner coverage only to states that do not recognize same-sex marriage.
- Employers that do or do not offer domestic partner benefits are advised to treat everyone the same to avoid potential litigation.

Court's decision.

In many cases, employers choose to offer benefits only to same-sex domestic partners, as opposite-sex couples can marry under both state and federal law.

After the expansion of same-sex couples' rights under the U.S. Tax Code, ERISA and FMLA, benefits experts said employers who continue to exclude opposite-sex couples from coverage could be accused of discrimination, at least in the 13 states — plus the District of Columbia — that have legalized same-sex marriage.

"Now that same-sex domestic partners have the option to get married, it will be a lot harder for an employer to justify limiting their policy to cover same-sex couples only," said Todd Solomon, a Chicago-based partner at law firm McDermott Will & Emery L.L.P.

Employers operating in multiple states also may expose themselves to potential civil lawsuits by restricting their coverage of domestic partners only to states that do not recognize same-sex marriage.

"A large percentage of our client base is made up of multistate employers, and I think it would be hard for them to offer domestic partner coverage to some employees in some states and not to others," said Don Garlitz, executive director for exchange solutions at the Chicago-based benefit consultancy bswift Inc. "If they're going to make a decision as an employer to offer coverage, they're either going to have to go all in or all out."

Employers operating solely in states that do not recognize same-sex marriage may not face the same level of exposure to legal action for continuing only to cover same-sex domestic partners. Even if the option to marry is technically available in other states, these couples would still be treated disparately under their home state's tax law.

Regardless, experts said the safest course treats as equal all individuals situated similarly under state and/or federal laws.

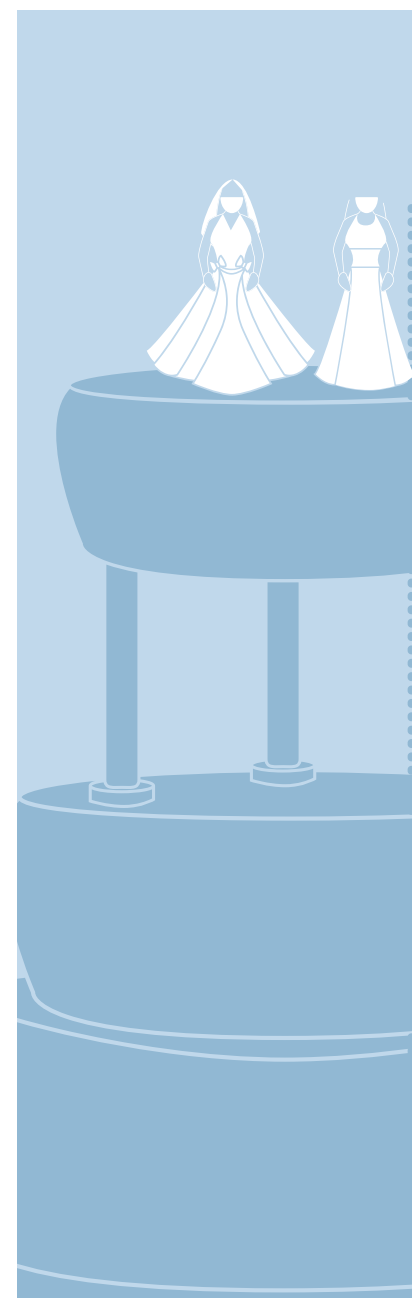
"From a compliance point of view, you want to treat everyone the same way," Mr. Harmon said. "You might still have some latitude in the states that don't permit same-sex marriage, because you'll have that differential in the treatment of the two groups under state law. But at least in the states that do allow same-sex marriages, we would advise our clients to have one policy and one set of rules, regardless of the gender of the partners."

COVERAGE OFFERED BEFORE COURT RULING

Mid-market employers' benefit offerings for same-sex couples prior to the U.S. Supreme Court partially striking down the Defense of Marriage Act.

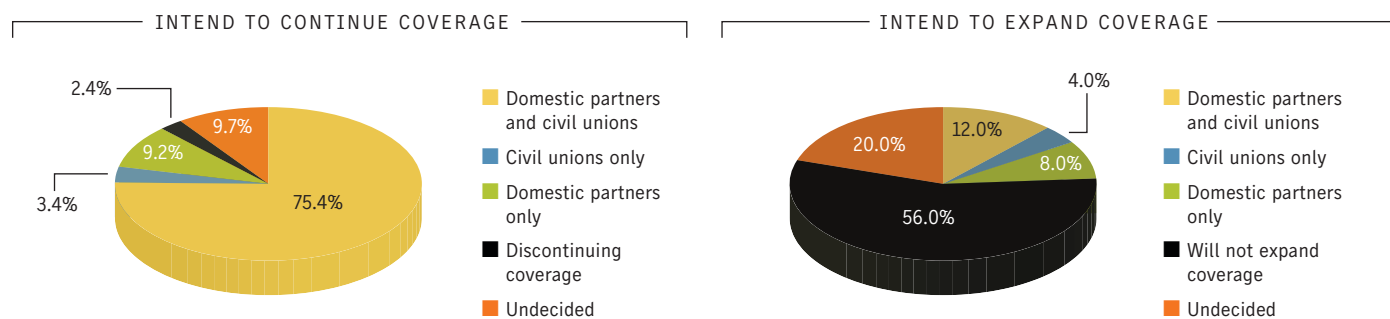
Benefits type	Domestic partners	Civil unions
Health care	79.7%	65.1%
Life insurance	73.3%	59.9%
Bereavement leave	62.9%	50.9%
Family/medical leave	59.5%	48.3%
Retirement plan/pension	50.0%	39.7%
Retiree health care	29.7%	24.1%
Short/long-term disability	20.7%	19.0%

Source: International Foundation of Employee Benefit Plans



LIFE AFTER LANDMARK SUPREME COURT RULING

Polled in August, most mid-market employers indicated that they intend to maintain their current benefit coverage options for same-sex domestic partnerships and civil unions.



Source: International Foundation of Employee Benefit Plans

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And suddenly, the cost of goods sold jumps from \$78 to \$1,078. We are experts in risk. Arguably, the best in the business. But the world of product liability gives even us pause. *You stopped making them years ago. You just acquired the retailer. A supplier made the defective part.* It doesn't matter. No one is safe anymore. All the more reason to know exactly where you stand. Or might stand, years from now. Did we mention, it's complicated? Watch the film: Milliman.com/PL.





Lloyd's profit limited to \$2.21 billion

■ Lloyd's of London registered a profit of £1.38 billion (\$2.21 billion) for the first six months of the year, Lloyd's reported. That is a 9.8% drop from the profit generated in the first half of 2012. Gross written premiums for Lloyd's rose 4.9% to £15.5 billion (\$25.73 billion) and its combined ratio improved to 86.9% from 88.7%. However, investment income dropped to £247 million (\$395.3 million), a 60% decrease from the same period in 2012. "Despite a benign first half of the year for natural catastrophes, with no major claims for the Lloyd's market, total net claims were £4.85 billion (\$7.76 billion)," Lloyd's said in a statement.

E.U. proposes 2016 start for Solvency II rules

■ The European Commission has proposed a Jan. 1, 2016, start date for new risk capital requirements for insurers known as Solvency II, hoping to remove the legal uncertainty dogging the sector. The proposed rules, aimed at increasing the protection for consumers by forcing insurers to more closely match the risks on their books to their future obligations to policyholders, have already been delayed several times due to political wrangling. But Michel Barnier, the European Union's financial services chief, said in a statement that talks between the European Parliament and E.U. governments on finalizing the rules are "progressing well" and that an agreement is now "within reach." The talks previously ran into difficulty over the way long-term life insurance that pays guaranteed interest rates would be handled under the rules. The policies are popular, particularly in Germany and the Netherlands.

Reuters

Aviva sale of U.S. unit fetches \$2.6B for insurer

■ British insurer Aviva P.L.C. has garnered \$800 million more than it initially expected from the sale of its U.S. business, benefiting from an economic upturn that gained pace while regulatory scrutiny held up the deal's completion. The disposal is part of a companywide revamp since a shareholder rebellion in 2012, which led to the exit of its then-chief executive, following years of spiraling costs and disappointing share price performance. Aviva said it had completed the sale of its U.S. life and annuities unit Aviva USA Corp. to

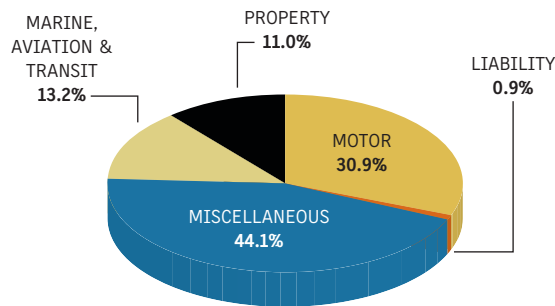
PROFILE: MADAGASCAR

\$41 MILLION

This small island nation in the southwest Indian Ocean has been in political deadlock since 2009. The property/casualty insurance market has endured anemic growth because businesses routinely expect to renew the same coverage for a 10% premium discount from the prior year. There's interest in specialty coverage to protect firms from the nation's intermittent civil unrest tied to the political impasse, but the insurance generally is too expensive. Economic progress depends on restoring political order.

◀ 2010 P/C gross premiums

MARKET SHARE



Source: Axco Global Statistics/Industry Associations and Regulatory Bodies

COMPULSORY INSURANCE

- Auto third-party liability
- Workers compensation
- Marine oil pollution
- Professional indemnity for insurance brokers

NONADMITTED

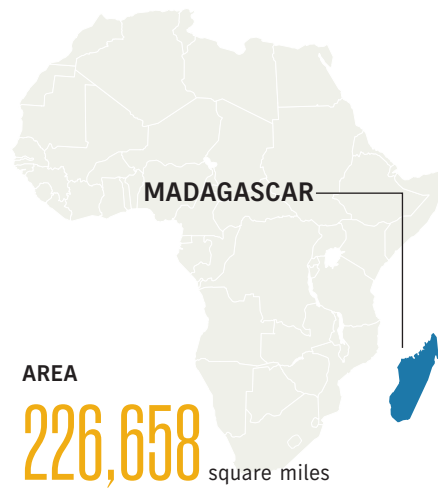
Nonadmitted insurance is not permitted because the nation's law requires that insurance must be bought from local insurers, with no exceptions. However, life, health and pensions held abroad are tolerated. Similarly, if imported uninsured cargo arrives in the country, there are no consequences.

INTERMEDIARIES

Brokers or agents must be licensed to do business. Intermediaries are not allowed to place insurance with nonadmitted insurers.

MARKET PRACTICE

P/C risks presumably should be insured in Madagascar, but it is impossible to keep people from insuring themselves with accident, health and life policies bought outside the country. Insurance fronting may be acceptable to conform with Malagasy legal requirements.



POPULATION
22.6 million

NUMBER OF INSURERS
5

2012 GDP CHANGE
2.2%

MARKET DEVELOPMENTS

UPDATED
SEPTEMBER 2013

- In July 2013, the government was preparing fresh workers compensation legislation to increase payouts to victims of industrial accidents and occupational hazards.
- In November 2011, the nation's insurance controller decided supervisory authority fees were too low. A fee increase proposal remains in progress.
- In July 2008, the former ruling body implemented new accounting rules, known as the Insurance Accounting Framework, to conform with International Financial Reporting Standards.
- Also in 2008, the corporate tax on profit was cut to 25% from 30%, the same level as the capital gains tax.
- A new tax of 10% on contracts insuring private cars not used for public transportation was added in 2008.

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

Athene Holding Ltd., putting its proceeds at \$2.6 billion compared with the \$1.8 billion price announced in December. The additional \$800 million "represented estimated earnings and other improvements in (the) statutory surplus" between June 30, 2012, to Sept. 30, 2013, the company said.

Reuters

London company market premiums near \$18B

■ Gross insurance premiums in the London company market grew 3.5% in 2012 compared with 2011, with business line and geography breakdowns largely similar for both years, the London-based International Underwriting Association said. The IUA said gross written premiums for the London company market rose 3.5% to £17.99 billion (\$28.79 billion) in 2012

compared with 2011. With £6.23 billion (\$9.97 billion) of business written elsewhere but controlled by London operations, the total reached £24.23 billion (\$38.77 billion), up 8.6% from 2011. The report described the 23% increase in this business written elsewhere as "striking."

Alberta floods pegged as Canada's costliest nat cat

■ Massive floods that devastated swaths of southern Alberta, Canada, in June are estimated to be the costliest natural disaster in Canadian history, with the Insurance Bureau of Canada pegging the property damage at 1.7 billion Canadian dollars (\$1.65 billion). The bureau, which represents Canadian home, car and business insurers, said the preliminary estimate for the floods surpassed the

CAN\$1.57 billion in damage caused by the 1998 ice storms in Ontario and Quebec. Heavy rains over the eastern slopes of the Rocky Mountains that began in late June caused the 100-year flood that was blamed for four deaths, forcing the evacuation of thousands and shutting Calgary's downtown core, the center of the country's oil and gas industry, for nearly a week.

Reuters

China typhoon deadly, but insured losses limited

■ Relatively little insured loss is expected from Typhoon Usagi, which struck southeastern China, according to catastrophe modeler Egecat Inc. Oakland, Calif.-based Egecat said in an analysis that the storm "weakened significantly" before making landfall as a Category 2 typhoon near Sahwei, Guang-

dong province, China, which is about 85 miles northeast of Hong Kong. The maximum sustained wind speeds at the time of landfall were about 98 mph, which made Usagi the most intense storm to make landfall in China this year, Egecat said. Usagi caused significant damage to life and property, with about 25 fatalities. But "the insurance loss from this event is expected (to be) relatively low due to the low insurance penetrations in China," said Egecat.

Cooper Gay buys Lloyd's brokerage

■ London-based wholesale and reinsurance brokerage Cooper Gay Swett & Crawford Ltd. has acquired independent Lloyd's of London insurance and reinsurance brokerage Newman Martin & Buchan L.L.P., Cooper Gay

announced. Terms of the deal were not disclosed. Newman Martin specializes in energy, marine and nonmarine insurance and reinsurance business.

Hailstorms in Europe cost insurers \$4.73B

■ Insurers nursing hefty losses from severe spring floods in Europe face paying out a similar amount again after areas of Germany and France were repeatedly pounded by grapefruit-size hail over the summer. Analysis from the reinsurance arm of broker Willis Group Holdings P.L.C. estimates the insured losses from a run of hailstorms that hit central Europe between June 17 and Aug. 6 at around €3.5 billion (\$4.73 billion). The insurance industry was hit earlier in the year by insured losses estimated at between €3 billion and €4 billion (\$4.06 billion and \$5.41 billion) from flooding in Germany, Austria and the Czech Republic following weeks of torrential rain in May and June. According to Willis, a series of

storms caused by a meeting of cold Atlantic air with hot, humid weather sitting over central Europe during the summer led to the subsequent “severe hailstorm activity” in France and Germany. Many of the affected areas were battered by hail measuring more than 2.7 inches in diameter.

Reuters

Global partnership to focus on cat resilience

■ During the recent annual meeting of the Clinton Global Initiative, former U.S. President Bill Clinton announced a global partnership to promote resilience in at least 100 cities around the world. The Rockefeller Foundation is leading The Commitment to Action. The foundation has pledged \$100 million to the effort, with partnership from Swiss Re Ltd., the American Institute of Architects, the Architecture for Humanity charitable organization, and computer software and services firm Palantir Technologies Inc. The project aims to assist at least 100 cities in hiring a chief

resilience officer and developing a resilience strategy. It will provide access to tools, technical support and resources to implement that strategy along with innovative approaches to financing infrastructure development. The 100 Resilient Cities program also will establish a network through which the CROs can share best practices.

Canadian railroad has adequate insurance

■ The railroad involved in July’s deadly derailment and explosion of a runaway train in Quebec has adequate third-party liability insurance to continue operations until at least Oct. 18, but no decision has been made yet whether to extend that to Jan. 15, 2014, pending more information, a Canadian regulator said. In August, a Quebec judge permitted the release of \$250,000 in funds of the Hermon, Maine-based Montreal, Maine & Atlantic Railway Ltd., which was involved in the derailment that killed 46 people and destroyed much of central

Lac-Mégantic, Quebec. The Ottawa-based Canadian Transportation Agency said that as a result, it was satisfied the railroad had adequate third-party liability insurance coverage for short-term operations until Oct. 18.

U.S., U.K. fine ICAP, charge former staff

■ U.S. and British authorities fined ICAP P.L.C., the world’s biggest interdealer broker, \$87 million and criminally charged three former employees for their role in the Libor benchmark rate rigging scandal. The scandal, which has laid bare the failings of regulators and bank bosses, has triggered a sprawling global investigation that has already seen three banks fined \$2.6 billion, four individuals charged, scores of institutions and traders grilled, and a spate of lawsuits launched. The U.S. Department of Justice charged New Zealand resident Darrell Read alongside Daniel Wilkinson and Colin Goodman, both from England,

with conspiracy to commit wire fraud and two counts of wire fraud in a criminal complaint. Simultaneously, the U.S. Commodity Futures Trading Commission and the U.K. Financial Conduct Authority ordered ICAP’s ICAP Europe Ltd. unit to pay \$65 million and £14 million (\$22 million), respectively, to settle allegations of wrongdoing.

Reuters

Best upgrades rating of Axis Specialty to A+

■ A.M. Best Co. Inc. has upgraded the financial strength rating of Axis Specialty Ltd. to A+ (superior) from A (excellent). Oldwick N.J.-based Best also revised its ratings outlook for Axis to stable from positive. “The ratings reflect Axis’ superior risk-adjusted capitalization, long-term track record of strong operating performance through varied market conditions and robust enterprise risk management controls,” Best said in a statement announcing the rating upgrade.

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EDITORIAL

FEDERAL SHUTDOWN DISAPPOINTING

If we had to describe in a single word our feelings about last week's partial shutdown of the federal government, it would be disappointment. We are disappointed House Republicans chose a legislative strategy to try to stop further implementation of the health care reform law that is resulting in hundreds of thousands of federal employees losing their paychecks because of a shutdown over which they have no control.

Our disappointment also extends to congressional Democrats and to the Obama administration, and that disappointment is longstanding. The way the Patient Protection and Affordable Care Act was put together was a mockery of the legislative process. Consider, for example, how the House Ways and Means Committee approved its version of the legislation after one day of discussion. How could a bill of such size and importance get the necessary scrutiny and review in such short time? And consider how congressional Democrats, with the blessing of the executive branch, used a maneuver in which a normal legislative process — review by a joint House-Senate conference committee — was skipped to expedite final passage of the bill.

To be fair, congressional Republican leaders are not without blame. There was no way they could support the legislation. That doesn't mean they could not have gotten involved and recommended changes to improve the legislation and perhaps made it less objectionable.

But the past is the past. We would hope that members of the two parties can summon the will and political courage to work together to improve the law wherever possible.

The need for changes is clear. For example, under the law, employers are liable for stiff financial penalties if they do not offer coverage to full-time employees. And therein lies the rub: whoever heard of full-time being defined, as the law does, as working as little 30 hours a week? The negative ramification of that standard is obvious: employers reducing part-time employees' hours to get under the 30-hour trigger.

We hope more than ever that Republicans and Democrats alike can finally work together for the common good. They should start by reopening the federal government.

LETTERS

To the Editor: I am writing in response to your article entitled "Monitoring physical therapy treatment can curb workers comp costs" posted on your website on Aug. 11, 2013. There were several points in the article that require clarification for your readers.

Regarding "physical therapy costs can account for up to 50% of compensation costs in the first 90-120 days of a claim," evidence suggests if a patient is referred early enough to a physical therapist, he or she can return to work sooner and incur lower costs. A study published in the Dec. 1, 2012 issue of *Spine* showed that early treatment by a

Continued on page 50

SCHILLERSTROM



COMMENTARY

CONGRESS SHOULD EXTEND TERRORISM INSURANCE BACKSTOP

Absent something totally unforeseen, such as a massive California earthquake or a Category 5 hurricane making landfall in Miami, it's pretty certain that the top property/casualty insurance issue with which this Congress must deal will be reauthorization of the federal government's terrorism insurance backstop.

Congressional committees already have begun hearings regarding extension of the program, which is slated to sunset on Dec. 31, 2014. Arguments pro and con have been advanced, and more can be expected in coming months.

The libertarian Cato Institute wants Congress to kill the program, calling it "corporate welfare," while the insurance industry and its customers want it to be extended, holding that the backstop is necessary to allow the market to offer available and affordable terrorism coverage. These arguments have been heard before, and will no doubt be heard again in various forms until Congress decides whether to extend the program, which was created by the Terrorism Risk Insurance Act of 2002.

But one of the most compelling arguments that hasn't received the attention it deserves is that the federal terrorism insurance backstop is a component of national security. Insurance Information Institute Inc. President Bob Hartwig made that point in testimony before the Senate Banking, Housing and Urban Affairs Committee late last month. Here's what he said:

"The unambiguous success of TRIA demonstrates that the act has become an invaluable component of the country's national security infrastructure. The continued operation of the nation's financial institutions



MARK A. HOFMANN
SENIOR EDITOR

— including its insurers — during and throughout the aftermath of a major terrorist attack is absolutely essential to ensure a smooth and expedited recovery from the massive economic and operational shocks of the sort that occurred after the 9/11 attacks and that are certain to accompany future such events, irrespective of where in the country they occur.

Failure to institutionalize a permanent plan to protect the nation's financial infrastructure leaves the country unnecessarily vulnerable to economic instability and risk of recession."

Former House Financial Services Committee Chairman Barney Frank, D-Mass. — a politician with whose policies I rarely agreed — made a somewhat similar argument some years ago while addressing the idea that economic infrastructure be moved out of high-risk areas to foil terrorism. He pointed out that you can't move subways and other immovable parts of the nation's economic infrastructure to someplace else in the country.

Despite charges of corporate welfare, the program's costs have been minimal and any future payouts would be repaid by insurers.

Economic security is an integral part of national security, and the terrorism insurance backstop helps guarantee economic security. As a vital part of national security, it deserves to be extended.

BUSINESS INSURANCE

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KEYNOTE SPEAKER:

MIKA BRZEZINSKI

CO-HOST OF MSNBC'S *MORNING JOE*

*Best-Selling Author of All Things at Once, Knowing Your Value,
and Obsessed: America's Food Addiction-and My Own*



The daughter of former National Security Advisor Zbigniew Brzezinski, she is the cohost of MSNBC's *Morning Joe*. Ms. Brzezinski also is a best-selling author—in her first book, *All Things At Once*, she discusses the challenges of career, family and the news business. Her second best-seller *Knowing Your Value*, discusses perceptions of value and how successful women today have achieved their deserved recognition and financial worth in the workplace.

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REGIONAL BROKER LEADERS AWARDS

40 UNDER 40

40 UNDER 40 PROFILES

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Young regional broker leaders display outstanding professional, personal achievements

BY MARK A. HOFMANN

One of the best ways a brokerage can enhance growth and its chances of survival is to recruit the best talent possible — right out of college, from competitors or other segments of the insurance industry, or from enterprises that are outside the property/casualty insurance industry.

These young hires can bring new ways of approaching and understanding opportunities and problems, and suggest ways to meet these business challenges.

The most outstanding of these new leaders are being recognized in *Business Insurance's* inaugural 40 Under 40 Regional Broker Leaders Awards program.

Readers of *Business Insurance* nominated young brokers from five regions of the United States: the Northeast, Midwest, West, Southwest and Southeast. After a thorough review by a panel of *Business Insurance* senior editors — who considered various criteria, including recent profes-

sional achievements, influence on the marketplace and leadership qualities — 40 individuals were selected for the prestigious recognition. All had to be age 40 or younger on Oct. 1. There are eight honorees per region and each is being recognized during a series of regional receptions.

What makes an outstanding young broker? It's not necessarily walking into a brokerage the day after college graduation. In fact, the 2013 honorees come from a variety of backgrounds inside and outside the industry. Instead, the key is personal and professional qualities.

For many of the honorees, that includes specialized knowledge. Such knowledge makes them "go-to people" within their organizations, regarding aspects of their individual businesses or the industry as a whole.

Specialized knowledge leads to another characteristic of successful young brokers — an emphasis on top-flight customer service. They aren't selling one-size-fits-all coverage. Instead, they put the customers'

unique needs front and center.

Sometimes that means telling a client who bases coverage decisions mainly on price that off-the-shelf policies are not in a client's best interest despite being cheaper than a product that truly meets the organization's needs.

A commitment to personal professional growth also marks a successful young broker. This can mean getting involved in local and national professional industry groups or pursuing an industry designation such as Chartered Property and Casualty Underwriter.

These attributes, plus a commitment to personal ethics, are marks of an outstanding young broker who exhibits leadership qualities.

These 40 rising stars are the brokerage industry's leaders of tomorrow. In fact, many already have advanced into management positions within their own companies.

Their talents will help assure the brokerage segment of the insurance industry survives and prospers into the 21st century.

BROKER PROFILES BY REGION



METHODOLOGY

Business Insurance received hundreds of nominations for its inaugural 40 Under 40 Regional Broker Leaders Program, which recognizes leadership attributes, client-service skills and expertise among retail insurance brokers. The nominations were divided into five regions of the United States and eight broker honorees per region were selected. While brokerages could nominate multiple candidates under 40 years old, only one nominee per firm could be recognized in each region. All 40 of the rising star brokers were selected by a panel of *Business Insurance* senior editors. Their excellence is being celebrated at five regional receptions hosted by *Business Insurance* in September and October.



JAVIER GONZALEZ

Executive vice president
and partner

Axis Insurance Services L.L.C.

30

When Javier Gonzalez graduated from New York's Fordham University, he saw many peers go the traditional finance route.

"However, I saw an opportunity for tremendous growth in a niche industry, ultimately attracting me to the professional liability industry," he said.

That led him to Franklin Lakes, N.J.-based Axis Insurance Services L.L.C., where he specializes in professional and management liability insurance.

The coverage "provides us an opportunity to create solutions and custom policies where a lot of your traditional insurance policies are ... more of a commodity and less of a solutions-oriented product," he said.

"Many of our products are new, fresh and still evolving," Mr. Gonzalez said. That gives Axis an opportunity to excel in professional and management liability insurance. This allows him to participate in devising solutions for evolving products tailored to clients' needs, he said.

The company's management is appreciative of his efforts.

"We are very excited that Javier has achieved this award as one of the top young brokers in our industry," Mike Smith, CEO of Axis Insurance Services, said in an email.

Mr. Gonzalez said his biggest challenge is "breaking clientele away from the mentality of appreciating the cheapest price over quality of an insurance policy's terms and conditions, along with the quality of the insurance carrier issuing the product."

His top professional goal is "to look back and know my clients appreciated and respected the level of service and expertise I provided to them, and knowing they felt secure with the insurance products we put in place for them."

By Mark A. Hofmann



SCOTT KANNRY

Vice president,
financial services group

Aon P.L.C.

34

Scott Kannry's circuitous path to his current post at Aon P.L.C. began on a golf course.

During college, Mr. Kannry worked as a caddy master at a golf club near Chicago where several Aon senior executives were members. Mr. Kannry's innate curiosity and outgoing nature acquainted him with the executives and with the challenges and opportunities facing insurance brokers. After graduation, he earned a spot on Aon's professional cyber risk solutions team in 2003.

Mr. Kannry spent the next 5½ years learning the business, but by 2008 he wanted to continue his

education. While still serving a limited number of clients, he went to graduate school. By 2011, he earned his JD-MBA from Northwestern University's School of Law and the Kellogg School of Management and then passed the New York state bar exam.

After a stint with a venture capital firm, he returned to Aon full time in October 2011 to lead its East Coast practice from the New York office.

"It was a nice reset on my career," he said. "It gave me opportunities to open doors again and question whether I was in the right industry or not."

The answer to that question is now a resounding "yes."

Mr. Kannry manages 65 clients that contribute about \$45 million in premium to the insurance marketplace and approximately \$3 million of revenue to Aon.

Much of his focus remains on the area that he first tackled at Aon: cyber risk.

"It's an area of risk that has evolved so significantly since I started that it is now one of the most transformative risk exposures," he said. "The insurance industry needs to find a better way to grapple with it."

By Bill Kenealy



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**CHRIS KEITH**

Vice president
The Graham Co.

37

Chris Keith has parlayed his consulting background into a successful career at Philadelphia's The Graham Co. He co-chairs the broker's health and human services practice.

"We focus on everything from behavioral health, assisted living, acute-care hospitals, as well as a fairly concerted focus on the aging services sector," he said.

"I often say my consulting background lends itself to the nature of the sale here," he said. "It requires due-diligence work. Often that's what separates the really good producers from the guys that struggle; consulting background gives you the mentality. I'm a business professional first and foremost who happens to know about P/C insurance. I'm not limited to my knowledge of insurance."

Mr. Keith said the insurance industry and Graham Co.'s approach led him to the brokerage. "I have a consulting industry background. It's not a transactional sale; it's very entrepreneurial. I'm basically running a small business within a larger business, and that was attractive to me."

His top professional goal is building a reputation. "When I leave the industry years from now, (I want to have) a legacy of not only a top-notch professional, but also being thought of as a solid human being, a good citizen who advocated his clients' interest."

"Chris Keith encompasses all the qualities of a great broker," said William A. Graham IV, chairman of the board and CEO of Graham Co., in an email. "He's able to dig into his client's business and develop tailored risk management programs that protect the organization and deliver bottom-line impact that most other brokers in our industry simply can't achieve."

By Mark A. Hofmann

**BRANDON MUELLER**

Managing partner
Seubert & Associates Inc.

31

Brandon Mueller has taken the same drive that made him a two-time All-Ivy League football player at Princeton University and turned it into a successful career in insurance.

After graduating, Mr. Mueller faced no shortage of options, including a free-agent contract from the Indianapolis Colts and offers from Wall Street firms.

But he ultimately opted to pursue a career in insurance.

Starting at Eastern Alliance Insurance Co., Mr. Mueller soon joined Seubert & Associates Inc., a Pittsburgh-based independent insurance agency that provides property/casualty insurance, employee benefits and surety bonds.

Just as he had on the gridiron, he made an immediate impact.

After starting as an account manager servicing large accounts and shadowing top producers on sales calls, Mr. Mueller quickly started to build his own book of business. Within three years, he built a book of business in excess of \$500,000 in commission income and by age 26 was awarded \$100,000 in Seubert & Associates stock, becoming the youngest partner and owner in the agency's history.

Mr. Mueller has excelled in bringing new business to the firm, according to colleagues, and has been particularly adept at helping Seubert service the business needs of the energy firms developing the

Marcellus Shale fields in Pennsylvania, Ohio and West Virginia. Mr. Mueller facilitated the opening of Seubert's energy division, which provides loss-prevention services and safety solutions, as well as fully insured and captive risk management programs for companies in the oil and gas industry.

Seubert President Brian Long is not surprised by Mr. Mueller's success. "He made partner and was awarded stock here faster than any producer, seasoned or new, in our company's 40-year history," he said. "I remain impressed with his work ethic, and I am certain that his background in sports is one of the many reasons he is a great teammate."

By Bill Kenealy

**AARON ROSENFELD**

Executive vice president
GFI Insurance Brokerage Inc.

39

Though he didn't dream of being an insurance broker as a young child, it now seems the insurance industry always was a natural fit for Aaron Rosenfeld.

In his 15 years at GFI Insurance Brokerage Inc., Mr. Rosenfeld has displayed a marked aptness to thrive in a variety of roles.

"I started as a service person, moved over to sales and am now in the position I am in," he said.

As executive vice president of the firm, Mr. Rosenfeld fulfills a broad range of responsibilities, including overseeing GFI's employee benefits division and supervising the company's cus-

tomers service, billing and claims departments.

Despite this broadening managerial purview, Mr. Rosenfeld still handles accounts and remains one of the firm's top producers, with \$2.4 million in annual sales revenue.

Recently, much of Mr. Rosenfeld's time with clients has been spent helping them understand the nuances of the Patient Protection and Affordable Care Act. To keep himself abreast of the rapidly changing implementation of the law, Mr. Rosenfeld is a member of a health care reform advisory board where he meets with other top producers to discuss the law's

effect on clients.

"We are going to have to transfer a lot of groups over to the exchanges," he said.

Despite his expertise in employee benefits, Mr. Rosenfeld retains his ability to broker numerous product lines that include property/casualty, workers compensation, umbrella, other commercial and even personal lines.

Acting as the trusted adviser for clients with problems and negotiating the best rates for them makes the long hours and effort worthwhile to Mr. Rosenfeld, who likes "the satisfaction of helping people."

By Bill Kenealy

**DENNIS TIERNEY**

Senior vice president
Marsh Inc.

36

Like many in the brokerage industry, Dennis Tierney started on the insurer side of the business, handling workers compensation claims for Liberty Mutual Insurance Co.

"I liked that, but I wanted to expand my horizons within the industry," he said. As a broker, he knew he "would be exposed to other aspects of the industry. I was looking for a job that would expose me to different aspects of the industry; that was the main driving force."

At Marsh, Mr. Tierney describes his expertise as being "a casualty claim consultant, dealing with casualty lines: auto liability, general lia-

bility and workers compensation."

He's also the jurisdictional expert for New York for the entire company. "I tend to field a lot of questions from colleagues across the country when a workers compensation claim comes up, especially for New York," he said. "I get calls from colleagues and calls from clients."

His professional goal "is to excel at my current job, helping clients and mentoring my direct reports. Ultimately over time, I'd like to assume more management responsibilities and help lead the firm."

"Dennis is one of my up-and-coming managers, and I think he will have a very high ceiling," said

William F. Liebler, managing director of Marsh's global claims practice. "You can tell him something and he instantly retains it."

"I hold myself to some pretty high standards. It's really keeping up with the daily requirements of my current job, and that has to do with meeting the demands of my clients and managing a staff of people," said Mr. Tierney, who has eight direct reports.

"My job is twofold: I have responsibility for my own book of business and managing my people," he said. "I want to do the best that I possibly can."

By Mark A. Hofmann

**MICHAEL TOMASULO**

Senior vice president and management liability practice leader
AH&T Insurance

39

Michael Tomasulo's path to success started when he decided to cut out the funny business and start working in insurance.

"I thought I wanted to be in the entertainment industry, so I started working for Comedy Central," Mr. Tomasulo said.

He soon realized that his MBA in finance was better utilized elsewhere and started a job at American International Group Inc., specializing in directors and officers liability insurance.

"I decided I wanted to find a part of the insurance industry that dovetailed with my finance background, and D&O was something that really popped out," he said.

He subsequently left AIG for a

stint at Zurich Insurance Group Ltd., but eventually was offered an opportunity to join an old boss from AIG, who was starting an in-house insurance brokerage for Nasdaq.

After a decade, Nasdaq sold the brokerage to Aon P.L.C., and Mr. Tomasulo followed. However, he missed building something from the ground up. Three years ago, he approached the owners of AH&T, whom he had gotten to know during his decade at Nasdaq, with a proposition to start a Northeast office in Newark, N.J., for the Leesburg, Va.-based brokerage.

"They were doing great on property/casualty and benefits, but they didn't have an in-house department dedicated to the

nuances of management liability," he said. While he enjoys the technical side of the job, Mr. Tomasulo said he enjoys the relationship-building aspect the most.

Eddie Lee, executive vice president and treasurer for San Jose, Calif.-based technology firm Xilinx Inc., said Mr. Tomasulo's attention to detail sets him apart.

"I have used Mike for eight years now and think he is fantastic; we have even followed him through several different brokerage firms," he said. "We have a rather small risk department for a multibillion-dollar corporation, and Mike is definitely my second set of eyes and ears in the marketplace."

By Bill Kenealy

HARRIS TSANGARIS

Senior vice president
National Financial Partners Corp.

36

Harris Tsangaris was an underwriter at Zurich Insurance Group Ltd. when a broker asked him, "Why don't you come over to the brokerage side?" Mr. Tsangaris said.

After a stint with another broker, he joined New York-based National Financial Partners Corp. in 2007.

At NFP, Mr. Tsangaris specializes in management liability insurance.

This includes directors and officers liability insurance, employment practices liability, errors and omissions, crime, fiduciary, network security, data breach, and kidnap and ransom insurance.

"Harris has professional acumen and judgment beyond his years," said Douglas Hammond, CEO of NFP. "He is as sharp as they come when clients with complex risk management issues need sensible, commercially reason-

able solutions. He is highly ethical, respected by his peers and always a pleasure to work with."

One of Mr. Tsangaris' professional strengths is his commitment to customer service.

"I'd like to give my clients the best possible service, as well as giving the best coverage terms and conditions as possible at competitive pricing," Mr. Tsangaris said. "My personal goal is to continue to grow in the business and continue to learn more every day in regard to these lines of business."

That commitment also presents him with his biggest professional challenge.

"My biggest professional challenge is that being such a service-oriented business, you're always focused on providing the top-notch service to your clients," Mr. Tsangaris said. "Time is the biggest challenge—keeping up with educational seminars is a big point."

By Mark A. Hofmann

**HASIB BANGLORIA**

Executive vice president
Ballator Insurance Group

30

Personality and technical expertise that come from a command of actuarial practices have helped drive Hasib Bangloria's success in providing broker services for large public entities and social service organizations.

"I'm a numbers person by nature," said the executive vice president at Ballator Insurance Group in Lake Mary, Fla.

That helps him understand large-account clients that typically maintain sizable self-insured retentions, said Mr. Bangloria, who is not a certified actuary but trained under an actuary-turned-broker earlier in his career.

"I'm able to talk the language with an entity's actuaries to better guide them and give them good options and good worksheets they can look at when they are evaluating the reten-

tion they need," he said.

Yet "he is very personable and easy to talk to," said Ray Carter, a client and risk manager for Manatee County, Fla., in Bradenton. "He is fun to be with."

Mr. Carter became Manatee County's risk manager in December 2012 and recalled that Mr. Bangloria "worked absolutely tirelessly" to educate him on the county's property insurance program and prepare him for an upcoming renewal.

As a result, the county reduced its insurance costs by \$270,000, while adding buildings and other property that previously were excluded from the program.

That occurred when the Florida property insurance market was firming, Mr. Carter said.

Mr. Bangloria also oversees Ballator's operations, reporting directly to the company's CEO. During his three-year tenure, Ballator has grown 25% a year. Now the No. 2 leader at Ballator, Mr. Bangloria's goal is to become the No. 1 leader of a brokerage firm.

By Roberto Cenicerros



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PROFESSIONAL LIABILITY

**JULIE CAPE**

Senior vice president, client services

Digital Insurance Inc.

38

Leadership and creativity in developing processes that free her colleagues to focus more on customer relationships are two attributes that set Julie Cape apart, clients say.

Ms. Cape is senior vice president of client services at Digital Insurance Inc., an Atlanta-based employee benefits brokerage, where she is responsible for 25,000 group benefits clients and a staff of more than 100 benefits consultants working throughout the United States.

“She knows benefits backwards and forwards, and she understands what is required on a leadership level as well as what is required at the sales level in order to procure customers and keep them happy,” said Holly Forest, finance and human resources manager at Renusol America Inc., an Atlanta-based solar industry company that relies on Digital Insurance to help manage its benefits costs.

Ms. Cape already has held several corporate leadership roles and helps develop other leaders within her company.

Developing Digital Insurance’s culture of excellence and its talent is a favorite part of her job, Ms. Cape said. She dedicates a lot of time explaining “the big picture” to Digital Insurance employees so they understand how their roles effect the entire organization and its clients.

“If you see the connection that your work does to positively impact the company, then it helps you be better at what you do,” Ms. Cape said.

She also is known for developing improvements to company processes and eliminating work-flow obstacles through the implementation of technology.

This leaves more “time for the client relationship development that we are always striving for,” Ms. Cape says.

By Roberto Cenicerros

**SANDY CARTER**

Vice president

Beecher Carlson Holdings Inc.

31

Sandy Carter, vice president for broker Beecher Carlson Holding Inc.’s national property practice, loves specializing in prospecting and placing coverage for large, complex property accounts.

The specialization allows her to excel at property placements over being mediocre at placing a range of coverages, Ms. Carter said.

In addition to her ability to place challenging accounts, the service she provides throughout the year also is top-notch, said Steven Benjamin, director of risk management and benefits for Morgans Hotel Group L.L.C. in New York.

Morgans Hotel Group is among more than 20 large accounts that

Ms. Carter markets and services, placing more than \$50 million in annual property premiums for Beecher Carlson in Atlanta.

“My property program is very complex,” in part because it includes high-value properties within a wide geographic range, with some located in catastrophe-prone regions, Mr. Benjamin said.

It’s apparent that Ms. Carter’s hard work and attention to detail have won her the respect of property underwriters, Mr. Benjamin said.

“She is able to present multiple property program options with enough time in advance of renewal dates to (help me) make the

best-informed decisions,” he said.

In addition to managing her accounts, Ms. Carter developed client service standards other Beecher Carlson colleagues follow when servicing property clients. And a significant portion of her time is spent mentoring the young talent at Beecher Carlson the way others mentored her along the way.

Eventually, Ms. Carter would like to manage a group of property brokers. Meanwhile, she wants to continue helping expand Beecher Carlson’s national property book, which has been growing 15% annually.

By Roberto Cenicerros

**AMY DAPOT**

Managing director and mid-Atlantic property practice leader

Marsh USA Inc.

38

Amy Dapot is cool under pressure, while her relations with underwriters and breadth of experience placing coverage for complex property programs makes her an effective broker, her clients say.

Ms. Dapot is managing director and mid-Atlantic property practice leader in Washington, where she is responsible for leading 21 Marsh USA Inc. colleagues, as well as placing business for her own clients.

“I feel very fortunate to work with her,” said John Brannock, director of finance and risk management in Denver for United Launch Alliance L.L.C., a joint venture of Lockheed Martin Corp. and The Boeing Co.

While handling a complex property program renewal such as his could cause some people to lose their composure, Ms. Dapot “takes everything in stride and is cool under fire,” Mr. Brannock said.

Her technical expertise comes from having worked in Marsh offices, including in New York, London and Zurich, that place property business for a broad range of clients in pharmaceuticals, real estate, defense contracting, hospitality, and food and beverage manufacturing, among other industries.

“I have been lucky enough to be exposed to a lot of different industry groups,” Ms. Dapot said.

Ms. Dapot “is very detail orient-

ed and a strategic thinker,” said Parul P. Stevens, vice president of risk management for Smithfield Foods Inc. in Smithfield, Va. “She is very knowledgeable about the insurance marketplace, and I think that comes from having lived in London and Zurich, so she knows the underwriters throughout the world.”

She uses her expertise to anticipate questions underwriters will raise during program presentations, Ms. Stevens said. That has helped Smithfield win improved pricing and an increased number of insurers bidding for its business despite a very large loss about two years ago, she said.

By Roberto Cenicerros

**KATHLEEN C. LYNCH**

Managing director

Aon Risk Solutions-Aon Global Client Network

39

For as long as she can remember, Kathleen Lynch has been fascinated by international issues.

“My interest always has been international,” says Ms. Lynch, who is a managing director in Charlotte, N.C., at Aon Risk Solutions-Aon Global Client Network.

In her position at Aon, she is immersed in international issues, helping clients with the design, negotiation and placement of coverage for their global property/casualty programs. Among other things, she advises clients on overseas compliance issues to determine, for example, if coverage has to be provided by admitted insurers.

“I love it,” she says of her job. “You have to stay on top of things and provide solutions to the problems clients bring to you.”

James Breeney, resident sales director at Aon Risk Solutions in Charlotte, describes Ms. Lynch as “an extraordinary talent in our business. She has that ability to take complicated issues and make them very straightforward.

“She is absolutely terrific at new client acquisition and managing existing client relationships,” added Mr. Breeney, who has known Ms. Lynch for eight years.

Ms. Lynch joined Aon Risk Solutions in 1997, working her way to

team leader in the New York global practice. In 2006, she transferred to Aon’s Charlotte office and started Aon’s Global Client Southeast practice. While a managing director within Aon’s Global Client Network, she still manages the practice in the Southeast, which has grown significantly since she started the practice.

Ms. Lynch manages a team of five global specialists and is generous in her praise of her colleagues. “I can’t say enough about the team I work with. They put everything into their jobs and that makes a big difference,” she said.

By Jerry Geisel

**MIKE OWENS**

Senior vice president

Willis of Louisiana Inc.

37

For Mike Owens being an insurance broker means far more than just securing coverage for clients.

“I don’t just focus on the premium, but on the total cost of risk,” said Mr. Owens, senior vice president of Willis of Louisiana Inc. in New Orleans and head of Willis’ New Orleans construction practice. “If I can get contractors to improve their bottom line by a half-percentage point to 1% by thinking through risk and using correct risk management techniques, then I am not viewed as an expense. I am viewed as an asset.”

Clients have responded enthusiastically to Mr. Owens’ approach.

From 2010 to 2011, his sales volume grew 63%, and another 6% from 2011 to 2012, while he maintained a 100% retention rate of clients. His performance earned Mr. Owens top sales honors for the past two years for Willis’ Exceptional Producers Council, which recognizes Willis’ top 100 producers nationwide.

His colleagues attribute Mr. Owens’ success to two factors: meeting client needs and his construction industry expertise.

“He has an attitude that whatever it takes, we will get it done,” said Gray Holden, executive vice president and managing partner of Willis of Oklahoma Inc. in Oklahoma City.

“Clients view him as a trusted adviser who can take care of their interests. At the same time, he has developed a deep expertise of the construction industry and has built up a strong network of people to support him,” Mr. Holden said.

Mr. Owens’ father was a safety director and risk manager for a construction engineering company. “I grew up in the construction insurance industry,” he says.

He later attended the University of Georgia, where he studied risk management. While in college, Mr. Owens held an internship with an insurance broker and “immediately fell in love” with the field.

By Jerry Geisel

**BRYAN RAISOR**

Managing director,
Neace Lukens

35

In a field in which high employee turnover is common, Bryan Raisor is a bit of an anomaly: He has spent his entire professional career of 11 years with broker Neace Lukens, a unit of Assured Partners Inc.

His passion for helping clients, he says, is as strong as it was the day he started.

"This is an exciting and invigorating field," Mr. Raisor said. "Helping businesses improve their insurance programs is both exciting and satisfying."

Now managing director of Neace Lukens' Lexington, Ky., branch, which generates about \$7 million in annual revenue, Mr. Raisor has averaged more than \$100,000 in new business revenue for each of the last three years.

Those who have worked with Mr. Raisor attribute his success to an ability to simultaneously focus on detail and broad issues.

"He looks at the big picture, but also pays great attention to detail. At the same time, he is a very quick study," said Todd Stocksdale, director of Neace Lukens' southern Indiana region in New Albany, Ind.

That attention to detail has helped reduce clients' insurance costs. Over the course of three years, Mr. Raisor and his team worked with a client to bring down its workers compensation insurance premiums.

Among other things, a vigorous return-to-work program was launched and a new safety committee was formed. By the end of those three years, Mr. Raisor's efforts helped reduce the clients' workers premiums by nearly half, according to Neace Lukens.

In becoming manager of the Lexington office, Mr. Raisor has his sights on boosting revenue to \$10 million from the current \$7 million. Meeting that goal will require a team effort, which he relishes.

By Jerry Geisel

**TRAVIS TURNER**

Director of account management
Corporate Synergies Group L.L.C.

32

For Travis Turner, there is no bigger challenge and satisfaction than helping clients find solutions to their problems.

"I love the pace of the field and the creativity that is required to be a benefit consultant. You are helping employers solve puzzles. Solving those puzzles is very rewarding and intellectually stimulating," said Mr. Turner, who is director of account management in Bethesda, Md., for benefits broker and consultant Corporate Synergies Group L.L.C.

Mr. Travis joined Corporate Synergies in 2008 and in the past five years has played a key role in

boosting annual revenue in the Bethesda office five-fold to \$2 million.

His colleagues credit his success to his work ethic and insight. "He has such a great commitment to the client. That just flows naturally. And, he has great intuition in helping to find solutions for the client," said Tim Hayden, regional vice president of sales at Corporate Synergies.

That commitment also is noted by clients.

"He has helped our company in countless ways regarding the health plan," said Kenneth Arnold, controller of Benfield Electric Co.

Inc. in Aberdeen, Md.

"He knows our plan better than we do, so he is my go-to with questions and concerns," Mr. Arnold said. "Everything he says he will do, he does. He is a man of his word."

A key part of his job is to help clients be proactive, not just reactive, with employee benefits plans.

"Employers have developed a reactive approach to benefits, be it, for example, to a renewal or to legislation," Mr. Travis said.

"Our job is to help employers become proactive in their benefit programs."

By Jerry Geisel

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MAUREEN BIEHL

Client executive,
national broker practice

Marsh USA Inc.

36

Maureen Biehl, client executive in the national broker practice at Marsh USA Inc. in Indianapolis, has been on the buyer and the broker sides of the insurance transaction. And while she's enjoyed both, she finds the brokerage business particularly appealing.

"I really liked the client side because you get to learn about different aspects of the operation, about the manufacturing and the financial con-

straints," Ms. Biehl said. "But I've kind of settled in the brokerage side."

In her role with the brokerage, Ms. Biehl says she's "an employee of Marsh but I am an employee of my 16 clients, too."

"It's interesting on this side because it's something new every day," she said. "Every day is different because our clients' risks are changing every day." And while she enjoys her job's transactional component, it's helping



clients solve risk issues that she finds particularly appealing.

"She's been a great partner for Emmis in the insurance process," said Jennifer C. Sage, risk management consultant at Emmis Communications Corp. in Indianapolis. "She listens carefully to all our concerns and addresses things often before we have to say anything."

In addition to her client executive role, Ms. Biehl, who did her undergraduate work in insurance and risk management at Indiana State University and earned an MBA with an accreditation in leadership from Butler University, was named manufacturing industry leader for Marsh's East

Central Partnership this year. She coordinates resources, information and interaction among Marsh manufacturing clients.

Ms. Biehl began her professional career with Marsh in 1999 and later worked in the corporate risk management group for General Motors Corp. and for its Allison Transmission division in Indianapolis, before returning to Marsh in 2002.

By Rodd Zolkos

MICHAEL A. BRILLATI

CEO

Salus Group

39

In 2005, Michael A. Brillati recognized an underserved market and saw a potential opportunity.

"I was at a large agency in Southfield, Mich.," said Mr. Brillati, CEO of Sterling Heights, Mich.-based Salus Group. "I had a credit union at that time as a client who ultimately became a partner of Salus Group."

Mr. Brillati saw the credit union market in Michigan was underserved by employee benefits consultants, and when he was asked if he was interested in partnering to

start a company to serve that space, he took the chance.

"When I started the company, I saw a need in the marketplace for the services we provide," he said. "It was an opportunity to continue to serve and be aggressive in our marketplace."

Mr. Brillati, who received a bachelor's degree in finance from the University of Detroit Mercy and also studied at the University of Oxford in the United Kingdom, started the employ-



ee benefits consultant, broker and administration firm Salus Group with a few clients.

The company, which he describes as a "very entrepreneurial organization," has demonstrated rapid growth since. "We started at that time with five credit unions and 40 clients," he said. "We're now at 200 financial institutions as clients."

Robert Bava, president and CEO of Community Choice Credit Union in Farmington Hills, Mich., said what distinguishes Mr. Brillati and Salus Group are expertise and communications.

"What really sets Michael apart, Salus Group apart, was their expertise with the plan design,

allowing us to structure the plans in a way that really met our strategic goals," Mr. Bava said.

He said the combination of communications and expertise is particularly important now as his company deals with changes in the benefits landscape driven by federal health care reform.

"It provides us with a tremendous peace of mind that I don't think we otherwise would have," Mr. Bava said.

By Rodd Zolkos

ROBERT EDMONDS

Practice leader,
private equity benefits practice

Oswald Cos.

33

Robert Edmonds joined the Cleveland-based Oswald Cos. in 2006 as an analyst in the company's newly formed private equity benefits practice. In his time there, he has filled virtually every service role for his company's private equity clients, including analyst, client manager and senior consultant.

Mr. Edmonds' effectiveness in each of those roles led to his appointment this year as leader of the company's private equity benefits practice becoming the

company's youngest practice leader.

Client service remains a key element of Mr. Edmonds' approach to the private equity benefits business. Oswald helps private-equity companies with the benefits programs of the companies they acquire.

Oswald packages the private equity firm's entire portfolio of company holdings and takes the portfolio to market as an aggregate buying program.



Mr. Edmonds, who earned a bachelor's in business from Ohio University and an MBA from Cleveland State University, is considered Oswald's internal expert on federal health care reform, important expertise in assisting private equity clients and the companies in their portfolios with their benefits programs.

"They're looking for guidance not only for themselves as a business but also for their employees," Mr. Edmonds said.

Oswald's service to the private equity clients and the companies in their portfolios has resulted in a high rate of retention of those companies after they're sold by the private equity clients.

"What we have the ability to do is we can

make the portfolio companies feel special, make them feel they are the valued client, not just the private equity fund," Mr. Edmonds said.

Lori Herbert, human resources manager at Blauvelt, N.Y.-based AERCO International Inc., said, "He understands that what's right for one organization may not be best for all organizations and never tries to push a one-size-fits-all approach to benefits."

By Rodd Zolkos

EDDIE FLODBERG

Area president

Arthur J. Gallagher & Co.

30

Eddie Flodberg came into the insurance brokerage industry in 2005, recognized the industry suited his talents and personality, and used those attributes to quickly move up the ranks.

Mr. Flodberg entered the industry through Arthur J. Gallagher & Co.'s intern program after being recruited out of Purdue University. He was excited to be working for a company he thought "was going in the right direction."

Mr. Flodberg has moved in the right direction, too, this

year being named area president and branch manager of Gallagher's St. Louis office.

After joining Gallagher full time in 2006, Mr. Flodberg initially focused on public sector and the K-12 education business. "Certainly K-12 schools were my certain niche that I began calling on and I began working on right out of the box," he said.

As a newcomer to the brokerage



business, Mr. Flodberg found one key to success was communications.

"In any sales, particularly at a younger age, you need to build the trust of your potential client or existing buyer," he said. "What I have always tried to do ... is to try to outperform. And I think one of the keys to that is communications."

Only four months after coming aboard Gallagher, Mr. Flodberg played

an instrumental role in the formation of the Rochester, Ill.-based Prairie State Insurance Cooperative scholastic pool. Bob Pegg, executive director of PSIC, remembers Mr. Flodberg as displaying an uncommon maturity for his age.

"Ed was so quick in acclimating himself to working with peo-

ple who were twice his age and more in an environment that requires a fair amount of sophistication," Mr. Pegg said. "It says a lot about Ed that he was able to do that so quickly out of college."

Going forward, Mr. Flodberg is excited about the prospects for making Gallagher's St. Louis office "a dominant shop here in St. Louis."

By Rodd Zolkos



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RANDI HARWOOD

Vice president
Willis Risk Solutions

39

For Randi Harwood, no two days at work are ever the same in her job as Chicago-based vice president at Willis Risk Solutions, a unit of Willis Group Holdings P.L.C.

"It's certainly never boring, and I enjoy the challenges every new day brings," she said.

She is able to apply her prior experience to each new situation that arises, and she has had a wide variety of experiences in her insurance career.

Ms. Harwood started her career on the technical side of the industry as a summer intern in college with Aon P.L.C. in its risk management consulting department.

After college, she went to work for Aon full time for almost seven years. She then moved to the client side of the business as risk manager at PepsiAmericas Inc., a subsidiary of PepsiCo Inc., for three years.



Ms. Harwood has been at Willis Risk Solutions for almost 10 years as a client advocate, and has always been responsible for client management there. Her areas of expertise at Willis Risk Solutions include manufacturing, life sciences, and food and beverage.

She is always looking for innovative ways to assist her clients. She prepares them for anything they might have to face within their own company.

One of Ms. Harwood's former clients, Sherry Allnutt, former director of risk management at Einstein Noah Restaurant Group Inc. and current director of risk management of

Yes! Communities Inc., has nothing but rave reviews for Ms. Harwood's work.

"Honestly, Randi is the best broker I've ever worked with. You never have to ever ask her twice to do anything," Ms. Allnutt said. "She's on the ball and she's all about the client, and it doesn't get any better than that. ... I would recommend her to any industry."

By Kate Shepherd

TIM LEMAN

President and CEO
Gibson Insurance Group

39

Tim Lemman is a self-described "insurance nerd," and he spreads his passion and enthusiasm for the insurance industry by mentoring students and new employees who come to his South Bend, Ind.-based firm, Gibson Insurance Group.

Mentors looked out for him when he was starting his career, so the president and CEO of Gibson Insurance said he makes sure that he helps the next generation of insurance leaders.

"I know the boost I got, and I want to help give them something similar," he said.

Mr. Lemman sits on the Dean's Executive Council at his alma mater, Indiana State University, and on the board of Gamma Iota Sigma, a national fraternity for risk management, insurance and actuarial science majors.

He loves being involved in recruiting college students to explore the possibilities of working at Gibson



Insurance.

Mr. Lemman was introduced to the insurance industry at a young age because his father owned a small life insurance agency in Fort Wayne, Ind. And although he loves the industry now, he said he thought it was the last thing he wanted to do when he was studying insurance and risk management at Indiana State University.

It was not until he had attended the Risk & Insurance Management Society Inc.'s annual conference in college that he began to become interested in the insurance industry and its opportunities.

Even when he took his first job in insurance after college at Aon P.L.C., he still did not realize the vast effect insurance has on the world. "I didn't really realize how important it was to commerce and business in general," he said.

Giving back to the community is important to Mr. Lemman and his company. Gibson Insurance works closely with the Boys & Girls Clubs of St. Joseph County, Ind., and Mr. Lemman sits on the chapter's board.

By Kate Shepherd

PATRICK SHEAHAN

Managing director, insurance services
Mesirow Insurance Services Inc.

36

Patrick Sheahan recommends insurance as a career to any student graduating from college.

"It's a very rewarding industry. In my opinion, a lot of people don't understand insurance," he said. "There are a lot of different avenues."

In Mr. Sheahan's 14-year career, he has had a wide range of experiences. He has seen all aspects of the insurance industry from managing to servicing to producing.

He started his career as a marketing representative. "It was an excellent place to start because you worked with the insurance carriers. That allowed me to foster and gain relationships on the carrier side," he said. "At a young age, it was kind of a unique position to be in."

After that, he moved on to an insurance job in the construction industry where he managed a team of 18 peo-



ple and a book of business.

Mr. Sheahan thinks he gained valuable experience and knowledge of the industry by not starting his career in insurance sales.

"People think a sales job is a sales job. With insurance there's a lot more to it. It's a lot more complex, and you really need to understand the coverages and nuances in each individual insurance program," he said. "I took the long route. I wanted to learn the industry, the business. I wanted to learn what's important to clients."

In his role at Mesirow Insurance Services Inc. in Chicago, Mr. Sheahan enjoys working with people and

solving clients' problems.

One of his clients, Bryan Thomas, Danville, Ill.-based president, CEO and chairman of Cannon Cochran Management Services Inc., said Mr. Sheahan is dedicated, determined and a true professional.

"He's phenomenal with the details. Phenomenal with follow-up," Mr. Thomas said.

By Kate Shepherd

JOSHUA WARREN

Vice president for global risk, technology, innovation and marketing
Equity Risk Partners Inc.

39

Joshua Warren, the Chicago-based vice president for global risk, technology, innovation and marketing at insurance brokerage and risk management consulting firm Equity Risk Partners Inc., got into the insurance industry by accident.

Mr. Warren said he was close friends with a family who owned an agency in the Chicago suburbs. He called the agency one day, asked for a job and had a job three days later.

When he started, he was surprised by how difficult working in insurance can be.

"From the day I came to work in this industry, it's been a constant learning curve," he said. "It is definitely an industry where you must have a willingness to learn."

A willingness to learn and be challenged has been very useful for Mr.



Warren in his 15-year career. Mr. Warren was lucky to pair with a rapidly growing company like San Francisco-based Equity Risk Partners, he said. It has created a lot of opportunities for him since he was more of a generalist agent when he started his career.

Today, Mr. Warren works on bringing better services to clients and being able to respond to needs all over the globe, he said.

"Everything I'm working on has to do with making us a more efficient and more global organization," he said.

Al Leonhardt, the vice president and chief financial officer of Peerless Industrial Group Inc., has been working with Mr. Warren for eight to nine years.

"He has always been attentive to our needs," Mr. Leonhardt said in an email. "As he grew in his role with ERP, he began to look above and beyond what we were asking with just insurance needs and he started proactively to help us with other concerns."

By Kate Shepherd

**ROB BATTENFIELD**

Senior vice president

Aon Risk Services Southwest Inc.

34

Rob Battenfield, Dallas-based senior vice president for Aon Risk Services Southwest Inc.'s global power and utilities practice, is an avid poker player which, he says, is not at all incompatible with his day job.

Poker is about understanding risk and "appropriately transferring your risk," he said. "It is relatable to the insurance field once you understand it."

Mr. Battenfield began his insurance career after college as a property wholesaler before moving to Aon, first in Houston and now in Dallas, where he concentrates on power generation.

His major achievements, he said, are in "just being able to understand my clients' business, to be able to create insurance products and risk-transfer vehicles around their needs."

While standard property insurance is a need everyone can fill, understanding the business dynamics of energy sets a retail broker apart from the competition, he said. "I really strive to understand my clients' needs and then help them find underwriters that will provide innovative products to them," Mr. Battenfield said.

"There's always new challenges. A client always has a question that is something I may have heard before," but is asked in a different manner, or the client has unique needs that need to be addressed, he said.

Client Daniel Delac, insurance program manager for the Sacramento, Calif., Municipal Utility District, thinks highly of Mr. Battenfield.

"He's actually a very energetic guy who immediately provides ideas, and he fulfills promises to quickly get back to you with proposed solutions," Mr. Delac said. "He's creative, innovative, and he maximizes the use of resources within his company."

By Judy Greenwald

**ROB BRIDGES**

Managing partner

Wortham Insurance & Risk Management

37

What was initially most impressive about Rob Bridges, managing partner at Wortham Insurance & Risk Management in Austin, Texas, was his persistence in pursuing his account, said client Steve Pack, chief financial officer of Austin-based Joe Bland Construction L.P. "Guys like me don't like taking a lot of insurance calls from insurance agents," Mr. Pack said. But Mr. Bridges "persevered, had a lot of patience and stick-to-itiveness in trying to earn our business."

Furthermore, once he got the business, he worked hard to keep it "and to do all the things necessary to service our account, build rela-

tionships and do all the little things you need to do," Mr. Pack said.

Mr. Bridges was introduced to the business by a Wortham partner who was a family friend. After two years working as an underwriter for Chubb Corp. in Atlanta, "I was anxious to get back home to Austin where my family was," said the third-generation Austin resident, who accepted Wortham's offer in 2000 and has since worked there.

Mr. Bridges attributes his achievements as a broker to his firm. Wortham is unique "in that we work in teams on most of our accounts" and employees are salaried rather than paid on com-

mission. "There's a great deal of impetus on putting the right team together for the client," he said.

"My favorite part is the relationships side," he said. "I know the word 'relationship' is used all the time, but for me, that's my favorite thing," to develop meaningful relationships with co-workers, insurance representatives and clients.

Client Tom Campbell, director of support services at Tokyo Electron U.S. Holdings Inc., said Mr. Bridges is, first and foremost, "a businessman there to service his customers and make sure they're taken care of."

By Judy Greenwald

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CHARISSE MCCUMBER

Vice president

Holmes Murphy & Associates Inc.

33

Charisse McCumber, vice president at Holmes Murphy & Associates Inc., where she works in employee benefits, is not satisfied with merely answering clients' questions, says one client, Matt Robbins, director of human resources for Atmos Energy Corp. in Dallas.

"She digs into the reasoning behind it and the purpose behind it, and makes sure you understand the reasons behind it," he said. She is outstanding not just as someone under 40 and an "up and comer," but is "at the same level as some of the most respected thought leaders in the area."

Ms. McCumber joined Holmes & Murphy 11 years ago, shortly after college graduation. In addition to being a vice president at Holmes Murphy, she is chief operating officer of its ACAP Health Consulting subsidiary, which she has helped grow to more than \$5 million in revenue.

She likes working with clients "to make their jobs easier." It is a challenge "keeping up with the dynamic industry, particularly in light of health care reform. It's changing almost daily," she said.

"Charisse is one of the most professional, driven and intuitive persons I've ever had the privilege of working with," Mr. Robbins said. "Her drive is a large factor of her success. Her dedication to her tasks and to her customers — who probably quickly become more than just customers, and actual associates and friends — and her drive and need and desire to deliver the best is very evident."

Ms. McCumber's sense of dedication extends outside her job, too. Last summer, she went to the Sudan to work in an orphanage on a mission trip, and she has also helped build houses in Juarez, Mexico, in addition to being involved in community service locally.

By Judy Greenwald


MATT MAUTZ

Senior vice president

Beecher Carlson Holdings Inc.

32

The advantage of focusing on a highly specialized area is "you can become a true expert," says Matt Mautz, senior vice president at Beecher Carlson Holdings Inc., where 75% of his work is leading its Tribal Nation Insurance Services division, much of which involves working with gaming operations.

"Providing that specialized approach and solutions is great and it's very well appreciated on (the clients') side as well," he said.

Mr. Mautz was working in Beecher Carlson's business development sector in 2008 when the brokerage began a group to pro-

vide specialized insurance and risk management solutions to tribal entities. "We've probably grown it 400% since we started out," Mr. Mautz said.

Among the challenges he has had is educating insurers that tribal business is less risky than traditional commercial business because of certain safeguards the federal government has in place.

"The space is very relationship-driven," Mr. Mautz said. "I really like the people that I've met on the client side. They're just a group that is very loyal, fun to work with and driven to get better, which we

always appreciate. Clients that want to improve their risks are our favorite client."

"Not only is he a great broker, he's just a good guy all around, very responsive to our needs and tries to anticipate any bumps in the road," client Ebb Moton, manager of safety and risk at Osage Casino in North Tulsa, Okla., said of Mr. Mautz.

As to whether he ever plays in the casinos for which he acts as a broker, Mr. Mautz said, laughing, "I try to stay out, but I always want to support my clients."

By Judy Greenwald


JIM MILLAWAY

Benefits consultant

The Holmes Organisation Inc.

35

As a benefits consultant at The Holmes Organisation Inc. in Tulsa, Okla., Jim Millaway thinks his role is to provide advice and education, not sell insurance. Some clients already have brokers but look to Mr. Millaway to help analyze return on investment and effectiveness of their benefits programs.

"The last thing I want people to think of me is as an insurance salesman," Mr. Millaway said. "I'm passionate about wellness in a different way than most people. I prefer to have direct involvement with the primary care doctors who are treating these employees."

In most cases, he arranges for primary care physicians that serve employees in the groups he over-

sees to be paid a monthly capitated fee. "Our objective is to have no PCPs paid fee-for-service anymore," he said.

Mr. Millaway also follows the Triple Aim framework, a process developed by the Institute for Healthcare Improvement to optimize health system performance. Programs he recommends to clients must meet the three criteria outlined in Triple Aim: improving the patient or employee experience, improving the health of employees and lowering overall health care costs.

QuikTrip Corp., a Tulsa, Okla.-based convenience store chain with 14,000 employees, has used Mr. Millaway's innovative ideas

for the past five years with great success, said Brice Habeck, the company's benefits manager.

"People in the past were just focused on cutting costs. He focuses on getting employees healthy," Mr. Habeck said.

QuikTrip, which is both self-funded and self-administered, also has adopted Mr. Millaway's direct-contracting approach.

"Since we process our own claims, we ask for a price sheet, and Jim helps us evaluate the costs. He also does a good job of finding the best Centers for Excellence and determining whether they would be a good candidate for direct contracting," Mr. Habeck said.

By Joanne Wojcik


MORGAN MOORE

Account executive

Arthur J. Gallagher Risk Management Services Inc.

30

At only 30 years old, Morgan Moore leads the marketing efforts for Arthur J. Gallagher Risk Management Services Inc.'s energy practice group.

Based in Houston, she worked closely with Gallagher's national energy team and senior management to produce new marketing materials for all of its energy offices to use. She also is collaborating on the development of a new energy-specific website for the Itasca, Ill.-based insurance brokerage.

Ms. Moore joined Gallagher's energy practice group as an account executive in 2008, after working as an underwriter of major international energy risks

for offshore and onshore businesses at American International Group Inc. in New York and Houston, where she managed a complex book of business in excess of \$34 million in bound premium.

Her greatest strength is being able to design creative primary casualty program structures and negotiating the most favorable terms and conditions for her clients, said Rick Heidt, vice president and controller at Puffer-Sweiven, a manufacturing representative of process control equipment in Houston.

"She is very knowledgeable and energetic and knows how to take care of her customers," said Mr.

Heidt, who has used Ms. Moore to place all of the company's commercial insurance for the past five years.

"I love problem-solving. I think that's what a lot of our business is. I believe that what we do helps people, that ultimately our products protect our clients," Ms. Moore said. "I'm also a good negotiator and very organized. That's imperative in this job. You have a lot of balls in the air all the time."

Originally from Midland, Texas, Ms. Moore grew up in the insurance business. Her father started an agency, InWest Group Inc., which Gallagher acquired in 2001.

By Joanne Wojcik


MIKE NOYES

Partner

The Noble Group Ltd.

38

In addition to starting two health and welfare brokerage practices — one as an independent agent in Tyler, Texas, and another for The Noble Group Ltd. in Houston, Mike Noyes has authored two e-books for benefits and human resources professionals and obtained the alphabet soup of benefits-related designations. He is a certified employee benefits specialist, group benefits associate and compensation management specialist, and a certified benefits consultant with the state of Texas.

Mr. Noyes also is on the advisory board for UnitedHealthcare, and is an active member of the local and national chapters of the International Society of Certified

Employee Benefit Specialists and the National Employee Benefits Advisory Forum.

Mr. Noyes, a partner with Noble Group, was bitten by the benefits bug right after college when he started working on the insurer side at Great-West Life & Annuity Insurance Co. He thinks his experience working with many different types of brokers and consultants on the insurer side has helped him determine which firms delivered excellence and which fell behind, and he has applied that knowledge as a benefits broker.

Mr. Noyes' philosophy is to treat benefits management as a strategic initiative, partnering with clients to gain a better understand-

ing of their organizational goals and employees in order to develop a long-term strategy.

This philosophy helped the Coastal Conservation Association, a Houston-based marine resources and fishery management nonprofit organization with 65 employees, avoid layoffs during the recent economic downturn, said Judy Shaw, director of operational services.

"In the economic downturn, we were looking at cost-cutting measures and were introduced to Mike. He helped us reduce our premiums while keeping quality benefits for our employees and without having to downsize," she said.

By Joanne Wojcik

TODD YOMTOVBranch manager
Crystal & Co.

35

Before joining Crystal & Co. as Houston branch manager in 2012, Todd Yomtov already had succeeded in growing two separate independent brokerage firms.

As a principal at NII Brokerage L.L.C., he led multiple acquisitions that generated \$38 million in premiums per year, increased the customer retention rate by 17% and increased its profit by 12%.

As director of sales at HG Financial Services L.L.C., he established and maintained a sales team of 15 professionals and accelerated revenue growth substantially.

Mr. Yomtov excels by focusing on providing personalized attention to each client and understanding their specific needs, said Justin Segal, chief operating officer, at Boxer Property Management in Houston.

"His entrepreneurial mindset is much appreciated, as he is able to understand the unique elements of our business and, more important, to find insurance products and solutions tailored to our specific needs," he said.

Mr. Yomtov said he entered the insurance

brokerage business after working as a trader on Wall Street in New York. "When I got tired of the stock market, I decided to learn more about the insurance business. I was intrigued by how technical it could be," he said.

His first position was at the NIA Group L.L.C., which later was acquired by Marsh Inc. Then he went to work with a co-worker who started his own firm called HG

Financial Services. After a time, he decided to leave that partnership and launch NII Brokerage.

"Then we were approached by a large national brokerage that was acquiring agencies like us," Mr. Yomtov said. "They presented us with a very good offer and they needed a New York platform. We decided to sell to them in 2011."

That's when Mr. Yomtov joined Crystal's Houston branch. He was promoted to branch manager after six months of overseeing commercial insurance services.

"I like working with my team and building my team and working with the clients, helping them solve problems," Mr. Yomtov said. "I want us to be a big, competing player, double and triple our revenue and expand Crystal's presence throughout the Southwest."

By Joanne Wojcik

**SCHUYLER BRISCOE**

Vice president

Alliant Insurance Services Inc.

33

In his work to develop incentive-based health plans for employers, Schuyler Briscoe has helped clients' employees take charge of their medical spending and overall health.

The vice president of Alliant Insurance Services Inc. in Seattle specializes in creating performance-based health programs for employers that have complex corporate structures and varied worker populations with differing health needs.

Though it can be tricky to get multiple employee populations to embrace such plans, Mr. Briscoe said he works to communicate benefits of such programs in a way that engages workers.

"What I really enjoy about what I do is that I'm creating a program that's addressing the needs of the company, but it's having a great outcome on the

employee," Mr. Briscoe said. "That's always been my focus."

His interpersonal skills are one of his strongest talents, said Vicki Tomal, human resource specialist for Juneau, Alaska-based Sealaska Corp. He helped the timber production and manufacturing product firm find a

wellness program provider for its 1,500 employees while working to understand Alaska's distinctive business culture, she said.

"He really is very unique in how he can relate to anybody that I've ever seen him talk with, whether it's a receptionist or an executive or a CEO," Ms. Tomal said. "He's

a very thoughtful person."

One of his biggest challenges as a broker has been navigating the health care reform law and helping clients understand how it will affect their health plans. Still, he said he looks forward to helping employers consider their options to buy health insurance under the national law.

By Sheena Harrison



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**JIM GILLETTE**

Managing principal
Edgewood Partners Insurance
Center

33

Jim Gillette's biggest challenge and one of his top goals are one and the same: attracting and retaining top talent to Edgewood Partners Insurance Center and building a team that can grow EPIC's book of business in the West.

As managing partner of EPIC's Los Angeles office, Mr. Gillette, 33, has been responsible for the recruitment of at least eight new EPIC brokers in the past couple years.

Mr. Gillette said these new hires often were found through his business network, and that the additions to EPIC's team have had a notable effect on the brokerage's financial results.

"We've done a good job ... of bringing on some great talent over the last couple years, which has increased our revenue by double digits pretty much every year, and I think improved our bench strength," Mr. Gillette said.

In addition to his recruitment goals, Mr. Gillette leads EPIC's property/casualty brokerage operations in the West, where he manages a \$1.5 million book of business that includes real estate and private equity firms.

He received the EPIC Elite sales excellence award in 2010 and 2011 for being one of EPIC's top producers of new business in those years.

Joseph Soleiman, Los Angeles-based director of acquisitions and general counsel for real estate firm ICO Development L.L.C., has been a client of Mr. Gillette since 2008.

Mr. Gillette, he said, has always taken a pragmatic approach to helping ICO insure its numerous properties.

"He does a lot of homework, so by the time that we speak, he has anticipated a lot of the questions that I would have and has answers for me ready to go," Mr. Soleiman said.

By Sheena Harrison

**ROBIN HENDRY**

Assistant vice president and senior
account executive
ABD Insurance & Financial Services Inc.

37

As a benefits broker with a portfolio of clients consisting predominantly of Silicon Valley tech firms, Robin Hendry knows all too well the mounting pressure on employers to balance cost and competitiveness in their group health plans.

Ms. Hendry, an assistant vice president and senior account executive at San Mateo, Calif.-based ABD Insurance & Financial Services Inc., manages a book of business that generates up to \$2 million in annualized revenue and includes high-profile tech clients such as Twitter Inc., Salesforce.com Inc., Digital Realty Trust Inc. and Aruba Networks

Inc.

"Our clients are faced with competing for talent with Google and Facebook and other companies that are offering extremely generous benefits and, in trying to stay competitive and contain costs at the same time, they're facing pretty substantial challenges," Ms. Hendry said. "We have to be an extension of our clients' teams in order to meet their needs. They're looking to us not only as consultants, but they need us to be able to tactically deliver solutions as well." She is known for consistently high performance as a broker, and for her reputation among clients

as a hands-on problem solver.

"She's an extraordinary listener, and that makes her extraordinarily collaborative," said Rebecca Guerra, executive vice president of talent acquisition and care at San Francisco-based network service provider Infoblox Inc. "Brokers very often have a tendency to tell you what they think you should do, but what Robin does is build up a thorough understanding of all the nuances of the problem we're trying to solve, and then works collaboratively with her own team and with us to figure out what the right solution is."

By Matt Dunning

**ERIK JOHANSSON**

Senior vice president, surety
Willis North America Inc.

35

The timing of Erik Johansson's entry into the surety brokerage industry was hardly opportune.

Mr. Johansson joined Willis North America Inc. as a senior vice president of the company's surety practice in Irvine, Calif., in 2008, just months before the collapse of the credit market.

"My biggest professional challenge was persevering through the effects of the recession," Mr. Johansson said. "Being on the surety side in particular — where you're dealing with financial items on a daily basis — that was a tough time to come into the industry."

Despite the devastating effects the recession had on the construction

industry, he has overseen growth in Willis' Southern California surety practice in each of his five years with the company.

"What makes Erik stand out is that he brings us those value-added services that everyone talks about, and he understands our organization and its corporate values," said Cynthia Garcia, vice president and risk manager at Santa Monica, Calif.-based Morley Builders Inc. "When we've had challenges with bonds for our subcontractors, he's been a very good resource in the sense that he can give us some guidance about what's available in the surety marketplace, if not actually help a sub-

contractor place a bond even if it's not ultimately through him."

Mr. Johansson credits much of his success in the brokerage industry to an early commitment to being a "hands-on broker," capable of responding to an ever-widening range of services beyond traditional coverage placement.

"I knew I needed to be a part of each of my clients' business plans, and that's definitely helped me grow my broker business," Mr. Johansson said. "Clients today are expecting a lot more for their dollar. They really look to the broker as more of an ancillary partner than they ever have before."

By Matt Dunning

**MICHAEL PELLEGRINI**

Senior vice president
Marsh Inc.

33

Michael Pellegrini's innovation in Marsh Inc.'s marine cargo practice has earned him one of the brokerage's most prestigious accolades while helping clients manage their marine cargo risks.

As senior vice president of Marsh's global marine practice, San Francisco-based Mr. Pellegrini markets and services cargo and stock throughput insurance programs for clients in the life sciences, technology, food and beverage, retail and agricultural industries.

He developed a customized biotechnology cargo stock throughput policy form for Marsh several years ago, which Marsh used to develop exclusive agreements with several insurers to

provide competitive quotes to Marsh's biotechnology clients.

The biotechnology cargo form was adopted by several insurers in the U.S. and London insurance markets, as well as Marsh colleagues in Japan, Australia and throughout Europe, Mr. Pellegrini said. Its widespread use earned him a Global Chairman's Award from Marsh in 2008.

The one-time award was presented to only 20 people that year, and Mr. Pellegrini was the youngest recipient.

"I was thrilled with that honor," said Mr. Pellegrini, who went on to develop a similar cargo throughput form for winery and agricultural clients.

Maggie Loomis, San Francisco-based risk manager for Levi Strauss & Co., said Mr. Pellegrini has been helpful for her company's stock throughput program during the two years she has worked with him.

"He's very responsive and efficient with what he does, and anytime we have a question for him, he gets back to us with the answer very quickly," Ms. Loomis said.

In addition to his professional roles at Marsh, Mr. Pellegrini serves as a trustee for the Leukemia & Lymphoma Society's Greater Bay Area Chapter and has helped Marsh raise more than \$250,000 for the charity in the past seven years.

By Sheena Harrison

**SHAWN RAM**

Managing director and national
technology practice leader
Aon Risk Solutions

36

As the San Jose, Calif.-based national technology practice leader for Aon Risk Solutions, Shawn Ram has worked to understand the needs of the ever-evolving technology industry while developing products that can protect the intellectual property of such companies.

Tech firms "are literally doing things that have never been done before," Mr. Ram said. "So just having some sense of where the technology industry is going, what's driving that growth, and the impact it has on risk and finance and legal matters is something that can be challenging."

Last year, Mr. Ram led Aon to

partner with RPX Insurance Services Inc., a unit of San Francisco-based RPX Corp., on an insurance policy that protects technology firms from "patent trolls," non-practicing companies established solely to sue other firms over their patents. Aon exclusively distributes the insurance, while RPX underwrites the coverage.

Jeff Stephens, San Francisco-based senior vice president for advertising firm InPowered, has worked with Mr. Ram at various tech firms, and said Mr. Ram has been a "proactive" partner over the years.

"He definitely understands the insurance market and works hard

for his clients. We feel like we have an advocate in Shawn," Mr. Stephens said.

Mr. Ram joined Aon after graduating from Brigham Young University with degrees in English and finance. Though he started by working in Aon's directors and officers insurance practice, Mr. Ram said his transition into the tech arena several years ago was a natural fit for him.

"I've always loved technology," Mr. Ram said. "Often times, I would be reading and studying and doing my due diligence on technology-related matters ... just because I enjoy it. It's just a lot of fun."

By Sheena Harrison

**RYAN ROBERTS**

Vice president
and client executive

Kibble & Prentice
Holding Co. Inc.

37

According to Ryan Roberts, a Seattle-based vice president and client executive at Kibble & Prentice Holding Co. Inc., much of what has made him a successful insurance broker was learned long before he placed his first policy.

Mr. Roberts said his ability to meticulously assess and analyze risk from a multitude of angles is a direct product of his experience as an aviator and instructor in the U.S. Navy.

“With the missions I flew in the military, each time out you go through a methodical process that involves a lot of risk analysis,” Mr. Roberts said. “The process boils down to being able to weigh risks versus rewards, and I think that’s very applicable for my work with businesses as well, in being able to find that balance with business owners, CFOs and presidents, and being an adviser to them.”

Mr. Roberts has a demonstrated capacity for dissecting and minimizing risk, as well as noted skills as a leader in negotiations with clients and insurers.

“The guy is fantastic,” said Gary Crueger, vice president of safety, compliance and risk at Woodenville, Wash.-based Cascade Drilling L.P. “I can always get him on the phone, and he always gives me multiple solutions and recommendations.”

Though they’ve worked together little more than a year, Mr. Crueger said Mr. Roberts has already made himself an integral part of his company’s risk management operations.

“We acquired another company on July 15, and I took Ryan on the road with me to do the first meet-and-greets with the operating management of the new company,” Mr. Crueger said. “That’s how much of a partner this guy has become, to where he’s almost part of my embedded staff.”

By Matt Dunning

**MIKE TAYLOR**

Vice president and co-owner

Taylor-Leavitt Insurance Agency Inc.

37

Mike Taylor’s expertise in workplace safety has not been built solely on his 10 years of experience in the workers compensation insurance brokerage business.

In 2010, Mr. Taylor assumed co-ownership of the Cedar City, Utah-based Leavitt Group’s branches in Bozeman, Billings and Livingston, Mont., which today make up the Taylor-Leavitt Insurance Agency Inc.

Mr. Taylor said his role as a co-owner of the agency has provided him with an invaluable first-person perspective about many of the

same risks and exposures facing his clients, including workplace safety.

“My conversations with clients now are a lot different than they were five years ago,” Mr. Taylor said.

“Now that I’ve been in their shoes, running a business myself, we talk about sharing a lot of the same frustrations and how we go about overcoming them,” he said.

Consistently ranked within the Leavitt Group’s top 10 producers nationwide, Mr. Taylor has developed a reputation among his

clients for his thorough, innovative approach to risk mitigation, including simulated safety inspections and operational analyses.

“Mike’s been very hands-on in trying to help lower premiums and increase safety as far as our workers comp risks go,” Brian Cook, co-owner of Billings-based accounting firm Walborn, Fagan & Cook P.C. “He’s brought specialists out to our different locations to film the activities, and he’s also come up with a number of plans to improve safety.”

By Matt Dunning

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Upcoming issues to help you reach your marketing goals



REINSURANCE TRENDS & ISSUES SPECIAL REPORT

Issue: Oct. 21 Advertising closing: Oct. 9

This annual report will examine trends that will affect the upcoming January reinsurance renewals. This report will explain the nontraditional capital on the traditional insurance market, taxes, how climate change is affecting the underwriting process and growing sentiment to privatize some of the risk covered by government catastrophe funds.

Also in this issue:

BEST PLACES TO WORK 2013

This special section lists and profiles this year’s 65 honorees and what they had to do to earn this recognition. It’s a great issue to congratulate your client on a job well done.

Bonus distribution: PCI, SIIA and ASHRM

PROFESSIONAL LIABILITY REPORT

Issue: Nov. 4 Advertising closing: Oct. 23

This Risk in Focus will examine the state of the professional liability market in terms of rates, terms and conditions, players moving in and out of the market, and other major factors affecting the liability of professionals. It will delve into issues affecting medical professionals as well as architects/engineers, Realtors, franchisees and law firms.

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SPECIAL REPORT

Mid-Market Risks &

Regional Broker Leaders

Advising midsize clients about health reform

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Largest regional commercial brokers of insurance in U.S.

PAGE 32

PRICE DRIVING MID-MARKET BUYERS

Brokers acting as 'de facto' risk managers for these regional companies

BY MATT DUNNING

Many of the risk management and insurance challenges the country's leading mid-market brokers are hearing about from their clients in 2013 have a familiar refrain.

Midsize companies' insurance purchasing decisions still are mainly driven by price, and capacity remains limited for buyers in certain high-risk industries.

"Even with all the talk about there being more capacity in the marketplace, midsize companies are still seeing some selectivity depending on the industry they're in," said Scott Dillabaugh, president of Hylant Group Inc.'s Cleveland office. "We're seeing the most selectivity out of the transportation, construction and the polymer industries. There are only a few markets for each of those risks."

Another persistent concern among mid-market clients across all industries is containment of both claims and costs, particularly those relative to workers compensation. According to the Council of Independent Agents and Brokers' quarterly study of commercial premium rates, one-quarter of companies surveyed saw their workers comp rates increase by as much as 20% in the second quarter.

"Workers comp tends to be the topic of greatest concern to our mid-market employers in the Midwest, particularly in Illinois," said Michael Pesch, Chicago-based area president at Arthur J. Gallagher & Co. "The difficult-to-place or underperforming accounts are likely still seeing significant rate increases; middle-performing employers are probably seeing renewal rates at flat to

maybe a percentage point or two higher, and strong performers are probably seeing some relief in their rates."

Certain specialty risks such as cyber and data breaches, supply chain failures and employment practices liability are becoming more frequent topics of conversation with mid-market clients, brokers say.

"A lot of our mid-market clients are outsourcing, which means they really have to have a handle on their contractual obligations to their suppliers and subcontractors," said Trindl Reeves, San Diego-based principal and chief sales officer at Barney & Barney L.L.C.

"They need to understand who's responsible for what in the supply chain, and then build their risk management and insurance program around that understanding," Ms. Reeves said. "That's a complicated process, and it requires a really thorough understanding of their business."

According to a study published in August by Traverse City, Mich.-based data protection and privacy research center Ponemon Institute L.L.C., less than one-third of companies polled said their organization had purchased a cyber insurance policy. However, 57% of the companies without cyber insurance said they plan to purchase it in the future.

WORKERS COMP PRICES

Seventy-two percent of medium-size accounts* said their overall commercial property/casualty prices increased 1% to 10% in the second quarter of 2013, according to a Council of Insurance Agents and Brokers survey by Barclays Research. Overall, 57% said their workers comp costs increased 1% to 10%, while 25% said they increased 10% to 20%.

Region	1%-10%	10%-20%
Northeast	58%	18%
Southeast	53%	24%
Midwest	59%	37%
Southwest	72%	14%
Pacific Northwest	37%	25%

*Medium-size accounts defined as those with \$25,000 to \$100,000 in annual commissions and fees.

"Practically any day, you can find an article on data breaches or something along those lines," said Tane Abbott, San Francisco-based national leader of U.S. brokerage for Marsh Inc. "That said, there are still a lot of companies that don't buy insurance protection for it, and I think a lot of buyers still think they don't have much exposure to it because they've never had a direct loss in that area."

Whether in lieu or support of traditional insurance products, brokers say mid-market companies are increasingly turning to them to provide services far beyond the transactional scope of insurance placement, and in many cases have come to think of their brokers as de facto members of their in-house risk management teams.

"We're in an environment where a lot of companies have had to cut back, and they're asking us for a lot of what we like to call 'Day 2' services," said Rusty Reid, president and CEO of Fort Worth, Texas-based Higginbotham & Associates.

"Mid-market brokers need to not only assist their clients in putting in place sound risk management techniques and strong loss-control programs, they've also got to have people that can address and review concerns relating to their clients' contracts with third parties."

PROPERTY/CASUALTY PRICE HIKES

4.3%

Overall commercial property/casualty prices increased an average of 4.3% in the second quarter, a moderation from the 5.2% increase in the first quarter, according to a survey for the Council of Insurance Agents and Brokers by Barclays Research.

4.7%

Medium-size commercial property/casualty accounts, defined as those with \$25,000 to \$100,000 in commissions and fees, had an average increase of 4.7% in the second quarter, down from 5.3% in the first quarter.

2

Property and workers compensation remained the two "critical" areas among survey participants, with insurers stung by Superstorm Sandy looking carefully at any catastrophe-prone properties and imposing more wind/hail deductibles.

BENEFITS BROKERS HELP MID-MARKET CLIENTS CONTEND WITH COMPLEX HEALTH REFORM CHANGES

Dealing with myriad compliance issues plus pressure to shrink medical costs remain the focus

BY MATT DUNNING

If there has been a theme in 2013 for mid-market health benefits brokers and consultants, it has been preparing clients for the onset of key pieces of the federal health care reform law.

Although the Patient Protection and Affordable Care Act's rule that most employers must offer health insurance to 95% of their full-time workforce won't become effective until 2015, several other fees and coverage requirements under the reform law are slated to take effect in 2014.

Brokers and benefits consultants in the middle market say the law's "uneven implementation" is easily their most frequent topic of conversation with clients.

"The majority of companies we see grappling with it tend to be employers in hospitality, retail — really any industry where you have a lot of hourly and low-wage workers," said Michael Turpin, the New York-based executive vice president and national health care and employee benefits practice leader at USI Insurance Services Inc. "Because there's still such a massive digestion problem among employers, the biggest single thing they're focusing on is what they have to do now to be certain that they're in compliance, as opposed to what's coming at them later."

Beyond the sheer complexity of compliance obligations under the reform law, brokers and consultants say they are also fielding a steady stream of questions from their mid-market clients about the law's short- and long-term effects on their total benefits costs.

Next year, employers will have to pay a fee of \$63 per health plan participant — either through their group health plan's insurer or directly, if the plan is self-funded — for the reform law's three-year Transitional Reinsurance Program. Also, health insurers will be taxed on their net premium growth, and it is all but certain plan sponsors will bear at least a portion of that burden.

"A lot of our clients are trying to get a handle on the math of it all, and trying to make sure that you're compliant at a base level while not spending more or exposing their firms to some of the costs attributable to health care reform," said Ed O'Malley, the Austin, Texas-based president of National Financial Partners Corp.'s corporate clients group. "But you can't even deal with the economics of the reform law until



you deal with the compliance end of it, and we've spent a considerable amount of our time, energy and money in making sure that our capabilities are up to the challenge on both of those fronts."

Even absent the new fees and requirements coming with health care reform, mid-market employers remain under pressure to rein in their overall medical care costs. Therefore, brokers and consultants said midsize firms have become increasingly willing to explore alternative benefit plan designs and funding arrangements in an effort to shrink the year-over-year growth rate in their health care costs.

"We're certainly seeing more insurers moving toward the small and midsized group market from a self-funding perspective," said Kelly Hagan, director of operations for employee benefits at Neace Lukens, a subsidiary of Lake Mary, Fla.-based Assured-Partners Inc. "You're also starting to see captives pop up that allow smaller employers to share their risks. Both of those are strategies that we're seeing midsize employers look at."

Brokers and consultants said that the increase in interest among midsize employers regarding changes to their benefit plans' care delivery models and/or funding arrangements has had a material effect on the scope of their senior executives' involvement in mapping out their firms' benefits strategy going forward.

"We're seeing mid-market CFOs weighing in much more frequently and heavily in that process," said Trindl Reeves, San Diego-

based principal and chief sales officer at Barney & Barney L.L.C. "It used to be a budget sign-off, but now they're being forced into taking on new risk, whether it's high-deductible plans and HSAs or self-

HEALTHY INCENTIVES

Eighty-six percent of employers provide incentives to promote healthy habits among their employees, and 54% also offer incentives to dependents. Mid-market employers* still lag their large and jumbo counterparts in offering incentives, but they have increased their offerings greatly in recent years.

Employer size	2013	2010
Mid-market	77%	38%
Large	89%	78%
Jumbo	93%	75%

*Mid-market employers defined as having up to 5,000 employees; large employers, 5,000-20,000 employees; jumbo employers, more than 20,000 employees.

Source: "Employer Investments in Improving Employee Health," February 2013, National Business Group on Health, Fidelity Investments

funded plans, and those are serious financial discussions. We've done a lot internally to adjust to that shift and engage the CFOs in our conversations when we're planning out a benefits strategy

with our clients."

The need to control medical costs also has led to a boom among mid-market employers sponsoring incentivized workplace wellness and health management programs, brokers and consultants say. A study published in February by Fidelity Management & Research L.L.C. and the Washington-based National Business Group on Health noted that 77% of midsize employers said they currently offer employees monetary rewards tied to wellness activities and health management outcomes, compared with 38% who were offering the programs in 2010.

"A lot of clients are also looking at it from a workforce and productivity viewpoint, where they know that sick employees are going to impact their company's overall productivity," said Rusty Reid, president and CEO of Fort Worth, Texas-based Higginbotham & Associates. "They're beginning to measure and look at whether a healthier work environment can lead to a more productive work environment."

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LARGEST AGENTS AND BROKERS HEADQUARTERED IN THE U.S., BY REGION

Based on 2012 brokerage revenue from U.S.-based clients, according to a *Business Insurance* survey.

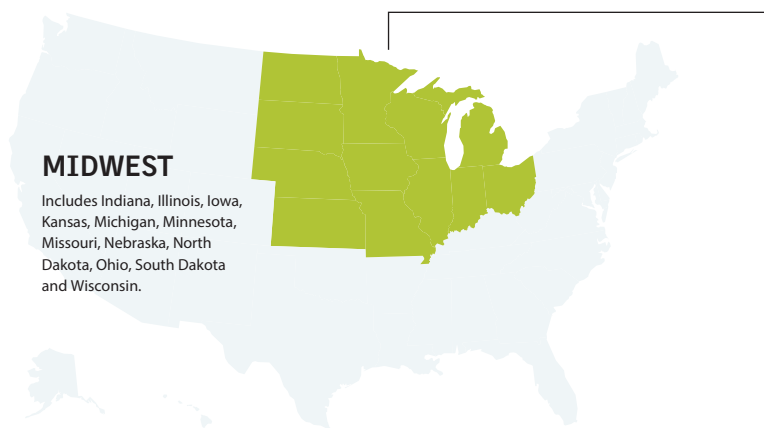


Rank	Company	Headquarters	Revenue	% increase (decrease)
1	Marsh & McLennan Cos. Inc.	New York	\$5,300,218,000	4.6%
2	National Financial Partners Corp.	New York	\$744,167,359	7.4%
3	USI Holdings Corp.	Briarcliff Manor, N.Y.	\$712,546,257	8.8%
4	Towers Watson & Co.	New York	\$346,871,392	(3.7%)
5	Crystal & Co.	New York	\$137,380,000	4.3%
6	Paychex Insurance Agency Inc.	Rochester, N.Y.	\$109,400,000	18.5%
7	Integro USA Inc.	New York	\$96,059,350	14.3%
8	Capacity Group of Cos.	Mahwah, N.J.	\$69,901,960	6.6%
9	First Niagara Risk Management Inc.	Buffalo, N.Y.	\$67,643,055	6.2%
10	Frenkel & Co.	New York	\$61,450,874	5.1%



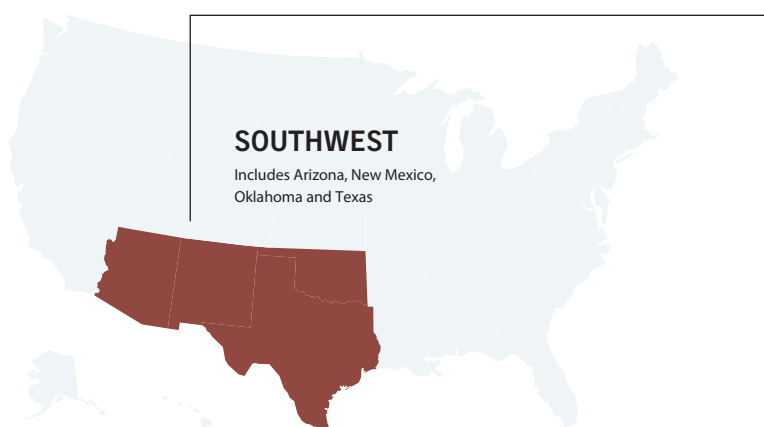
Rank	Company	Headquarters	Revenue	% increase (decrease)
1	BB&T Insurance Services Inc.	Raleigh, N.C.	\$1,480,274,900	34.1%
2	Brown & Brown Inc.	Daytona Beach, Fla.	\$1,386,359,169 ¹	25.2%
3	AssuredPartners Inc.	Lake Mary, Fla.	\$235,604,040	36.7%
4	J. Smith Lanier & Co.	West Point, Ga.	\$112,045,434	3.8%
5	Regions Insurance Group Inc.	Memphis, Tenn.	\$103,901,994	2.9%
6	Insurance Office of America Inc.	Longwood, Fla.	\$101,816,014	13.5%
7	BancorpSouth Insurance Services Inc.	Tupelo, Miss.	\$90,677,466	1.8%
8	Scott Insurance	Lynchburg, Va.	\$37,654,000	6.9%
9	Towne Insurance Agency L.L.C.	Virginia Beach, Va.	\$32,402,697	6.9%
10	Roger Bouchard Insurance Inc.	Clearwater, Fla.	\$30,794,125	11.0%

¹ Pro forma to reflect purchase of Beecher Carlson Holdings Inc.

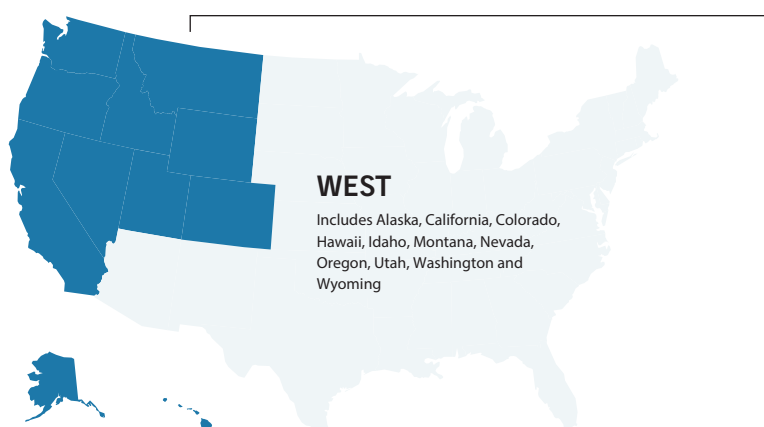


Rank	Company	Headquarters	Revenue	% increase (decrease)
1	Arthur J. Gallagher & Co.	Itasca, Ill.	\$2,039,910,000 ¹	19.6%
2	Wells Fargo Insurance Services USA Inc.	Chicago	\$1,575,444,000	(3.2%)
3	Lockton Cos. L.L.C.	Kansas City, Mo.	\$745,291,000	17.7%
4	Hub International Ltd.	Chicago	\$632,759,894	10.8%
5	CBIZ Benefits & Insurance Services Inc.	Cleveland	\$173,400,000	8.4%
6	Meadowbrook Insurance Group Inc.	Southfield, Mich.	\$146,692,000	9.0%
7	Hays Group Inc., dba Hays Cos.	Minneapolis	\$140,600,000	10.0%
8	Holmes Murphy & Associates Inc.	West Des Moines, Iowa	\$104,163,118	6.9%
9	Hylant Group Inc.	Toledo, Ohio	\$100,768,914	10.6%
10	The IMA Financial Group Inc.	Wichita, Kan.	\$99,056,769	15.6%

¹ Pro forma to reflect purchase of Bollinger Inc.



Rank	Company	Headquarters	Revenue	% increase (decrease)
1	Wortham Insurance & Risk Management	Houston	\$113,135,480	13.2%
2	Higginbotham & Associates	Fort Worth, Texas	\$92,105,000	15.6%
3	Insurica Insurance Management Network	Oklahoma City	\$72,766,038	17.8%
4	MHBT Inc.	Dallas	\$52,875,000	18.2%
5	Mahoney Group	Mesa, Ariz.	\$42,386,149	11.3%
6	Frost Insurance Agency Inc.	San Antonio	\$42,305,019	17.5%
7	Bowen, Miclette & Britt Inc.	Houston	\$42,038,265	5.2%
8	Lovitt & Touche Inc.	Tempe, Ariz.	\$32,075,010	9.6%
9	Rich & Cartmill Inc.	Tulsa, Okla.	\$21,813,720	13.9%
10	CFR Inc.	Tulsa, Okla.	\$16,853,614	11.1%



Rank	Company	Headquarters	Revenue	% increase (decrease)
1	Alliant Insurance Services Inc.	Newport Beach, Calif.	\$503,831,165	9.5%
2	Leavitt Group	Cedar City, Utah	\$179,371,000	(4.7%)
3	Keenan & Associates	Torrance, Calif.	\$149,342,000	3.6%
4	Barney & Barney L.L.C.	San Diego	\$89,938,016	5.6%
5	PayneWest Insurance	Missoula, Mont.	\$89,605,091	163.7%
6	Heffernan Group	Walnut Creek, Calif.	\$83,265,300	12.1%
7	Woodruff-Sawyer & Co.	San Francisco	\$74,875,000	7.7%
8	Edgewood Partners Insurance Center, dba EPIC	San Francisco	\$63,712,320	9.3%
9	Propel Insurance	Tacoma, Wash.	\$45,300,000	(2.4%)
10	InterWest Insurance Services Inc.	Sacramento, Calif.	\$42,735,675	3.5%

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Physician dispensing boosts drug costs



Ms. Pusey

Drug costs paid by workers compensation insurers have spiked in the past decade, and physician dispensing is one of the reasons why. Leigh Ann Pusey, president and CEO of the American Insurance Association, says physician dispensing results in higher overall medical costs and higher insurance rates that must be shouldered by employers.

BY LEIGH ANN PUSEY

Workers compensation pays for medical coverage when a worker is injured on the job. But workers comp drug costs have ballooned tenfold in 10 years, threatening harm to patients and their employers. A little-known reason is the cost of physician-dispensed drugs.

Dispensing physicians — and the companies that provide their drugs — say they help injured workers. But there's no evidence of that. The only real winners are the drug-selling middlemen and physicians who extract enormous profits. Physician-dispensed medications account for more than one-quarter of all workers compensation drug-related expenses, or about \$1.7 billion per year.

Doctors dispensing drugs from their offices charge much higher prices for medications that can be bought for far less from a CVS or Walgreens. A July 2012 survey of 23 states by the Workers Compensation Research Institute found the top five physician-dispensed drugs were common painkillers and muscle relaxants, such as Vicodin and Motrin, that could easily be bought at a drug store. The physician markup is 30% to 300%. The institute also found that certain drugs such as Prilosec and Zantac, both over-the-counter ulcer drugs, only were prescribed when a physician dispensed them.

There's also a human toll to physician dispensing — increased access to highly addictive medications such as Vicodin and Percocet. These opioids are typically prescribed for pain management after a major injury or surgical procedure and their consumption must be carefully monitored to avoid abuse. When a patient receives these medications directly from a friendly doctor rather than going to a pharmacy for a refill, overuse is more likely, studies have shown. The reason is that there is no effective way of monitoring what other drugs the patient is taking. Prolonged consumption of opioids can lead to addiction and dependency, which delay recovery and, in the case of injured

workers, needlessly postpone their return to the workplace.

Drug repackagers have been able to exploit loopholes in workers compensation pharmacy fee schedules so that physicians can charge whatever they want, and workers compensation insurers must reimburse the full cost.

This gross abuse does not occur under Medicare, Medicaid or group health insurance because those programs, unlike workers compensation, either prohibit physician dispensing or impose patient copays and deductibles that inhibit physicians' ability to pass on costs.

Seven states now ban physician dispensing, including Massachusetts. According to a report by the WCRI, the average claim for prescription

drug costs in the Massachusetts workers compensation system was \$239. Florida, on the other hand, boasts one of the highest rates of physician dispensing in the country. The average claim for workers compensation prescription drug costs was nearly \$565, an enormous cost due to a single practice.

In states like Massachusetts, patients get their prescriptions from pharmacies. This means they pay a price linked to a national benchmark based on the price assigned by the original manufacturer of the drug. By contrast, Florida law allows physicians to increase the price under the guise of repackaging. This leads to markups of more than three times the cost of the same drug in a retail phar-

macy and boosts insurance rates by 1 to 2 percentage points overall. Fortunately, in May, the Florida Legislature passed a measure to impose a pricing cap on physician-dispensed repackaged drugs.

Physician dispensing results in higher overall medical costs and higher insurance rates that must be shouldered by employers. The longer the practice continues, the more physicians will be able to enrich themselves, often to the detriment of injured workers.

Leigh Ann Pusey is president and CEO of the Washington-based American Insurance Association. She can be reached at 202-828-7100 or lpusey@aiadc.org.



Physician-dispensed medications account for more than one-quarter of all workers compensation drug-related expenses, or about \$1.7 billion per year.

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Workers compensation outlook improving

Encouraging signals gleaned from latest workers comp results: NCCI



In recent years, any hope of good news from the workers compensation industry might have been viewed as wishful thinking.

Clearly, the long term effects of the last recession hurt the market in several ways—combined ratios remained stubbornly high, reserve positions continued to deteriorate, and even claim frequency took an unwelcome turn.

The news wasn't good.

Thankfully, the 2012 industry results at long last showed some meaningful signals of recovery. For example:

- The combined ratio improved for the first time since 2006.
- Premium grew for the second consecutive year.
- Claim frequency declined significantly for the first time since 2009.
- Claim severity increases remained modest.

Of course in a perfect world, all of the latest news on the workers compensation line would be positive. But even with the above improvements, the industry continues to face some ongoing tests, including:

- At 109%, the combined ratio is still too high.
- Slow growth in employment is impeding stronger premium growth
- The industry's reserve position continues to deteriorate.

Yet even with clear eyes on the remaining challenges, we believe that the reasons for optimism outweigh the negatives—at least for now.

Let's take a closer look at some of the more significant industry indicators.

Drop in Combined Ratio... and Investment Income

As noted above, the workers

Stephen J. Klingel, CPCU, is the president and CEO of The National Council on Compensation Insurance Inc., the nation's



most comprehensive and experienced provider of workers compensation information, tools, and services. Previously a senior executive with The St. Paul Companies, Steve possesses more than three decades of leadership experience in the property/casualty field. He has built a respected reputation for implementing effective strategic

programs, change leadership, and customer insight. The Boca Raton, Fla.-based NCCI gathers data, analyzes industry trends, and prepares objective insurance rate and loss cost recommendations. For more information visit www.ncci.com.

compensation calendar year combined ratio for private carriers was 109% for 2012. This is a 6-point decrease from 2011 and the first decrease since 2006.

Although a 109 combined ratio remains far from a satisfactory result, any decline is welcome. In similar positive news, the accident year combined ratio (108% for 2012) also experienced a 6-point improvement.

The investment gain associated with workers compensation insurance transactions dropped slightly, to 14% of premium. This, combined with the underwriting results, produced a workers compensation pretax operating gain of 5% for 2012. This is the first gain following three consecutive years of near-zero operating results, and is near the long-term average gain of 5.2%

While the 5% gain is good news, it is important to note that the pretax operating gain ratio needs to be between 7% and 10% to allow the industry to earn

fee schedules, improved techniques to track and reduce utilization, and better injury management.

Of late, other experts and industry publications have reported a slowing in the rate of growth for all health care costs. While these results may prove to be tenuous, any reduction in overall medical costs is a very positive indicator for the workers compensation industry.

Good News on Premiums and Clams Frequency

Turning to premium results, workers compensation premium for private carriers increased 9% in 2012. This is a slightly larger increase than the 8% experienced in 2011.

The premium increase can largely be attributed to an improving (albeit slowly) economy and price increases. The improving economy has aided the growth

2012 is a \$13 billion deficiency. As noted at the outset, there remains some concern that the private carrier reserve position continued its modest deterioration in 2012 for the fifth consecutive year.

After allowing for the permissible discounting of the indemnity reserves for lifetime pension cases, the inadequacy is about \$7.5 billion, which represents about 6.5% of the carried reserves of more than \$116 billion.

And the workers compensation residual market experienced significant growth in 2012. Premiums grew by more than 50%, and the average market share in the residual market increased from 5% to 7%.

The total underwriting loss in the residual market pools serviced by NCCI was \$99 million for Policy Year 2012, up slightly from the \$85 million in 2011.

Although the volume of business in the residual market is growing as the market tightens, the combined ratio actually improved—from 117% in Policy Year 2011 to 112% in 2012. While growing, the residual markets remain both well-managed and well-controlled.

Better Days Ahead?

While the workers compensation insurance industry showed signs of improvement in 2012, significant challenges persist for the market. For example:

- Growth in written premium provides evidence that the economy is improving, but at a slower rate than after previous recessions.
- Industry combined ratios fell, but remain at unsustainably high levels.
- Investment returns remain strong, but not strong enough to generate operating returns near the cost of capital.
- The industry is well capitalized, but reserve adequacy continues to slip.

In more positive news, changes in lost-time claim severity have remained modest, at least partly due to an increase in the number of smaller lost-time claims reported in the last couple of years. As with the above gains, however, we're viewing this with caution, as the low severity increases may not necessarily reflect a fundamental change in medical and indemnity cost drivers.

One indisputably positive result is that workers compensation claim frequency declined for the second year in a row. That decline indicates that frequency is returning to its long-term downward trend as the economy continues to show signs of improving.

Expressing optimism in such a fragile environment may seem risky, but we are nonetheless encouraged about the recent direction of the workers compensation industry.

Surely challenges remain, but industry stakeholders that have encountered little but discouraging news for years are happy to welcome more positive developments in the latest industry results.

Industry stakeholders that have encountered little but discouraging news for years are happy to welcome more positive developments in the latest industry results.

a reasonable return on the capital supporting the workers compensation insurance business.

Unfortunately, we do not expect the current investment results to continue. These results are due, in part, to the industry continuing to realize capital gains from some repositioning of its bond portfolios. This phenomenon is temporary in nature.

Eventually, we expect the investment gains associated with workers compensation insurance transactions to fall as the embedded yields in the industry's current bond portfolio are replaced with the lower yields available in today's investment environment.

Claim Costs Largely Controlled

The costs of lost-time claims continue to be reasonably well behaved, as they have since 2009. In NCCI states, the average indemnity cost per lost-time claim increased a modest 1% in 2012, after increasing 2% in 2011 and declining 3% in 2010.

The average medical cost per lost-time claim increased by 3% in 2012 after increasing 4% in 2011 and increasing 1% in 2010. Combined, the total lost-time claim cost increased about 2% in 2012, which is about the same rate as the change in average wages.

One important note—over the past few years, it appears that the rate of growth in workers compensation medical costs has slowed significantly. Some of the reasons for the slowdown include increased use of

in premiums through increased payrolls and additional audit premiums. And prices have increased due to changes in bureau-filed rates and loss costs as well as changes in carrier discounting

The impact on premium of changes to bureau loss cost/rates was about 1% in NCCI states for 2012. In the last filing cycle, NCCI filed 25 state increases and 13 decreases, mostly for effective dates in 2013.

In addition to the positive news on premiums is a renewed decline in claims frequency.

Lost-time claim frequency improved significantly in 2012—declining 5% on average in NCCI states. The 5% decline is even larger than our long term annual estimate of a decline of 2%–4% per year. That is very positive news for the industry.

In fact, over the five complete policy years ending with Policy Year Expiring (PYE) 2011:

- Frequency per payroll declined by 16% (4.3% per year) but leveled off over the latest two years
- Frequency per payroll declined for all industry groups
- Frequency per payroll declined for all employer sizes, with the largest declines for employers having more than \$100 million in payroll.

Continued Scrutiny on Reserves and Residual Markets

NCCI's estimate of the reserve position for the private carriers as of year-end

Executive Insights: Workers Compensation Trends



As economic recovery and growth improves, what is your outlook for the workers comp insurance market?



Joe Boures
President & COO
Healthcare Solutions

Over the past several years, claims frequency has trended downward yet claim severity has increased. As the economy recovers and more workers return to employment, employee demographics will continue to impact market trends. Overall,

we have an aging workforce in America. While older workers tend to have fewer claims, when injuries do occur they tend to have longer recovery times and increased costs.

In addition, comorbidities such as obesity, diabetes, hypertension, depression and tobacco use pose a major challenge for workers' compensation payers due to the significant impact that these conditions place on the cost and length of claims. The presence of comorbidities can delay accurate diagnoses, complicate treatment of an injury, delay return to work and increase overall duration of the claim. To reduce the impact of the comorbid condition on the claim, payors should consider implementing tools and strategies to proactively identify and manage these claims. Initiatives to proactively prevent comorbid conditions include implementing wellness and health promotion programs at the workplace.



Tim Carvin
Business Development
Specialist
Klein Insurance Services

Workers compensation rates should continue to rise as the market feels the effects of the economic downturn. The amount of claims paid during this time will continue to result in higher premiums for insureds than they have paid in the past.



Darrell Brown
Chief Performance Officer
Sedgwick

Workers' compensation results vary considerably by state and industry, but based on reported data the outlook for the workers' compensation insurance market appears "encouraging." As indicated by former NCCI President and CEO Steve Klingel, "the positives are beginning to

outweigh the negatives." Industry stakeholders and legislatures play a balancing act as they try to stimulate job growth, protect the rights of injured employees and incentivize insurance companies to continue writing workers' compensation business in their state. Where workers' compensation costs are too high, the state runs the risk of slowing down job growth or losing businesses to other states or countries. States where workers' compensation premiums are too low run the risk of losing insurers. To increase their competitiveness and job growth, states continue to consider workers' compensation reforms to improve the conditions for businesses and insurance carriers. Since 2010, there have been an unprecedented number of states successfully passing workers' compensation legislation to improve benefit delivery and eliminate unnecessary waste and costs.

As employment levels have improved and workers' compensation reforms have been enacted, insurance carriers are seeing an increase in workers' compensation premiums. Workers' compensation premiums are directly linked to the payroll of employers. According to NCCI's State of the Line analysis, workers' compensation premiums increased 9% in 2012 following an 8% increase in 2011, the second consecutive year of growth following a cumulative decline in premium of 27% from 2006 to 2010. California is a state that is watched very closely by our clients. While there was legislation that became effective this year to curb the growth in workers' compensation costs, the Workers' Compensation Insurance Rating Bureau (WCIRB) shows a 16% increase in premium, and a 6.2% increase in frequency. WCIRB projects a 1% increase in claims severity.



What cost control/claims management services do you believe can deliver the greatest workers comp savings for employers?



Srivatsan (Sri) Sridharan
Senior Vice President -
Product Development
Gallagher Bassett Services
Inc.

Utilizing data (claims, claimant, ER and provider) to identify the right resources for the claim and the claimant can have a significant impact on controlling costs. Resources include identifying the right providers,

assigning the appropriate claims adjuster based on the exposure and expertise, assigning nurses, and early identification of adverse trends during the course of the claims such as narcotics abuse.

Joe Boures
President & COO
Healthcare Solutions

Unfortunately, I believe there is no silver bullet. However, as medical costs associated with claim expenses continue to rise, effective medical management programs have become the most effective way to control overall claim costs. It takes a coordinated, consistent and focused approach to manage every claim from a medical standpoint. The most successful programs include procedures to direct care, where jurisdictionally allowed, and incorporation of medical treatment protocols to oversee that appropriate care is provided within best practice guidelines. These programs must be coupled with negotiated pricing with hospitals, physicians, ancillary providers and pharmacies to generate additional savings. Continuous monitoring and measurement of patient care against nationally established benchmarks is essential to enforce proper behaviors and it is imperative to manage patient care holistically as opposed to in medical silos.

Tim Carvin
Business Development Specialist
Klein Insurance Services

The return-to-work program is the most effective method of experience modification control that an employer of any size can institute. By allowing injured workers to return for modified light duty, employers do not feel the full effect of the loss on their experience mod. These programs have a high success rate of getting the employee back to their regular position faster than when the programs are not in effect.

Darrell Brown
Chief Performance Officer
Sedgwick

We believe managing injury claims from start to finish

produces better outcomes for clients and injured workers. What this means is deploying a comprehensive and integrated approach. From the first call to one of our nurses soon after an accident occurs to the moment our examiner closes the claim, each service Sedgwick provides is truly connected every step of the way. And our clients are pleased – they continue to renew and integrate their services with us because we produce results.

Traditionally, the measurement of quality was centered on compliance principles and retrospective claim file reviews. Going forward, quality measurement needs to be more outcomes focused. It also needs to be performed closer to when the work was completed so that steps toward continuous improvement can be made.

There is more of a demand for real time, comprehensive information than ever before, and many technology advancements are being made. With the introduction of push technology in the workers' compensation arena, injured workers can choose how they want to receive communications. Technology is also providing more information to guide decision-making. It is important to remember that technology alone will not lead to success. Rather, it is the increased information and the willingness to act on it that will lead to improved outcomes.



Has workplace safety and loss prevention become less of a priority for employers in favor of managing medical care after an injury occurs?



Gary T. Anderberg
Senior Vice President -
Claims Analytics
Gallagher Bassett Services
Inc.

Most employers still believe safety and loss prevention is very critical. However, it does appear that new concepts and ideas have been few and far between in loss engineering.

Based on NCCI reports, the frequency of WC claims has been trending down for the last 15 to 20 years (with one exception – 2010) and claim costs continue to increase year over year. This has resulted in a shift in the focus for the employers from safety and loss prevention to claims cost management.

Tim Carvin
Business Development Specialist
Klein Insurance Services

No. I have found that many insureds have become more focused on workplace safety and loss prevention as they have begun to feel the effects of rising experience mods that have been triggered by claims in the past. There is no other line of coverage where employers feel the effect of claims activity more than in Workers Compensation.

Darrell Brown
Chief Performance Officer
Sedgwick

Generally, I believe employers have continued to focus on safety and loss prevention. However, some employers may have allocated fewer resources to safety during the economic crisis. They may have also allocated fewer internal resources to managing risk and finding ways to manage costs once claims occur. There is general agreement that the best claim is one that does not happen and workplace safety plays a significant role in preventing losses.

Coventry Workers' Comp Services

www.coventrywcs.com

For generations, elite photographers have chosen Nikon equipment. They know that the company's superior optic technology enables them to capture images with the clarity and precision these professionals require. It's as true in today's age of digital photography as it was when Nikon introduced its first lenses 80 years ago. Likewise, organizations that want the clearest, most accurate picture of their workers' compensation risk and opportunity for change turn to Coventry Workers' Comp Services.

Seeing Clearly

Unlike the siloed solutions offered by ancillary suppliers, Coventry uses data from multiple touch-points, including claims, clinical, prescription, medical and provider billing data sources in its data warehouse, the largest and broadest data store in the industry. Coventry's Global inSight® risk modeling tools leverage this integrated dataset to identify claims for intervention based on treatment patterns, psycho-social, demographic and clinical attributes, drawing on data from more than 30 million clinical transactions annually. Global inSight® alerts clinicians and claim professionals when risk is evident throughout claim life and prompts the right level of intervention to occur.



Putting the Vision to Work

Drawing on its clinical expertise, Coventry has developed best practices for managing workers' compensation injuries, with a particular focus on at-risk populations identified through its risk modeling such as narcotic users, an aging workforce and potential chronic pain sufferers. Recognizing the necessity of treating the person, not just the diagnosis, Coventry incorporates behavioral coaching into its case management model. With expert case managers, an outcomes-based network of workers' compensation providers and a comprehensive range of clinical solutions, Coventry achieves optimal outcomes for the injured workers, the employers and the payors they serve.

Coventry's Global inSight® risk modeling tools and clinical best practices are embedded within each of its products, enhancing each individual offering to best in class levels.

By leveraging its integrated systems, broad product suite, clinical and analytical expertise and Global inSight® tools, Coventry also offers a fully integrated managed care program that is unmatched in product excellence, service quality and measurable outcomes.



WHAT WE DO

- Case Management
- Pharmacy
- Networks
- Durable Medical Equipment
- Utilization Review
- Nurse Triage
- Independent Medical Exams
- Bill Review

WHO WE TARGET

Managed care executives and risk managers of:

- Employers
- Insurance carriers
- Third-party administrators

CONTACT

Barb Robinette
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www.coventrywcs.com

As a leader in the industry, your voice matters. Share your knowledge with us at the National Workers' Compensation and Disability Expo, November 20 & 21, by completing a 10 question iPad survey.

For your opinion, you'll receive a well-deserved Starbucks® coffee break with a \$5 gift card.



Gallagher Bassett Services

www.gallagherbassett.com

Gallagher Bassett has been providing comprehensive risk management services since 1962. Throughout Gallagher Bassett's history, client and employee satisfaction and retention have been the most important elements in their overall success and growth.

They are the proud recipient of the 2012 Buyers Choice Awards presented by Business Insurance magazine and this year marked their 5th consecutive win of these awards.

The company has learned through experience that reliability, consistency, flexibility, dedication, a high-level of communication, and a clear focus on clients' needs have all been critical factors in their success in becoming one of the nation's top risk management service providers. Gallagher Bassett's corporate strength stems from the fact that they are dependable and respond to their clients in a concise, professional manner. Backed by their consistency,



Gallagher Bassett Services, Inc.



flexibility, dedication, and high-level of communication, they maintain a clear focus on the needs of their clients. The professionalism and competency of their employees, from Adjusters to Technical Staff, adds to their strength.

Gallagher Bassett's clients have continuous access to Senior Management, as they are not a multi-tiered company, and their Account Managers have complete accountability. They offer insights and services in the areas of claims management, information management, medical cost containment, and consultative services which include risk control consulting and appraisal services.

Gallagher Bassett continues to grow and transform, keeping ahead of their competition to better meet their clients' needs and helping those they serve take full advantage of emerging opportunities.

WHAT THEY DO:

Gallagher Bassett Services, Inc. provides risk management services and products to corporations and institutions worldwide. They are the world's largest third-party administrator specializing in property/casualty risk management services.

THEIR SERVICES INCLUDE:

- Claims Management
 - Workers Compensation; Liability Lines (AL, GL, APD, PL, Professional); Property
- Managed Care
 - Provider Networks; Bill Review; Services; Case Management; MSA Consulting
- Appraisal Services
- Loss Prevention
- Claims System Software

WHO THEY SERVE:

- Commercial Entities (self-insured and unbundled)
- Insurance Carriers
- Alternative Markets; ssociations and Pools; Captives; MGAs/MGUs; Risk Retention Groups

FOR MORE INFORMATION CONTACT:

Mike Bell
 Michael_bell@gbtpa.com
 630-285-3431



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Healthcare Solutions

www.healthcaresolutions.com

Workers' compensation medical expenditures comprise approximately 60% of total claim costs. These costs are expected to rise as a result of health care cost inflation, the increased severity of injuries and the changing demographics of the workforce. Due to these market dynamics, employers and other health care payors recognize the importance of implementing effective medical management programs to address the increasingly complex health care needs of injured employees while combating rising claim costs.

"When looking for a medical management partner, it is essential to contemplate unit cost savings achieved through negotiated discounts on items such as medical services, equipment or prescription drugs, but it is equally important to examine utilization management protocols that help to mitigate unnecessary, potentially inappropriate care," said David A. George, CEO of Healthcare Solutions.

Healthcare Solutions works on behalf of over 800 customers every day to deliver clinically-focused medical management solutions. These solutions include pharmacy benefit management, specialty healthcare services, including durable medical equipment and supplies, home health, diagnostic imaging, physical medicine, and transportation and language services, as well as managed care products including PPO networks, medical bill review and case management.

According to George, effective medical management programs incorporate prospective, concurrent and retrospective program components to address both unit costs and utiliza-



"Healthcare Solutions is differentiated in the workers' compensation market by offering a unique model that provides for 360 degree management of all medical bills."

David A. George,
CEO of Healthcare Solutions

tion regardless of the source of the bill.

"Healthcare Solutions is differentiated in the market by offering a unique model that provides for 360 degree management of medical bills," said George. "The company reduces out-of-network spending through contracts with both traditional and non-traditional providers. Contractual agreements between Healthcare Solutions and medical providers provide explicit authority for Healthcare Solutions to apply negotiated discounts and utilization management protocols retrospectively so that customers receive cost savings even when services aren't prospectively managed."

Healthcare Solutions' management strategies result in increased penetration, improved quality, and market-leading savings that assist payors in reducing overall medical spend. Please contact Healthcare Solutions to learn more about the company's solutions.



WHAT WE DO

Healthcare Solutions, parent company of Cypress Care, ScripNet, Modern Medical and Procura Management, provides cost management solutions to help control medical expenditures associated with workers' compensation and auto injury claims.

SERVICES WE PROVIDE

- Pharmacy Benefit Management
- Specialty Healthcare Services: Durable Medical Equipment & Supplies; Home Health; Diagnostic Imaging; Physical/Occupational Therapy; Transportation & Language
- PPO Networks
- Medical Bill Review
- Case Management

WHO WE SERVE

- Large, self-insured employers
- Insurance carriers
- Third party administrators
- Bill review intermediaries
- Managed care organizations
- State funds and government entities

CONTACT

Nancy Hamlet
Senior Vice President, Marketing
866.810.4332

FOR CLAIMS PROFESSIONALS, THE MOST PAINFUL PART OF A CLAIM ISN'T THE INJURY.



For over two decades, Healthcare Solutions has helped clients address the unique challenges associated with claims management. Each of our programs is customized according to our client's specific needs and designed to maximize the number of injured workers under management. From initial injury through return to work, Healthcare Solutions serves as a single partner that makes claims management easier. Our goal is to ensure appropriate utilization and clinical care for injured workers while reducing expenditures, and headaches for our clients throughout the entire continuum of care.

To learn more about how Healthcare Solutions can help you manage the time and cost associated with your workers' compensation claims, please call us today at 866.810.4332 or visit our website at healthcaresolutions.com.

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AT A GLANCE:

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Workers Compensation: KIS has relationships with several Workers Compensation providers who specialize in the Hospitality industry. We offer in-house quoting with multiple carriers for most hospitality accounts.

For more information visit www.KIS-hospitality.com or call Scott Klein at 973-509-0080 x 511

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



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

Scott Klein
President

Tier 1 criteria:

- Newly constructed hotels or hotels that have been totally renovated within 5 years
- Boutique or 4 and 5 star franchised hotel
- Full service
- Hands on management and property owner involved in daily operations
- Trip advisor rating 4 stars or higher

Tier 2 criteria:

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

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

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

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

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VISIT WWW.KIS-HOSPITALITY.COM

Pinnacle Actuarial Resources, Inc.

www.pinnacleactuarial.com

Pinnacle Actuarial Resources, Inc. is an independent actuarial and management consulting firm that's large enough to provide a wealth of expertise and world-class solutions—yet small enough to be flexible, timely and cost-effective.

Owned by our professional staff, Pinnacle ranks among the largest property-casualty actuarial firms in North America.

Pinnacle's reputation for uncompromising professionalism, expertise and outstanding service is embodied in our brand Commitment Beyond Numbers, which is built on four foundational pillars that guide everything we do:

Empathetic Customer Service.

Pinnacle believes in relationships, not just transactions. That means we judge ourselves on the quality of our services, responsiveness to your needs, consistent professionalism and ability to develop a deeper understanding of your business through collaboration.

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Identifying the right solution to your business challenges means leveraging more than one perspective to uncover new insights and deeper understanding. That's why Pinnacle takes a multi-disciplinary approach to everything we do, drawing on our deep bench of focus area experts who combine industry and thought leadership with creativity and innovation to help develop unique solutions to your challenges.

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Rarely does identifying and managing risk require one single answer. Instead, driving better business decisions around risk and return requires the vision necessary to see problems before they arrive, and the ability to develop a solution



that's right for your business. At Pinnacle, we partner with you to explore whatever path it takes

to find the answers you need.

Pinnacle is committed to providing timely, independent actuarial and management consulting services with integrity, skill and care that exceed customer expectations and fulfill Pinnacle's responsibilities to its colleagues, the actuarial profession and the public.

WHO WE ARE:

Pinnacle Actuarial Resources, Inc. is an independent actuarial consulting firm that ranks among the largest property-casualty actuarial firms in the United States. Our superior communication, unmatched expertise and extraordinary customer service help you drive better business decisions.

We serve 18 of the 30 largest policyholder-owned captives and thousands of captive insureds, as well as a wide range of captive managers, auditors, regulators, traditional insurers, self-insured employers and groups. Our areas of expertise also include predictive analytics, enterprise risk management (ERM), pricing and product management, loss reserving, reinsurance, litigation support and legislative costing.

To discover what Pinnacle means when we say Commitment Beyond Numbers, visit us at www.pinnacleactuarial.com.



Better Business Decisions. Rarely does identifying and managing risk require one single answer. Instead, driving better business decisions around risk and return requires the vision necessary to see problems before they arrive, and the ability to develop a solution that's right for your business. At Pinnacle, we partner with you to explore whatever path it takes to find the answers you need.

We are an independent actuarial consulting firm that serves a wide range of captive managers, auditors, regulators, traditional insurers, self-insured employers and groups. To discover what we mean when we say *Commitment Beyond Numbers*, visit us at www.pinnacleactuarial.com.

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Sedgwick

www.sedgwick.com

Throughout 2013, Sedgwick has responded to industry challenges and market trends to support the diverse needs of its client base. As 2014 approaches, the company's resources are already asking – what new challenges might employers face?

Innovation

On the radar: the rapid advancement of technology. "Today, there is demand for more real-time and comprehensive information than ever before," stated Darrell Brown, Chief Performance Officer for Sedgwick. "We are already researching and developing innovations to bring even more automation to clients, while always being mindful of the need to remain flexible and customer-focused." The opportunity to harness data in useful, new ways is on the horizon.



Mr. Brown

Quality

Traditionally, quality has been measured on compliance principles and retrospective reviews. Going forward, quality measurement needs to be more outcomes-focused and performed more closely to the work process so the path of the claim can be redirected when necessary. Predictive modeling can ensure resources are utilized where they will have the greatest claims impact. Sedgwick's Performance 360 program is already moving in this direction, focusing reviews on communication, proactive engagement, and results.

Activism at the state level

With many states working toward legislative reform, Sedgwick works to help employers understand and react to the changing landscape. Recently, Dave North, president and CEO, encouraged a group of employers to use their collective voice to further impact beneficial legislative changes. He emphasized the opportunity for renewed activism by industry supporters.

Care

Understanding and preparing for the Affordable Care Act (ACA) – including projected access to care challenges, accountable care organizations, and consolidation among hospitals and providers – will be key for employers and service providers handling both occupational and non-occupational injuries and illnesses. Healthcare as it stands will evolve, with rapid changes in wellness and ongoing medical care solutions. Sedgwick is at the forefront, bringing thought leader perspective and its own solutions to the market for improving wellness and total cost of risk.

Impact

"We look forward to making an even greater impact in 2014 by continuing to embrace technology, redefining quality, influencing legislative change through activism, preparing for changes in care and much more," stated Brown. "We are eager to serve the needs of employers and continue the conversation on these important issues." To learn more about Sedgwick's perspective on meeting the needs of employers now and into the future, visit www.sedgwick.com.



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Sedgwick Claims Management Services, Inc. is the leading North American provider of technology-enabled claims and productivity management solutions.

Sedgwick and its affiliated companies deliver cost-effective claims, productivity, managed care, risk consulting, and other services to clients through the expertise of nearly 11,000 colleagues in some 200 offices located in the U.S. and Canada. The company specializes in workers' compensation; disability, FMLA, and other employee absences; managed care; general, automobile, and professional liability; warranty and credit card claims services; fraud and investigation; structured settlements; and Medicare compliance solutions. Sedgwick designs and implements customized programs based on proven practices and advanced technology that exceed client expectations.

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MAKING THE INSURANCE INDUSTRY AN ATTRACTIVE CAREER CHOICE

Q What can make risk management an attractive career option for college students?

A I think there are a number of things. First of all, the reinsurance industry had traditionally not found colleges and universities attractive in meeting its technical needs. We hired most of our talent from primary companies. However, over the past 10 to 15 years, more colleges are now entering the risk management education process, creating an environment for insurers, reinsurers and brokers — everybody that touches the business — to find more students with the education we need.

Q Are these risk management programs going to fill all of the industry's needs?

A No, but they go a long way to filling the roles that are key to this industry, particularly technical areas such as underwriting and actuarial. Munich Re America has a large recruiting presence at some of the top risk management schools around the country, so we see firsthand the kind of students

Q&A

these programs are attracting. Part of the issue of attracting students is there tends to be bias against this industry, or put another way, a bias toward other careers like law and investment banking. At Munich Re America, and in my role on the advisory board for the St. John's University School of Risk Management, we've tried to show that the industry can offer attractive career options. Also, with an increased global focus on risk management, there has been increased interest in risk management careers.

Q Is the insurance industry doing enough to attract talent? If not, what can it do better?

A I think the insurance industry is doing a better job. There have been a number of studies done over the past few years, and the topic appears more and more on panel discussions at industry conferences. So there is more focus on the issue.

Statistically, I would say all of business has a war for talent. The insurance industry and reinsurance industry are no exception to that. In fact, I'd say it's probably a bigger issue in the insurance and reinsurance industries. In the insurance industry, the number of people age 55 and older is about 30% higher than any other industry. If you think about this war for talent, it makes it much more acute in our industry. As these senior people retire, there's going to be this vacuum that needs to be filled.

We need to create an environment that supports new employees, and by educating students and parents that the insurance industry is a great place to work and a great career choice. One way we



ANTHONY J. KUCZINSKI

MUNICH REINSURANCE AMERICA INC.

Anthony J. Kuczinski is Princeton, N.J.-based president and CEO of Munich Reinsurance America Inc. He recently spoke with *Business Insurance* Senior Editor Mark A. Hofmann about the challenges of recruiting talent to the property/casualty insurance and reinsurance industries, and how improving recruitment of young talent has become a top priority for insurers and reinsurers. Edited excerpts follow.

can do this is by supporting the risk management programs at colleges and recruiting from these programs.

Q What comes after you recruit that talent?

A Speaking from experience at Munich Re America, we have a robust program that we put in place about seven years ago. We are actively recruiting at risk management schools around the country. The program has become so successful that we have substantially more people apply for the pro-

gram than we could possibly hire.

Recruiting talent is an expensive process, and we want to retain this talent. We're taking some of the brightest graduates from these risk management programs to work for us and, when they start, they're in an intensive two-year training program. Working with seasoned reinsurance professionals, these new employees develop the skills they need to perform effectively, and they get real-life experience working with clients. When they finish with the training program, they take on challenging assignments in the company.

COMINGS & GOINGS

UP CLOSE: JUDE DiBATTISTA

NEW YORK-BASED SENIOR VICE PRESIDENT AND CHIEF UNDERWRITING OFFICER FOR U.S. EXCESS CASUALTY
Aspen US Insurance

PREVIOUS POSITION: New York-based senior vice president and U.S. environmental product manager for Aspen US Insurance.

LOOKING FORWARD TO: Taking on additional responsibilities within the Aspen organization and working with and bringing success to the casualty team.

GOALS FOR NEW POSITION: Contribute as much value as possible across the Aspen organization and help to build steady, profitable growth to the excess casualty book.

CHALLENGES FACING THE INDUSTRY: The uncertain economic environment and limited investment income opportunities are the biggest challenge in the U.S. property/casualty industry today. How to grow the business profitably with weak investment returns is a daily thought that goes through the head of every insurance executive, including myself.

INDUSTRY OUTLOOK: The insurance industry is always



changing. Emerging exposures internationally for U.S.-based companies and U.S. locations for foreign-based companies look to be good growth opportunities.

WHAT I WOULD CHANGE: In terms of myself, earlier on in my career, I would have taken more insurance/risk management classes to understand the business better.

FIRST INDUSTRY JOB: With American International Group Inc., back in the mid-'90s. I was hired in the professional program to do claims and later transitioned to underwriting within various AIG business units.

WHAT SURPRISED ME: The insurance industry is a relatively small community of people.

IF I KNEW THEN WHAT I KNOW NOW: I would have thought about my long-term goals and career at an earlier age.

FAVORITE MEAL: Pizza from the Bronx.

Professional Moves & Promotions

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Swett & Crawford forms construction group

Swett & Crawford Group Inc., a subsidiary of Cooper Gay Swett & Crawford Ltd., announced the formation of a construction industry group.

The group's focus will be to provide insurance services to retail brokers and their clients who have construction industry-related exposures and issues, the broker said in a statement.

Anthony Mastrolia, New York-based executive vice president of construction, will head the group of brokers with construction capabilities from across the country.

The team will be able to address many construction industry exposures because it will combine all product lines including casualty, property and professional services, the Atlanta-based broker said. The focus will be on contractor practice programs, as well as project-specific products for owners and developers and on developing a good approach with insurers.

Travelers launches online cyber risk resources portal

Travelers Cos. Inc. has launched a suite of online resources to help business owners navigate the threat of cyber risks, while protecting their assets and their customers' information, the Hartford, Conn.-based insurer said.

Travelers Cyber Security is a public portal with tools that include information to evaluate cyber exposures, cyber facts, frequently asked questions and cyber-related coverage, Travelers said in a statement.

Some 64% of people cite personal privacy loss or identity theft as a significant concern in their lives, Travelers said, citing its consumer risk index.

"Technology and the sharing of information have become central parts of both business operations and our everyday lives, which is why it is so important that we are all aware of the many forms cyber risks take and what strategies can help keep business owners and individuals safe," Tim Francis, enterprise cyber lead for Travelers, said in the statement.

RMS' cloud data center goes online in Iceland

Risk Management Solutions Inc. said its real-time exposure and risk management environment, RMS(one), is now operational in a data center in Iceland.

The risk modeling firm first announced the suite of cloud-based analytic and modeling technologies in May.

"With RMS(one) running on the RMS Cloud, we are giving our customers unprecedented freedom, business agility and competitive advantage by allowing them to execute on their entire exposure and risk management strategies," Bobby Soni, chief platform and services officer at RMS, said in a statement. To get the environment up and running, RMS teamed with Jersey City, N.J.-based high-performance computing provider Datapipe Inc. and Verne Global, the



Torus creates e-commerce unit

Specialty insurer Torus Insurance Holdings Ltd. has formed an e-commerce division to centralize the transaction process for U.S. wholesalers serving small and midsize U.S.-based businesses.

Torus' new eCommerce division will enhance the company's underwriting support and service, while strengthening product and feature development for its Escape broker portals, which include Escape Excess Casualty, Escape Healthcare and Escape Miscellaneous Professional Liability.

"Torus' suite of Escape products provides the specialty coverage wholesale brokers require for their (small and midsize business) customers and the fast and easy-to-use automation brokers need to more efficiently and profitably handle their business," Linc Trimble, Jersey City, N.J.-based executive vice president of eCommerce, said in a statement. "The Escape system is revolutionizing the way small business insurance is transacted, and the creation of a dedicated eCommerce team will allow us to further enhance and grow our online offerings for the select wholesalers we work with."

Escape was launched in 2010 to provide a cost-effective distribution solution for wholesale brokers serving small and midsize U.S.-based business enterprises, Torus said in the statement. Escape portals provide a "quick quote" option that enables producers to: provide businesses with initial pricing in a more timely manner and immediate policy issuance once a risk is bound; automatically supply up to 10 other limit options, reducing the time required by brokers seeking to re-quote a policy; allow live chat with an underwriter; and offer the ability to combine, quote and bind multiple lines of coverage under a single policy.

owner and operator of a 44-acre data center campus in Keflavik, Iceland.

Ironshore inks partnership for special liability cover

Highland Risk Services announced an exclusive partnership with Ironshore Inc. to provide liability insurance for the

empirical risk program for continuing-care retirement communities.

The program recognizes and rewards continuing-care retirement communities for being named "best in class" in their industry, Ironshore said in a statement. It will provide general liability, professional liability and excess liability coverage for continuing-care retirement communities insured through the empirical risk program.

"It's important for CCRCs to have available a product tailored specifically to their needs and that doesn't require them to subsidize some of the higher-risk areas of the long-term care industry," Brian Daly, president of Highland Risk Services, said in the statement. "The empirical program is unique in meeting these needs, while at the same time providing the level of financial security that comes through our partnership with Ironshore."

Insurance plan for direct primary care offered

Qliance Medical Management Inc. and Physician Care Direct announced an insurance plan for direct primary care, a model of flat-fee medical care.

Direct primary care is designed to address about 90% of a patient's medical issues while eliminating co-pays and deductibles for routine services, the companies announced in a statement.

Qliance studies have shown the model can reduce the cost of health care for self-insured businesses by up to 30%, according to the statement.

"Many small- and medium-sized companies are attracted to direct primary care but have struggled to find a way to pay for it, even though at Qliance we can keep their employees healthier at a lower cost than traditional medical care," Dr. Erika Bliss, president and CEO of Qliance, said in the statement.

"Now for the first time, this new plan lets employers of all sizes build direct primary care into their health benefits without paying extra for it. They can offer an attractive perk while improving the care of their employees and driving significant savings," Dr. Bliss said.

The direct primary care plan is offered under an employer health ownership plan, which provides self-insurance for small- and medium-sized businesses.

Manufacturers' group launches advocacy effort

The National Association of Manufacturers has launched the Manufacturers' Center for Legal Action, to be part of a new legal division led by the trade group's general counsel, Linda Kelly.

The center will engage in litigation as a direct party, intervene in litigation important to the group's 12,000 members, weigh in as amicus curiae on important cases, and engage the media and the public on legal issues affecting manufacturers, the organization said in a statement.

The goal of the center is to fight regulatory threats to the viability of manufacturing. Deputy general counsels Patrick Forrest and Quentin Riegel will work under Ms. Kelly in the legal division.

DEALS & MOVES

ProAssurance to buy work comp firm Eastern Insurance Holdings

Professional and products liability insurer ProAssurance Corp. announced that it is expanding into the workers compensation insurance market by acquiring Lancaster, Pa.-based Eastern Insurance Holdings Inc.

Birmingham, Ala.-based ProAssurance is a specialty insurer focusing on medical professional liability and products liability for medical technology and life sciences companies. It also provides legal professional liability coverage.

Eastern subsidiaries include Eastern Alliance Insurance Group, a specialty workers comp underwriter, and Cayman Island-domiciled Eastern Re Ltd., a segregated portfolio cell company offering alternative market workers comp programs. Eastern also is the parent of Employers Alliance Inc., a property casualty claims administrator and consulting unit.

The purchase, valued at about \$205 million, will result in Eastern becoming a wholly owned unit of ProAssurance, the companies said in a joint statement.

ProAssurance said it will maintain Eastern's corporate office in Lancaster and its existing regional and satellite offices, which will operate under Eastern's management team with senior executives entering long-term employment contracts in conjunction with the transaction.

The all-cash deal is expected to close by Jan. 1, 2014, subject to regulatory and shareholder approvals.

Allianz Global Corporate & Specialty opens office in Stockholm

Allianz Global Corporate & Specialty A.G., a subsidiary of Allianz S.E., has opened a new branch in Stockholm, Allianz said.

The branch will focus on serving companies with a turnover greater than 70 million (\$94.7 million), the insurer said in a statement.

Allianz Global Corporate sees opportunities in the export-oriented Swedish market and thinks the city is a strategically important location in the Nordic region, according to the statement. The Swedish economy has precision-manufacturing and engineering industries as well as telecommunications, automotive and pharmaceutical sectors, which are a good fit for Allianz expertise, the insurer said in the statement.

The branch office initially will have a core team of eight underwriters and market-facing staff. The insurer will be hiring additional staff with local expertise through 2014. The new office's address is Regeringsgatan 54, Seventh Floor, 111 56 Stockholm, Sweden.

Ironshore's managing agency gets OK for new Lloyd's syndicate

Ironshore Inc.'s Pembroke Managing Agency Ltd. has received approval in principle by Lloyd's of London to form and manage a new syndicate in 2014, Ironshore announced.

Underwriting permission for Acappella syndicate 2014 will be determined upon completion of Lloyd's review of Pembroke's management plan and the agreement on its business plan and capital requirements, Ironshore said in a statement.

Syndicate 2014, with a target of £65 million (\$104.9 million) in premium in its first year, will be a conversion of special purpose syndicate 6110. Syndicate 6110 was established in 2012 with £25 million (\$40.4 million) in capacity provided by Lloyd's names.

FORMULARY: Other states take notice of Texas program's success

Continued from page 1

self-insured employers is required for N-drugs. Without preauthorization, insurers and self-insured

employers can deny payment to medical providers who prescribe such drugs or pharmacies that dispense them.

"It has definitely changed prescription patterns and the behavior of treating physicians," and it is being discussed by regulators in other states, said Rod Bordelon, the Texas workers comp commissioner in Austin, Texas. "They are interested in what we have done in Texas and the success that it is having."

In July, the Division of Workers' Compensation reported that the first phase of its closed-formulary strategy cut N-drug prescribing by 74% among newer claims. The total spent on N-drugs for those claims dropped 82% to less than \$800,000 in 2011 from \$4.4 million in 2010.

In September, Texas began applying its closed-formulary to older legacy claims.

Implementing the plan in two phases — first on Sept. 1, 2011, for injuries occurring on or after that date and then on Sept. 1 of this year for the legacy claims — is among practices that have drawn praise for Texas' effort to reduce drug utilization and costs.

Waiting two years to apply the closed formulary to the legacy claims gave doctors and their

patients accustomed to taking N-drugs time to adjust their treatment after seeing how the process worked for new injury cases, sources said.

"That was a very compassionate, appropriate approach," said Phil Walls, chief clinical and compliance officer at Matrix Healthcare Services Inc., a Tampa, Fla.-based pharmacy benefit manager.

Spreading word of Texas' success is leading other states to consider legislative or administrative rules that could help them reduce their comp-related prescription drug costs, said Joe Woods, vice president of state government relations in Austin for the Property Casualty Insurers Association of America.

"It's a clear path to success," Mr. Woods said. "I think it's catching on, and lots of states are looking at it now."

But other states must understand that Texas' success didn't happen overnight, sources said.

Texas' effort to reduce N-drug prescribing was years in the making and occurred in conjunction with the state's adoption of evidence-based guidelines to treat injured workers. The implementation also was smoothed by existing practices in Texas that helped

medical providers understand how the system would function.

Those practices, such as requiring utilization review for services such as physical therapy, may not be in place in other states, said Mark Pew, senior vice president of business development for Prium, a Duluth, Ga.-based workers comp utilization review company.

Other states that have unique workers compensation systems can learn from Texas, Mr. Pew said, but they may have to find their own path to reduce the utilization and cost of drugs they deem inappropriate to treat workers comp injuries.

"They can look at the best practices and some lessons learned in Texas and apply those to their jurisdictions," Mr. Pew said. "But it is probably going to look different from (the approach in) Texas because each jurisdiction starts at a different baseline."

While the Texas closed formulary is attracting attention and provides a model for other states to follow, it would not make sense for other states to adopt a closed formulary alone, Mr. Walls said.

Texas' success follows from workers comp reforms its Legislature adopted in 2005, which included requiring medical providers to

adhere to disability management guidelines when treating most worker injury cases, Mr. Walls said. In accordance, Texas in 2007 required the use of Official Disability Guidelines published by the Encinitas, Calif.-based Work Loss Data Institute.

The list of N-drugs comes from ODG's formulary. Because the guidelines address overall medical treatment, and not just medication prescribing, they help discourage physicians from merely substituting other potentially problematic drugs for those on the N-drug list, Mr. Walls and others said.

"If a state wanted to adopt the ODG formulary by itself, that probably would not be a successful model," Mr. Walls said. "But if they wanted to adopt the guidelines behind (the formulary) as well, that makes sense."

In addition, adopting a closed formulary or treatment guidelines is not the only route to reduce questionable prescribing practices. Other states have experienced success by requiring utilization review for prescribed drugs and regulating PBM practices, Mr. Walls said.

But "Texas is really the leader when it comes to the use of a formulary," Mr. Walls said.

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FERMA

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policyholders, especially when all the parties have well-established relationships, their administration of traditional insurance can cause problems, said Tjerk van Dijk, director of insurance for Stork/Fokker at Stork Technical Services Holding B.V. in Utrecht, Netherlands.

An insurer may pay a standard liability claim in one case, but take a different view in another case and deny a similar claim. Then “we need a lawyer to prove that we are right,” he said.

Insurers sometimes also are reluctant to change policy wordings based on scenario analysis conducted with individual policyholders, said Invensys’ Mr. McGloin.

“We then have to go to our (chief financial officer) and say that the policy hasn’t been changed even though the wording is unclear ... there’s an agreement about intention, but there’s no change in the contract,” Mr. McGloin said.

Policyholders require stability, reliability and a willingness to pay from their insurers, said Axel Theis, CEO of Allianz Global Corporate & Specialty A.G. in Munich.

“I’m talking about more than just writing a check,” he said. Policyholders require pragmatic claims management from insurers, so insurers should ensure that they keep their claims operations in-house rather than outsourced, he said.

Given the complexity of commercial insurance claims, however, disputes between policyholders and insurers are bound to happen, said XL’s Mr. McGavick.

Policyholders should try to determine their insurers’ view of claims, he said. “Our disposition is that it’s your money; let’s work out how it should be paid.”

Brokers also must play a role in helping their clients get their claims paid by insurers, said Peter Zaffino, president and CEO of Marsh Inc.

“Claims advocacy and getting claims settled, processed and paid is a critical part of what we do for a living,” Mr. Zaffino said during a broker executive panel.

Cash flow often is important for policyholders, and the insurance industry needs to do more to respond to those concerns when they are determining the value of claims, he said.



Mike McGavick, CEO of XL Group P.L.C.



Chris McGloin, vice president of risk management and insurance at Invensys P.L.C.



Axel Theis, CEO of Allianz Global Corporate & Specialty A.G.

PHOTOS COURTESY OF FERMA

CYBER

Continued from page 3

“We have seen a lot of interest (in the coverage) from European clients and we have seen claims from European clients,” Ms. Grella said.

It is clear that the issue of cyber exposures is a tricky one for risk managers to “wrap their arms around,” she said, speaking during a session at the FERMA Risk Management Forum 2013 held last week in Maastricht, Netherlands.

Buyers in Europe are particularly interested in cyber-related business interruption coverage, Ms. Grella said.

In Europe, business interruption is the focus of many buyers’ cyber risks concerns as opposed to litigation, in part because the risk of litigation is less than in the United States, where buyers are focused on that threat, said Kevin Kalinich, the global practice leader for cyber/network risk at Aon P.L.C. in Chicago.

European buyers are more focused on the risk posed to their organizations caused by business interruption arising from a security breach, he noted.

Forum attendees agreed that cyber risks have become a big concern for European risk managers.

“Cyber is clearly a big theme for risk managers in Europe and we need to understand the risks,” said Stanislas Chapron, CEO of Marsh France, the Paris-based arm of Marsh Inc.

Brokers need to understand their clients’ exposure and that there are property and liability risks associated with cyber breaches, he said.

Risk managers must work together with other important members of their organization, such as information technology directors, as well as their brokers to truly understand the risks they face, he said.

While the capacity available to underwrite cyber risks in Europe is less than that available in the United States, it is

possible for companies to find coverage, Mr. Chapron said.

In the European Union, there are eight insurers that have underwritten cyber risks, said Aon’s Mr. Kalinich, and total per-policy limits of \$250 million are available. This compares with 38 insurers underwriting cyber risks in the United States and available limits of up to \$350 million, he said.

“Cyber risk is a huge topic and also a huge area of opportunity for the insurance industry,” said Thomas Keist, head of Germany, Austria and Switzerland at Swiss Re Corporate Solutions, a unit of Swiss Re Ltd.

The insurance industry is grappling with how to model cyber risks and how to achieve sustainable pricing for policies, he said. Swiss Re Corporate Solutions is a following market on cyber policies, Mr. Keist said.

The huge pressure being felt on budgets by companies recovering from the recession likely will mean that spending on cyber insurance policies by European buyers will remain limited for the next couple of years, he said.

Axa Corporate Solutions, a unit of Paris-based Axa S.A., is rolling out a dedicated, multiline cyber policy in France, Germany and the United Kingdom that can incept from Jan. 1, 2014.

The policy offers an extension for computer fraud that covers losses after misappropriation of property and embezzlement, despite whether there has been a breach of information or a breach of personal data, said Patrick de la Morinerie, deputy CEO of Axa Corporate Solutions.

Relatively few buyers in Europe have purchased cyber coverage, said Mr. de la Morinerie.

Part of the reason for this slow uptake is the difficulty that buyers face in mapping their cyber exposures, he said.

For this reason, Axa Corporate Solutions’ product includes exposure analysis conducted by Cassidian Cyber Security, a unit of Leiden, Netherlands-based European Aeronautic Defence & Space Co. N.V.

SMART

Continued from page 3

self-insureds to find out the final amount due to CMS before settling a claim.

Currently, settlement parties must request an interim demand letter from CMS, which estimates how much a claimant is expected to reimburse to Medicare. However, CMS does not provide a final demand for reimbursement until a settlement is official, and final demands sometimes are greater than the claimant and insurer expected initially.

Under the interim rule, Medicare beneficiaries will be able to access full claim and reimbursement information this year through *mymedicare.gov*. However, attorneys, insurers and employers will have limited access to such information until CMS develops a “multifactor authentication process” for the website to confirm their identities and protect the beneficiary’s privacy.

That authentication process

would be implemented “no later than” Jan. 1, 2016, according to the interim rule.

Compliance experts hoped to have full access sooner, and say they’re disappointed they will have only limited CMS information for now.

“It’s been frustrating to think

Still, that process could be troublesome in cases where claimants are unwilling to provide Medicare information to payers, said Aaron Frederickson, director of Medicare Secondary Payer compliance at Allsup Inc. in Belleville, Ill.

The MARC Coalition’s Ms. Adams agreed that the interim

interim rule extends how long the agency has to respond to requests for reimbursement information, delaying settlement times.

The SMART Act says claimants or payers can notify CMS of a settlement 120 days before the payment is expected to be finalized, which is intended to allow payers to get a final reimbursement demand from CMS and close the claim within 120 days.

However, the interim rule says a current requirement that CMS be notified of a settlement 185 days prior to finalization “encompasses” the 120 days. It also says the law allows CMS to extend its response by 30 days if needed.

The interim rule says Medicare beneficiaries must submit their settlement information to CMS within 30 days of receiving the payment, at which point CMS will calculate a final demand for payment.

“We understand that providing settlement information within 30 days of the date of settlement may be challenging at times, but we would like to encourage beneficiaries and their attorneys or other representatives to assist us in pro-

SMART ACT RULES

- The Centers for Medicare and Medicaid Services issued its interim final rule Sept. 20 to implement the Strengthening Medicare and Repaying Taxpayers Act.
- Stakeholders can submit comments to CMS about the proposed rules by 5 p.m. EST on Nov. 19.
- Medicare beneficiaries will have immediate access this year to a CMS website that provides information on claims that require Medicare reimbursement.
- CMS is to develop an authentication system by 2016 to allow workers compensation and liability claim payers to access claim information.

that the piece of it that is really going to help us has now been pushed out another ... two and a half years,” said Rita Wilson, CEO of Delray Beach, Fla.-based Medicare Secondary Payer compliance firm Tower MSA Partners L.L.C.

Payers could, however, request that claimants provide full information to help speed the claim resolution process, Ms. Wilson said.

rule may put too much responsibility on claimants for Medicare Secondary Payer compliance.

“All of this work process is put (onto) the beneficiary, rather than having the plan (that’s) ultimately going to end up being the payer being able to obtain information and hopefully resolve claims,” Ms. Adams said.

Experts also worry that CMS’

viding swift resolutions to these matters and promote timely recoveries for Medicare,” the interim rule says.

Attorney David Farber, counsel for the Medicare recovery coalition, said the timing in the interim rule could extend CMS’ resolution time in the SMART Act up to 245 days.

“We look forward to engaging with the agency to learn why their process does not seem to meet the statutory requirements for expedited resolution,” said Mr. Farber, a Washington-based partner with law firm King & Spalding L.L.P.

HEAR INTERVIEW
Access *Business Insurance's* interactive digital edition to hear Michele Adams, chairwoman of the Medicare Advocacy Recovery Coalition, discuss concerns about interim final rules on the SMART Act regarding access to information needed to close Medicare-related workers comp claims.

NBGH

Continued from page 4

Dee Edington, founder and chairman of the Ann Arbor, Mich.-based wellness research firm Edington Associates L.L.C., said tracking the “natural flow” of employees’ migration between health risk levels is the “gold standard” of wellness performance measurement.

“We shouldn’t be doing any more return-on-investment studies,” Mr. Edington said. “They’re too insignificant. The same procedure done in one part of the country will probably give you a completely different result (financially) in another part of the country, but the overall patterns are the same.”

A majority of employers sur-



veyed in Towers Watson & Co.’s 2013/2014 “Staying@Work Report” cited many of the same health risks examined in OptumHealth’s research as primary lifestyle risks among U.S. workers: stress, lack of physical activity, obesity and poor nutrition.

However, only 28% of employers in the Towers Watson research said improving their employees’ physical health was among their

top wellness priorities, and only 15% said their top wellness priorities included improving their workforce’s emotional or mental health.

As a consequence, participation rates for lifestyle change and health management programs, such as weight management and tobacco-cessation programs, were well below 20% this year.

Moreover, 50% of employers said the various programs designed to drive health awareness and engagement among their employees have not been organized into a cohesive wellness strategy.

“That’s been a problem for a while,” said Helen Darling, president and CEO of the Washington-based NBGH. “Just having programs in place doesn’t really work if you don’t tie them together in a way that creates synergies among the different initiatives.”

NAPSLO

Continued from page 4

“The savings we have seen on our reinsurance program will ultimately bleed through to the insurance market,” Mr. Bernacki said.

Nonetheless, he said prices may decline in certain lines of business in the coming year.

“As I look ahead to next year in our large lines business out of London, I think we are going to be giving up rate — maybe negative 5% or even negative 10%,” he said. “However, in our mid-market and small-market businesses, it will be 1% or 2% increases or maybe flat.”

Berkshire Hathaway Inc.’s entrance into the E&S market was the subject of much speculation during the conference.

Mr. Bernacki said he did not expect Berkshire to aggressively undercut prices, but he also said he worries that the E&S industry’s recent underwriting discipline is fragile.

“The team that Berkshire hired is not the type of people to do something foolish, but when you hear them speak of a rapid five-year growth plan that would have them matching the size of Lloyd’s, you have to wonder,” he said.

“I’ve always found Berkshire Hathaway to be disciplined underwriters; they are here for the long term,” Mr. Vitale said. “I welcome any competitor that is disciplined and intelligent about how they do business.”

With the prospect of sagging prices and increased competition, E&S insurers are looking to new markets



“I welcome any competitor that is disciplined and intelligent about how they do business.”

Mario Vitale,
Aspen Insurance
Holdings Ltd.

and products to have an advantage.

Since the E&S market specializes in the most complex and hard-to-place risks, Mr. Kaufman said he sees the industry playing a large role helping customers with cyber risk protection.

At Aspen, Mr. Vitale said the company opened a division in July targeting the surging domestic energy business.

“We’ve launched a new onshore energy facility, and we are really excited about it because energy production is absolutely booming in the U.S.,” he said. “We have good technical underwriters, claims people and risk engineers ready to be deployed.

This will be a good growth engine for us.”

Elsewhere, Liberty International Underwriters, part of Boston-based Liberty Mutual Holding Co. Inc., has launched product recall coverage tailored to the packaging industry.

“We felt that there was a need to do something different and dramatic to cover all the exposures that a packager might need,” said Louis Lubrano, senior vice president for LIU global crisis management. “So we cobbled together a new product from our existing policies that now covers every exposure.”

capital markets in this business, but there is a ceiling in terms of what they can offer,” Mr. Adesso said, adding that the questions surrounding claims will limit the growth of catastrophe bonds. “Relationships matter when it comes to claims. If you have a longstanding relationship with a cedent, the conversation about what is a covered loss is a little easier.”

Mr. Bonneau agreed.

“Since these bonds trade on the secondary market, it’s not always clear who your counterparty is,” he said. “Insureds may well end up having conversations with the legal representatives for the bondholder, which I suspect will be an extremely different conversation than you would have with a reinsurer.”

Bermuda-based Ace Tempest Re Group, said the volume of insurance-linked securities in the market has affected the prices reinsurers can charge cedents in certain segments.

“The demise of the traditional reinsurance market has been greatly exaggerated, but where you will see the capital markets come in and make an impact is in retrocession,” Mr. Bonneau said.

Dominic J. Adesso, president of Hamilton, Bermuda-based Everest Reinsurance Co., said that despite the recent surge in ILS, traditional reinsurers will retain a dominant share of the market because of their ability to offer cedents more customized solutions versus the “plain vanilla” offerings from the capital markets.

“We do see an entrenchment of

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NICC

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Canada in Gatineau, Quebec, last month.

Speaking during a panel discussion, Toby Stubbs, senior underwriter for London-based Pembroke Managing Agency Ltd., said the amount of new capital in the market also is a concern.

“I think some in the broker community has used it as way to leverage where they want to go on pricing,” he said. “My view is that we can have a perfectly sensible conversation with our clients around pricing without them needing to access these new capital sources.”

Fellow panelist Jacques Q. Bonneau, chairman of Hamilton,

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WRONGDOING

Continued from page 1

that it misstated financial results and lacked effective internal controls to detect and prevent its traders from fraudulently overvaluing investments to conceal hundreds of millions of dollars in trading losses.

A fraud and criminal misconduct clause in many D&O policies excludes coverage if a final adjudication finds wrongdoing. But “it’s really unsettled” as to whether an admission of wrongdoing in an SEC case would constitute a final adjudication and trigger the exclusion, said Will Fahey, New York-based senior vice president in the management liability group at Zurich North America.

“Once the exclusion kicks in, then you don’t have any coverage,” said Peter Taffae, a D&O insurance expert at Los Angeles-based wholesale brokerage ExecutivePerils Inc.

Now is the time for companies to discuss with their D&O insurers how such a situation would affect their coverage, experts say (see related story).

How often the SEC enforces the policy is another unknown. “Enforcement is something that’s going to mature in its own right,” said Brian Dunphy, New York-based managing director at Crystal & Co.

“If the SEC does apply this only in the most egregious cases,” it will arise occasionally, said Dan A. Bailey, a member of Columbus, Ohio-

based law firm Bailey Cavaleri L.L.C. “But if they start applying it to the more routine cases, then that could be an issue.”

“The government will often threaten that it won’t settle unless there’s an admission of liability, but when push comes to shove” it has to keep such cases moving, said Boris Feldman, a partner at law firm Wilson Sonsini Goodrich & Rosati in Palo Alto, Calif.



POSSIBLE CONSEQUENCES

The U.S. Securities and Exchange Commission’s policy of requiring companies or executives to admit wrongdoing to settle cases could lead to several consequences, including:

- Insurers invoking a conduct exclusion
- Increasing defense costs due to delayed settlements
- Negatively affecting subsequent civil litigation
- Increasing directors and officers liability insurance rates
- Insurers providing less coverage for companies that admit wrongdoing

Directors who are reluctant to admit wrongdoing could delay settlements, Mr. Dunphy said. “I suspect there will be a longer window of time where defense costs are being paid, where the insureds are trying to avoid being forced” to admit wrongdoing because the D&O policies’ conduct exclusions would kick in, he said.

“Down the road, insurance companies may look to have higher premiums to adjust their retentions accordingly, to create a better buffer” against SEC allegations, Mr. Dunphy said.

“People will fight harder and, consequently, defense costs go up dramatically, which will potentially affect D&O policies” because of indemnification as well as legal fees, said Brian Wanat, New York-based national practice leader of the financial services group at Aon Risk Solutions.

Another concern is how admission of wrongdoing in an SEC case would affect subsequent civil litigation.

Will it “become a stick” that private civil securities litigation attorneys wield because firms “are no longer free to deny these things happened?” asked John F. McCarrick, a partner with White & Williams L.L.P. in New York.

“I don’t think (selective application of the SEC policy in egregious cases is) something that would move the market,” said Mr. Fahey. But “if the SEC does step up enforcement dramatically,” it could affect rates. “We have to wait and see.”

Steve Boughal, New York-based vice president and chief under-

Review exclusions in D&O policies

Companies need to discuss with their directors and officers liability insurer whether it would exclude coverage for admitting wrongdoing in settling a case brought by the U.S. Securities and Exchange Commission.

Firms “need to have a discussion now with their D&O insurer as to just what the insurer’s position would be with regards to an admission of guilt,” said Joseph P. Monteleone, a partner with Tressler L.L.P. in New York. “It behooves both sides to address (the issue) clearly before they’re faced with the

situation.”

One strategy companies may follow is “trying to stay closer to carriers on the defense side, getting agreement on strategy” and aligning themselves more closely with the insurer’s interests, “because an admission of guilt clearly is going to drive a wedge” between the insurer and the policyholder, said Ann Longmore, New York-based executive vice president of FINEX North America, a unit of Willis North America Inc.

By Judy Greenwald

writing officer of Hartford Financial Products, a unit of The Hartford Financial Services Group Inc., agreed that insurance markets will have to wait and see “what the potential impact will be on losses when they are insuring a target of the SEC,” as well as its effect on subsequent civil litigation. At this point, though, “I wouldn’t suggest it’s going to have major impact on the broader market.”

“Short-term, it’s going to have no effect at all on pricing” because “we don’t know how it’s going to pan out in terms of costs to the insurance carriers,” said Phil Norton, Chicago-based president of the professional liability division at Arthur J. Gallagher & Co.

Longer term, it may become a

question of cutting coverage for “black hats” who admit wrongdoing, and continuing to cover the innocent board members, he said.

Other questions also remain unanswered.

The Falcone agreement, for instance, was “written very carefully.” While the defendants admitted wrongdoing and that they acted recklessly, they never admitted criminal or fraudulent behavior, said Kevin LaCroix, an attorney and executive vice president of RT ProExec, a division of R-T Specialty L.L.C. in Beachwood, Ohio.

“Is that type of admission enough to trigger the fraud exclusion? We need to wait and see how the SEC implements this new policy,” Mr. LaCroix said.

LETTERS

Continued from page 12

physical therapist for low back pain, compared with delayed treatment, was associated with reduced risk of subsequent health care utilization and lower overall health care costs.

Regarding “there’s a lot of physicians who just write a prescription for physical therapy that says ‘evaluate and treat’ and will ‘leave it open and let the therapist dictate the treatment duration,’” this is exactly what physicians should be doing. Physical therapists are health care professionals whose education and expertise allow them to evaluate patients and formulate treatment plans based on the results of that evaluation. In most states, physical therapists may evaluate and commence treatment without a physician referral.

Physical therapist practice also dictates that a plan of care be developed in coordination with the patient, caregiver and other health care professionals. Thus, once a plan of care is established, the physical therapist will communi-

cate with others involved in the case regarding the proposed treatment and discuss any concerns about the plan of care.

Finally, regarding “physical therapists sometimes try to make up for the low cost of services they provide by billing for several treatments during each patient visit,” the payment system is now designed to require physical therapists to report the services they deliver. It is appropriate for physical therapists to report multiple units of service, and to report different services during the course of any patient visit. The American Physical Therapy Association recently has begun developing an alternative payment system for outpatient therapy services. This new system proposes to pay providers based upon the needs of the patient and not on the amount of services provided.

Margot Miller
Member, American Physical Therapy Association and Vice President, Provider Solutions, WorkWell Systems Inc.

IN A WORLD OF COMPLEX DECISIONS

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Aon reshuffles management at operating units

■ Aon P.L.C. has announced several senior management changes at its operating units. New York-based Eric Andersen, who previously served as CEO of Aon Risk Solutions Americas, will be CEO of Aon Benfield. Mike O'Connor — previously chief operating officer of Aon's risk business, which includes Aon Benfield and Aon Risk Solutions — will return to Chicago from London to take on the role of CEO of Aon Risk Solutions, which was previously incorporated into the responsibilities of Steve McGill, group president of Aon and chairman and CEO of Risk Solutions. Mr. Andersen fills a leadership position at Aon Benfield previously occupied by co-CEOs Dominic Christian in London and Mike Bungert in Chicago. Mr. Christian will become executive chairman of Aon Benfield International and also become, pending regulatory approval, CEO of Aon U.K. Ltd. At Aon U.K., he replaces Rob Brown who will maintain his other role as CEO of Aon Risk Solutions EMEA

and will join Aon's executive committee. Mr. Bungert will become chairman of Aon Benfield, with a focus on the Americas. Longtime Aon executive Michael O'Halloran will remain as executive chairman of Aon Benfield.

SEC hands out \$14 million whistle-blower award

■ The U.S. Securities and Exchange Commission said it has awarded more than \$14 million to a whistle-blower whose information led to an enforcement action that recovered "substantial" investor funds. An SEC spokeswoman said the agency would not reveal the name of the company involved nor any further details beyond its statement. According to the agency's statement, the award is the largest made by the SEC's whistle-blower program to date. The SEC said the whistle-blower, who does not wish to be identified, provided original information and assistance that allowed the SEC to investigate an enforcement matter more quickly than otherwise would have been possible.

Sale of broker Hub International to private equity firm finalized

■ San Francisco-based private equity firm Hellman & Friedman L.L.C. has completed its \$4.4 billion acquisition of insurance brokerage Hub International Ltd., Hub said. Hub also said it has completed funding a \$2.1 billion senior secured credit facility and a private offering of \$950 million of senior unsecured notes in connection with the transaction. Hub is the world's 10th-largest insurance brokerage according to *Business Insurance's* latest ranking

Smaller employers turn to high-deductible health plans

■ Nearly half of small and midsize employers will include a high-deductible health plan among their group health benefit options by 2015, according to a survey by Itasca, Ill.-based Arthur J. Gallagher & Co. Currently, 34% offer HDHPs to their employees.

EXCHANGES

Continued from page 1

has been an accelerated shift in the past year, said Michael Thompson, a principal with PricewaterhouseCoopers L.L.P. in New York.

In the past few weeks, big and well-known industry-leading employers, including IBM Corp. and Walgreen Co., have disclosed that, starting next year, their employees or retirees will choose health care plans offered by insurers participating in private exchanges. One exchange alone — the one unveiled a year ago by Aon Hewitt — has seen the number of participating employers leap sixfold to 18 from three, with total enrollment more than doubling to about 600,000.

Other private exchanges also are growing quickly. Eleven employers with 400,000 employees and dependents have signed up with an exchange offered by Buck Consultants L.L.C. that will start next year. Mercer L.L.C. said nine employers with 35,000 enrollees have signed up for its new exchange, with an announcement expected soon that additional employers have opted for the exchange.

And OneExchange Retiree, a

Towers Watson & Co. exchange offering coverage to Medicare-eligible retirees, has seen the number of clients jump nearly 50% this year alone to 300.

The recent growth spurt may be just the beginning. "In the future, exchanges will be the standard business model" for providing coverage, said Alan Cohen, co-founder and chief strategy officer in New York with Liason Corp., which operates the Bright Choices private insurance exchange.

"It is reasonable to expect that the overall marketplace will double every year for the next five years," said Ken Sperling, Aon Hewitt national strategy leader in Norwalk, Conn.

Others are more cautious in their growth predictions.

"It might be premature to give some sort of projection that this is going to be the model of the future. What we can say is that there seems to be great interest from corporate America," said Mercer President and CEO Julio Portalatin in New York.

That corporate interest in private exchanges is being driven by several factors, according to employers who have signed up:

■ A desire to give their employees or retirees more health care plan options.

"Choice was an important factor," said Steve Heckert, vice president of human resources in Clearwater, Fla., for GFI Software. The company offers employees up to six health care plans, compared with just one plan previously, through the Bright Choices exchange. "Employees are able to select a health plan that works for their pocketbook with coverage appropriate for them."

A spokesman for Deerfield, Ill.-based Walgreen said, "We are trying to provide more options for our very diverse workforce that covers 240,000 team members across all 50 states. With more options, employees can choose a plan that is more personalized for their health care needs."

About 35% of Walgreen employees are single and under age 30, and "with the flexibility of our new program, they can choose a plan that provides the kind of coverage they need — 100% of their preventive care with premiums as low as \$5 a month for a high-deductible plan," the spokesman said.

Walgreen employees will be able to choose from up to 25 different plans offered by the five insurers participating in the Aon Hewitt exchange. This year, employees could choose from only two insurers who each offered two plans.

■ Reduction in overhead.

"For clients, we take on all the contracting and negotiating," said Sherri Bockhorst, national practice leader of health exchange solutions for Buck Consultants.

"In an environment where HR staff resources are severely constrained, the ability to go to an exchange and say, 'You handle compliance. You handle employees' questions,'" is a big resource saver for employers, Mercer's Mr. Portalatin said.

Employers agree. "That allows us to concentrate on meeting the many other needs of our people," said Al Rapp, vice president of corporate health care in Atlanta with United Parcel Service Inc., which has offered health care coverage to Medicare-eligible retirees through an Aon Hewitt exchange since 2012.

■ Making employer costs more predictable.

When employers adopt the exchange model, they typically set a fixed premium contribution amount they will pay. Previously, "the amount of the annual benefit rate increases drove our benefits strategy more than we liked. With the exchange delivery mechanism, we're able to decide on our strategy and associated budget independent of the rate increases," GFI Software's Mr. Heckert said.

Business Insurance adds reporter in New York office



Mr. Lerner

Matthew Lerner has joined the *Business Insurance* editorial team as an associate editor in its New York office.

Mr. Lerner will cover breaking news involving commercial insurance brokers, insurers and reinsurers, as well as handling news analysis and trend stories about brokers and insurers. He'll work primarily with Senior Editor Mark A. Hofmann, who leads the Brokers & Insurers channel coverage.

A veteran business trades reporter

and editor, Mr. Lerner has spent a big portion of his 25-year career covering the global steel, metals and chemical industries. Most recently, he was senior market editor in New York for Steel Markets Daily, a leading daily steel industry newsletter published by a unit of McGraw-Hill Financial Inc. After four years in that position, he left early last year to work as an editorial consultant, specializing in the metals, mining and steel industries.

Previously, Mr. Lerner held positions of market editor for American Metal Market, editor/analyst for Technical Insights and market editor for Chemical Market Reporter. Early in his career, he worked for three years as a marketing communications representative with American International Group Inc.

A New York City resident, Mr. Lerner holds a bachelor's degree in political science from Penn State University.

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AP PHOTO

Nicki Minaj, left, Madonna, center, and M.I.A. perform at Super Bowl XLVI.

NFL calls penalty on M.I.A. for gesture

The National Football League reportedly wants pop singer M.I.A. to hand over \$1.5 million in damages for giving the middle finger during her halftime performance at Super Bowl XLVI.

The NFL sued M.I.A. in May 2012, months after the performer gave the offensive hand gesture while singing "Give Me All Your Luvin'," according to the Hollywood Reporter. The lawsuit, which seeks a public apology along with monetary damages, reportedly claims M.I.A. breached her performance contract and hurt the NFL's reputation.

Neither the Federal Communications Commission nor NBC fined the NFL for M.I.A.'s rude salute to football fans.

A lawyer for M.I.A. said the NFL's stance is hypocritical considering its recent \$765 million settlement to NFL players who suffered concussion-related trauma, as well as legal troubles faced by NFL athletes.

"Of course, the NFL's claimed reputation for wholesomeness is hilarious," the lawyer told the Hollywood Reporter.

Firefighter torches car in insurance scam

An English firefighter faces jail time after admitting he torched his BMW in an attempted insurance scam, though he conveniently chose to set the vehicle aflame behind the fire station where he worked.

According to reports, 43-year-old Anthony Murray pleaded guilty to conspiracy to commit arson and two fraud charges involving two different insurance companies.

Mr. Murray also pleaded guilty to attempting to pervert the course of justice by writing letters intended to suggest that someone else was responsible for setting his BMW ablaze.

The attempted scam played out between September and November 2012, reports said, with the arson occurring while Mr. Murray was working on one of the Skelmersdale, England, station's fire engines, which were responding to a hoax call.

A second man, Gareth Collier, 33, has already pleaded guilty to making the hoax call and igniting the blaze, which damaged two other cars in the parking lot, reports said. The two men are set to be sentenced Nov. 25.

ALANIS LEARNS THE HARD WAY THAT IT PAYS TO PAY OVERTIME



S_BUKLEY/SHUTTERSTOCK.COM

Alanis Morissette's former night-time nanny is suing for unpaid overtime.

In her 1996 hit song "You Learn" from the album "Jagged Little Pill," Alanis Morissette points out that in every negative life event, significant learning is possible. She's getting a taste of that medicine now as the former night-time nanny to the pop songwriter's 2-year-old son is suing her for unpaid overtime wages and emotional distress.

Bianca Cambeiro worked for Ms. Morissette and her husband, Mario Treadway, from August 2011 to March 2013, according to the lawsuit filed last month in Los Angeles Superior Court. Ms. Cambeiro said she was paid \$25 an hour for working a 9 p.m.-to-9 a.m. shift three to four days a week. She also traveled with the couple when Ms. Morissette was on tour.

Ms. Cambeiro alleges in the lawsuit that she was not allowed to leave the baby's room unless Alanis or Mario was there, meaning that she was denied any breaks or opportunity to eat.

Ms. Cambeiro said she received no overtime despite asking for it and that she never got a break. When she asked Ms. Morissette's accountant why she wasn't receiving overtime, he informed her that "we don't do that," according to the lawsuit.

The suit seeks a jury trial, \$30,000 for lost overtime wages, \$100,000 for emotional distress and attorney's fees.

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.

State Farm humbled over contract terms

A three-judge panel recently ruled against State Farm Mutual Automobile Insurance Co., and in the process gave the insurance company a complimentary lesson on humility.

The 6th U.S. Circuit Court of Appeals ruled that State Farm must pay for all of the injuries sustained by Ohio resident Barbara Bennett, who was struck by a Ford Fusion insured by State Farm while walking her dog in 2010. Ms. Bennett suffered a knee injury when struck by the car and additional injuries as she landed on the car's hood. State Farm sought only to pay for the knee injury, and a district court judge ruled in the company's favor.

Ms. Bennett appealed the ruling, saying that she was an "occupant" of the Fusion during the time she was on the car's hood and therefore entitled to compensation for her injuries suffered there. State Farm lawyers dismissed the claims as "ridiculous." But the court ultimately ruled in Ms. Bennett's favor, noting that in their auto insurance contracts State Farm defines occupying as "in, on, entering or alighting from" a vehicle and also admonished State Farm's lawyers for their breach of legal etiquette.

"There are good reasons not to call an opponent's argument 'ridiculous,'" the judges wrote. "The reasons include civility ... But here the biggest reason is more simple: the argument that State Farm derides as ridiculous is instead correct."



AP PHOTO

Who you gonna call? My attorney

Remember the theme song of the 1984 movie, "Ghostbusters," which goes, "Who you gonna call? Ghostbusters!"

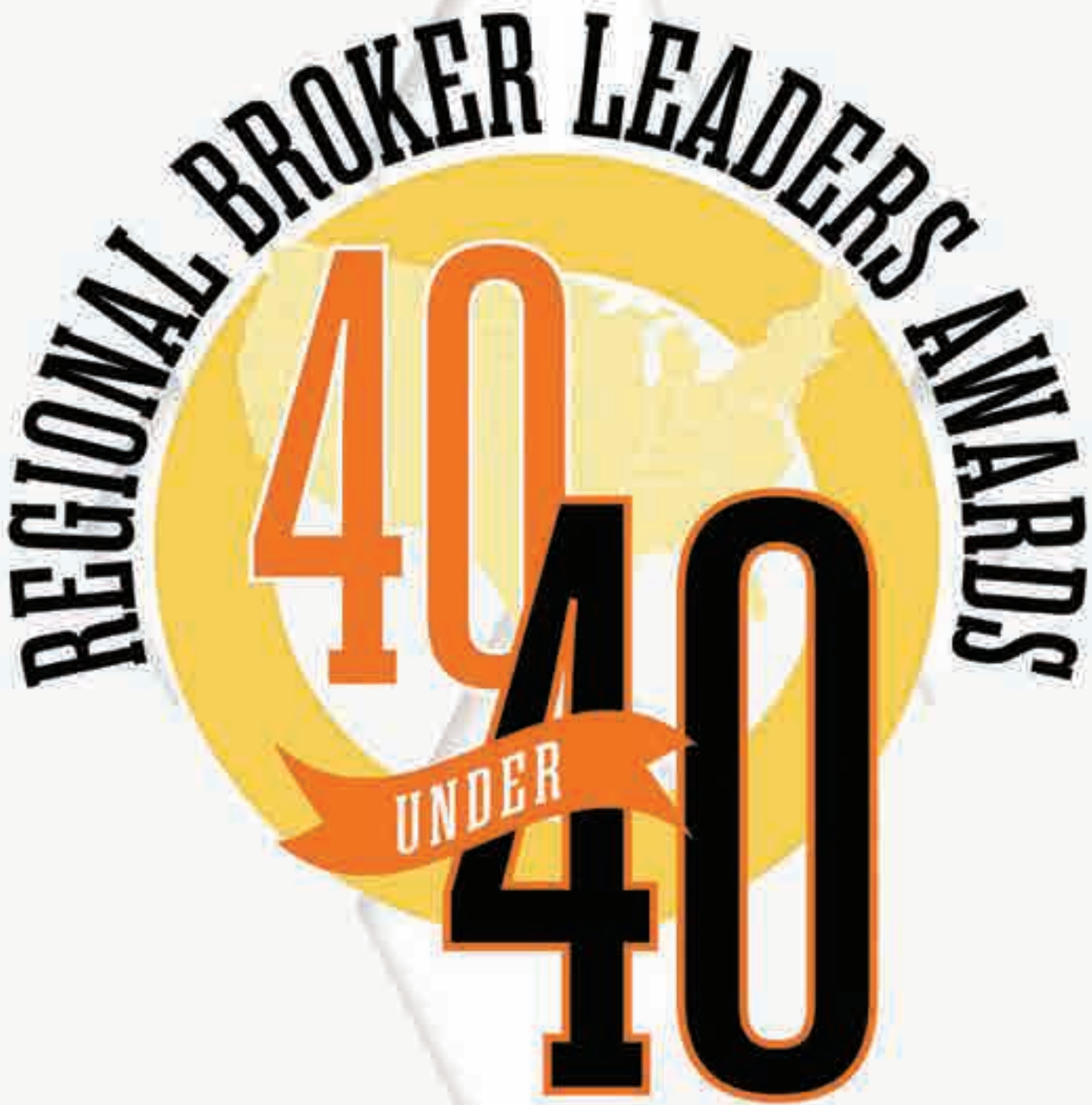
Well, in the case of that song's original singer, the answer is, "My attorney."

Singer Ray Parker Jr. reportedly has filed a lawsuit charging he has been cheated out of royalties for that song.

Mr. Parker claims he was entitled to 75% of the gross receipts produced by the song, which he alleges accounted for more than \$20 million in box office profits.

Defendants in the lawsuit are New York-based Sony/ATV Music Publishing L.L.C. and EMI Group Ltd.

"Ghostbusters" was one of the biggest tracks of the 1980s and has been used in TV commercials and covered by other acts.



REGIONAL BROKER LEADERS

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Many routes on the journey to profitable growth

What differentiates winners from losers in the ever-competitive insurance brokerage and agency marketplace?

One key factor is productivity.

In this special annual supplement to *Business Insurance*, we again examine what the most productive insurance brokers operating in the United States are doing to maintain their edge over their competitors.

Their strategies may differ, but the goal is the same — to grow market share and profit despite overall market conditions.

Also in this supplement, market experts detail what they consider to be the qualities of winning brokerages and those of brokerages and agencies that lag their peers. As might be expected, there's no sole attribute that separates the two extremes.

Brokerages and agencies that fail to produce winning results may find themselves on the selling block sooner than they expected in a marketplace where winners are hungry for acquisitions.

But there is one goal — profitable growth — that all brokerages seek. Although marketplace winners may follow different paths to reach that goal, the end result is the same, and may inspire other producers to follow their example.

Mark A. Hofmann
 Senior Editor

RESEARCH & DATA

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Technology, proprietary products help Mid American top all in productivity

Selective approach to clients, staffing boosts revenues

BY BILL KENEALY



“We look for clients that have a need for a robust lineup of services and administration, so we can effectively become a good part of their back office.”

James P. Lill,
Mid American
Group Inc.

Mid American Group Inc.’s recipe for success has four primary ingredients, CEO James P. Lill said.

The Westmont, Ill.-based employee benefits specialist focuses on leveraging technology, enforcing client selectivity, creating an enticing work environment to attract the best people and offering clients proprietary products to achieve its success.

The formula appears to be working. The company achieved \$432,308 in revenue per employee in 2012, making Mid American the most productive broker in the 2013 *Business Insurance* ranking.

One way Mid American embraces technology as a differentiator is through the creation of proprietary technology for its clients. In addition to a proprietary online enrollment system is integrated with a company’s payroll systems, Mid American also builds a custom, self-service website for all of its clients, Mr. Lill said. In addition to easing system integration issues with outside providers and insurer claims systems, the use of these systems introduces efficiencies for both Mid American and the client by automating manual tasks.

“We train our clients to leverage our Web-based solutions,” he said.

The company also looks for areas where existing technology can be used to increase efficiency. For example, the company issues debit cards to a client’s employees to speed the payment of claims. “About of 85% of our claims activity is through debit cards,” Mr. Lill said.

Likewise, the company has auto-

mated the monthly claims summaries it sends to clients, cutting distribution costs while enabling a chief financial officer to see a dashboard view of pertinent information.

Elsewhere, the company uses webinars to help clients with training and administrative tasks. “A lot of times, instead of sending personnel, we’ll do it virtually,” he said. “We encourage customers to go digital.”

A second pillar of Mid American’s approach is client selectivity. Mr. Lill said the company targets mid-market firms that require a package of cohesive, value-added services. Accordingly, Mid American may provide a firm with upfront work in consulting, actuarial and claims analysis, and subsequently help with back-office administration issues involving COBRA or flexible spending accounts.

This one-stop-shop approach sets the firm apart from more traditional insurance brokers, he said.

“The traditional broker paradigm has shifted dramatically,” he said. “We look for clients that have a need

for a robust lineup of services and administration, so we can effectively become a good part of their back office.”

This selective approach also applies to the people the company hires. The company looks for self-starters who can thrive under good managers. “I think our commitment to great hires is the No. 1 key to productivity,” Mr. Lill said.

To attract the best people, the company is results-oriented and uses an unofficial flex-time policy.

“Over the years, we have found that the best hires work best when they can determine the hours they work themselves,” he said. “If somebody wants to go hit a few golf balls in the middle of the day, we really don’t care.”

Moreover, the company stresses learning, paying for ongoing education and professional accreditation. “The more knowledgeable employees are, the more predictive they can be,” Mr. Lill said.

The company’s last key to success has been a willingness to devise unique and timely products.

For example, Mid American created products specifically tailored to the challenges faced by midsize employers in the wake of the Patient Protection and Affordable Care Act.

“We put on health care reform-based seminars since the law was passed in 2010,” Mr. Lill said, adding that the company now has a product designed to help firms navigate the challenges of health insurance exchanges. “For us, ACA has been a windfall. In our segment of the market, a lot of companies do not have a large (human resources) department.”

MID AMERICAN GROUP INC.

Westmont, Ill.

2012 Brokerage revenue

\$11,240,00

Employees

26

Revenue per employee

\$432,308

MOST PRODUCTIVE: ALL AGENTS AND BROKERS

Intermediaries*ranked by 2012 brokerage revenue per employee

Rank	Company	Revenue/employee			Brokerage revenue			Employees		
		2012	2011	% change	2012	2011	% change	2012	2011	% change
1	Mid American Group Inc.	\$432,308	\$464,737	(7.0%)	\$11,240,000	\$8,830,000	27.3%	26	19	36.8%
2	Towers Watson & Co.	\$371,184	\$321,320	15.5%	\$462,495,189 ¹	\$409,362,054 ¹	13.0%	1,246	1,274	(2.2%)
3	Alliant Insurance Services Inc.	\$334,440	\$316,383	5.7%	\$504,335,500	\$460,654,200	9.5%	1,508	1,456	3.6%
4	DataRisk L.L.C.	\$333,729	\$362,283	(7.9%)	\$2,336,100	\$2,173,700	7.5%	7	6	16.7%
5	AirSure Ltd.	\$329,473	\$355,076	(7.2%)	\$11,861,031	\$12,427,650	(4.6%)	36	35	2.9%
6	Crystal & Co.	\$323,247	\$313,667	3.1%	\$137,380,000	\$131,740,000	4.3%	425	420	1.2%
7	Capacity Group of Cos.	\$305,249	\$306,516	(0.4%)	\$69,901,960	\$65,594,355	6.6%	229	214	7.0%
8	Bazzi & Partners S.p.A.	\$297,870	\$272,765	9.2%	\$6,851,000	\$6,273,600	9.2%	23	23	0.0%
9	Mesirow Insurance Services Inc.	\$276,456	\$272,617	1.4%	\$87,083,582 ²	\$83,420,739 ²	4.4%	315	306	2.9%
10	R.K. Harrison Group Ltd.	\$272,700	\$251,039	8.6%	\$144,531,023 ^{1,3}	\$123,260,254 ^{1,3}	17.3%	530	491	7.9%
11	National Financial Partners Corp.	\$266,366	\$254,798	4.5%	\$751,684,201	\$700,694,393	7.3%	2,822	2,750	2.6%
12	Frenkel & Co.	\$263,738	\$264,534	(0.3%)	\$61,450,874	\$58,461,915	5.1%	233	221	5.4%
13	The Graham Co.	\$256,701	\$239,095	7.4%	\$38,248,383	\$35,864,291	6.7%	149	150	(0.7%)
14	Woodruff-Sawyer & Co.	\$250,418	\$252,518	(0.8%)	\$74,875,000	\$70,200,000	6.7%	299	278	7.6%
15	M&T Insurance Agency Inc.	\$243,988	\$236,893	3.0%	\$40,746,000	\$37,666,000	8.2%	167	159	5.0%
16	Benefit Controls Cos.	\$236,842	\$220,330	7.5%	\$22,500,000	\$20,050,000	12.2%	95	91	4.4%
17	Risk Strategies Co.	\$232,734	\$216,185	7.7%	\$44,917,576	\$40,859,000	9.9%	193	189	2.1%
18	BB&T Insurance Services Inc.	\$231,221	\$241,868	(4.4%)	\$1,480,274,900	\$1,104,126,900	34.1%	6,402	4,565	40.2%
19	Edgewood Partners Insurance Center Inc.	\$230,441	\$212,276	8.6%	\$66,367,000	\$60,074,000	10.5%	288	283	1.8%
20	The Mahoney Group	\$229,114	\$186,760	22.7%	\$42,386,149	\$38,472,536	10.2%	185	206	(10.2%)

*Companies deriving more than 49% of their gross revenue from personal lines business are not ranked. 1 Fiscal year ending June 30. 2 Fiscal year ending March 31. 3 British pound = 1.6043 in 2012 and 1.5705 in 2011.

Source: BI survey

Efficiency, ownership structure drive productivity at Alliant

Teamwork, technology investments pay dividends

BY RODD ZOLKOS



“It isn’t a goal of ours to have the highest revenue per employee. It is a goal of ours to operate very efficiently.”

Thomas W. Corbett, Alliant Insurance Services Inc.

A focus on specialty business, a team-based working environment, investment in technology and employee ownership are among the factors promoting high productivity for Alliant Insurance Services Inc.

With \$334,549 in U.S. brokerage revenue per employee in 2012 — up 5.9% from 2011 — Newport Beach, Calif.-based Alliant ranked as most productive among the top 100 brokers of U.S. business in this year’s *Business Insurance* agent and broker survey.

“It isn’t a goal of ours to have the highest revenue per employee,” said Thomas W. Corbett, Alliant’s chairman and CEO. “It is a goal of ours to operate very efficiently.”

At the same time, Mr. Corbett said, “We’re very happy to be ranked highly because we see that as a reflection or verification of our business plan.”

A major element of that plan is Alliant’s focus on specialized business niches.

“We are a highly specialized brokerage company,” Mr. Corbett said. “We believe — and the numbers bear this out — that it’s simply more efficient to focus on certain key areas and deliver products and services that benefit our clients.”

While its business plan is set from the top, leaders of its various operations have great flexibility in determining how best to execute that plan.

“Our leaders are in a very entrepreneurial situation,” said Ralph Hurst, president, national brokerage at Alliant. “Quite frankly, that just attracts quality people.”

Alliant’s “team-based environment” and flat organizational struc-

ture allow senior brokers to establish teams and share revenue as they pursue business, Mr. Corbett said. “This team-based environment, entrepreneurial-based environment supports efficiency as well,” he said.

The broker’s investments in technology also play an essential role in its productivity.

“We’ve invested heavily in technology to improve productivity,” said Greg Zimmer, Alliant’s president and chief financial officer. He cited the example of technology’s role in one particular program account.

“We renew more than 10,000 clients in a single program on a single day,” Mr. Zimmer said. “That would be one of the 100 largest brokers just in that one program on that one day. There’s no way you can do that without a significant investment in technology.”

Alliant is also directing considerable investment to client-facing technology, including its portals that allow clients to get access to their account information at any time.

“It’s a double benefit because

they’re getting the information when they want it and we’re getting the efficiency from that because they’re getting their information without having to contact an Alliant insurance professional,” Mr. Zimmer said.

Chief Operating Officer Peter Carpenter said technology also is helping the broker get employee benefits information into the hands of covered employees with a proprietary Alliant app, Ben-IQ, which provides access to medical policy information, cost of services and the ability to talk with a health care professional.

“From an efficiency standpoint, getting issues handled at the point of the actual consumer is something we’re working on a lot right now,” Mr. Carpenter said.

Doing a portion of its business as a managing general agency also helps boost Alliant’s productivity, said Sean McConlogue, president of Alliant Specialty Insurance Services. In that area, products are distributed both through Alliant sales staff and by other brokers’ salespeople.

That “co-broker” model allows Alliant to generate more revenue with fewer employees, Mr. McConlogue said.

Mr. Zimmer said employee ownership also contributes to Alliant’s productivity, providing an incentive for employees to do business efficiently and effectively.

“One area that’s always been important to the company (is) — although we’re private-equity backed — roughly 40% of the company remains owned by the employees,” Mr. Zimmer said.

“All of these things add up to a great spirit, a free-flowing operation” that also is productive, Mr. Corbett said.

ALLIANT INSURANCE SERVICES INC.

Newport Beach, Calif.

2012 Brokerage revenue

\$503,861,165

Employees

1,506

Revenue per employee

\$334,549

Disciplined expense management creates platform for growth at BB&T

Latest technology leverages resources while Crump buy boosts revenue, head count

BY JOANNE WOJCIK



“We expect (expense discipline) of our managers and all of our employees. Resources are expensive. We tell them just don’t waste them.”

H. Wade Reece, BB&T Insurance Services Inc.

Thanks to a tried-and-true formula of operating efficiently while growing business, BB&T Insurance Services Inc. maintained its position as the most productive of the world’s 10 largest brokerages.

Its 2012 revenue per employee was \$231,221, down 4.4% from 2011 as a result of last year’s acquisition of Roseland, N.J.-based Crump Group Inc., which boosted its employee head count 40% to 6,402.

Still, the infusion of approximately \$300 million in additional revenue as a result of the merger helped keep revenue per employee high.

BB&T’s gross revenue grew 33.6% in 2012 to \$1.56 billion, helping this Southern bank-owned insurance broker leap two notches to the No. 6 spot in *Business Insurance’s* annual broker rankings. BB&T Insurance Services is a wholly owned subsidiary of Winston-Salem, N.C.-based BB&T Corp.

“We’ve always had a culture of being very disciplined with our expenses,” said H. Wade Reece, CEO of BB&T Insurance. “We expect that of our managers and all of our employees. Resources are expensive. We tell them just don’t waste them.”

Technology also is helping to keep BB&T’s overhead low while enhancing productivity, said David Pruett, Mount Erie, N.C.-based CEO of BB&T’s retail operations.

“Since the early 1980s when we started automating our agencies, we’ve been able to grow our business

substantially without growing staffing at the same levels,” Mr. Pruett said. “We don’t allow for duplication of efforts, and many of our operations are paperless, so we’ve been able to reduce expenses while improving customer satisfaction.”

Moreover, “technology is a place that we get to piggyback on some things that our parent company does,” Mr. Pruett said. “We can tap into mobile technologies and web technologies that the bank is using.”

BB&T also has been able to keep the cost of servicing small business and personal lines customers down by centralizing administration in a single location, Mr. Pruett said.

“One of the things that makes it difficult for most retail property/casualty insurance agencies to have the numbers we have is small business and personal lines,” Mr. Pruett said. “Because of our size and volume in this area, we’ve been able to create a centralized function to

administer all of our personal lines other than wealth management of high net-worth individuals. We can actually do with one person what an agency in the field requires two people to do. That allows us to focus on large accounts that generate greater revenue.”

Since passage of the Patient Protection and Affordable Care Act, BB&T has dedicated significant resources to developing mobile and Internet applications to streamline and enhance its group employee benefits service capabilities, he said.

John Howard, Roseland, N.J.-based CEO of BB&T’s wholesale operations, said the division also keeps the broker’s costs in check by “centralizing high-volume processing tasks such as policy checking, policy issuance, surplus lines tax compliance, underwriting support and cash reconciliations.”

BB&T’s wholesale division also partners with insurers to drive process efficiencies, Mr. Howard said.

“We are able to perform more functions on behalf of the carrier where we have underwriting authority” as either a managing general agent or managing general underwriter, he said.

BB&T also uses technology to grow its business.

For example, “we devote significant resources to mine the data that we capture to identify pockets of opportunity for ourselves and our carrier partners,” Mr. Howard said, such as by establishing insurance programs targeting new customers.

BB&T INSURANCE SERVICES INC.

Winston-Salem, N.C.

2012 Brokerage revenue

\$1,480,274,900

Employees

6,402

Revenue per employee

\$231,221

MOST PRODUCTIVE: TOP 10 PRODUCERS OF U.S. BUSINESS

Intermediaries* ranked by 2012 brokerage revenue per employee from U.S.-based clients**

Rank	Company	Revenue/employee			Brokerage revenue			Employees		
		2012	2011	% change	2012	2011	% change	2012	2011	% change
1	Alliant Insurance Services Inc.	\$334,549	\$316,067	5.9%	\$503,831,165	\$460,193,546	9.5%	1,506	1,456	3.4%
2	Crystal & Co.	\$323,247	\$313,667	3.1%	\$137,380,000	\$131,740,000	4.3%	425	420	1.2%
3	Towers Watson & Co.	\$322,371	\$326,008	(1.1%)	\$346,871,392 ¹	\$360,238,608 ¹	(3.7%)	1,076	1,105	(2.6%)
4	Capacity Group of Cos.	\$305,249	\$306,516	(0.4%)	\$69,901,960	\$65,594,355	6.6%	229	214	7.0%
5	Mesirow Insurance Services Inc.	\$276,456	\$272,617	1.4%	\$87,083,582 ²	\$83,420,739 ²	4.4%	315	306	2.9%
6	National Financial Partners Corp.	\$267,110	\$255,809	4.4%	\$744,167,359	\$692,986,755	7.4%	2,786	2,709	2.8%
7	Willis Group Holdings P.L.C.	\$266,436	\$263,046	1.3%	\$1,625,260,000	\$1,604,580,000	1.3%	6,100	6,100	0.0%
8	Frenkel & Co.	\$263,738	\$264,534	(0.3%)	\$61,450,874	\$58,461,915	5.1%	233	221	5.4%
9	The Graham Co.	\$256,701	\$239,095	7.4%	\$38,248,383	\$35,864,291	6.7%	149	150	(0.7%)
10	Woodruff-Sawyer & Co.	\$250,418	\$249,993	0.2%	\$74,875,000	\$69,498,000	7.7%	299	278	7.6%

*Companies that derive more than 49% of their gross revenue from personal lines business are not ranked. **Companies that do not provide U.S. employee count are not ranked. 1 Fiscal year ending June 30. 2 Fiscal year ending March 31.

Source: BI survey

MOST PRODUCTIVE: WORLD'S 10 LARGEST BROKERS

Intermediaries* ranked by 2012 brokerage revenue per employee

Rank	Company	Revenue/employee			Brokerage revenue			Employees		
		2012	2011	% change	2012	2011	% change	2012	2011	% change
1	BB&T Insurance Services Inc.	\$231,221	\$241,868	(4.4%)	\$1,480,274,900	\$1,104,126,900	34.1%	6,402	4,565	40.2%
2	Wells Fargo Insurance Services USA Inc.	\$223,753	\$216,195	3.5%	\$1,575,444,000	\$1,626,869,000	(3.2%)	7,041	7,525	(6.4%)
3	Marsh & McLennan Cos. Inc.	\$220,815	\$221,519	(0.3%)	\$11,924,000,000	\$11,519,000,000	3.5%	54,000	52,000	3.9%
4	Lockton Cos. L.L.C.	\$203,465	\$203,237	0.1%	\$1,007,150,000 ¹	\$904,403,000 ¹	11.4%	4,950	4,450	11.2%
5	Willis Group Holdings P.L.C.	\$197,600	\$200,824	(1.6%)	\$3,458,000,000	\$3,414,000,000	1.3%	17,500	17,000	2.9%
6	Brown & Brown Inc.	\$192,967	\$183,485	5.2%	\$1,400,362,797 ²	\$1,112,104,659 ²	25.9%	7,257	6,061	19.7%
7	Jardine Lloyd Thompson Group P.L.C.	\$185,334	\$188,437	(1.7%)	\$1,404,834,420 ³	\$1,266,671,620 ³	10.9%	7,580	6,722	12.8%
8	Arthur J. Gallagher & Co.	\$177,260	\$168,917	4.9%	\$2,516,910,000 ⁴	\$2,091,700,000 ⁴	20.3%	14,199	12,383	14.7%
9	Aon P.L.C.	\$173,879	\$181,097	(4.0%)	\$11,476,000,000	\$11,228,000,000	2.2%	66,000	62,000	6.5%
10	Hub International Ltd.	\$160,319	\$154,689	3.6%	\$988,687,335	\$878,321,552	12.6%	6,167	5,678	8.6%

* Companies deriving more than 49% of their gross revenue from personal lines business are not ranked. 1 Fiscal year ending April 30. 2 Pro forma to include acquisition of Beecher Carlson Holdings Inc. 3 British pound = 1.6181. 4 Pro forma to include acquisition of Bollinger Inc.

Source: BI survey

TOUGH RISKS TOUGH BROKERS



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Winning ways

Star performers always on the hunt for growth

BY MARK A. HOFMANN

Whether a brokerage or agency outpaces its peers depends on a multitude of factors, say agency merger and acquisition professionals and management consultants.

Winners build and maintain a strong sales-driven culture. They recruit vigorously. The heads of the operation have to exercise sterling leadership qualities.

Winners also look for profitable niches to exploit as well as attractive acquisitions.

Losers also exhibit a variety of characteristics, complacency being high among them. Some of these characteristics are within the control of the agency principals, such as being satisfied with renewals and lacking a strategic vision. Others may

be somewhat beyond their immediate control, such as being heavily dependent on a geographic region.

“If a business isn’t growing, it’s dying,” said John L. Ward, CEO of Cincinnatus Partners L.L.C. in Loveland, Ohio.

“If you’re not in a growth mode, it means you’re trying to defend what you have; and if you are, you better have a plan to sell that business on a two- to three-year horizon,” said John Wicher, principal of John Wicher & Associates Inc. in San Francisco.

“Successful growth firms are hyper aware of the market in which they do business, they’re constantly asking themselves, ‘How do we grow this business,’” he said. “There’s a sense of urgency that extends throughout the organization.”

A sales-driven culture is key to success, said Timothy J. Cunningham, managing

director at Optis Partners L.L.C in Chicago.

“There’s a constant focus on development and recruitment of sales talent,” Mr. Cunningham said. “Whether it’s experienced or not, they’re always bringing talent into the pipeline.” He said that the aging of the baby boom generation “means the sales talent pipeline needs to be filled constantly.”

Mr. Cunningham warned, however, that there’s absolutely no fool-proof way to assure the recruitment of quality producers.

“Even with the most disciplined approach, even using psychological profiles, the one thing you can’t measure is heart and soul,” he said. “It’s like in sports. In the NFL, how many first-round draft choices are a bust or just mediocre?”

John Wepler, president of Marsh Berry & Co. Inc. in Willoughby, Ohio, cited three sources for recruiting talent.

The first is finding an experienced producer without a noncompete agreement. “That’s like hunting for unicorns; they don’t exist,” he said. An experienced producer without a noncompete agreement may be someone their current employer doesn’t want to keep.

A second source is college interns. The problem is that they take a long time to train and they’ve never really had a bad job, so they have a lower retention rate, Mr. Wepler said.

The third source is proven successful salespeople without insurance experience.

“To hire a successful insurance sales professional, you have to go through arduous screening and testing,” he said.

For many agencies and brokers, mergers and acquisitions can aid success, Mr. Ward said.

“There has been significant M&A activity in the sector and, in my opinion, it’s been driven primarily by the private equity capital coming into the industry,” he said. “Any brokerage that is relying only on organic growth as a way of growing the business is missing a big opportunity by not engaging in M&A.”

A mix of business also can be crucial, Mr. Ward said. Brokers differ in their business mixes, pursuing U.S. brokerage, international brokerage, reinsurance brokerage, claims management and employee benefits. With brokerages subject to the effects of hard or soft markets, “it’s very good to have a diversified book; claims management isn’t as vulnerable to the pricing cycle,” he said.

Geographic diversity helps, too, Mr. Wicher said. Agencies with a cutoff around \$7 million in revenue generally will be geographically unique and therefore will be more susceptible to the local economy, he said. For example, a retail broker transacting business in North Carolina could be particularly sensitive to transportation, which is “just beginning to climb out of a deep, deep recession,” he said. For a national broker, that exposure “is not going to show up in numbers,” he said.

“If I had had to suggest what would be the big thing, it would be leadership,” said Bobby Reagan, president and CEO of Reagan Consulting Inc. in Atlanta. “Because of good leadership, a lot of things happen.”

Success starts at the top

Successful brokerages and agencies have a sales culture because they have leaders who recruit good people, he said. “Their salespeople have a competitive advantage,” Mr. Reagan said.

Better leadership results in better operational leadership, a more efficient organization and better use of technology, he said.

Strong leadership also gives an agency or brokerage strategic differentiation and focus, Mr. Reagan said. The fastest growing or most profitable agencies tend to have specific areas on which they focus. They are not generalists. They can focus their service offerings so they can do more for their customers. They have more clout with insurers. “They have a huge competitive advantage over generalist counterparts,” he said.

Laggards, on the other hand, lack leadership, a strong sales culture and

a lack of strategic orientation, he said. They have a “lack of focus, really haven’t defined their brand.”

Intermediaries that fail to compete with their counterparts run in place and live off renewals, Mr. Ward said. He said that particularly in agencies that rank in *Business Insurance*’s list of the top 100 brokers of U.S. business, the ownership is aging. Some have a well-developed perpetuation plan, but many do not, he said.

For an agency that doesn’t develop predictable, profitable organic growth, it is “almost certain you will sell the business,” Mr. Wepler said.

He said the vast majority of independent agencies has been left riding the rising and falling tide of the rate environment and the economy. The average insurance agency grows only in a climate of rising rates and a rising economy, “while peak performers have built a model where they can grow irrespective of external environment,” Mr. Wepler said.

“If you want to perpetuate, you have to have people inside your company that want to buy you out,” he said. “If you don’t have predictable organic growth, the staff internally won’t have confidence in the growth of the business and predictable profit — that they won’t be able to pay for it,” he said.

Mr. Wepler said Marsh Berry thinks that about 77% of independent agencies will sell eventually.

Lagging performers display other characteristics as well, he said. He said the average agency generates about 16.6% profit, and that the best 25% generate 28.5%. That difference came generally from poor performers’ overpaying producers on renewal commissions and allowing overstaffing, he said.

Mr. Wepler also said poor performers don’t follow the lead of high-growth agencies in having a commitment to broad ownership. Among high-growth agencies, 71% allow producers to buy stock in the agency, versus only 36% of the average agencies. By allowing producers to buy stock in the agencies, they have skin in the game that “breeds entrepreneurial spirit,” he said.



“If you’re not in a growth mode, it means you’re trying to defend what you have; and if you are, you better have a plan to sell that business on a two- to three-year horizon.”

John Wicher,
John Wicher &
Associates Inc.

Terrorism backstop, health care reform top agents' legislative agenda

Optimism grows on bill to streamline producer licensing

BY MARK A. HOFMANN

The Independent Insurance Agents & Brokers of America are pursuing an ambitious legislative agenda at the federal and state levels in the months ahead. Issues range from streamlining the agent licensing process to terrorism insurance to how implementation of the Patient Protection and Affordable Care Act will affect independent agents, said Charles Symington, senior vice president of the Alexandria, Va.-based IIABA.

One of the key issues for the group is enactment of the National Association of Registered Agents and Brokers Reform Act of 2013. The measure, which would establish a nonprofit organization to streamline the licensing process for insurance agents and brokers operating outside their home states, won approval in the U.S. House of Representatives in September but has yet to be taken up by the full Senate.

"We've been very active pushing that legislation," said Mr. Symington. He noted that the Senate bill enjoys bipartisan support with more than 25 co-sponsors in the chamber. The Senate failed to pass previous NARAB II legislation. Nevertheless the IIABA is "cautiously optimistic" that the measure will win approval in the current Congress.

Another key issue for the producer group is extension of the federal government's terrorism insurance backstop initially created by the Terrorism Risk Insurance Act of 2002 in response to the Sept. 11, 2001, terrorism attacks in New York and Washington.

The program expires Dec. 31, 2014.

"We're spending a lot of time on that. We're part of an industry coalition as well as coordinating with commercial policyholder groups," said Mr. Symington.

He pointed out that reauthorizing the terrorism insurance program is an issue that "unites the industry, and that's not an easy thing to do."

Mr. Symington explained the IIABA's interest in the issue by noting that "our guys sell a lot of commercial policies. Commercial property/casualty is our guys' bread and butter. Without the program, insurance will be either unavailable or unaffordable in many regions of the country."

Implementation of reforms to the National Flood Insurance Program also is of interest to the IIABA, he said. Reforms of the debt-ridden program — including a long-term extension of the program — were approved by the previous Congress. Part of the reforms included modernization of flood maps.

"As flood maps are modernized, what sort of rate shock does that cause?" he said. "Some communities are seeing large rate hikes as much as five times."

Implementation of the Patient Protection and Affordable Care Act also presents challenges for independent agents, said Mr. Symington. He noted that the IIABA supports reform of the medical loss ratio provision of the law, which holds that at least 80% of individual and small-group premiums and 85% of large-group premiums collected by the insurer must be spent on claims payments and "health care quality improvement."

That means no more than 20% or

15% may go toward "nonclaims costs," such as profit, advertising and administrative costs. An insurer that does not meet these ratios must issue rebates to consumers. Although the law does not specifically address how to classify independent agent compensation under the MLR formula, the regulatory process included agent compensation as a part of the "nonclaims costs" category.

Despite the group's concern about the MLR issue, Mr. Symington said right now, the IIABA is focused on how the state insurance exchanges will operate and affect agents.

"We are very active with working with the Health and Human Services Department in D.C. and individual states on implementation of the Affordable Care Act," he said.

There are "lots of concerns there will be bumps in the roads" as the exchanges are created. Open enrollment began Oct. 1.

He said IIABA is focused on the navigator program, where companies and nonprofit organizations will help consumers fill out application forms and answer questions about the exchanges.

"Our cause for concern with navigators is they're going to be advising consumers entering the new marketplaces," which is "very confusing," he said. The navigators need to be properly overseen by regulators at the state level and also be subject to some of the financial responsibility requirements to which agents and brokers are subject, Mr. Symington said.

"It's a consumer protection concern," he said. "It's about the exchange creation and our agents' participation in those exchanges."



"As flood maps are modernized, what sort of rate shock does that cause? Some communities are seeing large rate hikes as much as five times."

Charles Symington,
Independent
Insurance Agents &
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RESEARCH & DATA

100 LARGEST BROKERS OF U.S. BUSINESS* [1-50]

Ranked by 2012 brokerage revenue generated by U.S.-based clients

2013 rank	2012 rank	Company	2012 U.S. revenue	% change
1	2	Aon P.L.C.	\$5,317,978,400	5.3%
2	1	Marsh & McLennan Cos. Inc. ¹	\$5,300,218,000	4.6%
3	3	Arthur J. Gallagher & Co. ¹	\$1,908,000,000	12.6%
4	5	Willis Group Holdings P.L.C.	\$1,625,260,000	1.3%
5	4	Wells Fargo Insurance Services USA Inc.	\$1,575,444,000	(3.2%)
6	7	BB&T Insurance Holdings Inc. ¹	\$1,480,274,900	34.1%
7	6	Brown & Brown Inc. ^{1,2}	\$1,386,359,169	20.0%
8	10	Lockton Cos. L.L.C. ³	\$745,291,000	17.7%
9	8	National Financial Partners Corp. ¹	\$744,167,359	7.4%
10	9	USI Holdings Corp. ^{1,4}	\$712,546,257	8.8%
11	11	Hub International Ltd. ¹	\$632,759,894	10.8%
12	12	Alliant Insurance Services Inc.	\$503,831,165	9.5%
13	13	Towers Watson & Co. ⁵	\$346,871,392	(3.7%)
14	15	AssuredPartners Inc. ¹	\$235,604,040	36.7%
15	14	Leavitt Group ¹	\$179,371,000	(4.7%)
16	17	CBIZ Benefits & Insurance Services Inc. ¹	\$173,400,000	8.4%
17	18	Keenan & Associates	\$149,342,000	3.6%
18	19	Meadowbrook Insurance Group Inc.	\$146,692,000	9.0%
19	21	Hays Group Inc., dba Hays Cos.	\$140,600,000	10.0%
20	20	Crystal & Co.	\$137,380,000	4.3%
21	22	Bollinger Inc.	\$131,910,000	12.0%
22	16	Jardine Lloyd Thompson Group P.L.C. ^{4,6}	\$120,253,826	4.0%
23	25	Wortham Insurance & Risk Management	\$113,135,480	13.2%
24	23	J. Smith Lanier & Co.	\$112,045,434	3.8%
25	28	Paychex Insurance Agency Inc. ⁷	\$109,400,000	18.5%

2013 rank	2012 rank	Company	2012 U.S. revenue	% change
26	26	Holmes Murphy & Associates Inc.	\$104,163,118	6.9%
27	24	Regions Insurance Group Inc.	\$103,901,994	2.9%
28	31	Insurance Office of America Inc. ¹	\$101,816,014	13.5%
29	30	Hylant Group Inc. ¹	\$100,768,914	10.6%
30	33	The IMA Financial Group, Inc.	\$99,056,769	15.6%
31	35	Integro USA Inc. ¹	\$96,059,350	14.3%
32	36	Higginbotham & Associates ¹	\$92,105,000	15.6%
33	32	BancorpSouth Insurance Services Inc. ¹	\$90,677,466	1.8%
34	34	Barney & Barney L.L.C.	\$89,938,016	5.6%
35	52	PayneWest Insurance ¹	\$89,605,091	163.7%
36	29	Mesirow Insurance Services Inc. ^{4,8}	\$87,083,582	4.4%
37	38	Heffernan Group ¹	\$83,265,300	12.1%
38	40	Cottingham & Butler Inc.	\$77,649,000	11.3%
39	37	Ascension Insurance Inc.	\$77,531,000	2.8%
40	41	Woodruff-Sawyer & Co.	\$74,875,000	7.7%
41	44	Insurica Insurance Management Network	\$72,766,038	17.8%
42	NEW	R.K. Harrison Group Ltd. ^{9,10}	\$70,820,201	19.7%
43	42	Capacity Group of Cos. ¹	\$69,901,960	6.6%
44	43	First Niagara Risk Management Inc.	\$67,643,055	6.2%
45	47	Edgewood Partners Insurance Center, dba EPIC	\$63,712,320	9.3%
46	46	Frenkel & Co. ¹	\$61,450,874	5.1%
47	51	Assurance Agency Ltd.	\$59,043,156	13.3%
48	49	Eastern Insurance Group L.L.C.	\$57,422,669	1.2%
49	48	Huntington Insurance Inc.	\$55,876,590	(2.2%)
50	58	MHBT Inc. ¹	\$52,875,000	18.2%

*Companies that derive more than 49% of their gross revenue from personal lines business are not ranked. 1 Reported U.S. acquisitions in 2012. 2 Pro forma to reflect July 1, 2013, purchase of Beecher Carlson Holdings Inc. 3 Fiscal year ending April 30. 4 2011 U.S. brokerage revenue reclassified or restated. 5 Fiscal year ending June 30. 6 British pound=1.6181 in 2012, \$1.5698 in 2011. 7 Fiscal year ending May 31. 8 Fiscal year ending March 31. 9 British pound=1.5705 in 2012, \$1.6043 in 2011. 10 Fiscal year ending Feb 28. 11 Fiscal year ending Aug. 31. 12 Fiscal year ending Sept. 30.

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RESEARCH & DATA

100 LARGEST BROKERS OF U.S. BUSINESS* [51-100]

Ranked by 2012 brokerage revenue generated by U.S.-based clients

2013 rank	2012 rank	Company	2012 U.S. revenue	% change
51	55	Oswald Cos. ¹	\$52,714,530	13.8%
52	50	Associated Financial Group L.L.C.	\$52,221,201	(3.5%)
53	53	Marshall & Sterling Enterprises Inc.	\$52,095,826	5.8%
54	57	Lawley Service Inc.	\$50,970,541	11.0%
55	56	Horton Group Inc. ¹	\$46,791,632	1.9%
56	54	Propel Insurance	\$45,300,000	(2.4%)
57	61	Risk Strategies Co.	\$44,917,576	9.9%
58	NEW	Sterling & Sterling Inc.	\$43,890,000	15.0%
59	60	InterWest Insurance Services Inc.	\$42,735,675	3.5%
60	64	Mahoney Group	\$42,386,149	11.3%
61	68	Frost Insurance Agency Inc. ¹	\$42,305,019	17.5%
62	62	Bowen, Miclette & Britt Inc. ¹	\$42,038,265	5.2%
63	73	SilverStone Group Inc.	\$41,166,000	19.0%
64	65	M&T Insurance Agency	\$40,746,000	8.2%
65	63	Riggs, Counselman, Michaels & Downes Inc.	\$40,354,915	3.2%
66	NEW	The Graham Co.	\$38,248,383	6.6%
67	72	M3 Insurance Solutions Inc.	\$38,217,467	8.5%
68	71	Scott Insurance	\$37,654,000	6.9%
69	69	Moreton & Co.	\$36,481,000	2.1%
70	67	Old National Insurance	\$36,444,344	0.7%
71	75	Starkweather & Shepley Insurance Brokerage Inc. ¹	\$35,735,000	8.3%
72	79	LMC Insurance & Risk Management Inc. ¹	\$35,388,048	20.9%
73	NEW	Parker, Smith & Feek Inc.	\$35,270,000	5.5%
74	70	Andreini & Co.	\$35,000,000	(1.7%)
75	66	Corporate Synergies Group L.L.C.	\$33,000,000	(10.8%)

2013 rank	2012 rank	Company	2012 U.S. revenue	% change
76	77	Robertson Ryan & Associates Inc.	\$32,476,554	7.9%
77	NEW	Towne Insurance Agency Inc. ¹	\$32,402,697	6.9%
78	86	Lovitt & Touche Inc.	\$32,075,010	9.6%
79	NEW	TrueNorth Cos. L.L.C. ¹	\$31,252,000	19.4%
80	81	Roger Bouchard Insurance Inc.	\$30,794,125	11.0%
81	78	People's United Insurance Agency Inc.	\$30,513,000	2.9%
82	76	The Loomis Co.	\$30,428,153	(5.0%)
83	82	Charles L. Crane Agency Co.	\$30,000,000	11.1%
84	84	Cobbs, Allen & Hall Inc.	\$29,730,481	12.5%
85	NEW	Acrisure L.L.C. ¹	\$29,648,502	3.6%
86	85	Bankers Insurance L.L.C.	\$28,602,801	10.5%
87	100	Cook Maran & Associates ¹¹⁰	\$28,414,000	59.1%
88	80	SullivanCurtisMonroe Insurance Services L.L.C.	\$28,022,400	(1.7%)
89	NEW	Tolman & Wiker Insurance Services L.L.C.	\$27,887,302	8.3%
90	83	Haylor, Freyer & Coon Inc. ¹¹¹	\$27,118,737	1.8%
91	87	J.W. Terrill, Inc.	\$27,000,000	9.3%
92	88	The Underwriters Group	\$26,114,220	7.7%
93	NEW	Tompkins Insurance Agencies Inc.	\$26,055,000	2.3%
94	93	Bolton & Co. Insurance Brokers ¹	\$24,395,678	17.0%
95	89	Brower Insurance Agency L.L.C.	\$23,891,000	2.3%
96	95	Benefit Controls Cos.	\$22,500,000	12.2%
97	NEW	M.J. Insurance Inc. ¹¹	\$22,389,999	3.0%
98	91	AH&T Insurance	\$22,134,351	1.6%
99	NEW	Murray Securus ¹¹²	\$22,110,000	1.3%
100	98	Rich & Cartmill Inc.	\$21,813,720	1.1%

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Council courts the next generation, helps current members find success

Q What are your goals for the council?

A Our top priority this year — and for the last 100 years — is to continue to ensure a strong, viable business environment in which our member firms can work, excel and provide risk management products their clients need to succeed.

In that regard, we'll continue to focus our attention on educational programs, networking and information-sharing to help our members create better and stronger operations and strengthen their internal organizations. We've found great success in providing venues for the exchange of information and by providing insightful commentary and thought leadership around the impact certain issues may have on their businesses. It's all about supporting each other.

The council's internal goals in 2014 will be strengthening and growing our membership base with market leaders across the country and around the world. We welcomed 21 new members in 2013.

Our Foundation for Agency Management Excellence Scholarship program is steadily growing, and we're focused on maintaining that upward trend in 2014. Looking ahead, FAME's goal is to build a true industrywide scholarship program. We would like to expand to other universities with strong insurance programs all around the country and, one day, increase the size of each scholarship.

Q What are the biggest market issues facing the brokerage industry?

A U.S. health care reform. The Patient Protection and Affordable Care Act is a market disrupter, and that's what we're focused on. Employers around the nation face a mountain of challenges when it comes to providing their employees with health benefits, and it's up to our member firms to understand the ACA's impact on their clients and guide them through it, which is where the council comes in.

Also, insurance technology has

Q&A

long lagged other industries. Efforts to make it more efficient have been unsuccessful, and the failure to have a single entry system is embarrassing to the industry. Insurance brokerages have to get better in this area, or they risk reduced profitability and efficiency.

Q What are the major issues on the council's legislative agenda?

A The most immediate issue we have before members of Congress is the passage of legislation to create the National Association of Registered Agents and

Brokers. We've been working to pass NARAB for decades, and we've finally been able to thread the needle with a bill that garners the support of all stakeholder groups, including the state insurance commissioners.

We're grateful for the leadership shown by Reps. Randy Neugebauer, R-Texas, and David Scott, D-Ga., in getting the House to pass the bill, and we hope senators move similarly ... in the very near future. We will be pushing hard to build on our momentum and see this to the finish line.

A secondary issue facing Congress is the reauthorization of the Terrorism Risk Insurance Act. We know that the market cannot operate without a federal backstop, and we need the program reauthorized as soon as possible to avoid market disruption.

The biggest issue our industry faces is ensuring that employer-provided benefits continue to be the primary channel for the delivery of health insurance to Americans.

Q How can the brokerage industry attract talented young people to its ranks?

A The industry is and always has been focused on developing new talent, but we're probably not doing enough ... Recruiting and retaining the millennial generation has proven challenging, and we're working to meet those challenges head-on by providing internships and other options to expose talented young people to the brokerage industry and to help them see that it's an exciting and diverse business.



JOHNNY PITTS

COUNCIL OF INSURANCE AGENTS & BROKERS

Johnny Pitts is the 2014 chairman of the Washington-based Council of Insurance Agents & Brokers. Mr. Pitts, who also is a majority owner of Lipscomb & Pitts Insurance L.L.C. in Memphis, Tenn., recently discussed the council's goals for the coming year with Senior Editor Mark A. Hofmann. Edited excerpts follow.

BUSINESS INSURANCE

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